



Public Accounts Committee

Budget Briefing 2016-17

Report No. 14
June 2016

Legislative Assembly
Parliament of Western Australia

Committee Members

Chairman	Hon. Dr K.D. Hames, MLA Member for Dawesville
Deputy Chairman	Mr B.S. Wyatt, MLA Member for Victoria Park
Members	Mrs G.J. Godfrey, MLA Member for Belmont
	Mr W.J. Johnston, MLA Member for Cannington
	Mr M.H. Taylor, MLA Member for Bateman

Committee Staff

Principal Research Officer	Mr Tim Hughes
Research Officer	Ms Michele Chiasson

Legislative Assembly	Tel: (08) 9222 7494
Parliament House	Fax: (08) 9222 7804
Harvest Terrace	Email: lapac@parliament.wa.gov.au
PERTH WA 6000	Website: www.parliament.wa.gov.au/pac

Published by the Parliament of Western Australia, Perth.

June 2016.

ISBN: 978-1-925116-69-4

(Series: Western Australia. Parliament. Legislative Assembly. Committees.
Public Accounts Committee. Report 14)

328.365

Public Accounts Committee

Budget Briefing 2016-17

Report No. 14

Presented by

Hon. Dr K.D. Hames, MLA

Laid on the Table of the Legislative Assembly on 30 June 2016

Contents

1	Budget Briefing 2016-17	1
<hr/>		
	Background	1
	Appendices	3
<hr/>		
1	Treasury's Budget Briefing: 2016-17 Budget	3
2	Response to Questions on Notice Taken During the Briefing	33
3	Committee's Functions and Powers	35

Chapter 1

Budget Briefing 2016-17

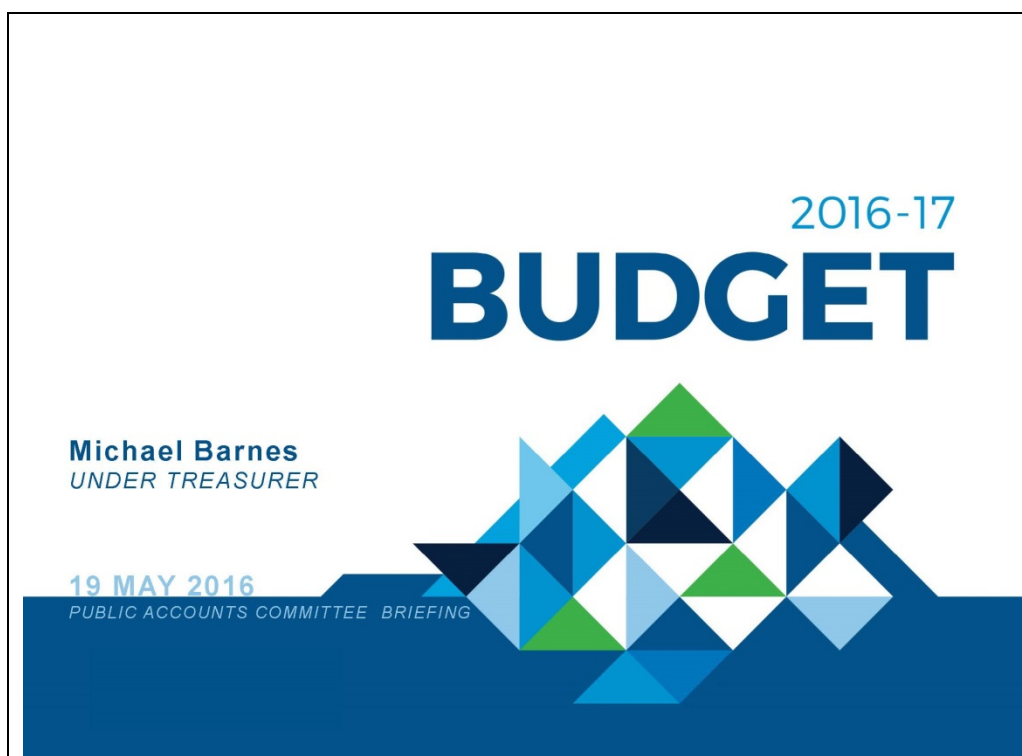
Background

- 1.1 On Thursday, 19 May 2016, the Public Accounts Committee (the Committee) hosted a briefing on the 2016-17 Western Australian State Budget. The briefing was offered to all interested members of the Western Australian Parliament and was delivered by the following senior officials from the Department of Treasury:
- Mr Michael Barnes, Under Treasurer; and
 - Mr Richard Mann, Executive Director, Strategic Projects and Asset Sales.
- 1.2 As has become customary, the annual briefing was held in the week immediately following the Treasurer's presentation of the Appropriation Bills in the Legislative Assembly and the delivery of his Budget speech. The briefing included a PowerPoint presentation that outlined key elements of the Budget and provided an opportunity for all members to acquire detailed knowledge, and to question senior Treasury officials, on the economic forecasts for the year ahead and the impact of the Government's income and expenditure proposals on the State's bottom line.
- 1.3 During the briefing the Under Treasurer received questions from the floor, four of which were taken on notice. On 2 June 2016, the Committee received responses to these questions from the Treasurer, Hon. Dr Mike Nahan, MLA.
- 1.4 The material provided by the Treasurer and the Under Treasurer is highly informative and the Committee sees value in making it accessible beyond the confines of the Parliament. Consequently, the Committee has resolved to table this short report, which includes the Under Treasurer's PowerPoint presentation at Appendix One and the Treasurer's subsequent correspondence at Appendix Two.
- 1.5 The Committee would like to express its gratitude to Mr Barnes, Mr Mann, and the Treasurer for their cooperation with this process and for the presentation.

HON. DR K.D. HAMES, MLA
CHAIRMAN

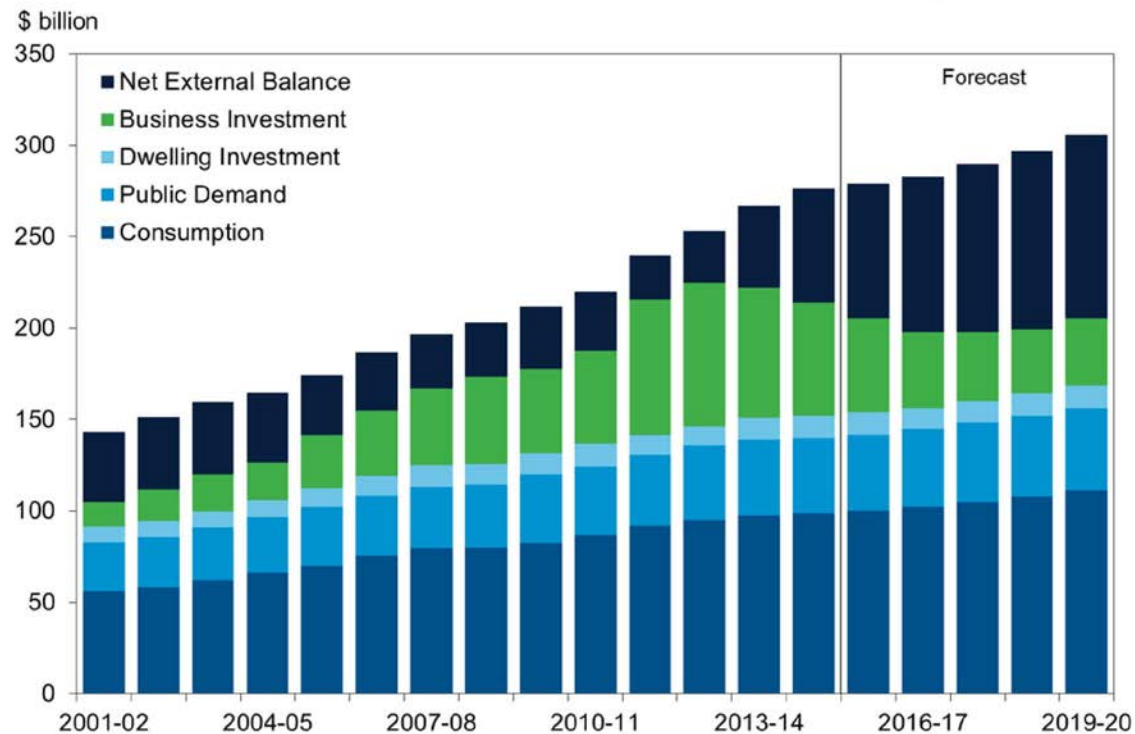
Appendix One

Treasury's Budget Briefing: 2016-17 Budget



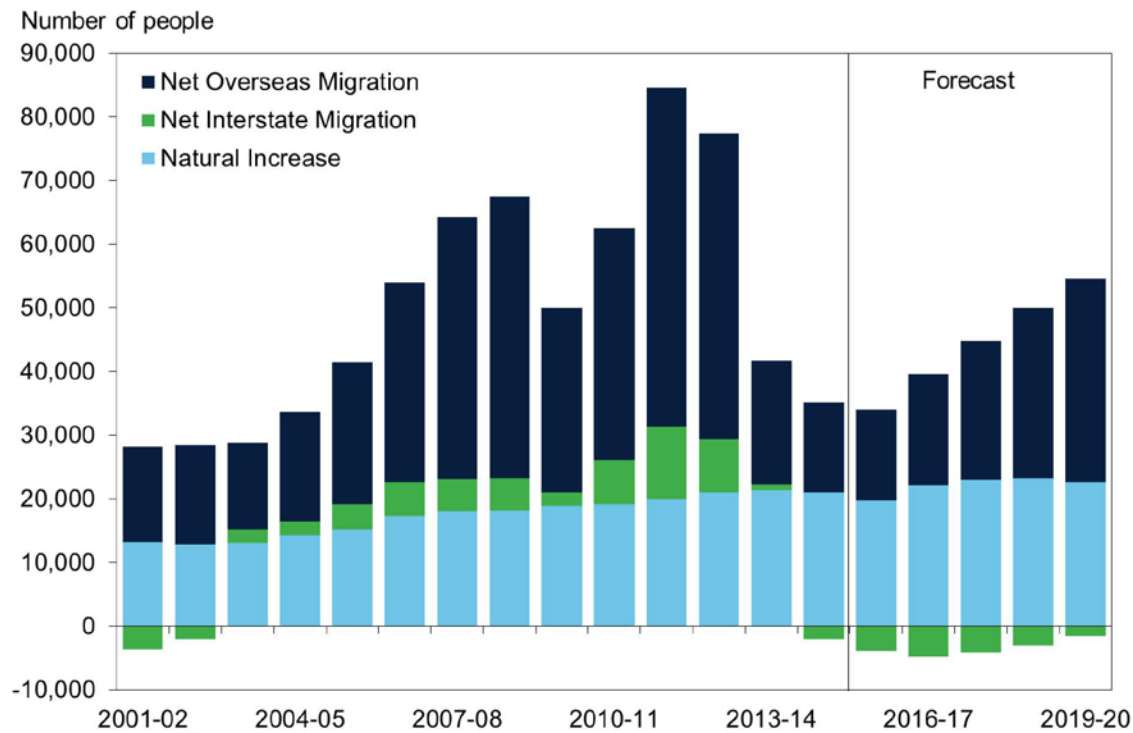
ECONOMIC OUTLOOK

Transition from investment to exports



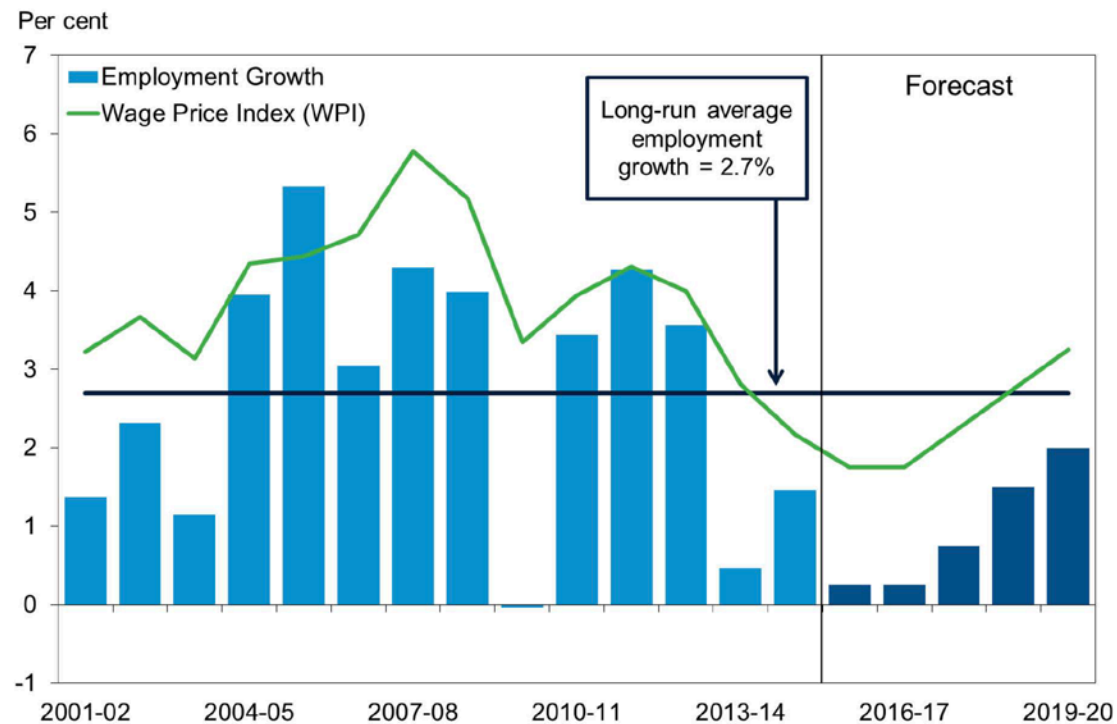
ECONOMIC OUTLOOK

Population growth has slowed



ECONOMIC OUTLOOK

Soft employment and wages growth



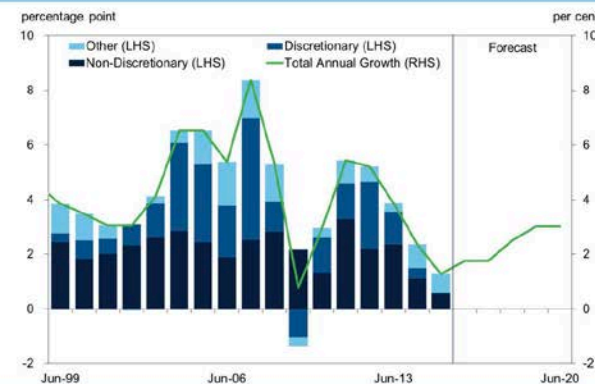
ECONOMIC OUTLOOK

Household consumption



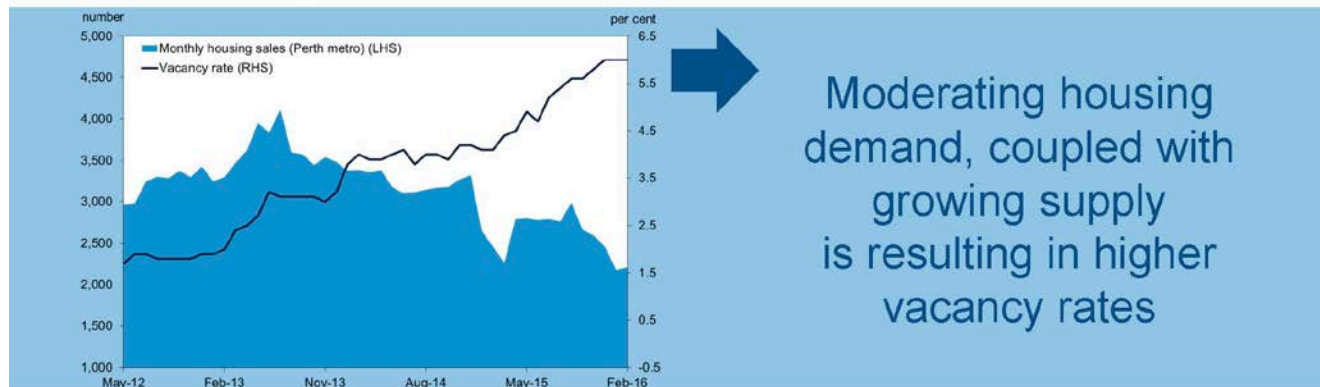
Soft employment and wages growth is impacting household consumption of discretionary items

Labour market conditions and population growth are projected to gradually improve – lifting consumption



ECONOMIC OUTLOOK

Housing market



Average weekly property transactions have declined by 26% in 2015-16, compared to 2013-14



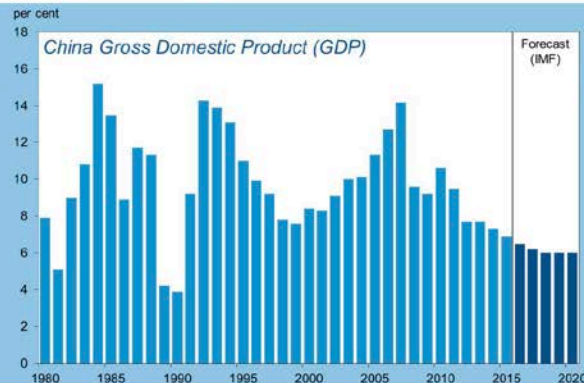
ECONOMIC OUTLOOK

Global economic outlook

- Global economic outlook uncertain
- Low inflation, wages growth and productivity growth acting as a drag on economic recovery in advanced economies
- Transition in Chinese economy
- Minimal scope for further monetary or fiscal stimulus

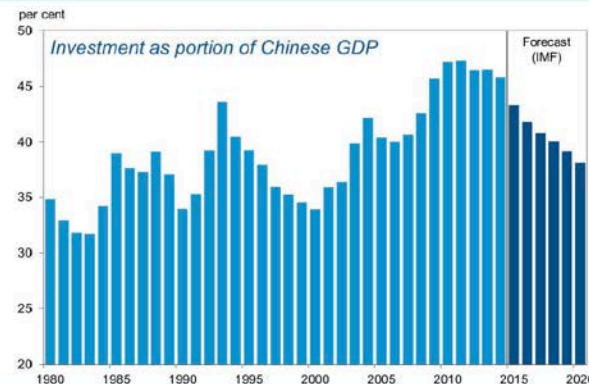
ECONOMIC OUTLOOK

Spotlight on China: economic growth



As China's per capita income increases, its economic growth path is starting to slow

China's future economic growth will likely be less resource-intensive



ECONOMIC OUTLOOK

Spotlight on China: recent lift in iron ore



Since December, steel and iron ore prices have improved in response to growth in demand

ECONOMIC OUTLOOK

Spotlight on China: demand for steel

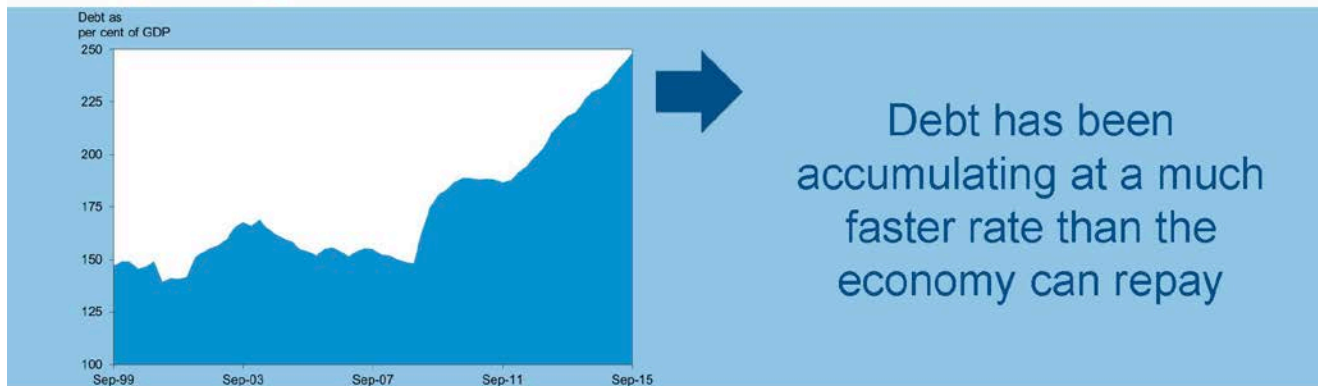


China's steel production has been ramping up in 2016 to catch up with demand

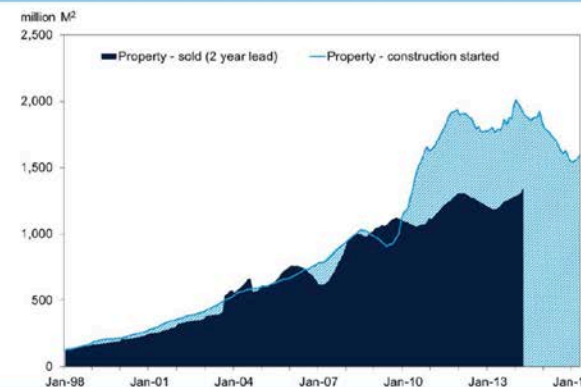


ECONOMIC OUTLOOK

Spotlight on China: demand not sustainable

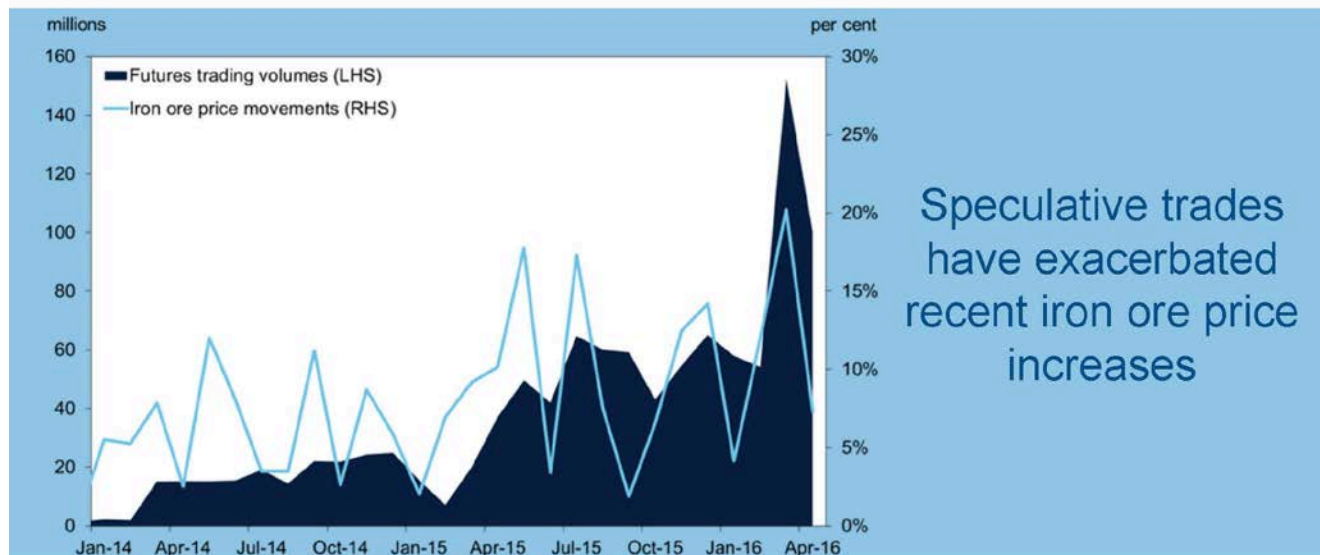


China's property market is already plagued by over-supply



ECONOMIC OUTLOOK

Spotlight on China: iron ore price outlook



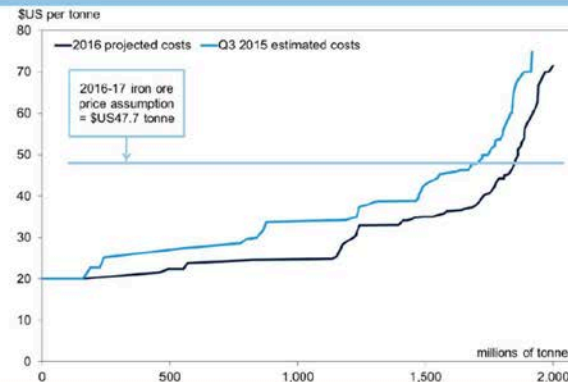
ECONOMIC OUTLOOK

Iron ore price projections



Significant volume of low-cost iron ore supply is yet to enter the market

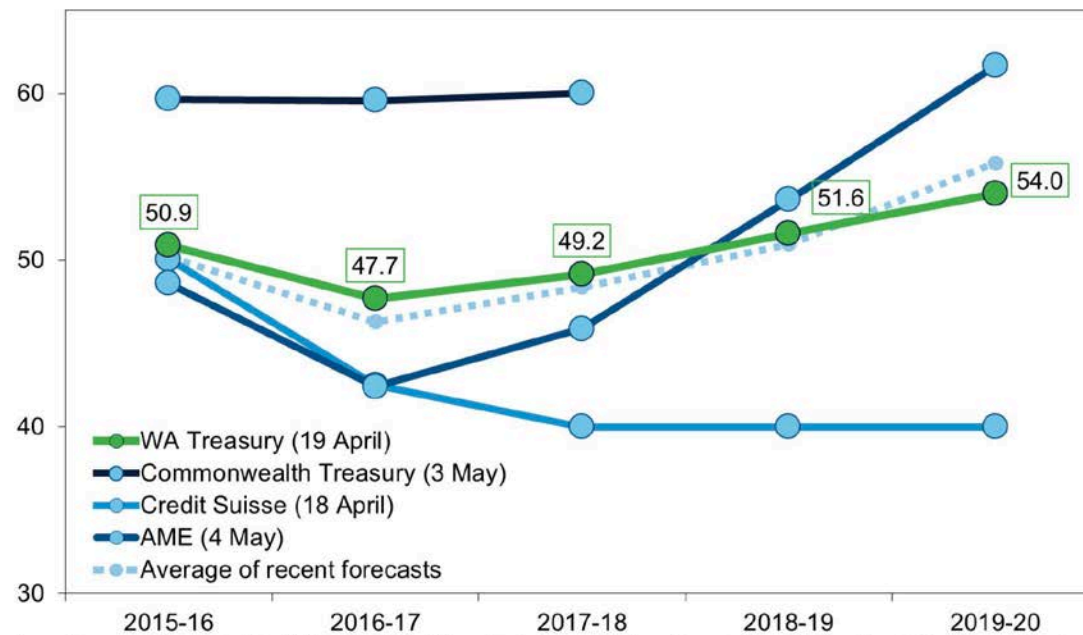
Further iron ore price volatility is expected, as increased competition will further drive down production costs



REVENUE OUTLOOK

Iron ore price assumptions

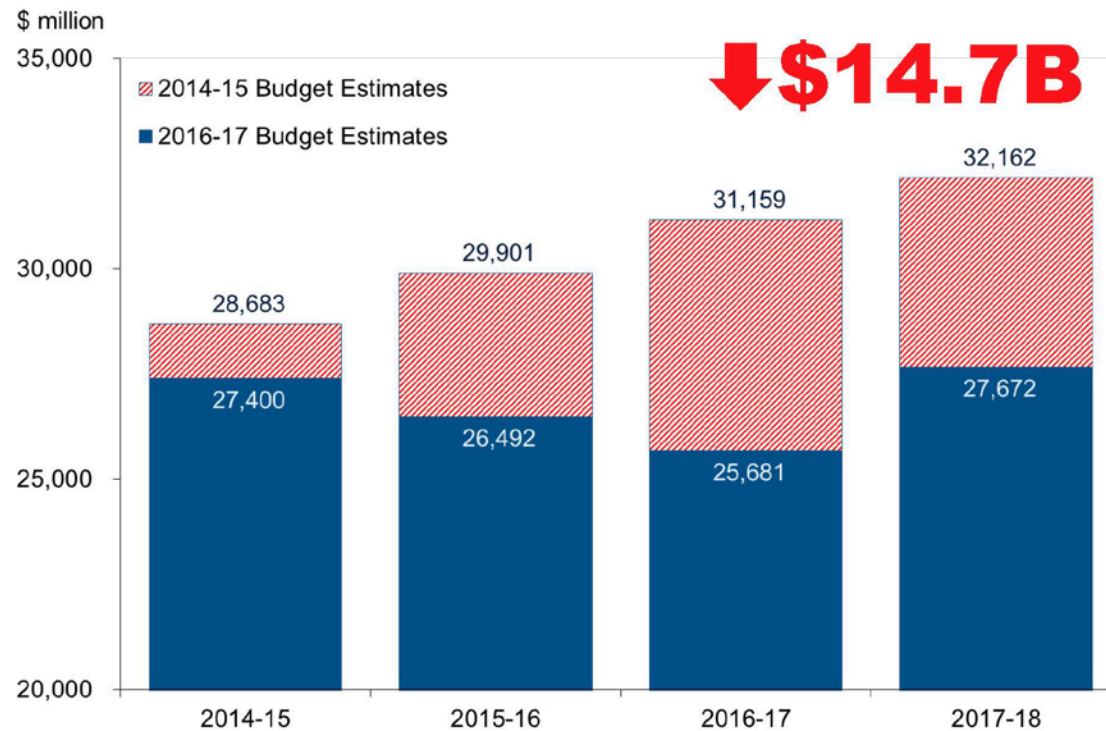
\$US/tonne



For consistency, some forecasts (including AME) have been derived (from real, calendar year estimates, and converted to nominal, financial year). Due to the uncertain nature, forecasts (or forward-looking statements) should not be relied upon. AME disclaims all or any responsibilities or warranties of whatever nature made in connection to this presentation. AME cannot be held liable for any claims, or damages of whatever nature, resulting from this presentation.

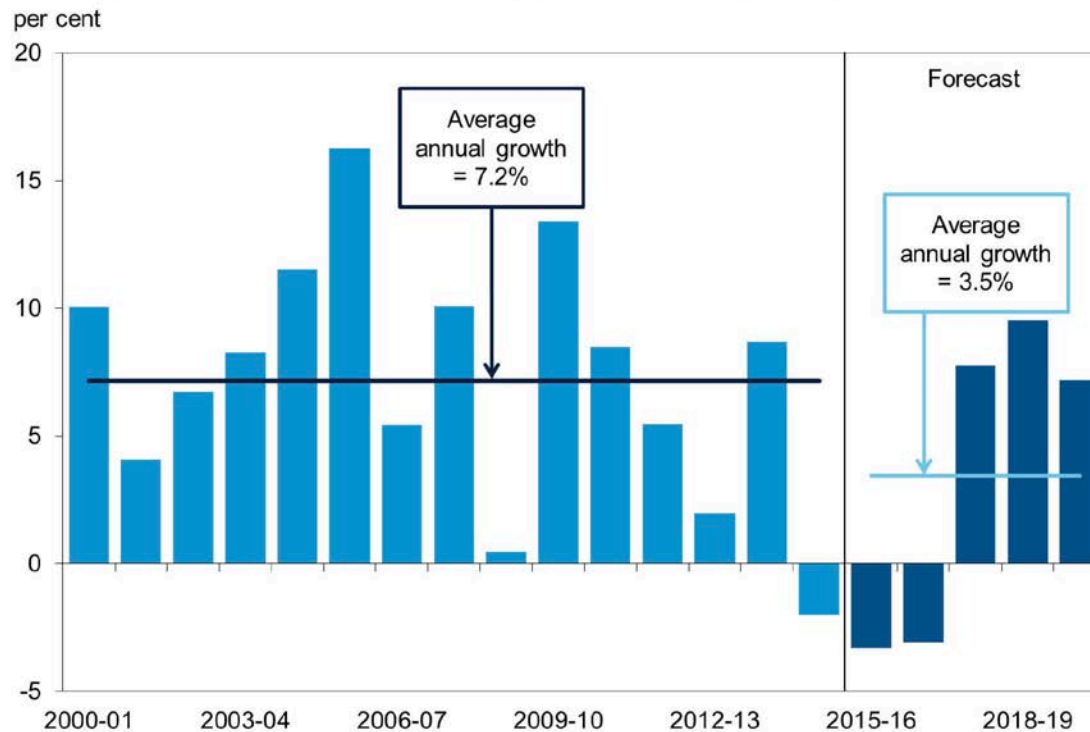
REVENUE OUTLOOK

Significant revenue write-downs



REVENUE OUTLOOK

Negative revenue growth projected



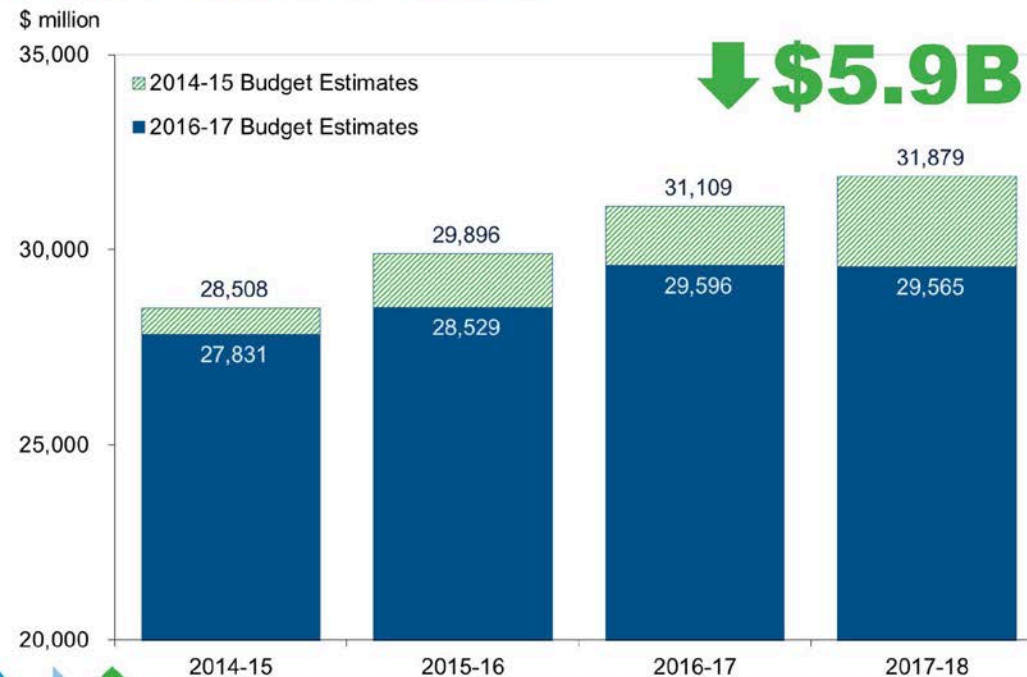
REVENUE OUTLOOK

WA's GST share the lowest ever recorded



FISCAL OUTLOOK

General government spending less than projected (but not enough to match revenue write-downs)



ASSET SALES

Brought to book in 2016-17 Budget

	Impact of finalised sales	
	Sale proceeds	Impact on net debt
Perth Market Authority (31 March 2016 sale) ^(a)	136	-126
Insurance Commission of Western Australia (November 2015 - retail property portfolio (\$303M proceeds), February 2016 - Forrest Centre (\$200M proceeds)) ^(b)	503	-456
Land Asset Sales Program ^(c)	143	-143
Total	781	-724

^(a) Of the \$135.5M sale price, \$125.5M was received by 31 March 2016, with the remaining \$10M due to be received from PML ten years from the sale settlement (i.e. by 31 March 2026).

^(b) All sale proceeds are reinvested in asset classes that will back future insurance claim liabilities. A portion of the retail property portfolio sale proceeds has been invested in shareholdings in listed and unlisted entities - this asset class does not contribute to the calculation of net debt.

^(c) A further \$424M in prospective sales are reflected in the 2016-17 Budget, with remaining sales to meet the LASP forecast to 2019-20 (being \$30M in 2015-16, \$108M in 2016-17, \$99M in 2017-18, \$113M in 2018-19 and \$75M in 2019-20).

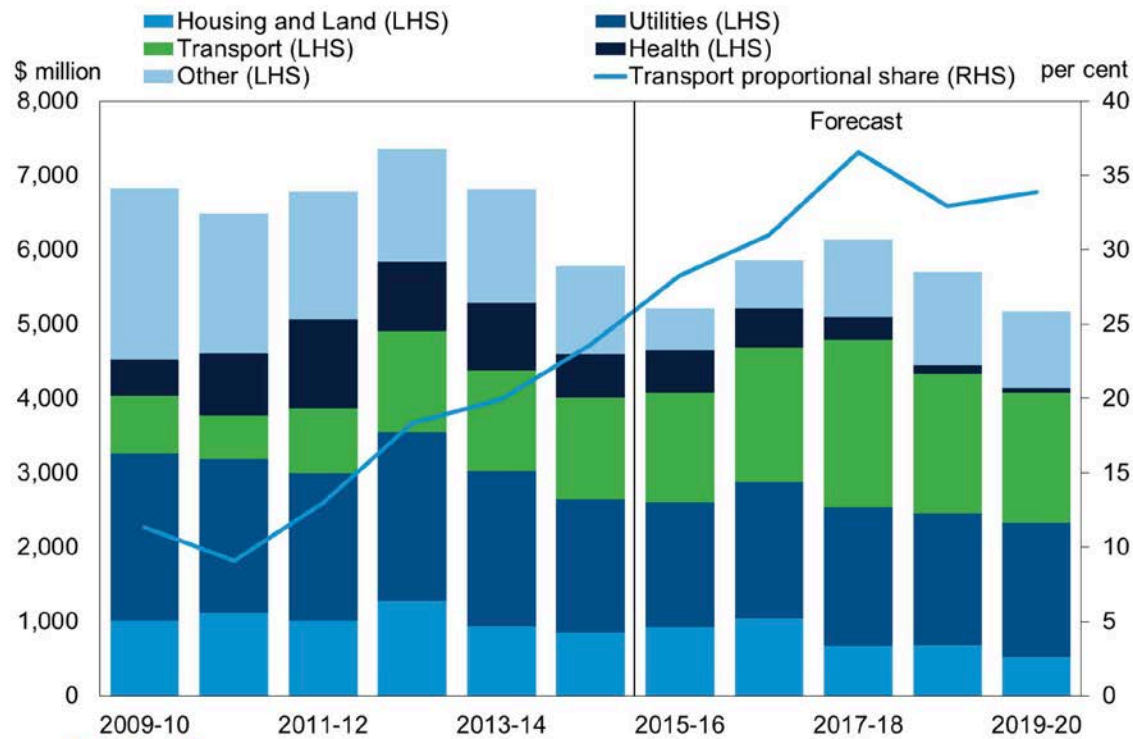
2016-17 BUDGET AGGREGATES

	2015-16	2016-17	2017-18	2018-19	2019-20
<i>General Government</i>					
Revenue (\$m)	26,492	25,681	27,672	30,305	32,481
Growth (%)	-3.3	-3.1	7.8	9.5	7.2
Expenses (\$m)	28,529	29,596	29,565	30,502	31,394
Growth (%)	2.5	3.7	-0.1	3.2	2.9
Net operating balance (\$m)	-2,037	-3,914	-1,893	-197	1,086
<i>Total Public Sector</i>					
Net debt at 30 June (\$m)	27,860	33,838	38,258	40,040	40,193
Asset Investment Program (\$m)	5,212	5,862	6,134	5,698	5,175
<i>Key Financial Ratios ^(a)</i>					
Net debt to revenue (%)	77.5	91.2	95.3	92.4	88.2

^(a) For the Total Non-financial Public Sector.

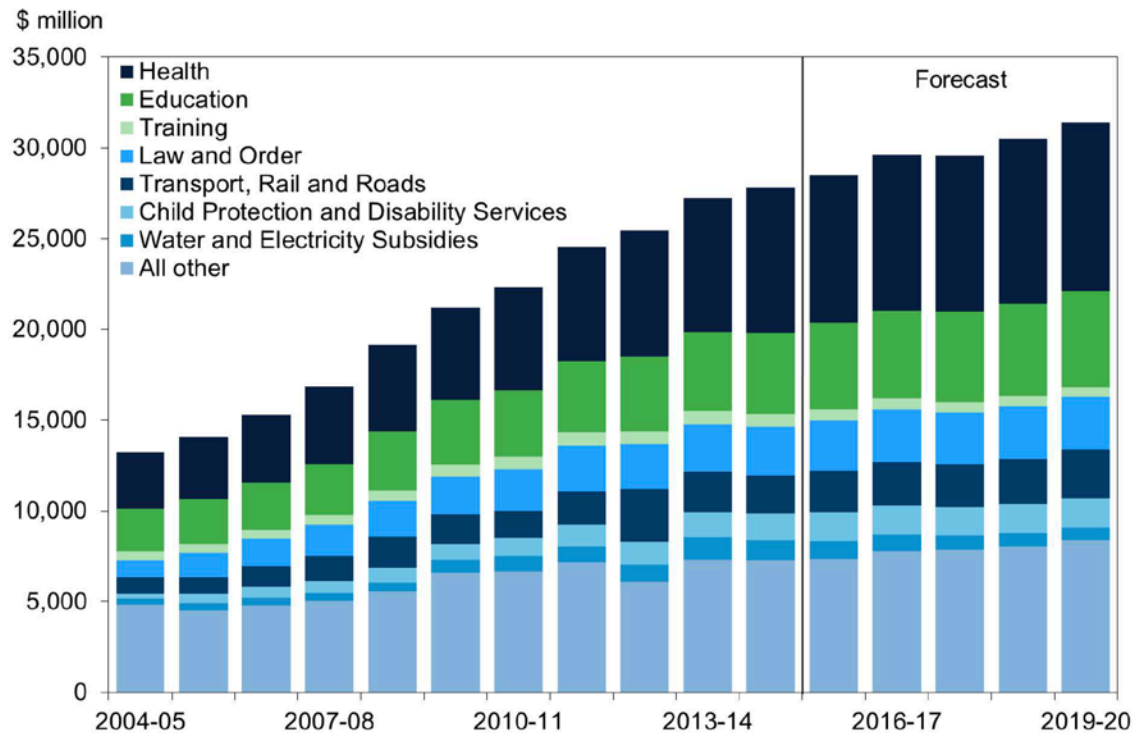
ASSET INVESTMENT PROGRAM

Changing composition



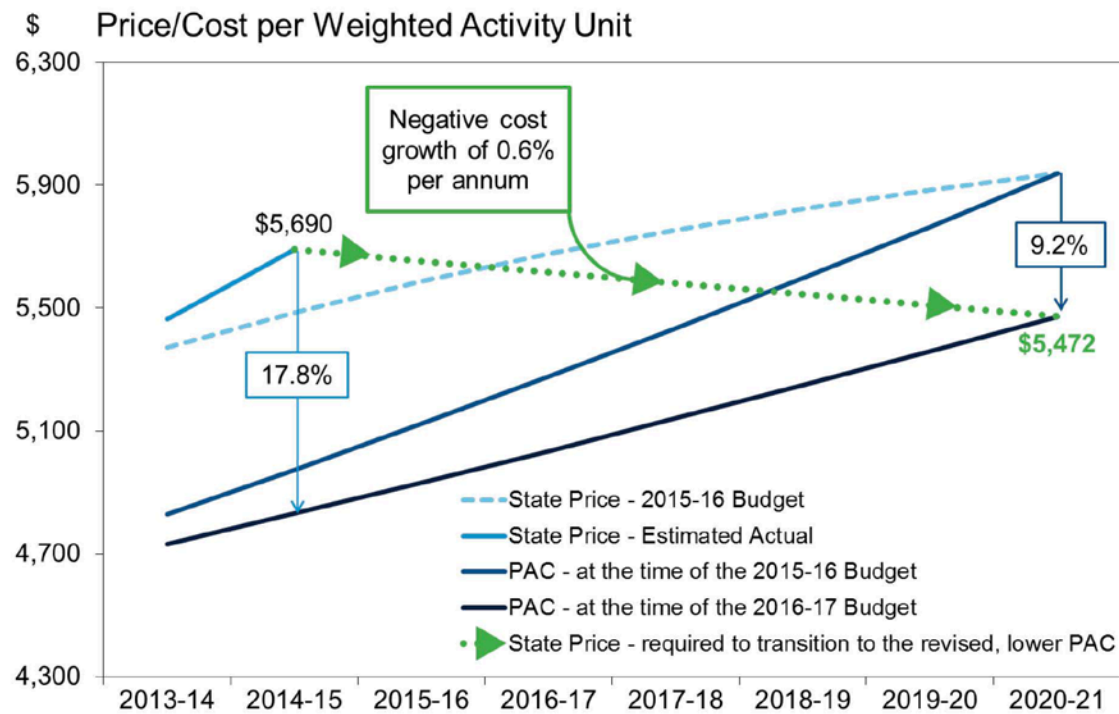
GENERAL GOV'T EXPENDITURE

Continued growth in key areas



WA HEALTH

Need for a new State price policy



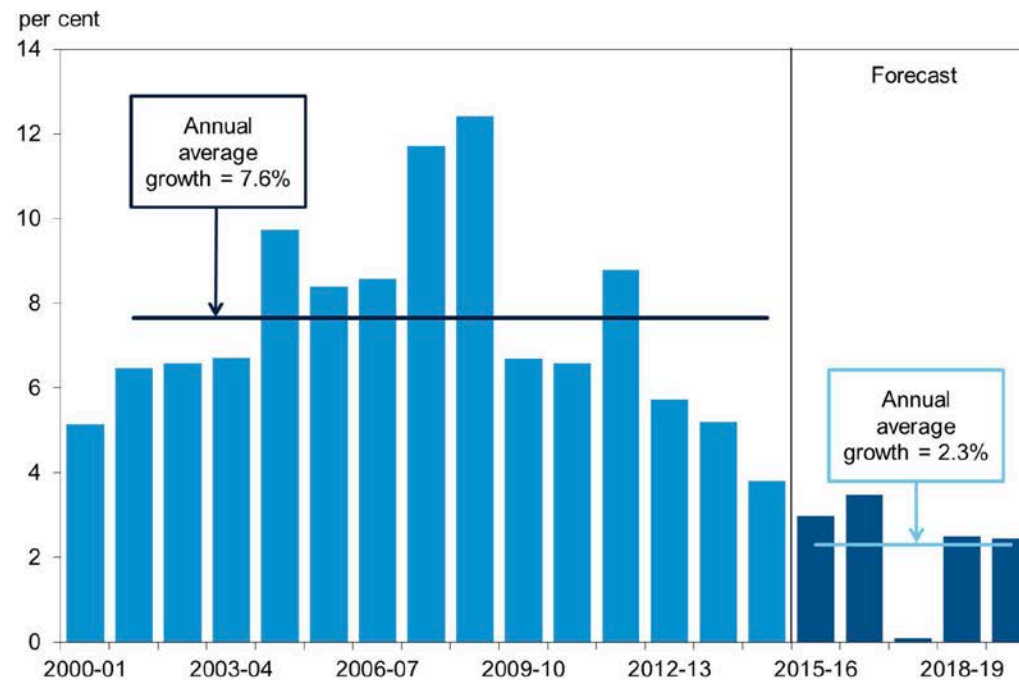
WA HEALTH

Reconstruction of forward estimates

- Reconstruction of WA Health's forward estimates, based on:
 - decoupling State price from national cost benchmark
 - 1.5% cost growth per annum (as per new wages policy)
 - 1% efficiency requirement from 2017-18
 - re-investment of non-hospital services AER savings
- Results in:
 - 4.2% average annual growth in hospital services spending (compared to 4.4% in 2015-16 Budget)
 - more realistic cost growth, linked to new wages policy
 - full funding of projected activity growth (average annual activity growth revised down from 2.7% in 2015-16 Budget to 2.5%)

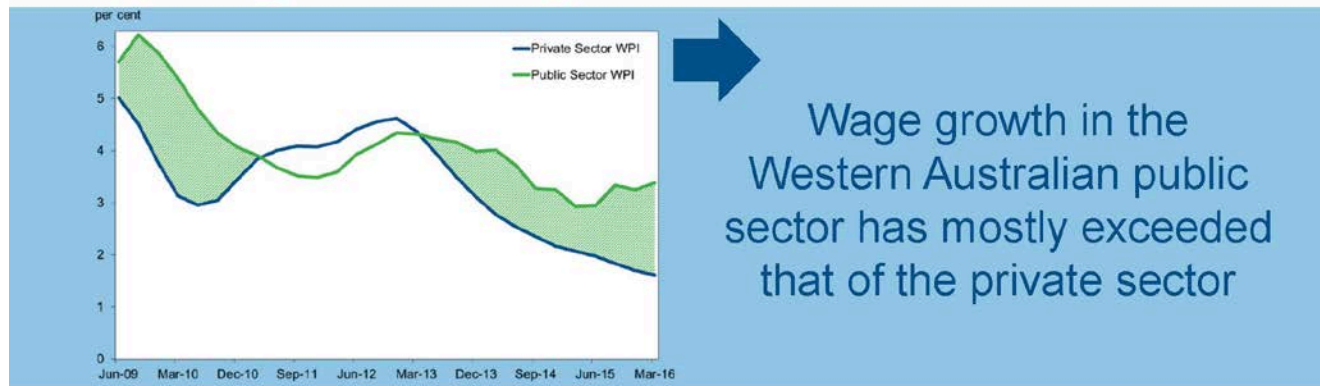
FISCAL OUTLOOK

General government salaries expenditure growth

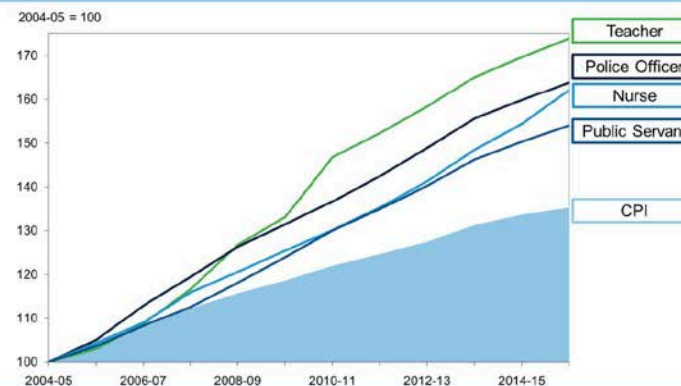


EXPENDITURE CONTROL

Spotlight on the public sector



Public servants' salaries have grown well above CPI



EXPENDITURE CONTROL

New wages policy

- Agency-level implementation of the new public sector wages policy
 - caps growth in public sector wages and conditions at 1.5% per annum
 - applies to all new agreements from 1 June 2016
- \$826M reduction in estimated salaries expenditure over forward estimates
 - harvested from agencies' budgets



EXPENDITURE CONTROL

Agency Expenditure Reviews (AERs)

- Extension of AERs across 54 agencies
 - 3.5% savings target (of agencies' cash service appropriations, starting in 2017-18)
 - total estimated savings: \$461M over 2017-18 to 2019-20
 - reflected globally in 2016-17 Budget, with individual savings measures to be reported in 2017-18 Budget
- Effectively a 'zero-based budgeting' exercise, aimed at identifying programs/activities that can be ceased, scaled back or delivered differently

EXPENDITURE CONTROL

Agency Expenditure Reviews (AERs)

- Modifications:
 - Police and Child Protection: fully exempt
 - Health: 3.5% of non-hospital services budget, to be re-invested in hospital services (\$148M)
 - Education: 3.5% of central and district office costs only (schools exempt)
 - Disability Services: excludes funding for not-for-profit sector



QUESTIONS



Appendix Two

Response to Questions on Notice Taken During the Briefing

PUBLIC ACCOUNTS COMMITTEE

QUESTIONS ON NOTICE SUPPLEMENTARY INFORMATION

2016-17 Budget Briefing

Date of Briefing: 19 May 2016

Question from Hon Bill Johnston MLA.

- (1) *Where was the net loss from the sale of the Perth Market Authority reflected in the 2016-17 financial statements?*

Answer:

The financial impact of the sale of the Perth Market Authority (PMA) on the State's financial statements is in accordance with relevant accounting standards and Treasurer's Instructions.

The reported value of the PMA's net assets as at 30 June 2015 was \$157.1 million. The largest component of the PMA's assets was property, plant and equipment. These assets were valued on a 'fair value' basis, based on their 'highest and best use' – i.e. without restrictions and encumbrances. The sale of the PMA to Perth Markets Ltd (PML) on 31 March 2016 for \$135.5 million placed trading restrictions on the Market City site. Hence, comparing these two values is not comparing 'like with like'.

In accordance with accounting standards and Treasurer's Instructions, the fair value of assets sold is considered to be the sale price. In this regard, the assets purchased by PML were revalued in the PMA financial statements to a lower valuation at the time of the sale.

This revaluation change is reflected as a component of the \$198 million estimate for the 'change in net worth of the public corporations sectors' for 2015-16 disclosed on the operating statement for the general government sector shown on page 205 of the 2016-17 Budget Paper No. 3.

This valuation change has no direct impact on the operating balance of the general government or public corporations sectors. As reflected in the 2016-17 Budget estimates, the liquidated value of the business through the sale is expected to result in a \$125.5 million reduction in net debt by 30 June 2016. This debt reduction reflects the \$125.5 million received from PML on 31 March 2016. A further \$10 million is payable by PML on 31 March 2026.

Question from Hon Dave Kelly MLA and Hon Bill Johnston MLA

- (2) *Slide number 23: does the State Price per Weighted Activity Unit include any private hospital costs (including any capital funding provided by Government to the privately-run hospitals)?*

Answer:

The State Price per Weighted Activity Unit includes costs for the delivery of publicly-funded hospital activity provided by privately-run hospitals. The State Price is exclusive of depreciation and capital costs.

Question from Hon Rob Johnson MLA.

- (3) *Can you confirm whether the figure in the Budget for improving metropolitan intersections is \$10 million or \$20 million?*

Can you also explain any inconsistency between the amount reported in the Budget Papers and the figure of \$20 million for metropolitan intersection upgrades announced by the Minister?

Answer:

In the 2016-17 Budget, \$20 million has been allocated from the Road Trauma Trust Account to improve metropolitan intersections – as follows:

- \$10 million for the Metropolitan Intersection Safety Program; and
 - \$10 million to upgrade the Stoneville and Lilydale Roads intersections on Toodyay Road.
-

Question from Hon Rob Johnson MLA.

- (4) *Is the Black Spot Program now funded out of the Main Roads' Budget or the Road Trauma Trust Account?*

Answer:

The State Black Spot Program is funded from Main Roads' Budget.

Appendix Three

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.