Pilbara Ports Authority —

Mrs L.A. Munday, Chair.

Ms R. Saffioti, Minister for Ports.

Mr R. Johnston, Chief Executive Officer.

Mr N. Sarandopoulos, General Manager, Finance, Technology and Information.

Mr P. Laing, Senior Policy Adviser.

Mr P. Abromeit, Senior Policy Adviser.

[Witnesses introduced.]

The CHAIR: This estimates committee will be reported by Hansard. The daily proof *Hansard* will be available the following day. Members may raise questions about matters relating to the operations and budget of the off-budget authority. Off-budget authority officers are recognised as ministerial advisers. It is the intention of the chair to ensure that as many questions as possible are asked and answered and that both questions and answers are short and to the point.

The minister may agree to provide supplementary information to the committee, rather than asking that the question be put on notice for the next sitting week. I ask the minister to clearly indicate what supplementary information she agrees to provide and I will then allocate a reference number. If supplementary information is to be provided, I seek the minister's cooperation in ensuring that it is delivered to the principal clerk by close of business Friday, 1 October 2021. I caution members that if a minister asks that a matter be put on notice, it is up to the member to lodge the question on notice through the online questions system.

The member for Moore.

Mr R.S. LOVE: I refer to the proposal on page 661 for a dividend retention of $230 million. What projects are being considered? How will the port consider what to do with the dividend that has been retained? Will the minister discuss that with the industry entities that might use the port?

Ms R. SAFFIOTI: I can respond to that one. As I said, the dividend retention policy is a policy of government through the Economic Reform Committee and cabinet for government trading enterprises—not all of them but some of them, including the ports—to retain their dividends in 2021–22. They will be subject to similar processes to those used in the past, whereby should they want to spend that money on projects, they will need the approval of the government through the ERC and cabinet for expenditure. In many instances, there may be new investment proposals. The Pilbara Ports Authority is an industry-facing port authority, so it will be continually discussing expenditure demands for the future with proponents, users and prospective users. As with the Mid West Ports Authority and the remaining port authorities, all the expenditure comes through an expenditure review process.

Mr R.S. LOVE: There is no clear indication of what that money will be spent on. No project requires that type of expenditure. We are seeing a pattern of many government organisations being allowed to retain these dividends this year without a clear idea of what that money will be spent on in the future. So, basically, it is just being parked for the time being.

Ms R. SAFFIOTI: Whether it comes to the consolidated account or it is retained by the entity involved, it is similar, in a sense. If it were to come into the consolidated account, it would be parked in a similar way. Its form does not really change. If the Pilbara Ports Authority puts up proposals and the government believes it is justified in allocating funds to it, that would happen wherever that money is. A government policy this year is to allow GTEs to retain those dividends.

Mr R.S. LOVE: Is there an amount of time for which the retention of the dividend will be allowed before the money is returned to consolidated revenue, or will it sit indefinitely until the port finds a good use for it?

Ms R. SAFFIOTI: I think it will sit in retained earnings. As I recall, that is what normally happens with retained dividends. It differs depending on the governing legislation of each GTE. In the past, the Liberal–National government and other governments have sometimes requested special dividends, which is another option of government, but that is unlikely to be the case this year. Those dividends are retained in the books of the government trading enterprise. As I said, that dividend retention policy is only for this year. Its retained earnings will sit on the balance sheet and if there are projects in the future that the government sees as a priority to fund, I suspect that the GTE—or in this instance, the Pilbara Ports Authority—could have access to those retained earnings.

[12.10 pm]

Dr D.J. HONEY: I refer to page 660 of budget paper No 2, volume 2, and the revenue from operations under government trading enterprise information, which forecasts a substantial increase in revenue of $100 million, or

20 per cent over two years. It was around $460 million in 2019–20 and then it goes up. What is the basis of that forecast revenue, particularly in light of the maturation of the iron ore market?

Ms R. SAFFIOTI: Is that the breakdown of the increase from the estimated actual of $508 million in 2020–21 to $575 million in 2021–22?

Dr D.J. HONEY: Yes, and there is a further significant increase of about $50 million above that in 2022–23. They are quite substantial increases over two years.

Ms R. SAFFIOTI: The increase in revenue is attributed to an increase in the tonnage fees of approximately 25 per cent, an increase in forecast throughput, and an increase in the Port Hedland voluntary buyback scheme. They are the main contributors to that increase of $66 million. Over the forward estimates, an increase in tonnage fees is forecast plus an increase in throughput, and that includes an increase in charges relating to tonnage through Utah Point.

Mr R.S. LOVE: A quick look suggests it will be about a $195 million increase over the forward estimates. What would be the purpose of that money? Is there a program for the money to be spent? Will the money be spent in the port or the Pilbara, or just head off in dividends? What is the plan for that extra revenue?

Ms R. SAFFIOTI: Is the member asking about revenue over the forward estimates, from 2020–21 to 2024–25?

Mr R.S. LOVE: Yes, over four years.

Ms R. SAFFIOTI: There are a couple of things. We just talked about some of that revenue being retained by the port authority as part of the dividend retention policy for further investment in the port. The second is that it is also attributable to the voluntary buyback scheme. Although there is increased revenue from operations—that is, a levy applied for the users of the port that then goes into the scheme—that scheme also spends money on buying back properties at the West End. The third point relates to future dividends that would flow through to the consolidated account to fund normal services of government such as health and education spending throughout the state, including through the Pilbara. That would explain the expenditure of that item over the next four years. There is further investment of Pilbara port revenue to fund the buyback. The fourth would be through a dividend flow to government that is allowed to spend money on education and health services throughout Western Australia, in particular regional WA.

Mr R.S. LOVE: What does the 25 per cent increase that the minister spoke about earlier represent in dollar terms per tonne?

Ms R. SAFFIOTI: The 25 per cent increase in the dollars per tonne charge is 4.4¢. That is what a 25 per cent increase represents in the tonnage increase.

Mr R.S. LOVE: Per tonne?

Ms R. SAFFIOTI: Yes.

Mr R.S. LOVE: When that was implemented, what was the justification for such a steep percentage increase at that time? Had there been a long period with no increases or was it seen that the mines were making plenty of money so it was just a way of making money for the buyback of the West End?

Ms R. SAFFIOTI: The West End of Port Hedland was separate to that decision, so in a sense that is isolated or separated from the normal tonnage fees. The West End purchases are funded by a particular levy and then allocated through a different process. The increase in fees was a decision of government. It reflects a contribution back to the state for some of the significant activity that has occurred. In the Pilbara it also reflects the stabilisation of the economic rate of return on the assets. The rate of return on the asset that we are predicting in 2021–22 will be very much similar to what it was in 2016–17, in particular because of the appreciation of the capital underlying asset base. It is fair to say that there has been significant wealth generated through the Pilbara over a number of years, particularly the past year. Members would believe that in those times everyone needs to make sure that we have funds to fund our services throughout regional WA, particularly health and education services.

Mr R.S. LOVE: The minister mentioned that the 25 per cent increase in government sector charges was a government decision. Are the fees of ports normally set by the government by simple direction or are they set by the port, based on what is required to make their operation economic? Is it normal for government to declare an increase without it actually being based on advice from the port authority?

[12.20 pm]

Ms R. SAFFIOTI: As far as I can remember, it is up to the government to make a decision about the port charges; and, in a sense, the government is a representative of the people of WA. I am a strong believer that when a government trading enterprise is owned by the people of WA, the government represents those people. Generally, given the wealth that has been generated through that area, if I asked any household in Western Australia whether they would prefer a 25 per cent increase in port fees, where incredible profits are being made, as we know, or an increase in household fees and charges, the people of Western Australia would probably land on increasing the port fees.

I was taught that economics and government is a social science. It always comes down to a matter of priorities; there are no absolutes. Comparisons and decisions always have to be made. From a government perspective, if those generating significant wealth at the time were able to afford to pay more—as we heard, that was 4¢ a tonne more—that was a good thing to do, given the massive economic uncertainty that we have been facing over the past 18 months. Of course, we are doing very well as a state but we should not underestimate where we could have landed with the uncertainty of COVID. It was a prudent decision. I think the majority of Western Australians would understand that by supporting those types of decisions, we are protecting households and also making sure that we continue to have a strong balance sheet to support the economic recovery.

Mr R.S. LOVE: The justification is that a lot of money is being made by miners. If the price of ore continues to freefall in the same way that we are seeing at the moment, will there be a reconsideration of the fee?

Ms R. SAFFIOTI: I doubt there will be a reconsideration. That is quite a weird line of questioning from a party that wanted to increase the royalty rates.

As I said, budget decisions are made on an annual basis. We analyse a number of aspects—what is happening in the economy, expenditure demands, inflation, the investment program, and the needs of different areas of the state—as circumstances continually change. Over the past 18 months, we have tried to be very conservative in how we manage our budget and our health. We want to make sure that we protect not only the health of Western Australians, but also our finances, and can grow our economy at a time when other states and other parts of the world are facing significant financial hardship.

Dr D.J. HONEY: I refer to the Port Hedland voluntary buyback scheme on page 662 of budget paper No 2, volume 2. Can the minister update us on the progress of that scheme?

Ms R. SAFFIOTI: The amount of revenue collected as at the end of August was $19 million. A total of 46 properties have settled, which is about 10 per cent of total properties.

Dr D.J. HONEY: I know that the minister would have received lots of correspondence on this and will be a font of wisdom on it. She would know that a lot of the people selling their houses were concerned that valuations for properties were based on a period when property prices in Port Hedland were deflated, if you like. Obviously since that time, property prices in Port Hedland, as in all regional areas, and elsewhere, have risen quite dramatically. Was an adjustment made to the formula that was used for the valuation of properties to better reflect current property values?

Ms R. SAFFIOTI: That is an interesting question. I will go into a bit of detail. As the member would be aware, the scheme that was determined by the government through cabinet was based on the agreed market value of the property as at 6 August 2019, then indexed. The rate was set at a premium of 35 per cent of the agreed market value, up to an amount of $20 000. I have received a lot of correspondence and representations on this scheme. When I took over the portfolio again in March this year and I inherited this scheme, I asked that some sensitivity analysis be undertaken. People had made representations and I thought it was worth following through. I asked that the normal basis for land acquisition be run as a parallel process to see whether there was a massive discrepancy and a level of unfairness that could not be sustained. In fact, it showed that the model that the government had adopted and that was determined through the port authority by the minister at the time—the minister before me—gave a better result for the landowners. I interrogated it to satisfy myself that the process was fair. One of the reasons that methodology was used was the high volatility in prices, particularly in towns such as Port Hedland where the cycles are very exaggerated. It was put to me that the justification for the process at the time was that it gave people a lot of certainty, as the price would be fixed. That also removed the volatility. I asked one of my agencies that is normally involved in land acquisition to do an internal analysis. A premium of 35 per cent is very big. If we look at the increases in some of the annual rates, that figure of 35 per cent is a significant premium over the agreed market value.

It is a good question and it is one that bothered me when I inherited the portfolio again. That is why we carried out some interrogation to ensure that I could be satisfied that people were not losing out big time. As I said, that was not substantiated at all. This scheme is proving to be better for those involved.

Dr D.J. HONEY: Given that only 10 per cent of the properties have been settled, does the minister think there is a prospect that it will move at any pace or does she think it is a very slow process?

[12.30 pm]

Ms R. SAFFIOTI: As I said, 46 properties have settled but 97 have accepted. That is a bit of a different rate. Over seven months, 30 per cent have accepted. The scheme is running for three years. I am quite pleased with the level of acceptance. In isolation, some of these numbers do not look big. I have been questioned about this by local media a number of times when I have gone up there. I see a lot of different land acquisition programs, whether they be for road, rail or other projects. We do not find that 100 per cent or 50 per cent accept from day one. It is actually a slower process. To be honest, the level of activity is quite significant—97 have accepted and 46 have already settled. It is about 74 per cent acceptance of offers that have been issued, so it is pretty high. In particular, coming into it with eyes wide open and not being involved in setting it up, the level of activity, the number of offers that have been made and the level of acceptance is actually higher than I would have assumed before I saw the statistics. I think people understand that this is a genuine offer and a good offer that gives them certainty. In many instances, people like certainty; they want an offer on the table. In a sense, they are fortunate that this scheme has been developed, which I think is a fair scheme. They are getting industry to pay for the buyback, and the buyback scheme has, I think, been administered well.

Dr D.J. HONEY: Going to the root cause of the need for the buyback with regard to dust control, is there any improvement in dust control at the port? Is there a program of improvement in dust control at the port?

Ms R. SAFFIOTI: That involves a couple of things. First of all, monitoring is done by the Department of Water and Environmental Regulation, and it continues to do that. I might ask Mr Johnston to make some comments on dust control.

Mr R. Johnston: There is an extensive dust monitoring network. There are heat/dust monitors across the top of the West End and the town more broadly. All exceedances are reported back to DWER, and obviously any environmental approvals are subject to those exceedances being met. The exceedance level of no more than 10 exceedances in the West End has not been exceeded since 2013.

Dr D.J. HONEY: Are there dust reduction activities going on, or is it simply sustaining current levels of dust?

Mr R. Johnston: There are extensive programs and reviews of dust and dust management; it is ongoing, right across industry. At this point in time, DWER is putting together a best practice sustainability guide that will capture all and every type of activity involved in suppressing dust.

Mr R.S. LOVE: Perhaps the minister can outline the charges that are laid on users and industry to pay for the buyback. What assurances can the people paying the charge have that the money will eventually go to the property owners? It is a voluntary buyback, and it is possible that some of the money may not be expended. What will happen in the case of some people holding out and determining that they do not want to sell their property, and there may be money sitting there, still being collected?

Ms R. SAFFIOTI: Is the member talking about the people who are paying, or the landowners?

Mr R.S. LOVE: I am talking about the people who are paying the charge.

Ms R. SAFFIOTI: The revenue from the buyback is separately accounted for and there is a separate authority involved; I have forgotten its name. I might refer this to Roger to outline the governance and how the buyback is being overseen by that separate group.

Mr R. Johnston: The port authority established a company called Hedland Maritime Initiative. The accounts are therefore transparently available for the collection and the costs associated with the scheme. That is accounted for separately and provided in a report back to the minister on an annual basis, and is subject to audit.

Mr R.S. LOVE: I have the HMI annual report here and there is an approved business case and financial model for the buyback scheme, which assumes $190 million, including $80.49 million in acquisitions and $35.49 million in expenses to achieve those acquisitions. Why is there such a heavy figure for expenses in order to acquire $80 million worth of land? The expenses are $35 million; I wonder what the underlying cause is for that.

Ms R. SAFFIOTI: I will say, first of all, that things like land assembly, demolition costs and all the costs involved with getting the land ready for its future use would be incorporated in those figures. I will see if I can get some further information for the member. There are property acquisition costs and holding costs, as I said. There are the costs of running the scheme and other things like property maintenance, evaluations, conveyancing, demolition and getting the land ready for future use. These are all associated costs, including the operating costs. It also includes the employee-related costs and other parts of running the scheme. In a sense, the revenue funds the operations and costs of both acquisition and holding the land into the future.

Mr R.S. LOVE: I again refer to the HMI annual report. I am conscious that this is a separate company, but it is established by the port authority. There is $190 million being collected and $80 million going towards the buyback. That seems to me to be an extraordinary amount of money. The minister has outlined that the $35 million in property acquisition costs may well be demolition-related, but there is also $42 million in operating costs for this organisation, as well as a subsidy to DevelopmentWA of $22 million and a writedown of buildings of $5.79 million, which I assume applies to buildings that are unaffected by demolition. Perhaps those are the remaining residents; I am not sure what that refers to. But there seems to be an awful lot of money that is not actually going towards the buyback of the land.

Ms R. SAFFIOTI: It is also operating the scheme for 10 years. When we look at the 10-year costs of anything, particularly the running of a scheme and the operating costs, it adds up. I will just go through those figures again. They include a provisional amount for DevelopmentWA, which is interesting. There are also property acquisition costs and property writedowns. The operating costs look high, but when we look at something over 10 years, it is approximately $3.5 million a year. There are more than 300 properties, so there are significant demolition, holding, conveyancing and other associated costs involved in a scheme like this.

Mr R.S. LOVE: What happens to the buildings that are not bought voluntarily?

[12.40 pm]

Ms R. SAFFIOTI: We have not reached that issue yet. As I said, I do not like dealing in hypotheticals. I am pretty confident that by the end of the three years, most people will have taken advantage of the scheme. I am not sure whether previous decisions have been made on what will happen then; I am not aware of them. No decision has been made about what will happen after the three years with those properties. Needless to say, though, they will be in areas that are no longer suitable or zoned for residential, so that is an issue. If anyone wants to do anything in that area in the future, such as a redevelopment, or make any application to do something on their property, it will not be supported, I suspect, because it will be completely out of the new zoning.

Mr R.S. LOVE: Will the recognition of the change in use of that land trigger a right of compensation of itself?

Ms R. SAFFIOTI: In many instances, land is rezoned; it happens all the time. Across the suburbs and across the state there may be a change of use. That might mean someone has an additional use. They are allowed to continue their existing operations but if they wanted to do anything that requires development approval, such as an extension to a house or anything else, it would not be supported because it would be a new application that would be outside the new use of that land. That is all hypothetical because, as I said, no decision has been made about what will happen after those three years. It is something we will consider further down the track.

Mr R.S. LOVE: Is a power of compulsory acquisition triggered by the operation of the buyback scheme on the area of land prescribed by the scheme?

Ms R. SAFFIOTI: Maybe I will address whether there is that power when the planning portfolio comes on board. I will say that our position is not to have compulsory acquisition; it is to have voluntary acquisition. Maybe I will deal with this more under the Western Australian Planning Commission. The plan is not to compulsorily acquire. I just got further notes that reflect what I said in the previous answer. Our position is voluntary acquisition, not compulsory acquisition. As I said, change is difficult. In many instances, we deal with landowners whose use of land changes over time. There are people who want a change of use and those who do not. In east Wanneroo, where we have just finished a district-wide structure plan, probably a majority want a change of use, or rezoning, and some do not. However, this is part of the planning system under which in many instances land is rezoned. Land use changes over time. In some instances, people have the ability to sell to government, as has been demonstrated.

In other examples, they do not have the ability to sell to government, or they have to wait for five to 10 years. There are probably some landowners whose land use has been changed but have not had the ability to sell to government and may not be attractive to developers, so they are waiting for years for people to buy their land. It is an issue that is faced by many landowners in our planning system. It is not ideal but it is part of the evolving use and changing nature of land. Decisions are made to change the use of the land that they may be living on.

The CHAIR: That completes the examination of the Pilbara Ports Authority.