STANDING COMMITTEE ON
ESTIMATES AND FINANCIAL OPERATIONS

INQUIRY INTO THE ROYALTIES FOR REGIONS POLICY

TRANSCRIPT OF EVIDENCE
TAKEN AT PERTH
MONDAY, 16 MARCH 2009

Members

Hon Giz Watson (Chairperson)
Hon Ken Travers (Deputy Chairman)
Hon Brian Ellis
Hon Sheila Mills
Hon Helen Morton

Hearing commenced at 2.04 pm

HOUSE, Hon BARRY
Parliamentary Secretary to the Treasurer,
Parliament House, Harvest Terrace,
Perth 6000, sworn and examined:

MARNEY, MR TIMOTHY
Under Treasurer,
Department of Treasury and Finance,
14th Floor, 197 St Georges Terrace,
Perth 6000, sworn and examined:

The CHAIRPERSON: Good afternoon, and thank you for coming. On behalf of the committee I welcome you to the meeting. Before we begin, I will ask you to take either an oath or an affirmation.

[Witnesses took the oath.]

The CHAIRPERSON: You will have signed a document entitled "Information for Witnesses". Have you read and understood the document? Thank you. For the record, the witnesses nodded.

These proceedings are being recorded by Hansard. A transcript of your evidence will be provided to you. To assist the committee and Hansard, please quote the full title of any document you may refer to during the course of this hearing for the record. Please be aware of the microphones and try to talk into them.

I remind you that your transcript will become a matter for the public record. If for some reason you wish to make a confidential statement during today's proceedings, you should request that evidence be taken in closed session. If the committee grants your request, any public and media in attendance will be excluded from the hearing.

Please note that until such time as the transcript of your public evidence is finalised it should not be made public. I advise you that publication or disclosure of the uncorrected transcript of evidence may constitute a contempt of Parliament and may mean that the material published or disclosed is not subject to parliamentary privilege.

Mr Marney, do you wish to make an opening statement?

Mr Marney: Not really; I am happy just to take questions.

The CHAIRPERSON: Could you please advise the committee of the involvement of the Department of Treasury and Finance in the development and implementation of the royalties for regions policy?

Mr Marney: The royalties for regions policy settings were agreed to by cabinet, I think on 19 October last year. The agreement on the implementation of that agreement was reached in detail following advice from the Department of Treasury and Finance into cabinet and its various subcommittees, namely the Economic and Expenditure Reform Committee, or EERC, a subcommittee of cabinet. The decisions of cabinet were then communicated to the Department of Treasury and Finance and appropriately reflected in the mid-year projections of the state's finances. The policy settings were formed up in the lead-up to the 13 October cabinet. The decisions were then communicated to me and rolled into the mid-year review documents on the state's finances. That policy was effected through that statement from 1 January 2009 and set aside the equivalent of

25 per cent of the budget estimate and annual royalty revenue, up to a maximum of $675 million. That amount was to be appropriated to the royalties for regions fund as part of the ongoing annual budget processes. There was also, as part of that policy decision, a limit of $1 billion on the balance of the royalties for regions fund, so that if that limited was reached, no further draw downs or appropriations could be made in that finance year from the consolidated account. Those were the key parameters that were communicated to me and implemented as part of the mid-year review, in a part-year effect as of 1 January, and that is where it stands at the moment. In terms of the implementation on the ground of the various components of the royalties for regions fund and the expenditure thereof, there have been numerous interactions with my officers in State Revenue, who have substantial experience in the payment of grants and subsidies—things like the first home owner grant—and significant processes around such payments. They have been working with the Department of Local Government and Regional Development as they form their processes to administer the royalties for regions fund.

The CHAIRPERSON: In an advisory capacity?

Mr Marney: In an advisory capacity, but, if possible, looking for opportunities. If we have systems or capability sets that are similar to those required to administer certain aspects of the fund, then we can hopefully use those and pick up some efficiencies along the way. We do it as efficiently as possible.

The CHAIRPERSON: Has the Department of Treasury and Finance undertaken any modelling or cost-benefit analysis of the policy?

Mr Marney: Nothing in terms of cost-benefit analysis. Basically, it was communicated to us as the suite of election commitments of the new government, and the cabinet decision was essentially directed to us to implement, so we have not undertaken any cost-benefit analysis of the royalties for regions policy or fund.

[2.10 pm]

Hon KEN TRAVERS: Does the parliamentary secretary know whether it is the government's intention to carry out a cost-benefit analysis of not only the fund in general, but also the different programs within that fund? Is there any intention to conduct a cost-benefit analysis of any of those programs?

Hon BARRY HOUSE: I am sorry, I do not know. As a parliamentary secretary, I have a very limited role in all these negotiations and discussions.

Mr Marney: If I might add, it would be a normal part of the process, as a minimum, for the implementation of a large suite of expenditures like this to go to some form of ex-post evaluation, at least to ensure that the expenditures and the policies were implemented in such a way as were consistent with the original intent. Certainly, if that was not done by the department itself, it would, at some point presumably, be picked up by the Auditor General in his work.

Hon KEN TRAVERS: I take your point on that. I guess my question is: how do we establish what the original intent is? What are the expected outcomes of the program, and how do we establish what they are if we do not have a cost-benefit analysis prior to the establishment of the programs?

Mr Marney: That is a very sound question.

Hon KEN TRAVERS: My next question is to the parliamentary secretary. Does the government have a defined benefit that it wishes to achieve out of the royalties for regions program, or is it simply a matter of spending $675 million?

Hon BARRY HOUSE: I think that question should appropriately be put to the Minister for Regional Development. Obviously there is an emphasis on spending the money in the country regions where the money has been generated. That is a broad principle. All of these programs are accountable through either the Department of Treasury and Finance or the Department of Local

Government and Regional Development in terms of the allocation of funds to either local authorities and regional development commissions or other agencies.

Hon KEN TRAVERS: If it is intended to return the royalties to the regions based on where the royalties were produced, will a greater amount of those royalties go to the regions that actually produce the royalties, or will they go to the regions in general? You said that the royalties will go back to the regions that produce the royalties. At the moment they are going to all the regions and not simply to the regions that produce the royalties. Will there be a greater benefit to those regions that produce the royalties?

Hon BARRY HOUSE: That is probably a matter of interpretation. You would more appropriately put those questions to the Minister for Regional Development.

Hon KEN TRAVERS: Does Treasury not normally apply an across-government view on these matters for all agencies in terms of expecting them to achieve financial outcomes and benefits, and then rigorously assess other agencies on those matters?

Mr Marney: It is part of our normal ongoing role to provide advice to the government of the day on the effectiveness of various programs, and we do that through providing advice directly to cabinet or via the EERC processes. That is the normal course of management of the state's finite resources. That is correct.

Hon KEN TRAVERS: On this program that process is not occurring? I am right about that?

Mr Marney: The process is ongoing through all expenditures across the state, regardless of whether it is an election commitment, a new policy or a longstanding program of expenditure. The Department of Treasury and Finance has no foreseeable explicit ex-post evaluation of the cost benefit planned.

Hon KEN TRAVERS: For you to do that analysis, you would need to know what the intention of the program was, what exactly the objectives were and what exactly the government was hoping to achieve from the program. Do we have that?

Mr Marney: I have had communicated to me the cabinet decisions of 19 October. They go to the amounts to be set aside. The implementation and intention of the programs will be established by the relevant minister and his department.

Hon KEN TRAVERS: I am trying to understand that. That says that the aim is to spend $675 million a year. What we do not know is what the net benefit to the state that we hope to achieve out of that expenditure of $675 million will be, other than the $675 million will be spent. That seems to be the only thing you will be able to measure in the future; that is, that the government did spend $675 million, not that it achieved certain benefits for regional Western Australia, such as making access to health more available or improving the outcomes for Indigenous people in regional Western Australia. How do we measure that if we do not know what we are aiming for?

Hon BARRY HOUSE: In broad terms, the objective is a fair return to country Western Australia in terms of the royalties produced. Each of the programs will be properly assessed on its merits, like the expenditure on the Kalgoorlie Regional Hospital or on the Bunbury to Albany gas pipeline. They would each attract their own scrutiny and assessment in terms of the costs and the benefits.

Hon KEN TRAVERS: I disagree with you because the Under Treasurer is telling us that that money has already been committed and allocated to those projects without doing that. I am not sure that they will be subjected to scrutiny.

Hon BARRY HOUSE: I could not imagine that expenditure will be committed to a large regional hospital such as the Kalgoorlie hospital without a proper assessment being done by the Department of Health prior to the expenditure being outlined.

Hon KEN TRAVERS: I would agree with you about the hospital. I might let the Chair move on. I could go through the range of other programs and ask you to explain how they are achieved.

The CHAIRPERSON: That leads me to my next question to Mr Marney, which he has perhaps already answered. Will there be a cost-benefit analysis of any particular program?

Mr Marney: I would expect that sort of analysis to be the responsibility of the implementing agencies and the implementing minister. I am not aware of any of that analysis. That would sit with either the minister or the Department of Local Government and Regional Development as part of the formation of the implementation strategy that underpins the policy settings.

[2.20 pm]

The CHAIRPERSON: I refer you the *2008-09 Government Mid-year Financial Projections Statement*, and to the graph on page 30, which is headed "Net Debt as a Share of Revenue". Can you indicate whether those forecasts are still current?

Mr Marney: The net debt to revenue ratio as published in the mid-year review was, from memory, 60.9 per cent. That is the current publicly available figure for net debt to revenue. However, we are in the middle of the budget process at the moment, and obviously, now more so than ever, the financial factors that drive the state's budget and its level of debt are quite volatile; so while 60.9 per cent is the currently published figure, that figure is on the move on a daily basis.

The CHAIRPERSON: Up or down?

Mr Marney: It depends on the day. You can usually tell by my facial expression!

Hon KEN TRAVERS: I am trying to pick up whether you are smiling or not!

The CHAIRPERSON: What strategies is the Department of Treasury and Finance undertaking to ensure that the state's AAA credit rating is maintained?

Mr Marney: The maintenance of the AAA credit rating and strategies associated with that are essentially the decisions of government. It is government strategies and, indeed, government policy as to whether it wants to maintain the AAA, and that is the policy of this government. So our strategy as a department is to advise government as to how best to manage the state's finances and service delivery in such a way as to ensure the state's finances remain on a sustainable footing, and therefore ensure the best prospect of maintaining the AAA credit rating. So I have not really answered the question because it is not my question to answer.

Hon HELEN MORTON: The net debt to revenue graph that you have given us shows the ratio as 60.9 per cent. That is obviously above that upper limit of 47 per cent that is the desirable figure. Underneath that graph, you make the clear statement that —

> While the outyear projections for the ration are above the target limit, the State's balance sheet remains in a strong position.

An article that came out in yesterday's *The Sunday Times* makes an amazing comment along the lines that this state is heading for financial ruin, basically. Can you give me a bit of an understanding of how those two comments can be reconciled?

Mr Marney: Part of the reconciliation is to look at the comments from a journalist as opposed to the comments from a public servant. Having said that, there are direct quotes in that article that point to fairly serious conditions for the state's finances. How do they reconcile? The mid-year review financial projections were finalised, from memory, in the first week of December of last year. We are now four months down the track. Four months in the current environment is an extremely long period of time. We have had further substantial deteriorations in particular items of revenue, as well as further substantial expenditure pressures on the state's budget, all of which accelerate the trend that was evident already within the mid-year review document. So that is the reconciliation. Essentially the trend that we saw in the mid-year review has been brought forward, and it is rising.

Hon HELEN MORTON: So when you said before that this remains the published position, is the unpublished position actually worse than this? Is that what you are saying?

Mr Marney: That is correct, yes, and that is the budget process that we are in now. I cannot tell you that the ratio is now X, because there is a whole heap of decisions before government at the moment to deal with those situations, but suffice to say that the trend outlined in the mid-year review document has come forward, so the storm is right upon us as opposed to out on the horizon.

Hon KEN TRAVERS: I refer to the recent decision by Standard and Poor's to downgrade Queensland's credit rating. Have you looked at the reasons that underlie that downgrading, because my understanding is that it was more than just the net debt to revenue ratio?

Mr Marney: Yes. The key measure that Standard and Poor's cited in its downgrade of Queensland's credit rating was, from memory, the ratio of net financial liabilities to revenue. That is a broader measure of net debt, because it includes unfunded liabilities such as, for example, superannuation. Standard and Poor's had previously indicated to Queensland that its tolerance was around 100 to 120 per cent, from memory, on that ratio, and Queensland breached that and did not have any corrective strategies in place to bring it back. Therefore, it was penalised for that in terms of its credit rating.

Hon KEN TRAVERS: On that ratio, what is the current WA figure?

Mr Marney: I cannot recall off the top of my head the currently published figure. I have an unpublished figure at the back of my head, but, as I said, that is moving every day, so it would be premature at this point to say what it is. I can certainly dig out the latest published estimate and provide that to the committee.

Hon KEN TRAVERS: Is it close to the limit that would be placed on WA?

Mr Marney: The limit on WA is more likely to be in the vicinity of 80 to 90 per cent, and the latest published figure was below that, with a buffer, but certainly in the current circumstances it would not be substantially lower.

Hon KEN TRAVERS: I assume that with things like unfunded liabilities for superannuation, if there has been a significant reduction in the value of that, that buffer could very quickly disappear?

Mr Marney: Yes.

Hon KEN TRAVERS: Is that an issue for our state finances in trying to maintain our figure going forward?

Mr Marney: It is an issue for the budget process and for the decision making of government.

Hon SHEILA MILLS: My question is to the parliamentary secretary. There are six policy objectives for royalties for regions. I have asked various people who have appeared before this committee what those policy objectives mean. The first is building capacity in communities. What does that mean?

Hon BARRY HOUSE: All I can say is I was not the author of the royalties for regions policy. You would need to go to the original source.

Hon SHEILA MILLS: Another one is maintaining sustainability and growing prosperity. Given that the reason that the Under Treasurer is quoted in *The Sunday Times* is because, as it stands now, the state's finances are unsustainable, I wonder how these broad, sweeping and meaningless statements actually correlate with putting performance indicators in place, or cost benefits. They are meaningless, really, are they not?

Hon BARRY HOUSE: I would not say they are meaningless. As you know, the royalties for regions program grew out of the election commitments of the National Party during the election campaign. As we all know, the Liberal and National Party alliance was formed following the election, with a commitment by both parties to meet each other's election commitments. As for the exact meaning that was in the head of the authors of that policy, I did not write it, so I think you would need to go to the original source.

Hon KEN TRAVERS: Except that it is no longer a National Party election commitment. It is now government policy, and you are the representative of the government in the upper house for Treasury matters.

Hon BARRY HOUSE: Well, I am sure that if you have a question about the exact meaning of those terms, I can relay that. The parliamentary secretary's role in the upper house is largely a messenger role. In terms of the meaning of those words, I could hazard a guess, but that would be of no more use to anybody than your guess about what they might mean. If you have specific questions, I can rely them to the house.

Hon SHEILA MILLS: Given that you knew that you would be appearing before this committee and that this would be the topic of the hearing, I would have thought you would have managed to get yourself briefed up on it.

Hon BARRY HOUSE: On royalties for regions?

Hon SHEILA MILLS: Yes, on what it actually means.

Hon BARRY HOUSE: Well, not in every little detail, no.

Hon SHEILA MILLS: This is not every little detail. It is the six policy objectives.

[2.30 pm]

Hon BARRY HOUSE: That is detail, is it not?

Hon KEN TRAVERS: I can tell the member that when I was a parliamentary secretary in his position, I went out and got a briefing before I appeared before estimates committees or any other areas in which I was likely to be questioned. It is not as if the committee called you in for this hearing and you did not expect us to suddenly start talking about royalties for regions.

Hon BARRY HOUSE: I am not the parliamentary secretary for royalties for regions or for regional development. I am the Parliamentary Secretary to the Treasurer. I have a briefing note from the Treasury, which is what I would have expected. In broad terms, I have my briefing note. The Treasury is the area for which I convey messages to the Legislative Council, not royalties for regions. If the committee wants to ask questions about royalties for regions, it should ask the Parliamentary Secretary for Regional Development.

Hon KEN TRAVERS: Treasury has traditionally taken a fairly broad role in overseeing expenditure of government finances, including programs.

Hon HELEN MORTON: I have a follow-up question to my previous comments. There is a comment made in the midyear financial review about a forecast reduction in WA's share of GST revenue from $3.8 billion to $2.9 billion. You talk about that as being the lagged commonwealth grants process. What is the time frame of that lag? How far behind does that occur in comparison to today's events?

Mr Marney: If we take the grants commission updated estimates of last week, which were estimates for both the current year and next year, those updated estimates on relativities were based on five years' worth of data—a five-year average period that ended in 2007-08. It basically takes six years for a blip to wash through the system in that grants process.

Hon HELEN MORTON: I just noticed that the equivalent sum total of the reduction of commonwealth grants money for WA and Queensland, for example, went totally to New South

Wales. Is there any process for evening that out, given the circumstances that are occurring across Australia today, given that those grants are occurring on events or circumstances that were applicable two years ago?

Mr Marney: The grants commission would argue that its five year averaging process is its way of smoothing out over the cycle. We have seen some spectacular increases in revenue over the past two or three years that have distorted the average quite remarkably, and that is why we are seeing in both Queensland and Western Australia a substantial redistribution with each update. In that context, when the averaging process fails to smooth some of those spikes, there is nothing else within the current grants commission methodologies that allow it to smooth the impact of those. Having said that, the grants commission reviews its methodology once every five or six years; it is required to do so. It has a review to be completed in 2010, and that is one of the major elements that we will be submitting to the review process to be looked at.

Hon HELEN MORTON: Just to follow up, I guess the outcome of that is that, in the boom years, do not spend to the extent of what you might have at that time.

Mr Marney: The member is getting it!

Hon HELEN MORTON: No, I think I already had it; I think it might have been somebody else who might not have got it.

Mr Marney: The outcome is that we only get to keep 10 per cent of those gains in revenues over that subsequent five to seven year period, as the averaging washes through. We cannot build up our expense base on the basis that those peak revenues will last forever, because mechanically they are taken away over the next five years.

Hon KEN TRAVERS: You are saying that the state retains about 10 per cent of net revenue from royalties?

Mr Marney: From memory, yes.

Hon KEN TRAVERS: If you are giving away 25 per cent of that to a particular program, you have to be taking it off other government programs to do that, under the commonwealth grants process?

Mr Marney: Yes. It is not that straightforward, but I can see the logic the member is running, but it is not —

Hon KEN TRAVERS: What is it, if it is not that straightforward? If a policy decision is made to take 25 per cent of royalties and give it to the regions, but we are getting a net benefit of only 10 per cent of royalties to the state, where do we find the other 15 per cent?

Mr Marney: It is not a net percentage of 10 per cent of just royalties; it is our entire revenue base, but the figure of 10 per cent was off the top of my head as a long-run average.

Hon KEN TRAVERS: Yes, but it is approximately that amount.

Mr Marney: From memory, yes, but to be honest I did not expect to be quizzed on grants commission issues. Suffice it to say that royalties of 25 per cent are reasonably reflective of what we get to keep out of that component of the revenue base. It is not out of sync. I would be happy to provide supplementary information on how that washes through, because I think that is pretty important.

The CHAIRPERSON: I also have a question about that, and since we are trying to establish that figure, we might just try to tease that out a bit. As I understand it, about 80 per cent of Western Australia's onshore royalties, and 90 per cent of offshore royalties, go to the commonwealth, and they are basically redistributed to the other states and —

Mr Marney: Through the grants commission process, and depending on what our relativities are. That is where it all starts to get a bit muddled, but I am happy to provide —

The CHAIRPERSON: I would be really interested in any more detail you can provide on that, because that seems to be a bit of a thing. The way I see it, without adjustment from the commonwealth grants scheme the majority of mining royalties in this state do not actually end up funding the Perth metropolitan area, for example; they actually end up funding other states. Then there is the question of the shortfall that arises in the figures that have been presented for royalties for regions. I would be most interested in any further detail you can provide on that.

My next question is to Hon Barry House: will the royalties for regions policy be adjusted to maintain the state's AAA rating; and, if yes, how?

Hon BARRY HOUSE: I am aware that the possible impacts of the policy on the state's AAA rating will be one of the factors that will be considered in any adjustments to the royalties for regions program. Some other considerations are the possible impacts of the policy on the state's budget and the potential operational impact on the policies of government agencies.

The CHAIRPERSON: I guess my follow-on question is—I do not know whether you will be able to answer it: does that imply that the policy is under review as well; is there an ongoing review process happening for the policy?

Hon BARRY HOUSE: In terms of the money allocated to it, that is Treasury's role. Yes, that is always under review, I guess, in terms of the royalty revenues that are coming in and other factors that might be impacted by expenditure. As for the actual program, adjustments would then be made by the Minister for Regional Development within those financial constraints.

The CHAIRPERSON: Mr Marney, what would it mean if the state's credit rating were to be downgraded? What would be the actual impact?

[2.40 pm]

Mr Marney: Probably the greatest impact at the moment would be on confidence within the state, both with respect to the state's financial stability and the state's economy more broadly, and the impact on investor confidence. At the moment it would not substantially impact on our debt costs, for a number of reasons—the biggest reason being the commonwealth guarantee, which has been in place since October last year or thereabouts. That has had a substantial distortionary impact on the debt financing market, to the extent that it bestowed upon sub-AAA entities a AAA credit rating overnight. That meant that overnight state government debt issuance became dramatically less attractive. With the downgrade in Queensland, being an economy of a similar nature and being a semi-government entity, my understanding is that our cost of debt increased slightly as a result of that in any case. It is not unusual in financial markets to have that sort of contagion from like product to like product. So the short answer is that it would impact our confidence more than anything, because there are substantial distortions in the debt market at the moment, which are already causing us grief.

The CHAIRPERSON: Is the state's fiscal strategy being modified to take into account the impacts of royalties for regions capacity?

Mr Marney: As is required under the financial responsibility legislation, the government is required to make public its fiscal targets as part of the budget documents, and it will do so during the tabling of the budget in May. As with everything during budget processes, everything is under review.

The CHAIRPERSON: I refer to a submission to this inquiry, of which you have been handed a copy, from the Department of Local Government and Regional Development. I take you to the second set of bullet points on page 10 of that submission. The third bullet point states that the department is liaising with a number of other departments, including the Treasury Corporation. It says that the department will seek advice in relation to undertaking a baseline funding study to ensure that funding is appropriated to activity above and beyond current planned activities. Is that process underway? Has that advice been sought? Can you give us an update on that?

Mr Marney: The Treasury Corporation is a separate entity from the Department of Treasury and Finance. Having said that, I am the chair of the board of the Treasury Corporation, so I am not completely off the hook. To be perfectly honest, I have zero awareness of this issue.

The CHAIRPERSON: Would you like to take that question on notice?

Mr Marney: Yes. That sentence is a bit vague.

The CHAIRPERSON: There is a bit of that about!

Mr Marney: Having said that, the Treasury Corporation liaises with the Department of Local Government and Regional Development on a regular basis in terms of its debt rating activities and any debt that might be appropriate and scheduled or planned by local governments. I would suspect, given that that is our key area of interaction, it would be related to the debt holdings of local government authorities.

The CHAIRPERSON: Perhaps you could see what else you might be able to provide on that. I take you to the bullet point above, which refers to the Department of Treasury and Finance. At the end of that bullet point, it states that the Department of Local Government and Regional Development is currently working with the Treasury on the establishment of an appropriation approval process. I wonder if you could tell the committee what that process is.

Mr Marney: There are a number of processes by which the appropriation approved by the Parliament are drawn down by agencies; that is, the appropriation is released from the central consolidated account to agencies' own accounts and then spent from there. One of the things we have been working with the Department of Local Government and Regional Development on is the approval processes for those disbursements and particularly the acquittal of the various funds and how applications might be made to those funds, and the levels of authority that we will need to see prior to allowing disbursement from the central consolidated account.

The CHAIRPERSON: Is that process in relation to the whole of the fund or specific aspects?

Mr Marney: It will differ with each of the components of the fund. Some of them require a different approach based on different models of governance, and patterns of draw-downs that may be grant-related versus a draw-down that is infrastructure-related and being spent by government on particular infrastructure projects.

The CHAIRPERSON: Do the appropriation approval processes have to be in place before any money is spent, or is it an ongoing process? I am trying to ascertain whether the process has to be in place before the funds are dispersed, or whether it is an ongoing relationship or process.

Mr Marney: We would need to have confidence that Department of Local Government and Regional Development either had robust processes in place already or will soon have them prior to disbursing funds from the consolidated account, otherwise there is a risk is that the funds do not get spent in the time frame or the manner anticipated. That obviously has implications for our financial management more broadly.

The CHAIRPERSON: Is it on track to achieve that sort of timing?

Mr Marney: It depends what the track is.

The CHAIRPERSON: The committee understand that the RFR fund is formed as a Treasurer's special purpose account, pursuant to section 10(a) of the Financial Management Act 2006, by the Department of Treasury and Finance. It is administered by the Under Treasurer in accordance with the Financial Management Act, the Financial Management Regulations and the Treasurer's instructions. This administrative arrangement will subsequently be replaced by a legislated fund once the relevant legislation is passed. Who will be responsible for administering the fund once legislation is passed?

Mr Marney: My understanding is that that would be the Department of Local Government and Regional Development. Related to the previous question, until such time as those governance arrangements are established and robust, this alternative arrangement has been put in place in order to deliver the government's commitment.

The CHAIRPERSON: My understanding is that part of the funding goes to regional development authorities, and part to local government authorities directly. Is that correct?

Mr Marney: That is correct; hence the need for different governance arrangement depending on the nature of the fund and how the draw-down pattern is anticipated and indeed how the application to the funds actually occurs, and how they get approved and authorised and so on.

The CHAIRPERSON: Has it been the case to date that the regional development authorities administer grants and funding applications? It seems to me that local authorities do that already, and they have those facilities. Is it the case that regional authorities have played this role before, or play it at the moment?

Mr Marney: The regional development commissions?

The CHAIRPERSON: Yes, commissions; sorry.

Mr Marney: They do have limited existing responsibilities in this space, but not for amounts of money of the magnitudes proposed. We are talking hundreds of thousands as opposed to millions.

[2.50 pm]

Hon BARRY HOUSE: Can I just add something briefly? I am aware that in the initial round of funding allocated to local authorities right around regional Western Australia, the accountability trail goes back through the department of local government, so for each one of those there is a whole —

Mr Marney: — nine regional development commissions.

Hon BARRY HOUSE: Yes. The regional development commissions are separate, through the department of regional development, but the local government department administers funding that has gone to individual local authorities. That was the first wave of funding under the royalties for regions program.

Hon KEN TRAVERS: I just want to clarify that. Is it the department of local government, or, until legislation is passed, is it the Under Treasurer who has responsibility in terms of financial accountability? From a policy point of view the department of local government might be involved, but my understanding is that until legislation goes through it is the Under Treasurer who is responsible. Is that correct?

Mr Marney: That is correct. I will be the custodian of the funds on behalf of the Parliament and the Treasurer, and the Department of Local Government and Regional Development will request disbursement of those funds for a specific purpose. My department will then analyse the request for disbursement and determine whether the quantum and rate of draw-down is appropriate and reasonable given the agency's previous demonstrated performance in expending funds and also the current cash holdings of the agency. If after that analysis it is deemed appropriate, the funds will be released.

Hon KEN TRAVERS: Why would the cash holding of the agency be important?

Mr Marney: Hypothetically, if they drew down $100 million last month in the expectation they would spend it and they did not, and they requested $5 million this month, there would be no reason to give them $5 million because they would have $100 million in the bank. It is just to manage the cash balances of the agencies over time. At the end of the 12 months it will be a zero sum gain, but it is a within-year disbursement profile consideration; and, really, the core purpose of that special purpose account is to manage the disbursements through the years.

Hon SHEILA MILLS: I am not sure who to ask this--if it is not appropriate to ask you, Mr Marney, Hon Barry House is next. The administration of the royalties for regions fund will pass, once the legislation has gone through, to the department of local government and the department of regional development, which are relatively small departments. Given the amount of money and the quantity of projects one would expect to go ahead under this—they are going to be responsible for the administration of this $600 million—are we going to see an increase in FTEs in those departments?

Mr Marney: That's a question of policy, which I cannot answer.

Hon BARRY HOUSE: The short answer is that I do not know. There will obviously have to be staffing to perform the duties that these departments are entrusted with. All I know about the legislation is that a third drafting of the bill is circulating in government agencies as we speak. I have no personal knowledge of what is contained in that legislation and who will be the responsible authority at the end of that.

Hon SHEILA MILLS: Would you anticipate any increase in FTEs? Is that logical, or would you imagine there would be secondments from other departments, given the three per cent efficiency dividend and the move to reduce the size of the public sector?

Hon BARRY HOUSE: I am sure the workload will be monitored. I am not in a position to answer that.

Hon SHEILA MILLS: No wonder you are a politician!

The CHAIRPERSON: Just to follow on, Mr Marney. From the terminology you were using about being custodian of this fund until such time as the various departments take on that role, is it an additional cost to your department to do that? It seems to be an extraordinary set of circumstances that has put your department in this particular role, in that the rolling out of funds is in advance of actual legislation.

Mr Marney: It is not really. We have established processes to manage disbursements across the entire sector. This is just another source of disbursement to the Department of Local Government and Regional Development. It is not something that is causing me concern, in terms of soaking up resource.

The CHAIRPERSON: I might then ask: how will the funding and expenditure under the royalties for regions policy be presented in the state budget?

Mr Marney: I have not seen a draft of the budget paper section that will present it. My assumption would be that budget paper 3 would provide an explanation of the policy settings and the implementation details, some of which will answer, hopefully, some of the questions that you are asking now in terms of detail around implementation. The specifics around the draw-down on the fund and the financial flows out of the fund and what you get for that, I would assume would be fully detailed in budget paper 2 under the budget statements for the relevant implementing agency of the specific royalties for regions initiative.

The CHAIRPERSON: Is it fair to say that, in some respects, if one were tracking the policy intent of transferring a certain amount of money into the regions, it is quite a hard task to do, given that departments provide services statewide? We have had a submission from Dr McLure from the University of Western Australia, who suggested to the committee there would need to be a different approach so that one could ascertain whether that transfer had occurred. I do not know whether you have any comment to that.

Mr Marney: You can ascertain very easily whether the transfer has occurred by monitoring the disbursement of that $675 million per annum. What you cannot ascertain is what is already out there and how that is changing at the same time: has $700 million been pulled out of the regions at the same time as that $675 million has gone in? That is the question we cannot answer because the major agencies do not geographically cost their service delivery. Having said that the policy —

The CHAIRPERSON: So the net outcome is going to be a bit hard to gauge?

Mr Marney: Having said that, the policy settings are such that as soon as—certainly expenditure on service delivery is increasing quite rapidly, and for it to be declining in the regions while that is going up by more than 10 per cent across the board would be a fairly phenomenal achievement. We just cannot say how far the regional delivery is already increasing.

Hon BARRY HOUSE: Madam Chair, on that point, the policy of royalties for regions is that it is expenditure over and above the normal recurrent expenditure to the regions; so that is the policy position.

The CHAIRPERSON: Yes, I understand that. I think what I am trying to get to is how do we account for that?

Hon BARRY HOUSE: Sure.

The CHAIRPERSON: Yes, I am genuinely interested to know how you do that.

Hon BARRY HOUSE: I think we all are. It is a good question in terms of how it ends up in the wash, basically.

Hon KEN TRAVERS: I guess that is my question: is there going to be a baseline study to ascertain how much is currently spent in the regions?

Mr Marney: Any such study would be based on assumption and modelling rather than on actual expenditure. It would be impossible to do it; it would require a radical system change across the public sector, which would need a number of years lead time to get everyone to cost their activity back to geographical location.

Hon KEN TRAVERS: My point is that eventually, if you do not have a baseline on which to build, we could end up with a hypothecation of 25 per cent of royalties when we actually have no additional expenditure in regions at all. How do you ensure it is not just a hypothecation of money without any actual net increase in expenditure in regions?

[3.00 pm]

Mr Marney: I guess the policy safeguards that the government has put in place to achieve that is to ensure that there is no diminution of the existing service delivery activity in the regions by intent. For example, it is easily enough done in the capital works program, where you can see, obviously, in the statements where major projects are and confirm that they are still there and they have not been taken out and then come back, or just taken out and replaced with grants going to local authorities in a different form. Those were the parameters set in the policy. How we validate it is a very difficult question.

Hon KEN TRAVERS: Using an example, last week I asked a question about whether the *AvonLink* service was about to be cut. The minister said that it was not. But if, for instance, that was cut—in fact, I will ask him this week about whether or not the Merredin chopper service or the *Prospector* is about to be cut, because that is where the latest rumours are—you could be taking the money from those services to basically fund, and then there is no net increase across government expenditure in the regions.

Mr Marney: That is a potential outcome. Having said that, whether it is regions or metropolitan, from time to time services get withdrawn, cut, removed or replaced by better services. I do not think the policy intent goes to not having that sort of flexibility over time.

Hon KEN TRAVERS: No, but if you are wanting a net increase in expenditure, what you would need to do is that if you cut the Merredin chopper and it saves $3 million a year, or whatever the figure is, would you not have to increase your $675 million to $678 million a year to ensure that there is a net increase in expenditure in the regions?

Mr Marney: Yes.

Hon KEN TRAVERS: As an example, the parliamentary secretary used the Kalgoorlie hospital. The Kalgoorlie hospital, or the expansion of it, was always going to be built. The question is the amount of money that is spent on it. So $30 million was allocated in the budget; it is now going to cost $50 million to do that project. Is that really a net increase in expenditure in regional Western Australia?

Hon BARRY HOUSE: It was not in the forward estimates, as I understand it, prior to the royalties for regions accepting it as a valid project to include under their banner.

Hon KEN TRAVERS: The $30 million or the full $50 million? As I understand it, there was $30 million allocated for the Kalgoorlie hospital and royalties for regions is giving the additional $20 million —

Hon BARRY HOUSE: I am not sure of the figures.

Hon KEN TRAVERS: — meeting the shortfall in the budget allocation. Is that a correct analysis of it?

Mr Marney: That is my vague recollection. As I said previously, though, within the context of a budget process, everything is under review. If it were not for royalties for regions, we might have come out at the end of the budget process with no Kalgoorlie hospital at all. That is the nature of the beast.

Hon KEN TRAVERS: I find that hard to believe.

Mr Marney: Whether or not that is credible is purely for your digestion.

Hon KEN TRAVERS: But in terms of anyone trying to measure whether or not there has been a net increase in expenditure in the regions if you do not have a baseline, what the Kalgoorlie hospital does is it basically says that wherever there is a now a budget blow-out—it is not necessarily a blow-out because between the time that you establish the estimate and the time that you complete the budget—any increases in that will be taken out of royalties for regions, and, ultimately, on that process you end up with no net gain to the state.

Mr Marney: Those sorts of decisions are explicit decisions of government, and I assume that government will exercise its policy intent in that process.

Hon BARRY HOUSE: I suspect, Hon Ken Travers, that there is going to be a lot of people in your and my position over the next few years, using statistics that come out of this process to justify their own arguments, and you can use statistics in lots of different ways. For instance, how do you measure the effect throughout regional WA on statewide services that are conducted through the health department or the education department? I think: how long is a piece of string? You could allocate a variety of different models to it and measure them whichever way you wanted to suit your own argument.

Hon KEN TRAVERS: I do not disagree with you, which is why I would have thought that you need a baseline study to establish what is the current expenditure in regional Western Australia to be able to accurately say in the future that there has been additional money spent in Western Australia. What I am hearing today is that in four years' time we will not be able to establish whether or not there has been any additional money spent in regional Western Australia potentially. It will be an argument about statistics, lies and damn lies.

Hon BARRY HOUSE: It will be open to interpretation, I think.

Hon KEN TRAVERS: Exactly.

Hon HELEN MORTON: My question is on that very matter; it is about the indirect costs and how they are allocated to regional areas. A fair amount of the indirect costs associated with all the programs we are talking about will be lying within the metropolitan area, whether it is in maintenance for the Merredin chopper; the department of regional development, where it operates from and the cost associated with it; increased staff who might be allocated at a metropolitan level; planning work that is being undertaken for the Kalgoorlie hospital; some of the work around Western Power; and so on. It was also my question as to whether those indirect costs that might be located in the metropolitan area can still be allocated as royalties for regions costs and expenditure, even though they are not being physically located in a regional area. Is it possible that that will happen?

Mr Marney: I think that is possible. It depends, case by case, as to whether or not it would be counted as being funded as regional and therefore eligible for funds out of royalties for regions, or just part of the broader overhead of the machinery of service delivery.

The CHAIRPERSON: Can I take you to the state infrastructure strategy and ask when that strategy is likely to be released?

Mr Marney: I note you explicitly requested a copy of the strategy. My reply letter, which I saved a stamp—three per cent —

The CHAIRPERSON: You are setting a fine example.

Hon KEN TRAVERS: Can you tell us what the letter says—thanks but no thanks?

Mr Marney: The letter says, "Thanks for asking, but I cannot give it to you, for a couple of reasons." It has not been considered by the current government. I think it was last considered by the previous government in around June last year and since that time what has come into and gone out of the capital works infrastructure program has changed substantially, so the document that I do have, which probably has all sorts of cabinet clouds over it anyway, is very significantly out of date.

The CHAIRPERSON: So, as to when it might be completed?

Mr Marney: I do not have any indication from government as to when and if it wants to release that.

Hon KEN TRAVERS: Are you saying that the state infrastructure strategy is not being considered as part of the deliberations of the review of infrastructure, so the government is not using the priorities that were established in that state infrastructure strategy in a consultative process with a whole range of community organisations to help them determine their priorities as part of the review of infrastructure in this state?

Mr Marney: No, that is not what I am saying. I am saying that the information in that document and the articulation of the capital works program in that document is out of date; therefore, to share the document would be misleading.

Hon KEN TRAVERS: My understanding of the state infrastructure strategy is that it is that; it is a strategy, so it is a dynamic process. It is not: these are the 10 projects that we are going to build and that is locked in hard and fast. It is about giving some emphasis to the priorities that you will apply to your infrastructure, and then an estimation on current circumstances of what you expect that program to be. It is based on the south east Queensland model, and that gets updated on a regular basis. If there is a review of infrastructure, what I want to know is whether or not that document and the work that was done with a range of community and outside organisations—CCI and many other groups were involved in that— about where their priorities were are being used to inform the process that the government is going through for reviewing the current state infrastructure expenditure.

[3.10 pm]

Mr Marney: The current state infrastructure expenditure and capital works program is being reconfigured to reflect the incoming government's election commitments. That is the dominant force, if you like, in the reconfiguration of the plan; and, indeed, immediately prior to the election there was reconfiguration of the infrastructure strategy going forward by the previous government. Both of those processes have meant that what is documented in the state infrastructure strategy as it stood at last June is quite dated. It does not mean that it is not being used to inform the policy decisions of government; it just means it is not in sufficient form in its documentation to run off and share.

Hon KEN TRAVERS: That is slightly different from what I understood you to say initially.

Mr Marney: It is not being completely disregarded; it is in the mix in terms of informing decision-making.

Hon KEN TRAVERS: I refer to the pre-election financial cost, which I think you did on 3 September. You also released a press release on 10 September about the impact of royalties for regions. Was your analysis of the estimated impact of the election commitments of the Liberal Party based on Treasury estimates or on the estimates that the Liberal Party itself had determined for its costings?

Mr Marney: It was based on the published costings by all relevant persons.

Hon KEN TRAVERS: In that case, the figures on 3 September were based on the Liberal Party's own published costings?

Mr Marney: Yes.

Hon KEN TRAVERS: Was your analysis of 10 September on the impacts of those costings based on the Liberal Party's own internal costings?

Mr Marney: Yes.

Hon KEN TRAVERS: Has Treasury done any work since that time on the actual cost of the Liberal Party election commitments compared to what they had estimated them to be?

Mr Marney: Yes.

Hon KEN TRAVERS: Could we receive copies of that?

Mr Marney: No.

Hon KEN TRAVERS: Why not?

Mr Marney: Because it is part of the deliberative processes of government subject to cabinet decision today and tomorrow.

Hon KEN TRAVERS: I am not asking for the deliberative process; I am asking what was the policy cost and what is your estimate of the cost now. I am asking for a factual piece of information.

Mr Marney: It is a factual piece of information that I have provided directly to a subcommittee of cabinet for its decision making. Those decisions are pending. In any case, by virtue of the fact that it was provided direct to a cabinet process means that I am not at liberty to share it with you. Having said that, I assume that you will be able to establish that cost. If there is a change to the costings of the election commitments as they move into implementation, then that will be made transparent in the budget papers. Again, until the decision process has run its course, it would be premature to examine anything.

Hon KEN TRAVERS: My next question goes to the mid-year financial review, including a range of Liberal Party election costings. This may be a question for the parliamentary secretary. Does that mid-year review include all the election commitments, or are there still some yet to be incorporated into the state's finances over and above those that were included in the mid-year financial review?

Hon BARRY HOUSE: I am sorry, but I have not been privy to that detail in discussion with the Department of Treasury and Finance. I do not know whether they are included or not.

Mr Marney: I am pretty sure they were all included as costed. If that is wrong, I will get back to you, but I am pretty sure they were covered in the mid-year review.

Hon KEN TRAVERS: I am aware of some election commitments that were made—they might even have been given by the parliamentary secretary when he was shadow spokesperson—that are not included in the financial review.

Hon BARRY HOUSE: Is that right?

Hon KEN TRAVERS: Yes.

Mr Marney: Now you have got him very interested!

Hon BARRY HOUSE: When you said that the Liberal Party's election commitments were internally costed, that is not quite correct. As I recall it, the Liberal Party contracted an accountant, the name of which I cannot remember off the top of my head, to cost the commitments that were made during the campaign. It was not done internally by a group of people in Liberal Party headquarters.

Hon KEN TRAVERS: But someone was contracted to provide them to the Liberal Party; they were not independent of the Liberal Party.

Hon BARRY HOUSE: They were independent of the Liberal Party.

Hon KEN TRAVERS: Not if they were paid for by the Liberal Party.

Hon SHEILA MILLS: Do you not have the system that the commonwealth has whereby the opposition submits its election promises to the Department of Treasury and it costs them?

Hon BARRY HOUSE: Yes. I understood that during the election campaign that was done this time except the Liberal Party took the decision to contract them to this accountancy firm and then submit them to Treasury.

Hon KEN TRAVERS: Treasury's assessment of them was based purely on what had been provided. Treasury did not reassess, in its view, the cost of those commitments. My reason for asking that is this document. Taking the hypothetical that some or all of them are higher than was estimated, the figures contained in your document of 10 September could be significantly out in terms of the impacts of the royalties to regions on the AAA credit rating. If the Liberal Party election commitments are higher than was estimated by their own internal costings, that could have a significant impact on the total AAA credit rating for the state.

Mr Marney: That is correct, as could any other of the parameters that could influence the state's finances, whether they be election commitments, the exchange rate, wage increases, FTE growth or service delivery—all those things.

Hon BARRY HOUSE: For instance, the cost blow-out for Perth Arena.

Hon KEN TRAVERS: I can assure you, Hon Barry House, there will be plenty of cost blow-outs. I am happy, if it is appropriate, to have a bet with you now that the Kalgoorlie hospital will cost more than the amount currently allocated in the budget.

The CHAIRPERSON: I am senior; just suggest it, please.

Hon KEN TRAVERS: I will take your advice on that, Chair. We may have to do it privately outside this hearing.

Mr Marney: As the public servant now responsible for works, I would be insulted by such activity!

Hon KEN TRAVERS: Would you resign if it goes above it?

Hon SHEILA MILLS: How is the OSS going?

Mr Marney: I am happy to talk to you about that. I believe I already have.

Hon KEN TRAVERS: The issue here for the Estimates and Financial Operations Committee is that you already have the Liberal Party policies, as they were costed, and if they have gone up—there are also National Party policies. It is clear even in the media statement of 10 September that that has the potential to put us beyond the 47 per cent revenue. I would be pleased to know the other ratio you were referring to in terms of Queensland and what impact that would have. Before any of the impacts of the global financial crisis or any of the other parameters we talked about, we are already spending more than we can by putting those two sets of policies together. That is the issue for this committee in terms of what impact the royalties for regions will have. By putting together the full suite of Liberal Party policies—the fully spent available money of the state—and adding the National Party policies, one and one do not add up. We are now spending, say, $1.5 and we have a budget of only $1.

Hon BARRY HOUSE: That sounded like a statement to me. Was there a question there?

Hon KEN TRAVERS: My question is: how are we going to bring back the expenditure to $1.

Hon BARRY HOUSE: That is a big question for the government in general. We live in very interesting times, economically. We have not seen the volatility we have seen over the past six months ever in our lifetimes.

[3.20 pm]

Hon KEN TRAVERS: My point is putting that aside, even before the impacts of that, you are already spending more money than you have available in your budget if you want to maintain your AAA credit rating and do it responsibly —

Hon BARRY HOUSE: I think that is a statement.

Hon KEN TRAVERS: How else are you going to reduce your expenditure to fund the additional expenditure over and above that which is responsible?

Hon BARRY HOUSE: I think that is an assumption you have made, not necessarily backed up by the facts.

Hon KEN TRAVERS: Based on this, you are already going to be 53 per cent by 2011-12 on your net debt to revenue ratio, when the target was 47 per cent, which was a target that you also had the Liberal Party agree to.

Hon BARRY HOUSE: I read that press release too, Mr Travers, and I think the impacts of the Labor Party’s election commitments were factored in as being equivalent to the Liberal Party’s election commitments.

Hon KEN TRAVERS: I agree completely with you. The difference is you have now added on $675 million worth of National Party election commitments. The difference is you are now in government, we are not. You have to make the state’s finances add up.

Hon BARRY HOUSE: And we will do a good job of it.

Hon KEN TRAVERS: Explain to us how you are going to do that—that is the question I am asking—rather than try and answer it.

Hon BARRY HOUSE: I think the first step in the explanation you will see on May 14 when the budget is released.

Hon KEN TRAVERS: There will be expenditure cuts to bring it back below a 47 per cent net to debt ratio?

Hon BARRY HOUSE: I do not know what is in the budget. As I said, I am not privy to any of those detailed discussions.

Mr Marney: One of the government's suite of election commitments was to undertake an economic audit process. That process is underway. I assume that would be part of the response to gathering advice on how to manage the state's finances in a sustainable way.

Hon HELEN MORTON: I just say that the government expenditure over the last five years was a bit gung-ho given the five-year averaging process of the grants commission and the government's own projections for reduced surpluses and increased net debt as a share of revenue. Mr Marney?

Mr Marney: That is an opinion.

Hon HELEN MORTON: I will put it another way. Did you attempt to caution the government over its rates of expenditure given those factors that I mentioned?

Mr Marney: I think, as you have seen even just this weekend, I will use any mechanism I can to caution anyone I can on spending excessively

Hon KEN TRAVERS: I think you wrote a letter to a Premier about four ministers once, did you not—excessive expenditure, under Richard Court's time? Actually, it was your predecessor who wrote it.

Mr Marney: No; it was my predecessor. The reason I had to think is because it would not be out of the question! It is clear to see that in the context of the grants commission processes and the rate of expense growth, when you have got expenditures growing at above 10 per cent per annum and your average revenue is not above 10 per cent per annum, then at some point something is going to crunch.

Hon HELEN MORTON: My point about this is that this situation was known before this government took over. Is that correct?

Mr Marney: I think that is fair to say.

Hon HELEN MORTON: Consequently, my question is: did you caution or did you attempt to caution the government about that rate of expenditure?

Mr Marney: I am not sure if it is pushing the boundaries of divulging advice previously given to the previous government, but obviously I would have raised concerns.

Hon KEN TRAVERS: Have you raised any concerns with the new government?

Mr Marney: Obviously whenever it is the case that expense growth in this state is at an unsustainable pace, it is my duty as a public servant to raise such concerns

Hon KEN TRAVERS: You pushed the boundaries in answer to Hon Helen Morton's question. I am asking: have you done that?

Mr Marney: Yes

Hon KEN TRAVERS: In this current budget process?

Mr Marney: Yes.

Hon KEN TRAVERS: Do you have any idea of what the net reduction in debt—not the trading enterprises, but the general government side—has been over the last eight years? My understanding is that we ended up paying off most of the debt. Is that correct?

Mr Marney: Yes, but I cannot remember the quantum of that. The general government sector was debt-free, from memory.

Hon KEN TRAVERS: That was something that had been achieved by the previous government—a net debt-free position? Sorry, but if people want to go into past history, I think we should have a look at the full side of the past history.

The CHAIRPERSON: It might be straying slightly beyond the terms of reference of this particular inquiry to go any further.

Mr Marney: If you would like a series of actual general government sector net debt, I would be happy to provide that as further information.

The CHAIRPERSON: That would be excellent. Thank you, gentlemen. That is it for this afternoon.

Hearing concluded at 3.25 pm