

**STANDING COMMITTEE ON  
ESTIMATES AND FINANCIAL OPERATIONS**

**2012–13 BUDGET ESTIMATES HEARINGS**

**TRANSCRIPT OF EVIDENCE  
TAKEN AT PERTH  
THURSDAY, 7 JUNE 2012**

**SESSION ONE  
DEPARTMENT OF TREASURY**

**Members**

**Hon Giz Watson (Chair)  
Hon Philip Gardiner (Deputy Chair)  
Hon Liz Behjat  
Hon Ken Travers  
Hon Ljiljanna Ravlich**

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**Hearing commenced at 9.01 am**

**HON SIMON O'BRIEN**

**Minister for Finance representing the Treasurer, examined:**

**MR TIM MARNEY**

**Under Treasurer, sworn and examined:**

**MR MICHAEL BARNES**

**Deputy Under Treasurer, sworn and examined:**

**MR MICHAEL COURT**

**Executive Director, Economics, sworn and examined:**

**MR RICHARD MANN**

**Executive Director, Strategic Projects, sworn and examined:**

**MR ANTHONY KANNIS**

**Executive Director, Infrastructure and Finance, sworn and examined:**

**The CHAIR:** On behalf of the Legislative Council Estimates and Financial Operations Committee, I would like to welcome you to the hearing this morning. Before we begin, I am required to ask the public servants to take either the oath or affirmation.

[Witnesses took the oath or affirmation.]

**The CHAIR:** At this time, I ask each of the witnesses whether they have read, understood and completed the "Information for Witnesses" form.

**The Witnesses:** Yes.

**The CHAIR:** The hearing this morning is being held in public, although there is discretion available to the committee to take evidence in private either of its own motion or at the witnesses request. If for some reason you wish to make a confidential statement during this morning's proceedings, you should request that the evidence be taken in closed session before answering the question. Government agencies and departments have an important role and duty in assisting Parliament to scrutinise the budget papers on behalf of the people of Western Australia. The committee values that assistance. These proceedings are being recorded by Hansard. A transcript of the evidence will be provided to you. It will greatly assist Hansard if when referring to the *Budget Statements* volumes or the consolidated account estimates, members and witnesses give the page number, item, program, amount and so on in preface to their questions. If supplementary information is to be provided, I ask for your cooperation in ensuring that it is delivered to the committee's clerk within 10 working days of receipt of the questions. Should you be unable to meet that deadline, please advise the committee clerk immediately. The committee reminds agency representatives to respond to questions in a succinct manner and to limit the extent of personal observations. For the benefit of members and Hansard, I ask the minister to introduce his advisers to the committee, and for each adviser to please state your full name, contact address and the capacity in which you appear before the committee.

[Witnesses introduced.]

**The CHAIR:** I give the call to Hon Ken Travers.

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**Hon KEN TRAVERS:** My first question is with respect to the efficiency dividend of, firstly, two per cent followed by one per cent for each of the following years of the forward estimates. What work has Treasury done to determine whether or not it is feasible for agencies to actually meet those efficiency dividends?

**Hon SIMON O'BRIEN:** It is a reprioritisation of government priorities. We believe the efficiency dividend is imminently achievable. Indeed, we have a track record in achieving that as a government. It now up to the individual agencies to identify the measures that they will exercise to achieve the targets that have been set for them.

**Hon KEN TRAVERS:** With all due respect, that does not actually answer my question, which was: what work has Treasury done to determine whether or not the efficiency dividend is achievable by agencies? It is a clear question. I am asking what work Treasury has undertaken prior to implementing the efficiency dividend.

**Hon SIMON O'BRIEN:** Consistent with what I have just said, I think the honourable member with respect is inviting me to put the cart before the horse. I have indicated, and I think the Treasurer has indicated publicly on several occasions, that the actual areas within agencies where the efficiency dividend will be achieved are yet to be finalised. That will be done in the first instant at agency level and later at Treasury level. If I were to entertain the proposition contained in the member's question any further, that would indicate that Treasury has somehow identified where these efficiency dividends will be realised. I do not think that is the case. I will seek further advice from the Under Treasurer.

**Mr Marney:** What we do know through our analysis is that our current FTE levels are running considerably below the FTE ceilings. Essentially the efficiency dividend is, if you like, harvesting that difference between actual FTEs as they stand at the moment and the budgeted ceilings that were in place as at the last budget. We know that efficiency is possible. We know that there is by virtue of those FTE levels the capacity to realise those savings. The onus is now on agencies to identify the areas of lower priority and of potential efficiency gain where they can build those savings into their individual cost centres. We cannot do that work, but what we know at an aggregate level is that the sector is running below the approved FTE levels and, therefore, below relative to the approved expense levels.

**Hon KEN TRAVERS:** If they are running below FTEs, have you done any work on whether or not they are using contracts—I can never remember whether it is contracts for service or of service—or the various forms of contracts of bringing in outside workers to assist them in meeting their tasks that do not fall within the FTE limits?

**Mr Marney:** Yes, there is some of that, but it is not to a huge extent. There is substitution between full-time equivalents and consultancies or contracts for service or of service. But it is very clear both from the extent of the under population of those FTE ceilings and also the persistent extent of underspends from year to year across agencies that there is capacity to achieve greater efficiencies.

**Hon KEN TRAVERS:** Does anyone internally within Treasury monitor the use of those contracts of service or for service by individual agencies as a way of topping up their physical personnel and it not being captured within the FTE limits?

**Mr Marney:** We do not monitor that directly. We do monitor their FTEs and their salaries and wages expense. We monitor their total expense. Contracts for service and consultancies are part of that difference between the total wages bill and total expense. We do monitor it indirectly along with all the other things that get built in to bring them to their total expense numbers.

[9.10 am]

**Hon KEN TRAVERS:** I assume that the underspend is not uniform across the sector and that there will be some agencies that are significantly under and other agencies that are consistently performing around their full FTE counts on a regular basis. Would that be a fair assessment?

**Mr Marney:** Yes, that is a fair assessment. It tends to be the agencies that have lumpier expenditure that are tied to individual initiatives, grants or programs that tend to incur underspends. Royalties for regions would be another area where it is a large pool of funds that goes out to a bunch of agencies but is contingent on them achieving certain milestones. That is an area where there is slippage in programs. It is variable across agencies; that is correct.

**Hon KEN TRAVERS:** We had the police in here the other day. A very high percentage of the Police budget is for salaries. It would appear that Police are fully meeting their FTE account. When we then go into their non-salary and wage expenses, the rest of their expenditure is tied to licences, leases or vehicles—things that would not readily be able to be cut in the short term. How does an agency like that meet its two per cent efficiency dividend?

**Hon SIMON O'BRIEN:** It is important to point out that with Police, which is probably not the best example, frontline operations, whether reflected by salary costs directly or through other costs, are not subject to this dividend. There are other areas in the police department that will be subject to it and where we want to see those efficiencies achieved.

**Hon KEN TRAVERS:** I understand that, but that was not my question, minister. My question was —

**Hon SIMON O'BRIEN:** The way the member phrased it was a bit confused. Would he like to restate it?

**Hon KEN TRAVERS:** With an organisation like Police, where around 75 to 80 per cent of costs are salaries and it is operating, as I understand it, at full FTE levels—it is not operating under the FTE levels, which is the area in which we have just been advised harvesting can occur—how does an organisation like that achieve its outcomes, particularly, as the minister has just mentioned, as it is required to protect frontline services? Again, the majority of the police organisation is frontline services. Even when they are not frontline services, there are essential back-at-house services to support frontline services. How does an agency like that achieve its two per cent efficiency dividend?

**Hon SIMON O'BRIEN:** I think I better make it clear as a general response of government that across all agencies the process of the agencies identifying the efficiency dividend areas that they will put forward for consideration is a process that is underway but has not been finalised. If in any of these hearings members are hoping to elicit the information of where two per cent efficiency dividends may occur, then that would be premature. In due course, of course, we will look forward to making that information available, but insofar as there is a portion of the question that we may be able to answer, because this is not the Police division—we are talking about Treasury —

**Hon KEN TRAVERS:** I am not asking for the specific cuts. I am asking about the structural issues of how organisations that are at their full level of FTEs and for which the majority of their agency is front line can achieve their two per cent efficiency dividend. That is the question I am asking.

**Hon SIMON O'BRIEN:** Before I was interrupted, I was about to refer to the Under Treasurer to provide the balance of that information.

**Mr Marney:** While it is the case that frontline services in terms of outcomes stipulated by government are not to be impacted by the efficiency dividend, that does not necessarily mean that there are not efficiencies available to be achieved in the delivery of those frontline services. One item the member mentioned was vehicle fleet leases. The value-for-money audit of Police that was completed within the last 12 months actually specifically identified vehicle fleet management as an area where significant efficiencies could be achieved. So although it is an area where we would think things are locked up in leases—well, they are—the deployment and management of those vehicles provides an opportunity for significant efficiency gain. Similarly, the value-for-money audit identified items such as rostering of FTEs and the use and optimisation of overtime in the deployment of those FTEs as opportunities for efficiency gain. So although 80 to 85 per cent of the

expenditure is locked in FTE and frontline services, if you like, there are still efficiency opportunities available in the delivery of frontline services. Really, the efficiency dividends are about providing discipline to agencies such as Police to ensure that they pursue those efficiencies over time and that basically they do not become lazy and hide behind that excuse of 85 per cent being locked in things they cannot do anything about, because that is just not the case.

**Hon KEN TRAVERS:** My final question in this area is: if agencies need to offer redundancies, is there currently a scheme within the government for redundancies or do they have to do that from within their own resources?

**Mr Marney:** Yes, there is an existing scheme through the Public Sector Commission for voluntary redundancies. There is no additional funding at this point to, if you like, front load or subsidise those redundancies across agencies. However, as has been the case in recent years, if an agency came forward and said, “To achieve these efficiencies we need to offer voluntary redundancies and we expect to achieve a certain level”, then I am sure government would give consideration to the funding requirements of that, but at this point there is no additional funding and the existing schemes administered by the Public Sector Commission are in place.

**Hon KEN TRAVERS:** Going back to one of your earlier points about the whole contract for service or contract of service—I can never remember which one it is—which is sometimes not captured in the FTEs, if you are not monitoring it, is there any way of identifying whether agencies are using that as a mechanism, to what extent they are using it, and how much they are spending on it, or is it simply a matter of going to each individual agency and asking them?

**Mr Marney:** There are probably two mechanisms for monitoring. One would be the consultancy reports that are tabled in Parliament. I think they are six monthly.

**Hon KEN TRAVERS:** They were, but I do not think we have seen some for a while. Certainly we have not seen the travel ones for a while.

**Mr Marney:** I cannot help the member there. The other mechanism would be that if it is contract for service, it should be via open tender process if it is of material value. That should be published on the Tenders WA website. The alternative mechanism, I guess, is direct questioning of individual agencies to drill in where you have concern or suspicion, if you like, that there is that substitution.

**Hon KEN TRAVERS:** If they bring in individuals through labour hire firms, should that still be recorded under their FTE limits?

[9.20 am]

**Mr Marney:** If it is someone who is basically an employee, but by via a different mechanism, it is captured in the FTE reports as published by the Public Sector Commission, so it is captured in the FTE ceilings. It has to be a non-employment-like relationship to fall outside the FTE accounting arrangement.

**Hon KEN TRAVERS:** So, temporary receptionists should be picked up?

**Mr Marney:** Correct.

**Hon PHILIP GARDINER:** Could I just ask with relation to be FTEs, do you have working papers in Treasury that set out those agencies? By what you have said I presume it is FTEs that they have budgeted, maybe? When you said FTEs were running below what they had, do you have that in a schedule of the agencies, what the FTEs were planned to be and what they actually are?

**Hon SIMON O'BRIEN:** Yes, we can deal with that question.

**Mr Marney:** The Public Sector Commission publishes the FTE actual and ceiling data on a quarterly basis on its website. The most recent quarter published is the December quarter, which is in the Public Sector Commission's website. That report provides a quarterly breakdown of the approved 2011–12 FTE ceiling, the average paid FTE for the quarter and for the preceding quarters.

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So it actually gives you a rolling four-quarter data set of actual FTEs and the difference between the actual and the ceiling.

**Hon PHILIP GARDINER:** Just to make sure I have got this right and I understand you, the ceiling in terms of FTEs is there, the actuals in terms of FTEs are there and the pay, which was, I presume, planned, and actual is there.

**Mr Marney:** The actuals and the paid are the same.

**Hon PHILIP GARDINER:** Actual and paid are the same, okay. And that is under the public service commissioner —

**Mr Marney:** Public Sector Commission website.

**The CHAIR:** Is that the end of your line of questioning, Hon Philip Gardiner?

**Hon PHILIP GARDINER:** Yes, thank you.

**Hon KEN TRAVERS:** My next question is: since the tabling of the budget papers in the Council, have there been any errors identified in them; and, if so, can we be advised of those errors?

**Mr Marney:** Despite the fact that I am insulted, there are no errors in the budget papers that we are aware of! But certainly if we had discovered any errors at any point, we would immediately issue corrigenda. If you have any that you would like to bring to our attention, we would be very keen to correct those.

**Hon KEN TRAVERS:** I think there was one year when there were some errors and I think the other place might have been advised and we were not, so the insult was equally taken at that point! The issue that was identified last night was in the Department of Water where they indicated that there was money in the capital works program that was shown as being completed works in this financial year, and they were advising us that was actually future money. I do not know whether you are able to clear the matter up for us today. It is the \$12.5 million dollars for the bore testing to develop the modelling for regional aquifers?

**Hon SIMON O'BRIEN:** Which part of the budget are we referring to?

**Hon KEN TRAVERS:** They, last night, minister —

**The CHAIR:** Do you have a page or can you give me a reference?

**Hon KEN TRAVERS:** I am just trying to find the reference to it. It was in the asset investment program for the Department of Water on page 853 of budget paper No 2. You will see there that there is an amount for Pilbara Cities initiative and they are suggesting that that is all expenditure that has not actually occurred and that will not occur this year, it will be occurring in future years.

**Hon SIMON O'BRIEN:** Good news, Madam Chair, the Under Treasurer is able to put the member's mind at rest and he will do that now.

**Mr Marney:** As at budget cut-off day, the agencies sign off on their asset investment programs as per the budget statements, so the Department of Water submitted to us its asset investment program and the minister signed off on that program as being true and accurate. It may well be the case that since budget cut-off day and the tabling of the budget, there has been slippage in programs such that they do not expect, still, to expend that money in the current year and it has been carried forward to future years. That is all I can say as a possible explanation, because as of budget cut-off, the agency informed us that their asset investment program was as per published in budget paper No 2.

**The CHAIR:** When was that signed off, what date?

**Mr Marney:** Cut-off date was 7 May.

**Hon KEN TRAVERS:** Is it possible that the money is actually being paid across to them from royalties for regions, but they do not intend to carry to work out until future years?

**Mr Marney:** The capital investment program should actually show the cash flow of expenditure over the years, so it should be an accurate representation of the timing of expenditure on the program. I take your point that it could be difference between a flow of funds from royalties for regions versus then the subsequent expenditure of those funds, but the asset investment program itself should be showing the actual expenditure of those funds. So there seems to be an anomaly; it is the first that we have heard on the matter, which we would have to go back to the Department of Water and seek some clarification on, because at this point, they have not informed us that their asset investment program has changed in any way from that published in the budget papers.

**Hon KEN TRAVERS:** I might come back to that in a minute.

**The CHAIR:** Is Hon Max Evans indicating that he would like the call?

**Hon LIZ BEHJAT:** Max Evans? Trenorden.

**The CHAIR:** Trenorden, sorry. Geez, I have been here too long!

**Hon SIMON O'BRIEN:** I am the successor of Hon Max Evans.

**The CHAIR:** Max Evans has not been here for a while. I am sorry, Hon Max Trenorden.

**Hon MAX TRENORDEN:** Minister, I have an interest in Shared Services and have been reading about the debacle in the papers about Shared Services. It is more than a debacle, it is a disgrace. On page 298, item 119, it shows in the outgoing years very considerable amounts of money going out to 2015–16. Can you tell us, minister, what that actually incorporates, because on page 299, item C, it reads —

Reflects funding to be applied to the decommissioning of Office of Shared Services to be undertaken by the Department of Finance —

And I am interested in —

and other agencies.

Does this reflect the full cost of Shared Services?

**Hon SIMON O'BRIEN:** So your question is —

**Hon MAX TRENORDEN:** I am trying to work out what it is costing us, minister.

**Hon SIMON O'BRIEN:** Madam Chair, I would be delighted to assist the member perhaps when we consider the next division after this, when I will be present.

**Hon MAX TRENORDEN:** Okay; I am happy.

**Hon SIMON O'BRIEN:** It might be best then for a couple of reasons. One, Finance has got the whole responsibility for it. Plus, of course, when we come to that area we can also address any questions here. In the middle of the current financial year, of course, we had a change in responsibility as to which agency was looking after it.

**Hon MAX TRENORDEN:** I will be here, so I will be happy with that.

[9.30 am]

**Hon MAX TRENORDEN:** I will be here, so I will be happy to do that.

**Hon SIMON O'BRIEN:** Okay.

**Hon MAX TRENORDEN:** Madam Chair, is it the same story with superannuation? I have a few questions around GESB and matters there. Do I do those now?

**The CHAIR:** You are asking my advice whether superannuation falls under this. I think the minister can answer that.

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**Hon SIMON O'BRIEN:** Obviously, Madam Chair, we can assist with inquiries at an aggregate level, because Treasury is the central agency, but obviously if the member wants to drill down into agency-specific stuff, there is probably a better way of doing it.

**Hon MAX TRENORDEN:** I am talking about global matters, minister. So probably if I ask the question now —

**Hon SIMON O'BRIEN:** Perhaps ask the question, and we will give it a go.

**Hon MAX TRENORDEN:** I will ask the question now and you can tell me whether it is the appropriate place in time. Again, on page 298 under “State Superannuation Act 2000” there is a range of payments there for the “Pension Scheme”, “Gold State Super” and then a range of other questions of costs. Across on page 299 there are footnotes (i) and (j). I would just like an indication of how all of that is going. If you look forward under the “Pension Scheme”—there is no number; it is halfway down page 298—you can see a decreasing commitment to the state, which was from legislation quite a few years ago. I am just curious about the expenses of both the pension scheme and Gold State Super. Gold State administration expenses seem to be climbing quickly. Is that just a component of numbers. I would not have thought they would have been, minister, because numbers should be relatively static—I should not say “numbers”; I should say “members”.

**Hon SIMON O'BRIEN:** I will ask Mr Marney to give a response.

**Mr Marney:** There is an increase in the administration expense of Gold State Super from \$9.7 million to \$10.1 million in 2012–13 into 2013–14. The projected expenses then grows at a steadier rate across the remaining forward years. I would have to take a request for supplementary information if there is anything abnormal in that jump.

**Hon MAX TRENORDEN:** I am only interested, Mr Marney, in anything that is unusual. If it is just an increased charge or something that I would not be aware of, I would be interested in that.

*[Supplementary Information No A1.]*

**Mr Marney:** If I can continue the answer, that administration expense would normally be related to just the escalation of salaries of the individuals involved in administration. I am happy to take as supplementary information requests for explanation of any abnormal increases in expenditure associated with the administration of Gold State Super.

**Hon MAX TRENORDEN:** On the same issue, Treasury expressed concern some years ago about the debt liability that GESB is putting on the state. Is that still a concern?

**Mr Marney:** The liabilities associated with superannuation are not consolidated as part of the state's net debt figures. Having said that, there are liabilities out into the future for the state, which are financial liabilities associated with the pension scheme and Gold State Super. Those liabilities do grow as, if you like, a wave of recipients move through the peak period of their drawdown on superannuation benefits. That remains a concern, as do all liabilities, and is one that needs to be borne in mind in overall management of the state's finances. But just to point out, it does not form part of the net debt calculation.

**Hon MAX TRENORDEN:** Mr Marney, what I am really looking for there is a question about GESB getting involved in infrastructure in the state and whether that involvement in investing in infrastructure actually put a risk onto the state debt.

**Mr Marney:** My understanding is the investment guidelines applicable to the governance of GESB's investment portfolio preclude it from investing in physical assets. I am not aware of any actual or intended investment in physical infrastructure by GESB. Again, my understanding is that their existing investment guidelines preclude that.

**Hon LINDA SAVAGE:** My question refers to page 301 under “Significant Issues Impacting the Agency” and the third dot point under “Economic Outlook” about projections for global growth. I

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also refer back to the overview document in regard to the economic and revenue outlook. I will just preface it by saying that in this day and age everyone has a view on the world economy. Often these days people can be experts or think they are experts in all sorts of areas because of a greater access to information. I am prefacing this by saying that I am certainly not claiming any economic credentials except for being a very interested member of the public. I read the comment in the overview, economic and revenue outlook, that “Following significant uncertainty throughout 2011, the overall outlook for the global economy appears to have stabilised.” That is not my sense of the outlook. I wondered if you could comment on that, but also whether you have in place any planning for or dedicated resources looking at what the impact will be on WA if, as some people alternatively are predicting, events in Europe will worsen and the effect that that will have particularly on China, given that I think Europe is China’s, if not its biggest, its major market, and whether you are factoring that in and whether you still believe that the global economy appears to have stabilised.

**Hon SIMON O’BRIEN:** I am going to ask the Under Treasurer to deal with this question, which is very thought provoking. It relates to the point at which key budget inputs are determined. For example, the exchange rates and all sorts of other things that do tend to fluctuate with these sorts of external forces that the member has described. There has to be a point at which the snapshot is taken which determines the setting for the budget.

There is a particular discipline that has to occur for that, so that to the greatest extent possible, the budget papers as they are presented are warts and all. If there is, for example, an exchange rate abroad at the cut-off date that is not very helpful in terms of framing forward estimates, that is just too bad. It is a discipline that we accept, but fortunately the Under Treasurer is able to assist the member with this very important question. I will ask him to do so.

[9.40 am]

**Mr Marney:** The first part of your question related to, I guess, opinion as to whether or not the world economic circumstance or climate has stabilised as stated in the budget papers. To answer that question a little more precisely, yes, it is our view that the world economy has stabilised. The question is: at what level? The answer is it has stabilised at a very weak set of circumstances in terms of uncertainty and instability. It has stabilised, if you like, at a high level of instability. The volatility in the world environment has now been with us in a fairly constant way for the past six to nine months and in many respects our forecasts are cast in that environment and with that environment in mind and with that environment continuing.

The question then becomes: how does that world instability translate into the actual economic parameters upon which the budget is based? The extent of exposure of Western Australia direct to Europe, where the greatest instability is at the moment, is very limited. Only around six per cent of our exports, for example, are destined for Europe. The key transmission mechanism, if you like, of European instability through to Western Australia—there are two. Firstly, our biggest source of growth at the moment, which would be of no surprise to anyone, is China. Of China’s exports only 20 per cent go through to Europe. So there is a one-fifth exposure via China. The other transmission mechanism is through financial markets and financial assets exchange rates tend to be the areas which are being hit with greatest volatility at the moment. We have seen in recent weeks the exchange rate take quite a significant hit. Now, perversely, that is actually of benefit to the budget, because with each one cent depreciation of the exchange rate we pick up around \$60 million in iron ore revenues per annum by virtue of iron ore contracts being struck in US-dollar prices.

**Hon LINDA SAVAGE:** Yes, I heard the beef industry expressing their pleasure as the Australian dollar dropped for their export business recently. They were pleased to see the dollar going down.

**Hon SIMON O’BRIEN:** You are quite right. It is for that reason.

**Mr Marney:** In framing the budget, we take a very conservative view. Obviously, it is very difficult to forecast exchange rates and striking also an iron ore price that makes sense over the next

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four years is increasingly an important part of the budget settings. To ensure that we do not bias the state's revenue and growth projections up or down, we use the budget cut-off point as a line in the sand to take an average of both the exchange rate and the iron ore price prior to that cut-off date over around a six-week period, and then allow that average to decline to the long-run average for those prices and the exchange rate over the forward estimates period. So, by the end of the forward estimates period, prices are built into the budget at their 10-year plus average. That means, essentially, you could implicitly assume that we are expecting a correction back to long-run average conditions. We are a long way above those conditions at the moment. So, I guess, if there is any reassurance I can give, it is that we look at this very closely on a daily basis; we would all individually have about four different opinions on where things are headed; and the budget papers embody a trend back towards very long-run conditions such that we are not skewing the growth or the revenue and therefore the state's finances either upwards or downwards.

**Hon LINDA SAVAGE:** The projected surplus is rather slender, as it has been predicted, and I notice that Treasury secretary Martin Parkinson who is expressing enormous concern about events in Europe spiralling out of control has commented recently in regard to the federal government that it expects it to dump its commitment to a budget surplus if this crisis unravels following events in Europe. I noticed yesterday events in Spain. Perhaps, I am asking the minister, would that be something considered in Western Australia in terms of the surplus that we have, that that commitment or that goal would be reconsidered?

**Mr Marney:** I will answer on behalf of the minister. I think if those circumstances arise, that would be a matter for decision-making of government at that point in time. Obviously, we cannot speculate on the extent to which there would be contagion into the state finances but, having said that, page 29 of budget paper No 3 does give a fairly comprehensive summary of where we see the risks in Europe and they are very similar to the ones identified by Dr Parkinson. The unfolding issues in Greece—more recently Spain and Ireland—are not in any way a surprise. In fact, they are consistent with our expectations and consistent with our expectations that things will probably get much worse before they get better, and the environment of instability is going to be extreme for at least the next 12 months ahead. The budget papers factor all of that in.

**Hon LINDA SAVAGE:** I was going to say, because that was my initial question: are you factoring that in as a possibility? That took me back to the reason I asked the initial question. In fact, perhaps the question I asked about the surplus would be one better put to the minister as the member of the government in regard to whether there is a commitment to the surplus as in the budget papers, minister, that is, I suppose, non-negotiable.

**Mr Marney:** The issue of whether or not surplus or a deficit is appropriate or negotiable is one that government would consider at the time in the circumstances as they unfold. A key difference to bear in mind between commonwealth budget settings and state budget settings is that the commonwealth's budget has the capacity and the appropriate mechanisms to allow for fiscal stimulus. State budgets do not have those instruments to the same extent. Therefore, the rationale for running a deficit to stimulate the economy is very different and far more applicable at a commonwealth level than it is at a state level. The overriding fiscal position of government and its fiscal targets is to maintain an operating surplus.

**Hon LINDA SAVAGE:** I note the minister is not answering the question, so I will perhaps ask a further one to help me understand too. The producing of a surplus, however wafer thin, is that part of a desire or is it necessary, in fact, to reinforce the credit rating of the state or for any particular reason that we would have a surplus that is a wafer thin one really? Is there a particular reason why we would want to have at least that small surplus?

[9.50 am]

**Hon SIMON O'BRIEN:** As the Treasurer and others have observed on behalf of government before, we are determined to maintain surpluses in every year of the government as part of our

fiscal policy. There are a number of reasons why that is desirable, but at the most basic level it demonstrates that we are able to live within our means. We think it is an important achievement in this particular economic environment that we have been able to achieve a surplus in the current or forthcoming year and in the out years.

**Hon KEN TRAVERS:** With accounting changes!

**Hon SIMON O'BRIEN:** As to the member's observation that it is wafer thin, indeed we would like to have it larger than we can but, unfortunately, as has also been explained publicly, we have a regime supported by her party and sundry others in Canberra that is presiding over a system that sees a disproportionate amount of GST revenue being effectively taken out of Western Australia in this year, in this budget in particular, and in all of the out years. So if she wants an explanation from me as to why it is wafer thin, that is probably the first and principal reason why it is the case. When we have to deal with a last-minute extraction of \$662 million approximately in revenue, and some of that money announced literally two days before our budget close-off, these are the sorts of things that make it difficult to strike a budget. The fact that this budget demonstrates a proposed surplus for 2012–13 should be acknowledged and applauded. Furthermore, in relation to the previous matter that was being discussed about when key parameters are struck to frame the current budget, it was at a time when the Australian dollar was rather high—about \$1.04 from memory—and, as Mr Marney has indicated, every cent that is involved costs us about \$60 million on our budget bottom line. In effect, the member will be pleased to know that our wafer-thin surplus, as she calls it, would at least be looking rather better as a result of the exchange rate fluctuation that has subsequently occurred. I think the dollar is now at a couple of cents below parity.

**Hon LIZ BEHJAT:** It is at 0.9954c.

**Hon SIMON O'BRIEN:** It depends on which electronic gizmo people in this chamber are referring to and which source they are going to, but it is just under parity whereas the other day it was dipping down to 97c. That just shows the fluidity of the situation. There is a time to go before we know how robust the surplus figure of \$196 million is for 2012–13, but it is based on, as the Under Treasurer has already described, the most robust, long-term methods that are available to us, and it is good news that it is a surplus that we have been able to achieve and quite remarkable given the circumstances.

**Hon ED DERMER:** I am anticipating constituents asking me a question that I, with my modest economic education and no accounting education, feel ill-equipped to answer, and I am looking for some assistance. I refer to “Summary Financial Statements” on page 38 of budget paper No 3, *Economic and Fiscal Outlook*. I am anticipating constituents asking me: when you get a net operating balance of \$196 million—the surplus—how is it possible that your net debt increases from \$2.669 billion to \$5.552 billion?

**Hon SIMON O'BRIEN:** Mr Marney will explain the mechanics.

**Hon ED DERMER:** I would appreciate an explanation in such terms that I could explain to a constituent, who I am sure will ask me and will be interested to know, how we can be accumulating debt while having surplus budgets.

**The CHAIR:** A regular inquiry in our electorate offices.

**Hon ED DERMER:** Yes.

**The CHAIR:** Mr Marney.

**Mr Marney:** Noting that additional requirement on the nature of the answer, I will do my best. Essentially the net operating balance is the difference between the day-to-day expenditures of the state. In a household context it is your fortnightly income versus your fortnightly bills. What gets added onto that to get to net debt is expenditures on capital assets. Again bringing it back to the household example, you cover your day-to-day expenses but then you put an extension on your

house and you spend \$100 000 on that. While your day-to-day might be in surplus, you have actually gone, if you like, to a negative cash position by virtue of your extension; that is, your investment in assets. So the cash you are spending on assets then gets added to your net debt position. Despite the fact that you may be in front on a fortnightly basis, you then go behind in the year as a whole by virtue of your expenditure on fixed assets.

**Hon ED DERMER:** Could you give me an example of a state asset that would be part of the accumulation of debt without being part of the net operating balance?

**Mr Marney:** The asset investment program, from memory, is around \$6.7 billion and the operating surplus is only \$196 million, so that leaves a substantial cash deficit. What is in that asset investment program? They are things like Fiona Stanley Hospital, the new children's hospital, roads, schools and so on. Investment in new buildings needs to be funded somehow, the surplus is not sufficient to cover the funding of that capital investment program and as a result debt increases.

**Hon ED DERMER:** Thank you.

**Hon KEN TRAVERS:** I want to go back to the money that was in the budget for the Department of Water listed as the Pilbara Cities initiative. I have also looked through both the midyear review of 2011–12, last year's budget papers and this year's budget papers and cannot find that initiative mentioned anywhere in any of those papers. I would have thought that if it was a new initiative, it should be listed somewhere and it also should be identified as an initiative within the royalties for regions section. I was wondering if someone could explain to me how that could occur if it is not listed anywhere in any of those papers as a new expenditure or as an existing expenditure, and why it is not listed in budget paper No 3 as part of the Pilbara Cities initiatives of royalties for regions.

[10.00 am]

**Hon SIMON O'BRIEN:** Madam Chair, I am advised that Treasury, of course, relies on the budget information submitted by agencies. In considering this question, it probably requires, and reasonably, a level of detail that is not the domain of this agency and perhaps needs to be directed to either or both of the two agencies concerned.

**Hon KEN TRAVERS:** I am actually asking about the structure of the budget, not about the specific payments. I would have thought that is this agency.

**Hon SIMON O'BRIEN:** In terms of the structure of the budget, the Under Treasurer can comment on that.

**Mr Marney:** I can comment on the structure of the budget in a manner very similar to my previous answer on this subject. We rely heavily, if not entirely, on the information provided by relevant agencies to populate their statements in budget paper No 2. The financial statements in budget paper No 2 are compiled and owned by the agency and endorsed by the relevant minister. Whether or not something is in or out or has moved in those statements is a matter for the relevant agency. We, through the Treasury information management system, run to print, if you like, whatever that agency has submitted in that system as at the close-off day for printing. If the agency is saying something has moved since then, at this point we have not been advised of that. So, unfortunately, I am unable to help you further in terms of providing detail.

**Hon KEN TRAVERS:** Maybe I can ask as supplementary information if we can be provided with a copy of the information that the Department of Water provided to Treasury on this matter that was the basis for its inclusion in the budget. Could we seek that as supplementary information?

**Mr Marney:** If I could respond immediately, the information provided by the Department of Water is that which is printed in BP2.

**Hon KEN TRAVERS:** Yes, but I would like to see a copy of the documentation that they provided to you.

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**Mr Marney:** That is it.

**Hon KEN TRAVERS:** But there must have been a document they provided to you.

**Mr Marney:** They submitted electronically their statements for budget paper No 2. Electronically, it is then compiled and sent to print. With respect, that is not the area to fish.

**Hon KEN TRAVERS:** I have got a number of other questions on this area still. At what point, though, is a cabinet decision required before expenditure can occur?

**Hon SIMON O'BRIEN:** I am going to ask the Under Treasurer to respond to the extent that he can, although whether or not that will satisfy what is behind the member's question, we might have to come back to me.

**Mr Marney:** Budget papers reflect the decisions of government as communicated to me, as Under Treasurer, formally either via the Treasurer or via a cabinet decision. Normally, it is both those things. Those decisions are then reflected fully in the budget papers. I suspect that does not fully answer your question and if there is something more specific —

**Hon KEN TRAVERS:** For this expenditure to have been included in the budget, would you have needed to have been informed by the Treasurer or through a cabinet decision that this money had been approved for expenditure?

**Mr Marney:** That would normally be the case, and my understanding is—because this one is complicated by funding flows from royalties for regions—that an allocation of funds from royalties for regions to a specific program would be endorsed by cabinet before those funds flow.

**Hon KEN TRAVERS:** So would that not also be the other way in which it would come into the budget papers? It would not just be from the agency. Do you not cross-check that what the agencies are providing you corresponds with what cabinet has provided you?

**Mr Marney:** As far as possible, yes, we do, but timing associated with a decision can vary. In this case, the proposition is that a decision was taken, funds were included, and the agency has now said, according to you, that those funds will not be expended in the time period articulated in the budget papers. If there is timing variation or slippage on a program or project, that is not necessarily something that is of cabinet decision; that is just day-to-day management of expenditures, and that is probably where the confusion is arising. There should be, in theory, a cabinet decision that approves the flow of funds. If there is a variation to those funds, we would normally pick that variation up, if it is post-budget, in the midyear review process and re-cashflow for the program or project.

**Hon KEN TRAVERS:** I understand that part of it, but I cannot understand why it would not then also appear somewhere in budget paper No 3, either in the royalties for regions program or as a new item of asset investment, because you have a whole section of decisions by cabinet for new asset investment items. It might be there in disguise, but I cannot readily find it.

**Mr Marney:** The only explanation I can offer is that it is subsumed within the overall expenditures under the Pilbara Cities program, which was approved by cabinet, and that it is of a level of materiality within that program that basically did not receive a write-up in the budget papers due to the number of items in that overarching Pilbara Cities program.

**Hon KEN TRAVERS:** Can we have it taken on notice that you provide us with the item in the royalties for regions program in budget paper No 3 it is included in? Can we have that taken as a supplementary question?

**Mr Marney:** More than happy.

*[Supplementary Information No A2.]*

**Hon KEN TRAVERS:** What I would like is a list of any payments from royalties for regions that are being made before the end of the financial year for works that have not actually been undertaken

by the agency—that is, where an agency is getting prepaid out of the royalties for regions fund for works that have not actually yet been undertaken. Could we get that list? If you have got it here, I would love to have it; otherwise, we can have it as supplementary information.

**Mr Marney:** We do not have the list here. In fact, we would never have that list. That is really something that falls under the management structures of the royalties for regions program and is an item that would be held, if held, by the Department of Regional Development and Lands rather than ourselves.

**Hon KEN TRAVERS:** I am happy to go to Hon Philip Gardiner, but then I want to come back and continue with the royalties for regions area.

**Hon PHILIP GARDINER:** Thank you very much, Hon Ken Travers. In relation to this \$12.5 million, I would like to have a supplementary question to you, Under Treasurer, because I do not think it is good enough where Treasury is accountable for the numbers in this document, where it is actually really an untruth, where you are putting \$12.5 million—not you, but whoever it is underneath your agencies for which you are responsible—and aggregating out and reviewing and so on, into the wrong financial year. I would like to have your response following your investigation into how this occurred and why it occurred with the Department of Water or whoever was responsible for it. Someone has got to be accountable.

**Mr Marney:** I absolutely and categorically reject your assertion that within my budget papers that I signed off on there is an untruth perpetrated by anyone in my agency or myself.

**Hon PHILIP GARDINER:** Would you like to rephrase what untruth could mean when you have \$12.5 million in a year when it was not spent?

**Mr Marney:** No.

**Hon PHILIP GARDINER:** What is it, then?

**Mr Marney:** What you accused was that someone within my agency essentially fudged the numbers.

**Hon PHILIP GARDINER:** I did not necessarily say you; I said either the Department of Water —

**Mr Marney:** No, you did not.

**Hon PHILIP GARDINER:** — or you being accountable. There is a lack of accuracy, but that does not explain why it is there. And it is there in a place where it was not done.

[10.10 am]

**Mr Marney:** I am happy to respond to your request for an explanation as to why there is a variation in cash flow claimed between what is published in the budget papers versus what the Department of Water articulated yesterday in hearings. I am more than happy to explain so long as you retract the accusation that there is an untruth in the budget papers perpetrated by myself or my department.

**Hon PHILIP GARDINER:** Can you give me the words that you would like me to say to represent the fact that we have a financial year in your documents, albeit only because you are ultimately accountable, that has \$12.5 million in the financial year estimated expenditure 2011–12 for the 7 May cut-off, which you said, when it has not been spent? It should be in the 2012-13 expenditure. Whatever words you want to say, I am happy to accept so long as it recognises the truth of what this is telling me.

**Mr Marney:** As I have previously answered, I think more than once during this morning's proceedings, the statements in budget paper No 2 are those provided to us—and endorsed by the minister—by the Department of Water as an accurate and fulsome reflection and a truthful reflection of that agency's financial position both in terms of operating expenditure, operating statement, cash flow statement, balance sheet and capital investment program as at the budget cut-off date. If something has changed since then, I am happy to take that as supplementary information

and establish what has changed, why it has changed and why it was not incorporated in the budget papers

[*Supplementary Information No A3.*]

**The CHAIR:** Mr Marney, are you suggesting the question needs to be directed back to Department of Water or the Minister for Water? I am trying to work out where the accountability on this one stops and who we should be asking the question that Hon Philip Gardiner is asking. If you are unable to answer, who would it be?

**Hon SIMON O'BRIEN:** If I may, I think the ownership of this matter has in one sense been unfairly directed at the Under Treasurer and his department. As he has pointed out, the answer about where the information comes from has been given several times. It has already been indicated by me and the Under Treasurer that inquiries about this matter need to be directed back to either or both those two agencies that provided the information to budget paper 2, because that is where the level of detailed awareness lies and where it properly lies. I do not blame the Under Treasurer for taking exception to the way the recent question was put. I take exception to it as well. The fact that there is a question within some other agency that someone wants to find out a bit more about does not mean, and we do not accept, that anything that has been presented in these budget papers is untrue, much less deliberately untrue. I think that responds to the Chair's question. Some of these questions need to be directed to the agencies. I understand Hon Philip Gardiner's question, like Hon Ken Travers' question; in fact, it was Hon Ken Travers who raised it. There is an amount here discovered that you think should lie in some other column of the budget. He is seeking an explanation of that. Well, the explanation of where and when the money will be spent perhaps lies with another agency. I indicate my support for Treasury on that. Is there any further information we can provide at this time?

**Mr Marney:** At this point, yes. It goes back to an earlier question from Hon Ken Travers in terms of what line item the expenditure is subsumed within in budget paper No 3. I refer to budget paper No 3, page 233, under the "Pilbara Cities Initiative". It is subsumed within "Pilbara Cities Strategic Infrastructure (Asset Investment)" with the figure of \$22.9 million in 2011-12. The figure of \$12 million or thereabouts in 2011-12 is within that \$22.9 million total.

**Hon KEN TRAVERS:** Do you have the information about what else makes up that \$22.9 million?

**Mr Marney:** We can provide that as supplementary.

[*Supplementary Information No A4.*]

**Hon KEN TRAVERS:** If you know that that is part of it now, would you not have the other items there included in that \$22.9?

**Mr Marney:** No, we sought advice on where the \$12 million was, not what else was in the same category.

**Hon KEN TRAVERS:** Oh, I see! You texted back to the main office or something!

**Mr Marney:** The wonders of modern technology! With the minister's comments taken into consideration, I am happy to provide a reconciliation of the cash flow discrepancy on this issue despite the fact that it is the accountability of another agency. I am more than happy given my overarching responsibility for the highest quality papers that I can deliver to this Parliament.

**Hon PHILIP GARDINER:** Thank you, Under Treasurer. Those are the words that I wanted to have heard in the first instance to investigate and find out why. I was not saying it was deliberately untruthful of anyone. I just said it was untruthful. In my basic English—maybe it is not government English—if it is not correct, it is not representing what the facts are and what the truth is. That is all I was trying to say. I am pleased with your response.

**Mr Marney:** Thank you.

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**Hon MAX TRENORDEN:** I refer to “Economic and Revenue Forecasts and Policy Development” on page 304 of the *Budget Statements*, which is an area I am interested in, where there is some \$8 million of expenditure. What does that unit try to do? What I am interested in, for example, is there is a lot of information around about the future in terms of declining mining revenue, but possible food security and, therefore, income revenues into the future. Does this unit actually start looking at those sorts of issues, not so much for policy because that is not your role, but what might be future revenues for the state?

**Mr Marney:** I thank you for the question. This area within Treasury, its prime responsibility is to monitor the conditions in the state’s economy and, along with that, the actual revenue receipts that are flowing into the state’s books, and to monitor that in the context of what is the current year’s budget estimates and what are the projections for the budget for next year, and then extrapolating further, what are the projections for the state’s economy and the budget over the forward estimates period. They do constantly analyse the various factors impacting upon both the state’s economy and the various sources of revenue, such as royalties and transfer duties of property and so on. They also take a longer-term view beyond the forward estimates period to model some of the potential scenarios that the economy and the state’s revenue base may be exposed to over a longer period of time.

[10.20 am]

That modelling tends to be focused in specific areas, because it is quite detailed and quite complex, and that may be of concern in terms of possible scenarios that are unfolding over time. If you like, whatever is on the radar as an issue of concern at any point in time will form the longer term research program for that area both in terms of the state’s economy and the state’s various revenue sources, which tend to be impacted by factors outside of, if you like, general economic conditions as well. One particular area that is impacted heavily by non-economic factors is both the goods and services tax revenue grants that we receive through the Commonwealth Grants Commission and other grants from the commonwealth government. Another aspect of this area is very detailed modelling of the long-run projections of what we expect to receive from the Commonwealth Grants Commission’s existing methodology and arrangements and also, potentially, what might happen if those methodologies and arrangements are changed or reformed to reflect a more equitable distribution across the nation, which is something that government has been vigorously arguing for for some time.

**Hon MAX TRENORDEN:** Just from that answer, Under Treasurer, I presume that you would monitor matters like revenue flowing from mining. Tens of thousands of people across the world would be assessing that as we sit here. I assume you would also be monitoring questions to do with oil and gas matters, because, again, there would be tens of thousands of people doing that as we speak, but not matters that are more nebulous such as future projections of growth. Your answer tended to be on the negatives, such as what might not be happening as against what might happen.

**Mr Marney:** In projecting forward we actually project, as previously articulated, around price and exchange rate based on long-run assumptions, but we actually model growth volumes as well. We have modelling of growth volumes for various commodities built across the forward estimates years. We put considerable effort into what we expect will be happening. Part of coming to a consensus as to what we expect will be happening is to rule out and identify what we think will not be happening, so we actually come at it from both directions to try to ensure that we have the best set of forecasts, both in terms of growth and price, that we can establish for the various elements of the economy. Royalty revenue and the activity in the mining sector is just one element of that. Obviously, housing construction, employment growth and wages growth are all things that we have to project forward and to come to a position on what we expect will happen in those various parameters.

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**Hon MAX TRENORDEN:** I will change the topic and refer to “Completed Works” on page 306 of the *Budget Statements*. What is SIMS?

**Mr Marney:** As you would understand, the budget papers before you are compiled with the input, as somewhat controversially outlined this morning, of a large number of agencies across the state’s public sector, including public corporations and general government sector agencies. All of that information is collected at the moment through what is called the Treasury information management system. That system is approximately 10 years old from when it was commissioned. SIMS is the strategic information management system. It is a replacement system for the existing Treasury information management system, which compiles the aggregate financial information for the public sector and contains the individual information that is used to produce the budget papers, in particular budget paper No 2. The system also enables us to take everything that is in budget paper No 2 and consolidate that into an overall state financial position in accordance with the requirements of government financial statistics reporting, which is the agreed standard for representation of government finances. It also forms the basis of the start of the budget process, whereby agencies feed into that system their various bids for expenditure, which then become a matter of debate and decision of government throughout the budget process. If you like, it is a beginning to end system for collation of the state’s financial information right from budget bids through to production of budget papers, production of the budget aggregates, reporting on a quarterly basis through the Parliament on the actual expenditure by agencies and, in aggregate, the sector as a whole, and then, ultimately, the end of year consolidation of the actual performance of the state’s finances for the previous financial year.

**Hon MAX TRENORDEN:** Was this developed in-house or purchased?

**Mr Marney:** The existing system was purchased. The new system is an in-house development that closely mirrors the existing system.

**Hon MAX TRENORDEN:** I refer to “Government Enterprises” on page 310. I am interested in the line items for “Electricity Generation Corporation (Verve Energy)” and “Electricity Networks Corporation (Western Power)” and the movement in the out years. Particularly with Verve, there is very strong variation in the budget figures and then variation in the out years. With Western Power there is significant growth from 2012–13 on compared with the current situation. Could you comment on why those projections are there or what drives those projections?

**Mr Marney:** Sorry, are you referring to the total dividend numbers?

**Hon MAX TRENORDEN:** Yes, that is precisely what I am talking about.

**Mr Marney:** Those dividend payments are reflective of two elements. The normal element, which would see growth in those payments over time, is the profitability of those entities and the flowback to government in the form of dividends and tax equivalent payments and so on. The second element, which is probably the element that is causing variation in those figures beyond that which is normally experienced, is the imposition of additional efficiency dividends on the trading enterprises. Much the same as for the general government agencies, government has taken a decision to impose a further efficiency dividend upon those trading enterprises.

**Hon MAX TRENORDEN:** Sorry to cut in, but the differences there are significant; they are not a matter of two or three per cent.

**Mr Marney:** As I indicated at the outset, it is a combination of both those elements. The efficiency dividend does enhance profitability.

**Hon MAX TRENORDEN:** Can I suggest that it is actually going to be something different? It will be the rise in charge that the state is putting on power. If you look at Verve, it is burdened with very poor generation, old generation and inefficient generation. The reason I ask the question is that it is very unlikely to encourage a strong dividend flow. I imagine that that represents the extra charges. Therefore, the state is actually picking up a dividend off those charges.

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[10.30 am]

**Mr Marney:** In the case of Verve Energy, Verve has been receiving payment in line with its costs for some time and through the forward years it receives increases in its revenues—its charges increase—in line with its capital at a rate of return on capital as determined by the Economic Regulation Authority. So in that sense, it does not benefit from the increase in energy tariffs that flow in from Synergy, because it is already at cost-reflective charging in terms of its pricing regime. So the assertion that is associated with the increase in charges is incorrect, because they are already at a cost reflectivity, but there is significant variation in those numbers and I would be happy to give as supplementary —

**Hon MAX TRENORDEN:** Particularly, Madam Chair, the Western Power ones. I am really interested why in 2012–13 it takes a significant leap and another significant leap in 2013–14 in the ongoing years. That is healthy growth in the out years and I would just be interested in what the driving factors are.

**Mr Marney:** Again, I will provide it via supplementary information if that is agreeable, but I suspect one of the driving factors behind profitability in those two entities in particular is their rate of return on capital. As their capital base increases and the rate of return remains, so their profitability must increase over time. With substantial investment in their capital base and a constant rate of return on capital, their profitability must naturally increase. So, I suspect that that is the answer.

**Hon MAX TRENORDEN:** I am happy.

[*Supplementary Information No A5.*]

**Hon LIZ BEHJAT:** Under Treasurer, I am going to go back to that Department of Water, Pilbara Cities thing, unfortunately. Page 305 under “Services and Key Efficiency Indicators” in section 3 we have the “Evaluation and Planning of Government Service Delivery and Infrastructure Provision”. That section reads —

This service aims at investigating agencies’ operations in respect of efficiency and effectiveness and to advise government on the allocation of taxpayers’ resources to achieve government desired outcomes. It includes the analysis, evaluation and planning of government services to ensure value for money outcomes in the key areas of Health, Law and Order, Education and infrastructure delivery.

I note there that FTEs range from 138 in 2010–11 up to a budget target in 2012–13 of 154. Bearing that in mind, my question, and it is probably just seeking clarification from you, is: would the apparent incorrect reporting of the Department of Water’s Pilbara Cities money, the \$12.5 million, be something that that service should be looking out for in preparation of the budget papers or do they rely on forums such as this to bring something like that to light and then they go and look at that or is it once things have finished that they go and look at it? What I am really looking for is some explanation of what it is those people actually do and could they have brought this thing to light, rather than us doing it?

**Hon SIMON O’BRIEN:** It remains to be established whether there is anything wrong, as it has been characterised —

**Hon LIZ BEHJAT:** That is why I said apparent; I did say apparent, minister.

**Hon SIMON O’BRIEN:** That remains to be seen and it is not apparent. There are some questions that have been raised and dealt with previously, but it is not accepted that this has turned up an apparent error. In relation to what area the 154 FTEs are engaged in and whether this is their remit, the head of the department will answer.

**Mr Marney:** The question is: is it the responsibility of this area to look into those things? The answer is, yes. They do that, and if I can draw some various threads together in terms of systems,

through their regular liaison with the various departments, and they are the 80-odd divisions you are looking at here in this process plus all the government corporations. They do that utilising some fairly formal processes for changes to budget parameters. Obviously, across all of those entities and across a budget of \$25 billion, plus another \$6.7 billion in capital expenditure, there are all sorts of things moving at the same time on any given day. The systems are in place and the formal protocols are in place to ensure that, as much as possible, those budget systems are kept up to date by agencies and to ensure therefore that the people in the service area have an information base that is reliable from which they can provide advice to government that they can analyse in terms of overall financial position for the state and that they can evaluate in terms of performance and whether value for money is being achieved and whether expenditure is being delivered in a manner consistent with the budget papers. So, these people rely on those systems and the information in those systems, as populated by those agencies. So again, to reiterate, at the risk of labouring the point, my people can only rely on what agencies tell them. If agencies tell something that is wrong and sign off on it, how are we to know?

**Hon LIZ BEHJAT:** Great; that clarifies that for me, thank you.

**The CHAIR:** I am just mindful that we have quite a long session this morning, so what I am going to propose is that we take a break at a quarter to 11. But I will give the call to Hon Ken Travers and we do go through to 12.30 pm, so hopefully we will have plenty of time for everybody's questions.

**Hon KEN TRAVERS:** Ljiljanna has one question, and I suggest you take her question and then when we come back I can start.

**Hon LJILJANNA RAVLICH:** Minister, I just want to refer you to the second dot point on page 302, which refers to the government-announced future fund and I want to ask a series of questions in relation to it. A first question is: can the minister advise what modelling was done on how that fund would accumulate \$4.7 billion over the next 20 years? Madam Chair, can I ask that that document be made public?

**Hon SIMON O'BRIEN:** I have document here that is in effect the model. It is headed "Interest calculation", and the footer, for the sake of identification, is "120508 future fund (final).xls". If I can table that and perhaps during the break you might even want to get a copy of it if you have got any further queries. There are also some further things that the Under Treasurer could add in response.

**The CHAIR:** Just before I go to the Under Treasurer, is that a public document?

**Hon SIMON O'BRIEN:** Yes.

**Mr Marney:** One of the two key parameters that you will see in that model is: what do we expect the royalty payments going into the future fund to grow by over that 20-year period? The answer to that is by projected CPI. Secondly, the other is: what rate of return do we expect to earn on that fund each year that then is accumulated in the fund? The answer is 5.2 per cent, which is the long-run rate of return earned by the Treasury Corporation on the public bank account. So those are the two key parameters that bring you to the \$4.7 billion.

**Hon LJILJANNA RAVLICH:** Are they the same as assumptions?

**Mr Marney:** Yes.

**Hon LJILJANNA RAVLICH:** Okay, so we will call them assumptions. That answers my second question. My third question is: what are the risk factors of not meeting those funding targets?

**Mr Marney:** Sorry, of not meeting those assumptions?

**Hon LJILJANNA RAVLICH:** Yes. What are the risks? It may well be that it is just those two parameters or it may well be that there are other risk factors.

[10.40 am]

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**Mr Marney:** In terms of risks, I would have to say the balance of risk is on the upside for the fund for a number of reasons. In terms of price and exchange rate, we have assumed long-run average, which is consistent with where we in our forward estimates project us to be by 2015–16. So, we have taken those long-run average exchange rate and price parameters and just flatlined those over 20 years. Arguably the long-run average is understated on the iron ore price. Secondly, in terms of volumes of production, we have assumed that the volumes that we are projecting again for 2015–16 are basically flatlined across the 20 years. So, we are expecting, somewhat oddly you might think, no growth in the resource sector from 2015–16 onwards. It is a very conservative, if you like, baseline estimate for what a future fund might look like.

**Hon LJILJANNA RAVLICH:** Can I just pick you up on that? No growth in the resource sector—do you anticipate that there may be a reduction in growth to any significant extent in the resources sector?

**Mr Marney:** Implicitly the only growth we are expecting is CPI, which is 3 per cent.

**Hon LJILJANNA RAVLICH:** So you are not factoring in any negative growth in the resource sector. My next question is: was Gresham Investment House or any of its employees paid fees for service to provide advisory and/or any other services to the government on the establishment of this fund?

**Mr Marney:** I can only speak on behalf of my department, and all of the work analysis and advice around the future fund was done completely in-house. There were no external parties contracted or paid to assist us with any element of our advice to government.

**Hon LJILJANNA RAVLICH:** Certainly in an exchanged email there is reference to Gresham seeking to obtain some fees as a result of potentially providing advice to the Treasury. Are you saying that was provided free of charge?

**Mr Marney:** I do not know whether advice was provided to the Treasurer by other parties. I can only speak on behalf of my department. We did not contract, seek or accept advice from any external parties.

**Hon LJILJANNA RAVLICH:** At all?

**Mr Marney:** Correct.

**Hon SIMON O'BRIEN:** Could I ask what is the email that is being referred to here?

**Hon LJILJANNA RAVLICH:** I do not have to give it, do I?

**Hon SIMON O'BRIEN:** You have not got it.

**The CHAIR:** I think to be fair, member, if you are going to ask a question based on a document, you do really need to be willing to indicate what document it is, otherwise the question is not really in order.

**Hon LJILJANNA RAVLICH:** It was out of an FOI by the shadow Treasurer and it was reported in the media.

**Mr Marney:** If I can clarify, that email was not involving traffic between the Department of Treasury in any way.

**Hon LJILJANNA RAVLICH:** It was not?

**Mr Marney:** No; there has been no interaction.

**Hon LJILJANNA RAVLICH:** Okay, so you are aware of it.

**The CHAIR:** At least for clarification, can you indicate who the email was to and from?

**Hon LJILJANNA RAVLICH:** It was sent on Thursday, 24 February 2011 at 2.58 pm. It was to Mr Christian Porter, and I am assuming it was from an Gresham Investment House employee.

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**The CHAIR:** I think we have ascertained that it did not involve the department.

**Hon KEN TRAVERS:** Can I just ask one question on this?

**The CHAIR:** You can, and then we might have a cup of tea.

**Hon KEN TRAVERS:** What is the long-run average borrowing costs for Treasury. You refer here to your long-run earning rates. What is your long-run average borrowing cost?

**Mr Marney:** The current year's borrowing cost is 5.2 per cent. I would be happy to provide a longer run average to you, if I can take that on supplementary and if I can ask you to define "long-run".

**Hon KEN TRAVERS:** I will define "long-run" the same way you define "long-run" for your earning rates. Using the same definition of "long-run" for your earning rates, I would like to know what the equivalent for your borrowing rates is. That is what I am after.

[*Supplementary Information No A6.*]

**Mr Marney:** So supplementary information A6 would be the 10-year average borrowing cost.

**Hon KEN TRAVERS:** When you were doing your modelling for the future fund, did you not actually ascertain what your long-run borrowing costs were to compare to your long-run earning rates?

**Mr Marney:** The focus on modelling the accumulation in the fund was on what the return would be. There was no modelling undertaken to establish an equivalent cost. However, there was analysis undertaken in recent years as to what the comparative costs might be. So the comparison was made between cost of funds and earnings over the current year and the forward estimates as they are currently projected. We did not go back and run long-run average borrowing costs.

**Hon KEN TRAVERS:** Because your modelling here is based on long-run average costs for your earnings. I would have thought —

**Mr Marney:** No, it was based on long-run earnings.

**Hon KEN TRAVERS:** Sorry; long-run earnings.

**Mr Marney:** Yes.

**Hon KEN TRAVERS:** That is the interest you pay, or is that something different then?

**Mr Marney:** No, it is the interest we earn.

**Hon KEN TRAVERS:** Sorry; the interest you earn—yes.

**Mr Marney:** So the modelling is based on, necessarily, because it is an accumulated fund, what do we reasonably expect over the long-run we are going to earn on that fund. So, to project that, we went back and took the long-run average of what we actually have earned in the last 10 years. But we did not go back over the last 10 years and do an average of cost, but we have undertaken to provide that as supplementary information A6, the ten-year average cost of borrowings.

**Hon LJILJANNA RAVLICH:** Can I just take you back to your answer in relation to the payment of any fees to help set up the future fund. Under Treasurer, you said that no money was appropriated out of your department, but you cannot give a guarantee that it may not have been appropriated out of perhaps the ministerial budget of the Attorney General or indeed any other agency.

**Hon SIMON O'BRIEN:** Madam Chair, the answer as it relates to this department was quite clear and unambiguous from the Under Treasurer. If the member has any questions of the Treasurer, then she might like to put them on notice.

**The CHAIR:** I think that might be a suitable juncture to have a 10-minute break.

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**Mr Marney:** If I can allay any concerns in terms of conflict of interest or anything of this nature, the structure of the future fund, the investment of the future fund is stipulated as being invested by the Western Australian Treasury Corporation in a manner very much akin to the investment of the public bank account. There is no third-party provider for investment services or advice foreseen in the management of the future fund. It will be managed in-house in accordance with the way we manage the public bank account. If there is a perception of any conflict of interest or anything of that nature, I can assure you that there are no fund managers out there who have got their hands on the future fund.

**Hon LJILJANNA RAVLICH:** My last question was that this fund allegedly was a distraction because the government was concerned about the rising state debt. Are you as the Under Treasurer concerned about the rising state debt?

**Mr Marney:** I believe the member is asking for an opinion rather than confirmation of fact, and I recall in the chair's opening remarks that I am precluded from providing opinions in this forum.

**The CHAIR:** Personal observations, yes.

**Hon KEN TRAVERS:** We do like them when we can extract them from you, though.

#### **Proceedings suspended from 10.50 to 11.04 am**

**The CHAIR:** We will recommence. I had Hon Phil Gardiner on my list next.

**Hon PHILIP GARDINER:** Could I just go back to the way you formulate the budget from the very beginning and, for the rigour of the process, can I just refer to page 300 "Outcomes, Services and Key Performance Information"? My question goes beyond that of Treasury but more to the function of Treasury because the "Government Goals" and "Desired Outcomes"—who finally signs off on that? Is that Treasury signing off on what those words are or is that the agency, which puts what they believe those words are, and then that is it?

**Mr Marney:** The government goals are established, as the name suggests, by government and signed off by the Premier at the beginning of this term of government. Those are used consistently throughout the budget papers. Agencies then seek to align their outcomes to those goals and Treasury performs a role in ensuring that the outcomes actually match with the government's goals and seek to achieve the government's goals. The Treasurer has authority, which he has delegated to myself and the Deputy Under Treasurer to authorise changes in the outcome structure for agencies as being consistent with the overall government goals as determined by, ultimately, cabinet.

**Hon PHILIP GARDINER:** Given my short time on this committee, I have noticed changes in the outcome, which I think are positive. The Department of Mines and Petroleum advisers came into the committee yesterday and, unfortunately, I missed a lot of that hearing. However, the government goal refers to reducing regulatory burdens and I do not believe that has the veracity that I believe the department is exercising. That is because if we are reducing regulatory burdens all the time, we are not thinking of any increases if there are issues such as unconventional gas, for example, where I know there is concern at some increasing regulatory burdens. There is just that inconsistency. I could not ask the question yesterday and I will approach the minister directly, but can he change that or does that have to go back to the Premier?

**Hon SIMON O'BRIEN:** Mr Marney will please explain.

**Mr Marney:** Through the Chair: the agency can seek a change to their outcome structure. They do so by writing to me, and we would then evaluate whether or not the change in structure remains consistent with government's overall goals. Whether or not the regulatory burden is reduced, I think a point of clarification that may be relevant in this example is that government and some agencies in particular—the Department of Mines and Petroleum is one of them—are looking at new regulations for new activities, such as unconventional gas.

**Hon PHILIP GARDINER:** Yes.

**Mr Marney:** The overall regulatory burden imposed by that agency can still be reduced, even though it is introducing new regulations in new areas by going back to their existing stock of regulation and rationalising or eliminating regulatory settings that are unnecessary, outdated, no longer required and so on.

**Hon PHILIP GARDINER:** I accept that. I think there are words that can cover both those aspects, so that approaching the minister about that is the right way. Then the pathway is through Treasury and it would have to go to the Premier because this is under “goals”.

**Mr Marney:** If it is a goal, yes, then it is a matter that would be subject to approval by the Premier and, I would say, by cabinet.

**Hon PHILIP GARDINER:** Okay, that is the first part. I will just move to a second point, Madam Chair, in relation to the framework. As I understand it, and correct me where I am wrong, the statement of corporate intent is developed by each agency. Hon Ken Travers, I know, is very strong on this, so I do not mean to take any of the thunder away from him. The statement of corporate intent is changed or adjusted each year, okay. In doing that, by when does that have to be agreed by the agency and Treasury?

**Mr Marney:** Through the Chair: you are correct, the statement of corporate intent needs to be updated on an annual basis and it needs to be updated to ensure it is consistent with the budget settings as published in the budget papers. The date by which the SCI has to be agreed varies, depending on the governing legislation for the particular trading enterprise in question. Predominantly, as you would expect, most of them require that the SCIs are agreed by 30 June, which then provides budget certainty to the entity for the forthcoming financial year—but it does vary.

[11.10 am]

**Hon PHILIP GARDINER:** When they work out their statement of corporate intent every year—which really has got to be like a strategic plan for the year, I would have thought—that means that that then flows into what expenditure and what income they are getting and charges and everything else. I guess when you have a budget cut-off on 7 May and if you have late changes—what I am trying to get to is just this efficiency dividend area—it would be very difficult for people who drafted and worked through a strategic plan for the year and have a statement of corporate intent, and come April or May, this efficiency cut comes in. They have really got to adjust that, but there should be sufficient time for them to adjust that prior to the budget papers so that what we get in the budget papers reflects the statement of corporate intent in terms of the expenditure and the income, should it not?

**Mr Marney:** The formulation of the SCI is necessarily an iterative process. The enterprises submit their draft SCIs to their relevant ministers towards the end of the preceding calendar year. That then flows through the budget process. There are always decisions relating to the entities, whether it be their asset investment program, dividend policy or, in this case, efficiency dividends, which impact upon them and upon their SCIs. Sometimes those decisions are able to be incorporated both in the budget and in their SCI; at other times, the decisions are incorporated in budget. Whether or not they are able to be communicated in time to be incorporated in the SCIs is not always the case. However, even if the SCI is agreed and does not include a decision that is taken in budget, the clear expectation is it be amended for the financial year forthcoming to be consistent with the budget settings as documented in the budget papers. Indeed, I think in the case of the efficiency dividend, as it could be communicated to the agencies only essentially on budget day, the SCIs will have reference to the efficiency dividend applicable to the individual entities, but it will not have in the SCI the implementation plan associated with that efficiency dividend; that will follow subsequently.

**Hon PHILIP GARDINER:** In terms of the budget settings, on the SCI, I am confused, because when I go to page 39 of budget paper No 3, the paragraph about it talks about the two per cent

efficiency dividend based on cash service appropriations. I am just not clear about what is meant by those three words “cash service appropriations”. I am talking about agencies, departments and so on. When I worked it out for any of the departments, if I just do what is in the line item “Contribution to Responsible Financial Management”, which it is defined as, for each of the years based on the total cost of services, we know firsthand from the hearing with Police that the evidence we heard was that they extracted out, for example, the money for COAG in making that calculation. I suspect that there must be sections taken out because I can never get two per cent for 2012–13, which suggests to me that the words “based on cash service appropriations” must mean something quite different from the total cost of services.

**Mr Marney:** Yes, the two parameters are very different. Total cost of service is, as suggested, the total cost of providing that service regardless of funding source. Cash service appropriation is just one of a number of funding sources that an agency may have. An agency may have an internal source of funds through fees and charges; they may have other external sources of funds such as commonwealth grants or lotteries grants and various other means. Cash service appropriation is a subset of total cost of service. To align the figures that you are seeking, you would need to go to the cash flow statement as opposed to the operating statement of each agency. I think the first line in the cash flow statement is the cash service appropriation. The dividend is applied to that figure.

**Hon PHILIP GARDINER:** Is “Net cash provided by State Government” the line in the cash flow statement?

**Mr Marney:** No, the very first line, which is cash “Service appropriations”.

**Hon PHILIP GARDINER:** Okay; that is the denominator and that should give me mostly the two per cent and then the three, four and five.

**Mr Marney:** Correct. There are some exemptions, however, from the efficiency dividend. Probably the most notable is grants and contracts for service being paid to not-for-profit organisations for service delivery through agencies. They are excluded from the calculation of the dividend. They are taken out of the cash service appropriation as an adjustment. The agencies that that would impact most would be the likes of the Disability Services Commission, Child Protection, Health and the Mental Health Commission. They are probably the biggest ones.

**Hon PHILIP GARDINER:** That is helpful.

**Hon KEN TRAVERS:** Is the figure that you calculated off what was in the forward estimates of last year’s budget? Is that the figure that is then used for the two per cent efficiency dividend, or is it last year’s service appropriation?

**Mr Marney:** My understanding is it was the proposed appropriation for the coming budget year, excluding any new decisions. So it was a starting point estimate as at this budget process.

**Hon KEN TRAVERS:** So, last year’s forward estimates plus any new decisions.

**Hon PHILIP GARDINER:** Just picking up on your response to the discussion we were having about FTEs and where you could get that money, I have looked up the reference to which you directed me and it is very intriguing when I go through these numbers. With the Department of Education, the December FTE was 46 700-odd and the paid FTE as at December 2011 was about 14 000 fewer. That suggests to me that they have got a huge underspend, given that about 80 per cent of their expenditure would have to be on labour—employment. What is making up this huge difference? Before you give me an answer, you implied that that was the gap where you felt that these agencies could cut back, but what we are allowing is for the Department of Education to have only a one per cent efficiency dividend compared with most of the other agencies, or in fact maybe all of them, having two. Education has been singled out as having only one per cent, yet it seems to have the biggest benefit difference, if you like, from their underspend based on FTEs. But I am sure that the underspend has got to be constrained by some other factor than the FTEs they are allowed to have.

**Mr Marney:** The difference in the two numbers you are quoting is the difference between full-time equivalent employees and total headcount of employees. The higher figure is, if you like, the body count of employees. What we focus on is the full-time equivalent number, which is, if you like, the five-day equivalent representation of the employment by the agency. On that basis, and in accordance with the December 2011 quarter FTE ceiling report, the Department of Education is pretty much at its ceiling, if not slightly above. It does bounce around due to the seasonality of their employment patterns. The Department of Education is basically bang on their ceiling at the moment.

[11.20 am]

**Hon PHILIP GARDINER:** Maybe I misheard you earlier. I thought that in this report from the Public Sector Commissioner you had the difference between the FTE ceiling and what was paid. It says agencies subject to an FTE ceiling. Do we have the FTE ceiling anywhere in the same tabular form that we have here?

**Mr Marney:** The FTE ceiling is provided in, I believe, the Public Sector Commission's report on its website.

**Hon PHILIP GARDINER:** I am on its website. I did have a little bit of difficulty finding this. The website is headed "Western Australian Public Sector Workforce Report (December 2011)". It does not have a ceiling. It just says "Agencies that are subject to an FTE Ceiling" but then it has headcount, paid FTE and average paid FTE.

**Mr Marney:** I am happy to provide as supplementary information the appropriate tables that detail the ceilings for those agencies.

**Hon PHILIP GARDINER:** I would like to have the ceiling for a dozen or so agencies.

**Mr Marney:** So the top 15 agencies?

**Hon PHILIP GARDINER:** Yes.

[*Supplementary Information No A7.*]

**Hon KEN TRAVERS:** I turn to the issue of royalties for regions funding in budget paper No 3, page 236. As I understand it, we are expecting \$1.2 billion to be appropriated into the fund this year and then a further \$4.7 billion over the forward estimates. When we see the total royalties for regions funds listed across the bottom of that line item on page 236, that obviously does not add up to the figures that have been talked about. In fact, my estimation is that somewhere around \$1.4 billion should be going into the royalties for region fund that is not being expended. Can you tell me where in the budget I will find the expenditure of that \$1.4 billion?

**Mr Marney:** The full 25 per cent of royalty revenues is being paid into the royalties for regions fund. My understanding is the expenditure from the fund includes money being quarantined in a fourth fund, which is detailed in footnote (a), the regional development fund within the royalties for regions fund. That is the difference between those balances. There are moneys being placed each year into that additional fund and if you include that additional fund both the flows into the fund, the stock of money in the fund and the flows out of the fund reconcile.

**Hon KEN TRAVERS:** There is still a bit of a difference because that totals \$993 million. I do not know whether it would be the money going into the future fund? Also, does the department itself take any allocation out of the royalties fund for administration?

**Mr Marney:** The minor discrepancy that remains relates to other cash balances that shift in other funds within the fund. Part 2 of the question was?

**Hon KEN TRAVERS:** I got a difference of \$500 million with what is listed in there. That regional development fund adds up to about \$993.8 million—that is my figure—so there is \$400 million missing. That seems more than just cash balances, I would have thought.

**Mr Marney:** It cannot be anything other than balances in the remaining funds. They are the only ways into and out of the royalties for regions fund as determined by the legislation. I am happy to provide a reconciliation.

*[Supplementary Information No A8.]*

**Hon KEN TRAVERS:** Is the regional development fund expensed in the budget or is it sitting in an account somewhere as a balance or is it held against expenses in a line item somewhere in the budget?

**Mr Marney:** There is no expenditure either in assets or operating associated with that fund at this point. My understanding is that the decision of government is that any expenditure from that fund would be subject to subsequent cabinet decision on individual business cases.

**Hon KEN TRAVERS:** But ultimately that money will need to be expensed against the royalties for regions fund in accordance with the Royalties for Regions Act 2009, will it not?

**Mr Marney:** The fund could sit there in perpetuity; it does not need to be expensed.

**Hon KEN TRAVERS:** Is it beyond the cap? Is the regional development fund outside of the cap or does it still sit within the cap figure for the fund?

**Mr Marney:** It sits outside the cap.

**Hon KEN TRAVERS:** Ahhhh! That is interesting. So you put it across into the fund, which is a backdoor way of avoiding the cap, is it?

**Mr Marney:** It sits outside the cap.

**Hon KEN TRAVERS:** Thank you! And it is unexpensed at this stage.

The same goes for the road trauma trust fund money that is included in this budget. I have found some very helpful information from the estimates in the other place—that shows that they are useful at times!—that indicates that the income for the royalties for region fund will equate to about \$362.7 million this budget and the forward estimates. But the expenditure that has been expensed so far is only \$182.9 million. Are we right to assume that about \$183.9 million will also just be sitting in a fund at this stage unexpensed but only able to be spent in accordance with the legislation regarding the road trauma trust fund?

**Mr Marney:** Similar to my response to the previous question, yes, that amount of moneys will remain within the fund, is not planned to be recognised as being expended on either assets or operating expenditure in the current forward estimates. Again, as communicated to me, it is this government's intention that over time it will allocate those funds to expenditures based on individual business cases that are brought forward to cabinet.

**Hon KEN TRAVERS:** So there is \$189 million. I am assuming the Perth parking levy, I note in here there is an expenditure included in that in the budget paper No. 3, \$48 million over four years to deal with inner city congestion. How much of that is from funds from the Perth parking tax held in the Perth parking management account and how much is actually from the consolidated account?

**The CHAIR:** Sorry, member, can you give a page reference?

**Hon KEN TRAVERS:** Page 14 of budget paper No 3.

**Mr Marney:** That state of expenditure is all funded from the Perth parking levy account.

**Hon KEN TRAVERS:** Even though a number of the items are beyond the boundaries of the Perth parking management area?

**Mr Marney:** The initiatives listed in that expenditure are all funded from the Perth parking levy account.

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**Hon KEN TRAVERS:** Whose responsibility is it—yours or the individual agencies—to ensure that they can conform with legislation regarding expending money in accordance with appropriate legislation?

**Mr Marney:** The responsibility and accountability sits with the Minister for Transport and the Department of Transport.

**Hon KEN TRAVERS:** But in terms of the way in which this budget is prepared, that money is allocated all from the Perth parking levy tax.

**Mr Marney:** Correct.

**Hon KEN TRAVERS:** I am assuming then that there will be somewhere in the order in this and the forward estimates, my estimation is that there will probably \$55 million currently sitting in the Perth parking management account accruing a surplus of at least \$15 million. Take away this expenditure and we can expect to see about \$60 million or \$70 million—or at least \$50 million—staying in the Perth parking levy management account and accumulating over the forward estimates to about \$70 million. Is that correct?

[11.30 am]

**Mr Marney:** I cannot confirm that. We do not administer the account. That would be a matter for the Minister for Transport and the Department of Transport.

**Hon KEN TRAVERS:** Even if we said that it remains around the \$50 million mark, those three sums add up to \$1.232 billion of money that, by law, is required to be spent for specific purposes. When it is expended—one would assume that at some point the government intends to expend it; maybe the minister can correct me if I am wrong on that—will that not then add to the debt figure contained in the budget papers of \$22.866 billion? When it is finally expended as required by the legislation will that not add \$1.2 billion to that expenditure? Am I right? Is my understanding correct?

**Mr Marney:** You are correct in stating that those funds are, if you like, in specific purpose accounts—the moneys must be spent in accordance with the legislation governing those accounts for those purposes. There is no determination in the legislation as to when those funds must be spent or cleared, so until such time as government takes decisions to expend them on specific initiatives, the funds remain in balance in those accounts and cannot be used for anything else. You are correct in stating that while the funds sit in those accounts they are contributing to a reduction in net debt.

**Hon KEN TRAVERS:** If the government were to take a decision to expend those funds in accordance with their legislation, would it add to overall state debt?

**Mr Marney:** Given that those expenditures are not currently projected within the forward estimates, that is correct.

**Hon SIMON O'BRIEN:** The same would be true for any further decision that government might take to spend new money on something. That would add to the bottom line as well; it is no different.

**Hon KEN TRAVERS:** But, minister, that would be after you have had additional income come in. My point is that you are booking in the income on these programs but you are not booking in the expenditure. Is that correct?

**Hon SIMON O'BRIEN:** Sorry, was that a question?

**Hon KEN TRAVERS:** I am asking: is it correct that are you booking in the income in each of those three areas but not booking in expenditure against that income?

**Hon SIMON O'BRIEN:** As the Under Treasurer has already explained, we will not be booking in expenditure until decisions are made on the expenditure.

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**Hon KEN TRAVERS:** It might be an interesting writ of mandamus at some point as to whether you are required to spend it within a required time frame, but that is a story for another day. I suspect the RAC will be interested to hear it as well, after the commitments that were given to it. Can I also ask: does the \$339 million that has been parked in the special purpose account for the Oakajee development have an expense line item in the budget, or is that also parked and not expensed now?

**Mr Marney:** There is no expenditure projected at this point for the \$339 million, so that \$339 million will sit in the special purpose account until such time as the project warrants that expenditure. At this point, that is not factored in within the forward estimates period.

**Hon KEN TRAVERS:** We are now up to \$1.5 billion. Can you advise whether there is a list of special purpose accounts and areas like that where surplus funds are held? Do you have a list somewhere of money for which income is held in special purpose accounts and nothing expensed against that money?

**Mr Marney:** There is actually a feature section on page 35 of budget paper No 3 that details the existing special purpose accounts. In short answer to your question, you have covered the big ones.

**Hon KEN TRAVERS:** I do not think that includes the Perth parking levy or Perth parking tax. Does Treasury have a list of all those special purpose accounts and how much is held in them and how much is currently expensed against them in the budget somewhere?

**Mr Marney:** We would have to provide that as supplementary information A9, I suspect.

**The CHAIR:** A9, correct.

**Hon LJILJANNA RAVLICH:** How many special purpose accounts are there in total?

**Hon SIMON O'BRIEN:** That will be part of that answer.

**Hon KEN TRAVERS:** Will supplementary information be provided?

**The CHAIR:** Yes.

*[Supplementary Information No A9.]*

**Hon KEN TRAVERS:** Just going back to the issues raised by Hon Philip Gardiner about the statements of corporate intent, particularly for the port authorities, is the Under Treasurer able to advise why agreement has not been reached for the 2011–12 statements of corporate intent, given that we are now almost at the end of the 2011–12 financial year?

**Mr Marney:** No, I do not know.

**Hon KEN TRAVERS:** Does Treasury still have any concerns with those statements of corporate intent?

**Mr Marney:** I think the outstanding concern is whether they are consistent with the budget settings.

**Hon KEN TRAVERS:** With all due respect, if they are not, I am not sure how that can be corrected with probably three weeks of the financial year to go! Why would they not have been signed off and tabled? Is there an issue within Treasury that is holding them up?

**Mr Marney:** It is not a matter that is within Treasury's control.

**Hon KEN TRAVERS:** Well, it is in so far as that unless you give your concurrence, they cannot be signed by the minister. What I am seeking to confirm is whether there is any reason that Treasury has not given its concurrence for the 2011–12 financial year statements of corporate intent.

**Mr Marney:** As I understand it, they are yet to be submitted to us for concurrence.

**Hon KEN TRAVERS:** Could we have that confirmed as supplementary information; that is, whether they have not been submitted or whether they have been submitted and have been sent back and need to be resubmitted? Is there a time line for that? It would be quite extraordinary if they

have not been submitted to the Treasurer for concurrence. I am talking about those for 2011–12. I am yet to move on to the 2012–13 ones.

**Mr Marney:** So are we. I am happy to take as supplementary information A10 a request for a summary of status of the statements of corporate intent submissions and approval for the port authorities. I would note, though, that a substantial review process has been underway by the minister across the port authorities, and that is probably one of the contributing factors behind the delays to the consideration and approval of the SCIs in the current financial year.

*[Supplementary Information No A10.]*

**Hon KEN TRAVERS:** Yes, but from my point of view they are an important accountability mechanism to the Parliament and we are not seeing them. I am not having a go at you over that, unless you are withholding your concurrence, at which point I might be having a go at you, but if it is not you, I accept that.

**Mr Marney:** I presume that if we were withholding our concurrence, you would want to know why, rather than being upset.

**Hon KEN TRAVERS:** Yes. That was the point of my question. Have the 2012–13 ones been submitted to you for concurrence for next year?

**Mr Marney:** Not as far as I am aware.

**Hon KEN TRAVERS:** With supplementary information A10, could you also provide us with details of any other organisations that are required to have submitted a statement of corporate intent for 2011–12, whether Treasury has received those and whether concurrence has been given for any other organisations, as well as for the port authorities? I think there might be a couple of others that have been submitted as well. Certainly the big bulk that I know of is the port authorities.

**The CHAIR:** I assume that can be included in supplementary information A10?

**Mr Marney:** As a point of clarification, supplementary information A10 encompasses a summary of status of the submission, consideration, concurrence and, ultimately, tabling of all SCIs across all applicable entities both for 2011–12 and 2012–13.

[11.40 am]

**Hon KEN TRAVERS:** I guess that probably is a good point to segue into port authorities. In terms of the information contained in this budget, how did you arrive at information if it is not based on the statement of corporate intent in all of the information you include regarding income that you expect to receive from the port authorities?

**Mr Marney:** Information contained within the budget, and I apologise if I sound like a broken record, is based on that which is submitted by the agencies into the Treasury information management system. That information is then considered by the Economic and Expenditure Reform Committee and ultimately flows through in the form of cabinet decision. So the parameters reflected in the budget papers are a reflection of what the agencies, the entities, have submitted into the information management system as their applicable financial parameters for 2012–13, then considered by government and subject to cabinet endorsement.

**Hon KEN TRAVERS:** So that statement of corporate intent plays no role in informing Treasury of the information that they place into this budget?

**Mr Marney:** They form a part of the overall information set. For the purpose of producing the budget papers our primary source of information is the information in the Treasury information management system. We work with the entities to ensure that the statements of corporate intent match precisely the information that they can provide through the Treasury information management system and is subsequently incorporated in the budget parameters.

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**Hon KEN TRAVERS:** Maybe if you could then also tell us what rate of return you are expecting from the port authority. I turn to page 302 and you have mentioned there in the part about port authority charges that Treasury will assist the Department of Transport's review of charging by state port authorities and you anticipate increasing port charges from 2013–14 to ensure a more appropriate return on the state's substantial investment in ports. What is the rate of return you are expecting from port authorities over the forward estimates?

**Mr Marney:** I have the actual rates of return for 2010–11 and the 2011–12 target rate of return, if that is of assistance, if that is what you are after.

**Hon KEN TRAVERS:** As I understand it, Treasury normally sets a rate of return that you expect port authorities to be achieving, and reading that section would suggest that you are increasing the rate of return. So I am interested in what the current rate of return is that you expect from port authorities and, if you are expecting to increase it over the period of the forward estimates, what you expect to increase it to.

**Mr Marney:** I can inform you of the actual rate of return for 2010–11 and the target rate of return for 2011–12. As mentioned previously, the Minister for Transport is undertaking a holistic review of the port authorities and their associated rate of return. The precise rate of return for 2012–13 and across forward estimates is yet to be determined and is subject of the minister's implementation of those reforms.

**Hon KEN TRAVERS:** So what is the rate of return you have incorporated into the budget then in determining the —

**Mr Marney:** We could give you an average across the port authorities, but not one for each port authority, because it is yet to be determined. But, I am happy to provide supplementary information.

**Hon KEN TRAVERS:** But in terms of preparing the budget papers, did you not work on a rate of return?

**Mr Marney:** Yes; we worked on a rate of return of between five per cent and eight per cent.

**Hon KEN TRAVERS:** What is it currently?

**Mr Marney:** Currently, it is between, funnily enough, five and eight per cent, but with a whole bunch of them at around six and 6.5 per cent. So there would be some movement in some of those lower figures.

**Hon KEN TRAVERS:** So when we turn to the part of the budget where you indicate you are expecting to increase the money you receive in dividends and payments from port authorities—I think that is indicated in your budget papers under “Details of Administrative Transactions” starting on page 310—there is a provision there for port charges on page 311. Are they based on an increased rate of return or on what basis do you arrive at those figures of \$13.2 million, \$14.1 million and \$16.2 million; how are they determined?

**Mr Marney:** My understanding is that they are based on an increased rate of return across the authorities. I think the answer to your question is that we have a number of authorities such as Dampier Port Authority, Geraldton Port Authority, Port Hedland Port Authority, Fremantle Port Authority, which are at our target rate of return of around six per cent. The intention going forward is to lift that target rate of return to something like eight per cent and therefore generate those additional revenues. So that is what is embodied in those projections.

**Hon KEN TRAVERS:** Has any modelling been done on what the impact on port charges will be to achieve that increased rate of return?

**Mr Marney:** My understanding is that that is the work underway by the Department of Transport at the moment to actually establish across those entities that have rates of return at the lower end of the

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spectrum which ones should be earning a far greater rate of return, and that would be considered against the ports charge impact that would flow as a result of that.

**Hon KEN TRAVERS:** If it is not possible to achieve that rate of return, do we then not achieve that income? If that is not already being considered and said, how do we put that into our budget over the forward estimates?

**Mr Marney:** As always, it is there as a target rate of return. It may or not be achieved for various reasons. All I can offer in explanation is that the Minister for Transport has a target that he is seeking to achieve. That target is embodied in the financial projections and the manner in which that is implemented across the various authorities that have rates of return, which by any standard are low, is a matter for consideration by the minister and his current implementation following the review process undertaken in the current financial year.

**Hon KEN TRAVERS:** From Treasury's perspective, because it says you are involved in that review, when do you expect that to be completed?

**Mr Marney:** We would expect that that review be completed prior to the next budget. So ideally, prior to the midyear review.

**Hon KEN TRAVERS:** But for it to flow through to dividends, will you not need to actually have it starting to be implemented fairly early in the next financial year to be paid in the following budget's dividends?

**Mr Marney:** Yes; and the money does not start to flow until 2013–14, so there is a lag, if you like, between the target rate of return and the flow of funds. So the implementation is allowed for by virtue of the additional revenue not coming in until 2013–14.

**Hon KEN TRAVERS:** Yes, but for it to come in by way of a dividend, you would need to be increasing the rate of return over the whole of the 2012–13 financial year, I would have thought. When you look at those figures over the forward estimates, they look like they just increase by CPI, so one would assume that you are intending to get your increased rate of return pretty much consistently over this year and the forward estimates, and it flows into dividends from next year on through the forward estimates.

**Mr Marney:** The additional dividends associated with port authorities' charging regimes and increased rate of return do not flow into the finances until 2014–15. The increased rate of return is to be implemented therefore in 2013–14, which is allowing then in 2012–13 for the ongoing work to identify where, and to which authorities, there is an increased rate of return and what that rate of return should be.

**Hon KEN TRAVERS:** Can you go to page 311 then where it says "Provision port charges", and it shows in 2013–14 an increased revenue of \$13.2 million? What is that?

[11.50 am]

**Mr Marney:** That relates to income tax expense. It is not related to dividends?

**Hon KEN TRAVERS:** So where does the increased dividend show?

**Mr Marney:** If you go to page 315 of budget paper No 3, table 7.6 shows the two elements there that are leading to increased dividend payments—one being income tax expense, and the other being increased dividends associated with increased rate of return, which does not show until 2014–15.

**Hon KEN TRAVERS:** So the increased port charges will not go up until after the election—interesting. The other question I had in this area was: on top of that, the port authorities are required to get the efficiency dividend.

**Mr Marney:** Correct.

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**Hon KEN TRAVERS:** Is that over and above the increase in their rate of return on top of that? Because if they get an efficiency, that will feed into higher income tax payments, higher dividends. That should get them to their eight per cent rate of return. Are they then required to go higher again than that to meet their efficiency dividend?

**Mr Marney:** Yes, you are correct. There are two factors impacting on ports in terms of their profitability basically. One is the efficiency dividend, which is intended to be applied to reduction in cost. The other is the increased rate of return, which could be a combination of cost and charging, as you alluded to earlier. In recognition of the fact that the port authorities already have a review process underway looking at their rate of return, the efficiency dividend applicable to port authorities has been struck at 1.5 per cent as opposed to the rest of the government trading enterprises, where the efficiency dividend in 2012–13 is 2.5 per cent. Similarly, in 2013–14 it is three per cent for port authorities relative to four per cent for all other government trading enterprises. So there is, if you like, acknowledgement and concession on the efficiency dividend in recognition of measures already in place to improve the rate of recovery and rate of return on the assets of the port authorities.

**Hon KEN TRAVERS:** So if you get to eight per cent and you then have your efficiency dividend on top of that, will that not effectively mean your rate of return is something higher than eight per cent, if you have also achieved your efficiency dividend.

**Mr Marney:** It depends how that is implemented, but yes, there are two factors at play here. That is really part of what the review process going forward needs to incorporate as well—how far can you push the rate of return such that it is both commercially responsible but also economically responsible.

**Hon KEN TRAVERS:** I agree, but the way in which this budget is predicated, as I read it, is that you are expecting to get extra revenue out of the port authorities from an increase in rate of return—a line item, as you have pointed us to, on page 315. There is also a separate requirement for them to meet their efficiency dividends. You have booked that increased revenue into your budget figures. So ultimately the rate of return will be even higher than the eight per cent that you would be achieving under your rate of return once you add on the efficiency dividend to be able to book the income that you are expecting over the forward estimates.

**Mr Marney:** I think the important distinction to draw is that the eight per cent is a return on assets; the rate of return is the return on assets. The efficiency dividend is applicable to their operating expenditure—their cost base. So they are slightly different point of impact, if you like, of both measures. Arguably, the projected growth for a number of our ports—particularly take, for instance, Port Hedland Port Authority with the extremely buoyant activity in the Pilbara iron ore operations of various major entities, making Port Hedland Port Authority the largest bulk commodity port in the world. Arguably they should be able to do better than 6.5 per cent rate of return.

**Hon KEN TRAVERS:** Or make a loss, as they did one year.

**Mr Marney:** Exactly. So what is this all about? It is about imposing discipline on entities that are extremely important to the state's growth in a strategic sense but ensuring that they operate in a commercially responsible and economically responsible way. I think, quite frankly, it is long overdue that some acid be put on them, albeit that that is my personal opinion.

**Hon KEN TRAVERS:** I understand the argument you are putting. I guess the question is trying to identify the amount of acid you put on them, what impact it has on port charges. What you are telling me is you cannot give me that answer today.

**Mr Marney:** No, I believe I have answered the question in terms of where we are headed in terms of target rate of return and the review process that is underway, plus the incidents of the efficiency dividend and indeed the discount that has been put in the efficiency dividend as applicable to port authorities relative to other government trading enterprises.

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**Hon KEN TRAVERS:** Can we now turn to Page 298. You have got there at the very bottom of the first section of the “Administered Transactions”, the “Western Australian Treasury Corporation Act 1986 — Interest”. Is that interest earned, listed there? It is 361, going to 477, 623 and 651.

**Mr Marney:** Sorry; you are referring to budget paper —

**Hon KEN TRAVERS:** It is budget paper No 2 now, volume 1, on page 298.

**Mr Marney:** The line item you are referring to is the interest expense incurred by consolidated account borrowings. It is the interest cost.

**Hon KEN TRAVERS:** So that is the cost of paying our borrowings. So the reason that is increasing is the increase in our borrowings; it is the driver of that.

**Mr Marney:** Correct.

**Hon KEN TRAVERS:** Can I now turn to the major stadia. I am interested in getting an understanding of what exactly is the Department of Treasury’s role in the major stadia.

**Mr Marney:** I will answer your question in two parts—one part from me and one part from Richard Mann. Richard Mann is the executive director of strategic projects, which sits within the Department of Treasury. Strategic projects is a directorate in charge of the delivery of 18 major projects across the state on behalf of government. Typically those projects are a total construction, estimated construction cost, total project cost, of over around \$100 million. All other projects are administered and delivered through Department of Finance, Building Management and Works. Strategic projects has, if you like, a subset of the capital investment program for high-value peculiar asset investments of government.

In terms of the Department of Treasury’s role—Mr Mann will correct me if I get any of this wrong—is to assist in, firstly, the concept approval of major projects and then, in accordance with the strategic asset management framework, the development of detailed business cases for those projects and the associated definitions of scope and cost. We are then responsible in conjunction with the agencies, following relevant government approvals, to progress those projects through to project definition phase with appropriate advice from architects, quantity surveyors, engineers and the like. Following project definition phase and again appropriate analysis of and decision of procurement options by government, progress through to construction phase and essentially deliver to the client agency, whoever they may be, a built form asset, if you like, at lockup for them to then take over and operate. But I will throw to Mr Mann to see if he would like to add anything further to our role and responsibilities with respect to delivery of strategic projects.

**Mr Mann:** A comprehensive summary; the only thing I would add is that the Department of Treasury is also the formal procurement authority through delegated authority from the minister for works. The Treasurer is the contracting agency.

[12.00 noon]

**Hon KEN TRAVERS:** Do you have any role in the provision of the transport infrastructure or only the stadium itself?

**Mr Mann:** Our role is limited to the stadium asset only, although, as a member of the major stadium steering committee, we have a role in oversight of delivery of the transport infrastructure.

**Mr Marney:** If I may add, in the case of the new sports stadium, there is a steering committee that sits above as a government body for the delivery of that facility. We report to, and Richard Mann sits on, that steering committee. That steering committee has a broader focus than us. Our focus is on delivering the stadium. The committee’s stadium focus is on delivering the stadium and associated infrastructure.

**Hon KEN TRAVERS:** In terms of the stadium, are you the agency that has to take responsibility for the \$700 million estimated cost of the stadium? Does that ultimately fall to your agency or

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another agency or was that \$700 million arrived at through mechanisms other than through the work of your agency?

**Mr Marney:** The business case development process is currently underway. The whole purpose of that process is to identify the cost. As alluded to in the previous answer, the responsibility of the development of the business case sits with the Department of Treasury. So, we are in the process of formalising, if you like, the scope of work and the estimating as best we can the cost associated with that. Noting that there is an indication by government of, if you like, an appetite to spend \$700 million.

**Hon KEN TRAVERS:** I guess that is my point. Is it a case of you having used any empirical evidence to arrive at the \$700 million or is the \$700 million a figure that was chosen by the cabinet and you need to fit the stadium within that cost?

**Mr Marney:** I think the latter part of that question is really the decision process for cabinet once the business case is finished and arrives at a scope and a cost. Then, whether or not it is a question of \$700 million on the dot and we are all fine or it is going to be 750 and then you have to trim it back or add more money, whatever it may be, that is really the process that the business case will facilitate. In terms of the empirical basis of the \$700 million estimate, that came from the Major Stadia Taskforce review process of a few years back. That has really been the reference point and the most comprehensive reference point available for the articulation of an approximate cost of a new stadium.

**Hon KEN TRAVERS:** Right. Which is why I am intrigued as to how you then, if you base it on the Major Stadia Taskforce report, arrive at a figure of \$700 million, because when I look at the Major Stadia Taskforce, at the time of that report back in 2007, it indicated a cost of initially \$685 million. It then added in things like car parking and plaza including escalation, which has now been removed, although, I would have thought, probably should have been included as a risk in budget paper No 3, and the transport infrastructure. We also added in the transport infrastructure. But then if we move further down the Major Stadia Taskforce report, it adds in “Additional escalation for delayed start to September 2008” that we would need to add \$101 million. Then there is a further requirement for “Other Capital and Acquisition Costs including Escalation” for the Burswood site of \$12 million and “Pre-opening Expenses including Escalation”, \$10 million. That was all predicated on a delay to September 2008 and a March 2013 completion. I am intrigued as to how we arrived at \$700 million based on the Major Stadia Taskforce when, when you look at that document, surely the figure should have been well over \$800 million and that is assuming no escalation.

**Mr Marney:** I will refer the question to Richard Mann, who is far more familiar with the original task force documents and also far more interested in football than I.

**Hon KEN TRAVERS:** They will be able to have car shows there, though, Tim.

**Mr Marney:** Awesome!

**Mr Mann:** That latter question has already been asked by the Under Treasurer and the answer was probably not. The elements that you described there, in fact, show exactly how the \$700 million indicative cost is derived. If you go to the base stadium cost of \$685 million un-escalated, added to that was in excess of \$200 million and \$218 million, un-escalated, I think, from memory, for a 3 000-bay underground car park at Burswood. That is outside the scope of the current stadium. It also included in excess of \$100 million for escalation. We have adjusted the May 2007 Major Stadia Taskforce estimate to June 2011 dollars to take into account actual escalation as measured by the Western Australian government non-residential building index, which was used in the original stadium escalation. Actual escalation from May 2007 to June 2011 in WA is actually minus two per cent. We have assumed, notionally, zero per cent escalation given that for larger projects we would expect some escalation. Other costs that are out of scope, as you have already mentioned,

are transport costs, which are separately being provided for. There is also some other minor out-of-scope costs, including the relocation of the West Coast Eagles. Taking all of those things into account, it gives a notional indicative estimate, as the \$700 million has been described, of around \$700 million. That is how the \$700 million indicative estimate has been derived.

**Hon KEN TRAVERS:** What are the figures that you use over the current forward estimates period for escalations for other projects? What is the current figure that you have adopted in each year of the forward estimates?

**Mr Mann:** Typically varying from between four and five per cent. We are assuming that the current very flat trend that we have seen over about the last two years is going to slowly return to positive escalation over the next 18 to 24 months based on increasing activity, although currently we are seeing continuation of very flat rates in non-residential building construction in WA.

**Hon KEN TRAVERS:** For 2012–13 and each year of the forward estimates, is there a figure that you have formally adopted as the escalation figure in each of those years?

**Mr Marney:** That is really what the business case process is for. It is to home in on what would be reasonable escalation figures for a project of this nature. There are, across the board, assumptions around escalation, but given the peculiar nature of the project it is not something you can take an average from the rest of our non-residential construction and flatly apply it.

**Hon KEN TRAVERS:** What are other projects in the budget do you have where you do not have an escalation figure incorporated into the estimated cost of the project?

**Mr Marney:** At this point, technically, we do not have an estimated cost; we have an indicative cost. That indicative cost is based on, as Mr Mann outlined, the previous Major Stadia Taskforce report. The business case will provide a robust estimated cost for the project, which will incorporate escalation.

**Hon KEN TRAVERS:** Are there any other projects in the budget that have only an indicative cost attributed to them, not an estimated cost when they are listed in the asset investment programs?

**Mr Marney:** Until this budget, the Mid West Energy project was in the same class; that is, we had an indicative cost assigned to it, but we did not have a robust estimated cost.

**Hon MAX TRENORDEN** interjected.

**Mr Marney:** Thank you. The alternative is, quite frankly, we do not put anything in the budget, and I think that would be most misleading and irresponsible. What do you do? You use the most recent, most reliable estimate you have as a starting point.

**Hon KEN TRAVERS:** I do not disagree with you, but the impression is given that the stadium in 2018 is going to cost \$700 million and, unless there is no escalation over the forward estimates, that is clearly not going to be the case. Am I right?

**Mr Marney:** I think the finalisation of a robust business case and within that comprehensive estimate of cost, including final delivery cost and escalation, will resolve any vagaries around the cost of the stadium, but until that time, I would say it is all speculation.

[12.10 pm]

**Hon MAX TRENORDEN:** My question will be much easier, minister. Going back to page 297, I would like to clear a few issues. What makes up the figure of \$1.39 million in the item “Amount Authorised by Other Statutes—Salaries and Allowances Act 1975”?

**Mr Marney:** I am pretty sure that is associated with the remuneration of Salaries and Allowances Tribunal–determined officers.

**Hon MAX TRENORDEN:** Really I am searching for where the recent activities for salaries and allowances under the Local Government Act are actually in the budget. There is increased activity for salaries and allowances, so is this figure the total vote for salaries and allowances?

**Mr Marney:** No. I think I understand the question now. This figure provides for the wage implications of the determinations of the Salaries and Allowances Tribunal across government; so, across divisions. It does not reflect the actual cost of the Salaries and Allowances Tribunal. The costs of the tribunal and the increased activity that is experienced is embodied in the Department of the Premier and Cabinet.

**Hon MAX TRENORDEN:** I understand that. On the same page, I refer to “Provision for Unfunded Liabilities in the Government Insurance Fund” in item 41. I understand that has had a bit of a belt in recent times, so how does it actually operate? Is there an optimum amount that is allocated for that fund?

**Mr Marney:** My understanding is that the allocations associated with that fund reflect variations in timings and the actual experience of the fund, and that is projected by the Insurance Commission of WA. My assumption is that it is projected on the basis of actuarial assessment, but I would be happy to take that as supplementary and get back to you to confirm.

**Hon MAX TRENORDEN:** If you could do that, Madam Chair, just to the point on the actuarial process in this budget. It is understandable why it is there, but I would appreciate it if you could do that for me.

*[Supplementary Information No A11.]*

**Hon MAX TRENORDEN:** I have another very simple question. As there are not many sharks in Northam —

**Hon KEN TRAVERS:** The main ones are in Perth at the moment.

**Hon MAX TRENORDEN:** There are plenty of sharks around, I know, but we do not have too many in Northam—only two-legged and others! When the shark hazard response moves to the Department of Fisheries, will it still be a CRF allocation or will it be expected to come out of the fisheries budget?

**Mr Marney:** You are correct: the allocation or the funding for shark surveillance, I guess it is called, is in future to be provided by the Department of Fisheries. Previously it was Treasury administered. The funding source will not change; that is, it remains consolidated revenue-funded. It will not be funded via fisheries own source revenue.

**Hon MAX TRENORDEN:** Madam Chair, I have a question on a more important matter. I am really interested in the SIMS issue on page 306. If we go back 10 years or so, Under Treasurer—before your time, but I am not picking on you—Western Australia led the reconstruction of budget papers; in fact it was a quite impressive performance and I congratulate the Treasurer on keeping that process going. We always debated in that period about how immediate information was. If we go back to the old paper series of those days, there was great difficulty in getting budgets pulled together within a reasonable period, considering you have to do an actuarial process and not a cash process. How immediate is the information management system; that is, do you get a monthly update or, even quicker, is it an immediate update?

**Mr Marney:** It is not, if you like, a live system that is integrated with agencies' existing accounting systems. So it actually requires agencies, if you like, to upload their financial information and data into the Treasury holistic system. So it is not as immediate as we can just run a dump across the sector at the press of a button. To minimise the impost on agencies and also to maximise the usefulness of the data in the system, we require quarterly updates to the system. I think we did for a while run with a monthly update process and, quite frankly, what we got out of it was not very useful. Month-to-month movements were quite volatile and the compliance of agencies in updating

accurate data on a monthly basis was a bit hit and miss. So we have moved that to quarterly and that forms the basis of our quarterly reports on the actual finances. That is just in terms of the actuals data; it is not a quarterly update of what they are projecting into the future. Essentially the midyear review process is one point in the year when we actually ask them to look at their actuals performance and reflect on what that means for their projections for the rest of that financial year, plus subsequent financial years. So that is one point of, if you like, holistic update. The second point is during January, ahead of commencing the budget process, we ask for any further updates to their financial parameters, both actual and expected implications for future parameters, to inform a starting point position for budget deliberations. As the deliberations proceed, we track those outside the system in terms of decision making. Then once all decisions proceed through cabinet, we flow that information back to the agencies and they then incorporate that into their financial statements and again reload that into the system as their most up-to-date financial projections—debateable in the case of the Department of Water. Anyway, we will move on.

We then use that information to consolidate across the entire public sector. That consolidation process is quite complicated, because we have to net out interactions and financial flows between agencies—and you would be surprised how many there are—to arrive at an overall operating balance position for the state as a whole. That is also done within that system and it takes, depending what complications are thrown up in that consolidation process, anywhere between two and five days to run a whole-of-sector consolidation. So that forms the basis of the major aggregates in the budget papers, which then has to be internally consistent with each of the divisions in budget paper No 2. We then use the system to collect the June quarter actuals, which then become—because we have four quarters—the actuals for the financial year, which then flows into the annual statement of state finances, which is our actuals document that we are required to release by 30 September. As you can see, there are a lot of flows in and out of that system both in terms of reporting of actuals, proposals for new money, adjustments to parameters and then final budget positions.

**Hon MAX TRENORDEN:** I must admit it sounds encouraging from where I see it. What are the future projections? We have always talked about nasties like in the health department of old when they would come up with a surprise of \$200 million over expenditures at the end of the year. How does that assist you and agencies like Health to know whether they are keeping to their budget, and how does it assist the director or the management of Health? Are they meant to have their own system and then feed from their own system to this system? I see you are nodding your head, so they have their own system. So their management system is telling their director on whatever the basis is, hopefully monthly, where they stand and you are getting information out of this system quarterly. Have I got that right?

[12.20 pm]

**Mr Marney:** Correct. This is not a departmental budget management system; it is a whole-of-government financial management system. The expectation is that each agency, each department, has its own budget management system in place, as does Education and Health and so on. For the material agencies and for agencies where there is concern over time, we will monitor both their internal management systems, so the Department of Health will share with me on a monthly basis their internal financial management reports, which is great. We will then go back to our systems and just check, for example, that their disbursement of appropriation and projected disbursement of appropriation are aligned; that is, they are not drawing down in a month ahead of what a normal schedule should be. We can see whether or not they are headed for trouble, basically, as an early warning. Then we use their actuals and crosscheck their quarterly actuals to make sure they are not ahead on expenditure or behind on revenues, again as a global crosscheck just to make sure things are headed where they are supposed to head.

**Hon MAX TRENORDEN:** What would you expect to be looking at in, say, five years' time if you are still sitting in that chair? Will you still be doing the same sort of process or will you be looking to get back to the monthly basis you talked about earlier?

**Mr Marney:** It is speculative and personal opinion —

**Hon MAX TRENORDEN:** I do not want your personal opinion, but where do you think you will develop it to?

**Mr Marney:** Where I would like to end up is to have the disbursement of funds, the overall consolidation and whole-of-government financial management system and the agency financial management systems integrated such that there is not double handling of data across those systems. That would be the ideal, though it is not easy to achieve.

**Hon PHILIP GARDINER:** My question relates to page 310 and it is to do with the dividends from government enterprises, in particular, Verve, Western Power, Synergy and the Water Corporation. They are large numbers. It really goes to the question of structure. We seem to be almost infatuated only with the corporate model; in other words, a corporation model where you have capital assumed and dividends being paid. There is another model which is a well-known and well-used model, a cooperative model. That is where basically the shareholders and the users are the same. You could argue that it is not totally the case, especially in some of the power ones—energy generation ones—but it is pretty close. Because the taxpayer effectively owns the entity and because the consumer is almost the same as the taxpayers who are funding it—I accept there are some differences—have you considered a cooperative entity in this so that you can take out the dividends and effectively reduce the charges that you charge to the consumer as a result? Have you considered that alternative structure?

**Mr Marney:** That is a slightly speculative question.

**Hon SIMON O'BRIEN:** I am wondering how best I can help the member. It is probably more a policy question for the minister that I represent. I am not sure that I will be able to deal with this on the spot without recourse to him. I think I will have to take it on notice.

[*Supplementary Information No A12.*]

**Hon PHILIP GARDINER:** The only other question was another very simple one relating to Gold Corporation. I see that there is a line item for \$2 000. Have I missed somewhere in the budget papers where there is a report about Gold Corporation's earnings or any other expenses and dividends?

**Mr Marney:** Can we clarify the question?

**Hon PHILIP GARDINER:** Is Gold Corporation somewhere here?

**The CHAIR:** At the bottom of page 310.

**Hon PHILIP GARDINER:** There is a line item for Gold Corporation. I think it is only \$2 000. It is only a small amount. Maybe you can come back to me so I can recheck where it was again.

**Hon LJILJANNA RAVLICH:** I want to go back to ports and, more broadly, government trading enterprises. Has the government established a government trading enterprises advisory and monitoring unit and where is that unit located?

**Hon SIMON O'BRIEN:** I think the public utilities office of the Department of Finance is the unit you are after.

**Hon LJILJANNA RAVLICH:** That is good. When was it established?

**Hon SIMON O'BRIEN:** The entity that you referred to?

**Hon LJILJANNA RAVLICH:** Yes.

**Hon SIMON O'BRIEN:** What, the date?

**Hon LJILJANNA RAVLICH:** Yes. You can take it on notice if you do not have it. The entity I referred to is the government trading enterprises advisory and monitoring unit. I understand that the role of that unit is to review government trading enterprises to ensure that the governance and ownership of each of those businesses is appropriate to delivering government policy objectives. Does such a unit exist and is that the broader role of that unit?

**Hon SIMON O'BRIEN:** It is not part of the Department of Treasury. I have indicated to the member where she may like to ask the question.

**Hon LJILJANNA RAVLICH:** I will save it for Finance in the next session.

**Hon KEN TRAVERS:** I have a general question about budget and agencies. I might use page 53, the Legislative Council, as an example for it. I seek some advice from the Under Treasurer. Where does the twenty-seventh pay show up in the statement of financial position or does it show up in the statement of cash flows? I am talking about the money that is held for the twenty-seventh pay.

**Mr Marney:** We are referring to page 53. About halfway down the page there is a class of assets called non-current assets and a subclass called holding account receivables. I understand the twenty-seventh pay is held in that account.

**Hon KEN TRAVERS:** Would it not show up as a liability somewhere as well? Would it not be included in one of the current or non-current liabilities?

**Mr Marney:** I will refer this one to Mr Barnes to respond.

**Mr Barnes:** The holding account receivable item on page 53, which would appear in every agency's statement of financial position, is an asset to the agency so that is money that they are owed by Treasury. There is a corresponding liability within Treasury administered to match the corresponding asset in each agency.

[12.30 pm]

When the twenty-seventh pay rolls around, the agency will draw cash against that asset. That reduces the value of that holding account receivable. At the same time it reduces the value of the holding account liability within Treasury administered.

**Hon KEN TRAVERS:** The actual amount, the future owing, does not appear anywhere in the liabilities of the actual individual agency—it is held against Treasury?

**Mr Barnes:** That is right.

**Hon KEN TRAVERS:** That is what I thought. In terms of accumulated leave provisions, where would they appear in the budget; and, whose responsibility is it to identify what the accumulated leave provisions are—is it the individual agencies or does Treasury do that?

**Mr Marney:** It shows under the individual liabilities of each agency under employee liabilities.

**Hon KEN TRAVERS:** Current or non-current?

**Mr Marney:** I will refer this one to Mr Barnes, noting that we are out of time and he will not be able to answer!

**Mr Barnes:** The short answer is both. Annual leave liabilities appear under current liabilities and long-service leave liabilities appear under non-current liabilities given the time frame.

**Hon KEN TRAVERS:** Looking at the Legislative Council's sheet, the fact that we have negative equity and that our assets in no way even go close to meeting our potential liabilities, how sustainable is that for this organisation or any other department that has a similar set of financial figures?

**Mr Marney:** I suspect that is a question for the leader of the Legislative Council; technically, however, you are insolvent, so I think we are done here!

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**Hon KEN TRAVERS:** My genuine concern—I am asking about it in terms of a broader issue for government agencies using this as an example, because I do not think the Legislative Council is the only one where they basically have now got to the point where they have no assets, they have negative equity and they clearly have liabilities.

**Mr Marney:** In terms of solvency there is a difference between cash position day-to-day basis versus an overall balance sheet position, including all accrued liabilities and expenses. I think the broader answer to the question is there are certain liabilities held individually by agencies which put them under water, and which are covered as required by administered transactions and various Treasury line items through those administered transactions. The bottom line is that people are not hung out to dry in that respect.

**Hon KEN TRAVERS:** I understand that at the end of the day you cover us and hopefully you do not charge us a lending fee for it! It is an issue. Technically, I would not have thought that \$31 000 worth of current assets, if someone who had been around the building for a long time was to leave, that could easily take out their accumulated leave and other liabilities could take that full cash deposit at the end of the financial year. What does an agency like that do in those circumstances if someone was suddenly say they wanted to retire before 30 June?

**Mr Marney:** In that circumstance the entity would make a case to Treasury to draw down funds from the holding account, which would cover those unanticipated expenses. Really, that is what the holding account is there for—to fund those long-term accrued liabilities.

**Hon KEN TRAVERS:** If it is a number of years of annual leave that has accumulated that would have to be from the agency itself?

**Mr Marney:** In part that is what the holding account is for and that is why the agency would have to make a case to draw down from the holding account.

**Hon KEN TRAVERS:** An issue that the Auditor General has raised in the past is the increase in the accumulation of leave liabilities. Is anyone currently monitoring that to ensure agencies are driving it down; and, where would we find the figures that would show us whether that is going down or going up?

**Mr Marney:** I think the figures would be embodied in their accrued leave liability and probably best reported in their annual reports. Is there anyone driving that down and monitoring it? I think there are either Treasurer's instructions or Premier's circulars requiring agencies to have leave reduction policies in place. That is really the key mechanism. Treasury does not as a matter of course monitor whether agencies have leave reduction policies in place, but we certainly take an interest in their accrued leave liability.

**The CHAIR:** The committee will forward any additional questions it has to you in writing, via the minister, in the next couple of days to go with the transcript of evidence, which includes the questions you have taken on notice. If members have any unasked questions, I ask them to submit them via email to the committee clerk at the close of this hearing. Responses to these questions will be requested within 10 working days of receipt of the questions. Should you be unable to meet this due date, please advise the committee in writing as soon as possible before the due date, including specific reasons as to why the due date cannot be met.

Finally, on behalf of the committee I thank you very much for your presence this morning. We will close the hearing. For those who are interested, the next hearing is at 1.30 pm and it is the Department of Finance.

**Hearing concluded at 12.37 pm.**

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