

**STANDING COMMITTEE ON ESTIMATES AND
FINANCIAL OPERATIONS**

2014–15 ANNUAL REPORT HEARINGS

**TRANSCRIPT OF EVIDENCE
TAKEN AT PERTH
WEDNESDAY, 27 JANUARY 2016**

**SESSION ONE
DEPARTMENT OF TREASURY**

Members

**Hon Ken Travers (Chair)
Hon Peter Katsambanis (Deputy Chair)
Hon Liz Behjat
Hon Alanna Clohesy
Hon Rick Mazza**

Hearing commenced at 10.38 am

Hon MICHAEL MISCHIN
Attorney General, examined:

Mr MICHAEL BARNES
Under Treasurer, examined:

Mr MICHAEL COURT
Acting Deputy Under Treasurer, examined:

Mr RICHARD WATSON
Acting Executive Director, Economic, examined:

Mr RICHARD MANN
Executive Director, Strategic Projects and Asset Sales, examined:

Mr ALISTAIR JONES
Executive Director, Strategic Policy and Evaluation, examined:

Ms KAYLENE GULICH
Executive Director, Infrastructure and Finance, examined:

The CHAIR: Good morning and welcome. On behalf of the Legislative Council Standing Committee on Estimates and Financial Operations, I welcome you to today's hearing and wish you all a happy new year. We look forward to 2016.

Hon MICHAEL MISCHIN: Thank you. It is great to be here!

The CHAIR: Firstly, can we confirm that the witnesses have read, understood and signed a document headed "Information for Witnesses"?

The Witnesses: Yes.

The CHAIR: Witnesses need to be aware of the severe penalties that apply to persons providing false or misleading testimony to a parliamentary committee. It is essential that all your testimony before the committee is complete and truthful to the best of your knowledge. The hearing is being recorded by Hansard and a transcript of your evidence will be provided to you. The hearing is being held in public, although there is discretion available to the committee to hear evidence in private either of its own motion or at the witness's request. If for some reason you wish to make a confidential statement during today'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 review agency outcomes on behalf of the people of Western Australia, and the committee values your assistance with this. I remind people that today's hearing is considering both the annual report of the Department of Treasury and also the midyear review.

Do any witnesses wish to provide an opening statement or shall we move to questions?

Hon MICHAEL MISCHIN: Move to questions, I think.

Hon SUE ELLERY: Good morning. I start by going to page 163 of the annual report on which you have set out the key performance indicators. Of course the most glaring discrepancy is the difference between what you targeted to predict in terms of mining revenue—employment growth

and real state final demand are in there as well. Given the commentary concerning increasing world iron ore supplies and a slowdown in Chinese steel production and the implications of that for iron ore prices, what is your explanation for the fact that your iron ore forecast was off by some 25 per cent?

Mr Barnes: I might start by just summarising the forecasting methodology we use for the iron ore price, which is essentially a market-driven methodology. It comprises a combination of actual spot prices, forward contract prices and a long-term Consensus Economics forecast. I will just explain that. For whatever year we are in when we strike the forecast—if we take the midyear review that came out in December as an example—we take actual iron ore spot prices in the first five months of that financial year up to the end of November, which is our cut-off date for the midyear review. They are actual spot prices that have been achieved over the five-month period from July to November. Then we take forward contract prices from the Singapore Exchange for the remainder of that financial year. We average out the actual spot prices for the first part of the year, the forward contract prices for the latter part of the year, average those out across the year and that gives us the starting point price for the current financial year that we are in and then we transition that starting price over a 10-year period to a long run Consensus Economics forecast—the long run or equilibrium iron ore price, if you like. That transition happens over 10 years, as I said, in a linear way and that effectively spits out the iron ore price forecast for each of the intervening years across the forward estimates. During 2014–15—you pointed to the annual report, which was for 2014–15 obviously—the iron ore price averaged about \$US71 a tonne, which was down from \$US123 a tonne the previous year, so a 42 per cent decline year on year. We had forecast a decline obviously, but nowhere near that magnitude. We got it wrong because the market got it wrong, essentially. As I said, our forecasting methodology is heavily market driven and is heavily based on those forward contract prices but also the long-run Consensus Economics forecast. The market I think misread in particular the weakness in demand. Steel production out of China is contracting at the moment. I think the market had misread that demand weakness and, therefore, we had as well.

Hon SUE ELLERY: If we go to the four measures that are listed in the table on that page—tax revenue, mining revenue, employment growth and real state final demand growth—given you did the predictions of where you thought those would end up, what is the approximation of how much additional revenue the state would have received if you had been spot on with those target predictions?

Mr Barnes: I cannot quantify that off the top of my head.

Hon SUE ELLERY: Are you able to?

Mr Barnes: Absolutely.

[Supplementary Information No A1.]

Hon SUE ELLERY: Appreciating that you cannot give me the actual figure here and now, you must have some sense of where you thought those would end up. If you had been closer to those targets or even met those targets, what would have been the impact on our operating deficit in 2014–15? Where would it have ended up if your predictions had been right?

Mr Barnes: It certainly would have ended up in a surplus position had our predictions been right.

Hon SUE ELLERY: Bearing in mind what you said about the impact of the market on iron ore, do you compare yourself in terms of your capacity to get forecasting right with other economic forecasting agencies?

Mr Barnes: We try to. We certainly try to compare ourselves against the commonwealth Treasury. It is difficult to an extent because commonwealth budget papers are not overly transparent in terms of forecasting assumptions and methodologies. From what I understand though with discussions with the commonwealth Treasury, they take much more of a judgment-based approach to their iron

ore price forecast and judgement informed by recent averages over a short period in the lead-up to whenever they bring down their budget or midyear review.

Hon SUE ELLERY: I will stick with the commonwealth, but I want to come back to ask about other forecasting agencies. When looking at how you sit in getting your forecasting right compared with them, where do you sit compared with them? Are they accurately meeting their predictions more than Western Australia's Treasury?

Mr Barnes: I do not believe so. I believe that pretty much every forecaster, including private sector forecasters, have been out by a similar order of magnitude.

Hon SUE ELLERY: If I turn to private sector forecasting agencies, do you compare yourself with them in terms of whether they are meeting their predicted targets and to what extent there is a variance?

Mr Barnes: Yes, we do. We certainly monitor private sector forecasts as they come out. I mentioned Consensus Economics before, which I think comes out on a quarterly basis roughly. There are other forecasters such as ANZ, UBS—there are a range of private sector forecasters. We monitor those closely. They do not directly impact on our methodology but we do compare and contrast the forecast that our methodology produces against the forecasts of the private sector. In terms of the accuracy of forecasting performance, as I mentioned earlier it is all very similar. Everybody got it very closely wrong by the same magnitude and I think that reflects the misreading of the demand situation that I outlined earlier. In terms of whether we can learn anything from the private sector forecasters, I have not really seen anything that we can learn from them in terms of the approach they take, but it is something that we actively watch. Also within Treasury we are working on developing our own iron ore supply and demand model. It is still in its early stages and is not yet finished but the intention is that that will be used to bolster out forecasting in this space and to compare what sort of price results our own supply and demand model is generating relative to our current methodology. It is an area that occupies an awful lot of our time; it is obviously a major priority and a major variable for the budget given that every \$US1 fluctuation in the iron ore price impacts our royalties by about \$75 million a year, so it is something we take very, very seriously.

Hon SUE ELLERY: I would expect that it is something that the Treasurer himself takes very seriously as well so are you able to tell me this: in the last 12 months have you received requests, feedback or direction from the Treasurer's office in respect of the forecasting methodology?

Mr Barnes: Our forecasting methodology is independent of the Treasurer and the government. The Treasurer does not intervene, if you like, in the development of our revenue forecasts, and that is across the board with all our revenue forecasts. Obviously he is keenly interested in those forecasts and we brief him on actual revenue collections on a monthly basis and how they are tracking against our forecast. We brief him regularly on the iron ore market. We did brief him at the time on our methodology, but it is Treasury's methodology.

Hon SUE ELLERY: Can I just be clear that while he might be able to direct, all ministers are able to make requests and ask questions. Has he asked you to consider alternatives or provide him advice on how you might do it differently?

[10.50 am]

Mr Barnes: Not to my knowledge. I cannot recall the Treasurer asking us to develop an alternative methodology.

Hon SUE ELLERY: Can I go back to the question I asked earlier about if your predictions had been right what impact that would have had on the operating deficit for 2014–15? Your response to that was that the budget would have been in surplus. I appreciate that you were not able to give me the precise dollar figures, but do you have a sense of if it is a skinny surplus, medium surplus or fat surplus? What are we talking about?

Mr Barnes: Probably a skinny surplus, but I would like to do the numbers and quantify that properly.

Hon SUE ELLERY: All right. Can I just finish off on this line of questioning: Are you maintaining the same targets that you set in 2014–15 in respect of forecasting for the next period of time; and, if not, why not? If yes and you are sticking with the same forecasting, are you tweaking it in any way, shape or form?

Mr Barnes: Sorry, are you talking about the iron ore —

Hon SUE ELLERY: The methodology, yes.

Mr Barnes: The iron ore price methodology?

Hon SUE ELLERY: Yes. Perhaps talk to me about the iron ore price—I do accept the explanation that you gave me at the outset—but also in respect of the other four listed in that particular table that I am referring to.

Mr Barnes: Our forecasting methodologies are constantly under review. They need to adapt to changing circumstances. The iron ore market has changed so fundamentally in recent years that our methodology has had to adapt to reflect those changing market circumstances, but more broadly as well. For example, I am a little concerned that our payroll tax forecasting model has overestimated growth in payroll tax. We have not, I think, picked the change in composition of the labour force in WA and the flow through of that change in composition into our payroll tax revenue. For example, our payroll tax model looks at actual monthly collections during the course of the year. It maps those against the seasonal pattern of collections that we have seen in previous years and then we forecast across the forward estimates based on those actual collections, the historical seasonal pattern and also the forecast growth in wages and employment.

Hon SUE ELLERY: How far do you go back on the historical stuff?

Mr Barnes: Many years; probably a decade at least.

Hon SUE ELLERY: If you were to compare it against the height of the boom, you could imagine that you would be looking at something that was skewed to where we are now, but if you are going further back surely that factors in a time when we were not in the boom.

Mr Barnes: If we deviate further from the historical trend then that becomes more of an issue in terms of forecasting forward, which is where we are at right now. Just on payroll tax, for example, in the midyear review for 2015–16 we were forecasting payroll tax growth of 2.6 per cent, which in itself is very weak historical growth. On average payroll tax has grown by about 11 per cent per annum over the last decade, so 2.6 per cent is weak growth. Payroll tax revenue is marginally negative at minus 0.9 per cent from memory for the six months to December. I think what is happening is, as I mentioned earlier, our model is not picking up changes in the composition of the labour force. This is a bit of a generalisation but effectively we have seen a shift of employment from high paying full-time jobs in the resources sector to lower paying part-time jobs essentially in the services sector. I do not think we are fully picking up that kind of compositional change, which is something we are looking at now.

Hon SUE ELLERY: Are you able to adjust part of the way through a reporting period to pick that up?

Mr Barnes: We only do forecasts at budget and midyear review time. They are our only two opportunities to do that but internally we are looking at this all the time.

Hon SUE ELLERY: I do not have the midyear review in front of me but did you adjust it in the midyear review from what you predicted in the budget?

Mr Barnes: Yes, we did; we wrote it down quite substantially. I guess the risk is, “Did we write it down enough?”

The CHAIR: The number is lower now than it was as revised in the midyear review.

Mr Barnes: Yes, it is.

The CHAIR: Have we done predictions on what impact that will have over the forward estimates if it stays at that level?

Mr Barnes: No, not yet.

The CHAIR: I assume that in setting the average price for the midyear review, you would take what you have actually received up to the cut-off date of 30 November and then you would do a projection going forward. I think from memory you are averaging around \$46 for iron ore and it is currently around \$41.

Mr Barnes: Yes.

The CHAIR: I am trying to understand if that \$46 at that point, and \$41 is what you would have predicted, allowing for the first five months of the financial year, or was it, in fact, that we were below \$46 for most of the first five months of the financial year so in fact you were predicting that the iron ore price would start to climb again? I am trying to get a sense of that prediction and which way it falls.

Mr Barnes: It is really that averaging issue, as I mentioned, so reflecting the first five months of actual spot prices, which were quite a bit higher than what we are seeing now. You are correct in that in the midyear review for 2015–16 we are forecasting a year average price of \$US46 a tonne. To achieve that we need to average an actual spot price of about \$41 a tonne for the rest of this financial year.

The CHAIR: So the current \$41 fits within your current predictions for the rest of this year.

Mr Barnes: Yes it does. For the iron ore price forecasts that we have in the midyear review I am quite comfortable that they are tracking consistently with the current spot price. The oil price is a bit of a different story. It has fallen much more severely and quicker than we had expected. In fact, it is probably the single largest parameter that has caught us by surprise.

The CHAIR: Hopefully by the time you leave the hearing it has not fallen again.

Hon SUE ELLERY: Given the forecasting tax and royalty receipts prediction, how does that compare your forecasting of GST relativities? If GST relativities are a pretty accurately forecast, is it reasonable to determine that in providing financial advice to the government throughout the budget process, GST revenue fluctuations then are relatively easy to manage because your forecasting is much more accurate?

Mr Barnes: I think our forecasting track record on GST relativities has been generally pretty good. Having said that, it is an inherently difficult thing to forecast because it does not just reflect the circumstances in just WA; it reflects our circumstances relative to every other state and territory. Effectively, we have to try to forecast certain circumstances such as revenue-raising capacity in particular in the other states and not in just WA. That is a complication. You also have the complication of the national GST pool, which is forecast by the commonwealth Treasury and not by state Treasury. It is an inherently complicated and difficult forecasting process but, as I said, our track record on forecasting GST relativities has been pretty good.

Hon SUE ELLERY: That is my assessment as well. My advice on talking to our shadow Treasurer, who understands these things much better than I do, is that your forecasting on that is pretty accurate. There is an argument to be made, and I am interested in your view on this, that when you get your forecasting on, let us say, iron ore prices so significantly wrong—I will accept your explanation for it—25 per cent wrong, and you find that out part of the way through the budget process, it is hard to adjust a budget as big and complex and so service driven as a state budget. It is hard to adjust that and to make up that 25 per cent. But when your modelling on the GST is a far

more accurate, what do you say about the notion that it ought to be much easier to manage adjustments in that given that your forecasting is more accurate? If there are variations they are not the 25 per cent variations that we found in respect of the iron ore price. They are much narrower or skinnier, so ought it not be easier to adjust the budget to take account of those?

[11.00 am]

Mr Barnes: Almost mathematically it should be easier, just because of the different size of the relevant revenue bases. A couple of years ago our royalty base was around \$6 billion, in 2013–14. It has obviously fallen significantly since, but it was \$6 billion. Our GST grants are currently, from memory, about \$1.9 billion, so the scale is quite different. A 10 percentage point shift in that GST grant is obviously going to be a lot less than a 10 percentage point shift in our royalty base. Almost mathematically that would be easier to manage.

The other complication with forecasting GST relativities is the inherent volatility of our own source revenue base, particularly royalties. That volatility then flows through with a lag into our GST grants, so when we model GST relativities, or forecast GST relativities, we are trying to pick up those significant swings in things like the iron ore price or the oil price. That volatility can and does also flow through to our forecast of GST relativities, but because the size of the revenue base is that much smaller on GST, it does not have as big a dollar impact.

Hon SUE ELLERY: I am going to adjust some of my questions, Chair.

The CHAIR: Okay, I will go to Hon Peter Katsambanis.

Hon PETER KATSAMBANIS: Thank you. I have a series of questions on the annual report to start with. On page 30 you talk about the streamlined budget process and state that 38 of the 42 eligible agencies have opted into this. Can you tell us which agencies have not opted in?

Mr Court: From memory, the Tourism Commission was one, the Ombudsman was another and the Small Business Development Corporation might have been the other one. That is from memory.

Hon PETER KATSAMBANIS: And there was a fourth as well?

Mr Barnes: We can take that on notice.

[*Supplementary Information No A2.*]

Hon PETER KATSAMBANIS: Okay, thank you. The ones you do know about, why did they not opt in?

Mr Court: I think in the case of tourism, they wanted to put forward a submission in the budget process for consideration of government. The Ombudsman, we had some concerns around their budget settings and similarly with the Small Business Development Corporation.

Ms Gulich: They had some funding submissions they were seeking consideration of.

Hon PETER KATSAMBANIS: They had some reorganisation going on as well?

Mr Court: Yes.

Hon PETER KATSAMBANIS: Okay.

Mr Barnes: It is a choice of the agency whether or not to opt into the streamlined budget process. The whole point of the process, from our point of view, is to incentivise these smaller and generally lower risk agencies to opt out of the normal budget process so that we and the EERC can focus on the bigger and higher risk agencies and issues.

Hon PETER KATSAMBANIS: I understand that, and it makes sense that some of them, if they do have submissions, are not going to opt into it. I just wanted to clarify that so I can see what they were.

Hon Sue Ellery raised the issue of GST. For this current financial year we obtained that extra balancing payment, if you like, from the federal government; I think it was \$499 million.

Mr Barnes: Yes.

Hon PETER KATSAMBANIS: Any indication as to whether that will be coming through again for the forthcoming budget year?

Mr Barnes: That \$499 million was received in June last year, so we actually booked that revenue in 2014–15. That whole issue, I guess, is whether we have a similar deal with the commonwealth this year. I guess it is tied up in broader negotiations with the commonwealth around GST reform.

Hon PETER KATSAMBANIS: And how are those broader negotiations going? What have we been doing to advance those negotiations?

Mr Barnes: Our Treasurer has put a specific reform proposal to the federal Treasurer, and the federal Treasurer is still considering that proposal. We expect that we will receive a response from the federal Treasurer sometime next month as to whether he supports that proposal.

Hon PETER KATSAMBANIS: Over the forward estimates, what is the quantum of additional funds that we are likely to receive if the state Treasurer's proposal is agreed to?

Mr Barnes: In 2016–17, if that proposal is agreed to, it would be in excess of \$800 million additional GST revenue to WA. Across the forward estimates period, from memory, would be around \$2.4 billion over the next four years.

Hon PETER KATSAMBANIS: What percentage would that equate to on a per capita basis or a percentage of GST share basis or whatever?

Mr Barnes: I mentioned earlier that our current GST grant is approximately \$1.9 billion, so you are looking at about an extra \$800 million on top of that.

Hon PETER KATSAMBANIS: It is significant?

Mr Barnes: Yes.

Hon PETER KATSAMBANIS: Is that \$800 million factoring in some of those other relativities or just purely an additional \$800 million, no matter where the relativities fall?

Mr Barnes: The latter.

Hon PETER KATSAMBANIS: The latter. Okay, that is good. Any idea when we might get a yes or a no?

Mr Barnes: Sometime next month we expect; in February.

Hon PETER KATSAMBANIS: Great. I look forward to it and hopefully see if all of us can make some arguments to support that process.

Mr Barnes: That response from the federal Treasurer should be when he issues the terms of reference to the Grants Commission for its 2016 update, and those terms of reference are typically issued in February.

Hon PETER KATSAMBANIS: Excellent. On page 23, you talk about ICT savings and reform. Can you firstly highlight what the reform process in ICT is and then the savings that have been booked and potentially the savings that can be anticipated?

Mr Barnes: I might ask Mr Jones to deal with this one if I can.

Mr Jones: Originally, the program evaluation unit in Treasury was tasked with looking at ICT spend across government. There have been a number of external reports which had Western Australia as one of the poorest performing jurisdictions in terms of its ICT spend. The 15 per cent annual reduction for the largest information communications technology agencies was not in total ICT spend. That total ICT spend is actually unknown. One of the issues we had

when we were looking at ICT was what actually was ICT spend, and part of that is just due to the level of granularity in the budget papers. What we did in that reform—I think it was in the previous budget—was we looked at a historical record of ICT spend contractually in recurrent money. Obviously, if you are looking at making savings in ICT, the profile of a capital spend would be very lumpy, because when you buy a new system, you would have a large amount of money which would drop off. We looked at contracting; that is, basically using consultants in the sector. We took the top 20 agencies. We took the historical spend over a period of time; I think it was three years, from memory. We got this information off the Department of Finance, which actually keeps a publication called “who spends what, where?” We then calculated a 15 per cent annual reduction in that total. We did a few adjustments to make sure that we had not double counted with other procurement savings measures that we had had before. What that did—again, I have not got the budget in front of me, but it saved about \$21 million over the forward estimates, and I can provide the exact amount on notice.

The CHAIR: That would be good.

Mr Jones: A percentage of that money was put into an ICT reform fund. Government then, as part of the work that was done with the Department of the Premier and Cabinet and others and a DG steering committee, put a cabinet submission up. Part of the reform of that was the actual creation of the office of the GCIO. That money that was put in the fund from that spending—a percentage of it—was used to fund the set-up of that. There is also a residual balance in there, which is used as incentive payments for ICT reforms.

[11.10 am]

The CHAIR: Before we go on, I think there was an indication of taking some of the information on notice?

Mr Jones: Sure. I can give you the exact amount of those savings.

[*Supplementary Information No A3.*]

Hon PETER KATSAMBANIS: I have a broader question, but first of all I will drill down to your answer. You talked about the granularity of the budget papers. Please explain that, in perhaps a more user-friendly term.

Mr Jones: Sure. When we are looking at budget papers for our agencies—say, for example, health or education—in terms of the actual amount they spend on ICT, the capital is very easy to track, because we fund them on a business case and they are given a capital amount. What is hard to actually track is recurrent. That is basically salaries, and an enormous amount of overheads, too, things like power, staffing of help desks if they do it internally, and that sort of thing. That does not actually come up in the budget papers. So I cannot go to the Department of Education or the Department of Health and actually figure out from the budget papers how much money they spend on recurrent expenditure in ICT. I can see what they spend in capital. What we could spend when we did the 15 per cent reduction was contracts. That was where they were actually spending money on outside contractors to provide a service.

Hon PETER KATSAMBANIS: Thank you, because that was my interpretation of it; I just wanted to clarify it. In most large private businesses, there would be somewhere within that business that would record that information, probably to a percentage of a cent. So why is it that in large government departments like Health and Education we do not have that capacity to know exactly how much, and where, we are spending on ICT, in what is obviously a very, very, very large spend?

Mr Barnes: If I can take that, that is a key part of the reforms currently being introduced by the Office of the Government Chief Information Officer. I met with the Government Chief Information Officer only the other day. A key part of what he is doing right now is trying to establish that baseline spend in all of those big spending ICT agencies. So he is working with them one-on-one to quantify, to the maximum extent possible, exactly what they are spending on ICT across the board,

capital and recurrent, and certainly on recurrent trying to break that down into the individual components that Mr Jones mentioned. That is underway right now.

Hon PETER KATSAMBANIS: So when they make their capital business cases to you, do they not provide the built-in recurrent funding within that capital case?

Mr Barnes: They typically will provide some ongoing recurrent funding. To be honest, it is an issue that we often have with such business cases—that we are not confident that they have fully built-in the full recurrent costs, say with the capital ask —

Hon PETER KATSAMBANIS: I have been through a process or two like that, yes!

Mr Barnes: So we go back and forth with the agency quite a bit, trying to extract that information out of them.

Hon PETER KATSAMBANIS: Sure.

Mr Barnes: I am hopeful that with the work that the Government CIO is currently doing to establish that baseline spend, that will greatly assist Treasury as well in our assessment of future ICT business cases.

Hon PETER KATSAMBANIS: Has the GCIO requested any further funding, apart from the funding that was freed up through the reform process, to undertake this work?

Mr Barnes: No.

Hon PETER KATSAMBANIS: Does Treasury have any say in where those funds within the GCIO are spent on consultants and models and going forward?

Mr Barnes: That is one of the issues I discussed with the GCIO the other day, and we agreed that as they draw down from that reform fund, which is currently reflected in the forward estimates, that will need to come to the EERC for the EERC to determine how that money is spent.

Hon PETER KATSAMBANIS: That is the incentive part of it, or all of it?

Mr Barnes: No, no; that is all of it.

Hon PETER KATSAMBANIS: Okay. In relation to the incentive part, is there a formula for these incentives, or are they negotiated on a one-off basis?

Mr Barnes: For 2014–15, it was a fixed two per cent of each of the eligible agencies' cash appropriation.

Hon PETER KATSAMBANIS: So they saved X amount —

Mr Barnes: Sorry. Are you talking about the streamlined budget process or —

Hon PETER KATSAMBANIS: No. Mr Jones talked about a series of incentives built into the Office of the GCIO.

Mr Barnes: The government decision was that they were to take proposals—the GCIO was to coordinate proposals from agencies to access the funds, and that they would be released on a case-by-case basis by the government.

Hon PETER KATSAMBANIS: Okay, and those case-by-case bases are what comes to the EERC?

Mr Barnes: Yes.

Hon PETER KATSAMBANIS: Great. I want to get some clarity, or as much clarity as we can, around this, because this is obviously a massive area of spend of the government. As Mr Jones pointed out, there has been some commentary around how we possibly could be doing it better, and we have made a great start, but the more clarity we can get around the process I think will enable us to get the best possible wins out of this so that we have good quality ICT delivered, at an affordable price.

Mr Jones: Absolutely.

Hon PETER KATSAMBANIS: So thank you for that.

Hon SUE ELLERY: Do you mind if I ask a follow-up on the ICT in education?

Hon PETER KATSAMBANIS: No; go for it.

Hon SUE ELLERY: If you think about ICT in education outside head office and district and regional offices, you have 800-odd schools, and they are all reliant now on ICT—ICT is absolutely critical to how teaching is done. The government's policy decision in respect to independent public schools—the majority of schools are now independent public schools—says that they have a board that is accountable for the expenditure of funds. They get a bucket of money. It fits generally within the scope of the student-centred funding model. But how they spend that money on ICT is down to the school, and the board will endorse, or not, whatever the principal puts to them. I can see, to use Alistair's phraseology, how trying to track that would be very grainy indeed, and I wonder if you are actually going to be able to do that. The government has said that autonomy of schools is an important philosophical—an important policy that it wants to implement, and it has said to schools that they can make their decisions. So, schools do it differently. Some schools, for example, will pool their money and employ IT maintenance people to come in and provide a service once a fortnight, or whatever. Schools will do all of that IT maintenance and repair stuff differently. How are you going to track that and at the same time maintain the integrity of a system that says, "Schools, you make your own decisions about what works for you"?

Mr Jones: I can maybe answer some of that. What we find with Education, as an example, is that a lot of their spend will be on software. They have a separate agreement with Microsoft for the provision of Office 365. For example, the system that each school has that tracks their results and tracks their enrolments is actually a project that is underway at the moment. In terms of the discretionary spend that the principal would have, a lot of the money that they receive would be tied up in purchasing the software, which is obviously a policy decision by the department as to what type of software they would purchase. The other systems are obviously funded centrally. That amount is probably not a lot per school. I mean, that is a question that you probably need to ask Education as to what component of it, outside core system and software delivery, is at the discretion of the IPS principal.

Hon SUE ELLERY: I appreciate what you are saying at a kind of macro level, but when you talk to schools, the amount of resource in terms of time and energy, as well as the actual money spent on trying to get systems fixed, that is their biggest frustration. They have two big frustrations, ICT, and parking. Let us not talk about parking at schools today. That is what they would say is the most frustrating and the area where they have least capacity to kind of actually fix it. Anyway, that was a tangent.

Hon PETER KATSAMBANIS: Can I also ask a question around ICT in education. Has any proposal been approved through the ERC or any other process for the creation of the individual student number, unique student identifier, or whatever it is going to end up being called?

Mr Jones: We would have to take that on notice. It is a little bit more complicated. Children in the state system have a number. However, the Curriculum Council actually regulates all students, and that has another number. Whether that number is the same number for both, I cannot tell you; it is not my area of expertise. I know that for data delivery and also for their systems, at the moment they are building a system in the state school system that will allow you to basically take a daily snapshot of what kids are in school at what period of time, and doing what courses, and that has been an issue that we have struggled with, with projecting school enrolment numbers, because people would enrol their kids in two or three schools and they have to basically do a census and then the census has to be checked and cleaned. The system that they are currently building will allow them to manage school enrolments and have a better snapshot of it. Whether the unique

identifier is the one that they use at the moment for state school students or whether it is the SCASA one, I am not sure. That is not my area of expertise; you would have to ask someone else.

[*Supplementary Information No A4.*]

[11.20 am]

Hon PETER KATSAMBANIS: Perhaps that is something I will ask Education next time we have them around. I have one more set of questions.

The CHAIR: Yes, and then we will move on.

Hon PETER KATSAMBANIS: The asset sales program, where are we at with that; and, I guess, just as importantly, who is coordinating it? Is it Treasury? Is it Finance? Is it a combination?

Mr Barnes: I will start off with a high-level response and then Mr Mann may wish to add to that. First cab off the rank, if you like, is Perth Market Authority or Market City. That transaction, we expect, will be executed by the end of March and that is all on track to achieve that time frame. Utah Point at Port Hedland is probably the next one after the Perth Market Authority. We are just about to commence formal market sounding for Utah Point and enabling legislation for Utah Point was introduced into Parliament, I think, in November last year. Fremantle port is still the subject of cabinet consideration of the range of policy decisions around the long-term lease of Fremantle port. That is currently a live cabinet issue, so there is not much I can add to Fremantle port at this stage. They are the three major ones on the go at the moment. The other one is the divestment of up to 40 per cent of Keystart's loan book. Keystart and ourselves are in the process right now of appointing a lead financial adviser for that transaction. The government has approved that proceeding and we are hopeful that that transaction will be completed by around August this year. They are the four major asset sales processes currently underway. Certainly, the first three that I mentioned—Perth Market Authority, Utah Point and Fremantle port—are being run out of Treasury in our strategic projects and asset sales area, and the Keystart exercise is a collaborative exercise between ourselves and Keystart.

Hon PETER KATSAMBANIS: Is there a headline figure on what is expected to be recouped or received for the sale of a chunk of the loan book?

Mr Barnes: For Keystart, 40 per cent of its loan book, from memory—Kaylene may correct me—equates to about \$1.6 billion.

Hon PETER KATSAMBANIS: We have not put a price on what we think we might be able to get for it?

Mr Barnes: No; we are trying very hard not to put numbers out in the public arena, for obvious reasons.

Hon PETER KATSAMBANIS: I think, with those sorts of assets, it is almost a slide rule; once you know what the book is worth there is probably a five per cent variation on the price that you could get, rather than a 50 per cent variation. Most people who understand those matters will be able to calculate it very, very quickly.

Mr Mann: The Department of Lands is separately responsible for managing the land asset sales program. You may recall, in the 2014 initial asset sales announcement, 20 high priority properties were identified, particularly those associated with all the health sites. A number of those and other sites have been progressed. I think about five or six properties have been sold to date and Lands is working with other agencies on that ongoing process, which will continue over time.

Hon PETER KATSAMBANIS: I am glad you mentioned Lands because that is the next question I was going to ask.

The CHAIR: Before you go on to that I have a question on Keystart.

Hon PETER KATSAMBANIS: All right; and I will come back.

The CHAIR: I am still trying to understand how there is a benefit to the state of selling the loan book for Keystart, because as I understand it the clients of that loan book will still deal directly with Keystart; is that correct?

Mr Barnes: Yes.

The CHAIR: So where is the benefit to the state by selling that loan book?

Mr Barnes: That transaction will be essentially net debt neutral, because we remove \$1.6 billion in gross borrowings off our balance sheet, but we also remove the equivalent underlying financial asset, which is the mortgages over the properties. So, in a net debt context, it will be a broadly neutral transaction. The benefit really is in reducing our gross borrowings and, I suppose, the potential interest rate exposure to our level of gross borrowings. The ratings agencies have in recent years been increasingly focused on gross borrowings not just net debt, and that was really behind this Keystart transaction.

The CHAIR: As I understand it, Keystart pays a dividend; in fact, one of the issues is what dividend they will pay now that you have increased their loan guarantee fee on them, and that is still unclear. It runs around the \$60 million a year. Next year you are predicting them to pay you \$170 million in dividend, so I am assuming that once you sell the loan book you will lose that dividend in future years, too, will you not?

Ms Gulich: A portion of it; so the current loan book at the \$4.2 billion mark pays the dividend you mentioned. If you take out 40 per cent of the dividend, it is less, and that is the proportional side. That is part of the numbers that will be taken into account arriving at the final decision to progress with divestment. The loss of dividends versus the benefit to the gross debt and the changed risk profile of the underlying loans that are retained is all the work that, once we get our lead financial advisers on, we will be finalising and combining that with market sounding and what the private market can do.

The CHAIR: I cannot imagine the private sector will be able to get its capital any cheaper than the state can. I am still at a loss, if you remain the primary face between the borrower and their loan, other than reducing gross capital borrowings, if you have got a sound income stream and, to date, my understanding is that the interests are variable, so if interest rates go up then you are able to increase the interest rates on Keystart loans; they are not fixed rates. Other than the chance that you might get a slightly higher default on those loans, I am still yet to understand where there is a real benefit to the state and how we, as members of Parliament, will know what that real benefit is before it is sold. Can anyone enlighten me?

Ms Gulich: I think one of the areas, as the Under Treasurer said, is with rating agencies being concerned with the growth in gross debt. One of the major contributors to that over the last couple of years has been Keystart. Prior to 2008, the Keystart loan book was down in the low \$2 billion area; it has doubled over that period of time. Part of this exercise is about rebalancing the loan book back to historical trends, which then deliver the historical level dividends the Housing Authority has been paid and then reducing the risk of exposure to interest rates and reducing the risk of exposure in the loan book. A large loan portfolio has different categories of risk within that and that is part of what we are looking at and what portions of those risks we divest and which portions we retain.

The CHAIR: Is not there a risk though that the actual amount you receive for selling the loan book will be less than what you would have got in dividends by keeping the loan book?

Ms Gulich: That is part of what the analysis would be going forward.

The CHAIR: How is that going to be open and transparent? What is the process to ensure that is an open and transparent process or is it going to happen behind closed doors and we will be told one day that it is sold and it is commercial-in-confidence and we cannot get any of the figures about it?

Ms Gulich: It requires approval by cabinet to proceed with the final divestment and prior to that there are several stages requiring the Minister for Housing and the Treasurer's concurrence. The same with most of our transactions; there are gate stages in the approval process.

The CHAIR: So the cabinet will know what is going on, but what about the Parliament? Is there a process to inform the Parliament of these factors?

Hon MICHAEL MISCHIN: That will be a matter for the Treasurer, as I understand it.

The CHAIR: Can you take it on notice as to what the process is to engage with the Parliament or its committees as to how this will be of long-term benefit to the state?

Hon MICHAEL MISCHIN: Yes.

[Supplementary Information No A5.]

Hon RICK MAZZA: I have one question on that subject, if I can, please, Chair. Just with the sale of that loan book, are you intending to sell it dollar for dollar or at a reduced rate?

Ms Gulich: Again, that is something that has to be worked through in terms of what the market is willing to pay. Our starting point is dollar for dollar. It is a reasonably common financial market-type transaction that is well understood by the kind of parties we will be working with. Again, our lead financial advisers will give us that technical expertise and that is part of that analysis that will come into that next decision gate that is subject to government.

[11.30 am]

Hon RICK MAZZA: So your starting point will be dollar for dollar; is there any indication where you will go to on that? I mean, is the state prepared to take a cut?

Hon MICHAEL MISCHIN: That is a matter for negotiation, I would have thought, assuming that the matter proceeds; that would be speculative. Plainly, the idea is to get as good a deal as possible for the state.

Hon RICK MAZZA: Sure.

The CHAIR: Yes, but holding it might be the best deal possible.

Hon PETER KATSAMBANIS: I am sorry to get overly, deeply into this, but Keystart, will their financial reports net out net tax equivalents? Will there be a calculation—an income and capital split and therefore a net tax equivalent—within the books of Keystart upon the sale of a loan book? I know it is an esoteric question.

The CHAIR: It will be a benefit to the commonwealth and an expense to the state.

Hon PETER KATSAMBANIS: No it will not be, because we just report out—they sort of report on an equivalent basis, do they not? They pay that dividend to the state.

Mr Barnes: Keystart does not pay a tax equivalent payment to the state.

Hon PETER KATSAMBANIS: They do not?

Mr Barnes: No, they do not. They pay an annual dividend, but they pay that directly to the Housing Authority, not into the consolidated account.

Hon PETER KATSAMBANIS: So they pay their dividend to the Housing Authority?

Mr Barnes: Correct.

Hon PETER KATSAMBANIS: Do they pay a tax equivalent?

Mr Barnes: No, they do not.

Hon PETER KATSAMBANIS: They do not; okay, then my question, I guess, becomes irrelevant. That is probably a benefit that will be derived that is an additional benefit that would not be derived if Keystart was not a government-owned corporation.

The CHAIR: It will be a benefit to the commonwealth.

Hon PETER KATSAMBANIS: No, not to the commonwealth, they are not involved in it.

The CHAIR: Once it is sold off, there will be corporate company tax paid to the commonwealth on any profits made out of the loan book, whereas those profits currently go to the state as a dividend or retained earnings.

Hon PETER KATSAMBANIS: We will get a capital equivalent to those in the process upon the sale.

Mr Barnes: Yes.

Hon PETER KATSAMBANIS: I assume our advisers are competent and able to calculate that and make sure we derive that benefit rather than give it to —

Hon MICHAEL MISCHIN: That is certainly the objective.

Hon PETER KATSAMBANIS: Yes, exactly I am making the assumption that —

The CHAIR: Just before you move off that, the other thing was that you introduced the loan guarantee fee, which is about \$125 million over four years, on to Keystart. As a result of the midyear review, you have revised that by about \$60 million, but you are still expecting to collect about \$60 million loan guarantee fee that would have previously gone through as dividends to Keystart for the Housing Authority to build new houses, but what I find interesting is that even though they are still going to pay you \$60 million in the loan guarantee fee, there have been no changes to the dividend that you expect to receive from over the next four years. How does that work? When we asked the Housing Authority, they said, “You’ve got to ask Treasury.” Can you tell me how you can take money out of them and they will still be able to pay you about \$60 million over the next four years in a loan guarantee fee that comes off their bottom line and they will still be able to pay you the same degree of dividend they were previously going to without that loan guarantee fee. How does that magic work, because I want some of it?

Ms Gulich: With the lower loan guarantee fee that the government has now been collecting, it is based on new loans, as opposed to the whole loan book, so that will phase in over time. In the earlier portion of the forward estimates it will be managed from lower retained earnings by the Keystart entity, so they will pay a higher interest expense to the Housing Authority, which passes on Treasury Corporation, and then maintain the dividend level. Outside the forward estimates, as a portion of loan guarantees starts to increase with the balance of new loans relative to older loans, the dividend amount will have to be revisited to make sure that it is leaving an appropriate level of cash and retained earnings within Keystart to meet their equivalent of credential requirements.

The CHAIR: Currently the retained earnings are held for capital adequacy guarantee, right? That is to manage their risk.

Ms Gulich: Yes.

The CHAIR: So, what you are saying to me is that you are going to take that money out as income to the state that will then just go into the consolidated account. Where will you put aside cash to manage that risk; or, are we simply carrying that risk now on our books without a capital component to protect the state in the future for those loans defaulting?

Ms Gulich: Keystart used to retain a portion of cash, they still got —

The CHAIR: Yes, you are reducing it. You have just said you are reducing that; that is how you are going to get your \$60 million.

Ms Gulich: Which is where, again, outside the forward estimates, as we go into the 2019–20 years as part of this budget cycle, that is one of the series of questions we have posed to Keystart: How does that need to rebalance? Is your board comfortable that you are still retaining the right

level of cash for your risk profile? With the divestment coming through possibly by August–September this year, that is something that will be revisited again.

The CHAIR: Their response is what you say, which is, “Because we are paying the loan guarantee fee, we do not manage as much risk because loan guarantee fee manages that risk.” But what I want to know is: where does Treasury then put money aside to manage that risk; or, are we simply getting capital that is currently managing that risk and using it to underwrite recurrent expenditure, which does not sound like very sound economics to me in a state that has already got financial difficulties? You know, it is a very short-term sort of dodgy-economics approach to managing risk, so you just hoping on a wing and a prayer and spending the money in the short term.

Mr Barnes: This is excess capital above their required capital adequacy ratio.

The CHAIR: It is capital they have traditionally held to manage their risk.

Mr Barnes: Yes, but above their required capital adequacy ratio.

The CHAIR: But we have just heard that they are changing the capital adequacy to allow them to pay you that \$60 million, so they are reducing their capital adequacy.

Ms Gulich: No, they are comfortable with their capital adequacy at this point in time. We will be keeping a close eye on it subject to the divestment process and as the build-up of the loan guarantee payable on new loans shifts the balance.

The CHAIR: So, they are not making any change to the percentage of capital they hold against their loan book? I thought the excess capital is why you get \$117 million instead of \$60 million in the dividend next year.

Ms Gulich: That was negotiated with the Housing Authority and Keystart, based on —

The CHAIR: That was prior to the loan guarantee fee coming in and you still have not changed it.

Ms Gulich: Keystart and their board have said they are comfortable with the level of adequacy they are retaining, but again, it is something we will be monitoring on a biannual basis as part of both the midyear review and the budget processes.

Hon PETER KATSAMBANIS: Going back to where we diverged from when we were talking about asset sales and we were talking about the process of the Department of Lands, the Department of Lands has come out now with their guidelines for unsolicited bids for the sale and lease, I think they called it, of land assets. What was Treasury’s involvement in that process—in developing the guidelines for the sales?

Ms Gulich: We have worked very closely with the Department of Lands in preparing guidelines. We have looked closely at other jurisdictions with a view of having a possible whole-of-government unsolicited bid process being developed. Particularly in New South Wales, Victoria and Queensland, we have looked at those. When the Department of Lands have the opportunity in the land sales or land transaction area, we provide them with all of our background research. We work with them in the development of the guidelines they have created and we provide feedback and an iterative process to ensure that the guidelines were consistent with the other jurisdictions, consistent with the what the market was seeing with unsolicited bid proposals and was not going to be excessive or overly arduous in terms of being able to monitor and respond to the bids when they come in.

Hon PETER KATSAMBANIS: So who keeps the money from the process? Does that stay within the agency or is that going to be booked?

Ms Gulich: If there is a transaction that arises out of the unsolicited bid process —

Hon PETER KATSAMBANIS: I assume we have created the process so we can get some bids.

Ms Gulich: Yes, and support. The money will be returned to the consolidated account as per normal land transactions.

Hon PETER KATSAMBANIS: Great, given that we have got this process for lands, does that mean that a decision has been made not to extend the process across the whole of government?

Mr Barnes: Yes.

Hon PETER KATSAMBANIS: That has been made, so we will not get any other unsolicited bids frameworks outside of that one?

Mr Barnes: That is my understanding.

Hon PETER KATSAMBANIS: What is the reason for not doing, certainly, what Victoria and New South Wales—I am not sure whether other states have done it? Victoria and New South Wales have got a whole-of-government policy.

Mr Barnes: I cannot really elaborate other than it is a decision of cabinet to confine it to the land sales process.

Hon PETER KATSAMBANIS: In consideration of these proposals that may come in, these unsolicited bids, what will Treasury's ongoing involvement be?

Mr Barnes: Keeping track of the money.

Hon PETER KATSAMBANIS: So you will not have any involvement in the negotiation stage?

Mr Barnes: Not with the sales of those land parcels.

The CHAIR: Is there any land that we have not already got on the market under the fire sale anyway?

Ms Gulich: We own 93 per cent of the state!

The CHAIR: So, you are going to try to sell the Simpson Desert; is that the hope, someone will buy the Simpson Desert? There is not much saleable land with a market value that does not seem to already be on the list of potential sales.

[11.40 am]

Hon PETER KATSAMBANIS: I will conclude there. I have taken up a fair bit of time.

The CHAIR: If members do not mind, Hon Sue Ellery needs to leave, so I might just give her one last question before any others.

Hon SUE ELLERY: Thank you very much, members of the committee; I appreciate that.

Can I turn to the midyear review? It included the announcement of a freeze on permanent public servant positions for six months. With respect to the education portfolio, teachers are exempt from that, but everybody else at a school is not and so is captured in that decision. Every school has to have a principal and, so, if the principal's position is vacant, there has to be an acting principal. Every school is characterised as being at a particular level based on a range of factors—for example, enrolment numbers et cetera—and principals' pay is linked to the level of the school. Let us say the principal at a level 5 school is paid according to that level. There has to be an acting principal; it is just a requirement that every school has to have a principal. How is money saved in that freeze?

Mr Barnes: In situations where prior to the announcement of the recruitment freeze in the midyear review there was already an acting principal in place, then the position is that that acting arrangement will need to continue post-30 June. In situations where there was not even an acting principal in place at that point in time and the position was vacant, the Minister for Education is able to seek exemption requests from the recruitment freeze from the Treasurer. Those requests for exemption are coming in. We are assessing them currently. They will be a decision for the

Treasurer, obviously. But in the case of principals where there is a vacancy at a school, we certainly take your point that these are legislatively required positions, so it is a bit of a tricky one.

Hon SUE ELLERY: Yes. I do not see how you can save any money out of it, because you are required to fill the position and the position is linked to the classification of the school.

Mr Barnes: Yes.

Hon SUE ELLERY: There is no flexibility in that. It would seem odd to me that when you worked out who the exemptions would apply to and who they would not apply to, you did not have in front of you information from the respective agencies about where you had flexibility and where you did not—where you had legislative requirements that had to be met.

Mr Barnes: Sorry, member; I missed that.

Hon SUE ELLERY: I appreciate that. It seems odd to me and I guess I would ask you what level of advice you got from the respective agencies about how practical that freeze was, because when it comes to principals' positions, you have to have a principal. Lots of schools have acting principals; that is not unusual.

Mr Barnes: Yes.

Hon SUE ELLERY: But you are not going to save any money out of that.

Mr Barnes: No.

Hon SUE ELLERY: Did you have that advice before the midyear review announcement was made?

Mr Barnes: No. We did not seek advice from agencies prior to the announcement in the midyear review.

Hon SUE ELLERY: Clearly.

Mr Barnes: To be honest, we did not want to give agencies a heads-up that this was coming their way because, unsurprisingly, their response would have been to go out on a massive hiring binge to beat the commencement of the recruitment freeze. So that was deliberate. I guess the approach taken here, as it was last time we had a short-term recruitment freeze, is to cast the net as widely as possible and then put the onus on the relevant agency and minister to make their case for an exemption and then each exemption is considered on its merits.

The CHAIR: And if a few dolphins get caught in the process, who cares?

Hon MICHAEL MISCHIN: Not necessarily. Plainly, if there is a legislative requirement that a position be filled, then that is an exemption to the policy. The policy is subordinate to the requirements of law and the imperatives of that agency.

The CHAIR: But what is happening, as I understand it, in the education department is there is a number of them. We see it all the time, as members of Parliament. Principals change. They are in the middle of the recruitment phase. That has now been put on hold and in six months' time, they will have wasted all of that money they spent on recruitment because they will have to start again to appoint a principal that you needed to have appointed. In fact, it is going to cost the state money.

Mr Barnes: Mr Chair, several of those cases, and only several—probably two or three—have been brought to the Treasurer's attention to date, and they are under active consideration. That is pretty much all I can say.

Hon SUE ELLERY: It is a no-brainer, it seems to me, of what he needs to consider. Thank you for that opportunity.

Hon RICK MAZZA: Just on page 50, it states that 47.5 per cent of your staff have been there for less than five years, which is above the WA public sector average. Is that something that is typical of Treasury or is it something that has actually arisen in recent times?

Mr Barnes: I think it has arisen in more recent times for a couple of reasons. One is that in the last few years, we have had a number of retirements of very experienced and senior people. We have had a number of senior people transferring to other agencies or being promoted into other agencies, so we have lost a fair bit of experience just, it just feels like, in the last two or three years. At the same time, our turnover rate has picked up a bit. Believe it or not, other agencies tend to find Treasury staff an attractive proposition to bring into their agency, so our staff are fairly actively sought by a number of agencies across the public sector. It is that loss of long-term experienced people in the last few years, largely through, as I said, retirements but also promotions into other agencies, coupled with an increasing turnover rate largely reflecting more junior staff or probably middle staff also being promoted into other agencies.

Hon RICK MAZZA: What sort of effect on the department has that sort of brain drain had?

Mr Barnes: To be honest, it has been a challenge. It has probably put a bit more stress than usual and a bit more onus than usual on the executive team that sits before you now to be across a lot more detail than in previous years. I suppose the corporate knowledge has been concentrated in a fewer number of people.

Hon RICK MAZZA: Just on page 61, there is ethics, accountability and integrity, and you have put a number of people through courses. I see 80 per cent of the staff attended accountable and ethical decision-making. Is it planned that all the staff will eventually attend that?

Mr Barnes: Yes, it is.

Hon RICK MAZZA: Just on staff turnover on page 102 in relation to severance payments, which are down from just over \$2 million to \$139 000, can you explain the difference there? It is quite a drop.

Mr Barnes: I think, member, the answer is that in the 2013–14 year with that \$2 million cost, there was a general severance scheme available across the public sector and a number of our staff accepted voluntary severances under that scheme. In 2014–15, there was another severance scheme available, but it was targeted to specific agencies. Treasury was not one of those agencies. However, there was a very small number of the funded severances that were left over for, I think, 100 out of 1 500 severances for any other agency to put their hand up and utilise those 100 surplus severances. I think, from memory, we might have had one severance payout in 2014–15. So that is the difference—an effectively open-ended severance scheme in 2013–14, which a number of our staff took up, and then in 2014–15 a targeted scheme that Treasury was not one of the specified agencies for.

Hon RICK MAZZA: Just on page 148, I see that your superannuation expenses have dropped from \$606 million in 2014 to \$372 million in 2015, which is, again, a significant drop in superannuation expenses. Can you explain that?

Mr Barnes: I think it would reflect that number of retirements that I mentioned earlier—quite a number of senior people who had been in the department for many, many years. There seemed to be a short period of time when they all retired pretty much at once, and I think that is reflected in that superannuation expense.

[11.50 am]

Hon RICK MAZZA: Just on payroll tax, I know Hon Sue Ellery spoke about it earlier, but I have just a couple of questions on payroll tax and land tax. With the payroll tax I see that on 1 July 2015, I think it was, any payroll over \$7.5 million no longer gets any of the exempt portion. How much extra revenue do you think you will get out of that?

Mr Barnes: From memory, that was announced in the 2014–15 midyear review, which I do not have a copy of in front of me; I do not know if anyone else does. The revenue estimate for that measure is published in the 2014–15 midyear review.

Hon RICK MAZZA: All right. I also see that the slight increase from \$800 000 to \$850 000 for that exempt amount has been deferred until the middle of next year. Is that, again, a substantial saving for the Department of Treasury?

Mr Barnes: I think it is back on the original timetable now. Correct me if I am wrong, Richard Watson, but the exemption threshold was increased from \$750 000 to \$800 000 from 1 July last year —

Mr Watson: Correct.

Mr Barnes: — and is scheduled to increase again from \$800 000 to \$850 000 from 1 July 2017, which I believe was the originally announced commitment of government.

Mr Watson: Yes.

Hon RICK MAZZA: Okay. With land tax, the change we recently had to land tax, what is the expected increase in revenue out of land tax?

Mr Barnes: The most recent change to the land tax scale was announced in the 2015–16 budget; my colleague here will find that. From memory, that was about a 24 per cent increase in land tax through the adjustments that were made to the land tax scale, and we will just find the revenue back to that year.

Mr Court: It was \$826 million over the forward estimates period.

Hon RICK MAZZA: Right, so almost another \$1 billion. Right, Chair, that is all I have on that for now.

Hon ALANNA CLOHESY: Can I turn to resource agreements—not the mineral resource agreements, but resource agreements between agencies and Treasury where agencies set out the services they are going to provide on behalf of the state and their financial projections and targets and performance targets. There are 70 of those resource agreements per year. Can you give me some details? Prior to this financial year there had been significant delays in agencies submitting those resource agreements, and those resource agreements, as you outlined in the annual report, are important financial governance tools.

Mr Barnes: Yes.

Hon ALANNA CLOHESY: Can you describe for us the kinds of impacts those significant delays in agencies submitting those resource agreements have had and explain why agencies have not been submitting resource agreements on time to enable Treasury to do its work?

Mr Barnes: Sure. As you sort of pointed out, there is a case study in the annual report about the progress we have made over the last year or so with respect to resource agreements, particularly in terms of their timeliness. In terms of what the previous delays were meaning, it is difficult to say because to one extent, a resource agreement does no more than confirm what has already been approved by cabinet for the agency, and what has already been reflected in the relevant budget for that agency, so it does no more than confirm that. The intent of these —

Hon ALANNA CLOHESY: So why have them then?

Mr Barnes: I guess the intent is to try to put some personal accountability onto the relevant director general, in particular, by getting he or she to sign their name to it, so it becomes effectively a contract between that DG and myself and the Treasurer, and the relevant minister. So it is trying to drive that personal accountability, I guess. We have put quite a bit of effort over the last 12 or 18 months into the whole resource agreement process, certainly making them more timely. There is a chart on page 41 of the annual report that demonstrates the success we have made in that space. But we have also implemented a process to keep resource agreements alive during the course of the financial year. Previously, a resource agreement was struck once per year, which was at budget time or straight after budget, and they were never revisited, despite subsequent decisions or changes to

the agency's budget that were agreed during the course of the financial year, so the concern there was that they just became a document that was done as a process at budget time and put on the shelf and forgotten about for the rest of the year, so that was our concern. We are now keeping these things a live contract, if you like, between the agency and Treasury, and —

Hon ALANNA CLOHESY: How are you doing that?

Mr Barnes: We are updating the resource agreements following the midyear review, so I have just written out to all directors general advising them of their updated resource agreement targets following the agreed decisions reflected in the midyear review to keep it front and centre in their mind, hopefully, and then when we bring down the 2016–17 budget in May, that will also update agencies' budgets for 2015–16, so that will be the third time we will update agencies' 2015–16 resource agreements. We do it initially at the time of the 2015–16 budget, and we update it at the 2015–16 midyear review and then we will update it again at the 2016–17 budget. So those three key updates during the year, we will formally update resource agreements and, as I said, hopefully keep them in front of mind for DGs.

Hon ALANNA CLOHESY: It is fairly concerning, is it not, that a primary financial governance tool has not been adhered to in the past? Obviously your concern is reflected in trying to change that a little bit. What other financial governance mechanisms have been in place in order to ensure agencies are accountable to Treasury?

Mr Barnes: Typically, at the end of each financial year when we finalise that financial year's results and we bring down the *Annual Report on State Finances* in September of each year, we will report to the Treasurer or report to the EERC on spending variances, so comparing for each agency where there has been a material discrepancy, comparing the actual expense outcome for that agency relative to their most recently approved expense outcome. I suppose it is effectively a bit of a naming and shaming exercise and then EERC will take whatever action it deems necessary; sometimes that will include calling the relevant agency and minister in to please explain, but really, that is up to EERC.

Hon ALANNA CLOHESY: Is that the case for major projects, or is that simply again resource agreements?

Mr Barnes: Similar to the reporting process through to EERC, so through Mr Mann's area we coordinate a major project report on, I think, a quarterly basis.

Mr Mann: Correct.

Mr Barnes: That gets presented to EERC at the end of each quarter and, again, we highlight where or if there have been any material discrepancies in terms of timing and/or budget, and then EERC takes whatever action it deems fit.

Hon ALANNA CLOHESY: In that regard, how many times was Fiona Stanley Hospital up for discussion in relation to its budget and the management of it?

Mr Barnes: So many times over so many years, I could not give you an answer!

Hon ALANNA CLOHESY: Okay. So what did we end up with in the end in terms of the total overspend?

Mr Mann: Of the capital budget? Marginally under budget relative to the approved business case capital funds —

Hon ALANNA CLOHESY: Which business case?

Mr Mann: The December 2007 business case—the final approved business case.

Hon ALANNA CLOHESY: And the operating budget?

Mr Mann: The operating budget is not my area. It might be a question for the Minister for Health.

Mr Barnes: There is no separate operating budget for Fiona Stanley Hospital; it is part and parcel of health's overall activity-based funding settings.

Hon ALANNA CLOHESY: Could we get a copy of a template of the resource agreement plus what you are now communicating with DGs? We have an understanding of financial governance —

Hon MICHAEL MISCHIN: I understand that is not a problem.

[Supplementary Information No A6.]

Hon ALANNA CLOHESY: That is all on that, I think, if you want to go onto a different issue. I have other issues.

The CHAIR: I might do a couple and come back to you, if that is all right.

I just want to talk about our favourite subject from our last hearing, the stadium. At that hearing you mentioned there was a contingent liability and then you subsequently advised us of a correction. In questions I asked prior to this hearing, I asked for the estimated revenue and expenses in the state and the comprehensive income for the Perth Stadium for the years through to 2018–19. In the answers you provided you only indicated up to 2017–18, which I assume is purely construction costs. Is that correct?

[12 noon]

Mr Mann: Yes, up to that point.

The CHAIR: Is anything allocated in the statement of comprehensive income for years beyond 2017–18? If so, why was that not provided to the committee?

Mr Mann: As far as I understand, Chair, no, there is not.

The CHAIR: In terms of any ongoing operating subsidy that is required beyond that, there is no provision for that as a contingent liability anywhere in the budget papers.

Mr Barnes: Chair, I am sure you probably noticed that we did flag it this year in the midyear review as a risk.

The CHAIR: But is a value attached to it in terms of contingent liabilities anywhere within the documentation?

Mr Barnes: No, not a quantified value.

The CHAIR: If that is the case, are you still confident that stadium revenues will be able to cover life cycle maintenance and running costs and still meet the terms of the users—the West Coast Eagles and the Fremantle Dockers in particular—who are getting similar returns to what they currently receive?

Mr Mann: Yes. The current financial model shows that to still be the case. A number of parameters still need to be confirmed. Number one, we are close to the appointment of a stadium operator, which will confirm a portion of the recurrent operating costs. We have concluded the substantive commercial negotiations with cricket but negotiations are still on foot with football, which is the key user; they are very well advanced. Whilst that has provided us with more refined information for input into that financial model, it is not final. But on the basis of all that information to date, our financial model shows that we remain confident that we will be able to meet the current operating costs, including life cycle maintenance costs.

The CHAIR: And without any government contribution?

Mr Mann: Without any additional subsidy. I do stress that is in respect of the recurrent operating component, not the capital financing component of the quarterly service payments for the stadium design build finance model.

The CHAIR: I thought the quarterly service payments were part of the model and that they would be included. Is that a separate amount?

Mr Mann: It is the same principle as for government-funded capital infrastructure under conventional procurement. It has always been the case that the capital component of that cost would be separate.

The CHAIR: When will those payments commence?

Mr Mann: They will commence from the commencement of operations at commercial acceptance.

The CHAIR: So early 2018.

Mr Mann: Correct.

The CHAIR: Is there provision in the budget papers for the payment of those capital costs?

Mr Mann: My understanding is that that will be addressed in this forthcoming budget as part of VenuesWest's submission.

The CHAIR: Why is that not listed as a contingent liability in the current budget papers because you signed the deal? You are saying that a material payment that the state will have to make on an annual basis is not shown in the budget papers.

Mr Mann: The accounting treatment for that payment stream is in the form of a finance lease, which is recognised in the budget papers.

Mr Barnes: The finance lease and hence net debt liability is fully reflected in the current forward estimates.

The CHAIR: As a net present value figure?

Mr Mann: Yes, it is, in that first year of commencement.

Mr Barnes: The repayment of capital that Mr Mann is referring to will chip away at that finance lease liability over time.

The CHAIR: When will we know what the annual payment will be by the state to the builder of the stadium? When will we know the exact amount on an annual basis and when will it be recorded in the budget papers?

Mr Mann: Perhaps I will take that on notice and confirm the treatment. My understanding is that VenuesWest's operating costs will be reported as a consolidated number and are not venue specific.

The CHAIR: Will we be able to get a venue-specific figure for the ongoing annual repayments for the capital component of the stadium; if not, why not?

Mr Mann: Certainly as has been discussed with this committee previously and in Parliament on a number of occasions, the breakdown of the payment stream under the design build finance maintain contract for Perth Stadium is confidential and will not be provided.

The CHAIR: If that is the case, is there not a requirement for you to go through a process with the Auditor General if you are not going to include material? Have you followed that process with the Auditor General to date?

Mr Mann: Yes, we have. In respect of a number of separate requests for information in respect of Perth Stadium, those have all been referred to the Auditor General.

The CHAIR: Under the Government Financial Responsibility Act if you withhold information from the budget papers—you are telling me you are doing that because it is confidential—there is a requirement for you to take a proactive position with the Auditor General as I recall.

Mr Mann: That is a separate question. I do not think we are withholding information from the budget papers. We are reporting in accordance with established convention.

The CHAIR: Other than making an assumption based on how much the VenuesWest subsidy jumps for the 2019–20 financial year, that is the only way we will ever know the cost of the annual payments to the stadium operator.

Mr Mann: And I think potentially the reduction in finance lease liability over time. We can check that mechanism and report back by supplementary information.

The CHAIR: We have covered a range of issues, so if you can take all of those and answer them as part of A7.

Mr Mann: In respect of the ongoing budget reporting of operations.

[Supplementary Information No A7.]

The CHAIR: I turn to the future fund. I note that you report where you have the money invested and as of March 2015 you started to invest in WA Treasury Corporation bonds. Is that correct?

Mr Barnes: That would be correct, Chair, yes.

The CHAIR: How does the state buying its own bonds provide a return to the state over and above the cost of finance? It has always been the principle that you would get a greater return than the estimated cost of alternate finance. How do we make money by buying our own bonds?

Mr Barnes: In terms of the investment outcome, that has been the outcome since the inception of the fund that returns on the future fund have exceeded the Treasury Corporation's cost of funds by an average of about 40 basis points since inception. With respect to the WA Treasury Corporation bonds, as at 31 December 2015 the future fund had a balance of just over \$1 billion, of which \$203 million was invested in WA Treasury Corporation bonds.

The CHAIR: About 20 per cent.

Mr Barnes: I guess the answer is twofold; it is a good question. Obviously the WA Treasury Corporation needs to issue debt at the moment. Our bonds are currently attracting quite an attractive yield for investors. Our bonds are generating a higher yield than most if not all other states currently. By the future fund purchasing a portion of WA Treasury Corporation bonds, we are achieving both of those objectives in that we are facilitating the Treasury Corporation issuing debt, which it needs to do, and we are facilitating the future fund earning an attractive yield relative to alternative investments.

The CHAIR: Are you talking about buying them as the WATC issues them or buying them on the market as already established bonds?

Mr Barnes: I cannot answer that question, Chair. I am not sure if they have been purchased on the secondary market or as they are issued.

The CHAIR: I can understand how you might be able to buy them on the secondary market, although it is an interesting game in terms of speculating on your own bonds, but if you are buying them at the time of issue, does not that also reflect the interest payments, the cost of capital for us?

Mr Barnes: Yes.

The CHAIR: So how do we then get a net benefit by issuing a bond and buying it ourselves?

[12.10 pm]

Mr Barnes: Through the other 80 per cent of the investment pool.

The CHAIR: So the purchase of WA Treasury bonds is not going to give us the 40 percentage point bonus?

Mr Barnes: If it is at that point of issue, then I think that statement has to be corrected.

The CHAIR: Is there a danger though if we are buying those bonds that we increase the yield on the secondary market, but then when we move out of the market and we are not buying them—we

seem to be a reasonably substantial purchaser of them at the moment—that the yield or the purchase price falls away and then we will incur a loss. If we are in the market buying them and we gave a premium for them and then, over time, we lose that premium it is therefore actually increasing the risk to the state.

Mr Barnes: We are probably getting into an area of detail that is more for the Treasury Corporation than the Treasury, but my view is that that is not a significant risk. Even at \$203 million of WA Treasury Corporation bonds held in the future fund at 31 December, it is a tiny fraction of the total WA Treasury Corporation paper currently outstanding.

The CHAIR: Right. The sense I am getting is that if we are buying them, it is going to be neutral to the state.

Mr Barnes: If it is at the point of issue, then the yield should be matching the cost of funds.

The CHAIR: I cannot understand why we have now started to buy our own bonds.

Mr Barnes: I am not across the detail of the mechanics of how that actually works so I cannot give you too much more information. I would need to revert to the Treasury Corporation itself.

The CHAIR: According to your strategy for investment, the intention is that unless there is a downgrade in the risk or something like that—I guess there is always the potential—I do not think you have to sell so many government bonds or WATC bonds—corporate bonds—if there is a downgrade. Other than that, is it correct that the intention is to generally hold bonds through to their maturity? Is that part of the investment strategy?

Mr Barnes: Yes, that is correct.

The CHAIR: So unless we are trying to trade in them, we will hold them out until the end.

Mr Barnes: Yes, it is a fairly passive investment strategy.

The CHAIR: Are you able to take on notice and give us an answer on what the benefit is to the state from buying our own bonds?

Mr Barnes: Yes, and we will have to get some detail from the Treasury Corporation on the mechanics of how that process actually works: is it at point of issue or is it on the secondary market or not? Yes, we can do that.

[Supplementary Information No A8.]

The CHAIR: I am concerned that it is a paper profit because for your weighted average cost for the cost of your funds you use a 3.575 average year for your bonds, but for the return you use about a four and a half year average weighted figure. Are we simply playing a paper game of pretending we have money when in reality that will be no additional money into that fund? Are we just doing a circular argument of putting money into our own bonds and it remains neutral over the life, in which case why are we spending money on creating the bonds as there would be an administrative cost in just establishing the bonds? We would be better of keeping the money in the bank, would we not?

Mr Barnes: We will try to address that as part of the supplementary information.

The CHAIR: We will make that all part of A8.

Hon PETER KATSAMBANIS: Should that not look like —

The CHAIR: About 55 per cent of it is in what they refer to as semi-government bonds but they are the state bonds. I note we do not have any commonwealth bonds. I assume that is because they are AAA credit rated.

Mr Barnes: The yield is too low.

The CHAIR: Yes, so what other states can we buy at the moment that have a higher yield than WA?

Mr Barnes: I do not have the breakdown by state. We are purchasing bonds from several different states though; they are not all concentrated in one particular state.

The CHAIR: Yes, which other states are currently in the financial position where their yield is potentially higher than what our cost of borrowing would be?

Mr Barnes: I do not have that information. Can we wrap that up as part of the supplementary information?

[Supplementary Information No A9.]

Hon ALANNA CLOHESY: My question will follow a completely different tack. How often does the Treasury's diversity committee meet and can you tell us what work it did in the last financial year?

Mr Barnes: I will ask the chair of our diversity committee, Ms Gulich, to answer that one.

Ms Gulich: We meet bimonthly at this point and we have representation from all the business units in the organisation. We have been focussing in terms of clarifying their terms of reference. You might be aware we moved from the women in leadership committee to a diversity committee during 2014–15. That was quite consciously the intention of the department to focus on areas other than gender in diversity. So we have gender, ethnicity, cultural background, language background other than English, disability and age. So we are very conscious of making sure that we have in place policies that support that. We are working with our business development area at the moment on a structured review of the all the internal policies and procedures in the organisation with a view to supporting where we can changes in those policies to enable support for diversity. We have an awareness-raising program where we sponsor either internally or with other organisations awareness raising weeks. We have worked with Mental Health Week and we have International Women's Day events. We also have minor small-scale events and we do quite targeted engagement in sending people along to participate in workshops and training session so that they bring back to the organisation.

Hon ALANNA CLOHESY: What percentage of women are in senior management in Treasury?

Ms Gulich: Do you define senior management as director and above?

Hon ALANNA CLOHESY: Yes.

Ms Gulich: About one in five are women.

Hon ALANNA CLOHESY: Has that been increasing or decreasing?

Ms Gulich: It is a different metric because of the size of our organisation. We are actually quite small so if we lose one or two on some of those secondments and redundancies that we spoke about earlier, we distort those numbers quite clearly. Part of what the diversity committee is looking at is a range of metrics that pick up total engagement, so the total number of people from those different diversity groups across the organisation at categories or level of employment, and then our attraction, retention and promotion across those diversity areas. We are roughly a 50–50 gender basis in the organisation up to our level 8s, and then we get that gap, like a lot of organisations do.

The CHAIR: I just wanted to go back to one other thing in terms of the bonds. As part of your investment strategy I think you provide quarterly reports not just on the amount of bonds that are held but the current return and the like on the bonds but you only make the amounts public. In the most recent reports on the returns is there any reason that could not be made public or provided to this committee?

Mr Barnes: We publish on our website I think on a quarterly basis the composition of the future fund. We break it down into, from memory, cash, corporate bonds, semi-government other than

WATC and then WATC. They are the four investment categories that we publish. That is the extent of the information that we publish on our website. The Treasury Corporation has cautioned us against publishing further detail around individual counter-parties. It believes that has the potential to adversely affect pricing, so we have taken that advice on board. We have provided that breakdown to the Legislative Assembly following last year's budget estimates hearing but that was provided in camera—is that the correct term—and not for publication.

The CHAIR: Would you be able to provide the most recent report to this committee on the request that it be kept confidential?

Mr Barnes: By counter party?

The CHAIR: Yes, and the current expected returns. I am also particularly interested in those investments made in—I think in March 2015 you started buying WATC bonds. Watching the bond market I suspect that they may now be worth less than what you purchased them for. Are you able to give us an indication of what the cost was for the bonds held by the WATC and what their current value is?

Mr Barnes: Yes, we should be able to do that.

The CHAIR: I realise there will be parcels of them but if you can break them up into each of the parcels that you have purchased and if we have lost money on them yet or —

Mr Barnes: Sure, and if I can stress that that needs to be on a confidential basis.

The CHAIR: Yes, and we will make that all part of A10.

[Supplementary Information No A10.]

[12.20 pm]

The CHAIR: Does anyone else have questions? If not, I have got a couple of others before we finish up. It goes to some of the questions that we asked prior to the hearing, regarding the sale of Fremantle port. When is it currently expected that decisions will be made on the sale of Fremantle port; the policy decisions?

Mr Mann: I think as the Under Treasurer indicated earlier, all of those policy decisions are currently before the government and the timing will be dependent on government's time frame for getting through that. I cannot add more at this stage, it is a matter for government to consider.

The CHAIR: Right, but the Utah Point, you are ready to go to market on that, is that correct?

Mr Mann: Correct.

The CHAIR: At what point will we be able to be provided with information regarding the profit and loss of Utah Point in the 2014–15 financial year as a committee and have it as a public document? Because we have been denied that information and advised that it would impact on the sale, but I assume that sort of information will be made available to potential purchasers once you go to market for the market sounding, would you not? I cannot imagine they would be prepared to buy it without seeing the books in probably a lot more detail than we want to see them.

Mr Mann: Correct, obviously on a strictly confidential basis, as per a wealth of other information associated with that asset. Again, we need to take that on notice on precisely what information will be provided post-transaction, but the Treasurer has already committed to table executed contracts once the transactions are completed, for example. Certainly the intent is to be as transparent as possible once the confidential negotiations and transaction process is concluded.

The CHAIR: I understand that post-it, but what I am trying to understand is why the information around the profit and loss of Utah Point in the 2014–15 year—the income and the expenditure, those basic figures with the Utah point facility—cannot be made public once you go to your market sounding. If you are going to provide them to the potential purchasers, why cannot members of

Parliament be provided that information at the same time? What impact would that have in providing it to this committee and letting us make it public to our colleagues? How does that impact on the sale in any way?

Mr Mann: With the transaction process itself still live, then precedent on other transactions would be that that information would be kept confidential until that process had concluded.

The CHAIR: I understand that is your mantra, but what I am trying to understand is how that will impact on the sale; why does it need to be kept confidential? I understand there is a desire for secrecy with this government, but I am trying to understand —

Hon MICHAEL MISCHIN: That is a cheap shot, and not borne out of or by the facts.

The CHAIR: I think on this issue is it very much borne out of those facts.

Hon MICHAEL MISCHIN: Why not simply—Mr Chairman if you have a question, instead of the extrapolation and the comment it might be better to just ask the question rather than to put a gloss on it.

The CHAIR: I am trying to find out how it impacts on the sale of that information being provided to this committee. If it is known to all of the potential purchasers, and I expect they would get a far more detailed breakdown of the books for that facility than just the simple information that we were provided regarding the 2013–14 financial year and that we are now being denied for the 2014–15 financial year.

Hon MICHAEL MISCHIN: I understand the question and perhaps if we take that on advice so that we can get the input not only of the State Solicitor's Office, but also for those financial advisers as to what advantage or disadvantage in negotiations there may be in revealing certain information publicly.

The CHAIR: Let us be clear, information that is being provided to all of the potential purchasers of it.

Hon MICHAEL MISCHIN: At their request, and presumably particular targeted information, some may request certain information that others may not be interested in and vice versa. But if we can answer that—I will have to take advice.

The CHAIR: I would have thought in a tender process that you would provide it to all of the tenderers. If there is a question asked as part of the tender process, would you not provide the same information to all of the potential purchasers?

Hon MICHAEL MISCHIN: If we can take that on notice —

The CHAIR: That is a technical question I am asking of your advisers, actually.

Mr Mann: Not necessarily. If the question, for example, was specific to that bid, then not necessarily. Questions that are relevant to all bidders, most certainly information is available to all, but another important point is to note that the particular confidential commercial information will only be provided to short-listed bidders, not the full bidder field. There are several stages in the process, and in the initial short listing process detailed information is not made available that is then later provided only to short-listed bidders.

The CHAIR: I am not asking for particularly detailed information, I am asking for simple income and expenditure for that facility. I am sure if I actually sat down with a pen and paper I could work it out because I have got the 2013–14 figures and the issues around growth and demand and everything else is there. Maybe one day I will do that, but I cannot work out why the agency just cannot provide it.

Mr Mann: As indicated, we will respond on the rationale for withholding information in those categories.

[*Supplementary Information No A11.*]

The CHAIR: Whilst you are doing that if you can also provide us with information about when we will be able to have or whether we be able to have answers to the questions regarding the Fremantle port sale and the basic policy decisions that are taking things like: What is the pricing mechanism that will be in place for any future purchaser? What is the maximum capacity as a result, as a policy decision of government of what the maximum container volumes will be at Fremantle port? Are you able to —

Mr Barnes: Chair, we are in cabinet's hands on those issues.

The CHAIR: I understand—that is why I am asking—but what I am asking is not for you to answer those questions, but to tell us whether or not you will be able to advise the committee of that information. I understand it will be post a cabinet decision on it, but will that information be made public post the cabinet decision, and, if so, when is that likely to happen? I am happy for that to be taken on notice as part of A11.

Mr Mann: To the extent we can answer, yes.

The CHAIR: I mean, the Attorney General has assured me it is not a government focused on secrecy, so I am sure I will get an answer.

On page 29 of your annual report, you indicate that you have come up with a new process for predicting the Department of Corrective Services' needs over the next 10 years. Does that involve the need for additional prisons?

Mr Jones: We had an issue in the past with projections for prisoner numbers. What we have done is we have built a model using real data from the Department of Corrective Services. The model allows us to examine 16 category offences, plus remand and also run scenarios on that. It will also allow us to model and scenario test changes and policy. I think the question was on the next 10 years, was it?

The CHAIR: The annual report indicates that you predicted out for over the next 10 years. I am assuming you would predict for each year of the next 10 years.

Mr Jones: Do we need a new prison? I guess it depends on policy settings of government. At the moment there are a number of projects being undertaken and one of them is a women's remand centre, which is to use some existing capacity at one of the prisons and use it as a women's remand and reintegration facility. The impact of that has not been modelled into that 10-year model. In terms of adult population, we have just had the expansion at Acacia, which has freed up some capacity in the existing system. At the moment there is not a need for a new prison, but that could change.

The CHAIR: The prediction model, does that just give you the number of prisoners in each year going forward and then it will be policy as to how you house those prisoners?

Mr Jones: Correct. We fund on a thing called a DAPP, which is a daily average prisoner population, and what we do is we fund them on actual and then use the prisoner model to forecast prisoner growth using changes of trends in the offence categories and obviously population growth. What that allows us to do is look at the capacity of the current system and whether it can take it. Probably the issue we have at the moment is the actual classification of the system. The actual physical infrastructure has enough beds. It is the actual category of the prison. For example, we have growth in medium-security prisoners, and we have room in the prisons of maximum-security prisoners. It is how those prisons are configured going forward, coupled with the policy of how they are housed, which would determine whether you have a new prison or not.

[12.30 pm]

The CHAIR: Are we able to get a copy of the predictions over the next 10 years that that model has produced in terms of prisoner numbers? Is there an answer to my question?

Hon MICHAEL MISCHIN: Sorry. I thought you asked if it could be put on notice.

The CHAIR: I was asking whether it would be possible to get it. We will put that on notice.

Hon MICHAEL MISCHIN: As far as we are able to ascertain at the moment, and as presently advised, yes, it should be possible to provide that information.

[Supplementary Information No A12.]

The CHAIR: This is the last question. The midyear review talks about a \$93 million special dividend from ICWA. Was that a request made by the government to ICWA to pay an additional dividend or did they volunteer that they wished to make an additional dividend?

Hon MICHAEL MISCHIN: What page are we looking at?

The CHAIR: It is in the midyear review. It appears a number of times, but it certainly appears under “New Corrective Measures” on page 14.

Ms Gulich: The additional \$93 million came from the ICWA board themselves. They looked at their 2014–15 profit, their cash reserves, their prudential requirements and their liquidity, and they wrote to the Treasurer advising, as envisaged in the legislation, that they would pay their interim dividend, and a final dividend of \$93 million as an additional once-off for 2014–15.

The CHAIR: What is the current policy for their payment of dividends?

Ms Gulich: Their dividend policy, as per agreed with the board and the Treasurer, is four per cent of total net assets. So that helps smooth out some of the spikes and troughs we see in their investment returns and allows the entity the flexibility to maintain the cash reserves given that it is quite a volatile market. So what the board did, in taking that into account, is because that four per cent is not directly tied to profit from the 2014–15 year, they could meet the four per cent commitment, and then looked at what they could provide in addition to that while keeping the organisation whole from the board’s perspective.

The CHAIR: Because I think originally it was set at 65 per cent of profit, and then ICWA argued for the four per cent. But what does that mean in terms of the ratio of capital adequacy for them? When we had ICWA in, they were arguing that they wanted to be at least at the 140 mark, and private insurers are up around the 180–190 mark. So, in terms of that dividend, will they still be above the 140?

Ms Gulich: Their current cost is 125 to 135; that is their range. So, 140 is an increased aspiration that the board is looking to adopt.

The CHAIR: That is how they justified increasing their premiums a year ago!

Ms Gulich: The 125–135 is the government’s position. The \$93 million additional dividend allowed them to maintain that level, because it was based on the high profit from 2014–15. So, part of what the board sent to the Treasurer in making a recommendation was what it would have for their capital adequacy and their cash reserves—a raft of items that they took into consideration.

The CHAIR: Right. So it is a policy decision of government that their capital adequacy is between 125 and 135?

Ms Gulich: It is the board’s decision, which the government has accepted as part of their ongoing deliberations.

The CHAIR: Which is very different to what the CEO advised us, when they came before us, as to what they wanted, which was 140.

Ms Gulich: And they would like to move towards that, and that is something that is under consideration.

The CHAIR: So that is still where the board would like to be, but in negotiations with the government they have agreed on 125 to 135?

Ms Gulich: That is the current position. The 140 has only emerged in the last six months that I am aware of. Previously, it was about getting them to the 125 to 135 band, and obviously the volatility in investment returns in particular means that they can move up and down within that band over a period of four years.

The CHAIR: Right. It sounds to me like it is the policy decisions of government that are driving where that is set, not the board. The board would like to see it higher, but the government is only allowing them to set it at a lower figure.

Ms Gulich: They are government decisions in terms of what the premiums are on an annual basis that do contribute towards that adequacy ratio.

The CHAIR: And the dividend is sort of cash that they get out of it?

Ms Gulich: Yes, and the actuarial. There are a number of factors that come into that.

The CHAIR: But with something like that, if you are talking about capital adequacy, you have two choices—you either keep the money in the bank, and that improves your capital adequacy, or you pay it over to the government as a dividend, and your capital adequacy is reduced. It is simple mathematics. If the government wants a higher dividend, you are not going to be able to meet your aspirational target, even though that is clearly where they have said they want to be. So, that is a policy decision of government, not the board, in my view. Anyway, I might leave it there, unless there are any questions from anyone else?

The committee will email the transcript of evidence, which includes the questions you have taken on notice highlighted on the transcript to you, in the next couple of days. The corrected transcript will be requested to be returned within five working days of receipt. The answers to questions taken on notice will be requested by 15 February 2016. Any additional questions the committee has for you will be forwarded via the minister next week and will also be requested by 15 February 2016. Should you be unable to meet this due date, please advise the committee in writing as soon as possible before the due date. The advice is to include specific reasons as to why the due date cannot be met. In the event that you are unable to meet the due date, the committee expects as many answers to questions as possible are provided by the due date. If members have any unasked questions, I ask them to email them to the committee clerk by 12.00 pm on Monday, 1 February.

On behalf of the committee, again I thank you very much for your attendance.

Hearing concluded at 12.36 pm
