STANDING COMMITTEE ON ESTIMATES AND FINANCIAL OPERATIONS

2014–15 BUDGET ESTIMATES HEARINGS

TRANSCRIPT OF EVIDENCE
TAKEN AT PERTH
TUESDAY, 10 JUNE 2014

SESSION ONE
DEPARTMENT OF TREASURY

Members

Hon Ken Travers (Chair)
Hon Peter Katsambanis (Deputy Chair)
Hon Martin Aldridge
Hon Alanna Clohesy
Hon Rick Mazza

Hearing commenced at 2.02 pm

Hon HELEN MORTON
Minister For Mental Health, representing the Treasurer, examined:

Mr MICHAEL BARNES
Acting Under Treasurer, examined:

Mr MICHAEL COURT
Acting Deputy Under Treasurer, examined:

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

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

Mr RICHARD MANN
Executive Director, Strategic Projects, examined:

Mr RICHARD WATSON
Executive Director, Economic, examined:

The CHAIR: Good afternoon, everyone. On behalf of the Legislative Council Standing Committee on Estimates and Financial Operations I would like to welcome everyone to today's meeting. Can the witnesses confirm that they have read, understood and signed the document headed "Information for Witnesses".

The Witnesses: Yes.

The CHAIR: I note that all the witnesses responded in the affirmative. 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. This 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 witnesses' 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 scrutinise the budget papers on behalf the people of Western Australia. The committee values your assistance with this.

I might kick off with the first question. I refer to the table headed "Details of Administered Transactions" on page 616 and the subheading "Commonwealth Grants". I just want to confirm that that is where the funding for concessions for seniors would be contained—is that correct?

Mr Barnes: The funding that you are referring to from the commonwealth government to assist with the cost of meeting various concessions to pensioner concession card holders and Seniors Card holders is actually received from the commonwealth via a specific national partnership agreement, which is not reflected in the items on page 616. Apologies; it would be reflected in the "Other" item.

The CHAIR: Again, on page 618 it is covered under "Other Expenses" and "Commonwealth Grants On-Passed to Agencies".

Mr Barnes: That would be true. That other item would reflect a large range of specific national partnership and other payments from the commonwealth.

The CHAIR: As I understand it, we are talking about, over the forward estimates, $107 million for pensioners and Seniors Card holders—is that correct?

Mr Barnes: That is correct.

The CHAIR: It is my understanding that in this financial year—this has occurred since the budget was brought down—we are now estimating that we would have expected to have received $25.4 million from the commonwealth, and that we now do not expect to receive that money. Is that correct?

Mr Barnes: Correct.

The CHAIR: Can you advise what the Treasurer has advised the departments in terms of recouping that lost revenue? How does the government intend to respond to that lost revenue?

Mr Barnes: It is a live issue for government consideration by the Economic and Expenditure Reform Committee of cabinet, so I do not think it is something I can comment on at this stage.

The CHAIR: The reason I ask is that I have seen two completely different responses from ministers of the Crown, one being that the concessions will remain in place, and the other being that they will hand out the phone number of Tony Abbott when they are going, so the minister might be able to tell us what Tony Abbott's phone number is, in a minute!

Hon HELEN MORTON: I can tell you very clearly that it is currently being considered by the relevant ministers and Treasury et cetera, so it is not something that a decision has been made on yet.

The CHAIR: So is it incorrect, then, for a minister to say that the concessions will not be reduced this financial year?

Hon HELEN MORTON: I do not know if a minister has said that, but all I can tell you is that it is currently under consideration.

The CHAIR: So in terms of reassuring pensioners for this financial year, is it possible that concessions will be cut in this financial year?

Hon HELEN MORTON: I can just say again that it is a matter that is currently being discussed by the relevant ministers and the relevant departments, and that the outcome of that will be known hopefully shortly, but there is not a position that has been taken at this stage.

The CHAIR: Has there been any correspondence between the state government and the commonwealth government about these cuts since they were announced, by either the Treasurer or the department, with their commonwealth counterparts?

Mr Barnes: Not that I am aware of.

Hon HELEN MORTON: Obviously, the relevant minister is the Minister for Seniors and Volunteering.

The CHAIR: It is broader than that, though.

Hon HELEN MORTON: Of course it is, but I am just saying that the relevant minister is the Minister for Seniors and Volunteering.

[2.10 pm]

The CHAIR: Surely on a matter like a commonwealth–national state agreement, the Treasurer would normally conduct negotiations on behalf of the state government?

Mr Barnes: Generally national partnership agreements, of which this is an example, are negotiated between the respective line agencies and line ministers.

The CHAIR: Has there been any correspondence to the commonwealth protesting these cuts? Is Treasury aware of that having occurred?

Mr Barnes: I am not aware.

The CHAIR: Have agencies been instructed how to make up those cuts?

Mr Barnes: The only instruction that has been given to me is to work with other relevant agencies in the preparation of advice to the EERC and cabinet outlining various options.

The CHAIR: Do you expect that a decision will be made before the commencement of the financial year as to how it will be dealt with by the state government; and, if it is not dealt with, what is the default position for agencies? If cabinet has not considered it by 1 July, what will happen with the agencies in the way in which Treasury will deal with these matters?

Mr Barnes: It is very hard for me to answer that question given that it is a live issue that has not yet been considered by cabinet and EERC in detail and with no decision having been made. It is a hypothetical; I cannot really answer that.

The CHAIR: My question is that given that we are now close to the end of the financial year and the start of the new financial year, if a decision has not been made by that day, what is the normal course of events for agencies or what default position should they adopt? Are they expected to cover those amounts from internal resources or are they expected take action individually to recoup the lost revenue by increasing their revenue? There must be some default position if cabinet has not reached a decision by that date.

Hon HELEN MORTON: Mr Chair, that is a hypothetical question.

The CHAIR: It is very real.

Hon HELEN MORTON: It is very difficult to be asking what if this or what if that or what if this does not happen or what if that does not happen. I think the answer has been given; that is, it is a current issue that is being managed at the moment by the relevant ministers, Treasury and the EERC and decisions will be made in the near future.

The CHAIR: Can the minister provide a commitment that some decision will be made by 1 July?

Hon HELEN MORTON: Unfortunately, I am not the relevant minister so I tell cannot give that commitment.

The CHAIR: Page 78 of budget paper No 3 identifies a number of specific national purpose agreements that will soon expire. On what date will they expire? Will they all expire in the 2014–15 financial year; and, if so, on what dates will they expire? Are they the only ones that will expire in 2014–15?

Mr Barnes: I do not have all of that detail or the dates on which individual agreements will expire. We highlighted those agreements on page 78 as the major ones that are expiring soon, generally on 30 June this year.

The CHAIR: When you say "soon", do you expect them to expire at the end of this financial year?

Mr Barnes: That is right. That was our expectation when we presented the budget last month and that expectation was reflected in the forward estimates that commonwealth funding for those agreements would cease this current financial year. As it turned out, that expectation proved correct when the commonwealth budget was subsequently released.

The CHAIR: From recollection, the budget reflects those agreements expiring and not continuing over the forward estimates.

Mr Barnes: Correct.

The CHAIR: Do you expect any of those that have been continued to expire in the future financial year or are you treating all national partnership agreements as expiring with the budget based on them expiring and not continuing?

Mr Barnes: The general assumption that we made in our budget was that agreements that are due to expire in the next 12 months will not be renewed, and the forward estimates reflect that assumption. There is a rolling schedule of national partnership agreements with different expiry dates over the next few years. I do not have that schedule at my fingertips, but I can provide it as supplementary information, if required.

[*Supplementary Information No A1.*]

The CHAIR: What will be the total loss of revenue to the state as a result of the expiry of those national partnership agreements over the forward estimates?

Mr Barnes: Mr Chair, I might include that in the supplementary information response.

The CHAIR: We will make that all part of supplementary information A1. I would have thought that you would have a general idea of what the quantum is in terms of its impact on the budget.

Mr Barnes: The overall net impact for 2014–15, for example, is not significant because, as I indicated, our forward estimates generally made the assumption that agreements that were expiring imminently would not be renewed. When the commonwealth budget came out, that was confirmed. Our forward estimates from 2014–15 onwards largely reflect what eventuated in the commonwealth budget so the net impact on our budget in 2014–15 is negligible.

Hon PETER KATSAMBANIS: I have a number of questions, but one issue that has had plenty of media discussion recently is the price of iron ore and the impact that that is likely to have on this budget and budgets into the future. I refer specifically to the forecasts on page 73 in budget paper No 3. Table 9 lists the headline iron ore price and how it is comprised of an adjusted free on board price, but either way that price is significantly higher in the forecasts than current market prices. Can the minister discuss the impact that lower iron ore prices could have if they continue into the future? Can the minister provide us with some sort of outline on the forecasting methodology used to get to the price in the *Budget Statements*? Why does it differ from the current market price?

Mr Barnes: Absolutely, that is very topical and an important issue for the state budget. The iron ore price forecast reflected in the table on page 73 is a function of both Treasury's forecasting methodology and the point in time at which those forecasts were finalised, which was the budget cut-off date of 14 April. We use a benchmark price, which is referred to the steel index 62 per cent iron content benchmark which, in our view, best matches the iron ore that is produced from Western Australia. We assume that that benchmark price declines in a linear fashion from a starting point price assumption to a long-term price assumption. The starting point price assumption that we used for the 2014–15 budget was an average for the 2013–14 financial year. That average price reflected a combination of actual spot iron ore prices for the months of July 2013 to March 2014 and forward contract prices for the period April to June 2014. We took those actual spot prices for the first nine months and the forward contract prices for the next three months and averaged them out over the 2013–14 financial year. That approach yielded a price assumption for 2013–14 of $US125.20, which is reflected in the table. That is our starting point price assumption. The long-term price assumption is the forecast average price in 10 years' time, which is derived from a survey of market analysts that is conducted by Consensus Economics.

[2.20 pm]

Based on the February consensus survey, which was the most recent at the time of the budget cut-off date, that long-term price assumption was US$102.30 per tonne. So then the assumed linear transition under our methodology from the starting point price assumption to that long-term price assumption yields the assumed prices across the forward estimates period that are reflected in that table. To date, this methodology has proven to be quite robust. So, for example, over the 2013–14 year to date, the benchmark iron ore price has fluctuated very significantly by $US51 a tonne from a low of about $92, to a high of about $143. But despite that significant volatility within the year to date, the prices averaged $US125.30 a tonne over the year to date, which is extremely close to our original 2013–14 budget assumption in August last year, and virtually identical to our current assumed 2013–14 price in last month's budget. So our methodology is designed to accommodate these short-term fluctuations both up and down in the price, and what really matters is the year average price, and, as I said, so far the methodology has proven quite robust in that regard.

In terms of the current weakness in the iron ore price, this is the first point I would make, which is that this current situation is not new or unique. We have been living with this sort of volatility for the last three or four years now. The current weakness in the iron ore price reflects a number of factors, including recent market sentiment about economic conditions and prospects in China, together with stronger than anticipated increases in supply outpacing demand in the first part of 2014. And, in turn, that larger than expected lift in supply is due to a faster than anticipated ramp up in production of both new and expanded mines as well as fewer than usual seasonal weather disruptions in the early part of 2014. So those factors have led to a build-up in iron ore stocks at Chinese ports to record levels, and port inventories are currently standing at almost 50 per cent higher than they were a year ago in China. That high level of port stocks in China, combined with tighter access to credit in China, has reduced the stocks of iron ore held by the Chinese steel mills, so all of those factors have worked to depress the iron ore price. But most market commentators and the iron ore producers themselves believe that the recent lows are an overreaction by the market and that the price will rebound, and I think we have already started to see some early evidence of that.

My own view is very similar, that while price volatility will remain high over the forward estimates period, and that is acknowledged in the statement of risks, my view is that the speculative iron ore traders in China have exacerbated the current fall in the iron ore price. There are a significant number of traders in the iron ore market in China who are not purchasing physical iron ore to turn it into steel; they are trading it as a financial commodity, and that is exacerbating the price swings in the iron ore price, so I think the market has overreacted. I think we will see a correction to more normal or usual levels of the iron ore price.

Also, if prices remain below about $110 a tonne for any length of time, this should force high-cost producers out of the market and that will result in an improved supply demand balance and provide support for a higher price. Obviously, there is a lot of uncertainty about how quickly and by how much the iron ore price will rebound. It rebounded very sharply when it reached a low of $87 a tonne in September 2012. Within the space of three months, it had rebounded to $150 a tonne, but I do not expect that it will rebound as quickly and as sharply this time around given the extra supply that has come onstream. But my view is that it will rebound and that our year average price for 2014–15 of $122.70 a tonne—I am reasonably comfortable with it.

Hon PETER KATSAMBANIS: I made the point to your predecessor last year, and I make the same point that I am not critical about your assumptions at all. I think over time, the methodology you use has proven to be far more accurate or at least if not accurate, justifiable than commonwealth Treasury, if we want to run a direct comparison. That has been over a number of years and that is a credit to WA Treasury for adopting a robust methodology that has proven itself better than others. But I want to touch on that last comment that you made. I do not want to put words in your mouth, but you said that you are reasonably confident about the price. Can you remind us about the sensitivity around the price? What does a $10 variation or a $5 variation mean on the average price for the budget bottom line? Can you, secondly, elaborate on what factors, if they continue or appear, would diminish your confidence in that figure over time?

Mr Barnes: Sure. Well, if you go to the next page on budget paper No 3, page 74, that presents our rule of thumb around the sensitivity of iron ore prices and royalty revenue. That rule of thumb is that for each $US1 per tonne change in the iron ore price, relative to what we have assumed, that translates to a $49 million per year gain or loss in the state's royalty income; so the volatility is clearly high. My confidence is based around the view that I expressed, that the market has overreacted; that history, to some extent, should repeat itself. There will be a rebound because of a rebalancing of supply demand fundamentals; it is just the way that these cycles work, particularly the inventory cycle in China. I do not believe, as I said, that the price will rebound as quickly and sharply as it did in 2012–13, following the low that it reached in September 2012. But I guess the key point is that it does not need to this time around—it does not need to rebound that sharply to meet our year average price assumption of $122.70 a tonne for 2014–15. So that is where I am getting that comfort from.

Hon PETER KATSAMBANIS: Sure. I understand that, but based on the sensitivity—the difference between the forecast average price in the budget as opposed to the current price would result in a diminution in state revenue of over $1 billion throughout the forthcoming year. So it is critically important for state revenue that we get this right or as close to right as we possibly can. When would we be in a position—if it transpired that this estimate is not correct—to have a better understanding of where the actual final price might fall, and therefore take measures to react to any potential diminution in revenue?

Mr Barnes: The time for that, I guess, will be the midyear review in December this year. So we will be updating, as we always do, our iron ore price and royalty assumptions and forecasts in the midyear review and in the lead-up to the midyear review, the government will be making decisions around the overall state of the budget, which is one very important factor but only one factor, so that would be the time frame. I guess the other point I would make in terms of the impact on royalty income is this, that the flip side of the current depressed iron ore price is supply; it is the volumes of iron ore production and exports. Volumes out of WA have increased extremely strongly, something like 35 per cent in the last 12 months, and in fact they have increased faster than Treasury was forecasting. So that is the flip side and that, to an extent, will offset the weakness in the current price.

Hon PETER KATSAMBANIS: Is that change in volume not reflected in the variability analysis on page 74?

Mr Barnes: No, the variability analysis on page 74 is isolating the impact of price fluctuations only, holding volumes constant, just so that we can distinguish between the two factors. Our forward estimates already had assumed a significant increase in iron ore production volumes. What we have seen over the last quarter or so is a ramp-up in production volumes even faster than we had forecast.

Hon PETER KATSAMBANIS: Do you have any metrics around the percentage of increase at that even faster rate?

Mr Barnes: From memory, iron ore exports through Port Hedland have increased about 35 per cent in the last 12 months. We had assumed an increase that was less than that. I cannot recall off the top of my head.

Hon PETER KATSAMBANIS: Sure.

[2.30 pm]

The CHAIR: As far as I can recall, going back to at least 2010–11, Treasury has reported in various budget paper No 3s and midyear reviews that they warn or caution the government about the need to maintain large surpluses because of the volatility of iron ore prices. Has Treasury changed that advice to government at all?

Mr Barnes: No.

The CHAIR: One of the key answers around the issue of volatility that Treasury gives to the government is that they should maintain large surpluses and not spend the money until they have it in the bank rather than locking into forward estimates that does not maintain strong surpluses. Is that still your advice?

Mr Barnes: Yes. Our advice is that we need to maintain an adequate buffer through the operating surplus to deal with these volatile issues. The volatility that we now face through the iron ore price and the exchange rate, in particular, is very significant given that royalties are now 22 per cent of the state's total revenue base. So, yes, that is the case. I guess what has made the situation more difficult now is the lag impact of the grants commission process.

The CHAIR: But that has always been known.

Mr Barnes: It has been, but we have seen such a significant softening in state final demand, in the state's tax collections, particularly payroll tax, in light of that softening in state final demand, and now in the iron ore price. These things are happening at the same time as we seeing a sharp decline in our GST share, which is based on what happened three to five years ago, at the boom point in the cycle, if you like.

The CHAIR: That is my point. You were giving that advice three to five years ago about the need to maintain surpluses because three to five years ago I heard your predecessor sit and give the same advice. It strikes me that we still are not achieving those surpluses that Treasury has been saying to the government and providing as advice in budget papers now for three or four years. Even over the forward estimates, we do not achieve the sort of surpluses that would give you as Treasury comfort with regards to that volatility. Is that correct?

Mr Barnes: If you are asking if Treasury would like to see larger operating surpluses, I do not think it would surprise anyone that the answer is yes.

Hon HELEN MORTON: We have always had a surplus in the operating budget.

The CHAIR: Maybe the problem we have in the government is that having a surplus does not meet what Treasury is telling you. They are saying you need large surpluses, not just a surplus.

Hon HELEN MORTON: Obviously, if we did everything that Treasury predicted we should be doing, we would have very large surpluses every year. We would have larger surpluses if we were doing exactly what Treasury wanted us to do each year but we have had a surplus every year and we have achieved other things as well.

The CHAIR: Like increased debt.

Hon HELEN MORTON: Affordable debt.

Hon RICK MAZZA: In budget paper No 3 on page 154, "Aquatic Biosecurity", there is a saving of $24.3 million. Those duties will be handed over to ports and marinas. How much additional funding is going to be given to those ports and marinas and which ports and marinas will be responsible for that biosecurity?

Hon HELEN MORTON: That is really a question for Transport. Treasury would not have that level of information. The relevant minister who would have that detail is the Minister for Transport.

Hon SUE ELLERY: Can I ask you a couple of questions about the education budget? I refer to budget paper No 2, page 269, "Cash Assets". The 2013–14 estimated actual amount was some $620 million. The 2014–15 budget figure is $574 million. That is a rundown of about $45 million. That figure of $45 million plus some dollars is confirmed again at page 282. Is Treasury aware how much of that $45 million rundown is school cash rundowns? What happens to the budget surplus if the rundown is more than that $45 million, so it was more than you had built into your assumptions behind the surplus?

Hon HELEN MORTON: Again, I am sorry, but the question that you are asking is in the Minister for Education's section of the budget papers.

Hon SUE ELLERY: I am asking if Treasury is aware how much of that $45 million rundown is school cash rundowns.

Hon HELEN MORTON: They would not know that.

Hon SUE ELLERY: What arrangements does Treasury have in place to control unexpected rundowns in cash? Has the Department of Education sought permission to increase its allowed level of cash rundowns?

Mr Barnes: The ultimate control is around the approved expense limit that the Department of Education and every other agency has to manage. Agencies fund their expenses from a range of sources, including appropriations, commonwealth grants and cash at bank. In that regard, cash at bank is not really treated any differently from any other funding source. What matters is managing to the approved expense limits. That is the control mechanism. As we sit here, I am confident that the Department of Education will end this financial year within their current approved expense limit. I am not in a position to comment on school cash balances, I am sorry.

Hon SUE ELLERY: Are you aware as acting Under Treasurer whether there have been any discussions, formal or informal, between Treasury and the Department of Education on encouraging schools to run down their cash reserves?

Mr Barnes: Not that I am aware of, no.

Hon SUE ELLERY: The minister is on the public record as saying that there is an amount of some $330 million sitting in school bank accounts. If that amount was to be run down, that has to have some impact on the budget. Can you explain, for the assistance of the committee and me in particular, whether there is a tipping point at which Treasury would be concerned if those rundowns went too far beyond the $45 million that you have built into the budget?

Mr Barnes: Going back to my previous answer, we would be concerned if that cash were run down to an extent that it resulted in spending expenses exceeding the department's approved expense limit. I guess it depends on how much room they have within their current expense limit. From our point of view, we are not overly fussed about the funding sources of that expenditure, so long as they are managing within that approved expense limit. I cannot really give you a yes or no answer.

Hon SUE ELLERY: If I understand the answer that you have just given me, you need to watch the level of expense by the Department of Education—indeed, every agency. If, for example, schools were to run down that amount that the minister has said publicly is in their school accounts, even if they were to run down half of that $330 million—that is, $150 million—that is going to cause you some concern, is it not, if it is in excess of their expenses, as per the budget papers?

Mr Barnes: All else being equal, and assuming that there were no offsetting expense savings elsewhere across the Department of Education's $4 billion plus budget.

The CHAIR: Can I just clarify something? Basically, if they spend what is in their bank accounts, if that increases their expense limit, they would need to reduce the amount that they draw down from appropriation to stay within their expense limit—for an increase in the expense limit. Is that what you are saying?

Mr Barnes: Yes.

The CHAIR: The question that Hon Sue Ellery asked earlier was: if they actually exceed their expense limit, would that have a potential impact on the net operating surplus and/or state debt?

Mr Barnes: Yes.

Hon SUE ELLERY: I take you to page 282, so I am on the same theme. You may or may not be able to answer it. There is a huge jump that I want to know if Treasury can explain to me. I refer to page 282, "Statement of Cashflows", towards the bottom of the table, "Net increase/(Decrease) in cash held. In 2014–15, it is around that $45 million that I just talked about. In 2015–16, it goes way beyond anything before or in the out years to $160 million. Is there an explanation available from Treasury about what is driving that?

[2.40 pm]

Hon HELEN MORTON: I think the Minister for Education has got some hearings coming up this week.

Hon SUE ELLERY: Yes.

Hon HELEN MORTON: So those are the questions that should be directed to the Minister for Education.

Hon SUE ELLERY: I am asking if the Treasury is aware of what the drivers are.

Hon HELEN MORTON: Yes, but, basically, Treasury have already answered the question. They are basically saying that they do not actually have too much of an issue about the source of revenue; it is the total expense level.

Hon SUE ELLERY: Sure; that was not actually the question I just asked. Is Treasury aware—they may be or they may not be—what are the drivers between that big jump from $45 million to $160 million?

Mr Barnes: Member, the only further information I can add is footnote (c) on that page that you are referring to, which states that —

> The significant decrease of cash in 2015-16 is predominantly attributable to the release of restricted cash previously held for the payment of the 27th Pay.

Every X number of years—I forget what X is—we have the 27th pay that rolls around. Agencies hold that in a suspense account. That is due for payment in 2015–16, clearly. That cash has been drawn down to meet that twenty-seventh pay entitlement

Hon SUE ELLERY: Does (c) not refer to cash assets at the end of the reporting period, which does not reflect that—yes, maybe it does.

I have another question, if I may, which is to budget paper No 3, page 53, about the evaluation of the existing grants and social concessions. And I wanted to ask: who is doing that evaluation? Last year's budget paper No 3—the reference I have is page 6, if you needed to look at last year budget paper No 3—identified as part of the fiscal action plan savings of about $200 million in 2015–16 related to reviewing and evaluating concessions. Are you still on target to meet those savings; and, if so, what work has been done towards meeting that $200 million already? Have any savings been made to date in social concessions? What is the time line to conduct the evaluation? What external involvement is in that evaluation?

Mr Barnes: The savings that we have reflected in the forward estimates from this program evaluation initiative, which is much more than just grants and concessions, but that is an element of it—the overall savings that we have reflected in the estimates in recurrent terms are $50 million a year from 2014–15, so $200 million over four years. They have not yet been realised or harvested, if you like, from agencies' budgets, so it is still a global savings target. The time frame for identifying and realising those savings will be between now and the midyear review in December. On the specific issue of grants and concessions, there is a directors general steering committee that has been established to look into this area. That is chaired by the director general of the Department of Training and Workforce Development. An early focus of that work around grants and social concessions is around the administration of them. We have such a large number of individual concessions and grant programs and a large number of government agencies involved in administering those concessions and grants programs that Treasury's view is that there is scope to achieve significant efficiencies just in the administration of concessions and grants. That is our early area of focus to see if we can firstly benchmark across all the agencies involved the administration of these grants and concessions, if you like, identify the best practice in administering the agency and then identify opportunities to get other agencies involved in the administration of grants and concessions to adopt that best practice and harvest savings that way.

Hon SUE ELLERY: Thank you for that. It has been a target of government for as long as I can remember to look at concessions in particular and grants with a view to making them more efficient, including when we were in government, and this government has said on several occasions that it was going to do that as well. You have now set a target of the $200 million. Is there any reason I should be any more confident that you are actually going to change the administration of concessions and grants? Because government has been working on this issue for so long that—it is a very brave government that takes on concessions if they are looking at the substance of the concessions. What is it that should give us confidence that this will achieve some of those efficiencies?

Mr Barnes: Well, I am in charge now! Look, I guess my answer focused on the administration of concessions and grants because my view is that that is the lower hanging fruit as opposed to actually —

Hon SUE ELLERY: Can I interrupt you for a minute?

Mr Barnes: Sure.

Hon SUE ELLERY: Treasury always thinks that. I just remain to be convinced that there are savings to be made, because no-one been able to do it in the more than 10 years that I have been an MP.

Mr Barnes: For the first time in my experience we are right now pulling together, and have pulled some of it together, benchmarking data across the general government sector for agencies that are involved in administering grants and concessions. That data is not yet complete, but it is already illustrating that there are significant differences. In some cases there are examples where the cost of administering a grant or concession program exceeds the value of the grant or concession itself. For the first time we will have a much better data and evidence base that we have had before. That is where we are putting all our effort at the moment to build that case and make it a case no-one could refuse. That is our aim.

Hon SUE ELLERY: Is there external engagement?

Mr Barnes: Not at this stage. It is being run through that directors general steering committee that I mentioned, so there is a handful of agencies and DGs on that steering committee, which is being supported by Treasury and Premier and Cabinet.

The CHAIR: I had one other question following on from that program evaluation. My recollection was that the other part of that was also a net debt program evaluation, which, if I recall correctly, the former Under Treasurer in one of the budget briefings suggested that a large chunk of that, which is $200 million over the 2015–16 and 2016–17 years would be in asset sales or land sales.

Mr Barnes: Land sales, correct.

The CHAIR: Is that still the case? Is that still factored into the budget?

Mr Barnes: Yes, it is.

The CHAIR: How have we progressed on identifying what will be sold to generate that $100 million impact on net debt?

Mr Barnes: That too is a work in progress. No decisions have yet been made by government. There will be advice coming forward to government shortly on identifying options.

The CHAIR: It has now been over 12 months—or probably a bit less because we had a late budget last year, but it has been a budget cycle and I find it hard to believe we are no further advanced in being able to actually say how we expect to achieve that $100 million saving in each of those years.

Mr Barnes: The other point I would make is that the $100 million does not kick in until 2015–16, so we have time.

The CHAIR: Although, depending on what the nature of the item is, those sort of sizes, it would—it is not something you are just going to sell overnight in a fire sale though, is it?

Mr Barnes: No, but we have earmarked the $200 million for land sales as opposed to broader asset sales. As a general rule, my view would be that land sales are quicker and easier than broader asset sales.

The CHAIR: The thing that confuses me is that when I go to table 71 in this year's economic review, under "Land and Property Sales" we see that declining over the forward estimates, but you are then saying you have factored in an additional $100 million to come in? How does that work? This year you are expecting to get $634 million and then it declines to $592 million in—in 2015–16, $637 million and then down to $592 in 2016–17.

Mr Barnes: I guess it would have declined by a further $100 million had we not included those. I guess those amounts would have declined by a further $100 million had we not included those saving amounts in there. These are land sales, so by definition they are lumpy; they are irregular. There is not a steady, stable, predictable stream year in, year out.

[2.50 pm]

The CHAIR: Maybe I will try another angle then. If you then go to page 300 of the 2013 budget papers, it shows that in the 2016–17 year, you were originally intending to get $971 million from land and property sales, and $923 million in 2016–17. There seems to a big drop in terms of land and property sales with the revenue you expect to get in. What has happened in that area that we cannot —

Mr Barnes: I cannot pinpoint a specific thing. We take land sales estimates from agencies and consolidate them. The other point I make is that the Valuer-General has revised down his estimated increase in land values since last budget. I assume that will be one factor in that adjustment you referred to.

The CHAIR: What was that—the land prices have gone down?

Mr Barnes: The Valuer-General has revised downwards his land valuations compared to what we had on last year's budget.

The CHAIR: Using the 2016–17 financial year, $923 million has gone down to $592 million. The Valuer-General has devalued by over a third the property value of land?

Mr Barnes: No, no. I am saying that is just one of many factors. There would be many timing factors at play. Last year an agency might have been expecting to sell a land asset in that year. In this year's budget, they might have pushed that out a year or they might have brought it forward a year. Every time we do a set estimates, the timing changes.

The CHAIR: I understand that. In last year's budget papers you had, effectively, around $900 million every year for four years. In this year's budget papers, you start at $634 million; next year you go up by $3 million and after that you decline to $482 million in 2017–18. It seems that there is a significant change in what you are expecting in terms of land and property sales in your budget papers. On top of that, you are saying you are still hoping to get $100 million you have not identified yet. That cannot be just valuation or even shifting in terms of timing because you would have thought if it was shifting in timing, it would not be consistently across the forward estimates. There must be some other material change that is causing that significant difference in the budget papers.

Mr Barnes: I cannot give you any more detail than I have already given. It would be a reflection of a range of issues, including valuations, timing changes, market conditions, changes of plans by agencies.

The CHAIR: Are you able to take it on notice and give us a comprehensive answer on what has caused the changes in the land and property sales in each of the years of the forward estimates between last year's forward estimates and this year's forward estimates? Is that something you can give us a detailed answer on as supplementary?

Mr Barnes: I can undertake to do a best effort, because Treasury consolidates about 150 agencies. We consolidate their expectations of when or whether they sell their land holdings and at what values. We have to go out —

The CHAIR: Somewhere in Treasury you must have the list of what they told you last year and what they told you this year, and from there be able to fairly quickly identify, "Well, it's actually health that said it would get half a billion from land sales, and now they're saying they're going to get only $200 million."

Mr Barnes: I can certainly give you an agency breakdown of those fluctuations—absolutely.

The CHAIR: And any other material changes that have occurred.

[*Supplementary Information No A2.*]

Hon RICK MAZZA: I think I was fobbed off a little bit. I want to come back to the biosecurity savings of $24.3 million from the Department of Fisheries. If those functions are to be undertaken by the Department of Transport, is extra funding going to be given to the Department of Transport for those functions? Are we cost shifting this?

Mr Gulich: The reduction in expenditure and revenue mentioned in the budget paper you referred to earlier is actually a reduction in revenue and matching expense. When the biosecurity issue was first introduced, there was a penalty component, and expenses and revenue were overstated across the forward estimates. This budget is now reflecting bringing it back to where they think the revenue will come in relative to the expenditure that is going to occur, and that will then be spread across through the Department of Transport, the various ports and port authorities.

Hon RICK MAZZA: Will the Department of Transport be given extra funding to undertake those functions?

Mr Gulich: No; the intention is that function is now funded through the charging mechanism.

Hon RICK MAZZA: Is that a genuine saving of $24.3 million?

Mr Gulich: No. That saving was for expenditure that has not occurred—so it is a step-up in expenditure that is now no longer going to occur.

The CHAIR: You are saying it is now going to be done by way of charging a fee?

Mr Gulich: The biosecurity function?

The CHAIR: Yes.

Mr Gulich: Yes.

The CHAIR: Surely the expenditure will still occur; you will now have a revenue stream to fund it, will you not?

Mr Gulich: I do not have the exact numbers in front of me; I think this is again probably a question for the Department of Transport or the Department of Fisheries. The intention is that there is about

$4 million in activity that will occur under the biosecurity function that will now be funded from the biosecurity levy. The original forward estimates we put in the 2013 budget included a step-up to roughly $8 million per annum from the 2015–16 year, which was based on the fact that penalties would be charged for the inaction of delivery of services. We have now worked with the Department of Fisheries to realise that that is not realistic, that the plans that will be put in place will meet the expenditure and that revenue will match better than what was anticipated. This budget writes back out that expense—that step-up in expenditure—and writes back out that step-up in revenue. The base funding is about $4 million to $4.5 million in activity for the function that will now be funded from the port users.

Hon ROBIN CHAPPLE: I refer to "Financial Management and Reporting" on page 611. Has Treasury given advice about or otherwise been involved in or become aware of any changes in policy or approach within the Lotteries Commission during 2013–14?

Mr Barnes: During 2013–14—not that I am aware of. We provided advice to the EERC on the Lotteries Commission budget as part of this year's budget process, as we do with any other agency but beyond that, no.

The CHAIR: I am still waiting for it to pay out on my Power Ball

Hon ROBIN CHAPPLE: Did the Premier, as minister responsible for Lotteries Commission issue any directions under section 71 of the Lotteries Commission Act 1990?

Hon HELEN MORTON: Once, again, Mr Chair, this is a question that needs to be directed to the Premier's portfolio rather than the Treasurer's?

Hon ROBIN CHAPPLE: In that regard, has Treasury offered any advice in relation to that advice? I am referring to "Financial Management and Reporting" on page 611—the responsibilities of Treasury.

Mr Barnes: We are certainly not aware of any direction, member.

Hon ROBIN CHAPPLE: If I were to ask whether Treasury was satisfied that any such directions comply with section 72(4) of the Lotteries Commission Act —

Hon HELEN MORTON: I am looking at page 611, which refers to "Services and Key Efficiency Indicators" at the top.

Hon ROBIN CHAPPLE: That is correct.

Hon HELEN MORTON: At "1" is "Financial Management and Reporting", and you are asking about directions given by the Premier?

Hon ROBIN CHAPPLE: Treasury provides advice on lots of matters under that area in relation to fiscal management in other departments.

The CHAIR: Minister, I agree with you if it is about the specifics of what the Lotteries Commission is doing or the Premier is doing. I accept that that is not something you or your agency can advise on, but if it is around what an action that Treasury has taken in terms of that process, it is in my view a legitimate question. It is a very narrow question in terms of whether Treasury has played a role or provided advice regarding those matters.

[3.00 pm]

Hon HELEN MORTON: I think the Treasurer has already responded that apart from their normal EERC advice, they are not aware of any other involvement.

Hon ROBIN CHAPPLE: I have one further question related to page 611. Regarding the Railway Agreement (Western Australia) Amendment Bill 2014, introduced on 27 March into federal Parliament, how is WA's liability under this $1.6 million loan accounted for in the 2014–15 budget? How, if at all, will the expected passage of the above bill change the way the liability is accounted for by WA?

Hon HELEN MORTON: I am looking at page 611, and again I cannot see anything on there that is related to the topic.

Hon ROBIN CHAPPLE: There is nothing in the budget papers at all, yet it is a fiscal matter that Treasury must be aware of.

Hon HELEN MORTON: So it is not related to page 611 at all?

Hon ROBIN CHAPPLE: It certainly comes to the provisions of advice by Treasury to government.

The CHAIR: The way I heard the question, this is about whether or not a matter has been incorporated into the budget papers; and, if it is, where in the budget papers is it because the member cannot find it. In that respect Treasury is the best agency to identify if it is in the budget somewhere; and, if so, under which agency, because the member cannot find it.

Hon HELEN MORTON: In attempting to really understand what you are asking, you are going to have to again indicate the issue that you are trying to find some information about because neither myself nor the Acting Under Treasurer have actually cottoned on to the specific detail that you are looking for.

Hon ROBIN CHAPPLE: I will read it very slowly. How is WA's liability under this $1.6 million loan—which was the Railway Agreement (Western Australia) Amendment Bill 2014, introduced on 27 March into federal Parliament—accounted for in the 2014–15 budget? How, if at all, will the expected passage of the above bill change the way the liabilities are accounted for in WA?

The CHAIR: Was that $1.6 million or $1.6 billion?

Hon ROBIN CHAPPLE: It is $1.6 million.

Hon HELEN MORTON: That is in a piece of legislation going before the commonwealth?

Hon ROBIN CHAPPLE: It has passed the commonwealth.

Hon HELEN MORTON: In transport?

Hon ROBIN CHAPPLE: It actually is a fund that has been cancelled and it appeared in both federal budget papers and there is nothing about it and its ramification appearing in this budget.

Mr Barnes: Member, it is an issue I am not aware of.

Hon ROBIN CHAPPLE: Can I put that on notice?

Mr Barnes: I would be fairly confident in saying that it is not reflected in our budget if it is the subject of what was, at the time of our budget cut-off date, a bill before the federal Parliament but had not yet been passed. We would not have pre-empted the passage of a commonwealth bill in our budget papers until it actually had been passed. I am pretty confident in saying that it is not reflected in our budget.

The CHAIR: Are you happy to take that on notice and provide the member with some further information if you are able to identify anything where it is incorporated in the budget?

Mr Barnes: Yes. We are happy to explore that.

[*Supplementary Information No A3.*]

Hon KATE DOUST: I refer to page 609 under "Efficiency of Government Service Delivery". There are references to the community service subsidy in the Treasury document. I have a couple of questions around this issue. I want to know what Treasury's attitude is towards the widening gap between the weighted average unit cost of a hospital separation in WA and the national efficient price as set by the national pricing authority. I understand that in 2013–14 the WAU was $5 319 but in 2014–15 it has increased to $5 540. I also understand that the Department of Treasury has a community service subsidy, as noted in that dot point, which is about $167 in 2013 but which is supposed to eventually taper out to zero in the 2017–18 period. I understand it will actually increase in 2014–15 to around $540 per patient, or $320 million, in the coming year alone. I understand that means that the community service subsidy will actually increase over the forward estimates; that it is increasing and not reducing; that we are actually further away from the national efficient price than ever before; and that the community service subsidy from Treasury is increasingly unlikely to get to zero. My first couple of questions are: What is Treasury doing to bring down the community service subsidy? What corrective measure has the Department of Treasury recommended to Health? As we see in the budget papers it says that Treasury will continue to work closely with Health in this regard. If you could answer those first two questions, that would be very helpful.

Mr Barnes: Member, I might refer you to page 82 of budget paper No 3, if I can. This is in the "Statement of Risks". We highlight, and we are quite transparent, I quote —

> There is a significant differential between the cost of delivering hospital services in Western Australia and the national Projected Average Cost … as determined by the Independent Hospital Pricing Authority. Currently, Western Australia's cost of delivering services is 8% higher than the national average per each weighted unit of activity.
>
> The 2014-15 State Budget recognises this higher State cost differential and provides for the payment to WA Health of a Community Service Subsidy …

As the member referred to.

> Over the forward estimates, the CSS is projected to decline, consistent with the budget strategy to converge State hospital costs to the national PAC by 2017-18.

The Department of Health has been given that challenge by government. That is the challenge that the Department of Health needs to deliver. It needs to reduce that eight per cent cost deferential over the next four years down to zero. We acknowledge in budget paper No 3 that that is a significant challenge.

Hon KATE DOUST: And obviously one that you would be concerned about if they cannot achieve that?

Mr Barnes: Absolutely. Purely on the scale of Health, its budget is now $8 billion out of a total budget of $28 billion.

Hon KATE DOUST: Has this problem perhaps arisen due to the unexpected higher outcomes from the EBA negotiations from doctors and nurses that the Premier agreed to?

Mr Barnes: Western Australia, across most public servant occupation groups, does have generally the highest or second highest salary levels in the country. Wages are one factor in the higher cost of service delivery in WA relative to other jurisdictions.

Hon KATE DOUST: In your discussions with Health about how they would seek to taper this figure down, what types of matters have come up in the discussion about how they would implement this change; this reduction, if you like?

Mr Barnes: In terms of wage costs, the government CPI–based wages policy is the policy that the Department of Health and all other departments need to work towards. In terms of other costs, we are working with Health closely trying to identify efficiencies in procurement, ICT and corporate services, which, in Health, are very significant areas of expenditure. Also, I think a key point that needs to be made is that activity-based funding, which is what we are talking about here, needs to be used as a tool. It is not just a mechanism for setting a budget; it needs to be a management tool that the Department of Health uses, as other jurisdictions like Victoria have been using for 20 years, to identify and to benchmark the cost of delivering a unit of activity in hospital X compared to delivering the same unit of activity in hospital Y. If one hospital is doing it significantly cheaper with the same quality and safety outcomes as the other hospital, then using that as a tool to work out what the other hospital needs to do to meet that benchmark. That is a critical issue in reducing that cost deferential—actually using activity-based funding as a tool to drive those efficiencies.

Hon KATE DOUST: In layman's terms, what will be the impact on front-line services for Health to achieve the outcome that you desire, for them to reach zero by 2017–18? What impact on front-line services would occur?

[3.10 pm]

Hon HELEN MORTON: I would just indicate that that is a question that you can direct to the Minister for Health's representative later on this week.

Hon KATE DOUST: I appreciate that. But Treasury is obviously having ongoing discussions with Health, so Treasury must have some appreciation of whether there will be an impact on front-line services to the Western Australian public. So I am just asking what sort of front-line services will be impacted in order for Treasury to achieve the outcome that it wants?

Hon HELEN MORTON: It is broader than Treasury; the activity-based funding of course is broader than Treasury. Is also being run nationally as the national efficient price kicks in across all hospital and health services, particularly in patient areas. If you want to talk about the impact on front-line services, that information can be sought from the Minister for Health through the estimates hearings in his portfolio later on this week.

The CHAIR: Has the member finished on that area?

Hon KATE DOUST: I have a follow-up on that.

The CHAIR: Then keep going if you have a follow-up.

Hon KATE DOUST: Thank you. I referred earlier to the figure of $320 million. The community service subsidy in 2013–14 was estimated to be about $387.4 million over the four years. But in the 2014–15 budget, it is estimated at $320 million for this period alone. What is the new estimate for the community service subsidy over the forward estimates?

Hon HELEN MORTON: Of course that takes into account the additional growth in demand as well.

Mr Barnes: As the member mentioned, in 2014–15 the community service subsidy is $320.2 million. In 2015–16, it is budgeted to decline to $256.4 million.

Hon KATE DOUST: That is what Treasury would hope, but —

Mr Barnes: That is what is in the budget. That is the task that the Department of Health has been given. In 2016–17, the community service subsidy is budgeted to decline further to $146.8 million, and then it ceases in 2017–18.

Hon HELEN MORTON: I would just add there are other states that are achieving that, and there are small pockets of work taking place in Western Australia that are achieving that now, too.

The CHAIR: I wonder whether the Mental Health Commissioner is assisting in this as well?

Hon HELEN MORTON: It is very possible.

The CHAIR: With regard to projected average costs, is that a national average or does it make allowances on a state-by-state basis for additional costs, such as the fact that Western Australia does have a slightly higher cost structure than a number of the other states because of our higher housing prices and our higher general wage costs because of the impact of the mining industry and the like?

Mr Barnes: It does have loadings for those sorts of factors. There is debate—similar to the grants commission process, I guess—as to whether those loadings sufficiently cover those factors. The Department of Health argues that it does not cover the cost of remote service delivery, and it is taking that debate up with the Independent Hospital Pricing Authority.

The CHAIR: So it is not a national average; it is an average with loadings for differentials?

Mr Barnes: Yes.

The CHAIR: Are we able to get any idea of what those loadings are for remote areas, and also for Indigenous, which I imagine would be another potential loading? Are we able to get a breakdown of what the different loading components are on top of what would be the base national average figure? I do not expect that you would have that now, but is that something that you would be able to provide on notice?

Hon HELEN MORTON: I am very aware that this is work that the Department of Health is involved in. Is this something that Treasury would have?

Mr Barnes: We would need to obtain that information from the Department of Health.

Hon HELEN MORTON: Mr Chairman, you really might just as well ask the Department of Health later on this week.

The CHAIR: I am more than happy to do that. It also raises the whole issue around the GST, which would come under the Department of Treasury. So maybe Treasury could give us what the loadings are within the GST for the horizontal equalisation payments for cost structures in Western Australia, and we can deal with the Department of Health separately. Could Treasury give us an analysis of what provision is made in the GST payments with respect to additional cost structures in Western Australia?

Mr Barnes: I am happy to do that, Chair, with respect to the Commonwealth Grants Commission process.

[*Supplementary Information No A4.*]

Hon MARK LEWIS: I have a follow-up question from the earlier discussion or inquiry by Hon Peter Katsambanis, where we went through the methodologies that are used by Treasury for iron ore prices. The other critical leg of this is the exchange rate. I have read the information at page 75 of budget paper No 3 about the exchange rate. Can you give me an idea of the methodology by which Treasury settled at the figure of 90.9c for this year?

Mr Barnes: Sure. The exchange rate methodology that we use is a purely market-driven methodology. So we simply take the forward contract prices for the exchange rate. The forward futures market for the Australian dollar sets a price each year out into the future across different maturities, and in the lead-up to the budget cut-off date we take a reading of what those futures market prices are, and they are our assumptions for the budget. So, as I said, it is a purely market-driven approach on the exchange rate.

The CHAIR: So you have moved away from taking the previous six weeks' average?

Mr Barnes: Yes.

The CHAIR: I thought the reason you did not go into the futures market was because of the volatility of that in the past? Why has there been a change?

Mr Barnes: We changed methodology on the exchange rate probably 18 months ago, or thereabouts. We did a lot of work back-casting alternative methodologies against history, and the futures market as it turned out performed better than alternative methodologies, and it has now reached the stage of sufficient maturity and liquidity that it is a pretty representative market. So we took some confidence in changing that methodology.

Hon MARTIN ALDRIDGE: Page 609 of budget paper No 2 refers to the new program evaluation unit established by Treasury in September of last year. Had that unit been established long enough to provide input into the 2014–15 budget process in terms of evaluation of government programs?

Mr Barnes: The short answer is no. This is the work that is currently underway and that I was referring to earlier in the context of grants and social concessions. The Department of Treasury was asked by government to establish a program evaluation unit within Treasury. We did not receive additional funding for that, so we had to reprioritise existing resources to establish that unit, which we have done. That unit has been up and running since late last year. It is now supporting these directors general steering committees that have been established to undertake the evaluations. There are a few areas of evaluation that are currently underway, of which grants and social concessions is one. Other areas include information and communication technology, particularly around ICT procurement arrangements; government regional officer housing; and some issues around corrective services, which are highlighted in the budget papers. Those evaluation processes have commenced and are underway, and we are gathering the data. We have reflected at a global level the $50 million a year in savings from 2014–15, and between now and the midyear review in December we will be presenting to government specific recommendations and options for identifying and realising those global savings, and they will be then reflected in the midyear review.

[3.20 pm]

Hon MARTIN ALDRIDGE: Would that unit then report directly to EERC in terms of providing advice on programs that perhaps are not hitting the mark anymore and should be cut through the budget process?

Mr Barnes: Indirectly. The government’s arrangements are that with these directors-general steering committees that have been established, each of those steering committees will report into EERC. The program evaluation unit that has been established in Treasury is supporting each of those steering committees and, if you like, doing the grunt work behind the scenes. But it is the DG steering committees that will be reporting into EERC with those specific recommendations and options.

Hon MARTIN ALDRIDGE: You highlighted some broad areas of review. Are you able to give us a list of specific programs that are under review?

Mr Barnes: At this stage it is just those broad areas that I outlined, rather than specific programs. What we have tried to focus on is areas of activity across government at this stage, rather than within an agency. So, ICT procurement is an issue that obviously spans just about every agency. We have done that because we think that there are, similar to the comments I made earlier about the administration of grants and social concessions, efficiencies to be had from aggregating or consolidating and getting economies of scale from the current very disaggregated approach.

Hon MARTIN ALDRIDGE: On page 604 of budget paper No 2, there are a couple of line items there that I might ask for a couple of quick explanations of. In the top section you have got “Acts of Grace” payments, and you forecast, on average, a $5 000 a year allocation to that line item. However, in the 2013–14 estimated actuals, you have a payment of $166 000. Could you tell me what that is?

Mr Barnes: If you can just give me 30 seconds, I should be able to tell you. The advice I have is that that $166 000 that you are referring to in 2013–14 reflects a payment to assist the Office of the Director of Public Prosecutions, which had been approved to make a payment by the Attorney General under section 80 of the Financial Management Act. I have no further detail than that. But it was an act-of-grace payment that the Attorney General approved that the DPP make, and that is what that $166 000 refers to. I am not aware of the details of the specific case.

Hon MARTIN ALDRIDGE: It might be a question for the Attorney General later today. For the “ANZAC Day Trust”, there is an amount of $300 000 fairly consistently across the budget and the forward estimates. What are those funds allocated for?

Mr Barnes: The Anzac Day Trust distributes funds to organisations formed for the benefit of ex-service personnel and their dependants, so the major beneficiaries of those grants, which, as you say, are around $300 000 a year, are the RSL and Perth Legacy.

The CHAIR: Just whilst we are on that page, the $11.5 million for the Town of Cambridge: are you able to advise us as to what that payment is for?

Mr Barnes: Chair, the advice I have is that that $11.5 million to the Town of Cambridge represents 50 per cent of the estimated profit generated from the development under the Bold Park agreement. Further detail than that I am afraid I do not have.

The CHAIR: All right. I thought it was about $24 million that was originally expected to be the profit. Has that money now been paid by the WA Land Authority to the government, or when do you expect that money to be paid?

Mr Barnes: My understanding is that it has not been paid and that the estimated profit is around the $24 million mark, so that $11.5 million is 50 per cent of that estimated profit.

The CHAIR: In the *Government Mid-year Financial Projections Statement* it seems to be the first time that that $11.5 million figure occurs in the budget papers that I can recall, and that talked then about a one-off payment of $27 million as a special dividend and taxes from the WA Land Authority, and that was expected in the 2013–14 financial year. Mind you, at that point you were also predicting that the $11.5 million would be paid in the 2013–14 financial year. Then I noted last year that the budget papers said it would be paid in the 2014–15 financial year, and now I see you say it is going to be in the 2016–17 financial year. The Bold Park agreement is something that pre-dates even my appearance in this chamber. It goes back to an agreement that was reached as part of the splitting of the City of Perth. So I am trying to work out why it is constantly being delayed and pushed back and why we still cannot settle the problems of council splits or amalgamations some decades after they have occurred.

Hon HELEN MORTON: Mr Chairman, I am advised that we have reached the limit of Treasury's understanding on this matter —

The CHAIR: That is a worry, is it not?

Hon HELEN MORTON: — and that it probably needs to be directed to the Minister for Planning.

The CHAIR: Do you think it is the Minister for Planning?

Hon HELEN MORTON: Well, unless you know otherwise, that is my best guess at this stage. How long have you been in this chamber?

The CHAIR: Since 1997, minister.

Hon HELEN MORTON: Yes. So that is a long, long time ago.

The CHAIR: It is, is it not, but we are still having disputes that arose out of the splitting of a local government authority, and we are still spending money on it and we still cannot sort it out.

Hon HELEN MORTON: And this issue pre-dated your commencement in the chamber.

The CHAIR: Yes.

Hon HELEN MORTON: Okay. The best guess I can give you is that it would be under Planning, but if you actually know otherwise, I would be happy to—would you like us to find out who actually is —

The CHAIR: I just want to know whether anyone in Treasury understands why this amount keeps getting pushed back. We know why it is in the budget. That is because the Premier chose to put it in because it is an issue that he was having fights with the then Minister for Lands, Doug Shave, about a decade ago.

Hon HELEN MORTON: So it was the Minister for Lands.

The CHAIR: It was the Minister for Lands and the current Premier—in fact, there were always rumours about an event that occurred in this Parliament one night in hot discussion about this Bold Park agreement, and that was during my time in the Parliament.

Hon HELEN MORTON: Do you want us to do some work for you as a supplementary question?

The CHAIR: Yes, and I would like to know whether we have actually booked the money from the WA Land Authority into the budget paper and why that amount keeps getting pushed back. If you are able to do that, we will make that supplementary information number A5.

[*Supplementary Information No A5.*]

Hon SIMON O'BRIEN: I refer to an entry for "Accommodation" on page 613 of the budget papers under "Cost of Services". I note that there is a large increase in that particular cost item, which is put down in the footnote to a transfer of accommodation expenses from the Department of Finance for that year and the forward years. I was just wondering what is the accommodation we are providing with that money? Who is it for and where is it, please?

Mr Barnes: Member, that accommodation is for the Department of Treasury, and the space that we occupy currently at 140 William Street, Perth. Up until the end of this financial year, the Department of Finance has been meeting that accommodation cost on our behalf. That has now been transferred to the Department of Treasury's budget.

Hon SIMON O'BRIEN: Right. It has got to come from somewhere; I acknowledge that. Previously, last year's expense, for example, for this same item was $443 000. So, what was that for if Finance was previously paying your accommodation costs?

Mr Barnes: I might have to take that one as supplementary information. I think it would be due to —

Hon HELEN MORTON: Mr Mann can answer this question.

[3.30 pm]

Mr Mann: We would need to confirm but I suspect that is the accommodation for the strategic projects business unit of the Department of Treasury, which is located in the 140 William Street precinct but in a heritage building that is separate to the remainder of the Department of Treasury.

Hon SIMON O'BRIEN: So, it cost $4 million to accommodate this agency, your agency, is that correct, per annum?

Mr Barnes: Yes.

Hon SIMON O'BRIEN: What other options are there? That seems to me a very large sum of money, and you are an agency that is often telling all the other agencies that they need to tighten their belt. How many people are we accommodating for $4.4 million per annum?

Mr Barnes: The Department of Treasury has about 250 FTE in the sort of core or traditional Treasury part of the department; and in the strategic projects business of the Department of Treasury we have about another 50 to 60 FTE; so, about 300 all up spread across the two buildings at 140 William Street and the heritage building that is in the precinct that Mr Mann mentioned. The Department of Finance has carriage for whole-of-government office accommodation, and it makes recommendations and gives advice to government on which agencies should go where. It does that from a whole-of-government, value-for-money perspective and, like a good agency, we go where we are told to go; and in this case we were told to move into 140 William Street a couple of years ago out of St Georges Terrace, so we moved; and that was in line with that whole-of-government office accommodation strategy. So it was not a decision made by the Department of Treasury; it was us acting in accordance with that whole-of-government strategy and the decision the government had made.

The CHAIR: So, a decision of the then Minister for Finance no doubt.

Hon SIMON O'BRIEN: But, Mr Chairman, I am sure it was a very good decision, if that was the case! I was leading up to the prospect: did this agency fight with the Department of Commerce to go out to the Mason Bird building out in Cannington? Would you have preferred that to 140 William Street, or did you lose that fight?

Mr Barnes: As I said, member, we played the good corporate citizen and we went where we were told to go.

Hon SIMON O'BRIEN: Gee, you play a straight bat too, Michael; I will give you that! Thanks, Mr Chairman.

The CHAIR: I am still waiting to find out which agency is going to Fremantle, Joondalup and Stirling, as you promised in your former capacity, Hon Simon O'Brien.

Hon SIMON O'BRIEN: I would like to find that out too!

The CHAIR: Does that mean that strategic projects is staying with Treasury now?

Mr Barnes: That is my current understanding, yes.

The CHAIR: There was a decision that it was going. So, has that decision been formally rescinded and they are staying and they are now loved again?

Mr Barnes: The decision has been communicated to me by the Treasurer that strategic projects will be remaining within the Department of Treasury.

The CHAIR: So the previously announced decision on going is rescinded?

Mr Barnes: As I understand it, yes.

Hon ALANNA CLOHESY: I refer to "Reconciliation relating to Major Functional Transfers and Accounting Policy Changes" on page 616 of budget paper No 2, and particularly to "Details of Administered Transactions" further down the page. I want to look at the Insurance Commission of WA. I note that there is an approximate $30 million drop between the 2013 estimates actual and the 2014 budget estimate. Can you talk me through why that might be the case?

Mr Barnes: Member, this is the dividend payments that are expected from the Insurance Commission, which I just point out are estimated to decline from $64.5 million this current financial year to $35.9 million in 2014–15.

Hon ALANNA CLOHESY: I am sorry, I missed that.

Mr Barnes: Dividends paid by the Insurance Commission are estimated to decline from $64.5 million in this current financial year to $35.9 million in 2014–15, so that is the decline you are referring to of almost $30 million. There has been no change in government policy that is behind it. My understanding is that it would simply reflect updated profit forecast from the Insurance Commission and, in particular, updated estimates of the returns on their investments, which tend to drive their dividend payments to government.

Hon ALANNA CLOHESY: Right, but government took a dividend from ICWA this year; yes?

Mr Barnes: I am sorry, I missed that.

Hon ALANNA CLOHESY: Government did take a dividend from ICWA this year?

Mr Barnes: This current financial year, yes.

Hon ALANNA CLOHESY: Right, okay, as well as increasing insurance costs, in addition to that?

Mr Barnes: Compulsory third party premiums.

Hon ALANNA CLOHESY: Yes, that is right.

Mr Barnes: Yes, in the budget; that is right.

Hon ALANNA CLOHESY: So, have you got an understanding about what some of those reductions would be that ICWA have estimated, so that some of their investments might not work as well?

Mr Barnes: I might ask Ms Gulich if she can elaborate.

Mr Gulich: I refer the member to page 295 of budget paper No 3. There is a table up the top there, table 8.5, that covers the Insurance Commission of Western Australia. The $64.5 million that was paid in 2013–14 included a dividend payment relative to the 2012–13 year. So, the legislation, when passed, allowed for a 2012–13 final dividend payable in the 2013–14 year. So that year, 2013–14, includes the 2012–13 full dividend and the interim dividend for the 2013–14 year. The actual profitability of the Insurance Commission has been relatively stable for an insurance agency, so the change in dividend profile there is not reflective from a profit change.

Hon HELEN MORTON: Can I also make a comment? I got the gist of the question, which was around increasing premiums.

Hon ALANNA CLOHESY: No, the question was actually about why there was a $30 million decrease between the estimated actual and the budget estimate over the last 12 months, and I have got the answer to that in addition to that.

Hon HELEN MORTON: Subsequently you made a comment about them taking a dividend even though they put up prices, and the issue that I wanted to just confirm or to make mention of, was that the income from the investments is what actually drives the potential for government to take a dividend. The actual third party insurance premium section of ICWA runs at a loss and is actually subsidised by the investment process as well.

The CHAIR: I understand that, and that has been the tradition, but what you are basically saying is that the introduction of the dividend was so that that money that is raised through the investment arm of ICWA can now go into consolidated revenue rather than be used to keep down premiums. That is what you have just said. That is how I have interpreted what you just said. Am I missing something?

Hon HELEN MORTON: The other comment that I would make is that the premiums are substantially lower than any other state in Australia, even with the increases, but the dividend is still applicable when the profits that are coming from the investments are being made by ICWA.

The CHAIR: In budget paper No 3 at page 60 you actually point out that the claims expenses for both the number and volume have been revised down.

Hon HELEN MORTON: I am sorry, have been?

The CHAIR: Page 60 of budget paper No 3 talks about a growing strong surplus and the fact that the projected claims expenses for ICWA have been projected down. So, you are not actually expecting to get an increase in claims, and yet, we see a 3.7 per cent increase in third party insurance. Why?

Mr Barnes: The only answer I can give is that the 3.7 per cent increase in CTP premiums is as per the recommendation from the Insurance Commission's actuary, so the government simply adopted the actuary's advice. And the actuary's advice takes in, obviously, a wide range of factors, including the expected future claims expenses, including expected future investment earnings. Investment earnings have a significant impact on CTP premiums, as the minister said, but that is the actuarially determined increase in CTP premiums.

[3.40 pm]

The CHAIR: Is there also, when calculating that increase, a requirement to also try and generate sufficient dividends and income tax expenses? Income tax expenses seem to be the big growth area over the forward estimates in terms of the revenue you expect to get from ICWA. Last year, you were expecting to get $77 million, but only $13 million in income tax expenses and $64 million in the double dividend—for want of a better term—and then you see quite significant growth in income tax expenses, so is part of the actuarial advice about also driving a profit so that it generates income tax and dividends for government?

Mr Barnes: Ms Gulich.

Mr Gulich: No, I do not believe so. I believe the actuary takes into account, as the Under Treasurer said, the likelihood of claims, the volume, the value and the forward estimates. Obviously claims have a very long tail so it is both what has occurred now, in the past and what they predict to occur in the future.

The CHAIR: Is that possible to get that actuarial advice? Make that A6, unless I hear something to the contrary.

Hon HELEN MORTON: No; this has not been agreed to, Mr Chairman. The actuarial advice does not belong to Treasury.

The CHAIR: We will put a question to ICWA then. Hon Rick Mazza.

Hon RICK MAZZA: Royalties for regions, I would like to ask a few questions about that. Can you tell me what the current balance is in the royalties for regions fund?

Mr Barnes: There is an appendix in budget paper No 3, from memory, appendix number five. I am just trying to find the right page.

Hon RICK MAZZA: It does not give a current balance of the fund—that I can find anyway.

Mr Barnes: If you go to that appendix I was referring to, page 266, budget paper No 3. At 30 June this year, the closing balance of the royalties for regions fund is estimated to be $939 million.

Hon RICK MAZZA: In reference to the Economic Regulation Authority report recently, which was quite critical of the royalties for regions fund, particularly hypothecated funds, has the Treasury done any modelling on what effect there would be on the budget if the royalties for regions fund was abolished?

Mr Barnes: No.

Hon RICK MAZZA: Why not?

Mr Barnes: Because it is not government policy.

Hon RICK MAZZA: Seeing that the cap on expenditure has now been capped at $1 billion and it is estimated that about a quarter of a billion dollars per annum will be moved to the future fund, what projects are earmarked for the future fund?

Mr Barnes: With the future fund—and this is established in legislation that was passed by Parliament in November 2012, from memory—the future fund legislation requires that around $1.1 billion in royalties for regions seed capital is transferred into the future fund over a period from 2012–13 to 2015–16; so that is $1.1 billion in cash that otherwise would have been sitting in the royalties for regions fund or expended out of the royalties for regions fund that has been and will be transferred into the future fund where it will be preserved in the future fund indefinitely. Then the balance of the future fund accumulates over a period of 20 years, to 2031–32, and then after that point the interest earnings on that balance can then be spent on new infrastructure for the state, but only the interest earnings on the future fund.

Hon RICK MAZZA: Can you advise, with the inflexibility of the hypothecated royalties for regions fund, whether that contributed in any way to the downgrading of our credit rating in the state from Standard and Poor’s?

Mr Barnes: It was not a factor that Standard and Poor’s highlighted to us in their decision.

Hon RICK MAZZA: I have no other questions.

The CHAIR: Hon Peter Katsambanis.

Hon PETER KATSAMBANIS: I make no apology now for moving on to what is a pet topic of mine and I think an important subject for the future of Western Australia's public finances. I am going to take you to page 105 of budget paper No 3, which talks about the Commonwealth Grants Commission 2015 Methodology Review. In the second paragraph it says that the commonwealth government's terms of reference for the 2015 review, which was issued in June 2013, indicated that there should be a draft report provided for the consideration by the commonwealth and the state treasuries within 12 months. Being June 2014 now, have we received that draft report?

Mr Barnes: Not yet

Hon PETER KATSAMBANIS: Is there any indication as to whether it will be provided by the end of the month as the terms of reference state?

Mr Barnes: That is still the expectation.

Hon PETER KATSAMBANIS: Is there any indication ahead of the draft report on what subjects may be contained in it?

Mr Barnes: Unfortunately, we have had no heads up, if you like, as to what will be in that draft report. We, as in WA Treasury, have made a couple of quite substantial submissions into the methodology review process which have been focussed very much on the mining revenue assessment, so we hope and expect that there will be a fair bit of focus on the mining revenue assessment in the draft report. In fact, from memory, that was highlighted in the terms of reference given to the grants commission to explicitly look at the mining revenue methodology.

Hon PETER KATSAMBANIS: Are you at liberty to indicate to us whether Treasury's submission to the review in relation to mining revenue and the assessment of mining revenue differs either marginally or significantly from the recommendations made in the GST distribution review—the Brumby–Greiner–Carter review?

Mr Barnes: Our recommendations do differ significantly from that review. Our view is that the review that you are referring to, the Brumby–Greiner review—I am trying to find a way to put it politely, but I cannot—tinkered at the edges.

Hon PETER KATSAMBANIS: It was not a radical change to the existing formula.

Mr Barnes: No, it was not; and it recommended only a three per cent discount to the mining revenue assessment, and that was meant to be in recognition of unrecognised costs incurred by the state in supporting the resources industry and the communities that are built up around those industries. But a three per cent assessment is, from our point of view—sorry, a three per cent discount to the mining revenue assessment, from our point of view, is grossly inadequate and does not deal with the more fundamental issues around particularly volatility that we are seeing now. Also the grants commission's current methodology for the mining revenue assessment, our view is that—sorry, their current methodology is based on a classification of royalties by high-rate royalty groups and low-rate royalty groups, so when a state government makes a decision to change a royalty rate on a particular mineral and where that decision results in a mineral shifting from either low rate to high rate, or vice versa, that can and does have very significant consequences for a state's GST share. Our view is that the grants commission methodology is meant to be policy neutral, so the current mining revenue assessment, given that low-rate, high-rate classification that it uses, by definition is not policy neutral. So that is one of the significant concerns that we have raised with the grants commission, and we have asked and we have recommended in our submissions that they move away from that methodology of the high-rate, low-rate categories, probably more to a mineral-by-mineral assessment, but an assessment that is policy neutral in keeping with the principles of the grants commission process.

[3.50 pm]

Hon PETER KATSAMBANIS: And in relation to the suggested three per cent discount rate for mining revenue to take into account those factors that you mentioned, I am not necessarily sure that they are unrecognised factors; I think you used the word. I think everyone recognises those factors; they just do not reflect in the methodology. Are we comfortable with the three per cent or have we recommended a higher figure than three per cent?

Mr Barnes: We have certainly recommended a much higher discount than that from memory, where we have recommended in our submissions an up to 50 per cent discount. We think three per cent is grossly inadequate.

Hon PETER KATSAMBANIS: I think it is solely a figure that was based on recognising that there was an issue without actually providing a figure that would materially address it in any way. You do not need to comment on that.

Mr Barnes: That is correct.

Hon PETER KATSAMBANIS: You mentioned how the Brumby–Greiner review sort of tinkered at the edges and it intimated rather than suggested that a better way to go in the future would be to move to a per capita distribution to avoid all these issues around methodology and mining revenue assessment and the like. The National Commission of Audit, which obviously came out after the terms of reference for the review were written, was far more forthright in its recommendation that we should move to a per capita distribution and the commonwealth should be responsible for any top-up funding for states that may be considered to be missing out in such an arrangement. Is there any indication that the terms of reference for the review may be altered or adjusted in any way so that it can directly take into account the recommendations of the National Commission of Audit?

Mr Barnes: My understanding is no.

Hon PETER KATSAMBANIS: Who would be primarily responsible for altering the terms of reference?

Mr Barnes: The federal Treasurer.

Hon PETER KATSAMBANIS: Since the National Commission of Audit, has there been or is there any intention for WA to make a further submission to take into account those findings around GST distribution that the audit found?

Mr Barnes: We will have another opportunity to comment on the Grants Commission’s draft report that we are expecting by the end of this month and to make further submissions between now and finalisation of their report in February next year. We will have that opportunity and we will be making those cases again.

Hon PETER KATSAMBANIS: What is Treasury’s view on what it would consider to be a fair and equitable outcome of either the methodology review itself or of GST distribution following the implementation of any review?

Mr Barnes: It is very difficult for me to put a number on it, if that is what you are asking.

Hon PETER KATSAMBANIS: Perhaps the methodology, then, rather than a number.

Mr Barnes: The key methodology issue is, as I indicated before, the mining revenue assessment, and particularly this current methodology of classifying royalties by high-rate and low-rate groups, and the policy distortions and the policy disincentives and also the volatility in GST shares that that methodology generates. We want to see a fundamental shift in the methodology for the mining revenue assessment to one that is policy neutral and it does not drive large shifts in the state’s GST share, if a mineral shifts or if the state government makes a policy decision to change a royalty rate.

Hon PETER KATSAMBANIS: More broadly on a per capita distribution, discounting all these factors?

Mr Barnes: Equal per capita distribution is the long-term goal; it is the long-term game. We have support from New South Wales, Victoria and Queensland for that. As you indicated, the Brumby–Greiner review did not recommend that but suggested that that would also be an appropriate long-term goal. Now the Commission of Audit has done likewise. I guess I take some heart from the fact that the case seems to be developing and building, but it will be, I think, a long-term game.

Hon PETER KATSAMBANIS: If we are tinkering around the methodology of mining-related revenue, should there be an inclusion of gaming or gambling or wagering-related revenue in the methodology going forward?

Mr Barnes: From our point of view, that is not a material issue. Some years ago, gambling revenue was included in the Grants Commission process. It was then excluded a number of years ago—I cannot remember exactly when—on the basis that it had negligible impacts on the states' GST shares, so there was agreement amongst the states and the commonwealth at the time that gambling would be removed from the Grants Commission methodology and process because it was creating work and complexity and having a negligible impact on GST shares.

Hon PETER KATSAMBANIS: Do not get me wrong; I would rather go to the per capita distribution and not worry about what bits are included and what bits are excluded, but it sounds like we are still in a gradual process rather than a revolutionary process.

Mr Barnes: I think that is a fair statement.

Hon SUE ELLERY: I refer to page 12 of budget paper No 3. The third dot point from the bottom talks about new infrastructure in schools and it refers to investigating the use of public–private partnerships. What modelling has Treasury done already on the use of public–private partnerships in school infrastructure?

Hon HELEN MORTON: Richard Mann.

Mr Mann: Thank you, member. Modelling would probably not be an accurate description of the analysis being undertaken. There has been some preliminary modelling of the likely capital and recurrent costs associated with such a delivery method. We are in the process now of preparing what we refer to as a project definition plan, which will examine the feasibility of a model for delivering a proposed package for schools. That will be submitted to government, we expect, early in the coming financial year and with a recommendation with respect to whether or not that model should be adopted.

Hon SUE ELLERY: So if I describe that perhaps as a desktop analysis so far rather than maybe use the word "modelling", has the work that you have done already given you any ballpark figure of potential savings, if any?

Mr Mann: It is more so benchmarking across results in other jurisdictions which are consistent. In four other jurisdictions where the model has been successfully used, they have consistently reported savings relative to the public sector comparator, which is the measure of the theoretical cost of delivery of the asset plus the services under traditional public sector procurement. Those results have historically delivered notionally around 10 per cent or greater savings against the public sector comparator. On that basis, the historical evidence is that it has a very good track record in delivering savings against conventional models for a variety of reasons. The bundling of services provides an economy of scale, but also the nature of the model whereby a whole-of-the-life approach is taken to design, thereby reducing facilities management costs over the term of the concession period, could also lead to savings in the recurrent sense. So, I guess, in summary, the track record is that the model, if delivered well and delivered with an appropriate package of services, as well as assets, has a good track record in delivering savings. That will certainly be taken into account in our ultimate recommendations.

Hon SUE ELLERY: So in the sort of desktop analysis that you have done to date, what will the global dollar figure be for that 10 per cent saving when looking at the WA public sector comparator?

Mr Mann: It is a little bit early to complete that analysis, because one of the key decisions will be finalising the ultimate scope of services. We are still waiting for the Department of Education to provide confirmation of what the scope of services is. That is important because that usually significantly outweighs the initial capital cost. Until we do that, it is really guesswork. But a notional capital cost—I am just giving hypothetical numbers here—of, say, $200 million could well be dwarfed by a net present cost of delivery of services of, say, five or 10 times that. So it is really the scoping of the service that is important in determining the overall likely saving.

[4.00 pm]

Hon SUE ELLERY: In terms of the scoping of the services, what sort of things would be bundled together? As I imagine this, you could have version A, which is that your scope includes X, Y and Z; version B, in which your scope includes X and Y; and version C, in which your scope includes A, B and D or something like that. Have you asked the Department of Education or made suggestions or already had discussions about what might be in the different bundles that are being considered?

Mr Mann: Absolutely, and we have asked the Department of Education to confirm that. As the service delivery agency, it is responsible for identifying the precise scope of services that will be bundled under the model. But, typically, if I can use examples from other jurisdictions, the sorts of services will be fundamentally facilities management: building hard facilities management, building maintenance, pest control, security, cleaning, waste management and grounds management. Whether all of those services are ultimately bundled up in our model if it proceeds, is a matter for the Department of Education to confirm. They are the nature of the services that we would typically expect to be included in a schools PPP.

Hon SUE ELLERY: Those supporting PPPs would say that the difference in costs is around the difference between public finance and private finance. What sort of risks is Treasury expecting, anticipating, analysing that you would want to transfer to the private sector to make a PPP attractive?

Mr Mann: The overall extent of risk that you are seeking to transfer is really no different to what you would encounter in a traditional procurement model. I guess it is just your ability to effectively manage those risks if services are bundled in with design and construction, in the same way that design and construction through having the builder involved in the design process has the ability to mitigate design risk when the designer is designing a facility in isolation of, say, understanding constructability issues. The beauty of the model from the proponents that argue for it, is that you get that whole-of-life consideration in design development whereby the facility manager is actively involved in the design, so has the ability to drive a design that is a very efficient performer of the life of the facility, rather than a focus on the cheapest and quickest building to generate design-and-construct profit. That really is where you have the ability to generate savings over the 25 or 30-year concession period, through an efficient design and an efficient construction that, therefore, is efficient to maintain.

Hon SUE ELLERY: With respect to how we build schools now in WA, is Treasury aware of what our record is like? Are we doing things within budget and on time? Have there been consistent blowouts? Does Treasury have a view about how we have managed it so far?

Mr Mann: The best comparison is probably in the report subsequent to the conclusion of the Building the Education Revolution program, in which Western Australia's results for public schools—bearing in mind we are talking about components of schools, not whole schools—the unit rates that we were able to achieve in Western Australia under our delivery program were significantly better than virtually every other jurisdiction, and on a base-for-base comparison better than the Catholic school division as well. On the evidence of that program, we are very efficient in constructing schools—primary schools particularly. It is a bit hard to comment with respect to secondary schools, because they are not so prevalent in BER.

Hon SUE ELLERY: Can you give me the reference for that report; it was the evaluation of the BER? Was there a specific reference? If it cannot remember it now, maybe you can give it to me later?

Mr Mann: We can provide that as supplementary information. No, I cannot off the top of my head.

[*Supplementary Information No A6.*]

Hon SUE ELLERY: Has Treasury received any, I guess, unsolicited, is the word, PPP proposals regarding school infrastructure in the last five years? If you have, have you done any analysis on that and what did it tell you?

Mr Mann: We have received, certainly, to my knowledge, no unsolicited proposals in the strict sense of the word—so, a formal proposal to actually proceed with a project. We have, though, certainly, received a number of approaches from proponents who would be interested in using that methodology and who have approached government suggesting that it might be appropriate.

Hon SUE ELLERY: Did you do any analysis on those proposals?

Mr Mann: They were not put in a specific format that you would actually analyse, it was more recommending the process as a potential for something the government should explore because of the track record elsewhere.

Hon SUE ELLERY: I understand what you have told us already: that Treasury is waiting for the agency to provide you with kind of scoping options; who is going to drive the investigation and what is your timeline for making decisions?

Mr Mann: The actual planning exercise itself is being performed by strategic projects within Treasury. It is under the oversight of a joint agency steering committee, which is chaired jointly by strategic projects and the Department of Education and also has representatives of the core Treasury business plus the State Solicitor's Office. It will be that steering committee that makes the ultimate recommendation to government.

Hon SUE ELLERY: Do you have a sense of the time line?

Mr Mann: I indicated earlier that we expect that planning exercise to be completed early in the financial year.

Hon SUE ELLERY: Final question on this topic: given the nature of WA's geography, it is a significant cost differential constructing and providing a range of services the further you get from population bases, and we have schools everywhere; have you factored in whether this proposal could work in these kind of areas geographically, but it is just not going to be a viable option for certain other areas just because of our geography?

Mr Mann: That is a very valid point you raise. If you look historically, the majority of the successful projects previously tended to be in metropolitan areas, because the risk associated with delivery in remote areas, of which Western Australia is a good example of encountering, becomes difficult to transfer. The likelihood would be that it would be a metropolitan package, and we are not at this point looking at remote areas.

Hon ROBIN CHAPPLE: One question arising on page 605, under the heading "Other" and the line item "Oakajee Port Special Purpose Account", I notice that in 2016–17 there is $339 million. Can you explain why there is nothing before then and why it suddenly appears there?

Mr Barnes: Member, this relates to a fairly longstanding issue around Oakajee. This is the proposed contribution to that project from the state government. There was previously a proposal for the commonwealth government to provide an equal and matching contribution. I believe that the commonwealth government has now withdrawn that funding commitment, is that right?

The CHAIR: Can you confirm whether that is right or wrong?

Mr Barnes: I am virtually positive that that is the case, but I am happy to confirm that, if you would like, as supplementary information around the commonwealth's commitment.

The CHAIR: If you are not able to give us a definite answer now, we will take that as supplementary information.

[*Supplementary Information No A7.*]

Mr Barnes: The $339 million that the member is referring to relates to the state government's proposed contribution to the project. It has been in the forward estimates of the budget for some time now, but up until this budget it has been reflected in the forward estimates in the 2015–16 financial year. Given the delays associated with the project, as part of this budget process it was decided to push that contribution out a year to 2016–17.

Hon ROBIN CHAPPLE: Is the contribution established in 2016–17 a reflection of estimated price increases or is it the same reflected amount that appeared previously in the 2015–16 budget?

Mr Barnes: It is the same amount.

Hon ROBIN CHAPPLE: Is that an accurate way to do forecasting?

Mr Barnes: Well, it is not a forecast; it is the government's decision. The government has decided that it will make a contribution of $339 million, so this is simply reflecting that decision; it is not a forecast. The only thing that has changed is the timing of that contribution; it has been pushed out a year.

[4.10 pm]

Hon ROBIN CHAPPLE: So there has been no evaluation—the value of that cost, it is just a notional figure that is put in the budget by the government?

Mr Barnes: I would not call it a notional figure. It is the government's commitment, so the government has committed that it will make a contribution of $339 million and the size of that commitment is unchanged; it has simply been deferred a year.

The CHAIR: On the issue of confirming the commonwealth funding for Oakajee, is it that they have transferred to other projects or have they just completely withdrawn the funding? So when you provide that confirmation about what is happening can you indicate whether it has been allocated to other projects or whether it simply has been withdrawn?

Mr Barnes: Sure, we will find out what we can.

The CHAIR: That is all under A7.

Hon SUE ELLERY: Can I just confirm? Mr Mann gave me a commitment that he will provide a reference to the evaluation report into BER. I cannot remember whether we gave that a —

The CHAIR: The report on school buildings—that was supplementary information A6.

Hon MARTIN ALDRIDGE: I notice at least one reference I can find in budget paper No 3 where financial information has been omitted on a commercial-in-confidence basis. I refer to page 190 of budget paper No 3, and it relates to BGC and the Perth Arena. I am just wondering whether Treasury could provide some advice on how many occurrences within the budget we find financial information omitted on a commercial-in-confidence basis.

Mr Barnes: Member, I cannot give you an exact number of the top of my head; they are very few and far between.

Hon MARTIN ALDRIDGE: So there are very few of them?

Mr Barnes: Yes.

Hon MARTIN ALDRIDGE: Would you be able to take that on notice, because you would probably have an easier access to the information in terms of compiling the budget papers as opposed to me looking through every page of the budget.

Mr Barnes: I suspect we will probably have to flick through every page in the budget as well, but we are happy to do that for you!

Hon MARTIN ALDRIDGE: You have got more resources than I have!

[*Supplementary Information No A8.*]

Hon MARTIN ALDRIDGE: Where there is commercial-in-confidence information omitted, I assume that those agreements, if you like, would still be compliant with the Financial Management Act, section 81, which refers to information provision to Parliament. Would that be the case?

Mr Barnes: Yes.

Hon MARTIN ALDRIDGE: So essentially if Parliament were to require the information contained in these confidential agreements, those agreements would not preclude Parliament from requesting that information?

Mr Barnes: My understanding of the operation of that section of the FMA is that the relevant minister, which in this case would be the Treasurer, is only required to table in Parliament a reason as to why that information has not been disclosed, and then that reason is referred to the Auditor General, and the Auditor General makes a determination as to whether that reason is reasonable or not and advises Parliament accordingly.

Hon MARTIN ALDRIDGE: That is section 82; I am referring to section 81, which states —

> The Minister and the accountable authority of an agency are to ensure that —
>
> (a) no action is taken or omitted to be taken; and
>
> (b) no contractual or other arrangement is entered into,
>
> by or on behalf of the Minister or agency that would prevent or inhibit the provision by the Minister to Parliament of information concerning any conduct or operation of the agency.

Mr Barnes: I think that section is trying to get—I am not suggesting that this would ever happen—to the situation where a minister or an agency might attempt to use the cloak of commercial-in-confidence not to disclose information, so that is what that provision is trying to get at. In this particular case, this, certainly at the time of the budget, was a live negotiation, so obviously the state would not want to be declaring its hand, so to speak, in terms of putting a number in the budget papers as to where we think that settlement will land. I think, clearly, it is in the state's best interests in that particular case not to disclose a number.

Hon MARTIN ALDRIDGE: I guess in the case that I just used as an example it was an actual expenditure in 2013–14 that was submitted, rather than a budget estimate or a budgeted figure for 2014–15. Those figures that are omitted I assume are still contained within the aggregates of the budget—just the finer detail within the budget papers are omitted for those commercial-in-confidence reasons?

Mr Barnes: That is correct.

Hon MARTIN ALDRIDGE: Section 85 of the Financial Management Act requires the minister to conduct a review of the act five years after its commencement. I understand that we are well and truly past that anniversary. Your annual report suggested that you had conducted a review of the act in 2012–13 and it was shortly to be presented to the government. Can you give us an indication on when we might see the report into the Financial Management Act, because the Joint Standing Committee on Audit is quite keen to consider that report and make recommendations.

Mr Barnes: I have to ’fess up: we have been a bit tardy in completing the review for all sorts of reasons, which I will not bore you with, but they are internal Treasury reasons. The review has been completed; it is on its way to cabinet. When cabinet gets around to considering that review and its associated recommendations is obviously out of my hands, but the provision of that review and the associated recommendations to cabinet are imminent.

Hon MARTIN ALDRIDGE: Your 2012–13 annual report suggested that the review had been undertaken with recommendations to be provided to government shortly. A fair bit of time has passed since your annual report of 2012–13. Given the very clear expectation of the legislation, I would think that there would have to be some fairly valid reasons why that delay is quite so lengthy.

Mr Barnes: Essentially, they are internal resourcing reasons with key people within the Department of Treasury who had carriage of this review having retired or accepted severance, so we lost key personnel who had carriage of the review and we had to almost start it again, if you like, as a result of that. Those things unfortunately delayed completion of the review. Yes, it is late; I cannot hide that, but, as I said, it will be considered by cabinet shortly I hope.

The CHAIR: In relation to the material you have kept because of commercial confidentiality, has the Treasurer issued a section 82 certificate and had it presented to Parliament explaining the reasons that they have decided to keep it confidential?

Mr Barnes: Not that I am aware of, Chair.

The CHAIR: We might want to have a look at that.

I had some questions about the strategic asset management framework. Is there a current formal strategic asset management framework guideline for government? On your website I could only find the draft exposures.

Mr Mann: Yes, Chair, there is. The 2006 version, I believe, remains current. On the Treasury website, you will also find a series of exposure drafts that are scheduled to be submitted for formal acceptance to cabinet this financial year. A number of agencies have already adopted those exposure drafts as standard practice. As you would expect, they are certainly intended to present significant enhancement to the existing guidelines, but the 2006 guidelines at this point remain current. We would hope that they will be superseded by the suite of enhanced guidelines during the coming financial year.

The CHAIR: In terms of meeting your agency’s performance indicators, which require you to have the highest value agencies complying with the asset management framework, is it the case that they must comply with the 2006 model for the exposure drafts?

Mr Mann: The current model is the existing policy document.

The CHAIR: Why have we seen such a significant decline between last June and this year in terms of agencies complying with that framework? You have gone from 40 per cent to 27 per cent. It is in your performance indicators on page 610.

[4.20 pm]

Mr Barnes: Footnote 2 attempts to explain that. Of those 15 highest value agencies, seven are government trading enterprises that do not currently have to comply with the framework.

The CHAIR: That would explain why the percentage was 40 per cent last year.

Mr Barnes: Yes. The footnote goes on to say that of the four remaining agencies, three expect to be compliant by 2014–15. It is clear that we need better compliance against the strategic asset management framework. One of the recommendations that we will shortly put to government is that government trading enterprises be required to comply with SAMF, rather than voluntarily decide to comply or not.

The CHAIR: I am pretty sure, from the looks on faces, that this will be a question on notice. Which of the three agencies—I suspect that is the number—that were compliant in 2012–13 does the department not expect to comply in this financial year, and which of the four that are compliant does it expect to continue to comply? Basically, what agencies complied last year and what agencies complied this year?

Mr Barnes: So, explain the movement from 40 per cent to 27 per cent?

The CHAIR: Yes. I assume that the projected figure of 75 per cent relates to the expectation that the department will bring on board the other agencies.

[*Supplementary Information No 9.*]

The CHAIR: In major capital projects is it a requirement of the strategic asset management framework that at the same time as developing the capital cost, the agencies develop ongoing operating costs? Is that part of the requirements of the strategic asset management framework?

Mr Mann: At the relevant stages, it is. For example, the business case development guidelines would require both capital and recurrent costs to be identified to enable investment decisions to be made by government. Similarly, at the project definition stage, which then further develops the recommended option of a business case, the recurrent costs are also presented.

The CHAIR: So they should be presented as part of the project definition plan?

Mr Mann: In accordance with SAMF, yes they should.

The CHAIR: At what point is it included in the budget? If cabinet decides to approve the capital component, should the estimated operating cost that is incorporated in the project definition plan also be incorporated in the forward estimates, which is obviously the point at which it would start to apply? So, if the project is not built for two years, it would not go in until the completion of the project. Should the operating costs also be included in the budget at the same time as a project is approved?

Mr Mann: What the Chair said is exactly right. SAMF contemplates that the recurrent cost impact should be identified at the point it becomes an impact.

The CHAIR: And then it should be incorporated into to the forward estimates of that agency?

Mr Mann: Yes, on an ongoing base.

The CHAIR: Is that occurring? I am not just talking about the 15 big agencies; this is supposed to apply across all agencies. I ask that because I consistently question agencies about the estimated cost of estimating their activity and they say that is still being finalised. It strikes me that there should already be a figure in the budget for the operational cost of that project.

Mr Barnes: The identification of recurrent costs and the reflection of those recurrent costs in the forward estimates is probably not occurring as early in the process as it should. In some cases it is, but probably not in all cases. That is one of the areas in the SAMF that we are very focused on tightening up.

The CHAIR: To give me an idea with the budget papers before us today, one of the items included is $17 million for the Metro Area Express light rail system. What is Treasury's understanding of the status of that project?

Mr Barnes: In terms of funding provided for the MAX light rail project in this budget, additional funding of $10 million was provided in this financial year, 2013–14, to finalise the business case, which brought total funding in 2013–14 to $18.1 million. A further $5 million and $17 million have been provided in 2016–17 and 2017–18 respectively to facilitate project recommencement and updates to the planning work. That is the only funding that is referred to in the current forward estimates for MAX. Our understanding of the current time frames for MAX is that the project will recommence in 2016–17, hence that funding I referred to earlier.

The CHAIR: But that is the planning for that project.

Mr Barnes: Yes.

The CHAIR: So, as far as Treasury is aware, there is no formal decision of government to commence the construction of the MAX project and government will simply consider the project definition plan for MAX in 2017?

Mr Barnes: As it has been communicated to Treasury, as the Chair rightly says, planning recommencement is in 2016–17, procurement will begin in mid-2017, the contract to be awarded by the end of 2018 and construction to begin in early 2019 and to finish by the end of 2022.

The CHAIR: In terms of compliance, how can Treasury have those time frames if government has not got a completed project definition plan in front of it? How can there be a decision about proceeding with procurement and construction if there is not a completed project definition plan and at the same time comply with the strategic asset management framework?

Mr Barnes: We have reviewed draft versions of the project definition plan. Those draft PDPs have informed that timeline that I outlined before. The project definition plan has not yet been finalised and the preparation of that final project definition plan to cabinet is an issue for the Minister for Transport, but there are draft versions of that PDP and they have been used to inform that time frame

The CHAIR: Does that comply with the strategic asset management framework—that is, Treasury is taking decisions based on draft plans rather than a final project definition plan?

Hon SUE ELLERY: Is that not a risk?

Mr Barnes: The key point here is that government has provided significant funding to do the up-front planning, which are the amounts I outlined before.

The CHAIR: Yes, $20 million to date.

Mr Barnes: From our point of view, that is a good investment. The last thing we want is a project of this magnitude proceeding without that robust up-front planning happening.

The CHAIR: But that is happening with the airport rail proposal, is it not?

Mr Barnes: I cannot comment on that.

The CHAIR: The decision has been taken. We have not even got that early project definition plan to base our decision to proceed with an airport rail link. Is that correct? That is just a pure political decision of the cabinet.

Hon HELEN MORTON: That is something the Chair has to ask the Minister for Transport.

The CHAIR: No, it is not. I want to know Treasury's understanding of these things because it is the custodian of the strategic asset management plans. Treasury is the agency with the responsibility to ensure compliance and I am trying to understand what "compliance" is in the eyes of Treasury. Treasury is saying that the government has taken the decision to proceed with MAX based on a draft PDP. I am trying to understand if there was a draft PDP for the airport rail line when the government took the decision to proceed with that. Therefore, was the decision to proceed with the airport railway line taken in accordance with the strategic asset management framework?

Mr Mann: I think the answer is that the Forrestfield airport link project definition plan is under development now. It is not yet complete.

The CHAIR: Thank you. I briefly turn to the spending risks identified in budget paper No 3, and to "Cathedral and Treasury Precinct" on page 81. Why would the costs that Treasury identified as risk not have been picked up if a proper project definition plan had been done for that project at the time that the decision was taken to proceed with that relocation?

[4.30 pm]

At the bottom of page 81 of budget paper No 3, going over to page 82, one of things you identify as a risk is that —

> These costs, which are associated with the relocation of the Supreme Court Civil, SAT and justice administration to the Cathedral and Treasury Precinct, are still in the process of being quantified and, as such, are not reflected in this Budget.

I am trying to work out how that could occur if they were complying with the strategic asset management framework? How does that occur, that you can actually take a decision to relocate to a new building but not know what the full costs are?

Mr Barnes: All I can say is that things change over time, and in this particular case the issue is that we are trying to confirm the numbers of staff, particularly in the Department of the Attorney General, that will be moving into that building. There are unresolved issues around the provision of corporate services by DOTAG to the Department of Corrective Services, and how many corporate services staff going forward DOTAG will need to retain and house in that building. So that issue with the number of corporate services staff that DOTAG will retain is a live issue that has not yet been resolved, and that is why it is reflected in the statement of risk.

The CHAIR: But surely those staff are located somewhere, so if they move to this building that would free up space somewhere else, or are you suggesting you will have an empty office block somewhere with no-one sitting in it that used to house DOTAG staff who have now gone to the Cathedral and Treasury building?

Mr Barnes: No, I am just saying that staff numbers have not yet been nailed down to the very last headcount.

The CHAIR: But you are not going to let them increase, are you? It will be more about just where they are located; I do not see why that would then impact upon the costs.

Mr Barnes: No, and probably the bigger issue is what is the required number of corporate services staff that DOTAG needs now going forward, given that a decision has been made by government that Corrective Services will now run and provide its own corporate services. So that is the unresolved issue: how many corporate services staff will DOTAG need; not where they are going to be housed, but how many staff they will need going forward.

The CHAIR: I think I have finished. Are there any quick final questions from anyone?

The committee will forward any additional questions it has to you via the minister in writing in the next couple of days, together with the transcript of evidence which includes the questions you have taken on notice. Responses to these questions will be requested within 10 working days of receipt of the questions. Should you be unable to meet this due date, please advise the committee in writing as soon as possible before the due date. The advice is to include specific reasons as to why the due date cannot be met. If members have any unasked questions, I ask them to submit them to the committee clerk at the close of the hearing. On behalf of the committee, I thank you all for your attendance today.

Hearing concluded at 4.33 pm