STANDING COMMITTEE ON
ESTIMATES AND FINANCIAL OPERATIONS

2011–12 AGENCY ANNUAL REPORT HEARINGS

DEPARTMENT OF TREASURY

TRANSCRIPT OF EVIDENCE
TAKEN AT PERTH
TUESDAY, 02 OCTOBER 2012

SESSION ONE

Members

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

Hearing commenced at 9.39 am

MARNEY, MR TIMOTHY
Under Treasurer, sworn and examined:

MANN, MR RICHARD
Executive Director Strategic Projects, Department of Treasury, sworn and examined:

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

[Witnesses took the oath or affirmation.]

The CHAIR: You will have signed a document entitled "Information for Witnesses". Have you read and understood this document?

The Witnesses: Yes.

The CHAIR: The hearing is being held in public, although the committee has discretion to hear evidence in private, either of its own motion or at a witness's request. If for some reason you wish to make a confidential statement during this morning's proceedings, could you please request the evidence be taken in closed session before you answer the question? These proceedings are being recorded by Hansard and a transcript of your evidence will be provided to you. The committee reminds agency representatives to respond to questions in a succinct manner and to limit the extent of personal observations.

To assist the committee and Hansard, I ask members to please quote the full title of any document referred to during the course of this hearing, for the record. Please be aware of the microphones and speak directly into them. When referring to the annual report, if members could please give a page number that would assist the process.

Finally, government agencies and departments have an important role and duty to assist the Parliament to review agency outcomes on behalf of the people of Western Australia and we appreciate your assistance this morning.

I will ask members if they have questions they would like to start with.

Hon LJILJANNA RAVLICH: Under Treasurer, I refer to page 15 of the "Department of Treasury Annual Report 2011–12", which deals with achieving government goals and focuses on the performance management framework. Before we get into some of the more detailed parts of this morning's hearings I want to get an overview of how the state is positioned. Could you provide us with some information about the status of the state's credit rating last year, which I understand was still AAA —

Mr Marney: Correct.

Hon LJILJANNA RAVLICH: — and how you would see that change, if at all, in the 2012–13 financial year and also the 2013–14 financial year? Basically, I think you understood the question.

Mr Marney: Yes, and it is a question asking for my opinion or view, but on this occasion I am happy to share that. As you pointed out, we currently enjoy a AAA credit rating from both Standard and Poor's and Moody's. There has been a recent reaffirming, certainly from Standard and Poor's, of our AAA credit rating, but 2012–13 is proving to be a difficult financial year due to the rapid decline in iron ore price while at the same time the exchange rate has not fallen as it normally would, so that is causing us some difficulty on the revenue side. Hopefully, that difficult would be seen as a cyclical downturn as opposed to something structural in the state's economy. If that is the prevailing view, then I do not see any impact on the state's credit rating likely in either 2012–13 or 2013–14.

Hon LJILJANNA RAVLICH: Could you walk us through some of the difficulty in revenue and price and the impact on the AAA credit rating and perhaps share with us what currently your projections might be looking like?

Mr Marney: The budget papers go into some detail around the sensitivity of our revenue estimates with respect to both the iron ore price and the exchange rate. From memory, the sensitivity to the iron ore price is $30 million per annum for every dollar decline in the iron ore price, and with respect to the exchange rate, the sensitivity is around $60 million for every cent in appreciation in the exchange rate. It is difficult to give you an update on current projections. At the moment, we are updating our advice to government on a fortnightly basis and we will be doing that at the end of this week; so, rerunning the forward estimates, if you like, on the basis of both iron ore price and exchange rate that prevail.

Hon LJILJANNA RAVLICH: Could you provide to the committee the last lot of modelling that you provided to the government?

Mr Marney: The last lot of modelling was provided as part of expenditure review committee deliberations and, therefore, it is cabinet-in-confidence, so that makes it quite difficult for me to be able to provide that. I think the parameter sensitivities that are articulated in the budget papers give a pretty good guide for an individual to be able to come up with those back-of-the-envelope projections themselves. Having said that, the exchange rate and the iron ore price are only two parameters in a $25 billion budget; there are always many moving parts to the estimates, so any projection of the estimates allowing for variation in just those two variables is by definition only going to be a partial set of estimates.

Hon LJILJANNA RAVLICH: Is the AAA credit rating at risk or potentially at risk during the financial year of 2012–13 and/or 2013–14?

Mr Marney: I would not think so, but that all depends on if things get worse and unfold to be very much of a structural nature and therefore by definition are not going to go away through a turn in the economic cycle. That then would bring concerns about the structure of the state's finances and that may in turn lead to a questioning of the AAA credit rating. That is a possible scenario.

Hon LJILJANNA RAVLICH: I will ask you before we go across to my colleague, what percentage of gross state product does iron ore make up?

Mr Marney: I would have to take that as supplementary.

Hon LJILJANNA RAVLICH: Why would you have to take that as supplementary?

Mr Marney: Because of a couple of things: when you ask what percentage of the economy does iron ore represent —

Hon LJILJANNA RAVLICH: As a part of gross state product.

Mr Marney: Yes. There would be a number of aspects of gross state product that are impacted by activity in iron ore; business investment would be one component, and exports are another.

Hon LJILJANNA RAVLICH: Do you know how much it accounts for in exports?

Mr Marney: I would have to get an updated figure for you on that.

[*Supplementary Information No A1*.]

The CHAIR: I am aware that Hon Philip Gardiner has a question.

Hon KEN TRAVERS: Is it on the same issue?

Hon PHILIP GARDINER: It is probably on a different issue.

Hon KEN TRAVERS: In terms of the disconnect between the US dollar and the price of iron ore, at what point does the redistribution of the GST revenues kick in and we get it back through a higher share of commonwealth–state grants?

Mr Marney: Essentially, it is four years later because it is a three-year average. The relativities are calculated on a three-year average and it is a one-year data lag. The last year of the forward estimates would start to be impacted by that.

Hon KEN TRAVERS: So it is the four previous years?

Mr Marney: The three previous years, but the data for those years follows with a one-year lag. So we do not get all the information until a year after that three-year period.

Hon KEN TRAVERS: Apart from the lag, once that kicks in, do we then start to recoup what we have lost in royalty income fully through increased GST payments?

Mr Marney: We then start to have less of our royalty income redistributed; so it is not a recouping but it is a drop in the redistribution.

Hon KEN TRAVERS: In terms of actual dollars, for every dollar that we were losing in royalties, because we were getting those royalties, do we get that back effectively through —

Mr Marney: In part.

Hon KEN TRAVERS: What does “in part” mean? Is there a formula to work out how much we will get back?

Mr Marney: We tend to re-estimate all of the grants commission relativities in a block. We do not isolate components and just re-run those. If I can take that as a supplementary question, I will try to get you a general rule of thumb both in terms of time period for that catch up and a ready reckoner of how to calculate it.

[*Supplementary Information No A2.*]

Hon PHILIP GARDINER: Hon Ken Travers did come to the point I was going to ask, too. Can I just go a little bit further? When the Commonwealth Grants Commission reassesses, let us say, the GST component and distribution, is that done on a 12 monthly basis or is it done on a monthly basis and adjusted?

Mr Marney: It is done 12 monthly.

Hon PHILIP GARDINER: Which is the financial year 12 monthly—end of June?

Mr Marney: They re-establish the relativities in March–April, and those relativities are applied to the following financial year.

Hon PHILIP GARDINER: The component which adjusts most readily, I presume, is the GST based on the formula that you have explained over an average of the previous four years. That is the one that is most sensitive, is it?

Mr Marney: That is the entirety of what they do. They calculate the relativities based on data over a three-year period. That data is not available until a year after the relevant period.

Hon PHILIP GARDINER: The other part, though, of the payments which come out of the Commonwealth Grants Commission in terms of special purpose grants and those kinds of things are independent, are they not, totally?

Mr Marney: Correct. So the grants commission’s relativities are applied to the GST pool, and that is the method for distribution to the states of the GST pool. All other grants from the commonwealth sit outside of grants commission scope.

Hon PHILIP GARDINER: I know I have asked this question once before—12 months or so ago—but is the amount of special purpose grants given to each of the states tabulated by the

Commonwealth Grants Commission, which is available, so we can see how each state is tracking, if you like, against the other?

Mr Marney: In terms of the specific purpose payments?

Hon PHILIP GARDINER: Yes.

Mr Marney: Certainly the grants commission tabulates those payments. I am not sure that there is any one point at which they are summarised by jurisdiction, but I can take that on notice.

Hon PHILIP GARDINER: Would you mind doing that? I would be interested, just historically, to see whether there are any trends and, if so, what can underlie the trends. Maybe there are no trends; maybe there are just large blobs of investment money which are allocated by the grants commission, but I would be interested just to see if it was possible over the last, say, three or four years. Would that be too much?

Mr Marney: No, that is fine.

[*Supplementary Information No A3.*]

Hon PHILIP GARDINER: It seems a little bit specific, but in your opening statement, Under Treasurer, you have talked about the value-for-money outcomes—that is the theme of the report. In your statement you referred to your working relationship with the Department of Education, where you said —

> Our work in relation to the Department of Education both informed estimates for the 2012-13 Budget, and the costings of new policy initiatives.

The CHAIR: That is the overview, Mr Marney.

Hon PHILIP GARDINER: I beg your pardon—the annual review, page 4. What I was interested in is to understand a little bit about that work and costings of the policy initiatives in relation to a policy, which I know is embedded and will not be changed, but I would like to see whether there is anything you can provide us, because there is the year 7 education issue. The costs of that in regional Western Australia are going to be quite material. I know there are transition arrangements which are also quite expensive. I am probably one of the few people who have had the experience of bringing children across from the eastern states. They would be affected by the change because of the dislocation in the old days—back in the late 80s—and we saw some evidence of the change, but I cannot say it was a cause and effect of the year 7. It might have been what the parents were doing and so on. I would be interested to know what the analysis showed and how you did that.

Mr Marney: In terms of the cost of the initiative?

Hon PHILIP GARDINER: The cost and benefits.

Mr Marney: In terms of the benefits, that would have to be a question for the Department of Education and for the government, because it was the government policy position.

Hon PHILIP GARDINER: In this sense it was a combined policy decision. It was a COAG decision, I think, the whole thing, was it not?

Mr Marney: It was related to some COAG decisions around, if you like, harmonisation of curriculum, so it was consequential, so the benefits really lay in that space. Our task in terms of transitioning was to look at the costs associated with it, which we did. Again, those costs were compiled in a report that was for cabinet consideration. Again, I will have to bear that in mind with what I can actually provide, but I will seek to provide some background as to, if you like, the basis of the costings of that transition.

Hon PHILIP GARDINER: Without the benefits, it is a bit hard to make any judgements. I respect that it is a fait accompli; it is not something which has changed. It is a policy decision that you think, “Well, we have to do this and we are just going to bear whatever cost is going to be carried with it." But I would be interested in the analysis just to see what was taken up in terms of the regional costing especially.

[*Supplementary Information No A4.*]

Hon PHILIP GARDINER: One of the benefits was to the private schools. They are the big winners in this actually—the independent public schools, that is—because for the regional areas, if you cannot educate your children in the regional areas, then they have to get a booking into the private schools, and the private schools have just got another year of income which emerges out of it. That is one of the reasons why they are embracing it.

In the middle column on page 6, the bottom paragraph refers to the policy advisory role in Treasury. I read through other parts of the report and can see how you have structured the organisation, but one of the parts which worries me about our financial position, which I know people measure often by the credit rating, is the future repayment of debt. What I do not quite know is where in your organisation there is a focus about how we are going to pay that debt. It is $16-odd billion now. It is going to rise to, I think, $24 billion or $26 billion over the forward estimates, is it not? What I do not know is what assets that you may consider are available for sale to try to rein it in. I know there is a future fund, which is going to have about $5 billion in 20 years' time, I think it is. Do you have a segment in your organisation which is really focusing on that and considering what we have to do to get the revenue to repay the debt?

Mr Marney: Yes, we do. It is in our economic business unit. It is the area that compiles the various reports on state finances and is also responsible for delivering and considering fiscal strategy—so, delivering government's fiscal targets short-term and considering and looking beyond forward estimates to ensure the government is being advised of appropriate long-term fiscal strategy. It is a dedicated area for that purpose. Having said that, there are not many areas within Treasury other than strategic projects that do not feed into that thinking in some way. So our projections of long-term economic trends in the economic area, analysis of cost and demand models and the impacts of demographics on service delivery demand happen in our strategic policy and evaluation area. All of that comes together in a governance sense through the budget management committee, which is an internal committee that I chair that considers both the short-term and long-term financial position of the state.

Hon PHILIP GARDINER: So in the considerations that those groups make in Treasury—I guess this is a loaded question—there are assets on which we have to start recouping returns, such as roads. We know the difficulties that governments have found with power and cost reflectivity with power, and we know the component of debt that Western Power has in the total debt, which is very significant, so what are the options that are being considered to repay that debt, or what are the assets that we could possibly sell in the future to repay that debt?

Mr Marney: Those are the sorts of questions we consider on a regular basis and provide advice to government, taking into consideration as well government's existing policy settings around asset sales and the like. Again, that is part of the advice that we are giving to the expenditure review committee on a regular basis.

Hon KEN TRAVERS: Yes, but I think Mr Gardiner is asking you to give the advice to the Parliament about those options as well. We are not asking you to give what you give to the ERC. But you are also an adviser to the Parliament.

Mr Marney: Am I?

Hon PHILIP GARDINER: Yes.

Mr Marney: I am not sure. I would have to defer to the Chair. I am not sure that I am able to give advice to the committee. I thought I was here to answer factual questions.

Hon LJILJANNA RAVLICH: You have to give information to the committee.

Mr Marney: I do not have a problem with giving information. But giving advice is a different question.

The CHAIR: I think the question probably falls into the area of policy, which is probably more appropriately asked of the Treasurer rather than the Under Treasurer.

Hon PHILIP GARDINER: Okay.

Mr Marney: I can give you an assurance that those questions are at the forefront of our mind on a daily basis.

Hon PHILIP GARDINER: The concern that I have is that I think the wider community has to be given some conditioning, if you like, before it hits us that we have to pay this debt back somehow, and I think we need to be prepared and thinking about it on the way through. But I know that is political. You are saying it is the parliamentarians who should be doing that. I accept that. But I would just hope that that consideration has been borne in mind, because I do not think people realise how hard it is to repay debt after paying back your housing loan.

Hon KEN TRAVERS: I just want to follow on from that. I guess the other side of paying down debt is the envelope of expenditure that would be available beyond the forward estimates. Do you do work on what envelope of expenditure would be available beyond the forward estimates?

Mr Marney: As in long-run revenue projections?

Hon KEN TRAVERS: Yes, and without any policy setting changes; so, maintaining all of the current policy targets with respect to debt and the like. Do you do work on what that is, over and above the projects that are already in the forward estimates—that is, including the full cost of those—and then say what for the following four to eight years would be available for expenditure?

Mr Marney: We do not do it frequently. I think the last time we did it was in about 2003–04. We are currently doing another round of long-run projections, taking into consideration demographic changes that are occurring at the moment. I expect that work to be completed probably in the first half of the next calendar year, and that would be a long-run projection of the state's finances, which I think we previously published as an intergenerational report, which came on the back of the commonwealth Treasurer's intergenerational report in the very early 2000s.

Hon KEN TRAVERS: I am particularly interested in that period in the four to eight years, because I can almost wake up on a daily basis and see another project—I think the new terminology is well north of $1 billion—appearing. I just wonder what the capacity of the state is to absorb all of those well north of $1 billion projects.

Mr Marney: That is what we are modelling at the moment—updating the modelling, I guess. The concern that I have along those lines is the demographic shifts that we are seeing at the same time and what that does to demand profiles for service delivery and at the same time what it does to the revenue base. So we are trying to remodel that, but it is not an easy exercise.

Hon KEN TRAVERS: I understand that if you were going well out to sort of 20 years, it would be a bit harder. But I would have thought that in that four to eight-year period, it would not be that hard to take the forward estimates out another four years to see effectively what the envelope of expenditure that would be available is.

Mr Marney: Normally it would be quite easy. But we are actually seeing the baby boomers move out of the workforce at the moment and impacting more heavily on health systems and so on. So we are at a tipping point in the demographics. If it was in a steady state, yes, it would be really straightforward. But the demographic changes at the moment are quite significant. So there is a structural shift impacting our numbers at the moment.

Hon KEN TRAVERS: And that means that more of the state budget needs to be going into service delivery rather than being available for capital expenditure? Is that what that structural shift results in?

Mr Marney: It means there will be greater demand for service delivery. How we deal with that is a separate question.

Hon KEN TRAVERS: So there is no figure that you could give us that you would have available?

Mr Marney: Not now, but we are doing a thorough job on that.

Hon KEN TRAVERS: Would that report be available prior to the state election?

Mr Marney: Probably not.

Hon KEN TRAVERS: I would have thought that is a fairly crucial piece of work for everybody going into the election. We have a floating Orrong Road, Roe Highway stage 2, light rails, heavy rails. There is a long list of projects just in the transport portfolio that have been talked about—Shelley Bridge

Hon LJILJANNA RAVLICH: I am trying to get a sense of the health of the state budget and what it is likely to look like in the out years. I want to go to the assumptions that you made in the 2011–12 budget in relation to the US–Australian dollar exchange rate, which at that time you assumed to return to approximately US74c by June 2015. Has there been an adjustment to that?

Mr Marney: There will be as part of the midyear review. The methodology used for the exchange rate projections is to take the average of the previous six weeks, take the exchange rate and assume that as the starting point, and then allow the exchange rate to slide back to long-term average by the end of the forward estimates period.

Hon LJILJANNA RAVLICH: Are you still confident that the exchange rate will return to approximately US74c by June 2015?

Mr Marney: I am confident that that is the best assumption we can make. It is not a forecast. It is a parameter assumption. I was more confident when there was the maintenance of the offsetting relationship between commodity prices and the exchange rate—that is, the traditional relationship being that if commodity prices fall, the exchange rate falls, so we tended to get a very close natural hedge between the two. In an environment where that connect is broken that does call into question the appropriateness of those parameter assumptions and the way we estimate both the iron ore price and the exchange rate, which is something we will be looking at in the lead-up to the next budget; namely, given that there has been that disconnect, is there a better way of assuming those parameters in the out years?

Hon LJILJANNA RAVLICH: What if you have got your assumptions horribly wrong because of that disconnect?

Mr Marney: That is exactly what we are looking at. The first question we need to answer is: Is the disconnect temporary or is it permanent? Is it just a matter of the financial turmoil in Europe making Australia an attractive place to invest, therefore pushing the exchange rate up and keeping it there? Is that a cyclical issue, or is that a structural issue that is here for the next decade?

Hon LJILJANNA RAVLICH: If it is temporary, what is the likely consequence?

Mr Marney: If it is temporary, then our estimating assumptions would remain largely unchanged.

Hon LJILJANNA RAVLICH: And if it is permanent?

Mr Marney: Then we would have to reconsider the methodology that we use to project those parameters. We did quite a substantial review of our revenue forecasting methodology a number of years ago. At that point, we were taking an estimating assumption of the six-week average of the exchange rate and then flat-lining that for the whole of the forward estimates. If we did that at the current exchange rate, the forward estimates would look dramatically different, just as they did when the exchange rate was bumping around 60c and the forward estimates looked much healthier than they were ever going to be. So we need to take that into consideration, and, as I said, that is an area of focus for us in the lead-up to the next budget.

Hon LJILJANNA RAVLICH: Can I just ask you also along the same lines, in relation to the iron ore price, in the 2011–12 budget you assumed the price to return to a value of $US78 a tonne by the June quarter of 2015. Is that still the case?

Mr Marney: Is that still our assumption?

Hon LJILJANNA RAVLICH: Yes.

Mr Marney: We will apply the same methodology as we apply at budget time to the three-months' worth of spot prices, with a one-month lag, and have that as our starting point and then slide back to long-term averages.

Hon LJILJANNA RAVLICH: Do you have a current iron ore price?

Mr Marney: The current price is bouncing between about $US1.05 to $US1.10 a tonne. It bounced to $US87c about three weeks ago. So in terms of plausibility, I think that number is plausible, especially given the supply response to iron ore demand being experienced both in WA and internationally. The exchange rate is a much more difficult beast to get your head around and is influenced by a whole range of different factors. It is not as straightforward as the iron ore market.

Hon LJILJANNA RAVLICH: Just as a global, I guess, indicator, because one of your desired outcomes obviously is a strong and competitive state economy, and you have a few key points that you refer to there in terms of tax and mining revenue, and GST revenue—obviously they have to be strong for a strong economy—and employment growth and real state final demand growth. I wonder whether you could tell me, in terms of real state final demand growth, has there been a growth or has there been a drop in growth from 2011–12?

[10.15 am]

Mr Marney: We do not have any further data from 2011–12; we have only got 2011–12 financial year data, which had state final demand growing by in the vicinity of 15 per cent.

Hon LJILJANNA RAVLICH: But are you doing any projections to indicate what that might be?

Mr Marney: Yes. We would do those in the lead-up to midyear review.

The CHAIR: I might ask a question regarding strategic projects referred to on pages 24 and 33 of the annual report. I understand that there are 17 strategic projects underway at the moment or planned, is that right?

Mr Mann: There are 17 strategic projects currently under our oversight, yes.

The CHAIR: For each of those projects, can you give some indication whether they are on time and on budget?

Mr Mann: As the report indicates at 30 June, from memory, I think we had 15 of 17 within approved budget or forecast to be completed within approved budget, and 14 of 17 forecast to be completed within approved time frame. The explanations for those departures are within the report, but very quickly, for the Albany and Busselton health campuses, there were some minor over-expenditures forecast. In the case of Busselton, that was as a result of still awaiting formal approval of additional commonwealth funding for additional dental chairs, so we would expect that once that funding is approved, that project will be within budget as well. We had some minor time overruns in respect of approved completion time for Perth Arena, for Albany health campus and for the old Treasury building redevelopment.

The CHAIR: Did you say minor time overruns?

Mr Mann: In the case of Albany, we were forecasting, I think, a March 2013 completion, which is just over three months beyond the original announced December 2012 completion. We are now forecasting March 2013, although we believe that might be completed a month or so earlier. The old Treasury building was a one-month variance out to mid-2015, I think from memory—a minor variance there—and Perth Arena was out to October 2012 rather than September 2012, which was the then approved practical completion date.

The CHAIR: I am sorry; I might not have been paying close attention there, Mr Mann, in terms of cost overruns, which ones?

Mr Mann: In cost overrun, I mentioned Busselton health campus earlier. There is about $2.5 million in additional funding for extra dental chairs that was still to be confirmed by the commonwealth.

The CHAIR: If the commonwealth does not come through with that, will that be a state expense?

Mr Mann: It would need to be, although we understand it is simply a matter of formalities; the funding has been agreed, we just need to formalise the final agreement with the commonwealth. The other project in respect of cost pressure was Albany. We were forecasting I think about $0.5 million over-expenditure in a total budget of $170 million.

Mr Marney: So the variations on both cost and timing are quite minor.

The CHAIR: Sure, yes; that is not bad over that sort of amount.

Mr Marney: I think Albany was actually dominated by adverse weather.

Mr Mann: There were some weather issues.

The CHAIR: Having built down there, I can understand that!

Hon KEN TRAVERS: You could never predict that!

Mr Mann: That is in the context of an overall program of in excess of $7 billion in total capital value as well.

Hon PHILIP GARDINER: Yes, that is pretty good.

The CHAIR: Could I ask also about on page 29, "Cost of living issues", where it states —

> We will continue to play a key role in advising the Government on cost of living issues, including pricing of electricity, water and other government services …

What is happening there? What is Treasury's advice in terms of dealing with that, because it is a major issue in terms of escalating costs for households?

Mr Marney: We have a fairly significant role in providing advice around pricing for power and water. Also, through the 2011–12 year we did quite a bit of work on consolidating cost-of-living assistance payments into one payment. There were a number of schemes running in parallel and government's desire was to consolidate those into one payment, which is the new cost-of-living assistance payment that actually kicks in from 1 October. We had a lead role in developing that new scheme.

The CHAIR: What kind of advice has been given to the government in terms of, say, pricing of water?

Mr Marney: We provide advice on the back of Water Corp's and the minister's submissions for price increases or variations as well as the ERA's recommendations. We also provide advice to government on the long-run cost path for power and water, and pricing options around that cost path including the financial implications of tariffs that are below cost reflectivity. We provide the government with numerous scenarios from which they choose, ultimately, where they want to take those prices. With those scenarios particularly where tariffs are below cost reflectivity, there is a debt implication for the state, because it must subsidise the cost of producing power and water where it is not fully covered by tariffs. We provide advice on the financial implications for the state as well as for individuals through the household model, which actually tries to quantify for representative assumed households the impact upon them as well. So, we come at this question from a number of different directions; the impact on the state financially, the impact on the government trading enterprises and their costs and revenues, and the impact on individual households.

The CHAIR: In terms of, say, water, again, and the cost reflected in the price, where is it sitting at the moment?

Mr Marney: We are currently having to remodel that because the ERA brought out a report last week which recommended, basically, a different cost path, so we are in the process now of remodelling what that means for price reflectivity.

The CHAIR: When will that remodelling be?

Mr Marney: Sorry, we are remodelling what that means for the tariffs that would be required to be fully reflective of the costs.

The CHAIR: So, looking at full cost recovery?

Mr Marney: We need to know what that point is so that we can then, again, run various scenarios for government as to how it wishes to price.

The CHAIR: When will that assessment be completed?

Mr Marney: We are hoping to have that done within the next few weeks, again, because that will have implications for midyear review.

The CHAIR: And with power, where is that at?

Mr Marney: Same process, a little bit more complicated though, because there is a recent ERA determination with regard to Western Power's network tariffs. Those network tariffs flow through to Synergy's cost base—I think about 40 per cent of Synergy's cost base is the network tariff. We need to model what ERA's determination means both for Western Power and the flow-on implications for Synergy, and then from that the flow-on implications for electricity tariffs.

The CHAIR: Similarly, that will be reported in the midyear review; is that where that result will come back out?

Mr Marney: Yes. Both of those things need to then go to government for consideration and decision, and where appropriate be reflected in midyear review.

Hon KEN TRAVERS: Are you suggesting there will be a change in the glide path in the midyear review on which the midyear review is based?

Mr Marney: No; that is a possible outcome. What I am saying is we will provide government with an updated picture of the cost path and an updated picture of what that means for tariffs and at what point we reach full cost reflectivity. On the basis of that, government then may choose to adjust the glide path.

Hon KEN TRAVERS: So, it comes down to a policy decision of government to determine what the glide path is for water and power over the forward estimates for the midyear review?

Mr Marney: Yes.

Hon KEN TRAVERS: And you will provide the advice to them in time for them to consider that prior to the cut-off date of the midyear review, is that what you are saying?

Mr Marney: Yes. Some of that they may choose to take decisions at midyear review; some of it they may choose to maintain their existing pricing assumptions and reconsider those at budget time. That is up to government.

Hon KEN TRAVERS: Both of those decisions, the recommendation of the ERA on the water and the decision on the access agreement 3 for power, just in a very broad sense, will that see a lower or a higher cost in terms of power in terms of the price at which you meet reflectivity? Does it increase the cost of power or decrease the cost of power?

Mr Marney: It decreases what Western Power is able to charge Synergy. So then in theory, it decreases Synergy's costs and that would flow through to, again in theory, lower cost-reflective tariffs. Whether or not it does that is a pretty complicated series of questions around relative to what we have already got assumed in the forward estimates, because it means revenues decline, so Western Power's revenues are going to decline substantially. The impact of that on forward estimates has to be worked through at the same time. There is a whole heap of moving parts in this space.

Hon KEN TRAVERS: I assume that also then has an impact on the dividend they pay to government, which also then has an impact on the overall structure of the budget as well, does it not?

Mr Marney: Correct.

Hon PHILIP GARDINER: Just on that, Under Treasurer, with the scenario you just described, does that assume a constant level of borrowing or an increased or decreased level of borrowing?

Mr Marney: It would have an implication for the level of borrowing depending on the pricing decisions that were taken by government.

Hon PHILIP GARDINER: I was picking the scenario where I think you were talking about the ERA glide path recommendations and so on for pricing to consumers. Under that scenario, do the level of borrowings that the government has to undertake increase, stay the same or decrease?

Mr Marney: With what pricing assumptions?

Hon PHILIP GARDINER: The ERA's.

Mr Marney: But what pricing assumptions for electricity?

Hon PHILIP GARDINER: I thought that they had recommended a very small increase in price increases to consumers.

Mr Marney: For the network tariff. So, remember that has got to flow on to Synergy.

Hon PHILIP GARDINER: Okay, so that has got to indicate their cost of getting it from Verve and so on.

Mr Marney: Yes. Probably the short answer to the question—but it is not a complete picture—would be, essentially, ERA has redefined Western Power's efficient cost base down. That does not mean its actual cost base; what it means is that Western Power is only allowed to charge to a certain level. That level is not necessarily reflective of its total cost base, so there is quite possibly a negative net debt impact from that.

Hon KEN TRAVERS: Does that mean the government then has to step in and subsidise Western Power's operations?

Mr Marney: Possibly.

Hon PHILIP GARDINER: Through borrowings?

Mr Marney: Yes; but it is complicated because it all works back through Synergy.

Hon PHILIP GARDINER: I understand, but it is still pretty ill-defined at the current time is where we are.

Mr Marney: Yes, and that we are still working through the implications and it is almost a ladder of decision making that needs to be undertaken to know the full implications.

Hon PHILIP GARDINER: The carriage of responsibility for that—I will just get this clear—is in Treasury with ERA? The carriage of responsibility of how the pricing in the end will ultimately unfold, is that carried in the public service by Treasury or is it by the ERA and the department of energy?

[10.30 am]

Mr Marney: Once the ERA has made its determinations or recommendations, carriage then flicks to the Public Utilities Office within the Department of Finance, and Treasury.

Hon PHILIP GARDINER: Then the department of energy is just a contributor —

Mr Marney: The department of energy is now the Public Utilities Office within the Department of Finance.

Hon PHILIP GARDINER: Okay. That was the Office of Energy; you are right. I understand that part. Is it that department which is the main adviser then in relation to power and water, or is it the Department of Water and the department of power?

Mr Marney: There is no department of power.

Hon PHILIP GARDINER: The department of energy, I mean. What is Peter Collier's ministry?

Hon KEN TRAVERS: Energy.

Mr Marney: There is not a department of energy. Energy matters are dealt with by the former Office of Energy —

Hon KEN TRAVERS: Which is now the Public Utilities Office. It answers to Peter Collier for that section of finance.

Mr Marney: It is a combination of, ultimately, the relevant minister who comes to the EERC with a proposal around pricing. That is normally formed up in consultation with Treasury, because we do a lot of the modelling around pricing, particularly energy. The Public Utilities Office is also involved in that process.

Hon PHILIP GARDINER: But will the principal modelling occur in Treasury rather than the Public Utilities Office?

Mr Marney: At the moment that is the case, yes.

Hon KEN TRAVERS: From what I am hearing, the AA3 may have some impact on bringing prices down. Although it is fairly complex modelling, it will not, or is unlikely to, have a significant impact.

Mr Marney: We do not know.

Hon KEN TRAVERS: It is literally that degree—that you have no idea yet?

Mr Marney: We have rough orders of magnitude. I would not describe them as insignificant.

Hon KEN TRAVERS: Is it more likely to be down than up?

Mr Marney: It depends on the financial decisions that are taken. The financial implications are significant. That is now with government, or will be in the next few weeks, to take decisions around how it digests that through either pricing and/or debt implications.

Hon KEN TRAVERS: The other area in terms of bringing down prices if you want to maintain cost reflectivity is to focus on the cost of the energy utilities. Page 31 of your annual report talks about the work you did on the efficiency dividend in the 2011–12 year and the efficiency dividend going into 2012–13 in the forward estimates. I assume those efficiencies that are mentioned are already factored into the forward estimates.

Mr Marney: Yes.

Hon KEN TRAVERS: Is there room for further efficiencies within those entities to bring down the price?

Mr Marney: It is a subjective judgement.

Hon KEN TRAVERS: I assume your agency does a fair bit of work on that, though.

Mr Marney: Yes, we do. I would have to take that question on notice because the answer is subject to the government's response to the AA3. If the weighted cost of capital is down to 3.5 or four per cent, that is driving some pretty hard efficiencies. The cost structure, as identified by the ERA is, I think, reflective of a highly efficient business, and almost overly so.

Hon KEN TRAVERS: So that would require even greater efficiencies than are outlined in the efficiency dividends that are already being imposed. You are talking about Western Power; does that also go to Verve?

Mr Marney: The efficiency dividend?

Hon KEN TRAVERS: Yes, but also the impact of AA3.

Mr Marney: No.

Hon KEN TRAVERS: Is it simply the case of getting efficiencies in Verve's operations?

Mr Marney: Yes.

Hon KEN TRAVERS: Is there room for greater efficiencies within Verve's operations over and above those that are contained in the forward estimates?

Mr Marney: I think there is always room for greater efficiency, regardless of what business it is. It is not something that you would ever—hopefully, you would never get to a point where you say, "We are as efficient as we can ever be and we are done here."

Hon KEN TRAVERS: Most of those organisations, or GTEs for want of a better term, already have built into their own development plans efficiency dividends around two per cent per annum anyway, do they not?

Mr Marney: I am not sure whether it is that broadly spread. Certainly the Water Corporation operates within that sort of framework.

Hon KEN TRAVERS: With an ongoing efficiency dividend?

Mr Marney: Yes, internally.

Hon KEN TRAVERS: The power organisations also apply their own. I assume that these efficiency dividends will be over and above that.

Mr Marney: Correct.

Hon KEN TRAVERS: Has Treasury identified that there are large chunks of savings to be made? I take it that it is a matter of going through line by line, but is there no big magic pot of money that can be saved in there?

Mr Marney: No. With respect to the government trading enterprises, we do not really have either the authority or the resources to go into those entities line by line. All these authorities have governing boards in place, and it is their job to go through them. What we have done is set them targets for them to go through line by line and realise savings and efficiencies.

Hon KEN TRAVERS: My final question in this area is: in terms of the decision a couple of years ago now to increase the dividend from 50 to 65 per cent, what impact has that had on the overall cost of power and the impact on borrowings for these organisations? I assume they have to make it up somehow.

Mr Marney: It does not have an impact on their cost structure; it has an impact on their available cash for investment in capital works. It means that they either reduce their capital expenditure based on that reduction in available cash or they increase debt and maintain their capital expenditure, or it can be a combination of the two.

Hon PHILIP GARDINER: Just picking up on this, in your role, what and how do you try to extract better efficiencies from either agencies or, in the case we are talking about, from the government trading enterprises?

Mr Marney: From the government trading enterprises it is by imposing the efficiency dividend, which as I mentioned, is a matter for the relevant boards to realise in cooperation with the enterprises that they govern. In terms of the general government sector agencies, there are a number of mechanisms. We interrogate their budget submissions quite intensively each year with a view to providing benchmark comparisons as to the cost of service and effectiveness of service delivery results, and benchmarking the efficiency against other jurisdictions. We use material like the "Report on Government Services" produced by the Productivity Commission. That is an area of ongoing analysis. That is what our resource analysts do. In addition, the government has made a number of policy decisions to realise efficiencies from agencies going back to the 2009–10 budget and the implementation of the previous government's efficiency dividend policy. There is another round of efficiency dividends in the 2012–13 budget. There also have been a number of one-off initiatives like the $300 million savings target that was announced in the midyear review, I think, in 2011–12 that was rolled out as part of the recent budget. We also have a program of value-for-money audits, which is an intensive line-by-line interrogation of an agency. We have had a number of agencies subject to those value-for-money audit processes, which have realised efficiencies or identified opportunities for efficiencies through policy change in respect of service delivery. They would be the main mechanisms.

Hon PHILIP GARDINER: I understand. The efficiency dividend is a blunt instrument, which from your position is the only way you can really deal with it because, as you said, with the government trading enterprises, it is not your prerogative or authority, in a way, to go through them line by line.

Mr Marney: Correct.

Hon PHILIP GARDINER: Yet, because you are one of the few who interact with those enterprises, when you do, as well as the good intentions of those people who are managing it, I sense that there are lots of ways where the efficiencies can be improved. Somehow there is an organisational waste. The question is: how do you eliminate or extract that waste? Maybe it is by the use of blunt instruments like interest rates. The Reserve Bank always says that it is a blunt instrument, which it is. Can you get any deeper than that so that we do not just keep on having our borrowings increase when there should be efficiencies that should get savings?

Mr Marney: We cannot get any deeper because we do not have the legislative authority to get into those entities to do that. For example, if we wanted to impose a vehicle fleet reduction efficiency measure on GTEs, the GTEs would have to be directed by their relevant minister, with that direction tabled in Parliament, in order to implement it. It is possible.

Hon KEN TRAVERS: But you did use interest rates when you increased by half a per cent the premium on the interest they paid.

Mr Marney: The cost of the government guarantee to them, yes.

Hon KEN TRAVERS: Which is another mechanism for making the government sector look better and also putting more efficiencies back into those organisations because they have to cover their cost somewhere.

Mr Marney: You are correct in that they have to cover their cost.

Hon KEN TRAVERS: After it comes out of the dividend.

Hon PHILIP GARDINER: Has the structure of government trading enterprises having governing boards ever been reviewed for its effectiveness?

Mr Marney: Holistically, we did touch on it in the economic audit. One of the economic audit reports raised a question around why they have that structure for that purpose, given that the entities and their boards become subject to corporations law, which introduces some of the tensions in central government management on the government trading enterprises. At different points in time we have looked at individual entities and questioned whether or not they need to be operating as corporatised entities.

[10.45 am]

Hon PHILIP GARDINER: The difference between a board and a corporate entity—a board here, of course—is the ability to fund it, because they have no power over the funding. It is you who has the power over the funding, or the Treasurer has the power over the funding.

Mr Marney: The government is effectively the shareholder in the corporation. It is a single shareholder.

Hon PHILIP GARDINER: If the government is a shareholder, it is really the citizens who are the shareholders, and we are also the users of the service.

Mr Marney: Yes, the government is the shareholder on behalf —

Hon PHILIP GARDINER: Yes, but if you are going to have a corporate structure, as I might have mentioned to you before—I am not sure whether it was to you—to really get identification between the citizen and the entity, a cooperative model is probably superior to a corporate model, in my view, because the user of the service, the recipient of the service, is the same as the owner of the entity, and, as well, there is no dividend paid; it comes into lower tariffs a bit too. So, in a way, the cooperative structure appears to me to have all the benefits, whatever benefits exist in the structure that is there now, except that it has the citizen relating more closely to the prices which are being paid, which they have to pay for the service, and with all the concomitant benefits.

Mr Marney: I think that model probably works well when you have cost-reflective pricing.

Hon PHILIP GARDINER: Yes.

Mr Marney: When you do not, it is a different story.

Hon PHILIP GARDINER: Although, even when you go towards cost-reflective pricing, I suspect that the citizen can begin to identify what the disadvantages are if you are not there with cost reflectivity now, and the advantages of trying to get to that point.

Mr Marney: I think, in part, I agree, certainly that there is a disconnect between people’s perception of utility prices and the necessity to move to cost reflectivity for utility prices. I think a major disconnect is that the community—my sense is that the community does not realise that if it does not pay for the utilities through tariffs, it pays through taxes anyway.

Hon PHILIP GARDINER: Exactly; I absolutely agree.

Mr Marney: So, one way or the other, we all pay.

Hon PHILIP GARDINER: Yes; and they do not get the difference between the two; I agree, and that is a problem.

The CHAIR: I was going to suggest a five-minute break as we are about halfway through. Are people happy to do that, or would you like to ask a question and then have a five-minute break?

Hon LJILJANNA RAVLICH: Yes, I would.

The CHAIR: We will go to Hon Ljiljanna Ravlich.

Hon LJILJANNA RAVLICH: Just very quickly, Under Treasurer, $3.2 million was foreshadowed over four years for the monitoring of government trading enterprises so as to increase their efficiencies. I am just wondering how you deal with that at an organisational level. Do you have a committee or a subcommittee that works with all government trading enterprises, or do you have a committee that works with a select number of government trading enterprises, or have you got some other sort of configuration?

Mr Marney: It is actually part of our organisational structure, which is on page 10—infrastructure and finance division. The oversight of government trading enterprises is predominantly in the infrastructure policy and planning area, so it is a directorate within the infrastructure and finance area whose job it is to have oversight of the GTEs. They do that through a portfolio approach, so individual analysts will have responsibility for Western Power or energy matters more broadly. There would be a different analyst that has responsibility for the Water Corporation and so on.

Hon LJILJANNA RAVLICH: What is that nature of the work they do exactly?

Mr Marney: They review the changes in financial position that the entities are seeking; they review their statements of corporate intent and strategic development; they analyse their budget submissions in terms of requests for debt funding for capital; they analyse relevant regulatory determinations, so the ERA reports and recommendations; and they meet with them regularly to understand their business and get a sense of whether or not there is capacity for further efficiencies to get a sense of where their cost structures are headed so that we can factor that into our longer-term planning. Basically, they live and breathe these entities.

Hon LJILJANNA RAVLICH: And then they write reports, and they give those reports to you, and you give them to your minister.

Mr Marney: Correct.

Hon LJILJANNA RAVLICH: Is that how it works?

Mr Marney: Correct; and through Treasury's comments to cabinet, which is a major point of advice. But whenever these entities seek to alter their financial position, they have to apply to do that to the EERC, so we will write papers on top of their request for changes in financial position. We will write papers with recommendations through the EERC.

Hon LJILJANNA RAVLICH: I am assuming that if the committee wanted to have access to those papers where requests were made for changes to their financial positions, they would be covered by cabinet-in-confidence.

Mr Marney: Yes, because they are a minister's request to cabinet that we get asked to provide advice on, so it is cabinet deliberations, basically.

Hon LJILJANNA RAVLICH: It is not really cabinet deliberations. It might be preparations, but —

Mr Marney: Our papers are input into a cabinet decision process.

Hon LJILJANNA RAVLICH: So you are saying that anything to do with the expenditure of that $3.2 million over the forward estimates that has been earmarked for the monitoring of government trading enterprises, the public, through this committee, has no right of access to any of that information. Is that what you are saying?

Mr Marney: No; and I have given you an outline of the structure of the area and what those people do, but, by definition, a lot of what they do feeds directly into EERC or cabinet, and that I cannot share.

Hon LJILJANNA RAVLICH: Not even early working documents. Can I just ask: would that be the same also for the value-for-money reviews, where we are spending $2.2 million over four years to conduct value-for-money reviews of key government agencies? I notice you have got it listed, I think, on page 25 here, and I know that most taxpayers would want to know that they are getting value for their money because they are paying for the work to be done. Certainly, I would want to know which agencies have been looked at, and I do notice that you identify police and the Department of Housing, and you are doing some work in the Department of Planning and the Department of Transport. That is for 2012. For 2012–13, no doubt you have earmarked other work that you are doing. I would, on behalf of this committee, like to have access to the work that you have done in these areas to ensure that the public is getting value for money. So I am wondering whether you might be able to provide those value-for-money reviews or reports to the committee.

Mr Marney: I am not able to because, again, they are reports that are fed directly into the EERC and cabinet, so they are, again, reports of cabinet.

Hon LJILJANNA RAVLICH: I get the sense that we are almost wasting our time here, given that, with everything that has come out of the Economic Audit Committee report, you cannot give us access to. When you were here a year or so ago and I asked you about the Economic Audit Committee report, you said there was no work being done, or there was virtually no work being done, because decisions had not been made. Let me ask you —

Mr Marney: The value-for-money audit is completely separate to the economic audit.

Hon LJILJANNA RAVLICH: Let me ask you about the —

Mr Marney: Sorry; it is not a question for me; it is a question for the Treasurer and the government as to whether or not they want to release cabinet documents. You are asking the wrong person.

Hon LJILJANNA RAVLICH: These are not cabinet documents; these are documents which are being prepared and which have been —

Mr Marney: For cabinet.

Hon LJILJANNA RAVLICH: Well —

Mr Marney: The documents are prepared to provide recommendations to cabinet.

Hon LJILJANNA RAVLICH: You are virtually saying that everything done from the terms of reference for these committees or these initiatives through to what goes to cabinet that absolutely the whole lot is secret.

Mr Marney: No, I am not saying it is secret; I am saying it is part of the decision-making process of cabinet. It is therefore up to the government as to whether or not it wishes to release that information; it is not my choice.

Hon LJILJANNA RAVLICH: All right. Let me ask you about another Economic Audit Committee recommendation that you also announced in 2011–12, which was the cost–demand modelling. A total of $2 million was spent over four years, or will be, to assist agencies to develop their cost and demand models—in other words, have a look at what is putting up the pressure on your costs, and so on and so forth. Once again, you have done some work in that area in the Department of Education and the schools curriculum and the standards authority, and you have started work with the Department of Corrective Services, or done some work there, and you are also developing a model or doing some work in the child protection area. This committee, once again, would like to know what the nature of this work is exactly and what is being recommended in relation to enhancing the cost and demand modelling, and so on and so forth, and we were wondering whether you might be able to provide the committee with any information in relation to that.

Mr Marney: I am more than happy to, because it is not information that is being fed into cabinet for decision making. This is our background, if you like, working on coming up with more robust estimates of both the demand drivers and parameters of individual agencies and how that flows back into their cost structures and how policy decisions impact upon their cost structures. So I am more than happy to provide that information.

Hon LJILJANNA RAVLICH: Have you got that in final report form or —

Mr Marney: It is probably—it is certainly not in final report form because it is not a report; it is a model. So it would be spreadsheet based.

Hon LJILJANNA RAVLICH: If you could provide that, that would be good. Can I also ask you about the performance management —

Mr Marney: Sorry; if we can just make a record, it was supplementary A5.

The CHAIR: Correct. Thank you very much.

[*Supplementary Information No A5.*]

Hon LJILJANNA RAVLICH: Can I also ask you about the performance management and evaluation, which was yet another Economic Audit Committee report.

Mr Marney: What is the specific recommendation?

Hon LJILJANNA RAVLICH: A total of $1.2 million will be spent over four years to build program evaluation capacity and enhance the quality and usefulness of performance management information.

Mr Marney: Yes, we are doing some work internally on how best to undertake program evaluation and how to put in place tools for our analysts to use on a systematic basis, and also to invest in training our people in program evaluation. So I am happy to share that because, again, it is inner workings of Treasury; it is not a cabinet-related matter.

Hon LJILJANNA RAVLICH: So the ones we cannot have are the value-for-money reviews.

Mr Marney: Correct.

Hon LJILJANNA RAVLICH: Some work has been done on the government trading enterprises umbrella legislation. Can we have any information on where that is going, because there were also some recommendations that perhaps some GTEs may be viewed with a view to privatisation, from memory, from the Economic Audit Committee report? Is there any information that is —

Mr Marney: That matter is with cabinet as well.

Hon LJILJANNA RAVLICH: So we cannot get anything on that. We cannot get anything on government trading enterprise monitoring because that is at cabinet too.

Mr Marney: You are after the reports, which recommend or feed into cabinet process. Again, you are asking the wrong person. These are questions that need to be asked of the relevant minister or the Treasurer.

[11.00 am]

The CHAIR: Do you want additional information on the program evaluation?

Hon LJILJANNA RAVLICH: Yes, I do, Madam Chair.

[*Supplementary Information No A6.*]

Hon LJILJANNA RAVLICH: I think the Under Treasurer is saying that it is not possible to get anything about the monitoring of the government trading enterprises because that all feeds into cabinet.

Mr Marney: Correct.

The CHAIR: I am going to suggest that we take a five-minute break because we have another hour to go until we close, so we will suspend for five minutes.

Mr Marney: If I could ask: does anyone have any further questions on the strategic projects part of Treasury; otherwise, we can release Mr Mann, although I am sure he would be disappointed to depart at this point!

The CHAIR: Mr Mann, if you would like to go, that would be perfectly okay.

Mr Mann: Thank you, and thank you for the one question I did answer!

Proceedings suspended from 11.01 to 11.10 am

Hon LJILJANNA RAVLICH: I refer to the innovative procurement models on page 25 that you are currently using and four specific contracts. The first one being Acacia Prison expansion, $126 million, design and construct; the Queen Elizabeth II Medical Centre car parking, $150 million; Midland Health Campus $360 million; and the old Treasury building Cathedral Square redevelopment, $500 million. Is it possible to provide those contracts to this committee?

Mr Marney: The contracts with the private entities themselves?

Hon LJILJANNA RAVLICH: The contracts and agreements between the government for these projects.

Mr Marney: I will have to take that on notice and get some advice as to whether they are commercial-in-confidence or subject to cabinet rules. I am happy to see whether that is possible.

[*Supplementary Information No A7.*]

The CHAIR: It might be worth reminding you that if you wish to claim commercial-in-confidence, that is one thing, but the documents still need to be provided.

Mr Marney: Yes, I just need to make sure I am not going to get into trouble legally in some way.

Hon LJILJANNA RAVLICH: No, but —

Mr Marney: Yes, that is fine.

Hon KEN TRAVERS: Obviously, one of the tasks of the department is to give its concurrence on statements of corporate intent.

Mr Marney: It is, technically, to advise the Treasurer as to whether he should advise concurrence.

Hon KEN TRAVERS: It has been an ongoing issue and I note that we finally got the 2011–12 statement of corporate intent for the port authorities just the other day, but we still do not have the 2012–13 statement of corporate intent. Under the act, they were required to be tabled by the end of the last financial year. Has the Department of Treasury completed its work on analysing the statements of corporate intent and provided their advice to the Treasurer?

Mr Marney: On the port authority statements?

Hon KEN TRAVERS: I am interested in all the statements of corporate intent that have not been tabled yet, but I am happy to start with the port authority ones.

Mr Marney: I can provide you with a list of the various statements for each entity and the status in terms of our consideration. Would that be of assistance?

Hon KEN TRAVERS: It would, but I would not mind hearing today why we have not been able to make the deadline of the end of the financial year. We have just gone three months into the new financial year, so I am intrigued to know why they have not been tabled.

The CHAIR: Just before that answer, the offer of tabling them would be useful, so I will give that a supplementary information number.

[*Supplementary Information No A8.*]

Mr Marney: I think the most common reason for delays in tabling goes to delays in achieving concurrence when SCIs and SDPs are submitted with financial parameters that are inconsistent with the financial settings articulated in the budget papers. That is the most common problem. But when we compile the answer to A8, I will make sure there is an explanatory note for the specific reason for delay relating to each entity.

Hon KEN TRAVERS: It strikes me also that the reality is that the last draft that was sent to the minister becomes the document on which those government trading enterprises are operating, so the port authorities and the other entities that have not had their concurrence given are continuing to operate. We are now a quarter of the way into the financial year and they will be operating using those parameters that do not concur with the rest of the budget settings you have described. Is that not a bad outcome for the state if they do not conform with what Treasury wants them to do?

Mr Marney: It is a concern, yes, and something we would seek to address in the uniform legislation by changing the timings and ensuring there is greater alignment between the budget and SCIs and SDPs.

Hon KEN TRAVERS: When you say that, where is the misalignment? My understanding is that most of these statements of corporate intent were submitted in December last year, which is about the same time the general government sector agency would have submitted their budget bids?

Mr Marney: Yes; they submit them, but whether they update them for the outcomes of budget process and deliberations is the question.

Hon KEN TRAVERS: Surely the Treasurer can convince the Minister for Transport to make sure his agencies are doing this?

Mr Marney: It is a question that I am unable to answer.

The CHAIR: Very wise!

Hon KEN TRAVERS: What process then goes on? If you get the statement of corporate intent and you are unhappy with it as the Under Treasurer and you provide that advice to the Treasurer, what activity occurs to get these agencies to comply?

Mr Marney: In the case of transport, it may well be that the Minister for Transport, rather than the Treasurer, was not happy with the SCIs and SDPs.

Hon KEN TRAVERS: I understand that they have been forwarded to the Treasurer to get their concurrence, which suggests that the minister was happy with them.

Mr Marney: At some point, yes. Then they get referred to Treasury for review to ensure that they are consistent with budget parameters and there is nothing in there that is inconsistent with government policy settings or broader direction.

Hon KEN TRAVERS: What is the process?

Mr Marney: They get sent to us with a request to provide a briefing note and recommendation back to the Treasurer on whether he should give his concurrence.

Hon KEN TRAVERS: I understand they all submitted them around 14 December last year. I am trying to work out where the breakdown in government communication is that now, more in than nine months later, we have not been able to get concurrence between the Under Treasurer and the Minister for Transport on the statements of corporate intent?

Mr Marney: It is the Treasurer.

Hon KEN TRAVERS: Sorry; the Treasurer and the Minister for Transport.

Mr Marney: I would be happy, as I said, to include an explanation in the table to pinpoint where the point of delay is on the individual SCIs.

Hon KEN TRAVERS: I am interested to know also what effort has been made to try to get that concurrence. There is a legislative requirement, and I am sure when we get the Auditor General's statement on the state finances for this year, he will put a statement in there about statements of corporate intent because he has done it for a number of years. I want to know what work is done. It is not just a matter of saying there is disagreement on this point; I want to know what work is being done to try to get that concurrence, because there is a legal obligation on the Treasurer and the Minister for Transport to try to get that concurrence.

[11.20 am]

Mr Marney: Yes, I am happy to provide a description around that and what that process has looked like, to give you a sense of where it is breaking down.

Hon PHILIP GARDINER: Page 31 was where we have got the efficiency of service provision. I know there was a little bit of discussion earlier about the value-for-money reviews, but that I think was in relation to transport and planning. What I am really looking to get some information about, Under Treasurer, is that with the efficiencies that one is hoping for, if you like, out of the efficiency dividend strategy, the agencies almost uniformly have told us that there will be no cuts in front-line services—no reduction of staff in front-line services. I think that you advised us in a previous hearing one time that there was a full-time equivalent ceiling that most of the agencies had and a lot of the efficiency dividend could be taken up with the slack that existed between what they had and what the ceiling was. But I am sure that is not the case throughout. My question is: Who is measuring whether the service delivery has got any change to it as a result of the efficiency dividend being applied throughout the agencies? Who is measuring that aspect and to whom is it reported?

Mr Marney: I am assuming you are referring to the two per cent efficiency dividend.

Hon PHILIP GARDINER: Yes, and the ongoing ones as we keep on going on.

Mr Marney: Yes. The two per cent efficiency dividend takes effect in 2012–13, so in the current financial year. Agencies have been requested to provide information as to how they are implementing the efficiency dividend, so to give us examples of what they are doing to implement the efficiency dividend. We will go through those and seek to ensure that, if you like, front-line services are being insulated from impact from the individual measures that they are taking. We will publish a range of those examples as part of the midyear review, so that there is transparency around those measures. On an ongoing basis in terms of measuring and monitoring their impact on service delivery, that is really what their annual reports are for in terms of their key performance indicators and monitoring how they are tracking with respect to those KPIs, as well as the budget papers that report those and give really an update, a part-year performance, around the KPIs.

Hon PHILIP GARDINER: Okay, has that required any review of the KPIs of some of these agencies as you are seeing it come through with what their intentions are?

Mr Marney: No review of KPIs in terms of the actual indicators themselves associated with this. Having said that, the KPIs are reviewed on an ongoing basis, so there are always changes to the agency KPIs as they get better at measuring things or find that what they are measuring is not quite capturing their performance as they would like. But I think what you are really asking is: have the levels of achievement of KPIs changed as a result of the efficiency dividend?

Hon PHILIP GARDINER: You will not have had enough time to assess that yet, of course.

Mr Marney: Correct. So the first read we will get on that is the *Budget Statements*.

Hon PHILIP GARDINER: You mean the midyear?

Mr Marney: No, as we draft next year's budget, it will have estimated actuals for some of those performance measures.

Hon PHILIP GARDINER: Okay, but I would have thought that somewhere in some agencies there would have to be a modification to the statement of corporate intent as a result of those efficiency dividends.

Mr Marney: In the case of the government trading enterprises, yes, their SCIs would have had to have been modified.

Hon PHILIP GARDINER: And for those which have been approved, are they going to be amended?

Mr Marney: I doubt that there were any approved before budget but I will check, and, yes, they would have to be amended to be consistent with the *Budget Statements*.

Hon PHILIP GARDINER: If the SCIs are going to mean anything, then they would have to be modified in accordance with that.

Mr Marney: Yes, and probably one of the sources of delay in tabling of SCIs this year has been the introduction of the five per cent efficiency dividend on GTEs, which pretty much would have forced almost all of them to go back and redraft.

Hon PHILIP GARDINER: There have been previous efficiency dividend strategies in place. I think it was three per cent the last financial year, was it, or the year before maybe? It was two years before, perhaps. But anyway, whenever that was, were there SCIs as part of the process in those days?

Mr Marney: Yes.

Hon PHILIP GARDINER: Were there modifications to the SCIs in relation to the three per cent dividend strategy?

Mr Marney: There would have been, yes.

Hon PHILIP GARDINER: I wonder, just so we can see what we can expect, whether there can just be two or three examples of where those SCIs were modified as a result of that three per cent dividend, which I think Treasurer Buswell used whenever he was Treasurer.

[*Supplementary Information No A9.*]

Hon KEN TRAVERS: I wanted to go back to some of the answers that you have provided us when you previously came before us. I have got copies of them here. This document has the answers that were provided to the questions that were taken on notice at the previous hearing back on 7 June 2012. The first one I wanted to look at was question A8. I just want to try and understand whether my reading of this is correct. The deposits into the royalties for regions fund and then the disbursements from the royalties for regions fund do not appear to add up, so I am assuming that means the remainder of that money is the money that then goes into this regional investment fund—is that correct?

Mr Marney: There would be a balance of unspent cash, basically. Whether it is all held in that fund, I am not sure; there may be some held in other specific-purpose accounts. But you are right, there is money going in and not all of it is being spent, so there is a balance.

Hon KEN TRAVERS: When I look at that, it strikes me that that balance will end up being—I understand that that balance is likely to be—more than $1 billion.

Mr Marney: At some point unless it is all spent, yes.

Hon KEN TRAVERS: I think when we last had the hearing there was some confusion about whether the regional development fund was inside the billion-dollar cap or outside, and in the answers here you corrected that. In terms of the money that is allocated in the forward estimates, does it go over that $1 billion?

Mr Marney: I would have to check. Yes, I will have to check and give you an updated run on those figures.

[*Supplementary Information No A10.*]

[11.30 am]

Mr Marney: It might be less of an issue in light of recent iron ore price movements.

Hon KEN TRAVERS: I understand that, but in terms of when the budget was done, I am trying to work it out, because my recollection is that the money that was going into that regional development fund actually did go over the $1 billion mark. So I am not sure how we produce forward estimates that do not comply with the Royalties for Regions Act.

Mr Marney: It depends on how much is spent from the fund and how much is put into the regional development fund, which is outside the $1 billion cap. So it could be completely compliant with the act if whatever the excess over $1 billion is transferred into the regional development fund, for example.

Hon KEN TRAVERS: But according to your answer, the regional development fund still sits within that $1 billion cap, if you look at the next page on page 2 of that answer.

Mr Marney: Yes, I thought it was outside. Okay, it is. You are right.

Hon KEN TRAVERS: The last time you came before us that is what you told us, that it was outside.

Mr Marney: Yes.

Hon KEN TRAVERS: And then the answer that was given in the supplementary information says that it is in.

Mr Marney: Yes. So it is then a question of how much do you spend out of any of the regional development or RIF funds more broadly.

Hon KEN TRAVERS: Yes, and you may recall that when we were asking you these questions, part of my purpose for asking them was to try to understand how much money is being booked as income into the state accounts and then is sitting in funds but not expensed out of those funds. That is what the reconciliation was intended to do, but this reconciliation does not still seem to give us that figure. My recollection is that it comes in at over or very close to $1 billion. The regional development fund added up to $993.8 million, I think. Then if there is other money not getting expended, I assume that would mean you could not put the money in until you have drawn it down over the year.

Mr Marney: We could not put the money in—as in pay the royalties money in there?

Hon KEN TRAVERS: Yes, until you have drawn down on it.

Mr Marney: The legislation requires us to pay it in.

Hon KEN TRAVERS: But you cannot pay it in if it is over the cap, can you?

Mr Marney: So, which bit of the legislation takes precedence—the amount you pay in or the cap?

Hon KEN TRAVERS: I do not know. What is the Treasury interpretation on that?

Mr Marney: Honestly, it is vague.

Hon PHILIP GARDINER: I beg your pardon?

The CHAIR: It is vague.

Mr Marney: It is not definitive.

Hon KEN TRAVERS: The other part of the question in that hearing was to try to get an idea of how much money is unexpensed across the forward estimates. That was the purpose of supplementary information A9, and in fact what you have given us is just a list of the balances of the SPAs. In fact when I asked for it, I was asking specifically about the Perth parking levy, for instance.

Mr Marney: Just to refine as —

Hon KEN TRAVERS: I have a copy of the transcript here if you want.

Mr Marney: I think we need to refine the request for information.

Hon KEN TRAVERS: I guess what I am really keen to find out is how much money is basically sitting in the budget, whether it is in the royalties for regions fund or the Perth parking fund or the road trauma trust account. Where there is income booked in, there is a specific purpose for which that money needs to be expended, but that money has not yet been expensed in the budget. So, at the moment it is artificially creating the impression of surplus cash. I mean, it sits in there and brings down net debt, but once you expend that money—I note your point at the time that that could happen, that money could stay there in perpetuity—the point of my questions was to try to find out how many other funds there are like those three that I have already mentioned and how much money sits in them over the forward estimates. I have heard the Minister for Transport consistently say in Parliament that all the money in the Perth parking fund has now been spent, yet my reading of it is that over the forward estimates there will be a continual accumulation of around $15 million per annum into that fund so that by the end of the forward estimates there will be somewhere around $60 million sitting in that fund unexpensed, and that is the amount that I am interested in.

Mr Marney: Yes, if there are no further decisions to spend it.

Hon KEN TRAVERS: That is right, but it has not been expensed at this stage. I think in the recent budget there was an expenditure of around $49 million on a range of initiatives over the four years of the forward estimates. You take that off; you hand it back in. And this year there was a $15 million surplus created in that fund, up from $12 million last year.

Mr Marney: So, if I can clarify this. There are two parts to the question. The first part is: what is the balance in the account and how much of that balance incorporated into the government's financial projections has been spent.

Hon KEN TRAVERS: Yes.

Mr Marney: The second part is: what is the expected flow into those funds over the forward estimates incorporated within the government's financial projections; and of that flow how much is also budgeted to be expended.

Hon KEN TRAVERS: Yes.

Mr Marney: So there are two parts. One is the current balance; and, secondly, the future flows of revenue and how much of those future flows are projected to be expended.

Hon KEN TRAVERS: Yes.

[*Supplementary Information No A11.*]

Hon KEN TRAVERS: I would like that for royalties for regions, for Perth parking and for the road trauma trust account.

Mr Marney: Yes.

Hon KEN TRAVERS: Are there any other accounts like that where there is significant money unexpensed at this stage in the budget?

Mr Marney: They are the most significant accounts, so I think they are the ones reasonable to focus on.

Hon KEN TRAVERS: But are there any others that would hold amounts of, say, more than $20 million or are likely by the end of the forward estimates to have $20 million sitting in them unexpensed?

Mr Marney: The only big ones that I can think of off the top of my head are the Fiona Stanley Hospital account, which is projected to be spent, the same as the new children's hospital account.

Hon KEN TRAVERS: And the expenditure of that is actually expensed in the forward estimates.

Mr Marney: Yes.

Hon KEN TRAVERS: The only other one I can think of would be potentially the taxi industry development account, because there are some big lumps going out of it at the moment for the cameras, but beyond that, whether or not that is all fully expensed in the forward estimates; and that, I think, sits around $20 million at the moment.

Mr Marney: We will add that one to the list under A11, and extend A11 to "and any other material special purpose accounts".

Hon KEN TRAVERS: Are they special purpose accounts, because in the list of these special purpose accounts, it did not include Perth parking or the road trauma trust account, if you go to question A9.

Mr Marney: Yes, "any other material special purpose accounts or similar such funds".

Hon KEN TRAVERS: Yes.

Mr Marney: Shall we swap chairs!

Hon KEN TRAVERS: I thought they were clear last time. So I think you have gone through exactly what I want, which is basically the money that is going in, the expenditure that is listed in the budget and what the surpluses will be accumulating over the period of the forward estimates in those funds that are unexpensed.

Mr Marney: Yes. I apologise for not answering that question the last time around in the supplementaries.

Hon KEN TRAVERS: I just wonder whether you did. Just looking at what was given through the committee, I do not expect you have answered that.

The CHAIR: Can I ask a question about economic outlook, which is on page 29 of the annual report where it is basically saying that it is expected to support strong labour demand and above-average population growth, underpinning continued strong growth in household consumption and recovery in housing demand. Then it also goes on to say that growth in WA's major export markets is expected to remain relatively robust. I am just wondering what the underlying assumptions are under that kind of outlook. Is it possible to give us some idea, particularly about the major export markets? I think you are also talking about more investment in the resources sector. Just what has been foreshadowed there to make that kind of prediction?

Mr Marney: Essentially we look at World Bank and International Monetary Fund forecasts of the global economy and individual countries, as well as Consensus Economic forecasts, and try to home in on our major trading partners and get an assessment across the board as to how they are travelling. Both Japan and China in terms of growth still look quite positive. There is a lot of talk about slowing growth in China, and yes, it is slowing, but it is slowing from 10 per cent to seven or eight per cent. So it is still very, very robust and will continue to provide support to the state's exports.

The CHAIR: And in terms of other resource projects that might be foreshadowed for the state, is it dependent on a certain number of those going ahead?

Mr Marney: As in the outlook for the state?

The CHAIR: Yes; and if so, which ones would be underpinning that?

Mr Marney: In terms of our forecasting methodology, we only include in the outlook those projects that are committed.

The CHAIR: Why?

Mr Marney: You would have seen, for example, a number of projects that were deferred or cancelled. BHP outer port, for example; that in no way is incorporated in our forecasts for the current financial year or across the forward estimates years, because it was not at a level of surety and commitment that we were confident could be factored in.

The CHAIR: So at what point do they have to be at before they are in, as it were?

Mr Marney: It depends, but now I have to get complicated. We actually forecast business investment top down, rather than bottom up. So we do not add up projects that are committed; we take long run time series of our business investment and use econometric modelling on the aggregate level. We then cross-check that against announced projects that are committed to make sure it validates those econometrically driven forecasts.

The CHAIR: So with something like, for example, the export of coal through Bunbury there are proposals flowing around on that. That would be in or out.

Mr Marney: Yes.

The CHAIR: Grange Resources down the south coast?

Mr Marney: I would have to check but I am pretty sure it is out.

The CHAIR: I might just put that one on notice at A12.

[*Supplementary Information No A12.*]

Mr Marney: But, again, the forecasting methodology is to forecast at aggregate level using econometric modelling, rather than add up specific announcements, if you like.

Hon LJILJANNA RAVLICH: I refer to page 31, Under Treasurer. I want to ask a question in relation to the full-time equivalent cap on staffing that will apply to all agencies except the Department of Health, the Department of Education and WA Police. I understand that the cap will apply to the effect that full-time equivalents will stay at the 2011–12 level, and there will be no increase in 2012–13 or 2013–14. Is that correct?

Mr Marney: In the cap, yes.

Hon LJILJANNA RAVLICH: In the cap. It will only, as it were, apply to all government agencies except for the operational staff in the Departments of Health and Education and WA Police; so it will apply to everybody else. Can you just advise the committee how much is going to be saved through that measure?

[11.45 am]

Mr Marney: It would be in the budget papers, but I do not have them with me unfortunately, so I will have to take that on notice.

[*Supplementary Information No A13.*]

Hon LJILJANNA RAVLICH: You would be aware that there is already pressure on agencies in terms of staffing and, certainly, there are significant numbers of positions in key areas that are left unfilled for considerable lengths of time already as a measure by which to comply with budgetary constraints. Here you say that this will not impact on operational staff. I wonder how you define operational staff.

Mr Marney: It is really defined by those three agencies as to their direct, if you like, customer-facing service delivery staff. It excludes, for example, corporate support staff who are not delivering service directly.

Hon LJILJANNA RAVLICH: What monitoring is done by Treasury to ensure that operational staff are not being —

Mr Marney: We monitor the aggregate adherence to the cap in conjunction with the Public Sector Commission. It is up to the relevant ministers and directors general of those agencies to ensure that they are not impacting upon operational staff. It only applies to Health, Education and Police, in terms of operational staff.

Hon LJILJANNA RAVLICH: Would it surprise you, for example, in the area of mental health that mental health nurse positions are not filled for some considerable length of time or that the number of psychologist positions are well below what would be the full staffing contingent within that organisation?

Mr Marney: That would be a question for the Director General of Health. I do not get that level of visibility into agencies' staffing profiles.

The CHAIR: I wanted to talk about a specific agency, which is the Forest Products Commission. Are you aware of the number of debtors that that commission has?

Mr Marney: No.

The CHAIR: Or the amount of debt?

Mr Marney: That it is carrying—no.

The CHAIR: So, you would not be looking that closely at that? It is in the millions and the list of debtors fills a whole page of A4.

Mr Marney: I would not personally get to that level of detail, but I would have a person who lives and breathes it and provides advice.

The CHAIR: Could we ask them, perhaps on notice, what Treasury understands in regard to the number of debtors, the amount owed, the length of time these debts have been outstanding and what has been done to reduce that level of debt?

Mr Marney: I am happy to take that as supplementary information A14, and we will provide you with what information we have. But that may not answer all the questions, if that makes sense, so we may not know what the amount owed to each debtor is. That may be detail that can only be provided by the Forest Products Commission.

The CHAIR: As far as Treasury's interest—I guess if there is money owed, it is owed to the public accounts—does the action come from Treasury to try and reduce that debt? I am trying to work this out.

Mr Marney: Who is responsible?

The CHAIR: Yes, and how long is it allowed to run.

Mr Marney: Ultimately, the Forest Products Commission board is responsible, and the relevant minister.

[*Supplementary Information No A14.*]

Hon LJILJANNA RAVLICH: I will go back to that full-time cap. You are responsible with the Public Sector Commission, I understand, for the monitoring and reporting on the cap; is that correct?

Mr Marney: Yes, the Public Sector Commission collects information on FTEs across the public sector through the minimum obligatory information requirements data. We review the MOIR data and then provide a report in to the expenditure review committee on the status of agencies' FTE levels, their actual levels relative to the cap.

Hon LJILJANNA RAVLICH: So Treasury would have a copy of that data across all government agencies?

Mr Marney: The Public Sector Commission releases that data publicly.

Hon LJILJANNA RAVLICH: But would you have within Treasury a copy of that data? That is the question I am asking.

Mr Marney: Of the Public Sector Commission's report?

Hon LJILJANNA RAVLICH: No, of the FTE cap across the general government sector; in other words, who has how many staff?

Mr Marney: As in what the actual cap applicable to each agency is? Yes.

Hon LJILJANNA RAVLICH: So you would have that?

Mr Marney: Yes, and it is published in the budget papers, from memory. If you want a list of that, I am happy to provide it.

[*Supplementary Information No A15.*]

Hon LJILJANNA RAVLICH: I want to see also if you have information from 2008 that would provide a benchmark, so there is a comparative.

Mr Marney: So the actual level of FTEs in 2008?

Hon LJILJANNA RAVLICH: Yes.

Mr Marney: The Public Sector Commission would definitely have that, but I will check if we have that and provide that as well, as part of A15.

Hon KEN TRAVERS: I want to go to the *Annual Report on State Finances*. We failed to meet, maintain or increase real net worth of the total public sector, which is one of our targets for the 2011–12 year. The reason given is a change in the valuation within Main Roads for roads. My issue is that a couple of years ago the only way we achieved the real net worth was a change in the way in which, I think, Public Transport Authority assets were held; we brought them into book at the full value. I am intrigued to know what are we doing to try and make sure that on an ongoing basis we are maintaining our real net worth of the total public sector. Considering the huge borrowings we are going into, you would expect that should be increasing every year.

Mr Marney: Yes, and the way to maintain net worth is ensure those borrowings are spent on assets and not on operating expenditure. That is really what that target is about; it is to ensure that borrowings go to enduring assets that are worth an equivalent, if not more.

Hon KEN TRAVERS: What impact do decisions like the Elizabeth Quay development, where the value of the land that is created as a result of—I think, we are up to over $550 million worth of state government investment in terms of direct investment, road packages and power substations, and I think we only get $170 million back. Would that be impacting on our ability to maintain or increase our real net worth?

Mr Marney: It would impact on that figure in the forward estimates period, but the life of that project extends beyond the forward estimates period. So I think that the biggest chunk of revenue to flow in terms of the asset will be beyond the forward estimates period. So it would have a temporary negative impact on net worth.

Hon KEN TRAVERS: But if we never get back what we spent on it, then it is going to have a long-term impact on the worth of the state—is it not?

Mr Marney: If that is the case.

Hon KEN TRAVERS: Is there any suggestion that we are going to get more than the $170 million that is budgeted?

Mr Marney: That is something that we would update as the value of the land that is created becomes real. The first few transactions would actually give us an indication of what the market is prepared to pay for it, so we would revise those numbers at that point.

Hon KEN TRAVERS: The other big one which springs to mind is Ord stage 2, which I think now has over $300 million going into that. The announcement on the sale of that land was due, I think, some months ago now. I still have not seen an announcement, but I assume that the value of the land that is created from that development will also have a negative impact on our state wealth. If we have spent $300 million and we only create—I have heard these estimates—somewhere between $20 million and $70 million, is that going to have an impact on our real net worth?

Mr Marney: That is complicated a little by funding sources, because I think there is some commonwealth money.

Hon KEN TRAVERS: I was not including that $200 million of commonwealth money, because as I understand it that has gone into the town centre of Kununurra and, hopefully, that has been on investments that will maintain their worth.

Mr Marney: I think the answer is no, because Ord 2 is funded by cash and not by borrowings, because it is royalties for regions money. A deterioration in net worth would occur when there is an asset—if you are bringing it down to specific assets—that is created, let us say a $200 million asset funded by debt, but when you actually realise the value of the asset you only get $100 million for it and you get a $100 million deterioration in net worth. If that $200 million asset was funded by cash, then I do not think you would get a deterioration in net worth because the concept is net assets to net liabilities.

Hon KEN TRAVERS: How do you work out which of your capital work projects are funded by borrowings when they are bought?

Mr Marney: We do not; we just do it in aggregate. That is why it is hard to bring it down to an individual project to say an individual project has a negative net worth position. I would have to look into Ord stage 2 in greater detail because it depends on the accounting treatment.

Hon KEN TRAVERS: I still cannot understand how you can differentiate what has been funded by cash and what has been funded by borrowings, because with royalties for regions I am assuming, although we have royalties coming in to actually fund the capital works side of the royalties for regions program, that we are actually borrowing some of the money to fund that; or, if we are not, then all of our surplus cash is going into royalties for regions and then we are having to borrow money to fund the other projects, and it becomes pretty immaterial at the end of the day.

Mr Marney: That is correct. The issue around the cash position is largely irrelevant. I think the key point is what is the asset valued at in our accounts, and then if you sell the asset for half of that, you get a deterioration in net worth. So the question is: What is Ord valued at by whoever owns it? I think it is Regional Development and Lands. What is it valued at in their balance sheet, and whether or not, when they sell it, if it is sold for less than what it is valued at in their balance sheet, then theoretically, technically, you should see a deterioration in net worth by that amount.

Hon PHILIP GARDINER: Excepting what is contained on page 68 of the annual report, and I was going to ask a question because I do not understand what it says. Under the heading "Derecognition" it reads —

> Upon disposal … of an item of property, plant and equipment, —

Which is what we are talking about here —

> any revaluation surplus relating to that asset is retained in the asset revaluation surplus.

I presume that would be transferring straight into net worth. It seems to me to be double counting, if you sell it; notwithstanding, it is hard to see that net worth is not doubled up there.

Mr Marney: It is a question of how that item is consolidated when we go to whole-of-government finances. This footnote relates to individual agency finances.

Hon PHILIP GARDINER: So it is Treasury. And then when it is consolidated —

Mr Marney: When we go to whole-of-government finances, we have to manipulate a lot of those sorts of items to ensure that we do not double-count at an aggregate level.

Hon PHILIP GARDINER: Your evaluation is in, say, Treasury, but when it gets to sale, that is when it is cancelled out.

Hon KEN TRAVERS: If I can just go back, if you are saying that it comes down to what is held in the books as —

Mr Marney: I would think so.

Hon KEN TRAVERS: Surely there is still a problem, though, because you would normally expect that the cost of the asset is what it would be held in the books as. Normally you would hold an asset. You would not go and buy a house for $1 million that was only worth $500 000; you would hold the asset at $1 million. If that is what it cost you to build the government building, you would hold it at the land value plus the cost of construction. I assume that is what we will hold the stadium at, or any of the other major pieces that we construct.

Mr Marney: You would think so.

Hon KEN TRAVERS: And then you would depreciate it over the life of the asset.

Mr Marney: Yes.

Hon KEN TRAVERS: If we then enter it into the books at a value less than it cost us to construct, surely at that point we have actually detracted from the net worth of the state as well.

Mr Marney: Yes.

Hon KEN TRAVERS: Whether it is done at the point of sale of the asset or the point of bringing it to account in the books, if that is less than what it costs us to produce, that is having an impact on the net worth of the state.

Mr Marney: Yes, but, as you said, hopefully, you would not be actually valuing an asset at a value of less than what you spent on it.

Hon KEN TRAVERS: That is my point. We are spending $300 million on Ord stage 2—that is just the Ord stage; forget the $200 million from the commonwealth into the town of Kununurra. I am assuming that is going into projects that will be held—the courthouse and the other facilities—at the value that we pay for them. We know with Ord stage 2 we are bringing it into the accounts. We are spending $300 million but I have never heard anyone say they expect to sell the land that is then created as a result of that Ord stage 2 proposal for $300 million. As I say, the estimates that I have heard range from as low as $20 million, and I think the highest I have ever heard is $70 million.

Mr Marney: I would have to inquire as to the specific treatment of Ord stage 2. I am happy to do that.

[*Supplementary Information No A16.*]

Hon PHILIP GARDINER: Also, could we just confirm the recognition is really a consolidation issue, Under Treasurer? Maybe that wording should be changed under that item just to note that it has to do with consolidation.

Mr Marney: There would be an array of these footnotes that would be dealt with in consolidation. The footnotes are specifically designed to relate to the financial statements of that single entity, but I would be happy to put in an overarching one so it gives an indication of what is consolidated out.

Hon PHILIP GARDINER: It may already be there.

Mr Marney: I do not think it is, but we will take that away.

Hon KEN TRAVERS: As well as Ord stage 2, I am also interested to know how Elizabeth Quay is being treated in that regard as well and whether or not there is any residual asset that remains on the books after the land is sold that the state attributes a value to. For the consolidated accounts going forward, there must be figures attributed to that across the forward estimates. Could we get that as well?

[*Supplementary Information No A17.*]

Hon KEN TRAVERS: Are there any other projects that you are aware of where we are investing more in them than what we expect the value of the asset to be once we have completed the project?

Mr Marney: I would have to inquire. There is a range of projects that fit parts of that description. The question would be around a government trading enterprise—say, LandCorp—that is investing and is getting a CSO because it is not meeting its hurdle rate of return. How does that get treated?

[*Supplementary Information No A18.*]

Mr Marney: That is around any other —

Hon KEN TRAVERS: Yes. I am talking about significant projects.

Mr Marney: Significant projects where there may be a divergence between the value of the asset and the cost of acquiring that asset.

Hon KEN TRAVERS: Where there is a formal decision taken—one that comes to mind is the Australian Marine Complex, where there is an ongoing —

Mr Marney: Subsidy.

Hon KEN TRAVERS: Yes, subsidy. As I understand it, it comes back to us as a dividend because it goes into the LandCorp books and then comes back out as a profit for them because the actual asset itself is producing enough to cover its cost. It is the rate of return that it does not do.

Mr Marney: Yes.

Hon KEN TRAVERS: I am not so fussed about those if there has been a formal decision taken to provide a CSO. I am talking about—I am not aware of there being a formal decision for a CSO for the Elizabeth Quay or for Ord stage 2—if there are other projects that fit within that classification where the cost of the asset exceeds the cost of acquiring it.

Mr Marney: Yes.

[*Supplementary Information No A19.*]

The CHAIR: I think we might call a halt at this stage. 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 questions that have been 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 the 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. Members, if you do have additional questions, please submit them to the committee clerk at the close of this hearing. On behalf of the committee, Mr Marney, thank you very much for your attendance. We will close the hearing.

Mr Marney: Thank you very much; it is always a pleasure.

Hearing concluded at 12.07 pm