



**PARLIAMENT OF WESTERN AUSTRALIA**

**FIFTH REPORT**

**OF THE**

**STANDING COMMITTEE ON ESTIMATES  
AND FINANCIAL OPERATIONS**

**IN RELATION TO THE**

**PROGRAMME UNDERTAKEN DURING 1992**

**Presented by the Hon Max Evans (Chairman)**

**5  
DECEMBER 1992**

**The Standing Committee was established on December 21 1989 with the following terms of reference:**

1. There is hereby appointed a Standing Committee to be known as the *Estimates and Financial Operations Committee*.
2. The committee consists of 5 members.
3. The functions of the Committee are to consider and report on -
  - (a) the estimates of expenditure laid before the Council each year; and
  - (b) any matter relating to the financial administration of the State.
4. The committee shall report on the estimates referred under clause 3 by or within one sitting day of the day on which the second reading of the *Appropriation (Consolidated Revenue Fund) Bill* is moved.
5. For the purposes of clause 3(a), the House may appoint not more than 6 members at any stage of its examination.
6. A reference in clause 3 to "estimates of expenditure" includes continuing appropriations, however expressed, that do not require annual appropriations.
7. The committee may initiate investigations under clause 3(b) without prejudice to the right of the Council to refer any such matter.

**Members of the Committee:**

- . Hon Max Evans (Chairman)
- . Hon Sam Piantadosi
- . Hon Bob Thomas
- . Hon Muriel Patterson
- . Hon Murray Montgomery

**Staff of the Committee:**

- . Mr Phil Knight (Advisory/Research Officer)
- . Mrs Margaret Liveris (Clerk up to July 1992)
- . Mr Mark Hilditch (Clerk from August 1992)

**Previous Reports of the Committee:**

- . First Report      1990-91 Budget Estimates: November 1990
- . Second Report    1991-92 Budget Estimates: November 1991
- . Third Report      Leasing of Computer Equipment for the Legislative Council:  
February 1992
- . Fourth Report     1992-93 Budget Estimates: November 1992

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**Legislative Council**

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# PROGRAMME UNDERTAKEN DURING 1992

## 1. INTRODUCTION

At the beginning of the 1992 parliamentary session, the previous Chairman, Hon Eric Charlton, resigned from the Committee and was replaced by the Hon Murray Montgomery.

The current Committee members express their gratitude to the Hon Eric Charlton, who as the very first Chairman, established the identity and direction of the Committee since its inception in 1989.

## 2. BACKGROUND

The purpose of this report is to bring to the attention of the House, the work that this Committee has conducted over the six month period April - September 1992.

The months of October and November were the Budget Estimates' hearings, that are covered in detail in the Fourth Report, titled "*1992-93 Budget Estimates*".

Standing Order 3 in Schedule 2 of the Standing Orders of the Legislative Council states -

*" The functions of the committee are to consider and report on:*

- (a) the estimates of expenditure laid before the Council each year; and*
- (b) any matter relating to the financial administration of the State; "*

Consequently, in respect to *(b)* above, the Committee decided to commence investigations into various aspects of Government expenditure by inviting senior representatives of a number of government departments and agencies to brief the Committee on specific issues and particular aspects of their operations.

This process of regular reviews of departments and statutory authorities should be continued so that Senior Executives can provide indepth responses and feedback that is not always possible at the Estimates' hearings.

The broad intention of this "information gathering" programme was to provide members with a clearer understanding of each organisation's current role and function in relation to "*the financial administration of the State*".

**Hansard Transcripts** of all proceedings are available from the Legislative Council Committee Office.

## 3. DEPARTMENTS AND AGENCIES INVOLVED IN THE PROGRAMME

The following departments and agencies were included, mainly as a result of an individual member, or the Committee collectively, being interested in a particular issue or subject -

- (i) Department of Treasury;
- (ii) Office of the Auditor General;
- (iii) Westrail;
- (iv) Building Management Authority;
- (v) Department of Infrastructure and Government Assets (formerly the Office of Government Accommodation);
- (vi) Department of Treasury; and the
- (vii) Government Employees Superannuation Board.

#### 4. SUMMARIES OF THE BRIEFINGS PROVIDED TO THE COMMITTEE

##### Department of Treasury - Thursday April 9

The Committee met with the following representatives:

Mr Ron Bowe - Under Treasurer  
Mr Ron Hazell - Assistant Under Treasurer  
Mr Neville Smith - Assistant Under Treasurer

- \* Forward Estimates - this year is the second year of the transitional process towards program management and program budgeting. As part of that process Treasury is proposing to publish forward estimates regarding expenditure for the first time.

Second year in which the Government has taken an overview of the Budget early and looked at policy priorities.

Apart from the 1992-93 figures, both 1993-94 and 1994-95 will also be published. Priorities will change due to policy initiatives.

WA is held captive to the Commonwealth for about 40% of revenue - this relates particularly to the Grants Commission review of relativities. (NSW and Victoria favour "allocated efficiency" - spending in the south-east of Australia).

Much of that Commonwealth money is fixed or tied grants which requires a certain amount of contribution from the States. Treasury would prefer to have greater control over the State's revenue powers.

- \* Indicative allocations - this process replaced the old "bidding" process and is based on the estimate provided to Parliament in 1991-92. Departments are advised (@ April/May) of an allocation to carry out the necessary programmes and services - figure is analytically based in that it takes into account known Government policies and priorities. There is negotiation with departments to achieve the final allocation.

Meetings with the Ministry of Premier and Cabinet and advice from the Premier determine certain policy changes.

- \* Social welfare payments to Transperth and Westrail - have been discussions about the meaning of these "social obligations". Formula is used whereby the Government pays 40% of railway costs and 25% of bus costs based on their respective operations.

- \* Statutory authorities - between 220-250 in number under the FAAA (including some 120 hospitals). A reasonably large number are self funded. SECWA and WAWA receive subsidies for country activities.

A problem can be the legislation, in that Parliament has already determined the powers and responsibilities for retaining residual funds under the principal Act.

- \* Rent - Treasury agreed to distribute the real costs across agencies.

- \* Released the document titled "Managing the Business of Government (A Strategic Approach)" as a policy discussion paper, on various matters like forward estimates.

For instance, departments should have the flexibility to borrow against next year's allocation. There would be some benefit to the department in acquiring certain materials - should have the ability to bring that forward and to plan accordingly to achieve savings over a time frame.

\* Concept of revenue retention - a department should not be penalised for making efforts to save funds.

\* Performance indicators - provides a guide on how well the department is performing.

\* Inefficiencies in Government - commercialisation concept in respect of business undertakings.

Interdepartmental or inter-agency charging - the concept of user pays and user choice.

\* Government Accounting System (GAS) - future of the system will be reviewed.

\* Accrual accounting - an exposure draft has been released on departmental reporting which argues an accrual approach.

\* Treasurer's Annual Statement - released so late in the year. One contributing factor is reporting the balance of the national debt sinking fund (\$23,000 last year) as it changes several times between June and the date the statement is released.

Treasury is fairly independent of Government in terms of compilation of debt figures.

## Office of the Auditor General - Thursday May 7

The Committee met with the following representatives:

Mr Des Pearson - Auditor General  
Mr Frank Pearce - Director of Audit  
Ms Nelly Da Re - Senior Auditor

- \* First General Report of the Auditor General - role is to review and to draw to Parliament's attention abnormal, exceptional or unsatisfactory issues. No executive power.

Significant developments have taken place in the Office of the Auditor General since the introduction of the *Financial Administration and Audit Act* (FAAA) in 1985.

Picked up a degree of repetition in issues both within agencies and across agencies - consistent problems or unsatisfactory features such as absence of an accounting manual, lack of accounting expertise and unsatisfactory internal auditing.

Seeking feedback from Parliament on both the April and December Reports.

- \* Highlighted Government wide and significant audit issues - areas where specific remedial action is required (the approach to the compilation of annual financial statements) and accounting principle issues (such as the approach of employer contributions to superannuation liability).

- \* Proactive in consulting with Parliament; the central agencies; and individual chief executive officers. Completed discussions with Ministers earlier in the year.

- \* Agencies using audit committees - the number is increasing. Office discusses the committees strategic audit plan to determine whether the coverage is satisfactory to management. There is a general improvement in relations after being invited onto these committees.

- \* Relationship with Government - to provide an environmental understanding of the role of auditors, clarifying that the Auditor General's responsibility is to the Parliament, not to the Government, and trying to pave the way for sensitivities when agencies and/or Ministers do not understand those relationships.

- \* Accelerated payments - where payment is made prior to delivery of the goods or service (against FAAA requirements)

Facility already exists within the current system to carry over genuine funds that may have been appropriated for a purpose and due to circumstances beyond the control of the department are not able to be completed by 30 June.

Facilities in the annual appropriation process enable agencies to carry over up to four per cent of their budgets.

If departments have amounts which are not committed at that date the funds can be committed. Under a suspense account arrangement the amounts can be transferred against a suspense account from the CRF.

- \* Under the FAAA an internal audit is required for every agency - matter of balancing service delivery with control as there are 350 individual agencies.

- \* Superdrome - statement in the report that the cost to the taxpayer of about \$3.5m a year is an indictment of the management (no control or management). \$1.7m overdraft.



- \* Liaison with the Public Accounts and Expenditure Review Committee is similar to that with this Committee.
- \* Need for three General Reports - the first, reports on the June 30 balance date and mainly relates to departments and early statutory authorities; the second, finalises the June 30 balance dates and deals essentially with statutory authorities; and the third, is a "catch-all" report that picks up December 31 balance dates (about 10 agencies) and the universities and colleges.
  - Require feedback on the preference for tabling the above reports when Parliament is sitting.
- \* Superannuation liability - overall problem is the conversion from the unfunded pension scheme that existed prior to 1986, to the new funded scheme currently operating now.
- \* Government accommodation - is a legitimate role for audit.
- \* Trading statutory authorities and non-CRF agencies pay audit fees - if over 50% of an agency's funding comes from CRF, it is not charged a fee.
- \* Accounting treatment for deferred maintenance (mainly the port authorities are involved) whereby "*accelerated depreciation arising from deferred maintenance should not be recognised as a liability but should be disclosed as a reduction of the carrying value of the asset*" - is from the new standards of accounting concepts that have been developed and released in State Accounting Concepts 4.
- \* Publication of "Audit Insights" (first edition) - because audit reports generally tend to focus only on exceptions, it was a conscious effort to try to complement that fact and advise readers of specific issues.

## Westrail - Thursday May 14

The Committee met with the following representatives:

Mr John Sutton - General Manager, Business Development

Mr Richard Collister - General Manager, Finance

- \* Over the past decade staff numbers have reduced by 1,000 to 5,000 at present.
- \* At the start of the decade - \$80m-\$90m loss in commercial terms. Last year achieved a small profit.
- \* Predominantly running two major businesses - the freight business, which is primarily a commercially run and a passenger business.
  - One third of business is still regulated to rail - the major bulks (anything over 100,000 tonnes).
- \* Put together a document (requested by the Minister) to examine the issues associated with the total deregulation of the freight business in this State.
  - Generally support deregulation - competition on a level playing field.
  - Places internal pressures on Westrail to improve efficiency and to win business on a purely competitive basis.
- \* Paying a fuel excise levy.
- \* Grain is totally deregulated and is worth about \$70-\$80m a year.
  - Still slightly higher than road competitors' prices - in the long run must be a price neutral competitor or a price leader.
  - Prices have come down a massive 35 to 40 per cent - preparing for deregulation. Have some further efficiencies to be implemented.
  - Other efficiencies include the leased pathways option, whereby grain is transported from the grower to the port in the most efficient and quickest way.
- \* Passenger services - have an explicit service obligation component through a contract with Transperth. The social welfare figures for Westrail are in the Transperth accounts. The overall component is 40% of total operating costs.
  - Last year the cost of providing the suburban rail system was \$50.3m and this amount was received from Transperth.
  - Four components in the community service obligation - the Australind, \$3.8m (that represented the excess of expenditure over the fares collected); the Prospector, \$9m; the Indian Pacific and Trans Australian, \$7.4m; and road services (country bus operation) \$1.8m. Total of \$17.9m was shown in the annual report for provision for community services.
- \* Westrail has other community service obligations apart from the urban rail system - provides the Prospector and the Australind for country passengers.
- \* Privatisation - an option may be a joint venture whereby a private company may be involved on a joint venture basis.

- \* If the Midland workshops were to close, Westrail would probably increase its service facilities at Forrestfield and undertake more work.
- \* Reduced the number of bank accounts from 19 to one. It took five years for the legislation to be passed, but it has been proclaimed. The bank account is still with Treasury but administratively the procedure is much more efficient.
- \* Superannuation - the full liability for Westrail and the State is currently about \$1.4 billion. Net present value - discounted back to today - is about \$463m. This is financed through the Treasury.
  - Two possible solutions - the first, is to remove that liability from the books because Westrail cannot pay it; the second, is to fund it with a once-off lump sum payment to Westrail of \$463m (difficult to find).
- \* Audited commercial profit of \$1.6m this year.
- \* Voluntary severance scheme - received a one-off payment from Treasury.
- \* Corporatisation and commercialisation - Westrail is as commercial as it can be under the current rules. Long term, the need for an appropriate debt equity infrastructure - in the range of 50 per cent debt and 50 per cent equity - this has been assumed in the accounts for a few years.
  - In the establishment of the National Rail Corporation an appropriate debt equity structure was 50 per cent debt and 50 per cent equity. It is very close to the transport industry average of the all ordinaries index in Australia on debt equity.
- \* Need for an extension in the railway network for freight - believe that rail is still viable for the Beenup-Jangardup operations. Secured \$13m for the Kwinana and Bunbury region from the "One Nation" package.
- \* National Rail Corporation - important for the future. Committed to inject \$8m over 5 years - in exchange for equity in the organisation (under the terms of the agreement) Westrail is to provide access or hand over certain assets to the NRC in return for a share in the equity of the organisation. There is no cash transaction.
  - Most likely scenario is for the handover of the track between Merredin and Kalgoorlie (principally because Australian National Railways is the predominant user of that section of track) along with the Kewdale freight yard and some rolling stock.
- \* Government decision that the northern suburbs railway (\$200m investment) will be run and operated by Westrail but under contract to Transperth.
  - Rail cars will cost some \$110m - totally debt funded.
  - Social welfare - formula will be through a contract with Transperth.
- \* Midland workshops - the overall structure has been changed and it has become more efficient with the introduction of a computerised production control system four years ago.
  - In 1983, the mechanical branch had 3,300 employees; in 1988 it was 1,800; and in April this year the number was 817.
- \* Albany - the issue is whether Westrail can carry grain more efficiently to other ports from Albany. There are no plans to reduce the rail service to cart grain from the port.

## **Building Management Authority - Thursday May 28**

The Committee met with the following representatives:

Mr Chester Burton - Executive Director  
Mr John Tondut - Director, Maintenance Operations  
Mr Colin Murphy - Director, Financial Services

- \* Role of the BMA - in the position of planning, managing and undertaking the development and conservation of public buildings and assets.

Of total turnover of around \$250m a year, only about a third is actually undertaken by BMA work force - the other two thirds is contracted out.

Manage private sector resources to meet the needs of Government.

Government oversight role - co-ordinating and assisting agencies with overall capital works. New problems emerging - including the management of the asbestos issue and administering the public buildings insurance trust.

- \* Swimming pool project at the Superdrome - project management role. The design and construction were contracted out.

- \* Effort has been put into doing two things - Firstly, making sure that prices are comparable with the private sector and, secondly, being able to demonstrate that is the case.

In regards to capital expenditure - have full cost recovery now.

With maintenance, the major users of our services are on a user pays basis. Service a large number of other departments where the funds are still appropriated and the BMA spend the funds on their behalf ie Department for Community Services, Police Department and Crown Law Department.

- \* Designing and constructing new buildings is 100% devolved - from the General Loan and Capital Works Fund

- \* Insurance Trust Fund - all Government buildings valued at more than \$4m are insured through this fund (completely from CRF). It is an annual appropriation and has been @ \$500,000 to \$1m in recent years.

Funds are primarily to meet the cost of uninsured buildings - buildings with a value below \$4m. For buildings valued at more than \$4m, money in the fund is used to pay the premium through the SGIC which takes out insurance to cover the major buildings.

SGIC manages the fund and on-insures some of the major buildings. The premium for last year was in the order of half a million dollars.

Damage below \$10,000 is handled through normal maintenance funding.

- \* Mowing and gardening has been an outstanding example of the way in which a public sector service can be transformed through the combined cooperation of employees, unions and management on a whole range of dimensions - costs have almost been halved. Service around 420 metropolitan schools.

Managed to achieve competitive prices with a high quality service in terms of safety, regularity and other factors.

- \* Cleaning has been a contentious issue for years, but is now also a success story.

Cleaning activities are mainly in offices, courts etc. Turnover in that area is about \$4m a year, with about half that amount involving BMA staff - the other half is contracted out.

Costs are comparable with the private sector. Monitor BOMA's rates - are comparable to those.

\* Construction operations represent about \$40m on projects built in the metropolitan area (one third contracted out). Maintenance expenditure is around \$15-20m.

\* Multi-skilling is a key issue - in the order of 10 to 12 unions and that number of awards.

Many opportunities at the moment to ensure that cross-skilling occurs.

Over the next few years, it is hoped there will be a significant reduction in the number of unions - that will eliminate a major impediment to the flexibility of cross-skilling.

\* Government has not indicated that it has any intentions to operate exclusively from Perth and not in regional areas.

\* Ministry of Education - BMA carries out a condition survey each year of all the buildings in the State. Consult with the Ministry about establishing priorities on spending funds.

\* In country areas, most of the work is done by contractors - payment has been devolved back to the country.

\* Operate on Treasury's bank account - operate a large number of accounts within Treasury. Have the Consolidated Revenue Fund and the Treasurer's Advance Account. General Loan and Capital Works Fund is also customer oriented.

\* BMA runs a fairly sophisticated mainframe commercial accounting package internally - runs an interface with the Government Accounting System (GAS). Transfer cash based information directly to Treasury with the capability of generating an accrual review within the organisation.

Part of a financial reform process is to continue to develop and improve the invoicing and billing arrangements.

\* Health Department has own maintenance budget - a historical decision. Major hospitals, such as Royal Perth, and the regional hospitals, like Geraldton, have a total staff complement.

\* Once the workplace problems have been resolved, the BMA will be more like the large and successful construction building companies by subcontracting out much of its work - only way the Authority can survive.

\* Number of employees has declined from around 2,000 in 1984 to about 1,400 now.

BMA has been able to achieve productivity improvements and a reduction in the number of employees because people's skills have been improved and broadened.

Tendency in the future to "shift the balance" and to contract out more work.

## Department of Infrastructure and Government Assets - Thursday August 13

The Committee met with the following representatives:

Mr Ian Johnston - Chief Executive Officer  
Mr John Forbes - Manager, Capital Works and Infrastructure  
Mr Vic Smith - Manager, Asset and Property Management

- \* Focusing primarily on rents - last year administered all leases and paid the rents for statutory authorities and some CRF agencies. Recouped funds (\$16m-\$20m) from a number of these agencies including WAWA.

Where the rent was paid but not recouped, the total rent Bill was @ \$42m.

From this year, all departments will be allocated funds in their budgets for rental purposes - DIGA will be allocated only a contingency sum for unknown occurrences.

- \* Vacancies in premises - cost is absorbed through the Treasurer's Advance. Extended from \$5m to \$12m because of additional recoups. Do not use a trust account - pay out and recoup.

- \* Standard lease is used - negotiate all leases with input from the Crown Law Department.

- \* Current vacancies - in 1990-91, equated to around two per cent of the total rent bill and was about 0.5 per cent in terms of the total amount of space both Government owned and leased under DIGA's control. The situation has improved even further.

- \* Development of capital works - evaluate proposals put forward by departments ie new workshops for the Main Roads Department.

Make recommendations to Government through the Public Accounts and Expenditure Review Committee for any new buildings ie courthouses, schools.

- \* DIGA bears the cost of unoccupied buildings - try not to have that situation.

- \* Operating budget is around \$5.8m, allowing for contingencies (\$2m for office rent reviews).

- \* Westralia Square is owned by the State Government Insurance Commission and the Government Superannuation Board. Government occupies @ 16,500 to 17,000 square metres.

Current occupants include Crown Law Department, Director of Public Prosecutions, Environmental Protection Authority and the Registrar General. The existing leases for all these tenants had terminated.

Assessment is that no private firms will be occupied in the building given the location and several other factors.

- \* Policy of "getting departments off the Terrace" - has been around for a long time but is difficult to implement.

- \* In terms of choice of location, departments state their requirements and DIGA negotiate with the agents.

- \* Tower in Bunbury - is being filled.

- \* Long term plan is for an executive building to hold Ministers and maybe the Premier and Treasury ie executive arm of Government.
- \* Staff levels are currently 32 with approval for up to 35.
- \* Sell some land to Homeswest - all land comes under the asset management item and lands territorial asset management.
- \* DIGA has responsibility for administering the Government's real property assets. Management involves identifying assets capable of being better managed - may necessitate their sale, but involves more than sales only.

Asset Management Group (originally the Asset Management Taskforce) approaches all agencies - some are outside DIGA's jurisdiction. For instance, the *Main Roads Act* states that if property is disposed of, the proceeds must be returned to the Department.

DIGA discusses with agencies and identifies any assets that have potential for better management or disposal. Each property identified is submitted to Cabinet after investigation. Cabinet directs what is to happen to it.

Any disposal must be done in a fair, open and honest manner - minor exception is when a piece of land is landlocked and can be sold to the adjoining landowner.

- \* Emphasis of DIGA's work will probably shift towards better management of properties.
- \* Ensuring the development of the Government property register - difficulty has been in getting the necessary resources. For a long time the proper management of Government land has not been given sufficient attention - one problem is identifying exactly who owns the land.
- \* Main Roads Department - only department which requires a pre-emptive clause on the sale of its land. By legislation, both WAWA and SECWA receive the proceeds of land sales.
- \* Westrail - most of DIGA's work is related to the Westrail reserves. The reserves have had leasehold occupants for years.

Examined Subiaco and Claremont stations and are presently examining Cottesloe station, not with a view to selling it, but regarding future use. Leighton, Geraldton, Albany and Kalgoorlie have been looked at and are presently examining Bunbury.

Initially attempt to identify the strategic use of and for the land.

## Department of Treasury - Thursday September 17

The Committee met with:

Mr Ross Holt - Assistant Under Treasurer

- \* Social welfare - the 25 to 40 per cent issue dates back to the early 1980's when, largely through the then Metropolitan Transport Trust (MTT) there was concern that the social nature of the Trust's operations was not being adequately recognised.

In 1983 it was proposed that the social welfare payments from the State Government presented in the 1982-82 MTT accounts should be 25 per cent of the cost of bus operations and 40 per cent of the suburban rail operations - had been agreed to by the MTT and Treasury and that amount would be additional to the other concessional fare recoups provided.

Above was based on the view that the provision of some of the Trust's services involved a higher non-commercial factor ie weekend and public holiday services were seen to be very high in terms of their social component.

With buses, 25 per cent of weekday core services, 80 per cent of evening, weekend and public holiday services, and 100 per cent of student services added up to 25 per cent of the total cost of the bus operation.

Deficit was not a real measure of MTT efficiency - many activities were being carried out which the Trust would not choose to do if it operating commercially.

In operating a commercial transport service, a rail service is more expensive than bus transport. Basis for calculating the 40 per cent was the cost of providing an equivalent bus transport service carrying that number of people, at that sort of frequency etc, and half the difference between the bus operation costs and the rail operation cost was taken as being of a social nature.

- \* Impact of the electrification of the Perth system and the northern suburbs rail system - anticipated cost of the social welfare concessions will increase from \$58m to \$72m.

Whilst the northern suburbs line is not complete yet - 1992-93 is the peak construction year. Social welfare concession in 1993-94 will be even larger if the 25 and 40 per cent figures are retained.

CRF is currently funding everything not being paid by fares - last year, fares were \$50m and CRF was \$113m.

- \* Total amount of the fuel levy revenue (\$133.25m) is paid into the Transport Trust Fund - \$5.1m to the Department of Transport; \$43.5m to Transperth; \$84m to the Main Roads Department; and \$0.6m to meet the subsidy for off-road use of fuel.

- \* Fare concessions reimbursement to Transperth - made up of tertiary students' fare concessions, pensioners' and unemployed persons' concessions, and child and scholars' concessions. The three were previously identified separately, but have now been aggregated into one fare concession figure.

Work on the difference between the reduced fare now and what it would be if paying the full fare ie. pensioners without a concession paying full adult fare.

Transperth and Westrail periodically undertake passenger surveys - to determine how many of various passenger types are travelling and how far. The data is used to determine the total fare recoup amount.



Transperth believes that the new bus ticketing system will be more of a census type approach.

Fare concession reimbursement to Transperth this year is \$17.8m.

Pensioners' and senior citizens' country travel concessions reimbursement to Westrail is \$3m this year.

- \* Operation of the Transperth free clipper service in the CBD - Perth City Council contributes towards the overall cost.

## Government Employees Superannuation Board - Thursday September 24

The Committee met with the following representatives:

Mr Peter Williamson - Chairman

Mr Peter Farrell - Executive Director/Board Member

Mr John Hammond - Manager, Financial Services

- \* Board is responsible for the running of the superannuation scheme for public sector employees. There are two schemes - the pension scheme and lump sum scheme.

Until the end of 1986 - pension scheme only. That was closed to new members and a lump sum scheme was introduced.

- \* Pension scheme is a unit based scheme related to salary, members can choose to take up their full entitlement. In terms of employer contribution, the maximum entitlement is around 22.5 per cent.

Members received a pension on retirement related to the units purchased. If a member resigned before the retirement age it was not a very satisfactory scheme because the pay out was the contributions plus interest only.

Scheme was expensive for Government with the employer contribution and it had major shortcomings for members not "going" the full length of service - indexed to the CPI. That was introduced in the 1960's.

Scheme was designed effectively for purchasing units at any time during service. Benefits were calculated based on three things - the units a person had, the length of service and the final salary. If a person had service beyond the year of retirement, would receive maximum unit entitlement - ie. 26 contributions in respect of the units bought, the cost of the unit was higher as a result, and a person could retire the next day on a pension of about 50 per cent of salary for life.

Fund did not have the money as there was not very much equity built up - members were buying the State's share of pension which at the age of 60 with , 20 or 30 years of service (depending on when a person joined the service) was 50 per cent of salary.

Most members at the age of retirement reviewed the situation, bought additional units, or had total units reduced to effectively gain optimum benefit. Other people worked it so that they got the old age pension plus a bit more.

- \* In 1986 had an unfunded liability of \$4.9 billion. Liability now, is about \$4.1 billion - been about halved under the new scheme.

- \* With the lump sum scheme the original estimate was that maybe 50-60 per cent (or maybe lower) of members would transfer over. In fact, 80 per cent transferred.

- \* In 1987, the lump sum scheme was introduced with benefits related to years of service. There are two schemes - contributory and non-contributory.

Contributory scheme is where the employee contributes, and is based on an employee contribution of five per cent and an employer contribution of twelve per cent, which ultimately provides a benefit of 20 per cent of final average salary for every year of service. Contributions are being paid each fortnight and benefits are based on the salary at the retirement age.

Non-contributory scheme was brought in as part of the three per cent productivity award - already incorporated in the 12 per cent in the contributory scheme.

Members of these schemes receive free administration and insurance cover - a member going out on a disability basis receives full payment.

\* Current schemes have a membership of about 60,000 non-contributory members at the three per cent level and about 30,000 contributory members putting in five per cent for 12 per cent. There around 2,000 pension fund members remaining and about 14,000 pensioners - including those from Westrail and Transperth.

\* Longer term planning objective is to reduce the property component - will be achieved by eventually selling five (at least) buildings. No specific plans at this stage.

Did not have to borrow for Central Park - always had adequate cash flow.

Around \$50m-\$60m in cash as a minimum over the past few years - been investing in a building share portfolio and other areas.

\* Parliamentary Superannuation Scheme - relates to parliamentary employee contributions. Board manages the scheme - the fund does not exist any more. Contributions are paid into CRF and benefits are now paid out of CRF. \$3m was spent last year.

\* For 1991-92, the expenditure figure of \$86.6m was a lot higher than the estimated figure of \$66.6m - the result of the voluntary severance scheme. Accordingly, there will be a big drop-off this year.

There were 600 contributory pay-outs. In total there were 2,300 members including statutory authorities.

Lump sum payment to non-contributory members - around 48 per cent were over the age of 55 and were paid out. Those under the age of 55 - benefits were preserved in the fund until the age of 55 was reached.

**The Chairman suggested that the important information provided at this briefing should be made public so that Members of Parliament, public servants and the general public are better informed.**