STANDING COMMITTEE ON ESTIMATES AND FINANCIAL OPERATIONS

ANSWERS TO QUESTIONS ON NOTICE

E1) Department of Treasury

Hon NEIL THOMSON: My question probably follows on from Hon Nick Goiran and will most likely be picked up by the shadow Treasurer in further detail, but it really goes back to the issue of the public bank account interest earnings on page 3 and the consolidated account borrowings line. We heard from the representative from Treasury about how retained dividends had gone up and that we had an increase in deposits held. I assume that includes all increases in deposits across the board. We talked about $1.3 billion to $3 billion. The first part of my question is: given the discrepancy in the interest rate between the PBA and the CAB, how much is it costing the state each year in net interest by retaining more deposits, as we appear to be doing in this financial year vis-a-vis last year?

Hon STEPHEN DAWSON: I will ask Mr Wright to provide a response.

Mr WRIGHT: To provide a sensitivity for net interest costs, that is something that I do not have at my fingertips here and we would have to do some modelling. There is a cost of carrying to retain cash in preference to, for example, moving to lower borrowings, but without doing a little bit of modelling, and I do not have the numbers in front of me for that, I cannot answer your question fully.

The CHAIR: Is that information available?

Hon STEPHEN DAWSON: It would involve the agency doing some work. The Acting Under Treasurer tells me that they are in a position to do that work and provide it later.

Answer: The interest rate assumptions that underpin the 2022-23 Budget are contained in Table 1 of Chapter 1 of Budget Paper No. 3: *Economic and Fiscal Outlook.* The difference between the Public Bank Account (PBA) interest earning rates and Consolidated Account borrowing rates is shown in the following table as the Interest Differential line.

Table 1

2022-23 BUDGET INTEREST ASSUMPTIONS

	2021-22	2022-23	2023-24	2024-25	2025-26
PBA earning rates (%)	0.6	1.2	1.6	1.6	1.6
Consolidated Account borrowing rates (%)	2.3	2.5	2.7	2.6	2.5
Interest differential (percentage points)	1.7	1.3	1.1	1.0	0.9

The interest differential can be used to calculate a simplified 'cost of carry' (i.e. the cost attributable to earning lower rates of interest on cash and investments retained in the PBA compared with interest expenses that could be avoided had those assets been applied to reduced borrowings).

The extraordinary measures implemented by the Reserve Bank of Australia in response to the COVID-19 pandemic artificially reduced short-term interest rates to historical lows, and this is reflected in the forecast rate of return of the PBA. When financial markets normalise, the PBA is expected to achieve higher investment yields. Consolidated Account borrowings are predominantly long-term fixed rate and do not respond as quickly to changes in short-term interest rates.

Minister's Initials

Not all cash and liquid investment assets can be assessed as available to repay debt. For example, the Royalties for Regions Fund is a statutory accounts and there is no discretion to apply the balances to debt repayment or other purposes without legislative change.

In general terms:

- an estimated $12 million in interest revenue will accrue for every $1 billion invested in the PBA across the 12 months ending 30 June 2023; and
- interest expenses will reduce by approximately $25 million for every $1 billion reduction in Consolidated Account borrowings applying from 1 July 2022.

In net interest terms, the $13 million difference between the two figures represents the estimated cost of retaining $1 billion in cash and investment assets rather than paying down Consolidated Account borrowings. As shown in Table 1, the interest rate differential is projected to narrow across the three outyears, with the annual net interest cost declining to a projected $11 million, $10 million and $9 million respectively.

These simplified sensitivities are based on assumed average interest rates, and in broad terms, can be scaled up or down (e.g. every $100 million, the cost of carry is estimated at $1.3 million in 2022-23, $1.1 million in 2023-24, $1.0 million in 2024-25, and $0.9 million in 2025-26).

As requested later in the Treasury Hearing, the following table applies the above sensitivity to the 2022-23 Budget cash flows applying to the Westport Account (an agency Special Purpose Account held by the Department of Transport).

Table 2

WESTPORT SPECIAL PURPOSE ACCOUNT

	2021-22 $m	2022-23 $m	2023-24 $m	2024-25 $m	2025-26 $m
Westport Agency SPA - estimated balance at 30 June	399	330	203	53	-
Indicative cost of carry	7	4	2	1	-

It should be noted that other factors beyond the simplified net interest cost impact must be considered in deciding whether to allocate funds to debt repayment or to be held as an asset. These include:

- the benefits to liquidity management from carrying higher cash and liquid investments (S&P Global's 27 June 2022 announcement that it had upgraded Western Australia's credit rating to AAA noted that this was in part supported by the State's "exceptional liquidity" as a counterbalance to the risk of revenue volatility, with this liquidity reflecting balances held in Special Purpose Accounts and other cash and liquid investments); and
- previous crises have highlighted the importance of being prudent in ensuring access to funding over the short and medium term in the face of global financial market disruption and volatility. Retaining access to short-term funds through investing in high quality financial assets facilitates the State's ongoing ability to fund core services and projects.

Minister's Initials

STANDING COMMITTEE ON ESTIMATES AND FINANCIAL OPERATIONS

ANSWERS TO SUPPLEMENTARY INFORMATION

E2) Department of Treasury

Hon TJORN SIBMA: My question concerns budget paper No 3, page 299. It is a continuation of table 6.1 outlining a summary of state government social concessions. My interest is in subsidies attributable to the Public Transport Authority. What factors do you attribute to the increase in subsidy payable? Presumably, this is based on some sort of measure around patronage, but patronage has been in decline on that network for some years. I am just interested to know on what basis the 2022–23 figure of $800 million in subsidies for that general fare class was determined.

Hon STEPHEN DAWSON: I will ask Mr Andrews to respond to that one.

Mr ANDREWS: Honourable member, could you repeat the question, please?

Hon TJORN SIBMA: Sure. There is $807.8 million worth of subsidies scheduled for the 2022–23 budget year against that general fare subsidy class. What factors have driven that increase from the previous year and the year before that?

Hon STEPHEN DAWSON: I have been advised that Mr Andrews will have to take the question on notice.

Answer: General Fare Subsidy is the concession to all Transperth public transport users and reflects the difference between the cost of providing services (excluding depreciation) and the full fare equivalent of all passengers.

The $53.5 million increase from the 2021-22 Estimated Actual to the 2022-23 Budget Year forecast is primarily due to increased total subsidised travel resulting largely from the new Forrestfield-Airport Link and the replacement bus services for the Armadale Line shutdown.

Minister's Initials