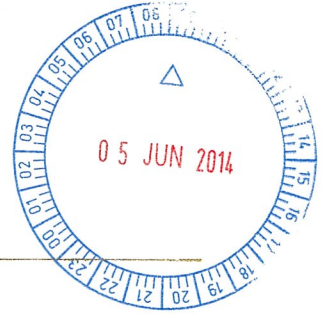




PUBLIC

9/6/2014



**Hon Mike Nahan MLA
Treasurer; Minister for Energy;
Citizenship and Multicultural Interests**

Our Ref: 48-05899

Hon Ken Travers MLC
Chair
Standing Committee on Estimates & Financial Operations
Parliament House
PERTH WA 6000

Attention: Ms Hannah Moore

Dear Mr Travers

QUESTIONS ON NOTICE – 2014-15 ESTIMATES HEARING

Please find attached responses to questions on notice in respect of the Department of Treasury's 2014-15 budget estimates hearing scheduled for 10 June 2014.

Yours sincerely

**DR MIKE NAHAN MLA
TREASURER**

Att

cc Minister for Health
03 JUN 2014

ESTIMATES AND FINANCIAL OPERATIONS COMMITTEE
QUESTIONS ON NOTICE SUPPLEMENTARY INFORMATION

Date of Hearing: 10 June 2014

Department of Treasury

Question: Hon A Clohesy asked –

- (1) *I refer to the page 644 under heading ‘Safety and Employment Protection and Construction Standards’ and I ask, in relation to the Department's Pay Equity Unit –*
- (a) *What was the budgeted funding levels for 2012-13 and then the estimated actual?*
- (b) *What is the budget estimate for 2013-14 and for each of the forward estimates?*
- (c) *Still on the pay equity unit, what were the FTE numbers that were budgeted for that unit in 2012-13 and then the estimated actual for that year and also the number FTE that the unit is expected to have for 2013-14?*
- (d) *Again, still on the Pay Equity Unit, can the minister provide advice on any KPIs used to measure the success of that unit for 2013-14 and the results of KPIs for the year 2012-13?*

Answer: As the ‘Safety and Employment Protection and Construction Standards’ is a service delivered by the Department of Commerce, it is recommended that this question is referred to the Minister for Commerce.

- (2) *Budget Paper 3, p. 7, Department of Treasury has changed the source of the benchmark series for the iron ore price from Steel Home or The Steel Index and the benchmark for crude oil price from West Texas Intermediate to Brent Crude. Why were these new benchmarks adopted and what are the implications from these changes?*

Answer:

Iron Ore Price Benchmark

The benchmark iron ore price index used to forecast the iron ore price assumptions for the 2014-15 Budget was The Steel Index (TSI) 62% Fe. The benchmark index used in preparing the 2013-14 Mid-year Review iron ore price assumptions was the Steel Home Australia to China 62% Fe index. Both indexes represent the delivered price in north China. The change from the use of the Steel Home Index to the TSI index was undertaken for two reasons:

- Firstly, the Steel Home benchmark tends to lag behind other iron ore benchmarks, such as TSI and the Platts IODEX, and occasionally contains unusual price movements not seen in the other indexes. This is likely due to the Steel Home benchmark index being based on a smaller sample size of daily transactions.

- Secondly, using the TSI benchmark ensures consistency between the spot and forward prices (both provided by the Singapore Exchange) used to estimate the iron ore price for 2013-14.

As such, the switch to the TSI index should contribute to a more accurate forecast and one which will be more responsive to market developments. The change in benchmarks is estimated to reduce royalty revenue by around \$160 million over the five year period 2013-14 to 2017-18.

Oil Price Benchmark

The Brent crude oil benchmark underpinned the oil and condensate price assumptions in the 2014-15 Budget. The Brent benchmark replaced the West Texas Intermediate (WTI) oil benchmark, which had been used up until the 2013-14 Mid-year Review.

The switch in benchmarks was made because in recent years WTI has been affected by supply bottlenecks in the USA (it represents the price of crude at Cushing, Oklahoma). This has resulted in volatility in the spread between WTI and actual prices received for Western Australian oil and condensate sales, which means that WTI is not the best reference price for oil and condensate traded in the East Asia region. Brent crude is a commonly used benchmark for pricing oil and condensate sales in East Asia and across the globe. A comparison with WTI revealed that in recent years (post-2010), the Brent benchmark more closely tracked actual prices received for Western Australian oil and condensate. Other benchmarks, such as Tapis and Dubai, were also considered. However, Brent crude was judged to be the most reliable benchmark.

Using the Brent crude oil benchmark series instead of WTI, holding everything else constant, is estimated to increase royalty revenue by \$160 million over the five year period 2013-14 to 2017-18.

(3) *Budget Paper 3, p. 18, Department of Treasury has changed the source of the house price index from the ABS Perth Established House Price Index to the Real Estate Institute of Western Australia median house price. Why was this change made and what are the implications from this change?*

Answer: The 2014-15 Budget adopted the REIWA median house price (REIWA price) instead of the ABS established house price index (ABS price) for the following reasons:

- The REIWA price is the median price of all houses that are transferred in a given quarter, and as such is influenced by compositional changes (i.e. changes in the average quality of homes sold in a given quarter). This differs from the ABS price, which is adjusted to remove the impact of changes in the market composition. As transfer duty revenue reflects real market activity, it is impacted by changes in the market composition and therefore the REIWA price better reflects the transfer duty base than the ABS price index.

- The REIWA price is more timely than the ABS price. Preliminary estimates of the REIWA price are based on information provided to REIWA by its members, as sales take place in the market. This results in initial price estimates being available around two weeks following the end of a quarter. REIWA then revises the price on a regular basis as data from Landgate becomes available. The ABS price on the other hand, is based solely on Landgate data and is not available until around six weeks following the end of a given quarter. It is then subject to two further revisions in subsequent quarterly data releases.
- The REIWA price is measured in dollars, whilst the ABS price is an index series. Using a dollar price indicator is useful when explaining forecasts and provides greater context than an index number.

The nature of transfer duty modelling, which incorporates econometric analysis, means that it is difficult to determine (with the same degree of confidence as, say, changes in commodity benchmarks) the precise revenue impact of the change in the house price measure. However, it is considered that the impact would be relatively modest.

(4) *Budget Paper 3, p. 3, an estimated \$250 million of excess cash held in agency bank accounts will be returned to the Consolidated Account in 2014-15. How were these excesses identified? What is the breakdown of excess cash by agency?*

Answer: An agency is considered to hold 'excess' cash if it holds more than 5% of annual operating expenditure in the form of 'unrestricted' cash in its bank accounts. 'Unrestricted' cash excludes funds for investing activities and for GST payments, as detailed in the Government's Cash Management Policy (available at the Department of Treasury website). To arrive at the figure detailed in the 2014-15 Budget Papers, the Department of Treasury analysed agency level estimated outturn data for 30 June 2014 to calculate an estimate of excess cash (based on the above definition).

The following table summarises unrestricted cash balances over and above the 5% working capital definition, forecast by agencies to be held at 30 June 2014 (at the time of finalising the 2014-15 Budget). These estimates were used to justify a \$250 million provision disclosed in Budget Paper No. 3: *Economic and Fiscal Outlook*. A final determination on actual balances will be made after 30 June 2014 audited data are finalised, and may result in different agency-level impacts to those shown below.

2014-15 BUDGET – EXCESS AGENCY CASH BALANCES

30 June 2014

	\$m
Total	257
<i>Comprising:</i>	
Commissioner of Main Roads	33
Mines and Petroleum	27
Culture and the Arts	23
Premier and Cabinet	20
State Development	17
Land Information Authority	13
Transport	13
Rural Business Development Corporation	12
Trustees of the Public Education Endowment	12
Department of Local Government and Communities	11
Agricultural Produce Commission	8
WA Health Promotion Foundation	7
Gaming & Wagering Commission of WA	7
Education Services	7
Corruption and Crime Commission	6
Zoological Parks Authority	5
Registrar, WA Industrial Relations Commission	4
Commerce	4
Public Sector Commission	4
WA Sports Centre Trust	3
Legal Aid Commission of WA	3
School Curriculum and Standards Authority	2
Office of the Auditor General	2
Law Reform Commission of WA	2
Aboriginal Affairs	2
Goldfields-Esperance Development Commission	1
Great Southern Development Commission	1
Swan River Trust	1
Governor's Establishment	1
Peel Development Commission	1
Salaries and Allowances Tribunal	1
Aboriginal Affairs Planning Authority	1
Country High School Hostels Authority	1
Pilbara Development Commission	1
South West Development Commission	1
Keep Australia Beautiful Council (W.A.)	1
Health and Disability Services Complaints Office	1
Professional Standards Council	1

(5) *Budget Paper 3, p. 80 and 2013-14 Budget Paper 3, p. 172: the 2013-14 Budget included program evaluation savings of \$350 million (in net debt terms) over the forward estimates.*

(a) *Please provide a year-by-year breakdown of the recurrent savings identified in Budget Paper 3 p. 80;*

Answer: \$50 million per annum (for the years 2014-15 to 2017-18).

(b) *What is the progress to-date at identifying these savings?*

Answer: The Program Evaluation Unit was established in September 2013. Since then, priority areas for evaluation have been identified and Directors General Steering Committees have been formed for these evaluations. Scoping of the evaluations has occurred, including development of evaluation plans and preliminary data analysis. Evaluations assisted by the Program Evaluation Unit are currently underway and identification of savings will develop as the evaluations progress.

Savings in some of the evaluation areas are likely to be realised over the medium term given the size and complex nature of the programs or service. However, it is anticipated that some efficiencies and savings can also be achieved in the short term, particularly in regard to Information and Communications Technology.

(c) *Will the evaluations and recommendations of the Program Evaluation Unit be made public? If not, why not?*

Answer: At this early stage, no decision has been made on the publication of evaluation findings. Once completed, evaluation reports will be presented to the Economic and Expenditure Reform Committee (EERC) and Cabinet. Publication of findings will be a matter for the EERC/Cabinet following consideration of the evaluation outcomes.