



**ESTIMATES AND FINANCIAL OPERATIONS COMMITTEE**  
**QUESTIONS ON NOTICE SUPPLEMENTARY INFORMATION**

**Monday, 30 May 2011**

**Department of Treasury and Finance**

*Question No. A1: The Hon Ken Travers asked for the interest rate assumptions across the forward estimates period (i.e. assumed interest rate on new borrowings, assumed interest rate on earnings, and assumed RBA cash rate for purposes of the economic forecasts).*

Answer:

See table below.

Note that the Budget Papers do not include explicit modelling of national interest rate assumptions. The economic assumptions outlined in Chapter 2: *The Western Australian Economy* in Budget Paper 3: *Economic and Fiscal Overview* assume an increase in the 3-year Treasury bond rate of around 75 basis points over the forward estimates period.

	2010-11	2011-12	2012-13	2013-14	2014-15
Interest rate on new borrowings (Consolidated Account) <sup>(a)</sup>	5.42	5.80	6.06	5.99	5.95
Interest rate on earnings (Public Bank Account investments) <sup>(b)</sup>	5.19	5.69	6.18	5.73	5.09
3-year Treasury bond rate (used instead of RBA cash rate) <sup>(c)</sup>	5.00	5.00	5.50	5.75	5.75

<sup>(a)</sup> Average annual rate of interest, calculated as an average of the four quarters within each financial year advised by Western Australian Treasury Corporation at the time of the 2011-12 Budget cut-off date (20 April 2011).

<sup>(b)</sup> Forecast interest rates for earnings on Public Bank Account funds, sourced from Western Australian Treasury Corporation.

<sup>(c)</sup> Projected bond rates are based on the Treasury bond contracts for 2013, 2014 and 2015 (available from the Australian Securities Exchange).

Question No: A2: The Hon Ken Travers asked for the assumed iron ore volumes in each year of the forward estimates period.

Answer:

See table below.

	2010-11	2011-12	2012-13	2013-14	2014-15
Iron ore volumes (Mt)	405.3	445.1	460.3	510.2	564.8
Growth (%)	5.7	9.8	3.4	10.8	10.7

Question No. A3: The Hon Ken Travers asked for the assumed Building Cost Index reflected in forward estimates of the Asset Investment Program, and the deflator underlying our dwelling investment forecasts.

Answer:

The Department of Treasury and Finance's (DTF) non-residential building construction cost escalation index was developed for use by all Western Australian public sector agencies.

The index reflects a multivariate model based on DTF's macroeconomic forecasting model for the first two years of the index, combined with a subjective method based on the Building Management and Works (BMW) forecasting model for the third and fourth years (and outyears where required).

The latest forecasts of the building cost index (BCI) were prepared in December 2010, for the period 2010 to 2014, and were made available for the calculation and review of cost escalation forecasts for non-residential building projects in the 2011-12 budget and forward estimates. The forecasts provided are shown in the table below.

Year	2010-11	2011-12	2012-13	2013-14	2014-15
Building Cost Index	0.12%	4.4%	4.8%	4.5%	5.3%

While it is recognised that the model may not be the 'perfect fit' for all General Government agencies, it nevertheless can be used as an indicator to capture potential asset investment cost escalation (but not scope changes) over the forecast years.

Where an agency can identify a more relevant method of cost escalation for a given project, they may use that instead.

The price deflators underpinning the dwelling investment forecasts in the 2011-12 Budget are outlined in the table below.

Year	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Dwelling investment deflator, growth (%)	0.8	1.5	4.0	5.0	5.0	5.0

*Question No. A4: The Hon Ken Travers asked for the assumed GST relativity for 2015-16 and 2016-17.*

Answer:

If the Commonwealth Treasurer directs the Commonwealth Grants Commission to keep iron ore fines in the 'low rate' category (as assumed in 2011-12 State Budget estimates) then Western Australia's estimated relativity would be as per the table below. The increase in 2016-17 is mainly attributable to an estimated reduction in value of Western Australia's iron ore production in 2014-15. This reflects reduced prices as worldwide supply is anticipated to increase.

Year	Western Australia's estimated GST relativity
2015-16	0.299
2016-17	0.329

*Question No. A5: The Hon Ken Travers asked for an explanation of the apparent discrepancy between the Geraldton Port Authority's reported profit for 2009-10 (\$9m?) and their estimated dividend payment (\$17.6m), plus an explanation of the general process in relation to estimates of dividends from the port authorities.*

Answer:

It is acknowledged that there is an inconsistency between the projected dividend in 2010-11 compared to the 2009-10 actual operating result.

Treasury will be working with the Geraldton Port Authority and other ports over the next three months to resolve the issue and the outcome will be reflected in the 2011-12 Mid-year Review.

While acknowledging the importance of accurate and up-to-date dividend estimates from the Port Authorities, it is noted that across the forward estimates period (2011-12 to 2014-15), estimated dividend revenue from the Port Authorities totals \$202.4 million, which represents 0.19% of total general government revenue over the same period (\$106.9 billion).

*Question No. A6: The Hon Ken Travers asked for the increase in royalty revenue from 2010-11 to 2011-12 broken down by exchange rate impact, price impact and volume impact*

Answer: See table below.

Iron ore royalties are forecast to grow by 15.1% in 2011-12. The compositional drivers of this change are outlined below.

	2010-11	2011-12	Change
\$US/\$A exchange rate (cents)	98.0	97.5	0.5% <sup>(a)</sup>
Iron ore price (\$US per tonne)	138.7	149.1	7.5%
Iron ore production (Mt)	405.3	445.1	9.8%
Other <sup>(b)</sup>			-2.7%
Total iron ore royalties (\$m)	3,593.4	4,137.1	15.1%

<sup>(a)</sup> The depreciation of the \$A has a positive revenue benefit.

<sup>(b)</sup> Includes compositional changes in iron ore production.

*Question No. A7: The Hon Ken Travers asked for an explanation of why Royal Perth Hospital is not mentioned in this year's Statement of Risks in Budget Paper No 3 (when it was mentioned last year).*

Answer:

The Royal Perth Hospital's (RPH) status as a tertiary hospital with 410 beds (including 100 beds specifically for elective surgery) and continuing to provide major trauma, cardiothoracic and lung transplant services is supported by a reconfigured Clinical Services Framework (CSF). This framework takes into account the RPH services including integrating Bentley Hospital for the provision of rehabilitation services.

The reconfigured CSF has been utilised by the Department of Health for planning and budget estimates. The RPH activities and bed stock built into the CSF and the DOH budget estimates represent a realistic expenditure forecast for system-wide hospital services.

With a decision not to undertake a major redevelopment of the RPH at this time, and the current status of the hospital and budget provisions, is no longer applicable the previous risk to the State's financial position over the forward estimates period.

*Question No. A8: The Hon Ken Travers asked for a breakdown of the number of vehicles in each of those years of the forward estimates that the Department of Treasury and Finance expect to have in the fleet, and if the Department could provide a greater breakdown of the 93 into purchase cost and other operating costs, because it is assumed those are the two major areas.*

Answer:

State Fleet estimated vehicle numbers for forward estimate years:

	2012-13	2013-14	2014-15
Total	10,600	10,800	11,000

A breakdown of the 2011-12 budget estimate for State Fleet expenses of \$93.164M is:

Expense	\$'000
Vehicle depreciation	75,706
Interest on Borrowings	15,000
Carbon Offset Expense	1,200
Administration Expense	1,258
Total	93,164

*Question No. A9: The Hon Ken Travers asked what are the four agencies that are still being rolled in for the fourth quarter, 2010-11 actual.*

Answer:

The four agencies that rolled in during the last quarter of 2010-11 were Department of Agriculture and Food WA, Agriculture Produce Commission, Rural Business Development Commission, and Building Management and Works (HR/Payroll services).

Question No. A10: The Hon Ljiljana Ravlich asked for a break-down of the \$225.8 million works associated with master planning strategy, government office accommodation, and the allocated amount for each works as mentioned in page 450 under the heading "Works in Progress" (in regard to accommodation fit-out projects)

Answer:

**Base Building Works – Government Owned Buildings**

Dumas House Base Building Refurbishment	\$ 20.9m
Dumas House Remediation of External Facade	\$ 8.9m
Albert Facey House Base Building Refurbishment	\$ 12.9m

**Fitouts (including ICT and telephones)**

140 William Street	\$ 49.8m
Optima Centre	\$ 12.3m
Dumas House	\$ 26.0m
Albert Facey House	\$ 20.7m
Department of Commerce (Forrest Centre, Perth)	\$ 2.2m
Western Australia Police (Davey Road, Booragoon)	\$ 1.6m
Tourism Visitors Centre (55 William Street, Perth)	\$ 0.4m
Department for Communities (Senior's Card Centre, 140 William Street)	\$ 0.1m
Department for Child Protection (74 Wittenoom Street, East Perth)	\$ 0.75m
Office of Energy (location to be determined)	\$ 3.0m
Department of Indigenous Affairs (location to be determined)	\$ 4.5m
Western Australia Police from Law Chambers building	\$ 8.0m
Old Treasury Buildings Redevelopment	\$ 43.402m

**Other**

Department of Treasury and Finance Data Centre Relocation	\$ 1.75m
Department of the Premier and Cabinet Data Centre Relocation	\$ 1.75m
BMW ICT Infrastructure Costs	\$ 1.5m
Program Management Costs	\$ 6.2m

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**Total** **\$226.652m\***

\*Expenditure of approximately \$0.8m was incurred in 2009/10 from recurrent funding.

*Question No. A11(i): – The Hon Ljiljana Ravlich asked for details of all the expenses associated with the Hale House redevelopment.*

Answer:

The budget for the project is based on the preliminary costings of the design concepts contained in the initial (October 2010) feasibility study. The project cost estimate will be progressively updated against the budget as the project design progresses. The current budgeted costs include:

**Project Costs**

Building restoration and construction	\$14.4m
Site works and site services	\$ 2.6m
Project contingencies	\$ 4.1m
Fitout (furniture and furnishings)	\$ 1.0m
Percent for Art scheme	\$ 0.2m
Government apprentice scheme	\$ 0.2m

Consultancy costs (management, design and contract administration)	\$ 3.0m
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<b>Estimated Total Commitment</b>	<b>\$25.5m</b>
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*Question No. A11(ii): – The Hon Ken Travers asked if the \$1.4m for the relocation of the Department of Education is also related to Hale House.*

Answer:

The \$1.4 million is a recurrent budget adjustment for one year for the Department of Education to allow the tenants of Hale House to be relocated. It is to cover the costs of relocation and the lease of alternative temporary office accommodation prior to moving into permanent Government owned accommodation in 2012.

The temporary accommodation is in the former Swan District Education Office in Beechboro, and the permanent accommodation will be at Padbury High School.

*Question No. A11(iii): – The Hon Ken Travers asked for details of the lease cost saving if the Premier's Office relocates to Dumas House instead of Hale House.*

Answer:

Using these Government owned buildings will achieve a potential lease saving of \$1.2 million a year by avoiding the leasing of privately owned accommodation.

*Question No. A12: The Hon Ljiljana Ravlich asked for details of the project milestones for Hale House.*

Answer:

The anticipated key milestones for the project are as follows. They will be progressively updated as the project planning progresses.

Premier's announcement of Hale House project	24 Feb 2011
Appointment of prime consultant	7 Apr 2011
Department of Education tenants vacate Hale House	6 May 2011
Submission to Office of Heritage, City of Perth and WAPC for development approval	8 June 2011
Award forward works contract	5 Aug 2011
Award main building contract	22 Oct 2011
Project completed and operational	31 Oct 2012

*Question No. A13: The Hon Philip Gardiner asked for Western Australia's share of total national Commonwealth payments for specific purposes.*

Answer: See following table.



## Western Australia's share of national Commonwealth Payments for Specific Purposes, by year and function

Smillion	2010-11			2011-12			2012-13			2013-14			2014-15		
	National	WA	WA share	National	WA	WA share	National	WA	WA share	National	WA	WA share	National	WA	WA share
Health	14,332	1,580	11.0%	15,381	1,661	10.8%	16,024	1,647	10.3%	16,835	1,802	10.7%	17,314	1,846	10.7%
Education	17,237	1,851	10.7%	13,644	1,432	10.5%	13,862	1,431	10.3%	14,394	1,510	10.5%	15,274	1,609	10.5%
Skills and Workforce Development	1,713	182	10.6%	1,863	199	10.7%	1,708	149	8.7%	1,773	158	8.9%	1,722	156	9.1%
Community Services	2,765	256	9.2%	3,393	309	9.1%	2,307	330	14.3%	2,418	357	14.7%	2,560	387	15.1%
Affordable Housing	3,520	425	12.1%	2,118	271	12.8%	1,932	280	14.5%	1,862	326	17.5%	1,807	304	16.8%
Infrastructure	3,797	361	9.5%	5,664	508	9.0%	6,143	646	10.5%	5,662	600	10.6%	1,601	4	0.2%
Environment	434	48	11.1%	881	57	6.5%	249	28	11.4%	42	3	7.7%	28	3	11.9%
Contingent	1,218	8	0.6%	491	8	1.6%	1,650	26	1.6%	3,955	174	4.4%	1,416	21	1.5%
Other	242	27	11.2%	454	64	14.0%	476	56	11.8%	206	22	10.8%	208	21	10.3%
Financial assistance grants to local government	2,098	246	11.7%	1,626	191	11.7%	2,259	266	11.8%	2,351	278	11.8%	2,428	290	12.0%
<b>Total payments for specific purposes</b>	<b>47,356</b>	<b>4,984</b>	<b>10.5%</b>	<b>45,515</b>	<b>4,700</b>	<b>10.3%</b>	<b>46,611</b>	<b>4,860</b>	<b>10.4%</b>	<b>49,499</b>	<b>5,230</b>	<b>10.6%</b>	<b>44,357</b>	<b>4,642</b>	<b>10.5%</b>
WA population share			10.3%			10.4%			10.4%			10.5%			10.6%

Source: Commonwealth's 2011-12 Budget.

Note 1: The 'WA' figures exclude funding where the Commonwealth has not finalised State-by-State allocations of the national funding (the national funding has been included in the 'National' figures). This particularly affects 'Infrastructure' funding (e.g. in 2014-15 the Commonwealth has provided national funding of \$666 million for Stream 2 of the Regional Infrastructure Fund, without a State-by-State allocation).

Note 2: Western Australia's low share of 'Infrastructure' funding in 2014-15 (\$4 million out of \$1.6 billion) partly reflects the lack of State-by-State allocations for Stream 2 of the Regional Infrastructure Fund (see Note 1), and partly that most of the 'Infrastructure' programs terminate after 2013-14, with only some isolated payments for some States in 2014-15.

Note 3: Many Commonwealth payments for specific purposes are subject to the Grants Commission's equalisation process, and hence effectively redistributed among States on an equal per capita basis through adjustments to GST grant shares. (The Grants Commission also assesses needs in relation to the States' spending of these payments).