



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

Our ref: 48-15086

Hon Ken Travers MLC
Chair
Estimates and Financial Operations Committee
Parliament House
PERTH WA 6000

Attn: Mr Mark Warner
Committee Clerk

Dear Mr Travers

**SUPPLEMENTARY INFORMATION – DEPARTMENT OF TREASURY
2014-15 ANNUAL REPORT HEARING**

Please find attached the supplementary information in respect of the Department of Treasury' 2014-15 Annual Report hearing of 27 January 2016.

Please note that Attachment A contains responses to questions taken on notice at the hearing, and Attachment B contains responses to additional questions asked after the hearing.

As agreed at the hearing, please treat the report on the composition of the Future Fund by counterparty as strictly confidential (Attachment 3). In addition, I request that the 2014-15 provisional income and expense details for Utah Point are also treated as confidential (Attachment 4).

Yours sincerely

**DR MIKE NAHAN MLA
TREASURER**

Att.

17 FEB 2016

ESTIMATES AND FINANCIAL OPERATIONS COMMITTEE

**2014-15 ANNUAL REPORT HEARINGS
ANSWERS TO QUESTIONS TAKEN ON NOTICE**

WEDNESDAY, 27 JANUARY 2016

DEPARTMENT OF TREASURY

Supplementary Information A1

Hon Sue Ellery MLC asked:

Could we have an approximation of how much additional revenue (and what the general government net operating balance would have been) had the 2014-15 Budget forecast of the iron ore price for 2014-15 been correct?

Answer:

The 2014-15 Budget forecast iron ore royalty revenue of \$5.6 billion for 2014-15, based on an assumed iron ore price for the year of \$US122.70 per tonne (as well as an assumed \$US/\$A exchange rate of US90.6 cents and iron ore volumes of 634 million tonnes).

Actual iron ore royalty revenue for 2014-15 was \$4.0 billion - \$1.6 billion lower than forecast at the time of the 2014-15 Budget. This was due to a substantially lower than forecast iron ore price of \$US71.10 per tonne, partially offset by a lower than forecast exchange rate (of US83.6 cents) and higher volumes (of 719 million tonnes).

So, holding all other factors constant (a somewhat artificial assumption), had iron ore royalty revenue for 2014-15 been \$5.6 billion (as forecast in the 2014-15 Budget), the general government operating balance for 2014-15 would have been a surplus in the order of \$1.1 billion (rather than the actual deficit outcome of \$431 million).

M. Nathan

Public / Internet

23/2/16 *mpj*

Supplementary Information A2

Hon Peter Katsambanis MLC asked:

38 out of 42 eligible agencies opted in to the streamlined budget process. Who were the four agencies that chose not to?

Answer:

At the time of the 2015-16 Budget, 42 agencies were eligible for the Streamlined Budget Process (SBP). Of these, the following four agencies elected not to be part of the SBP:

- Western Australian Sports Centre Trust;
 - Western Australian Tourism Commission;
 - Department of Lands; and
 - Chemistry Centre WA.
-

m nahan

Public / Internet

22/2/16 *MP*

Supplementary Information A3

Hon Peter Katsambanis MLC asked:

With regard to ICT savings and reform, what was the full amount harvested from agencies' budgets and what was the amount reinvested in the ICT reform fund?

Answer:

The total amount harvested from agencies under the ICT savings and reform measure was \$110 million over the period 2014-15 to 2017-18, with \$25 million of these savings re-directed to the ICT Renewal and Reform Fund (IRRF).

	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m	Total \$m
Gross savings harvested from agencies	15.1	31.1	31.6	32.2	110
IRRF	-	8.3	8.3	8.3	25
Net savings	15.1	22.8	23.3	23.9	85

manaha

Public / Internet

22/2/16 *my*

Supplementary Information A4

Hon Peter Katsambanis MLC asked:

With regard to ICT in education, has any proposal been approved for creation of unique student identifiers?

Answer:

No.

M. Vahan

Public / Internet

22/2/16 *MJ*

Supplementary Information A5

Hon Ken Travers MLC asked:

What is the process to advise Parliament to ensure the partial sale of the Keystart loan book is of long-term benefit to the State?

Answer:

The sale will be conducted through an open and competitive, staged process. Final assessment of short and long term benefits will be progressed as part of the divestment process. The Treasurer and Housing Minister Will provide updates to Parliament.

m maha

Public / Internet

22/2/16 *[Signature]*

Supplementary Information A6

Hon Alanna Clohesy MLC asked:

Could we get a copy of the generic template of the resource agreement and what is now being communicated to DGs?

Answer:

Please see Attachment 1 for the generic resource agreement template, and Attachment 2 for the most recent letter from the Under Treasurer to Directors General (of 19 January 2016).

M. Mahon

Public / Internet

22/2/16 *MPJ*

Supplementary Information A7

Hon Ken Travers MLC asked:

- (a) *With regard to the Perth Stadium costs, when will we know what the annual payment will be by the state to the builder of the stadium? When will we know the exact amount on an annual basis and when will it be recorded in the budget papers?*
- (b) *Other than making an assumption based on how much the VenuesWest subsidy jumps for the 2019-20 financial year, that is the only way we will ever know the cost of the annual payments to the stadium operator?*

Answer:

- (a) The State will contribute 60% of the construction cost of the Design-Build-Finance-Maintain (DBFM) contract with Weststadium during the design and construction phase of the project as State Capital Contribution payments. The remaining capital costs will be paid during the operating phase of the Stadium. The operating phase is scheduled to commence on 1 January 2018.

The State commenced these Capital Contribution payments in September 2015. The total value of the State Capital Contribution payments is \$489.5 million of which \$476.1 million is funded from the new Perth Stadium and Sports Precinct budget included in the Department of Sport and Recreation's (DSR's) section of the 2015-16 Budget Papers, as shown below:

STATEMENT OF CASHFLOWS

ACTIVITIES	2015-16 Budget Estimate \$'000	2016-17 Forward Estimate \$'000	2017-18 Forward Estimate \$'000
CASHFLOWS FROM FINANCING ACTIVITIES			
Other payments – new Perth Stadium	(209,100)	(224,600)	(42,400)

The remaining \$13.4 million is funded from the new Perth Stadium Transport Infrastructure budget held by the Public Transport Authority (PTA) (as it covers transport related components of the DBFM contract) and is included in the PTA's section of the 2015-16 Budget Papers, as shown below:

STATEMENT OF CASHFLOWS

ACTIVITIES	2015-16 Budget Estimate \$'000	2016-17 Forward Estimate \$'000	2017-18 Forward Estimate \$'000
CASHFLOWS FROM FINANCING ACTIVITIES			
Other payments	(5,600)	(6,000)	(1,800)

In relation to the remaining capital costs to be paid to Westadium during the operating phase, and consistent with the accounting standards for a DBFM contract, an additional \$422.8 million is recognised as a finance lease liability at Commercial Acceptance (scheduled to be on 31 December 2017). Given that the Governance Agency for the management of the Stadium and its surrounding sports precinct will be the Western Australian Sports Centre Trust (VenuesWest), this finance lease liability is shown in VenuesWest's section of the 2015-16 Budget Papers, as shown below:

STATEMENT OF FINANCIAL POSITION

	2017-18 Forward Estimate \$'000
NON-CURRENT LIABILITIES	
Borrowings	422,831

This \$422.8 million represents the DBFM capital costs financed by the private sector, capitalised interest and other up-front costs incurred by Westadium. These are recognised as a liability that will be paid by the State over the 25 year operating phase of the DBFM contract. Annual principal repayments of the finance lease liability to Westadium will be reflected in the Budget Papers as a reduction in the figure of \$422.8 million.

The financial model for Perth Stadium operations is based on the principle that the operating and maintenance recurrent costs (but not capital related debt repayments) will be recovered through Stadium revenues.

The contract with the Operator and the agreements with key hirers have not yet been finalised. When they are in place, the net operating performance for the Stadium on an annual basis will be forecast and the budget impact for VenuesWest will be included in its future Budget Papers. It is expected that the Operator Contract will be awarded by April/May 2016 and once done the Operator will finalise the negotiations and enter into key hirer agreements with football and cricket. The Operator will also focus on securing additional events (beyond those for football and cricket), to ensure there is a year round calendar of events ahead of the Stadium opening. That will enable the annual budget requirements (if any) to be determined for the first period of the Operator contract.

The 2016-17 Budget will reflect the State's anticipated operating position for the first period of the Operator contract, based on information available at that time. The 2017-18 Budget will be updated to reflect the projected operating position, based on the updated calendar of events and cost and revenue projections at that time.

- (b) As outlined above, future Budget Papers will reflect the anticipated operating position for the Perth Stadium and its surrounding sports precinct.

Supplementary Information A8

Hon Ken Travers MLC asked:

Why is the WA Future Fund investing in WATC bonds when the Fund's investment objective is to achieve a return in excess of the WATC's cost of funds?

Answer:

The WA Future Fund invests in debt securities issued by the major Australian banks (capped at 25% of the portfolio under the current Tactical Asset Allocation) and semi-government authorities. On the day the investments in WATC securities were undertaken, they were the highest yielding securities in the semi-government market for the amounts and terms required, consistent with the Future Fund's investment parameters. Factoring in investment in WATC bonds (which represents less than 20% of the overall portfolio), as at 31 December 2015, the overall performance of the Fund portfolio continued to exceed the WATC cost of funds benchmark.

M. Vahne

Public / Internet

22/2/16 *APJ*

Supplementary Information A9

Hon Ken Travers MLC asked:

Which other States' bonds have a yield higher than our borrowing cost?

Answer:

This depends upon the term and is monitored on a daily basis by the WATC. For example, as at 2 February 2016, WATC's bonds offered higher yields than those of all other semi-government authorities for terms longer than three years.

M. Nahan

Public / Internet

22/12/16 *MP*

Supplementary Information A10

Hon Ken Travers MLC asked:

Would you be able to provide, on a confidential basis, the most recent report to this committee on the composition (by counterparty) of the WA Future Fund, and an indication of the current market value and original purchase cost of semi-government bonds held in the Future Fund?

Answer:

On a strictly confidential basis, Attachment 3 contains a report on the investment composition of the Future Fund (by counterparty) as at 31 December 2015 – based on book value. This information is commercial-in-confidence, as details of the Future Fund's composition could encourage adverse practices in the market, including opportunistic pricing by counterparties.

With regard to the market value of the portfolio, as at 31 December 2015 it totalled \$1,039.6 million, with the semi-government component totalling \$791.7 million (compared to book values of \$1,023.6 million and \$773.7 million respectively). The market value of the portfolio is slightly higher than the book value because the general level of interest rates has declined since the purchase of most of these bonds. As interest rates decline, the market value of fixed coupon bonds increase.

~ nabe

Public / Internet

22 / 2 / 16

Supplementary Information A11

Hon Ken Travers MLC asked:

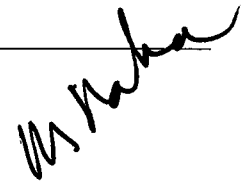
- (a) *Could you provide information on Utah Point's income and expenses (and operating profit) in 2014-15? If not, why not?*
- (b) *When will the Government's decisions be known and communicated to Parliament on the key policy issues surrounding the long-term lease of Fremantle Port?*

Answer:

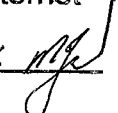
- (a) Details of Utah Point's income and expenses (and operating profit) in 2014-15 remain confidential at this time as due diligence on the associated financial analysis has not yet been completed and the provisional amounts prepared by Pilbara Ports Authority (PPA) are on the basis of allocations which are unlikely to be an accurate reflection of revenue and expenses that could be expected in the hands of a private operator. Providing unqualified financial information out of context may lead to false perceptions in the market, which has the potential to adversely impact on the transaction process.

Noting the above, on a strictly confidential basis, the PPA's provisional income and expense details for Utah Point are provided at Attachment 4.

- (b) It is anticipated that key policy issues related to the proposed long-term lease of Fremantle Port will be communicated to Parliament (and publicly) at the time when, or prior to, the associated enabling legislation is introduced. However, the Department of Treasury is unable to advise further on the likely timing, as this is subject to deliberation by Cabinet.



Public / Internet

22/12/16 

Supplementary Information A12

Hon Ken Travers MLC asked:

Could you provide your modelled projections of the Daily Average Prisoner Population (DAPP) over the next 10 years?

Answer:

Projections of the Daily Average Prison Population (DAPP) are shown below.

These projections are based on data as at 30 November 2015. Key assumptions include no change in average sentence length, and prisoner arrivals for individual offence categories to increase in line with either population growth or recent trends.

2015-16	5,712
2016-17	5,967
2017-18	6,080
2018-19	6,173
2019-20	6,268
2020-21	6,393
2021-22	6,538
2022-23	6,688
2023-24	6,819
2024-25	6,947
2025-26	7,080

As with all modelling projections, these estimates are heavily dependent on the model's assumptions, and it is likely that the reliability of these projections will decrease over the forecasting period. Projecting prison populations remains an inherently challenging task, with community opinion, government policy and judicial discretion all potentially contributing to the volatility of future outcomes.

TEMPLATE RESOURCE AGREEMENT
Supplementary Information A6

RESOURCE AGREEMENT

between the

MINISTER FOR (name of Portfolio)

the

ACCOUNTABLE AUTHORITY OF (name of agency)

and the

TREASURER

For the financial year ending 30 June 2016

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1.0 INTRODUCTION

1.1 Purpose

This agreement records undertakings by:

- the Minister - that the agency-level desired outcomes and performance targets identified in the Budget Statements and summarised in the attached Appendix are consistent with the broader strategic policy direction and priorities of the Government;
- the Accountable Authority - to efficiently deliver the services and to achieve the desired outcomes and targets (both financial and non-financial) specified in the Budget Statements and the Appendix, while ensuring the development and maintenance of high quality human and capital resources of the agency; and
- the Treasurer - subject to Parliament's approval, to provide financial resources to facilitate achievement of the agreed outcomes and performance targets.

These undertakings are made to allocate accountabilities for the budget, including for achieving the agreed expense limit and other budget targets. Material breaches of the agreed expense limit are to be reported to Cabinet's Economic and Expenditure Reform Committee.

1.2 Term and Scope

This agreement primarily covers the period from 1 July 2015 to 30 June 2016, as well as information on forecast outcomes and targets in future years (where appropriate). References to the Budget and Budget Statements are to the 2015-16 Budget and Budget Statements, unless the context implies otherwise. All parties recognise the importance of ongoing review to ensure:

- targeted outcomes represent maximum benefit to the community;
- optimal combination of services to achieve the identified outcomes;
- services are delivered at least cost;
- there is co-ordinated effort (where appropriate) to facilitate whole-of-government and cross-agency initiatives; and
- approved salary expense levels, in line with Government Wages Policy, are managed, monitored and reported against.

1.3 Signatures of the Parties

Minister

Dated

Accountable Authority¹

Dated

Treasurer

¹ Accountable Authority is the Chief Executive Officer for a Department, and the Chairperson (or nominated member) for a Statutory Authority.

Dated

2.0 STRATEGIC CONTEXT

2.1 Relationship to Government Goals

The Budget Statements identify links between the Government's goals articulated for the 2015-16 Budget, and the following agency level Government desired outcomes (Treasury example):

- *Sustainable and transparent public sector finances.*
- *A strong and competitive State economy.*
- *Value for money outcomes in service delivery and infrastructure provision.*

2.2 Performance Monitoring

Progress towards the agency level Government desired outcomes is to be monitored with the assistance of audited key effectiveness indicators. Key efficiency indicators will be used to assist in monitoring service delivery. These performance indicators, together with performance targets, will be published in the Budget Statements and actual results against these targets will be disclosed in the agency's annual report as required by the *Financial Management Act 2006*.

2.3 Significant Issues Impacting the Agency

All parties recognise that this section of the Budget Statements describes:

- the key external influences (including risks) which impact on operations;
- past and present trends in those influences; and
- potential future trends in the operating environment, including the:
 - effect on demand; and
 - effect on cost.

2.4 Whole-of-Government and Cross-Agency Initiatives

The parties acknowledge that there is a shared accountability for the successful implementation of whole-of-government reform initiatives, including procurement reform and corporate services reform.

In addition to the preceding whole-of-government initiatives, (name of agency) also contributes to the following key cross-agency initiatives (where applicable):

Cross-Agency Initiatives

Initiative	Related outcome/s	Contributing agencies	Financial (or resource) commitment	Target result for 2015-16
	•	•		•
	•	•		•

Drafting note: The Minister and lead agency with responsibility for coordinating the delivery and reporting on each of the preceding State Government cross-agency initiatives are to be identified.

3.0 FINANCIAL MANAGEMENT

3.1 Responsibility for Financial Management

This agreement recognises the shared financial management responsibilities of the parties. In broad terms the Treasurer, as representative of the State, represents the State's ownership interest in (name of agency). It is the Minister and the Accountable Authority's role to agree to work to achieve the financial targets as specified in section 3.2.

3.2 Financial Targets

The Minister and the Accountable Authority, subject to agreed changes in Government policy, undertake to ensure that the total amount of resources disclosed in the Budget Statements for the budget year is managed to achieve:

- the endorsed expense limit, identified as the total cost of services in the Budget Income Statement (impacting the Government's expense growth target for the general government sector). The expense limit is a critical parameter within which the budget must be managed. Approval of Cabinet and/or the Economic and Expenditure Reform Committee is required to spend beyond this limit in the budget year or the forward estimate years;
- the net cost of services in the Budget Income Statement (impacting the Government's net operating balance target for the general government sector);
- the equity target in the Budget Balance Sheet (impacting the Government's net worth target);
- the approved Working Cash Limit equivalent to 5% of approved budgeted recurrent payments (total operating and financing);
- the approved salary expense level;
- the approved borrowing limit, where applicable; and
- consistency between (name of agency) internal asset management plan and the asset investment program disclosed in the Budget Statements.

Actual results against these financial targets will be disclosed in the agency's annual report as required by the *Financial Management Act 2006*.

3.3 Ownership Interest

(name of agency) must account for capital appropriations as equity contributions by the State.

The State is entitled to make such decisions as it sees fit concerning (name of agency) capital, defined as assets less liabilities (equity) as per the Australian Accounting Standards. These decisions include those regarding:

- equity contributions;
- distribution of net proceeds of asset disposal; and
- treatment of operating surpluses.

3.4 Reporting

The Accountable Authority will provide information to the Department of Treasury to enable compliance with the requirements of the *Government Financial Responsibility Act 2000*, together with financial data in accordance with existing reporting arrangements.

3.5 Administered Transactions

The Budget Statements disclose details of expenses/income planned to be incurred/received on behalf of the State, as well as assets and liabilities administered on behalf of the State. The Minister and the Accountable Authority undertake to ensure the effective management of these administered items on behalf of the Government.

4.0 AMENDMENTS TO THE AGREEMENT

This agreement may be amended with the consent of all parties. Amendments shall become a written attachment to the agreement.

Renegotiation of this agreement may be a consequence of changes to:

- Government policy;
- economic parameters;
- demand for services; and/or
- administrative arrangements that have a material impact.

Where there is a function transfer, the Accountable Authority shall provide sufficient information to enable all relevant agencies to report on the transferred functions and associated assets and liabilities during the year.

Financial Targets outlined in the Appendix will be updated and circulated to all signing parties following Mid-year Review, and as part of the 2016-17 Budget for Estimated Actuals, to reflect updated Cabinet approved targets.

Appendix

DETAILS OF DESIRED OUTCOMES, SERVICES AND PERFORMANCE TARGETS

(Treasury example)

Government Desired Outcomes, Key Effectiveness Indicators and Targets ^(a)

	2015-16 Target
Desired Outcome: Sustainable and transparent public sector finances.	
Status of the State's credit rating ^(b)	
Unqualified audit opinion on the Annual Report on State Finances	Yes
Desired Outcome: A strong and competitive State economy.	
Accuracy of key economic forecasts:	
Employment level	+/- X %
GSP growth	+/- X %
Accuracy of key general government revenue forecasts:	
Tax and mining revenue	+/- X%
GST revenue	+/- X%
Desired Outcome: Value for money outcomes in service delivery.	
% of Treasury's material resource allocation recommendations complying with service provision analysis framework	X%
% of highest value agencies complying with SAM Framework or equivalent accredited mechanism.....	X%

(a) More details of effectiveness indicators in annual report.

(b) WA's credit rating is currently assessed by Standard and Poor's and by Moody's.

Services, Key Efficiency Indicators and Targets

Service/Key efficiency indicators	2015-16 Target
1. Financial Management and Reporting	
- Cost of financial management reporting per \$m general government sector expenses.....	\$X
- % of financial reports released as per agreed timeframes.....	X%
2. Economic and Revenue Forecasts and Policy Development	
- % of ministerials, briefings or reports provided within agreed timelines.....	X%
3. Evaluation and Planning of Government Service Delivery and Infrastructure Provision	
- % of ministerials, briefings or reports provided within agreed timeframes	X%
- Cost of infrastructure management per \$m of forward estimates capital program	

Financial Targets⁽¹⁾

	2015-16 Budget Estimate \$'000
Total Cost of Services (i.e. endorsed expense limit)	X
Net Cost of Services (details in the Income Statement)	X
Total Equity (details in the Statement of Financial Position)	X
Salary Expense Level.....	X
Borrowing Limit.....	X
Working Cash Limit - at the commencement of 2015-16, the approved working cash limit is \$X.	

(1) The Department of Treasury will advise Accountable Authorities and Ministers of revised Cabinet approved targets following the Mid-year Review. These targets will also be updated for approved Estimated Actuals as part of the 2016-17 Budget process.

Achievement of approved financial targets will be assessed through the Public Sector Commission's Accountable Authority's performance assessment process.



PRO FORMA LETTER TO DIRECTORS GENERAL
Supplementary Information A6

Our ref : 00319129
Enquiries : Your Treasury agency analyst

«Salutation» «First_Name» «Surname»
«Title»
«Address_2»
«ADDRESS_3»

Dear «Salutation» «Surname»

UPDATED FINANCIAL TARGETS – 2015-16 RESOURCE AGREEMENT

As advised in the 2015-16 Mid-year Review (MYR) Circular, your agency's Resource Agreement (RA) financial parameters have been updated to reflect the impact of all decisions made since the 2015-16 Budget and the 2015-16 MYR cut-off dates (21 April 2015 and 3 December 2015 respectively).

The attached table outlines your agency's approved financial parameters. Your Minister will also be advised by the Treasurer of these updated parameters.

Should you have any concerns, please contact your Treasury agency analyst in the first instance.

Yours sincerely

[SIGNED]

Michael Barnes
UNDER TREASURER

Enc.



ATTACHMENT

Updated Financial Targets – 2015-16 Resource Agreement

«Agency_Name»			
	Original Target 2015-16 Budget \$'000	Updated Target 2015-16 MYR \$'000	Variance \$'000
Total Cost of Services	«Budget__Tcost»	«MYR__Tcost»	«Var__Tcost»
Net Cost of Services	«Budget__Ncost»	«MYR__Ncost»	«Var__Ncost»
Total Equity	«Budget__Equity»	«MYR__Equity»	«Var__Equity»
Salary Expense Limit	«Budget__Salary»	«MYR__Salary»	«Var__Salary»
Borrowing Limit	«Budget__Borrow»	«MYR__Borrow»	«Var__Borrow»
Working Cash Limit	«Budget__Cash»	«MYR__Cash»	«Var__Cash»