Division 24: Treasury (Except Items 44 and 125 — Royalties for Regions) —

[Supplementary Information No B19.]

Question: Mr B.S. Wyatt asked: Will the Treasurer provide a spreadsheet showing the ingoings to the proposed future fund account every year out to 2032 in interest and royalties and inclusive of the seed capital, and a written explanation of how each of those is calculated?

Answer: Forecasts for deposits to the proposed Future Fund are attached.

Between 2012-13 and 2015-16, over $1 billion in 'seed capital' will be transferred from the Royalties for Regions (RfR) Fund into the new Future Fund. This funding comprises:

- the 3% efficiency dividend and other savings in the RfR Fund ($223 million); and

- the RfR component of the 2011-12 Budget decision to remove the concessional royalty rate applying to iron ore 'fines' ($820 million).

From 2016-17 onwards, a minimum of 1% of the State's annual royalty revenue will be paid into the Future Fund (indicatively estimated at around $66 million in 2016-17, rising to around $100 million per annum by 2031-32). In calculating these amounts, it is noted that Treasury has no forecasts of royalty income (or the key variables such as production volumes, prices and the $A/$US exchange rate) beyond the end of the forward estimates period (2015-16). As such, Treasury has taken its forecast for royalty income in 2015-16 ($6,563 million) and effectively flat-lined this for the remainder of the 20 year period, allowing for growth only in the Consumer Price Index (projected at 3.0% per annum).

Through legislation, the annual balance of the Future Fund and its interest earnings will be quarantined from spending for a period of 20 years (i.e. until 2031-32). It is expected that funds will be transferred to, and begin to accumulate interest in, the Future Fund once proposed legislation is passed. The current forecasts assume the initial transfer to the Fund will commence from 1 January 2013 with a half-year interest benefit accruing by 30 June 2013. Subsequent interest earnings assume that the deposits in the account are transferred (in the case of initial 'seed capital' and accumulating interest earnings) and appropriated (in the case of future royalty deposits) on 1 July each year. Interest earnings beyond the forward estimates period are based on an assumed return of 5.2% per annum, which is in line with the average return on the Public Bank Account over the last decade.

On the basis of the above assumptions, it is estimated that after 20 years, the Future Fund will have an indicative balance of around $4.7 billion.

FUTURE FUND CONTRIBUTIONS

	2012-13 Budget Estimate $m	2013-14 Forward Estimate $m	2014-15 Forward Estimate $m	2015-16 Forward Estimate $m	2016-17 $m	2017-18 $m	2018-19 $m	2019-20 $m	2020-21 $m	2021-22 $m
Future Fund Special Purpose Account										
Opening Cash Balance	-	303	590	872	1,171	1,302	1,441	1,589	1,748	1,917
Contributions:										
Royalties for Regions Efficiency Dividend	198	25	-	-	-	-	-	-	-	-
Royalties for Regions Component of Iron Ore 'Fines'	100	235	242	244	-	-	-	-	-	-
1% of royalty income (indexed)	-	-	-	-	66	68	70	72	74	76
Interest earnings	6	27	41	55	65	72	79	87	95	104
CLOSING CASH BALANCE	**303**	**590**	**872**	**1,171**	**1,302**	**1,441**	**1,589**	**1,748**	**1,917**	**2,097**

FUTURE FUND CONTRIBUTIONS (CONTINUED)

Future Fund Special Purpose Account	2022-23 $m	2023-24 $m	2024-25 $m	2025-26 $m	2026-27 $m	2027-28 $m	2028-29 $m	2029-30 $m	2030-31 $m	2031-32 $m
Opening Cash Balance	2,097	2,289	2,494	2,711	2,943	3,189	3,452	3,730	4,027	4,341
Contributions:										
Royalties for Regions Efficiency Dividend	-	-	-	-	-	-	-	-	-	-
Royalties for Regions Component of Iron Ore 'Fines'	-	-	-	-	-	-	-	-	-	-
1% of royalty income (indexed)	78	81	83	86	88	91	94	96	99	102
Interest earnings	114	124	135	146	158	171	185	200	215	232
CLOSING CASH BALANCE	**2,289**	**2,494**	**2,711**	**2,943**	**3,189**	**3,452**	**3,730**	**4,027**	**4,341**	**4,676**

[Supplementary Information No B20.]

Question: Mr B.S. Wyatt asked: Will the Treasurer provide a detailed breakdown of the weighted average effective interest rate for the 2010–11 year that represents the long-run average period that is being measured for borrowings?

Answer: WATC's borrowings are mainly comprised of domestic benchmark bonds supplemented by domestic retail bonds (State Bonds), short term inscribed stock and short term overseas borrowings in the form of Eurocommercial Paper. For accounting purposes WATC calculates an annual average interest cost of its borrowings which represents the interest expense for the year compared to the average debt balance. At 30 June 2011 this was 5.31%.

This calculation will be made again at 30 June 2012 to enable an annual comparison. Being a historical average, this is not reflective of market rates on WATC's borrowing during the year. An example of current borrowing rates is demonstrated by the recent WATC issue of a 15 July 2017 maturity benchmark bond at a yield of 3.63% per annum.

WATC's investments are categorised into Short Term Money Market Investments and Government Stock (bonds). All of WATC's investments are in Australian Dollars with APRA Authorised Deposit-taking Institutions (ADIs), which include foreign owned banks authorised to operate as ADIs in Australia, or Australian State Central Borrowing Authorities (CBA). For accounting purposes WATC calculates an annual average interest rate for its investments which represents the interest revenue for the year compared to the average investment balance. At 30 June 2011 this was 4.78%.

This calculation will be made again at 30 June 2012 to enable an annual comparison. Being a historical average, this is not reflective of market rates on WATC's investments during the year. WATC's investments at 31 May 2012 are comprised 85.5% with ADIs and 14.5% with CBAs and during May investments of between 1 day and 6 months were negotiated within the range of 3.60% and 3.77%.

[Supplementary Information No B21.]

Question: Mr B.S. Wyatt asked: Will the Treasurer provide the figure of total budget which is considered discretionary and upon which the efficiency dividend is based for each of the GTEs included in the efficiency dividend?

Answer: The discretionary operating expenditure of GTEs includes spending on salaries and wages, superannuation, advertising and promotions, consultants, administration, communications (phones, computing and couriers) and other consumables. The discretionary operating expenditure of each GTE for 2012-13, which was used to calculate the efficiency dividend, is shown in the table below.

DISCRETIONARY EXPENDITURE OF GOVERNMENT TRADING ENTERPRISES
2012-13

Agency	2012-13 ($'000)
Albany Port Authority	4,492
Broome Port Authority	10,701
Bunbury Port Authority	9,463
Bunbury Water Board	4,452
Busselton Water Board	3,535

Dampier Port Authority	17,572
Esperance Port Authority	21,546
Forest Products Commission	22,737
Fremantle Port Authority	79,858
Geraldton Port Authority	34,452
Gold Corporation	70,667
Government Employees Superannuation Board	53,802
Horizon Power	135,880
Insurance Commission of WA	112,950
Western Australian Land Authority (LandCorp)	51,436
Western Australian Land Information Authority	122,853
Port Hedland Port Authority	74,293
Synergy	123,873
Verve Energy	172,310
Water Corporation	684,158
Western Australian Treasury Corporation	16,528
Western Power	292,115
Total Discretionary Expenditure	2,119,673

[Supplementary Information No B22.]

Question: Ms R. Saffioti asked: Will the Treasurer provide the total state government component of Ord stage 2 funding?

Answer: The Ord project is a $518 million initiative, consisting of a State contribution of $323 million ($311 million from Royalties for Regions and $12 million from the Consolidated Account), and a Commonwealth contribution of $195 million. The State component includes delivery of irrigation and association infrastructure (e.g. roads), environmental impact mitigation and an Aboriginal Development Program, while the Commonwealth component includes social and other infrastructure for the region.

The table below outlines funding for the Ord Stage 2 project.

ORD STAGE 2 PROJECT – STATE AND COMMONWEALTH CONTRIBUTIONS

Funding Source	Amount $m
State (Royalties for Regions)	311
State (Consolidated Account – environmental impact mitigation)	12
Total State Contribution	*323*
Commonwealth Contribution	*195*
Total Ord Stage 2 Project	**518**

[Supplementary Information No B23.]

Question: Mr B.S. Wyatt asked: Will the Treasurer provide the total public sector FTE figure?

Answer: The approved FTE ceiling for the current year (2011-12) is 108,363. This relates to general government sector agencies only – i.e. it does not include public corporations (such as the water and electricity utilities and the port authorities), as these are not subject to the FTE ceiling policy.

According to the latest Public Sector Commission data, the average level of FTEs over the four quarters to December 2011 is 106,334, which is 2,029 FTEs below the approved ceiling.

[Supplementary Information No B24.]

Question: Mr B.S. Wyatt asked: Will the Treasurer provide the present target rates of return on assets, and the actuals, if available, for public ports in Western Australia?

Answer: The following table provides data on the actual rates of return for the 2010-11 financial year and the present target rates of return for the 2011-12 financial year based on draft Statements of Corporate Intent.

RATES OF RETURN [a]
Western Australian Port Authorities

	2010-11 Actual %	2011-12 Target %
Albany Port Authority	3.1	5.0
Broome Port Authority	1.3	5.0
Bunbury Port Authority	8.5	8.0
Dampier Port Authority	8.7	6.0
Esperance Port Authority	1.7	6.0
Fremantle Port Authority	4.8	6.0
Geraldton Port Authority	14.0	6.0
Port Hedland Port Authority	4.1	6.5

(a)   Return on assets, specifically profit before interest and after deprival value depreciation divided by the average deprival valuation of assets.