

**Responses received from Ministers  
relating to Report 73**





## Minister for Transport; Planning; Lands

Your ref: A690806  
Our ref: 72-11822

Hon A Clohesy MLC  
Chair  
Standing Committee on Estimates and Financial Operations  
lcco@parliament.wa.gov.au

Dear Ms Clohesy

### **REPORT 73: 2017-18 BUDGET CYCLE – PART 1: ESTIMATES HEARINGS AND RELATED MATTERS**

Thank you for your letter dated 6 June 2018, regarding the practice of Main Roads in presenting spending on an 'adjusted' basis in its agency statements.

A significant part of Main Roads' business is infrastructure delivery with capital outputs in the form of infrastructure assets. As such, capital works have consistently been reported within the Main Roads Services Table. This is to provide full disclosure of the funding that Main Roads directs to the various services when delivering capital works, maintaining the roads and operating the State's road network.

Going back as far as the 1999-2000 State Budget papers, Main Roads included capital expenditure in the Income Statement and Outputs table.

In the 2001-2002 State Budget papers, Main Roads introduced an "Expenditure Capitalised" line to detail the value of the capital works being included in the Income Statements and Outputs table. This provided further transparency by enabling the Income Statement to be reconciled with the Services Table total.

For the 2015-2016 Budget Papers onwards, the introduction of the Accounting Standard AASB 1055 required the removal of capitalised items from the Income Statement. The consequence of the accounting standard change would have seen the removal of the Capital Items from the Services Table.

In considering the need to provide transparency with regard to the level of investment in services such as road safety, road efficiency and road maintenance on the State's road network, Main Roads decided to continue to report any of the agency's activities (both Capital and Recurrent) in the Services Summary Table.

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Removing Capital Items to provide comparable data to non-capital delivery agencies would reduce the level of detail provided in the Budget papers, as highlighted in following example from the 2018-2019 Budget for Road Safety:

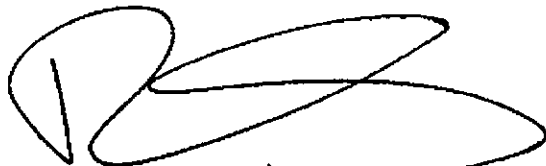
In the 2018-2019 Budget, the Adjusted Cost of Services for Road Safety is recorded as \$212 million. If the capital infrastructure component was removed, that service would be recorded as \$48 million and would not reflect the total level of effort being put into the 'Road Safety' service. It is felt that this would not fully represent the value which Main Roads is contributing to road safety on the State's road network. This would provide less transparency for the public into how much effort is being directed to road safety. It is noted that during Budget Estimates, Main Roads has been asked to outline changes to service delivery totals between years, this indicates a level of interest in the information provided.

The structure of the Main Roads Budget papers provides the following detail:

- **Service Summary (Adjusted Total Cost of Services):**  
Outlines the level of financial resources by Main Roads' Services Categories being directed to the State's road assets. This includes Capital and Recurrent activities.
- **Total Cost of Services – Reconciliation Table (Adjusted to Income Statement):**  
Outlines the level of financial resources being directed towards non-cash transactions, grants to local government or activities on State assets by Main Roads (e.g. major works on local government roads) with the capital works subtracted (in accordance with accounting standards). The balance provides the level of recurrent expenditure (Total Cost of Services) which balances back to the Income Statement.

Main Roads is of the view that providing all capital works within the Main Roads Service Summary, and the inclusion of a table detailing those income items (mostly non-cash accounting transactions) that are not included, provides a more detailed view of which services are being addressed and therefore significantly greater reporting transparency.

Yours sincerely



**HON RITA SAFFIOTI MLA**  
**MINISTER FOR TRANSPORT**

- 6 JUL 2018

Printed Name



**Hon Ben Wyatt MLA**  
**Treasurer; Minister for Finance; Energy; Aboriginal Affairs**

Our ref: 69-08720  
Your ref: A690432

Hon Alanna Clohesy MLC  
Chair  
Standing Committee on Estimates and Financial Operations  
Legislative Council Committee Office  
Parliament House  
4 Harvest Terrace  
WEST PERTH WA 6005

Dear Ms Clohesy *Alanna*

**REPORT 73: 2017-18 BUDGET CYCLE**

Thank you for your letter of 29 May 2018, requesting responses to issues raised in relation to the Standing Committee on Estimates and Financial Operations' report on the 2017-18 Budget Papers.

Responses to the recommendations contained in the report are available in the Attachment to this letter. I note that the Committee intends to write in similar terms to the relevant Minister on those matters that relate to their agency. This is acknowledged in the attached responses.

Yours sincerely

*Ben Wyatt*  
Ben Wyatt MLA  
TREASURER

11 JUL 2018

Att.

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## STANDING COMMITTEE ON ESTIMATES AND FINANCIAL OPERATIONS

## REPORT 73: 2017-18 BUDGET CYCLE

**Matter 1 – Publishing on-line agency financial statements in a spreadsheet format.**

The Department of Treasury (Treasury) currently publishes, on its website, all of the tables and charts in Budget Paper No 3: *Economic and Fiscal Outlook* in spreadsheet format.

While it is acknowledged that publishing detailed agency financial statements in spreadsheet format would allow for easier analysis, Treasury's Budget systems do not currently produce this level of detail in a suitable format.

This suggested system enhancement has been noted by Treasury and will be included in future system enhancement work. The timeframe for this work will depend on completion of the Department's other high priority system work.

**Matter 2 – Presenting a table of Consolidated Account finances (including forecasts).**

The inclusion of a table of Consolidated Account finances (including forecasts) can be provided to enhance understanding of the Consolidated Account, which is not currently in the Budget Papers. This disclosure would improve transparency in relation to the borrowings required to fund Consolidated Account appropriations and would be consistent with current outturn disclosures included in the *Annual Report on State Finances* and the *Quarterly Financial Results Reports*.

This disclosure will be included in the 2019-20 Budget Papers.

**Matter 3 – Using paragraph numbering in agency statements.**

The Significant Issues section of an agency's Budget statements can be presented by paragraph numbering rather than dot points to assist Members in asking questions during Estimates Hearings. This change is straightforward to implement and will be included in the 2019-20 Budget Papers.

**Matter 4 – Identifying new and ongoing initiatives in the spending changes table.**

The Spending Changes table in agency Budget statements is currently separated by spending on 'Election Commitments' and 'Other' programs. In previous years it has not been ordered or separated by specific sub-headings. It is acknowledged that it may be beneficial for some users to differentiate new programs from changes in spending on existing programs. This suggestion will be further considered in preparing the 2019-20 Budget Papers.

**Matter 5 – Showing changes since the previous budget in the spending changes table.**

The spending changes table in agency Budget statements in the 2017-18 Budget Paper No. 2 used a reference point of the 2016-17 *Pre-election Financial Projections Statement* to show the spending decisions of the new Government rather than presenting both new and previous Government decisions. Agency spending changes in the 2018-19 Budget Papers are again focused on changes since the previous Budget and it is not envisaged that this will change until the next post-election Budget (the 2021-22 Budget).

**Matter 6 – Separately identifying projects funded by Royalties for Regions in the agency statements.**

The Royalties for Regions (RfR) program is fully disclosed in Chapter 7 of Budget Paper No. 3 (Investing in Regional Western Australia). Any new projects and material changes to an existing project are reflected in the spending changes table in agency Budget statements. As the Government has sought to better integrate the RfR program into the overall Budget process, rather than have it run as a separate or 'shadow' process, the Government is not inclined to separately identify RfR funded projects or programs in agency Budget statements. The existing disclosure in Chapter 7 of Budget Paper No. 3 is considered sufficient.

**Matter 7 – Department of the Premier and Cabinet spending on services provided to, or on behalf of, the Parliament.**

Costs incurred by the Department of the Premier and Cabinet for managing Parliament are disclosed in the Department's Key Efficiency Indicators on page 61 of the 2018-19 Budget Paper 2 (Volume 1). In particular:

- average cost of entitlements per Member of Parliament; and
- average cost of support provided per Member of Parliament.

Any changes to these, or any other, disclosure should be agreed by the Department and the Premier (as the Minister responsible for the Department's Budget Paper 2 statements).

**Matter 8 – Spending on an unadjusted basis by the Commissioner of Main Roads.**

Unlike most general government sector agencies, Main Roads is primarily a capital works delivery entity. To reflect the substantial level of asset investment and its impact on the business, service costs have historically been adjusted to include asset investment.

The Committee's view that easier scrutiny of Main Roads' service costs would be possible if comparable (unadjusted) service costs were disclosed has been noted. The disclosure presents a trade-off between comparability across agencies and activity costs of Main Roads that are more reflective of its capital-focused operations.

Should Main Roads and the Minister for Transport (as the responsible Minister for the Commissioner's Budget Paper No. 2 statement) agree to move towards unadjusted service cost disclosures, then this will be considered in preparing the 2019-20 Budget Papers.

**Matter 9 – The return on investment for the Public Transport Authority of Western Australia.**

The use and publication of an average Benefit Cost Ratio (BCR, as a measure of return on construction expenditure) would be supported if the Public Transport Authority (PTA) and Minister for Transport (as responsible Minister for the Authority's Budget Paper No. 2 statement) agreed to this indicator. Noting this, there are some additional factors that would need to be considered, including:

- BCRs are only one part of the value for money assessment of an investment and may not capture some benefits and costs that are difficult to quantify (e.g. quality of life impacts); and
- to allow comparison between transport agencies, wherever possible similar calculation methodologies between the PTA and Main Roads would be needed.





## Minister for Transport; Planning; Lands

Your ref: A690808  
Our ref: 72-11823

Hon Alanna Clohesy MLC  
Chair  
Standing Committee on Estimates and Financial Operations  
Legislative Council Committee Office  
Parliament House  
14 Harvest Terrace  
WEST PERTH WA 6005

Dear Ms Clohesy

### REPORT 73: 2017-18 BUDGET CYCLE- PART 1: ESTIMATES HEARINGS AND RELATED MATTERS

Thank you for your letter of 6 June 2018 regarding whether the Public Transport Authority (PTA) should include a key effectiveness indicator on return of construction expenditure to improve comparability with Main Roads Western Australia (MRWA).

The MRWA indicator to which you refer is as follows:

|  | 2014 | 2015 | 2016 | 2017 Target | 2017 Actual |
|--|------|------|------|-------------|-------------|
| Average return on construction expenditure | 5.4  | 5.6  | 4.2  | 4.5         | 3.2         |

The methodology for determining this Effectiveness Indicator as outlined in the MRWA Annual Report is as follows:

*New road and bridge construction networks add to the capacity of the road network. Return on Construction Expenditure is based on Benefit Cost Ratio (BCR) estimates of a set of projects undertaken each year. It indicates the extent to which road and bridge construction expenditure will deliver future economic benefits to the community. This indicator represents the expenditure weighted BCR for the State Development Service and Road Efficiency Service for which a BCR has been calculated.*

I am advised that the PTA could include the same indicator in its Annual Report. However I am advised that the two agencies use different models in their business case development processes, with the PTA using the Department of Transport's STEM model and MRWA using its own ROM model.

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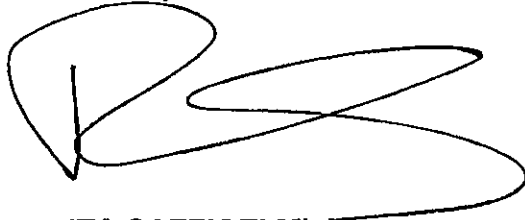
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Both models have been optimised to best address the key focus of their analysis, with STEM more targeted towards assessment of public transport projects and ROM towards road project analysis.

With regard to adopting a common modelling approach I am also advised that the Department of Transport in consultation with MRWA, the PTA and the Department of Planning, Lands and Heritage is working towards a new single model. Doing so is a significant exercise that requires some time and investment to achieve.

Nevertheless, I have asked the PTA to work with MRWA and, notwithstanding the different modelling approaches that are intended to be addressed in due course, seek to develop an appropriate indicator for inclusion in the PTA's 2018-19 Annual Report.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Rita Saffioti', written in a cursive style. The signature is positioned above the typed name and title.

**HON RITA SAFFIOTI MLA  
MINISTER FOR TRANSPORT**

04 SEP 2018



Premier of Western Australia

Our Reference: 59-069300  
Your Reference: A690437

Hon Alanna Clohesy MLC  
Chair  
Standing Committee on Estimates and Financial Operations  
Parliament House  
4 Harvest Terrace  
WEST PERTH WA 6005  
[lcco@parliament.wa.gov.au](mailto:lcco@parliament.wa.gov.au)

Dear Ms *Alanna* Clohesy

I write in response to a consideration by the Standing Committee on Estimates and Financial Operations (the Committee) in Report 73 of reporting of services provided to the Parliament by the Department of the Premier and Cabinet (the Department).

I note the Committee's concern that the Department's practice of including services to the Parliament under the broader 'Administration of Executive Government Services' service (Service One) confuses the responsibilities associated with the Legislative and Executive branches of Government.

The Department's Key Effectiveness Indicators (KEIs) with relation to Members of Parliament (Members) are calculated as part of a wider formula that measures overall effectiveness with relation to Service One.

The Department has consulted with the Department of Treasury and has identified an opportunity to separate out its reporting of services to Executive Government and services to Parliamentary Support under a revised Outcome 1 of "Executive Government and Members of Parliament receive appropriate support". This change will be progressed to take effect from 2019-20 onwards.

It should be noted that in an effort to gauge Members' satisfaction with services provided by the Department, the Department reinstated a benchmarking survey in 2017-18. Members were given 54 days to respond (15 January – 9 March 2018) and of the 95 Members, 29 responded, giving a response rate of 30%. To be considered appropriate for inclusion as a formal KEI within the Department's Outcome Based Management (OBM) Framework the Office of the Auditor General (OAG) requires that an adequate and representative survey return rate be achieved. Thirty per cent does not meet this criteria and therefore the data received cannot be used to inform a formal KEI in the Department's OBM Framework at this time.

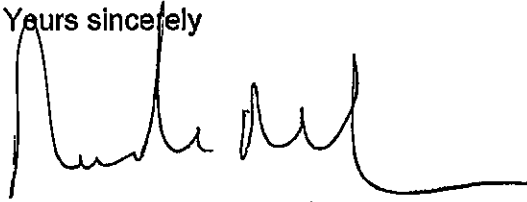
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The Department will continue to conduct the Members' survey in 2018-19 and beyond, and is also giving consideration to the appropriateness of other mechanisms to report on the Department's performance of services provided to Parliament, some of which may be trialled throughout 2018-19.

I hope this information is of assistance and addresses the Committee's concerns.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Mark McGowan', with a long horizontal flourish extending to the right.

Mark McGowan MLA  
**PREMIER**

10 SEP 2018