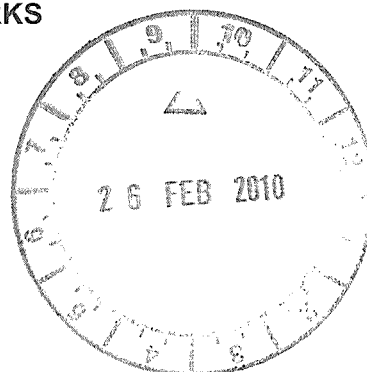




PUBLIC

**TREASURER; MINISTER FOR COMMERCE;
SCIENCE & INNOVATION; HOUSING & WORKS**

Our ref: 7053355



Ms Renae Jewell
Committee Clerk
Estimates and Financial Operations
Committee
Legislative Council
Parliament House
2 Harvest Terrace
PERTH WA 6000

Dear Ms Jewell

**STANDING COMMITTEE ON ESTIMATES AND FINANCIAL OPERATIONS –
HEARING ON THE 2009-10 MID-YEAR FINANCIAL PROJECTIONS STATEMENT**

Thank you for your letter of 14 January 2010 requesting responses to questions on notice from the committee members.

Please find my response at Attachment A.

I trust that these answers are of assistance in explaining the Government's position.

Yours sincerely

**TROY BUSWELL MLA
TREASURER; MINISTER FOR COMMERCE;
SCIENCE AND INNOVATION; HOUSING AND WORKS**

21 FEB 2010

ATTACHMENT A

STANDING COMMITTEE ON ESTIMATES AND FINANCIAL OPERATIONS

Questions on notice

13 January 2010

Department of Treasury and Finance answers

Question No. 1: Hon K Travers asked:

Prison capacity

1.1 Have the anticipated increases in prisoner numbers been factored into the Department of Corrective Services' budget? If yes, where, and for how many prisoners?

Yes. Additional expenditure of \$157.7 million has been included for the Department of Corrective Services in 2009-10 and the forward estimates for operating costs to manage and maintain a daily average prisoner population of 4,600 funded in accordance with the prisons muster model. Of this additional expenditure, \$37.7 million is included for the increased prisoner numbers in 2009-10.

1.2 Has any money been set aside for an existing prison to be re-built or modified to house additional prisoner numbers? If yes, where, and for how many prisoners?

Yes. Expenditure of \$48.0 million over 2009-10 and 2010-11 has been reappplied within current funding for an additional 640 demountable beds to be constructed at existing prisons.

1.3 There is no specific reference to money set aside for a new prison to be built to house additional prisoner numbers. Has any provision, in fact, been made? If so, where, and for what amount?

A provision was made in the 2009-10 Budget for Kimberley Prison 1 and Work Camp Stage 1 and the New Young Men's Prison (Budget Paper Number 2, Volume 3, page 762).

A provision for Eastern Goldfields Prison replacement, additional capacity at Acacia Prison, demountable beds at Albany, Casuarina and Hakea Prisons, a double bunking program, and the Warbuton and Wheatbelt Work Camps has been made within the 'Adult Custodial – Custodial Infrastructure Program – Administered Equity' line in the 2009-10 Budget Paper Number 2, Volume 3, page 763.

Question No. 2: Hon K Travers asked:

Please provide the following information in relation to the 2009-10 Government Mid-Year Financial Projections Statement —

2.1 A reconciliation of all Commonwealth grants for 2009-10 and the forward estimates;

A summary listing of Commonwealth grants for 2009-10 and the forward estimates period is available in Appendix 2 (Table 2.1), page 85 of the 2009-10 Mid-year Review. A copy of the relevant part of Table 2.1 follows.

Details of programs included under the 'Other' headings are not held on the Department of Treasury and Finance's (DTF's) systems, and would need to be sought from relevant agencies. Major grants included under 'Other' include:

- Elective surgery waiting list reduction program;
- Essential vaccines;
- Health and Hospital Fund projects;
- Digital education revolution;
- Smarter schools;
- Trade training centres in schools;
- Productivity places program;
- Better TAFE facilities;
- Certain concessions for pensioners and seniors card holders;
- Home and community care;
- Northbridge Link project;
- East Kimberley development package;
- Caring for our country;
- Legal aid; and
- Seamless national economy.

(cont.)

OPERATING REVENUE

General Government

	2008-09	2009-10	2009-10	2010-11	2011-12	2012-13
	Actual	Budget	Mid-year	Mid-year	Mid-year	Mid-year
	\$m	Estimate	Revision	Revision	Revision	Revision
		\$m	\$m	\$m	\$m	\$m
CURRENT GRANTS AND SUBSIDIES						
<i>General Purpose Grants</i>						
GST Revenue grants	3,529	3,332	3,415	3,257	3,227	3,289
North West Shelf grants	844	930	746	958	1,027	1,094
Compensation for Crude Oil Excise Condensate	23	60	94	57	57	57
<i>Grants Through the State</i>						
Schools assistance – non-government schools	751	654	967	887	766	805
Local government financial assistance grants	132	137	137	143	150	157
Local government roads	89	92	92	95	99	103
First Home Owners' Boost	100	31	111	-	-	-
Other	-	25	25	25	25	25
<i>National Specific Purpose Payment Agreement Grants ^(a)</i>						
National Health Care Agreement	1,056	1,136	1,136	1,228	1,333	1,444
National Education Agreement	318	329	329	352	377	409
National Agreement for Skills and Workforce Development	131	132	132	135	138	142
National Disability Agreement	75	78	78	94	112	122
National Affordable Housing Agreement	122	125	125	127	129	132
<i>Nation Building and Jobs Plan</i>						
Schools	78	77	77	6	-	-
Housing	22	40	20	-	-	-
Transport	15	10	9	-	-	-
<i>Other Grants/National Partnerships</i>						
Housing	29	127	11	16	15	15
Roads	38	52	52	50	51	50
Other	737	474	675	546	651	605
Total Current Grants and Subsidies	8,089	7,838	8,230	7,976	8,156	8,449
CAPITAL GRANTS						
<i>Grants Through the State</i>						
Schools assistance – non-government schools	18	-	-	-	-	-
<i>Nation Building and Jobs Plan</i>						
Schools	-	628	629	431	41	-
Housing	4	387	368	155	20	-
Transport	10	5	7	-	-	-
<i>Other Grants/National Partnerships</i>						
Housing	40	87	188	85	101	135
Roads	229	198	198	209	253	307
Other	111	255	230	200	267	322
Total Capital Grants	411	1,560	1,620	1,080	683	763

Note: Columns may not add due to rounding.

2.2 The timing of payments of these Commonwealth grants to the State;

Table 2.1 in the Mid-year Review also has details on the timing of Commonwealth grants by year.

GST Revenue Grants and National Specific Purpose Payment Agreement Grants are paid in equal monthly instalments.

North West Shelf Grants are also paid in monthly instalments, but the amount varies depending on, inter alia, the value of petroleum production.

Payment schedules for other grants are determined on a case by case basis and are usually based on the achievement of project milestones or delivery of agreed outputs/outcomes.

2.3 The financial requirements of the State to match, either all or a portion of, each of these Commonwealth grants;

Referring to Table 2.1 in the Mid-year Review:

- General Purpose Grants, Grants Through the State and National Specific Purpose Payment Agreement Grants have no matching requirements.
- Commonwealth grants that may implicitly or explicitly require State co-contributions fall under the headings "Other Grants/National Partnerships". Details of State co-contributions would need to be sought from agencies.

A feature of the new Intergovernmental Agreement on Federal Financial Relations is that National Partnership grants should not require States to provide specific matching contributions. However, States may need to meet agreed project milestones or output/outcome targets to receive Commonwealth funding, which often also requires State funding. In addition, Commonwealth contributions are sometimes based on a percentage of indicative total project costs. The Commonwealth is meeting the full project costs of the Nation Building and Jobs Plan.

2.4 The timing of the required matching payments by the State; and

The timing of State co-contributions would be determined on a case by case basis.

2.5 The timing for commencement and completion of any projects receiving Commonwealth funding.

Details of the timing for expenditure on State projects are available for each agency in the State Budget Statements, under the Asset Investment Program sections. For example, details for Education and Training are found in 2009-10 Budget Paper 2, Volume 2 on pages 354 – 357.

These tables are not updated for the Mid-year Review. The tables show the source of funding for the aggregate investment program of each agency. In a few cases (i.e. Building the Education Revolution, Investment in Social Housing and the Northbridge Link project) the 'capital appropriation' funding source includes Commonwealth as well as State funding – this occurs where Commonwealth grants are brought into the Consolidated Account and then appropriated to agencies.

The source of funding for individual projects is not available from DTF's systems. This information would need to be sought from relevant agencies.

Question No. 3: Hon K Travers asked:

Expense growth

3.1 Are salaries and related expenses for teachers factored into the 2009-10 Government Mid-Year Financial Projections Statement, based on a detailed, researched understanding of the actual numbers of staff at each salary scale point, together with a full allowance for the upward progression through these points across the forward estimates?

The Department of Education maintains comprehensive and up-to-date information for all staff employed by the Department. This includes the classification level and salary scale point status for each employee. Salaries and related expenses factored into the 2009-10 Mid-year Review are based on analysis of this information by the Department of Education.

Progression through different salary scale points available within a classification level is managed in accordance with the requirements of relevant legislation and policies, as applicable:

- School Education Act 1999;
- School Education Regulations 2000;
- Teachers (Public Sector Primary and Secondary Education) Award 1993;
- School Education Act Employees' (Teachers and Administrators) General Agreement 2008; and
- Other relevant awards & agreements and applicable Department of Education Policies, Guidelines and Procedures.

Question No. 4: Hon K Travers asked:

Major Projects

4.1 Have all the Government's capital projects been included in the 2009-10 Government Mid-Year Financial Projections Statement?

All capital works projects that have been approved by Cabinet, up to the cut-off date of 30 November 2009, have been included in the 2009-10 Mid-year Review.

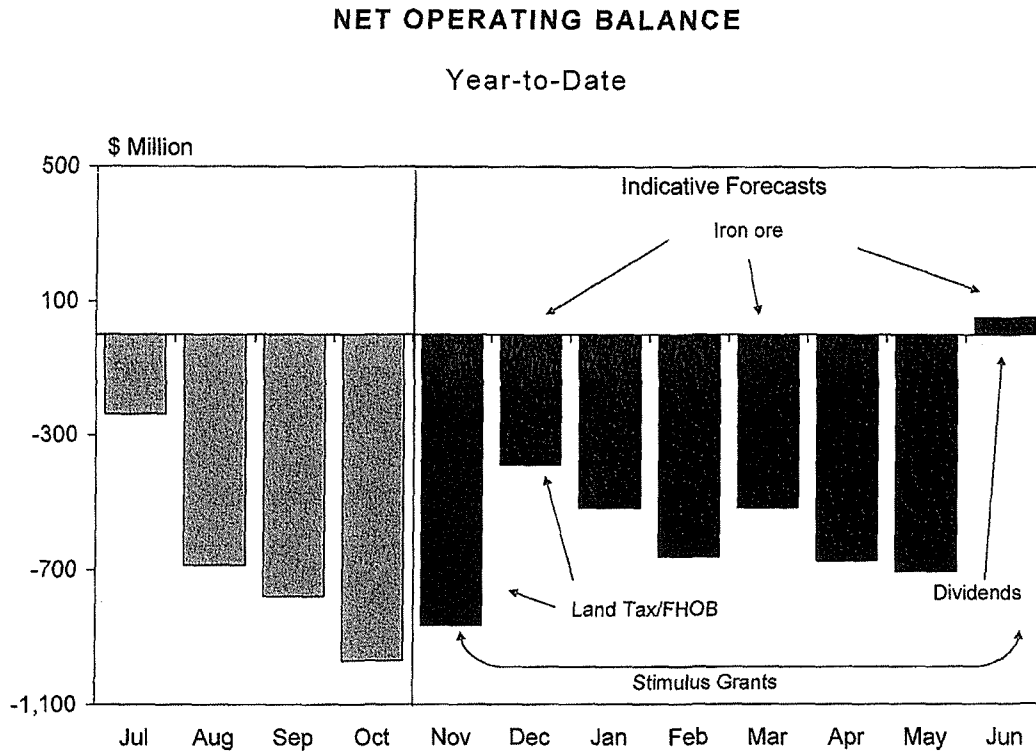
The Mid-year Review includes planning and development expenditure associated with the New Children's Hospital project. This includes a provision for site selection and master planning of the new hospital at Queen Elizabeth II Medical Centre. This will enable a Business Case to be presented to Government on the capital and recurrent cost impacts and procurement strategy for the project.

Question No. 5: Hon K Travers asked:

Page 18 Graph

5.1 Can you provide an explanation, and the data, behind the graph on page 18 of the 2009-10 Government Mid-Year Financial Projections Statement?

The following chart provided a forecast scenario for accumulating monthly general government operating balance outcomes for 2009-10.



The purpose of the chart is to illustrate how accumulating monthly deficit outcomes recorded early in the year are still consistent with the \$51 million projected surplus for 2009-10.

Results for July through to November 2009 (inclusive) are available from the Department of Treasury and Finance website (<http://www.dtf.wa.gov.au/cms/content.aspx?id=518>).

December to June 2010 monthly forecasts in the chart are based on:

- the anticipated timing of land tax assessments being issued at the time of preparing the mid-year review;
- the expected timing of Commonwealth funding for its First Home Owner Boost scheme (reimbursing the State for Commonwealth stimulus spending);
- pro rata Commonwealth funding for other stimulus grants anticipated in 2009-10 and not yet received (with an expectation that this would accelerate in late 2009-10 as programs draw to a close prior to 30 June 2010);
- the timing of dividends from public corporations (usually announced and recorded in June each year);
- pro rata recognition of all other revenue anticipated in the full-year forecast for 2009-10; and
- pro rata recognition of expenses anticipated for the remainder of 2009-10.

The following table summarises these assumptions and the data behind the chart. These forecasts are for illustrative purposes only and can be expected to vary as month to month results are recorded. However, it is noteworthy that the \$870 million year-to-date deficit recorded for November 2009 (released on 29 January 2010) was just \$5 million different from the November 2009 forecast reflected in the chart above.

NET OPERATING BALANCE

Year-to-Date

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Assumed monthly flows												
					31	27						
Land tax/MRIT					0	9	5	5	5	5	5	5
First Home Owners Boost revenue					66	22	12	12	-	-	-	-
Other Commonwealth stimulus payments to the State					4	10	10	10	10	10	21	212
					4	4	4	4	4	4	2	
Outstanding dividends					-	-	-	-	-	-	-	502
						35			31			
Iron ore collections					5	0	30	15	5	15	30	318
					-	-	-	-	-	-	-	
All other revenue/expense					28	28	28	28	28	28	28	-280
					0	0	0	0	0	0	0	
					-	-	-	-	-	-	-	
Total monthly impact					10	47	12	14	14	15		
					5	5	9	4	4	6	-32	758
Accumulated year-to-date impact					10	58	45	30	45	29	26	1,02
					5	0	1	7	1	5	3	1
Projected operating balance	-	-	-	-	-	-	-	-	-	-	-	-
	23	68	77	97	86	39	51	66	51	67	70	
	7	7	8	0	5	0	9	3	9	5	7	51

Note: Columns/rows may not add due to rounding.

Question No. 6: Hon K Travers asked:

Efficiency measures/EAC savings

6.1 What procurement savings were made in 2009-10 through Stage I of the Economic Audit?

The following procurement savings were implemented as part of the Economic Audit (EA) Stage One corrective measures:

	2009-10 \$M	2010-11 \$M	2011-12 \$M	2012-13 \$M	Total \$M
Procurement Savings	59.8	59.8	59.8	59.8	239.2

6.2 Have these savings been banked? If no, where have these 'savings' been spent, and where will they be spent in the future?

Yes, agencies' budgets have been reduced by a total of \$59.8 million per annum from 2009-10.

6.3 How can the Department of Treasury and Finance justify this as a savings measure when the \$240 million will simply be re-allocated to individual agencies?

The Department of Treasury and Finance incorporated the savings measure at a global level until such time that agencies' budgets could be adjusted. In this context, agencies' budgets were adjusted as part of the 2009-10 Mid-year Review, and the associated global adjustment was removed at the same time.

6.4 How will these procurement savings assist the net operating balance if they are spent elsewhere?

Agencies' overall expenditure has been reduced by a total of \$59.8 million per annum from 2009-10, which has a positive impact on the Government's net operating balance.

6.5 What other savings from the corrective measures are to be re-allocated to individual agencies?

In addition to the procurement savings, Government endorsed the following global corrective measures:

- State Fleet expenditure reduction;
- grants expenditure reduction; and
- increased land sale revenues.

Apart from land sales (which is still subject to a due diligence process around the individual parcels of land identified as potentially surplus), all of these global savings measures have been reflected in individual agency budgets.

6.6 Can it be assumed that the remainder of the corrective measures will not be re-allocated?

Apart from land sales, all global savings measures have been implemented at the agency level.

6.7 Land sales of \$250 million are budgeted over the forward estimates. Who will these land parcels be sold to?

The identified surplus land parcels, subject to due diligence reviews, will be disposed of in accordance with the Strategic Asset Management Framework (SAMF) Asset Disposal Policy.

This policy requires agencies without express powers to dispose of real property, to submit all surplus real property to the Clearing House administered by the Department of Regional Development and Lands (DRDL). The property is then included by DRDL on a property disposal list that is accessible by all government agencies for purposes of facilitating interested agencies lodging an expression of interest to acquire the surplus property. Where the Clearing House process supports an expression of interest from another government agency, the property is offered to the requesting agency at full market value, which is based on the Valuer General's Office valuation.

For real property not disposed of to another government agency through the Clearing House process, the Clearing House requests LandCorp to manage the disposal process to the open market.

6.8 Will this create a policy inconsistency through allowing the private sector to control the release of \$240 million of land?

The disposal of the surplus real property will be undertaken in accordance with the SAMF policy framework which has been in place since October 2005. A significant portion of this land will be released by Landcorp, and it is not expected to create any market distortions.

6.9 How has the risk of a housing shortage, and costs associated with a property bubble, been factored into the 2009-10 Government Mid-Year Financial Projections Statement?

The Mid-Year Review forecast a contraction in dwelling investment of 4.75% in 2009-10 and growth of 7.25% in 2010-11, as well as growth in residential property prices of 2.2% in 2009-10.

These estimates were used to help forecast transfer duty revenue, which is based on a number of factors, including the DTF's expectations about property prices and the number of property transactions. The property price forecasts are informed by an economic model of the housing market, which contains explicit links between key economic variables, including household income, employment, interest rates and the stock of housing. To the extent that estimated demand exceeds supply (i.e. a "housing shortage"), the model will predict an increase in prices and vice-versa.

The DTF's expectations are also informed by consultation with relevant industry bodies, including the Housing Industry Forecasting Group, as part of the forecasting process. The risk associated with these revenue estimates was highlighted in the Mid-Year Review. For instance it shows in Table 8 on page 30 that each one percentage point increase in average property prices will increase transfer duty revenue by approximately \$18 million per annum (and vice-versa).

Question No. 7: Hon K Travers asked:

Privatisation

7.1 Is the privatisation of Government services part of the financial strategy to achieve the estimates contained in the 2009-10 Government Mid-Year Financial Projections Statement?

No. There are no proceeds of privatisation of government services included in the estimates.

Question No. 8: Hon K Travers asked:

Construction of Mandurah Rail Line

8.1 Has the \$52 million claim by Leighton Holdings for the construction of the Mandurah rail line been paid?

The Public Transport Authority (PTA) made a final payment to Leighton of \$40.1 million in 2008-09.

8.2 If yes where does it show in the State finances?

The final payment was financed through an increase in the PTA's borrowing limit.

8.3 Was additional funding provided to the PTA for this payment?

The final payment was financed through an increase in the PTA's borrowing limit.

8.4 If it has not been paid where is it included in the States finances as a liability?

N/A

Question No. 9: Hon K Travers asked:

9. Has the WA Police requested any additional money to purchase the new Helicopter?

The WA Police received a capital contribution of \$24 million as part of the 2009-10 Budget to purchase a new Helicopter. Since this allocation, the DTF has not received any correspondence from the WA Police requesting additional funding for the new helicopter.

Question No. 10: Hon K Travers asked:

10. On Page 7 footnote (b) for "Revenue All other" it indicates that this includes the new fishing license fees and cost recovery for the mining industry. Could you please provide a breakdown of all revenue measures included in this item and the amount of additional revenue we expect to receive in each year of the budget and forward estimates?

Table 4 on page 7 of the 2009-10 Mid-year review outlines changes to the outlook for the general government operating balance since the time of the 2009-10 Budget.

The item 'All other' refers to revenue changes resulting from policy decisions made since the 16 April 2009 cut-off date for the 2009-10 Budget. These are summarised by item in the following table.

**SUMMARY OF GENERAL GOVERNMENT REVENUE AND EXPENSE
VARIATIONS SINCE THE 2009-10 BUDGET**

All Other ^(a) Policy Revenue Changes

Decision	Agency	2009- 10 \$m	2010- 11 \$m	2011- 12 \$m	2012- 13 \$m	Total \$m
Best practice safety regulation for the WA Resources Industry	Mines and Petroleum	7.8	23.4	30.9	33.0	95.2
Licence fees for recreational fishing compliance and education	Fisheries	1.9	1.9	1.9	1.9	7.6
Berlin Philharmonic Orchestra - projected ticket sales and sponsorship revenue	Culture and the Arts	-	0.7	-	-	0.7
Athletics and Basketball Stadiums - projected court line and kiosk sales	Sports Centre Trust	0.8	0.7	0.8	0.8	3.1
TOTAL 'ALL OTHER' POLICY REVENUE		10.5	26.7	33.6	35.7	106.6

(a) Includes the introduction of a cost recovery regime for the mining industry and expansion of recreational fishing licence fees.

Note: Columns/rows may not add due to rounding.