STANDING COMMITTEE ON
ESTIMATES AND FINANCIAL OPERATIONS

MISCELLANEOUS PROCEEDING

TRANSCRIPT OF EVIDENCE
TAKEN AT PERTH
13 JANUARY 2010

Members

Hon Giz Watson (Chair)
Hon Philip Gardiner (Deputy Chair)
Hon Liz Behjat
Hon Ken Travers
Hon Ljiljanna Ravlich

Hearing commenced at 11.05 am

MORTON, HON HELEN
Parliamentary Secretary to the Treasurer,
sworn and examined:

MARNEY, MR TIMONTHY
Under Treasurer,
sworn and examined:

The DEPUTY CHAIR: On behalf of the committee I welcome you to this meeting. I will begin by asking you to take either the oath or the affirmation, and I ask you to indicate to the committee's clerk if you prefer to take the oath.

[Witnesses took the oath or affirmation.]

The DEPUTY CHAIR: You will have signed the document titled "Information for Witnesses". Have you read and understood this document?

Mr Marney: I have.

The DEPUTY CHAIR: These proceedings are being reported by Hansard. A transcript of your evidence will be provided to you. To assist the committee and Hansard please quote the full title of any document you refer to during the course of this hearing for the record and please be aware of the microphones and try to talk into them and ensure that you do not cover them or make noise near them. I remind you that your transcript will become a matter for the public record. If for some reason you wish to make a confidential statement during today's proceedings, you should request that the evidence be taken in closed session. If the committee grants your request, any public and media in attendance will be excluded from the hearing. Please note that until such time as the transcript of your public evidence is finalised it should not be made public. This prohibition, however, does not prevent you from discussing your public evidence generally once you leave this hearing. Would you like to make an opening statement to the committee?

Mr Marney: No, thank you.

Hon LJILJANNA RAVLICH: Thank you, Chair. I want to refer to the foreword of the *2009-10 Government Mid-year Financial Projections Statement*. The second paragraph states that the midyear review does not include the impact of any decisions that have been taken or other issues arising after the cut-off date. I ask whether any decisions have been made since that cut-off date; and, if there have been, what are they?

Mr Marney: I do not have a reconciliation of decisions taken post cut-off. My understanding was that this hearing was with regard to the midyear review and its contents; therefore, I did not prepare a list of what has happened since then. There have been a number of announcements by government since then. The most notable is probably the Perth waterfront development. That would be the single most prominent decision that stands out. Again, I have not prepared a comprehensive list of that, and that would normally be subject to government process in terms of its desired announcement of such decisions.

Hon LJILJANNA RAVLICH: In terms of the waterfront development—I image Subiaco Oval might be in that; there may be a number of other things, but I am not sure—I ask whether we can get that information and take that on notice.

The DEPUTY CHAIR: I think that is consistent with the midyear review in your context.

Hon HELEN MORTON: Can I just make a comment here?

The DEPUTY CHAIR: Yes.

Hon HELEN MORTON: I understood that this hearing is about the *Mid-year Financial Projections Statement*. The questions that you are asking now are questions that are outside of that, and I do not know that it is appropriate for this particular hearing for those questions that are outside of the *Mid-year Financial Projections Statement* to be brought up. However, if the member would like some outline of decisions that have been made since then that have a financial impact on the state's budget, I will go back to the Treasurer and seek that information on notice. However, I do not think that it is appropriate at this stage for this hearing to include decisions that have been made outside of the *Government Mid-year Financial Projections Statement*.

Hon LJILJANNA RAVLICH: Can I make a comment in response to that? I think it is fair to say, about what we could expect in terms of the additional decisions that have been made, that most of them have already been canvassed in the public arena and have been the subject of considerable community debate. Certainly, if we take the case of the waterfront development, there is no doubt that the government has gone out and made comments in respect of that matter, and I think that the community has a right to know why this has not been budgeted for and, indeed, why a number of other major projects have not been budgeted for. In view of that, I think that it is fair for the Under Treasurer to be asked to provide a list of those decisions that have been taken since the cut-off date and provide that information to the committee.

Hon HELEN MORTON: Can I ask if the member is aware of the reference in this document to the waterfront development?

Hon LJILJANNA RAVLICH: Yes, I am, but, honourable member, with all due respect, what I am asking for is a comprehensive list of all the decisions that have been made post the cut-off date for the midyear financial review.

Hon HELEN MORTON: Once again, I mention that I am happy to take that question on notice back to the Treasurer.

The DEPUTY CHAIR: We will take that on notice then. My personal view, and probably ruling, would be that this *Mid-year Financial Projections Statement* also deals with how we are going to end up at the end of June 2010, and the numbers in it reflect certain assumptions and certain projections relating to that; therefore, I believe that is a relevant question that we should be getting information on.

[*Supplementary Information No A1.*]

Mr Marney: Mr Deputy Chair, if I could make one comment? The Government Financial Responsibility Act 2000 is very clear about the structure of reporting for the state's finances to ensure that there is a comprehensive and regular reporting of the financial position of the state. The midyear review is but one reporting point; the budget is the other key reporting point. It would be normal to report any decisions over that six-month period as part of the budget papers and to disclose them appropriately, along with other changes that have occurred in the state's financial settings. It is fair to say that on any given day there are changes in those settings. To merely report the decision side of the equation without reporting changes in parameters and their implications gives a distorted picture of the state's finances. That is why we have discrete reporting points at midyear review and at budget time so that Parliament and the community get a holistic picture of the state's finances. To run a running tally or score sheet of the finances on any given day, quite frankly, is not going to help anyone in terms of informing public debate.

The DEPUTY CHAIR: Okay. You are still relaxed though, are you not, Under Treasurer, that the only thing we should point out is the materiality of decisions to date which will impact on the end-point projections?

Mr Marney: If we take the waterfront as an example, the updated decision list would show there has been a decision taken. I do not know what the financial implication of that is yet. As the document highlights, a planning process is under way which will clarify that. Do not be disappointed when that list comes back and it does not tell you much

The DEPUTY CHAIR: I have no problem with that.

Hon KEN TRAVERS: Maybe we need to go to a continuous disclosure regime! The question I have, though, is: are you confident that all material decisions were disclosed to you before the cut-off date?

Mr Marney: Before 30 November? Yes, all decisions taken by government that were material in nature were conveyed to me, as far as I am aware.

Hon KEN TRAVERS: In that case, I note that there is nothing in the report about a redevelopment or a new oval at Subiaco and yet there has been a decision taken by the government, and I understand that the Premier is on the record as indicating the government has given a commitment as part of the FIFA World Cup bid that if we are successful, a new stadium will be built at Subiaco. I can understand you may not have the fine details of the exact costings of that, but I would have thought that that should have been included as a risk within the midyear review, and I would like to know why it was not.

Mr Marney: From memory, that was post cut-off.

Hon KEN TRAVERS: No, it was pre cut-off.

Mr Marney: I am happy to be corrected.

Hon KEN TRAVERS: The decision to give the formal commitment as part of the bid was prior to the cut-off date. It may have been announced publicly after it, but the decision was given prior to the cut-off date.

Mr Marney: My recollection, albeit vague, is that that matter was discussed at COAG in the first week of December.

Hon KEN TRAVERS: Yes, but we had already given the formal commitment, as a state, prior to that COAG meeting that there would be a new FIFA-compliant stadium built.

Mr Marney: As at 30 November there was no such decision to rebuild a stadium communicated to me.

Hon LJILJANNA RAVLICH: I would like to ask the Under Treasurer whether there has been a deliberate decision not to include these major decisions in the midyear review because to have done so would have resulted in the budget being in the red. I wonder whether you can comment in respect to that.

[11.15 am]

Hon HELEN MORTON: Mr Deputy Chairman, I think that question is totally out of order. To even be asking a question about whether such decisions have not been communicated, or deliberately not communicated is—you have got to ask questions, honourable member, that are factual in nature to this document.

The DEPUTY CHAIR: I think that is fair enough. I think we have got to the materiality of the decision so far.

Mr Marney: Just to take away any speculation on that issue whatsoever, those decisions are capital in nature; they are not recurrent expenditure and therefore they have no bearing on surplus deficit issues. Whether or not the question is appropriate, it is also completely irrelevant in that it misses the point of what is operating expenditure, what is capital expenditure and the construct of the net operating balance.

Hon LJILJANNA RAVLICH: If that is the case, can I ask you why those decisions were not taken in a timely way so as to be included in this budget, because some of these issues have been around for quite some time?

Hon HELEN MORTON: Once again, the member is asking the Under Treasurer why cabinet has not made decisions about this, that or the other in a timely manner. It is just inappropriate questioning, member. Can you get back to something factual that may be useful?

Hon LJILJANNA RAVLICH: With all due respect, your response would indicate that the Under Treasurer has no involvement with the relevant responsible ministers or the Treasurer in respect to the way that he performs his role. I am asking him what he knows in respect of these matters.

The DEPUTY CHAIR: Can I interrupt you? I think, Hon Ljiljanna Ravlich, that there is an issue of where the political decision is made, as opposed to where the public service or operating executive decision is made. I think that we are moving too far into where the political decision is made and I do not think that is a fair question to ask the Under Treasurer. Can we move forward?

Hon KEN TRAVERS: Were you notified, prior to the cut-off date, about the WA state government's support for CHOGM to be held in Western Australia; and, again, if you were notified before the cut-off date, why is that not factored in as a risk in terms of future expenditure? Again, I know that you might not be able to quantify it, but I would have thought that, both in operational and capital terms, hosting CHOGM would have a cost implication for the state. Were you notified by the Treasurer prior to the cut-off date that the state had taken the decision to support CHOGM being held in Perth in 2011?

Mr Marney: To my recollection, I was not notified of any decision along those lines. Again, I think that was a matter that was discussion discussed at COAG in early December.

Hon KEN TRAVERS: The Premier's press release went out on 30 November and my understanding is that all decisions up to the close of business on 30 November were required to be notified to you.

Mr Marney: Press releases are not necessarily decisions.

Hon KEN TRAVERS: Well, the Premier was out there saying that we were having them. Maybe that is our problem, Under Treasurer; the Premier makes announcements without having them formally signed off as government decisions. That could explain it.

Mr Marney: Can I clarify the response? A decision communicated to me is communicated in the form of a record of cabinet's decision. That is what I run off. Up to 30 November—close of business—all cabinet decisions communicated to me were included in the midyear review. A press release by a minister, whether it be the first minister or any other minister, does not stand alone as a matter for inclusion. Having said that, if it is a matter that poses likely implications for the state's finances, it will be included in the statement of risks.

The DEPUTY CHAIR: Thank you. That clarifies, I think, this issue of notification.

Hon KEN TRAVERS: I have just one other one in that regard—Members Equity Stadium. Again, my understanding—it may be that it is only the minister and not the government who has made this decision—is that a commitment has been given that they will have a final plan developed within 12 months of when the announcement was made last year and that construction is due within three years, and I find no mention of that project within the midyear review. Has that not been communicated to Treasury?

Mr Marney: As at this point, there is no decision; it is a planning process that it is underway. Until such time as a decision is taken, it will not be included in the statements, unless it is of material risk to the statements.

Hon KEN TRAVERS: I think that there is a risk because the operators of Members Equity Stadium have hired their upgraded equipment for three years on the understanding that the commitment they have been given by the government is that there will be a redevelopment of the stadium within three years. In fact, they probably would have purchased the new grandstands rather than upgraded them if it was not going to happen within the three years. I would have thought that that also, depending on the nature of the commitments that were given, could potentially lead to a liability for the state in the long run if we do not meet that obligation.

Mr Marney: I have no comment to make.

Hon KEN TRAVERS: It is interesting about the way in which decisions are communicated.

The DEPUTY CHAIR: It is likely that that is a commercial decision—it could be that that is a commercial decision by the company. I accept the Under Treasurer's statement on this. Other questions?

Hon LJILJANNA RAVLICH: I want to go to page 1, chapter 1, which deals with the question of financial projections. The third paragraph states that the general government revenue has been revised up by $184 million in 2009-10. Can you just advise who made that decision to revise it upwards and whether in fact you made the recommendation to the Treasurer or whether the Treasurer instructed you to find those revenues?

Mr Marney: As a point of clarification, the revenue projections are done independently of instruction of the Treasurer. They are done to the best of the ability of my officers in the Department of Treasury and Finance. They are not influenced by the desires of the government of the day, whether it be the current government or the previous government. I think persons of all political persuasion respect that process. The general government revenue was revised up on the basis of our projections of revenue at the time. As the second sentence of that statement clarifies, a lot of that was through high commonwealth grants, which actually comes through our accounts as revenue. So that was the key driver behind that increase in revenue projection.

Hon LJILJANNA RAVLICH: Can I just take you to the corrective measures on the following page, and I just want to explore a couple of these? First of all there is the seniors cost-of-living rebate and there is a reference to a timing change. There is a reduction of $26 million in 2009-10, but there is actually no reference to it being shifted anywhere else in the forward estimates. Can you just give us an overview of what has happened to that program, because it seems as though that has been totally abandoned?

Mr Marney: I think the pure factual underpinning there is that that payment has been deferred by, I think, around six weeks, relative to the timing of the payment in 2009. My understanding is that we will see that payment occurring in July 2010, which therefore sees it sit within the 2010-11 financial year. There are already allocations across each of the forward estimate years for those payments to occur once per financial year.

Hon KEN TRAVERS: But that is really bringing forward the 2010-11 expenditure for seniors payments. The 2009-10 payment has effectively disappeared, has it not? The 2009-10 payment will never be reinstated. Seniors will get a payment in 2010-11, as they were always going to get, and from then onwards. They got one in 2008-09. They are never going to get their 2009-10 payment.

Mr Marney: My understanding is that the government's commitment was to make an annual payment to seniors. It made a payment in 2009, it will make another payment in 2010, another one in 2011 and so on. Each year, seniors will receive a payment.

Hon LJILJANNA RAVLICH: That just does not make sense to me. It was deferred and it was taken from 2009-10, the end of that period, and moved into the following year. Are you saying that they have already received one for 2009-10?

Mr Marney: In calendar 2010, seniors will receive a payment.

Hon KEN TRAVERS: That was the 2008-09 one they took off them.

Hon LJILJANNA RAVLICH: You took off the 2008-09, effectively.

The DEPUTY CHAIR: May I ask a question while we are thinking? Under Treasurer, I refer to the first dot point at the bottom of page 1 concerning revenue from mining royalties. This is an issue, which as you know, we have discussed on previous occasions here. It is such a big component of our revenue. As you say, there are three main areas we derive our revenue from, and mining royalties is one of those three, of which the exchange rate has a significant part to do with what that value is. I respect the work that you have done on the exchange rate and the new way that you have devised for forecasting what the future exchange rate would be going to the forward estimates. The concern that I have is that even though there is a new forward way of planning it, there are still periods based on, how did you call it, long-range —

Mr Marney: Long-range average forecasts.

The DEPUTY CHAIR: There are still significant variations between the line of the long-range average forecast and the actual exchange rate based on historical data. Because of its significance, have you considered the possibility of taking more direct action under particular circumstances for budget planning and budget execution by forward-covering the exchange rate when we have a significant risk, and at times when the budget projections are extremely tight?

Mr Marney: I think we actually covered this question the last time I was here.

The DEPUTY CHAIR: We did not have the report then. I looked at the report about the way you analysed it.

Mr Marney: It continues to be something that we investigate. Forward hedging of exchange rate cover is a pretty complex business and it is expensive because you would need to cover a vast range of possible scenarios, both positive and negative, in terms of exchange rate movement. The exchange rate has been relatively stable for the last four months at around 90c to 93c. I think that any risk for us on the exchange rate—or probably 80 per cent of the risk on the exchange rate—would be in our favour at that point.

[11.30 am]

Forward hedging at this point is probably counterproductive. It is not something that we have ruled out but, again, anything in this basic exchange rate forecasting is quite problematic. Various high-level econometric analyses have shown time after time that your chances are just as good flipping a coin as using any sort of hedging and forecasting modelling. In that context, it is not an area that we are currently investigating actively, but certainly an area that we are mindful of in terms of risk to the state’s finances.

The DEPUTY CHAIR: I wonder if I could pose an alternative. What you say, under certain circumstances, is absolutely clear, but there are certain times, because of significance for our revenue, that alternative strategies have been proven to work. Recognising of course that there is always a 50-50 chance of which way it is going to go at any point in time in terms of straight probabilities, in extreme circumstances there are occasions when not a total cover but a part cover to cover a risk becomes relevant. Can I ask whether you would consider talking to some practitioners, if you or your colleagues have not done so already, to deepen the understanding, if you have not already got it, of where such action may be appropriate and relevant? It is certainly not appropriate all the time—it is only on particular occasions, and we can all see with hindsight that last April was one of those times. It was an extreme time, and that is when cool heads can make a difference.

Mr Marney: I think you are right. Taking the right action at the right point in time can be extremely valuable. Unfortunately, knowing when the right time is, and the right action, is the problematic element. We have substantial quantitative analysis skills in the Western Australian Treasury Corporation that look at exchange rate hedging, particularly on discrete transactions of the government, and we certainly have the capacity in-house to examine those hedging strategies at a broader level, and we have done so, as I think I indicated last time, over the past decade or so, in terms of looking at what is the best way to manage this budget risk. We will continue to actively look at that through the Treasury Corporation business. Having said that, the forecasting methodology that we have implemented is designed to ensure that the financial management reflects and manages the risk. Essentially, our financial strategy is geared as the primary hedging arrangement; that is, we do not budget in the forward estimate years any more on the basis on the basis of an exchange rate that is artificially high or low, relative to the long-run average. I think, in terms of exposing the state to risk, that is the most prudent financial management arrangement to address that risk exposure to the exchange rate.

Hon KEN TRAVERS: In terms of the longer run I completely agree with you, because hedging is changing your expenditure in the long term as well. In the short term, though, is there an issue that you then need to take a more conservative view, particularly if one of your key financial strategies is to maintain a surplus at all times. On a short-term basis, for the rest of this financial year, should we not then be taking the more conservative approach to ensure that we do maintain a surplus, as opposed to trying to predict, in the way in which the new predictions are being done, which could then lead us to being in deficit at the end of the year very easily? My other question to you is: if we had applied the same methodology that we had at the time of the budget to this midyear financial review, would it have still been shown to be in surplus? Use the previous six weeks.

Mr Marney: It has not materially affected the budget year as such. The only difference really is the impact on the out years.

Hon KEN TRAVERS: Was not the average for the six weeks prior about 92, and we are predicting 90 now in the midyear review?

Mr Marney: I cannot remember the two parameters for the year itself offhand, but we are looking at a sliding scale from the end of November through to the end of June, so it is probably not that material in terms of overall budgetary impact for the budget year itself, because it is only a half-year impact. We can certainly get back to you on that half-year impact.

The DEPUTY CHAIR: How much per cent you say it will move is in the papers somewhere.

Mr Marney: Yes, but that is a slightly different question. The question is: if you render your methodology on —

Hon KEN TRAVERS: Using the six-week average, what would have been the outcome in the midyear review regarding a surplus or deficit that would occur at the end of the financial year, particularly when you then have outside commentators saying that they expect the Australian dollar to remain high and particularly if interest rates continue to be increased by the Reserve Bank over the six-month period?

Mr Marney: The dollar will remain higher so long as it is high.

Hon KEN TRAVERS: That is why I think that in the short term you need to use a very conservative approach.

[*Supplementary Information No A2.*]

Hon LJILJANNA RAVLICH: Is it possible to maintain a surplus while you have a net-debt-to-revenue ratio in percentage terms of 63.1 per cent, which is what is forecast in 2012-13?

Mr Marney: Is it possible to maintain a surplus?

Hon LJILJANNA RAVLICH: Yes.

Mr Marney: The surplus parameter impacts upon the net-debt-to-revenue ratio.

Hon LJILJANNA RAVLICH: In what way?

Mr Marney: If your surplus is lower, then your debt for a given pool of revenue increases and therefore the ratio changes.

Hon LJILJANNA RAVLICH: What I am really getting to is that, if you have a look at the net-debt-to-revenue ratio shown on page 4, we had a net-debt-to-revenue ratio of 27.6 per cent in 2008-09. It then it went to 46.3 per cent in 2009-10 and 45.4 in 2009-10—sorry, that is the actual revision—but in 2012-13 it actually climbs to 63.1 per cent. I would think that this puts the state at some considerable risk in terms of its capacity to deliver a surplus budget, and indeed to maintain a AAA credit rating. I wonder whether you can provide some feedback in respect of that comment.

Mr Marney: I can address the factual matters associated with that, which is that a net-debt-to-revenue ratio of 63.1 per cent in 2012-13 is consistent with a net operating surplus of $196 million. So, yes, you can have a surplus and a 63.1 per cent ratio. My recollection is that the key ratio of interest to the Standard and Poor's credit rating agency is in the following line, which is the net financial liabilities to revenue, which is a broader measure of the state's liability, which is at 86 per cent in 2012-13. Standard and Poor's has previously indicated that if we were to hit around 90 per cent it would start to get quite concerned.

The DEPUTY CHAIR: While you are on this, for my benefit at least, can you explain what the difference is between net debt and net financial liabilities, as defined by Standard and Poor's?

Mr Marney: Net debt is a narrower definition of liabilities on the state. The broadest measure of all the commitments the state has in a financial sense is covered by the net financial liability measure.

The DEPUTY CHAIR: What additional financial liabilities are there in that latter number?

Mr Marney: There is probably a reconciliation somewhere in here, but I will provide that to you as supplementary information.

The DEPUTY CHAIR: I would be interested to understand what that number really means, because Standard and Poor's is fixed on the latter, not the former.

Mr Marney: That is because it is a more holistic measure.

[*Supplementary Information No A3.*]

Hon KEN TRAVERS: Can I just take you to page 14, in response to my earlier question? I think that actually provides us with the answer—I just want to make sure I am interpreting this right—that if you maintain the previous way of calculating the exchange rate, then the surplus for this year, instead of being $52 million, would drop to $17 million.

Mr Marney: Yes; $52 million minus $35 million. Again, I will take the opportunity to emphasise that those forecasts and the parameter assumptions are the product of work of officers within the department. It is not something that the government has directed or has even implied that it would be its preference.

Hon KEN TRAVERS: That is why am having this conversation with you. I understand your logic for the long term, in terms of going back to the long-term average exchange rate as a reasonable way of measuring it, but in the short term I would have thought you need to take a more conservative approach, and on this particular occasion we are really skating on thin ice in terms of maintaining a surplus, before we get to any of the other issues that we have discussed this morning.

Mr Marney: The justification is laid out in the discussion paper we released back in October or November. If the alternative approach was taken to hold it at the six-week average for the remainder of the financial year, it gives you quite an anomalous step down in the exchange rate projections into the subsequent year, and that is what we are trying to address by moving to the new methodology. We are really trying to avoid that step-down in the parameter assumption in the first year of the forward estimates.

Hon KEN TRAVERS: But is not the alternative to maintain a surplus next year—if that is the government's goal—where you are going to have a major change in your expenditure side? If it is proved wrong, and you run a deficit this year, then your deficit for next year will be under even greater pressure and so you will have to make those dramatic changes in terms of your expenditure side at the time of the next budget.

Mr Marney: The whole point of the change in forecasting methodology was to try to avoid a situation of overshooting in either trying to rein back expenditures or increase revenue in response to an appreciating exchange rate, or indeed, spending too much in an appreciating environment. What we saw, really since the end of 2007, is extreme volatility in both directions, which brought with it extreme volatility in policy settings of government, based on what both the current and previous governments saw as the expectations for the state’s finances for the forward estimate years. We are trying to address that almost abnormal construct of the forward estimates and bring it back to something that was a bit more likely to represent the eventual reality.

Hon HELEN MORTON: Can I just add that, at the time that discussion paper was put out, the shadow Treasurer was offered a briefing from the Department of Treasury and Finance on this matter? I do not think he took the offer up, if I recollect, and it might be worthwhile, when those opportunities are made available in future, that they are taken up, because that would help to clarify the issues that the member is raising now.

Hon KEN TRAVERS: I am taking it up now. It is still not clarified for me. I understand where you are going, but I disagree with the logic, so you can brief me all you like but I disagree with you taking the approach that you are taking and not a more conservative approach, which puts the state’s finances in jeopardy.

Mr Marney: I would like to think that I have clarified the matter fully.

Hon KEN TRAVERS: I understand you arguments for it, but I disagree with them; that is all.

Mr Marney: I am happy to engage in that debate, and I am happy to throw my head econometrician at you to engage in that debate. I look forward to your equations on paper to prove how your methodology is superior to his.

The DEPUTY CHAIR: I want to see you put your head trader forward.

Mr Marney: We do not have traders.

[11.45 am]

Hon LJILJANNA RAVLICH: I just want to go back to the corrective measures and to the electricity tariff charges because there is something that does not add up for me. This is on page 2. In 2009-10 the electricity tariff charges delivered $153 million to the government in terms of savings. Households were actually hit with a 26 per cent increase for their electricity in order to achieve that saving—is that correct, Under Treasurer?

Mr Marney: My recollection was there were two increases: one in about April of 2009; another in June of 2009 or thereabouts.

Hon LJILJANNA RAVLICH: Okay. My understanding was it was around 26 per cent to achieve $153 million. The minister, when he appeared before this committee earlier in the year, when asked about electricity tariffs for next year actually made the point that for the following year, 2010-11, households can expect a similar increase, which would have been in the order of 25 or 26 per cent, and yet if we have a look at that savings figure in 2010-11 it is actually $262 million to be delivered to the government in savings. That would lead me to think that the tariff increase for households for next year must be considerably higher than the 26 per cent for 2009-10; in fact, it is almost double because $262 million is nearly twice as much as the $153 million from the previous year. Then if you follow that trend through once again, in 2011-12 the government anticipates saving $201 million, so once again it will have to be around 35 or 40 per cent rather than the 26 per cent that households were hit with in 2009-10. So I am just wondering if that is your understanding—the savings were there in black-and-white; that is, will the tariff increases be passed on to households?

Mr Marney: We can provide a full breakdown of the tariff increases that are underpinning that parameter assumption.

Hon LJILJANNA RAVLICH: Can I just ask you: in terms of the argument I put forward, can you see it panning out any other way? I mean, in 2011-12, is the government going to provide some sort of a subsidy to households so that they do not have to incur a 45 per cent electricity tariff increase but rather have it maintained at 26 per cent as they did in 2009-10 to deliver the $153 million saving?

Mr Marney: As I said, I will provide detail on the assumptions underpinning that parameter. I cannot speculate on what government may or may not do in the future years other than to give you a rundown of those parameter assumptions. I think you will find that $153 million in 2009-10 is a part-year effect and there are further increases flowing as signalled by the minister—usually in March/April I think is the horizon—but I will give you the full breakdown of the assumptions.

[*Supplementary Information No A4.*]

Hon LJILJANNA RAVLICH: Can I just get a clarification also? Under Treasurer, can you give me what the commensurate percentage is for the actual money figures?

Mr Marney: In terms of total electricity tariff revenue?

Hon LJILJANNA RAVLICH: Yes, in terms of the total. So if what you are arguing is that 2009-10 may be a partial year, then we assume that 2010-11 is a full year; therefore, if $262 million equals 26 per cent, then we can work out what $201 million is and subsequently what the figures are over the forward estimates.

Mr Marney: I will provide those assumptions to the forward estimates.

The DEPUTY CHAIR: Okay. That is included in supplementary information A4, thank you.

Hon KEN TRAVERS: I just want to stay on page 2. You are booking $152 million in the "Economic Audit Savings (Stage 1)". I am pretty sure that does include the $16.4 million from the Perth parking levy.

Mr Marney: That would be consistent with my understanding. There is an appendix that breaks down corrective measures.

Hon KEN TRAVERS: I guess the problem that I am having rationalising is that at the moment there is nothing in this budget for the expenditure of that $16.4 million but it is restricted cash so it can be spent only on specific purposes.

Mr Marney: Yes.

Hon KEN TRAVERS: So does that $16.4 million get added in terms of when you calculate your operating surplus for this year—as revenue in?

Mr Marney: Yes, it is revenue in. Those funds are traditionally spent as a mixture of operating expense and capital expenditure. The expenditure of those funds is currently under consideration as part of the upcoming budget process; that is my understanding.

Hon KEN TRAVERS: But the $16.4 million is currently being calculated in revenue and increasing the surplus by $16.4 million.

Mr Marney: The decision has been taken to increase the Perth parking levy, which therefore raises the revenue. Decisions as to how that money will be spent are yet to be taken.

Hon KEN TRAVERS: Right. At the moment there is nothing in this midyear review or in the forward estimates for the expenditure of the full $65 million over the four years of the forward estimates?

Mr Marney: At this point a decision has not been taken as to how that money will be spent.

Hon KEN TRAVERS: So that is additional expenditure at some point that will need to be added in to the budget process because there is no current expenditure included in the budget that meets the requirements of the Perth Parking Management Act.

Mr Marney: At this point there is no decision taken as to how that money would be spent and when it would be spent.

Hon KEN TRAVERS: Right. Can you identify for me any expenditure in the current budget that would comply with the Perth Parking Management Act that that money could be used for?

Mr Marney: I could do lots of things.

Hon KEN TRAVERS: Well, try.

Mr Marney: A government has taken a decision to raise an additional $16.4 million; it has not yet taken a decision as to how it will spend that $16.4 million.

Hon HELEN MORTON: Can I just clarify what you are asking? Are you asking if there is any expenditure whatsoever in here that is in some way consistent with —

Hon KEN TRAVERS: Complies.

Hon HELEN MORTON: — or compliant with the requirements of that kind of expenditure?

Hon KEN TRAVERS: The Perth Parking Management Act.

Hon HELEN MORTON: I think that, once again, if you want to pursue that, it needs to be done with the relevant minister's office and if you want me to get that on notice, I am happy to.

Hon KEN TRAVERS: But the point about it here is that in terms of trying to identify whether we actually have a surplus this year or whether we have actually added in revenue for which there is a requirement to spend it on specific purposes but that expenditure is not included in the budget figures—which I think the Under Treasurer has confirmed for us this morning—such things artificially inflate the surplus until such time as that expenditure is booked somewhere in the budget. That is the point I was trying to get to and I think we have proved it.

Hon HELEN MORTON: But my response to that is that it may not necessarily be so, so if you want to know that information—if you want that information provided accurately—it can be taken on notice. It is up to you.

Hon KEN TRAVERS: I am happy to take it, if you can provide an answer to us on that one.

[*Supplementary Information No A5.*]

Hon KEN TRAVERS: I want to follow that same theme and I now want to look at page 7. You list a range of income from commonwealth-funded projects. Under "Commonwealth grants" you have a total of $584 million. Note (c) says that is for the contribution to the Northbridge Link, the Swan hospital and the Fiona Stanley rehabilitation hospital. Are any other projects included in that $584 million or is it just those three projects?

Mr Marney: That is the bulk of it.

Hon KEN TRAVERS: Right. Has any state money been allocated to expenditure on those projects as part of this midyear review?

Mr Marney: I would have to give you a breakdown on that. There would be state money to those projects but the cash flow and timing may not align one-for-one with the commonwealth moneys.

Hon KEN TRAVERS: Could you provide us with that as supplementary information?

Mr Marney: The state funding components of those projects?

Hon KEN TRAVERS: Yes, and the cash flowing. Because one of the things again when I look at it that strikes me is that we are in this year receiving in $37 million in federal money; the only additional expenditure I can find to expend that money is on the Northbridge Link project, which is only $14.3 million; and next year it goes to $99 million coming in from the commonwealth and only $21.6 million going out. I would have thought that that again is artificially inflating the revenue streams and not matching the corresponding expenditure back in.

Mr Marney: If the commonwealth communicates to us that they are going to pay us $37.6 million it is unlikely that I am going to say, "No, I will only have $11 million, thanks."

Hon KEN TRAVERS: No, I understand that but again the —

Mr Marney: So to suggest that the cash flows and timings have been manipulated to achieve a surplus outcome I think is kind of pushing it a little bit.

Hon LJILJANNA RAVLICH: I think a $51 million surplus outcome is a bit tricky!

Hon KEN TRAVERS: I would have thought, again, under "risks" is that it places an obligation on the state to come up with matching funding and that matching funding is not currently included in the state budget. That money does not come without strings attached, so if you take that $37 million it means you are actually going to have to put in another $37 million of state government money. This year you add it into your revenue streams, which makes it look like you are getting a surplus—sorry, it does not; it creates a surplus—for this year but in your forward estimates it then places an obligation on the state that is not mentioned anywhere in the midyear review. So if you go back to the Government Financial Responsibility Act and try to give us a clear picture of the state of the state finances, by accepting that money in, it creates an obligation on the state to pay out at some point in the future, and that obligation is not recorded in this midyear review or the budget documents at this stage.

Mr Marney: Where those obligations are known, they are recorded.

Hon KEN TRAVERS: Well, my understanding is there is an obligation for the Northbridge Link for the state to match that funding by $232 million. Can you tell me how much state money is being allocated to the Northbridge Link project in this midyear review?

Mr Marney: Offhand I cannot, but I have already committed to give you the cash flows for all of those projects, both state and commonwealth. I suspect in the case of the Northbridge Link project, because of the staging of works, the implication for the state in that forward estimates horizon is minimal. The Swan hospital and Fiona Stanley projects are different so the cash flows for those are quite different and more akin to a one-for-one arrangement, but the Northbridge Link project is quite different because it is two separate projects.

[*Supplementary Information No A6.*]

Hon KEN TRAVERS: Has additional money been added in to the budget for the construction of the Swan hospital or the rehabilitation hospital? Is there any additional money?

Mr Marney: I think there is in terms of Swan. I do not think there is in terms of the rehab but I could stand corrected. Based on that further info, my understanding is that rehab facility is predominantly commonwealth money; it is not a matching component, whereas the Swan hospital is a matching arrangement.

Hon KEN TRAVERS: But you also, if you are receiving the commonwealth money in as revenue, need to book it as expenditure on the expenditure side of things when you actually build it because it will become an expenditure for the state at the time of construction, will it not, for the rehab?

Mr Marney: On the asset program but not as operating expense.

Hon KEN TRAVERS: Yes, but at the moment are you booking it in as revenue for purposes of the operating expenses.

Mr Marney: Revenue is revenue, so it comes in as revenue but it goes out as asset investment program.

Hon KEN TRAVERS: So you book it in as revenue and then you will book it out as borrowings?

Mr Marney: No, we will book it out as —

Hon KEN TRAVERS: For the purposes for the asset investment, because you will need to fund your asset investment somehow, will you not?

Mr Marney: You book it in as general revenue, it then gets invested. It does not hit the expense, so when it comes in it hits the net operating balance; when it goes out, it does not. It is part of the asset investment program, which is funded by cash holdings such as the commonwealth moneys that we would be holding for a particular project or by debt.

Hon KEN TRAVERS: Does that not artificially inflate your surplus?

Mr Marney: It means we have moneys coming into general revenue which boost our revenue and therefore the operating balance position, but when those moneys are expended, they do not hit that net operating balance measure.

Hon KEN TRAVERS: No, and you need to use your surplus to fund it or borrowings to fund it.

Mr Marney: Yes, but that has always been the case.

Hon KEN TRAVERS: I understand it has always been the case, but in terms of getting a true picture of whether we are operating a surplus budget or not, these become quite important matters as to —

Hon LJILJANNA RAVLICH: It is a matter of timing really. By the sounds of things you could —

Mr Marney: It is not so much a matter of timing; it is a matter of construct of the state's financial accounts. The state's financial accounts are compiled in accordance with the Australian Accounting Standards Board standards and with government financial statistics requirements of the Australian Bureau of Statistics, so if there are anomalies in that construct, it is way outside of our scope of decision making or manipulation.

[12 noon]

Hon KEN TRAVERS: No, I am not suggesting manipulation; I am trying for us, as members of the committee, to understand the true state of the state finances. The bottom line is that we are booking in as revenue $584 million that, at this stage, does not have corresponding expenditure, although I acknowledge that you are going to come back with a breakdown of what expenditure there is attached to that money in future years.

The DEPUTY CHAIR: Under Treasurer, can I intervene there? In a way, it is an anomaly in the construct, is it not?

Mr Marney: Only by virtue of the fact that the commonwealth has chosen to inject unprecedented levels of funding in short periods of time. It is normal that you would run your day-to-day expenses on the basis of the revenue that comes in, and your surpluses you would use to fund your asset investment programs. They are, kind of, distinct accounting concepts. One is about the flows in and out of your financial statements within a year, and one is a stock of asset. If you were to incorporate the two in the one measure you would end up with a pretty confused measure. However, in your terms of assessment of the state's finances, it is all there.

The DEPUTY CHAIR: I understand.

Mr Marney: It is transparently laid out in accordance with accounting standards.

Hon KEN TRAVERS: I guess I wanted to move on a little bit on the same theme: if we then move to the commonwealth roads projects, where there are again—I do not know if you know what the figure is in terms of money we are receiving from the commonwealth with respect to road projects—a number of projects that are funded by the commonwealth, for which we are receiving money, that the state government has either cancelled or deferred. Again, we are talking about hundreds of millions of dollars here. There are a range of projects under the Perth urban transport and freight corridor and there are a number of other projects under the nation-building program that was signed off between the state and commonwealth governments for the period 2008-09 through to 2013-14—projects where the money has been provided by the commonwealth but the expenditure has actually been deferred or delayed. It was originally in the budget and it is now no longer in the budget.

Mr Marney: That is a matter of detail that would have to be taken up with the Minister for Transport, but the commonwealth is usually pretty good at putting tight conditions on its dollars as well.

Hon KEN TRAVERS: I am not suggesting a manipulation by Treasury officers here, but if a cabinet wanted to create a better position for its surplus, is that not a method where you could, by still receiving the commonwealth money and deferring the expenditure of it, present an artificially enhanced position on your finances?

Mr Marney: No, it is not possible, because those roads would be part of the asset investment program, therefore they would be capitalised, so it does not hit the expense side. Those revenues were already booked back in 2008-09; it has no bearing on the operating surplus whatsoever.

Hon KEN TRAVERS: But would it have a bearing on your borrowings then?

Mr Marney: It would have a bearing on your cash holdings, and therefore on your net financial liabilities and on your net debt position, potentially.

Hon KEN TRAVERS: So in terms of meeting your AAA credit rating in the out years?

Mr Marney: It would have an impact on those parameters, potentially.

Hon LJILJANNA RAVLICH: I refer to page 33, "Expenses", specifically health sector expenses. The second paragraph talks about a money audit for the health sector to "assist in identifying strategies to improve the efficiency and effectiveness of health service delivery". You may not have the information here, but, basically, who is doing the audit and when is it due to be complete? If you want, take that one on notice, because I do not really want to spend a lot of time on that.

Mr Marney: No; that is fine. To my recollection, the audit is being undertaken by KPMG. It has a steering committee sitting over the audit process, which is chaired by the Director General of Health, and it has myself, the Director General of Premier and Cabinet and the Public Sector Commissioner on the steering committee, along with, I think, representatives of the minister's office. The audit process is due to be completed early in February to report into the budget process.

Hon LJILJANNA RAVLICH: Good.

Hon KEN TRAVERS: Have you ever received any interim advice from that audit at all?

Mr Marney: Interim reports were due to the Economic and Expenditure Reform Committee in early December.

Hon KEN TRAVERS: Are you able to tell us whether or not those audits indicated whether expenditure within the health budget can be contained to the budget limits within this financial year or not?

Mr Marney: No, I am not able to, because the reports were reports into the Economic and Expenditure Reform Committee, which is a subcommittee of cabinet; they are therefore cabinet documents and subject to the deliberations of cabinet.

Hon LJILJANNA RAVLICH: The next paragraph refers to the Department of Health's request for a cash injection of $110 million in 2009-10, and we understand from the former Director General of Health that that money was advanced, but it goes on to say that —

> The Department has also indicated a further potential … risk in the vicinity of $250 million for 2009-10.

We did hear from Dr Flett, when he appeared before the committee, that he would need, on average, around the $200 million mark for 2009-10, and possibly the same amount over the forward estimates, to be able to deliver the services in Health. The question I want to ask you is: when did Dr Flett first raise the issue of the additional $200 million with you?

Mr Marney: I cannot remember precisely when that would have been; we meet with Health on a regular basis in terms of their financial management and reform agenda. It was probably starting to emerge in September and probably October was the first time, but, again, I do not recall exactly when that would have been. I think the key issue, regardless of that piece of information, is that neither the Department of Health nor the Minister for Health asked for additional funding in 2009-10 as part of the midyear review process.

Hon LJILJANNA RAVLICH: So he asked for it after the midyear review process?

Mr Marney: No-one's asked for it.

Hon LJILJANNA RAVLICH: No-one's asked you for it?

Hon KEN TRAVERS: Are you confident that the Department of Health will be able to come in on the allocated funds that it currently has in its budget for this financial year?

Mr Marney: I think I have flagged it as a risk to the statements. That is about as much as I am prepared to say.

Hon KEN TRAVERS: You indicate in that, when you talk about the risks, that there is a contingency provision. Is that carried somewhere within this midyear review, that there is a line item for contingencies?

Mr Marney: There is a provision for contingencies, which is consistent practice for us year to year. We budget to allow for expenses that we model in the background as being, kind of, to be expected—fair and reasonable—based on historical patterns. Through the year, the actual may or may not align with and require those contingencies to be drawn down.

Hon KEN TRAVERS: But is that contingency shown anywhere in the midyear review? How does it appear in the financial statements, or the budget?

Mr Marney: It does not appear anywhere as a discrete line item because it is held centrally within the consolidation of the state's financial parameters.

Hon KEN TRAVERS: What sort of figure is it? I mean, to the $52 million surplus, is that —

Hon LJILJANNA RAVLICH: It is $51 million.

Hon KEN TRAVERS: Sorry, $51 million; does that include the contingency as part of it, or is the contingency outside of the operating surplus?

Mr Marney: The $51 million surplus is after that contingency has been set aside.

Hon KEN TRAVERS: So how much has been provided for as contingencies?

Mr Marney: Off the top of my head, I think it is $147 million.

Hon KEN TRAVERS: Is that for all government agencies, not just Health?

Mr Marney: It is not allocated to a specific agency. That is consistent with the practice over the last 10 years that, in managing the state's finances, both on the expense side and on the capital side, you have contingencies in the background that enable you to manage both sides.

Hon KEN TRAVERS: Will anything over $147 million in increased expenditure diminish the current operating surplus in this financial year?

Mr Marney: Correct.

Hon LJILJANNA RAVLICH: Can I just go back to where I was, but they were very good questions, honourable member?

Hon KEN TRAVERS: Sorry.

Hon LJILJANNA RAVLICH: That is all right. The $250 million you identified as a risk for 2009-10 is based on actual results in the first quarter of the year, so the chances of that risk diminishing, I would think, would be fairly low. In view of the fact that the risk would be low, that, to me, would indicate that there is an ongoing serious problem in Health. Can I have your response to that?

Mr Marney: I can give you a factual response.

Hon LJILJANNA RAVLICH: Yes, give me a factual response.

Mr Marney: I cannot give you my opinion of whether or not there are problems. The factual issue is that there are seasonal variations in the pattern of health expenditures. The September quarter is usually a high-spend quarter, which traditionally aligns with seasonal flu pressures on the system. Since the September quarter there has been some easing in those pressures and certainly our monthly reporting from Health has shown some improvement. Nonetheless, the matter is flagged as a risk in the statements, I believe, appropriately. There was not a request for additional funds; therefore, the provision of additional funds was not considered.

Hon LJILJANNA RAVLICH: Has there been, subsequent to the release of this midyear review, a request for increased funding by either the minister or the Director General of Health?

Mr Marney: There has been no such formal request to date that we are aware of.

Hon LJILJANNA RAVLICH: Has there been an informal request?

Mr Marney: There has been no such informal request that I am aware of to date. Having said that, budget submissions are due on Friday of this week—on 15 January, I think it is—which is Treasury and Finance's version of Christmas, and we will consider those over subsequent months. It may be that there is a request within that submission, but I cannot tell you because I have not read it yet.

Hon LJILJANNA RAVLICH: Before Hon Ken Travers starts, I just want to go to this point about seasonal factors and $250 million worth of them. In your factual opinion, could you just advise whether in fact there would be seasonal factors to the extent that they could negate this $250 million risk to the health sector?

Mr Marney: I am struggling with the oxymoron that is a "factual opinion"; I am sorry, I cannot answer that question.

Hon LJILJANNA RAVLICH: Can I just get a clarification, Mr Deputy Chair: my understanding was that the Under Treasurer, certainly in the federal Parliament, can provide a personal opinion because that is part of being accountable to the people. I am actually trying to do the right thing here in terms of getting the expertise, and part of that expertise from the Under Treasurer is also based on his personal professional views and opinions. If we move into this sort of textbook-type "I can only give you the black-and-white view of the world", then it is clearly going to be a problem for the ongoing operations of this committee.

Hon HELEN MORTON: Mr Chairman, can I just make a clarification here? The document refers to a potential risk of $250 million, and I think the Department of Treasury and Finance has made a statement around that. What the member is asking for is whether there is sufficient seasonal variations and other initiatives that have been brought to bear in Health to diminish that.

Hon LJILJANNA RAVLICH: Yes.

Hon HELEN MORTON: I do not think that that is a question that can actually be answered by the Under Treasurer because it is such a variable arrangement. But the worst possible scenario has been painted already in this document, and anything that is an improvement on that is actually likely to take place. I can tell you, as a previous general manager for finance in Health, that those seasonal fluctuations are huge and they do vary, and that when you are looking at a budget of $5 billion in a year, small tweaks and small changes can actually have a major change in a budget.

Those things are happening at the moment, so you have got the worst-case scenario there. The potential for it to be better than that is certainly there, but I do not see how the Under Treasurer could possibly say whereabouts in that potential this is going to reach at the end of the year.

[12.15 pm]

The DEPUTY CHAIR: Could I just respond to the question of Hon Ljiljanna Ravlich? In my view, the accountability in this is divided between the health portfolio, if you like, and the Treasurer's and the Under Treasurer's portfolio. The numbers about the range will come out of Health. The Under Treasurer or the Treasurer, I would presume, then would have to say this is a risk and then include it in the reports which would come to us via this midyear review. I think going beyond that into what it is in the health department is outside the field of the Under Treasurer. I think we can ask about communications, which I am going to ask about shortly, between the health portfolio and the Treasury portfolio. But I think, at the end of the day, the assessment that the Under Treasurer and the Treasurer have got to make is: what is the risk to the overall finances based on the information that I have from Health? I think that is the accountability line. Is that helpful?

Hon LJILJANNA RAVLICH: It is helpful, Mr Chairman, but I just want to make the point that we have seen a director general depart from the service of government because he has made public his requirement for an additional $200 million so that he can operate the health system. I think it is a fair enough question to say: has anyone asked for, has anyone made a bid for, that sum of money since then? I think that is a fair enough question. I think it is a fair enough question to ask: how much might an improvement in seasonal factors impact in negating this $250 million funding requirement? I take the point that perhaps the Under Treasurer, not being an employee of the health department, may not have the actual detail of that. But, by the same token, that is a point of reference that he chose to make and, therefore, I would think that he might have some understanding of that and he might be able to share his views with us in respect of that matter. Now, if you are ruling that that is not the case, I am quite happy to abide by that ruling.

The DEPUTY CHAIR: Could I then put a different perspective on that question? On page 10—this is not of the midyear review; sorry—of the testimony that we heard from Dr Flett, he said, in relation to a question, that we have had meetings with the Under Treasurer on this—this is in relation to the huge problem with health, be it based on the increased demand and 85-year-olds being the greatest growing cohort of the population and so on—and we meet with him on a monthly basis. Health and Education are the biggest expenditures, I think, in our accounts. When you have those kinds of meetings, I would presume that you would be discussing whether August was on budget, or whether September was on budget and October was on budget. We understand that, in October, which has been reconciled at the time of this, there was roughly a $70 million deficit. On the budget in here, which we asked previous questions about, I think, that came from repaying the restricted and unrestricted accounts largely. So, really, there was not much deviation from budget, it seemed to my understanding of what was being talked about at that time. In the course of your meetings on a monthly basis, is that the kind of information that you talk about in monitoring how each department, especially those big departments, is doing?

Mr Marney: Yes, we look at the budgeted expenditures year to date and their performance against budget in terms of actual. We also look at their full-time equivalent staffing levels. We look at any major capital programs that are underway and we look at, in the case of Health, demand parameters like emergency department presentations, elective surgery performance, separations across the hospital system—tertiary and secondary.

The DEPUTY CHAIR: In the course of those discussions, then, as you have described, the financial position is clearly exchanged. Are the projections of future months also exchanged?

Mr Marney: In the context of tracking year to date, we then reflect on how much you have got left to get through the rest of the year. The implications for living within the expense limit for the given financial year are discussed.

The DEPUTY CHAIR: So, if there was going to be a potential overshoot, you would have some knowledge of the possibility of it and possible size of it at that stage without it being any formal request for an increase in the budget appropriation for that particular department.

Mr Marney: That is correct. And before we get to issues of formal request, we then start to discuss what are the strategies in place to manage within the expense limit.

The DEPUTY CHAIR: Fair enough.

Mr Marney: And at any point in time, there are strategies across a variety of agencies to assist them to live within their expense limit.

The DEPUTY CHAIR: I think I have clarified what I need to know and understand about that. Can I just then go back to another part in the formation of budgets? In this same hearing with the Director General of Health, we asked about zero-based budgeting—starting each time from a base and working through to receive the objective that has got to be achieved. In the course of that evidence that was given, Dr Flett implied that it was—he did not say "revolutionary", but close to it, because it was the first time zero-based budgeting had been introduced into Health. You understand what I mean by zero-based budgeting, I presume?

Mr Marney: Yes.

The DEPUTY CHAIR: Is zero-based budgeting something that you have contemplated being introduced by all departments in the state government sector?

Mr Marney: No.

The DEPUTY CHAIR: Is there a reason why it would be inappropriate?

Mr Marney: There are various techniques for building an appropriate budget for a service delivery entity. Zero-based budgeting is just one of those. I think Dr Flett's conclusion was that Health's budget settings required a significant recasting and therefore going back to a zero base for service delivery areas was appropriate. It is not appropriate for all agencies, and particularly those that live within their expense limit. Why would you do it?

The DEPUTY CHAIR: Because zero-based budgeting puts a focus on doing things in a different way to achieve the same objective. I would have thought that that would have been a good reason for actually requesting budgets being formed in that way, because that could often lead to cost savings.

Mr Marney: Good agencies do that as a matter of core business on a day-to-day basis. Zero-based budgeting is not required. There are those where it is required. It is a matter of using the appropriate tool to address a specific problem, and zero-based budgeting is just one tool. Value-for-money audits are another tool.

The DEPUTY CHAIR: Yes, value for money would achieve a similar kind of thing. Would it help having some basis to put through the entire public service management of something, be it value for money or zero-based budgeting, or whatever you want to call it, so that we are beginning from the base to achieve an objective rather than just adding on a bit based on the increasing population or whatever it might be to support the expenditure claims by different departments?

Mr Marney: Again, it depends on the maturity of the organisation and its budgeting and financial management techniques, and the effectiveness of its leadership team in constantly reinventing the way it delivers its service and reviewing its business model. It would be, I think, inappropriate to assume that zero-based budgeting would be appropriate for all agencies, and certainly you would not do it in one hit across the entire public sector.

The DEPUTY CHAIR: Can I then just say that I would understand that the Treasury is responsible for the way things are budgeted, the assumptions the budget is made on and the way it should be done? Am I correct on that?

Mr Marney: Within reason, yes.

The DEPUTY CHAIR: I would have thought some standardisation, if it is going to lead to potential cost savings of that kind, would be an advantage to the public sector.

Mr Marney: Standardisation is not necessarily the optimal approach. You would not take the same financial management budget construct approach in Health as you would in the Department of Sport and Recreation. They are very different beasts and you would tackle them in different ways. So, we try to optimise the way in which those budgeting processes are implemented across all agencies, given their very size, business models, revenue sources, stakeholder groups and so on.

The DEPUTY CHAIR: I would like to talk to you about that some time privately. I do not see the distinction, but thank you for the explanation.

Hon KEN TRAVERS: I just want to continue on this health theme. Obviously, you have identified a risk of up to $250 million in the health expenditure and you have been having ongoing discussions with the health department. You made the point that you have not received any formal requests from them. Have you discussed with them why they have not put in a request? I would have thought if the risk is $250 million, it is highly likely that they are going to need at least some additional money. We have had the evidence, as Hon Philip Gardiner has talked about, that a month or two ago they were already $70 million over budget. Did you ever talk to Health as to why they have not put in a request for additional money at this stage?

Mr Marney: I did seek clarification as to what their position was.

Hon KEN TRAVERS: And what was it?

Mr Marney: They confirmed that they were not requesting additional money and that they were pursuing corrective strategies to try to minimise the extent to which that risk was realised.

Hon KEN TRAVERS: So, to minimise it, but did they give you confidence that they will be able to bring it in on budget with their minimisation strategies?

Mr Marney: They reaffirmed that they were not requesting additional funds at this point in time.

Hon KEN TRAVERS: What strategies do they have in place to live within their budget for this financial year?

Mr Marney: That is a question for the Minister for Health.

Hon KEN TRAVERS: The other thing I wanted to talk about is on page 8. You talk about one of the parameter changes being employee costs. Are you able to provide us with a breakdown of the agencies in which those employee costs are included? I also want to just clarify whether or not the $250 million risk for Health is over and above any parameter changes for salary increases that are factored in in that parameter change on page 8.

Mr Marney: Yes, we can clarify that.

[*Supplementary Information No A7.*]

Mr Marney: So, you are particularly seeking a full breakdown of the employee cost parameter as outlined in table 4 of page 8?

Hon KEN TRAVERS: Yes. What I am looking for is: is it on increases in FTEs or is it on increases in the salaries being paid? I would imagine, in terms of salary parameter changes, it covers both—an increase in numbers as well as the salaries that are being paid.

Mr Marney: Yes. It would cover the number of FTEs and the composition. If you hire more high level, then your expense goes up. I suspect, but, again, will confirm, that that $147 million or thereabouts provision is in employee costs.

Hon KEN TRAVERS: Right. That is held centrally. Have you allocated any of that out to the individual agencies at this stage?

Mr Marney: No.

Hon KEN TRAVERS: Again, one of the issues I am interested in is how much of that increase, for instance, in the health budget is salary related.

Mr Marney: We do not know what that increase in the health budget is yet.

Hon KEN TRAVERS: The other question I am trying to understand in terms of the way we structure the budgets is: at the time of the budget year, how do you determine the salaries for the budget period?

Mr Marney: For a particular agency?

Hon KEN TRAVERS: Yes.

Mr Marney: They get a global allocation of expense and then break that down into the various cost components, whether it is salaries, grants, contracts, services or goods. It is determined by the agencies themselves.

[12.30 pm]

Hon KEN TRAVERS: But if they had an existing agreement in place—I know certainly police, nurses and doctors have all had increases this year—should that have been incorporated in their budget bid at the beginning of the year, those increases, when they were known at the time the budget was being cast if they were on an EBA for three or four years?

Mr Marney: As much as we possibly can anticipate and model, as soon as a policy decision is taken and an EBA is struck, say, for three years, then the cost of that EBA and the successive increases in salary are factored into the budget at the point the EBA is struck. It is not done each budget on a drip-feed basis. As soon as we know that that policy commitment is there in the form of an industrial instrument, then we factor it in.

Hon KEN TRAVERS: That would suggest then that the parameter change for employee costs are EBAs or other increases that have been negotiated since the budget; am I correct there?

Mr Marney: It would be increases in FTEs.

Hon KEN TRAVERS: But is there not a cap on FTEs?

Hon LJILJANNA RAVLICH: Yes.

Mr Marney: Yes.

Hon LJILJANNA RAVLICH: There should be.

Mr Marney: There are ceilings applicable to each agency. It would be increases in FTEs potentially as agencies move to their cap; it would be compositional elements within the workforce. So if we are talking about 100 000 people, there can be a fair degree of shift in compositional elements. We are talking also probably not about EBAs because they would be classed as policy decisions in most cases. I suspect, when I give you that breakdown, what we will find is the biggest component of that or a significant component of that is the central provision, which is based on our modelling of what employee costs are likely to do through the rest of the year and across the forward estimates. So, again, in trying to give the most comprehensive snapshot of the state's finances that we can that is accurate, true and honest to what is likely to happen, we will model in the background aggregate employee costs and put our view of that through those sorts of parameters, irrespective of whether or not there is a discrete agency allocation to that.

Hon KEN TRAVERS: Just flowing on from that, we had evidence from the Department of Corrective Services earlier in our hearings that at that stage I think they were predicting they would need at least an additional $32 million, and that was very early on in the budget. Since that time there has been an even greater increase in the number of prisoners. Is there anywhere in the budget that that increased expenditure for Corrective Services is actually included?

Hon LJILJANNA RAVLICH: Page 90.

Mr Marney: Yes, I thought there was. Again, there was a parameter adjustment around the prison muster in the papers and there was a discrete decision by government in that respect.

Hon KEN TRAVERS: No, that is the capital works. I am talking about the operating expenditure. I notice that you have some already provided for in the TAA—the Treasurer's advance.

Mr Marney: Yes.

Hon KEN TRAVERS: But that seemed to be very early in the piece. It does not show up as a policy change and I was intrigued as to the reason that $39 million was sitting in the Treasurer's advance. If you do not have it here, maybe you can take it on notice as to what additional funds are being provided for Corrective Services.

Mr Marney: Yes, having it taken on notice, I think you will find it is treated as a parameter expense because it is associated with the prison population as a driving parameter. It is not disclosed as a policy decision as such.

[*Supplementary Information No A8.*]

Hon KEN TRAVERS: So when you provide us with that parameter change break-up, that hopefully should show us what you have provided for Corrective Services.

Mr Marney: Yes.

Hon LJILJANNA RAVLICH: Can I just ask about the royalty revenues? I cannot find a reference point to it but I have seen it somewhere in the papers. The royalty revenues, from memory, do not really start kicking in in a really meaningful way until 2012-13, somewhere around there.

Mr Marney: In terms of recovery?

Hon LJILJANNA RAVLICH: In terms of revenue to the state.

Mr Marney: Growth in royalty revenue resuming?

Hon LJILJANNA RAVLICH: Yes, about that, 2012-13?

Mr Marney: Yes.

Hon KEN TRAVERS: It is 2011-12.

Hon LJILJANNA RAVLICH: Have you got a page reference for it?

Hon KEN TRAVERS: At page 7 the royalty income parameter changes.

Hon LJILJANNA RAVLICH: I am interested to know how, without that revenue growth, infrastructure investment will be able to occur. I specifically refer to the Princess Margaret Hospital replacement; Royal Perth Hospital currently has only $10 million allocated to it in the health asset investment program; there is the medical equipment replacement program, which I understand is going to run into double-digit figures in terms of millions; and there is the waterfront redevelopment. The question is: given the lag time for the royalty revenue to make a significant contribution, if you like, to the budget in terms of revenues, without that occurring how will these things be funded? I have tried to have a look at it and I do not know. Unless you can pull some rabbits out of the hat, it would seem to me that it is a big ask to find all these infrastructure investment projects without that.

Mr Marney: The royalty income parameters are reviewed at midyear review but at a fairly high level. The most comprehensive review of the forecast for royalty income is done as at the current moment in terms of surveys of producers, in terms of volumes that they expect to produce in the upcoming budget year and any changes to their forward estimate projections of their production volumes. We then do a substantial revisit of our pricing assumptions and update those royalty income estimates at the start of and leading into the budget process. The budget process then focuses on looking at the various expenditure demands of government, its desired policy outcomes both in terms of ongoing service delivery and asset investment and takes decisions to try to optimise those outcomes. And often they are competing objectives; they are usually competing objectives in terms of financial outcomes, asset investment and service delivery. How those competing objectives are optimised is the outcome of that budget process, which is summarised in the budget papers tabled in May.

Hon LJILJANNA RAVLICH: I think it is fair to say that there is something like $140 billion worth of resource projects coming online. A lot of them are only at the construction phase; and for the major ones, like maybe the LNG project, it will be five years until it is actually constructed and another three or four years before it becomes fully operational and online. So the government is going to have to wait a fair while to get its cut of the cake, so to speak. So I think that the timing issue is a significant issue in terms of the capacity of government to fund those projects. I see you are nodding your head, which means you must be in full agreement with me.

Mr Marney: Timing is everything.

Hon LJILJANNA RAVLICH: Timing is everything; tell me about it!

The DEPUTY CHAIR: Back to the health issue and the budget parameters of the health issue, I am concerned about whether aged care is coming into the state's health budget in Western Australia, which suggests cost shifting between the commonwealth and the state. Am I close to the mark on that?

Mr Marney: It has not been an issue previously and we are currently looking at the extent of that impost. It is correct to say that historically while Western Australia has had licences for aged-care beds granted by the commonwealth government, the funding provisions from the commonwealth for those beds have not recognised the cost circumstance in this state, particularly during the high-growth boom years, and as such a large number of those licences have not been taken up. So, to cut a long story short, we do not have as many aged-care beds as we should per head of population. As I said, we are currently working through what that means in terms of impost on the state's health system. Similarly we do not have the level of primary health care that one would expect in other jurisdictions; that is, comparable to other jurisdictions. There are a whole heap of reasons for that but, again, it is the same outcome. Under the provision of primary care places there is a greater strain on the state health system

The DEPUTY CHAIR: And there are a number of places in Western Australia where this is becoming urgent. Are there any budget parameters that are being considered in relation to correcting the aged-care difficulty we currently have?

Mr Marney: I am aware that discussions are underway with the commonwealth with respect to their responsibilities both in aged and primary care settings.

The DEPUTY CHAIR: Taking you back then to the health issues we were talking a little bit about earlier, one of the difficulties in setting a budget strategy is the culture. Based on the evidence again that Dr Flett gave us back in late November, he was saying that this is what he gets as a manager of health: do not worry, the government will come good. So we have a systemic attitudinal thing in the public service that has been there for the last 40 years et cetera. So in terms of setting your budget directives, I can understand the response from health being that if we ask for an increase and it becomes public, then everyone knows that this is just going to flow when we ask for it. How are you going to address and solve that cultural problem that one has when we cannot displace people who become redundant or other things which can be done to bring a budget into line?

Mr Marney: That is a matter for the Minister for Health and the Director General of Health.

The DEPUTY CHAIR: That is health, but who is setting the budget parameters? Is that not the role of Treasury?

Mr Marney: Government takes decisions on expense allocation to agencies. It uses the Department of Treasury and Finance for advice in that process but ultimately it is the government's decision.

The DEPUTY CHAIR: Coming back to that standardisation issue, which I think you objected to, does there not need to be some directive emanating from Treasury to guide the agencies about the significance of what budgets are, what happens if they are not being kept to, what the consequences might be et cetera?

Mr Marney: The directives are issued in the form of resource agreements with the heads of departments. Those resource agreements are co-signed by ministers and by the Treasurer. They explicitly outline the expense limits applicable to that agency, and that expense limit, as you know, is debated through both houses of Parliament. That is the accountability mechanism. The annual report of relevant agencies then closes out that cycle of reporting and the annual reports again are tabled in Parliament for appropriate action by the Parliament in terms of the imposition of those accountabilities. The expense limits applicable to agencies could not be any clearer. The requirement to live within it could not be any clearer. If those expense limits are exceeded, then it is a matter for the government of the day and the Parliament to address in terms of accountability.

The DEPUTY CHAIR: Accountability; and measures are available to the managers, which they can then apply to bring their budgets back into place, I suspect.

Mr Marney: The Department of Treasury and Finance is always ready, willing and able to assist in that regard. We are not always fully embraced in that task.

[12.45 pm]

Hon LJILJANNA RAVLICH: I just want to go back to the question of timing, and I refer to page 50 because I have found a reference to it. It is in relation to the Gorgon LNG project, but I am assuming that it is much the same for all of them. It clearly states —

> The direct short-term effect of the Gorgon project on the Western Australian economy is likely to be minimal, because the project is expected to take some time to ramp up to peak investment and employment, which is expected to occur in 2012-13. Over the current forward estimates period (2009-10 to 2012-13), the Gorgon project is estimated to have a direct impact on the State's payroll tax revenue of $137 million.

So for a $43 billion project it does not seem to be a lot, so you are quite right about timing being everything.

Mr Marney: If I could interrupt—on that project, it is also that timing and positioning is everything. This particular project is positioned in commonwealth waters; therefore, the commonwealth gets the royalties and the state does not.

Hon LJILJANNA RAVLICH: Okay, but there would be a whole range of other projects, because there is a whole list of them, that would pay royalties to the state. My question is: could you provide the committee with the projects that are currently significant projects in Western Australia, and also their projected or estimated direct impact on the state's payroll tax revenue over the forward estimates, and when that revenue will be coming in—the commencement of that revenue—so that we get some idea of what is likely to come online in terms of its impact on state finances? That would be very good. I noticed on page 101 in terms of the Oakajee project that there is a contribution of $339 million by the state, which is going to be matched by the commonwealth, but it does not actually kick in until 2012-13, and it assumes a single payment towards the end of the construction period, which to me would sort of indicate that, really, as much as all this has been hyped up and talked about, a lot of the details are actually missing in respect of Oakajee, because if we still do not know the method by which we are going to pay for this, and we are making assumptions that we are just going to hand over $339 million as a cheque for the final payment, it does beg the question about how thorough are the processes involved in this project thus far.

[*Supplementary Information No A9.*]

Hon KEN TRAVERS: Whilst we are asking for information for the future, again going to page 7, with the revenue from public corporations you are predicting an increase of $124 million this year. I know you mentioned in general terms earlier where it comes from, but are you able to give us more details on each of the public corporations?

Mr Marney: Yes, and I think you will find the general theme around that is that previously, as at budget time, they were far more pessimistic about the outlook for their trading positions—if you take something like the Insurance Commission of WA—and, as we all witnessed through 2009, the outlook for the world and the state and the financial markets changed dramatically between March and October.

[*Supplementary Information No A10.*]

Hon KEN TRAVERS: That figure includes both dividends and tax equivalents. Is that correct?

Mr Marney: It should be, yes.

Hon KEN TRAVERS: Can you, off the top of your head, give us any idea what the increase from the Insurance Commission is versus the increases from Synergy, the Water Corporation or Western Power?

Mr Marney: No; there should be detail in the appendices around that, but I am happy to take that as supplementary.

Hon KEN TRAVERS: The other thing I wanted to try to get an idea of, because we have had evidence from the Geraldton Port Authority. They were suggesting to us that, for the two figures of both tax equivalents and dividends, we are talking of somewhere in the order, certainly for the next financial year, of a $20 million reduction. I would be intrigued to know what the break-up is. I was looking at the statement of corporate intent for the Albany Port Authority, and their statement of corporate intent for 2010-11 is actually suggesting that they are going to be down on what was in the budget a year ago. Could you provide us with a detailed breakdown of all of that?

[*Supplementary Information No A11.*]

Hon KEN TRAVERS: Under appendix 3, and corrective measures, you have listed the economic audit stage 1. For 2009-10, are those figures the figures that were in the budget or are those your current figures of what you expect agencies to achieve out of the corrective measures for the economic audit stage 1?

Mr Marney: It would be a combination of both. There are some areas in which, as you would be well aware, there have been variations from the original projections, based on issues of implementation, such as the passage of legislation and so on, so it would be the most up-to-date read of what were the original budget projections.

Hon KEN TRAVERS: Right, but, for instance, the cost recovery from the police presence at special events, we have been told in the Parliament that that is not going to happen this year, because they need to get legislation through. It is only $600 000, but nonetheless. The advertising revenue from Transport is $2.5 million. My understanding is that they have not commenced that yet. That was going to be $2.5 million in a full year, so I cannot see how they could achieve, even if they started tomorrow, $2.5 million.

Mr Marney: We will get an update on those sorts of issues as part of the budget process when people submit on Friday of this week.

Hon KEN TRAVERS: Were they not required to submit it as part of the update for the midyear review, though, if they were not going to make it this financial year?

Mr Marney: Changes in their expenditures—yes. The question is: did they? I cannot tell you offhand if they did or if they did not. I would be reluctant to go through a line-by-line reconciliation, because we will turn this into a process that is bigger than the actual budget process, and, quite frankly, I have got better things to do because I have a budget process to manage. I am happy to assist you trying to make those issues transparent, but we have got to draw the line somewhere.

Hon KEN TRAVERS: I understand your point but there is also a point where if it is clear that measures are not being met and agencies are not notifying you that they are not going to meet those requirements for the midyear review, it does mean that the midyear review is not an accurate picture of the budget.

Hon HELEN MORTON: What precisely are you asking for?

Hon KEN TRAVERS: I am happy for just those two—what advice the Department of Transport provided you regarding advertising revenue and what advice WA Police provided regarding special events. Obviously, it is clear that they knew before the midyear cut-off date that they were not going to make those funds this financial year, and they did not advise you. That says to me that there is a problem within the system, that agencies are not notifying Treasury when they are not meeting the question. If that applies to those two that I know of, one has then got to ask the question of how many other figures in these documents are inaccurate because the agencies have not provided the correct information to Treasury.

Mr Marney: I am happy to explore those two cases, and that might give us some avenue for further questions.

Hon KEN TRAVERS: I do not want to waste the time, but those are two that I know of. In fact, the Minister for Police has told the Parliament that they do not expect to get that in this financial year.

[*Supplementary Information No A12.*]

Hon LJILJANNA RAVLICH: I refer to page 96 in relation to "Regional Development and Lands" and —

> Approximately $5.0 million per annum will be spent over four years from the Royalties for Regions Fund to establish the Major Regional Projects Division and to establish and administer the Western Australian Regional Development Trust within the Department of Regional Development and Lands.

I have, Under Treasurer, tried at every turn to obtain information in relation to the cost of the six new departments that the government has created since coming into office. I have been advised that there are no costs associated with those new departments, yet here we have a division that has been created within an agency at a cost of $20 million over four years. I am just wondering, would you know the cost of creating those six new agencies, as Under Treasurer; if not, can you point me to somebody who might, because there seems to be some very inconsistent information floating around?

Mr Marney: With respect to the major regional projects division, it is not a cost associated with the creation of a new department as such, but it is the addition of a function to appropriately administer the royalties for regions program. So I would not say that it is a cost associated with a change in the machinery of government as such. If you are asking me to identify and provide you with a list of machinery of government changes and the associated funding allocations that went with them, I am happy to provide that as—I think we are up to item 13.

[*Supplementary Information No A13.*]

Mr Marney: I am pretty good with numbers apparently!

Hon LJILJANNA RAVLICH: Also, I wonder if you could give me a clarification. On page 97 there is reference to "Training and Workforce Development". Of course, that is the new department that was created by the separation of the Department of Education and Training into the Department of Education as a stand-alone agency and the new agency of the Department of Training and Workforce Development. There is an expense line here titled "Salaries and Allowances Tribunal Determination of Director General Position". Over the forward estimates it amounts to $1.2 million. In 2009-10, there is $0.2 million; in 2010-11, there is $0.3 million; in 2011-12, there is $0.3 million; and in 2012-13, there is $0.4million. I wonder whether you could explain to me what that is exactly; whether that is a salary top-up or whether it is in fact the salary and why in fact it peaks at $0.4 million in 2012-13.

Mr Marney: The allocation is to reflect the fact that there is a new director general position created to head up the Department of Training and Workforce Development. The remuneration of that position falls under the scope of the Salaries and Allowances Tribunal. The Salaries and Allowances Tribunal has determined the level at which that position should be paid and a funding allocation has been made to recognise that where we had previously one director general we now have two, so that money has been allocated for that purpose to cover the salary as determined by the Salaries and Allowances Tribunal.

Hon LJILJANNA RAVLICH: So this is the salary and all on-costs?

Mr Marney: It is the direct costs associated with the additional director general position, so it is salary and superannuation.

Hon HELEN MORTON: Can I just ask for clarification? Is the member asking whether the new director general is going to be paid $200 000 one year, $300 000 next year and so on, and then $400 000 in 2012-13?

Hon LJILJANNA RAVLICH: Sort of, but I have got to say that this is not quite accurate, because if you go to the salaries information, no-one is paid a rate of $200 000, $300 000, $400 000 and so on and so forth.

Hon HELEN MORTON: If you want to know the salary of the new director general, that is a question that can go to the relevant minister.

Hon LJILJANNA RAVLICH: I am trying to get an understanding of these figures, because what is not clear to me here is that the current appointee was already a member of the senior executive service. She was in fact the Commissioner for Public Sector Standards and she would have had a salary attached to that. I am just wondering whether this is all new money or whether it is a top-up on top of what she was already getting. What is it?

Mr Marney: This is a new allocation to the Department of Training and Workforce Development; it is not to the person. So that is the key point of clarification. The allocation for the head of the office of the Public Service Commissioner still rests with that entity. That entity still exists, and I suspect that it will need to exist until such time as legislation is passed. So until then there is an expense allocation to that entity to function.

Hon LJILJANNA RAVLICH: But, hang on, most Public Sector Standards Commission functions are going across to the Public Service Commissioner, so how does that work?

[1.00 pm]

Mr Marney: That is something that we would address through the budget process in terms of if that agency is to be —

Hon Ljiljanna Ravlich: Abolished.

Mr Marney: — abolished, then we will deal with the expense allocation appropriately in that process. It is fair to say it is in transition at the moment, so it has not been tidied up.

Hon LJILJANNA RAVLICH: Can you give us an assurance that Mal Wauchope is not getting two salaries while he performs the public sector standards commissioner function?

Mr Marney: Yes.

Hon LJILJANNA RAVLICH: Are you sure?

Mr Marney: That he is not getting two salaries?

Hon LJILJANNA RAVLICH: Yes—that he is not being paid the public sector standards commissioner salary and the Public Sector Commissioner salary?

Mr Marney: I believe he is only being paid one salary, but, just in case, I will check.

Hon LJILJANNA RAVLICH: That would be a terrible mistake to make!

Hon KEN TRAVERS: I refer to page 113, implementation of corrective measures. One of the line items that you have listed there is $59.8 million in general provision for procurement savings. Are you able to tell us how much you have saved already this year? The other issue is that if that is listed as a generic saving here, does that mean that the agencies in which the procurement savings have occurred will have their budgets reduced by the amount of the procurement saving?

Mr Marney: That is correct. Their budgets have been reduced by that amount. It has been split across the departments in accordance with their overall procurement spend—their overall goods and services spend—and most, if not all, would have by now allocated that out to their various cost centres.

Hon KEN TRAVERS: Right.

Mr Marney: So the amount budgeted to be expended on goods and services has been reduced.

Hon KEN TRAVERS: So at a Treasury level, you do not actually know whether they have put in place the mechanisms to reduce their procurement expenditure at this stage?

Mr Marney: Well, we are working with them pretty closely, as you know. The model for procurement activity in the state public sector has central practice policy and contract negotiation occurring through government procurement in Treasury and Finance. Those government procurement officers are based in the agencies, so they are actively assisting agencies to realise those savings on an ongoing basis.

Hon KEN TRAVERS: Right. But do we have any —

Mr Marney: Do we have any reporting on it?

Hon KEN TRAVERS: Do we have any idea of where it is up to in terms of what they have saved so far this financial year?

Mr Marney: We will get that as the financial year ends. It is a pretty onerous task to ask them now. We will do the usual round of who-buys-what reporting at the end of the financial year, and that should tell us what has changed in that space.

Hon KEN TRAVERS: I refer to page 112. My other question on the implementation of corrective measures is about the outsourcing of traffic infringement processing to WA Police. You are expecting a cost this year of $30 million, with a saving of $52.8 million next year, and then $72 million and $72 million again, or $73 million if you round it up. Is that just the savings to the police, and is there then another expenditure to be made to the outsourced people to do that work, or is that a net figure that is in there?

Mr Marney: It should be a net figure.

Hon KEN TRAVERS: Do you have that figure, or is that something that we would need to get from the police?

Mr Marney: The Minister for Police I think would be the appropriate person to answer that question.

Hon KEN TRAVERS: It seems to be an incredibly large saving to be made from contracting out. I am concerned that it is just what their figure will be in terms of what they now will no longer have to spend on it, but that someone else is going to have to expend that money, because I cannot imagine that the outside people are going to do it for free.

My final question is that you say in the midyear review that you are confident that you are going to make your $250 million worth of land sales. Are you able to provide us with a list of what those lands sales will be?

Mr Marney: We can provide a list of what is currently projected and targeted in terms of specific lots.

The DEPUTY CHAIR: Thank you very much.

[*Supplementary Information No A14.*]

The DEPUTY CHAIR: The budget surplus is $51 million projected. Is there any sensitivity to that number going into deficit as far as rating is concerned, assuming that we maintain our net-debt-to-revenue ratio, and assuming that we retain our effective interest cover?

Mr Marney: There is no specific sensitivity to a deficit figure. It is more a question of what is the underlying structure of the state's finances long term, and what is the capacity of the state to service its liabilities, hence the focus from Standard and Poor's on the net-financial-liabilities-to-revenue ratio. The sensitivity I guess can be assessed by ratings in other jurisdictions. Most other jurisdictions are either currently experiencing or projecting deficits, and many of them have AAA credit rating, so that in itself says that it is not a make-or-break factor in terms of the AAA credit rating. But it is one factor that the rating agencies take into consideration in their assessment of the long-term structural health of the state's finances.

The DEPUTY CHAIR: I would have thought that in your risk analysis, if you go through each of the major revenue and expenditure items, that that would have been an item that should be addressed, I think, because it relates to the thing as a whole. It is a risk. That $51 million does not give you much leeway.

Mr Marney: I do not think that needs to be stated as a risk. That is just a fact.

The DEPUTY CHAIR: Well, everything else is a risk.

Mr Marney: I think it is pretty clearly apparent that a $51 million surplus in the context of a $20 billion per annum business is a slim risk.

The DEPUTY CHAIR: I am talking about the implications of it. We all recognise what the implications of going under are. I think it would be useful to people to know that if it goes under, it is highly unlikely to impact on our credit rating, unless there are a lot of other circumstances happening around the world at the same time, perhaps, or whatever the risk is.

Hon KEN TRAVERS: Just on that, you are predicting at the end of the forward estimates in the midyear review—as the way in which you return it to surplus and maintain the budget to stay under that net-liabilities-to-revenue ratio—significant revenue growth. How do you determine the expense growth over that same period? I note that you are still only expecting 6.1 per cent growth in revenue, but expense growth of 4.6 per cent. I would have thought that if you have that sort of economic growth, that is going to place immense pressures and demands on our health system and on our education system. We saw that over the last four or five years. How have you factored that into your modelling for the long-term future?

Mr Marney: We visit that in a small way as part of the midyear review—that is, we look at what are the long-term trends in expense growth—and that is where those provisions come in. We make provision for growth in expense that matches that historical pattern. It is fair to say at midyear review it is an update at the margin from budget projections. We are currently in the process of recasting all our economic projections, along with population growth, to get a better read on what should be factored into the long-term in terms of expense growth.

Hon KEN TRAVERS: Sorry to make this sound too simplistic, but you have obviously increased the revenue, so in the midyear review you will book the increased revenue, but only in a very simplistic way book changes in expenses. But come the budget itself, we may see that because of that booking of the additional revenue, there will need to be substantial adjustments in what we predict for expense growth in those out years?

Mr Marney: No. I think we take a balanced approach on both sides; that is, the revenue update is pretty much at the margin as well. So we are not updating royalties in a substantial way. We do that as part of the upcoming budget process in surveys of producers and so on. So it is the same sort of extent of update on both sides of the ledger. We do not put heaps of effort into the revenue side to update that and get more money in, and at the same time bury our head in the sand on expense.

Hon KEN TRAVERS: So the reason we have got a major change, say, in terms of this midyear review is that change in methodology for the exchange rate? Normally, if you applied the same methodology we would have probably maintained a fairly similar view of the out years, whereas by applying the new methodology that is why we see a dramatic change in revenue projections this time.

Mr Marney: In the out years.

Hon KEN TRAVERS: In the out years, and not in the expenditure side of things.

Mr Marney: That is right.

Hon KEN TRAVERS: I look forward to the budget, then, because I suspect that means that the financial liabilities might be pushing the 90 per cent.

Hon LJILJANNA RAVLICH: No comment!

The DEPUTY CHAIR: Just in closing, the committee will forward any additional questions that it has to you via the minister in writing in the next couple of days, together with the transcript of evidence, which includes the questions that you have taken on notice. If members have any unasked questions, I ask them to submit these to the committee clerk at the close of this hearing. The responses to these questions will be requested within 10 working days of receipt of the questions. Should the agency be unable to meet this date, please advise the committee in writing as soon as possible before the due date. The advice is to include specific reasons as to why the due date cannot be met. Thank you very much for your time today and for answering the questions.

Hearing concluded at 1.10 pm
