

LEGISLATIVE COUNCIL STANDING COMMITTEE ON ESTIMATES AND FINANCIAL
OPERATIONS

2018-19 BUDGET ESTIMATES HEARINGS – ADDITIONAL QUESTIONS

Department of Treasury

The Committee asked:

- 1) This is a general question about the estimates contained in agency financial statements – when should the estimates in the current budget be unchanged from the estimates in the previous budget for a given year?

Answer: A fixed estimate that remains unchanged from one Budget to the next will generally be limited to a one-off financial change with a finite impact. These might include a lump sum grant agreed with the Commonwealth, a clearly defined grant or other spending program managed within strict timeframes and/or cost, short-term infrastructure spending that is not sensitive to price movements or rescheduling for unforeseen delays, or transactions agreed through contractual arrangements at a fixed cost. Estimates for all aggregates presented in agency financial statements in the Budget Papers are based on cost and demand, demographic, economic and other parameters which will typically change from one Budget to another. Aggregates will also be impacted by changes in the anticipated timing of service delivery (which may be refined or revised over time), and be sensitive to changes in Government policy (e.g. changes to the level of cost recovery, and decisions to change levels of service delivery). Given the range of variables that impact forecasts, most aggregates in agency financial estimates will change from one Budget to the next and very few show no movement between Budget rounds.

- 2) This is a general question about the estimates contained in agency financial statements – when should an estimate be unchanged from the prior year in a given time series?

Answer: Very few financial aggregates will show consistent year on year magnitude (i.e. zero growth). These may be limited to specifically designed revenue arrangements (such as an agreement with the Commonwealth to provide funding over a range of years at a fixed and equal annual proportion), a spending arrangement by the State subject to similar fixed quantum arrangements, or coincidence (where fluctuations in costs and demand or other underlying factors result in the same financial outcome two years in a row). In general, few aggregates in agency financial statements remain unchanged from one year to the next, reflecting the same range of variables referred to in question 1.

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- 3) I refer to page 22 of the uncorrected transcript from your hearing on 19 June 2018, and ask can you provide a breakdown of the \$79 million in excess cash that was returned by agencies into the Consolidated Account?

Answer:

Agency	Surplus Cash Returned (\$'000s)
Training and Workforce Development	31,944
Treasury	10,067
Department of Water and Environmental Regulation	8,492
Corruption and Crime Commission	6,158
Registrar, WA Industrial Relations Commission	4,140
Department of State Development (Jobs, Tourism, Science and Innovation)	4,996
Public Sector Commission	2,931
Legislative Assembly	2,033
Department of Planning, Lands and Heritage	1,912
Salaries and Allowances Tribunal	1,837
Small Business Development Corporation	1,814
Legislative Council	1,382
Commissioner for Children and Young People	713
Health and Disability Services Complaints Office	693
Department of State Heritage Office	295
Total	79,407



Hon Tjorn Sibma MLC asked:

1) Regarding the Public Transport Authority's operating subsidy:

- a) What is the cost to operate the public transport system in the Perth metropolitan area in 2018/19 and how much does each major service (bus, train, ferry) within the public transport network contribute to the overall cost;

Answer:

2018-19 Budget	Bus \$'000	Train \$'000	Ferry \$'000	Total \$'000
Operating Costs	454,891	341,673	1,539	798,103
Interest Costs	16,009	78,880	0	94,889
Depreciation	59,826	179,476	0	239,302
Total Costs	530,726	600,029	1,539	1,132,294

- b) What is the revenue received for services identified (at (a) above) via passenger fares likely to be for the 2018/19 financial year;

Answer:

2018-19 Budget	Bus \$'000	Train \$'000	Ferry \$'000	Total \$'000
Fare Revenue	66,673	114,026	715	181,414

- c) Without any expansion to the public transport network, how much is the difference between costs incurred to operate and fares charged, for each of the budget out years;

Answer:

	2018-19 \$'000	2019-20 \$'000	2020-21 \$'000	2021-22 \$'000
Difference between total costs (without any expansion to the public transport network) and fare revenue	921,561	939,855	940,160	956,861

Note: item (c) excludes costs and fare revenue for Forrestfield-Airport Link, Radio Systems Replacement and Railcar Replacement projects as these services are not currently in operation.



- d) What methodology is used to calculate the PTA's annual operating subsidy, and is this consistent across all public transport modalities, or are there individual calculations for each; and

Answer: The methodology is Total Cost of Services less Income and any other income sourced from the State (such as Service Appropriation and Royalties for Regions Funding), less Depreciation and Amortisation which is a non-cash item (no matching accrual appropriation funding provided). This methodology is applied to all four PTA services and public transport modes.

- e) Has the impact of the installation of various METRONET project expansions to the metropolitan rail network up to 2021/22 been factored into the calculations of the PTA's future operating subsidy requirements:

Answer: The operating cost and income for the Forrestfield-Airport Link project are currently factored into the operating subsidy given this line will be operational by late 2020. The operating costs for a number of METRONET projects, which are still under development (e.g. the Morley-Ellenbrook rail line), cannot be finalised until designs have been completed.

- i) Are these reflected in this year's budget papers.

Answer: As above.

- ii) And, if not, why not?

Answer: As above.

- 2) Page 133 refers to a projected improvement on net debt, and I ask:

- a) What was the net debt position of the State Government on 31 March 2017;

Answer: The March 2017 *Quarterly Financial Results Report* was released on 29 May 2017 and shows that total public sector net debt at 31 March 2017 was \$30,280 million (refer page 19).

- b) What was the net debt position of the State Government on 30 June 2017;

Answer: The 2016-17 *Annual Report on State Finances* was released on 22 September 2017 and shows that total public sector net debt at 30 June 2017 was \$31,964 million (refer page 45).

- c) Had any discussion taken place, or option(s) considered, or plan(s) developed within Treasury, prior to 11 March 2017 to reduce net debt:

Answer: Prior to the 11 March 2017 State election, Treasury planning and advice on reducing net debt was consistent with supporting the policy of the Government of the day, which was largely based on generating surplus funds from the proposed disposal of State assets with net proceeds to be directed to purposes including the retirement of public sector net debt.



- i) If so, what were those discussions/options/plans, and what impact would they have had; and

Answer: Treasury planning, advice and estimates for the impact of potential asset sales under the last Government were provided on a commercial-in-confidence and Cabinet-in-confidence basis to the Government of the day, and formed part of the deliberative process supporting the annual Budget. Forecasts for the possible proceeds of State public sector assets are generally not published (to avoid signalling a possible ceiling on potential sales) and remain confidential on this basis. The level of impact of any sales would depend on the gross sale proceeds, less the cost of the sale(s), the degree to which any residual liabilities would be required to be settled by the State from the sale proceeds, and any decisions of Government to divert any portion of the proceeds to purposes other than debt retirement. Given the confidential nature of such advice, the continuing possibility of some sales under the current Government, and that no sales were completed at the time, the provision of a dollar impact is not available.

- d) Has any discussion taken place, or option(s) considered, or plan(s) developed within Treasury since 17 March 2017 to reduce net debt:

Answer: Yes.

- i) If so, what are these discussions/options/plans and what impact will they have?

Answer: Planning and advice in support of the debt reduction policies of the Government are reflected in the Government's financial decisions detailed in the 2017-18 and 2018-19 Budget Papers. These include the development and implementation of Budget repair measures, measures to maximise revenue and cost recovery, and advice on achieving value for money spending outcomes reflected in low rates of recurrent spending growth in recent whole-of-government actual outcomes and forecast growth across the forward estimates period. Treasury is also assisting the Government with planning and advice for the recently announced decision to proceed with the commercialisation of Landgate services (although as publicly stated some of the proceeds will be allocated to funding the costs of joining the National Redress Scheme for survivors of child sexual abuse). As was the case under the previous Government, and as detailed in the response to question 2(c), planning and advice on asset sales remains commercial-in-confidence, Cabinet-in-confidence and forms part of the deliberative process supporting the annual Budget and cannot be released.

- 3) With respect to the reference to net debt management on page 133, why has the State Government funding component of METRONET not been included in the budget papers?

Answer: Over the forward estimates period, the State Government has negotiated a \$729 million contribution from the Commonwealth Government to offset the \$750 million provision for METRONET projects under development. The provision will be held until such time that the Government makes a final investment decision and includes the projects in the relevant delivery agency's asset investment program. At that time, the Government will finalise the project's funding arrangements, which may or may not include sources other than Commonwealth funding (such as land sales revenue, funding from the Metropolitan Region Improvement Fund, or State funded equity contributions).



- 4) What is the impact on net debt over the estimates period if the State Government funding for Stage 1 METRONET projects?

Answer: As above.

- 5) Page 132 under Significant Issues Impacting the Agency refers to an almost halving of the operating deficit for 2017-18 as a result of the injection of \$702 million in infrastructure funding from the Commonwealth Government, and I ask:

- a) Are these funds for specific capital projects which are still to commence, and for which further funds will be required of the State Government;

Answer: This funding comprises \$513 million for METRONET projects under development, and \$189 million for the Hospitals Infrastructure Package. The latter includes the following specific projects:

- the expansion of the Joondalup Health Campus (\$158 million);
- the expansion of the Osborne Park Hospital, including upgrades to the neo-natal facility and additional rehabilitation beds (\$10.6 million); and
- refurbishments of the Royal Perth Hospital (RPH), including a mental health observation unit, general refurbishment works and possible options for a medihotel (\$20.3 million).

- b) Has Treasury received the above mentioned Commonwealth funding;

Answer: Yes.

- c) What is the balance of funding required for these capital projects, and from where will this funding come; and

Answer: Of the specific projects listed above in (5a) the Osborne Park Hospital (\$14.3 million) and RPH Mental Health Observation Unit (\$4.0 million) are funded through State Government commitments in the 2018-19 Budget (the \$11.8 million covers a MHOA and associated authorised Mental Health Unit. The cost of the MHOA is \$7.9 million, with the Commonwealth contributing half (\$4 million)).

The outcome of final business cases for the other specific projects listed in 5a (the Joondalup Health Campus, refurbishment of RPH and Medihotel) will be reflected in future Budget papers.

- d) What impact will the State Government's funding for these capital projects have on the Government's operating deficit and net debt position, and when will these figures appear in the budget papers?

Answer: The balance of funding required for the remaining projects will be determined on the submission and Government approval of business cases for these projects.



Hon Dr Steve Thomas MLC asked:

- 1) Referring to Budget Paper 3 page 185, General Government Cash Flow Statement, and pages 170-179, Royalties for Regions:

- a) how much of the General Government interest paid by the State in each year of the 2018-19 Budget and forward estimates is funded by borrowings; and

Answer: Except for hypothecated revenue arrangements (such as spending on roads funded by the *Road Traffic Act 1974*), it is not possible to determine which outgoings are funded from any particular source (including borrowings). Over the forward estimates period, an average 87% of interest costs paid by the general government sector is for Consolidated Account borrowings. Outgoings from the Consolidated Account are funded by receipts from taxation, royalties, Commonwealth funding receipts paid in by agencies and borrowings – except for hypothecated revenue arrangements passing through the Consolidated Account, there is no direct allocation of funding sources such as borrowings to specific outgoings such as interest expenses.

- b) how much of the Royalties for Regions expenditure in each year of the 2018-19 Budget and forward estimates is funded by borrowings?

Answer: In the past, the State has effectively borrowed to fund Royalties for Regions in years where the Commonwealth Grants Commission process has effectively redistributed away more of the State's royalties than was required under the *Royalties for Regions Act 2009* funding formula. Such an outcome is not forecast to occur during the current forward estimates period.

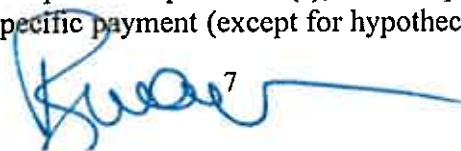
- 2) Noting the projected cash surpluses in 2020-21 and 2021-22 on page 4 and comparing this with Commonwealth revenues on page 74 which show total Commonwealth grants growing from an estimated actual of \$9.6 billion in the current year to \$12.5 billion estimated in 2021-22 – an increase of \$3 billion or 30% – and noting that \$2.6 billion of that \$3 billion is in untied grant funding:

- a) What amount of this increased revenue is committed to debt reduction;

Answer: Nil. Consolidated Account debt repayments forecast in the forward estimates of the 2018-19 Budget are all funded from windfall revenue that has been committed to debt repayments through the Debt Repayment Account. These revenue sources are detailed in Budget Paper No. 3 of the 2017-18 Budget (pages 10 and 273) and the 2018-19 Budget (page 223). With regard to tied grants, this funding is provided in support of specific spending such as the provision of health services and contributions to infrastructure projects. There are no tied grants for the purposes of debt reduction. Untied GST and North West Shelf grants noted on page 74 of Budget Paper No. 3 are paid into the Consolidated Account and form part of the funding pool for Consolidated Account outlays. As noted in response to question 1(a), it is not possible to allocate a specific funding source to a specific payment (except for hypothecated revenue arrangements). Accordingly, it not possible to specifically allocate a portion of movements in untied grants directly to debt reduction.

- b) What proportion of this increased revenue is being used to pay interest on state debt;

Answer: As noted in response to question 1(a), it is not possible to allocate a specific funding source to a specific payment (except for hypothecated revenue arrangements).



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Accordingly, it is not possible to specifically allocate a portion of movements in untied grants directly to the payment of interest costs.

- c) What amount of this increased revenue is committed to infrastructure; and

Answer: See response to question 2(b).

- d) What unfunded liabilities have been accumulated from recent Commonwealth Government announcements of major infrastructure funding including for METRONET?

Answer: There are no unfunded liabilities for infrastructure projects reflected in the 2018-19 Budget. However, business cases and robust cost estimates are currently being prepared for the majority of METRONET Stage One projects (including the Morley-Ellenbrook Line and Byford Rail Extension), to allow for a formal Government investment decision on the individual projects. When the Government makes an investment decision, it will also consider the associated funding arrangements and potential impact on net debt in excess of Commonwealth funded spending reflected in the Budget forward estimates period. Accordingly, any possible net debt impact and associated additional spending for these METRONET projects will not be known until formal investment decisions are made in respect of each individual project.

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