STANDING COMMITTEE ON ESTIMATES AND FINANCIAL OPERATIONS

2012–13 AGENCY ANNUAL REPORT HEARINGS

TRANSCRIPT OF EVIDENCE
TAKEN AT PERTH
MONDAY, 10 FEBRUARY 2014

Members

Hon Ken Travers (Chair)
Hon Peter Katsambanis (Deputy Chair)
Hon Martin Aldridge
Hon Alanna Clohesy
Hon Rick Mazza

Hearing commenced at 9.39 am

Mr TIMOTHY MARNEY
Under Treasurer, Department of Treasury, examined:

Mr MICHAEL BARNES
Deputy Under Treasurer, Department of Treasury, examined:

The CHAIR: On behalf of the Legislative Council Standing Committee on Estimates and Financial Operations, I would like to welcome you to today's hearing. Can you confirm that you have read, understood and signed a document headed "Information for Witnesses"?

The Witnesses: Yes.

The CHAIR: Witnesses need to be aware of the severe penalties that apply to persons providing false or misleading testimony to a parliamentary committee. It is essential that all your testimony before the committee is complete and truthful to the best of your knowledge. This hearing is being recorded by Hansard and a transcript of your evidence will be provided to you. The hearing is being held in public, although there is discretion available to the committee to hear evidence in private either of its own motion or at the witness's request. 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 before answering the question. Government agencies and departments have an important role and duty in assisting Parliament to review agency outcomes on behalf of the people of Western Australia. The committee values your assistance with this.

Do either of the witnesses wish to make a brief opening statement?

Mr Marney: No.

The CHAIR: Happy to go to questions?

Mr Marney: Yes.

The CHAIR: I might kick off with my comments, if that is all right. I want to talk about the 2012–13 midyear review and why there was not express mention of the fact that there had been a government decision taken to charge a dividend to ICWA. Why was that not revealed in that document?

Mr Marney: In the 2012–13?

The CHAIR: Yes.

Mr Marney: That is a matter that would need to be asked of the Treasurer. The document itself is the government's document. The department provides drafts and the final document is signed off by the Treasurer's office, so that is a matter for them.

The CHAIR: So, that was an express decision of the Treasurer that that item be removed?

Mr Marney: Again, that is a matter you would have to take up with the Treasurer or his staff.

The CHAIR: I am asking: were you given express instructions by the Treasurer or his office to remove that item from the midyear review?

Mr Marney: As part of the drafting process, a range of amendments are made by the Treasurer's office. Whether it is the Treasurer's desire or his officers', I cannot distinguish between the two. We get amendments to drafts. We put those amendments through in good faith with that document being the government's document.

The CHAIR: Right. When you say you cannot distinguish, do you have a communications agreement with the Treasurer's office?

Mr Marney: We do.

The CHAIR: Does the opening statement of that say that any communications by staff in his office to your office is taken to be from the Treasurer himself unless expressly stated otherwise or words to that effect? There is a pretty stock-standard clause at the beginning of all communications agreements to that effect.

Mr Marney: I do not recall precisely whether or not that is worded in the document. I am happy to get back to you on that. To clarify my earlier comment, the amendments to the draft came through from one of the Treasurer's officers. Whether or not he instructed that officer to make that amendment or that officer themselves made that amendment is what I cannot distinguish.

The CHAIR: Right. If you could provide a copy of the communications agreement you have between the Treasurer and yourselves.

Mr Marney: Yes.

[*Supplementary Information No A1.*]

The CHAIR: Was there ever any communication between the Treasurer himself and the Treasury office or is it all done by officers on his behalf?

Mr Marney: In what context?

The CHAIR: About whether or not there would be an express disclosure of the ICWA dividend in that midyear review?

Mr Marney: There was no discussion between myself and the Treasurer of that matter. I think it was only at the level of Treasurer's office officers.

The CHAIR: Who was the officer in the Treasurer's office that requested it be removed?

Mr Marney: The drafting amendments were provided to us by, I think, the principal policy adviser at the time, Mr Glenn Barrett.

The CHAIR: Right. I have a copy of a document that was released under FOI by your officers with a handwritten note in relation to an express declaration about the ICWA dividend being imposed by the government. In it is a handwritten note, "Do we need to declare this?" Do you know if that was the officer's writing or the Treasurer's writing? I am happy to provide you with a copy of it, if that helps at all.

Mr Marney: I am pretty familiar with that page.

[9.45 am]

The CHAIR: I am sure you are.

Mr Marney: That is not a question that a Treasury officer would normally ask; that is, our role is to declare matters and be as transparent as possible. So I suspect the handwriting you are referring to is coming from the Treasurer's office.

The CHAIR: Because in a letter that you sent regarding these matters you said it was the handwriting of a Treasury officer—sorry, someone in the minister's office, but you cannot be sure. It was just a document that was provided by the minister's office, you cannot be sure it was not the Treasurer's own handwriting.

Mr Marney: I am pretty sure it is not the Treasurer's own handwriting because I recognise that pretty well.

The CHAIR: But you cannot be sure what officer it was, only that your office dealt with Mr Bartlett?

Mr Marney: Yes.

The CHAIR: If that is the case—the fact that it was not declared—why was it then not at least outlined in the pre-election financial statements, which is not the government's document?

Mr Marney: Because it was a decision of the government that was factored into the numbers at midyear review, so it was not a new decision that had a financial implication that should be declared as part of the pre-election financial statement.

The CHAIR: How would an incoming government be aware that they actually had an obligation to make the books balance, they were going to need to actually find additional revenue of $30-odd million per annum, without it ever being declared? I mean, how is an incoming government supposed to know that that was an obligation? They would either have to change the law to allow for a dividend or find another $120-odd million.

Mr Marney: That would be one of the matters covered in the initial briefings for the incoming government.

The CHAIR: Nice surprise for them.

Can you think of another occasion where a matter like that has been removed? Because it is normal for those matters to be declared in the midyear reviews, is it not?

Mr Marney: It is normal for policy decisions to be declared except where there is some commercial sensitivity. Sometimes we will carry a decision, if you like, at a global level in the financial aggregates if matters such as commercial negotiations or, say, a purchase price has not been finalised and the state does not want to reveal its hand, so to speak. Similarly, in legal settlements we will factor something in at a global level but not declare it at an individual line item level due to those commercial sensitivities.

The CHAIR: I understand that from time to time, and I think there is a purchase price on the Sunset hospital, for instance, that is left as a blank in this year's midyear review.

Hon RICK MAZZA: Can you tell me which agencies have actually implemented the value-for-money program?

Mr Marney: The value-for-money audits?

Hon RICK MAZZA: Yes.

Mr Marney: I will have a crack. Education, health, planning and transport—there was a joint process there—and housing and police.

Hon RICK MAZZA: Have any savings or efficiencies actually been realised out of that?

Mr Marney: I would have to get back to you on the specific recommendations. I think, in large part, the audits identified significant improvement opportunities in governance and financial management across those agencies. So, it is not something that you can say, "Okay, we'll harvest $20 million for that." It is more that the audits led to a tightening up of their governance processes.

Hon RICK MAZZA: With WAPOL, in their firearms branch division there have, obviously, been some inefficiencies there. I wonder what inefficiencies were actually identified during that review?

Mr Marney: I am not sure that the audit actually identified any issues specifically in the firearms section. I think that was work that was already ongoing within WAPOL.

Hon RICK MAZZA: Is it possible to get a question on notice about that to find out whether any inefficiencies were identified within WAPOL?

Mr Marney: Can I just clarify: in relation to the firearms branch?

Hon RICK MAZZA: The firearms branch, yes.

[*Supplementary Information No A2.*]

Hon PETER KATSAMBANIS: We might be able to incorporate it. Are we able to access the reports and the final recommendations that came out of each of these audits?

Mr Marney: No, because the reports are provided to the economic and expenditure reform subcommittee of cabinet, so with that they are cabinet-in-confidence.

The CHAIR: I have a couple of questions to go back to. In answer to your previous question, you said matters where there is commercial sensitivity, was there a commercial sensitivity with respect to the ICWA dividend?

Mr Marney: Not that I am aware of.

The CHAIR: Looking at the document, it clearly was in there and through all of the drafts of the Treasury, it was clearly the view of Treasury that it should have been disclosed; is that fair to say?

Mr Marney: Our drafting had that matter disclosed.

The CHAIR: Yes. So what was the final consideration that caused it to be deleted from the document that was publicly released?

Mr Marney: As I indicated and as per the piece of paper you have got in front of you, it came through as an amendment from the Treasurer's office.

The CHAIR: A direction from the Treasurer's office?

Mr Marney: Correct.

The CHAIR: In terms of the documents that I have seen, there is handwriting, "Do we need to do disclose?", but was there ever a formal written request that it be taken out? How was it communicated that it needed to be removed to your office? Was that verbally or in writing?

Mr Marney: It was verbally.

The CHAIR: Again, who was the officer who communicated that to you?

Mr Marney: My understanding was that was Glenn Barrett.

The CHAIR: Did he give any reasons as to why it needed to be removed?

Mr Marney: Not that I recall. I leave that to your speculation.

The CHAIR: I could not possibly speculate as to why anyone would want to remove a government decision just before an election and then write letters to the RAC saying it was not there.

Hon ALANNA CLOHESY: Can I go back to look at the asset investment program review on the housing authority in the midyear review.

Mr Marney: In the midyear review?

Hon ALANNA CLOHESY: Sorry, in the *Government Mid-year Financial Projections Statement* on page 126. Can I get an understanding about what the 12.1 per cent reduction to the asset investment program is actually going to impact on?

Mr Marney: You should have received a response to budget questions you sent through to us ahead of this hearing. The answers to those questions were sent through on Friday. On page 5 of that document there is a breakdown of the various programs. For example, it shows community housing program impact, crisis accommodation program impact and so on.

Hon PETER KATSAMBANIS: Just on the program rationalisations that were highlighted by budget paper No 3 and in the midyear review, a total of $422 million in savings. I know you have provided some answers in relation to questions placed on notice, but the headline figure of $422 million, is that broken down by department and the savings expected through that program at a departmental level?

Mr Marney: The dollar allocation, if you like, of those savings targets are provided in budget paper No 2 in the spending changes for each agency, so they are allocated to each agency.

Hon PETER KATSAMBANIS: Apart from the dollar amount, who determines where those savings through program rationalisation are to be found? Were they determined through the budget process?

Mr Marney: As in the dollar amount per agency or how —

Hon PETER KATSAMBANIS: After the dollar amount, the actual specific savings, if you like, of how they are going to get to the particular target?

Mr Marney: That is to be determined by the relevant agency and in consultation with their minister.

Hon PETER KATSAMBANIS: Okay, thank you.

The CHAIR: I just wanted to know whether, in terms of this year's midyear review, did Treasury provide any advice prior to the decision to defer the MAX light rail by four years—with a decision to be taken, or to cancel it and reconsider it in 2017—versus the airport rail line as to which project would proceed? Did you provide any advice in relation to those matters?

Mr Marney: No, we did not.

The CHAIR: Are you able to give us any insight as to why the airport rail was proceeded with ahead of the light rail project?

Mr Marney: No, that was a decision of government that was communicated to us; we were not involved in the process or understanding why. Again, that would be a matter for the Minister for Transport.

The CHAIR: I notice there is a range of projects that the government has done cost–benefit analysis on, MAX is one of them and there is a range of road projects, but at this stage there is not a BCR for the airport rail. Is there actually anybody in government that actually does analysis and provides advice to the government on which projects should proceed and which should not, based on the BCRs?

Mr Marney: I would assume that would be the Department of Transport and the Public Transport Authority.

The CHAIR: So, that is not something that the Treasury —

Mr Marney: We do from time to time but only really when we are asked to assist and provide our capability. But where the capability exists within an agency, then we tend not to actually be involved in the cost–benefit analysis process.

The CHAIR: In the documentation that you provided us for questions on notice, there were a number of changes to the cashflowing for the Elizabeth Quay project. Is there any change to the total cost of that project?

Mr Marney: No, I do not believe so, not since last published in the midyear review and so on —

The CHAIR: It was in the budget. There are quite significant changes; what were drivers of those changes? The contract would have been signed at the time of the budget, so I was trying to work out why there have been such significant movements in terms of the cash flow.

Mr Marney: I would have to provide you supplementary information on that, as to what is behind those changes.

[*Supplementary Information No A3.*]

Hon ALANNA CLOHESY: I have had a chance to look at that table, thank you. Can you give me an idea for the construction and purchase of Government Regional Officers' Housing, how many houses that will affect, rather the total dollar figure, and where that will likely impact?

Mr Marney: I think the figure in terms of number of dwelling units is 291 and that would be spread throughout regional areas predominantly based on the demand and supply interaction in regional areas.

[10.00 am]

Hon ALANNA CLOHESY: So there is not the demand there once was in, say, Karratha?

Mr Marney: That is my understanding for that change, yes.

Hon ALANNA CLOHESY: Was that an agency decision or was that a Treasury decision?

Mr Marney: That was an agency decision after a Treasury request to review the asset investment program.

Hon ALANNA CLOHESY: Also, in relation to non-government organisations, housing is being cut under that program. How many dwellings were cut under that and the likely locations for those?

Mr Marney: My understanding is that it is 20 dwellings. I am not aware of the locations.

Hon ALANNA CLOHESY: Is it possible to get a list of locations, as well as a list of locations for the 291 mentioned?

Mr Marney: As much as Housing is able to provide us with that, yes.

Hon ALANNA CLOHESY: Are you suggesting that Housing may not have yet identified the exact locations, just the regions?

Mr Marney: That might be the case. I think that was a supplementary request, possibly A5—just while you were tweeting there.

The CHAIR: Not tweeting, but texting. In fact, it is A4.

[*Supplementary Information No A4.*]

Hon ALANNA CLOHESY: Thanks; I would have followed that one up.

Has any assessment been done on what likely impact there might be to employees looking for accommodation, particularly non-government workers, whether this will increase the likelihood of difficulty for those non-government workers?

Mr Marney: That is probably a level of detail that I would have to refer you to the Department of Housing for, sorry.

Hon MARTIN ALDRIDGE: The state budget revealed a policy to charge school students from 457 visa families $4 000. I understand that the government revised that policy and announced that it was going to only charge from the start of 2015, yet the midyear review has removed all of the expenditure, which was expected to be $120.4 million, from the budget. Can you explain why that would be the case? Is the policy not to charge students any longer?

Mr Marney: I think you are referring to $124 million in revenue that has been removed.

Hon MARTIN ALDRIDGE: Yes.

Mr Marney: The reason being that the revised policy settings also have concessions for families that have multiple children in schools, so there is a degree of, if you like, data analysis that needs to be undertaken once the school year starts. There is considerable uncertainty around the number of students that this would apply to as a result, both in absolute terms because of the need to identify how many students there were and also the number of students that are siblings. With those two uncertainties, my view was that we could not put hand on heart and say we could come up with a reliable estimate of the likely revenue until the school year started and the Department of Education undertook an appropriate census process to identify that number of students. Until such time as we had confidence in the number of students it would apply to, we were of the view that we could not include any revenue in the books.

Hon MARTIN ALDRIDGE: Obviously the Department of Education has been doing some work on trying to establish how many students and how many belong to each family. Do you know how far along they are in that process in providing estimates to Treasury?

Mr Marney: I suspect they have only just started, given that the school year started last week, and it would be likely that that census data would be available sometime in March and appropriately analysed.

Hon MARTIN ALDRIDGE: If we were going to charge from 2015, we would expect to see that appear in the next budget in terms of expected revenue that will flow from that policy?

Mr Marney: Correct.

Hon MARTIN ALDRIDGE: Is there any reason that in the budget papers the policy revenue appeared as a detailed administered transaction under the Department of Education? We learnt from the estimates hearings last year that Education was trying to distance itself rapidly from the policy. In fact, it said it was not even administering it; it was Education and Training International, which is part of the Department of Training and Workforce Development, and that Education would be administering the transactions. Is there any reason why it would appear in the education section of the department?

Mr Marney: Ultimately, the revenue would flow and then technically be collected by Education, because the students are in their system.

Hon MARTIN ALDRIDGE: To what extent is Education and Training International involved in the policy, because it is my understanding they were the ones that would be charging for the school fees as opposed to the Department of Education?

Mr Marney: I do not know.

Hon PETER KATSAMBANIS: ETI administer education on behalf of the Department of Education for other students. Does that revenue flow into the Department of Education's budget reporting figures?

Mr Marney: I do not know. I would have to look at specific revenue items to know where it flows. It may be that some of that revenue is retained by that entity as part of its cost recovery for its activity. There would be a mix.

Hon PETER KATSAMBANIS: In relation to the data that will inform the projections into the future, is 2014 going to be a baseline or is comparable data available pre the 2014 school year?

Mr Marney: I think 2014 would be the baseline given that the parameters of the policy were not known until late last year. There was not sufficient time to do a census last year, so 2014 would be the baseline.

Hon PETER KATSAMBANIS: Given the fluidity of this sort of information, because of the nature of 457 visas and the ability of people to move from that visa into other visa classes that will not attract a fee, how reliable will any estimates determined this year be in projecting revenue out to the next two to three years?

Mr Marney: It is a question of the analysis that is applied to that data and whether or not you can model some of those issues, so it would need to be supplemented with analysis of, as you have suggested, the frequency with which people on 457 visas transition to other visas or permanent residency or indeed the frequency with which they return to their country of origin. Those factors will have to be analysed and taken into consideration.

The CHAIR: I turn to page 309 of budget paper No 3 and the assumptions for what the residential tariffs will do over the forward estimates, basically increasing it by seven per cent for each year of the forward estimates. How was that assumption of seven per cent arrived at?

Mr Marney: The seven per cent figure is actually a decision of government; it is not an assumption of Treasury. That was decided as part of the budget formulation process, along with all other tariff and expenditure decisions of government.

The CHAIR: I am sorry, but I have regularly heard both the Treasurer and the Premier say that power prices are decided on an annual basis. So those figures are just speculation. You are saying that that seven per cent increase in each year of forward estimates was a specific decision of the cabinet that was incorporated to determine the budget bottom line.

Mr Marney: For the purposes of the forward estimates, government decided that those increases of seven per cent will be factored in.

The CHAIR: Do you know on what basis it is arrived at? Is there a science that is used to inform the government to arrive at that seven per cent figure?

Mr Marney: There is science behind the advice that goes to government and then government takes a decision on the basis of the various factors that it must consider.

The CHAIR: What is the science behind the advice?

Mr Marney: The science behind the advice is the review of demand projections and putting that against the forecasts of the various cost drivers for the supply of energy and seeking to ensure that there is an appropriate transition to cost recovery.

The CHAIR: Does that seven per cent see us moving closer to cost recovery or does it simply have us maintaining our position of cost recovery relative to where it is today?

Mr Marney: From memory, it had us at that point in time moving closer to cost recovery, but a lot has changed even since then; it is a fairly dynamic market at the moment.

The CHAIR: Were those same figures used for the midyear review or were new figures used?

Mr Marney: No; there was a standing decision of government. They were maintained as the platform for the midyear review.

The CHAIR: At the time of the midyear review, would seven per cent have maintained cost reflectivity or actually have moved us towards reducing that gap?

Mr Marney: At midyear review, reflecting changes in some of the cost profiles for the various energy producers and suppliers—right through Western Power, Synergy, Verve and so on—there were additional funds in the order of $558 million provided to the energy utilities in recognition of increased costs. In the face of increased costs of over half a billion dollars and no change in that seven per cent profile, it meant that from where we were at budget time we are actually slipping backwards slightly in terms of the rate of cost recovery. The revenue has not changed but costs have gone up substantially.

The CHAIR: That would be factoring in the changing gas contracts. I think the main one changes in 2016, does it not? Would that have already been incorporated into the original seven per cent figure?

Mr Marney: It would have been. It is a very complicated area, but essentially one of the things that has changed is how Verve and Synergy digest their commercial position in going forward, so the way in which they are running their business in the face of the various contractual arrangements they have.

The CHAIR: It could be made harder under the new structure. Does that $558 million that is added now allow that to basically maintain cost reflectivity with that seven per cent increase factored in over the forward estimates?

Mr Marney: No, it slips back because more of the cost is being covered by subsidy as opposed to tariff; therefore, the proportion of cost recovery by tariff has declined.

The CHAIR: What is the likely increase over and above that seven per cent? What would you need to increase power prices by to maintain cost reflectivity, from where we are currently in terms of cost reflectivity?

Mr Marney: My understanding is it is somewhere around 30 to 40 per cent. So, to cover the full costs of the provision of electricity, the tariffs would need to rise by 30 to 40 per cent.

The CHAIR: The current forward estimates are based on a seven per cent increase in tariffs. If tariffs only increase by the inflation rate at the next budget, how much additional funding will the government need to require in additional subsidies to those organisations?

Mr Marney: I cannot answer that offhand. That requires a fair bit of modelling, but suffice to say it will be substantial.

The CHAIR: Is it something you have modelling on or you have not done modelling on?

Mr Marney: It is not something we have modelling on at the moment, mainly because we have commenced the next budget process, so we are going through the exercise of establishing whether we need to update the costs further as part of the budget process. Any modelling that we would do now would be very quickly redundant.

The CHAIR: Is there a similar figure—such as the change in the US–Aussie dollar rate by $80 million a year for each 1c—or at least a rough figure for each percentage?

[10.15 am]

Mr Marney: Yes, the rough rule of thumb is about $100 million per one percentage point on tariff.

The CHAIR: So, we would be looking at a rough figure of $400 million just to maintain? In fact, if you are telling us that costs are going up, it will be at least $400 million to maintain. In fact, if inflation is three per cent, it is probably closer to $500 million.

Mr Marney: Based on that rule of thumb, that is about right.

Hon PETER KATSAMBANIS: Just on the costs of electricity and the commentary around the reduction in demand and the retail patterns, if you like, it has been sobering, for want of a better word. Has there been any modelling done into the future of whether that trend of reduction in demand for electricity produced by the major electricity producers is going to continue at a retail level or whether it is going to taper off?

Mr Marney: That demand modelling is undertaken by Synergy and reviewed by the Public Utilities Office, and also by Treasury. That tailing off in demand, or the reflection of the elasticity of demand to price, basically, is reflected across the forward estimates. As an economist, it is encouraging to see that price actually has an impact on demand.

Hon PETER KATSAMBANIS: My understanding is that it is not just price; it is also disruptive technology.

Mr Marney: There is that as well, which is a relative price issue, which takes our economics discussion to a new level.

Hon PETER KATSAMBANIS: So out of that $580 million-odd—the figure we have been talking about—has that been broken down between the increased costs to the producers at any level, the percentage attributable to the reduction in costs and the percentage attributable to these variations in demand because of price or relative price?

Mr Marney: I think certainly in formulating that figure there is a substantial breakdown within Treasury as to the various factors. Whether or not the demand changes are split between alternative technology impact and pricing impact, I would doubt it —

Hon PETER KATSAMBANIS: Sure, I understand that, but that first part: are we able to obtain that breakdown?

Mr Marney: Yes, we will provide that to the extent that we have it available.

[*Supplementary Information No A5.*]

The CHAIR: I just wanted to go to the changes between the midyear review and the budget papers in terms of the interest rates assumptions. The interest earned has now been reduced from 2.7 per cent to 2.6 per cent, but the consolidated account borrowings remain at four per cent, and over the forward estimates the interest earning rates have declined initially significantly and in the last year they have climbed back up again. What is the cause of that change in that assumption?

Mr Marney: The interest rate assumptions are driven by the interest rate actuals and projections that we get from the WA Treasury Corporation, and that is based on the trends in the yield curve out over the forward estimates period. So we actually take the market interest rates that prevail as our assumptions.

Mr Barnes: If I can elaborate, the Treasury Corporation manages the public bank account on behalf of Treasury, so they do the investment of the public bank account moneys. They provide the forecast earnings rates to us, which we adopt and are reflected on page 9 of the midyear review. They simply reflect the Treasury Corporation's current assessment of market conditions and likely future movement of interest rates, so I would expect that that downward revision in the 2014-15 earnings rate from 3.4 per cent at budget time to 2.8 per cent in the midyear review would reflect the Treasury Corporation's view that market interest rates will stay low for longer than previously thought.

The CHAIR: In terms of those rates what impact does that now have on the future fund? The future fund was basically based upon, effectively, instead of paying down debt, keeping the borrowings high and re-lending that money at a higher interest rate than we could borrow it for. Does this now not mean that the future fund is costing the state money; and, if it is, how much per annum?

Mr Barnes: No, it does not mean that. The future fund is carved out from the rest of the public bank account and invested differently. So, for the overall public account bank, the overriding criterion is liquidity. We need liquidity in the public bank account to pay the bills of government; therefore, the public bank account is invested in cash and very short-term securities. The future fund, given its long-term nature, has been carved out from the rest of the public bank account and is invested as a separate pool in much longer term instruments; therefore, it is yielding a higher return than the rest of the public bank account. In fact, since its inception it has yielded a return in excess of the government's cost of funds.

The CHAIR: By how much?

Mr Barnes: The total return on the future fund since its inception—this is as at the end of last year—has been 3.72 per cent. The cost of funds over the same period has been 3.37 per cent. That is a difference of 0.35 per cent.

The CHAIR: Since then we have lost the AAA credit rating; what impact will that have had?

Mr Barnes: It has not altered that dynamic. Our cost of funds has increased marginally, but not enough to offset that differential to what we are currently earning.

The CHAIR: So where are we placing the money at the moment?

Mr Barnes: Predominantly in semi-government securities, so other state government bonds, but also a portion in corporate bonds. By corporate bonds I mean the big four Australian banks.

The CHAIR: Any in gold yet?

Mr Barnes: No.

The CHAIR: Have they done any analysis in regards to the commitments that were made at the time that they would look at gold?

Mr Marney: We are still clarifying the enabling legislation of the WA Treasury Corporation. At the moment, it does not allow the corporation to invest in commodities. That is our understanding, but we are seeking State Solicitor advice on that matter.

The CHAIR: How many state Treasury bonds, I think you have called them —

Mr Barnes: Semi-government.

The CHAIR: Semi-government, but they are basically state. How many states are left now in terms of bonds that we are able to put the money into? How many states are left where we would be able to get a decent return on it?

Mr Barnes: The future fund currently is investing in the bonds of five other states and territories.

The CHAIR: What is the margin again?

Mr Barnes: It is 0.35 per cent. As I said, that data is a couple of months old, but it is still going to be of that order.

Hon ALANNA CLOHESY: I wish to ask about leave liability. The Health leave liability in the *Government Mid-year Financial Projections Statement* is approximately $98 million more than in the budget; also, I understand that Education informed Treasury that they are unable to meet their leave liability for a second year in a row—is that right?

Mr Marney: I think that is correct.

Hon ALANNA CLOHESY: So when did the Department of Health inform Treasury that they were unlikely to meet their leave liability cap?

Mr Marney: That was just part of the midyear review process, so that would have been through October.

Hon ALANNA CLOHESY: And that also was for the second year in a row?

Mr Marney: Correct.

Hon ALANNA CLOHESY: What is your understanding as to why Health is having such a difficulty meeting its leave liability?

Mr Marney: I could give you the blunt answer or the politically correct answer. We will go with the politically correct.

Hon ALANNA CLOHESY: I like blunt; let us go for blunt!

Mr Marney: I suspect that if you asked the Minister for Health or the acting director general, the answer would be along the lines of it is a very complex business, it runs 24/7, you have to have adequate coverage, and that makes it difficult sometimes to reduce leave liabilities for key service delivery areas, and front-line service delivery is the priority.

Hon ALANNA CLOHESY: Is there another answer you would like to give me?

Mr Marney: If you do not do anything about it, nothing happens. Having said that, I am aware that Health is making considerable effort now to try to achieve all that it can do responsibly and without compromising front-line service delivery.

Hon ALANNA CLOHESY: Have you got a sense of what "everything it can do" might be?

Mr Marney: It is a much more concerted effort to identify areas of excess leave liability and target those who are carrying excessive leave liability, and a much more concerted communications plan around the need to address this issue.

Hon ALANNA CLOHESY: So they are telling their staff to deal with it?

Mr Marney: Yes.

Hon PETER KATSAMBANIS: This is for Health, I guess, but the question probably really does not apply to Education: are you able to break down that leave liability between long service leave and annual leave?

Mr Marney: Basically, that would be a matter for Health because we do not have access to that data. I am happy to take it on supplementary, and we will get that information from Health just for simplicity, if it is available.

[*Supplementary Information No A6.*]

Hon PETER KATSAMBANIS: I imagine that is largely redundant for Education. The vast majority of the liability would be long service leave and the way they clear the annual leave each year.

Hon ALANNA CLOHESY: Yes, that was part of my question as to why did Education have difficulty meeting its liability?

Mr Marney: Just because of the accumulated long service leave.

Hon ALANNA CLOHESY: That also was for a second year in a row, too, though, was it not?

Mr Marney: Correct. The same politically incorrect explanation applies.

Hon PETER KATSAMBANIS: Does Treasury actually provide any assistance, guidance or, dare I say it, “advice” as to how these accumulated liabilities can be reduced over time?

Mr Marney: Yes, we do.

Hon PETER KATSAMBANIS: What is the nature of that sort of advice, with some reflection upon the two agencies we have been discussing?

Mr Marney: The nature of the advice to both is along the lines of identify your hotspots and at least stop the growth in the leave liability as a starting point. If people have multiple entitlements of long service leave, well, they are the ones to address straightaway, and if that requires directing people to go on leave, then that is what it requires.

Hon PETER KATSAMBANIS: In relation to the annual leave component, is there an issue around occupational health and safety generally about accumulation of leave?

Mr Marney: I think there is a well-established view that it is healthy for people to take their annual leave from an occupational health and safety perspective, but also from a risk management perspective. It is always healthy to have someone else do the job for a few weeks and ensure that everything is going smoothly, and indeed that everything is sound and above board as well.

Hon PETER KATSAMBANIS: Are there overall guidelines and targets for each individual department across government, or each individual agency, as to what the extent of leave liability should look like? What is acceptable and what is not acceptable?

Mr Marney: I think there are some broad benchmarks but there are no hard and fast rules applied. It is up to each agency to ensure that it manages its leave liability and that it does not essentially inflate its expenses by not managing its leave liability.

[10.30 am]

Hon PETER KATSAMBANIS: Is there a global figure across government of what leave liability would be?

Mr Barnes: Yes, there is. If you give me a moment I will try and find it for you.

Mr Marney: It will be in the appendices in both budget paper No 3 and the midyear review.

Hon PETER KATSAMBANIS: By the time I got to that page my eyes were probably glazing over!

Mr Marney: I cannot imagine why.

The CHAIR: Appendix 1 is always one of the best parts.

Mr Marney: They are outstanding documents really; you should read it from start to finish.

The CHAIR: I get excited when I am getting close to appendix 1 with the state consolidated figures.

Mr Barnes: If I can refer you to appendix 1 on page 90 of the midyear review, that is, the "Total Public Sector Balance Sheet". Under "Liabilities" there is an item called "Other Employee Benefits" which, at 30 June 2014, is estimated at $3.605 billion.

Hon PETER KATSAMBANIS: Internally would you have that broken down by agency?

Mr Barnes: Yes, we do.

Hon PETER KATSAMBANIS: And by subset?

Mr Marney: We have it by agency but not by leave type.

Hon PETER KATSAMBANIS: Would we be able to get that breakdown by agency?

Mr Marney: Yes; we are happy to provide that as supplementary information.

[*Supplementary Information No A7.*]

The CHAIR: One of the questions I have is in terms of the budget and population growth. Over the forward estimates you show a decline from the current 3.2 per cent down to, I assume, the two per cent is a more long-run average.

Mr Marney: Yes; it is still probably a touch above the long-run average.

The CHAIR: That seems to have been pretty much the same case for the last couple of years where we constantly predict a decline but it maintains itself. My question is more in terms of GST payments to the state. How do they calculate population and take account of population growth in a state like WA?

Mr Marney: The Commonwealth Grants Commission relies on Australian Bureau of Statistics projections for all states.

The CHAIR: Which will be even more conservative!

Mr Marney: Yes; they have to rely on the same methodology for population projections for all jurisdictions. They cannot basically mix methodologies by taking the population projections in each state's budget papers, so they are forced to rely on the ABS data.

The CHAIR: What is the mechanism if we then suddenly had 3.2 per cent growth? Everyone in Western Australia is going to agree that then there is a massive impact that that has on capital works and recurrent expenditure. What process is there then for topping up the state of Western Australia as a result of that growth?

Mr Marney: Through the year the GST distribution is updated for the latest population actuals published by the Australian Bureau of Statistics. I think that is on a quarterly basis.

The CHAIR: Does the way in which the GST is carved up accurately accommodate the cost of growth or is that something that needs to be relooked at, whether they are really funding the cost of growth?

Mr Marney: As in the cost of population growth?

The CHAIR: Yes; particularly both the capital works side and the recurrent. The recurrent is probably a little bit easier because once they are here you start to fund them on an equal basis. Does the cost of the capital works, whether that is massive upgrades to public transport, schools or hospitals, accurately reflect and allow for that cost?

Mr Marney: It accurately captures, firstly, the actual population increase and the service delivery demand implications of that increase. Where it gets very complicated is the divergent costs of providing both the services and the infrastructure across jurisdictions. A big chunk of what the grants commission does is it tries to understand the difference in cost, for example, in providing education services in Western Australia versus providing education in Victoria. Given the geographical nature of both jurisdictions, the demographics and the distribution of populations, remoteness and so on, the biggest areas of contention, if you like, in methodology are how you adequately capture the implications of the differences in service delivery costs across the states.

The CHAIR: Is there any work being done to try and get them to look at that in a different light?

Mr Marney: Every five years there is a major methodology review of the grants commission’s processes. Those reviews themselves take two years from start to finish. We have a team of people, as do all other jurisdictions, whose job it is to solely focus on those issues and provide commentary and input to the grants commission and its various methodology issues papers that it produces during those two-year review processes. We are currently heading towards the end of a two-year review at the moment. We are halfway through a review. The outcome of that review is due to be released early next year.

The CHAIR: Have we made any submissions around those areas that we have been talking about, about the cost of effectively doing business as a government in Western Australia?

Mr Marney: Constantly, yes.

The CHAIR: Are they public or are they held by the commonwealth?

Mr Barnes: Yes, they are. Indeed, we made one as part of the Greiner–Brumby review of the GST distribution that was conducted a year or so ago. The key focus of our submission to that review was exactly this issue that you are raising. It did not get much of a hearing, unfortunately, in the review’s final report.

Hon PETER KATSAMBANIS: Regarding the current review of the GST revenue carve-up, if you like, for want of a better term, there was a decision made by the federal Treasurer just before Christmas, I believe, around the treatment of iron ore fines. Is that decision reflected in the midyear review?

Mr Marney: Yes, it is.

Hon PETER KATSAMBANIS: It is?

Mr Marney: Yes.

Hon PETER KATSAMBANIS: I cannot recall the timing; whether the decision was made before or after the midyear review. I take it that the decision was made before.

Mr Marney: Yes.

Hon PETER KATSAMBANIS: Okay; and that was for two years?

Mr Marney: That was to extend the current treatment of iron ore fines through 2014–15 so that it actually takes you through to the methodology review. Then what happens to it after that will be a matter for the review of methodologies. Essentially, it is a holding pattern to reflect current treatment, knowing full well that a big chunk of the methodology review is how to actually deal with these high and low royalty rate category issues.

Hon PETER KATSAMBANIS: In the context of this review, is it the submission of Treasury that that treatment that has been allowed to continue for the next two years should continue into the future after the end of the review?

Mr Marney: I think that is our base position, but there are some other, if you like, preferred options in how to deal with royalties in that grants commission process more generally. As a minimum, hold it as it is, but I think we have submitted some views as to better ways of dealing with royalties more holistically.

Mr Barnes: Our view is that much more fundamental reform of the way the grants commission treats royalty revenue is required. This determination from the federal Treasurer on iron ore fines was welcome but, first, it is only temporary and, second, we think that much more fundamental reform is required. Our big concern with the current grants commission treatment of royalties is that the way they treat royalties is based on a high rate and low rate category; that is, what royalty rate states actually impose on minerals. In our view, that is very policy distortionary, or at least has the potential to be policy distortionary, which runs counter to one of the fundamental tenets of the grants commission process, which is it should be policy neutral. The way the GST is carved-up should not impact on government's policy decisions.

Mr Marney: Whereas at the moment it is a direct determinant as to what you do with your royalty rates.

Hon PETER KATSAMBANIS: That flows through into other aspects of both revenue and expenditure at various state levels. I think we are singing from the same hymnbook on that one.

The CHAIR: Going back to the cost, it has the same impact on cost structures as well, I would have thought. It forces government to make decisions that it may not want, it might otherwise take, in terms of the cost side as well, does it not, the GST distribution methodology?

Mr Marney: It should not do.

The CHAIR: I would just want to make sure that I understand in a very simplistic sense. Our argument, that makes sense to me, is the cost of getting police officers or nurses or teachers in Western Australia. If you do not pay them a reasonably high rate, there is a competitive market where they will just move out of those industries into the mining industry or high-paying employment. Is that pretty much one of the basic arguments that we would argue that they do not take account of?

Mr Marney: Yes; and we did argue that a few years ago, I think, as part of the last methodology review. That was actually recognised with a change in methodology. The cost implications of a jurisdiction's labour market environment is something that is now factored in. I would say it is probably maybe not to the extent we would like, but it is definitely part of the methodology now.

The CHAIR: The fact that we have to pay a police officer more because they could go and get a security job and probably earn double the salary with half the stress is now part of the methodology.

Mr Marney: Yes; it is part of the cost recognition.

The CHAIR: Right.

Mr Marney: Again, you can understand the difficulty in managing that issue from a grants commission perspective because how much of that is due to labour market forces and how much is due to the policy decisions of a government? It is recognised to an extent.

The CHAIR: I guess one of the questions I would have is then if we take, say, the new wages policy of the state government that says it is capped at CPI, is there not a risk that they will say, "Well, if that is your methodology, we can cap your GST payments."

Mr Marney: No; because the GST relativities are determined on the basis of actuals data, so it is a three-year averaging period with a two-year lag. Whatever happens in our GST distribution for next financial year, reflects the actual costs that we did incur in recent history, so it is not based on the projections.

The CHAIR: Right; but eventually that will start to flow into that.

Mr Marney: Yes.

Hon PETER KATSAMBANIS: Apart from general recurrent expenditure, does that same methodology flow through into the costs of infrastructure and, obviously, the stark relativities in relation to delivery per capita, if you like, between Victoria and WA—the easiest example?

Mr Barnes: As part of the last methodology review four years ago, we did have a small win in terms of the grants commission introducing a capital assessment, infrastructure assessment, that is driven, at least in part, by population growth, which is one of the arguments we had been pushing. We believe it still does not adequately capture the growth-driven pressures on infrastructure. A particular area would be resource sector–driven growth. For example, Onslow and the Wheatstone project and the pressures that that project will place on Onslow—both infrastructure and recurrent services. Obviously, Chevron is footing some of the bill but the state is also footing a fairly hefty bill. Our view is that those sorts of spending requirements are not captured adequately through the grants commission process; they are not captured through a general population impact on infrastructure spending.

Mr Marney: It is one thing to have population growth in the CBD or the Perth metropolitan area, but if you are having massive population growth in some of those remote areas, the cost dynamics are very, very different—not surprising.

Hon ALANNA CLOHESY: The cuts in housing programs were surprising.

The CHAIR: We will take a five or 10-minute break to get a cup of tea or glass of water and stretch your legs.

Proceedings suspended from 10.44 to 10.55 am

Hon ALANNA CLOHESY: This is your last estimates hearing in your current position. Congratulations on your new position.

Mr Marney: Thank you.

Hon ALANNA CLOHESY: This is your last week of work this week.

Mr Marney: In this job!

Hon ALANNA CLOHESY: Yes, your last week of working as Under Treasurer. The new position of Mental Health Commissioner is a very important one, obviously. How was that position advertised?

Mr Marney: It was not. The minister was canvassing options to appoint to that position and as part of that process consulted with myself as to seeking my recommendation for possibilities. As part of that conversation, I asked the minister whether or not she would consider me for the role. She was supportive of me performing the role and at that point handed all matters over to the Public Sector Commission to deal with in an appropriate way.

Hon ALANNA CLOHESY: Was the position vacant? Was Mr Bartnik's contract up at the time?

Mr Marney: I do not believe so, but I think it is part of the minister's strategy to bring someone in to oversee the greater integration of the Drug and Alcohol Office and the Mental Health Commission.

Hon ALANNA CLOHESY: So Mr Bartnik is staying on and yours is an overseeing role?

Mr Marney: No, I believe he is going on to other duties.

Hon ALANNA CLOHESY: Within the commission?

Mr Marney: Initially within the Public Sector Commission.

Hon ALANNA CLOHESY: Will there be a financial payout to him? His contract had not —

Mr Marney: His contract will be honoured, is my understanding.

Hon ALANNA CLOHESY: He is working out his contract as distinct from a payout on the contract in the Public Sector Commission?

Mr Marney: Yes.

The CHAIR: Are agencies required to have a 10-year asset investment plan? Is that part of their requirements under the state —

Mr Marney: Under policy settings, yes. There are not legislative requirements.

The CHAIR: No, but it is a Treasurer's instruction.

Mr Marney: Yes.

The CHAIR: Do most agencies actually fully comply with that in terms of the intent or is it an area in terms of overall budget management where we really probably could see some significant improvements in terms of trying to predict what our asset investment planning is?

Mr Marney: Most agencies comply. The overall settings that you are discussing are the policy settings of the "Strategic Asset Management Framework". Agencies comply with, particularly, that 10-year asset planning to varying degrees. Most comply; few comply well. I would say most are pretty good at having asset plans out to four or five years, beyond that the rigour drops away pretty quickly. It is an area that we continually seek to improve the level of planning in to ensure that agencies have a good understanding of their trajectory and their needs going forward with sufficient time for the assets to be well planned and considered for funding and so on. There are agencies that do it very well, but they tend to be the infrastructure-dominant agencies such as Main Roads, Water Corporation and the like, so that is not surprising they do it very well.

[11.00 am]

The CHAIR: In some of the documents I have seen, even Main Roads, it is pretty scant in the out years. That is an area I would have thought, particularly with the pressures that the state is under, where we do need to be lifting our game in terms of that long-term prediction, because what you spend today limits what you can spend tomorrow in terms of being able to inform the policy decisions of government, if you do not have that good planning. Arguably 10 years is too short even with some of that long-term planning.

Mr Marney: Certainly for some of the heavier infrastructure agencies, I agree with you probably 10 years is too short. While I am not here to offer views, I will do so anyway! I agree with you that we need to do much better in our planning space, not only to better understand what the future expenditure requirements are going to be and to be able to plan for that, but also to ensure that with agencies that need to plan their asset investment in coincidence with others, their 10-year asset plans actually match up or complement each other.

Hon PETER KATSAMBANIS: Given the description—I do not want the words in your mouth but the variability in compliance, if you like, across agencies—is there a need for some form of overarching guidance, planning or advice that can be coordinated either from Treasury or some other organisation within government to make sure we get everyone on the same page?

Mr Marney: There is substantial guidance provided in the "Strategic Asset Management Framework", so it is fairly substantial document, and support from Treasury officers dealing with the various agencies in the development of their strategic asset management plans. I would say there are probably some capability gaps across the sector that make that a bit more difficult than it should be.

Hon PETER KATSAMBANIS: Can those capability gaps be addressed by, perhaps, centralising or at the very least identifying where the capability lies?

Mr Marney: Certainly identifying. I did not have good experience with centralising things, so that is probably not the answer. Certainly, investment in capability by agencies is important. There are also some important mechanisms across government such as the Infrastructure Coordinating Committee. Part of its job is to bring agencies together and make sure they are focusing on long-term infrastructure and investment requirements but doing so in a coordinated way.

Hon PETER KATSAMBANIS: Would there be a role for the Auditor General to take up a greater interest in this area of an agency's performance?

Mr Marney: The Auditor General may consider it appropriate to comment on compliance with the "Strategic Asset Management Framework"; however, as the Auditor General would rush to remind you, he is not there to provide advice or assistance but to measure performance and compliance. Certainly, shining a light on it would not hurt.

Hon PETER KATSAMBANIS: I think initially shining the light, as you describe it, finding out where the capability gaps or simply the reporting gaps are is a start.

The CHAIR: It is potentially an issue for a committee like this to look at some of the agencies and how they are doing that work and whether we are getting a real picture of what the future holds for us so we can make informed decisions going forward.

Mr Marney: Probably the starting point missed most is what is the future service delivery; what does the demand horizon look like 10 years out, because your assets are there to support delivery of some form, and what does the supply chain look like 10 years out. They are the areas that agencies struggle with most.

Hon PETER KATSAMBANIS: Is there a requirement for more work around what the model for service delivery looks like?

Mr Marney: Yes. What does the supply chain look like? What is the service definition 10 years out, and I believe it should look very different from what it does today if we are making improvements.

The CHAIR: That is not just about external factors but also your internal factors about how delivery can change.

Mr Marney: Yes; how you do your business.

The CHAIR: That is an interesting point. Other questions?

Hon ALANNA CLOHESY: On program rationalisation, can I first ask about the Indigenous housing trust fund. It says in the *Government Mid-year Financial Projections Statement* that the Indigenous housing trust fund had a timing change and this then allowed some savings to be made. Can you explain to us what those timing changes were?

Mr Marney: I think there were delays associated with the James Price Point agreements and the expenditures associated with that development and this is reflective of a delay associated with that.

Hon ALANNA CLOHESY: With the Indigenous housing trust funds?

Mr Marney: Yes.

Mr Barnes: It is probably a question better directed to Premier and Cabinet, which administers these funds. My understanding is that the funds are being established; money is going into the funds. The delay is around the timing of expenditure out of those funds to reflect the current status of the project.

Hon ALANNA CLOHESY: I should ask Premier and Cabinet.

Mr Barnes: For more detail, yes.

Hon ALANNA CLOHESY: Okay; I will do that, thank you. Also, in terms of program rationalisation, how did Treasury determine which programs were to be rationalised? What sort of formula or benchmark was used?

Mr Marney: We did not determine which programs would be rationalised. We applied a base cut to agencies across the board and it was then left to them and their ministers to identify and determine which areas of program delivery they would seek to trim.

Hon ALANNA CLOHESY: Did you give them any guidelines in terms of how they could look at it?

Mr Marney: As is normally the case, we would have given them suggestions as part of our normal interactions with them. Ultimately, though, it was up to them. The Treasurer wrote to all ministers requesting they review their existing programs and activities to look at areas of service delivery that were no longer considered a priority or were not providing good value for money or could be delivered differently or reconfigured in some way.

Hon ALANNA CLOHESY: So, outsourced?

Mr Marney: Yes, or just done differently. Within Treasury a case in point is that we merged some functional areas and now have a closer working relationship, for example, with the State Solicitor's Office with an out-posted officer, whereas, previously, we had a very senior person performing those functions, so it is a different way of doing things.

Hon ALANNA CLOHESY: Thank you.

Hon RICK MAZZA: I go back to the value-for-money review program. What forward work is being done on covering agencies for their value-for-money review?

Mr Marney: There are no further value-for-money audits proposed. That initiative has essentially been replaced by the program evaluation process. Essentially, rather than relying on consultants, we are doing it in-house. We have established an area within Treasury whose sole focus is to help agencies with program evaluation. It has established an evaluation methodology that can be rolled out across agencies and there are savings built across the forward estimates associated with that initiative.

Hon RICK MAZZA: So the performance evaluation unit is basically taking over the role of evaluating those agencies?

Mr Marney: Yes.

Hon RICK MAZZA: How much is the new unit expected to cost in the 2013–14 year and forward estimates?

Mr Marney: It will not be an additional expenditure. We are absorbing it within our existing resources, but to give you a feel of the magnitude of the unit, it probably has one class 1 director position and probably half a dozen analyst positions of various levels.

Hon RICK MAZZA: What sort of time frame where you expecting for the unit to cover most of the major agencies with the performance evaluation?

Mr Marney: It is up and running now and examining particular areas as agencies bring them forward. It will function over the forward estimates on an ongoing basis, and the outcome of its work will feature in each respective budget process or midyear review process as government takes decisions around the issues that have been considered.

Hon RICK MAZZA: The Economic Audit Committee recommended creating incentives for agencies, what sort of incentives were they recommending?

Mr Marney: Incentives in what regard?

Hon RICK MAZZA: I have here under recommendation 8 that the Economic Audit Committee is creating incentives for agencies to routinely undertake evaluations.

Mr Marney: Essentially, I think it was saying that in the outcomes of evaluations in terms of efficiencies there be some retention of the savings as opposed to it all being harvested by Treasury. I think the environment we are in now is very different in that, really, this process is, in large part, about helping agencies live within their existing expense limits, but there is a central savings component associated with it. As I mentioned, there are savings across the forward estimates associated with this issue.

Hon RICK MAZZA: Thanks.

The CHAIR: I have a general question and will go to specifics in the midyear review. When are decisions actually incorporated into the state finances? For instance, if a piece of legislation is approved by cabinet, is it required at the time it goes to cabinet to have the financial implications of it attached to it or is that done at a later stage?

Mr Marney: It depends on the stage of the approval of the legislation. If the legislation has approval to draft, it often will not have the financial implications known at that point. Certainly, when it reaches approval to print and introduce, it is Treasury's strong preference that cabinet consider that decision with a full information set, part of that being the financial implications.

The CHAIR: Does that always occur? In light of your comment that it is your preference, that suggests that it does not always occur; is that fair to say?

Mr Marney: Yes.

The CHAIR: Obviously, again, that has implications in terms of sound financial management if you are taking decisions not knowing what the financial implications of them are. How regularly would we take decisions that lock us into positions that we do not know the financial implications of? Is that an area where the government is looking to change the way in which it does business to try and improve that? Is there any work being done to improve it?

[11.15 am]

Mr Marney: That is a very nice use of the word "we" to kind of lull me into a false sense of security.

The CHAIR: No, I would never do that!

Mr Marney: Obviously, I cannot divulge the decision processes of cabinet, but suffice to say it is a requirement in the cabinet handbook that financial implications of all submissions are detailed in the submission.

The CHAIR: Again, in terms of the midyear review there were a number of issues. I note there is one where, under your risks, you note that the Department of the Attorney General —

> … is facing pressure due to several contractual commitments that have been made without prior funding approval.

Is it because they were made at the agency level without funding approval or were they made by a cabinet decision? Do we know what those contractual commitments are?

Mr Marney: We know what they are and they were commitments made by the agency at agency level.

The CHAIR: What are they and what is the value of them?

Mr Marney: I would have to take that as supplementary, but, in essence, it is a range of mainly court security arrangements. My understanding was they were brought before government for consideration, the government rejected the submission and commitments were made regardless. That is why it is in there.

The CHAIR: Yes.

Hon ALANNA CLOHESY: It is a risk!

The CHAIR: Probably should have put some bigger spotlights on!

[*Supplementary Information No A8.*]

The CHAIR: How does that occur? How can an agency enter into a contractual agreement if they have specifically had it knocked back by cabinet?

Mr Marney: They have delegated authority to enter into procurement of and enter into contracts. The onus is on the agency to live within its expense limit. My concern is given the commitments they have made, that they will not be able to do that.

The CHAIR: So what sort of magnitude are we talking about?

Mr Marney: Again, I would have to get back to you, but it is not immaterial.

The CHAIR: Is it tens or hundreds of millions?

Mr Marney: No, not hundreds, but certainly in the order of 10.

The CHAIR: All right, we will make all that part of supplementary information A8. Is that something that does occur on a regular basis or is that very much a one-off?

Mr Marney: It has occurred before. Fortunately, it is uncommon, but when it does occur it is of extreme concern.

Hon PETER KATSAMBANIS: I am just trying to work out if the agency had delegated authority to enter into this agreement, why would they require government approval at cabinet or anywhere else in the first place?

Mr Marney: Approval of funding.

Hon PETER KATSAMBANIS: Approval of funding?

Mr Marney: Yes.

Hon PETER KATSAMBANIS: So they went through the process?

Mr Marney: Yes.

Hon PETER KATSAMBANIS: And yet they still chose to go ahead —

Mr Marney: Correct.

Hon PETER KATSAMBANIS: —with the procurement, I assume on the basis that they believed—and this is just an assumption, I do not know what the decision-making process was obviously, and you do not either—they could do it across their global limits for the agency. What sort of process is then implemented after the fact to make that determination as to whether they are going to be able to meet these commitments through their existing funding allocation?

Mr Marney: Well, that is—politely—their problem; they need to sort that out. But it is flagged in the risk statement because we have concern that they are already running very tightly in terms of their financial position and that any further stress in that position will result in, ultimately, the need for supplementary funding.

Hon PETER KATSAMBANIS: That supplementary funding for funding that has originally been rejected?

Mr Marney: Correct.

The CHAIR: Would it have been done with the minister's approval?

Mr Marney: I do not know. That would be a question for the relevant agency and the minister.

The CHAIR: You do not know whether the minister —

Mr Marney: No.

The CHAIR: I would have assumed that the minister would have to have been advised of it.

Mr Marney: Not necessarily.

The CHAIR: No? So they are related to court security matters?

Mr Marney: From memory, yes.

Hon PETER KATSAMBANIS: And that is within Attorney General?

Mr Marney: And accommodation issues within DOTAG.

Hon PETER KATSAMBANIS: DOTAG.

Mr Marney: Again, I will provide the supplementary information to clarify that, rather than commit to that response.

The CHAIR: The midyear review also included a reduction in funding for local government for roads. Was that an agency-level decision or was it a recommendation of Treasury?

Mr Marney: I think it is something that we initiated in exploring the timing of transfer of state roads to local government. When you transfer a state road to local government, we have to write the asset off the state's books, which means it is an expense impact. What we were concerned about is an historical pattern or a perceived historical pattern of delays in that process, that is —

The CHAIR: That is the transfer of roads. I am talking about the 27 per cent. Often the transfer is about the condition of the road and the value that it is transferred across as well.

Mr Marney: Yes, there can be delays due to that argy-bargy.

The CHAIR: Yes, argy-bargy. I know around Indian Ocean Drive, which is a number of them, there are roads that are going to be handed back to the local shires and they are saying, "We don't want them in that condition", because they're run down.

Mr Marney: Yes.

The CHAIR: So I am talking more about the 27 per cent that is part of the formal agreement between the state and local governments.

Mr Marney: Yes. That was a Treasury recommendation to hold, if you like, to the letter of that formal agreement at 27 per cent.

The CHAIR: I guess there will be an argument about what the letter was. So, it is not about the cash flow, because there was an argument that the local governments were not spending the money?

Mr Barnes: That was part of our reason for putting the recommendation on the table, but the decision is to cap the level of funding going to local governments as per the estimates at the time of the signing of the agreement a couple of years ago. Motor vehicle licence fee revenue has come in above estimate, or above what was estimated at the time of signing the agreement, which arguably, had the 27 per cent been fixed and maintained, would have resulted in local governments receiving a windfall over and above what they expected at the time of signing the agreement. So, our recommendation was to cap that level of funding based on those estimates at the time of the agreement.

The CHAIR: Is the agreement not that they will receive 27 per cent of the revenue that is received by the government from motor vehicle licence fees? Part of the logic of that is that if you have got more vehicles on the roads, you are going to have more damage or you are going to need more roads to put them on.

Mr Barnes: I believe that was the agreement, so the decision will require renegotiation of the agreement.

The CHAIR: Yes, so it is not about the original agreement; it does require a renegotiation of the agreement with local government?

Mr Barnes: Yes, that is correct, but it is providing local government a level of funding which they expected at the time of signing the agreement. So it is simply not giving them the additional revenue that is coming in over and above what was expected at that time.

The CHAIR: Yes, the state government is getting additional revenue as well over and above what they expected. You do not cap, you do not reduce motor vehicle licence fees, to say, "Well, we don't need as much revenue as we once did." In fact, you would increase them probably a little bit quicker than you probably did at the time of the signing of the agreement. At the time that the decision was taken, was any legal advice sought to work out whether that original agreement is a legally binding document on the state to provide that funding to local governments?

Mr Barnes: I believe we did seek that advice.

The CHAIR: So you are confident that local government will not be successful in any legal action to insist that you fund the full amount?

Mr Barnes: Yes, that is the advice we had.

Hon ALANNA CLOHESY: The National Disability Insurance Scheme, in the budget there was a dollar value of about $42 million as the state's contribution to that scheme in the 2014–16 period.

Mr Marney: In terms of the two sites, the My Way and the other site?

Hon ALANNA CLOHESY: That is right. But in the projection statement it says that that is an indicative estimate only because negotiations with the federal government had not been completed by the time the statement was under preparation. Have those negotiations been completed and what is the actual figure?

Mr Marney: I do not think they have been completed at this point. I think that the negotiations relate to not only funding contributions by both parties, but also and interrelated the scope of coverage of the NDIS as well. My understanding is those discussions are still underway.

Hon ALANNA CLOHESY: Are you aware when those negotiations or discussions might conclude? Because in the projection statement, it says early 2014, so when they might conclude? How will that affect the preparation of the budget?

Mr Marney: Hopefully, we would be in a position by mid-April to understand the implications for the state more accurately, such that Treasury could include those implications as part of the upcoming budget. We understand that there has been some delays at the commonwealth's end in terms of rolling out its launch sites and therefore understanding its financial obligations associated with that. But, hopefully, we will resolve that with the commonwealth in the next eight weeks or so.

Hon ALANNA CLOHESY: Have you got a sense of what those delays might have been? What has caused those delays?

Mr Marney: No.

Hon ALANNA CLOHESY: So they have just said, "Sorry, we're having a few problems and we'll get back to negotiations as soon as possible"?

Mr Barnes: My understanding is that it reflects experience to date in other jurisdictions where, first, there has been more people coming through the door than expected and, second, the cost, the package, per person is proving to be more expensive than originally thought. I think that the commonwealth is having a close look at some of the parameters of the scheme in light of that experience.

Mr Marney: Which we have warned them about repeatedly over the past 18 months or so.

Hon ALANNA CLOHESY: Even though the estimates of those costs were contained in the Productivity Commission's report?

Mr Marney: Our view has consistently been that those costs are grossly underestimated.

Hon ALANNA CLOHESY: In terms of how this rolls out in WA, the My Way sites will be evaluated separately from the NDIS sites, but then there will be some form of comparative evaluation in order to determine the way forward for WA in the national scheme. What involvement has Treasury had in the development of the methodology for the evaluation to ensure the accuracy of the dollar figures and the relevance to WA for those?

Mr Marney: The evaluation process is being driven out of the relevant agencies involved and out of the Department of the Premier and Cabinet. We would have fed into that process in some way, but not a significant contribution from Treasury.

Hon ALANNA CLOHESY: But given that you have got concerns about the cost of the individual packages in particular, and you have already expressed those, are you concerned about the way that the evaluation would be conducted in order to determine the actual cost, the real cost, of the rollout of those individual packages?

Mr Marney: No, I do not have a significant concern. I think it would be very clear, based on the aggregate expenditures and the number of cases dealt with through the NDIS and through those, if you like, pilots.

Hon ALANNA CLOHESY: But would you not be interested in looking at the evaluation to ensure that those costs were being measured accurately and that what has been included in expenditure is accurate and relevant?

Mr Marney: Yes, we will pick that up out of our budget reporting systems, so I am not concerned that we will lack transparency in that space. We will know through other mechanisms if it is not in the evaluation.

Hon ALANNA CLOHESY: But would you not be wanting to have a look at the evaluation methodology to ensure that after the event it is not too late?

Mr Marney: Yes, and I am sure we fed into that development of the methodology along those lines.

[11.30 am]

Hon ALANNA CLOHESY: You have had input into the development?

Mr Marney: I would expect so, but probably only to those elements.

Hon MARTIN ALDRIDGE: Can I ask some questions around the future fund?

Mr Marney: No!

The CHAIR: In the future!

Hon MARTIN ALDRIDGE: With the next Under Treasurer!

Mr Marney: Next week!

Hon MARTIN ALDRIDGE: I understand that the fund is established with $1 billion in seed capital from royalties for regions. I think in the midyear review there was somewhere in the order of $300 million in there at the start of the financial year and expected to be double that almost by the end of the financial year. In relation to the $1 billion, it is coming from the royalties for regions fund but I cannot find it in the expenditure in the midyear review in terms of the royalties for regions fund expenditure. Is it just notional that it is coming from money that would have come to the royalties for regions fund rather than something that has come in and gone out?

Mr Barnes: No. It is a physical transfer of cash out of the royalties for regions fund into the future fund.

Hon MARTIN ALDRIDGE: Why would I not be able to find it in royalties for regions fund expenditure?

Mr Barnes: I am not sure. Give me a moment and I will see if I can find it. It might take me a while; it is a very long appendix on royalties for regions. But it is definitely an expenditure from the royalties for regions fund.

The CHAIR: I just did a quick search under the royalties for regions section; I could not find anything either.

Mr Barnes: I am struggling to find it myself, I have to say. I can take that one on notice. I can assure you that it is a physical transfer of cash from one fund to the other fund. That transfer of cash out of the royalties for regions fund by legislation is considered an expenditure for royalties for regions purposes. I will just need to take on notice the reporting of that in the budget papers.

[*Supplementary Information No A9.*]

Hon MARTIN ALDRIDGE: With respect to that transfer of those funds, would that contribute to the limit which is applied to the royalties for regions fund under section 8 of the act?

Mr Marney: The limit under the Royalties for Regions Act applies to the balance in the royalties for regions fund. It is an expenditure which reduces that balance.

Hon MARTIN ALDRIDGE: From 2016–17 onwards there is a one per cent royalty revenue that is going to continue to flow to the future fund. That will not be linked to the money coming into the royalties for regions fund?

Mr Barnes: No.

Hon MARTIN ALDRIDGE: So the 25 per cent of royalties will still drop into the royalties for regions fund and then one per cent of total royalties will continue to go to the future fund?

Mr Barnes: Yes.

Hon MARTIN ALDRIDGE: It will not be linked in any way to the royalties for regions fund?

Mr Barnes: Correct.

The CHAIR: Following on from the royalties for regions fund, in the midyear review there were a number of royalties for regions items that actually had expenditure further delayed. Two of the big ones were in health. I note that going forward it is listed as next year you expect to have a balance, based on the current forward estimates, of over $1 billion, climbing to almost $2.6 billion by 2016–17. In light of the fact that there is a requirement to keep the balance at below $1 billion, how do we reconcile that? If we are to continue to meet that requirement of having less than $1 billion in that fund, will that not require net debt to rise by a significant amount to meet it, if it is still government policy to maintain less than $1 billion in the fund?

Mr Marney: The $1 billion cap on royalties for regions is set in the legislation. There are two ways to manage the expected balance: one is spend it, in which case you have a net debt impact which would be the magnitude of the funds over —

The CHAIR: An extra $1.5 billion to $1.6 billion?

Mr Marney: Yes. If you did not spend everything down to less than $1 billion, the alternative mechanism would kick in in terms of the legislation and the 25 per cent appropriation of forecast royalty revenues would not flow. The appropriation at budget time would have to stop to prevent it exceeding $1 billion.

The CHAIR: The third option, I guess, is change the legislation, which is what happened with ICWA.

Mr Marney: The third option would be to change the legislation to increase the cap or decrease the flow. Either way, spend it or you lose it is the bottom line.

The CHAIR: It is more decisions of cabinet as to whether to spend it or not. I guess that then raises for me an issue around the whole question related to using a net debt figure. Those expenditures artificially change that net debt because obviously some policy decision has to occur at some point in the future to manage those. Would we be better off using a gross debt figure as the measure of state debt rather than net debt?

Mr Marney: Increasingly, we focus on both. Prior to having specific-purpose accounts of this sort of magnitude, it was not really an issue because all we ran was the public bank account and that was fairly stable in terms of the level of asset held there. Movements in net debt were very closely correlated to movements in gross debt, so net debt made sense. However, since there have been a number of special-purpose accounts—like the RFR fund, like the future fund—in place, the coincidence of movement in net debt and gross debt has diminished and therefore we need to look at both, and increasingly the rating agencies are looking at gross debt. I think Standard and Poor’s in the ratings downgrade announcement actually cited gross debt as one of the key reasons for their concern, understandably because, as you are suggesting, royalties for regions either gets spent or the legislation has to kick in. A rating agency would reasonably assume that the net debt enhancement from that high balance would be eroded at some point in the future.

The CHAIR: I do not know if you have a list of them. We tried to get them last time and I think it all became a bit too hard. We got the specific-purpose accounts but there are also a range of other accounts like the road trauma trust fund. Actually, the road trauma trust fund is probably a specific purpose. There are also other funds like the taxi industry development fund where there would be increasing amounts of cash held in those that is actually for a specific purpose. It cannot be used for general government revenue but we seem to have seen an increase in the accumulation of funds in those accounts. Does Treasury do any monitoring of those sorts of agency accounts where they are allocated for specific purposes to try and monitor? Are we seeing an increase in the amount of cash held in those which is giving a false picture of what real net debt is?

Mr Marney: It is fair to say that wherever we see money, we monitor it. Particularly with special-purpose accounts, if they are not being expended on the purpose for which they exist, it then raises questions with us: first, is the purpose is still relevant; second, can we harvest that money? In the midyear review, page 145, appendix 5, we have actually included for the first time an appendix on special-purpose accounts in an endeavour to increase the transparency of these accounts. The accounts considered in that appendix are not every single account because that would be a very, very long list but we have tried to cover the material special-purpose accounts so that you do have a transparent presentation of the status of those accounts.

The CHAIR: Which actually raises a question regarding the Perth parking licensing account. As I understand it, there has been a decision taken to transfer a significant amount of the surplus in that towards the cost of the underground bus station in Perth.

Mr Marney: Yes.

The CHAIR: Do you know when that decision was taken?

Mr Marney: I cannot remember offhand. I would have to take that as supplementary A10.

[*Supplementary Information No A10.*]

The CHAIR: The other one that intrigues me in terms of debt is often, again, it is the total debt across the public sector that is considered as the net debt figure. My reading of the budget papers is where we have actually seen significant growth is in the general government sector.

Mr Marney: Correct.

The CHAIR: I keep hearing talk about one way of addressing the debt problems of the state is to sell assets in the non-financial public sector. Whilst that might bring down the total net debt figure, does that help resolve the underlying problems of the debt for the state government where the bit that we have to repay is out of the general government sector? Most of the debt held in the non-financial public sector is against an asset that, in theory, should be income-producing—some in the energy area are not. If you sell that asset, first, you lose the future income of that asset and, second, if it has income that is at least covering its cost, you actually have not really resolved the real problem, which is the increasing debt for the general government sector which is pushing the interest bill up. It is probably up around the equivalent of the fifth or sixth biggest agency in terms of annual recurrent expenditure. Is that something that we need to be watching as a committee, that differentiation, or as a Parliament, that it is not just about the total figure?

Mr Marney: Part of the credit rating agency assessment is how much of the debt is income supported and how much is taxation supported. Your comment that the proportion of taxation-supported debt has increased fairly dramatically in recent years, that is associated largely with the significant rise in expenditures on health projects in particular, and I think some roads as well, which are taxation supported rather than generating their own income in some way.

The CHAIR: If we are trying to manage that debt, apart from just not incurring future debt, there is no ability for asset sales, how do we reduce the debt in that area?

Mr Marney: The only way to reduce debt in that area is to run healthy general government sector surpluses. That is the only way to pay off your debt.

The CHAIR: So the asset sales in the non-financial public sector will not actually have an impact in that area?

Mr Marney: To the extent that if there is any asset sale in, if you like, the trading enterprise sector, the proceeds of that asset would flow back to the general government sector, so general government debt would be reduced as a result. It is not really addressing the concern that you have raised, which is the debt is not supported by income associated with those assets.

[11.45 am]

Hon PETER KATSAMBANIS: Moving on, but still about debt in one way or another, to unfunded superannuation liabilities. What is the most recent actuarial determination of what the current unfunded liabilities are?

Mr Marney: We will just dig that out of the appendices in the midyear review, but, broadly speaking from memory, the unfunded superannuation liabilities are starting to turn, not surprisingly, given the demographic profile of the public sector.

Mr Barnes: Across the total public sector at 30 June 2013, the unfunded superannuation liability was \$8.143 billion. That is projected to fall to \$7.723 billion at 30 June this year and, as the Under Treasurer indicated, is forecast to decline the subsequent year.

Hon PETER KATSAMBANIS: So we have come down the other side of the peak.

Mr Marney: Yes.

Mr Barnes: Starting to.

Hon PETER KATSAMBANIS: Yes, starting to, obviously. Do we have any projection at this stage where, on current trends, that is going to peter out to negligible?

Mr Barnes: I think we are looking at a 20-year time frame from the date that the major unfunded schemes were closed to new members, which was a decade or more ago now—probably 15 years ago. When that cohort of employees who are covered by those super schemes exit the sector, that is when we will see the liability drop away. I think we are looking at the next 20 years, but we are on that path.

The CHAIR: So when they leave the sector, you make a full payment across to the superannuation board.

Mr Barnes: Yes.

The CHAIR: So it is a one-off payment; it is not an annual payment for their pension.

Mr Marney: It is not a pension scheme; it is a superannuation scheme, so when they leave, our liability crystallises and we pay out their superannuation.

The CHAIR: Then it is the superannuation board's job to actually manage that asset to be able to pay the —

Mr Barnes: Yes, and our liability is extinguished at that time.

The CHAIR: Is it GESB that you transfer it to or some other agency?

Mr Marney: At the moment it is GESB.

Hon PETER KATSAMBANIS: What is the annual transfer figure?

Mr Barnes: We would need to take that one on notice.

Mr Marney: It is less than a billion dollars based on just those numbers that Michael cited previously.

[*Supplementary Information No A11.*]

Hon PETER KATSAMBANIS: Actuaries have funnier ways of calculating it than we do, though.

Mr Marney: Yes; they are just funny—full stop!

Hon PETER KATSAMBANIS: You said that!

Mr Marney: I know some lovely actuaries—very good, very intelligent and competent people.

The CHAIR: Which way does the low interest rate affect that? Does the fact that we are at current low interest rates actually increase the amount or decrease the amount? So, if they start to go up again —

Mr Marney: The liability is calculated based on the net present value of the payout, so it is an inverse relationship.

The CHAIR: So, as interest rates start to climb, in theory, our liability will also.

Mr Marney: Yes, because it is more heavily discounted.

The CHAIR: I know that movement in interest rates has quite a significant impact.

Mr Marney: Yes, it causes the liability to bounce around quite dramatically.

The CHAIR: Which is the same as some of the leave liability, though, is it not, as well?

Mr Marney: Yes.

The CHAIR: Agencies can actually be reducing the number of hours but their actual dollar figure can actually still go up.

Mr Marney: Yes.

The CHAIR: It is just depending on those other factors.

Mr Marney: Another actuarially determined figure.

The CHAIR: In terms of leave liabilities, because it is not all done on a net present value, obviously your annual leave is just done on a current value, is it?

Mr Marney: It would be, yes.

The CHAIR: So, long service leave and potential payouts are the only ones that are done on an actuarial basis.

Hon ALANNA CLOHESY: And the enhanced voluntary separation scheme.

Mr Marney: Yes. That is calculated differently, but yes.

Hon PETER KATSAMBANIS: But there are different inputs, too. They might be actuarially calculated, but there are different inputs going into those calculations than go into the superannuation liability.

Mr Marney: Correct; yes.

Hon PETER KATSAMBANIS: It is a moving feast on the net present value, depending on the profile of the cohort of employees.

Mr Marney: Yes.

The CHAIR: My next question is: does the Treasury or any of your officers ever receive instructions by way of text messages from the minister's office?

Mr Marney: Not to my knowledge.

The CHAIR: So that is never a form of communication that is used between the department and the minister's office?

Mr Marney: Not to my knowledge. Only for basic —

The CHAIR: "See you at 10" or something?

Mr Marney: — "Under Treasurer, where are you? You're late again."

The CHAIR: Surely not! And you say, "At the estimates."

Mr Marney: No; we are pretty firm in those sort of communication mechanisms. Not surprisingly, we like stuff in writing and we do not consider text to be a sufficient form, so we have our communications agreement set up such that we get either written communication, handwritten formal correspondence or email.

The CHAIR: Although sometimes verbally in terms of removing things from midyear reviews.

Mr Marney: Sometimes verbally, yes, and we take verbal instruction as a normal part of business.

Hon ALANNA CLOHESY: Can I just ask about the enhanced voluntary separation scheme? It was underestimated in the budget by $32 million.

Mr Marney: Yes.

Hon ALANNA CLOHESY: Why did that occur?

Mr Marney: One of the principal reasons was we underestimated the leave liability that would be associated with the cohort of people who chose to leave. That was the biggest issue.

Hon ALANNA CLOHESY: So public servants who have been there longer are choosing to leave under this program.

Mr Marney: Yes.

Hon ALANNA CLOHESY: Have we got a sense of what the demographics are under the scheme?

Mr Marney: No, we do not, but the Public Sector Commission would probably be able to give some information along those lines.

Hon ALANNA CLOHESY: So, senior public servants leaving and —

Mr Marney: Not necessarily senior but long-serving public servants.

Hon ALANNA CLOHESY: I might pick that up later.

Hon RICK MAZZA: I am a little bit interested to know a bit more about the umbrella legislation. If you could just explain that somewhat and how that will actually benefit government.

Mr Marney: At the moment, the government's arguments around the various government trading enterprises are highly variable. They do not align particularly well with the budget process and the decision making and approvals that are associated with that, which is why you sometimes see delays in concurrence and tabling of statements of corporate intent and so on. So the umbrella legislation is about bringing some uniformity to the way in which government trading enterprises are governed to ensure that there are appropriate controls in place across all of them at a ministerial level and to ensure that their own governance processes align with those of the government such that the government has ultimate say on, in essence, the debt implications associated with the decision making of those entities.

Hon RICK MAZZA: With the consultation process on that legislation, whereabouts is the department up to?

Mr Marney: From memory, the Treasurer wrote out to relevant ministers towards the end of last year. The feedback from that process has largely been received and we are just working through it now.

Hon RICK MAZZA: Any idea when that legislation will be presented to Parliament?

Mr Marney: It would be ready for consideration by cabinet probably in the middle of this year. When the government chooses to prioritise it, obviously, is up to them.

The CHAIR: I have got a couple of last questions. Just to see if you are in a reflective mood as your time before this committee finishes, Mr Marney, in September 2008 you released a press release in which you said, "On the basis of the above estimates, the Royalties for Regions policy would—in the absence of offsetting changes—take the net debt to revenue ratio to around 53 per cent" and you pointed out that the current limit for the AAA credit rating at that point was 47 per cent. Did we make the necessary offsetting changes?

Mr Marney: On the basis of the outcome of the most recent credit rating review by Standard and Poor's, I leave you to make that judgement.

The CHAIR: My only other final question for you is: does the Mental Health Commission need a budget increase?

Mr Marney: No. What it will benefit from is an intensive review to ensure that it is providing best value for money for taxpayers and for the recipients of its services.

The CHAIR: With those points, we will look forward to having you back to discuss those matters at a future hearing.

Can I just say that I think I have sat on this committee for the time that you have been the Under Treasurer and I have always appreciated the way in which you have engaged with the committee, sometimes probably not to the pleasure of others outside of this committee. I do think it has been a really important part of assisting the parliamentary process in terms of our understanding of the budget and the budget processes and the way it appropriates. You mentioned the week earlier. Ultimately, the reality is that if you are around this place long enough, it is a week as some go and others arrive to take on the Treasury bench and have to deal with those issues if they have not been dealt with. I do want to personally and on behalf of the committee thank you for your contribution and wish you all the very best in your endeavours. Mr Barnes, if we see you back here, we look forward to that in the future as well, depending on what comes of the replacement.

Just to finish off formally, the committee will forward any additional questions 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 you have taken on notice. Responses to these questions will be requested within 10 working days of receipt of the questions. Should you be unable to meet this due 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. If members have any unasked questions, I ask them to submit these to the committee clerk at the close of the hearing.

Again, on behalf of the committee, I thank you for your attendance today and, hopefully, you can get to your next appointment on time.

Mr Marney: Thank you very much.

Hearing concluded at 11.57 am