

Estimates and Financial Operations Committee
2017-18 Budget Estimates Hearings - Additional Questions



Department of Treasury

Hon Peter Collier MLC asked:

1. With regards to the Iron Ore revenue write down of \$1.748 billion, the Treasurer has indicated during estimates in the Legislative Assembly that a change in the methodology between the PFPS and this budget resulted in a reduction of \$977.1 million.
 - (a) What is the funding reduction year by year due to this change in methodology?

Answer: The year-by-year change is as follows:

	2017-18	2018-19	2019-20	2020-21	Total
Revenue impact (\$ millions)	12.2	-171.6	-472.6	-345.1	-977.1

Note that the \$977.1 million amount includes the outyear 2020-21, which was not part of the PFPS revenue projections. Excluding 2020-21, the impact of the revised methodology was a downward revision of \$632.1 million at the 2017-18 Budget.

The basis for this change in methodology is explained on page 75 of the 2017-18 Budget Paper No. 3: Economic and Fiscal Outlook.

- (b) With regards to the remainder of the write down please provide a breakdown as to the amount and reason for the reduction in revenue over each year of the forward estimates?

Answer: The disaggregated impacts on iron ore royalty revenue at the 2017-18 Budget relative to PFPS were as follows:

Revenue change relative to PFPS (\$ millions)	2016-17	2017-18	2018-19	2019-20	Totals
- Revised methodology	-	12.2	-171.6	-472.6	-632.1
- Iron ore price movements	-145.8	45.6	-41.7	-37.8	-179.7
- Project volume change ¹	13.0	-	-	-	13.0
- Iron ore freight forecast ²	-7.8	-48.7	-69.5	-53.5	-179.5
- Exchange rate movements	-2.5	-194.1	-206.2	-207.1	-610.0
- Actual variations ³	-159.7	-	-	-	-159.7
Annual revenue impact	-302.7	-185.1	-489.1	-770.9	-1,747.8

¹ The iron ore sales projections for one project were revised up due to a material change to forecast tonnages.

² An increase in forecast market-based ocean freight rates increases the shipping deduction, which can be subtracted from received prices for the purpose of royalty calculations.

³ Actual variations refer to the difference between forecast royalty receipts and quarterly royalty collections. These account for factors beyond the benchmark iron ore price movements, exchange rate and freight rates such as the impact of lagged pricing on contracts, and volatility in the premium and discounts for products.

2. What is the breakdown of the \$1.7bn reduction in GST Grants over the forward estimates period due to:

- (a) population changes (and/or census changes)
- (b) lower than forecast GST relativities and
- (c) any other changes (with explanation of these other changes)?

Answer: The table below summarises the breakdown of the \$1.7bn reduction in GST grants. Note the revision from lower forecast GST relativities is also substantially indirectly impacted by revised population estimates.

	2016-17	2017-18	2018-19	2019-20	Total
PFPS GST estimates	1,970	2,595	3,813	4,500	12,878
<i>Direct population impact</i>	-9	-133	-117	-129	-388
<i>Relativity impact</i>	-0	-238	-651	-322	-1,211
<i>GST pool</i>	-17	+5	-15	-82	-109
Budget GST estimates	1,944	2,229	3,030	3,967	11,170

3. With regard to the \$1.7 billion write down in GST revenue could the Department please provide advice regarding the population forecasts utilised in the budget:

(a) Does Treasury utilise Commonwealth population forecasts across the forward estimates for GST receipts?

Answer: Treasury population forecasts are derived from the latest ABS estimates, escalated by the Commonwealth's population growth forecasts.

(b) Are these forecasts for GST purposes the same as general population forecasts that return to the states long run average over the forward estimates period?

Answer: No.

(c) Has this methodology changed from previous budget processes? If yes, what is the nature of this change?

Answer: No.

(d) Over the period 2008-09 to 2017-18 what has been the accuracy of this methodology?

Answer: See table below. Note that Western Australia's share of national GST grants is based on its population share and its GST relativity.

WA's Population Share - Budget Estimate vs Final Commonwealth Determination and GST impact of the Difference

	WA's Population Share			Change in GST (\$m)
	Budget Estimate	Final C'wlth Determination	Change	
2008-09	10.18%	10.18%	0.01%	2.8
2009-10	10.26%	10.25%	-0.01%	-5.6
2010-11	10.30%	10.31%	0.01%	3.7
2011-12 ^(a)	10.44%	10.62%	0.18%	83.6
2012-13	10.80%	10.80%	0.00%	0.6
2013-14	10.96%	10.94%	-0.02%	-9.8
2014-15	11.08%	10.93%	-0.16%	-84.9
2015-16	10.96%	10.88%	-0.08%	-46.4
2016-17 ^(a)	10.82%	10.53%	-0.29%	-173.1

(a) Reflects Census population updates

(e) Would you please provide a table outlining the budget forecasts vs actuals for the period 2008-09 - 2017-18 and changes to GST revenue?

Answer: See table above.

4. Will Treasury advise if funding provided by the Commonwealth for the NDIS is treated as revenue in the Budget (i.e. it reduces the net operating balance)?

(a) If yes why does this funding not appear in Table 2?

Answer: Yes, Commonwealth funding for the NDIS is treated as revenue. However, it does not impact the net operating balance as it funds NDIS expenditure. This funding does not appear in Table 2 as it has not changed since the PFPS.

(b) If this revenue that commences in 2017-18 is taken into account to what level does this reduce the overall write-down?

Answer: As this revenue was included in the PFPS, and has not changed since then, it does not affect the overall write-down.

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