Division 12: Treasury, $5 111 197 000—

Ms J.M. Freeman, Chair.

Mr B.S. Wyatt, Treasurer.

Mr M.A. Barnes, Under Treasurer.

Mr M.J. Court, Deputy Under Treasurer.

Mr R. Watson, Executive Director, Economic.

Mr A. Jones, Executive Director, Strategic Policy and Evaluation.

Ms K. Gulich, Executive Director, Infrastructure and Finance.

Mr Z. Khan, Executive Director, Public Utilities Office.

Mr D. Corbellini, Principal Policy Adviser.

[Witnesses introduced.]

The CHAIR: I give the call to the Leader of the Opposition.

[2.50 pm]

Dr M.D. NAHAN: As usual, I will go through a number of things, but I will start with some issues with the budget of the Department of Treasury itself. I refer to page 132 of budget paper No 2. I raised this with the Premier yesterday. In the line items for public sector reform and senior executive service reductions, there is approximately $3 million of additional public sector reform expenditure, and about $4.5 million over the forward estimates, including 2017–18, for senior executive reductions. Can the Treasurer tell me what the public sector reform moneys will be spent on?

Mr B.S. WYATT: Yes, I can. I can deal with both. I will deal with the senior executive service reduction first. That is a whole-of-government position that we took to the election, about reducing the number of senior executive staff in government. That has been rolled out, and we are continuing to roll it out. That equates to four positions in Treasury. In the area of public sector reform, the member might have seen that the report of the special inquiry by John Langoulant made some recommendations around reskilling, or providing the skills for central agencies. Both the Department of the Premier and Cabinet and Treasury, over a long period, effectively stayed flat with their budgets, whereas most agencies obviously increased dramatically. For Treasury, that works out to be 11 full-time equivalents—nine permanent and two temporary—who will effectively go into a range of different areas that have been identified through what we will call the Langoulant inquiry as being necessary, but also Treasury has been keen to provide more support in these areas. These can be seen on page 133, in the points about the development and implementation of standardised governance arrangements for government trading enterprises, which is an important area that we need to do; expanding Treasury's revenue forecasting capacity, and I think the member understands the importance of that; and, of course, more broadly—this was a direct recommendation from Langoulant—enhancing Treasury's role across the public sector in terms of financial management capacity-building. This is 11 FTEs to effectively allow Treasury to do more work in those three areas.

Dr M.D. NAHAN: Are any of those 11 FTEs in the senior executive service?

Mr B.S. WYATT: No.

Mr D.T. REDMAN: I refer to the budget aggregates on page 5 of the *Economic and Fiscal Outlook*. I have a rather simple question to start with. Can the Treasurer give me a figure for the total public sector net debt on the change of government in 2017?

Mr B.S. WYATT: If the member wants 30 June 2017, we can give him that.

Mr D.T. REDMAN: Yes, that is probably close enough. I am just hearing a number of figures being touted around the place, and I am interested in confirming it for the sake of *Hansard*.

Mr B.S. WYATT: The total net debt as at 30 June 2017 was $35.281 billion. Hang on, I am being corrected.

Mr D.T. REDMAN: I am just looking at the aggregates, Treasurer.

Mr B.S. WYATT: There it is—$31.964 billion.

Mr D.T. REDMAN: Thank you. So the notion of forty thousand millions dollars is not right?

Mr B.S. WYATT: I will try to explain in this place my view on this. I get the member's argument that what we get at the point we come to government is what we inherit. That would be the case if we were in a surplus position, but when we came to government, we had nothing but a forward projection of deficits. That is all we had. We have got to own the deficits, because ultimately all that money is being borrowed to cover them. That is why I firmly believe that the forward projection, which I think, from memory, was out to $42 billion at the

Pre-election Financial Projections Statement time—it has just been handed to me, and it is $41.113 billion. That is why we used that figure.

Mr D.T. REDMAN: Looking again at the aggregates on page 5 of the *Economic and Fiscal Outlook*, I note that expense growth is predicted at 0.9 per cent, and the estimated actual for 2017–18 expense growth is 2.8 per cent, but the underlying estimate is 1.6 per cent. In the interests of Treasury providing the Treasurer with advice that is totally independent, I am wondering whether the Under Treasurer might be able to make comment about —

The CHAIR: You cannot ask that, member.

Mr D.T. REDMAN: The minister may well give me some latitude here. When new governments come in, in my experience, there is a bit of a slowdown in expense growth, simply because the government is getting a handle on agencies, and decisions are not made and do not go through cabinet. Is there a history of that, and therefore is there some underlying influence on these aggregates of a change in government, as distinct from —

Mr B.S. WYATT: I can answer that. I am sure that is right, and also a large machinery of government reform process slows spending down as well, I suspect. In fact, I know it does, and we are seeing that already. In fact, the March quarter results, which went online yesterday, highlight that that 2.8 per cent is now coming in at about 1.4 per cent. Expense growth for 2017–18 is slow for a range of reasons. I am sure the member is right—a change in government and then not insignificant machinery of government changes would be assisting that slower spend.

Mr D.C. NALDER: In respect of the forty thousand millions dollars, using the logic that the Treasurer is applying, the need to backtrack and re-address the start position of the previous administration would be a fair assumption, would it not?

The CHAIR: The assumption is questions.

Mr B.S. WYATT: I am happy to have this conversation; that is all right. The difference in 2008, when the government last changed, was forward estimates full of surpluses.

Mr D.C. NALDER: No, but the projection of net debt on forward estimates was quite considerable at that point, in 2008.

Mr B.S. WYATT: I cannot remember what it was, but it was increasing. The benefit given to the government in 2008 was large surpluses across the forward estimates.

Mr D.C. NALDER: There were larger surpluses, but large capital spends, so increases in net debt. What we are talking about here, Treasurer, is net debt.

Mr B.S. WYATT: Capital spends can be changed. When there is a recurrent spend, that is very difficult to change—members all know this—and also forward estimates full of large assumed savings, and still a deficit position each and every year, that is almost impossible. That is why we utilise the $41.113 billion figure.

Mr D.C. NALDER: The government keeps espousing this figure of forty thousand millions dollars, and yet the budget papers clearly specify $31.96 billion as at 30 June. It must also be accepted that if the *Pre-election Financial Projections Statement* is used, just before the election, to provide the forward estimates, one other Treasury assessment after the PFPS and before the election actually stated that forecast net debt, if a Liberal Government was returned, would be $28.8 billion. Why is the government not utilising the last estimates from Treasury, which pointed to a net debt position of $28.8 billion?

Mr B.S. WYATT: Because that was a Liberal Party wish, not the reality of the finances. The reality of the finances, and I have the *Pre-election Financial Projections Statement* here, is net debt growing to $41.1 billion on the back of operating deficits each and every year. The Liberal Party had a wish to sell Western Power at that time. That is one theoretical, hypothetical way we could have gone. I could have also wished for a brand-new revenue source, which was part of the former government's agenda as well, but that never came about. There are hypotheticals and there is reality. I deal with the reality of the *Pre-election Financial Projections Statement.* If the previous government had sold Western Power, that no doubt would have had an impact on the PFPS.

[3.00 pm]

Mr D.T. REDMAN: I refer to the royalty income outlined on page 83 of the *Economic and Fiscal Outlook*. The Treasurer probably does not need to turn the page. There are now a number of pushes by the federal government to basically pursue big mining companies that are not paying tax because of trading hubs in Singapore and the like. Presumably, if there are unpaid tax liabilities and therefore legal ramifications in trying to pursue that, there may well be flow-on impacts on unpaid royalties at a state level if there is a demonstrable example of cost shifting into those trading hubs. Are there any discussions with the federal government or any work by Treasury about watching that as a potential unpaid revenue source for the state?

Mr B.S. WYATT: This is a question I asked not long after coming to government, because trading hubs have a lot of potential, particularly as highlighted in that Senate committee hearing. There was a lot of attention on the use of them. I have since been educated that it is a little bit easier when dealing with royalties, because, ultimately, the calculation of volume is much clearer than perhaps using a mechanism for company tax rates et cetera. Treasury relies on the volume rates that come to it from the Department of Mines, Industry Regulation and Safety. I will ask the Under Treasurer to explain how we get that data from the Department of Mines, Industry Regulation and Safety. It is a lot simpler when we are dealing with a volume-based royalty than it is with corporate tax rates, for example.

Mr D.T. REDMAN: Price is a factor.

Mr M.A. Barnes: As the member will be aware, our royalty system is an ad valorem system. It is simple and straightforward; it is a function of price and volume. Price forecasts are done by Treasury, whether that is the iron ore price, the nickel price or whatever. The exchange rate forecasts are done by Treasury. The volume projections are informed by a survey of the producers conducted by the department of mines, which we then, I suppose, quality assure, and we bring all those things together to inform our royalty forecasts. The issue that the member has raised is around deductions. A limited number of deductions are available under our ad valorem royalty system. The department of mines, in particular, as the administrator of the royalty system, keeps a close eye on those deductions.

Mr B.S. WYATT: The federal government is spending a bit more time on it because it is a more complicated tax base.

Mr D.C. NALDER: I refer to page 1 of budget paper No 3 and specifically the point that states —

> Successful negotiation with the Commonwealth for a fairer share for Western Australia has secured additional funding for priority infrastructure projects, including METRONET, …

There are additional road projects. My questions centre around specific road projects such as Tonkin Highway. I assume that the gap is the pinch point at the crossing of the Swan River, but I have never been clear on the gap. I might save that for the Minister for Transport.

Mr B.S. WYATT: In terms of details about roads, the member might have to put those questions to the minister.

Mr D.C. NALDER: I will save that.

From the funding perspective, can the Treasurer please advise how much federal funding and how much state funding has been allocated to these specific projects that have been listed in the budget papers? I can see that no state funding has been allocated to the Metronet projects, but the federal funding is there. But I cannot determine it for the road projects. I wonder whether the Treasurer could please advise on that.

Mr B.S. WYATT: There is a small amount of state funding.

Mr D.C. NALDER: It is 80–20, Treasurer.

Mr B.S. WYATT: There is a very small amount of $21 million for Metronet and $18.8 million for the Bunbury Outer Ring Road and there was $60 million in last year's budget for Stephenson Avenue.

Mr D.C. NALDER: I am a bit confused, because the government announced projects such as the extension of Mitchell Freeway to Romeo Road and the like. I am struggling to identify where these are outlined in the budget and the state's contribution in the budget.

Mr B.S. WYATT: The member will not find a contribution to a lot of those roads that were announced as part of the commonwealth budget because work is still being done. I think that both I and the Premier have said in this place that a range of work is still being done on a lot of those roads. I found it quite interesting that similar questions were put to the deputy secretary to the Department of Infrastructure, Regional Development and Cities, Mr Luke Yeaman, on Monday night in Canberra. I will read what he said about a lot of this commonwealth funding for roads out to 2024–25. In referring to the commonwealth government, he said —

> The government has chosen to essentially mark out those projects and put some serious funding commitment on the table to help leverage the kind of planning work that was discussed earlier …

He then referred to a Tasmanian project —

> It is well understood inside government that there is still, on many of these projects, a detailed planning process to go and be undertaken, but this is intended. The funding commitments are intended to stimulate and drive that planning process.

That is exactly what it has done. That planning process within the state government will continue. We have a national partnership that will expire on 30 June 2019. To be frank, I would be keen to see an increase in the commonwealth component of some of the proposals from the commonwealth government that are 50–50 assumptions, but that will be part of that ongoing process.

Mr D.C. NALDER: Just taking it to a higher level, of the $3.2 billion in promises from the commonwealth—some are beyond—how much has been booked into the 2018–19 year and the forward estimates?

Mr B.S. WYATT: From memory, it is just under $1.2 billion. It is $1.198 billion. There is $702.2 million in 2017–18 and $1.197 billion across the forward estimates to 2021–22.

Mr D.C. NALDER: Can the Treasurer give the breakdown of what is rail, what is road and what is hospitals within those two?

Mr B.S. WYATT: There is $729 million for the Metronet projects under development, and there is $188.9 million for the hospitals infrastructure package, which was articulated as the GST top-up. It included $158 million for stage 2 of the Joondalup Health Campus redevelopment, $10.6 million for Osborne Park Hospital, $4 million for the Royal Perth Hospital mental health observation area, and $16.3 million for the Royal Perth Hospital medihotel and refurbishments, which is yet to be allocated. In terms of road projects, there is $65 million for Stephenson Avenue and $75 million for the Bunbury Outer Ring Road. There is $140 million for the Myalup–Wellington water project, plus a further loan of $50 million that it is dealing with Collie Water on.

Mr D.C. NALDER: As work is still to be done and therefore the state's contribution has not been allocated to Metronet, on what basis did the Treasurer allocate federal funding, given that it has only just been announced in the federal budget, no budget has been done and no business case has been done? On what basis did the Treasurer grab the federal money, bring it into revenue and expense it under capital, when he is not in a position to do the state's component of that?

Mr B.S. WYATT: It is because we are committed to Metronet. We do not know when we are committed to a lot of those other roads. That work on Metronet in particular is continuing and is on track, as per the comments made by Mr Yeaman in commonwealth estimates this week. The business-case work is going well and we expect construction to start as per our commitment. That is now obviously the global figure. I suspect that, in due course, once the business cases are done, it will be cashflowed accordingly and the state contribution will become clear.

Mr D.C. NALDER: Does the Treasurer acknowledge that he has booked the federal funding because the federal government is committed to it and there is a current agreement of 50–50, even though the Treasurer would like to negotiate a higher contribution in the future, but because he has not expensed the state component and it is a 50–50 arrangement, he has understated net debt?

Mr B.S. WYATT: When we make a decision to spend more, that will have an impact on net debt, yes.

Mr D.C. NALDER: But the Treasurer has committed to the project by booking the revenue from the commonwealth government. If he is not committed to the project, he could not book the revenue. To go back to the original question, based on a 50–50 agreement with the commonwealth, the Treasurer has understated the net debt position of the state —

Mr B.S. WYATT: For roads? What is the member talking about?

Mr D.C. NALDER: I am talking about Metronet. Metronet is a 50–50 arrangement.

[3.10 pm]

Mr B.S. WYATT: The member says that. I am not familiar with that, but go on.

Mr D.C. NALDER: A joint press release from the state and federal governments stated it was a 50–50 arrangement.

Mr B.S. WYATT: I am going on conversations I had with the Minister for Finance, Senator Mathias Cormann.

Mr D.C. NALDER: It was a joint press release. The state government has booked 50 per cent for the project from the commonwealth and because it has been booked and expensed, and because the Treasurer is saying that the state government is committed to the project, he has understated the state's net debt position in this budget.

Mr B.S. WYATT: I can confirm that as we spend more money, whether it be on Metronet, road projects, health or whatever it may be, net debt will increase. I get that it frustrates the member, but that is the reality.

Mr D.C. NALDER: Treasurer, that is not being clear and concise to the community of Western Australia about the current financial position of the state. The government has committed to a project, it has taken the share of money from the commonwealth and it has been expensed so there was a windfall revenue gain on a wish list—we were talking about wish lists earlier; the Treasurer has one. The money was expensed as capital below the line and the corresponding state contribution has not been included, which increases the risk to the net debt position of this state. That has not been articulated anywhere for people to understand it.

Mr B.S. WYATT: When we increase our spend, that will fall to net debt; I can confirm that. If we had simply assumed a figure now, the member would be sitting there and quite correctly critiquing me for not following the strategic asset management framework, which was ignored by and large by the former government, and the member would be critiquing me for not following Langoulant's recommendations. I can confirm that when we increase spend, whether it be on Metronet, roads or anything else, it will increase net debt.

Mr D.C. NALDER: Further to that, it is —

The CHAIR: Member, can you take out your standing orders and look at standing order 77. It states that preambles, opinion statements, arguments, allegations and inferences are not questions and they should not be contained as that, so ask a question.

Mr D.C. NALDER: Madam Chair, this is not an inference.

The CHAIR: Ask a question, member, otherwise I will rule it out of order.

Mr D.C. NALDER: Okay. The Treasurer just made a statement that we would critique him for not having undertaken a business case and therefore not putting the state contribution into the budget —

The CHAIR: Just ask your question, member.

Mr D.C. NALDER: — when the federal contribution is in the budget.

The CHAIR: Do not argue with me; just ask your question.

Mr D.C. NALDER: Our argument is not critiquing the Treasurer for not doing a business case if it was put in there, it is why the commonwealth funds were put in there when the Treasurer does not have the business case ready.

Mr B.S. WYATT: It is because we are committed to the project.

Dr M.D. NAHAN: On the package of $3.2 billion, firstly, to get clarity, an alleged agreement between the commonwealth and the state was reported in the paper for road funding. It included Tonkin Highway and the extension of Mitchell Freeway. There was an apparent sharing. To clarify, is none of that money in the budget for Tonkin Highway and Mitchell Freeway?

Mr B.S. WYATT: That is right.

Dr M.D. NAHAN: Commonwealth or state?

Mr B.S. WYATT: That is right.

Dr M.D. NAHAN: Is the reason that the state, which is the operating government, has not committed to the projects yet?

Mr B.S. WYATT: Correct—yet.

Dr M.D. NAHAN: We will get this from the Minister for Transport, but does the Treasurer know that the Mitchell Freeway extension is almost shovel ready?

Mr B.S. WYATT: I am sure that the Minister for Transport will confirm or deny that.

Dr M.D. NAHAN: Okay, good.

Mr B.S. WYATT: I think that is probably right, but I do not know for sure.

Dr M.D. NAHAN: It was almost ready under our government. The Mitchell Freeway extension is very progressed; the right-of-way is there, it is owned and whatnot, and it is almost shovel-ready. Has the Mitchell Freeway extension not progressed because the Treasurer has not agreed to that investment? It is not because further business plans are needed. Is it because the government has now chosen not to commit to that project?

Mr B.S. WYATT: We have not committed to it in the budget; that is right.

Dr M.D. NAHAN: It is not because another extensive planning process is needed; it is because the government is yet to choose to allocate funds to commit to the project.

Mr B.S. WYATT: I think the Leader of the Opposition referred to Tonkin Highway in his comments. My understanding is that a range of roads are in different states of preparedness. Apparently the Mitchell Freeway extension is ready or nearly shovel-ready to go. Interestingly, the Tonkin Highway project is exactly what the *Hansard* from the commonwealth estimates, which I quoted a minute ago, referred to. It seems that a lot of work needs to happen before that is ready. The projects are in different states. We have not committed to all of those projects for a range of reasons. Firstly, more work needs to happen, and secondly, we were not ready in a budgetary sense to commit to them. In the next budget, we might be, but we will see.

Dr M.D. NAHAN: Regarding hospitals, the Treasurer indicated funding for them. For each one, the Treasurer indicated the commonwealth funding, which is in the budget. How much is the state funding for each one in the budget?

Mr B.S. WYATT: In state funding, Osborne Park Hospital has $14.4 million; Royal Perth Hospital mental health observation area has $7.8 million and that is it.

Dr M.D. NAHAN: What about the medihotel?

Mr B.S. WYATT: We are yet to allocate funds to RPH medihotel.

Dr M.D. NAHAN: Is there no state money for the RPH medihotel?

Mr B.S. WYATT: No; we are yet to allocate that.

Dr M.D. NAHAN: What about Joondalup?

Mr B.S. WYATT: That is all commonwealth funded.

Dr M.D. NAHAN: I take it the Treasurer is committed to all those?

Mr B.S. WYATT: Yes, that is right.

Dr M.D. NAHAN: Regarding rail, the government has committed to major announcements. For roads, no commonwealth or state money was booked because the government has not committed to the projects. That is fair enough; I understand that now. For rail projects, commonwealth money was provisionally booked. I do not know how that was allocated provisionally. Could the Treasurer indicate how the commonwealth money was provisioned and on what basis? Is it an expected flow of money? What is the expected timing and cost of the project? It must have been provisioned on some sort of hypothesis.

Mr B.S. WYATT: The assumed spend of the global allocation for Metronet is in the budget for 2019–20 at $100 million; for 2020–21, $250 million; and for 2021–22, $400 million. That will change once the business case is done and we know what the proper cash flow will be. Then the member will also see what the state contribution is.

Dr M.D. NAHAN: I am confused why the Treasurer can provision commonwealth money but not provision the department's own money.

Mr B.S. WYATT: Because we could.

Dr M.D. NAHAN: I do not understand how the Treasurer can have —

The CHAIR: What is the question?

Dr M.D. NAHAN: I am trying to ask about the cash flow. I am trying to understand it. In the budget, there is a cash flow of $100 million, $250 million and $400 million over the last three years of the forward estimates. Regarding the point we were discussing, I am trying to understand how cash flow can be committed for commonwealth money the department has committed to but not commit cash flow to its own.

Mr B.S. WYATT: It is because we have not yet done our business case work.

Dr M.D. NAHAN: But it has not been done for the commonwealth money either.

Mr B.S. WYATT: We are doing the business case work and, as I said, that is progressing. Once it is completed, we will then have two things: firstly, the cash flow will change and, secondly, the state contribution will be added.

Dr M.D. NAHAN: Did the commonwealth agreement involve a 50–50 split between the commonwealth and the state governments for the rail money?

Mr B.S. WYATT: Certainly not in my correspondence with Senator Mathias Cormann, no, but we were committed to the project. That is the commonwealth contribution. The Premier has also made comments that we would like to see greater contributions or continue with that. Whether that contribution works out to be 50–50 or a different percentage, I do not know. I think the commonwealth Minister for Infrastructure and Transport, the Deputy Prime Minister, has suggested it would be 50–50 but that was not the basis upon which we bought the project to book in our budget.

Dr M.D. NAHAN: The Treasurer booked $750 million on Metronet from the commonwealth without a business plan—committed conceptually to the various projects without a business plan, and without a sharing arrangement between the commonwealth and state governments. Does the Treasurer have an agreement with the commonwealth for the cash flowing of the projects or the sharing of the projects, which has been done in the past on major joint projects with the commonwealth?

Mr B.S. WYATT: Not at the time we booked this. I have no doubt that is happening, I suspect between the Minister for Transport and the Deputy Prime Minister federally. No, we do not have an agreement on cash flowing. We will get an agreement on cash flowing when our business case work is done. Do we have an agreement on sharing? Of course we do, because we are going to build this. The amount of money that the commonwealth has provided is not sufficient to cover the entirety of it; I wish it was. But it is not, so there will be a state contribution. I suspect it will be around 50–50 once it is complete, but we do not yet know.

[3.20 pm]

Dr M.D. NAHAN: The commonwealth agreed in its budget to provide the state funding for Metronet. Why did the government book it at all if it is not provisionally booking its own?

Mr B.S. WYATT: Because the government is committed to the project.

Dr M.D. NAHAN: Yes, the government is committed to it—actually, it is not committed to the project because it is not committing any of its own money to it.

Mr B.S. WYATT: We have. As I said, we have a small amount of $21 million of state money.

Dr M.D. NAHAN: Yes, $21 million, which is from the Metropolitan Redevelopment Authority.

Mr B.S. WYATT: This is a project that we are committed to.

Dr M.D. NAHAN: The government is committed to it, but it is not ready to commit any money to it because the Treasurer does not understand the cashflow and costing.

Mr B.S. WYATT: That is right.

Dr M.D. NAHAN: I understand that, but the state government is taking money from the commonwealth, putting it in the budget and, in effect, committing financially to it. We are just puzzled. This is a new accounting treatment I have never seen, whereby in a 50–50 joint venture the government is taking the money from one side and does not put in its own money.

The CHAIR: Leader of the Opposition, it is interesting that you are puzzled, but that is an opinion, argument, inference or imputation and does not fit within the rules of the questioning. I do not want to rule you out of order, but please ask a question.

Dr M.D. NAHAN: Is it the advice of Treasury that the cashflowing in the budget, that $100 million, $250 million and $400 million, from the commonwealth is the expected expenditure pattern from the commonwealth and will be for the government's committed rail project over the next four years?

Mr B.S. WYATT: It is probably a best-guess scenario at this point. Once the business case work is done and we are in a better position to cashflow it, we will then do so accordingly. As I keep saying, the Leader of the Opposition will then see the state's contribution.

Dr M.D. NAHAN: If the government commits to these projects and if the assessment of the costs are as the Treasurer expects them to be, what does the Treasurer expect the reasonable state contribution to be over the next four years for those rail projects?

Mr B.S. WYATT: I am not going to guess at that. The work is happening; that is why we do these business cases. Once we have that, they will be reported.

Dr M.D. NAHAN: Last year a whole raft of money was provisioned for Metronet projects that had no business case. The government put its own money into them provisionally.

The CHAIR: The question is?

Dr M.D. NAHAN: I am just trying to understand their accounting methodology.

The CHAIR: You do not have to understand anything; you need to ask a question.

Mr B.S. WYATT: I assume that the Leader of the Opposition is talking about the Perth Freight Link reallocation.

Dr M.D. NAHAN: That is right.

Mr B.S. WYATT: It will be reallocated accordingly into projects that effectively cover those projects.

Dr M.D. NAHAN: The government committed to the projects; it had not done a business case for them and it provisioned the money on its best estimates. I am asking why the government did not do that this time?

Mr B.S. WYATT: Can the Leader of the Opposition start that again?

Dr M.D. NAHAN: Last year on the reallocation of PFL, $1.2 billion, the government put additional money into it also, so there was state and commonwealth money. The government spent it on rail and road projects, and maybe some others. Some of those—at least the rail projects—had no business case. That is what we have been told. They had no business cases and a lot of work had to be done on them. But last time, the government provisioned the money over it; this time, under very similar and equally uncertain projects, the government is not provisioning the state allocation. I am trying to understand the difference between the accounting treatment last year and this year.

Mr B.S. WYATT: The project definition plans for Yanchep and the Thornlie extension are being finalised now. We do not yet have draft business cases for Ellenbrook. The point I am making is that the work that had taken place on those two that we funded in last year's budget is much more advanced than the work we are currently doing on Ellenbrook, Byford et cetera. But it is ongoing, on target and we will have it done.

The CHAIR: Do you have a further question, Leader of the Opposition? The members for Bateman and Warren–Blackwood have further questions. Ask your question.

Dr M.D. NAHAN: When the government committed in September last year to the Yanchep and Thornlie rail extensions, the business cases were—the Treasurer has done work since then—rudimentary and preliminary at best. We understand that on the Byford rail extension and Morley–Ellenbrook line the government has a preliminary business case that is equal to those two. We are puzzled why last year, before a business case was done, the government committed to and provisioned money, yet this year the government is committed to them and it does not have a business case; it has to work it out and the government is failing to do so. Our concern is the Treasurer has left—I do not know—$750 million or so out of the budget and therefore has over state debt.

The CHAIR: Treasurer, it is not a question; you do not have to answer.

Mr B.S. WYATT: No. I cannot help the fact that the Leader of the Opposition is puzzled and concerned, but I assure him, as I said to the member for Bateman, that I can confirm that when we spend money on Metronet, net debt will increase. I am not trying to suggest that is otherwise. We will spend state money on Metronet and it will have an impact on net debt, as it will do if we spend money on a range of roads that we have not yet put a state contribution to.

The CHAIR: Member for Bateman, you have a question. We have now spent 20 minutes on this matter.

Mr D.C. NALDER: The Treasurer has just acknowledged that net debt is understated. The point is that the commonwealth has come up with a certain amount of money for Metronet in these three amounts. Has it taken that on advice from the state? How did it determine how much money the state required? It has come out and said it is 50 per cent. Did the federal government make up the number for what Metronet will cost or has it taken that from the state?

Mr B.S. WYATT: I imagine the federal government has taken that from the state in terms of likely costs and likely contributions; similarly, there is a range of things there. I think there was a business case for a train station. That came from the federal government and not from the state government. But we will continue to do this work. That is why I am not saying anything different from what is being said at the moment in the federal parliament during estimates. I quote again Mr Yeaman, who said that the funding commitments are intended to stimulate and drive that planning process. It is happening and it will do that. As a result—on the questions that the Leader of the Opposition asked about the Mitchell Freeway extension—that no doubt will stimulate not only whether planning is finalised or complete, but also public conversation around that project.

Mr D.C. NALDER: The money from the commonwealth is a commitment for money, but no real money has been handed over because that occurs at the time of the project. Is the funding commitment from the commonwealth subject to a business case?

Mr B.S. WYATT: The member will see the time frames of the commonwealth contribution. The most significant part of it is in the 2017–18 figures, this year, which is coming out their door very, very quickly—the majority. For Metronet, $513.3 million is coming into our Metronet special purpose account this financial year, 2017–18, and a total of $702.2 million is coming out in 2017–18. After that, the dollars, if you like, through to 2021–22, are actually reasonably small.

Mr D.C. NALDER: I have one more quick question, please.

The CHAIR: We are at 24 minutes. There is nothing quick about this.

Mr D.C. NALDER: Is the commonwealth funding subject to a business case, because it always has been historically?

Mr B.S. WYATT: Certainly in respect of our ability to book it, no; but, of course, it will go through that process as we are doing it and I suspect it will go through Infrastructure Australia as well. The Under Treasurer nods in the affirmative.

Mr D.C. NALDER: I just want to finish that one.

The CHAIR: You said that last time. Member for Warren–Blackwood?

Mr D.T. REDMAN: Further to —

Mr B.S. WYATT: I am sorry to cut off the member for Warren–Blackwood. Can I add that in my conversations with the federal finance minister, it is very much understood, of course, that business cases will be done. I do not imagine Mathias Cormann or —

Mr D.C. NALDER: Commonwealth money will not flow without a business case.

Mr B.S. WYATT: — the Prime Minister or Paul Fletcher would be providing this sort of money without business cases being part of it.

Mr D.T. REDMAN: Further to that question, the point has been made here that the government is still doing the fine-tuning work on the business cases for those two projects, and when it finalises that, the Treasurer will be able to bring to book a cashflow of state funds. Can the Treasurer confirm that at least part of that cashflow will come from debt funding?

Mr B.S. WYATT: Yes.

Mr D.T. REDMAN: By extension, therefore, there is guaranteed to be an impact on net debt when the Treasurer finishes its business cases and brings that to book?

Mr B.S. WYATT: I can confirm that.

Dr M.D. NAHAN: To clarify this issue. There are two pools of money in the Metronet funding. The commonwealth has allocated money and he Treasurer has booked it, but it will not actually flow until the government does a business case—in other words, until the government commits to it and it has a business case. That business case will be the same decision factor for the Treasurer to allocate money. The Treasurer is booking commonwealth money without the business case —

The CHAIR: And your question is?

Dr M.D. NAHAN: We are talking about the cashflowing of the money.

The CHAIR: You are doing preamble opinions.

Dr M.D. NAHAN: No, it is a lengthy question because it is complicated. The Treasurer books $750 million from the commonwealth over the forward estimates, and the receipt is based on a business case. It is a 50–50 matching. The Treasurer has not allocated any state money because the government does not have a business case yet, but the commonwealth money will flow only if there is the same business case. The simple question is: why is the Treasurer treating commonwealth money differently from the state's money?

[3.30 pm]

Mr B.S. WYATT: The flow of money is dependent on the business case. The money will be spent after the business case has been done. I accept that the Leader of the Opposition is determined for it to be 50–50. That is not the basis upon which we book the money, which is why the Premier has said ad nauseam that we will continue to seek commonwealth contributions. The flow of money is happening. That is why a big chunk of it comes out of the 2017–18 budget from the commonwealth Treasury.

Dr M.D. NAHAN: Is the government putting in jeopardy its agreement with the commonwealth for reneging on the deal?

Mr B.S. WYATT: Which deal?

Dr M.D. NAHAN: The deal for $3.2 billion worth of infrastructure funding that has been discussed with the commonwealth. Some of it is a median fall. I suspect that the hospitals are agreed, as is the Bunbury bypass and Myalup–Wellington water project. Clearly, with Mitchell Freeway, the commonwealth expected that the state government had agreed to a deal to share funding and it has been left out of the budget. Now we are hearing that even the rail money is still open to negotiation. It is not a done deal. Is the government's treatment of the commonwealth money putting in jeopardy the whole $3.2 billion worth of infrastructure funding because it is not sticking to the deal; it is still going back and renegotiating? That is what the Treasurer has just said.

Mr B.S. WYATT: I will make some comments and respond to that. The Leader of the Opposition may have a view that we are reneging on some deal. The federal finance minister knew exactly how we were going to report this in our budget. I wrote to him and set out accordingly how we would be reporting this in our budget. There is no bad faith from the state government. We will continue to do this. I think it has been done well. In respect of us reneging on a deal, I do not accept that at all. We are booking the revenue as per our agreement. The work will continue as per our agreement. The Leader of the Opposition referred to the Mitchell Freeway. We have not funded that. To be frank with him, this was in the dying days before cut-off. I am unlikely to make a decision that quickly around that sort of spend. We will go through the processes, as we do.

The CHAIR: Leader of the Opposition, the rules for questions are not to have repetition. Questions should not be repetitive or ask for an expression of opinion. We are at 29 minutes. I think we should move on.

Mr D.T. REDMAN: I refer the Treasurer to page 136 of the *Economic and Fiscal Outlook* and the quasi-politicking heading "Railcar Program Creating Local Jobs". It refers to investment in infrastructure that supports the assembly of railcars. I assume that the Treasurer will be developing a business case for this as it happens. In doing so, will there be any sort of comparator to straight out purchase the railcars? Although I understand and support the notion of local assembly, it is good to know at what price. Is there any process that determines the effective cost of the election commitment he has made here?

Mr B.S. WYATT: There are a couple of things. The member might have to put specific details to the Minister for Transport. In light of the fact that this is now out for tender, as the member would appreciate, I do not want to make any comment around pricing. With respect to specifics, I think the member might be best placed to put the question to the Minister for Transport tomorrow.

Mr D.T. REDMAN: Further to that, it is also alongside a maintenance contract for 30 years. Is that out now? Secondly, that sounds like an awful long time to be locking down to a maintenance contract—30 years.

Mr B.S. WYATT: Is the member asking whether that is a long wait? Is that a long contract? I do not think the maintenance contract is out. The member will have to confirm that with the minister.

Mr D.T. REDMAN: Just going back to my first question, can the minister confirm that there is a business case for this project?

Mr B.S. WYATT: Yes, for the railcar procurement.

Mr D.C. NALDER: I have a question about Metronet, on a different angle. Because the Forrestfield–Airport Link comes in in 2020, I cannot find a specific line item on the operating subsidy of the FAL.

The CHAIR: You have to have a line item to ask a question.

Mr D.C. NALDER: All I am saying is that the operating subsidy is there. Am I missing a line item? Have I not been able to identify it? I ask this because we have a master operating subsidy but I am trying to understand whether some modelling has been done to give specific operating subsidies of Metronet projects in Perth. Obviously, some are coming on but beyond that, has any modelling been undertaken?

Mr B.S. WYATT: It is happening now. The member will not see it until it is due to come on and starts rolling into the forward estimates. The airport line is there.

Mr D.C. NALDER: I will ask the question a different way.

Mr B.S. WYATT: For example, the airport line is already there because we start operating in the forward estimates. The operating subsidy for that line alone is around $40 million a year. The operating subsidy, the Public Transport Authority, is budgeted there. For 2018–19, it is $834 million.

Mr D.C. NALDER: I can see the global figure but I do not see any acknowledgement of new projects. Is there any reason new projects would not be specifically line itemed?

Mr B.S. WYATT: For the same reason the previous government did not do it. It is just a global figure. That incorporates a range of things, including regional school bus services, Transperth and Transwa. Within that figure, by 2020–21, I suspect, is the airport line.

Dr M.D. NAHAN: I refer to table 2 on page 138 of the *Economic and Fiscal Outlook*. I want to clarify certain things, one of which is land sales. The second line of capital funding shows a figure of $305 million over the forward estimates. What are the total expected land sales across government during that period, including this, and what is the policy? This is a very large increase in land sales. I suppose it is associated with the Metronet lines. I do not know that. This is a very large increase in the sale of land. Is there a program for it? Can the Treasurer describe how it will come about?

Mr B.S. WYATT: It is large—$305 million. The work has been rigorous, so it has been accounted for accordingly.

Dr M.D. NAHAN: There is an additional amount of money for land sales in the housing budget. Is that included in here or is that on top of this?

Mr B.S. WYATT: I expect that the land sales are part of this table. Is the member talking about the social housing package?

Dr M.D. NAHAN: Yes.

Mr B.S. WYATT: That is different. The $398 million is separate from the social housing package.

Dr M.D. NAHAN: We are getting close to $600 million-plus in land sales. In our period of government, my colleagues and I struggled to get within cooee of that.

Mr B.S. WYATT: The $398 million is $398 million in land sales.

Dr M.D. NAHAN: The housing package was a total package of over $600 million. That includes buildings. Land sales itself, which you build buildings on and obtain social housing, has to be separate from this because those land sales is the way we fund social housing. It is nothing different. We have been doing that for a long time. It is a big step up along Metronet. The Treasurer has the data and I would like to know how much the estimated total land sales are expected to be across government in 2021–22.

[3.40 pm]

Mr B.S. WYATT: I get the Leader of the Opposition's question. That is obviously a subset of that. As everyone is fossicking around here, I will try to get it for the Leader of the Opposition before the day is done. If not, I will have to give it to him later.

Dr M.D. NAHAN: Table 2, "Metronet", does not include the new Metronet projects, which are Ellenbrook and Byford. That will be 50 per cent or thereabouts funded by the commonwealth—more if the government gets its way. The total capital expenditure is $3.621 billion.

Mr B.S. WYATT: It includes $750 million for Ellenbrook and Byford.

Dr M.D. NAHAN: It includes the commonwealth money, of which $1.5 billion is funded by the commonwealth. The government is getting a very high percentage of total funding for Metronet—about 40 per cent commonwealth funding for the whole Metronet project.

Mr B.S. WYATT: There is a large commonwealth contribution, yes.

Dr M.D. NAHAN: That includes not only the rail lines, but also all the rolling stock; I am just confirming that. This is largely a commonwealth project now.

Mr B.S. WYATT: It does not include the rolling stock; it is the lines.

Dr M.D. NAHAN: The table has "Railcar Acquisition", "Level Crossing Removal Program" —

Mr B.S. WYATT: Sorry; the commonwealth contribution of rolling stock.

Dr M.D. NAHAN: I am saying that the total cost of the package there is $3.621 billion —

Mr B.S. WYATT: Sorry; I might have misled the Leader of the Opposition. That table includes rolling stock, but the commonwealth contribution is not to rolling stock—no.

Dr M.D. NAHAN: The whole Metronet project is, to a very great extent, funded by the commonwealth.

Mr B.S. WYATT: There is a large commonwealth contribution, yes, which is great.

Dr M.D. NAHAN: How much does the Treasurer expect to borrow? How much of the total capital cost from the state does the Treasurer expect to borrow now for Metronet?

Mr B.S. WYATT: I will wait until we have the final business case before I give that figure.

Dr M.D. NAHAN: I am referring to table 2. In that table, under "Capital Funding", there is "Commonwealth", "Land Sales" and "Metropolitan Region Improvement Fund". There is then a thing called "State Capital Appropriation". Some of that is actually from the Forrestfield–Airport Link project redirections. There is also "Public Transport Authority Borrowings". Are they the only borrowings that the government has? Are all the borrowings for this going through the PTA?

Mr B.S. WYATT: The answer is yes.

Dr M.D. NAHAN: These are the government's capital projects and I am trying to understand that.

Mr B.S. WYATT: Yes is the answer to that question about the PTA borrowings.

Dr M.D. NAHAN: So, is it about $1.2 billion?

Mr B.S. WYATT: Yes, but that is all the airport line.

Dr M.D. NAHAN: But there will be more on top of that.

Mr B.S. WYATT: Is the Leader of the Opposition saying once the state contribution comes in for Metronet?

Dr M.D. NAHAN: Yes.

Mr B.S. WYATT: Yes. By way of clarification, business cases for the Yanchep and Thornlie–Cockburn lines were approved prior to the 2017–18 budget. That is why they were effectively included in the 2017–18 budget.

Mr D.T. REDMAN: I refer the Treasurer to page 150 of the *Economic and Fiscal Outlook*. Under "Election Commitments", the Treasurer will see "METRONET Social and Affordable Housing and Jobs Package".

Mr B.S. WYATT: If the question is specific in detail, I will send the member off to Peter Tinley, but that is all right.

Mr D.T. REDMAN: It refers to a couple of things, including a breakdown of the total government investment from 2018–19 to 2021–22. Of $184 million, $41 million is in capital expenditure and $143 million is in operating expenditure. I am interested in the Treasurer's explanation of that split. Also, previous pages refer to private sector investment of $209 million. On top of the split between capital and operating expenditure from government, can the Treasurer give me an understanding of how much risk sits in that, firstly, of uplifting values, which has been the commentary of the Minister for Transport and, secondly, of the private sector coming to the party to meet these commitments of so many houses, social and otherwise?

Mr B.S. WYATT: I might get the Under Treasurer to make some comments so I am not simply whispering back to the member.

Mr M.A. Barnes: I can provide only high-level comments. There might be some more detail that the relevant minister and agency can provide. I can say that a business case was presented to the Expenditure Review Committee and cabinet on this entire package, which Treasury scrutinised. We asked precisely those sorts of questions. The key risk that we had identified was around not so much participation from a joint venture partner, but more the land sales assumptions that underpin this package. This package, as presented in the budget, is net debt neutral by the end of the forward estimates period. In fact, it is marginally net debt beneficial—about $7 million or $8 million worth. That is based on assumptions that by the fourth year of the forward estimates period the land sales will be complete. That was the key risk that we identified in going through the business case. Cutting to the chase, we got sufficient evidence and answers to justify that.

Mr B.S. WYATT: All these things have risk. It is just a matter of how much, and how much we can ameliorate the risk.

Mr D.T. REDMAN: I notice that in the "Statement of Risks" in the *Economic and Fiscal Outlook* there is no mention of Metronet other than the contamination issue on the Forrestfield line. Given there is some concern from Treasury about the business case and the notion of uplifting values, which is always a very predictive model, and given a very soft market, is there a reason it was not included in the statement of risks?

Mr B.S. WYATT: I suspect once it is all brought to book—some of the more complicated lines are being done now—the member will probably start seeing statements of risk around it.

Mr D.T. REDMAN: I guess I am not so much thinking of the line costs as distinct from the assumptions in uplifting value and, hence, in trying to meet targets.

Mr B.S. WYATT: Effectively, the business case dealt with them. The Expenditure Review Committee spent quite a lot of time on this. Suffice to say that in all these assumptions in any budget there are risks somewhere. The statement of risk can be long; hopefully it is relevant. I get the member's point. It was an issue of concern for Treasury and me, and other ministers as well. The business case dealt with them.

Mr D.T. REDMAN: It would appear that there are a number of other statements of risk there that I would have thought are considerably less volatile than this, yet this one is absent.

Dr M.D. NAHAN: On land sales, the Treasurer may want to take this on notice and provide me with an estimate of total land sales across the public sector for the period from 2018–19 through to 2021–22—that is listed in table 2 on page 138—and, of course, the one for housing.

Mr B.S. WYATT: I draw the Leader of the Opposition's attention to page 197 of budget paper No 3 and the item "Sales of non-financial assets". Basically, this is largely land. The Leader of the Opposition will see across the forward estimates the assumptions around sales of non-financial assets, which is basically land. We could probably strip out anything else in there. There is not much other than land. Apparently, there are vehicles and some buildings, but basically it is land.

Dr M.D. NAHAN: Which table was that—table 1.15?

Mr B.S. WYATT: Yes. In about the middle of the table is "Cash Flows From Investing Activities" and under that is "Sales of non-financial assets".

Dr M.D. NAHAN: The Treasurer says that all the land sales proceeds will be in this budget.

Mr B.S. WYATT: In that line item, yes.

The CHAIR: The member for Bateman has the next question, but I was thinking that we need to take a break until 4.00 pm.

Meeting suspended from 3.48 pm to 3.59 pm

The CHAIR: The member for Bateman.

Mr D.C. NALDER: Still on the Metronet theme, I refer to page 136 of budget paper No 3 and the paragraph headed "Railcar Program Creating Local Jobs". Has Treasury undertaken any modelling on what increase in cost per car the state can tolerate to justify the 50 per cent local content requirement?

Mr B.S. WYATT: No, but it is probably more of a political question, is it not—what the state can "tolerate"? That is not really a Treasury decision; it is probably a political decision.

Mr D.C. NALDER: Sorry; I will clarify that. Getting 50 per cent local content is a good thing; we all agree in principle on that. In 2016 the former government announced 300 additional railcars—that was later pulled—and that worked out at $4 million per railcar. The cost is now modelling at $6.5 million per railcar. I assume the modelling suggests that the 50 per cent local content requirement will cost an additional $2.5 million per railcar. The Treasurer can make it political, but if we can increase the local content, it is a positive for the economy because there is a flow-through effect. So the question is: has Treasury done any economic modelling on the benefit derived from local content that would substantiate an increase in the total cost per railcar?

Mr B.S. WYATT: No, not yet, but that is likely to happen once the tender results come back. Obviously, it is still a live tender.

Mr D.C. NALDER: Some of this is in the 2017–18 budget for a certain number of railcars. Based on the Treasurer's previous example, there must have already been a business case to substantiate it being booked as an expense in the 2017–18 budget. The estimated total cost for 246 railcars is $1.6 billion, which works out to $6.5 million per railcar. In 2016, when the previous government was looking at 300 railcars, the figure was $1.2 billion, which works out to $4 million per railcar. That was stopped —

Mr B.S. WYATT: That is if we are also factoring in the assembly line—the infrastructure and assembly facility, I think it is called.

Mr D.C. NALDER: Sorry?

Mr B.S. WYATT: The member is also incorporating into that figure the assembly facility and associated infrastructure that will be built. The member is factoring all that in; he is not incorporating in his figures only the cost of the railcars.

Mr D.C. NALDER: So the state government is paying the capital costs of setting up the assembly line for local people to undertake 50 per cent of the jobs—is that what the Treasurer is saying?

Mr B.S. WYATT: Yes.

Mr D.C. NALDER: So the state is funding it?

Mr B.S. WYATT: At $1.6 billion over the period 2017–18 to 2027–28, this significant investment will deliver 246 railcars, and the assembly facility and associated infrastructure. Overall, this will result in a 45.5 per cent increase in the number of railcars servicing Perth's rail network. The cost of any local component will be part of the price, and we will see that when the tenders come back.

Mr D.C. NALDER: Based on previous advice from the Department of Transport back in 2016 of a cost of $4 million per railcar, this additional infrastructure will cost around $2.5 million per railcar.

Mr B.S. WYATT: I do not know what previous advice the member got, but clearly he will be able to see —

Mr D.C. NALDER: It was announced at a cost of $1.2 billion for 300 railcars. It was later pulled and an extension of the B-series railcars was announced, at a cost of $4 million per railcar. This works out, with the cost of the appropriate infrastructure to support it, at about $6.5 million per railcar. I acknowledge that a positive contribution results from doing things locally, but I am saying that there is a potential cost of an additional $2.5 million per railcar. I am wondering what modelling is being undertaken by Treasury to show that this will be a beneficial thing for the state. We acknowledge that it is great to do it locally, but it cannot be at any cost. There must be a certain point at which the economic benefits do not justify the increased cost. I assume, given that it is announced in this budget and also in the 2017–18 budget that Treasury has undertaken that modelling to substantiate the additional cost associated with having 50 per cent of the railcars built here, that Treasury would have to have seen a business case and substantiated it.

[4.00 pm]

The CHAIR: What is your question?

Mr B.S. WYATT: He is imagining it!

Mr D.C. NALDER: No.

Mr B.S. WYATT: I want to clarify one thing here. The advice I am given—which is why this might be an argument the member needs to have tomorrow with the transport minister—is that apparently the airport line railcars that were ordered after cancelling the C-series cost $6 million per car, —

Mr D.C. NALDER: Correct.

Mr B.S. WYATT: — which was paid for as part of the Forrestfield–Airport Link railcars. That is $6.5 million. If we can get local content up from two per cent to 50 per cent, that is not a bad outcome. If the member wants to get into the detail of railcars, I am sorry; he is going to have to refer to the transport minister, because it is just not my area of specialty.

Mr D.C. NALDER: An amount is sitting in the budget for 2017–18, which the Treasurer has said is $508 million, and I know a lot of it has been pushed beyond the forward estimates.

Mr B.S. WYATT: Yes, it is a 10-year program.

Mr D.C. NALDER: The additional cars would have cost $6 million each because there was only a small number of them. The reason the Department of Transport was pushing for a larger order of 300 railcars and taking procurement overseas—the original B-series railcars were being ordered from Queensland—was that it would drop the unit cost to $4 million a car. The Treasurer is doing a big purchase order here for the large C-series railcars, which has a 60 per cent higher cost than what was submitted through the cabinet process and then announced publicly. That is a 60 per cent increase. I am trying to understand, given the Treasurer has booked it in the budget, what modelling work has been undertaken to look at the increased cost per railcar and the economic benefit it brings back to the state to ensure that 50 per cent of that work is done here. I would have thought it would be just a standard operating procedure for that to be done.

Mr D.T. REDMAN: I refer to page 32 of the *Economic and Fiscal Outlook* and the table "Operating Statement", in particular the line item "Racing Bets Levy revenue". The Treasurer has given commitments in the other parts of the budget to a point-of-consumption tax to raise revenue. I think the suggestion is that the Treasurer is looking at a model of a 15 per cent point-of-consumption tax to raise some $40 million a year. During the estimates this morning, just before lunch, the Minister for Racing and Gaming said that the Victorian point-of-consumption tax is eight per cent. He has suggested that might force Western Australia to take a drop in its point-of-consumption tax, which presumably would be a $20 million hit on the predicted revenue of $40 million a year. The minister made the point that it was the Treasurer's decision. Can the Treasurer enlighten us on his likely position on that?

Mr B.S. WYATT: It is the Expenditure Review Committee's decision. When we committed prior to the election to a point-of-consumption tax and brought it to book in last year's budget, it was modelled at 15 per cent simply because the only other point-of-consumption tax in play was that of South Australia at 15 per cent. A range of states have moved, not just Victoria. I think New South Wales is talking 10 per cent, so there is clearly a move more towards that 10 per cent level in other states. I think, from memory, without knowing the detail, that Victoria has lower tax rates for the racing industry in any event than we do, if we all stood still. I think that is why Victoria came in at eight per cent. Ultimately, this is a conversation that ERC needs to have. I accept a couple of things. Firstly, it is better to have a standard tax rate across the nation in these areas that are the states' responsibility, not the commonwealth's. This has been part of conversations I have had with other state Treasurers, so it is a live issue. Secondly, there might be an opportunity, bearing in mind we are in conversation with industry about the future of the TAB, that a dialogue about a point-of-consumption tax becomes an issue as well.

[4.10 pm]

Mr D.T. REDMAN: Was the intent of the revenue raised from that point-of-consumption tax to go back to industry or be a budget repair measure?

Mr B.S. WYATT: It is not so much a budget repair measure. There is a little bit of revenue to the state, so I suppose that is a budget repair measure, but we are not talking huge dollars here. To be frank, it is more about ensuring that people who should pay tax do pay tax, which is why the Northern Territory Treasurer is delighted by where all the states are moving on here. I think it probably equalises our industry with others. I think that is a fair outcome and that is why the conversations I have had with industry and the minister around this have been pretty good, because they see it as an opportunity to also perhaps clean up a range of other taxes that we have in Western Australia to replace it.

Dr M.D. NAHAN: I return to page 197 of budget paper No 3 and the sale of non-financial assets. I am trying to clarify the land sales. The sale of non-financial assets will include asset sales. This is the total public sector so it includes Synergy and others. The year 2017–18 has a figure of $827 million. I assume that would include the Albany wind farm and Greenough River solar farm that the government transferred to the fund.

Mr B.S. WYATT: I have been told that it should do.

Dr M.D. NAHAN: How much would they be sold for?

Mr B.S. WYATT: Synergy is here a little later. Can the Leader of the Opposition wait until then?

Dr M.D. NAHAN: Yes. Related to that is table 1.3, "General Government Cash Flow Statement", on page 185. This is the general government equivalent to that. The flow of the sale of non-financial assets is not that high. It tops out at $310 million in 2021–22. Most of the non-financial assets disposal is coming from the general government sector. If the government sold land for Metronet to fund it, which sector of the accounts would it come from? Would it largely come from the general government or the PTE sector?

Mr B.S. WYATT: The member is right; it is predominantly general government. There is some Main Roads and Western Australian Treasury Corporation land and a bit of Public Transport Authority land. It looks as though it is predominantly general government. Those figures suggest that that is correct.

Dr M.D. NAHAN: Except for the 2021–22 year when the non-financial asset disposal goes up to $310 million, which almost doubles, there is not a huge uplift in non-financial asset disposal expected from the general government. The high level comes from the PTE sector?

Mr B.S. WYATT: That is right.

Dr M.D. NAHAN: Will the funding from land sales for Metronet come from the general government sector?

Mr B.S. WYATT: Yes.

Dr M.D. NAHAN: My concern is that when we were in government, almost all land sales in the general government sector were disposed of through the housing corporation, which absorbed it all and that is how the Department of Housing was kept largely off the balance sheet, or outside the cash flow without drains on the cash flow—in other words, self-funded. The concern the member for Warren–Blackwood and I have is that if the government is going to use a large number of land sales to fund Metronet, is that going to eat into the available land for housing?

Mr B.S. WYATT: I do not expect so.

Dr M.D. NAHAN: Unless the government reduces the stock of land for housing, and I did not see any diminution in the demand for Homeswest housing.

Mr B.S. WYATT: I think that is one of the reasons there has been a fair bit of activity in housing, whether it be in my electorate, not far from the Leader of the Opposition's electorate—estates such as Brownlie Towers and the Bentley redevelopment—but also with the social housing package we announced. There has been a bit of activity going on elsewhere.

Dr M.D. NAHAN: Those are just a continuation of longstanding policies. If the government is going to fund Metronet to a large extent out of the uplift of land sales, which does not look like it will be in the general government sector, that additional land sale money going to Metronet might come at the expense of the Department of Housing.

Mr B.S. WYATT: I do not think so, but it is a point that I will have to pursue. I suspect the Minister for Housing might be better placed to deal with that.

Dr M.D. NAHAN: The minister will notice from table 1.3 that this set of accounts is a little different from ours. If the government uses the 2018–19 figure, which is its budget, it has a deficit forecast of $2 billion.

Mr B.S. WYATT: In the cash balance, yes. It is flying the same glide path, if you like, back to surplus.

Mr D.T. REDMAN: Under the heading "State Finances" on page 132 of budget paper No 2 reference is made to the focus of government being on responsible financial management, among other things. What is the government's policy on completing business cases for cabinet decisions?

Mr B.S. WYATT: How does the member mean?

Mr D.T. REDMAN: Does the government complete business cases for all cabinet decisions? If it does not complete business cases, which ones does it not complete business cases for?

Mr B.S. WYATT: It is as per the strategic asset management framework, which obviously has a range of different business cases depending on the size of the investment.

Mr D.T. REDMAN: I note that for the Albany wave farm proposal, a government election commitment, a business case was not provided for in cabinet.

Mr B.S. WYATT: The member is quite correct; that was an election commitment. It is being done now.

Mr D.T. REDMAN: It is being done now? The project has been through cabinet and $16.5 million has been committed to Carnegie Clean Energy to complete a project that has not yet got a business case done; in fact, the business case is being done now.

Mr B.S. WYATT: That is right. We did the reallocation as per our election commitment. We moved on that fairly quickly, as the member is well aware. Work is ongoing with the Minister for Regional Development around that. Suffice to say, issues like network connection—matters the member has raised with me in the past—are being resolved, or have been resolved, basically.

Mr D.T. REDMAN: My point was not about network connection. It is a $16.5 million royalties for regions program. The proponent of that, Carnegie Clean Energy, has been issued the contract. As I understand it, there was not a business case that accompanied the cabinet decision. The minister is saying that the business case is now being done post a commitment of taxpayer funds to an initiative that is fundamentally being done by a private company.

Mr B.S. WYATT: The business case would not have dictated whether we did it. It identifies the risks as per the SAMF: what are the risks to a particular project? We committed to that prior to the election. We were always going to do it. It is being done. We went through the tender process and Carnegie won that tender. There was not any preconceived position regardless of what Carnegie may have told the stock exchange. It won the tender and work will continue with that.

Mr D.T. REDMAN: Would the Treasurer agree that both he and the Premier in particular have been quite strong in their positions around the Langoulant report outcomes on the previous government's projects and in relation to businesses cases and identifying risks and that what has been done with this project is in breach of the very standard they are citing to be the standard to be met?

[4.20 pm]

Mr B.S. WYATT: No, simply because the work was done prior to government, effectively, in respect of a commitment. We have now honoured that commitment.

Mr D.T. REDMAN: The business case work was done prior to government?

Mr B.S. WYATT: No, the work that we could do was done prior to coming to government. Now we are in government, we are committed to it. Indeed, we could not do a business case, and this is where members opposite might have tied themselves up. It is impossible to do a business case in opposition. Going to an election, an opposition will be making election commitments, as we did around the Albany wave farm. We have made it crystal clear what it is. The Minister for Regional Development is doing a range of work now to ensure that the risks are identified and that we can deal with them. I think they are by and large dealt with. The work is still ongoing, but, by and large, the risks around it have been dealt with.

Mr D.T. REDMAN: Does the Treasurer find it most unusual that a commitment has been made to a private company, and there were tenders through the public tendering process, which were commitments on the part of both the government and the company to carry out a project that, in my view, will end up as a stranded asset? I cannot look at it any other way, from a lay side, than suggesting that it is a massively high risk project, and now the business case is being done post that commitment. Does the Treasurer not find that unusual?

Mr B.S. WYATT: I get that the member finds the project unusual. He has made that clear in the Parliament, but it is a research and development project; we have never made any bones about that. We think it is an interesting project and that there are benefits to be gained from it, and that is why we have the partnership with the University of Western Australia in particular. In respect of the commitment to the private sector, that was our commitment, but we ran a rigorous process around who would then be awarded that project. There is no suggestion that one organisation was favoured over another but, I guess, unsurprisingly in Western Australia, Carnegie ended up getting it.

Mr D.T. REDMAN: Would the Treasurer therefore concur that, under the previous government, there was no question of impropriety in putting out proposals to the public to get tenders, and therefore he is suggesting that that is a sound enough project to make commitments? That has been his criticism of previous investments as per the Langoulant report, and now this appears to be significantly in breach of that path.

Mr B.S. WYATT: I have never suggested impropriety. I have been very critical about the breakdown of processes. Impropriety suggests some form of criminal or corrupt behaviour. I do not think that I have ever suggested that. I have not suggested that either way, but I have been critical of the processes.

Mr D.T. REDMAN: The Minister for Regional Development has had historical links to the groups involved with this project. I would have thought that would significantly dial up the risks. In fact, many of the freedom of information documents I have from the government suggest that there has been commentary in and around those risks. I thought that one of the strategies to de-risk it would have been to have a business case consistent with what the government is proposing for projects of that nature—indeed, a $16 million project is not insignificant. That should have been more than reasonable.

Mr B.S. WYATT: The fact that the member has picked up commentary in FOIs highlights that, I guess, we were aware of the risks, because the Minister for Regional Development has been very clear about her prior connection. To place it on the record, the Minister for Regional Development had shares in a company that Carnegie purchased, Energy Made Clean, and then she divested those prior to becoming a minister—for free; she gave them away, unsurprisingly and quite rightly. The risk was around the tender process, and that is why the process around the tender was rigorous and clear. It landed with Carnegie, but that was very much an arms-length process.

Mr D.T. REDMAN: What does the Treasurer expect will be the action once the business case has been completed, should that business case identify risks of the project?

Mr B.S. WYATT: Most of the risks, as I said, I think have been identified now.

Mr D.T. REDMAN: So there is no point in doing the business case?

Mr B.S. WYATT: No, but if there are any more risks, that is the point of them, as per the strategic asset management framework—to react to them.

Mr D.T. REDMAN: Is it fair to say that the business case simply gets done and put on a shelf?

Mr B.S. WYATT: That is not the intent.

Mr D.T. REDMAN: If it is not the intent, what is the intent to use it for?

Mr B.S. WYATT: The business case is there to guide us on the risks around a project and how to ameliorate them.

Dr M.D. NAHAN: I want some clarity on the government's business case policy on election commitments. The Ellenbrook line was an election commitment, just like the Albany wave farm. The government is not committing any money to the Ellenbrook line until it has finished the business case. However, the government committed money to the Albany wave farm; indeed, it went to tender prior to building a business case. Could the Treasurer explain the policy? There is a significant inconsistency.

Mr B.S. WYATT: It seems fairly apparent to me. We went through a tender process and that landed our election commitment. With Ellenbrook, we do not yet have the scope of the job. Then we will get to the point of a project definition plan, when the issues about a subsidy that the member for Bateman worries about will be worked out as well. The process around building rail is actually fairly well known within the Public Transport Authority, and we will follow that process.

Dr M.D. NAHAN: The scope of the job for the Albany wave farm, which is the business case, is not just doing the cost–benefit analysis; it is actually scoping the definition of the project, what its dimensions are, and arguing a share of equity, in this case with Carnegie. That is part of the business case. In the case of the Ellenbrook line, which was a core commitment for the new government, the government is committed to it, but is not committing any money, except for capital money, until it does a business case. With the Albany wave farm, the government committed to it before it had a business case and a scoping document.

Mr B.S. WYATT: I will say two things. Firstly, the SAMF allows for a fast-tracked business case for election commitments. That has been around for a long time. We are not going to do that for the Ellenbrook line because of the size of the project and the scale of the risk. With that project, we are going through, as the member would expect with a not insignificant spend, a much more rigorous process. That is just the reality.

Dr M.D. NAHAN: Further on this issue, the Yanchep and Thornlie lines were committed to, again, in the government's election campaign, and they were committed to in last year's budget without a business case.

Mr B.S. WYATT: There were business cases.

Dr M.D. NAHAN: Have the business cases been submitted to Infrastructure Australia? Did the Treasurer have a completed business case before the 2017–18 budget for the Thornlie and Yanchep lines?

Mr B.S. WYATT: Yes, and it was submitted to Infrastructure Australia in August last year. Remember, the budget was in September.

Mr D.C. NALDER: I refer to page 259 of the *Economic and Fiscal Outlook*, which shows the estimated impact on a representative household. It shows 4.8 per cent across the whole lot, but if I look specifically at electricity and water—this is in relation to the broader economic impacts, given that we currently have the highest unemployment rate in Australia, and real wage growth has just come out in the last week as now falling to 1.1 per cent—has Treasury undertaken any assessment and provided any advice to the Treasurer about whether an increased number of people would need to seek financial assistance from the government to help pay their bills?

Mr B.S. WYATT: Treasury provided exactly the same information to me, as it did to the Leader of the Opposition and previous Treasurers, as it has always provided about the household model. We funded the hardship utility grant scheme with another $3.5 million for 2018–19, which brings the total approved budget to $17.5 million for 2018–19. Going on the HUGS trajectory, and likely impacts, we provided increased funding for not only HUGS, but also financial counselling.

[4.30 pm]

Dr M.D. NAHAN: I would like to go to page 143 of the budget papers and go through some of the trends in the detailed transactions, including those for government business enterprises, particularly the Water Corporation. In the Economic Regulation Authority study that was released not too long ago, it estimated that in 2018 the Water Corporation will collect 14-plus per cent above cost overall for metropolitan water services under the existing policies. The pricing regime has now been altered somewhat. How much above the ERA estimated cost does the Treasurer believe the Water Corporation's payments to the state will be in 2018?

Mr B.S. WYATT: The Leader of the Opposition will have to be a bit clearer. Is that in terms of the dividends paid?

Dr M.D. NAHAN: It is dividends and income—net accrual.

Mr D.T. REDMAN: The net accrual to government.

Mr B.S. WYATT: That is in there.

Dr M.D. NAHAN: I know what the figure is, but by how much is it above cost?

Mr B.S. WYATT: Based on the outcomes of the economic model, the Water Corporation is expected to achieve cost reflectivity of 97 per cent in 2018–19 across its combined metropolitan and country services.

Dr M.D. NAHAN: No. According to the ERA, for metropolitan wastewater, drainage and potable water services, the above recovery rate is 14-plus per cent.

Mr B.S. WYATT: For how long has it been that way?

Dr M.D. NAHAN: No. The latest ERA study indicated that. The Treasurer has altered the pricing regime somewhat from the ERA's estimate. A new tier has been added and it has been increased by less—5.5 per cent. The policies that the ERA uses have been changed.

Mr B.S. WYATT: But we have reduced it from what was in the previous government's budget; that is right.

Dr M.D. NAHAN: I am just trying to find out where the Treasurer thinks we are in terms of cost recovery in 2018 now that he has changed the policies.

Mr B.S. WYATT: In the metropolitan area in 2018–19, as we have been for quite a number of years, we are over-recovering at 124 per cent, and in country areas it is 60 per cent.

Dr M.D. NAHAN: The Treasurer expects that in 2018–19, based on his policies, the total metropolitan area will be 124 per cent above —

Mr B.S. WYATT: Metro is 124 per cent and country is 60 per cent, which brings the total recovery rate to 97 per cent. Based on the forward estimates that are currently in the budget, we expect to get to 100 per cent cost recovery on the economic model by 2021–22.

Dr M.D. NAHAN: So 124 per cent compares with 14 per cent in the ERA study. In 2021–22, what will be the metro recovery rate?

Mr B.S. WYATT: At the moment, the assumption is that it will go from 124 to 127 per cent.

Dr M.D. NAHAN: In 2021–22, it will go to 127 per cent?

Mr B.S. WYATT: Yes, and country barely moves. It goes from 60 to 62 per cent by 2021–22. The significant under-recovery in regional WA is not entirely but is largely offset by the over-recovery in the metropolitan area.

Dr M.D. NAHAN: It is estimated that last year the government raised just shy of $1.2 billion in both dividends and income from the Water Corporation. What is the estimated profit rate of the Water Corporation at that time? The government collected dividends and income equivalent to just shy of $1.2 billion. What kind of rate of return is the Water Corporation expected to earn at that time, noting the rate of 127 per cent?

Mr B.S. WYATT: I do not have that to hand.

Dr M.D. NAHAN: Could the Treasurer explain two things about regional water during that period: is he increasingly funding the regional rural water subsidy from royalties for regions and is he increasing the recovery rate from prices on regional water? There are two factors that are increasingly funding regional water.

Mr B.S. WYATT: We are barely increasing the recovery rate in regional WA; that is why I made that point. In 2018–19, the recovery rate is 60 per cent. By 2021–22, it will rise to 62 per cent. That will barely change at all.

Dr M.D. NAHAN: In 2021–22, what proportion of the rural water subsidy will be borne by royalties for regions?

Mr B.S. WYATT: The Leader of the Opposition can see that in the budget. That is outlined in the budget.

Dr M.D. NAHAN: Is that it—all of it?

Mr B.S. WYATT: Is that what the budget says?

Dr M.D. NAHAN: So it is not out of the Water Corp. The moneys that are being collected from the metropolitan area, which is 127 per cent above cost, are being used not to fund rural water—that is being funded by royalties for regions—but to fund the consolidated account.

Mr B.S. WYATT: I can see why the Leader of the Opposition would say that on the accounting treatment of it, but in respect of the operations of the Water Corporation as a utility, as he knows, that is simply not the case. The

Water Corporation operates by providing services across Western Australia and it has that differential impact; that is, in the metro area, we subsidise regional WA to a significant extent. In terms of accounting treatment, sure, royalties for regions comes in there, but the Leader of the Opposition has to be careful in how he considers royalties for regions. I keep making this point in this place —

Dr M.D. NAHAN: It is the government's policy. It is saving RforR.

Mr B.S. WYATT: It is, but do not think for a minute that the Water Corporation is somehow no longer providing a subsidised water service to regional WA because royalties for regions is picking up the tab.

Dr M.D. NAHAN: As I understand it, in 2021–22 the metropolitan recovery will go in full into consolidated revenue. It is a 127 per cent return on costs, or nearly $1.2 billion in dividends and income tax equivalents. In the past, the Water Corporation would have received a community service obligation payment for rural water. Now that CSO is coming from royalties for regions, which I think is equivalent to 25 per cent of royalties for regions funds.

Mr B.S. WYATT: There is still a CSO in the budget. That is why the view that royalties for regions somehow sits outside the budget is simply incorrect. A CSO for regional water is still being paid to the Water Corporation for the services it delivers.

Dr M.D. NAHAN: I am confused about the Treasurer's treatment of royalties for regions.

Mr B.S. WYATT: Clearly.

Dr M.D. NAHAN: He has stated that he is maintaining royalties for regions at $1 billion a year for the four years of the forward estimates. That is separate from the consolidated account. Therefore, a CSO from royalties for regions is fundamentally different from a CSO from the consolidated account. The Treasurer cannot have it both ways; he cannot have it as separate and as part of it. Firstly, I am trying to understand how the rural subsidy is being funded—whether it is coming from the consolidated account or from royalties for regions and whether there is a difference between the two. If there is no difference, RforR has gone as a policy. Secondly, if it is not, the net proceeds of 127 per cent of the return on the costs of Water Corporation are going into the consolidated account. It is a very large uplift.

Mr B.S. WYATT: There is still a large subsidy that we pay the Water Corporation.

Dr M.D. NAHAN: From RforR.

Mr B.S. WYATT: The Leader of the Opposition is correct. It has done all the time that the Leader of the Opposition was the Treasurer. The entire time of his treasurership, the Water Corporation over-recovered in the metropolitan area and subsidised regional WA.

Dr M.D. NAHAN: Never to this extent.

Mr B.S. WYATT: That has not changed.

Dr M.D. NAHAN: Yes, it has.

Mr B.S. WYATT: The rate may have, but that has always been the reality.

Mr D.T. REDMAN: Can the Treasurer confirm that the effect of the decision to use royalties for regions to pay the CSO payment to the Water Corporation, which is now about one-third of the royalties for regions fund, will be to free up consolidated funds to spend anywhere in the state as distinct from royalties for regions, which was limited to regional areas?

Mr B.S. WYATT: It has the equivalent offsetting effect into the consolidated account, yes.

[4.40 pm]

Mr D.T. REDMAN: By extension, the other substitution initiatives now include the Orange Busline service, albeit in part, as it is in the last of the out years, and the TAFE subsidy—I will leave out essential services because it did not have a previous funding commitment—but there were one or two others —

Mr B.S. WYATT: It has a similar impact on the consolidated account.

Mr D.T. REDMAN: It has effectively freed up nearly half the royalties for regions fund to the consolidated account for spending anywhere in the state. That is the effect of that outcome.

Mr B.S. WYATT: It has the effect of reducing the impact on the consolidated account by that equivalent amount, yes.

Mr D.T. REDMAN: Which, in effect, frees it up to be spent anywhere in the state.

Mr B.S. WYATT: Or not spending it—reducing debt.

Mr D.T. REDMAN: Or savings, yes.

Dr M.D. NAHAN: Would the Treasurer agree that the government's treatment of royalties for regions in effect consolidates royalties for regions and the consolidated fund? If projects are being switched between the two, it seems to me that royalties for regions has basically been subsumed into the consolidated fund.

Mr B.S. WYATT: No, because we have not abolished the Royalties for Regions Act, which is the only way that can be done. The Leader of the Opposition has committed to doing that, but we are not committed to doing that.

Dr M.D. NAHAN: Is the Treasurer not doing the same thing by taking those funds? Up until now, royalties for regions was used primarily for new projects in rural and regional areas and ongoing commitments that had been funded historically by the consolidated fund—through community service obligations and through the Water Corporation for water. Reward subsidies were quarantined for royalties for regions. The government has changed that policy; it has been put in there.

The CHAIR: What is your question?

Dr M.D. NAHAN: Again, is the royalties for regions fund not being significantly denuded and made equivalent to a subset of the consolidated account?

The CHAIR: I should think that is inference and imputation.

Mr B.S. WYATT: Again, I will confirm that the royalties for regions fund is part of the overall budget. We are committed to keeping the RforR act in place with 25 per cent of the royalty flow, unlike the Liberal Party, which has committed to repealing it.

Dr M.D. NAHAN: Can I ask the Treasurer for an estimate of the metropolitan water cost recovery going back 10 years from 2018 to 2008? To be specific, what was the total annual recovery of metropolitan wastewater, drainage and potable water over the last 10 years?

Mr B.S. WYATT: The Leader of the Opposition will have to put that on notice.

Dr M.D. NAHAN: Yes, I will put it on notice.

Mr B.S. WYATT: It is not supplementary information; it will be on notice because it will take some time.

Dr M.D. NAHAN: Okay.

Mr D.T. REDMAN: Treasurer, I will go back to some global numbers on the budget aggregates.

Mr B.S. WYATT: What page are you at, mate?

Mr D.T. REDMAN: I refer to page 5 of the *Economic and Fiscal Outlook*. There is obviously a significant improvement in the 2018–19 net operating balance from what was predicted in the last budget. Is the Treasurer able to provide all the elements that have contributed to the changes since the 2017–18 budget?

Mr B.S. WYATT: Is that on the operating account?

Mr D.T. REDMAN: It is of the net operating balance in 2018–19.

Mr B.S. WYATT: That will all be set out in the budget.

Mr D.T. REDMAN: I am struggling; I am looking at the share of the parameter changes, federal government contributions, and other transactional taxes as a product of —

Mr B.S. WYATT: Can the member go to page 32? Is that what he is looking for? Admittedly, it is for the midyear review, but it is the update for all parameters et cetera since the midyear review. Is that what the member is looking for?

Mr D.T. REDMAN: Does it have all the parameter changes?

Mr B.S. WYATT: Yes, it is all there—like the royalty income et cetera.

Mr D.T. REDMAN: That will work for me, Treasurer; thank you.

Dr M.D. NAHAN: I will go back to page 143 of the *Budget Statements*. We are done with water; the Treasurer will be relieved there. I refer to trends in both the dividends and income for Western Power. AA4 access for Western Power has been put in place and I wonder whether the Treasurer can talk about how AA4 has come on. The government was not ready last time and I understand the issue. Can the Treasurer explain how —

Mr B.S. WYATT: Can I suggest, just because if I have the CEO of Western Power with me, he might be able to provide a bit more information on that —

Dr M.D. NAHAN: Okay, I will do it then; that is fair enough.

Mr B.S. WYATT: I can make some general comments, but if the Leader of the Opposition is after specifics, it is probably best if he waits.

Dr M.D. NAHAN: Yes, okay.

Mr D.T. REDMAN: Treasurer, we talked a little while ago about those substitutions in royalties for regions. A lot of projects now seem to be co-funded by royalties for regions and out of the consolidated account, so it is a little bit blurry for some of those projects. We can see some of the main ones but is the Treasurer able to provide us with a breakdown, hopefully by supplementary information, which shows the projects that were previously funded out of the consolidated account and are now funded by royalties for regions?

Mr B.S. WYATT: That is all in the budget already. It is just a matter of pulling it all out, member!

Mr D.T. REDMAN: The Treasurer has a big team of people sitting behind him!

Mr B.S. WYATT: They are all very busy. It is all set out in the budget documents.

Mr D.T. REDMAN: Some are not quite so clear.

Mr B.S. WYATT: If the member has any specific questions, he can put them on notice, but it is all set out in chapter 7 and the previous budget can be compared with the current budget.

Mr D.C. NALDER: I want to move to some of the underlying assumptions. I will focus on page 85 of budget paper No 3 and "Royalty Income and Key Assumptions." I note that the gold royalty income drops 25 per cent over the forward estimates.

Mr B.S. WYATT: In volume, yes.

Mr D.C. NALDER: When I looked into it further, one of the underlying key assumptions is that the gold price will go up over the forward estimates, which then infers that production is dropping. Is the Treasurer able to provide any explanation of what is driving the 25 per cent reduction in gold royalties over the forward estimates?

Mr B.S. WYATT: I will defer to Mr Barnes.

Mr M.A. Barnes: It is entirely volume driven. As the member pointed out, the price forecasts are steadily increasing over the forward estimates, which is based on the futures price for gold at the time of the budget cut-off. The exchange rate assumption is quite flat across the whole forward estimates period—so the only remaining factor is the volume assumptions. That reflects our fairly conservative approach to royalty forecasting when it comes to volumes, which is that we will reflect in the forward estimates only projects that have final investment approval. We know that as time goes on, additional gold projects will be incentivised by the current gold price and they will come onstream in increased volumes relative to what is in here, but we have not brought them to book yet because they do not yet have final investment approval.

Mr D.C. NALDER: The 25 per cent reduction from a volume perspective will be greater than 25 per cent because it reflects higher gold prices. I assume from existing production that the department assumes some mines will close, reach end of life or whatever. Can any specifics be provided on what is being considered in that space, which drove assumptions for such a large reduction in current production?

Mr M.A. Barnes: I cannot really provide that information, member. It is provided as part of the survey conducted by the Department of Mines, Industry Regulation and Safety of the producers, and the producers supply that information on the basis that it is commercial-in-confidence.

Mr B.S. WYATT: I am not sure when the Minister for Mines and Petroleum is on, but he might have a better articulation around it.

Dr M.D. NAHAN: I refer to Landgate on page 143 of the *Budget Statements*. Landgate is an important business for Western Australia. Its expected dividends and income tax equivalents expand quite dramatically from $8.7 million in 2017–18 to $44 million over the forward estimates. Could the Treasurer explain what is driving that?

Mr B.S. WYATT: I assume it is volume of activity. I have just been told that it is moving to a higher dividend payout ratio across the forward estimates as it moves to increase commercialisation. We are shuffling around to find out what the dividend payout ratio will be.

Dr M.D. NAHAN: The previous government implemented a process of commercialisation of the business. It is a pretty efficient business.

[4.50 pm]

Mr B.S. WYATT: It has been very successful.

Dr M.D. NAHAN: Yes, but its income is very volatile indeed, and that is a function of the level of transactions. It is actually a second derivative of the land transactions. I think that is a problem—change is change. Is the Treasurer assuming a significant improvement in land transactions on this basis or a greater profitability or increases in prices, or something? The government is a getting a fivefold increase in profit. I know that is from a low base, but I am trying to find out what is driving that.

Mr B.S. WYATT: The advice I am receiving is that what is driving it is that the percentage of profit returned to the government is increasing, as opposed to the profit dramatically increasing. I do not have the numbers on that, but I will probably come back with some supplementary information on that as opposed to putting it on notice. That is what is driving, apparently, an increase in dividend.

Dr M.D. NAHAN: The dividend payout ratio.

Mr B.S. WYATT: The payout ratio, sorry. Yes.

Dr M.D. NAHAN: So the dividend payout ratio is increasing.

Mr B.S. WYATT: Yes.

Dr M.D. NAHAN: Do you know what it is going to?

Mr B.S. WYATT: I will give that in the supplementary information.

Dr M.D. NAHAN: It is not listed in the dividend payout ratio for the business.

Mr B.S. WYATT: This is something that has obviously been in train for a while, but I can get that by way of supplementary.

The CHAIR: Can the Treasurer explain that for Hansard?

Mr B.S. WYATT: I will provide to the Leader of the Opposition by way of supplementary information what is driving the increase in dividends and tax equivalents from Landgate across the forward estimates and to what level the dividend payout ratio reaches.

[*Supplementary Information No A16.*]

Mr D.T. REDMAN: I refer to page 108 of the *Economic and Fiscal Outlook*. It refers to the Forest Products Commission and a haulage subsidy paid to the commission for a fixed period. This is in respect of what historically has been a harvest from the Gnangara pine plantation, which is interesting because there is a big stack of interested parties involved in this—the Water Corporation, people with environmental arguments and the Forest Products Commission itself. I assume that the subsidy is to source timbers from the south, given that they cannot harvest in that area for a range of reasons.

Mr B.S. WYATT: To meet our contractual obligations.

Mr D.T. REDMAN: It is only for a period from 2017–18 to 2018–19 to meet the additional costs, given that, I assume, the Carnaby's cockatoo issue is not going to disappear anytime soon.

Mr B.S. WYATT: It appears not.

Mr D.T. REDMAN: Why is there a limit to that as distinct from something that goes further?

Mr B.S. WYATT: That is to allow us to get from the commonwealth government clarity under the Environmental Protection Act on the use of that land. That gives us time to get that clarity.

Mr D.T. REDMAN: Whose decision was that—the Treasurer, the Minister for Environment or Treasury? What was the lead agency for this decision?

Mr B.S. WYATT: The Minister for Forestry, but it came to the Expenditure Review Committee, in fact, a couple of times.

Mr D.T. REDMAN: I wonder whether the Treasurer is aware other mills in the south west are having lack of supply issues.

Mr B.S. WYATT: That is what has been exacerbated by this.

Mr D.T. REDMAN: Presumably meeting this supply compromises supplies further south; is there any visibility on that?

Mr B.S. WYATT: I will have to refer the member to the Minister for Forestry. I do not have visibility on that.

Dr M.D. NAHAN: Further to Landgate, page 143, we read in the paper that a contract has been let to give permission to explore the privatisation of Landgate. A firm called Investec was mentioned in the paper. Can the

Treasurer enlighten us? Has that contract been let? Is the government proceeding with the sale of Landgate? Is the government seeking external advice on the sale of Landgate?

Mr B.S. WYATT: All that has been considered is the report that Investec has done.

Dr M.D. NAHAN: It has submitted a report?

Mr B.S. WYATT: Yes.

Dr M.D. NAHAN: And the government is looking at it?

Mr B.S. WYATT: Yes.

Dr M.D. NAHAN: That was not clear. What is the rate of return on valuing Landgate, especially in 2021–22 when it increases to $44 million with dividends and income tax? What is the expected rate of return from that business? Can that be provided to me?

Mr B.S. WYATT: Why do I not include that in that supplementary information?

Dr M.D. NAHAN: Okay.

The CHAIR: We will make it a new supplementary question so we do not confuse anyone.

Mr B.S. WYATT: The rate of return for Landgate—is that what the member wants?

Dr M.D. NAHAN: It is a standalone business. I wanted to get some indication that in 2021–22 the government expects to have a business that is earning profits and dividend of $44 million. I would like some indication of the rate of return on the invested assets.

Mr B.S. WYATT: The rate of return on Landgate by 2021–22.

[*Supplementary Information No A17.*]

Mr D.T. REDMAN: I refer to page 229 of the *Economic and Fiscal Outlook*, special purpose accounts. There is a special purpose account for the royalties for regions regional reform fund, which the previous government committed to have at $150 million. In fact, it states in the first line that it was previously a part of the 2015–16 budget. It has had only $100 million put into it, and I think it has been predicted in this budget that there will be another $16 million. I cannot remember the amount. Can the Treasurer confirm that it is his intention to keep this as a fund?

Mr B.S. WYATT: I read in *Hansard* the discussion the member for Warren–Blackwood had with the Premier on this. This is really about timing. Timing the spend is what is driving this, but it is our intention to keep that fund.

Mr D.T. REDMAN: But the forward estimates do not show any additional funds going in there for royalties for regions—I think it is shy of about $34 million.

Mr B.S. WYATT: Effectively, once the projects are identified, the money will flow.

Mr D.T. REDMAN: It is simply a trading account.

Mr B.S. WYATT: Yes. There is no intention to walk away from that, no.

Dr M.D. NAHAN: I would like to go through some of the economic estimates. I want to explore a range of the government's economic forecasts. I refer to page 13 of budget paper No 3. The government forecasts a sharp recovery in the economy across the board, particularly household consumption. There are two implications from that: first, it supports growth in own-source revenue and also supports growth in a range of other incomes, particularly in the housing market. One is wage growth. Wage growth is expected to go to 2.25 per cent and, in 2017–18, to 1.5 per cent. The latest data we saw for 2017–18, which is not annualised, came in last week at 1.1 per cent. Maybe I got that wrong. The wage price index is 1.5 per cent; the latest one in, I think, March was 1.1 per cent. There is an unemployment rate of 5.75 per cent, but last month it was 6.5 per cent. I recognise that there is a difference between monthly and annualised, so could the Treasurer explain that? The consumer price index is about housing. Going forward, the budget papers predict a very sharp upward growth. A couple of the major indicators are employment growth, employment levels, labour demand, population growth and CPI. Can the Treasurer kindly explain why he is expecting a rapid take-off in improvement in the economy?

Mr B.S. WYATT: I will make some general comments. It is always useful to have the Under Treasurer to make comments around this. The figures on page 13 are not terribly out of sync with Deloitte and the Chamber of Commerce and Industry of Western Australia et cetera. Indeed, the Leader of the Opposition may notice that we are being considerably more conservative in respect of wage price–growth than the commonwealth government is in what it is expecting for wages.

Dr M.D. NAHAN: It is national.

Mr B.S. WYATT: That is a good point. A combination of broad economic growth and population growth is probably a big part in driving this. However, I will, because Treasury ultimately provides us advice on these things, ask the Under Treasurer to make some comments.

[5.00 pm]

Mr M.A. Barnes: I might start on household consumption first, which was the first thing the member mentioned. Consumption has been a little stronger in recent quarters than we had previously forecast, so we have revised up estimated growth in the current year—2017–18—from 0.75 per cent in the *Government Mid-year Financial Projections Statement* to 1.75 per cent in this budget. That comes on top of actual growth in household consumption of 1.1 per cent in 2016–17, which ticked up a little to 1.3 per cent over the 2017 calendar year. It is starting to tick up a little. We are forecasting that household consumption growth will lift slightly in 2018–19 to 2.25 per cent, with a more significant lift to 3.25 per cent in 2019–20. There are a few key factors for those forecast rates of growth. The first one is improving labour market conditions. Over the year to April 2018, we have seen employment growth strengthening to 2.3 per cent. That compares with a 1.3 per cent fall in employment growth a year earlier. We have seen quite a marked turnaround in the labour market in the last 12 months or so. We have also seen a significant improvement in consumer sentiment. That has just reached its highest level in more than four years—in March. In the September quarter of last year, which is the most recent data, we have also seen a bottoming out of the state's population growth, particularly from overseas migration, which, as the member would know, has come off very sharply since 2012. The most recent data shows that it has quite clearly bottomed and there are signs that it is gradually starting to pick up again.

They are the key factors behind our forecast for household consumption. On the face of it, there does appear to be a sharp rebound from recent softness. However, the rates of growth that we are forecasting in this budget remain below the long-run average rate of growth in household consumption, which is about four per cent over the last 27 years. It reflects that we are coming off such a weak base that the rates of growth from that weak base look like a sharp rebound, but, in reality, when we compare it to history, we are not projecting particularly aggressive rates of growth in household consumption. As the Treasurer mentioned earlier, our forecast of household consumption growth averages about 3.1 per cent over the forward estimates, which is pretty close to the 2.8 per cent per annum that Deloitte Access Economics is forecasting as well.

Having said all that, the budget papers acknowledge that there are some risks around household consumption. One of those risks that is noted on page 20 of budget paper No 3 is the elevated levels of household debt and potential future rises in interest rates. That is clearly a downside risk. Another downside risk is if overseas migration to WA does not continue to pick up, as we are projecting across the forward estimates, which will dampen household consumption growth. We accept that there are risks but we think that the forecasts are based on what has happened in the labour market with consumer confidence and population growth having bottomed.

The other key factor is the return to business investment growth, which we are projecting for 2019–20. We are forecasting one more year of a decline in business investment in 2018–19 as construction work on those large LNG projects finally wraps up. Then from 2019–20 we are projecting a return to growth in business investment. There are a number of pretty significant—primarily resource sector—projects on the books to replace depleted mines essentially. One example is the BHP South Flank development—a $4.5 billion, 80 million tonne per annum replacement project. But Rio Tinto and Fortescue Metals Group have similar projects on their books. We have a lot of projects in the lithium space at the moment—about 15 projects worth $4.7 billion. We are starting to see nothing like what we saw in 2012, but in the next 12 to 18 months we will start to see that pipeline of business investment that will come through. That will generate demand for labour. That should, in turn, bring labour in from overseas, and slow down the rate of net interstate migration out of WA and hopefully get that back to a positive state. We think all those factors are contributing to the economic forecasts that are reflected in this budget.

Dr M.D. NAHAN: There are two areas that I personally think we are concerned about. I accept that the mining sector is going very well. It is not going back to the boom times, thankfully. However, the household balance sheets appear to be in a pretty desolate position, from all the indicators—mortgage stress, negative equity, insolvency; a whole of range of factors are still pretty low. That means growth from zero is quite high, but nonetheless, I just comment on that. Also, population growth is exceedingly low and it has been for a while. It is booming over east. Please explain how we go from a very low population growth—below one to two per cent over two years—mainly on the basis of overseas migration and a reduction in the interest rate. I do not see that it will drive overseas migration to the levels that Treasury has forecast, and I think that is a major underpinning of household sector growth.

Mr B.S. WYATT: I will refer to Mr Barnes but ultimately all these will move around. I can guarantee that in four years, we will look back at this budget and see which ones we landed and which ones came close. A range of them will move around. With respect to that specific question, I will ask Mr Barnes to make some comments.

Mr M.A. Barnes: A key assumption of the economic forecasts is around net overseas migration to WA. As the member would be aware, the population boom in 2012–13 was predominantly driven by overseas migration. The latest data, which is for the September quarter of 2017, shows that WA's share of net overseas migration was just 5.5 per cent. Our long-run average share of net overseas migration is 13.5 per cent. The forecasts in this budget are predicated on an assumption that we will return to that long-run average share of net overseas migration of 13.5 per cent by 2021–22. I guess the rationale for that is that we expect that after the last four or five years, when there has been a significant disconnect between the WA economy and the national economy, over the next few years the WA economy will normalise and conditions will approximate the national mean, if you like. On that basis, we think it is not unreasonable to assume that our share of net overseas migration will return to that long-run average share by 2021–22 as our economy normalises and it approaches the national mean. Even with that, the prediction of the long-run average share of net overseas migration, in absolute number terms, we are forecasting about 33 000 people from overseas by 2021–22. To put that in comparison, in 2011–12 overseas migration to WA peaked at 53 000 people, so we are still a long way short of those boom periods. Again, it looks like a sharp rebound across a lot of these indicators but that is because we are coming off such a low base that is so far short of our long-run average. We are basically forecasting a return to a more normal set of economic conditions in the state. We are certainly not forecasting anything like a return to the boom period that we had a few years ago.

Dr M.D. NAHAN: Did Treasury factor into its population forecasts the government's new position on immigration both in the categories of state-based immigration and the decision to change Perth from a region to a capital city? The government reduced the number of categories that receive state top-up for points from migrants from 178 to 17 and shifted Perth, where most migrants come, from a capital city to a regional. This was meant to have a slowing effect on international migration; that was the purpose of it, I assume. Did Treasury factor that policy change into its forecast?

Mr B.S. WYATT: Generally, all policies of government will be factored into the various parameters.

Dr M.D. NAHAN: As I understood from the Under Treasurer, the assumption is that we will go back to a norm. The policy position is not the norm. The policy position of the government has changed with respect to immigration, substantially reducing the relative incentive for people from other states to migrate to WA. There still might be demand that overwhelms that in the mining sector, but my problem is that I am trying to see how the government changes the policy and reduces immigration yet assumes that immigration numbers will go back to the long-term norm.

Mr B.S. WYATT: By the end of the forwards.

Dr M.D. NAHAN: Yes, unless the government is assuming a change of policy along the way, which I encourage the government to do.

Mr B.S. WYATT: I have noted the Leader of the Opposition's encouragement.

Dr M.D. NAHAN: I do not understand how the government gets to those forecasts.

[5.10 pm]

Mr B.S. WYATT: Suffice to say—I think it was on page 13—all those factor in the full breadth of government policy, whether it be employment data or state final demand et cetera, including state government policy on those particular visa categories. All of those can change over time as well. Policies come and go. That certainly factors into this dataset.

Mr D.C. NALDER: I specifically refer to "Dwelling Investment" on page 13 of the *Economic and Fiscal Outlook*. The Treasurer is forecasting a pretty strong rebound from contraction of $6.25 million estimated in 2017–18 to growth of $4.75 million in 2018–19. Cross-referencing that with the first home owner scheme referred to on page 167, I want to understand why the first home owner grant falls between 2018–19 and 2019–20, given the rebound shown in dwelling investments.

Mr B.S. WYATT: The member is cross-referencing it with what page?

Mr D.C. NALDER: It is on page 167 of volume 1 of budget paper No 2. There are pretty flat to, at times, slightly negative first home owner grants, yet there is this really strong rebound in dwelling investments. I am surprised that the Treasurer is assuming it is all non–first home owners but I want to clarify that. It seems like an anomaly to me.

Mr B.S. WYATT: First home buyers are, I suspect, a reasonably small subset of the total. They are roughly 20 per cent of total buyers–investors—whatever—that drive the dwelling investment.

Mr D.C. NALDER: I want to understand the logic behind a contraction in the number of first home owners over the forward estimates.

Mr B.S. WYATT: In terms of why it is sitting at $72 million?

Mr D.C. NALDER: It is coming off a little. It is pretty flat; it is just coming off. We are talking about a rebound in the market. I would have thought there would be a commensurate rebound.

Mr B.S. WYATT: The member is quite correct to think that there would be some rebound in the first home buyers' market.

Mr D.C. NALDER: I would have thought so. I am happy for it to be provided by way of supplementary information.

Mr B.S. WYATT: I suspect it will be one of those dataset-driven answers. Hang on; I might be able to answer it for the member. First home buyer activity is expected to be further curtailed in 2018–19, with a forecast decline in the population of 25 to 34-year-olds over this period.

Dr M.D. NAHAN: They are going to Melbourne!

Mr B.S. WYATT: They are going elsewhere. With the clients in this cohort also projected across the three years to 2020–21, activity in this market sector is unlikely to return to levels experienced in recent years. Now the member is going to ask me why 25 to 34-year-olds are leaving. I do not have an answer to that, but I am curious myself.

Dr M.D. NAHAN: Does the Treasurer want an answer?

The CHAIR: It is not for you to answer!

Mr B.S. WYATT: Apparently it is a combination of demographic shifts—more people staying at home with mum and dad, and bright lights—travel.

Dr M.D. NAHAN: I have a topic change. I would like to shift to the GST section on page 74 of budget paper No 3. There has been a slight improvement in the share of GST relativities from 45 per cent to 47 per cent. That has generated a bit of extra cash. The GST relativities go from 34.4 per cent in 2017–18 to a forecast 64.9 per cent. Where does the Treasurer think it is going over the longer term? Can the Treasurer look beyond the forward estimates? Where does the GST go when the status quo is kept and the state is in a stable situation?

Mr B.S. WYATT: The Leader of the Opposition knows the volatility out more than most people in this state. It was in the *Pre-election Financial Projections Statement*. I think the last year of the forward estimates was 2019–20 and it had the relativity at 66.1 per cent. We are now looking at a 0.57 per cent shift in 15 months. Beyond 2021–22, the Leader of the Opposition's guess is as good as mine regardless, because so many factors drive that.

Dr M.D. NAHAN: Treasury used to do a 10-year forecast and it was published in the budget.

Mr B.S. WYATT: On the relativity?

Dr M.D. NAHAN: On overall revenue flows. Everything was lumped together.

Mr B.S. WYATT: The only time I saw one of those was —

Dr M.D. NAHAN: And debt too.

Mr B.S. WYATT: I saw one of those only once and that was when Troy gave it to me. It was not in the budget, though, was it?

Dr M.D. NAHAN: Yes, it was.

Mr B.S. WYATT: I got it once when I sat on that side —

Dr M.D. NAHAN: The member asked for it every year but we did not give it to him.

Mr B.S. WYATT: — and I never got it again!

Dr M.D. NAHAN: Yes; no wonder! I am asking the Treasurer for it.

Mr B.S. WYATT: I am reluctant to give it to the Leader of the Opposition simply because it is so wildly speculative.

Dr M.D. NAHAN: What is good in opposition is good in government!

Mr B.S. WYATT: I never got it again, and I now know why Troy never gave it back to me!

Dr M.D. NAHAN: The member got it one year so I am asking for it for one year.

It is interesting for the debate about reforming the GST. This is a crucial factor. Iron ore is driving this whole thing. Long-term assumptions are made about iron ore. Prices and volume are predicted so many years out. What would stabilise that? I worked through the perturbations of the collapse of iron ore three or four years ago. Does it go above $70 a tonne?

Mr B.S. WYATT: Clearly not yet.

Dr M.D. NAHAN: No; but it is growing by about three per cent a year.

Mr B.S. WYATT: I think we still have two more years of the higher level of iron ore to wash out of the five years.

Dr M.D. NAHAN: Really?

Mr B.S. WYATT: I suspect it will continue.

Dr M.D. NAHAN: That will be wiped out of the system by 2021–22.

Mr B.S. WYATT: The big year was 2013–14. That has now dropped out of the calculation.

Dr M.D. NAHAN: I remember that.

Mr B.S. WYATT: This is probably the most dramatic increase in the relativity that will be seen in any forward estimates.

Dr M.D. NAHAN: Yes, it is levelling off. It is increasing at a decreasing rate.

Mr B.S. WYATT: It went from $34 to $64.

Dr M.D. NAHAN: Does Treasury think it will get in a steady state above $70?

Mr B.S. WYATT: Treasury would be reluctant to give any certainty around that. Do not get me wrong; I would like to think so. Who knows? As I said, our guesses are as good as each other's.

Mr D.C. NALDER: I refer to page 68 of budget paper No 3. What was the modelling and the underlying assumptions for the $25.2 million over four years for the changes to the Building and Construction Industry Training Fund to include the mining sector and why are those numbers so volatile? There is $6 million, $9 million and $7 million and then it drops to $3 million in year four.

Mr B.S. WYATT: It is based on the value of construction. In the mining sector, that moves around dramatically. I have just been given something that might provide some assistance. This has been really difficult to land. A broad range of views have been put around what the revenue may be. The indicative investment was based on forecast resource sector engineering construction projects continuing or planned to commence post–1 July 2018 assessed at having a high probability of proceeding. I assume that a lot of that information comes from the department of mines and petroleum.

Mr M.A. Barnes: It was a joint effort.

Mr D.T. REDMAN: It is currently about $25 million a year, is it not?

Mr B.S. WYATT: We have assumed $25 million across the forward estimates.

These forecasts were sourced from publicly available information. There is still a lot of work to go. Do not be surprised if that number moves around a little bit, but I think we have taken a conservative view on it. That levy rate of 0.2 per cent was then applied to total project construction value by financial year to derive that estimated, so as the member can see, there is still a bit of work to go around that.

[5.20 pm]

Mr D.C. NALDER: Further to that, I would imagine the Treasurer would want to try to smooth it out to give some sort of consistency. Is that going to impact on training fund actuals, and will smoothing that over the forward estimates give a greater degree of certainty?

Mr B.S. WYATT: Industry has been very good on this in terms of consultation, but no doubt that is still to be resolved with industry. The member raises a good point, because the nature of construction work in that sector is such that it may very well be volatile, as the member points out. We will therefore have to be very careful how we go about allocating it.

Dr M.D. NAHAN: On the same table the member for Bateman referred to—table 2 on page 68—there is another line, "Foreign Buyers Surcharge rate increase". Is it the Treasurer's view that this will not impact on demand for and purchase of taxed properties by foreigners in Western Australia?

Mr B.S. WYATT: That is our view. We have already seen a lot of very large-scale developments by foreign companies since we announced this, both in terms of last year's budget and in respect of the increase by less than two per cent of buyers effectively impacted, so we are not expecting it to have a dramatic impact.

Dr M.D. NAHAN: Could the Treasurer describe how the taxes apply? Are foreign buyers of a certain type and scale and whatnot exempted from it?

Mr B.S. WYATT: It only applies to residential and not greater than 10. Somebody building a large apartment block with 100 apartments in it will not pay it. Clearly, if a foreign national buys one of those apartments, it will then apply to them, but the purpose is not to discourage large-scale developments, which are often done by foreign companies.

Dr M.D. NAHAN: If a foreign entity builds an apartment complex and then foreign purchasers buy individual apartments in that complex, the developer will not be taxed but the individuals will be?

Mr B.S. WYATT: Yes.

Dr M.D. NAHAN: Okay. Foreigners can only buy new properties—is that still the case under commonwealth law?

Mr B.S. WYATT: Pretty much, I have been told. There are obviously some restrictions.

Dr M.D. NAHAN: The Treasurer is saying that the four per cent has led to no diminution of foreigners buying individual properties.

Mr B.S. WYATT: Sorry; the point was in respect of the large-scale constructions.

Dr M.D. NAHAN: They are not taxed?

Mr B.S. WYATT: Is the Leader of the Opposition asking whether there has been any change in individual foreign nationals buying new properties?

Dr M.D. NAHAN: I understand that there has been a continued commitment to large-scale developments by foreign entities in apartments and other developments, but are they taxed?

Mr B.S. WYATT: No.

Dr M.D. NAHAN: So for individual purchasers it is less than 10 and they are new properties.

Mr B.S. WYATT: Yes.

Dr M.D. NAHAN: I wonder whether the Treasurer has seen any impact of those on foreign buyers.

Mr B.S. WYATT: No, we have not seen that, as Mr Barnes has just whispered in my ear. I get what the Leader of the Opposition's response will be and I will articulate that, too. All other treasuries that have one of these levies, which is most of them now, have been heavily consulted. They did not notice any impact at all, but I accept that the Leader of the Opposition's counter would be that a lot of those areas have had booming property markets —

Dr M.D. NAHAN: Overheated.

Mr B.S. WYATT: Overheated property markets. We have a very small amount, for whatever reason; less than two per cent.

Dr M.D. NAHAN: Another issue: do we even have the data to measure this? Joe Hockey pushed us to —

Mr B.S. WYATT: Foreign Investment Review Board data.

Dr M.D. NAHAN: FIRB data. But if a foreigner buys an individual property under a certain amount, they do not have to declare it. The problem was that wealthy people were buying expensive properties in Sydney and Joe wanted us to alter our Landgate processes to identify domesticity of transactions. We did not do it. I am not sure how we could even measure this.

Mr B.S. WYATT: It may be proxies; I do not know. The Leader of the Opposition is quite correct. Our transfer data does not highlight that, so it has been a combination of FIRB data and work that has been done with the commonwealth because apparently along the way there was a proposal for a national levy, and that created a database of work that WA Treasury was able to use to gain some knowledge of this space. But the Leader of the Opposition is right; it is not going to be —

Dr M.D. NAHAN: Is the Treasurer aware that a range of people have, for a long time, been getting around these restrictions on foreign ownership? This is going to encourage them to go down those routes even faster and further.

Mr B.S. WYATT: Yes. Many levies and taxes create avoidance behaviour, and we have to be careful and vigilant. Just so the Leader of the Opposition knows—this is interesting and I had forgotten about it—there is also in this budget some more money for the Office of State Revenue to manage this as well.

Dr M.D. NAHAN: Is the Treasurer assuming an upturn or growth in the number of foreign properties that are taxed?

Mr B.S. WYATT: No, we are not expecting any change from what it currently is. I have just been told that it is about 1 000 a year.

The CHAIR: Members, it is 25 past and we still have the Office of the Auditor General, Finance and the Economic Regulation Authority. Do members want to keep going on Treasury?

Dr M.D. NAHAN: Just one more, on payroll tax. We had over the last 15 years a phenomenal growth in payroll tax.

The CHAIR: You need to find a page and a line item.

Mr D.C. NALDER: Budget paper No 3, appendix 10.

Dr M.D. NAHAN: As Treasurer that was one thing I looked at that I was absolutely shocked about. For 10 years we had 12.2 per cent annual average growth in payroll tax, driven by the mining boom. That has gone. That was a structural change to our upward growth and it is a structural change I am worried about going forward. If I had to do it over again, I would have been a bit more persistent with downscaling our payroll tax expectations. Is the Treasurer concerned that his forecasts are based on his experience in boom times, or has Treasury re-based its assessments of payroll tax forecasts to take away the construction workforce that paid payroll tax at a very high level and rate?

Mr B.S. WYATT: With regard to payroll tax, if we compare the changes since the midyear review, there were no changes in the midyear review. Page 70 highlights the fact that we are still expecting across the forward estimates payroll tax to remain quite reasonably below the long-run average. The long-run average includes the boom time that the Leader of the Opposition just referred to, but also includes from 1996. We are still expecting to be well below the long-run average across the forward estimates.

Dr M.D. NAHAN: That is my point. The long run is based on that boom.

Mr B.S. WYATT: But it also captures a fair bit of the decline. It captures a huge decline, actually—a period of five, six, seven per cent decline. Hopefully it is not overambitious, but I think that looks pretty reasonable.

Mr D.C. NALDER: I refer to page 62 of budget paper No 3, with regard to the disposal of contaminated soil for the Forrestfield–Airport Link. I have questions around this. I know the Treasurer might point me to the Minister for Transport, but from a budgeting perspective I am a little concerned because the budgeted contract for the Forrestfield–Airport Link was around $1 billion, yet the budget is still left at $1.86 billion and has been left there for some time. In the budget papers there is reference to $85 million going into upgrading the Bayswater station. There is also an amount of money for Claremont; why FAL is paying for that, I am not sure. It talks about this contaminated soil, which may cause the budget to blow out. I am trying to get an understanding whether Treasury or the Treasurer are aware of what the estimated costs associated with this potential blowout are, given that there is a spare few hundred million dollars sitting in the budget in the Forrestfield–Airport Link, unless it has been allocated out and we are not aware.

[5.30 pm]

Mr B.S. WYATT: The member is right. The compounds, otherwise known as per and poly-fluoroalkyl substances, and I will not go through trying to say what they all are, are an emerging issue. We are confident and hopeful that the contingency still within FAL will cover it, but we still need to get a landing on what that is likely to be.

Mr D.C. NALDER: Given this is due to the foam from training firefighters at the airport and it is commonwealth land, has Treasury considered whether it is a commonwealth responsibility?

Mr B.S. WYATT: Yes, and there has been ongoing liaison with the commonwealth government about this because of that very issue.

Mr D.C. NALDER: So, there is the potential that it could be.

Mr B.S. WYATT: I dare say that the commonwealth government is not racing to participate, but the member has raised the exact point that needs to be raised about whose land this actually is.

Mr D.C. NALDER: Commonwealth land through to the centre of the earth!

Mr B.S. WYATT: Yes.

The appropriation was recommended.