Division 9: Treasury and Finance, $1 339 838 000 -

Mr Dean, Chairman.

Mr Ripper, Treasurer.

Mr J.L. Langoulant, Under Treasurer.

Ms A.L. Nolan, Executive Director, Economic.

Mr C.P. Murphy, Executive Director, Finance.

Mr T.M. Marney, Acting Executive Director, Agency Resources.

Mr R.K. Richardson, Assistant Commissioner, Compliance.

Mr W.R. Sullivan, Commissioner of State Revenue.

Mr G.W. Jayasinghe, Manager, Financial Services.

Mr C. Wright, Acting Assistant Director, Fiscal Analysis and Budget.

Mr BARNETT: I refer to financial management on page 153. It states that the State is seeking to maintain a AAA credit rating. It goes on to argue that the growth in debt will remain sustainable and is necessary to support the future provision of infrastructure. I refer also to pages 11 and 12 of budget paper No 3. Net debt as a share of revenue in 1993-94, at the previous change of government, was in excess of 70 per cent. That is why the State lost its AAA credit rating. The level of net debt to revenue had fallen to about 34 per cent by 1997-98. Indeed, by 2000-01 it was just above 30 per cent. Therefore, the level of net debt as a share of revenue was more than halved in relative terms, and the absolute decline, of course, was far greater during that period. I note that under forward projections, net debt as a share of revenue is predicted to rise consistently from here on in. Indeed, for 2001-02 it has risen to 38.9 per cent; for 2002-03 it is predicted to rise to 42.4 per cent; for 2003-04 to 43.6 per cent; and for 2004-05 to 43.7 per cent. In other words, that is right up against the so-called 45 per cent level. Given that the major infrastructure project this State is facing is the south metropolitan railway, what is the final costing for that railway, and what will it contribute to the addition of net debt?

Mr RIPPER: The costing for the railway in the budget papers is $1.4 billion.

Mr BARNETT: It was $1.2 billion less than 12 months ago.

Mr RIPPER: The Leader of the Opposition points out that it was $1.2 billion 12 months ago. However, 12 months ago the budget papers included the unescalated figures for the rail project. It is the case that costs increase from year to year. It was remarkable that we went to the election with the railway costed at 1998 costings. At some stage any Government, either the coalition Government returned or an incoming Government, would have had to recognise that costings based on July 1998 figures would not have been valid in 2005. It was just a matter that had to be faced. We had to deal with that, and we have dealt with it properly in this budget by escalating the cost of the railway in accordance with our expectations under normal inflation growth.

Mr BARNETT: Why did the Premier, along with the Minister for Planning and Infrastructure, release a statement in July 2001 that the cost of the railway project was $1.2 billion, full stop, if the Government is now saying, less than 12 months later, that it is $1.4 billion?

Mr RIPPER: I can see what mischief the Leader of the Opposition is trying to make. The costings that we inherited - we would have been operating on the costings that we inherited in July 2001 - were based on 1998 figures. In the end, anyone responsible for the finances would have had to face the fact that 1998 figures would not prevail through to 2006-07.

Mr BARNETT: Why in 2001 did the Government at its highest level, presumably with the support of Treasury, put out a figure of $1.2 billion as of July 2001? There was no equivocation; it was a bland, straightforward statement. That figure was above that which the previous Government -

Mr RIPPER: One might ask why the previous Government -

Mr BARNETT: No, I am asking the Treasurer and his Treasury what is the cost of the railway.

[11.20 am]

Mr RIPPER: The Leader of the Opposition should give me a chance to answer instead of rudely interrupting. Why were the figures not adjusted by the previous Government in 2000? The figures referred to in 2001 were those in the budget papers we inherited for the railway project. However, the problem was the time bomb ticking away in those inherited figures because they had never been escalated. We have faced the music and we have escalated them.

Mr DAY: Can you guarantee that the railway will not cost more than $1.4 billion?

Mr RIPPER: It is a massive $1.4 billion engineering project. Can anyone give an absolute, rock solid guarantee that nothing will happen to increase the cost of a massive engineering project? As Treasurer, I wish I could find the person who could give me that guarantee and provide the bank security to back it up. However, that sort of guarantee cannot be obtained for a big project like this.

Mr D'ORAZIO: On page 160 the fourth dot point deals with the Treasury information management system. This is the second budget in which this system has been used. What improvements has it made to the budget cycle and what has it achieved with this budget?

Mr MURPHY: The Treasury information management system is used for data collection from a range of government agencies. This is the second budget in which we have used this system. Although we had difficulties with last year's budget, there was a significant improvement in the performance of the system that enabled us to collect the information from the agencies and to consolidate it in a more timely manner. The system is operating very efficiently for government agencies, in enabling the Department of Treasury and Finance to verify and consolidate that information for use by government.

Mr D'ORAZIO: What sort of information does the department get from the agencies and departments that is so helpful?

Mr MURPHY: Primarily, we gather financial information for the production of the three financial statements; that is, the statement of financial performance, the statement of financial position and the cashflow statement. That information is gathered for the current year, the budget year and three forward years. A significant amount of financial information goes into the system. In addition, as part of the budget process, we collect the output information produced by agencies together with significant textual information that is used to support the financial information detailed in budget paper No 2, to which members refer.

Mr D'ORAZIO: How often is this information obtained from the various agencies and departments; is it quarterly, six-monthly, or weekly?

Mr MURPHY: It varies. The two major collections from the agencies occur at the time of the mid-year review and the budget. We collect actual information and projections from the major agencies on a monthly basis, and information from the smaller agencies is collected on a quarterly basis.

Mr D'ORAZIO: Therefore, this information is obtained as the agencies churn it out from their systems and pass it to the department. Are the systems between the agencies not interactive?

Mr MURPHY: That is correct. Agencies run their own financial management systems, and there is a range of financial management systems across the sector. Primarily, they are used for their own internal purposes and to generate information that is then input to the Treasury information management system for the purposes of central government. We have developed a data load module whereby double keying is eliminated for those agencies by using a format for the production of information that is capable of being applied to the Department of Treasury and Finance's system. However, the systems are essentially separate, with the capability for the data to be transferred from one to the other.

Mr D'ORAZIO: Is work ongoing to make all these systems interactive so that, for example, at the push of a button a person could key into any of the departments and agencies and find out what they are doing? Is that where the system is headed? It is nice that the process has been started, but it would be nice, at some later point, to be able to push a button and get information from, for example, the Department of Health that shows its inputs and what is being spent. Is that where the department intends to go with this system?

Mr MURPHY: There is no grand vision to the extent that the member has outlined. However, there are a number of steps involving consultation with agencies that seek to produce the information in a meaningful way that is of use to government. Similarly, government agencies meet in the Financial Reform Consultative Committee, which is sponsored by the Department of Treasury and Finance. It considers issues such as the difference between financial management systems, and it works cooperatively to find opportunities for agencies to share information or to use more generic systems. The agencies, working together with the Department of Treasury and Finance, have considered steps that have a more generic approach. However, at this stage there is no plan in place to move to a single unified system, other than that provided through the data collection in the Treasury information management system.

Mr BARNETT: I return to the issue of railway infrastructure and its impact on state debt. The earlier question I asked was not answered so I will rephrase it. If we now take the Government's $200 million plus value of the railroad project at $1.4 billion, and include the $300 million that has been set aside from the sale of AlintaGas for rail purposes, is that money still available and in some form of account for the railway project? What will be the method of financing the railway project and how will that project add to state debt year by year during its construction phase?

Mr RIPPER: The $300 million from the AlintaGas privatisation is available for financing the railway project. The Leader of the Opposition wants details of the year-by-year additions to state debt as a result of the railway project. The figure for this forthcoming budget year is $104 million.

Mr BARNETT: Is that total expenditure or extra debt?

Mr RIPPER: That is the net debt impact.

Mr BARNETT: By way of supplementary information I ask for a detailed year-by-year costing of the railway project and how that cost will be met from contributions from the AlintaGas fund, from debt or any other source.

Mr RIPPER: That information should be available and I am happy to provide it.

[*Supplementary Information No A7*]

Mr RIPPER: The information will reveal that the situation is no different than it would have been under a coalition Government.

Mr McGOWAN: The Deputy Premier stole my thunder somewhat in his last remark. I am interested to obtain, by way of supplementary information, advice on the impact the Kenwick route would have had on the budget. What were the cost estimates on that project and what effect would it have had on net debt over the construction and life of that project compared with the current project? I do not think that analysis has ever been properly done. In many respects the cost implications of the engineering work for the previous Government's proposed rail route through Kenwick have not been analysed. I would like to be able to advise my constituents of the true position in relation to these two different routes.

[11.30 am]

Mr RIPPER: Such an endeavour would not be comparing apples with apples because the new route is continuing to be developed. We have established the timetable and the cash flow for the new route and the engineering technical issues that will emerge as we implement it. Plans for the Kenwick route had not reached the same stage. Issues concerning the Perth to Kenwick section had not been resolved. That whole route attracted controversies, such as access across the railway line, what part should be sunk and so forth. The previous Government had not escalated the costs for the Kenwick route in the same way as we have to appreciate the inevitable impact of inflation.

Mr BARNETT: Give us a break! Do you think Treasury doesn't understand inflation, CPI and the like. You must come clean on this.

Mr RIPPER: It was nevertheless important to realise that expenditure would occur on the rail project irrespective of who won government. When the Australian Labor Party took office, it inherited a set of debt forecasts escalating rapidly towards the 45 per cent debt-to-revenue ratio limit that we have set. We have flattened out that growth so that we can preserve the State's AAA credit rating. What was driving the coalition's pre-election projections of rapid debt growth and threatening the AAA credit rating was its commitment to borrowings for the rail project.

Mr McGOWAN: I seek supplementary information from the Treasurer. I know it is difficult to provide, but it is a reasonable public policy point. The Leader of the Opposition frequently states in the Parliament that he would save $300 million by taking the railway line out through Kenwick. I am interested to know whether that is the case, based on Treasury's projections, and taking into account the difficulties. The Minister for Planning and Infrastructure has talked about the difficulties with the existing line from Armadale to Perth in accepting extra rolling stock and technical upgrades that must take place in that context. I am very interested in obtaining information on that so that we can undertake, as best we can, a cost comparison.

Mr RIPPER: I will provide that as supplementary information. However, the analysis will be somewhat limited. Investigation of engineering work for the Kenwick route is not proceeding because the line will not go down that route. The comparison would be between an earlier stage of development and one that is at a later stage of development.

The CHAIRMAN: Will the minister please clarify the supplementary information.

Mr RIPPER: We will provide an analysis of the debt that would have flowed from the year-by-year debt increases that were forecast to flow from the Kenwick option.

[*Supplementary Information No A8*]

Mr D'ORAZIO: I refer to dot point one on page 160. I referred last year to accrual accounting and the purpose of the capital-user charge, how it would be implemented and what would be its benefits. How have capital-user charges improved the system and what has flowed from them?

Mr RIPPER: The purpose of the capital-use charge was to clarify the real cost of providing the various outputs that the Government funds. We must recognise that capital attracts a cost; it is not free and there are limits on the amount of capital available to this State. This should be reflected in the costs of various services. It is an accountability device. No minister has raised with me the capital-use charge as a problem. The technicians in the agencies may have had some difficulties. However, it has not reached my level.

Mr MURPHY: The introduction of the capital-user charge is not a fundamental change to the way we present our accounts. It is the final step in trying to account for the full cost of outputs as they appear in the budget papers. As such, despite the fact that the numbers are significant, it is not a major change to the way the agencies operate. The Government appropriates the amount once at the start of the year and they are required to make four quarterly payments throughout the year. Very few problems or concerns have been raised. The majority of agencies have taken on the new approach without any difficulty. The Department of Treasury and Finance has monitored the payments expected against payments received. In a couple of cases we have provided agencies with assistance in making payments. Overall, the low level of concern indicates to us that it has been accepted by the sector without any difficulty.

Mr D'ORAZIO: Will the capital-user charge be revalued or will the rate remain the same? Assets improve in value and costs increase. Will there be a formal process to address that?

Mr MURPHY: The only issue that requires ongoing review is the rate of the capital-user charge, which has been reviewed and which will remain the same in the coming year. It was set at eight per cent and will continue at eight per cent. As agencies acquire and dispose of assets, they will determine the amount of capital-user charges they pay. That is appropriate and consistent with the philosophy of the charge; that is, if an agency disposes of an asset, it should get the benefit of reduced payments. If it acquires assets, it should be obliged to make higher payments, as it would in meeting debt servicing charges if it were operating in a sector other than the general government sector. We do not need to make adjustments centrally for that process. We will monitor the situation. If agencies bring to our attention anomalies or issues, we are happy to deal with them on an exceptional or one-off basis. Overall, the system does not require any significant review or adjustment other than a review of the rate each year to make sure it is appropriate.

[11.40 am]

Mr D'ORAZIO: Therefore, is it the case that the depreciation or the capital improvement value of the infrastructure is picked up in that value - so the revaluation is there - and that the capital user charges are the concern?

Mr MURPHY: That is quite correct. One of the advantages of the system is the simplicity in calculating the capital user charge, because it is calculated on net assets. Asset costs are recorded on an agency's balance sheets on a monthly basis. That information is reported to Treasury on a quarterly basis. It is quite a simple process for agencies to look at their net assets and to determine the capital user charge on the information that already exists, and that is readily available.

Mr BARNETT: I refer to competition reform listed on page 154 of the *Budget Statements*. Presumably, the Government is trying to establish a more competitive public sector in Western Australia. The Government claims to have made $181 million worth of savings across all government agencies. Was that target achieved? What were the savings of specific agency programs? I seek this information for 2001-02 by way of supplementary information.

Mr RIPPER: The $852 million worth of savings were forecast to be achieved over four years. The evidence is in the estimated outturn for each agency. The estimate outturn shows that the Government has substantially achieved the first year's instalment of the $852 million worth of savings. This cannot be said for one agency. One of our savings measures included a redirection of administrative expenses to service delivery. After the midyear review, the Government found it necessary to put an additional $70 million into health services. Although the Department of Health shifted expenditure from administration to service delivery, overall it was necessary to allocate additional money, so it is possible to argue that the health system did not deliver its share of the savings because of the additional money that was required. The information being sought by the Leader of the Opposition is in the outturns of the *Budget Statements*, which reveal the agencies that met their budgets and those that did not. The Leader of the Opposition and his colleagues have the ability to question each agency; that is the way in which this matter must be approached.

Mr BARNETT: I am questioning the minister as the Treasurer. For example, the priority dividends show a vague $95 million worth of efficiency savings. What specific programs were either cut or abandoned by agencies? I want the Treasurer to substantiate the $181 million. Last year I asked the same question, and the only information I received indicated a percentage that had been applied across the budgets of all agencies. That was an incompetent answer. I want the Treasurer to provide me with the details agency by agency, program by program.

Mr RIPPER: The information is in the *Budget Statements*. The Leader of the Opposition is saying that the savings were vague and -

Mr BARNETT: They were not detailed.

Mr RIPPER: The Leader of the Opposition is saying that the savings are vague and not detailed; however, they have been delivered.

Mr BARNETT: I ask the Treasurer to detail the savings, agency by agency, program by program.

Mr RIPPER: The Government has stated there will be $852 million worth of savings over four years. The year-one instalment has been substantially delivered. The evidence is in the *Budget Statements,* which details the agencies that have met their budgets and those that have not. The Opposition can question each agency during the estimates process. If the Opposition believes that an agency has not met its budget target, I encourage it to ask that agency why. The Opposition can apply pressure on the agency and help me in my budgetary task. It can demand that an agency explain why it has not met its budget. I would be delighted if the Leader of the Opposition would do that; that is what I do in the expenditure review committee process.

The Government is achieving its savings. If the Leader of the Opposition wants details about the activities and programs of individual agencies, the appropriate course of action is to ask the responsible ministers to detail that information during the estimates committee process. They are the ones who have ultimate responsibility for the way in which their budgets are handled at the program level.

Mr BARNETT: Treasury is claiming $181 million worth of savings; that figure was given in last year's *Budget Statements*.

The CHAIRMAN: Is it not in this year's *Budget Statements*?

Mr BARNETT: Yes, Treasury refers to it as "savings". Is the figure $181 million for 2001-02? I am happy to be corrected.

The CHAIRMAN: Will the member for Cottesloe isolate the relevant line in the *Budget Statements*?

Mr BARNETT: This is frustrating. I am talking about an issue that relates to the overall financial outcome of the budget. This is the only opportunity the Opposition has to challenge budget aggregates.

The CHAIRMAN: It may be frustrating, but the committee must proceed according to the instructions that have been outlined.

Mr BARNETT: I refer to dot point two under financial management on page 153 of the *Budget Statements*. Let us go step by step. Is the Treasurer claiming $181 million worth of savings for 2001-02?

The CHAIRMAN: I do not see the figure of $181 million in the section to which the member referred.

Mr BARNETT: Last year's *Budget Statements* referred to $181 million worth of savings.

The CHAIRMAN: Will the member please inform the committee where that figure appears in the *Budget Statements*?

Mr BARNETT: I have already referred to the second dot point under financial management on page 153, which refers to efficiency in government. Last year, the Treasurer claimed that the Government would make $181 million worth of savings. Have those savings been made? If so, will the Treasurer provide the details agency by agency, program by program? This is what the budget is all about.

The CHAIRMAN: I still cannot see the figure.

Mr BARNETT: It does not matter if the Chairman cannot see the figure; that is what the question is about.

The CHAIRMAN: It does matter.

Mr RIPPER: The figures are in the outturns. If an agency meets its budget estimate - if the outturn matches the estimate - then that agency has delivered its savings. If an agency's outturn does not match the estimate - if the agency has exceeded its estimate - the agency may or may not have delivered its savings. It may be that the outturn is higher than the estimate because it has not delivered the savings, or it may be that a new policy decision was made during the year, which has had the effect of increasing the outturn.

Mr BARNETT: What does the Treasurer claim to have saved last year?

Mr RIPPER: The savings are $852 million over four years. This is based on one and a half per cent of expenditure in the first year and two per cent in subsequent years. Therefore, the percentage escalates during the forward estimates. The evidence is in the *Budget Statements*. The important point is this -

Mr BARNETT: The important point is that I am asking the Treasurer a question, but he will not answer.

Mr RIPPER: The Government forecast a surplus of $51.6 million and it has delivered a surplus of $118 million.

Mr BARNETT: That is not the point. Did the Government achieve its projected savings of $181 million that was included in last year's budget? If it did, will the Treasurer detail the relevant agencies and programs? That is not a hard question.

Mr RIPPER: I will answer in another way.

Mr BARNETT: Just answer it in a straight way.

Mr RIPPER: I will answer it in a straight way. The Government forecast an expense growth of 3.8 per cent for the last financial year. On the outturn, it has delivered an expense growth of four per cent. If we compare the forecast expense growth of 3.8 per cent with the outturn of four per cent, it is obvious that the Government substantially delivered on the control of expenses. The expense rate grew at four per cent, and not at 3.8 per cent, because the Government put an additional $70 million into the health system, and that is growth and expenditure beyond the forecast. Our expenses also included grants under the first home buyers scheme. The Prime Minister's announcement of the additional first home buyers grant added to our expenses. There are two ways of dealing with the issue. The Leader of the Opposition asked me if we delivered on the savings. I am saying he should have a look at each agency and he will see that we delivered substantial savings.

[11.50 am]

Mr BARNETT: I am asking why the Treasurer cannot answer the question.

Mr RIPPER: I am saying he should have a look at overall expense growth. We forecast 3.8 per cent, but it came in at four per cent. There are two reasons for that. The agencies have delivered an aggregate across the expenses of the Government. We have delivered. If the Leader of the Opposition wants to examine in detail how each agency has delivered, that is what he should do in the rest of the estimates committee process. He can ask every agency that comes before him how it reached its budget target for this year and what it proposes to do next year. That is what the estimates committee process is about. He should not ask me one question; he should go and do the hard work through asking each agency what it has done.

Mr BARNETT: I asked the Treasurer a question about the Under Treasurer's claim of $181 million in savings. Who else would I ask within the whole bureaucracy of government if Treasury cannot say whether that is the total amount of savings and where the savings were made? If I cannot ask Treasury, who in the hell can I ask?

Mr RIPPER: The answers are in the budget papers. If the Leader of the Opposition examines the budget papers he will find a column for the last financial year and a column for the estimated outturn. If he compares those two columns, he will see whether an agency met its savings target. If the agency appears not to have met its savings target, the agency can be asked why not. If the agency appears to have met its savings target, the agency can be asked which measures it took to reach that target. The ministers and the agencies are available for the Leader of the Opposition to question.

Mr D'ORAZIO: I refer to page 153, dot point two in relation to economic growth. The whole budget is based on strong economic growth. Some members might say the budget is optimistic. Some people I have spoken to say that the Treasurer's predictions are optimistic. Will the Treasurer take us through some of the factors of the budget in which he sees scope for improvement or even -

Mr BARNETT: This is the scrutiny of a budget, not a general chat about the economy. That is what this is meant to be.

The CHAIRMAN: Members, I do not know what has been happening in my absence, but I do not run estimates hearings like this. I will have questions addressed through the Chair. I consider unparliamentary any discussion across the Chamber. Has the member concluded his question relating to dot point two on page 153?

Mr D'ORAZIO: Yes.

Mr RIPPER: Some people criticise our estimates as unrealistic and wildly optimistic. I think those were the comments of the Leader of the Opposition last year when we forecast economic growth of four per cent. The forecast for this financial year is 4.5 per cent. The current forecast for the forthcoming financial year is 3.75 per cent. That compares with other forecasters. In April this year Access Economics Pty Ltd forecast 5.3 per cent; the Chamber of Commerce and Industry of Western Australia, only 2.25 per cent; the Australia and New Zealand Minerals and Energy Council, 4.3 per cent; BankWest, 3.75 per cent; and Econtech Pty Ltd, 3.3 per cent. The average of private sector forecasters was 3.8 per cent. The Treasury forecast is 3.75 per cent. I rely on professional advice for these forecasts. I do not tweak the economic forecasts in any political way. The professional advice is prepared by the experts in Treasury who examine these matters and the Government publishes them in the *Budget Statements*.

Mr McGOWAN: I refer to the line item relating to Gold Corporation on page 152. The money coming into the budget this year through the operation of the Gold Corporation Act 1987 is estimated to be $62 000, and to stay that way for some considerable time. Will the minister explain the way in which the Gold Corporation Act operates and why there appears to be very little revenue coming into Treasury through the operations of that entity?

Mr RIPPER: I believe the member is focusing on a payment to Gold Corporation rather than revenue.

Mr McGOWAN: I am sorry, I am.

Mr RIPPER: The revenue in the gold coin business has some volatility in it, as a result of which we expect some differences in payments from year to year. I am at the moment looking at the figures. The dividend payment through Gold Corporation in 2002-03 is expected to be $2.65 million; in 2003-04, $4.12 million; in 2004-05, $5.29 million; and in 2005-06, $5.29 million. In 2001-02 it was $1.6 million.

In relation to the item of expenditure referred to by the member for Rockingham, the Gold Corporation Act provides that pension payments from employment with the Perth Royal Mint prior to the introduction of the Western Australian Mint Act 1970 be met from the consolidated fund.

Mr BARNETT: I refer to the redundancy programs being offered across the public service. What were the number of voluntary redundancies offered across the public service during 2001-02; what were the numbers accepted; and what will be the number of redundancies offered during the coming financial year?

The CHAIRMAN: For the benefit of *Hansard*, to which page of the *Budget Statements* is the Leader of the Opposition referring?

Mr BARNETT: Page 8 of budget paper No 3.

Mr McGOWAN: Is that the division we are dealing with?

Mr BARNETT: Yes.

Mr McGOWAN: I am interested in the question but where in division 9 are we dealing with that matter?

Mr BARNETT: The Treasurer announced redundancies.

Mr RIPPER: I announced the special voluntary redundancy program but that program is administered by the Department of the Premier and Cabinet, not by the Department of Treasury and Finance.

Mr BARNETT: Why did you announce it?

Mr RIPPER: I made the announcement but that does not mean that my department administers it. Redundancy programs are also administered by agencies, therefore, agencies have the ability to offer redundancies under their own arrangements. There are two possible ways in which a person in the public service can receive a redundancy: through an agency offer pursuant to the agency's own arrangements and through the special offer administered by the Department of the Premier and Cabinet. I do not have information on redundancies through agencies during the financial year. The Department of the Premier and Cabinet would have information to date on the progress of the voluntary redundancy scheme. It is important to note that the scheme does not expire until 30 June. It would be more appropriate to examine the outcome of the scheme as at 30 June. We have made a provision of $18 million in 2001-02 for the operation of the special voluntary redundancy offer. It remains to be seen how much of that will be spent; it depends on how many people take up the offer.

[12.00 noon]

Mr D'ORAZIO: I refer to dot point six on page 153. The department has conducted a comprehensive review of the Financial Administration and Audit Act 1985. Can the minister tell us some of the benefits that came out of the review? I believe that legislation will be introduced later this year. How will that improve financial accountability for the State? Can we expect any other benefits from the review and the subsequent legislation?

Mr RIPPER: The current Financial Administration and Audit Act is among the oldest of similar Acts that apply in various States. It is based on cash accounting principles. However, we have shifted to an accrual accounting system; therefore, there is a prima facie argument that it needs reform. I ask Mr Murphy to comment on some of the particular difficulties that might be resolved.

Mr MURPHY: As the Treasurer has outlined, the current legislation does not serve us well because it was written for a different time with different approaches. It was written for a period in which we had a cash system of accounting. In fact, all the accounting records were maintained at Treasury and they were largely paper based. These days we are in an accrual accounting mode. Agencies maintain their own financial systems and, increasingly, those records are electronic. The replacement legislation is proposed to address those issues. In addition, one of the fundamental changes happening to similar legislation in other jurisdictions is separating the audit Act from the financial management Act. That, too, is proposed. The Commission on Government and other reviews have recommended that that approach take place. The Western Australian jurisdiction has the Financial Administration and Audit Act together. A number of agencies continue to be confused about whether the requirements of the legislation are the requirements of the Department of Treasury and Finance or of the Auditor General. Although the Auditor General has a role in auditing financial statements and performance indicator information, agencies need to understand that they are not his requirements. The requirements are in fact put in place through the legislation and are administered by the Department of Treasury and Finance. The Auditor General is simply required to audit those in accordance with the legislation. The separation would not only make that clear but also enhance the independence of the Auditor General. A number of steps are proposed that would enhance the independence of the Auditor General. The review has looked at agency reporting. With the adoption of the Government Financial Responsibility Act, a new suite of accrual reporting was put in place. That overlays some of the existing reporting, which is cash based, so that a mix of reports now come out at similar times and address similar issues. However, some reports are accrual based and some are cash based. It is intended to rationalise that.

The final point is agency reporting. Under the current arrangements, the agencies have a couple of months after the end of the financial year to prepare financial statements and hand them to the Auditor General. The Auditor General then has a couple of months to provide his opinion, and then the reports go to the minister who has 21 days to table them. That means that it is basically the end of the year before audited financial statements are tabled. The intention is to try to introduce a more progressive and commercial approach to that with a view to the earlier tabling of reports in Parliament, when it is possible to achieve that, without having to go through that series of steps.

Mr D'ORAZIO: Will this process sort out some of the difficulties that occur with special purpose accounts and trust funds? There seem to be difficulties with some agencies deciding what are trust funds and what are special purpose accounts. For that matter, the finance department and the Auditor General have difficulty deciding which is which. Will this legislation or review address the definition problems that occur within government, so that an arbitrary decision will not be made about whether they are special purpose accounts or trust funds?

Mr RIPPER: I thank the member for his question. I assume that he is asking the question in his capacity as the Chairman of the Public Accounts Committee.

Mr D'ORAZIO: Absolutely not; I ask it as the member for Ballajura!

Mr RIPPER: I wonder whether the question relates to any matter that is before the Public Accounts Committee.

Mr D'ORAZIO: It has been highlighted in some of our inquiries that there is a very fine line between what is a true trust account and what is a special purpose account. Even some of the senior bureaucrats seem to have difficulty understanding which is which. I hope that might be rectified through this process so that there is no argument about which is which.

Mr RIPPER: I ask Mr Murphy to comment on that aspect.

Mr MURPHY: The proposed new legislation will address this issue. We are of the view that a number of the provisions of the legislation relating to trust accounts are very much an anachronism. They relate to a prior period in which fund and trust accounting was more important than it is today. In a modern accounting environment, we argue very strongly that the same accounting processes and controls need to be applied to payments and receipts of money regardless of the type of money. It is necessary to separate private moneys and to identify those as such. However, our intention is that the new legislation will remove some of the historical references to trust accounts, which no longer need to be there. I add also that with accrual accounting and the ability for agencies to carry funds over from one year to another, the need for trust funds has declined considerably. We believe that the number of trust accounts in government should be reduced. The new legislation will definitely address that issue.

Mr BARNETT: I refer to page 20 of budget paper No 3. The total wages bill for the general government sector is expected to rise by 4.5 per cent in 2002-03. What is the reason for that high rate of wages increase in the general government sector? Is that consistent with the overall target of expenditure growth, which, from memory, is 1.8 per cent?

Mr McGOWAN: I seek a point of clarification. Are we dealing with division 9, which commences on page 151?

The CHAIRMAN: Yes, that is correct. I ask the Leader of the Opposition to refer his question to this division. I take it that he is referring to the purchase of outputs. Can he clarify his question?

Mr BARNETT: This is the only opportunity to question the Government on its economic credentials. Every time I ask a question, there is an attempt to divert it.

Mr McGOWAN: There are standing orders.

Mr BARNETT: I do not need this contribution. So far the Treasurer has been unable to answer simple questions about debt and public sector redeployees. Now I have asked a simple question on wages growth and a contrivance is set up so that he does not have to answer.

Mr D'ORAZIO: I have a point of order. I am sick of this. We have been sitting here for two hours. All members know the rules and the processes. I expect the Leader of the Opposition, who is a senior member of this Chamber, to at least abide by the rules. I would like to follow his line of questioning. The way he has asked his question makes it impossible for me to follow where he is coming from. It is unfortunate that he is conducting himself in this manner. It brings him and this Chamber into disrepute, and it makes this process unworkable.

Mr DAY: On the point of order, page 20 of budget paper No 3 clearly states that the total wages bill is expected to increase by 4.5 per cent in 2002-03. This is part of the budget papers and there are plenty of references in the treasury and finance section to the impact on the economic outlook, financial management and so on. In particular, there are a number of dot points on page 153. It is reasonable that the Treasurer now answer the question.

[12.10 pm]

The CHAIRMAN: The allocation of divisions for the purpose of the estimates committee today is that under this portfolio we are to deal with output 8 of division 3, and divisions 9, 10, 11, 12, 71 and 72. Therefore, and in the light of the statement made by the Chairman at the opening of this session, we ask that it be made clear that questions refer to distinct lines of appropriation in the budget within those divisions. There is some allowance for broad questioning under general outcomes, purchase of outputs and other lines. I will uphold the point of order, given that it is clear that the agreement is that we deal with these divisions. I ask the Leader of the Opposition to make a connection between his question and the division with which we are dealing, which is division 9. I am sure he will be able to do that.

Mr BARNETT: The connection is that 60 to 70 per cent of government expenditure is on wages and salaries. I refer to page 153 of the *Budget Statements* and the financial management reforms of the Government. Is that close enough? If the Treasurer of this State will not answer basic questions on matters such as debt levels and wages growth, and we are trying to analyse the credentials of a budget, what is the estimates committee process about? In my 10 years in Parliament, that has been the nature of the estimates committee - that the economic parameters that underlie the budget are debated and scrutinised. Now we are being told that we must refer to line items.

Mr McGOWAN: That has always been the way that estimates have worked.

Mr BARNETT: I always answered broad questions when I sat opposite. A simple question on wages growth should not be hard for the Treasurer to answer.

Mr RIPPER: I seek a point of order. I would actually like to answer this question; however, I am waiting for the committee to resolve its position on the standing orders. Far from not wanting to answer this question, I have an answer that the Leader of the Opposition probably does not want to hear. I am happy to provide that answer, if I am given the opportunity to do so.

The CHAIRMAN: I think the Leader of the Opposition has addressed the connection to division 9 in terms of the purchase of outputs and the trend in financial management, which is provided in dot point four on page 153. Therefore, I ask the Treasurer to respond to the question.

Mr RIPPER: The estimate for the increase in the total wages bill for 2002-03 is 4.5 per cent, which is recorded in budget paper No 3. That estimate would include the impact on a full-year basis of decisions made in the previous year; that is, this current budget year. It would also include the impact of employing additional police officers, nurses and teachers. Finally, the question of wages growth has to be put in the context of overall expenses growth. Overall expenses under the previous Government grew by an average of 5.6 per cent per annum during its period in office. Our expenses growth is expected to average 2.1 per cent over the forward estimates. In fact, expenses will grow in the forthcoming year by only 1.8 per cent, which in real terms is a decline. How can there be an increase in the wages bill at the same time as only a small increase is made in expenses? That can be done because the Government has attacked wasteful expenditure in areas like advertising and promotion, consultants, and travel. In 2001-02, expenses in those wasteful areas are expected to fall by 3.6 per cent and grow only modestly over the forward estimates. That is to be compared with growth of 8.7 per cent per annum in those areas - advertising and promotion, consultancy, travel and other gross operating expenses - between 1993-94 and 2000-01. That is where this Government has made the savings and contained expenses growth. Mind you, that question had some worth, because salaries are an important part of government expenditure and it is necessary for us to bear that in mind as we conclude negotiations on enterprise bargaining agreements with the various unions that represent public sector workers.

Mr BARNETT: Further to that and the financial management issue, has Treasury provided a cost to Government on the proposed changes under industrial relations law; and, if so, what will be the direct cost in extra wage and on-costs?

Mr RIPPER: No estimate has been provided to the Government of the impact of industrial relations law changes on government employment.

Mr BARNETT: One example is with the operation of the Joondalup Arena complex, which, by itself, will cost an additional $350 000. If Treasury has not done a similar analysis across government, why not?

Mr RIPPER: In a sense, the industrial relations law changes that are going through the Parliament will not affect public sector employment because this Government has a preference for collective bargaining arrangements. We do not apply workplace agreements in the public sector. As a matter of administration, we have shifted away from workplace agreements. That has meant that some people who were previously underpaid as a result of workplace agreements are now receiving a larger salary. A small number of agencies have sought additional funding to provide for those payments. For example, for some agencies that involve weekend or night work, the award provisions are more generous to employees than the workplace agreement provisions. Consequently, agencies have sought additional funding. In some cases additional funding has been granted but in other cases agencies have been asked to absorb those impacts within their overall operations. That is why the key thing that should be examined is the outcome, and not all the individual movements up and down. The outcome is expense growth at four per cent compared with an estimate of 3.8 per cent, a coalition average of 5.6 per cent and forecast expense growth for next year of 1.8 per cent. The proof of the pudding is in the eating.

Mr BARNETT: Why not try to answer the question rather than score political points? It was a straightforward question.

Mr RIPPER: It might be hard for the Leader of the Opposition to accept, but this Government has delivered.

Mr BARNETT: I do not care if the Government has delivered or not. I am asking why Treasury has not done an analysis of the wage cost and on-cost impact of the labour relations legislation. It is a pretty obvious point. Every private sector employer has made that analysis. Why has Treasury not done it for 100 000 public servants?

Mr RIPPER: Why would Treasury need to do that when, as a matter of administrative practice, the Government does not use workplace agreements? The private sector might be making that sort of analysis because it might shift away from workplace agreements, if indeed the Leader of the Opposition is correct about what the private sector is doing. Right from the start, this Government has said that its preference is for collective arrangements in the public sector.

Mr BARNETT: At what cost?

Mr McGOWAN: I refer to page 152 of the *Budget Statements* and the reference to the Western Australian Treasury Corporation Act. As a matter of interest, is the Western Australian Treasury Corporation engaged in any cross-border leasing arrangements in a similar fashion to the operations of treasury corporations in other States? Other treasury corporations engage in arrangements with financial institutions overseas, through which ownership of state assets is transferred for the taxation benefit of the foreign institution and at the same time payments are made to the government treasury, which improves the financial position of the State. If the Western Australian Treasury Corporation is not engaged in any cross-border leasing arrangements, is it going to engage in any such arrangements in the future, and is this being examined?

[12.20 pm]

Mr RIPPER: The Treasury Corporation is administratively responsible to the Minister for Government Enterprises, but there are still residual responsibilities for the Treasurer under the legislation governing that agency. The Government is not currently engaged in cross-border leasing arrangements. The previous Government engaged in cross-border leasing arrangements for rail assets. Most of those arrangements have gone over to the new owners of the Westrail freight business. The Government is not currently examining any cross-border lease arrangement, but that is not to say that it will not examine such an arrangement in the future. The difficulties that can arise with cross-border leasing arrangements must be considered.

Mr McGOWAN: What are those difficulties?

Mr RIPPER: These arrangements represent an encumbrance on the asset. If other arrangements are later desired for that asset, the cross-border lease arrangement poses difficulties. In addition, cross-border leases derive their advantage from the application of tax laws in Australia and other places. Tax laws can change, so this risk must be borne in mind. I am not ruling out cross-border leasing arrangements, but the Government is not currently investigating any such propositions. The only arrangements I am aware of relate to rail assets, entered into by the previous Government.

The Treasury Corporation does not engage in the high-risk currency activities that were engaged in by the Commonwealth Government, which lost the taxpayers of this country $4 billion to $5 billion. No such arrangement has been entered into by the Western Australian Treasury Corporation. If Peter Costello needs some assistance on this matter, I would be delighted to make the advice of the Western Australian Treasury Corporation available to him.

Mr McGOWAN: He could learn a lot from the Treasurer.

Mr RIPPER: The Treasury Corporation has been able to arrange the State's borrowings in a way that has not lost the taxpayers billions of dollars, as happened with the Commonwealth.

Mr BARNETT: The Treasurer might be interested to know that the Western Australian Government does face exchange risks on major capital projects. He should do some homework on that.

My question refers to the foot of page 154. What is the revenue collection initiative referred to?

Mr RIPPER: The initiative referred to by the Leader of the Opposition at the foot of page 154 involves additional funding of $3.6 million over four years. The funding is required to enhance the compliance capacity of the Office of State Revenue. It is expected that enhancing that compliance capacity will raise additional revenue. A number of additional investigation officers and support staff will be engaged to increase the ability of the Office of State Revenue to undertake audits and investigations. Also included in the proposal is the establishment of a remote access facility for compliance officers in the field. Undertaking that work at this stage avoids associated accommodation costs that would otherwise need to be incurred in relation to the additional work.

Mr BARNETT: I also ask for an explanation of the land tax residential exemptions - a sum of $373 000 for 2002-03 - shown at the foot of page 154 below the revenue collection initiative.

Mr RIPPER: This relates to investigations of whether people are entitled to claim the residential exemption. It is a 12-month project involving funding of $373 000 to continue the existing land tax audit project. It includes the targeting of land items in country areas with a 100 per cent residential exemption that have been wrongly categorised. Audits in this area in the past have uncovered circumstances in which the residential land tax exemption has been wrongly claimed, and consequently additional revenue has been raised for the State. A further 12 months of auditing claims for residential land tax exemptions will be carried out.

Mr BARNETT: Will this be extending that process onto land that has been zoned agricultural, which most people would presume would not attract land tax?

Mr RIPPER: People have in some cases claimed the residential land tax exemption. Perhaps this was correct at the time the claim was first made. The land tax assessment is largely automated, and the land use may well have changed, though the exemption is still in the system. If the land use has changed and the owner is not entitled to claim the residential land tax exemption, the tax should be levied according to law. The Commissioner of State Revenue may be able to provide more detail.

Mr SULLIVAN: The initiative is more specifically aimed at the wrong claiming of residential exemptions, rather than properties outside the metropolitan region that are used for agricultural purposes, such as hobby farms. This is more a situation in which a property may be correctly zoned as a residence, though the owner has another residence and is using the property in the country for rental purposes. This is effectively a database clean-up, which hopefully will ensure that the laws for the exemptions are correctly applied.

Mr BARNETT: I refer to page 157, and output 1, economic management and advisory services. Towards the end of that table is an item for the average cost per project undertaken by this unit. The amount budgeted is shown as $88 000 for 2001-02, but the estimated actual amount for the year is $368 000. Why has there been such an escalation in the average cost of project undertaken?

[12.30 pm]

Mr RIPPER: My understanding is that the department had previously forecast work on three projects at a cost of $88 000 for each project. It worked on one matter that can be classified as a project, which cost $368 000. That project was the business tax review. As I indicated in the budget speech, that review will be released shortly in a white paper for community and business consultation.

Mr BARNETT: The second dot point at page 160 states that significant machinery of government changes were implemented and accommodated in the 2001-02 budget. Although I recognise that savings may be accrued over time, what specific machinery of government changes were achieved in 2001-02 and what was the cost of those changes? I imagine that the changes would involve amalgamating public service positions and the like. What has been the cost of administrative change in the public sector?

Mr RIPPER: The point relates to the requirement of the department to accommodate the machinery of government changes in the presentation of the budget. The Leader of the Opposition is taking us to a more substantial question; that is, what have been the costs and benefits to date of the machinery of government changes?

Mr BARNETT: What has been the cost of the reorganisation that has taken place? It cannot be costless.

Mr RIPPER: Let us deal with the Department of Treasury and Finance because that is the agency represented now. I will seek advice on the costs to date of the amalgamation of the State Revenue Department and the Treasury Department to produce the Department of Treasury and Finance. I will ask the Under Treasurer, who has supervised the amalgamation, to comment.

Mr LANGOULANT: The amalgamation involves a range of measures. We have brought together the State Revenue Department and the Treasury Department to create the new Department of Treasury and Finance. We still operate from two buildings. There has not been any material accommodation change. There has not been a significant number of voluntary redundancies from the changes. We have been able to rationalise a number of activities in the department, particularly in the corporate areas. As a result, we are obtaining far more efficient service delivery across both departments and in the treasury business units, which have benefited greatly from having amalgamated their corporate activities. Policy coordination has been improved, especially in policy development and implementation in taxation.

To answer the specific question, there have been no additional costs. The department has been managed in accordance with the budget. The department did not receive an increase in its budget for any of the machinery of government changes. In fact, the department's budget will come in under the budget provisions for 2001-02.

Mr BARNETT: Budget provision for what?

Mr LANGOULANT: The total budget for the department in 2001-02. The department will come in under budget.

Mr RIPPER: We are discussing the amalgamation that resulted in the new Department of Treasury and Finance. The Government did not provide budget increases for agencies outside the Department of Treasury and Finance undertaking machinery of government changes. The Government did not impose a specific machinery of government dividend or saving measure. It conducted a process of amalgamation and rationalisation. It imposed the priority dividend on top of that and the savings that have been discussed. The rest has been dealt with in the budget process.

Amalgamated agencies approach the Government with their budget pressures. The Government has agreed, at times, that applications are justified and extra funding has been provided. Sometimes the Government has not agreed to the applications, and extra funding has not been provided. I am not aware of any agencies approaching the Government to say that their running costs are cheaper and handing back money.

Mr D'ORAZIO: I refer to commonwealth-state funding listed at page 153 of the *Budget Statements*. New South Wales, Victoria and Western Australia have commissioned an independent review of commonwealth-state funding. I have a question in two parts. What benefits does the Treasurer envisage from the review process? Does the Department of Treasury and Finance have a unit that monitors the effects of federal government changes in policies and decisions and the implementation costs to the State? For example, Medicare bulk-billing payments have dropped in the previous quarter by 0.6 per cent. That amounts to 2.5 million claims. Over one year, that represents 10 million claims. The effect of that on Western Australia could be as much as $50 million of cost shifting from the federal Government to the State Government. Other than this review, is there any process by which the State is alerted to those sorts of changes, which could substantially affect the State's budgetary position? It is absolutely atrocious that, by keeping the Medicare rebate to $26, the federal Government is creating huge pressures on this State's budget.

Mr RIPPER: The Department of Treasury and Finance has a commonwealth-state financial relations unit that examines these matters. The unit uncovered a mistake in Commonwealth Grants Commission calculations last financial year, prior to the Treasurers Conference in 2001. The work of the unit resulted in significant additional revenue for the State. About $40 million was recovered by the commonwealth-state financial relations unit. The work of the Commonwealth Grants Commission is extremely esoteric and technical. That is one of its problems; very few people in the world understand its work. The department has people who can work on those issues. The unit also provides advice to the Government on specific purpose payments. The State has a new framework in which to negotiate specific purpose payments with the Commonwealth. It is an area in which the State feels it is at significant risk. As budget pressures increase on the Commonwealth, we may find that commonwealth payments to the State for hospitals, schools or disability services are cut. We have already seen an example of commonwealth budget pressures impacting on the State, with Peter Costello cutting commonwealth grants to this State by $83 million over four years. We are bracing ourselves for further difficulties in the negotiation of specific purpose payments. We have a new framework, better coordination and a new set of principles. We are working with other States and the Commonwealth to get better arrangements for specific purpose payments that focus more on outputs than input controls, matching funding requirements, and other commonwealth duplication of, and interference in, state policy-making requirements.

[12.40 pm]

Finally, beyond the Commonwealth Grants Commission process and the specific purpose payments are other commonwealth decisions that can impact on our budgets. For example, if people must pay more for prescriptions, some of them might go to emergency departments of public hospitals and seek medicines from the public hospital system. It is hard to quantify that sort of impact. However, it is likely that the federal budget will have impacts in each of those areas. Our commonwealth grants have been cut, and the Commonwealth will be difficult to deal with on the specific purpose payments. Other budgetary decisions it makes will have an impact on our expenses.

Apart from all those factors, an additional unfairness in the system relates to Western Australia's share of commonwealth grants. We discussed earlier in the day the State's efforts to promote the Burrup industrial developments. When the royalty flows come from those Burrup industrial developments, the Commonwealth Grants Commission, if it continues on its present path, will reduce commonwealth grants to Western Australia because of the greater royalty flows. In effect, that means that 90 per cent of the royalty flows from the Burrup will be redistributed to Queensland, Tasmania, South Australia and the Australian Capital Territory, yet this State puts in a significant effort in the form of infrastructure support for those developments, and it is now putting in a significant effort to negotiate the native title outcomes that are required for those projects to proceed.

Mr D'ORAZIO: I have a follow-up question.

The CHAIRMAN: I understand that. I have two other speakers following the member for Ballajura. Considering the amount of work to be covered, I remind members that the shorter the questions and the answers - I appreciate that some are quite detailed - the more likely we are to get through further questions. I will allow the member for Ballajura one further question. Then I will move on.

Mr D'ORAZIO: My follow-up question is about quantifying some of those figures. For example, with Medicare, some of the States, such as Victoria and New South Wales, have been penalised for cost shifting back to the feds. In our armoury, do we have some dollar values on which we could argue with the feds about cost shifting to the States? Can the Treasurer not hear me?

Mr RIPPER: There was a distraction. I think someone was canvassing the competence of the Chair.

Mr D'ORAZIO: The argument is about the eighth dot point on page 153 under commonwealth-state relations. It is a huge issue, because the cost shifting is onto us.

Mr BARNETT: Why did you get so virulent when I raised some issues about wages and salaries? It was because it suited the Labor Party tactic to try to filibuster the Estimates Committee. That is all this has been about.

Mr D'ORAZIO: I am trying to identify a section -

The CHAIRMAN: Order! I will allow one short, further answer about the eighth dot point on page 153.

Mr RIPPER: I am concerned about the variety of ways in which the Commonwealth impacts on our budget. I have outlined the three ways in which it can impact on us. The member is really looking at the third way; in other words, is the Commonwealth shifting costs to the State?

Mr D'ORAZIO: No, in the relationship, can we argue about cost shifting back to the Commonwealth, especially with Medicare? Is someone identifying dollars? When the Commonwealth talked about cost shifting to us, it identified dollars. Do we have a mechanism whereby we can say, "Hang on a minute, guys. What about the costs you shifted to us?" and argue that the costs should go back? Otherwise there is a danger that we will be penalised in the state-federal relationship.

Mr RIPPER: I have not seen an analysis such as that suggested by the member. However, I think there is merit in that idea. Some work may well have been done on that, and perhaps it has not come to my attention. However, I will seek advice on that matter. We have a difficult set of negotiations with the Commonwealth coming up, and we will use every analysis and argument we can to maximise the State's position.

Mr HOUSE: I refer to the machinery of government changes on page 161. Does the Government have any plans to further amalgamate or rationalise government departments generally? Specifically, what has happened to the proposal to amalgamate the Department of Agriculture and the Department of Fisheries?

Mr RIPPER: The changes arising from the work of the Machinery of Government Taskforce are largely complete. I do not have precise information about the recommendations of that task force. My recollection is that there may have been a recommendation to amalgamate fisheries and agriculture. If there were, the minister indicated that he wanted to continue with those agencies as two separate agencies. However, I do not have the report in front of me and I cannot recall what the recommendation was. The outcome was that those agencies would continue as separate agencies. However, I would like those agencies to consider sharing corporate services, and we have taken that up with those agencies in this budget process. We have asked those two agencies to work together and, indeed, with other agencies on the possibility of sharing corporate services.

Mr HOUSE: They already do, and have done for some years. Can the Treasurer give me an assurance that he will not amalgamate agriculture and fisheries?

Mr RIPPER: The position of the minister has been that he would prefer those two agencies to operate as separate agencies. The only process that might impinge on this and other public sector issues is the Government's intention to have a functional review of the public sector. A functional review will be established. Those involved in that review will be two senior public servants and two people from outside the public sector. It will be chaired by someone from outside the public sector. It will examine government agencies for waste, inefficiency and programs that are no longer in accord with the Government's priorities. I cannot predict precisely what the outcome of that functional review will be. However, the Minister for Agriculture, Forestry and Fisheries is not a supporter of amalgamating those two departments.

Mr BARNETT: Under commercial financing issues, page 161 refers to the presentation of a paper on public-private partnerships. It mentions the release of public comment and feedback. What is the progress of that process of public comment and feedback? Secondly, which areas of public administration is the Government considering to involve in public-private partnerships?

[12.50 pm]

Mr RIPPER: I thank the Leader of the Opposition for that question. The proposed consultation process on public-private partnerships was, in a sense, taken out of my hands by the unauthorised release of earlier draft documents. It would have been nice if the people releasing the draft documents had taken care to release the latest draft. Instead, they chose to release a draft that was not the latest. Nevertheless, that has kicked off public discussion about this issue. Essentially, the Government is consulting with various stakeholders in an informal way. Those stakeholders include some people in business who have an interest in the PPP question and, of course, unions and others who also have an interest. In due course the Government will go into formal consultation with the release of a formal draft public-private partnerships paper for consultation. I am not setting a deadline on this. It is important that the process be worked through with all the stakeholders so that everyone is comfortable with what is ultimately proposed. The area in which public-private partnerships might work depends on the outcome of the consultation. They have worked in other jurisdictions in the provision of office accommodation and transport infrastructure. They have been applied in the United Kingdom to the provision of education and health infrastructure, but not education and health services. Our focus would be on applying them to infrastructure and accommodation areas rather than to education and health. How this will all work in detail is a matter for the consultations that are now occurring.

Mr BARNETT: Are you considering PPPs for the education sector?

Mr RIPPER: I am going through a process of consultation on the framework. There are no proposals before the Government for PPPs in education.

Mr BARNETT: There have been in the past.

Mr RIPPER: I am not aware of any definite proposals. Has the Leader of the Opposition got a proposal in mind?

Mr BARNETT: There were proposals in the late 1990s.

Mr RIPPER: There are no current proposals before the Government.

Mr BARNETT: They might say that I rejected proposals as the Minister for Education.

Mr RIPPER: On what basis did the Leader of the Opposition reject the proposals?

Mr BARNETT: You can ask me in question time and I will explain it.

Mr RIPPER: It will be a while before the Leader of the Opposition is able to answer questions at question time.

Mr BARNETT: The Government spends most of its time addressing questions to the Leader of the Opposition, but it does not allow me to answer them.

I refer to page 171, the statement of financial position and the top line of the table. Why are the current cash assets diminishing on a trend basis? Under non-current assets, why does land and buildings have a budget of $105 million in 2001-02 but nothing in subsequent years?

Mr RIPPER: The commercial property section of the Department of Treasury and Finance has moved to the Department of Housing and Works, which is part of the machinery of government changes. That is why there is no entry for land and buildings in subsequent years. With regard to the cash assets of the department, it has a medium-term budget management strategy that involves reduced holdings of cash. The Under Treasurer will explain how the department is undertaking this management.

Mr LANGOULANT: Part of our cash has been used to finance the Treasury information management system equipment, which was the subject of an earlier question. Beyond that, we have a small imbalance in our operating position as a result of the adjustments made to last year's budget. That is being funded through reducing cash across the out years consistent with the estimates for expenses, which are set for the department each year.

Mr BARNETT: I refer to page 162, land tax collections. What is the additional revenue that is thought to be collected under land tax by compliance measures?

Mr RIPPER: I understood the Leader of the Opposition to be asking what additional revenue is expected to be gained from land taxes through compliance measures. I am advised that there are some in-built compliance measures in the land tax program that are of an ongoing nature. There is one additional initiative that we discussed earlier in the estimates with regard to the claiming of residential exemptions. However, the Commissioner of State Revenue might be in a better position to provide more detail.

Mr SULLIVAN: As the Treasurer has indicated, our business processes are built around a range of compliance measures that largely involve data matching. As you are aware, the land tax regime is largely automated in how assessments are issued. Over the past 18 months, specific projects have been run within that area to clean up the database, and they have yielded an additional $5 million in revenue that would otherwise not have arisen.

Mr BARNETT: I refer to page 163, payroll tax. What additional revenue is expected to come from compliance measures, particularly as they relate to employee-like subcontractors, where the legislation was not proceeded with but the compliance was "enhanced"?

Mr RIPPER: I will ask the Commissioner of State Revenue to comment. Receiving additional revenue from compliance with the payroll tax legislation, as it applies to contractors, is an interesting question. The compliance resources that have been used to obtain that additional revenue were provided in an earlier coalition budget. Presumably, the coalition also expected to obtain additional revenues from this compliance activity. I would be happy to have the Commissioner of State Revenue discuss the compliance program with regard to payroll tax and contractors.

Mr SULLIVAN: Not surprisingly, this will not be a straightforward answer but I will provide as much information as I have available. I understand the Leader of the Opposition's question relates to the 2001-02 financial year. So far this year we have undertaken approximately 1 800 audits specific to payroll tax and from those, about 950 assessments have arisen with revenue raised in the order of $21 million. Our compliance resources are spread across the range of taxes and our focus will vary from time to time. In relation to contractors per se, of those 945 assessments that have been issued so far this financial year, 144 have had an element that relates to contractor payments, which does not mean the whole assessment. I do not have the information to work out the extent of revenue that specifically relates to those payments.

The additional resources that we will get in the next financial year will be applied across the tax lines. If past experience is any guide, over the period we are considering we would expect about half of the revenue that will result from those additional resources to come from payroll tax and half from stamp duty investigations.

Mr BARNETT: On page 162 I refer again to land tax and the policy decision to remove the residential exemption for homes held in trust or a company structure. Has the Office of State Revenue been advised of potential capital gains tax implications for people? In other words, a person may have had his family home in a trust structure for the purpose of financing his small business. At the time, the Treasurer's explanation was that someone in that position could simply move his home back into direct ownership and that would be okay. However, is it correct that the federal taxation system overlays that and people are being hit for capital gains tax on their homes as a result of moving them back from a trust into direct ownership?

[1.00 pm]

Mr RIPPER: I am not certain whether any representations have been made to the Office of State Revenue on this matter. If they have, they have not yet reached me.

Mr SULLIVAN: The Leader of the Opposition may be aware that an undertaking was given when the measure was announced last year that we would contact everybody listed on our database who enjoyed residential exemptions through company or trust ownership. According to the most up-to-date information I have, we have issued some 1 359 letters which I understand are identified in our tax base. In that process a couple of people were erroneously identified and they have received a letter of apology, clarifying their situation.

Very little response has made its way through to me. I am also advised that not much in the way of telephone inquiry has occurred. We clearly identified in the letter a number for people to phone if they had queries. The letter was also accompanied by an outline of stamp duty implications, but we did not think it was appropriate for a Western Australian government department to advise on commonwealth taxation laws. To the best of my knowledge, no formal or informal representation has been made to me.

Mr BARNETT: Did the Office of State Revenue advise the Government that changing the status of a home from a trust back to direct ownership, for example, may attract capital gains tax?

Mr RIPPER: As far as I am aware, the question of capital gains tax implications was not the subject of advice.

Mr BARNETT: Would you be disturbed that individual taxpayers are now subject to literally hundreds of thousands of dollars of capital gains tax?

Mr RIPPER: In my general comments on this question, I have drawn attention to the fact that people have these indirect ownership arrangements for other commercial and taxation advantages. I indicated that my expectation was that people would not want to shift from these indirect ownership arrangements because they want to maintain those other commercial and taxation advantages; in other words, despite the imposition of the land tax, people will stay with their indirect ownership arrangements.

Sitting suspended from 1.02 to 2.00 pm

Mr BARNETT: I refer to the fifth dot point on page 161, which reads -

> Continue to provide assistance to the Perth Urban Rail Development project as various procurement packages of work to deliver the infrastructure requirements of the project are developed.

Given that the Treasurer has been quoted as saying that the now revised cost of the south metropolitan urban railway is $1.4 billion, does that include the tunnelling proposed between the Narrows Bridge and the central business district? If so, what is the cost of that component?

Mr RIPPER: The budget allocations do not relate to the specifics of the route through the CBD. The Government has yet to make a final decision on that route.

Mr BARNETT: Does that mean that the tunnelling is not included in the $1.4 billion figure?

Mr RIPPER: When the Government decided to change the route from the Kenwick route to the direct route, it took account of the expenditure on the Kenwick route, including expenditure on the busway up the Kwinana Freeway and resolved that the expenses of the direct route could be met from within the original allocation for the Kenwick route, including the busway. That consideration included the expected costs of the cut-and-cover tunnel option for William Street. To that extent, the $1.4 billion estimate includes amounts for tunnelling up William Street.

Mr BARNETT: Does the cost include tunnelling from the Narrows Bridge to William Street?

Mr RIPPER: When we announced the direct route, we said that we could complete the project within the allocations for the Kenwick route and the busway. Of course, it will be more expensive to tunnel up William Street than use the direct route. On the other hand, we will save money by not continuing the busway up the Kwinana Freeway. If all of those things are taken into account, the proposed option is within the overall allocation for the Kenwick route. Of course, the overall allocation for the Kenwick route had not been adjusted for the inevitable effects of inflation since 1998. It has therefore been necessary to adjust the estimates for inflation. It would have been necessary for any Government - even that of the Leader of the Opposition if it were re-elected - to make those adjustments even for the Kenwick route.

Mr BARNETT: We are not in Argentina; we do not have Argentinian inflation rates.

Mr RIPPER: No; we have Western Australian inflation rates and they have been applied.

Mr BARNETT: That is nonsense. I asked whether the tunnel had been costed.

Mr RIPPER: I have given a straight answer and I am about to give the Leader of the Opposition a little more information. He should take it easy and stay calm.

Mr BARNETT: I am waiting for an answer.

Mr RIPPER: Since the Government made that decision, as the Leader of the Opposition is well aware, a study has been done and public consultation and debate have occurred on whether the western route or the central route is the best route through the CBD. The Government has not made a final decision on a route option. We are examining all the implications before that matter is finalised. The Leader of the Opposition is asking for information about government decisions that have not been made.

Mr BARNETT: The Government is claiming credit in the Treasury documents for work on procurement. It is fair enough for me to ask the Treasurer, who is surrounded by an army of advisers, what is the cost. Ten months ago the Premier said that it was $1.2 billion. The Treasurer has not been able to tell me the cost of tunnelling under William Street or under the foreshore between the Narrows Bridge and William Street. That is not price escalation. You have admitted that it has not been costed.

Mr RIPPER: The Leader of the Opposition is trying to create an impression that the cost of the project has blown out. He persists in wilfully and damagingly misrepresenting, in the light of public understanding of these issues, simple escalation, which must be applied to costings done in July 1998 with other changes that could be contemplated on large projects. I have provided a comprehensive and fair answer.

Mr BARNETT: The only thing the Treasurer has said is that the tunnelling has not been costed in the $1.4 billion. He has not given even a ballpark estimate of the cost of tunnelling from the Narrows Bridge under the foreshore and under William Street. I know Treasury has a ballpark figure; yet the Treasurer has not disclosed that information publicly.

Mr RIPPER: I have given costings for the decisions that have been made. The decision is to have a direct route up the freeway. At the time of deciding on the direct route, the Government wanted a cut-and-cover tunnel up William Street. We can do that for a bit more than $1.2 billion or $1.4 billion escalated. Since the Government made that decision on which those costings are based, there has been public consultation on different route options for the CBD. The Government has not made a final decision on those route options. It is still in the process of considering all of the options. When the Government makes a final decision, if there are any cost implications, they will be dealt with. I am telling the Leader of the Opposition what the $1.4 billion relates to. It is the escalated cost of the direct route, including the cut-and-cover tunnel option up William Street.

Mr DAY: Is it true that that does not allow for undergrounding the railway from the Narrows Bridge into Perth station?

Mr RIPPER: It is a cut-and-cover tunnel up William Street.

Mr DAY: I take it that it will go underground from the Narrows Bridge.

Mr RIPPER: The option announced last year did not include provision for undergrounding from the Narrows Bridge. Those are matters that the Government has not decided on.

Mr DAY: When does the Government expect to decide on them?

Mr RIPPER: I think the Government will make a decision fairly soon. When matters are under consideration, the outcomes can always be different from what people expect.

Mr DAY: That decision could have a major impact on the budget bottom line.

Mr RIPPER: If something costs extra, obviously that will have an impact unless we make countervailing adjustments elsewhere.

Mr DAY: Does the Government intend to do that?

Mr RIPPER: My advice as Treasurer is that if something costs extra a countervailing saving must be found.

Mr DAY: Where would the Treasurer find the extra funding for this project?

[2.10 pm]

Mr RIPPER: The saving could be found anywhere.

Mr DAY: So it could come out of the education, health or police budgets?

Mr RIPPER: Would the member not love me to say that it could come from the health budget? Of course, it will not and he should not be so ridiculous.

Mr DAY: The Treasurer just said that it could come from anywhere.

Mr RIPPER: If something like this arises, we look across government for lower priority programs, projects or activities, and we make adjustments. That is how we delivered the budget.

Mr HOUSE: Has the department conducted an analysis of the projected number of people per day who will catch the train when the line is operating, and what will be the loss on the week-by-week or month-by-month operation?

Mr RIPPER: Rail systems are expensive. The cost would have resulted had the Kenwick option endorsed by the coalition Government gone ahead.

Mr HOUSE: I am talking about running costs.

Mr RIPPER: I am getting there. The cost that I am about to give is the operational cost of the railway, whether it be the Kenwick route or the other route. The operational cost is made up of two expenses - debt servicing costs and the day-to-day operating subsidy. The total is about $100 million a year or a high point of $116 million a year. That is the annual cost of servicing the debt and running the railway.

Mr HOUSE: Is that the net loss?

Mr RIPPER: Yes.

Mr HOUSE: That will be something to focus on in a couple of years, will it not?

Mr RIPPER: You bet. It is the cost in 2006-07. I might say that it is a cost that the member's Government would have faced in four years, and it is a cost that we must also plan for in the future.

Mr McGOWAN: At page 158 reference is made to the national competition policy. My understanding of the arrangement is that the Commonwealth, through the Australian Competition and Consumer Commission, assesses the State's compliance with the national rules that are laid down by the agreement that was entered into in 1991 or 1992. Provided that a State complies, the Commonwealth will make an annual payment to the State, known as a national competition policy payment. I am interested in how much those payments are, and whether a State has ever been penalised for not complying with national competition policies. I understand that the Queensland Government has periodically made pronouncements that it would not comply with this or that principle enunciated in the policy. Has this State ever been penalised for failing to comply?

Mr RIPPER: The assessment of whether a State has complied with its competition policy obligations is made in the first instance by the National Competition Council. Payments to this State are worth $70 million a year. Queensland and New South Wales have had competition policy payments deferred as a result of assessments that they have not complied with competition policy. That has not happened to Western Australia.

Mr McGOWAN: What sorts of things have Queensland and New South Wales done to prompt a deferral? Has Western Australia had similar threats made to it by the NCC, which I think is part of the ACCC?

Mr RIPPER: Water reform and rice marketing arrangements have caused difficulties for New South Wales and Queensland.

Mr HOUSE: How are you getting on with the Potato Marketing Authority and national competition policy?

Mr RIPPER: If the member wants to search *Hansard*, he will find a speech from me on the Potato Marketing Authority that is not good news for the authority. Other people involved in the Government also make judgments on these matters, so I do not always have my way on competition matters. If any member wants a briefing on competition policy and how it relates to Western Australia, I would be delighted to organise such a briefing. If the member for Rockingham wishes to be briefed on the work that goes on, I would be happy to arrange it.

Mr BARNETT: I have a number of questions relating to taxation matters set out on page 162. Output 3 relates to land and financial taxes. Increases in stamp duty were announced in the 2002-03 budget. What is the percentage increase in the amount of duty payable on conveyancing for a home and for motor vehicle transfers? In other words, what is the impact as a percentage on the stamp duty bill that would apply for a typical conveyancing and a typical motor vehicle purchase?

Mr RIPPER: In my days in opposition we used to get out the calculator and do the calculation ourselves. I think we might have some information. While that is being gathered, I want to correct an answer I gave earlier. The Leader of the Opposition asked whether I had received any advice on capital gains tax as it might relate to transactions of residential properties held in trust or in private corporations. I said at the time that I was unable to remember any specific advice on capital gains matters, but I referred to the commercial and taxation advantages that people have through holding houses in trusts or in corporation structures. I have received some tangential advice on capital gains matters. For example, I wrote to a member of the public that I was unable to advise on specific issues relating to commonwealth taxation laws but that I understood that capital gains tax applies to property purchased after 19 September 1985 and that if the residential property had been transferred into company ownership before then, it would appear to be exempt from capital gains tax if the company were to be wound up. The Department of Treasury and Finance also advised me that this measure brings the land tax treatment of principal places of residence held by companies and trusts into line with their treatment under the commonwealth capital gains tax regime; that is, a property owned by a company or trust and occupied by shareholders or trustees as their principal place of residence is subject to capital gains tax when the property is sold or otherwise disposed of, whereas a property owned and occupied by a natural person as his principal place of residence is exempt from capital gains tax. We have been able to identify at least those two occasions on which the subject of capital gains tax in connection with the two places of residence -

Mr BARNETT: My question is: when property is transferred from a trust back to the natural person ownership, will capital gains tax apply? My advice is that capital gains tax may well apply; in other words, the Treasurer’s $20 fix is not realistic.

Mr RIPPER: It may well be the case that the Leader of the Opposition is right.

Mr BARNETT: Does the Treasurer not think it incumbent upon the Office of State Revenue, if it is to take the trouble to write to people, not to comment on it, but at least to alert them to the fact that there may be a capital gains tax implication?

Mr RIPPER: I have some concerns about the Office of State Revenue becoming a tax adviser to people. I am not sure how the letter was framed, because it was not sent over my signature. I hope that people take advice before they unwind structures in case there are commercial or other taxation obligations.

Mr D’ORAZIO: If people have a transaction involving $500 in land tax, the advantages are such that they would not unwind a structure for that reason.

[2.20 pm]

Mr RIPPER: That confirms my view that because of other commercial and taxation advantages, people will stay with their indirect ownership structures. The letter I sent to that taxpayer said that it was recommended that professional advice be sought as to how these rules might apply to all circumstances should such a transfer be contemplated. It is suggested that people seek professional advice. The precise question of capital gains does not appear to have been raised. However, people were directed to seek professional advice.

I now refer to stamp duty. The Government has done the calculations that the Opposition should have done on budget day but did not. The stamp duty on properties valued at under $80 000 has increased by 2.6 per cent; it has increased by 5.3 per cent on properties valued at between $80 000 and $100 000; by 12.2 per cent on properties valued at between $100 000 and $250 000; by 13.2 per cent on properties valued at between $250 000 and $500 000; and by 13.4 per cent on properties valued above $500 000. Stamp duty on cars valued at between $10 000 and $20 000 has increased by 10 per cent; on cars valued at over $20 000, it has increased by 16.7 per cent; on cars valued at over $30 000, it has increased by 25 per cent; and on cars valued at over $40 000, it has increased by 30 per cent.

Mr BARNETT: In last year's budget, figures were produced showing the cost per capita of the new tax measures. I refer to outputs 3 and 4 and the tax increases announced in this year's budget. What will be the impact of those increases on a per capita basis? What will be the cost in dollars per capita of the increased tax measures in 2002-03?

Mr RIPPER: Before the revenue-raising measures, tax per capita was $1 581. The revenue-raising measures will cost $56 per capita; therefore, the total cost will be $1 637 per capita. The six States' weighted average is $1 666 per capita. Therefore, the taxation impact in this State is still below the six States' weighted average per capita.

Mr BARNETT: The 2000-01 budget papers indicated a five per cent deterioration in tax competitiveness. That was shown in a table that was not contained in this year's budget papers. By what percentage will Western Australia's taxation competitiveness decline as a result of the tax increases in the 2001-02 budget?

Mr RIPPER: The important point is that the ranking of Western Australia's taxation competitiveness will remain the same. On a per capita basis, New South Wales and Victoria tax more than we do. A per capita table on page 14 of budget paper No 3 shows the impact of the revenue measures and a comparison with those in other States.

Mr BARNETT: That was for last year. Last year it was estimated that competitiveness would deteriorate by five per cent. What will the impact be this year?

Mr RIPPER: The Leader of the Opposition would have to calculate 56 divided by $1 581.

Mr BARNETT: I refer to the dividends from the Electricity Corporation and the Water Corporation trading enterprises on page 178 of the *Budget Statements*. What is the dividend policy adhered to by those corporations?

Mr RIPPER: Western Power and I have agreed on specific absolute dollar payments that will be made in the budget year and the forward estimates. The dividend ratio will fluctuate. Western Power is committed to making those payments. If Western Power's profits are less than expected, the dividend payout ratio will go up, because it is committed to meeting the absolute payment. If, on the other hand, it drives its organisation harder and it makes better profits than expected, the dividend payout ratio will fall, because it is committed to the same absolute payment. The figures in the budget papers are the dividend policy. That is the agreement between Western Power and me.

We have reduced the Water Corporation's dividend payout ratio from last year. The Water Corporation will return to an 85 per cent dividend payout ratio in 2002-03 following a one-off increase to 95 per cent last year.

Mr BARNETT: Given that answer, on what basis was the $20 million extracted from Western Power around the time of the midyear review? Why did Treasury fail to make any reference to the $20 million payment in the 65-page midyear review?

Mr RIPPER: The basis on which the additional $20 million payment was sought from Western Power was the capacity to pay and the need for the Government to manage its budget. We will make decisions during the year to manage our budget. If, as people allege, there is increased expenditure in one area, we will either take action to make a saving in a corresponding area or we will carefully examine the revenue flows to the Government so that we stay within the financial management targets.

Mr BARNETT: Why was that $20 million concealed from the midyear report?

Mr RIPPER: There was a reference in the document to increasing the payments expected from public corporations.

Mr BARNETT: That is a fairly significant amount of money. Twenty million dollars was taken from Western Power in an ad hoc way without the knowledge of its management or board, and it was not itemised in a midyear report that ran to 65 pages. That is unacceptable and it is not public accountability.

Mr RIPPER: If it is unacceptable, how would the Leader of the Opposition describe the actions of the previous Government when it increased the dividend payout ratio of Western Power from 30 per cent to 50 per cent?

Mr BARNETT: It was a policy decision.

Mr RIPPER: The previous Government put it into the budget papers on May 2000 when the budget showed a forecast surplus of $42 million, which was entirely based on the increased payout ratio from Western Power. The Government did that without the agreement of Western Power's board until August of that year. The then Government did not come clean on any of that in the budget.

Mr BARNETT: If the Treasurer goes through the files, he will find correspondence between Western Power and me. He will also find records of discussions between the board of Western Power and me on that matter. We discussed the policy to increase the dividend. That had been discussed over a number of years. However, this Government arbitrarily took $20 million from it. What concerns me is why the Treasurer concealed that from the public in the midyear report and why the Under Treasurer signed off on a 65-page document that did not include reference to that $20 million. The point of this Estimates Committee is to find that out.

[2.30 pm]

Mr RIPPER: The midyear review made reference to increased payments from public corporations.

Mr BARNETT: It did not. It is quite clear; the $20 million was not shown.

Mr RIPPER: It referred to increased payments.

Mr BARNETT: It did not. It did not talk about a $20 million payment that had been put in place. Treasury is required to set a standard for agencies. That $20 million was not shown.

Mr RIPPER: The midyear review drew the reader's attention to the decline of dividends from the Water Corporation and the expected increase in payments from public corporations.

Mr BARNETT: You had already made a decision on $20 million that was not itemised.

Mr RIPPER: I will find the reference so that I can give it to the Leader of the Opposition. I object to the Leader of the Opposition's reference to pilfering through the files. I am the Minister for Energy and the Treasurer. I am entitled to the information that is held on departmental files. I am not entitled to the cabinet records of the previous Government and I do not seek to access those cabinet records unless through the proper channel of seeking permission from the Leader of the Opposition. I have not had occasion to seek that permission. I access only departmental information that is available to me to access. Ministers must be aware that there is plenty of material on departmental files that relate to the activities of ministers. Departments keep material on file. That information is legitimately available to the incoming Government.

Mr DAY: Even if you want to use it for political purposes.

Mr BARNETT: That is an absolute disgrace.

Mr DAY: That was not the standard of the previous Government, in my experience.

Mr BARNETT: We did not do that.

Mr RIPPER: I sat here while the former member for Riverton, Graham Kierath, routinely trotted out cabinet documents. They were used over and over again. The former Premier also used information that had been obtained from the Lawrence Government. The Lawrence Cabinet was subject to a royal commission, which breached cabinet confidentiality. Informal comments that we made in cabinet had to be repeated before a royal commissioner on pain of suffering charges of perjury. If members opposite think we have dealt badly with their cabinet records, they should think about that. Something that was said informally in cabinet had to be repeated before a royal commissioner on pain of being charged with perjury or contempt of court.

I have the reference for the Leader of the Opposition. Page 9 of the *2001-02 Government Mid-Year Financial Projections Statement* states -

> tax equivalent regime (TER) and dividend revenue - down $28.4 million. This largely reflects the impact of the introduction of Stage 4 Water Restrictions with a corresponding negative impact on the operating performance of the Water Corporation. As a consequence, dividend and TER revenue from the Water Corporation is down $46.6 million. Partially offsetting this decrease is higher expected dividends from Western Power;

Mr BARNETT: On the basis of what? They were not higher expected dividends. Is it not the case that at that point you had already decided to take $20 million?

The CHAIRMAN: Order! The Leader of the Opposition does not have the call, nor did he seek it. This is not the time. The Leader of the Opposition knows the rules of this committee; that is, a member must seek the call from the Chair and be given it in an appropriate way. I have given this argument a lot of room in which to move. Considering the disrespect shown to the Chair, I will move on.

Mr D'ORAZIO: I think it is disgraceful that some members have not been able to ask a question. There is a reference on page 152 of the *Budget Statements* to the Western Australian Treasury Corporation Act 1986. Will the Treasurer explain the operation of the Western Australian Treasury Corporation? My question also relates to the provision for interest, which is listed under the Act and increases under the forward estimates. Is that increase factored in as a response to an increase in interest rates, or does it relate just to the operations? The estimated actual cost of interest for 2001-02 is $54.348 million, which rises to $67.485 million in 2002-03. Does that reflect the servicing cost of the debt or is it a reflection of the increase in interest rates? What interest rate is predicted and what impact does that rate have on the overall figure?

Mr RIPPER: The Western Australian Treasury Corporation is a government trading enterprise which basically operates as a central borrowing authority. It borrows from the capital markets and then lends to government agencies. From a competitive neutrality point of view, government trading enterprises in particular should have a loan guarantee fee added to interest payments they make to bring them up to the cost of funds that would be available to private sector competitors. I understand that the item referred to by the member concerns the loan guarantee fees that are received from government agencies and, in particular, government trading enterprises.

Mr DAY: I return to the Western Power dividend issue. Given the policy to break up Western Power and increase the amount of competition, which in general terms we support, and given the consequences of reducing scale and the greater pressure that will be exerted on the performance of Western Power, its profits and ability to pay dividends would be expected to decrease. Is that correct?

Mr RIPPER: The Electricity Reform Task Force will analyse the costs and benefits of the proposed reform of Western Power and the electricity market. I imagine that this matter will be covered in that analysis. If Western Power were exposed to additional competitive pressure, one would have to expect that it might suffer some loss of market share and, therefore, it might have a reduced capacity to pay a dividend to the State. However, if the electricity reform works as expected and we have a larger electricity supply industry and a larger market, because electricity will be cheaper and more will be sold, that potential decline in market share might be balanced by growth in the market. In any case, the proposed reform process will not be pushed through rapidly. There will be time for adjustment and assessment of the changes that are to occur.

Mr DAY: It sounds like you are reconsidering it.

Mr RIPPER: No. The Electricity Reform Task Force has not yet reported and the Government has not made any decision on the final report. We are expecting the report later this year. We will make a decision at that stage and then implement it. The sorts of impacts the member is talking about will occur down the track. I am expecting at least some sections of the Opposition to support the reform process. I have noted with great interest the comments of Hon George Cash on the electricity industry. I watched with fascination the internal television coverage of his speech, and I am looking forward to his further contributions to the debate.

[2.40 pm]

Mr DAY: We on this side are allowed to think for ourselves. Any reduction in dividends is obviously not factored into the forward estimates.

Mr RIPPER: The forward estimates are based on existing policy.

Mr HOUSE: Borrowings by Western Power are expected in the next two to three years to be more than $100 million. The extra dividend that was taken by the Government has only resulted in extra borrowings by Western Power, which will affect its final payment to the Government because it will have to pay extra in interest rates, or increase the cost of electricity. The Treasurer just said in response to the Leader of the Opposition that it was a fairly natural process, and there was no problem at all. Western Power has borrowed $20 million to pay to the Government; the State is $20 million worse off, and the Government has balanced its books by robbing someone else.

Mr RIPPER: Given that Western Power has a substantial capital works program, that argument could be advanced against any level of dividend payout to the State. Obviously, Western Power finances its capital works program from a combination of retained earnings and borrowings. The extent to which it can retain earnings enables it to reduce its borrowings for any given level of capital works program.

Mr HOUSE: That argument might hold good, except for the fact that the figures show that Western Power's level of debt has increased considerably, and will continue to do so in the next couple of years, partly as a consequence of the development of a new power operation. However, it would not have had to borrow so much if the Government had not taken such a large dividend. The consequences of that decision are large.

Mr RIPPER: The same mechanism could be argued for the previous Government's decision to increase the dividend payout ratio from 30 per cent to 50 per cent. It is exactly the same, in fact.

Mr HOUSE: The minister keeps falling back on the argument that the previous Government's financial management was not very good, and that the present Government's is. He has just demonstrated that the present Government's management is worse.

Mr RIPPER: The impact of the move from 30 per cent to 50 per cent was $42 million at the time when the surplus forecast in the budget was exactly $42 million. I can imagine the last-minute decision making that might have gone into that. No wonder the board did not finally agree until three months later. The correspondence makes fascinating reading.

Mr BARNETT: Why does the minister not read the files? He has access to them.

Mr RIPPER: The position is that Western Power is building the Cockburn power station, which is a significant investment.

Mr MARLBOROUGH: It is not bad, you know. They use coal and it is called Kwinana, and then they turn to gas and, all of sudden, it becomes Cockburn. Spin doctors!

Mr RIPPER: The only spinning down there will be the gas turbine. Western Power is also investing significantly in transmission and distribution infrastructure. The capital works program is valued at $440 million this financial year, which is very significant.

Mr BARNETT: I refer to Western Power's dividends mentioned on page 178, and to the figures on the net worth of the public sector in budget paper No 3. Has Treasury estimated the loss to the capitalised value of Western Power if it is broken up into three separate entities?

Mr RIPPER: I have indicated that the budget papers are based on existing policy. New policy is first of all to be reported upon by the Electricity Reform Task Force, and then to be considered by the Government in response to that report. If and when new policy is adopted, it then becomes the basis upon which budget papers are estimated in the future. Treasury is involved in the working parties of the Electricity Reform Task Force. The task force will undertake a cost-benefit analysis of the proposed reforms. I imagine that a cost-benefit analysis should look at the shareholder value of Western Power and its successor organisations, amongst other factors.

Mr BARNETT: Is it not the case that the estimated decline in the market value of Western Power is in the order of $1 billion?

Mr RIPPER: I could make Western Power extremely valuable. If I barred anyone else from selling electricity in this State and jacked up electricity tariffs by 20 per cent, I could add a billion or two to its value. If I privatised Western Power, and gave an undertaking that those high tariffs and that monopoly position would be preserved for four or five years into the future, I could realise on that high value. However, I would be doing that at the expense of the electricity consumers, the businesses and the jobs in this State.

Mr BARNETT: The question was not all that hard. Was the estimated decline in value $1 billion?

Mr RIPPER: There is no Treasury estimate on this matter, but there will be a study of the costs and benefits in the work of the Electricity Reform Task Force.

Mr DAY: So is it the Labor Party's election policy, but not government policy?

Mr RIPPER: It is government policy to have competition reform in the electricity industry, and government policy to have an Electricity Reform Task Force to recommend how that should proceed. The Government must always examine the recommendations of these bodies and make its own decisions.

Mr DAY: The Government must also examine its own election policies, which were to break up Western Power. The Labor Party went to the election with the policy of disaggregating Western Power. Is this not the Government's preferred option at this stage?

Mr RIPPER: There is an interesting tension here. The Government has a policy for electricity reform. To implement that policy it established the Electricity Reform Task Force. The process is that the task force reports, and the Government considers its recommendations. I expect the task force to report in favour of disaggregation. It has done that in its preliminary report and in its second discussion paper. I would be surprised if the task force changed its mind from where it has been heading. The Government always said, in its election policy, that it would not carry out the reforms overnight, but would establish a task force. It is being consistent with its policy.

[2.50 pm]

Mr MARLBOROUGH: I refer to page 151, item 14, electricity corporation. This is a very important matter for my electorate and, if the minister listens to the point I make I suggest he will agree it is important to the State. I made a flippant remark earlier about the naming of the Kwinana power station, which was done when it was a coal-burning station. Now that the new upgrade sees it driven by gas, it will be called Cockburn 1. My simple request to the minister is to review the changing of the name to Cockburn 1, and leave it as Kwinana. I will provide some reasons. In 1954 Kwinana was created as the heavy industrial area of the State, when the Hawke Labor Government invited BP to locate into the area now known as Kwinana. Whether Governments have liked it or not, the heavy industrial development of the metropolitan area has taken place in Kwinana. The minister knows that I have argued for many a long day that it is the most important piece of real estate in Western Australia. It is important because it is a heavy industrial estate. It is also important because it has to be managed properly by all sides. There have been signs for a number of years that we are not managing it all that well. If we do not manage it, we will lose it and public opposition will grow. The Leader of the Opposition has already said that he does not think the Hamersley Iron plant should be built in Kwinana. He thinks it should be built in the Pilbara because Kwinana is already full of that type of industry. In a nutshell, that is what he is saying. One of the things that helps that sort of mentality thrive is Kwinana's reputation as being a heavy industry area and its association with downgraded environmental standards. Measurement systems have been in place for many years to ensure that environmental standards -

The CHAIRMAN: It is time the member's question was drawn to a conclusion.

Mr MARLBOROUGH: I have asked a question.

The CHAIRMAN: This is not an opportunity to make a speech. Sum up your question.

Mr MARLBOROUGH: There are appropriate mechanisms in place that have tried to keep environmental standards on a par with world standards. It is smart politics to recognise that Kwinana deserves its good stories to be told as well as those that are not so good to the environment. This is a good story for the environment. One of the best ways to demonstrate that is to name the new operation - which probably came from Western Power -

The CHAIRMAN: Order! The member's point has been made.

Mr RIPPER: I understand that the member thinks the gas power station is good news and that he wants it associated with Kwinana rather than with Cockburn. The name came from Western Power. I did not choose the name; I did not know that it was contemplating a new name. I am prepared to raise the member's concern with Western Power. It may be too late because all the documentation probably refers to Cockburn 1. However, we may be able to make some adjustment.

The appropriation was recommended.