

**STANDING COMMITTEE ON
ESTIMATES AND FINANCIAL OPERATIONS**

2011–12 BUDGET ESTIMATES HEARINGS

**TRANSCRIPT OF EVIDENCE
TAKEN AT PERTH
MONDAY, 30 MAY 2011**

DEPARTMENT OF TREASURY AND FINANCE

Members

**Hon Giz Watson (Chair)
Hon Philip Gardiner (Deputy Chair)
Hon Liz Behjat
Hon Ken Travers
Hon Ljiljanna Ravlich**

Hearing commenced at 1.36 pm**O'BRIEN, HON SIMON****Minister for Finance, representing the Treasurer, examined:****MARNEY, MR TIMOTHY****Under Treasurer, Department of Treasury and Finance, sworn and examined:****BARNES, MR MICHAEL****Deputy Under Treasurer, Department of Treasury and Finance, sworn and examined:****PICARDO, MR ROY****Assistant Director, Finance and Business Services, Department of Treasury and Finance, sworn and examined:****TONDUT, MR JOHN****Executive Director, Building Management and Works, Department of Treasury and Finance, sworn and examined:**

The CHAIR: On behalf of the Legislative Council Standing Committee on Estimates and Financial Operations, I would like to welcome you to this afternoon's hearing. Before we begin, I must ask the public servants to take either an oath or an affirmation.

[Witnesses took the oath or affirmation.]

The CHAIR: Have each of the witnesses read, understood and completed the "Information for Witnesses" form?

The Witnesses: Yes.

The CHAIR: Have you fully understood the document, and do you have any questions?

The Witnesses: Yes.

The CHAIR: This hearing is being held in public, although there is discretion available to the committee to hear evidence in private, either on its own motion or at a witness's request. If for some reason you wish to make a confidential statement during today's proceedings, you should request that the evidence be taken in closed session before answering the question. Government agencies and departments have an important role and duty in assisting Parliament to scrutinise the budget papers on behalf of the people of Western Australia, and the committee values your assistance. Members are asked to sit to the front of the chamber where practical, so that witnesses will not have to turn their heads to the back of the chamber when answering questions. These proceedings are being recorded by Hansard. A transcript of your evidence will be provided to you. It will greatly assist Hansard if, when referring to the budget statements, volumes or the consolidated account estimates, members please give the page number, the item, the program and the amount in preface to their questions. If supplementary information is to be provided, I ask your cooperation in ensuring that it is delivered to the committee clerk within ten working days of the receipt of the questions. Should you be unable to meet this deadline, please advise the committee clerk immediately. An example of the required Hansard style for documents has been provided to your advisers. The committee reminds agency representatives to respond to questions in a succinct manner and to limit the extent of personal observations. For the benefit of members and Hansard, I

ask that Hon Simon O'Brien introduce himself and his advisers to the committee, and for each adviser to please state their full name, contact address and the capacity in which they appear before the committee.

[The witnesses were introduced.]

The CHAIR: To commence, do any of the witnesses wish to make an opening statement, or would you like to proceed straight to questions?

Hon SIMON O'BRIEN: Perhaps, just as a preliminary, could the Chair give us an overview of the committee's expectations today, what materials you want to go through and whether you have a program set out for us?

The CHAIR: Sure. The intention this afternoon is to spend the first hour dealing with forecasts, the second hour dealing with revenue, the third hour dealing with new policy initiatives in the finance portfolio and the last hour dealing with capital expenditure. I am going to do my best to keep those within their discrete areas, but we will see how we go; we have not done it quite like this before. Those are the areas; I have a copy of them, if they would be useful. I think you probably would already have received that.

Hon KEN TRAVERS: Are we expecting the Director General of the new Department of Finance to appear? I understood that we were, so that we could ask about the estimates of both Treasury and Finance.

Hon SIMON O'BRIEN: That is a good question. For the present, the head of the finance area of DTF is the Under Treasurer, and that is until 1 July, when Anne Nolan comes on board officially as the new Director General of the new Department of Finance, which starts from that date. So, it is a little bit of a changeover here, because obviously we have got the Finance vote—the Department of Finance division is obviously included in this budget, so that it can go from 1 July. But basically, it has been the work of the Under Treasurer in getting it to this stage, so he should be able to field all the questions. If not, we will come back another time.

The CHAIR: Minister, if you are okay, we might move to questions.

Hon KEN TRAVERS: I want to start with budget paper No 3, at page 14, which has the outline of the major economic forecasts and some assumptions. One thing that does not seem to be listed there is the interest rates that have been assumed for the purposes of calculating the budget. I am wondering what the interest rate is expected to be for 2011–12 and each year of the forward estimates; what you have taken as the interest rate assumption.

Hon SIMON O'BRIEN: Madam Chair, if we could take that as a supplementary question, we will provide that information.

Hon KEN TRAVERS: With all of these officers you cannot tell us what the interest rate assumption was for the purposes of the budget? I would have thought that it was a pretty key figure.

[1.43 pm]

Hon SIMON O'BRIEN: I mistook what Hon Ken Travers was after. I think I might ask Mr Barnes to respond in the first instance.

Mr Barnes: I can give you the order of magnitude. It is roughly six per cent per annum. I do not have with me the precise assumption in each year of the forward estimates. We can take that as supplementary information, but it is in the order of six per cent per annum.

Hon KEN TRAVERS: Is it fairly constant across the forward estimates?

Mr Barnes: Yes.

The CHAIR: Hon Ken Travers, do you want to make that a supplementary question as well?

Hon KEN TRAVERS: Yes.

[Supplementary Information No A1.]

Hon KEN TRAVERS: Unless of course during one of the breaks you could not ring back to the office and get that information for us. I would have thought it would be something that might be fairly easy to get.

Hon SIMON O'BRIEN: Are we getting breaks?

The CHAIR: Sorry; I should have said that we will take the odd break or two—otherwise occupational health and safety will be onto us.

Hon PHILIP GARDINER: I actually did do the calculation out of the budget papers. I wish I could find out where now I was getting the interest number, but the number that I got, based on the net debt of 2010–11, was nothing higher than 2.25 per cent—that is for the year finishing June 2011. Then for 2012, I thought, “Well, I’ll see if I can find whether that figure makes more sense to me,” and on \$17.3 billion of debt, the interest, as I found somewhere—I am afraid I cannot remember which interest number I used; it was from a table at the very back, perhaps—was about 2.6 per cent. But I would have thought that the interest number should be discernible from these papers—about what has been paid and what is expected to be paid from one year to the next. I will find how I did the calculation in the course of the hearing, but I actually did do the calculation because I was interested in this particular area as well.

Hon SIMON O'BRIEN: Member, you make some interesting observations, but you are actually after the dollar amount of interest; is that what you are after?

Hon PHILIP GARDINER: I was after the interest rate.

Hon KEN TRAVERS: No, the dollar amounts, I think, are contained.

Hon PHILIP GARDINER: Beginning from the dollar amount, yes—I got it in one of the expense tables. I know what the final debt was at June. I was trying to get what was the rough interest rate for the state.

Hon SIMON O'BRIEN: I think this is the same as the first question.

Hon PHILIP GARDINER: It is the same as the first question; that is right. I am just trying to say that I had to try to find it from the papers, and I would have thought it should have been discernible from the papers.

Hon KEN TRAVERS: I will leave it to a financial expert like Hon Philip Gardiner to try to work that out. In terms of the supplementary information that is asked, I was certainly looking for whether there was a general interest rate that was taken into account, but if we are going to get supplementary information, I would certainly be interested in what the interest rate assumptions are with respect to borrowings but also the interest rates with respect to cash—that is, the money that you have at bank as well as the money you borrow. I would also be interested in whether there is a more general interest rate assumption for the purposes of calculating the general state of the housing loan interest or the general community interest rate that would factor into some of those other key issues in terms of the loans that business would be paying that would go into your economic modelling. I would have thought, if we are going to get them, we could get those three. I would imagine with your borrowings, there may be an average, but then there will be both short and long-term interest rates. Maybe if we could get a general sense of what are the current short-term borrowings versus long-term borrowings and a proportion of how much of the debt is short and how much is long.

Hon SIMON O'BRIEN: To clarify, for supplementary information A1 we will provide the information requested. In terms of general interest income, we will provide that figure. In terms of interest payable in respect of borrowings, we will also provide that. In respect of the general indicator, that will be as per current policy. We do not anticipate the RBA varying. That is the basic assumption that is contained in this budget.

In respect of Hon Philip Gardiner's point, I think the reason for his inability to reconcile what he sees before him when he goes searching is not an uncommon thing, I am sure, with a whole lot of people looking through the budget papers, because they are a complex document. I might ask Mr Marney just to provide some helpful information about what it might be that is causing your apparent incongruity. I think it might make it clear for you.

[1.50 pm]

Mr Marney: In order to, if you like, work back to an actual interest rate applicable to the state's finances, we need firstly to make sure we are looking at the total public sector tables in the appendices of budget paper No 3 and you are looking at the gross interest cost. Most of the presentation is around net interest cost. It is a matter of looking at the right sector in terms of the aggregates but also ensuring that you are looking at the right variable to compare back to debt. My suggestion would be that you leave it to us to respond under supplementary information A1 and we will give you the full breakdown.

Hon PHILIP GARDINER: I accept that. I think there are items under revenue and expenses. Maybe that was not the total. I think I was doing it on general government revenue anyway, so that might have been the problem. The reason I am looking for it is in relation to assessing what the risk is to the state. But I will come back to that with another question after Hon Ken Travers.

Hon LJILJANNA RAVLICH: Would the interest rate not form part of the risk assessment? Is the interest rate one of the considerations that is used in assessing risk?

Mr Marney: The interest rate is a variable that will impact on the cost of our debt. It is also a risk variable in terms of the prospects for the economy more broadly.

Hon LJILJANNA RAVLICH: Is it an input into the risk assessment?

Mr Marney: It is one of the many risks that impacts on the budget. Given the environment we are in, it is probably not a stand-out risk at the moment relative to other risks such as the exchange rate or, actively, more broadly.

Hon LJILJANNA RAVLICH: Did you consider interest rates when you made the determination in terms of calculating risk or how the interest would pan out over the forward estimates when you made that assessment of risk?

Mr Marney: Yes, is the short answer.

Hon LJILJANNA RAVLICH: If you considered it, why would you not know what those figures were that you considered?

Mr Marney: It is one of the many variables around which there is substantial modelling during the budget process. If you go through the appendices in budget paper No 3 or even table 2 in budget paper No 3, you will see an array of economic parameters and variables, all of which are modelled over the course of the budget process from start to finish pretty much on a fortnightly basis over a five-month period. To ask me to recall all the parameters in terms of the interest rates is probably asking a little bit much of my memory.

Hon KEN TRAVERS: What is the process for determining your interest rate assumptions over the period of the forward estimates; is it based on what you are getting in the long-term bond rate; what your current interest rates being paid are; or do you do some more detailed modelling to try to predict the interest rate over the forward estimates?

Hon SIMON O'BRIEN: I will ask the Under Treasurer to deal with it.

Mr Marney: The interest rates are modelled by the WA Treasury Corporation based on its outlook for the cost of borrowings and earnings on our asset holdings; its model against a number of parameters, including the general shape of the yield curve; as well as the profile of debt borrowings into the out years and what that might mean for our capital base.

Hon KEN TRAVERS: I appreciate that I think this budget provided a fair degree of greater detail about the economic forecast than have previous ones. Interest rates is one. If we look at the exchange rate and the iron ore price and the argument being they are assumptions not forecasts and that they, effectively, mutually hedge themselves, it strikes me that on that basis, the key assumption to determine revenue over the forward estimates is the volume of iron ore. Again, I do not see anywhere in the budget papers what our estimate of iron ore volumes are for next year and over the forward estimates. If you have got it, what do you expect the volumes to be; if not, what are the current volumes at least and what is the general trend expected to be over the period of the forward estimates?

Hon SIMON O'BRIEN: It might assist the committee's interest in this to look at page 91 of budget paper No 3, where, for example, there is one place where there is some detailed discussion about iron ore. That includes consideration of volumes. For example, there are predictions there based on assumptions of growth in iron ore production of 27 per cent over the budget period, from about 445 million tonnes estimated in 2011–12 through to 565 million tonnes in 2014–15. As Mr Marney was pointing out in answer to a recent question, sundry matters can impact on the ultimate out-turn of a budget, particularly when one is trying to predict the forward years. As the member rightly points out, production of anything that is subject to royalties obviously impacts on it, together with a range of other indicators that we can go to, whether it is a summary of risks to the outlook, as discussed earlier, from pages 26 through to 29 of that same volume. There is a wealth of information, but, specifically, questions of volume of iron ore are dealt with on page 91 of budget paper No 3.

Hon KEN TRAVERS: I appreciate that that gives us the start figure and the end figure, but I was asking what is the assumption of the volume for each year over the forward estimates.

Hon SIMON O'BRIEN: It is not shown year by year over four years, but we do have it and if you would like us to provide it, I can provide that by way of supplementary information. We have shown what is in the budget because, of course, this budget leads into some appropriation bills that I am hoping to receive from another place and read in shortly. That relates to the appropriations for the 2011–12 year. That is what is pertinent. We have also provided information looking at the out years. The 2011–12 year is the year we are looking at; nonetheless —

Hon KEN TRAVERS: Minister, the Government Financial Responsibility Act 2000 makes it very clear that we look over four years, not over just one. I know the Premier does not like looking over four years, but we want to look over the four years, thank you.

Hon SIMON O'BRIEN: There is no need to adopt that attitude. I have already said we will provide the information so that you can indulge yourself.

[Supplementary Information No A2.]

Hon LJILJANNA RAVLICH: I find it a bit hard to believe that what the minister has said, which is basically that he does not have that information, given that the assumption of the volume of iron ore would surely form an input into the revenue estimates because you could not determine what net revenues to the state would be without considering the major contribution of the —

Hon SIMON O'BRIEN: Before I get lectured any longer, I have already indicated in answer to the previous question that we have that information and we will provide it by supplementary information. There you are!

Hon LJILJANNA RAVLICH: We cannot run this by the minister providing supplementary answers on everything. The simple fact is you have got the Under Treasurer there and we expect to get the answers to the questions we ask, whether you like it or not.

Hon SIMON O'BRIEN: Stop being so petulant.

The CHAIR: We will call a halt there, I think. I heard the minister say he would like to provide that by way of supplementary information. That is the answer we have at this point in time.

[2.00 pm]

Hon KEN TRAVERS: I guess it follows on from there. If we are expecting a 27 per cent growth in the volumes of iron ore, why are we then only predicting that we will go from \$4.1 billion in royalty income up to \$4.635 billion? Overlaid on that is the fact that you have also got the impact of the policy change in there. If we have got such significant growth in the volumes and if we accept the argument that the Aussie dollar and the price of iron ore effectively hedge each other, why are we not seeing a far more dramatic rise in the iron ore royalties over the forward estimates?

Hon SIMON O'BRIEN: The budget papers in providing those projections—and they are projections—rely on price. As we were looking at a table just now, we see that there is a projection there of the predicted prices based on —

The CHAIR: Minister, which page?

Hon SIMON O'BRIEN: Page 90. If you look on page 90 at table 11 there is the assumptions on royalty income estimates, which I think answer the member's question—relying as it does on the projected iron ore prices, in the case of iron ore—and the other information there which is self-explanatory.

Hon KEN TRAVERS: No, minister, it raises the question; it does not answer the question. Because the argument has always been put, I believe it was put by the Treasurer the other day again, that the Australian dollar exchange rate—I mean, using an estimate of 97.5c, which is a six-week average and then it starts to average back to a long-term average, and you do the same for the iron ore price, the argument being that these are assumptions not forecasts, but realistically you then end up effectively with the same figure because one is hitched against the other. If the price of iron ore stays high, then the chances are that the Australian dollar will stay high and, therefore, the impact on the amount of money that the state receives does not change. If, though, you are expecting a 27 per cent growth in the volumes of iron ore over that period, then surely if you follow that earlier argument, we should be seeing a 27 per cent growth, if one is hedging the other, in the amount of money we are getting from iron ore royalties.

Hon SIMON O'BRIEN: There are a number of factors, including not only price but also exchange rate, which tend to have offsetting effects. I will ask Mr Marney to address your question.

Mr Marney: The answer to the question is: the trending back to long-run average price of iron ore outweighs the impact of the exchange rate assumption quite significantly. Even in Australian dollar terms, iron ore prices in A-dollar terms are projected to decline by 25 per cent over the forward estimates period, so it is a far greater impact from the price moving back to long-run average, than it is from the exchange rate.

Hon KEN TRAVERS: Right. Arguably then, if we are going to get the volumes that you are estimating we will get, then the revenue in 2014–15 could be substantially higher.

Hon SIMON O'BRIEN: If there are any changes, and there will be changes inevitably, in future to exchange rates or any of the other indicators that we are talking about here, then by definition that will impact on the actual outcomes when we get to that point in time.

Hon KEN TRAVERS: But I guess the point I am asking is: if we are having 27 per cent growth and our revenue is growing only by a very small amount from \$4.1 billion to \$4.6 billion over a four-year period, which is well below 27 per cent, then it is fair to say if you maintain the same relationship, whatever they are fixed at, between the Aussie dollar and the price of iron ore and that we accept that there is a link between those two and they hedge each other, then we are probably looking at somewhere in the order of anywhere up to a 25 per cent increase in revenue at the end of the forward estimates period, are we not?

Hon SIMON O'BRIEN: I do not know that there is much further we can add. A 27 per cent increase in volume is offset by an expected or projected 25-or-so per cent change in exchange rate, which when you then apply the Australian dollar price to a tonne of iron ore—I think as we have said before—is why the increased amount of revenue shown on that line item at the top of table 10 is not a full 27 per cent extra.

Hon KEN TRAVERS: Anyway, I think we have answered the question that there is some significant variations potential there before the end of the forward estimates.

The next question I wanted to go to is back on page 14. You are estimating business investment of 10 per cent growth for the current year that we are in as the estimated actual, following on with 15 per cent next year and then eight per cent the year after, then 2.5 and then, in fact, even planning on business investment going into a negative in 2014–15. I am intrigued as to how we arrived at those figures. I am also intrigued by the population where we have had in 2009–10, 2.4 per cent, we are estimating 2.3 this year, declining to 2.2 and then over the forward estimates going down to 2.1. I am just trying to understand how we get those different estimates because to me they seem to be counterintuitive; if we are going to have that level of business investment, that is going to be creating jobs, it is going to create demand for jobs, we are going to see the same sort of pressures on that we saw in 2008–09 and 2009–10 where over those two years I think we got 2.5 to three per cent population growth. Why would you not expect the same thing to happen over the next four years? In fact, if it does not happen, how do we contain prices, particularly in the construction area? I am assuming a lot of that 15 per cent is investment in construction. I certainly know that the Chamber of Minerals and Energy has fairly bolshy predictions about the resources industry. How do we actually manage those issues, because those figures do not seem to actually mix together well?

Hon SIMON O'BRIEN: It is true that these sorts of figures do at first blush seem to be conservative, but necessarily so. I am going to ask Mr Marney to give a bit more explanation as to the model that is used and the reason why. But, basically in a layman's sense, as I understand it, there is a need for conservative modelling or prediction in order to make sure that when we do get to the actual outcome, there has not been potentially a more radically different outcome than what is anticipated when we pass the budget this year, but Mr Marney can discuss that further.

Mr Marney: In terms of the investment forecasts, they are based on surveys of major companies, both, if you like, informal surveys of their investment intentions and also formal survey by the Australian Bureau of Statistics on capital expectations. So there is actually a fairly substantial body of data that sits behind the investment forecasts that is based on surveys of the actual investors themselves. We also interrogate the timing of major investments, such as Gorgon, to get a sense of when they peak in terms of their construction activity and investment expenditure.

[2.10 pm]

I would have to say Gorgon is a significant driver of that peak and then the subsequent easing in investment activity in the out years, because it is such a massive project. Once it peaks in its construction activity, it then starts to tail off and enter production; it is a very big project, if you like, and it leaves a hole in the overall investment aggregate for the state. Hence the softness in those last two years, because a \$43 billion project drops out of the numbers, in essence.

The population forecasts are undertaken on a component cohort methodology, which is what the ABS and most demographers use. It takes the age and sex cohort of the population in the most recent actual data and projects it forward with natural population increases, assumptions and net migration assumptions, both interstate and overseas. The dominant factor influencing our population growth, or the swings in our population growth, is overseas migration. That is largely driven by commonwealth government policy settings. We are not assuming a ramp-up or a massive decline; we are assuming that current policy will prevail over the out years. That would contrast, I think, with the 2008–09 period of extremely strong growth, when there was a more generous policy

on overseas migration. I think that is why the numbers are certainly steadier in the out years. They are very consistent with commonwealth Treasury estimates which, again, would factor in the same commonwealth government policy parameters for overseas migration.

Hon KEN TRAVERS: One would have to assume that if the economy is booming in Western Australia, even if the federal migration rates go down, Western Australia will attract a greater proportion of those, particularly if they are based around skilled migrants coming into Western Australia rather than the other states.

Mr Marney: Again, that would depend on the government's policy, the sorts of skilled migrants it is trying to attract and the incentives it creates for their location upon migration. One would hope we would actually get better than our fair share. That is not often the case with the commonwealth.

Hon SIMON O'BRIEN: When we talk about, say, state government policy prevailing upon federal policy in terms of skilled migration, the other thing is that it would not contribute to the larger part of the population growth figures that would be shown here. I think you would find that most net migration to this state is actually from other parts of Australia rather than directly from overseas.

Hon KEN TRAVERS: I think it is the other way around, is it not? It is overseas, not net interstate.

The CHAIR: It might be useful to clarify the figures.

Hon SIMON O'BRIEN: I understand, if I can just add some figures to that: overseas is about 20 000 per annum, natural increase is about 8 000 per annum, and interstate permanents are about 2 000 per annum.

Hon KEN TRAVERS: So it is predominantly international.

If we get that level of business investment and that level of population, it strikes me that it will put incredible pressures on the building sector in terms of the price of construction. My next question is: what is the building price index that we are relying upon throughout the budget papers? For our asset investment program, what are we factoring in as a cost escalation, on an annual basis over the forward estimates, until we get to the easing of pressures in 2014–15?

Mr Marney: We would probably have to take that as supplementary information. There are probably two different figures you are looking for there. One would be the building investment deflator—the price of the investment across the economy as a whole, which we can extract for you—and the other would be the building cost index that we are using as an escalation parameter for our own capital works program, which is a different figure. We can provide both of those as supplementary information.

[Supplementary Information No A3.]

Hon KEN TRAVERS: This is my final question in this area, before I let someone else have a go. We then move down to the established house price index, which I assume is basically what you are estimating the price of the established housing market will be over the forward estimates. Basically it is showing that in the current year, we will see negative 2.4 per cent, which will probably be about right; if not, in some areas a little bit higher. We then basically recoup that over the next 12 months by 2.3 per cent. Am I reading correctly that you are estimating we will get pretty close to an average of six per cent? So, 5.8, 5.8 and 6.1 per cent for each of the three years beyond that as the growth in the residential housing market over the period of the forward estimates? If it is, what is the driver of that? What is the underpinning driver of that growth in housing prices?

Hon SIMON O'BRIEN: I am a bit distracted. There is some feedback coming through the speakers. Are you getting it as well?

The CHAIR: I did not hear it. We will say that and see if something changes. IT might pick that up.

Hon SIMON O'BRIEN: There is an underlying reliance on about two per cent or just over two per cent, but the rest of the strong growth received predicted there also relies on expected population growth to provide the eventual out-turn of those figures.

Hon KEN TRAVERS: But this is not about the volume of housing, this is about the price of housing, is it not? It is a price index, not a volume index. You are saying that the migration rates will actually drive up the price of housing.

Hon SIMON O'BRIEN: That is the tendency and that is what we have observed in the past, I am sure you would agree.

Hon KEN TRAVERS: I find these figures a bit mutually exclusive. You are saying you are not expecting a great degree of growth in the population. You see the growth in the population declining as a percentage, but you see us hitting somewhere in the order of 18 per cent growth in housing prices. There would have to be some other driver for lack of land access, or something else that would be driving it up. If you are making enough land available, even if the population is growing, I would have thought we should not be seeing six per cent growth in housing prices for each year. We are well above the rate of inflation. I might go out and get myself an investment property!

Hon SIMON O'BRIEN: I will ask the Under Treasurer to give a further explanation for what relates to budget paper No 3 and the figures contained therein, because that is what he can talk about. I do not know if we can strain some other areas as policy just yet. I ask Mr Marney to comment.

Hon KEN TRAVERS: It is about how you arrive at the figures, minister.

Hon SIMON O'BRIEN: Exactly. We have the Under Treasurer here, who can tell us.

The CHAIR: For everybody's information, we are dealing with "Established house price index", on page 14.

[2.20 pm]

Mr Marney: Population growth at just over two per cent is nonetheless historically quite healthy. You would expect that to put some pressure on housing prices. The other thing we are seeing is that housing is not a market that operates in long, stable growth patterns; it is volatile. As we are seeing in the current market, it is quite subdued. That follows a period of extremely strong activity, brought forward in part from future years by the first home owners boost. So we actually had a pulling forward of demand into a concentrated period of time to an extent we are feeling the effects of that now in a subdued market. As that pull-forward of demand unwinds, we would expect the housing market to return to something more akin to its long-run trends and price increases of six per cent per annum are not inconsistent with population growth of just over two per cent and the long-run trends experienced in our housing market.

Hon KEN TRAVERS: But in terms of housing affordability, if that is correct, it is still a pretty scary thought that over the four-year period we are going to see 20 per cent growth in housing prices, I mean, in terms of the potential flow-on impacts to the rest of the economy. My policy question is: what are we doing as a government to address that to try to minimise that growth?

Hon SIMON O'BRIEN: I refer members to page 79 for some further explanation on this particular point as to how the figures are arrived at. In the top couple of paragraphs on that page together with the accompanying tables, it reflects the volatility that Mr Marney was just referring to that we have all observed in recent years. That discussion may be of interest to members following this particular point.

Hon PHILIP GARDINER: In that chart on page 14 where we have the domestic aggregates of "Household Consumption", "Dwelling Investment", "Business Investment" and so on there, the top five, there is mention in the text about the stimulus of the federal government following the global

financial crisis, which began in late 2008, as I recall. We have big government investment of 31.1 per cent in 2009–10, declining in this current year and then there is government investment, which I presume—it relates to the question—might be state government investment of eight per cent in 2011–12. My question in an aggregate is: the withdrawal of private investment, which required the government stimulus during the global financial crisis, was quite severe and the government replaced that—have you got any numbers that can suggest to me in aggregate numbers that the growth back of business investment and government consumption and dwelling investment, if you like, is now replacing that government stimulus, which is now being withdrawn?

Hon SIMON O'BRIEN: The points I would make firstly on the line on page 14 “government investment”, that reflects government investment at all three levels of government. Significant, of course, was the so-called stimulus packages, but local and state governments also provided some of that spending. I make that as an observation. Your specific question is: noting that part of the purpose of government stimulus spending was to offset the depressing effect of reduced private expenditure, now is it the case that, as that balance is now hopefully correcting itself—I think that was the way you wanted to express it—what confidence do you have or what indicators are there that it is returning to a more positive balance? I guess you would have to look at the four and half per cent growth indicator for the economy for gross state product, which I hope you would find reassuring.

Hon PHILIP GARDINER: That is very healthy. I am, in a sense, probing in that regard, minister, because the Gorgon project, I think you talk about, is going to be peaking in the next financial year, not this one, according to the papers later on, and then declining and the dwelling investment is really not that robust, so where is the 4.5 per cent growth? Where are the main parts of that coming from? Which part of the economy is that mainly coming from?

Hon SIMON O'BRIEN: The member is specifically asking for the reason for the optimistic figures of four and a half then four per cent continuing in GSP and how that flows through there and what happens when the what you might characterise as the one-off items of big expenditure have been and gone. I think in part you will find the answer if you look at the levels of business investment for the current year, the upcoming year and 2012–13. The increase in gross state product is in large part the fruits of that business investment. As you continue to cast your eye across the out years, for example, you will see some other indicators such as a rise a couple of lines down from where we are looking for “Merchandise Exports”, for example, which again are the slightly longer-term benefits of that initial investment. Significantly, of course, it is investment in export-earning infrastructure in the mining and petroleum areas.

Hon PHILIP GARDINER: I thought the infrastructure would be in business investment. I understand what you are trying to get to.

Hon SIMON O'BRIEN: Business investment takes many forms

Hon PHILIP GARDINER: Sure, but I would have thought that “Merchandise Exports”, I presume, is the actual exports, this is in per cents increase from one year to the next, is it not?

Hon SIMON O'BRIEN: Yes.

Hon PHILIP GARDINER: If that is the case, then the revenue from those exports goes into those companies and their investment is worldwide; it may not come back to Western Australia. The reason I am probing on this is that I am just trying to see what a worst case might be if things go bad. I know we have plenty of interest rate cover at the present time—this goes back to the earlier question of Hon Ken Travers—four and a half per cent of revenue. I did the numbers, which suggest to me that four and half per cent based on our current state revenue of \$25 billion, I think it is, for 2012, if it is a five per cent interest rate, it means we can borrow \$22.8 billion. If we had another global financial crisis in the next six months, let us say, demand collapses, business investment confidence goes—we know all the stuff that just happened; we have learnt from the last

one. This could happen if China, for example, has a bust—then the only way we can get through it is by borrowing to stimulate our own economy: government borrowing. That is why I was focusing on this area. The government borrowing that we could do to maintain our credit standing of under four and a half per cent—which is the upper limit we are talking about; once you get to four and a half per cent you know things are not too good. At five per cent it would mean \$22.8 billion, at six per annum, our interest costs, if that is what we are borrowing at, is only \$19 billion, and at seven per cent is \$16.3 billion. So, the higher the interest rate goes, the less borrowing we have. The question I am really asking is: do I have the right numbers? Am I using the right numbers to get my maximum level of borrowing? Have you done that risk analysis, if it is that we have a worst case or close to a worst-case situation with another global financial crisis, albeit for different reasons from the last one, occurring?

[2.30 pm]

Hon SIMON O'BRIEN: I think a lot of what the honourable member said to say, while relevant, was observations and comment rather than questions, though he did raise some at the end. I think we need to remember, when we are considering whether or not demand from China might evaporate or be severely hampered, that is not something that is, obviously, within our overt control. But the figures that are assembled here by Department of Treasury and Finance, the government believes, are robust enough for them to form the basis of our calculations for this budget. Now, if you want to discuss how those figures are arrived at and compare them with your own analysis, I would be more than happy to provide an officer, or officers, to sit down and work through that with you, and that could be a positive outcome from today. We need to remember also, of course, that when it comes to the ability to control some of these forces, it significantly does fall to the commonwealth, because they are the ones with the discretionary political muscle to perhaps invest in significant stimulus packages. I think the final question was about how Treasury could formulate best and worst case scenarios.

Hon PHILIP GARDINER: Yes, it is the risk; the worst case.

Hon SIMON O'BRIEN: I would have to ask Treasury officers to explain their processes.

Mr Marney: In essence, the risk statement tries to identify those elements that we think are the most material potential variants in parameter that would have significant implications for the forward estimates. In terms of doing scenario analysis, we do that as part of our process of informing government throughout the budget process so that it has an understanding of, if you like, the best possible scenarios going forward and some of the worst case scenarios going forward. As we experienced during the GFC, which came upon the state very quickly, I think what occurred there was a very rapid response to that circumstance that saw a number of initiatives introduced, such as the much-debated three per cent efficiency dividend, the reprioritisation of the capital works program, and also the \$100 million payroll tax rebate initiative, to ensure that the state was responding in a way that did not exacerbate the impact of the global financial crisis and, at the same time, ensured that the state's finances remained robust and able to withstand the pressures of that period of uncertainty and the pressures of that period of considerable difficulty in the debt markets. If such a circumstance were to recur, I think, essentially, the policy responses would be a matter for government decisions, but we have demonstrated in the past what has been achieved through rapid policy response. As the minister has indicated, the fiscal capacity to undertake major stimulatory activity is predominantly with the commonwealth government; it is the one that has the greatest leverage, certainly over the national tax system, to be able to impact, in a rapid way, the fiscal settings of the nation as a whole.

Hon LJILJANNA RAVLICH: I just want to move on and ask some questions in relation to —

Hon LIZ BEHJAT: Are we not going to revenue now?

The CHAIR: We started a little late, so I will allow a little bit of flexibility.

Hon LJILJANNA RAVLICH: I will refer to page 5 of budget paper No 3 in relation to the issue of the increase of the iron ore fines royalty rate. The first the first dot point states that —

- an increase in the iron ore ‘fines’ royalty rate, from the current 5.625% rate to 6.5% in 2012–13 and to the ‘lump’ ore rate of 7.5% from 2013–14. It is envisaged that the additional revenue from this measure over the forward estimates period, estimated at \$1.9 billion, will be quarantined for debt reduction purposes;

Minister, it is quite clear that the reform is expected to increase the royalty income by \$378 million, as I understand, in 2012-13, and by more than \$800 million a year in both 2013-14 and 2014-15; however, this will be accompanied by an ongoing reduction in the state’s GST revenue starting from 2014-15. In other words, the revenues will be coming in to the benefit of the government prior to any ongoing reductions in fact taking effect, because they will only occur in 2014-15. Through you, minister, to the Under Treasurer, I would like to know what is the decline in GST revenue that is directly attributable to this decision for the years in which it takes effect, starting at 2014-15. I wonder whether any modelling has been done; and, if it has not been done and you do not have that information with you, whether you could take that on notice? Maybe you have that information. Secondly, what is the projected GST cash flow, year by year, based on this decision? Thirdly, what would have been the projected GST cash flow, year by year, if this decision had not been made? They are my first three questions.

Hon SIMON O’BRIEN: At the member’s request, I am quite happy for Mr Marney to address the question that has been raised, but there are a couple of points I need to raise first.

Firstly, this hearing is into this budget and the forward estimates period, which goes up to 2014-15, and that, as I understand it, is the area under examination and to which we need to restrict ourselves. However, the Treasurer also made it clear, at the time the budget was brought down, and the government has made it clear, that we are actively pursuing the review of the GST arrangements that the Prime Minister and her government have agreed to pursue, which is being chaired by two former state Premiers. We are looking forward to that review producing some realistic outcomes for Western Australia and other states, because looking ahead at the projections, if we go the way that we are going with the Commonwealth Grants Commission, we are looking at a return on GST of only 33 cents in the dollar in due course, which clearly is just not sustainable for a state like Western Australia. Now, we have all heard about that and we are all well aware of what the state government’s doing there, but those are the projected figures. Insofar as we will go beyond this forward estimates period, that is the prospect that we are facing; it is quite unacceptable, and that is why we are determined to work with the commonwealth to make sure that that ludicrous scenario is not realised in due course.

Hon KEN TRAVERS: You have the advantage of a federal government that will listen; we tried the same arguments with the last federal government, and it would not listen.

Hon SIMON O’BRIEN: I am looking forward, then, to bipartisan support on this matter, and I am heartened by the reported comments of the Leader of the Opposition in relation to the sentiments I am expressing.

Hon LJILJANNA RAVLICH: Minister, are you saying you refuse to answer this question?

The CHAIR: Hang on.

Hon SIMON O’BRIEN: In relation to the first question that the member wanted to ask of Mr Marney, I have no objection to him addressing that question. It was a question about the impact of royalty increases on GST payments.

Mr Marney: The impact, as it applies to the forward estimates period, is detailed on table 2 on page 75 of budget paper No 3, and highlights a \$96 million revenue loss in terms of GST impact in 2014-15.

[2.40 pm]

Hon LJILJANNA RAVLICH: My first question is: what is the declining GST revenue that is directly attributable to this decision for the years in which it takes effect, starting at 2014–15? The minister said that he is not prepared to answer that question and I want to know why.

Hon SIMON O'BRIEN: Chair, the figure for 2014–15 has just been pointed out to the member. It is on page 75, and it shows a decline. That is the limit of what this budget and forward estimates and this hearing is examining. I have already, though, strayed beyond that to indicate and to reaffirm what is already on the public record: that beyond that date, if current Commonwealth Grants Commission arrangements are allowed to continue, then the situation would get worse —

Hon LJILJANNA RAVLICH: Minister, are you saying you did not do any modelling for 2014–15?

Hon SIMON O'BRIEN: — from Western Australia's point of view, and that is why we are working rigorously to make sure that that scenario does not eventuate. But other years are times for other budgets.

Hon LJILJANNA RAVLICH: Minister, can I get this right; you are saying that there was no modelling done for 2015–16 and 2016–17?

Hon SIMON O'BRIEN: I have said nothing of the sort. You are making this up and trying to put words in my mouth.

Hon LJILJANNA RAVLICH: Is that what you are saying, minister, that there was no modelling done and you do not know?

Hon SIMON O'BRIEN: I have not said anything of the sort. Obviously we look beyond 2014–15, and it would be scurrilous for anyone to go out of here and pretend that we had not or to suggest that we had not. What I am saying is that the subject of this hearing is this current budget and the out years, which go out to 2014–15.

Hon LJILJANNA RAVLICH: Are you saying that the public has not got the right to know?

Hon KEN TRAVERS: With all due respect, I think the minister misunderstands. We are dealing with this budget and these are matters within this budget, and we have every right as a committee to ask: what are the impacts of the measures in this budget? One of the measures in this budget is a change to the fines. We are entitled to know what the impacts of that are in both the short and long term, minister, and that is what the member is asking. I do not see any reason why you cannot answer it; it is well within the terms of reference of this committee.

Hon SIMON O'BRIEN: And I have already answered that question twice.

Hon KEN TRAVERS: No, because it is a measure that is taken in this budget. If it has longer impacts than the budget period, we are entitled to know what those longer impacts are.

Hon SIMON O'BRIEN: I have already answered that question twice. For the third time, the trend you see commencing—everyone is well aware that there is a three-year lag in terms of the Grants Commission processes and the way that they treat royalty payments—will impact increasingly negatively on Western Australia if the current formulae and practices are pursued. That is why we are working with the commonwealth government to get it changed. So, in the meantime, that is why you see a negative outcome in 2014–15, but it is certainly our desire as a government to make sure that by the time we get to 2014–15 we do not have that outcome at all, and that we have a more positive one.

The CHAIR: There are two more members who have questions in this area.

Hon LJILJANNA RAVLICH: Hang on!

The CHAIR: Before you continue, I just want to say that we have gone over our allocation to forecasts. I do not have a problem with that, as long as members are aware that they are eating into other bits of the budget that they might want to focus on.

Hon SIMON O'BRIEN: Very well.

The CHAIR: Before we continue, I indicate that I am going to give the call to two other members before we move off the subject.

Hon SIMON O'BRIEN: Chair, just before we move on from this area, the budget is not silent on this matter and if the member is trying to build up some idea that we are trying to hide something—sorry; we could not have been more up-front about this. I had the honour to read in the government's speech in this place the other Thursday, and front and centre and pivotal to the structure of that budget speech was discussion about the future of GST payments. We could not have been more up-front than we were in that budget speech. But in relation to the budget papers that are before us, again: it is no secret. The member is on page 5; if she goes to pages 74 and 75 of the same volume —

Hon LJILJANNA RAVLICH: I'm on them.

Hon SIMON O'BRIEN: — she will see the discussion there which says, among other things —

In the absence of fundamental reform to the CGC process —

It relates there to another section on the Commonwealth Grants Commission, which is elsewhere in the papers —

these changes could trigger an even higher GST 'penalty' beyond the forward estimates period.

So, we are quite up-front about it.

Hon KEN TRAVERS: So, you know there is one. We are trying to find out: what is that penalty? You have just mentioned that it is mentioned in the budget. We are asking for details of it. What is that penalty?

Hon LJILJANNA RAVLICH: What is the penalty over 2015–16 and 2016–17?

Hon KEN TRAVERS: You have just highlighted that it is in the budget papers.

Hon LJILJANNA RAVLICH: So, you are withholding information from the Western Australian public who have a right to know. That is just totally unacceptable, minister.

Hon SIMON O'BRIEN: Don't be ridiculous! You are being absurd!

Hon LJILJANNA RAVLICH: It is totally unacceptable.

The CHAIR: I do not know that we are going to get much further on this particular line of questioning.

Hon KEN TRAVERS: Can we just get it on the record that the minister is formally refusing to provide the details that he just referred to and quoted from the budget papers about what those impacts are? Is that correct? I am not happy if that is his position, but is that what he is saying?

The CHAIR: Can I put it this way: is there any further information that the minister can provide on this?

Hon SIMON O'BRIEN: Chair, the information in the budget is what we are examining, and that is clear for all to see, even if the member asking the question does not get it. In relation to what the projected GST returns might be if we continue down the course that we are going on in further out years, that is something I will take on notice; because, no, I am not withholding information. But I do point out through you, with the greatest of respect, Chair, that this does go beyond the purpose of today's hearing.

The CHAIR: I will at this stage give that supplementary information A4 and if you wish to come back with something further, please do.

[Supplementary Information No A4.]

Hon LJILJANNA RAVLICH: Can I just get this clarified: the minister is happy to take that question on notice and will provide information to the committee on the decline in GST revenue for 2015–16 and 2016–17?

Hon SIMON O'BRIEN: I thought I just said something to that effect.

Hon LJILJANNA RAVLICH: Minister, you keep shifting. The sands keep shifting. So, I just want clarification.

Hon SIMON O'BRIEN: You are the one that is all over the place, Ljil!

Hon LJILJANNA RAVLICH: Don't do the Ljil stuff! Come on!

Hon SIMON O'BRIEN: I am sorry—the honourable Ljil!

The CHAIR: Members, it is early yet!

Hon ED DERMER: I am just looking again at the economic forecast table on page 14 and I am looking at the gross state product increase scheduled at four per cent for each of the forward estimate years of 2012–13, 2013–14 and 2014–15. But I look further up the table and I see business investment is projected to have declining growth, reaching negative growth in 2014–15. And I see that, consistently over those three forward estimate years, government investment will experience negative growth. I am just interested to see how it is possible to achieve the steady increase in gross state product whilst having declining growth in business investment and negative growth in government investment.

Hon SIMON O'BRIEN: I think we touched on this earlier in response to some questions from Hon Philip Gardiner, Chair. I think it might assist the member if he looks also at the timing of some of the investments and then compares them with the timing of the increase in GSP, and sees the increase in GSP as the fruits of earlier investment and the productivity of the earlier investment then coming through. It does not necessarily happen that there is increased return on an investment dollar in the same year that it is invested.

[2.50 pm]

Hon LINDA SAVAGE: I refer to page 33 of budget paper No 3, and the table headed “General Government Summary Financial Statements”. I would appreciate your guidance, Madam Chair, if I am not asking this question at the appropriate time or in the appropriate session. It states at the top of page 34 that to help offset the negative effect of Western Australia's declining share of GST revenue, the budget includes a \$3.5 billion package of measures to contain growth in net debt. This includes, as stated in the fourth dot point —

Further savings of \$300 over the period 2012–13 to 2014–15 through a targeted review of specific programs and activities that are no longer considered to provide value for money.

I have a series of question that the minister might be able to answer now, otherwise I would like them to be placed on notice.

The CHAIR: Member, I think this is an appropriate time to ask those questions. We might actually be moving into the revenue part of the budget now, so this is a good segue.

Hon SIMON O'BRIEN: We are moving seamlessly!

The CHAIR: Effortlessly, yes.

Hon LINDA SAVAGE: Has this targeted review of specific programs commenced? I ask that because I assume that a quantum of \$300 million of savings has been identified .

Hon SIMON O'BRIEN: The specific savings have not been identified. The targeted review has not commenced, or at least not substantially commenced; there might be some preparations under way. Note that the savings are to accrue from the years 2012–13 through to 2014–15, so they are not about to commence immediately. Also, there will be step-up in the savings accrued. For the first year, 2012–13, it will be \$50 million; for 2013–14, it will be \$100 million; and for 2014–15, it will be \$150 million. That gives us our total of \$300 million. We have the best part of a year for the targeted review to identify programs and activities that are no longer considered to provide value for money. The government's view is that this is a better way to go about it than to have a standard percentage cut across all agencies, which is sometimes described as a very blunt instrument. For the reasons that I was just given—namely, the time scale—the targeted savings have not been identified yet.

Hon LINDA SAVAGE: On what basis was that quantum of \$300 million decided upon?

Hon SIMON O'BRIEN: One of the other ways we could have done this was by looking at a one per cent cut across the board. But, as I have indicated, in our view that is too blunt an instrument, and we are better off having targeted savings. That is the outcome that this is intended to achieve, and that is where the \$300 million figure comes from.

Hon LINDA SAVAGE: That does not really answer my question. The government has chosen a quantum of \$300 million, and it has put that in the budget papers. I assume there was some modelling or some process by which that figure was reached, and that is what I would like to have some details of.

Hon SIMON O'BRIEN: This is part of a package of measures, as is explained on this same page, and so is the purpose of it.

Hon LINDA SAVAGE: I understand the purpose.

Hon SIMON O'BRIEN: In order to avoid further growth in debt, we have gone to other sources. So, there is a mixture of measures there, being an increase in some revenues from royalties, a deferral of spending beyond the out years, and some savings in expenditure. That all goes in to achieve a total of \$3.5 billion.

Hon LINDA SAVAGE: Yes, and that is listed on page 34, in those four dot points, and I have read that. But a specific figure of \$300 million is shown in the budget papers. I understand that the minister is saying that the government is looking for those savings and it has decided to choose a quantum as opposed to perhaps a one per cent cut. What work was done to reach that figure of \$300 million? I assume that figure was not just plucked out of the air.

Hon SIMON O'BRIEN: No. This is a figure that we feel is a balance between accruing additional net debt and achieving sustainable savings. That is part of an overall budget process. There is no mystery about this.

Hon LINDA SAVAGE: So why is it not \$500 million? On what basis did the government get to that figure of \$300 million? As I have said, I am happy to have that question put on notice if the minister can provide greater detail.

Hon LIZ BEHJAT: If I might interrupt, Hon Linda Savage, what I think the member is trying at is: has the government already identified programs to the value of \$300 million, and they are not listed yet, or has the government just taken an average of expenditure and said we can achieve \$300 million somewhere along the line, but we are not sure where that is going to come from? I think that is what the member is trying to find out.

Hon LINDA SAVAGE: If I could just clarify —

The CHAIR: Let us get the question clear first. I think Hon Liz Behjat is just trying to assist.

Hon LINDA SAVAGE: I appreciate that. Initially I did ask whether that process had commenced, and what had been done, and the answer I was given by the minister was that no review had been undertaken, and nothing specific had been looked at. I thank Hon Liz Behjat. But the question I would then put on notice is: if no specific programs have been identified—which is what I understood the minister to say—at least have the criteria by which specific programs will be considered as part of this review been thought about and established?

Hon SIMON O'BRIEN: As I have indicated, no specific programs and activities have yet been identified. We have a good year to do that. Those criteria will be worked up in the new financial year, and in due course, when they become known, the honourable member will have access to that information. So there is no point in my taking that question on notice, because there is nothing further to give. The assessment of the government was that in searching for savings, the recurrent sector, not including front-line services, could sustain a one per cent cut. But we would prefer that, rather than make it a broad brush, blunt instrument across the board, regardless of merit, we would find that same sum of money from programs and activities that, frankly, are no longer providing value for money. That work is still to occur.

Hon LINDA SAVAGE: Who is undertaking this review?

Hon SIMON O'BRIEN: This would probably cause a shiver to run down the spine of many agencies, but it will be led by Treasury.

Hon LINDA SAVAGE: I have a number of other questions with regard to this matter. Is it possible for me to submit them later today, Madam Chair? Is that the normal process?

The CHAIR: Certainly. If the member wishes to submit further questions, we can provide them to the minister later.

Hon LINDA SAVAGE: That might be a more efficient way of doing it.

The CHAIR: Sure; no problem. Thank you.

[3.00 pm]

Hon KEN TRAVERS: If we have moved on to revenue, the revenue that the government expects to receive from the Geraldton Port Authority page is highlighted on page 290; it is also highlighted in budget paper No 2. It indicates that you expect to receive in the 2010–11 financial year \$9.19 million in income tax expenses, \$160 000 in local government rates expenses, and a dividend of \$17.603 million. As I understand it, the dividend of \$17.603 million will be based on the profit that was obtained in the 2009–10 financial year by the Geraldton Port Authority. I happen to have a copy of the Geraldton Port Authority's annual report, which shows that its operating profit after tax was \$9.902 million. In fact, its statement of corporate intent, which was tabled by the minister last year, mentions that it expects to pay a dividend in the budget year ending 30 June 2011 of only \$3.9 million. I might add that I think that is based on the time when it was calculating on 50 per cent for the dividend. However you look at it, it is well short of the \$17.603 million provided for. In the next year, you expect a similar sort of revenue stream. Again, its estimated profit for the 2010–11 financial year in its statement of corporate intent is nothing in the order required to generate that degree of dividend. I might add that this has been going on for some time now whereby, in my view, the budget papers have overestimated the potential revenue out of the Geraldton Port Authority. Can you explain to us, firstly, whether you have accurate figures for how much revenue you are going to get? For this year and over the four years of the forward estimates, we are talking about well over \$100 million in revenue from the Geraldton Port Authority. I would argue that the inaccuracy of the figures could be anywhere up to \$90 million to \$100 million as well. Can we get an explanation for that?

Hon SIMON O'BRIEN: Certainly. One thing I have found in looking at budget papers for as long as Hon Ken Travers has is that sometimes things appear unusual, but that there may well be an explanation. At the very least, we will take the question on notice, but I am going to ask —

Hon KEN TRAVERS: No; I want an explanation now.

Hon LJILJANNA RAVLICH: Let us just have one answer. We have been here for an hour and we have not had an answer to one of them yet.

The CHAIR: The minister has the call.

Hon SIMON O'BRIEN: If I had a decent question from the likes of you, perhaps we would provide you with a bit more.

The CHAIR: Members, members, members! Minister, before we proceed, we intend to have a break in about half an hour.

Hon SIMON O'BRIEN: The Under Treasurer can provide some information about the sort of information that is relied upon, which is perhaps different from what the member was quoting from, to arrive at this figure.

Mr Marney: For the forecasts of the estimates of revenue for the Geraldton Port Authority and, indeed, other port authorities, other GTEs and other agencies with own-source revenue, we rely upon what agencies submit to Treasury in the Treasury information management system. We do, as much as possible, interrogate those revenue estimates for reasonableness, but that is not always possible. The onus is on those entities to get their revenue numbers as right as they can get them. If there is a history of inaccuracy in those estimates, we will go back to them and ask the question that you have just asked to try to encourage them to come up with more reliable estimates of their revenues to form the basis of budget projections. As the minister indicated, we are happy to provide an explanation as part of supplementary information, which would be A5, on any anomalies in the Geraldton Port Authority's revenues, relative to other published statements.

[Supplementary Information No A5.]

Hon KEN TRAVERS: Geraldton jumps out at me, but I was having difficulty reconciling some of the others. I have to admit that they do not have the same degree of difference in figures. I know that your office has seen the statement of corporate intent because it would not have been tabled unless it had had the concurrence of the Treasurer. I know that the previous Minister for Transport was very diligent about never tabling it until he had the concurrence of the Treasurer.

Hon SIMON O'BRIEN: He was red hot on that!

Hon KEN TRAVERS: Clearly, this information has been in your office—the Treasury. We are talking about a significant sum of money in my view. If the same issues that are occurring in this financial year occur over the period of the forward estimates, the revenue estimation of the budget would be out by, I would have thought, at the very least \$50 million. In this year alone, we are talking about a difference of at least \$15 million. We have a tabled audited document from the port authority that is in the public domain. I find it inconceivable that there is not some cross-checking against those documents to determine the accuracy.

Hon SIMON O'BRIEN: It is a highly pertinent question. The Under Treasurer has already given an insight into the processes that happen in the Treasury office in relation to which figures it goes by and, if there seem to be exceptions, what inquiry it makes. We have also indicated that we have taken the matter on notice. I again state that I think it is a perfectly legitimate question, and we will provide the answer to the question of how we reconcile what the member has highlighted as, at face value, a glaring difference.

Hon KEN TRAVERS: But, minister, I want a bit more detail about how it was not picked up. We have had presented to the Parliament documents that in my view do not show an accurate picture of the revenue expected from the Geraldton Port Authority in both the 2010–11 and 2011–12 financial years and, potentially, a flow-on impact over each of the forward estimates.

Hon SIMON O'BRIEN: Before we proceed, perhaps you could just allow the possibility that there is a legitimate explanation for this; and, if there is not, that then gives rise to the question that you are now raising, and, quite rightfully so, it will be pursued.

Hon LJILJANNA RAVLICH: Can I just follow on from Hon Ken Travers?

The CHAIR: On this subject?

Hon LJILJANNA RAVLICH: Yes, on this specifically. It goes to the heart of the integrity of the figures in this whole budget. The income tax expense for the Geraldton Port Authority is \$9.1 million in 2010–11; and it is the exactly same in 2011–12, 2012–13, 2013–14 and 2014–15. In 2011–12 the dividends are \$17.4 million. In 2012–13, the dividends are \$18.96 million, and they are exactly the same in 2013–14 and 2014–15. Local government rates expenses are \$160 000 right across; it is the exact same figure across the whole of the forward estimates. You would have to ask yourself: was there any interrogation of any of the data that was provided by the Geraldton Port Authority, or are these figures just basically made up? The law of probability would say that it is highly unlikely that you would get these figures to fall in exactly this way.

Hon SIMON O'BRIEN: Great speech.

Hon LJILJANNA RAVLICH: Maybe you could react. What is the interrogation of the data?

Hon SIMON O'BRIEN: He asked the same question better than you did.

Hon LJILJANNA RAVLICH: How can we have confidence in the accuracy of this budget?

The CHAIR: Hon Ljiljanna Ravlich, the question has been asked and it is on notice. There is no additional question that I can see.

[3.10 pm]

Hon SIMON O'BRIEN: The only response that it perhaps merits is that, yes, this does look exceptional. If we compare it to Fremantle and the pattern of dividends being paid in the line immediately above, it is in sharp contrast. Hon Ken Travers can legitimately ask why it is so.

Hon KEN TRAVERS: When you go back to the statement of corporate intent, the figures do not reconcile.

Hon SIMON O'BRIEN: We will answer that question as to why that is so extraordinarily different. We have already said we will do that. There may be some other process going on with a particular supplier or something in that port that is not apparent here, just from looking at those figures. We will go away and find out what it is and come back to you.

Hon KEN TRAVERS: I also want a similar reconciliation of the other port authorities. Whilst the differences are not as dramatic, looking very briefly at the Fremantle Port Authority, I could not reconcile the profits in its annual reports. It does not give as much detail in its statement of corporate intent, but that is another story for another day. I think this is a very serious matter that is over and above some of the questions we would normally get. I know we normally give 10 days but if there is an area in this document, could the committee be notified earlier than that? Potentially, it is a significant black hole, for want of a better term, in the budget revenue forecasts. Could the committee be notified earlier than the 10 days that there is a problem and there is a black hole, if you have the magnitude, what that magnitude is and then a more detailed question can come?

Hon SIMON O'BRIEN: Madam Chair, this committee has processes that the government fully respects and we will honour. In a \$25 billion budget, it is probably more of a black dot than a black hole. I will give an undertaking that this will be examined and if it throws up any other questions, I for one as a minister of this government will be chasing some answers. I assure this committee that we will respond promptly as with all the other matters that we are taking on notice as homework.

The CHAIR: If you can get us an answer sooner, that is well and good. There is a time frame in which we operate.

Hon KEN TRAVERS: The 10 days is a maximum, not a minimum.

The CHAIR: I understand. I think the minister understands too.

Hon PHILIP GARDINER: This is just a technical question. Maybe I got this wrong but I understood that a portion of royalty income—this is what is on the revenue side—up to a certain level of royalties was determined between the commonwealth and Western Australia. I do not know whether it was three per cent or 3.5 per cent. I understood that that first proportion was shared across the commonwealth but above that level, it was all Western Australia's. Am I wrong on that? It does not seem to be reflected in the numbers. Therefore, I think I must be wrong.

Hon SIMON O'BRIEN: I am having a bit of trouble working out exactly what the question is. Generally, 70 per cent of our royalties get redistributed during the Grants Commission processes. I do not know if that assists you.

Hon PHILIP GARDINER: Royalties is more complex than I have explained. We have mineral royalties and then the offshore royalties, some of which are different to others and so on. I wanted to clarify whether any amount of the mineral royalties that we get is distributed to the rest of the commonwealth on roughly a population basis.

Hon SIMON O'BRIEN: I do not believe so. The Commonwealth Grants Commission processes are a mystery to most. My advice is that no, that does not happen.

Hon PHILIP GARDINER: Could I ask you to take that as a question —

Hon SIMON O'BRIEN: The answer to your question is definitely no.

Hon KEN TRAVERS: I have two questions. The first relates to the way in which gambling taxes are dealt with in commonwealth–state financial relations. I have seen various explanations about whether they are booked in, whether we get penalised or whether other states get them and it is not taken into consideration. Could I get an explanation of that? Following on from that, the rates for South Australian mining royalties that were quoted in the media yesterday seem to be significantly lower than Western Australia's. Would they be getting a double penalty? If they are not collecting those royalties but the Commonwealth Grants Commission is treating those royalties as if they have been collected, would their GST be getting reduced on top of that?

Hon SIMON O'BRIEN: My advisers would have to pick through the technicalities of those arrangements outside of this session. I have no objection to it being asked as a question that the committee may wish to pursue. I am not sure if we would do it in this budget hearing or if it is something else you want to pursue.

In relation to the South Australian question, I believe that South Australia is a net receiver —

Hon KEN TRAVERS: Mendicant state.

Hon SIMON O'BRIEN: It is a mendicant state. It is trying to take over from us as the mining centre of Australia. Someone was telling me earlier that we have only 850 operating mines in Western Australia at the moment whereas South Australia has a whopping 14 or whatever the figures are. In relation to those particular technicalities —

Hon KEN TRAVERS: I do not expect a detailed answer. I understand that because Western Australia is so dominant with respect to the royalty field, that the figures we set for royalties pretty much become the national figure; the expected figure. If South Australia is charging a royalty figure that is significantly below Western Australia, in terms of the general principles, for the purposes of calculating GST, should it be calculated as if they had collected that money and therefore have a reduction in their GST figures because they should have collected that money?

Hon SIMON O'BRIEN: It is an interesting question. The detail is not something that we own; it is the Grants Commission that owns it.

Mr Marney: In principle, that is how it is supposed to work. If someone is charging less than their potential revenue-raising capacity, they are deemed to be giving away that revenue opportunity and they are not compensated for that through GST revenues. Where it gets tricky is whether or not the individual commodities are classified in the high or low royalties bands, and different rules apply as to the Grants Commission's assessment of what royalty rate should be imposed in a high band versus a low band. Whether or not the royalty rates that were quoted in yesterday's press mean that South Australia is being penalised for those rates depends on whether the commodities in those rates are being classified in the high or the low band. If they are in the high band, they would get penalised. If they are in the low band, it may not be the case.

Hon SIMON O'BRIEN: The other question you raised at the outset related to revenue from gambling. I understand that revenue from pokies is specifically excluded from GST calculations but I do not think I can advise you as to other general gambling taxes at this time.

[3.20 pm]

Hon KEN TRAVERS: Do we not get penalised for not having pokie machines, other than we do not get the revenue from them?

Hon SIMON O'BRIEN: That is correct.

Hon KEN TRAVERS: I will ask about some of risks that are outlined in the budget papers, and specifically the risks that are attached to the revenue estimates. From year to year there seems to be a variation in the variability figures that are quoted. Why does the variability figure for the royalty income from the North West Shelf grants, for example, change from year to year? The variability for each US1c increase or decrease in the exchange rate ranges from 47c up to 60c over the forward estimates.

Hon SIMON O'BRIEN: I might ask the Under Treasurer to explain this. In essence, it depends on the base that we are starting from as we approach this exercise in each year. For example, in the first line in table 9 on page 62 of the *Economic and Fiscal Outlook*, the variability of the royalty income and North West Shelf grants is very substantial; it is plus or minus \$60 million for each US1c increase or decrease in the United States–Australian dollar exchange rate. That reflects the size of the cake. If the cake was half that size, the size would be \$30 million. That is a general rule of thumb. I do not know whether the Under Treasurer wants to enlarge on that.

Mr Marney: One element is the base of the overall revenue base. As that grows, the sensitivity grows. Probably the slightly more mysterious element is the percentage movement in the actual parameter. When there is a move of US1c in the exchange rate and the Australian dollar is either at parity or above parity with the US dollar, percentage wise that is a reasonably small movement. If the Australian dollar is at US63c, as it was two and a half years ago, the percentage movement that US1c constitutes is very large. It changes the sensitivity and the elasticity to that parameter.

Hon KEN TRAVERS: In the budget papers last year the variability was \$47 million and in 2009–10 it was \$55 million. In 2009–10 it was \$55 million, in 2010–11 it was \$47 million, in the midyear review it was \$58 million and now it is \$60 million. That does not quite follow the explanation that the Under Treasurer just gave me because during that time we have gone from below parity to above parity.

Mr Marney: Yes, but over that period there were substantial movements in the base as well. From memory, they were not all upwards. I could be corrected on that. I am happy to break those figures down if the member wants me to give him a sense of whether it is the volume or the price that is driving those variations.

[Supplementary Information No A6.]

Hon KEN TRAVERS: While we are on the issue of risk, a range of items were included in the spending risks in the midyear review and in the previous years' spending risks that do not appear in this year's spending risks. Why is that the case?

Hon SIMON O'BRIEN: Can the member identify some of those?

Hon KEN TRAVERS: The first is the redevelopment of Royal Perth Hospital. We still have only \$10 million for planning, which was the comment previously listed. I think a figure in the order of \$500 million has been talked about. Why is that no longer a risk?

Hon SIMON O'BRIEN: The specific project the member mentioned is, at this stage, still subject to planning processes. Until a decision to commit substantial funds via the budget is made—because that is the ultimate test—it does not pose a significant spending risk. It remains to be seen whether that project appears as a spending risk in a subsequent year. Since 2009, the government has changed its whole approach to asset investment in order to reduce the risks to government spending. Historically, the colloquial expression that has been applied in this area is “cost blow-outs”, on building a sports arena or whatever it might be. The disciplines that we have introduced have seen a remarkable reduction in cost and time overruns, and there is no reason that that should not be repeated in the future for Royal Perth Hospital, because the same disciplines will be applied with it as are being applied to other projects, including a whole lot of ongoing hospital projects. If the member wants to discuss that more, Mr John Tondut from Building Management and Works is here, but perhaps that is going into another session later on.

Hon KEN TRAVERS: With all due respect, minister, last year the statement of risks referred to the Royal Perth Hospital project and commented that the Department of Health's asset investment program had funding of \$10 million allocated for up-front planning purposes and that it was anticipated that once this planning was complete and the scope of the work was defined, the full costs of the redevelopment would be considered by the state government. That was considered a risk last year because the government made an election commitment in 2008 to redevelop Royal Perth Hospital. What the minister has just given me is an explanation that he still has not done the definition of scoping work, but there is still \$10 million in the budget to do that scoping work. Why was it considered a risk last year but not this year? I understand that the risk issue is determined by the Under Treasurer, not by the Treasurer. Maybe if the minister would let the Under Treasurer provide an answer, it might assist us.

[3.30 pm]

Hon SIMON O'BRIEN: I am not preventing him from doing so. Although the budget papers follow a similar format from year to year, obviously there will be a lot of differences in content and what is and what is not highlighted. The responsibility for what is contained in here ultimately, I guess, rests with the Treasurer and in that sense, the government; it is not with any particular officer of government. I am not sure what sort of iterations the document goes through before it gets to final publication. Mr Marney, if you could talk about that for other matters that may or may not be in the spending risks section that were in last year.

Mr Marney: I guess Royal Perth is not on the list because government was of the view that its planning processes still have some ways to go at this point, and I think that you would see that, from memory, the football stadium is not in the risks either, so that is being treated the same because both are subject to future government decision. Ultimately, the budget papers are signed off by me to be a true and accurate record of the decisions of government communicated to me. The risk statement itself is part of the government's budget papers and they are essentially signed off by the Treasurer in that regard. I am not sure how you do it from this house to the other place, but it is really a question for the Treasurer.

Hon KEN TRAVERS: The only reason I could see that it is removed as a risk thing is that the government has given you an indication as the Under Treasurer, that it is not likely to proceed with

that matter in the foreseeable future. Otherwise, surely it has still got to be a risk. If it was a risk last year that the government would implement its election commitments, it is a risk this year, unless the government has given some indication that it does not intend to honour its election commitment.

Hon SIMON O'BRIEN: As Mr Marney has just said in his answer—he alluded in his closing comment to how this house then relays its query to a minister, in this case the Treasurer, in the other place and does so via a representative minister, who in this case is me. Therefore, the way a response to the requested information, not only about the Royal Perth Hospital, but about any other matters that have been omitted from what was there last year is will be made through me, and the only way I can do that, obviously, is to act in a representative capacity to take the question on notice and provide an answer by supplementary information.

[Supplementary Information No A7.]

Hon KEN TRAVERS: The next one was the Perth —

The CHAIR: Sorry Ken, I just have got a further question on risk from Hon Liz —

Hon KEN TRAVERS: I had another one following on on risk as well. It is about the list of those items that were in last year's and not in this year's. The Perth Arena project: last year I think you had \$465 million listed in the budget; I think you have a similar figure listed in the budget, this year. Last year you had a risk that this may expose the project to higher costs. Are you absolutely certain that it is now going to come in at \$465 million?

Hon SIMON O'BRIEN: The figure currently exists for that sports arena is now \$483 million, I believe.

Hon KEN TRAVERS: Is it Finance that your portfolio now sits under, minister?

Hon SIMON O'BRIEN: No, it is the Office of Strategic Projects, which is with the Treasurer.

Hon LJILJANNA RAVLICH: Minister, what is the role of Treasury in major projects?

The CHAIR: No, we are just going to pursue this one here.

Hon LJILJANNA RAVLICH: I have got a funny feeling that it might be over there anyway. It is over there, in Treasury.

The CHAIR: Hon Ken Travers, what I might do while you collect that figure is to give the call to Hon Liz Behjat and then come back to you.

Hon LIZ BEHJAT: While we are speaking about risk, minister, you might like to talk to us about the risks presented to Western Australia by the uncertainty surrounding the introduction of a carbon dioxide tax by the federal government and what that might do to state revenues with regard perhaps to LNG and other revenue streams? That is a big risk, is it not?

Hon SIMON O'BRIEN: The uncertainty of, firstly whether a so-called carbon tax will be introduced; the quantum of any such tax, if introduced; and the application of such a tax, if introduced, would undoubtedly have an impact on Western Australia and that would have a flow-on impact to our budget. But, in the absence of some firm proposals I cannot tell you exactly what those impacts would be. In the absence of having a price, you cannot even really start to contemplate modelling.

Hon LIZ BEHJAT: There has been no modelling done on say \$10, \$20 or \$40? There are all sorts of figures being bandied around.

Hon SIMON O'BRIEN: We do have some figures; I will just bring them to hand. Just to give some sort of indicative figure, because I think that is all that the member is looking for, if you look at what Western Australian government agencies pay for the electricity, the impact of a carbon tax of say \$25 a tonne would add, in 2012–13, \$27.9 million; in 2013–14, \$30.5 million; and in 2014–15 \$32.3 million. Other figures could be quoted. Just by way of example, a \$25 per tonne carbon

price would increase the average residential electricity bill in WA by \$125 per annum, which is a nine per cent increase. If you were to apply other figures—\$20, \$30 or \$40—you can work it out proportionately from there.

Hon LIZ BEHJAT: So, that is just electricity. Then there are the other utilities where prices would rise, and there would be loss of income in relation to other commodities? So, massive impact on the state's bottom line?

[3.40 pm]

Hon SIMON O'BRIEN: I think you are trying to put words into my mouth. I am trying to be purely objective here. There is no doubt the introduction of a so-called carbon tax along the lines of what has been mooted would impact on households, and it would impact on households directly because it would also cost government agencies, and in turn that money has to be found from somewhere. It would be ironic if the Labor Party federally was then putting our electricity prices up.

Hon LIZ BEHJAT: I just think it would be very remiss of us to be talking about risks today and not mention that as a risk.

Hon SIMON O'BRIEN: Well mentioned, then.

The CHAIR: We need to take a break soon, because I did promise that. I will take further questions on risk and then we might adjourn for 10 minutes or so.

Hon KEN TRAVERS: On page 533 under "Western Australian Sports Centre Trust" the Perth arena is still shown as \$465 million. I think, minister, you yourself just quoted a figure that was higher than that.

Hon SIMON O'BRIEN: The \$463 million I think you were quoting earlier.

Hon KEN TRAVERS: Four hundred and sixty-five.

Hon SIMON O'BRIEN: The \$463 million is not far off. As you point out on page 533, that is part of the vote for the Western Australian sports centre trust. I understand that there is another \$18 million that is with the Office of Strategic Projects, which is managing and overseeing.

Hon KEN TRAVERS: Is that the total cost of the project, or is there any likely further increase in costs?

Hon SIMON O'BRIEN: As I indicated—I think it might have even been a question from somebody in the house quite recently; it might have been from Hon Ed Dermer—the final price of such a project will not be known until well after the completion, because the question of variations comes into play. The outcome of variation claims—whether they are upheld, dismissed or disputed—will impact on the final outcome, but the figure that I have quoted for you today is the figure that we are relying on.

Hon KEN TRAVERS: I understand that that is the figure in the budget, but what I am asking is: are officers of Treasury aware of any potentially higher price for that item? Have you received any advice that the final price may be higher than that \$465 million plus the \$18 million—that it will be over \$500 million?

Hon SIMON O'BRIEN: As I indicated, I did qualify my response by saying that until claims are known and finalised we will not know what the final figure is. There are claims, as I indicated in my answer to a question in the house just last week, that have already been dealt with, there are others in progress and no doubt there will be others still to come. But the member was asking whether Mr Marney had any awareness of further things looming, so I will ask him to respond to that bit of the question.

Mr Marney: As the minister has pointed out, there are a number of claims from the head contractor at the moment. We are working through those in the usual legal processes. This one is probably a little more difficult, given the contractual terms of this project and the complexity of the project

itself as well in terms of design and construction. It will be some time before we know the likely outcome of that log of claims.

Hon KEN TRAVERS: Why has it been taken out of the statement of risks this year when it was in there last year?

Mr Marney: The reason it is not in the statement of risks is that we have a contingency set to one side to deal with those claims and our expected outcome from that process. It would be commercially imprudent to actually identify that contingency explicitly in the budget process because we are in a negotiation process. I can give you confidence that within the financial aggregates there is a provision to cover our expectation of what those claims may end up at. That is why it is not in the risk statement.

Hon KEN TRAVERS: The other one that seems to have disappeared is the medical equipment replacement program.

Hon SIMON O'BRIEN: The reason is that that program is now funded with an extra \$40 million, I think, in this budget to be allocated to be spent in 2012–13.

Hon KEN TRAVERS: Is that going to be sufficient to meet the requirements of the backlog?

Hon SIMON O'BRIEN: It is sufficient to meet any identified requirements that are likely to accrue—as I say, it is 2012–13 we are talking about. If there are any further requirements that develop or come to notice then obviously they would be considered in subsequent processes.

Hon KEN TRAVERS: My final question on risk relates to the road trauma trust fund. I want to just make sure I understand the risk that has been identified. As I understand it, the money is coming in and will be allocated to the trust fund but at the moment with the exception of the line item for Office of Road Safety, under Main Roads, which is \$30 million this year and, I think, climbs to about \$37 million over the forward estimates. Am I correct in my understanding of it that that means that it is currently the only money that has been allocated and the rest of the red-light and speed cameras that will accumulate will just sit in the trust fund until a business case is approved by the government?

Hon SIMON O'BRIEN: In effect that is correct. The intention of government is that the funds will be expended on this purpose. The thing that I would ask you to understand, though, is that it was the government's considered view that to make sure that we got value for money and that these funds were targeted to get real outcomes we wanted to have business cases brought to cabinet for our approval for each expenditure; otherwise it is just a sum of money that is available to some agency and no doubt will be spent on things that it gets spent on.

Hon KEN TRAVERS: It is not just some agency; it is actually the trauma trust fund, and the council that oversees it with requirements under legislation.

Hon SIMON O'BRIEN: Indeed, but cabinet wants to have an active role. This is a major policy change. We want to make sure we have an active role.

Hon KEN TRAVERS: I understand, and I am not arguing with that point. I want to understand the impacts of this. If those business cases are put before government and the money that is predicted to come under red-light and speed cameras over the next four years is actually allocated and spent—and when you do the sums between the two, of the revenue coming in, minus what is already allocated to the Office of Road Safety, it is about \$192 million difference. That is \$192 million that will come off the surpluses over the next four years and \$192 million that will need to be added to net debt at the end of the four-year period if that money is actually spent.

Hon SIMON O'BRIEN: Certainly it will affect net debt. Whether the funding allocation is to recurrent or capital would also have an impact on general expenditure on the operating balance. You are basically correct in what you are saying, yes.

[3.50 pm]

Hon KEN TRAVERS: I would have thought you could still have booked that into the Office of Road Safety as expenditure and still make it subject to cabinet submission. Why was that not done rather than the way you have done it, which artificially gives the impression that the net debt is healthier than it really is?

Hon SIMON O'BRIEN: I go back to my earlier point that it was a government decision; that is, cabinet wanted tight control over moneys spent and that is what is reflected in the budget. It is true that it is shown as income but not all of it as expenditure at that stage. You are quite correct. That has the effect, at least temporarily, of enhancing the net debt position. But, again, it is transparent.

Hon KEN TRAVERS: It is because of the loosening of the risk, but someone has to work out what the impact of a \$192 million increase in net debt over four years will be if you spend all the money that is coming in.

Hon SIMON O'BRIEN: Indeed, the timing of the expenditure also —

Hon KEN TRAVERS: I cannot see why you could not book the expenditure in against the Office of Road Safety but still make it a requirement that the office cannot spend it without getting cabinet approval. I am sure there are lots of other programs where cabinet has approved the money in general terms. For that matter, you have approved money for the corrective services prison building program, and it is held in a line item in Treasury and is not released until the business case is. Why was it not done using that kind of model rather than the way in which it is presented in these budget papers?

Hon SIMON O'BRIEN: It is transparent; we put it here as a spending risk to highlight it.

Hon KEN TRAVERS: The volume was not transparent; I had to go and work it out myself.

Hon SIMON O'BRIEN: It is stated explicitly on page 67. I have readily agreed with the proposition you put forward today.

Hon KEN TRAVERS: Where on page 67 does it say that that adds \$192 million to net debt?

Hon SIMON O'BRIEN: In the second paragraph at the top of page 67 it reads —

As expenditure decisions are yet to be taken by Cabinet, the spending of these funds is not reflected in the forward estimates.

Hon KEN TRAVERS: It does not mention anything about impacting on net debt.

Hon SIMON O'BRIEN: That is what expenditure decisions do to the forward estimates.

Hon KEN TRAVERS: I will move onto another one. In the Perth parking management account approximately \$100 million will be sitting in that account, again, with unallocated expenditure. If it is ever expended by the government it will take another \$100 million off net debt. Why is that not listed, at least as a risk, so that if the government ever spends that money it will have an impact on net debt? Why is the Perth parking management levy account not listed as a risk in the same way as the road trauma trust fund is listed as a risk?

Hon SIMON O'BRIEN: We are almost getting to the stage of the hypothetical.

Hon KEN TRAVERS: No we are not. There is nothing hypothetical about \$100 million, minister.

Hon SIMON O'BRIEN: Hang on. Decisions have yet to be made about the disposition of funds in the Perth parking management levy account, but we anticipate that funds will be expended through the road trauma trust fund in the course of this budget year. That is why it is pertinent to list it on this page.

Hon KEN TRAVERS: Are you saying the unallocated funds in the Perth parking levy may never be spent over the forward estimates period?

Hon SIMON O'BRIEN: No; as I said, decisions have not been made and we do not know when they will be made, whereas decisions will be made to expend these funds under the road trauma trust fund.

Hon KEN TRAVERS: You are saying that your expectation is that you definitely will spend the road trauma trust fund money over the forward estimates period, but that you do not know whether you will spend the Perth parking money over the forward estimates period.

Hon SIMON O'BRIEN: No; you are trying to put words in my mouth. I said what I said; that is, the road trauma trust funds will be expended.

Hon KEN TRAVERS: Yes.

Hon SIMON O'BRIEN: That is the clear attitude of government, but I do not think you are debating that. Decisions have not been made on the disposition of funds in the Perth parking management levy. I do not know when they will be made.

Hon KEN TRAVERS: Minister, with all due respect, you keep using different language. You say that, on the one hand, the money will be spent from the road trauma trust fund; there is no decision of government taken, but it will happen. But then you say no decision has been taken about the Perth parking management account. The reason I ask this is that between these two line items there is \$300 million —

The CHAIR: Members; Hansard is not able to record two people at once.

Hon SIMON O'BRIEN: The two points are not irreconcilable. That is why I have been careful about how I have chosen my words. Bear in mind that I sit around the cabinet table. Although government received the actual business cases for the expenditure of the road trauma trust fund, it wishes to have more funds go through that fund to be spent on road safety projects. That is something that the government has already decided and announced it wants to do.

Hon KEN TRAVERS: Has it actually formally taken the decision that it will expend the money from the road trauma trust fund?

Hon SIMON O'BRIEN: I do not know where you are trying to go with this.

Hon KEN TRAVERS: If you answer my questions, I will tell you where I am going when we get there. Has the government taken the decision to spend the money in the road trauma trust fund?

Hon SIMON O'BRIEN: It has taken a decision on the processes that will lead to that expenditure, based on business cases, and we will be expending that money in the course of this budget year.

Hon KEN TRAVERS: If that decision has been taken by government, why is that expenditure then not listed somewhere in the budget papers as an expenditure over the period of the forward estimates? This is a question for the Under Treasurer, because it is his responsibility. If you go to the certification at the front of the budget papers, he is the one who certified it, so why is that money not listed as expenditure if the government has taken that decision?

Hon SIMON O'BRIEN: Because we do not know, firstly, what it will be spent on or when.

Hon KEN TRAVERS: You do not need to if you have taken the decision to spend the money. I am asking why it is not booked in as an expenditure line item.

Hon SIMON O'BRIEN: I said that it is government's stated intention to spend that money. I have no doubt you will hold us accountable if we do not do that.

Hon KEN TRAVERS: Do you not have any stated intention with the Perth parking management levy?

Hon SIMON O'BRIEN: Not in this financial year, with respect to a large part of it. Those decisions have yet to be made, as you well know. The budget is not silent on the Perth parking

management levy. I refer you to page 150 of budget paper No 3, which discusses disposition of the Perth parking fund and states —

An additional \$8 million will be spent from 2010-11 to 2014-15 to deliver CAT services in the Central Business District, funded from the Perth Parking Fund.

That is in the budget because that is a decision that has been made.

Hon KEN TRAVERS: That is fine. Even allowing for that \$8 million, there will be \$100 million sitting in the Perth parking management account by December 2014 at the end of the forward estimates period, if the government does not take any expenditure decisions. Why is it not listed as a risk that, if you take a decision to spend that money, there will be a net impact on the state's finances? I am directing my question to the Under Treasurer because on these matters he is responsible—not through you as minister, but directly under the Government Financial Responsibility Act. I would like the Under Treasurer to answer that, unless you instruct him that he cannot answer it.

Hon SIMON O'BRIEN: I will not do any such thing. Was the Perth parking fund included as one of the risks last year?

Hon KEN TRAVERS: No; it was not.

Hon SIMON O'BRIEN: You have been seeking to highlight in your questions on this theme that it was in last year's budget and asking why it is not in this year's budget. I do not believe it was. Nonetheless —

[4.00 pm]

Hon KEN TRAVERS: This is the one where it should have been in for two years running and now it is up to \$100 million. You have added in the road trauma trust fund, but you are not adding in the Perth parking one.

Hon SIMON O'BRIEN: I do not know that there is a definitive answer to your question, but I will refer to Mr Marney to see what he can offer you.

Mr Marney: With respect to the road trauma trust fund, the cabinet decision communicated to me articulated a process by which submissions would be brought back to cabinet for it to decide how and when money would be expended from that fund. What I am not able to do on the basis of that decision is write in an amount of money to be expended because I do not know when it would be and I do not know if it would be expense or capital. But I do know it is going to happen because that was the decision of government that was communicated to me, hence it is highlighted in the risk statement in order to be as transparent as possible. In terms of the Perth parking levy, had a similar decision been taken by cabinet and articulated to me, then that too would appear in the risk statement, but I have not had a decision communicated to me as to how that fund will be expended or not expended over time.

Hon KEN TRAVERS: All right, so the money to the non-government sector, for instance, there is two dollops of that, as I understand it; there is one that will be paid as of 1 July this year and then there is a second to be paid. It averages at about 10 per cent but it is subject to ongoing negotiations. How have you been able to manage to factor that in to your budgets but you cannot factor the road trauma trust fund money in to your budgets?

The CHAIR: Mr Marney.

Mr Marney: And I assume that it is appropriate to answer directly and not via the minister still.

I am able to put that in because I know that is an expense straight from the budget bottom line through existing service agreements and contracts with non-government agencies. I know which agencies in terms of public sector agencies what contracts they have in place. It is a global allocation that government has decided that it will allocate the \$604 million over four years. That

has been communicated to me clearly as a decision of government and I know where it is supposed to go and I know its accounting treatment, so it is a certainty.

Hon KEN TRAVERS: I guess, just to conclude this area —

The CHAIR: That would be good, in terms of taking a break.

Hon KEN TRAVERS: What we are dealing with here, though, is in the order of some \$300 million worth of expenditure that is either going to sit in trust accounts or get expended. It will sit in trust accounts, in which case the money is never expended, or, if it is expended, it will affect the bottom line. If you add that to between \$50 million and \$100 million from the Geraldton Port Authority, what impact would that sort of \$350 million worth of additional net debt have on the state's finances?

The CHAIR: Mr Marney.

Mr Marney: It would have a net debt impact of \$350 million.

Hon KEN TRAVERS: Yes, but in terms of meeting our ratios?

Mr Marney: I think it is fair to say that we are comfortably within our ratios at the moment. Our government's target is to remain below a ratio of 4.5 per cent on interest cost to revenue. We are currently sitting at three per cent. A \$350 million change to the overall net debt level would only alter that ratio marginally.

The CHAIR: Members, I know there are a lot more questions, but we need to have a break. We have been going for three hours or two and a half—a lot anyway. It has been so long I have forgotten. Members, minister, witnesses, I suggest that we adjourn until quarter past.

Proceedings suspended from 4.03 to 4.17 pm

The CHAIR: We had scheduled that we would be well into this next part of our inquiry, which is new policy initiatives in the finance portfolio. I am willing to be flexible, but that is basically where we are and then we will follow with capital expenditure.

Hon LJILJANNA RAVLICH: I wonder whether I can ask a series of questions in relation to major spending changes found on page 301 under "Treasury" in budget paper No 1. I think all of them come out of recommendations of the Economic Audit Committee. I would like to start off with the value-for-money reviews. There is also reference to that on page 303 under "Efficiency of Service Provision". I understand that in this budget funding is going to be provided for a second round of value-for-money reviews of key agencies. That includes Western Australia Police and the housing authority. My first question is: which agencies were in the first round of value-for-money reviews?

Hon SIMON O'BRIEN: The first round was for the four government agencies approved for value-for-money reviews by cabinet in August 2009. They were the Departments of Health, Education, Environment and Conservation, and Commerce.

Hon LJILJANNA RAVLICH: What was the outcome of the value-for-money reviews? Was there a final summary document, which highlights whether in fact these agencies are delivering value for money or otherwise? Madam Chair, perhaps it would be easier, given the time constraints, if I just asked a series of questions that could then be taken on notice.

Hon SIMON O'BRIEN: I can answer that one.

The CHAIR: Let us deal with this question first.

Hon SIMON O'BRIEN: The review documents were provided through EERC to cabinet, but they have not been published publicly. However, I can advise that the four agencies are progressively implementing a number of the recommendations of those reviews. Some savings realised as a direct result of the value-for-money reviews include the couple that I am about to give now. They are

reflected publicly in the sense that they are in the budget. The Department of Education, for example, as part of its Department of Education structural realignment in this budget; cumulative savings of \$20 million per annum over the period 2010–11 to 2013–14 relating to the implementation of value-for-money recommendations have been reflected in the department's forward estimates. The Department of Commerce value-for-money savings harvested from Commerce as part of this budget process total \$8.4 million over the period 2010–11 to 2014–15.

[4.20 pm]

Hon LJILJANNA RAVLICH: Minister, is it possible to get a schedule in relation to those four agencies to show where the savings were made, and take that on notice?

Hon SIMON O'BRIEN: It is fair to say, Chair, that the initiatives that have been adopted are reflected in the budget papers.

Hon LJILJANNA RAVLICH: I do not think they are; not the detail of where savings were made.

Hon SIMON O'BRIEN: I am talking about the budget here as a global entity, Chair. That is what I understand is the purpose of proceedings this afternoon. For the detail, these questions are best addressed to the individual agencies by this committee. I can give the global total, because that is what we have whacked into the budget, but when you want to get down to the detail, the member may wish to pursue that with the actual agency. It is probably up to those ministers to respond.

The CHAIR: Would you mind repeating the question so I can just check?

Hon LJILJANNA RAVLICH: Of those four agencies, what were the savings that were achieved through the value-for-money reviews? I am not particularly fussed whether we put that to the agencies through the committee process or whether it is answered collectively through —

The CHAIR: I think the minister is right; it probably does need to be addressed to each of the relevant agencies.

Hon SIMON O'BRIEN: I say that with the greatest respect. If I had it here, I would give it to you; but it is not. What I possess is the global agency figure which goes into the budget. I am here representing the Treasurer in that capacity. The actual detail under each agency probably needs to go to the agency's minister.

Hon LJILJANNA RAVLICH: I will ask another question in relation to the government trading enterprise efficiency dividend. I understand that will generate around \$100 million over the out years—is that your understanding?

Hon SIMON O'BRIEN: \$515 million in total, I think.

Hon LJILJANNA RAVLICH: Over the out years; okay. In relation to —

Hon SIMON O'BRIEN: Hang on—what was the exact question again?

Hon LJILJANNA RAVLICH: Government trading enterprise —

Hon SIMON O'BRIEN: Which part of the budget are you referring to?

Hon LJILJANNA RAVLICH: The efficiency dividend which is over and above the dividend that the GTEs pay currently. It is on page 313. There is a chart that includes “Provision for GTE 5% Efficiency Dividend”. There is nothing this year, 2011–12, but for 2012–13 we have a sum of \$46.2 million.

Hon SIMON O'BRIEN: Yes.

Hon LJILJANNA RAVLICH: Then we have \$48.6 million and \$51.2 million. My first question is: why has this been imposed on top of a dividend that is paid by government trading enterprises to this state?

Hon SIMON O'BRIEN: The first question is why is it being imposed?

Hon LJILJANNA RAVLICH: Yes; and why was it set at five per cent?

Hon SIMON O'BRIEN: Chair, it is part of the debt management package that I was discussing in response to a question from Hon Linda Savage a little while ago. There is some further detailed information, though, on page 287 of budget paper No 3. It gives the breakdown and some further discussion. That is the reason for it. The processes are on page 287 —

Hon LJILJANNA RAVLICH: Can you take that on notice? I might as well not come here at all if I am going to be referred to pages I should read in the documents. Clearly I have not got the time to read all of the budget papers, but I am asking a pretty basic question. We have virtually \$150 million generated through a GTE five per cent efficiency dividend. It is a simple question.

Hon SIMON O'BRIEN: What part of your question have I not answered by referring you to that one page? I am not saying to you go away and read the papers, I am drawing your attention to where the answer is to the question that you have asked.

Hon LJILJANNA RAVLICH: Why has it been set at five per cent? Why was it not set at 15 per cent? Why is it being set in any event given that the GTEs already provide a dividend to the government?

Hon SIMON O'BRIEN: This is not to send you away, this is to provide you with the answer: if you look at page 48 in budget paper No 3, when the government was looking at its debt reduction strategies that I was referring to in answer to an earlier question, our attention alighted on the government trading enterprises. Notwithstanding there are already dividends payable from these enterprises, we examined what other fat might need to be trimmed. If you have been able to get onto page 48, you will see a graph which shows expense and salaries growth in the public non-financial corporations sector. In the period 2005–06 to 2009–10, salaries grew in the public non-financial corporations sector by an average of 12.6 per cent per annum, which is way, way above what the rest of the government sector, and the community at large, would reasonably expect. Total expenses went up on average by 9.6 per cent per annum. Clearly, there is some capacity there for savings to be found. At a time when we are identifying sources of revenue to fund a debt reduction program to help manage our debt, this is the sort of place that needs to be examined, and so we are going to examine it.

Hon LJILJANNA RAVLICH: Is it true that the GTE five per cent efficiency dividend will be passed on once again to the end user?

Hon SIMON O'BRIEN: Actually, on the contrary. As we are looking towards a regime of cost reflectivity—something that has been the subject of public debate in this place and others recently—why should consumers, for example, of electricity —

Hon LJILJANNA RAVLICH: I am not saying they should.

Hon SIMON O'BRIEN: — be told that average salaries are going up 12.6 per cent in those utilities and being told they have to pay for it to reflect cost reflectivity?

[4.30 pm]

The cost needs to be reflective. I think we are together in spirit on that one. I might mention also that the government has communicated, obviously, to the managing structures of each of the GTEs. The terms that we have used there are that we are taking the efficiency dividend decision that, in order to ensure efficiency improvements, it is a requirement of the government that reductions in expenditure must not reduce services or negatively impact customers. That directly addresses the member's question. We have also pointed out to them that, furthermore, an increase in fees and charges is not an alternative to reducing operating expenditure. This is specifically about trimming the fat, if you like, from the nature of those operations. It is not to be passed on to consumers and it is not to be reflected in higher charges. We want to see real reductions in their discretionary

budgets. There is also a point that probably needs to be made—no, I think that can probably cover it.

Hon LJILJANNA RAVLICH: Is the government currently reviewing the commercial activities of any government trading enterprises?

Hon SIMON O'BRIEN: In what sense “reviewing”?

Hon LJILJANNA RAVLICH: Through the government enterprise advisory monitoring unit, which I understand has been established—is that correct? Given the revenue position, are any GTEs being looked at carefully with a view to corporatisation or privatisation? That is really what I want to know.

Hon SIMON O'BRIEN: Again, this is probably a question for the individual ministers responsible.

Hon KEN TRAVERS: They will be the last to be told, will they not?

Hon LJILJANNA RAVLICH: Surely Treasury would know.

Hon SIMON O'BRIEN: Chair, I do not believe there are any examinations of GTEs taking place with that end purpose. If the member is looking for a hidden privatisation agenda or a non-hidden one, it is not there.

Hon LJILJANNA RAVLICH: I just make this point: the initiatives that are outlined in the budget papers clearly stem from the recommendations of the Economic Audit Committee. The work of the Economic Audit Committee, which sets the economic agenda for this government —

Hon SIMON O'BRIEN: No, it does not.

Hon LJILJANNA RAVLICH: It does not?

Hon SIMON O'BRIEN: Cabinet sets the agenda.

Hon LJILJANNA RAVLICH: I think you are being a bit cute, but at the end of the day —

Hon SIMON O'BRIEN: We get advice and recommendations from all sorts of avenues.

Hon LJILJANNA RAVLICH: I think you are being a bit cute.

Hon SIMON O'BRIEN: Not as cute as you.

Hon LJILJANNA RAVLICH: These initiatives come directly out of Economic Audit Committee recommendations. One of the clear recommendations of the audit committee was that the activities of government trading enterprises needed to be reviewed on an ongoing basis to have a look at whether they lend themselves to corporatisation and possible privatisation. Minister, if you are telling me that that is totally, totally off the planet and that it is not going to happen under this government, then you should put it on the public record, and I will accept it at face value.

Hon SIMON O'BRIEN: Will you?

Hon LJILJANNA RAVLICH: I will, you know.

Hon SIMON O'BRIEN: I have just said there is no hidden or non-hidden agenda for privatisation of any of these.

Hon KEN TRAVERS: But is there any work going on about that in the agencies? That is what the member is asking. Is the Department of Treasury and Finance doing any work to examine the possibility of corporatisation or privatisation of any government trading enterprises?

Hon SIMON O'BRIEN: No.

Hon LJILJANNA RAVLICH: No? Fair enough.

Hon PHILIP GARDINER: I would hope that there was some form of examination of how to improve competition in these areas somehow, like Main Roads —

Hon SIMON O'BRIEN: That is a different question.

Hon PHILIP GARDINER: I know it is. It is not quite under the umbrella of this hearing, but the Main Roads model seems particularly appealing to me, in respect of Western Power at least. My question is in relation to page 445. I do not know what volume this came from.

The CHAIR: Volume 2, under "Finance".

Hon PHILIP GARDINER: It concerns Finance, since we are doing the initiatives of Finance, and the question relates to the services and key efficiency indicators in relation to the state fleet service.

Hon SIMON O'BRIEN: Right.

Hon PHILIP GARDINER: Page 445. I was just intrigued and surprised—not badly surprised—by the fleet service generating a net revenue, which I presume contributes back to consolidated revenue for the government, and I was just wondering why it is that that particular service is aiming for a net revenue to make a profit out of its operations, whether that profit should be distributed back to the different departments and whether it is consistent with its statement of corporate intent.

Hon SIMON O'BRIEN: Well, it is distributed, in a sense, back through the consolidated fund. This is in my portfolio area, so as you can imagine, if you were interested when you first viewed this document, I can assure you that I was doubly interested. The first thing that struck me, member, was the fact that there is reference to this on an earlier page. That got me examining this because at first light it seemed a bit unlikely, until I realised that this is part of the government procurement area of what will in due course be the Department of Finance, and that this is a service that is run centrally, for which agencies that have vehicles are billed. Instead of all the agencies running off, as might have happened in previous times, and making their own fleet arrangements, there is a centralised pool here, for obvious reasons; agencies are billed for the provision of their vehicles and all that goes with that. That explains why we are actually making a profit on it. Obviously, of course, it is an item of expenditure for government, because then each of those client agencies have an expenditure item, which contributes to this bottom line. The reason I have mentioned it in that way is so that people do not look at this bit on page 445 and think it is the sum total of all government vehicle fleet activity, because it is not. That is the first point I make.

The main answer to your question is that that is the reason it is shown here as a profit, obviously, to run fleets of 11 400 assorted vehicles. Obviously that is a very big expense item. It is not only here. It is distributed all over the agencies. Furthermore, I do not think all vehicles that you might call government vehicles are necessarily included here. There might be some other entities and agencies that still have specialist vehicles and whatnot.

[4.40 pm]

Hon PHILIP GARDINER: Just a follow-up question, if I can. With that budget of \$14 million in 2011-12, some of those agencies have a lot of vehicles, and I know the overheads and so on are quite a material factor in how they charge for their services for their projects—the Department of Agriculture and Food is a typical example. Can that \$14 million be distributed back to the agencies; or, better still, can the pricing of the vehicles—when you do your centralised purchasing and leasing pricing, or however you call it—be priced so that it is break even?

Hon SIMON O'BRIEN: The net cost of the service is subject to sundry vagaries, and the State Fleet strives to maintain a positive net cost of service. It sounds like a lot at face value when you are talking about \$14 million, but then when you consider the overall size of it, it is only a bit over \$1 000 a vehicle. Examine, if you will, the previous figures in the same line and see how much they vary, and you will see what I mean by the sort of vagaries. For example, a large part of the expense here is in depreciation; you can imagine the depreciation that happens every year of a fleet of this size. The other major vagaries that exist here are the age of the lease rentals, because it is not a perfect rollover where you have the same number of vehicles being leased per month on an ongoing basis forever; there are peaks and troughs in the numbers, and there are various lengths of lease as

well. There are all those variables. I have been reminded that perhaps the biggest risk or vagary, to use the word again, is the resale value. It is not only the acquisition and the maintenance and running of vehicles, but also, obviously, their disposal is a major part of the exercise as well. All in all we think it is set at a prudent net positive value at about that figure, which, when I express it in the terms I have, I think you would agree is not really that much in the scheme of things.

Hon PHILIP GARDINER: I can see the margin is probably smaller over a large volume, but I can also see that it is a consistent, positive margin. I suspect, even going back to previous years, it may well be the same, so maybe there is some trimming still. I can accept that the resale price is a real risk. It was just that it is consistent, and it is quite a lot of money. Okay, thank you.

The CHAIR: Just before we move on, I think Hon Ken Travers wanted to ask something in the same area.

Hon KEN TRAVERS: Is there a known reason why—because the resale is one of the key determinants of that profit—if the resale comes back at higher than predicted, that cannot be rebated back to the agency?

Hon SIMON O'BRIEN: You would have to reverse calculate all of the leased costs over the several years' lease term of each individual vehicle. They could vary a bit, so of course that would have to be averaged. I am advised that the administrative burden would be onerous, and—whose knows—that would substantially reduce the return anyway.

Hon KEN TRAVERS: The other question I had on this matter is: on page 441, which has the total cost of service summary, so the total cost of the State Fleet service over the four years of the forward estimates, you are estimating that you will spend less over the forward estimates than you are going to spend in this financial year, and yet I note that this year and next year the State Fleet should remain at about 10 600 vehicles, but in 2013-14 and 2014-15 it will increase to 10 800, and then to 11 000 vehicles. I understand the lumpiness of leasing, but I would have thought when you look at it over a four-year period like that, how is it that we are expecting to actually have a lower total cost of service over the forward estimates than we are going to have in this financial year, noting that there will be an increase in the number of vehicles?

Hon SIMON O'BRIEN: This was the line that I was referring to when I was answering Hon Phil Gardiner's question. It raised a whole lot of questions in my mind, particularly as there were some key savings from an earlier budget for the reduction of the fleet size. That was a three-year fleet reduction strategy from August 2009, so, prima facie, you would expect the number to reduce by 10 per cent.

Hon KEN TRAVERS: In fact costs have gone up during that period.

Hon SIMON O'BRIEN: Precisely. So they are the sort of factors, and I can see that you are across them. I have already mentioned depreciation; you have acknowledged that there is lumpiness in lease timings.

Hon KEN TRAVERS: But you would not be leasing light vehicles for more than two or three years.

Hon SIMON O'BRIEN: We are two years into the program, roughly, and 550 vehicles of the target of 1 175 have been cut. Most agencies are on track to achieve their three-year targets, and it is expected that considerable inroads will be made next year as a number of vehicle leases expire—one of the lumpy bits that you referred to. Although the vehicle numbers are on a downward trend, vehicle acquisition costs do continue to rise, as you have just pointed out; in particular, you can put that down to the high costs of operational fit-out of our light commercial style of vehicles. We have been proportionally getting rid of more passenger-type vehicles, perhaps, than other operational vehicles; that is a little more exaggerated. There is the addition of some new vehicles outside the strategy, with some TAFE colleges still transitioning and some school buses being included. Those are the sorts of factors I was alluding to in my answer to the previous member, in the sense that it is

not a straight, automatic exercise and there is a whole range of factors that need to be included in the calculations. It is quite complex.

Hon KEN TRAVERS: I am still not sure I have an explanation as to why it is going up and how you expect it to work. Maybe you can take it on notice as to how many vehicles you expect to have in each of the out years, and the way in which you arrive at those figures, because it just does not make sense to me that you can actually see an increase in the number of vehicles in the out years. You cannot be paying less than you are this year for your total cost of service.

Hon SIMON O'BRIEN: Let me see if I can give you that confidence with that direct question. The aim of the three-year fleet reduction of 10 per cent was 1 175 vehicles; that indicates that 11 750 vehicles is what we started with. The information that was provided to me recently is that 550 of those have been cut, and that further cuts are to be done in the coming year as a greater proportion of leases expire. I have given an indication of the sorts of factors that are reflected in rising costs, so that you have not just seen a 10 per cent reduction in costs; there are all sorts of things that mitigate against us, but they would be, well, proportionally 10 per cent higher if we were not undertaking this particular strategy. Does that satisfy you, member?

Hon KEN TRAVERS: No, because as I understand it, in terms of your modelling in 2011-12 you should be hitting the bottom of the curve in terms of the total number of vehicles.

Hon SIMON O'BRIEN: Yes.

Hon KEN TRAVERS: So between passenger and commercial, that is 10 600 vehicles. You should be sustaining that in 2012-13, and then you start to see a growth again in vehicles, to deal with general public sector growth, to 10 800 and then 11 000. So if that is the case, that is where I cannot see how you then expect, in 2011-12, to spend \$93 million, and then in 2012-13—still having 10 600 vehicles—you expect to spend only \$89 million, and then when you go back up to 10 800 you are still only going to be spending \$89.9 million, and then \$90 million for 11 000 vehicles. That is the bit that does not make sense to me.

[4.50 pm]

Hon SIMON O'BRIEN: Those figures that you are quoting from are the total costs of service, and that takes us back to page 445 where you will also see the income, which reduces. Are you on page 445?

Hon KEN TRAVERS: Yes.

Hon SIMON O'BRIEN: If you have a look there at the 2010-11 estimated actual out-turn and contrast that with 2011-12, you will see that the total cost of service, instead of falling, remains the same, and that is because of some increased costs. But notice how the income is reducing by about \$4 million, and that reflects less vehicles being used by the agencies, offset by the acquisition of different assets.

Hon KEN TRAVERS: If you could take on notice and get us the breakdown of the number of vehicles in each of those years of the forward estimates that you expect to have in the fleet, and if you could provide a greater breakdown of the 93 into purchase costs and other operating costs, because I assume those are the two major areas.

Hon SIMON O'BRIEN: Yes, we will provide that.

[*Supplementary Information No A8.*]

The CHAIR: I just want to check whether Hon Philip Gardiner had completed his questions. Did you have a further question?

Hon PHILIP GARDINER: I do, but I am moving away from vehicles.

Hon KEN TRAVERS: I am finished on vehicles.

Hon PHILIP GARDINER: Just on page 448 under the heading “8: Leads the Planning and Delivery of New Government Buildings”, the intriguing part to me of this particular section is the bottom paragraph, which essentially says that there were genuine economies of scale of the BER program, which were measurable, and it would have been a higher cost of around 5.7 per cent of delivering that service than was incurred at 3.9 per cent for the estimated actual 2010–11, a saving of 1.8 per cent. Is that economies of scale a surprise to you? And, if it is not, is that something we can expect with the scale of consolidating purchasing of the government through the new finance department?

Hon SIMON O'BRIEN: With the last two financial years, including the current one, you will see there that there has been a massive injection of budget funds. That is significantly part of the BER program and that has the effect of distorting what you would have in an otherwise ordinary year, in accordance with the note that you have just read out. I might ask John Tondut from building management and works to comment. John, would you address that question to Madam Chair?

Mr Tondut: The economic stimulus program had about 1 000 individual buildings at primary schools averaging about \$1 million each; so, it was a very significant number of buildings added over our normal program. In a normal program we have about 400 projects running at any point in time. So, clearly the economies of scale of doing 1 000 buildings, many of them fairly similar, enabled that efficiency measure to significantly improve. In answer to your question about would that be sustainable, no, we think it will move back to a more reasonable 4.5 per cent efficiency on the normal program of about 400 buildings. The 400 buildings are all varied buildings: some primary schools, some high schools, some TAFE colleges, police stations; those sorts of things. So, each of those projects have their own individual planning. So, the 3.9 per cent or 3.6 per cent in one year is a really good outcome in terms of efficiency, but we would not be able to sustain that in a normal program.

Hon PHILIP GARDINER: If I could, Madam Chair, I will just make a comment. The buildings I have seen, despite the criticism of the whole program, are very good and obviously well used in a number of the regional areas I go to, so I think that was a good effort.

Hon SIMON O'BRIEN: On that point, if I may, Chair, that stands to the credit of the Western Australian Building Management and Works people. We have all heard some awful stories from New South Wales and other places about abuse of process and what have you, and blatant exploitation by some contractors. The project and its scale, which has been outlined to you, managed here by Building Management and Works was a credit to them, and I would like to publicly acknowledge that. You will not see any of the scandals here about the ridiculous overpayments for modest buildings that you hear come from some other states. It was very well managed and we got good value out of it.

Hon PHILIP GARDINER: I agree. There is a nirvana at the end or later on in this paper. I am sure the Under Treasurer will know what I am referring to: Shared Services. I refer to the table on page 450. It is not as bad as I understood it to be. That is the interesting thing, but let us see if I have got it. In the third item down, works in progress, computing and office equipment replacement, as I read it the estimated total cost is \$234 million for the Shared Services establishment. I presume this is to do with the Shared Services and bringing all the computerised services into one centre. I presume I am referring to the same thing. But if I calculate the estimated expenditure in the next column to 30 June 2011 and then the ongoing ones—I beg your pardon, I have doubled-counted one. So, the \$234 million then does count for all those across there. I thought that this was well over budget. Okay, I can see where I have gone wrong. The estimated total cost is just the sum of the costs going onwards and the previous costs are not mentioned there, I presume.

Hon KEN TRAVERS: That \$30 million is already added into the \$199 million.

Hon PHILIP GARDINER: Yes, that is right. I added it in again. So, with the \$234 million estimated total cost coming from this year and going on the forward estimates, what does that bring the total cost to?

Hon SIMON O'BRIEN: This is capital expenditure here. Are you asking for the total that has been expended?

Hon PHILIP GARDINER: Okay, I assumed that it was all capital in building the system.

Hon SIMON O'BRIEN: There are operating expenses as well. There is the Shared Services centre out in Cannington. Do you know the old tax building?

Hon PHILIP GARDINER: No, I do not.

Hon SIMON O'BRIEN: It is a big building out there by the railway station. It is just around the corner from Hon Ljiljanna Ravlich's office actually. Are you still out there?

Hon LJILJANNA RAVLICH: Where?

Hon SIMON O'BRIEN: At Cannington.

Hon LJILJANNA RAVLICH: No. That is old news, minister.

Hon SIMON O'BRIEN: You are in Cottesloe now, are you?

Hon LJILJANNA RAVLICH: No, I am in Morley; where you would expect me to be?

Hon SIMON O'BRIEN: What is the question?

Hon PHILIP GARDINER: It was really: what were the capital costs in this break-up into capital and revenue; capital costs prior to the \$234 million that is currently being expended as of this year and then going into the forward estimates?

[5.00 pm]

Hon SIMON O'BRIEN: The \$234 million is the overall total.

Hon PHILIP GARDINER: The \$234 million is a summation of those columns. What is the capital cost that has already been applied for the Shared Services establishment, which I presume is the shared services system, and its implementation and development? Is that what that means?

Hon SIMON O'BRIEN: Yes.

Hon PHILIP GARDINER: What was the total capital cost up to 30 June 2010?

Hon SIMON O'BRIEN: That would be \$199.718 million, minus \$30.227 million.

Hon KEN TRAVERS: The \$234 million is the total cost from the very inception through to today under the asset investment program.

Hon PHILIP GARDINER: Is it? Okay.

Hon KEN TRAVERS: The only other costs are the operating costs.

Hon PHILIP GARDINER: I see. I understood that it was much higher than that. What are the running costs? Where do I find the information in the budget papers?

Hon SIMON O'BRIEN: When you looking for total notional costs, this is for the Office of Shared Services to operate. But there are other costs that accrue to other agencies, because they pay for the services. Even though they do not pay for their own HR services if they are under the OSS, they still pay a fee for those services to be provided by the OSS. I refer the member to page 448, service 7, "Provision of Financial and Human Resources Services". Those are the services that are provided to sundry general government agencies in the areas of finance, procurement, human resources, payroll and online services. The line that the member would be interested in is the total cost of service, which shows that in 2011–12, the budgeted total cost of service is \$88.825 million.

Hon PHILIP GARDINER: This is probably a value judgement, but is that \$88 million materially higher as an annual cost? I think that 65 per cent or 70 per cent of the public service departments are now on the OSS?

Hon SIMON O'BRIEN: Fifty-eight agencies are now rolled in, and they represent about one-third of the total staff.

Hon PHILIP GARDINER: So it is only one-third. Okay.

Hon KEN TRAVERS: But that does not include Health and Education?

Hon SIMON O'BRIEN: Yes. That does not include Health and Education, which have their own arrangements. But of those that are left and that are due to be in shared services, 58 agencies in, and they between them have about one-third of the total staff. The reason is that the operation was started with the smaller agencies, and they are just now getting up to some rather big ones—Transport and Commerce, and the Agriculture and Food, which was recently rolled in.

Hon KEN TRAVERS: Has the freeze on the roll-ins been lifted?

Hon SIMON O'BRIEN: Two agencies are still being rolled in, because they were in the process of being rolled in when the review by the ERA was announced by the Treasurer.

Hon PHILIP GARDINER: And the review is currently in progress?

Hon SIMON O'BRIEN: Yes.

Hon SIMON O'BRIEN: So it may be best if I wait for the review to come out before we go any further.

Hon KEN TRAVERS: If we then go to page 444, which is for the fourth quarter of this financial year, is that the agencies that are still being rolled in under the efficiency indicator? I am talking about the 2010–11 actual. What are the four agencies that are still being rolled in for this quarter?

Hon SIMON O'BRIEN: Agriculture and Food, which also involves some smaller entities, like APB; and Building Management and Works.

Hon KEN TRAVERS: That is two out of the four. What are the other two that will be going in for this current quarter?

Hon SIMON O'BRIEN: I think it is the smaller entities attached to Agriculture and Food.

Hon KEN TRAVERS: The Business Development Corporation, or whatever that one is?

Hon SIMON O'BRIEN: That might be the other one, yes.

The CHAIR: Minister, do you want to take that on notice, if you have some uncertainty?

Hon SIMON O'BRIEN: Very well. We will take that on notice.

[Supplementary Information No A9.]

The CHAIR: Members, I want to point out that we will be concluding at 5.30 pm, so if members have any questions in the area of capital expenditure, now is the time.

Hon LJILJANNA RAVLICH: I might get the minister to take this on notice. I refer page 450 and the heading “Works in Progress”. The first line under that heading is accommodation fit-out projects. The first item under that line is master planning strategy, government office accommodation, and the estimated total cost is \$225.8 million. Can the minister provide a breakdown of the works and the allocated amount for each of those works?

Hon SIMON O'BRIEN: I would be quite happy, and it would probably be most convenient if we could take that on notice.

[Supplementary Information No A10.]

Hon LJILJANNA RAVLICH: The next item under accommodation fit-out projects is Office of the Premier's accommodation, Hale House relocation, and the estimated total cost is \$25.5 million. Is that the final amount, because I think there are some additional costs for planning and design, so that figure may well have blown out? Can the minister give us a revised breakdown of all the expenses associated with the Hale House relocation?

Hon SIMON O'BRIEN: That is the final figure. I think what the member is thinking of is that there were two figures—one was \$17 million odd, and then there was another \$8.5 million, in round figures, for fees, fit out and contingencies. That is the extra amount that the member was thinking of. The \$25.5 million is the amount.

[5.10 pm]

Hon LJILJANNA RAVLICH: I think that you will find that there was also a design amount.

Hon KEN TRAVERS: But the other amount is the \$1.4 million on page 439 for the relocation of the Department of Education. Is that not also related to the Premier's palace?

Hon SIMON O'BRIEN: We do not call it the Premier's palace.

Hon KEN TRAVERS: What do you call it? What is the working project name?

Hon SIMON O'BRIEN: It is Hale House.

Hon KEN TRAVERS: All hail, Caesar!

The CHAIR: I remind members that we have only 20 minutes left, so you can spend it how you like.

Hon LJILJANNA RAVLICH: All I am asking the minister to do is to itemise all the costs for this project, irrespective of what they are associated with.

Hon SIMON O'BRIEN: Certainly we can do that. I do not know what level of detail you want to get down to.

Hon LJILJANNA RAVLICH: Lots.

Hon SIMON O'BRIEN: We will give lots of detail. Just to be up-front about it, Hon Ken Travers points out that there is that amount of \$1.4-odd million for the relocation of the Department of Education people who are currently in Hale House. That is not part of the \$25.5 million; that is a separate amount. In providing the information so that the committee is fully informed, Chair, in the spirit of openness and accountability, we will also make sure that we provide you with details of lease cost savings that will be accrued by the Premier's office and cabinet and related functions going into this building rather than being in some other CBD location.

Hon KEN TRAVERS: Could you provide in particular the lease cost savings if they had gone to Dumas House?

[*Supplementary Information No A11.*]

Hon SIMON O'BRIEN: The thing is that if they had gone to Dumas House, they would have taken up a space that would then not have been available for some other accommodation requirement of government. I do not know whether you have visited Hale House. It is just across the road, so you might be interested to do that. It is a heritage building, and the upkeep costs are significant. It is at a stage now at which it requires investment. I do not know whether members have any view as to what else they would do with Hale House—whether they would let it fall over or whether they would refurbish it and leave it sitting empty. We think that it finds its place in the master planning strategy for government office accommodation. It is a good use for a heritage building in this precinct just across the road. You saw what a great job the former Court government did of restoring the other parts of Hale school to make the Constitutional Centre. Here is another

good ongoing public purpose that will be served by Hale House. Who knows; maybe a Labor Premier might even inhabit it one day very far down the track!

Hon KEN TRAVERS: I think you are probably very right about the latter.

In terms of the time lines for that, there is the design component. When do we expect the figure for the costs of the actual refurbishment to be finalised? At the moment, I think there is a tender out to do the more detailed design work. It has probably closed and you may have even selected the tenderer. When do we expect to get an actual costing for the refurbishment?

Hon SIMON O'BRIEN: The tender process is underway, so it will take another three or four months before that is finalised.

Hon KEN TRAVERS: Is that the tender for the architect or the design consultant to do the design rather than for construction?

Hon SIMON O'BRIEN: No, that is the whole project. I will cut out the middleman and ask Mr Tondut to provide you with that information on where we are up to.

Mr Tondut: Yes, you are right. We have awarded a contract for the design at this stage, so it has moved from concept into more detailed design. We will have a number of contracts. One will be a forward works contract to do some more work and prepare the site for the main contract, which is due to be tendered in August. By September we should have a firm price for the construction work as well.

Hon KEN TRAVERS: And you need to have it ready to be occupied by 1 July 2012, is it?

Hon SIMON O'BRIEN: I do not know.

Hon KEN TRAVERS: Or August or September.

Hon SIMON O'BRIEN: No; it will be well after July–August. The government is negotiating to extend the lease on a portion of Governor Stirling Tower. It is not as though there is one day when everyone will move and the place will be vacated. There are quite a few floors there. We are negotiating at the moment to make sure that the Premier's office has a home until the other place is free a few months afterwards.

Hon KEN TRAVERS: I am sorry I interrupted you, Mr Tondut. Was there anything else?

Mr Tondut: The scheduled completion date is October. Yes, there is a period from when the current lease expires at Governor Stirling Tower to when we are scheduled to have it completed; hence, we are negotiating to extend the lease for a few months.

Hon LJILJANNA RAVLICH: In relation to the question I asked, could the minister also provide to the committee the project milestones for Hale House?

Hon SIMON O'BRIEN: We will provide the major procurement milestones. Obviously, the construction ones have not been set yet because we are waiting on the tenders to be finalised.

[Supplementary Information No A12.]

Hon KEN TRAVERS: I know you have had a private security assessment done on the building, but has WA Police been consulted on the security arrangements for the building; and, if so, have their views been fed into that and are there any substantial alterations as a result of their advice on the previous security assessment done by the private contractors?

Hon LIZ BEHJAT: What has that got to do with the budget papers?

Hon KEN TRAVERS: It is about expenditure in the budget.

Hon SIMON O'BRIEN: I ask Mr Tondut to address that.

Mr Tondut: During the original feasibility study, some security work was done, which I think is what you are referring to. As part of the detailed design phase that we are going through now, there

will be more work done on the security planning. That will involve getting advice on a whole range of factors.

Hon KEN TRAVERS: That is when you would get advice from WA Police about their views about the security arrangements?

Mr Tondut: Yes.

Hon PHILIP GARDINER: I just go back to the asset investment program on page 450. The first dot point indicates that there is \$104 million for the master plan for government office accommodation. What does that actually mean? What is that to be applied to? Is that for building or for consultancy?

Hon SIMON O'BRIEN: It is quite a massive program of reorganisation of government accommodation. I will get Mr Tondut to give you an overview of what is involved in the \$104 million.

Hon PHILIP GARDINER: If there is some substance to it, that is fine. I was worried that it was just for consultancy.

Hon SIMON O'BRIEN: No; there is substance.

Hon PHILIP GARDINER: That was really the essence of the question.

Hon SIMON O'BRIEN: If all you want to know is general information, it is not for strategy development; it is for actual accommodation. It is about fit-outs.

Hon PHILIP GARDINER: That is fine; thank you.

Hon SIMON O'BRIEN: There are also the building upgrades for Dumas House and Albert Facey House. It is quite a massive program of work, as you can see by the value. It is part of a bigger program that is ongoing on the moment, which we believe will, in the longer term, realise \$25 million per annum in savings by implementing the strategy in terms of floor-space requirements, greater utilisation of government-owned buildings, decentralisation from the immediate CBD to the fringes, and consolidation of agencies in their own locations or precincts rather than being scattered all over the place as they are now. Does that answer your question?

[5.20 pm]

Hon PHILIP GARDINER: Yes, it does. That is all fine. That is what I wanted to hear. I refer to "Efficiency of Service Provision", the third heading on page 303. There are a number of paragraphs—it goes over the page as well—that I was highly encouraged by. If we really resource these sections, this should give a great improvement to the productivity of government services. How much money is being allocated to that group of people doing that detailed and analytical policy development work? It is probably in the paper somewhere but I did not quite know where to look.

Hon SIMON O'BRIEN: If you flick back to page 301, there is a table setting out major spending changes. There you will see a consolidation of the funding that has been provided to pursue those very commendable objectives. I think 14 FTEs have been applied to this. That would significantly be to do with wages and whatnot.

Hon PHILIP GARDINER: That is good. I think that is a great initiative. I have one other section to talk about in volume 3 and it relates to the special purpose grants from the commonwealth. I think we receive roughly \$6 billion.

Hon SIMON O'BRIEN: What page is that?

Hon PHILIP GARDINER: Getting the page will be a little tricky. It is special purpose grants to the commonwealth. There is a table somewhere. It is on page 89. It is \$5 billion, which excludes the GST component from the Commonwealth Grants Commission. How does that allocation from the

Commonwealth Grants Commission of those payments for specific purposes to Western Australia, compare with other states on a dollars-per-head basis? We hear all about the GST component but no-one talks about these other components from the commonwealth government.

Hon SIMON O'BRIEN: The Grants Commission distributes GST. We had a lengthy discussion about that earlier this afternoon. I believe that these payments are more a matter of policy of the federal government in that they pursue them. I do not know if there is any reference by them or anyone else to payments per capita. In some areas they might reflect specific projects that may be restricted to one state or another. I do not know. I do not know if we have any work in the sense of comparing it on a per capita basis between the states.

The CHAIR: I was going to suggest that you could take it on notice if you wanted to check.

Hon SIMON O'BRIEN: It is not up to us to have it and I do not think we do.

Hon PHILIP GARDINER: Can we put it on notice?

The CHAIR: The minister is indicating that they would not have any extra information.

Hon PHILIP GARDINER: If we can extract it out of the federal government's papers, I am sure—this is the thing I mentioned before, this efficiency of service provision, where you have these analysts—they must be able to extract it from the other state's Treasury papers.

Hon LIZ BEHJAT: All this money is tied to these COAG national agreements that we are signing up for under uniform legislation all the time, that big bucket of money they keep threatening we cannot get unless we sign up to that. That is where all these grants come from. That would be a really interesting thing to find out from another perspective on uniform legislation.

Hon SIMON O'BRIEN: In order to find out this information, one must go to the commonwealth Treasury for it. We are not the repository of it.

Hon ED DERMER: Would it be possible to put it on notice for you to examine whether it is feasible to find the information and respond in those terms?

Hon SIMON O'BRIEN: We will have a look at it. If we can find it reasonably easily, we will communicate it. It is not the sort of thing that is the business of this agency. I do not want them to have officers diverted to this sort of exercise if it is going to take an undue amount of resources away from their normal duties, if that is acceptable.

[Supplementary Information No A13.]

Hon PHILIP GARDINER: We could ask the same question at a commonwealth inquiry hearing of this kind.

The CHAIR: Speak to a friendly federal member.

Hon KEN TRAVERS: I wanted to look at the line item for Treasury that is about \$1.1 million. I think you need to go to delivering community services in partnership. It appears on page 301 and also budget paper No 3 talks about the support and monitoring of the roll-out of additional funding. What method of monitoring are you going to engage in and what are you going to measure? I understand that a lot of this money is intended to ensure parity between public sector and non-government wages. Will you be tracking wages and will you be tracking new services that are provided?

Hon SIMON O'BRIEN: I will ask Mr Marney to provide an answer.

Mr Marney: The purpose is to ensure that the money flows to where government intends—that is to the non-government service providers—to ensure that they are placed on a sustainable financial footing. One of their cost issues is wages parity, and there is currently a national wage case around that issue. The main purpose of our involvement is to ensure that the appropriate non-government agencies receive the 15 per cent and then down the track the second component and ensure that the

government agencies actually pass it through to them in an appropriate way without inappropriate strings attached to it. It is really facilitating that whole process of, firstly, the 15 per cent payment up-front and ensuring it goes to those service contracts that exist in an appropriate form and, secondly, to assist the Department of Finance in the ongoing reforms to our procurement and contracting arrangements with the NGOs to ensure that we do not end up in this situation again.

[5.30 pm]

Hon KEN TRAVERS: Does the government intend to monitor and ensure that parity is reached with respect to government and non-government wages?

Mr Marney: The various negotiations and discussions that we have had with the sector are similar to those which we would have had with any other service provider. Their job is to provide us with a service at a price and to comply with all relevant law, including industrial law. In that sense, our expectation is—this will be hard-wired into the changed procurement and contractual arrangements in the second component—that they would be required to comply with all relevant and industrial law.

Hon KEN TRAVERS: With all due respect, that often complies with the award, yet in the public sector there may be an enterprise-based agreement for similar work. Will NGOs be required to ensure that their enterprise-based agreements are comparable with the government's enterprise agreements? Is that part of the monitoring you will be doing?

Mr Marney: Our job is to ensure that they get the money and provide us with good value for money for the services they are providing. It is within their scope of accountability to manage their budgets in the way they see is most appropriate.

Hon KEN TRAVERS: You said earlier that they are required to comply with the law. I guess that it then becomes a definition of what is defined as “the law”. If the contracts require that the award must be met, that might be very easy. However, to make sure that they are providing a similar wages and salaries scale to that of an enterprise agreement within the government sector might be a huge differential. As part of the new contracting arrangements that will be put in place, will Treasury ensure that the NGOs are complying with the award agreements—the enterprise agreements of the government rather than just the award, which is the traditional clause put into the contracts?

Mr Marney: What they pay their people is, at the end of the day, none of our business. We are a purchaser of services from them. It is up to them as to how they allocate their budgets and the remuneration they pay to their staff. They may well choose to pay more than what the equivalent public servant is being paid. However, for us to delve into that degree of micromanagement into their business would defeat the purpose of engaging with them in the first place.

Hon KEN TRAVERS: Is part of your monitoring to track whether any new services come out of this money?

Mr Marney: Certainly we will look at what value for money is being achieved out of these arrangements over time. Whether the services are improved or increased is an issue for the 10 per cent payments in component 2. Component 1 is just a financial injection to get them onto a more sustainable footing.

Hon KEN TRAVERS: How will that extra 10 per cent be allocated? What are the guidelines and criteria for allocating that additional 10 per cent to an agency?

Mr Marney: That will be done through a rolling process. As existing agreements expire, those agreements will be renegotiated on much more standardised and simplified contractual terms. Through that process, we will go on a journey of price discovery and get a sense of what we can achieve in terms of additional service quality and quantity out of the second component.

The CHAIR: I am mindful that we are running over time. I will allow one further question.

Hon KEN TRAVERS: My final question is on asset investment. I know that the budget is only over the four years of the forward estimates, but does Treasury still maintain a 10-year asset investment program or a program over an even longer term? I ask that because it appears that a lot of money is constantly going into planning for projects. We still have projects that we have previously spent money on the planning and design, for which we do not have money for the construction, yet the government is planning and designing another lot of projects. Does Treasury look at the 10, 20 or 25-year horizon, or does that no longer occur?

Hon SIMON O'BRIEN: This issue comes up frequently, particularly with major building agencies. Main Roads springs to mind, and I suspect it is true of the Department of Health. There is a range of long-term planning devices. The question was raised at a previous estimates hearing about the status of those plans. When people get hold of a 10-year plan, they tend to say that the government has no plans to do such and such, whereas the government of the day might well adopt a plan for something eight years down the track. I will ask the Under Treasurer to respond.

Hon KEN TRAVERS: With all due respect, my concern is that the government is spending a lot of money on planning and design. I wonder whether we have the capacity to fund those projects over a 10-year period. A project that was dear to the minister's heart was Roe Highway. We spent \$20 million on funding the design of that project and there is nothing for its construction. The government will now spend \$8 million on the Great Northern Highway enhancement project and \$20 million or \$30 million on a new stadium. Is someone in the government looking at all that planning and design work and saying that it is feasible within a 10-year horizon? If not, we must ask why we are spending money on the planning for and design of those projects.

Hon SIMON O'BRIEN: It is worthwhile to plan. If the right planning had been done on the arena, there might have been some very different outcomes. The question the member raises is fairly straightforward.

Mr Marney: As part of the asset investment program and the strategic asset management framework, we require agencies to have a 10-year capital program. It is fair to say that the quality of those programs is variable. One of our works reform initiatives is to try to lift the quality of those 10-year plans. Part of the impetus for funding the planning activity around some of these projects is to get a much better understanding of what they will eventually cost. That avoids the risk of embarking on projects at fairly short notice without knowing quite what we are getting ourselves into. However, that needs to be balanced with the financial capacity in the out years. Having the planning work done gives us a much more robust reference to be able to assess our capacity over the 10 years. We periodically update and review that 10-year plan. We can take eight to 10 agencies that covers 80 per cent of the capital spend. We can get a pretty good snapshot of what the capacity looks like over the forward years, and we do that, particularly for long-term programs like those for Health. Based on the cost of demand modelling, we have a series of major hospital projects both now and into the future that we know will have to be weaved into a 10-year plan. We do it, but that work probably happens in the guts of Treasury and informs our advice to government more than anything.

The CHAIR: I have some concluding remarks. Minister, the committee will forward any additional questions it has to you in writing in the next couple of days, together with a transcript of evidence, which includes the questions you have taken on notice. If members have any unasked questions, I ask them to submit them to the committee clerk at the close of the hearing. The responses to these questions will be requested within 10 working days of the receipt of the questions. Should the agency be unable to meet this due date, please advise the committee in writing as soon as possible before the due date. That advice is to include specific reasons as to why the due date cannot be met. Finally, on behalf of the committee I thank you very much for your attendance this afternoon.

Hearing concluded at 5.40 pm
