**Division 24: Treasury (Except Items 44 and 125 — Royalties For Regions), $4 817 729 000 —**

Mr J.M. Francis, Chairman.

Mr C.C. Porter, Treasurer.

Mr T. M. Marney, Under Treasurer.

Mr M.A. Barnes, Deputy Under Treasurer.

Mr M. Court, Executive Director, Economic.

Mr A.M. Kannis, Executive Director, Infrastructure and Finance.

Mr R.D. Mann, Executive Director, Strategic Projects.

Mr T. Wellington, Policy Adviser, Office of the Treasurer.

**The CHAIRMAN**: This estimates committee will be reported by Hansard staff. The daily proof *Hansard* will be published at 9.00 am tomorrow.

It is the intention of the Chair to ensure that as many questions as possible are asked and answered and that both questions and answers are short and to the point. The estimates committee's consideration of the estimates will be restricted to discussion of those items for which a vote of money is proposed in the consolidated account. Questions must be clearly related to a page number, item program or amount in the current division. It will greatly assist Hansard if members can give these details in preface to their question.

The minister may agree to provide supplementary information to the committee, rather than asking that the question be put on notice for the next sitting week. I ask the minister to clearly indicate what supplementary information he agrees to provide and I will then allocate a reference number. If supplementary information is to be provided, I seek the minister's cooperation in ensuring that it is delivered to the committee clerk by Friday, 8 June 2012. I caution members that if a minister asks that a matter be put on notice, it is up to the member to lodge the question on notice with the Clerk's office.

I now ask the minister to introduce his advisers to the committee.

[Witnesses introduced.]

**The CHAIRMAN**: Are there any questions?

**Ms R. SAFFIOTI**: I would like to confirm that we can refer to the *Economic and Fiscal Outlook* as well as part of these discussions.

**The CHAIRMAN**: My understanding is that members are required to refer to the line items, unless the Treasurer is willing to take those references in questioning.

**Mr C.C. PORTER**: The division we will deal with is Treasury. There are line items obviously in budget paper No 2, volume 1, but if the member wants to refer to budget paper No 3, she could just let me know the line item there; I am happy to take questions on that.

**The CHAIRMAN**: We will give some latitude on that.

**Mr B.S. WYATT**: I refer to appendix 9, "Western Australian Future Fund", on page 333 of the *Economic and Fiscal Outlook*. I have a couple of questions to bowl up to the Treasurer. The Treasurer has said that he is expecting an annual rate of return of 5.2 per cent on the future fund. Can the Treasurer give some details of how he arrived at that figure of 5.2 per cent and, also, what he sees would be the range of investments? The Treasurer has referred to government bonds. Will they be Australian bonds, international government bonds, AAA only or less than AAA? I am interested in a bit more information about the range of investments.

**Mr C.C. PORTER**: We will administer the investments from the accounts in exactly the same way that we administer investments from the public bank account; the same instruments will be chosen. Just by way of background, the public bank account will become in effect comparable to a special purpose account sitting inside the overarching public bank account. As the member would be aware, the public bank account works on an overdraw basis of roughly $4.5 billion, which represents the credit amounts in the accounts for all of the line item agency departments. That amount of money is invested on a time-to-time yearly basis and we record the returns that are achieved on that amount of money. The rules that are already in place for the investment of that money will be exactly the same as the rules that will be in place for the investment of the moneys in the future fund, which will be part of that public bank account.

**Mr B.S. WYATT**: So there will be no extra rules in respect of the investment of the fund.

**Mr C.C. PORTER**: There are no extra rules. There are certain layers of them and they are not without their complications. Section 11 of the Financial Management Act provides the power for agencies to operate individual subdivision bank accounts. Section 12 of the Financial Management Act allows the moneys in the PBA to be applied to any payments that may be legally charged to the public ledger. Then we go down to the Financial Management Regulations to the Financial Management Act. Regulation 5 is a pertinent regulation. That specifies the range of investment instruments that can be bought—purchased, invested in—and sets a minimum credit rating that ensures that investments are well within the investment grade range.

**Mr B.S. WYATT**: Is that credit rating specified as AA?

**Mr C.C. PORTER**: I will come to that in the next layer down. The regulations limit investments to cash, negotiable certificates of deposit, bank bills, floating rate notes, commercial paper, government and corporate bonds and debt securities issued by supranational institutions. No investments in derivatives or equities are allowed. The subcomponent of investments in debt securities is limited to government or semi-government guaranteed securities and debt securities of corporations and other institutions rated A or above by Standard and Poor's and Fitch, or A2 or above by Moody's Investors Service, deposits with authorised deposit taking institutions with investment grade rating of BBB, as rated by S&P and Fitch, or Baa3 by Moody's. At a level below the relatively broad provisions of the FMA and regulation 5, two policies are relevant. I presume these policies are on the website or publicly known.

The two policies are the PBA investment policy, which specifies a governance framework for the investment operations and contains the detailed specifications of the types of investment instruments that can be purchased. The primary objective of the policy is to ensure that government is able to meet its financial obligations as and when they fall due. The second instrument of policy is the PBA investment book credit policy. That sets the state's credit risk by setting minimum standards for the credit quality of counterparties in ensuring diversification of credit exposures within the overall PBA book. To further limit the risk of unfavourable disinvestment in case of credit rating downgrade, the ratings for debt securities of corporations and other institutions are set one rating step higher than the minimum ratings that I mentioned earlier. We actually work in a slightly more conservative range than we could possibly do under the regulations and the FMA. They are the rules that will apply to the future fund account.

In answer to the member's question about our stated expected return of 5.2 per cent, I think what I have said is that what our experience of the PBA—those $4.5 billion-odd worth of investments from time—in terms of return in the long run on that investment is about 5.2 per cent. I am just looking at a graphical representation of it now. We have almost always exceeded the Reserve Bank of Australia cash rate on the return for the investment.

**Mr B.S. WYATT**: On the PBA?

**Mr C.C. PORTER**: Yes; using that investment strategy or rules, if you like, that I have defined, and through the WA Treasury Corporation. In July 2003 we were above the RBA cash rate and we were earning close to five per cent. Interestingly, just before the point of the GFC, we were earning well above the RBA cash rate, which was about 7.8 per cent. That crashed down immediately with the GFC to around the three per cent mark. As of last year, it was 4.6 to 4.7 per cent, but the long-run average has been 5.2 per cent dating back to July 2003.

[2.10 pm]

**Mr B.S. WYATT**: The Treasurer said that he was referring to a chart or table. Is that available publicly?

**Mr C.C. PORTER**: I am sure we can get that. It is publicly available.

**Mr B.S. WYATT**: The appendix goes through to 2015–16. Treasury has obviously taken that out 20 years to get to $4.7 billion, being the Treasurer's conservative estimate. Is the Treasurer able to provide the opposition with that out-turn at the end of 20 years, exactly as was provided in appendix 9?

**Mr C.C. PORTER**: I am happy to provide that.

**Mr B.S. WYATT**: Not now; I am happy to have it as a supplementary. Does the Treasurer know what I am asking?

**Mr C.C. PORTER**: I know exactly what the member is asking. It is a relatively simple document. It shows the $1.1 billion in seed capital. Then it assumes that 5.2 per cent return over the more than 16-year interest life of the account. It also assumes an input every year from royalties, being one per cent of royalties. I left this totally to Treasury to make these estimates. It estimated royalties increasing over the time period to 2032 on a CPI track.

**Mr B.S. WYATT**: That was one of my next questions.

**Mr C.C. PORTER**: That is a very conservative estimate of what royalties might grow at, if for no other reason than expected volume. Nevertheless, that was Treasury's advice of the appropriate way to estimate it.

**Mr B.S. WYATT**: Is that $65 million to $70 million, being that one per cent of royalties, what the Treasurer was talking about?

**Mr C.C. PORTER**: Yes. In the first year that the royalties flow into the account, which is 2015–16, I think it is estimated at $60 million in that year. Then it tracks upward but it tracks upward according to CPI.

**Mr B.S. WYATT**: By the end of that 16-year period, it is $70 million.

**Mr C.C. PORTER**: Yes, it is something along those lines.

**Mr B.S. WYATT**: That is simply taken as at the assumption of the royalty flow in 2015–16 at $6 billion.

**Mr C.C. PORTER**: It is tracked to CPI. I would say that is a very conservative estimate of what that one per cent might be in 20 years' time.

**Mr B.S. WYATT**: I am curious about that. Depending on which commodity house or investment boutique adviser we read, we get different medium to long-term views on iron ore, whether it is going to decline. Indeed, Costello gave a speech last week saying he expected it to decline. I am curious about that figure. I assume that perhaps there were some assumptions. The dollar would be coming back to the long-term trend, which would be beneficial. It is $15 million, $16 million, and then CPI out.

**Mr C.C. PORTER**: I will get Mr Barnes to offer his observation in a moment. The debate the member is talking about is about price. We follow, for the out years at least, estimates of price changes and we have estimates that come in through Department of Mines and Petroleum production volumes. If the price decreases, the volumes go up and they mitigate each other. What iron ore pricing might be in 2032 is obviously a very difficult process to engage in and come up with quality estimates, although actuaries do it for the purposes of merchant banking and BHP and Rio would have a range of boffins who have pretty firm views about what that might be in 2032. It may be that the answer Mr Barnes gives the member is that because we are not engaged in price estimation inside Treasury for that length of time, is it the reason why it took this conservative way of forecasting royalty revenue? Whether or not the price increases or decreases over that 20-year period, we can safely say that the volume of exports will increase pretty substantially. I will get Mr Barnes to answer but, frankly, when we were devising the calculations around that figure of $4.7 million, I put my view as Treasurer to Treasury that that was a very conservative estimate. I might have suggested that it go back and rethink that and maybe come up with a way of estimating it which was less conservative, which would have meant that that estimate of $4.7 billion was a larger estimate. It declined to provide advice along those lines. I accepted that, but Mr Barnes might explain why Treasury took that conservative view on royalty revenue.

**Mr M.A. Barnes**: The member's summation is correct. We took our royalty estimate for 2015–16, which is about $6.5 billion. One per cent of that is $65 million. That royalty estimate for 2015–16 reflects an assumption that the iron ore price will return to its long-run average by the end of the forward estimates period. It also reflects an assumption that the Australian dollar–US dollar exchange rate will return to its long-run average by the end of the forward estimates. Effectively, for this future fund exercise, we have basically locked in the long-run average iron ore price and the long-run average exchange rate and effectively flatlined those for the rest of the 20-year period, apart from the CPI indexation of prices. The only remaining variable is volumes. We have no estimates of volumes beyond the end of the forward estimates period. As the Treasurer said, our volume forecast is informed by a survey of producers that the Department of Mines and Petroleum conducts every year. That survey only goes out to 2015–16. Effectively, we have also locked in volumes at 2015–16 levels and just flatlined those for the rest of the 20-year period.

**Mr B.S. WYATT**: Can I just confirm that after 2015–16, for the purposes of the fund, the volume of iron ore flatlines as at 2015–16 and the Aussie dollar as at the long-run average of 74 and the long-run average of the iron ore price —

**Mr M.A. Barnes**: Its long-run average is about $US85 to $US90 a tonne, which is effectively locked in for the rest of the 20-year period as well.

**Mr B.S. WYATT**: Was the Treasurer going to provide those 16 years by way of supplementary question?

**Mr C.C. PORTER**: I am undertaking to provide an Excel spreadsheet showing the ingoings to the proposed future fund account every year out to 2032 in interest and royalties and inclusive of the seed capital, and a written explanation of how each of those is calculated.

[*Supplementary Information No B19.*]

**Mr B.S. WYATT**: Just by way of follow-up, this may also be another supplementary question. The Western Australian Treasury Corporation provides in its annual report the weighted average effective interest rate on its borrowings and on its investments. I previously asked a question about government bonds, which obviously are one component of the investments. The figure that I am getting on borrowings is 5.31 per cent for the 2010–11 year, the weighted average. Treasury Corporation has a partial breakdown in the annual report, but not a complete breakdown, of the investments and borrowings that the Treasurer has already listed today, the most recent we can get in value of interest rates.

**Mr C.C. PORTER**: Largely speaking, that information is in the annual report. I do not know whether it is broken down to that degree of specificity.

**Mr B.S. WYATT**: It does not seem to have the interest rates either.

**Mr C.C. PORTER**: We can provide something along those lines. I do not know exactly how I can specify to the member what we can provide until I have spoken to WATC and work out how it can collate the information. We would be providing as detailed a breakdown as we can but over that period that represents the long-run average period that we are measuring for that 5.3 figure.

**The CHAIRMAN**: I am happy with that explanation, and the Treasurer has agreed to provide that supplementary information.

[*Supplementary Information No B20.*]

**Mr B.S. WYATT**: Just a point of clarification: does the government invest, and therefore how much, into other government bonds?

**Mr C.C. PORTER**: Those instruments that we have spoken about would fall into the category that I have described. We have to work within this set of regulations: negotiable certificates of deposit, bank bills, floating rate notes, commercial paper, government and corporate bonds. Yes, we invest in other government bonds, including other state government bonds. I will just provide a global answer, and anticipate the issue that the member has raised previously. We had an estimate of returns on the proposed future fund of 5.2 per cent.

That is an estimate based on the recent history of public bank account investments. Obviously, as the member points out, the Western Australian Treasury Corporation raises money and we, as a government and a state, pay interest on the debt. Over recent history, there is a broad comparison between the amount of interest we earn on the PBA and the amount of interest we pay on debt. I am not suggesting that that will always be the same. It seems likely that at various points in time over a 20-year period for an instrument such as the future fund, there will be a gulf between the interest received from the investments in the future fund and the interest that is paid on whatever debt might be borne by the state at the time. I certainly accept that that is the case.

[2.20 pm]

**Mr B.S. WYATT**: Again, to keep with those global comments, only the last five annual reports of the Treasury Corporation are on the website. From memory, the notes in the annual report—this is the weighted interest rates—indicate that in every year what the state paid on the borrowings was greater than what it earned on the investments, except for one year, which was probably during the global financial crisis.

**Mr C.C. PORTER**: I would be happy to acknowledge, as I properly should, that, generally speaking, over a long period more will be paid on debt than will be paid on invested moneys in the type of conservative investment portfolio that we are talking about here. The comparison that I have made publicly about the commonwealth Future Fund—which has a large $400 million administrative structure that is basically designed to choose slightly higher risk that returns a better investment—is that since its inception in 2006, the Future Fund also received returns on its investments at about the same rate of 5.2 per cent as the public bank account. Having said that, it might be expected that, over the next 20-year history of the commonwealth Future Fund, if it survives that long, it might do somewhat better than that because it has been through extraordinary times in the GFC with its investments.

**Mr B.S. WYATT**: But that fund has a broader range of investments than the Treasurer anticipates for this fund.

**Mr C.C. PORTER**: Absolutely, and to manage a broader range of investments such as that, there would need to be some relatively serious expenditure on the investment and administrative regime around the fund.

**Mr B.S. WYATT**: And there has been.

**Mr C.C. PORTER**: There has been for that, but given the size of our fund compared with the size of the commonwealth's fund, we worked out that on a pro rata basis, we might spend at least $6 million a year to set up a similar type of administrative regime around our fund. We just thought that for the potential benefit in interest over the long run compared with $6 million times 20 years, the economics favoured a more conservative approach. But I accept the fundamental point that the member is making; that is, between paying off debt to the tune of $1.1 billion and investing $1.1 billion, will there be a differential over 20 years and thereby a loss of some quantum between the interest being earned on the investment and the interest being paid on debt? I think the answer is that, yes, there likely will be. I will get the Under Treasurer to add to that.

**Mr T.M. Marney**: I think there are probably two other things to point out. The public bank account is the operating account of the public sector within a financial year; therefore, any investments in the public bank account are, by their nature, short term because it is an operating account and it has to be highly liquid. The shorter the term of the investment, the lower the return. We would hope that while remaining with the same class of instruments as the public bank account, given that it is a future fund, we would be able to go longer term and earn a slightly better return. The other thing is that, as per the Treasurer's response earlier, we invest in the instruments in terms of credit rating. We borrow at AAA credit rating all the time. It is almost an arbitrage between credit ratings. Albeit we take a very, very risk averse position, there is still a benefit in that arbitrage between credit ratings, which, again, is another factor that brings those two rates together in terms of return on investment and our borrowing costs.

**Mr B.S. WYATT**: Does Treasury undertake hedging for any foreign exchange risk in its investments outside Australia?

**Mr C.C. PORTER**: What does the member mean?

**Mr B.S. WYATT**: In international bonds. I do not have a breakdown of Treasury's international investments.

**Mr C.C. PORTER**: Mr Marney is more learned in these areas than I am, but from my briefings with the WA Treasury Corporation, I know that when we raise money, there is a broad spread. As indicated in an article printed recently, not that long ago we sought to move out of investments that involved European banks. To the extent that we hedge with the spread of investments, we do that, but whether we hedge in the true sense of looking at one investment and anticipating losses in another, I am not sure that that is a fair description.

**Mr T.M. Marney**: Both the borrowing and investment strategies of the Treasury Corporation are such that we take zero exchange rate risk. Either we hedge or we invest in Australian dollars. Even when we invest overseas—the public bank account is around the $4 billion mark and there is overseas investment amongst that—it is all in Australian dollar currency terms. Yes, we have a zero exposure to exchange rate risk.

**Dr M.D. NAHAN**: I refer to the three dot points under the heading "Commonwealth/State Relations" on page 302. When Rudd was in power, he committed to major reforms of the specific purpose payments. The first dot point indicates that that is not working out as planned. The second dot point refers to the GST, and there is a study. Can the Treasurer give us some view about where he thinks that report is going to go, what it will recommend, and whether it will recommend the government's argued 75 per cent floor; and, if not, what next?

**Mr C.C. PORTER**: With regard to the specific purpose payments—I might invite Mr Marney to talk about this as well—and harking back to Rudd's view about how they might work, I think the basic problem with the SPPs is that we do not have any certainty about which SPPs will or will not be renewed. This dominates to a large extent the discussions at meetings of the state and commonwealth Treasurers. There are quite considerable SPPs in, for instance, the training area, but often we do not hear whether the commonwealth will or will not renew the SPP until the date of the expiration of the SPP, which allows for little budget planning time. I do not know whether the Under Treasurer can add any other examples of those from recent times.

**Mr T.M. Marney**: There are two examples that spring to mind. In the SPP related to training places, the commonwealth had in place, I think, $50 million per annum in an SPP to this state. As part of its budget, rather than renewing at that rate, it halved its contribution. The member will see as part of the state's budget that the state has stepped in to close that gap, given the importance of maintaining a skilled workforce in the state. The second example relates to homelessness. The commonwealth agreement expires in, I believe, 2012–13. No indication was given to us prior to our budget about whether we should roll over our matching contribution to the homelessness SPP. From memory, we did roll over our contribution. Again, in this case, the commonwealth unilaterally wound its contribution back to zero. It basically reneged completely on the SPP.

The other element of reform that the member referred to relates to national partnership payments. NP payments were intended to be a finite grant to the states for a specific purpose but for a very limited period. They were intended to be minimal. We were looking at five or six major SPPs, plus three or four NP payments. We are now up to over 80 NP payments. They vary in their complexity, reporting requirements and input controls on how the money must be spent. My favourite example is one NP payment that has a life of just under two years. It has two major reporting horizons in that two-year period and it is for a total sum of around $3 000 over the life of the NP payment. The administrative cost is way in excess of the actual financial benefit, which is what we were trying to address through the reform process, but that seems to have gone completely off the rails.

[2.30 pm]

**Mr C.C. PORTER**: The bottom-line answer I give to the member is that specific purpose payments and national partnership payments are effectively sources of revenue for the state, but they are incredibly uncertain sources of revenue. In the last commonwealth budget, the overall decrease in the amount of money going from the commonwealth to the states globally in GST, SPPs, NPPs and infrastructure was down $5.8 billion. Although the commonwealth talks about how the savings were made in the budget to achieve a surplus, a larger part of those savings was squeezing down the flow of moneys to the states. What happens is that SPPs and NPPs, during a time of federal budgetary stress, are the first heads on the chopping block. That is understandable to an extent, but it does not leave the states with much certainty in terms of revenue.

Very quickly, on the member's question about the GST review panel and where it is going, there are a lot of positive things in that review and a lot of acknowledgements of the problems with the present situation. There is some enthusiasm for broader reform—not as much as I or most other Treasurers would like to have seen. However, I thought it was largely positive. Generally speaking, the panel said that it would do two things. It said that it would consider pretty thorough reform or change to the existing formula, whereas the only things that it was willing to canvass as real possibilities outside changes to the existing formula were a move to a per capita system—it did not favour that and acknowledged that some other source of revenue would be needed—or a move to a system that had finite limits on any drop from year to year, so we could not have a gross share of GST lower than the year before. Although the panel rejected the 75 per cent argument from Western Australia, depending on where you sit, there is a nominal year-to-year floor. If we had set it last year, it would have been a 72 per cent floor. It was a very helpful interim report, but I think it is the debate around the report that will be critical.

**Ms R. SAFFIOTI**: I have questions about the price hikes for electricity in appendix 7, which shows that the budget is predicated on the following price increases for the A1 residential tariff: five per cent in —

**Mr C.C. PORTER**: I am sorry; is this budget paper No 2 or budget paper No 3?

**Ms R. SAFFIOTI**: Sorry; it is the *Economic and Fiscal Outlook*.

**Mr C.C. PORTER**: And which page?

**Ms R. SAFFIOTI**: Page 311. The table shows that the residential A1 tariff will increase by five per cent in 2013–14 and 10 per cent in 2014–15 and 2015–16, so it is 25 per cent in nominal figures post this budget. Can I just confirm that the budget estimates, including the net debt and surpluses in the forward estimates, are predicated on that price path? Also, how does that price path compare with what is in the draft Economic Regulation Authority report, which was released in early April, I think? In relation to full cost recovery, I think that showed that there was an eight per cent carbon tax effect, a consumer price index effect and a five per cent cost catch-up effect. How does that price path compare with what is in the draft ERA report?

**Mr C.C. PORTER**: Treasury's estimates of the gulf between cost and price, and thereby the price path we would need to close that gulf, show the gulf being wider than that suggested by the ERA. That is the first part of the member's question.

**Ms R. SAFFIOTI**: In relation to that, that 25 per cent, as I said, is a nominal figure; I have not done the cumulative impact—we have 160 per cent since 2008. That 25 per cent is the Treasury estimate to get to full cost recovery in 2015–16.

**Mr C.C. PORTER**: No. The Treasury estimate of the gulf in price is not necessarily what we see in that table, but the Treasury estimate of the gulf in price is wider than the ERA estimate between cost and price.

**Ms R. SAFFIOTI**: Sure; so that is confirmed. However, what do those figures in the budget papers reflect? Do they reflect full cost recovery?

**Mr C.C. PORTER**: No, they do not. They just reflect planning parameters—estimates.

**Ms R. SAFFIOTI**: I suspect the Treasurer would not be putting in figures that would be over full cost recovery, so the 25 per cent there would be less than full cost recovery.

**Mr C.C. PORTER**: I think the answer is that we will not know until the ERA makes its final recommendations as to what the path of increases would need to be to close that gap. Treasury works on some very broad estimates, but they are not the definitive word in what the gap is. I would describe it to the member this way: the reason for the varying estimates—the difference between Treasury and the ERA—is the return on the cost of accumulated capital. Is that the phrase used?

**Mr T. Wellington**: Weighted average cost of capital.

**Mr C.C. PORTER**: It is the weighted average cost of capital to Synergy. If we say that the proper return on the cost of capital to Synergy should be seven per cent, the gulf between the cost of generating power and transmitting power and the price will be wider. If we say that Synergy should accept a lower return on its capital than that, the gulf between the price and the cost will be narrower. Either way, there are expenses to the budget, because if we accept a lower cost of capital for Synergy, the amount of dividends and tax equivalent payments that will come in from Synergy will be decreased, even though the subsidies going back will be decreased because the subsidies due to the gulf are lower.

**Ms R. SAFFIOTI**: I understand that.

**Mr C.C. PORTER**: Okay. To be fair, that path there is not about trying to effect cost–price reflectivity, because until the ERA report is finalised, we cannot say with certainty what that is. Based on Treasury planning estimates, in 2015–16 the overall subsidy to Synergy is still $331 million. Based on that set of forward estimates, 3.5 per cent, five per cent, 10 per cent and 10 per cent, it still represents a subsidy variance between cost and price of $370 million.

**Mr W.J. JOHNSTON**: Can I just clarify that? When the Treasurer says "subsidy", does that include all the social subsidies provided to individuals, such as for pensioners and the cost-of-living allowance?

**Mr C.C. PORTER**: No, that is just the direct subsidy.

**Ms R. SAFFIOTI**: So is that the operating subsidy?

**Mr C.C. PORTER**: Yes.

**Ms R. SAFFIOTI**: In respect of the government's policy on pricing electricity, will the Treasurer take the Treasury definition of full cost recovery or the ERA definition of full cost recovery?

**Mr C.C. PORTER**: It is the ERA definition. Ultimately, we will take Treasury's advice, but Treasury's advice will be based on the ERA viewpoint or recommendations—whatever we want to call it.

**Ms R. SAFFIOTI**: To follow up, the budget forward estimates are based on five per cent, 10 per cent and 10 per cent.

**Mr C.C. PORTER**: Yes.

**Ms R. SAFFIOTI**: Can the Treasurer confirm that the net debt —

**Mr C.C. PORTER**: Obviously, they are, but I think the point of the member's question is: will estimates, as they flow through to debt levels and surpluses, change? Unquestionably, they will, because those numbers will change. The modelling that we see in the budget papers is based on a return of capital cost to Synergy well above what the ERA in its preliminary report said is appropriate. If something closer to the ERA's preliminary report is the final result, that will probably mean that the gulf between cost and price is lower than the estimates that we have previously been working on, which means that prices will not have to go up as much. Secondly, it will mean that prices not having to go up as much, subsidies will likely have to decrease, but then the return, in terms of profit and dividends to the budget, will change as well. So I guess the summary for the member is that the only thing that is certain about those planning parameters out there at 2014–15 and 2015–16 is that they are uncertain. They will change, and the impacts to the budget on debt and on surplus levels will change also.

**Ms R. SAFFIOTI**: I have one follow-up question. There seems to be a significant difference. The ERA draft report basically had a cost catch-up of five per cent, when we exclude the carbon tax, plus the CPI impact. Given the CPI in the 2012–13 budget, it seems to be more than a rate-of-return issue, from just a preliminary look at it.

[2.40 pm]

**Mr C.C. PORTER**: The information I have is that the substantial issue is the weighted cost of capital and the return thereto. Depending on where that is set is the internal costings for Western Power's distribution of electricity. That is the information I have been provided. Everything turns on that. It is the weighted cost of capital for Western Power. It is Western Power's capital.

**Ms R. SAFFIOTI**: Does its massive asset base impact the number so significantly?

**Mr C.C. PORTER**: Huge—that is it.

**Mr W.J. JOHNSTON**: Is that because 60 per cent of the cost of electricity supplied to homes has nothing to do with fuel or generation?

**Mr C.C. PORTER**: I think network costs are around 40 per cent, so it is a large chunk of it.

**Mr W.J. JOHNSTON**: I recently asked, in respect of the price path in 2011–12, what the impact was on earnings before interest and tax for the electricity entities. The answer, in summary —

**Mr C.C. PORTER**: In 2011–12?

**Mr W.J. JOHNSTON**: In respect of the 2011–12 price path for the out years. The answer from the minister, in respect of Verve and Western Power, was there was no impact because they had charged their own costs. In respect of Synergy and Horizon Power, there was no impact on their earnings before interest and tax because they received a subsidy from Treasury. Does that remain the same?

**Mr C.C. PORTER**: I am not trying to obfuscate. I am not quite sure I understand the question. Someone gave the member an answer?

**Mr W.J. JOHNSTON**: The Minister for Energy gave me an answer. I asked four questions. Taking the price path provided in the 2011–12 budget, I asked: in the out years, what was the effect on earnings before interest and tax for each of the electricity corporations?

**Mr C.C. PORTER**: I do not have that to hand. The member talks about a price path. The budget estimates have numbers. Obviously, the higher those numbers, the greater the profit and return to Synergy, the higher the dividend and tax-equivalent payments to government, and the lower the direct operating subsidy, because that is meant to represent the gulf between cost and price. If the confirmation the member seeks is whether it is the case that the higher those numbers, the greater the profit for government and the lower the cost to the budget, the answer to that question is yes.

**Mr W.J. JOHNSTON**: That is contrary to the answer the minister gave, but I am not worried about that. That is only in respect of Synergy and Horizon Power?

**Mr C.C. PORTER**: The information on the incomings and outgoings, and profits and subsidies, is available. I have it for this budget 2012–13 onwards but I do not have it for 2011–12. It can be easily worked out from the budget papers.

**Mr W.J. JOHNSTON**: The return from Western Power and Verve to government has nothing to do with the price "path", if you want to use that word—that is in the budget papers.

**Mr C.C. PORTER**: I do not think that is entirely correct. It has a flow-on implication in terms of what Synergy returns to government in dividends.

**Mr W.J. JOHNSTON**: Yes, Synergy—and Horizon.

**Mr C.C. PORTER**: I see the member's point. Yes, in that sense I think there is truth to what the minister said. It is Synergy that affects the budget papers.

**Mr W.J. JOHNSTON**: And Horizon?

**Mr C.C. PORTER**: Yes.

**Mr W.J. JOHNSTON**: But not Western Power or Verve?

**Mr C.C. PORTER**: Correct.

**Mr J.R. QUIGLEY**: Could I take the Treasurer, please, to the last line item on page 297, "Margaret River Bushfire Financial Assistance" and a figure of $5 million? There appears to be no expenditure so far and $5 million in 2012–13. Am I right in understanding from the budget papers that six months after the Department of Environment and Conservation started the fire that caused the damage, no-one has received a dollar from the government?

**Mr C.C. PORTER**: The member is referring to page 297?

**Mr J.R. QUIGLEY**: Yes.

**Mr C.C. PORTER**: Are we looking at the subsidies and transfer payments?

**Mr J.R. QUIGLEY**: I am looking at the last item in division 24 on page 297.

**Mr C.C. PORTER**: Yes, I see it.

**Mr J.R. QUIGLEY**: Six months after DEC started the fire that caused the damage, none of these victims has yet received a dollar.

**Mr C.C. PORTER**: That would appear to be what is indicated there. With respect to the Toodyay bushfires —

**Mr J.R. QUIGLEY**: I was going to come to that. That is over the page.

**Mr C.C. PORTER**: As Attorney General, I am administered with the function of signing off on and finally approving the payments. From recollection, by the time the application process and so forth has come in from persons affected and been assessed, it is usually around that six-month mark. What the member says is correct, but I would expect that those moneys will start to flow very early in the next financial year.

**Mr J.R. QUIGLEY**: Is it right in respect of the Margaret River bushfire that the Treasurer has put limits on it; that is, compensation is capped for any particular holder?

**Mr C.C. PORTER**: As there was with Toodyay.

**Mr J.R. QUIGLEY**: $150 000?

**Mr C.C. PORTER**: $190 000.

**Mr J.R. QUIGLEY**: But they first have to make a claim against their insurer. It is only for underinsured properties; is that correct?

**Mr C.C. PORTER**: It is uninsured losses of up to $190 000. Some people will not have insurance at all, so they will have uninsured losses. Some people will have insurance but cannot get the full amount back, so they might have an underinsured portion —

**Mr J.R. QUIGLEY**: Or might have an argument with the insurer?

**Mr C.C. PORTER**: Indeed. The point the member raises is —

**Mr J.R. QUIGLEY**: Before the government will pay any money out, they have to resolve their argument with their insurer?

**Mr C.C. PORTER**: Yes. That was exactly the case with respect to Toodyay. In defence of that situation, when someone has properly and sensibly insured their house, the first port of call for recompense is through their insurer. What the government is doing through the taxpayer is saying that if there is a gap between the damage and the amount the insurance company is willing to pay out, we will fill that gap to the tune of $190 000. Not unreasonably, the first port of call is resolving the insurance claim.

**Mr J.R. QUIGLEY**: But if their damages, after insurance, exceed $190 000, they will have to sue the agency and the government?

**Mr C.C. PORTER**: That is a decision that they will have to contemplate.

**Mr J.R. QUIGLEY**: That is the only path.

**Mr C.C. PORTER**: There may be instances in which someone's damage has been to such a large extent that it is not covered totally by insurance and the gap is larger than $190 000. That is not inconceivable of course.

**Mr J.R. QUIGLEY**: In view of the Keelty findings, if action is brought, will the government concede liability and leave it as a matter for assessment of damages only, or will the government put these people through having to prove all over again that DEC was responsible?

**Mr C.C. PORTER**: Whether or not there was negligence in any matter and in any individual case would be assessed on a case-by-case basis. We would make the assessment. I cannot give the member an answer in this forum as to whether there would be some blanket rule applied there.

**Mr J.R. QUIGLEY**: I go over to the $5 million for the line item "Toodyay Bushfire Financial Assistance" on page 298. Has that now all been disbursed?

**Mr C.C. PORTER**: If it has not all been disbursed, it is —

**Mr J.R. QUIGLEY**: It is 2011.

**Mr C.C. PORTER**: That is right. It was appropriated in the 2010–11 year. I have in mind that I have recently signed off on some payments. It is appropriated in 2010–11. Some may have fallen over into 2011–12.

**Mr J.R. QUIGLEY**: All the victims there have not yet received compensation?

**Mr C.C. PORTER**: There may be a very small number still being worked through.

**Mr J.R. QUIGLEY**: In relation to Toodyay, have people resorted to litigation? Has anyone sued the government in relation to the Toodyay bushfires?

**Mr C.C. PORTER**: Not that I am aware of, no.

**Mr A. KRSTICEVIC**: My question relates to the heading "Strategic Projects" on page 303. It is stated on that page that the Perth Arena project will be completed in September 2012 at a cost of $548.7 million. I think the original cost of that project was $160 million. Why has the cost blown out by so much? What measures has the Treasurer taken to ensure that these sorts of blow-outs do not happen in future projects?

[2.50 pm]

**Mr C.C. PORTER**: The reason for the cost blow-out is complicated, but largely it has to do with the type of contract. The short answer to the question is that we are engaging in different types of contracts. Particularly the public–private partnerships that involve design responsibility and cost risk associated with design being placed contractually upon the private party that is being paid to deliver the infrastructure militate very strongly against the type of cost overruns that occurred on the Perth Arena project. I am not sure whether Richard Mann wants to provide a further description to that. If there is a short answer to the question, it is in formulating contracts in which design risk and costs associated with design risk fall upon the privately contracting party. That is very much what the Auditor General noted in his review.

**Mr R.D. Mann**: Further to that, robust planning prior to the award of any contract in the first place is very critical. For major projects, increasingly we are ensuring that the business planning and project definition phases up ahead of procurement properly identify scope so that estimation at an early stage of the project accurately reflect the scope that we ultimately deliver, which, as the Auditor General pointed out, was not the case with Perth Arena.

**Mr C.C. PORTER**: I hear some snickering opposite so we might get some questions on the stadium.

**Ms R. SAFFIOTI**: I refer to the Burswood stadium and the estimated cost of $700 million. Is that the estimated cost that Treasury believes the project will be? In relation to scope, the Premier announced that the stadium will have a creche; barbecue areas inside the ground; the ability for the outer shell to change colour; bigger seats; a footbridge that will also take buses; speakers in seats for music to be played; water parks for children to play in; a retractable roof; the ability to order food from the stadium seats —

**The CHAIRMAN**: Member for West Swan —

**Ms R. SAFFIOTI**: Sorry? This is —

**The CHAIRMAN**: I am going to interrupt you. The member for Carine's question was about a totally different project.

**Ms R. SAFFIOTI**: He was talking about the approach —

**Mr P. PAPALIA**: Very even-handed.

**The CHAIRMAN**: Member for Warnbro, I call you to order for the first time for that interjection.

**Mr P. PAPALIA**: You cannot call me to order.

**The CHAIRMAN**: I call the member for Warnbro to order for the second time. I can.

**Mr P. PAPALIA**: You cannot.

**The CHAIRMAN**: I can. I take offence to that interjection—I really do. Member for West Swan, if there are no further follow-up questions to the member for Carine's line of questioning, I will give you the call for a new question.

**Mr W.J. JOHNSTON**: With respect, Mr Chairman, it was exactly the same.

**The CHAIRMAN**: I am not going to argue. That is it.

**Mr W.J. JOHNSTON**: Strategic projects is —

**The CHAIRMAN**: If the member for Cannington is going to sit there and argue with me, I call him to order for the first time.

**Mr W.J. JOHNSTON**: With respect, Mr Chairman, you should read what is in front of us.

**Ms R. SAFFIOTI**: Sorry, Mr Chair. The reason that I asked it as a follow-up —

**The CHAIRMAN**: I am not going to argue with anyone; that is it. Is there a further question to the member for Carine's question?

**Ms R. SAFFIOTI**: Yes, and that was in relation —

**The CHAIRMAN**: On that particular issue?

**Ms R. SAFFIOTI**: Yes. The member for Carine asked what different approach the government is taking to ensure that blow-outs do not occur in relation to major projects. So I asked what approach has been taken by the government in relation to the stadium and, in particular —

**The CHAIRMAN**: I rule that as a new question, not a further question. It is pretty simple. This is a separate issue. Member for Carine, do you have a further question on your issue?

**Mr A. KRSTICEVIC**: No.

**The CHAIRMAN**: We will have a new question from the member for West Swan. So that members are clear, I called the member for Cannington to order once and the member for Warnbro to order twice. Member for West Swan, ask your question.

**Ms R. SAFFIOTI**: In relation to—I will not say in relation to the member for Carine's question—the approach taken by this government that is so different from the approach taken by previous governments to the $700 million cost of this project and all of the things that I listed earlier which, as I understand it, are within the scope of the project, including water parks in the grounds, theatres and music venues and landscaped gardens, are all those parts of the proposed project within the scope of the project that Treasury is costing up now? Is Treasury putting an estimate on the footbridge which, I understand, will also take buses? What is that estimated cost?

**Mr C.C. PORTER**: I certainly understand the question. The original question was with respect to the arena. One of the salient differences between the processes that we went through with the stadium and those that we went through with the arena is that at the point in time at which the $160 million appeared in the budget for the arena, it was not an indicative costing in anticipation of a final business case being submitted. It was a costing in the absence of a business case, as noted by the Auditor General, and at a time when the design had been finalised. The contract at the time that the $160 million appeared in its first iterations in the budget had been finalised, but was then changed. The substantial change to the contract was twofold. The very nature of the contract changed from one in which design risk was subsumed by the private sector provider to one in which the design risk was subsumed by the state. At the very same time, the basic fundamentals of the design, particularly the structural steel design, changed. Contemporaneous with the change to the contract that shifted risk for design from the private provider to the state, the state then changed the design. That, largely speaking, was the reason that there was a large cost overrun on that project. It is a complicated project but, effectively, that was the mechanics of the cost overrun. The member is suggesting that something similar could happen here. I do not believe it could. The $700 million is an indicative figure based on the previous report of the Langoulant committee.

**Ms R. SAFFIOTI**: Can I just confirm that the government put a figure of $700 million in the budget with no business case. The Treasurer said that that was one of the issues with Perth Arena and now he has just said that the business case has yet to be developed and that an indicative cost of $700 million, including the $375 million, has been written into the forward estimates without a business case.

**Mr C.C. PORTER**: The $375 million is written into the forward estimates because we know when construction for the project is anticipated to start and when we target to start it. Projects of this nature have a certain arc of capital spend over the years. Had we not put any money in the budget, the member would be sitting here asking why we have not put any money in the budget! Prior to that point in time—prior to the construction start—the design will be finalised, the business case will be finalised and the final costs will be known. Obviously, that $700 million indicative figure is the figure that we are working to in the design of the business case. The member said that there is a whole range of things that she purported the Premier has talked about—creches, water parks and so forth. The fact is that in going through the business case process—Mr Mann will correct me if I am wrong—if there are inclusions in the overall scope of the business case for the stadium that mean that it is likely to go outside the $700 million target figure, the likelihood is that they will be lost and wound back because the target figure of $700 million is what we are designing the business case towards. I have not heard the Premier talk about all the things the member put to me that he has talked about.

**Ms R. SAFFIOTI**: The Treasurer would have heard him talk about some of them.

**Mr C.C. PORTER**: I must say that I have not. Things such as landscaping and water parks around the outside of the stadium are specks of dust on the overall budget.

**Ms R. SAFFIOTI**: They are water parks for children to play in, not a fountain. It is a water park for children.

**Mr C.C. PORTER**: Does that mean 15 slides or something like at Hyde Park?

**Ms R. SAFFIOTI**: I do not know; ask the Premier.

**Mr C.C. PORTER**: The member is putting to me that this has been mooted as part of the stadium.

**Ms R. SAFFIOTI**: Yes. To follow up, will the Treasurer confirm that Treasury is currently working on a business case and that that is estimated to be completed by the end of this year; and, in relation to the transport options, has Treasury put an estimate on a busway over the water rather than just a footbridge?

**Mr C.C. PORTER**: What we are at now is the project definition plan stage. For the stadium it is anticipated to be finished in July and for the transport it is slightly after that in December.

The second part of the question is whether the bridge is going to take buses. That is something that has been raised as a possibility. But if it costs too much, it likely will not.

[3.00 pm]

**Ms R. SAFFIOTI**: Will the best estimate—that is, after the business case is completed—appear in the *Government Mid-year Financial Projections Statement*, or will it be drawn out post-March?

**Mr C.C. PORTER**: I think, with the project definition plan, the stadium would be midyear review, but transport likely not until after the midyear review, given that the timing for the project definition plan for the transport is likely to be finished in December.

**Ms R. SAFFIOTI**: So the transport will be post-March 2013?

**Mr C.C. PORTER**: In terms of inclusion in the budget, yes.

**Ms R. SAFFIOTI**: But as an indicative cost, it will be made public.

**Mr C.C. PORTER**: The project definition plan already has. I understand the point the member is making, but had provision not been made in the budget for what we think is an indicative spend in those years, the member would be sitting here, saying, "You're deflating your debt and inflating your surplus in those years by amounts X, Y and Z."

**Ms R. SAFFIOTI**: As a follow-up, surely, as Treasurer of the state, the Treasurer must be slightly embarrassed about how this whole process has been undertaken. He can stand and talk about the arena, but he is going through and making even worse mistakes on a bigger project. That is the key point. The Treasurer should be embarrassed.

[Ms A.R. Mitchell took the chair.]

**Mr C.C. PORTER**: That is the member's view, but one learns to have a fairly thick skin in this game. The government has committed to a project with an indicative cost and a known timing. The project definition planning stage is robust and will be finished shortly. It is targeted to be inside that $700 million. I say to the member, as Treasurer, that I am keeping a close eye on whether the project definition plan results in detailed planning, design and contractual arrangements that mean we can bring in a quality facility inside that target of $700 million. Based on preliminary advice I have received, that is doable, for sure, as it is for the transport. The member's objection seems to be that the commitment and global amounts are being put in the budget before the project definition plans —

**Ms R. SAFFIOTI**: The Treasurer should not re-word my objection; my objection is —

**The CHAIRMAN**: Member for West Swan, I think the Treasurer was answering a question, and —

**Ms R. SAFFIOTI**: He was trying to put words into my mouth.

**The CHAIRMAN**: I think you are trying to do the same, so can we just let the Treasurer finish and then we will move on to another question.

**Mr W.J. JOHNSTON**: Your responsibility is to —

**The CHAIRMAN**: Member for Cannington, I did not ask your opinion on anything. I understand my obligations. I call you to order for the second time.

**Mr C.C. PORTER**: I am happy to leave my response as it was, because it obviously was not the response the member wanted, but if she has a further question, I am happy to answer it.

**Mrs L.M. HARVEY**: I refer to the second dot point under "Supporting Our Community" on page 10, which refers to the one-off payroll tax rebate for small employers. Could the Treasurer elaborate on how many employers he expects to capture with the payroll tax rebate? I believe there are two categories: employers who have grouped payroll under $1.5 million and those between $1.5 million and $3 million. Could the Treasurer provide us with some more information on that initiative, please?

**Mr C.C. PORTER**: Very briefly, it occurs in two stages, starting with payrolls from zero to $1.5 million, keeping in mind that payrolls of $750 000 and lower are exempt from payroll tax. Employers in that category will get their full payroll tax paid in 2012–13 through a one-off rebate on or about 1 July 2013, and then there are partial rebates for payrolls between $1.5 million and $3 million. To give the member an example, employers with a $1.5 million payroll will get back all their tax, which will be $41 250. Employers with a $2.2 million payroll will get back $79 750. There is a table available, which I am happy to provide to the member at any time. When we first looked at the original iterations of this process, I was surprised to see how many businesses will actually benefit from it; I think about 40 per cent of all Western Australian businesses will receive some form of rebate, so that goes to show how many businesses there are with payrolls under $3 million. This initiative is very good for those businesses. I have been asked several questions about this, including by the Chamber of Commerce and Industry of Western Australia, which favours more meaningful, ongoing structural reform of payroll tax. Payroll tax is one of our few certain growth revenue sources, and obviously it would be desirable in the long run to make more structural changes to payroll tax, but that will have to wait until the goods and services tax situation is sorted out and the state's revenue is more certain. The government considers that this initiative meets its election commitment, and I think it is going to be a very good thing for businesses to get all their payroll tax back if they have a $1.5 million payroll.

**Mr W.J. JOHNSTON**: I refer to the table at appendix 7 on page 313 of budget paper No 3, "2012–13 GTE Efficiency Dividend — Estimated Impact on Total Public Sector Net Debt". The basis of my question is footnote (d), which appears on page 123 of the *Government Mid-year Financial Projections Statement*. It states —

> Verve Energy's implementation plan does not commit to achievement of the full savings target. Nonetheless, it is expected that full savings will be met. Accordingly, estimated savings remain consistent with those shown at budget-time.

When I look at the efficiency dividend estimates at page 313 of the *Economic and Fiscal Outlook*, I see that they are between 20 and 35 per cent of the estimates that were provided in the 2011–12 budget. I am just wondering what happened. On the same issue, in last year's budget the four-year estimated impact on net debt was $515.1 million. At the time of the midyear review, it had gone up to $524.1 million. We do not have the 2011–12 impact in that table, but even including $121 million that was estimated at the time of the midyear review for the current financial year, it is still way below the estimated impact from last year's budget. What happened, specifically with Verve, but also generally? Why is it significantly lower—more than $100 million—than the estimate in last year's budget?

**Mr C.C. PORTER**: In answer to the final part of the question, they are different processes. The midyear review was an update, if you like, on the five per cent GTE efficiency dividend process. So successful was it that we have engaged in another GTE efficiency dividend process, which starts at $2.5 million and then goes at $1.5 million across the out years. They are different processes, which is why the estimates are different. Secondly, the member noted that in the midyear review, the first five per cent GTE efficiency dividend process was scheduled to save about $524 million. The only matters that have arisen that could be characterised as difficulties have been with Verve; Verve's initial assessment to its minister and to me as Treasurer was that it had difficulties in meeting its five per cent target. I think I can safely speak for the Minister for Energy and his department, as well as for myself and Treasury, in saying that we took an alternative view to Verve. We are sorting through that at the moment, but the member can rest assured that if it comes down to a ministerial direction for Verve to do what the executive government thinks it should do to save the money, that direction will flow. We placed a five per cent efficiency dividend obligation on all the GTEs in the five per cent efficiency dividend process, and the only squeak of protest came from Verve. We will solve that; over four years that will save the taxpayer $524 million. We will also engage in a second round of efficiency dividends that, as the member has pointed out, will save the taxpayer an additional $383.8 million. We are talking about $800 million worth of accumulated savings from the GTEs. The only question that arises in my mind is: why did no-one think of this earlier?

**Mr W.J. JOHNSTON**: Just to clarify, the Treasurer says that there will be a saving to the taxpayer. As I understand it from an answer Mr Marney gave us in a briefing last week, this is the net debt effect, because the profits are actually retained by the entity. Is the Treasurer saying that there is a saving, or is it just a lower level of debt?

**Mr C.C. PORTER**: That figure is directly the net debt effect. One can characterise that as a saving, but it is saved only once in each year, if you like, just as the cut occurs only once in each year. But the net debt effect is a saving of net debt of $800 million. To justify my characterisation of it as a saving, if we did not do this, we would have close to an extra $1 billion of debt, and we would be paying interest on that, so it is a real and tangible saving. But the five per cent efficiency dividend process has been an incredible success. I do not expect that there will be a huge amount of difficulty in having a second round with respect to the GTEs. But, again, the government is willing to issue ministerial directions if it comes to a point of disagreement. We believe there are strong cases that the savings can be made.

[3.10 pm]

**Mr W.J. JOHNSTON**: When the Treasurer says that that is an $800 million saving to the taxpayer, does that mean that the increase in net debt from $3.8 billion up to potentially $24 billion is a cost to taxpayers?

**Mr C.C. PORTER**: It is a debt.

**Mr W.J. JOHNSTON**: But if this is a saving, is that an expense? I am not quite sure of the terminology the Treasurer is using, because he is saying that a reduction in net debt of $800 million is a saving —

**Mr C.C. PORTER**: This is a saving on debt, if you like. The cost to the taxpayer of debt is the interest payments obviously. The benefit to the taxpayer of debt is in getting to build things.

**Mr W.J. JOHNSTON**: I am not trying to put words in the Treasurer's mouth, but I am just trying to understand what he is saying. He is saying that we are having an $800 million saving while net debt goes from $3.8 billion to $24 billion. I am not quite sure; is having net debt go up by $20 billion a saving? As I understood what the Treasurer just said to me, this is a saving, because there is $800 million that would have otherwise been borrowed that is not being borrowed. I am just trying to clarify it. Given that that is a saving to the taxpayer, is taking debt from $3.8 billion to $24 billion a cost to taxpayers?

**Mr C.C. PORTER**: The cost to the taxpayer of debt is the cost of interest in servicing debt. But of course the benefit to the taxpayer of debt is hospitals, schools, roads and electricity and water infrastructure. Does that answer the member's question?

**Mr W.J. JOHNSTON**: So if the Treasurer had not saved this $800 million, would that have been a benefit to the community, because debt would have been higher?

**Mr C.C. PORTER**: No. Obviously it is desirable to not have excessive costs in the ongoing operation of GTEs that can be avoided.

**Mr B.S. WYATT**: Can I just follow up on that?

**The CHAIRMAN**: Is it a further question on this specific topic or is it an additional question?

**Mr B.S. WYATT**: It is a further question on the efficiencies of the GTEs.

**The CHAIRMAN**: No; that is an additional question on GTEs. One moment; there is someone ahead of the member. Member for Riverton.

**Dr M.D. NAHAN**: On page 305 of budget paper No 2 —

**Mr W.J. JOHNSTON**: We are moving on to a new topic. He is asking for a follow-up on the same issue.

**The CHAIRMAN**: The member's question was specifically relating to Synergy.

**Mr W.J. JOHNSTON**: I explicitly referred to appendix 7 on page 313.

**The CHAIRMAN**: The member's went to Synergy.

**Mr W.J. JOHNSTON**: No in fact, I had never even mentioned Synergy. I mentioned Verve as a specific example, but it was not the limit of my question. The Treasurer himself referred to $800 million, which clearly does not relate to either Synergy or Verve.

**Mr B.S. WYATT**: I was just going to follow up with the Treasurer, because this is exactly what the Treasurer was talking about. The Treasurer was talking about discretionary operating expenditure for the GTEs. I am happy to have this by way of supplementary information: what is the discretionary operating expenditure for each GTE for 2012–13?

**Mr C.C. PORTER**: The quantum of that varies from GTE to GTE. But is the member asking what is in discretionary and what is out of discretionary?

**Mr B.S. WYATT**: There must be a figure.

**Mr C.C. PORTER**: There is, and we can provide those. Generally speaking, the sorts of fixed costs of the agencies—long-term contracts and that sort of thing—are not counted in discretionary. Everything else—the short-term variable costs—is in discretionary.

**Mr B.S. WYATT**: Can I get the figure for each one? I am happy to take it by way of supplementary information.

**Mr C.C. PORTER**: Yes, we obviously have that figure, because we use it for a calculating basis. We will provide the figure of total budget which is considered discretionary and upon which the efficiency dividend is based for each of the GTEs included in the efficiency dividend.

[*Supplementary Information No B21.*]

**Dr M.D. NAHAN**: I refer to the service "Evaluation and Planning of Government Service Delivery and Infrastructure Provision" on page 305 of budget paper No 2. The state has a very large capital works program. It is probably the largest; it depends how it is measured. There is a large amount of development going on in the private sector to the tune of $260 billion. Is the Treasurer struggling to retain cost growth in the state build? We hear often in the private sector that cost overruns—the cost of labour, access to labour, cost of inputs—are very common. Is the state experiencing similar cost pressures and how is it dealing with them?

**Mr C.C. PORTER**: In Treasury, we are responsible for 18 strategic projects that are basically measured on a quantum of over $100 million. They become the responsibility of Treasury and fall within Mr Mann's policy area. I will have him comment on this in a moment. There is an enormous amount of construction work being undertaken both privately and publicly in Western Australia at the moment. Of course, whenever that occurs, there is a real risk of overheating in terms of excessive demand on a fixed amount of supply and resources in the construction market. Each month or so, I receive written and oral reports from Mr Mann with regard to all the strategic projects, their timeliness and the extent to which we anticipate that the delivery will be inside budget. I will have Mr Mann comment on that, but, largely speaking, for a variety of reasons but much of them to do with Mr Mann's department inside Treasury, we are avoiding cost overruns on projects, and the timeliness of projects is well and truly inside the desired parameters and planning. The overarching economic question is: will we reach a point at which there is so much demand for the construction of infrastructure that, notwithstanding the best efforts of government, the cost increases for both the private and public sectors? That is possible. But other than the obvious bottlenecks with respect to labour, there are enough flows, it seems, into the state to cope with the construction. I might just get Mr Mann to give a brief summary of where we are at with our strategic projects on timeliness and cost.

**Mr R.D. Mann**: Currently across the overall program, all projects are running at or close to budget and at or close to delivery within time; in fact, the vast majority are on or ahead of schedule. In terms of broader indicators, we specifically measure construction cost increases or trends in the non-residential building construction sector in the public sector through a building cost index administered by the Department of Finance. That is still showing very, very steady movement, if any movement at all, which has been the case for the last two years. Anecdotally, though, particularly for larger projects, we are starting to see some signs of movement upwards. Our escalation forecasts in planning are assuming that there will be some fairly significant growth in construction costs over the next three to four years.

**Mr C.C. PORTER**: I would say that there have been three factors that have helped. One is the devotion of significant moneys to planning. We have had some discussion about the stadium, but $13 million has been allocated to planning for the stadium. On the arena, my recollection is that there was not planning money specifically devoted to the planning of the arena. The second is the way in which we are engaging in contracts. Over time with the PPPs, we have been able to have better expertise and skills and we have been able to approach the contracts in a more sophisticated way. We are moving as much risk, particularly with respect to design, to the private sector provider on a PPP project in construction. The third thing that, in my observation, has helped has been taking from the departments the line management responsibility for planning. As soon as that was done and strategic projects were reposited in Mr Mann's area, there was then one central repository of knowledge, skills and expertise and an individual organisation in government that had a high incentive to maintain costs. If Treasury maintains a project and it gets a cost overrun, it is going to Treasury in effect to try to subsidise the difference.

The final point I would make, and one that the Under Treasurer made to me, is that perhaps one of the fortuitous circumstances we have had is that, whilst there is a big amount of private and public sector construction going on in large projects, the residential construction sector is very flat at the moment. In terms of building in estimates of future construction costs—I am sure that is something that Mr Mann has built in—there must come a time with population growth and so forth when housing market construction starts to warm up again. But we have been lucky enough to compress a lot of building into a time that was otherwise flat.

[3.20 pm]

**Ms R. SAFFIOTI**: My question relates to page 236 of the *Economic and Fiscal Outlook* and to the chapter on royalties for regions. There are three parts to it. First, what is the expected underspend in both the capital and recurrent items for RFR for 2011–12? My second question relates to the Ord project, which is funded under RFR. I understand that $90 million was added in the midyear review for the cost blow-out of the project. What is the state's contribution? We heard two different figures yesterday. The Premier said that it was $311 million, and the Minister for Regional Development said that it was $284 million. I would not mind getting the actual figure of the state's contribution, not the commonwealth's. The third question relates to the operation of this new fund, the regional development fund, which looks as though it has $1 billion over the next four years. I understand unallocated money is put into a fourth fund. What are the operations of that fund in relation to commitments made from that fund over the next four years?

**Mr C.C. PORTER**: I am very happy to answer any questions on my division, which starts at page 298. I am happy to answer any questions on the *Economic and Fiscal Outlook*, budget paper No 3. The specific page that the member is looking at is exempted from my division here today. As the member points out, those questions need to go in the first instance to the Minister for Regional Development. I do not have those answers to hand. I am happy to take those as supplementary questions today but I do not have the answers here.

**Ms R. SAFFIOTI**: There are three parts. One relates to the underspend. This was in the *Economic and Fiscal Outlook*, which I thought the Treasurer was responsible for.

**Mr C.C. PORTER**: The member did not draw my attention to that; she took me to page 236.

**Ms R. SAFFIOTI**: Yes, of the *Economic and Fiscal Outlook*. Sorry; I should have said that.

**Mr C.C. PORTER**: My apologies. The member's first question was on the underspend—in which year?

**Ms R. SAFFIOTI**: It is 2011–12. The estimated actual is listed but not the budget figure. I do not know what the underspend is.

**Mr C.C. PORTER**: I ask the member to look at page 43 of budget paper No 3 and the line item "Royalties for Regions — timing changes". The heading starts "Summary of General Government Revenue and Expense Variations".

**Ms R. SAFFIOTI**: That is $202 million. Has that all been approved to carry over into the forward estimates?

**Mr C.C. PORTER**: When the member says "approved", much of that expenditure is subject to individual business cases being presented through the Economic and Expenditure Reform Committee and cabinet. I am certain it will not be spent when it was considered it would have been spent.

**Ms R. SAFFIOTI**: As it relates to the impact on the numbers, Treasury has assumed that that money will be spent in the forward estimates.

**Mr C.C. PORTER**: Yes.

**Ms R. SAFFIOTI**: In relation to the Ord project, as I said, we have heard two different figures. I am trying to find out whether the state contribution is $311 million or $284 million and whether any money has been added since the midyear review.

**Mr C.C. PORTER**: I will take that on notice so we do not give a third figure to play with. I will provide the total state government component of Ord stage 2 funding.

[*Supplementary Information No B22.*]

**Ms R. SAFFIOTI**: The third part of my question relates to this new fund that has been written about in this budget paper.

**Mr C.C. PORTER**: Can the member take me to the page?

**Ms R. SAFFIOTI**: On page 236 of budget paper No 3 there is a table headed "Royalties for Regions Expenditure". It states that from 2012–13 funds that are not yet allocated to specific projects will be put into this new fourth fund. A total of $1 billion will be put into that for the next four years for, for example, the Albany pipeline and the Port Link project, which were alluded to last night. What are the operations governing that fund? For example, where does that sit within Treasury's accounts? What are the operations and governance issues around the operation of that fund?

**Mr C.C. PORTER**: I will ask the Under Treasurer to correct me if I am wrong, but that is a special purpose account. The governance arrangements for that will be the same as any other component of the public bank account. The policy considerations and procedural rules for that will be that any expenditures out of that have to be subject to business cases presented to the EERC and to cabinet and approved ultimately by cabinet. The member's point seems to be that that contemplates certain large infrastructure projects. The reason why it has been shelved in that account is that the business case planning that was required for cabinet approval is not yet at an advanced stage to allow for the money to come directly out of the royalties for regions account. I think we can give a general answer on what the Minister for Regional Development contemplates those business cases being, but if the member wants a detailed answer, I would have to take that on notice.

**Ms R. SAFFIOTI**: Last night he indicated that the two projects being looked at were the Albany gas pipeline and the Port Link project.

**Mr C.C. PORTER**: My understanding is that certainly those two are being considered. That would be the lion's share of that amount of money.

**Ms R. SAFFIOTI**: Just to get this clear, the impact of that item on the forward estimates is that it is held in a special purpose account. It is a reduction of net debt but it is an expense, so it is picked up not in the operating balance, but as a net amount.

**Mr C.C. PORTER**: It is irrelevant to the net operating balance because it would be capital expenditure. Had it been a business case and approved and appeared as a line item, it would add to debt. At the moment it does not add to debt.

**Ms R. SAFFIOTI**: So it is basically sitting there. Once a decision is made, it is unlikely to be for operating expenditure; but if it is for capital, would it go straight on to net debt?

**Mr C.C. PORTER**: Yes. I will run the analogy, which makes it very clear. The $339 million Oakajee money was put into a special purpose account. Although it is obviously intended to be spent on the Oakajee project, it is likely that the first expenditures will not flow until the year after that of the budget out years. It could have come out entirely or be placed in an account in anticipation of that expenditure. The member is right; it is not until the expenditure is approved on a business case through cabinet and appears as a line item that it appears as debt.

**Ms R. SAFFIOTI**: Because Oakajee is a grant, that will be an expense rather than —

**Mr C.C. PORTER**: Another half of it is a grant but that sits out in the commonwealth ether. This is our half.

**Ms R. SAFFIOTI**: Currently, it is sitting there reducing net debt—this is not a nasty statement—by virtue of its nature and the government is planning to expense it in 2016–17.

**Mr C.C. PORTER**: When the member says that it reduces net debt, it is more correct to say that it does not increase net debt because it does not appear as a line item.

**Ms R. SAFFIOTI**: It is sold into accounts, so it would be used as an asset.

**Mr C.C. PORTER**: That is right. To be fair to us, there is a subtle distinction. The member is right that Oakajee previously appeared as a line item.

**Ms R. SAFFIOTI**: So it was an expense.

**Mr C.C. PORTER**: Yes, it was an expense adding on to debt. The Oakajee special purpose account improved the debt situation by about $339 million inside the four years of debt, but the royalties for regions money had never appeared as a line item expense. That is because the business cases were not far advanced enough to get cabinet approval, so that would not have appeared in this budget either. It is not making debt look better.

**Mr B.S. WYATT**: I want to take the Treasurer to the freeze on full-time equivalents. I refer to the last dot point on page 301 of budget paper No 2, which starts with "FTE Management". In the Treasurer's media statement of 17 April 2012, he describes it as a freeze and then in the budget he describes it as a cap. The budget states that the FTE cap means that agencies' FTE levels for 2012–13 and 2013–14 are capped at currently approved levels for 2011–12. Is that a freeze? For example, if Treasury's FTE level is 400, as approved for 2011–12, two years from now will it still be 400?

[3.30 pm]

**Mr C.C. PORTER**: The member said "if Treasury's FTE level is 400" and the Under Treasurer said, "I wish". Treasury's FTE level is 281. Where did the press release refer to it as a freeze? What year was that?

**Mr B.S. WYATT**: The press release is dated 17 April 2012. It refers to a two-year freeze on the growth in the number of public sector workers.

**Mr C.C. PORTER**: I think it is fair to call it a freeze in the context of that press release. When we first came to government, we engaged in a process with the Public Sector Commissioner to work out an agreed-upon measure of full-time equivalent positions that the Public Sector Commissioner, line item agencies and Treasury could all agree on. Some difficulty was attached to that because it is difficult to account for contracted staff and for how many people work part-time. In any event, moneys are allocated to the agencies based on an agreed-upon measure of FTEs. Previously, we had a cap on the FTEs and that cap —

**Mr B.S. WYATT**: The cap would move.

**Mr C.C. PORTER**: The cap would move from year to year. The cap was in place for a year and meant that no agency could employ above its FTE cap for that year. Then, due to natural growth or budget submissions or special applications for funding for special projects through the Economic and Expenditure Reform Committee process each year, that cap would move up on a year-by-year basis—not for every agency.

**Mr B.S. WYATT**: That was previously in place.

**Mr C.C. PORTER**: That is correct.

**Mr B.S. WYATT**: What is the difference with the freeze?

**Mr C.C. PORTER**: The difference with the freeze is that we will not entertain, unless it is an absolutely extraordinary circumstance, increasing the 2011–12 prescribed number of FTEs for two years. That level cannot be exceeded.

**Mr B.S. WYATT**: What is that number for Treasury for 2011–12?

**Mr C.C. PORTER**: I have a list here. The FTE cap for Treasury is 282.

**Mr B.S. WYATT**: What is it for 2012–13?

**Mr C.C. PORTER**: For 2012–13 and 2013–14, Treasury cannot employ more than 282 people.

**Mr B.S. WYATT**: What is the total public sector cap as approved for 2012–13?

**Mr C.C. PORTER**: It is 37 763 full-time equivalent positions. That figure excludes operational staff in the Department of Health, Department of Education and WA Police, which are agencies to which this rule will not be applied. Excluding that number, which is a very large number, the 2011–12 cap for FTEs for all the other agencies is 37 763.

**Mr B.S. WYATT**: Therefore, the vast majority of public servants are outside the freeze. What is the total number of FTEs in the public service?

**Mr C.C. PORTER**: The member is right that there are probably about 30 000 each in the education and health departments to which this freeze does not apply, so it is a very large number. The freeze applies to that 37 763.

**Mr B.S. WYATT**: What is the 2011–12 FTE ceiling for the entire public service?

**Mr C.C. PORTER**: It is about 108 000. We will get the member that exact figure. It is not a figure we have been dealing with, because the cap applies to a subset.

**Mr B.S. WYATT**: To confirm that, will that 37 763 figure be the same two years from now?

**Mr C.C. PORTER**: The FTE ceiling that exists in 2011–12 is 37 763. I do not mean to mislead by suggesting that the freeze policy means that exactly that number will be the target in 2012–13 and 2013–14. There is a slight variance of about 100 based on explicit policy decisions that were taken in the context of the 2012–13 budget. Although it is a freeze, as I said, there can be unusual or extraordinary circumstances in which someone comes through the EERC process next year and says that they need an extra five, 10 or 15 FTEs for a purpose such as bushfire fighting or whatever it might be.

**Mr B.S. WYATT**: Can I get the breakdown of that 37 763 by agency, again by supplementary information?

**Mr C.C. PORTER**: It is in budget paper No 2.

**The CHAIRMAN**: Therefore, the member does not need that as supplementary information.

**Mr B.S. WYATT**: There was another piece of supplementary information.

**The CHAIRMAN**: Can we clarify what supplementary information you are seeking?

**Mr B.S. WYATT**: I am seeking the total public sector FTE figure.

**Mr C.C. PORTER**: That does not appear in the budget papers, so we will provide that.

[*Supplementary Information No B23.*]

**Mr A. KRSTICEVIC**: My question relates to page 74 of budget paper No 3, *Economic and Fiscal Outlook*, and to the carbon tax. Can the Treasurer give a bit more detail about the impact of the carbon tax on the government's finances as well as the broader community? Has the commonwealth government informed the Treasurer of the tangible benefits resulting from the carbon tax; and, if so, what are they?

**Mr C.C. PORTER**: The carbon tax does not appear very often in this budget because this budget does not contain the flow-on implications of the carbon tax. Each and every department and agency is still working through that. For example, the estimates from Synergy are updated with some regularity as we move towards 1 July. The most recent update was a 9.1 per cent increase as a result of the carbon tax. That is one of the larger impacts of the carbon tax because it is a utility that directly sells a product that is greatly affected by the carbon tax. That has changed three or four times since we started receiving these briefings. We will not know until 1 July. The interesting thing to consider is that if somebody—notably the federal government—takes umbrage with Synergy's estimate of a 9.1 per cent increase due to the carbon tax, I presume the Australian Competition and Consumer Commission would investigate and do whatever it needs to do against any organisation that overestimates the impact of the carbon tax. All our agencies have been very careful in estimating the impact. The bottom line is that it will not be known until 1 July.

**Mr B.S. WYATT**: We have had increases of seven per cent, 8.2 per cent, nine per cent and now 9.1 per cent. Surely at some point in the very near future the Treasurer will have an accurate figure.

**Mr C.C. PORTER**: I am very much hoping so. I think the explanation of the variance between seven per cent and 9.1 per cent was that Synergy failed to take into account the cost impact of line losses from the carbon tax. To be honest with the member, I do not know exactly how that works. Ultimately, the responsibility for that rests with Synergy.

There are two outcomes for an organisation that fails to accurately assess the impact of the carbon tax. If it underestimates the price increase in flow-through, it wears the cost differential. That will be the same for public and private sectors. We are watching our own agencies to make sure they do not underestimate it, because we do not want to bear the cost of the carbon tax and have to make up the difference.

The second possibility is that some organisation overestimates it, in which case it could be criticised as profiteering. I think the federal government will be closely watching electricity utilities. In those circumstances, I guess the Australian Competition and Consumer Commission would take action against that organisation. Treasury has consistently given the advice to all agencies that they must make sure they get it right, because if they underestimate, someone will wear the difference and we do not want it to be the WA taxpayer. If they overestimate it, they could have very close scrutiny from the federal government.

[3.40 pm]

**Mr B.S. WYATT**: The Treasurer has previously tabled in Parliament a Treasury paper in which it was estimated at seven per cent. Will he get Treasury to do that work again and table the subsequent paper with the updated information?

**Mr C.C. PORTER**: The seven per cent estimate was obviously Synergy's estimate, and the Treasury product was based on that estimate. We will do that again as a matter of course. In defence of Synergy, it is at the end of a very long and complicated supply chain, with a whole range of interfaces with the carbon tax at various stages, so it is not easy for it. It has been impressed upon Synergy that it had better make sure that its estimate is robust as at 1 July.

**Ms R. SAFFIOTI**: I have a question about the carbon tax. I understand that the impact on electricity prices in Western Australia will be slightly lower than that in the eastern states given our fuel mix and our gas intensity. We are very different from the eastern states, which have a far greater reliance on coal. Can I get some confirmation of that, because I have been told by an expert in the field that that is the case?

**Mr C.C. PORTER**: If I ask three different experts, I get five different answers! We have a much more environmentally friendly fuel mix with the reliance on gas in WA, but that is mitigated by two extra cost centres for WA. The first is transmission. We are delivering electricity into a landmass greater in size than western Europe, which is not a problem that affects Victoria. The second is that the dirty products, particularly the brown coal on the eastern seaboard, receive direct operational subsidies from the commonwealth government to mitigate their costs. Carbon tax moneys will be reapplied to the least efficient producers of electricity, not to the most efficient producers of electricity. That changes the mix again.

**Mr W.J. JOHNSTON**: I refer to page 302 of budget paper No 2. There is a dot point at the top and then some dash points below it. I refer to the dash point about loan guarantee fees. I understand that there is an increase from 0.2 per cent to 0.7 per cent in the fee for government entities that use the loan guarantee. Can the Treasurer confirm that the loan guarantee is raising revenue from $28 million to $107 million? Has Treasury Corporation modelled how much the loan guarantee would cost a government trading enterprise elsewhere if it was not borrowing through Treasury Corporation?

**Mr C.C. PORTER**: Unashamedly, that raises about $80-odd million worth of revenue. The second part of the question was about whether we had done modelling to compare what it might cost the GTE to raise funds on the open market without the assistance of the WATC. The WATC has done that modelling. The central point about this is competitive neutrality. The fact is that GTEs and other agencies that were raising money through WATC were raising money on a highly professional basis through fees that no other private sector entity could hope to match. It was fundamentally about cost neutrality in terms of the public sector versus the private sector. It also had the happy result, unashamedly, of bringing extra revenue into the Western Australian state budget.

**Mr W.J. JOHNSTON**: Is this being applied to loans that have already been sourced by Treasury Corporation on behalf of GTEs?

**Mr C.C. PORTER**: Yes, to all outstanding debts. It prevents Verve from being able to raise money at fee rates to the money raiser that are much lower than any of its private sector competitors.

**Mr W.J. JOHNSTON**: A commercial enterprise can buy a guarantee in the same way as Treasury can. It can pay a fee and get somebody else's triple A rating for its loan. Let us take Verve as the example. It has a very significant profit. Other private sector organisations are competing. What I am getting at is: is that 0.7 per cent a market rate or is it just a rate that has been developed?

**Mr C.C. PORTER**: As I understand it, WATC has modelled that on a market rate because it is comparable with what it would be charged for borrowing under its own steam in its own right.

**Mr B.S. WYATT**: How much existing debt will that new fee be applied to?

**Mr C.C. PORTER**: It does not include general government sector debt.

**Mr B.S. WYATT**: No.

**Mr C.C. PORTER**: It does not include the financial corporations; it does not include the Insurance Commission of Western Australia and GESB, but basically everything else.

**Mr B.S. WYATT**: I should have been clearer. In respect of GTEs, what is the value of the existing debt that this fee will be applied to? I am curious about the mix. Out of the extra revenue that will be brought into the budget as a result of the increase from 0.2 per cent to 0.7 per cent, how much will be from existing debt and how much will be from potential new debt in the future?

**Mr C.C. PORTER**: We think it will be around the $20 billion mark.

**Mr B.S. WYATT**: As a percentage, how much of the extra revenue that the state will receive as a result of this change will come from existing debt as opposed to coming from new debt, or is it all just from existing debt?

**Mr C.C. PORTER**: The revenue is estimated over four years. I cannot say specifically, but roughly one-quarter of that is from debt that is presently on the books and about three-quarters of it is from debt that we anticipate the GTEs will use WATC to raise over the out years.

**Ms R. SAFFIOTI**: This is a detailed question about the road trauma trust fund and the application of those funds. I refer to page 153 of the *Economic and Fiscal Outlook*. The reason I ask it in this division is that the application of those funds is spread across portfolios and it is quite difficult to ascertain exactly where it all is. Can the Treasurer determine the underspend in the RTTF in 2011–12 and also the application of speed and red-light revenue by agency for the budget year and forward estimates? If he does not have the information here, he could provide it by way of supplementary information.

**Mr C.C. PORTER**: I am happy to get that information, but the member has spoken about underspend. There are a number of ways that the underspend could be characterised. With the road trauma trust account, there is an estimate of the revenue from red-light and speed cameras that will go in across the out years. I think the estimates in the out years are about $91 million a year. We have said that 75 per cent and then 100 per cent of that will be allocated to road safety purposes.

**Ms R. SAFFIOTI**: Can the Treasurer say that again?

[3.50 pm]

**Mr C.C. PORTER**: Originally, it was 33 per cent going up to 100 per cent to be allocated to road safety purposes. The member has noted that a range of initiatives in this budget translate into line item savings. If it is sitting at about $91 million for the out years, it is not anticipated that all that money will be spent according to a line item in this budget. So we are not spending, evidently, all four years' anticipated revenue now before it has arrived. What we have is a line item of budget expenditure across a range of projects. I think that roughly correlates to the old expenses limit of one-third. If the member is characterising underspend as the difference between the four out years of anticipated revenue and what appears as a spend in this budget, I think that figure is pretty easily attainable. We are spending $89 million in 2012–13. The 2012–13 revenue is $84.9 million. The four years of anticipated revenue are $84.9 million, $92.6 million, $92.6 million and $92.6 million.

**Ms R. SAFFIOTI**: In revenue?

**Mr C.C. PORTER**: In anticipated revenue. Then the 2012–13 spend is $89 million. So we are spending all the anticipated revenue for 2012–13, plus we are eating into the 2013–14 revenue.

**Ms R. SAFFIOTI**: And that is the same for all the forward years.

**Mr C.C. PORTER**: Next year, no doubt another suite of measures will be added, which will all go out over the out years.

**Ms R. SAFFIOTI**: To clarify that, this budget paper does not have the forward estimate expenses.

**Mr C.C. PORTER**: It has the forward estimates of the new programs for 2012–13. Some of them are obviously over four years. So it is $89 million in 2012–13, $32.9 million in 2013–14, $31.5 million in 2014–15, and $29.5 million in 2015–16. The underspend, if that is the word the member wants to apply to it, is $89 million, plus $32 million, plus $31 million, plus $29 million, being subtracted from $84.9 million, plus $92 million, plus $92 million, plus $92 million.

**Ms R. SAFFIOTI**: In 2011–12, is there an underspend that has been carried over or sort of vanishes?

**Mr C.C. PORTER**: It was the one-third expenditure —

**Ms R. SAFFIOTI**: Was it only one-third for 2011–12?

**Mr C.C. PORTER**: Yes, there was an underspend, if you like. We were able to spend $56.2 million. We got around to spending only $31.8 million in 2011–12.

**Ms R. SAFFIOTI**: Is that expenditure carried over or is it gone?

**Mr C.C. PORTER**: It sits in the balance of the funds, so in a way it is carried over, yes.

**Ms R. SAFFIOTI**: So it sits in the account.

**Mr C.C. PORTER**: Yes.

**Dr M.D. NAHAN**: On page 86 of budget paper No 3 there is a royalty rate analysis, and page 89 refers to some iron ore royalty rate changes in fines and whatnot, and also the commonwealth's mining tax. Can the Treasurer describe what his aim is with the royalty rate analysis, and also how the minerals resource rent tax, or the commonwealth treatment of that MRRT, affects the Treasurer's royalty rate analysis and the fines changes that were announced previously?

**Mr C.C. PORTER**: Pages 86, 87 and 88 describe the royalty rate analysis. I will not repeat it here; it is a fairly fulsome description. The purpose of conducting an analysis of royalty rates is to try to find a long-run source of increased revenue. We have written into the final out year an amount of $180 million. We do not expect to receive on a yearly basis any more than that from the process of this analysis. I cannot profess to be a perfect expert on the royalty regime, but I have learnt a great deal about it in the past 12 months. Conceptually, the problem that we are dealing with is this: since 1981 it has been a standing policy of the state that two amounts will look the same as each other. Amount A is the actual quantum of royalty revenue put into the budget—brought into the state coffers—from any class of mineral. Amount B is an amount equal to one-tenth of the mine head value of the mineral. Some preliminary analysis was done for the first time ever, as we understand, by the Department of Mines and Petroleum in 2010. It tried to look at a variety of the key mineral classes and work out how closely the actual revenue correlated to that one-tenth of mine head value. Of course, the one-tenth of mine head value is a target that moves with price and cost structures, because it is one-tenth of the price of the mineral at the mine head and subtracted from that are all the cost increments that are applied to the point of actual sale, rather than the nominal pricing.

DMP went through this process. To cut a long story short, in the prevailing conditions in 2010 it found that for some minerals there was quite a close correlation between the amount of revenue being received and one-tenth of mine head value. For iron ore, for instance, the correlation was quite close; for other mineral classes, the correlation was more distant. Of course, the big problem that arises is that if costs remain relatively ceteris paribus—I am not saying that they do, but to the extent that costs are not as volatile as price—when the price increases, the distance between the actual royalty revenue and one-tenth of mine head value opens up. Therefore, during times of high price, we are further away from our standard policy of achieving one-tenth than at any other given time, which is somewhat ironic. However, to try to work out whether there is any capacity to adjust royalty rates upward to make the actual royalty level look more like one-tenth of mine head value, we have to undertake a quite detailed analysis of the costing structures in place, or what we expect to be in place at some time in the future—in this case, 2015–16.

I think the member for Victoria Park raised the question, which I recall seeing in the media: why is it going to take so long? I would say that it will take the first two-thirds of that three-year period to do the data analysis to put us in a position in 2015–16 in which we know roughly what the cost and price structures are going to be so we can calculate one-tenth of mine head value. For some minerals, there might need to be a large increase in royalty rates to achieve one-tenth of mine head value. That will not happen, because, obviously, for many minerals, getting to that one-tenth value would require a royalty rate increase of such a level that it would cause damage to business, and this is not what that process is about. It is about seeing whether there are any mineral categories in which we can accurately define cost and price structures at or about 2015–16, and then have slight tweaks of royalty rates to bring the royalty revenue rates closer to the one-tenth of mine head value. As part of the process, we will be looking at whether one-tenth of mine head value is an appropriate across-the-board target. It seems, based on the preliminary analysis that DMP has done, that it is a realistic target for something such as iron ore, but even on long-run price and cost structures for something such as alumina, it is probably a less realistic target. It is a very long process. It is one designed to increase revenue, but it is not going to be a silver bullet to revenue problems.

**Dr M.D. NAHAN**: There would be dialogue with industry as to what the date is and how —

**Mr C.C. PORTER**: We need data from industry to work out what the mine head value is, because only industry knows what its cost structures are. So the first part of this process—it is a matter that I have discussed now with the Chamber of Minerals and Energy of Western Australia and with the Association of Mining and Exploration Companies—is that at a very early stage, representatives from DMP, the Premier and I will have to sit around the table with industry and work out a way in which we can cooperate to have the information flowing, because it is not in industry's best interests for us to be guessing what the cost structures are and thereby what one-tenth of mine head value is. So it will be a laborious process, unfortunately.

**Dr M.D. NAHAN**: How does this relate to the commonwealth's MRRT and its statement that it will not tolerate any royalty increases past a certain date?

**Mr C.C. PORTER**: The commonwealth has made that rather odd statement about all mineral classes. Of course, it is only a couple of mineral classes that have had a negative effect on its budget in terms of promised rebates for the MRRT. From our perspective, we have just ignored that comment, because it is like saying that we are going to ban state governments from having state elections and it is a constitutional right that we have. We will have a look at it. We are looking at this issue because during a time of relatively high prices—not for all mineral categories—there is some obligation on the part of the state, if we have a standing policy of one-tenth of mine head value, to see whether we can get even a little closer to it. It does not mean that we will change all royalty rates to effect a one-tenth return, because that would be impossible in a commercial sense.

[4.00 pm]

**The CHAIRMAN**: Members, I have had a request to take a 10-minute break. I have a question from the member for Victoria Park awaiting. Would the minister like to take that question before a break?

**Mr C.C. PORTER**: Of course.

**Mr B.S. WYATT**: I refer the Treasurer to the heading "Major Spending Changes" at the top of page 300. There is a small allocation for state superannuation reforms. I am curious about that. More generally, I have a question about the proposed commonwealth changes to the superannuation contribution rising to 12 per cent over the next three years—it may be a bit longer. Obviously, that will have a flow-on impact to state public servants. Has provision been made in the budget and forward estimates for an increase in superannuation?

**Mr C.C. PORTER**: I am informed that we have. Of course, nine up to 12 per cent was largely meant to defray the impost on the private sector by the one per cent company tax cuts that did not manifest. Across the private sector, there is a $72 million cost to government.

**Mr B.S. WYATT**: Is that already across the forward estimates?

**Mr C.C. PORTER**: Yes.

*Meeting suspended from 4.01 to 4.15 pm*

**The CHAIRMAN**: Member for West Swan.

**Ms R. SAFFIOTI**: I refer to appendix 1 of the *Economic and Fiscal Outlook,* and make a general reference to the general government operating statement on page 239. I refer to new fees and charges and to the new water licensing fee, which I understand has been built into the forward estimates. Will the Treasurer confirm that the new water licence fee that is to be administered by the Department of Water has been signed off by cabinet; and, if not, why is it in the *Budget Statements*?

**Mr C.C. PORTER**: It reflects a standing policy, but no final decision has been made on it by cabinet. It is in the budget papers because it reflects a policy. Does that mean that cabinet considers it a certainty? A cabinet decision has not been made.

**Ms R. SAFFIOTI**: I understood that the convention with expenditure was that only when cabinet had made a decision do the budget estimates reflect those decisions. I was surprised to see that in the budget papers when there has been no cabinet decision.

**Mr C.C. PORTER**: I think the member is referring to the provisions of the Financial Management Act that the Under Treasurer has to certify that the budget papers reflect all cabinet decisions of which he is aware or made aware at the time of the budget cut-off. Of course, that is the case. But there is a range of other revenue and expense decisions which are not the subject of specific cabinet decisions but which emanate from general policy positions. The Treasurer and Treasury are aware of them. I refer the member to paragraph (d) on page 855 of budget paper No 2, which reads —

> Depending on the Government's decision, the Department may implement cost recovery for water resource management and planning charges in 2013–14 and beyond.

It is caveated as being subject to a cabinet decision. I certainly do not think Treasury is operating outside the scope of the FMA by including it, because there is a standing policy. That policy may be changed by government through a cabinet decision.

**Mr B.S. WYATT**: Has it happened before that a specific footnote states that cabinet has not made a decision on this issue, yet it has been included in the government's expected revenue? Can the Treasurer provide examples?

**Mr C.C. PORTER**: I am sure that there have been instances and that there are instances in this budget of revenue that it is assumed may not occur or other expenses that are exhumed that may not occur because of a subsequent cabinet decision. The Under Treasurer's memory is longer than mine. I have put him on the spot.

**Mr T.M. Marney**: My understanding is that this item is a matter that the department has included in its income statement as a policy position that it intends to pursue and, therefore, it impacts its income statement. It would definitely not be the first time that there has been either an expense or an income reflected in the income statement of a department or agency that is subject to further decision making by government. In this case, a directional decision or aspirational decision has been made, but further clarity is required; hence the footnote to the income statement in budget paper No 2 stating that this may or may not happen, but the agency has put it into the financial statement

**Mr C.C. PORTER**: From time to time some agencies and departments get ever so slightly ahead of themselves. Treasury relies on original documents that come from agencies and departments, but everything is subject to reversal, a non-decision or a decision by cabinet.

**Mr E.S. RIPPER**: In a tight budget the Treasurer is relying in part on booking revenue from a decision which the government has not taken, which will inevitably be controversial, and which his party in opposition opposed.

[4.20 pm]

**Mr C.C. PORTER**: It is a fair comment; the tight budget year here is 2012–13. This revenue will not flow if the decision is not made until 2013–14, so it does not help us out at all in our tight year. That revenue may disappear from the budget, but that is not going to affect the tight year.

**Ms R. SAFFIOTI**: In relation to decisions, though, this budget went to cabinet. Implicitly, this has somehow been approved because the budget numbers went to cabinet. Although the government may not have a specific policy decision in relation to this particular item, it has agreed on the aggregates; therefore, it has implicitly agreed to this.

**Mr E.S. RIPPER**: The National Party must have signed off on it.

**Mr C.C. PORTER**: On the face of it, that is true, but there is a lot of stuff in the budget papers. This was never specifically discussed in cabinet as a specific issue; it will be. There are any number of things in this budget that will be subject to further decisions by cabinet.

**Ms R. SAFFIOTI**: The budget reflects government decisions. It must have been referred to the government's Economic and Expenditure Reform Committee; the department would have brought its changes to the budget numbers to the EERC. Although the government may reverse the decision, the fact that it is in the numbers means that there has to be some government ownership of that decision.

**Mr E.S. RIPPER**: One would think that the Treasury analyst would have picked it up and advised the EERC.

**Mr C.C. PORTER**: I think it was first included in the budget papers in 2010–11 but was pushed out pursuant to an EERC decision.

**Mr T.M. Marney**: My understanding is that this was a decision taken as part of the 2010–11 budget process. Revenue was disclosed in the budget papers, so it was in perfect accordance with the Financial Management Act that this was a decision of government communicated to me and therefore included in the budget papers.

**Mr E.S. RIPPER**: It was when the Premier was Treasurer, was it not?

**Mr C.C. PORTER**: It was before I was Treasurer; I can confirm that!

**Ms R. SAFFIOTI**: It is hard to keep up!

**Mr T.M. Marney**: It was when I was Under Treasurer! It is in the budget papers; the timing implementation is what has been varied as part of this budget process. Hence, given that there is some question mark over timing, there is the footnote in budget paper No 2 that gives sort of a "maybe" statement around the timing. So it was a previous decision, implementation timing has varied, and we have noted that appropriately, I think, in the footnote.

**Ms R. SAFFIOTI**: So now it starts three months after the election.

**Mr C.C. PORTER**: But it is clearly based on the matter having been raised properly by the opposition. It is going to be considered and if it does not go ahead, it will impact the 2013–14 budget. It is as simple as that, but it is subject to cabinet decision.

**Mr B.S. WYATT**: Is the Treasurer expecting the cabinet, at the very least, to make a final decision on this before the *Government Mid-year Financial Projections Statement*?

**Mr C.C. PORTER**: I have not spoken to the Minister for Water about it, but I would assume it would be subject to a final cabinet decision; whether that is before or after the midyear review, I do not know. It depends when the minister brings it up, but it would be desirable to determine it before the midyear review.

**Mr B.S. WYATT**: Particularly since the revenue has been booked.

**Mr C.C. PORTER**: I agree, but it has been booked in a year that is less tight, in terms of surplus, than 2012–13. There is a $5.8 million amount of revenue in 2013–14.

**Ms R. SAFFIOTI**: Yes, but it is a massive issue out in the community.

**Mr B.S. WYATT**: It is a controversial point. I refer to the third paragraph under the first dot point on page 302. The government is increasing port authority charges to ensure a more appropriate return on the state's substantial investment in the ports. What is the desired targeted rate of return on the ports that the state wants to achieve?

**Mr C.C. PORTER**: It depends on the port, but this had its genesis in discussions between me, the Minister for Transport and Treasury. The overwhelming view that came in from the Minister for Transport is that we are getting returns below what we might reasonably expect from the ports. To give the member an example, my understanding is that the return from Port Hedland is basically negligible, and that is one of the busiest bulk commodity ports in the world. It is returning a negligible amount to the state budget. We would expect significantly better returns from the ports, and that is something we worked through —

**Mr B.S. WYATT**: I do not mean to interrupt, but can I just ask: does the Treasurer mean a return on the assets or a profit–loss position? What is the return that is sought?

**Mr C.C. PORTER**: Just a return on the assets of the port.

**Mr B.S. WYATT**: What is that return on the assets now and what is the government hoping to get to?

**Mr C.C. PORTER**: The current target is five to eight per cent, but I will let the Under Treasurer answer the question.

**Mr T.M. Marney**: The current rate of return on assets is targeted at somewhere between five and eight per cent, depending on which port. Some of them are obviously far more commercial than others. The review process that the minister is undertaking is looking at, firstly, how close we are to that five to eight per cent rate of return on assets; and, secondly, whether that five to eight per cent is an appropriate return on assets. One would reasonably expect that the return on assets for Port Hedland, Fremantle and Bunbury ports would be different from the return on assets that one would reasonably expect from Broome or Albany, for example.

**Mr B.S. WYATT**: This may be information that the Treasurer does or does not have, but is there a list or document with the current return on assets for each port?

**Mr C.C. PORTER**: Their statements of corporate intent and strategic development plans would have that information, but I do not know whether there is one single document that —

**Mr B.S. WYATT**: Unless something has changed, I do not think any SCIs from some of the ports have been tabled for quite some time, so that is why I am curious to know whether there is a new Treasury document that could perhaps be provided that has the current return on assets for each port.

**Mr C.C. PORTER**: I am sure that such a document will come to exist as part of this process, but I am not sure whether one exists at present.

**Mr B.S. WYATT**: Could the opposition be provided, by way of supplementary information, with the current return on assets for each port? I assume that the state is trying to get from five to eight per cent for all of them, but I would be interested to know what they are now.

**Mr C.C. PORTER**: We would have to go to the Minister for Transport for that information, but we are happy to undertake that process and take that question as a request for supplementary information.

**The CHAIRMAN**: Could the Treasurer advise us what the supplementary information is?

**Mr C.C. PORTER**: The present target rates of return for public ports in Western Australia.

**Mr B.S. WYATT**: The return on the assets; that is what we have been talking about.

**Mr C.C. PORTER**: And the actuals, if we have them.

[*Supplementary Information No B24.*]

**Mr E.S. RIPPER**: It is my understanding of the principle of goods and services tax distribution that, so far as revenue is concerned, it is based on capacity to raise revenue rather than policy decisions to raise revenue. Nevertheless, such is our dominance of the royalties system that a policy decision by us to raise royalty rates has somewhat the same effect as a capacity increase in our royalty raising. Has Treasury done any, if you like, cash flow analysis to look at the revenue impact of the two policy decisions to raise iron ore royalties and the consequent reductions in GST in later years? If not now, could the Treasurer provide the committee at a later stage with a year-by-year analysis of the net revenue impact of those two policy decisions, and their impact on the GST?

[4.30 pm]

**Mr C.C. PORTER**: Two pieces of work have been done in respect of that question. There was an earlier piece of work done in which Treasury was able to calculate a net loss from a previous decision to increase royalties, but that was distinct from the fines decision. I will find the information for the member, but distinct from the fines issue, there was a calculation that worked out a net loss by virtue of a royalty increase decision. One calculation was done outside fines; but with fines, whether there is a net loss or gain, and how small the gain is as a percentage of the total revenue received, depends on whether the federal Treasurer gives or fails to give a direction to the Commonwealth Grants Commission to consider the increased revenue in either the higher or lower mineral class. When similar decisions were previously made with respect to fines, the direction was given to the Commonwealth Grants Commission to consider the increased revenue in the lower mineral class. What it meant, as a rough rule of thumb, is that we lost 70 per cent of the revenue. If that status quo remains, each year about $900 million of revenue comes in from the fines decision. On page 89 of budget paper No 3 the member will see that we are presuming, not unreasonably, that the same treatment will apply as has been previously applied. That will mean the full clawback starts to happen in about 2015–16, and we lose $298 million of the $975 million of revenue coming in. Across all royalty revenue, we lose roughly 70 per cent in the GST clawback. It will depend on the direction or absence of direction given by the federal Treasurer.

The other part of the member's question related to the fact that the Commonwealth Grants Commission looks at a capacity to raise revenue, rather than policy decisions. It is for precisely that reason that the poker machine revenue is excluded, because the federal government considers that a pure policy decision, so it is simply taken out of the calculation entirely. The member is quite right that a capacity to increase revenue from royalties might be about building a mine or increasing production. Equally, a pure policy decision on royalty rates looks very much like a capacity decision, but it is obviously one of the overarching problems with the formula that the federal government is applying at the moment.

**Mr E.S. RIPPER**: My concern is that the government is enjoying revenue in the first couple of years from the increase in fines royalties.

**Mr C.C. PORTER**: It is the lag effect.

**Mr E.S. RIPPER**: It is the lag effect, and the punishment comes later. In a sense, the government and the community might be in a fool's paradise about how much revenue we actually have, or we are eating the future and crossing our fingers and trusting that there will be some sort of reform of the GST, which historically has proven to be most unlikely.

**Mr C.C. PORTER**: I think we are trusting that there will be some sort of reform. I agree with the member absolutely. In fact, the term that the federal Treasurer used in robust debate at our last meeting was that every time we increase royalty rates here, it is "an own goal" because of the fact that, allowing for the delay, the better part of the revenue is distributed to the tune of roughly 70 per cent. If there is a failure to direct in terms of mineral classes, it is more than 70 per cent—more than 100 per cent. By that kind of logic, there is no incentive ever for Western Australia to do anything on royalty rates, which decisions can bring in royalty. Whether it is shared with the other states to the tune of 70 per cent, 50 per cent or 30 per cent, it is to the net benefit of the nation. This is the argument that we constantly run. We point out the risks in our out years by virtue of the full impact of the clawback, even at a 70 per cent rate, to say that they are creating a disincentive for Western Australia by virtue of policy decisions to earn more money from the fixed mineral resources being sold.

The piece of work that I was referring to previously, leaving aside the fines issue, showed that if we decreased iron ore royalties from 7.5 per cent down to around five per cent, we would have a net benefit through the GST and commonwealth grants system. What would be lost is revenue that is shared out to the other states. I am not suggesting that we would do that, but it is creating a real disincentive. I had a conversation with Andrew Fraser before he was an unfortunate victim of the last Queensland elections. He noted the issue as it played out with the increase in coal revenue royalty and rates, which he had administered as the Queensland Treasurer. It was a very difficult process, he informed me. He made the statement that it was such a painful process in the context of Queensland politics that had they realised how much of that money they were actually going to lose, perhaps they would not have done it. With recent historical experience, every state government that has the potential to increase royalties is going to be thinking about how they will actually benefit from that process.

**Mr E.S. RIPPER**: This is the power vacuum into which the federal Treasury then moves.

**Mr C.C. PORTER**: Absolutely. I think one of the arguments that at least is getting a bit of currency with my state Treasury colleagues is that at the moment they are sharing 70 per cent of $100 million worth of royalty revenue. In the long run they would be better off receiving 35 per cent of $300 million or $400 million of royalty revenue. But they are never going to reach that tipping point of a net benefit in terms of a lower proportion share if the system remains as it is, because the incentive to build or make policy changes around royalties is so low.

**Mr B.S. WYATT**: I have one more question that I think the Treasurer will be able to answer very quickly. It is about the status of the current unfunded superannuation liabilities. During the GFC, it got out to about $8 billion, from memory. Can the Treasurer give us an update on what that figure is at the moment?

**Mr C.C. PORTER**: Page 252 of *Economic and Fiscal Outlook* shows the 2013 budget estimate for unfunded superannuation is $8.512 billion, decreasing over the out years to $7.834 billion in 2016.

**The appropriation was recommended.**