Division 33: Treasury, $5 326 552 000—

Mr T.J. Healy, Chair.

Mr B.S. Wyatt, Treasurer.

Mr M.A. Barnes, Under Treasurer.

Mr M.J. Court, Deputy Under Treasurer.

Mr R. Watson, Executive Director, Economic.

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

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

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

[Witnesses introduced.]

The CHAIR: This estimates committee will be reported by Hansard. The daily proof *Hansard* will be available the following day.

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. Members should give these details in preface to their question. If a division or service is the responsibility of more than one minister, a minister shall only be examined in relation to their portfolio responsibilities.

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 principal clerk by Friday, 29 September 2017. 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 through the online questions system.

I give the call to the member for Warren–Blackwood.

Mr D.T. REDMAN: I refer to page 500 of budget paper No 2, volume 2, under "Spending Changes", the middle line item being "Freeze Salaries and Allowances Tribunal Determined Salaries." There are some changes there. Does this change, which is also across government, affect the regional district allowance that is paid out of royalties for regions; and, if so, if there are changes to the district allowance through royalties for regions, can the Treasurer outline what changes government has made?

Mr B.S. WYATT: That reference on page 500, "Freeze Salaries and Allowances Tribunal Determined Salaries", does not affect district allowances.

Mr D.T. REDMAN: Is there a district allowance that is going to be paid under this budget to regional employees in government agencies?

Mr B.S. WYATT: Yes, the standard district allowances that are already in place.

Mr D.T. REDMAN: There has been a royalties for regions funded district allowance program, which is based on a regional price index, of nearly $30 million a year. That is paid to regional government employees, particularly in the Pilbara and Kimberley regions where there is a high cost of living. I have not seen reference to that in either the royalties for regions budget or the consolidated fund.

Mr B.S. WYATT: We have not touched the regional district allowances, but we are going through the process at the moment in working out or developing the regional inflation rate.

Mr D.T. REDMAN: That was previously funded from royalties for regions. I have not been able to find in the budget papers where it is funded from; it is nearly $30 million a year. Presumably, if it is not funded by royalties for regions, it will be funded out of the consolidated account.

Mr B.S. WYATT: It is titled the regional incentive allowance and it is funding in royalties for regions.

Mr D.T. REDMAN: The Treasurer is talking about $10 million, I think, as distinct from what was previously just short of $30 million a year.

Mr B.S. WYATT: I will just dig that out, or Ms Gulich will dig that out for me, but there has not been any touching of those —

The CHAIR: Members, sorry; I will have to slow it down for a moment. At the moment the member for Warren–Blackwood has had four follow-up questions, which is fantastic in the intent. May we slow down and also allow the advisers to give the correct answers as well? I will say "further questions" and then "the minister". Do you want to finish that extra question?

Mr B.S. WYATT: Just while my adviser is getting the specific line item for the member —

The CHAIR: I thought, just so that we can get the information —

Mr D.T. REDMAN: Can I clarify the question?

Mr B.S. WYATT: Yes, clarify the question.

Mr D.T. REDMAN: There are two components supporting a district allowance or regional incentive scheme for government employees in the regions. One was in the south west part of the state for police—I think it was $2.5 million a year from royalties for regions. The other was a broader program. The funding was based on a regional price index, with a cost of living for a basket of goods. That was just short of $30 million a year. I have not been able to find the latter in the royalties for regions program, which suggests to me that the regional district allowance is not there or is unfunded.

Mr B.S. WYATT: If the member will give us a minute, maybe I will take another question and I will come back because I just want to give the member a specific answer to that.

Mr D.T. REDMAN: That sounds good.

The CHAIR: Are you happy for that, Treasurer?

Mr B.S. WYATT: I am, if the member is.

Mr D.T. REDMAN: Yes, I am.

Dr M.D. NAHAN: I want to ask a series of questions about table 21 on page 212 of budget paper No 3, under the heading "Provisions". Perhaps the Treasurer can explain what is going on with underspending provisions in 2016–17, underspending provisions in 2017–18 and slippage provisions. Take me through what that means and, in particular, what "slippage" means and how it relates to what was in the *Pre-election Financial Projections Statement*.

Mr B.S. WYATT: I will make some comments around that. As the member is aware, each year there is effectively an underspend provision for capital works whereby, for a range of reasons, money will not be spent in that particular year. Capital works, as the member is no doubt aware, is particularly susceptible to that. On page 212, the 2016–17 budget had $1 billion in slippage or underspend, whatever you want to call it. We backed out of that $500 million—the member will see there the slippage provision change for 2016–17—to then re-cashflow, I guess is the best term, that out across 2017–18 and 2018–19. Mr Barnes can add further to that.

Mr M.A. Barnes: As the Treasurer indicated, in every budget, for as long as I can remember, we have had a global capital underspend provision because agencies' own estimates of their capital spending tend to be optimistic. Typically, that underspend provision that Treasury incorporates in the budget aggregates is in the order of $750 million to $1 billion each year. We had a $1 billion underspend provision in the 2016–17 budget. Then, as the financial year draws towards an end, we gradually unwind that underspend provision as we get agency data in. As we got towards the end of 2016–17, as we were getting the data to finalise 2016–17, we could see that the actual underspend was going to be around $500 million. The $500 million actual underspend is the net of that backing out of the $1 billion, and then the $500 million slippage provision. That was designed to get as accurate an outcome for 2016–17 as we thought at the time the budget was being prepared based on agency data. Similarly, as I said, in this budget, the 2017–18 budget, we have a $750 million global capital underspend provision, as we have every budget, and then the rest of that slippage provision. We knew that there would be a residual $500 million underspend in 2016–17 based on agency level data.

We effectively have a $950 million underspend provision in 2017–18, which is the sum of $750 million and $200 million. We have assumed a further $200 million underspend in 2018–19. Again, we just think that the agencies are being optimistic in their timing of capital spend. The member can see that in the last two years of the forward estimates, we have caught up that full $900 million worth of capital underspend. Over the full forward estimates period, it is a net debt–neutral cashflow adjustment.

[2.10 pm]

Dr M.D. NAHAN: Just looking at some of these numbers, one is a positive and one is a negative. I just want to understand what they mean. In 2016–17, was the $1 billion provision additional money below the line for capital expenditure or was it a provision for underspend?

Mr M.A. Barnes: Originally in the 2016–17 budget we had a $1 billion underspend provision. This $1 billion here is backing that underspend provision out altogether, and then we put back in a $500 million underspend provision, which is the minus $500 million a couple of rows below that. Putting back in that $500 million underspend provision was based on the actual agency data we were getting in for the 2016–17 results.

Mr B.S. WYATT: The member will see very shortly that the annual report will almost confirm that figure.

Dr M.D. NAHAN: There are a couple of other things. The slippage is new. I know there were underspending provisions. In 2017–18 there is an underspending provision of $750 million, but that is shifted in the out years from an underspend to a slippage. Is the Treasurer ruling out underspends in those out years? Is that a systemic underspend as opposed to an allocation, I assume, of mainly commonwealth funding coming in?

Mr B.S. WYATT: I think the member will find that come 2019–20 and 2020–21 there will probably be provisions made for underspending in those years as well. It may be smaller than the $1 billion or the $950 million, but that is effectively an assumption around the out years. I imagine that come budget time, there will be assumptions around underspending. It is common, but the size may shrink depending on the size of the capital works program.

Dr M.D. NAHAN: I understand that for 2016–17 and over the forward estimates from 2017–18 Treasury is assuming that agencies will underspend in 2017–18 and 2018–19, but Treasury's view is that they will overspend in those other years, or there is likely to be a shift in spending from early years to later years.

Mr M.A. Barnes: That latter interpretation is the correct one—agencies will seek to carry over the underspend.

Mr B.S. WYATT: It will not just come back into the consolidated account; it will be spent at a later date.

Mr M.A. Barnes: We are making provision for that likely carryover.

Mr D.C. NALDER: Further to that question, there must be some key investment projects that the government is looking to do in the latter years or has removed in the early years. Can the Treasurer share what projects are impacted to drive this funding change through this slippage provision?

Mr B.S. WYATT: Like many things in the budget, it is effectively a global provision or a global assumption; it is not project specific. The important bit is that we have provisioned the spend, just later. Although we are expecting a slippage or underspend or whatever we want to call it, we are assuming that it will be spent in due course in 2019–20 and 2020–21. It is not project specific.

Mr D.C. NALDER: Is this state funds, or does it include commonwealth grants that are actually redirected to later years?

Mr B.S. WYATT: This is simply the spend, regardless of the funding source.

Mr D.T. REDMAN: Does that include the royalties for regions program as an underspend?

Mr B.S. WYATT: No. Royalties for regions has a specific underspend assumption that has been there for a while.

Mr D.T. REDMAN: I refer the Treasurer to page 4 of the *Economic and Fiscal Outlook*, which has a pie graph of the budget repair measures. I draw the Treasurer's attention to the corporate sector component of the budget repair to net debt of $922 million. Can the Treasurer provide me with a breakdown of that $922 million as a contribution from payroll tax budget repair measures, the gold royalty budget repair measures and other budget repair measures? It might have to be provided on notice.

Mr B.S. WYATT: Obviously, as the member points out, the payroll and gold royalty increases are the biggest parts of that contribution from the corporate sector. The member will also see on page 7 the reference to the increase in the Pilbara Ports Authority port dues. That falls to the corporate sector. I think that comes to $922 million.

Mr D.T. REDMAN: Those two numbers?

Mr B.S. WYATT: Those three numbers. There is $435 million for payroll tax, $392 million for the gold royalty and $95 million for the Pilbara Ports Authority increase in port fees.

Mr D.T. REDMAN: I thank the Treasurer. In addition, can the Treasurer break down that $922 million for me in terms of what BHP and Rio Tinto will contribute as two players in the iron ore sector, and what the gold industry will contribute, bearing in mind that the gold industry will also pay a payroll tax component?

Mr B.S. WYATT: From memory, in respect of the payroll increase, around two per cent was coming from the gold sector of that total of $435 million. With respect to the Pilbara Ports Authority port dues, I think we know who the majority of that will come from. In respect of payroll, about 20 per cent will come from the iron ore sector.

Mr D.T. REDMAN: From the iron ore sector as a group, including FMG and all the iron ore sector?

Mr B.S. WYATT: Only a small number would be captured by the payroll increase. Interestingly enough, it is one of those things by assumption that I am not allowed to be told who will be paying it, but one can look at the size of the companies and the payroll scale to see to whom that would apply.

Mr D.T. REDMAN: On that same graph I note that the public sector is making a contribution of $1.743 billion. The royalties for regions section on page 216 of budget paper No 3 refers to the changes or the substitutions of $861 million across the forward estimates, and that this will improve the net debt. Page 216 refers to the royalties for regions changes improving net debt. Is that a component of the public sector benefits?

Mr B.S. WYATT: No.

Mr D.T. REDMAN: So why has it not been included on the graph if it is in fact a change in government?

Mr B.S. WYATT: It is a good question. The decisions around royalties for regions were not driven so much by budget repair but more by the issues I have ventilated in this place for quite some time around putting more into the consolidated account spend and underwriting some of the regional programs that were previously funded by the consolidated account. It is a good question. I mean, we could if we wanted to, but it was simply not part of our consideration for budget repair as such.

Mr D.T. REDMAN: Does the Treasurer therefore concede that changes to the royalties for regions program are in fact contributing to budget repair measures?

Mr B.S. WYATT: It will certainly improve net debt by $861 million.

Dr M.D. NAHAN: I refer to page 4 of budget paper No 3 and the $1 000 wages policy. Maybe the Treasurer could provide this later. Could the Treasurer indicate the savings or costs from the application of this change in wages policy from 1.5 per cent, which is in the forward estimates, to $1 000 per year with the following expiring enterprise bargaining agreements—that is, those for public servants, police, hospital support workers, TAFE workers, teachers, Main Roads workers, prison officers and salaried health officers? Of the EBAs that are coming due over the next period, what are the savings from each of those EBAs from the shift from the 1.5 per cent, which is in the forward estimates, to the $1 000 a year new wages policy?

[2.20 pm]

Mr B.S. WYATT: We can provide a breakdown of, effectively, assumed savings, which I think is what the member is looking for, by EBA, not so much by agency. We can provide that by way of supplementary information. We will provide the member with a breakdown of the $498 million in projected savings from the $1 000 wages policy by EBA.

[*Supplementary Information No A4.*]

Dr M.D. NAHAN: On that policy, what will happen if the government is not successful in negotiating a $1 000 settlement, particularly for one of the major EBAs, as opposed to a 1.5 per cent increase? If the government's policy is not implemented and it does not get what it is aiming for, what will be its policy response?

Mr B.S. WYATT: I do not expect that to happen. Clearly, there will be pressure on that to happen, as the member knows, but we do not expect that to happen. Of course, if a particular EBA goes to arbitration, for example, and a different outcome is achieved, cabinet will have to deal with that, but my view is that that will have to be dealt with by the agencies within their spending limits. That is what the wages policy states.

Dr M.D. NAHAN: My understanding is that the initial statement was that if the government was unsuccessful, it would legislate the $1 000 policy. What I understand the Treasurer is saying now is that the government will not legislate; it will just allocate to the departments moneys equivalent to that $1 000.

Mr B.S. WYATT: I am not sure that we said that we would legislate. Obviously, we have committed to the policy. However, if there was an outcome at arbitration—the government does not intend to change its position—that was greater than the $1 000 wages policy, that would have to be absorbed by the agency.

By the way, member for Warren–Blackwood, I am still digging up that answer.

The CHAIR: Treasurer, would you like to allocate a supplementary information number to that earlier question?

Mr B.S. WYATT: No; we have time.

Mr D.C. NALDER: I refer to the household fees and charges outlined on page 8 of budget paper No 3. I see in the budget repair table that the estimated revenue from the government's increases in household fees and charges drops suddenly in 2021 to $7 million. I want to check that that is not an error and that it is correct, given that in the first three years there is $59 million, $63 million and $50 million, and then it drops to $7 million. I cannot understand why revenue from an increase in household charges would suddenly drop off, because I would have thought it would flow through.

Mr B.S. WYATT: The main reason is that in 2019–20, we assume we will reach cost reflectivity in the electricity market. It is also the base. In 2019–20, the *Pre-election Financial Projections Statement* had that increase at seven per cent, from memory. So the figure in 2020–21 is effectively assuming cost reflectivity and maintaining cost reflectivity; therefore, the savings are not as dramatic. Bearing in mind that 2020–21 is a new year and has not been reflected before, the savings in 2017–18, 2018–19 and 2019–20 are based on the power price assumptions in the PFPS. The application of our 10.9 per cent increase in the fixed price effectively drives those, and then there is cost reflectivity. I know what the member means. It is a good question. It drops dramatically.

Mr D.C. NALDER: That creates greater confusion, because at the bottom of page 6 of budget paper No 3, it intimates that the increase of $438 in household charges that we have experienced this year will generate $200 million over the forward estimates. The table on page 8 suggests that that revenue is from all those things that are attributable to the increase in charges this year and does not reflect the charges in the forward estimates continuing.

Mr B.S. WYATT: That is right. That may change again in next year's budget if we increase it beyond seven per cent. We could increase it beyond seven per cent, which is the assumption at the moment, and those figures for 2018–19 and 2019–20 would change fairly dramatically again.

Mr D.C. NALDER: I am not sure that the Treasurer is following that.

Mr B.S. WYATT: Clearly, I am not.

Mr D.C. NALDER: According to page 6, the 10.9 per cent increase in household charges for power, water and so forth that was put into the budget this year will generate $200 million of revenue over the forward estimates. The $200 million in revenue in that table is wholly and solely attributable to the power price increases from this year. I would have thought that an increase in power charges would flow through in the revenue stream in each of the four years. So, why it suddenly drops off in the fourth year has nothing to do with cost reflectivity or future household charge increases, because it is attributable only to what has been done this year. It does not make sense that it drops to $7 million.

Mr B.S. WYATT: This change—hence the title of the graph—is based on the PFPS assumptions, which we have now shifted in this budget. Getting cost reflectivity is the key to why it drops to $7 million in 2021. The decision we made around household fees and charges, of course, flows through. Those impacts in the out years are based on the assumptions, and it drops to 3.5 per cent in power in the 2021 year, because power drives a lot of this. That is why there is a much smaller budget impact, if you like, in 2020–21. That will change again in next year's budget as we make further decisions around it, unless we adopt the current forward estimates assumptions.

Mr D.C. NALDER: I cannot accept that answer, and I cannot accept it because of what I read on page 6.

Mr B.S. WYATT: What is it on page 6 that confuses the member?

Mr D.C. NALDER: Page 6 refers to the representative household increase of $438.

Mr B.S. WYATT: On 2016–17 levels, yes.

Mr D.C. NALDER: The additional revenue from these changes in household fees is only from what has occurred this year; it has nothing to do with power charges, reaching cost reflectivity and what might be charged moving forward. These household charges that have been put in place this year will create an additional revenue stream for the next four, five, six, seven years—in perpetuity.

Mr B.S. WYATT: I want to make it clear that this is nothing different from what has been done by the previous Liberal–National government and the government before that. The assumptions around that $200 million net debt impact on page 8 reflect the decision that has been made around household fees and charges, and that flows through. But it also reflects the assumptions around water prices, electricity prices and public transport prices—all the parts of the representative household that are decided at each budget round.

Mr D.C. NALDER: However, the Treasurer acknowledges that all this revenue for the four years is purely a result of the charges that have been allocated in this year; it has nothing to do with future charges.

[2.30 pm]

Mr B.S. WYATT: And assumptions in those out years. For example, if we assumed that next year—in 2018–19—we go to cost reflectivity, that would have an impact on those out years.

Mr D.C. NALDER: The Treasurer is anticipating that power prices will rise by seven per cent next year.

Mr B.S. WYATT: Seven per cent is the assumption at the moment.

Mr D.C. NALDER: The budget papers state that this $230 million is from the $438 increase this year. That $200 million is now assuming there will be additional charges, which does not seem to correspond. I am confused.

Mr B.S. WYATT: There are two impacts on those figures that equate to $200 million in the table on page 8. There is that figure of $438, or 7.7 per cent, on page 6, but also assumptions in the PFPS around revenue in those out years of seven per cent, seven per cent and seven per cent. The budget actually made 10.9 per cent, kept the seven per cent and then it declines at 5.6 per cent and then in 2020–21, it is 3.5 per cent. That figure of $200 million is a factor of both of those.

Mr D.C. NALDER: If we look at seven per cent, seven per cent and seven per cent, each one has a compounding effect on the previous year. This is purely revenue, not a net position. It is not taking in the increased costs of Synergy, Western Power or whatever; it is just a revenue stream. Let us focus on power; it is simple. We have a 10.9 per cent increase this year. If we have seven per cent, seven per cent and seven per cent, it is a compound effect. The revenue stream is growing if future years have been taken into consideration.

Mr B.S. WYATT: The member is right, because the assumptions in the forward estimates —

The CHAIR: Minister, if you let the member finish his question, you can answer.

Mr D.C. NALDER: My assumption from here and what I read on page 6 is that this line item is purely revenue as a result of the one change, being the change for this financial year, and how that flows through. It does not take into effect that compounding of additional revenue streams. It does not make sense why it drops to seven per cent.

Mr B.S. WYATT: If we increase power bills by 3.5 per cent next year instead of the current assumption of seven per cent, that would have an impact on it.

Mr D.C. NALDER: I agree.

Mr B.S. WYATT: I want to make that point. The member is right; it does compound—of course it does—but it is also driven by those assumptions. As every budget has done now for however long, it assumes rising power prices. Admittedly, now we are seeing the rise decline but it is still rising at 10.9 per cent this year, seven per cent next year, then 5.6 per cent and 3.5 per cent. I am not trying to be evasive; I am just trying to answer the question.

Mr D.C. NALDER: I am trying to articulate this in a way that gets the point through but some of it is not logical. Forward estimates are only assumptions. The fact that the government changes that assumption in 12 months is irrelevant to the numbers that we see flow through today. If we focus on power prices, we have 10.9 per cent for this financial year and in the next three years, it will be seven per cent. All of a sudden this revenue line starts decreasing and does not reflect those additional revenue streams from those forward estimates—charges coming through. Page 6 of the *Economic and Fiscal Outlook* shows that this revenue stream for these four years is purely from the $438 impact on household charges for this year. Therefore, I cannot understand why that revenue stream would drop off; it does not make sense.

Mr B.S. WYATT: I am going to keep saying the same thing. I think I am agreeing with the member; I am not sure. For 2017–18, the PFPS had an assumption of a seven per cent increase around power. Let us stick with power. We have a 10.9 per cent assumption. This is based on the representative household. That 3.9 per cent difference flows through; the member is absolutely right. For 2018–19, it is still at seven per cent and then in 2019–20, we have a smaller assumption of 5.6 per cent instead of seven per cent. That would effectively offset the difference between 10.9 per cent and seven per cent. The member is right. All those budget repair assumptions are based on the forward estimates as they are at budget cut-off. Every single one of them is dependent on that—household expenditure, the wages policy. In 2020–21, the wages policy savings at $316 million is based on what the workforce is expected as at cut-off date. That could change.

Mr D.C. NALDER: I will finish it off. I suggest that Treasury has a closer look at this because it does not add up.

Mr B.S. WYATT: I know that is what the member thinks but there is nothing conspiratorial here. It is simply the impact of the increase, which is above the increase that the former government had in its PFPS. There is a not insignificant saving of $200 million. That is also driven by assumptions in the out years around what those power prices might otherwise be.

Mr D.C. NALDER: I was not suggesting that it was conspiratorial. All I am suggesting is that if the government puts up charges—there is nothing in the assumption that suggests those will be reduced moving forward—there is no argument for that revenue stream to drop. If additional charges occur in the future, which I do not believe are built into this, based on what I read on page 6, but if they do, it is a compounding effect and the revenue stream should still be climbing.

Mr B.S. WYATT: The member should remember that it is compared with the PFPS; it is the base we are comparing it with.

Mr D.C. NALDER: Now I get it.

Mr D.T. REDMAN: I refer to page 303 of the *Economic and Fiscal Outlook*. Under the heading "Regional Utilities Pricing Subsidies" is a forward estimates visual of the component of the royalties for regions program that is picking up the regional water subsidy. I note that it does not start picking up until 2019–20 and 2020–21. Therefore, the full impact of decisions around the substitution—that is, that water subsidy, which we see on that page, the TAFE subsidy of $44 million, the remote essential services of $56 million and the increase in the patient assisted travel scheme, three of which do not start until year three of the forward estimates—utilise the headline figure of $861 million as substitution. Does the Treasurer agree that the impact of decisions in this budget, once it normalises in 2019–20 and 2020–21, are in excess of 40 per cent substitution just on those four items alone?

Mr B.S. WYATT: Can the member clarify that?

Mr D.T. REDMAN: There are $860 million worth of substitutions. That is the headline figure. There are at least four components to that. The big one is the regional water subsidy. The next one is the TAFE subsidy. The next one is remote essential services in remote communities, and of course the increase in PATS. Three of those four—that is the first three, being the water subsidy, TAFE and remote essential services—do not start having an impact on the budget until the third year of the forward estimates.

Mr B.S. WYATT: Yes, the member is right. They start in 2019–20. Is that the question the member is asking?

Mr D.T. REDMAN: Yes. If we fast forward two budgets, and therefore we have the full impact —

Mr B.S. WYATT: So we have 2021–22 and 2022–23.

Mr D.T. REDMAN: Or 2019–20 and 2020–21. If we had the forward estimates from that period, when we have the full effect of those three programs that are now funded by royalties for regions that were previously funded by the consolidated account, the full effect of that is brought to book.

Mr B.S. WYATT: I think I understand what the member means. For example, will country water, sewerage and drainage coming from royalties for regions be at least $284 million in 2020–21? Yes, that is right.

Mr D.T. REDMAN: I cannot imagine that the government will take that out of royalties for regions. That will be the new norm, if we like. If we look at the new norm—the 2020–21 forward estimate gives an indication of what that looks like—we are looking at what is in reality a cost shift of over 40 per cent out of the royalties for regions program in those four items alone.

[2.40 PM]

Mr B.S. WYATT: I am not sure what the percentage is, but the member is right that it is unlikely to decline from $284 million in 2021–22 and similarly with TAFE and remote services.

Mr D.T. REDMAN: To me, those four items add up to about $420 million, so out of a roughly $1 billion program, the Treasury is looking at 41 to 42 per cent. I note in the total for 2021–22 that there is still $59.6 million funded out of the consolidated account. Is it the Treasurer's intention to have that funded by royalties for regions in the following year? The cost shift has started flowing and the full extent of that regional subsidy is not funded by royalties for regions; there is still $59.6 million there. Is it the Treasurer's intention to bring that amount to book?

Mr B.S. WYATT: That would be my intention, but there is still a budget decision to make about that.

Mr D.T. REDMAN: While we are talking about the shifts in the royalties for regions program, one of the other provisions that has been dropped in the forward estimates is overprogramming. There was previously overprogramming allowing for a level of slippage, presumably in the capital works program. I note that it is only in the forward estimates from 2017–18 —

Mr B.S. WYATT: What page, member?

Mr D.T. REDMAN: Page 227 of budget paper No 3 in the table on royalties for regions expenditure. There is an overprogramming provision towards the bottom of that table, which effectively stops at the end of 2018–19. I assume that there will still be some slippage as it has been defined in previous accounts. What percentage of the royalties for regions program, which is $41 billion a year, does the Treasurer expect it to slip by in the next financial years? The fact that there is not an overprogramming provision means that it will be effectively a budget saving. Can the Treasurer confirm whether that is the case?

Mr B.S. WYATT: The member is right. Previously, the overprogramming provisions were much larger. The reason we made that decision is that we have effectively removed from royalties for regions the large global provision of spend, whatever it was titled. Those funds have now been allocated to much more specific projects and programs, which reduces the need to have such a substantial overprogramming provision. That was what drove the change from the previously much higher overprogramming provision.

Mr D.T. REDMAN: My memory is that it was 12 or 15 per cent.

Mr B.S. WYATT: Something like that; it was quite big.

Mr D.T. REDMAN: What amount of slippage does the Treasurer expect to occur in the royalties for region program now?

Mr B.S. WYATT: The figure for 2017–18 is $117 million, and as budgets come down, they will be populated by carryovers going forward from, I guess, future decisions. We have removed most of those big global allocations of expense money, which were really subject to the likelihood of much more underspending, and that is why the figure has come down so much.

I will address the member's earlier question about the regional workers' incentive. An amount of $112 million was allocated for that in the *Pre-election Financial Projections Statement*. In this budget there is $86.6 million allocated from 2017–18 to 2020–21. The amount has been reduced through changes to the indexation rate. Input costs into the calculation and changes to the number of eligible employees have been updated as a result of actual receipts due to those payments. It is at the line item "Administered Items" on page 227. Hopefully that answers the member's question from earlier on.

Mr D.T. REDMAN: Is that funded by royalties for regions?

Mr B.S. WYATT: Yes.

Mr D.T. REDMAN: Is it under "Administered Items"?

Mr B.S. WYATT: Next to the "Administered Items" line item is footnote (c); it is included in that.

Mr D.T. REDMAN: In 2017–18 there is $3 million allocated under administered items. Is the Treasurer telling me that he is going to fund what is just short of a $30 million district allowance with $3 million?

Mr B.S. WYATT: I should have been referring the member to the line item above, "Administration", not "Administered Items". Sorry, that is my mistake.

Mr D.T. REDMAN: I assume that that administration item that the Treasurer just referred to will be funding the development commissions and the regional development component of the new agency.

Mr B.S. WYATT: Yes.

Mr D.T. REDMAN: The 2015–16 actual and 2016–17 estimated actual are pushing close to $80 million. Either there is going to be a substantial cut to the regional development component of the new agencies and/or development commissions or, once again, the district allowance component, which to my understanding is worth nearly $27 million a year, is not being funded.

Mr B.S. WYATT: The district allowance would have been reflected in those two figures in 2015–16 and 2016–17. Where is the cut, sorry?

Mr D.T. REDMAN: Previous to this budget there was a line item allocation in the royalties for regions program and it would have shown up in last year's *Economic and Fiscal Outlook*. It showed roughly $27 million a year towards district allowances for regional employees working in areas and it was funded on the basis of a basket of goods on a regional price index. The Treasurer just told me that that funding is now shown in the "Administration" line item on page 227 and if it is anything near $25 million, $26 million or $27 million a year, compared with the previous year, which presumably is only funding the development commissions and the regional development component of the new agency, someone is missing out somewhere to make those numbers add up.

Mr B.S. WYATT: We have flatlined incentives across the forward estimates at $21 million simply because of the reducing demand, as I referred to previously, with the actuals coming in. The agency costs are coming in lower now. We have effectively flatlined at $21 million from 2017–18 on.

Mr D.T. REDMAN: Further to that, if we are flatlining at $21 million for the district allowance, which is the 2017–18 figure, we are looking at $60 million total funding of the development commissions and what was the Department of Regional Development. That is nearly $20 million cut from the previous year. Is that the case?

Mr B.S. WYATT: Certainly, the Department of Regional Development component will not be as large as it was—absolutely; I have said that here.

Mr D.T. REDMAN: What about the regional development commissions?

Mr B.S. WYATT: I think the minister is still working with them on what role she sees them playing. They are still within the figure of $81 million and $82 million et cetera across the forward estimates.

Mr D.T. REDMAN: Regarding the $21 million that was put into the district allowance, which has flatlined across the forward estimates, is it the intention to use the regional pricing index as the tool to work out what that figure is, which is what has happened up until this point?

Mr B.S. WYATT: The policy of using that regional inflation rate has not changed.

[2.50 pm]

Dr M.D. NAHAN: I refer to page 8 and table 2 on the budget repair. I want some clarification on this. Under "Government Trading Enterprises efficiency measures" there is line item for the deferral of interim dividends. I take it that the Treasurer deferred these dividends from 2016–17 to 2017–18. What was the basis for that?

Mr B.S. WYATT: The interim dividend for 2017–18 was pushed off to be paid in the actual 2017–18 year as opposed to 2016–17.

Dr M.D. NAHAN: The Treasurer shifted the $298 million that was booked in the *Pre-election Financial Projections Statement* to be paid in 2016–17 to 2017–18.

Mr B.S. WYATT: That is the effect of it; that is right.

Dr M.D. NAHAN: That is about a $600 million turnaround in those two years. What was the basis for it?

Mr B.S. WYATT: To push it into the year in which the dividend is due. We may do that again and make it more permanent. Interim dividends, the member may recall, were a recent construct of the former government to bring forward some cash, I assume. That was to simply push it into the year it was due. Whether we make that permanent is a decision that we are looking at. It is effectively removing the bringing forward of dividends.

Dr M.D. NAHAN: It was due in the *Pre-election Financial Projections Statement* in 2016–17. The Treasurer has brought it over to 2017–18. I put it to the Treasurer that he did that to improve the relative outcome of the budget.

Mr B.S. WYATT: The member can put that to me. We are talking $298 million in 2016–17. It is not a dramatic impact because of the size of the deficit the former government left us.

Dr M.D. NAHAN: It makes the deficits about equal between 2016–17 and 2017–18.

Mr B.S. WYATT: The member will find the deficit—good news—is coming in lower than we expected, as I pointed out in my budget speech. Even with that, the member will be pleased to see.

Dr M.D. NAHAN: I did that every year for four years.

I refer to the voluntary targeted separation scheme in the same table, which provides $185 million in savings. However, elsewhere the budget refers to $300 million in savings. Why is it minus $185 million and not minus $300 million? Is it because the government expects to get some gains in 2017–18?

Mr B.S. WYATT: That is a net cost with the initial total cost at $300 million and about $115 million in savings.

Dr M.D. NAHAN: The same table refers to government trading enterprises. The government expects to collect $807 million over the forward estimates from these efficiency measures by increased dividend payout ratios, net debt targets, special dividends and tariff adjustments. That is a very large additional impost and collection of money from government business enterprises across the board. Is the Treasurer confident that the GTEs can respond by improving their efficiencies, because that is the only way they can pay this, and that he will not have to come back and increase fees because of these additional imposts?

Mr B.S. WYATT: I am as confident as I can be at this point. Clearly, this will put some pressure on these utilities. The member is absolutely right. There are not many benefits of being the decider of what the prices do, but one is that we can ensure that this does not simply flow through to price increases and that is not the intent of what we are seeking to do.

Dr M.D. NAHAN: Has Treasury done an assessment of each paying entity, whether it be Water Corp or a port? For example, Port Hedland has limited room to move to pay additional dividends without raising prices.

Mr B.S. WYATT: That is a good question. We looked at a range of things around the debt levels of all these different utilities, their capacity, their appropriate debt level and their various cash positions. Some of them were sitting on a lot of cash; Synergy is one example. The member is right. That will perhaps require a bit more hands-on management by the ministers in some of the utilities to ensure that the utility, whichever one it is, delivers on these. But I will not pretend for a minute that these measures will not put pressure on some of the utilities. We need to make sure that these measures are done in a way that does not simply flow on to price rises.

Dr M.D. NAHAN: There have been repeated proposals for Treasury to take on a role of overseeing government trading enterprises to have a common set of policies. In the past, one of the problems has been that they were treated as cash cows. A lot of states have done that, particularly New South Wales, although it no longer does that. Queensland is doing that. This has the hallmarks of that, potentially. I am not accusing the Treasurer of doing that. The only way to overcome that is to have greater transparency of the capacity of these entities to pay. Western Power, for instance, the last I heard, has an 85 per cent, or maybe pushing a 95 per cent, debt–equity ratio. It does not have the capacity.

Mr B.S. WYATT: As the member pointed out, Western Power carries a lot of debt. The member is right; with the Public Utilities Office coming back into Treasury, that is the intent. The PUO is really sort of an energy office. I would like to see it have more of a role, as its name would suggest, across the utilities. This is no doubt something that the member came across as well; often there is a conflict between being Treasurer and Minister for Energy and trying to ensure that we extract value as much as we can from these organisations. That may put them under a bit of pressure—that is okay; I am not particularly fussed about that—and we need to ensure that they can continue to do what they need to do around investing et cetera.

Dr M.D. NAHAN: I want to get the Treasurer's view on this point; if we pull out a lot of cash and the utilities have capital investment—such as Synergy faces with its renewables, which we can talk about later; it has some cash surplus balances in there—they will have to go out and borrow to meet their additional capital investments, which will come up.

Mr B.S. WYATT: That may be a result, hence I am keen to have Treasury and government more involved in the oversight of these organisations. Bear in mind, they are commercialised organisations now. But, ultimately, to be frank, I want better advice from Treasury around these organisations. The member says that it may result in increased borrowing and it may do, but I understand fully that Western Power probably does not have that much capacity. The member may have some questions coming up about the requirements around this matter. Western Power has its fourth access arrangement nearly about to be submitted—I think next month—to the Economic Regulation Authority. That will have a range of assumptions around its capital spending requirements. Either way, governments will be required to take more of a role.

Dr M.D. NAHAN: Did the Treasurer or any of the other ministers have to submit a section 68 notice to require the agencies to pay the moneys budgeted here?

Mr B.S. WYATT: No.

Mr Z.R.F. KIRKUP: We will go back to the start; I refer to page 1 of budget paper No 3. The fourth dot point highlights that $3.7 billion has been allocated to election commitments. To clarify, was it an election commitment to negotiate across government general agreements retaining penalty rates and committed overtime allowances within the existing wages policy?

Mr B.S. WYATT: The wages policy is only in respect of annual increases of $1 000. Could the member provide more information with his question?

Mr Z.R.F. KIRKUP: Was it an election commitment to retain penalty rates and committed overtime allowances as part of that?

Mr B.S. WYATT: I do not recall any specific policy to have them, but I certainly do not recall any specific policy to remove them.

Mr Z.R.F. KIRKUP: Does the Treasurer have a total cost of committed overtime allowances across the forward estimates?

Mr B.S. WYATT: The Minister for Commerce will have that information, I would have thought. That is more agency-related.

Mr D.T. REDMAN: Treasurer, I refer to page 497 of budget paper No 2, volume 2, right down the bottom.

Mr B.S. WYATT: Sorry; give me a second to catch up with the member.

Dr A.D. BUTI: While the Treasurer is waiting for the answer to that question, can we have some clarification about the number of people who are allowed to ask questions?

The CHAIR: I was advised by the Clerk. We went through a series of questions from the existing committee members and once they had had a chance, the member for Dawesville was invited to ask questions as well.

Dr A.D. BUTI: He is invited to ask questions.

The CHAIR: That was the wrong choice of term—he is allowed to. I am happy to give the call to your side as well.

[3.00 pm]

Dr A.D. BUTI: That is not the issue. This is the seventh estimates that I have done and it has always been three opposition members. The Chair is able to substitute members if he or she has the correct paperwork. Is the paperwork available that allows —

The CHAIR: To answer the query—it might be worth taking this up with the Deputy Speaker, Lisa Baker, later—I have been advised by the Clerk that it is a legitimate question once the three existing opposition members have asked their questions. I am happy to clarify this later with the Deputy Speaker, but I have been told by the Clerk it is appropriate.

Mr D.T. REDMAN: Treasurer, I refer to the fourth line item from the bottom on page 497, "Interest on Public Moneys Held in Participating Trust Fund Accounts". The Treasurer would be aware that a number of Treasury Corporation accounts are held on the basis of some committed royalties for regions funds with local government in particular. How much money is held in Treasury Corp accounts for committed projects for local governments and other proponents, specifically royalties for regions funds?

Mr B.S. WYATT: I think the member will have to put that question on notice because getting an answer will take some time. I am not trying to avoid it, but it will take some time.

Mr D.T. REDMAN: I will put two questions on notice. First, how much royalties for regions money is held in Treasury Corp accounts that was committed in previous budgets? Second, how much of that has government clawed back by negotiation and/or telling those proponents that it is losing $2 million or $3 million on a particular project?

Mr B.S. WYATT: I ask the member to put them both on notice. We will not be able to get that information by supplementary information. It will take some time. I ask the member to put it on notice in the normal course. I cannot answer that by way of supplementary information.

Mr D.T. REDMAN: I thought the Treasurer had a bit of time to answer.

Mr B.S. WYATT: Just so the member knows—I will get that information—and for the avoidance of any doubt, that line item does not include funds for RforR funds held by WATC. That interest is paid directly to proponents I have just been told.

Mr D.T. REDMAN: My two questions are: Of the Treasury Corp accounts that are held for RforR projects in the past, how much is the total and how much has been clawed back? I am aware that the Minister for Regional Development is approaching a number of the local governments that have such accounts and is leaning on them to give some back.

[Mr R.S. Love took the chair.]

Mr B.S. WYATT: It will have to be on notice.

Mr D.T. REDMAN: Treasurer, I refer to the royalties for regions component in the *Economic and Fiscal Outlook*. A number of royalties for regions programs on the list come to an end; they have typically been four-year programs. I am advised by outside information that the royalties for regions budget is fully allocated. By definition, that means that once any of those programs in the four-year forward estimates come to an end, that will stop. Can the Treasurer confirm whether that is the case?

Mr B.S. WYATT: I confirm that royalties for regions is fully allocated. If things come to an end and we fund them, it will have the same impact on net debt as would funding anything in government. Royalties for regions is fully allocated. If it comes to an end in the forward estimates, there will have to be a future decision if we want to continue to fund something. That is right.

Dr M.D. NAHAN: I refer to page 36 of the *Economic and Fiscal Outlook*, "Summary of the General Government Revenue and Expenditure Projections", vis-a-vis the *Pre-election Financial Projections Statement*, and to table 1.1 on page 231. In 2021 the current grants in subsidies increases quite substantially by $2.4 billion. That is largely commonwealth payments. I am trying to come to grips with changes to the commonwealth. I think there is a large payment from the commonwealth through the National Disability Insurance Scheme. I want to understand how the NDIS is treated in this account. In the PFPS there was a separate breakout box for the expected treatment of NDIS. Since then things have changed—not only is there another year, 2021; there are different flows. There is no breakout box in the budget on the NDIS. Although the Treasurer is not the minister responsible for the NDIS, can he can provide by way of supplementary information how the NDIS is treated in the budget in terms of revenue coming from the commonwealth and expenditure going out from the state, and how it affects the Disability Services Commission? When does NDIS start? It is my understanding that other than the trial, it has not officially started. In the budget there is a receipt from the commonwealth in the vicinity of $1.7 billion in 2021, which is a material increase. Is that a one-off? What portions of it are one-off? It would be very helpful if the Treasurer discussed how the NDIS is treated in full in the budget.

Mr B.S. WYATT: The member has come to a very complicated area with NDIS. The budget is simply predicated at this point on the agreement that was signed by the member's government. We will have a go; I will ask Mr Barnes to make further comments but, unsurprisingly, a hell of a lot of work has been done and continues to be done on the NDIS. I will ask Mr Barnes to deal with a couple of the specific points.

Mr M.A. Barnes: Further to the Treasurer's comment, the treatment of the NDIS in this budget is identical to the treatment in the PFPS. It reflects the three-year transitional agreement that was signed in January, pre-caretaker. That three-year transitional agreement with the commonwealth runs in the years 2017–18, 2018–19 and 2019–20. The treatment is, as I said, identical to what was in the PFPS. I guess the only new bit in the budget is the rollout of 2021, which is the new out year. In that new out year, as the member mentioned, there is about $1.7 billion of disability funding from the commonwealth. About $1.1 billion of that is revenue from the commonwealth to fund service delivery under the NDIS and there is a one-off payment estimated at $604 million from the DisabilityCare Australia Fund to be received in 2021.

Dr M.D. NAHAN: Is the assumption that the NDIS, as per the agreement, is the WA-based system, which is more costly, I understand, than the national system?

Mr B.S. WYATT: That is what is reflected in the budget.

Dr M.D. NAHAN: Can the Treasurer provide a breakout of revenue in from the commonwealth and expenditure for the NDIS over the four years, and the assumptions made, so we can get a grip on this new huge program that is funded in a very complicated manner, because some money is funded by the states, some from the commonwealth and there are some one-off payments and some regular payments? I might add that something a breakout of that information was done in the PFPS.

Mr B.S. WYATT: On page 127 of budget paper No 3 there is some information on NDIS spending assumptions. I am not sure how much more information there will be, but we can try to provide it by way of supplementary.

[3.10 pm]

Dr M.D. NAHAN: Yes, the Treasurer could put it in a single document, like he did with the *Pre-election Financial Projections Statement*.

Mr B.S. WYATT: We could do that by way of supplementary information and it will just be effectively bringing together some information that is here.

Dr M.D. NAHAN: There were two trials underway for the National Disability Insurance Scheme: NDIS My Way, and another one; I have forgotten what the other name was. They are still going. Are they assumed, under the Treasurer's assumptions, to be rolled into the national system?

Mr B.S. WYATT: The budget assumptions and the spending assumptions on page 127 of budget paper No 3 effectively assume the three-year rollout and the full operation in the final year.

Dr M.D. NAHAN: Okay. Just another question, with reference to page 36 —

Mr B.S. WYATT: Sorry, did the Leader of the Opposition want that information by supplementary information?

Dr M.D. NAHAN: Yes, I do.

Mr B.S. WYATT: Maybe if the member could say again what it is.

Dr M.D. NAHAN: What I would like through supplementary information is a statement about the revenue flows from the commonwealth government and NDIS, and any revenue flows to the state, if there are any, so there are two sources of potential revenue flows to pay for it; I assume it is an appropriation rather than revenue flow. Also, the expenditure under NDIS within the budget by the state, so I can understand what revenue comes in from the commonwealth, what appropriations are allocated by the state, and what expenditures they are. Another issue with NDIS is that —

Mr B.S. WYATT: Hang on, let us just deal with that, if I can. We will provide by way of supplementary information the assumed revenue flows from the commonwealth to the state under the NDIS, as signed in the current bilateral agreement.

Dr M.D. NAHAN: Okay, yes.

[*Supplementary Information No A5.*]

Dr M.D. NAHAN: Is NDIS a single program or is it spread over a number of appropriations, departments or agencies?

Mr B.S. WYATT: At the moment, as we can see on page 127, it is effectively just the National Disability Insurance Scheme. If we stick with the current bilateral agreement, we have to effectively establish our own authority and that will then probably have an impact on how it is reported in the budget. At the moment, while it is being transitioned, that is it; for budget purposes, it is housed there in that line item.

Dr M.D. NAHAN: Can I put a request to the Treasurer? Hopefully over the next year, the government will decide what it is going to do —

Mr B.S. WYATT: Hopefully well before!

Dr M.D. NAHAN: Yes, there will be penalties otherwise. Can I request that, following the decision, as part of the next budget statement—whether it is the midyear review or the budget—the government give a statement on how that is treated? My understanding is that the money from that agency, NDIS, will go to a number of agencies, such as the Department of Housing and others. That is what other states are doing.

Mr B.S. WYATT: Yes.

Dr M.D. NAHAN: Okay.

Mr B.S. WYATT: Noted, though, member.

Dr M.D. NAHAN: Okay. On page 36 —

The CHAIR: Sorry, Leader of the Opposition—is that a new question?

Dr M.D. NAHAN: No, it is from the same table.

The CHAIR: Is it the same question, further to the item on the NDIS?

Dr M.D. NAHAN: Yes. I refer to table 2 on page 36 and the line item, "Commonwealth grants", which is blank for 2020–21. There is nothing there for 2020–21, but we just discussed the government's plan to get a grant from the commonwealth for NDIS, which is not on that list; none of it is. In fact, for all other revenue moments—taxation, commonwealth grants—there is nothing for 2020–21. I assume it is because the *Pre-election Financial Projections Statement* does not have an estimate, but looking above that, under the heading "Revenue Measures", there are variations. I am puzzled by the blank there.

Mr B.S. WYATT: Apparently it is standard presentation for those revenue measures. Where there are policy differences, they are presented across the full forward estimates, including the new year. In respect of parameter changes, which is what commonwealth grants falls under, it is effectively silent in the new year, as we can see there, because there is no PFPS base for that year for those parameter changes.

Dr M.D. NAHAN: Where is the NDIS in these?

Mr B.S. WYATT: Obviously, on page 36, there will be no change there with regard to assumptions because we have not changed the policy.

Dr M.D. NAHAN: There was a change in 2020–21. I can remember this quite clearly; we did not forecast to 2020–21 in the PFPS for the NDIS. We had an estimate of what was going to happen in 2020–21, but we did not put it in the PFPS, so it seems to me that it is, in fact, higher than it was supposed to be.

Mr B.S. WYATT: I draw the member's attention to page 261, which is the appendix on the revenue. In the line item "Disability Services", the member will see that it is captured in the total revenue at 2020–21 at $1.7 billion.

Dr M.D. NAHAN: So with regard to the NDIS, the assumption in this budget is that it is exactly the same in terms of the volume, pattern and flow from the PFPS?

Mr B.S. WYATT: Yes; that has not changed.

Mr D.C. NALDER: Just shifting towards underlying assumptions, particularly around iron ore royalties, I refer to the fifth dot point on page 500 of budget paper No 2, volume 2, under the heading "Economic Outlook". Has the Department of Treasury changed or altered any part of the methodology for iron ore forecasting; and, if so, what is that change?

Mr B.S. WYATT: The answer is yes. Treasury has again changed its forecasting around the iron ore price. I still refer to it as the "strike price" and how it declines to a level across the forward estimates. The member will recall that the previous methodology, the one that was part of the last budget—I think this came in with the 2015–16 budget—was to assume that the price would hit its long-run average 10 years out from the budget. In this budget we have brought the endpoint forward from 10 years to three years, so we have declined it quite dramatically. The fourth year then effectively replicates the third, so we have assumed that it reaches the long-run average much quicker than we did using the previous methodology. Again, as with all these changes, both this government and the former government have tried to remove the volatility around it.

Mr D.C. NALDER: Can the Treasurer clarify what the unit price forecast change is from the PFPS —

Mr B.S. WYATT: On the iron ore price?

Mr D.C. NALDER: No, on what we have done in the budget forecast. If we look at how we have forecasted it in the past, we now have a new methodology, which has changed things. Can the Treasurer provide the actual differential on the iron ore price forecast in the forward years?

Mr B.S. WYATT: The iron ore price assumptions are in —

Mr D.C. NALDER: But how is that different? Can the Treasurer give us the differential and what impacts that has had on the budget?

Mr B.S. WYATT: On the revenue? Okay; that is a good question. The change in the methodology between the PFPS and this budget is $977.1 million. If we had stuck with the PFPS assumption, we would have assumed an extra $977.1 million in revenue over the forward estimates, so this is taking a more conservative view of the price of iron ore.

Mr D.C. NALDER: I accept that; I am just trying to understand it.

Mr B.S. WYATT: This is always one that we spend a lot of time on. This is not a political point, but I think there were two or three changes under the previous government, and we are all trying to achieve the same thing: how do we try to remove the volatility? Since the election of the former government, there has been a fundamental change; the spot price has taken over the contracts and everything has changed. There is now what there did not used to be, which is effectively a futures market, which is helpful in making assumptions as well.

[3.20 pm]

Mr D.C. NALDER: The reality is that this is really trying to reduce that volatility.

Mr B.S. WYATT: Trying to, yes.

Mr D.C. NALDER: Yes, I know. Time will tell.

Mr B.S. WYATT: Do not get me wrong, if there is a significant surge in the iron ore price, certainly in the immediate term, I would be delighted.

Mr D.C. NALDER: The Treasurer would pocket it!

Dr M.D. NAHAN: I do not think it changes the volatility at all. The volatility is inherent in the spot market price.

Mr B.S. WYATT: We are trying to deal with the volatility of the assumption on the revenue, though.

Dr M.D. NAHAN: We go to the long run for three years rather than 10 years; that is, as I understand it, the methodological change. Has the underlying data of the actual prices in the spot market up to that three years changed?

Mr B.S. WYATT: No.

Dr M.D. NAHAN: The government is basically writing down $977 million over the forward estimates, on the basis of a methodological change?

Mr B.S. WYATT: Yes.

Dr M.D. NAHAN: Whereas the spot market changes have not been significant?

Mr B.S. WYATT: We have not made any changes around how we strike the price at budget time, no.

Dr M.D. NAHAN: In terms of the futures market for iron ore prices, has there been a significant change since the *Pre-election Financial Projections Statement* in the six, 12 and 24-month price?

Mr B.S. WYATT: We have not changed how we use the information, if that is what the member is asking. Obviously, the price and the assumptions around those have changed. The spots come down from $90 to $70 and the futures market reflects that.

Dr M.D. NAHAN: Two things have led to this $977 million. First, is that we assume that we go to this long-term average quicker. Second, is that the data itself has changed.

Mr B.S. WYATT: Certainly the price has declined, yes. But I want to make the point that $977 million is just on the methodology change on how we assume getting back to a long-run average.

Dr M.D. NAHAN: The government is writing down on page 36, table 2 that the iron ore hit this year is minus $185 million. It goes for minus $1 748 over the forward estimates. That is the reduction of a parameter change of the iron ore price. Again, if the government has changed its methodology, it has changed its policy, and it should have something in terms of the impact of 2020–21. It is not just a parameter change; it is a policy change.

Mr B.S. WYATT: It is a methodology change, that is all. It has been dealt with the same as previous methodology changes.

Dr M.D. NAHAN: But if the public trading enterprise efficiency dividend is changed, that is a policy change.

Mr B.S. WYATT: That is; absolutely.

Dr M.D. NAHAN: If the government has a methodology change in how it calculates forward estimates for anything, it should be a policy change and therefore it should have it in the revenue measures and should have some kind of forecast for 2020–21.

Mr B.S. WYATT: All those decisions at page 36 in the revenue measures are policy decisions; they were made by the cabinet. The methodology change is not a cabinet decision —

Dr M.D. NAHAN: It was with us!

Mr B.S. WYATT: —it is a Treasury decision that, of course, cabinet approves as part of the budget. I did not go off and source a different methodology. Treasury did that.

Mr D.T. REDMAN: On page 3, "Key Budget Assumptions", I note the second item "Real State Final Demand", which is effectively taking out imports and exports, the performance of the domestic economy. Can the Treasurer tell me whether in fact those future figures—which are improving; there is growth there—are in fact taking into account his budgetary measures in this budget, or are they simply predicted on other predictors?

Mr B.S. WYATT: They explicitly take account of government spending, both capital and recurrent.

Mr D.T. REDMAN: I note that with the exception of the new year coming on, 2020–21, the 2018–19 and 2019–20 figures were in last year's budget; is the Treasurer saying therefore that there is no change to the performance of the domestic economy on the basis of his current government spending measures?

Mr B.S. WYATT: Sorry, what were the figures in the previous budget?

Mr D.T. REDMAN: I was just saying that the Treasurer gave me the impression that his current budget priorities are taken into account in the underlying performance of the domestic economy.

Mr B.S. WYATT: Other things will be as well, but the budget is as well.

Mr D.T. REDMAN: But 2018–19, 2019–20 and obviously 2017–18 have been revised down. In fact, it is down from the previous budget forward estimates and 2018–19 is the same. It is predicting the same growth in the domestic economy as was in last year's budget forward estimates. Is the Treasurer saying that he is not expecting any kick beyond what was predicted last year as a product of his expending measures this year?

Mr B.S. WYATT: We are expecting a positive outcome but it will not just be the budget that drives those figures. There will be other probably much more dramatic impacts, for example, around private sector investment, I would have thought, and household consumption and all sorts of different factors that would drive state final demand—not just the role of government

Mr D.T. REDMAN: I guess it is about confidence in the government's own investment decisions about whether it has a material impact upon the domestic economy. Just on that last point that the Under Treasurer mentioned to the Treasurer, on the page opposite, page 2, the household consumption figures rise considerably as a component of the gross state product. Is that what is driving those increases in the out years? And can the Treasurer give me reasons or the basis for the significant increase in the household consumption component of the gross state product in the graph on page 2?

Mr B.S. WYATT: I will make a couple of points. Obviously, I am pleased to see state final demand growing again because it has been negative for a while. In respect of that figure on the chart on page 2, yes, household consumption is having a more positive impact, but we are still overwhelmingly dominated by business investment. The member will see business investment is also looking to business investment now. Look at page 17. Because there has been such a big come-off in business investment over the last few years, we will see that is now expected to grow in 2019–20 and 2020–21 at healthy rates. That would have a significant impact on SFD growth.

Mr D.T. REDMAN: On the GSP?

Mr B.S. WYATT: State final demand growth.

Mr D.T. REDMAN: I guess I am trying to tease out whether the Treasurer has confidence in his budget and therefore investment decisions having a material impact upon the domestic economy—notably diversifying the economy, which has been part of the mantra.

Mr B.S. WYATT: Of course we have huge confidence in our budget, member, delivering on all those things for us. The WA economy, as the member knows more than most, is driven, by and large—I do not know the percentage of state final demand figures, but 20 per cent is driven—by business investment, which I guess does not surprise us, and that has come off a lot. The Under Treasurer informs me it has come off by about a third. That has an overwhelming impact on state final demand, which is why the correlation between expected growth and business investment is now correlating with growth in state final demand figures again. The previous government members, sitting across from me, had to wear the dramatic impact of that significant decline in business investment. We saw what it did. That business investment is feeding into lots of things, whether it be the employment rate, export rates et cetera. Almost all those figures turn into a better growth trajectory.

[3.30 pm]

Dr M.D. NAHAN: On the key budget assumptions, firstly, population growth is very important. Currently, the Australian Bureau of Statistics data indicates that it is growing at a rate of 0.6 per cent, and I think the budget has 0.6 per cent for 2016. The government has it going back to 1.8 per cent, largely due to overseas migration. If it is going to grow, that is definitely where it will come from. What is the basis for that assumption that immigration to Western Australia will pick up?

Mr B.S. WYATT: Again, I come back to the point I just made to the member for Warren–Blackwood. The investment cycle is picking up again, as it did in perhaps the most dramatic way possible a few years ago. As business investment picks up again, that will draw in labour and hence will flow through to population expectations. I note that the long-run average population growth rate is about two per cent, so it is not expected to get back to the long-run average population growth rate.

Dr M.D. NAHAN: I put it to the Treasurer that the recovery is more a methodological approach; that is, it is not so much a forecast, but an assumption of Treasury as it goes back towards its trend, which is about two per cent. Is that correct?

Mr B.S. WYATT: But it is being driven by assumptions around business investment and housing investment. Housing and business investment have an impact on the domestic economy and, therefore, on expectations around labour demand, so that would flow through.

Dr M.D. NAHAN: It is also a policy factor in the net immigration targets of the commonwealth. Also, the government has put limitations on migration to WA through both a reduction in the number of categories from 178 to 18 and removing —

Mr B.S. WYATT: It is not a limitation on migrants to WA, but there has been a change in visa categories.

Dr M.D. NAHAN: Visa categories, yes—that is, migrants. This growth will come from overseas migrants, not interstate migrants. That is the government's assumption. It basically has no growth in interstate migration. I accept that that is a reasonable assumption, but it may be conservative. If there is going to be almost a doubling of the population growth from its low level now, I just do not see how there will be a very large pick up of overseas migration to WA given the state-based immigration policy changes that the government has made.

Mr B.S. WYATT: The member can put that to me, but there has been no policy change in what Treasury does with assumptions around business investment and housing investment; that is, they drive our economy, as they always have. On whether it is a make-up of interstate migration and overseas migration, during the time that we had a labour shortage, I watched many a minister become frustrated at the inability to get Australians to move to the west for whatever reason. It is hard to get people to move here from other parts of Australia. Whatever that reason is, that reason is. Maybe not the member for Hillarys.

Dr M.D. NAHAN: My point is that page 23 of budget paper No 3 outlines additions and subtractions to growth in population. It supports a substantial increase to 2021 in net overseas migration, which is the largest source, and a decline in net interstate migration, which I accept, but there is no growth in it. The government has a policy of restricting immigration to WA.

Mr B.S. WYATT: No, we do not.

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

Mr B.S. WYATT: No, we do not. We made a change to the policy around what we saw as a priority for visa categories. We do not have a policy of restricting migration into Western Australia.

The CHAIR: Leader of the Opposition and Treasurer, this is not a debate. Leader of the Opposition, if you have a question, could you frame it, because at the moment you are making a series of points, not asking a question.

Dr M.D. NAHAN: The government has reduced the number of visa categories from 178 to 18, and most of the 18 residual categories are for specialist medical people. It also changed the policy and changed the status of Western Australia as a regional centre to a capital city, which makes it more difficult for people to migrate here. Those two policies necessarily inhibit interstate or international migration to WA. Treasury has an assumption of rapid growth in net overseas migration, but the policy does not fit with the forecast. Could the Treasurer explain?

Mr B.S. WYATT: I think I have, but I make the point, which I made before, that we do not expect to get back to the long-run average by the end of the forward estimates. Although we expect population growth, it is still expected to be below the long-run average of around two per cent. We are getting close to it at 1.8 per cent. Healthy population growth is good, and hopefully we will get back to two per cent sooner rather than later.

Mr D.C. NALDER: I would like to look at the economic forecasts on page 17 of budget paper No 3. I am particularly focusing on household consumption, dwelling investment and business investment. Has there been any change in methodology by the Department of Treasury in determining these for the forward estimates?

Mr B.S. WYATT: No; there has been no change.

Mr D.C. NALDER: Could the Treasurer please explain what is underpinning the rebound, particularly in dwelling investment? I will focus on that first.

Mr B.S. WYATT: In a moment, I will hand over to Mr Barnes, who might make some specific comments. I imagine it is a combination of an uptick in business investment and that flowing through to population growth et cetera. Mr Barnes might make some more specific comments.

Mr M.A. Barnes: It is really a reflection of the current supply–demand imbalance working its way through, as it will over time. Obviously, at the moment we have significant excess supply. We are seeing dwelling investment fall quite sharply in 2016–17. From memory, it was a fall in the order of 20 per cent in dwelling investment in 2016–17. Our expectation is that that excess supply of new dwellings will be caught up in the next couple of years, and as demand continues to slowly grow—it is slow growth through the population growth that we are projecting—and as that excess supply unwinds over the next couple of years, that slow demand growth will eventually lead to a turnaround into positive growth in dwelling investment.

Mr D.C. NALDER: I will clarify the numbers. There is a 21.5 per cent decline in 2016–17 and a 2.5 per cent decline in 2017–18, but then a five per cent rebound in 2018–19, which is the next financial year. I am just trying to understand why we are expecting dwelling investments to go through in 12 months' time. I understand that a lot of this is based on certain assumptions that Treasury holds. I know there is not a process necessarily for consultation with industry, but it seems to be contrary to what industry is potentially saying about dwelling investment; that is, it believes it might be depressed for two to three years. I am trying to understand the difference between what industry is saying and what Treasury is calculating.

Mr B.S. WYATT: It is a good question. Noting the 2016–17 data, most of these seem to be coming in fairly closely to what was in the 2016–17 budget. There will be some changes in what the budget assumes and estimates and the actuals. Mr Barnes might make some more comment around that specific point.

Mr M.A. Barnes: As the member pointed out, we estimated in the budget a fall in dwelling investment of 21.5 per cent in 2016–17.

Mr D.C. NALDER: These are actuals, are they not?

Mr M.A. Barnes: That was an estimate of 21.5 per cent. On the day before the budget was released, we got the state accounts from the Australian Bureau of Statistics, which showed that the actual fall in dwelling investment in 2016–17 was 22.8 per cent, so it was marginally worse than we estimated. Based on that, there is a potential risk that the decline of 2.5 per cent that we are projecting in 2017–18 could be slightly worse based on that 2016–17 actual. We also consult pretty closely with the Housing Industry Association in developing these forecasts. My understanding was that our forecasts were not too dissimilar from its forecasts.

[3.40 pm]

Mr B.S. WYATT: I will add to that. Some of the assumptions around dwelling investment—this is the point that the Under Treasurer just made—are fairly consistent with forecasts from the Housing Industry Association. There is a strong level of consistency. As the Under Treasurer pointed out, a fair bit of dialogue goes on, like there is in the iron ore sector et cetera around volumes and things.

Dr M.D. NAHAN: Just to follow on from the member for Bateman's question, population growth and dwelling investment are obviously very closely related. I just want to make a statement and maybe get the Treasurer's reply. If policies inhibit population growth and international migration, the government will not get the dwelling investment —

Mr B.S. WYATT: Sorry; I am not going to get?

Dr M.D. NAHAN: The government will not get the rebound. The rebound is based to a very great extent on rebounds in population growth. The immigration policies are inhibiting international migration. I just want the Treasurer's confirmation that the rebound in dwelling investment that is very important to the economy is based to a large extent on the rebound in population growth.

Mr B.S. WYATT: That is right. Unsurprisingly, dwelling investment is linked very closely with the assumptions around population growth. If population growth is significantly different from that, we assume it will have an impact on dwelling investment.

Dr M.D. NAHAN: Did Treasury take into consideration in its population forecast the government's change of position early in March on visa status and the status of Perth as a capital city?

Mr B.S. WYATT: All the policy positions of government feed into the budget assumptions.

Dr M.D. NAHAN: Did the government explicitly take that into consideration in formulating this population forecast?

Mr B.S. WYATT: As I said, it is part of the budget. It is part of the policy position of the government. Does it feed into those rates? I guess to some degree it does. What is the explicit impact? I could not tell the member.

Mr D.T. REDMAN: One of the measures listed in the table on page 8 of the *Economic and Fiscal Outlook* is the gold royalty changes. I am assuming that the forward estimates include the shift in GST clawback as we move forward, so it would be net of that.

Mr B.S. WYATT: That is just the royalty impact, but we do assume a loss of $50 million in the consolidated accounts in the final year. Sorry; I have been corrected again. The figure on page 8 is just the revenue impact of the gold royalty increase, but the consolidated revenue on page 9, for example, has a loss of $50 million but that is spread across two years—2019–20 and 2020–21.

Mr D.T. REDMAN: Although I do not like the royalty and we have opposed it clearly, has the government considered seeking a special exemption from the federal government to have that quarantined from GST given that it is a new revenue that the government is bringing to book rather than something that is existing?

Mr B.S. WYATT: No, I have not. I have previously posed hypotheticals. I have been to only one Treasurers' meeting; I have another one next month. It is fair to say that the idea was not embraced, unsurprisingly. Now that the member has raised that, it is not a bad idea to pursue but I will not assume it, simply because I cannot see it happening. Looking at what has happened out of our GST on this stuff, I will not assume it. We have assumed, in terms of consolidated revenue, that the redistribution as it currently applies will redistribute some of that impact.

Mr D.T. REDMAN: I guess the point I make, which we talked about in the Loan Bill 2017 on a different issue, is that the environment is probably right for the federal government to give some sort of concession to Western Australia. It would not be hard, given that it is a new revenue source and something that notably would not impact upon other states. Although I do not like the revenue source, that is a point that might be worth considering.

Mr B.S. WYATT: It is a very good idea.

Mr D.T. REDMAN: I am always happy to help!

Dr M.D. NAHAN: I refer to table 3 on page 9 of budget paper No 3. Two reforms were underway that were itemised in previous budgets—that is, the agency expenditure review and the workplace reform. I have seen them referred to in various places in the budget, sometimes budgeted, sometimes closed up. Are those two policies being implemented in full unless otherwise indicated in the budget? Is the $442 million that was forecast in the PFPS expected to be met over the forward estimates of all the agencies?

Mr B.S. WYATT: Yes, they are. Both the agency expenditure review and the workforce renewal, which are still being implemented, are all part of the forward estimates for the agencies.

Dr M.D. NAHAN: With the exception of the DPP. The DPP has a cash-out in the budget. Did any other agencies get a cash-out?

Mr B.S. WYATT: The DPP had that one-year holiday, if you like.

Dr M.D. NAHAN: Just one year?

Mr B.S. WYATT: Yes. With Corrective Services, we have had to recashflow the AER because there were some pressures that we had to deal with.

Dr M.D. NAHAN: The other AER change was that we did it for the head office, not the hospital section, of health. We were going to reallocate savings from the AER to the hospitals. The government has cashed those out too.

Mr B.S. WYATT: Yes.

Dr M.D. NAHAN: I have another question.

The CHAIR: Leader of the Opposition, are you asking another question or a supplementary to that?

Dr M.D. NAHAN: It is related. Have the efficiency measures of programs that were in the budget that the government received been carried out?

Mr B.S. WYATT: Obviously there are some adjustments, but yes.

Dr M.D. NAHAN: There was a one per cent efficiency dividend on top of those other ones applied to those agencies. Has that been carried through over the forward estimates?

Mr B.S. WYATT: Yes, it is still in there. It is still embedded.

The CHAIR: Members, it is a quarter to four. There are five appropriations in this block and two examinations. Are we now ready to move forward?

Dr M.D. NAHAN: I would like to ask a few more on Treasury. Treasury is easily more important than the rest.

The CHAIR: Perhaps, but a number still have to be progressed. If we could prioritise it down to a couple of —

Dr M.D. NAHAN: Are we scheduled to finish at four?

The CHAIR: It is scheduled to finish at six o'clock, but there are five separate appropriations and two further examinations. If the Leader of the Opposition is happy to keep going, that is okay. I am asking the question.

Mr B.S. WYATT: It is up to the opposition how it allocates the questions.

The CHAIR: We may come to a point at the end of the afternoon whereby we will have to rush through other things, so as long as members are aware of that.

Dr M.D. NAHAN: Page 4 of budget paper No 3 refers to the service priority review. I would like to ask some questions about the service priority review. There are a number of aspects to it, sometimes bundled together in the budget. First, the government changed the SES, I think, which is a 20 per cent reduction. There will be some change in department numbers. There is also a service priority review. I have read the first draft, I think, or the first preliminary. What does the government envisage the final report of the service priority review will do? Is the government booking savings from it and from where will those savings evolve?

Mr B.S. WYATT: We might be entering into a bit of a hypothetical. I just wanted to confirm, for the purposes of the service priority on page 4, obviously, that the targeted savings of $763 million are made up of the wages policy, the Salaries and Allowances Tribunal freeze et cetera. Where do I envisage the service priority review to take us? Is that the question?

Dr M.D. NAHAN: The government has provided $249 million over the forward estimates. Beyond the wages policy and the wages freeze, it has a service priority provision of $249 million.

Mr B.S. WYATT: That is part of the $763 million.

[3.50 pm]

Dr M.D. NAHAN: Forget the wages policy and the freeze of SAT-determined wages. There is a service priority review. I am trying to understand where the $249 million now comes from. Is it due to the change in department numbers; and, if so, how much is due to that? Is it due to the reduction in senior executive service numbers? In this $249 million, are there other efficiencies or reductions beyond those two factors?

Mr B.S. WYATT: The $249 million is made up only of the reduction in the SES numbers and effectively the voluntary separation scheme. That is what driving that $249 million; nothing else is part of it.

Dr M.D. NAHAN: But the voluntary targeted separation scheme is listed further down in that table at $355 million, so it cannot be that.

Mr B.S. WYATT: The first round of machinery-of-government changes, with the reduction in the number of departments from 41 to 25, is driving $171 million of that $249 million, and $78 million is from the reduction in the SES, if that is the more specific information the member is looking for.

Dr M.D. NAHAN: How many SES members does the Treasurer expect to leave, and is a redundancy program included for them?

Mr B.S. WYATT: The target is 104.

Dr M.D. NAHAN: Is there a redundancy program for them?

Mr B.S. WYATT: That member may have already heard this, but in 2017–18 there is a $13 million provision for any redundancies, if required.

Dr M.D. NAHAN: Is that in the budget?

Mr B.S. WYATT: It is part of the $78 million, which is part of the $249 million.

Dr M.D. NAHAN: Where are the efficiencies coming from in the MOG changes? I assume they are not labour, because that would be mainly SES, but other redundancies and workplace reforms. I am trying to figure out where the efficiencies are going to come from other than those itemised elsewhere.

Mr B.S. WYATT: A fair bit of thought has gone into this. For example, the human services function has been consolidated into the Department of Community Services. Similarly, the overseas offices and market promotion have been consolidated into the Department of Jobs, Tourism, Science and Innovation. There is a logic to what we are trying to do to create those efficiencies. Some of these will deliver the obvious savings of, I guess, a requirement for fewer staff where there was duplication, and that is the purpose of the voluntary targeted separation scheme and the reduction in the SES numbers. I am not sure what the recommendations will be with the service priority review; we have seen the preliminary report. I dare say there might be some recommendations and guidance on some of the more difficult agencies and departments that might require legislative change et cetera. Ultimately, we have made the changes that can be made by effectively administrative decision, and it will take some time for those to bed down and to get those savings and efficiencies. At the moment, that is coming along well, but ultimately there is still a bit of work to do.

Dr M.D. NAHAN: The way it is treated in the budget is—as Treasury often does—that a conservative benefit from the efficiency changes is estimated, the efficiencies from those changes are booked, they go into the forward estimates of all the departments affected and the departments then have to follow through with those efficiencies. Is that the case?

Mr B.S. WYATT: That is right. As has been done, there is a global provision that is in due course allocated to agencies.

Dr M.D. NAHAN: One of the other reforms that the government has underway is the so-called sustainable health review. Is Treasury involved in that?

Mr B.S. WYATT: Yes; Mr Barnes is on the panel.

Dr M.D. NAHAN: Is Mr Barnes optimistic about restraining the growth of health expenditure to one per cent?

The CHAIR: You are sailing close to the wind. You have to ask questions of the Treasurer.

Dr M.D. NAHAN: If so, he has changed a lot in the last year!

Mr B.S. WYATT: Mr Barnes has to be optimistic about the health budget! The only thing that gets him up each morning is optimism about the health budget!

Mr D.T. REDMAN: I refer to contingent liabilities on page 70 of the *Economic and Fiscal Outlook*. The example used is the statutory limitation on civil litigations by victims of child sexual abuse. I was not going to ask a question about that. However, there is the recent decision, as the Treasurer would know very well, of the Yindjibarndi exclusive native title outcome. Is the Treasurer aware of any liabilities that would come back on the state in respect of that?

Mr B.S. WYATT: The Yindjibarndi decision?

Mr D.T. REDMAN: Yes; regarding exclusive native title access on the basis of government having previously made decisions that might provide a call back on that. Has that been an issue or not?

Mr B.S. WYATT: It has not yet. I assume the member is referring to potential compensation issues. It is a bit of an unknown. The so-called Timber Creek decision in the Northern Territory is the only precedent we have and unfortunately it is not directly applicable to WA. I cannot remember the exact name of the case, but it is referred to as the Timber Creek decision. It was very specific to the Northern Territory lands administration legislation. Although the decision has been upheld on appeal—there were some small changes—there is not yet a direct relevant precedent out of the Timber Creek decision for Western Australia. Having said that, the Yindjibarndi exclusive native title outcome may result in a precedent in Western Australia, depending on what happens—if there are any appeals or claims for compensation. We are entering into a very new area of native title now. There has only been one compensation decision. Western Australia may well drive another; I do not know. I have always been of the view that ideally these will be handled by way of an agreement reached. In terms of contingent assets and liabilities, the budget does not have anything new around potential native title. The Yindjibarndi decision is interesting. It is a good question, because it is an area about which there has been significant dispute, and has been for some time, between the state and commonwealth governments about who bears responsibility for compensation.

Mr D.T. REDMAN: It has its own uniqueness.

Mr B.S. WYATT: Yes, that is right. In October, for the first time in a long time, there will be a meeting of native title ministers. George Brandis has requested that meeting. That is a fallout from not so much the Timber Creek decision but the McGlade decision, because when the Native Title Act had to be amended, it got stuck in the Senate for a while and there was a range of requests or desires for further changes to that legislation across a full spectrum of different areas. The point of the meeting called by the federal Attorney-General is to try to land a position on what other parts of the Native Title Act need amendment and why. I do not know whether the issue of compensation will come up as I have not yet seen the final agenda. I have noted correspondence under Mark McGowan as Premier and, I think, also from Michael Mischin or Colin Barnett, about who will bear the cost of compensation under the Native Title Act, and I dare say there is a bit to go on that.

Mr D.C. NALDER: Have there been any meetings with Standard and Poor's or Moody's regarding the state's credit rating; and, if so, what were the outcomes?

Mr B.S. WYATT: I had a meeting with Moody's in April, I think, and that was really just to outline the agenda of the new government et cetera. I am potentially meeting with them next month in Sydney. I am just waiting for a reply at the moment. Just prior to the budget, Treasury briefed both credit rating agencies on the budget so they were aware of what was coming. They were briefed by Treasury on the day before the budget. I think my next meeting with them will hopefully be in October. They are both visiting in October.

[4.00 pm]

Mr D.T. REDMAN: Page 279 of the *Economic and Fiscal Outlook* refers to the special purpose account—specifically the royalties for regions regional reform fund, which over the course of three budgets was to accumulate $150 million. As I understand it, expenditure brought to the budget in the royalties for regions program will start to expend funds out of that program. Can the Treasurer provide what that is? The reason I ask is that I cannot reconcile the $18 million payment in 2017–18 with anything that appears in the other royalties for regions program. Secondly, when this was set up as a special purpose account, it was netted off the billion-dollar expense cap at the time. I assume that it is being brought back to book and is being netted off against the close to $1 billion expense of royalties for regions?

Mr B.S. WYATT: In terms of the breakdown, it states—

> Payments in 2017–18 are expected to fund the Kimberley Schools project, the North West Aboriginal Housing initiative and improvements to essential and municipal services in remote Aboriginal communities.

Yes, it is within the expense limit, in respect of the second part of the member's question.

Mr D.T. REDMAN: Can the Treasurer provide the forward estimate breakdown? I cannot seem to reconcile what is in the royalties for regions' program against the $18 million that is down as a payment for 2017–18.

Mr B.S. WYATT: Does the member mean in respect of those things listed—Kimberley Schools project, et cetera—how much each one is being —

Mr D.T. REDMAN: Yes, for 2017–18, 2018–19, 2019–20—can that be provided?

Mr B.S. WYATT: Can I provide it by way of supplementary?

Mr D.T. REDMAN: Yes.

Mr B.S. WYATT: For the benefit of the transcript, Mr Chair, by way of supplementary information, I will provide to the member for Warren–Blackwood the specific expenditure for the Kimberley Schools project, the North West Aboriginal Housing Initiative and improvements to essential and municipal services in remote Aboriginal communities from the royalties for regions regional reform fund.

Mr D.T. REDMAN: My only point of clarification is that the other budget papers and those other items the Treasurer has just listed do not show an $18 million figure for that year. If there is any change for that, will the Treasurer provide that?

Mr B.S. WYATT: Yes; and if there is any discrepancy, we will explain the discrepancy.

[*Supplementary Information No A6.*]

Dr M.D. NAHAN: In table 2 on page 8 of the *Economic and Fiscal Outlook*, it has "Remove non-salaries indexation". Will the Treasurer describe what that is, and will it be on top of the one per cent efficiency dividends that are already in place?

Mr B.S. WYATT: It is on top of that; yes.

Dr M.D. NAHAN: What does it apply to? Is it everything that is salary—such as consultancies and contract staff?

Mr B.S. WYATT: Yes; that is right. It provides basically all non-salary expenditure. It does not capture, for example, contracts with the not-for-profit sector that have in-built escalation rates around salaries; they are contracts so we cannot simply apply it to them. Mr Barnes can provide more detail.

Mr M.A. Barnes: Further to that, apart from those contractual indexation arrangements the Treasurer mentioned, which remain unchanged as a result of this measure, previously agencies' appropriations were indexed by one per cent per annum for non-salary expenditure. This measure will remove that one per cent indexation and will flatline that non-salary expenditure over the forward estimates.

Dr M.D. NAHAN: In respect of the contracts to non-profits, now that you raise it, has the indexation for the not-for-profit sector been changed? In the previous budget, I remember that they were a combination of wage price index and the wages policy of the state. Has that been changed at all?

Mr M.A. Barnes: Member, the policy around that indexation has not changed, but the parameters that make up the policy are CPI and WPI. The policy requires that they be updated based on actual CPI and WPI results each year. Because CPI and WPI are both still trending down, the aggregate amount of indexation is revised down accordingly under those contracts. But that is just a parameter update; the policy itself has not changed.

Dr M.D. NAHAN: Have you changed the stock of money allocated? The indexation has just been described; has the allocation to the not-for-profit sector changed?

Mr M.A. Barnes: No, I do not believe so.

Mr D.C. NALDER: I would like to focus on page 3 of volume 3 of the budget papers and the $5 billion revenue writedowns. The first dot point is about royalty income being down as a result of lower iron ore prices, and it is down $1.8 billion. I think the Treasurer has said that that $977 million was due to the change in methodology in iron ore prices—so it is not an actual drop in iron ore prices; it is just the way it is forecast to go through. Is the remaining $823 million due to the change in forecasts on the exchange rate?

Mr B.S. WYATT: It is a function of that—the exchange rate—and the lower price; it is not just the exchange rate. It is due to a higher exchange rate, but a lower price as well. It is a function of both.

Mr D.C. NALDER: There is $1.8 billion at that dot point, of which $977 million is due to the change of methodology. Is the Treasurer telling me that there is a further change in price as well as the exchange rate—so three elements make up the $1.8 million?

Mr B.S. WYATT: Yes.

Mr D.C. NALDER: The fourth dot point on that page states —

> … grants from the Commonwealth (down $572 million), largely reflecting changes to tied funding arrangements …

Is that a line to watch in the slippage on page 212 of the *Economic and Fiscal Outlook* or is it something different? If it is something different, please explain what it is.

Mr B.S. WYATT: This is different. From memory, it is mainly education that makes up the bulk of this—StudentsFirst. Of that $572 million, page 36 shows that $415 million of that is the StudentsFirst national partnership agreement. It changed the cash flow for moneys from the federal government to Western Australia for education. That, compared to the FPFS, reduced across the forward estimates period the expected revenue from the commonwealth government by $572 million, but with StudentsFirst making up $415 million of that. That is separate from the slippage. This is simply about issues around national partnership agreements. Again, as is always the way with these negotiations, the figure in the final dot point on the page is based on the May commonwealth budget, but negotiations are still occurring between the state and federal government about the final payments and how they will be cashflowed.

Mr D.C. NALDER: So it could change?

Mr B.S. WYATT: It could change again, yes; but we had to bring that to book because that is what the commonwealth budget contained.

Mr D.T. REDMAN: There is a table on page 225 of the *Economic and Fiscal Outlook* headed "Royalties for Regions Expenditure". A number of items at the bottom of that page relate to either the Great Eastern or Great Northern Highways with a total spend of over $100 million. Can the Treasurer tell me whether any of those items were previously included in the Main Roads Western Australia budget out of consolidated funds and/or other funds?

[4.10 pm]

Mr B.S. WYATT: Yes, some were. Approximately $84 million was previously funded from the consolidated account for roads. That is now funded by RforR.

Mr D.T. REDMAN: An amount of $84 million funded those highway projects.

Mr B.S. WYATT: Yes. So all those projects there on page 225 for Great Eastern Highway and Great Northern Highway were previously funded from the consolidated account.

Mr D.T. REDMAN: On the same list on page 227, the line item "Administered Items" grows into the out years and footnote (c) refers to further planning being required for election commitments. Is the Treasurer able to itemise the election commitments on which nearly a quarter of a billion dollars will be used?

Mr B.S. WYATT: A range of decisions will have been effectively deferred for further work, but we have provisioned amounts for them. The member asked whether I can provide a breakdown of them. If the member puts the question on notice, I probably could. I can provide supplementary information.

Mr D.T. REDMAN: I thank the Treasurer.

The CHAIR: State what information you will be providing, please, Treasurer.

Mr B.S. WYATT: We will provide information on the breakdown of provisions under "Administered Items" on page 227 and a breakdown of the projects allocated to that.

[*Supplementary Information No A7.*]

Dr M.D. NAHAN: I refer to table 2 on page 37. I want to go through a number of these items and particularly "Other Expense Movements". From the way it has played out, I take it that those are laid out under the assumption that they are parameter changes, not policy changes. Otherwise, there would be something in 2020–21.

Mr B.S. WYATT: That is right. We can see that from looking at the items.

Dr M.D. NAHAN: "Non-hospital Services expenditure" has a reduction of $730 million. Is that a policy change or a revision to estimates of parameter changes and demand? What does it relate to?

Mr B.S. WYATT: Rather than repeat everything that was just said to me and get it wrong, I will ask Mr Barnes to respond.

Mr M.A. Barnes: Below that line that the member mentioned, "Non-hospital Services expenditure", is "Hospital Services—Revised Activity and Cost Settings". Those two changes were driven by the Department of Health as part of this budget process. Health did a very comprehensive review of its outcome-based management structure and as part of that review it reallocated its total budget between non-hospital services and hospital services. Basically, the department determined that its previous allocation was not quite right. As part of this budget process, it reallocated between non-hospital and hospital services and that is what those two lines represent.

Mr B.S. WYATT: For the member's reference, on page 115 is a bit more detail about non-hospital services expenditure.

Dr M.D. NAHAN: Another item is "Local Projects Local Jobs". I never saw that item in previous budgets. If that is a new policy of this government, why is it listed as a parameter change, rather than an additional expenditure item? What is the project? I know it is something to do with keeping things local.

Mr B.S. WYATT: It is certainly a policy of government, so it is a good question. Effectively, the spend on Local Projects Local Jobs then expires, even though there is a dash there in 2018–19. Similar to some of the other items in the budget, such as reinstating education assistants in classrooms, it is a comparison with the *Pre-election Financial Projections Statement.* That is a good question because that is not a parameter. That is a policy of government.

Dr M.D. NAHAN: I think it is there because the expenditure took place in 2016–17, even though it was not allocated in PFPS or the budget.

Mr B.S. WYATT: Yes, it is above and beyond.

Dr M.D. NAHAN: Those are new programs created by the new government after 11 March.

Mr B.S. WYATT: It is a spend above and beyond the PFPS.

Dr M.D. NAHAN: What are the objectives of Local Projects, Local Jobs?

Mr B.S. WYATT: Its objective, as the name suggests, is to create local opportunities for local organisations, including schools, for small funding grants across a full spectrum of areas such as environment or education. I am just trying to think what else. It is almost across the entire policy spectrum of local organisations.

Dr M.D. NAHAN: Does the Treasurer have a list of where they have been allocated to date?

Mr B.S. WYATT: The Department of the Premier and Cabinet is the relevant agency.

Dr M.D. NAHAN: I will bring it up with that department.

Mr B.S. WYATT: It is best to put it to it.

Dr M.D. NAHAN: This is an omnibus question but related to these matters. We have an extremely tight expenditure program along with a raft of changes. There are probably pushing 10 changes, including the

Australian Energy Regulator transfer, the workplace reform and the one per cent efficiency dividend. Then we have changes to the structure of the bureaucracy and the senior executive service with a 10 per cent change, or 100 per cent change for some people, and 3 000 voluntary redundancies. There are a lot of things going on. How is the government going to hold all this together?

Mr B.S. WYATT: I think we had this conversation last week in private members' business or during a matter of public interest; I cannot remember now. The member is right.

Dr M.D. NAHAN: I just wanted to see the faces of the Treasury people behind the Treasurer.

Mr B.S. WYATT: There is a lot going on and I am expecting a lot of the Treasury people behind me, as the member said. Regardless of whether the papers have referred to it, I know I have said that there is risk around assumptions about spend across the forward estimates and revenue. I accept that. That exact point is made under "Spending Risks" on page 67. Certainly, a lot is falling to Treasury and to the Department of the Premier and Cabinet, as central agencies, to make sure that this all works and is delivered.

Dr M.D. NAHAN: In reference to risk, Treasury's document, the *Pre-election Financial Projections Statement* put in a couple of risk factors. One is the new prison and another was the National Disability Insurance Scheme, which we have dealt with. Under the previous government, Treasury allocated certain money for planning a prison; it was not a huge amount, but I think Treasury indicated that a decision was needed in the next year, which is this year. That is a major growth area. In April, Treasury under this government came out with an indication of significant pressures on the Department of Corrective Services, Department for Child Protection and Family Support and the Department of Health, obviously. Could the Treasurer indicate what he believes are the risks associated with slippages in those three areas?

Mr B.S. WYATT: The risk in the Department of Corrective Services, as has been the case for a while now—the minister informs me that apparently it is common in all states—is a huge increase in the number of remand prisoners. It has been particularly problematic for Western Australia for a while. The "Justice Pipeline Model" breakout box in budget paper No 3 explains that we are looking at how we can reduce pressure points to reduce the number of prisoners on remand. It might be issues with the ChemCentre and the testing of urine and blood, which is taking a long time; when people wait for that, they wait inside prison. I am encroaching into the Attorney General's area and maybe I am making comments that the Attorney General will say are not quite correct, but there is the nature of the crimes and a reluctance of the judiciary to release people into the community so they are going inside more than they are being released. That might suggest that there is an opportunity for more community-based options for the judiciary. I am probably wandering into the Attorney General's space. He is the best person to comment on that. I know the Attorney General has been looking at the nature of community-based options in other states. But the member is right; ultimately our prisons are almost at capacity and that is a problem for the government. It is risk that we have to deal with somehow.

Dr M.D. NAHAN: Is it a risk if the government brings the contract for the women's prison back into government rather than private?

Mr B.S. WYATT: We looked at that in some detail, the member might be surprised to know. I do not think it is a risk for the operation of the facility. I want to ensure that savings measures that have been recaptured—we talked about agency expenditure review savings for Corrective Services a while ago—are still delivered. The government needs to ensure that that is delivered regardless of who is delivering that service.

Dr M.D. NAHAN: The wages are between 40 per cent and 60 per cent of the cost. The government's wages policy is to cap annual pay increases to $1 000. I hope it gets away with that, as I have stated before. In the forward estimates, the wage price index increases to $3 000. For the average public servant, I think the $1000-ers would be less than 1.5. I do not know what it will be; it will vary from department to department, but will probably be in the vicinity of 1.2 per cent. The government is basically forecasting below inflation and below WPI wage increases across the forward estimates. One of the things that enterprise bargaining agreement negotiators will try to do is truncate the length of the EBA from three to two to one and a half, whatever—that is what they did with us—to hopefully renegotiate in better times. Does the Treasurer have a policy on the length of EBAs?

Mr B.S. WYATT: Again, that is probably a question that is best put to the Minister for Commerce, who is dealing with EBAs. I am not qualified to comment on the tactics of those we negotiate with, other than to make the point that our savings assumption on our wages policy is a four-year assumption and the member's comments about WPI projections are noted.

Meeting suspended from 4.23 to 4.30 pm

Mr D.T. REDMAN: I refer the Treasurer to page 8 of the *Economic and Fiscal Outlook* that states that the government has limited the government's net debt impact of its election commitments to $603 million over four years as a result of budget repair measures and other factors. It also states that a number of remaining election commitments will be considered. Can the Treasurer give me a list of the remaining election commitments that are presumably unfunded?

Mr B.S. WYATT: No, but the member will see some of the ones that we are working on in the list I have already undertaken to get for the member about the provisions. We will continue to work on a range of others and similarly I will continue to work on that $603 million.

Mr D.T. REDMAN: By way of supplementary information, is the Treasurer able to provide me with what he just described?

Mr B.S. WYATT: I can provide what is in the budget, and that is the provision list that I have already undertaken to provide.

Mr D.T. REDMAN: On a point of clarification, I refer to page 4 of *Economic and Fiscal Outlook*. Earlier I asked a question about the proportion of the corporate sector $922 million net debt improvements between the gold royalty, payroll tax and the other $95 million. The Treasurer said that gold contributes two per cent. I assume that that is two per cent of the payroll tax component —

Mr B.S. WYATT: Yes.

Mr D.T. REDMAN: — and the iron ore miners as a collective are 20 per cent of the payroll tax component. The ballpark contribution from the gold sector is around about $400 million out of $922 million, which is just over 40 per cent —

Mr B.S. WYATT: Can the member say that again?

Mr D.T. REDMAN: On page 4, three components make up the $922 million of net debt contribution— $435 million from payroll tax, $392 million from gold royalty and $95 million —

Mr B.S. WYATT: Sorry, yes.

Mr D.T. REDMAN: In breaking down the payroll tax component of that, the gold sector contributes two per cent of that $435 million; that is what its payroll tax bill is. The iron ore sector is roughly 20 per cent of that $435 million. Basic summation says that for the gold sector, as a sector, both the gold royalty and its share of the payroll tax, I have a figure of around a $400 million contribution to that $922 million, or 43 per cent, and the iron ore sector contribution is simply 20 per cent of $435 million, which is $87 million.

Mr B.S. WYATT: Yes, that sounds about right.

Mr D.T. REDMAN: I guess I am seeking assurance that I have got that right.

Mr B.S. WYATT: No, that sounds about right.

Mr D.T. REDMAN: Thank you.

Mr B.S. WYATT: But also iron ore, of course, has a much higher royalty rate. That is a separate point, but I just put that there as well. Of the port dues, I do not know what percentage of the forward increases will fall to the iron ore sector, but I dare say the vast majority of the Pilbara Ports Authority's port fee increases.

Mr D.C. NALDER: I want to focus a little on the cut in rebates to self-funded retirees.

Mr B.S. WYATT: Where is that?

Mr D.C. NALDER: Page 152 of budget paper No 3. How many seniors will this policy affect in 2017–18 and in each year of the forward estimates? I am happy to take it as supplementary information, if the Treasurer likes.

Mr B.S. WYATT: Does the member mind taking that by way of supplementary information? By way of supplementary information, we will provide to the member the number of seniors —

Mr D.C. NALDER: In your modelling, what is the actual number of seniors who will be affected by this impost?

Mr B.S. WYATT: Which impost?

Mr D.C. NALDER: The cuts in rebates.

Mr B.S. WYATT: The capped rebates for WA Seniors Card holders?

Mr D.C. NALDER: Yes, so there are the power, water and council rebate cuts. It is basically affecting only self-funded retirees.

Mr B.S. WYATT: By way of an aside, before I come back to that, I am still happy to provide this if it is not what the member is looking for: this is in respect of the decision to reduce rebates available to holders of the WA Seniors Card. These measures will save an estimated $82 million across the forward estimates period, impacting around 56 200 households. That is just a household figure. Is that what the member is looking for?

Mr D.C. NALDER: That is not what I am looking for. There is a cut in the rebate to seniors for council rebates, water rebates and power rates. They all have rebates as part of the Seniors Card, which have been cut. I just want to know the number because it does not affect people who have the pension.

Mr B.S. WYATT: We only have the household number, but we can provide that by way of supplementary information.

Mr D.C. NALDER: I would appreciate that.

Mr B.S. WYATT: The supplementary information is the numbers of individuals who have been impacted on by the decisions around the WA Seniors Card and the eligibility for local government rate and water rebates.

Mr D.C. NALDER: And power.

Mr B.S. WYATT: And the decision in respect of power.

Mr D.C. NALDER: They are the three major ones that have been impacted on. Can I add one more bit to it? I want to understand the average dollar impost. So it is the number of people who are affected, and how much it is affecting them by.

Mr B.S. WYATT: I can give the member that now.

Mr D.C. NALDER: If it combines it with the number.

Mr B.S. WYATT: The average household impact is $322 in 2017–18.

Mr D.C. NALDER: In the cut in rebates, $322 per household?

Mr B.S. WYATT: Yes.

Mr D.C. NALDER: So if we get the number, we just multiply it by that. I imagine the Treasurer has the numbers in the modelling.

Mr B.S. WYATT: I just make the point about the household figure that a lot of people will be living alone, so if we simply multiply it we will get an inflated figure. I am happy to provide the household figure, but we have not given it a number yet. The household figure is probably the more valid figure.

Mr D.C. NALDER: Just to confirm, it will be the number of people who are affected by the rebate cuts and the cost associated with those cuts in rebates.

Mr B.S. WYATT: Yes, okay.

Mr D.C. NALDER: Not the cost, the impact on the individuals.

Mr B.S. WYATT: I will just ask Mr Jones to make a point that is worth making.

Mr A. Jones: We can provide the member with the information per household. We can also provide the member with the information by the number of cardholders. I guess the issue I was raising with the Treasurer was that in a number of households in which two people hold a Seniors Card, the household impact would actually impact. If we multiplied it by two people, we would get a greater amount.

Mr D.C. NALDER: I will have it by cardholder; that might be better. It is a more accurate reflection.

The CHAIR: Would the Treasurer like to restate exactly what the member is going to get?

Mr B.S. WYATT: We will provide the member with the number of Seniors Cards that have been impacted by the decisions around reducing the rebates for water rates, local government rates and underground electricity connection.

[*Supplementary Information No A8.*]

Dr M.D. NAHAN: What changes to the State Fleet policy and procurement initiatives are expected to save $49 million by 30 June 2021?

Mr B.S. WYATT: There is a range including around the length of the lease terms and the nature of vehicles accessible under the fleet entitlements.

Mr M.A. Barnes: It is probably more a Department of Finance question; Finance manages the State Fleet. My understanding is that it is around the type of vehicle that can be procured, effectively smaller and cheaper vehicles.

Dr M.D. NAHAN: Are you going to get a cheap, low-price Getz?

Mr M.A. Barnes: Hopefully not me!

Dr M.D. NAHAN: Are you going to drive a Getz, Mr Court?

Mr M.A. Barnes: I am not sure I would fit in!

Mr B.S. WYATT: I am happy to have another crack at the question when I have the Finance people here. I should have said that at the beginning, I apologise; that is really about Finance's delivery on that.

The CHAIR: You cannot buy a Getz anymore anyway.

The appropriation was recommended.