Division 32: Treasury (Except Item 51, WA Land Authority; and Item 62, Royalties for Regions), $4 987 698 000—

Mr N.W. Morton, Chairman.

Dr M.D. Nahan, Treasurer.

Mr M. Barnes, Under Treasurer.

Mr M. Court, Acting Deputy Under Treasurer.

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

Mr R. Watson, Acting Executive Director, Economic.

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

Mr R. Mann, Executive Director, Strategic Projects and Asset Sales.

Ms L. Di Paolo, Principal Policy Adviser.

Mr M. Don, Principal Policy Adviser.

[Witnesses introduced.]

The CHAIRMAN: 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 the discussion of those items for which a vote of money is proposed in the consolidated account. Questions must be clearly related to a page number, item, program or amount in the current division. It will greatly assist Hansard if members can give these details in preface to their question.

The Treasurer 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 Treasurer 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 Treasurer's cooperation in ensuring that it is delivered to the principal clerk by Friday, 3 June 2016. I caution members that if a minister asks that a matter be put on notice, it is up to the member to lodge the question on notice with the Clerk's office.

I give the call to the member for Cannington.

Mr W.J. JOHNSTON: I have a procedural question. In the past we were allowed to ask questions about budget paper No 3. Will that be the practice again this year?

Dr M.D. NAHAN: I have no problem with that. I think it is standard.

The CHAIRMAN: That is fine, members, as long as the question is relevant to what we are discussing.

Mr B.S. WYATT: I refer to the Western Australian Future Fund at page 254 of budget paper No 3. I have a few questions about the future fund; I am just trying to get my head around where we are at. The latest quarter listed on the Treasury website for investment holdings is September 2015. I note that earlier this year, a media report on the future fund stated that as at 21 September the future fund was holding some $203 million in Western Australian Treasury Corporation securities, which is about 20 per cent of the balance of the future fund. What is the current holding of WATC securities in the future fund?

Mr M. Barnes: I have some updated numbers on the future fund. I think as recently as yesterday the December quarter report was put on our website, but I have the March quarter numbers, which will be published soon.

Mr B.S. WYATT: Is this for the March quarter?

Mr M. Barnes: Yes. The balance of the future fund as at 31 March was $1 038 million. Of that amount, $205.8 million, or 19.8 per cent, was invested in WATC bonds.

Mr B.S. WYATT: How much of that WATC debt has been purchased on the open market versus purchased directly from the WATC?

Mr M. Barnes: I do not have that information at hand, but I am happy to provide it as supplementary information.

Dr M.D. NAHAN: As the member would be aware, the WATC does those transactions on behalf of its client, Treasury.

Mr B.S. WYATT: Hence, I could not ask Treasury Corporation that question, but I can ask Treasury.

Dr M.D. NAHAN: We can take that question on notice and provide supplementary information, if the member wishes. How much of the March quarter WATC's stock of bonds purchased on behalf of the WA Future Fund was bought on the open market.

[*Supplementary Information No A34.*]

Mr B.S. WYATT: In his answer to a question asked during an upper house estimates committee hearing in, I think, January this year about the future fund, which has bought WATC debt because, obviously, our bonds are attracting an attractive yield, Mr Barnes made the point —

> Our bonds are generating a higher yield than most if not all other states currently.

Which other state bonds have a yield that is higher than our borrowing?

Mr M. Barnes: It varies from bond issue to bond issue and from time to time of each issue. At the moment, South Australia has a lower credit rating from Standard and Poor's than Western Australia. Often, South Australian bonds will attract a higher yield than WA bonds; occasionally, Tasmanian bonds will as well, depending on the timing. The credit rating is only one factor that determines the yield; it is not the sole factor. The volume of debt being raised is another factor, as are general market perception—there are a range of factors that influence yields.

Dr M.D. NAHAN: The duration of the bonds.

Mr M. Barnes: Yes.

Mr B.S. WYATT: The Treasurer may recall that last year he provided a breakdown of the semi-government bonds held in the future fund by way of a letter, not by supplementary information. I think Mr Barnes provided that information to the upper house as well. Rather than my having to ask about the amounts for South Australia, Tasmania, Queensland or wherever, the Treasurer provided me with a letter after the estimates committee hearing, because he could not provide that information by supplementary information.

Dr M.D. NAHAN: We can provide that information in camera.

Mr B.S. WYATT: As the Treasurer did last year, which was fine. Thank you. Assuming, as Mr Barnes stated to the upper house, that the future fund's purchase of WATC debt is a neutral investment, effectively, what returns are we getting or seeking to get from the corporate bonds holding, which I assume is still around 20 per cent or 30 per cent of the future fund?

Mr M. Barnes: The future fund can invest in debt securities issued by a listed corporation with a credit rating of A or better. As at the end of March, 24.5 per cent of the total portfolio was held in such corporate bonds. At the moment, they are really the main source of yield enhancement for the future fund. This is an issue, given that things have changed since the fund was established in 2012 and the relative yields of WATC paper versus other semi-government paper. Under the investment framework for the future fund, which was tabled in Parliament at the time the bill was debated in 2012, a limit of 25 per cent of the total portfolio can be held in those corporate bonds. With 24.5 per cent held now, we are pretty much at that limit. To be honest, we are struggling to try to find yield to meet the future fund's return objective.

Mr B.S. WYATT: I thought it was 20 per cent in corporate bonds.

Mr M. Barnes: It was a strategic asset allocation, which has a 20 per cent allocation, but within the investment framework that I mentioned, there is scope for active management around that and that 20 per cent can go as high as 25 per cent. We are almost at that 25 per cent limit with corporate bonds now. As it is pretty much the sole source of yield enhancement, we have a bit of an issue going forward to continue to meet the return objective of the future fund, which to date we have met—we have exceeded the WATC cost of funds by an average 40 basis points since inception.

Going forward, I have asked the WATC to work with Treasury to review that investment framework. My view is that we will need to increase the proportion of the future fund portfolio that is allocated to those corporate bonds. We would not change the risk profile of those bonds; they would still require a minimum credit rating of A as per the Financial Management Regulations. But given that they are really the sole source of yield enhancement at the moment, I think we are going to have to increase that 25 per cent proportion a bit. That is what we are doing work on at the moment.

[9.10 am]

Mr B.S. WYATT: What sort of percentage is being considered?

Mr M. Barnes: I would be speculating—30, 35 per cent. I would suggest that 40 per cent would be the maximum.

Mr B.S. WYATT: Just through the Treasurer, would that require a legislative change or can it simply be a decision by the Treasurer?

Dr M.D. NAHAN: I cannot answer that. Mr Barnes?

Mr M. Barnes: It does not require legislative change. All the investments are determined by the Financial Management Regulations, so we cannot invest beyond the mandate of those regulations. It is just changing the proportion, the mix, of the portfolio that is allocated across semi-government versus corporate paper. That is determined by that investment framework and the strategic asset allocation, which is a decision of the Treasurer.

Dr M.D. NAHAN: I might add that I have not had any discussions with Treasury or WATC on this issue of changing the allocation at all.

Mr B.S. WYATT: I am just curious about how the Under Treasurer measures whether the future fund has effectively earned above the WATC cost of funds. Is that done by examining the future fund itself or is it done by simply saying that the weighted cost of funds has been X, or the weighted return of funds over time has been Y, and it is therefore a matter of making assumptions? I hope my question makes sense. For example, my understanding is that the fund of $1 038 million is part of the public bank account. Does the Under Treasurer look at the fund itself and say, “Yes, it has made it”, or does he simply look over a three-year period and say, “The weighted cost of debt over that period of time was this and the weighted return was that, therefore”?

Dr M.D. NAHAN: My understanding is that they look at the stock of allocation of bonds in the future fund to find out what the average return on that is.

Mr B.S. WYATT: Specifically in the fund?

Dr M.D. NAHAN: Yes, the weighted average return on that and then that is compared with if they had invested solely in WATC debt.

Mr M. Barnes: Correct.

Mr W.J. JOHNSTON: I have a further question about that. What the Treasurer is saying is that the actual return on the fund is compared with what the WATC funding costs are, but the WATC funding costs are different depending on —

Dr M.D. NAHAN: Yes.

Mr W.J. JOHNSTON: So it would be the average cost of the WATC funding?

Dr M.D. NAHAN: Mr Barnes.

Mr M. Barnes: That comparison of the reterm versus cost of funds is done each time a deposit is made into the future fund. It is compared with if the WATC, instead of putting that money into the future fund, had raised an equivalent amount of debt, and what the cost of that debt would have been at that time. It is like an opportunity-cost comparison.

Mr B.S. WYATT: I have two more follow-up questions. I think the Under Treasurer said that 19.8 per cent is currently held in WATC debt. Is that anticipated to rise? Are we continuing to purchase WATC securities; and, if so, to what level do we anticipate that is going to go?

Mr M. Barnes: That is one of the issues I have asked the Treasury Corporation people and my own people to look at as part of this review of the investment framework, which is underway now. Hopefully, we will be reporting to the Treasurer in the coming weeks. There are a range of options around that. My personal view is that we should probably put a cap of around 20 per cent on debt securities purchased from any issuer—any semi-government issuer or any corporate issuer—just for the sake of diversification of the portfolio. That is my view. I will be injecting that into the review as it concludes over the coming weeks.

Mr B.S. WYATT: In respect of any proposed changes to the investment strategy of the future fund, is that likely to be a decision by government before the end of this year? I am just trying to get an understanding of where it is at.

Dr M.D. NAHAN: All I can say is that I am yet to receive any advice about not only the recommendation, but also the parameters within which we can decide. There is a covenant aspect to the investment. Honestly, I have not seen it or had a discussion with Treasury. Therefore, I cannot give a timing commitment on it. I would also have to put that in the context of when they make transactions, which I do not know. As members can guess, I leave the transaction decisions to Treasury and WATC. Until I get that advice, I cannot give the member advice on the timing of the decision, if there is to be a change at all.

Mr B.S. WYATT: I will ask one question in two parts. We were given the update on corporate and WATC bonds as of March this year. How much cash is currently held in the future fund? Is it the intent of the future fund to hold to maturity all the bonds it has purchased?

Dr M.D. NAHAN: Mr Barnes?

Mr M. Barnes: The future fund holds only a negligible amount of cash because it does not generate the yield that we need. As at 31 March, only $1.9 million or 0.2 per cent was held in cash. In answer to the second question, yes, it is a very passive investment strategy; the future fund is basically a buy-and-hold strategy.

Mr B.S. WYATT: So there has not been any sale?

Mr M. Barnes: No. The securities are held to maturity.

Dr M.D. NAHAN: In short, it is an extremely low risk portfolio.

Mr W.J. JOHNSTON: Are all those securities equivalent to cash so that the net debt effect is zero?

Dr M.D. NAHAN: Mr Barnes?

Mr M. Barnes: Yes, that is correct.

Mr W.J. JOHNSTON: Just in regard to the decoupling from the national cost benchmark for the Department of Health, how much is this going to cost? Is this a $400 million decision?

The CHAIRMAN: Where are you referencing, member?

Mr W.J. JOHNSTON: I am referring to page 99 of budget paper No 3.

Dr M.D. NAHAN: Can the member ask the question again?

Mr W.J. JOHNSTON: There is a cost that applies to the decision outlined on this page. Is that cost $426 million?

Dr M.D. NAHAN: I will go to the policy overview and then I will go to Mr Barnes about the sum. As members know, for a variety of reasons there is a national price for health. It is important for a number of reasons. It is a benchmark, but it is also the price that the commonwealth has, in the past at least, provided as assistance to the state for health. It is a benchmark. Above that, the commonwealth does not provide. That has determined what the commonwealth provides, at least in the past. Mr Barnes might be able to comment as to going forward. We have used that as a benchmark to indicate a target that we were going to approach over the forward estimates. We are significantly above that and have been for a time. The policy in the past was that two budgets ago it was over the forward estimates, and then I think we forecast a slower glide plane to, I think, 2020. The reason why, of course, is that these things have to be realistic. Every time we looked at it, the costs of the Department of Health were even more significantly above the national price. We want our forward estimates to be realistic as to what is doable and appropriate. This time we changed it again to a different format because the glide plane that we had in the previous budget was simply not realistic. We made a whole raft of changes to our assumptions. I will have the Under Treasurer go through those.

[9.20 am]

Mr M. Barnes: I refer the member to the table and the text underneath that table on page 115 of budget paper No 3 that sets it out reasonably well. Essentially, in last year's budget, with the transition to the national cost benchmark by 2021, from memory, had we stuck with that approach in this budget and with updated data on hospital cost growth from other states, we would have required annual cost growth of minus 0.6 per cent to achieve that convergence to the national cost benchmark, which, as the Treasurer said, is clearly unrealistic. In this budget we have replaced that with annual cost growth of 1.5 per cent, which is directly linked to the new wages policy. We still calculate activity growth in the health system on the same basis, which is based on age-weighted population growth projections, which in this budget is 2.4 per cent for the coming year. It has been revised down slightly from last year as population growth has come off a little. Cost growth of 1.5 per cent and activity growth of about 2.4 per cent gives total growth in hospital expenditure. If we look at that table on page 115 and the text underneath it, that confirms that additional cost growth in this budget, net of the slightly lower activity growth, was an estimated $426 million over the forward estimates, as the member indicated. That has been largely offset by reductions in the health forward estimates for the impact of the new wages policy.

Dr M.D. NAHAN: I would like to clarify that. As members know, our wages policy is 1.5 per cent. As the Under Treasurer indicated, we escalated the cost structure by 1.5 per cent, which is equivalent to the wages policy, and a reduction in the wages policy leads to a 1.5 per cent reduction. We also funded it in part through the AER—that is, agency expenditure review—to the head office, non-hospital parts of the Department of Health, and we have reoriented all those savings back into the hospitals.

I want to go back to the policy issues. There were two driving factors for the Western Australian Department of Health—let us say hospitals—being above the national average. One was its own growth in costs, particularly those associated with the readjustment, or the lack of it, in the allocation of staff and facilities across the hospital system with the opening of Fiona Stanley Hospital, but also substantial reductions in the cost of other states, particularly Queensland, New South Wales and Victoria. In other words, the national price was not rising but was decreasing because of substantial reductions in other states. I think Victoria in the main was very stark. I am not exactly sure why those are going down but they were very stark. It was not just our cost going up; the national benchmark was declining each year.

Mr W.J. JOHNSTON: I wish to clarify something. The additional allocation of $426 million is actually more than offset by the new wages policy and the agency expenditure review.

Mr M. Barnes: Not quite. Compared with the midyear review, the overall net result is about a $30 million increase over the forward estimates period.

Mr W.J. JOHNSTON: Looking at the table on page 115, in the current year there is an increase but in the out years there is an additional $70 million on the top line and minus $67 million and minus $47 million—so that is more—and then $124 million in 2018–19 but minus $52 million for the other two decisions; and then in 2019–20, it is $191 million but then minus $185 million and minus $48.3 million.

Mr M. Barnes: The third line item relates to the agency expenditure review. Those minus numbers that the member read out—for example, minus $47.5 million in 2017–18—is the money that gets reinvested back into hospital services.

Mr W.J. JOHNSTON: That $47 million is not a saving, even though it is shown in the table relating to major spending savings.

Dr M.D. NAHAN: It is a savings update on a section of health but is reinvested in a different section. It is savings achieved and then rather than Treasury taking it and putting it in the bottom line, it reinvests it in the hospital sections of the Department of Health. Quite rightly, it is indicated as a policy decision and savings but it is reallocated back to the hospitals, as indicated in the budget papers.

Mr W.J. JOHNSTON: Is the Treasurer saying that those figures—minus $47.5 million, minus $52.5 million and minus $48.3 million—are added to hospital services in addition to the $70.2 million, $124.9 million and $191.1 million?

Mr M. Barnes: That is correct.

Mr B.S. WYATT: Keeping the cost growth to 1.5 per cent, I assume that the biggest proportion of that cost growth is wages, therefore driven by the wages policy. Can someone give me an indication—I am sure someone knows—of the cost growth over the last three years? I am just trying to understand the likelihood of getting 1.5 per cent.

Dr M.D. NAHAN: It is not 1.5 per cent because agency efficiency review money is put back in. It is going to be above 1.5 per cent. Also, that is a cost associated with a unit. There will be growth in demand. It is 1.5 times the growth in demand—there is no change to that methodology—plus that figure amortised over the number of people; it is the agency expenditure review stuff. Maybe Mr Barnes can give an indication of the expected overall growth. The budget indicates that in 2016–17, there will be overall growth of 4.8 per cent allocated to the health department. Most of that—virtually more than all—will go into hospitals. There is no doubt that we have very large growth over periods of time. Maybe Mr Barnes can give the member the figures for the last three years.

Mr M. Barnes: The net result of all these ups and downs is not much. Across the forward estimates period average annual growth in spending on public hospital services in this budget is 4.2 per cent per annum. That compares to 4.4 per cent per annum in last year's budget. The marginal reduction is due to that slightly lower activity growth due to population growth coming off. Going forward, 4.2 per cent per annum in total spending on public hospital services comprises that 1.5 per cent per unit cost growth, the 2.4 per cent activity growth and reinvestment of the AER savings from the non-hospital part of Health's budget. How does that compare with previous growth? Historically, it has probably been around the seven to eight per cent mark. That is during a time of much higher population growth in recent years of up to 3.5 per cent. That historical growth also reflects the impact of previous EBA agreements.

Dr M.D. NAHAN: There is still life to go in the nurses' agreement. The nurses got a five per cent pay rise, I think, in August last year, so that is still flowing through the system. Over the last two or three years we have substantially reduced the per unit costs in the system, but, as the member indicated, they are still substantially above where we want them to be and where they are relative to other states.

Mr B.S. WYATT: On page 99 of budget paper No 3 there is reference to require a one per cent per annum efficiency dividend from 2017–18. Is that across the whole health system? No doubt it is in here, but I just could not find it. Does that refer to the health system or just to hospitals?

Mr M. Barnes: That is just for the activity-based funded hospital services.

Mr B.S. WYATT: What savings is that expected to harvest? No doubt Mr Barnes can point me to a page but I could not find that specific reference.

Mr M. Barnes: It is part of that $426 million.

Dr M.D. NAHAN: It is built into the forward estimates.

Mr B.S. WYATT: I understand that but I thought it was above and beyond—the way it was bullet pointed.

Mr M. Barnes: When we talk about the revised activity and cost growth settings for health, it is the 1.5 per cent cost growth, the revised activity growth based on revised population growth, which is about 2.4 per cent, and also taking into account that one per cent efficiency dividend from 2017–18 onwards. It is all in there.

Mr W.J. JOHNSTON: There has been a shift of services in certain hospitals to other hospitals. I take Bentley Hospital as an example: fewer services are now being carried out at Bentley and more are being done at Royal Perth Hospital. Obviously, Bentley Hospital is a lower cost hospital than Royal Perth Hospital, so is there an examination of the cost impact of those sorts of things?

[9.30 am]

Dr M.D. NAHAN: As the member knows, particularly with the construction of Fiona Stanley Hospital, there was a planned reallocation of resources from Royal Perth Hospital, Fremantle Hospital and Bentley Hospital to Fiona Stanley Hospital. A large amount of that reallocation has not gone as initially planned. Some of the activities, particularly maternity at Bentley Hospital, that were supposed to go to Fiona Stanley Hospital have stayed at Bentley. Of course, we also set up the Mental Health Commission, which has taken responsibility for the mental health activity, at Bentley in particular, and put a major focus on that service. Although Royal Perth Hospital has been downsized, there is more activity at Royal Perth Hospital than was initially planned by the review. I might add that there are more facilities at Fremantle Hospital than initially planned. The reallocation has not gone as expected and that is one reason that costs are higher than initially planned and higher than the national figure; that is, there are still resources at Fremantle, Bentley and Royal Perth Hospitals that were planned to go to Fiona Stanley Hospital and have not done so. I am not sure that we could even estimate how much that costs; it is a Department of Health process. The reallocation is still underway and being managed by the Department of Health. As the member knows, there is some additional capacity in other hospitals for mental health services—we just opened a facility in Joondalup—and some maternity facilities are being opened. Therefore, some adjustments will still be made after the Perth Children's Hospital opens later this year.

Mr T.K. WALDRON: At page 3 of budget paper No 3, the table "Key Budget Assumptions" refers to the Perth consumer price index. I note that the Australian Bureau of Statistics recently released CPI data for the March quarter. Can the Treasurer outline the implications of this data release and what that means for the future growth of CPI?

Dr M.D. NAHAN: This has been one of the more difficult ones because we are caught in a period of deflation. It has caught everyone by surprise by the fact that not only it exists but also its extent. We had a lot of discussions about this because CPI is a major benchmark for us with wages and other issues and we use it for escalation purposes. In the past, Treasury has—this is not a criticism—significantly overestimated the inflation rate and that was used for our wages policy. A couple of years ago, we had 2.75 per cent and it came in very much lower, at 1.8 per cent, and the same thing happened the next year, I think we forecast two per cent. In 2015–16, CPI is expected to be in the vicinity of 1.25 per cent to 1.1 per cent. In the run-up to the budget we had a lot of discussion about what it should be. Treasury does the forecast. I put my views to Treasury, but it is Treasury's view and I accept what it does. Treasury forecast 1.75 per cent for 2016–17. However, right after the budget closed, the ABS came up with an estimate of the Western Australian CPI for the last quarter and it was negative 0.6 per cent; that is, CPI was going into the negative. This is the first time in a long time, if ever, that has happened—at least since the data was collected. Western Australian is in a deflationary period.

Mr B.S. WYATT: As is Australia.

Dr M.D. NAHAN: Yes, as is Australia. We did not expect that. Whether it continues and for how long it permeates, no-one knows. I asked Treasury what would happen. That would have lowered its estimates to about

1.1 per cent in 2015–16 and 1.5 per cent in 2016–17. That is the rate by which we target wage increases going forward. After that, Treasury's methodology is to do an assessment on the basis of the data and analysis to date for a year or so, and then in the longer term it targets the Reserve Bank of Australia's targets for inflation in its determination of the interest rate policy. CPI goes up from where Treasury thinks it is today over at least the last two years of the forward estimates to that target. Is that a reasonable process? It is a good methodology and in line with other forecasters such as the Chamber of Commerce and Industry of Western Australia, Deloitte Access Economics and the commonwealth, but after next year we will have to see how these deflationary pressures go through the system, and that is all I can say. Since then the wage price index in Australia has come down to the lowest it has been in a long time. We can see continued deflationary pressures on the economy that will keep CPI and every other index, particularly interest rates, low for the future.

Mr T.K. WALDRON: Does the Treasurer think it has bottomed out yet?

Dr M.D. NAHAN: No, I do not think so.

Mr W.J. JOHNSTON: This must have some flow-on impact into the payroll tax collection. Can the Treasurer outline that for us?

Dr M.D. NAHAN: Yes. Until a couple of years ago, Western Australian governments over the previous decade rejoiced in the continuous inflow of revenue from payroll tax. In fact, until two years ago it grew at an average annual rate of 12.2 per cent—phenomenal—on the back of population growth, wages growth and the high participation rate with the mining sector. All good things come to an end, at least from the perspective of the taxation recipient, the state government. Payroll tax revenue declined last year. We expect it to be negative two per cent for 2015–16, and growth in 2016–17 to be at 0.2 per cent—flat as a tack! That is no growth. Every one of our tax receipts is flat to zero or negative, including transaction fees. Land tax is down 5.6 per cent and transfer fees are also down. In this deflationary world it is happening with not just CPI, which represents indices of other things; everything is flat. As I indicated, overall our aggregate revenue is down by about three per cent in 2016–17 in every area. GST is negative. Our own tax receipts for iron ore are the only reason GST will go up; our share went from 29.9 per cent or 30 per cent to 30.3 per cent. I might add that the commonwealth is going to experience the same thing.

Ms R. SAFFIOTI: My question initially refers to page 379, the Office of Strategic Projects and Asset Sales and the financials of Perth Stadium. On page 130 of the *Economic and Fiscal Outlook*, for the first time we have some of the annual impacts of the stadium on the budget. I will work through those and start on page 130 with funding to the Western Australian Sports Centre Trust of $6.4 million in 2016–17, $39.7 million in 2017–18, $66.5 million in 2018–19 and $65.5 million in 2019–20. I understand that these costs include a one-off payment, a finance lease charge, and maintenance and other operating costs. Can the Treasurer explain what proportion of those figures will be recovered from the stadium operator?

[9.40 am]

Dr M.D. NAHAN: I will pass this on to Richard Mann, the executive director of strategic projects, who is behind me to my right.

Mr R. Mann: The VenuesWest costs represent both the capital component of the stadium payments as well as the operational components. It is the operational components that will be recovered from revenues. By capital costs, I mean the capital and interest repayments associated with the design, build, finance and maintain financing charges that are paid as contract payments over the 25-year operating term of the DBFM contract. Those contract payments are made by VenuesWest. VenuesWest is also responsible for the operating component of those payments—the facilities management services, maintenance and life-cycle replacement costs carried out by the DBFM contractor. They form part of the operating component of those costs. There is also VenuesWest's own management costs for stadium governance and costs associated with the stadium operator with respect to the forthcoming contract between VenuesWest and the stadium operator. All those components form the operational part of the stadium cost that will be met from stadium revenues.

Ms R. SAFFIOTI: Is Treasury saying that all those costs—$6.4 million, $39.7 million, $66.5 million and $65.5 million—will be met through the revenue from the stadium?

Mr R. Mann: No—only the operating component of that. If we go to —

Ms R. SAFFIOTI: Back to my original question: what component of those figures represents the operating —

Dr M.D. NAHAN: Please put the question through me.

Ms R. SAFFIOTI: Sorry, Treasurer. My original question was: what component of that line item will be recovered? I understand that line item includes capital, finance, life-cycle maintenance and management costs of VenuesWest, plus the operating costs. What amount of that line will be recovered through the operator?

Dr M.D. NAHAN: Mr Mann.

Mr R. Mann: Without having the VenuesWest details in budget paper No 2 in front of me now, there is a breakdown provided in BP 2 for VenuesWest. I think it is at about page 686. That identifies the breakdown between the finance lease costs, which represent the capital component, and the goods and services cost, which reflects the operating component. That provides the breakdown.

Ms R. SAFFIOTI: Was it page 662?

Mr R. Mann: I think it is page 686 of BP 2.

Mr B.S. WYATT: Now that we have that page in front of us, could Mr Mann take us through the relevant line items he is referring to?

Dr M.D. NAHAN: I suggest that members also look at page 132 of BP 3 under "Perth Stadium".

Ms R. SAFFIOTI: The $13 million per annum—how much is that?

Dr M.D. NAHAN: Does the member mean the proportion of total identified expenditure that relates to the operating costs? Is that what she is referring to?

Ms R. SAFFIOTI: I am trying to understand what the net financial impact of the Perth Stadium is on the state budget each year. That has always been my goal. We are getting closer.

Dr M.D. NAHAN: As expenditures are rolled out in the forward estimates —

Ms R. SAFFIOTI: This is the first time they have been shown, Treasurer.

Dr M.D. NAHAN: That is because contracts are signed and the stadium comes into fruition. This is the first time it has really been rolled out in terms of an agreement. That is why there is no attempt to hide this, or otherwise. It was always the case, as contracts were let and decisions were made, that they could be timed to roll out in the forward estimates of this budget, and it is more and more extensive. Mr Mann, the question, as I understand it, is: what is the net impact of the stadium over the forward estimates in the state budget?

Mr R. Mann: The $13 million the member has identified represents VenuesWest's operating costs including the operating component of the DBFM contract payments that will be met by revenue. There are supplies and services costs of approximately $13 million per annum. That is the component that includes the operational component of the DBFM contract payments, plus VenuesWest's management costs.

Ms R. SAFFIOTI: Just confirming: this relates to $33 million over three years?

Mr R. Mann: Correct.

Ms R. SAFFIOTI: Looking at page 130 of budget paper No 3, in 2017–18 the annual impact on the budget is $39.7 million, but the government expects to recover approximately $13 million of that from the stadium operator.

Mr R. Mann: That is right.

Ms R. SAFFIOTI: The net impact—I am only talking about this particular transaction—is approximately $26 million in 2017–18.

Mr R. Mann: Yes, which reflects the interest component of the DBFM contracts, plus depreciation.

Ms R. SAFFIOTI: It includes the interest, the life-cycle maintenance —

Mr R. Mann: No.

Ms R. SAFFIOTI: No?

Mr R. Mann: No—life-cycle maintenance costs are included in the operating component. They are recovered from revenue.

Ms R. SAFFIOTI: It includes basically the financing cost.

Mr R. Mann: Correct.

Ms R. SAFFIOTI: But not the capital repayment—or does it include the capital repayment?

Mr R. Mann: No.

Ms R. SAFFIOTI: It is a financing cost; so that is a net impact of $26 million. That is one part of the transaction. I move to page 150 of budget paper No 3. My question relates to the agreement with the users, particularly the West Australian Football Commission.

Dr M.D. NAHAN: Yes.

Ms R. SAFFIOTI: It says here that it is subject to commercial negotiations.

Dr M.D. NAHAN: Yes, that is right.

Ms R. SAFFIOTI: What is the expected amount that will flow to the Football Commission as a result of it losing access to revenue from the current venue at Subiaco?

Dr M.D. NAHAN: The government made a statement that the WA Football Commission will be no worse off moving from Domain Stadium to the new Perth Stadium. The issues with football widely—the Australian Football League in particular with the Dockers and the Eagles, and the WAFC—is still open to negotiation and is part of the negotiations. Until those negotiations are finished, the sum is not solidified and has not been absolutely determined. Those negotiations are still ongoing. Let us say that negotiations are still ongoing and are not settled.

Ms R. SAFFIOTI: The Treasurer said there is a commitment not to be worse off. How much do they get out of the stadium now?

Dr M.D. NAHAN: I told the member that it can be a variable sum. The starting point, and our point today, is that they will be no worse off or they can be much better off. But until the negotiations are finished, the sum is not set and therefore I cannot answer that. The reason we will not disclose it is that it has not been settled yet. There are still active—at times very heated—negotiations on this point. To disclose a figure that is not set at this time would not only be inappropriate but also undermine the negotiations. We are not going to do that.

Ms R. SAFFIOTI: It is shown as a provision. The fact sheet that accompanied the budget papers this year said that a global provision had been made. Is the Treasurer telling me that he cannot disclose what provision has been made in the budget in respect of the WAFC negotiations?

Dr M.D. NAHAN: No; the member asked me a different question. She asked me how much —

Ms R. SAFFIOTI: No —

Dr M.D. NAHAN: The member asked me a question; let me answer it. I was asked how much football would benefit from the stadium. I said the policy is that they will be no worse off. We also know that a payment will be made from the operating arrangement for the stadium and, appropriately, Treasury makes a provision for that because we know there will be an expenditure of this nature. The provision is an estimate of that sum. It does not necessarily relate to what we think it will be, because it is still open to negotiation. The negotiation can bring a number of financial and other types of dimensions to the agreement. The member asked me how much, and I said it has not been decided. The provision will probably be different from the ultimate sum.

[9.50 am]

Ms R. SAFFIOTI: If it is a different question, can the Treasurer answer this: what is the provision?

Dr M.D. NAHAN: We put a provision in there. The member is trying to get one of the parties —

Ms R. SAFFIOTI: We are trying to get budget information!

Dr M.D. NAHAN: Yes. We are active in negotiations. Disclosing that sum would aid participants in the negotiation.

Mr W.J. JOHNSTON: All the participants?

Dr M.D. NAHAN: No, not all. If we disclose the flow to one of the number of participants in the negotiation, that will give that party an insight into what one of the other parties in the negotiations is willing or able or thinks it is going to pay, and that will aid it in the negotiations.

Mr W.J. JOHNSTON: Yes, but this is actually the real problem, is it not? There are several sets of negotiations, but the government is on the hook for whatever happens because the stadium operator is negotiating with the Australian Football League, and separately also negotiating with the West Australian Football Commission, and whatever deal they do, the government has to make up the difference.

Dr M.D. NAHAN: No; that is wrong. That is an incorrect statement.

Mr W.J. JOHNSTON: Is the Treasurer saying that the negotiations between the stadium operator and the AFL do not have any impact over the amount of money available for the football commission?

Dr M.D. NAHAN: The member stated that there is a separate negotiation between the operator and the football commission and that we, the state, will have to pick up the residual of that impact. Can Mr Mann describe the process underway in the general sense of the negotiation?

Mr R. Mann: We provided a facts sheet that shows the organisational relationships between the parties. The stadium operator negotiates with stadium users, not the West Australian Football Commission. The relationship involving the football commission is directly with the state.

Mr W.J. JOHNSTON: The football commission owns the two teams.

Dr M.D. NAHAN: No, it does not.

Ms R. SAFFIOTI: Yes, it does.

Mr W.J. JOHNSTON: It does; of course it does. Everybody knows that.

The CHAIRMAN: Members, let us just keep it to question and answer. Does the member for West Swan have a further question?

Ms R. SAFFIOTI: The football commission owns the two teams, and there are discussions. I am really interested in the impact on the state budget; I have always been interested in that. The other key components are the stadium costs, which we are now a bit closer to realising—the annual costs—and we still have the guarantee to the football commission, which is yet to be disclosed. The third component that came out in this budget is the new subsidy arrangements in relation to the Public Transport Authority. I asked the Minister for Transport this question yesterday, and he asked me to put the question to the Treasurer. Page 133 refers to the new arrangements under which taxpayers will be covering 50 per cent of the cost of public transport to the stadium. I understand that is different from the current arrangements, whereby the users of Domain Stadium currently cover 100 per cent of the public transport costs. Was this as a result of negotiations between the government and the proposed stadium operator?

Dr M.D. NAHAN: Mr Mann will answer.

Mr R. Mann: No. This was determined by the state, with due regard to the overall public transport costs associated with the stadium event calendar and the attendance at those events.

Ms R. SAFFIOTI: I have a further question.

Dr M.D. NAHAN: The member's question had statements in it. Can Mr Mann give a run-down of why we are changing the arrangement for transport, relative to what now exists at Domain Stadium?

Mr R. Mann: Essentially, it is because the costs and the public transport task at the new stadium will be of an order of magnitude greater than is currently the case at Subiaco. At Subiaco at the moment, public transport shifts around 30 per cent of a peak crowd of 40 000, and we are therefore recovering costs for public transport for about 14 000 patrons and we have public transport services to deal with that task of 14 000 patrons. At the new stadium, for a capacity crowd we will be required to move 80 per cent of 60 000—so 50 000 people—by public transport. The cost of those services, relative to what is currently the case at Subiaco, is massively greater, yet the total number of patrons whose tickets are subsiding those costs will increase from only 40 000 to 60 000. It is disproportionate; hence the ability to recover the total cost of those services is greatly diminished in the new scenario. Taking into account those costs and the impost that that would put on current ticketing prices, the government has elected to adopt a position whereby we will recover 50 per cent of costs.

Ms R. SAFFIOTI: I have a further question. In my Dockers membership, will I be paying only 50 per cent of the current charge that I implicitly pay compared with Domain Stadium?

Dr M.D. NAHAN: Mr Mann will answer.

Mr R. Mann: No, absolutely not. There will be an increased public transport charge because of the additional cost. But even with an increase in tickets, the point I made earlier was that if the government sought to recover 100 per cent of the cost for the new stadium, a very substantial increase would be attributed to ticketing charges. Limiting the cost, at least as a starting point, to 50 per cent of cost recovery makes a much more modest and manageable increase to ticketing costs.

Ms R. SAFFIOTI: To clarify, the public transport currently being provided to Domain is not being subsidised by the taxpayer, but the public transport that will take football or cricketgoers to the stadium will be subsidised by the taxpayer.

Mr R. Mann: That is correct.

Ms R. SAFFIOTI: So, it is the same impact.

Mr R. Mann: It will be 50 per cent.

Mr W.J. JOHNSTON: Can I clarify something?

The CHAIRMAN: The member for Cannington has a further question.

Mr W.J. JOHNSTON: I understand—I apologise if I have the figures wrong—Mr Mann to be saying that 14 000 patrons are currently being shifted on public transport, and in the future it will be 50 000. But is the cost per journey for those 14 000 and 50 000 going to be basically the same?

Dr M.D. NAHAN: Mr Mann will answer.

Mr R. Mann: It is not a like-for-like comparison because of the mix of transport modes; it is a very different network cost.

Mr W.J. JOHNSTON: I was not asking about network costs.

Mr R. Mann: Without seeing the detailed analysis, it is hard for me to answer that question. But I am aware of the overall cost, and, irrespective of the average cost per patron, the cost, obviously, of the task of moving 50 000 people is so much greater than the cost associated with moving 14 000 people that it becomes very difficult to recover those costs without a very large increase in ticket prices.

Ms R. SAFFIOTI: I have a further question. It is an interesting swap. I understand that currently my ticket includes the public transport component when I go to Domain, but if we drive and park, we pay $10. In a sense, we are taking the onus of those costs from the individual going to the stadium to, basically, 50 per cent to the taxpayers. That is basically what is happening.

Dr M.D. NAHAN: Yes; given that the facility is being built there, we made a decision about the construction of the stadium to rely more on public transport, particularly trains, and less on cars. That decision shifted the onus of transport from individuals in cars and other private means, except walking, to the trains. That was a policy decision taken some time ago; in fact, the whole stadium is designed on that basis. Therefore, as Mr Mann outlined, given the stadium is larger, that automatically meant greater transport on trains, and then the subsidy. Also, the choice would be to either subsidise the whole of the train costs—increase the subsidy rate—or put it onto patrons. We looked at the issue and the effect on patrons. The additional forced transport by train would be too high so we decided to subsidise 50 per cent of it.

Ms R. SAFFIOTI: This is another cost to the budget of the stadium.

Dr M.D. NAHAN: Yes, and it is in the budget.

Ms R. SAFFIOTI: Yes.

Dr M.D. NAHAN: There is also an impact on it in that we are planning and designing the stadium for uses other than football or cricket; I believe it is football only that covers the costs of the transport.

[10.00 am]

Ms R. SAFFIOTI: Soccer did until it did not pay its debt. Do you remember Perth Glory?

Dr M.D. NAHAN: That is a furphy. Right now, it is football—AFL at least—that covers the cost. Other than that, we plan to use the stadium for other purposes, and we had to take into consideration in budget for the transport costs related to the non-AFL activities at the stadium.

Ms R. SAFFIOTI: I ask about stadium memberships. I understand that the Premier admitted yesterday that there will be stadium memberships at Perth Stadium. He said there was a debate about how many—that, of course, the operator wants more and that the government wants fewer. Given that stadium membership is pretty much intrinsic to the entire financial arrangements of the stadium, how could the government sign and operate if it had not landed on how many stadium memberships there would be?

Dr M.D. NAHAN: That is still under part of the negotiations. As the member well knows, the stadium membership is really an issue related to the football teams. That is as I understand it. I am not party to those negotiations. It is still an issue in the negotiations underway. It is another reason why we have not hit on that issue. We are not in a position to itemise the full financial impact of the operating arrangement going forward.

Ms R. SAFFIOTI: I understand that the amount an operator can recover through stadium memberships impacts directly on its financial model, and, therefore, how much it needs to recover from government. All the financial relationships basically are linked to the number of memberships. How can that not be sorted?

Dr M.D. NAHAN: Yes—and that is why we are under negotiations with them. The negotiations are with the operator, the government and the AFL. Of course, the government has taken a very conservative approach on this issue. It is trying to get personal membership for the whole facility, as it did in the nature of the Perth Arena when certain parties took booths that they could use at all functions. The government's financial modelling assumes a conservative approach—not because we think that will happen, but we took the conservative position of no membership. The approach is based on no stadium membership. As the Premier indicated, we are expecting and attempting to get stadium membership, and that will be an uplift to the operating revenue.

Ms R. SAFFIOTI: It is operating revenue to the operator. I know that there is a shared stadium revenue concept between the users, VenuesWest and the operator, but, as I said, would this not have been a key concept right at the beginning, whether it was a clean stadium or determining the number of memberships. That would impact each of the bidder's ability to negotiate. The government is negotiating, which to me is a key part of the operating model, after it has got a preferred bidder.

Dr M.D. NAHAN: Yes, it is a key issue and that is the key issue of debate between the operator, the users and, of course, the state, and it will be shared in a certain arrangement and some of the benefits of stadium membership will flow through to VenuesWest.

Mr W.J. JOHNSTON: How?

Dr M.D. NAHAN: That will be in the net operating proceeds. The member for West Swan is highlighting quite clearly—I thank her for it—why major issues are not resolved. Part of it is particularly the operators negotiating with the major user group, the AFL, which is interested in its games, and, as I read in the paper at least, does not want any stadium membership.

Ms R. SAFFIOTI: Of course not.

Dr M.D. NAHAN: Okay? Good—of course not. It would be unwise if we were to identify in advance. It is part of the negotiations. A major issue is that the proceeds will be shared between the various participants and users and beneficiaries of the asset—that is, the stadium—it is up for negotiation, and that is what is going on now.

Ms R. SAFFIOTI: In a survey to members on Monday, the Dockers asked whether members would be prepared to pay $3 000 to secure a seat on the wing or in a good position at the new stadium. are the teams now trying to investigate what members are prepared to pay in respect of their negotiations with the operator for stadium memberships?

Dr M.D. NAHAN: The member for West Swan is a former employee of the Dockers. I do not know what the Dockers are doing. Why ask me that question?

Ms R. SAFFIOTI: It is because the Treasurer is negotiating with the teams and the West Australian Football Commission about a major piece of infrastructure, and he still does not know the financial cost to the budget.

Dr M.D. NAHAN: No, I am not negotiating. The member asked me what the Dockers are doing. I do not know whether what she says is accurate or not. I am telling her that if the Dockers are asking its members about that figure, I have no idea why. All I am saying is that the Dockers, the member's former employer, obviously do not want the stadium membership.

Mr W.J. JOHNSTON: Of course they do not.

Dr M.D. NAHAN: The member asked me a question about what the Dockers are doing. I cannot answer that. I do not know why they are doing it or whether they are doing that. Of course, the Dockers will not want stadium membership, and of course the government does. We are in negotiations about —

Ms R. SAFFIOTI: Sorry, a further question.

Dr M.D. NAHAN: Just let me finish.

Ms R. SAFFIOTI: The Premier said the government did not want stadium —

The CHAIRMAN: Let the Treasurer finish, member. Treasurer, have you finished?

Dr M.D. NAHAN: This is an issue for negotiation; it is ongoing. There is disagreement about the level of stadium membership between the various users of the facility, and it is under negotiation. That is why the government cannot and has not disclosed the full outcome—because it has not been settled yet.

Ms R. SAFFIOTI: The Premier said yesterday that the government did not want many stadium memberships but that the operator did. So, yet again, the Premier and the Treasurer are not consistent and do not talk about key issues.

Dr M.D. NAHAN: No, that is rubbish. I thought the member told me—I was not here yesterday—that the Premier said there was going to be stadium membership. I do not know; I am not party to the negotiations. All my responsibility is as Treasurer is for the strategic projects. The Minister for Sport and Recreation and the Premier are involved in the details and negotiations. All I can tell the member is that from the impact on the budget, the government has not disclosed the ultimate details of the operating account and the flow of it because it is not settled.

Mr B.S. WYATT: I have a follow-up question relating to an exchange a little while ago. Both the Treasurer and Mr Mann referred to the significant impact on ticket prices if the full cost of public transport was on the ticket. What is that cost?

Dr M.D. NAHAN: It is the estimated cost. Mr Mann will answer that.

Mr R. Mann: I am actually not sure that we can disclose that at this point. I am happy to take that on notice, given again its potential impact on negotiations.

Mr B.S. WYATT: The figure must be known because the budget contains an allowance for 50 per cent of it. Could I get that figure by way of supplementary information?

Mr R. Mann: It is the subject of a government decision. If we could check the status, please, and, if it is disclosed, whether it needs to be disclosed as confidential information.

The CHAIRMAN: Treasurer, are you prepared for that to be provided as supplementary?

Dr M.D. NAHAN: There are two things. Mr Mann does not have the figure to hand, and I think we should disclose that figure. We will get it and provide it as supplementary information. It will come with the suitable caveats, because there are a lot of assumptions involved in this issue, but we will provide that to the member for Victoria Park.

Mr B.S. WYATT: I understand the caveats

Dr M.D. NAHAN: Yes, because it does not relate just to football; it relates to events that are yet to be fully known about in terms of attendance, and also some assumptions about non-football events to the extent that they will subsidise train travel.

[*Supplementary Information No A35*.]

Mr W.J. JOHNSTON: This figure for the subsidy runs up in the forward estimates to $7.3 million. What is the sensitivity in that calculation? I will put it a different way: How many times does the government expect the stadium to be used to require the $7.3 million subsidy, because that must be the calculation—that is, the number of events multiplied by 50 000 people multiplied by the cost, gives the figure? What is the number of times the stadium will be used to get to that $7.3 million figure?

[10.10 am]

Dr M.D. NAHAN: It is a combination of not only the numbers, but also the users—football, cricket and other major sporting codes. I am just relating those because those assumptions have to be made. It is not just the events—the number of uses—it is the composition of them, and assumptions about attendance at those events. A very complicated assessment has been done by the Public Transport Authority. Can Mr Mann illuminate us on some of the discussions around coming to that $7.3 million figure?

Mr R. Mann: Essentially, that is exactly right. VenuesWest and the PTA have modelled the 34 to 37 scheduled events per annum. They have looked at that event profile, the nature of those events and the expected attendance, and therefore have worked out the required level of services to provide for that, and therefore the cost.

Mr B.S. WYATT: Even with a rough calculation, we are looking at around a $4 per person subsidy.

Dr M.D. NAHAN: Again, that is a very hard one to come by, because the subsidy rate for AFL events will be different from that for non-AFL events.

Mr B.S. WYATT: Okay, but to develop a budget that has this allocation of $18 million, or whatever it is, something —

Dr M.D. NAHAN: I told the member that I would get him that figure, but I am going to get a figure that is articulated to the assumptions that we have to make for the different users of the stadium. I do not know how the member has done that calculation, and I cannot verify it, but he would have had to make assumptions. AFL is quite straightforward. We can make assumptions on attendance. It depends on the success of the teams, and we can make those assumptions. Then we have to make assumptions about the non-AFL, non-cricket events, and the attendance at those, and also assumptions about whether the organisers of those events will contribute to transport. Generally, in the Domain Stadium, they do not. Generally, the non-football events —

Mr R. Mann: It varies; some do.

Dr M.D. NAHAN: These are assumptions that the PTA and VenuesWest have made, and we will provide the member, as I agreed, with a response to that, but I caution the member about making rough estimates of that nature.

Ms L. METTAM: I refer to chapter 4 of budget paper No 3, *Economic and Fiscal Outlook*, "General Government Revenue". Can the Treasurer please outline the impact on the state budget of the recent decline in government revenue?

Dr M.D. NAHAN: In recent history, there has been only one other occasion on which we have had an overall decline in our revenue—the financial year 1996–97. There was a 0.3 per cent decline in that year. I am not sure what was special about that year; I imagine that it was tax cuts, and that was a policy decision, but I do not know. I have just been advised that it was the year of the sale of Bankwest, so we lost the tax equivalent for that year. A policy decision to sell an asset led to a decline in revenue. In the past few financial years—2014–15, 2015–16 and 2016–17—there has been an aggregate decline in revenue of eight per cent. That is a historic decline, but it is not a result, I assure members, of a policy decision. It includes some tax increases announced in those years, except the current year. There are no increases this year, but in previous years both land tax and some payroll taxes increased. That is an absolute decline, measured from zero. Of course, governments have to plan, so in 2014–15, my first budget, we estimated revenue by 2016–17 to be in the vicinity of $31 billion, but we are actually at about $25.8 billion. That is an 18 per cent reduction in revenue expectation in one year. If we take away the tax increases, it goes over a 20 per cent reduction. We have looked at it for our own historical interests, and that is really about the magnitude that the commonwealth felt in the year of the global financial crisis. However, even though its revenue did not increase sharply, over the ensuing three years, no government since the Great Depression has had a reduction in revenue of that magnitude. That is the essence of our fiscal issue here.

We have offset the problem through huge reductions in expenditure growth, to about 2.4 per cent, and even lower salary growth. However, we cannot, nor should we, given the magnitude of those declines in revenue, respond with expenditure cuts of the same magnitude. It would gut government. We have done those expenditure cuts while maintaining and concentrating our expenditure on frontline services. We have reoriented the public service more towards provision of essential services and reductions in the cost, but our real issue here is a historic, unprecedented decline in revenue, and it is, as I mentioned earlier, across the board.

Ms L. METTAM: Is the government predicting further declines in revenue?

Dr M.D. NAHAN: Two years ago we did not predict a decline in our own-source revenue as great as what actually happened. We see some growth, but not much. The deflationary pressures that I mentioned before are real and ongoing. Treasury has some estimates about how it inflates. The big issue always was that our goods and services tax share was supposed to come around and swing back quite sharply, but every year—in 2013–14, 2014–15, 2015–16 and 2016–17—we have downgraded our GST recovery in terms of both the duration and scale of the recovery. The recovery rate is slower in both the rate of increase and the timing. The GST share keeps getting devoured in each of the three years in which I have brought down a budget.

Ms L. METTAM: The government had an approach of maintaining public sector wages, and there has been growth in this area. What is the thought behind maintaining a strong outlook in that respect?

Dr M.D. NAHAN: Wages account for 40 to 50 per cent of expenditure. It is actually a bit more than that, because a lot of our contracted-out services are to non-profit organisations that are tied to our wages policy. It is actually higher than the 40 per cent official rate. Western Australia, under both the previous government and our government, has had very generous wage outcomes. When we came into government, salary bills were growing by 13 per cent, and in our first term we had very high wages. To a large extent, that was fully justified, because everybody in Western Australia was paid the highest rates in the nation, if not the world, and we had to get people, and recruit a lot of public servants from overseas, so our wages bills were high, and necessarily so, to get people in front. Since 2012, we have basically capped the growth in numbers in the general government sector, and reoriented that towards teachers, nurses, doctors and other frontline services. Our wage rates have been higher than those in other states by substantial margins. We came in a couple of years ago with a wages policy tied to the consumer price index. We have met that, but I might add that the official CPI figure that we came up with, and the outcomes, were substantially above the real CPI. Public servants across the board, even on our wages policy, have received real increases through the life of the policy. We came up with a new wages policy in February this year, pegging it at 1.5 per cent. That was necessary. If we look at the difference between wage increases in the public sector and those in the private sector in Western Australia between 2008 and 2016–17 and accumulate that, we can see that public sector wage rates have gone up by 18 per cent more than those in the private sector. It is time now for moderate growth in public sector wages, and that is why we have put in place the 1.5 per cent policy. I think it will turn out to be spot on with inflation. The policy is to maintain public sector wages in real terms—I think that will achieve it—and to moderate wages from the heady days of the past.

[10.20 am]

Mr B.S. WYATT: I refer to page 51 of the *Economic and Fiscal Outlook*. I just want to get an idea from the Treasurer. Currently, $536 million is booked in the forward estimates in the budget for land sales. That is up a little bit because another year has come in; I think it was four hundred and something million dollars when I asked a question about this earlier this year. The answer I got outlined the specific land that has been identified for the particular financial year. I am trying to understand the science behind this. For example, the budget has $293 million for freehold and $243 million for crown land sales et cetera. Bearing in mind the Auditor General's report, is that $536 million the amount that has been identified for specific land, or is it simply a percentage of what is considered to be the land base of the state?

Dr M.D. NAHAN: Kaylene Gulich is best to answer.

Ms K. Gulich: The assumptions in the early years, in 2015–16 and, for the most part, 2016–17, are based on actual land parcels that are either on the market or scheduled to be on the market over that period. The sales assumptions from 2017–18 onwards are more based on what we have identified as the opportunity in the land base. The Department of Lands, in conjunction with most landholding agencies, has looked at the complete landholdings—the $72 billion worth of land that the state holds—and triaged those that have the most immediate opportunity for sale, the ones that are deemed immediately surplus, that are vacant and that are zoned right. It then identified the size of that pie and assessed what is a reasonable amount of land that we think we can sell or transact over a year.

Mr B.S. WYATT: Are the forward estimates allocations based on land that has been assessed and identified as potentially available for sale in the future?

Dr M.D. NAHAN: First of all, we put the policy position in the Department of Lands, rather than in separate agencies, so the Department of Lands is coordinating this. It went out with other agencies and identified a list of lands, culled that to those that could be sold for a variety of reasons—planning and others—and then whittled it down further and identified a large list of lands, and Ms Gulich can illuminate some of the numbers. For 2015–16 and 2016–17, the budget has identified specific parcels of land that we expect to be sold according to the value determined by the Department of Lands. I think this year we were above target. It is based on the identification of specific parcels of land that can be appropriately sold and should be sold at this time.

Mr B.S. WYATT: That is for 2016–17.

Dr M.D. NAHAN: We have also identified a whole raft of parcels of land. Even though the last three years of the forward estimates are based on a percentage of the residual value of the land that has been identified and has not been sold, the individual parcels of land that could be sold have been identified. I ask Ms Gulich to illuminate that.

Ms K. Gulich: Two processes have been taken at the same time, mainly led by the Department of Lands. One was what we refer to as the top 20, and that is the list that was published of the high-value but highly constrained and quite difficult transactions. The second involved culling the landholdings using the Landgate records, and that has identified just over 400 individual parcels of known land. It is intended to transact those over the forward estimates, depending on zoning and the other actioning events that need to occur to de-constrain or de-risk those parcels. As I said, the first couple of years through to 2016–17 are based on land that has been sold on the portal. There are 39 properties for sale on the land asset sales program portal at this time. We have a schedule of land that will come up over the next 12 months. Beyond that, it is more a broad assumption of what we think will be the residual balance of that 400. We will bring land to market in a staggered manner so that we do not bring too much on at one time. There is a third process whereby the Department of Lands, Landgate and the other land agencies are going much deeper into every parcel of land, and the onus will be put on directors general and ministers to explain why the state needs to retain the parcel of land—is it being used for its highest and best use, or is there an alternative use that meets the government's objectives at that time or makes it surplus and therefore available for divestment? That is a much bigger piece of work and that is why we do not have individual land identified against the targets.

Dr M.D. NAHAN: I know the member will be interested in this. Historically, if a department did not need a parcel of land—let us say that the Department of Education closed a school—generally the priority was to transfer it to either the Department of Housing or LandCorp, or, more recently in certain locations, the Metropolitan Redevelopment Authority. In the past, there have been substantial transfers of land through government processes. It has been a major mechanism by which the Department of Housing has funded its program. It gets surplus land, essentially, free from the state—it also buys it elsewhere—and uses that land to develop affordable housing and other things and sells portions of it to fund the whole thing. Land has been used to fund LandCorp's activities. Government land has been transferred to LandCorp and Housing to fund their activities. Of course, LandCorp makes a profit on that and then gives it back to the state in a dividend, which, I might add, is capped in terms of aggregate. The Department of Housing has been a major user of surplus land for a long time and will be into the future. A large amount of land has been transacted through the Department of

Housing and LandCorp and, to some extent, the MRA that really was not notified as an asset sale on our books as such.

Mr B.S. WYATT: Simply because the Treasurer raised the Department of Housing, how is the status of its move to Fremantle?

Dr M.D. NAHAN: We have generously decided to move the Department of Housing to Fremantle. Getting the deal going is subject to some issues with the property in Fremantle. I understand that we will be able to make an announcement on that soon. Just to clarify, because someone in the media asked me a question, we were never going to sell and lease back the Department of Housing facility on the block of land in East Perth; it is clapped out. The aim always was to win the suitable building in Fremantle that was determined by the developers and perhaps the City of Fremantle. When a location at a certain price was found, the Department of Housing was going to move to Fremantle and then we were going to dispose of the existing facility after the move. There will be a cost to this, and I am not across it; that is run by the Department of Finance. Right now the Department of Housing owns that building and apportions itself a low-level rental fee because it is a clapped-out building. There will be a cost to move to Fremantle in both higher rent and probably fit-out costs associated with it, but I do not know what deal was done. The Department of Housing is in a poor building, but it owns the building and it is very cheap. When it moves to Fremantle—hopefully, it has a positive impact on the City of Fremantle—we will look to dispose of the building. I imagine it will be torn down and the land sold for other uses.

[10.30 am]

Mr B.S. WYATT: I have a follow-up question on land sales. In 2015–16 and, I think, in 2016–17, $8.3 million each year went to a dedicated divestment fund. Has that fund been utilised?

Mr M. Barnes: The information I have is that to date in 2015–16 a total of $3.4 million has been incurred from that fund.

Mr B.S. WYATT: Has another $8.3 million been allocated in the budget for 2016–17?

Mr M. Barnes: Correct.

Ms E. EVANGEL: I refer to Perth parking levy fees at page 76, in chapter 4, of budget paper No 3. I notice that there is a $10 increase for short-stay public parking bays and a $26.60 increase for long-stay public parking bays, yet the bottom line is estimated to be $0.1 million lower than was forecast in the 2015–16 *Government Mid-year Financial Projections Statement*. Can the Treasurer please explain that process and why it is occurring?

Mr M. Barnes: It is possibly more of an issue for the Department of Transport, but I understand that the rate of the Perth parking levy has been increased by varying amounts, depending on the type of bay, and that that increase has been offset by revised projections of the number of vehicles coming into the city—that has been revised down. In addition, I understand that a number of parking bays have been reclassified and are now exempt from the Perth parking levy. The combination of those three factors has resulted in a largely neutral revenue outcome.

Ms E. EVANGEL: Has there been any consideration of extending the boundaries of the Perth parking management area due to increased urban density?

Dr M.D. NAHAN: No.

Ms R. SAFFIOTI: I refer to page 180 of the *Economic and Fiscal Outlook* and the Metropolitan Redevelopment Authority's business plan. Yesterday, there was a significant announcement about a delay in the construction of a number of buildings. Last night, I did not ask a question directly related to that issue. Will the construction delay impact the Metropolitan Redevelopment Authority's 2016–17 business plan, and when are those new figures likely to flow to Treasury?

Dr M.D. NAHAN: Given that the announcement was made just this week, I believe we will have to get some advice about the effect it will have on the MRA's budget forecast. We have not done that yet. Again, from reading the media, the MRA is looking to sell those parcels of land individually. We have to wait to hear from the MRA about the assumptions behind that in terms of money and timing. We do not know the extent to which the sale of those individual parcels of land will impact the forward estimates. The member would have to ask the MRA those types of questions, particularly since the decision has not been fully communicated to Treasury.

Ms R. SAFFIOTI: To clarify, it is not expected that the impact of yesterday's announcement—although I understand that the MRA knew about the decision for a number of weeks—is in these numbers yet.

Dr M.D. NAHAN: I do not think so. I do not even know whether the sales to Mirvac—the party that pulled out—impact the forward estimates. We are not aware of the exact timing of revenue flows and transactions from those sales and how they would impact the MRA's budget and therefore the extent to which it would impact this budget—we just do not know. Most of those impacts might be beyond the forward estimates.

Ms R. SAFFIOTI: On the relationship between the MRA and the consolidated fund, I understand that the MRA presents business plans and sometimes needs borrowing approval from Treasury or advises Treasury of a borrowing requirement for approval, which impacts the agency's net debt, and that under the MRA's previous legislation it was able to provide special dividends. I remember that because the MRA used to be profitable. I recall eyeing off some of those potential special dividends when we were in government, but that never occurred, of course. Is the MRA's relationship with the consolidated fund basically getting borrowing provisions and sometimes some equity contributions if a specific project needs to be undertaken?

Mr M. Barnes: That is correct.

Ms R. SAFFIOTI: The MRA's operating plan for 2016–17 shows that net debt will peak at $445 million this financial year. Again, is it too early to say whether net debt will peak or whether declining land sales at Perth City Link and Elizabeth Quay will change net debt?

Dr M.D. NAHAN: I have not heard about any revisions to Elizabeth Quay in recent times, since the budget was brought down. I have not heard anything; if the member knows something, she knows something. I cannot answer whether the decision by Mirvac to pull out or by the MRA to sever that agreement with Mirvac will impact the peaking of debt. As the member knows, we have to look at those purchases, and I do not know the details of when the money was going to be transacted or how it was going to be collected—that is up to the MRA. I cannot answer those questions. The member has to raise that issue with the MRA, because this is such a current issue and we are not across the details of each of the MRA's contractual agreements or the flow-on effects of the expenditure and revenue for each of those projects.

Ms R. SAFFIOTI: I know that an efficiency dividend was placed on some government trading enterprises over recent years, particularly the energy GTEs; was the same applied to the MRA?

Dr M.D. NAHAN: I do not think so. It is a no, I think. The member would know that most of the agency's expenditure is of a capital nature, not a service-provision nature.

Ms R. SAFFIOTI: Did the Treasurer get a free Zumba class at Elizabeth Quay?

Dr M.D. NAHAN: Pardon me.

Ms R. SAFFIOTI: I was talking about the free Zumba classes; sorry.

Mr W.J. JOHNSTON: I refer to appendix 1 of budget paper No 3 as a point of entry to this question. Is the policy statement on competitive neutrality published by what was the Department of Treasury and Finance in June 1996 still the relevant statement on competitive neutrality for GTEs?

Dr M.D. NAHAN: Could the member provide me with a copy of that 1996 document?

Mr W.J. JOHNSTON: Yes, I can, if the Treasurer wants one. I am sure that Mr Barnes can provide the Treasurer with one.

Dr M.D. NAHAN: I am not sure—he might not be that old!

Mr M. Barnes: Mr Barnes started in 1997!

Dr M.D. NAHAN: Have any of the advisers been in Treasury since 1996? No. The recesses of our memories do not go back that far.

Mr W.J. JOHNSTON: I have been told it was written by a high-quality Treasury official at the time.

Ms R. SAFFIOTI: It is the reason I left Treasury. It was the most boring document I ever wrote.

Mr W.J. JOHNSTON: On page 229 of budget paper No 3, there is a very nice little drawing that sets out the relationships between the general government sector and the financial corporations and the non-financial corporations. One of the non-financial corporations was the Perth Market Authority, which was sold. It was sold for less than its carrying value. Where were those losses absorbed on the balance sheet?

[10.40 am]

Dr M.D. NAHAN: Mr Mann was in charge of that asset sale. I will ask him to explain our approach on that and to answer this question.

Mr R. Mann: Yes, I can; just bear with me. The member is correct in that the reported value of PMA's net assets as at 30 June 2015 was $157 million, which was in excess of the ultimate sale value of $135.5 million. However, at the point of sale, given that asset value is based on a fair value, based on highest and best use, the sale of the Perth Market Authority was of course based on a constrained use in that it was required to be used as a market function for a minimum of 20 years. Therefore, at the point of the sale, the highest and best use on a fair value basis was deemed to be inclusive of those encumbrances and therefore based on the sale value. In effect, the sale value becomes the asset value and there is no impact.

Mr W.J. JOHNSTON: If I had budget paper No 3 for 2015–16 in front of me instead of budget paper No 3 for 2016–17, it would have had the value of the Perth Market Authority included in appendix 1, which is why I took the Treasurer to appendix 1. This year, that asset value is no longer available because it has been sold, which is fine, so there was a decline in the asset value. That has to be reflected somewhere in the balance sheet. That is what I am getting at.

Dr M.D. NAHAN: Mr Mann was in charge of the sale and Mr Barnes is in charge of the budget.

Mr M. Barnes: I can point the member to a specific line item, but, as Mr Mann said, the asset, in accordance with the accounting standards and the Treasurer's Instructions, was revalued at the time of sale for the market price.

Mr W.J. JOHNSTON: Yes, I appreciate that.

Mr M. Barnes: That revaluation is reflected in an item on page 205 of appendix 1, which is the "General Government Operating Statement". This is a below-the-line adjustment. It does not impact on the operating balance; it is reflected in the net worth of the public corporations sectors. If the member looks at page 205, there is a line about three-quarters of the way down that reads "Change in net worth of the public corporations sectors". There is a figure for 2015–16 of $198 million. That is a revaluation of the public corporation sectors' net assets. Within that $198 million figure is the revaluation for the sale of PMA.

Mr W.J. JOHNSTON: So Treasury has revalued some other assets up and that one down, and that is the net figure for that.

Mr M. Barnes: Correct.

Mr W.J. JOHNSTON: Let us take Utah Point as another example, because obviously it is one asset that the government is attempting to privatise. It has a current carrying value in the accounts of the state, but regardless of what that value is, at the point of sale, that will be the valuation in the accounts and then the accounts will be adjusted.

Dr M.D. NAHAN: I am sure that Utah Point's valuation in the port's accounts is as its use as a multi-user facility. It is not constrained; it is not an alternative best use. Where the PMA was different was that, according to the accounting standards, the Perth Market Authority was required to value the assets on alternative best use, which was, as we have indicated, not as a market but as selling the land. In recent times in Canning Vale, industrial land has fetched a very high price. When we went to sell the PMA asset, we necessarily had to judge it on the basis of what it was constrained to be. Utah Point is a different asset. First of all, it is not a business but an asset of a business. We are not selling the whole business. Also, we are not changing its use or constraining the use of it. Mr Mann might be able to indicate, but we do not expect to get a devaluation of the value of the asset of Utah because it is the same use and it would operate on the same basis. Actually, it would be more constrained to some extent by the asset and pricing arrangements imposed on it through the asset sale than would apply if it continued to be operated by the port authority.

Mr W.J. JOHNSTON: The Treasurer may remember that we had some discussion during the passage of the PMA bill about the current valuation of Utah Point. It was effectively on a historic-cost basis—whatever we had spent on it was the valuation. It may well be that the market values it for less than its construction cost. What they say about a hotel is that it is the third owner who pays the real price for the hotel.

Dr M.D. NAHAN: Yes. We have gone through most of this but it is a legitimate question. Maybe Mr Mann can make sure that I am right. We spent about $300 million building the facility. It came from various sources but essentially all of it was from the state. Some of the debt has been paid off. It has depreciated a bit. It has been operating for four or five years. It is in good nick; there is no doubt about that.

Mr W.J. JOHNSTON: It is a 100-year asset.

Dr M.D. NAHAN: We expect to get, and we will not sell the asset if we do not get, a substantial uplift on the construction cost of it—indeed, the initial construction cost of it.

Mr B.S. WYATT: I note the comments by the member for Pilbara in the weekend media, who is now indicating that despite voting for it in the lower house, the National Party might perhaps oppose the sale of Utah Point. One of the things he demanded was an extension of the $2.50 a tonne subsidy. Is there any intent of the government to extend that subsidy?

Dr M.D. NAHAN: I read the newspaper article but I have not discussed it with the member for Pilbara, so I cannot explore that. As the member would know, there is an inquiry in the upper house into these exact issues. Two things are going on. The first is the sale of the asset. The second is that a year or so ago, for 2015–16, we provided a number of assistance programs to the junior miners. We provided a $2.50 a tonne reduction through Utah. We also provided a reduction on charges for heavy vehicles—most of it is trucked. We also provided a postponement to royalties. It was not actually a reduction; it was a postponement, and under certain conditions. Only one of the users of Utah got the royalty relief and that was Atlas; the rest did not qualify because they had other cash payments for it. It is our intention right now that the $2.50 assistance through Utah Point will expire on 30 June this year. It will cease on 1 July 2016. That applies to all of them. The relief was provided during a period of a precipitous drop in iron ore prices and it caught many of the junior miners badly. The aim was to give them breathing room to adjust their costs to the new scenario. Atlas, in particular, which uses 80 per cent of it, substantially reoriented its balance sheet and costs. The aim was to give them time. Atlas was the only one that had royalty relief. It does not want that, because it does not improve its balance sheet. What Transport does on the road I do not know; I cannot answer that as I do not have any information. I am involved with Utah because of the asset sale. The aim is not to continue the $2.50 reduction. The key issue is that, to date, none of the users has take-or-pay contracts. They have no guarantee about the use of the facility. When Atlas ceased production on some of its operations a year or so ago, it stopped using the port. The port absorbs all the throughput risk of that facility. We have gone out and got independent valuations of what the price should be. All this information is with the upper house committee. Treasury has made at least one submission and will make another submission and public appearance at the committee and we will explore all these issues. Right now there are some movements and negotiations between Mineral Resources Ltd and the Pilbara Ports Authority and between Atlas and PPA about the facility. Those are ongoing; I am not across all of them. They appear to be taking some risk on it, which would justify a reduction in price. There are movements and negotiations underway with PPA and some of the users to some extent. I am not party to those but they look to be taking more risk and with that higher risk comes a lower price.

[10.50 am]

Mr W.J. JOHNSTON: That was a very interesting question but it was not what I was exploring at the time.

Two other assets are being discussed for privatisation. The first is Fremantle port, and obviously the bill has come in; and the second is Western Power, which has been discussed and the Liberal Party will privatise it if re-elected. We talked about Horizon. I note in the budget speech the Treasurer said —

> Combined with the current asset sales program, this would result in estimated proceeds of around $16 billion.

At the moment I think Fremantle port has an asset value of about $750 million, as shown in its annual report, and Western Power has a value of about $9.5 billion. Does the government intend to revalue the assets on its own books if it thinks they are worth that amount of money?

Dr M.D. NAHAN: No. Those agencies have to do a valuation on the basis of accounting standards in front of them, whatever they may be, as they are currently owned by government. Those agencies have the responsibility to put the valuations in their books according to the current ownership. I can guarantee that we would not sell either asset if we did not get a substantial uplift upon the valuation of the proceeds from those, significantly in excess of the valuation in the government's books of both assets. I might also add that Western Power, as I think the member said, is worth $9.5 billion.

Mr W.J. JOHNSTON: It is $7.5 billion in debt; it is $2 billion.

Dr M.D. NAHAN: That is not huge. There is no doubt that if we did sell the asset, we would defray all the debt. It accounts for about 25 per cent of our net public sector debt.

Mr W.J. JOHNSTON: Sure, but zero of our debt service obligations because it services its own debt.

Dr M.D. NAHAN: Yes, but the net debt is minimal. There is some debt in Fremantle Port Authority relating largely, I understand, to the channel deepening of a few years ago and that is being paid for by a port improvement charge.

Mr W.J. JOHNSTON: The point I am getting to, though, as the Treasurer said, is that the government will not revalue it because it is currently valued on its ownership and cash flow arrangements. If there was a change to its cash flow arrangements, there would be a change to the valuation.

Mr T.K. WALDRON: I refer to page 95 of budget paper No 3. The heading in chapter 5 is "General Government Expenses". I know that the Treasurer has been doing quite a few things to try to control expenditure. I wonder whether he could outline some of those things he has been doing and perhaps let me know some of the results from those efforts just to give me an understanding of that.

Dr M.D. NAHAN: I thank the member for the question. It precedes me with the fiscal action plan that my predecessor, Troy Buswell, put in. They are wide-ranging and rather comprehensive. Maybe I can ask the Under Treasurer to read through all these issues. I would like to refer to three of them. We had efficiency dividends, employment freezes and wages and hiring freezes and those things for periods of time. They are very crude. I am not saying that they are not necessary and appropriate at times, but they are crude. Treasury does have the potential to book them because it controls, as the member knows, the income stream to departments. A couple of ones have been most significant. The agency expenditure review is simply called zero-based budgeting. We asked departments, with some definition—not much—to look at all the policies across the board. We gave them a target. It varied between 1.5 per cent and 3.5 per cent, depending on their budgetary position. We asked them to look at all programs or expenditure and individual programs to eliminate programs or to reorient expenditure in some way. If we look at the literature of public finance, it is a common thing. It is very hard to do. The important thing was that the director general, along with Treasury, was responsible for putting the first stage proposals together. If that did not work, we had another group in the first instance, led by a former director general of finance from the commonwealth, to lead a program. We have achieved our targets across the board.

Mr T.K. WALDRON: Was there a good response from the departments?

Dr M.D. NAHAN: Yes. Some complained. Some did not like it but most of them did it well, and I have to congratulate them. It is not easy going back because every program has an interest group attached to it. Whether we eliminate that or shrink it, there are interest groups outside government that want to perpetuate that. It has not been an easy process. The process was making sure that the reductions were appropriate. Often in the past government departments put up programs that were meant to cause great pain and therefore stopped the process. A few departments did that and we knocked them back. One of the major objectives in certain departments was not to affect or undermine the delivery, quality and level of essential services. We knocked back virtually all requests or suggestions that would affect essential services, like the Public Transport Authority. I am not saying that the PTA suggested that—it did not, from memory—but we did that.

Mr T.K. WALDRON: Does the Treasurer find that that forces departments to find better efficiencies and relook and discover themselves?

Dr M.D. NAHAN: As the member knows, many departments went through a huge change over the last 15 years, with expansion because of population growth, the reorientation of Health and a lot of policy changes, like independent public schools and student-centred funding in Education. A range of departments went through major change. Often programs get like barnacles to the department and they just perpetuate. It was opportune and necessary to look at all the programs to see whether they were needed altogether, whether they were still efficient or whether there was some alternative. One of the programs that we have found is that we contract and should contract more out to the non-government sector. It has been a policy today. We found there were still some government agencies doing things that were much better done in the private sector and were subsidised by government and got much more bang for our buck than having the government do it.

It has been a useful budget. In this budget we rolled it out to an additional 54 departments. It is basically across government. We had some exemptions—Child Protection and Family Support and Police. The Department for Child Protection and Family Support is really under pressure because of the demand for services. There has been a 40 per cent increase during our watch, to date, of children under various types of state care. I might add that over 50 per cent are Aboriginal. We decided not to make any cuts in that area. I think the department is really doing the best it can and we should just leave it alone. We should not harm that department. We should not upset it.

We also just did some work on the Department of Health headquarters—the non-hospital—and reorientated in full the proceeds from that, and also Western Australia Police. Police basically started this whole process. Some time ago, a very astute person transferred from the Department of Transport and worked with the commissioner to undertake this process, which became the model for the rest of the agency expenditure review and the department, so they have done it already. During the boom times, the departments had to increase levels of pay to get people in. The member will remember this, because he was a minister for some of that period. In order to get bums on seats and compete with the private sector or draw people from overseas and interstate, the departments had to have an uplift factor in the entry level. Now, as people leave—we do not force anyone out—we reduce the entry level for those positions, and that is working its way through the system. In other words, we are rebasing the system to more normal times. Those are two of the major reforms.

[11.00 am]

[Ms J.M. Freeman took the chair.]

Ms R. SAFFIOTI: Some of the Public Transport Authority cuts are outlined, to some degree, with staff and program reductions. However, there is a cut to the budget, with further details to come. When will the detail of those cuts be made available?

Dr M.D. NAHAN: With an agency as large as that, there is an appropriate time for it to look at what it is doing, especially since its overall budget has grown, particularly with the subsidy. The subsidy to public transport is growing and the operating recovery rate is about 28 per cent. I think our target is 40 per cent, which is pretty low. Indeed, our public transport system patronage in the metropolitan area is stagnant to declining, so there are some issues. We are expanding our system dramatically but patronage is declining for the existing services. The PTA has gone through an AER, and the decisions that have been made are in the budget. We are still having discussions over $39 million and the aim is to disclose that in the *Government Mid-year Financial Projections Statement* when the decisions have been made and brought to book.

Ms R. SAFFIOTI: So they will be disclosed in the midyear review?

Dr M.D. NAHAN: Yes.

Mr B.S. WYATT: Was the PTA subsidy 28 per cent of the recovery rate?

Dr M.D. NAHAN: The operating cost recovery was 28 per cent.

Mr B.S. WYATT: Yes. Has Treasury done any modelling yet on what the airport line subsidy will be or is that still to come?

Dr M.D. NAHAN: We do not know what it is, of course.

Mr B.S. WYATT: No, but there must be an assumption emerging along the way.

Dr M.D. NAHAN: No, not yet, for a couple of reasons. One is that there might be a differential between buses and rail. We looked at this and the member may have noticed that one of the largest increases in expenditure in this budget is the subsidy for public transport, which I think went up by over 10 per cent—it was significant. We have the most peaky transport system of most of the states. More importantly, the recovery rate is driven by two factors. One is the decline or stagnation in numbers, despite an increase in population growth, an increase in lines and facilities, an increase in bus routes, and an increase in the proportion of concessional users. It has a compositional as well as an aggregate impact.

Mr W.J. JOHNSTON: It is not those seniors who travel for free, is it?

Dr M.D. NAHAN: Yes, and children and other things. Relative to other states, we have a very low operating recovery rate in our public transport system.

Mr W.J. JOHNSTON: The Treasurer said that the recovery rate was 28 per cent but the policy position is to get it to 40 per cent.

Dr M.D. NAHAN: The policy of public transport has been 40 per cent for quite a while. Do I think it will get anywhere near 40 per cent? No. In this budget we have substantially increased our subsidy. We do not have any intention to force the recovery rate and increase fees to get to 40 per cent. That target was there prior to us coming into government and it has not been achieved, to my knowledge, for a long time.

Mr W.J. JOHNSTON: Does the Treasurer have a calculated figure for the subsidy per passenger kilometre of the system?

Dr M.D. NAHAN: I can provide that but I do not have it in my memory. We will provide the information on subsidy per passenger kilometre by bus and rail, because I think they are different.

[*Supplementary Information No A36.*]

Ms R. SAFFIOTI: I will follow on from the question asked by the member for Victoria Park. This budget shows a positive movement, in a sense, for the Forrestfield–Airport Link project because of the $440 million or whatever it was from commonwealth GST money. It shows a clawback of around $9 million in interest expense. Does the Treasurer have the absolute interest expense for the Forrestfield rail link, and can the Treasurer outline what impact that interest expense will have on the operating subsidy?

Dr M.D. NAHAN: The FAL is not expected to commence operation until 2020, which is beyond the forward estimates; therefore, the interest in expenditure and operating costs are not in the forward estimates.

Ms R. SAFFIOTI: The budget shows a reduction in interest expense because of the commonwealth money in 2016–17. That has to be reversed from something.

Mr B.S. WYATT: Something was in there.

Dr M.D. NAHAN: We received $490 million from the commonwealth, which will be used to fund this project. I imagine that a $490 million reduction in our net debt has an interest saving.

Ms R. SAFFIOTI: Is all the money being poured into the 2016–17 year, the $400 million —

Dr M.D. NAHAN: We receive the money in 2016–17.

Mr M. Barnes: I will just elaborate. The commonwealth will pay $490 million to the state in this current quarter, probably in June. We will receive it in the 2015–16 financial year and it will come in the first instance to Treasury and into the consolidated account. Early in 2016–17, that $490 million will be parked in a special purpose account, which we are required to establish under the agreement with the commonwealth. Further to that agreement, that SPA is interest earning, so the figure referred to by the member is the interest on that $490 million sitting in that SPA until it is required to be spent on the project.

Ms R. SAFFIOTI: So the interest that will be earned will be in the PTA budget? It must be because it is in —

Mr M. Barnes: It builds up the balance of the special purpose account and that is then used to fund the capital cost of the project.

Ms R. SAFFIOTI: Is it right that the Forrestfield rail link project has recently been submitted to Infrastructure Australia?

Dr M.D. NAHAN: I will find that out.

Ms R. SAFFIOTI: So the government has not yet received an assessment from Infrastructure Australia on that project?

Dr M.D. NAHAN: We do not receive assessments. It does assessments. Infrastructure Australia is a commonwealth body; it is not a policy body to us. Has Infrastructure Australia done an assessment? I assume that now the commonwealth is contributing to it, it will do an assessment.

[11.10 am]

Ms R. SAFFIOTI: Did it contribute before the assessment was completed?

Dr M.D. NAHAN: No. I am saying now that it has contributed to it—I assume, because I am speaking on commonwealth government policy—my understanding is that Infrastructure Australia usually assesses, in advance, projects that the commonwealth contributes towards —

Ms R. SAFFIOTI: Yes, but this time it was the other way around.

Dr M.D. NAHAN: This time it chose to support an existing project.

Ms R. SAFFIOTI: Really; without a positive benefit–cost analysis from Infrastructure Australia? I am surprised.

Dr M.D. NAHAN: I assume the member does not lament the contribution of $490 million from the commonwealth, for both GST and that?

Ms R. SAFFIOTI: No, and the Premier outlined yesterday that it is standard practice for the commonwealth to fund projects that have not been assessed by Infrastructure Australia and do not yet have any positive BCAs. What the Treasurer said is consistent with what the Premier said yesterday, but that is inconsistent with what the Treasurer said to the media the other day.

Dr M.D. NAHAN: I did not. I did not speak of a fall. I said that the Perth Freight Link has been assessed by Infrastructure Australia; indeed, Infrastructure Australia gives the Perth Freight Link the highest rating of any project in Australia that has not yet started. That is what I said. The other question was whether Infrastructure Australia had done an assessment of the Morley–Ellenbrook rail line, and it had not. There are some issues there. Why build a rail line from Morley to Ellenbrook when there is no rail to Morley?

Mr B.S. WYATT: That is a good question.

Dr M.D. NAHAN: It is a good question.

Ms R. SAFFIOTI: It shows the Treasurer's ignorance of the public transport system. The government has called its rail line the Forrestfield–airport line—how do people get to Forrestfield? How do they get to the airport? It is a name—honestly, the Treasurer's ignorance on this matter is outstanding.

Dr M.D. NAHAN: The member made a statement; let me comment —

Ms R. SAFFIOTI: I have a further question —

The CHAIRMAN: Members! I do not mind, but Hansard might. Members might want to consider Hansard in this.

Dr M.D. NAHAN: To my knowledge, the Forrestfield–Airport Link has not been assessed by Infrastructure Australia but I do not comb through everything it does; that is for the commonwealth. It has done it for the Perth Freight Link and has rated it the top infrastructure project yet to be started in Australia. It has not, to my knowledge, done an assessment of the Ellenbrook line. That is what I said in the media.

Ms R. SAFFIOTI: What other submissions were made to Infrastructure Australia last year, apart from the Perth Freight Link? Were any other submissions made?

Dr M.D. NAHAN: Treasury does not make them.

Ms R. SAFFIOTI: Did the government?

Dr M.D. NAHAN: I assume the Department of Transport would do so. The member will have to ask the Department of Transport what its communications were.

Ms R. SAFFIOTI: It said that it did not make any. Was Perth Freight Link the only project submitted?

Dr M.D. NAHAN: The member will have to talk to the Department of Transport—it makes the submissions. Obviously, the department said certain things to the member. It depends to a large extent on commonwealth contributions to projects. It made a very substantial contribution—80 per cent—to the net investment in Perth Freight Link. It has put a lot of work into it.

Ms R. SAFFIOTI: The commonwealth put a lot of work into it?

Dr M.D. NAHAN: Of course—it put in 80 per cent and did an evaluation of it. It had a large amount of discussion. One would assume if the commonwealth was to pay 80 per cent of the construction costs of a $2 billion project, it would put a lot of work into it. Discussions were between the Department of Transport, transport agencies and the commonwealth and state governments. It is an excellent project.

Ms R. SAFFIOTI: As far as I know, the level of work done by the federal finance minister was receiving the Matusik report from Main Roads WA last November; in some sort of outrageous process that this government undertakes.

Dr M.D. NAHAN: The member can make simplistic and ridiculous statements. It works on TV grabs, but do not waste my time.

The CHAIRMAN: Member for Wagin, this was obviously a very good question! The member for Cannington has a further question. We are now on to about the fifteenth question on this topic. Shall we move on soon?

Mr W.J. JOHNSTON: In the business case for Perth Freight Link, how much is allocated for additional road maintenance on Stirling Highway for the additional 100 000 trucks that will use it?

Dr M.D. NAHAN: Can the member justify the question: how will Perth Freight Link increase the number of trucks on Stirling Highway?

Mr W.J. JOHNSTON: That was in the document tabled by the Minister for Transport in Parliament the other day during debate on the Perth Freight Link.

Dr M.D. NAHAN: The member made a statement; I am trying to answer it. Please justify it.

Mr W.J. JOHNSTON: Tabled paper 4144, tabled by Dean Nalder, shows that an extra 300 trucks a day will use Stirling Highway if Roe 8 and the Fremantle tunnel is built. Three hundred times 365 is about 100 000. What will be the extra cost to maintain Stirling Highway for the extra 100 000 trucks?

Dr M.D. NAHAN: The increase in traffic on the highway will come from natural growth and the use of the road. Perth Freight Link will remove a substantial amount of traffic from South Street, Leach Highway and Canning Highway —

Mr W.J. JOHNSTON: But I am not asking —

Dr M.D. NAHAN: The member asked me a question; please let me answer.

Mr W.J. JOHNSTON: I asked about Stirling Highway.

Dr M.D. NAHAN: I know. I will get to it.

The CHAIRMAN: Let the Treasurer finish.

Dr M.D. NAHAN: All the highways interact. There will be substantial reductions and maintenance on Leach Highway, South Street, Canning Highway and other arterial roads in the area. I am sure that is in the business case. In fact, it is one of the things that underpins the business case for Perth Freight Link and one of the purposes of it. There will be natural growth in the number of trucks going to the port—not rapid, but about four per cent. Container growth is estimated at four per cent. I think the member said an extra 300 trucks a day. Perth Freight Link by itself will not increase traffic overall. It will decrease the cost and time of travel; therefore, people will travel more because the roads are better but —

Ms R. SAFFIOTI: So traffic is going to increase.

Dr M.D. NAHAN: It will concentrate the traffic on a freeway, which is much more efficient and much quicker, without stops. Perth Freight Link will allow people to travel from Bicton to Fiona Stanley Hospital and to the airport, and indeed all the way to Bunbury, without stopping. The quality of transport will increase, I suppose, the volume of traffic. The effect on Stirling Highway will not be huge. It will be more than offset by the reduction in maintenance on South Street, Leach Highway, Canning Highway and other streets, including High Street.

Mr W.J. JOHNSTON: Given the question was never answered, the paper tabled by the Minister for Transport shows the "Do Nothing" situation for traffic on Stirling Highway is 1 000 trucks a day, but after Roe 8 and the Fremantle tunnel is built, it becomes 1 300 trucks a day. That is an extra 100 000 trucks using Stirling Highway through Cottesloe. What is the additional maintenance cost for that on Stirling Highway —

Dr M.D. NAHAN: No. The member is jumping to —

The CHAIRMAN: Treasurer, let the member for Cannington finish his question and then you can answer it.

Mr W.J. JOHNSTON: Let me make it clear: under the minister's proposal, if Perth Freight Link is not built, there will be 365 000 trucks a year using Stirling Highway; and if Perth Freight Link is built, there will be 474 500 trucks using Stirling Highway. In respect of Stirling Highway, not in respect of those other roads—the answer may be that the Treasurer is not aware, which is fine—can the Treasurer tell me the additional cost of road maintenance for Stirling Highway for the extra 100 000 trucks that will travel north through Cottesloe on Stirling Highway?

Dr M.D. NAHAN: Firstly, the member's statement that these will go through Cottesloe north is not accurate necessarily.

Mr W.J. JOHNSTON: Yes, it is.

Dr M.D. NAHAN: No. The member made a statement; let me finish.

The CHAIRMAN: Now let the Treasurer answer.

[11.20 am]

Dr M.D. NAHAN: They will also go to the port and other places. There is a port between Stirling Bridge and Cottesloe; the member is aware of it.

Mr W.J. JOHNSTON: No, there is not. There is not a bridge. It is not true.

Dr M.D. NAHAN: In fact, one of the main purposes of building Perth Freight Link is to get trucks more effectively through to the port; it is the principal objective, principal aim and principal return on it. The member's assumption or statement that all those additional trucks will not stop at or go to the port, but go north of it to Cottesloe, is not accurate.

Mr W.J. JOHNSTON: With respect, Treasurer, it is not my assumption. I am asking about the tabled paper in which the Minister for Transport said that there was going to be an extra 100 000 trucks. I am not saying that; the minister said it.

Dr M.D. NAHAN: I am accepting —

Mr W.J. JOHNSTON: If the Treasurer does not know the answer, say, "I don't know", rather than wasting everybody's time.

Dr M.D. NAHAN: With some trepidation, I am accepting the data the member quoted. I cannot verify it; I do not have it in front of me.

Mr W.J. JOHNSTON: Right; well say that!

Dr M.D. NAHAN: But the member made a statement that the alleged 100 000 additional trucks will not stop at the port, but will go north to Cottesloe. I am saying that the member does not have data to say that —

Mr W.J. JOHNSTON: Yes, I have—the tabled paper!

Dr M.D. NAHAN: The member has data —

The CHAIRMAN: Members!

Mr W.J. JOHNSTON: What an idiot! The Treasurer cannot be this stupid! I have tabled paper 4144.

The CHAIRMAN: Members! Member for Cannington, I understand your frustration, but that is unnecessary language in this house—you know that —

Mr W.J. JOHNSTON: No, no; it has been ruled as parliamentary.

The CHAIRMAN: Ask the question —

Mr W.J. JOHNSTON: I have moved on.

The CHAIRMAN: We have moved on? Let us move on.

Mr W.J. JOHNSTON: It is ridiculous.

The CHAIRMAN: The member for Victoria Park has the call.

Mr B.S. WYATT: I refer to page 275 of the *Economic and Fiscal Outlook*. The Treasurer will recall that last night we discussed the 70-basis-point loan guarantee fee. I was asked to put my question to Treasury. As to the revenue generated from the loan guarantee fee through to Treasury to the consolidated account—I guess that is where it goes; I am not sure where it goes—or from the Western Australian Treasury Corporation to Treasury, what is the revenue generated by that? It would be useful to have a breakdown by agency by way of supplementary, if the Treasurer has that information. Also, would the Under Treasurer like to make any comment on how that figure was arrived at? The Treasurer may recall that we discussed this last night, and I was told there is no particular link to risk as such; it is just a figure.

Dr M.D. NAHAN: Mr Barnes will answer.

Mr M. Barnes: I refer the member to page 234 of budget paper No 3.

Mr B.S. WYATT: The *Economic and Fiscal Outlook*?

Mr M. Barnes: Yes.

Mr B.S. WYATT: Page 234?

Mr M. Barnes: Yes, which is the general government operating revenue appendix.

Mr B.S. WYATT: Here we go—loan guarantee fees!

Mr M. Barnes: Yes. There is a line almost halfway down on loan guarantees fees, which are estimated to raise, in total, $135 million in the current financial year —

Mr B.S. WYATT: Yes, $150 million—beautiful!

Mr M. Barnes: — and then $150 million in 2016–17.

Mr B.S. WYATT: I thank the Under Treasurer. Can I get a breakdown of that?

Dr M.D. NAHAN: The Under Treasurer will answer.

Mr M. Barnes: Yes; we will have to provide that as supplementary information.

Mr B.S. WYATT: Of course.

Mr M. Barnes: I need to put a caveat around whether we can disclose the amount paid, for example, by individual universities and local governments. We may need to provide it by sector, so universities as a whole and local governments as a whole.

Mr B.S. WYATT: That is fine. That is okay.

Dr M.D. NAHAN: WATC's annual report has full disclosure —

Mr B.S. WYATT: Yes, of borrowings.

Dr M.D. NAHAN: — of borrowings.

Mr B.S. WYATT: Not of loan —

Dr M.D. NAHAN: I know. If the member wants to know about WATC's clients outside the public sector, he can get that. My only concern is about disclosing certain transactions to third parties, even though they are government; that is, universities —

Mr B.S. WYATT: I do not have a problem with it. So, is that like the University of Western Australia and Curtin University? If it is the university sector, that is fine.

Dr M.D. NAHAN: Yes; Edith Cowan, for example. It is also schools—private schools.

Mr B.S. WYATT: I have a follow-up question. Does that need a number allocated to it?

The CHAIRMAN: Before you follow up, I need to give it a number. The Treasurer or Under Treasurer needs to be clear for Hansard about what they are offering.

Dr M.D. NAHAN: I will provide a breakdown of the loan guarantee fee of 70 basis points, the aggregate and its distribution across the various payees.

[*Supplementary Information No A37.*]

Mr B.S. WYATT: I have a further question on why the figure is 70 basis points. How did we get to that, and is that similar to other states? For the benefit of Mr Barnes, we had a conversation last night about the figure not being particularly linked to risk: how did we arrive at that figure?

Dr M.D. NAHAN: Ms Gulich is best placed to answer that. I had a go at this last night, so Ms Gulich can go at it.

Ms K. Gulich: The 70 basis points was an increase from previous levels of 0.2 per cent, or 20 basis points, for the universities and the sector. It is 70 basis points to align to what we were charging government trading enterprises, so that there is consistency across all payers of the loan guarantee fee at this point. Seventy basis points was an assessment relative to the cost of debt the entities are currently paying. As the member would understand, the cost of debt through WATC is cheaper than they can get in the market. Seventy basis points is a position that still allows them to be better off than they would be going competitively to the open market, but it is not an excessive amount.

Mr B.S. WYATT: Out of interest, what is the actual difference? I think Ms Gulich just made the point that 70 basis points is still cheaper than if they went to market. What would it be if someone was trying to equate it? Would it be nine?

Ms K. Gulich: I am not sure, to be honest. I know the 70 basis points on top of what WATC debt is gets it close to what the entities could get on the open market. One of the commentaries was that if local governments found that they were priced in a position they were having concerns about, they could seek their debt through one of the major banks and would pay a similar but slightly higher rate than they get with WATC, including the loan guarantee fee.

Dr M.D. NAHAN: As Ms Gulich indicated, there was some expression of concern or issue that 70 basis points would lead to local governments and universities going outside government. They are still coming in, so they perceive borrowing through WATC to be superior to the alternatives.

Mr W.J. JOHNSTON: I have a further question. If a local government authority borrowed commercially, that would still have implicit crown guarantee given that it is an agency of the Crown.

Dr M.D. NAHAN: Yes, they are entities of the Crown, and they do borrow, I understand, offshore and invest.

Mr W.J. JOHNSTON: Yes, we know about that one.

Dr M.D. NAHAN: So there would be an implicit risk to the Crown—yes. That is one reason the Department of Local Government looks at the financial viabilities and actions of local governments, and validly so.

Mr W.J. JOHNSTON: Yes. I have a good report to read about that!

Still on this topic, pages 275 and 276 of the *Economic and Fiscal Outlook* show a chart that the Treasurer drew to my attention the other day about revenue from public corporations. The loan guarantee fees are not included in this chart: I wonder whether that will be looked at for future budgets.

Dr M.D. NAHAN: Which page number?

Mr W.J. JOHNSTON: Pages 275 and 276 of the *Economic and Fiscal Outlook*; it is table 8.5—"General Government Revenue from Public Corporations". It does not show the loan guarantee fees for all the GTEs. I do not care, but I wonder whether in future they will be included.

Dr M.D. NAHAN: Historically they have not been included, but we can. It is not a huge sum.

Mr W.J. JOHNSTON: Yes, I know; I understand.

The CHAIRMAN: Are we moving on? The member for Perth is not here. Does the member for West Swan have a question?

Dr M.D. NAHAN: On that further point, one thing that is also not disclosed and that is significant, for the Water Corporation and particularly Western Power, is the equity injections—that is, in recent times developers have paid huge amounts of money for gifted capital. Particularly with Western Power, they have to pay a tax on top of the gifted asset issue.

Mr W.J. JOHNSTON: Yes, because the gifted asset becomes —

Dr M.D. NAHAN: Revenue. It is expensed as revenue immediately; it is not included in its regulated asset base. To compensate for that, we have made an equity injection in Western Power. They have been very large; we expect a $201 million equity injection into Western Power this year.

[11.30 am]

Ms R. SAFFIOTI: I refer to the table "Royalties for Regions Expenditure" at page 201 of budget paper No 3, *Economic and Fiscal Outlook*, and the line "Over Programming Provision". What is the explanation for that?

Dr M.D. NAHAN: My understanding is that royalties for regions was ruled by the chairman to be outside the scope of this division; is that not correct?

Mr B.S. WYATT: Yes, it is. Royalties for regions is part of another section, but it is a Treasury initiative. The opposition is not pursuing R for R as such.

The CHAIRMAN: The Under Treasurer.

Dr M.D. NAHAN: Will the member confirm the question?

Ms R. SAFFIOTI: That is more of an accounting issue than an issue of expenditure in any particular local town. The table on page 201 contains a one-line item, "Over Programming Provision". My understanding would be that the government believes that the individual expenditure items are too ambitious, so it has one-line items to reduce that to match the total amounts at the bottom; is that correct?

Mr M. Barnes: It is a bit the other way around, actually. This is a provision that I suppose is maintained and managed by the Department of Regional Development rather than Treasury, but it reflects that in the past, since the royalties for regions fund was established, the fund has typically underspent. The size of that underspend is gradually diminishing but it still has underspent every year compared with what was estimated in the relevant budget. To explain the over-programming, if we went through the whole program and added up every individual component, the total would be above the bottom line, if you like.

Ms R. SAFFIOTI: The individual expenditure items are ambitious in their time frame, so a total is reached that is more than the funding available?

Mr M. Barnes: Yes. The over-programming provision nets off that over-ambition, if you like, and tries to replicate what has actually happened in the past.

Ms R. SAFFIOTI: The government could use that for the whole budget if that is how it manages its budget.

Dr M.D. NAHAN: I think in the past few years we have done very well in meeting our targets.

Ms R. SAFFIOTI: It was a joke.

Dr M.D. NAHAN: Yes, well.

Mr B.S. WYATT: It is a growing figure.

Ms R. SAFFIOTI: Yes, it is a growing figure. Starting from another point, how does the government allocate greater than the funds available to even need an over-programing provision? How does the system work that the government allocates —

Dr M.D. NAHAN: Again, that goes beyond the accounting detail. As the Under Treasurer said, this program is run by Regional Development and the Minister for Regional Development, and the member should go through the issues with them. Our discussion here specifically excluded royalties for regions.

Ms R. SAFFIOTI: Sorry, Treasurer, but this is quite an important accounting concept, because every agency would like to tell everyone that they are doing everything over the next four years and then not be held to account in a sense. How can there be an accounting system that allows all of those line items to be listed but the government believes it is not going to actually deliver them—all in one document?

Dr M.D. NAHAN: Again, I think the member is going to have to go down further. The Under Treasurer has explained the accounting treatment of this. As he indicated, there was substantial slippage in some of those programs, particularly in timing and costs. The program is capped at a certain allocation. If the sums add up, that is the maximum level of expenditure. I might add that that target has adjusted from time to time because it is tied to a number of factors, including royalty collections, and that is the treatment.

Ms R. SAFFIOTI: I have a further question, which is more of a technical question. This table is a summary of expenditure across a number of agencies. How is this reflected in the books in a sense? For example, Education has issues and items in its expenditure and asset program, as does Health. If they are all added up in the statements, where do we deduct? Where do we reflect the over-programming provision in the financial accounts?

Ms K. Gulich: It is in the Department of Regional Development administered statements; the offset amount is in those numbers.

Ms R. SAFFIOTI: Through administered items, that interaction with Treasury, the government allocates and pulls back those funds as well; okay.

Ms E. EVANGEL: I refer to pages 89 to 91 of budget paper No 3. Will the Treasurer outline the iron ore price assumptions underpinning the budget and recent market developments?

Dr M.D. NAHAN: Yes. We have not made any major changes to our iron ore assumption methodology this time. One thing we have done—we did it last year—is change the time period by which we use the forward market. I will give the Under Treasurer a go at explaining it.

Mr M. Barnes: In this budget we are forecasting iron ore prices of $US50.90 a tonne for the 2015–16 year—that is for the whole year on average—dropping to $US47.70 a tonne for 2016–17, and then very gradually rising to $US54 a tonne by 2019-20. All of those assumptions were finalised on the 19 April cut-off date for the budget. The methodology behind those assumptions is very much a market-based methodology and it reflects a combination of recent spot prices in the iron ore market, forward contract prices for six to 12 months into the future—that is based on the Singapore exchange forward curve—and long-run price forecasts by Consensus Economics. Just to explain that a little more clearly, for this budget we took actual spot prices for July 2015 through to April 2016 and forward contract prices for May and June 2016 and then averaged those out to produce that $US50.90 a tonne price assumption for 2015–16. We then took a further four months' worth of forward contract prices from July to October 2016, so six months of forward contract prices in total. From that point we started interpolating in a linear fashion to the long-run Consensus Economics forecast, which at the time of the budget was $US65.60 tonne in 2024–25. That methodology is identical to the one we used in the midyear review and virtually identical to the one we used in last year's budget. As the Treasurer indicated, the only difference is that in last year's budget we used 12 months' worth of forward contract prices, whereas in the midyear review and this budget we have used six months' worth of forward contract prices. We do not use the forward curve beyond 12 months as there is not sufficient liquidity beyond 12 months and it is, therefore, not a reliable guide to future prices. The choice as to whether we use six or 12 months' worth of forward contract prices is really a judgement call by Treasury. That is informed by our assessment of which period—six months or 12 months—produces forecasts that are more reasonable. That in turn is informed by our own supply and demand modelling—we are building that capability within Treasury—and also informed by the views of other analysts and forecasters.

The CHAIRMAN: Under Treasurer, in the interests of time, if there is information in there, you might want to move it along.

Mr M. Barnes: Okay, that probably answers the question. I will conclude by saying that I think the methodology that we have developed and that is reflected in this budget, certainly for the 2015–16 year, has proven to be reasonably accurate, which is good. Therefore, I am pretty comfortable with the iron ore price forecasts in this budget across the forward estimates as they reflect that market-based methodology, they are consistent with the long-run iron ore price over many decades, and they are consistent with the forecast of other private sector analysts and forecasters.

Mr W.J. JOHNSTON: I refer to dividends at page 277 of budget paper No 3 and the table "Revenue from Public Corporations". How do those rates compare with public corporations in other states?

[11.40 am]

Dr M.D. NAHAN: Unless someone from Treasury can advise me, I will have to provide that as supplementary information. I will provide information on how the dividend payout ratios for public corporations in Western Australia vary in relation to similar ratios in other states.

[*Supplementary Information No A38.*]

Mr T.K. WALDRON: I refer to budget paper No 2, page 374, under strategic projects. The second dot point states that the active capital works portfolio comprises 11 projects. Four of the projects are operational, six are under construction, or soon will be, and one is in the planning phase. Does the Treasurer have a list of those?

Dr M.D. NAHAN: I am sure Mr Mann has that at the top of his mind.

Mr T.K. WALDRON: Good Swan Districts men usually do.

Mr R. Mann: The 11 projects in question, beginning with those that are under construction, include the WA schools public–private partnership, which involves the delivery of eight schools. Four primary schools are currently under construction, with a secondary school—Ellenbrook North—about to start. The construction of Karratha Health Campus will be starting soon. The WA Museum is currently at tender; we are in negotiation with a preferred respondent. The Sarich Neuroscience Research Institute at the Queen Elizabeth II Medical Centre is also under construction, as is the Perth Stadium. Eastern Goldfields Regional Prison is on the cusp of completion, looking towards technical completion very soon. The Perth Children's Hospital is the other project under construction. We also have, currently still active, Busselton Hospital, which has been operational since April 2015. That is in its handover phase. The Midland Health Campus is also close to handover. It commenced operations in November 2015. The Old Treasury Building redevelopment is presently in fit-out and will soon be fully occupied, with the fit-out being managed by the Department of Finance. Our role in that was the delivery of the development itself, which was completed in August 2015. The only project that we have at the planning stage is the Royal Perth Hospital redevelopment, which is currently sitting in abeyance awaiting further direction from the government.

Mr B.S. WYATT: I refer to page 6 of budget paper No 3, "The Efficient Delivery of Quality Services". The Treasurer may recall the workforce renewal policy. We had a conversation in the last financial year about what the actual savings were compared with what was booked in that midyear review. Does the Treasurer have an update for the 2014–15, 2015–16, 2016–17 and 2017–18 actuals versus what was booked back in that year?

Dr M.D. NAHAN: I will ask the Under Treasurer to respond.

Mr M. Barnes: I have in front of me figures for only 2016–17 and 2017–18 for the workforce renewal policy. The member's question was more about 2014–15 and 2015–16.

Mr B.S. WYATT: I will get those, but I may have to take 2014–15 and 2015–16 by way of supplementary. This is in terms of the actuals for those two years. That would be useful.

Mr M. Barnes: The current estimate of the savings from the workforce renewal policy for 2016–17 is $264 million, and for 2017–18 it is $405 million and for 2018–19 is it $516 million.

Mr B.S. WYATT: Can I get, by way of supplementary information, the actuals of 2014–15 and 2015–16?

Dr M.D. NAHAN: Yes, but note that the policy came in with the midyear review in 2014–15, so it is not a full year impact.

Mr B.S. WYATT: Yes, but the 2014–15 estimated saving recognises that.

Dr M.D. NAHAN: We will provide information on the forecast and actual effects of the workforce renewal program for 2014–15 and 2015–16.

[*Supplementary Information No A39.*]

Mr W.J. JOHNSTON: Do we know how many people who accepted redundancies under the workforce renewal proposal then came back as agency employees or on any other arrangement?

Dr M.D. NAHAN: Workforce renewal is not a redundancy program. Workforce renewal is when someone leaves the public sector, with no compulsion and no payout, and creates a vacancy in that department. The intent of the program is to appoint the replacement for the vacated position, so that the position is filled at a lower level.

Mr W.J. JOHNSTON: I will ask the question differently. In the redundancy programs, how many people have done this?

Dr M.D. NAHAN: There was a voluntary redundancy program, and there have been a number of them. A total of 1 362 people have taken advantage of the current redundancy program. The question is —

Mr W.J. JOHNSTON: How many of those came back as agency employees, or contractors or whatever?

Dr M.D. NAHAN: The question is how we administer the program to ensure that departments do not backfill those positions through an agency. I refer this to the Under Treasurer.

Mr M. Barnes: This is not really something that Treasury polices. There is a moratorium—a time limit—generally of 12 months. This is something that the Public Sector Commission polices, but there is that moratorium. Within that period people who have accepted voluntary redundancy are not allowed to come back and work for the public sector. I think it is generally 12 months, but it is something that is administered by the Public Sector Commission, so the question might need to be asked of the commission.

Mr W.J. JOHNSTON: Is Treasury not monitoring the number of agencies that are just rehiring the same people, but through agencies, and using a different part of their budget to pay their costs?

Mr M. Barnes: We could not possibly.

Dr M.D. NAHAN: It is a risk. We have discussed it. It is the responsibility of not only departments but also the Public Sector Commission.

Mr M. Barnes: Just further to that, if an agency did re-employ someone within that moratorium period, it would actually be in breach of the public sector regulations.

Mr W.J. JOHNSTON: The point I am making is that they are not breaching the rules, because they are not hiring that person back; they are engaging them through an agency, or as a contractor. It has occurred with a number of people whom I know personally. I was wondering whether there was any broader monitoring of this.

Mr M. Barnes: Not by Treasury. I suppose the mechanisms that we rely on in Treasury to manage them are the agencies' overall salary expense limits, and other savings measures that we have applied to spending on consultants. We took a 15 per cent haircut off all procurement expenditure, including on consultants, a couple of years ago, and that is an ongoing base adjustment. I guess squeezing down on those budget parameters is the way in which Treasury tries to manage that risk but, more generally, it is a risk that is policed by the Public Sector Commission.

Mr W.J. JOHNSTON: Some of the agencies will be capitalising these payments by getting people to do projects of a capital nature. There is a lot of planning money in all the different agencies, and there is money to do all these different projects, and a number of people are actually being employed—including my daughter, at one time, but not now—through that system. They are being paid out of the capital side of the budget, even though they are doing ordinary labour for the agency. Does Treasury not look at that issue?

[11.50 am]

Dr M.D. NAHAN: No. The department heads are responsible for their departments. The member is right; I hear anecdotal evidence that people who have been in the public sector for a long time take a redundancy willingly and then seek to come back either as contractors or elsewhere in the department where the limits on the replacement are not as stringent. The Economic and Expenditure Reform Committee has had many discussions on this issue. As the Under Treasurer indicated, it is really up to, firstly, the department to decide whether it is breaching the intent of the policy, with all the ramifications; and, secondly, the Public Sector Commissioner. That is one reason that Treasury and the EERC made adjustments to the other pools of funds that those backfilling people were funded with. We have tightened it quite significantly and made directions to ministers about that, because it is a risk. There is also a risk that a large number of people take it as a supplement to retirement, which is a real concern. Indeed, sometimes in that instance the wrong people leave. If it is just a supplement for people who are approaching retirement and are going to leave in a couple of years—the redundancy amount is based on seniority in the public sector, so it could be a large amount of money for a person who is going to remain in the public sector for a short time—it can lead to incentives for the wrong people to leave. All our voluntary redundancies have been substantially oversubscribed and in all cases, the department heads vet who goes; they choose who is selected for a voluntary redundancy. We have been very careful to try to stop tactics to backfill people. I hear it exists.

Mr B.S. WYATT: From memory—this has been in the public domain—a couple of hundred million dollars a year is spent on those agency contracts; is that right or am I misremembering something?

Dr M.D. NAHAN: What does the member mean by "agency contracts"?

Mr B.S. WYATT: I mean the contracts with agencies. Am I confusing this with another spend?

Mr W.J. JOHNSTON: No; it is hundreds of millions of dollars.

Dr M.D. NAHAN: Does the member mean voluntary redundancy payouts?

Mr B.S. WYATT: No; there were agency agreements for staffing. I am sure it was on Tenders WA or something like that and it was in the order of $200 million plus a year.

Dr M.D. NAHAN: My memory—this is going back 30 years—is that the number of contracts for temporary staff, particularly nurses, is huge. I think it is on Tenders WA. It would be huge. For instance, a substantial number of nurses at a hospital at any one time are temps.

Mr W.J. JOHNSTON: I know the Treasurer would not have it with him but could we get the expenditure on agency employees by portfolio?

Mr M. Barnes: Is that agency staff contracts?

Mr W.J. JOHNSTON: Yes, because there is a figure for salaries in the budget.

Dr M.D. NAHAN: These are not salaries.

Mr W.J. JOHNSTON: Yes, I know; that is the point I am making.

Mr M. Barnes: I am not sure whether our chart of accounts in our budget management system goes down to that fine a level of detail. I suspect not.

Dr M.D. NAHAN: If Treasury has the data—that is, the expenditure by those outside agencies defined by Treasury—we will provide it as supplementary information, but only subject to Treasury having the data.

[*Supplementary Information No A40.*]

Mr B.S. WYATT: At page 33 of the *Economic and Fiscal Outlook* there are two points that I want to ask the Treasurer about. No doubt the Treasurer is familiar with the variations chart. Under the heading "Expenses", $122 million has been pulled out of the line item for non-government human services sector indexation. Firstly, can the Treasurer explain that? Secondly, why has $67 million been pulled out of the line item for the resolution of native title?

Dr M.D. NAHAN: The Under Treasurer.

Mr M. Barnes: On the non-government human services sector indexation line item in that table, that is not a policy change; it is a parameter change and reflects our downward revisions to forecast consumer price index and wage price index growth. The indexation is a function of both CPI and WPI, both of which have been revised down since the midyear review.

Mr B.S. WYATT: What about native title?

Mr M. Barnes: It is probably best asked of the Department of the Premier and Cabinet. My understanding is that there has been a delay in finalising negotiations, so there has been a carryover from 2015–16 to 2016–17.

Dr M.D. NAHAN: My memory quite clearly is that it is just a postponement of the settlements.

The appropriation was recommended.