Division 51: Treasury (Except Item 86: Royalties for Regions), $4 892 206 000 —

Ms L.L. Baker, Chairman.

Dr M.D. Nahan, Treasurer.

Mr M. Barnes, Under Treasurer.

Mr M. Court, Acting Deputy Under Treasurer.

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

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

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

Mr R. Watson, Acting Executive Director, Economic.

Ms L. Di Paolo, Principal Policy Adviser.

Mr B. Graham, Principal Policy Adviser.

The CHAIRMAN: Good morning, and welcome to estimates. We are dealing with division 51, Treasury. Treasurer, would you please introduce your advisers.

[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 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 minister to clearly indicate what supplementary information he agrees to provide and I will then allocate a reference number. If supplementary information is to be provided, I seek the Treasurer's cooperation in ensuring that it is delivered to the principal clerk by Friday, 19 June 2015. 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.

Thank you, members. Member for Victoria Park.

Mr B.S. WYATT: I want to follow up from a question we asked last night about the Western Australian Future Fund so I do not forget later in the morning. The Treasurer may recall that he, Mr Barnes and I had a conversation last year about the future fund and the quarterly statements on the Treasury website. They are effectively what the investments are in the funds. The most recent one is for the March quarter 2015. The vast majority of the investments are in semi-government bonds. Last year, we had a conversation about how those bonds are split and which government bonds are held. By way of supplementary information, could we get a breakdown of which government bonds are referred to in the statement? It simply states that there is $608 million in semi-government bonds.

Dr M.D. NAHAN: I will pass the member over to the Under Treasurer in a minute to answer that. We can provide the information to the member, but the Treasury Corporation indicates that it is commercially confidential. There are issues with it, particularly if the people who provide the bonds might price them differently. I will pass the member over to the Under Treasurer.

Mr M. Barnes: We can provide that information but it is commercial-in-confidence. The Treasury Corporation has raised concerns with us that if that counterparty information was publicly available, it could be combined with other details about the size and timing of deposits into the future fund to enable those counterparties to price opportunistically. That could be to our detriment, so I have to provide that information on a commercial-in-confidence basis.

Mr B.S. WYATT: To clarify that, I think supplementary information is a public document.

The CHAIRMAN: Yes, it is.

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

Mr B.S. WYATT: So how will that be provided to me?

Dr M.D. NAHAN: I seek advice from the Chair.

Mr B.S. WYATT: Whether a letter or something might be —

The CHAIRMAN: There is no way of dealing with that request as you have offered through this process, so might I suggest that you make another, private arrangement between yourselves.

Dr M.D. NAHAN: We will provide it as a separate letter to the member.

Mr B.S. WYATT: We also had a conversation about what the future fund is making above the cost of funds. I have no doubt the Treasurer has that answer ready. Perhaps he could let us all know.

Dr M.D. NAHAN: The information I have is that throughout the investment period for the last year, total returns were about 3.8 per cent. The cost of funds is 3.4 per cent, so the difference is 0.4 per cent.

Mr B.S. WYATT: So it is still 0.4 per cent. Has there been any change in that in respect of the negative watch, and will there be a shift in the nature of the semi-government bonds that are held in the fund?

Dr M.D. NAHAN: The data I have here is that the last report was in March 2015. I cannot say whether that was before or after the negative watch —

Mr M. Barnes: Before.

Dr M.D. NAHAN: It is before the negative watch, so I cannot answer that in all honesty. All the data I have is that 0.4 differential in March 2015. Maybe the Under Treasurer can elaborate on that?

The CHAIRMAN: Mr Mann.

Mr M. Barnes: Mr Barnes.

The CHAIRMAN: Mr Barnes!

Mr B.S. WYATT: Mr Mann has been promoted!

Mr R. Mann: I am not sure about that.

Mr B.S. WYATT: Or demoted.

Mr M. Barnes: It is all yours, mate.

Mr B.S. WYATT: So long as it comes with the salary.

Mr M. Barnes: There is not much more I can add to that. There is no doubt that the negative credit watch announcement by Standard and Poor's in April has seen the spreads on our bonds increase relative to that in other jurisdictions. For example, relative to Victoria, which is still AAA rated, the spreads on our three-year paper have increased by about six basis points, and on our ten-year paper by about 10 basis points. However, as the Treasurer indicated, we will not see the impact of that on the future fund until we get the June quarter results.

Mr B.S. WYATT: I am curious. Do we expect, as a result of that, a change in the make-up of the semi-government bonds that are held?

Dr M.D. NAHAN: Not materially, and that would be an allocation decision of the Western Australian Treasury Corporation, so I think we can only answer that with particular relevance to the negative watch and the end of the next quarter. The member can ask me in Parliament after that report comes out; I will be more than willing to answer it.

Ms R. SAFFIOTI: My question relates to the targeted voluntary separation scheme that the government announced prior to the midyear review. Some entries have been made in this budget for additional expenditure in 2014–15 for payouts. At the midyear review, 1 500 redundancies were announced and there was a notional allocation against agencies. For example, the Department of Health was 500 staff, the Department of Education was 200, and state training providers had 200. Can I have an update on the total amount, given that we are now in the middle of June? What was the total cost for 2014–15? What are the expected cuts to budgets over the next three years?

Dr M.D. NAHAN: The latest data we have from the Public Sector Commission is that the target, as the member indicated, is 1 500 redundancies. To date, there have been 1 339 actual separations. There are a few weeks to go. The member's second question was about the total net savings by department.

Ms R. SAFFIOTI: Yes.

Dr M.D. NAHAN: Which departments?

Ms R. SAFFIOTI: Let us go for the big ones: the Department of Health, the Department of Education and the Department of Training and Workforce Development are the first three.

Dr M.D. NAHAN: Okay. There are 420 in Health, 272 in Education and 200 in Training and Workforce Development. There are 100 in the Department of Agriculture and Food.

Ms R. SAFFIOTI: Can I ask about the Department of Corrective Services, because the target was 100 there?

[9.10 am]

Dr M.D. NAHAN: Yes, the member is right; the target was 100 and the actual is 96.

Ms R. SAFFIOTI: Will the target of 1 500 be met?

Dr M.D. NAHAN: That is yet to be determined; we might be a bit below that.

Ms R. SAFFIOTI: In relation to the accounting treatment of all of this, as I understand it about $62 million of additional funding that was required to pay out the staff was allocated according to agencies in 2014-15 in this budget. Is it correct that the cuts to agencies' budgets will be done at the time of the midyear review?

Mr M. Barnes: That is correct. In this 2015-16 budget, part of the funding of the upfront cost of severances has been allocated to individual agencies where separations were finalised at that point in time. A portion remains in a global provision, which will be distributed between now and 30 June to the relevant agencies and the harvesting of the ongoing salary savings from 2015-16 will occur as part of the midyear review.

Ms R. SAFFIOTI: Is a figure available for the amount that is expected to be cut from the Department of Health's budget over the next three years? I have a figure of $30 million a year.

Dr M.D. NAHAN: As the member knows, we indicated in the budget that we have in Health, in particular—because that is the agency the member mentioned—a transition to a state price and then a national price. We also allocated an extra $400 million to Health to adjust, to stretch out that glide path in time and to assist it doing so. We were supposed to get there in 2017-18, but we are going to either 2021 or 2022 and we increase the price. With the volunteer separation, we are harvesting the money from Health, but reinvesting it in full back into Health for hospital staff. For instance, in 2015-16 we expect—this figure is indicative—a $36.8 million saving from the targeted voluntary scheme. Much of that in Health is in the hospitals; I do not have the proportion, but much of it is. All hospitals savings in the target will be given back to the hospitals to assist them in meeting their glide path.

Ms R. SAFFIOTI: At the time of the midyear review, the targeted voluntary separation scheme was one of the key savings in the government's readjustment process given the budgetary situation. Is the Treasurer saying that that Health funding will not be harvested in the forward estimates as predicted at the midyear review?

Dr M.D. NAHAN: No, I am not saying that. Since the midyear review we have had a thing called the budget in which we announced changes to the funding of hospitals, and that is detailed in the budget. I have just gone through that. In the midyear review, we retained the 2014-15 glide path for hospitals, which was very steep moving towards the national price. In the budget we announced a slowing of that glide path to stretch it over time. That increased expenditure allocated $400 million extra to hospitals and part of that funding, I assume, is coming from the reinvestment. We are harvesting from WA Health the money from the voluntary scheme for the hospitals section of Health. We are reinvesting those moneys harvested back in and it is itemised in the budget as a policy change.

Ms R. SAFFIOTI: I have gone through this in a bit detail. At the midyear review, funding was provisioned off the bottom line for the targeted severances. There was a one-line item provisioned against the total budget aggregates. I will go through that again. At the midyear review, there was a one-line provision in relation to the savings across the forward estimates; there was a one-line provision for the allocated funding for 2014-15 for the payout and there was one-line provision for savings against the total budget. In this budget process about $62 million worth of payouts were made in 2014–15 and allocated against individual agencies. Has the Treasurer reversed the savings for Health that were put into the budget in the midyear review in 2014–15?

Dr M.D. NAHAN: There are a number of changes. The variance for Health, vis-à-vis the midyear review, is that in 2015–16 we identified net savings of $120 million all up. The savings provision in the 2014–15 midyear review was $120 million in total for Health in 2015–16.

Ms R. SAFFIOTI: Across the forward estimates.

Dr M.D. NAHAN: Yes. We now expect savings of $100 million. There has been a reduction from the midyear review in the 2015–16 health budget of $20 million. In the midyear review, we targeted $120 million in 2015–16; we are now targeting $100 million, a reduction in Health of $20 million in 2015–16. The reason for that is that we have changed our glide path and we are putting more money than expected into hospitals. Over the forward estimates —

Ms R. SAFFIOTI: The $120 million was across the budget, not just Health.

Dr M.D. NAHAN: Sorry. The provisions over the whole budget were $120 million; they are now $100 million. The $20 million difference is largely due to Health; that is, we are going to harvest the separation moneys as indicated, but give it back to the hospitals.

Ms R. SAFFIOTI: Just to say clarify this, at the midyear review the government cut $120 million from the budget bottom line in the 2015-16, 2016-17 and 2017-18 financial years. That happened in last year's midyear review. In this budget the government gave money to agencies to do about $62 million worth of payouts because it was not certain of the figure of 1 500 staff. The government is closer to that figure, and by the end of 30 June, the government will have finalised the payouts for approximately 1 500 staff by 30 June. The process now is to harvest money from the budgets for all the agencies for 2015-16 and beyond. In relation to the other agencies, the government will harvest approximately the amount it predicted, but while the government was meant to be harvesting about $34 million or $36 million in Health, it will now harvest $16 million, and it is letting Health keep the $20 million.

Dr M.D. NAHAN: We forecast that we would harvest 1 500. We will see how that plays out by department and if there are separations, we will harvest the appropriate amount of separations. We will harvest those separations from Health as predicted according to the numbers, which are slightly down on expectations. We expected 500, but right now the number is at 420, so there is variation there. But for the whole of Health, we will harvest it, including hospitals, but as indicated in the budget, we are going to reinvest or give back to the hospitals the money harvested from the voluntary separation scheme to help them with a slower glide path.

[9.20 am]

Ms R. SAFFIOTI: To try to really nail what the impact of this scheme will be on the health budget in 2015–16, the Treasurer said before that he predicted it will be $36 million; is that right?

Dr M.D. NAHAN: It will be $36.8 million in 2015–16.

Ms R. SAFFIOTI: The Treasurer is basically going to reinvest $20 million of that, so he will be harvesting the net impact, with $16 million being taken out of the health budget in the 2015–16 midyear review. Can I have that confirmed?

Dr M.D. NAHAN: Again, it is subject to confirmation on 30 June. Yes; we expect to harvest $36.8 million under current separation details and we will give back approximately $20 million to the hospitals. The hospitals will not be affected. To the extent of my data, the Department of Health, outside the hospitals, will lose $16.8 million in 2015–16.

Ms R. SAFFIOTI: It is yet another unravelling of a midyear review savings measure.

Dr M.D. NAHAN: No. We have to respond to different circumstances. There were a range of changes in the Department of Health. We altered the policy of the glide path for a number of reasons. Firstly, we have to respond to the ability of the health department to adjust. Secondly, as I think has been discussed in Parliament, the national price that the health department was targeting the glide path to, and will continue to target it to, has declined. The hospitals in the other states that set the basis for the glide path have become more efficient relative to the hospitals in Western Australia, so the target is declining in number. We explicitly made a policy to allow hospitals to target that lower price over a longer period. We have to respond to the fiscal position facing our hospitals, including rapid increases in demand for services and the opening of a number of major hospitals, and we have to set targets that are tough but realistic. In summary, we have continued our voluntary separation savings as indicated in the midyear review. However, we have allocated additional funds in the budget to the Department of Health.

Mr B.S. WYATT: The Treasurer makes the point—this is the problem—that in last year's budget, we effectively took a different glide path for the health budget by assuming that we would reach the national price by 2017, from memory. At that time, there was an eight per cent difference between our hospital price and the national price. In this budget, he has had to put in $420 million, from memory, because he has extended that period of 2020–21, but at the same time the difference is now over 10 per cent. Not only have we extended the time frame, but also our hospital system is less efficient compared with those of other states. That is the way I understand this.

Dr M.D. NAHAN: The member is right; that is what has happened. We set a target. The national price has declined, I think, in absolute terms and relative to ours. That has been largely driven by changes in Queensland, New South Wales and Victoria. These are adjusted for population and a range of factors determined by the commonwealth. However, Queensland and Victoria in particular have had particularly tight restrictions on wages growth—it has been much tighter than ours—and thousands of people in the hospital system in Queensland have been laid off. There has also been a subsequent change of government in Queensland that might lead to changes in that. The national target has reduced in real and relative terms and, accordingly, we have stretched the time to meet that target and allocated substantial additional funds to the hospital system to adjust at a slower pace.

Mr B.S. WYATT: The Newman government's policies around redundancies et cetera were known at the time of last year's budget. This is always the problem, is it not? Savings are assumed at budget time but are then effectively changed at the midyear review. Will the 2020–21 period be extended again and will there be continual backfilling of the savings at the front end at the midyear review?

Dr M.D. NAHAN: We accepted the national target as our target. The Newman government was in power for three years. It takes a while for that to be calculated by the commonwealth. It is not calculated on the prices today; it has to use published data. It took a while for the impacts of the Newman government to translate into the national price, as it did in Victoria and New South Wales. Again, the national price declined in absolute and relative terms. We made a policy decision to continue to target for that, but over a longer period, and to take a slower glide path to make sure that we continued to allocate adequate funds to the hospital system.

Mr W.J. JOHNSTON: The Treasurer recently spoke at a Chamber of Commerce and Industry of Western Australia event and my memory is that he said that he had to pay doctors and nurses in Western Australia higher rates than those in other states because otherwise they would have gone to work in the private sector. That is summarising my reading of the report. I wonder whether that decision to pay people higher rates might have had an impact on the efficient price in Western Australia; and, if that is the case, why would the Treasurer not have provided supplementary funding or some other arrangement to the hospitals? Would he not have had to recognise that there is a higher cost of delivery in Western Australia because the doctors and nurses are paid more and adjusted the efficient price to reflect that he decided to pay the doctors and nurses more?

Dr M.D. NAHAN: The member is referring to my talk to the CCI about the budget speech. I have given two talks to the CCI. It was in the context of the past. I am not running away from it; I am answering his question. I indicated that, during the peak of the boom, we had to meet the market wage in the public sector, as did the Labor government before us, in order to get adequate people to provide a variety of public services, including doctors and nurses, and the market wage in Western Australia was higher than that in other states. As a result of that, we have generally the highest paid public servants in the country, particularly nurses, doctors and teachers. I cannot say that the reason for our differential in costs is hospitals per se, but across the board it is overwhelmingly wages. The wage rates in the public sector in Western Australia explain a great deal of the reason for the higher relative expenditure in Western Australia per whatever number of students or patients than in other states. We knew that when we set up the policy to transition to the national price. We are not cutting the wage rates of nurses and doctors at all; we will maintain the relatively high wages, but we are moving towards that transition to have the health department do it through greater efficiencies.

The member says that we could have identified a special fund for the above-average wage rate—I think that is what he is implying. We could have done that, but a range of factors, aside from the differential wage rate, lead to higher costs in the hospitals in Western Australia, although higher wages are the dominant factor.

Mr B.J. GRYLLS: The distribution of the GST is discussed on page 107 of the budget papers. There has been significant media coverage of the issue, including what must have been galling reports for the Treasurer last week about the Premier and Treasurer of Tasmania discussing how they would distribute the windfall of GST that they will receive in this year's budget—they did not quite know how to spend it. Can he please summarise the current situation and the impacts on our budget?

[9.30 am]

Dr M.D. NAHAN: I did not hear the comments on Tasmania.

Mr B.J. GRYLLS: That is probably good for the Treasurer's mental health!

Dr M.D. NAHAN: I believe, off the top of my head, that Tasmania had a double-digit increase this year. It is by far its dominant source of income. Over 50 per cent, I think—towards 60 per cent—comes from GST, of which virtually all the money distributed throughout the GST comes from us in the form of iron ore royalties that we do not collect anymore. It is pretty galling in terms of the estimates by the Commonwealth Grants Commission.

As the member knows, our share goes down to 30 per cent this year. I think last year it was estimated to go up to 32 per cent. Most of that lower deduction in shares in recent times has been due to iron ore. Back in 2002, GST represented about 25 per cent of our revenue. Last year, it was about seven or eight per cent. Commensurately, royalties, mostly from iron ore and oil, went from about four per cent to 25 per cent. There is a trade-off. Unfortunately, the lags in the system of the GST and the method by which it is calculated are hellishly complex and loaded with assumptions that are wild and I think inaccurate and have been for decades. We saw changes in 2010 and 2015 that often defied logic. It is not a system in which we would want to allocate the whole GST pool.

As the member knows, we thank the Abbott government for giving us $499 million from its own purse to help cushion the reduction in relativities. It will look at doing that next year once we get to relativities. The Treasurers will be meeting shortly to discuss what we do about this system. It will be very hard to get states such as Tasmania that get windfalls at our expense to agree to any change. Therefore, commonwealth leadership is absolutely imperative. It is, after all, its system. This is Western Australia's greatest challenge.

Mr B.J. GRYLLS: I congratulate the Treasurer on his advocacy that resulted in probably the first time the federal government has recognised the challenge or done something about it.

In this ebb and flow of funding, did the Treasurers discuss the fact that if Tasmania now relies on 50 per cent GST to fund its budget and the trajectory starts to normalise and the revenue stream comes back to Western Australia, Tasmania's revenue will go through the floor? At that point, it has no other option. That is where the GST will really be shown up for its fatal flaw. Tasmania will turn into Greece very quickly because the revenue will not be in the pile to redistribute to it.

Dr M.D. NAHAN: This is a challenge the Commonwealth Grants Commission has not thought about. Tasmania, South Australia and the Northern Territory, in particular—no-one has done the calculations; I have not anyway—will find that their share will go down and they will be hit significantly. I think they will have some troubles, especially in three years, when our share is forecast to go from 30 per cent to 67 per cent.

Mr B.S. WYATT: The Commonwealth Grants Commission's most recent report makes the point that Western Australia's submission in respect of the carve-up was submitted late. Why was that?

Dr M.D. NAHAN: A major review is undertaken every five years. The 2015 review, to my knowledge, took place over two years. There were many submissions along the way. Maybe the Under Treasurer can answer that question.

Mr M. Barnes: I am not sure about the late submission. Multiple submissions were provided by WA and there was extensive engagement with the grants commission by my staff, the executive and myself. I will ask Mr Watson to comment on the point about a late submission. I am not aware of that.

Mr B.S. WYATT: It was just something that the Commonwealth Grants Commission noted in its report.

Mr M. Barnes: I just want to assure the member that there was extensive engagement by Treasury with the grants commission over a number of years about this methodology review. I have lost count of how many submissions we submitted. We had multiple meetings, teleconferences and so on with the grants commission. To be honest, I do not know what more we could have done. The outcome was not entirely satisfactory. We had a couple of wins. We did not get some of the other issues we pushed for but the member can rest assured that there was a lot of engagement over a long period.

Mr R. Watson: In relation to the late submission, a number of submissions were submitted over the review period. I am not aware of any particular submission that was late. However, if one was provided late, it would have been because we were sourcing data to respond to the Commonwealth Grants Commission's requests or findings or draft recommendations.

Dr M.D. NAHAN: We should remember that the commonwealth Treasurer, Joe Hockey, made a direction to the grants commission to consider our issues, particularly the lags. That was an additional process that was layered on top of the 2015 review. We made a submission to that. We had a very tight time line. I would not be surprised if the commission was referring to late information on that.

Mr B.S. WYATT: I think that was a separate issue anyway.

In that report, the Commonwealth Grants Commission makes the point—I would be interested to hear the response from Treasury on this—that despite the argument we make around the costs of the WA taxpayers supporting the resources sector, we did not provide any specific information to that effect other than a list of royalties for regions expenditure that the Commonwealth Grants Commission report, to be frank, was very dismissive of. I am curious to know why that is the case.

Dr M.D. NAHAN: It is not the case. I will hand over to the Under Treasurer, who deals with these things, in a moment. This is a longstanding argument on how we treat what is classified as economic development expenditure. It has been going on for 20 years. It is very difficult because certain states have a lot and some have none. Then there are debates about what it is and because of the uncertainty and the data, one of the problems of the grants commission is that it is very empirically oriented, particularly about published data external to governments. If we do not have very much of that, the commission discounts it as zero. We provided the grants commission with extensive data on the economic development costs in addition to royalties for regions expenditure in Western Australia. It discounted most of it. It ruled it out altogether and did not consider it. When there are areas of uncertainty or differential revenue raising and expenditure between states, the grants commission discounts those factors because of the uncertainty. We had extensive debates about the extent to which it discounts economic development expenditure.

Mr B.S. WYATT: The grants commission also makes the point that the state government could not explain why the expense of economic development—I think the Treasurer referred to this when talking about our resources sector—is any different or any higher or in a more special category than, say, Victoria and what it spends on its manufacturing sector, for example.

Dr M.D. NAHAN: The manufacturing sector's expenditure is fully inclusive in the budget. It has been for years.

Mr B.S. WYATT: But why is it any different?

Dr M.D. NAHAN: Because the grants commission chose to treat it differently. It did not accept the arguments that specific expenditure for roads, airports and all that sort of stuff was suitable to be included as a cost in redistribution. It was a decision by the grants commission. In my view, it is wrong. It is an essential element not only to our cost structure, but also when earning money, which it distributes.

Mr B.S. WYATT: So we provide more than simply a list of royalties for regions spend?

Dr M.D. NAHAN: Yes; it is very extensive. I will ask Mr Barnes to clarify that.

Mr M. Barnes: This is one of the most disappointing aspects of the grants commission's review. I think it is a case of poor communication from the grants commission in respect of its data requests and also poor reporting in its final report of the data and the issues. Just to provide a bit of background, the grants commission had asked states to identify direct mining expenditure that it was not already aware of. It already has data from us, which totals about $200 million per annum in direct mining expenditure, which is already coded elsewhere in the grants commission data.

The Commonwealth Grants Commission asked the states to identify any additional direct mining-related expenditure over and above that. However the table in the report is labelled mining-related expenditure, which is a different thing. That is some of the confusion and miscommunication I am talking about.

In July 2013, in one of our many submissions to the grants commission, we provided data on mining-related expenditure—that is, for example, social infrastructure effectively in Onslow or wherever. The July 2013 submission sought recognition from the grants commission for about $2 billion a year in mining-related expenditure, a large chunk of which is social infrastructure. However due to the empirical nature of the grants commission and its heavy data-driven processes, which the Treasurer has mentioned, it was not happy with the level of detail in the data that we provided and it effectively ignored it. We provided that data back in July 2013. In the current report the grants commission asked for direct mining expenditure that it did not already have. We provided the royalties for regions data. Western Australia and Queensland were the only two jurisdictions that responded to that data request. It reported Queensland's data; it did not report ours, so we are having ongoing discussions with the grants commission around that.

[9.40 am]

Dr M.D. NAHAN: This goes to the core of the debate: the other states and the grants commission perceive that we have $7.5 billion of un-redistributed iron ore royalties, which we have earned but which has not been redistributed in the system, and that is net of cost. The grants commission decided purposefully to exclude a hell of a lot of the costs that we incurred in earning that—roads, port expansion, electricity, all sorts of social infrastructure around Karratha and Port Hedland related to housing. It excluded that. In Queensland, for some reason, they include a great deal of that, and that is one reason Queensland actually got an improvement in relativities, and Queensland is above 100 per cent this year and last year at least. There is a debate about it. We know what the revenue is—there is no debate about that—but there is a real debate in the grants commission about legitimate cost incurred in our big industry, iron ore, in terms of providing the social and physical infrastructure related to that development.

Mr B.S. WYATT: Is Queensland providing information differently from how we are providing it? It must be doing something differently if the grants commission does it for Queensland but not for us.

Dr M.D. NAHAN: It is a legitimate question. I have thought a lot about it and I have read all the reports. Queensland has done very well historically. Even when it had a huge spike in coal exports and prices, its relativities did not dip that much, not like Western Australia's did. Now it is smaller relative to WA. One of the problems is that a large amount of Queensland's expenditure is actually around urban areas—Gladstone and others—so it is around existing conurbations. Ours is way out there, often in very rural and new areas. We also have a policy that a large amount of infrastructure, for instance, in Onslow is co-funded—Wheatstone and us. As the Under Treasurer and I said, the grants commission tries to heavily discount data from states that it cannot collaborate by published Australian Bureau of Statistics data and it just discounts it. We have had this debate in Western Australia for a long, long time, and it is a fundamental flaw. The reason it goes down, too, is that other than Queensland, no other state has ever had rural redevelopment associated with income-earning industry like Western Australia has.

Mr B.S. WYATT: I agree, and that is why in respect of the costs there must something that Queensland is providing or doing for the Commonwealth Grants Commission to recognise Queensland but not us. Do we know what that is?

Mr M. Barnes: It is difficult to not get too technical about this issue, given the nature of the beast, but I will try to simplify it. The grants commission inundates states with multiple data requests, and it has a vast number of different data categories—I cannot remember how many. There are issues about how data is coded to those different categories. We asked the member for Victoria Park's question of Queensland Treasury, and its response was that a large portion of the data that is reflected in the table that the member is referring to from Queensland simply reflects Queensland's discovery of a past incorrect coding of those expenses; so those expenses were already provided by Queensland to the grants commission but they were coded as something other than mining, previously. Queensland has re-coded, or suggested to the grants commission and the grants commission accepted, that that expenditure should be re-coded from whatever category it was in before into the mining category. That is one of the reasons, according to Queensland, its data is in that table. It is just a reclassification of its expenditure from another category to mining.

Dr M.D. NAHAN: This has been a debate in the system, because a large amount of the Queensland mining developments around existing urban areas have been captured in education, health, urban development—that is, in other categories. Onslow is brand new; it was not there before. Essentially, it was a town of 600 people and now it has changed totally. Onslow is new, whereas Queensland is an augmentation of existing data streams.

Mr B.S. WYATT: Does that mean that the Queensland spend is corroborated by ABS data and ours is not?

Dr M.D. NAHAN: To some extent, yes. There are two reasons: it is, because ABS collects data on, let us say, Gladstone, Mt Isa and other areas; and also it is a long-established treatment in the grants commission, so it is an augmentation of existing treatments. Ours are often brand-new, both in terms of the place and the policy.

Mr B.J. GRYLLS: If those arguments put by WA Treasury to the commonwealth are accepted, what difference does that make to our relativity? Is that particular argument the Treasurer has outlined in the chamber today a billion-dollar turnaround or a $500 million turnaround? If the grants commission had accepted what the Treasury put forward as new mining growth-related expenditure being counted, can a figure be attached to that?

Mr M. Barnes: I cannot give a specific figure, but, as I mentioned before, our July 2013 submission identified—although the grants commission in the end did not accept it—up to $2 billion a year in this direct mining-related expenditure, so it is very substantial.

Mr W.J. JOHNSTON: I refer to page 95 of budget paper No 3 and the heading "Increase the Loan Guarantee Fee for Local Governments, Universities and Keystart". Last night we chatted about this when dealing with Treasury Corporation, but I want to focus on Keystart. At the moment, Keystart—we quickly talked about this last night—does not currently pay the loan guarantee fee because it borrows money and lends money so that debt is 100 per cent offset, but it is now going to be introduced; so 0.7 per cent of its asset is going to be paid to Treasury for this loan fee. The Treasurer said yesterday, and I acknowledged, that does not mean that there will be an increase in the costs to borrowers because it will be absorbed by Keystart. How much will Keystart pay for its loan guarantee? The Treasurer also said last night that it was Keystart's idea to collateralise its loan book and sell it off. Is part of the motivation for that that Keystart will be getting rid of this cost that the Treasurer has now introduced which it previously did not have to pay?

Dr M.D. NAHAN: What the member for Cannington says is accurate. Keystart prices its product as the average of the big four banks—that is, interest rates to its clients. The benefit to the clients is, of course, not so much interest rates anymore, but there are other aspects to it. It is very popular and has grown remarkably. It was essential policy during the global financial crisis when the banks dragged the chain on investment policy. We put in a 70-basis point lift, which is the same levy we do for government trading enterprises. It is an indication of the cost to us of debt, and Keystart will wear that in its business. It will not pass it on because of its pricing policy, and there is no intention of changing that pricing policy. I will go to the Under Treasurer in a minute for the estimate of that cost. It is fair to say that Keystart is on board with the collateralisation of its debt. I cannot say whether Keystart, Treasury or I came up with the idea initially but it was close to that and Keystart is running the program. I do not know what the interplay between the asset value of the sale of the collateralisation and the 70-

basis point lift would be. I am not sure whether they are substitutable or whether it would reduce the collateralisation—let us see how we sell that—but they were independently determined. Perhaps the Under Treasurer can speak about the impact on Keystart.

[9.50 am]

Mr W.J. JOHNSTON: The collateralisation of the loan book has been spoken about in the same terms as selling other assets.

Dr M.D. NAHAN: Yes.

Mr W.J. JOHNSTON: But is it actually in that category? Is it actually about the debt position of the government, or is it about other issues to do with the policies of Keystart?

Dr M.D. NAHAN: The member will notice from the budget papers that we have a $5 billion borrowing limit on Keystart. It is bumping against that. In fact, unless things happen, it will exceed that. We have therefore done a number of things to limit. My view, and I think the view of government, is that Keystart's market share is large enough. At times it was 20 per cent of the new homebuyer market, which is very large. There are also issues about it being there for a long time. Some of its clients have had its product for a very long time. There needs to be a rollover of that. By the way, the risk levels of its portfolio are very low. It is well run. We are doing a number of things. We do not want the total loan book of Keystart to go above $5 billion, so we have done a number of things. We have reduced the house price levels by difference between metropolitan and rural, and we have reduced the income levels for singles, couples and others. That should reduce somewhat the demand for Keystart. Those measures were suggested to us by Keystart as an appropriate mechanism to limit the loan book to $5 billion. The collateralisation will not affect net debt; it will just affect gross debt. So, net debt is not our target reduction mechanism.

Mr W.J. JOHNSTON: Yes, but it is also not intended to generate a surplus for return to the government.

Dr M.D. NAHAN: No.

Mr W.J. JOHNSTON: It is only about Keystart managing its loan book; it is not about taking money out of Keystart to support the government.

Dr M.D. NAHAN: Yes.

Mr B.S. WYATT: I refer to page 48 of the *Economic and Fiscal Outlook* in respect of the workforce renewal policy. I want to get an idea of the progression of this. At the midyear review it was estimated that it would generate $67 million in savings in the 2014–15 financial year; and then onwards throughout 2017–18, $1.272 billion. Are those savings for 2014–15 expected to be met? Have any exemptions been given to this policy? I want to get a picture of where we are heading under it.

Dr M.D. NAHAN: The member specifically asked about 2014–15.

Mr B.S. WYATT: Yes, and whether that $67 million in savings is expected to be met and whether any change or exemption has been given that would impact on that figure.

Dr M.D. NAHAN: Yes, the member is right: at the midyear review it was $67 million for 2014–15, and the budget was $15.8 million.

Mr B.S. WYATT: I am sorry, say that again.

Dr M.D. NAHAN: The estimate of benefits at the midyear review for 2014–15 was $67 million, as the member said.

Mr B.S. WYATT: Yes.

Dr M.D. NAHAN: The budget estimate for 2015–16 is $15.8 million, a differential of $51.2 million. We came out with the policy. We made some changes to the definition of "frontline workers" and other changes. The Under Treasurer will elucidate some of those changes.

Mr M. Barnes: The main reason for that reduction in savings from midyear review to budget is actually around the data. At midyear review time we relied on global data from the Public Sector Commission and made an estimate on the basis of that data. In the budget we went through a very data-intensive exercise with every agency in the general government sector in that we received data from each agency on actual employee separations in each of the past three financial years. The way this measure works is that it implicitly assumes that historical actual employee separations—we used a three-year period—would be repeated in the forward estimates period. The savings across the forward estimates period are based on that assumption and that employee separation data we received from each agency. Essentially, that explains the vast bulk of the difference from midyear review to budget with more granular data from agencies on actual employee separations.

Mr B.S. WYATT: As a follow-up to that question, that is a significant difference between midyear review and budget. What impact will that have over the forward estimates? The policy itself at midyear review time, which was factored into the finances, indicated a saving of $1.272 billion. What is the new figure now that the workforce renewal policy is expected to save?

Dr M.D. NAHAN: The differential in expected savings in the midyear review was over four years—note that that was in the 2014–15 budget so add another year as we are now in 2015–16—is $1.272 billion. Over five years now, as we have shifted to the new budget, the savings are $1.329 billion.

Mr B.S. WYATT: How is that? Is the Treasurer able to give the figure as the four-year figure so that it is a like for like?

Dr M.D. NAHAN: This year, 2014–15, the difference, as I indicated, is a reduction of $51 million.

Mr B.S. WYATT: What is it for 2015–16?

Dr M.D. NAHAN: It is $100 million.

Mr B.S. WYATT: Is that the expected savings?

Dr M.D. NAHAN: No, it is the reduction in savings. At midyear review in 2015–16 —

Mr B.S. WYATT: It was $229 million.

Dr M.D. NAHAN: It was $229 million.

Mr B.S. WYATT: So that is now $100 million?

Dr M.D. NAHAN: No, it is $229 million. In the midyear review we forecast $229 million savings in 2015–16. In the budget we have forecast $129 million, a differential of $100 million.

Mr B.S. WYATT: And what is the expected savings for 2016–17, if the Treasurer has it before him?

Dr M.D. NAHAN: It was $399 million; it is $264 million, a differential of $135 million.

Mr B.S. WYATT: What is it for 2017–18, while we are on it?

Dr M.D. NAHAN: It is $577 million and $404 million, a differential of $172 million. Then we add the fifth year, which is a savings of $516 million.

Ms R. SAFFIOTI: I turn to the sports stadium and the numbers driving that sports stadium. I will start with the overview on page 169 of the *Economic and Fiscal Outlook*, which outlines a brief summary of the total cost. Things have changed in the budget papers as far as where things appear, so if the Treasurer can indulge us and walk through some of the financials with us, as we are trying to get to the bottom of the exact total financial impact of this thing. Can the Treasurer provide a breakdown of the $1.2 billion, including exactly what it represents, whether it is all capital, whether part of it is financing and over what years? Can we have a breakdown of exactly what that $1.2 million represents?

[10.00 am]

Mr R. Mann: The $1.2 billion is the total contract value of the design, build, finance and maintain contract between the state and Westadium, so it includes both capital and facilities management costs over the 28-year contract terms. So, that is the full cost of all services delivered by the contractor—design, construction, financing cost, and facilities management—in August 2014 net present cost terms.

Ms R. SAFFIOTI: So, it is 28 years; is that right?

Mr R. Mann: It is 28 years inclusive of the design and construction phase.

Ms R. SAFFIOTI: Let us go through that. The $1.2 billion is the total contract value: how much was the capital appropriation from the state to the financier?

Mr R. Mann: It is not a direct comparison. The state's initial capital budget was recognised pre-execution of the contract with Westadium. The original capital budget for the stadium was $918 million, and that reflected all costs for the stadium, sports precinct and also project management costs. When, in August 2014, the DBFM contract was executed, the capital contribution under the DBFM contract was recognised as a finance lease; the adjustments were subsequently made as part of the subsequent midyear review. The capital component is now recognised as a non-current asset liability in the VenuesWest budget papers. That includes the capital costs of the stadium and precinct. It is further complicated by the fact that it also includes some components of transport infrastructure. The bus hub and pedestrian assembly areas are, sensibly, being delivered by the DBFM contract in association with the stadium. The $1.2 billion contract value and the capital component within that is not a direct comparison with the original stadium capital budget.

Ms R. SAFFIOTI: Sure, but let us just try to get it from a budget perspective so we know what the impact on the books is, because I think that is probably the best way to work through this. If I go to the budget papers for Sport and Recreation, I see a capital amount allocation for the stadium, plaza and precinct.

Mr R. Mann: Correct.

Ms R. SAFFIOTI: So that is still state government money paid up-front for the stadium, plaza and precinct?

Mr R. Mann: That is correct. Within the Department of Sport and Recreation budget papers the member will see the non-DBFM capital components for those parts of the stadium, so pre-construction site works, utilities and services and project management costs that are not being delivered under the DBFM contract. The DBFM costs are now fully recognised under VenuesWest.

Ms R. SAFFIOTI: Basically, it was originally thought that the state government would pretty much inject 60 per cent of the project up-front, but that was converted, last year, into a financing model, where we basically would be paying an annual amount for the next 28 years; is that exactly the impact on the finances?

Mr R. Mann: No; the finance lease value, which was recognised in the midyear review at $912.3 million, includes the state's capital contribution, which is 60 per cent of the design and construction cost, plus the value of the capital component of the monthly service payments over the 25 years from commencement of operations, plus capitalised interests and other costs that the accounting treatment requires to be accounted for in the finance lease.

Ms R. SAFFIOTI: Can I be given a breakdown of exactly what that 60 per cent is—the amount—and how much the total is? Not the MPV, but the actual total value of the 28-year lease payments.

Mr R. Mann: I can certainly give the member the value of the state's 60 per cent capital contribution; it is $489 million. As to the balance—the capitalised components of the finance lease valuation—that breakdown is confidential.

Mr W.J. JOHNSTON: Sorry, why is there an obligation on the taxpayer and on this Parliament that the Parliament cannot know about?

Mr R. Mann: The first thing I should note is that the disclosure of elements of the DBFM contract are subject to a separate parliamentary process under the authority of the Minister for Sport and Recreation. But, in summary, the answer is that it is to protect commercial-in-confidence information that would potentially jeopardise both the contractor and the state's commercial position in subsequent negotiations and transactions.

Mr W.J. JOHNSTON: But I assume there is a liability as well as a potential income, and I assume that the state government stands behind that liability. We are being asked to enter into a liability that we do not know the extent of.

Dr M.D. NAHAN: The state enters into all sorts of contracts in a competitive manner with third parties such as the contractor in this case. There are also subsequent contracts relating to this venture—the stadium—that are being negotiated. It is not unreasonable and not unusual for some aspects of those contracts, such as this, to be held commercially confidential, and that is what was agreed to by the state in respect of this aspect of this contract.

Mr W.J. JOHNSTON: With respect, I am not asking for the value of the contract; I am asking for the extent of the liability. It is a separate issue. What I am asking for is not any contractual arrangement. This is exactly the same as the guarantee given by Verve to Vinalco, which, as we all know, was withheld from the *Annual Report on State Finances* in 2012. The then Treasurer, Troy Buswell, made comment in the Parliament about how that was done improperly. That is exactly same thing I am asking here. I am not asking for the value of the contract; I am asking for the value of the liability. That is clearly a matter that needs to go into the *Annual Report on State Finances* and be reported to Parliament. I am not asking for anything that is not going to be reported in public on another occasion, I just want to know what it is now.

Dr M.D. NAHAN: The Vinalco one was a joint venture between Verve and a second party, and the accounting rules were pursued properly. The liabilities of that joint venture were not owned fully or absorbed fully by Verve at that time, so it is a different issue.

Mr W.J. JOHNSTON: No, sorry, the minister is wrong because there was a guarantee from Verve to Vinalco. That was the point that should have been reported, not the underlying debt. That is the exact same issue here. I am not asking for the details of the contract; I am asking for the details of the liability that is carried by the

Crown, and that clearly must be reported in the ARSF. So, all I am asking for is for that to be reported to us today, rather than in September.

Mr R. Mann: The full capital liability is recognised, as I indicated earlier, as a non-current asset liability in VenuesWest's papers. That includes for all costs under the project, inclusive of DBFM costs but also the non-DBFM capital costs that are currently shown within DSR's budget and some components of transport costs that have been transferred from the Public Transport Authority. In respect of the non-capitalised components of the DBFM contract, the current assumption is that those costs will be met from stadium revenues; that will be revised when we have certainty over stadium revenues which, in particular, are contingent upon the appointment of a stadium operator and the conclusion of negotiations with the key users.

[10.10 am]

Mr W.J. JOHNSTON: I am pleased with that answer, because that is the point I am making. There is a liability to the Crown that exists whether or not this stadium is ever used. If we never have even one football game there, we still will have all these obligations. I understand that the government intends to pay for those obligations out of stadium revenues; that is all well and good, and I am not arguing about that. All I am asking is: what is the total figure for the liability? By law, the government is going to have to report that in the *Annual Report on State Finances* anyway, so why not just tell us today?

Mr R. Mann: I refer to page 787 of budget paper No 2. Members will note the increase in non-current assets from 2016–17 to 2017–18, with 2017–18 being the first financial year of operation of the new stadium, when the asset liability is required to be recognised. That reflects the capitalised liability associated with the new stadium.

Mr W.J. JOHNSTON: I have that page in front of me. Could the Treasurer draw my attention to the specific line?

Mr R. Mann: Under the heading "Non-Current Assets".

Mr W.J. JOHNSTON: Yes.

Mr R. Mann: There is an increase from 2016–17 through to 2017–18.

Mr W.J. JOHNSTON: So that billion-dollar increase in assets reflects an equivalent billion-dollar increase in liabilities?

Mr R. Mann: It is the capital component.

Mr W.J. JOHNSTON: So there is $1 billion of liability in there. Where is that liability shown on this page?

Mr R. Mann: It is the increase in non-current asset liability from 2016–17 to 2017–18, when the stadium finance lease is recognised once it becomes operational in early 2018.

Mr W.J. JOHNSTON: Is that the amount of $422 831 000?

Mr R. Mann: Yes, the difference between $2 261 157 000 and $1 174 727 000, so $1.062 billion.

Mr W.J. JOHNSTON: Is that in addition to these borrowings?

Ms R. SAFFIOTI: Sorry, we are just getting a bit confused. Why is it shown as a non-current asset and not a liability?

Mr R. Mann: I am no accountant, but that is the appropriate accounting treatment, I am assured.

Mr B.S. WYATT: Why is that line not $1.06 billion? I see the $422 million, but it is not —

Dr M.D. NAHAN: I will go over to Michael Barnes for the accounting treatment issue the member raised.

Mr M. Barnes: I am no accountant either!

Ms R. SAFFIOTI: Are there any accountants?

Mr B.S. WYATT: Can anyone answer this question?

Mr M. Barnes: There is a recognition of a finance lease liability of the $422 831 000 the member is referring to in 2017–18, and under the accounting standards we recognise the finance lease liability at the time the asset is completed and available for use, which is in 2017–18. If members look at page 787 under the "Total non-current liabilities" line, they will see that liability increasing from $838 000 in 2016–17 to $423 669 000 in 2017–18. That is the recognition of the finance lease liability component in 2017–18.

Dr M.D. NAHAN: Can I just say something? This is hellishly complex and there are also some changes in the budget in terms of meeting these things. Rather than going through all of the budget papers, we will provide members on notice, if they wish, with a breakdown of this.

Ms R. SAFFIOTI: By way of supplementary information? We are trying to find out the total cost of this thing and frankly, no-one has been able to tell us.

Dr M.D. NAHAN: There are a variety of reasons for that. We put a public sector comparator as the benchmark, we then went out and negotiated and came to a contract, and then we allayed that. It is underway and we have accounting treatments that sometimes are hard to explain. But I will provide a breakdown of the costs of the stadium where it is referred to in the budget so that members can back it up if they wish, and put it in one consolidated statement.

The CHAIRMAN: Do we have an understanding of what we want? Okay.

[*Supplementary Information No B32.*]

Ms R. SAFFIOTI: I think we are getting through it. There is the capital component; there is the financing component; there is the stadium plaza, which is outside the DBFM component; and there is the transport component. Those are the four components that I can see that add up to quite a bit of money—about $1.6 billion, I think.

I want to ask about the operating of it. Given that the budget papers go up to 2018–19, how come we do not have any ongoing operating impact included in the state budget?

Mr R. Mann: As indicated earlier, the facilities management component—that is, the non-capitalised component—of the DBFM costs plus other governance costs that will be incurred by the state are assumed to be balanced by stadium revenues. If that is not the case there will need to be an adjustment up or down once those stadium revenues are determined, which is dependent upon the appointment of a stadium operator and the conclusion of negotiations with the stadium users, which will in turn determine the revenue derived from that use.

Ms R. SAFFIOTI: That is operating; how about the financing component, including the maintenance? The maintenance and capital charge is not included in the operating costs.

Mr R. Mann: No. Those capitalised interest costs are included in the finance lease calculation, which is reflected in that overall capitalised liability we discussed earlier, so we will provide a breakdown of how that works.

Ms R. SAFFIOTI: Will there be annual payments to reflect that?

Mr R. Mann: There are monthly service payments once the stadium commences operations.

Ms R. SAFFIOTI: Where are they shown in the budget papers?

Mr R. Mann: The capitalised component is within that non-current asset liability, under the relevant accounting treatment. The operating component is balanced by revenue, so no net impact at this point.

Dr M.D. NAHAN: The answer to the member's question, as I understand it—Mr Mann can correct me if I am wrong—is that the maintenance and interest payments are capitalised and shown in the finance lease.

Ms R. SAFFIOTI: So there will be a balloon payment at the end—a massive payment at the end, if we are not showing any payment per annum?

Dr M.D. NAHAN: If there were a balloon payment, it would be capitalised, and therefore the full cost would be shown in the operating lease.

Ms R. SAFFIOTI: I am trying to ask: are we paying the financier per annum? Will there be funds leaving the consolidated account per annum to pay for the stadium?

Mr M. Barnes: For the financing costs? Financing costs are effectively crystallised up-front in that finance lease liability that is recognised in 2017–18. The member might remember that in the midyear review, when this —

Ms R. SAFFIOTI: So we pay that up-front?

Mr M. Barnes: That is all up-front and the accounting treatment of it is recognised up-front in that finance lease liability in 2017–18. The member might remember that in the midyear review, when we first brought to book this revised accounting treatment, the revised accounting treatment had a net debt increase of $52.5 million. It is a complicated issue, but a large part of that is because we are effectively recognising those costs up-front in the finance lease liability.

Ms R. SAFFIOTI: I understand we recognise them in the budget papers. I am trying to ascertain the cash flow impact. Is there money leaving the consolidated fund, going to the financier each year? Are we paying someone something each year for the stadium?

[10.20 am]

Dr M.D. NAHAN: We have capitalised it. The member is asking whether we alter that capitalised value by the annual flow of money for interest. There is a capital payment, so is there an impact on the recurrent side of the budget?

Ms R. SAFFIOTI: Yes, that is pretty much it.

Dr M.D. NAHAN: Treasury advises me that it will be put in the supplementary data that I have agreed to provide.

The CHAIRMAN: Can I just confirm what you are going to add to B32, Treasurer?

Mr W.J. JOHNSTON: We are happy with that.

Ms R. SAFFIOTI: Yesterday, the Premier confirmed that there will be stadium memberships. Of course, the more stadium memberships there are, the lower the operating impact will be.

Dr M.D. NAHAN: My responsibility through the Office of Strategic Projects is to oversee the contract. I have no information about stadium memberships.

Ms R. SAFFIOTI: It will be part of the whole stadium contract.

Dr M.D. NAHAN: No. There are negotiations about the operating aspects of the stadium; that is under negotiation. I am sure the stadium memberships will be intimately discussed during that process. That has not been finalised. When it is finalised, it will be brought to book and maybe I can discuss the details of it. I have no knowledge of it, but maybe Mr Mann can discuss whether it will be included in the facility management aspects of the contract.

Mr R. Mann: It will be separately addressed in the contract with the stadium operator. It is quite separate from the design, build, finance and maintain contract. I can confirm that the stadium operator request for proposals documentation is yet to be released and negotiations with key users, in particular football and cricket, are continuing, so there is certainly no definitive position on stadium memberships or, indeed, any of the other key revenue streams at this point.

Ms R. SAFFIOTI: Is the government a bit exposed currently? It is still in negotiation with the users and it still does not know whether it will be a clean stadium. Basically, the users are in a pretty strong position, given that they are the only people bringing content to the stadium.

Dr M.D. NAHAN: What does the member mean by “clean stadium”?

Ms R. SAFFIOTI: That is one with no stadium memberships. The clubs do not want stadium memberships, but they are the only users of the stadium.

Dr M.D. NAHAN: There is a dominant user—the Australian Football League and the two local clubs. I understand that they are in a consortium bidding for the management of the facility. These negotiations are underway. We are confident that we will get the best outcome from them. The clubs are influential, of course, but we will make the judgement, according to the contract, as to which is the best team to manage the facility.

Mr W.J. JOHNSTON: I return to the discussion we had at the start of this division when Mr Mann used the term “present dollars” in respect of the lease. Does that suggest that there is some inflation index that means that a future payment will be paid at a higher price? The Premier has often said that the stadium will cost X million dollars in 2008 dollar terms. Is that to say that there is some sort of index so that when we pay it, we will be paying more because of that index?

Dr M.D. NAHAN: Mr Mann.

Mr R. Mann: It simply reflects the discounted cash flow over the life of the contract. Under the DBFM contract, we are effectively paying a component of the capital cost over 28 years, not a much shorter period as would be the case for a conventional publicly funded project. The finance lease takes into account that discounted cash stream at a point in time, and in this case it is August 2014 dollars.

Mr W.J. JOHNSTON: Of course, the assets will be depreciated over the same term, or a different term. If the asset was paid for up-front, the depreciation would be available to write off against the asset, but in this case the government does not have the asset because it does not belong to it. Who is carrying the cost of the depreciation?

Mr R. Mann: No, the asset does belong to the state; hence the requirement to recognise the asset value once the stadium becomes operational. Aside from the more complex treatment of asset value with the inclusion of the finance lease, the principles for the responsibility for depreciation are no different.

Mr B.S. WYATT: Mr Mann made the point a moment ago, and he made the same point last year, that the government's view is that the stadium will generate sufficient revenue to cover the cost of operation. Presumably, to have that position, there are assumptions around stadium memberships.

Dr M.D. NAHAN: As I understand it, it is one aspect of the negotiations. A number of parties are negotiating to be the facility manager, and I am sure that they have a different perspective on stadium memberships. That is one of the issues under negotiation. It has not been resolved yet.

Mr B.S. WYATT: It is still under active consideration.

Dr M.D. NAHAN: Yes. Is that not right, Mr Mann?

Mr R. Mann: It is under active consideration with a whole range of issues, but suffice to say that the state is confident, based on its forecast revenue projections, that revenue generated by the facility will cover operational costs.

Mr B.S. WYATT: Is that confidence based on an assumption around stadium memberships?

Dr M.D. NAHAN: Mr Mann.

Mr R. Mann: Not necessarily. It is based more on assumptions of overall attendance and yield. How the revenue is distributed—that is, who controls the revenue stream—is not necessarily critical. It is about the overall size of the pie and the ability of that pie to cover stadium operations. The reality is that stadium memberships is a very small component of the overall revenue pie.

Mr B.S. WYATT: How small?

Mr R. Mann: How small is part of those un-concluded confidential negotiations.

Mr T.K. WALDRON: I refer to page 266 of budget paper No 3. The member for Victoria Park asked some specific questions about the Western Australian Future Fund. I wonder whether the Treasurer could provide an overall update on the performance of the future fund and how he sees it going.

Dr M.D. NAHAN: I will get some specific numbers. Thanks for the question. I thought the member would have been interjecting in the debate on the stadium.

Mr T.K. WALDRON: No; I was listening with great interest!

Mr B.S. WYATT: He was learning all about it!

Dr M.D. NAHAN: The future fund, as we have discussed before, is meeting its basic targets in rates of return. The return exceeds the cost of funds to the fund in the target range set. We expect that on 30 June 2015 there will be about $878 million in the future fund. We expect that to grow to about $1.035 billion at the end of 2015–16. The future fund is there. It is operating as expected in terms of return. It is improving net debt—that is, a cash balance to offset gross debt. We have no plans to expend the funds; it would increase debt. It depends what is done with it. It is $878 million and expanding and its net earnings are as expected.

Mr T.K. WALDRON: Is that to go to 2032?

Dr M.D. NAHAN: Yes, it is. It is to go to 2032 and then disbursements can be made from it. The disbursement requirement for 2032 asserts that a proportion of the earnings can be used.

Mr T.K. WALDRON: Is that utilising the interest from it?

Dr M.D. NAHAN: Yes.

Mr B.J. GRYLLS: In their comments on the budget speech, opposition members quoted a lot of commentators' opinions on the budget. Saul Eslake suggested that the Western Australian government should establish a future fund to put some money away. I wondered whether the Treasurer had corrected Saul and told him that we have created a future fund and that, as a prominent commentator regularly asked to comment on these matters, he might avail himself of the information before he does so.

[10.30 am]

Dr M.D. NAHAN: Saul is a good friend of mine and I respect him as a commentator.

Mr B.S. WYATT: He makes some very wise comments.

Dr M.D. NAHAN: Sometimes, particularly if someone is based in the eastern states, he will not be not fully informed, despite coming here very often. However, that was one area he was not fully informed about. He is a very passionate Tasmanian. In fact, he has moved from Victoria and now lives in Hobart and commutes to Sydney. He is a strong defender of the Commonwealth Grants Commission process as long as it redistributes money from Western Australia to Tasmania. He argues a good point from a certain perspective.

Mr W.J. JOHNSTON: Is he aware that there is only a $13 million change over the life of the Western Australian Future Fund in the balance of the public bank account? When he suggested a future fund, was he talking about a properly structured future fund that is paid for out of cash surpluses rather than out of borrowings?

Dr M.D. NAHAN: The member will have to explore what he meant himself. I am sure he did not elucidate what he meant by a future fund, but he has repeatedly argued that one way to approach the commodities cycle, both at a state and a national level, is to have a future fund. As to what he meant —

Mr W.J. JOHNSTON: He says it should be paid for out of cash surpluses. The Treasurer should quote his whole words, which are a future fund paid out of cash surpluses.

Dr M.D. NAHAN: No, the member will have to ask him.

Mr W.J. JOHNSTON: The Treasurer should not misquote people and then criticise them.

The CHAIRMAN: Member for Cannington, let the minister finish and then you can have your say. Minster, have you finished? It is your call now, member for Cannington.

Mr W.J. JOHNSTON: Excellent. I turn to page 76 of budget paper No 3, looking at royalty income. I wonder whether the Treasurer is confident that Western Australia is getting the full value of its royalties. There has been commentary in the media about companies using Singapore as a hub to transact sales from the Western Australian production of raw materials to a related party in Singapore. The Singapore business can then market the product to final customers. There is an argument in the media that this has reduced Western Australia's income because the price at the port in Western Australia is not the final price for the customers in Asia. I do not know whether this is true. I have asked questions of the Department of Mines and Petroleum about royalties in the past and it has used its strict confidentiality arrangements to not answer, and I respect that. I am asking from the Treasurer's perspective whether there is any risk to our revenue in this way. Has the government examined this issue and can the Treasurer give assurance to Western Australians that this is not an issue?

Dr M.D. NAHAN: I have read the same reports as the member about profit shifting and tax shifting between Australia, Singapore and China. I gather the reference to date is strictly to do with commonwealth company tax and other tax liabilities. I am not going to comment on whether they are true or not, because I do not know. That is always a problem, particularly with income company tax issues and particularly when there is uncertainty about the price, range and the cost structures. However, we do not levy income tax or company tax. We have a royalty. We know how much iron ore is shipped; we monitor that very closely. We also monitor the prices in the destination markets, which is a great deal of work, although this is done by the Department of Mines and Petroleum not Treasury. It has a lot of crosschecks on the actual price; there is no uncertainty on quantity whatever the price is. We have asked DMP, and it is very confident, given the simplicity of our arrangements, that there is no evasion of the value of our iron ore, and therefore diminishing our royalties. I think we have it accurately.

Mr B.S. WYATT: I think the example has been given, and the Treasurer may have made comment on this in something I read, that there is no capacity for royalties to be sold from Western Australia at $60 a tonne —

Dr M.D. NAHAN: Iron ore.

Mr B.S. WYATT: Sorry, iron ore. Is there no capacity for it to be sold into the Singapore marketing hub—the related entity—then sold again, if you like, to the end customer at $65 a tonne, so we would lose that? Is the Treasurer saying that that is what is being monitored?

Dr M.D. NAHAN: Quantity is no risk. The income tax risks are quantity, price and cost. Cost is not an issue because we do not have any doctored accounts. Quantity is not an issue. The issue is price. DMP has various mechanisms for relationships with the firms themselves to ascertain the actual price. It has crosscheck mechanisms for this, particularly in China. It is very confident, given the systems, because we have a very big thing over them: if they were to diddle or try to understate their royalties and we ascertained it, they will lose their tenements.

Mr B.S. WYATT: I understand the consequences; as long as there is no capacity.

Dr M.D. NAHAN: There is a very strong incentive for them. DMP is very confident that we have accurate information both on price and quantity.

Mr B.S. WYATT: There are always strong consequences for anything; still, things happen.

Dr M.D. NAHAN: Increasingly, of course, there is a complex sale and I am not across it, but a lot of that stuff is sold on the spot market now and spot market prices are published.

Mr M. Barnes: If I could just elaborate a little bit, Treasury and the Department of Mines and Petroleum monitor very closely both the headline benchmark iron ore price as well as the realised prices that producers are receiving and reporting in their royalty returns. There is a difference between the benchmark price and realised price, for example, for quality adjustments, moisture adjustments and some other factors. We monitor those two prices very closely along with DMP, and do a close reconciliation between the benchmark and realised price, for example, for quality adjustments. That is very carefully monitored by both agencies. To date, no evidence has been raised that the difference between the benchmark and realised price is anything untoward. All of the difference can be explained by those known adjustments for quality and moisture, and so on.

Mr B.S. WYATT: Last year, the budget assumed a 30 per cent increase in volume of iron ore exports for the budget year to the end of forward estimates. What is the assumption around volume and iron ore exports in this budget?

The CHAIRMAN: Mr Barnes.

Mr M. Barnes: On iron ore volumes, our volume forecasts are based on a survey of producers that is undertaken by DMP. The survey results are then vetted by Treasury in consultation with the Department of Mines and Petroleum, the Department of State Development and an external commodities analyst that we engage. I describe it as a very robust process of checking and vetting those survey results. That is the basis on which our forecasts are prepared. Our forecasts are for an increase in iron ore volumes from 632 million tonnes in 2013–14 to 716 million tonnes in 2014–15. That is a 13.3 per cent assumed increase in volumes from 2013–14 to 2014–15. About a week-and-a-half ago we released the March quarter financial results report, which is now up on Treasury’s website. The report covers the first nine months of the 2014–15 financial year. It showed that, unsurprisingly, iron ore royalties are down year on year because of the reduction in price. It also highlighted that iron ore volumes in the first nine months of 2014–15 are up 19 per cent from the same period in 2013–14. So it appears as though volumes in the year to date are actually tracking slightly above that 13.3 per cent assumption that we have in the budget for 2014–15.

[10.40 am]

Mr B.S. WYATT: What are the volumes for the budget year and forward estimates?

Mr M. Barnes: We have subsequent increases in iron ore volumes to 748 million tonnes in 2015–16, 772 million tonnes in 2016–17, 797 million tonnes in 2017–18, and 799 million tonnes in 2018–19. The pattern of increases we built into the forward estimates is fairly steep in the early period and then flattens out by the end of the forward estimates.

Dr M.D. NAHAN: Correct me if I am wrong, but our 2015–16 volumes do not include Atlas Iron, because at the time of the budget it had announced it had stopped production. It now has a schedule to come back on track with total production in the vicinity of a little over 10 million tonnes.

Mr W.J. JOHNSTON: I have a question on royalties. Obviously, we reversed out of the royalty rate review—a natural enough government decision—but at the time of that discussion last year and in the review itself there were a number of industries that the government claimed were not paying the 10 per cent mine head value. Can the Treasurer tell us which industries are not paying the mine head value? Has the government simply given up that policy position for all time or has it just paused it while the industry is in trouble? What is the government’s attitude to that 10 per cent mine head value?

Dr M.D. NAHAN: That was not it. The government commissioned a review. The review panel did a very thorough estimate, as it was wont to do, and calculated a number of industries were not getting the 10 per cent mine head value. I might add there is a large debate on how that is measured. A couple of years ago, the government booked about $180 million a year in expected royalty savings over the forward estimates—$540 million comes to mind—and we backed that. The review came with a recommendation that mainly applied to gold. There were a number of other changes, but I cannot remember them all; they are rather complex. The review was about not only whether industries got a 10 per cent mine head value, but also the composition and form of the royalty. It is complicated. I think the review made recommendations on coal and some other things. Given the losses in coal, I do not think we will make any changes to that. Government policy is not to accept the recommendations of the royalty review at this time, and therefore we took out that $540 million over the forward estimates. As to the future of the report, the government is still considering it. The formal decision is not to implement the report's recommendations at this time.

Mr B.S. WYATT: The policy to remove the cellar door subsidy on page 3 of the *Economic and Fiscal Outlook* has generated some conversation of late. Wines of Western Australia's media statement is understandably critical of the government's decision and makes the point that no consultation was done with industry on this government decision. Was that indeed the case? When government makes decisions to increase or withdraw taxes or subsidies, is there a practice of consulting affected parties?

Dr M.D. NAHAN: Yes, the cellar door subsidy was removed. I am sure the firms that received that subsidy are a bit upset. The benefits of that subsidy largely accrued to large firms. In 2013–14, 19 producers claimed the cellar door subsidy, with an average subsidy per claim of $84 000. Those subsidies were distributed to large and recognised names—good firms with good wine.

Mr B.S. WYATT: I am not disputing the quality of the wine.

Mr W.J. JOHNSTON: Mr Mann was!

Dr M.D. NAHAN: We have many debates on many things with Mr Mann.

To my knowledge, we did not discuss the changes in this case. Maybe Treasury separately discussed the issue with the wine industry. I am not sure of the full details, but the wine industry has also been impacted by changes at the commonwealth level and there appears to be some confusion about the impact of the removal of the cellar door subsidy and the commonwealth changes. Indeed, a number of small vineyards that have complained about the impact of the removal of the cellar door subsidy never received the subsidy. There is some confusion in the industry about the impact of the removal of the cellar door subsidy. I did not discuss it with the industry, nor did Treasury.

Ms A.R. MITCHELL: I refer to "General Government Expense Growth" on page 45 of budget paper No 3. Can the Treasurer outline how this is tracking compared with previous years, and what is being done to limit expense growth going forward?

Dr M.D. NAHAN: I thank the member for the question. For the decade up to 2013–14 there was average growth of 7.9 per cent, as shown on the graph on page 45, which is quite high. Even after adjustments for inflation and population growth, the number is still quite positive. Over the forward estimates we have put in place policy that we are confident will reduce the average growth of 2.5 per cent. In 2014–15, estimated growth is four per cent. I am confident we will get to that target. The results for the nine months up to March, which were published a couple of weeks ago, show expenditure growth is 0.3 per cent for the year. From my perspective that is very good. We will meet that target, given the policies we have in place and the commitment to those and other policies we will consider. We will maintain the target for expenditure growth at 2.5 per cent and salaries growth at, I think, 2.4 per cent. The nine months to March show that the policies we have in place from the fiscal action plan and subsequent plans are more than meeting the targets we set.

Ms R. SAFFIOTI: My question relates to the first tranche of asset sales Treasury is working on. Can we get an updated list of asset sales currently on the government's agenda, and progress on those asset sales?

Dr M.D. NAHAN: Tranche 1 includes the Perth Market Authority. I will go to Mr Mann for a summary of where we are at on that. As indicated in the budget, Kwinana Bulk Terminal is an asset of the port of Fremantle and will be brought into the port of Fremantle asset sale. The other major asset sale is Utah Point. There have been complications with Utah because its major customer, Atlas, has been off again, on again. We have done a lot of work on the sale of Utah Point and we expect that it will proceed to sale. We have not made a final decision about its composition and whatnot, but the general view is that we are proceeding with the sale of Utah Point.

Mr Mann will talk about the Perth Market Authority, because the asset sales process is run by strategic projects.

[10.50 am]

Mr R. Mann: Specifically in respect of tranche 1 and the Perth Market Authority, the detailed due diligence process has been completed. We are about to go to government seeking approval to move to the third and final phase, which is the sale itself. Subject to government approval, we would expect to be moving to the sales process very shortly for conclusion of the sale by late this year or early 2016.

With regards to Utah Point, as the Treasurer indicated, the government will need to consider a number of policy decisions. We will be putting them to government shortly as well. They will impact directly on the timing of that sale. That potentially could also proceed to sale by the end of this year and is subject, again, to government considering whether the current impacts and iron ore price mean that optimising that timing and perhaps going to sale at a later point is appropriate.

Ms R. SAFFIOTI: I wish to ask about land sales and, in particular, some of the big blocks of land that will be freed up soon, such as the Princess Margaret Hospital for Children site and potentially Subiaco Oval. Have any of the potential sale proceeds been included in the forward estimates? What process has been embarked upon for the sale of some of these key blocks of land?

Dr M.D. NAHAN: We made some changes to our estimates about land sales a couple of years ago. The budget booked the value of land sales at $200 million over the forward estimates at that time. We have adjusted that in terms of timing of the land sales. That global fund was not based on any specific asset. We have augmented that over the total target to $268 million with a change in flow over the forward estimates and additional money to de-risk certain projects. Mr Mann is running that. We have identified specific land sale assets, and he will elucidate those. I am not running the land sales section; the Department of Lands is. Mr Mann, are you aware of the various land sale assets?

Mr R. Mann: Actually, I am not. The Departments of Lands has that responsibility.

Dr M.D. NAHAN: To my knowledge, Domain Stadium has not been brought into the discussions yet. Princess Margaret Hospital for Children is one of those assets that is being looked at to determine which department handles it. Right now, I think the proposal is to bring it into the Metropolitan Redevelopment Authority for de-risking and sale. There is also the Royal Perth Rehabilitation Hospital in Shenton Park. That is currently being de-risked by LandCorp. A number of properties are on the market. I cannot remember exactly which ones. The Department of Lands and the Minister for Lands are handling that. They include the East Perth power station. I understand that is out for expressions of interest.

Ms R. SAFFIOTI: Can the Treasurer provide by way of supplementary information the profile of that $268 million in revenue in the forward estimates?

Dr M.D. NAHAN: Yes, I will provide a profile of the revenue and offsetting of additional moneys to de-risk the specific assets.

[*Supplementary Information No B33.*]

Mr W.J. JOHNSTON: I was trying to flick through the *Budget Statements* to find it but I could not find it in the short moment I had. I am referring to the two consultancies that were entered into for the privatisation of the ports and the Canning Vale market. It cost $2.1 million for the advisory for the sale of the markets at Canning Vale. I am surprised that it cost so much when it is really just a land deal. I do not quite understand why it would be so complex to sell a market building.

Dr M.D. NAHAN: It is not just a land deal. One of the objectives is that the purchaser has to maintain the site as a major fruit and vegetable market for the state. Conditions are associated with that. There are also issues relating to what land is included. It has some surplus land. It is in my electorate, as the member well knows. I know it very well. There are also issues about adjacent land that could be procured if a buyer wanted to expand its facilities. It is not just a simple land deal; it has certain conditions and possibilities associated with it. The process of selling these large assets, particularly following the tendering, procurement and proprietary regulations of the state, justifiably, is expensive.

Mr W.J. JOHNSTON: With respect to the Canning Vale market, is the Treasurer saying that there will be some sort of obligations on the purchaser about the way they deal with their tenants in the future?

Dr M.D. NAHAN: There are certain conditions. As Mr Mann said, he is almost ready to bring the proposal to government. There was a condition that the market remain a market in respect of the contracts and the function of the market into perpetuity and also with respect to contracts of people who have leases at the market. It will remain the state's major fruit and vegetable market. That is the whole objective. One of the bidders, no doubt, will be the participants in the market itself.

Mr W.J. JOHNSTON: Absolutely. This is what I am interested in. I do not know how we would design a sale contract that puts obligations on the future purchaser to maintain it as a fruit and vegetable market. There will be an inclination for the new purchaser to provide the highest and best value use. Who knows, it could be a warehouse or something.

Dr M.D. NAHAN: When an asset is sold, caveats can be put on it that say it will be used for a specific purpose. That purpose may diminish the value of it. The condition that we put on that is that it will remain a fruit and vegetable market. Some people might want to change it to something else but that is not an option in the sale.

Ms R. SAFFIOTI: It is an interesting issue. My criticism of privatisation is that it is very hard to control not only land, but also access and pricing arrangements a few years down the track, given the complexity of the markets. How can the Treasurer guarantee that it will continue to be an open and accessible place for a variety of sellers and buyers?

Dr M.D. NAHAN: We will flesh out those issues in the contract. We can specify what we mean by a market, access to the market and rights associated with the market in the contract.

Ms R. SAFFIOTI: Once it is sold and someone else buys it—these things are on-sold and on-sold—it is very hard to control. I do not think I have ever seen it successfully done, frankly.

Dr M.D. NAHAN: I think a number of markets in the eastern states have done exactly this; they have been sold as an operating market and continued to be so. Maybe Mr Mann can elucidate some of the ways that we ensure it remains a market.

Mr R. Mann: Without pre-empting government consideration of these things, a number of legal instruments have been used successfully in other jurisdictions. Probably the best parallel is the Brisbane market. Firstly, caveats on the title, assuming that it is a freehold sale, will exchange hands. There is an opportunity to impose conditions through caveats on the title. Then there is the contract of sale, which is the most commonly used instrument to apply conditions applying to that sale. Then there are the leases between the tenants and future tenants and the future owners. A series of legal instruments have been used successfully in previous similar transactions to give effect to conditions such as the ongoing function of the market.

Mr B.S. WYATT: Is it proposed that the state retain a caveat of interest post-sale so it can lodge and keep a caveat over the title?

[Ms L.L. Baker took the chair.]

Dr M.D. NAHAN: As Mr Mann said, we have a number of legal instruments. I have not yet been advised about the mix of ones that we use but the intent is to ensure, through various means, that it remains a market. Mr Mann referred to the Brisbane market, which is a very flourishing, large market. It was sold some time ago. I understand there is one in New South Wales.

Mr R. Mann: That is correct.

Dr M.D. NAHAN: That went through a transaction also. There is a precedent. If people go to those two markets, they will see that they are flourishing and successful. The market itself of course has some commercial aspects to it; there are some shops and whatnot.

[11.00 am]

Mr W.J. JOHNSTON: It is a hub.

Dr M.D. NAHAN: They are not the most successful ones, I might add, but they have huge potential, particularly the farmers market, which operates on Sunday morning and for which my rotary club parks the cars. It has huge potential for expansion. Of course it is located in an ideal place in the Canning Vale markets in the Canning Vale industrial estate, where it has very high value for money. It also needs substantial investment in additional cold storage facilities. We have invested in it significantly over the past few years, but it needs more.

Mr W.J. JOHNSTON: We have been going for two hours; would anyone like a comfort break?

The CHAIRMAN: We will take a short comfort break.

Meeting suspended from11.00 to 11.15 am

Mr W.J. JOHNSTON: I would like to talk about the changes to the cost-of-living assistance payment. The government is changing the COLA payment and introducing a means-tested energy assistance payment and as a result of this decision the amount that is going to be paid will be a saving.

Dr M.D. NAHAN: What page is that, member?

Mr W.J. JOHNSTON: It begins at page 267 of budget paper No 3, under the heading "State Government Social Concessions Expenditure Statement". I then refer to "Synergy" on page 274 and to page 272 under "Horizon Power", where there is a small amount payable. At page 274, the table includes "Cost of Living Assistance", which is being deleted, and "Energy Assistance Payment", which is coming in. The cost-of-living assistance payment is going from $57.9 million to $41.9 million under "Energy Assistance Payment". The number of people who benefit from the payment will change from 286 000 to 186 000. If the number of people who receive the COLA benefit at the moment is divided by the amount being paid, the average payment is $202. The average payment in the budget is $224, but the budgeted saving works out to be $160 per person. Firstly, how is the payment calculated? I have also asked previously why the budgeted expenditure for COLA is being underspent. Is Treasury confident that that $41.9 million will be expended, and is it expected that there will be additional wastage or a reduction in the number of people claiming because of the complexity of having to go to means-testing arrangements?

[11.10 am]

Dr M.D. NAHAN: I ask the Under Treasurer to clarify some of the figures and I will comment later.

Mr M. Barnes: I will try to clarify. The estimated saving for means testing the COLA payment, or the energy assistance payment, as it will be referred to from 1 July, is $18 million in 2015–16. It is largely that difference between the $57.9 million and the $41.9 million that the member referred to with some allowance for growth. It is an $18 million estimated saving in 2015–16. I think the reason the figure does not equate to the dollar amount of the energy assistance payment is that the payment is paid at the household level. We estimate that approximately 80 000 households that hold only a non-means-tested WA Seniors Card will no longer receive this payment; whereas the table on page 274 to which the member is referring indicates a 100 000 reduction in the number of recipients. I think that 100 000 reduction refers to individuals; whereas the payment is at the household level. I think that explains the discrepancy to which the member referred.

Dr M.D. NAHAN: The payment for 2015–16 will be $227.14. It is not part-paid and it goes up by the rate of increase in electricity. Is that right?

Mr M. Barnes: Yes.

Mr W.J. JOHNSTON: We had a discussion last night under a different heading when we were dealing with Horizon Power and the expected saving of $1.6 million for this change for remote communities.

Dr M.D. NAHAN: I will have to take that question on notice. It puzzles me, too. There has to be another explanation.

Mr W.J. JOHNSTON: This table has a different profile. Even if that $1.6 million is a four-year figure, the figure in this very long table of multiple pages indicates a saving of about $200 000 in the change for Horizon customers.

Dr M.D. NAHAN: Horizon has a range of customers and not just in Aboriginal townships. Many people in Karratha and Port Hedland would not have welfare payments.

Mr W.J. JOHNSTON: The point I am making, minister, is that last night in our discussion we talked about a figure of $1.6 million. Even if that is over four years for remotes only, the total saving in this table is only $200 000 after a 12-month period, which does not seem to add up.

Dr M.D. NAHAN: I will ask Horizon to clarify to me where that figure came from. I cannot answer it. It does not logically flow, given the expected $200 000 differential in all of Horizon's budget for its client base.

The CHAIRMAN: Excuse me, minister, was that supplementary information?

Dr M.D. NAHAN: Yes.

The CHAIRMAN: Could we just get that on the record?

Dr M.D. NAHAN: I will provide supplementary information to clarify the estimates from Horizon of the expected reduction or change over the forward estimates in energy assistance payments to Aboriginal townships.

[*Supplementary Information No B34.*]

[11.20 am]

Mr W.J. JOHNSTON: Is the Treasurer expecting an increase in the number of people claiming under the hardship utility grant scheme given that there will no longer be direct access to these cost-of-living assistance payments? Some people may not be eligible because they are not on a Health Care Card or whatever, so they are not eligible for the new energy assistance payment, but particularly older people on fixed incomes will struggle to pay their bills. Does the Treasurer expect that some of these 80 000 households will ask instead for payments under HUGS?

Dr M.D. NAHAN: First, we means test it, so most people who will have difficulties meeting, for whatever reason, their utility costs will be under some sort of commonwealth card. That card does not apply only to pensioners but also to all sorts of commonwealth cards—disability and others. We think that most of those people will continue to receive the energy assistance payment in a targeted manner. The payment increases by 4.5 per cent. The HUGS payment has been maintained. The assumption in the budget is that we will not see an increase in calls on HUGS payments.

Mr W.J. JOHNSTON: Eighty-thousand households will receive a 4.5 per cent general increase. On page 301 of budget paper No 3 is "Estimated Impact on the 'Representative' Household". The Treasurer is estimating that households will pay an additional $65 for electricity and then another $200 because they will no longer receive the cost-of-living assistance payment, so 80 000 households will be impacted by roughly a 22 per cent increase in electricity charges. They are the 80 000 households who up until now have received the cost-of-living assistance payment but are no longer eligible because they are means tested out. Those people will have a 4.5 per cent increase plus $200 for the COLA, which is potentially about a 20 per cent total increase in their household energy bill in only one year.

Dr M.D. NAHAN: The people who lose access to this are people who only have the Seniors Card; not the Pensioner Concession Card or a Health Care Card. It is about 80 000. Anybody else who is not a pensioner and received it before will still get it. The only ones impacted are seniors ineligible for a Pensioner Concession Card or a Health Care Card, and self-funded retirees. It was our view that we needed a means-testing program, particularly in transfer payments such as that. The means tests chosen are very generous. We kept the full energy assistance payments and the methodology employed by it. We kept electricity price increases to a minimum. Households will be impacted by the loss of the energy assistance payment or the cost-of-living allowance. To the extent that they consume more electricity, their electricity bill will go up. We have implemented a policy of means testing and targeting our transfer and welfare payments to people most in need.

Mr W.J. JOHNSTON: Does the Treasurer understand that for those 80 000 households he is effectively increasing the price of electricity next year by over 20 per cent? Does the Treasurer think that is a fair decision?

Dr M.D. NAHAN: We have implemented a process of targeting our transfer payments to people most in need; those people who are on pensions or disability payments, or hold a Health Care Card, and a whole raft of other commonwealth transfer payments. It is a policy commitment that I support.

Mr W.J. JOHNSTON: Basically, for those 80 000 seniors in Western Australia who will have a 20 per cent increase in their electricity charges, the Treasurer is saying that is fair.

Dr M.D. NAHAN: They are not getting a 20 per cent increase; they are getting a 4.5 per cent increase in their electricity price, which is the lowest regulated price in the nation, and they are losing their cost-of-living allowance. That is what we do.

Mr W.J. JOHNSTON: I am trying to clarify: does the Treasurer think it is fair that they are losing their cost-of-living allowance?

Dr M.D. NAHAN: I think it is fair generally to target welfare payments to people most in need.

Mr B.S. WYATT: I refer the Treasurer to page 580 of budget paper No 2. There is reference in the list to "Tobacco Products Control Act 2006". I have a specific question about that, so hopefully the Treasurer has somebody with him who might be able to assist. This is in respect of Healthway. I am interested in how the allocation to Healthway from Treasury in lieu of the hypothecated tobacco excise previously allocated to the Western Australian Health Promotion Foundation is calculated.

Dr M.D. NAHAN: I believe that Kaylene will deal with that.

Ms K. Gulich: The member is referring to the administered appropriation of $22.4 million in 2015–16?

Mr B.S. WYATT: Yes, the reference to the act.

Ms K. Gulich: I am not totally across this. From what I can see from the budget papers, the actual flow of funds from Treasury administered does not change and affect the current amendments to the Healthway business.

Mr B.S. WYATT: The flow to Healthway?

Ms K. Gulich: It still flows from Treasury administered to the Healthway organisation.

Mr B.S. WYATT: Is that allocation to Healthway reviewed?

Ms K. Gulich: That is the work that is currently underway.

Mr B.S. WYATT: How much does Healthway currently hold in the WA Health Promotion Foundation? Does Ms Gulich know that or is that something I need to ask Healthway?

Ms K. Gulich: It is not something that I am aware of.

Dr M.D. NAHAN: Changes to the Healthway board and other issues are underway, as the member knows, but there is no change to Healthway funding arrangements. When there were certain taxes on tobacco, there was a hypothecation, but right now—I am not sure when it changed—there is an allocation from the general budget sector to Healthway. It is not necessarily a fixed proportion of a certain tax on tobacco anymore because the tax on tobacco was taken over by the commonwealth in 1997.

Mr B.S. WYATT: There is no link, for example; the previous hypothecated flow has not simply just been offset by the general allocation? Does the Treasurer understand what I am saying?

Dr M.D. NAHAN: A franchise fee was taken away in 1997. To replace that, the government of the day and subsequent governments gave an allocation to Healthway for health promotion. That has continued until today. The Healthway board changes do not affect the flow of funds. In 2014–15, there was authorisation of $22.1 million through the Tobacco Products Control Act. It goes up to $22.5 million in 2015–16.

Mr T.K. WALDRON: Reference is made to the government's asset investment program on page 9 of budget paper No 3. Can the Treasurer provide an indication of how many jobs the program is estimated to support?

[11.30 am]

Dr M.D. NAHAN: The Western Australian economy, even before the commodity price declined, was going through major transition as investment peaked in the mining sector. It peaked in 2012–13 at about $76 billion. This year, it has gone down to $55 billion. That is a large decline; it is about a third. A $55 billion decline is very large; larger than any other state. Over the forward estimates, it goes down to about $45 billion a year, which is still very high relative to other states and the history. They are mainly construction-type workers in very high paying jobs.

With commodity prices, there has been some diminution in private sector investment, so we made a decision in the budget this time, despite the evaporation, if you wish, of about 13.9 per cent of our revenue in 2015-16, to maintain our capital works program in full; we would achieve some efficiencies in lower costs, but to maintain it. We are doing this because we believe that Western Australia will need the investment. It is a fast-growing state and we need the investments themselves, and it also underlies and supports the job creation in the state. We estimate—not all at one time—that the government's asset investment program will lead to 93 000 jobs, which is a substantial proportion.

Mr T.K. WALDRON: That is a lot of jobs.

Dr M.D. NAHAN: They will be both direct and indirect jobs. On top of that, there were other jobs both in public sector investment and in other things like Elizabeth Quay. On top of the work we will do to it, Elizabeth Quay will have over another decade many other investments, and we estimate there will be $2 billion in additional investment by the private sector in Elizabeth Quay and $4 billion in City Link; much of that is being done now. So, our asset investment program is large by historical standards, and indeed so far it is the largest of all the states and it is underpinning our economy. I have one other thing that the Under Treasurer gave me: our capital spend in 2014-15 was, on a per capita basis, $2 514. We can compare that with the next highest, which is New South Wales, of $1 900. It is also 2.5 times that of Victoria.

Mr T.K. WALDRON: And that spreads pretty much across the state as well with the jobs.

Dr M.D. NAHAN: Yes. We are still spending, of course, royalties for regions, and that is doing quite a bit across the state.

Mr B.S. WYATT: I am just interested in that. I think the Treasurer said the capital works program will generate 93 000 jobs.

Dr M.D. NAHAN: Yes.

Mr B.S. WYATT: Is that calculated on an assumption? That is, for each $1 billion of capital works spend X jobs are generated, or have particular projects been individually gone through and an assessment made of each project, or is there an economic assumption around spend versus jobs?

Dr M.D. NAHAN: This data came from Mr Mann, so I will go to him.

Mr R. Mann: It is from in-progress and completed jobs; it is based on actual data from induction records. Those projects are then used as the basis for assuming the estimated total workforce and peak workforce for the other jobs, having regard to the scale and complexity of the job and using similar appropriate ratios based on actual data from completed projects.

Dr M.D. NAHAN: Just to clarify: there is no multiplier?

Mr R. Mann: Confirming the 93 000 are direct employees; so, actual employees on site, not indirect jobs off site.

Mr B.J. GRYLLS: This is just a statement that with the strategic projects and others, we should consider that the downturn in the mining construction area has left a lot of the Indigenous contracting firms with less work than they previously had. Governments of all persuasions worked really hard to build that capacity and to encourage people to move into the workforce for the first time, and it is going to be absolutely critical that government finds some way to engage more strongly and better in that space. It is hard to show the work that says that moving someone into the workforce and keeping them in the workforce is much better than the other alternative of welfare and the challenges that leads to. That has to be reflected in contracts and opportunities, otherwise government will be paying for it anyway, and government talks about it a lot but we do not actually get to the point of —

Mr W.J. JOHNSTON: The member for Pilbara resigned from cabinet.

Mr B.J. GRYLLS: What is the member for Cannington talking about?

The CHAIRMAN: Member for Pilbara, would you just put the question?

Dr M.D. NAHAN: I have a couple of things to say. The mining sector has done a tremendous job creating jobs for Aboriginal contractors in particular.

Mr B.J. GRYLLS: Does the opposition not like the question?

Ms R. SAFFIOTI: It was a grandiose statement.

Dr M.D. NAHAN: Yes, well, it is a legitimate question.

Mr B.S. WYATT: I do not understand what the question was.

Dr M.D. NAHAN: The question was that with the downturn in the mining sector—both the construction sector and some of the production —

Mr B.J. GRYLLS: We are talking about jobs in the construction sector funded by government.

Dr M.D. NAHAN: — there will be, potentially, a loss of jobs to Aboriginal contractors. The mining sector has led to the formation of many new Aboriginal contracting businesses and they have been taken up. The concern is, not so much, I think, in the construction phase but the operating phase, that there will be less work for those contractors, and it is a concern at least from this side of the house.

Ms R. SAFFIOTI: My question relates to page 63 of budget paper No 3, and the heading of "Net Debt of the Total Public Sector at 30 June", and changes in debt; that table describes the changes. In relation to the Metropolitan Redevelopment Authority, can Treasury provide the explanation of what contributed to that change in those numbers under MRA?

Dr M.D. NAHAN: Just to clarify, on page 63 is the member referring to the "Less proceeds from sale of non-financial assets"?

Ms R. SAFFIOTI: Yes.

Dr M.D. NAHAN: It is not listed anywhere else. Can Mr Barnes explain?

Mr M. Barnes: To an extent. The sale of non-financial assets is technical speak for land sales, so those figures there against the MRA are the changes in its land sale revenue projections from the midyear review to budget. What is underlying those changes, I could not tell the member. The MRA did not provide that.

Ms R. SAFFIOTI: Could I get that information by way of supplementary information?

Dr M.D. NAHAN: And they are net, and will there be a difference from the midyear review?

Ms R. SAFFIOTI: Sure.

The CHAIRMAN: Are you happy to do that, minister?

Dr M.D. NAHAN: Yes; the member can source it from the MRA.

Ms R. SAFFIOTI: I trust you guys better!

The CHAIRMAN: Could the minister please repeat what it is he is agreeing to provide?

Dr M.D. NAHAN: To provide clarification of the underlying transactions that refer to proceeds of non-financial assets in the MRA in table 8 on page 63.

[*Supplementary Information No B35.*]

Mr W.J. JOHNSTON: On the table on page 63 of budget paper No 3, at the bottom it reads "Less proceeds from sale of non-financial assets", and then there are pluses and minuses. It is a little confusing for me and I apologise for that, but is a minus an improvement and a plus a reduction? If a plus is added in the table is that adding to net debt, and if there is a minus is that reducing net debt? Is that what it is saying?

Dr M.D. NAHAN: A reduction in that section of that table is a reduction in the value of—let us say for Perry Lakes—the land sales from the midyear review. So, the midyear review had a forecast land sale stream from Perry Lakes, and the budget is recognising that those land sales will be not as much as forecast in the midyear review. Perry Lakes land values are not as high as expected.

Mr W.J. JOHNSTON: The line item is "Removal of 2013-14 Budget Fiscal Action Plan land sales provision", and there is -100 and -100. What I am trying to establish is whether that means that that decision has improved net debt by $200 million over those two years, or is it worse by $200 million.

Dr M.D. NAHAN: No; that is a negative land sale, if you wish. That is what I mentioned earlier when the member for West Swan asked about land sales. We had a global provision in the budget for $200 million in land sales; we have taken those out, and we have come up with $268 million of land sales and a net increase of $68 million over a five-year period. That is the land sales program, which is the line above that fiscal action plan land sale provision. We take out the global position and we add in that 11.1 in 2016, 94 in 2017, 81 in 2018, and beyond the forward estimates in 2019 there will be some others.

Mr W.J. JOHNSTON: In respect of that line item of the two -100s, that is another slippage in the FAP?

Dr M.D. NAHAN: No. We are replacing it. We had a global position of $200 million; we have now identified assets, which I am going to respond to, and identified two specific assets, and we expect actually to not sell $200 million but $268 million, but it will be over a longer period of time.

[11.40 am]

Mr W.J. JOHNSTON: That is the point. I did not say "cancellation", I said "slippage", so it is recognising that the sweet FA did not quite come in as expected.

Dr M.D. NAHAN: I am not sure about sweet FA! We are selling an asset—the land.

Mr B.S. WYATT: The Treasurer may be aware that Moody's Investors Service just followed Standard and Poor's in putting Western Australia on a negative watch in respect of our credit rating. What impact is that likely to have on the cost of debt? The cost of debt in the markets has already been impacted by the Standard and Poor's negative watch, bearing in mind the conversation we had last night with the Western Australian Treasury Corporation.

Dr M.D. NAHAN: I will ask the Under Treasurer to talk to the member about what Moody's has done today. Firstly, as we discussed with WATC, much of the differential was factored in early, in advance. When we had the downgrade from the AAA, that was factored in almost before the announcement was made, and indeed the subsequent downgrading was factored in, so these markets are pretty responsive to new information. I will let the Under Treasurer elucidate what happened with Moody's today.

Mr M. Barnes: Moody's has just announced that the state has retained its AA-plus credit rating but has shifted our outlook from a stable outlook to a negative outlook. That negative outlook is quite different from the negative credit watch that Standard and Poor's has us on. The technical definition, if you like, of the negative outlook that Moody's has just announced is a one in three chance of a downgrade in the next two years, so it is kind of giving the government a two-year window.

Dr M.D. NAHAN: What was the other one?

Mr M. Barnes: In contrast, Standard and Poor's currently has us on a negative credit watch.

Mr B.S. WYATT: I thought that had a similar expectation of a one in three —

Mr M. Barnes: No, the negative credit watch means a 50 per cent chance of a downgrade within three months, so it is a much more short-term and severe measure, if you like. That three-month period expires in July.

Mr B.S. WYATT: I assume, therefore, that the cost of credit impact was affected by Standard and Poor's and that what Moody's has decided today will not have further impact. My understanding from what the Under Treasurer has just said is that it is not as serious as what Standard and Poor's said.

Mr M. Barnes: That is exactly right; it is a less severe measurement or determination than what Standard and Poor's currently has on us. It is my full expectation that it has already been fully priced into our bond spreads and we will not see any further increase in those spreads. In fact, after talking to a number of investors last week, their view was that as soon as Standard and Poor's lifts the negative credit watch from us, and almost irrespective of its final decision, our spreads will come back in or narrow, just from the removal of the uncertainty that the negative credit watch is currently creating.

Mr B.S. WYATT: Has the Treasurer had conversations with Standard and Poor's around that negative watch?

Dr M.D. NAHAN: Through the budget and the March statement, Treasury provides all those discussions. Standard and Poor's has to make its decision, we expect, in mid-July. It is pretty tight-lipped; it does not give much away.

Mr B.S. WYATT: Has the Treasurer met with Standard and Poor's or Moody's in the last couple of months in respect of the budget?

Dr M.D. NAHAN: I am going to Sydney tomorrow.

Mr B.S. WYATT: To meet the credit ratings agencies?

Dr M.D. NAHAN: A range of banks and others.

Mr B.S. WYATT: Will the Treasurer also be meeting with the credit ratings agencies?

Dr M.D. NAHAN: I am not sure if I am meeting them; no. But Treasury had extensive discussions a week or so ago with Moody's and filled in what it was to relay, and, of course, Standard and Poor's.

Ms R. SAFFIOTI: The Premier said last night that he has not met with the ratings agencies for about three years. Is that a deliberate tactic to keep the Premier away from any ratings agencies?

Dr M.D. NAHAN: Is that an attempt at humour? There is no strategy whatsoever. The ratings agencies are professional people and they go on empirical data. The Treasurers meet them and of course they have extensive discussions with Treasurers.

Mr W.J. JOHNSTON: I refer to page 66 of budget paper No 3. Could the Treasurer confirm that his budget is not meeting four of the five financial targets on table 9? Can he also confirm that last year's budget also did not meet four of the five financial targets the government has set for itself? The one financial target he has met is the tax competitiveness target. If we look at page 72, the government is saying that the one target it does meet is that we are the per capita highest taxed state in the country.

Dr M.D. NAHAN: The first target is for general government expenditure growth to not exceed revenue growth. Revenue growth is negative; it depends how we measure it. Over 2014–15 it went down by 3.3 per cent and next year it will go down by 2.7 per cent, and that is from our standing stock. No, we did not decrease government expenditure by 2.7 per cent this year. Does the member want us to do so? If so, he should let me know. If it goes negative, we did not meet that one. We expect to meet it over the medium term. As to the cash operating surplus, yes, we are quite clearly running a deficit this year. The government sector is absorbing the hit that it has taken to its budget, as enunciated in the budget, and therefore we will not have a cash operating surplus we think this year and next year and the following year. Those are the estimates. The net-debt-to-revenue ratio is above 55 per cent, and we are trying to address that through asset sales. I am confident that we will keep that down to an acceptable level eventually over the forward estimates. With regard to cash operating surpluses, yes, we got hit with a shock commensurate with the GFC shock to the commonwealth government, and we are adjusting to that, and accordingly our targets are off. As to tax share, we have by far the highest per capita income and the highest wages in the country, and therefore our tax collections per capita are high. What is really relevant is not so much our tax capacity—that is, people's capacity to pay—but our tax effort, and our tax effort in 2013–14 was below the other states. Our tax as a share of the generalised system of preferences is significantly below that of other states.

Mr W.J. JOHNSTON: I note that in 2013–14 the government also did not achieve three out of the five targets. It did not ensure expense growth; it did not maintain a cash surplus; and it did not maintain its total non-financial public sector net-debt-to-revenue ratio. In 2013–14 the government had strong revenue growth, so is it not a bit disingenuous to blame falling revenue when the government was unable to meet its targets even when it had rising revenue?

[11.50 am]

Dr M.D. NAHAN: Back in 2013–14, revenue growth was 8.7 per cent and expenditure growth was 6.9 per cent. There is a difference between them. We did achieve our target in 2013–14. Our net-debt-to-revenue ratio target is 55 per cent, and we came in at 55.2 per cent in 2013–14, so we did meet our targets in 2013–14.

Mr W.J. JOHNSTON: In the 2014–15 budget —

Dr M.D. NAHAN: It was a different story in 2014–15. We saw a 3.3 per cent real decline in our revenue base and we chose, quite rightly I think, not to decrease our expenditure by a real 3.3 per cent. If the member wants us to do something different, let me know.

Mr W.J. JOHNSTON: I am not judging me against my standards; I am judging against the Treasurer's standards.

Dr M.D. NAHAN: We got hit by a shock.

Mr W.J. JOHNSTON: I wonder what the purpose of these standards are if the Treasurer is not going to do anything with them.

Dr M.D. NAHAN: They are goals. When a government gets hit by a shock, as we did, it has to adjust, and that is what we have done. We are not running away from it.

Mr B.S. WYATT: I refer to page 309 of the *Economic and Fiscal Outlook*. The heading that jumps out at me is "Transfer Duty and Landholder Duty". The amount for the connected entities restructure exemption jumps from $234.9 million in 2013–14 to $774 million in 2014–15. What has driven the cost of that exemption?

Dr M.D. NAHAN: Excuse me; I was focusing on the connected entities restructure exemption.

Mr B.S. WYATT: Yes.

Dr M.D. NAHAN: That is state revenue. No doubt they are very lumpy and large transactions. The member will remember that a couple of years ago we put in place a policy to do a prepayment for large transactions that were being stretched out in time, and they would have been received in 2014–15. It was effectively two things—bringing forward payments and securing those payments to make sure that we got them. As to the composition, of course, as the member well knows, I do not have, and nor does the Minister for Finance, any transparency to those.

The appropriation was recommended.