Division 24: Treasury (except items 45 and 127 — Royalties for Regions), $4 321 241 000 —

Mr J.M. Francis, Chairman.

Mr C.C. Porter, Treasurer.

Mr T. Marney, Under Treasurer.

Mr M.A. Barnes, Deputy Under Treasurer.

Mr J. Tondut, Executive Director, Building Management and Works.

Mr D. Creedon, Chief of Staff, Office of the Treasurer.

The CHAIRMAN: This estimates committee will be reported by Hansard staff. The daily proof *Hansard* will be published at 9.00 am tomorrow. Ministers, members and advisers are to make their corrections on the daily proof *Hansard*. Hansard will forward the transcript to the minister's office for distribution to advisers. The cut-off date for corrections will be indicated on the transcript.

If a minister asks that a matter be put on notice, it is up to members to lodge the question on notice with the Clerk's office. Only supplementary information that the minister agrees to provide will be sought by Friday, 10 June 2011. When referring to the program statements volumes or the consolidated account estimates, members should give the page number, item, program and amount in preface to their question. Members should not raise questions about global matters of general concern that do not have an item of expenditure in the consolidated account. The consideration of the consolidated account estimates of expenditure will be restricted to discussion of those items for which a vote of money is proposed. We are dealing with estimates of expenditure and that should be the prime focus of this committee. While there is scope for members to examine many matters, they need to be clearly related to matters of expenditure. For example, members are free to pursue performance indicators, which are included in the *Budget Statements*, while there remains a clear link between the questions and the estimates. It will assist the committee's examination if questions and answers are kept brief, without unnecessarily omitting material information.

It is the intention of the Chair to ensure that as many questions as possible can be asked and answered, and that both questions and answers are short and to the point.

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. If so, the Treasurer must clearly indicate the supplementary information he agrees to provide. I will allocate a reference number if the minister agrees to provide that information.

I also ask for the Treasurer's cooperation in ensuring that supplementary information is delivered to the committee clerk by Friday, 10 June 2011, so that members may read it before the report and third reading stages. If the supplementary information cannot be provided within that time, written advice is required of the day by which the information will be made available. An example of the required *Hansard* style for the documents has been provided to the minister's advisers. Any information provided at a later date by ministers in response to members' questions may be published in a separate *Hansard* document.

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

[Witnesses introduced.]

The CHAIRMAN: The member for Midland has a question.

Mrs M.H. ROBERTS: I refer to page 301 and the items listed under the heading "Major Spending Changes". They are quite large headings. I want to know whether the following election promises have been met and are included in the budget: all the savings identified by the Economic Audit Committee to be quarantined and returned to Western Australian taxpayers through tax reform and a tax reduction strategy; $250 million to tax cuts in the first term over and above the then current forward estimates; any windfall from state budget surplus revenues to be directed to tax cuts; and the $250 million commitment that was intended to be in addition to the pledge to return to taxpayers savings identified by the Economic Audit Committee. If those measures are not included, when will they be met by this government?

Mr C.C. PORTER: There are obviously several questions there. Is the member referring to page 301 and to the line item "Total Administered Capital Contribution" or the line item "Grand Total"? I presume it is the grand total in the out years that the member is looking at.

Mrs M.H. ROBERTS: I am referring to the table under the heading "Major Spending Changes", which sets out a list of things the government is going to do.

Mr C.C. PORTER: Yes, at the bottom of the page. Is the first question on whether all expenditure contemplated by government in the out years is contained in there?

Mrs M.H. ROBERTS: Yes, that is part of it.

Mr C.C. PORTER: The short answer is that it represents the expenditure that is in the budget. Potential expenditures that have not yet reached the final decision-making stage may or may not be included in further out years, and we will deal with them on a yearly budgetary cycle.

Mrs M.H. ROBERTS: Is any one of the measures I have listed included—any at all?

Mr C.C. PORTER: I will refer to each individual matter. The member nominated the savings initiatives. I take it by that she was talking about both the government trading enterprises savings initiatives and the $300 million targeted savings initiatives.

Mrs M.H. ROBERTS: That is right.

Mr C.C. PORTER: They appear in the budget, but these are expenditures that appear under that heading of "Major Spending Changes"; therefore, this portion of the budget that the member has identified is not relevant to those savings. No doubt there will be other questions with respect to those. In referring to tax cuts, if the member was referring to the temporary payroll tax relief of $100 million after the global financial crisis, that is factored into the forward estimates. Again, the table that the member identified is not relevant to those tax cuts, which have already been given. I take it that the second part of the question about an election promise for further tax cuts was whether they appear in this budget. No, they do not at this stage, neither in these major spending changes nor in the out years. The next part of the question was whether this table on major spending changes takes into account any windfall revenue gain. It depends on what the member means by windfall. If by windfall she means revenue gains that we have not yet anticipated, they naturally enough do not appear in the budget at all because we have not anticipated them.

Mrs M.H. ROBERTS: Through you, Mr Chair: what did the Liberal Party election commitment contemplate when it said "windfall"?

Mr C.C. PORTER: I am sorry?

Mrs M.H. ROBERTS: The word "windfall" was in the Liberal Party's election document. Presumably the party contemplated what a "windfall" would constitute.

Mr C.C. PORTER: Extraordinary and unforeseen, I imagine, are two good descriptions of that. As an example, we might argue that if we budgeted for $600 million worth of revenue from stamp duty and unexpectedly received $2 billion worth of revenue from stamp duty, that might be potentially a windfall. In any event, our budget estimates are our best estimates of revenue going forward.

Mrs M.H. ROBERTS: Further to that, when the Treasurer anticipates a surplus at budget time and then gets to the midyear review and the surplus is much bigger than anticipated, and he gets to the end of the financial year and it is bigger again, would he consider that difference a windfall and, therefore, would he use that money to meet what I would consider to be the Liberal Party's election promise?

Mr C.C. PORTER: I do not think we would consider any increment in a predicted surplus that became likely at midyear review a windfall. Our predicted budget surplus is around the $400 million mark. If at the midyear review we revise that up by $10 million, the mere fact of its revision would not, in my view, constitute a windfall.

Mrs M.H. ROBERTS: Further to that, if the Treasurer had $5 million more at the end of the financial year than he anticipated, would he consider that a windfall?

[2.10 pm]

Mr C.C. PORTER: The concept of a windfall probably has two components. The first component is an increase above that which we expect that is extraordinary and unforeseen.

The second component is an increase above that which we expect that is very, very large. I would say, as a rule of thumb, that we might expect that if we predicted a budget surplus at about the $500 million mark, and then at the midyear review it became obvious that we were going to receive a budget surplus in excess of $2 billion, that is reaching the territory of the definition of a windfall. I think most people in the street would consider that to be the case.

Mrs M.H. ROBERTS: The government's document actually stated that windfall state budget surplus revenues would be directed to tax cuts, so I take it that the Treasurer cannot foresee any circumstances in which anything would meet the Treasurer's definition of a windfall, so there will be no potential for any budget surplus revenues to be directed at tax cuts either this year or any year into the future?

Mr C.C. PORTER: This is a semantic argument, and the member might have a different view of what people commonly believe to be a windfall. I would say, looking over the past eight years in this jurisdiction, that the one thing all sides of Parliament would agree was a windfall was the extraordinary increase in predicted budget surpluses occasioned by virtue of the doubling of property prices in a very short time and the great exchange in the property market that caused a massive increase in transfer duties coming into government. If the member is asking me whether I envisage or expect windfall gains above that which we are predicting as surpluses in the out years—by "windfall" I mean a very large increase above what we are now predicting and a very large surplus in total—no, I do not. Certain aspects of the state economy are far from buoyant at the moment, and I notice that national figures came out today that showed negative growth in the most recent quarter that has not been seen since the time of the 1991 recession. At this stage I do not foresee unexpected increases in our estimated surpluses, although I very much hope that they arrive. But they would need to be much larger than what we expect and large in total quantity.

Mrs M.H. ROBERTS: So, following the semantics, if they were expected, they would not be a windfall anyway. There is not much point in continuing a semantic discussion.

Mr C.C. PORTER: I understand what the member is asking, but it seems to me that, having predicted a budget surplus of $443 million for 2011-12, if at midyear review time something quite extraordinary happened and we had to recalculate that estimate to be in excess of $2 billion, some portion of the difference between $443 million and $2 billion would be a windfall revenue gain. But if the member is asking me whether I am expecting that in the next year, that is not in my wildest dreams, but sometimes dreams come true.

Mrs M.H. ROBERTS: There were other parts to the question that the Treasurer has not answered yet, such as the part about the $250 million commitment that was going to be returned to taxpayers from what was identified in the economic audit. The Treasurer said it was a $250 million commitment, in addition to the pledge to return to taxpayers all savings identified by the economic audit. Will that be delivered on this year or in future years?

Mr C.C. PORTER: There was the $100 million worth of temporary relief that I discussed earlier for payers of payroll tax, and obviously that appeared in the budget. Then there were the additional moneys that came in that represented the gain from the renegotiation of the fines rate; that was directly paid into the children's hospital account. If the member's question is whether the budget papers presently show another $250 million worth of tax cuts, payroll tax or otherwise, the answer is, obviously, that they do not show that at this stage.

Ms R. SAFFIOTI: My question relates to page 302 of budget paper No 2 and the line item "Economic and Revenue Forecasts and Policy Development". Can I just about ask about the removal of the concession, or the increase in the royalty rate? Was advice given to the federal Treasury back in November last year, through the Commonwealth Grants Commission, that there was expected to be no change to royalty rates? Also, when was the decision made to actually take the concession away or increase the royalty rate?

Mr C.C. PORTER: I have watched the debate rage about who knew what and when. I, obviously, was not Treasurer at that time, and I was not either in charge of or oversighting the correspondence, or privy to any of the conversations that have been mentioned publicly. My understanding is that there was a submission to the grants commission that said something to the effect that there was not, at that stage, a move to increase the royalty rate. My understanding of the Premier's view about what that meant is that that was referring to an increase proper in royalty rates above and beyond 7.5 per cent and that there is a clear distinction to be drawn between that and the removal of the concessional rate that had historically existed on fines iron ore. Without the historical knowledge, I do not know whether I can comment any further on that to the member.

Ms R. SAFFIOTI: Can I seek some clarification of that from the Under Treasurer? As I understand, a document tabled at Senate estimates today stated that Western Australia stated that further changes were not on the horizon. It did not mention the removal of the concession or increased rates.

Mr C.C. PORTER: Can the member quote that directly to me, rather than paraphrasing?

The CHAIRMAN: Member for West Swan, you cannot actually ask a question directly of the adviser; you can ask the Treasurer and the Treasurer can ask the adviser.

Mr C.C. PORTER: If the member can give me the benefit of the document—if I might see it or the member might read directly from it—then I can ask the Under Treasurer.

Ms R. SAFFIOTI: I do not have the document; I am just reporting what I have heard from Senate estimates today. That is all I am asking about. I am asking whether a document was sent from WA to the Commonwealth Grants Commission that said that no further changes were on the horizon, or words to that effect.

Mr C.C. PORTER: I am happy to have the Under Treasurer answer that directly; he has historical knowledge of these matters. When the member talks about Senate estimates, she is obviously talking about federal matters.

Ms R. SAFFIOTI: Yes.

Mr T. Marney: There was a submission from the WA Treasury to the Commonwealth Grants Commission in about November last year that stated that at the time, in terms of official policy decisions, there was nothing about changes in royalties on the horizon, as the member has accurately quoted. Having said that, discussions with commonwealth Treasury were ongoing about how the Commonwealth Grants Commission would treat a removal of the concessional rate on fines, as was flagged to it in March 2010, again in May 2010 and, through formal correspondence, again in November 2010, at the same time as the grants commission submission. The discussions and correspondence with the commonwealth were part of the formulation of a policy position; the correspondence to the grants commission was a submission that reflected the existing policy status and decision. Just to be precise, one set of correspondence was about the formulation of policy and informing what the responses would be; one was arguing for the state's fair share on the basis of what existing policy was.

Ms R. SAFFIOTI: I can understand the Commonwealth Grants Commission submission stating there were to be no changes and that there had been no policy decision, but why, if there was nothing on the horizon, were other documents being sent asking what the impact would be if there were changes?

Mr C.C. PORTER: The member is asking me whether we have any comment on the idea that something was put before the grants commission that contained the words "on the horizon". If the member can confirm to me that what was put before the Senate estimates committee contained those words and the member can show me where it is, I can comment on it.

Ms R. SAFFIOTI: Treasurer, it is the government's submission. It is not my submission; it is the government's submission, so why does the Treasurer not go and find it?

The CHAIRMAN: Member for West Swan, let the Treasurer answer the question.

Mr C.C. PORTER: The member is putting to me that something has been tabled before a Senate estimates committee; she is paraphrasing what she has heard, presumably by word of mouth, is in it and asking me to comment on it. I am very happy to comment on specific text that the member says was before the Senate committee, but how can I sensibly comment on what the member thinks was before a committee?

Ms R. SAFFIOTI: Can the Treasurer provide a copy of that submission to the Parliament by way of supplementary information?

Mr C.C. PORTER: I understand the document is available on the grants commission website.

[2.20 pm]

Mr W.J. JOHNSTON: Can the Treasurer confirm that the position that the state of Western Australia put to the Commonwealth Grants Commission was that it was not contemplating further increases?

Mr C.C. PORTER: My broad understanding is that what was put to the Commonwealth Grants Commission by way of submission was that at the time that submission was tabled with the grants commission, the state government did not have a firm plan to increase iron ore royalty rates.

Mr W.J. JOHNSTON: Therefore, there is no way that the federal government could have been aware of a plan for Western Australia to increase royalty rates because there was no plan.

Mr C.C. PORTER: Aside from the several conversations that individuals have said occurred and aside from the correspondence clearly stating that it was on the horizon —

Mr W.J. JOHNSTON: But I do not understand that.

Mr C.C. PORTER: The point that the member makes is that there is a body of correspondence and conversations which appear to have taken place and which are strongly indicative of the idea that the federal government—both the federal Treasurer and federal Treasury—had a clear advance indication that at some point in the not-too-distant future Western Australia would move to remove the final concessional rate on iron ore fines. There is that body of information. There is also a document that went before the grants commission and that appears, at least in some respects, to conflict with that other body of information. The explanation that has been given is that the grants commission document referred holistically to an increase in the royalty rate rather than the removal of the concession. It is also a document that was confined to the point in time at which it was submitted. As it transpires, after that point in time, consistent with that other body of conversations and of letters that were given, the final concession has been removed.

Mr W.J. JOHNSTON: I am a little confused because if there is this other body of evidence, as the Treasurer described it, that states Western Australia was contemplating an increase in the royalty rate, why was the public position of the government of Western Australia the opposite of its private position?

Mr C.C. PORTER: The submission tabled with the grants commission is a valid submission for a set time, which, as I understand it, is for a year after it is submitted. That is the first thing; it is relevant to that period.

Ms R. SAFFIOTI: A year after November 2010?

Mr C.C. PORTER: Yes, that is correct.

Mr W.J. JOHNSTON: That is today.

Ms R. SAFFIOTI: That is right now, and when the government made the decision to change the royalty rates.

Mr C.C. PORTER: I agree, and there is a year-long moratorium on the change to royalty rates. Therefore, if the point the member is making is that some kind of undertaking was given to the grants commission that there would not be a change —

Mr W.J. JOHNSTON: I am not making —

Mr C.C. PORTER: Let me finish—and that that has been breached now and that cannot be right, I indicate that the first tranche of removal of the fines concessional rate does not occur until 2012–13 in any event and it is in stages. Two distinctions need to be made. The first is between the removal of a concession and the increase in a rate of royalty. The Premier's position has been that that submission was squarely to the latter issue, which was an increase in the rate of royalty—that is, an increase —

Ms R. SAFFIOTI: Can the Treasurer paraphrase what that submission stated? If the Treasurer is saying that the Premier said that that submission was only about increasing the rate of royalty and not removing the concession, can the Treasurer tell us what the exact words were? He has asked me to, so can he?

Mr C.C. PORTER: I am not putting —

Ms R. SAFFIOTI: The Treasurer is —

The CHAIRMAN: Members!

Mr C.C. PORTER: I am not putting a document to the member; she is putting the wording of the document to me.

Ms R. SAFFIOTI: Yes, the Treasurer is —

The CHAIRMAN: Member for West Swan!

Ms R. SAFFIOTI: The Treasurer is putting the content —

The CHAIRMAN: Member for West Swan!

Mr C.C. PORTER: Therefore, there is a distinction between the removal of a concession and an increase above and beyond 7.5 per cent, which means that whatever was stated to the grants commission was in no way inconsistent with that other, what I would describe as, body of evidence of advance notice of the final and fulsome removal of the concessional rate. The second point is that the submission is valid for a period, which is a year or so after it is submitted. We made a decision as a government to remove the concessional rate in 2012–13, in stages, going to the full removal—to 7.5 per cent—in 2013–14. If anyone wants to point out any inconsistency, please do so, but I do not see it.

Mrs L.M. HARVEY: I have a further question. The removal of this concession is such an important issue. According to budget paper No 3, we are talking about a potential $1.9 billion worth of revenue over the forward estimates. Is it likely, or is the Treasury getting any indication, that we might get some kind of sensible direction from the federal Treasurer about how the Commonwealth Grants Commission will treat this?

Mr C.C. PORTER: The early indications, member, have not been positive. I have every expectation that eventually the federal Treasurer will give precisely the same direction that he gave to the grants commission for the first removal of the concession from three per cent up to five per cent; that is, he will give precisely the same direction to the grants commission when the second stage of concession removal from five per cent up to 7.5 per cent is achieved. I think he will do that because that direction was precisely the right thing to do; it was the correct direction to give. Had that direction not been given, the strong likelihood was that the existing formula would have treated the fines iron ore royalties raised in the high category of mineral, which would have meant that significantly more than 100 per cent of the royalties generated by Western Australia would have been in effect lost through diminished GST grants. That is a bizarre and perverse outcome. Even with the direction, on average what the state loses by an increase in royalty revenue is about 60 to 65 per cent of that royalty revenue through the horizontal fiscal equalisation process in the grants commission. That 60 to 65 per cent is distributed to other states—Victoria, South Australia, Tasmania—and some of the territories. Therefore, I do not earnestly consider that the federal Treasurer would take what is clearly the wrong position, which is to over-penalise Western Australia for the extra royalties raised and fail to give that direction. I simply cannot see that occurring.

Mr A. KRSTICEVIC: I refer to the "Expenses from Government to Public Corporations" table on page 296 of the *Economic and Fiscal Outlook*, the total of which is $1.83 billion for 2011–12. Was the shadow Treasurer correct when she explained that Treasury will gouge $1.1 billion net from electricity providers over the next three financial years; and, if not, can the Treasurer please inform the committee of the situation around payments to and from electricity utilities?

Mr C.C. PORTER: I do not think that statement of the shadow Attorney General was correct. It may be something that she will ask questions of, but in my reading and assessment, I do not know how that $1.1 billion —

Mrs M.H. ROBERTS: If the Treasurer is talking about me, I am not the shadow Attorney General.

Mr C.C. PORTER: Sorry, shadow Treasurer; it has been a long morning. I do not know how the shadow Treasurer came to that $1.1 billion figure. On my reading of the budget papers, when we consider in a full way all the moneys going out from the general government to the electricity utilities and all the moneys coming in, for the next two years at the very least, the government is losing significant amounts of money.

Mrs M.H. ROBERTS: That is for the next two years; I was looking four years ahead.

Mr C.C. PORTER: If the member wants to provide the calculations, I am willing to look at them. However, the point is that we lose money over the out years.

Mrs M.H. ROBERTS: I refer to page 313 of budget paper No 2, which states that the total dividends administered by the Department of Treasury and Finance are estimated to increase by $491 million between 2010–11 and 2014–15. The estimated actual total dividend for this year is $696.326 million and in 2014–15 it will be $1 187 524 000. How much does the increase in fees and charges contribute to this dividend increase? How much of this dividend increase is dependent on the future increases to the electricity tariffs of five per cent, five per cent, 12 per cent and 12 per cent?

Mr C.C. PORTER: I hazard a guess that the member has asked a very complicated question. The member pointed quite rightly to the fact that there is an increase in expected dividends coming in from 2011–12 to 2013–14.

Mrs M.H. ROBERTS: That was out to 2014–15.

[2.30 pm]

Mr C.C. PORTER: Therefore, the dividends will rise from $698.6 million in 2011–12 to $1.187 billion. The member then asked what percentage of that was due to tariff and fee increases. There are two answers to that question in broad terms. First of all, those dividends are being looked at in isolation. In addition to those dividends that are going out—the dividends are obviously from everything that is listed there, including port authorities, the Gold Corporation and so forth—many of these agencies and organisations that pay dividends also receive in one form or another a subsidy from government. The first point I make is that those figures are appearing in isolation rather than being set aside with respect to the moneys that go from government to these agencies. The other question was about a breakdown. I am not even sure whether that would be possible. The dividend of the Albany Port Authority is predicted to increase. The member is asking me what percentage of that is due to price increases, rather than other factors such as volumetric changes and whatever else might contribute to increasing dividends, including directions from government to agencies that the raw percentage of their dividends be increased. There might be multiple reasons why a dividend increases. If the member is asking me to break that down to isolate price increases—not all these prices are controlled necessarily by government—for every one of those agencies —

Mrs M.H. ROBERTS: I am not asking for all the agencies.

Mr C.C. PORTER: I do not know whether that would be possible.

Mr W.J. JOHNSTON: She has asked the question she asked.

The CHAIRMAN: Thank you, member for Cannington.

Mr C.C. PORTER: I am happy to let the Under Treasurer give a view on whether that kind of breakdown is even possible. I am happy to make provision for it if there is some econometric way of doing it, but I doubt that there is. I will let the Under Treasurer answer directly.

Mrs M.H. ROBERTS: I have asked specifically whether I can get some assistance about the electricity tariff. Can the Treasurer provide that information?

Mr C.C. PORTER: If we use that as a case in point, some portion of the profit achieved by an electricity utility is paid in a dividend to government. That profit will be a factor of the price it charges for electricity, the volume of electricity it supplies, and the ability of that organisation to properly decrease its costs to increase its profit. We would have to ask an agency such as Synergy, Horizon Power or Verve Energy whether they have, to their own satisfaction, a breakdown of the percentage of their profit they can trace directly back to a price increase. I will hand over to the Under Treasurer, but I do not know whether that would be possible.

Mr T. Marney: I think the simplest way to answer the question is to go back to the pricing assumptions, particularly for the power entities that are reflected in the budget estimates and the forward estimates, bearing in mind that they are Treasury's pricing assumptions for the forward estimates years; they are not government decisions. Government decisions will be taken in relevant budget years. We can provide estimates of the revenue raised by those pricing assumptions—that is, the revenue raised through increases of five per cent, five per cent, 12 per cent and 12 per cent. That will go most of the way to answering the question.

Mr C.C. PORTER: We will provide that information by way of supplementary information.

The CHAIRMAN: The Treasurer agrees to provide the supplementary information as outlined. I ask the Treasurer to clarify that information again.

Mr C.C. PORTER: I will ask the Under Treasurer to clarify it.

Mr T. Marney: The supplementary information will relate to the quantum of funds raised through the pricing assumptions across the forward estimates of increases of five per cent, five per cent, 12 per cent and 12 per cent in retail electricity tariffs.

Mrs M.H. ROBERTS: Further to that, can the Treasurer include in that supplementary information the 14 per cent increase in the household water charge?

Mr C.C. PORTER: Yes.

[*Supplementary Information No B23.*]

Dr M.D. NAHAN: I refer to the third paragraph under the heading "Efficiency of Service Provision" on page 303 of volume 1 of budget paper No 2. Can the Treasurer please inform the committee of the details of the efficiency dividend for government trading enterprises and the amount it is projected to save?

Mr C.C. PORTER: The projected saving over the out years is $500 million, and that is calculated as a five per cent figure of what Treasury has assessed as discretionary spending for all the GTEs. Those types of things include administration, travel and wages in particular, which is probably the big-ticket item in all of that. The government has taken the view that significant savings can be occasioned through the GTEs. There was some debate at the second reading stage of the budget bills on wages growth in the public sector and current expenditure growth, and my acknowledgement is that that is an area for government to improve on. Nevertheless, some of the figures that have been provided to me by Treasury indicate that expenses growth in GTEs has gone from $6.117 billion to $15.857 billion in 10 years. That is a 159 per cent increase in expenses growth. Over the 10-year period from 2000–01 to 2009–10, salaries growth has gone from $429 million to $920 million, an increase of 114 per cent. They are very significant increases. Indeed, in relation to the question that the member for Midland asked, a profit, some percentage of which is paid to the government in a dividend, will be affected by not only increases in the sale of the products, but also cost efficiencies that can be garnered from the organisation itself. The government's expectation is that we can harvest savings from the discretionary spending of GTEs. That will total $500 million over the out years. That will result in less waste and leaner and more efficient organisations. Given that that figure of $500 million is quarantined as a percentage of discretionary spending, and we have outlawed many things as a basis for harvesting the savings, that will represent significant savings in waste for the taxpayers of Western Australia.

Mrs L.M. HARVEY: Will the efficiency dividend extend to CEO salaries, as well as to general wages growth?

Mr C.C. PORTER: There are difficulties there. Certainly, wages is one of the substantive areas in which we expect savings will be harvested. Many of the senior executive service positions at the heads of GTEs are inside the Salaries and Allowances Tribunal process, which means that government cannot do an enormous amount to influence the outcome. Some of the positions have in fact been previously removed from the SAT process by ministerial direction, and they became exclusively the province of the board that manages a GTE. Indeed, the Government Employees Superannuation Board is one recent example of such a situation, because the previous government told the board by ministerial direction, presumably in contemplation of potential mutualisation, to remove the CEO of that organisation from the SAT process. The government had absolutely no control there. What we need in this area is overarching umbrella legislation that governs the rules and executive remuneration for all GTEs in a similar and consistent fashion. There are difficulties at the CEO level. I would expect—I have had this conversation with John Langoulant, who is the chair of GESB—that when the next contract is negotiated, the amount negotiated is significantly less than the previous one. Indeed, my view is that the previous ministerial direction to remove remuneration from the SAT process and leave it entirely under the auspices of the board should be rescinded and reversed by this government.

Mr W.J. JOHNSTON: I have two questions. The Treasurer said that these decisions are beyond the power of government. Can he tell us which boards of GTEs are not subject to ministerial direction? Secondly, I think he said that the five per cent efficiency dividend would reap about $500 million in what he described as savings for the people of Western Australia. Why are those savings not being returned to the people of Western Australia in the form of lower charges by these GTEs?

Mr C.C. PORTER: I will answer the second part of the question first. All savings are returned to the people of Western Australia in a variety of ways. Those types of savings allow for expenditure on infrastructure and on other recurrent services that the government provides the people of Western Australia

Mr W.J. JOHNSTON: A tax increase would do the same thing.

Mr C.C. PORTER: I am sorry; I do not follow.

Mr W.J. JOHNSTON: If the government gets more revenue from the people of Western Australia, the Treasurer is saying that that is a saving because the government can spend more on infrastructure. Is that the argument?

[2.40 pm]

Mr C.C. PORTER: The member's question was: how are these savings returned to the people of Western Australia? I obviously do not think a tax is a saving.

Mr W.J. JOHNSTON: No, that is not the question I asked. The question I asked was very specific, and I apologise again if the Treasurer did not understand it.

Mr C.C. PORTER: I am obviously not as smart as the member.

Mr W.J. JOHNSTON: I have no idea whether the Treasurer is as smart as me; most people are. I asked: why is the $500 million that has been saved by the five per cent efficiency dividend not being returned to the people of Western Australia through lower charges by the government trading enterprises?

Mr C.C. PORTER: First of all, the member is asking why the amount is not being returned in the form of lower charges. It is being returned, but not necessarily in the form of lower charges. It is those types of savings that allow the freeing up of budgetary moneys to build things like stadiums, so those types of savings are to the benefit of the taxpayers of Western Australia.

Mr W.J. JOHNSTON: Okay, but that is the tax argument. We could increase taxes and do the same thing. That does not make any sense; just answer the question.

Mr C.C. PORTER: The second question was: why are we not using that $500 million in savings to further subsidise utilities and artificially decrease the price?

Mr W.J. JOHNSTON: I did not say that at all. Those are not the words I used, and I did not say that.

The CHAIRMAN: Members!

Mr W.J. JOHNSTON: Well, he needs to —

The CHAIRMAN: I am speaking, member for Cannington!

Mr W.J. JOHNSTON: He needs to —

The CHAIRMAN: Member for Cannington, I am speaking. Do not make me stand up and start calling people. I will give everyone ample opportunity to ask all the further questions they want. Just take a chill pill and let the Treasurer finish answering the initial question.

Mr C.C. PORTER: Every dollar that is saved, whether through efficiency dividends or otherwise, is not allocated to a specific purpose. If I can put it this way, this government is on track to save $1.46 billion through the three per cent efficiency dividend process. That money is freed up to spend on other things. At the same time, this government is placing $1.1 billion worth of direct operational subsidies into the electricity utilities. Although dollars that are saved do not go into a little box that is marked in liquid paper, "This dollar is to go to a new stadium or direct operational subsidies", conceptually the member must accept that if we save $1.46 billion and at the same time allocate $1.1 billion to the GTEs —

Mr W.J. JOHNSTON: Point of order, Mr Chairman. I have just read through the instructions that were read out by the Chairman at the start of this session, and I cannot see anywhere where it says that the Treasurer is allowed to rabbit on about matters unrelated to the question I asked. I did not ask about three per cent efficiency dividends; I did not ask about stadiums. I asked a specific question: why is it that the $500 million that has been saved by the GTEs is not being returned to the people of this state? I would appreciate the Treasurer answering that question.

The CHAIRMAN: Thank you, member for Cannington. Sometimes members of this place are their own worst enemies for dragging things out. The Treasurer will come to a conclusion. As I also read out at the start, I expect both questions and answers to be short.

Mr W.J. JOHNSTON: It was a short question!

The CHAIRMAN: I will ask the Treasurer to conclude. I am more than happy to give members as many further questions as are required.

Mr C.C. PORTER: One could mount a justifiable argument to suggest that the $500 million in savings written into the budget over the out years is, in one sense, being directed straight back into the artificial depressing of prices in electricity, because the $500 million might form part of our $1.1 billion in direct operational subsidies. The member is asking why it is not being used in that fashion; a conceptual argument could be mounted to say that it is.

Mr W.J. JOHNSTON: So, it is only a $600 million subsidy; is that what the Treasurer is saying?

Mr C.C. PORTER: I am sorry?

Mr W.J. JOHNSTON: If $500 million of the $1.1 billion is being paid for by the GTEs, the budget subsidy to the GTEs is not the $1.1 billion that the Treasurer referred to, but only $600 million. If he let the GTEs keep the $500 million, he would not need to provide as big a subsidy. It is as obvious as the nose on his face.

Mr C.C. PORTER: The total subsidy exists; it appears in the budget papers. I am saying that, conceptually, it might be argued that our ability to find savings inside many of the utilities will enhance our ability to give the subsidies that depress electricity prices. As I said, it is not the case that money that goes into consolidated revenue—whether from a budgetary saving or a mining royalty—is put into a box marked, "This is set down for X, Y or Z expenditure"; it goes into consolidated revenue and it comes out. However, conceptually, the fact that the government is willing to pay for savings allows us to directly subsidise electricity utilities without further increasing debt.

Dr M.D. NAHAN: Why do we have to put five per cent efficiency dividends on GTEs? Is there not some other process? I thought we went through electricity reform a decade ago. One of the objectives of that was to drive competition into the electricity industry with the intention of driving prices down and operating efficiencies higher. Was there some fault in the deregulation process a decade ago which has resulted in these over-the-top measures?

Mr C.C. PORTER: These organisations have a complicated and somewhat bastardised history. It appears to me that what occurred historically was that GTEs were created from organisations that had previously been purely public sector organisations. They were established under legislation that, in large part, was borrowed from the New South Wales template. The New South Wales legislation contemplated the eventual total move of these organisations into the private sector. In a way, the legislation was designed for an interim stage. There are no plans to move these GTEs into the private sector. The legislation that governs them, governs them in a way that means they are somewhat "half pregnant". Yes, they allow for ministerial direction, but at the same time they do not have all the same internal cost-cutting incentives that purely private organisations might have. That goes to one of the questions raised by the member for Cannington, which was: can we describe the directions that we are able to give to each and every GTE? They are all slightly different but, if I can summarise it broadly, we can give broad directions on policy, and we can give directions that they provide information to us so that there are guaranteed information flows in the legislation, but our control over the organisations is not the same as it would be if they were purely public organisations, and we have more control over them than we would if they were purely private. When we looked at the Economic Regulation Authority's inquiry into the efficiency of Synergy's costs and electricity tariffs and the terms of reference, part of that was to look into the efficiencies of Synergy's operating and capital expenditure and its procurement of wholesale electricity and renewable energy certificates.

The member's question is: might we not expect Synergy to do that for itself? The answer is that it has not done that to the satisfaction of the government, which is why we are stepping in, but unfortunately the legislative regime does not allow us perfect control as if we were managers of the organisations.

Dr M.D. NAHAN: If there are inefficiencies in the operation of Synergy, it is just like an increase in electricity prices; it is effectively the same thing. Costs go up, and costs have to be recovered. It is like an increase in electricity prices. Costs have to be recovered by Synergy somehow. If it is not driving efficiencies and lowering its costs, that is tantamount to increases in prices.

Mr C.C. PORTER: I think that is true; I do not want to be overly critical when we use the example of Synergy, because it is a name that pops into our heads. With regard to electricity generation and distribution, the best expert advice that is available to me is that there are a range of cost pressures. Those cost pressures revolve around the cost of fuels, labour, construction of new generation facilities, and the labour and construction of transmission networks; we are obviously a geographically dispersed area. Renewable energy certificates have been identified to me as probably the primary immediate driver of increases in the cost of generating electricity. Allied to the things I have just mentioned is the fact that an organisation that is not as efficient as it could conceivably be is adding to its own cost structure. Making the organisations more efficient is part of it, but there are simply some overarching external factors bearing upon electricity generation and transmission that are making it increasingly expensive.

[2.50 pm]

Mrs M.H. ROBERTS: I directly refer to the tables on page 286 of budget paper No 3 headed "Assumed non-contestable tariff glide path" and "Assumed contestable tariff glide path". Can the Treasurer provide the average electricity bill for each of those tariffs for 2010–11 and 2011–12? I am happy to receive that answer by way of supplementary information but if the figures are handy, that would be good.

Mr C.C. PORTER: I understand that there is a representative household model. We have indicated a five per cent increase in household domestic electricity prices for the next two financial years.

Mrs M.H. ROBERTS: I specifically wanted to ask about the charities, for example, and the C1 and D1 tariffs. They will have increases of 38.3 per cent over the next four years. I am not sure whether any further assistance is available for them, what their average bill will be and what this means for those charities.

Mr C.C. PORTER: As I said, there is a representative household model increase, which is transparent in the budget papers. It has been worked on for a long time. In comparative terms, it is easy to work out. The problem that the member is identifying is that there are a great number of tariff structures above the A1 residential tariff. Inside each tariff structure is a great number of businesses that differ in size and electricity usage. I am not aware that Treasury keep any estimate of those. I am not aware whether the energy minister and the Office of Energy do either but that question would need to be directed to them. The reason I say that is that in considering those tariff increases, which do move medium to large enterprise closer to cost reflectivity faster than householders—the medium and large enterprises represent a vast array of businesses from hospitals to very large indoor sports stadiums—trying to work out some average dollar increment to the bills by virtue of the budgeted increases would be near on impossible. We do not have that information.

Mrs M.H. ROBERTS: I seek some further clarification. The Treasurer said that there are a very large number of tariff structures. It would appear to me, looking at page 286, that there are quite a small number. They include C1/C2, D1/D2, K1/K2 and small business tariffs L1/L2 and R1 and an even smaller number under the contestable tariff glide path. It does not seem to me that there is an inordinate number of tariffs. I would be very interested to know the average bill for a small business and the average bill for a charity.

Mr C.C. PORTER: The member says that there is not a large number. She is referring to the different types of tariff and she is quite right; there is not a large number. The member is asking for something that looks like a representative household model but inside, for instance, the large business M1/M2 category. The reason we have been able to develop a household model is that, generally speaking, there are certain stable features to households. Inside the large business tariff there is a vast array of business types and sizes with different types of electricity use. As far as I understand it, that has made the process of replicating the household model inside a contestable tariff for large business low voltage or large business high voltage very, very difficult, and I am just unaware whether that has been undertaken.

Mrs M.H. ROBERTS: Is it possible for the Treasurer to give me an average for community and charitable organisations, C1/C2, and charitable organisations providing residential accommodation, D1/D2?

Mr C.C. PORTER: No. I am not withholding information from the member. If I had that information or if I thought it was available, I would give it to her but I understand it does not exist. I understand that the member for West Swan may at some stage have had the unenviable task of working on the household model.

Ms R. SAFFIOTI: I developed it.

Mr C.C. PORTER: There we go. It was no doubt a difficult and arduous process. But the point is that that process has not been undertaken with each of these categories. I do not have that information. I understand that it is information worthy of requesting and it would be useful to have but, given the limited resources of government, what would be a very complicated exercise has not been undertaken. The member talks about a charitable organisation. Charitable organisations providing residential accommodation are on the same five per cent, five per cent regime as households. There may be other charitable organisations that fit inside the large business category because of the size of the business. Business in that sense does not exclude a charity sitting inside that category. I am saying that there is no average large business. Modelling the average increase in the bill is dependent on so many variables that the task of putting together some representative large business simply has not been undertaken, to the best of my knowledge.

Mrs M.H. ROBERTS: Is the Treasurer saying that a very large charitable organisation under that heading would not qualify for D1 or D2; it would have to be maybe on M1 or M2?

Mr C.C. PORTER: I do not know for sure. A very large charity qualifies as a charity for a range of legislative purposes in its tax treatment and so forth. In terms of what types of large businesses appear inside the large business low voltage S1 assumed contestable tariff, it seems logical to me that a very large charity might be in that tariff.

Mrs M.H. ROBERTS: It seems logical to me that it is either a charity or a large business, not both. It has to be one or the other. If it qualifies as a charity, it is a charity. That seems simple to me.

Mr C.C. PORTER: The assumed non-contestable tariff has special categories for community and charitable organisations and then charitable organisations providing residential accommodation. If “charitable and community organisations” is inclusive of every single charity in the state, including very large ones that operate like businesses, all charities are five per cent and five per cent. It is not inconceivable that very large charities fall into the large business category. I can confirm that for the member. I do not know whether the Office of Energy has an exhaustive list of each and every business that falls within the large business category. I will confirm that for the member.

Mrs M.H. ROBERTS: The charity must have a billing system; it must know who it is billing.

Mr C.C. PORTER: This is a question that needs to be directed to the Minister for Energy. If the member is asking for a list of every bill that was sent out to every large business —

Mrs M.H. ROBERTS: I am not.

Ms R. SAFFIOTI: Do not do the representative household; just do the average by calculating total revenue under that tariff and dividing it by the number of businesses.

Mr C.C. PORTER: Maybe the member should have stayed with her Treasury brief. There may be ways of doing that but, to the best of my knowledge, I do not believe that this task has been undertaken by the Office of Energy.

Mrs M.H. ROBERTS: At the outset I think I asked what the average bill was in each of those headings. An average is generally found by adding up the total amounts, as the member for West Swan said, and then dividing it by the number of bills sent out in a category. Even if Treasury has not done that work, given that it does work on these kinds of things and it has a lot of information at its disposal to look at household bills and so forth, could that be done by Treasury and be provided by way of supplementary information?

[3.00 pm]

Mr C.C. PORTER: Treasury has not yet done that and, given its resources, I will not direct Treasury to undertake that work. If that work is to be undertaken, it will have to be at the direction of the Minister for Energy through, I presume, the Western Australian Office of Energy. I understand the point that the member for West Swan makes. I do not know whether that is how the household model was developed.

Ms R. SAFFIOTI: No.

Mr C.C. PORTER: To determine the average energy bill for all medium-sized businesses would, ipso facto, require us to get the quantum of every single medium-sized business in the state, add them together and divide them by the number of medium-sized businesses, of which there must be a lot.

Mrs M.H. ROBERTS: A medium-sized business qualifies for a particular category of tariff rate. I would have thought that it could be done quickly on a computer.

Mr C.C. PORTER: We would have to know their volume of energy use.

Mrs M.H. ROBERTS: All the K1 tariffs could be divided by the total number of businesses that qualify for K1 to get an average.

Mr C.C. PORTER: First of all, I am not sure how instructive that information would be, and I will get to that in a moment —

Mrs M.H. ROBERTS: That is a matter of opinion.

Mr C.C. PORTER: That would not be easy information to get. It is not simply a matter of looking at a model medium-sized business; we would have to work out how much energy that business uses. Although there are parameters around the category of medium-sized businesses, which I understand are L3 and L4 businesses, that encapsulates a wide variety of volumetric energy usage. Even if we could get that information, it would not tell us much about the economics of the business such as whether it turns over a very large profit, whether it is growing or shrinking or has been affected by energy prices. All I am saying is that I understand that that might be interesting information to have, but a model to obtain that type of information has not been developed, and I am not about to instruct Treasury to develop it. That is an issue for the Minister for Energy's portfolio.

The CHAIRMAN: I did say that I would allow as many further questions as required, but this has been going on for too long. We will move to a new topic.

Mrs L.M. HARVEY: I refer to the second last paragraph on page 303 of budget paper No 2 regarding voluntary separation offers. Can the minister inform us of the proposed savings that are expected as a result of the latest efficiency round of voluntary separations?

[Mr P.B. Watson took the chair.]

Mr C.C. PORTER: I thank the member for the question. I do not have the exact quantum.

Ms R. SAFFIOTI: I think it is in the budget papers.

Mr C.C. PORTER: We can go to it. Half the savings will be returned to consolidated revenue and the other half will be returned to the department from which the separations have occurred. I think it is about $15 million a year over the out years. The 400 separations result in a saving of $15 million a year. In effect, the overall savings are $30 million a year. As I said, $15 million goes straight into consolidated revenue and the other moneys go back into the department from which the people were voluntarily severed.

Mr W.J. JOHNSTON: In past years, Treasurers have provided a table as supplementary information showing the number of voluntary separations by classification levels. We have been given that information previously. I wonder whether we can get an update on the number of separations by classification level.

Mr C.C. PORTER: We can provide that information, but that information comes to us after being collated by the Public Sector Commissioner and will not be available in its final form until about September, I am informed.

The CHAIRMAN: Would the member like that as supplementary information?

Mr C.C. PORTER: It will be a rather long supplementary.

Mr W.J. JOHNSTON: I am happy for it to not be provided as supplementary information if the Treasurer undertakes to provide the information at the appropriate date.

Mr C.C. PORTER: I undertake to do that.

Mrs M.H. ROBERTS: I have further questions on the full-time equivalent levels. What ceiling exists within the Western Australian public sector for FTEs? What is the methodology for calculating it? What was the ceiling on public sector staff numbers at the time of the 2010–11 budget, and has that changed since the 2010–11 budget was handed down? Further, is there a ceiling on the number of public sector staff in 2011–12?

Mr C.C. PORTER: There were several parts to that question. The first was about the ceiling, and I need to talk about the context of and the background to that. Previously, there were two measures of FTE numbers. One originated from Treasury and the other originated from the Public Sector Commissioner's office. For the first time, those two measures have now been condensed into one agreed-upon figure. The same methodology is being used for the figures that appear in this budget. It is a major step forward to have in the budget one single agreed-upon measure of FTE numbers. The approved ceiling for full-time equivalents in 2011–12 is 108 651 and the total estimate is 108 363, which is about 288 FTEs under the ceiling.

Mrs M.H. ROBERTS: I asked for the 2010–11 and 2011–12 figures.

Mr C.C. PORTER: In 2010–11, the budget estimates were 107 200. I will work backwards to avoid confusion. Starting with 2011–12, as I have stated, the budget estimate was 108 651, less the voluntary separations, which means the total estimate for 2011–12 is 108 633. The budget estimate for 2010–11 was 107 200, and the total estimate was 106 604. The total increase between 2010–11 and 2011–12 is 1 759, which is a 1.7 per cent increase. There are two aspects to the ceilings. The first is that we now have a unified measure. We have an estimate in the forthcoming budget year of what the number of public servants will be, and we can measure that against the number in the previous year. A variance from the estimate of 108 651, either up or down, is the measure away from the ceiling.

Mrs M.H. ROBERTS: Has the total number of public servants gone up?

Mr C.C. PORTER: That is correct. The ceiling should not be construed to mean that we have fixed the number of public servants over the out years. We are saying that we are unifying the measure and predicting a modest growth in the number of FTEs. That is a planned growth in the number of FTEs of about 1 700, which is about 1.7 per cent. The measure of the success or otherwise of the FTE ceiling is how far above the 2011–12 estimate of 108 363 FTEs we end up with in the year's actuals.

Dr M.D. NAHAN: The art to a voluntary separation scheme is making sure that the people whom we want to leave do leave and that the people whom we do not want to leave stay. How do we implement that and ensure that we do not create an incentive for people who intended leaving anyway? Does this scheme apply to all categories of workers?

[3.10 pm]

Mr C.C. PORTER: On this issue, I mentioned the savings figure of $14 million for those 400 separations. The total saving figure per annum, once we factor in that, is about $56 million per annum from the three tranches of voluntary separation; therefore, it is very significant. The member's question is a very fair one. As a matter of Public Sector Management Act legality, it is the position that is made redundant rather than the person. That obviously has the effect of making an individual redundant. In effect, to ensure that the correct positions are being made redundant, we place great faith in the liaison between Treasury and departmental heads. This is a process that is particularly driven by departmental heads. It is obviously up to them to ensure that the positions that are being made redundant are the correct positions. We have not allocated strict targets for position redundancies agency by agency and department by department. However, we have indicated that there are some agencies and departments, rather than others, that might make better use of the funds available to make positions redundant. Through Treasury we have taken the view that some agencies and departments, rather than others, have more room for these redundancies. We have had those one-on-one conversations with the relevant ministers; however, the decision is made by the departmental head in liaison with the minister and Treasury. They must make the right decisions and the Public Sector Commissioner overarches and oversees the entire process.

Mrs M.H. ROBERTS: My further question about full-time equivalents is about the Department of Treasury and Finance and whether there is any cap on the number of FTEs in DTF. I have had a look through the FTEs listed on pages 306 to 308 of the budget papers and there appears to be an increase of 51, or 13 per cent. What is the situation in DTF itself? Is the Treasurer capping the numbers in DTF at any particular number, and why was an increase of 51 needed?

Mr C.C. PORTER: Heaven forbid we should cap the number of officers at DTF! As I said, the FTE ceiling is not a strict system of cap.

Mrs M.H. ROBERTS: Obviously!

Mr C.C. PORTER: It is an important distinction. Globally, across the public sector, we now have a roundly agreed measure of the number of FTEs. We are setting ourselves a target for growth each year in the public sector. As the economy grows, the public sector is very likely to grow alongside it. But next year the target for growth in the number of full-time public sector employees is about 1.7 per cent in about 1 700. Inside that very modest growth that we are predicting over the next year—obviously time will tell us how well we achieve that target—some agencies will experience growth and others will remain stagnant or will experience a decline in the overall number of FTEs. The member is quite right in pointing out that there has been an increase in the number of FTEs inside Treasury, and that feeds into the overall global target. However, there is no cap on Treasury or any other department, although FTEs need to be approved through the EERC process, and in some instances expenditure increases are given without approving FTE positions, which provides an incentive for the department to engage with the non-government sector. There has been an increase in Treasury officials, and I invite Mr Marney, if he wishes, to talk about what those increased FTEs will be doing. I recall that a number of them are in finance and revenue raising, and they will pay for themselves handsomely, but there are some others.

The CHAIRMAN: Through the minister.

Mr T. Marney: Thank you, Chair. The 2011–12 FTE ceiling for finance is 1 420 and for Treasury it is 453. That compares with an approved ceiling in 2010–11 of 1 341 for finance and 441 for Treasury. There are, therefore, an additional 12 FTEs in the ceiling for Treasury. Those additional 12 cover a number of areas that are listed in the new initiative section of Treasury's *Budget Statements*. Referring to page 301, two of the biggest areas in that regard, out of various elements of the Economic Audit Committee, are recommendations around improving the cost and demand modelling across various public sector agencies. We are better able to estimate future costs on the basis of their cost parameters and their expected demand profiles. More importantly, we are better able to understand the sensitivity between the two and the capacity to drive efficiency through understanding some of the intricacies of their cost curves. Therefore, some of the additional 12 FTEs will go to that function. Some of the additional 12 will also go to improving the contracting and value-for-money initiatives with the non-government sector in rolling out the government's injection of funds to the non-government organisations with which public sector agencies have contracts and service agreements. There will therefore be a significant requirement for additional FTEs to assist with that process. In addition, the government has had in place for a couple of years now a rolling program of value-for-money reviews of individual agencies where there is an intensive inquiry into what agencies are allocating their resources to, the outcomes being achieved and the efficiency equation between the two. That, to date, has been handled by internal resources. Given the returns and the significant progress that is being made through those value-for-money audits, government has decided to allocate additional FTEs to those audit functions for Treasury to support the agencies in that value-for-money audit process. Those are probably the three key areas.

Mrs M.H. ROBERTS: Further to Mr Marney's response, is it possible to get a list of FTE numbers across the public sector agencies? Perhaps that can be provided by way of supplementary information.

Mr C.C. PORTER: The numbers I read previously are the total amounts actually estimated.

Mrs M.H. ROBERTS: The number of FTEs in each agency.

Mr C.C. PORTER: I think I have seen such a list. That information does appear spread across each division. We can provide the member with a consolidated version of that.

Mrs M.H. ROBERTS: That is what I am asking.

Mr C.C. PORTER: If I can give an undertaking to provide that to the member, we can mail it off fairly quickly.

The CHAIRMAN: Is the member happy with that?

Mrs M.H. ROBERTS: Yes.

[Supplementary Information No B24.]

Mr W.J. JOHNSTON: Can I just clarify one of the answers in that discussion? I understand the public sector cap is about 108 000. Is that what the Treasurer said?

Mr T. Marney: It is 108 651.

Mr W.J. JOHNSTON: Is that for all of government or just the public service?

Mr C.C. PORTER: That does not include GTEs; it is just the general public sector. The member described it as a cap. I would describe it as a target. It may be bettered in terms of "less than", but what we are setting ourselves is a target of 1.7 per cent growth. The important issue is that everyone now agrees on what the figure is and what the target is.

Mr W.J. JOHNSTON: Can I ask for further clarification?

The CHAIRMAN: The last one, member for Cannington.

Mr W.J. JOHNSTON: Yes, absolutely. I want to clarify whether any department is having difficulty recruiting staff. We are talking about an efficient level of operation. I will not use the word "cap" but will use the word "target". Are there agencies that are having trouble finding staff to operate at that efficient level?

[3.20 pm]

Mr C.C. PORTER: That is a very broad question. I will say that we have noted through the EERC process that recruitment in some areas is difficult at times. Not that long ago it was very difficult recruiting teachers and prison officers. Some of that difficulty seems to have eased. Attracting junior doctors, which is a major initiative in this budget, still remains a big issue. In some instances we have had, in my view, an over-recruitment, as recently happened with prison officers based on a projection of the prison population that has not come to fruition. Perhaps if I could summarise it this way: we are not now seeing some of the difficulties that attached to the previous large expansion and growth in the mining sector that occurred during the time of the former Labor government. I suspect that that is because other areas of the economy are significantly stagnant. Three or four years ago there was a growing mining sector and growth across the board in other areas; that is not now the situation. I do not think recruitment is an immediate problem for some of the large agencies outside of those pockets of traditionally difficult areas.

Ms R. SAFFIOTI: My question relates to page 302 of budget paper No 2, under the line item "Leads the Planning and Delivery of New Government Buildings", and it is about the move of the Premier's office and cabinet room to Hale House. When was the Treasurer first aware that the total cost of the move to Hale House would be $25.5 million?

Mr C.C. PORTER: As I understand it, as a matter of ministerial line of responsibility, Hale House comes under the Minister for Finance rather than the Treasurer. In any event, as to when I first became aware of the total cost, I could not give the member an exact date or context without looking into, perhaps, my diary. That was a process that was run through the finance minister and the Premier's office, so I was not deeply engaged in the process. I would have been informed as to costings fairly late in the piece, but I cannot recall the exact date.

Ms R. SAFFIOTI: The Treasurer would have been a key person in relation to providing advice on the cabinet submission, and also involved in the Economic and Expenditure Reform Committee deliberations. Can the Treasurer not recall, or tell us, when he was first aware that the cost would be $25.5 million?

Mr C.C. PORTER: I cannot recall the date of the cabinet meeting when it was discussed. With recourse to my diary and the like, I am sure I could, but off the top of my head I cannot tell the member the exact date of that cabinet meeting. I pointed out the distinction between the Minister for Finance and me because the size of that project means that it falls under the Minister for Finance, and it is my recollection that the cabinet submission is a Finance cabinet submission rather than a Treasurer's cabinet submission. It is my recollection that I did not develop the cabinet submission.

Ms R. SAFFIOTI: In relation to the $25.5 million, as I understand it the Department of Treasury and Finance is playing a key role in providing advice and assisting with the delivery of, particularly, the movement of government agencies. So as Treasurer and the person with responsibility for the Department of Treasury, when did the Treasurer find out; and can the Treasurer confirm that the total cost will be $25.5 million?

Mr C.C. PORTER: There were two parts to the question. I did not develop the cabinet submission, but I had input into it. I cannot recall whether that was a cabinet submission signed exclusively by the Minister for Finance or whether it was a joint signed cabinet submission; I just cannot, off the top of my head, recall that, and I cannot, off the top of my head, recall the date on which that cabinet submission went to cabinet. With respect to the costings of it, my understanding was always that it was in two tranches; there was a $17 million cost for the construction and fit-out, and there was an additional figure of $8 million-odd for what was were described as contingencies.

Ms R. SAFFIOTI: And further fit-out. So was the Treasurer aware that the total cost would be $25.5 million?

Mr C.C. PORTER: I was aware there were two tranches to the development of Hale House, and that the contingencies figure had to do with a lot of the heritage issues that may have been unforseen and that might arise in the construction and development of Hale House.

Mr W.J. JOHNSTON: Is the Treasurer aware of when the project scope changed, in that the original position of the Department of Treasury and Finance was that the reception centre should be in the Constitutional Centre, but in the final project the reception facility is in Hale House? Is the Treasurer aware of when that concept changed?

Mr C.C. PORTER: Member, I am not. I was not, as I say, intimately involved in the development of the submission. I would presume that that would have occurred at a point in time prior to my involvement in the cabinet submission, so I am just not aware.

Ms R. SAFFIOTI: Can I just follow on from that question? The Premier tabled last week, I think, a briefing note from the Under Treasurer dated 30 August 2010 that suggested four options in relation to the relocation of the Premier's office and the cabinet room. One of the those options was the relocation to Hale House, but that option did not include the extension of Hale House; it just related to the relocation of the Premier's office and cabinet room to the existing Hale House. Can I get some confirmation that the document tabled and the option the Premier said was recommended by DTF is actually the option that is going forward, and that that option has not changed since that August 2010 briefing note?

Mr C.C. PORTER: I am trying to genuinely answer the member's question. The member says the document that was tabled provided options and she has identified one that it appears the government has followed.

Ms R. SAFFIOTI: Yes, and the fourth option was to relocate to Hale House within the parliamentary precinct. There were two key components to that option, one of which was that the building should be large enough to accommodate the office plus the cabinet room. That option did not refer to the actual physical extension that is now, as I understand it, happening. It also outlined, as the member for Cannington stated, that the Constitutional Centre would be used for significant events, which would save money in the sense that such a grand office would not be needed. I understand from some freedom of information documents that cabinet approved the redevelopment on 24 January. Has there been any change to the scope of the Hale House works between that time and the time that the fourth option was suggested in August 2010?

Mr C.C. PORTER: Is that a document that went from the Under Treasurer to the Premier?

Ms R. SAFFIOTI: To the Treasurer.

Mr C.C. PORTER: Might I just have a look at that document before I answer?

Ms R. SAFFIOTI: This was a document the Premier tabled; this was not obtained under FOI or anything.

Mr C.C. PORTER: As at 30 August 2010 I was not the Treasurer. The document may have gone to the Treasurer, but the Premier was Treasurer at the time. The document predates my time as Treasurer. In general response to the member's question, my understanding is that, in broad terms, the option that has been followed is the fourth option, which is to relocate to Hale House within the parliamentary precinct. What it goes to show, I think, is that these matters were well and truly under development and underway before I was Treasurer; I was not privy to this correspondence at the time.

Ms R. SAFFIOTI: It also shows that the Treasurer had a key role in it, too, and that it was not driven only by the Department of Finance. By way of supplementary information, can the Treasurer provide the date that he was first made aware that the total cost of the Hale House redevelopment would be $25.5 million?

Mr C.C. PORTER: I have acknowledged to the member today that my understanding has always been that there were two tranches: $17 million, and an $8 million amount for contingencies. If the member describes that as the total cost, it is open to her to do that.

Ms R. SAFFIOTI: No; Treasury describes it as total cost.

Mr C.C. PORTER: Would the member like me to confirm for her when I was first aware of it being divided into two and there being two costs?

Ms R. SAFFIOTI: No, that the total cost was $25.5 million. I am asking when the Treasurer was first aware of that. That is not a difficult question, Treasurer.

Mr C.C. PORTER: I was not involved in the process of putting this together, as the member can see. I also make the point that the member says it was not merely a Finance-led process; at this time, which was 30 August 2010, there was no separation of Treasury and Finance, obviously, and the Premier was both Treasurer and Premier.

Ms R. SAFFIOTI: But it is a note written by the Under Treasurer.

Mr C.C. PORTER: Look, I can find dates and times as to when I became aware of costings on this matter through access to my diary.

[*Supplementary Information No B25.*]

Mr A. KRSTICEVIC: Treasurer, I refer to the sixth paragraph on page 63 of budget paper No 3, which states that WA's goods and services tax share is at risk because of the Commonwealth Grants Commission's processes. Could the Treasurer please inform the committee of these processes, and why it is that they contain disincentives to economic growth in some states?

[3.30 pm]

Mr C.C. PORTER: The processes were the subject of lengthy discussion at a recent meeting of state Treasurers at which the federal Treasurer presided as chair of the meeting. The bottom line is that the horizontal fiscal equalisation process has been around for a long time. It is the method by which decreases or increases in a population-relative share of GST are allocated to the states and it takes into account a wide range of factors.

There is now a high degree of inflexibility in that formula when it is applied to the present circumstances of several states earning large amounts of own-source revenue through mining royalties. Therefore, in effect, we will receive a greatly diminished share of GST under our best predictions in the final out year of 33 per cent. How does that create a disincentive? If a mineral is treated in the higher category rate, the state stands to lose significantly more than 100 per cent of the royalty it raises from mining and exporting that mineral. That does not provide a great incentive to mine and export that mineral. In fact, it is arguable that if Western Australia decreased its royalty rate to 4.9 per cent, which is usually classified in the lower category rate, we would lose a very large amount of mining royalty revenue but have a net increase in money coming into the state because of the increase in GST. Although that is true, it might be that the Commonwealth Grants Commission would argue that it would penalise us in any event for not raising the revenue that we could otherwise raise. The system now produces such radical inequities that we have an expectation that the review will present a different system in the outcome.

Ms R. SAFFIOTI: I have a further question about GST calculations. Given the forecast of the Australian dollar and the difference, outlined by a number of people a number of times, between the Western Australian forecast and the commonwealth forecast, what impact would the federal government's valuation have on the GST relativity in the forward estimates?

Mr C.C. PORTER: If we supplanted the commonwealth government's exchange rate valuations across the out years, how would that change the royalty issue?

Ms R. SAFFIOTI: The GST calculation. Currently, the GST calculation is 0.33. If the higher Australian dollar reduced our royalty forecast, what impact that would have on the GST relativity?

Mr C.C. PORTER: I do not know whether we have worked out a precise figure for that. The member's point is very sound. We could either adopt the commonwealth methodology for assessing exchange rates four years out or indeed use the old methodology whereby we assume across the forward estimates that it will be as it has been for the six weeks prior to the budget. We are being paid in US dollars and buying Australian dollars. If it does not go down as we predict, we will be able to buy fewer Australian dollars using our paid US dollars. The point the member raised is sound: if we assumed the commonwealth methodology, we would have had less penalty in the GST share because we would be earning less royalty income. However, the flipside can be argued that we should assess the commonwealth methodology for iron ore pricing, which would have the reverse effect. I do not know whether we have done that precise calculation. I understand that we have done this calculation: if we use commonwealth methodology for both the exchange rate and the iron ore price per tonne, we would be $1.8 billion better off over the forward estimates than what the forward estimates show.

Ms R. SAFFIOTI: Is that why there is such a difference between the commonwealth relativity of 0.64 in 2014–15 and the state relativity of 0.33? Also, the Treasurer spoke about a relativity of 0.37, I think in March or April, but then it dropped to 0.33 when the budget was presented. Was that a result of the changes in the royalty concession rates?

Mr C.C. PORTER: No, it is a result, as I understand it, of our ongoing assessment of the volume of ore that will be mined and exported and therefore subject to royalties. We have basically predicted that more revenue will be coming in for which we will be penalised and that will drop us from the original prediction of 37 per cent to 33 per cent. The reason, as I understand it, that the commonwealth figures stay relatively constant at about 64 per cent and ours go down is that, as the member would appreciate, there is a three-year lag. Therefore, the revenue that is being earned from this date and the preceding three years will be taken into account and be the basis of the penalty that applies from this date for the next three years. We structure that going forward, so each year we move out and we calculate what we predict will be the amount of royalties earned that will then be the subject of penalty at the pivot point of three years. As I understand it, the commonwealth predicts the amount of royalties that are the subject of penalty now and flatlines that across the out years. Therefore, in effect, the commonwealth makes a stable assumption about the amount of mining royalty revenue earned, whereas we predict outwards and then feed that into the lag time effect.

Dr M.D. NAHAN: Just out of curiosity, if our forecast share of GST revenue is going towards 33 per cent, what are the other states, particularly Queensland and Tasmania, going towards?

Mr C.C. PORTER: When we predicted 68 per cent, which eventuated at 72 per cent, that prediction was the lowest ever percentage receipt compared with population share. If we got to 33 per cent, that would be not merely without precedent but a radical and extraordinary result. In summary terms, Victoria presently is complaining bitterly because its prediction for GST receipts as a measure of population share next year is about 98 per cent. That is the subject of bitter complaint from Victoria. New South Wales' prediction is about 90 per cent. Queensland is lower again, but I cannot recall the exact figure, but we have this data. Each of those states will make predictions across the four out years as well. Of course, only the states that are predicting larger increases in own-source revenue, particularly through mining, will have this predicted decrease in figures. Queensland, of course, will suffer as well.

Mr A. KRSTICEVIC: Not Tasmania.

Mr C.C. PORTER: Not Tasmania.

Mrs M.H. ROBERTS: I will ask some questions based on the economic forecasts on page 14 of budget paper No 3. A couple of these questions will be of no surprise to the Treasurer. The Treasurer estimated an exchange rate of just 76.94c to the US dollar for 2014–15. Plenty of commentary suggests that the Australian dollar has been operating above parity for significant periods since Federation and that the last 20 years are really a direct result of the currency responding to being exposed to an open market economy. Plenty of economic commentary suggests that the Australian currency is expected to remain significantly above parity, given its long-run average. Why does the Treasurer not think that this is the more likely scenario? Does the Treasurer seriously stand by this budget forecast of only 76.94c for 2014–15?

Mr C.C. PORTER: Do I stand by that forecast? My earnest belief is that the methodology that has been used to come up with that out year figure of about 76c is the best methodology available and the best methodology being used presently in any Treasury in Australia. I note with respect —

Mrs M.H. ROBERTS: The federal government earnestly believes that its methodology is the best as well.

[3.40 pm]

Mr C.C. PORTER: I earnestly believe that it is wrong, and I will explain why in a moment. I think it is a serious point. We wrote to the previous shadow Treasurer on 22 October 2009 explaining the paper and inviting submissions. It is certainly not the case that the opposition did not have any ability to suggest to us that the methodology we were about to adopt was substandard or wrong. We never received any such submission.

Mrs M.H. ROBERTS: Because it was not the current Treasurer; it was the former Treasurer.

Mr C.C. PORTER: So that there is no confusion, I will outline the methodology. We take the six-week average of the exchange rate at budget cut-off. The first figure that appears in the budget estimates is about 98.5c. That is not the six-week average at budget cut-off. The six-week average at budget cut-off was about 102c, which was the exchange rate over that six-week period. If we call that April 2011, we work that down to the long-run average of 74c between April 2011 and June 2015 in a perfectly even trend line. The figure in the budget of 98.5c is where that trend line ends up at about the midyear point of each year. Roughly speaking, we are moving down, in four 25 percentiles, from the six-week average to 76c. Do I stand by the idea that the dollar will be at 76c in four years? I will not be betting my house on it, but any Treasurer who did bet their house on that would have some problems. In fact, I have a graph, which I am happy to table. The methodology that the previous government used, which is in effect the methodology that the federal Treasury uses, was to take the six-week average before the budget, calculate it and then hold it steady. This line represents it holding steady throughout the forward estimates in every budget period under the previous government. Interestingly, in the previous government's first budget, which used a six-week average, it calculated the exchange rate at just above 50c—perhaps about 52c—and at the end of the budget period it was around 80c. In each year, this methodology produced a fairly serious level of variance between what it predicted and what it ended up with.

Mrs M.H. ROBERTS: It was based on what Treasury recommended to our government, in the same way that Treasury is recommending this to the current government now.

Mr C.C. PORTER: I absolutely accept that.

Mrs M.H. ROBERTS: Although it has changed its methodology, it does not mean that it will necessarily be any more accurate.

Mr C.C. PORTER: The reason it changed its methodology is that it took the view that that methodology, during times of volatility, produced greater variance between existing and predicted than will the methodology it is using now. The point I make is that it moved away from that methodology for a reason. I am happy to table this graph.

The CHAIRMAN: No, the Treasurer cannot table anything during estimates.

Mr C.C. PORTER: I will give the member a copy. The variances are very large. After extensive inquiry, Treasury recommended using the long-run average since the float as the landing point for estimates, which we have adopted. It was not a process that we suggested to Treasury; it was a process that it suggested to our government. Having now seen all the different methodologies in use, I am convinced that this is the best of a bad lot. I am quite happy to let the Under Treasurer say something. I can see him itching to make a contribution on this.

Mr T. Marney: I understand that if we were judged for a forecast of 76.9c, people would see that as somewhat odd. It is not a forecast; it is an assumption. It is an assumption of a parameter that has a significant impact on the revenue projections of our budget, as do iron ore prices. There is a natural hedge between the two. If we adopt the same methodology for both parameters, it does not distort our overall budget projections. In fact, if we were to adopt the commonwealth's approach, the revenue generated from the use of that methodology on iron ore prices would far outweigh the loss associated with using its preferred methodology on the exchange rate. That shows that basically this is a non-issue, because we are treating the risk in the same way for two different offsetting components of the budget. Going back to whether our methodology is superior or otherwise in a forecasting sense, based on historical data from 1986–87, the long-run average model that we are using now would have outperformed our existing spot rate model—that is, the commonwealth's suggested model—in 12 of the —

Mrs M.H. ROBERTS: I wanted to ask whether "spot rate" is a common term that is used.

Mr T. Marney: It is the rate of the day.

Mrs M.H. ROBERTS: The Treasurer has a problem with that.

Mr C.C. PORTER: I prefer "exchange rate".

Mr T. Marney: I shall leave that view to take up with the Treasurer and power on. It would have outperformed that previous model, shall we call it, in 12 of the past 20 budgets. It is by far the more accurate approach, and it is empirically demonstrated. In 55 of the past 86 overlapping forecasting years, on average the long-run average model produced forecasting errors that were 14 per cent lower than the previous daily average model. Having said that, again, is 76.9c a reasonable figure? If we were going to go to the market to try to hedge a transaction today out to 2014-15, the base rate we could get would be 84c, which is a lot closer to 76.9c than the commonwealth's preferred assumption of somewhere around 108c. If there is someone who is way off the mark here, they are not in this room.

Mrs M.H. ROBERTS: I refer to the budget assumptions on page 14 of the *Economic and Fiscal Outlook*. The list includes a 25 per cent increase in business investment, an 18.8 per cent increase in the established house price index and a decline in the rate of population growth. The Minister for Finance, Hon Simon O'Brien, said on Monday that that 18.8 per cent increase in the house price index was being fuelled by population growth over the forward estimates, yet in the budget papers the Treasurer has the rate of population growth declining in that same period. Reputable authorities such as the Chamber of Minerals and Energy of Western Australia and the Chamber of Commerce and Industry of Western Australia are saying that they need hundreds of thousands more workers, yet the budget papers indicate that the rate of population growth will decline over the next couple of years. I wonder how those assumptions fit together.

Mr C.C. PORTER: The population forecasts that appear on page 61 of the *Economic and Fiscal Outlook* are based on what is known in the trade as a component cohort methodology. The methodology that we use and that Treasury advises is precisely the same approach that is used by the key statistical agencies, including the Australian Bureau of Statistics, and demographers here and overseas. How that works is that the population of each age and sex cohort is projected by taking the latest actual ABS estimate as its base and then making assumptions about mortality and net migration. Obviously, net migration changes as a matter of policy. Both interstate and overseas migration is factored in. This is a very standardised methodology. In fact, our predictions for population, which are 2.4, 2.3, 2.2, 2.2, 2.1 and 2.1 per cent, align very closely with the commonwealth Treasury's estimates, which are 2.5 and 2.1 per cent flatlining across the forward estimates. I take the point that the member raises. In my view, it is not logical to put the 18 per cent increase in the house price index down to population growth, which we estimate in the same way as the commonwealth does and which is modest.

[3.50 pm]

I will let Mr Marney speak about the methodology employed in the house price index, but I understand that that is basically an extrapolation of long-run trends in the housing market. It is a very difficult process to engage in because we had explosive house price growth around 2006, but we have had a completely stagnant market for the past 18 months to two years. Various property analysts differ over what is around the corner, but the 18 per cent growth is based on extrapolation of previous trends; I think that is a fair assessment. It is not related to population growth. I did not hear what Minister O'Brien said, but that does not necessarily sound logical to me.

Mrs M.H. ROBERTS: It does not surprise me either!

Mr C.C. PORTER: I will ask the Under Treasurer to expand on the methodology.

Mr T. Marney: Population growth is just one of the factors that influence what happens in house price growth. It is worth noting that our house price forecasts are at around the 5.8 per cent to 6.1 per cent range, which is significantly below the long-run average of around 8.6 per cent. One of the factors that is driving housing activity and price growth is more income and household balance sheets than population growth as such. Population growth is fairly stable, albeit just a tad above the long-run average. It is also worth noting that population and incomes tend to grow in a fairly steady pattern over time. The response of the housing market, however, is probably one of the most volatile variables that we deal with in terms of cyclical ups and downs. Certainly, the first home owners boost, we think, brought forward quite a bit of demand, which then led to the somewhat subdued market circumstances that we are experiencing at the moment. We expect that, as households restore their balance sheets post the global financial crisis, confidence will return to the market and there will be a catch-up in some of that demand, which will then be reflected back in price. Population is but one of the factors. The overall cycle and some of the massive swings in the housing cycle we have seen over the past three years is probably the dominant feature.

Mrs M.H. ROBERTS: Further to the same issue of housing prices, it was reported in the news today that housing prices had gone back by about three per cent in Western Australia in the last quarter. I am wondering how we came up with this figure for house price growth when we have just experienced a quarter in which we have actually gone backwards three per cent. It does not seem sensible or logical to me. The Treasurer says that there are some great methodologies, but what is the basis for this belief that house price growth is going to be nearly 19 per cent, when we have gone backwards in the last quarter by three per cent?

Mr C.C. PORTER: I will hand over to the Under Treasurer, but I will first make this observation: if we based four-yearly predictions on the most recent set of data—for instance, if we did that in 2006 —

Mrs M.H. ROBERTS: I know it is not valid, statistically, to take three months and then extrapolate it.

Mr C.C. PORTER: In 2006, we might have had four years of 50 per cent house price growth. My assessment is that what is occurring in the market at the moment is highly unusual. I accept that there is stagnation and I also heard the report referred to by the member. I am sure that the lack of confidence that that kind of statistic reveals is taken into account, but the point that the Under Treasurer makes—he can speak freely on this—is that it is anticipated that the lack of confidence will diminish and evaporate.

Mr T. Marney: I am not familiar with the data set that was released today; I do not think that it was an Australian Bureau of Statistics data set, therefore it would be absolutely riddled with compositional change within its methodology. If more cheap houses have been sold in the period, then the average price goes down; that is a trap with some of those measures. Having said that, our forecast for established house prices in 2010–11 is for a decline of 2.4 per cent, which is perfectly consistent with the notion that the member is putting forward. In 2011–12 it is 2.3 per cent, so over the two years we are actually expecting zero growth in house prices, which again is perfectly consistent with what the member is suggesting.

Mrs M.H. ROBERTS: It is just not consistent with what the Minister for Finance has said.

Mr T. Marney: I was there; I do not believe there was anything inconsistent with the arguments that were put forward at the time.

Mr C.C. PORTER: I was not there and I did not hear what the Minister for Finance said. I would be staggered if there were any inconsistencies between government ministers! But I take the member's observation at face value.

Mrs M.H. ROBERTS: Really? Was that tongue-in-cheek?

Mr C.C. PORTER: Yes.

Mr T. Marney: He did have the same adviser present as the Treasurer has at the moment, so unless that person has become schizophrenic, the advice is coming from the same source! I also add that our forecasts for house prices are significantly more modest than those of leading market forecasters such as BIS Shrapnel; our forecasts are quite conservative, relative to those of what some see as the market experts in this space.

Dr M.D. NAHAN: Further to the issue of the exchange rate and iron ore prices, the Under Treasurer mentioned that if we applied the same methodology as we have chosen to apply for exchange rates, iron ore prices would be a natural hedge. Is that true? Did the Treasurer apply the same methodology to crude oil prices; and, if not, why not?

Mr C.C. PORTER: I do not know the answer to the second question; I will hand over to the Under Treasurer in a moment. I think the Under Treasurer's point is that if we adopt a methodology of predicting the rate of iron ore price or the exchange rate as it has been for the past six weeks and then flatline it out for four years, we must consistently do it for both, particularly because, as Mr Marney says, increases in one are hedged by decreases in the other. We have to adopt those two consistently. I hazard a guess that we also consistently adopt, in respect of crude oil pricing, the same methodology for iron ore prices; I might stand corrected. That would sit outside the natural hedge relationship between the dollar and iron ore prices, but I will let Mr Marney confirm or deny the rumour.

Mr T. Marney: Unfortunately, I have to correct the Treasurer on this occasion. Oil price assumptions are based on futures market prices. In the revenue forecasting review that we undertook in 2009, as referred to earlier, we found that the futures market was as reliable a predictor of future oil prices as we could get. Given the depth of the oil futures market and the volumes traded, that is not surprising, as opposed to the futures market for the Australian dollar, which is a much shallower market. We take the futures market prices.

Mrs L.M. HARVEY: I refer to page 304 and the heading, "Sustainable Funding and Contracting with the Not-for-Profit Sector". I am interested in hearing a little more about some of the positive impacts on the sector under this strategy. I would also like to know whether the Treasurer has any information on some of the associated reforms that might form part of this strategy.

Mr C.C. PORTER: In my observation, the sector was not necessarily in crisis; it is a word that is somewhat overused in public policy circles. However, the sector was clearly having difficulties in meeting growing demand. When we look at the human service delivery portions of government in the budget papers, it is interesting to note that the greatest growth in demand for services is with Department for Communities, which is running at about 12.6 per cent, from recollection. That is very significant growth. What fundamentally underpins this policy is that if these organisations had not been able to attract and retain staff and meet the levels of growth we are experiencing with the Department for Communities, which provides 65 per cent of its services through the not-for-profit sector, we would have reached a point of complete unsustainability and would not have had a not-for-profit sector growing alongside demand for the provision of government services. One of the points that has arisen in the debate is to what extent these moneys will allow for that attraction and retention. The expectation of government is that it will largely obviate the problems that have occurred recently. I fundamentally see this as a quiet revolution in the way services will be delivered in the future. It is funding that guarantees sustainable and healthy growth of the sector.

[4.00 pm]

Mrs M.H. ROBERTS: I have a further question on the not-for-profit sector. I do not disagree with the points that the Treasurer has made but can I just clarify that the not-for-profit sector agencies that he is talking about are in the areas of seniors, disabilities, mental health and drug and alcohol and that none of these moneys will be going to homeless groups, women's refuges, emergency relief services or children or family services?

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

Mr C.C. PORTER: I have a list somewhere of all the agencies that recently contracted with government.

Mrs M.H. ROBERTS: Will all agencies that contract with government be beneficiaries?

Mr C.C. PORTER: Yes. The first tranche of the funds will allow for an immediate—that is, as of 1 July 2011—increase in the contract price for all existing contracts between government and the not-for-profit sector. In effect, the moneys that will start flowing to those organisations on a monthly basis will be 15 per cent larger than they were. Money is set aside for indexation. As contracts are renewed, the increased funding will represent a 25 per cent increase off baseline funding now. An organisation that already contracts with government will automatically receive 15 per cent. When it recontracts with government, there will be a further 10 per cent, taking it up to 25 per cent. No doubt there will be groups that fall out of a contracting relationship with government as time goes on, as there will be groups that come into a contracting relationship. We have permanently increased the going rate for these contracts. A new contractor who comes in at the time of the 25 per cent increase would also receive 25 per cent of what they would otherwise have received.

Mrs M.H. ROBERTS: Will any homeless groups, women's refuges or emergency relief services that have a contract with government be equal beneficiaries to those in the areas of seniors or disabilities? Will they all benefit? That is what I am asking.

Mr C.C. PORTER: There is a list available of each and every contracting organisation with government. The Western Australian Council of Social Service estimates that there are around 600 not-for-profit organisations, 350 of which receive state government funding. Some proportion of that 350 is the contracting groups. The examples of the servicing areas are accommodation, including accommodation support for people with a range of disabilities, supported accommodation for homeless adults and youth, community transitional accommodation and support, accommodation for families in crisis, financial counselling for families and youth, a range of youth services, including mental health services, youth diversion services, including those through the Department of Corrective Services, youth counselling, youth health services and Indigenous youth services. There is also a very strong representation in the area of family support services, including prison family support centres, family crisis centres, domestic violence counselling and case management family counselling. When the member asked me whether I can confirm or otherwise whether homeless people are being positively impacted upon by this funding, the fact is that when we unpack these organisations, there will be great overlap between the characterisation of the disability of the people with whom they have contact. Organisations that have youth diversion services and who are contracted through the Department of Corrective Services often deal with issues of mental health and homelessness. I understand that there is an exhaustive list of everyone who contracts with government and who will be the beneficiaries of this. We can look to provide that. That is the process that we are going through now to identify those organisations that will receive the first tranche of the 15 per cent increase in contract price.

Mrs M.H. ROBERTS: Will all the ones that the Treasurer read from the list at the start of his last response be beneficiaries?

Mr C.C. PORTER: These are examples of the services that are provided by the organisations who will be beneficiaries. The list that I have indicates that, for instance, accommodation services includes the Activ Foundation, Rocky Bay, the Nulsen Haven Association, the Albany Halfway House Association, the Centre for Cerebral Palsy, the Autism Association of Western Australia, the Richmond Fellowship of WA and the Geraldton Resource Centre. In the category of examples of financial counselling for families and youth, there is Anglicare WA, the Pilbara Community Legal Service, the Salvation Army and the Carnarvon Family Support Centre. The list goes on. It is not exclusive. It covers a vast array of service delivery to a variety of people. We think there are about 1 000 contracts.

Mrs L.M. HARVEY: One of the aspects of this focus on the not-for-profit sector is also looking at regulatory and administrative reform of the grants process. Is that work very advanced at the moment, reducing red tape to these organisations?

Mr C.C. PORTER: A total of $18 million of the $604 million has been set aside specifically for that purpose. It is set aside under the label of administration. It is obviously not money that is intended to be spent to occasion more administrative burden on these organisations. When there are over 1 000 different contracts over a variety of not-for-profit sector organisations, we have a vast variety, usually departmentally led, of reporting requirements and other administrative duties, targets and requirements that each of the bodies must engage in. The first point that I would make is that that money is being spent to try to present baseline consistent administrative requirements on organisations that contract with government so that one organisation with multiple contracts does not have to do 10 or 15 different types of reporting. There will always be minor variances. It is a significant part of the $604 million. It is being targeted directly to trying to decrease the red tape impost on these organisations that contract and provide services with government.

Mrs L.M. HARVEY: It will in turn free up more money for the people in that sector.

Mr C.C. PORTER: Madam Chair, I am informed by some of the less robust members amongst us that a comfort break might be appropriate soon.

The CHAIRMAN: Absolutely.

Meeting suspended from 4.07 to 4.18 pm

Mr C.C. PORTER: Mr Lyndon Rowe from the Economic Regulation Authority is waiting. He is obviously happy to wait, but I do not know whether members have any questions for him. I would not like to keep him waiting if there are no questions for him.

The CHAIRMAN: It is up to the committee to decide what it wants to do.

Mrs M.H. ROBERTS: I am happy for Mr Rowe and the Economic Regulation Authority to not attend.

The CHAIRMAN: I am more than happy to excuse Mr Rowe, on the agreement of the committee.

Mr W.J. JOHNSTON: My question relates to the $350 million payment from Rio Tinto and BHP Billiton that is reported in a number of pages in the budget. It is reported on page 36 of the *Economic and Fiscal Outlook* under the summary of general government revenue and expense variations and in the third paragraph on page 70, which states —

> Revenue in 2010–11 has also been boosted by a one-off payment of $350 million by BHP Billiton and Rio Tinto in recognition of less restrictive requirements under state agreement acts. This payment has been allocated to the New Children's Hospital.

I draw the Treasurer's attention to table 1.1 on page 219. The budget shows that the money has been allocated to the new children's hospital. Is it correct that the $350 million has reduced government debt by $350 million because there is not an account for the money? Given that it is not taxation revenue, where is it included in the operating statement in table 1.1 on page 219? Is the new approach to variations to state agreement acts to ask companies to make payments in return for beneficial changes to state agreements that will make their businesses more profitable?

Mr C.C. PORTER: I will work backwards. During the negotiation of, I believe, 12 state agreement acts at the time, certain concessions were made by the government and obligations were removed. That was seen to have a value attached to it, and that value was negotiated at $350 million. It is not the case, as far as I am aware, that any indication was given to those companies that ended up contributing to that amount that the money would be used for a specific purpose. That was a decision by the government and the cabinet and it occurred outside of the negotiation. The one-off payment of $350 million is formally hypothecated. It will go into a separate account that will be drawn down upon as payments are required, pursuant to the construction of the hospital. The money has been moved into that account and it is listed in the budget papers at item 130. While the money sits in the account it can be drawn down in increments as construction payments become due. It is an asset rather than an accumulation of debt when it sits in the account. As the money moves out of the account, it is no longer an asset.

Mr W.J. JOHNSTON: I want the Treasurer to clarify the answer he just gave. The Treasurer said that $350 million is sitting in an account and that another $350 million has been borrowed and therefore that money is not being used to offset state debt.

Mr C.C. PORTER: The $350 million sits in a separate account that is hypothecated for and allocated to the construction of the children's hospital. Until it is spent it remains as an asset of the state. It is drawn down to pay for the contract costs of the hospital. The expenditure that appears in the out years on the hospital is shown in the net debt figure. This amount figures as an asset until it is spent. It is the same methodology that is used for Fiona Stanley Hospital, as I understand it.

Mr W.J. JOHNSTON: There was a third part to my question. I want to explore the Treasurer's answer, but my third question was about where it is shown in the operating statement on table 1.1 on page 219.

Mr C.C. PORTER: I am informed that it is not an operating item and therefore does not appear separately on table 1.1.

Mr W.J. JOHNSTON: Where is it recorded in the budget papers?

Mr C.C. PORTER: It is part of tax revenue.

Mr W.J. JOHNSTON: Right.

Mr C.C. PORTER: I am happy for the Under Treasurer to answer the member's questions because they are matters relating to the treatment of the accounting.

Mr T. Marney: On the basis of advice from the Government Finance Statistics section of the Australian Bureau of Statistics, the $350 million payment is classified as taxation revenue. The Government Finance Statistics rules are set by the Australian Bureau of Statistics to ensure comparability of state finances across jurisdictions. We therefore consulted the bureau on how that $350 million should be treated. The allocation of the $350 million is disclosed on page 300 of budget paper No 2, item 130, as part of funds deposited into a new children's hospital account. As the Treasurer has highlighted, exactly the same process was used for the Fiona Stanley Hospital account, which was set up about four to five years ago, whereby moneys are hypothecated—held in trust, for want of a better term—until expenditure is incurred and then the money is drawn from that account for that specific purpose.

[4.25 pm]

Mr W.J. JOHNSTON: If that $350 million is shown as taxation revenue for 2010–11, and the net operating balance for 2010–11 is $784 million, is $350 million of that $784 million taxation revenue?

Mr C.C. PORTER: I think conceptually that is right, but the member might need to consider that in the context that the cost of the children's hospital appears as an expenditure and line item that is added to the net debt figure.

Mr W.J. JOHNSTON: Yes, but in the out years, not in the current year.

Mr C.C. PORTER: In the out years, yes.

Mr W.J. JOHNSTON: The net lending–borrowing position in appendix 1, which is for the 2010–11 year, is $1 215 million

Mr C.C. PORTER: That is the cash position.

Mr W.J. JOHNSTON: That is right. Therefore, that $1 215 million is netted for the $350 million that is taxation revenue in 2010–11, which is allocated to expenditure in an out year.

Mr C.C. PORTER: I will let the Under Treasurer answer that directly rather than pass it through me.

The CHAIRMAN: Mr Marney.

Mr T. Marney: Thank you, Chair. Yes, the member is correct, the figure appears as an additional figure—an abnormal item, if you like—in the taxation revenue line. It therefore supplements the operating balance in that year by that amount of $350 million. If we subtract that from the operating balance, we see an operating balance very similar in magnitude to the 2011–12 budget estimate. That then flows through to the net borrowing requirement as well, so it reduces the net borrowing requirement in that year. Having said that, the moneys will be drawn in subsequent years when the hospital is built, obviously, and therefore offset the debt requirements during the life of the project.

Mr W.J. JOHNSTON: The effect of that is to increase the surplus in the 2010–11 financial year by $350 million and to reduce the surplus by $350 million in the out year when the money is spent.

Mr C.C. PORTER: I do not understand conceptually how that would be the case.

Mr W.J. JOHNSTON: If the children's hospital was currently under construction, the $350 million would be spent now and Treasury would not have had the advantage of borrowing the $1 215 million. It would be $1 565 million, because there would be $350 million of extra expenditure. It has been shifted to another year.

Mr C.C. PORTER: I think the member is confusing an operating revenue with a capital expenditure. The two do not relate in that way.

Mr W.J. JOHNSTON: Yes, the Treasurer is right. Therefore, the borrowing position, rather than the surplus for the current financial year would be $350 million higher than is shown here. If the revenue had been spent on the hospital in the year Treasury received it, it would be borrowing $350 million more now.

[4.30 pm]

Mr C.C. PORTER: If we had not received the $350 million at all and nothing else had changed in terms of the expenditure patterns of the government in this financial year and the out years, then we would have had to borrow $350 million extra. But I do not know whether that scenario is impacted upon by the particular treatment and hypothecation of this revenue in a similar way for Fiona Stanley Hospital; the same argument would apply to the Fiona Stanley Hospital fund.

Mr W.J. JOHNSTON: I am not aware of what happened with that. The Treasurer is asking a question that I cannot answer; I did not realise the Treasurer was allowed to ask questions. I was not here when an act of Parliament was created for the Fiona Stanley Hospital account.

Mr C.C. PORTER: I was just drawing a comparison.

Ms R. SAFFIOTI: I refer to the line item "Leads the Planning and Delivery of New Government Buildings" on page 302 of budget paper No 2. What is the current estimate for the Perth City Link project; and how does it compare with the original budget that I think the Premier outlined as being $263 million for the rail line and $205 million for the bus station?

Mr C.C. PORTER: Does the member wish to know what the budgeted amount is in this present budget for that?

Ms R. SAFFIOTI: Yes; and how it compares with the original budget.

Mr C.C. PORTER: The present budgeted amount is split across a variety of agencies and is $336.42 million.

Ms R. SAFFIOTI: Is that the state government's contribution to the total estimated cost of the project?

Mr C.C. PORTER: That is our state government expenditure.

Ms R. SAFFIOTI: What is the estimated total cost of the project?

Mr C.C. PORTER: The total cost, including other expenditures, is $737.606 million.

Ms R. SAFFIOTI: It is my understanding that the Premier outlined in Parliament on 13 May that the original cost of this project was $468 million. Can the Treasurer confirm that?

Mr C.C. PORTER: On 13 May of what year?

Ms R. SAFFIOTI: It was 13 May 2009, sorry.

Mr C.C. PORTER: What did the member say the Premier said?

Ms R. SAFFIOTI: He said that there were two components. This is in relation to what the state was proposing to the commonwealth when the state went to the commonwealth for infrastructure funding. It originally proposed just sinking the rail line at a cost of $263 million, but because Prime Minister Kevin Rudd was so generous at the time, he offered a bit more money, and so the state government included the building of the bus station. The Premier said it would cost $263 million to sink the rail line and $205 million to build the bus station. Can Treasury confirm that that was the original cost of that project?

Mr C.C. PORTER: As I understand it, $263 million was what the commonwealth provided to the Public Transport Authority for the sinking of the rail line, which is consistent with what the member says the Premier said. I can confirm the other figures for the member in supplementary information.

Ms R. SAFFIOTI: Assuming the Premier got it right in 2009 and the original budget was $468 million and, as the Treasurer has today confirmed, the budget is now $737 million, can the Treasurer explain the increase in the cost of the project?

Mr C.C. PORTER: I do not know precisely what it was that the Premier was attempting to describe in the passage that the member is referring to. It may be that the divergence is explained by the fact that the Premier was not including in that cost the East Perth Redevelopment Authority component of this project, which is a substantial $128 million, so I do not know whether we are comparing apples with apples, but by way of supplementary information I can get the member the total cost breakdown.

Ms R. SAFFIOTI: By way of supplementary information can the Treasurer provide exactly what was provided to the commonwealth as the estimated cost of that project at that time? I think the letter was sent in October 2008. What was the total expected cost of the project at that time?

Mr C.C. PORTER: At what time?

Ms R. SAFFIOTI: When the state approached the commonwealth to receive funding. Initially the state approached the commonwealth on just the sinking of the rail line.

Mr C.C. PORTER: I can give the member that information. I am told that we did not approach the commonwealth with respect to the East Perth Redevelopment Authority component, but the other components were part of the approach to the commonwealth.

The CHAIRMAN: I just want to check what we are providing and its correct title, and I will give it a number.

Mr C.C. PORTER: We will provide the estimates that we placed before the commonwealth at the relevant period when we were seeking funding.

Ms R. SAFFIOTI: I think it was between October 2008 and May 2009.

Mr C.C. PORTER: In or about October 2008, when we were seeking commonwealth funding assistance.

[*Supplementary Information No B26.*]

Ms R. SAFFIOTI: As I understand it, at that time the project was simply defined in two parts—that is, the sinking of the rail line and the building of the bus station—with EPRA contributing to the sinking of the rail line. As I understand, the structure of the project has changed, with the PTA taking everything below the ground, and EPRA taking everything above the ground. I think comparison of the estimate of $468 million with the budget of $737 million should be made. Could the Treasurer provide, by way of supplementary information, the reasons for such a significant increase in cost?

Mr C.C. PORTER: I will provide supplementary information about the costing of the project and describe to the member the current scope of the project with respect to present costings; is that sufficient?

Ms R. SAFFIOTI: Yes.

[*Supplementary Information No B27.*]

Dr M.D. NAHAN: Treasurer, I refer to the second bullet point under the heading "Commonwealth/State Relations" on page 304 of budget paper No 2. Could the Treasurer please advise what implications the federal government's proposed carbon tax might have on the Western Australian economy?

Mr C.C. PORTER: I think the short answer to that question is that we are not quite sure yet, but it will not be helpful. One of the reasons we gave a firm undertaking on two five per cent increases in electricity prices in the next two years in this budget is because we anticipate that after those two years, and before the final two out years of the budget, there is every likelihood that a carbon price will come in. Depending on how that is levied and what kind of compensatory measures are engaged in, that will have a significant effect. We did some very basic modelling with respect to that, and it represents a relatively significant increase in electricity pricing. We took a view that a $25 a tonne carbon tax would result in an annual increase in average bills—using that household model that we spoke about previously—of about $125, which, in context, is significant.

I make two observations with respect to that issue and the way in which the state will have to cope with whatever change comes its way. The first is that we have this very unusual circumstance, whereby, as I understand it, part of the rationale for a federal carbon tax is to change people's use of electricity by making it a more expensive commodity, as well as, obviously, changing the cost impost on people who produce electricity with large carbon emissions, which is the overwhelming bulk of electricity that is produced. At one level, the federal government will be levying a tax to artificially increase the price of electricity, while another level of government—in this state at least, and in several other states—is using large amounts of taxpayer money to artificially decrease the price of electricity, which seems to me to be a very unusual set of policies to be running in parallel.

The second thing is, very little has been said about compensation measures to householders for the impost on their bills. Obviously, the price of electricity going up—as it does when any government increases the price of electricity—factors through not only to household bills, but also to every good and service that requires electricity. How that compensation scheme will work, either through income tax or direct grants and subsidies or with assistance to the states, and whether or not state organisations will also bear an impost for increased electricity prices will be compensated is, at best at the moment, vague. I suggest that everything we have learnt about the electricity market up to this point is going to radically change in two years' time.

[4.40 pm]

Dr M.D. NAHAN: I have a further question. Let us say that the carbon tax is put on and we still do not have cost-reflective pricing for electricity. Would the fact not be that the state would, through subsidising household electricity prices, be paying households' carbon tax bill, in part?

Mr C.C. PORTER: We could argue that conceptually but, again, like hypothecating revenue, it is difficult to determine in that big mix of incomings and outgoings what to apply to each. In the fourth out year of the budget, we still will not be at cost reflectivity and it is apparent that a carbon tax is likely during that period, which will increase the price; therefore, the subsidy goes directly to the price of electricity. I do not think that what the member has posited is an unfair conceptual analysis of the situation.

Mrs L.M. HARVEY: I have a further question on this. If the modelling is based on a carbon tax of $25 a tonne, has any modelling been done on other potential prices? I heard $80 a tonne mentioned in the media last week.

Mr C.C. PORTER: We have not done modelling based on $80—I hope it does not come to that! The average household increase in the bill with a carbon tax of $25 a tonne is $125; for $30 a tonne, the increase will be $150; and for $40 a tonne there is a $200 increase in the average household model bill. Therefore, I imagine that $80 a tonne would near on double the $200 increase to about the $400 mark.

Mrs M.H. ROBERTS: I am mindful of the time and that we have other divisions to head onto. I have a few specific little questions, mainly involving pages 299 and 300 in budget paper No 2. Item 43 on page 299 shows $10 million allocations for the refund of past years' revenue collections for the budget year and each year of the forward estimates. What is that?

Mr C.C. PORTER: My recollection is that the revenue collections are the tax-equivalent payments that government trading enterprises are required by agreement with the federal government to pay and which come to the state. Sometimes there is an under or overpayment by public corporations for those tax-equivalent payments. That $4.2 million amount represents an overpayment by them and a refund.

Mrs M.H. ROBERTS: Why is it factored in at $10 million for all the out years?

Mr C.C. PORTER: In every year it appears, historically, there has been some level of overpayment and refund. I think that is the baseline estimate we use to accommodate the fact that there is an overpayment and a refund.

Mrs M.H. ROBERTS: I have a further question. I refer to the second last line item on page 299. Where is the interest on public moneys held in trust collected, and where is it held?

Mr C.C. PORTER: The interest earned on moneys held in eligible trust accounts are paid to agencies through the public bank account interest-earned trust account. However, interest earned on public moneys must be credited to the consolidated account. This item provides for the payment of interest from the consolidated account to those agencies holding public moneys in eligible trust accounts. It is a budgetary flow.

Mrs M.H. ROBERTS: I refer to page 300. Where does the interest under the Western Australian Treasury Corporation Act go, and how is that collection recorded?

Mr C.C. PORTER: I am informed that the consolidated account recommenced borrowing in 2008–09 and that the interest charges commenced in 2009–10. These were the first consolidated account borrowings since September 2006 when the then final $49.3 million of consolidated account borrowings were repaid utilising part of the 2005–06 consolidated account cash surplus. The Loan Act 2009 authorised $8.3 billion in consolidated account borrowings based on projections in the 2009–10 budget. By 30 June 2015, the consolidated account borrowings are expected to account for about $10 billion of the general government sector's $12.2 billion gross debt. The annual interest cost for this debt is predicted to be about $590 million a year by 2014–15. Therefore, the consolidated account borrowing projections in this budget exceeded the existing $8.3 billion limit authorised under the Loan Act 2009.

Mrs M.H. ROBERTS: Where is that recorded? I specifically want to know.

Mr C.C. PORTER: I am not quite sure that we are not at cross-purposes. The interest payments on debt are, obviously, required to be made on a yearly basis. The payments are made from consolidated revenue to the Treasury Corporation which then apportions those moneys for the payment of those organisations from which the state has borrowed.

Mrs M.H. ROBERTS: Is that recorded anywhere?

Mr C.C. PORTER: It is on page 219 in budget paper No 3.

Mrs M.H. ROBERTS: I can look that reference up. I have a further question, which refers to pages 299 and 300 of budget paper No 2. "Item 45—Royalties for Regions" is listed on page 299 and on page 300 "Item 127—Royalties for Regions" is listed. Both items deal with royalties for regions —

The CHAIRMAN: Sorry, member, those items are excluded from this debate.

Mrs M.H. ROBERTS: I am not really dealing with royalties for regions; I am just asking about these two items that are part of the Treasurer's responsibility.

The CHAIRMAN: I am sorry, member, we cannot ask questions about these two items because they are not included in this division.

Mrs M.H. ROBERTS: I do not want to ask anything about royalties for regions; I ask only about the money. The amount of money varies between the two items. If those two items are added together, the total goes beyond the $1 billion expended on the royalties for regions program each year.

The CHAIRMAN: I do not think that we can take these questions in this division.

Mr C.C. PORTER: Madam Chair, I understand that questions about royalties for regions are to be directed to the minister. However, in fairness to the member, I understand that she is basically asking for the Treasurer's view on the accounting treatment of those moneys. I think that the question is fairly put.

The CHAIRMAN: If the Treasurer is happy to answer the question, that is absolutely fine.

Mr C.C. PORTER: I do not know whether I can yet, but I will check.

Mrs M.H. ROBERTS: If those two items are added together, there is more than the $1 billion expended on the royalties for regions program each year. I am asking about the accounting treatment. How does this add up?

Mr C.C. PORTER: The cap under the legislation applies to the balance that can sit in the account at any given point in time. To be coarse about it, if the account starts to accumulate money to the tune of $999 million, any moneys above $1 billion will not flow into the royalties for regions program. However, that is the absolute upper limit of the account so that does not mean that it is inconceivable that more than the capped amount could be spent in a year. Those two items are recurrent and capital, so if they are added together that, in effect, is what is being spent in a year. I am not sure whether that exceeds the $1 billion figure.

[4.50 pm]

Mrs M.H. ROBERTS: That answers my question. That is what I could not comprehend. Thank you.

Mr A. KRSTICEVIC: I refer to the first dot point under the heading "Strategic Projects" on page 304 of volume 1 of budget paper No 2. Can the Treasurer advise the committee of the outcomes of the works reform program?

Mr C.C. PORTER: The best way I can summarise that for the member is by saying that it is early days yet for this government, but we have had significant achievements in ensuring that there are not cost overruns on major projects and on projects worth more than $100 million. The cost overruns that we are tracking are very low; they are in the range of about two to three per cent. That is a very good outcome. The works reform program was designed in effect to consolidate inside the Department of Treasury and Finance the business case planning of individual agencies that might otherwise have had control over that process and make the Department of Treasury and Finance responsible for the business plan development and the ongoing monitoring of the progress of large projects. That is proving very effective. It adds time to the planning stage for projects. As I have toured around the state for this budget, a number of people have put to me that in excess of $10 million for planning money for stadiums, or whatever it might be, seems to be an enormous amount of money to spend on planning. Every cent of it is absolutely and entirely necessary to ensure that we get an appropriate and proper business plan. From my observation of the reform—the reform predates my time as Treasurer—the centralisation of one group of public servants who manage business case development and who monitor the progress of all the major capital works projects has been a very useful and effective reform.

Mr A. KRSTICEVIC: Does the two to three per cent overrun on projects worth more than $100 million include Perth Arena, which I assume has an overrun of a lot more than two to three per cent?

Mr C.C. PORTER: The two to three per cent overrun is for projects that are commenced by this government, so it does not include the arena.

Ms R. SAFFIOTI: Does the two to three per cent analysis include the Perth City Link project? I do not think it does.

Mr C.C. PORTER: I think it does.

Ms R. SAFFIOTI: The two to three per cent average increase includes it?

Mr C.C. PORTER: I understand that it includes it. We will confirm that for the member, but I understand that it does.

Ms R. SAFFIOTI: I do not think it would.

Mr C.C. PORTER: I stand to be corrected.

Ms R. SAFFIOTI: That two to three per cent increase will blow out quite a lot.

Mr C.C. PORTER: I will respond to that comment. That depends on what the member says was the scope of the project and the original costing.

Ms R. SAFFIOTI: I see; it is okay for the government to change the scope of the project, but when previous governments change the scope of projects —

Mr C.C. PORTER: I do not think that is a very fair assessment of the City Link project. This has been a substantive improvement. The previous government faced some additional challenges, including a very heated construction market, but this is a significant improvement.

Mr W.J. JOHNSTON: This is a very technical question. I refer to the general government summary financial statements on page 33 of budget paper No 3. At the bottom of the table, there is a statement of cash flows. The net increase in cash and equivalents and the cash position do not seem to relate to each other. Is there an explanation for that?

Mr C.C. PORTER: I might stand corrected by the Under Treasurer, but the net operating balance refers to the surplus. Every cent of that surplus has been spent. The cash position refers to the additional borrowings in a financial year that are being expended on top of the net operating balance. I think the net increase in cash and equivalents is an accrual measure of the cash position. That is the change in cash position relative to the previous year. It is an accrual measure. It is the change in the stock of cash relative to the previous year.

Mr W.J. JOHNSTON: It is the change in the bank balance.

Mr C.C. PORTER: In effect, yes.

Mr W.J. JOHNSTON: But the cash position does not seem to relate to the change in the cash position. The net increase in cash and equivalents cannot be added to or subtracted from the cash position in the previous year to get the cash position outlined in the budget paper.

Mr C.C. PORTER: I have not tried, but I am informed that it is a slightly different concept. They are not reconcilable or relatable; they are different measures.

Mrs M.H. ROBERTS: Can I just raise a procedural point? We have three other divisions to deal with. We still have to deal with the divisions on the Economic Regulation Authority, even though we have sent the advisers home, the Office of the Auditor General and Finance. I want to get some guidance from other members of the committee whether they are ready to move on, because I have some questions to ask, particularly in the division on Finance.

Ms R. SAFFIOTI: I have one more question.

The CHAIRMAN: We will take the question from the member for West Swan and then put the appropriation.

Ms R. SAFFIOTI: I refer to page 313 and to cash flows to government trading enterprises. My question is about both dividends and tax equivalents for Geraldton Port Authority and the estimates in the 2011–12 budget year and the forward estimates. The 2010–11 budget estimate was that $17 million would be paid in dividends and $9 million would be paid in tax equivalents. Is the Treasurer confident of achieving that revenue? The 2010–11 statement of corporate intent shows that the port authority estimated a tax payment of $3.3 million and a total profit of only $7.8 million. How confident is the Treasurer of achieving that revenue in the 2010–11 budget?

Mr C.C. PORTER: I note that the question has been asked previously. The member is quite right. Geraldton Port Authority's estimated dividend for 2010–11 appears in the budget papers to be about $17.6 million, and that is not consistent with the 2009–10 actual operating profit after tax published in its annual report. The first thing I would say is that they are slightly different datasets, because one is a future estimate and one is a previous financial year actual. But it is still a significant divergence. The question the member is asking is: who is right—GPA or Treasury? Obviously, I have significant faith in Treasury's views about the revenue that it will bring in. But there is an inconsistency. The advice I am receiving is that there will have to be some serious liaison between Geraldton Port Authority and Treasury to try to work out who is correct in their estimates, because different datasets are being used. I cannot say with absolute confidence that, in light of the inconsistency in GPA's annual report, that figure of $17.6 million will be achieved. But I do not know how wrong that figure is and I do not know how wrong GPA's figure may be.

Ms R. SAFFIOTI: The actual dividend in 2009–10 was $1.4 million, and the 2010–11 budget figure was $17.6 million. In relation to tax equivalents, the actual received in 2009–10 was $3.9 million and it jumped to $9 million. Something extraordinary would have to happen for Treasury estimates to be anywhere close to correct.

Mr C.C. PORTER: I appreciate that point; it is fairly made. I am informed that some significant variances, if not quite to the level of extraordinary, are expected in the operation of the port between the data year used in the port authority's report and what we estimate. I take the point that it is a significant gulf.

Ms R. SAFFIOTI: If GPA does not meet its targets in 2010–11—I note that the numbers are pretty much consistent throughout the forward estimates—there will be a significant impact on the state budget to the tune of about $100 million over the forward estimates.

[5.00 pm]

Mr C.C. PORTER: If the figure of $17.6 million is not reached, there will be an impact on the forward estimates. If the figure is not reached to the extent that one accepts that what is in Geraldton Port Authority's annual report is likely to be the figure for the forward estimates, it is a significant amount of money. Treasury has informed me that there is a divergence between the two; it has some degree of confidence that it is going to be closer to its figure. It is going to work through it, but it may be that it is not as high as the Treasury figure and not as low as the GPA figure. But we are clearly going to have to do some more work on that, because there is a divergence.

Ms R. SAFFIOTI: Why were these matters not resolved during preparation of the budget, given the significant divergence between the two agencies?

Mr C.C. PORTER: Why?

Ms R. SAFFIOTI: Why was the divergence not dealt with prior to budget preparation? The same thing happened last year or the year before when GPA representatives said that they had not seen the budget figures in relation to dividends and tax equivalents.

Mr C.C. PORTER: Treasury has some confidence in its estimate of the dividend at $17.6 million; it is less confident about basing future estimates on GPA's previous actuals. It was aware of the divergence but informed me that it did not have enough time after becoming aware of the divergence to drill down deep enough into GPA's estimates methodology to work out whether that figure should be preferred, but it maintains a degree of confidence that it will be distant from GPA's estimate.

Ms R. SAFFIOTI: Why was this not included as a statement of risk, given that there is significant risk to the consolidated fund?

Mr C.C. PORTER: I think that is just a question of materiality. I accept what the member is saying—that if the Treasury estimate is not reached, there is an effect on the budget bottom line. That effect will become larger if we accept in totality Geraldton Port Authority's estimate. What that represents in terms of total government revenue in an absolute worst-case scenario is a 0.19 per cent variance which, as I understand it, falls outside the materiality for the budget.

Ms R. SAFFIOTI: The Treasurer has done the calculation, so he must be ready to not receive that revenue.

Mr C.C. PORTER: Obviously when I heard the questions asked during the Minister for Finance's estimates hearings, we discussed this matter. There is a variance, and Treasury is relatively confident in its estimates, but it is going to have to sit down with Geraldton Port Authority, work out what it based its previous actual on, and come up with a reconciliation of the two figures.

The appropriation was recommended.