

Mr Colin Barnett; Mr Eric Ripper; Mr John Day; Chairman; Mr Tony O'Gorman; Mr John Bowler; Mr Mick Murray; Mr Matt Birney; The Chairman (mr Dean); Mrs Carol Martin; Mr Hendy Cowan; Mr Dan Barron-Sullivan

Division 8: Treasury and Finance, \$1 346 882 000 -

Mr Andrews, Chairman.

Mr Ripper, Treasurer.

Mr J.L. Langoulant, Under Treasurer.

Mr C. Murphy, Executive Director, Finance.

Mr R.W. Davies, Acting Commissioner of State Revenue.

Mr W.R. Sullivan, Acting Commissioner, Policy and Legislation.

Mr. R. Kernahan, Manager, Finance.

Ms. A. Nolan, Executive Director, Economic.

Mr G.W. Jayasinghe, Treasury Manager.

Mr D.J. Imber, Director, Fiscal Strategy.

Mr BARNETT: I refer to output 1, economic management and advisory services. I shall ask questions relating to some of the implicit assumptions in this budget, which I assume come from that area. The budget documentation is based on a forecast growth rate of four per cent in 2001-02. I repeat the comments I made when the budget papers were tabled that that figure is optimistic, given the events of 11 September and some of the corporate collapses that are taking place. Has Treasury revised down that estimate to something more realistic, like 2.5 per cent? What effect would a slower growth rate have on the budget outcome?

My question is in two parts: what is the revised Treasury forecast for the 2001-02 growth rate, given that most forecasters are significantly downgrading national growth projections; and what will be the impact on the budget bottom line of \$51.5 million?

Mr RIPPER: The Treasury forecast of four per cent growth was based on the upswing in private business investment, the first for three years. Treasury is expecting a 16.5 per cent upswing in private business investment. It also is forecasting a return to growth in dwelling investment following the goods and services tax distortions in that particular industry and consequent upon the increase in the first home owners grant. Treasury has combined those two factors, and is suggesting a growth rate of four per cent. I understand the Leader of the Opposition's comments; however, the forecast is based on things that are happening on the ground such as the expansion of the North West Shelf gas project. The forecast is based not on what might or might not happen, but on investment that is occurring. This forecast is more conservative than that of other organisations. Before the tabling of the budget, the Chamber of Commerce and Industry of Western Australia had forecast a growth rate of 5.5 per cent. Lyndon Rowe of CCI has been reported in the media over the past couple of days talking about the possibility of revising that. However, he did not seem to think the Treasury forecast was bad.

Mr BARNETT: I disagree. Given the events of 11 September, four per cent growth is not realistic. The North West Shelf gas project goes into major construction in the middle of next year. We are a third of the way through this financial year. The second part of my question is: if there were a halving of that growth rate to, for example, two per cent, what would be the impact on the budget bottom line?

Mr RIPPER: I make two comments. First, there is an established accountability mechanism for dealing with these matters. A midyear review will take place, the report of which will be handed down in the last week of December. That is when we will reassess trends in the budget, growth forecasts and so on. Second, there is not a direct link between growth in gross state product and the revenue that flows into the budget. For example, growth in the last financial year was 1.75 per cent, compared with the forecast of 4.5 per cent; yet, the general government surplus was substantially greater than the \$42 million that was forecast at the same time. Growth was less than half the projection, and the surplus was greater by a factor of six.

Mr DAY: You have said that that is due to special circumstances, such as sales and assets.

Mr RIPPER: That is right. It shows that there is not necessarily a direct link between growth and gross state product.

Mr BARNETT: The State's revenue is predicated on a model of economic growth within the State. It is related to economic activity.

Mr RIPPER: It will depend on how the economy develops and grows sector by sector. Obviously, a downturn in the property market would impact on conveyance receipts. The ultimate result for state revenue will depend

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on what happens sector by sector, unlike the federal situation, in which a fall-off in economic growth would have an immediate impact on company and income tax receipts on the one hand and welfare payments on the other.

Mr BARNETT: Related to that is the unemployment forecast within the budget papers -

The CHAIRMAN: Members, there has been a bomb threat, so we will adjourn this committee meeting until a later stage.

Sitting suspended from 3.56 to 4.41 pm

The CHAIRMAN (Mrs Hodson-Thomas): The Leader of the Opposition was in the midst of a question prior to our departing the Chamber.

Mr BARNETT: Can I confirm that we have lost three-quarters of an hour? I understand that under the arrangements for the Estimates Committee, we cannot make that time up.

Mr RIPPER: I indicated to the Leader of the Opposition that I would be prepared to make that time up, if it is at all possible within the rules. I am sure there would be agreement across the Chamber.

Mr BARNETT: I do not think we can do it.

The CHAIRMAN: Despite the Treasurer's generous nature, this can only be accommodated by inviting the whole House back in to determine the change.

Mr BARNETT: Prior to the interruption I was asking questions relating to the underlying assumptions or forecasts about economic prospects, and we were discussing economic growth for that. The budget figures are also predicated on the forecast of an unemployment rate averaging seven per cent over 2001-02. Given that the latest unemployment rate for Western Australia was 6.9 per cent as of August, up from 5.5 per cent roughly a year ago, and given that unemployment had risen by some 15 000 people over that year, I put it to the Treasurer that, given the circumstances in the United States, the corporate collapses and the impact on the tourism industry and the like - and I do not mean this in a political sense - he would have to concede that the forecast for unemployment will not be realised, and that the average rate of unemployment will be well above that figure during the course of this financial year.

Mr RIPPER: The forecast for growth is based on things that are happening on the ground, including, in particular, the North West Shelf expansion. With regard to the events in New York and Washington, and their consequent effects on the American economy and the flow-ons to our Asian customers, it really is a bit too early to make a call. Obviously there are risks, but I understand that some leading economic commentators are still considering the plausibility of various scenarios. If, for example, there is significant US Government investment in military expenditure, that might have an effect on the economy - it could go either way. It is something that we need to watch very closely. The appropriate time for the Government to make a call on whether the forecast should be changed is the midyear review, and that is something we will be examining closely.

Mr BARNETT: As one leading economic commentator, I forecast that this Government will not achieve seven per cent average unemployment. Does the Treasurer now recognise - perhaps with the benefit of hindsight - that this is certainly not an environment in which the payroll tax rate should have been increased across the board, as he has done?

[4.50 pm]

Mr RIPPER: The impact of the payroll tax increase should be taken in context. If an employer were employing people at average weekly earnings - it would have to be an employer who was employing 100 or more employees - the impact of the payroll tax increase would be about \$4 a week for an employee. I have told businesspeople that any increase in business costs is naturally unwelcome to business. We are talking about the impact on an employer equivalent to awarding a person on average weekly earnings a wage increase of \$4 a week. There are more significant commercial and economic forces that will impact on employment than an impact of that magnitude.

Mr BARNETT: I have another question.

The CHAIRMAN: Another member has sought the call.

Mr BARNETT: I thought that government members had ceased asking questions in the spirit of making up some time.

Mr O'GORMAN: I refer to the economic management and advisory services output on page 149 and, in particular, to the description on page 150 pertaining to commonwealth-state financial relations. Will the

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Treasurer outline how the goods and services tax and associated budget balancing assistance impacts on the State's financial position?

Mr RIPPER: The federal Government likes to promote the view that there is a GST bonanza. There is no GST bonanza. As a result of the GST arrangements, the State's finances do not improve before 2004-05. The impact of the arrangements is negative for the State. The Commonwealth recognises that the State is behind where it would have been under pre-existing financial arrangements before the GST was introduced, and provides budget-balancing assistance. The assistance takes account of some assumed benefits to the State that the Commonwealth argues the State will receive as a result of the GST. The Commonwealth argues that the State will receive a growth dividend as a result of the GST. That amount is deducted from the assistance the Commonwealth gives the State. The Commonwealth argues that state agencies will benefit from lower input costs as a result of the loss of embedded wholesale sales tax in the supply chain for purchases made by state agencies. The amount deducted from the State as a result of that latter consideration is about \$50 million a year. The State passed that on to agencies and cut their budgets by a commensurate amount in the expectation that they would get cheaper supplies. Agencies have told the Government that the assumption is wrong and they cannot make the savings. Budget-balancing assistance theoretically brings the State back to where it was before the introduction of the GST. The growth dividend factor and the embedded wholesale sales tax factor worsens the position.

Mr BARNETT: Statements are made repeatedly throughout the budget speech and papers that the Government has made an unprecedented \$852 million saving through the reprioritisation of expenses. I ask the Treasurer to detail each of the savings.

Mr RIPPER: We could be here for a few more hours.

Mr BARNETT: If that is too difficult, I ask two things by way of supplementary information. I want the \$852 million "savings" presented in a form that divides the amount into actual savings and savings assumed to occur by a priority dividend in each of the forward estimate years. That will identify the proportion. I want details of the specific savings that have been identified. The Treasurer may be able to tell me the split in the \$852 million between actual savings and savings assumed to occur through the priority dividend.

Mr RIPPER: They are all actual savings.

Mr BARNETT: Identified savings.

Mr RIPPER: The savings measures put to the electorate during the election campaign included a number of specific measures - specified savings - and three measures that were unspecified savings. They were the priority dividend, the service redirection delivery dividend as applied to health, education and police, and the efficiency dividend applied to government trading enterprises. Page 134 of the *Economic and Fiscal Outlook* - budget paper No 3 - details the savings initiatives and the election estimates and how they have been incorporated in the budget. The Leader of the Opposition is focusing on the priority and assurance dividend.

Mr BARNETT: I want a table by way of supplementary information that will add up to \$852 million. I want it to detail every actual saving for every item of expenditure. I want details for specific programs that have been cut or abolished and the savings that come from them. I want the figures broken down to service dividends. I want a full account of the \$852 million.

Mr RIPPER: I will explain how the matters will work out. Each agency came before the expenditure review committee and was given a budget target based on the agency's forward estimate. Each agency was also given a savings target that it is required to meet and advised of the election commitments for which it had responsibility. That produced a budget target. The expenditure review committee asked each agency to run through the savings measures that the agency would adopt to meet the budget target. The committee either accepted or rejected the savings measures. Some savings measures were not accepted by the expenditure review committee because they were either not in accord with the policies or values of the Government or were not seen to be workable or robust. The expenditure review committee would not accept a saving that would not survive the distance; that is, the moment it received some political opposition, the saving would fall over. The committee was not prepared to accept that sort of saving. The supposition that there is a generalised efficiency dividend is wrong. The expenditure review committee process was to go through each agency and agree on savings measures with that agency. I thought that the Opposition would have pursued this matter with ministers in the Estimates Committee. The Opposition wants me to do its work for it and disentangle the entire budget and provide a list of every savings measure that has been adopted.

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Mr BARNETT: The Government has claimed repeatedly, publicly and in the budget speech, a saving of \$852 million. It is a perfectly straightforward request to obtain details of the savings.

Mr RIPPER: The information for each agency is contained in the budget papers. The Opposition has the opportunity to question each minister during the estimates hearings. Far be it for me to plan the Opposition's questions, but I thought the question would be put to each minister or his or her representative. The Government is an accountable Government. It has said that it has made \$852 million worth of savings and the information will be provided.

[5.00 pm]

The CHAIRMAN: Will the Treasurer clarify that he is prepared to table that supplementary information?

Mr RIPPER: I am seeking advice on the time it would take to prepare this information. What is the date for the provision of supplementary information?

The CHAIRMAN: It is 14 days.

Mr RIPPER: I am prepared to provide that information as supplementary information. This is an unusual action for a Government. That information was never provided to the Labor Party in the eight years it was in opposition.

Mr BARNETT: You never asked the right questions. I refer the Treasurer to the Financial Agreement Act sinking fund on page 144 of the *Budget Statements*. For 2000-01 the table shows an estimated actual outcome of \$12.299 million, for the coming financial year an amount of \$16.02 million is estimated, for 2002-03 the estimate is reduced to \$70 000 and in 2003-04, it increases to \$8.020 million. I seek clarification of that fund and why there is such volatility in the amounts shown, particularly for the forward estimates.

Mr MURPHY: Under the Financial Agreement Act 1927, we have a schedule of debt repayment to the Commonwealth. The debt repayment is repaid by its maturity, which varies from year to year. The sinking fund provides the moneys to refinance the debt as it matures.

Mr BARNETT: The actual Treasury corporation capital repayments in 2000-01 were \$76.161 million; in the 2001-02 estimates they are estimated to be \$2.886 million; in 2002-03 they are estimated to be \$67.451 million; and in 2003-04 they are estimated to be \$39.264 million. Does the same answer explain that volatility?

Mr RIPPER: Following consultation, the Under Treasurer will deal with this matter.

Mr MURPHY: I understand this schedule of payments is for the specific purposes of repaying debt.

Mr IMBER: According to the capital repayments item in the estimates, instead of repaying debt under that item, investment is made out of available cash from AlintaGas proceeds into the Perth Urban Rail Development project and other capital investments arrangements. There is a one-off forecast in the budget for a reduction in capital repayments.

Mr BARNETT: I will discuss a few broad issues that relate to the assumptions in the budget. I refer to the assumption of a three per cent inflation rate, which I think is reasonable. Will the Treasurer confirm that on the basis of three per cent assumed rate of inflation, in broad aggregate areas, there have been significant real cuts? I refer specifically to the police budget that has received a nominal decrease of 2.8 per cent. Given that the police budget has been reduced in nominal terms by 2.8 per cent, will the Treasurer confirm that there has, therefore, been a 5.8 per cent real cut in the police budget?

Mr RIPPER: The issue is what the appropriate figure is for determining real growth or otherwise in the budget allocations. The inflation rate is based on the consumer price index, which represents a particular basket of goods and services. The appropriate figure for state expenditure is the gross state product price deflator, which is 2.75 per cent. That is the figure that should be used to determine whether there has been real growth or otherwise in state budget allocations. With regard to that calculation -

Mr BARNETT: That would be an appropriate measure of inflation when referring to capital flows, but it is not an appropriate measure of inflation when referring to service delivery in which the major cost component is wage cost. The use of the product price deflator is a flawed methodology in that area.

Mr RIPPER: To determine growth or otherwise in appropriations, we must distinguish between capital and recurrent expenditure. Capital expenditure is often lumpy. It is allocated for a project and the project is completed. Therefore, capital spending falls until the next project is undertaken. The growth in recurrent funding of the Police Service on a nominal basis is 5.97 per cent, and the growth on a real basis is 3.03 per cent.

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Mr BARNETT: Will the Treasurer confirm that the total police budget, according to his budget papers, has shown a nominal decline of 2.8 per cent, which is below the assumed rate of inflation in the budget papers? A simple "yes" will suffice.

Mr RIPPER: I do not agree with the basis of the Leader of the Opposition's questions, which lumps together recurrent and capital expenditure. If that is done, it produces a misleading impression. When determining the level of Police Service that will be available, it is important to consider the change in the recurrent budget. The change in the recurrent budget is virtually a six per cent nominal increase, or a three per cent real increase. That is an important figure for the number of police on the streets and the operational funding that is required to support their activities. The Police Service does not have a huge capital budget compared with some other capital budgets. Its budget will be lumpy. Even under the previous Government, one year the budget was \$30 million and in another year it was \$48 million. To add the capital expenditure would create a misleading impression.

Mr BARNETT: I refer to the other two broad categories of education where the total budget for education shows a nominal increase of 2.4 per cent. Will the Treasurer confirm that that is below the assumed inflation rate in his own budget figures? Similarly, the overall increase in spending on the health budget is 3.04 per cent, which is roughly equivalent to the assumed rate of inflation. Will the Treasurer confirm that the increase in total funding for education is below the Government assumed inflation rate and that the increase in total funding for health matches the inflation rate and therefore takes no account of growth in student numbers in cases of education, and it takes no account of growth in demand for health care under health?

[5.10 pm]

The CHAIRMAN: Will the Leader of the Opposition state which page he is referring to?

Mr BARNETT: I refer to the summary of the total estimates, at the front of volume 1 of the *Budget Statements*. This is the only opportunity to look at the budget in total.

Mr RIPPER: Once again, I need to point out to the Leader of the Opposition that the appropriate figure to use in these calculations is 2.75 per cent, the gross state product deflator. On that basis, the education budget shows a nominal increase of 2.75 per cent.

Mr BARNETT: It is 2.4 per cent, which is below your 2.75 per cent deflator.

Mr RIPPER: I am talking here of recurrent appropriations, which show a nominal increase of 2.75 per cent. This is stability, in real terms. It is worth noting that the teachers' enterprise bargaining agreement came into effect in the previous financial year, and therefore there was a significant increase in education expenditure, so the 2.75 per cent increase is off that high baseline established by the teachers' EBA. Education expenditure grows across the forward estimates by 13.6 per cent in nominal terms, or by 3.82 per cent in real terms.

The other point that needs to be made is that the Minister for Education is shifting expenditure from head office functions in the Department of Education, out to schools. If we are allocating a certain amount to education, but more of it is going to schools and less to the bureaucracy, that is a real improvement, even though the total budget appropriation may be equivalent to that of the previous year.

Mr BARNETT: The Treasurer has acknowledged that, even using the gross state product deflator of 2.75 per cent, the increase in education funding is 2.4 per cent, which is below the deflator. If a growth in the student population of around 1.5 per cent a year is added to that, will the Treasurer acknowledge that real per capita funding has been reduced in education, under any definition he wishes to use?

Mr RIPPER: The Leader of the Opposition needs to listen more carefully. I did not acknowledge that the growth in education expenditure was 2.4 per cent. I said the growth in recurrent expenditure was 2.75 per cent. That is stability in real terms. The Leader of the Opposition needs also to note that the Minister for Education has shifted expenditure from head office bureaucracy to school services. This needs to be taken into account before making any comment about expenditure per student.

The CHAIRMAN: Order! Member for Eyre.

Mr BARNETT: I make the comment, for the benefit of *Hansard*, that the Treasurer has not been able to answer the question and real funding for education, health and police has been reduced. That is a matter of public record, according to the Government's budget papers.

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The CHAIRMAN: I know the member for Eyre has the call, but I have to allow a certain number of follow-on questions. I will now give the call to the member for Eyre, and return directly to the Leader of the Opposition, who will have the next call.

Mr BOWLER: I refer to page 152, output 2, headed "Financial Management and Advisory Services", specifically to the State's financial position. Could the Treasurer outline the operating balances over the past five years?

Mr RIPPER: I thank the member for Eyre for his question. The operating balance for 1996-97 was minus \$197.9 million; for 1997-98 it was minus \$263.5 million; for 1998-99 it was minus \$135 million; for 1999-2000 it was minus \$30.2 million; and for 2000-01, the estimated figure is - a rare thing in the history of the previous Government - a surplus of \$255.1 million. That shows the history of four operating deficits under the coalition Government; a significant reason the State's AAA credit rating is at risk. The record of the previous Government, in failing to deliver operating surpluses over those four years, is creating a significant difficulty for this Government in persuading the ratings agencies that the State's AAA credit rating should be retained. This Government must turn this around. Four operating deficits is an appalling record in the second term of the Court Government, and one of the reasons for those deficits is that the previous Treasurer and Premier did not have the full support and loyalty of his senior ministers, when it came to budget management issues. Unfortunately, there were maverick senior ministers in the previous Government who spent without regard to their Treasurer's financial management responsibilities. I am glad I have ministerial colleagues who share my commitment to financial management, and cooperate with me in the budget process. I am glad I do not have to deal, as the previous Treasurer had to deal, with maverick senior ministers who went ahead and solved their political problems regardless of the difficulties they were creating for their Treasurer.

Mr DAY: Will the Treasurer bring the health budget in on target?

Mr RIPPER: You will see that when we do the mid-year review and the budget next year.

Mr DAY: I will believe that when I see it, but I do not expect to see it.

Mr BARNETT: I know some accounting format changes have been made, but the net operating result, as the Treasurer just detailed, shows four periods of net operating deficit, which no-one denies, but the figures also show a huge operating surplus at the time the present Government came into power. How far back has Treasury prepared net operating balances?

Mr RIPPER: The figures go back to 1993-94.

Mr BARNETT: I know that accurate figures do not exist, but has the Treasurer prepared equivalents of that figure, going back to preceding years, say 1989-90?

Mr RIPPER: My understanding is that that has not been done. Two years ago the then Government produced an information booklet on the accrual accounting system, in conjunction with the budget, which gave the history of operating balances, had that system applied. The previous Government obviously chose to present the history as it did.

[5.20 pm]

Mr MURRAY: Will the minister outline the strategy adopted by the Government to ensure that the AAA credit rating is kept?

Mr RIPPER: The strategy involves the endorsement of a number of financial management targets, including the target of achieving and maintaining an operating surplus, which we have just been discussing. The strategy also involves maintaining a net debt to revenue ratio below 45 per cent and producing declining real per capita expenses. A number of targets are important for retaining the AAA credit rating. We must work carefully and diligently at all of those targets. The three that I believe are the most important are the operating balance, the surplus and the net debt to revenue ratio.

Mr BARNETT: I will take a lead from the helpful government members and pursue the issue of debt. These figures are set out on page 44 of budget paper No 3. Will the Treasurer explain why net debt on the general government sector will increase from \$451.6 million for 2000-01 to effectively double at \$925.9 million for 2001-02?

Mr RIPPER: The reason is twofold. On the one hand, we have a relatively small operating surplus of \$51.6 million. I might point out that is larger than the pre-election forecast for this financial year, which was

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\$25.5 million. On the other hand, we have a significant capital works program. As the Leader of the Opposition has pointed out, quite a proportion of that program represents the continuation of projects that were begun under the previous Government. Therefore, there is a large capital works program and a small operating surplus, which drives the growth in debt.

I will mention a number of other factors. We inherited a fleet financing facility for the Government's light vehicle fleet, which is now not delivering value to the taxpayers of this State, but is costing, in effect, about \$2 million a month more than it would cost to finance the acquisition of the vehicle fleet through traditional government financing mechanisms. We have moved to a position where we are taking in new vehicles on traditional financing arrangements. That results in better value for taxpayers than the fleet leasing deal in which we are involved, but it increases state debt because we are financing it through traditional state debt mechanisms rather than through the previous Matrix Group Ltd facility. Under decisions made by the previous Government, some proceeds of the AlintaGas sale are being used to fund certain capital works projects. That results in an apparent increase in debt. Other contributions relate to changes in agencies' cash balances. There are a variety of factors, including delays in the roads program and other capital works, the size of the capital works program and the relatively small size of the surplus.

One important point needs to be made. We inherited a set of debt forecasts in the pre-election financial projections statement. We have improved that set of debt forecasts in this budget. Debt was growing across the forward estimates to a figure which was nearly 45 per cent of revenue. We have stabilised the ratio at around 40 per cent. We have done that even though we have had to take the vehicle financing facility back into traditional state debt financing because the alternative arrangements were costing taxpayers too much. Yes, debt does increase from last year to this year, but it does so at a lesser rate than was forecast by the previous Government in the pre-election financial projections statement.

Mr BARNETT: No, the debt is effectively doubling in the general government sector from \$451.6 million in 2000-01 to \$925.9 million in 2001-02. The Treasurer may talk about marginal changes, but there is a doubling of public sector net debt. I suggest that credit agencies may be somewhat alarmed by that.

Mr RIPPER: What alarmed credit agencies was the pre-election financial projections statement which showed debt at 47 per cent of net revenue by the final out year and a significant acceleration in the growth of net debt. Obviously that was an unsustainable position and trending towards a figure that was completely incompatible with the retention of the State's AAA credit rating. We have turned around those forecasts, which will be of some comfort to rating agencies when they assess the retention of the State's AAA credit rating. I have a graph but I do not have the figures that go with it. I suggest that the Leader of the Opposition turn to page 55 of budget paper No 3, where he will see a series of bar graphs which compare the pre-election financial projections statement with the 2001-02 *Budget Statements* for debt. He will see that debt is slightly higher in the budget year than in the financial projections statement, but in the following year debt is lower than in the financial projections statement, and in the year after that it is quite a bit lower than in the financial projections statement. We have turned around the growth in a context of inheriting a lot of capital works projects.

Mr BARNETT: I refer to page 10 of budget paper No 3 where the magical 45 per cent upper limit is shown for net debt as a share of revenue. Even the Treasurer's figures show that net debt as a share of revenue is trending up, but at a fairly modest rate. Is it not the case that the ratio of net debt to revenue at the time the previous Government came into power was close to 100 per cent?

Mr RIPPER: I do not have the figures for that period. The previous coalition Government reduced debt by selling assets. An enormous amount of privatisation went on. The previous coalition Government might have had a financially respectable argument to make if all the proceeds of privatisation had been put into debt reduction, but it did not do so. It spent some of the proceeds on new capital works. It reduced debt through privatisation, but not as much as it could have.

Mr BARNETT: The table presented on page 10 is particularly misleading. I seek by way of supplementary information a document showing net debt as a share of revenue from 1989-90. It is a simple calculation of just two figures.

[5.30 pm]

Mr RIPPER: If the Leader of the Opposition wants people to do his political research for him, he should get his office to do it or do it himself. Treasury should not be asked to go back to 1989 to prepare a table for the Leader of the Opposition to wave around and make a political point.

Mr BARNETT: Because it might tell the Parliament the true relationship of debt to revenue. It is not difficult.

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Mr RIPPER: The Leader of the Opposition can research the archaeology of previous Governments if he wishes, but I will not ask Treasury to go back -

Mr BARNETT: Is the Treasurer refusing to provide that information?

Mr RIPPER: No, I will provide the information that is available to make those comparisons if the Leader of the Opposition wants to ask me a question on notice. However, he will have to do the research. I am advised by the Under Treasurer that comparable information would be difficult to obtain because of the changes to the accounting system. However, the Leader of the Opposition can go back to the budget papers for those years. They are in the Parliamentary Library and he can do the research if he wants to make a political point.

Mr BARNETT: I am sorry, but Treasury is not the exclusive province of the Government. The Estimates Committee is a process of Treasury being accountable to Parliament. Comparable definitions are available from 1993-94 onwards. There are a few nodding heads among the Treasurer's advisers. A more complete picture presented in the budget papers would be a straightforward process, which I would prefer Treasury to prepare so that it is consistent and accurate.

Mr RIPPER: We can provide a chart from 1993-94 onwards because accrual information is available from 1993.

Mr BARNETT: I understand that there may be a problem prior to that.

The CHAIRMAN (Mrs Hodson-Thomas): Is the Treasurer prepared to provide that by way of supplementary information in graph form?

Mr BARNETT: Graph or figures, I do not mind.

Mr RIPPER: We can provide that by way of supplementary information. The form of it should be left to Treasury to devise.

Mr BOWLER: I have a supplementary question. Could that information include the proceeds from the various sales that took place in that period, what those sales were and how much from the sales went to retire debt?

Mr RIPPER: We will do better than that. We will exclude the effects of privatisation from the figures that we provide so that members can see the results without privatisation.

Mr BOWLER: Is there anything left to sell?

Mr BARNETT: I understand that the Government has a philosophical objection to privatisation. However, the reality is that during those privatisations the net assets of the State increased dramatically; the State grew. The Opposition has a philosophical view that it does not have a problem privatising debt.

Mr RIPPER: We will measure the underlying growth. I say to the Leader of the Opposition that two sides can make political points. If he wants to make a political point, we will make a political point about privatisation.

Mr BARNETT: It is a dopey point. There is no difference in financial accounts between a capital asset and a real asset.

The CHAIRMAN: What supplementary information will the Treasurer provide?

Mr BARNETT: The Treasurer should just read the details of my press releases; they are all available.

Mr RIPPER: I am tired of, and have given up, reading the Leader of the Opposition's press releases.

The CHAIRMAN: For the benefit of *Hansard* could the Treasurer clarify the supplementary information he will provide to the member for Eyre?

Mr RIPPER: It would be useful also for Treasury if I provide that clarification. We will provide net debt movements as a percentage of revenue since 1993-94, excluding the impact of privatisation.

Mr BARNETT: I refer to page 11 of budget paper No 3 relating to objectives. It is interesting that a prime objective of a Labor Government is to retain a AAA credit rating. Page 11 of budget paper No 3 states that part of the aim of retaining the AAA credit rating is that the operating expenses of government and real per capita expenses for the general government sector are not to increase. The graph on the bottom of page 11 shows the real per capita operating expenses of government; in other words, recurrent spending in the major areas of health, education and so on falling from around \$5 600 to around \$5 300 in the next four years. Does the Treasurer's own graph not prove that the real funding of services in key areas, including education, health and law and order, on a per capita basis will decline in the next four years?

Mr RIPPER: The Opposition should make up its mind about its major line of attack on the budget. It has at least three different lines of attack. Its first line of attack was that the Government should not have increased

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taxes. Its second line of attack was that we should have increased expenditure. Its third line of attack was that the surplus is allegedly shaky. Those things do not add up. The Opposition should decide whether it wants more spending or less taxes and what its position is about the surplus. The Leader of the Opposition cannot have it three ways. He cannot go to the Press one day and say there should be more expenditure, on the next day say there should be less tax and on a third day say that he is worried about the surplus. He must decide and I hope the Press will hold him to the same level of consistency to which it holds the Government.

I return to the real per capita expenses. There is population growth and one would expect, given a constant level of expenditure, that growth would reduce real per capita operating expenses. One must also take account of the impact on priorities. This Government has said that it will give priority to health, education and law and order. We protected health, education and the Police Service from the priority and assurance dividends. The bulk of our election promises were targeted at those three areas. In addition to protecting those areas from the savings measures when allocating the bulk of our election promises, we provided additional funding to health over four years. Health was promised \$240 million; we gave it \$385 million. Real per capita expenses may fall across government but that does not mean that expenditure in key areas will fall. It is a question of priorities. Another thing that must be said -

Mr BARNETT: All I want the Treasurer to do is confirm -

Mr RIPPER: The Leader of the Opposition can ask a question in a moment; he should let me finish my answer.

Mr BARNETT: He has not answered the question. He should just confirm that the per capita funding will reduce by \$300.

Mr RIPPER: The Leader of the Opposition should let me finish my answer.

Mr BARNETT: The Treasurer has not answered the question. It is simple. He should say yes, which is the truth.

Mr RIPPER: Should I say yes to anything the Leader of the Opposition puts to me? That would be an unwise course of action.

Another point to make is that expenditure under the previous Government grew at about 6.5 per cent per annum. That is the reason they had four operating deficits, which is unsustainable. The Leader of the Opposition can say that the growth in expenditure should be the same as it was under his Government. However, under his Government it was unsustainable, which is why it had those four deficits and why the AAA credit rating was at risk. We must contain growth in expenditure, and this budget and forward estimates will contain it to an average of 2.4 per cent over four years.

Mr BARNETT: The Estimates Committee is about fact and we can argue the philosophy of budgets and their structure. I ask the Treasurer to confirm that I understand that graph properly in that it shows real per capita expenditure across the general government sector, which is the major area of service delivery, is forecast to decline by \$300 in the next four years. On my interpretation - the Treasurer should correct me if I am wrong - that means that after allowing for inflation and population growth, the spending per person will fall by \$300 across all areas of government. Some areas may go up and some may go down but across all areas of government there will be a real per capita reduction of \$300. Am I reading it wrong? I somehow do not think so.

[5.40 pm]

Mr RIPPER: We need to introduce some new figures into the debate to correct the impression the Leader of the Opposition is trying to create.

Mr DAY: Are you saying that this is wrong?

Mr RIPPER: The Leader of the Opposition is trying to create the impression that there will be real cuts in key areas.

Mr DAY: He did not say that.

Mr RIPPER: That was the impression I thought he was trying to create. The position is that the real growth in police recurrent expenditure over four years will be 5.99 per cent.

Mr BARNETT: We have been through that.

Mr RIPPER: Wait a minute.

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Mr BARNETT: I call for a point of order. I am referring specifically to the table on page 11 of the *2001-02 Economic and Fiscal Outlook* and not to police, health or education.

Mr RIPPER: The real growth in education expenditure over four years will be 3.82 per cent. The real growth in health expenditure over four years will be 4.61 per cent. Real per capita government expenses are declining, but there is real growth in education, health and police. It is a question of priorities and expenditure control, which is something the previous Government could not deliver.

Mr BARNETT: The Treasurer has conceded that real per capita spending will fall by \$300 across all areas of government, as defined by the general government sector. In other words, spending will fall by \$300 for every man, woman and child across all areas of government over the next four years. Some will go up and some will go down. The Treasurer has acknowledged that.

Mr RIPPER: The Government is producing a situation in which it will not have four operating deficits, which was what the previous Government delivered. This Government is producing four operating surpluses.

Mr BARNETT: We will take it that he has conceded that point. We will not dob him in.

Mr O'GORMAN: Perhaps I should have asked my question as a supplementary question during discussions about accrual accounting. I refer the minister to the dot point under financial management on page 145 of the *Budget Statements*. Can the minister explain the benefit of Western Australia using accrual accounting, appropriations and a capital user charge in the budget?

Mr RIPPER: The Government has completed the program of accounting reform that was begun by the previous Government. There has been a move to accrual accounting. Accrual appropriations were the final plank in that program of reform. Accrual appropriations help people understand the full cost, in cash and non-cash terms, of providing the outputs that are in the budget. We must understand and take into account that if teachers are employed, long service leave and superannuation liabilities will be accumulated. Those costs must be paid. They might not have to be paid this year, but Parliament should understand that when it appropriates a certain amount to provide services, in effect, it is also incurring other costs. In the past, the Parliament has only appropriated the cash amounts required for services. Parliament will now be asked to appropriate the entire cost of the service. That will add to the accountability of the process and will benefit financial management. The capital user charge falls into the same category. There is an opportunity cost to capital, which ought to be recognised in the costs of outputs. Agencies will be assisted in better managing their finances if these matters are taken into account.

The CHAIRMAN: Three members have sought the call - the Leader of the Opposition and the members for Collie and Darling Range.

Mr BARNETT: I will pursue some tax issues, so I am happy for another member to take the call.

Mr RIPPER: Will you pursue "tax" or "attacks" issues?

Mr BARNETT: Tax issues.

Mr MURRAY: I refer to the first dot point under Revenue Laws Administration on page 146 of the *Budget Statements*. What measures have been adopted to address the problem of tax evasion and tax avoidance?

Mr RIPPER: Additional moneys have been put into compliance activities. It is important that the integrity of the revenue base be maintained. This concerns not only the revenue needed for important services in health, education and police, but it is also a matter of fairness between competing companies and others, some of which meet their tax obligations and others unfortunately do not. I will ask the Acting Commissioner of State Revenue to outline some of the measures that have been taken.

Mr DAVIES: I will elaborate on some of the strategies. Ongoing audit arrangements are undertaken each year. In addition, there are a number of strategies. A project concerning land tax is under way. The land tax data management program deals with land ownership. As a result of that program, we were able to collect an additional \$3 million through those assessments in the past financial year, which will mean an ongoing revenue for the State. From a stamp duty perspective, our compliance area involves data matching arrangements that review large sales etc, and will cross-reference and involve interstate companies. That will also lead to additional revenue. In the payroll tax area, we have been considering data matching for registration purposes. We have also considered getting information from other jurisdictions to make sure that employers are paying the correct amount of payroll tax.

Mr DAY: I will refer to the recent discussion on operating expenses, which concerns output 2 on page 152. In the committee this morning, the Minister for Police indicated that in order for the offer that has been made to the

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police union on the enterprise bargaining agreement to be paid, supplementary funding would be needed for the police budget. That was approved by the expenditure review committee. Will the minister say what the expected amount of supplementary funding will be and whether it is reflected in the bottom line of this year's budget? If not, why not? What impact will this have on the bottom line?

[5.50 pm]

Mr RIPPER: The cut-off date for the preparation of the budget was 21 August. Any decisions made after 21 August were not reflected in the budget. A cut-off date for the budget is required because significant effort is involved in preparing the budget papers. Of course, after any budget is brought down any number of factors can impact positively or negatively on the budget bottom line. There will be changes in revenue and expenditure estimates. It is the task of the Treasurer and the expenditure review committee, assisted by the Department of Treasury and Finance, to manage the budget, to take account of all of those positive and negative factors, and to make adjustments. My understanding of the police enterprise bargaining agreement issue is that additional funding will be required to meet the EBA. Of course, the EBA has not yet been agreed upon; therefore, it has not been finalised. I do not have the precise figures before me but I am advised that it is about \$2 million to \$3 million over and above the provision in the budget for this financial year, and it will be more in the out years. When that matter is finalised, the member is welcome to ask a question of either the Minister for Police or me.

Mr DAY: Would an adjustment need to be made to the bottom line of the budget after the preparation of these papers?

Mr RIPPER: It is one of a number of factors impacting on the budget. Some of them impact positively on the bottom line and others impact negatively, and it is the job of the Government to manage them. The next accountability mechanism is the midyear review when the member will find out how we have managed it and what the position is as at 31 December.

Mr DAY: The second part to my question is on the same theme but for a different portfolio. In view of the Treasurer's strongly expressed desire to ensure that there is appropriate accountability, expenditure control and so on, can he rule out any supplementary funding being provided to the health portfolio this year?

Mr RIPPER: I am aware of the history of the previous Government's administration of the health portfolio, and the history of the questioner's administration of the health portfolio. He knows, as well as anyone in this place, about the pressures that are imposed by people, like his good friends in the Australian Medical Association, on health expenditure. Therefore, I cannot rule out the need for supplementary funding. In fact, it is impossible to rule it out in any portfolio because matters will arise in which ministers will say that there is an urgent need or something unforeseen has occurred that requires additional funding. We are attempting to reduce the reliance on supplementary funding across the budget. In our view, the Treasurer's Advance was used too generously under the previous Government and we would like to resort to using the Treasurer's Advance less frequently. We want to corral agencies into the budget process for the making of spending requests, rather than have them come to the Cabinet, the Treasurer or the expenditure review committee between budgets.

Mr DAY: It was only very hard won in my experience. I am sure that the Under Treasurer will agree.

I am interested to hear that the Treasurer cannot rule it out, which is a realistic answer. However, is he agreeing that there may need to be a provision for some increase?

Mr RIPPER: I would be very reluctant to send a signal to anyone in the health system that there would be any easy acceptance of their failing to meet their budget targets.

The CHAIRMAN: I know that the Leader of the Opposition wants to ask some questions relating to tax matters. Is that related to this division?

Mr BARNETT: I have another question before we get onto tax. My questions all relate to this division in any case.

I refer to page 27 of the *Economic and Fiscal Outlook* and the commonwealth payments to the State. I note that payments are expected to rise by \$416.2 million in 2001-02. There are some offsets with the abolition of the financial institutions duty, but once allowance has been made for that, the commonwealth grants are expected to increase by a net \$263 million by 2001-02. Does that rate of increase at least match, if not exceed, the rate of inflation?

Mr RIPPER: I am advised that the \$263 million involves competition policy and specific purpose payments, mainly in the area of health.

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There was a fortunate event associated with the Treasurers conference. On the day that I went to Canberra to attend the conference, I was delighted to be advised that Treasury had discovered a mistake in the Grants Commission calculations of a particular stamp duty measure. As a result of that mistake, the State would not lose as much in commonwealth grants as expected under the previous calculations by the Commonwealth Grants Commission. I obtained an agreement from the Treasurers conference that this mistake would be corrected and at the time that I obtained that agreement, the mistake was believed to be equivalent to \$20 million a year. It was later discovered to be \$40 million and growing; therefore, the discovery by the Treasury of that mistake was a very significant factor in the State's revenue outcome.

The CHAIRMAN: Where does that stamp duty come from?

Mr RIPPER: It related to the Commonwealth Grants Commission treatment of stamp duty associated with corporate reconstructions.

Mr BARNETT: My question has not been answered yet.

Mr RIPPER: I am sorry. In all the consultation I missed the point.

Mr BARNETT: Or missed the plot.

Mr RIPPER: No, missed the point.

Mr BARNETT: Sorry, I thought the Treasurer said "plot".

The last line in the paragraph at the top of page 27 says that commonwealth grants are expected to increase by a net \$263 million. Is that increase above the rate of inflation for the year?

Mr RIPPER: It has been described to me as strong growth. I cannot confirm how it compares to the inflation rate. However, if the member wants to ask me what the rate of increase -

Mr BARNETT: We will take three per cent as the consumer price index.

Mr RIPPER: If the member wants to ask me what the rate of increase in commonwealth grants was, I can provide that as supplementary information.

The CHAIRMAN: Will the Treasurer clarify what information will be provided?

Mr RIPPER: As supplementary information I will provide a figure for the growth in commonwealth grants to the State from last year to this year.

Mr BARNETT: I compliment Treasury on finding that mistake and I agree with the Treasurer. However, at the end of the day, the deal that this State has received from the Commonwealth for the coming financial year is pretty good, and not a bad result.

Mr RIPPER: I need to make another point in response to the Leader of the Opposition's interjection. The commonwealth grant is largely provided through specific purpose payments. If it were in general money, the State would have policy flexibility to allocate that to state priorities. However, this money comes with strings attached and that makes it fairly difficult for the State Government.

Mr BARNETT: It is fairly difficult with strings attached; that is the reality! It does not matter whether it is competition payments, general grants or specific purpose payments. At the end of day, the net figure is \$263 million growth, which is pretty good. I am just forewarning the minister to not come into this place and bleat about the Commonwealth over the next 12 months because this State has got a good deal. I am just closing the Treasurer's options for the future so he does not need to worry.

Sitting suspended from 6.00 to 7.00 pm

Mr BOWLER: Prior to the suspension the committee was discussing commonwealth grants to Western Australia. Does the Treasurer know of any problems with the allocation process?

Mr RIPPER: Enormous problems exist in the allocation process. Apart from the discovery of a major error last year, Western Australia has lost out consistently over the past eight years. One of the difficulties in running the State, as might be recognised by the member for Eyre, is that the State is required to provide infrastructure to support resource projects for the benefit of the entire country. Revenue sources from resource projects flow to the Commonwealth through company tax and income tax. The Commonwealth Grants Commission reallocates commonwealth grants according to the royalty positions of the States. The impact of that on the State is that 90 per cent of our royalty revenues are reallocated to deserving States like Queensland.

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Mr BARNETT: I will ask a series of questions on tax matters that relate to outputs 3,4 and 5. I also refer to page 12 of budget paper No 3 that displays a graph indicating tax competitiveness in per capita dollar terms. It shows the impact of the new taxation measures in the budget to an amount of \$181 million. Western Australia's relative competitiveness has decreased. What is the percentage of deterioration in the State's competitiveness? By what percentage has the bar on the graph increased?

Mr RIPPER: I do not think I can answer the question in the terms it has been asked. The impact of the revenue measures is equivalent to 1.5 per cent of revenue.

Mr BARNETT: No, that is not the point. The graph is about tax competitiveness. It does not relate to revenue. It is the per capita cost. The new tax measures have increased the amount. By how many dollars and by what percentage has that occurred?

Mr RIPPER: I see the point the Leader of the Opposition is making. He wants to know the percentage increase in per capita dollars. I do not have that information immediately to hand.

Mr BARNETT: I will accept it as supplementary information.

Mr RIPPER: The tax revenue per capita in Western Australia before the measures was \$1 482. The impact of the revenue measures is \$75.40. After the measures, the tax revenue per capita is \$1 557. That represents a 5.06 per cent increase. I am pleased to have assisted in the member's research.

Mr BARNETT: I will talk about the proposed premium property tax. I refer to page 27 of budget paper No 3. Will the Treasurer describe how the premium property tax will apply?

Mr RIPPER: The premium property tax will apply to residential property in which the unimproved land value is in excess of \$1 million. The first \$1 million will be tax free. A tax rate of 2 per cent will apply to the excess unimproved value. The tax applies only to the unimproved land value; it does not apply to buildings. It applies only to the excess in value above the \$1 million tax-free threshold.

Mr BARNETT: Will the Treasurer explain how the threshold is adjusted and the criteria for people to have an exemption or deferral of the tax?

Mr RIPPER: The threshold of \$1 million will be maintained in real terms by movements in the Perth consumer price index. The threshold will be indexed to the inflation rate. The threshold will remain at \$1 million in today's dollars. As inflation increases, the threshold will increase. The Government is well aware that some people are asset rich and income poor. Although some people may have a valuable asset that may be increasing substantially in value each year, they may not have the income to readily pay the premium property tax. It is proposed to provide concession arrangements to such people whereby they can defer the tax until they sell the property. The current arrangements are that the concessions will apply to people who hold a range of concession cards. It is best if I talk about the most generous of the income limits as that will give an idea of the maximum concession that will be available. Someone who holds a Seniors Health Card and a commonwealth health care card will be eligible for a deferral concession. A couple in those circumstances can hold those cards with an income up to \$80 000 per annum. I am prepared to look at other circumstances that may be put to the Government. A number of circumstances have been raised by the Opposition and in the media. If people are prepared to put those circumstances to the Government, they will be examined to find out what further can be done regarding concessions and allowing a deferral of the tax to people who are asset rich but income poor.

[7.10 pm]

Mr BIRNEY: What is the individual income threshold?

Mr RIPPER: I need to seek advice on the individual income threshold. The individual income threshold for holding a commonwealth health care card is apparently \$50 000.

Mr BIRNEY: Will someone who earns \$51 000 have to pay the tax?

Mr RIPPER: That is the case for concession card holders. That is why I said that we would be prepared to listen to the Opposition or indeed anyone who is concerned about this tax who wants to present their case to either the Office of State Revenue, me or my office. If they think that their individual circumstances would justify a deferral of the tax and should be taken into account in the drafting of the legislation, we would be prepared to consider that. We understand that although some people have a valuable asset that appreciates and will deliver them an even more valuable asset later, they may not have the income to pay the premium property tax.

Mr BOWLER: On this issue, a Greens (WA) MLC has indicated that the State Government should drop that tax and increase minerals royalties? What is the minister's attitude to that proposal?

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Mr BARNETT: To which page of the *Budget Statements* are you referring?

Mr BOWLER: I refer to the same page to which you referred.

Mr BARNETT: I referred to page 27 of the *Budget Statements*, and I cannot see a comment about the Greens on that page.

Mr RIPPER: I have two responses to that question. Firstly, about 80 per cent of mineral royalties are paid for under state agreements or commonwealth legislation. Secondly, the mining industry makes a contribution to community needs in health, education and law and order. The payroll tax measure will impact on the mining industry, which has some of the largest employers in the State. I would say to the Greens that the mining industry makes a big contribution to the State's prosperity and to the Government's revenue. The mining industry is also being asked to make a big contribution in this budget.

Mr BARNETT: I will refer to some different aspects of this tax -

The CHAIRMAN (Mr Dean): Is this a supplementary question?

Mr BARNETT: No, I have a series of questions on this tax issue.

The CHAIRMAN: I have already ticked the Leader of the Opposition's name off the list. The member for Kimberley wants to ask a question.

Mrs MARTIN: I refer to the major achievements for 2000-01 on page 153 of the *Budget Statements*. How successful was the newly established Public Accounts and Expenditure Review Committee during the budget deliberations?

Mr RIPPER: The expenditure review committee is working very well. I am fortunate to have senior ministerial colleagues working with me on that committee. The committee is chaired by the Premier and benefits greatly from the expert assistance given by the staff of the Department of Treasury and Finance. It is important that the committee continue its work in not only developing the next budget, but also managing the delivery of this budget through the financial year. I am a fortunate Treasurer to have the support of that committee. It is a good process that puts agencies under pressure and subjects them to scrutiny to justify their claims for public money. I hope it contributes to better governance in the State.

Mr BARNETT: I refer to the premium property tax, specifically the threshold -

Mr BOWLER: To which page is the Leader of the Opposition referring?

Mr BARNETT: I refer to page 27 of the *Budget Statements*. I refer the Treasurer to the indexation of the threshold by the consumer price index, which we will nominally accept as increasing at three per cent a year. I ask the Treasurer to confirm that the increase in the unimproved value of properties - as per the Valuer General and as used in land tax assessments - runs significantly above three per cent; it is probably in the order of seven or eight per cent. Will the Treasurer confirm, reject or correct my statement that the rate of unimproved land value increases over the past 20 years have been in the order of seven or eight per cent, not the three per cent by which the Treasurer proposes to index the threshold?

Mr RIPPER: I am advised that the figures quoted by the Leader of the Opposition are generally right; however, those figures would vary from area to area. Firstly, this is the only land tax that will be indexed. There is no indexation written into other land tax legislation. Other land tax legislation will suffer from rising land values, which concerns the Leader of the Opposition, much more so than the premium property tax. Secondly, as land values increase, the wealth of the people holding the land increases. If someone owns a \$1 million block of land, the value of which increases by eight per cent, that is an \$80 000 increase in the owner's wealth.

Mr BARNETT: It is of little value to 90 year-old ladies.

Mr RIPPER: If the value of the land increases by eight per cent and the Government's tax is two per cent, it is taxing the increase in the value of the land at a rate of about 25 per cent, which compares with the top marginal tax rate of income tax of about 48.5 per cent when the Medicare levy is taken into account.

Mr BARNETT: It is estimated that currently 900 residential properties are valued above \$1 million. Given that the minister has acknowledged that the rate of land value increases is above the index proposed for the threshold, does the Treasurer also acknowledge that the number of properties above that threshold will increase every year?

Mr RIPPER: That depends on how land prices progress. Land prices are generally more volatile than other prices and they vary from area to area in their growth patterns. To the extent that land values of properties likely to be affected increase at faster than the Perth CPI, the wealth of those landowners will increase at a rate greater than the inflation rate. However, they also may be drawn into the premium property tax net. It is always open to

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the Government to examine the numbers of people who are drawn into the net and to amend the taxation legislation accordingly. In general, there is no indexation to land tax. As land values increase, more people are drawn into the higher paying tax brackets in the land tax scheme. From time to time Governments have responded to that by making adjustments to the land tax scales to take account of the impacts of inflation. The Government has written in a protection in this scheme that is not available for other land taxpayers. If the scheme does not develop as we expect, there is always the option to amend it.

Mr BARNETT: I seek some supplementary information. For the minister's information, I asked a similar question of the Minister Assisting the Minister for Planning and Infrastructure in her capacity as the spokesperson for the Department of Land Administration. I require only one set of information, but I will ask both ministers to provide it so that I will get it. Will the minister provide a breakdown of residential land values in Western Australia of between \$0 to \$2 million in \$100 000 increments, including those above \$2 million?

[7.20 pm]

Mr RIPPER: I am advised that that information is not available in agencies responsible to me. The Valuer General may be able to provide the information. The Leader of the Opposition's question was more correctly addressed to the Minister for Planning and Infrastructure.

Mr BARNETT: I seek the assistance of the minister to ensure that the information is provided. It is a fundamental matter of public information on this tax.

Mr RIPPER: Was the Minister for Planning and Infrastructure able to give a commitment to provide that information?

Mr BARNETT: She indicated that she might, but I am somewhat sceptical. There can be no proper discussion about this tax unless the Government provides that most elementary of data.

Mr RIPPER: I have not heard the Leader of the Opposition engage in proper discussions about this tax. However, I have heard a fair amount of scaremongering from him and he has focused on a small number of people who are asset-rich but income-poor. I have not heard the Leader of the Opposition point out that some people have paid \$4.5 million for their house, and have then bought a second house for \$9.5 million, while someone else paid \$9.15 million for a house in Jutland Parade. Those people have the capacity to pay, and the Leader of the Opposition has focused on a small number of people who might be asset-rich but income-poor. He is trying to disguise the fact that he is protecting very wealthy people who have the capacity to make a contribution to health, education and law and order.

Mr BARNETT: The Treasurer must tell the Parliament right now why he will not provide information that I know the Office of State Revenue has available.

The CHAIRMAN: I draw the attention of the Leader of the Opposition to the order of questioning.

Mr RIPPER: I am advised that this information is not available in agencies that are responsible to me as the Treasurer

Mr DAY: Who is responsible for the Office of State Revenue?

Mr RIPPER: I am responsible for the Office of State Revenue, which is part of the Department of Treasury and Finance.

I am advised that the most accurate information would come from the Valuer General, who is responsible to the Minister for Planning and Infrastructure. The Leader of the Opposition has asked her for the information. I do not have any knowledge of what was said in the estimates committee.

Mr BARNETT: She accepted my question on notice. I cannot believe that the Government would consider a tax measure like this one without the most basic information of that form.

Mr RIPPER: The Government considered the tax measure on the basis of the advice that 900 properties would be affected, and this is the basis on which the budget and the forward estimates have been completed. The threshold has been indexed to the Perth consumer price index, which will protect the real value of the threshold. The Leader of the Opposition has argued that more people will be drawn in, but the Government has a capacity from year to year, if it wishes, to do what it does from time to time with other land tax scales; that is, amend them to take account of inflation.

Mr BARNETT: That will create a massive further uncertainty.

The CHAIRMAN: There is a rotation for questions.

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Mr BARNETT: That is not the agreement we have in this committee.

The CHAIRMAN: It is the one I have been using for the past two and a half days.

Mr BARNETT: It is quite improper, but carry on.

Mr MURRAY: My question refers to page 151, dot point five. How far advanced is the establishment of the Office of the Economic Regulator, as per the Machinery of Government Taskforce recommendations?

Mr RIPPER: The Office of the Economic Regulator is one of the Government's election commitments, and is a recommendation of the Machinery of Government Taskforce. At the moment there is an Office of Gas Access Regulation that deal with access regimes for gas pipelines. There is also a Rail Access Regulator who deals with questions of access by third parties to rail infrastructure. It is important to the Government that these agencies be brought together, which will result in better use of taxpayers' resources. The skills required for this access regulation are not necessarily easily available and a better result can be obtained from properly staffing one agency rather than having several different regulators. The third consideration is that regulators have been accused of being too close to the industries they regulate, and if a single office is responsible for regulating a number of industries, there is less chance of what is called industry capture. It is important for proper investment decisions and efficient use of capital that the Government has this ability to independently regulate access to monopoly infrastructure.

Mr BARNETT: I refer again to the premium property tax. If, as the Treasurer suggests, the Office of State Revenue does not have group data available - which I find incredible - it would certainly have data on individual properties. Therefore, by way of supplementary information, I ask for a print-out of all owner-occupied residential properties valued at above \$1 million, the names of the owners and the addresses of the properties. I seek a similar print-out for all properties valued between \$900 000 and \$1 million, and those valued between \$800 000 and \$900 000.

Mr RIPPER: I am a bit uneasy about this. Provisions in taxation legislation prevent the Government and unauthorised officers of the Department of Treasury and Finance from gaining access to the individual circumstances of taxpayers.

Mr BIRNEY: The Government must already have done this. Otherwise, how could the measure have been included in the budget?

Mr RIPPER: The Government has not done that. I have been advised that 900 properties will be affected. I have not been advised of the names and addresses of the individual taxpayers, and neither should I be delving into the circumstances of individual taxpayers. If the Leader of the Opposition wants to distribute a leaflet or a direct mail, he can use the computerised electoral roll he has in his electorate office.

Mr BARNETT: I do not want to do that. I want information from right across the State for residential properties valued at above \$1 million, \$900 000 to \$1 million, and \$800 000 to \$900 000. I require unimproved valuations, with each lot identified.

Mr RIPPER: I am advised that the information that comes to the Office of State Revenue on these matters comes from the Valuer General. Therefore, the approach should be made to the Valuer General.

Mr BARNETT: With respect, the information is held by the Office of State Revenue. This is a taxation measure for which the Treasurer is responsible, administered by the Office of State Revenue. I am perfectly entitled to access the data. I do not care who collects it; it is held by an agency responsible to the Treasurer, who makes decisions on the basis of it. It is therefore appropriate.

Mr BIRNEY: The Government must have the information if it wishes to send these people a tax bill.

Mr RIPPER: The point made by the member for Kalgoorlie is interesting. Yes, people who hold premium properties will get a tax bill, but I, as the minister responsible, do not have access to the information about individual taxpayers' circumstances. If a company pays stamp duty, and has a dispute with the Office of State Revenue about the payment of that stamp duty, I cannot delve into the circumstances of that company and require the Office of State revenue to do this or that. Rules on taxation matters protect the privacy of taxpayers.

[7.30 pm]

Mr BARNETT: If there is a confidentiality issue - I am not convinced there is - I can accept that names of people could be deleted, but the public can access property details and its value. I am seeking a print-out of the information held by the Office of State Revenue.

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Mr RIPPER: Since the information comes from the Valuer General, and there may well be Valuer General considerations about the release of the information, I will consult with my ministerial colleague, the Minister for Planning and Infrastructure, and determine what information can be made available to the Leader of the Opposition.

Mr DAY: Is the Treasurer saying that he will provide information?

Mr RIPPER: I chose my words carefully. I said that I would consult with my ministerial colleague, the Minister for Planning and Infrastructure, and together we will determine what information can be made available.

Mr BARNETT: I am sorry, but if there is no legal impediment, the Treasurer must undertake to provide that information.

Mr RIPPER: I have made my statement, and that is it.

Mr BARNETT: I have a point of order. There are clear procedures for supplementary information. We have requested supplementary information. We have made the point that we recognise the position if there is a legal impediment. We made the point also that names could be deleted. It is now up to the Treasurer to indicate whether he will make that supplementary information available. He cannot equivocate; he must give an answer.

Mr RIPPER: I decide what information I will make available by way of supplementary information, what questions I will ask the member to put on notice and what information for one reason or another is not available. I have said that I will consult with my ministerial colleague, the Minister for Planning and Infrastructure, and together we will make a determination on the information that can be provided. That is the most I am prepared to say at this stage until I have consulted with her, because she made some comments in the Estimates Committee today of which I am unaware, and she has responsibility for the Valuer General who generates this information. He may well have his own considerations or advice. It is perfectly reasonable for me to consult with my ministerial colleague and for us together to make a determination. The Leader of the Opposition cannot reasonably press me to say more at this stage, given the interaction with that other portfolio.

Mr BARNETT: I sure can when we get back into Parliament.

Mr BOWLER: Of the 900 properties affected, how many are in regional areas? I ask that because a lot of noise has been made in recent weeks in this place about looking after country areas and the fact that country people already pay too much tax.

Mr RIPPER: As far as I can see, the tax is virtually restricted to the metropolitan area. Possibly a small number of regional properties will be affected, but from the point of view of the regions this tax hits the metropolitan area and the regions are spared. Under our restructuring of the land tax scale, 52 000 people will be exempted from paying land tax because the land tax threshold will be raised from \$10 000 to \$50 000. A very significant number of those 52 000 people who are exempted from paying land tax are country residents. The Government's approach to land tax matters has been very much pro-regional.

Mr BARNETT: While the Treasurer considers the other request for supplementary information, I make a further request. Will he provide a categorisation of those properties valued above \$1 million by either local government authority or postcode?

Mr RIPPER: I am happy to provide that information. I have it in front of me. The document indicates the number of homes by suburb.

Mr BARNETT: Will you make that available now?

Mr RIPPER: Yes. I will read it out because a notation on it needs to be erased. The numbers are Peppermint Grove, 201; Mosman Park, 147; Applecross, 141; Dalkeith, 104; Claremont, 54; Cottesloe, 54; South Perth, 48; Attadale, 33; Nedlands, 33; Bicton, 15; East Fremantle, 14; Swanbourne, 13; West Perth, 11; Busselton, six; Salters Point, six; Crawley, six; Wanneroo, five; Baldivis, one; Broadwater, one; Esperance, one; Forrestdale, one; Forrestfield, one; Halls Head, one; Kalbarri, one; Manning, one; Osborne Park, one; and Prevelly Park, one; making a total of 901.

Mr BARNETT: I ask that someone make a copy of that without the notation.

The CHAIRMAN (Mr Dean): Minister, do you want to provide a copy of that?

Mr RIPPER: Yes.

Mr BARNETT: Further to the structure of the premium property tax, my understanding, by way of preamble to my question, is that if a person owns several non-residential properties, they are grouped to determine the land

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tax, and the land tax system has a progressive tax scale. Will the value of the residential property, if it is above \$1 million or below \$1 million, be included in the valuation determination of third properties for the assessment of land tax? Does the Treasurer understand what I am saying?

Mr RIPPER: Yes, I understand the Leader of the Opposition. The answer is no.

Mr BARNETT: If the value is over \$1 million and it attracts a premium property tax, will that not in any way impact on land tax paid on any other property?

Mr RIPPER: No.

Mr BARNETT: Is it the Treasurer's intention to introduce this tax in a separate premium property tax Bill or will it be presented as an amendment to the land tax legislation?

Mr RIPPER: I am advised that drafting is proceeding on the basis that there will be two Bills, one of which imposes the tax and one of which provides for collection mechanisms. Members will be aware that it is the normal structure of legislation.

Mr BARNETT: Will it not be in the form of an amendment to the land tax legislation?

Mr RIPPER: Drafting is currently proceeding on separate legislation.

Mr BARNETT: How will the assessment of four or five strata title units on \$3 million or \$4 million worth of land be dealt with?

Mr RIPPER: I understand that the calculation will be performed in the same way as it would for the land tax that might apply, for example, on a strata titled unit investment property. The basis of the assessment is that the unit entitlement as a proportion of the total unit entitlement is applied to the underlying value of the land.

Mr BARNETT: Is it on the unimproved value of the land?

Mr RIPPER: Yes.

[7.40 pm]

Mr BARNETT: Is it a notional value based on the unimproved value of the land for strata title developments?

Mr RIPPER: I will ask Mr Sullivan to comment on that.

Mr SULLIVAN: The arrangements under land tax will apply in this case with the premium property tax. For instance, in the example given by the Leader of the Opposition, if a property underlying a set of five units had an unimproved land value of \$1.5 million and each unit had an equal entitlement, the underlying ownership value of those five units would be \$300 000 per unit. That \$300 000 would then be put up against the premium property tax threshold of \$1 million. Clearly, in that instance, the owners of those units would not be brought into the premium property tax base.

Mr BARNETT: I have exhausted the questions I want to ask on the premium property tax and would like now to shift to payroll tax measures.

Mr RIPPER: At your service.

Mr BARNETT: You will need to be, my friend.

I refer to output 4 on page 155, payroll tax assessment and collection, and to some issues described in budget paper No 3. A number of changes to the payroll tax regime have been mooted, one being an increase to the top payroll tax rate from 5.56 per cent to six per cent. How many businesses will be affected by that increase in the top payroll tax rate?

Mr RIPPER: Three thousand.

Mr BARNETT: How much will those businesses pay - this may be in the budget papers - as a result of that measure? How much will the increase in the top rate collect?

Mr RIPPER: The measure will raise \$27 million this financial year; 2002-03, \$63 million; 2003-04, \$67 million; and 2004-05, \$72 million.

Mr BARNETT: Another change will extend the payroll tax base to what is described as "employee-like" contractors. Can the Treasurer elaborate on what he regards as employee-like contractors?

Mr RIPPER: This is an issue on which more work will be done and will not take effect until the beginning of the next financial year. There are lessons to be learnt from the legislation in other jurisdictions. There will be

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consultation with industry groups and tax practitioners. A number of tests will be developed to distinguish between employee-like contractors and those operating as independent businesses. Some of the tests considered for distinguishing between employee-like contractors and those operating as genuine, independent businesses might include: the number of days per month that a contractor works for one employer; whether a contract is for producing a result rather than the provision of labour; whether a contractor is required to supply plant and equipment or tools of trade needed to perform the work specified in a contract; whether a contractor engages others to perform some or all of the principal works specified in a contract; and whether a contractor has business premises that are physically separate from an employer's premises. However, it is understood that this area has issues that must be worked through and defined. A consultation process will commence next month conducted through the State Revenue Department's tax liaison committee.

Mr BARNETT: How many businesses are likely to be affected by this provision and what amounts of additional revenue are expected to be raised as a result of extending the payroll tax net to employee-like contractors?

Mr RIPPER: I will ask Mr Sullivan to comment on those issues.

Mr SULLIVAN: It is difficult at this time to give a definitive answer on the number of businesses affected, which will ultimately be determined by the design parameters. One of the difficulties we had in working through this matter was trying to draw out the best portions of the arrangements operating in other States, bearing in mind the compliance costs faced by business. We have tried not to add additional burdens on them. Again, we are mindful of what has happened in the commonwealth alienation-of-income arena. We have a reasonable estimate of the additional revenue expected to be raised based on where we are heading with the revenue's ultimate design. Those figures are shown in the budget papers. We expect to yield in the order of an extra \$20 million revenue per year. It is difficult to assess the numbers of employers who will be affected because there are two types of employers; those who are currently below the wages threshold of \$675 000 and who will have added to what we view as wages the payments they make to contractors, which may take them above the threshold. I do not believe there are a large number of those businesses but I cannot give a definitive answer. Other employers affected are those who are currently caught in the payroll tax net of more than \$675 000 and whose taxable wages will increase as a result of adding the payments made to those contractors.

Mr BARNETT: Can you have an educated guess? Are you talking about hundreds or thousands?

Mr RIPPER: That question should be directed to me but I may seek advice.

Mr SULLIVAN: I prefer not to make a guess of any nature at this stage until the design parameters are ultimately set in concrete. As the Treasurer indicated, we are actively working with a liaison committee, which comprises representatives from tax professionals and industry bodies. We will gain that sort of information through discussions with those representatives.

Mr BARNETT: I have a further question on payroll tax. I refer to page 29 of the *Economic and Fiscal Outlook*, which states that the payroll tax base will be extended to include the grossed-up component of taxable fringe benefits. What is included in those taxable fringe benefits and how much additional funding is expected to be raised as a result of that measure?

Mr RIPPER: The measure is forecast to raise \$6.2 million in the budget year; \$16.1 million in 2002-03; \$17.3 million in 2003-04; and \$18.2 million in 2004-05. I will seek advice on the types of fringe benefits that are included.

Fringe benefits are already part of the payroll tax base, but not on a grossed-up basis. The major fringe benefits subject to payroll tax are vehicles. Provisions are already in the legislation that include remote area fringe benefits, but they are not in the budget on a non-grossed-up basis and they will not be in the budget on a grossed-up basis. When this measure was under consideration, one of my primary concerns was to ensure that this measure would not in any way impact on the regions.

Mr BARNETT: Could the Treasurer explain that further? What then will this change do?

[7.50 pm]

Mr RIPPER: This change will take into the payroll tax base fringe benefits on their before-tax value rather than their after-tax value. That is the limit of my understanding of the concept. I will ask one of my advisers to elaborate on it.

Mr SULLIVAN: Yes, that is in essence correct. The amount currently included for the purpose of value for the payroll tax regime is what is called the taxable value of a fringe benefit. The taxable value of a fringe benefit is equivalent to the amount of after tax income that a person would have to spend to obtain the fringe benefit if they

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were purchasing it themselves rather than it being provided by an employer. We are using commonwealth grossing up factors. Effectively, that examines what the employer would have to pay the employee to provide that benefit himself. Currently, there is a distortion in the payroll tax arrangements, which means that there is still an incentive for an employer to provide a benefit of a lesser value to an employee, rather than paying him \$200. That reduces the amount of wages for payroll tax, so it is a benefit to the employer and to the employee. There is a trade-off. This measure will remove that distortion so that there should be no difference in payroll tax outcome if an employer provides a benefit or pays wages to an employee. They would then be in a position to obtain that benefit through spending their post-tax income.

Mr COWAN: The Treasurer may have already covered the matter I am about to raise. If so, the simple answer is to refer me to *Hansard*. My interest in the issue of payroll tax is associated with the review and direction the Government might be seeking to take on criteria for eligibility. This particularly relates to contractors, who will now be deemed eligible for payroll tax. Will the Treasurer indicate the direction that review will take and where he perceives he might draw that line? I also want a clear indication about whether any decision has been made to include the total employees of a company. How will the split be made for companies the employees of which clearly work for separate divisions? How will that definition be drawn?

The CHAIRMAN: I hate to draw the member for Merredin to order, but I ask him to refer to a page in the *Budget Statements* from which the Treasurer can draw this information.

Mr COWAN: I am referring to output four concerning payroll tax assessment and collection on page 155 of the *Budget Statements*. Will the Treasurer also tell me whether that includes a definition of subsidiary companies within or outside the State?

Mr RIPPER: The important point is that the corporation or employer that hires the contractor will be liable for the tax. If they are hiring a contractor who is employee-like and presumably could be replaced by an employee, the hiring will be taken into the payroll tax base.

Mr COWAN: That does not tell me anything. Someone can always be replaced internally. There must be a more concise definition.

Mr RIPPER: Yes. I just wanted to make that preliminary point because I am about to handpass the member's question to Mr Sullivan. I will ask him to answer the question on the direction we are proceeding with in the review and what happens with people who are hired by different subsidiaries of a corporation or different divisions within a major business.

Mr SULLIVAN: I find it difficult to give the member for Merredin a definitive answer because I do not have the specifics in front of me, but perhaps I can give him some principles that he may be able to apply to the cases he has in mind. In terms of the issue of subsidiaries, grouping provisions are currently contained within the payroll tax legislation. Notwithstanding that a number of entities may be related and may engage different people, for the purposes of striking the level of taxable wages and the tax rate, and in applying that rate, the group is brought together. The fact that they have been split in separate legal entities is ignored. That is the current arrangement and it has been in place for a number of years. Whether someone will be classified as an employee-like contractor will depend on the facts of the case. The difficulty that the State and taxpayers face at the moment is in the determination of whether they are in a common law employee relationship. That is difficult for revenue authorities and the taxpaying public, who, by and large, will try to meet their obligations in an honest manner. These tests will hopefully get through in an objective manner. We are trying to come up with a set of practical tests. The High Court of Australia is itself having difficulty with this. A recent case in the New South Wales Court of Appeal involved cycle couriers. One level of the New South Wales Court of Appeal determined that they were not common law employees and applied a set of tests. Our legislation has nothing to rely on but that. The High Court subsequently examined the case and decided that they were common law employees, which has necessitated a ruling from the Australian Taxation Office. This is the problem we are facing; we are operating in a grey area. At the moment, we are pulling together a set of tests that can be objectively applied and will capture what we consider to be the spirit of common law employees who may or may not swing in. We will try to put something in place that is objectively determinable. I am afraid I cannot provide specifics of those tests. The Treasurer has outlined the sort of things that we are looking at, but the final decision on a number of those matters has not yet been made.

Mr BARNETT: Did Treasury or the Department of Treasury and Finance conduct an analysis of the impact on employment of the increases in payroll tax that were announced in the budget?

Mr RIPPER: The advice from Treasury is that it was not expected to have a significant impact upon employment. As I have previously indicated, for employers on the top rate of payroll tax that employ people on average weekly earnings, the impact is equivalent to a \$4 a week wage increase. Of course, any increase in

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business costs is not welcomed by business, but this must be considered in context. Broader and more significant economic forces than the payroll tax announced in the budget will influence investment and employment decisions.

Mr BARNETT: I will ask a supplementary question. The increase in payroll tax is about \$100 million. Treasury did or did not do an analysis. This is a question for one of the Treasurer's advisers. In Treasury's economic models, what is the assumed price or wage elasticity of demand for labour?

Mr RIPPER: I will ask the Under Treasurer to deal with that question.

Mr BARNETT: I will provide a tip: it will not be zero.

Mr LANGOULANT: It is fair to say that our modelling does not go down to that level of detail.

Mr BARNETT: It must. You cannot create a macro model that does not do that.

Mr LANGOULANT: Most of the literature on payroll tax and the sensitivity it has on the labour market is equivocal. The sensitivities are almost impossible to measure. When the payroll tax rate was reduced three years ago - it went from six per cent to 5.56 per cent - there was no measurable impact on labour or employment.

Mr BARNETT: What is Treasury's assessment of the economic literature on the price elasticity of demand for labour?

Mr LANGOULANT: With respect to payroll tax?

Mr RIPPER: To which dot point in the *Budget Statements* are you referring? It is proper for Treasury to answer it.

Mr LANGOULANT: I do not carry that information with me. We have not come with that kind of detail from our model. It is our assessment that the elasticity with respect to payroll tax is negligible. Other factors bear on the labour market more significantly than payroll tax.

[8.00 pm]

Mr BARNETT: The figure is in the order of about minus 0.3 to minus 0.5. It will probably be found in the model.

Mrs MARTIN: I refer to page 160, dot point one. Does the minister have any details on how many pensioners are likely to benefit from the pensioner rebate schemes introduced by this Government?

Mr RIPPER: I do have some information for the member for Kimberley.

Mr COWAN: I am very surprised to hear that!

Mr RIPPER: I was also quite surprised to find that I had the information.

An additional 28 813 households are expected to benefit from the changes to rates and charges concessions available to pensioners and seniors under the Rates and Charges (Rebates and Deferment) Act. A total of 9 750 households will benefit from an additional rebate for water rates and a 50 per cent rebate for local government rates, and 19 063 households will benefit from a 25 per cent rebate for local government rates. Therefore, quite a significant number of households will be affected by those changes.

Mr BARNETT: I refer to page 31 of the *Economic and Fiscal Outlook* and land tax in general. There are two changes to the land tax: one is an increase in the land tax rate, and the other is raising the exemption threshold from \$10 000 to \$50 000. In both of those changes - one is obviously answered in the budget papers - how many land taxpayers will be affected by each of those measures and how much will be raised by the increase in the land tax scale. Also, how much will be saved, if you like, by any increase in the exemption threshold? Perhaps the Treasurer can answer one question at a time. The first is; how many land taxpayers will be affected by the increase in the land tax scale, and how much money will that raise?

Mr RIPPER: The total impact of the changes is \$28.6 million in 2002-03, \$30.6 million in 2003-04 and \$32.7 million in 2004-05. At the top end of the scale, there are an estimated 1 200 taxpayers holding land with an unimproved value of above \$2 million. That is less than one per cent of all land taxpayers. At the bottom end of the scale, as I have already indicated, 52 000 owners of land valued at less than \$50 000 will be exempted from land tax. It does not take a genius to work out that a large proportion of that land will be in country areas. The owners of the land could theoretically be in the city, but the land is in the country and 52 000 taxpayers will be exempted from the need to pay that tax.

Mr BARNETT: The Treasurer has told me that the overall impact will raise a further \$28 million, but can he break down that figure into how much is raised by the increase and how much is lost?

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Mr RIPPER: I have not seen a break down; I have seen only the global figures for the changes to the taxation scale. Presumably, that figure is available, if not now, then as supplementary information.

Mr BARNETT: In the form of supplementary information, can the two changes to land tax be detailed with regard to the number of taxpayers affected and the financial impact of both of those changes?

Mr RIPPER: I will agree to give that as supplementary information if, in the communications by the Leader of the Opposition about land tax, he mentions that 52 000 land owners will be exempted from land tax as well as those that will pay, on the other hand, increased land taxes.

Mr BARNETT: I will be very happy to acknowledge the role of the Treasurer. A lot of people have been interested in some of his changes and there is quite a campaign to fight against "Ripper's tax"; the acronym is perhaps not acceptable.

Mr RIPPER: Banter aside, we will provide that information.

The CHAIRMAN: Before that is agreed to, for the record, would the Leader of the Opposition provide the page number and the output that he referred to?

Mr BARNETT: It was on page 31 of the *Economic and Fiscal Outlook*.

Mr BOWLER: On page 171 under details of the administered transactions revenue, there is a list of revenue measures that includes "stamp duty - insurance". What is the impact of the reduction of the stamp duty rate for workers compensation insurance?

Mr RIPPER: The Government implemented an election promise before the budget. That promise was to reduce from five per cent to three per cent the rate of stamp duty on workers compensation insurance premiums for small business. That stamp duty had been increased by the coalition Government. That reduction took effect from 30 June this year. It reduces revenue by \$5.4 million in the budget year, \$5.7 million in 2002-03, \$6.1 million in 2003-04 and \$6.5 million in 2004-05. From the point of view of some individual businesses, it is probably a small measure. However, it restores them to the same stamp duty position that existed prior to the coalition's increase.

Mr COWAN: As part of that question, the Treasurer might like to inform the committee about how much the estimated cost of workers compensation premiums went up at the same time. He should stop talking about savings to businesses when he knows full well that there was a premium increase that was far more significant than any reduction that might have occurred. That is more of an admonition than a question. However, I have a question that relates to the major initiatives for 2001-02 on page 151 of the *Budget Statements*. The Government is seeking to review state business taxes aimed at improving the efficiency, equity and simplicity of the State's taxation system. I have looked at each of the output measures and found, with one exception, that there has been an increase in the budget. I would have thought that the first area of efficiency would be a reduction in appropriations. There has not been a reduction, with the exception of the measure transferring the State fleet. What direction will this efficiency take? Obviously, it does not mean a lower administration cost.

Mr RIPPER: Before the election, the Government committed to having a review of business taxes, and we intend to honour that commitment. The review will examine efficiency in the taxation system, from an economic point of view, and it will also consider compliance costs that are imposed on businesses. Obviously, there will be consultation with business as we go through that review. I do not want to raise people's expectations unduly, as this approach, as well as its objectives, will not have the effect of reducing the overall level of taxation. We have to do it with no net budgetary implications. However, there are still improvements that we can make to reduce compliance costs on business and improve the overall efficiency of the taxation system. The member for Merredin's question focused on the cost of collecting the tax for the State, but there are also important issues in the cost to business in paying the tax and complying with the requirements.

[8.10 pm]

Mr COWAN: If there is an indication in the appropriations that every state government cost for the administration of the taxation that might be applied has increased, what confidence would we have that the tax regime will be simplified or compliance costs will be reduced if the Treasurer already acknowledges that, with the exception of one output measure which is transferring the management of the state fleet to the State Supply Commission, every input cost is going up?

Mr RIPPER: I need to understand the member for Merredin's argument. Is the member saying that the costs of administering the state taxation system appear to have risen in this budget?

Mr COWAN: It appears they have.

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Mr RIPPER: We have deliberately put more money into the system to tackle compliance issues, and we expect to get a return on the investment that we are putting in to improve taxation compliance. We are spending a dollar to earn a dollar - or more. That is the approach which we have taken. However, through a review of taxation, we might be able to come up with measures that reduce the administration burden on the State, and reduce compliance costs on business. As an example of what can be done, the land tax measure that exempts 52 000 people from paying land tax, is good for them, but it is also good for the administration because that is 52 000 assessments that do not have to be made and processed for relatively low amounts of revenue.

Mr COWAN: The point I was trying to make is that I understand Treasury has led the process of improvements and greater efficiency in the machinery of government. However, here we have an example in which the machinery of government in the efficiency indicators seem to have been overlooked within Treasury itself. Why is that?

Mr RIPPER: I was distracted by another conversation and missed the point made by the member for Merredin.

Mr COWAN: I understand that Treasury officials were major instigators in the review of the machinery of government, which was supposed to lead to greater efficiencies. However, I do not see an increase in the appropriation in the majority of the items listed under Treasury that gives me confidence that the measures that may have been taken in the improvement - or alleged improvement - of the administration of government agencies through the machinery of government were applied to Treasury. That is what I am seeking to find out.

The CHAIRMAN: I am struggling to hear the question in that statement.

Mr COWAN: Will the minister explain what machinery of government rules are applied to Treasury officials and the department?

Mr RIPPER: I hope the member for Merredin does not have an historic grievance against Treasury that relates to earlier budget processes in which he might have been involved, because I am fascinated by his interest in the efficiency, effectiveness and lack of extravagance of Treasury which reminds me of some of my ministerial colleagues.

Prior to the state election, decisions were made by the member for Merredin's Government which put additional money into the State Revenue Department for assessment and collection measures. These decisions resulted in the allocation of an extra \$1.1 million in 2001-02; \$1.03 million in 2002-03; and similar amounts in 2003-04 and 2004-05. Some of this extra investment in compliance measures was undertaken by the member for Merredin's Government. I have been given some interesting information about the impact of investment in compliance measures in state revenue in terms of extra revenue received. State revenue contains an item called "Compliance revenue 1999-2000" and it states that compliance activity produced additional revenue of \$14.3 million with additional investment in compliance activities in 2000-01 that produced additional revenue or grant reductions - we will call it additional revenue - of \$34.9 million. This investment is worthwhile in terms of the revenue base.

Mr MURRAY: I understand that the first home owners grant has stabilised the building industry to a degree. How many first home owners have received the \$7 000 grant?

Mr RIPPER: I am advised that the number of grants paid is 15 913, and the total value of grants paid is \$114.5 million.

Mr BARRON-SULLIVAN: I have a query that I could relate to output 2, which is financial management and advisory services, or I could relate it to the administered assets and liabilities. However, I would rather talk about the general government statements that are provided in the *2001-02 Economic and Fiscal Outlook*, and that is something I am sure the Treasurer is more familiar with off the top of his head. In the general government statement released during the election campaign - if the Treasurer does not mind I will stick with the cash flow figures because I am a cash man, but the same situation applies to the accrual operating statements - revenues for 2001-02 were revised upwards to \$10.4853 billion. Subsequent to that, the revenue estimates for 2001-02 were revised upwards again to \$11.33 billion. They went from \$10.49 billion to \$11.33 billion, which is an increase of \$846.5 million. First, what is the significance of that, because we have seen a substantial rise in the projected revenue for this financial year since the release of the election statements; secondly, when did Treasury first revise the election time financial projections; and, thirdly, when was the Treasurer advised of those changed revenue projections?

Mr RIPPER: Is the member talking about the revenue for the last financial year?

[8.20 pm]

Mr BARRON-SULLIVAN: I am talking about this financial year - 2001-02. The previous budget indicated that revenue for 2001-02 would be about \$9.9 billion. The cash flow statement in the pre-election financial

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projections showed an estimated revenue for 2001-02 of \$10.5 billion. Between then and the striking of this budget, it was determined that revenue would actually be \$11.33 billion. That is a significant increase on what Treasury told everyone during the election - that there would be \$10.5 billion of revenue this financial year. That figure rose to \$11.33 billion, which, ironically, is the same as that raised by the Government's priority dividend, although they are not related. Additional revenue of \$846 million has flowed into the system. What is the significance of that figure; when did Treasury first determine that figure; and when was the Treasurer advised?

Mr RIPPER: It would be helpful if the member could draw our attention to the particular page of the budget papers.

Mr BARRON-SULLIVAN: The cash flow statement on page 188 of budget paper No 3, *2001-02 Economic and Fiscal Outlook*, is the better table at which to look. I hope the Treasurer does not mind me referring to the cash flow statement rather than the operating statement, but I am old-fashioned. The figures are different from those in the operating statement, but the principle is the same. If it is a matter of record, I will accept the answers as supplementary information, and the Treasurer could instead answer only the question about the significance of the amount.

To reiterate: the pre-election financial projection statements issued during the election campaign projected that, in cash terms, revenue would be \$10.5 billion this year. The budget has ended up with over \$11.3 billion in revenue. What is the significance of that \$846 million increase, when did Treasury first project this huge increase in revenue and when did the Treasurer become aware of it? The Treasurer may not immediately be able to answer the last two questions. It may be a matter of record as to when Treasury first became aware of the extra revenue and when it first advised the Treasurer. It strikes me that, in cash terms, \$846 million has suddenly appeared. Even when the figures are calculated using the operating statement, estimated revenue has increased by \$570.8 million. Using the operating statement method, the pre-election financial projection was roughly \$10.1 billion, and the estimated revenue in the budget, shown on page 186, is \$10.7 billion. That is a \$571 million increase in revenue. When did Treasury know about that? The pre-election financial projection statement estimates revenue of \$10.1 billion for 2001-02, but the State has now ended up with an estimate of \$10.7 billion. I am keen to know also when the Treasurer knew about it.

Mr RIPPER: The relevant figures are in the operating statement rather than the cash flow statement. The pre-election financial projection statements forecast \$10.142 billion of revenue. The operating statement in the budget forecasts that revenue as \$10.713 billion. That figure was calculated after the introduction of the Government's budgetary revenue measures. They should be factored in, as should the exchange rates and oil prices. Factors that would have produced revenue increases are the Government's revenue-raising measures, the exchange rate being lower than applied previously, the oil price being higher than applied previously and commonwealth grants, which we have already discussed with the Leader of the Opposition. They are important, but much of the money that comes from the Commonwealth is tied and contains conditions about how it should be spent.

Treasury finalises the revenue estimates late in the budget process. Judgments must be made very close to the budget cut-off date. Those judgments are about the value of the Australian dollar and the oil price that should be the basis for the development of the budget. These matters are normally left until very late in the piece because we want a robust assumption that will survive the course of the budget year.

The Under Treasurer will advise when decisions on key factors like the exchange rate and the oil price are usually made.

Mr LANGOULANT: The last call we made on those was prior to 21 August, which is the close-off time for the budget numbers. The Treasurer has explained that the most significant movements are the exchange rate and oil prices. Of the revenue increase, \$200 million relates to tied grants, which have a corresponding expense, so that does not improve the bottom line. In fact, tied grants normally have matching arrangements and deteriorate the bottom line. Although the increase in the revenue sounds large, it is not large in percentage terms when compared with the history of the State.

Mr BARRON-SULLIVAN: Even without factoring in the additional revenue initiatives, as I think the Premier first called them -

Mr RIPPER: I am grateful that one deputy promotes another, but I am only the Deputy Premier.

Mr BARRON-SULLIVAN: We are part of a clan.

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Those additional revenue initiatives do not go within a bull's roar of accounting for this increase in revenue, although there are other factors such as oil prices and so on. Even without factoring in the revenue from tax increases, a substantial increase in revenue has been built into this budget. When the tax revenues are taken into account and the figures are calculated on an operating basis - rather than on a cash basis, which would make the figure higher - we find an additional \$2.3 billion in revenue for this year and the next three budgets. That calculation also does not include any growth factors. Coming up to the budget the Government was looking at \$2.3 billion in extra revenue, not including growth in revenues, over the next three years.

[8.30 pm]

Mr RIPPER: The point to note is that the Government inherited a set of forecasts that showed only a modest surplus in this budget year of \$25.5 million and the budget going into deficit in the out-years to the extent of \$68 million and \$41 million. The debt forecasts were in danger of costing the State its AAA credit rating. The Government has implemented its election commitments through savings. The Government has achieved more savings than is required to fund its election commitments. It has turned around the budget situation to the extent that the State is forecast to have an operating surplus for this budget year and the out-years. The Government had inherited a forecast of operating deficits in the out-years. That is the significance of the budget. To the extent that a lower value in the Australian dollar and higher oil prices have added to our revenues, it has assisted the Government's task in turning around the forecast budget deficits. Just as growth can come from factors outside the Government's control on the revenue side, growth can come from factors outside the Government's control on the expenditure side. It is important to take into account the growth in revenue in this financial year and compare it with other years. I hope I am not putting my Treasury officials on the spot. I am advised that the growth in revenue this year over last year is 1.7 per cent. That compares with growth in revenue in the previous year over the year before that of 8.7 per cent.

Mr BARRON-SULLIVAN: I am not interested in year-to-year comparisons. I am interested in the pre-election projections to this budget. I have saved the Treasurer the work; I have done it already. It shows that the revenue increase far exceeds the increase in expenditure. The additional revenue from taxes in 2001-02 is about \$35 million. I am sorry, I keep using the cash figures. I will use the operating figures. The operating figure is \$571 million, of which about \$35 million is from extra taxes. Can the Treasurer see the importance of this? I am trying to find out when the Treasurer knew that he was coming up to a budget with about \$535 million in additional revenue, albeit that there are some blow outs in expenditure. The budget papers showed that a lot of them occurred after the election, but we will not go into that. At some time the Treasurer had a cheque for \$535 million in revenue. Was 21 August the earliest the Treasurer knew about it?

Mr RIPPER: No. The member is misrepresenting me. I said that the final revenue estimates are done when the final call is made on the assumptions as to the value of the Australian dollar and the price of oil. There may be other assumptions, but they are the two key assumptions. The Treasury advises on movements in revenue toward the end of the budget process. We start with the spending side of the budget and go through all the savings measures that need to be implemented in different agencies. We go through the inescapable funding pressures, the unfunded commitments of the previous Government, the half-completed projects and the unrecognised spending blow outs. After that, decisions are made on items that any responsible Government would have to proceed with. Savings are made, election commitments are called in and decisions are made about which components of the legacy of the previous Government have to be recognised in the budget. Toward the end of the process, we get advice from Treasury on what is happening with revenue. A final call is made on that at the end of the budget process.

Mr BARRON-SULLIVAN: The Treasurer may want to provide the answer to the following question by way of supplementary. When was the Treasurer first advised by the Treasury of the amendments to the pre-election projections regarding revenue?

Mr RIPPER: I have consulted with my Treasury officials to reinforce my memory of the process. From May onwards, the Government was advised about changing revenue estimates. These things are always estimates. The final call on revenue was made close to the budget cut-off date of 21 August. The Government was in the position in which it had to turn around forecast deficits. Before it decided on the revenue measures to be put in the budget for the budget year and the out-years, it had to face significant deficit problems. Because it faced significant deficit problems and because it had financial management targets, the Government resolved to adopt the revenue measures that it did. The Government was facing significant deficit problems because it had a legacy from the coalition Government of unfunded projects, unrecognised budget blow outs, unfunded commitments and financial pressures that should have been recognised, such as the collapse of the computer system supplying TEE results to year 12 students. Those are matters that any responsible Government would have to recognise. The Australian dollar has been lower in value than it has been previously and oil prices are

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higher than previous government assumptions. That has assisted the Government to deal with the legacy of the previous Government. It would have been terrific had there been additional money from those ordinary revenue movements to deal with the legacy. There was not sufficient money from the revenue movements to deal with the legacy and to turn around the forecast deficits that the Government was left with. The Government needed to produce services that were robust enough to survive the possibility of revenue moving in the other direction. Just as revenue can increase as a result of the increase in the value of oil on the world market, revenue can decrease if the price of oil falls. Just as revenue increases as the value of the Australian dollar falls, revenue can decrease as the value of the Australian dollar rises. The Government needed robust enough surpluses to deal with the possibility of those changes. Given the legacy of budget blow outs and unfunded commitments on one hand and forecast deficits on the other, and given the need for robust enough surpluses, the Government embarked on the revenue raising measures in the budget.

[8.40 pm]

Mr BARRON-SULLIVAN: I have hogged the process for a while, but I have one final, very quick question. The Treasurer said that he was first advised in May about the position of the budget. Would that have been a verbal briefing by the Under Treasurer? I do not know how the process works. Does the Treasurer get a written briefing?

Mr RIPPER: Matters go to Cabinet -

Mr BARRON-SULLIVAN: Do they go to you first?

Mr RIPPER: No, they go to the Public Accounts and Expenditure Review Committee.

Mr BARRON-SULLIVAN: Is that part of the cabinet process?

Mr RIPPER: That is right.

Mr COWAN: On the same issue, I take on board what the Treasurer said about budgeting and budgeting proposals. Should any contingency arise, would the Treasurer not provide any funds that have not already been appropriated? I use as an example the promotion of tourism in regional Western Australia - notwithstanding the fact that airlines would not take tourists anywhere. The \$5 million that was allocated for that purpose came from the regional fund. The regional fund was allocated \$25 million, which probably already had been eaten into by the \$15 million shortfall that regional development experienced under this budget. The Government appropriated moneys for that contingency from funds that had already been appropriated for a specific purpose. Will the Treasurer follow the practice of taking money from existing budgetary items every time a contingency arises, or in future will unfunded items have to be funded through the Treasurer's Advance authorisation and appropriation?

Mr RIPPER: We will consider each circumstance on its merits. My view is that the previous State Government used the Treasurer's Advance authorisation too often.

Mr COWAN: That has been a practice for years. Many years ago, BankWest was funded through the Treasurer's Advance, so please don't come that line with me.

Mr RIPPER: Use of the Treasurer's Advance grew substantially under the previous Government. It was a symptom of a lack of financial discipline within the Government. The member well knows that having failed to get approval through the budget process for their initiatives, ministers were inclined to go around the budget process and go directly to Cabinet to seek cabinet approval between budgets for their initiatives. I dealt with this matter in question time about a month or so ago.

Mr COWAN: Now that you have given the political answer, tell us what you will do.

Mr RIPPER: I want to break the public service culture whereby if allocations were not made in the budget for initiatives, ministers would go to Cabinet with a separate submission to try to get funds for the project before the next budget process. I will try to knock off requests for additional funding between the budgets. However, I cannot say that I will do that absolutely, because there may well be a circumstance in which additional funding is justified and it is not possible to get it from any existing appropriation. However, that can be done if the Government has a robust surplus. That is one of the reasons that the Government is trying to build bigger surpluses across the forward estimates.

The Government wants to have the capacity and the flexibility to respond to unforeseen circumstances without jeopardising the financial management targets. However, at the moment we have a surplus of only \$51.6 million, which is not a huge surplus. If people request additional expenditure, I will firstly examine the

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existing appropriations and reprioritisation within the existing appropriations, before I contemplate taking money from the pretty modest surplus.

Mr COWAN: That is political speak for sitting on your hands.

Mr RIPPER: The member for Merredin says it means that the Government is sitting on its hands; however, it is quite the contrary. We are trying to manage the budget responsibly and we are exercising financial discipline. We cannot have it both ways.

Mr COWAN: By saying no to important contingencies? That cannot be done. The Treasurer will discover that that cannot be done.

Mr RIPPER: I will give the member an example of the boost we gave to regional tourism. We took money from the regional investment fund and from another appropriation. When there is a new budgetary priority, the first response of any Government should be to examine the old priorities to find out whether an old priority can be dispensed with or exist with less funding in order to fund the new priority. If that approach is not taken, deficits will be run up in the future and a debt burden will be passed on to our children, who will pay for the services of this generation. This generation must pay for its services. To do that, we must run a surplus that is in the budget to survive all the different factors that can influence a budget. If the Government has a sufficiently large surplus, it has the flexibility to respond to unforeseen events. The Government is trying to build that capacity into the budget.

Mr BARNETT: I refer to page 18 of budget paper No 3. I am sure the Treasurer knows the answer to this question off the top of his head. The fiscal strategy states -

In addition to its election commitments, the Government has implemented new initiatives to the value of \$79 million in the budget.

What are those initiatives that total \$79 million?

Mr RIPPER: While I seek further advice, I draw the attention of the Leader of the Opposition to chapter 3 of budget paper No 3 entitled, "Delivering Our Commitments". That chapter runs through the election commitments of the Labor Party. Under each portfolio is an explanation of each of our election commitments, and there is usually another section headed "Other Major Commitments". For example, money is provided in the budget for the Department of the Premier and Cabinet for electorate offices' information systems. The Department of Agriculture will receive money for the red imported fire ant eradication program. That certainly was not an election promise of the Labor Government, but it was an issue that emerged because of a red imported fire ant infestation in Brisbane. A national agreement was made that all the States would contribute to the attempt to eradicate those pests. The Leader of the Opposition can work out how those commitments were funded, by examining chapter 3 of budget paper No 3.

Mr BARNETT: By way of supplementary information, I seek an explanation of how that \$79 million figure was reached.

Mr RIPPER: I am happy to provide that supplementary information.

Mr BARNETT: If that \$79 million includes, as I understand it, extra money committed to forest issues, does it also include the extra \$90-odd million announced by the Minister for Education for computers, online teaching and learning? During the election campaign, the Labor Party made a commitment of \$30 million. Subsequent to the election, the Minister for Education made a public commitment to spend \$120 million on computers. Has that extra commitment of \$90 million, which ironically matched exactly what the previous Government committed, been included in that \$79 million? Indeed, is it included in the budget?

[8.50 pm]

Mr RIPPER: I am advised that the \$79 million does not include the \$90 million, as one would expect. That is being funded from the budget of the Department of Education. However, the \$79 million does include allocations for the laptop computers for teachers. The Leader of the Opposition might recall, when he was Minister for Education in the previous Government, signing the enterprise bargaining agreement for teachers, which included the provision of laptop computers. He may also recall that he did not make provision in the forward estimates for those laptops. I imagine he was punting on being returned to Government, and being successful in the forthcoming budget process in obtaining that money. The previous Government was not returned, and this was a matter which the present Government thought had been funded, because it thought an EBA would be funded across the forward estimates. It turns out that this matter was not funded, and this was one of the matters for which we had to provide the funding.

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Mr BARNETT: Can the Treasurer confirm, therefore, that the additional \$90 million for online teaching and learning has not been provided for in the budget?

Mr RIPPER: I am not aware of the statement made by the Minister for Education. The Leader of the Opposition should participate in the education estimates process.

Mr BARNETT: The Treasurer has made a specific point of costing extra commitments made by the Government, but he has not included within that costing the \$90 million. It does not appear, to my scrutiny, in the education budget. I therefore ask the Treasurer, is it, or is it not included?

Mr RIPPER: My advice is that that money is being funded from existing allocations within the education budget. The Leader of the Opposition should pursue that matter with the Minister for Education.

Mr BARNETT: That is a bit hard, because the Minister for Education's estimates committee is on at the same time as this one. As the Treasurer made such a point of focusing on commitments, both pre-election and post-election, he could have just rolled that one off the top.

Mr RIPPER: I will consult with my colleague the Minister for Education and provide supplementary information on the funding for the computer program. My current understanding is that money was allocated in the education forward estimates for computing matters. Unfortunately, there was no money for the laptops, but there was computer expenditure in the education budget, which is providing the resources needed for the Minister for Education's announcement.

Mr BARNETT: During the election campaign, the Labor Party's policies included a costing of \$30 million for online teaching and learning. I made the point publicly at the time that that was inadequate. Subsequently the Minister for Education, without admitting he was wrong, miraculously announced \$120 million for online teaching and learning. That amount does not appear in the *Budget Statements* as an extra commitment within the \$79 million. I do not believe - and I do not think I have missed it - that it appears in the education portfolio. The figure for extra commitments of \$79 million is clearly incorrect. There are two options. Clearly that figure is incorrect either because it does not include the extra \$90 million - up from \$30 million to \$120 million - for online teaching and learning, or online teaching and learning is not being provided.

Mr RIPPER: I will consult with my colleague the Minister for Education and provide the Leader of the Opposition with a reconciliation of those matters.

Mr BARNETT: Page 18 of *Economic and Fiscal Outlook* states -

The priority dividend was set at 1.5% of an agency's total operating expenses in 2001-02 and 2% in the following years. The Government subsequently extended the dividend task by \$50 million a year with the aim of generating sustainable operating surpluses across the forward estimates.

Where will that additional \$50 million be taken from?

Mr RIPPER: The additional \$50 million was rolled into the priority dividend. Priority assurance dividends can be seen throughout the *Budget Statements*. For each agency, the amount that has been saved for the priority assurance dividend is listed. Page 74 of the *Budget Statements* shows how successful the Government was in its cost saving exercise. It can be seen that the Government was seeking to save \$1.176 billion, but its savings effort produced less than that - \$851.5 million - because some agencies found it impossible to realise the savings in any politically acceptable or realistic way, so the Government made the appropriate decision. The important point is that \$851.5 million is more than the cost of the Government's election commitments.

Mr BARNETT: I do not think the Treasurer has answered my question. I understand how the Government assumes it will fund its promises. However, a lump sum of \$50 million has been added to the priority dividends. I am asking how that additional \$50 million is apportioned between agencies.

Mr RIPPER: It was spread across agencies in the same way as the priority dividend.

Mr BARNETT: Was it additional to the 1.5 per cent and the two per cent?

Mr RIPPER: That is right.

Mr BARNETT: Does the Treasurer not think that that \$50 million is remarkably close to the Government's projected net operating surplus of \$51.5 million? Is not the Government's surplus illusory? Is this not the nominal \$50 million to give the impression of a surplus?

Mr RIPPER: I was wondering when we would get to the third line of argument. The Leader of the Opposition started with lack of spending in key areas, then moved on to his opposition to taxes and now he is on to the third

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line of argument - the shaky surplus. It has been important for the Leader of the Opposition to separate these lines of argument, because if they were all put together at once it would have been totally untenable. The Government can remember what happened at 7.00 pm, and at 4.00 pm, so it will not really wash; the three lines cannot be argued at once.

Mr BARNETT: It does not matter what I argue, the Treasurer has gone out and applied the priority dividend, which is major dodgy public finance, and has now assumed a \$50 million additional priority dividend. He has just plucked it out of the air, John Gerovich-style, and said there is now a \$50 million saving, which will be spread over agencies, and by sheer magic, it produces a net operating balance of \$51.5 million. The Government's surplus is illusory.

Mr RIPPER: What would your surplus be?

Mr BARNETT: \$251 million - you've got it.

Mr RIPPER: So the Opposition, if re-elected, would have returned a surplus of \$251 million?

Mr BARNETT: My point, Treasurer, is that the Government's surplus of \$51 million is notional, because it is a figure that was simply plucked out of the air. The priority dividends are dubious in any case, but a mythical figure has been plucked out of the air and defined as a surplus, and the Treasurer claims to be a good fellow. My final question is, what odds can you get in Treasury on delivering a \$51 million budget surplus?

Mr RIPPER: I am not the Minister for Racing and Gaming, so I do not have experts in this area. The important point is that, in the election campaign, the Labor Party said it would save \$976 million. The target was increased by a further \$200 million to \$1.176 billion. Actually, the Government missed the target, and only saved \$851.5 million - less than was forecast in the election campaign. The Government has been quite open about that, and it is in the budget papers, where anyone can see it. It has been part of the briefings I have given to interest groups, including business. We saved \$851.5 million. The Leader of the Opposition cannot say that there is an illusory \$50 million in that figure. If we had simply been in the business of imposing illusory savings targets, we would have imposed an illusory savings target of \$1.176 billion over four years. We are openly and honestly saying that we could not save \$1.176 billion but that we could save \$851.5 million.

[9.00 pm]

Mr BARNETT: The Treasurer has been pretty good at answering questions - a bit better than the Premier. However, let me read what his budget papers say about this -

The Government subsequently extended the dividend task by \$50.0 million a year -

Listen to this bit -

with the aim of securing sustainable operating surpluses across the forward estimate period.

The Treasurer has admitted in the budget papers that he invented the \$50 million for the simple reason of being able to produce a surplus. This is the \$51 million surplus. The Treasurer has a notional surplus. If he achieves \$50 million of additional savings, he will get the surplus, but at the moment the entire surplus, bar \$1.5 million, is notional, and put into the budget papers, on the Treasurer's own admission, for the sole purpose of showing a surplus. It is phoney.

Mr RIPPER: We tried to increase the savings target in order to deliver a robust surplus. We went into the election campaign putting forward relatively small surpluses. The Treasury advice to me was that if I aimed for only small surpluses, I had a real risk of not delivering a surplus at the end of the financial year. We were not able to achieve our objective of robust surpluses through the priority and assurance dividend measure. That is one of the reasons it was necessary for us to put revenue measures into the budget.

Our ministers know very well that this is not illusory, because our ministers and their agency heads have been before the expenditure review committee, all of them on at least two occasions and many of them on more than two occasions. They have been through those hard discussions. We spent 13 hours one weekend in expenditure review committee meetings. Some of the meetings were robust, to put it mildly, as we debated the pros and cons. We were not afraid to make difficult decisions, which the Leader of the Opposition has criticised. He has called our savings illusory but he has bagged us in the media for knocking off the vehicle immobiliser scheme. He cannot have it both ways: either the savings are illusory or they are all too real, painful and wrong. The Leader of the Opposition has argued both.

Mr BARNETT: I am trying to identify them.

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Mr RIPPER: The Leader of the Opposition has argued both lines. He has said that they are illusory and the next day said that they are horrible. They are either illusory or they are horrible; they cannot be both.

Mr BARNETT: It is a matter of opinion. This budget is fundamentally flawed.

Mr RIPPER: The Leader of the Opposition's alliteration does not constitute analysis. Members opposite would not know a sustainable surplus because they delivered four operating deficits in a row.

Mr BARNETT: We have heard all that garbage.

Mr RIPPER: Garbage is it? The Leader of the Opposition should acknowledge his own financial record. The financial record of the Court Government was not bad during its first term but it fell away terribly in the second term.

Mr DAY: How does the Treasurer define an assurance dividend?

Mr RIPPER: It is a mechanism designed to provide us with an assurance that we will have robust operating surpluses.

Mr BARNETT: As distinct from the priority assurance dividend - what a farce!

Mr DAY: How do you define the priority?

Mr RIPPER: I have answered that already.

The CHAIRMAN: I do not want to adopt a timekeeper's role. The committee's role is to determine its process. However, I advise members that there is still a substantial amount of work to get through.

Mr RIPPER: We have the Auditor General waiting. We must deal with energy. The other matter we need to take into account is that I represent Hon Nick Griffiths and his agencies.

Mr BARRON-SULLIVAN: I turn to page 188 of the *Economic and Fiscal Outlook*, budget paper No 3. I will preface my question by saying that I remember sitting on the other side when the Treasurer and the then Opposition's leader took great delight in taunting the coalition Government about its projected cash flow deficits last year which did not eventuate. They made out that the cash flow assessment in general government accounts was very important. On 12 May 2000 the then Leader of the Opposition was quoted in the newspapers as making such an attack. I have examples of the Treasurer as well as the then Opposition's leader asking questions on this. I can remember the Treasurer asking -

Mr RIPPER: The member has not got them there or he would be reading them out.

Mr BARRON-SULLIVAN: I have read them out in Parliament. I am looking at the quotes in *Hansard*.

Mr RIPPER: He is quoting himself, is he?

Mr BARRON-SULLIVAN: I am quoting myself quoting the Treasurer. The Treasurer has obviously laid a great deal of importance on the cash flow statements under the general government account, as has the Labor Party. I am sorry to take so long prefacing the question, but the Treasurer will see the importance of it in a moment. The policy document titled "Manage the State Budget responsibly" and on which the Labor Party was elected to government, reads -

Labor is also committed to returning the general government sector into surplus, as measured in the current cash Government Finance Statistics terms.

"GFS" is not exactly my preferred term because it excludes proceeds from privatisation. I do not think it is necessarily the be-all and end-all. However, the GFS assessment of the cash flow statement under the general government account shows a \$380 million deficit for this year.

Mr RIPPER: Would the member remind us of the coalition Government's pre-election financial projections statement?

Mr BARRON-SULLIVAN: The Treasurer is now sitting on that side of the Chamber. There are still deficits over the next two years. The cash flow deficit for this year is \$428.2 million. Those are the facts, are they not?

[9.10 pm]

Mr RIPPER: The general government cash flow statement on page 188 gives the economic and fiscal outlook. The member will see the cash surpluses in the bottom line of the cash flow statement. In 1999-2000 it was minus \$386.2 million; in 2000-01 minus \$159.6 million; in 2001-02 it will be minus \$380.3 million - the pre-election financial statement forecast minus \$396.3 million; in 2002-03 it will be minus \$62.7 million - the

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coalition forecast minus \$487.7 million; and in 2003-04 we forecast a \$29.8 million surplus - the coalition forecast a deficit of \$531 million.

It is interesting to compare those figures. However, the measure that this Government has adopted for judging the bottom line is the accrual operating balance, which measure the previous Government adopted. In fact the previous Government abandoned the use of a cash balance system and the previous Premier refused to acknowledge that cash balances were important. He adopted the accrual operating balance as the measure and this Government has adopted the accrual operating balance as the measure. In the run-up to the last election we concentrated on the accrual operating balance in all our formal pre-election policy statements. That is not to say that cash figures are not important. However, out of all the figures in the budget, people now make judgment on the accrual operating balance.

If the member is interested in cash balances, he could do worse than read the commentary of Alan Wood in *The Australian*, because he is one of those budget commentators who is interested in cash figures. I recall that Alan Wood commented that the turnaround in the figures was stunning - I believe that was the word he used. Alan Wood is a conservative financial commentator, not normally given to praise of Labor Governments. However, if the Deputy Leader of the Opposition is a cash man, Alan Wood is a cash man and I recommend he read Alan Wood.

Mr BARRON-SULLIVAN: Does the Treasurer dispute the fact that the Labor Party went to the election with a policy that it would gauge the degree of responsible financial management in the budget by the government finance statistics surplus deficit situation and that it has ended up with a deficit in three out of four years?

Mr RIPPER: No, we went to the election saying that we would achieve and maintain an operating surplus; retain the State's AAA credit rating; maintain or improve the net worth of the total public sector; and maintain the tax competitiveness of the State. We have met the financial management targets that we promised in the election campaign and thereby honoured our contract with the people.