Division 9: Treasury and Finance, $1 693 554 000 -

Mrs D.J. Guise, Chairman.

Mr E.S. Ripper, Treasurer.

Mr D.R.M. Smith, Executive Director (Economic).

Mr T.M. Marney, Under Treasurer.

Mr M. Barnes, Acting Executive Director (Finance).

Mr A. Kannis, Executive Director Agency Resources.

Mr W.R. Sullivan, Commissioner of State Revenue.

Mr J. Tondut, Executive Director, Office of Government Procurement.

Mr C.G. Wright, Acting Director Fiscal Strategy.

Mr P.L. Goonting, Chief Finance Officer, Office of Native Title.

The CHAIRMAN: This estimates committee will be reported by Hansard staff. The daily proof *Hansard* will be published at 9.00 am tomorrow.

The estimates committee's consideration of the estimates will be restricted to discussion of those items for which a vote of money is proposed in the consolidated fund. This is the prime focus of the committee. While there is scope for members to examine many matters, questions need to be clearly related to a page number, item, program or amount within the volumes. For example, members are free to pursue performance indicators that are included in the budget statements while there remains a clear link between the questions and the estimates.

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

The Treasurer may agree to provide supplementary information to the committee, rather than asking that the question be put on notice for the next sitting week. For the purpose of following up the provision of this information, I ask the Treasurer to clearly indicate to the committee which supplementary information he agrees to provide, and I will then allocate a reference number. If supplementary information is to be provided, I seek the Treasurer's cooperation in ensuring that it is delivered to the committee clerk by 9 June 2006, so that members may read it before the report and third reading stages. If the supplementary information cannot be provided within that time, written advice is required of the day by which the information will be made available. Details in relation to supplementary information have been provided to both members and advisers, and accordingly I ask the Treasurer to cooperate with those requirements.

I caution members that if the Treasurer asks that a matter be put on notice, it is up to the member to lodge the question on notice with the Clerk's office. Only supplementary information that the Treasurer agrees to provide will be sought by 9 June 2006.

Mr P.D. OMODEI: On page 181, under "Significant Issues and Trends" is an item headed "Financial Management". The fourth dot point refers to the program of functional reviews. How many reviews are scheduled to take place this year? Will the Treasurer please provide details of the review process, advise the make-up of the review team and indicate what savings are anticipated as a result of the functional reviews? Also, is the government continuing its policy of creating super ministries? Obviously it is with the Department of Environment and the Department of Conservation and Land Management.

The CHAIRMAN: Five questions in one. The Leader of the Opposition is off to a good start.

Mr P.D. OMODEI: It is early in the morning, Madam Chair.

Mr E.S. RIPPER: In the budget speech I indicated that the agencies to be reviewed in 2006-07 are Community Development, Industry and Resources, Premier and Cabinet, Education and Training, Planning and Infrastructure and Housing and Works. The review process is one that involves the appointment of an independent reviewer, which is my responsibility.

Mr P.D. OMODEI: Reviewer, singular?

Mr E.S. RIPPER: If the Leader of the Opposition will let me continue, he will find that there is more complexity to it. The review process involves the appointment of an independent reviewer, which is my responsibility. A steering committee governs the review, which includes the Department of the Premier and Cabinet, the Department of Treasury and Finance, a representative from the agency and usually a representative from the relevant minister's office, and support is provided by both the Department of the Premier and Cabinet and the Department of Treasury and Finance.

Mr P.D. OMODEI: What about super ministries?

Mr E.S. RIPPER: The government very deliberately reduced the number of government departments in 2001. When we came to office, we inherited a public sector with 46 government departments, I think. We have more than halved the number of government departments, and this is important for the effective and efficient use of taxpayers' dollars. We do believe in general that we should keep down the number of government departments. There will be occasions when there might be a reason for the creation of a separate department. We found such occasions with the former Department of Justice. We also thought it important to create a Department of Water. However, as the Leader of the Opposition will know from a recent announcement, we will be amalgamating the Department of Conservation and Land Management and the Department of Environment.

Mr P.D. OMODEI: I have a supplementary question. What happened to the 46 chief executive officers from those government departments that were amalgamated?

Mr E.S. RIPPER: We had an election promise, as the Leader of the Opposition knows, to reduce the number of people in the senior executive service, and we implemented that promise. That was achieved by a variety of measures, such as natural attrition and redeployment. In some cases people took redundancy.

Mr P.D. OMODEI: How many are left? What happened to the 46? Obviously, some took redundancy, and there was natural attrition. Where did the rest of them go? I can put that question on notice some time down the track.

Mr E.S. RIPPER: With respect, Madam Chairman, that is really a question for the Minister for Public Sector Management. I am the Treasurer and the Minister Assisting the Minister for Public Sector Management, but I am not the minister responsible for CEOs.

Mr T. BUSWELL: My question ostensibly relates to the item "Financial Management" under "Significant Issues and Trends", and it refers to the supposed repayment of New MetroRail debt of $1.275 billion, in round figures. In September 2004 and at some stage in 2005 when the government repaid respectively $481 million and then $244 million of consolidated debt, why did the government not tie that debt repayment to specific payments at the time, and why has it chosen to tie this debt repayment to a specific project?

[9.10 am]

Mr E.S. RIPPER: As I have previously explained to the house, the Department of Treasury and Finance advised me that the government would have the capacity to make a significant debt repayment as a result of the stellar performance of the Western Australian economy and the cash surplus expected at the end of 2005-06. Therefore, I discussed with the Department of Treasury and Finance what would be the appropriate debt to repay. As I have previously advised the house, the general government sector is net debt free, so the sector that provides the headline budget figure - the operating balance - and the sector that funds schools, police stations, hospitals and many other community facilities, which are not income generating in themselves, is net debt free. Our debt, on a net debt basis, is with the government trading enterprises. Most of the government trading enterprises are profitable and service their debt from their commercial returns. There is, however, one government trading enterprise that, by the nature of its business, will not be able to service its debt from its commercial returns; it will have to receive subsidies from the general government sector for any debt servicing. That agency is the Public Transport Authority. Consequently it became a logical and sensible decision to use our debt repayment capacity to pay off the single biggest project ever engaged in by the government, and indeed by the Public Transport Authority, using the capacity available to us courtesy of the performance of the Western Australian economy.

Mr T. BUSWELL: Once again, why did the Treasurer not tie the earlier repayment of consolidated debt - the $480 million and the $244 million - to discrete projects? Does he accept the argument that a payment out of the general government sector by way of interest subsidy to the PTA would have been no different from a payment in by way of dividend payment from another trading entity, if its debt had been reduced and therefore its interest costs reduced and, I assume, its profitability increased? The net overall impact is nil. Did the Treasurer receive discrete advice from Treasury that he should direct those funds to the PTA or was that a decision he made?

Mr E.S. RIPPER: I would be very happy to have the Under Treasurer outline the advice that the Department of Treasury and Finance provided.

Mr T.M. Marney: The advice that Treasury provided to the Treasurer on this matter went to the issue of what was the most logical parcel of debt to retire. Having retired discrete parcels of consolidated fund debt associated with, for example, the Art Gallery and the Zoo, we looked at how the surplus could best be applied in the most financially responsible way. Our assessment was quite broad in looking at the options, which included going to issues of dealing with outstanding superannuation liabilities and so on. Purely on the basis of what was the most logical and financially responsible parcel of debt to retire, the advice we provided to the Treasurer was that the New MetroRail debt was the appropriate debt to retire with the cash surplus that would arise at year end.

Mr E.S. RIPPER: I do not think I have answered another question asked by the member about why we did not pay off the debt of another government trading enterprise. Pursuant to national agreements, we have corporatised our government trading enterprises. In fact, the corporatisation occurred under the previous government. Those government trading enterprises are required to operate commercially, and they are operating commercially, pursuant to those national agreements and reforms instituted by the previous government. It would compromise the commerciality of those organisations were they to get a sudden equity injection that paid off debt, because they would then not need to service that debt. Frankly, there is not a debt problem with regard to our government trading enterprises, particularly if one compares them with the gearing in the private sector. The logical piece of debt to pay off was the debt belonging to an agency that did not, and would never, have the commercial returns to service that debt.

Mr T. BUSWELL: My final question relates to the nature of the transfer to the PTA, which really is a cash injection, as I understand it; I think that is the term used in the budget papers. That cash injection will be used ostensibly to retire $913 million of debt that has been accumulated to date. The balance of the funds, which is about $360 million, I assume will be maintained by the PTA in an appropriate form. Does the Treasurer accept that there is an argument that until that $362 million is fully expensed - in other words, used to pay off what would otherwise have been debt financed - there is an opportunity cost to the state and therefore to the taxpayers, because that money has not been used to retire existing debt, upon which interest will still be levied? In other words, debt could have been retired effective immediately and no interest payments would have been made, whereas the $362 million is ostensibly a cash injection into the PTA. That means there is an opportunity cost, being any differential interest, and that opportunity cost will be exacerbated because of the time lag involved in drawing down that money.

Mr E.S. RIPPER: I am advised that the outstanding gross borrowings of the consolidated fund are only $49 million. On a net debt basis the general government sector is debt free. This is something that is possibly difficult for the opposition to comprehend. It is a very significant feature of our finances that our non-income generating sector of government is debt free on a net debt basis. The logical use for the cash surplus was to pay off the New MetroRail debt and not incur any further debt on the New MetroRail project.

Mr T. BUSWELL: Is the Treasurer saying there was no other debt retirement destination for that $362 million, which is now effectively sitting in the coffers of the PTA?

Mr E.S. RIPPER: I am saying the general government sector is net debt free.

Mr T. BUSWELL: I understand that.

Mr E.S. RIPPER: If we wanted to pay off debt, we had to choose a government trading enterprise. Apart from the PTA, government enterprises are profitable and are servicing their debt. Another option would be to pay off superannuation liabilities. This was financially, taking into account all the considerations, the best use of the money. While the money remains with the PTA and is not yet expended on the railway project, it will of course be earning interest.

Mr M.W. TRENORDEN: What is the unfunded liability of state superannuation?

Mr E.S. RIPPER: The figure can be found in budget paper No 3, on page 223, in appendix 1, under "Unfunded superannuation liabilities". The figure is $5.751 billion.

Mr M.W. TRENORDEN: So that is not worth paying off?

Mr E.S. RIPPER: It would have been an option to pay off some of that but the better option was to pay off the New MetroRail debt.

Mr T. BUSWELL: Is there a cost in maintaining that liability?

Mr E.S. RIPPER: No. The practice of all governments has been to address those liabilities from the old pension fund and from Gold State Super on an emerging basis. At the moment, superannuation for employees in this financial year is concurrently funded. That superannuation liability is a historic issue that is dealt with on an emerging cost basis and, as pointed out by the Under Treasurer, that liability will decline over time.

[9.20 am]

Mr M.W. TRENORDEN: Is it not the case that agencies are now funding that unfunded liability? People are retiring every day. That unfunded component of the old scheme is funded by revenue from those agencies.

Even those people who transferred to the new scheme are affected. It is not correct to say that that is not the cost.

Mr E.S. RIPPER: I have said that this superannuation liability is financed on an emerging cost basis. The annual cost of the pensions is provided for this year and will be provided for next year and so on. The number of people receiving the superannuation pension under the old scheme will gradually decline and this liability will be extinguished over time. We are not adding to the liability, because that scheme has closed. The successor to that scheme, Gold State Super, has also closed and we are concurrently funding the superannuation obligations incurred as a result of our employment of people today.

Mr M.W. TRENORDEN: That is a bit of a misnomer. It still has to be paid by the agencies. It still has to be paid by taxpayers.

Mr P.B. WATSON: I refer to the first dot point under "Government Procurement" on page 183, which states that the Government's procurement reform initiative is a five-year program that commenced in 2003-04. What savings have arisen and are there any plans to put more offices in regional areas?

Mr E.S. RIPPER: The procurement reform program is generating significant savings for the government. We are factoring in savings of more than $100 million as a result of smarter government buying. That is a significant benefit for taxpayers because it helps us drive their dollars further. Our reform program aims to support the regions and support the Buy Local policy. That is why we have established regional buying centres in three locations. They are still at the commencement stage but the object of the exercise is to have procurement done in those regional centres by amalgamating the regional buying needs of agencies in that region and shifting the procurement, in effect, from a variety of head offices in Perth to a consolidated regional centre. We have centres in Kalgoorlie, Geraldton and Bunbury. I notice that there is a very important town - city, in fact - that is not on that list. Provided that the regional buying centres perform as we expect, I would certainly be interested in extending such a process to Albany in the future.

Mr M.W. TRENORDEN: I would like to congratulate Treasury for the way it has developed the state budget papers over the years. As the Treasurer knows and as Treasury officials know, I have a concern about the reporting process. The general reporting process is outstanding but the capacity of members of Parliament to make use of the documents before us today is diminishing. Quite a few members share that view. The first dot point on page 182 mentions the Financial Administration Legislation Amendment Act 2005. I understood when performance auditing was introduced into Australia in the early 1980s that we would move to outcome auditing. My reading of the Financial Administration Legislation Amendment Act suggests that it will not use the process of performance auditing but it may move to some sort of process of outcome auditing. Can the Treasurer comment on what the immediate future holds for auditing? Will we remain with a performance audit or will we move to the ultimate outcome auditing?

Mr E.S. RIPPER: Agencies must have audited effectiveness and efficiency indicators in their annual reports. We intend that that continue. Those indicators are linked to the outcomes for which they are funded. Perhaps I should hear from the member what he would expect to be different. What is the member's definition of outcome auditing?

Mr M.W. TRENORDEN: The argument is that now that all Australian governments have gone to outcome-based program managed budgets, at the end of the funding of any program, even if it is a 10-year program, there should be an outcome audit. There will be performance auditing during the life of the program, but when the funding finishes there should be an outcome audit. The purpose of that is to assess not just how it performed but whether that program should be re-funded. That process happens within Treasury and some other areas of public administration. It makes that process more accountable to the public, and makes it clearer for government agencies to see the process of any particular program.

Mr E.S. RIPPER: The outcome structure review group reviews the outcome structure that agencies develop to guide their activities. As we prepare a budget as part of the general work of the expenditure review committee, we are looking at outcomes, whether we are getting value for money for particular programs and whether particular programs should continue. In addition, every now and again the Auditor General chooses a program to audit. He has a big focus on outcomes. For example, the Auditor General chose to audit the government's response to the implementation of the Gordon committee recommendations.

Mr M.W. TRENORDEN: I do not want to have a debate; this is not a point for debate. I am seeking information on where the Treasurer is going. The Auditor General did not do an outcome audit; he did a performance audit. An outcome audit would be a significantly different process. I am sure there are outcome-based processes within the administration. Should they not be public?

Mr E.S. RIPPER: The member raises an interesting question, to which I do not have a definite answer at the moment. It may be best for me to reflect on what the member said, and perhaps have a further discussion with him outside these committee sessions to get a better understanding of what he is asking.

Mr M.W. TRENORDEN: I agree that the budget papers are outstanding. I am concerned about the process for members of Parliament. Would the Treasurer be happy to talk with me - I have had a chat to some of the people close to him about changing that process - about a different format for members of Parliament?

[9.30 am]

Mr E.S. RIPPER: I am very pleased to hear the member say that he considers the papers first class. The papers regularly receive the highest ranking amongst the budget papers of the states and territories when Access Economics does its surveys. Access Economics ranks the openness and transparency of the papers very highly. Nevertheless, I appreciate that many members of Parliament have some feelings of frustration about their ability to understand the budget as it is presented. It may be that there is a gap between what accountants would regard as professional best practice and what members of Parliament expect to see. There should always be a dialogue, in particular between the Public Accounts Committee and the Department of Treasury and Finance, about what needs to be in the budget papers. We can probably do more to provide briefing sessions for members of Parliament on how the budget papers can be most profitably read. Such a session was held recently. How many members turned up?

Mr M.W. TRENORDEN: It was hugely attended.

Mr E.S. RIPPER: I think the audience was a quality audience, if not a large one.

The CHAIRMAN: Let me guess.

Mr P.B. WATSON: The member for Albany was present.

The CHAIRMAN: The member for Albany makes three - excellent!

Mr E.S. RIPPER: I suggest that probably the best way forward is for the Public Accounts Committee and the Department of Treasury and Finance to have a continuing dialogue about any ways in which we can make the budget papers more accessible to members of Parliament while maintaining the professionalism of the papers from an accountancy point of view for people outside the government who expect the papers to reach the best standard attainable in the private sector.

Mr T. BUSWELL: I will pursue for a little longer the issue of whether the cash injection to the Public Transport Authority could have been used to retire any other debt instrument; and, if this is so, whether there is an opportunity cost in terms of interest forgone on the debt that could have been retired. As a point of reference, I am looking at the *Economic and Fiscal Outlook*. I accept that the Treasurer is saying that the government was net debt free at the end of last year, with debt at almost negative $2 billion. However, a component is referred to of almost $2 billion of gross debt. As I read it, that gross debt is made up of finance leases, loans and debt securities and derivatives in a net liability position. Am I to take it from that that, associated with the general government consolidated debt, there are instruments to the value of around $2 billion? If I can accept that as a given, could it not have been possible for some of those instruments to be retired as part of this process, as opposed to the PTA debt?

Mr E.S. RIPPER: On page 211 of budget paper No 3, in the table headed “General Government Balance Sheet at 30 June”, there is a line item for borrowings, which shows gross borrowings of $1.165 billion for 2005-06. I cannot see where the member’s figure of $2 billion came from. The figure I referred to is a gross figure, and it is offset by the positive financial holdings of agencies in the general government sector.

Mr T. BUSWELL: It is still debt, is it not, upon which interest is being paid?

Mr E.S. RIPPER: That interest is offset by cash holdings upon which interest is being received.

Mr T. BUSWELL: However, it is still debt that could have been retired with some of the money that went to the Public Transport Authority, had the Treasurer chosen to do so. He could have still retired some of that general government debt with the money that went to the PTA.

Mr E.S. RIPPER: I have already indicated that Treasury came to the government and said that there was a capacity to repay debt, and invited us to examine the options. We examined the options, and the best option was to repay the New MetroRail debt. The opposition cannot stand the fact that the government is repaying debt. The opposition has in mind an old-fashioned stereotype that this is not something that Labor governments do. Well, we are doing it; we are repaying debt on the single biggest capital works project that any Western Australian state government has ever engaged in.

Mr T. BUSWELL: I will put one proposition to the Treasurer. He could have used the money that I am assuming currently resides in a bank account controlled by the PTA, which would be an amount of around $362 million, to retire other debt, because despite the Treasurer's assertions that the state is net debt free, it does not mean that there are no debt instruments that could have been retired. The Treasurer's assertion is misleading. If the Treasurer had repaid that other debt, the interest saved for the state would have been more significant than the interest currently being saved by the state while that money is sitting in a PTA bank account. That is the cost that the state must pay for the Treasurer's little song and dance about paying off the PTA debt for political reasons. There is a cost, and the Treasurer cannot deny that there is a cost.

Mr E.S. RIPPER: Watch me! I deny that there is a cost. I absolutely reject the assertions of the Deputy Leader of the Opposition.

Mr T. BUSWELL: Where is the $362 million in cash? How much is it earning, and how much are we still paying on the general sector debt that the Treasurer could have repaid? Quite clearly the difference is the cost.

Mr E.S. RIPPER: The funds will not be drawn down by the PTA until the PTA is required to make the payments. The money is with the Department of Treasury and Finance. Presumably, it is invested, as the public bank account is invested, and it is earning a rate of return. The fault in the member's analysis lies in looking at only one side of the argument.

Mr T. BUSWELL: I am not. What is the difference between the rate of return -

The CHAIRMAN: Member, this is not an opportunity for a debate across the chamber. You may seek the call to ask another question.

Mr T. BUSWELL: My apologies, Madam Chair. Thank you for that guidance. What is the difference between the rate that that money is currently earning and the highest rate that is being paid on consolidated debt that could have been retired?

Mr E.S. RIPPER: This whole issue is managed by the Western Australian Treasury Corporation, which is a very successful organisation that is coming up to its twentieth anniversary. Members can count back the years and will see that it was an initiative of a previous Labor government to establish the Treasury Corporation as a very successful government trading enterprise. The Treasury Corporation manages the government's borrowings, and makes a profit. I think the member, in his frustration with what the government has done, is ignoring the fact that there are two sides to the ledger. The debt can be paid off, forgoing the interest that would otherwise be paid on that debt, or the money can be held as a cash balance, receiving interest. Those issues are managed by the Treasury Corporation on a global basis, and it makes a profit.

Mr T. BUSWELL: Is the Treasurer saying that it is cheaper to hold the money than to pay off debt?

Mr E.S. RIPPER: The Treasury Corporation manages the money, and it makes a profit. The best financial approach, on the analysis presented to me, was to pay off the debt and to finance the rest of the railway line. That was the outcome of the analysis. It is not unusual to do this. After all, the previous government set aside $300 million from the privatisation of AlintaGas as a cash holding for the financing of the railway. It is not the first time that a government has set aside cash for the financing of a railway. This was done by the previous government at a time when the general government sector was not net debt free. The previous government could have used that $300 million from the privatisation of AlintaGas to pay off debt when it actually had net debt, but instead it was used as a cash injection for the railway.

Mr T. BUSWELL: I think the government has tried a little political game. There is a cost, and the Treasurer knows that.

Mr E.S. RIPPER: I absolutely reject the assertion that there is a cost. The Deputy Leader of the Opposition has comprehensively failed to demonstrate that there is a cost. If he thinks there is a cost, he should present the evidence.

[9.40 am]

Mr T. BUSWELL: I am waiting for the Treasurer to tell me the rate of interest that the $362 million is receiving. I want the matter clarified so I can make a determination on this matter. This is the third time I have asked the Treasurer and he will not tell me. What is the rate of interest that the $362 million is generating for the taxpayers of Western Australia while it sits in a government bank account compared with the highest rate of interest on the component of consolidated debt that it could have retired? The differential, if there is one, is the cost. It has nothing to do with the profitability of the Western Australian Treasury Corporation.

Mr E.S. RIPPER: The Deputy Leader of the Opposition seems to have in his mind an image of the Department of Treasury and Finance with a blue passbook as its financial mechanism for the public bank account. The public bank account is invested on a more sophisticated basis than that. It earns a significant rate of return.

Mr T. BUSWELL: I accept that. Does the Treasurer honestly think that I would think like that? Does the Treasurer think that I would have that simplistic view of a group of professional people who manage the state's finances? Of course I do not. I have a view of the Treasurer's political desire to cover up the costs of the rail project. I want to find out how much the taxpayers of Western Australia are paying in the interest differential - the return on funds differential - so that we can understand what we are paying.

Mr P.W. ANDREWS: I have a point of order. The Chairman said at the beginning of this division that we would try to have as many questions asked as possible. The Deputy Leader of the Opposition has had four attempts at the same question. It is time that we moved on.

Mr T. BUSWELL: I would not mind an answer!

The CHAIRMAN: The Treasurer can answer in whichever way he chooses. The member may not necessarily like it. The Treasurer may respond, and then we will move on.

Mr T. BUSWELL: He does not have to answer.

Mr E.S. RIPPER: I understand the point that the Deputy Leader of the Opposition is trying to make. He is trying to make the point that the rate of return on the cash balance held while the Public Transport Authority completes the railway might be less than the interest rate that is being paid on some other debt. I think that is the point he is making. Obviously, I do not have those figures in front of me. The difference may well be positive. In any case, the difference is likely to be extremely -

Mr T. Buswell interjected.

The CHAIRMAN: Member! Do not test my patience.

Mr E.S. RIPPER: The difference is likely to be extremely small. In any case, I will investigate that issue and I will provide some supplementary information to the Deputy Leader of the Opposition and the house.

[*Supplementary Information No A56.*]

Mr P.W. ANDREWS: I refer to item 132 under "Administered Capital" at page 180 of the *Budget Statements.* The item refers to the Electricity Networks Corporation; that is, Western Power (Networks). It indicates \$6 million worth of investment. How much of that money will be spent in the south east metropolitan area? I have noticed that power reliability in my electorate has improved in the past 18 months when compared with the period preceding that, which is often referred to as the "dark ages". How much of the capital will be invested in my area?

Mr E.S. RIPPER: Although I am not the Minister for Energy, the member sitting next to the member who just asked the question is more likely to have his electorate benefit than the member who asked the question. The funding is only for the Rural Power Improvement Program.

Mr P.W. ANDREWS: Once again, it is a huge amount of investment for the Albany region. Is that correct?

Mr E.S. RIPPER: The Albany region may well benefit, as may other regions outside the metropolitan area. There is a special program called the Rural Power Improvement Program. My belief is that that line of funding is allocated for that program. Of course, in the budget, we have approved a huge capital works program for Western Power. We have approved more than \$600 million in this financial year alone and more than \$2 billion across the forward estimates. The Minister for Energy will be able to provide more details about how the \$600 million and the \$2 billion will be spent, including what will happen in the member's electorate. The member's electors can be assured that the government has made a strategic decision to fix the electricity network and that is why the government is spending those very large sums of money.

Mr P.D. OMODEI: I refer to the "Major Initiatives For 2006-07". The first dot point at page 192 refers to the Commonwealth Grants Commission's review of its methods for distributing the goods and services tax revenue between the states. What progress is being made with that review, given the Treasurer's constant criticism of the grants commission formula? Can the Treasurer advise whether there is any broad support from other states and territories to change the grants commission formula? If so, what form will that change take?

Mr E.S. RIPPER: The review will last until 2010.

Mr P.D. OMODEI: No change until 2010?

Mr E.S. RIPPER: It is unrealistic to expect any changes until 2010. There are also risks for the state as well as potential advances. The state loses a share of commonwealth grants as its revenue-raising capacity is assumed by the Commonwealth Grants Commission to rise. However, the state does receive an increased share of commonwealth grants because the grants commission makes an assessment that providing services across one-third of the continent costs more than providing services in a compact state like Victoria. We do not want to throw out the baby with the bathwater. We would not want to lose some of the recognition of our extra expenditure responsibilities as we gain better recognition of the cost of promoting the economic development that the state is experiencing. We have got to play this game carefully with an eye to the state's future interests. We did well in the last five-yearly review; an extra $200 million share of commonwealth grants were obtained as a result of that review. Nevertheless, the whole grants commission process will impact significantly on the state. Our increased revenue-raising capacity, whether we use it or not, will result in the grants commission, under existing arrangements, removing as much as $700 million from our share of GST grants by 2009-10. We have a good team in the Department of Treasury and Finance that works on these issues. These are complicated and complex issues that are not understood in their detail by very many people across the country. We fight hard for Western Australia's needs and interests.

Mr P.D. OMODEI: I would expect the Treasurer and his team to fight hard for the state. As such, nothing much has changed. However, the Treasurer's constant criticism and verbalising about the grants commission and the state's share is just that - it is just a front when, in actual fact, any major change could adversely affect the state's allocation. Is that what the Treasurer is saying? Is the Treasurer saying that the situation should stay as it is because there is a risk that, if we change it, we could lose even more money?

[9.50 am]

Mr E.S. RIPPER: I think there was a question in there somewhere. There are two issues, and they do get confused in people's minds. The first issue is the share of the commonwealth grants - mainly goods and services tax grants - that the state receives. Western Australia currently receives slightly above its population share of those grants. Two factors broadly operate in determining that. WA receives more than its population share because of its expenditure responsibilities, although counteracting that is the tendency for WA to receive less than its population share because of its revenue raising. In subsequent years the performance of the Western Australian economy will lead to an increased assessment of Western Australia's revenue raising capacity, whether or not that capacity is used, and, consequently, Western Australia's share of commonwealth grants will decline.

Mr P.D. OMODEI: That has always been the case.

Mr E.S. RIPPER: The system should be reformed. The current system penalises states for economic success. The commonwealth-state financial arrangement is almost the equivalent of what people in the welfare area call the poverty trap. The better a state performs, the less it receives in commonwealth grants. Where is the incentive from a state financial point of view to make the big investment in infrastructure in the Burrup Peninsula or to support the Ravensthorpe nickel project? Arguably the state makes a loss in those investments in state budgetary terms.

The second issue we must think about is the broader analysis of how much the commonwealth collects in taxes and royalties from Western Australia and how much it spends in Western Australia. The last analysis for 2004-05 shows that the commonwealth collected $28 billion in taxation and royalties from Western Australia. It spent $24 billion of the $28 billion on pensions, salaries to commonwealth public servants, direct commonwealth programs and grants to the state government and local governments. In other words, in 2004-05 the commonwealth government spent $4 billion, or $2 000 from each Western Australian, on the other states. A similar analysis in 1986 would have shown that Western Australia would have received a small subsidy from the commonwealth government. However, since then the amount in taxes and royalties that the commonwealth government has collected from Western Australia and has spent elsewhere has been climbing. The analysis for 2003-04 shows that the commonwealth government spent $3 billion on subsidies to the other states from the taxes and royalties that it had collected from Western Australia. As I said, in 2004-05 that figure was $4 billion. When the analysis is done for 2005-06, I would not be surprised if it reached $5 billion. This is a growing issue as the Western Australian economy continues to outperform the rest of the country. Where did Peter Costello's surplus come from, and where did his capacity to offer tax cuts to individuals - mostly wealthy individuals - come from? It came from the company tax, the income tax and the royalties generated by the Western Australian resources sector. It is part of the $4 billion issue.

Mr P.D. OMODEI: I have a question related to revenue. If the Gorgon project had been located onshore rather than on Barrow Island, would that have made a difference to the revenues of the state?

Mr E.S. RIPPER: I do not think so. The key factor in the revenue received is that the gas field is located in commonwealth waters. Conceivably the state could try to engage in double taxation on some of these projects. For example, huge fees could be charged for the use of state land and so on to get a return. However, if that were done and the commonwealth maintained its regime, we would run the risk of losing the project because the overall taxation level on the project would be so high. It is a matter of great frustration. If the Gorgon project proceeds, the commonwealth government will receive about $11 billion on a net present value basis, and it will receive $17 billion on a nominal basis over the 30-year life of the project. On a net present value basis the state government will receive just $300 million. The disparity in the returns is frighteningly large.

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

Mr T. BUSWELL: I refer to page 191. I have given up on debt!

Mr E.S. RIPPER: So the member should. There will be nothing to argue about by the time we have finished.

Mr T. BUSWELL: The point was made. I refer to the interim report of the state tax review. Last year the Treasurer talked about an interim report that would be released in the lead-up to the budget. In March a wonderful press release was issued with a photograph of the Treasurer and the Premier on the front. The press release states that the abolition of the three taxes was just the beginning of the process and that the state tax interim review would be released at the time of the 2006-07 budget. The 2006-07 *Economic and Fiscal Outlook* states that the measures introduced in March comprise stage 1 of the state tax review. On page 191 of the *Budget Statements* it is stated that the first stage has been completed and that an interim report was published for comment when the 2006-07 budget was brought down. Where is the interim report and how has the recommendation of the interim report shaped the Treasurer's position thus far?

Mr E.S. RIPPER: The interim report will be released shortly.

Mr T. BUSWELL: Has it been produced?

Mr E.S. RIPPER: It has been produced and will be released shortly. The government did not have the benefit of the interim report prior to the budget cut-off date. Therefore, the government had to make decisions without the report in front of it. Nevertheless, the government had all the submissions that have been made to the state tax review, and the government received informal advice from the Chairman of the State Tax Review Reference Group about the nature of the discussions that had occurred in the reference group and about the balance of opinions on the reference group. Analysis of the submissions and the feedback from the chairman of the reference group shows that there was significant support for giving priority to the tax measures that we undertook; that is, the abolition of mortgage duty in two tranches, the abolition of rental duty and the foreshadowed abolition of the non-real property element of business property conveyance duty.

Mr T. BUSWELL: Did the Treasurer have that discussion with the chairman before or after the announcement was made on 21 March?

Mr E.S. RIPPER: I had a discussion with the chairman of the reference group before the government made the decision.

Mr T. BUSWELL: The budget papers state that the interim report was published for comment at the time of the budget. Why was it not published? Is it not available for comment?

Mr E.S. RIPPER: I received the interim report relatively late in the process. Obviously the government must examine a document before it releases that document to the public. The report will be available shortly.

Mr T. BUSWELL: It appears that the announcements of 21 March, which is two days after my birthday I hasten to add -

Mr E.S. RIPPER: I will put that in my diary.

Mr T. BUSWELL: It is 19 March - St Joseph's day. I will be 41 next year.

Mr E.S. RIPPER: That is easy for me to remember because it is the anniversary of my election to Parliament.

The CHAIRMAN: Although I am thrilled to hear that the Deputy Leader of the Opposition will be one year older, can he get back to the question?

Mr T. BUSWELL: It has been suggested that the abolition of those three taxes, which some people have contended should have been abolished prior to that, was done to pre-empt the Treasurer's visit to Canberra either later that week or the following week, and to improve what was a rapidly eroding negotiating position at that meeting. The Treasurer made the announcement irrespective of what would have been the outcome of stage 1 of the state tax review. The Treasurer imposed those outcomes on the review process. The state tax review played no part in the Treasurer forming the determination. The determination was formed for political reasons to maximise the Treasurer's bargaining position when he went to Canberra.

[10.00 am]

Mr E.S. RIPPER: I reject those assertions, although there is nothing wrong with the state seeking to maximise its bargaining position at any meeting it has with Canberra.

The situation is this: the state has honoured the provisions of the intergovernmental agreement signed by the former Treasurer and Premier, Richard Court. We abolished the taxes that were required to be abolished and we reviewed the taxes that were required to be reviewed. We abolished some of the taxes that we reviewed; in fact, we abolished taxes that were not part of the agreement at all. However, the commonwealth took a position that all taxes listed for review should, in fact, be abolished. That was not our view. We believed, and we still believe, that we honoured the agreement. We have legal advice to the effect that we have honoured the agreement and we have a Public Accounts Committee report confirming that we have honoured the agreement. We then established the State Tax Review Reference Group to inquire into the priorities of Western Australians for tax cuts. There is substantial support for the tax measures we have announced as the priorities in this budget. I believe all the submissions to the state tax review are on the web site. If the Deputy Leader of the Opposition gets onto the web site and reads the submissions, he will see that organisations, such as the Chamber of Commerce and Industry of Western Australia, have said that these so-called ITA - income tax assessment - taxes should be the priorities. There was therefore a commonwealth demand and there was a Western Australian consultative process. That Western Australian consultative process identified those taxes as priorities for tax-cutting efforts. That was confirmed by an examination of the submissions and by an informal report to me from the chairman of the reference committee on the nature of discussions that had occurred in the reference committee. I believe that many members of the reference committee have a much bigger agenda for tax cuts than the ones that have been announced, but I think that committee supports what we have done.

[Mr G. Woodhams took the chair.]

Mr P.B. WATSON: I refer to the completion of stage 2 of the state tax review referred to in the second dot point on page 192.

Mr T. BUSWELL: They have not completed stage 1.

Mr P.B. WATSON: We are looking into the future here. I will just go back a page. We are going into the future, but I always want to check out these things. Before I was rudely interrupted by the member for Vasse, I was about to ask the Treasurer: who was on the tax review committee, and was there any input from regional areas?

Mr T. BUSWELL: Give us a break! It was a Clayton's review.

Mr P.B. WATSON: No. I am looking after regional areas. The difference between the member for Vasse and me is that I look after my constituents.

Mr E.S. RIPPER: I thank the member for Albany for his incisive question. The members of the reference group are: Philip Achurch; Anne Arnold; Nigel Barker; Julie Bremner; Daryl Cameron; Mark Cole; Greg Craven; John Dastlik; Trevor De Landgrafft from the Western Australian Farmers Federation - I think he is also an Albany resident; is that right?

Mr P.B. WATSON: I would not call him an Albany person.

Mr E.S. RIPPER: The other members of the reference group are: Peter Fitzpatrick; Gavan Forster; Ron Hardaker; Scott Grimley; Fiona Harris; Garry Hyde from the Pastoralists and Graziers Association; Jonathan Ilbery, chair; John Langoulant; Joe Lenzo; Professor Dale Pinto from the Taxation Institute of Australia; Barry MacKinnon; Brian Reynolds; Graham Short from the Western Australian Fishing Industry Council; Rod Slater; Justin Walawski; John Walker, President of UnionsWA; Rae Walter, President of the Western Australian Council of Social Service; and John Wood from Caravan Industry Australia. There is also a technical committee, as some of the issues relate to the fine print of taxation legislation. The representatives of the technical committee are: Rami Brass from Taxpayers Australia; Graeme Cotterill from the Taxation Institute of Australia; Jonathan Ilbery from Jackson McDonald; Guy Lehmann from the National Institute of Accountants; Koo Lloyd-Kane from the Australian Institute of Conveyancers; Rod Maurich from the Finance and Treasury Association; Peter Moltoni from the Institute of Chartered Accountants in Australia; Professor Jeff Pope from Curtin University of Technology; Evelyn Tucker from the Independent Settlement Agents Association; and Grahame Young from the Law Society of Western Australia.

Mr P.B. WATSON: I did not notice anyone in that list from small business in regional areas. I wonder whether that is an oversight.

Mr E.S. RIPPER: Philip Achurch is the chairman of the Western Australian chapter of the Small Enterprise Association of Australia and New Zealand. There are also representatives from the Western Australian Farmers Federation and the Pastoralists and Graziers Association.

Mr M.P. MURRAY: My question refers to the first dot point on page 198 under "Major Achievements For 2005-06". The other dot points under that heading are also relevant. The first dot point indicates that significant additional savings and buying efficiencies have been delivered to agencies as a result of government procurement reforms, with better-informed buyers, and an upgrading of staff skills. Will the Treasurer quantify how those improvements have resulted in savings that can be redirected to areas of need, and the impact of those reforms in country areas?

Mr E.S. RIPPER: We are expecting savings of more than $100 million from the procurement program. The government is paying significantly less than it once paid for a ream of paper or for a personal computer on a public servant's desk, to give two examples. The government is also hoping for savings from process reform. The implementation of a standard set of procurement processes that are worked on by people who have more training and more professional development in procurement, with the option to move on to better systems, will result in not only savings from lower prices, but also greater efficiency in the purchasing process. I will leave my comments there and ask Mr Tondut to give a few examples of the pricing advantages that we have achieved and the process improvement savings that we have made.

Mr J. Tondut: We are reviewing quite a number of commonly purchased products across government. We have established a lot of new frameworks to cover areas such as telecommunications and the purchasing of personal computers, audiovisual gear and the like. By focusing more on standardising the products that government agencies buy, we have been able to achieve significant savings compared with past practices. The average savings range from between three and four per cent for some items to up to 20 and 30 per cent for others. These savings have been made in the purchase of things such as personal computers, notebook computers and a range of other commodities. In terms of efficiency benefits, as the Treasurer has said, by working together with the many government agencies who buy products, and with the State Solicitor's Office, and by standardising our processes as well as our documents, we can take a lot of cost out of the system, thereby making it easier for both government agencies and people who tender back to government to reduce their costs. Therefore, the savings are resulting in quite significant efficiency benefits as well.

Mr E.S. RIPPER: One example is the pick-and-buy facility that now exists on many common-use contracts. In the past, despite the fact that there was a government contract and a panel to oversee purchasing, before agencies could purchase a product they had to get quotes from three suppliers, two of whom would not get the work. That created extra administrative costs for the government and extra costs for the suppliers who did not get the business. If the contractor establishes prices ahead of that process and buyers can go to the contractor knowing what the price is and can pick and buy, there is an obvious saving in expenses. Bureaucratic reform has occurred under a comprehensive program to take some of the red tape out of the purchasing for both government and suppliers.

[10.10 am]

Mr M.P. MURRAY: Is the whole system being centralised in the city at the expense of jobs in the country? Although I understand that reforms must take place, has there been any indication of the likely impact on country regions? It is all right to save at one end of the process, but not at the risk of impacting on some regional centres.

Mr E.S. RIPPER: The Buy Local policy remains, and a very significant amount of our overall purchasing is done from local suppliers. That initiative applies in regional buying centres, one of which is in Bunbury, to shift procurement from head office decision making, which might bias a decision towards a Perth firm. That process aggregates what all the agencies require in a particular regional centre, using a regional contractor. We are not putting the savings from procurement into the bank and sitting on them; we are spending it on nurses, teachers, police officers and infrastructure of various sorts.

Mr M.P. MURRAY: They will need it if everybody is in the city.

Mr E.S. RIPPER: A significant part of the state's wealth comes from the regions.

Mr P.D. OMODEI: I refer to the third dot point on page 192 about advice to government on taxation policies to improve the competitiveness of the Western Australian economy. Given that the proportion of total tax attributed to stamp duties has increased from 19 to 28 per cent since this government came to office, and that the proportion attributed to payroll tax and stamp duty on motor vehicles has not changed, how can the Treasurer justify the obscene increases in taxes that have occurred since he has been Treasurer, particularly given the state's booming economy and government surpluses?

Mr E.S. RIPPER: The Leader of the Opposition confuses the issue of tax rates with that of the revenue raised by particular taxes. When I had occasion to correct the Deputy Leader of the Opposition on this matter I used the line, "It's the economy, stupid". That was the phrase that Bill Clinton used to remind himself to focus on that particular priority. Our booming economy and the strength of our housing market in particular is returning increased revenue to the government. The government is putting that revenue into debt repayment, infrastructure provisions and service improvements. The government has also implemented tax cuts. As a result of decisions we have made over the past two years, $700 million worth of tax cuts will be made in the next financial year and $3.3 billion worth of tax cuts over the four years. We are not the first government in this state to have increased tax rates.

Mr P.D. OMODEI: No other state government has had a boom like this one, and the Treasurer knows it. Total tax revenue has increased on property by 36 per cent.

Mr E.S. RIPPER: The record for tax increases by a state government in any one year is held by the Court government, of which the Leader of the Opposition was a member.

Mr M.W. TRENORDEN: It depends whether tax is defined as general revenue, or taxation revenue.

Mr E.S. RIPPER: Perhaps I will define tax as it was defined in 1998-99. Stamp duty rates on conveyances and the value thresholds for stamp duty concessions for homebuyers was increased, which raised $60 million; stamp duty rates on insurance policies increased, raising $51 million; motor vehicle licence fees increased, raising $100 million; concessions for diesel vehicles and interstate heavy vehicles were removed, raising $11 million and the gold royalty was introduced, raising $51 million.

Mr T. BUSWELL: A small figure is missing from the Treasurer's figures.

Mr M.W. TRENORDEN: It is $250 million a year.

Mr P.D. OMODEI: It is GST revenues. Is that factored into the Treasurer's figures?

Mr E.S. RIPPER: It is interesting that the member for Avon, who was a backbench supporter of that government, should use the figure $250 million. He is almost right. In 2006-07, the 1998-99 tax increases raised $258 million. The previous year he was part of a government that was into the community for $82 million. The record for tax increases in any one year in this state is held by former Treasurer Richard Court.

Mr T. BUSWELL: Is that in absolute tax collection terms?

Mr E.S. RIPPER: No; it is for the policy impact of tax measures in this Treasury and Finance analysis. I have tabled this analysis on many occasions and I would be very happy to table the updated analysis that applies to the figures for 2006-07.

The CHAIRMAN: During estimates committees, ministers cannot table documents or whatever they might like to table. However, the Treasurer can inform members who are interested that the information is available in the chamber. It can be placed on one of the benches on the government side if the Treasurer so desires.

Mr E.S. RIPPER: We learn something new every day in Parliament. I will provide as supplementary information, a Department of Treasury and Finance analysis of the policy impact of tax measures undertaken by various governments over the past decade or so.

[*Supplementary Information No A57.*]

Mr P.D. OMODEI: Can the Treasurer also provide by supplementary information the reasons he did not change the tax-free threshold for first home buyers that are now based on $250 000, given that the median house price is now $355 000. Why did he not change that tax-free threshold? The Treasurer can provide it by supplementary information if he wishes.

Mr E.S. RIPPER: I am advised that the median purchase price for first home buyers is $275 000. Obviously, there is an argument to improve the stamp duty exemption for first home buyers, introduced and already adjusted once by this government, to take account of rising house prices. The government had to make a decision about priorities of tax cuts. We had gone through that process of consultation with the community and with the reference committee. We considered the submissions and determined that the priorities would be the abolition of mortgage duty, which will assist home buyers as well as small business and the abolition of rental duty, which will also assist businesses, particularly video and DVD hire stores. We have also foreshadowed abolition of the non-real element of stamp duty based on business for property conveyances. Clearly, there is an argument for looking at first homebuyer stamp duty exemptions in the future. However, the data from first homebuyer grants appears to indicate that plenty of first home buyers are still in the market. As I recall, we had to increase the allocation for the first home owner grant scheme because of the number of first home buyers in the market.

[10.20 am]

Mr P.D. OMODEI: That is why it was cut back by $15 million.

Mr T. BUSWELL: That was for Keystart.

Mr E.S. RIPPER: When the opposition has its act together, I will continue. The first home owner grant scheme, like Keystart, is demand driven. We had to increase the allocation to the first home owner grant scheme because of the extra demand from first home buyers. That extra activity by first home buyers gives me some confidence that they are still out there and able to exist in the market. Nevertheless, there is an argument for this issue to be regularly examined. The other issue that I have to take into account is the current state of the housing market. If we were to apply additional concessions right now with the heat that is in the market, there is a real risk that all it would do is add to prices rather than deliver any benefit to first home buyers. Care has to be taken not to either disadvantage or advantage any first home buyers, because all we will do is stimulate home price increases.

Mr P.D. OMODEI: I asked for supplementary information on the median house price for first home buyers, to which the Treasurer immediately volunteered the information. Will the Treasurer provide a briefing note on the stamp duty exemption level? It can be by way of supplementary information.

Mr E.S. RIPPER: I can provide this information now. The most recent available first home owner grant data -

Mr P.D. OMODEI: I would like the answer by way of supplementary information. Is there a briefing note?

Mr E.S. RIPPER: I will actually give the information to the Leader of the Opposition, ahead of supplementary information. The most recent available first home owner grant data suggests that in the 2006 March quarter, the median first home purchase price was $275 000 for the state as a whole. Around 30 per cent of first home buyers purchasing an established home in Perth paid no stamp duty and a further 45 per cent received a concession. About 67 per cent of first home buyers in regional areas who purchased an established dwelling paid no conveyance duty and a further 24 per cent received a concession. In total, 1 334 first home buyers of established homes in Western Australia received a full conveyance duty exemption and a further 1 435 first home buyers received a concession. Twenty-two per cent of first home buyers received no concession.

Mr P.D. OMODEI: Obviously that is a briefing note for today's proceedings. Is that the advice the Treasurer received on first home buyers and the stamp duty exemption when he was framing the budget?

Mr E.S. RIPPER: That particular information was not available at the time the budget was being framed.

Mr P.D. OMODEI: Did the Treasurer give any thought to raising the first home buyer concession?

Mr E.S. RIPPER: Of course that issue was considered.

Mr P.D. OMODEI: On what basis and on what information? The Treasurer said that there was no information.

Mr E.S. RIPPER: I did not say that there was no information. I said that the particular information that I just read to the house has become available since the budget cut-off date. However, the government examined a variety of taxation issues as it developed the budget. In the end, we went with the priorities that the Leader of the Opposition is aware of - the abolition of mortgage duty, which assists home buyers, including first home buyers; the abolition of rental duty; and the abolition of non-real property as part of the basis of business conveyance duty. My view is that something like the stamp duty payable by first home buyers has to be looked at in every process. Even if is not adjusted in every budget process, it has to be examined in every budget process.

Mr P.D. OMODEI: So you failed to deliver.

Mr T. BUSWELL: The Treasurer knows that tax is one of my favourite subjects. Therefore, I will chime in with one question. I notice in the budget papers that the government has been true to form because with a number of taxes, with the exception of stamp duty on conveyancing, a steady increase over the next few years is forecast. I refer to the stamp duties listed on page 208, which appear under the heading "Details of the Administered Transactions Income". In 2004-05 the stamp duty collected was $1.218 billion. Funnily enough, in 2005-06 the forecast stamp duty take is just over $1 billion, a reduction of $215 million, or 17 per cent. We all know that the government collected $1.8 billion. The budget estimate was overshot by 84 per cent, or $840 million, according to my calculation. Throughout the budget papers the indication to the people of Western Australia is that the government is expecting stamp duty on conveyancing to fall again. Over the next two years it is expected to fall from $1.843 billion to $1.572 billion. From my calculations on my big button calculator, that is about a 14.7 per cent, or 15 per cent, reduction in stamp duty receipts to the state of Western Australia over the next two years. How can we have such a massive miscalculation this financial year? I have read a fair bit of the papers on the changes to revenue forecasts and I think they are good, especially the one on oil pricing. I am very keen to understand the Treasurer's justification for forecasting a fall of 15 per cent in stamp duty on property purchases when we know that property values are increasing. I am sure the Treasurer is aware that, averaged over the past five years, Perth housing prices have increased by 16.1 per cent. The estimated increase in land tax would indicate that the Treasurer still feels that property prices will remain strong. To what extent is the government forecasting a fall in transactional activity in the property market?

Mr E.S. RIPPER: Before I answer the question I will provide some additional information on first home buyers. In the 2005-06 budget an amount of $123 million was allocated to first home owner grants. We are now expecting to spend $138 million on first home owner grants for the 2005-06 financial year. That indicates that there are more first home buyers in the market this current financial year than we predicted at the time we did the budget. That gives us some confidence that first home buyers are still out there and still able to find houses, despite the general increase in property values. I do not discount the fact that some individuals have experienced difficulty in finding the type of house at the price they are prepared and able to pay. I am not saying that it is not an issue. However, members can see that there are a fair number of first home buyers in the market; in fact, more than we expected when we prepared the budget.

On the question of stamp duty, two things have to be taken into account. One is that stamp duty is not just revenue received from residential dwelling purchases; there is commercial stamp duty involved as well. For example, any transaction that involves the transfer of significant mineral tenements can generate stamp duty. From time to time some large one-off transactions generate very significant amounts of stamp duty. It would be unrealistic to expect those large one-off transactions in the mining industry to occur every year. The current receipts of stamp duty have been boosted by those special high-value transactions. The other issue is, of course, the position of the housing market. The housing booms in other states have peaked; they have come to an end. Prices are falling and transactions are lower. The boom in the housing market in Western Australia is continuing, but all up-swings in the housing market eventually come to a conclusion. We cannot have, year after year, the increase in values and the frenetic activity that we have had in the past financial year. It is prudent to expect that there will be some falls in housing market activity and eventually prices, and that will have its impact on stamp duty returns.

[10.30 am]

Mr T. BUSWELL: The Treasurer just stated that in addition to transactional activity in the housing market he is expecting there to be a fall in house prices in Western Australia. What is the assessment on which the Treasurer has based his claim that housing prices in Western Australia will decline over the next two years?

Mr E.S. RIPPER: In 2006-07 housing demand is forecast to remain strong, while supply is likely to remain constrained. The assumption is that house prices will grow by around 10 per cent during 2006-07. However, in 2007-08 the housing market is expected to be characterised by flat house prices, or zero growth - in real terms we would say that house prices will fall because other things go up in price - and a decline in turnover of around 10 per cent.

Mr T. BUSWELL: I want to be 100 per cent clear about this, because I have every reason to believe that in two years we will probably ask the Treasurer why this went astray. The Treasurer's advice is that in 2007-08 housing prices in Western Australia will fall in real or nominal terms and will remain flat. The Treasurer's advice is that the transactional rate of activity in the housing market will fall by 10 per cent.

Mr E.S. RIPPER: That is my advice.

Mr T. BUSWELL: Effectively, the Treasurer is forecasting - based on the current buoyancy of the housing market - a significant downturn in the Western Australian housing sector in 2007-08. In response to the comment just made by the member for Collie-Wellington, that is not correct. To go from an excited growth state to a flat position is a downturn because it means that the level will fall from a higher level to a lower level.

Mr E.S. RIPPER: That is the professional advice that I have received from the Department of Treasury and Finance. When in government, we have to plan for the future. Assumptions have to be made about what the future will hold. To get that advice, we turn to the Department of Treasury and Finance. It does not have a crystal ball; however, it has professional expertise and access to a range of data. It is providing that advice. The housing market is at a very high level of activity. Housing prices have risen very significantly. If there is a decline in turnover of around 10 per cent in 2007-08, there will still be a high level of activity in the housing market. The level will be down 10 per cent from a very high peak. If there is zero growth in house prices in 2007-08, they will still be very high in historical terms. I do not think we need to be overdramatic about this. Essentially, the prediction is that the housing market will start to plateau, which is not a bad outcome given that some of the other states are experiencing not only zero growth in house prices, but also real and nominal falls in house prices. For example, I will outline what happened in the late 1980s and the early to mid-1990s. Transfer volumes declined by around 40 per cent between late 1988 and early 1990. Before the Deputy Leader of the

Opposition tries to make any political points, transfer volumes declined by 29 per cent between mid-1994 and late 1995. The state has a history of significant peaks and troughs in its housing market activity. However, what is proposed here is much more of a plateauing and is not something that we must be overly concerned about.

Mr T. BUSWELL: Of course, Treasurer, I am casting my mind back to the period between 1988 and 1990 when, to the best of my recollection, nominal interest rates were between 14 and 20 per cent. I think that was when Mr Keating gave us the recession that we had to have. I have with me a copy of the comments the Treasurer made last year about oil price forecasts, which I will talk about later. I hear what the Treasurer is saying. With flat home prices expected in 2007-08, why is the Treasurer still forecasting a fairly substantive increase of six or seven per cent in land tax during the same year? I am interested to hear the Treasurer's answer. I will not tell him what I am assuming.

Mr E.S. RIPPER: Land tax receipts for a particular year are based on the value of the land in the preceding year. There is a timing difference between land tax and stamp duty.

Mr T. BUSWELL: It is the same in the next year. There is a standard increase every year.

Mr E.S. RIPPER: The other issue is that land tax is not paid by people who occupy houses as their principal place of residence. It is paid by owners of investment properties and commercial properties. A different property base applies to much of the land tax receipt. The Deputy Leader of the Opposition made reference to the very high interest rates that applied in the late 1980s and early 1990s and to their association with the fall of activity in the housing market at that time. While our interest rate regime is quite different from the interest rate regime of that era, our household debt is high compared with the household debt of that time. Households are much more vulnerable to even small interest rate increases than they were 20 years ago.

Mr T. BUSWELL: I am not arguing that point.

Mr E.S. RIPPER: I am glad that the Deputy Leader of the Opposition is not arguing that point. Basically, when the various bank economists brief me on their judgments about the future of the Australian economy, they all draw attention to the extra vulnerability of the household sector. Interest rates would not need to rise by very much before they would have a very significant impact on household finances and the housing market. The relationship between a particular interest rate and its economic impact has changed in the past decade and a half.

Mr T. BUSWELL: In my estimation, the Treasurer has generally underestimated growth in taxation revenue by around 13.5 to 15 per cent on average in the five budgets that he has seen through to the end of the financial year. What confidence can we have that the figures the Treasurer has presented in this year's *Budget Statements* are going to be any more accurate than the figures presented in past budgets, which have habitually underestimated taxation revenue?

Mr E.S. RIPPER: We have had a tremendous period of economic growth. In a period of tremendous economic growth, an underestimate of revenue is more likely to occur. My worry is that as growth plateaus, we may find that we have overestimated revenue because the circumstances of the economy have changed. What happens is that we get the best advice that the Department of Treasury and Finance can provide. I take its advice. I do not seek to change its estimates or assumptions. However, we have all been conscious of the underestimation of revenue. It is an important issue, because it can lead to the government making decisions that it would not otherwise make.

The Department of Treasury and Finance has reviewed its revenue forecasting and changes are being implemented as a result. For example, the oil price assumption will be based on the futures market rather than on informed judgment and a comparison with what other people are estimating. Other assumptions will be based on better consultation with industry experts and other government agencies. The function of forecasting will be better resourced inside Treasury and there will be better coordination inside Treasury on matters relating to revenue forecasting.

These measures should see an improvement in accuracy, but it would be unrealistic to expect the Department of Treasury and Finance to foresee the future in ways that other people cannot. Let me give an example. When the proposal was put to me to shift to the oil futures market for making an assumption on oil prices, I asked for information about how that would have worked in the past. It showed that the oil futures market was a slightly better predictor of the oil price than the previous Department of Treasury and Finance method, but not much better. Nobody has been very good at predicting the oil price. I do not know whether the Executive Director, Economic, might want to add to that.

[10.40 am]

Mr D.R.M. Smith: Not really. The review we have undertaken has been published and is on our web site. There are also references in the budget papers to that exercise. As the Treasurer has indicated, a number of changes were made in this budget as a result of that review, such as in relation to oil prices. Also, in relation to the Commonwealth Grants Commission, the process we undertook in estimating the impact of changing shares of our GST was changed. We are in the process of implementing a number of ongoing recommendations.

Mr M.W. TRENORDEN: On page 204, under "Administered Current Assets", dividends and tax equivalents receivable to government enterprises soar. The income in out years flies. Why is that? Can the Treasurer also advise me of the dividends expected to be paid by the four new entities of what was Western Power? What are the proposed budget figures for each of those entities?

Mr E.S. RIPPER: I refer the member to page 263 of budget paper No 3, appendix 7, where he will see the figures for Western Power Corporation for 2005-06, and then Horizon Power, Synergy, Verve Energy and Western Power (Networks). I missed the first part of the member's question.

Mr M.W. TRENORDEN: Page 204 shows that the dividends receivable and the tax equivalents receivable soar. They are significantly above the inflation rate.

Mr E.S. RIPPER: I think the best course of action would be to provide that information by way of supplementary information.

Mr M.W. TRENORDEN: I would like the Treasurer to give some consideration to it because there was some publicity recently about a readjustment of tax equivalents. I understand Australian Standards changed that process and, in my assessment, it should have reduced the revenue payable of tax equivalents.

The CHAIRMAN: Before the Treasurer answers the question, can he indicate whether he will provide this information also in the supplementary answer?

Mr E.S. RIPPER: I will provide an explanation for the growth across the forward estimates of dividends receivable and tax equivalents receivable, as recorded on page 204 of budget paper No 2.

[*Supplementary Information No A58.*]

Mr M.W. TRENORDEN: Could the Treasurer comment on the second point I raised?

Mr E.S. RIPPER: There has been an issue with the adoption of the international accounting standards that affects the timing of the recognition of dividend payments. For me to provide any more detail would be to tempt fate.

Mr M.W. TRENORDEN: I am curious as to how Treasury sees that affecting the revenue on tax equivalents.

Mr E.S. RIPPER: I will provide as supplementary information Treasury advice on the impact of international financial reporting standards on tax equivalent payments.

[*Supplementary Information No A59.*]

Mr E.S. RIPPER: I might point out, since we have had a significant discussion on debt, that international financial reporting standards have, without any change in the underlying substance, added to the net debt that the state government is required to report. Power purchase agreements entered into by the electricity corporation, which previously were not counted in the net debt figures, have to be counted by international financial reporting standards. There has been no underlying change in the substance, but by virtue of adopting these new standards we are reporting a significantly higher level of debt than we would otherwise be doing.

Mr M.W. TRENORDEN: On page 263, the figures for Horizon Power, Synergy, Verve Energy and Western Power (Networks), indicate that Western Power (Networks) in the out year 2009-10 will contribute way above any of the other three entities. How does the Treasurer or Treasury work out the basis of how those dividends will be processed? I understand it has normally been four per cent of revenue. That cannot be the case any more.

[10.50 am]

Mr E.S. RIPPER: Western Power (Networks) is to be regulated by the Economic Regulation Authority as the monopoly owner of the network. The Economic Regulation Authority will determine fair prices for access to that network by all the other players in the electricity system. Consequently, Western Power (Networks) will earn a regulated income. It will make a profit, and the dividend payout policy is 50 per cent.

Mr M.W. TRENORDEN: What about the other three? Horizon Power will be paying $3 million, Synergy nearly $5 million, and Verve nearly $2 million, as against $62 million.

Mr E.S. RIPPER: The network is the most profitable part of the organisation.

Mr M.W. TRENORDEN: It is also the one that has been the most destroyed and has the most useless asset base. It is also a monopoly.

Mr E.S. RIPPER: I will deal with the points one by one. The dividend payout policy is recorded on page 265 of budget paper No 3, *Economic and Fiscal Outlook*. It can be seen that the dividend payout policy is 50 per cent of profits. Verve will make whatever profit it makes by virtue of its operations, and so will Synergy. Western Power (Networks) is a monopoly. It is not subject to competition, but it is subject to regulation. The independent Economic Regulation Authority, having received submissions from Western Power (Networks) and its customers, will make a decision about access arrangements; in other words, the prices Western Power (Networks) can charge, and the rate of return it should be able to receive on its network operations. As a result of that arrangement instituted by the Economic Regulation Authority, Western Power (Networks) will make a profit, as owners of infrastructure should do, and 50 per cent of that profit will be paid to the government.

Mr M.W. TRENORDEN: I simply do not understand the Treasurer's answer. This is not really a profit; it is revenue. It cannot be described as a profit. The other three new entities - Horizon Power, Synergy and Verve - will be competing in an open market and will, I presume, make a profit. How will the government run the dividend policy? If it is based on profit, how can the Treasurer prove to me that Western Power (Networks) revenue stream is actually profit? It is not. It is just revenue.

Mr E.S. RIPPER: Western Power (Networks) will be regulated like other pieces of monopoly infrastructure. The Dampier to Bunbury natural gas pipeline is regulated by the Economic Regulation Authority.

Mr M.W. TRENORDEN: However, that is privately owned and operates under a set of rules different from those applicable to a government-owned organisation.

Mr E.S. RIPPER: What I am saying is that a similar set of rules will apply to Western Power (Networks) as applies to the Dampier to Bunbury natural gas pipeline. Western Power (Networks) will be regulated by the Economic Regulation Authority as though it were owned by the private sector; in other words, regardless of the nature of its ownership. I would be very happy to ask the Economic Regulation Authority to provide a briefing to the member on how it will work.

Mr M.W. TRENORDEN: I have had the briefing. That is why I am asking the question. I appreciate the fact that I have had a briefing.

Mr E.S. RIPPER: I am reminded by the member's gesture that the Economic Regulation Authority is part of this estimates process. The member might ask that authority during its estimates hearing how it proposes to regulate the revenue that Western Power (Networks) should receive.

Mr M.W. TRENORDEN: I still do not understand this process. I may need to ask for a briefing from the Treasury people. The income tax expense figures for Horizon Power, Synergy, Verve and Western Power (Networks) do not seem to correlate to the estimated dividends. The income tax expenses are the tax equivalents that would be expected to be paid on the profit. Why are those figures out of kilter?

Mr E.S. RIPPER: The figures for Western Power (Networks) show that the income tax expense is $52 million for 2006-07, $50 million for 2007-08, $54 million for 2008-09 and $54 million for 2009-10. The dividend payments across those years are $62 million, $64 million $58 million and $62 million respectively.

Mr M.W. TRENORDEN: That is not the question. I am comparing the figures with those for Verve, Synergy and Horizon Power, all of whom are out there in competition, while Western Power (Networks) is not in competition. It seems to me that the Treasurer recognises himself that Western Power (Networks) will be treated differently from Verve, Synergy and Horizon Power.

Mr E.S. RIPPER: One group of organisations is in competition, and they are disciplined by the forces of the market. They will make profits on the basis of how they manage their costs and their investments, what their competitors do and so on. The other organisation, Western Power (Networks), does not have a competitor. How is that organisation to be disciplined? It is disciplined not by the forces of the market but by independent regulation through the Economic Regulation Authority. It is regulated in the same way as the example I have given, the Dampier to Bunbury natural gas pipeline, or electricity networks in other states that happen to be privately owned.

Mr M.W. TRENORDEN: My precis of the answer the Treasurer has just given is that there is a deemed dividend for Western Power (Networks) and an actual dividend for the other corporations. It cannot be compared with the pipeline, because that is owned by private enterprise. Apart from the $88 million that the government threw in from the last budget, it is all private enterprise money. A regulator is involved in that process to provide fairness. This is a different process altogether.

Mr E.S. RIPPER: There is no deemed dividend for Western Power (Networks).

Mr M.W. TRENORDEN: How is it arrived at, then?

Mr E.S. RIPPER: Firstly, the rule is that 50 per cent of the profit after tax -

Mr M.W. TRENORDEN: Is it profit? Can the Treasurer show me where that is actual profit?

Mr E.S. RIPPER: What the member is driving at is how the profit of Western Power (Networks) is determined, not how the dividend is determined. The dividend flows on by the application of the government's dividend payout policy to the profit. The member is actually interested in the question of how the profit is arrived at. Western Power (Networks) is a monopoly. However, it is not allowed to charge whatever it wants. Its access terms are set by the Economic Regulation Authority following submissions from the corporation and its customers. The prices that the corporation can charge are, in effect, set by the Economic Regulation Authority. That is one very substantial influence on its profit. Presumably, if the state's economy goes very well and a lot of electricity is sold and transported through the network, a particular set of prices will deliver more revenue to Western Power (Networks) and perhaps more profit in a particular year.

Mr M.W. TRENORDEN: I will make this my last question, because we may wish to talk about this subject again when the Economic Regulation Authority is brought on.

Mr E.S. RIPPER: I am concerned that the chairman of the Economic Regulation Authority may be wincing at my layperson's explanation of how it all works.

Mr M.W. TRENORDEN: And at mine, but that is not the point.

Mr E.S. RIPPER: I am more than happy for the question to be addressed to the chairman of the Economic Regulation Authority when we reach that stage of the proceedings.

Mr M.W. TRENORDEN: I just want to make a point, because it does not matter whether the chairman is here or not. The Treasurer is not quite right. The regulator gives the outcome on the basis of a projected position put in by Western Power (Networks). He does not create that. Western Power networks puts in a bid, as the Treasurer knows full well, and the regulator looks at that bid. It is therefore not fair to suggest that this is driven by the economic regulator, because it is not. It is actually driven by the papers that Western Power puts in for what it wants to receive for the coming year, which is also driven by Treasury.

[11.00 am]

Mr E.S. RIPPER: We will hear from the Economic Regulation Authority in these estimates hearings. I hope the member for Avon will still be in the chamber; then he can address this issue.

Mr M.W. TRENORDEN: I will be here.

Mr E.S. RIPPER: With regard to the finances of the four entities succeeding Western Power Corporation, there has been a very rigorous joint financial modelling process that involved the Department of Treasury and Finance. It also involved independent experts, including advisers from Deloitte, consulting engineers from Sinclair Knight Merz, auditors from PricewaterhouseCoopers and market modellers from McLennan Magasanik and Associates. There has therefore been a very significant effort to understand the finances of the successor organisations to Western Power, and that has informed what the member sees in the budget papers.

Mr M.W. TRENORDEN: The Treasurer is right: we will wait until the Economic Regulation Authority gets here, but I hope we do not have just half an hour.

Mr E.S. RIPPER: Leave some time then.

Mr M.W. TRENORDEN: That was just the point.

Mr E.S. RIPPER: Ease up on the assault on the Treasurer and the finances and leave some time for the Economic Regulation Authority!

[Dr S.C. Thomas took the chair.]

The CHAIRMAN: Members, we are on division 9. I note the Leader of the Opposition is not in the chamber. Members on the call list are in this order: the members for Vasse and Southern River and the Leader of the Opposition.

Mr P.B. WATSON: Mr Chairman, is my name there?

The CHAIRMAN: The member for Albany is not on my list at the moment.

Mr M.P. MURRAY: Are we having a five-minute break?

The CHAIRMAN: No. Members on the list at this stage are the members for Vasse and Southern River, the Leader of the Opposition and now I have added the member for Avon. I will add the member for Albany. Will I add the name of the member for Collie-Wellington?

Mr M.P. MURRAY: No.

The CHAIRMAN: At the request of the Treasurer, we will take a short break.

Meeting suspended from 11.00 to 11.12 am

The CHAIRMAN: A quorum is present.

Mr T. BUSWELL: I have a couple of questions on a range of matters, including some on page 193. I refer to the Perth convention centre, on which I know the Treasurer has provided advice. To the best of my understanding, the key performance indicators for the Perth convention centre were originally supposed to be established for its third year of operation, which is this year, and to apply from this year. Ostensibly, the KPIs were established to protect the state's $122 million investment. Will the Treasurer confirm that the minister responsible for the convention centre, the Minister for Planning and Infrastructure, through negotiation with the private owners of the convention centre and without the knowledge of the Parliament - I suspect also without the knowledge of some of her colleagues in government - effectively delayed the time frame for the implementation of the KPIs?

My humblest apologies, Mr Chairman; I forgot to turn off my mobile phone.

The CHAIRMAN: Apart from reminding the member for Vasse of the rules of the house, I ask him to link his questions to a page number.

Mr T. BUSWELL: I refer to page 193. Can the Treasurer confirm that the minister delayed the implementation of those KPIs to at least two years after the completion of package F and, in doing so, provided a direct link between the delays in the city rail project and the failure to implement those KPIs? Can he also confirm that the lack of KPIs has contributed to the poor performance of the Perth convention centre and placed at significant risk the expected returns to the state from its $122 million investment?

Mr E.S. RIPPER: I have been asked by the Premier to have discussions with people associated with the Perth convention centre about issues they have raised. However, it is not my ministerial area of responsibility to provide answers on decisions made by the Minister for Planning and Infrastructure. If that is what the member believes, those questions should be addressed to the relevant minister.

Mr T. BUSWELL: Have the Treasurer and his department not been involved in discussing the ramifications of the lack of KPIs at the Perth convention centre? We all know that the minister did a little deal with the owners and delayed the application of the KPIs.

Mr E.S. RIPPER: I reject that characterisation. The member should address those questions to the Minister for Planning and Infrastructure. My responsibility is to discuss the convention centre's position with those people who are involved in the centre. The KPI issue that the member has raised should be dealt with by a question to the relevant ministers. The member has asserted that the KPI issue has something to do with the alleged poor performance of the convention centre. That is an issue that relates to commercial realities rather than government decisions.

Mr M.W. TRENORDEN: Given the outstandingly disastrous result of the Sydney cross-city tunnel, there is a risk that the state will need to rescue the Perth convention centre. Has Treasury undertaken a projection of that process and of whether there is a risk that the state will be required to rescue the convention centre, as happened with the Sydney tunnel?

Mr E.S. RIPPER: Members are getting way ahead of themselves. People associated with the convention centre have raised issues.

Mr M.W. TRENORDEN: Has an estimation by Treasury been given to the Treasurer or anyone else in government on the issue of revenue and the state's involvement with the convention centre? It is not a difficult question.

Mr E.S. RIPPER: It is a vague question.

Mr M.W. TRENORDEN: It is not vague at all.

Mr T. BUSWELL: It is a vague answer.

Mr M.W. TRENORDEN: The answer is yes, but the Treasurer does not want to tell me.

Mr E.S. RIPPER: It is public knowledge that issues related to the success of the convention centre have been raised with the government. Given the involvement of a number of ministers with overlapping responsibilities, I have been asked by the Premier, with advice from Treasury and Finance, to conduct discussions with the participants in the convention centre. The discussions are at a very preliminary stage. It is not possible for me to predict how we will proceed or what will come of these discussions. It is not advisable for me to canvass these issues in public because at least one of the organisations involved has been very particular in asserting that some of the issues raised are commercially confidential. That organisation has provided information to the government on the basis that it will not be provided to other people. Secondly, from the point of view of public interest, I do not think I should canvass any of the options available to the government. There is a negotiation that we may be involved in, and I would not want to set out a public negotiating position before we have those discussions.

[11.20 am]

Mr M.W. TRENORDEN: I would suggest that the Treasurer's answer was to the member for Vasse's previous question. He has totally ignored my question. My question was very simple: has Treasury prepared a document for consumption by the Treasurer or anyone else in government?

Mr E.S. RIPPER: On what basis?

Mr M.W. TRENORDEN: On the convention centre and revenue, or costs equated to the convention centre.

Mr E.S. RIPPER: No.

Mr M.W. TRENORDEN: Okay; that was a simple answer.

Mr T. BUSWELL: I refer to page 193, and the provision of agencies with policy advice etc. There is reference made to 140 William Street. I am keen to understand what advice the Treasurer's department provided on the pre-commitment of the state government to lease the 22 000 square metres of space in the development. As part of that advice, did the Treasurer make any determinations as to the expected premium that the government's pre-commitment was expected to generate in capital return to the state? In other words, what was the justification for the pre-commitment?

Mr E.S. RIPPER: The government wants a quality development at 140 William Street. One way to get the type of development that we want, to invigorate -

Mr M.W. TRENORDEN: Is to rip off taxpayers.

The CHAIRMAN: Members, let the Treasurer answer the question.

Mr E.S. RIPPER: For urban planning reasons, we need that type of development to invigorate that section of the city. The government is aiming to do something special on that site. Assessing all of the factors, including that one and the financial factors, the government decided that the best way to proceed was to offer a pre-commitment. It is not uncommon for pre-commitments on leasing space to be made in the property industry. It is not uncommon for that to occur in the private sector. The government, taking all factors into account, decided to make that pre-commitment. There were lots of different issues, and Treasury provided a range of different pieces of advice on all of them. In the end, the government took everything into account and made its decision. I do not think it is appropriate to say, "That was that piece of advice, this was this piece of advice", and so on.

Mr T. BUSWELL: Will the Treasurer advise whether Treasury provided the government with any advice on the premium that the pre-commitment was expected to generate in capital return to the state? Is there any financial benefit to the state in pre-commitment? What was the financial justification for pre-committing 22 000 square metres of lease space? What premium does the Treasurer expect to receive from the potential developers of that site?

Mr E.S. RIPPER: There is obviously a potential interaction between a pre-commitment to lease space and the price that is paid for a property. There is also obviously an interaction between pre-commitment to lease space and the quality of the development that might otherwise occur. The government's decision to make a pre-commitment was based firstly on the need to house the Department for Planning and Infrastructure and the Department of Housing and Works, and secondly on the desire of the government to have a good quality development there to invigorate that part of the city, and to take maximum advantage of the new rail infrastructure that will be going through that end of the CBD. The Department for Planning and Infrastructure is currently housed at multiple locations, which impacts on the potential efficiency of that department. The Department of Housing and Works is located in an old, inadequate building at 99 Plain Street, which would require significant expenditure to bring it up to modern standards. That is the reason those two departments have been chosen. The pre-commitment was for the amount of space they need.

Mr T. BUSWELL: So there is no financial justification in an expected improvement in capital return from the sale of the site that determined the pre-commitment? Essentially, what the Treasurer has said is that he pre-committed because he wants a nice building and a home for two government departments.

The CHAIRMAN: I will have to limit the member for Vasse from further questions. I will allow this one.

Mr E.S. RIPPER: The rent is set at the market rate. The pre-commitment will stimulate the development and provide us with a better opportunity to get a quality building. I think there is an interaction between the pre-commitment and the price the developer is prepared to pay us to buy the block. The certainty of revenue flows from the project. A range of different considerations had to be taken into account when the decision to go ahead with 140 William Street was made. A business case was presented to the expenditure review committee. We took all the factors into account, pro and con, and made the decision.

Mr P.W. ANDREWS: I draw the Treasurer's attention to page 186, and the items under "Outcomes and Key Effectiveness Indicators". I am particularly interested in the state's tax competitiveness. What effect the tax measures incorporated in this budget will have upon revenue and our state's tax competitiveness?

The CHAIRMAN: I ask the Treasurer to not take too long on this answer. Not too long nor too elaborate.

Mr E.S. RIPPER: The Deputy Leader of the Opposition's new guru is former Republican Governor Weld, who ran a program of less for less in Massachusetts. That is the new theme for the opposition. I see two regional members opposite, and I say to the regions, beware of the less for less program. I am sure those members' constituents will understand what less for less really means when it comes to government commitments in their area. I think "Less with less" should be tattooed on the forehead of every coalition candidate standing at the next election. I am not sure what the cost of tattooing "Less with less" on the forehead of every Liberal candidate would be, but it will certainly be our intention to make absolutely clear to the people of Western Australia what the Liberal party's program now is.

The CHAIRMAN: Can I direct the Treasurer to answer the question and ask that members stop the banter. I intend to get as many questions through as possible.

Mr E.S. RIPPER: I will cooperate. The revenue impact of the abolition of mortgage duty, rental duty, the land tax measures and all of those other matters is on page 21 of budget paper No 3, *Economic and Fiscal Outlook*. The member asked specifically about tax competitiveness. Western Australia's share of the economy going into tax was 4.47 per cent in 2005-06, compared with the weighted average for the other states of 4.52 per cent. In 2006-07, it is expected that the share of the economy going into taxes will fall to 4.1 per cent, compared with the weighted average of the other states at 4.5 per cent. We are predicting further falls in state tax across the forward estimates to 3.7 per cent of the economy in 2009-10.

[11.30 am]

Mr T. BUSWELL: Does the Treasurer still think the measure of gross state product is an experimental figure, which is what he said to explain away the situation in 2004-05, when GSP was low?

Mr E.S. RIPPER: I think the Australian Bureau of Statistics describes the figures as experimental. Indeed, quite often there are revisions to the gross state product figures. Nevertheless, they are the best figure we have and we want to apply the international measure for tax competitiveness - the measure that the Australian government and all international organisations use when they are comparing tax efforts in other countries. Incidentally, it is the measure used by Richard Court.

Mr M.P. MURRAY: The fourth dot point on page 193 under "Major Initiatives For 2006-07" refers to the state infrastructure strategy. Is the strategy on track and will the Treasurer provide a broad overview of the terms of reference?

Mr E.S. RIPPER: The state infrastructure strategy process is on track. Basically, the state infrastructure strategy is asked to look ahead 10 years and then a further 10 years to consider, broadly, what sort of infrastructure the state will need. The object of the exercise is for the public sector to get a better understanding of what the private sector may be doing, and vice versa. If that better understanding is reached, we believe that there will be better decision making in both sectors. Also, we would like to get a common understanding of a Western Australian position on infrastructure that we can then use as a basis for an approach to the commonwealth. In our view the commonwealth is not contributing sufficiently to infrastructure development in Western Australia, given the proceeds that it reaps into its budget from the development of the WA economy. We would like to see some of that $4 billion subsidy - it would be unrealistic to expect all of it - to be returned to Western Australia in the form of direct commonwealth investment in our infrastructure.

Mr T.M. Marney: The green paper on the state infrastructure strategy is nearing finalisation and it will include a full outline of the context of the strategy and the process going forward for the strategy.

Mr E.S. RIPPER: I would be very interested, when the green paper comes out, in arranging briefings for members of Parliament. I would like members of Parliament to be comprehensively engaged in the process.

The appropriation was recommended.