

Chairman; Mr Ben Wyatt; Mr Troy Buswell; Ms Rita Saffioti; Mr Bill Johnston; Mr Jan Norberger; Mr Sean L'Estrange; Mr Paul Papalia; Mr Ian Blayney; Mr Matt Taylor; Mr John McGrath

Division 29: Treasury, \$5 481 031 000 —

Mr N.W. Morton, Chairman.

Mr T.R. Buswell, Treasurer.

Mr T. M. Marney, Under Treasurer.

Mr M.A. Barnes, Deputy Under Treasurer.

Mr M.J. Court, Executive Director, Economic.

Mr R.D. Mann, Executive Director, Strategic Projects.

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

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

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

It is the intention of the Chair to ensure that as many questions as possible are asked and answered and that both questions and answers are short and to the point. The estimates committee's consideration of the estimates will be restricted to discussion of those items for which a vote of money is proposed in the consolidated account. Questions must be clearly related to a page number, item program or amount in the current division. It will greatly assist Hansard if members can give these details in preface to their question.

The minister may agree to provide supplementary information to the committee, rather than asking that the question be put on notice for the next sitting week. I ask the minister to clearly indicate what supplementary information he agrees to provide, and I will then allocate a reference number. If supplementary information is to be provided, I seek the minister's cooperation in ensuring that it is delivered to the committee clerk by Friday, 30 August 2013. I caution members that if a minister asks that a matter be put on notice, it is up to the member to lodge the question on notice with the Clerk's office.

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

[Witnesses introduced.]

The CHAIRMAN: Member for Victoria Park.

Mr B.S. WYATT: I want to clarify a point that became an issue in Parliament last week because it was a bit confusing. Page 309 of budget paper No 3, *Economic and Fiscal Outlook*, has the street lighting tariff—the Z tariff—at 11.8 per cent, yet we found out in Parliament that that will be less than one per cent. My question is in two parts. Over the past five years, has the advice from Synergy, which the Minister for Energy referred to in Parliament, that we will be going to all local governments, telling them that it will be less than one per cent as opposed to 11.8 per cent, differed from the budget papers?

Mr T.R. BUSWELL: I do not know. I do not have responsibility for Synergy.

Mr B.S. WYATT: No, but the Treasurer will certainly be able to answer the second part of my question. What impact will the fact that it is not 11.8 per cent but is less than one per cent have on revenue?

Mr T.R. BUSWELL: The advice I have from Mr Marney is that Treasury is yet to work through the implication of that decision by the Economic Regulation Authority. I will see whether there is any alternative advice, but I am pretty sure that is the view. That would be reported, I assume, as a parameter shift in the midyear review.

Ms R. SAFFIOTI: My question relates to the budget, but in particular to the education funding and some of the movements that have happened —

Mr T.R. BUSWELL: Which page?

Ms R. SAFFIOTI: It is page 125 of the *Economic and Fiscal Outlook*.

Mr B.S. WYATT: No, it is page 125 of budget paper No 2.

The CHAIRMAN: Could members be clear with those references at the beginning of their questions.

Ms R. SAFFIOTI: Sure; I apologise for that.

Mr B.S. WYATT: I am sorry; I am getting my annotations confused. It is page 125 of budget paper No 3.

Mr T.R. BUSWELL: Yes, I have that.

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Ms R. SAFFIOTI: What is the status of the education budget? As we understand, there has been an Economic and Expenditure Reform Committee meeting this week. Have there been further cuts to the budget than what was presented at budget time? Has funding been reinjected into the budget since budget time?

Mr T.R. BUSWELL: No, there have not been —

Ms R. SAFFIOTI: “No” to which one—sorry?

Mr T.R. BUSWELL: No, there have not been further cuts. As a result of the decision of government, there has been a minor—I mean minor in terms of the totality of the education budget— injection of funds into the education budget.

Ms R. SAFFIOTI: Is that for this financial year?

Mr T.R. BUSWELL: That is for this and next financial year. I want to make a couple of comments about the education budget. I will talk about the extra money in a second. Fundamentally, with the education budget we have some major challenges. One of the major challenges is that —

Mr W.J. JOHNSTON: What makes it different from the health budget?

Mr T.R. BUSWELL: Clearly, education and health take up a fair bit of my time as Treasurer because they drive a lot of our increase in spending. Education has traditionally had a system whereby it has a whole series of ratios that determine how much we spend based on how many students are enrolled. There are some embedded inefficiencies in those ratios. Those ratios were not an issue for a long time while there was limited, if any, growth in student numbers, but in the last couple of years there has been a significant step-up in student numbers. It is apparent to me that there are some embedded inefficiencies, and in fact unsustainable inefficiencies, in those practices. It effectively means that every time about nine students enter the education system, somewhere in that system an additional full-time equivalent is employed. In my view, that is not sustainable. It is certainly not an outcome driven by educational outcomes; it is an outcome driven by a whole range of ratios that have historically become part of the practice of the education department. Those ratios have to change, and we will change them with the reforms that the education minister has outlined. That will mean that there will be some changes in the short term. But I will just give one example, and then I will talk about this funding issue. I will give an example of why those ratios are of concern.

Mr W.J. JOHNSTON: Is this a brief answer, as the Treasurer has been instructed?

Mr T.R. BUSWELL: I will get to the point in about 10 seconds, member for Cannington.

The CHAIRMAN: Let us make sure it is within that time frame.

[10.10 am]

Mr T.R. BUSWELL: Yes. As an example, in the last year we employed in education through these ratios 650 extra teachers off a base of around 20 000, and at the same time we employed nearly 600 extra education assistants off a base of 6 400, and there was a range of other issues around the ratio of non-teacher staff to students and non-teaching staff to teaching staff. So, some issues need to be dealt with. Turning to the decisions recently made by the government, we have been advised that there has been continued strong growth in enrolments in the second semester, and that continued strong growth in enrolments is over and above what we anticipated. Pretty much every year that I can recall there comes a point in the annual cycle when a government reassesses the money allocated to education based on enrolment growth, and that has particularly been the case in the past few years with the significant growth in enrolments. In a way that was the issue that the government dealt with this week.

Ms R. SAFFIOTI: Yes, but in previous years the budget has come down in May and the cut-off has been April, so it is different.

Mr T.R. BUSWELL: Well, not entirely member—I do not mean to interrupt and be argumentative—because there are a couple of tipping points or pressure points and they generally come at the start of the school year. In this case there has been solid enrolment growth in the second semester.

Ms R. SAFFIOTI: How much extra money has been injected into this year and next year? Turning to the closure and amalgamations of high schools, what work was undertaken and why was such work not highlighted at the time of the budget?

Mr T.R. BUSWELL: I am not in a position to provide the member with an overview of the work the Department of Education has done on amalgamating some schools. I can say that a number of amalgamations are part of the Department of Education’s plan to deliver some of the efficiencies embedded in the current forward estimates. That plan also involves some reductions in full-time equivalents, as was discussed publicly, I think at

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least yesterday, and these are part of the efficiency changes that we simply need to make if we are to move to a more efficient, sustainable model to deliver education services in WA. We also have to understand that on issues such as student-to-teachers ratios in our secondary schools, we are well out of whack compared with outcomes delivered in other Australian jurisdictions; and, on issues relating to administration staff to student numbers and administration staff to non-teaching staff to teaching staff, we are also well out of whack.

Ms R. SAFFIOTI: Sure, and that is why there is a Better Schools reform package, which the Premier has rejected. It is based on better outcomes and is a better funding model.

Back to the key point, how much extra money has been allocated in this and next year; and, given that the forward estimates were based on the amalgamations, why was the public not told about them in the budget? The Treasurer said the forward estimates were based on the efficiencies of the amalgamations. I have read the budget, but I cannot see a list of the amalgamations in the budget.

Mr T.R. BUSWELL: Again, a range of measures are embedded in the budget figures. Not all of those are discussed in detail in the *Budget Statements*.

Ms R. SAFFIOTI: One would think closing schools might be.

Mr W.J. JOHNSTON: The building of new schools is included in the budget.

Mr T.R. BUSWELL: The building of new schools is capital works, and capital works are recorded. That is the way the budget papers are presented.

The education budget for this year's recurrent spend is \$4.4 billion. The additional funding allocated for the 2013–14 and 2014–15 financial years—effectively the 2014 school year—is \$40 million in each of those years. That is \$40 million in each of those years over and above the \$4.4 billion that currently sits in the forward estimates.

Ms R. SAFFIOTI: Is the \$40 million for the 2014 calendar year?

Mr T.R. BUSWELL: No. There is \$40 million for 2013–14 and \$40 million for 2014–15.

Mr W.J. JOHNSTON: Is the Treasurer saying that the budget will be amended before we vote on it, given that we have not voted on it as yet.

Mr T.R. BUSWELL: No, not at all. We must understand the process. I will ask Mr Marney to comment on the process.

Mr W.J. JOHNSTON: I am asking a simple question. Will we pass a budget that is accurate or will we pass this budget with Treasury tipping in the extra money? It is a yes or no question.

The CHAIRMAN: Thanks, member. I think the Treasurer is trying to answer the question.

Mr T.R. BUSWELL: No—it is not a “yes or no” question, nor is it a “yes, it may be” question, because the answer is no. The reason that the answer is no is because of the following: we deliver the budget papers as outlined under the Financial Management Act. The budget papers as stipulated have a close-off date, which was 9 July. The *Budget Statements*, which were presented on 8 August, clearly reflect the decisions of government until 9 July. The government and the role of governing goes on post the budget close-off. We continue to make decisions.

Mr W.J. JOHNSTON: There is a whole page in the *Budget Statements* about the Treasurer's advance authorisation. If the Treasurer is going to draw my attention to that, he should just say so.

Mr T.R. BUSWELL: I was just about to say, before the member for Cannington rudely interrupted me, that changes to spending post the budget are accommodated in the Financial Management Act through the provision of the Treasurer's advance and will be reported as required at the time of the midyear review.

Mr W.J. JOHNSTON: The Treasurer is asking us to pass a budget that is not accurate.

Mr T.R. BUSWELL: Again, government and governing goes on. We have probably made other decisions that, without doubt, will be made public through the processes of government. I am not suggesting that they are large by any means, but other decisions will impact on the budget bottom line and, again, will be reported as part of the midyear review. It is part of the process of government. We do not stop governing and making decisions following the budget cut-off period. The advice Mr Marney provided me is that the second semester growth numbers that I referred to earlier were only provided to government post the presentation of the budget papers.

Mr B.S. WYATT: What was the increase in student numbers that was provided to Treasury? I find it interesting that as of the 9 July budget cut-off, the government had certain information that did not allow for extra growth—hence the \$40 million—but it did allow for the amalgamations of schools. Clearly the Premier has said that

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Armadale, Fremantle and North Perth are the areas, so clearly there is a list of schools that the Department of Education or Treasury has targeted for amalgamation or closure. Does the Treasurer have that list? The Premier seems to know.

Mr T.R. BUSWELL: I do not have information outside of those broad geographical descriptions. I can tell the member that the advice we received following the preliminary audit of the education department's enrolments for second semester is that there has been an increase of 2 900.

Mr B.S. WYATT: I ask the minister to clarify the answer.

Mr T.R. BUSWELL: The second semester enrolment audit revealed that there are 2 900 additional students in public schools. The advice I have is that it is only the second time in many, many years—possibly 20 years—that there has been this sort of growth in the second semester. I am not that close to educational demands. I cannot explain why it has happened, but it has happened. It was not anticipated at the time of our budget deliberations.

[10.20 am]

Mr B.S. WYATT: Presumably then, in relation to the Premier's outlying areas in which schools will be closed or amalgamated and as the member for Cannington pointed out, I can look at the education budget and it can tell me every single school that will be built or is currently under construction. Embedded in that budget, what is the assumption on numbers of schools amalgamated?

Mr T.R. BUSWELL: I do not have that information. I am sure that others in government can provide that for the member when they are before the relevant estimates committees. It seriously is not a level of detail that we drill down to with the agency.

Mr B.S. WYATT: Just one final question so that we can move on from education. This is something that Treasury would definitely have been involved in, I would have thought. The reason behind this major reform and change in the way education is funded is the Teese report which, from memory, was given to government when I was shadow Minister for Education, which would have made it 2011. I assume that Treasury has been working with the Department of Education for a considerable period on a significant change in the way education is funded. How long has Treasury been working with education on this new funding model?

Mr T.R. BUSWELL: I might get Mr Marney to provide a comment on that question.

Mr T.M. Marney: Yes, we have been working with education for a couple of years on the funding model, how it compares with other jurisdictions and how the various weighting elements within the existing funding model generate the outcomes that the Treasurer mentioned before—that is, for every nine additional students in the system, we put on another teacher.

Mr B.S. WYATT: A teacher or FTE?

Mr T.M. Marney: General staff and FTE. We have been examining for some time how that compares with other jurisdictions, particularly looking at evidence such as that provided by the report on government services, which shows that our funding model is quite different. As the Treasurer said, in a period of little or no growth in student numbers, it does not manifest as a significant problem, if you like, but as soon as we have strong growth in student numbers, it very quickly becomes apparent that it is not sustainable, so we have been working with education on alternatives for the past couple of years.

Mr J. NORBERGER: I refer the Treasurer to the feature box on pages 108 to 110 of budget paper No 3. I note that Treasury has revised its forecasting methodology for the iron ore price in this budget. Can the Treasurer advise us on the impact he expects this to have on the forecasting accuracy of mining revenue to the state?

Mr T.R. BUSWELL: I could, but that would not provide an opportunity for the real experts in this matter to speak, so I might ask the Deputy Under Treasurer, Mr Barnes, to provide an overview of why those changes are important in the context of the budget, what those changes are and what they mean.

Mr M.A. Barnes: Given the significance of iron ore royalties to the state's revenue, Treasury has put a lot of time and effort into looking at our iron ore price forecasting methodology for quite some time now. We have also, frankly, been trying to play catch-up with developments in the iron ore market. The iron ore market has evolved so quickly and so significantly in recent years that our forecasting methodology was not keeping pace with developments in the market. For example, our previous forecasting methodology assumed that iron ore prices were struck by reference to actual spot prices in the preceding quarter, but with a one-month lag. Two years ago, that was the predominant pricing mechanism in the iron ore market, but nowadays, the predominant pricing mechanism is the current spot price—and the spot market is developing and becoming more liquid—or the average of the current quarter's spot prices through an indexed pricing mechanism. So virtually all major iron ore contracts are now priced by reference to the current spot market or this indexed pricing mechanism, which is

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based on current quarter spot prices. In this budget, we have amended our iron ore price forecasting methodology to reflect those market developments; that is the most fundamental point, I think. We have also amended the methodology to minimise the scope for very short-term price fluctuations to have a material impact on the forecast across the forward years. Last financial year, we saw the iron ore price fluctuate by US\$70 a tonne in the course of one financial year. We need to be careful that we are not just picking a point in time where the price might be at a cyclical high or a cyclical low, and basing our four-year forecast on that particular point in time. We have adjusted the methodology to average the base year that we start from to try to remove the undue impact of those cyclical highs and lows. It is all about keeping pace with developments in the iron ore market and the pricing mechanism, and it is all about simply trying to produce the most accurate forecast that we can. It has been a key focus of ours for at least 12 months, and the outcome of that work is reflected in this budget and, in particular, in that feature box.

Mr T.R. BUSWELL: If I could just make another point—I thank Mr Barnes for that thorough overview—the ratings agencies last year also commented about our forecasting methodologies. It is important that we are not overly optimistic when we forecast iron ore pricing. The issue that may arise from that is, of course, that we could conservatively commit to spending money that we never get; that in and of itself is an issue, and the fact is that royalties are 20 per cent to 21 per cent of our revenue stream, and iron ore is 90 per cent of royalties; so we are very, very exposed to iron ore price movements and very, very exposed to exchange rate movements. It is important that we get that as right as possible. For other jurisdictions, that is less so the case. To put that into perspective, a \$US1 movement in the iron ore price costs the budget \$45 million, while a US1c movement in the exchange rate costs us \$75 million; a couple of years ago, those figures were \$30 million and \$50 million, so there is increased exposure to those particular elements.

Mr B.S. WYATT: Just on that iron ore commentary, in respect of the decision in 2011–12 to increase the royalty rates on fines, I note that the Commonwealth Grants Commission has said that it will make a decision next year on whether the fines are high value or low value. The Treasurer has previously said in Parliament that 70 per cent of our royalties are redistributed. Of that extra fines revenue, how much will be redistributed?

Mr T.R. BUSWELL: I might ask Mr Barnes to provide some advice around that.

Mr M.A. Barnes: This set of budget projections is based on the assumption—on a no-policy-change basis—that, under —

Mr B.S. WYATT: Sorry; so it stays low?

Mr M.A. Barnes: No. On the basis of the Commonwealth Grants Commission's current methodology, we believe that it is almost inevitable that the commission will reclassify iron ore fines from the current low rate category to the high rate category with effect from 2014–15. Unless there is a direction from the federal Treasurer otherwise, we believe that that will be the impact of the current methodology. If that does happen, as it is assumed to happen, it will have an impact across the forward estimates period of \$1.6 billion.

Mr B.S. WYATT: I want to try to get onto that as a follow-up question. One of the things the Treasurer referred to in Parliament was the percentage of our royalty revenue that is redistributed through the equalisation process. Previously, I think, it was 70 per cent. Of the extra revenue from that fines decision, assuming it is reclassified, what percentage will then be redistributed?

[10.30 am]

Mr M.A. Barnes: If I can recall the numbers correctly—I hope I can—the increase in the iron ore fines rate from 6.5 per cent to 7.5 per cent from 1 July this year is estimated to raise \$509 million in additional revenue in this current financial year. We estimate that this reclassification by the Commonwealth Grants Commission will take away \$235 million of that increase.

Mr B.S. WYATT: Is that 50 per cent or something?

Mr T.R. BUSWELL: That is over and above the other redistributed impact of the —

Mr B.S. WYATT: I appreciate that. I am just trying to work out the percentage of fines. Of the extra \$509 million, is it about half?

Mr M.A. Barnes: That is right; of the extra \$509 million from the increase in the fines rate in this financial year, we estimate that the grants commission impact of simply reclassifying it from the low rate to the high rate category will be \$235 million. That is over and above the base grants commission impact. I hope that makes sense.

Mr B.S. WYATT: It does.

Mr T.R. BUSWELL: Let me put it this way: I do not think it will be any less. My understanding of the question is that if we are generating X billion dollars in extra revenue —

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Mr B.S. WYATT: Well, \$509 million.

Mr T.R. BUSWELL: — by moving the rate back up to 7.5 per cent, what percentage of that is effectively lost to the state by the redistribution process? I assume it would be no less than the normal redistribution outcomes of the grants commission's processes. I will make one other point on that. I did correspond with the former federal Treasurer about his direction to the grants commission in an endeavour to get him to reissue that direction; I think it was for another financial year. The grants commission does an annual update and also a methodology review—riveting. I wanted to get him to reissue the direction to the grants commission pending the methodology review. The grants commission has been requested to give consideration to some of the outcomes, but not all of the outcomes, of the goods and services tax distribution review process. We asked the former Treasurer to maintain that direction until that process was completed and until that methodology review has been completed. I have to say that the response we got back was noncommittal.

Mr B.S. WYATT: I hope the Treasurer sent the letter to Joe Hockey as well and got a much more positive response.

The CHAIRMAN: Thank you, members!

Mr T.R. BUSWELL: I would probably get the same letter, just with a different signature on the bottom, give or take.

Mr W.J. JOHNSTON: I refer to page 43 of budget paper No 3 and specifically to the last dot point of that list of issues that affect revenue projections. I particularly want to draw attention to the words “and delays to legislation which prevented an interim dividend collection from the Insurance Commission of Western Australia before 30 June 2013”. Why did Treasury include the ICWA dividend in the *Pre-election Financial Projections Statement*? How was Treasury advised by government of the decision to require ICWA to pay a dividend? What were the actual words used in the PFPS to show the inclusion of that dividend?

Mr T.R. BUSWELL: Again, I have given an undertaking in response to previous questions to provide information around that particular issue by way of supplementary information. That is what I intend to do.

Ms R. SAFFIOTI: As a further question on this issue, the PFPS is the responsibility of the Under Treasurer. Through you, Treasurer, we ask the Under Treasurer: why was that not highlighted in the PFPS?

Mr T.R. BUSWELL: Again, I will be providing that advice to members by way of supplementary information.

Mr W.J. JOHNSTON: I did actually ask a different question from the one asked by the shadow Treasurer in the ICWA division. I am asking why Treasury included the amount. The information about what the amount was, which is obviously very interesting, is not the question I am asking. What I am asking is: Why did Treasury include the ICWA dividend in the PFPS? How was Treasury advised by government of the decision to require ICWA to pay a dividend? The third question is perhaps similar, but the first two certainly are not.

Mr T.R. BUSWELL: As the member would understand, the PFPS is independently produced by the Under Treasurer. The Under Treasurer signs off on the PFPS. Although I cannot recall it verbatim, it would say something like “reflects the decisions of government”. That is why it would have been in there, if indeed it was in there. I will provide additional information to the committee by way of supplementary information. I have already given that undertaking, Mr Chairman, as part of our discussions with ICWA.

Mr S.K. L'ESTRANGE: I refer the Treasurer to table 10 on page 99 of budget paper No 3 and specifically to the forecast that the state will receive a relative per capita share of seven per cent of GST grants in 2016–17, which is clearly an all-time low. Can the Treasurer please outline the steps that he and Treasury are taking to ensure that Western Australia secures a fairer share of the GST pool?

Mr T.R. BUSWELL: That is a very good question. Our steps are somewhat frustrated by the processes we have to deal with at the commonwealth level. This is an issue for Western Australia as a state and not necessarily just for the government. There is a fundamental failure to grasp the impact or extent of the changes in GST payments to the state and what that means. The member is right; Treasury's forecast is that the relative share will drop to seven per cent by the end of the forward estimates, and WA's share of the GST pie is 0.9 per cent. We will have 11 per cent of the population by then so we could reasonably expect to pay about 11 per cent of the GST. I was not around when the GST regime was put in place; I mean, I was around, but I was not here. I do not think that anybody who was involved in that would have anticipated that one state's share would decline to the extent that Western Australia's has declined.

Mr B.S. WYATT: That exact thing was warned about.

Mr T.R. BUSWELL: But at 0.9 per cent?

The CHAIRMAN: Members, there is plenty of time to ask questions.

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Mr T.R. BUSWELL: We run the risk of it becoming almost a financial irrelevance to Western Australia.

Mr B.S. WYATT: That is right, if we ignore the other capital grants and special purpose payments from the commonwealth.

Mr T.R. BUSWELL: Yes, but they do not move in response to our GST share; they are influenced by a range of other things.

Mr B.S. WYATT: No, but the idea that —

The CHAIRMAN: Member for Victoria Park, this is not a debate; this is a time for questions and answers.

Mr T.R. BUSWELL: In fact, I think the most interesting table in the entire budget papers—there are a lot of interesting tables, because these things interest me —

Ms R. SAFFIOTI: The debt table is not too bad.

Mr T.R. BUSWELL: That is very interesting. Table 11 on page 101 of budget paper No 3 is, in my view, the critically important analysis. This is an update of an analysis that —

Ms R. SAFFIOTI: Richard Court started it, actually.

Mr T.R. BUSWELL: Did he? It was started some time ago. Certainly, the former Labor government Treasurer and member for Belmont, Eric Stephen Ripper, had this reviewed a number of times and talked about it. I found a copy of a couple of the papers that Treasury produced during his time as Treasurer. What this table actually shows is the total distribution of funds out of Western Australia—all the payments that go out of the state and all the payments that come into the state, whether they are GST, direct commonwealth grants or transfer payments for things like unemployment benefits and the like. It is the total picture as best as we can estimate. It shows that in 2011–12 we contributed nearly \$20 billion to the commonwealth; that is, \$8 366 for every Western Australian was paid across to the commonwealth and redistributed away from the state. The reason that is important is that the next largest donor state on an absolute basis was New South Wales at \$2.3 billion, or \$319 per capita. Every other state was a recipient state. I draw the member's attention to Tasmania, for example, which will receive \$4 billion of total resources; \$7 800 per capita in redistributed income. We are paying \$8 300 per capita to the commonwealth. That table, to me, highlights the totality of the challenge.

[10.40 am]

Mr S.K. L'ESTRANGE: The minister is saying we are basically propping up every Tasmanian resident in the redistribution.

Mr T.R. BUSWELL: Absolutely propping them up, and paying for years of Bob Brown's influence on the economic development of Tasmania.

Just to highlight that: total commonwealth grants including GST in 2001-02 were 50 per cent of state revenue; in 2013-14, this financial year, total commonwealth grants—this is picking up on the member for Victoria Park's point about all the other payments we receive—was 31 per cent of state revenue. So, the totality of payments to the state from the commonwealth—GST and the other components of that system—has shrunk from 50 per cent of state revenue, to 31 per cent of state revenue.

Ms R. SAFFIOTI: Is that recurrent or total?

Mr T.R. BUSWELL: It is total. That has happened in just over a decade. That is reflective of the issue. At the same time, I should point out, the state has been supporting economic growth in the nation and the state has been accommodating a large percentage of national population growth. I think it is grossly unfair.

Mr B.S. WYATT: I note that Tony Abbott has taken out advertisements in Tasmania saying that he fully supports the current GST and will not change it. Has the minister reiterated his concern to Mr Abbott—in the event he becomes Prime Minister—about WA propping up Tasmania?

Mr T.R. BUSWELL: I think that is a fairly likely probability, but unfortunately —

Mr B.S. WYATT: That is the importance of reiterating the minister's concern then.

Mr T.R. BUSWELL: I, of course, am not at the lofty heights of elected office that I have met with Mr Abbott.

Mr B.S. WYATT: The Treasurer has not met with him? He is the Treasurer!

Mr T.R. BUSWELL: The Premier meets with Mr Abbott; I have met with Mr Hockey, of course —

Ms R. SAFFIOTI: Does he not invite you?

Mr T.R. BUSWELL: — as I meet with federal Treasury. But generally when the Prime Minister comes to town, he or she —

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Mr B.S. WYATT: My question was very specifically about Mr Abbott, so yes or no?

Mr T.R. BUSWELL: Yes, I am just making a point. When the Prime Minister comes to town, he or she would generally meet with—outside of an election cycle of course—the Premier. If the federal Treasurer comes to town, I would generally meet with them. If my good mate “Albo” comes to town in relation to transport and infrastructure—that great warrior of the New South Wales left —

The CHAIRMAN: Minister, if we can just get to the point.

Mr B.S. WYATT: So, no, you have not put that issue to Tony Abbott?

Mr T.R. BUSWELL: But I have met with Mr Hockey and discussed the matter. I have to tell the member that I got what I call the standard east coast response, which is, “It is bipartisan.”

Mr B.S. WYATT: That was useful. Who is next?

Ms R. SAFFIOTI: I will move on to another topic. This is in relation to the MAX light rail project. I refer to page 198 of the *Economic and Fiscal Outlook*. In relation to the cost of this project, Treasury and the *Pre-election Financial Projections Statement* stated —

... as an accurate estimate of cost will not be available until that planning work has been completed, the forward estimates do not include funding for the commencement of construction.

Given that the PFPS was handed down in early February, why did Treasury not see a costing of this project, even though information provided in the upper house last week said that the Department of Transport had costed MAX, and it had been forwarded to the minister’s office?

Mr T.R. BUSWELL: It most definitely had provided my office, ahead of the caretaker period, with cost estimates for the MAX light rail project. I received cost estimates on a whole range of things ahead of the caretaker period, including a whole range of rail projects that were of interest to me. That is what governments do from time to time; they assess different options. So, those estimates were certainly known and had certainly been provided to me. Government had not made a formal decision around investing in the MAX light rail project and investing in the construction of the MAX light rail project in terms of the appropriation of funding at that time, so I suspect that that, in part, explains why Treasury made those observations. Now, government had made a decision around providing funding—I think it was \$18 million.

Ms R. SAFFIOTI: It was \$15.8 million for planning.

Mr T.R. BUSWELL: It was \$13.8 million.

Ms R. SAFFIOTI: It was \$15.8 million.

Mr T.R. BUSWELL: Was it \$15 million?

Ms R. SAFFIOTI: It was \$15.8 million.

Mr T.R. BUSWELL: That was reflected at the time of the PFPS. I will ask the Under Treasurer to provide some additional advice to the committee around the use of those words in the PFPS.

Mr T.M. Marney: The PFPS reflected the decisions of government as communicated to me, hence the \$15.8 million allocation to planning for the light rail project. As at that point, we had not seen, considered or evaluated cost estimates for that project. Because there was not a formal government decision communicated to me, no cost estimates were provided in the PFPS. I could not comment on what those estimates would possibly be because we did not have them.

Ms R. SAFFIOTI: In relation to this topic, the Under Treasurer would have been aware that the government was advertising this project, and that it was clear that the government had made a decision on this project. I am asking how the Under Treasurer can claim a decision had not been made.

Mr T.R. BUSWELL: No; that is a question the member is obviously asking me, member for West Swan.

Ms R. SAFFIOTI: No, I am asking the Under Treasurer.

Mr T.R. BUSWELL: The member for West Swan knows the rules in this place.

The CHAIRMAN: The member needs to direct her questions through the minister, so she is required to do that.

Mr T.R. BUSWELL: I will answer in the first instance. The government had committed \$15.8 million to the project. An important part of that planning work was consulting with the local governments that would be impacted by that. Let us not forget that this is a magnificent project for delivering public transport outcomes. I

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have not heard one member of Parliament whose electorates sit in or around the project object—of course, the member for Warnbro shakes his head back there; he objects to it. It is going to be great —

Mr P. PAPALIA: It is rubbish.

Mr T.R. BUSWELL: — for people in Victoria Park; it is going to be great for people in Nollamara; it is going to be fantastic for people who want to go to Polytechnic West, which is the old Balga TAFE; and it will be fantastic for the tens of thousands of people who want to move across the city. Part of that \$15.8 million was engaging in that process with local governments. We have not quite got them all over the line. I see the Lord Mayor has a cardboard cut-out in today's paper. Good luck to the Lord Mayor; our objective is to come up with a good transport solution. Part of that involves communicating with the public and part of that is using mechanisms that the member may term as advertising to enable that to happen. So that is why that money was spent. I think the Under Treasurer has covered his explanation of why he used that phrase in the PFPS.

Ms R. SAFFIOTI: What has been said today is that Treasury had no idea that Transport had undertaken a major costing of this project, even though that costing was given to the minister's office in January?

Mr T.R. BUSWELL: The Under Treasurer has provided, in my view, a response to that. When the member says "major costing", there was certainly a cost estimate—I think it is a pretty robust cost estimated—and that advice was provided to me. As I say, I received advice on a whole range of things, as I do from time to time. Sometimes in government interest is heightened in certain investment opportunities and certain activities, and we are keen to know how much these things are going to cost. That is what I did in relation to light rail. Interestingly—again, not strictly related to the *Budget Statements*—when the cost estimate was assessed as part of the costings processes, it came out to be moderately accurate.

[10.50 am]

Ms R. SAFFIOTI: Who did the costing for the Liberal Party that was assessed by Treasury?

Mr T.R. BUSWELL: I am not going to comment on the Liberal Party; I am here to comment on government.

Ms R. SAFFIOTI: The Treasurer is talking about the assessment of an election commitment made during the caretaker period. I am commenting on Liberal Party policy.

The CHAIRMAN: Thank you, member; you have asked the question.

Mr T.R. BUSWELL: I am not going to comment on what the Liberal Party does, but I will say that in government a whole range of things are costed, so there is access to a range of information.

Mr W.J. JOHNSTON: The Treasurer said that the costings estimate was provided to him prior to the caretaker period. Was the information provided to him as part of a cabinet process?

Mr T.R. BUSWELL: Given that ultimately the decision of government to support the MAX light rail process was a decision of cabinet —

Mr W.J. JOHNSTON: That is not what I asked —

Mr T.R. BUSWELL: — the answer is yes.

Mr W.J. JOHNSTON: I asked: was the cost estimate information provided to the Treasurer prior to the caretaker period part of the cabinet process?

Mr T.R. BUSWELL: Cabinet had approved expenditure of funds on planning. We would reasonably expect that one of the things obtained as a result of that would be an indication of the estimated cost. I would reckon that the answer is yes.

Ms R. SAFFIOTI: If it is part of the cabinet process, Treasury would have been informed of it.

Mr T.R. BUSWELL: No, because we had not formally gone to seek approval for the project. The formal approval of the MAX project happened as part of the budget process. It is going to be a great project. I just wish those opposite were a bit more in favour of it.

Mr I.C. BLAYNEY: I refer to the figures box on page 11 of budget paper No 3. Could the Treasurer outline the components of the housing supply package and how this program will assist in alleviating the gap between housing supply and demand in the state?

Mr T.R. BUSWELL: This is an important challenge for everybody in the state, be they in the metropolitan area or the regional areas. The member and I have spent time in the member's home town of Geraldton having a look at housing issues, especially in the Beachlands area where we are bringing land onto the market. We were, and

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still are, concerned that there is a shortage of housing construction activity in the state that is generating challenges around having housing stock at a level suitable to deal with the growing population. The rate of population growth peaked last year at around 75 000; that will drop away to around 50 000 in the coming years, but there is still a lot of pressure.

If we do not play our role to ensure an adequate supply of housing, a range of pressures will be manifesting in the housing market. One of those pressures is the growth of the median house price. Another one of those pressures is rental pressure, and that certainly happened in 2012 in particular, although I think that has dropped off a little bit. Another one is the pressure on the public housing waiting list as affordable housing becomes scarcer. We made a decision that encompassed a number of different elements as part of the budget to help address housing supply. One is the commitment of another \$48 million over the next 13 years to participate in the commonwealth government's national rental affordability scheme, which is a system whereby the commonwealth provides some support to private investors, the state provides some support, and the private investors bring properties onto the market at about 20 per cent off the market rate of rental. Western Australia has been very successful in attracting and starting to deliver NRAS properties—more so than other states. We had an opportunity to bid for some more packages and this \$48 million enables us to bid for another 1 000 packages—it is a positive outcome.

The second component was an adjustment to the first home owner grant, whereby the current regime of \$7 000 for established homes and \$7 000 for new homes would be changed so that the incentive would move in favour of new home construction at \$10 000 with established homes being maintained at \$3 000. We must bear in mind that most other jurisdictions have done something similar, but a lot of them have actually abolished the first home owner grant for the procurement of established homes. A couple of comments have been made about that: firstly, it will force new home buyers on to the urban fringe. I am not entirely sure of the extent to which that will happen. The Department of Housing has been working hard to deliver affordable housing options by way of urban infill in and around the city, in particular North Perth, so there will still be plenty of options.

Secondly, some observations were made in the newspaper earlier this week that this had led to a change in consumer behaviour. When I was asked about it yesterday, my comment was, "Yes, it will", because generally people are rational. If people are planning to buy an established first home—to bring that forward—they have to be very careful when they do that and not get caught up in focusing on the grant rather than on getting value for money out of their investment. Also, people will naturally delay signing the contract to build a new home until the change is made.

We are, of course, aware of that. One of the things we are focused on doing is trying to minimise the time between the announcement and the passage of the legislation through Parliament. It was announced as part of the budget on Thursday, 8 August. I read it and signed it to send to Parliament last Wednesday, 14 August, and it will be dealt with when we return to Parliament as a matter of high priority. I am hopeful that we will get it through as quickly as we can to reduce that window. As Mr Marney advises me through gritted teeth, we still have stamp duty exemption for first home buyers up to \$500 000 in the metropolitan area and \$750 000—it might even be \$1 million; I cannot remember, but it is graduated upwards—in the north of the state. As a state jurisdiction we provide very, very generous support to first home buyers. It is very generous indeed compared with that in other state jurisdictions around Australia.

The third major part of the package concerns reviewing government processes sitting around building approvals and the housing industry more broadly. It would be fair to say that this has been an often-reviewed part of government. It has not always generated the outcomes that people had anticipated from those processes, so we have to go back and have a look at what we can do better in that space. Firstly, there will be a review of what we have done in the past to work out which elements have not been progressed, and why, and what we need to do to get them back on board. Secondly, we need to work with industry to fix up elements of building and planning approval et cetera to get it as efficient as we possibly can.

The CHAIRMAN: The member for Victoria Park.

Mr T.R. BUSWELL: I am sorry for interrupting. I was just wondering, Mr Chairman, if at the completion of this question we might break for five minutes for a brief refreshment?

The CHAIRMAN: Yes.

Mr B.S. WYATT: I refer to page 69 of budget paper No 3, and I note that the guarantee in the Muja debacle has now been brought into the state's finances. In the Treasurer's comments in question time on 27 June, he made the point that he did approve a section 68 approval. He then went on to state —

Treasury was aware of the guarantee effectively provided by Verve to Vinalco.

Why was it that Treasury made the decision that it was not worthy of noting in any previous financial document of the state as a contingent liability, regardless? I would have thought, and I think the Treasurer said, that their view of Kempe Engineering was that it was a sound company; therefore, the guarantee would not be exercised. Surely that is irrelevant for noting a contingent liability such as a guarantee.

[11.00 am]

Mr T.R. BUSWELL: The member is right. It should have appeared in both of the annual reports of the state's finances. It did not. When I say it did not, I am referring to the reporting of the contingent liability. That contingent liability would have been the \$150 million guarantee that the state had extended to the joint venture vehicle Vinalco. That is my understanding of how it worked. The money was borrowed by Vinalco on the back of a state guarantee. It did not appear there; it certainly was not a deliberate omission. There was a suggestion—I am not saying that it came from the opposition—that it was a deliberate omission last year to try and dodge this.

If it had been a deliberate omission, it could be argued that it was probably there the year before when everyone thought it was rosy. There is an issue in reporting, and I will ask the Under Treasurer to comment on that. However, I also point out that I have also corresponded with the Auditor General subsequently and highlighted that omission to him, as is entirely appropriate, and asked for his suggestions and/or advice as it relates to that particular omission because, clearly, whilst you may argue that, in the context of the billions of dollars in the *Annual Report on State Finances*, a \$150 million bank guarantee may not meet a materiality test, I do not accept that argument; I think it does meet a materiality test. It certainly meets the public interest test—not that that is why the Auditor General should report stuff. We will be getting more advice about that from the Auditor General because I view this as a serious matter. I will get the Under Treasurer to provide more advice.

Mr T.M. Marney: The member for Victoria Park is correct. That contingent liability should have been declared as part of the *Annual Report on State Finances*. Verve did not in the processes or systems of compiling the *Annual Report on State Finances* declare to us that contingent liability on those occasions and did not seek to have that reflected in the *Annual Report on State Finances* in accordance with the requests put to all agencies to identify contingent liabilities. In addition to Treasury trying to quality assure the *Annual Report on State Finances*, the Auditor General also undertakes an audit of the *Annual Report on State Finances* to ensure there is consistency between the individual entity's annual report—in this case Verve—and the aggregate *Annual Report on State Finances* as compiled by Treasury. Unfortunately, in that audit process, this issue of non-reporting of a contingent liability was missed.

Mr B.S. WYATT: Is that because Verve did not advise the Auditor General? Was the Auditor General misled or did the Auditor General just not pick it up?

Mr T.M. Marney: I do not know which one of those it is and, hence, the correspondence to the Auditor General to review exactly what happened. So if we have a process failure here, we need to fix it. Since this problem occurred, the processes have been changed to make it more explicit for all agencies to declare contingent liabilities as part of the production and compilation of the *Annual Report on State Finances*.

The CHAIRMAN: I remind members to direct their questions through the minister.

Mr B.S. WYATT: Through the Treasurer, in respect of the section 68 approval that the Treasurer referred to the Parliament, are those approval processes in some way communicated or audited by the Auditor General? I would have thought there would be a particular process by which information is shared to expose those anomalies.

Mr T.R. BUSWELL: Our advice is that they are not. Clearly, there is an issue here, but I want to state again that this is a serious matter that needs to be understood and processes need to be put in place to rectify it and stop it happening again. From my point of view, and the point that the member for Victoria Park would rightly make, we are aware of the provision of the guarantee under section 68. When I say “we”, Treasury has very effectively signed off on that, albeit through a process that needs to be dramatically improved.

Mr B.S. WYATT: When was the section 68 approval given?

Mr T.R. BUSWELL: In August 2012.

Mr B.S. WYATT: Presumably, as part of that approval process, Treasury would be seeking that information from Verve about the detail of the guarantee?

Mr T.R. BUSWELL: This is the issue. There are two separate processes. There is the process around section 68, and Treasury's commentary on that, and the process in which that gets signed off; and there is the process around the compilation of the *Annual Report on State Finances*. Between the two processes it has materialised, or has emerged, that the liability, whilst effectively approved through one process, was not reported through another process. We need to understand that.

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The CHAIRMAN: The member for Victoria Park has put the question and has asked for further questions. I may now just suspend proceedings.

Mr B.S. WYATT: I am not sure that the answer is finished yet. Can we wait for a minute?

I have one final point, and this is a significant issue. The Treasurer makes the point that \$150 million may or may not be a significant part of billions of dollars, but it is an arrangement with a private sector company, with the taxpayer guaranteeing the loan. As the Treasurer pointed out, this has been a failure of processes, so has there been a review that has identified any other contingent liabilities, particularly by the utilities, that may need to be disclosed?

Mr T.R. BUSWELL: My advice is, yes, there has been a review of the process; and, no, it has not uncovered any other contingent liabilities that have not been detailed previously.

Meeting suspended from 11.06 to 11.14 am

Mr W.J. JOHNSTON: I want to ask the Treasurer about the topical issue of paid parental leave. If he wants a specific line item, I refer to staffing resources in budget paper No 3.

Mr T.R. BUSWELL: Which page is that on?

Mr B.S. WYATT: It is part of the state's fiscal challenges on page 3 of budget paper No 3.

Mr W.J. JOHNSTON: I thank my learned colleague for his great service. We currently have 14 weeks of paid parental leave for public sector employees in Western Australia, and there is a proposal for a paid parental leave scheme of 26 weeks. Has any time been spent analysing the difficulties there might be in funding that additional 12 weeks of parental leave? Do we have a costing for that? Are we in a position to know what effect that matter will have on state finances?

Mr T.R. BUSWELL: The short answer, because I have been asked, is no.

Mr B.S. WYATT: Treasurer, how much is currently assumed or allocated in the budget for the cost of parental leave?

Mr T.R. BUSWELL: I could not tell the member.

Mr B.S. WYATT: Can we get that information?

Mr T.R. BUSWELL: For the purpose of that, the member might want to ask me a question on notice.

Mr B.S. WYATT: Can we get it by way of supplementary information?

Mr T.R. BUSWELL: The advice I have is that it will take a while to obtain, if indeed it is obtainable in the way agencies account for wages expenses. I am happy to undertake to provide it, but —

Mr B.S. WYATT: I understand the supplementary answer is that the Treasurer cannot get the information, but I would have thought it is something currently occupying some of Treasury's mind.

Mr T.R. BUSWELL: The advice I have from the Under Treasurer is not at all and that that is not Treasury's practice. If that had been a discussion as part of a state campaign, I imagine it would be occupying somewhat more of Treasury's mind. But until it becomes a policy of a government that is confirmed as being implemented, we have better things to do.

Mr B.S. WYATT: As a supplementary question, what is the current assumption for the cost of parental leave in the current budget?

Mr T.R. BUSWELL: I have said I will provide that by way of additional advice. I need to clarify some points with the Chairman, and ask for some advice on the time line by which we have to provide that advice.

The CHAIRMAN: The time frame for supplementary information on notice, I guess, would be the normal time frame.

Mr T.R. BUSWELL: I will not give an undertaking to provide that by way of supplementary advice because I might not be able to meet those time lines. I ask the member to put that question on notice, if he could.

Ms R. SAFFIOTI: I am trying to help the Treasurer, because the answer would relate to a policy change on paternity leave in the public sector a number of years ago, when it was changed from 12 weeks to 14 weeks, so there should be established costings on that and the information should be readily available. I am just trying to help.

Mr T.R. BUSWELL: My statement does not change.

The CHAIRMAN: The member will give notice of that question, so we do not need to record that here.

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Mr W.J. JOHNSTON: In a speech the Treasurer gave as Leader of the Opposition in 2008, he foreshadowed a state-funded maternity leave scheme for all Western Australian women. I wonder whether any additional policy work has been done to follow up on this policy announcement in 2008.

[11.20 am]

Mr T.R. BUSWELL: I can pretty safely say —

Mr B.S. WYATT: Over your dead body!

Mr T.R. BUSWELL: I can pretty safely say that not a lot of the policy initiatives, laudable as they may have been, from my brief but productive time as opposition leader have been progressed, or indeed embraced, by the government, and that is one of them. So the brief answer is that although the member is right to refer to that speech, I cannot recall that ever being articulated as a policy decision following the change in leader, which happened a very brief period of time after the change in leader before that.

Mr B.S. WYATT: Has the Treasurer ever taken it to the EERC?

The CHAIRMAN: Member, the questions need to be directed to a line item in the budget. I therefore do not think this line of questioning should be pursued, and we will move to the next question.

Mr M.H. TAYLOR: I refer to budget paper No 3, chapter 6, page 177. It notes that over the forward estimates period, the state's asset investment program is forecast to total \$26.9 billion, continuing the state government's substantial investment in infrastructure to support our growing state. Can the minister please highlight the major components of this investment?

Mr T.R. BUSWELL: That is a very, very good question, member for Bateman. The biggest change in new spending in this year's budget is over \$5 billion of investment in transport infrastructure. Those projects are detailed on that page. The totality of these projects is not being delivered across the forward estimates. But these projects are massive in terms of potential impact on the metropolitan area. I am referring here, of course, to the MAX light rail project, which will, I think, fundamentally transform the way in which people travel into and out of the city, right from the first destination, which is at or around Mirrabooka at Polytechnic West. Importantly, it will also change the way in which people travel across the city from Victoria Park in particular through to the QEII medical complex and all points in between. One of the unspoken benefits of that new capacity to move people will be the impact on life in the CBD—it will be quite dramatic. We have a bit more work to do with probably the only local government organisation that opposes it, and that is the City of Perth, which has put out some sort of cardboard cut-out. But we will keep working on that.

Another major project is the airport rail link. There is also, importantly, the commitment to the Perth–Darwin highway. The Perth–Darwin highway is an incredibly important part of the metropolitan road network. This is funded by the commonwealth and the state, as are most major road projects around the state, so I am not saying it is entirely of our doing. We are working very closely with the commonwealth on this project. The Perth–Darwin highway will have a huge impact on the massive flows of freight out of the metropolitan area to the north of the state. Even though this state is moving into a different phase of the economic cycle with a focus now on production and exports as opposed to construction and investment, there is still a massive freight demand on Great Northern Highway in particular. This new highway will get those freight vehicles out of the Swan Valley and those communities. When we couple the changes that will happen around the Perth–Darwin highway with the changes that will happen on Tonkin Highway, and the work that is happening with the Gateway project, it will create a significant transport spine along the Tonkin Highway–Reid Highway–Perth–Darwin highway access. That will be a great outcome for Western Australia, and we have locked into that in the budget.

The budget is not just about transport, of course. A large amount of money in the next couple of years in particular will go into finishing a lot of the projects that are currently underway in the health area in particular. A large percentage of our investment will also go into, as is always the case, our water and electricity utilities. I draw the attention of the member to figure 1 on page 178 of budget paper No. 3. This relates to 2013–14. Over 30 per cent of the asset investment of the state will go into our water and electricity utilities. Those utilities have always been a significant beneficiary of investment by the state.

I need to cover two other aspects around the asset investment program. The first is that we will need an initial \$10 billion, give or take, of borrowings over that period to help fund that additional capital infrastructure. We need to do more work around state debt. However, there is an argument that we are borrowing today, in a low-interest environment, to construct long-term intergenerational infrastructure. I think that is a valid argument. But we do need to look at our total debt levels.

The second aspect is that there has been a change in the government's approach to engaging the private sector to deliver infrastructure projects. I think that is a very positive outcome. Members will see that at the stadium.

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Mr B.S. WYATT: After Muja, I hope there is a change! Risk was a big issue there.

Mr T.R. BUSWELL: I agree; I absolutely agree. I suspect that when the Minister for Energy brings to Parliament the report that he has committed to bring, that report will have some commentary around how risk was dealt with in that project. Mr Mann, who is sitting immediately behind me, is playing an important role here as executive director, strategic projects. He is a Swan Districts Football Club supporter, though, so we do need to keep an eye on him!

Mr J.E. McGRATH: He cannot help that!

Mr T.R. BUSWELL: No. We need to put a lot more focus than has historically been the case on—as we are doing—how we go to the market around these projects and how we procure them. The stadium will be a very interesting case in point, because the private sector will be providing a portion of the funding. It will be involved with the design and construction, and ultimately the maintenance, of that piece of infrastructure. I think that is a very, very good model. I am confident that we will be able to roll that out on the light rail project and hopefully also the airport heavy rail link. It is a great opportunity for us to expand in this space.

So, yes, a lot of money is being spent on infrastructure, and there are concerns about the debt being intergenerational in nature. However, also, the procurement approach is now different. I should say that it is definitely in line with the procurement strategies that the federal government is seeking from the states.

Ms R. SAFFIOTI: In relation to the modelling that the minister just outlined for the MAX light rail, is the minister saying that the intention is to have the private sector design, build, maintain and operate that?

Mr T.R. BUSWELL: On the design aspect, we need to work through a procurement options analysis. But the feedback I have is that that is a very efficient mechanism.

Ms R. SAFFIOTI: Where is that feedback from?

Mr T.R. BUSWELL: It is from other jurisdictions—such as the Gold Coast, heaven forbid! International practice would also indicate that that is what is happening. In terms of design, we are certainly doing some of what we might call the precompetitive work. That is a very good question, member for West Swan. One of the important things that the government has to determine around light rail is the route.

Ms R. SAFFIOTI: It is a good question! Given that the government has costed it, it is a good question to know where it will be going!

Mr T.R. BUSWELL: What the member for West Swan will find is that in the totality of the costing —

Ms R. SAFFIOTI: The route is quite important!

Mr T.R. BUSWELL: In that case, I will spend a bit of time going through this detail with the member, because it is important to work through this, and since the member has asked, I am prepared to provide the information. The route will start at or near Polytechnic West. It will then proceed along Mirrabooka Avenue and Alexander Drive and into the city. It will then work its way, I suspect, through City Square. The east–west route will start in East Victoria Park at the bus interchange in the member for Victoria Park's electorate, again give or take. It will then proceed into the city, and then out of the city along Hay Street and through West Perth, and it will ultimately end at QEII Medical Centre. So the route is quite long. A small component of the route is in contention. That small component is pretty much how we will get it through the centre of the CBD. There is not a lot of contention about the route to the east or the route to the west. So the member for West Swan is right; there is some discussion around the route. The City of Perth's preference initially was for the route to run along St Georges Terrace. That would effectively make it almost impossible for people to drive through the CBD. Of course that is its plan—the City of Perth does not want any cars in the CBD and it does not want any buses in the CBD.

[11.30 am]

Mr B.S. WYATT: Just on that, Treasurer, if it were put down the middle of St Georges Terrace, we would not be able to have cars going down St Georges Terrace.

Mr T.R. BUSWELL: It would heavily restrict the capacity to move cars down St Georges Terrace.

Ms R. SAFFIOTI: It is the same issue on Fitzgerald Street.

Mr B.S. WYATT: It would have the same impact on Fitzgerald Street and all the other streets.

Mr T.R. BUSWELL: True; but when we look at the transport planning, a large range of other options pick up on the impact on Fitzgerald Street. However, I am not of that view; I have a view that —

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Mr B.S. WYATT: There are other options in the city, too, until you close Riverside Drive.

Mr T.R. BUSWELL: We have not closed Riverside Drive, member for Victoria Park.

Mr B.S. WYATT: “Until you close”, I said.

Mr T.R. BUSWELL: We are not, so I will pick up on that point as well in a second, because that is a common misconception that I will deal with. Work is going on about where the light rail will go in the city. That is a decision for government to make, and it will be based on delivering the best transport outcome, not on satisfying the City of Perth. I have had some very positive feedback from people who would like to see it bring people in and out of the malls and in and out of the middle of Perth. The member for West Swan’s question was: how will that impact on the cost estimates? I do not think that relatively small undecided part of the route is going to have a significant impact on the costs at all. When we look at the totality of the costs of delivering the system, I do not think that the route definition through the CBD will in any way have what we would call a material impact on the total cost.

Ms R. SAFFIOTI: The government is still investigating how it is going to cross Walcott Street as well, as I understand.

Mr T.R. BUSWELL: That is my view. Member for Victoria Park, in relation to the closure of Riverside Drive, of course, Riverside Drive is not being closed.

Mr B.S. WYATT: I never said it has been; I said it will be.

Mr T.R. BUSWELL: We are not planning to close Riverside Drive; we are planning to move traffic around —

Mr B.S. WYATT: The government is putting the bridge in, is it not?

Mr T.R. BUSWELL: No, there is no bridge. When the member says “close”, we interpret that to mean that no-one will be able to use Riverside Drive. Indeed, a large number of people will still use Riverside Drive.

The CHAIRMAN: Members, this answer is taking a long time because there are so many supplementary questions. If members want to ask a further question, let us do it formally.

Mr J.E. McGRATH: The minister said that the light rail is going to end at the busport at Victoria Park.

Mr T.R. BUSWELL: Give or take.

Mr J.E. McGRATH: Give or take.

Mr T.R. BUSWELL: At the bus interchange, I think.

Mr B.S. WYATT: Give or take what?

Mr T.R. BUSWELL: Give or take a few metres.

Mr J.E. McGRATH: Is this an interim move that one day will extend that light rail to perhaps Curtin University or wherever?

Mr T.R. BUSWELL: That is a very good question, member for South Perth. I do not have much in my office— it is very spartan—but I do have a map of the old Perth tram network. I look at that often and think of the actual value to us now if we had kept it. Of course, we have not. It would be in the tens of billions, I suspect. But the light rail system will provide a building block for future governments to make decisions around expanding it. The public transport plan clearly identifies areas it needs to expand. One would be through Bentley, I think it is, to Curtin, loosely. I think that is the general —

Mr B.S. WYATT: It is down through Bentley Park.

Mr T.R. BUSWELL: Yes. Another extension would be through Subiaco and out into Glendalough and probably to Stirling. They are decisions that will be made, I reckon, when I will be long gone from life as an elected member.

Mr J.E. McGRATH: But the starting point of the rail would have a bigger catchment than at the Victoria Park end; would that be right?

Mr T.R. BUSWELL: Probably. It probably would, but, at the end of the day, we had to start somewhere. When this is up and running, I have a sincere view that people will vote with their feet and use it in large numbers, particularly to move across town, as I said earlier. Members should look at the number of people on the red central area transit buses. The red CAT bus is probably the best example, because it travels from East Perth through to West Perth. There will be a number of those hot on each other’s hammers every morning, nearly all chockers with people. People are happy to use public transport to move through the city. I think it will

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revolutionise the way people move through the city. I think we need to get away from this fear of having light rail move through the malls, because it will bring in a lot of people and it will literally move at walking pace through the malls. There are plenty of examples around the world where it happens. I just think it is a really exciting outcome.

Mr B.S. WYATT: This is an interesting conversation, but perhaps we can move on, rather than it being a dialogue between the member for South Perth and the Treasurer —

Mr J.E. McGRATH: I was enjoying it.

Mr B.S. WYATT: — bearing in mind it is opposition time. I have a further question on some of the comments made by the Treasurer about the asset program. It is reported in *The Weekend West* of 10–11 August that the Treasurer said that the state would soon reach its financial limit to invest in infrastructure. When will that limit be reached? The Treasurer has obviously given it some thought to make that comment.

Mr T.R. BUSWELL: We certainly are starting to give some thought to it. The member would have seen the budget presentation on the no-change estimates of 10-year debt, which has to be a concern. That assumes certain levels of investment in infrastructure whereby those investments in infrastructure by the state are a percentage of gross state product. I think two and a half per cent is the figure that is used across that. We are going to sit down and look at what we have currently committed to in terms of investment. Most of what we have currently committed to will be completed by 2020. A couple of projects will not be, but most of it will be. I think we have to look at what disciplines we put around major project approvals over and above those that are already approved, because I think we have a finite capacity to continue to invest in the major projects we invest in. I do not have an answer yet to the member's question, but I can tell him that we are definitely doing some work around that.

Mr B.S. WYATT: I have one question about the limits. Is the AAA credit rating one of the limits?

Mr T.R. BUSWELL: The parameters that the ratings agencies look at are certainly a factor that would impact on our capacity to keep borrowing money to fund infrastructure. But I think we need to step back from it, member. I understand debt is important and I understand we need to focus on that, but I also think that we need to look at having a longer time. Under the strategic asset management framework—SAMF—most of our agencies now have a 10-year asset investment program. I reckon we need to start looking at that to understand what major projects potentially would be candidates for that next wave of investment, because I am not sure that we are going to be in a position to make that next wave of investment. The massive investment in hospitals has probably peaked—it might peak this year, but it is sort of peaking. This massive investment in public transport will peak over the next five or six years. I am not sure that we have the debt capacity to fund another wave, if I can put it that way, of major project investments. That is the sort of analysis that we need to conduct, and it is not about just the pressure on borrowing to fund asset investments—that is, major projects; it is also about the underlying budget surplus and the capacity of that, firstly, to meet current year funding requirements for capital and, secondly, to start paying down debt. That 10-year analysis definitely shows a significant pick-up in operating surplus. The reality, though, is that that kicks in with a lag.

Mr B.S. WYATT: Just before the Treasurer moves on from that point, does that 10-year analysis of debt also factor in the operating costs of public transport for hospitals, schools and the things that are currently forming part of the general government debt being held? Presumably, it does.

Mr T.R. BUSWELL: I might get Mr Marney to provide some commentary on that.

Mr T.M. Marney: The investment side and the expenditure side are modelled separately. On the expenditure side, the foundation of that modelling is based on population projections and also the cohorts of population as they move through the education system and through the health system. As the member would understand, different cohorts of population have a different impact on both the education system, obviously, and the health system. We modelled the population trends and then translated that into what would be normal, if you like, no policy change and expenditure growth that would flow from those population cohorts. It definitely picks up the operating costs associated with expanded facilities in education and health and similar such infrastructure. It is fair to say that it is less explicit about the operations of discrete transport projects.

[11.40 am]

Mr B.S. WYATT: Presumably the cost of operating the Metro Area Express was factored into that.

Mr T.M. Marney: It was factored in in broad terms, such as in trend and expenditure growth. As the transport network expands more broadly, historically expenditure has grown and we will continue that trend through the 10-year model.

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Ms R. SAFFIOTI: Page 68 of the *Economic and Fiscal Outlook* refers to the commissioning of Fiona Stanley Hospital. When were Treasury and the Treasurer first made aware of the delays in the opening of Fiona Stanley Hospital?

Mr T.R. BUSWELL: There are probably two components to the answer. The first is that it is fair to say that Treasury was concerned about the commissioning of Fiona Stanley Hospital. My recollection, although I do not have the documents in front of me, is that the concerns would have been identified in the risks summary during the midyear review. I think they were in the *Pre-election Financial Projections Statement*.

Ms R. SAFFIOTI: I do not think so.

Mr T.R. BUSWELL: There had been some concerns —

Ms R. SAFFIOTI: How long ago did Treasury first have concerns about the commissioning of the hospital?

Mr T.R. BUSWELL: The review of the University Hospital Birmingham took place in 2012. It identified some concerns.

Ms R. SAFFIOTI: Which review?

Mr T.R. BUSWELL: Some external consultants were engaged to assist us and the Department of Health to understand some of the challenges involved in the implementation of Fiona Stanley Hospital.

Ms R. SAFFIOTI: When was the report received by government and who undertook the review?

Mr T.R. BUSWELL: That report was effectively handled by the Minister for Health and ultimately it was sent to cabinet to provide advice. The question the member is asking is when did the concerns about potential delays crystallise into an actual delay. My advice is that the concerns were provided to Treasury towards the end of March this year.

Ms R. SAFFIOTI: Who were the external consultants?

Mr T.R. BUSWELL: I cannot remember off the top of my head.

Ms R. SAFFIOTI: But the review undertaken by the external consultants raised serious concerns about the progress of Fiona Stanley Hospital?

Mr T.R. BUSWELL: It certainly raised a number of issues that had to be addressed as part of the implementation of the hospital. As I said, the concerns and recommendations were acted on, but ultimately those concerns crystallised into advice to Treasury and, subsequently, to government in late March. It is also fair to say that some of the issues raised were not issues agreed to by the Department of Health, which sometimes happens in this process.

Ms R. SAFFIOTI: This is a very live issue. I refer to the negotiations being undertaken with Serco about the penalty payments. Is Treasury involved in the negotiations with Serco?

Mr T.R. BUSWELL: There are two issues. First, I am not sure that “penalty payments” is the right turn of phrase. I think the right turn of phrase is “cost mitigation discussions” with Serco. Yes, Treasury is involved in those discussions.

Ms R. SAFFIOTI: Can the Treasurer provide advice about the estimated liability or daily or weekly costs?

Mr T.R. BUSWELL: Not at this stage.

Ms R. SAFFIOTI: When will Treasury do that?

Mr T.R. BUSWELL: Our objective is to resolve negotiations with Serco as soon as possible. We are hopeful that will be done by the end of September.

Mr B.S. WYATT: So will we see that in the midyear review?

Mr T.R. BUSWELL: I hope so.

Ms R. SAFFIOTI: Does the Treasurer believe that the Serco contract was structured in a significantly robust way to mitigate risk? One of the key issues is the view that all risk was being transferred to Serco, which is why it was a good deal for Western Australia. Obviously, that has not come about and significant costs have been incurred.

Mr T.R. BUSWELL: Serco’s contract detailing its requirement to deliver a suite of services and to charge the state is a robust contract. The facts of the matter are that for a whole range of reasons —

Ms R. SAFFIOTI: It is the Department of Health’s fault.

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The CHAIRMAN: Member!

Mr T.R. BUSWELL: Let me go back. The contract with Serco is sound. It is complex—there is no doubt about that—because of the large suite of services. The contract with Serco is sound and the public policy position is very sound. It is the case that there have been well-documented issues about when that hospital will open. Effectively, it will start taking patients in October 2014 as opposed to the anticipated date of April —

Ms R. SAFFIOTI: It is only rehabilitation starting in October. Ninety per cent of the hospital will operate the following February.

The CHAIRMAN: The member for West Swan should allow the Treasurer to finish his answer.

Mr T.R. BUSWELL: I will go back. As I was about to say, the contract with Serco and the public commentary around the hospital involved an anticipated start-up date of April 2014. Clearly, for a range of reasons, that is no longer achievable. The hospital will commence accepting patients, as I understand it, in October 2014. Over a six-month rollout, it will effectively ramp up to full operation. The member for West Swan is right. The Department of Health will manage the transition of patients through the hospital. That is a matter for the Department of Health. We have a contract with Serco that assumes that service delivery would commence in April 2014. That clearly will not happen. We have contractual arrangements in place that assume that that would happen. The contract provides us with the provision and Serco with a requirement to work with us to mitigate costs in this eventuality. That is entirely what we are working through. It is getting a lot of focus from within government. I met with senior SERCO officials and the Minister for Health to discuss the issue. We have a team of people from within government—health representatives, Treasury officials and State Solicitor's Office representatives—working on attempting to resolve these issues, and that is a process that is still very much alive and in play.

[11.50 am]

The CHAIRMAN: Before I give the call to the member for Victoria Park, I remind members that we have a significant number of divisions to deal with; it is up to members how much time they want to spend on each one.

Mr B.S. WYATT: I refer to the final dot point on page 338 of budget paper No 2, which states that Treasury will play a key role in wages policy. I refer to the enterprise bargaining agreement reached between government and nurses during the lead-up to the state election. The government's previous wages policy should have resulted in an 8.25 per cent pay deal with the nurses; in the end, the nurses got a 14 per cent pay deal. What key role did Treasury play in the negotiation of that outcome? What role did the former wages policy play, in light of the significant difference between the wages policy and the deal that was ultimately entered into with the nurses?

Mr T.R. BUSWELL: The resolution of the pay aspect of the negotiations with the nurses happened, as I recall, during the election campaign. That effectively became an election commitment of government. I am not aware of —

Mr B.S. WYATT: But it was not subject to the outcome of the election; it was an arrangement entered into between government and the nurses. It did not matter what happened in the election.

Mr T.R. BUSWELL: My understanding is that the Liberal Party, as part of our suite of policies, went into the election campaign with a policy to fund a certain wages outcome with nurses. I should say, in relation to that, that the wages component has, I think, generally been agreed on. That particular EBA, though, is still in arbitration around a range of conditions, and that is still being worked through. There is actually a risk that the arbitrated settlement of the dispute around some of those conditions may further inflate the totality of that wages outcome, so that is something that is still being worked on. That is just part of the process we are working through.

Mr B.S. WYATT: The Treasurer said “the Liberal Party”; this was not something negotiated with Ben Morton, this was negotiated with Peter Conran who, although he might be closely associated with the Liberal Party, is the director general of the Department of the Premier and Cabinet. I again ask: what role did Treasury play in that outcome, bearing in mind that under the previous wages policy, Treasury played a key role? The previous wages policy would have delivered an 8.25 per cent deal, but the actual outcome was a 14 per cent deal.

Mr T.R. BUSWELL: My understanding is that Treasury certainly did not play the lead agency role in that —

Mr B.S. WYATT: When did Treasury find out about the 14 per cent offer from Peter Conran?

Mr T.R. BUSWELL: I could not say exactly when, but —

Mr B.S. WYATT: Was Treasury at least involved in the costing of the offer from Peter Conran before it was made?

Mr T.R. BUSWELL: Not entirely.

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Mr B.S. WYATT: No. So Treasury played a “key role” in implementing the wages policy that should have delivered the nurses an 8.25 per cent pay rise over three years, but instead played no role in the 14 per cent pay rise deal prior to the actual delivery of that offer.

Mr T.R. BUSWELL: I think we have to quickly put some historical perspective around how that offer was made by government and how that decision was taken. At the time we were pretty clear about why we were doing this: we had the nurses, through their union, effectively threatening to close down hospitals. The advice we had in government was that that would put patients at risk, so decisions were made around resolving that issue. I would go so far as to say that that was quite an abnormal practice in the way in which wage negotiations are usually conducted. It is —

Mr B.S. WYATT: Again referring to the Treasurer’s previous wages policy, it was designed for Treasury to be the key agency, resulting in—I quote the Treasurer again—“early resolution”. Instead of that we had, in the teeth of an election, a 14 per cent pay rise, when the Treasurer’s own policy said that it should have been 8.25 per cent, and Treasury was not even involved in the process.

Mr T.R. BUSWELL: Again, let me explain what normally happens. As we approach the negotiation period for the EBA, we generally form a bargaining that sits around that EBA. The bargaining committee would normally involve —

Mr B.S. WYATT: The Treasurer told Parliament that he chaired that committee.

Mr T.R. BUSWELL: I did not chair the bargaining committee.

Mr B.S. WYATT: The Treasurer said in Parliament that he chaired the committee when he announced his first wages policy during the first term of his government. He announced that it would be chaired by him, rather than the line agency minister; that was the big selling point he made.

Mr T.R. BUSWELL: Yes, the Department of Commerce, Treasury and the line agency are involved in those bargaining committees. I was then the Minister for Commerce and that department is involved in developing the strategy for the negotiation of the EBA, not only around wages but also around all the other conditions. In relation to the nurses, it is my recollection that at some time before the natural expiry of the previous EBA—which, from memory, was in June—in a somewhat unusual but ultimately successful tactic, the nurses came out well ahead of the expiry date of the EBA and well ahead of the period of time during which we could get into what we would call “good faith bargaining”, which would sit around the normal processes of government, and said, “We’re going to shut down hospitals.” We had advice —

Mr B.S. WYATT: To be frank, the government folded with a pay offer almost double what its own policy said the nurses should get!

Mr T.R. BUSWELL: Let me go back, then. I will explain it all again. In normal practice, we set up a bargaining committee. The bargaining committee —

Mr B.S. WYATT: Yes, that was Peter Conran, apparently on behalf of the Liberal Party, as the Treasurer pointed out a minute ago.

Mr T.R. BUSWELL: Let me go back and explain what happens. In normal practice, we set up a bargaining committee. The bargaining committee includes representatives from the Department of Commerce, Treasury and the line agency.

Mr B.S. WYATT: We know all this. The Treasurer has already said this.

The CHAIRMAN: Member, just allow the Treasurer to finish his answer, and then I think we need to move on.

Mr T.R. BUSWELL: Let me go back and explain again. In normal practice, we set up a bargaining committee. The bargaining committee has representatives from Treasury, the Department of Commerce and the line agency. They would all be involved in developing the parameters around the wage offer and the parameters around the conditions that the government offers as part of our commitment to good faith bargaining; that is the normal practice. In relation to the nurses’ agreement, as I understand it, it was an abnormal circumstance in which, some time before the expiry of the previous EBA and some time before we would normally set up all those practices and protocols to manage that negotiation, the nurses threatened industrial action that would have shut down hospitals. The advice we had was that that would have endangered public health. That was an extraordinary circumstance—I hope it is not repeated—to which the government responded in a non-normal way. Had the government not responded in a non-normal way and had it not attempted to avert a potential circumstance in which patients would have been placed at harm, I could not imagine the criticism that would have been levelled at the government had something happened to a patient. It was an abnormal circumstance with an abnormal response.

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[12 noon]

[Mr I.C. Blayney took the chair.]

Mr B.S. WYATT: When did Treasury find out about the offer?

Mr T.R. BUSWELL: This issue was taken over at the highest level of government because it was serious. I suspect that that negotiation happened, that some parameters were put in place and that Treasury was informed.

Mr B.S. WYATT: Was wages policy part of those parameters?

Mr T.R. BUSWELL: Wages policy is a policy of government, which in normal circumstances would apply.

Mr B.S. WYATT: Was it part of the parameters?

Mr T.R. BUSWELL: When people threaten to go on strike and cause harm to patients —

Mr B.S. WYATT: It is a simple question: was the current wages policy part of the parameters given to Peter Conran?

Mr T.R. BUSWELL: I am sure that they would have been in the thinking of the government negotiating team as they tried to negotiate an outcome.

Mr B.S. WYATT: How did it get from 8.25 per cent under wages policy to 14 per cent?

Mr T.R. BUSWELL: I am just going to check the member's assertion that it was entirely inconsistent with wages policy.

Ms R. SAFFIOTI: The Treasurer does not need to check. Was wages policy at 13 per cent?

Mr B.S. WYATT: It was either the consumer price index or the wage price index. There were no productivity exchanges, so it was CPI.

Mr T.R. BUSWELL: WPI at the time of the *Pre-election Financial Projections Statement* was around 4.25 —

Mr B.S. WYATT: No, WPI on the basis of productivity outcomes.

Mr T.R. BUSWELL: I am not entirely sure that the member's argument stacks up. I would have to have a detailed look at the figures. In the discussions with the Australian Nursing Federation, the wages parameters were set. I am not entirely sure that the member's assertion that they were outside of wages policy is accurate.

Mr B.S. WYATT: CPI over that period was 8.25 per cent. We can get to a WPI on the basis of a range of productivity outcomes.

Mr T.R. BUSWELL: Correct.

Mr B.S. WYATT: The wage increase was given without productivity offsets.

Mr T.R. BUSWELL: Hold the bus; we are still working through conditions with the nurses.

Mr B.S. WYATT: That will now add to the budget.

Mr T.R. BUSWELL: We have not completed that. Again I go back. They were extraordinary circumstances whereby the union threatened to effectively close beds. We were advised that this would impact on patient health.

Mr B.S. WYATT: Does the Treasurer appreciate the oddity of his behaviour in condemning the Australian Nursing Federation? The government effectively folded and gave them what they wanted. Does the Treasurer think that that will change behaviour?

Mr T.R. BUSWELL: My hope is that it is not a strategy that is re-employed in wage negotiations.

Mr B.S. WYATT: I am sure the signal was sent strong!

Mr T.R. BUSWELL: It is my hope that it is not a strategy that is re-employed by the unions that represent our employees at future wage negotiations, because I do not think it is an acceptable strategy. Again, let me go back; I am not entirely sure —

Mr B.S. WYATT: I could tell how appalled the Treasurer was; he gave them 14 per cent.

Mr T.R. BUSWELL: I am not entirely sure that the member's assertion around it being completely inconsistent with wages policy is actually reflected —

Mr B.S. WYATT: WPI was just over 12 per cent and CPI was 8.25 per cent and the nurses ended up with 14 per cent.

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Mr T.R. BUSWELL: At the time of the PFPS, WPI was forecast to be 4.5 per cent in 2012–13 and then 4.25 per cent across every year through to 2015–16.

Mr B.S. WYATT: It is 12.75 per cent.

Mr T.R. BUSWELL: I cannot quite aggregate that off the top of my head because it moves up a little rather than being a straight summation, but I am not entirely sure it is wildly out as per the member's assertion.

Mr B.S. WYATT: It actually is, because there were no productivity outcomes. That was the whole point of the WPI outcome.

Mr T.R. BUSWELL: The other challenge in government is that sometimes issues have to be resolved. It was a very, very difficult circumstance with the union threatening patient safety.

Mr B.S. WYATT: But Treasury had no involvement. Does the Treasurer think that was acceptable?

The CHAIRMAN: Member!

Mr B.S. WYATT: Does the Treasurer think that Treasury should have been involved in that process?

Mr T.R. BUSWELL: Let me go back. In normal circumstances under our policies, when an EBA is approaching the point of negotiation, we establish a bargaining committee.

Mr B.S. WYATT: I take that as a no.

Mr T.R. BUSWELL: The bargaining committee includes representatives of Treasury —

Mr B.S. WYATT: Can I have a follow-up question, Mr Chairman?

The CHAIRMAN: I would like the Treasurer to finish his answer first.

Mr T.R. BUSWELL: It also includes representatives of the Department of Commerce and the line agency. Normal practice did not apply in this situation because it was an abnormal circumstance in which the union threatened to close beds and we were advised that that would impact on patient safety.

Mr B.S. WYATT: What is the FTE cap of the public service and Treasury for 2013–14?

Mr T.R. BUSWELL: We have salary caps now.

Mr B.S. WYATT: So the FTE cap does not apply anymore! Is that right?

Mr T.R. BUSWELL: I have explained that to the Parliament. I have spent time working —

Mr B.S. WYATT: I will ask a question, now that I know the FTE cap does not apply. I refer to the media statement from the former Treasurer on 17 April last year that there would be a two-year freeze on the FTE cap and that Treasury was going to be frozen at the 2011–12 FTE level. Does that still apply?

Mr T.R. BUSWELL: It applied to the extent that that impacted on the gross costs of employment for agencies to which that applied for the 2012–13 financial year.

Mr B.S. WYATT: Two years—and 2013–14, according to that announcement.

Mr T.R. BUSWELL: It applied to those agencies to which that cap applied to the extent to which it limited the gross cost of employment—the wages bill—of those agencies for the 2012–13 financial year. What has happened subsequently and is clearly discussed in the budget papers and represented in the fiscal action plan is a change in policy when it comes to managing government wages growth. That change in policy is basically driven by two things; firstly, when we enter into negotiations with our agencies, the new wages policy will be capped at CPI. That is the position that we will take into our wage negotiations with our agencies. Secondly, general government agencies' salaries' budgets will be capped. The base year for that cap is 2012–13 and it will then be adjusted up by CPI. The reason that links into the member's question is that the question around a freeze—I think that was the word he used —

Mr B.S. WYATT: That was the term used by the former Treasurer.

Mr T.R. BUSWELL: That would have impacted on the total salaries bill of 2012–13 in some way, shape or form, so that is now encapsulated in the new base. Across the forward estimates the salary base is assumed to be the 2012–13 salary bill, for want of a better term, adjusted annually for inflation. Discrete policy decisions of government can change that cap, as we would expect. Perhaps a good example would be the government commitment around additional police officers, whereby as we anticipate that those police officers will flow through into the police force, the wages bill will be adjusted at that time. I am not sure if Mr Marney wants to add any more to that, but if he does, he is certainly free to. It is a really important part of our reform agenda.

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Chairman; Mr Ben Wyatt; Mr Troy Buswell; Ms Rita Saffioti; Mr Bill Johnston; Mr Jan Norberger; Mr Sean L'Estrange; Mr Paul Papalia; Mr Ian Blayney; Mr Matt Taylor; Mr John McGrath

Mr B.S. WYATT: While he does, perhaps he could tell us the current FTE for Treasury.

Mr T.M. Marney: The current FTE for the Department of Treasury and Finance is 297. That includes FTE associated with the strategic projects business—from memory, we have 51 FTE involved in the delivery of strategic projects. I think the member may have been referring to an initiative from a previous budget, which saw a freezing of FTEs at current levels.

Mr B.S. WYATT: At 2011–12 levels.

Mr T.M. Marney: Yes. That was particularly focused on those agencies that were sitting well below their FTE cap or their FTE ceiling as it existed at that point and essentially rebased their FTEs to their current level, because there was quite a distinct difference across a number of agencies between their approved FTE ceiling and their current actual levels of FTE.

[12.10 pm]

Mr T.R. BUSWELL: Thank you, Mr Marney.

Mr M.H. TAYLOR: The Bateman electorate has a strong business community, so in reference to table 3 on page 86 of the *Economic and Fiscal Outlook*, I would like to ask a question about payroll tax relief.

Mr T.R. BUSWELL: Sure.

Mr M.H. TAYLOR: Can the minister provide further detail on the increase in the payroll tax exemption threshold to \$850 000 by 2016–17; and, can the minister also give us an indication of the number of small businesses expected to benefit from this policy?

Mr T.R. BUSWELL: It is a good question. I am not sure how many businesses pay payroll tax in Western Australia; I am sure there is some information somewhere on that. But, effectively, the change in the threshold affects all businesses that pay payroll tax. I am the first to admit that it is a modest adjustment to the threshold, but we felt it was an important first step in trying to reform payroll tax. Different people in the community have different views about which tax the state levies on them is the most onerous. People who might have a lot of involvement in property might say stamp duty or land tax; employers would generally say payroll tax. So we decided to attempt to make some changes to the payroll tax threshold in light of the argument put forward by the business community, and that is that the threshold had been at \$750 000 for a heck of a long time, and that \$750 000, given the growth in wages, employed a lot fewer people now than it did two years ago and five years ago. So we made the decision that in 2014-15 the threshold will be increased to \$800 000, and then two years later to \$850 000. Now, again, that is not a massive saving, but at the 5.5 per cent rate it is probably—if my maths is right—about \$5 500; 5.5 times \$100 000. So for a small business person with a payroll of \$850 000, that is \$100 000 they do not have to pay payroll tax on; and \$5 500 might not seem like a lot of money, but for a lot of businesses I know and deal with, it is a significant sum. I think it is an important part of our attempt to reform payroll tax. I wish we had a lot more capacity to do that, but the fiscal reality is that that is just not the case. However, we gave a commitment during the election campaign to deliver that and it will be delivered.

The appropriation was recommended.