Division 12: Treasury, $6 012 416 000—

Mr T.J. Healy, Chair.

Mr B.S. Wyatt, Treasurer.

Mr M.A. Barnes, Under Treasurer.

Mr M.J. Court, Deputy Under Treasurer.

Mr R. Watson, Executive Director, Infrastructure and Finance.

Mr A.D. Jones, Executive Director, Economic.

Mr M.S. Andrews, Acting Executive Director, Strategic Policy and Evaluation.

[Witnesses introduced.]

The CHAIR: I give the call to the member for Warren–Blackwood.

Mr D.T. REDMAN: Welcome again, Treasurer. I refer to page 66 of the *Economic and Fiscal Outlook* under "Spending Risks". At the bottom of the page is the heading "Royalty Backpayment", which I understand is an upside risk. I think it has even been described in there as that. The second last sentence states —

> As a result, the financial estimates in this Budget do not include any additional royalty revenue relating to this matter.

My understanding is that the Treasurer said that BHP is paying the higher rate since the underpayment was identified in 2016, and there was public commentary to that effect. I can quote the Treasurer if he wants me to.

Mr B.S. WYATT: It is all right; I can confirm that.

Mr D.T. REDMAN: Is that reflected in the budget papers?

Mr B.S. WYATT: Yes.

Mr D.T. REDMAN: If it is reflected in the budget papers, how much is it? I assume it is a risk if BHP does not come to the position of having to pay its underpayment, as the Treasurer described it.

Mr B.S. WYATT: What is reflected in the budget papers is the correct approach to the deductions going forward. That section on page 66 refers to the back payment that is being negotiated between the Premier and BHP. We have not assumed any outcome for that at this point. Regardless of the outcome of these negotiations, I do not see any risk in how we are assuming royalty calculations going forward.

[3.10 pm]

Mr D.T. REDMAN: I stand to be corrected if I am wrong, but the dispute with BHP is simply a back pay dispute. I thought the dispute was over whether it should be paying it.

Mr B.S. WYATT: Effectively, there are two separate issues. Going forward is not in dispute.

Mr D.T. REDMAN: That is fixed; it is paying.

Mr B.S. WYATT: There has been a difference of opinion around the back payment. That issue, hopefully, will be resolved soon. That is being negotiated between the Department of the Premier and Cabinet and BHP.

Mr D.T. REDMAN: Given that the Treasurer knows what the new regime is—it has been adjusted up—would he know the accurate figure for the disputed back pay? What is the accurate figure for that? I think it has been quoted to be between $200 million and $300 million, which is a wide berth.

Mr B.S. WYATT: I think it is probably best that I do not give a set figure here, bearing in mind the nature of the conversations, but there are differences of opinion around the figure, obviously, hence the negotiation around what it might be. But in due course an outcome will be achieved and I suspect it will then be made public.

Mr D.T. REDMAN: On the disputed underpayment for the back pay, is the fact that BHP is on state agreements as distinct from working under the Mining Act significant to the state's claim?

Mr B.S. WYATT: I am not in a position to provide accurate advice on that because I do not know the answer to that. I suspect that the state agreement is relevant—I think that is the answer—but whether that is the key part of negotiations, the Premier is in a better position to provide that answer.

Mr D.T. REDMAN: Is the Treasurer able to provide it by way of further information?

Mr B.S. WYATT: I probably cannot because the Premier is managing that as opposed to Treasury.

Mr D.C. NALDER: I refer to page 139 of budget paper No 2, volume 1, and the "Appropriations, Expenses and Cash Assets" table. My question is to do with royalties for regions. The appropriation for royalties for regions jumps from an estimated actual in 2018–19 of $429 million, based on a budget in 2018–19 of $574 million, to the budget estimate in 2019–20 of $795 million. Can the Treasurer please explain what is driving that? I understand that the footnote refers to the difference between recurrent and capital. I would like clarity on whether the change of $360 million is a relocation of general recurrent expenditure towards royalties for regions.

Mr B.S. WYATT: I will get the Under Treasurer to give that answer; it will probably be quicker.

Mr M.A. Barnes: There are two key issues here and the member has touched on one of them. In 2018–19, as we can see in that table, there has been a significant underspend in the royalties for regions program, including in the recurrent component of the program, which is what the figure is referring to. The first part of the answer to the question is the significant underspend in 2018–19.

Mr D.C. NALDER: Of both recurrent and capital?

Mr M.A. Barnes: I believe so, yes.

The CHAIR: You should go through the minister. Let him finish answering his question.

Mr M.A. Barnes: There has been an underspend across the entire royalties for regions program I believe in both the recurrent and capital components of the program. The figure in the budget papers is simply referring to the recurrent component. There has been a significant recurrent underspend in 2018–19. That is the first point. In 2019–20, it is assumed that it will go back to a normal spend. That is one reason for the jump between those two figures. The other reason for that is, as the member touched on, that mix between the recurrent and capital components of the royalties for regions program. We have seen over time—this is a continuation of that trend—a larger proportion of the royalties for regions program going to recurrent spending rather than to capital spending.

Mr D.C. NALDER: Is that reinforced by the fact that more expenses that historically were covered by the consolidated account are now being funded by royalties for regions?

Mr B.S. WYATT: Is that in respect of the underspend?

Mr D.C. NALDER: No, in respect of the fact that it is a massive shift of spend. It is true that there was an underspend—that is, the difference between the estimate of $429 million and the budget figure of $574 million, although that was an increase on the actual in 2017–18 of $470 million. We already knew that there had been a transfer of expenditure away from the consolidated account to royalties for regions. Programs that historically had been funded under the consolidated account have been transferred to royalties for regions. Are these figures a reflection of that transfer and how things are being expensed; whereas, in the past, if it was recurrent—the Treasurer said that it is growing the recurrent expenditure—they were funded under the consolidated account but now they are being funded by royalties for regions?

Mr B.S. WYATT: It will reflect the government's priorities in RforR. Quickly, I can come back to the member for Warren–Blackwood's question. I have had advice and the answer is no.

Mr D.T. REDMAN: That is the state agreement?

Mr B.S. WYATT: Yes, the state agreement.

Mr D.C. NALDER: This reflects the priorities of the government. I am seeking confirmation that the priorities of the government are to shift dedicated expenditure in royalties for regions towards the recurrent program and to apply it against royalties for regions. Recurrent expenditure that historically was paid for elsewhere is now being paid for by royalties for regions; is that an accurate statement?

Mr B.S. WYATT: The member can describe it any way he likes; RforR will react to the priorities of the government each budget round.

Mr D.C. NALDER: I take that as a yes; this is a priority of the government —

Mr B.S. WYATT: The member can take it any way he likes.

Mr D.C. NALDER: I am just trying to get you guys to admit that you are actually transferring what was set up as a dedicated focus on royalties for regions. Separate expenses that were paid for by the state were under the consolidated account. I am not saying whether that is right or wrong; I am just saying that this is what the government is doing. There was a separate account for royalties for regions and a billion dollar funding commitment for it. Other things were expensed under a general operating expenditure regime and the government has transferred those funds into royalties for regions.

Mr B.S. WYATT: We spend RforR on our priorities in each budget round. We are still committed to RforR, unlike yourselves.

Mr D.C. NALDER: Further to that, it is not following the principles for which royalties for regions was set up. The government has changed that focus.

Mr B.S. WYATT: Can I make some observations on that comment, because it was not a question. The Liberal Party in the lead-up to the 2017 election made it crystal clear that it was going to shift a range of spending that historically was from the consolidated account into royalties for regions. That was its position. I cannot comment on that. That is what it was going to do. I cannot say whether that was right or wrong, but that is exactly what it was going to do. Royalties for regions has always been, since it went through this Parliament, the priority of the government of the day.

Mr D.C. NALDER: I can only be left to conclude that on the basis that recurrent expenditure is now being funded through royalties for regions, overall investment in the regional areas is being reduced.

Mr B.S. WYATT: No; that is incorrect.

Mr D.C. NALDER: Can the Treasurer demonstrate where in these budget papers there has been an overall net increase in expenditure to regional areas?

Mr B.S. WYATT: Where can the member prove to me that his only conclusion is correct? That is just not correct at all.

Mr D.C. NALDER: Show me where.

Mr B.S. WYATT: Spending on RforR is over $4 billion—I think it is $4.2 billion in the forward estimates.

Mr D.C. NALDER: It always has been.

Mr B.S. WYATT: No, it has not, and I will come back to that in due course now that the member has raised that. There is $4.2 billion over the forward estimates. We are committed to RforR. The Liberal Party's position is to abolish RforR. We are committed to it. The spend is still there. Royalties for regions is one part of the spend in regional WA. As I think the member probably knows, it is not the only spend in regional WA, because, for a range of different agencies that are funded through the consolidated account, we also spend in regional WA. A great example of an area that the former government refused to spend royalties for regions funds on is regional roads. It simply refused to spend on roads in regional Western Australia.

[3.20 pm]

Mr D.C. NALDER: That is not correct.

Mr B.S. WYATT: It is correct.

Mr D.C. NALDER: It is not correct.

The CHAIR: I give the call to the member for Riverton.

DR M.D. NAHAN: Treasurer, there was a significant underspend in 2018–19. Where did that underspend go? Did it go into the royalties for regions fund? If the RforR fund was full, did it go into the consolidated account?

Mr B.S. WYATT: Every year there has been a significant underspend in RforR. There have been only a couple of years since its existence when the underspend has not been significant. I am looking around; I do not have it here. I might have it downstairs. Anyone who is in my office downstairs can look through the orange file and get that chart to me. There has always been a large underspend in RforR. There have been one or two years when we have nearly spent the full amount, when the cap came in at $1 billion, but, by and large, particularly in the first three or four years, the underspends were very significant.

DR M.D. NAHAN: We put a cap in, and the cap on the fund was $1 billion, so if there was an underspend and the fund was full, the money flowed through to the consolidated account. That is what I am asking. As the Under Treasurer just indicated, there was a very large underspend in 2018–19. Where did the money go? Was there enough money in the fund to accumulate that, or did it go into the consolidated account?

Mr B.S. WYATT: I am not sure I am answering the member's question. When the cap was put in—that is, the cap on the flow of money into RforR in whatever year that cap was put in —

Mr D.T. REDMAN: It was the same year that the legislation came in. It is a legislated cap.

The CHAIR: Members, just so that we can have a really important debate here, let the minister answer the question, please.

Mr B.S. WYATT: No, the cap came in a bit later. Once it got to $1 billion, whatever flows above $1 billion I assume goes into the general consolidated account.

DR M.D. NAHAN: Yes. That is the question.

Mr B.S. WYATT: Is that the question the member asked me?

Dr M.D. NAHAN: Yes, that is the question.

Mr D.T. REDMAN: Further to that point —

The CHAIR: Is there no further question from the member for Riverton on this?

DR M.D. NAHAN: I am waiting for an answer actually. The Under Treasurer will know.

The CHAIR: I will give the member the call once the member for Riverton has finished.

Mr B.S. WYATT: We might resolve the question if we go to page 249 of budget paper No 3. The member will see there that the royalties for regions fund is expected to be $1 billion in 2018–19 and $1 billion in 2019–20.

DR M.D. NAHAN: Yes, but the question is that there was an underspend in the royalties for regions expenditure. There is a fund and a program. If the program is underspent, it flows into the fund. If the fund is capped at $1 billion, and the Treasurer said that it is at $1 billion, because that is in the legislation and that is what you have to follow, any additional underspend that goes into a full fund flows to the consolidated account. I am just asking a simple question. Did the underspend in 2018–19 that the Under Treasurer just referred to flow into the fund, or did it flow into the consolidated account? It had to go into either the fund or the consolidated account.

Mr B.S. WYATT: I will pass to Mr Barnes, but before he answers that question, I just want to say thank you; someone was listening in my office. The underspends in royalties for regions have been significant. In the first year, 2008–09, there was a 41 per cent underspend; in 2009–10, a 60 per cent underspend; in 2010–11, a 43 per cent underspend; in 2011–12, a 45 per cent underspend; in 2012–13, a 14 per cent underspend—it got closer; in 2013–14, an 18 per cent underspend; in 2014–15, a 10 per cent underspend; in 2015–16, a one per cent underspend, so it nearly got there; in 2016–17, a six per cent underspend; in 2017–18, a 13 per cent underspend; and in 2018–19, we are expecting around a 15 per cent underspend. I will ask Mr Barnes to answer that question further.

Mr M.A. Barnes: In cash terms, all of that underspend will basically be banked as part of the overall public bank account. Some of that will be in the consolidated account; some of it will be in agencies' own operating accounts. This is an underspend on the spend. The Department of Primary Industries and Regional Development, which obviously administers the royalties for regions program, will provide the cash for an RforR program to the relevant agency that is delivering the program. That agency may not necessarily spend all of that cash by 30 June as it had originally anticipated, and there is a lot of that happening here. That unspent cash will remain in that agency's own operating bank account until it is subsequently spent on their project in the next financial year. Some of it will be in the agencies' operating accounts; some of it will be in the consolidated account. It is all wrapped up in the overall public bank account.

DR M.D. NAHAN: There are two sources. One is from royalties for regions. Money is allocated to a department. It receives that money, but it has not spent it, so it puts it into its balances. The other one has not been allocated effectively. It is surplus to the fund of $1 billion, and it goes into the consolidated account. How much money was transferred from the royalties for regions program to the consolidated account in 2018–19?

Mr B.S. WYATT: I do not think we can answer that at this point.

DR M.D. NAHAN: I am waiting for an answer.

Mr B.S. WYATT: I do not think I can answer that at this point.

Mr D.T. REDMAN: Can the Treasurer confirm that the consequence of having a $319 million underspend in the 2018–19 year is that the consolidated account is now better off to the tune of $319 million, and therefore it can be spent in metropolitan Perth?

Mr B.S. WYATT: No, the money from the royalties for regions program is not spent in metropolitan Perth. The 2018–19 underspend is not as large as the member seems to think it is.

Mr D.T. REDMAN: That is not the question I asked, Treasurer, with due respect.

Mr B.S. WYATT: We are expecting an underspend of $143 million for royalties for regions in 2018–19, but I think that might even have been updated since then. I am sorry; the member is talking about the $319 million, yes. Sorry, no.

Mr D.T. REDMAN: I said that the consequence of having an underspend, given that the royalties for regions fund is at the cap, is that there is effectively available now, in the new financial year, another $319 million to the consolidated account.

Mr B.S. WYATT: What it highlights, I think—as I expect those large underspends in the first four or five years of royalties for regions highlighted—is that it is often difficult to spend the money, so it is sitting in bank accounts waiting to be spent. It will probably just re-profile the spend into another year.

Mr D.T. REDMAN: With due respect, in some of the early quotes that the Treasurer put in, the fund was not at the $1 billion cap, which means that it remains in the royalties for regions fund. In this circumstance here, because the royalties for regions fund is at its cap—the budget papers reflect that and it was confirmed by the Under Treasurer—the consequence of an underspend in royalties for regions now means that there is, in this case, $319 million extra available to the consolidated account without the normal constraints of royalties for regions.

Mr B.S. WYATT: The member says "royalties for regions now". There has been no change in how it is dealt with since the cap has been hit. The cap has been hit now for quite some time—since at least early on in the former Liberal–National government. This is what the legislation does. There is no change. We have not amended the act.

Mr D.T. REDMAN: I know there is no change in the workings, but the consequence of where we are at now is actually very different.

Mr B.S. WYATT: No, the consequence is the same as it was in the previous government. There has been no change.

DR M.D. NAHAN: The issue is this: this government inherited that royalties for regions legislation that set up a cap and money going into it. The cap is full; therefore, any more money under the system that flows into that fund flows to the consolidated account. The government also has a significant underspend and the underspend flows out. Because of this system that the government inherited, and because of its decisions to spend, we are just asking how much money is flowing into the consolidated account? I just cannot understand why you are evading this question. It is quite simple.

Mr B.S. WYATT: I am not evading it. I have not gone to work it out, but I am sure you can work it out.

Dr M.D. NAHAN: No, no, no.

Mr B.S. WYATT: Yes, yes, yes.

The CHAIR: Members!

DR M.D. NAHAN: Can we have a supplementary question?

The CHAIR: Members! You are asking a question. I will wait for the minister to answer it, and then I will ask if you would like to seek anything further. Minister, have you finished your response?

Mr B.S. WYATT: No, I have not. There has been no change to the Royalties for Regions Act. It is operating in exactly the same way as it always has, unless the former government made any changes along the way. It is doing exactly as it was intended to do under the legislation that was passed by the Western Australian Parliament. If the member wants any sums calculated, I am sure he can do that.

DR M.D. NAHAN: I would like to ask again how much of the underspend in 2018–19 for royalties for regions flowed into the consolidated account?

Mr B.S. WYATT: I have not done that calculation.

DR M.D. NAHAN: Could the Treasurer provide that data?

Mr B.S. WYATT: No. I do not intend to do that calculation. I am sure you can work it out.

DR M.D. NAHAN: Why not? Gold standard accountability here.

Mr B.S. WYATT: You have the budget. I am not going to do your job for you.

Dr M.D. NAHAN: You could answer a question, mate.

[3.30 pm]

Mr D.T. REDMAN: I refer the Treasurer to page 185 of the *Economic and Fiscal Outlook.* Under "Health Infrastructure" in the "Royalties for Regions Expenditure" a range of projects is listed. I noticed not so much what is there but what is not there—Collie Hospital. Announcements about funding Collie Hospital were made during the federal election campaign. I saw a media release yesterday that the state government will fund Collie Hospital to the tune of $2.2 million, and it made some reference to royalties for regions. Did that go through cabinet? Was there a business case for that project? Why is there no provision in the budget for this project, given that the budget was handed down only two weeks ago?

Mr B.S. WYATT: I read *Hansard* of the conversation I think the member or someone had with the Premier on that matter. I think he made it clear where that came from. I think he might have said it came under administered items because we had not seen the outcome of the federal election. Federal Labor committed to Collie Hospital. The federal coalition had not. Now that the federal election outcome is clear, that funding has been announced.

Mr D.T. REDMAN: Did that go through the cabinet process? Was there a business case for that?

Mr B.S. WYATT: There was.

Mr D.T. REDMAN: By extension, a number of federal projects were announced in a whole litany of papers for Western Australia in the Labor Party's election platform. Are there any other projects that the government is intending to back-fund as a state? It would seem to be some sort of budget liability if that is the case.

Mr B.S. WYATT: Suffice to say both Labor and the coalition made a lot of federal election announcements. Now that we know the outcome, to be honest, trying to get an understanding of exactly what the commitments were will take us a bit of time, but we have started that process.

Dr M.D. NAHAN: I would like to change tack a bit. I refer to the fifth paragraph on page 143 of budget paper No 2, volume 1. I would like to understand Treasury's modelling for the government target to create an additional 150 000 jobs by 2023–24. I will paraphrase the paragraph —

> … it will require an increase in employment growth from the current 1.1% (annual average growth to March 2019) to average growth of 1.8% per annum to 2023–24. This compares to long-run average employment growth in Western Australia … of 2.1% …

The minister might have to take this on notice as it involves some computations. I assume that the long-run average starts in 1989–90 and goes to current. It takes it over quite a few years. I want to understand the impact if we took out the impact of the boom, which saw record levels of employment growth that no-one would assume would eventuate again. What would the long-term average be? That is the first question.

Mr B.S. WYATT: I cannot answer that now, but suffice to say that that the fifth paragraph states —

> This compares to long-run average employment growth in Western Australia (since 1989-90) of 2.1% …

That clearly would have been influenced by that boom period as well. If we took out the period of extraordinary job creation, which must have been for at least five or six years, it would have an impact on that percentage. I do not know what it is at this point. Does the member want us to look at that period and assume that instead of record employment growth it had average employment growth?

Dr M.D. NAHAN: I will go through in some detail why I am asking this question. We move to 1.8 per cent growth per annum and then we say that that is not as large as the average over the last 30 years. My point is that I think the average over the past 30 years is seriously distorted by that unprecedented growth in employment; it was very high. I have forgotten what it was. It went from 2005 to 2012 or 2013. It went for almost eight years. But that is not the point. I am looking at the population growth estimates in the budget. I am seeing a substantial increase over the forward estimates in population growth, household consumption and business investments. I assume these things underpin growth in employment. Also, then there is very rapid forecast of payroll tax receipts, which I will come back to, in other revenue. I am struggling to see the sources of growth that the government is forecasting in the next forward estimates in the reality of today's very slow economy.

Mr B.S. WYATT: Ultimately, the member has opened up the big issue that I think we all have to look at. I made this point in my budget speech. The member is right. Globally, not just nationally, there are economic negatives. Our forecasts are broadly in line with others, whether they be from the commonwealth or the Chamber of Commerce and Industry. Deloitte also does some work and looks at the broader forecasts. I will not pretend for a minute that there are no risks with these assumptions. Of course, there are risks with these assumptions. But our forecasts are fairly consistent with those of bodies in Australia that produce broader forecasts.

Dr M.D. NAHAN: I am not criticising Treasury for this. I know how hard this is. But if we go back to the government's first budget in 2017 and its second budget in 2018, both forecast imminent recovery in the economy across a bunch of indicators. It did not happen. The government is doing the same thing here. Particularly in some areas, for instance, median house prices, all the published estimates that I have seen in Western Australia, whether they are for existing homes or apartments, forecast negative growth in the next 12 months. But the government has it going from negative 2.2 per cent, which I accept, to recovery. Then household consumption has been flat as a tack.

Mr B.S. WYATT: There is a lot here.

Dr M.D. NAHAN: Where is the impetus for growth that the government is forecasting, as it did in 2017 and in its first two budgets?

Mr B.S. WYATT: I will ask Mr Barnes to comment in a minute. Clearly, our exports will always drive us and they have been driving us. They are driving us into GSP growth this financial year and we expect that in 2019–20, the budget year, too. Why were they not as strong as we projected? I suspect it is similar to the last few budgets of the former government when, looking at the Under Treasurer, it was driven by budget declines in business investment that came in much larger than anything budgeted under the previous government. That has been happening with us as well; the actual decline in business investment has been larger than we budgeted for, which I suspect has driven some of that. We are now expecting business investment to grow, which is a significant driver of broader economic performance as well.

We are seeing our population data hold now for the first time in a while. Instead of declining—as in, reducing from what we budgeted—it is now holding to what we budgeted, which is another important driver. Does Mr Barnes want to add to some of those comments?

[3.40 pm]

Mr M.A. Barnes: I will briefly make a few comments. I think the member is right that parts of the domestic economy have remained flatter for longer than what we expected. That is the truth. Household consumption is foremost amongst that. Household consumption is the main reason that we have revised gross state product growth in 2018–19 from three per cent in the midyear review down to two per cent in this budget. The main driver for that has been a downward revision in household consumption growth. One of the factors is no doubt the negative growth effect of declining house prices, but relatively flat wages growth at about 1.5 per cent is also a factor. Those factors, in particular, have stayed flatter for longer than we had expected. There is no doubt about that. The expected pick-up across the forward estimates is being driven by the rebounding business investment cycle, particularly from the resources sector. As the member is probably aware, $16 billion worth of iron ore and lithium projects have received final investment approval in the last 12 months. Construction on most of those is already underway, and that will ramp up substantially in 2019–20. We no longer have a big drag on our business investment from the conclusion of spending on the mega LNG projects, so that has now washed through. Combined with the pick-up in spending on iron ore and lithium projects, it is like a double whammy effect. We are missing out on the drag from the winding up of spending on the LNG projects, and we are getting new spending kicking in on iron ore and lithium. We are already seeing that underway. That is flowing through into our monthly payroll tax receipts, for example. When we break down our payroll tax receipts by industry, we see a very sharp turn well and truly underway in the resources sector. That resources sector investment cycle is driving this expected pick-up across the forward estimates.

Mr D.C. NALDER: Budget paper No 2, on page 142, refers to the state-level economic outlook having deteriorated since the midyear review, and state final demand is estimated to contract by one per cent in 2018–19, compared with 0.5 per cent at the time of the midyear review. Business investment in the mining sector has been going on for longer than six months, and yet we have seen a further deterioration in the domestic economy. The forecast for the budget jumps from the contraction for this year in state final demand to start talking about growth in the gross state product. We know that the growth in GSP is driven by exports and all those things. There is also a jump from minus one per cent to three per cent growth in the next 12 months. I am trying to understand, given that business investment in the resources sector has been going on for a year or so—I must admit I have been surprised how it has not trickled through, but we have seen a further weakness, particularly in the housing industry and the retail sector—how we get three per cent growth. How do we get from a one per cent contraction to three per cent growth?

Mr B.S. WYATT: I will ask Mr Barnes to make some comments in a moment. Although the final investment decisions have been made on a range of projects that have been well publicised in the media, it is when they actually start spending that they will have the impact on the domestic economy. I expect that is driving that. To a certain extent, as well, the decline in business investment has been influenced by the come-off in LNG construction, now that Wheatstone is basically complete. The member is right. We have been talking about the decisions for at least a year, but the spending will start to ramp up from 2019–20. I will ask Mr Barnes whether I have got that analysis vaguely correct.

Mr M.A. Barnes: That is certainly correct. In the current financial year, 2018–19, we estimate that business investment will actually fall by 10 per cent. That is little change from what we were expecting at midyear review time, which was an 11 per cent fall in business investment. Spending has now stopped on the Prelude project, which is the last of the really big LNG projects. While that spending has been coming off, it has been a big drag on business investment and it has overwhelmed everything else. That come-off has come to an end, and spending on the new wave of projects—iron ore and lithium in particular—as the Treasurer said, is only just getting underway now, even though some of them were announced 12 months ago. The combination of those two things is driving that cycle. We think we are at the trough, right now, of the business investment cycle, and it is about to pick up.

Mr B.S. WYATT: To add to that, there was a time in maybe year 2 or 3 of the former government, when the domestic economy was having quarters of 15 per cent growth off the back of Gorgon contracts being issued into the economy. It is just ridiculous, but it does have quite dramatic impacts on those figures.

Mr D.C. NALDER: Further to that, we have a sensitivity analysis around iron ore prices and exchange rates, showing how a $1 variation in the average price of iron ore will drive revenue of $80 million, and a 1¢ variation in the exchange rate will drive revenue of $101 million. Do we do a sensitivity analysis of the domestic economy to understand the impact on the financial flow for the state budget? If we have it wrong again, and we have flat growth—let us say zero—meaning we are three per cent out, what is the impact, from a sensitivity perspective, on delivering on revenue flows for the state budget?

Mr B.S. WYATT: I will ask Mr Barnes in a moment to make a comment on the sensitivity analysis being done, but there is, to a certain extent, almost a—disconnect is not the right word—funny scenario in which we are expecting revenue to hold, but we are expecting softness in the economy, internationally and nationally. We are in a fortunate position in which the main driver of our economy is in high demand. All that investment now is going to be delivering huge export growth. That will continue to drive GSP growth, but we will see the forecasts of revenue across the forward estimates do not match some of that. I will ask Mr Barnes to make comments about sensitivity.

Mr M.A. Barnes: We do not have a simple rule of thumb as we do for the iron ore price or the exchange rate that quantifies that sensitivity. Obviously, we have modelled in the past, and have determined, unsurprisingly, that there is quite a close correlation between growth in the domestic economy, as measured by state final demand, and particularly growth in our tax revenues, such as payroll tax. In fact, it is more the differential between state final demand and national final demand. When we are travelling well below the national economy, as we have been doing over the past five years, that drags down our population growth in the state and drags down our revenue growth accordingly. As growth in our domestic economy gets back to the national mean, that situation reverses, and we see quite a close correlation between things such as business investment, unsurprisingly, and payroll tax. When businesses are investing and constructing new projects and employing additional labour, they are paying more wages, and payroll tax goes up, and that is what we are seeing now.

Mr B.S. WYATT: At page 59 of budget paper No 3 there are a couple of other sensitivity issues. The member highlighted the exchange rate and the iron ore price. For payroll tax collections, each one per cent increase or decrease in taxable wages or employment growth is a $38 million impact. There are a few other revenue sensitivities based on, effectively, economic activity.

Mr D.C. NALDER: Can I just ask a basic question? The Treasurer talks about what has happened this year with state final demand, which is really the domestic economy, and the GSP brings in those broader elements, being the export of produce, yet his commentary talks about GSP growth but there is nothing about SFD growth in this whole three per cent. I find it strange that there is no commentary explaining the fact that we are going from an expected one per cent contraction to three per cent growth in the domestic economy. No information has been provided in the report whatsoever; all it discusses is the GSP growth. I find that a strange omission. It acknowledges the downturn this year, what that is worth and what the Treasurer thought, and that it deteriorated more in the past six months, yet there is absolutely no commentary on this sudden rebound next year from a one per cent contraction to three per cent growth in the state final demand. It is only about the GSP. I refer to page 142 and 143.

Mr B.S. WYATT: Obviously, budget paper No 3 has quite a lot on state final demand. It is something that I have been focused on for quite some time—for many years actually. Since the member specifically said he is concerned about the lack of references to state final demand on page 142, paragraph 2, at the bottom of the page, reads, in part —

> As a result, the State's domestic economy (as measured by State Final Demand (SFD)) is estimated to contract by 1% in 2018–19 (this compares to a forecast 0.5% contraction in SFD at the time of the 2018–19 Mid-year Review).

Budget paper No 3, being the main economic report, spends a lot of time on state final demand. I am happy to put more of budget paper No 3 into budget paper No 2, if it will satisfy the member, but we spend a lot of time on state final demand.

Mr D.C. NALDER: What the Treasurer just quoted is in budget paper No 2. I said that the Treasurer has talked about the contraction, and how it is bigger than what he thought it would be, but he has not talked about the underlying elements that are underpinning the budget growth or the state final demand growth.

Mr B.S. WYATT: Of course we have, in budget paper No 3.

Mr D.C. NALDER: The Treasurer just mentioned that the contraction was bigger than what he thought it would be. That is what he read out.

Mr B.S. WYATT: I was not going to repeat everything in budget paper No 3 in budget paper No 2, but the member is worried about our assumptions around moving from a period of SFD contraction to a period of SFD growth, although it is fairly consistent with anyone who has been forecasting the WA economy. The main group, I guess, that does the broader analysis is the Chamber of Commerce and Industry of Western Australia, and it has a similar forecast.

[3.50 pm]

Dr M.D. NAHAN: I refer to the forecasts of population growth. I notice the government forecast a reduction then a slight move from losing people interstate to gaining them. Most of the growth in population the government has forecast is through overseas migration. Not much can be done about natural growth. Where will the growth in overseas migrants come from when the government has a regional migration program that greatly limits overseas migrants? The government's policy first moved Perth from being regional to being a capital. It then significantly reduced the number of categories for skilled migration. How can the government get growth in overseas migration when the commonwealth has a state-based policy of immigration, which I understand the current government is going to accentuate as a priority—that is, it is going to give more priority to the regional choices of state governments? How is the government forecasting a substantial growth in overseas migrants when it has a policy to inhibit that?

Mr B.S. WYATT: As conditions in the Western Australian economy and labour market improve, the state share of national net overseas migration is expected to gradually increase and return to its long-term average of

13.3 per cent by 2023–24. The 2019–20 commonwealth budget revised upwards its national net overseas migration assumptions and forecast relatively strong national net overseas migration across the forward estimates of around 260 000 to 270 000 people. However, our budget assumes national net overseas migration of 230 000 people. We have taken a more conservative approach than the commonwealth has taken. The Leader of the Opposition can put his complaints about specific policies to those ministers, but we have taken those policies of government into account and taken a position on net overseas migration. One point I will conclude with before the member no doubt has more to say is that net overseas migration troughed at 11 621 people in 2015–16, which was down from around 50 780 people in 2011–12. It rose slightly to 12 809 people in 2017–18.

Dr M.D. NAHAN: I understand that the commonwealth policy is to maintain the overall national level of migration at its current level. The commonwealth also has a policy to emphasise, as discussed in the commonwealth budget papers, a more regional focus to push people out of Sydney, Melbourne and maybe Brisbane. This government has a policy that it has enunciated over two years and is having an impact on migration now to limit overseas migration to Western Australia. How will the government get this recovery in population with the existing policy, or is the government assuming that it will do away with that policy in the near future?

Mr B.S. WYATT: Our population assumptions are based on existing policy settings. They are also based on, as they inevitably are, commonwealth budget settings. Although the commonwealth has given itself a cap, it will, effectively, as the member pointed out, maintain the current flows of overseas migration. The member is right that work is going on to encourage people out of Sydney and Melbourne into what are called regions, which we will qualify as. The Treasurers had only one meeting before the election, chaired by Treasurer Frydenberg, about developing a population policy. I do not think that work has concluded with the cap that the commonwealth has put on it. That work will hopefully continue because it is important.

Dr M.D. NAHAN: In summary, does the Treasurer not think that the McGowan government's changes to the regional migration scheme are going to inhibit migrants from coming to WA?

Mr B.S. WYATT: Unsurprisingly, we have a strong focus on creating local jobs for local people. We are very keen on that and will continue to do that. I think that has been working. I am also pro population growth, as is the government. It is undoubtedly the case that we get the majority of our population growth from overseas migration.

Dr M.D. NAHAN: But the government has a policy to do exactly the opposite.

Mr B.S. WYATT: The member says that. I accept that is his view.

Dr M.D. NAHAN: The government has reduced the categories for state-based migration from 187 categories to, I think, about 117 categories and shifted Perth from being a regional city to being a capital city, which is the same as Melbourne and Sydney. The objective of those changes and that policy was to reduce the potential for overseas migrants to come to Perth. Given that policy, I query why the government expects a substantial uplift in overseas migration to Western Australia.

Mr B.S. WYATT: Again, the member is incorrect. The purpose of the policy was to create local job opportunities for local Western Australians. The Leader of the Opposition may object to that, but we are very keen in the WA Labor government to create job opportunities for local Western Australians. We are also keen, as is every Treasurer around the nation, on population growth, because every expectation or hope of economic growth is built on population growth. In Australia and Western Australia, we need net overseas migration to take big components of that population growth. Our assumptions are based on our policies and the commonwealth government's policies, which have a much greater influence than anything on how many migrants can come to Australia and Western Australia. I am keen to work with Mr Frydenberg and the Prime Minister—whoever is involved—to ensure that people are encouraged to not just slide into Melbourne and Sydney, but to come west.

Dr M.D. NAHAN: How about changing the government's policy and talking to the boss, Mark McGowan? He is the one who is inhibiting them from coming here.

Mr B.S. WYATT: I know that is the Leader of the Opposition's view, but I emphasise again that the Labor government in Western Australia took a policy to the election of ensuring that Western Australians had the opportunity to take up jobs. That is and will continue to be our focus. That is not incompatible with ensuring that we continue to have population growth. When I became Treasurer, which was well before any of our policies were implemented, net overseas migration was going one way—down, and down heavily. I could, therefore, say that the previous government must have had a policy of ensuring that migrants could not come to Western Australia. I could quite easily say that.

Mr S.A. MILLMAN: Did it deliver more jobs?

Dr M.D. NAHAN: Yes, we did. We had the largest growth in jobs in history.

The CHAIR: Members on both sides! The minister is speaking. Please allow him to respond.

Mr B.S. WYATT: The Leader of the Opposition's use of ipso facto is incredibly misplaced. Thankfully, our assumptions on population growth are holding. Based on our policies and the commonwealth policies, we expected them to grow across the forward estimates. I hope that is the case because I support population growth and overseas migration.

Dr M.D. NAHAN: I refer to the table "Payroll Tax Revenue" on page 72 of budget paper No 3. This shows a very rapid uptick in payroll tax revenue. I understood what the Treasurer said—that is, that it largely relates to large business investment. However, I note that this is a very large increase and rapid growth. It shows that payroll tax revenue will grow to a level far exceeding the boom times of the early part of this decade. That is a very rapid and high level of payroll tax revenue expectation at a time when wages are flat as a tack, population growth is low and the global economy, as witnessed by the Reserve Bank of Australia, is slowing.

[4.00 pm]

Mr B.S. WYATT: I want to point out one thing. The member is looking at the graph on the right of page 72. He is quite correct about the number. I want to correct one thing. We are not expecting to get back up to the long-run average across the forward estimates, as the member can see with the growth on the left of the graph. That is an important distinction because during the boom period, as the member pointed out, payroll tax growth was huge. We are not expecting to get back to that level at all. We are not expecting the raw numbers to increase. From 2018–19 on, some of that will be influenced by the temporary payroll tax surcharge on the larger payrolls. I suspect when that flows in, we will start seeing it come out again.

Mr D.C. NALDER: Looking at the expense line for 2018–19, it appears that at the start of the year the government budgeted on 0.9 per cent growth. If I allow for accounting changes, that is about 2.4 per cent growth in expenses, which takes up all of next financial year's anticipated growth, if I head it back to the last budget. Can the Treasurer please tell me what drove the blowout in expenses by over $400 million for 2018–19?

Mr B.S. WYATT: There are two components to that, allowing for the accounting changes, as the member pointed out. The major difference was the underspend the year before, which meant that the base was lower and we assume that is then spent beyond that. There is no net debt. Every year there is an underspend. I have tried to deal with an assumption around underspends. We budget for an expense and even though we are tracking well, a particular underspend will lower the base of one year and increase the spend of the other year. That has had an impact on about $250 million of that $400 million. The rest is money in, money out from the commonwealth, which hits both expense and revenue. That is the two main ones. I found it somewhat frustrating that underspends always have this impact on actual expense growth outcomes. We have factored an assumption around underspends each year to try to deal with that volatility.

Mr D.C. NALDER: I want to lead into that. I noticed that wages and salaries for the general public sector have gone up dramatically. If I apply that to the number of people in the general public service—which, on my numbers, in 2017–18 was 114 000—and if it was $1 000 a head, that would be $114 million, yet salaries have gone up to $190 million. In fact, in the last two years, they have gone up close to $450 million. Is it not a fair assumption that quite a sizeable component of the overspend is the FTE growth?

Mr B.S. WYATT: No. The member could say that but he would be incorrect. I have explained the difference in expense forecast versus expense outcomes. I said that a $250 million underspend almost deals with all of the underspend. The rest is commonwealth money in and out. This is an area of expense growth that has been particularly successful for this government. For the record, I quote page 41 of budget paper No 3, which states —

> Salaries costs represent 42% of total general government expenses in 2019–20 and remain the single largest expense for the sector. Total salary costs (including increases in employee numbers as well as wage rates) are forecast to increase by 1.6% in 2019–20 and 1.9% on average across the four years to 2022–23. These rates of growth are well below the decade average of 5.8% per annum, and largely reflect the success of the Government's $1,000 wages policy.

That is why the wages policy is so important to the efforts around expense control.

Mr D.C. NALDER: Further to that, the government established a redundancy program to remove 3 000 FTE as part of an austerity measure to drive greater efficiency through the public service. Generally speaking, if a government is driving an efficiency measure and offering redundancies—the definition of redundancy means that the job no longer exists—how can there be salary and wages growth over and above the $1 000 wages policy? It is not easy to track the FTE but they are in the footnotes of every line item for every department and agency. We calculate that during the government's time in office, by the end of next financial year, the total FTE will have climbed to 3 800. If I add to that the 3 000 FTE under the redundancy program, 6 800 FTE has been added through this government. Yet the government talks about austerity measures and driving redundancy programs to drive efficiency. How does it strike up one and not the other? How does that work?

Mr B.S. WYATT: It works the same way as when the previous government administered many different redundancy programs. From memory, about 4 000 FTE went out the door in some form of redundancy yet those numbers continued to increase.

Mr D.C. NALDER: Can the Treasurer show me that? I cannot see that anywhere.

The CHAIR: If you could let the Treasurer finish his response.

Mr D.C. NALDER: He is making a claim.

Mr B.S. WYATT: There was a range of redundancy programs during the term of the previous government. I think about 4 000 people took redundancies under the previous government. Even when a cap was imposed by the previous government, FTEs increased. Why is that? I am not sure what the member's numbers are but I will check. For example, we have seen—our education budget has been reflecting this for five years—kids flowing into our education system out of the private sector, the non-government schools. As a result, it is an equation driver in terms of how many teachers, assistants et cetera are needed in schools. Similarly, as we have seen, even though we have kept health expenses under control, more possible activity drives more nurses. We assume that we are speaking to the same group of people. Across a public sector of 100 000 plus, a redundancy program of 3 000 does not mean it is the same 3 000 who may have come on or whatever. That redundancy program has been an important part of our budget repair measures.

Mr D.C. NALDER: The largest growth has been in the Public Transport Authority; it has grown 17 per cent. Why would Treasury sign off on 17 per cent growth in FTEs within the PTA?

Mr B.S. WYATT: I assume it is because we are doing a lot more work in the public transport space. We are keen to have more people catch public transport. When Forrestfield–Airport Link starts operating, people will be available to run it. The PTA is providing for that. We need to ensure that people are available to drive those trains, and put security on them et cetera. People will be needed for a range of things, including bus routes. The member should not forget that one of the things that has not been factored in is the transport issues around the new stadium. That has been a big success and we have accounted for that. A range of things are driving costs, including a requirement for more skills in the public transport space but that is a space we had a particular commitment to.

Mr D.C. NALDER: Further to that, the Treasurer mentioned FAL. Metronet is one of the reasons the PTA is potentially driving the FTE growth yet there are no operating expenditures for Metronet. If the PTA has this increased salary cost, which is aligned to Metronet, why is there no operating expense budget for Metronet?

Mr B.S. WYATT: FAL is in the budget; I assure the member of that. The operating subsidy is in the budget for FAL. It is large. If not the most expensive, it will be close to the most expensive train line to run in WA. We are not going to bring anything into the book until I know the costs of these things. I have learnt from previous governments around doing that. I expect, come the midyear review or, at the very latest, next year's budget, we will see other lines of Metronet come in as well.

Dr M.D. NAHAN: How much money was spent on the government's redundancy program? From memory, the target was $185 million. Could the Treasurer confirm how much it was? How many people are exiting? On page 141 of budget paper No 2, volume 1, footnote (c) goes through that. It indicates that the government is on target, at least with the National Disability Insurance Scheme exits, to get the 3 000 target. Can the Treasurer confirm how much it cost to exit that many people—we assume from the footnote that there are 3 000. Could the Treasurer give us an indication of the growth or change in full-time equivalent numbers in the general government sector since the Labor Party has come into government?

[4.10 pm]

Mr B.S. WYATT: As at 8 April 2019, the total cost thus far of the voluntary targeted separation scheme is $280 million and the total number of separations is 2 556.

Dr M.D. NAHAN: Does that include the NDIS?

Mr B.S. WYATT: No.

Dr M.D. NAHAN: Footnote (c) indicates that there are 300-plus separations yet to come with the NDIS.

Mr B.S. WYATT: A total of 2 556 separations of the 3 000 target of the VTSS have been achieved to date, with a further 390 separations expected.

Dr M.D. NAHAN: Was it the policy of the program, and they vary from time to time, to do away with the FTE positions that the redundancies paid for, although some of those were refilled?

Mr B.S. WYATT: Yes, but the member may recall that to incentivise agencies, they were able to keep 20 per cent of the savings to re-base their own skills. For example, they might have needed a different skill set in their agencies.

Dr M.D. NAHAN: Therefore, the policy was to a large extent the same as that of the previous government in that the FTE position was handed in?

Mr B.S. WYATT: Yes.

Dr M.D. NAHAN: We calculated that there have been another 6 800 FTEs across almost every department, not just education and health. Has there been a policy to grow the public sector according to demand outside, and aside from, that redundancy program?

Mr B.S. WYATT: We never had a cap. A cap was never a policy we took or implemented. Ultimately, we want our schools to have the required number of teachers and hospitals to have the required number of nurses to do what they need to. We never had a cap. I cannot confirm the number of total FTEs that the member has given me, but I will have a look. We never had a cap. The 3 000 voluntary targeted separations have been an important part of budget repair, and even with apparent growth in the public sector, we are still keeping the cost of salaries at very low levels.

Dr M.D. NAHAN: The largest growth has been in the WA Sports Centre Trust, but I imagine that is because of the stadium.

Mr B.S. WYATT: It has probably gone from one to two people or something; I am not sure. What are the numbers?

Dr M.D. NAHAN: It is actually quite large. There are 600 people there.

Mr B.S. WYATT: It is the stadium operation.

Dr M.D. NAHAN: I assume it is the stadium operation. Treasury has one of the largest increases, growing by 28 per cent from our time in government.

Mr B.S. WYATT: As the Under Treasurer has whispered in my ear, about time!

Dr M.D. NAHAN: I hope that productivity is commensurate with the number of workers.

Mr B.S. WYATT: I might ask Mr Barnes to make some comments on that. We have given Treasury some extra resources in a couple of spaces—in our government trading enterprise and energy space.

Dr M.D. NAHAN: It has actually gone up by 21 per cent.

Mr B.S. WYATT: We are also responsible for Streamline WA. Mr Barnes might be able to provide the Leader of the Opposition with some more detail.

Mr M.A. Barnes: The most significant increase in activity level from 2018–19 to 2019–20 is for a new energy transformation implementation unit, which the Minister for Energy announced just the other day. There are an additional 18 FTEs to staff that unit. Those 18 FTEs are funded not by appropriation, but by a special one-off dividend from the three electricity GTEs, similar to the way the previous electricity market review was funded. In addition to those energy FTEs, there are three additional FTEs to create a permanent GTE governance and oversight unit, building on the GTE reforms currently underway, and a further three FTE to implement the government's Streamline WA initiative around improving regulation and assessing proposals that come in from the private sector and elsewhere for regulatory improvements.

Mr B.S. WYATT: I should have mentioned to the member for Bateman that we have also had a policy of converting contractors who have been in their roles for longer than two years to FTE. That has brought people effectively employed by the government who were not considered FTEs into the FTE count, and generally there is a lower cost.

Dr M.D. NAHAN: Could the Treasurer provide information about how many people have become permanent under the government's policy of converting casuals to full time?

Mr B.S. WYATT: I would if I could, but the member will have to put that to the Public Sector Commission. That is the PSC's role.

Mr D.T. REDMAN: I want to pick up on a topic we have already talked about, but I want to get some more information on it. I refer to royalties for regions expenditure on page 192 of the *Economic and Fiscal Outlook*. I want to talk about Collie Hospital. The line item "Administered Items" has a footnote that states —

> Funding mainly for election commitments where further planning is required to deliver the proposals.

I want to confirm what I think the Treasurer said earlier that the Collie Hospital upgrade announced by the Premier yesterday went through cabinet on Monday. Can I confirm that first?

Mr B.S. WYATT: Yes, Collie went through cabinet.

Mr D.T. REDMAN: Did it go through cabinet on Monday?

Mr B.S. WYATT: It went through before Monday.

Mr D.T. REDMAN: Did it go through before Monday? So, the Collie Hospital upgrades went through cabinet, presumably with federal government funding, prior to the election. Was it not a commitment of the federal government to fund this, not the state government?

Mr B.S. WYATT: No.

Mr D.T. REDMAN: Would it have been a commitment of a federal Labor government?

Mr B.S. WYATT: No. Collie only became an election issue. Collie was an election commitment of federal Labor, not the coalition.

Mr D.T. REDMAN: That is right. So, someone took the submission to cabinet, presumably the health minister, before Monday and before the federal election, and I assume there was a commitment to fund it from federal funds.

Mr B.S. WYATT: No.

Mr D.T. REDMAN: Was it a state funding commitment in that cabinet submission?

Mr B.S. WYATT: That was what was announced yesterday by the Premier, yes. It is state government funding.

Mr D.T. REDMAN: Why was the commitment not made in the body of the budget papers rather than under administered items?

Mr B.S. WYATT: Reading through *Hansard* of what the Premier said yesterday, I note he made the point that there were a range of commitments both in the commonwealth budget, but also made in the election, which are obviously not the budget, that we wanted to ensure could continue to be made. For whatever reason, we did not want to limit capacity for any federal party to make election commitments.

Dr M.D. NAHAN: So, two weeks out from the budget, the government pulled money out from a slush fund of administrative items for royalties for regions for a project in Collie that the federal opposition said it was going to fund during the election campaign. The Treasury said the government did not want to announce that in the budget, because it did not want to limit the amount of money it might get from a future Shorten government; is that it?

Mr B.S. WYATT: If I had the draft *Hansard* of what the Premier said yesterday, which, of course, I could not quote, I would make the point —

Dr M.D. NAHAN: There was no *Hansard* yesterday. Did the Premier discuss this yesterday?

Mr B.S. WYATT: Yes, it was in *Hansard* yesterday. The conversation about this was with the member for Warren–Blackwood, I think. We wanted to maximise what we could achieve for Western Australia from either political party, and I think that has proven successful thus far.

Dr M.D. NAHAN: There was a whole raft of policies that the Shorten opposition promised—Ellenbrook and Collie, for example. Is the government going to back-fund those now? During the election campaign the Treasurer and the Premier campaigned on those projects also. The Labor Party has been campaigning on Ellenbrook for over 10 years. Will those projects impact the budget in any way—that is, the projects promised by the continued Labor Party opposition now it has not won government?

[4.20 pm]

Mr B.S. WYATT: We never brought to book anything that the federal Labor Party was committing to. We never assumed any commitments by the federal opposition in our budget; that would be risky and foolish to do so. We have only ever assumed in our budget what has been in the commonwealth budget.

Dr M.D. NAHAN: Where is the funding for the Ellenbrook line in the budget?

Mr S.A. MILLMAN: I think the member for Swan Hills is happy to answer that question.

Ms J.J. SHAW: I know where it is.

Mr B.S. WYATT: No doubt! On page 143 of budget paper No 3 there is a line item “Provision for Projects Under Development” with just over $1 billion sitting there.

Dr M.D. NAHAN: What level of commonwealth funding does the Treasurer assume for that?

Mr B.S. WYATT: Just what the commonwealth government has made commitments to. We have not made any assumptions around Labor’s commitments—none. It was not in government, so we did not budget for them.

Mr D.T. REDMAN: Along the same lines, the government has the issue of remote community funding, which I assume the Treasurer will have to make some sort of adjustment for or shift the service that he is prepared to underlay. Under “Statement of Risks” the budget indicates that as emerging. Is the Treasurer intending to bolster the funding or is he intending to reduce the level of service delivery?

Mr B.S. WYATT: We will now have to deal with this over the next 12 months. One of the reasons I was hoping to see Pat Dodson as a federal Aboriginal affairs minister was his commitment around remote housing. That is not the case. The commonwealth budget has a $120 million walkaway. That will keep work going for some time. In this space, just like it seems in a lot of areas in government, we will have difficulty spending the money in the years, so I suspect that will keep us rolling out projects for at least the next 18 months, but we will now have to react to that. Having said that, I will still do my best to try to convince the commonwealth government to come back here, but I will not assume that.

Mr D.T. REDMAN: Can I confirm that that is capital for house builds, it is not recurrent?

Mr B.S. WYATT: That is right. That is that capital space that the commonwealth is no longer involved in, as opposed to the ongoing maintenance spend. That will continue, but it is the new build that is the issue.

Dr M.D. NAHAN: The Treasurer is a student of recent history, of which he has lived. During his election campaign he had a debt reduction strategy that he promised to bring in in the form of legislation. I will give the Treasurer a little reminder. He said that the legislation will see 50 per cent of the iron ore royalty revenue directed to a new debt reduction account when the GST relativity gets above 65¢, which it is, and the iron ore price is above A$85 a tonne, which it is. We debated this at the time. The Treasurer never thought that would be a possibility, given the GST arrangement. Now that the GST has had a floor put in it, will the Treasurer commit to this legislation and follow it through?

Mr B.S. WYATT: The relativity is still not at 65¢.

Dr M.D. NAHAN: Over the forward estimates it is.

The CHAIR: Member, just allow the minister to respond.

Mr B.S. WYATT: No, it is not—at no point. I have the media statement here myself, funnily enough.

Dr M.D. NAHAN: Are we going to see the legislation soon?

Mr B.S. WYATT: Our projected relativity across the forward estimates does not get anywhere near 65¢. In 2019–20, it is 0.518; in 2020–21, it is 0.44; in 2021–22, it is 0.446; and then it finally gets out there to 0.7 in 2022–23 but at no point do we get our average annual iron ore price where we need it. However, that has not stopped us doing what we need to do around debt reduction. No doubt the Leader of the Opposition has seen—I know the member for Bateman has seen it, because he commented on it in a most flattering way in his response to my budget speech—the reference to the special purpose account, our debt reduction account at pages 50 and 51. Thankfully, because of the very strong efforts of budget financial management of this government, the 2019–20 budget includes a total of $5.1 billion flowing through the debt reduction account over the four years to 2022–23. I note the point made by the Leader of the Opposition in referencing my commitment to a debt reduction strategy around both relativity and iron ore price. Regardless of that, we will not get to either. The government has decided to take advantage of the top-up payments from the GST arrangement it has reached with the commonwealth. Nearly $1.5 billion will be used to repay existing debt from those top-ups. I think that is a very good outcome for the people of WA. That means for the first time since Eric Ripper was Treasurer, we will be paying off debt.

Several members interjected.

[4.30 pm]

The CHAIR: Members from both sides, please!

Dr M.D. NAHAN: I refer to page 79 of budget paper No 3 and figure 7, headed “Commonwealth-funded 70% Floor and GST Grants”. I think the Treasurer said that in 2019–20 the GST floor will not get to 65 per cent.

Mr B.S. WYATT: Our relativity—no.

Dr M.D. NAHAN: What is it?

Mr B.S. WYATT: It is 0.518.

Dr M.D. NAHAN: Pardon me?

Mr B.S. WYATT: Our projected GST relativity —

Dr M.D. NAHAN: Is that including the top-up?

Mr B.S. WYATT: No—the relativity.

Several members interjected.

The CHAIR: Members!

Mr D.C. NALDER: You do not count that $840 million.

Mr B.S. WYATT: I have already put that in. What more do you want me to do—spend it twice? I cannot spend a dollar twice.

Dr M.D. NAHAN: Treasurer, this is a new you-beaut strategy, and I support it now! Once you get to that, according to this graph, with GST grants and the commonwealth floor, it will be 65 per cent or above in 2019–20. There is this commitment on page 79 —

Mr B.S. WYATT: What is the other part of the commitment?

Dr M.D. NAHAN: — to pay 50 per cent of the total iron ore royalties into reducing existing debt.

Mr B.S. WYATT: What is the iron price?

Dr M.D. NAHAN: It is $85.

The CHAIR: Member, have you finished your —

Mr B.S. WYATT: What is the forecast iron ore price?

Several members interjected.

The CHAIR: Members! Minister!

Dr M.D. NAHAN: You did not say Australian or US dollars.

The CHAIR: Member for Riverton, have you finished your question?

Dr M.D. NAHAN: No. I got rudely interrupted.

The CHAIR: If you could finish your question, I will then direct the minister to respond. Please continue your question.

Dr M.D. NAHAN: My reading of this graph is, and I will read it —

> The Western Australian Department of Treasury estimates that the Commonwealth will provide $5 billion in untied grants under the commitment to an effective 70% GST relativity floor over the period to 2021–22.

You are going to get there at $85 a tonne, but the Treasurer did not differentiate between Australian or US dollars.

Mr B.S. WYATT: Who?

The CHAIR: Sorry, minister. Let him finish.

Dr M.D. NAHAN: Nonetheless, the Treasurer made a solemn commitment to the people of Western Australia that he would have a debt reduction strategy that would pay 50 per cent of the iron ore royalties income into paying down the existing stock of debt. Will the Treasurer commit to that now?

Mr B.S. WYATT: I have never come across anybody who references the iron ore price in Australian dollars. It is a US dollar–measured account. It always has been —

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

The CHAIR: Member, we have concluded your question. Please allow the minister to respond.

Mr B.S. WYATT: As awkward as it might be, we are not expecting the annual average price of iron ore to hit $85. We expect that in 2019–20 it will be $73.50, and we expect that to slowly decline to $63.70. I know that that may disappoint the Leader of the Opposition, but the reality is we have, therefore, not done anything on debt reduction. We have established our debt reduction account. Upon going through that account, it is a greater amount than even I expected when I committed to our debt reduction strategy during the election campaign. I think this has been a success story. We have been able to take advantage of better fiscal management to ensure that we can actually, finally, start to take control of our debt trajectory. I am very pleased about that.

I have a couple of points to make. The relativity and the iron ore price does not trigger that commitment. But, as I said, we have not been idle and we have created a debt reduction strategy that I think over time Western Australians will be very pleased with.

Mr D.T. REDMAN: We are talking about the GST so I refer the Treasurer to page 77 of budget paper No 3, which contains the forward estimate relativities that the Treasurer just referred to a moment ago. Given the fairly significant iron ore boost that picked up an extra billion dollars in 2018–19, will that change the relativities in the out years since the budget papers were closed off?

Mr B.S. WYATT: If it holds where it currently is, then it will have an impact. In a minute, I will ask the Under Treasurer to specifically comment on what the impact might be. It will have an impact. Clearly, if the iron ore price stays at the current elevated level, it will have an impact on future years' relativities. We know that. But we do not assume that that will be the case. That has been the topic of conversation of everyone in the banks and the iron ore space at the moment. Tim Treadgold even commented today on his expectations about how long that will be around. We have deliberately assumed it will not be around for the long term and have forecast that to decline in a way that is prudent.

Mr D.T. REDMAN: Given the boost in iron ore revenue, I presume the impact is likely to push out the 70 per cent GST floor in 2022–23, which is described in the budget papers?

Mr B.S. WYATT: No. The legislated floor starts in 2022–23.

Mr D.T. REDMAN: That is a legislated floor. That is there irrespective.

Mr B.S. WYATT: It starts in 2022–23. At the moment it is top-ups all the way to 2022–23 and then the floor will effectively start.

Mr D.T. REDMAN: Along the same line, this will significantly impact on decisions such as the state's pursuit of changing the state agreement on the CITIC project. The outcome of that change will be an expansion, because CITIC is pursuing the expansion; it is currently being blocked by Mineralogy. If that expansion occurs, there will be a revenue benefit to the state in the flow of magnetite. Previously, 90 per cent of any iron ore increase would have eventually washed away to the commonwealth government. Given that we are butting up against that floor, will we get to hold 100 per cent of that royalty increase given that there is no downward pressure on that floor?

Mr B.S. WYATT: Basically, yes, is the answer. I do not know what the increase in CITIC's exports will be as a result; but, broadly, that is correct, in respect of increased iron ore royalties.

Mr D.T. REDMAN: Put simply, given the arrangements we have with the federal government for instituting a floor on the GST—reflected here in legislation and top-up payments between now and then—the government's pursuit of a change to state agreements will have a revenue bonus for the state.

Mr B.S. WYATT: I know what the member is asking. Let me take a step back. If the member is asking that if we change the revenue we get from iron ore miners, will we get to keep it, then the answer is yes.

Mr D.T. REDMAN: Yes. Therefore, if I take the logical step that the Treasurer is expecting me to take, if there is a change to things such as the special lease rental in state agreements, as a charge, it would be fair to say that the state would reap 100 per cent of that change and the lion's share of it would not be washed away due to the relativity issue?

Mr B.S. WYATT: Yes, that is right, but that assumes all other things remain equal. That does not have an impact on capital investment by those miners.

Dr M.D. NAHAN: I refer to page 43, budget paper No 3. Table 6 shows the summary of financial statements for the total public sector. It illustrates that since 2017–18, the government has received quite a sharp turnaround in the net operating balance, which has been driven overwhelmingly by large revenue increases. Indeed, it has been able to offer a net operating balance over that period of $7.3 billion or $7.4 billion. They are very large surpluses. What is the government doing with those surpluses? If we look at net debt in the last column, we see that during that period net debt goes up. The government will have $7.2 billion worth of cash surpluses from the operating account, but debt will go up. Can the Treasurer explain that?

[4.40 pm]

Mr B.S. WYATT: Yes. That is the difference, of course, between a cash deficit/surplus and a non-cash deficit/surplus. To be clear, we have not changed the way we measure our net operating balance. I think that has been consistent since Richard Court was Premier. That has not been changed. The reason is that we continue to spend on our asset investment program, which we think is very important at this time, not only because we had and still have a large commitment to public roads and rail in particular, but also we see that it is important at this time to underwrite what the state can do around jobs. That is why the asset investment program is starting to increase again. Somewhere in there is a graph that shows that the asset investment program is starting to increase again after a long period of about five years of decline. It is not increasing hugely, but it is starting to increase again. That is important. One of the critiques I made of the previous government was that the debt and deficits it had accumulated would have an impact on a future government's capacity to respond to the economic times in which it found itself—and that is clearly the case. I would like to be spending more on our asset investment program. Indeed, I noted on the front page of most newspapers today that the governor of the Reserve Bank of Australia is calling on the governments of Australia, state and federal, to increase their asset investment spend, because of the nature of the jobs market and the economic growth in Australia. We are increasing that, and that is the difference—to answer the end of the Leader of the Opposition's question—between the net operating balance and the actual debt trajectory.

Dr M.D. NAHAN: I understand the accounting treatments. In the Treasurer's history lessons to us he talks a lot about this government inheriting $44 billion in debt. Of course, that was on the forward estimates. That was assuming continued large deficits. Those are gone now, according to your estimates, largely because of iron ore royalties, GST and other grants from the commonwealth generating $7.4 billion in surpluses. Obviously, therefore, the government did not inherit $40 billion in debt; indeed, the fact that debt is going to $40 billion is because of this government's decision to significantly increase its asset development program. It is this government's debt.

Mr B.S. WYATT: We did inherit a trajectory heading to $40 billion of debt. I have said in this place a number of times, in response to the argument the member puts to me, I would give the member some credence if he had left operating surplus positions across the forward estimates, but he did not. He left some large operating deficit positions. Yes, we are in the process of turning those around, which is good. I think everybody is happy with that turnaround. However, as the member points out, it is not all on a cash position. This is something that we have explained at some length during this budget period. I remember the term "surplus" got Eric Ripper into trouble in the end; people thought it was unused money that Eric Ripper had. That is not the case. But we are continuing asset investment spend for the reasons I outlined before. It is increasing—not a lot, but it is increasing slightly from the decline of the last four or five years. There is a chart in budget paper No 3 that can outline that. The fact that we can do that and peak out debt and hopefully commence its decline, as we are projecting, I think is a good thing.

Dr M.D. NAHAN: The government has received the GST top-up rewards, of course topped up with iron ore, and as the Treasurer has just said, because of the floor, the margin now received will be 100 per cent of any growth of iron ore royalties. I might add that the iron ore price today is $A145, which is pretty good. That is great; all good. But the government is choosing not to pay down the stock of debt that it inherited—that is its decision—but to spend it on more capital; indeed, on top of that, it is borrowing more. Yes, that is what the state government has been encouraged to do by the commonwealth, which will match any grants. The policy—it is the correct policy—is to spend more on infrastructure, whatever it might be. I accept that, but also—I will go through the debt reduction plan that emphasises this—the government has to accept that it is overwhelmingly using its windfall gains to fund more capital investment rather than to pay down debt.

Mr B.S. WYATT: A couple of points. I reject the characterisation "windfall gain". The GST top-ups were effectively spent by Mr Porter when he was Treasurer. In his budget speech, he made the point that the former government would continue to spend because it was assuming that GST fix. That never arrived. We saw what that did to debt and in the end to the operating balance. Therefore, I reject the characterisation of the GST return as a windfall. I think it is something that has been well deserved by Western Australians.

The second point I make is that, yes, right now, iron ore is high, but I have not assumed that in the budget.

Mr D.C. NALDER: You are holding it up for the next 12 months.

The CHAIR: Members!

Mr B.S. WYATT: I am assuming it is declining to $73 for 2019–20 and $63 by the end of the forward estimates. I have taken, I think, a fairly prudent position. I do not want to do what the previous government did and lock in an artificially high iron ore price across the forward estimates, because you guys knew how to spend. It was all spent, then when it disappeared, there were large operating deficits. That is why we have taken that approach. I know members opposite do not like to talk about the issue of expense control, but I will. I think there is a chart in there somewhere that makes the point. If we had just stuck to the average expense growth of the former government when we came to power, which we could have done, because spending is easy, there would not be one projected operating surplus there—not one. It is at page 63; there it is. If we had just taken that assumption and spent accordingly, there would be not one operating surplus projected. It is a combination of, yes, the Leader of the Opposition is right—GST top-ups have helped, and the floor in the final year will help—but in the blink of an eye, those surpluses can disappear if expense growth cannot be constrained. That is where the work will continue.

I think the member made the point about asset investment, and he is right: we are still spending on our asset investment program, and will continue to do so, because it is important in the current market for jobs. I think the member said that he supports that; I hope he does. We need to create and maintain jobs in Western Australia. Unfortunately, the reality has come to pass, as I expected when I sat over there on the other side of the chamber, that we are limited to how much we can do on the asset investment side of things, because of the state of the balance sheet. But I think it is generally understood and accepted, whether it be Western Australians or credit rating agencies, that we have the balance sheet in a much better position than it was when I inherited it.

Dr M.D. NAHAN: Is it not the case that your improvement in 2018–19—that is not quite finished yet—is totally due to additional revenue, whereas the Treasurer's expenditure growth is actually above his budget forecast, even after the accounting change?

Mr B.S. WYATT: No. There are two components there. That is not correct. As I was explaining to the member for Bateman, the increase in expense was from the rebase of the underspend. That has an impact.

Dr M.D. NAHAN: You overspent the previous year.

Mr B.S. WYATT: Correct; that is what happens. That is why we have now provided an ongoing assumption around underspend to try to even this out. We have underspent. That reduces the base of one year, and it flows on to the next and inflates the next year's base. That is the next year's spend. There has also been some commonwealth money in and out that hits both revenue and expense. That is what has had that impact there. But the Leader of the Opposition is right. In terms of revenue, there have been two things: first, the iron ore at $US100 has helped this year, because that is real money in real time; and second, an early payment of the 2019–20 GST top-up. There is no question that that has helped. Importantly, it would not take much for that projected operating surplus to become a deficit.

Dr M.D. NAHAN: Indeed. Just to put it in, over the forward estimates for the years of this government to 2020–21, it has received $8.8 billion more than it expected from GST and general-purpose grants, tied grants that come above the line, and iron ore prices, accepting the Treasurer's iron ore forecast. Most of that has been used for additional below-the-line spending.

Mr B.S. WYATT: Most of the commonwealth is matching.

Dr M.D. NAHAN: Yes, I accept that.

Mr B.S. WYATT: We have no choice on that. We could say no, but then I would not be training Western Australians; I would not be building roads; I would not be funding rail; and I would not be putting activity in hospitals. There are all sorts of things I would not be doing. I do not think members opposite would be articulating that position, but we do by and large have matching funding requirements with the commonwealth, and we are continuing to do that. We are doing a range of things. This is what happens when we have tight management of the finances; we can walk and chew gum at the same time.

[4.50 pm]

Dr M.D. NAHAN: Where is the tight management in the accounts? I do not see it.

Mr B.S. WYATT: Where is the what?

Dr M.D. NAHAN: I see a forecast for tight expenditure growth. In fact, I see almost zero expenditure growth in the election year 2020–21. I do not think that anyone believes that.

Mr B.S. WYATT: I find it amusing that I am getting comments on expenditure growth from the Treasurer of the largest spending government in the history of Western Australia. In its first year, it had 13.5 per cent expense growth followed by 10 per cent. The first term of the Barnett government had 10 per cent average expense growth. Over the entirety of the eight and a half years, it had 6.8 per cent expense growth. For us, expense growth in 2017–18 came in at 2.3 per cent. The former government could have only dreamed of delivering that sort of outcome. It has not been easy, and the work will continue. I say now that I am not going to sit here and cop it on expenditure growth from a Treasurer of the former Liberal–National government that had no self-discipline when spending money or managing the broader economy of WA. That is why when I became Treasurer, we had our only recorded recession and the economy was contracting.

Mr D.C. NALDER: It contracted last year.

Mr B.S. WYATT: The economy was contracting—not state final demand. The rest of the economy was contracting. The only year we have had GSP —

Mr D.C. NALDER: The domestic economy contracted last year.

Dr M.D. NAHAN: We were in a recession last year.

The CHAIR: Members!

Mr B.S. WYATT: No, this is important because the member for Bateman is confused. The only year GSP contracted was the final year of the former government.

Mr D.C. NALDER: SFD.

Dr M.D. NAHAN: No.

The CHAIR: Member, you can ask a question in a second.

Mr B.S. WYATT: At no point while the Leader of the Opposition was Treasurer did state final demand grow, member for Bateman—at no point.

Mr D.C. NALDER: But it contracted last year.

The CHAIR: Member!

Mr D.C. NALDER: We had a recession last year.

Mr B.S. WYATT: But the economy, the actual recession —

The CHAIR: Member for Bateman!

Mr B.S. WYATT: Since we are on this topic, the Leader of the Opposition quite usefully talked about a recession. This is how he described it on 21 May 2014 —

> A technical recession is two consecutive quarters of negative growth in GSP; we would struggle to have a technical recession in this economy, given that exports are growing very rapidly.

However, he still delivered one. That was the 2016–17 year, when I came in and had to take on that GSP recession after four years of state final demand contraction. State final demand grew in the first year we were in government. It has contracted —

Mr D.C. NALDER: GSP is all about iron ore.

Mr B.S. WYATT: It does not matter what it is. The economy was contracting under the former government.

Mr D.C. NALDER: The Treasurer is trying to take credit for something that is out of his control.

Mr B.S. WYATT: The member for Bateman was the Minister for Finance. What was he doing in the cabinet?

Mr D.C. NALDER: Stop trying to take credit for something that you have nothing to do with.

Mr B.S. WYATT: He was sitting there wandering around the place not worrying about the economy or employment.

Mr D.C. NALDER: The Treasurer is trying to take all the credit.

Mr B.S. WYATT: I looked at the member's speeches back then. Was he worrying about housing prices? There was not one mention. Was he worried about SFD back then? There was not one mention, despite the fact there had been four years of contraction during that time. Was he worrying about negative equity?

Mr D.C. NALDER: Now you are worrying because of the job I am doing as an opposition.

Mr B.S. WYATT: There was not one mention, despite the fact that 80 per cent of the house decline in Western Australia occurred while the member for Bateman sat on this side of the chamber.

Mr D.C. NALDER: SFD declined last year and it has got worse.

Mr B.S. WYATT: I find the member for Bateman's sudden awareness of the data of the economy amusing, because at no point when he sat on this side of the house did he worry about it.

The CHAIR: To clarify, the minister is responding to a question from the member for Riverton. I have a new question from the member for Warren–Blackwood. I have a follow-up question from the member for Riverton and then the member for Bateman can ask his question.

Dr M.D. NAHAN: I know the Treasurer likes to go back in history as far as he can go. I tell the Treasurer what: let us wager. I brought down three budgets. The Treasurer has brought down three but they have not finished yet, to be fair. I wager, without any changes to assumptions, that expenditure growth on my three budgets is lower than the expenditure growth on the Treasurer's three.

The CHAIR: Are you finished?

Dr M.D. NAHAN: Look at page 40 —

Ms J.J. SHAW: Is that a question?

Dr M.D. NAHAN: I want him to respond. Yes, it is a question.

The CHAIR: Member for Riverton, have you finished?

Dr M.D. NAHAN: Yes; I am waiting for a response.

Mr B.S. WYATT: It was not a question, but I will reflect on that. When I became Treasurer, the economy was in recession. That meant that during the second term of the Barnett Liberal–National government, not one job was created in Western Australia. Over that four-year period, the net position of jobs in WA contracted by nearly 700 jobs.

Dr M.D. NAHAN: I thought Prelude was ending and Prelude started and finished —

The CHAIR: Member, an important response is being given. Please wait. Then you can ask a follow-up question.

Mr B.S. WYATT: I was given an interesting comment and I will give an even more interesting response. Not one job had been created during the four years of the second term of the Barnett Liberal-National government. Western Australians demanded to have some form of aspiration around getting a job in this state. When we came in, we created some confidence; we proved that we could look after things. We could bring expense growth under control. Rather than sitting at 6.8 per cent a year, we could bring that down, and we have done that. We could get ourselves to a position at which we could get control of debt rather than it increasing each and every year to $40 billion or $44 billion, whatever number we want to use. The relationship between the previous state government and the federal government had been so poisonous that they were not speaking. My first Treasury meeting made that crystal clear to me, but as a result we managed to secure—this has been the success of the Premier—not only the GST outcome, but also a significant investment in WA by the commonwealth government in infrastructure spend on a range of different projects. As a result, we are seeing jobs being created in WA.

Where are we now? I think more than 40 000 jobs have been created in WA since we came to government. Again, in the entire four years of the second term of the former government not one job was created. That is not bad.

People are feeling more confident again. People are coming back into the workforce. People feel as though the adults are in charge in Western Australia again. I think this is a good thing in WA. That is why we will continue to work around this space. I find it interesting that the opposition is now opposed to asset investment spend, but we will continue to invest in Western Australia not only because we need that infrastructure, but also because it ensures that our job creation will continue in the 2019–20 year, which is why we are expecting employment growth, from memory, at 1.75 per cent. This is what we will do, and we will not be ashamed of that effort. If the opposition wants to continue to oppose those things, it can oppose those things. However, if it comes to a comparison of the record of this government and the former, I am happy to have that conversation any day of the week.

Mr D.C. NALDER: I refer to page 4 of budget paper 3. I have jumped a couple of pages because that will lead to my question. Treasury is projecting $9 billion of surpluses over five years with debt reduction of $680 million, which reinforces that the government is spending a lot of these surpluses. Page 51 of budget paper No 3 reinforces that $5.1 million, as the minister quite rightly spoke to earlier, is flowing through the debt reduction account. However, the government has decided not to use that $5.1 million to pay down debt in the debt reduction account; only $1.4 million is being used to pay down debt and the government has decided to spend the other $3.7 million and is dressing it up as avoidance of new debt. The question that comes from this goes to page 236 of budget paper No 3, which shows transfers from the debt reduction account under "Revenue" in the "Consolidated Account Transactions" table, and that $3.724 million will be transferred out. Why is this classified as revenue in the consolidated account? Does that artificially inflate the government's operating surpluses in 2020–21 and 2021–22?

Mr B.S. WYATT: The answer is no. As the member quite correctly points out, it is the avoidance of taking on further debt.

Mr D.C. NALDER: It is really spending. The government is spending.

Mr B.S. WYATT: It is the avoidance of taking on further debt.

[5.00 pm]

Mr D.C. NALDER: It is really spending—you are spending it.

Mr B.S. WYATT: It is the avoidance of taking on further debt to fund asset investment. As I have said, when I sat on the other side of the chamber I would often make the point that the arrogance of the former government was that it felt it could take the capacity of future governments. There was no sense of obligation under the former government that it had to govern for future Western Australians—that is, prepare the way for economic times that perhaps would not be so good. Under the previous government we saw a scenario where the government was spending incredibly heavily on a current capital basis, in an environment when our economy was going gangbusters. We were competing with the private sector for labour, and as a result we saw the outcome. The governor of the Reserve Bank of Australia has said, as reported on the front page of *The Australian Financial Review*, that state governments should engage in asset investment to underwrite the economy and create jobs, which is what we are doing. We do not have the capacity to do it to the extent that I would like to because of the debt that was left to me. That is the reality. I am glad the member for Bateman drew attention to the debt reduction account; it is something I am very proud of. It highlights the efforts of this government to reduce debt, and therefore reduce the interest payments that have become an ongoing expense for Western Australians. Perhaps we should talk more about this. Perhaps I will make my third reading response on the budget all about the debt reduction account. I am quite looking forward to it. The point is that we are now managing to walk the lines of returning to surplus, getting debt under control, investing in the assets of the state and creating jobs. As I said, 44 000 jobs created under this government versus a net loss of 700 jobs in the entire second term of the former government says it all.

Mr D.C. NALDER: I think the Treasurer has just acknowledged that he is spending $3.7 billion of the debt reduction account. I think that is what he did. The issue that I have is not the fact that he is doing it, but rather the window dressing he is putting around it. He is trying to hide it. I do not necessarily deny that, at times, for economic reasons, the government needs to invest in infrastructure to support the economy. I have no qualms about that, but I have a problem with the fact that the Treasurer is window dressing this as debt avoidance, instead of transferring the money out and spending it. I would also like to draw the Treasurer's attention to the fact that he just referred to the capital expenditure of the former government, and that it did not save enough. Let me remind the Treasurer that he can now go back and look at the Treasury analyses of 2008 and 2013, which indicated that, had Labor won the elections back then, it would have spent $1.1 billion more than the coalition government. Here he is, criticising the former government for its capital spend—he referred to capital spend, and I am sticking to that—when, had Labor been in power, it would have spent more during that time, because that is what the Treasury analysis indicated at the time.

Mr B.S. WYATT: If, if, if—I guess in the end history will show. The Labor Party did not win that election, and unfortunately it showed the hypotheticals versus the reality. The reality is that the former Liberal–National government could not control itself, and, despite record revenues, spent all of that plus some, and as a result it is bedevilling this government, and we will continue to have to make decisions around how I pay for the spending of the former government. However, we can do that, we are grown up now, and also continue to roll out an asset investment program of our own. The way the budget has been well received highlights that we can do all those things.

Mr D.T. REDMAN: I refer to page 72 of budget paper No 3, which refers, in the second paragraph under the heading "Total Transfer Duty", to total transfer duty being forecast to grow by 6.8 per cent, supported by a full-year impact of the foreign buyer surcharge. Could the Treasurer give us an indication of the expected returns on the foreign buyer tax versus what is now being predicted as the returns of the surcharge?

Mr B.S. WYATT: At midyear review, we wrote down all our land transfer duty, et cetera, well before the foreign buyer duty surcharge came into operation. The forecast revenue from foreign buyer duty for 2018–19 was $6 million; for 2019–20, $19 million; for 2020–21, $22 million; for 2021–22, $23 million; and for 2022–23, $24 million, bringing the total to $94 million.

Mr D.T. REDMAN: Was the first figure a full year—the $6 million?

Mr B.S. WYATT: No, it only came into operation on 1 January.

Dr M.D. NAHAN: What was the original forecast?

Mr B.S. WYATT: That would have been in the media statement—about $120 million.

Mr D.T. REDMAN: Is there any analysis showing that that results simply from a depressed property market as distinct from an exit of foreign buyers from the marketplace?

Mr B.S. WYATT: I expect it is probably a combination. I think I went through this during the matter of public interest or suspension debate last week. We have seen a decline in foreign investors over about four years in Western Australia. I will ask Mr Barnes to comment about this, but it is driven more by the housing sector generally. I will ask Mr Barnes to make some more comments.

Mr M.A. Barnes: General market conditions have clearly been the predominant factor, so at midyear review time we wrote down the transfer duty forecast by about $1 billion over the forward estimates period in total. We took a big hit to our transfer duty forecast at midyear review time. In this budget, we have only had a further marginal revision downwards. When we did that downward revision at midyear review time of $1 billion over the forward estimates period, that was when we revised down the expected revenue from the foreign buyer duty surcharge from about $120 million to $94 million. That is predominantly as a result of the general market conditions. In addition, as the Treasurer said, based on the Foreign Investment Review Board data, the number of FIRB approvals in WA has been trending down in recent years this. For example, in 2015–16, there were over 1 600 FIRB approvals in WA, and in 2017–18 that had fallen to about 700. We have seen a trend there for a few years now. There are a variety of reasons for that, which I will not go through now, but it is a combination of the two factors.

Mr D.T. REDMAN: Is it fair to say that, despite what the Treasurer said about a bit of a spark coming back into the economy, and consumption picking up, the revenue expected from this was massively overstated when it was put in place and is likely to be a significant negative signal to home buyers?

Mr B.S. WYATT: I think that is a fair question. We thought there was an improvement in the housing sector in late 2017, and there seemed to be, but then it came off again throughout 2018. As to a massive overstatement—$123 million to $94 million—we will not know until we get through those years and find out. I think that is just reflective of the broader market. We have been writing down land-related tax revenue now for quite a few years, including under the former government, as it came off, and I suspect that Victoria and New South Wales are about to go through a pretty painful process doing exactly the same thing. We are hoping that this is it for those large writedowns—I hope there is not another big one like we saw at the midyear review—of the land and property-related taxes. I think the member for Bateman, or the Leader of the Opposition—I cannot remember now—made the point during the budget debate that we have seen a tightening rental market over the past couple of years, but it has not flowed into what we have historically seen. If we go back and look at the percentage of rental vacancies, we will see —

Mr D.T. REDMAN: The rental vacancy rate is about 3.5 per cent or something. The vacancy rate has come right down.

[5.10 pm]

Mr B.S. WYATT: It is down to about 2.5 per cent. It has come down quickly. In 2017 it was about seven per cent, and it has come down to 2.5 per cent. Historically, when it is at that level, we see an uptick in finance applications, building approvals and commencements, which has not happened. Why is that? When we speak to property groups and property developers they tell us it is access to finance. They tell me that they are getting offers, but the percentage of offers that are falling over due to lack of finance is very significant—hence the Keystart announcement and, I suspect, the freshly elected Prime Minister's announcement about providing easier access to a deposit to get into the housing market. That is what we have tried to influence with the levers we have.

Mr D.T. REDMAN: Given the concern in the housing market—the Under Treasurer talked about the significant reduction in Foreign Investment Review Board approvals—and the Treasury projections of what will happen in the out years of this policy as a revenue source as being massively understated, has the government seriously considered removing the levy and saying that it needs whatever stimulus it can get right now? The property sector is one of those areas in which we would like to see investment in Western Australia.

Mr B.S. WYATT: Compared with all other states, the percentage of foreign investment in the residential property market is very low.

Mr D.T. REDMAN: Save your pennies and the pounds look after themselves.

Mr B.S. WYATT: The member's question is whether the policy is distorting things. Depending on the year, the percentage of foreign investment in the WA residential property sector is about one per cent or two per cent. I suspect it is higher in some places. I know it is—other than perhaps South Australia, I think it is higher in all other states. It is a large story in New South Wales and Victoria. All the states have moved down this path of a foreign buyer levy and we are the last to get to it. I will watch this closely. At the moment we are still seeing offers come through. I noted the comments that Michelle Bullock, the Deputy Governor of the Reserve Bank of Australia, made not quite a month ago. She commented that there are much more significant things at play that influence how people invest. I think I quoted her in this chamber last week. She said that restrictions imposed on getting money out of other countries is having a bigger impact. China in particular is being very strict about how people can get money around the world and into Australia. Today there was a story that in the last three years, Chinese investment in Australia has gone from $16 billion down to about $3 billion or $4 billion, so we can see the influence of the Chinese government's decision. Other factors are certainly at play. I am very aware of the property sector and I am aware of what has happened. With the low level of rental vacancy and with population growth holding, economic growth and population growth will resolve this with time. The state government ultimately has only certain levers. Even the commonwealth government has limited levers, and it has a better ones than I do.

Dr M.D. NAHAN: I refer to page 273 of budget paper No 3.

The CHAIR: As the member is asking a new question, I remind members that we also have divisions 13, 14 and 20, and the Insurance Commission of WA and the Western Australian Treasury Corporation, to get through before 6.00 pm. I remind members to allow them time for their questions.

Dr M.D. NAHAN: I wanted to get some information on the line item "Government Support Package—Koolyanobbing Iron Ore" under Southern Ports Authority on page 273. Was Treasury involved in the decision to allow Cliffs Natural Resources to be exempt from the $50.2 million termination payment that was due to the Southern Ports Authority? I raised this question with the authority yesterday. It did not know, but, to be fair, it is getting back to me. Did Treasury compensate the Southern Ports Authority for the loss of the $50.2 million compensation payment?

Mr B.S. WYATT: Yes, Treasury was involved. I will ask Mr Barnes to make some comments.

Mr M.A. Barnes: The answers are yes and yes. Treasury was involved in helping to put together this package for consideration by the Expenditure Review Committee and cabinet. As part of the package, the Southern Ports Authority received an operating subsidy to offset that $50.2 million termination payment.

Dr M.D. NAHAN: We were told last night that the operating subsidy was potentially in two parts. The first part was compensation for the loss of the termination payment. The second part was that the agreement was to keep the workforce related to iron ore in Esperance stationary and in whole during the transition from Cliffs to Mineral Resources—for six months.

Mr M.A. Barnes: Yes.

Dr M.D. NAHAN: So there are two parts to the assistance to the Southern Ports Authority. Is that all included in the data on page 273?

Mr M.A. Barnes: Yes. In fact, there are three components of the operating subsidy to the Southern Ports Authority that makes up this support package. One is the $50.2 million subsidy for the loss of the termination payment. The second is an operating subsidy of $9 million to keep the stevedoring staff on during that six-month transition period. The third is an operating subsidy to the Southern Ports Authority for the value of the discounted port fees it is charging Mineral Resources. Those three components make up the operating subsidy to the SPA.

Dr M.D. NAHAN: Was the subsidy tied to the iron ore price in some way, as it was for Atlas and the junior miners some years ago?

Mr B.S. WYATT: No, I do not think it was. I am trying to think back through the detail.

Dr M.D. NAHAN: Why not? The policy in the past has been that when assistance is given to junior miners, it is tied to the iron ore price, particularly if it is caused by a price collapse. We did this for Atlas Iron and all the junior miners, which the Treasurer is aware of. Now that the iron ore price is sky high, and will hopefully remain that way, why would the government deviate from existing policy and not tie the operating cost for Mineral Resources to the iron ore price?

Mr B.S. WYATT: I do not mean to be evasive, but the member will probably have to put these questions to the Premier. The life of that mine was particularly short.

Dr M.D. NAHAN: It was five years.

Mr B.S. WYATT: It was five years. I suspect that would be the reason. It is a big decision by government and a lot of effort went into it, but we think we struck a balance. If we had done nothing there would have been significant cost to the state.

Mr D.T. REDMAN: Did Mineral Resources also get a royalty reduction on that? Is it for the whole five-year period?

Mr M.A. Barnes: Yes.

Mr D.T. REDMAN: That is not included in these numbers, is it?

Mr M.A. Barnes: No, not in that.

Mr D.T. REDMAN: That is lost revenue.

Dr M.D. NAHAN: The puzzle we have is that we were told that Cliffs announced in February that it would leave, officially told the port in March that it would leave, and shipped its last volume of ore in late June. The agreement was in August. Why did we not collect the $50.2 million termination payment from that firm?

Mr B.S. WYATT: I would have to go back and get information.

Dr M.D. NAHAN: Does the responsibility lie with the Department of State Development?

Mr B.S. WYATT: Yes.

Mr D.C. NALDER: I refer to the Synergy dividends and income tax expense on page 266 of budget paper No 3. Why is it that Synergy is not making any tax payments or dividends in the out years? Is it because it is running at a loss? If so, what is the forecast loss by Synergy for each of these years of the forward estimates?

Mr B.S. WYATT: The member is correct. It is because it is not making a profit. I think the Minister for Energy will be here tomorrow. The Minister for Energy will be in a better position to answer the question about the out years. The reason will be that it is not making a profit.

[5.20 pm]

The CHAIR: The member asked earlier whether it would be appropriate to ask the questions. Because it is a broad comment on other aspects, we will ask the Treasurer if he wishes to reply.

Mr B.S. WYATT: I will reply as much as I can. I will need to get specific information from relevant ministers.

Mr D.C. NALDER: We will follow that up with the Minister for Energy. Have any concerns been expressed to Treasury about insolvency of the business if it is making these losses?

Mr B.S. WYATT: I have concerns about Synergy's performance that I had when I was energy minister and I continue to have them as Treasurer. The board knows that. The board is taking its cost base seriously and trying to do what it can to get back to a position of profitability. That is as general as I can go.

Mr D.C. NALDER: We will ask the minister. I have one more follow-up question on that. Why was no operating subsidy provided to Synergy—I am interested from a budget perspective—given that it is selling electricity below the cost of production and when other government trading enterprises receive a subsidy or community service obligation for operating in a non-commercial manner? That would be a Treasury decision, I think.

Mr B.S. WYATT: The tariff adjustment payment was paid in 2017–18. We made a decision to stop paying that. In 2018–19, it was due to be $50 million or thereabouts. We made the decision that it can go about dealing with its own internals to get to cost reflectivity. Of course, now it has other issues at play as well. That is what the board is now having to deal with.

Dr M.D. NAHAN: Synergy is in a tough industry. In the government's first budget, the government took quite a bit of additional money out of its cash balances; it stripped quite a bit of money off it and left it more vulnerable, with less capacity to withstand losses. The government has now lowered tariff increases in this budget, which cumulates. The TAP is very large this time. It comes down to Synergy. It decreases over the forward estimates but it is very large this year. If we add it up, there must be huge pressures on Synergy just as an operating business. That is Treasury's responsibility. There has also been talk about shutting down coalfields eventually—four or five years hence. That is a big issue. There is no capital expenditure for Synergy other than ongoing maintenance. Is Treasury worried about the financial viability of Synergy going forward in this environment?

Mr B.S. WYATT: I am worried about it. As I said a minute ago to the member for Bateman, I am worried about the financial performance of Synergy. It is facing incredible pressures in the energy environment. There is no question about that. I think everyone acknowledges the environment in which Synergy operates. The board is well aware of that; hence, that is why a lot of work is going on and why we gave Treasury more resources around the energy transformation unit. I am probably being as broad as I can around this but, yes, of course we in Treasury are worried about Synergy. It is a state-owned asset, so it is one that we will pay a lot of attention to.

Dr M.D. NAHAN: Synergy does not make a profit and has not for a while; therefore, it does not pay a dividend. The government has lowered Synergy's non-contestable tariff. It is a very difficult environment out there, but there is no TAP. Is Synergy booking losses; and, if so, given that it has very few liquid assets, is it facing significant issues going forward from the perspective of Treasury managing a government business enterprise?

Mr B.S. WYATT: To a certain extent, yes, it will be booking losses, clearly.

Dr M.D. NAHAN: How much?

Mr B.S. WYATT: Again, I am not sure when the energy minister will be appearing. Apparently, it is tomorrow.

Dr M.D. NAHAN: This is a Treasury issue.

Mr B.S. WYATT: The member should put that question to him. Effectively, Synergy legislation—the retail generation act or whatever it is called—undoubtedly means that the state stands behind it as an organisation. With respect to the costs of Synergy, the board is working overtime on this. I am well aware of Synergy's issues and the concerns of the government. It will take a lot of effort to get Synergy back to where we want it.

Dr M.D. NAHAN: From a Treasury perspective, this is a risk to the budget. As a former energy minister, I know that these can be large. Treasury has responsibility for managing government business enterprises, of which Synergy is one of the largest. That gives some indication of the magnitude. My concern is that if I go to the energy minister, he might not have the same analysis and data that, indeed, Treasury has, as an independent overseer of government business enterprises. We will explore it with the minister. If we add these things up, they do not add up. If we put them together, they do not add up. Synergy has to be accumulating losses this year and throughout the forward estimates. They are perhaps substantial losses. It does not have the physical capacity to accumulate very much.

Mr B.S. WYATT: I am kind of in agreement with the member about accumulating losses. We need to do what we can to make sure they are as small as they possibly can be. Ultimately, the energy minister will no doubt give the member a broader explanation of what Synergy is doing in response to that, which he is certainly well placed to do. If, for whatever reason, the member needs more information, I am sure questions on notice can resolve it.

Dr M.D. NAHAN: I have a question relating to this, which is probably straightforward. I refer to page 280 of budget paper No 3, which sets out the published tariffs. There are two types of contestable tariffs, for which there is a 30 per cent increase and a 28 per cent increase respectively over the forward estimates. This is a very large increase in tariffs by any stretch of the imagination, and much larger than the forward estimates of last year. Could the member give me an indication of why they are such large increases?

Mr B.S. WYATT: It is the cost of Synergy, to be frank. The member is talking about the contestable tariff of eight per cent. It is an interesting one, because the Economic Regulation Authority's draft decision for Synergy on the fourth access arrangement initially had the distribution tariffs falling by an average of 2.2 per cent over the life of the AA4, but its final decision had it increasing by three, four and nearly two per cent. There was quite a considerable change. These tariffs, in respect of this contestable space that we are talking about here—L3 and L4—are set with reference to Synergy's costs, and the price paths that are reflected in the budget. This is not maintaining cost reflectivity, which will further expose Synergy to the issues that we were just talking about around cost. In that contestable space, Synergy is under pressure.

Dr M.D. NAHAN: Yes, but if a business is under pressure in a competitive market and it increase its prices by 32 per cent, we know what happens.

Mr B.S. WYATT: Correct, and this is the issue around contestability in this space. The contestability is strong. We have declining consumption under these tariffs as well, so the fixed costs are spread amongst a thinner base and the higher network costs are as a result of the fourth access arrangement. This is the reality when we have a contestable environment, unlike when we own it and we can set it. We can do that for Western Australia, and those medium businesses have the opportunity to look around.

Dr M.D. NAHAN: My understanding is that these prices are fixed prices for small businesses that have long-term contracts with Synergy. They are really sticky; they are not sensitive to price increases. My experience is that if they are jacked up too high, they will leave. Increases of 32 per cent and 28 per cent are huge. We could see a very large share of Synergy's purchases evaporate overnight in competition with others. Who set these prices at this level?

[5.30 pm]

Mr B.S. WYATT: The AA4 has the impact on the revenue that can be recovered by Western Power, and then that flows through to Synergy. That is the point I made about the draft decision and the final decision, which were dramatically different. That made it very difficult for Synergy to deal with. It was very lumpy—there were some significant increases—so we smoothed things as best we could to get to that. But the points the member makes are valid.

Mr D.T. REDMAN: I have a broader question. I have been struggling to understand where in the broader budget the district allowances lie. These district allowances have been paid to people who work in regional areas in the general government sector, with the exception of teachers, because they have particular industrial relations arrangements. There have been references to some small changes spattered through the budget, which in some cases were not big enough to trigger a line item. I wonder where they are. Are they funded out of the agencies' costs, or is there an external reference to what the figure should be and a central payment arrangement? I noted in answer to questions yesterday to the Department of Regional Development that mention was made of a regional price index survey that was used every two years to measure the cost of living in the regions, and different district allowances were applied to different regions. Can the Treasurer give me an indication of how they are applied across government agencies and the mechanism of how that works?

Mr B.S. WYATT: I would have thought it would have been at the agency level, but I am looking around for some confirmation from someone.

Mr A.D. Jones: They are in the agency budgets. The policy is set under delegation through public sector labour relations. The member may remember from previous times that a determination is made of what that district allowance is. They are wrapped up in the agencies' employee benefit costs. If the member wants to find a breakdown of them, I suspect he would have to ask for it, rather than get it from the budget papers.

Mr D.T. REDMAN: A question on notice, yes.

Dr M.D. NAHAN: I have a couple of questions on public transport subsidies. I refer to page 139 of budget paper No 2, volume 1. There is a line item for the Public Transport Authority of Western Australia under "Operating Subsidy Payments". The figure goes up sharply in 2019–20, but is basically stationary to declining over the rest of the time. Given the government has great expectations of expanding the public transport network and patronage, I am surprised by the decline in the subsidy. Could the Treasurer explain that?

Mr B.S. WYATT: I suspect the increase is driven by bringing in Forrestfield–Airport Link into 2019–20 for a start. I also expect that it is due to the operations of transport to the stadium. I suspect that FAL is the reason for the majority of the increase. It is a good question about the decline across the forward estimates. Perhaps assumptions have been made about patronage, but I cannot tell the member. I will have to come back to him.

Dr M.D. NAHAN: Will FAL come online and into operation in 2019–20?

Mr D.C. NALDER: It is late 2021, is it not?

Mr B.S. WYATT: Let me just confirm that. It is not 2019–20.

Mr D.C. NALDER: Late 2021 is written in the budget papers, so it is not 2020.

Mr B.S. WYATT: That is wrong. I apologise for what I said. The figure for 2019–20 does not include the operating subsidy for FAL—it starts from 2021 or 2022. The increase would then be due to a range of things such as patronage numbers and other factors. I suspect the stadium has also gone into that. I have found something of some use. The operating subsidy will increase in 2019–20 compared with the estimate in 2018–19. The main drivers are cost escalation for bus service contracts, other service contracts, railcar infrastructure maintenance and cleaning, and labour costs. FAL does make up a component, which is around recruiting, but it is $12 million. There is a range of factors there, including expenses associated with design and technical assessment work for platform extensions on the Armadale rail line, and a range of other issues. I will have to come back to the member about the assumptions in the out years.

Dr M.D. NAHAN: I understand. Going forward to 2022–23, the figure goes up in 2021, and then down. My real issue is that the government has grand plans for expanding the rail system with the Yanchep and Cockburn–Thornlie lines, and I understand they will be operating by that time. Are the subsidies in the budget for those two expansions?

Mr B.S. WYATT: No, there are not.

Dr M.D. NAHAN: Why not?

Mr B.S. WYATT: Because we have not finalised those costs yet. The figures for the Yanchep line and the Cockburn link are not in the budget yet. They will likely come in in the midyear review, but at the latest in the next budget.

Dr M.D. NAHAN: Why is that?

Mr B.S. WYATT: We have to work out the costs.

Dr M.D. NAHAN: What about the Ellenbrook line?

Mr B.S. WYATT: We are at the point of starting the tender and still have to get an understanding of costs. They will come in then. It is the same with Ellenbrook. That is at an earlier stage of development than those two projects, and it will come in in due course, too.

Dr M.D. NAHAN: Has Treasury done some modelling on expectations of increases of operating subsidies to those three expansions?

Mr B.S. WYATT: We have done preliminary work for Yanchep and Cockburn, because we are a lot more progressed. As I have said, chances are we might be able to bring them to book in the midyear review, but not yet for Ellenbrook.

Dr M.D. NAHAN: Will the Treasurer let us know what he thinks the broad magnitude of the increase in subsidy would be?

Mr B.S. WYATT: No, I cannot yet. I could not give a reliable number at this point.

Mr D.T. REDMAN: I refer to the government's asset investment program referred to on pages 260 and 261 of budget paper No 3, the *Economic and Fiscal Outlook*, and specifically page 262. Two things on that page stand out as interesting. One is the provision for slippage. What is the basis for that, given the Treasurer has a chance to stick in the numbers of what he thinks the play is going to do and is already writing a cost to it, which I find interesting?

Mr B.S. WYATT: This is a historical underspend. As the member will see, we do not assume a net debt benefit from that. We effectively assume it is spent across the forward estimates over 2020–21, 2021–22 and 2022–23. This is similar to the issue I raised before about trying to get some form of accurate calibration of general government underspend. I think that is about right, is it, Mr Barnes?

Mr M.A. Barnes: Yes, that is correct. We have had underspends in the asset investment program of that sort of magnitude, or even more, for many consecutive years. Agencies typically—in fact, always—in aggregate are over-optimistic in terms of their spending intentions and the timing of those spending intentions, so we have built in for many years an underspend provision in the asset investment program. We are now calling it a "slippage" provision, because we assume that it will be caught up in the subsequent years.

Mr D.T. REDMAN: I have another point about the same table. The bottom of the table lists one of the expected sources of funding as land and property sales. As a former lands minister, I know how absolutely challenging it is to get land out the door, for a whole range of reasons. I suspect, and the Treasurer can probably confirm, that some of these numbers are probably loaded with what the Minister for Transport might describe as "uplift". How much uplift in land values has been factored into these numbers, and how is that going so far?

[5.40 pm]

Mr B.S. WYATT: The member's first comment about getting land out the door is right. The member may recall that there was a small writedown in the budget and a big one at the midyear review. Is the member's question about what we are assuming around an increase in value?

Mr D.T. REDMAN: There are two things: the integrity of the numbers and how much of those numbers is land uplift. Train lines are going through what the Treasurer has described as activity centres, and there are going to be asset sales around that that will presumably get a benefit.

Mr B.S. WYATT: I could not tell the member. I expect not a lot, to be honest. I expect that most of those figures have been arrived at just at current value. That is why we have been writing them down.

Mr D.T. REDMAN: The land assets referred to in the budget are the general government land assets that might be held by the Water Corporation and other agencies, as distinct from train line uplift from property sales of government.

Mr B.S. WYATT: Correct.

Mr D.T. REDMAN: I suspect the Treasurer is going to find that challenging.

Mr B.S. WYATT: Yes. I suspect the member is right.

Dr M.D. NAHAN: The Treasurer inherited a situation in which the government had put a lot of money aside for a National Disability Insurance Scheme Western Australian model. The government backed out of that; that was its decision. That is moving a large number of people out of the public sector. It made some changes to the budget last time. Is it possible to get some aggregates, taking the NDIS out of it, so that we have comparability over time? The NDIS, or disability services, was a major source of growth of our expenditure, and over our watch it grew by 120 per cent. It is huge. Now it is out of the government's budget to a large extent, so it is a major growth factor, but is also in and out in different ways. Maybe the Treasurer has done it, but could he give us some indication of the aggregates over time, taking the NDIS or disability services out?

Mr B.S. WYATT: Can I come back to the member on that one? I have some information, but I am not sure whether it is relevant.

Dr M.D. NAHAN: The Treasurer can come back to me; that is fine. I did not think it was going to be easy.

Mr B.S. WYATT: I know what the Leader of the Opposition is asking. It is just going to be complicated; that is all.

Mr D.T. REDMAN: I refer to page 64 of the *Economic and Fiscal Outlook*, under "Spending Risks". One of those risks is contaminated soil from the Forrestfield–Airport Link. There has been a bit of public commentary about the Minister for Transport engaging with the person who was at the time the deputy chair of the Peel Development Commission, to try to find a home for pretty significant amounts of contaminated soil. How big is this risk, and what are the likely numbers? I assume Treasury would have been given some indication, given that Treasurer has seen fit to include it in this part of the budget papers. Can the Treasurer give us some idea of the quantum in and around that risk?

Mr B.S. WYATT: The first point I will make, obviously, is that the deputy chair of the Peel Development Commission had some artistic licence in that well-reported conversation.

Mr D.T. REDMAN: In an FOI request, there is a letter that makes reference to the minister discussing it with him.

Mr B.S. WYATT: There may be letters, but what he said had some artistic licence. I do not have the cost yet.

Mr D.T. REDMAN: What is the threshold of numbers that —

The CHAIR: I think the minister is still clarifying that, and he might have an answer for you.

Mr B.S. WYATT: The Forrestfield–Airport line has a contingency for all sorts of things, including this. We hope that the risk that is being identified here might be bigger than the contingency to spend. That has not yet eventuated, but Treasury is highlighting that it is a concern. We are still working that one through.

Mr D.T. REDMAN: If the anticipated risk was $2 million or $3 million, I cannot imagine that the Treasurer would have bothered to include it in here.

Mr B.S. WYATT: No. The member is probably right. The risk is that it might be significant.

Mr D.T. REDMAN: Are we anticipating something in the hundreds of millions of dollars?

Mr B.S. WYATT: I would not say hundreds, but perhaps tens. It might get to that point. At the moment we do not know, but the risk is that there is a set budget; there is contingency. Treasury is highlighting the point that there is a risk that that budget will not be enough to cover that contingency. We still do not know. Ultimately, a lot of work is still going into what we can do with this.

Mr D.T. REDMAN: Can the Treasurer remind me what the contingency is?

Mr B.S. WYATT: No, I cannot. Again, if I had the Minister for Transport sitting next to me, I could probably tell the member, but I can get it via supplementary information if the member wants it. I will provide the member for Warren–Blackwood, by way of supplementary information, the contingency budget of the Forrestfield–Airport line.

[*Supplementary Information No A17.*]

Mr D.C. NALDER: I refer to page 144 in budget paper No 2 and the fourteenth point, which states —

> Treasury, working with other State agencies, will continue to press for a fair outcome from the Commonwealth Grants Commission's review of its methods for distributing GST …

It states that there is a commission draft report expected in May, and I wonder whether that has been received. I am also intrigued about what we are trying to seek improvements on. Is it to do with things such as local gas, on the basis that if other states are locking up their gas reserves and not fracking it, we would appeal that we should not have our revenues taken into account by GST grants because other states have the ability to do those things? Is that the sort of thing that the Treasurer is looking to do? What other examples does the Treasurer have that he is trying to change with GST grants?

Mr B.S. WYATT: I will ask Mr Barnes to comment, but the member may recall that the Productivity Commission identified a range of other things around how the Commonwealth Grants Commission processes worked. One thing that I found strange or frustrating is that the Commonwealth Grants Commission will not give us, for better terminology, a draft ruling. We cannot say, "If we make this policy change, how will the Commonwealth Grants Commission consider that?" It will not tell us. It will say, "Go and do it, and then we'll let you know". As a result, the Productivity Commission recommended that it have a process of draft ruling so that states could get a better idea of how that could be considered. It is more around the transparency side of things. We are still pursuing a range of other recommendations from the Productivity Commission. On that, I will ask Mr Barnes to make some further comments.

Mr M.A. Barnes: To the member's first question, we have not received that draft report yet. The issue at hand relates to the whole range of methodological issues that the grants commission examines. We deliberately highlighted that because I think there is a general perception that with the GST reform deal, which is done, there is now no risk to WA from any methodology changes, whereas in fact in the future there is. Once our normal relativity gets to above 70 per cent, which at some point in the future it will, then we are still exposed to these sorts of methodological changes by the grants commission. In fact, late last year, the day after the GST reform legislation passed the Senate, the Commonwealth Grants Commission put out a discussion paper flagging several different options for changing the way it assesses royalty revenue–raising capacity. Some of those options, in the future, could have a material impact on WA's GST relativity. That is one example. Other examples are the methodology it uses to calculate wage costs or the way it assesses our health spending needs. These are technical methodological issues that we have been concerned about for a while. We still have concerns and they still pose a risk to our future GST relativity. Those are the sorts of issues that we are flagging.

Mr B.S. WYATT: It is a complicated beast that Commonwealth Grants Commission. I have never come across an organisation like it before.

Mr D.C. NALDER: It is over-complicated. It should be simple.

Dr M.D. NAHAN: What is the Treasurer's assumption on wages growth beyond the four-year period set in the government's current wages policy? He has a wages policy that goes for four years. I think it finishes within this forward estimates. For the last year the Treasurer has to make an assumption. What is the Treasurer's assumption?

Mr B.S. WYATT: We have not made any change to the assumptions around it.

Dr M.D. NAHAN: So it is $1 000?

Mr B.S. WYATT: At some point we will have to make a decision as a government about what happens post that policy.

The appropriation was recommended.

[5.50 pm]