Division 37: Treasury and Finance (except item 62), $3 185 849 000 —

Mrs L.M. Harvey, Chairman.

Mr T.R. Buswell, Treasurer.

Mr T. Marney, Under Treasurer.

Mr S. Toutountzis, Chief Finance Officer.

Mr M. Barnes, Acting Deputy Under Treasurer.

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

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

The Treasurer may agree to provide supplementary information to the committee, rather than asking that the question be put on notice for the next sitting week. For the purpose of following up the provision of this information, I ask the Treasurer to clearly indicate to the committee which supplementary information he agrees to provide and I will then allocate a reference number. If supplementary information is to be provided, I seek the Treasurer's cooperation in ensuring that it is delivered to the committee clerk by Friday, 5 June 2009, so that members may read it before the report and third reading stages. If the supplementary information cannot be provided within that time, written advice is required of the day by which the information will be made available. Details in relation to supplementary information have been provided to both members and advisers and accordingly I ask the Treasurer to cooperate with those requirements.

I caution members that if the Treasurer asks that a matter be put on notice, it is up to the member to lodge the question on notice with the Clerk's office. Only supplementary information that the Treasurer agrees to provide will be sought by Friday, 5 June 2009. It will also greatly assist Hansard if, when referring to the program statements volumes or the consolidated account estimates, members give the page number, item, program and amount in preface to their question.

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

[Witnesses introduced.]

The CHAIRMAN: Are there any questions? The member for Victoria Park.

Mr B.S. WYATT: I refer to the first dot point on page 477 of the *Budget Statements*, referring to the many challenges ahead in the 2009-10 budget. One of those challenges that we have seen play out over the past 24 hours is iron ore prices. Can the Treasurer say what impact the 33 per cent reduction in the price of fines and lump ore will have on the revenue of the state in 2009-10?

Mr T.R. BUSWELL: The member is right—a number of variables impact on the state's finances at any one time. This year these are very well detailed in budget paper No 3. The iron ore price is one of those variables. Some of the factors that impact on our bottom line via a revenue effect, as the member will be aware, include exchange rate movements, movements in the iron ore price, and movements in the price of fuel. It is a volatile international climate, with volatilities in all those factors. One of the greatest challenges we had in framing the budget was dealing with the effect of that constant volatility on the economic parameters we are trying to deliver on. I will provide a couple of quick examples, and then I will talk about iron ore specifically. In the 2008-09 budget, the price of oil for the 2008-09 financial year was estimated at $US95.90. In the pre-election financial projections statement in August, it had jumped up to $US134.30. By the midyear review, the projected price had dropped to $US62 a barrel, and this year's budget has it at $US49 a barrel. The current price is $US61. We can measure the volatility in oil prices on a daily basis. As the member is aware, the exchange rate has moved from 95.5c to the US dollar in the pre-election financial projections statement to 68.5c in the budget. In relation to yesterday's announcement by Rio Tinto on the settlement of a price with Nippon Steel, the price that was agreed to was less than had been anticipated in the forward estimates. The forward estimates had worked around a pricing profile of -30 per cent, -10 per cent and -10 per cent, and that will have a flow-on impact on the state's finances. A figure was provided to me yesterday by Treasury in relation to that. The figure, which was publicised yesterday, was an extrapolation from the table that appears in the budget papers. I think the figure for that impact on revenue was between $130 million and $140 million. I will ask Treasury to provide additional advice. That figure underestimated the impact of yesterday's announcement on royalties income, if we accept that Rio's arrangement with Nippon Steel becomes the price—we have to base it around something. I will ask Treasury to run through that in a second. The point to highlight is the volatility that sits in and around the state's finances as a result of either commodity price movements or exchange rate movements.

[12.10 pm]

Mr B.S. WYATT: Obviously, the only volatility with iron ore, now that we have the price—assuming that becomes the benchmark price—is volume.

Mr T.R. BUSWELL: Yes. There are volume assumptions in the forward estimates. I will get Mr Marney to go through them in more detail. It is one of these variable factors that we have to deal with. The state accounts will next be presented in the midyear review. Government will have to respond if, come the midyear review, there are significant changes in revenue caused by commodity price movements or exchange rate movements. We will have to deal with that through the processes that we employed in the lead-up to the last budget. I will get Mr Marney to provide more detail about iron ore specifically.

Mr T. Marney: With respect to the factoring in of the outcomes of the Rio contract negotiations yesterday, if we extend that to all price contracts in the year ahead, including contracts with China, the actual difference in price level—the dollar level relative to what is assumed in the budget—is about a 10 per cent decline in that price level. That translates to somewhere between a $210 million and $240 million per annum loss in revenue in 2009-10.

Mr B.S. WYATT: In light of the fact that a lot of the private finance houses are saying that there might be a different benchmark between Japan and China, and I cannot expect Treasury to factor in every hypothetical, is Treasury anticipating an identical, or the possibility of a greater, decrease with the Chinese?

Mr T. Marney: The estimation of between $210 million and $240 million is based on exactly the same decrease. It is extremely difficult to know what the actual outcome will be, given the different positions of negotiation. There is also evidence that our producers are knocking back shipments as well, because they have reached a floor in their pricing; that is, they have assumed a price floor below which they refuse to ship. It is a fairly dynamic negotiation at the moment. Speculation is probably not terribly productive, other than to say that if we assume, that is what the outcome would be.

Mr B.S. WYATT: This question is asked out of curiosity. Over the past 12 months the spot price for iron ore has fluctuated greatly. I do not mind receiving the answer by way of supplementary information. Over the past 12 months have those spot prices, overall, been a net contributor now that they are lower? Have they offset the increase? The question I am trying to put is: with these decreases, does the spot price have an impact on further depressing the revenue?

Mr T. Marney: The spot price is currently 39 per cent below contract price. It has varied between 30 per cent and 45 per cent below contract price. The revenue impact we have seen already in 2008-09 has been factored into the numbers. Going forward, the 35 per cent decline that we have seen marries pretty well with the spot price as it currently stands.

Mr B.S. WYATT: How did Treasury arrive at a 30 per cent decrease in the 2009-10 financial year? Does Treasury speak with the various private finance houses or is that figure arrived at internally? What external input is received into that process?

Mr T.R. BUSWELL: Before I ask Mr Marney to answer that question, it is important to understand that my advice from Treasury has been that the process used this year to forecast iron ore price and/or volume is the same as the process that has been used in previous years. The same applies to the situation around exchange rate movements and the volatile factors in the budget. Perhaps Mr Marney can explain the research that is conducted in and across the market to determine our estimates.

Mr T. Marney: The key thing we watch is the spot price, particularly in the negotiating period from January through to April. That is the basis of the price variations going forward. Obviously, we sound out local producers on their expectations on price. We have done that numerous times over recent months to get a sense of whether our assumptions are reasonable or plausible. The greatest area of input in terms of consultation with producers is through the survey of production that is undertaken by the Department of Mines and Petroleum around Christmas. That determines the volume. We talk with the companies and watch the spot price pretty closely to get a sense of the likely contract price for the next financial year.

Mr B.S. WYATT: I think the Treasurer has already said that the volume expectations have not changed.

Mr T.R. BUSWELL: My information is that there is an estimation of some increases in volume across 2009-10. The figures I have indicate in the vicinity of an eight per cent increase in production.

Mr B.S. WYATT: Is that in Budget Paper No. 3?

Mr T.R. BUSWELL: Yes.

Mr B.S. WYATT: Those expectations still stand. The *Pre-election Financial Projections Statement*, as well as the budget, indicates that in the out years there is a renegotiation—that was agreed and factored into the PFPS forward estimates—of the royalty rate, which increases from 3.75 to 5.625 per cent. At the PFPS stage, the forward estimate revenue was an extra $560 million. That will require an amendment to the state agreement act. I understand that the major players had agreed to that, and it was a matter of bringing the legislation forward. Will the minister provide an update on that?

Mr T.R. BUSWELL: I am not trying to be coy, but the question should be directed to the Premier. He has responsibility for state agreements.

The CHAIRMAN: Member for Victoria Park, for the benefit of Hansard, would you specify the line item to which you were referring?

Mr B.S. WYATT: It was the first dot point on page 477.

Mr T.R. BUSWELL: To follow that up, I suppose it should be understood that in the context of the volatilities we face, the member is right: a movement downwards in the iron ore price has an impact and, similarly, a movement upwards in the exchange rate has an impact. In fact, a 1c movement in the exchange rate either way represents about $55 million per annum, or $220 million across the four years of the forward estimates. It highlights the significant magnitude of the volatility. Similarly, although on a smaller scale, movements in oil prices ultimately have a significant impact on the level of royalty revenue that flows into the state.

Mr B.S. WYATT: With the exchange rate, I know how Treasury came to the figure of 68.5c, being the six-week average leading up to the cut-off date in April. The six-week average leading up to last Thursday was 72c. The Commonwealth Bank is now predicting 90c by the end of the year. Is there the capacity—I assume the Treasurer can say that he is not comfortable with 68.5c going forward, regardless of the six-week average—to factor in some fat and erase that now? Obviously, when revenue is strong and flush, changes to the exchange rate may not have an impact on a budget deficit or surplus position. In this situation, it will have quite a dramatic impact.

[12.20 pm]

Mr T.R. BUSWELL: I was reluctant to move away from any of the modelling that had previously been used around some of those parameters, simply because I think it would have raised a number of questions about the integrity of the process. The exchange rate, as I am sure the member will agree, is highly volatile. For last year's budget it was 92c; for the *Pre-election Financial Projections Statement* it was 95.5c; for the midyear review it was 66c; then 68.5c; and the exchange rate this morning was a bit over 78c. That volatility places pressure on the government as it goes through its budgeting processes and the day in, day out operations of managing the state's finances. I receive a weekly report from Treasury—we had a break last week to complete the budget—that runs through a snapshot of where we are at. That is a tool that I use to guide the government through the sorts of decisions we have to make. It was the tool that we used to drive the decisions we made last year. The next time that the state's accounts are brought into consolidation will be at the time of the midyear review, and it would be fraught with danger to make that speculation. I know that there are some market analysts who have ideas about where we are at, and most major currencies around the world are currently appreciating against the US dollar, which is completely the reverse situation of what happened last year. With regard to the movement of the Australian dollar—which historically acts, as described by the member for Cannington, as a buffer for our economy—the way that the exchange rates are currently moving is somewhat atypical. The government will have to assess that and manage it because if we do not respond, it will have an impact on net debt and other aggregates in Western Australia. The government has made some pretty strong commitments about where it wants to end up. That will force the government to go through another round of reassessment of its capital and recurrent spending priorities between now and next year's budget. That is the main tool that is available to us to deal with that volatility.

Mr B.S. WYATT: Madam Chair, I am not sure how long your list is; I have a question that is probably on a different topic.

The CHAIRMAN: Four members have requested questions, so I will move to the member for West Swan and come back to the member.

Ms R. SAFFIOTI: I refer to page 481 of the *Budget Statements*, "Financial Management and Reporting". My question generally relates to the state government's fiscal strategy, particularly in relation to the deficits forecast for the out years. There has been a lot of debate at federal government level about its time frame for returning the budget to surplus. Does the Treasurer have a fiscal plan for when the budget will return to surplus? If so, what date is forecast? Does the Treasurer have any targets that will facilitate the economic audit committee and his further round of cuts—that is, what is the target of the economic audit committee? Is there agreement that the parameters that underpin this budget are currently unsustainable?

Mr T.R. BUSWELL: The parameters being?

Ms R. SAFFIOTI: They are the expenditure and revenue parameters on both capital and recurrent sides.

Mr T.R. BUSWELL: The question relates to the government's goal for the net operating balance as forecast in forward estimates and when the state will return to surplus. The Premier has given a very clear indication publicly, and perhaps an even stronger indication to me privately, that when forward estimates become the budget estimate, to use the terms from the budget papers, the budget estimate will not be a deficit. That means that the government has to use the tools available to it in a fairly dynamic revenue environment, especially royalties revenues, to make sure that forward estimates of negative net operating balances—that is, forward estimates of deficits—become budget year surpluses. That is what we have to do. We intend to do that by continuing the reform processes for current and capital expenditure and making the necessary changes for the budget estimate in any one set of budget papers to be a surplus. I am not hiding from the fact that that will be a difficult process. Pulling together last year's budget involved some fairly tough decisions, and I expect that to continue to be the case, especially while we are in a situation in which there are a lot of factors suppressing our revenue streams. That is the government's plan; I think we have the tools and the will to do it. That is the challenge that confronts the government in the current economic situation. I do not want to be caught in circumstances such as those surrounding the Treasurer of South Australia, Kevin Foley, who has become a good friend of mine. Kevin has to get on a plane and toddle off to New York before he brings his budget down so that he can talk to the ratings agencies about the diabolical state of affairs that will be presented in the budget. It is a continual work in progress to address what we need to address to deliver on the Premier's surplus commitment.

Ms R. SAFFIOTI: If the Premier made that commitment—I think his comment was that he did not like planning for deficits—does this budget not reflect the government's financial strategy? It seems to be very different from what the Treasurer is saying.

Mr T.R. BUSWELL: No, the budget absolutely reflects the government's financial strategy. There is a surplus, as I understand it, of $647 million in the current year, and in the budget estimate year—next year—there is a surplus of $409 million. That is entirely consistent with the government's strategy. In fact, there is a surplus that could be at best described as moderately skinny —

Ms R. SAFFIOTI: Wiped out by the iron ore price.

Mr T.R. BUSWELL: Things move up and things move down. In the midyear review, which is not as far off as one would sometimes like to think, we will have to deal with those issues. The delivery of those surpluses is good news. I acknowledge that we are coming off high surpluses in Western Australia. Queensland also came off a relatively high surplus and will now be in significant deficit. Western Australia is maintaining a surplus position, which is entirely consistent with the public and private comments made by the Premier.

Ms R. SAFFIOTI: In reference to the economic audit committee, what volume of targets will the government set for the next round of cuts?

Mr T.R. BUSWELL: I will not speculate on what the volume will be. The government has a number of other avenues through which it can pursue efficiencies in the public sector. I have previously spoken publicly about what I call value for money audits. They will start on an agency-by-agency basis—almost on a line item of expenditure-by-line item of expenditure basis. In fact, there has already been preliminary engagement with the science area in the Department of Commerce. That will continue far more broadly, and it is over and above the activities of the economic audit committee. The economic audit committee has already provided some advice to the government about actions it could take in last year's budget, and those actions were taken. The details were in the budget papers. The next phase of the economic audit is much more clearly focused on public sector reform. It became apparent to me during the first phase of the economic audit that there was a significant need for public sector reform in Western Australia—how we employ people, how we pay people and how we manage people. If the government is to be truly focused on reforming public sector service delivery, it faces a major task in the internal reform of the public sector. When more detail on the preliminary report of the economic audit is made public, members will very clearly see a call for action on public sector reform.

[12.30 pm]

Ms R. SAFFIOTI: When is that report likely to be made public?

Mr T.R. BUSWELL: It will be made public. We are working through the processes of cabinet and government that exist around that, as the member would be aware. We took the budget-related stuff out and dealt with that as part of the budget. The rest of it will be made public when it has moved through the processes of government and cabinet. Not only will it be made public; I expect that a government response will be provided to the recommendations of that audit at or near the same time.

Mr B.S. WYATT: Will a similar process occur with the September report?

The CHAIRMAN: Excuse me. Members need to specify that they request a further question.

Mr B.S. WYATT: Sorry, Madam Chair. I thought we were having a light discussion.

Following on from the Treasurer's comments: will a similar process take place for the report due in September, which is the second report of the economic audit committee?

Mr T.R. BUSWELL: I imagine so.

Mr M.P. WHITELY: I have a follow-up point from a question the member for West Swan asked. I am a little confused, Treasurer. The Treasurer said he stands by the projections in the budget papers and he also stands by the statements that the Premier has made. The Premier made very clear statements that while he is Premier, there will not be any budget deficits delivered; yet the projections for 2011-12 and 2012-13 show operating deficits of $513 million and $458 million respectively. Given the current assumptions that we are running under—that is, regardless of the pressures that have been identified by the member for Victoria Park and other dollops of unfunded expenditure we have found—it sounds as though there is a contradiction in the statements that the Treasurer is making. Is the Treasurer saying that these projections of budget deficits in 2011-12 and 2012-13 are real? If that is the case, the Treasurer seems to be contradicting the Premier —

Mr T.R. BUSWELL: What I am saying is that when we sit in this chamber in May 2011 and consider the 2011-12 budget, our goal will be that that forecast or forward estimate deficit of $513 million will be a budget estimate, and that it will be a surplus.

Mr M.P. WHITELY: Is the Treasurer saying that these figures are not real for 2011-12?

Mr T.R. BUSWELL: No. At the time that the budget was finalised—the close-off date was 16 April—these figures represented the outflows and inflows that Treasury best estimated over the next four years. That is why they are called forward estimates. The reality is that many things will change between now and then. This is a snapshot at a point in time. I acknowledge that some parameters have shifted—parameters always shift. We are required to produce through the budget a snapshot at a point in time. I can assure members that there are plenty of responses available to government as we move forward over time to deal with that issue.

Mr M.P. WHITELY: Can the Treasurer outline them, please?

The CHAIRMAN: Member for Bassendean, you need to request a further question.

Mr M.P. WHITELY: It is just a supplementary question to the comment —

The CHAIRMAN: It is customary to wait until the minister has finished giving his answer and not to interject during estimates. Further question, member for Bassendean.

Mr M.P. WHITELY: Can the Treasurer give examples of those projected revenue streams or savings?

Mr T.R. BUSWELL: No. They will be dealt with in due course. The member can gauge an appreciation of the government's desire to protect state finances by the $7.2 billion or whatever over the next four years, and $7.6 billion worth of corrective measures contained in this year's budget. Those corrective measures were not a result of a one-off process. They will continue to be realised as a result of what I would call a continual improvement program.

Mr M.P. WHITELY: The $7.2 billion —

Mr T.R. BUSWELL: No, $7.6 billion.

Mr M.P. WHITELY: That is presumably already factored in to the 2011-12 budget.

Mr T.R. BUSWELL: It is.

Mr M.P. WHITELY: Is the Treasurer going to have to find extra measures?

Mr T.R. BUSWELL: Yes; exactly.

Mr M.P. WHITELY: But the Treasurer cannot identify what they are.

Mr T.R. BUSWELL: I have a rough idea what they are but —

Mr M.P. WHITELY: Does the Treasurer want to share that with us?

Mr T.R. BUSWELL: No. When those options have been assessed and the government's will has been applied, that information will be made public through the budget papers, as was the case this year.

Dr M.D. NAHAN: I refer to budget paper No 3, page 82. It refers to employee expenses. What are some of the causes behind the reported 9.6 per cent a year growth in the salaries bill over the previous government's term?

Mr T.R. BUSWELL: That is a very good question, member for Riverton. Just quickly, my understanding is that historically there have been questions asked of budget paper No 3 in this forum. The member is exactly right: increases in employee expenses have been one of the most significant factors driving recurrent spending growth in government. It is one of the more substantive challenges that we currently face—almost as much of a challenge as me finding my piece of paper that refers to that! It has only got one line on the top that says "wages policy"! The only reason I was searching for the piece of paper is that I want to give the member an idea of what has happened in recent years.

In the eight years from 2001, the government wages bill increased by $3.2 billion per annum; in other words, a 75 per cent increase. In fact wages accounted for 41 per cent of the increase in government general sector expenses growth. One of the fundamental challenges we face in reducing the rate of growth of recurrent spending revolves around the two factors that combine together, in aggregate, to drive wages growth—the percentage increase in wages and the percentage increase in the public service. We are dealing with issues of a percentage increase in the public service through the adoption of a headcount freeze. The number of FTEs in the general government sector is 99 000-odd. I can get the exact figure but it is around that. Our view is that we have to stop the uncontrolled increases in the headcount in the public sector. That was one of the significant factors driving the increase in the public service. We do not measure government efficiency by how many people are employed; we measure it by the quality of the services delivered. I will give an example. In the 2007-08 financial year—1 July 2007 to 30 June 2008—my recollection is that full-time equivalent growth in Western Australia grew by about 5 000 people. That is 100 people a week. That is 20 people every single weekday. Every single weekday, 20 additional full-time staff were added to the general government sector wages bill in Western Australia. Having examined outputs, quality of education, quality of law and order and quality of health, for example, I did not see increases that reflected that. We often ask the question: where were those people? It is difficult to track them down. That is one area that we have aggressively tried to address, acknowledging that within that headcount freeze people will move from place to place. We have a slightly different emphasis in government from the former government. We would expect to see that slightly different emphasis reflected in the movement of people to areas that we might see as being important—for example, fixing the approvals process. Headcount is one component.

The other component is the rate of growth of wages. The former government was highly unsuccessful because it had no clarity in its wages policy. The wages policy, as I recall, was to neither lead nor to lag. What that meant to a government sector employment agency, to the person involved in the wage negotiations or to a union on the other side is quite open to interpretation—neither to lead nor to lag. We have a much more prescriptive wages policy that basically says to staff in the Western Australian public service that we will guarantee a wage rise level that is equivalent to the estimated rate of inflation; that is, we will protect real wage rates for the period of the enterprise bargaining agreement that was signed. On top of that, there will be the capacity to argue for additional increases over and above the consumer price index up to a cap, which is the wage price index, depending on the capacity to demonstrate productivity improvements. There is a base level, which is to protect real wages, and then there is a productivity component that may be accessible depending on the negotiations that occur during the wage negotiation process.

[12.40 pm]

Mr P. PAPALIA: Is that capped at the CPI-WPI?

Mr T.R. BUSWELL: Yes, the consumer price index-wage price index. I am trying to get an idea of what that is. Basically, it means that over three years it is between 8.2 per cent and 9.3 per cent. That is the policy that we will be entering into negotiations with public sector unions for those enterprise bargaining agreements that expire post-1 July this year. We are currently negotiating an EBA with the police, and because the police are outside the parameters of that 8.2 to 9.3 per cent, the offer made to police was different from that reflected in the estimated

CPI and WPI at the time. The offer made to police over three years, in the initial instance, was 9.8 per cent with capacity to negotiate that up around productivity-related outcomes.

Another thing that the government is doing in terms of wage negotiations is improving the process by which the government engages its employees in the wage negotiation process. Cabinet has allocated me the task of government wage negotiator. Unions of employees and individual agencies will not deal with their minister on wage outcomes, they will deal with me. I think they are looking forward to it. I have heard a lot of positive response from them on that. I am a very generous person, as most people in this chamber would know. This is how it will work: for every EBA that comes up for negotiation, we will appoint a bargaining coordination committee that will involve a Treasury representative, a representative from the employment and protection division of the Department of Commerce—both of whom report to me from a ministerial point of view—and also the people from the agency involved in the bargaining process. I have had examples put to me in which agency representatives have, unfortunately, through a negotiation process offered wage outcomes to the unions that had no reflection on what other people in government—that is, Treasury and Commerce—had thought they would be offering. We are trying to improve that process so that we can deliver a whole-of-government outcome on wages through a much more tightly controlled process.

I now have a weekly briefing on Monday afternoon from the head of the employment protection division within the Department of Commerce, who briefs me on the status of each of the EBAs that are currently under negotiation—at the moment, it is the police. We are developing the bargaining coordination committees that will sit around our negotiations at the end of the year with health, education and Main Roads. There will be a much more tightly controlled and clearly defined wages policy to help address some of those issues.

Mr M.P. WHITELY: It is interesting to hear that the Treasurer will be in charge of wage negotiations. I assume the logic behind that is the Treasurer is already unpopular so it will not do him any damage.

The Treasurer said that in a particular year there was a huge growth in the number of people employed in the public sector. Could the Treasurer provide a breakdown in the number and where they were employed?

Mr T.R. BUSWELL: No.

Mr M.P. WHITELY: No? Right! The second question concerned the Treasurer's prescriptive wages policy. Could he outline the outcome of the teachers' negotiation had that policy been retrospectively applied? Would teachers have got more or less as a result of the approach the government will now be taking?

The CHAIRMAN: I remind members that we are dealing with division 37, and we need to stick to those items before we move on to other areas of the budget. I ask the member to relate his question to a line item.

Mr M.P. WHITELY: This is a follow-up question to the question asked by the member for Riverton on the government's wages policy. I am trying to establish what the retrospective effect would have been with teachers, and if that can be factored in the next negotiation so there is some recognition of over or underpayment in the previous round.

Mr T.R. BUSWELL: In terms of the size of the public sector, there were—and I presume still are—reports published by the Public Sector Commission giving a breakdown of full-time equivalents across agencies. I do not have that with me. It may be in one of my files with "opposition" written on it, as it was one of the things that interested me then; however, I do not look at those as often nowadays. In relation to the teachers, I do not know. I do not see it as being important, simply because our wages policy applies from 1 July this year. We were left with a very awkward situation with the teachers. They are a group of people who had not been treated with the respect that we felt they deserved under the former minister. We had committed to resolving that issue, which we did.

Mr B.S. WYATT: In light of what the Treasurer has just said, can he explain why the "General Government Operating Statement" on page 191 of the *Economic and Fiscal Outlook"* shows an increase in salaries? There is obviously a simple explanation that I cannot work out. Between 2009-10 and 2012-13, salaries increase by 4.4 per cent, 5.5 per cent and then six per cent.

Mr T.R. BUSWELL: No-one in the public service is currently employed under the framework of the government's new wages policy. All public servants at the moment—maybe not police because that is under negotiation—are employed under existing EBAs, and until those agreements flow to completion we have to honour them. We could have engaged in a process not dissimilar to the Tasmanian government's attempting to impose a total wages freeze. That would be my understanding. Mr Marney might have additional advice on that aggregate figure.

Mr T. Marney: In the forward estimates years, for budgeting purposes we assume growth in numbers of public servants and wage growth that is consistent with long-run history for the public sector. It assumes that, over time, there will be expansions in service delivery of policy decisions of government that will require FTE to deliver on. It is not linked specifically to individual decisions; it is more a parameter assumption on Treasury's behalf to ensure that the forward estimate years are not undercooked in terms of the likely expense outcomes that will emerge.

Mr B.S. WYATT: Surely, Under Treasurer, particularly in those out years, I would have thought that the current EBAs would flow through the system, bearing in mind the government's public servant cap. Is it correct that the Treasury is still factoring in growth beyond that cap in numbers of public servants?

Mr T. Marney: The cap as communicated to me is a cap for the current financial year. Therefore, it is factored into the estimates for the current financial year in how the growth in FTE is constrained. The estimates have a dominance of parameter assumption in terms of long-run growth in the total wages bill comprising wages and FTE.

The CHAIRMAN: I will give a further question for the member for Bassendean, unless the member for Bassendean is happy to switch with the member for Victoria Park.

Mr B.S. WYATT: Under Treasurer, what are the assumptions behind that growth in numbers of FTEs in the public service beyond this financial year that give rise to a 5.5 per cent and six per cent growth in salaries?

[12.50 pm]

Mr T. Marney: In terms of FTE growth explicitly?

Mr T.R. BUSWELL: While Mr Marney is getting that information from Mr Barnes, I point out that the government still has as a policy option the opportunity to consider an extension of the cap. I have just been reminded that that may well be a very good policy option for us to consider.

Mr T. Marney: The estimated increase in FTEs in the budget year itself is around 880.

Mr B.S. WYATT: Is that for 2010-11?

Mr T. Marney: That is for 2009-10.

Ms R. SAFFIOTI: Is the cap only for 2008-09?

Mr T. Marney: That is correct.

Mr B.S. WYATT: There is growth of around 800 for 2009-10. What is the figure for the forward estimates?

Mr T. Marney: The division statements of the budget papers detail the FTE number associated with each agency. The numbers that I have cited are merely the aggregation of those FTE numbers within each of the statements. As with 2008-09, the cap for FTEs was based on those very statements. It would be fair to assume that the 2009-10 cap would be the aggregate of those FTE numbers articulated in the individual division statements.

Dr M.D. NAHAN: There is mention of a voluntary redundancy program in the budget papers. How is it going and what does the government plan to do with it? Is there a plan to extend it?

The CHAIRMAN: Is the member referring to page 82 of budget paper No 3?

Dr M.D. NAHAN: No, I am referring to budget paper No 2, volume 2.

The CHAIRMAN: I will need to put the member for Riverton on the list for a new question.

Dr M.D. NAHAN: It also relates to wages policy, mentioned and referred to in an initial question on page 82. I would presume that it is an integral part of the wages policy.

Mr T.R. BUSWELL: I am happy to answer that question; I can answer it quite quickly. It is related to wages policy. The government took a conscious decision not to involve itself in involuntary redundancy schemes. We would offer the capacity for 500 people to take a voluntary redundancy. I understand that $48 million has been allocated. The advice from the Under Treasurer is that there is interest in the scheme. By the end of June, we will have an idea of how we have tracked against our targets.

Mr B.S. WYATT: Does the Treasurer have the number of people who have accepted redundancies? That question relates to item 64 on page 472.

Mr T.R. BUSWELL: I will let Mr Marney deal with that detail.

Mr T. Marney: The allocation of $48 million is made in 2009-10, with the expectation that voluntary redundancies would be implemented in that financial year. As a result, the process is continuing over the next month or so to establish exactly where genuine redundancies exist within the sector and to consider on a competitive basis the applications for that pool of money on an agency-by-agency basis. That includes processes associated with the calculation of the payment arrangements or the actual payments that would apply to specific individuals who have registered their interest in receiving involuntary redundancy. Those calculations are occurring. Once people are informed of what their payout will be, they are given the opportunity to proceed with that and accept a voluntary redundancy or to say that they are no longer interested. We will be working through that process over the next month or so.

Mr M.P. WHITELY: I think the figure of $48 million was mentioned as the payout for voluntary redundancies. I am interested in the process by which the redundancies were identified. Was it a situation in which someone looked across the various government departments and agencies and said, "These positions here are redundant" or was a global figure selected? Was it thought that some savings in wages needed to be made, and so someone came up with a global figure that does not identify where the redundancies will occur?

Mr T.R. BUSWELL: I will ask Mr Marney to provide some detail of the implementation. Before I do, I point out that it is my understanding that this is a voluntary package that will move forward for an individual only with the consent of the individual and his or her manager. I will ask Mr Marney to talk about that.

Mr M.P. WHITELY: I am not so concerned about that; I am more concerned about ensuring that the redundancies are in areas where there is no need. The process should be needs driven. We should not just say that there is a global figure and we will share the saving so we will have this level of redundancies. Surely the process should be that an agency is identified as being overstaffed with positions that we can afford to dismiss. From what I am hearing, it sounds like a global figure was decided upon.

Mr T. Marney: Initially, a global figure was struck on the basis of previous redundancy offerings that have been made within the sector. The reason for doing that was to provide a tool for agencies to manage the delivery of their three per cent efficiency target. There was no point imposing a target without also providing a mechanism and, indeed, some seed funding, to enable agencies to achieve those efficiencies over time. The targeting of the redundancies was really through the implementation of the three per cent efficiency dividend process. At the finalisation of the redundancies, all redundancies have to be signed off by the Public Sector Commission to ensure that they are genuine redundancies and genuinely reflect circumstances in which a position is no longer required within an agency.

Mr M.P. WHITELY: Inherent in the assumption of good government, and inherent in the assumption of a three per cent cut and that we can achieve savings through voluntary redundancies, is an assumption that there is waste and overservicing. I would have thought the process would have been one of identifying that overservicing and then targeting the cuts in that area. The Treasurer is saying that the driver of this was the three per cent across-the-board cut, which was handed down the chain, and voluntary redundancies were given as an option to achieve that three per cent cut.

Mr T.R. BUSWELL: I think Mr Marney has given a reasonable overview of the technicalities. The member has a view. A reasonable amount of waste and overservicing exists in certain departments, but not all departments, well over and above the three per cent efficiency dividend. Those departments will be subject to a value-for-money audit process.

Mr M.P. WHITELY: Which ones?

Mr T.R. BUSWELL: The ones that will be subject to those visits will become public when the outcomes of those processes are published in subsequent budgets and/or subsequent midyear reviews. We are heavily focused on a reform agenda. That reform agenda involves, quite significantly, what is happening internally within the public sector in Western Australia. In my view, that reform process will deliver three outcomes. This is why we are committed to reform. Firstly, we will deliver better services; secondly, we will build better infrastructure; and, thirdly, we will give taxpayers better value for money. As the Treasurer, that is a process that I am heavily committed to driving through government, and my ministerial colleagues share my enthusiasm for the task ahead.

Mr M.P. WHITELY: Does the Treasurer know that before the audit process is started? Does he know there is waste? Presumably, he will not identify the agencies. He said that there is waste. Does the Treasurer want to share those thoughts with us?

Mr T.R. BUSWELL: No, I will not. It is my very strong view that there are significant areas where better value for taxpayers can be derived in government.

Dr M.D. NAHAN: In respect of employee expenses over the past four years, one of the challenges has been trying to attract people into the public service. The second is trying to get quality people, in the general sense of the word, and retain them. A large number of the people were lost. With the downturn in the private sector, are some of the people coming back? Is the Treasurer finding it easier to retain people? What about young people?

The CHAIRMAN: Could the member please specify what page number he is referring to?

Dr M.D. NAHAN: I am referring to general employee expenses, why the figure went up by 9.6 per cent and how we will address it.

The CHAIRMAN: I need a line item and a page number.

Dr M.D. NAHAN: I am referring to pages 2 and 3. The initial question was: what factors gave rise to an average 9.6 per cent increase over the past four years? Clearly, one of them was the difficulty of getting people and retaining them and paying higher wages. I wanted to explore with the Treasurer whether those trends and pressures are still there.

Mr T.R. BUSWELL: That is a very good question, member for Riverton. There is no doubt that one of the reasons for the increase in public sector wages in recent years was the broader economic pressures on wage levels. The advice I am receiving is that a better pool of employees, or potential employees, is now available to government. Notwithstanding that, we have to do more to reform the public sector, and in particular the Public Sector Management Act, so that we can attract and retain that better pool of people. One of the positives, if there is a positive, of the current economic slowdown is that we have more capacity to improve our human capital base within the public sector. However, we need to retain those people, because inevitably the economy will recover.

Meeting suspended from 1.00 to 2.00 pm

The CHAIRMAN: Members, it is past 2.00 pm. I give the call to the member for Carine.

Mr A. KRSTICEVIC: I refer the Treasurer to page 180 of budget paper No 3 and ask about the line item "Red Tape Reduction Group". What progress and outcomes have been made, if any, and what is the Treasurer expecting from the group?

Mr T.R. BUSWELL: I thank the member for the question. I recently attended a forum co-hosted by the members for Carine and Scarborough where we met a number of small businesses that said red tape was one of the major issues impacting on business. The member for Scarborough is actually on our red tape task force. Basically, a couple of things are happening. The red tape task force is currently travelling around Western Australia meeting business groups across both metropolitan and regional Western Australia. The member for Scarborough and Hon Ken Baston, member for the Mining and Pastoral Region, represent the government on that task force, which is supported by officers from the Department of Treasury and Finance and the Small Business Development Corporation. I understand that a lot of positive suggestions have been provided to them as a result of that process and they will be reporting to me in October 2009. We intend to take action wherever possible on individual items raised as a result of that process. It is a really important process for engaging with business.

We have also established a regulatory gatekeeping unit in the Department of Treasury and Finance that will commence operations soon. The role of that unit will be effectively to review any substantive change to legislation or regulation that will have an impact on red tape. I think that is a fair description—Mr Marney is nodding. It is very important because often government makes a change to regulation or legislation without considering the ultimate impact of the change on business. The unit will develop regulatory impact statements and the extent of the changes will depend on their nature. I think that is a fantastic initiative.

Over and above that, the government is also committed to reducing the number of boards and committees. The member for Carine would have heard the Premier mention that he wanted a reduction in the number of boards and committees. We are therefore, at a minister-by-minister level, examining boards and committees that can be abolished and/or merged into other areas of government. The Parliament is well aware that we have moved the functions of the State Supply Commission back into the Department of Treasury and Finance. That is one example. Another example, which I think is quite an interesting step forward, although in isolation it does not sound like a lot, is that cabinet recently approved the abolition of the Hairdressers Registration Board. That does not sound like a significant step forward for Western Australia, but it is a very clear indication of our intent to pursue regulatory reform. I understand that Western Australia is about the only jurisdiction that regulates hairdressing. As the minister responsible for the legislation, it always struck me as a somewhat odd pursuit of government to force people to pay a fee to regulate hairdressing. I like to think that there is not a lot of time between a good and a bad haircut, member for Carine! Ultimately if there is one area in which the minister can play a major role, it is in that area, and we are currently working through the process of communicating that decision to industry. My view is that it will be one of a number of changes that members will see the government make in and around the structure of boards and committees that effectively impact on the operation of individual businesses and on consumers accessing those businesses.

I will ask Mr Marney whether there is anything he wants to add on the technical operation of the regulatory gatekeeping unit, which will be up and running within the Department of Treasury and Finance.

Mr T. Marney: The gatekeeping unit is charged with the responsibility of overseeing the regulatory impact statement processes and providing guidance to agencies in those processes. To date we have not had a standard framework for delivering assessments of the impact of new regulation or proposed regulation; that work is coming together quite well and providing a consistent framework. The other element worth mentioning is that in the past three months or so the Red Tape Reduction Group has conducted around 59 consultations and held consultations in 12 regional centres throughout Western Australia. It is therefore a fairly expansive process for gathering feedback from stakeholders on the appropriateness of regulation and issues of red tape impacting on the community and business.

The CHAIRMAN: I have the member for Jandakot on my list, but as he is not here I give the call to the member for West Swan.

Ms R. SAFFIOTI: My question relates to page 481, "Financial Management and Reporting", and generally the preparation of the budget. Has the state government made a commitment to put state government funding into two key projects, Oakajee and the Northbridge Link; what is the estimated total cost of each project; and has a feasibility study or business case been submitted to Treasury for each project?

Mr T.R. BUSWELL: I thank the member for the question. The member for West Swan is pretty well aware of the answers that I am about to give on funding. I say by way of introduction that the day before the budget was handed down, we gave a briefing to Standard and Poor's on the budget items. As part of that briefing, we made it known to Standard and Poor's that the commonwealth government's commitment to those two items, which had been announced the day before by the commonwealth, had not been included as funding in the state budget. The explanation we gave, which I believe is perfectly valid, was that at the time of the budget cut-off we had not confirmed from the commonwealth what its contributions would be to either project. As the member would be aware, under the relevant legislation we are required to cut the budget off at a certain day, and this year the planned and actual cut-off date was 16 April.

As to the specific projects, I understand that the commonwealth has committed $339 million to Oakajee, and the obligation on the state at this stage is for matching funding of $339 million.

[2.10 pm]

There will no doubt be a process put in place to manage the delivery of that infrastructure. My understanding—I will get Mr Marney to comment on this in more detail in a second—is that the commonwealth will want to play a role, as members would expect, in the planning and delivery of that infrastructure project. Therefore, a $339 million co-contribution is required from the state for Oakajee.

The commonwealth has offered a $236 million contribution for the Northbridge Link, but the state's required co-contribution has yet to be finalised, although I do not expect that it would be more—I have absolutely no indication that it would be more—than what the commonwealth has contributed. I can only say that we could take from that that the maximum we would expect would be similar to the commonwealth's contribution. A lot more work needs to be done on that project specifically, and that work revolves around the management structures that will be put in place, from a government point of view, to deliver that project. As no doubt members are aware, a number of government agencies and/or instrumentalities have a vested interest, if I can use that term, in the Northbridge Link area, including the East Perth Redevelopment Authority and the Western Australian Planning Commission, and we need to work out a governance model under which this project can proceed and the commonwealth can be involved. There is also the issue, from a state point of view, of the potential realisation of land, and I refer in particular to the land above the proposed-to-be-sunken bus station and what that may or may not yield moving forward as part of this process. Therefore, until that work is done, we cannot give a definite indication of the amount of net funding that will be co-contributed towards the Northbridge Link project.

There are a couple of points to make on this matter, and budget paper No 3 clearly and specifically indicates that no funding has been provided. In other words, we did not hide the possibility that a contribution would be required. My view was that until we had an idea of what the commonwealth was going to commit, we should be reluctant, and indeed Treasury was reluctant, to have it in the budget. Indeed, my recollection is that the

Victorian government was criticised post-budget for including some assumed flows from Infrastructure Australia in its state budget. The argument put was that those assumed flows artificially inflated Victoria's surplus because commonwealth grants of that type, as I understand it, generally come into state government coffers as revenue and depart as capital spending. We most certainly did not want to do that. That is my basic understanding of where we are with those two projects at the moment.

Ms R. SAFFIOTI: Has a business case or feasibility study been put to Treasury regarding the Northbridge Link? What is the estimated total cost? Obviously, an estimated total cost of the project must have been included in the government's submission to the commonwealth.

Mr T.R. BUSWELL: I will get Mr Marney to provide some more detail around the exact nature of the submission to the commonwealth. Treasury was involved in providing advice to the Department of the Premier and Cabinet in the development of those submissions, so Mr Marney may be able to answer the member's question more specifically.

Mr T. Marney: I think the component of the project that is at issue in terms of business case, scope and the clarification of cost is putting the bus station underground. My recollection is that the submission to the commonwealth indicated that it could cost up to $205 million, but that would depend on the formulation of a business case, further work on the engineering aspects of the project and clarification of those costs to establish the most appropriate way forward. Following the presentation of the commonwealth budget, we are in the process of writing to the commonwealth to clarify the cash flows associated with its contribution, to clearly define the scope of its contribution in what it is looking to be delivered for its contribution, and to seek clarification of the commonwealth's involvement in the finalisation of business cases and the governance of delivery of projects as appropriate. In short, I think it is fair to say that there is a fair bit of work in progress around both the Oakajee and Northbridge Link projects.

Ms R. SAFFIOTI: I ask again: what is the estimated total cost of the Northbridge Link project submitted, together with the cost of the Wellington Street bus station proposal? As I understand it, the Premier said that the Wellington Street bus station was an afterthought added to the submission. If we are talking about $200 million for the bus station and if the Northbridge Link is worth at least $400 million, are we talking about a $600 million estimated total cost?

Mr T.R. BUSWELL: I will ask Mr Marney to provide some advice on that.

Mr T. Marney: Sorry, what was the question?

Ms R. SAFFIOTI: What is the estimated total cost for the project? As I said, I think the Treasurer is claiming that the bus station is about $205 million, based on the current business case in front of Treasury. Together with the Northbridge Link, which is worth about $400 million—as I understand from implicit suggestions made by the government and not from any clear numbers—what is the estimated total cost of the project? An estimated total cost must have been submitted to the commonwealth, and I am simply asking for that figure.

Mr T. Marney: It would probably be best if I took that question on notice and gave the member a breakdown formally of the exact costs that were submitted —

Ms R. SAFFIOTI: As supplementary information?

The CHAIRMAN: Can the member state what the supplementary question is, please?

Ms R. SAFFIOTI: The supplementary information being requested is a breakdown of the estimated total cost of the Northbridge Link project and the sinking of the Wellington Street bus station—the new Wellington Street bus station.

The CHAIRMAN: Is the Treasurer happy to take that supplementary question?

Mr T.R. BUSWELL: Of course, I am very happy to provide that information.

[*Supplementary Information No B21.*]

Mr T.R. BUSWELL: I must stress that the Infrastructure Australia submissions were handled by the Department of the Premier and Cabinet on behalf of the government, but my advice, or my recollection, is that the commonwealth funding that was committed to the Northbridge Link and the busport was approximately 50 per cent of the total estimated value of the two projects that the member has talked about. However, I would rather get accurate information, and we will provide that to the member as quickly as possible.

Ms R. SAFFIOTI: I have a further question that again relates to the original question I asked. When did the state government make the decision to contribute public funding to the Oakajee project? On the basis that the Premier stated that the minimum we would do is match funding from the commonwealth and that the maximum we would do would be to do it by ourselves, I think the exposure was a minimum of $339 million and a maximum of about $750 million. Again, the integrity of the budget is really what I am asking about. Surely a decision was made by government to contribute state funding to the Oakajee project prior to 16 April. Therefore, I ask: when was the decision made?

[2.20 pm]

Mr T.R. BUSWELL: Again, let me say that that commitment was given by the Premier. That was pretty clear and he was, as I recollect, pursued in the Parliament about that matter. Given the Prime Minister's support for the project now, I assume that criticism of the state and the commonwealth government's decision to support that project will probably abate. Notwithstanding that, as at the close-off on the budget, we were not aware of the contribution required of the state, nor were we aware of the time line by which that contribution would be required. There is in relation to Oakajee an ongoing process from the private sector proponents for their infrastructure investment. Clearly, that will have an impact on the timing, and that sits in and around our infrastructure investment. However, I assure members that that funding will be brought to account when the details are clearly understood. We are not going to be a government that falls into the trap of budgeting for things that we know are wrong. It would be easy for us to fall into the trap that the former government fell into when, for example, it budgeted $400 million for Fiona Stanley Hospital—a health complex that cost $2 billion. We are not going to do that. We will account for and offer time lines on the delivery of infrastructure projects when we know exactly what those time lines are and exactly, in the case of Oakajee, what the contribution will be. The flip side is to engage in the deceptive practice of the former government and, for political gain, stick things in the budget because it looks good—for example, $400 million for Fiona Stanley Hospital or $300 million for a $500 million Perth Arena. We are not going to do that.

Ms R. SAFFIOTI: The Premier stated that at a minimum we were going to put in half the cost of the Oakajee project, around $330 million, and at a maximum, $750 million. Can I just clarify that, even though this public statement was made by the Premier on a number of occasions, including in Parliament, the Treasurer did not see fit to put any numbers in the budget papers.

Mr T.R. BUSWELL: No; because the details of the project were not known and a formal commitment by government through the processes of the cabinet has yet to happen. Once that is done, and once the detail of our financial commitment and the time lines on which that will happen are known, that information will be made public and will be reflected in the state's finances. Now, as we discussed with Standard and Poor's in the lead-up to the budget, even if those two projects are debt funded, the impact on our net-financial-liabilities-to-revenue ratio was in the vicinity of one per cent to just under 1.5 per cent. That is even if they are debt funded, and we are not saying that they will necessarily be debt funded. Government will have to continue to make decisions on what it invests money in and what it does not invest money in, especially in a situation in which revenue streams are volatile. However, we are committed to partnering with the commonwealth to deliver what I think will be two very important projects for Western Australia.

Mr B.S. WYATT: The Treasurer commented that the matter has not yet gone through cabinet. Does the Treasurer expect it to go through cabinet anytime soon? The Treasurer seems to be operating on the assumption that it is all going to happen. It is somewhat surprising that there is not at the very least some form of contingent liability for something for which the government has had to put a submission to the federal government, outlining cost, to get a 50 per cent investment commitment. There is nothing in the budget papers about this at all. When will it go to cabinet? When is a decision likely to be made, be it yes or no?

Mr T.R. BUSWELL: It will go to cabinet when the detail is ready to be considered by cabinet. At this stage, a significant amount of detail on both those projects is yet to be firmed up. Once that information is firmed up and we have a clear understanding of the time lines and the full extent of our net contributions, it will be formally considered by government.

Mr B.S. WYATT: Is the Treasurer confident that the $339 million committed by the federal government will cover 50 per cent of the project costs? It may only cover 30 per cent of the final cost.

Mr T.R. BUSWELL: No; I understand the arrangement with the commonwealth for Oakajee is for 50 per cent joint funding. Other issues sit in and around Oakajee, not the least of which is the timing of the private sector investment that is required as part of the project. We are committed to our partnership with the commonwealth to deliver what will be a strategically important piece of infrastructure. I say it again: this piece of infrastructure will be delivered in partnership with the commonwealth government, notwithstanding the fact that, as I understand, the shadow Minister for Regional Development actively lobbied federal Labor MPs to have the commonwealth not support this project.

Mr B.S. WYATT: Mr Chair, there has to be a point of order taken on this! If the Treasurer has any evidence of that, he should bring the matter to the Parliament. To clarify, the Treasurer has said that the federal government will contribute 50 per cent of the cost of the project. If the final cost is greater than whatever was the figure put to the federal government, the federal government will not agree to kick in $400 million because it is now an $800 million project. There has to be a figure known to Treasury and the government for it to have been put to the federal government.

Mr T.R. BUSWELL: Let me just explain something. The budget closed off on 16 April. The commonwealth's decision was made on Tuesday of the budget week. From our point of view, the budget was finished; the document had been pulled together. The shut-off date is the shut-off date.

Mr B.S. WYATT: But the Premier has been saying this since last year.

Mr T.R. BUSWELL: We did not know. We were not apprised of the commonwealth's decision on Oakajee until the commonwealth budget was handed down on the Tuesday. Someone in government may have been told, but I do not believe they were.

Mr M.P. WHITELY: Given that the Premier had committed to the project last year, an optimistic accounting treatment would have been to assume 50 per cent federal government funding. At the very least, why is there not even an optimistic estimate of the government's liability in the budget figures? What confidence can we have in the Treasurer's debt projections? Also, the Treasurer mentioned that Oakajee will not necessarily be debt funded? Can he elaborate on that?

Mr T.R. BUSWELL: I am to elaborate on what?

Mr M.P. WHITELY: I want the Treasurer to elaborate on how he sees Oakajee will be funded. He said that it will not necessarily be debt funded by government, but my —

Mr T.R. BUSWELL: What will happen —

Mr M.P. WHITELY: Do not avoid my original question. Does the Treasurer understand my original question: why was not even an optimistic liability put in for half of the cost of financing Oakajee?

Mr T.R. BUSWELL: It was because that information had not been confirmed by the commonwealth. The Premier has been in intensive negotiations with the commonwealth about the delivery of Infrastructure Australia funding to Western Australia. The outcome of those negotiations was embodied in the federal budget that was handed down. We did not, in the budget papers, ignore the fact that there was the potential for Oakajee and Northbridge Link, and other Infrastructure Australia projects, to impact on the budget. That has been clearly stipulated in the budget papers. That will be brought to account. It is not rocket science to work out.

I will answer the member's second question. If we have to borrow the money, if we cannot make any other decisions on other infrastructure projects that may be forgone to fund this, and if we have to debt-fund the whole lot, it will add between one per cent and 1.5 per cent to our net-financial-liabilities-to-revenue statement. That was clearly articulated to Standard and Poor's on the Wednesday before the budget was brought down. We have not tried to hide that. We clearly articulated it during the budget lockup. That is an approach that we decided to take to the Infrastructure Australia funding. The alternative would have been to take the approach that some other states have taken, which is to assume almost 100 per cent Infrastructure Australia funding for projects they knew nothing about. We simply refused to do that. The decisions embodied in the budget reflect the information that was confirmed and available to government at the time the budget was closed off.

Mr B.S. WYATT: DPC prepared a feasibility study on Oakajee that was sent to the federal government to get the 50 per cent commitment. Was there any Treasury input into that document?

[2.30 pm]

Mr T.R. BUSWELL: There was Treasury input into it. A Treasury officer, Mr Anthony Kannis, was on the board of Infrastructure Australia. There has been government involvement in the Infrastructure Australia process for some time, either through Treasury or the Department of the Premier and Cabinet.

Mr B.S. WYATT: In respect of the feasibility study? I know that Mr Kannis is on the board, but that does not mean he had any involvement in either the feasibility study or the submission that was put to the federal government.

Mr T.R. BUSWELL: Those details were provided to the Premier by the Department of State Development, which, via the Premier, had carriage of this project. The member must understand that the securing of the Infrastructure Australia money for those two projects and the additional commonwealth funding for the Ord and for Midland hospital, and also to relocate the rehabilitation hospital from Shenton Park, is a reflection of the nature of the relationship between the Premier and the Prime Minister. We invest a lot of time in maintaining a positive, proactive working relationship with Canberra, and it is yielding positive results.

Mr B.S. WYATT: That is very good, and we are all delighted to see that. However, my question was whether Treasury had input into or provided support for the submission and whether Treasury has confidence in the figure of $339 million? Was Treasury excluded from the process of preparing that submission or was Treasury involved in it and therefore has confidence in that figure?

Mr T.R. BUSWELL: I say again that a Treasury officer was involved. I understand that Mr Anthony Kannis —

Mr B.S. WYATT: He is on the board; he was not necessarily involved in the preparation of the submission.

Mr T.R. BUSWELL: If the member would let me finish—Mr Marney will provide additional advice—I am sure he would find that officers from Treasury were involved in the development of that submission, at least in part. The government made a strategic decision that Infrastructure Australia and related issues would be handled by the Premier.

Mr T. Marney: As is often the case, Treasury was involved in pulling together and validating the numbers that were in the submission to the Premier on the Oakajee and Northbridge Link/hub projects. Those projects, as members would understand, are driven and owned by other agencies of government. In the case of Oakajee, that is the Department of State Development; and Treasury had a coordinating role in compiling the state's submission to Infrastructure Australia.

Mr B.S. WYATT: Including the costings?

Mr T. Marney: Including validating, or ensuring, that the costs that were provided in the submission were as robust as they could possibly be, given the stage of the planning and maturity of those projects.

Ms R. SAFFIOTI: Obviously Treasury helped coordinate the numbers for submission, as it normally would. However, has a full feasibility study into the Oakajee project been completed, and has Treasury received it?

Mr T.R. BUSWELL: No. It is currently being developed in conjunction with the commonwealth government and, I imagine, in consultation and connection with the processes that the private provider is currently undertaking.

Ms R. SAFFIOTI: I presume that the Department of State Development and the Department of the Premier and Cabinet, through Peter Conran, are developing the feasibility study for Oakajee.

Mr T.R. BUSWELL: My advice is that that sits primarily with the Department of State Development.

Ms R. SAFFIOTI: Given that a feasibility study on Oakajee has not been done and submitted to Treasury, and that the Northbridge Link appears to have been tacked on at the very end to goad the commonwealth into giving the state government some extra money, and given that the other states have been given a lot more money, can we assume that any of these numbers have any validity?

Mr T.R. BUSWELL: As I said, we will provide the member with the details of the Northbridge Link project. My understanding is that the commonwealth allocation to the Northbridge Link represents half of the estimated cost to sink the rail and the bus station. That is the advice I have received, and we have already committed to provide members with more information about that. The submission for the Oakajee project that the government put to the commonwealth was based on those figures. The commonwealth has agreed to co-fund the Oakajee project and we are looking forward to moving ahead with it. As I said, in relation to these projects, and I am sure members will find with a number of other Infrastructure Australia projects around Australia, there is a fair bit of work to be done. As our priorities for Infrastructure Australia were different from the priorities of the former government, we entered into the process at a much late date than was the case with a number of the other states. That is just a fact. We have been working hard with the commonwealth government to present these projects so that they can attract commonwealth funding.

Mr B.S. WYATT: Who came up with the figure of $678 million, assuming that is the figure for Oakajee? Is it Treasury's figure?

Mr T.R. BUSWELL: It is from the Department of State Development.

Mr M.P. WHITELY: Page 14 of the *Budget Statements* refers to net interest costs as a share of revenue. I am interested in some of the assumptions that lie behind the outcomes for 2012-13, in which the net-interest-costs-to-revenue ratio is forecast to be 4.2 per cent, which is below the five per cent upper-limit that would see the state's AAA credit rating come under threat. What is the interest rate assumption for 2012-13, and how sensitive is the AAA credit rating to changes in interest rates?

Mr T.R. BUSWELL: That is a good question. In 2012-13 the assumed interest rate is 5.8 per cent. The five per cent figure is a guide for the government to keep its interest bill at an affordable level, which is historically reflective of the affordability levels consistent with maintaining the AAA credit rating. It is a guide that this government uses in much the same way as the former government used the net-debt-to-revenue ratio as a guide. It is not a ratio, as I understand it, although I am sure it is a factor, that is given substantive weighting by Standard and Poor's and, I assume, the other rating agencies. One thing that has emerged clearly in the recent public debate about the maintenance of the AAA credit rating is that Standard and Poor's is focusing very heavily on the net-financial-liability-to-revenue percentage, or the net-financial-liability-to-revenue statement. Either late last year or early this year, Standard and Poor's published a very detailed analysis of the importance it placed on that. Standard and Poor's clearly laid out the parameters within which it felt Western Australia's ratio needed to stay to maintain the AAA credit rating, which was between 80 and 90 per cent. This measure is a target around what we consider to be the affordability of projected debt. It is not a measure that is the definitive point of examination from Standard and Poor's or any other rating agency. I will ask Mr Marney if he wants to add anything to those comments.

Mr T. Marney: The rating agencies use a variety of measures to judge a state's creditworthiness. In the case of Standard and Poor's, although it has recently articulated—that articulation is unprecedented—its position regarding the 80 to 90 per cent net financial liabilities to revenue ratio, it looks at probably 39 or so other ratios when assessing the state's credit rating. The net-interest-to-revenue ratio that is the subject of the target has, as I think has been indicated previously, an interest rate assumption sitting behind it. Having said that, the rating agency focuses on the structure of the finances rather than the impact of cyclical parameters. Should interest rates increase rapidly over the coming years, that should not impact on the state's creditworthiness in terms of the underlying structure of the state's finances and, therefore, should not impact on the credit rating assessment, as that assessment is based on the structural position and the ability of the state's finances, in a structural sense, to weather such cyclical moves in interest rates and the like.

[2.40 pm]

Mr M.P. WHITELY: I accept the argument that no one ratio is a measure of the AAA credit rating. I think the Treasurer has undue faith in one particular measure. However, to the extent to which each goes to build an entire picture, there are concerns with net interest costs as a share of revenue. The interest rate assumed is 5.8 per cent. If interest rates were to be about 6.7 per cent, for instance, which is historically not a very high figure—in fact, in 2001, when the coalition was last in government, the interest rate was about 7.2 per cent—it would take it well over the five per cent figure. There needs to be only a 16 per cent movement in the rate of interest—not a 16 per cent jump, but an increase from 5.8 per cent to 6.7 per cent—to push it over the five per cent ratio. Another concern is that there will be a steady upward pressure on this measure from 2012-13. Does the Treasurer or the Treasury have any indication of what will happen in out years, because on the basis of the information that we have been presented with here, it would seem that in the next year, which is not on the graph, if that rate of growth continued, at least to the extent that this is a measure, the state's AAA rating would come under pressure.

Mr T.R. BUSWELL: We do have the out years in the budget. The member is talking about far out years. With all due respect, we will budget as we are required to do for the upcoming financial year and the subsequent three, which are called the out years. The member is starting to head off into the far out years. I do not think we need to be concerning ourselves overly with the far out years. We have enough of a challenge in the near years. I think it is getting incredibly challenging to start looking at forecasting over five, six and seven years, into what I call the far out zone.

I also want to pick the member up on the point he raised about the role of the AAA. It is a very interesting point and it would be a good thing to have a discussion about one day, perhaps behind closed doors, because the AAA has taken on a fairly significant role in modern financial management, if I may put it that way. My personal view as Treasurer is that 80 to 90 per cent upper range for our net-financial-liabilities-to-revenue ratio has been a very useful tool in helping present an argument to my colleagues around the need for financial constraint. I think that ultimately we do have to have some parameters that will force us to adopt a disciplined position in what is a very challenging time. I am happy that we have this 80 to 90 per cent range that we are focused on. Other states have different ranges. I will just share these with the member because he may be interested. In Victoria the net-financial-liabilities-to-revenue ratio can be up to 130 per cent before it has an impact on the AAA rating. In New South Wales it is between 120 and 130 per cent, in Queensland it is between 100 and 110 per cent and in South Australia, as with us, it is between 80 and 90 per cent. It is a figure that varies. The argument often put is that increased volatility as a result of revenue-based government royalties means that people have to be a bit more careful with their debt exposure.

One other challenging point about this focus on net-financial-liabilities-to-revenue ratio is the fact that often things over which we have no control can have a significant impact on that. One example that springs to mind is the significant increase of $2 billion that has occurred in unfunded superannuation liabilities, which had a significant impact on that ratio for us as we worked through the budget process. Why did that happen? It was because the discount rate that is applied to future payment streams of superannuation liabilities had dropped, which meant the net present value of those amounts had gone up. That is as a result of actions well beyond the control of government, yet, as is the case with movements in iron ore royalties, it is something we have to deal with. It is a challenge. I suspect the member may go home at night—I am sure he does not—and hopes that the Australian dollar goes up a bit more because it puts more pressure on these ratios.

Mr B.S. WYATT: I have noted that, but I do not think that we hope it happens.

Mr T.R. BUSWELL: I hope that the member would not try to talk out our AAA credit rating.

Mr M.P. WHITELY: I think the government is putting enough pressure on it with the growth in debt. I do not think we need to exert external pressure.

Mr T.R. BUSWELL: Growth in debt is a very interesting point. I will take that as a supplementary question. Debt is growing to just over $19 billion. Standard and Poor's has run a rule over that debt figure, and its view is that it is within the parameters that will allow us to maintain our AAA credit rating. The challenge to others in this place, I suppose, is to work out what they need to do if they want to bring debt down. That is a challenge that has never been addressed. Do people in the Parliament support the $7.6 billion of corrective measures? I have observed from the other estimates committee meetings this week that, with the exception of government members, no-one does support that. What would members do to bring debt down? I accept that we will be challenged around borrowing money, but at some stage people cannot make those challenges without presenting an alternative path forward. Thus far I have not seen an alternative path forward.

Mr B.S. WYATT: We will release information in the same timely fashion as the now government did when it was in opposition. To follow up the Treasurer's comments on debt, if I may turn to the loan account allocation that is contained in the —

Mr T.R. BUSWELL: Is this a new question?

Mr B.S. WYATT: No, it is following up on the debt issue. If I may, I will refer to some of the comments made by the Under Treasurer in the memo that was sent to the Treasurer in March of this year. Is the minister willing to take questions on that point or does he want me to raise another question, because I do have a bunch of questions?

Mr T.R. BUSWELL: Just so that I can get my focus right, which page is it?

The CHAIRMAN: Is this a follow-on from the previous question?

Mr B.S. WYATT: It is a new question.

Mr M.P. WHITELY: May I just ask a follow-on question?

The CHAIRMAN: We have a follow-on question from the member for Bassendean.

Mr M.P. WHITELY: If I may paraphrase the very long answer the Treasurer gave earlier, basically, when I introduced the issue of 2013-14, the Treasurer said it was beyond his area of interest. If the Treasurer looks at every measure, such as net interest cost as a share of revenue, the net-financial-liabilities-to-revenue ratio—which increases from just under 60 per cent in 2008-09 to 85.4 per cent in 2012-13—and just the growth in debt itself on page 36 of the *Economic and Fiscal Outlook*, every indication is that the trend shows we are getting into trouble during that period. I would have thought that prudent financial management, unless this government intends to be a one-term government, would mean having concern about 2013-14. I am amazed to hear the Treasurer's comments that it is beyond his area of interest or scope of concern.

Mr T.R. BUSWELL: All I was saying to the member was that I am not going to comment on the far out years. The member may maintain his fixation with matters far out, including the far out years. I am focused on the budget and particularly focused on this year in the budget.

Mr M.P. WHITELY: By the Treasurer's own admission, he has not included a whole bunch of items in this year's budget, such as the Oakajee port and the Northbridge Link.

Mr T.R. BUSWELL: If I have a quick look at the debt figures, one of the things that the member will notice is that there is a significant increase in net debt between 2008-09 and 2009-10. In fact, that is a net debt increase of around $5.5 billion, which is the largest single increase in net debt in any of the years of forward estimates. Why has net debt gone up by $5.5 billion this year? It is because we have a massive $8.3 billion capital works program. Why do we have an $8.3 billion capital works program? It is because we want to keep people in jobs, and the government has made a conscious decision to do that. I will go through the figures for the debt profile over the coming years: in 2008-09 the actual debt position was $6.95 billion; the 2009-10 estimated net debt position is $12.364 billion; the 2010-11 estimated net debt position is $15.039 billion; the 2011-12 estimated net debt position is $17.658 billion; and the 2012-13 estimated net debt position is $19.132 billion. My quick reading of those figures indicates that as we move into the forward estimates, the increment in debt is either constant or reducing in the out years, and the biggest single increase in debt of $5.4 billion or $5.5 billion occurs this year. We do not apologise for making a conscious decision to borrow money to invest in infrastructure to protect jobs.

[2.50 pm]

Mr B.S. WYATT: Further to the protecting jobs comments that the Treasurer has made, the federal government has modelled how many jobs it has saved as a result of the various stimulus packages. Has the Western Australian Treasury done a similar sort of modelling that indicates how many jobs the government is protecting through this borrowing?

Mr T.R. BUSWELL: My advice is that the 2009-10 infrastructure spend will support 26 000 Western Australian jobs, which means that on the balance of probabilities, 26 000 Western Australians may not have had employment had the government not borrowed that money. I admit that in some instances we are partnering with the commonwealth to support the state's economy.

Mr B.S. WYATT: That figure includes direct jobs and flow-on jobs, I assume.

Mr T.R. BUSWELL: Direct jobs.

Mr B.S. WYATT: In the construction industry? What is the breakdown of that figure by industry?

Mr T.R. BUSWELL: It will mainly be construction. Most of the infrastructure investment is in construction and related activities. It is a significant level of stimulus. I would have to check the exact figures, but my understanding is that averaged across the year, the level of unemployment will peak at around 80 000 according to the figures I saw. If those 26 000 people were not in jobs, it could be argued that the number of unemployed people in the state could rise to over 100 000. We could have chosen not to participate in such an aggressive phase of public sector infrastructure spending, but my view is that it was fundamentally important. Not only are we protecting jobs, but a lot of the investment is in productive assets that will drive the state's economy and the state's employment well into the twenty-first century.

Members opposite may criticise that decision; that is fine. Members opposite may say that debt is too high but not offer any solutions to reduce debt; that is fine. The government is saying that this is what it thinks is a balanced approach to achieving its number one budget objective—to protect jobs.

Mr B.S. WYATT: And we will provide information in the same timely fashion as the current government did when it was in opposition.

Dr M.D. NAHAN: My question relates to pages 487 and 488 of the *Budget Statements* and headings 13, 14 and 15. The Department of Housing and Works now comes under the control of the Department of Treasury and Finance. How effective has that been in producing more effective management of building services?

Mr T.R. BUSWELL: I thank the member for the question. Mr Chairman, this is a very important reform that the government has embarked upon. I will touch on a couple of points about it; I will not spend too long on it, but they are important points to make. When we were first elected, I asked for a list of major infrastructure projects and their original budgets and their actual costs and when they were supposed to be finished and when they would be finished. No-one could provide me with that information. I was staggered that that information was not available from a government with an over $20 billion capital works program.

As the information started to be made available I discovered—shock and horror—that nearly every project on the list was over budget. I will just quickly share some examples with members. Muchea saleyards was a small project with an original budget of $11 million; the actual cost was $55 million. I still maintain that there must be spas and bubble baths for bovines in those premises; I just do not know how it could cost that much. I am sure that the Treasury officials would agree that it does seem to be a tad expensive, but that is what it blew out to.

I will give some more examples. Perth Arena had an original budget of $160 million, and it blew out to $442 million. The Joondalup hospital redevelopment originally had a budget of $119 million, and it blew out to $230 million. The proposed Albany waterfront redevelopment was budgeted at $27.8 million, and that went up to $42 million. The last one I will touch on is Fiona Stanley Hospital, which had a $420 million budget that blew out to $1.8 billion. My view is that cost blow-outs pose a significant risk to the state's finances. The government has had to set about a fundamental reform, and we are all getting very excited about next Wednesday's major presentation to industry partners in and around the construction sector outlining the result of that reform.

The works function of the Department of Housing and Works has now moved into Treasury, and we are fundamentally reforming the way we go about providing government infrastructure. A lot of the works function is, by its nature, almost an extension of our procurement policies, because a lot of the stuff we build is quite uncomplicated, but we are putting a major focus on improving the way we do things for those strategic projects. We have a $23.8 billion capital works program. If that blows out by 10 per cent—on the figures I have just mentioned, we are lucky if they do not blow out by 50 per cent—the extra cost to government is measured in the tens of billions of dollars. Quite simply, we cannot do that any more, so fundamental reform of the works area has had to occur and is occurring.

Another area of responsibility that the works component of Treasury has taken responsibility for is government office accommodation. We spend a lot of money on renting space for government offices and upgrading the quality of those offices. The member for Riverton might be interested to hear that the government has a demand for around 30 000 office-based workstations in the public service. At the moment 65 per cent of those are in the Perth central business district; 30 per cent are in metropolitan Perth suburbs; and five per cent are in country areas. We currently lease 358 000 square metres of office accommodation in the Perth CBD, including West Perth and East Perth. Of that, 206 000 square metres is leased from the private sector; 78 000 square metres is owned by the Minister for Housing and Works, or the state; and 74 000 square metres is owned by individual agencies. A massive amount of money is being spent on what I would consider to be premium lease space. The government is currently working on an alternative strategy whereby some of those agencies will ultimately—I am not talking about a mass exodus—relocate to areas out of the CBD. I do not know where they will relocate to, but I believe that as part of this process they will relocate, and a significant amount of that floor space used will, over time, not be in the metropolitan area.

The other thing we have to look into is the amount of money we spend on office fit-outs. As an example, I received some information the other day that indicated that in the six months or so since we came to government, in the period from 23 September until May of this year, there had been $17.57 million spent on office fit-outs by the government. I will put that into perspective because that is a high figure: from January to July 2007, $19.25 million was spent on office fit-outs; from July to December 2007, $16.59 million was spent on office fit-outs; from January to June 2008, almost $12 million was spent on office fit-outs. The figure of $17.57 million is high, and I have written to all of my cabinet colleagues and stated that if their departments want to spend over $100 000 on an office fit-out, they should take responsibility for it and should sign off on it.

[3.00 pm]

Ministers need to take some accountability for spending in departments, but I am not saying that spending is not necessary. For example, within that $17 million, $1.1 million was spent on Department for Child Protection regional office upgrades. I am not saying that that was not necessary. However, when finances are tight at times like this, we need to make sure that money is being spent wisely on office upgrades. The Department of the Attorney General spent $1 million on an office upgrade for something called transactional HR, and that was in the past six to seven months. Again, I am sending a message to my ministerial colleagues. The Department of Health spent $2 million on an office upgrade in the health information network. My colleagues need to take more responsibility for that. The Department for Planning and Infrastructure spent $1.6 million on a computer-room upgrade and $1.12 million for a licensing and vehicle inspection centre upgrade. The Public Transport Authority spent $2.2 million on a special project. We need to focus on making sure we spend that money wisely. I was interested to see what had been spent on upgrading ministerial offices in the past few years.

Ms R. SAFFIOTI: Like yours.

Mr T.R. BUSWELL: Yes, such as my office. I am glad the member for West Swan raised it; I was not going to. In the second half of 2006, $547 901 was spent upgrading my ministerial office on the corner of St Georges Terrace. I find it astounding, to be honest, to spend half a million dollars to upgrade a ministerial office. I am glad I got this information. It has been an interesting wake-up call to the government. It highlights the need for ministers to take more accountability for what their departments are spending. That is why I have told them that, if it is more than $100 000, ministers should sign off on it. It is another example of a reform in action.

Works will be moved from Housing into Treasury so that we can get better disciplines in and around the entire process of works, whether it be building infrastructure, managing government office accommodation or, at what some people may consider to be a micro level, managing the fit-out of government offices.

Ms R. SAFFIOTI: I refer to page 487 in respect to the housing and works function within Treasury and Finance. Will Treasury provide through supplementary information a list of all projects managed in this area? What is the current estimated cost; what is the estimated time frame for completion of the projects; and what are the estimated key milestones of each project?

Mr T.R. BUSWELL: No; I will not. The member can ask me a question on notice about that at any time.

Ms R. SAFFIOTI: The Treasurer highlighted that he now has a list. I think he had it in his hand during this estimates process. His new, you-beaut process means that he has on hand at any one time a list of all the projects, the estimated total cost, the estimated time of completion and key milestones. If the information is on hand and ready, as he has stated on numerous occasions, I cannot see why it cannot be provided as supplementary information.

Mr T.R. BUSWELL: The member is entitled to that view. I am sure, if she asks the right questions on notice, we will happily provide the information.

Mr B.S. WYATT: Point of order, Mr Chair.

The CHAIRMAN: The minister does not have to provide supplementary information.

Mr B.S. WYATT: Does he not have to provide information he has just been reading from and advising about through a dorothy dix question?

The CHAIRMAN: The minister has the right to refuse a supplementary question.

Ms R. SAFFIOTI: Relating to the same issue that the Treasurer alluded to—that is, government accommodation—is there any move to co-locate all the Department of Housing and Works former staff who now come under DTF to one location?

Mr T.R. BUSWELL: I am not aware of any. I will get Mr Marney to provide more information. I think that there are synergies from having people who perform the same functions in agencies working in similar places. Staff will move only when there is a sound economic argument to move them. I am assuming that across the works functions we have the old component of Housing and Works and maybe the strategic projects unit. I am not sure where Mr Toutountzis is now based. Mr Marney will give us some more advice on that. If in time there is a capacity to reconnect agencies as we move through this process, that should happen. The driver for any change is better financial outcomes for taxpayers. Again, it is my view that all the public sector workers who are currently housed in the CBD do not need to be located there. If we can come up with a better plan, it may involve a government office precinct somewhere; it may involve the construction of additional office space in and around Dumas House; or it may involve the redevelopment of some existing government sector footprints in and around the fringe of the CBD. That exploratory work is being done. I think it is an important piece of work. Maybe Mr Marney can provide some more specific on the works function, which we call, by the way, BMW—Building Management and Works—a fantastically original acronym.

Mr T. Marney: The works area of the former Department of Housing and Works is currently looking at an expiry of the lease on its building on Hay Street. That gives us the opportunity to look at alternative arrangements for the people housed in that building. It is fair to say that a number of operational people are housed in that building—operational in the sense that they are not office-based jobs. They are out and about in the metropolitan area in various locations, construction sites and so on, so it also calls into question the need for and in fact the efficiency of those people being located in the CBD. Bringing those things together—that is, the expiration of the lease and where those people do their work—with the issue of the location of government procurement officers in Dumas House and, in turn, the expiration of the lease in Governor Stirling Tower, where the Treasury business is currently located, we have an opportunity to consider our long-term accommodation requirements and, indeed, explore non-CBD options. The particular option we are looking at which is currently being discussed with staff and which will be soon put out for expressions of interest will be for a non-CBD location for the procurement business and works business, and to have them co-located. The rationale is that we are sharing similar skill sets across those businesses. A lot of the reform process is similar and there are significant synergies available in co-locating those two businesses. But we would do so only when the opportunity arises through the expiration of existing leases.

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

The CHAIRMAN: Members, I need to check the order of questions. I think we just heard from the member for Riverton.

Dr M.D. NAHAN: I asked a question, and some supplementary questions.

The CHAIRMAN: The member did, and he had some further questions.

Dr M.D. NAHAN: I would like to ask a further question.

The CHAIRMAN: A further, further question—yes, member.

Dr M.D. NAHAN: The Treasurer quoted a number of expenditure blow-outs. Is the Treasurer comfortable that he understands the source of those and can come to grips with them?

Mr T.R. BUSWELL: That is a very good question. Obviously, those projects were originally forecast in a pretty hot construction sector. There is no doubt that a component of the cost increase was a result of cost pressures in a tight market. Indeed, with some of the projects now being put out to tender, we are seeing significant reductions from those peaks in cost. Without being specific, school projects are currently coming in at least 20 per cent under budget, which is a reflection of more builders bidding for each individual school project. That is a reflection of a significant change in the market. Notwithstanding that, significant issues occurred within those projects as a result of what I would call scope creep. In other words, there was a tendency in some agencies for the scope of a program to change quite substantially between initiation and when it finally went out to tender. That quite simply is not acceptable. In government, we have a finite pool of money that we allocate. We would like to think that we have a reasonable method of analysing—that is, a cost-benefit analysis—potential investments. Obviously, an investment yields benefits, which is the return, and that effectively gives the cost benefit in a simple term. If the cost doubles and the benefits do not change, we have to seriously ask ourselves whether that is still the best thing to be spending money on. We need to work through that. A significant part of the works reform, which will be publicly unveiled next Wednesday, involves the methodology that sits around the way that we define and scope projects. A lot of the work that currently happens after the political approval has been given should happen well before then. There is a lot more focus on what we call a strategic asset management framework; in other words, a lot of the work on the scope is done up-front, so that by the time a costing is delivered, it is an accurate costing that can then be reflected on in a proper decision-making process. Therefore, we are not making a decision to spend $400 million on a hospital that later costs $2 billion. That is a big challenge and there is a lot of work to do.

[3.10 pm]

The focus in the reform of housing has not been just on moving people out of the former Department of Housing and Works into a new place for works activities; the focus has been on fundamental reform. That will cause some angst for some agencies, because some agencies will not have the authority that they previously had in this process. It is one of the ways that we intend to deal with issues of scope creep. It has not been easy to get to that point, but it is a fundamental plank of our reform agenda.

In relation to the housing of government employees and/or ministers, I have the view that the Leader of the Opposition, for example, should be provided with accommodation—which is paid for just as a minister's office is paid for—outside the parliamentary precinct. I have been Leader of the Opposition, albeit for a fleeting moment in time, and that facility, in my view, is not an adequate place to conduct the business of the Leader of the Opposition in a state such as Western Australia. We should be able to come up with a better outcome. I do not say that to curry any favour; I just think it is an important issue. In the Victorian Parliament, the Leader of the Opposition is provided with a suite of offices nearby—admittedly, they are across the road—but I understand that he still has an office in Parliament. In that way, at least the Leader of the Opposition is able to conduct opposition business quite properly. That would have benefits for the opposition, and it would also have a benefit in a more effective use of the parliamentary space. That is something else that came to mind as I thought about this issue.

Mr A. KRSTICEVIC: As the Treasurer knows, I have a strong interest in land tax. Therefore, I would like to draw his attention to page 494 of the *Budget Statements* and the line item that refers to land tax. It shows that land tax receipts jumped by one-third from 2007-08 to 2008-09. This is consistent with the many complaints that I have received about land tax bills increasing by several hundred per cent. Can the Treasurer explain what drove this increase in land tax, and what this budget has done to remedy the problem?

Mr T.R. BUSWELL: Firstly, I thank the member for Carine for his interest in land tax. I mentioned earlier that I had attended a function with small businesses from the electorates of the member for Carine and the member for Scarborough. I think it would be fair to say that the reception to land tax was brutal, and rightly so, whether it was from people who owned land in the area or the small business owners to whom that land tax would ultimately be passed on. It is a fact that certain parcels of land in and around the Osborne Park area in particular have been subject to significantly increased valuations this year. "Brutal" is the only word that I could use. I appreciated the passion of those people, and I appreciate the member's interest in this matter.

Quite simply, the reason that land tax in some areas in Western Australia increased substantially in the last round of land tax assessments is that property prices jumped quite dramatically—in some cases, by hundreds of percentage points. I have even seen examples of increases in property prices of thousands of percentage points. That is a historic issue in Western Australia. When we came to government, we took action, albeit modest, that has cost the government quite significantly in forgone revenue to ensure that land tax receipts for this year do not exceed those that the government budgeted for last year. I am reasonably sure that we have delivered on the substantive nature of that outcome, and that basically means a seven per cent reduction in land tax rates. People must understand that the land tax take this year was established by the former government when it handed down the budget in May last year. When it handed down that budget, it would have known exactly in which suburbs property prices would go up, because the government is given a report that shows a breakdown of estimated increases by values across different areas. That information would have been known. The reason that land tax went up dramatically this year is that this is the flow-on effect of the significant increases in property prices in Perth. We must remember that the land tax bills that were sent out in December last year were based on valuations that were, as I understand it, provided in about August 2007. What people will see in their land tax bills in December this year is the beginning of the cooling of the property sector flowing through in most areas, but not all areas. Indeed, a number of entities—individuals or corporations—that will pay land tax have the potential to see their valuations increase again this year by more than 50 per cent. My understanding is that at least 2 000 people in Western Australia would have been in that category. Again, they were in defined areas; in other areas, the property values have come down. As a first brush in land tax reform, we introduced in the budget a cap of 50 per cent on the increase in the valuation of any one property in any one year. That will not take out all the spikes in land tax increases from year to year, but it will take out all the significant spikes that were driven by massive increases in property values. I think that that is a positive step forward. This is welcome news for the 2 000 or so people who would otherwise have had property valuation increases much higher than 50 per cent.

The fact is that that measure, combined with the adjustment in prices in the softening property market, means that land tax receipts over the next couple of years will drop significantly. The member is right, and they are detailed on page 494 of the *Budget Statements*. Land tax is estimated to be $561 million in 2008-09, $545 million in 2009-10, $468 million in 2010-11, $466 million in 2011-12 and $499 million in 2012-13. Our land tax take will come down from these significant highs, and that is due in part to the decline in property values and in part to the fact that we are imposing the 50 per cent cap. I think that is positive news for people who pay land tax. The member may be interested to know that the land tax take in Western Australia in 2001-02 was $225 million. It has gone from $225 million to $561 million over a seven or eight-year period. That is an increase of 150 per cent. Interestingly, during that period, the land tax base has contracted, so fewer people are now paying significantly higher land tax. I have always maintained the view that in many ways land tax became a tool by which the former government introduced its premium property tax that it tried to introduce in the early years; that is what land tax became. It is a situation that we have to prevent from happening again. The news of the 50 per cent cap is good news. I know that it will not help all those aggrieved people, but it is a step in the right direction. We have more work to do, but there are broader issues that we have to tackle before we can come back to meaningful, long-term tax reform.

[3.20 pm]

Mr A. KRSTICEVIC: To what extent does the policy of aggregation drive increases in land tax bills; and, more importantly, what would be the cost of removing aggregation?

Mr T.R. BUSWELL: That is a very good question.

Ms R. SAFFIOTI: What page does that refer to?

The CHAIRMAN: Yes. Can the member for Carine give a reference point for that question?

Mr A. KRSTICEVIC: It is building on that original question in terms of the cost.

The CHAIRMAN: Could the member for Carine just cite the reference again?

Mr A. KRSTICEVIC: It is page 494 of budget paper No 2 under "Land tax".

Mr T.R. BUSWELL: That is a very good question. I will get some more advice from Mr Marney. The member for Victoria Park might not like the question, but the member for Carine has an intense interest in land tax.

Mr A. KRSTICEVIC: We had a big meeting in the electorate.

Mr T.R. BUSWELL: If the member for Victoria Park had come with me to the member for Carine's electorate, he might have understood —

Ms R. SAFFIOTI: I heard what he said about the Treasurer in his electorate!

Mr T.R. BUSWELL: I have a hard job to do in government, and I have discovered that the job of Treasurer is often lonely.

Ms R. SAFFIOTI: That was before the member became Treasurer!

Mr T.R. BUSWELL: I know, but it was all written in the wind. Fortunately I have the department to support me through my hour of need!

Mr M. Barnes: That is about to come undone!

Mr T.R. BUSWELL: That is about to come undone, is it? We will deal with that when it comes undone!

The issue relating to aggregation is that it has a significant impact on people who hold multiple properties. I will ask the Under Treasurer whether he can provide more details; if he cannot, we can get some excellent examples for the member. I have always thought that one of the interesting points about aggregation is that there can be two properties next to each other in the same street worth the same amount of money and the owner of one property may pay two to three times more land tax than the owner of the other. It is quite bizarre. Notwithstanding that, land tax is a difficult issue for us to tackle at the moment, because we have to deal with issues around the broad erosion of our revenue base and we need to tackle recurrent spending growth. We cannot provide the member with specific examples at this stage. I apologise for that, but I am happy to get the member some examples because it is about not just aggregation, but also the very progressive nature of land tax rates as they move up through different property values.

Ms R. SAFFIOTI: I refer to “Government Equity Contributions” and the subheading “Item 137 — WA Health” on page 473. I understand that this funding is held by the Department of Treasury and Finance for the health capital works program and requires the Department of Health to submit a business case before funding is released to go ahead with a project. I want to know about two or three hospitals. Has a business case been given to Treasury from the Department of Health for the new Albany hospital; and what was the estimated total cost of the new Albany hospital in the business plan given to DTF? I ask the same question in relation to the Midland health redevelopment, the Royal Perth Hospital redevelopment and the Princess Margaret Hospital for Children redevelopment. I am therefore asking whether business plans have been submitted to DTF and the estimated total cost for those four hospitals in the business plans submitted to DTF.

Mr T.R. BUSWELL: I am not going to answer specific points about capital allocations for individual hospitals. The Minister for Health will make himself available during estimates—if he has not already done so—to deal with issues around specific hospitals. I will get Mr Marney to provide some more advice on where Treasury and the Department of Health are at on the progression of business cases. My understanding is that the most advanced of those projects at this stage is Albany; however, I will get Mr Marney to provide more advice. I want to make a point; that is, we are investing some significant time working with the Department of Health to get better control of the health capital works budget because previous practices were unsustainable. I will get Mr Marney to provide some more detail around the progression of those specific business cases.

Mr T. Marney: In the particular line item in division 37 that is being referred to, the draw down of centrally held funds for health capital works, most of those draw downs relate to the commencement of works on Fiona Stanley Hospital, works on Joondalup—projects that have been under development for some time. The projects that the member mentioned, in particular Albany, Midland, Royal Perth Hospital and —

Ms R. SAFFIOTI: Princess Margaret.

Mr T. Marney: Their business cases are at various stages of development. As the Treasurer indicated, Albany and probably Midland are the most advanced in that regard. Royal Perth and Princess Margaret are a fair way behind in the development of their business cases and, as such, we have not received a business case for those two latter projects. In fact the early definition of the scope of project is still underway, therefore I cannot give a figure on those projects. Figures for Albany and Midland are currently estimated to a particular project. If the Treasurer is amenable, we would be happy to provide those figures. However, it must be said that those figures are the current estimate; they are not as yet the final project scope and estimated total cost, nor do they represent the final decision of government on the extent to which government is prepared to fund those projects.

Ms R. SAFFIOTI: I would like to receive as supplementary information the current projected estimated total cost of the new Midland hospital and the new Albany hospital, in particular the numbers submitted by the Department of Health, and where the business case is in its analysis.

Mr T.R. BUSWELL: I will provide the member now with some information that relates to capital works at Albany, and then I will leave the member to seek information from the Minister for Health specifically on those other projects. I am looking at the health capital works project funding for Albany—again I highlight that these are current estimates. There is currently an estimated total cost of $135 million for Albany hospital in the forward estimates health capital works program. The spending profile on that is —

Ms R. SAFFIOTI: I can see that in the budget papers, Treasurer; I do not need that explained.

Mr T.R. BUSWELL: Does the member want the spending profile across the out years?

Ms R. SAFFIOTI: That is in the budget papers too. Has the Treasurer been advised—he should be very careful in answering this question as I have received information through freedom of information—what the Department of Health estimates the total cost of that project will be?

Mr T.R. BUSWELL: I am providing the member with information that is currently in the budget papers. I am not going to provide any further information. If the member has that information, she does not need me to provide it for her.

Ms R. SAFFIOTI: The question goes to the Treasurer's claim that the previous government underestimated every project and put numbers in the budget before the scope was actually finalised. I can see from the budget that the Albany hospital scope has not been finalised, the figure of $135 million is subject to a lot of negotiation, and the business case has not been thoroughly gone through by DTF. I ask again: can the Treasurer confirm whether the $135 million is the final cost for the Albany hospital redevelopment?

Mr T.R. BUSWELL: I can confirm that there is currently $135 million in the budget for Albany hospital.

Ms R. SAFFIOTI: I know that; it is there in the budget papers.

The CHAIRMAN: I ask members to confirm for the record that they are still looking for supplementary information and what that information is, so that I can allocate a number to it.

[3.30 pm]

Mr T.R. BUSWELL: Madam Chair, I did not agree to provide any supplementary information.

The CHAIRMAN: That is why I am asking.

Ms R. SAFFIOTI: The estimated total cost of the Midland hospital project in the budget papers is, again, $180 million. I think the Minister for Health stood and said that $180 million figure is wrong. That is the estimated total cost, regardless of the state-federal contributions estimated. The total cost in the budget papers is $180 million. Can the Treasurer confirm whether that number is real and live or whether that number, again, is a complete underestimation?

Mr T.R. BUSWELL: I can confirm that the allocation to the Midland health campus, which is called the new swan health campus in the documents that I have, currently sits in the budget at $180 million.

Mr B.S. WYATT: The Treasurer has just spent 20 minutes going through things that are not in the budget by way of a dorothy dixer and now he will not answer the question!

Ms R. SAFFIOTI: Again, I will ask about business cases that have been put forward by the Department of Health. It is a yes or no question: did the business case put forward by the Department of Health for the Albany Regional Hospital contain an estimated total cost of $135 million?

Mr T.R. BUSWELL: I am not aware of the detail of a business case that may or may not have been put by the Department of Health to Treasury and that if it had been, it would be at some stage of consideration. I can tell the member in relation to the budget papers and the specific question she has asked that there is currently $135 million in the budget papers for the Albany hospital.

Ms R. SAFFIOTI: Can I confirm whether the business case put forward by the Department of Health for the Midland health campus or the new swan health campus is $180 million or more than $180 million?

Mr T.R. BUSWELL: Again, I can confirm that the budget contains an allocation at the moment for the new swan health campus for $180 million.

Ms R. SAFFIOTI: Can I simply comment that the government has put forward all these statements about its new management of projects and that it has this you-beaut process whereby everything is confirmed, yet we have a budget that does not contain the Oakajee and Northbridge Link projects and no feasibility study and that we do not know the estimated total cost of two key projects.

Mr T.R. BUSWELL: I am providing information on those two projects.

Mrs L.M. HARVEY: I refer to State Fleet on page 481 of the *Budget Statements*. I believe that we are looking at a 10 per cent reduction in the size of the fleet and some savings that were mooted to be about $42 million. Can the Treasurer please advise how that will be achieved?

Mr T.R. BUSWELL: Sure; and I will get Mr Marney to provide some additional advice. One thing that the government looked at as we moved towards finalising the budget, with advice from the economic audit team, was the sorts of corrective measures that we could take to protect the underlying strength of the state's finances. One item brought up for consideration was a reduction in the size of the state vehicle fleet. It was agreed that we would cut the size of the fleet by 10 per cent and in doing so realise a saving over four years of approximately $42.1 million. It is important to understand that there is quite a large vehicle fleet in Western Australia. As of 30 April 2009, some 11 735 vehicles were owned by State Fleet and leased to agencies, compared with 8 915 vehicles at 30 June 2001.

One thing that has concerned me for some time is that the provision of motor vehicles has been becoming a de facto incentive to attract people to employment in certain agencies. Although I do not have the breakdown by agency in front of me, quite clearly there are some inconsistencies in the concentration of vehicles across government agencies. This measure will help address that. As an example, it is my understanding that the Department of Treasury and Finance has a relatively low penetration of motor vehicles through the workforce, which makes it hard for it to compete against other agencies that include provision of a motor vehicle as part of their employment arrangements. Therefore, we are trying to consolidate the size of the state vehicle fleet and quite clearly save some taxpayers' money. However, I will get Mr Marney to provide some more detail on that and, more importantly, on how that will be implemented.

Mr T. Marney: I think the Treasurer has covered the point that there has been some creep in the size of the government vehicle fleet beyond that which one would expect is necessary for normal day-to-day operational requirements. There are arrangements in the administration of agency vehicle fleets whereby public servants have access to those vehicles if, indeed, those vehicles are required for operational purposes. Based on analysis that we undertook, there has been some clear stretching of that justification for having a vehicle in the fleet to the point at which there was some fairly dysfunctional poaching across agencies, based on people working at level 8 and being provided with a car, basically. Although that has in some respects been frustrating to recruitment efforts for a number of agencies, the bottom line is that our fleet has become out of balance to an extent with our actual operational requirements, so there is a need to trim the fleet. In addition to that, we also believe some efficiencies are to be gained from alterations to the composition of the fleet; the duration for which we hold our vehicle fleet to optimise the cost-benefit and the resale value at the end of lease periods; and also the maintenance and servicing of the fleet to ensure that there is not, through arrangements that have been in place for some time now, overservicing of the state's fleet. We will work on those areas to address the savings targets and we will work through policy changes for things such as a definition of operational vehicles, vehicles held by the level 8 officers in the public service and the like to ensure that taxpayers' get the best value for money.

Mrs L.M. HARVEY: Will the departments identify how they can target their own fleet savings or will Treasury work with departments to identify the fleet savings? Also, are any departments exempt from the fleet savings?

Mr T.R. BUSWELL: That is a good question and I will get Mr Marney to provide some further advice. My experience has been that a light hand may be required to assist some agencies to realise some of the savings that we feel may be available. However, I stress that would be, of course, only a light hand applied by the Treasury or me, and Mr Marney may provide more enlightenment about the nature of that light-handed approach.

Mr T. Marney: Based on our data of the operation of state vehicle fleets, there are some areas in which there appears to be some different practices in terms of the definition of an operational vehicle and we will address that first. We will work with those agencies to get a better understanding of their operational needs. At this point there have been no explicit exemptions for agencies from that savings target, although the target will be allocated to individual agencies in coming months. Obviously, it would be counterproductive to cut vehicle fleets in emergency service areas, such as the police. However, the police vehicle fleet is a very large fleet. Although the police service has made a number of savings through the mix of vehicles in its fleet in recent years, that is an area that the police commissioner has raised with me in terms of opportunities for the servicing and maintenance of vehicles and the potential for contractors to overservice those requirements. In that regard, although the origin of savings may vary from agency to agency, there will be no exemptions from the allocation of savings requirements, as far as I can see at this point.

[3.40 pm]

Mr B.S. WYATT: Further to the Under Treasurer's comments and the member for Scarborough's reference to page 481, will the Treasurer explain why the total cost of State Fleet will rise by 11 per cent between 2008-09 and 2009-10, and why the vehicle acquisition allowances, which I assume are for the purchasing of vehicles, will go up by $20 million between 2009-10 and 2012-13? Can the Treasurer explain where those savings are—just so that I can find them?

Mr T.R. BUSWELL: I will get Mr Marney to provide that advice.

Mr T. Marney: At this point the savings are held globally within Department of Treasury and Finance's systems; they are not allocated to these particular items. We need to —

Mr B.S. WYATT: Where will they be allocated to then? State Fleet surplus, for example, over time goes from $86.5 million in 2008-09 up to $95 million in 2009-10. Is that where we are seeing these savings or is it in vehicle acquisitions?

Mr T. Marney: They will not be seen in either of those items at this point. The savings are held centrally within the budget aggregates produced by Treasury and Finance. The task ahead of us is to allocate those savings specifically to these line items as we work through during the next month or two the specific origins of the savings, whether it be by reduced fleet size or reduced fleet maintenance costs.

Mr B.S. WYATT: Vehicle acquisitions for 2010-11, instead of being $166 million, may, for example, come down to $150 million, and we will not see that until the next budget—is that what the Under Treasurer is saying?

Mr T. Marney: That will be seen in the midyear review as the disclosure of the policy implementation through the year. It will be a mix of the purchase of vehicles and the operating costs of vehicles.

Mr B.S. WYATT: Given the public service employment cap in place until the end of 2008-09—that is next month—and the growth trend referred to by the Treasurer, will the number of cars be reduced by 1 100, as referred to by the Premier in the newspaper? Will the number go from 11 700 to 10 600 or is that based on assumptions about the size of the public service? Is there going to be a real decrease in the number of cars?

Mr T.R. BUSWELL: My advice is that there will be real decrease in the size of the fleet. Also, the public service headcount freeze as a policy tool, as of today's discussions, is something we will look at continuing. That is an aside.

Mr B.S. WYATT: As an aside.

Mr T.R. BUSWELL: We all get something out of estimates!

Mr B.S. WYATT: Some of us get more than others. However, at the moment, and under the current budget arrangements, that policy will finish at the end of next month.

The CHAIRMAN: Is this a further question?

Mr B.S. WYATT: No, it was in response to the aside put out there by the Treasurer.

The CHAIRMAN: Member for Bassendean.

Mr M.P. WHITELY: I refer the Treasurer to page 53 of budget paper No 3 and the $100 million in temporary relief of payroll tax. First, a $100 million temporary relief from payroll tax is a good thing. I am however interested in the modelling that has been done in the way it is structured. I have a series of follow-up questions, but presumably the rationale for this tax relief is to protect jobs. However, the marginal cost of labour for employers who have a payroll between $1.6 million and $3.2 million will rise by 2.922 per cent as a result of the roll back of the benefit. What modelling has been done to determine the number of jobs that will be lost as a consequence of that rollback provision?

Mr T.R. BUSWELL: I am afraid that I have to disagree with the member's fundamental premise. My view is that jobs are not to be lost by cutting a tax on payroll.

Mr M.P. WHITELY: I accept that there will be a job protection effect from having the cuts in payroll tax, particularly for those employers who have a payroll of less than $1.6 million. I accept that. However, the way the payroll tax initiative is structured, for every $100 000 increase in payroll, an extra $2 922 is lost in the roll back. If an employer is making a decision to increase his payroll from $1.6 million to $1.7 million, he decides to take on extra workers, that extra $100 000 in salaries will be augmented by another $2 922 cost in terms of that lost payroll exemption. It increases the marginal cost of employing people by about three per cent. The Treasurer is shrugging his head and rubbing his face but decisions made about employment are made at the margin. The net effect of the way this provision has been rolled out will be to increase by three per cent the marginal cost of labour for medium-sized businesses whose payroll is between $1.6 million and $3.2 million a year. That will have a negative effect on employment. If the Treasurer does not understand, I suggest he has a chat with the member for Riverton because he acknowledged it during his speech in the budget debate. The member for

Riverton acknowledged that there is a disincentive to employ in that payroll range. If the Treasurer is not aware of this, I would suggest that he is in the wrong job. I am asking what modelling has been done.

The CHAIRMAN: Excuse me, before the Treasurer answers the question, could the member for Bassendean, who is referring to the *Economic and Fiscal Outlook*, please relate his reference to division 37 for the *Hansard* record.

Mr M.P. WHITELY: With respect, we have been moving interchangeably between the first dot point on page 477 on budget paper No 3 and the advice from Treasury about the effects of changes.

The CHAIRMAN: Thank you very much, member for Bassendean. Treasurer, please go ahead.

Mr T.R. BUSWELL: Let me put it this way: this measure is designed to help keep people in jobs. An employer with a payroll of $1.6 million will receive a rebate of $46 000. An employer with a payroll of $2 million will receive a rebate of $35 000. We gave some consideration to two factors around this policy: first, the maximum level at which the rebate would apply—some options were open to us in this regard—and, second, what to do when at the maximum level. In our view, there were two options. At the maximum level, in this case $1.6 million, the rebate would cease, or one could gradually wind back the rebate at levels of payroll above $1.6 million. That is not dissimilar to the way that, for example, first home buyer stamp duty is slowly wound back to a zero point. Ultimately, we had to put a line somewhere that reflected the affordability of the measure and the number of businesses that it would impact on. At $1.6 million, from my recollection, 33 per cent, give or take, of businesses that currently pay payroll tax will receive a full rebate. That is 33 per cent. The wind back to $3.2 million effectively means that 50 per cent of businesses that currently pay payroll tax will receive a full or partial payroll tax rebate. I have not heard one person suggest that cutting payroll tax will lead to people putting labour off. I do not accept the member for Bassendean’s contention that the payroll tax initiative is an antijobs measure.

[3.50 pm]

Mr M.P. WHITELY: That is not my contention. The Treasurer is misrepresenting my contention.

Mr T.R. BUSWELL: It is a matter that has been broadly supported, if not applauded, in not only Western Australia by bodies such as the Chamber of Commerce and Industry of Western Australia, but also across Australia.

Mr M.P. WHITELY: Did the Treasurer ask the CCI for its input into how it would work?

Mr T.R. BUSWELL: We were busy framing the budget —

Mr M.P. WHITELY: Did it support the roll back?

Mr T.R. BUSWELL: The member can come up with an alternative model.

Mr M.P. WHITELY: I will come back with one right now.

Mr T.R. BUSWELL: I am amazed, bordering on staggered, that the member would argue that this measure is an antijobs measure. It is widely applauded —

Mr M.P. WHITELY: The Treasurer is misrepresenting my argument.

Mr T.R. BUSWELL: I am just telling the member how I have interpreted the things that I have heard flow out of his mouth, and that indicates that the member thinks this is an anti-employment measure. I think it is a very positive measure that has been applauded right across the country. In fact, the member will not find many state governments that, in this budget cycle, have actually cut a tax. I am astounded that we have cut payroll tax, yet the member says that this is an antijobs measure. It is not anti jobs.

Mr M.P. WHITELY: It is a pity that the Treasurer does not have the ability to pick up on my point in the same way as the member for Riverton did when I explained it during the budget debate. My point is that the way the Treasurer has structured the roll back of the rebate means that when an employer whose payroll ranges from between $1.6 million and $3.2 million must decide whether to hire an extra $100 000 worth of staff, he is faced with an extra $2 922 cost. Within that range, the Treasurer is increasing the marginal cost of labour by just under three per cent. The Treasurer is therefore creating a disincentive for employers within that range to employ extra staff. I am not suggesting that $100 million in temporary payroll tax relief is not a good thing. I am asking whether any thought was given to structuring it so that the payroll relief would be offered to all employers with a payroll tax of up to $1.6 million so that there was no roll back. That would have had the effect of benefiting some very large companies.

Mr T.R. BUSWELL: Up to how much?

Mr M.P. WHITELY: Up to $1.6 million. The Treasurer could pick another figure, but if that is the figure the Treasurer wanted to target it at, why not take it to $1.6 million and not roll it back? I suggest that only a fairly small number of very large employers would benefit from that. What is the problem with that? What is the problem with large employers, which create a lot of jobs, receiving the full benefit of that? The Treasurer has created a disincentive for employers with an income of between $1.6 million and $3.2 million. If the Treasurer does not understand that, I suggest that he chat to the member for Riverton, who acknowledged it during the budget debate.

Mr T.R. BUSWELL: I will take up that argument. Let us say that the rebate applied up to $1.6 million and then stopped. An employer with a payroll tax of $1.6 million would get a $46 750 rebate and an employer with a payroll tax of $1.65 million would get zero.

Mr M.P. WHITELY: No. The Treasurer is missing the point. Maybe the rebate would need to be a slightly smaller amount. Perhaps it could be $41 000 or $42 000. Every employer that earned $1.6 million would get the full value of the rebate, whether the company has a payroll of $1.7 million or $27 million. By having a rollback provision, the Treasurer is creating an artificial incentive for employers within that payroll tax range to sack workers.

Mr T.R. BUSWELL: We had a finite amount of money and we decided to invest it to help small businesses protect jobs. The member argues that it is an antijobs measure, which is fine. If we had had a heck of a lot more money, we might have been a heck of a lot more generous, but we did not have a heck of a lot more money. We had a finite pool of money that we could use and we looked at a variety of measures. When assessing the variety of measures that we looked at, we applied this year's first budget principle, which is to protect jobs. We asked ourselves how we could use a finite pool of money to protect jobs in Western Australia. Does the member know what dawned on us? We realised that we could provide a payroll tax rebate to small businesses. Unfortunately, the fact is that most Western Australian businesses are not having to decide whether to employ an extra person but how to keep the last person they gave a job to on their books. That is the challenge. We asked ourselves how we could help employers keep the last person they gave a job to on their books. The way we decided to do that was to provide some payroll tax relief. That is why this measure has been widely welcomed by small businesses in particular. Sure, we could have spread the $100 million we had available across all businesses in Western Australia, but that would have been a drop in the ocean. Therefore, we decided to provide a meaningful rebate to small businesses, of which there are thousands in Western Australia. Every week or fortnight when those businesses pay their staff, they must contemplate a very difficult set of circumstances revolving around whether they can afford to keep all their staff employed. My view is that if a company will get a $46 000 rebate at the end of the year, it will help the owner of that business to decide to keep the last person he employed.

Mr M.P. WHITELY: Take the example of an employer with a payroll of $3.2 million who is deciding whether to sack an employee who earns $50 000. The employer will be looking at a saving not of $50 000, but of $50 000 plus nearly three per cent. The way the measure has been formulated has created an incentive for employers in that band to cut jobs. I am not saying that there is not a job-creation effect for employers up to $1.6 million, but the Treasurer has increased the marginal cost of labour and created a disincentive for employers within that range to retain employees. Another effect is that by rolling it back as per the actual expenditure—in other words, the employer does not get the cash rebate until the following year—it creates a cash-flow situation that is not as beneficial to an employer as if it had been implemented at $1.6 million, because then the rates could have been adjusted throughout the year and employers could have paid less payroll tax during the year. Rather than having to cash-flow the savings themselves, the employers would have been faced with that.

Mr T.R. BUSWELL: I was listening to the member very carefully but I could not actually sense that there was a question.

Mr M.P. WHITELY: Did the Treasurer consider the cash-flow alternative of allowing as-you-go reductions in payments rather than simply the rollback provisions and having to pay a rebate at the end of the year?

Mr T.R. BUSWELL: Yes, I did. However, if we had done it on a throughout-the-year basis, we would have needed to conduct an adjustment for nearly every person who pays payroll tax at the end of the year because very few businesses have their annual payroll tax paid exactly in quarterly instalments. It is almost impossible to predict on a quarter-by-quarter basis what an employer would have been entitled to at the end of the year. It was decided that that would make it too difficult to deliver the outcome. I accept the member's point about cash flow. Cash flow is a significant issue for small business. It puts a lot of stress on small business. When I talk to small business owners, we often discuss the definition of "small business". Some people tell me it is those businesses that employ fewer than 20 staff. I reckon a person is in small business when on Friday he has to ring the bank manger to get an extension on the overdraft that is secured by his own home so that he can pay his own staff. That is when someone knows he is running a small business. Notwithstanding that, it is our view that a sum of money—up to $46 750—which is guaranteed by the government at the end of the year, will be a significant incentive for small businesses to keep people employed. That is the entire purpose of this payroll tax rebate.

Madam chair, I know that there was some significant debate yesterday about the Minister for Police taking a five-minute break, which often could take him a lot longer. I am keen to know, because we are halfway through the afternoon session, whether we could take a quick five-minute break to get some lozenges.

The CHAIRMAN: I believe that an informal decision was made to divide the program for these divisions but there is no official motion on that. It might be worthwhile firming that up.

Mr B.S. WYATT: No. We will go beyond that.

The CHAIRMAN: I just want to remind members that we have the Economic Regulation Authority to deal with at some stage.

Mr T.R. BUSWELL: I am happy to work with the timing as outlined by the opposition. Perhaps we might have a five-minute break.

The CHAIRMAN: We will have a five-minute break and then resume.

Meeting suspended from 3.59 to 4.07 pm

[Mr J.M. Francis took the chair.]

The CHAIRMAN: It is 4.07 pm and we have a quorum, so we are ready to go again. Member for Victoria Park.

Mr B.S. WYATT: Item 62 on page 471 refers to the royalties for regions fund, which is cross-linked with the *Economic and Fiscal Outlook*. The savings contributions for royalties for regions are $25 million a year. Does that $25 million a year stay in the consolidated account or does it go off into the royalties for regions fund? The reason I ask that is that in the *Economic and Fiscal Outlook*, on page 187, the $25 million saving is still included in the total allocation, yet it is described as a saving. Where does that $25 million a year, or $100 million over four years, go, or does it just stay with Treasury in a consolidated account?

Mr T.R. BUSWELL: That is my advice.

Mr B.S. WYATT: Okay; so it is a genuine saving as such?

Mr T.R. BUSWELL: Yes. It is certainly not available to be spent under royalties for regions.

Mr B.S. WYATT: Why does the total allocation under royalties for regions include it if it is a reduction off the top?

Mr T.R. BUSWELL: I will get Mr Marney to explain the detail.

Mr T. Marney: The appropriations in budget paper No 2 reflect the net amount—that is, the 25 per cent of projected royalty receipts less the $25 million per annum being appropriated to the royalties for regions fund.

Mr B.S. WYATT: At page 471, it shows the $25 million removed.

Mr T. Marney: The remaining $25 million that is not allocated is, therefore, just general royalties revenues taken into the consolidation fund.

Mr B.S. WYATT: Page 187 of budget paper No 3 shows the total allocation for royalties for regions including the $25 million.

Mr T. Marney: The appropriations in budget paper No 2 align with the subtotal in that table on page 187. The numbers are $334 million, $619 million, $646 million, $665 million and $693 million.

Mr B.S. WYATT: So the extra contribution total is just a bit of presentation.

Ms R. SAFFIOTI: I have a further question on the same issue. In budget paper No 3, page 187 relates to royalties for regions funding allocations. If the estimated actual for 2008-09 is not spent on royalties for regions, so that the $334 million is not fully allocated, spent or committed on 30 June, will there be a carryover?

Mr T.R. BUSWELL: Will the member clarify what she means by spent or committed?

Ms R. SAFFIOTI: I mean committed, because it is accrual accounting.

Mr T.R. BUSWELL: I will get Mr Marney to provide an answer to that.

Mr T. Marney: If any part of the $334 million is unspent as at 30 June 2009, the remaining balance is allocated to the royalties for regions account and sits in balance in that account.

Ms R. SAFFIOTI: My question relates to some interactions between the energy utilities and the Department of Treasury and Finance. There are two parts. One part relates to page 471 and the community service obligation payment being paid to Synergy. I compare this year's numbers with last year's numbers. Last year's budget papers show a CSO payment of $340 million in 2010-11 and $275 million in 2011-12. The figures for the same period this year show a CSO payment of $169.2 million in 2010-11 and $71.6 million in 2011-12. Did the previous CSO payment to Synergy reflect the 10 per cent price path that the previous government had in the numbers? Does the CSO payment change reflect the new price path as shown in the budget papers?

Mr T.R. BUSWELL: Again, as I was not necessarily involved in the drafting of the former budget papers and the CSOs, I will get Mr Marney to answer that. My understanding is that the CSOs that are being paid to Synergy in this year's budget—I am just getting some additional detail on that—are reflected in the new tariff glide paths, which have been provided in budget paper No 3 at page 276, although there is some discussion around CSOs in some earlier parts of it as well. Does Mr Marney want to add any additional information?

[4.10 pm]

Mr T. Marney: In the previous budget, a 10 per cent increase was a budgeting assumption that year and it was factored into those previous community service obligations. The price changes articulated on page 276 of budget paper No 3 are factored into the CSOs on page 471.

Ms R. SAFFIOTI: Will the Treasurer confirm my understanding that in the previous budget a 10 per cent per annum increase was implicit in the CSO?

Mr T.R. BUSWELL: I am sorry?

Ms R. SAFFIOTI: I was asking a question of the Under Treasurer through the Treasurer: in last year's budget the CSO being paid to Synergy was a 10 per cent per annum price path?

Mr T.R. BUSWELL: Yes.

The CHAIRMAN: Does the member for West Swan have a further question?

Ms R. SAFFIOTI: Yes. The other part of my question is related to page 494 of the *Budget Statements* under the heading of "Government Enterprises". My question is about the dividend being paid by Verve Energy to the consolidated account. Page 494 of the *Budget Statements* shows a figure of $8.7 million being paid in 2009-10. Can we assume that Verve will generate a profit in 2009-10 that will create the dividend?

Mr T.R. BUSWELL: Yes, that is the case. As cost reflectivity is reached by Verve, I think it is reasonable to expect the electricity generator to return to a position of profit, thereby providing a return, effectively to the taxpayer, on the capital that is invested by Verve.

Ms R. SAFFIOTI: I have a follow-up question: but cost-reflective pricing will not be achieved in that year.

Mr T.R. BUSWELL: Clearly, as we move towards cost-reflective pricing, Verve will return to what I am assuming would be, based on its asset base, a normalised level of profitability, if I can use that term. As I understand it, there is no implicit assumption that it is a bad thing for an entity to make a profit from cost-reflective pricing; indeed, if it did not, I do not think it could be argued that that would be a sustainable position from which to try to encourage the private sector to invest.

I understand the member's point, and one of the reasons I understand it very well is that the former member for Capel, in his terrier-like approach to estimates last year, was fairly vigorous on this point of view that, on the one hand, prices are moving towards cost reflectivity; whilst on the other hand Verve is returning a profit to the state. I would maintain that that profit to the state is the return on the capital that taxpayers have invested in Verve.

Ms R. SAFFIOTI: I have a follow-up question: If this is happening at the same time as the removal of the subsidy, it could be argued that the taxpayer is funding this dividend.

Mr T.R. BUSWELL: The subsidy was paid for by taxpayers, so the removal of the subsidy basically means that general taxpayers' revenue is not subsiding Verve; rather, that Verve's operational costs are being covered by the users of the electricity.

We have had the political debate around how quickly we move to cost reflectivity quite a few times. The current government has its view, and the former government had a view that was based around 10 per cent this year and then at least 10 per cent after that. Notwithstanding that, ultimately somebody has to fund the operations of Verve. My view is that it is better that the users of the electricity fund it, rather than the general taxpayers, through a CSO. Also, it is important to understand that Verve's dividend is ultimately returned to taxpayers via a dividend payment to the state. It is not as if the state is using those dividends to fund anything other than infrastructure and services for the people of Western Australia—I hope!

Mr A. KRSTICEVIC: My question relates to budget paper No 2, volume 2, pages 478 and 488, and is about Shared Services. Will the Treasurer give me an idea of how much money has been expended on Shared Services and whether there are still blow-outs in the Shared Services' budget, and where and why they have occurred? I would also like to ask whether or not we are on target with the delivery of Shared Services.

[4.20 pm]

Mr T.R. BUSWELL: I will provide some overview comments about Shared Services, and I will ask the Under Treasurer to provide some more advice, for no other reason than, in recent years, the Under Treasurer has developed an intense interest in Shared Services. Indeed, the Office of Shared Services now reports to the Under Treasurer. I have a very strong view about Shared Services. We spent a lot of time in estimates last year questioning and debating the issues in and around Shared Services. When the shared services project was originally approved by government, it was costed, as I recollect, at around $98 million to generate benefits, I understand, of around $55 million a year. That decision was made and then that project was left to its own devices. There were fundamental, systemic failures of government in and around the shared services project in those early years. They were very accurately identified and articulated by the Auditor General in a report he brought down in 2007. It was very alarming.

The then government responded by basically moving the responsibility for Shared Services from the Premier of the day to the Treasurer and, by extension, the operational authority to the Under Treasurer. Shared Services now has a budget of some $400 million. A major review was conducted of Shared Services at the end of 2007. It was subsequently reviewed in mid-2008. I have to say that when we came into government, the Office of Shared Services was of significant concern to me. We cannot go from a $98 million project to a $400 million project without serious questions being asked, especially when we accept that the benefits to government of the rationalisation of payroll and other financial functions have not changed. As an incoming government, I gave serious consideration to abandoning the shared services reform. We came very close to making that decision. The one factor that made me reluctant to recommend that to government was that a significant amount of money had been invested into the shared services reform. To date I understand that almost $236 million has been invested into Shared Services out of the total budgeted cost of $400 million. The other factor that weighed heavily on my mind as we gave consideration to it was that there was no doubt that, while the shared services project still had issues, it is much more effectively managed now than it had been previously. As the minister responsible, I receive a monthly project briefing from Shared Services. It lists the different activities of the transition of agencies into the project. It is all very neat. They have a red light, an amber light or a green light and more detail is attached. The light approach oversimplifies what is a detailed level of management. It is my view now that the government is committed to that project. It was quite simply too difficult to unwind the investment both in IT and human capital that had been made to get us to that point. My recommendation to cabinet quite seriously involved a lineball decision. I will ask the Under Treasurer to provide more detail, in particular on what has been happening from an activity base at the Office of Shared Services.

Mr T. Marney: Thank you, Treasurer. The shared services project, as the Treasurer indicated, was reviewed in, I think, November 2007. At that point we developed a revised schedule of activity for the project—what we referred to as the integrated plan. We also recommended at the time that that plan be reviewed within six months because there were still some technical question marks over the deliverability of software to support that plan. There was then the subsequent review in mid-2008. That review confirmed that the technical issues had been resolved and recommended that the project proceed. That was around 18 months ago. Since then, within that integrated plan, the team at Shared Services in Cannington has managed to achieve each milestone on time and on budget. As a consequence, 32 agencies are currently receiving shared services from the DTF shared services centre, with 22 of those agencies receiving finance and procurement services. They now include some fairly substantially sized agencies as well, which means the Oracle payroll system currently processes a fortnightly pay run of around $4.7 million for 2 000 public servants. Revenue and expenditure transactions totalled more than 110 000 in the 10 months to April, with a total value of more than $1.1 billion. Of note, the roll-in of Main Roads in December 2008 has significantly increased the volume of transactions. We expect that that will have a value of transactions of just under $1.5 billion per annum flowing through the shared services centre. With Main Roads coming in, we also rolled out a new element of functionality in project accounting that gives a dimension from the reforms that was not previously anticipated to the extent that we have been able to capture with the roll-in of Main Roads.

So far, we are on time and on budget with the integrated plan. But, quite frankly, that is not good enough because, originally, there was a savings target. We are behind relative to that original plan, so we are working aggressively to accelerate the parallel roll-in of agencies to try to ramp up the program over the next 18 months and deliver it at least a year ahead of schedule to full operation. That is the status today.

Mr T.R. BUSWELL: The roll-in of Main Roads, which occurred in the last quarter of last year, was a significant milestone for Shared Services. From my point of view, there was a lot of focus on making sure that the roll-in of Main Roads was delivered within the parameters that had been established. That was achieved and I think that is a positive reflection on some of the changes that have occurred in Shared Services. I think that if we could have our time again with shared services reform, we probably would not have made it so all embracing. We would probably find that 80 per cent of the benefits to government will be generated by 20 per cent of the agencies that roll in to Shared Services, to quote the oft-used 80:20 adage. Perhaps there is an argument to say that the original reform agenda was too bold in that it failed to fully understand the complexities of payroll issues, in particular within all those agencies, because we have had to try to deal with myriad payroll-related issues.

Ms R. SAFFIOTI: My question relates to financial management reporting on page 476. It refers specifically to the *Economic and Fiscal Outlook* and the household model on page 283. The last paragraph on page 283 states —

> While the Government has decided not to adopt the 'representative household' model as a decision making tool, it has been included this year for comparative purposes.

Can I seek a guarantee that this model will be shown again in the budget?

Mr T.R. BUSWELL: I am happy to display the model so that people have a point of comparison. In this job, if we are going to make decisions that impact on people, we must have the courage to stand up and defend ourselves and articulate the argument. I have no problems with that at all. That line is in there because it is our view that one of the historic problems—people may have a different view of this—of the representative model as a policy tool was that it forced government to artificially suppress what would have otherwise been a progression in a range of fees and charges. Electricity is probably a case in point. Our view is that we will not use the representative model for that point of view and that agencies will take responsibility for determining outcomes, but, admittedly, those outcome decisions will be subject to broader government approval. I am very comfortable with continuing to present the standard representative model for the purpose of comparison, but I think it is important for people to understand that, from a public policy point of view, it is not a tool that we will use to shape the determination of fees and charges. Certainly, it is a tool with which people can make comparisons, and some may argue and hold us to account for the decisions that we make.

[4.30 pm]

Ms R. SAFFIOTI: That is fair enough. The government does not want to judge each year the impact of fees and charges decisions on a household; that is the government's policy. The Treasurer has stated in Parliament that the aggregate figure for the impact of fees and charges on a representative pensioner household is around $250. By way of supplementary information, could the Treasurer provide the same model for the pensioner household?

Mr T.R. BUSWELL: Yes, I will. If I have it with me, I will provide it to the member before we leave. I am sure that it is somewhere in this vast array of documentation that I have been provided with. If I find it between now and when we finish, I will give it to the member. I will provide the estimated impact on a standard representative model ex-electricity, because that is something that we have talked about as well; the estimated impact on a standard representative pensioner household; and the estimated impact on a standard representative pensioner household ex-electricity.

Ms R. SAFFIOTI: I am asking for the same model as described on page 285 for a pensioner household.

Mr T.R. BUSWELL: It will be the same as the chart on page 285. There are three different representations of it.

[*Supplementary Information No B22.*]

Ms R. SAFFIOTI: I have a further question about the table on page 285. Again, I refer to electricity prices. Can the Treasurer confirm whether the 23.28 per cent increase from 2008-09 to 2009-10 is the full impact of his budget decisions? Does it incorporate the full 10 and 15 per cent price increases? The figure of 23.28 per cent is different from what the Minister for Energy released in his media statement earlier this year, in which he referred to the full impact of the 10 and 15 per cent increases.

Mr T.R. BUSWELL: It does include that. I will get Mr Marney to provide the detail to support that statement. The advice that I have just been given is that the 10 per cent increase applied from 1 April. When the application of the 10 per cent increase from 1 April is factored into the total 2008-09 figure, the percentage increase next year is slightly suppressed above the 25 per cent.

Ms R. SAFFIOTI: I argue that the 2008-09 figure is artificially higher because it incorporates a budget decision to artificially inflate the 2008-09 figure. What I am saying is that that is not the full impact of the 10 and 15 per cent increases.

Mr T.R. BUSWELL: With all due respect, I understand what the member is saying. A person who gets an electricity bill after April will feel the impact of the 10 per cent increase. Our view is that that is an accurate impact on a representative household, because for part of 2008-09, people would have been subject to the 10 per cent increase during April, May and June.

Ms R. SAFFIOTI: I think it is just how we look at the table—that is, whether the table represents the full impact of the budget decisions or whether it represents a change between 2008-09 and 2009-10. I think it represents a change between 2008-09 and 2009-10, not the full impact of the budget decisions.

Mr T.R. BUSWELL: Given that the 10 per cent decision was made before the budget—it was a decision of government; we do not have to make all decisions at the time of the budget—and it applied from 1 April, this model reflects the impact of that and the subsequent 15 per cent increase from 1 July on the bills of a representative household.

Ms R. SAFFIOTI: As supplementary information, could this table be amended to include the full 10 and 15 per cent increases, so that we have things to compare with—for instance, Minister Collier's statements?

Mr T.R. BUSWELL: No, because that is not then an impact on the standard representative household model. The standard representative household would have paid the 10 per cent increase in the months of April, May and June in the 2008-09 year. This is a fair and accurate representation of the impact of the 1 April increase and the 1 July impact on the standard representative household model.

Ms R. SAFFIOTI: Can I also ask, by way of supplementary information, whether the impact of the emergency services levy has been confirmed and whether it is as reflected in the model? I know that the ESL information is provided late. Is that consistent with what has been suggested for the household model, because it says that it will be finalised in June?

Mr T.R. BUSWELL: I will get Mr Marney to make a comment on that.

Mr T. Marney: We are still awaiting confirmation from the Fire and Emergency Services Authority of Western Australia on its modelling of the precise increase in the ESL budget, but we expect that it will be fairly close to those numbers.

Mr M.P. WHITELY: I refer to the second-last dot point on page 478, which makes reference to the increasing use of public-private partnerships. I note that the Treasurer mentioned it in his budget speech, but can he give some examples for which he is considering using public-private partnerships, and what are the advantages he perceives?

Mr T.R. BUSWELL: That is a good question. We are committed to exploring public-private partnerships in the delivery of government infrastructure and/or government services for a variety of reasons, and I will touch on the potential benefits a little later. Within the context of the movement of the works activities into Treasury, there is an increased focus on building up resources within government so that we can engage the private sector through the public-private partnership model. One of the issues that we have had in the past, and we still have in some areas of government infrastructure delivery, is what I call the daisy chain of consultants out of government. I do not have any problem with using consultants to assist government within limits, but I firmly believe that that daisy chain leads to a diminishing of accountability along that chain. We need to deal with that by increasing our skill set to engage the private sector. Building Management and Works is now working on strategies to more actively engage with the private sector in the delivery of PPPs. What sorts of projects may we use them for? I think members will find that we are already on the public record as saying that in the provision of the new children's hospital, we need to consider the possibilities of using a public-private partnership. In the custodial infrastructure project in the budget, we announced a new prison at Acacia. Although I understand that the existing prison at Acacia was built with government capital, it was certainly operated by the private sector, and that to me is a form of PPP. They are perhaps two examples that we need to look at. I actually think that we need to go further than that and have the expertise within government to compare the benefits of PPPs to Western Australia with traditional procurement in a range of areas. I am not saying that a public-private partnership will always win out against traditional procurement; however, at the least we should be conducting that analysis. I am sure the Under Treasurer will correct me if I am wrong, but I am reasonably sure that the type of analysis in some of the commitments we have given through the Council of Australian Governments process is one of the undertakings that have been given either formally or informally to the commonwealth.

[4.40 pm]

I see a range of benefits of PPPs. People used to argue that we needed a PPP as an alternative source of capital. I actually do not regard that as a benefit. It may be an option that is considered but I do not regard it as a benefit. It can be used as an alternative source of capital and the infrastructure can be hidden way over on the budget so that it does not appear on the balance sheet; but quite simply we cannot do that. The advice I have from the Under Treasurer is that if we were to engage in a PPP, for example for the construction of a children's hospital or a prison, from the time we took delivery of and become engaged with the asset—not from the time of signing the contract—it would show as a liability on the balance sheet; the extent of the liability being the net present value of the future lease stream, rent stream or whichever PPP stream has been committed to.

In my view the real benefits of PPPs are in getting the private sector more heavily involved in the construction process so that there are true private sector disciplines in and around the construction on time lines, cost effectiveness and, more importantly, bringing innovation to the whole process. There are a lot of benefits from that point of view in terms of —

Mr M.P. WHITELY: Why can that not be done with a tight tender process?

Mr T.R. BUSWELL: If the member for Bassendean lets me finish, he can ask a supplementary question.

There is significant evidence that for some infrastructure—not all infrastructure—it is one source of benefits. I am also of the view that there are significant benefits post-construction for recurrent spending in having private operators involved in the provision of services. I do not have before me the detail on prisons, for example, that Professor Harding identified when he compared the operation of Acacia Prison with other prisons, both financially and in terms of outcomes. However, my advice is that he identified significant savings to government through the operation of that facility. There would be other examples.

I am also interested in some of the other approaches that we see on the ground. I recall a visit I made to Peel Health Campus. Although it would not be regarded as a traditional PPP, it is certainly not a traditional hospital. I met the nurse who was responsible for the surgical unit. Her total focus was on maximising the throughput of that surgical unit, and she indicated how proud she was of the outcomes the campus was able to deliver, compared with what she reported to me as being some of the outcomes delivered in perhaps a more traditional public model.

I suppose in answer to the member for Bassendean's question on the benefits of PPPs, they have potential benefits for the delivery and operation of the infrastructure—that is, the delivery of the service—and it may be that they have potential benefits for access to capital. I will not say that those benefits would apply in every single case or that in every single case those benefits would outweigh or be an improvement on a traditional procurement model. However, in government we need to be in a position to have the expertise to at least test that analysis. PPPs have been used in other states across a range of other areas. I have no aversion to aggressively pursuing engagement with the private sector and having a look at what we can do in that space. That is why it is referred to in the budget speech and that is why it is there.

I will close with this analysis. I mentioned before a list of projects, mainly in terms of time lines and cost relative to budget. The project that was delivered of late on time, or within mild parameters, and on budget in Western Australia was the Central Law Courts redevelopment. I understand that project was delivered under a form of PPP model. I am not saying that it is the be-all and end-all. I have given up on that view and trying to impose a philosophy on public sector outcomes. However, it is a model that we need to do a lot more work on looking at internally in Treasury. I am sure that the Under Treasurer would agree—or he will now—that we need to make sure that our level of expertise gets to a level that we can engage with the private sector with a level of professionalism that protects the long-term best interests of Western Australia; and that is what we intend to do.

Mr M.P. WHITELY: The Treasurer mentioned two potential projects—a children's hospital and a replacement prison. Does the Treasurer foresee them as being build or build-and-operate PPPs?

Mr T.R. BUSWELL: I am not in a position to provide that advice at this stage. I am not aware that that analysis has happened to date, but we certainly need to do the analysis. PPP means a variety of things to a variety of people. I believe it is a matter of assessing the project and its options, and then having the skill set in place to conduct a proper analysis to determine which option will give the best outcome. I do not know about either of those projects; I just raised them as potentials.

Mr M.P. WHITELY: Therefore, even for a children's hospital, the Treasurer could foresee it as a possible build-and-operate project.

Mr T.R. BUSWELL: All I am saying is that we would need to evaluate the options available to government. I understand that we are providing the capital for the extension project at Joondalup Health Campus and that the contract for management of the building will be between the private sector provider and whoever management engages to build it. We will then have an ongoing arrangement with the private sector provider to look after patients in that hospital in Joondalup, which I think is Ramsay Health Care. There is therefore a range of models. I am not going to commit to one or another and I am certainly not going to engage in a process of trying to scaremonger around the form of delivery of a children's hospital. What people in Western Australia want is a new children's hospital, and that is what we will deliver.

Mr M.P. WHITELY: I am not scaremongering; I am asking for information.

Mr M.W. SUTHERLAND: I refer to page 474 of the *Budget Statements* and the three per cent efficiency dividends. Has the Treasury met its efficiency dividend savings in full and what will be the impact on service delivery?

Mr T.R. BUSWELL: I thank the member for Mount Lawley very much for his question. The three per cent efficiency initiatives from Treasury are reflected on page 474 and I am very proud of what Treasury has delivered in terms of its three per cent efficiency dividend. As the member for Mount Lawley is aware, there was a lot of controversy around the three per cent efficiency dividend. It was introduced by the former government and we have had to do the difficult work of implementing it. It is my view that Treasury has led from the front in the innovative approach it has taken to delivering the three per cents. I am not going to touch on all of them, but the member will see some themes repeated through the budget. One of those themes is a reduction in the use of consultants and/or external resources, which Treasury has been focusing on, and a delay in filling vacant positions; that is, not laying off people but delaying the filling of vacant positions. There is no doubt that in some areas it has meant that we have had to refocus our efforts on strategic functions. I am looking at one under "State Revenue" which is listed in the budget as a "Rationalisation of Staff to Focus on Areas of Greatest Risk and Revenue Yield". I am sure the Under Treasurer will touch on that in a second. My understanding is that the non-replacement of people involved in revenue assessments and audits is a minor reduction. I am sure the Under Treasurer can provide more advice on that.

More broadly—I will get the Under Treasurer to comment on the three per cent efficiency dividend in Treasury—the three per cent process has been illuminating and rewarding in the sense that the three per cent efficiency savings now form a $1.757 billion part of the $7.6 billion of corrective measures that we were able to bring to account in this year's budget process. Also, and I think illuminatingly, moving through the three per cent efficiency dividend process has reaffirmed my view that an enormous amount of work still needs to be done in driving efficiencies in some areas of government operations. The three per cent cuts have been difficult, but I think the benefits to the broader community are, firstly, that we have been able to identify those corrective measures and, secondly, it has really alerted my ministerial colleagues and me to the extent of the work that we have yet to do. I ask the Under Treasurer to comment on some of the specific three per cent efficiency dividend initiatives that have been adopted by the Department of Treasury and Finance.

[4.50 pm]

Mr T. Marney: The three per cent savings challenge has been focused on areas of the Department of Treasury and Finance in which we felt there was the greatest capacity, without impacting on service delivery, to achieve more efficient outcomes. An example would be the gateway initiative, which is a methodology by which various initiatives and projects within government are reviewed on a periodic basis to ensure that they are on track and remain consistent with the original plans. In that gateway review program, we had relied heavily on external resources, such as bringing in consultants or even public servants from interstate, to assist with those gateway reviews. We have pushed that program a bit harder and invested more in developing our capability internally across the state public sector to get to a point at which we can step back our use of external resources on that initiative. I think that is a very significant, positive step forward in the capacity capability of public servants in Western Australia. Other areas of service reduction are focused, for example, on the state revenue business and to meet that target there is a reduction in the compliance complement. It is not an insignificant reduction. I must point out that with the change of government, obviously, there was a different suite of priorities and challenges for implementation and that has an impact on the Department of Treasury and Finance. Therefore, we addressed not only the three per cent efficiency dividend, but also our internal resourcing across businesses to ensure that the Treasury business could responsibly deliver on the desires and priorities of the government. As a result, there will be a reduction in some areas of compliance activity in the revenue business and a refocus towards those areas in which risk is highest and the level of activity and compliance effort, if we like, that will be most productively spent, given where we are at in the economic cycle. Those are some of the changes made by the Department of Treasury and Finance's implementation of the three per cent efficiency dividend.

Mr B.S. WYATT: I refer to the Loan Council allocations on page 212 of the *Economic and Fiscal Outlook*. Can the Treasurer clarify for me the Loan Council nomination? I have tried to do some research, but how the Loan Council works is a bit of a mystery to me. The nomination for Western Australia in 2009-10 is just over $3 billion. The 2009-10 budget has $5.3 billion, which is obviously significantly higher than and outside of the $579 million tolerance limit that has been set for 2009-10, as I understand it. Does something happen when we go outside the Loan Council's nomination amount? Are there any implications for accepting or breaching the nomination as set by the Loan Council?

[Mr V.A. Catania took the chair.]

Mr T.R. BUSWELL: I agree; the Loan Council is a bit mystical to me as well. My advice is that there are no penalties or sanctions as a result of that and that what the Loan Council does is look in aggregate at the borrowings of individual states. However, let me say that there will be increased focus from the Loan Council on state borrowings, and that issue was flagged at a recent Treasurers' meeting when the issue of the commonwealth guarantee of state borrowings arose. Some Treasurers expressed concern that the commonwealth guarantee would release some of the more traditional or informal controls set around state borrowings and that it may have been argued that the extension of the federal guarantee to state instruments could have led to less than desirable outcomes. However, the Loan Council will be more aware of state borrowings and I think it would also be fair to say that, on my information, almost every state will go back to the Loan Council, if it needs to, indicating more extensive borrowings as, indeed, will the commonwealth. Therefore, I will only be able to advise the member as I return from future Treasurers' meetings, but I can tell him that item was raised. My advice from my Treasury officials in this place today is that there is no sanction and, effectively, no factor inhibits the extension of that Loan Council allocation. However, I will ask Mr Marney if he wants to make any other points on that because he would have attended a lot more of those Loan Council-type meetings than I have.

Mr T. Marney: During the early to mid-1990s the Loan Council was a definite constraint on the capacity of states to borrow. Since then, the arrangements have changed substantially and the Loan Council's processes are really a monitoring process by the commonwealth in terms of the aggregate impact of the borrowing activities of the states on the macro economy. That has been the focus certainly for the past few years. However, it is fair to say that focus intensified as we went through some fairly, what may seem like distant memories of, boom times and states' borrowing programs provided fiscal stimulus while the Reserve Bank was taking away stimulus in the form of interest rate increases. The commonwealth was concerned about the competing objectives of policies in that regard. More recently its concern is around the aggregate impact on debt markets and the capacity to raise debt funding. Therefore, I think there will be active discussions at the Loan Council about the aggregate movement in state and commonwealth borrowings, but without necessarily any constraint in that regard.

Mr B.S. WYATT: Through answers that I have received on notice about the commonwealth guarantee of state debt and whether the state intends to access that guarantee—my understanding is that we still have a bit of a way to go before those decisions are made—the question I have, and the Treasurer nearly hit on it, is that our nomination of $3 billion, which we have breached by $2.3 billion, if in the event that we require our future and current debt to be guaranteed by the commonwealth, will there be some capacity for the Loan Council to say that it will not guarantee Western Australian state debt because we are well outside the tolerance limit set by the Loan Council nomination?

Mr T.R. BUSWELL: All I can report back is the nature of the informal discussions held at the last Treasurers' meeting. The nature of those discussions was that the Loan Council would maintain a watching brief on state borrowings to ensure that the commonwealth guarantee was not being abused, I suppose that is the right term, in a careless way. Given that I would say that all states have been encouraged by the commonwealth to borrow and participate in the fiscal stimulus packages that are currently in play, I simply do not see that as an argument in the current climate. In due course it may become an argument but I cannot imagine in the current climate that that would be an argument. The member is right about the state's take-up of the commonwealth guarantee: the matter is still being considered by Western Australia. I understand a number of matters are unresolved in and around the negotiations between the Western Australian Treasury Corporation and the commonwealth, not the least of which is the finalisation of the commonwealth legislative instrument.

[5.00 pm]

Mr B.S. WYATT: I hate to interrupt, but is there a time frame for that?

Mr T.R. BUSWELL: I understand that a time frame originally applied, but we will get more advice about that. I understand that it no longer applies.

Mr B.S. WYATT: I assume the 28-day time frame must be from when the legislation has passed.

Mr T.R. BUSWELL: Yes; I am pretty sure that is the case, but I will get Mr Marney to provide more advice about that.

Mr T. Marney: The original time frame on the expression of whether we would take up the guarantee required a decision to be taken and communicated to the commonwealth within 28 days of receipt of the draft federal legislation. We are yet to receive that draft legislation. A number of fairly complicated issues need to be resolved in terms of guarantees that flow both ways; that is, from the commonwealth to the state and back the other way. The commonwealth is indicating greater leniency about the 28-day deadline. Having said that, we have not seen the draft legislation details so it is very difficult to make a call at this point.

The CHAIRMAN: Members, it is five o'clock and I wish to know whether we will be moving on to the next division.

Mr B.S. WYATT: If we could, we will continue for a little longer on this division, Mr Chair. It was an informal arrangement.

The CHAIRMAN: Please continue member for Victoria Park.

Mr B.S. WYATT: I dare say this question for the Treasurer will be referred to the Under Treasurer. Given the issues the Under Treasurer raised earlier this year in a memo to the Treasurer about refinancing problems, have those problems dissipated, given the commonwealth's indication that it will guarantee state debt, or are those problems still around?

Mr T.R. BUSWELL: I will get the Under Treasurer to answer that in more detail. I understand that in the short term there was almost a free-rider effect in terms of the state and commonwealth basis point differential. That has now dissipated somewhat. But I will get the Under Treasurer to provide a more detailed answer.

Mr T. Marney: The difficulties that we were experiencing in January and February are certainly still there, but probably not of the same severity as was the case at that time. Since then we have restructured our borrowing program, making use of what we can get short term, and dealing with the increased refinancing risk that that imposes on our total borrowing portfolio by virtue of the fact that we cannot get longer term debt at a competitive price. In essence, we are housing greater refinancing risk as a result of having not yet concluded these arrangements. However, the situation has certainly improved since the first quarter of this year.

Mr B.S. WYATT: I have an additional question. Once the guarantee, in whatever form it takes, is in place, does the Treasurer see that solving the problem of our ability to access long-term debt?

Mr T.R. BUSWELL: Mr Marney.

Mr T. Marney: Not necessarily; that is why we have to evaluate the commonwealth's draft legislation. Once the details are provided to us, we have to evaluate what we think it will do in the market and whether it is worth the state paying 30-basis points for a guarantee or whether it is worth just sitting with existing market arrangements and seeing how we go.

Mr B.S. WYATT: Are the interest payment forecasts in the budget based on long-term trends? Have the current problems accessing long-term debt been removed from those assumptions and a long-term trend applied?

Mr T. Marney: Yes.

Mr T.R. BUSWELL: I will also refer to two issues around the commonwealth guarantee. Firstly, the commonwealth guarantee was, I understand, to be put in place effectively for the life of the bank deposits and/or bank guarantees that are in place. One issue yet to be resolved is when exactly those guarantees will be lifted. I think the terminology that has been used is when there is return to "normal market conditions" or some term like that. Understanding what that means in the current economic environment is not without its challenges. Second, the guarantee was not our immediate preferred solution to the problem. We thought there were some other solutions that the commonwealth could have pursued; notwithstanding that, we felt the commonwealth offer was appropriate and we were happy to support it with the other states. I think that Victoria has indicated that it will not be participating in the program. Queensland has indicated that it more than likely will. I think it will be assessed on a state-by-state basis. There may even be an argument that provided other states participate, the states that choose not to participate may enjoy some sort of free-rider benefit. That is something that we will have to work through in due course.

Mr B.S. WYATT: Given the debt requirements for the 2009-10 financial year, can the Treasurer indicate now whether he intends to use or to acquire the guarantee?

Mr T.R. BUSWELL: Treasury and the Treasury Corporation have been unable to provide me with conclusive advice at this stage because they have, quite simply, not seen the full detail of the commonwealth proposal.

Mr B.S. WYATT: This will be my last question. If we take the guarantee for the new debt, logic would suggest—I do not know, but it appears it would—that the government would then have to guarantee its existing debt stock.

Mr T.R. BUSWELL: I will get Mr Marney to provide some advice. Again, my information is that there are mixed views on that. It is a very interesting public policy issue—like a lot of these things.

Mr T. Marney: I think the issue raised by the member is pertinent when considering whether to take up the guarantee. If the guarantee is only on new parcels of debt, we run the risk of creating two separate classes of debt with different risk profiles. That would have to be considered and a determination made dependent on the conditions embodied in the commonwealth legislation regarding whether we take up any guarantee arrangements.

The CHAIRMAN: I give the call to the member for Carine.

Mr A. KRSTICEVIC: I refer the Treasurer to page 484 of the *Budget Statements* and the line item to do with common-use contracts. I refer specifically to the key efficiency indicator. I note the budget decision to save $60 million per year by reducing the rate of growth in agency spending on goods and services. How will a greater use of common-use contracts deliver these savings?

Mr T.R. BUSWELL: It is a good question in what is an important reform area of government. I am always the first to acknowledge that this reform was initiated under the former Treasurer, the now Leader of the Opposition. During my time as shadow Treasurer, I was very supportive of the reforms that had happened in and around government procurement. These were some very important initiatives, of which the use of common-use agreements was one. I think it only fitting that a year or two ago, the then head of the procurement section at the Department of Treasury and Finance, Mr John Tondut, and his team were recognised with a Premier's award. That was fitting recognition for driving significant reform. As an aside, Mr Tondut has now moved into the next area that requires significant reform; namely, the building management and works area of government. He is either an adventurer in search of new opportunities or he is an absolute sucker for punishment! But he is doing a great job there as well. More is to be done in the area of common-use agreements and procurement reform. I will get Mr Marney to run through some of the detail around the potential savings areas that were identified in the preliminary report of the economic audit, and that were subsequently adopted by the government in the budget. Some other aspects of the procurement reform that we have been looking at include the changes we have made to the operations of the State Supply Commission and the fact that, ultimately, the State Supply Commission of Western Australia will cease to exist. Even the day-to-day operation of the State Supply Commission is basically —

[5.10 pm]

Mr B.S. WYATT: Is the oversight committee that was to replace the State Supply Commission and provide advice to Treasury in place yet?

Mr T.R. BUSWELL: I am not aware that it is yet. I will ask Mr Marney to provide information on that. There is a lot happening in the procurement sector to build on the reform agenda of the former government. I will ask Mr Marney to run through some details about the exact application of this second wave of change in the management of common-use agreements.

Mr T. Marney: I thank the Treasurer. The procurement reform agenda to date has focused very heavily on the implementation of common-use arrangements that have sought to aggregate, standardise and simplify what is bought across the public sector. That has been done by identifying, through data gathering, common products and services across the public sector and identifying where, across agencies, there are opportunities to aggregate and standardise those products. That component of expenditure covers around $900 million of goods and services spanned across the public sector out of a total of about $4 billion per annum. The next wave of reform, as articulated in the economic audit finding, is to look at the $3 billion, or thereabouts, that the agencies spend on agency-specific goods and services and achieve some of the same efficiencies and savings through the implementation of the same buying principles by the procurement teams that reside in those agencies. Some agencies have had better outcomes in their purchasing already but others have substantial opportunities to go further. What we have seen in a number of circumstances, when agencies have been able to achieve better buying outcomes as a result of the simplification and aggregation of their buying and/or standardisation of products, is that they have captured that benefit in the form of increased volumes purchased rather than merely pocketing the savings and moving on. That would need to be an element of the next phase of reform to ensure that agencies are buying what is appropriate to their service delivery requirements and not what is over and above their service delivery requirements because it was a good deal. That is where that is headed.

On the question of the State Supply Commission, important functions of the State Supply Commission remain and should be performed. There needs to be a degree of regulatory oversight of policy and implementation in the procurement of both goods and services. In the interim, to continue to deliver the important roles of the State Supply Commission, the State Supply Commission board will continue to meet. I believe that it is meeting next week. Those responsibilities will continue to be discharged rather than completely ignored. What we will achieve by the abolition of the State Supply Commission is an appropriate balance and segregation between policy formulation and regulation and, ultimately, the handling of complaints and issues of concern.

Mr T.R. BUSWELL: I will ask Mr Marney to give some more advice on what I have termed previously the "high-level industry consultative group", which I think is an important part of this shift regarding the State Supply Commission. My goal is that the group will provide advice from an industry perspective; that is, from the perspective of suppliers to government, as opposed to an internal-looking organisation that looks at government agencies that use the procurement processes. Will the Under Treasurer provide an update on where that is at?

Mr T. Marney: We will be putting together an industry advisory body to ensure that we are aligning our purchasing activities as best we can with what industry sees as opportunities for efficiencies and the best way for us to structure our interaction. That clarifies some arrangements under the previous State Supply Commission whereby industry representatives were on the board of the State Supply Commission. That confused their role between that of an advisory nature, in which industry was able to articulate its requirements to the State Supply Commission and government procurement, and that of governance. We are trying to better clarify those different roles in the advisory service, the governance of procurement policy and the audit of the adherence to that policy in our procurement practice. That audit role is being separated. We are having fruitful discussions with the Ombudsman and the Auditor General about their roles in that, given that that is their corporate capability.

Mr A. KRSTICEVIC: What are some specific examples of when common-use contracts are used, and is the Treasurer thinking of extending common-use contracts to other areas that might benefit from it?

Mr T. Marney: We look at buyer behaviour and what people across the sector are purchasing to try to identify any other opportunity for additional common-use contracts. It is fair to say that in the current circumstances we will focus on replacing the existing common-use arrangements that we have in place that are high-volume usage arrangements to ensure that we have better quality of service coming off those arrangements and to drive the efficiencies a little further. That could be in the area of courier services, purchasing cards, temporary personnel services, or travel and booking arrangements. There are some very high-volume areas on which we will focus and we strongly believe that we can achieve further efficiencies. That is where we will go to first.

Mr A.J. WADDELL: Common-use contracts have a certain advantage whereby the purchasing power for government can be pooled. However, there are clearly instances in which the usage of a common-use contract puts a government department at a disadvantage when buying what is generally available in the market because common-use contracts are prescriptive about what can be purchased and from whom it can be purchased. Has any consideration been given to allowing a common-use contract to become the floor, so to speak, whereby a government department could make an argument that it is able to obtain a better deal or option and therefore would not need to go through an incredible amount of bureaucracy to move outside the common-use arrangement when it would be advantageous to do so?

Mr T.R. BUSWELL: I am happy to answer the question because it is a good one, but I will seek some clarification from the Chairman. Is it possible for a member to ask a question if the member is not a member of the committee?

The CHAIRMAN: Yes.

Mr T.R. BUSWELL: That is fine. I did not want to breach protocol. I will make a general statement and then get Mr Marney to provide more detail. I think we need to do more about how we engage with people who provide services to government. I often hear people—I will not use the word "complain"—comment on their relationship with government and what they perceive to be a rigid structure. That rigid structure does not necessarily mean that we are getting the best outcomes. That is why I am very keen to involve the industry consultative group so that the body that provides advice to government is the body that provides the services and/or equipment to government, if I can use that term. We need to maintain a close link there, because at the end of the day, yes, we will have aggrieved suppliers from time to time who miss out on a contract, but I have found that most I have dealt with have a genuine interest in getting the best outcome for the taxpayer. Sometimes there is a bit of a blur, but I think there is a genuine endeavour to make the system better. That is why we want to lock it in. I might just ask if Mr Marney has any comment he wants to make on the specific issue that the member raises.

[5.20 pm]

Mr T. Marney: The benefits of the common-use arrangements come from the very fact that they standardise and aggregate spend. If we compromise on either of those elements, we diminish the benefits. It is a balance between ensuring that agencies have access to the specific products that they require or the services that they require to the standard they require versus simplifying things to the extent that it is vanilla for everyone and that is it because that is the most efficient outcome. Often agencies, through their procurement people, who are actually my people based at the agency, or directly through government procurement, will seek exemption from common-use arrangements. Where those are justified and they do not compromise the broader common-use arrangements, we are happy to entertain them. Where agencies seek those exemptions because they want to do things that from our perspective seem kind of odd or they seek to purchase goods or services of a standard that are way above what they actually require to deliver their service, that is when we will be less entertaining of the request for exemptions from common-use arrangements.

Mr A. KRSTICEVIC: I was talking to a small-business owner last night. One of the things he was saying to me specifically about common-use contracts with government departments is that sometimes certain suppliers who source their products overseas, for example, can look cheaper, but local suppliers are employing maybe 20 or 30 people, paying payroll tax and creating on-benefits to the economy. I am thinking of those cases. The small-business owner was saying that he gets very frustrated about it and that it is very hard to compete sometimes with Chinese products, for example, and that it is not actually cheaper if we look at it from an economic perspective. It may well be from simply an agency perspective, but when we look at it from the point of view of the entire state, it does not necessarily balance the books. It is really a matter of whether we have any mechanism for factoring in those bigger picture items.

Mr T.R. BUSWELL: I will let Mr Marney provide some more detail around our Buy Local policy, but the Buy Local policy sits within the framework of procurement in Western Australia. It is a policy that has a Western Australian focus in the first instance and then, within Western Australia, at a regional level it has a regional focus. I am not saying that the system is perfect in any way, shape or form. That is why I am very keen to ensure that industry has the capacity to feed directly into the process. I think that on the balance of probabilities there are outcomes that do not reflect the intent of the Buy Local policy. I will get Mr Marney to explain it in a little more detail.

Mr T. Marney: As the Treasurer indicated, the Buy Local policy applies in the first instance at a regional level through the regional centres that we have running out of government procurement. I think they have demonstrated that we can actually achieve results buying locally that both in broader economic terms and in strictly an agency's financial impact terms are better outcomes on balance. At the state level, again the Buy Local policy applies. I would have to refer to our website to look up the finer details of that policy, but we are constrained to a significant degree by commonwealth trade agreements that preclude us from explicitly favouring local content or providers. It is a fine line with the implementation of the Buy Local policy in the context of some of those broader free-trade agreements. We seek to tread that fine line in trying to achieve the best outcomes we can for local industry while not getting into trouble at a national level. However, for the details on the Buy Local policy I would have to refer the member to our website.

Ms J.M. FREEMAN: This is an adjoiner to that question. I congratulate the government on continuing with the Buy Local policy and believe that it is an important aspect of policies on procurement. I have to raise the important issue of procurement and equitable wages for contractors. Given that we can have a Buy Local policy that ensures work, jobs and all the issues raised by the member for Carine, I am still interested to know why the Treasurer cannot countenance a procurement policy that also looks at equitable wages for cleaners who are either contract cleaners or directly employed in government. It is an equitable procurement issue.

Mr T.R. BUSWELL: Let us go back. The scenario that is being referred to is a scenario in which the government tenders for a supplier. In this case it was to provide cleaning services in general government sector buildings, as I understand the old fair pay policy, not government trading enterprise facilities. As I understand it, it was outside that policy. The government tenders; businesses, funnily enough, submit a tender; and the government awards the contract. My view is that the relationship between the company that submits the tender and its employees is a matter for that company and its employees, as within the confines and environment laid down by the applicable industrial relations framework. In relation to these employees, I can only imagine that they were employed by a proprietary limited company. Therefore, the appropriate industrial relations framework is the commonwealth industrial relations framework. As we have discussed at some lengths, those employees need to be seeking remedies to their pay-related issues within the context of that industrial relations framework. I did not ask the department to follow up on this, but perhaps I might. An argument was put that perhaps one of the reasons that that particular group of employees had missed out on significant wage rises when a vast number of people across the labour force were getting wage rises had more to do with the quality of their representation—that is, the quality of the representation provided to them by their union—than other factors. I do not know. I am almost tempted now to get the analysis conducted.

Ms J.M. FREEMAN: The representation was very good, I can assure the Treasurer. The procurement policy could ensure that they could get those payments.

Mr T.R. BUSWELL: The people involved from the union may have thought it was good. I suspect that the workers who were looking for an increase in pay may have thought that perhaps it was not so good. The facts also are that there were some other components of the fair pay policy. They were other components that no-one has really spoken about, which centred around things like union right of entry. I do not think that we should be using government procurement policy in Western Australia to guarantee the Australian Liquor, Hospitality and Miscellaneous Workers Union representatives the right of entry into government offices where they may or may not have —

Ms J.M. FREEMAN: They have right of entry under the federal act and the state act. The Treasurer is not staying to the point, but anyway.

Mr T.R. BUSWELL: I do not know. I am just going on the briefing note that I had been given. The briefing note I had noted that one of the reasons there had been a delay from the approval of the former government to the adoption of the policy, which was only about nine or 10 months, was that there were ongoing negotiations around other matters, and that one of those other matters related to right of entry. I could be completely wrong, but I do not think that I am. What we have therefore is effectively a situation in which the former government had agreed to use procurement policy to make up for some failings of the trade union to deliver wage outcomes.

Ms J.M. FREEMAN: They could be failures perhaps of the industrial system, the collective bargaining system and the award system to keep up to date with minimum wage earners. There are people who can bargain and those who do not have the strength to bargain.

[5.30 pm]

Mr T.R. BUSWELL: I am happy to sit and talk about this for the remaining half-hour. I want to get back to the point I was making earlier about the other matters. Notwithstanding that, the member makes a good point about minimum award wages, and we raised the issue in Parliament. We made a submission to the commonwealth to argue for an increase in minimum wages; I do not think the former government did. We made an attempt to engage in the commonwealth industrial relations system, ministerially controlled by Hon Julia Gillard, MP, to deliver better outcomes to the very people the member is talking about; the former state government did not.

I have an objection to using procurement policy—in this case in relation to the cleaning of government offices—to basically subsidise a membership drive by the miscellaneous workers' union; we will not do it. The former government did it in relation to day labour cleaning in high schools, a decision, I hasten to add, which a former Minister for Education, the member for Willagee, opposed consistently because he knew it was wrong. When a member from this place, Hon Ljiljanna Ravlich, became the minister, she signed up straightaway.

Mr M.P. WHITELY: The Treasurer is misrepresenting the member for Willagee's position. He did not oppose it because he thought it was wrong.

Mr T.R. BUSWELL: He did!

Mr M.P. WHITELY: He opposed it because it was an election commitment he gave.

Mr T.R. BUSWELL: All I am saying is that he did not roll over and have his belly tickled by the Liquor, Hospitality and Miscellaneous Union, whose headquarters are down in Thomas Street. He was quite happy to maintain the line. The following Minister for Education, Hon Ljiljanna Ravlich, rolled over straightaway and had her belly tickled—good luck to them! That cost the state probably the capital equivalent of a small primary school every year.

Ms J.M. FREEMAN: It saves money on people's wages.

Mr T.R. BUSWELL: Sorry?

Ms J.M. FREEMAN: It does not matter.

Mr T.R. BUSWELL: I am happy to take a further question from the member. Returning to the point that the member raised about the fair pay policy of the former government; the former government adopted the fair pay policy. My understanding is that it went through cabinet in early 2008. It never went any further because there was ongoing discussion around these other matters. The member knows as well as I do that those other matters included union right-of-access into those workplaces. My view, quite simply, is that there are existing protections for low-paid workers and those protections are supplied within the commonwealth framework. They are the responsibility of the commonwealth through that framework. I do not know; has the member written to Julia Gillard about it? We did! I am not going to use state government procurement policy to help deliver the industrial relations outcomes that the former government sought. I have no relationship, and no need to better my relationship, with the Liquor, Hospitality and Miscellaneous Union—a union, I should point out, that represented my mother when she worked in the local high school in Busselton. That union used to kindly offer up their facilities to whatever obscure faction of the Australian Labor Party I was in when I was at university down there in Thomas Street! Are there any other questions on that matter? I am happy to keep going.

Mr M.P. WHITELY: I have a question relating to the choice to move away from the net-debt-to-revenue ratio to the interest-cost-to-revenue ratio. Will the Treasurer clarify whether that was a decision of government, rather than a decision of Treasury? In other words, the choice to move the emphasis was not on the basis of advice received from Treasury, but was a decision made under the Treasurer's discretion.

Mr T.R. BUSWELL: I am sure that I would have asked Treasury for some advice and commentary around a range of matters to do with fiscal strategy and fiscal targets—this one as well as some of the others. But ultimately the adoption of that advice and the consideration of that advice is a decision for government. The adoption of the fiscal strategy and the financial targets was a decision of government. I cannot recall exactly, but I would be very surprised if Treasury did not provide some advice during that process—Mr Marney has just informed me that he did provide some advice. I seem to remember quite a long meeting, during which we canvassed a range of issues around financial targets.

Mr M.P. WHITELY: Would the Treasurer be happy for Mr Marney to share that advice with us now?

Mr T.R. BUSWELL: Mr Marney provided a range of advice to the cabinet expenditure review committee, and it was good advice.

Mr M.P. WHITELY: What was the advice?

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

Mr M.P. WHITELY: I imagine Mr Marney might know. He is sitting next to the Treasurer; perhaps he could tell us.

Mr T.R. BUSWELL: It was advice provided to a subcommittee of the cabinet, and I think a person of Mr Marney's professionalism would know not to go near that. Notwithstanding that, we seek advice on a range of matters and we would have sought advice on this.

Mr M.P. WHITELY: Did the Treasurer ever get any advice along the lines of, "Hey, give up on that one, because you can't go anywhere near meeting that one; shift the goalposts and go to a net-financial-liabilities-to-revenue ratio because you might have a better chance if we lower the bar"?

Mr T.R. BUSWELL: No. On an intellectual scale, the quality of those sorts of statements is well below that which Mr Marney could achieve even on a bad day! I do not say that to reflect on the member's intellectual capacity!

Mr M.P. WHITELY: Sorry, I was not implying for a moment that the source of that advice was Mr Marney; I am saying it would have been the advice the Treasurer received from his advisers, and it would intuitively have been the way the Treasurer would have thought. That is actually what the Treasurer has done; he has moved from a target that he cannot achieve and reset the goalposts. I am sorry to Mr Marney; that was not a reflection upon the quality of his advice, but I would love to know what it was.

Mr T.R. BUSWELL: I am trying to recollect the exact nature of the member's statement. I have never heard Mr Marney make such a simplistic statement.

Mr M.P. WHITELY: No, I am not suggesting he would have.

Mr T.R. BUSWELL: That statement bordered on the periphery of what most people involved in economics would describe as stupidity! I can say reasonably comfortable that Mr Marney did not make that statement.

Mr M.P. WHITELY: No-one is suggesting that he did. I asked a question about what advice the Treasurer had been given, and since Mr Marney is here, perhaps he might share that advice with us. What was the rationale behind moving the goalposts? It was the Treasurer's choice, so what was the rationale for it? The Treasurer has said he took advice from Mr Marney; perhaps the Treasurer might want to share that advice with us.

Mr T.R. BUSWELL: As I said, we ask for advice from Mr Marney on a range of matters. What has crystallised in recent times, especially following the publication by Standard & Poor's of a very interesting document about the AAA credit rating, is that from its point of view, a critical measure—whilst acknowledging that that is not the only measure—is the net-financial-liabilities-to-revenue measure. Perhaps the member should be mounting an argument that that should be the government's financial target; that is probably a much more defensible argument to mount. The argument around moving away from the net-debt-to-revenue ratio is basically because Standard & Poor's, and to the best of my knowledge other people involved in examining government debt and ratings associated with that, look at net financial liabilities to revenue.

What is the difference? The difference is that the net-financial-liabilities-to-revenue ratio, as opposed to the net-debt-to-revenue ratio, includes other liabilities on government. The most substantive one is unfunded superannuation liabilities. I am sure Mr Marney will correct me if I am wrong, but when the net present value of future liabilities of unfunded superannuation is calculated, the discount rate that applies is the 10-year commonwealth bond rate. The 10-year commonwealth bond rate went down; therefore the net present value of those future liabilities went up. I think the movement in bond rate contributed the major portion of the impact on our unfunded superannuation liabilities. That is the measure that Standard & Poor's now uses. According to my notes, the Standard & Poor's report states that "Western Australia's trigger is about '90 per cent'. Compared with Queensland, this economy is more exposed to mining, which can leave it prone to volatility." We have talked about that today. Further, the report goes on to state that "Although there are pockets of infrastructure pressure, we believe this will be lessened in the current downturn. It is also exposed to the higher-risk and capital-intensive energy sector." Western Australia's trigger is around 90 per cent. The government aimed to deliver a ratio that is between 80 per cent and 90 per cent, and that is what it did.

[5.40 pm]

Ms R. SAFFIOTI: In determining that ratio, as we understand it—the Treasurer can clarify this for us—it is not the net financial liabilities; it is net debt plus unfunded superannuation. It is not the net financial liabilities that are shown in the budget papers.

Mr T.R. BUSWELL: My understanding of Standard and Poor's definition of "net financial liabilities" is net debt plus unfunded super.

Ms R. SAFFIOTI: It does not include all those other liabilities that the Treasurer mentioned earlier.

Mr T.R. BUSWELL: Like what?

Ms R. SAFFIOTI: The Treasurer said that the reason he is using this measure is that it includes all these other liabilities, such as unfunded super, when in fact the measure is only net debt plus unfunded super. That is it, is it not?

Mr T.R. BUSWELL: That is S&P's measure as it casts its rule over the state's finances.

Mr B.S. WYATT: That is the measure that has been applied in the budget papers.

Mr T.R. BUSWELL: I will just check on that. Yes. Our net-financial-liabilities-to-revenue presentation number in the budget papers is reflective of S&P's rationale.

Ms R. SAFFIOTI: It is quite confusing because it differs from what is presented as net financial liabilities in the budget papers. Maybe that differentiation could be made for future reference.

Mr T.R. BUSWELL: Just to help out, in the key budget aggregates table in budget paper No 3, footnote (c) to the figure for net financial liabilities to revenue states —

> As defined by Standard & Poor's for the purposes of credit ratings assessments.

I think that Treasury deals with that issue in that definition. The member may have an alternative view on the use of interest as a fiscal target. I think that there is a difference between a stock measure of net debt against revenue versus a flow, which is the interest cost. Although the measure that we have adopted is historically consistent with Western Australia being in a AAA environment, I think it provides a useful tool to government to help limit our interest expense and to protect our AAA credit rating. I have to say that, internally, the Standard and Poor's measure has been a very powerful tool to help us shape the development, and the ultimate presentation, of the budget.

Mr M.P. WHITELY: In an answer the Treasurer gave earlier today, he mentioned that Standard and Poor's uses 39 different ratios to assess the creditworthiness of the states. I wonder whether by way of supplementary information we could be provided with a list of those 39 measures. To be absolutely clear, I was not for a moment suggesting that the sort of advice that I mentioned previously would have been given by the Under Treasurer; what I am suggesting is that it might have been the motivation for the way he has acted. That is clear if we look at the government's failure to go anywhere near achieving the financial disciplines that we imposed on ourselves—that is, a net-debt-to-revenue ratio of below 47 per cent. This government has nearly exceeded that in 2009-10 and will blow it in a monumental fashion in the out years. I just want to be clear about that. Can the Treasurer provide by way of supplementary information the 39 different ratio measures that Standard and Poor's uses?

Mr T.R. BUSWELL: No. I will tell the member what he should do. Maybe he should get on the phone and give Standard and Poor's a call and ask it to send them to him. I am not an agent for Standard and Poor's. Just to be accurate, I understand that Standard and Poor's uses —

Mr M.P. WHITELY: The Treasurer picks one of those 39 ratios that suits him temporarily. It will be interesting to watch him over the next four years because he will shift the goalposts constantly because of his inability to manage the state's finances.

Mr T.R. BUSWELL: Let me just explain —

Mr M.P. WHITELY: One day he will run out of all 39 and all will point the wrong way.

Mr T.R. BUSWELL: Has the member finished? Very good. I understand that Standard and Poor's uses around 22 different financial ratios—I am sure that the member will find them on the web, or he could give Standard and Poor's a call and it may send them out to him, but it may not—and an unspecified number of economic factors in assessing jurisdictions. Moody's Investors Service utilises around 35 different indicators of both a financial and economic nature in its assessments. In terms of picking one of those 22, I can tell members from the briefings we have had with Standard and Poor's in particular—I believe that we will have a briefing with Moody's in the not-too-distant future —

Mr B.S. WYATT: I thought you were not an agent of Standard and Poor's.

Mr T.R. BUSWELL: No, the government gave Standard and Poor's a briefing, as would normally be expected. At the moment, the ratio that it terms net financial liabilities to revenue is, I can only assume, the most, or one of the most, significant ratios that it looks at. Again, I draw members' attention to a research paper that it has produced titled "How Stable Is The Credit Quality Of The Australian States?" In its assessment of how stable are the credit ratings of Australian states, the overwhelming —

Mr B.S. WYATT: What date is that document?

Mr T.R. BUSWELL: It is dated 17 March 2009, which is the day before 18 March, which is the day before my birthday. Notwithstanding that, the overarching discussion in this document deals with the net-financial-liabilities-to-operating-revenue figures. Members should read this document, or they could give Standard and Poor's a call and have a bit of a chat to it. Indeed, the discussion in the back of the document, which is on a state-by-state basis, is all about that particular ratio. We could have focused in the budget on net debt to revenue. The issue is that the rating agencies do not.

Mr M.P. WHITELY: That immediately highlighted the government's inability to meet the disciplines that we imposed.

The CHAIRMAN: Members, are there any other questions?

Mr T.R. BUSWELL: Mr Chairman, I will respond to that. I suggest to the member for Bassendean, notwithstanding his unique and occasionally interesting approach to matters financial, that it would have been very difficult for anybody to keep net debt to revenue under 47 per cent across the out years in the current environment and to deliver the infrastructure spend that we have.

To conclude matters on rating agencies, I will ask the Under Treasurer whether he wants to make any additional comments to supplement my answer, in particular reflecting on his long-term relationship with the rating agencies.

Mr T. Marney: I think what we have seen in the past six months is the rating agencies having a good, hard look at themselves, not surprisingly, given the advent of the world financial crisis and the irrelevance of some of their ratings on commercial entities. In that context, they have been more forthcoming with us on what their focus is in the ratios that they look at. Certainly, the document we saw from S&P in the third week of March is the most transparent it has ever been about what triggers particular ratings for particular jurisdictions.

The set of fiscal targets adopted by the government was adopted following consideration of Treasury advice. My recollection is that that consideration was taken in February, prior to the release of that S&P report, to provide the context for the budget formulation. That is just to give members a sense of when the targets were struck and the nature of the release of the S&P report subsequent to that. Our view was that there were some constraints in the net-debt-to-revenue ratio construct that was leading to decision making being probably not ideal, such as some of the constraints around leasing decisions, and the failure to capture the broader definition of liabilities, which both Moody's and S&P consistently asked us about whenever they considered our rating issues.

[5.50 pm]

Mr M.P. WHITELY: I have a further question. The Under Treasurer said that advice was given in February. Presumably the advice and the decision predate the March publication of the Standard and Poor's document.

Mr T.R. BUSWELL: I believe that would be correct.

Mr T. Marney: Yes, that is correct.

Mr M.P. WHITELY: Does the decision to change predate the March document?

Mr T.R. BUSWELL: I will ask the Under Treasurer to respond.

Mr T. Marney: Yes, necessarily so, due to the need to set the targets before we start formulating the budget; that is a pretty fundamental step in the process.

Mr M.P. WHITELY: I have a further question. The rationale that is used in the March 2009 document is actually retrospective, because the decision was made prior to the use of the decision to change.

Mr T.R. BUSWELL: I will get the Under Treasurer to respond to that question.

Mr T. Marney: The advice to government was based on a fairly significant round of consultations with the rating agencies about what they felt was the most appropriate focus. Treasury officers took that into consideration in formulating the best advice they could to government. Government then considered that at the outset of the budget formulation process to ensure that it had a set of clear targets in mind. S&P continued to formulate its view and released the publication in March, but I do not think any of those things are inconsistent with each other.

The appropriation was recommended.