Division 11: Treasury, $8 280 673 000 —

Mr S.J. Price, Chair.

Mr M. McGowan, Treasurer.

Mr M. Barnes, Under Treasurer.

Mr M. Court, Deputy Under Treasurer.

Mr R. Watson, Assistant Under Treasurer, Infrastructure and Finance.

Mr M. Andrews, Assistant Under Treasurer, Strategic Policy and Evaluation.

Mr A. Jones, Assistant Under Treasurer, Economic.

Ms P. Burton, Chief Financial Officer.

Mr D. Lines, Principal Policy Adviser.

[Witnesses introduced.]

The CHAIR: Good morning, everyone. I shall read the chair's statement.

The estimates committee will be reported by Hansard. The daily proof *Hansard* will be available online as soon as possible within two business days. The chair will allow as many questions as possible. Questions and answers should be short and to the point. Consideration is restricted to items for which a vote of money is proposed in the consolidated account. Questions must relate to a page number, item or amount related to the current division, and members should preface their questions with these details. Some divisions are the responsibility of more than one minister. Ministers shall only be examined in relation to their portfolio responsibilities.

A minister may agree to provide supplementary information to the committee. I will ask the minister to clearly indicate what information they agree to provide and will then allocate a reference number. Supplementary information should be provided to the principal clerk by close of business Friday, 3 June 2022. If a minister suggests that a matter be put on notice, members should use the online questions on notice system.

We are dealing with division 11, Treasury. Leader of the Opposition, do you have a question?

Ms M.J. DAVIES: I refer to "Key Budget Assumptions" on page 3 of budget paper No 3 and note that the assumption in the budget is that the iron ore price will revert to its long-run average of $US66 a tonne from November 2022. Can the Treasurer give any insight into how that was arrived at when a number of analysts, including CBA and Macquarie, have the long-term iron ore price sitting much higher than $US66 a tonne? CBA has it tipped to fall to about $US108 a tonne in 2023, $US85 in 2024 and $US78 in 2025; Macquarie has it around a similar mark. I understand that the government is taking a conservative approach and I understand that there were changes when we were in government around how that was forecast, but $US66 a tonne is a lot lower than most analysts in the industry are suggesting as a figure to base the budget on.

Mr M. McGOWAN: Thank you for the question. I will give a broad statement and then hand over to Mr Barnes to give the specifics. The forecasting methodology is very cautious, as the Leader of the Opposition identified, and has the iron ore price reverting to the long-run average of $US66 a tonne over the coming years. The reason for that is clear. If the government forecasts it too high and the price comes in under that, it will create a deficit. That is why we have low forecasts.

I may have given this example in question time, but in the 2013–14 budget when Christian Porter was Treasurer, the forecast price was based on a very optimistic scenario. The then government spent accordingly and the price of iron ore came in significantly lower, which assisted in blowing out the deficit and, therefore, debt levels very significantly. We want to avoid what happened under Mr Porter and Mr Barnett. They adopted that methodology for whatever reason and it was disastrous for the state. We do not want to do that, so our cautious approach to budgeting will continue. I will hand over to Mr Barnes to provide greater analysis.

Mr M. Barnes: The $US66 a tonne price assumption from 2023–24 onwards is based on the historical long-run average iron ore price over the last five decades; it has actually averaged at that price over that period. The methodology we use and have used for some years in the budget is that in the budget year 2022–23 we have taken two months' worth of forward contract prices off the Singapore exchange and then have a four-month interpolation from that to the $US66 a tonne long-run average. For the budget year 2022–23, that results in a $77.50 per tonne price assumption. We then just flatline it at the $US66 a tonne assumption from that point onwards.

The commonwealth takes a very similar approach in its budget, on an equivalent cost and freight basis. The commonwealth has assumed a price of $US64.20 from 2023–24 onwards. It is very similar to our $US66 a tonne. It is, as the budget papers say, a conservative assumption. It reflects how volatile the iron ore price is and has been. In 2021, for example, the iron ore price peaked at $US236 a tonne in May and then fell to $US87 a tonne in November. When there are those sorts of swings—in my time in Treasury, I have seen it in the 30s—no-one can forecast the iron ore price. The last time I was in China, I met with the iron ore chief procurement person for the second largest steel producer in China. When I said to him, "We need to try to forecast the iron ore price at four years", he just laughed at me and said, "No. I can't forecast it for four weeks, let alone four years." Given that sheer volatility and uncertainty, adopting the actual long-run average price is a sensible assumption.

Ms M.J. DAVIES: I appreciate that explanation. Is it fair to say—this is a genuine question—that the Premier, with relative confidence, for the two years into the out years, when taking into consideration the current impacts from what is happening with Vale and in Ukraine, could accurately get a prediction on the two years, but for anything further than that, he would have to go back to the long-run average of $US66, or whatever it happens to be at the time? I understand the need to take a conservative approach, but the budget should be as accurate as possible, and it is significantly below what most people in the industry believe it to be, at least for the next two to three years.

Mr M. McGOWAN: The benefit of that is that the risk has an upside. In the last three years, debt has come down. If we are incorrect, because we are being too cautious, that will mean larger surpluses and bigger debt reduction, and we will not be spending based upon overly optimistic forecasts and not be blowing the books as happened during the term of the last government, which we are keen not to do. That is the upside of it.

Forecasting is an inexact science. Imagine if we had more optimistic forecasts and it turned out that they were wrong, and the price went down even lower. The Leader of the Opposition and other people would ask, "Why weren't you more cautious?" In many ways there is no perfect solution here. On the issue that the Leader of the Opposition raised, I do not know how the war in Ukraine is going to finish.

I hope that our relationship with our biggest customer, China, improves. Iron ore is a large part of the success of Australia and will be for many decades to come, maybe even centuries, so having a good relationship with our biggest customer is important. It is important for the stability of our security as well. I just think that all those factors conspire for us to be cautious in our forecasting and to make sure that we continue to have good relationships with China, Japan, Korea and other countries that buy our products. I will hand over to the Under Treasurer to expand further.

[9.10 am]

Mr M. Barnes: I am not sure that I have a lot more to add to that. The only other point I would make is that if the member has a look at a chart on China's steel intensity—its steel consumption per capita—unsurprisingly, in the last 20 years, and particularly the last 10 years, it has had exponential growth in its steel intensity. At some point, that is going to have to level off. Hopefully it will still grow, but it will level off, as it did in Japan through Japan's industrialisation and, going back further in history, as it did in the US, so at some point it is going to happen. I do not know how far away that is, but over time that is going to put downward pressure on the iron ore price.

The CHAIR: Further question, Leader of the Opposition?

Ms M.J. DAVIES: No, I have a new question. I refer to the same page; I am still looking at the assumptions in the budget. The Perth consumer price index estimated actual for 2021–22 is four per cent and it is then projected to reduce across the forward estimates to 2.75 per cent and then 2.5 per cent out to 2025–26. Is that really a realistic projection across the forward estimates? I note that in budget paper No 3, even Treasury and the government were saying that household spending momentum will continue, as will population growth and wages, and that business growth and significant government investment are also expected. Is the 2.75 per cent CPI figure a bit underdone?

Mr M. McGOWAN: I will let the Under Treasurer give a more technical answer and I might comment at the end of that.

Mr M. Barnes: A couple of weeks ago, the Australian Bureau of Statistics released CPI data for the March quarter. On the basis that we measure CPI in the *Budget statements*—for example, by excluding the electricity subindex in the CPI given the interaction with the household electricity credit—CPI grew in Perth by an annual average of 4.4 per cent in the year to the March quarter.

Ms M.J. DAVIES: Is that normal to exclude electricity?

Mr M. Barnes: We have for the last couple of budgets ever since the $600 electricity credit was introduced, because it distorts growth when that is included. We have excluded that policy decision to get a better measure of the underlying inflation in the economy. On that basis, actual annual average CPI growth to the March quarter was 4.4 per cent, so a little higher than the four per cent forecast for 2021–22 in the budget but broadly similar. We expect that that will come off over the next 12 months. We expect prices will still rise; they are not going to fall, but they will rise at a slower rate. We think the key reasons for that are, firstly, the passing of a number of temporary supply chain impacts. If the member has a look at that March quarter, everything kind of all happened at once. There was the Russian invasion of Ukraine and the east–west rail line was out of action for three to four weeks, with the impact of that on prices here. During that quarter we also had the Omicron outbreak and absenteeism rates in the eastern states, including in major national distribution centres. All those factors happened at once in the March quarter and saw that spike in inflation in that quarter. Those factors will not be permanent factors; they will unwind to varying extents. As they unwind, the rate of growth in prices will slow. Another issue is freight costs. Global freight costs increased substantially during the course of COVID, unsurprisingly. We have already seen, on a couple of global freight measures, that those costs appear to have peaked and are starting to come down, so that will put a bit of downward pressure on price growth going forward. The expectation is that the oil price will ease from its current high as well over the next 12 months. That is certainly what the futures market is suggesting.

One of the other big shifts that we saw during COVID was a big shift in global consumption from services to goods. Obviously, people could not get out and about so services consumption fell and goods consumption increased. People were at home during lockdowns and bought a lot of goods online, for example. That put a lot of pressure on global manufacturing and freight, and hence those costs really increased. With COVID restrictions coming down around the world, we expect those global consumption patterns will normalise back towards services. All those factors combined should see the rate of increase in prices slow from that 4.4 per cent that we saw in the March quarter. For those reasons, we have come up with a forecast of 2.75 per cent for 2022–23. The Chamber of Commerce and Industry of Western Australia is also forecasting CPI growth at 2.75 per cent in 2022–23, which is down from its forecast of 3.75 per cent for 2021–22. That reflects similar factors that I just discussed.

Mr R.S. LOVE: I refer to page 134 of budget paper No 2, volume 1, and the reference to a climate coordination unit. It is the first line item in the spending changes table under new initiatives, "Climate Action—Climate Coordination Unit". There is just over $2 million in the budget estimates around that. I also note that on page 141, some resources are attached to the establishment of the unit. Obviously, the purpose of the unit is to coordinate climate action, but why is the unit being developed within Treasury as opposed to Environment or Climate Action? Why does this money appear here and why is the government creating a coordination unit within Treasury?

Mr M. McGOWAN: I thank the member for the question. We decided upon the establishment of the climate coordination unit within Treasury to support the government with its emissions reduction strategies. It is the equivalent of three full-time employees over 2022–23 to 2025–26, and some additional support for supplies and services. The role of Treasury as a central government agency—it is one of the two or three major central government agencies—means that Treasury's views are often sought on whole-of-government and state economy impacts of climate action and the implementation of the Western Australian climate change policy. As the member knows, taking action on climate change often has an expense attached to it. That is why this is within Treasury. The functions it will undertake will include coordinating climate action–related agency submissions through the budget and midyear review process; engaging with stakeholders, including government agencies, and dealing with budget submissions on these issues; economic modelling on the implication of climate policies; supporting senior officers who are involved with the commonwealth on a range of issues, which no doubt will grow, I suspect, with the election of a new government nationally; helping with issues like carbon farming and so forth and what additional resources the state might need to put into those sorts of things; and administering government funding towards these issues. I think it makes sense for Treasury to be involved in these things because they often have a cost and Treasury is the best agency for understanding those things.

[9.20 am]

Mr R.S. LOVE: On page 141, under "Expenses", I refer to the allocation of three additional resources for a new climate coordination unit. Is that three people? Is "resource" an economic term for a person?

Mr M. McGOWAN: Yes. Three FTE staff members at level 6, level 7 and level 8, as well as a $50 000 per annum consultancy budget.

Mr R.S. LOVE: Is it also the role of this group to provide advice to the Treasury Corporation, because it indicates the agency will be developing environmental, social and governance statements for debt instruments et cetera? Is that part of that group's role as well?

Mr M. McGOWAN: Yes.

Mr R.S. LOVE: I have a further question on the climate change aspect. It is a new item, but it relates to climate change, so I think it is appropriate to keep going. I refer to paragraphs 12 and 13 on page 138, under "Climate Change Policy Support", which state, in part —

> … Treasury … are developing a framework to monitor, assess and report on the implications of climate change on the State's finances, infrastructure and service delivery.

How far will this group go in determining climate change policy for the state? For instance, will it be involved in directions to approval authorities about the need to take into account greenhouse gas emissions as part of approval for, say, a major industrial project or is it merely about trying to ensure that the work of the state itself has some relevant climate policy?

Mr M. McGOWAN: I cannot find the exact section, but the unit will not involve itself in approvals decisions, which are independent of Treasury. This would be for the purposes I outlined to the member before, which are to coordinate state government activity, work with the commonwealth, make sure that any climate initiatives that come forward are properly funded and assessed as to their cost et cetera. The approvals decisions are separate from this.

Mr R.S. LOVE: Specifically, I refer to budget paper No 2, volume 1, on page 136, paragraph 13. We were talking about this point a minute ago. It refers to a climate change risk management interim guide. Is that guide publicly available, because it is the first I have heard of it? I would be interested to know whether it is a document I can find somewhere without googling.

Mr M. McGOWAN: I hand over to Mr Barnes.

Mr M. Barnes: I will hand this one over to Mr Watson.

Mr R. Watson: That passage refers to the guide that is intended to help agencies develop their climate-related risk assessment practices, particularly their assessment of physical climate risks. Treasury is developing, in consultation and collaboration with the Department of Water and Environmental Regulation, a climate-related risk reporting framework for government. There is no reason that guide cannot be publicly available. I am just not sure whether it is readily available through an agency website.

Mr R.S. LOVE: Could that guide be made available as supplementary information?

Mr M. McGOWAN: I am happy to release it to the member. I do not think there is anything wrong with that. If we can get a copy, hopefully, we can provide it within the next couple of hours.

Mr R.S. LOVE: Paragraph 13 goes on to say —

> This … encourages agencies to undertake a first pass assessment of physical climate risks, including identification of treatment options (adaptation planning).

I assume, as part of that, it will give some sort of understanding of the cost involved in those measures. Is there an indication when we would expect to have that first pass look at all these matters?

Mr M. McGOWAN: I will let Mr Watson answer the question.

Mr R. Watson: The guide will ask agencies to assess physical risk and identify those risks. They will, ultimately, depending on the individual agency, at some point in the future move to quantifying the cost associated with those risks. In some cases it will take several years of work to arrive at that position because it is a complex issue and it also requires up-to-date climate modelling to help inform that assessment. Subject to government approval at a future date, as part of the state climate strategy, the state is moving to whole-of-government reporting of climate-related financial risks and it is intended to include the costs associated with those risks.

Mr R.S. LOVE: Getting back to the initial question on the formation of the climate coordination unit, will all these functions be handled by three people? Is my understanding correct?

Mr M. Barnes: Most of the work will be led by other agencies across government such as the Department of Water and Environmental Regulation, amongst others. This is a small team to try to pull it together in Treasury and provide more of an economic lens and a whole-of-government lens to it in terms of funding priorities, for example. It is not doing the work from scratch ourselves; it is putting that Treasury lens over the top of work being driven by other agencies and then providing that advice to government.

Ms M.J. DAVIES: I refer to page 136, under "Commercial Advisory", to the TAB. Could the Premier provide an update on the sale process for the WA TAB and any parties that might have been short-listed to submit bids?

Mr M. McGOWAN: I will provide some broad comments and then ask Mr Barnes or Mr Court to comment; I am not sure.

The member will recall that pre-COVID we had passed legislation to allow for the sale and the process was proceeding quite well. COVID came along and the process stopped for a range of reasons, mainly I think that the potential purchasers became very cautious and did not want to proceed on that basis. We have restarted the process. There is support from the board. I met with the Racing and Wagering Western Australia board on the sale process. We recommenced the process in October 2021. There was an EOI process that resulted in a range of applicants. They are due to put in offers by August this year, and they will be considered by a steering committee comprising Treasury, RWWA, the State Solicitor's Office and the Department of Local Government, Sport and Cultural Industries. We will seek to reach a satisfactory conclusion with all of them. Who the bidders are is probably commercial-in-confidence, so I will not discuss that, but I ask Mr Court to provide any further comment.

[9.30 am]

Mr M. Court: As the Premier has indicated, the binding-offer stage has commenced. There was sufficient interest through the expression-of-interest phase to move to the next phase to get binding offers. That has commenced only just recently. There is still interest from proponents but, as the Premier indicated, it is commercial-in-confidence. We have a 12-week process for them to submit their binding offers and any terms and conditions that they might put forward. There will be an evaluation phase after that and then we would expect to finalise the transaction later in the year if those binding offers are attractive. Obviously, there is a need for amendments to legislation to facilitate the sale.

Ms M.J. DAVIES: When the potential bidders have been short-listed, will that be made public? Will the Premier announce who is on the short list? Is there more than one? That has been a problem in the past.

Mr M. McGOWAN: I will let Mr Court comment. These are sensitive commercial matters. I actually do not know either.

Ms M.J. DAVIES: I understand. I am not asking for the names.

Mr M. McGOWAN: I do not know the answer, so I will ask Mr Court to comment.

Ms M.J. DAVIES: I am just asking whether there is genuine competition for purchasing the TAB, because time was always the challenge in terms of the value of the TAB, going forward.

Mr M. McGOWAN: I will ask Mr Court to comment. A lot of what happened was outside of our control because of COVID, amongst many things.

Ms M.J. DAVIES: I understand that.

Mr M. McGOWAN: But I know that the industry is keen for a sale. The industry's worry is the long-term future and the competition that the TAB is in with major wagering and gaming operators. The industry would prefer the TAB to be sold and a new model put in place. We want to work with the industry on a solution to that. I will ask Mr Court if he can comment, bearing in mind that I do not think we should reveal anything that is sensitive or commercial-in-confidence.

Mr M. Court: With that caveat around the commercial sensitivity, I can confirm that it is a competitive process. The first stage was the expression of interest. That level of interest was sufficient to move to the next stage. I can confirm there is more than one bidder, but I cannot say much more than that given it is subject to a live process.

Mr R.S. LOVE: I turn to item 16 on the same page under the heading "Delivery of Infrastructure and ICT Projects", which states —

> To assist in the delivery of the Government's … Asset Investment Program, Treasury is supporting the Government's Major Projects Expenditure Review Sub-Committee …

From reading this, I understand that that subcommittee is chaired by the Premier. Given that it is responsible for monitoring the delivery of priority projects, would the recent projects for which there were some major cost escalations have gone through that process? I am referring to the uplifting costs for the Yanchep line or the Bunbury Outer Ring Road, for instance.

Mr M. McGOWAN: The major projects subcommittee is designed to ensure we have progress of the major projects across the state in a very heated construction market and to make sure that we monitor how they are all tracking. As the member knows we have a great many major projects, but the cost increases are real and they are happening everywhere, for both public and private projects across the board. The good thing is that we have worked hard to get additional support from the commonwealth for our projects and we were very successful. The member might recall that we got billions of dollars earlier this year. Minister Saffioti had a very constructive relationship with Barnaby Joyce. He was very keen to support these projects with the cost increases. I think we worked constructively with former Minister Ben Morton on those sorts of things as well. That delivered a large amount—I think it was an extra $2.5 billion of commonwealth support—for these projects because of the cost increases and because the commonwealth also wanted us to participate in funding some regional roads, which we agreed to do. The Tanami Road was one and the Outback Highway was another. We also got support for the cost increases in our rail projects and so forth. These cost increases are just unavoidable. You would have to be living in a cave—not that Western Australians do!—to not know that there are real cost increases. The projects come before the major projects subcommittee, which examines the matters and listens to the reasons before reporting on them to the Expenditure Review Committee and then the projects go to cabinet for endorsement. That is the process, but I will ask Mr Barnes to comment further.

Mr M. Barnes: I am not sure I have a lot more to add to what the Premier has already said. The Major Projects Expenditure Review Sub-Committee was established, I think it was last year, from memory, or the year before. Its major aim in the current challenging environment for infrastructure delivery is to try to identify any particular barriers that can be addressed to help speed up the delivery of infrastructure projects. Through that subcommittee, we get regular updates from the relevant agencies and ministers on the progress of the projects in terms of timing and the budget and any particular issues or barriers, as I said, that they need addressed. Then the major project subcommittee reports to the ERC and the ERC, of course, reports to cabinet for final endorsement.

Mr R.S. LOVE: When looking at providing advice on a project that is already underway, would part of Treasury's consideration be to advise whether it is more cost effective to either delay a project or smooth a project, which Treasury announced a little while ago for some projects? How does Treasury determine that? Does it have a range of forecasts regarding the likely construction costs and whether they will continue to escalate, decline or stabilise at some point in the future when there is less private construction in the housing market and in the mining industry et cetera? Is that the type of advice Treasury would provide to this committee for the committee to either take that advice or do with it what it wished? Is that something Treasury would be able to assist the subcommittee with?

Mr M. McGOWAN: I will invite Mr Barnes to comment in a moment. Obviously we smoothed a range of projects—it was 15, from memory—in last year's budget. A range of considerations are given as to which ones are smoothed. In order to achieve that we had a round-table discussion with industry, master builders, union representatives, the Chamber of Commerce and Industry of Western Australia and a range of construction companies, and there was broad agreement that is what had to occur. This is the problem with having such a strong economy. That is the reason for it, and so that is what we decided to do. I will ask Mr Barnes to comment further.

Mr M. Barnes: Yes, member, in collaboration with the Department of Finance we provide that advice to the major projects subcommittee of the ERC. That is very much around actual construction cost increases in the recent past and forecast increases going forward. Related to that is advice on the assessed capacity of the construction market to digest certain projects, or more projects. We have also been working with the Department of Finance to look at the calendar of tender releases for these projects. What we do not want to do, particularly in regional areas where the market is exceptionally tight, is flood the market with a whole heap of tenders all at the same time that the market simply cannot digest. In addition to the smoothing of the projects that the Premier mentioned in last year's budget, in this year's budget, through the major projects subcommittee, we have established a clearer calendar looking 12 or 18 months out of when tenders will be released to the market so that we can smooth those and try to increase the digestibility of those projects to the market and therefore reduce the cost pressures going forward.

[9.40 am]

Mr R.S. LOVE: I have one further question about construction costs generally on those major infrastructure items, whether they be railways or bridges that require similar skill sets and engineers et cetera to provide them. Does the Department of Treasury expect those costs to be on the trajectory of continual growth or will they flatline at some point in the future? Is that a call that Treasury is able to make?

Mr M. McGOWAN: I will let Mr Barnes comment, but the member is asking for a prediction. I will let Mr Barnes make a prediction.

Mr R.S. LOVE: I think it is called an assumption.

Mr M. Barnes: Member, it is a little bit like the consumer price index discussion I outlined earlier. The rates of increase that we have seen up until now will not continue at that rate going forward. For example, from June 2020 through to March 2022, steel prices have increased by 44 per cent. Supply pressure will be around for a little while to come—at least over the next 12 months—but we will not see those costs continue to increase at that rate with another 44 per cent increase. The prices will still increase, but the rate of increase will slow from that dramatic increase over the last 12 to 18 months. Again, similar to the CPI discussion, the global supply constraints will begin to ease not just like that, but over the next 12 to 18 months. I have mentioned the freight cost issue, which has clearly peaked and is still elevated, but those costs are coming down. I expect that over the next 12 to 18 months that will also flow through to imports for construction.

Ms M.J. DAVIES: I refer to page 281 of budget paper No 3 and special purpose accounts. I note a growth in the number of these accounts under this government. The government-commissioned special inquiry by John Langoulant noted that a growth in hypothecated revenue arrangements and the associated build-up of cash balances in special purpose accounts limits the Department of Treasury's ability to manage the budget. After the Langoulant report was handed down and this government accepted those recommendations, was any provision put in place to limit the number of special purpose accounts that the government has used?

Mr M. McGOWAN: I thank the member for the question. The reason behind these accounts is that we are obviously doing well financially and pressures are building, whether they be in remote communities, the requirement for a desalination plant for water for the future, a replacement for the old women's and babies' hospital or in climate action or a number of other areas. Rather than just ignore those things, we are using the success of today to set aside money for tomorrow's projects. Logically, it makes sense that rather than use all our current financial success on whatever the exigencies might be today, we help the people of the future—our children and grandchildren—for decades or potentially centuries to come.

Special purpose accounts were in place under the last government. The royalties for regions fund is a special purpose account. Perth Children's Hospital and Optus Stadium used special purpose accounts. We set up the three I just outlined: the climate action fund; the digital capability fund, which is designed to ensure that we can deal with issues of information technology across government; and the remote communities fund. There is huge demand in remote communities. As the member knows, there are limited economic opportunities in a lot of the areas where remote communities are based. They are in very inhospitable environments and to fix a house or provide basic services is a big task. Using today's success to establish the fund and seek leverage from the commonwealth is a wise thing to do. That is what special purpose accounts are about. I will let Mr Barnes comment further.

Mr M. Barnes: The major special purpose accounts are listed in the appendix that the member referred to. Expenditure from those special purpose accounts is outlined in chapters 5 and 6 of budget paper No 3. The special purpose accounts are nothing more than a dedicated funding source for those priority areas of expenditure. Rather than leave the cash in the consolidated account where it just sits amongst everything else that the consolidated account has to fund, that cash is hived off into a dedicated special purpose account so that we have a dedicated funding source for a determined priority area of expenditure, whether that is climate action, remote communities or whatever it is. My first point is that those accounts are just a funding source.

My second point is that the expenditure from those special purpose accounts is disclosed and brought to book in the same way that any other expenditure is, regardless of its funding source.

Ms M.J. DAVIES: It impacts net debt, does it not? When something from consolidated revenue is put into a special purpose account, what does it do to net debt? How does it change the bottom line? Does it make the surplus look smaller or bigger?

Mr M. Barnes: In and of itself, it has no impact on net debt. Regardless of whether the cash is sitting in the consolidated account or moved out of the consolidated account into a special purpose account, it has no impact on net debt. When that cash is subsequently spent under the special purpose accounts that the Premier mentioned—the climate action fund, remote communities fund and digital capability fund—it will impact net debt. In this budget, all that expenditure from those special purpose accounts is fully expended over the forward estimates period so that it is fully reflected in the net debt projections.

Ms M.J. DAVIES: Sorry, can Mr Barnes say that last bit again? Just so that I am clear on this, will everything in the special purpose accounts be spent in the forward estimates?

Mr M. Barnes: All the funding for the special purpose account decisions in this budget—the additional $500 million for the climate action fund special purpose account, the additional $400 million for the digital capability fund and the new $350 million for the remote communities fund—will be fully expended by the end of the forward estimates period in this budget and, therefore, are fully reflected in the net debt projections of this budget.

Ms M.J. DAVIES: Why are they not just line items in the budget? Why is it set into a special purpose account? Why is it treated differently from a normal item in a portfolio budget? Why have we created a special purpose account?

Mr M. McGOWAN: I will answer as best I can and then hand over to Mr Barnes. We set up the overall amount of money—for instance, for the digital capability fund—but it is subject to an application process across government. Different agencies will bid for that money, and in that way, we can make an informed decision on what are the high priorities. We cannot put it into a line item under the agencies because we do not know at this point in time what it will be spent on—a police communication system, a health IT system, an education IT system or whatever it might be. That process is yet to be established. It is the same with, for instance, the remote communities fund. We do not know on which community it will be spent. If we allocated it across government into the department of housing or one of the other agencies that might be delivering a service out there, it would reduce our capacity to leverage money from the commonwealth because we would not have that large lump sum that would allow us to ask the commonwealth to join it with a similar large lump sum. I will ask Mr Barnes to expand on that.

Mr M. Barnes: None of the expenditure of those top-up amounts that I mentioned—the $500 million for climate action, the $400 million for digital capability and the $350 million for the remote communities fund—is reflected in the budget against a particular agency at this stage. It will all be expended, but globally, and that reflects that these are Treasurer's special purpose accounts. They are managed by Treasury because we need ministers and agencies to come forward with specific cases to draw down on those funds. Once those specific business cases come forward and are approved by the Expenditure Review Committee and cabinet, we will release funding from the special purpose account to the line agency. We anticipate that that will happen over the forward estimates period, so we are reflecting the expenditure at a global level in the budget and not at a line agency level.

[9.50 am]

Ms M.J. DAVIES: How, then, does the government know how much to put into the budget if it does not have an idea from those agencies what they will spend it on? They are essentially hollow logs. There is no budget item for each department and we do not know how the funds will be spent. This was an issue when the Langoulant report was brought down, specifically around royalties for regions. The purpose that the Treasurer just explained and how it is run is, to me, no different from how we previously ran special purpose accounts. It was a problem that was identified through the inquiry, but we are now seeing a proliferation of these special purpose accounts with exactly the same rules. Why was it a problem when we were running royalties for regions or other special purpose accounts, of which there were far fewer under the previous government compared with this government? How has the government arrived at how much it should put into the budget for each of those accounts?

Mr M. McGOWAN: The Expenditure Review Committee makes these decisions and refers for cabinet's endorsement how much should be in each account. That is based upon advice from Treasury, the size of the surplus and the size of the demand. That is how the decision is made. In terms of the expression "hollow logs", it is very clear what the money will be used for in, for example, the digital capability fund. It is not as though we have set up some fund that will go into marginal seats to try to win over communities with whatever project it might be. This is about information technology systems across government. It is not the most sexy thing electorally—in fact, I doubt it would change a single vote whatsoever—but it is designed to make sure that government has up-to-date IT systems to serve the interests of the public and make sure that agencies have systems that do not go down over time. That is just a sensible spend of government money on important agencies that deliver services. But it is not a vote winner.

The remote communities fund, again, is not designed to try to do anything other than help the most disadvantaged people in the community with housing and services. That is all. Firstly, were we to select communities to which it would be allocated, or tried to, in that budget process, we might have got it wrong; and, secondly, it would have limited our capacity to attract money from the commonwealth because it would be spread everywhere already expensed in individual communities. The commonwealth might say, "You're dealing with that." Now, we have an overall large sum of money and we can say, "This is what we are putting in; where is yours?" That is what it is about. We also kept the royalties for regions fund. All we have now is proper accountability to the ERC about the spending of it, and to cabinet about what it is spent on, not a special budget process. I will ask Mr Barnes to comment further.

Mr M. Barnes: The only other point I would add to that is that we have to make an assumption about the spending out of these special purpose accounts, certainly around the timing of that spending and whether it is capital or recurrent spending. It is an assumption. If we did not do that, if we did not reflect globally that expenditure out of these special purpose accounts, we would be artificially understating net debt. The way we have done it now is effectively to pre-book that expenditure and the net debt impact in anticipation of these business cases coming forward from agencies. Rather than booking it in future years, as and when those business cases are approved, we have essentially pre-booked it in this budget.

Ms M.J. DAVIES: We have mentioned a couple of the SPAs; how many are there currently?

Mr M. McGOWAN: I know there are the ones we mentioned before. Mr Barnes will provide further advice. There is the women's and babies' hospital account; the social housing investment fund, which is designed to provide more social housing; the digital capability fund; the climate action fund; and the National Redress Scheme, which is designed to support people who were sexually abused as children. We have operated this money from operating and cash surpluses, rather than paying for these with debts. We are using our success of today for these important projects of the future. There are 30 of them in the budget. In 2017, when we came to office, there were 18. This government has created 12 of them.

Ms M.J. DAVIES: There are 30 in total. Are we able, by supplementary information, or I am happy for the Treasurer to read the list, to have an idea of what they are?

Mr M. McGOWAN: We can provide the Leader of the Opposition with a list of the special purpose accounts as supplementary information.

[*Supplementary Information No A7.*]

Mr R.S. LOVE: The climate action fund has been mentioned a couple of times. What is the current balance of the climate action fund? It appears in budget paper No 3 on page 281 that there has been a total contribution of $1.25 billion. Over the page it shows a closing balance of $576 million. Does that mean that $700 million has been spent out of that already?

Mr M. McGOWAN: A lot has been spent already. I am trying to find a list of what it has been spent on. The $500 million for climate action in this budget is in addition to $750 million in the 2021–22 budget, taking the total investment to $1.25 billion. The $750 million in last year's budget was allocated to a range of measures, including softwood plantations, rather than logging native forests; standalone power systems; renewable hydrogen projects; clean energy in schools; coastal erosion; wind turbine manufacturing; and a number of other initiatives. I will see whether I can find them for the member.

As the member knows, there has been very limited investment in the last 10 years in softwood plantations. I became aware of this in maybe 2020. We decided to put $350 million into that. Again, that will not pay dividends for decades, but it will mean in the longer term future there will be a significant timber resource for the building and construction industry. I saw the figures in the 2010s; for some years there was no planting whatsoever—nothing. That provides a big problem going forward. We put $350 million into that, but on the basis we do not cut down our native forests anymore. That is what the government decided to do. I think only Western Australia and Victoria have decided to stop logging our native forests.

For the other initiatives on climate action, we provisioned $500 million additional to that. We will decide what that is expended on in the future. From that, $470 million is set aside for further climate-related initiatives and $30 million has been allocated to the just transition fund for communities affected by the decision to stop cutting down our native forest. That takes the total of that transition fund to $80 million. The other day I was advised that some of the people who lost their positions, because of some decisions Parkside Timber made, have been offered jobs in Talison Lithium projects. I just hope—I expect they will—that some of those companies that are involved in mining or resources will pick up these people. They clearly are. I got advice that for the people who lost their jobs through Parkside deciding to close one of its mills for a range of reasons, including our decision to get out of cutting down native forests, 100 positions were offered. I expect they are better-paying jobs than the jobs they had.

[10.00 am]

Ms M.J. DAVIES: I am pretty sure they liked the jobs they had, Premier.

Mr M. McGOWAN: If the Leader of the Opposition wants to keep cutting down native forests, that is her choice. It is the right time to make these decisions and transition people into higher-paying work given this very heated labour market. In any event, native logging was declining because of climate-related issues and, frankly, we have cut down too many over the decades. That is what was happening. There is $30 million additional there. We have invested $61.8 million on upgrading infrastructure on Rottnest Island so that it will become largely renewable; $59.3 million into the electric vehicle package, which is designed to take up more electric vehicles; and $31 million into climate action initiatives, in particular those around carbon farming.

Mr R.S. LOVE: In terms of my understanding of how it works in the budget, a total of $1.2 billion was allocated to this fund, and some has been put into other accounts. For instance, there is $300 million in the softwood plantation fund.

Mr M. McGOWAN: There is $350 million.

Mr R.S. LOVE: That $350 million cannot be spent any time soon so presumably that is sitting in a bank account somewhere. What effect does that have on the surplus? Does it make any difference if it is sitting with the Forest Products Commission rather than a special purpose account in terms of the surplus calculations of the budget?

Mr M. McGOWAN: I will let Mr Barnes explain.

Mr M. Barnes: The member is correct that the $350 million for the softwood account forms part of the overall $1.25 billion for the climate action fund, but it has been hived out of that into a standalone account specifically for the softwood plantation expansion. That $350 million expansion is a 10-year expansion of the softwood plantation estate. At appendix 5 on page 289, which the member mentioned earlier, the member can see a reference to the softwood plantation expansion fund, which shows payments out of the fund of $39 million in 2022–23; that is the early stages of getting the expansion up and running. Again, it does not really matter where the cash is sitting in terms of its impact on the state's finances; it is when the expenditure occurs. That $39 million in payments in 2022–23 will equate to a $39 million increase in net debt in 2022–23 as we spend the money.

Mr R.S. LOVE: I presume that, in effect, quite a bit of the money that has come out of the climate action fund has actually gone into other special purpose accounts, not just this one—or is this the main one?

Mr M. McGOWAN: I will let Mr Barnes explain.

Mr M. Barnes: The softwood plantation expansion fund is the primary example of that, member. Other amounts out of the climate action fund have gone directly to the relevant line agencies.

Ms M.J. DAVIES: I was trying to follow the member for Moore in terms of the impact of SPAs on the operating surplus. We talked about net debt; what impact does the shifting of funds out of the consolidated account into special purpose accounts have on the operating surplus—or is that a too open-ended question?

Mr M. McGOWAN: I will let Mr Barnes answer.

Mr M. Barnes: Member, again—I will try to explain it this way. Say we have a spike in royalty income because of the iron ore price and we get extra cash in the consolidated account as a result of that. When that extra cash comes into the consolidated account, that, in and of itself, automatically reduces net debt. If that cash is then transferred out of the consolidated account into a special purpose account, there is no impact at all; it is just a movement of cash from one account to another account. When that cash is subsequently spent out of that special purpose account, the spending of that cash increases net debt depending on how much is spent. It will also reduce the operating surplus if that cash is spent on recurrent activities.

Ms M.J. DAVIES: Does Treasury have guidelines or a policy around the money that is allocated into a special purpose account? Can it be spent or siphoned out into other areas of government? Once it is sitting in a special purpose account, what are the rules about it being spent along the lines of why that special purpose account was created? Can it be repurposed?

Mr M. McGOWAN: I will let Mr Barnes explain.

Mr M. Barnes: For each special purpose account, we have a special purpose statement that either the Treasurer or I, under delegated authority, approve, and that special purpose statement defines the purposes of the special purpose account and the expenditure from it. Moneys can only be expended from the account in line with the purposes established in the special purpose statement.

Ms M.J. DAVIES: Is that a public document? When we are given the list of the special purpose accounts that have been undertaken by the Premier, can we have the statements that come with those accounts and also the balance of those accounts?

Mr M. McGOWAN: I am happy to provide by way of supplementary information the document called "Special Purpose Statements" for each of the SPAs.

[*Supplementary Information No A8.*]

Ms M.J. DAVIES: The Premier said that there are 30 special purpose accounts. I think I counted 19 listed in this section of the budget in budget paper No 3. Where would I find the others or are they not in the budget papers?

Mr M. McGOWAN: I am giving the member a list of them. I think they are scattered through the budget.

Ms M.J. DAVIES: I appreciate that the Premier is giving me a list.

Mr M. McGOWAN: I think they are scattered through the budget, but I will let Mr Barnes explain where they are.

Mr M. Barnes: As it is stated in the introduction of appendix 5 in budget paper No 3—I assume that is the one the member is referring to—only the more material special purpose accounts are covered. It is not an exhaustive list; it is just a summary of the more material ones. The remaining special purpose accounts will be reflected in agencies' budget paper No 2 statements.

Mr R.S. LOVE: I would like an understanding of how it all works with the operating surplus or deficit. If no money had been put into a special purpose account—money that was not spent but kept in consolidated revenue—what would have been the net operating position of the state of Western Australia at this budget?

Mr M. McGOWAN: It would have been no different.

Mr R.S. LOVE: There would be no difference to the surplus or deficit of the state?

Mr M. McGOWAN: No; no difference.

Mrs J.M.C. STOJKOVSKI: I refer to page 7 of budget paper No 3. The highlighted text box refers to Western Australia's strong economic outlook. I ask the Premier to expand on current conditions in the Western Australian economy, particularly the recent job figures.

[10.10 am]

Mr M. McGOWAN: I thank the member for Kingsley for the question.

Our safe handling of the pandemic has resulted in the strongest economic outcomes in Australia and quite probably the world. Our domestic economy grew by 7.2 per cent over the two years of the pandemic, which was two and a half times the rate of growth of the rest of the country. That growth has been underpinned by very strong household spending. Annual retail turnover increased by 22.5 per cent between February 2020 and March 2022. Retail turnover is up 22.5 per cent, which is remarkable. The state's investment in infrastructure supported a lot of that activity. Western Australia has accounted for 40 per cent of the growth of the national economy over the last two years. With 11 per cent of the population, we have accounted for 40 per cent of the growth of the national economy, which again is a tribute to Western Australians. We kept a lot of our resources sector—in fact, all of our resources sector—and our export industry operating during the pandemic, whereas in other countries, particularly in Brazil, the industry suffered grievous interruptions because of the impacts of COVID. At the same time, there was huge demand for these products around the world, because countries were stimulating their economies to combat the economic impact of COVID. Those two things came together and created a remarkable set of economic outcomes for WA, in particular for our export industries.

Our outlook is that the domestic economy will grow by 5.25 per cent in 2021–22 and there will be solid growth across the forward years, including by four per cent in 2022–23. Growth will moderate in coming years but that is basically because a lot of the domestic spend will moderate, with Western Australians travelling overseas and interstate and spending their money on holidays. So, all those people who said it would be good for the economy to have people go elsewhere should have thought about what they were saying. The gross state product, which includes net exports, is also expected to grow by 3.75 per cent this year. That is the strongest growth since 2013–14.

The strength of the economy is showing up in the labour figures that came down last week. Our unemployment rate is 2.9 per cent, with the highest participation rate of all the states. That is the lowest unemployment rate in Australia. No other state has recorded a rate under three per cent since current records were established in 1978—when I was 10! The Western Australian unemployment rate is the lowest in the country. It has only been lower in 2008, when I think Alan Carpenter was Premier, when it went down to 2.3 or 2.4 per cent. It is a remarkably low unemployment rate. There are nearly 1.5 million Western Australians employed. The latest figures show massive growth in full-time employment, which is terrific news. Our youth unemployment rate is the lowest of all the states at 6.3 per cent. Since we came to government, 160 000 jobs have been created. Our unemployment rate is predicted to remain low across the forward estimates. The government's efforts to diversify the economy and keep COVID out of the state against all the objections, heat and noise from some political parties and some people were the right decisions. We successfully defended Western Australian jobs and health.

The recovery in female employment from the initial impacts of COVID has been stronger than the recovery in male employment. The female unemployment rate in April was 2.7 per cent, which is less that the 2.9 per cent unemployment rate, the lowest female unemployment rate on record and lower than the unemployment rate for men. Our efforts to get women into the workforce have obviously worked as well.

I thank the member for the question.

Ms M.J. DAVIES: I refer to page 139 of budget paper No 2, volume 1, and financial management and reporting, but there might be a better place for this question to land. There has been a conversation around, and it was a recommendation of the Langoulant report, an oversight and advisory unit for government trading enterprises. Has there been any movement on creating that unit as part of that recommendation? It was essentially recommended as it would strengthen and provide formal oversight by Treasury to monitor the performance of GTEs.

Mr M. McGOWAN: We are currently drafting the laws to allow for that. We made an announcement on that a while ago. I think it has had some complexity. I will let Mr Barnes comment.

Mr M. Barnes: We established that GTE unit within Treasury a couple of years ago. That unit has delivered full budget paper disclosure for GTEs. We brought that in with effect from last year's budget. Prior to that, GTEs really only disclosed their asset investment program. Now they provide the same level of disclosure as budget-funded agencies—general government agencies. I think that has been a good development in terms of transparency. In addition, as the Premier said, we have cabinet approval to draft the GTE bill. That drafting is underway. We hope that that bill will be ready to be introduced into Parliament later this year.

Ms M.J. DAVIES: Are there FTEs associated with that unit that has been created within Treasury? How many people are in that?

Mr M. McGOWAN: I will ask Mr Barnes to comment.

Mr M. Barnes: Yes. The unit is embedded now within Treasury. It is part of our ongoing structure. It has FTEs and a budget associated with it. I do not have those number off the top of my head, member, but it is a unit of somewhere in the order of eight to 10 FTEs.

Ms M.J. DAVIES: Could we have clarification of that by way of supplementary information?

Mr M. McGOWAN: What is the Leader of the Opposition asking for?

Ms M.J. DAVIES: The number of FTEs in the unit that we have been discussing.

Mr M. McGOWAN: The number of FTEs is eight to 10. I do not really want to release their names or anything, but it is eight to 10.

Ms M.J. DAVIES: No, I was not asking for that. Sorry; it was not clear from the response.

Mr M. McGOWAN: Eight to 10 FTEs are working on this. We are hopeful that we will get legislation into Parliament later this year to address this issue.

Ms M.J. DAVIES: Okay.

The appropriation was recommended.

[10.20 am]