

## **ESTIMATES OF REVENUE AND EXPENDITURE**

### *Tabling of Budget Papers*

**Hon Simon O'Brien (Minister for Finance)** tabled the budget papers.

[See papers 4536A–F.]

### *Consideration of Tabled Papers*

**HON SIMON O'BRIEN (South Metropolitan — Minister for Finance)** [2.01 pm] — without notice: I move —

That pursuant to standing order 68(1), the Legislative Council take note of tabled papers 4536A–F (budget papers 2012–13) laid upon the table of the house on Thursday, 17 May 2012.

This motion enables the Legislative Council to examine and debate the budget papers associated with the appropriation bills, which are now before the Legislative Assembly. The Treasurer's budget speech accompanying the budget papers provides the detailed economic and financial framework for the 2012–13 budget. In summary, however, this budget is about making the difficult decisions to facilitate the continued growth of Western Australia as the backbone of the Australian economy for both current and future generations.

[The Minister for Finance read the following speech.]

#### **INTRODUCTION**

Mr President, today the Liberal–National Government delivers its fourth and final Budget before the State election of March 2013.

I am proud to announce another projected surplus of \$196million in 2012–13 (the Government's fourth consecutive surplus). However, this Budget has been produced in a political and economic climate presenting a serious structural problem to the Western Australian economy.

State revenues are growing at below-average rates and not keeping pace with industries' demand for services and infrastructure.

Looking back a decade illustrates the point.

Between 2002–03 and 2005–06 there was no Global Financial Crisis and no depressed housing market (transfer duty forecasts in this Budget have been revised down by \$836million, reflecting ongoing weakness in the housing market). Most critically, between 2002–03 and 2005–06 WA got back an average of 100 per cent of its GST.

The key difference between 2003 and 2013, is GST revenue is now being taken away at unprecedented rates; when our population growth and demand for infrastructure and services is considerably higher than it was in 2003.

About 1,000 people are coming to live in Perth every week and this figure excludes the large number coming in and out of the State for shift periods of employment. These citizens all demand services and social infrastructure and the projects they come to work on themselves create huge demands for economic infrastructure.

The State's primary growth revenue to cope with these demands should be royalty revenue.

But while successive WA Governments have spent 50 years planning and investing to generate this revenue, it now fails to properly reach the Budget because of massive reductions in GST.

#### **THE NATIONAL IMPORTANCE OF THE WESTERN AUSTRALIAN ECONOMY AND THREATS TO ITS FUTURE**

One year on from the 2011–12 Budget two things are notable.

FIRST, the situation regarding WA's share of GST has deteriorated beyond the Government's worst case scenario.

SECOND, WA's role in supporting the entire Australian economy with growth, jobs and investment (in construction, manufacturing, technology and services); has gone from important to critical.

Seventy per cent of all new jobs in the last year were created in WA. Australian domestic demand is only above 4 per cent because it is 11 per cent in Western Australia and 10 per cent in Queensland. The national economy is driven by WA resources and construction, and over the year to February 2012, the only place where manufacturing employment has grown is WA, where an extraordinary 7,000 manufacturing jobs were created in the last quarter alone.

With just over 10 per cent of the nation's population, WA will contribute 20 per cent of all company tax take, about 60 per cent of the Minerals Resource Rent Tax (MRRT), 40 per cent of Australia's total exports, and 45 per cent of Australia's total merchandise trade.

### **LEADERSHIP AND SOUND FINANCIAL MANAGEMENT**

WA's GST will now drop to 55 per cent of our population share; a loss of \$662million from our bottom line overnight.

Previously a \$12.3billion loss was a worst case scenario. Now we forecast a loss of more than \$15billion to 2015–16, with our GST share expected to fall as low as 25 per cent.

Losing \$662million in one year constrains our capacity to keep growing the nation's most successful economy and also means that efforts must be made to find savings in the Budget.

The Government has a strong track record of targeting wasteful spending. In our first term, we have achieved:

- \$524million in savings between 2011–12 to 2014–15 from a 5 per cent efficiency dividend on GTEs;
- 1,138 voluntary separations—saving \$54million per annum;
- a targeted savings program, freeing up \$324million between 2011–12 and 2014–15; and
- an Economic Audit resulting in savings of \$979million over 2009–10 to 2012–13, including reductions in procurement spending of \$239million over that period.

All of this started with an efficiency dividend policy in 2008–09.

The efficiency dividend was a stated policy position of both sides of politics before the 2008 election.

While savings measures are rarely 100 per cent successful, the 3 per cent process undertaken by this Government achieved about 90 per cent of its target and saved \$1.46billion, with what were in practice minimal disruptions to frontline service delivery.

Savings processes combined with a clear wages policy have seen public sector wages growth reduced to a 6.7 per cent average (compared to an average of 8.8 per cent under the previous Government). With salaries expenditure projected to reach \$10billion in 2012–13, this two percentage point difference equates to annual savings of about \$200million per year.

Wages are the significant subset of the other indicator of fiscal restraint, being total recurrent expense growth.

In 2010–11, the Government achieved expense growth of 5.2 per cent, the lowest outcome since 2003–04. Expense growth in 2011–12 was projected at the time of the Mid-Year Review to be 11.6 per cent. While this includes a \$675million lower than expected spend for 2010–11, it is still too high and the Government is working hard to bring the 2011–12 expenditure growth in as an actual under 9 per cent to achieve an average two year total of around 7 per cent.

The new savings initiatives set out in this Budget are now well known, having been previously announced.

A two year FTE cap, whereby public service FTEs will be maintained at approved 2011–12 levels (excluding operational staff in Health, Education, and Police). This will restrain expenditure growth and aim to save \$526million between 2012–13 to 2015–16.

A 2 per cent efficiency dividend across general government (Education at 1 per cent) and a 2.5 per cent efficiency dividend for GTEs will aim to save, respectively, \$244million and \$49million in 2012–13.

Whatever view is expressed on the ease or otherwise of achieving savings of this type, two things are certain.

First, without real efforts to find waste and savings, recurrent expense growth will exceed 10 per cent and should this occur regularly it is unsustainable.

Second, a failure to act immediately to find savings would inevitably result in a deficit.

Governments like business and households must live within their means.

When losing \$662million in expected revenue, no matter how unfair the circumstances, just like a household or business faced with decreased incomings, there are only two choices. Do nothing and

deliver a deficit; or embark on a process of finding ways to save on your outgoings and stay in surplus. The Liberal–National Government has chosen the latter.

It is on this basis that we also have had to make the difficult decision to defer targeted infrastructure projects into the outyears.

### **BUILDING THE STATE**

Mr President, with a \$26.4billion investment program, the Liberal–National Government will continue its huge economic investment in water, electricity and roads; health and education facilities throughout WA are being rebuilt from the ground up and families are the beneficiaries.

#### ***Health Infrastructure***

The New Children's Hospital has started, with the \$1.2billion project already half paid for and to be complete by late 2015.

The \$2billion Fiona Stanley Hospital, only a poster in bushland when we came to Government, is on-time and on-budget for its scheduled opening in 2014.

#### ***Education Infrastructure***

This Budget also includes the construction of five new primary schools at Hammond Park, North Butler, North Yanchep, Treendale and Wandina (K–3) totalling \$78million. Construction will also commence on Stage One of the new Byford Senior High School (\$30million); Stage Two of Dalyellup College (\$30million); and the staged replacement of Willetton Senior High School (\$32million).

In addition to these schools, the State Government will invest a further \$204million to 2015–16 to build further new schools, improve capacity at existing schools and fund maintenance to address forecast enrolment growth of 26 per cent over the next 10 years.

To address enrolment growth and ongoing cost pressures, the Government is also providing \$384.5million to education in additional recurrent funding.

#### ***Transport Infrastructure***

Mr President, part of the unprecedented growth in demand for infrastructure appears in transport.

The Government is aware of the congestion constraints currently being experienced on our metropolitan main arteries.

This Budget will deliver major new additions with:

- \$105million for a third lane in the Graham Farmer Freeway tunnel, increased capacity on the Mitchell Freeway to Hutton Street, new Green CAT services to Leederville, more red CAT buses, new cycle paths and bus lanes;
- \$20million to improve cycling infrastructure;
- \$35million for the Safer Roads and Bridges program, \$20million for the State Black Spot Program, and \$41.7million for safety improvements to crash sites around the State; and
- a total of \$317.5million in State funding for the Gateway WA project, including:
  - Perth Airport and Freight Access; and
  - Tonkin Highway–Abernethy Road On-Ramps.

#### ***Perth City Infrastructure***

Very significantly, the transformation of our capital city will take shape this year.

This Government will achieve a profound transformation of Perth city.

- \$744million on City Link will connect the city and Northbridge with vibrant public space for the first time in one hundred years.
- \$94million will be spent on the Riverside project.
- \$375million is now allocated toward the Perth Major Stadium.
- \$270million to the Perth Waterfront.

These projects will transform Perth into a modern, vibrant and graceful capital city.

What is now underway is the creation of our greatest physical gift to future generations of Western Australians since 1871, when Surveyor General Fraser persuaded Governor Weld to set aside 1.75 km<sup>2</sup>

as Kings Park. Later enlarged by Sir John Forrest, Kings Park has been the defining physical drawcard of the city for families and tourists alike, serving us brilliantly for over a hundred years.

But Mr President, if we are genuine about providing more and better options for modern families and greater diversity and livelihood for a competitive international tourist market, then we cannot rely on Kings Park by itself forever.

This Government knows that it is impossible to talk sensibly about a world-class city for residents and a future tourism industry; and not support the transformation of the city at the heart of this great State.

To fulfil this vision an additional project is now announced in this Budget; being the new Museum. The Liberal–National Government will commit \$428.3million to a new Museum in the Perth Cultural Centre. This Budget includes initial funding of \$70.5million from 2013–14 to 2015–16 to commence construction and the new Museum is scheduled for completion in 2019–20.

### ***Fees and Charges***

Mr President the yearly budget changes to fees and charges have long been measured using a household model.

This year the average household will experience an increase in line with inflation at 3.56 per cent. An increase of \$3.14 per week in government fees and charges.

The State Government will also keep electricity price increases down to the bare minimum—a 3.5 per cent increase—directly in line with the predicted CPI in 2012–13.

The decision to freeze electricity prices between 2001 and 2009 simply meant prices did not evenly and smoothly keep pace with the costs of providing electricity. That was always going to have to end no matter who was elected in 2008.

The tough decisions however, were made early by the Government and even with recent increases, WA has among the lowest electricity prices in Australia.

This year the Liberal–National Government will increase the price only by the projected CPI at 3.5 per cent. Unfortunately, outside this Budget looms the reality that the carbon tax will increase electricity prices by a larger amount.

The major difference is this—the State Government increased electricity prices because it considered to guarantee a functional electricity sector and responsibly secure supply to households it had no choice. The Federal Government will increase the price for Western Australians because it wants to and considers the increase, in policy terms, to be a good idea.

Mr President in 2012–13, above this Budget's small increase for CPI; every cent, of every price increase, on every bill for every Western Australian family will be an increase enforced by policy choice of the Australian Labor Party.

### ***Cost of Living Assistance Payment***

It is in recognition of the difficulties experienced by households, that the Liberal–National Government will introduce a new Cost of Living Assistance (CoLA) payment, worth \$286million over the next four years.

From 1 October 2012, about 348,000 households with a relevant concession card will be eligible for a payment of \$200 off their electricity bill.

- An eligible family with no dependent children would previously receive the Supply Charge Rebate (SCR) of \$147 a year; they will now receive the new CoLA payment of \$200 a year—an increase of over 35 per cent in the rebates received on the cost of electricity.
- An eligible family with two dependent children would previously receive the base SCR of \$147 a year—they will now receive the new CoLA payment of \$200 a year AND then receive the Dependent Child Rebate (for two children) of \$307, taking the total annual rebate payments to \$507. This means that for an eligible family with two children they will now receive a yearly rebate equalling approximately one third of the average household's spending on electricity per annum.

### ***Seniors Cost of Living Rebate***

The Government will also spend an additional \$5.7million over four years on the Seniors Cost of Living Rebate. Under this Government, the Seniors Cost of Living Rebate has now increased from \$100 for singles to \$155.25 and from \$150 for couples to \$232.90, and the eligibility criteria for the Seniors Card were also expanded.

### ***Seniors Security Rebate***

The State Government will also spend an additional \$2.8million in 2012–13 to extend the Seniors Security Rebate program.

### ***Small Businesses***

The Liberal–National Government aims to provide an environment in which business can invest, expand, employ and innovate.

As part of the 2008 election the State Government committed to allocating \$250million in tax relief during its first term. In 2009–10 we provided a one-off payroll tax rebate for small and medium-sized businesses worth \$100million, and we have also delivered further tax relief measures worth \$25million.

In this Budget, the Government will allocate more than the final \$125million in tax relief, fulfilling our election commitment.

### ***Small Business Payroll Tax Rebate***

Small businesses with a payroll up to \$1.5million for the 2012–13 financial year, will receive a full rebate of all payroll tax paid in 2012–13. Small businesses with a payroll of between \$1.5million and \$3million, will receive a partial rebate. This measure will cost about \$128million and will benefit an estimated 6,700 businesses.

A business with a payroll of \$1.5million will get back a one-off payment of \$41,250; money that can be used to further grow the business.

A further tax relief initiative, never before advanced in this State, is to provide that businesses with a payroll under \$15million will receive a full payroll tax rebate on the first two years of wages paid to a new Indigenous employee.

### ***Employment; Training***

Mr President, the Liberal–National Government is also committed to ensuring people have skills to gain employment and help our growing industries.

Additional funding of \$99million to 2013-14 will continue our contribution to the delivery of training places required to meet industry demand as the State's economy expands. A further \$10million will also fund building works at metropolitan training colleges.

### ***Royalties***

Unlike the 2011-12 Budget which increased revenue by \$2billion to 2014-15 through the negotiated removal of the royalty discount applying to fines iron ore, there are no similarly large revenue measures in this year's Budget. In 2012-13 the Government has committed to a provision for higher rates of return for port authorities, estimated to generate \$85million, and an analysis of royalties in consultation with industry to be completed by 1 July 2015.

The analysis will involve a three year period of consultation with potentially affected industries. It is not designed to, nor does it intend to, pursue any thorough going change of all relevant royalty rates to actual royalty rates which would produce revenue to meet the long-standing and still prevailing target of an amount broadly equivalent to one tenth of the total 'mine head' value. This is because the Government's present best estimates are that the actual royalty rates needed to produce that result are presently unlikely to be achievable.

Rather, the analysis is designed over time to achieve a marginally improved revenue return to the Western Australian community from the sale of the mineral products that the community owns.

The 2012-13 Budget includes a provision for estimated maximum additional royalty revenue of \$180million in 2015-16 to reflect the financial impact of the outcomes of the process.

## **SUPPORTING OUR FAMILIES AND COMMUNITY**

### ***Families***

Mr President, since 2008-09, the increase in the budgets of those agencies that directly look after Western Australians and their families has been nothing short of extraordinary.

Child Protection's budget has increased 52.1 per cent over the period 2008-09 to 2012-13, Communities 51 per cent, Corrective Services 33.5 per cent, Health 39.3 per cent, Disability Services 66.5 per cent, Training 28.9 per cent and Education 24.3 per cent.

Last year Mr President, the centrepiece of the last Budget was an unprecedented \$604million provided to the not-for-profit sector.

***Child and Parent Centres***

This year the Government continues its commitment to families with the establishment of 10 Child and Parent Centres at selected government schools in vulnerable communities at a total cost of \$29million. These Centres will constitute a one-stop-shop to access support services to improve the developmental, health and learning outcomes of young children.

The Government will also invest \$4million to upgrade the 70 family and child care centres it owns and operates throughout the State.

Another critical new initiative is the provision of \$58.5million for 100 additional child and school nurses to deliver child health checks, in partnership with the not-for-profit sector. This key initiative has been long talked about, long argued for and now it will become a reality.

***Mental Health Bill***

A new Mental Health Bill will protect people with mental health problems and ensure they have access to high standards of services. Additional funding of \$17million is provided to deliver initiatives associated with the Bill.

***Declared Places***

This Government will also be the first in WA history to build an alternative to prison for the secure residence of people who are charged with offences but not able to stand trial due to mental impairment. With an \$18million commitment, these 'declared places' will finally become a reality.

***Disabled Employment***

Another new initiative to WA is that there will be payroll tax relief for employers who hire new employees with a disability.

***Social Housing Boost***

The Government is providing a much needed boost of \$130million over two years, which will fund the construction of 433 new homes for vulnerable people in need.

The Housing Authority will also receive an additional \$8.7million to provide for an extra 16 homes for Mental Health Commission clients. This is on top of the previous \$151million for an additional 284 homes.

***Disruptive Behaviour Management and Tenancy Support***

The Liberal-National Government will also spend \$12million to support our local communities by targeting unacceptable behaviour in public housing, to ensure tenants are held to account for their behaviour.

***Other Housing Initiatives***

Mr President in 2012-13, the Government will invest a total of \$971million in social and affordable housing.

***New Initiatives in Health***

Since coming to office, the Liberal-National Government has increased the health recurrent budget by 39.3 per cent and its capital budget by a staggering 226 per cent. WA has Australia's largest per capita spend on essential health infrastructure, around five times that of New South Wales and Victoria.

The result has been:

- an additional 123 hospital beds in our public hospitals; and
- huge improvements in our public hospital services; WA now has the second shortest waiting times in Australia for elective surgery, a reduction of more than two months since 2006-07 for 90 per cent of all elective patients.

In this Budget, an additional \$809million is now committed to health services and facilities; this is on top of the \$1.2billion already provided in previous Budgets.

This includes an additional:

- \$151million in ICT infrastructure to enable commissioning of the Fiona Stanley Hospital and Albany Health Campus;
- \$40million for medical equipment replacement; and
- \$22million in 2014-15 and 2015-16 for Royal Perth Hospital.

The State Government will also spend:

- \$474million to 2015-16 to maintain health services and accommodate expected growth in demand; and
- \$60million for transition of hospital services to the Fiona Stanley Hospital and the New Children's Hospital.

### ***Education***

Since coming to office, the recurrent budget of the Education Department has increased by 24.3 per cent and spending on education services will increase by another \$122million in 2012-13. This is on top of the \$672million provided in our previous Budgets.

As a specific priority, in this Budget, Year 7s will now be consistently educated in WA's secondary system.

To relocate Year 7 students from 2015, the Government is investing an additional \$341million, including \$42.6million from *Royalties for Regions*. This funding will upgrade 29 existing secondary schools, retrain up to 525 teachers, and enable the purchase of 46 additional buses.

### ***Community Safety***

Mr President, the Liberal-National Government promised a strong response on law and order.

Legislative measures—such as mandatory penalties for those that assault police, rebuilding supervision and completion of community work, stricter policing and enforcement of parole conditions and greater stringency in the release of prisoners to parole—have resulted in a 9.1 per cent decrease in overall reported crime from 203,755 offences in 2008-09 to 185,128 in 2010-11. Part of the success in this area has been a 170 per cent increase in program delivery to prisoners which has been a factor in the figure noted by the ABS that the number of offenders dealt with in our courts has decreased by 17 per cent, the largest decline in Australia.

In a rapidly growing population this is no mean feat, but we recognise also there is continual work to be done in this area.

### ***GPS Offender Tracking of Dangerous Sex Offenders***

The State Government will now allocate \$6.2million to electronically tag dangerous sex offenders. The technology will provide the ability to locate and track offenders and provide improved responses to breaches of strict release conditions.

### ***Western Australia Police — Chemistry Centre and Pathwest Costs***

Additional funding of \$30million has also been committed to maintain the police forensic investigation capacity and assist WAPOL in the detection of clandestine drug labs.

### ***Refurbishment of Riverbank and Outcare Live Works Program***

\$8.7million will be provided over four years to provide greater community work options.

### ***Coroner's Court***

An additional \$1.5million will be spent to assist the Coroner's Court to address its backlog and workload demands and additional five year funding of \$7.7million will also be provided to maintain forensic examination capacity to assist the Coroner's Court in providing timely and efficient coronial services.

### ***Mental Health Court Diversion Program***

Another first for this State is \$5million over two years from 2012-13 to trial an adult court diversion and support program for people with mental health problems.

\$1.7million has also been allocated for a mental health assessment and early intervention pilot program in the Children's Court.

### ***Fire Management***

In light of two reviews by former AFP Commissioner Mick Keelty, the Liberal-National Government has allocated an extra \$32.9million over four years in recurrent and capital funding to improve the Department of Environment and Conservation's (DEC's) fire preparedness. This is on top of DEC's existing fire management budget of approximately \$52 million per annum.

A further \$40million over four years has also been allocated to the Fire and Emergency Services Authority to establish an Office of Bushfire Risk Management, improve response measures in the South West Cape region, increase the State's commitment to train and support volunteers, and adequately resource the State Emergency Management Committee.

#### **CONCLUSION — FUTURE FUND**

Mr President, the Government's massive asset investment program in health; in education; in electricity and water infrastructure; and for Perth city will represent an enduring physical gift to future Western Australians.

But in this Budget we also achieve something no other State in the Federation has managed. A financial gift, a transfer of wealth generated from finite resources, from present Western Australians, to their children.

Mining royalties constitute a significant portion of the State's revenue and while we might expect a generation's prosperity to be underpinned by these royalties, the revenue will no more last forever than the mineral resources themselves.

In this Budget, the Government will set aside \$1billion in seed funding over the forward estimates into a Future Fund—to provide the cornerstone for a safe and secure economy for our future generations.

This seed funding will be sourced from:

- the previous 3 per cent efficiency dividend and other savings applied to the *Royalties for Regions* Fund between 2009–10 and 2013–14 (savings totalling \$223million); and
- 25 per cent of the revenue achieved by the Premier's skilfully negotiated removal of royalty discounts on iron ore 'fines'. This 25 per cent will total \$820million by 2015–16 and was previously agreed by the Nationals Leader would be quarantined from the 25 per cent of all other royalty revenue which has been delivered into the *Royalties for Regions* account.

Once the seed capital is in place in 2016–17; for each of the 16 years thereafter, the Fund will receive at least 1 per cent of the State's royalty revenue for that year. The interest earnings on the principal will also be diverted back into the Future Fund each year. It is very conservatively estimated that in 20 years' time the balance of the Future Fund will be about \$4.7billion, and will earn approximately \$230million interest each year from 2031–32.

The legislation to effect the Fund will be introduced in the spring sittings of this Parliament.

It will prevent the principal being spent for 20 years, but allow for the approximately \$230million in interest to be spent on infrastructure by future Governments; once the account reaches maturity in 20 years' time.

In 20 years' time, our State will be able to apply a minimum of \$230 million in interest earnings to industrial infrastructure; technology infrastructure; science and education infrastructure; health or research infrastructure—whatever is in the best interests of the State at the time. And in 20 years' time the Governments will be able to do that each year forever, if they so choose.

Consideration of the papers made an order of the day for the next sitting, on motion by **Hon Ed Dermer**.