STANDING COMMITTEE ON ESTIMATES AND FINANCIAL OPERATIONS

MISCELLANEOUS PROCEEDINGS

TRANSCRIPT OF EVIDENCE
TAKEN AT PERTH
WEDNESDAY, 4 AUGUST 2021

SESSION ONE
DEPARTMENT OF TREASURY

Members
Hon Peter Collier (Chair)
Hon Samantha Rowe (Deputy Chair)
Hon Jackie Jarvis
Hon Nick Goiran
Hon Dr Brad Pettitt

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Hearing commenced at 10.32 am

Mr MICHAEL BARNES
Under Treasurer, sworn and examined:

Mr MICHAEL COURT
Deputy Under Treasurer, sworn and examined:

The CHAIR: On behalf of the Standing Committee on Estimates and Financial Operations, I welcome you to the hearing. Today's hearing will be broadcast. Before we go live, I remind you that if you have any private documents with you, please keep them flat on the desk to avoid the cameras. Please begin the broadcast.

The committee acknowledges and honours the traditional owners of the ancestral lands upon which we meet today, the Whadjuk Noongar people, and pays its respects to their elders, both past and present.

[Witnesses took the oath.]

The CHAIR: You have signed the document entitled *Information for Witnesses*. Did you read and understand that document?

The WITNESSES: Yes.

The CHAIR: These proceedings are being recorded by Hansard. A transcript of your evidence will be provided to you after the hearing. Also, please note that this broadcast will be available for viewing online after this hearing. Please advise the committee if you object to the broadcast being made available in this way.

Mr BARNES: No objections, chair.

Mr COURT: No.

The CHAIR: Thank you very much for attending today. I will hand over to you if you have an opening statement. We are delighted to hear from Treasury about your role and the way this committee can assist you and vice versa.

Mr BARNES: Thanks very much, chair. I do not have an opening statement as such but I have put together a brief presentation, which I understand you all have in front of you, which provides an overview, and then I am happy to take any questions after that.

I will just go to the first slide. We focused on three key areas in this presentation, which I warn you at the start is quite dry, but that is the nature of the beast, unfortunately. The first key area is an overview of WA's financial management framework. I will then go into my role as Under Treasurer and an outline of the budget process and some of the key pieces of legislation that underpin the budget process.

Slide 2: The state's financial management framework is established by two key pieces of legislation—the Financial Management Act and the Government Financial Responsibility Act. Turning to slide 3, the Financial Management Act sets out the high-level framework. Underneath the Financial Management Act are associated regulations, the financial management regulations, and also a series of what are termed Treasurer's Instructions. Treasurer's Instructions have the force of law, like the regulations do, and they go into more operational detail. I will not go into that operational detail; I will just focus on the high-level framework set out in the Financial Management Act.

The FMA at a high level provides agency-level financial controls, accountabilities and annual reporting requirements. It also provides for the administration of what is called the public ledger. The public ledger consists of the consolidated account, the Treasurer's advance account and what are termed Treasurer's special purpose accounts. The consolidated account is the central account of government that Treasury manages. It is the account into which all taxation revenue, mining royalties and most commonwealth grants are paid, and it is the account out of which appropriations are paid to government agencies. The Treasurer's advance account is a mechanism that provides for unforeseen expenditure that may arise during the course of the budget year that was not included in the appropriation bills provided by Parliament. Issues will always arise during the course of the year that could not have been foreseen at the time the budget was passed by Parliament. That could cover things like natural disasters, for example. The Treasurer's advance provides the necessary flexibility to enable those unforeseen issues that emerge to be funded during the course of the year.

The Treasurer's special purpose account include things such as the royalties for regions fund and the future health research and innovation fund, for example. These are large, dedicated quarantined funds or accounts that are managed by the Treasurer. The FMA also provides for the supply and appropriation arrangements. These are the rules for getting money out of the consolidated account and into government agencies. Finally, it also provides for the operation of what is called the public bank account, including the investment of moneys standing to the credit of the public bank account. State government agencies have their own individual bank accounts, but the FMA provides that those bank accounts form part of the public bank account. The public bank account is like an umbrella arrangement that treats all of those accounts on a pooled basis so that Treasury can manage that on a pooled basis and invest those moneys on a pooled basis. It just makes the operation and administration of all of those individual bank accounts more streamlined and simple.

So that was the Financial Management Act. Slide 4: the Government Financial Responsibility Act provides for whole-of-government financial reporting requirements. They comprise the annual budget papers. Usually the budget papers are tabled in May each year. This year it is a late budget because of the election and the budget will be tabled on 9 September. The GFRA also requires that the Treasurer release a midyear review by 31 December each year. That is a midyear update on the preceding budget. It also requires the tabling of an annual report on state finances by 28 September each year. That report provides the actual financial outcomes for the preceding financial year and provides an assessment of those actual outcomes compared with what was expected in the budget and reconciles those two things. That report is also audited by the Auditor General. The GFRA also requires the publication of quarterly financial results reports. Within 60 days of the end of each quarter we have to produce and release these quarterly financial results reports which, again, look back at the preceding quarter and the actual financial outcomes for that preceding quarter. The point of those reports is to see how we are tracking throughout the course of the year relative to the budget targets.

[10.40 am]

Finally, the GFRA also provides for the *Pre-election financial projections statement*, which obviously is released once every four years at the start of the caretaker period. That report, the *Pre-election financial projections statement*, is released by the Under Treasurer. All of those other reports I just mentioned are released by the Treasurer.

I turn to slide 5. The Government Financial Responsibility Act also requires the government of the day to have a set of medium-term financial targets and requires reporting of progress against those targets. The act itself does not specify what those targets should be; it just says that the government of the day must have a set of targets and must report against them. The current set of financial targets are listed there on slide 5. The first is to maintain an operating surplus for the general government sector on average over the forward estimates period. The most recent forward estimates that are in the public domain are those in the *Pre-election financial projections statement* that I had to release in early February. Those forward estimates show an operating surplus in each year of the forward estimates; therefore, that target is met. The second target is to maintain disciplined general government expense management—that is recurrent spending—through delivering public sector wage outcomes that are in line with the government's wages policy. In the last term of government and currently the wages policy is $1 000 annual pay rises, and we have been successful in delivering wage outcomes in line with that wages policy. The other aspect of that target is ensuring that agencies' recurrent spending outcomes are in line with their budgeted expense limits. One of the key controls that we have—this is provided for in the FMA—is what is called a resource agreement. Every agency has to have a resource agreement. That is a signed agreement between the relevant director general of the agency, the relevant minister of the agency and the Treasurer. That resource agreement sets out all of the approved financial parameters for the agency for the budget year. This target is making sure that agencies adhere to those financial targets. Finally, the last financial target is to maintain or increase the net worth of the total public sector. That is the broadest measure of the state's financial position, so it is total assets minus total liabilities. That measure is to make sure that that measure of net worth is maintained or increasing year on year.

I turn to slide 6 on the role of the Under Treasurer. I will break this down into the FMA and the GFRA as well. Under the Financial Management Act, my role as Under Treasurer is to manage and administer the public ledger that I went through before; to oversee the operation of the public bank account including the investment of moneys standing to the credit of the public bank account. I have delegated authority from the Treasurer to approve the creation of special purpose accounts. I oversee the preparation and signing of what are called Governor's warrants to enable payments from the consolidated account. This is a requirement of the Constitution Act. Even after the appropriation bills are passed by Parliament and receive royal assent, before we can get money out of the consolidated account we have to get these warrants signed by the Governor before we can legally release money from the consolidated account. Part of my role is also to establish timing and context and content around these agency resource agreements that I mentioned a bit earlier. Treasury also provides agencies with guidance each year on the content and format for their annual reports to Parliament, including any new accounting standards requirements that agencies are required to meet. I also have delegated authority from the Treasurer to approve requests from agencies for exemptions from the *Treasurer's instructions* requirements, which are provided very rarely, I might add.

I turn to slide 7. Under the Government Financial Responsibility Act, my role is to oversee, and certify to the effect that I have overseen and finalised, the economic and revenue forecasts that underpin the budget and the midyear review estimates. As I mentioned earlier, part of my role is to sign off on the *Pre-election financial projections statement* within 10 days of the dissolution of the Legislative Assembly every four years. The GFRA also enables me to request any information that I need from public sector agencies for the purposes of the act. To prepare all those statements, budget papers, midyear reviews and so on, we need to consolidate the financial statements of about

130 public sector agencies. We require a vast amount of information to bring that all together. We are constantly requesting information and data from agencies to enable us to perform these roles.

Slide 8 provides a diagrammatic overview of the budget process. This is this year's budget process which, as I said, has a later timing—normally we have a May budget—but the process is basically the same each year. It starts with cabinet approving the key elements of the budget process, including dates and areas of focus and so forth. Ministers then endorse and submit budget submissions in line with that cabinet approval. Those budget submissions are then deliberated on by the Expenditure Review Committee, or ERC, and Treasury provides advice and recommendations to the ERC on every budget submission. ERC makes its deliberations. Those deliberations go to cabinet the following week after ERC for endorsement. Cabinet is kept up-to-date throughout the entire budget process. The legislation specifies a budget cut-off date, which is the date at which everything is locked away, so decisions are locked away, the economic and revenue forecasts and assumptions are locked away on that cut-off date. On that cut-off date, which this year is 9 August, that is Monday next week, cabinet formally signs off on the budget on that date. Treasury then goes to work producing the set of budget papers that are tabled in Parliament, so we have about a month to do that. The Treasurer releases the budget. The budget day this year is 9 September. Then, of course, ministers and agencies participate in estimates hearings, which this year will commence in late September and go through to October. That is just a high-level overview.

Slide 9: in terms of Treasury's role, I have touched on a lot of this already, we recommend the parameters of the budget process each year to cabinet. We help guide and manage agencies and administer expectations. That is around helping them to frame their budget submissions in terms of key areas of focus or areas where there is an expectation that agencies will absorb costs rather than come forward with new funding submissions.

The CHAIR: Hope you are good at that.

Mr BARNES: There has to be some fun in the job!

Of course, we also analyse all the submissions that do come in and provide detailed advice and recommendations to the Expenditure Review Committee. We are constantly updating the economic and revenue forecasts and providing regular budget updates to ERC throughout the budget process. That is based on decisions that are being made by ERC throughout the process. If you like, we are keeping a running tally of those decisions and the impact of them on the operating balance and on net debt. We are tracking every day, basically, movements and key revenue drivers, like the iron ore price, the exchange rate and housing market activity, which drives most of our stamp duty revenue, and labour market conditions, which drive payroll tax. We bring all of that together and we are providing regular budget updates to ERC so that ERC and cabinet can see how they are tracking against the targets. Our economic and revenue forecasts are informed through quite a bit of industry consultation. Obviously we have our own in-house modelling. We have a range of econometric models that we use and lots of data. We gather data from the ABS and lots of other sources as well to inform our forecasts. Obviously we coordinate production of the budget papers themselves and we work with Parliamentary Counsel to draft the appropriation bills and the supporting material for those bills.

That is a segue to slide 10 on the appropriation bills. As I mentioned earlier, the only way that money can be paid out of the consolidated account is through Parliament's approval of the appropriation bills. There are two forms of appropriations. There are annual appropriations, which are specified in the appropriation bills for each year, each budget. Those appropriations are for the budget year only, one year, but there are also standing appropriations. There are some appropriations that are authorised by other acts of Parliament to permanently draw funds from the consolidated account, so we do not need to include those ones in the annual appropriations. They are things like, for example, the consolidated account has to borrow from time to time. Obviously you have to pay interest on those borrowings. That is an ongoing requirement, so we have a permanent standing appropriation to provide for the interest so we can draw money from the consolidated account to pay the interest on those borrowings.

[10.50 am]

With the annual appropriations, as a subject of the appropriation bills, there are two types of those—recurrent and capital. The recurrent appropriations provide the funding for core agency service delivery. So, they fund things like salaries and wages and other employee benefits such as rent and grants—those sorts of recurrent types of spending. And there are capital appropriations which provide the funding for investment and infrastructure, so the building of a new school or a new hospital or a road, and also effectively equity contributions from the state. Sometimes Treasury needs to make equity contributions to an agency that is running very low on its cash balances, for example. It is a transfer of equity or cash from Treasury to the agency. Those are provided for under the capital appropriation bills as well.

Slide 11 refers to the supply arrangements. Supply is actually getting the money out of the consolidated account. As I said earlier, we cannot release funds unless supply is authorised by passage of the appropriation bills. Normally we have a May budget and normally a May budget would pass the Legislative Council during August, which is obviously past the start of the financial year on 1 July. But under the FMA there is automatic supply that extends through to the end of August. So long as the appropriation bills are passed by Parliament by the end of August, that automatic supply covers us. Generally, that works every year. When we have a later budget, like we do this year with the September budget, obviously we need to extend those temporary supply arrangements, because with the September budget the appropriation bills probably will not be passed until November. Earlier this year, in June, Parliament passed a Supply Act that provides for that temporary supply until the appropriation bills are passed later in the year.

Finally, on slide 12 is the Treasurer’s advance. This is the one I mentioned where there are always unforeseen, unexpected or extraordinary circumstances that arise during the course of the budget year, and because they are unforeseen they are not included in the budget or the appropriation bills. The Treasurer’s advance is the legal mechanism to enable Treasury to release funding in those circumstances. But there is a limit on that and that limit is calculated in the FMA at three per cent of the previous year’s annual appropriations. We can go up to that limit of three per cent. That equates to roughly $800 million a year. We can go up to that Treasurer’s advance limit of three per cent and provide that money to agencies where it is needed for those unforeseen circumstances. That provides that necessary flexibility as issues arise during the course of the year. We cannot go above that three per cent limit unless Parliament passes a separate Treasurer’s Advance Authorisation Act. That was the case for the last two years. With the onset of COVID and the additional spending requirements that generated, that meant that the three per cent limit in the last two years was not enough, so Parliament had to pass a separate act to enable us to go above that three per cent limit. We report each year to Parliament on all of the spending that is approved under the Treasurer’s advance as part of the annual report on state finances so it can be seen where and how it was spent.

That is pretty much it, chair, in terms of an overview. I am happy to take any questions.

The CHAIR: Thanks, Michael; that was very good. It is good to be reminded of all those things, and you have a very tough job at the best of times. Certainly from when I was in a ministerial position to where I am now, the financial situation is a lot different for a host of reasons—government policy of course, but also with regard to iron ore prices and GST changes et cetera. What was the projected anticipated surplus for 2020–21?

Mr BARNES: It is $3.1 billion.

The CHAIR: And what was the 2020–21 surplus?

Mr BARNES: It is not yet brought down. The latest available estimate was in the pre-election statement in February. That was the $3.1 billion. That was an estimate at that time. There will be an updated estimate in the September budget, on 9 September, and then the final audited result will be in the annual report on state finances later in September.

The CHAIR: Just with regard to the actual iron ore prices, what are your expectations for the next 12 months? Do you have any projections for iron ore prices?

Mr BARNES: In the pre-election statement that was released in February we had estimated an iron ore price, from memory, of $US134 a tonne in 2020–21. The actual iron ore price for last financial year, 2020–21, came in at about $US154 a tonne.

The CHAIR: And what is it now?

Mr BARNES: It is currently sitting at about $US184 a tonne.

The CHAIR: Do you have any idea what the average is?

Mr BARNES: The long-run average over many decades is about $US66 a tonne.

The CHAIR: Do you have any idea about the average for the last financial year, say, 2020–21?

Mr BARNES: For the last financial year the average came in at about $US154 a tonne, compared to our estimate pre-election statement of $US134 a tonne.

The CHAIR: With regard to the $1 000 wages policy, is that government policy for the next four years?

Mr BARNES: The next two years.

The CHAIR: Two years?

Mr BARNES: Yes.

The CHAIR: Is there anything embedded within your expectations in the budget that would go beyond that?

Mr BARNES: The government announced late last year that it would extend the $1 000 wages policy for two more years and then after that move to a CPI-based wages policy. That is reflected in the pre-election statement. In the pre-election statement there is a provision for CPI-based wage increases in the last two out years of the forward estimates.

The CHAIR: Sorry, so it is $1 000 for two years and then CPI?

Mr BARNES: Correct.

The CHAIR: With regard to that—it has come up everywhere directly as a result of the pandemic—what are your predictions in terms of labour supply issues?

Mr BARNES: This is a rapidly moving feast. Clearly this is an issue. It is an issue nationally and is something we are working on through the Heads of Treasuries forum that I sit on. Every state is in a very similar position in terms of trying to attract the necessary skilled labour that they need. We have not yet seen it materialise in economy-wide wage pressure. The most recent data from the ABS shows that the wage price index in WA is currently growing at only 1.5 per cent. For whatever reason, the strong demand for labour that we are seeing at the moment is not yet flowing through into wage pressure. Anecdotally we hear this quite a bit in our industry consultations. We think the part of the reason for that—take the resources sector as the prime example. I think the resources sector was a little bit burnt from the last mining investment boom when it paid very, very substantial pay increases and built those pay increases into base pay. Then when the cycle turned, the resources sector went into cost-cutting mode big time. This time around I think they have learnt from that and they are seeking not to build large pay rises into base pay, but instead they are seeking to attract workers by paying a one-off sign-on bonus. Those one-off bonuses, which we hear about all the time being paid, do not flow through into the wage price index data that we get from the ABS. We had a look at that headline ABS wage data. It is very low—1.5 per cent, as I said—but we know that firms are employing other means to attract labour.

The CHAIR: Labour supply issues are real and they are evidently an issue for a whole raft of skillsets, hospitality in particular, but also the infrastructure projects, such as Metronet. In the foreseeable future, when pretty much three quarters of the nation is shut down at the moment, I cannot see that shifting until the end of the year, I would not imagine. Do you have any view on that? Is there light at the end of the tunnel or is it basically in the lap of the gods with regard to COVID? But with regard to budget assumptions and impact on infrastructure projects such as Metronet, have you given that consideration?

Mr BARNES: Yes, we have, chair, and that will be reflected in the budget that is brought down in September. We will need to make an assumption around the opening of international borders. I doubt that assumption will be too different from the commonwealth's assumption in its budget in May, which was around the middle of next year, the middle of 2022, for a slow reopening of international borders. I expect we will have a similar assumption in our budget. I think you will see it reflected in a declining unemployment rate and gradually increasing wage growth. So that labour market tightness will be reflected in those parameters.

I expect we will also send it starting to creep through into building cost escalation. We have not seen that to any large extent yet, but again, you can see the early signs of it starting to creep through in terms of our own projects that we are tendering for. We are also seeing fewer tenderers for some of our projects because they are so busy. That in turn will result in some push out of our projects in terms of delivery. The government has already publicly mentioned that we are looking at smoothing out the timing of our infrastructure program. The government has a very large infrastructure program. We do not really want to be competing with the private sector in terms of project delivery. We want to be complementing, not competing. As part of this current budget process we are looking at smoothing out the timing of the infrastructure program over the next four years so that it is not so heavily front-ended, but more of a smooth, longer pipeline of work. We think that will help take a little bit of the heat out of the market, if you like.

[11.00 am]

The CHAIR: It is a bit difficult to get tradesmen to do some renovating at the moment. Having said that, "smoothing out" is an interesting concept. Does that mean there will be some delays on some projects? Is that what you are talking about? Or is it pushing out to the four-year period?

Mr BARNES: Not necessarily delays, but more so around when you go to market with the tender and the cash flows we have that sit behind that. A lot of the cash flows that agencies put forward are overly optimistic in terms of the spending profile. Through a combination of having more realistic cash flows and perhaps smoothing out when tenders are released to market, maybe in some cases pushing out the completion date, the objective is to smooth the infrastructure profile, I suppose, over the next four years rather than have it so heavily front-ended. As I said, the last thing we really want to be doing is competing with the private sector; we want to be complementing it.

Hon JACKIE JARVIS: I just want to clarify Treasurer's advance account. The three per cent limit based on previous annual appropriations can be spent without a new appropriation bill; is that correct?

Mr BARNES: Correct.

Hon JACKIE JARVIS: Does the Financial Management Act outline a definition of what is unforeseen?

Mr BARNES: No.

Hon JACKIE JARVIS: So it is the Treasurer of the day?

Mr BARNES: Correct. The FMA just uses the terminology, from memory, "unforeseen" or "extraordinary".

Hon Dr BRAD PETTITT: My questions are probably of a long-term nature. I am interested in the kinds of modelling Treasury has done in the terms of the climate impacts on the WA economy in terms of risk around the state's finances to that. Has some work been done or is work intended to be done?

Mr BARNES: Work is definitely intended to be done. It is obviously gathering a lot of momentum in this area. To be honest, we are in the early stages of that work, but we are seeking to recruit people precisely for that purpose in the near term. It has become an issue for a lot of our stakeholders, including the credit rating agencies that are paying increasing attention to the impact of climate change and climate risk on the state's financial position, and also overseas investors, particularly in state government bonds, particularly European investors who are very focused on environmental social governance considerations. We are doing quite a bit of work with the WA Treasury Corporation about establishing an environmental social governance framework and establishing our credentials in that space, if you like, to show investors and the credit rating agencies what we are doing in that space.

Hon Dr BRAD PETTITT: Do you have a sense of a time frame of when some of that work might be made public?

Mr BARNES: Later this year.

Hon NICK GOIRAN: Do you assess the impact of the lockdowns that we have had on our economy? If so, how many assessments have been done and what has been the outcome of those assessments?

Mr BARNES: Yes. We have had three, I think, lockdowns in this current year. We have done an assessment of each one of those. All of those have been remarkably consistent. We have come up with an estimate, and we have approached this in a couple of different ways. We have looked at the loss of hours worked. We have confidential credit and debit card spending data from the major banks so we can see, in almost real-time, how much people are spending and where they are spending it. It is quite granular information and it is very helpful. We have approached it from both the hours worked point of view and the credit and debit card spending point of view. They both tell a very consistent story. In all three lockdowns we have estimated a cost to the WA economy of about $25 million per day of lockdown.

Hon NICK GOIRAN: Is that an assessment that manifests itself in some form of written document?

Mr BARNES: During the caretaker period in February I did provide a document to the Treasurer and the shadow Treasurer at that time which provided our assessment of the late January lockdown, I think it was. That document has been provided.

Hon NICK GOIRAN: Okay; there would be no objection to providing it to this committee then?

Mr BARNES: No, as far as I am concerned it is now on the public record, so I am happy to do so.

Hon NICK GOIRAN: Could we take that on notice?

[*Supplementary Information No A1.*]

Hon NICK GOIRAN: And that would be the most recent assessment that has been done?

Mr BARNES: Yes. The most recent formal written assessment, yes.

Hon NICK GOIRAN: Right. Okay. I guess it is helpful when you are trying to forecast into the future to know there has been remarkable consistency each time you have done the assessment.

Mr BARNES: Yes.

Hon NICK GOIRAN: The Bell Resources dividend: can you recall off the top of your head how much that was and how much that came through, presumably to the consolidated account?

Mr BARNES: I cannot recall the exact number, but it was in the order of $560 million. That is still with the Insurance Commission of WA. They received that money last financial year. They were originally due to pay that to us last financial year, but the government decided to defer last financial year's interim dividends to this financial year. So the Insurance Commission is due to pay us that dividend this financial year.

Hon NICK GOIRAN: Do you know how much their dividend is going to be?

Mr BARNES: It is still in that order of $560 million.

Hon NICK GOIRAN: Okay. So the $560 million is not necessarily the full sum of the settlement that they received, or is the dividend 100 per cent of the settlement?

Mr BARNES: It is not quite 100 per cent because they pay us both a dividend and a tax equivalent payment. They have already paid us the tax equivalent payment, which I cannot remember but it was in the tens of millions. The vast bulk of it is the dividend payment, which is the $560-odd million, which is due to us this financial year.

Hon NICK GOIRAN: And that could happen any time between now and 30 June, or is there an agreed date?

Mr BARNES: Normally, that would be paid by December.

Hon NICK GOIRAN: "Normally" meaning that there has been some discussion to crystallise and agreement?

Mr BARNES: No, just that normally that would be the typical timing of when a dividend is paid.

Hon NICK GOIRAN: Okay. But if I asked the Insurance Commission, "When are you going to pay it?", I should expect that they will say, "Well, sometime between now and 30 December."

Mr BARNES: I would expect so, yes.

Hon NICK GOIRAN: It is interesting that the Insurance Commission still had the money. As I understand it, money has been distributed to Western Australians in the form of a credit for their electricity accounts. Where did that money come from?

Mr BARNES: Correct. Effectively, the improved fiscal position of the state last financial year, as reflected in that $3.1 billion operating surplus estimate I mentioned earlier, has come about largely as a result of the stronger than expected iron ore price. You know, money is fungible. Whether it is the Bell dividend or whether it is increased royalty revenue from higher iron ore prices, you cannot really draw a direct line between one thing and the payment of the household electricity credit. It was the combination of that fiscal capacity that enabled the government to pay that household electricity credit.

[11.10 am]

Hon NICK GOIRAN: Yes, I am not sure that that is what the Premier and the government were saying when they were issuing the media releases at the time; I think they were very much trying to draw a connection between the two. You indicate that the budget surplus was estimated to be $3.1 billion. Have we eaten into that surplus to be able to fund this electricity credit?

Mr BARNES: No, member. The $3.1 billion estimate—and I stress that was an estimate as at the time of the February pre-election statement—included the impact of the household electricity credit.

Hon NICK GOIRAN: Right, so that had been factored in?

Mr BARNES: Yes.

Hon NICK GOIRAN: So, but for that, the estimate would have been higher—the surplus would have been higher?

Mr BARNES: Yes, correct.

Hon NICK GOIRAN: What was the legal mechanism by which the Insurance Commission must now provide this $560 million?

Mr BARNES: Under their enabling legislation, there is provision for them to make a special dividend back to the government, so it is that special dividend provision.

Hon NICK GOIRAN: So it is a mandatory mechanism in the sense that somebody, presumably the Treasurer, orders that the Insurance Commission hand that money over?

Mr BARNES: Yes, it is a decision of cabinet communicated to the Insurance Commission by the Treasurer as the responsible minister.

Hon NICK GOIRAN: Okay, but the power to be able to issue that direction would be some form of statutory power?

Mr BARNES: It was not a direction; it did not need to be a direction because the board agreed.

Hon NICK GOIRAN: So the Insurance Commission of Western Australia voluntarily agreed to give to the government of Western Australia $560 million?

Mr BARNES: Correct.

Hon NICK GOIRAN: Okay. The *Annual report on state finances*, you indicated in your presentation, will be provided by 28 September. I take it that that is a standard time frame?

Mr BARNES: Yes, it is. Under the Government Financial Responsibility Act, there is a deadline of 90 days of the financial year's end, which is 28 September.

Hon NICK GOIRAN: Will that change at all because the budget is being handed down this year on 9 September?

Mr BARNES: No, it will not change.

Hon NICK GOIRAN: Okay. On 9 September, when the budget is handed down, would the audited results of the previous financial year already be known?

Mr BARNES: When the budget is handed down? No, they will not be known at that stage. We will still be going through the audit process as at 9 September.

Hon NICK GOIRAN: Okay. You will need every last bit of those final 19 days to be able to finalise it.

Mr BARNES: It goes right down to the wire, member!

Hon NICK GOIRAN: Is the annual report ever late?

Mr BARNES: No, we have never missed it.

Hon JACKIE JARVIS: I just had a question regarding the wage index. You talked about the data. You talked about the mining company, sign-on bonuses et cetera. Where does the data come from for that wage index?

Mr BARNES: From the Australian Bureau of Statistics.

Hon JACKIE JARVIS: Okay. And that is from taxation data, PAYG data? I am just wondering why things like a sign-on bonus et cetera is not reflected in that wage index, because presumably that is a payment to an employee.

Mr BARNES: Yes, so the ABS surveys employers, and, based on the survey results, calculates this wage price index. It is a bit technical, but the way they construct the wage price index is it is almost like a standard job, or a standard basket of jobs. They try to abstract from things like promotion, so if you get a promotion within your current job, that does not count as a pay increase for that purpose. So, for that reason, they try and abstract things like a sign-on bonus, for example. They are trying to measure, I suppose, underlying wage pressure on the economy.

Hon JACKIE JARVIS: Thank you. Just following on from the discussion we had about the real-time cost—$25 million per day during lockdown, and you talked about real-time credit card spend. Is there a spending uplift or a bounce after lockdown, because presumably some people are just delaying expenditure?

Mr BARNES: Yes, there is, and that is one of the very consistent patterns that we have seen in the three lockdowns this year: obviously quite a sharp downwards impact during the lockdown period, but an equally sharp rebound very shortly thereafter.

Hon JACKIE JARVIS: Okay, so when you talk about that $25 million a day, are you also reporting on the post-lockdown, or is that a net figure?

Mr BARNES: That is just for the lockdown period, so that is just the downward loss, if you like, during the lockdown period. It does not account for the subsequent rebound.

The CHAIR: Just on that, then, that is on the impact of the lockdown within Western Australia, so the complete lockdown for three days or a week, or whatever. What about an impact of lockdown in other parts of the nation? Is that factored into any of your projections? Does that have a material impact in terms of Western Australia?

Mr BARNES: It has not to date, chair. The New South Wales lockdown we are going to have to monitor pretty closely, though, particularly I think in terms of any potential supply chain disruptions that might come out of that. So we have not seen it yet, but it is something that we are conscious of and are looking at.

The CHAIR: Yes, and the same internationally, I guess. But, fundamentally, I know that you are talking just domestically, but I would imagine, particularly with—well, Victoria is out now, but at one stage there for about two or three weeks we had pretty much the rest of the nation other than South Australia and Tasmania in lockdown. I would have imagined that that would have had an impact. But that is something you are monitoring?

Mr BARNES: It is. To date, it has not really had an observable impact. Remarkably, even during those lockdown periods in Victoria and the like, confidence here was still very high, both consumer and business. It took a little bit of a dent when lockdowns are first sort of announced and they are in the media a lot, but, again, rebounds very quickly. And we have seen the same thing again with the New South Wales lockdown. It is just a question of how long that drags on for, and, as I said, what impact, if any, that might have on trying to source materials from over east. So, no observable impact yet, but that is an issue and a potential risk that we are looking at.

The CHAIR: Just one other thing. This is from an operational perspective, I guess, it does impact on you. In the electoral cycle, every pre-election, there is always a bit of argy-bargy between all the political parties with regard to the establishment of a parliamentary budget office, because the terrible people at Treasury are always going to be vehicles of the respective governments. I am very conscious that that is not the case, but what would you feel about the establishment of a parliamentary budget office?

Mr BARNES: What would I personally feel about it?

The CHAIR: Yes.

Mr BARNES: I kind of have mixed views, to be honest.

The CHAIR: Do you think it is necessary?

Mr BARNES: I do not think it is necessary, because I have absolute confidence in the impartiality of Treasury, including in the costing of election commitments, so I do not think it is necessary from that point of view. Treasury also has the access to all of the data and the agencies and the contacts that we need to do those costings. A new parliamentary budget office would have to re-establish all of that. Plus, a new parliamentary budget office would probably source its staff from Treasury, so that would be a direct impact on me and my organisation, so, hence, I have somewhat mixed views.

The CHAIR: I acknowledge that. Would a government provide or ask Treasury to cost opposition policies?

Mr BARNES: Not directly. Under the caretaker conventions that are issued each election, I can only formally cost election commitments that are asked of me by the leader of the party.

The CHAIR: So, it does not matter what political persuasion? If a Premier of one particular party asked you to cost the policies of an alternate party, you would not do that unless you were asked by the leader of that party; is that right?

Mr BARNES: The leader of the party, under the caretaker conventions, can only ask me to cost that party's election commitments.

The CHAIR: Yes, that is right, yes. But outside the caretaker provisions, they can?

Mr BARNES: Well, the government of the day can ask me to cost anything they want. That has always been the case. But, formally, under the caretaker conventions, I can only cost an election commitment if it is being asked of me by the leader of that party that is making the election commitment.

The CHAIR: Yes. Having been in this place a long time, I just think somehow we have got to do it better when it comes down to election times, and that is that we do get to a point where we have a little bit of integrity behind our costings. It does not matter if it is government or an opposition. At the moment, I do not think it is working. That is not a reflection on yourself, I can promise you.

Mr BARNES: I have to say, chair, it is certainly not my favourite time.

The CHAIR: I can imagine. I can just imagine. Having said that, I take on board your views, and I respect you, so thank you. Anyone else?

[11.20 am]

Hon NICK GOIRAN: The Treasurer's special purpose accounts, how many of them exist at the moment?

Mr BARNES: I would have to get back to you on that one, member. There is a number. The two examples that I mentioned, the ones off the top of my head, are around royalties for regions and the future health research and innovation fund. But they are listed in Treasury's annual report, so I am happy to provide that list to you, if that would be helpful.

Hon NICK GOIRAN: We can take that on notice.

The CHAIR: What was it for?

Hon NICK GOIRAN: The number of special purpose accounts that are held by Treasury at the moment.
[*Supplementary Information No A2.*]

Hon NICK GOIRAN: Further to that, in your presentation you mentioned that you have got delegated authority to approve exemptions from *Treasurer's instructions* requirements. How many of those exemptions are currently in place?

Mr BARNES: Not many, member. They are few and far between. Where an agency does successfully get an exemption, they have to report it in their annual report, but they are few and far between.

Hon NICK GOIRAN: Are there any examples of exemptions that have been provided for more than one financial year, so it is a recurring exemption for any particular reason?

Mr BARNES: Nothing—I cannot recall off the top of my head any in that category, but I can take that on notice, if you like.

Hon NICK GOIRAN: If we can take that on notice.
[*Supplementary Information No A3.*]

Mr COURT: Examples of that, in more recent times with COVID, were KPIs, where agencies needed to collect information from, say, remote communities or remote areas were not able to travel to get there, there were temporary exemptions for it.

The CHAIR: Were hospital waiting lists an exemption?

Mr BARNES: Not that I can recall, chair, no.

Hon NICK GOIRAN: Also in your presentation you mentioned that Treasury prepares and releases a *Pre-election financial projections statement* within 10 days of dissolution of the Legislative Assembly. Was that done?

Mr BARNES: Yes, member. That is this report here that I released on 8 February.

Hon NICK GOIRAN: My last question is quite specific so you may choose to take this on notice: with respect to the consolidated accounts, one of the various pieces of expenditure that comes from it is payments to victims of crime for compensation, but also what happens is that the state has a capacity to recover some of those payments from the convicted perpetrator. I appreciate this is quite specific, but is that information that you would be able to provide to us in terms of perhaps the last financial year, or even the last three financial years, in terms of how many payments have gone out to victims from the consolidated account and how much has been recovered from perpetrators?

Mr BARNES: I believe that we can get that information. We will certainly endeavour to do so.
[*Supplementary Information No A4.*]

The CHAIR: Thank you very much. Thanks for attending. Please end the broadcast.

A transcript of this hearing will be sent to you for your correction. If you believe there are typographical or transcription errors in your transcript of evidence, please indicate your suggested corrections on the transcript. Errors of fact or substance must be corrected in a letter to the committee. When you receive your transcript of evidence, the document will also indicate the questions that you have taken on notice and when the response is due back to the committee. If you want to provide additional information or elaborate on particular points, you may provide supplementary information for the committee's consideration when you return your corrected transcript of evidence.

Please speak to the committee staff if you have any further queries, and once again thanks very much for taking the time to meet with us. It is very much appreciated.

Hearing concluded at 11.24 am