

STANDING COMMITTEE ON ESTIMATES AND FINANCIAL OPERATIONS

2018–19 BUDGET ESTIMATES



**TRANSCRIPT OF EVIDENCE
TAKEN AT PERTH
THURSDAY, 21 JUNE 2018**

**SESSION FOUR
DEPARTMENT OF MINES, INDUSTRY REGULATION AND SAFETY**

Members

**Hon Alanna Clohesy (Chair)
Hon Tjorn Sibma (Deputy Chair)
Hon Diane Evers
Hon Aaron Stonehouse
Hon Colin Tincknell**

Hearing commenced at 2.33 pm

Hon ALANNAH MacTIERNAN

Minister representing the Minister for Mines and Petroleum, examined:

Mr DAVID SMITH

Director General, examined:

Mr IAN MUNNS

Acting Deputy Director General, Safety Regulation, examined:

Dr PHIL GOREY

Acting Deputy Director General, Resource and Environmental Regulation, examined:

Mr MICK BANASZCZYK

Executive Director, Corporate Services, examined:

Mr PETER GOW

Acting Deputy Director, Industry Regulation and Consumer Protection, examined:

Mr GARY NEWCOMBE

Acting Executive Director, Service Delivery, examined:

Mr COLE THURLEY

Chief of Staff, Minister for Agriculture and Food, examined:

Mr NEIL ROBERTS

Chief of Staff, Minister for Mines and Petroleum, examined:

The CHAIR: Thank you, everyone, for your patience. This is the 2018–19 budget estimates hearing with the Commerce component of the Department of Mines, Industry Regulation and Safety. On behalf of the Legislative Council Standing Committee on Estimates and Financial Operations, I welcome you to today's hearing. Can the witnesses confirm that they have read, understood and signed a document headed "Information for Witnesses"?

The WITNESSES: Yes.

The CHAIR: It is essential that all your testimony before the committee is complete and truthful to the best of your knowledge. This hearing is being recorded by Hansard and a transcript of your evidence will be provided to you. It is also being broadcast live on the Parliament's website. The hearing is being held in public, although there is discretion available to the committee to hear evidence in private. If for some reason you wish to make a confidential statement during today's proceedings, you should request that the evidence be taken in closed session before answering the question. Agencies have an important role and duty in assisting the committee to scrutinise the budget papers. The committee values your assistance with this.

Minister, do you have an opening statement?

Hon ALANNAH MacTIERNAN: No, Madam Chair. We are happy to go straight into questions.

Hon DIANE EVERS: My first question refers to page 212 and the third key efficiency indicator “Industry Advice and Regulation”. Noting that note 1 on that page states —

With the Safety Advice and Regulation service being a high priority, the savings measures have had a greater impact on this service.

What are the impacts of the savings measures and how will that affect the Western Australia community?

The CHAIR: Member, could you just restate the source?

Hon DIANE EVERS: It is the bottom paragraph on page 212 that states —

With the Safety Advice and Regulation service being a high priority, the savings measures have had a greater impact on this service.

There was a significant cut in last year’s budget and a decrease in the cost of services, and I wonder what impact that will have?

Hon ALANNAH MacTIERNAN: So this is the section “Industry Advice and Regulation”. Mr Smith, is there someone here who could answer that?

Mr SMITH: I might ask Ian Munns and Peter Gow to comment in a moment. It is because of the changes in the organisation that came with the machinery-of-government changes. As you would be aware, we amalgamated the former Department of Commerce and the former Department of Mines and Petroleum to form the new Department of Mines, Industry Regulation and Safety. As evident in that name, a priority for government in that amalgamation was to enhance the safety aspects of the department, so we brought together into these new services the safety advice and regulation group, which was essentially bringing together the WorkSafe part of the former Department of Commerce and the resource safety part of the former Department of Mines and Petroleum.

In relation to the information in the budget papers on these three services, we have the resource and environment regulation service, the safety advice and regulation service and the industry advice and regulation service. That reflects the new structure of the department that we have put in place. The comment under debate in that note is to reflect the fact that as part of that amalgamation the safety part of the former Department of Commerce has now gone to service 2, “Safety Advice and Regulation”. That reflects what that note is referring to. Perhaps the wording could have been slightly better, but it is really saying that the service measures in the safety space have gone from that service to “Safety Advice and Regulation”.

Hon ALANNAH MacTIERNAN: Can I just point out that it is referring to the fact that there has been quite a significant increase this year over last year. That is a reference to what had happened last year and why there is a significant increase this year.

Mr MUNNS: Just confirming what Mr Smith has advised also in terms of the amalgamation of the department, we have bought like areas together, which has provided us the opportunity, with some reduction in resources, to maintain the level of service through being able to work together more closely and enhance some of the processes we have to deliver the same level of service to the community.

[2.40 pm]

Hon DIANE EVERS: That kind of makes sense. It looks like it has just shifted the cost from service 3 to service 2. I have one question following on from that. Where is the income derived from on service 3—I suppose service 2 as well? Is the income for “Industry Advice and Regulation” a fee for service?

Mr SMITH: The income line for service 3 “Industry Advice and Regulation” reflecting for 2018–19 is \$66.142 million, is a range of fees that are collected from industry to cover some, but not all, of the regulatory functions that are performed for that service.

Hon DIANE EVERS: My next question is on page 216, the statement of financial position. Under current assets it shows “Restricted cash”. There is a consistent increase from \$263 million in 2016–17 up to \$347 million in 2021–22. I am interested to know what the purpose of that increase is—in restricted cash.

Hon ALANNAH MacTIERNAN: Member, can I just seek clarification? Are you talking about the restricted cash in the current assets?

Hon DIANE EVERS: Yes, that is correct.

Mr SMITH: That line item in the budget paper reflects the cash that the department holds that is restricted by regulations, in this case the Mines Safety and Inspection Act, the Mine Rehabilitation Fund Act and the Energy Safety and Building Services Acts, and a range of other acts. The increase in the 2017–18 estimate, if I have understood the question, compared to budget is mainly due to the allocation of funds via a Treasurer’s advance to the mine safety and petroleum and geothermal energy safety special-purpose accounts. These special accounts have been in operation since 2009–10. Due to the retrospective billing they are expected to be in a cash deficit position and each year the Treasurer’s approval has been sought for the estimated deficit for the account. That is an explanation of that item and the movement.

Hon DIANE EVERS: And movements in the following years, too?

Mr SMITH: Yes.

Hon DIANE EVERS: My final question is on page 209 under significant issues. I am looking at the fourth dot point, which talks about construction contractor insolvencies. I recognise that you are saying that there has been some work. I was wondering what progress has been made to date with regard to the actions of the department to address this all too frequent occurrence of construction contractor insolvencies.

Hon ALANNAH MacTIERNAN: This was a commitment of our government. An industry advisory group has been formed to advise the state government on implementing that election commitment to improve security of payment for subcontractors. The industry advisory group is bringing together key stakeholders to have some input into what that future law reform is going to look like. As you are probably aware, it is being chaired by barrister John Fiocco. Hon Matthew Swinbourn is also assisting Mr Fiocco on that. We are expecting Mr Fiocco will report later this year on the recommendations for law reform. We have recently expanded the scope of the inquiry to include consideration of the recommendations that came from Mr John Murray, who was commissioned by the commonwealth government to do a similar report in respect to commonwealth payments.

Hon TJORN SIBMA: Minister, I am hoping you can help me out with something. On page 215—it is the income statement and the third line item under expenses concerning supplies and services. You have a budget estimate of \$63 million for the 2018–19 year as compared to the estimated actual of \$38 million for 2017–18. Can I understand a bit more about the reasons for that difference of about \$25 million.

Hon ALANNAH MacTIERNAN: To a large extent that is because of deferred expenditure from the 2017–18 year. If you compare the actual budget with the expenditure, you can see that there is quite a difference. That is often the problem of delivery—that money has been repositioned to the 2018–19 year. This includes expenditure on aerial surveys and some of the ICT projects.

Hon TJORN SIBMA: Effectively, you will just be playing catch-up?

Hon ALANNAH MacTIERNAN: Yes.

Hon TJORN SIBMA: I thought it might have been related somewhat to the asset investment program, which is on page 213, but it does not appear that it is, but nevertheless. Can I just get a bit more understanding, please, about the department's digital strategy, particularly the outcome that purports to deliver better regulatory outcomes at lower cost to the community? Can we quantify those claims in any way?

Mr SMITH: The departmental digital strategy is, in fact, a new strategy, which we have just launched in the last month or so. It does two things; one, with the amalgamation of the agency we had two IT areas and two IT programs. We have brought those together into one team—the strategic business innovation group—within the department and they have prepared the merged strategy that has been referred to. I think it is available publicly, but I can check that. That has attempted to both make sure that we are utilising the current architecture and services that we have, but also, as this paragraph was referring to, making sure that we are suitably positioned for future developments in the regulatory space that we are responsible for. That is a very important role for us and something that we need to be prepared for. We have not yet specified exactly what those projects were. It is more a framework about how we will identify and deliver on those projects. We will use that mechanism to identify and test business cases as they are developed within the organisation from the IT space. We will be rolling that out over the next 12 to 18 months.

[2.50 pm]

Hon TJORN SIBMA: Is the system largely mature but not yet completely rolled out?

Mr SMITH: Yes; in development.

Hon TJORN SIBMA: It is in development. I presume that users are being informed of the changes or the anticipated changes. I would like to understand a bit more, from the user interface, what will necessarily change. Are your users prepared for the changeover?

Mr SMITH: I am sorry if I misunderstood. You may be aware that both departments were in this space in quite an active way and had an active program of moving to a digital service delivery. The former Department of Mines and Petroleum had already progressed down that path quite considerably. The feedback we have had, both from customers and from the Auditor General and so on, is that that has been done in an orderly and effective manner. Part of the secret I think of doing that is to be well prepared, so what we are trying to do for the next round is to make sure that we have the framework in place, as I said, to ensure that that happens.

Hon TJORN SIBMA: Once you have achieved a level of system maturity, is it then your intention to actually start measuring the dividend or the benefit; and, if possible, would you be in a position to report on the advantages in either your annual report or in the next set of budget papers? I just get nervous when anyone embarks on a software development program or an IT infrastructure program and the justification is always that it is going to improve service or improve efficiencies. Sometimes it does and sometimes it does not. Forgive me my cynicism, but I would be interested to see what the results are.

Mr SMITH: If I may, through the minister, I might ask Phil Gorey to give some examples about that. I absolutely understand that point. Certainly part of the digital DMIRS strategy is that it be business driven and not IT driven, so that we do not fall into those sorts of mistakes that have perhaps occurred elsewhere. I might ask Phil to give a little more description around that while I find in my notes examples of some of the benefits that already have been delivered to service.

Dr GOREY: Perhaps an example that may resonate is that on the resource side of the business, once companies have access to live tenure—essentially, they have access to land—they then need to apply to the regulator to undertake, for instance, mineral exploration. One of the things that the department has done over a number of years is that it has sought to remove any uncertainty in that process and to reduce the time frame in which the overall assessment actually occurred. By moving over a number of years to electronic lodgement, electronic processing and live screening of applications, a company can now log into our system, use an online spatial tool to propose where they are intending to do some exploration, and the system will highlight if there is sensitive environmental or heritage areas. While there is a significant increase in the number of applications coming through the department, we are seeing a maintenance of our approval time frames. What that means is that, essentially, we are getting applications through the door and properly assessed in a more timely way. We are also seeing that one of those issues that frustrates business is where they put in an application and they hear back from the regulator that it is incomplete or deficient in some way. We are seeing a stepped reduction in the number of times we need to go back to the proponent by improving our systems, so that they intelligently ask for that information at the start and potentially link to other systems where we already have that data, so the applicant does not need to put it in twice. Once somebody puts it in, they have a high level of confidence that there is sufficient information to actually respond and for the regulator to deal with it. They are two areas where we have been particularly monitoring the overall time frames and the number of times we can continue an application without going back to the proponent.

Hon ALANNAH MacTIERNAN: I would be very concerned if the department did not have a digital strategy. Obviously, we have got to move with the times. As Mr Gow alluded to, we have enormous datasets in government across different agencies, as does the federal government. The power that can be achieved by making these datasets available and to be integrated is very, very powerful.

The CHAIR: Thanks, member; we might move on to Hon Aaron Stonehouse.

Hon AARON STONEHOUSE: Chair, all my questions were around strategies, so I will yield for now.

Hon COLIN TINCKNELL: There are quite a few of my colleagues here who are ready to ask questions, so I will be quick. I refer to the appropriations, expenses and cash assets table on page 207 of budget paper No 2, volume 1. Why does item 45, the budget estimate amount provided for administered grants, subsidies and other transfer payments, decrease from \$43 million to \$17 million in 2019–20?

Hon ALANNAH MacTIERNAN: It is the magnetite finance assistance program, which was scheduled to be a finite program. In fact, I think we have extended it, so there is actually a \$7.3 million increase on what was in the previous budget for that project. Basically, that project will now complete in 2018–19, so it is not budgeted to go into the further years.

Hon COLIN TINCKNELL: So that is why there is a steady decline for the next couple of years.

Hon ALANNAH MacTIERNAN: Yes. Basically, that particular scheme was introduced as a short-term scheme to offset the lower magnetite prices and higher exchange rate. As you know, the exchange rate has improved. I also have to say that there has been a lot of positive interest around magnetite. Groups from Japan, China and Iran are very eagerly looking at the various magnetite deposits around, particularly that I am aware of in the southern half of the state.

Hon COLIN TINCKNELL: My next question relates to the same page—page 207. It is regarding \$232 000 that will come from the amount authorised by the Petroleum (Submerged Lands) Act 1982. I note that in 2017–18, the estimated actual was \$632 000. What explains the amount

decreasing once again this year and over the three forward estimates to 2021–22, where the amount is \$130 000?

Hon ALANNAH MacTIERNAN: These payments are made to the commonwealth for its share of petroleum royalties. The decline in those payments after 2017–18 predominantly reflects the decline in the production of the maturing petroleum funds that are subject to this legislation. It is the payments that we make to the commonwealth. Because those particular fields are maturing, there is a reduction in the amount we project that we will need to pay. This is based on particular projections of the oil price and, for this year the projection is based on an oil price of \$US66 per barrel and next year it is projected at \$US62.2.

[3.00 pm]

Hon JACQUI BOYDELL: The last dot point on page 209 under the heading “Significant Issues Impacting the Agency” refers to the fact that in 2018–19 several bills will be introduced into Parliament. I want to know: are there any plans to amend the Mining Act in the near future to fix the issues surrounding vulnerable leases following the fallout from the High Court case involving FMG? What is the government planning to do about the fact that about a quarter of the 564 leases issued since 2006 could be invalid? What is the status of the negotiations with the commonwealth regarding the possibility that any legislative change could trigger the future act provisions under the Native Title Act?

The CHAIR: I think that is enough.

Hon JACQUI BOYDELL: The issue with that, Madam Chair, is that the federal government is saying it is the state’s responsibility and the state is saying it is the federal government’s responsibility. Can we have some clarification on that?

Hon ALANNAH MacTIERNAN: Member, I am just waiting to see whether we have a detailed briefing note on that, but you will be aware that the government has indicated that it will be introducing a validation bill. All mining tenements granted since the introduction of commonwealth native title complied with the future act provisions. So, all of those that came since 1993, 1994 or thereabouts, when the commonwealth Native Title Act was introduced, have all dealt with the future act process, but there is the question that validating legislation itself might be a future act under the Native Title Act. Therefore, complementary amendments will be required to the Native Title Act to enable us to go back to the position that we were in before, but without affecting native title to any greater degree than is already assumed and accepted to be the case. We are talking. Minister Johnston is talking with the commonwealth government, hoping that we can progress these complementary amendments to the native title bill to ensure that existing native title agreements will not be affected.

Hon JACQUI BOYDELL: What is the time line for the validation bill or any amendments?

Hon ALANNAH MacTIERNAN: I suspect it might be related to the degree of progress with the federal negotiations. Mr Gorey, do you want to speak on that?

Dr GOREY: What the agencies are doing in Western Australia—so ourselves collaborating with the Department of the Premier and Cabinet—is engaging with our bureaucrat friends in Canberra to both share the likely structure of any amendments that will be presented to the minister to be presented to Parliament, and then looking at what they might mean in the context of native title amendments. One of the bits that the department has been communicating is that the court matter that was referred to in the question related to two specific applications. While that court case related to those particular applications, that matter has raised sufficient concern by some parties of the validity of mining leases, so to remove any doubt around the validity of those mining leases, we

think that consideration of an amendment to the Mining Act is appropriate. We are getting very good support from our colleagues in Canberra around understanding what those issues are and absolutely making sure that the amendments and the advice that we present to the minister here has context and actually works with what the federal government might need to do with amendments to the Native Title Act.

Hon ALANNAH MacTIERNAN: We are hoping that we will be in a position to bring in those changes in the spring session.

Hon JACQUI BOYDELL: The fourth dot point on page 209 under the heading “Significant Issues Impacting the Agency” is about the action to protect subcontractors, which is a key election commitment for the government. Does the government’s action to protect subcontractors extend to those engaged directly or indirectly with the resources sector so that we avoid, hopefully, a repeat of the situation where Rio and BHP in 2016 moved to substantially extend their payment terms, thereby severely threatening the viability of subcontractors? Is that a consideration?

Hon ALANNAH MacTIERNAN: The specific question is whether it extends to who?

Hon JACQUI BOYDELL: Subcontractors in the resource sector.

Hon ALANNAH MacTIERNAN: Right. I will ask Mr Peter Gow to talk about that.

Mr GOW: Thank you, minister. The definition, if you like, of the construction industry that the security of payment actions take place is essentially set by the Construction Contracts Act, and that distinguishes between work that is done to construct facilities, including mining and resources facilities, and work that is done in actually operating those facilities. Earthmoving to build a facility is covered, but earthmoving as part of a mining operation is not. So long as that distinction is kept in mind, the movements that the government has in terms of what Mr Fiocco is looking at will cover resources projects for their construction stage, but it will not cover them for their operational stage. That is not considered to be construction.

Hon JACQUI BOYDELL: There will not be any protection for subcontractors past construction?

Hon ALANNAH MacTIERNAN: Yes, because the election commitment was very specifically around subcontractors in the construction industry.

Hon ROBIN SCOTT: I refer to page 207. In 2016–17, mining tenement rentals were \$2 770 000 and in 2019–20 that will leap to \$15 910 000. Note (b) states —

The Department collects additional revenue for Mining Tenement Rentals ... The increased revenue from 2018–19 onwards supports the continuation of the Exploration Incentive Scheme with funding of \$5 million in 2018–19 and a further \$10 million per annum from 2019–20 onwards ...

Noting that the exploration incentive scheme has long been understood as a cost-effective means of boosting the government’s royalty income, how can the government justify this level of double dipping? It appears that not only does the government want the revenue benefit of the EIS; the government also expects struggling miners and prospectors to pick up the tab for the EIS. How can the government justify this increase of more than threefold in the tenement rental fees?

Hon ALANNAH MacTIERNAN: I thank the member for the question. The EIS itself is a cost to government. It is an exploration incentive scheme, so it costs government. We think it is a worthwhile scheme and it has been successful and we want it to continue. One of the critiques of the scheme has been that those people who actually hit paydirt, often are required to repay it. You will know there are other models around the world where early exploration is encouraged and

incentivised and then if and when a mining venture is successful, then there is repayment. That was another model. That was an earlier model of the mining tax.

But what we decided to do was we wanted to continue this scheme, but obviously, in the parlous financial circumstances, we had to find a mechanism for doing that, to making this financial. By and large, the companies that will be paying that will be the very large companies so the vast majority of this rent will come from the large mining companies and it will be a shift to benefit the smaller exploration companies. We think that is quite justified and, indeed, in their own interest, because these smaller companies that go out and do the exploration and find resources in many, many instances—that is providing the chain into the future for these large companies. As you will know, very often, large companies will acquire the resource that has been discovered by these earlier companies. We think that, under the circumstances, it would be the sort of thing that I think would attract people. It is having those very large and very, very profitable big companies effectively, in a way, making a contribution to those businesses at the other end of the scale and ensuring that there is a supply pipeline in terms of minerals available to turn to a profit.

[3.10 pm]

Hon ROBIN SCOTT: Minister, many small mining companies and prospectors will be directly affected by this. It will not affect the larger companies one iota. There is millions of dollars extra being collected here. Up until now, for every dollar the government invested in the EIS, they got \$10 back, so I struggle to find out why you are hammering the small miners and prospectors once again. One supplementary question I would like to ask is: what are the government's intentions, keeping in mind that at the moment, a small prospector can only claim back \$30 000 and a company can only collect back \$150 000? With these huge millions of dollars that you are collecting extra, will you be upping the ante there, allowing the prospectors to claim more and also the small companies?

Hon ALANNAH MacTIERNAN: Member, I am very surprised at your concerns about this because we have had very positive feedback about our decision to continue the EIS beyond the life that it had when we came to government. I am advised that most of the money will in fact come from the larger companies. It started out as a four-year program and it was because we recognised it has been a successful program that we wanted to continue it. We needed to find a way to fund it in a difficult circumstance. I do not see that this is a particular problem. As I said, we understand that the six per cent will raise about an additional \$5 million in the first year and another six per cent beyond that. Certainly, a considerable percentage of that is coming from the big players. I am not quite sure, member, why you believe it is that the major players will not be contributing to this. I am trying to find out why you would think that.

The CHAIR: Unfortunately, we do not have the time to pursue that any further, so we might have to take that one offline.

Hon ROBIN CHAPPLE: I really want to talk to budget paper No 3, pages 225 and 226 and budget paper No 2, pages 215 and 219. It is all to do with the mining rehabilitation fund, so it is mentioned at several points. When the MRF was brought in in 2013, the intention was to generate a \$500 million fund. One, I would like to know the progress to achieving that \$500 million; what is the time line? I did also note that the figures associated with that on page 215. We thought we had an actual in 2016–17 of \$27.555 million. That dropped to an actual of \$27 million dollars in 2017–18 and it is now projected in all of the forward estimates to go to \$28 300 000. I am trying to work out how you come to that sort of forward projection as well and I have some further questions on that.

Hon ALANNAH MacTIERNAN: Thank you. I have will ask Phil Gorey to respond.

Dr GOREY: Thank you, minister. I understand the question being, how does the forward estimate of the revenue come through from the mining rehabilitation fund?

Hon ROBIN CHAPPLE: Yes.

Dr GOREY: One of the great advantages that the Mining Rehabilitation Fund Act enabled was that for every live mining tenement in Western Australia, the tenement holder must submit to government electronically a complete list of the land that is open and essentially being actively operated, and the land that is under rehabilitation. That data is used to generate the levy. That data also enables the department to monitor, every year, the extent of the area being developed and the extent of the area under rehabilitation. That then provides us guidance around what the trajectory of operations are and the trajectory of the potential levy. Essentially, that is the basis that we are using for estimating that levy. The additional point I might make, which might be helpful, is that we are seeing in what we generally refer to as disturbance data is publicly released every year. It is able to be downloaded from our website. Since the data has been collected, collated and released, we are actually seeing a steady increase in the amount of area that is under rehabilitation; is currently being rehabilitated by mine sites. That is the most comprehensive and contemporary data that any jurisdiction has on rehabilitation across its sector. As mine sites develop, their levy will increase and therefore the aggregate revenue will increase, but as mine sites also undertake rehabilitation, that will have a lessening effect on that revenue as well.

Hon ROBIN CHAPPLE: So it is the increase on the aggregate?

Dr GOREY: Yes.

Hon ROBIN CHAPPLE: Thank you. In relation to that, where are we at in terms of the capital amount that is now in the reserve, which was articulated originally in 2013 when the bill was introduced to establish that \$500 million reserve? Where are we at?

[3.20 pm]

Hon ALANNAH MacTIERNAN: The cash balance at the end of the March quarter was \$121 million, including \$4.6 million interest.

Hon ROBIN CHAPPLE: The second part of that question then becomes: given that we are currently looking at about \$100 million in bond defaults at the moment, how is that going to eat into the MRF when the MRF was originally established to cater for something like 200 000 abandoned mine sites?

Dr GOREY: Regarding the commentary around the exposure that might be brought to bear to the government that it would then need to draw upon for the MRF, the structure of the MRF under that piece of legislation does not establish that when a site becomes abandoned, that entire liability becomes a debt to the state. The MRF act is simply established to establish that fund. Just a point to clarify as well, in the legislation and policy there is no cap set on the fund. When the fund was being developed as a policy perspective and debated in Parliament, it was indicated that a maturing amount of around \$500 million was likely, and I think the member actually mentioned that number. What will happen, in effect—the act allows this to occur—is that the levy amount is flexible. The levy amount is established in regulation, so it can be changed based upon potential draws on the fund. The other most critical part of the fund is that because it is established to receive annual revenue into it, any draws upon the fund remain the decision of government about whether it seeks to expend that money, but it is also the case that it does not need to expend that money in any particular year.

Hon MICHAEL MISCHIN: Just a general question about the budget papers. The commerce portfolio embraces several sections—Building Commission, Consumer Protection, WorkSafe, industrial

relations and EnergySafety, back in the day. No specific areas in the budget break up the amounts allocated to the operations of those specific divisions. Is there any reason for that?

Mr SMITH: The breakdown of the budget papers follows the format that we are required to report in, and that indicates the service functions that we provide. This relates to the question earlier. The service structure that we have has three services that are provided—the resources advice and regulation service, the safety advice and regulation service, and the industry advice and regulation service. That comprises the information and that expenditure under each of those services is provided in those budget papers on pages 210 and 211. That is the breakdown of those services.

Hon MICHAEL MISCHIN: That may be right, but it does not deal with the specific work, responsibilities and resources allocated to the Building Commission as opposed to other aspects of, say, resource advice and regulation, safety advice and regulation or industry advice and regulation. For example, we do not know from the budget papers how much has been assigned to the function of Consumer Protection, let alone staffing and the like. Is there any reason that we cannot have more detail in the budget papers to be able to explain to us how those resources are being allocated within those broad areas?

Mr SMITH: As I said, in terms of the material presented in the budget papers, we follow the format that is required of us to do that and it reflects the structure of the new department. We do not provide a line-by-line breakdown of our functions and areas in budget papers, and my experience is that we are not alone in doing this. I think more detail is provided in the annual reports when they are available for that.

Hon MICHAEL MISCHIN: Perhaps by way of supplementary information, I could be provided with a breakdown of the staffing levels in various areas of responsibility, for example, EnergySafety. What are the number of FTEs assigned as inspectors and the like and the staffing levels for each of those, including the Building Commission—how many are inspectors, how many are involved in doing backroom work and policy work? Likewise with industrial relations, WorkSafe and the other areas.

The CHAIR: Are you asking that as a question or making that as a statement?

Hon MICHAEL MISCHIN: I am asking whether I can be provided with that information in due course. It does not have to be now, because you probably would not have it at your fingertips.

The CHAIR: You are asking for that to be taken on notice?

Hon ALANNAH MacTIERNAN: We are certainly prepared to look in some key areas, if you could nominate a few key areas that you would like.

Hon MICHAEL MISCHIN: I just have.

The CHAIR: Those that have already been identified.

Hon ALANNAH MacTIERNAN: Okay, so the key areas you have nominated.

Hon MICHAEL MISCHIN: Mining regulation is a distinct area to WorkSafe and the sort of work it does. I would like to know just what its components are—how much has been assigned within the blanket amounts for the operations of those particular sections and divisions?

Hon ALANNAH MacTIERNAN: To the extent that it is possible to do that.

Hon MICHAEL MISCHIN: It used to be.

Hon ALANNAH MacTIERNAN: In relation to WorkSafe?

Hon MICHAEL MISCHIN: All of them, thank you—industrial relations, EnergySafety, Consumer Protection and Building Commission.

Hon ALANNAH MacTIERNAN: To the extent that it is possible to do that, we will consider doing that.

Hon MICHAEL MISCHIN: It should be possible; it used to be possible, it has changed.

Hon ALANNAH MacTIERNAN: To the extent that it is possible, we will do it.

[Supplementary Information No D1.]

Hon MICHAEL MISCHIN: Otherwise, I would like to know what the current state of play is regarding home indemnity insurance. I notice in the budget papers that the liability seems to be decreasing over time.

Hon ALANNAH MacTIERNAN: Which page is this, sorry?

Hon MICHAEL MISCHIN: It is page 219 for a start, and I think also 218. You have got your liability decreasing over time, and yet last I knew the state was underwriting liability for home indemnity insurance and there was difficulty finding a private insurer to take over that responsibility, so I would have thought that exposure will increase over time until that happens. What has been happening with home indemnity insurance? Since I am running short of time, if I can just ask a couple of others that I would like to get advice on by way of information in due course.

The CHAIR: Member, I do not it is fair to ask one question and then, while the minister is attempting to find an answer for you, ask another question over the top.

Hon ALANNAH MacTIERNAN: I am happy to provide the answer if you would like that answer. The home indemnity insurance premiums are projected to be received under the commercial agreements held with QBE and Great Lakes Australia. On average, the construction phase takes place in the first two years of each HII policy and the risk profile is highest during that time, because 80 per cent of claims take place in that.

For that reason, 80 per cent of premiums are recognised as revenue at this time, and therefore revenues are expected to be over \$23 million until 2018–19. These arrangements are only in place until 31 October 2018 and there will be no new policies issued after that date. The remaining 20 per cent of revenue is recognised over the next six years, the defect period, based on lower risk profiles in each of these years; hence the significant decrease in revenue from 2019–20 onwards. If the scheme ran indefinitely, a more stable revenue scheme throughout the forward estimate period would be expected.

Interest earned on the balance of net premiums is held within a special purpose account. The minister is currently looking at seeking approval to extend those arrangements until 2020, but at the moment, under the current approved scheme, it expires on 31 October.

Hon MICHAEL MISCHIN: So am I to understand from that that no new agreement has been reached to write policies? You say that policies will not be written after that time. How will people comply with the requirements for building indemnity insurance? How will builders be able to comply with that?

Hon ALANNAH MacTIERNAN: We expect those negotiations will be completed and cabinet approval sought in time for the cessation of the current arrangement on 31 October 2018.

Hon MICHAEL MISCHIN: So there is no private insurer that has entered into the market to take over the state's underwriting responsibilities.

Hon ALANNAH MacTIERNAN: Not as yet.

Hon MICHAEL MISCHIN: Yet you have not factored that in as a contingency into the future; you are assuming that there will be no liability because no policies will be written under the current arrangements after 31 October?

Hon ALANNAH MacTIERNAN: We are in the process of negotiation, as we said, negotiating a new arrangement, or a continuation of the existing arrangement, but at this point that is not provided for in the budget.

Hon MICHAEL MISCHIN: But it is misleading then to suggest, is it not, that into the future, the liability on the part of the state will decrease? It is simply that no arrangement has been worked out at this stage.

Hon ALANNAH MacTIERNAN: In previous budgets, including the past budgets under your government, this was how this was treated, and we have continued to treat it under this particular arrangement. My understanding is that in the previous 2016 budget, it would have been treated in the same way.

Hon MICHAEL MISCHIN: All right. How close are the negotiations to a finalisation?

Hon ALANNAH MacTIERNAN: Very close.

Hon MICHAEL MISCHIN: Is it looking that the current arrangements will be changed in any material way?

Hon ALANNAH MacTIERNAN: I think we will wait until the minister has concluded those negotiations.

The CHAIR: Thank you, member. Thank you, witnesses. On behalf of the committee, this concludes this hearing.

On behalf of committee, I thank you for your attendance today. The committee will forward the transcript of evidence, which includes the questions you have taken on notice highlighted on the transcript, and that will be done within seven days of this hearing. If members have unasked questions, I ask you to submit these via the ELS on the POWAnet site by 5.00 pm on Wednesday, 27 June. For the department, the responses to these questions that members may submit and any questions taken on notice are due back to the committee by 12 noon on Friday, 13 July. Should you be unable to meet this due date, please advise the committee as soon as possible in writing before the due date. The advice is to include specific reasons as to why the due date cannot be met. Once again, I thank you for your attendance and participation today.

Hearing concluded at 3.34 pm
