# STANDING COMMITTEE ON
# ESTIMATES AND FINANCIAL OPERATIONS

## 2019–20 BUDGET ESTIMATES

**TRANSCRIPT OF EVIDENCE**
**TAKEN AT PERTH**
**WEDNESDAY, 19 JUNE 2019**

**SESSION TWO**
**DEPARTMENT OF TREASURY**

**Members**

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

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**Hearing commenced at 10.15 am**

**HON STEPHEN DAWSON**
**Minister for Environment representing the Treasurer, examined:**

**Mr MICHAEL BARNES**
**Under Treasurer, examined:**

**Mr MICHAEL COURT**
**Deputy Under Treasurer, examined:**

**Mr RICHARD WATSON**
**Executive Director, Infrastructure and Finance, examined:**

**Mr ALISTAIR JONES**
**Executive Director, Economic, examined:**

**Mr MICHAEL ANDREWS**
**Acting Executive Director, examined:**

**The CHAIR**: Good morning, members. On behalf of the Legislative Council Standing Committee on Estimates and Financial Operations, I welcome you to today's hearing with the Department of Treasury. Can you confirm that you have read, understood and signed a document entitled "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. Minister, do you have a brief opening statement?

**Hon STEPHEN DAWSON**: I do not, Madam Chair.

**The CHAIR**: We will go straight into questions.

**Hon DIANE EVERS**: I will start with a simple one to get us off to an easy start. On page 152, in the income statement, supplies and services for 2019–20 are considerably higher than other years. I have noticed this in a number of different budgets throughout different departments. It is showing $26 million, whereas all the years in the forward estimates are $13 million. Is there any reason why this year would be higher than others?

**Hon STEPHEN DAWSON**: Madam Chair, I will ask Mr Barnes if he can reply to that.

**Mr Barnes**: Yes, member. It is predominantly around the two asset commercialisation processes that Treasury is running at the moment, being around the Landgate partial commercialisation and the proposed sale of the TAB. So, Treasury is leading those two commercial transactions and we are engaging a number of external consultants to help us with those two processes. They are obviously finite projects and most of that consulting expenditure will be incurred in 2019–20.

**Hon DIANE EVERS**: Is it shown in supplies and services because that is where you put in those sorts of contractors or —

**Mr Barnes**: Correct; it is just recorded against that chart of accounts.

**Hon DIANE EVERS**: I guess that does not really explain why other departments have it, because they would not be under the same thing, but I have noticed a trend. There are a number that have quite a high amount in that.

**Hon STEPHEN DAWSON**: You will have to ask the various departments about each of their budget papers, but certainly this is the case with ours.

**Hon DIANE EVERS**: That is fine. My next question is on page 155 with the dividend to be received from Water Corp of $620 million. I just want to raise this more as a general thing that we are getting this dividend from Water Corp on one hand and then on the other hand we have in the royalties for regions funding $1 billion over four years going to Water Corp for the country water pricing subsidy. This subsidy, I believe, came out of consolidated revenue in the past. Now it is coming out of royalties for regions, it raises the whole issue of how royalties for regions is used and what it is spent on. Can you explain to me the rationale why we are giving it to them on one hand and then taking it back in a dividend on the other hand?

[10.20 am]

**Hon STEPHEN DAWSON**: I will ask Mr Barnes. Obviously, this is not Water Corporation's estimates today—it is Treasury's—but you have pointed to a line item in the document.

**Hon DIANE EVERS**: The decision to give them money is not made by Water Corporation either.

**Hon STEPHEN DAWSON**: Decisions of this nature are made by cabinet and not by Treasury alone, so how royalties for regions are spent is a government decision. Certainly, in relation to the management of the royalties for regions account, there is the opportunity to provide or ask questions of the Minister for Regional Development, I understand, as part of the estimates process. The Under Treasurer can perhaps talk about the dividend.

**The CHAIR**: Maybe the way in which the dividend is calculated and comes through the board—is that the correct process?

**Mr Barnes**: Sure, I can make a few comments. Member, it is not an unusual situation. It has been in place for many, many years with respect to the corporatised government trading enterprises whereby government will often require a GTE to undertake a function that is not commercial, so it provides a service at a cost, for example. Government will provide a subsidy to that GTE to offset that commercial loss, because if it was left to the GTE on purely commercial grounds, they would not undertake that service, but the government of the day—and this has been the case for many years—has basically had a uniform pricing policy for water across the state, regardless of where people live. It obviously costs more to provide water services in regional areas, so to offset that loss, government provides an operating subsidy to the Water Corporation.

The current government made a decision to move the funding source for that operating subsidy from the consolidated account to royalties for regions. That is phased in over a couple of years. That was a policy decision of cabinet. I probably cannot comment much more on that. Then, on the other side of the ledger we have the dividend coming back from the Water Corporation to the consolidated account. In the Water Corporation's case that dividend payout ratio was set at

85 per cent of the net profit after tax. Most GTEs have a dividend payout ratio of 75 per cent; Water Corporation is 85 per cent. It has been set at 85 per cent for a number of years. That reflects that Water Corporation is a profitable entity, has a strong balance sheet and can afford a dividend payout ratio of 85 per cent.

**Hon DIANE EVERS**: It is 85 per cent of what value. I did see it in there, but what is it 85 per cent of?

**Mr Barnes**: It is 85 per cent of net profit after tax.

**Hon DIANE EVERS**: I refer to the voluntary targeted separation scheme on page 141. I recognise that in this case the items shown—I think it is on page 139—for the voluntary targeted separation scheme are specifically in relation to the NDIS and that there is going to be more money drawn on that. Why are we showing the VTSS going out into the year 2021–22 in this case and also continuing? Again, in other departments it is going out until 2022–23. This came in in 2017–18 for a redundancy package. Why is it still affecting the budget six years out?

**Hon STEPHEN DAWSON**: Just to be clear, member, you are referring to page 139, and under "Grants, Subsidies and Transfer Payments", that VTSS? Down there—sorry, we were looking at the wrong page.

**Hon DIANE EVERS**: Correct. Item 30 and that it has the little note (c), which is then on page 141, explaining a little bit more about the scheme and how it is continuing now further out.

**Mr Barnes**: For the vast majority of agencies, the voluntary targeted separation scheme is done and dusted. As at the cut-off date for this budget, which was 8 April, we had a total of 2 556 voluntary separations finalised. In addition to that number, there are a further, I believe, 390 voluntary separations targeted for the transition to the NDIS. That is going to happen over the next two or three years and that item you have pointed to is the appropriation for the cost of those remaining 390 NDIS-related voluntary separations.

**Hon DIANE EVERS**: So the VTSS is now not just a scheme, a one-off; it seems like it is now just the thing that we call when we have redundancies coming in.

**Hon STEPHEN DAWSON**: No. The decision was made to have 3 000 VTSS and obviously the rollout of the National Disability Insurance Scheme is happening over a number of years, so the positions have been identified. As an area rolls out, the state will no longer provide a service in that community because, quite simply, the National Disability Insurance Agency will have taken on the provision of service. We know that as a result of the scheme, it is finite, but there will be 390 over the next three years as the rollout happens and as the phase-down of the state providing service continues.

**Hon DIANE EVERS**: I was thinking the scheme would have a time limit rather than that number of 3 000, so once we get to 3 000 we can call it something else.

**Hon STEPHEN DAWSON**: It is close for everybody else. It is just because the NDIS was —

**Hon DIANE EVERS**: No, it also said there were more for the police force and the Department of Education; that is on that page 141.

**Hon STEPHEN DAWSON**: It is closed for agencies. You are correct in saying that there are a couple of other agencies that are in the process of doing that phase-out. I understand that they have now become completed in those two agencies.

**Hon DIANE EVERS**: Then why are we still seeing spending changes in other departments such as on page 144 Department of Communities in budget paper No 2. This is just an example—in the middle of the page, the bottom item of that table is the voluntary targeted separation scheme showing a change to the spending table. It is still showing a $10 million change in 2022–23. I recognise this may be for people who have taken up that redundancy, but are we suggesting that were going to be talking about this scheme years into the future?

**Hon STEPHEN DAWSON**: Just to be clear, what was the Disability Services Commission is now the Department of Communities, so that figure of 390 that we spoke about earlier actually pertains to the Department of Communities because those staff are housed with that. In relation to the budget papers where it talks but police and education, at the time the budget papers came out, in May, those two agencies were yet to provide their VTSS. I am advised that as of today's date they have complete those and it is the Department of Communities, with the disability services staff, that will happen over the next few years.

**Hon DIANE EVERS**: I will come back to it after other questions, because I have just found that same line item "Spending Changes" in transport as well.

**Hon AARON STONEHOUSE**: I refer to page 140, of budget paper No 2, volume 1 and the line item headed "Judges' Salaries and Pensions Act 1950", "Administration Expenses". That looks like a fair hike from the 2017–18 actual of $179 000 to $221 000 in this cycle and a steady rise across the forward estimates. What is making the administration of judges' salaries more expensive? I realise we may be have an extra one or two judges on the bench now, but does that alone account for a 23 per cent increase in the administrative costs? I am sure Their Honours would love to have 23 per cent more colleagues to ease their workload, but what is contributing to the rise in administrative costs?

**Hon STEPHEN DAWSON**: They have certainly not had a pay rise, because obviously they are captured by the pay freeze.

**Hon AARON STONEHOUSE**: No, of course, this is an administrative cost.

[10.30 am]

**Hon STEPHEN DAWSON**: I will ask Mr Barnes. Let us try to provide an answer, and we will see if we need to take something on notice.

**Mr Barnes**: Member, the information I have is that the administration expense, which is what you are referring to, for the Judges' Salaries and Pensions Act is actually relatively flat across the forward estimates. I have a figure of $221 000 as the estimated actual for 2018–19, $220 000 in 2019–20, $226 000 in 2020–21, $232 000 in 2021–22, and $239 000 in 2022–23. That is the cost for GESB literally to administer that scheme. That cost is really only rising in line with pay rate increases over that period.

**Hon AARON STONEHOUSE**: Okay, and is the jump from $179 000 in 2017–18 to $221 000 reflecting the addition or the appointment of new judges and justices? That seems like a bit of a jump.

**Mr Barnes**: It is purely for the cost of reimbursing GESB for its administration cost of administering the scheme. What is behind that jump from $179 000 in 2017–18 to $221 000 in 2018–19? I do not have that information readily available. We can take that as supplementary information, if you want.

**Hon AARON STONEHOUSE**: I would be interested to know. It just seems a significant jump compared to the rest of the out years of the forward estimates.

**Hon STEPHEN DAWSON**: Sure, we are happy to provide that to the committee by way of supplementary.

[*Supplementary Information No B1.*]

**Hon AARON STONEHOUSE**: Moving on, page 144 refers to the government trading enterprise reform program. I was wondering if you can give us an update on the GTE reform program?

**Hon STEPHEN DAWSON**: Mr Barnes.

**Mr Barnes**: Cabinet has approved the drafting of a bill, which seeks to provide, I suppose, umbrella legislation covering 16 GTEs. The issue we have at the moment is that each GTE is established under its own enabling legislation, and there is quite a bit of inconsistency between those different acts—inconsistency in fairly basic and fundamental governance, financial and accountability provisions. A key part of this reform is to implement that umbrella legislation to both tighten up a few of those areas around governance and some of the financial provisions and the accountability provisions, but also make it much more consistent. That bill is currently being drafted, and hopefully will be introduced later this year into Parliament. That is a key part of it.

Another key part of the reform is you may have noticed that there is not a lot of information in the budget papers on GTEs. Basically—this has been longstanding—the only information on GTEs in the budget papers is really their capital works program. This is notwithstanding the fact that, clearly, a lot of them are very large entities. So another aspect of the reform that we are working on with the GTEs is to, with effect from next year's budget papers, basically bring them in line with the treatment of general government agencies, and fully disclose in the budget papers their full financial statements, their full performance information and the rest of the information that other agencies have to provide. We are very keen to, I think, send a message to GTEs that you are not separate from the rest of government; you are, in fact, a key part of government. A key element of this reform is to treat GTEs that way, as a part of government, not something sitting outside.

**Hon AARON STONEHOUSE**: I am glad to hear that. Is the drafting still underway?

**Mr Barnes**: Yes.

**Hon AARON STONEHOUSE**: There was a recent report by the Standing Committee on Estimates and Financial Operations that had some findings on Synergy. There was also an ERA report that was quite damning of Synergy's practices. I wonder if those two reports have had any impact on the drafting process of your GTE reforms?

**Hon STEPHEN DAWSON**: Given something is being drafted at the moment, we probably cannot comment. Obviously, it has not been before cabinet at this stage, so we are probably not at liberty to say. Certainly, in terms of any report that a parliamentary committee publishes, for example, government does respond in the required time line. Certainly, I am sure government is aware of what has been proposed and what has been suggested by committees, but we cannot talk about the drafting, because it is in train at the moment and has not been to cabinet.

**Hon AARON STONEHOUSE**: All right. I look forward to seeing that before the end of the year.

There was an effort by the department to provide agency financial data in a spreadsheet format online. Can you give us an update on how that is going?

**Hon STEPHEN DAWSON**: Member, are you referring to a particular line item in the budget papers?

**Hon AARON STONEHOUSE**: I am not, but I am aware that it was mentioned previously, perhaps in a previous hearing.

**Hon STEPHEN DAWSON**: I can ask Mr Barnes to comment. Obviously, these processes are about interrogating the 2019–20 budget papers, but I will ask Mr Barnes if he is able to provide an answer to that one.

**Mr Barnes**: Member, I recall that issue being raised I think by this committee last year.

**Hon AARON STONEHOUSE**: I think that might have been it, yes.

**Mr Barnes**: Along with a number of other recommendations, including numbering of the paragraphs in the budget papers, which, as you will see, we have taken on board.

**The CHAIR**: Yes. The committee is delighted!

**Hon STEPHEN DAWSON**: Again, who thinks we do not listen? We do!

**Mr Barnes**: I think we responded at the time saying that the provision of that information in an Excel spreadsheet format is actually quite challenging and very labour-intensive, but we would have a look at it. I might ask Mr Court to elaborate on where we are. We are still looking at it; we are not there yet. I will ask Mr Court to elaborate.

**Mr Court**: Yes, that is something we are still trying to grapple with. In terms of being able to provide that readily, it is quite resource-intensive. We have a very slim ICT budget and we have been working on issues like transitioning to GovNext. We will look to try to grapple with that issue going forward, and we are happy to provide a response to when we might be closer to providing information in that form.

**Hon AARON STONEHOUSE**: Is there any time frame? Has any formal work been undertaken to look into this?

**Hon STEPHEN DAWSON**: It is being considered at the moment, but we are not in a place that we are able to do it at this stage. Obviously, you can be very proud of members of this committee that you are having an impact on the budget papers. The things that we were able to easily take on board since last year, we have done. Obviously, there have been a few other suggestions that are still under consideration, but as both Mr Barnes and Mr Court said, the consideration has started, but there are some processes taking place within Treasury, and if it can be done as part of one of those process updates, we will certainly do it.

**Hon AARON STONEHOUSE**: All right. We can follow that up next time, I suppose.

**The CHAIR**: Hon Colin Tincknell.

**Hon COLIN TINCKNELL**: Thank you, Chair. Through the minister, it is really good to hear that we get listened to. My questions both refer to royalties for regions. I am basically asking for a breakdown. My first question is on page 139, budget paper No 2, volume 1, appropriations and expenses, item 33. I ask for a breakdown of the key changes that have occurred since the equivalent estimates were presented in 2018–19. I can take that on notice, if that is too intensive.

**Hon STEPHEN DAWSON**: I am advised that is a big job, so we will have to take it on notice, and hopefully we can provide it in the time allowed to us to respond. If not, we will certainly indicate to the committee how much longer it might take.

[*Supplementary Information No B2.*]

**Hon COLIN TINCKNELL**: Through the Chair, my next question is very similar. I refer to page 141, item 116, "Royalties for Regions". I ask for a breakdown of key changes there which occurred since the equivalent estimates were presented in 2018–19. Can we do them all together?

**Hon STEPHEN DAWSON**: Yes. Under the same proviso as the previous one, we will certainly endeavour to provide that in the time available. We will provide that by way of supplementary, and if there is any issue, we will advise the committee.

**The CHAIR**: We might include that as B2. It is all related.

**Hon STEPHEN DAWSON**: Sure.

[10.40 am]

**Hon TJORN SIBMA**: My questions relate to pages 68 and 69 of budget paper No 3, forecast operating revenue. It is a question, minister, you might want to refer to your advisers. Can I get a sense of what margin of error applies to these estimates in percentage terms?

**Hon STEPHEN DAWSON**: I will ask Mr Barnes if he can reply to that.

**Mr Barnes**: That is a difficult question, member. We have a KPI, which I am looking at Mr Court to remind me of, which is around our tax and mining revenue forecasts in terms of our forecasting performance. That KPI is in our *Budget Statements*. It is page 147 of budget paper No 2. The table on page 147 of budget paper No 2, about one-third of the way down the table is "Accuracy of key general government revenue forecasts" —

**Hon TJORN SIBMA**: Plus or minus five per cent.

**Mr Barnes**: Pretty much, yes.

**Hon TJORN SIBMA**: Okay. This is not a trick question. I would infer that performance within that bandwidth would be considered to be acceptable by Treasury and, effectively, trivial. Would that be a fair estimation?

**Hon STEPHEN DAWSON**: We probably would not use the word "trivial", but I will ask Mr Barnes to comment.

**Mr Barnes**: I certainly would not use the word "trivial", given that five per cent off a $30 billion revenue base is $1.5 billion.

**Hon TJORN SIBMA**: But, say, something in the order of between one and a half to two per cent variation, Treasury would be able to accommodate that?

**Mr Barnes**: Yes. We would regard a variation of that magnitude as relatively immaterial. Five per cent was chosen because, essentially, in the accounting world five per cent is generally regarded as the standard materiality threshold.

**Hon TJORN SIBMA**: Mr Barnes, would it be possible to take, by way of supplementary, back-casting 10 years of how accurate Treasury's forecasts have been in the revenue dimension?

**Hon STEPHEN DAWSON**: It is actually the minister that you require that information of, not the Under Treasurer directly. I suggest this information is probably available.

**Hon TJORN SIBMA**: If it is publicly available, just let me know where to find it.

**Hon STEPHEN DAWSON**: It is all publicly available. It has been in previous budget papers. It is a bit of work to do, but it is available already, member.

**Hon TJORN SIBMA**: Could I get a qualitative assessment? Again, this is not a trick question, but performance within a one and a half to two per cent deviation of forecasts is certainly an acceptable performance for Treasury and the government.

**Mr Barnes**: Yes, member. Given the inherent volatility that we are dealing with, I would certainly regard that as an exceptionally good performance, to be honest. Member, I might just also point you to, to make that task a little bit easier for you—last year we engaged Deloitte Access Economics to do a review of our revenue forecasting methods, processes and performance.

**Hon TJORN SIBMA**: I have read it.

**Mr Barnes**: That is available on Treasury's website. It might have some of that historical performance data that you are looking for.

**Hon TJORN SIBMA**: Wonderful. Could I refer to issues in the domestic economy, particularly on page 11 of budget paper No 3. I am just trying to get a sense of—I will categorise it as a sense of optimism —

**Hon STEPHEN DAWSON**: Member, apologies. Did you say page 11?

**Hon TJORN SIBMA**: On page 11 of budget paper No 3, there is a table "Economic Forecasts". I am just interested in Treasury's forecasts around growth in dwelling investment and, in particular, the growth between the 2019–20 budget year, where there is an estimated 2.75 per cent contraction, and the 2020–21 forward estimate, which is predicting a 6.25 per cent return rate,, which I find extraordinary. Can I just get a sense of whether that is not a mistake. Is that a forecast that Treasury still stands by?

**Hon STEPHEN DAWSON**: I will ask Mr Barnes if he can reply to that.

**Mr Barnes**: It is certainly not a mistake, member. It is a forecast we stand by. It is also quite consistent with industry forecasts. We consult very closely on this particular forecast with the likes of the HIA and MBA, which has an industry forecasting group. Our forecasts around dwelling investment are, in fact, quite similar to those industry groups.

**Hon TJORN SIBMA**: That, nevertheless, is a nine per cent turnaround over two financial years. When was the last time that happened in Western Australia?

**Hon STEPHEN DAWSON**: Mr Barnes. We do not know.

**Mr Barnes**: We do not have that readily available, member.

**Hon TJORN SIBMA**: Would there be certain economic preconditions that would be required for that level of growth?

**Mr Barnes**: Obviously, the housing market, both established and new, is very soft at the moment, but I think there are some preliminary signs of optimism in some very recent data and recent events. For example, some very recent ABS data on building approvals showed that in the three-month period to April 2019, compared to the same period a year earlier, building approvals in WA actually grew by 4.5 per cent. That is encouraging. Building approvals are obviously a key leading indicator for dwelling investment. Housing finance commitments—another leading indicator for the housing market—based on the recent ABS data also appear to be troughing at the moment. We are seeing some preliminary early evidence of that bottoming out in those leading indicators. That is, we think, supporting our view that—we are talking about another 12 or 18 months down the track before things turn—we are seeing some early signs that that turning point is being reached now or is about to be reached in terms of those leading indicators.

**Hon TJORN SIBMA**: That is despite a tightening credit market.

**Mr Barnes**: Correct. One of the other recent events that gives me some cause for hope is the Reserve Bank's recent cut in the cash rate. Having said that, the price of money is not really the issue; it is more access to credit, as you say. In that context, APRA's recent proposal around the serviceability floor that it imposes on banks—currently that loan serviceability floor sets a seven per cent rate. Borrowers have to demonstrate that they can service a seven per cent mortgage interest rate, even though the current rate they might be paying is three per cent. That, obviously, makes it harder for people to borrow and to borrow as much as they might otherwise want to borrow. APRA is looking to soften that serviceability requirement to a new requirement of whatever the actual rate the borrower is paying, plus 2.5 percentage points. That will come in below the current seven per cent test. That, I think, is probably more important than the cut in the cash rate in terms of opening up credit a bit more.

**Hon TJORN SIBMA**: Back to these estimates, though, is there an imputation, I suppose, or an implication of proactive state government policy that would underpin pretty healthy growth estimates across the forward estimates? We talked about APRA. We have talked about some leading indicators in approvals, but is there anything else that would give some ballast to these figures, which is the responsibility of the state government?

**Hon STEPHEN DAWSON**: Mr Barnes can answer that, but, obviously, if the government has not made announcements on various things so far, we will not be at liberty to announce those today as part of this hearing, but Mr Barnes can give a response.

**Mr Barnes**: Member, a couple of areas immediately spring to mind. One is the change to the Keystart eligibility criteria that was announced in the budget—temporarily increasing the income limits for people to be able to access Keystart loans.

**Hon TJORN SIBMA**: That is a six-month program, is it not?

**Mr Barnes**: Six months—that is right. In terms of the impact of that, in the month of May, we saw a 17 per cent increase in first home owner grant applications compared to the month of April.

There is evidence that at least part of the 17 per cent increase was driven by this announced change in the Keystart eligibility criteria. Even though that does not take effect until 1 July, people are coming in, making their finance applications and making their application for first home owner grants. That has already had an early impact, which is encouraging.

The other main one that springs to mind would be the government's infrastructure spend—the asset investment program. The government is seeking to step that up. I suppose also to change the composition of that program.

[10.50 am]

**Hon TJORN SIBMA**: In which area?

**Mr Barnes**: Primarily in roads and rail is the immediate focus over the next few years—Metronet, obviously, but a very large roads program as well. In that table you are referring to, you can see the item called "Government Investment". That is not just state government, that is state, commonwealth and local government.

**Hon TJORN SIBMA**: But this is unrelated to the healthy dwelling investment forecast.

**Mr Barnes**: It is unrelated, but it is still contributing to the expected pickup in the domestic economy in 2019–20 compared with 2018–19. You can see there is quite a jump in government investment in 2019–20.

**Hon Dr STEVE THOMAS**: Minister, I take you briefly to budget paper No 3, page 4. I want to talk briefly about debt and deficit/surplus. Noting that the budget paper on page 4 predicts an estimated actual cash deficit of $1.438 billion in the current financial year and a $248 million deficit in the budget year 2019–20, can we confirm that these cash deficits have to be accounted for with additional spending or are there pre-identified savings that accommodate for these cash deficits?

**Hon STEPHEN DAWSON**: Mr Barnes.

**Mr Barnes**: Member, those cash deficits you are referring to are basically the net result of the operating surplus, which is the top line in that table, and the government's infrastructure spend—capital spend. At the end of both of those, you are left with the cash deficit or surplus. In 2018–19 and 2019–20, as you say, we are expecting a cash deficit still, but rapidly narrowing. That is the end result of all cash into government from taxes, royalties or whatever and all cash going out of government, all recurrent spending and capital spending. That cash deficit, at the end of the day, is funded by borrowings.

**Hon Dr STEVE THOMAS**: It is funded by borrowings.

**Mr Barnes**: Yes.

**Hon Dr STEVE THOMAS**: Okay, thank you. That was a slightly long answer to the question but that is good, thank you.

Can I just check, then, in relation to the borrowings, are there any cases where we have borrowed a certain amount for expected expenditure and then not expended those accounts? Is there any circumstance where borrowings come in and are sitting in an account somewhere to be potentially expended further? Is there any circumstance where those borrowings are then held in an interest-bearing account or returned as savings, effectively, on the borrowed amount?

**Hon STEPHEN DAWSON**: Mr Barnes.

**Mr Barnes**: Member, there have certainly been cases where—you take a capital works program as a good example, where that project is funded by borrowings. The borrowings profile matches the spending profile for that project. In reality, it often turns out that the spending on that capital works project is slower than originally anticipated for a wide range of reasons. The borrowings may have been already taken out to fund that project so in that case, which is not rare, those borrowings would be sitting probably in the consolidated account in most cases. They would be incurring interest until that project is ready to actually spend and get money out the door and then the borrowings fund that spending.

**Hon Dr STEVE THOMAS**: Presumably, the occasional one would be sitting in the special purposes account if one ever does exists.

**Mr Barnes**: Occasionally, yes.

**Hon Dr STEVE THOMAS**: On pages 50 and 51, minister, there is a discussion on net debt. In particular, I am interested in the debt reduction account. The budget papers indicate the money that went in 2017–18, because it was created in the 2017 budget, as you and I have debated, and then coming from RiskCover and the residual proceeds of the sale of Perth markets. In 2018–19, it comes from a range of sources: RiskCover again, one large duty access and excess agency cash. I am interested in the functioning of the debt reduction account. Are these funds that are identified as debt reduction going directly into paying debt? Do they go into the debt reduction account as such and then become transferred into the debt, I presume, at some point? How does that function in practice?

**Hon STEPHEN DAWSON**: I will ask Mr Barnes if he can respond. Obviously, this was a 2017–18 commitment from the Gallop government—well, the McGowan government. I am living in the past! We made an election commitment that this account would be established. Certainly, for how it works, I will ask Mr Barnes to comment.

**Mr Barnes**: The debt reduction account has been set up to both repay existing debt and to avoid the need to take out new debt. Both have the same impact on net debt. Over the forward estimates period, from memory, there is $5.1 billion going into the debt reduction account over the next four years. Of that, from memory—I am looking at Mr Court—$1.3 billion, I think, is being allocated towards debt repayment. It is $1.4 billion. Most of that, $1.2 billion of it, is in the form of the GST top-up payment from the commonwealth government and then the remaining $200 million is from some of those other sources that you mentioned earlier. That $1.4 billion is going into repaying existing consolidated account debt. Then the remaining $3.7 billion, which again is funded from subsequent GST top-up payments from the commonwealth, is being used to avoid the need to take out new debt to fund infrastructure investment.

**Hon Dr STEVE THOMAS**: You can see how that might look like a bit of an accounting fiddle. If you have extra GST coming in, it is just a place to park it, I presume. Call it the debt reduction account but there is no reason why that money could not be brought in and put in the consolidated account and simply be expended and reduce debt reduction that way. Is there a specific strategy in giving it these extra transactions, as it where? To park it into an account, rather than simply saying that this extra GST funding will be used to—because, ultimately, according to the budget papers, $1.4 billion will be used to pay down debt in the forward estimates. Effectively, when it says $3.7 billion will be used to reduce additional debt, basically, it means that $3.7 billion is going to be expended by government on something. Why is that bit going through the debt reduction account when it is simply additional expenditure the government gets to put out potentially in an election year?

**Hon STEPHEN DAWSON**: Honourable member, in short, it is for full transparency reasons—simple as that.

**The CHAIR**: With the length of your questions, member, and your lead-in, maybe there is one left for you, given the time.

**Hon Dr STEVE THOMAS**: I will finish with this last question then. It relates to GST, minister. It is on page 76 if you need a reference in budget paper No 3. In terms of the GST, the government makes significant additional dollars out of what is called, I guess, the interim top-up. The commonwealth government's 70 per cent floor is a significant benefit to the state of Western Australia. The floor from 2022–23 onwards was part of the legislation that was debated. Why was the interim floor not a part of that?

**Hon STEPHEN DAWSON**: I will ask Mr Barnes to comment.

**Mr Barnes**: You are correct, member, the 70 per cent floor is legislated from 2022–23 onwards and from 2022–23 onwards it is funded from the GST pool itself, which means that the other states and territories pay for it. Even though the commonwealth will be topping up that national GST pool —

**Hon Dr STEVE THOMAS**: That is right; it is additional funding from the commonwealth. Why did that not occur in the interim period?

**Mr Barnes**: It is because no state or territory would have agreed to it. This was the deal that the commonwealth had to do to get all of the states and territories on side. Basically, in that interim period up to 2021–22, the commonwealth is footing the entire bill to get us up to that 70 per cent relativity so that the other states do not have to pay for it through lower GST for them.

[11.00 am]

**Hon MARTIN ALDRIDGE**: I want to ask some questions on page 3 of budget paper No 3. There is a reference here under the "Economic and Fiscal Outlook" that reads —

> General government expenses are projected to increase by just 1.5% in 2019–20, and by an average of 1.3% per annum over the forward estimates period. This low rate of expenditure growth includes the Government's continued commitment to the $1,000 public sector wages policy.

On the public sector wages policy, is it the view of Treasury that the negotiations to date have been consistent with the state wages policy?

**Hon STEPHEN DAWSON**: The answer is yes.

**Hon MARTIN ALDRIDGE**: The numbers that we see by agency in the budget and the forward estimates in terms of projections for salaries, is that simply a mathematical calculation—the number of FTE times the $1 000 per annum increase? Is that how Treasury have forecast the growth in salary expenses across the public service?

**Hon STEPHEN DAWSON**: I will ask Mr Barnes to reply to that.

**Mr Barnes**: Essentially, member, that is correct. It is a function of FTE and salary rates, obviously, to derive the total salaries bill. Salary rate is not just a function of the $1 000 a year wages policy increase, but also for a large number of public servants who receive annual increments—they go from like a 6.1 to a 6.2—so we have to factor those increment increases in as well.

**Hon MARTIN ALDRIDGE**: Salaries are obviously one thing, but obviously there is an industrial agreement, and I think the budget papers, at page 56 of budget paper No 3, talks about expiring industrial agreements. The largest one that has expired, on 12 June, is the public service and general government officers' agreement. Some 31 845 employees are covered by that agreement. Salary is one thing, but what about the other conditions of employment that might change? I refer specifically to the media commentary by the CPSU/CSA with respect to some of the things that they have negotiated with government around the renewal of that agreement. Their commentary is that they have absolutely broken the wages policy of the state. Some of the things that they have listed that they have been offered included superannuation; up to 12 weeks' unpaid parental leave; level 1 compaction from eight to four levels; a new public sector public holiday—that is almost 32 000 days of public servants, and that is going to come at a cost—no increase to GROH for the life of the agreement; adult traineeship rates increase significantly; and something about discounted public transport. I have just plucked out a few of the things that I think are going to have a monetary expense. Has Treasury been consulted in terms of assessing the cost of these above the $1 000 per employee state wages policy?

**Hon STEPHEN DAWSON**: Obviously, Treasury is not the lead agency in relation to the negotiation of public sector wage agreements. It is done by a different agency. In relation to the agreement that you just mentioned, or that union that you just mentioned, that is a live negotiation that is underway at the moment, so I am not comfortable with making any comments on it because it has not landed yet. Certainly, in relation to the public sector wage agreements that have been settled to date, they have been in line with the government's wages policy, and the policy itself is limiting increases in wages to $1 000 per annum. That is the wages policy. I cannot comment on statements made by unions or anybody else, but certainly agreements that have been settled have been in line with that policy of $1 000 pay increases.

**Hon MARTIN ALDRIDGE**: Minister, I draw your attention to the public sector wages policy statement in 2018, which features the $1 000 limit that you are talking about. Point 4 of that policy also states —

> Negotiated outcomes may include no-cost improved administrative arrangements and/or cost-neutral flexibilities.

It goes beyond simply salary in terms of other conditions of employment, and makes it quite clear that they need to be no-cost or neutral cost.

**Hon STEPHEN DAWSON**: We cannot comment on it. It is a live negotiation, so I cannot comment on it. I am happy to answer questions about the budget papers that are before us, but I am not at liberty to answer questions about other documents that belong to other agencies. It is just not appropriate for Treasury to comment on those.

**Hon MARTIN ALDRIDGE**: With respect to where decisions have been made, so, for example—police is coming before us to the next hearing—there was a budgetary decision made to pass on the $30 GROH rental increase to police officers, and then, post-budget, a ministerial decision not to pass it on. Will that extra cost be worn by the agency, in this case the Western Australia Police Force, or will Treasury top-up the WA Police Force budget to account for that ministerial decision?

**Hon STEPHEN DAWSON**: That, too, honourable member, is a live issue. That potential agreement is under negotiation at the moment.

**Hon MARTIN ALDRIDGE**: It has nothing to do with the agreement.

**Hon STEPHEN DAWSON**: It is part of the negotiations at the moment with police. I do not think we can answer it here. Perhaps it is a question to ask of police or public sector labour relations. Police, who are next, may well be able to give a better answer, but it may be public sector labour relations at DMIRS who have to actually answer the question.

**Hon MARTIN ALDRIDGE**: I reiterate, minister, that it has nothing to do with the industrial agreement, because the decision has been made for this financial year separate to the industrial agreement that the Minister for Police is not going to require police officers to pay an increase in GROH rental. It has nothing to do with the industrial agreement. In fact, I do not even know whether it is a feature of the industrial agreement. What I want to know is: is Treasury going to give WA police the extra money or are they not?

**Hon STEPHEN DAWSON**: I am advised that you are correct; it is not part of the agreement, but it is an issue that police are dealing with at the moment, and you have to ask police in the next session as to how it might be funded.

**Hon MARTIN ALDRIDGE**: So you disagree, then, with the CPSU that they have broken the state wages policy?

**Hon STEPHEN DAWSON**: Member, there is nothing in these budget papers before us that is related —

**Hon MARTIN ALDRIDGE**: To state wages policy? It is a key part of your financial planning.

**Hon STEPHEN DAWSON**: No, to the extra money that you have alluded to in relation to police housing.

**Hon MARTIN ALDRIDGE**: But the state wages policy is a key feature of your government. Every time I hear Treasury talk, they talk about the state wages policy, so you cannot come to estimates and say, "Don't ask us about state wages policy."

**Hon STEPHEN DAWSON**: GROH housing is a separate policy to wages policy. It is a very separate policy. If you want to ask questions of police, you will have an opportunity in the next session to do that.

**The CHAIR**: Member, I am trying to get your attention to tell you to ask your last question.

**Hon MARTIN ALDRIDGE**: Just to confirm the response, Treasury is of the view that the state wages policy is being upheld by the public service, so therefore the media statement issued by the CPSU to their members saying that they have broken the state wages policy is false.

**Hon STEPHEN DAWSON**: If I can reiterate, in relation to the public sector wage agreements that have been settled to date, they have been in line with the government's wages policy, and that is limiting increases in wages to $1 000 per annum.

**Hon MARTIN ALDRIDGE**: That is a big qualification.

**Hon STEPHEN DAWSON**: That is what the budget papers say, and that is the budget papers that we are dealing with today.

**Hon PIERRE YANG**: I refer to the recent credit rating upgrade from Moody's. Apart from it being a good news story, what concrete benefit does it have for the state of Western Australia?

**Hon TJORN SIBMA**: Where is that in the budget papers?

**Hon PIERRE YANG**: I am entitled to ask a general question.

**Hon STEPHEN DAWSON**: I might ask Mr Barnes if he can respond to that.

**Mr Barnes**: On 6 June, Moody's did upgrade the state's credit rating from AA2 to AA1, with a stable outlook. That is the second-highest credit rating available below AAA. The day after that, the Treasurer and I attended an event in Sydney with investors in WA Treasury Corporation bonds. We were, I can say, very well received by investors. What we have seen with this credit rating upgrade is a continuation of a trend that we have seen over the past two years in the spreads on WA government bonds—that is, the interest rate that we pay on our bonds relative to what other states pay on their bonds. We have been paying a lot more than other states, particularly the AAA states.

That spread has really narrowed over the last two years, so the cost of our debt is relatively cheaper now than it was two years ago and this credit rating upgrade is contributing to that narrowing of our interest rate spread. That trend over the last two years in that interest rate spread is saving WA about $20 million a year in terms of reduced interest costs.

[11.10 am]

**Hon STEPHEN DAWSON**: I heard a question from Hon Dr Steve Thomas by way of interjection as to where in the budget this point is raised.

**Hon Dr STEVE THOMAS**: That was not me.

**The CHAIR**: Page 147. Thank you.

**Hon TJORN SIBMA**: I made that.

**The CHAIR**: Okay, have you finished that one?

**Hon STEPHEN DAWSON**: It is budget paper No 3, page 29, the last dot point. I like to be helpful.

**The CHAIR**: Thank you, member. Thank you, minister.

**Hon Dr STEVE THOMAS**: I am much more friendly, minister. Can I refer you to budget paper No 3, page 84, iron ore royalties, and compare that with page 59 and the "Approximate Parameter Sensitivity of Revenue Estimates". I note that the budget has estimated a price of $US76.50 a tonne in 2018–19, and $US73.50. I commend Treasury and the government for having conservative numbers, which has got us in trouble in the past by not potentially being conservative enough. However, how often does Treasury or the government calculate out the additional revenue received? The price of iron ore has been sitting above $US90 a tonne for about six months now, and is currently over $US100, which brings in massive additional revenue for the state, which is a good thing. But how often do you calculate that and how do we, as members of Parliament, get access to that information? You probably do a monthly calculation of additional revenues coming in; can you provide that for the last six months to give us an indication of the additional iron ore royalties?

**Hon STEPHEN DAWSON**: It is a very good question, and it is a good point to make that previous governments may well have overestimated the royalties that were to come in from iron ore and, therefore, left us with significant debt. However, I might ask Mr Barnes to see whether he can elaborate on how we measure and how often we re-evaluate?

**Mr Barnes**: Publicly, we do that only at budget time and midyear review time, and then, of course, at the end of the financial year with the actual results. Throughout the year, we provide budget updates to the Expenditure Review Committee of cabinet, generally on a monthly basis, but they are cabinet-in-confidence updates, so I cannot provide those. The next public update will be at midyear review time, in December.

**Hon Dr STEVE THOMAS**: A Christmas present, minister!

**Hon STEPHEN DAWSON**: Perhaps. Did you also want to know how we have calculated that this time, because we have changed it from last year?

**Hon Dr STEVE THOMAS**: No. I know how it is worked out. I just want to know how we can get hold of it.

**Hon DIANE EVERS**: I refer to page 155, "Dividends". There is a dividend from the —

**Hon STEPHEN DAWSON**: Not to be a pain, but is it budget paper No 2 or budget paper No 3?

**Hon DIANE EVERS**: Budget paper No 2, page 155, "Dividends"; those for the Forest Products Commission are there. It shows a dividend over the next four years. Where can I find the information to back up that expected dividend?

**Hon STEPHEN DAWSON**: I will ask Mr Barnes whether he can provide an answer, but we might just need a second to find information on that.

**Hon DIANE EVERS**: I could take it on notice.

**Hon STEPHEN DAWSON**: If we have got it now, we will give it to you.

**The CHAIR**: What is the information you are seeking?

**Hon DIANE EVERS**: The detail that makes up where that dividend will be coming from.

**Hon STEPHEN DAWSON**: If we have got it now, I would rather give it to you now.

We will have to take it on notice, if you do not mind. Can you say again what you are asking for?

**Hon DIANE EVERS**: The detail that makes up the dividend that is expected over the next four years from the Forest Products Commission.

**Hon STEPHEN DAWSON**: It would be profit after tax.

**Hon DIANE EVERS**: How that number is devised.

**Hon STEPHEN DAWSON**: We can take away and work out some information by way of supplementary.

**Mr Barnes**: I can add, I think I mentioned earlier, that for the majority of government trading enterprises, of which the Forest Products Commission is one, most of them have a dividend payout ratio of 75 per cent of net profit after tax. The Forest Products Commission has that dividend payout ratio of 75 per cent, so those numbers you referred to are simply that mechanical calculation of 75 per cent of their forecast net profit after tax.

**Hon DIANE EVERS**: That is what I would like—that forecast of what that is to be of their profit.

**Hon STEPHEN DAWSON**: We would have to get that from FPC. Let us see if we can. It is probably a question to ask of FPC in estimates. Let us see what we can provide by way of supplementary.

**The CHAIR**: I suspect it may have been asked already as well.

[*Supplementary Information No B3*.]

**The CHAIR**: On behalf of the 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, within seven days of the hearing. If members have any unasked questions, I ask them to submit these via the electronic lodgement system on the POWAnet site by 5.00 pm, Friday, 28 June. Responses to these questions and any questions taken on notice are due by Friday, 26 July. Should you be unable to meet this due date, please advise the committee in writing as soon as possible before the due date and include specific reasons why the due date cannot be met. Once again, thank you for your attendance today.

That concludes this hearing. The next hearing with the WA Police Force is at 11.30.

**Hearing concluded at 11.15 am**

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