WESTERN AUSTRALIAN FUTURE FUND BILL 2012

Committee

Resumed from 8 November. The Deputy Chair of Committees (Hon Brian Ellis) in the chair; Hon Simon O'Brien (Minister for Finance) in charge of the bill.

Clause 5: Western Australian Future Fund —

Progress was reported on the following amendment moved by Hon Ken Travers —

Page 3, after line 15 —To insert —

(6) No money is to be credited to the Future Fund until there is no net debt existing for the general government sector.

Hon KEN TRAVERS: When we were interrupted in the consideration of this bill, I had just started to debate the amendment standing in my name, which seeks to insert a new subclause (6) to clause 5. We need to think back to where we were in discussions about this bill, which have gone over a number of days now. Unfortunately, due to interruptions, we have not had a really good run at it. The problem the Labor Party has with this legislation is not with the principles of it; we have no dramas about setting aside money for the future. Our problem, though, is that we are borrowing money to set aside for the future. It makes no sense to us to be borrowing money instead of trying to invest it in relatively risk averse areas to try to make a profit for the fund. It is arguable that a number of other alternatives could be taken with that money in the short term. It could be invested in infrastructure that will give a better net return to the state or the money could be used to pay down debt. This bill is about providing for future generations and is setting up a scenario in which, by the government's own modelling, there will be $4.67 billion in the fund in 2032. Yet, unless we pay down debt—even if at the end of the current forward estimates there is not a single dollar of debt paid down before that time—we will be leaving the general government sector with a figure of somewhere around $8 billion debt, which is the current estimated projection for state debt. I might come back with the exact figure for the house in a second. It is going to be significantly more than is being placed into the fund. It just does not make sense. That is why this amendment is about saying, "Let us all agree on that principle." We have done that. We have gone through and agreed on the policy of the bill. We are happy to agree with most of the detail of this bill with the exception of this one area—that is, we should not be crediting money to this bill until there is no net debt. At that point we will be providing for future generations to have the benefit of money in the bank, earning interest and income, to assist them and not having the burden of paying off the borrowings from today.

I have looked at budget papers going back to the late 1990s. Debt of the magnitude that we currently have in the government sector is a relatively new phenomenon. I have not tried to do the figures. One of the issues in looking at old budget papers is that the system has changed over the years. I think there was a period when not too many budgets were presented on the same basis as the previous budget. However, we know that something like net debt will not have changed that much. Members can look back to the late 1990s when we were running general government sector net debt of around $1 billion. In those days, I think it was around $10 billion in total revenue to the state government. Today it is around $20 billion to $25 billion in revenue, and we are running $8 billion of debt. We are leaving a great burden to future generations. To suggest that passing this legislation will leave them in a better position is a nonsense. The best thing we can do for that generation is to pay down the debt in the first instance or to invest this money. If we are to borrow this money to use it to invest in infrastructure that will be there for future generations to use, the view of the Labor Party is that that is a far better outcome in terms of this bill. I urge members of this house to support that legislation.

I have not heard any member on the other side get up and put the argument for why we should be passing this legislation and why we should be borrowing money to invest in the future when the whole mechanism for borrowing is based on the ability to borrow and lend to other state government bonds. It is all predicated on our getting this premium by lending to the Queensland state government. The interesting thing is that the estimates are around 13 basis points, which is 0.13 per cent, at best case modelling. In that modelling, no effort is made to factor in the risk of doing that. There is a view that no state will fall over. To some degree, that is right, in the same way that Greece will not fall over—it will be rescued. But those countries that rescue it and those involved in the common market will all take a haircut. Greece will take the biggest haircut and will suffer accordingly, but Germany and all the other members of the European sector will have to pay the price of it. Once those risks are factored in, it becomes very difficult to be confident that the bill as structured will deliver a net benefit to future generations, compared with our using that money to pay down debt.

Of course the answer is just not to borrow it, because if we are borrowing, our debt is going up. Although the government says it will put the cash in there, to do the same amount of expenditure it will need to borrow. That money can either be used to spend on things today and not be borrowed, or it can be used to pay down debt. That is the view of the Labor Party. That is why we are moving this amendment. It is setting up the principles and framework of the bill. Let us get a discipline and a focus as a Parliament on controlling the general government sector debt. As I said earlier in this debate, so long as there are sound business cases, debt in the non-financial public sector, or the GTEs, is not necessarily a bad thing. So long as there is a good business case, it should generate an income. For example, the government might build a port—we have not seen many from the other side so far. It might build a port that in the first few years does not pay its own way but is built on the basis that it will ultimately pay its own way. A long lead time has to be factored in. In fact, Perth Airport is a classic case in point. In the first two years of the parallel runway, it will never repay itself, but Perth Airport works on a long payback time. Ports work on a long payback time. Power utilities in the main will probably work on a long payback time, particularly if a base-load power station is built that has a lot of gigawatts. That power will not be immediately used. It will be taken up over an extended period of time, and the calculations have to be done. But if there is a sound business case and the project is built on a sound business case, there can be confidence that there will be a return on investment. What this government is doing is borrowing money and raising the debt of the general government sector, which is what this fund will sit within; it is the general government sector.

Point of Order

Hon SIMON O'BRIEN: I listened carefully without interrupting to the words of the honourable member in moving his amendment. What I believe I heard was a second reading argument against the policy of this bill. I listened without interjection. What was clearly coming through was a second reading argument—not a bad one, even though I disagreed with it, I might add—against this bill. Fairly and squarely put, I listened carefully and that is what it was. It is on that basis, Mr Chair, that I put the question that the amendment is out of order.

Several members interjected.

Hon SIMON O'BRIEN: This is borne out by the argument that has just been advanced by the member: to adopt this amendment would defeat the intent, substance and thrust of this bill. Perhaps Mr Deputy Chair has had the opportunity to consider this matter already—I am sure he possibly has—but I ask whether he could seek advice, because that might truncate things a bit. If not, that is fine; we will move on and I will debate the proposed amendment in the form presented. I believe that this is so far to the contrary of what the bill is trying to do that it cannot be seen as a legitimate amendment.

Hon KEN TRAVERS: On the point of order: the policy of this bill is very clearly articulated in its short title —

> An Act to establish the Western Australian Future Fund and for related purposes.

The amendment I have moved in no way prevents the establishment of a Western Australian future fund. The proposed amendment is simply about the timing of when money can be paid into it. It is my submission that if Mr Deputy Chair was to rule my amendment is out of order, the whole of clause 2—which is about when the act comes into operation—would be out of order because it is a matter of timing, and a range of other proposed amendments relating to how the act is administered and constructed would also be out of order. Of course that would be a nonsense. This is simply a matter of detail with respect to when money can be paid into the fund. There is nothing in this amendment that seeks to prevent the establishment of the future fund, which is the policy of the bill.

Hon SIMON O'BRIEN: I do not want to interrupt while Mr Deputy Chair is receiving advice, but I do not feel that so strongly that I will refrain from doing so!

Clause 4 tells us what the purpose of the act is. It tells us the purpose of the proposed act, and therefore its policy, is —

> … to provide for the accumulation of a portion of the revenue from the State's mineral resources and other money for the benefit of future generations through the establishment of the Western Australian Future Fund.

The effect of this proposed amendment is that it would so transform the existing bill and how it would function that it will not establish a Western Australian future fund until some indeterminate time that may be well, well into the future. If Mr Deputy Chair does not rule this out of order and we go into debate, I will demonstrate how I believe the effect of this amendment would mean that we will never see a fund established. It is on that basis that I make, with respect, my submission.

Hon KEN TRAVERS: If I can make a further submission in light of the minister's comments. The minister has made a number of claims, and I wish to refute them before the Deputy Chair considers his position. The minister referred to clause 4, which states —

> The purpose of this Act is to provide for the accumulation of a portion of the revenue from the State's mineral resources and other money for the benefit of future generations through the establishment of the Western Australian Future Fund.

Again, my amendment does not prevent that. My amendment just —

Hon Simon O'Brien: It does so.

Hon KEN TRAVERS: No, it does not prevent it. It may prevent it if a government is not able to accumulate funds for the future—I accept that—but that is not for this house to decide with respect to this piece of legislation. My proposed amendment seeks to ensure that the money going into the fund will accumulate funds for the future of Western Australians. If we are borrowing but there is net debt, then money is not accumulating for future generations. In fact, it was only four short years ago that there was no net debt in the general government sector; it was zero. The minister's submission that it will never occur is a nonsense. It could have occurred four years ago. It may not occur under the financial mismanagement of this government, but that does not detract from us being able to set, as part of the detail of this bill, a mechanism to ensure that the purpose of the legislation as outlined in proposed section 4, to accumulate revenue for the future, is actually occurring. I thank the minister for giving me the opportunity to make that point.

Ruling by Deputy Chair

The DEPUTY CHAIR (Hon Brian Ellis): Clause 4 is irrelevant as it does not state a commencement date for the fund. The amendment moved by Hon Ken Travers is contrary to clause 6(1). For that reason, it is out of order. Clause 6(1) states —

> The Regional Development Minister is taken to have authorised the expenditure of $297.7 million from the Royalties for Regions Fund with effect on the day on which this section comes into operation.

The amendment moved by Hon Ken Travers is contrary to that.

Hon KEN TRAVERS: With all due respect, I seek clarification on the Deputy Chair's ruling. Firstly, we have not got to clause 6, so there is nothing to prevent the chamber from deleting clause 6 when we get to it, if that was the sticking point with respect to this issue. Again, that is only an element of the detail of the bill; it is not the substance and the policy of the bill, in my view. The second point I would seek the Chair's clarification on is: if I was to then move a new amendment that suggests that we cannot put any money other than that specified in clause 6(1) into the future fund, would that then be in order?

The DEPUTY CHAIR (Hon Brian Ellis): Members, the amendment would still be out of order. Clause 6(2) reads —

> The Regional Development Minister is taken to have authorised the expenditure from the Royalties for Regions Fund of —
>
> (a) the sum of —
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> (i) the amount that represents 25% of the forecast fines royalty increase for the financial year commencing on 1 July 2013; and
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> (ii) $25 million;
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> and
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> (b) each amount that, for the financial year commencing on 1 July 2014 or 1 July 2015, represents 25% of the forecast fines royalty increase for that year, and each authorisation takes effect on 1 July of the financial year concerned.

A better way would be to postpone consideration of clause 5 and deal with clause 6 first, if that was the intent.

Committee Resumed

Hon KEN TRAVERS: With all due respect, Mr Deputy Chair, I am holding back from moving a dissent from your ruling at this time because I want to understand your ruling exactly. If we go to clause 6 and then come back to clause 5, there is nothing, in my view, in my moving the amendment to clause 6 that will prevent clause 6(1) coming into operation as long as net debt in the general government sector is zero—there is no net debt. There is nothing to prevent clause 6(1) coming into operation as is provided. Clause 6(1) is triggered by clause 2, which provides that the act comes into operation on the day on which it receives royal assent. We had a bit of a debate last night about the commencement dates of legislation. If the government does not seek to proclaim this legislation until there is no net debt, my amendment will be operable and clause 6(1) will be operable. There is nothing mutually inconsistent about the two. Clause 6(1) sets a new rule in terms of the detail about when it can come in. That could be achieved by the date on which the legislation is given royal assent.

The DEPUTY CHAIR: The advice I have been given is that the best way is still to deal with clause 6 before clause 5 because on the day that the fund comes into effect, that $297.7 million will go into the fund. If the member wants to change that, he will need to delete those last two lines.

Hon KEN TRAVERS: If I am correct in understanding what you are saying, you are not ruling my amendment out of order; you are saying that if we go to clause 6 and amend it, we can then come back and my amendment to clause 5 would be in order?

The DEPUTY CHAIR: At present we are ruling your amendment out of order, if you are going to continue with clause 5.

Hon KEN TRAVERS: Then I wonder whether the minister is prepared to go to clause 6 and have the debate at clause 6?

The DEPUTY CHAIR: Member, you just have to move that clause 5 be postponed.

Clause 5 postponed until after consideration of clause 6, on motion by Hon Ken Travers.

Clause 6: Credits to Future Fund from Royalties for Regions Fund —

Hon KEN TRAVERS: Mr Deputy Chair, I also have an amendment to clause 6 standing in my name. I might seek some advice from you as to whether or not, in light of your earlier comments, I should move my amendment, because I may seek to move some further amendments. Could you give us your views as to whether my proposed amendment 2/6 to this clause is in order?

Hon SIMON O'BRIEN: Mr Deputy Chair, I understand that you are considering the question of the proposed amendment at 2/6 and whether it is in order?

The DEPUTY CHAIR: That is right.

Hon SIMON O'BRIEN: If you are prepared to accept a brief submission:, I would suggest that this amendment would have the effect that we could not start a future fund and there would be doubt that we could ever start a future fund. It is the case that typically, even when the government is net debt-free, the general government sector borrows anyway, in any year, in the normal course of its business. Therefore, under the terms of what is proposed through this amendment, that would preclude us from action in the future fund and setting it up.

The DEPUTY CHAIR: Members, in answer to Hon Ken Travers' question, that will be the case unless we delete the words "with effect on the day", because the $297.7 million takes effect on the day the fund comes into operation, whereas Hon Ken Travers' amendment provides that no money can be credited to the future fund.

Hon KEN TRAVERS: One of the problems we are dealing with here is that we are trying to predict the date on which the government will proclaim this legislation. If the government —

The DEPUTY CHAIR: Order, member. I will take some advice.

To quickly explain to the honourable member, clause 2 explains when the fund comes into effect; 2(a) specifies the day on which the act receives royal assent and 2(b) specifies that the rest of the act comes into effect on the day after that day, so there is no —

Hon KEN TRAVERS: My point is that we do not know when that is going to occur; it may be next week, or it may be at some point in the future. If this legislation had been passed just over four years ago, the then government could have proclaimed it, my amendment would be in order, and clause 6(1) could have occurred. There are lots of pieces of legislation that have a range of conditions. If the Deputy Chair is suggesting to me that I need to take a bit more time to draft a more clever and tricky amendment, so be it; but I think the way it is at the moment is crisp and clear and gives people the intent.

I am sure that some of my colleagues will want to continue to debate the substantive clause 6 while I work on an amendment if that is the case.

The DEPUTY CHAIR: It will come into effect when the royal assent is granted—that is, as stated in clause 6(1), "with effect on the day on which this section comes into operation". That is the day of royal assent and the rest of the act will come into operation on the day after.

Hon Ken Travers: And you don't know what net debt is going to be on that day.

The DEPUTY CHAIR: Clause 6(1) does not say anything about debt; it states that it will go into the fund on that day. For the benefit of Hon Ken Travers, the ruling is that the amendment is out of order and we can progress clause 6. If he wishes to move another amendment, he is entitled to do so.

Hon ED DERMER: I am examining clause 6(1), lines 17 to 20 inclusive, which states —

> The Regional Development Minister is taken to have authorised the expenditure of $297.7 million from the Royalties for Regions Fund with effect on the day on which this section comes into operation.

I am interested to learn how such an expenditure from the royalties for regions fund can be consistent with the act governing the royalties for regions fund, which we have considered in this chamber previously. My understanding is that the purpose of the fund, as entailed in its own act, was for the royalties for regions to be spent in the regions. I am puzzled as to how it is open to the Minister for Regional Development to redirect that money to a future fund when there is no guarantee that the money raised by the future fund will be spent in the regions.

Hon SIMON O'BRIEN: I always welcome the contributions of Hon Ed Dermer, and I thank him for this latest one. He says that he has read clause 6, and that, I am sure, has been a new experience for him this evening! Yet he has not read enough of clause 6, because his question is answered in subclause (5), which is just a few lines beyond that which he quoted. It states —

> Money charged to the Royalties for Regions Fund under subsection (4) is taken to be expenditure authorised under the *Royalties for Regions Act 2009* section 9.

I think that deals with the member's concern. For the benefit of members generally, particularly those on the cross benches, I would like some progress to be made here, because there are some other important bills that the chamber has to deal with. What is happening at the moment is, I think, an unfortunate attempt at legislating on the run, with members being asked to just fill in and talk for a bit while another member tries to jot down an amendment. With the greatest of respect, that is no way to proceed with this matter. We have established the policy of the bill and now I would like to get on with the substance of the debate and make progress rather than simply fill in time.

Hon ED DERMER: I think that the minister would do well to confine his comments to matters of substance rather than to try to reflect negatively on the contributions of other members of the chamber—namely, me.

Hon Simon O'Brien: Hasn't Ken finished drafting his thing on the run yet, Ed? You've got to keep talking, have you?

Hon ED DERMER: I think it is very —

Several members interjected.

The DEPUTY CHAIR: Order, members! Hon Ed Dermer has the call.

Hon ED DERMER: I will talk to you, Mr Deputy Chair, because I think you are one who respects the procedures of the chamber.

I think the minister would further advance the progress of the bill if he restrained himself from making undignified commentary on the points that I raised. He would also do better if he had listened carefully to what I said. I said that I had not claimed to have read all of clause 6; I said that in reading clause 6, I noticed what subclause (1) said and I quoted it so that it was very clear to the minister. I also think that the minister would be well advised not to in any way suggest a motive for my comments in my contribution to the chamber other than the question that I asked. Having said that, I appreciate the minister's reference to clause 6(5), which states —

> Money charged to the Royalties for Regions Fund under subsection (4) is taken to be expenditure authorised under the *Royalties for Regions Act 2009* section 9.

It would seem to me that the National Party members of the chamber, along with their colleagues in the Assembly, run a campaign for the royalties for regions policy, go to the trouble of presenting a bill to that effect to both houses of Parliament, take up the time of both houses of Parliament in enacting the bill and then quietly slip in clause 6(5)—lines 21 to 23 to be precise, so there is no misunderstanding—of the bill before me as it is written and totally overturn the stated purpose of their policy and the stated purpose of the Royalties for Regions Bill 2009 when it was before the chamber. I think it is a very good use of the time of the Legislative Council to draw the minister out to make it very clear and put it on the *Hansard* record that what we have in this bill is an endeavour to totally subvert and reverse the stated purpose of the Royalties for Regions Act 2009.

Hon PHILIP GARDINER: Just to advance this, I wonder whether the amendment proposed by Hon Ken Travers could be changed so that it gives an alternative position that we can at least debate with some credibility. The amendment reads —

> Notwithstanding subsection (2), no money can be credited to the Future Fund in any year where the general government sector borrows money.

What if we changed those words to “notwithstanding subsection (2), money can only be credited to the Future Fund in any year where the general government sector net debt is greater than zero on a statement of position at a balance date of 30 April”? The 30 April date may be changed to make it relevant to how the budget is structured so that it can be planned, so it might have to be 31 March. I am not saying that I would vote for this amendment, but what I am concerned about in this whole thing—I am sorry that I have missed parts of the debate—is the issue of effectively being a net borrower to put money into a future fund when I think there is very little benefit that we can get, apart from a warm, fuzzy feeling. I think we can do it much better. But if we want to have a credible discussion, I am suggesting that we change the amendment to —

> (3) Notwithstanding subsection (2), money can only be credited to the Future Fund in any year where the general government sector net debt is greater than zero on a statement of position at a balance date of 30 April.

Does that help Hon Ken Travers?

Hon SIMON O’BRIEN: The question, as I understand it, is that clause 6 stand as printed and that no other amendment has yet come forward. I do support clause 6 and the proposition that it stand as printed. I thought that we had a ruling from the Chair that the proposed amendment was out of order anyway, so I do not know why we are proposing to amend the proposed amendment. That is the only comment I would make at this stage. We wait to see whether any substantial amendment does come forward.

Hon KEN TRAVERS: I appreciate the comments put forward by Hon Philip Gardiner and the spirit in which they were put forward. Hon Philip Gardiner is right: it is a debate that we need to have. I think it is important that this chamber expresses its view on this issue. We have agreed to the policy of the bill; that is, we will set up a future fund that will provide a benefit from royalties and an income stream for future generations. The crux question then becomes one of whether putting money into the future fund before general government sector net debt is at zero actually achieves the policy of the bill.

I want to give some more consideration to Hon Philip Gardiner’s suggestion. The thing that readily jumps to mind in that regard is that the government needs to work around budget cut-off dates and the need to try to set the budget at budget cut-off dates. Traditionally, state governments close off their books on 30 June. I would imagine that in many cases if the state government does have surplus funds, the point at which it may pay down its final bit of debt will be towards the end of the financial year, even if it has the capacity to do it a bit earlier, so at 30 April the government may not be in a position to pay down the debt but may have a reasonable estimate of doing so. The difficulty then becomes one of how to craft language to achieve that.

The amendment that I was looking to move, and I may need to move some subsequent amendments to subclause (2), would be to clause 6(1) on page 3 at line 20 to insert after the word “operation” the words “provided there is no net debt existing for the general government sector”. My view is that that is not contrary to the intent of this bill; it just makes it very clear that money will be paid into the future fund at the point at which the general government sector has no net debt. The minister can sit there and argue that that will never occur under his government’s financial administration. That may be right, because what we have seen for the past four and a half years under his government’s administration is that general government sector net debt has gone from a $3 billion surplus to a $5 billion deficit with a trajectory to $8 billion. I suspect that if the Premier is to honour even half of the things he is running around the state telling people he is going to build if he is re-elected or are no-brainers that should be built and that he will look at if he is re-elected, general government net debt will go well beyond that $8 billion. I can understand, when there is a drunken sailor in charge, why the minister may believe that his government will not be able to meet that test. But that is not an issue for this Parliament to be dealing with. This Parliament should not be drafting its legislation based on the inability of the Liberal government to manage its finances. What we should be basing it on is what is a responsible position for the state so that it can ensure that this legislation achieves the purposes that are clearly articulated in clause 4 and which we have already agreed to. I remind members again —

> The purpose of this Act is to provide for the accumulation of a portion of the revenue from the State’s mineral resources and other money for the benefit of future generations through the establishment of the Western Australian Future Fund.

If we take at face value what the minister has said to us this evening, we are going to establish a future fund and pay money into it whilst at the same time increasing net debt, because he tells us that it is impossible to get to a point of not having net debt and that it is impossible to not have borrowings. We can have a debate about that when we get to that amendment. There is a loan bill coming in shortly. There has been many a government that has gone for an extremely long time without having to resort to a new loan bill. That is an interesting situation. This government, on the other hand, has required loan bills on a fairly regular basis. I think we need to make sure that the detail of this bill makes it clear that we support the policy—we support the establishment of a fund—but that we do not believe that we will actually be achieving the purpose of the legislation as outlined in clause 4 and in the short title if we are putting money into that fund whilst at the same time net debt of the general government sector is increasing.

I am happy to have the debate in this chamber in a more generic sense before we move amendments to see whether we have agreement around the chamber about that. I am clear that I understand what the minister's position is on that. I am not clear what is the view of some other members on the issue of whether they believe we will actually achieve anything by borrowing money—that is effectively what we will be doing—to stick into a fund, which will mean that when it finally matures, the state could be left with more debt and all this fund will do at that point is to provide some assistance in paying the interest bills for the money we borrowed and splurged in this generation. Is that really what all members of this house believe is a good outcome from this legislation?

Hon Max Trenorden: It is your description, not mine.

Hon KEN TRAVERS: That is fine, Hon Max Trenorden. I would welcome your description.

Hon Max Trenorden: I will stand up immediately after you.

Hon KEN TRAVERS: I know we often have argy-bargy across the chamber with Hon Max Trenorden and his colleague who sits next to him, but I listen to the comments Hon Max Trenorden makes on these sorts of matters and I do not disregard them without giving them consideration. I give them significant weight. I make jokes with Hon Max Trenorden at times, but I do give him and his colleague a degree of credit in these areas as they have a good understanding of them. What I might do is sit down, because I am interested in Hon Max Trenorden's views on whether he sees that the way in which this fund will operate—we will basically allow net debt in the general government sector to continue to climb whilst putting money aside, which I might add comes in the first four years predominantly from royalties for regions—will actually achieve the purposes of the bill and the policy that I think we were agreeing to when we passed clause 4 of this bill.

Hon SIMON O'BRIEN: In talking generically about what we are trying to achieve here, I remind the house that, of course, it is the government's bill and —

Hon Ken Travers: No, it is the house's bill to decide.

Hon SIMON O'BRIEN: The government is the sponsor of this bill. Yes, the house will decide. However, the house does not write legislation. The house receives a bill and considers that. Amendments may be moved, particularly during the committee stage, to better achieve the outcomes that are contemplated by the sponsors of the bill who have introduced it into the house. However, we have heard some interesting postulating on what this bill is all about. As the minister in charge of this bill, I would now like to address the house on what it is and is not about. That might help us work things through. We have already heard from Hon Philip Gardiner, who is looking to find a way ahead. I suggest, with respect, that the path that was being explored does not lead anywhere. I am interested in what Hon Max Trenorden has to say about royalties for regions and so on. That is what we need.

Firstly, let me just point out in a quite straightforward way what we are really about here. The policy—that is a word that has been kicked around a lot—of the future fund is an intergenerational transfer of wealth, which is sourced from the state's finite mineral resources in this generation. That is set out in clause 4 of our bill. That is what our policy is all about. This policy has nothing to do with the net debt position of the general government sector. That is why there is no reference to it in clause 4 and a number of other places. Is Hon Ken Travers entitled in the course of debate to raise, as he has, a lot of questions about debt? He has done that in a number of ways. He has done it most particularly in the second reading stage and also in the committee stage. Yes, he is quite entitled, as part of his considerations, the operation's considerations and the house's considerations, to question whether to support this bill, which takes significant sums of money and guarantees those and transfers that wealth to use in the future by Western Australians, including Western Australians yet unborn. It is quite okay to discuss it, but it is not what the policy is about. This bill is not about our net debt position. It is about the transfer of intergenerational wealth. That is why I do not want our contemplation to hinge on this question of net debt, because that is to miss the whole point.

Hon Ken Travers: You do not transfer wealth intergenerationally unless you control your debt.

Hon SIMON O'BRIEN: The opposition has pursued that argument at very great length, and there is something in it. It is fair enough for the opposition to contemplate it. It is a legitimate position for it to come from this view that somehow if on the one hand we have any debt, we cannot put away any money into a future investment fund on the other hand, because somehow that is borrowing to invest. In a sense, I understand how members opposite are developing that argument, but it is not what we are on about; it is wrong. Others, I think, might have already pointed this out, but I will certainly point it out, because it needs to be done: if we accept the opposition's view that we cannot start a future fund—that is the proposition the opposition is putting; realistically, it is trying to stop this—we are saying, in effect, that at a household level we cannot put aside money into an investment account for a child's education or save up for something years down the track while we still have a mortgage. Oh, no; we have to discharge the mortgage first. People do not arrange their affairs like that. They spend money on some capital items and not on others. They put aside cash on occasion, if it suits them to do so, whilst still retaining borrowings in other areas. They do it every day. They put money in the bank and put some other debt on their credit card. It happens every day of the week. That is not extraordinary and I resist the opposition's proposition that it is. When considering a possible amendment along the lines of the amendment that has been ruled out of order, we try to find some way to massage it into shape, but the government obviously does not support any amendment in that direction—full stop. I urge members not to entertain it.

The government borrows every year even when it is net debt free; that is the fact of the matter. Treasury, I understand, has consistent time series data on general government sector debt going back to 1989 and in every single year since then the general government sector has borrowed. Even when the general government sector was net debt free in the period 2004 to 2010, it still borrowed in each of those years to a total of $12.35 billion over that period. It was net debt free, but it was still borrowing. How do we reconcile the two? We know what those borrowings are for. They are for the construction and delivery of new infrastructure of various types in the general government sector such as schools, hospitals, roads and whatnot.

The practical effect of the sort of amendment we have been asked to contemplate is, in effect, that no money could ever be credited to a future fund and, therefore, that kills this whole idea and this bill at this point. That would be a very poor outcome. That is why I suggest to the Committee of the Whole, with the greatest respect, that we support the proposition that clause 6 stand as printed and that we do not try to amend it on the run, because that will simply give us an outcome that I think we would all really regret.

Hon LINDA SAVAGE: I have listened with interest to the debate on this amendment. I would like to make a few comments partly because some of them may relate to submissions on this bill that I will raise later. I am interested to hear the minister's comments on the intergenerational transfer of wealth. As many members will know, certainly in the past few years we have seen, and certainly in the future we will see, what they are describing as the greatest intergenerational transfer of wealth. That is because many of our parent's generation invested in property, lived frugally and paid off that property, and the value of that property has increased enormously. Notwithstanding the fall in values in real property, we are seeing people now with a level of wealth that is quite unprecedented. When we talk about intergenerational transfers of wealth, that is the context in which we talk about it. Just as an aside, for those people who are interested in inheritance and issues to do with wills, it is an increasing source of litigation because what is being left is far greater than what was left by previous generations.

What is interesting, though, about the intergenerational transfer of wealth is that that wealth comes and maybe there are some debts to be paid off but not, of course, like the situation that we are talking about. Further, it has to be put into the context—which some members spoke about in their contribution to the second reading debate, as I certainly did—that, at the end of the day, after 20 years the actual return that we expect would be the equivalent of only $130 million in today's money. Therefore, what we are balancing is the cost of borrowing and the opportunity cost that goes with not spending if we have access to greater funds—that is, the opportunity cost of what that money might be spent on—for what, at the end of the day, is not, in terms of the size of the budget, an enormous return. Certainly, I talked about that context in what we are doing. Therefore, in that sense I think that what Hon Ken Travers is talking about—whether or not the amendment is at the moment struggling more because of a technicality in the drafting—reflects what many people would consider to be the most sensible approach to take, given the current environment. Another aspect of the context is that we are living in very volatile times. What would a prudent household do? What would the people who we represent think about this course of action? I think many of them would think, as Hon Ken Travers suggested, that we should try to get our own house in order as much as we can, and it is not impossible. As Hon Ken Travers said, there has been a period in which a government has been in a position that this future fund could proceed under the amendment he seeks to move. Therefore, I consider that the points he made represent prudent behaviour and need to be put in the context of what we stand to gain.

Similarly, in regard to clause 6, which we are discussing, perhaps the minister can turn his mind to another matter. I was going to raise this issue in the debate on clause 10 but it may be relevant to this clause because it seems to me that the Western Australian Future Fund Bill is based on the assumption that the Royalties for Regions Act will not be altered, yet that is a piece of legislation that, presumably, could even be repealed by a government.

Hon Ken Travers: Not by a Labor government!

Hon LINDA SAVAGE: Yes, but it could be repealed by a government. Therefore, the future fund bill, as I understand it, rests on some assumptions about other legislation. It occurred to me, given that this piece of legislation is structured so that it will be 2032 before we are able to access the funds, that we are making a number of assumptions that pieces of legislation, perhaps also including the Financial Management Act, will continue in their present form. That in itself I think is a question that needs to be answered. Although, as I said, that was something I was going to raise in debate on clause 10, I also raised it in my contribution to the second reading debate when I talked about the manner and form provisions. I asked that express question and I noticed that the minister did not respond to that in his reply to the second reading debate. I think that issue also bears upon this clause.

Hon LYNN MacLAREN: I wish to oppose the amendment. I think that —

The DEPUTY CHAIR (Hon Alyssa Hayden): Excuse me, member, there is no amendment at the moment. We are just talking to clause 6 in general.

Hon LYNN MacLAREN: I thought we were talking about the —

Hon Ken Travers: We're discussing possible amendments. I haven't moved one yet.

Hon LYNN MacLAREN: The member has not moved the amendment. In discussing the potential amendment for clause 6, I put on the record that it is a fascinating argument. We accept that government incurs an amount of debt when it does the business that it does. The Western Australian Future Fund Bill 2012 should not hinge on that because we could foreseeably have a government that manages its finances to not be in debt, as an honourable member proposes, and then fails to make the important savings that we need. I think, as with most families, it is possible to budget to have a savings account as well as manage debt and keep it within reasonable limits. I cannot help but pause at this point to wonder why we have never set up a future fund such as this before. Why have we never had a savings account, given the massive amounts of royalties that we have reaped the benefits of, particularly since 2006 and 2007 when we hit that beautiful boom period? Why have we never set aside money for a rainy day? It is important now that we honour the government in its foresight to set aside that money and, in particular, to identify $297 million in the royalties for regions allocation that would reasonably be set aside for future generations to benefit from the booms that we experience now. Therefore, I would argue that, yes, we need to limit debt, we need to manage debt and, yes, we need to have a government that reasonably organises its budget so that we are not too far in debt. I add that I would not make the choices that this government has made about expenditure—that is, the waterfront and the stadium —

Hon Ken Travers: That is, Roe Highway stage 8—do you want them to borrow for that?

Hon LYNN MacLAREN: But we are not talking about those choices at this stage; we are talking about setting aside some of the royalties money, in this instance, and income that we have from the boom to deal with those problems that may occur 20 years from now, when we cannot foresee what problems might be faced by the Western Australian government.

Therefore, I support the minister in his very reasoned argument that we need to set aside the savings, regardless of what our debt structure is, with that proviso that we manage debt wisely in this regard. We do not think that it is reasonable or rational to say that we should not put savings aside until we clear our debts. Not that we are speaking to an amendment, but we just indicate, or flag, in that space that we would not support an amendment of the kind that has been canvassed.

The DEPUTY CHAIR (Hon Alyssa Hayden): Thank you, members, after those wise words, I give the call to Hon Max Trenorden.

Hon Kate Doust: Is that appropriate, Madam Chair?

The DEPUTY CHAIR: My apologies.

Hon MAX TRENORDEN: I want to speak directly to the proposed amendment for a moment at least. With his amendment Hon Ken Travers is saying that there will be very, very few years—not even blue moon years—when contributions will be made to the future fund. Under the member's amendment, the government would have to miss only one day of 365 days and no contribution could be made. I cannot support that. The member can make his argument, which he did in the second reading debate. We will always have a bit of banter, and we talked about those things during the second reading debate. I think that it is an interesting debate. Hon Phil Gardiner brought up matters about the Norwegian fund and the federal Future Fund and the argument that if the government is earning more than 3.77 per cent, it really does not matter if we have debt because we are adding to the positive side of the ledger.

Hon Lynn MacLaren has got it right. She might have a couple of things wrong about live sheep exports, but she is right on this matter!

Hon Ken Travers: Now the National Party and the Greens are giving the tick of approval to the Liberals' financial management!

Hon MAX TRENORDEN: No, I need preferences!

Several members interjected.

Hon MAX TRENORDEN: The point being made is that this question of right and wrong is one thing, but looking at Hon Ken Travers' amendment, I know he is trying to make a point. However, the point he is really making is that if his amendment is carried, it will be a rare, rare year that a contribution gets made to the future fund. I favour a future fund. I will not give my second reading contribution again, but I have been to Alberta and seen a state where untold wealth, gas and oil abound. One of the great complaints was that Alberta added to its recurrent income by spending money everywhere and when the downturn came, it not only had no money left, but also had to keep up the repayments that had been put in place in recent years. The recent debate over increasing the royalty rates for fines to put into a future fund is an argument that I think a lot of Western Australians would agree with. When I listen to the negative talk about the mining industry, I hear that we are digging up and shipping out our resources too quickly—what about the future? That is a fair argument. What is right or wrong is not the question; it is a fair argument. The question is about having a future fund to do that. But royalties for regions is the real reason that we have the future fund. In this year's budget—I will not duck that issue as a National—I am still a card-carrying National Party member at this time —

Hon Ken Travers: Are you still arguing about whether you're going to hand it back or they're going to take it off you?

Hon MAX TRENORDEN: I am not sure where my card is!

Hon Simon O'Brien: That is why this question needs to be resolved quickly!

Hon MAX TRENORDEN: This issue arises out of this year's budget. Whether that is a good argument or a bad argument is not the point. The question is: do we pass a bill to set up a future fund? It is fascinating arguing about what the debt is and how fast it is growing, but on the other hand, as the minister said 10 minutes ago, it is normal for everyone, including governments, to have debt and to put money away; we do that all the time. There is no way I will vote down the future fund. I can argue about where it comes from, I can argue about the way it is constituted, but I will not argue against the future fund. I put to Hon Ken Travers that his amendment argues against the future fund. If it is carried, there will be no future fund.

Hon KEN TRAVERS: I appreciate the contributions made by members. I take some members' points about the issue of managing the fund. If it is the will of the chamber to go down this path, maybe it is about trying to find some better wording if that is what concerns people. We have a projection, which goes out 20 years to 2032, that by that stage we will have $4.7 billion. However, we know that over this current financial year and the next three years of the forward estimates—correct me if I am wrong, minister—the government expects something of the magnitude of just over $1.1 billion —

Hon Simon O'Brien: The ballpark figure is $1.04 billion.

Hon KEN TRAVERS: The government expects $1.04 billion will be paid into the future fund over that period. At the same time, from the end of the last financial year to the beginning of this financial year, the general government sector net debt was expected to be $2.699 billion. I have only budget paper No 3, so I am going off the figures in that; I have not had a chance to look at the final result for last year. By the conclusion of the period of the current government, net debt is expected to be $8.5 billion. I might add that a range of expenditure has not been brought to book and expensed in the account, although it has already been authorised by the government. Therefore, the argument that we are doing some sort of intergenerational transfer is a nonsense.

Hon Max Trenorden: No, it's not.

Hon KEN TRAVERS: It is, Hon Max Trenorden. If we were putting it into productive infrastructure that would provide a long-term return to the state, I would agree with Hon Max Trenorden.

Hon Max Trenorden: You are just assuming one very important thing, which I'm very pleased to hear you admit. You are just assuming that you'll never get into government, because you can't just keep on saying debt will blow out.

Hon KEN TRAVERS: That has just lost Hon Max Trenorden some preferences, for a start!

Hon Simon O'Brien: We'll top them up from somewhere!

Hon KEN TRAVERS: But keep going!

Hon Max Trenorden: That is the point though. Most of us believe there is a crunch coming. You're right about the current debt level, but you can't just say that is going to be the debt level for 20 years; that is not a logical argument.

Hon KEN TRAVERS: The point I make is that unless we put a mechanism into this bill that links the issues of debt into the depositing of money under this bill, I can tell members exactly how this will operate if a government does not want to agree with the spirit of this legislation. In a little while we will get to clause 10, which is the manner and form provision that states no future government can change the legislation without an absolute majority. We can have a debate about the merits of clause 10 when we debate it, but it seeks to make this bill last beyond this Parliament. The purpose of this bill can simply be defeated as fast as money is placed into the future fund through the deposits, by borrowing against it. The end result is that the net debt figure will not change, because this money will sit in the general government sector as a deposit in the books.

Hon Max Trenorden: As long as you assume that you take today's interest rate of 3.77 per cent and the fund doesn't earn better than that.

Hon KEN TRAVERS: That is right. If we look at where the money can be invested under the current policies by which it can be invested, the only way to achieve an outcome that is better than that figure is by investing in state government bonds around Australia. Currently $222 billion worth of semi-government bonds is on issue. Eighty per cent of the money invested will go into those semi-government bonds. Someone said that South Australia has lost its AAA credit rating, but the amount of money it has is negligible anyway. The main source of bonds is Queensland, which has $80 billion worth of bonds on offer. By the time the fund reaches the $4.7 billion that we expect, Western Australia would be required to hold 5.8 per cent of the Queensland government's bonds.

Hon Max Trenorden: If you looked at the Commonwealth Bank 10-year bonds right now—I haven't seen them—I wouldn't mind having a little wager that the rate is better than 3.77 per cent. So, you do not have to put it all in Queensland bonds.

Hon KEN TRAVERS: At that point though, the state is taking a risk about what happens between now and that time, because money will be accumulated in the fund. There are certainly better minds than mine and, I suspect, even Hon Max Trenorden's, who work in the Treasury Corporation doing the calculations, rolling the debt and stretching it. I very much doubt whether they would place all the money in 10-year bonds.

Hon Max Trenorden: I agree, but they will not be putting it all in Queensland government bonds either.

The DEPUTY CHAIR (Hon Alyssa Hayden): Order, members. The member on his feet has the call, and if the other honourable member wishes to make a call, he may stand later.

Hon KEN TRAVERS: Thank you, Madam Deputy Chair. I must say that I sometimes think a helpful interjection assists the chamber, and on that occasion Hon Max Trenorden was making helpful interjections. The point he made by way of interjection was that the money will not all be put into 10-year bonds, I accept that; it will be rolled out and classified. I understand the guidelines that will apply to the investment of this money mean that 80 per cent will be held in semi-government bonds. That is the point—80 per cent of the money will be. The area likely to get a slightly higher return is in the other 20 per cent. Basically, 80 per cent of it will be in semi-government bonds. To achieve that, we will probably become the single largest lender to the state of Queensland.

People think that is the appropriate path of action, but I want to get back to the point that I do not think there will be an intergenerational transfer of the revenue of today by putting some money from royalties into an account while at the same time increasing borrowings. It is like saying to one's children, "I'm going to leave you the house, but the debt on the house will be bigger than the value of the house when I hand it to you." That is not intergenerational transfer, but that is effectively what we are arguing. That is what we are putting forward tonight, if we do not put some linkage between the issues. I accept the arguments that have been put about the potential problems, but in the absence of something better, or an indication from the government that it understands the seriousness of this, we need to proceed with the amendment that I will move in a second.

The final point I want to make is that if people seriously want to deal with the issue of the transfer of royalties, we need to change the way we account for them in the books. We need to stop treating them as recurrent income and treat them on the books as a sale of a capital asset.

Hon Max Trenorden: Like Norway.

Hon KEN TRAVERS: Absolutely. If that is what we want to do, we take our share out of that and make a decision about how much of that sale of a capital asset we take. At the moment we have a massive capital asset—the minerals held in Western Australia—that we are selling off and treating as recurrent income. It is like owning a big farm, subdividing it and selling it off block by block—we eventually end up with none of it. If that is treated as recurrent income—that is, people live on it, visit the casino with it and all the rest of it—we are not making provision for future generations; we are actually selling their future. With those words, I will try my luck again and move my amendment. I move —

Page 3, line 20 — To insert after "operation" —

provided that there is no net debt existing for the general government sector

Hon SIMON O'BRIEN: This has now resolved into an amendment that we can consider. We have also had the benefit of a lengthy discussion. I will formally respond to what the government's position is and why. Not surprisingly, we do not support the proposed amendment and we urge the committee not to support it. The immediate effect of this amendment would be to defer indefinitely, and possibly permanently, the allocation of the first $297.7 million that was intended to go into the future fund. That is a matter of fact. I can again go over the discussion that we have already had, but that is the effect the amendment will have.

I also notice we have further provisions for expenditure from the royalties for regions fund and other royalties income in the next few years, which this amendment does not deal with. It does not honour the principle that the member is advancing, which I disagree with on this occasion, but I respect his right to advance it. For the reasons I have already explained in some detail, the government will not support this amendment.

Hon PHILIP GARDINER: I also will not support the proposed amendment. I think it is important to have the discussion, but the principle upon which my support is not there is really because this Parliament placed a cap in the legislation on the royalties for regions fund of $1 billion. The facts of life are that there is more than $1 billion available to go into the royalties for regions fund which, if it does not stay in the royalties for regions fund—it has gone over $1 billion, so it cannot—it either goes back into consolidated revenue, which, sure, is for general government expenditure, or it goes into a future fund. In the state accounting system—not just the accounting system, the state appropriations—there are separate accounting funds. If it goes one way, it will go into general consolidated revenue; if it goes the other way, it goes into a future fund. I referred to this briefly in my speech: I think we all have an interest in regional development. It preserves an allocation of that to regional, as well as metropolitan, expenditure in 20 years' time. That is my justification for not supporting the proposed amendment.

Hon LYNN MacLAREN: I may disagree with Hon Philip Gardiner about live exports, but on this issue I agree. The question is: do we have existing net debt? Yes. Therefore, if this amendment were to be passed, we would not be able to have a future fund. We support the future fund, as I heard every other party in this chamber supports the future fund. It is in that spirit of wanting to set aside something for future generations, and wanting to get that $297.7 million out of the royalties for regions allocation into savings, that I must oppose this amendment.

Hon KEN TRAVERS: I will make a couple of quick points. Firstly, it was not the Parliament that imposed the cap. We supported the legislation, which included the cap. The cap of $1 billion on royalties for regions was both part of the National Party policy prior to the last election and it was part of the bill as it was presented to the house by the Minister for Regional Development. So that there is no misunderstanding that that cap was somehow imposed; it was part of the original policy that the National Party took to the 2008 election. The second thing is it is not a cap on the amount of money that can go into and out of the fund, it is a cap on the amount that can be held in the fund. The argument, when the cap was put in place, was to ensure people were spending it.

I suggest that there is a way we could get common interest in this matter. Hon Phil Gardiner supports live exports; Hon Lynn MacLaren opposes it. The Labor Party's long-term goal is to phase out live exports by having meat processed in Australia. We could use the money in the royalties for regions fund to enhance processing facilities within regional Western Australia and then everyone would be happy, but of course we will not be able to do that because state debt will go through the roof, money will be sitting in an account and, in 20 years' time, someone might finally look at whether the sheep industry can be restructured in Western Australia so that the meat is processed in Western Australia and exported rather than as live exports. But if the Greens and the Nats want to argue and oppose that, that is fine by me!

Hon LYNN MacLAREN: This cannot go unchallenged. We are not waiting 20 years for live exports to stop. We want to see that transition occur right now, out of general revenue. We do not want to wait for future funds to be spent for that, and it only adds to our commitment to oppose the amendment as put by Hon Ken Travers.

Amendment put and a division taken with the following result —

Ayes (9)

Hon Matt Benson-Lidholm	Hon Sue Ellery	Hon Linda Savage
Hon Helen Bullock	Hon Adele Farina	Hon Ken Travers
Hon Kate Doust	Hon Ljiljanna Ravlich	Hon Ed Dermer *(Teller)*

Noes (22)

Hon Liz Behjat	Hon Brian Ellis	Hon Lynn MacLaren	Hon Max Trenorden
Hon Robin Chapple	Hon Philip Gardiner	Hon Robyn McSweeney	Hon Giz Watson
Hon Jim Chown	Hon Nick Goiran	Hon Michael Mischin	Hon Alison Xamon
Hon Peter Collier	Hon Nigel Hallett	Hon Norman Moore	Hon Ken Baston *(Teller)*
Hon Mia Davies	Hon Alyssa Hayden	Hon Helen Morton	
Hon Wendy Duncan	Hon Col Holt	Hon Simon O'Brien	

Pairs

Hon Jon Ford	Hon Phil Edman
Hon Sally Talbot	Hon Donna Faragher

Amendment thus negatived.

Clause put and passed.

Postponed clause 5: Western Australian Future Fund —

The clause was postponed in an earlier stage of the sitting.

Hon KEN TRAVERS: I am not going to move my proposed amendment to clause 5 in light of the will of the house in respect of my proposed amendment to clause 6. In respect of clause 5(5) and in light of the very interesting contribution made by Hon Philip Gardiner during the second reading debate, I would be interested to know whether the government has developed any guidelines for how and when the future fund might invest in gold.

Hon SIMON O'BRIEN: I thank the member for his question and acknowledge Hon Philip Gardiner's interest in this matter as well. There is a document that members may have been exposed to, the future fund investment framework—I think it was made available to members—that is pertinent. That document is being further developed to cover the guidelines to which the member refers. That work is underway now and should be finished fairly soon. Obviously, the updated document will be made freely available on websites and what have you as soon as the update is completed.

Hon KEN TRAVERS: I appreciate the minister's comments and I do not really want to dwell on this point, but I thought the comments made by Hon Philip Gardiner during his contribution to the second reading debate were pertinent. I am trying to find my copy of the document to which the minister referred, but my recollection is that that was the document that talked about 80 per cent going into semi-government bonds and 20 per cent elsewhere and all the rest of it. My recollection is that it did not deal with gold, and I think it was prepared before the insertion of the gold amendments. Some time has passed since then and I at least wanted some guidance on how the government is going to manage the risk, because the point Hon Philip Gardiner made earlier is that any significant investment in gold could easily, because of its nature, have the potential to wipe out the benefits that we may get, if we are able to get the interest rate higher than the 3.77 per cent that Hon Max Trenorden keeps referring to. I would be intrigued to at least get some guidance about how the government intends to manage the risks in respect of that.

Hon SIMON O'BRIEN: I am grateful for the advice available to me, and my responsibility, of course, in the context of this proceeding is to attempt to convey my understanding to members in a form that is digestible not only to me and to them, but also to those who may contemplate the record of this committee stage. The detail of this will be communicated in due course, as I suggested, but the basic position is described as a strategic asset allocation, and Hon Ken Travers is familiar with that term. That proposes an 80 per cent investment in semi-government bonds and the 20 per cent remainder in corporate bonds. That is the fundamental, ongoing and, I think we can say, fairly conservative and normal state of affairs in government investment. It is proposed that any investment in gold will take place under a tactical asset allocation, which would arise when the appropriate circumstances were adjudged to be right and beneficial for the state to go down that course with its gold investment, in addition to the strategic asset allocation that I have already discussed. That investment in gold could be up to a maximum of 10 per cent. I am sure that people who are following this debate are avidly looking forward to further information, but I think for the purposes now, that is probably the best I can do in describing our intentions.

Postponed clause put and passed.

Clause 7 put and passed.

Clause 8: Additional money credited to Future Fund —

Hon KEN TRAVERS: I have a quick question for the minister. Clause 8 refers to the income derived from the investment of money standing to the credit of the future fund. So, as income arrives, it goes back to the future fund. Is it the intention of the government that this should apply to the gross income of the fund or to the net income of the fund? If there is any cost involved in that investment, will that be absorbed by Treasury or will it be taken out of the fund before it is invested? Basically, will gross income or net income go into the fund?

Hon SIMON O'BRIEN: My advice is that the amount that will go into the future fund will be the gross income and that any fees and whatnot—whatnot is the expression that we Treasury boffins use for these sorts of amounts; that is, any fees and the like—that are required to be paid to the Western Australian Treasury Corporation will be met from other sources so that the gross amount will be deposited.

Clause put and passed.

Clause 9: Application of Future Fund —

Hon KEN TRAVERS: I just want to raise a couple of quick points. Subclause (3) refers to when the money finally matures, for want of a better term. It seems to provide that we try to preserve the real value of the fund. But the way in which it is written appears to me to mean that, once that money matures, we can take all the income out of the fund rather than continue to maintain the real value of the fund. Is that the government's intention? If it is not, is it something that we need to look at? To return to the issue that we discussed earlier, if we do not seek to somehow maintain the real value of the fund, it could very quickly over a fairly short time, particularly in periods of high inflation, be eaten away. I am just trying to get an idea of the government's long-term intention. Is it that we try to maintain the real value of the fund or is it that beyond that maturity date, it will be up to future governments to make those decisions as to whether they just effectively run down the real value of the fund by not maintaining it?

Hon SIMON O'BRIEN: Insofar as I might speculate, I suspect that when we get to that stage in the state's history, it might be a combination of both. There will be some parameters that we will endeavour to set down, and I will come to that in a moment. But I am sure that future generations of this Parliament, amongst others, may wish to revisit matters. Who knows? I do not have a crystal ball and, as I say, that is speculation. In terms of dealing with fact and dealing with the question that the member has raised, what is contemplated here, of course, is that even at maturity, one per cent of royalty income will still be going in. Even though all the interest might come out as income, we will still have that growth of one per cent of royalty income. Again, it will depend on values and what have you as to whether that is more or less than enough to preserve the real value, as we might call it, if all the other income were removed. But the contemplation is that, because of that ongoing injection of one per cent of royalty revenue—it does not sound like much, but it is substantial—the fund will grow in perpetuity, even after it reaches maturity in 20 years.

Hon Ken Travers: But, as I see it, the problem is that you can run down the fund by taking out all the income.

Hon SIMON O'BRIEN: It could happen.

Hon LINDA SAVAGE: I want to ask a question about clause 9(4) and how the income is divided and the purpose for which it will be applied. Perhaps the minister can tell me, as a practical matter, how it will be dealt with if, firstly, agreement cannot be reached between the Treasurer and the Minister for Regional Development. If they do reach agreement, will that be evidenced in writing? What process will occur? Perhaps when I get the response to that, I will ask another question.

Hon SIMON O'BRIEN: As clause 9(4) indicates, income cannot be applied until agreement is reached between those ministers as to the appropriate division of the income between the metropolitan area and the regions and the purposes for which the income is to be applied in the regions. So it is up to them to make sure that they do get that agreement. The processes by which that would be recorded and conveyed would obviously be in writing. I believe that it would be subject to a number of other disciplines that we would be familiar with; firstly, the processes of cabinet, which might well involve a subcommittee such as our current Economic and Expenditure Reform Committee as well as a decision of the full cabinet. I think it might well also form part of the budget process of the pertinent year, so there is a range of disciplines there, including, of course, bills to come before Parliament for Parliament's scrutiny as well.

Hon LINDA SAVAGE: Can I take it, then, that there is not any direct advice on what would occur if agreement could not be reached? That then leads me to the next question: what can the minister explain is intended by the words “an appropriate division of the income”? Is that based on population? Is it based on need? What factors will be taken into account?

Hon SIMON O’BRIEN: Just to recap, the purpose of this is to require agreement, and if there is no agreement, there is no distribution of income. That is the imperative that I am sure will enable the ministers of the day to achieve that agreement. I am sure they would jointly take it to the forums I have mentioned—those that consider the budget, the Economic and Expenditure Reform Committee and any other cabinet processes of the day. The meaning of the term “appropriate” is clearly the normal definition of the term. I do not believe we have attempted to define it in any of the material—not in the explanatory memorandum and certainly not in the bill—so it is a question of what is deemed appropriate as negotiated by those two ministers and then, of course, approved by the cabinet processes of the day. I am sure members can imagine all the various criteria that would be seen as achieving the definition of “appropriate”—it would be the balance between population, remoteness of regions, assessment of need and all the rest of it.

Hon LINDA SAVAGE: I am certainly not suggesting that it would be spent on anything inappropriate; I just wondered if the government had put its mind to how it would be divided, given, of course, that it refers specifically to the metropolitan area and the regions. Am I to take it, then, that there is not any particular division envisaged and that that will be really entirely up to the two ministers in reaching their agreement?

Hon Ken Travers: That will be about the fifth term of the McGowan Labor government so it will be appropriate!

Hon Norman Moore: Don’t worry; we’ll still be here.

Hon Ken Travers: Are you going to do a Colin Barnett?

Hon Norman Moore: After this I’m going to make a comeback.

Hon Ken Travers: Have they found you a lower house seat?

Hon Norman Moore: I’m going to come back in 2032 to spend the money.

The DEPUTY CHAIR (Hon Alyssa Hayden): Order, members! We have only a few moments left.

Hon SIMON O’BRIEN: In addition to the stewardship of the Leader of the House deep into the future to monitor these matters, it is important to note that the government today has no intention, as the sponsor of this future fund, to tie the hands of those who will have to make decisions in the future with unnecessary prescription, beyond that which we have discussed in the second reading debate. Of course, we do not know what will be the exact circumstances of the day. The term “appropriate” will mean the same thing but it might be a different situation when we get there in 20 years.

Progress reported and leave granted to sit again, pursuant to standing orders.