WESTERN AUSTRALIAN FUTURE FUND BILL 2012

Second Reading

Resumed from an earlier stage of the sitting.

MR T.G. STEPHENS (Pilbara) [3.32 pm]: We were talking about the Premier's incompetence before we were interrupted. I was saying that the future fund has to be seen in that context. The house should be cautious about adopting a recommendation from a government that has delivered so much chaos to Western Australia and led by a Premier who has delivered such disasters in his political life. We were rattling off some of those disasters, including his privatisation of the Ord hydro scheme and how that has delivered high —

Mr C.J. Barnett: I didn't privatise that at all.

Mr T.G. STEPHENS: The Premier was absolutely involved in ensuring that the Pacific Hydro team —

Mr C.J. Barnett: It got built. It put hydropower on to the Ord River. It was a good thing.

Mr T.G. STEPHENS: Yes, but it was built on a state asset. The government has given Pacific Hydro endless access to that hydro scheme, which has meant that the price of power for industry players such as Argyle Diamonds as well as Horizon in that area are much higher than would otherwise have needed to be the case. It can never get adequately reviewed and we are left with that legacy. As the government presents us with the Western Australian Future Fund Bill 2012, we remember the way it administered the Department of Education's budget. It has complete disregard for the forward estimates. It left everybody else with the task of having to cope with its budget blow-outs and it delivered to BHP Billiton the opportunity to relinquish its downstream processing obligations in return for just simply starting up the hot briquetted iron Billiton plant. When it exploded and it was shut down and demolished, that was the end of its downstream processing obligations. That was the fiasco that the Premier was intimately involved in.

[Member's time extended.]

Mr T.G. STEPHENS: The Premier delivered the disasters associated with Oakajee. He delivered the increasing disaster associated with the Ord stage 2 project, with its budget being blown out to the tune of $100 million. The Premier failed to deliver priority to the Pilbara power grid, which would so critically and crucially underpin opportunities within that region for the orderly extraction of the resources of that region. Now the Premier has presented us with this proposal for a future fund that we can only look at in the context of the disasters with which his name is so clearly connected. I do not want the house to proceed with this bill without thinking for a moment about the way other people have handled the sort of issue that the Premier says his government wants us to tackle—that is, windfall gains for our current set of circumstances. How do we deal with those windfall gains and how do we secure for future generations some benefit from these current windfalls? I do not think there is any template that we need to slavishly adopt. For instance, I am conscious that Papua New Guinea had a windfall gain when BHP Billiton was forced to relinquish its ownership of the Ok Tedi project. We could call it a windfall gain but it is like Napoleon bequeathing his mistress to the nation. Here we have BHP Billiton bequeathing to the people of Papua New Guinea the environmental disaster of Ok Tedi but in the negotiated settlement that flowed from that, the mine could not be closed environmentally. It was impossible to close it. Having started the thing, it had to keep on with it. BHP Billiton was certainly not going to be left in a situation in which it would be able to continue to benefit from this disaster. The company negotiated successfully with the government of the day to hand over the operation to the country effectively. The royalty streams in the negotiations that flowed included a very large component of funds that flow directly to a company called PNG Sustainable Development Program Ltd, independently controlled and at arm's length from government. That flow of funds resulted in investment opportunities that will look after the interests of the people of the Sepik as well as the people of the province and more widely the people around Papua New Guinea—investments that have been put at arm's length through PNG Sustainable Development. As well as the deployment of some of those funds independently of the political processes, nonetheless there was a very transparent delivery of focusing on the infrastructure needs for transport of the people of the Sepik, the people of the province and more widely around the nation as well as the other infrastructure investments in the health and educational needs of that community. That is the way that that industry tackled the situation. It extracted itself out of an environmental disaster, as shown in the quick potted history of that project that I gave to the house. This government is wrestling with the bill that is now before the house in a different way.

I was also drawing to the attention of the house the Alaska Permanent Fund. That fund illustrates one of the problems with the bill before us. It was constitutionally established as a permanent fund and is managed by a semi-independent corporation after being established by the state of Alaska in 1976. It is associated with Governor Jay Hammond who made himself quite famous for what is considered to be an innovative and successful legacy of tackling windfall gains. It came about as a result of the disdain that developed within the

Alaskan community when the state had that huge bonus of $900 million from the oil fields in 1969. It was inefficiently spent and the legislature was persuaded by Governor Jay Hammond, with real impetus from the community, saying, "Let's put something there for future generations." The oil from Alaska's North Slope began flowing to the markets through the trans-Alaska pipeline system. A permanent fund was created by amending the Alaskan Constitution to make an investment of at least 25 per cent of the proceeds from some of the minerals and oil and gas sales and their royalties, though not all of them. The fund is not solely funded by oil revenue. The fund does not include property taxes on oil company property or income tax from oil corporations. So the minimum 25 per cent is closer to 11 per cent if those sources were considered—11 per cent of the benefits that would otherwise have been flowing from these developments. The Alaska Permanent Fund sets aside a certain amount of oil revenue to continually benefit current and future generations of Alaskans. It also manages the assets of other state investments, but spending from the fund income is up to the legislature. The corporation is to manage for maximum prudent return, and not, as some Alaskans had first wanted, as a development bank for in-state projects. The fund grew from an initial investment of $734 000 in 1977 to approximately $38 billion in October 2011. The fund has various components, such as the permanent fund dividend and the constitutional budget reserve.

The permanent fund dividend is paid out to Alaskan residents as an annual distribution in October. It is created in such a way that if people have breached the provisions of the act—that is, they have become a criminal or accrued certain penalties through court processes—they miss out on the benefits of the fund. So it becomes a bit of a carrot and a stick, and provides a real benefit in social and community order in Alaska. It is constitutionally defined as general fund money subject to legislative appropriation for any purpose, but in practical political terms the public tolerates spending the fund for mostly inflation proofing and for paying dividends, and scant else.

I think that fund is well and truly distinguishable from, and illustrates the deficiencies of, what is before the house. We have here something that purports to look after the windfall gains of the current government and generation, but is at risk of doing no such thing. When a significant bill such as the Western Australian Future Fund Bill 2012 is before the house, an option available is to send it off to a parliamentary committee that can draw on the sorts of experiences about which I and others have spoken. The committee can go back into our history as a jurisdiction in colonial times, and early times as a state and Federation, to see how section 70 of our Constitution set up a fund, if members like, for Indigenous people that did not get spent, and how that was finally resolved through the politics of 1905 debates. There might be people in the house who think it might be too tiresome to go through all our history and the handling of these past issues and draw on the history of other jurisdictions, and that it might be the sort of stuff that would justify a bill like this going off to a parliamentary committee to have a, hopefully, bipartisan report brought back, as most committees often do. That report could draw upon the experience of our history and the experience of other jurisdictions as to how one might more wisely establish a future fund for Western Australia that would avoid the circumstances with which we are faced in Western Australia at present. At present we are cursed with a government led by a Premier with a shocking track record in public administration and whose government is increasingly metro-centric in its preoccupations, whether it is expenditure on games and carry-on, such as a stadium that will look after the interests of metropolitan Western Australia without looking after the budget. It did not even organise an adequate assessment of the cost before it decided to position the stadium in a location that basically eats the future by wasting the current income available to government. That income could and should be available for future generations without the need to go through the charade and rigmarole of a bill like this.

When I was a child, my father often told us simple little stories and aphorisms that have guided me through my life. Some of those little sayings—stories, aphorisms—could be very usefully put to the current government. One of them was very simple: look after the pennies and the pounds will look after you. This government has never been able to look after the pennies since it came to office; it spends like a drunken sailor, without regard for future needs, and then pretends to be interested in the future by delivering a bill like this. It spends money like a drunk on self-promotion and self-aggrandisement, with advertising budgets off the Richter scale, and on promoting the narrow political party considerations of its coalition partner, the National Party. Over the road it builds a palace for the emperor, while pretending, as it spends these funds, that it has an interest in looking after the future of Western Australians. Clearly, with this bill it is doing no such thing. It is a charade and a mask behind which is hiding a profligate government that is wasting the funds of the current generation of Western Australians and not grabbing the opportunities that should be grabbed not only for ourselves, but also for the future, and wasting funds so wantonly on projects that eat the future of Western Australia and rob all Western Australians of the benefits that should flow from being part of a state that is so resource-rich. For those reasons, I think this bill provides the government with the opportunity to have to explain itself.

MR C.J. TALLENTIRE (Gosnells) [3.47 pm]: I rise to speak to the Western Australian Future Fund Bill 2012. I wish to express some concern about the fact that if we are creating a future fund while we still have levels of debt, we are perhaps further reducing our capacity to build infrastructure today, instead putting it off until tomorrow. That is my fundamental concern about this bill.

Other members have touched on matters such as the issue of the bill binding future Parliaments and obligating them to leave this money—$1 billion—aside for many years. I note that three per cent of the seed funding—this $1 billion—is to be achieved from the efficiency dividend, which is $223 million over the forward estimates; and it has been projected that the remaining sum—$820 million—will come from a renegotiation of the iron ore fines royalty. That is how this money will be sourced, but it seems as though we will be putting ourselves into a situation of having to take out extra borrowings so that we can put money aside for savings; it just does not seem to make sense.

That leaves me wondering how the state is going to go about financing major infrastructure projects into the future. If the state's funds are very limited—indeed, we are in a situation of debt—and we are constraining our access to funds even more because we are putting money aside into this savings account, what are we going to use to finance the major infrastructure projects that this state so desperately needs? One possibility the government may be contemplating is a switch to the system of financing that comes about through public–private partnerships. I suspect that that is something the government wants to pursue further.

Members will be aware that through my membership of the Public Accounts Committee, we have begun to look at this issue because it could have been said that, on the surface, the non-clinical services in connection with Fiona Stanley Hospital are a form of public–private partnership. I would say that it is not a public–private partnership because it is simply a service contract with the Serco Group in that case. Nevertheless, in exploring the implications of that agreement with Serco, we learnt a lot about public–private partnerships and what they mean for states. One of the nations that has had the most experience with public–private partnerships is the United Kingdom. I was lucky enough to visit the United Kingdom with the member for Balcatta earlier this year and meet academics and ask just how effective public–private partnerships are. In one sense they can be very effective. In the United Kingdom they had a desperate need to rebuild their hospital system. The United Kingdom has many old hospitals known as Victorian infirmaries built in Victorian times. Those hospitals were in need of urgent renewal, but how was the United Kingdom going to pay for them? It did not want to have debt on the nation's balance sheets so it looked at public–private partnerships, more specifically, private finance initiatives. It was very useful to hear the experience of many in the United Kingdom about how effective that system is.

I suspect this is the option the government is looking at. If we do not have the money available because we are putting it into a bank account for tomorrow for the future fund, what else is left to us to build some of the things that have been promised, such as new light rail lines, Roe 8—that is off the books at the moment—and the tier 3 wheatbelt rail line? What options are available to the state for any of our other major infrastructure needs? That is why I suspect it is this use of public–private partnerships.

As I say, it is something the United Kingdom has looked at extensively. I would like to share a comment made to the House of Commons Committee of Public Accounts, which is similar to our Public Accounts Committee. This committee has looked extensively at the use of public–private partnerships in the UK. One comment I gleaned from Austin Mitchell, the Labour member for Great Grimsby, of the House of Commons, was —

> PFI is nothing to do with value for money: it was a means of getting hospitals and schools and things on the ground without having them on the public sector borrowing requirement. It was off-balance sheet financing of a kind that has brought such disaster in the neo-banking sector. It never had anything to do with value for money because the costs were inherently higher, the private sector bodies were paying higher interest rates, the civil service was not qualified to evaluate the terms they were being asked to inspect, and inherently it was going to be more expensive.

This is my fundamental concern; that is, the alternative arrangement available to the state for financing major infrastructure projects is a more expensive way of going about things. It is true that PPP funding can get the job done; we can get things. The member for Balcatta and I visited a very impressive beautiful new hospital in Scotland located between the cities of Glasgow and Edinburgh, which was built through a private finance initiative with the Serco Group. But it is a very expensive way to go about it. Recently I saw a report that suggests that the United Kingdom already has £300 billion worth of extra costs associated with this PFI program. It is an enormous figure, but it is the sum total of extra costs associated with using PFI to finance major pieces of infrastructure for the Department of Health, the National Health Service, the Department of Education and various other municipal facilities in the UK.

It is interesting that before forming the coalition government in the UK, the Liberal–Democrat leader, Nick Clegg, said that PFIs are a bit of dodgy accounting—a way in which government can pretend it is not borrowing when it is—and that we will all be picking up the tab in 30 years. That is quite a good summary of the concerns I have with this. Yes, we can get the infrastructure there, but in the longer term we are saddling ourselves with some pretty big debts and paying a lot more than need be the case. One of the arguments used to justify the PPP approach was to say, "We'll do a public sector comparator." It makes very good sense to on the one hand have the total figure for the PPP model and on the other hand look at the total cost of the public sector doing it. We have to set up a model to work out the public sector's total cost for doing the same project and make the comparison. It seems very reasonable to do it that way. The difficulty we found with public sector comparators relates to the area of risk. With any major project done through a PPP, we have to factor in the issue of risk, and there are all sorts of risks, whether it is the risk associated with building a hospital or building a freeway through a public–private partnership. We must always look at the risks. Risks that are often particularly high are in the construction phase, with time-line blowouts, or material costs increasing. We found that the formulation of a public sector comparator was particularly difficult because we cannot be precise about the risk. When people want to make the comparison between the public sector comparator and the PPP cost, they can play around with the figures and it is very easy to skew it so that it looks as though the PPP approach is a more cost-effective financial option because we can use risk to skew things.

The other big danger of the PPP route is the problem of contract variation. Anyone involved in building a home knows what it is like to sign an initial contract with a building firm on the basis of the total sum for a new home. Then, of course, the owner has a few ideas; there are a few ways to tweak the design and make it better and come up with something that will work better for the family on the particular block they are building on. Before they know it, the cost has blown out horrendously. Contract variation is a huge issue just at that construction phase. When we talk about public–private partnership arrangements for the construction of a hospital or a piece of education infrastructure such as a new school or new university, we are talking about infrastructure that will last for, say, 30 years. Of course, over the lifespan of the particular project, it will need changes. It will involve changes in technology, especially in the case of hospitals. We can well imagine the changes there. When we were in the UK, we heard about how, over the past few years, the compulsory use of hand gels has come into place. Now it is normal in hospitals to assume people wandering around the wards will use the hand gels. Public–private partnership hospitals in the National Health Service—hospitals that come under the PFI arrangement—made a big thing about introducing hand gel dispensers. They were able to say that it was a contract variation, so whoever let the contract will have to pay for this, whereas in the standard NHS hospitals it was no big deal at all: "We'll put these things in and get on with it." But, as I said, the contract variation problem is enormous and is a way of blowing out costs enormously.

There are some serious risks when it comes to this way of financing our infrastructure needs into the future. That is why I am worried that by constraining ourselves with a future fund and not using what money we have today to build the things we need, we are missing an opportunity. I have to say that I am not afraid to occasionally get into debt when we are building a piece of infrastructure that will serve today's generation and tomorrow's generation. When we expend money on something as important as a new school, through the debt process, we are actually sharing the cost of that infrastructure across generations. That to me seems a reasonable way to proceed—that is, we can sometimes share debt. It is almost a multigenerational equity issue—we have an equity that goes across generations.

Debate interrupted, pursuant to standing orders.

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