WESTERN AUSTRALIAN FUTURE FUND BILL 2012

Second Reading

Resumed from 7 November.

HON LINDA SAVAGE (East Metropolitan) [11.40 am]: When I concluded my remarks yesterday I was commenting on the rate of return on the federal Future Fund, which has fallen far short of what was predicted. I was making the point that I think the predicted rate of return this government is hoping for from its future fund is also very optimistic. The point is that even if we look at the projected return, which I mentioned we were told about in the briefing, I understand that, compared with the cost of borrowing, the difference is likely to be only 15 basis points. That does not seem to me to be a compelling reason to proceed with a future fund. I ask the question: would a household borrow money for such a small return, and why would a government continue with this future fund, knowing that the return from the federal Future Fund has been very disappointing? It does not make sense for a household and I do not see that, in this economic environment, it makes sense for a government.

The sensible position is to pay down debt, as households are doing across Australia. This is also the view of the Western Australian Chamber of Commerce and Industry. In its paper examining the issues of sovereign wealth funds, it makes the point that paying down debt at this time is more important. The CCI provided the figures about the substantial interest bill the state is paying each year, stating at page 12 of that paper that Western Australia’s annual interest bill will rise from $305 million in 2010–11 to $605 million by 2014–15. In raising this, I suppose I am asking: is it realistic for the government, based on the evidence of the federal Future Fund, to expect that it is likely to reach the return of 5.2 per cent that it is claiming is the basis for going ahead with this future fund? The briefing document said that the investment strategy will be passive and, understandably, conservative. I question how even a conservative strategy could be relied on in what are incredibly volatile times, and our capacity to make the predictions that the future fund is built on for the next 20 years.

I will quote from the May 2012 budget papers, not to criticise Treasury but to point out how difficult it is to make assumptions. At page 17 of budget paper No 3 under the heading “Exchange Rate and Iron Ore Forecasting Assumptions”, in discussion about the price of iron ore, it indicates that the precise pricing arrangements for domestic sales of iron ore are unknown and that for the purpose of forecasting iron ore prices it has been set and adjusted based on a range of matters. The important sentence is as follows —

> This price is assumed to follow a linear trend to an estimate of an ‘effective’ iron ore price of $US85/per tonne in June 2016 …

That is what they used as part of the assumptions in the budget estimates. As we know, the spot price for iron ore fell as low as that within four months, albeit it subsequently recovered. The point I am making is that the experts and many mining companies’ CEOs said that they were caught off guard; this fall in the spot price was unexpected. It was not the assumption they had made, based on their experience and the best evidence they could draw on. Although these assumptions in the budget will be reassessed in the mid-term review, I think it shows how very difficult it is to take a long-term view, even when the best minds are brought to bear. That is because we are in very new economic times. Obviously, some of that is the result of the shocking behaviour of some bankers and financial institutions, and it is behaviour that continues today, as was shown by the manipulation of the Libor rate by Barclays bank earlier this year. It is also the outcome of a growth model based on decades of debt-fuelled consumption, some of which was masked by women’s income when they entered the workplace. That took the hard edge off another factor, which was the real stagnation of many wages.

Equally, it is part of the growing pains of globalisation. We are almost immediately affected today by what happens elsewhere in the world. There is no opting out of globalisation. We will have to take the advantages as well as the disadvantages. The current economic situation is probably, at best, unpredictable, and many people would say it is deteriorating. One major reason is that the American economy is precariously balanced because of its debt. We know that at times, share markets can be considered useless as a measure of conditions, as we know from what appeared to be stellar share prices before the 2008 collapse. The Bank of England’s director of financial stability, Andrew Haldane, said recently that today’s conventional economic models are fundamentally ill-suited to analysing the modern networked world because they fail to capture complex actions and interactions. I think many Australians understand that and that is why they are paying down debt. It is a sensible path, and despite being bombarded by advertising and implored to spend, many people are deciding that now is not the time to spend and certainly not the time to borrow more money. Given the current economic environment and the state’s level of debt, I do not think we can make out an economic case for a future fund.

Hon Simon O’Brien: Are you voting against the bill?

Hon LINDA SAVAGE: I would like to comment briefly now on the manner and form provisions. In the briefing, we were assured that the provision in clause 10 that requires an absolute majority of both houses to appeal or amend the future fund act during the 20-year accumulating period was based on the Solicitor-General's advice. I acknowledge that that is an expert opinion and a very sound basis for a government to proceed upon. Concerns about that advice have been raised in the other place. My question now is: why will the government not table that advice? I do not see any reason that cannot be in the public domain. I say that because this was advice prepared for the government, so the government is in effect the client. As far as I understand it, the government can table the advice it received. I would be interested to know why that is not being done. Manner and form provisions are something I have only vague recollections of but I certainly remember the principle that a current Parliament cannot bind a future Parliament. Although the context here might seem quite benign, it goes to the heart of democracy and the right of people to in the future elect their members of Parliament and the right of those members to represent the people and not be hamstrung by a former Parliament. One expert in this area is Anne Twomey, and, by coincidence, on Saturday, 20 October, I went to the Western Australian Constitutional Centre, which hosted a roundtable seminar with the title "The Western Australian Constitution: An Evolving Story". Anne Twomey attended that seminar, and I spoke to her. I have read some of her work, and also some work that has been done by Peter Congdon, much of which, I admit, was beyond my complete understanding, because this is a very complex area. I will begin by reading from an article by Anne Twomey that has been quoted in the other place. The introductory paragraph states —

> Does anyone really understand manner and form? This was the question that George Williams put to me when asking me to give this paper. The answer has to be 'very few people indeed'. Why? There appear to be two reasons. The first is that most lawyers have been brought up on a diet of the Commonwealth Constitution and assume, incorrectly, that State Constitutions function in the same manner. This is largely the consequence of Law Schools focusing almost exclusively on the Commonwealth Constitution and failing to teach 'manner and form'. The second reason is that until recently, there were very few entrenched State constitutional provisions. Those that existed covered major issues of governance, such as the existence of a Legislative Council, which were not likely to involve issues relevant to the practice of the average lawyer.

She also makes the point that as the number and range of purportedly entrenched provisions increases, this will be an area that receives greater attention. I have limited time, so I will just paraphrase what I understood of her explanation in that article. Again, this is my understanding, and I do not hold Anne Twomey responsible for any of the mistakes that I make. The basis for the manner and form limitation is found in section 5 of the Colonial Laws Validity Act, which was replicated in section 6 of the Australia Act 1986. This clause—these are my words—was in a sense the cutting of the cord with the British parliamentary system and meant Australian Parliaments would be independent. Manner and form provisions were valid, but only in a law "respecting the constitution, powers or procedures of the Parliament." So section 6 is, as Anne Twomey said, not directed at the validity of the proposed laws, but rather to the force and effect given to laws that have been made by a state Parliament. So the question is not whether there is a power to enact the law—there clearly is the power to pass and enact the Western Australian Future Fund Bill.

As I understand the argument being put by the government, it is as follows: because clause 10 attempts to restrict the power of Parliament, any law that attempts to change or repeal the future fund, even if it does not mention clause 10 directly, would be an implied repeal of that section and therefore would be a law about the powers and procedures of the Parliament, because clause 10 is about that subject. This is just a thought that I am putting out there, and perhaps the minister would be able to answer it. But it seems to me, on the basis of that argument, that it could mean that we could make any law about the powers of Parliament by including a section saying that it needed a special procedure to amend that law. I just put that out there, and I would be interested in an explanation about that.

There is another issue that perhaps the minister could provide an answer or comment on. The Western Australian Future Fund Bill seems to be based on the assumption that the Royalties for Regions Fund Act, and some parts of the Financial Management Act, will continue in their present form for 20 years. Is that a correct assumption? If that is a correct assumption, does it mean that amendments to those acts could fall foul of the entrenching provision in clause 10? Is this is not a correct assumption, the next question would be: could amendments be used to avoid the intended effect of clause 10? That is all I am going to say about the manner and form provisions, and I would, as I said, be interested in a response. The point is that, at the end of the day, in a sense this is academic. This bill will pass. So it may never be necessary to answer that question.

Given that, I want to make another point. If it is such a good idea to have a future fund, we should not need to have a clause in the bill to protect the future fund from future governments, either Labor or Liberal–National governments. The implication of the government in this bill is that no future government can be trusted to agree that this is good and prudent legislation and policy. So I will say to the government again: please table the advice. I think that the government is in a position to waive any privilege and table that advice. That would enable those of us who are interested in understanding this manner and form provision to see that advice. The alternative would be to remove this clause, to pre-empt any future issues that could arise, such as the ones that I have mentioned, and rely on the fact that this is a good idea, and that future governments, and of course the electorate and the community, will see it as such and would themselves be vocal in their opposition to its being tampered with.

Having said that, I now want to move to the third matter that I said I would speak about in relation to this bill. The purpose of the future fund is that any surplus funds or any additional borrowed money will be spent for the benefit of future generations. The income from the future fund, which will begin to flow in July 2032, will be used for public works and other public infrastructure. The question that I would ask, given what I think is important and where I think government can actually have an influence in the future, as opposed to hope to have an influence in the future, some 20 years from now, is: where does the future really begin for those future generations that we are talking about? Of course, for human beings, their future begins at the moment of conception. Their future is in their DNA. That future is affected most significantly by what is experienced in the womb and in the critical early years.

I will quote from the Royal Australian and New Zealand College of Psychiatrists, which has described it in this way —

> There is now unequivocal evidence that early experiences during the period from birth to five years of age determine brain architecture and that, once formed, this provides the foundation for all future learning, behaviour, and physical and mental health. While genes determine when neural circuits in the brain are formed, early experience shapes how that formation unfolds.

So, differences and inequality begin at the moment of conception and are very much affected by those early years. What do we know? Some of us will be taller, some of us will be more attractive, and some of us will be more, or less, vulnerable to diseases, both physical and mental. We also will have our own personalities, which play an important part in our lives. We will have different abilities—some of us might be more musical, more intelligent or more empathetic. All of this is affected very significantly by the early years and the quality of care and relationships we experience. I quote the words of Professor Fiona Stanley and Michelle Scott, who wrote in a letter to all members of Parliament in April 2010 —

> Extensive research confirms that early life experiences have a major impact on the development of the brain and play a central role in favourable or unfavourable health and developmental outcomes for children.

This is an area in which a state government can have some influence on the future—not on the world economy, not on the price of resources, and not in a great deal of the legislation that we discuss, but many of the issues that we discuss time and again, such as education, health, mental health and corrective services, are areas in which the government can have an influence on the future. This is the policy future that we should be seeking to achieve.

In this sense, as I have said on many occasions, early childhood is built into us. Research published last year in *Psychological Science*, in an article titled "Babies Brains and Law and Order", indicated that developmental inequalities set in almost immediately in circumstances that are adverse, and in fact genetic potential is held back. That is from birth and, for some, in the womb. That is the evidence, along with so much other data and long-term studies as well as commonsense, that demands that we reconsider the way we are doing things. Again it is understood and proved that children who have very adverse childhoods show high levels of violence, antisocial behaviour, mental health problems and school and economic underperformance, as well as poor physical health. Politicians in this house talk often about antisocial behaviour, its cost to society and its real economic cost. We talk about the ballooning health budget. Why are we not taking some obvious steps to rein in those costs when we know we can? Why are we not investing in something that will influence the future? Children and adolescents in this state receive directly less than six per cent of the health budget, yet make up 25 per cent of the population. I do not need to remind members that I was recently told that all waiting lists for child development services had increased from one year ago, and there is now an average wait of fourteen and a half months to see a paediatrician. That is the future, today. That is when obesity, mental health and learning delays begin, and when they should be dealt with—today. When we watch those babies subject to protection orders or with poor parenting, everyone knows the struggle they will face. Those children and others who do not have good enough care and nurturing to develop, for example, the foundations of language will carry those consequences throughout their lives.

What are some of those consequences? In an article published this year by the Australian Institute of Criminology, it was revealed that one of the consequences of poor literacy is reflected in data that shows that more than 50 per cent of adolescents in the justice system have language impairments. So significant is the link that in some parts of America, as I have previously said in this place, US prison buildings are aligned with year 3 literacy testing. This is the result of what started long before. We know that most children have undertaken the astonishing task of learning the fundamentals of their own language long before they reach school; 85 per cent of language is established by the age of five, yet in this state around 33 per cent of children start school developmentally vulnerable in language—the precursors of language and writing. By the age of two, the difference between a child who has had adequate language spoken to them to learn their own language, and a child who has not, can be hundreds of words.

I urge members who are interested in health budgets, education budgets and corrective services budgets to look at the work of Hart and Risley. They carried out a longitudinal study of parent–child talk in families over the period of a decade. They found that variations in children’s IQs and language abilities are relative to the amount parents speak to their children. Children’s academic success at ages nine and 10 is attributable to the amount of talk they hear from birth to the age of three. The parents of advanced children talk significantly more to their children than do the parents of children who are not as advanced. With few exceptions, the more parents talk to their children, the faster the children’s vocabulary grows. This sort of evidence shows just what is built into the brain and cognitive development. We know what the future will be for many of these children who do not have a good enough start; we have all this data. Of course, it is not hopeless; once a child enters the school system, or becomes a teenager, or at any stage of their life, we can intervene and provide services. Unfortunately, this is often after problems arise—problems that can be prevented. We know now that once a child has fallen behind, most do not catch up, and that is why teachers, such as the principals of Challis Primary School and Roseworth Primary School, have led the way through their focus on the years before children arrive at school. The cost of poor literacy alone, for an individual and society, is enormous.

I have referred before to a report by the Industry Skills Councils titled “No More Excuses: An Industry Response to the Language, Literacy and Numeracy Challenge”, which was published last year. It showed that literally millions of young Australians do not have adequate literacy, language and numeracy to undertake training. That is in reference to productivity, and productivity is a word that gets thrown around a great deal. I read recently that some people feel that the big drivers of productivity are no longer things we can look forward to in this economy; perhaps the floating of the dollar and some of the very significant Hawke–Keating reforms would fall into that category. What we really need to do is find other ways to enhance productivity. What could be more crucial to productivity than doing everything possible to ensure that the future workers of this country—of which we need every one we can possibly get—are able to be productive? People who can contribute are an essential part of any call for greater productivity.

What can be done to change the future for those children who are born into families of high social need and intergenerational dysfunction or who, for any other reason, are not getting a good enough start? Research published last year in *Psychological Science* shows that developmental inequalities set in almost immediately in adverse circumstances; the child’s genetic potential is held back. Again, this is the sort of evidence that demands action. There is something we could do. We could institute a family home visiting service or a nurse–family partnership, such as exists in the United States. Under that scheme, specifically trained nurses visit throughout pregnancy and the first two years of a child’s life, on a very, very regular basis. That program has actually been identified in the Commissioner for Children and Young People’s report “Building Blocks: Best practice programs that improve the wellbeing of children and young people — Edition One”.

I would like to talk a little about what has been going on in the US, because what they call the Nurse–Family Partnership is considered a model for early intervention. It is aimed at first-time mothers, who are considered the most vulnerable, and particularly targeted at teenage mothers living in poverty and experiencing a range of social and health issues in high crime areas. This program has 30 years of evidence to back it up, and it is because of this that it has been picked up in other places such as the UK and South Australia. It involves a preventive program of structured home visiting for young, first-time mothers, provided by specifically trained nurses from early pregnancy until the child is two years old. It provides high-intensity support to the young women, building trust, promoting the need to look after the health of their unborn babies, promoting attachment, sharing skills and information about what it is to be a parent, and providing a gateway and helping hand to a range of other services. The evidence shows that it works.

Recently, US President Barack Obama signed into law legislation that will provide $350 million for the Maternal, Infant and Early Childhood Home Visiting Program, and this is the third year it has received government support. It has been evaluated and it has been shown to improve child health, development and school readiness, family self-sufficiency, maternal health and positive parenting. It has also brought about reductions in child maltreatment, juvenile delinquency, family violence and crime. All those problems cost societies—including the US and this state—enormous amounts of money. We do not have a comparable program in this state, and I know, because I spend a lot of time asking the questions and getting the data. We have Best Beginnings, but it is neither widely available nor run by specifically trained nurses. I have asked questions about this during question time and on notice. As at June 2012, the total number of FTEs for Best Beginnings was 25.1; in August 2012, it was slightly less at 22.9. At that time, none of the positions was held by qualified child health nurses. It is clear that no specific qualifications are required, unlike those required for nurse–family partnerships or family home visiting. I am not saying that good work is not being done, but it follows only a four-day course delivered by the Department for Child Protection for Best Beginnings employees. I have been told what the qualifications of some of those employees are. Their qualifications include bachelor of physical education, diploma of education, diploma of teaching, Bachelor of Science, Bachelor of Social Work and diploma of early childhood education, et cetera. I am not saying that those are not excellent qualifications. We are talking about families in which there is intergenerational dysfunction; no doubt the parents were poorly parented. We need the best trained child health nurses backed up by a range of other services. We must rapidly move to increase the 22.9 positions. In November 2011, the Best Beginnings program was involved with 270 families in the metropolitan area and 58 in non-metropolitan areas. I have been told that in September 2012 there were 354 active Best Beginnings cases. Obviously, there can be difficulty filling positions. The position in Kununurra was first advertised in March 2012. It was readvertised to increase the salary range from $52 000–$57 000 to $71 000—I do not know whether the position has been filled; as far as I know it has not—which is still a relatively low salary. In answer to questions I have asked, there has been reference to an enhanced home visiting program. Despite numerous questions, I have been unable to get to the bottom of that. I think it involves child health nurses taking on duties that are additional to their substantive position with certain families. Regardless, at the end of the day, the funding for Best Beginnings was only $1.4 million in 2010–11 and $1.8 million in 2011-12, which is nowhere near enough. I put on the record that Hon Robyn McSweeney takes this issue extremely seriously. I also put on the record my hope that she is able to use her position in government to fight for more funding and to somehow make better understood the link between what is happening in the womb and in the early years with what governments and Parliaments talk about endlessly like a broken record—namely, education, developmental delays, corrective services and mental health. Do they not understand that we could be talking as we have for decades notwithstanding the neurological evidence, long-term studies and economic data that reflect what investment does? We could still be talking in the same way in another 10 years. This is not the policy future. As there are no short-term rewards, it might be the political future, because it is easy for governments to say that there is a problem and that they will solve it, and for oppositions to ask why the government has not solved that problem.

Hon Robyn McSweeney: I have increased the budget by 57 per cent.

Hon LINDA SAVAGE: I did acknowledge the minister's efforts at the beginning of my speech. No doubt she is facing a sea of opposition, budget constraints and not enough understanding about the connection between a solid foundation and what we get in the end. Members understand that a house without foundations is vulnerable because it could crumble or be blown over. Do they not get it because children do not have voices or because there is no short-term political reward? To make real progress in this area, we must be free of the artificial four-year horizons or forward estimates. This needs to involve an overarching bipartisan strategy, which I have spoken about on numerous occasions. Ministers must work together. It is my hope that one day a Premier will take on and drive this portfolio—it extends across many budgets—which would show vision for the future. It would be the future fund in real time. Without that start and without giving babies and children a bedrock of solid social and emotional skills, many children, quite frankly, cannot aspire to a life of work stability and good parenting when their turn comes. When he visited Perth, Clyde Hertzman spoke about the trajectory for the child who does not have good parenting to the troubled teenager, to the inadequate adult and to that adult's underemployment and the related costs that go with that. That is what is reflected in some of the massive costs in some areas of the budget. We absolutely must try a new approach to break this cycle. As I said, the problem is little political reward, because results in the future do not sit well with the short-term nature of politics. For children in the most adverse and challenging situations, a failure to do this will effectively write them off. It is active neglect by government. This future fund will be far too late for them; in fact, it is irrelevant to them because they need resources now. If the capacity exists, they should be invested in now. The future fund, as I said at the beginning, is attractive and vision-like, but it does not add up to me economically. In some ways, a future fund is about a legacy. It is what a government does when it wants a legacy in the future. When I was thinking about this issue, I was reminded of the triumphal arches—I am not sure whether members are aware of these—that were built in Roman times to commemorate victorious generals, significant public events or someone important. I suggest to the government that it build itself a triumphal arch. Maybe it should put aside $100 000 or $200 000 to build an arch that will serve as its legacy and by which people will remember it. The future fund does not add up financially at this time because of the state's level of debt. We know that we can do something tangible now for the future; the government should look at how it can use those funds today to genuinely improve the future.

The DEPUTY PRESIDENT (**Hon Jon Ford**): I remind members that we are dealing with order of the day 10, the Western Australian Future Fund Bill 2012.

HON MATT BENSON-LIDHOLM (Agricultural) [12.18 pm]: I welcome the opportunity to speak about the Western Australian Future Fund Bill 2012. From the outset, I put on the record that I support the notion of a future fund. However, I note that superannuation funds also endeavour to do something similar, but obviously at an individual level. If the government's future fund bill is passed—I have no reason to doubt that it will be passed—my hope is that it delivers much for the long-term benefit of the state. I am reminded by my learned colleague Hon Ed Dermer about countries such as Norway, which has a sovereign wealth fund that is probably the envy of the rest of the world—that is at a national level as opposed to a state level. It has been very successful. However, that is an issue for another day. I doubt, however, that the Western Australian Future Fund Bill will ever match the benefits delivered by, for instance, the now closed parliamentary superannuation scheme that is enjoyed by a small and select group of members of Parliament in this chamber and no doubt elsewhere. Some of us—or should I say most of us—envy the benefits of the old parliamentary superannuation scheme. I hope that in the fullness of time our future fund at the state level becomes the envy of other legislatures in much the same way as it may well apply at a personal level in this chamber. Again, I certainly have my doubts. I do not believe that the proposed future fund has the capacity—this is the point that Hon Linda Savage was making—to deliver anything like the returns that a number of other global sovereign wealth funds have provided. A number of other members who have spoken on this bill have also made that point. It is also acknowledged in many business circles, as I will mention a bit later.

So far we have had significant contributions by members of the Standing Committee on Estimates and Financial Operations. I certainly enjoyed the comments of Hon Ken Travers, who has quite a handle on this issue, more so than I think anybody else in this chamber. I also enjoyed the comments of Hon Ljiljanna Ravlich and Hon Philip Gardiner. All three members made one particular point that I need to also mention; that is, the fact that the biggest problem in this bill and with the structure of the bill lies in the issue of borrowing to invest. Hon Linda Savage discussed that very issue and alluded to the issues that may well in due course stem from the retention of the royalties for regions program in its current format. Your good self, Mr Deputy President (Hon Jon Ford), also made a very significant contribution. I believe the focus of your contribution was largely on social infrastructure. I think the point that you made was that it is all too often forgotten when discussing how societies can or cannot benefit from an economic stimulus or upturn. You made much of the issue of public housing, as you did again today in a different context, and a range of other associated social infrastructure issues that impact significantly in the bush in the areas that you, a number of other members in this chamber and I likewise represent. The point is that the real future for those living in regional, rural or remote parts of the state needs urgent attention and a meaningful contribution from the state rather than putting dollars away for a rainy day when significant state debt levels are the big issue. That is my principal concern.

I was reminded of some of the smaller communities in parts of my region—the Agricultural Region—where, for instance, domestic water supplies are a cause for much concern. I particularly would like to put on record my concerns about a little community slightly east of York by the name of Kauring. Royalties for regions could have a real impact there. When we are talking about billions of dollars coming out of the royalties for regions program, money could obviously be put into better productive use and help with the physical infrastructure of this community, as well as assist the people and deliver to those communities that have been long suffering. People living in such areas deserve much more than they are getting from the state at this point in time. I note Hon Mia Davies stood and as per usual read out a litany of things that the royalties for regions program delivers. It would be nice if she stood one day and said, "This is what we haven't delivered. This is what we would like to deliver, but guess what? State debt levels are getting so darn high that there is no capacity to do the very things that communities are asking for." A bit later I will give a rundown of the various issues in regional, rural and remote parts of Western Australia that I believe need to be addressed.

At the same time, talking about the future of little communities such as Kauring, I was also thinking of the state's record on education issues, especially the treatment of children with disabilities. The support levels in the bush are simply not adequate. As a former educator, I am often reminded of the lack of adequate education support staff in our schools and even the schools at which I taught, which were in rather larger regional centres. In many instances, the response from parents is very simple; they move. They vote with their feet. They either move to the big regional centres or head to Perth. That has a snowballing effect inasmuch as sooner or later the Minister for Education and previous governments, not only the current government, react very quickly; they assign a dollar value to it: "It is not returning. It is costing us too much, so what do we do? We close the school down." That does not benefit anybody.

Hon Ed Dermer: I remember visiting Rocky Gully Primary School many years ago.

Hon MATT BENSON-LIDHOLM: It is interesting Hon Ed Dermer should say that, because he could no longer do that because it no longer exists. Kids in that area are bussed across to Frankland. That was a very sad day.

Hon Ed Dermer: It was a very good school, as I understand it.

Hon MATT BENSON-LIDHOLM: It was a very good school. Some outstanding students have come from that part of the world. I continue to make the point that kids do not ask their parents to be born and bred in any particular part of the state. They have no say in it. Whether it is Broome, Binnu, Busselton, Bassendean or wherever else, that is not a decision that they can make. However, all children, no matter where they are born and no matter who their parents are, have a right to the highest possible level of state education. That education should never come with strings attached. There has to be some sort of geographic equity, and this is the responsibility of the state and the government of the day. This is perhaps my interpretation, Mr Deputy President, of your comments on physical and social infrastructure and making a case for people who do not have the capacity to benefit as much as other people in our community do. All too often schools in the bush are closed or learning programs are cut and choices reduced.

Education support and school psychological services are severely limited. Increasingly more and more children, many in the early years, are being bussed great distances because for some strange reason we have to save money. We cannot afford to invest in this greatest investment of all—the education of our young people. If education is done appropriately, my contention is that it is the best future fund that we can possibly have. We should invest in education, invest in our kids and invest in training, and cut this nonsense of scrimping and saving and closing down schools and reducing services. Not so long ago, I made the point in this chamber that education officers in some of our district offices are sitting at their desks right now. There is no capacity for them to go out and service schools anymore because a three per cent efficiency dividend is in place. We are told that the schools do not receive any benefit whatsoever from their district education, but front-line services and the kids themselves do not lose out. Give me a break.

Hon Jon Ford mentioned the term "smokescreen" in relation to debt issues. I am sure he would agree with me that there is yet another example of the point he was making when we look at the issue of education, particularly with the support services that I have just mentioned. Support services are being hit hard and we have only to take a drive through certain select communities—this is very much the case in parts of the Agricultural Region, especially the midwest—to notice the kids who are not at school. Where are the truancy officers these days? What about the police and community youth centres? I tried to find out what was happening with PCYCs by talking to some of my colleagues recently. No-one knows. As most of us would acknowledge, the services are starting to disappear. Where are school support services? Why not give our kids and families a real future and return to services such as the provision of the old youth education offices? We are not content to do that. We are just content to remove those sorts of services and apply some sort of efficiency dividend cut that benefits nobody.

I will return directly to the issue of the future fund. Central to the debate thus far has been the point that we need to address our growing debt levels before enacting a future fund program. This is the real issue, and certainly this point was made by Hon Linda Savage on a number of occasions. We also need to ask whether this is the appropriate time in the current trade cycle to lock away dollars to spend at some future point in time. I would suggest not. Let us put dollars away in the good times if a future fund is to have real meaning and relevance. The point I made right at the outset was that currently we are borrowing money to invest money; basically, that is what it amounts to. If we borrow money to invest money and there are further economic downturns, a small open economy like Australia does not have the capacity to move against that, and that future fund will become a liability. There is no future in that sort of future fund.

Hon Ed Dermer: It is inherently a high-risk strategy, I would have thought.

Hon MATT BENSON-LIDHOLM: It very much is, Hon Ed Dermer. This is where I would agree with Hon Philip Gardiner in his discussions regarding the Keynesian approach; that approach can be useful in downturn times, but spending needs to be targeted and directed at productive infrastructure and programs such as Building the Education Revolution of a couple of years ago, which most members would agree was an unqualified success. Unemployment levels will either drop with this sort of stimulation effect or at worst will not increase as spending increases and long-term sustainable jobs and productive enterprises get the boost that they require.

I now want to make mention of some issues I have with the royalties for regions program. The big issue I have with all of the government's plans is that the future fund is largely to be funded by surplus funds from the royalties for regions program. I will quote a number of examples in which royalties for regions funding was either promised or could be utilised to improve the lot of people living, especially in the Agricultural Region, but I dare say also in the Mining and Pastoral Region and certainly in the South West Region. But the government cannot go to the voting public and say that it will put in place a royalties for regions fund, put an amount of money in it and then, for convenience purposes, four years later turn around and say it is going to cut that fund by something like 10 or 20 per cent and allocate that amount of money to a future fund and hide it away for future generations. I will tell members that right now in the regions there are people suffering and doing it tough. There are problems with tier 3 railway lines, and I will mention them shortly, but this is my big concern about royalties for regions.

Hon Ed Dermer: It sounds like sleight of hand.

Hon MATT BENSON-LIDHOLM: The government is changing horses midstream, member.

Hon Ed Dermer: The regions are being robbed of the royalties for regions money.

Hon MATT BENSON-LIDHOLM: This is very true, member. The other point to be made is that this is against much advice provided to the state government. Interestingly, the Regional Development Trust's annual report reveals that the trust has advised the government twice against using royalties for regions funds, but the immediate past and the current Treasurer, no doubt in conjunction with the Premier and maybe with the sanction of the cabinet, will have their way if and when this bill is passed, and that advice is going to be ignored. The government is taking money away from the bush. The royalty for regions program will be funding most of this future fund. This is wrong. Deputy President Hon Jon Ford was certainly correct in talking about a smokescreen, and surely non-metropolitan Western Australia has been hoodwinked. All the Treasurer could offer was a recent comment to the effect that provision has been made —

[Quorum formed.]

Hon MATT BENSON-LIDHOLM: I was saying before that call for a quorum that the Treasurer's only comment in relation to the non-metropolitan section of our community being hoodwinked is that he believes provision has been made to make sure that the regional development minister of the day, by legislation, is involved in the decisions around how the money is spent. How reassuring! I still make the point that royalties for regions is funding this future fund, which is a nonsense. That is not the most comforting thought for people living in rural and regional parts of Western Australia, purely and simply because the services that have been provided over the past four years—if what Hon Mia Davies said is correct—will be cut by something to the tune of 20 per cent. The question then must be: are we witnessing the slow and inevitable demise of the royalties for regions program? That question was raised by Hon Linda Savage. With this legislation, I believe that to be the case as money earmarked for the bush is now to be locked away. State debt is heading northwards and it is predicted that in the next year or two it could be anything from $22 billion up to $24 billion. A number of different figures have been used, and I think the bell I hear is drawing to the attention of the house the significant issues!

The DEPUTY PRESIDENT (Hon Jon Ford): The member is introducing a debateable point—get on with it!

Hon MATT BENSON-LIDHOLM: I thank you, Mr Deputy President, for your advice; it is sage advice indeed.

Money earmarked for the bush is now to be locked away when the cost to service that debt is likely to be greater, in many respects, than the money the future fund is likely to make. In the meantime, many industrial and social infrastructure programs are crying out for increased funding.

In support of the projects I am now about to mention, the Chamber of Commerce and Industry of Western Australia is on record as saying—a point also made by Hon Linda Savage—in May 2012 that putting funds away for the future is a luxury our infrastructure-strapped state did not have.

Hon Simon O'Brien: Who said that?

Hon MATT BENSON-LIDHOLM: That came from a release from the Chamber of Commerce and Industry of Western Australia in May of this year

Hon Simon O'Brien: Did you see what Moody's said in their release on the same day?

Hon MATT BENSON-LIDHOLM: I think that if the minister checks the facts, he will see what I said is very much the case.

I indicated that a number of infrastructure programs, be they social, physical or environmental, are really crying out for support in our communities, especially in my part of the world. I suppose the most significant issues of all—this house has reported on this through the relevant standing committee—are associated with tier 3 railway lines and the transportation of grain. Money is required. Country roads, particularly in areas such as the wheatbelt, the south west and around regional centres such as Bunbury and Albany, are likewise in a state of disrepair in many respects. We have also seen the dismantling of the Aboriginal education directorate and a significant reduction or diminution of services provided by the Department of Agriculture and Food. On energy issues in Geraldton and the midwest, stage 2 of the 330-kilovolt power line from Eneabba to Geraldton is still not being promoted by this government, despite the fact that four years ago before the previous election the deal was signed, sealed and almost delivered.

The provision of aged-care facilities in the bush represents a big problem for government; there is a chronic shortage in the bush. Likewise, there are significant problems providing domestic supplies in many rural communities. Enough is not being done to address the very pressing issue of salinity problems in our farming communities. The productive capacity of the Western Australia wheatbelt in the years to come will suffer significantly from disinvestment in that area.

Other issues are mental health services, women’s and men’s refuges, and alcohol-related health issues, particularly in parts of the midwest. There are also very, very significant issues in Aboriginal communities with ear and eye infections and other associated diseases. There is a massive doctor shortage in the regions and overcrowding in our prisons. The issues that prevail in the Agricultural Region that could do with the sort of money that is now being put aside into some sort of a future fund would decree that this decision at this point in time with the sort of debt levels that Western Australians have is a bad decision.

Increasingly, economic commentators are taking up the issue of the viability of the government’s future fund. I will quote from an article in *The Australian* by Tim Clarke and Rebecca Le May on 2 November this year in relation to this very issue. They say —

> The mining-funded future fund was the centrepiece of the government’s budget earlier this year, with then-treasurer Christian Porter saying the state planned to spirit away $4.7 billion to state coffers in the next two decades.
>
> But as mining profits have slowly decreased in recent months, the priority to save for a rainy day has also diminished.
>
> “The future fund is becoming a less attractive proposition than it was even in May when the budget was announced,” Mr Phillips said.
>
> “There’s been a downturn in the WA economy and balancing the budget, which has become the Holy Grail of modern Australian politics, is difficult to achieve.
>
> “They don’t want to be committing other funds to the future fund. The atmosphere and context for that has changed.”

Purely and simply this decision to go down the pathway of putting in place a future fund, given the current debt levels and the point we are at in the trade cycle, would appear to be a bad decision by this government. At the very worst this decision should be put on hold.

I will make a few concluding points. The principle of a future fund is something that I do not disagree with. As I said at the very outset, it is like a personal superannuation fund. But when we are talking about issues such as the massive debt levels that this state is running up, the incapacity for us perhaps in the long term to continue to service a burgeoning state debt is a point that I really have great difficulty comprehending. With that in mind, given the downturn in the economy, given the uncertainty of the future that exists in this state and given the problems with the world economy and the fact that our iron ore prices are heading southwards, these issues would seem to fairly and squarely indicate that a future fund at this stage is poorly timed.

The opposition is committed to royalties for regions, as I have indicated before, but not to dismantling it by diverting funds into a savings account that has no real guarantee. As I indicated before, the government, certainly through its alliance partner, went to the people of Western Australia and went to regional, rural and remote parts of the state promising to put in place a royalties for regions program that the opposition supported. Now what are we seeing? We are seeing the siphoning off of significant volumes of that money so that it can go into a future fund that one day may benefit some people. But in the meantime the sorts of programs that I talked about, such as the tier 3 railway system that was promised as a National Party program that would be supported, all of a sudden are consigned to the too-hard basket.

Hon Ed Dermer: We’re seeing a sleight of hand.

Hon MATT BENSON-LIDHOLM: We certainly are, Hon Ed Dermer. The government has promised one thing and delivered something completely different.

I reiterate the thoughts of the Chamber of Commerce and Industry of Western Australia, which is on record as saying that putting away the funds now when debt levels are moving northwards is a luxury in an infrastructure-strapped state that has no capacity to be sustained.

With those points, I will simply end by saying, as has been pointed out before, that we will support this bill but, obviously, in the fullness of time, given the sorts of economic conditions that prevail, this bill is inappropriate.

HON LYNN MacLAREN (South Metropolitan) [12.47 pm]: The Greens (WA) very clearly support the notion of taking a portion of our profits from the good times and investing it for years when the times are lean. If we are thinking about the next generation today, that is actually core Greens' business. In one sense it is a great thing to see the government coming on board with the central aspect of our political debate. We have been strong advocates of a sovereign fund in the federal arena that is similar to the successful Norwegian model that has been mentioned several times during this debate. I wish, though, that we were having a debate about what to do generally with some of the profits of the boom, not just a debate focused more narrowly on this specific Western Australian Future Fund. I mention that because I would really love to talk about housing for migrant communities, having just recently attended an action in Mirrabooka that highlighted the lack of housing for these families and for large Aboriginal families. If we could have a debate on how to invest the profits of the boom into housing, I would be there, gentlemen. I would be arguing with passion because only this morning several families were in tears because they have not been able to find secure accommodation in our very tight housing market on their very low incomes.

This should be a broader debate about whether or not to spend our scarce financial capital on the massively expensive Elizabeth Quay project. Bill Johnston, the member for Cannington—an electorate in my South Metropolitan Region—raised that issue only this morning and mentioned that it was a poor choice by this government recently to spend millions of dollars on that project. This should be a broader debate about whether this government should have committed to a massive publicly funded, and not particularly important or necessary, football stadium that will bring hordes of customers to an expanded Packer-owned business but will potentially involve little or no investment from that business. A growing number of commentators and, indeed, a key ratings agency now are somewhat concerned about the WA government's finances. Obviously, this is partly a function of our net state debt. Two key things that the Greens (WA) will be pushing for by way of state fiscal responsibility will be the cancellation of the Elizabeth Quay project—we will stop that where it sits—and the deferral of this proposed new football stadium because these are choices that do not make sense when families are struggling in the way that I saw this morning. Those are only two examples. We have had several days of debate during which members have given better examples of expenditure. That is not to say that we are arguing for a reduction in net state debt, just that this government has done a poor job in prioritising its infrastructure spend and therefore has put unnecessary pressure on our net state debt.

There is a bit of panic about WA's finances but apart from being about net state debt, this is about iron ore prices, which is something we cannot control. Significant changes to the iron ore price do make a significant difference to our income and our economy, or at least give a sense of confidence to our economy. Just because successive governments have placed a big percentage of our economic eggs in one basket, we find ourselves intricately linked with the price of iron ore. That exposes us to significant uncertainty in the economy. Frankly, we have not managed to deliver a resilient economy, even though we have had many natural resources with which to build that resiliency. We are also experiencing continuing uncertainty about the impacts of climate change and peak oil. Members will have heard this year, last year—indeed, for many years—that we would invest in infrastructure that future-proofs us to the impacts of climate change and peak oil.

The key question for the Greens is not whether the future fund is a good idea. The big question is whether a future fund or, indeed, any government-supported investment for the future, will build WA's resilience to future climate change, peak oil and/or these economic shocks. We should be looking to mechanisms to future-proof this state. Clearly, the future fund has little, if anything, to do with WA's resilience to climate change, and the same with peak oil. In fact, in the case of peak oil, we are potentially putting ourselves in a more dangerous situation by putting aside the seed capital for this future fund when we could have used that money to get moving on, for example, a substantial and urgent investment in light rail for Western Australia. Does the future fund make us more economically resilient? In one sense, obviously, yes, because we are putting money aside for the future. As any family with a budget knows, we are more resilient when we have a little locked away. In many ways this future fund does nothing to make WA truly economically resilient and it can be argued that it simply puts future generations on a royalties stream from the income of the current generation. If this is to be the case, we must ensure that the royalty stream actually meets triple bottom line criteria, unlike this current scheme that is proposed.

Making WA truly economically resilient would involve investing more in diversifying WA's economy. We believe it should be done closely in tandem with the need for us to steadily and deeply drive down our greenhouse gas emissions. An example here might be the significant and substantial investment in concentrated solar thermal to produce renewable baseload power. That would be a boost to our engineering and construction sector, of course, but also to our research scientists because this is still leading edge technology. Why are we in Western Australia not part of developing the global expertise in this area—expertise we could then be part of selling to other developing or developed countries and potentially providing it as a form of foreign aid? I note that Greens Senator Scott Ludlam is arguing that Kalgoorlie should host such an investment, given the great solar resource that exists there and the capacity to place the facility on relatively degraded formerly mined land. Investments such as light rail, which I have mentioned, and concentrated solar thermal would make significant contributions to dropping our emissions profile, reducing our reliance on oil and building alternative economic progress in WA. These things would be able to deliver on the words in the second reading speech, which I will quote because it is a very lofty goal. It states that the future fund —

> … is a financial gift, a transfer of wealth generated from finite resources, from present Western Australians to their children.

I love it. I support it. It is a great quote. It will be challenging to make investments that WA needs to build its resilience and also to put aside the money that is necessary in this tight future fund. This government has since headed off in a direction of substantial but ultimately low priority investments such that our debt is significantly higher than it was just a few short years ago. Now we are looking at the possibility of a significant reduction in royalty revenue. It will be challenging to put aside that seed capital for this future fund and to begin in earnest to make the investments needed to future-proof our economy. It will be challenging but, on balance, it should be supported. We therefore support this bill.

HON SIMON O’BRIEN (South Metropolitan — Minister for Finance) [12.58 pm] — in reply: I thank honourable members for their contributions to the second reading debate. I note that we have a supplementary notice paper, which indicates to me that we might have some way to go to complete the passage of this bill through all stages, despite the fact that apparently everyone is strongly in favour of it. I have never heard so many people who are strongly in favour of something speak against it at such length as we heard from a number of members over the past few days. If that is the approach that they want to bring to the debate, so be it. I guess a few people have been asked to speak on this bill, and they have duly done so. It seems to me to be a curious tactic.

I have the opportunity in closing the second reading debate to debunk one consistent theme that was repeated by a number of members, which is in error. To give credit, some of the members asked this as a question as much as stating it as a criticism. That relates to the issue of so-called borrowing money to put it away for the future, which in itself is a deceptive remark. In the few minutes I will take to close the second reading debate, I will discuss that very matter.

Hon Ken Travers queried a number of matters in his opening remarks on behalf of the Australian Labor Party. I will give a response to those matters that he raised because he was the lead speaker for the opposition.

Sitting suspended from 1.00 to 2.00 pm

HON SIMON O’BRIEN: I will now conclude my remarks on the Western Australian Future Fund Bill 2012. From what I have heard from members of both sides of the house, and the crossbenches, everyone supports this bill. I know members will be keen to deal with this bill and report progress to the other place so that the matter can be concluded with a visit to the Governor as soon as possible. As I indicated before the lunch break, I will respond to specific matters that were almost raised as common themes. I will come to those in a moment. Hopefully, with the support of the house, as promised we will pass the bill at the second reading vote and proceed into committee. There is a supplementary notice paper; the contents of which the government will not be supporting. That is a matter for the committee stage, if someone is so inclined to move those motions.

Over the lunchbreak I became aware that a member wanted to make a contribution to the debate but unfortunately was out of the chamber on urgent parliamentary business and was not able to be here to take the call. I had a little word with that member over the lunchbreak. That member might wish to make some remarks in connection with clause 1 in committee. I am sure, if the Chair wanted to grant a little bit of latitude to enable her to do that, the government would not object. It is important, if members want to make a contribution, that it is put on the record, as they say.

Hon Ken Travers, in his comments, queried the impact of Standard and Poor’s negative outlook announcement of 25 October this year on the future fund’s proposed investment framework and return objective. I, like other members, listened with interest to his development of that theme. The good news is I think I can reassure all members about how the future fund will achieve its proposed return objective. That proposed objective is to achieve a rate of return above the Western Australian Treasury Corporation’s cost of funds over rolling five-year periods. The point was raised not only by Hon Ken Travers but also a number of other members, perhaps even in more simplistic terms than that. I think the phrase that was used on several occasions by several members was: why have this investment fund when we are borrowing the money to invest rather than waiting until we have net spare cash lying around waiting to be put into an investment arrangement? The first thing is: I suspect if we wait until a stage when cash is just lying around—like some people might have; the government generally does not—that day would be a long day coming. Indeed, the opposition put it at about 50 years, as a conservative estimate.

We will come to that during the committee stage. It is a pertinent issue, but the question itself is actually flawed. We are not actually borrowing money to put into an investment fund, although members have raised the point that it seems incongruous to them that at a time when we have debt—because of capital works that are being performed by this state government; indeed a very large amount of capital works—we are simultaneously taking surplus money from several quarters and applying that to invest elsewhere. The question is put, as I say, quite simplistically: would we not be better off paying off debt before we start thinking about having an investment account?

The first thing we need to understand is that there is nothing wrong in the state government carrying debt in pursuit of its capital works objectives. I can recall a former Minister for Finance, Hon Max Evans, saying in this place—in fact he would have been standing somewhere about this spot that I am standing now—that if the average Western Australian wanted to save up to buy a house rather than resort to debt, they would never actually get there. The growth in the value of property would far outstrip the average person's capacity to save up their dollars; therefore, they must have recourse to a mortgage to take on that debt. Ultimately, it is a good investment for them and they end up with an amount of equity which far exceeds that which they borrowed as part of their finance package at the outset.

Conversely, if a household resorts to credit arrangements—such as Bankcard—for its everyday spending on groceries and the like, that is not sustainable. That is where households would strike problems. As I pointed out in a previous debate, I think only in the last sitting week, this government is very keen to ensure we do not live on the Bankcard for recurrent expenditure. That is why we saw the actions taken in response to changed circumstances back in about the fourth week of September, when we slashed a good deal of recurrent expenditure from this year's budget. However, we still retain a significant debt level. That is because we have the biggest ever capital works expenditure program. There are good reasons for having that as well. The question, though, still remains in many members' minds about why we would seek to invest to obtain return at a time when there is money that could be applied to retiring debt. If the kitchen table–level analogy I have just espoused does not suffice, I respond to Hon Ken Travers' line in these terms: again, the proposed return objective of the future fund is to achieve a rate of return that is above the Western Australian Treasury Corporation's cost of funds over rolling five-year periods, and that is the key to it. This is a long-term investment contemplating returns over the long term to achieve that objective. It is in the context of a proposed risk objective that the future fund does not experience a negative return on any five-year rolling period, and that would be measured on a historical-yield basis. I am advised that the analysis of the historical data available from the WA Treasury Corporation shows —

[Interruption from the gallery.]

The DEPUTY PRESIDENT (Hon Jon Ford): Order, members. I would just like to mention to the people in the gallery, the young enthusiastic witnesses up there, that this is the Parliament of Western Australia and we need to have people record these minutes. It is very difficult to hear if other people are talking. We are very happy to have you in the gallery, but if you could be there in silence; I know it is very difficult at your age, but if you could do that for a few minutes, I would appreciate it.

Hon SIMON O'BRIEN: Thank you, Mr Deputy President. I share the view that it is a pleasure to have visitors come to the public gallery. Indeed, if people find it hard to remain silent when they hear some of the things that are said in this place, I have a huge amount of empathy for them because I sometimes feel that way myself! Welcome to our friends in the gallery. They are going to love this matter we are discussing right now, I should think!

I was talking about the analysis of the historical data by the WATC in connection with those return objectives and the risk objectives. That analysis showed that the return on the proposed strategic asset allocation for the future fund would have exceeded the WATC's cost of funds by around five basis points, or about 0.05 per cent per annum, over the period 2004 to May 2012. In relation to the announcement by Standard and Poor's on 25 October that the honourable member referred to, the WATC has advised that this announcement has increased the spread on its debt—that is, the interest rate margin between WATC debt and Australian government debt—by between three and seven basis points depending on the term of the debt. On the face of it that impact would appear to be sufficient to offset the historical average five–basis point margin on the future fund's investment returns relative to the WATC's costs of funds.

[Interruption from the gallery.]

The PRESIDENT: You have driven them out of the chamber, minister!

Hon SIMON O'BRIEN: Someone was bound to say that, sir; and I am glad I had the benefit of the advice from the Chair!

However, it would be simplistic and misleading to draw that conclusion for a number of reasons. The future fund will operate in perpetuity, not just for a year or two, and it will invest in medium and long-term investments—for example, bonds with a term to maturity of up to 12 years. In contrast, the negative outlook announcements relayed to us and attributed to Standard and Poor's reflects more the short-term cyclical volatility in the state's royalty revenue, and we all know about that. Members might be interested to know that Western Australia is currently one of only three states rated AAA by both Standard and Poor's and by Moody's—the other two states being New South Wales and Victoria. Queensland, for example, is currently rated AA+ by Standard and Poor's, yet for most of the WATC's historical period of analysis that I just mentioned, which is from January 2004 to May this year, Queensland was rated AAA. As a result of these credit rating differentials and other market changes over time, the proposed investment framework for the future fund could now be expected to yield a greater margin over the cost of funds than the average five–basis point margin in the WATC's historical analysis. So, in this regard, I am told that analysis by the WATC showed that in the first quarter of 2012–13 the future fund's proposed investment framework would have yielded, if we had had the arrangement in place, a return that exceeded the cost of funds by an average of around 13 basis points. That compares to the short-term impact of Standard and Poor's announcement on the cost of funds of between three and seven basis points. For those reasons, the WA Treasury Corporation, and Treasury itself, have advised government that the proposed investment framework for the future fund, including the objective to achieve a rate of return above WATC's cost of funds, remains both appropriate and achievable.

Another point I mention is Hon Matt Benson-Lidholm's reference to an announcement from May. I think he was following up on Standard and Poor's gloomy pronouncement that I have just dealt with by way of response. It is interesting to contrast that with the other company often mentioned in the same breath, Moody's, which said in its announcement in response to Western Australia's 2012–13 budget in its Moody's Investors Service comments on 17 May this year —

Hon Ed Dermer: They're very old.

Hon SIMON O'BRIEN: They are five days more recent than the quote attributed to Standard and Poor's by the member's colleague, who sits next to him, just before lunch.

Hon Ken Travers: What date are you saying they are from?

Hon SIMON O'BRIEN: This one is from 17 May 2012 when —

Hon Ken Travers: We were quoting from October Standard and Poor's documents.

Hon SIMON O'BRIEN: Hon Ken Travers was on urgent parliamentary business when I dealt with the matter he raised in relation to 25 October. Hon Matt Benson-Lidholm gave some quotes that he attributed to 12 May 2012, if my memory serves me correctly. Anyway, I have a quote from Moody's Investors Service from 17 May, in the context of the budget announcement. It reads —

> Western Australia's announcement that it will set aside funds from royalties and other sources to create a "Future Fund" is a step in the right direction. While the initial size of the fund is small and there could be challenges in building it up in the short term, the move indicates that the state is committed to addressing its budgetary challenges.

Therefore, there are lots of reasons for encouragement, as we have seen. I was surprised that so many of the members who gave speeches in the second reading debate, although pledging support for the passage of the legislation, then told us everything they thought was wrong with it. However, in closing I have addressed the one item that I think is of substance, which was raised by a number of members in seriatim. Having done that, I appreciate the support of all sides of the house and commend the second reading.

Question put and passed.

Bill read a second time.

Committee

The Deputy Chair of Committees (Hon Jon Ford) in the chair; Hon Simon O'Brien (Minister for Finance) in charge of the bill.

Clause 1: Short title —

Hon HELEN BULLOCK: I would like to speak on the short title. The name of this bill is the Western Australian Future Fund Bill 2012, but by looking at its content, it seems that it would be more appropriate for the short title of the bill to be changed to something like "Long-Term Deposit of Western Australia Bill". The reason I am saying that is that members are probably aware that on many occasions in the past two years—whenever I got the chance—I have spoken about having a Norwegian-style sovereign wealth fund. I suggested that we should set up a similar fund to set aside some of the royalty revenue generated from Western Australia's non-renewable resources. I guess this bill is in response to my suggestion, but what it proposes is nothing like what I had envisaged a sovereign wealth fund should be. The result of this fund is really that it will create a term deposit for a period of 20 years. Our state will be incurring massive debt—something like $23 billion by 2015—while this account will save only $1 billion in 20 years' time. Another thing is that the account cannot be touched within that 20-year period, whereas after 20 years, yes, whatever is in the account can be used, but only for the purpose of infrastructure building. Basically, it is a term deposit that will delay expenditure on infrastructure. The minister is probably aware that many leading economists, such as Treasury secretary Dr Martin Parkinson, have pointed out again and again the need to reduce the government's net debt position. Obviously, this government has completely ignored that advice. On a number of occasions in the past I have spoken about having a Norwegian-style sovereign wealth fund, but I did not get a chance to talk about what a proper sovereign wealth fund could do to advance a country's economy.

I want to use my remaining time to briefly talk about the speech made by US Federal Reserve chairman Ben Bernanke. The speech I refer to was made on 10 March 2005, before the global financial crisis, when everything was gay and rosy except one major aspect of US economic performance, which concerned economists and policymakers—that is, its large and growing current account deficit, which at that time was growing at a rate of 5.5 per cent. Needless to say, seven years on the current account deficit in the US has grown even bigger. In his speech he attempted to address three major questions. The first one he tried to address was why the United States, with the world's largest economy, was borrowing heavily on the international capital market rather than lending, as would seem to be more natural from his point of view. The second question that he tried to address in that speech was what implication the US current account deficit and its consequent reliance on foreign credit would have for the economic performance of the United States and its trading partners. The third question he attempted to address was what policy should be used to address the situation, which included a lack of national savings and a large current account deficit. I did not have a chance to make my point in the second reading debate so I am going to summarise the speech that I would have made.

As we know, the basic economic equation is something like this: net national saving minus investment equals net export. In answering the first question, Mr Bernanke tried to explain the situation from a different perspective. First, the perspective is net national saving minus investment. From that point of view he pointed out that in terms of international trade, US imports of goods and services from overseas were far exceeding its exports, resulting in the use of net foreign borrowing to balance the current account deficit. He then explained the same question from another perspective, which was in terms of international financial flows. He explained that a nation's savings must be equal to its investment in a closed economy. Any investment, such as in roads, ports, hospitals and schools, is funded by a nation's savings. However, in the open global economy, a nation's saving and investment can be balanced by borrowing from the international financial market. Infrastructure, such as that mentioned, can be funded by other nations' savings. Mr Bernanke is a very good economist who addressed these complicated issues in very simple language. Just to show members how easy it is for somebody who does not have an economics background to understand this, I will quote part of his speech. Mr Bernanke said —

> … in a closed economy investment would equal national saving in each period; but, in fact, virtually all economies today are open economies, and well-developed international capital markets allow savers to lend to those who wish to make capital investments in any country, not just their own. Because saving can cross international borders, a country's domestic investment in new capital and its domestic saving need not be equal in each period. If a country's saving exceeds its investment during a particular year, the difference represents excess saving that can be lent on international capital markets. By the same token, if a country's saving is less than the amount required to finance domestic investment, the country can close the gap by borrowing from abroad.

Hon Simon O'Brien: You can go on.

The DEPUTY CHAIR (Hon Jon Ford): Hon Helen Bullock.

Hon HELEN BULLOCK: Thank you, minister. I continue Mr Bernanke's quote —

> In the United States, national saving is currently quite low and falls considerably short of U.S. capital investment. Of necessity, this shortfall is made up by net foreign borrowing—essentially, by making use of foreigners' saving to finance part of domestic investment.

Mr Bernanke also acknowledged that some leading economists argue that the lack of national savings is a fundamental cause of the nation's current account deficit. We know that a current account deficit arises from low exports and high imports, and the lack of domestic savings results in massive borrowing from overseas to fund domestic investment in infrastructure. I am sure that all members in this chamber can relate these cases to our domestic investments. These things have happened and are happening not only in the United States but also here.

Mr Bernanke went on to explain why the US current account deficit increased rapidly over the past decade. The term "global saving glut" was introduced in his speech. That term generally refers to the vast amount of capital flow into developed economies post the 1997-ish Asian economic crisis. In recent years, a large amount of net supply of financial capital flowed into developed economies from sources outside industrialised countries—that is, developing countries—to balance the global balance of payment. This is surprising to Mr Bernanke. Why is that happening, because it is the complete opposite of the historical pattern? Historically, the surplus normally was generated in those developed economies and then flowed on to the developing economies. The current trend is the complete opposite, which is why he said the trend is surprising.

Several factors contribute to this surprising trend. First, the financial crises that hit many Asian economies in the 1990s led to significant declines in investment in those countries, which led to fiscal and monetary policy changes in those countries, including a resistance to currency appreciation, as we all know, and the accumulation of foreign exchange reserves. The accumulation of foreign exchange reserves can also result in a resistance to currency appreciation. Another policy change was fiscal consolidation. All these policy changes affected those countries' current account surpluses. As we all know, resistance to currency appreciation can bring an advantage to a country's export trade. I like to quote Mr Bernanke's speech because what he said is much better than my paraphrasing would be. In terms of the effect the resistance to currency appreciation has on international trade and a country's current account deficit, Mr Bernanke said —

> Countries in the region —

That is, South-East Asia —

> that had escaped the worst effects of the crisis but remained concerned about future crises, notably China, also built up reserves. These "war chests" of foreign reserves have been used as a buffer against potential capital outflows. Additionally, reserves were accumulated in the context of foreign exchange interventions intended to promote export-led growth by preventing exchange-rate appreciation. Countries typically pursue export-led growth because domestic demand is thought to be insufficient to employ fully domestic resources. Following the 1997–98 financial crisis, many of the East Asian countries seeking to stimulate their exports had high domestic rates of saving and, relative to historical norms, depressed levels of domestic capital investment—also consistent, of course, with strengthened current accounts.
>
> In practice, these countries increased reserves through the expedient of issuing debt to their citizens, thereby mobilizing domestic saving, and then using the proceeds to buy U.S. Treasury securities and other assets. Effectively, governments have acted as financial intermediaries, channeling domestic saving away from local uses and into international capital markets. A related strategy has focused on reducing the burden of external debt by attempting to pay down those obligations, with the funds coming from a combination of reduced fiscal deficits and increased domestic debt issuance. Of necessity, this strategy also pushed emerging-market economies toward current account surpluses.

I think that has explained the term "global saving glut" very well. Increases in foreign exchange reserves necessarily involve a shift towards surplus in a country's current account. There are increases in gross capital inflows, reductions in gross private capital outflows, or some combination of elements—sorry; that is a summary of what I have just quoted from Mr Bernanke's speech. Another factor contributing to a global saving glut is sharp increases in crude oil prices, which have boosted the income from oil exports to a figure that is more than those countries are willing to spend. That has created high savings and a current account surplus. All those surpluses and high savings provide the financial market with extra funds to be borrowed by those developed countries. Finally, he mentioned that Chinese saving rates rose rapidly in past decades—more than decades. That rise in saving rates was not only a result of —

The DEPUTY CHAIR (Hon Jon Ford): Before I give the call back to the member, I note that most of the second reading responses were between 20 and 35 minutes. I know that the minister has indicated the indulgence of the chamber, given the unfortunate situation, but I suggest to the member that perhaps in the next 10 minutes the indulgence of the chamber might be expended. I will give the member the call.

Hon HELEN BULLOCK: Thank you Mr Deputy Chair. I am very well aware of that. I will not stretch the minister's kindness. I was intending to finish in the next 10 minutes, but I am sure the minister was enjoying the speech.

Hon Ken Travers: The minister understands the importance of a long speech.

The DEPUTY CHAIR: Members, you are cutting into the member's time.

Hon HELEN BULLOCK: Before I finish, I will put some detail of Mr Ben Bernanke's speech into *Hansard* so that everybody can read it. It is a very good speech that members will need time to digest, especially those who do not have an economics background—it can sometimes be quite hard. I was talking about how the Chinese saving rate has grown rapidly in recent years. That saving rate was the result of long-term economic growth. It also contributed to China's under-developed financial sector and weak social safety net, which increased the motivation for cautionary savings.

As I said, I do not want to stretch the minister's kindness. However, I have pointed out that a future fund, or an equivalent sovereign wealth fund, is important to the state, or even to the federal government, because of our current lack of savings and huge current account deficit. By 2015, WA will incur a debt of $23 billion. On the other hand, the mining boom will probably finish soon. I must say, first of all, that it is a little too late to introduce this bill. Secondly, I think the state government should really concentrate on reducing debt. If, on the one hand, we have a debt and are paying interest of—I do not know what sort of percentage rate we are paying—let us say, six per cent, which is what a home borrower pays, but, on the other hand, we have a savings account in which we are saving a piddly amount of money left over from royalties for regions and we are gaining at a term deposit rate of something like 3.5 per cent, it does not really make any sense. I conclude my speech and take the advice of the Deputy Chair.

Hon KATE DOUST: I appreciate the minister's indulgence with our first speaker. Unfortunately, I have been away on fantastic urgent parliamentary business, minister.

Hon Ken Travers: Fantastic urgent parliamentary business.

Hon KATE DOUST: Absolutely. In fact, I have been at the 2012 Western Australian Innovator of the Year Awards. I had hoped to talk about that this afternoon as part of the discussion on this bill because I thought it fitted in quite well with references to science and technology in this legislation, but given that I will have only a short period in which to speak, I might save that for a later stage of today's sitting or perhaps another debate. It is a shame I did not get that earlier opportunity, but I did have to absent myself fairly early this morning.

Hon Simon O'Brien: There were a lot of contributions from a lot of members in your party.

Hon KATE DOUST: Yes, but I do not know whether they talked about what I am going to talk about. If I had my way, given my interest in the science and innovation portfolio, I would call this the Western Australian future fund for science and innovation bill 2012. Having come from the function that I just attended and having talked today to people such as Professor Barry Marshall, Professor Lyn Beazley and a couple of others about this legislation, I can say that they would be very pleased if money were set aside in the future for investment in science and innovation. When we look at the second reading speech, we see that it refers to the possibility of these things, but having been through the actual bill, I cannot find anything that provides absolute certainty that in 20 years there will indeed be investment in this vital area of opportunity for our state. Although changing the title of the bill probably does not achieve my goal, perhaps it might mean an amendment to a later clause in the bill, and I am happy to perhaps canvass that with the minister at a later stage. One of the clear messages given to me by some of the leading scientists and researchers in our state is that part of the difficulty that Western Australia currently has is that there is no plan for the future of science and innovation or technology. This government has systematically pillaged, if you like, the portfolio and made it quite difficult for a vibrant and effective science and innovation community to thrive and survive in this state.

I looked at a couple of the awards handed out today to some quite exciting and significant projects that have the potential to be worldwide change-makers, if you like. I think about the Duchenne muscular dystrophy project that achieved the Innovator of the Year Award today, and rightly so. It is a significant project that operates on the smell of an oily rag, going from crisis to crisis trying to seek funding. These are the types of projects that in a perfect world would be funded. When we plan ahead for the future, they would be funded out of the type of arrangement that we are talking about today, this future fund. It was canvassed in very loose terms in the second reading speech. I know it is very attractive for the government to say that these are all the things it is going to do with the future fund, but there is no guarantee that that is what will actually happen. Unfortunately, I was not able to listen to some of the earlier speeches this week due to other issues, so I am not too sure of the types of matters that were canvassed.

Hon Simon O'Brien: Perhaps this might be something that we can canvass under clause 9.

Hon KATE DOUST: I might just finish my comments now and I will be happy to continue to make those comments then. The point I really want to make is that it is all very well to have a fund in place, and I have always believed that it is vital to put away money for a rainy day and build up an investment, but my real concern is how it will be expended in the future. The message that has been given to me very clearly by the science community is that this government needs to invest in and support science and innovation and technology today and over the next few years with a clear commitment of dollars, and it needs to educate young people about the value of science as a career and encourage them to go into teaching so that there are dedicated maths, science, chemistry, physics and engineering teachers. Hopefully, the Minister for Education is doing work on managing that, because it is a vital issue. If we do not do something about this now, in 20 years when this fund comes to fruition, the government that is in power at that time will get to decide how that money is allocated for whatever sort of infrastructure. There is no guarantee that the state will still have at that time the people who have the capacity, ingenuity or engagement in this vital area of work, and that is a real worry. Although the government loosely states in its second reading speech that it will be able to apply this money to a range of things, including these very important areas, there is no guarantee that it will do so. I will talk about this issue on clause 9 because I would like to discuss how much will be allocated. My concern is that unless this government steps up to the plate, delivers a strategy for science and innovation, delivers some concrete dollars and puts in place a mechanism whereby researchers do not have to constantly hold out the begging bowl every couple of years, or every few months in some cases, we will not sustain this industry. That is a real concern.

I note that yesterday in an article in *The Australian*, one of our Australian Nobel laureates, Brian Schmidt, was reported as saying that this is a real issue. He said that governments need to commit to ensuring that research can be conducted now and that researchers do not have to consume all their time by filling out grand applications on a rolling basis. Governments need to work out a better way of managing so that we can have a continuous line of research and we can take our place on the world stage, which we rightly should do. We have some amazing people in the science arena in Western Australia. Today there was a brilliant showcase of some of the talent we have. It is a shame that they could not all have been formally acknowledged with an award. That is my real concern. From a selfish perspective, I had hoped that the government might have provided more clarity about an actual allocation in the future for the area of science and innovation and technology rather than being vague. Although the government may have the best of intentions now about what might happen in 20 years, unfortunately, the minister in this chamber and the minister responsible for this particular project may not be around then. They might be, but they might not be; I hope they are. People change, ideas change and priorities change. This government needs to think about addressing priorities now so that in the future we can invest in science and innovation and technology and take that step further. I would hate to get to a point in 20 years' time when we have been overrun by other countries.

We can look at what the United Kingdom government has done under Cameron. It has set up a whole life sciences strategy and is investing heavily in that area of science because it sees the opportunities for the industry in the UK. Wales has just contributed £100 million to the life sciences area, with £50 million from the Welsh government and £50 million from its universities. The Scottish government is now investing money in bespoke projects in the life sciences. The Northern Ireland government is getting assistance from the European Parliament and the European countries to assist it in the life sciences. We need look only at that one niche area for which governments have strategies to see that they are investing the dollars now, and their investment is in the people doing the work to enable them to continue to do that work so that in 20 years they will be able to roll the results out and they will dominate the world stage in science. My concern is that unless there is a much more direct allocation to science, with a plan, a strategy and a priority, the dollars might be there in 20 years, but the people may not necessarily be there to invest in or to create the infrastructure around it. That is my core concern with this bill. Unfortunately, I have had only a short time to speak, but I am happy to pick up on some of those issues as we proceed through the bill today.

Hon SIMON O'BRIEN: We are considering the question that clause 1 be agreed to. Although it is sometimes referred to as a more free-ranging debate than the debate on other individual clauses —

The DEPUTY CHAIR (Hon Jon Ford): Not according to the ruling I made back in 2009!

Hon SIMON O'BRIEN: With which we are all familiar, Mr Deputy Chair. Nonetheless, it is a suitable vehicle for the contributions that have just been made by fellow members. I thank you for your indulgence in allowing that to happen, because I think they were thoughtful and erudite contributions. Happily, they were from members who were not seeking to persuade us from our view that the second reading be agreed to. We are well past that now, but there were some useful exchanges, and I thank members for their input.

By way of brief response, this bill is part of the government's response to the question that is sometimes raised: what are future generations going to get out of the positive economic circumstances that we currently have; where are their benefits as we dig up finite resources, as minerals are sometimes referred to, and ship them overseas; where is the ongoing benefit to our kids and grandkids and so on? The answer to that in part is in the built environment that we are creating with the capital works expenditure at this time, including, by way of example, virtually a rebuild of much of the health department infrastructure in this state, with the building of some major hospitals and also a range of other facilities in regional cities and, indeed, in other smaller hamlets throughout the state. It is reflected also in policy changes. I think the one I am about to cite is unique amongst Australian governments in that we took it upon ourselves at the budget before last to introduce a package of expenditure to raise the amounts that are paid to non-government organisations to deliver a whole range of social services, thereby providing, through the funds available to the state of Western Australia, an ongoing benefit to a large number of people who I am sure would be seen by all of us in this chamber as both needy and deserving. They are just a couple of examples of the benefits of our interesting revenue streams in the state at this time.

What the government is trying to do with this bill is to say, "Here is some cash money, which is a sustainable and, indeed, self-sustaining revenue stream taken from the mineral wealth of today and over the next 20 years, to put into sound investment, the proceeds of which will be available to future generations in perpetuity." That is what we are trying to do, and that is what this bill is all about. That is the focus we will continue to employ and that was the policy agreed to at the second reading stage. That does not mean, I say to Hon Kate Doust, that we are blind to the needs of researchers now. I am saying that that is another subject or a subject other than what we are discussing in relation to the Western Australian Future Fund Bill 2012.

Hon Kate Doust: But it is worth flagging in this context.

Hon SIMON O'BRIEN: Indeed; and I have acknowledged that and thanked the member for it. By way of reassurance, I am saying it is not that we do not appreciate the point the member made, and it is well made; I am saying that, as the member also says, this bill is not a vehicle to provide research dollars right now, no matter how worthy they are. This is something else, and that is what we are proceeding with and what we agreed to at the second reading stage, and that is why this clause should stand as printed.

Hon Ken Travers: I accept your point about clause 9 being where we will get into detail about how the funds will be applied.

Hon SIMON O'BRIEN: About how the funds may be applied for.

Hon Ken Travers: But is the minister saying that science and innovation projects can be funded as currently defined in the bill?

Hon SIMON O'BRIEN: I do not think that was what I was saying at all. I was —

Hon Ken Travers: No, no; that is why I was asking you the question, because I could not work out what you were saying, with all due respect. I do not mean that in a —

Hon SIMON O'BRIEN: I was just acknowledging Hon Kate Doust's point that she was out with some very eminent researchers in the Perth community—indeed, one of them is a Nobel laureate, I believe. She made the point for research dollars now, quite apart from anything that might be contained in this bill as an investment fund for future use. I am just saying, yes, I acknowledge that, but let us return now to this bill before us, which is a bit different. Hopefully, clause 1 will now be accepted.

Hon KEN TRAVERS: I will stick to the 2009 ruling of Mr Deputy Chair, and I will try to focus in on the detail that may range across a number of clauses in the bill to get clarification so that we can understand fully how that detail may operate within the legislation —

The DEPUTY CHAIR (Hon Jon Ford): You have read the ruling!

Hon KEN TRAVERS: — in accordance with the policy we have already agreed to. I might add that in doing that—as a bit of context—I spent my lunch with people involved in public transport infrastructure planning. I think it is clear that the sorts of projects discussed at that lunch would be able to be funded from this legislation. But at this early stage I am interested in—because I think it will have an impact across the broader clauses and where one may want to make amendments if that was what one was so inclined to do—whether the minister believes science and innovation projects would be able to be funded out of the revenue that will be generated from 2032 onwards as the bill is currently drafted.

Hon SIMON O'BRIEN: Again, I am quite happy to discuss this when we come to clause 9.

Hon Ken Travers: But there may be earlier amendments, if one was inclined to make amendments, you see.

Hon SIMON O'BRIEN: Okay. With that in mind, I am more than happy to canvass it.

Hon Ken Travers: That is why I am raising it now, not at clause 9, minister.

Hon SIMON O'BRIEN: It depends, I suppose, on the definition of a science and innovation project. If the science and innovation project of the future that is being contemplated fits within the parameters contemplated by this bill, particularly around clause 9, the funds would be able to be expended for those purposes; that includes public infrastructure. I think that is pretty clear, and if we want to discuss any more about it, we could probably do it at clause 9. Clearly, what is indicated here is a medical research building or something of that sort as opposed to some form of recurrent expenditure like grants or something to individuals. This is clearly intended for public works and other public infrastructure.

Hon KEN TRAVERS: The minister would clearly understand that if one was inclined to make an amendment to clause 9 about how one can apply the expenditure to broaden it to areas beyond those currently provided for—public works and the like—those items are defined in clause 3, which is why we are raising it now in the debate on clause 1. By the time we get to clause 9, it may be too late to make the necessary definitional changes needed at clause 3. I think it is important to understand exactly what the government sees as the parameters for the spending of this money. I would completely understand and concur with new medical research physical buildings being built as part of the original plans for Fiona Stanley and Charles Gairdner Hospitals, as those projects were initiatives funded out of, as I understand it, the future fund left by the last Labor government in the Fiona Stanley special purpose account. But I am interested in the whole range of technology that would assist the science industry, and I am sure Hon Kate Doust could give us some good examples of the sorts of common-user infrastructure that could be purchased. I am not talking about ongoing recurrent expenditure, but things like setting up the databases for long-term epidemiological studies—an area in which Western Australia has traditionally excelled. I think we now have one of best databases as a result of the work of the Telethon Institute for Child Health Research and the work of the Busselton Health Study; in fact, some years ago there was proposal to broaden that study to include the Joondalup area. Unfortunately, that seems to have been waylaid over the years. I am interested in whether the minister sees those sorts of projects as falling within the definition of public works, enabling them to be funded under this bill, or whether they would be outside of the definitions contained within the legislation.

Hon PHILIP GARDINER: I would like a little clarification based on what the minister has just said. I understand there are two ways of applying what Hon Ken Travers has raised. We have funds coming into this future fund that will be invested. Those investments will be made according to the Financial Management Act 2006, but, looking at the Trustees Act, it will be fairly broad. My question is: will the investment in innovation—an innovative product or companies using innovations in this state—be considered under the investment criteria we are talking about, which I would have thought would apply under clause 5; or is the minister thinking that it will only be applied after the 20 years, when the money can be distributed in either the metropolitan or regional areas as determined by the Treasurer and Minister for Regional Development?

Hon Simon O'Brien: The line of discussion is about expenditure and how that may be applied, not about where it is invested.

Hon PHILIP GARDINER: Sorry; I used the term "expenditure" out of the fund, which can be the investment from which the fund generates its earnings.

Hon Ken Travers: That is another good point. Can you use it to invest in the short term on those matters?

Hon PHILIP GARDINER: It is not really for the short term; it is an investment in the fund. As the member knows, Australia ranks about 120th out of 200-odd countries in effectively realising the benefits of innovations. That is a pretty low ranking for a country as wealthy as ours. I think a lot of that is due to the conservative nature, and almost fear, of the superannuation funds, which have huge resources, to take the greater risk and invest in innovation, which is a higher risk. However, unless this country invests in and realises innovative products that the state and the country produce, our economic growth will never achieve the level it should. My question is really focused on the investment.

Hon SIMON O'BRIEN: I thank the member for his interest in and input into this matter. One of the things that I like about this bill, apart from its intentions and effects, is that it is relatively easy to read. Although there has been some general discussion in the course of the debate so far, the fact is that we are probably getting to the stage at which we will have to get down to considering the detail of the specifics of the bill in the committee stage. I will do that now rather than continue the broad-ranging discussion. The simple answer to the member's question about what a future government can spend the proceeds of the future fund on and the purposes for which it may be applied are contained in clause 9. I do not believe it applies to the purposes that the member has queried. Clearly, it is about providing public works and other public infrastructure. Although technology will evolve over the next 20 years and the world will be a different place in many ways, I am sure that the government of the day will be capable of lateral thinking. I would think that the purposes that are prescribed here are quite clear and definite.

Hon PHILIP GARDINER: Just for clarity, is the minister's explanation referring to after the 20 years when the money can be drawn down or does it apply to the first 20 years when the funds can be invested?

Hon SIMON O'BRIEN: I thank the member for clarifying the question. I think the penny has dropped and we are now on the same page. The member is asking where the funds that go into the fund can be invested to generate a return. My advice is that the financial management regulations are very clear on this. The only things the Western Australian Treasury Corporation can invest in are cash, bonds and gold, thanks to an amendment in another place.

Hon PHILIP GARDINER: Perhaps we can leave that until we come to clause 5.

Hon KEN TRAVERS: The minister said "cash". Can the minister define what that means? Does it mean interest-bearing deposits or investing in foreign currency? What is meant by "cash"?

Hon SIMON O'BRIEN: As the member probably knows, we do not invest in foreign currency speculation. I do not know what he was doing when he was working for Lehman Brothers and others in a previous life, but our conservative cash investments must be in the normal short-term deposits with an appropriate organisation, such as a bank and so on.

Hon Ken Travers: So you are talking about deposit-taking institutions?

Hon SIMON O'BRIEN: Indeed.

Hon HELEN BULLOCK: I still do not understand why the money is not used to pay off state debt. My question is simple.

Hon SIMON O'BRIEN: With the greatest respect, this matter was addressed, I think comprehensively, by a lot of members and I responded to it in the second reading reply. Indeed, this goes to the heart of the policy of the bill. I do not have anything further to add to the remarks that I made just after lunch.

The DEPUTY CHAIR: I agree with the minister. This house has agreed to the policy of the bill in the second reading.

Hon HELEN BULLOCK: May I ask what the policy tries to achieve?

The DEPUTY CHAIR: I would have thought that was a question for the second reading, and the minister was given a chance to respond. The house has been indulging, in effect, in the second reading debate on clause 1, but there has to be a limit to that.

Hon KEN TRAVERS: Although I understand the position that the Deputy Chair of Committees has just articulated, there is still a concern about the detail of this bill and state debt. I have amendments on the notice paper that go to that issue. There is a very clear need for members to understand when borrowings will occur to fund this fund and when it will occur through cash, which relates to the issue of debt. I understand that paying off debt versus investing in the fund goes to the policy of the bill but I think we need to understand that there are a range of issues about whether or not we should put money into the fund until we have paid off that debt.

The DEPUTY CHAIR: I think Hon Ken Travers was going very well until the last bit of his sentence! In the context of what he just said, the question would be right and proper but there was no contextual structure around the question proposed by Hon Helen Bullock.

Hon KATE DOUST: I want to seek clarification. I may be in the wrong place in terms of where the bill is—not in the wrong place as such.

Hon Simon O'Brien: That is arguable—I support you being here!

Hon KATE DOUST: Hon Ken Travers referred to this earlier, and I was not too clear on the minister's response. Given our earlier discussion about an allocation for science and innovation, Hon Ken Travers asked whether there needs to be specific definitional reference to science, innovation or technology in this bill so that moneys can be allocated. I would like the minister to put on the record whether that is the case or not.

Hon SIMON O'BRIEN: I can quote no greater authority to Hon Kate Doust than her colleague Hon Linda Savage, who placed on the record some thoughts about whether a Parliament of today should bind unnecessarily the decisions of governments of the future. It was with that in mind that the bill was not created to be overly prescriptive. The technological or infrastructure needs in 20 to 40 years from now, within the provision of public works or public infrastructure, are matters for future governments. So, no, we do not need a definitional statement.

Mr Deputy Chair, the point I was making, and the one I think you were supporting me in, was that if there are any matters of detail to be sorted out via amendments to clause 5, or wherever else—the application of clause 9—that is for those clauses. My reference, which was offered with respect to the member, was that this is clause 1; therefore, we are canvassing only broadly the progress of the bill through the committee stage and not getting down to the nitty-gritty of revisiting a second reading debate. I think we have probably done all we can.

Hon Ken Travers: We are not, minister. We are asking general questions that go to the heart of the interaction of the clauses.

Hon SIMON O'BRIEN: They are very specific questions such as, "Why don't you define this?"

The DEPUTY CHAIR: I would like to think that I had actually made it clear. I am quite happy, if the chamber wishes, to go around in a round-robin format, but I do not think the committee is going that way. We are starting to make progress.

Hon KATE DOUST: I imagine Hon Linda Savage gave a fabulous discussion about manner and form in an earlier speech. I caught the very —

Hon Simon O'Brien: It was completely adequate.

Hon KATE DOUST: I am sure it was more than adequate, minister. My questions are not about forcing a future government to do a particular thing. I want to be quite sure that from this money, which will be stashed away, there will be an opportunity for it to be allocated to science and innovation. The second reading speech is very broad about how future moneys will be expended. I want clarification that money will be provided at some point, so a government cannot say, "No, we never intended to do that." Does there need to be a definition somewhere in this bill? It is not about forcing a future government to do something. Is there a gap in this bill? Does something else need to be put in to ensure that a future government could say, "No, it's not there so we don't have to do anything with it"?

Hon Simon O'Brien: I do not think there is.

Hon KEN TRAVERS: I am keen to get an explanation from the minister about how the different clauses will interact. I gave some pretty specific examples of what I think are types of infrastructure. The reason I ask for it in clause 1 is that it may be in earlier clauses that we need to make other amendments before we get to that, to be able to understand how the government interprets the definition it is applying to public works. When we are dealing with public works, I have no dramas about that; I understand that. The minister said earlier that the government has not tried to narrowly define the bill and that it has attached a long-established definition. I refer to the words "and other public infrastructure" in clause 9. I am trying to understand how broad the government intends public infrastructure to be. One thing we need to make clear is that people will come back and look at these matters. We need to deal with it now. If we do not deal with it now, by the time we discuss clause 9 we may be required to go back and recommit clauses. I would like an answer from the minister at this point.

Hon SIMON O'BRIEN: Several references need to be read in concert with each other to find the meaning that the member is searching for. We need to have reference, firstly, to clause 9, which has been referred to. Subclause (3) states, in part —

> … applied for the purpose of providing public works and other public infrastructure in the metropolitan area and regions of Western Australia.

That is an important point, which may attract some comment later, about it being divided between the metropolitan area and the regions of Western Australia. The second place we need to look, of course, is the Public Works Act 1902. The definitions are found in section 2 of that act. It has a very broad catalogue of all sorts of parts of the built environment—not only buildings such as public schools, public hospitals or whatever, but also other structures such as bridges, railways, works for the connection of the supply of water to a city, wharves, ferries, piers, jetties, parks and gardens, and even public cemeteries. We are all familiar with the definition of "public work" contained in the act.

Hon Ken Travers: Are you suggesting we are preparing your burial plot with this, minister?

Hon SIMON O'BRIEN: With a suitable epitaph! I hope we would get —

Hon Ken Travers: What shall we put on it—"The road to hell is paved with good intentions"?

Hon SIMON O'BRIEN: I would probably borrow something from Spike Milligan such as "I told them I was sick"!

Jokes aside, the third place we need to go—this is where people 20 years hence, or more, might indeed go to discover the meaning of what was intended in this legislation—is the second reading speech, which I had the privilege to deliver some little while ago. The reference in that speech is to the earnings from the fund being applied to a range of infrastructure, but specifically industrial infrastructure, technology infrastructure, science and education infrastructure or health or research infrastructure—whatever is in the best interest of the state at this time. Therefore, I think that clearly contemplates the uses of the public infrastructure.

Hon Ken Travers: What we are asking is: How do you define science infrastructure? Where does the boundary end on what is and what isn’t science infrastructure? Is the database for an epidemiological —

The DEPUTY CHAIR (Hon Jon Ford): Order, members. I would prefer it if members got to their feet and asked those questions so that *Hansard* can define who was on their feet and who was not. It is not just a little interjection, it is a long-ranging one.

Hon Ken Travers: But it helped!

The DEPUTY CHAIR: That is a debatable point!

Hon KATE DOUST: I think Hon Ken Travers has been very helpful and I agree with him. It is a concern how we will define science and infrastructure if we look 20 years hence, because in the public works legislation of 1902, science and infrastructure would have been part of a vastly different perception of public works from the one we have now. In the area of science infrastructure, would this money possibly be set aside for things such as an expansion of the national broadband network around the regional areas of the state? Would it be used for expansion of the iVEC supercomputer based at Bentley? These are both important pieces of infrastructure that are in the public interest. Could it be used for the creation of a new technology park, perhaps? Could it be used for biotechnology incubator or for a biotechnology accelerator? These are all significant types of infrastructure. Or, could it be used to fund a specific type of project? This is the concern of the science community; it is all very well to have bricks and mortar, but unless we actually fund the people who work in them to do their work, what is the point? I use the example of people doing that fabulous piece of research into Duchenne muscular dystrophy that was acknowledged today. I must say that they currently reside in a very old piece of infrastructure based at Sir Charles Gairdner Hospital. These people do amazing work in very old style accommodation. Although we work in a certain environment in this day and age, in 20 years the way people work in the science and innovation arena will be vastly different. People will not necessarily be working in big buildings; they might be working from homes or smaller places. There needs to be some clarity about how we define infrastructure in the area of technology or science or education or health research. Does it go to any or all of these types of things or is it only about buildings? Is it only about, perhaps, creating a new hospital environment where research could be conducted or is it about extending a university campus?

Let us talk about something I did last Friday. I met with Jeanette Hackett to talk about the fantastic Curtin Town project, and I know some of my colleagues have been out and talked about that project, through which Curtin University would like to become an education campus. I see the Minister for Education nodding; it is a fantastic project. Is it something that this fund would provide for to expand that type of education infrastructure? Let us face it, we do not want to wait 20 years for it; Curtin would like it now, Minister for Education! I am just trying to get examples of what sort of things this fund would be applied to in 20 years. Is it only bricks and mortar or is it a range of other things that are not bricks and mortar, but are essential infrastructure for advancing our science community here in WA?

Hon SIMON O’BRIEN: I think I can reassure the member again that the term in the bill, “providing public works and other public infrastructure”, is deliberately broad. That is so that we do not artificially restrict or impose on a future generation things we would not intend to do. But it does deserve the view that I repeat now; that is, this is intended for infrastructure, not for recurrent expenses like salaries, consumables and the like. The examples that the Hon Kate Doust rattled off at the start of her question just then about particle accelerators or technology parks and things like that clearly fall under this. That is no secret; it is enforced within this definition. Again, if we refresh our memory with the Public Works Act definition, we see how very, very broad it in fact is. This is about things that are built, not about recurrent expenditure, and that is the difference. That is not to say that in a generation or two we will not have to have recurrent expenditure; we are just saying that recurrent expenditure is not what this fund and its proceeds are reserved for.

Hon KATE DOUST: The minister makes an interesting point about that needing to be addressed in the future. We have talked about how this legislation is about stashing dollars away for 20 years’ time and spending it at that point on infrastructure. I was not present for that other discussion about manner and form, but from my cursory look at the legislation, I would imagine it would be very difficult to amend it. Therefore, if the minister says that in 20 years we might need to consider using some of this money for recurrent expenditure —

Hon Simon O'Brien: I said no such thing.

Hon KATE DOUST: The minister just did; he said that might need to be done in the future.

Hon Ken Travers: No; he said you might have to fund recurrent expenditure, but not use that fund.

Hon KATE DOUST: Alright; putting aside all those other types of infrastructure we have discussed, the second reading speech and, I think, the explanatory memorandum mentions "whatever is in best interest of the state at the time". I am just thinking, what else? We are not to know who will be in government or the types of issues that will be canvassed in 20 years. The minister has already said that this is very broad, and I think he has talked about how it is in the public interest. Could the future fund be used for other things such as, say, a new stadium? We all know that in the southern corridor of the south metro region there is massive growth, and who is to say that Cockburn council will not finally get its way and will want a new football stadium? Could the future fund—do not look horrified, minister; it is a great idea!—be used to help build a new football stadium in Cockburn in 20 years?

Hon SIMON O'BRIEN: I again thank members for their interest in this bill and in this debate, but I think we are going over areas that we do not really need to. The fact of the matter is that the words in the bill are pretty simple, pretty straightforward and pretty clear. I remind members what I said in response to the honourable member and Hon Helen Bullock when they commenced the debate on clause 1. I pointed out that what we were trying to do was part of our response to the question of what benefit this future generation will have from today's boom, which is generating, amongst other things, royalty revenues. Part of that answer is contained in this bill, in addition to other measures we have taken with the built environment and with investment in non-government organisations providing social services. But this is about putting aside some of the cash money so that there will be a fund that the government of the day, and our community of the day, can spend on public infrastructure, instead of it being spent on public infrastructure now. If they want to take $230 million and spend it on bus stops, they can do that, or they can put it on particle accelerators or whatever fits the definition. That is a matter for them. It is not something we need to define now.

Hon HELEN BULLOCK: Can the government of the day, due to an unforeseeable event, pass an amendment to this legislation to bring the end year of 2032 forward to a year, say, 10 years from now or five years from now?

Hon SIMON O'BRIEN: Given an absolute majority of both houses, yes, that would be the mechanism to change this legislation. Obviously, by the terms of the bill that I have introduced, it is not this government's intention to vary that. Maybe that is in the hearts and minds of some other hypothetical, long-time distant, in-the-future government; I do not know.

Hon Ken Travers: No; the Greens will never make it. They'll never get there.

Hon Alison Xamon: We will!

Hon SIMON O'BRIEN: I need to have a sit down.

Hon KEN TRAVERS: I am going on to new areas. I will take the minister to the explanatory memorandum overview, which I am sure he would accept is an appropriate thing to be discussing within clause 1, "Short title". The overview outlines the general framework of the bill and that there are a number of different stages and different clauses throughout the bill that concern the depositing of different amounts of money. For want of a better term, there are a number of payments that will go into the fund up to 2016–17, and then beyond that one per cent of royalty income will go into the fund. Of the money that will go into the future fund prior to 2016–17, how much of that does the government expect will be borrowed funds as opposed to cash?

Hon SIMON O'BRIEN: The short answer is that none of it will be borrowed. It is all royalties money.

Hon KEN TRAVERS: During that time, then, how much does the government expect the net debt of the state to increase as a result of the payments into the future fund?

Hon SIMON O'BRIEN: My advice is that it will not have any impact on net debt. It is a totally neutral net-debt impact.

Hon KEN TRAVERS: What is the government's estimated benefit in terms of the interest that will be gained in a net sense as a result of the investment of these funds into the future fund over that first four-year period to 2016–17? How much does the government expect to gain in interest in a net sense as a result of the investment in this fund?

Hon SIMON O'BRIEN: I might ask the member whether he could perhaps indicate to me exactly what he is after as I endeavour to answer his question. I gather that he is after the difference between the interest earnings we expect to get in the future fund and —

Hon Ken Travers: — the cost of borrowings for the amount that will have been put into the fund during that time.

Hon SIMON O'BRIEN: Even though these are not borrowings —

Hon Ken Travers: The minister can try to argue that, but at the end of the day state debt will rise during this period by an amount commensurate with the amount of money that has been invested in the fund. The minister can try to give the answers he gave earlier, when he was trying, in my view, to be smart about it, but the end result is that net debt will rise.

Hon SIMON O'BRIEN: I assure the member that I am not trying to be disingenuous, certainly no more so than perhaps opposition members, who might be similarly motivated by the way in which they are presenting their argument. I sought to be even-handed when I remarked on this earlier today, so I am glad we do not have a disagreement about any of that. Hon Ken Travers is after the differential. I do not have an exact figure here at the moment, but this is the five basis points that I was referring to in closing the second reading debate.

Hon Ken Travers: Five or 50?

Hon SIMON O'BRIEN: Five. I think Hon Ken Travers might have been on urgent parliamentary business at that time. I contrasted that with an alternative scenario, which actually produced an even more positive return of 13 basis points. That was one of the scenarios that I put forward. That was with respect to the exercise the member is talking about being examined in light of the actual settings in the first quarter of this financial year just gone; that is, although we do not have a future fund and we do not have this investment yet, what if we had that as at 1 July and what would have been the return for this quarter just finished? That would have been the result. I think that addresses the member's question, even though I obviously cannot provide the exact figures.

Hon KEN TRAVERS: Is the minister saying that the differential between interest earned and interest paid over the period of the future fund is expected to be a net gain of only 13 basis points, as in 0.13 per cent?

Hon SIMON O'BRIEN: The overall point of this discussion on this point, of course, is to demonstrate that we will meet the return that would otherwise be obtained. The historical average for return if extrapolated over the previous eight years—I think I referred to a date in 2004 through to May 2012—delivered us an overall rolling result of a positive five basis points. Therefore, the answer is: yes, that is the figure, which I think was discussed with the member in a briefing. But when the exercise was done as if it were for real in the first quarter of this financial year, the actual return happened to be, just for that isolated quarter, 13 basis points. The point is that it stays in the black, as it were, in positive territory over the long term. That is the purpose, I think, of the question, as well as of the policy.

Hon KEN TRAVERS: During that period, can I check whether that was predicated on the split that I have been advised will be occurring—that is, 80 per cent on semi-government bonds and 20 per cent on other investments?

Hon Simon O'Brien: Yes.

Hon KEN TRAVERS: During the period 2004–12, how many issuers of semi-government bonds in Australia were at a less than AAA credit rating? Also, for the first quarter of this year, how many were at a less than AAA credit rating?

Hon SIMON O'BRIEN: I am sorry, I cannot give that information because I do not have it to hand. However, I am advised that in that period most were AAA including, as I said in my remarks earlier, Queensland, which of course has since been downgraded relative to us.

Hon KEN TRAVERS: Can I assume from that that the five basis points were predominantly earned on the 20 per cent that was not in semi-government bonds?

Hon Simon O'Brien: Correct.

Hon KEN TRAVERS: In terms of our risk analysis—I am sure the government will have done the risk modelling for something like this—what is the impact on those five and 13 basis points should Western Australia lose its AAA credit rating?

Hon SIMON O'BRIEN: I have obtained some advice that I think is pertinent. A credit downgrade to Western Australia would have to be viewed in the context of other jurisdictions. Given that the majority of the future fund will be invested in other jurisdictions' semi-government paper, differences in the relative credit rating of Western Australia from other states largely drive the achievability of the return objective that the honourable member is discussing. Even if a credit downgrade were confined to Western Australia, it would impact only the Western Australian Treasury Corporation's marginal cost of funds and not the existing book. Given that the future fund's return objective of returns in excess of WATC's cost of funds is measured over a rolling five-year period, the short-term impact of such a downgrade would be only marginal. If the downgrade was a long-term outcome, tactical asset allocation allows the fund manager, which is WATC, to invest the fund within those limits and seek to enhance return in response to events such as a downgrade. For example, yield enhancement could be achieved through investing up to 25 per cent of the future fund's balance in highly rated corporate debt and the term to maturity of the portfolio can be extended for up to 12 years. The future fund's governance structure allows for even further flexibility to respond to long-term changes; for example, periodically reviewing investment objectives, investment strategy, strategic asset allocation and tactical asset allocation to ensure that they remain appropriate and consistent.

In the very unlikely situation that any credit downgrade isolated to Western Australia was for the long term and all tactical asset movement had been exhausted, the purpose of the future fund is intergenerational wealth transfer. Historical analysis shows that WATC's cost of funds has never been below consumer price index growth, with an average annual spread of 2.9 percentage points over the past decade. It is expected that even in this worst-case scenario, the future fund's investments would achieve returns above CPI growth therefore meeting the purpose of the future fund. It is certainly no intention of this government, and I think other governments that I have seen, to follow policy that might lose us our AAA credit rating.

Hon KEN TRAVERS: I am sure it is not the intent, but we have been put on watch. I do not know how many other issuers of semi-government bonds in Australia have currently been put on watch and I do not know whether that is something that the minister is able to —

Hon Simon O'Brien: I understand New South Wales has.

Hon KEN TRAVERS: Therefore, I would have thought that the relativities would need to be that everybody else in Australia is downgraded. If we, New South Wales and Queensland are downgraded but the other states remain high, the differential becomes a problem for us in trying to seek out places in which we can place this money. In fact, my understanding of the minister's explanation is that if we get into difficulties such that we cannot get the return on the 80–20 per cent split—that is, 80 per cent in semi-government bonds and 20 per cent in other investments—the answer to that is to then start to increase the risks that we take with the money we have invested. It is a bit like the gambler at the casino or the racetrack; when they are losing, their answer is to start investing more money and to start investing it on the roughies in the hope that one of them will come in and pay big time. I think that is the explanation the minister just gave us and if that is not the explanation, he can explain to me how it is not.

Hon SIMON O'BRIEN: The member might be attracted to the drunken sailor theory, but that is not how the state of Western Australia works. The higher risk investment approach, as the member calls it, would nonetheless have to be within the parameters of the Financial Management Regulations, as the member knows, and that is a reflection of the will, the parameters, if you like, set down by successive Parliaments. Therefore, it is hardly a gambler syndrome.

Hon KEN TRAVERS: Clearly, a fair bit of long-term modelling has been done on all of this, so I am intrigued to understand whether within that modelling the government ever factored in a point at which it expects that the general government sector will return to having no net debt, as was the case prior to the last time we had no net debt, which I think was the end of the 2008 financial year. I am talking about only the general government sector. Is there any modelling about at which point in the life of the future fund we expect general government net debt to be zero or in surplus?

Hon SIMON O'BRIEN: No, there is no such modelling.

Hon KEN TRAVERS: Does the current government have a plan for when it expects, if it remains in office, to get general government sector net debt down to zero or return to having a surplus?

Hon SIMON O'BRIEN: One of the things that we were delighted to produce on budget day was the clear indication that our growth in debt in the out years, the growth being in response to a large capital works program, had peaked and was commencing to fall. Apart from that generality, the question is way outside the parameters of clause 1 of this bill. It is an interesting debate for another day.

Hon KEN TRAVERS: I am sure the minister would prefer not to take it on as a debate at this point, but it is quite crucial to understanding the overall impacts of this legislation in terms of the debt figures. I want to find out, if I have still got the information here, which I thought I did, but I might have to come back to this point. Although it may be intended that the total public sector net debt will decline over the forward estimates, I am not convinced that the general government net debt will decline over the forward estimates. Certainly, when one factors in those projects that the Premier has been running around doing drive-bys on and announcing that he might be keen to do, I think it is highly unlikely that that will be the case. I am still intrigued about whether this government has any calculations. If it is expected that net debt will decline, when will that be? When the current government plans to return the general government sector back to a zero net debt position or a surplus position is quite crucial to the potential amendments that we make to this bill as we go through.

Hon SIMON O'BRIEN: We are not proposing to amend this bill and we are not proposing to support the opposition's amendments, so the matter does not arise.

Hon KEN TRAVERS: The minister may feel that, but the house will decide whether amendments are made. The minister's job, until we get to those points, is to answer the questions to assist the will of the house to determine itself. I still put the question to the minister and I ask the question again: when does the current government expect that the general government sector will return to a net debt position? If the answer is that this government does not intend to return the general government sector to a zero net debt position during the accumulation period of this fund, then that should be the minister's answer. Which is it?

Hon SIMON O'BRIEN: We are required by law to have a four-year forward estimate in the budget. That clearly shows, as the honourable member knows, that the net debt of the general government sector peaks in our third out year and thereafter declines, and we would like that trend to continue and that represents a point in growth. No, I will not speculate or venture any guesses over the next 20 years, and I do not believe that that is my role. If any questions need to be put to the Treasurer about that, they can be put through the normal processes. But we are talking about clause 1 of the Western Australian Future Fund Bill.

The DEPUTY CHAIR (Hon Jon Ford): In the interests of trying to progress the clause—I see a bit of argy-bargy—I indicate that Hon Ken Travers is right in his line of questioning because he has indicated that he is seeking some information that may assist him in moving amendments that improve the bill, and that is definitely within the ambit of debate on clause 1. Also, the minister has clearly indicated that he does not wish to speculate on the fiscal position of the state in the forward years because he does not think that that would be helpful. I will leave it up to the will of the house, but perhaps there is another line of questioning that will help to progress the clause.

Hon KEN TRAVERS: I appreciate your sage advice, Mr Deputy Chair. In recent times there has been a lot of talk about the disconnect between the Australian–US exchange rate and the price of iron ore and that that will have a significant impact on state finances. It is common knowledge that earlier this year the government issued new savings targets for agencies to manage that issue for this financial year. In light of those changes, has the government done any modelling—the minister referred to solid projections for the next four years—over that four-year period on what the impact on net debt may be as a result of that structural disconnect and what the potential scenarios might be for how long that disconnect continues?

Hon SIMON O'BRIEN: The government has the benefit of Treasury advice on these matters and, yes, the contemplations the member asked about are not normally provided; they are provided to a subcommittee of the cabinet. Those figures relate to best estimates of exchange rates, royalty rates and what have you, and a range of other factors. They were produced to the house at budget time and the updated ones will be in the midyear review that comes out next month.

Hon KEN TRAVERS: I asked those questions because it relates to the odd way in which the detail of this bill must be handled. When one looks at the general government sector net debt over the forward estimate period—I have now found the figures so the minister is correct—on the current forward estimates, we will see a reduction in net debt in the final year of the forward estimates from the third year of the forward estimates. The net debt drops from $8.715 billion to $8.35 billion. That is an expected net debt decline of about $220 million. Of course, if the money that is currently held in the road trauma trust account that has not been expensed in the budget were to be fully expensed in accordance with the government's commitments—I am sure it will be by that stage—that decision alone would impact on getting us back to having no declining net debt figure. The other reason I think it is crucial for the minister to try to give us some more information on that today is that the general government operating statement for 2015–16 indicates that the government is expecting royalty income of $4.87 billion in this financial year, climbing to $6.239 billion in 2014–15 and to $6.563 billion in 2015–16. The difference between the figures for 2014–15 and 2015–16, which are up significantly on today's figures, even if we assume that we will get to what is predicted in 2014–15, is that the figure in 2015–16, if it were to be consistent with the figure for 2014–15, would take us back to a position in which net debt for the general government sector is climbing. I am keen to understand whether the government has a long-term strategy or commitment to return general government sector net debt to a zero or surplus position.

Hon SIMON O'BRIEN: There are an enormous number of factors, including those that have just been alluded to, and a whole lot more, that we seriously cannot definitively provide until they are known when we arrive at the time in question. Although, as with the budget, all the skill and knowledge of Treasury have gone into the projections that are being tossed around about the future fund in good faith, and I have confidence in them, I dare say that when we get to certain points in the calendar in the years ahead, as has been the case in years gone by, we will find that some of the figures have gone up and down and around from those that were originally cast. That is no great discovery. But it does not stop us from proceeding to pass a bill that provides that a certain amount of revenue will be put aside to be available for future Western Australian governments to allocate to communities. That is what this amount is about. I cannot tell members down to the nearest 0.00 of a per cent what those figures will be, so the opposition should not pretend that answers to those sorts of questions will weigh upon whether it seeks to amend the bill or perhaps even oppose the bill, as most of their speeches seemed to indicate. Let us not get away from the purpose of this clause. Clause 1 is about adopting the short title. I think we have done enough to do that if we are dinkum.

Hon KEN TRAVERS: One of the things that I learnt while sitting on the other side of this chamber was that the more often we get speeches such as that, the longer the debate goes on.

Hon Simon O'Brien: What does that mean?

Hon KEN TRAVERS: The minister can take it as he wants to—the literal meaning of the words. I am just making a casual observation from when I sat in the minister's position about the impact of a speech such as that.

Hon Simon O'Brien: Tell me, when you had your caucus meeting, did you decide when you were going to progress this bill? Did you set a deadline?

Hon KEN TRAVERS: I am trying to progress it. I keep asking questions; the minister keeps telling me that he is not in a position to answer them. I understand that that is how this chamber operates.

The DEPUTY CHAIR (Hon Jon Ford): Order, members! Noting the time, I will leave the chair for the taking of afternoon tea.

Committee interrupted, pursuant to standing orders.

[Continued on page 8175.]

Sitting suspended from 4.15 to 4.30 pm