FINANCIAL MANAGEMENT — FORMER LIBERAL–NATIONAL GOVERNMENT

Motion

HON SUE ELLERY (South Metropolitan — Leader of the House) [2.28 pm]: I move —

> That this house condemns the former Liberal–National government for its reckless mismanagement of the state's finances.

I have moved a motion that was originally put on the notice paper by Hon Sally Talbot. There is a sort of technical issue, if I may. There is a buzzing sound that keeps coming out of my speakers. I do not know whether someone can pay attention to that, but anyway.

I am pleased I can do this in one sense, because I think it is important to set out exactly the state of the finances that we inherited when we won the election on 11 March this year. There were a number of reasons that the previous government lost the election. Members will be given different lists of reasons depending on who they speak to, but some of the reasons include the following. There was a perception that the government was arrogant, tired, a bit out of puff and had failed to capitalise on the boom. There was the Colin Barnett factor, if I can call it that. It would depend on where people had their conversations, but he was the focus, pretty much across the state, of a huge amount of ill will that was directed towards him personally. There was also the view that no succession plan was in place. To those people who wanted to support the Liberal–National government but thought that it needed a different leader, it did not appear that it actually had one. There was a view that the only plan that the Liberal–National government had to deal with the state of the economy was to privatise. Its solution to fix the damage that it had done over eight and a half years was to privatise. There was deeply felt concern about jobs, not only for folk who were in the workforce, but also about whether their children would be able to find jobs in the future. They could not see the Liberal–National government doing anything to address that. There is also the matter that is at the heart of this motion. There was genuine concern that the Liberal–National government, contrary to all stereotypes, had wrecked the finances. The core of many people's concerns about Western Australia was that the finances were in a bad way and they could not see that the previous government would do anything to address it. Some three months post-election, a variety of new versions of history are being written. In the minds of some members opposite, there is a view that it was all about the media and that if the Liberal Party had got a better deal from the media, it might have stood a better chance of survival. I think that is a bit fanciful because the list of issues that people were thinking about when considering how to vote had little to do with the media's reporting of the election campaign. People made judgements on deeply felt issues. Going back to 2013, the Labor Party was aware of people's concerns about jobs. It was deeply and widely felt that the Liberal–National government was doing nothing to tackle the issue. We started to work on a plan for jobs in 2014. People engaged with us because they saw that we had an alternative. The notion that somehow the election was lost by the previous government because of the way the media reported on the campaign is, I think, a bit fanciful. Nevertheless, the state of the state's finances was one of the major issues. The previous government's inability to use increased revenues—I will talk in a minute about those increased revenues over the eight and a half years—to plan for a shift in the economy, to drive down debt and to deliver real outcomes for Western Australians was one of the most significant issues and one of the drivers of change.

People could see the difference in the state of the finances between when the previous government came to power and when it went out the door. These are some of the figures from when it came to government in 2008. The previous Labor government had paid down debt to $3.6 billion in its last budget and had delivered eight straight budget surpluses. It had built the Mandurah rail line debt free, due in no small part to the efforts of Hon Alannah MacTiernan. It had set money aside in a special bank account to build Fiona Stanley Hospital and had built an average of 11 new schools a year. It had delivered five rounds of tax cuts in its last four and a half years and had budgeted for two more tax cuts and included them in the forward estimates. Those tax cuts were about grouping provisions in payroll tax for small and medium businesses and for stamp duty to be abolished for non-real aspects of business purchases. Western Australia had a AAA credit rating; do members remember those days? I will talk about that in a minute. The state's unemployment rate was around 2.3 per cent.

Soon after 2008, the rot started to set in. The new government cancelled the planned tax cuts and broke its election promise to deliver $250 million in tax cuts to business. It had promised that any windfall revenue would be put into tax cuts, but it got around that promise by redefining what it meant by "windfall". A few years later, in 2013, it used the election slogan, "fully funded, fully costed". Does that sound familiar to anybody? We did not realise it at the time, but it meant that the promises were not funded at all and no work had been done on the costings. That is what that meant. We thought it meant that the Liberal–National government had done some work on the costings, had put the money in the budget and had the money to pay for its promises.

Hon Samantha Rowe: I think the public thought that as well.

Hon SUE ELLERY: I think that is what people in Western Australia thought as well in 2013.

Within weeks of being elected in 2013, the government started to run away from its promises. In fact, the Premier made the point that election promises were not really promises. It was running a million miles from its promises. Year after year, spending started to outstrip revenue. Premier Barnett made his infamous comment about the forward estimates, saying that they did not really mean anything. Forward estimates are the spread of finances over the four years that are set out in the budget every year. They are the government's plan. As much as the world is interested in a set of budget papers, they tell the world what the government plans to spend over the next four years, how it intends to split the money and what money it has. It is a very important document for planning and sending a message to those who look to the state government as a major lever-puller in the state's economy. According to the Premier of the previous government, the forward estimates did not really mean anything and nobody should pay any attention to them. If people took that view on the financials that they prepare for their business, a range of organisations would take a dim view of it. But that was the approach that the previous government took to managing the finances. It was a lackadaisical approach to what it needed to record and set out in its plan. The previous government started to show us that it did not need to follow its own forward estimates. It wasted some $28 million on a thing called MAX light rail, which ended up going nowhere and being nothing but cost the state $28 million in the process. It invested millions of dollars in apartments that remained empty. It spent more than $300 million on Muja A and B power stations and then closed them. It managed, or mismanaged—however members want to characterise it—the Pilbara underground power project, which blew out by more than $100 million because it was discovered that the ground was hard. Do you need to be a genius to figure that out? I was not looking at Hon Simon O'Brien when I used the word "genius"; I am sorry if I confused him!

Hon Simon O'Brien: No, sorry; I wasn't listening!

Hon SUE ELLERY: It is unusual and unkind for the member to even tell me that!

Hon Simon O'Brien: And tongue in cheek. Please go on; it's better listening to you rather than the original mover of this motion!

Hon SUE ELLERY: That is unkind as well!

Several members interjected.

Hon SUE ELLERY: She is not here to defend herself; she is away on urgent parliamentary business.

I was making the point that the grand plan for how we should spend hundreds of millions of dollars included a plan for underground power and then it went, "Oops, the ground's hard; we can't do it!" Debt started to climb —

Hon Simon O'Brien: You cancelled underground power schemes and —

Hon SUE ELLERY: Was it because the ground was hard?

The problem was that the previous government had story after story that led to a complete wreck of the finances after eight and a half years, and we now have to repair the damage. Debt started to climb. Right now, it is at $33 billion. Remember, when the Labor Party left government, it was $3.6 billion. As we come to the end of the financial year 2016–17, it is now $33 billion, and it is projected to climb to $41 billion in 2019–20. We had a Premier who did not care to pay attention to how he organised the finances. He was happy to spend and he was happy to make commitments during the caretaker period of the 2013 election. He was happy to keep spending but he was not happy to apply sensible, moderate, reasonable financial measures to how he managed the state's finances. As a result, he wrecked the state's finances and we lost the AAA credit rating. If members think about how rich we are as a state and our resources, capacity and diversity, we lost our AAA credit rating during a time of increased revenue. Year after year, revenues were increasing but we were losing our credit rating. How do those two things add up? We can only reach the same conclusion that the ratings agencies reached, which they talked about and which I will come back to in a minute. They basically said, "We don't think anyone in this government is paying attention. They are not sending us the signals that they are serious about addressing the financial state of Western Australia."

The previous Liberal–National government presided over and squandered the boom-time revenues. From 2008–09 to 2012–13, the state's total revenue grew by 32 per cent. From 2008–09 to 2012–13, state taxation grew by 47 per cent. This included a 55 per cent growth in payroll tax and a 50 per cent increase in transfer duty. Money was coming in; the problem was not that no money was coming in. At the same time as our own source revenues were booming, our debt increased by 501 per cent. When the Labor Party left government, state debt was $3.6 billion in 2007–08, $18.2 billion in 2012–13, and we now know it is in the range of $30 billion, heading to $40 billion. That means we, as an incoming state government, have an awful lot of work to do. We have to deal with not only the record levels of debt that were accumulated during a boom, but also the slowing economy and, depending on how we do our measurements, an economy that is in recession. We have to deal with trying to fix that, to catch up by diversifying the economy and fixing the debt problem we were left by the previous government. It is an absolutely diabolical set of circumstances. For the conservative parties who, in the history of our politics in Australia, have always claimed to be the good economic managers, it is absolutely astonishing. They completely blew that stereotype right out of the water. Whatever the perception is, the facts show us that the Labor government, led by Premiers Gallop and Carpenter, and Treasurer Ripper, delivered the safest, best set of books. The Liberal–National government delivered the worst set of books and now the McGowan–Wyatt team has to fix it. Because our economy has slowed so significantly, we now have less revenue. We collect less revenue from things like payroll tax and stamp duty while, at the same time, the goods and services tax affair sees us getting 34 cents in the dollar, down from 37 cents in the dollar just before the election. Payroll tax is forecast to decline by some 6.7 per cent in the financial year we are coming to the end of now and transfer duty is forecast to decline by pretty close to the same—about 6.3 per cent in this financial year.

Earlier, I referred to the AAA credit rating and I want to have a chat about that. The state government held a stable AAA outlook for 15 years until the former government lost it in September 2013, and we remain on a negative outlook. Western Australian debt is now rated by Moody's Investors Service as the riskiest, equal to South Australia and the Northern Territory. A key reason for our poor credit rating is that the state has the highest total non-financial public sector net debt as a share of revenue of any state. It is worth looking at what the rating agencies said at the time that they made those changes. In September 2013, an article in *The West Australian* titled "Triple-A-Rated Crisis: Rolled-gold credit loss puts spending under pressure" states —

> Ratings agency Standard & Poor's revealed yesterday that it would downgrade its assessment of the State's creditworthiness because it did not believe the Government had the "political will" to get its spending growth under control.

Further in the same article, it states —

> … S&P said the Government appeared to "lack the political will" to stick to its fiscal plan in a clear reference to a string of policy reversals announced since Mr Buswell's Budget on August 8.

He was the then Treasurer —

> …
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> "The downgrade reflects our view that while the fiscal action plan announced in WA's Budget improves the State's path, in our view there is likely to be slippage, reflecting our view of limited political will, as evidenced by the early revision of some Budget revenue and expenditure measures," …
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> "The rating could be pressured if WA's consolidated cash operating balance looked likely to fall into deficit without a convincing plan to return to surplus," …

That convincing plan to return to surplus never happened. The best proposal that the previous government could come up with to address its financial woes was to sell Western Power. That was the best it could do. The former government squandered the opportunity it had with the highest revenues—it squandered them. We can look at what the ratings agencies said over time. Currently, the total non-financial public sector net debt as a share of revenue is 82.3 per cent. When we were last in government in 2007–08, it was 19 per cent, and it is forecast in 2018–19 to go to 92.9 per cent.

If we go back to 1991, over that 15-year period, we can track how Moody's and Standard and Poor's have treated Western Australia. Things went awry in 2012-13 after record revenues. On 12 October 2012, there was a negative outlook. On 12 December, Moody's issued a negative outlook. On 13 September 2013, Standard and Poor's downgraded the state's credit rating to AA+. On 15 April 2014, Standard and Poor's put WA on a negative credit watch. In August that year, Moody's downgraded us to Aa1. In July 2015, Standard and Poor's issued another negative outlook. In June 2015, Moody's issued a negative outlook, and in February 2016, it downgraded us one step further. The credit rating agencies were sending serious messages to the government of the day and saying that they wanted to see the government's political will to demonstrate that it could set out a fiscal action plan and stick to it. However, the government of the day could not do it.

The debt and interest burden that we now have to address is staggering. In 2008-09, the *Pre-election Financial Projections Statement* forecast debt of about $6.8 billion. Of course we now know it is in the 30s and heading to the 40s. The Liberal-National government left us with a forecast of some $41 billion in debt by the end of the forward estimates period. When we were last in government, we delivered surpluses in the billions of dollars—$2.6 billion in 2006–07 and $2.3 billion in 2007–08. When we last left the Treasury office, our forecast annual average surpluses were around $1.7 billion in the out years. But once the new government came into office, this structural imbalance was created, and we are now left with trying to adjust it. Between 2013–14 and 2016–17, general government expenditure increased by $2.9 billion and revenue fell by $761 million, leaving a gap of about $3.6 billion. Interest costs will increase by about 50 per cent over the 2016–17 to 2019-20 period. By 2019–20, the state will be spending $1.2 billion a year on interest payments—not on building the things that we need or paying the people who we need to do the job, but on our interest. That is what we will be paying. That is more, for example, than the total cost of the Disability Services Commission. General government interest costs are the fastest growing area in the state budget. Over the period that it was in government, the Liberal–National government spent $4 billion on general government interest payments—that is interest payments! That is more than a full year of funding for student education across the entire state. The net amount appropriated to the Department of Education in 2015–16 was $4 billion, which is what the previous government spent on interest payments from 2008–09 to the end of 2016-17.

At the same time, when the economy started to shift, the previous government took no action to diversify the economy. It took no action to make adjustments and take advantage of the things that we had learnt and capitalised on during the boom. The previous government took no action. Employment rates started to fall and people looked to the state government for some direction on how this could be corrected or what levers the state government could pull to diversify the economy, but they saw nothing. The number of people in full-time employment remains well below recent highs, and a record proportion of those people want to work more hours. As at April this year, the number of people employed full-time in Western Australia has fallen by around 31 000 in trend terms since it peaked back in November 2012. The underemployment rate has surged from 5.8 per cent in 2011 to a record high in February this year of 10.4 per cent. The annual average participation rate in the state is the lowest it has been in over 11 years and Treasury is predicting a further decline in employment in 2016–17.

There were countless opportunities for government to take action to start to diversify the economy. There was low-hanging fruit. One example in my portfolio is international education. There are ample opportunities for us to expand what we do in not only bringing overseas students to Western Australia, but also selling our skills overseas. For example, in Malaysia, 16 schools deliver the Western Australian Certificate of Education. Those students complete our WACE and then they fly over us to go to a university in any other state in Australia. Had an investment been made some years ago into trying to turn that around, we would have started to see some results by now. Let us use the area of international education as an example. Work was done on developing a strategy but no money was put into making it happen. There were examples like that whereby the previous government could have done more and did not; it had the opportunity to diversify the economy and did not take it. We basically gifted those employment opportunities, that revenue and that sense of economic stability to the states with which we compete. There was lost opportunity after lost opportunity, which is why people in Western Australia started to think, “When I’m worried about my own job and my kids’ jobs, who do I look to to show me that they have the capacity to think beyond what is immediately in front of their face and plan for the future?” Those people saw nothing like that when they looked at the previous government. What they saw was increasing debt. They saw increasing revenue to the state, but, at the same time, an increase in spending. People saw economic mismanagement and that was in no small part why they made the decision that they made on 11 March.

I could talk for a long time about the GST, but I will not. I want to make a point about what happened at the time our revenues were increasing significantly. At that time we had record numbers of mortgage foreclosures. We had a record number of people living on Centrelink benefits and on limited and constrained incomes, and not being able to find rental housing. Every year in April, for about the past five years—it might be a bit longer now—Anglicare WA takes a snapshot of the ads for rental properties and then does the maths to work out what a person who is living on the variations of a Centrelink benefit could afford to rent. Anglicare does it across Western Australia and it adjusts its model for what could be rented in regional areas and whether the person is single or has kids et cetera, and it looks at various areas across metropolitan Perth as well. Over the period that the Barnett Liberal-National government was getting record revenues, the various April snapshots show that between zero and one per cent of rental properties were affordable for people who live on Centrelink benefits. At the time that the state was receiving the highest ever revenues and had the greatest capacity to help those in need, it was not helping them. Those people could not find rental properties to live in at a time when the state was going through its biggest boom. In that same period when our revenues were so high, mortgage defaults were also peaking. Every quarter the Supreme Court issues statistics about civil property possession applications lodged against people who have had to default on their mortgage. The statistics I have go back to 2008–09. At the peak period when revenues were at our highest, mortgage defaults were also at their peak. In 2012–13 some 1 046 mortgages were defaulted. That figure dropped a little in 2013–14 to 813 and went up again in 2014–15 and 2015–16. The number is still below 1 000, but at that peak in 2011–12, when our revenue was at its highest, some 1 500 Western Australians defaulted on their mortgages, which is an extraordinary set of circumstances in a state as rich as Western Australia.

Since the Labor government has been elected, due to circumstances completely beyond our control, things got even worse, if that is possible to believe. The *Overview of the Economic and Fiscal Outlook* released by the

Treasurer on 6 April this year indicates downward revision to revenue of $1.2 billion compared with that predicted before the election. The task before us to clean up the financial mess left behind by the former government has got worse because of the downward revision to revenue since the election. This motion makes the point that when the former government had the greatest opportunity to put money aside and plan for the future, diversify the skill base, improve opportunities for training and diversify the jobs market, it squandered it.

Debate interrupted, pursuant to standing orders.