

WESTERN AUSTRALIAN FUTURE FUND BILL 2012

Committee

Resumed from an earlier stage of the sitting. The Chair of Committees (Hon Matt Benson-Lidholm) in the chair; Hon Simon O'Brien (Minister for Finance) in charge of the bill.

Clause 1: Short title —

Committee was interrupted after the clause had been partly considered.

Hon KEN TRAVERS: Again, in the explanatory memorandum overview, reference is made to a figure of \$4.7 billion being the indicatively estimated amount that will be held in the fund at 30 June 2032. I wonder whether the minister could advise the committee how much of that \$4.7 billion is expected to have been capital or deposits made into the fund as opposed to interest that has been earned on the fund over that 20-year period.

Hon SIMON O'BRIEN: I do not have the actual total figure. I have all of the year-by-year figures in a table.

Hon Ken Travers: Are you able to table that?

Hon SIMON O'BRIEN: Yes, that is what I propose to do. This is the entirety of the figures. Could I table a single sheet headed "Interest calculation — future fund" for the information of members? It includes all the figures I have.

Leave granted. [See paper 5343.]

Hon KEN TRAVERS: When I had the briefing, which was very comprehensive and I indicate my appreciation to the officers who provided it, one of the questions I asked was how much the total market for semi-government and government bonds in Australia was. I had hoped that the minister might have provided that as part of his second reading speech—it was conveyed. I wonder whether the minister is able to provide an answer to that question now.

Hon SIMON O'BRIEN: There are two things. Firstly, in response to the previous question, we have done a calculation. The figure the member is looking for is \$2.36 billion, which is the aggregate amount. In relation to the member's last question, I am advised that he requested this information at a briefing. The information is somewhere in the system. I think it is with the Treasurer's office and it has not come out, so I am sorry if the member has not received the information, but I do not have it here. In the off chance that we do not get through the committee stage today, I will seek to source that information between now and our next thrill-packed instalment.

Hon Ken Travers: So as not to encourage me to prolong the debate any longer, could you give a commitment that even if we finish the debate today, you will provide it to us at the next sitting of the house?

Hon SIMON O'BRIEN: I will certainly follow it up with the Treasurer. I cannot imagine why it would not be forthcoming, so, yes, I give Hon Ken Travers that commitment to follow it up. And I would not mind if we did finish the committee stage!

Hon KEN TRAVERS: I am not sure which will occur, but I did not want to be encouraged by that, minister. But I appreciate that!

The other general question I have about clause 1 is: what are the estimated time frames in which we expect to be borrowing the money just for the next four years? What is the general average time that we borrow money for within the general government sector?

Hon Simon O'Brien: You mean any borrowings?

Hon KEN TRAVERS: Yes. The minister has clearly said that we are not borrowing specifically for this, but the net effect is that if we put this money into reducing debt, it would not be borrowing. I am trying to get an idea of the average time frame for which we have borrowings in the general government sector.

Hon SIMON O'BRIEN: I understand that there is a variety of terms, but to assist the member, the indicative average is around 3.5 years.

Clause put and passed.

Clauses 2 to 4 put and passed.

Clause 5: Western Australian Future Fund —

Hon KEN TRAVERS: I move —

Page 3, after line 15 — To insert —

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

It is clear that the Labor opposition has agreed to the policy of the bill. We have no difficulty with that. In the minister's earlier comments this afternoon he made reference to one of the things he likes about the bill; that is, it is full of good intentions. I think those were the words he used. As we all know, the minister is one who likes his proverbs and the like —

Hon Sue Ellery: Clichés.

Hon KEN TRAVERS: And his clichés. We know that the road to hell is paved with good intentions. Whilst there are good intentions in this bill, they are only good intentions when applied at the correct time. There is a very interesting question about when one should start to make deposits into this fund. During the debate on the short title we had a discussion about whether we are borrowing specifically for this fund. The minister said, no, it would be coming out of the royalty revenue. The real picture is that if we did not put money into this fund, state borrowings over the forward estimates periods would not go up at the rate at which they will go up. I have no problem with investing in the non-financial public sector—I always think that is a mouthful. I always like to just say “government trading enterprises”, because that is effectively what they are. There are plenty of government trading enterprises and it is my view that they will always hold debt, because so long as they have done a good business case, the money that goes into those funds will get a return greater than the cost of the borrowings from the activities in which they engage, and that will return money to pay off that debt. The general government sector, on the other hand, I think is completely different. We know that the debt accrued in that area has to be paid back out of the consolidated account every year. Traditionally, we have not had a great deal of debt in the general government sector. That has been the tradition in Western Australia. When Labor lost office in 2008, it was actually operating with a \$3 billion surplus. We have talked about it before. The first future fund ever in Western Australia was the Fiona Stanley Hospital account. Money was put aside during some good times when we were getting surpluses over and above what was expected at the time of the budget. We got windfall surpluses and that money was put aside. At the same time, we had some other windfall surpluses that were used to repay the debt from building the Mandurah railway line. We were in a position in which we constantly kept net debt in the general government sector at zero or were in surplus.

This fund will go for 20 years. I have just asked a range of questions and the minister said it was not possible to do that outward forecasting over the next 20 years. What we know for the next four years is that debt will continue to climb. At best, we can expect to get five basis points—I think that is what the figure was. Five basis points is actually 0.05 per cent in interest; that is what we will benefit from putting money into this fund rather than using it to retire that general government sector debt. The reality is that there does not have to be much in the way of risk or for things to go wrong for that five basis points to be wiped out. The fundamental flaw of the future fund bill as it is currently constructed, without applying this amendment, is that the government runs a very real risk of putting money into the fund and ending up with a negative rate of return for the state. We could end up with a situation in 20 years in which, if we have not been able to get state net debt down for the general government sector, the \$230 million revenue from that fund will actually not even match, or at best it will match, or at absolute best-case scenario will produce five basis points more than, the cost of the interest from that state net debt. That is irresponsible. The noble and good intentions outlined by the minister are absolutely ones that we agree with. We believe that we should put money aside. As I said in my contribution to the second reading debate, one thing that would be good —

The CHAIR: Order, members. Noting the time, I do need to report progress, on a roll as you may well be.

Hon KEN TRAVERS: I was hoping to get this through and then we could have passed the bill tonight!

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