LOAN BILL 2017

Second Reading

Resumed from 24 May.

HON Dr STEVE THOMAS (South West) [12.16 pm]: It appears that I am the first speaker!

Hon Stephen Dawson: Excellent.

Hon Dr STEVE THOMAS: Excellent! Thank you for the opportunity, Mr Acting President. Members will hopefully forgive me and give me a little largesse if I tend to continue a theme that I started in my first speech back, which was a rather forensic analysis of the economic fortunes of the state of Western Australia over a period of time. I was inspired by the words of Hon Simon O'Brien during the week. I was in the chair, and he is a little hard to hear from that distance, but I did —

Hon Stephen Dawson: He is an inspirational character.

Hon Dr STEVE THOMAS: He is an inspiration to us. Hon Simon O'Brien said that the Legislative Council is subject to —

The ACTING PRESIDENT (Hon Robin Chapple): Order, member! Can I confirm that you are the lead speaker?

Hon Dr STEVE THOMAS: Yes, I am the lead speaker for the opposition.

I was praising Hon Simon O'Brien and was interrupted in full flow! Hon Simon O'Brien was discussing the fact that the Legislative Council is an independent body and occasionally has to push back against the other place, the government and even Premiers of the day when it is appropriate. I will begin by going back to some of those key issues I discussed in my first speech about the economic management of the state. In that first speech I held up a number of charts to demonstrate some of the key material. If members are interested, I have a number of charts available in paper form that will demonstrate the various things I am about to talk about, over what I think will be a fair period of time. If members are interested in a more forensic examination of the financial state of Western Australia, I suggest they come and see me. Mr Acting Speaker—Mr Acting President, sorry; that was a slip back to somewhere else! I started that particular address by talking about what has effectively been the greatest financial boom in the history of Western Australia and certainly in over a century—perhaps the greatest boom in a millennium—and how governments on both sides, both Labor and Liberal, have experienced and enjoyed the benefits of some of that boom. We know that the revenues of the state increased dramatically over that time—effectively from 2001 to 2013–14, when the correction started to occur. That was when the expenditure of the state started to exceed the revenue for a couple of reasons. The first reason was a correction in the mining royalties boom, in particular, iron ore, which increased by 2 000 per cent over that period. It increased from a couple of hundred million dollars a year to $5 billion a year—a massive increase in revenue in that period. In the case of both governments, it was followed by a corresponding increase in expenditure. I want to come back to that and discuss where that expenditure has gone over time. This will be addressed in a number of parts. The first part will expand upon where I got to in my first address to this Parliament and talk about the financial position. Following that, I want to talk about how the future progresses from there. As a house of review, we need to demonstrate that we understand not only how the state got to where it is at the moment, but also how the state will change that position in the future. I will ask the government about its plan to manage the fiscal economy over upcoming years, and I will also talk at some length about the Liberal proposal, which involves the sale of Western Power.

Let us go back to the sheer basics. As I said in that first speech, there was a significant increase in both revenue and expenditure over two governments over four periods of Parliament. It has been said a number of times that the rise in population over that period was a significant contributor to the increase in expenditure. I will look at that a little bit more forensically. Revenue and expenditure went up by a significant amount. The population increase over the last eight years was about 2.46 per cent per annum—just under 20 per cent over that period. That increase is significant; it is higher than the Australian rate of population increase and the recent history of population increase in Western Australia. I ask honourable members: what was the increase under the previous government? It was just about dead on two per cent a year over the eight-year period. That is about 16 per cent. We need to look at the increase in population over previous governments. Governments prior to the Gallop and Carpenter Labor governments of 2001 to 2008 also had to deal with population increases. Those increases were in the order of a bit under two per cent. Increases in population as a component of government budgetary plans have to be dealt with within the normal operations of government. This is important. During the 1990s, the population increased at a bit under two per cent. By 2000, the fiscal boom was starting to move. As the fiscal boom started to move and as the resources sector in particular started to require a fairly major workforce, we started to see significant increases in population. The increases in population were in the order of 0.2 to 0.3 per cent per annum under the Labor government and 0.46 per cent per annum under the successive Liberal–National alliance government. We do not call it the coalition, do we? I have been in the federal sphere too long. Although there was an increase in population, I say two things to you, Mr Acting President. Every government has to plan for increases in population, and has to incorporate that into its fiscal plans. The increase was about 0.3 per cent per annum and then 0.46 per cent per annum, which is not insignificant. That increase is far higher than was the case in the rest of Australia. It is one part of the consideration of the fiscal plan that both governments during the boom from 2001 to 2014 needed to work into their various plans. It is important to remember that every government since the formation of Western Australia has had to deal with an increase in population.

As I will get fairly technical in this debate, I am happy to take interjections. Usually when a member talks economy, everybody switches off. We tend to use economists' personalities to keep them from producing progeny, and I suspect that we might be in that case. Hon Stephen Dawson has not taken a note yet.

Hon Stephen Dawson: I have!

Hon Dr STEVE THOMAS: It will be interesting when I come to how the new government will deal with the fiscal legacies of two governments, both Labor and Liberal. We saw in the chart I showed in my inaugural speech that the increase in expenditure and the increase in revenue did not suddenly appear in 2008. If members remember the charts, 2008 flattened out with the global financial crisis. A Labor boom was followed by a Liberal–National boom in the process. Two governments have dealt with a major increase in both revenue and expenditure. Honourable members are likely to be quite bored by this, but I want to spend a little bit of time talking about the difference in our budgeting systems —

Hon Stephen Dawson: Famous last words.

Hon Dr STEVE THOMAS: I have not finished yet.

I will talk about the difference in our budgeting systems between accrual and cash accounting in various government systems because I have worked in both state and federal systems. In the state system, new members will see that the budget will come out with an accrual accounting system set of papers called the general government operating statement, and, afterwards, it will come out with a cash operating statement. Appropriation bills in Western Australia, compared with the federal bills, pull out the capital appropriations and puts them into a separate bill, and it can be quite difficult to work out precisely where funding will go. I note with interest that there is a conversation federally about doing the same thing that the state does. It might be convenient to put capital expenditure to one side and divide it into good expenditure and bad expenditure. The good capital expenditure is probably stuff that you do not pay any interest on, and the bad expenditure is probably stuff that you do pay interest on. If you can show me something that you can borrow that you do not pay interest on, you are doing remarkably well. It would be something of a furphy to say that there are good and bad capital investments in terms of repayments because governments have to pay interest on all of it. That is not to say that there are not good and bad investments of capital. If governments invest in capital infrastructure that develops the economy, improves the way that people do business, enhances the economy and promotes growth, despite the fact that interest is still paid on it, that is a good outcome—unlike when investing capital in things that do not stimulate the economy. I note that the Minister for Regional Development is famous for recently talking about flower gardens developed in various towns under royalties for regions. As disturbing as this might be, I have some sympathy for that opinion. I have seen some very good capital investments out of the royalties for regions fund that will develop the economy, develop infrastructure and stimulate local business, but I have also seen a significant amount of that funding go into beautification programs that do not necessarily achieve a business outcome.

Hon Colin Holt: Like what?

Hon Dr STEVE THOMAS: I will come back to that in more detail in a minute.

Hon Martin Aldridge: Peter signed off on them.

Hon Peter Collier: On what?

Hon Martin Aldridge: On the petunias he's talking about.

Hon Dr STEVE THOMAS: On the petunias?

The ACTING PRESIDENT: Please continue.

Hon Dr STEVE THOMAS: Thank you, Mr Acting President.

Governments get into difficulty when we come to what we call social infrastructure. The most obvious example is probably when a government constructs a hospital. If the government builds a bigger hospital and provides medical services, it adds an additional cost to the operating budget over time. Some social infrastructure is required. During that period of boom both governments invested in some good fiscally stimulating infrastructure, and some social infrastructure that, although a long-term cost to the budget, could be considered good social infrastructure.

I will give members some examples. The Labor government invested significantly in the Perth–Mandurah rail line and it put the first billion dollars into Fiona Stanley Hospital; the incoming Liberal–National government put the second billion dollars into the Fiona Stanley Hospital. I do not think that any member of the Liberal Party would suggest that any of those were bad investments, but they were also investments that over time would add to the strain on the consolidated fund and the operating expenditure of the state. We need to be very careful where we expend those moneys.

The advantage of capital expenditure, in particular, in economically stimulating capital expenditure, is that at the end of that boom period we can reduce that spend quite significantly. Basically, a major building program occurs and when the boom starts to slide away, which we have seen happen, we can then reduce the build spend to pick that up. That becomes a way in which we can manage our budget. I will come back to other ways we can do that, because it is obviously the way we prepare for the boom and plan for that expenditure. We can reduce capital infrastructure but it is much more difficult to reduce salaries over time. I need to come back to that in a bit more detail. It is obviously quite proper to allow that sort of investment.

When we talk about that level of capital investment, it is extremely interesting to look at some of the technical details. The question I ask myself as we move into this process is: how much have we spent on fiscally stimulated capital and on social capital? It is often difficult to work out how much we have spent on capital compared with everything else, so I have done some research to look at that process. I will return to that in more detail soon. Members will remember that we have talked about defining the boom; that is, the 15-year period from 2001 to 2014. The question always comes up: at what point during the planning for the revenue and expenditure in government did somebody in Treasury decide that iron ore prices of $140 a tonne were the norm? I want to pay tribute to a minister in the previous government, Hon John Day, who was the Minister for Planning and then Minister for Health. He always had a plan, going back to my time in opposition a decade ago, to pick up the boom revenues and separate them out of the general government economy and to hold that money separately for key projects. At the time, he called it a futures fund, and we could talk in detail about how the Western Australian Future Fund was set up, although not necessarily with the kind of results we expected. Hon John Day’s view was that when we have a boom, we put the excess away. For those who are in the farming community, when the wheat price goes up to $500 a tonne, I do not know many farmers who would assume that it will be $500 a tonne forever and a day and set their budgets accordingly, so suddenly their fence posts are gold-plated and their wire stainless steel. But, in effect, that is what has happened with the fiscal economy.

My view is that we should always take a fairly conservative approach to the estimation of income. I will tell members why. It is a bit like being a veterinarian, which I am for those who do not know. Here is the secret to being a veterinarian: always be a little pessimistic! If I go along and say that an animal is not very sick and that it will be fine, and I cure it, people think I did not do anything; but if it dies, I killed it! If I take the same animal and say that this animal is terribly sick but I will do my best, and it gets better, I am a miracle worker; but if it does not, I told them so! It is the secret to veterinary science. I will let that out there as one of the great secrets of the trade. I suspect, but I do not know, that the doctors and other medical professionals may take a similar view—the clever ones at least!

In budgetary terms, let us say that the government assumed that the iron ore price was going to be particularly high and it factored that into its budget for the future, most particularly into its forward estimates, which are critical to the long-term management of the budget—there is no more important mechanism than managing those forward estimates to tell a government where it is going in the fiscal process. If the government factors in a relatively low price, and the iron ore price is higher, what is the outcome at the end of the financial year? Its pessimism has resulted in additional revenues, which now sit in a pool because the love of government is that it does not pay tax on it. This revenue sits in a pool and can then be apportioned to major projects. I remember in my time as shadow Treasurer, the then Treasurer Eric Ripper apportioned some of that money—for example, $1 billion went to Fiona Stanley Hospital. That is what happens if government is completely conservative about the iron ore estimates that it puts in place. If it puts in a very high price for iron ore and that is not reached, instead of having a pot left over with which it can do something, it has a hole. Hon John Day recognised this fact way back in about 2007 from memory, and he suggested a future fund. His suggestion was that if we managed expenditure, the extra revenue coming from what he and I both recognised as a short-term boom in the iron ore price, which would drive a short-term boom in the fiscal economy, would be sitting in a pot ready to put into major investment in infrastructure. Remember, I am not playing political favourites because the boom and the growth of revenue occurred over the period of two governments. If anybody in Treasury suggested to either government that the iron ore price would stay at over $100 a tonne for any significant period—I am talking for more than a couple years—they should be sacked. Members will remember that the chart I displayed in my first speech recognised that the long-term price of iron ore in 2006 had been between US$45 and US$60, and had been for 110 years, until the boom that Western Australia just experienced. Any person who is still in Treasury and who suggested that the iron ore price would stay at $140 a tonne in the budget for the future estimates of Western Australia with which government has to manage its fiscal economy should be sacked for incompetence now! Treasury should have taken an immensely conservative approach to the price that iron ore would revert to. I think the price hit $180 a tonne at one of the peaks of the spike, but it sat at around $140 a tonne for a while. If Treasury's advice was that the government could expect that sort of revenue growth over time, then Treasury would be incompetent, and governments should not have accepted that advice if they had received it, because it left the fiscal economy of Western Australia in a significant hole.

It would have been worse had not the volumes increased concurrently with the price initially. Of course, price drives volume. It is a well-known economic fact that price drives our turnover. If someone is making money off a product, they are going to try to increase volumes. It happens in farming and in every small business. The high price at over $100 a tonne drove significant increases in production and export. Let us look at what is happening to iron ore royalties. They went from $200 million a year up to $5 billion a year, and since the correction that started in 2013–14, they have dropped slightly but the volumes have kept those iron ore royalties up. That continues to impact our economy and our GST returns, which as we know from our previous discussion is not simply the commonwealth government pulling money out of an economy that was flat and trying to do us more harm, but was a result of a return to normal, over time, because of a redistribution.

I want to make a couple of comments on goods and services tax redistribution before we get into more technical detail. I note with interest that despite the fact that we in the Legislative Council are attempting to stimulate an economically literate debate on the finances of Western Australia, it is certainly my intention to make sure that we lift the standing of debate, which I think has been remarkably poor and dumbed down to a point at which I suspect that the average person who is listening does not understand why our GST is what it is. I encourage all members to talk to their local constituency about what is happening with the GST and ask them what they understand about the process. I suspect that most of them will tell members, as they tell me, that we went along perfectly happily and then suddenly the horrible people from Canberra stole all our GST and that is why we are poor. It is never discussed that this is a result of a major increase in the revenue of the state.

The Productivity Commission inquiry into what we call horizontal fiscal equalisation received a submission from the Commonwealth Grants Commission, which, to all intents and purposes, is the villain of the piece. It effectively takes away all the money because it does not like Western Australia. That submission states a couple of things. Obviously the commission was established in 1933, so I think it is coming to the end of its trial time! Probably most importantly it states that after governments agreed in the mid-1970s to a full and comprehensive equalisation for all states, the commission was given the task of advising how this could be achieved.

Basically, there was agreement by our forebears in the Parliament and government of Western Australia that horizontal fiscal equalisation was actually a good thing. I am not entirely sure when it became the enemy, unless it was when it was not to the benefit of Western Australia, which is something about which we need to be very cautious. Those members who are old enough will probably know that Sir Charles Court took over in 1974. I would imagine that Sir Charles Court, a man for whom I have the deepest respect, was proudly Western Australian and very partisan about our particular interests. I think Sir Charles Court looked at this and said that it obviously makes sense. Horizontal fiscal equalisation is a relatively fair and just tool. That is not to say that there are not things that need to be done to improve horizontal fiscal equalisation, because there are.

Hon Colin Holt: Maybe get rid of it.

Hon Dr STEVE THOMAS: The question is: why? Let us address that because I think it is important that we talk about why it exists and what we could do instead. The commentary in the press and the media at the moment—I see it all the time—seems to be that the enemy is horizontal fiscal policy and that if we could only get our share of the GST per capita, we would have all this money to spend. I read that in a major newspaper last week. As I said in my inaugural speech a couple of weeks ago, if we ask to be given our share of GST per capita, because it is a consumption tax, it is directly and unequivocally related to population and consumption. If we say that, we are saying that we are not sharing the boom. Hon Colin Holt made a good interjection. My question to him is: should Western Australia keep the entirety of the greatest boom it has ever had, or is it appropriate for it to share some of that with other states?

Hon Colin Holt: The question you should actually be asking is whether horizontal fiscal equalisation provides the opportunity for other states to do the lifting as well.

Hon Dr STEVE THOMAS: That is a very good question as well. I would still like to hear the answer to my question first though before I move onto that.

Hon Colin Holt: I think we already do.

Hon Dr STEVE THOMAS: Yes, we do, but I am asking whether it is appropriate.

Hon Colin Holt: We do, through other mechanisms as well.

The ACTING PRESIDENT: Order, members!

Hon Dr STEVE THOMAS: I am not sure I heard a response to that question. It was like asking the government a question. Actually, that is unfair; the minister gave me an answer yesterday, so I take that back.

The question is whether horizontal fiscal equalisation is an appropriate tool. I cannot believe that Sir Charles Court ignored it as a concept. It was agreed to by governments, state and federal, in the mid-1970s. It was not an issue until Western Australia was no longer a beneficiary. It is an issue and it does have an impact. My reason for referring to that is that the iron ore price was given a fillip over the past six months or so. It sits in a band between about $45 and $60 a tonne. It went up to about $80 a tonne there for a while. That is quite good for state revenue because it means the state gets more money. However, we know that iron ore royalties in particular are the reason that our own state revenue is so high, and that is why our GST return is so low. As the price goes up, the government will have more of a problem because that will be worked into the calculation. It is calculated over an average of a three-year period. In my view, real-time calculation of GST returns is one of the things that we are not talking about. It is a dangerous concept because when it was to Western Australia's benefit to average the price over five years and then three years, we said that it was a damn good idea. At the beginning of the boom, the major beneficiary at the time was the former Treasurer and my erstwhile combatant in the place that shall not be named in my role as shadow Treasurer, because he was receiving the benefit of the averaging out. As the income went up, the correction was delayed. That is why on the charts of increasing revenue and expenditure, he got an initial fillip. This is why the government has had the money to invest in major infrastructure projects, which I have said are great and with which we agree—that is, the Mandurah railway—because the process at that time of averaging over five years, and later three years, meant that the balancing effect of the Commonwealth Grants Commission was deferred. Of course, that is a bigger issue now because as the iron ore price goes up, the negative impact of revenue by the state means that we will be penalised for another three years.

In my view, real-time calculation of GST revenues to adjust for what is a fairly volatile indicator, which is commodity prices, is absolutely essential. That is one of the things we could do to improve the relativity of Western Australia at a time when it would have an impact, because we do not seem to be very good at planning for future fiscal variations. As I said before, it is critical that we look at the forward estimates to measure where we are going. If we are not very good at that, we will have to fall back to the approach of relying on pocket money. In my day we used to get about $2 a week in pocket money. The tuckshop was very cheap back then, so we did not need much money. If we cannot manage the flow of money in and out when we need it, we basically must plan to store it, so we need to be able to choose whether we can manage that. I think that because the state has not been great at managing the forward planning of the economy, it is essential that we go back to a real-time, year-by-year calculation of the GST, because that is critical in a volatile marketplace.

I want to address a couple of other points about that calculation. I return to the comments of Hon Colin Holt about encouraging the states to develop their own revenues and the potential change of the distribution to make that happen. Talking about media, a major mining company has come out in support of that process and one would expect it to, for two reasons. The first is that it is a resources development company so one would expect it to be supportive of anything that promotes resources development, no matter where it is. The second is that other proposals are just for resources companies to pick up the dropping of the GST, so if the choice is us or them, they will always choose "us" and make "them" pay. It is therefore not surprising for the major resources sector to say, "Let's change the system."

It is important that states be encouraged to develop their own economies, but it is a double-edged sword, and I will explain why. Hon Alannah MacTiernan—another former combatant in the place that shall not be named—and I agree on a certain issue. In our view, gambling taxes should be part of the calculation that makes it possible for Western Australia to choose not to inflict widespread gambling upon its people. She and I have both made public comments on that; we agreed furiously a decade ago and I suspect we still do. To be honest, I am not aware of any member of either chamber who would suggest that the current system is completely fair. However, a word of caution: if the state of Western Australia took what we might call the moral decision—in *Yes, Minister* terms, "very brave, Minister"!—that gambling is not part of the social fabric of Western Australia, we would need to be very cautious if we then said to New South Wales and Victoria, "If you take a moral stand on gas exploration—in particular, fracking—we will not allow you to take that moral decision; you are expected to develop those resources and make that part of the calculation of your GST, so you receive less", at the same time as saying, "We think our gambling tax is a moral obligation; we are opposed to gambling and we demand a different rule." As I said in my first speech, one of the biggest issues we unfortunately have in Western Australia is our expectation that the rules will be changed for us because it is convenient for us.

If this august body, the Legislative Council, was running the commonwealth of Australia, would we provide a set of rules that we varied on a whim to the benefit of one of the constituent states over another? I think we would find that that would be pretty hard to do, although it would be to our benefit. I am reminded, as I frequently am, of the words of Professor Greg Craven, who I think is an excellent speaker. If members ever get the chance to listen to him speak on constitutional issues, I can highly recommend it; it is a highly educational process. He was an adviser to a former Premier of Victoria and president of the Hawks, Jeff Kennett, and he often tells a story about Council of Australian Governments' meetings. I noted with interest commentary by the Premier during the week to the effect that the eastern states seemed to be a pretty close club—that they all got together to talk and interact and that they all knew each other. Guess what? It is true; they do. They interact, they talk, they communicate and they have level conversations. Professor Craven has said publicly on a number of occasions that at meetings such as COAG, the other states tended to wait for Western Australia to come along and make some outlandishly cowboy-ish statement about how we know better in the west and how we need to be treated differently from everyone else. The other states would allow that to go on and then, when Western Australia moved off, they would all sit down, have a sensible conversation and fix the issues they wanted fixed. I have heard him say that a couple of times in his much more eloquent way.

Traditionally, Western Australia is inclined to expect the rules to be changed just for us, and we are kidding ourselves. More importantly, we are allowing that delusion to impact on our budget process. We are also allowing that delusion to become the widespread community opinion of fiscal management in Western Australia. I mentioned in my first speech that any proposal to increase mining revenues to the state government—I call it a tax, but one could call it a rental payment—to change the fiscal outcome of Western Australia would be utterly reliant on a new set of rules that would unilaterally benefit one state over another. That would be like a parent having a different set of rules for each child.

Hon Martin Aldridge: They did it with the iron ore fines.

Hon Dr STEVE THOMAS: The state of Western Australia had a different value for iron ore fines and the commonwealth government recognised that. There have been occasional exceptions—I am reminded of North West Shelf gas project royalties, which were passed back to the state of Western Australia in a far greater and more productive manner—but they are incredibly rare.

It has to be argued from a position of mutual respect. To come out unilaterally and say, "We have the solution: another tier of government will simply change the rules", makes us look like we do not know what we are doing and are unable to have a sensible fiscal conversation about the future of Western Australia. It is not the only proposal out there; other ones propose that a proportion of our royalties will not be treated in the same way. As I said in my first speech, the problem with that is that every time we do it, another state gets to do it as well, so we find ourselves stuck in a situation of significant debt, and that debt is going to rise.

I want to talk a bit more about good and bad asset development. There has been some good investment by both the previous Labor and Liberal–National governments and capacity has improved as a result. I have done this calculation two ways. I have looked at appropriation bills—in Western Australia they are divided into capital and general government appropriations—and I have looked in hindsight at capital expenditure in the budget documents. Both tools are quite useful. We can look at what is called the purchase of non-financial assets in both the operating statement and the cash accounting system, and compare it with what was appropriated, and the numbers are somewhat similar. Two previous governments invested significantly in capital, but I was a little surprised to discover that the capital investment of the most recent Liberal–National government was approximately twice that of the Gallop–Carpenter government. Of course, general government revenues were also twice the amount, as a proportion, of available expenditure. Both governments put about 12.9 per cent of expenditure into capital assets. As I have said before, some of them were very good investments that improved the standard of Western Australia, but some of them have question marks over them.

I look forward to a member of the National Party speaking, as I am sure they will, on the Loan Bill 2017. I had a look at the level of royalties for regions funding that went into capital. This might be something Hon Martin Aldridge could have a look at when he speaks on that bill. I looked at that as a measure of government expenditure, particularly in the appropriation bills. The joy of the Western Australian accounting system is that it breaks up appropriations into capital and recurrent, and within those bills there is a capital appropriation for royalties for regions. To be honest, I expected royalties for regions capital expenditure to be the vast bulk of the expenditure for royalties for regions, which is a billion-dollar-a-year program.

Sitting suspended from 1.00 to 2.00 pm

The ACTING PRESIDENT (Hon Matthew Swinbourn): Hon Dr Steve Thomas—I was going to say "Taylor"—has the call.

Hon Dr STEVE THOMAS: Thank you, Mr Acting President. Is this your first time in the chair?

The ACTING PRESIDENT: No, second. Can't you tell?

Hon Dr STEVE THOMAS: Congratulations.

Just to fill members in on where I was before the lunchbreak, I had started by praising Hon Simon O'Brien. Does the honourable member want me to start again from there?

Hon Simon O'Brien: It is worth recapping.

Hon Dr STEVE THOMAS: It is worth recapping how inspiring his speech was, but we will not put it to a division! I will not go back quite that far. I was discussing the economic literacy of the state of Western Australia and how we need to manage our budget by using the old cliché "within our means". That cliché gets thrown around a lot. I have to say that having worked in the federal sphere for the past three years, it gets thrown around an awful lot. I will come back and very briefly do a bit on the federal fiscal economy as well, because it is most interesting.

Before the break, I was discussing the royalties for regions program. Members can look at what I said in *Hansard*. I was talking about projects that might not necessarily have been deliverers of economic benefit and drivers of economic growth but would have been social infrastructure, and then about capital investments of, let us say, questionable return to the community of Western Australia. There was a candidate in the south west for the Liberal Party in the seat of Warren–Blackwood who was very strong on the issue of royalties for regions. His name is Ross Woodhouse, bless him. He, like me, is in the isolated far-right wing of the Liberal Party. He believes that we need to not get used to having handouts from the public purse, and really that government's role is not to provide handouts but to stimulate the economy and, more than anything else, to get out of the way and allow business to develop itself. Wherever Ross went he was very good. He built his own businesses up from scratch without government handouts. I like to think that I am in a similar boat. This is about where royalties for regions potentially delivers social infrastructure of questionable economic return. I was asked by one honourable member to come up with some examples. It is perhaps a little obvious to jump to, but I will talk about Osprey Village in Port Hedland. Let us talk about the capital investment in councils, particularly in recreation centres, where councils were delivered infrastructure and, at the end of the process, had to spend money to maintain them. In some cases, they could not manage to do so, because proper economic planning does not come into the equation at the beginning of the process. Obviously, there was an iron ore boom and the north west population exploded. Because of the population required up there at the time, access to housing became difficult and rents became excessive. Let us come back to where this proper planning falls down, which is the point at which iron ore royalties start to correct themselves and when rents and housing prices go back to normal. The answer is that it was a short-term bubble of high prices, which was always going to correct fairly quickly. There are ways and means to address that without necessarily committing to major capital expenditure in places where it is only going to be required for a short time. That is the critical bit. When we talk about accommodation infrastructure in boom towns, I struggle to convince any economically literate person that long-term investment in accommodation is actually a good measure of government expenditure in a place where there is a short-term boom of accommodation requirements. Mining companies manage this all the time; they call them mining camps. When there is a boom for a while and an increase in accommodation is needed, the private sector manages it beautifully; it brings accommodation into place and when the work shifts, the accommodation shifts as well. When we talk about investment in infrastructure, the royalties for regions program has not always been the most successful mechanism for delivering that. I look forward to somebody telling me that it is, because, as I said before the break, my calculations show that in many years, less than half the billion-dollar royalties for regions budget was actually spent on capital, so I am keen to see whether there is a separate set of figures in that process. That is something we need to address, and I hope we will do so.

Before the break, I was also talking about the dumbing down of the economic debate in Western Australia. It is true that it is easy to simply blame the GST on its own for all the fiscal problems in Western Australia. We have already explained several times why that is not the case. I am sure that federal members, both Labor and Liberal, have this issue of everybody saying, "It's very easy; just fix it." Well, it is not necessarily that simple. I was particularly amused to see on the news and read in the newspapers in the last couple of weeks that a new political party would be formed with the simple, single-issue agenda of rectifying GST payments. I believe that former Labor mayor Chas Hopkins is the head of this party, this new cabal of politicians, who in my view are the economic illiterati of Western Australia. I am always cautious with crossbenchers, because occasionally there are single-issue parties. There are none present in this chamber, thank heavens.

Several members interjected.

The ACTING PRESIDENT: Order! The conversation across the chamber is not in order.

Hon Dr STEVE THOMAS: Was not the original slogan, "Just say no"? Hang on, that was Nancy Reagan; sorry. I always get that confused with the early Greens—just say no to everything. They have progressed since then. Now political parties across the board are much more educated and much more sensible about those outcomes.

We have a new political party. Members might be able to remind me what its name is. It is WA First or something along those lines. Longstanding political analysts were called upon. This party may well win a couple of Senate seats. This is going to be a player. I say to the honourable members of the Legislative Council of Western Australia that if the economic illiterati party of Western Australia is successful at winning seats at the next election, not only has my entire agenda to educate and bring up the standard of economic debate in the Legislative Council been a complete failure, but also surely the functioning of the Legislative Council of Western Australia and the government of Western Australia will be a complete failure as well. If members opposite can dumb down the argument to a point at which they say, "I will stand up for something", even though it makes no logical economic sense and it is completely undeliverable, they might win future seats in Parliament. Our prayers in the morning should say, "God help the state of Western Australia", because that is the state we have come to. That is not to say we have not had economic issues, but surely we can raise the debate beyond that level. I find that astounding.

It is not perhaps the only silly statement that has been made about changing the goods and services tax distribution. I hear them quite regularly. Having worked in the federal sphere, in the past 18 months in particular, I have heard threats that the Liberal Party in Western Australia will be wiped out, and only the foreign minister will retain her seat. If we allow the economic argument to stay dumbed down, maybe that is possible. However, I can guarantee that if that happens and the state Labor government is greeted by an incoming federal Labor government, nothing will change. Does the Labor Party have a guarantee from Hon Bill Shorten, the federal Leader of the Opposition, that special GST distribution rules for Western Australia will be put in place by a federal Labor government? I do not think so. Do you know what? In this new economically literate Legislative Council of Western Australia we say that we probably understand why. In my view, the federal Liberal government is not about to cut significant special deals.

I have spoken before about the proposal to exclude 25 per cent of royalties and I think that will be very difficult to deliver. That is not to say we should not necessarily work on it because it is the government of Western Australia's role, be it the current Labor government or the previous Liberal–National government, to go to Canberra and negotiate the best deal possible. The current Premier has done that and the previous Premier did that. I still think Sir Charles Court was the best at it, and I think history proves him to be the most successful. That is the role of government, but it needs to be realistic. As I said in my first speech, going to Canberra and acting like a boy on the floor in the lolly shop, hands and feet flailing, is not the way to influence our colleagues.

When we again address those issues, the Labor Party has to face another question. We now recognise that our revenue expenditure situation, of which the GST is but one small component, has left us with significant debt. The Loan Bill before the house effectively indicates that general government debt will increase from $33 billion to $44 billion. General government debt increased significantly over the boom period and general government debt is the greatest growth factor. When honourable members get to budget time, they will get a great big set of books that are very difficult to read through, but it is really important they get to the baseline bits, because they can get bogged down. Being budget literate is as important as being economically literate because that is how we measure the state's performance. I urge members to look at the budget to look for those key budget measures, and debt is critical among them. It is confusing because as we divide the budget into general government and general government plus all the associated entities such as Western Power and Water Corporation in particular with total public service revenue expenditure and debt, it gets a little bit complicated. It is in the Treasury budget briefing, which, hopefully, all members have been offered, that additional debt will go into general government expenditure. This is general government expenditure that we are now coming up for. This debt is significant. The question we need to ask ourselves, honourable members, is: what is the government's plan to manage it? I think I have done a good couple of hours on the forensic analysis of how we got here, and there is a little bit more of that to go. Let us talk about what we do next because this is the critical question.

At one point there was a plan. I think that is fantastic because we need a plan. As I have said numerous times, honourable members, we need to plan for the future and to give forward estimates the respect they deserve because that tells us where the target is. During the election campaign, according to the great bastion and hotbed of conservative views, the ABC—no-one called me to order for that!

Hon Peter Collier: It's not unparliamentary; it's accurate.

Hon Dr STEVE THOMAS: The ABC stated, and I quote —

> Shadow treasurer Ben Wyatt said if elected Labor would introduce legislation to establish a debt reduction account.

That sounds quite reasonable. I like a plan. To continue —

> Under the plan, half of the royalties earned from iron ore would go into a debt reduction account, but only after WA's GST share returned above 65 cents in the dollar and the price of iron ore reached $85 a tonne.

There will come a time when our share of the GST reaches 65 cents in the dollar, when our revenues balance to a point at which we are not earning significantly higher levels than the states that we subsidise. We are always cautious about those return rates because, as we say, we do not like per capita suggestions of GST distribution because that would mean we would not share anything—we would keep our toys all for ourselves. It is interesting when we examine the iron ore price of $85 a tonne. Members might remember that in my first speech, I used a couple of charts.

The ACTING PRESIDENT (Hon Matthew Swinbourn): Honourable member, I think you are aware of the standing orders regarding props.

Hon Dr STEVE THOMAS: We do not want a chart? That is okay. It is in a tabled paper, so members can look it up.

Hon Peter Collier: You can use them.

The ACTING PRESIDENT: My apologies, honourable member, you have already tabled it. I was not aware of that.

Hon Dr STEVE THOMAS: That is okay; I am sure you were just trying to make sure that the standing orders were properly adhered to, Mr Acting President. I thank you for your guidance.

The ACTING PRESIDENT: I do enjoy your props.

Hon Dr STEVE THOMAS: Thank you. Members will remember that that chart from my research and that of the federal Parliamentary Library indicated that at the peak of iron ore between what we call the boom times, 2001 and 2014, the price got above $80 a tonne, but in 1957—this is in 2006 dollars—it never reached that.

Hon Jim Chown: How many years was it above $85 a tonne?

Hon Dr STEVE THOMAS: It was $85 a tonne for approximately three financial years in the greatest boom in the history of Western Australia.

If members do not trust my figures, they might remember that we looked back at 110 years ago through City Research to discover that that three-year boom was the only one in 110 years. A plan seeking to reduce debt when the iron ore price reaches $85 a tonne will come into action, on average, in three financial years every 110 years at best, and maybe in three financial years every 1 000 years for all I know. It is only once in a potentially millennial boom that the iron ore price will provide that opportunity. I have not got to the funny part yet. Even though it will never get there, the funny part is that if iron ore prices go back to over $85 a tonne, as I discussed in my first speech and earlier today, what will happen? Because of the Commonwealth Grants Commission, the GST return will come down. That is very clever! Even if we got $85 a tonne, by definition, the GST share would go back to under 65c. The Labor Party economic plan for paying off the debt during the election campaign was a nonsense. If the government does get the price, it loses the GST. It is astounding. Is that the level of economic debate that would be acceptable to this diverse and intelligent Legislative Council of Western Australia? I do not think so, and, neither, I hope, do those on the other side.

Hon Jim Chown: That’s yet to be seen.

Hon Dr STEVE THOMAS: True, because we have to come back to the plan; otherwise, we are looking at dribs and drabs of payments over time. I apologise to the house because we are going to get into a little bit of Keynesian economics.

Distinguished Visitors — City of Gosnells

THE ACTING PRESIDENT (Hon Matthew Swinbourn): Honourable member, before you get into Keynesian economics, this might be an opportunity to interrupt you to acknowledge some people in the public gallery. I would like to acknowledge in the public gallery representatives of the City of Gosnells: the mayor, Ms Olwen Searle, and Councillors Mitchell, Goode, Dewhurst and Lynes, and their families.

Debate Resumed

Hon Dr STEVE THOMAS: We are not sure which school the students in the public gallery are from, but we also welcome them to our chamber today.

Do I need to go back to talking about Hon Simon O’Brien? No, I do not. I was talking about the fact that a policy to start making repayments when the price of iron ore reaches $85 a tonne and when GST returns are 65c or more obviously will not work. How do we do this? I will come up with the occasional suggestion for the current Labor government about what it might do. It is a very difficult process to manage, with general government debt heading for $42 billion plus, and that does not count the $5 billion worth of election commitments that somehow also need to be worked into the process.

These are not small biscuits. What does government generally do? The modern economic thinking that was brought about in the early 1900s was that running up government debt is not much of an issue. A $42 billion, $43 billion or $44 billion debt in total government terms in Western Australia might sound big, but if the government does not spend a significant amount of money over the next 25 years, that $45 billion or more will actually look like a much smaller amount. As revenues grow, as we saw during the boom, the level of debt becomes less significant and it becomes far easier for governments of the future to pay it off. That has been used at a state and federal level and internationally as an economic reason that it is okay to have significant debt; that is, a generation in the future will be able to pay off that debt reasonably easily. Of course, we know that for the most part, government interest rates are quite reasonable. We all wish our businesses could operate on the same interest rates as government does. We are not looking at inflationary growth. However, there is a flaw that never gets discussed; that is, for that particular economic policy to work, successive governments must not spend excessive amounts of money. As a new government comes in, it has to say, “We have inherited $33 billion of total government debt. We know it is going to go up a bit, but we basically need to have no additional expenditure and no additional borrowings so that in two generations’ time, our grandchildren can pay off that debt relatively comfortably.” That is a great idea, except that I do not know a government that spends sufficient money to make that happen. Somebody has to do the hard yards. Successive governments have to be austere. If nothing else, I think the recent election in Great Britain has demonstrated that austerity is not necessarily popular. It is certainly not popular in our own house if we have to limit pocket money to $2 a week. Austerity is never popular; it does not gain a government votes. The economic policy—I consider it left-wing economic policy, obviously—that suggests that significant debt is reasonable because a future generation will pay it off has been illogically used over time. I think it is simply a burden that we leave for future generations of Western Australians. I am getting on a bit now, but perhaps Hon Aaron Stonehouse might be paying off my share of that debt when he reaches my age or perhaps is a little older. That might be his responsibility instead of ours, and that is assuming that nobody continues to spend money in the meantime.

Hon Aaron Stonehouse interjected.

Hon Dr STEVE THOMAS: Okay; that is excellent, because Keynes always worried me.

Hon Colin Tincknell: It’s a good time to make a change and act on that.

Hon Dr STEVE THOMAS: No; that is right. My time is running out, but the next generation is here to try to make a difference, and that is fantastic. I am sure that Hon Aaron Stonehouse will make a valuable contribution in his discussion on the Loan Bill, and I look forward to hearing what the generation that will inherit the debt from us has to say about that inheritance. It is an unfortunate reality that, in a general legal sense, a person is not required to accept an inheritance, so if their parents leave them a debt, they are not required to inherit it, unless they are legally tied as an entity. That does not apply to governments and Parliaments, so, unfortunately, that generation will have no choice but to inherit the debt left to it. The Labor plan was, at that point, a plan that would never occur. As I say, sadly, that is the level of dumbing down of the economic debate that we have reached in Western Australia at, to be honest, both the state and federal levels. I find that very sad.

I will digress briefly to talk about the federal budget. Because I stand in the fairly hard right wing politically, I know that the 2014 federal budget was largely pilloried from pillar to post. The government’s presentation of that budget to the people of Australia left a lot to be desired and probably was, to a large degree, responsible for the outcome and the backlash. But there were some things in that budget that have been fairly important over time. Although the budget was poorly presented, it asked the people of Australia to recognise and value the services provided by government and to make a contribution to those services, because they are valued best by making a contribution. I will take a little bit of time to describe why, because once a person has done Keynesian economics, there is nothing left really. The proposal that people would make a small contribution to their own health through an initial 10-visit $7 fee when they visit the doctor was, in my view, fairly critical policy because it said to people that if they valued it, they could make a contribution. There is this old story in veterinary games—I am back to the veterinary profession, Mr Acting President, and I apologise for that—that if you give away a free horse, nobody wants it because there is obviously something wrong with it, but if you charge a moderate sum for it, you will be rushed off your feet because it obviously has a value. I think the federal proposal that people make a small contribution to health is critical.

In the intervening years between my stints in state Parliament, I did a bit of lecturing on politics, having had some experience in it. I was doing a guest spot at Edith Cowan University with a group of social work students. Social work students, on average, tend to be at least as equally left as I am right, but it was a great interaction. I had the discussion about them making a contribution rather than expecting a handout—so we are back to the argument about royalties for regions. I told the group of 20 or 30 students that I had spent some years with the chairman of the south west health forum in the south west of Western Australia and we oversaw state health development under the Court government in an area from Yarloop District Hospital down to Northcliffe and oversaw a $100 million budget.

I have some experience in health service delivery, which was, effectively, my stepping stone to Parliament. I said to this group of social work students that one of the issues that we often see is that people will make a regular appointment with their doctor if it is free. If we watch a person who has come out of a doctor’s surgery, we will frequently hear the statement, “How was that, Mr Baston?”, and when Mr Baston says it was very, very good, the receptionist will say, "Would you like to have another appointment next week?" It is a bit like McIntosh's law of social work. I think McIntosh's law applies also to doctors. Are members aware of McIntosh's law of social work?

Hon Peter Collier: No. Tell us about it.

Hon Dr STEVE THOMAS: McIntosh's law of social work is that the amount of work available for social workers will expand in direct proportion to the number of social workers available. If five social workers are available in a community of 1 000 people, those social workers will all work full time. If 50 social workers are available in that same population, they will still all work full time, because the amount of work will expand to meet the number of proponents rather than the demand. The same law applies to some degree to doctors. I said this during this class. One of the students had been the manager of a medical practice, and, as we would expect, he was outraged. He said that never happens. So, I thought this will be difficult to demonstrate, because unless we have experienced it, we probably do not know. Luckily for me, a young gentleman from Bridgetown, who was one of the only two males in the class, said, "My grandad does that all the time. He is one of those guys who goes to the doctor every week."

As I have said, there is an automatic acceptance of the provision of free service. Therefore, it was proposed that people would be required to make a small financial contribution of $7 for each visit, capped at 10 visits, or a maximum of $70 a year. It was not about gaining $70 a year from every person. It was about asking people to think about whether they really need to see the doctor next week or is it just a social visit that the taxpayer is paying for.

However, as a team of Liberals, we were dreadful at selling that proposal. We could not have the conversation. That is because we did not demonstrate the economic need for change before we announced the change. I certainly was not the decision-maker at the time, but, as a team of Liberals, although we understood the need, we did not enunciate it. Government is frequently not very good at telling people why it makes the changes that it makes. That was a very important change that will now probably never happen. When we read the reports about how the federal government's health budget and Medicare costs are blowing out, we need to think about how important those economic decisions are and how we need to sell those decisions well. That was a better policy than just saying we will pay off the debt when the price of iron ore is over $US85 a tonne. That is an example of how difficult it is to sell good policy.

I come now to the Labor government's plan to reduce debt. We know that a $US85 a tonne return for iron ore and a 65c in the dollar GST return is no plan at all. So, what is the plan? As I said in 2008 in my speech on the budget, which I repeated earlier this month, we have a couple of options. If we cannot control expenditure, we will go into debt and we will have to manage that debt. The Liberal Party had a policy going into the election about the sale of assets. I want to spend a bit of time talking about what are effectively the two options that are available to the government to manage the debt—which Hon Aaron Stonehouse is likely to inherit, plus 10 or 20 per cent. The first is to dramatically slash expenditure in order to make debt repayments. The other option is to sell assets. The sale of assets is not something that we should take lightly. Members should not assume that just because I sit on the far right of the Liberal Party, I would sell every asset. A proper business case should be associated with the sale of any asset. A sound reason should be given for why we need to sell that asset, and there should be a net economic return to the state of Western Australia from the sale of that asset. In addition, the services that were provided by that asset will still need to be provided, in a timely and fair fashion. Assets are sold by governments on both sides of the political spectrum. There is a long history to this. At a federal level, the sale of Qantas and the sale of the Commonwealth Bank were conducted by the Labor Party, under Paul Keating; that very clever, if sometimes abrasive, former federal Treasurer. The Liberal Party, under John Howard and Peter Costello, sold Telstra. Those major assets were sold to reduce debt. John Howard inherited significant debt. When I say "significant debt", that is nothing compared with the debt that exists today at both the state and federal level. Members should be aware that according to almost every source, state net debt per head of population is now greater than federal net debt, and heading further out. That means that the poor next generation—I am sorry to do this to Hon Aaron Stonehouse—will inherit not only state debt but also commonwealth debt and local government debt. We are not giving the next generation a light backpack to carry. We are putting big rocks in the backpack that Hon Aaron Stonehouse's generation will have to carry around. That is unless we can develop and improve our economic literacy.

Let us talk about the sale of assets. Both sides of politics do it. However, it needs to be done wisely and carefully. We can look at some of the assets that might be sold and whether that is necessarily a good thing to do. I want to talk in some detail about the proposal to sell Western Power. I have watched the power industry in great detail for decades, along with the coal industry around Collie, which I do not live very far away from. I will be brutally honest and tell members what Mike Nahan, the now Leader of the Opposition, and I agree and disagree on. We both agree that the sale of Western Power is an imperative. I am certain we both agree that the biggest issue we have is that we should have sold Western Power five years ago. In my view, Western Power is a declining asset, for the following reason. It is the part of the power sector that has the least capacity to grow in the future and the part of the power sector that is the most in decline. Power generation is also not in a great state. If anyone wants to buy power resources, they should buy a retailer. Part of the original Synergy, before Synergy was merged with Verve Energy, was retail. I am sorry if members do not know the history. Synergy was divided into three parts—Verve, which was generation; Western Power, which was distribution; and Synergy, which was the retail component. The two ends of the power industry were merged—that is, generation and retail were put back together in what is currently Synergy—and Western Power sits out on its own.

Where is the power industry going? Let us put aside the arguments that are taking place federally from the rump of the Liberal Party that is opposed to any kind of renewable or clean energy argument. Let us look at what happens specifically in Western Australia. The greatest growth of energy capacity is currently in the renewable sector. It is not in large-scale wind turbines and large-scale solar panels. The growth is basically in rooftop solar panels. The problem with the renewable energy target proposed by the federal government is that it does not make sense. Why are we restricting the renewable energy target to major projects, such as a major wind farm or a major solar farm? Renewable energy will hit its peak and become the greatest asset when all members in this place put solar panels on their roof and are independent from the grid. That is the future of the renewable energy marketplace. That is once we solve the storage problem. I am an optimist—I may be a cynic, but I am an optimistic cynic. I think that the issues of the storage of renewable energy will be fixed in the next five years. I do not have rooftop solar on my house yet. Costs for rooftop solar have gone down; in some places it is 10 per cent of what it was a decade ago. The storage component will be fixed as well. When that happens, instead of a few thousand people every year putting solar panels on their roofs and generating the vast majority of their energy for themselves, it will be a few hundred thousand people. Every year they will be stripping out of the system, which will do one crucial thing; it will not leave many people in the system. It can be seen now. Supermarkets and shopping malls are putting panels on their roofs. Last year I read about a shopping centre somewhere in Hon Tjorn Sibma's region in the northern suburbs that put on solar panels. It cost about $800 000 but saved it $300 000 a year. In three years it had paid off that investment.

Hon Peter Collier: It's still paying its network charges.

Hon Dr STEVE THOMAS: It has to pay its network charges. The member is absolutely right.

Hon Peter Collier interjected.

Hon Dr STEVE THOMAS: That is right.

When the storage issue is fixed, and it will be, that shopping centre will not be paying network charges; it will just disconnect. I tell members that so will I. I am an economic rationalist, so as soon as the storage problem is fixed and the economics makes sense, I will be off the system. A little bit of the back of Donnybrook through the hills will no longer be paying the network charge. It will not just be me; it will be hundreds of thousands of Western Australians. Members may argue that the big users will still be on the system, but the really big users of electricity—those in the resources sector—mostly produce their own energy. We do not supply huge amounts of energy to the resources sector, because they do it themselves. The resources sector itself is looking at renewable energy. As that process happens, fewer and fewer people will be engaged in the system so the network charges will have to be increased or the value of the product and return to the owner will decrease.

We are in an immediately negative spiral. I am happy to get into a debate about what the asset that the former government proposed during the election to sell was worth. The Leader of the Opposition, who was the Treasurer at the time, is absolutely certain that 51 per cent of it was worse $11 billion. I would happily throw that number around the chamber and see what people thought of it. If 51 per cent of it is worth $11 billion today, it is guaranteed that in a few years the whole lot of it will be worth that. A few years after that it will be effectively valueless because it will not be worth staying on the system. If someone's neighbours leave the system and go off the grid, those who remain will have to pay the entire cost of maintenance of the distribution network and will not be able to afford to be on it anyway. They will have no choice; when most everyone else jumps off, economically, the rest will have to jump off as well. They will be stuck and will have no choice. This is not opinion. The value of the entity that is Western Power is probably a matter of opinion. I am happy to debate that back and forth. Mike Nahan and I have great arguments about what we think it is worth—all very collegiate and cordial, of course. The reality is that there is no disagreement amongst anybody in the literate economic world that the asset will soon be worth half of what it is worth now.

The only argument that can be had about Western Power is when it should have been sold. My answer is that it should have been sold five years ago. That is a personal opinion and I am happy to have a debate about how quickly it has declined and whether we would have got more money for it five years ago than we would now. The reality is that the distribution network has no choice but to shrink and contract. As it does so, its remaining users will have to pay more or, inevitably, get off the grid over time. I am talking about five or 10 years. If the $11 billion valuation is accepted, it will be shattered in five or 10 years. There will be almost nothing left of it apart from the major distribution component.

I am even concerned about the value of the generation arm. I have been watching this industry for a long time. The power stations that the public sector owns are coming to the end of their use-by date. The Muja A and B units are gone; I have said publicly that I accept and agree with that. Muja C and D, which are the big coal units in Collie, are not as young as they used to be. They are older-generation units; those turbines are not in a great way. What is the state going to do when they close? What are they worth now and what is the state going to do? In my view, no matter which party is in government, the state will be looking at more private investment in power generation unless those units hold on long enough for technology to catch up to the point at which those power stations will be closed down and not replaced. We have an oversupply of about 1 000 megawatts of capacity right now. The government has set out its process for the reduction of the first few hundred megawatts, which is fine, but there is a lot more to come. The first Muja power station was built in the 1960s by, I believe, Premier Sir Charles Court, whom I might have mentioned I have some time for. Various governments since have added to that. The newest power station in Collie, the Collie A power station, was built under the Richard Court government. The Court family have bookended the history of power generation in Collie—not that the name Court is particularly popular there. I suspect that it is a fairly thankless task. Those power stations are from a couple of decades old to going back to the 1960s. I think there is an issue with generation. Unfortunately, if I was told to buy generation, I would say that I hope my superannuation company does not buy it because I think it has problems.

The crux of my argument for the sale of Western Power is not that it should not be sold—it should already have happened—but that it is a sell, not a buy. There was going to be a share float in which it hopefully would have picked up significant value. We could argue about the value of it. It is an asset that, in my view, was absolutely essential to be passed on while somebody would buy it because in time it will become a burden rather than an asset.

Hon Robin Scott: What about the person who buys it? Will it be an asset for them or will it be a burden? Surely somebody in the private sector will not want to buy something that is going to end up being a burden.

The ACTING PRESIDENT: The honourable member —

Hon Dr STEVE THOMAS: I am happy to take the interjection, Mr Acting President.

The ACTING PRESIDENT: It is a long interjection, so perhaps the honourable member can ask it in the corridors.

Hon Dr STEVE THOMAS: It is a very good question. At the end of all processes, all those in business would say caveat emptor—buyer beware. It was the right move for the government to sell it. Would I have purchased it? Let us see.

The government is opposed to the sale of Western Power. The Labor Party ran a whole election campaign on it that, in the end, will be to its own detriment. If it could have got $11 billion for 51 per cent of it, by the time this term of government comes to an end it will be sitting on a valueless product. The government will have effectively lost $11 billion for the state.

Hon Jim Chown: How much state debt could've been defrayed by that?

Hon Dr STEVE THOMAS: It is a good question. The state debt—not the general government debt—would have been defrayed. The question is what impact this would have had on the debt structure. It would have made no difference to general government debt as defined by the Loan Bill 2017 that is before the house. It is obviously general government debt. The debts held by Western Power are held in the total public sector. I know that sounds silly, but when we get to budget time we will go through in a lot more detail how that sits together. It would have removed $8 billion from the total public sector debt—immediately gone. Instead of the total public sector debt heading for $43 billion or $44 billion, it would have been $34 billion-ish.

Hon Colin Tincknell: At what cost to the consumers?

Hon Dr STEVE THOMAS: This is the question. This is the difficult part. The energy sector is governed by regulation, so the cost to the consumer is governed by regulation. A question needs to be asked, and this is the tricky part about the debate and this is why I say we should sell Western Power. Most businesses would look at the return on asset. Here is the hard bit and I guess the point of disagreement with a number of people who advocate for the sale of Western Power on the assumption that it is worth a very high price. Most businesses 10 years ago looked at the hurdle rate, which is the expected return on asset. It used to be called MROR—minimum rate of return. It was about 15 per cent. I think it is now under 10 per cent because economic times have changed. If a business is going to spend $11 billion for half an asset, it would expect a reasonable return on that.

Hon Jim Chown: It is a monopoly.

Hon Dr STEVE THOMAS: Yes. The difference with this is that it is a monopoly, and superannuation funds are often interested in long-term investment with government backing, effectively, so they could accept a significantly lower hurdle rate in their purchases. We do not have time for this debate, but I am happy to sit down over a couple of hours to debate the genuine purchase price, the value of Western Power and the kind of return on asset that would be required to reach that price. Does Hon Colin Tincknell see what I am saying? I guess the member is really asking: if a company purchased Western Power, would its rate of return require significant price increases? Under the proposal put forward, it would be a share float. If we sold the entirety of Western Power to a company, and we told them to take it, it is theirs and we abrogate responsibility for it, that company may then set a rate of return that would impact on power prices.

Hon Jim Chown: Prices are still regulated under the proposal.

Hon Dr STEVE THOMAS: Yes. Prices are still regulated under the proposal for a share float. No individual at that point has the power to make those decisions; and, if they did, the regulator, the Independent Market Operator, is still in place to ensure price control over that distribution. Our problem then is the longevity of that process, because as people start to drift off that power system, that value continues to go down. Let us assume that Western Power did not sell for the amount of money that we thought it would and the returns were not necessarily there. Say, for example, on a purely hypothetical basis, that it sold for $8 billion instead of $11 billion for 51 per cent.

Hon Jim Chown: That's $8 billion more than it would be worth in 15 years.

Hon Dr STEVE THOMAS: Precisely—that is where we are going. It is still $8 billion more than we would get for it in a decade. If the government sits on Western Power, it is going to be out of pocket. The argument is whether that will that impact on users. If we do nothing, it will absolutely impact on users because if we keep Western Power for the long term in purely government hands and the system changes so that we can no longer afford to charge the people who remain on the grid the amount of money that it costs to run it, electricity prices will go up anyway, or we will simply drive those people off the grid. Either way, unfortunately, there is no solution for consumers, apart from those who get off the grid, and that is where we are going. Ultimately, the current policy drives people off the grid because of the cost of it.

Hon Colin Tincknell: That is fine for the average income earner, but not the low income earner.

Hon Dr STEVE THOMAS: But it will not make any difference, honourable member —

The ACTING PRESIDENT: Honourable member, debate goes through the Chair.

Hon Dr STEVE THOMAS: You are quite right; sorry. The honourable member is absolutely right. For many people those power costs are quite prohibitive. The price of power is not cheap. For the average family it is a significant impost. I forget the average, but $3 000 a year in power prices is not an insignificant component, particularly for a single person on a pension. That would be more than 10 per cent of their disposal income.

Hon Jim Chown interjected.

Hon Dr STEVE THOMAS: Yes, that is right.

The ACTING PRESIDENT: I think Hon Jim Chown will have his opportunity to contribute to the debate at another time.

Hon Dr STEVE THOMAS: Although it is great to stimulate some debate across the chamber and have some intelligent economic discussion.

The ACTING PRESIDENT: Yes. That is for the corridors, I believe.

Hon Dr Sally Talbot: That is one way of describing it!

Hon Dr STEVE THOMAS: What—an intelligent economic debate? That is what we are aiming for, honourable member, and I look forward to Hon Dr Sally Talbot's contribution in time.

As we hold onto Western Power, the majority of people who remain on the grid will be low income earners because undoubtedly the first group of people who jump off the grid will be those on a significant income who invest in the solar panels and battery storage. Some of them are already doing so. The low income earners will be left carrying the burden under the current proposal. Regardless of whether Western Power is sold, those low income earners will carry that additional burden. They are the ones most at risk. They are at risk irrespective of the policy. The policy to sell or keep Western Power in both cases has a similar impact on low income earners. When we look at where power is going, we see that the argument that says we have to keep Western Power to protect low income earners is nonsense. It does not work. The sale of Western Power, the value of it and the price is a critical component, and I am happy to debate in the corridors whether the government would have got $11 billion for 51 per cent of it. A lot of personal opinion and judgement is involved in that, but the reality is whether the government can massively reduce expenditure.

Just to come back to the matter of a massive reduction in expenditure, I know members will talk about where we expend. As I have said, I have the actual numbers here, because I think they are useful to discuss and I will throw them out there. I refer to the boom period and the two governments, first Labor and then the Liberal–National government. In the Labor government, of the money available, 11.9 per cent of general government expenditure, according to its own budget papers and appropriation bills, was spent on infrastructure. Under the Liberal–National government, although the quantum was doubled, 11.8 per cent of general government expenditure was spent on capital infrastructure. The difference is a rounding error, in effect. In the interim, the wages bill in Western Australia has gone up significantly. At the beginning of the boom, the wages boom varied between 42 per cent and 44 per cent of general government expenditure, but by the end of the boom it was up to 49 per cent. That seven per cent expenditure increase may not sound like much, but on a budget of close to $30 billion, we are talking about a couple of billion dollars a year. It is much harder, as we said earlier, to play with the expenditure on salaries and wages than it is with infrastructure. Infrastructure can drift off. If there is no money left to build something new, we can manage that. Take the money in the boom and expend it. I am happy to give credit to both governments. Both governments did a very good job with that process.

If we do not sell Western Power to fix the budget, we will have to massively slash expenditure or massively increase revenue. Whatever we do, we have this same issue that when we increase own-source revenue, it has an impact on the GST share. We can do bits and pieces with that. Obviously, the government will increase the price of everything—power, water; all those things. That is one answer. The other answer is that if the government does not sell Western Power and it wants to make a significant impact on the total level of debt the government owes, what will it sell? Ports are interesting and come up occasionally. It is probably easiest to sell a port if it has a small number of users putting through a large amount of product. Two or three users of a port might be convinced to invest in it themselves, and that is probably fair enough. A port with a more diverse set of users is probably more problematic. The question is: what will the government sell to repay this debt or is it expecting to make billions of dollars' worth of cuts in expenditures? We cannot wait for a GST and iron ore price balance. The government will then have nothing left to play with. It then has to fit in $5 billion worth of election commitments on top of that. I note that there was $100 million for the seat of Bunbury and $100 million for the seat of Albany.

Hon Jim Chown: Uncosted by Treasury, nonetheless.

Hon Dr STEVE THOMAS: Yes. Let us see how that goes and see what it generally costs. But to live up to that proposal is, at this point, additional debt. We have diverged quite a bit on this path to economic literacy that we have embarked upon in the Legislative Council. We have come to a key question. I hope that every member keeps it in mind when they stand up to speak on the Loan Bill 2017. When they say that we should not owe them money, I want to hear solutions from an economically literate chamber about how it will happen. If it is to cut expenditure, do not be frightened to say so. If it is to sell assets, do not be frightened to say so. Somewhere, we have to have a debate about how we will pay off $34 billion worth of general government debt, and closer to $43 billion worth of total government debt. That is the place in which we really need to finish this debate. We probably should have said this at the start, but I do not think anybody in this chamber is interested in blocking supply. I know that is a shock! But at this point, nobody is necessarily saying that we will vote on the opposite side so that the government cannot have the money. There may well be suggestions about how to do it differently, but I am interested in this chamber debating how it gets better. If we can achieve that, we have done the job that Hon Simon O'Brien set for us in his initial statements. I began with him, so I will finish with him: this is a chamber that can stand up to government when needed and give a rational response.

HON COLIN TINCKNELL (South West) [3.03 pm]: As Hon Dr Steve Thomas indicated in finishing off his contribution, blocking supply is not really an option, but should we accept the inevitable trends that have happened since 2009? There are some other options I would like to talk about a little later. But to make the house aware, the Loan Bill 2017 closely follows the wording of the loan acts of 2009 onwards. Here are the borrowings authorised by previous loan acts. For the Loan Act 1997, it was $20 million; Loan Act 1999, $260 million; Loan Act 2003, $250 million; Loan Act 2009, $8 316 million; Loan Act 2012, $5 billion; Loan Act 2015, $8 billion; Loan Act 2016, $1.7 billion. Now we are here to debate the Loan Bill 2017 for $11 billion. This is a bad trend. If members look at graphs, they will see it is a horrifying trend. Although we are not talking about blocking supply, we want to debate how we can change that trend. We do not have all the ideas, but we would like to float a few ideas in front of the house and continue that debate. We are in that unenviable position in which we as members in the Legislative Council have no alternative but to pass this Loan Bill. To not do so would be putting the WA people in a crazy position and we would probably have to have another election. That is not a good option.

According to Jacob Kagi of the ABC on 10 February 2017, Western Australia's non-financial public sector debt is expected to reach $36.6 billion by 30 June 2017, which is just a few days away. Should the Legislative Council pass this Loan Bill for 2017? As a crossbencher, I could automatically use this for a bit of negotiating power between us and the government, but that is not the way we operate. We have said that, as a crossbench, we are here to progress this state. We want Western Australia to be in a better position in four years, not a worse position. Any future borrowings should be cautious and for immediate requirements only. We are now looking at approving $11 billion. We do not really know how that money will be spent. We are saying that we should be very cautious about this and it should be for immediate requirements only.

The previous Liberal–National government quite honestly needs to be ashamed of this state debt. It was mismanagement at the highest level and it put the Western Australian people and the current government in a very dangerous position. It has caused a loss of reputation to WA and it has created a distressing and damaging trend delivering many, many years of raising debt government. People such as Hon Aaron Stonehouse will have to pay these debts.

We should not just be accepting the inevitable. We need to get outside our comfort zone and look for alternatives. This is very discouraging because previous Labor governments have had an average—let us say bad—record of running up debt, with high, unnecessary spending that is heavily influenced by the unions and vocal left-wing minorities. This trend cannot continue, as it is reckless and unsustainable. We need to put a lid on spending. No more extravagant shopping lists by unions and vocal left-wing minorities. No more fearmongering to multibillion-dollar private investment. We need to increase sustainable private investment now. I would dearly love to see this current government make smart decisions that will help get this state back on its feet again, but does it have the discipline to do that? That is the big question mark. I hope the government does. I hope in four years the Premier is considered one of the best Premiers we have ever had in this state. I hope that is the case. That is the big test. Why do we have to continue to accept rising debt? Why not plan for revenue surplus in the future? Why do we not have a future fund? Maybe if we did, we would not be in the position we are in now. I would like to offer another plan, and I would be happy to debate this at any stage. Please bear with me; this could take a bit of time.

The purpose of the Legislative Council is to review. The Legislative Council has the power to refer the Loan Bill 2017 to a standing committee or a select committee. That is option one. The budget could be brought down prior to the passage of the Loan Bill. The budget represents the business plan that lenders—for example, the purchasers of Western Australian government bonds—will use to judge what interest rate will attract their investment money. Major borrowings prior to the budget could require an unnecessarily high interest rate.

One probable effect of the passage of the Loan Bill 2017 will be the removal of the urgency in demanding redress from the commonwealth for the plundering of Western Australia through the unfair malapportionment of the goods and services tax. The cumulative loss to Western Australia from the commencement of GST on 1 July 2000 to the end of the 2017–18 financial year is calculated at $28.384 billion. Since the commencement of GST, the total of untied payments to Western Australia has been $13.527 billion. If the whole of this sum is offset against the amount plundered from Western Australia through GST, Western Australia, by 30 June 2018, will still suffer a cumulative deficit of $14.856 billion. The cumulative deficit to 30 June 2017 will be $10.432 billion, which is close to the $11 billion figure of projected borrowings foreshadowed by the Loan Bill 2017. These calculations are based on information supplied by the Commonwealth Grants Commission.

The federal government presently guarantees loans for Queensland of $1.998 billion in March 2017, down from $2.792 billion in May 2016; and for New South Wales, it guaranteed loans of $1.522 billion in March 2017, down from $2.819 billion in May 2016. Western Australia is entitled to expect that a commonwealth guarantee could reduce the interest rate payable by Western Australia. The best option is that the commonwealth borrows the money to make an untied grant to Western Australia of $14.856 billion to compensate Western Australia for 18 years of plundering to 30 June 2018. Another option is that the commonwealth borrows $11 billion and on-lends that sum to Western Australia at zero per cent interest. A purposeful representation to the commonwealth could certainly be made prior to the passage of the Loan Bill 2017.

In 2015–16, the revenue from the 25c per tonne levy upon 78 per cent of the state's iron ore exports earned $149.75 million for the WA Treasury. The net present value of $149.75 million for 30 years at a discount rate of four per cent is $2.589 million. At a discount rate of three per cent, the NPV of the cash flow is $2.935 million. There are international financiers willing to purchase 30 years of cash flow at a discount rate to be negotiated. Keep in mind that the Western Australian government can also assign part of this royalty stream in return for cash now. For example, the NPV at a four per cent discount for 30 years of the 7.5 per cent royalty on expected production of 55 million tonnes per year from the Roy Hill mine alone is $5.349 billion at $75. In other words, the government can sell its revenue stream for the probable life of just one mine for more than $5 billion. This form of financing should certainly be investigated before passage of the Loan Bill 2017.

That is all I have to say on that. We have no real alternative but to pass the bill, but we should be investigating other ways of financing the future, so that Hon Aaron Stonehouse is not responsible for the debt in the coming years.

HON SIMON O'BRIEN (South Metropolitan) [3.16 pm]: I was a little slow to get to my feet, in case any members opposite wished to make a contribution, but they are obviously still collecting their thoughts. We have had some thoughtful contributions from the last two speakers, and I thank them for it. Members should not blame them if they think that they have inspired me to make some comments, because I was going to do so anyway. Even though this is a money bill, I am also keen that we focus some thoughts particularly on the nature of the bill, because it presents a problem for us, and people are perhaps prematurely asserting that we should never block supply in this place. I will come to that in a moment.

We are looking at the Loan Bill 2017, and that, in the first instance, takes us to not only the text of a very short bill, with only five clauses, but also the second reading speech to work out what it is about. What it is about is very straightforward, and I do not propose to lecture the house about what this sort of bill does or does not do. I think that has already been touched upon in a number of ways before. In reviewing the second reading speech, which is the government's speech in support of its bill, my attention was drawn to this passage —

> In opposition, we were highly critical of the huge increase in borrowings incurred by the previous government. We continue to be concerned with the direction and magnitude of the state's public sector borrowings.

That is what the government asserts as part of presenting us with a Loan Bill for $11 billion to be applied to expenditure as yet unspecified in its placement and its time frame. I am also concerned with the direction and magnitude of the state's public sector borrowings, and in view of that remark delivered by the minister in charge of the bill in the second reading speech that the new government continues to be concerned with the direction and magnitude of the state's public sector borrowings, first the thing I would say in response to that is: well, what are you going to do about it? The honourable minister representing the Treasurer in this place and managing the bill is, as we have all noticed, very solicitously listening to the debate and making notes as he endures this particular form of purgatory, which is what happens when members get to the government benches.

Hon Dr Steve Thomas: That's what the big money is for.

Hon SIMON O'BRIEN: It is not very big money and, believe me, it is not enough money.

Hon Jim Chown: Now frozen.

Hon SIMON O'BRIEN: And it is now frozen. However, it is not enough money for the amount of grief, aggravation, work and stress that a ministerial job entails, particularly for someone as conscientious as Hon Stephen Dawson. Although I have empathy, indeed sympathy, and understanding, he should not think for a moment that I am going to relieve his burden in any way. I am sorry to ask the minister something that relates to the bill, but the first thing I would like to know is, in view of the comment in the second reading speech about the minister's concern with the direction and magnitude of the state's public sector borrowings, what he is going to do about it, because I do not know that the government plans to do anything about it except ask us in here to authorise another $11 billion of the same. That is quite some gilding the lily! Despite any record anyone might like to point to over the last eight and a half years, that is a very significant amount, and I do not think we have enough supporting argument for it. I turn to my good friend Hon Stephen Dawson because I knew him before he was a minister, of course. I know how conscientious he is and how keen he will be to get to his feet and respond before too many more sitting weeks have elapsed. One of the questions I am hoping he will respond to is: what is he going to do about it?

I have looked at a slide that was provided as part of a briefing on the bill. Let us face it, when we have a bill with only five clauses and only two or three—what is the word for clauses that give effect—material clauses, not much can be put into a briefing. However, members may have seen a slide during their briefing—if they did not, I can make it available to members—that shows a projection of total public sector net debt. I am looking at the rise that has inevitably incurred over the years. I appreciate, Mr Acting President, that Hansard cannot write down a graph, and I am not going to ask for it to be incorporated, but members who have seen this and other tables will, of course, be concerned to note the rise in consolidated account borrowings as discrete from other borrowings, and they will note that the future forecast from this year and the subsequent three years is going ever and ever up. If we are so concerned about it, what are we going to do about it? If the minister wishes, he can start by telling us that it is all very terrible that the government has accepted the responsibilities that it accrued post-11 March. Government members can get up and talk, if they are so inclined, about the best set of books ever and the worst set of this and that, and other hyperbola, which is a dog that has caught the car, but we want to know what they are going to do with it. They can then tell us, as Hon Steve Thomas was putting to us, that is it not interesting that the government now has to deal with the consequences of vertical fiscal imbalance of an entire commonwealth that seems united against us and our interests and does not give a rat's about our prospects here in Western Australia. I am going to talk about some of the minister's ministerial responsibilities as part of this address and hopefully offer him some pointers. However, when there are income streams that are subject to the vagaries of commodity prices, which in turn are then compounded by GST funding formulas that are three years after the material events concerned, and all the rest of it, yes, it is a tough deal. The question then, of course, is: what is he going to do about it? I think I have applied sufficient repetition and emphasis on that point.

Hon Stephen Dawson: I've written that one down twice. I'll have an answer for you.

Hon SIMON O'BRIEN: I am sure it would not be tedious repetition, but if the minister were to tell us twice that would be good, because I do not think that he will be able to tell us once.

Hon Stephen Dawson: I shall certainly try, member.

Hon SIMON O'BRIEN: I am sure the minister will. He will be very conscientious about that, I have no doubt.

I then come to the substantive—that is the word I was looking for—clauses of the bill and note that they are basically about permission to raise $11 billion in loans, and that is it. For what, we do not know. Why is it necessary and how is it going to be applied? We have been told that a surplus was provided in the term of a previous government through a previous loan bill to make sure that there was money through to 30 June. The second reading speech then goes on to state —

> It included a $1.2 million buffer for any further deterioration in central revenue that may emerge … As expected, the $1.2 billion buffer is all that will remain available by the end of this financial year. It is expected that this residual borrowing will be utilised during July, exhausting the remaining loan authorisation.

An amount of $1.2 billion further! Are we seriously going through money at that rate so that $1.2 billion in loan funds will be exhausted during the next month? That strikes me as quite extraordinary. Perhaps there are some payments that become due from 1 July that I am not immediately aware of that might explain a lot of that. Perhaps the minister can let us know in his response. In any case, $11 billion is a staggering amount of money. Why is that quantum being applied now? I will ask him straight: is it because the government is trying to avoid having to come back with subsequent loan bills and cannot bear going through all this each time, with the attendant adverse political publicity of, "Here they are, back again, seeking more money"?

Hon Stephen Dawson: You know I enjoy listening to you.

Hon SIMON O'BRIEN: I will not be here forever.

Hon Stephen Dawson: I bet you will.

Hon SIMON O'BRIEN: Sometimes it will seem like it, because there is only one thing that an opposition can really do when it is in opposition. If the minister does not know what that is, I will tell him about it when we have a break outside the chamber. It rhymes with "threepenny bits"!

Anyway, $11 billion is a very significant sum of money. I put it to the minister, with the greatest respect, that it is far more than is required and than the government can demonstrate is required and, therefore, it is far more than should be applied for through this bill; it is more than this Parliament should agree to. That raises a problem for us. Having asserted that it is too much, or that we cannot justify from the information we have available to us that it is required at this time, why should the Parliament agree to it? Then we have these questions of blocking supply, because this is a money bill. Supply, of course, comes from appropriation bills in due course. This is not an appropriation bill, but it is enabling legislation that allows the government to borrow money to put into the consolidated account so that in due course, when appropriation has to be made, there actually will be some money in there to draw down upon. We are talking about a money bill; there is no doubt about it. Of course, this is a bill that, sadly, this house may not amend, but we ought to. It is funny how we can talk about billions of dollars just off the cuff, but if this were a loan bill for $4 billion, $5 billion or even $6 billion, I would still want it to be accompanied by some of the information that I have just requested, but, recognising the reality of the state's financial situation, I would feel far more comfortable about agreeing to it than agreeing to an $11 billion loan bill.

Hon Pierre Yang: You created it; you should know it.

Hon SIMON O'BRIEN: The jingoism of government is almost endearing, but that sort of jingoism is precisely what it is. I urge my friend opposite to look a little more analytically at what has brought us to the situation that we are in. If he wants to get up after me, we will all look forward to hearing him explain how the state's finances work and he can tell us how a whole range of matters worth hundreds of millions of dollars a time can be inflicted on any government —

Hon Pierre Yang: The $27 million Hale House.

Hon SIMON O'BRIEN: As members appreciate, I am trying to conclude my remarks so that I can sit down, but these interjections might be distracting me!

When hundreds of millions of dollars of variations come out of the blue simply because a commodity's market value changes and that affects royalty receipts, and when Labor-backed central commissions take billions of dollars in funds from this state and give them to some other states in the commonwealth, apparently almost arbitrarily and without any sort of hindrance, they are the sorts of things that are very hard for any government to manage, including the current Labor government, which is now squealing its head off in dismay because, quite apart from any Barnetts, Nahans or anybody else, suddenly a few hundred million dollars more has disappeared with a change in commodity prices: "Oh, dear, what are we going to do about it?" I am not the only one asking the government what it is going to do about it; the government is asking what it is going to do about it. Now Hon Pierre Yang is asking why we are in this situation and is saying that perhaps it is something to do with Hale House. Does

Hon Pierre Yang know what was housed in Hale House before its current incarnation as the Premier's office, and that does not just mean an office with a desk in it; that means an office with all the attendant staff, together with the cabinet offices and rooms?

Hon Pierre Yang: Do carry on.

Hon SIMON O'BRIEN: No. I am keen for the member to show me. Does he know what was in there? It was part of the Department of Education. The Leader of the House can tell the member about that and the minister to her right can tell him what part of the Department of Education it was. Was it not the part of the Department of Education responsible for looking after students with disability? I think it was. It was crammed into this clapped-out old building with these rickety old staircases. This was the part of the department responsible for looking after students with disability and there were staircases everywhere.

Hon Stephen Dawson: I think it was for the hearing impaired.

Hon SIMON O'BRIEN: It was responsible for those with a hearing disability, too, was it? Boy, was it past its use-by date. It was the old headmaster's house and part of the original Hale School before the Constitutional Centre occupied the buildings at the far end.

Hon Colin Tincknell: It sounds like the office the DPC has given me!

Hon Alison Xamon: It does. I can confirm that to be the case.

Hon SIMON O'BRIEN: These are other priorities that members may wish to discuss.

Those were heritage buildings in government ownership and, in the first instance, they had to be maintained and then they had to be restored and we had to find a use for them. That is why a decision was made for them to be restored and for a new progressive permanent use to be found for them, which got us away from renting property in the middle of the CBD—for example, in Governor Stirling Tower—and paying all the outgoings that go with that. In short, that was the reason that work was done on that property. Whether or not the member thinks it is a good idea, let us let people vote with their feet. Before the election, Mark McGowan used to swear he would never set foot in the place if he ever became Premier. He is in there now. He has got the people from the radio station there and he has got his sunnies on. He is having a whale of a time, is he not? But Hon Pierre Yang wants to evict him. Where would he go?

Hon Alison Xamon: He can go into my office!

Hon SIMON O'BRIEN: Does the member serve full-strength beer in her office?

Why do I know this? I know it because I used to be the owner of those buildings. When I was Minister for Finance, I was the titular owner of 2 800 or so non-residential government buildings around the state and also had responsibility for the agency called Building Management and Works, which carried out those alterations and completed them on time and on budget. I never got any credit for that, but I bet that if they had run over time and over budget, I would have heard all about it. If there is anything else that the member wants to know about Hale House, just sing out and I will let him know.

I also said that I wanted to use this opportunity to raise a few issues, in particular with the minister who will be shortly at the table. When I say "shortly", it might be in geological terms. Before we get to what promises to be a protracted and exhausting committee stage, I want to raise in the second reading debate some other matters and they also touch on the financial viability of the state but in a very serious way.

I heard the minister on radio this morning in his capacity as Minister for Disability Services, and I thought I would offer him some advice. This government obviously has not worked out what it wants to do with the National Disability Insurance Scheme, and it does not want to get it wrong. I want to offer a few views that might help. I have taken a bit of interest in the disability sector over the years. What I would say to all members in this house is that amid all the talk about national schemes, intergenerational timelines and increasing the Medicare levy, we should not forget that we are talking about people. We are talking about individuals and their families. That seems to have been forgotten amid all the ideological breast-beating and government posturing about cost shifting, or intended cost shifting, and all the rest of it. I want all members to know, through you, Mr Acting President, that the evolution of the Western Australian model for disability services has been characterised by something that other states would aspire to. Typically, that has been a move away from a block funding model, whereby service providers are funded to look after a class of clients, to an individual funding model. Under the individual funding model, clients of the Disability Services Commission are empowered to source the services that best meet their individual needs. Individual funding also places pressure on service providers to lift their standards in order to gain further market share and secure their futures. Therefore, that is the model that we have gone with so far.

Hon Donna Faragher: We have led the way.

Hon SIMON O'BRIEN: We have more than led the way. We have left all the other states in our dust. Do not take my word for it. I am not the only former Minister for Disability Services in this chamber; there is also Hon Donna Faragher, who sits in front of me. Other members in this chamber also have a key interest in the provision of disability services, and I think they will support these comments. I have been to ministerial councils and have seen the demeanour and the approach of other states. The one thing they have always said, at least in my time, and I do not think it has changed, is "Gee, I wish we could do what you are doing." For many years, all the other states have looked to Western Australia as the way to go in the provision of disability services. I do not think anyone would disagree with that. The approach of the other states varies a bit as well. Some states aspire to the individual funding model. Others simply do not try. Some of the larger states have just given up, because it is too big a job and it is too hard. As the minister is researching and considering the position of this state, he is probably receiving advice that the genesis for the NDIS was the recognition by the commonwealth that in some of the large states, which cover a large part of the country, people with disability were not getting a fair go. People were saying, "Look at the situation in Western Australia. That is what we need to bottle. That is what everyone should be able to access."

Hon Stephen Dawson: I agree, member.

Hon SIMON O'BRIEN: I thank the minister for that interjection, because that is a positive sign. I have noticed that the minister has been nodding in agreement as I have asked whether he is getting this sort of advice. I thought the minister might be, and the minister is confirming that he is as he has been following this issue himself.

Some states are incapable or unwilling to do what we are doing in this state. They would like to be able to do it, but someone else will have to pay for it. Ultimately, I guess, Western Australia will end up paying for them as well.

Hon Nick Goiran: Yes—Hon Aaron Stonehouse!

Hon SIMON O'BRIEN: Yes. Hon Aaron Stonehouse is our long-term debtor of choice today, it would appear. Before our government assumed office in 2008, I could see all this coming up. This was in the early days of the NDIS. There were some things about the NDIS that I was worried about, the Disability Services Commission was worried about, and the Western Australian government was worried about. Those were the same things that we are worried about whenever a uniform system is promoted at a Council of Australian Governments or ministerial council level. That is: Will this be good for Western Australia? Will this provide a benefit to Western Australia? If we adopt this national scheme, will we by definition lose control of our own destiny? Will we be dragged down to the lowest common denominator? My main concern was the threat that all our progress would be done away with and we would be dragged down to the lowest common denominator. It would be great if people with disability in New South Wales were brought up to the standard of individual funding that is provided in this state. It would be great if their service providers, both government and non-government, could provide individually tailored services of the like that people with disability in this state have come to accept as standard. However, I do not want to enter into some sort of centralised—that is a word I use advisedly—scheme that will mean that everything is evened out and the Western Australian cohort will lose out. Will the funding that is provided through an increase in the Medicare levy or some other tax base be sucked out from Western Australia and given to people outside of Western Australia? Where will be the benefit in that at a time when forever Western Australians have been very generously subsidising the welfare of people with disability and their families? We have all been contributing, at a massive rate per capita, and we are proud of it, I hope. Why should that money now be evened out and given to people in other states whose governments have not been able to look after them so generously? I am sure the minister has heard these concerns, but possibly not in quite the vernacular in which I am offering them. I am trying to distil this argument to its absolute key points, and I hope that is offering the minister something useful.

Hon Stephen Dawson: Thank you.

Hon SIMON O'BRIEN: I will tell the minister this: if the minister ultimately decides that Western Australia will not be part of the national NDIS, for a whole range of reasons, I would be inclined to back the minister on that. I am serious. That is how dinkum I am.

Hon Peter Collier: Bipartisan support.

Hon SIMON O'BRIEN: We have always taken a bipartisan position on matters related to disability, in fairness, and I would like to see that continue. I hope that is of some use, minister. Who knows? Exchanges such as that can sometimes lead to further exchanges away from the floor of the house that may be of benefit. However, I tell members now that I do not think that the case has been made for us to sign over to a national system that promises to take away what people with disability in this state have acquired; it will cost us more and it gives us nothing of benefit in return. No doubt we will come back to that in due course. As I conclude on that point, minister, for the benefit of other members in the chamber let me try to reduce it back down to what I said it was about: it is not about national funding systems or intergenerational time lines or bloody—sorry!—jolly ministerial councils; it is about individuals and their families. Members should understand that in Western Australia—Dr Ruth Shean drilled this into me years ago—one in six people, as a rule of thumb, have a disability. Count the number of people in this room and of those about one in six of them need some assistance in their everyday life. Then, of course, there is a smaller group, perhaps one-sixth of that sixth, who need a much higher level of care. Of that care, 73 per cent is provided for nothing by family, friends and volunteers. They get support in some cases such as a carer's allowance and other supports, but the quality of our community is such that the vast bulk of that burden or care responsibility is taken on willingly by others in our community. However, government has a very vital role to play when it comes to people with high-care needs. Members all know the levels of disability that I am talking about that are not discriminatory in manner and do not necessarily affect the rich or the poor, the young or the old any more than anyone else. It can happen to anybody; it can happen to any family. When it comes to sourcing the supports necessary to enable that individual and their family to carry on, government needs to facilitate that access. If members have a constituent or a family member with very high care needs trying to find the communication channel they need to connect with services, do members want them to have contact with the local area coordinator in their neighbourhood who that family knows, who has been around to see them, who knows what their house and yard looks like, how big the family is and what their circumstances are, and who gave them their business card with a mobile phone number on it and said, "Ring me any time"? Do members want them to be able to ring that person or do they want them to get on to some Centrelink number, wait for two or three hours and then get nobody? That is my next point, Leader of the Opposition.

We know how wonderful—I am speaking ironically here, for the record—the commonwealth can be about accommodating individual needs when it comes to these national schemes in social security, the dole or whatever it might be. The commonwealth is very impersonal indeed. For some reason the commonwealth has decided that this service has to be centred in Geelong of all places—Geelong! I do not know what government department is going to be located where Holden had its factory but that is not a plan that meets our needs, and that matters to us. The people in Canberra, Sydney and Melbourne do not get it. They ought to get it, but we of all people need to get it. We need to understand this. If a person lives in Wollongong, Broken Hill, Newcastle or Parramatta, it probably does not matter whether the headquarters of the government service provider that they have to call up to access services is based in north Sydney or south Sydney; that is, it does not matter if a person has to ring up Sydney or a regional centre in Wollongong to get their service provider's attention. But if a person lives in Kwinana, Geraldton, Kalgoorlie or Albany —

Hon Colin Tincknell: Donnybrook.

Hon SIMON O'BRIEN: Did I hear Donnybrook? Any advance on Donnybrook? It makes a very big difference if a person lives in any of those locations. There will not necessarily be a Disability Services Commission office in every single hamlet, but I tell members this: we have gone pretty close to it with our local area coordinators. If the local coordinator needs to help a person get in touch with head office, it makes a very big difference if that head office is based in Perth as opposed to Sydney, or, dare I say it, Geelong—a very big difference indeed. If members do not believe me, they should try getting on the phone to Centrelink when they need to deal with the commonwealth government about one of its other national schemes. I think I have made the point. I just wanted to re-emphasise to the minister those thoughts on the matter that are held quite strongly on this side of the house. They may give him some encouragement when dealing with the centralists that infest governments from time to time and he needs to resist them.

I will return to the Loan Bill 2017. I have asked if we could have some explanation about the $11 billion. I do not have the choice of moving an amendment to make it $5 billion or $6 billion —

Hon Aaron Stonehouse: Or $1 billion.

Hon SIMON O'BRIEN: That would get the government through to only the end of July or August, so we need some explanation about that $1.2 billion. It will be exhausted by the end of next month.

Hon Colin Tincknell: Hon Aaron Stonehouse would not have to pay it back for the next 24 years.

Hon SIMON O'BRIEN: I am going to be asking some questions in the committee stage about the method of paying it back and I will refer to the words of the Premier who said that their plan to reduce debt was going to be to pay it off slowly and steadily like a home mortgage. I have no doubt that perhaps in his second reading reply the minister will be able to tell us about the government's program for paying off that mortgage. What is the term of the loan? I am thinking of Hon Aaron Stonehouse's future here, of course. Is it a 25-year term or a 30-year term? More realistically, is it a five-year term? I do not know. What are the rates at which we are going to pay it off, and if we are to pay it off slowly and steadily, like we do a mortgage, why are we taking out a second mortgage for $11 billion to go on top of what we have already got? They are the sorts of questions that I am sure the minister will explain the answers to in his second reading reply. I am just hugging myself in delicious anticipation of receiving that information because nobody else has been given that information yet, including, dare I say, the cabinet that approved this Loan Bill. I do not think anyone in government knows the answer to those questions, so why are we being asked to acquiesce? Maybe there is a case, if we cannot amend the bill, to oppose it. I look forward to the quality of the minister's response.

HON JIM CHOWN (Agricultural) [4.00 pm]: I am more than happy to participate in this afternoon's far-ranging debate on this significant bill, the Loan Bill 2017. I cannot help but note that at least a third of members in this house are new and most of them are crossbenchers. For their information, I will go into a bit of process here. Quite frankly, I find it very hard to stomach today's bill borrowing $11 billion without a budget being handed down or an estimates hearing taking place. I believe this is unprecedented. I also believe that for any government to ask us as Legislative Councillors to support this bill holds the process of this Parliament in absolute contempt. Yes, we cannot amend it. As Hon Colin Tincknell pointed out, other processes are available. Whether we go down that track is up to members to decide individually. A lot of it will be dependent on Hon Stephen Dawson's response to a number of questions when we reach the Committee of the Whole stage.

This Loan Bill is an $11 billion drawdown account. The Treasurer of the day, as I understand it, wants this bill in place by the end of our sittings and the end of the financial year; otherwise, the state will run out of money. There are a number of questions here. Why did we not have a budget earlier? There was time. Treasury does not go to sleep. It does not stop working just because there is an election. Every three months, it puts out income and expenditure reports to the government of the day—in this case, the Labor Party government. It knows full well the likely future expenditure. It has in place its policies that it advocated at large during the election. We know that those policies will cost $5.4 billion of expenditure, which is double the expenditure outlined by any other party. The Labor government introduced those policies knowing full well that this state has significant debts. We will not step away from that, and I will get back to that at some stage in the future in this address.

The issue here is that we are members of Parliament representing the community, and we are being pushed into a corner to approve $11 billion over a four-year term without any indication of what that money will be spent on. The government does not know because it does not have a budget yet. There is no indication from the Treasurer. He has waffled on this on a number of occasions. I refer to *The West Australian* on 15 May when he said that "ideally this will be the only Loan Bill". That is a definitive answer. He also said —

> "Hopefully, over the coming four years …

That is a definitive answer. In effect, we could approve for today $11 billion as a drawdown facility, and then in 12 months or 18 months or two years, we might be asked to do it again. We are responsible for these decisions. Members have to go back to their communities and say, "Yes, we agreed to the $11 billion." In two years, we will be pushed into a corner, through lack of parliamentary process by this government out of sheer arrogance, to do it again. What are we going to do? Members need to think about that. Government expenditure and debts and loans by governments are de rigueur today. These loans are about building infrastructure, which is imperative if our communities are to go forward. As Western Australians, we need to understand that per capita we are one of the wealthiest states in the world and we should not step back from that. Otherwise, Hon Aaron Stonehouse and people such as him will not have the ability to live as we do today with our standard of living with some of the best education systems, health systems and transport systems in the western world. Our population is 2.7 million in an area a third of the size of Australia. We are one of the best states in the world. If members do not agree with me, I urge them to go to the eastern states and look at some of the B and C-class roads over there. That is what borrowing is about.

The issue I am discussing today is the process the government has used in this place to ask for $11 billion over four years without any guarantee that it will not ask for more money at some stage in the future. What does it do? What has it done since it has formed government? It has blamed the previous government.

Hon Stephen Dawson: Whose fault was it?

Hon JIM CHOWN: I am more than happy to get to that, Hon Stephen Dawson. The government needs to own it. If Labor wants to be in the prime position and be the government of this state, it needs to step up and take care of its own responsibilities because it is very, very —

Hon Samantha Rowe: You should be embarrassed about how you left this state.

Hon JIM CHOWN: I am not embarrassed. Hon Samantha Rowe should tell me which hospital, which road and which school we should not have built. Tell me which one. Give me an example. The member cannot, because the government to which I belonged over an eight-year period built infrastructure that this state required and that the previous government should have built when it had the ability to do so. Labor was in power for eight years; it had billion-dollar surpluses. Nobody knows where the money went.

Hon Peter Collier: They didn't pay their teachers. They were the lowest paid teachers in the nation.

Hon JIM CHOWN: Exactly. We came to power at the height of the global financial crisis. Labor could not put any —

Hon Samantha Rowe: Keep going. You have 39 minutes.

Hon JIM CHOWN: Hang on. The member interjected; I am responding to her.

The ACTING PRESIDENT: Order, please!

Hon JIM CHOWN: I am responding to the member's interjection. If the member does not like what I am saying, fine; she should interject again. But when we came to power in 2008, some classrooms in this state were not staffed by qualified teachers. More police were leaving the police force than were joining it. The health system was in absolute disarray. It was absolutely disgusting.

Hon Simon O'Brien: It was falling apart.

Hon JIM CHOWN: Yes. We had to borrow money because our GST return was falling.

Hon Simon O'Brien: People couldn't get a bed.

Hon JIM CHOWN: Corridors were full of patients. There was ramping for days at every major tertiary hospital in this state. We rectified that and we did a lot more, and that cost money; there is no doubt about that all. As Hon Steve Thomas talked about, the GST share is a real issue for this state, but I will go back to the process that we are being pushed into by this government to borrow $11 billion over four years without any guarantee that the government will not ask for more. Why is that? I would like Hon Stephen Dawson to explain in his response to the second reading debate why the government is asking for $11 billion. The proper process would be to ask for whatever we need up to the budget time or the 2018 budget, and then we would give it serious consideration as responsible Legislative Councillors. The $11 billion over four years is the largest borrowing that this state has ever undertaken.

Can we imagine going to our bank manager and saying, "I want to borrow $11 billion. I don't know what I need it for but please give it to me"? That is what the government is asking us to do here. Tick! It is because it has no alternative. I think it is outrageous and it is a form of absolute arrogance that this government is showing on a daily basis. It is holding us personally in contempt and every member in this place in contempt. I would like to hear someone from the government back bench or any member opposite explain why this undertaking is being put forward to this house without reasonable debate or seeking a reasonable amount. There is silence—absolute silence. I assume Hon Stephen Dawson will have a response when his time comes, and that he will be advocating that the money is required to fund Labor policies that it put forward at the state election, such as Metronet. What was that worth? It was worth $5 billion.

Hon Stephen Dawson: It was not.

Hon JIM CHOWN: How much?

Hon Stephen Dawson: I will tell you later. Ask the questions now and you will get a response.

Hon JIM CHOWN: Fine. All right; it is $3 billion or $3.5 billion—in that figure.

Hon Stephen Dawson: First you said $5 billion and now you're saying $3.5 billion. You are making stuff up this afternoon, honourable member.

Hon JIM CHOWN: No, I am not. I will stand corrected.

The ACTING PRESIDENT: Members!

Hon JIM CHOWN: I am fine. The government's promises were $5.3 billion. Metronet was about $2.5 billion to $3 billion, from memory. Metronet was a major policy platform of the Labor Party at two elections when public transport patronage is declining at between five and 10 per cent per annum.

[Interruption.]

Hon JIM CHOWN: I thought that was the bell, Mr Acting President, but I was mistaken!

I am more than happy to hear from the minister acting on behalf of the Treasurer about where this money is being spent. I think it is absolutely essential that we understand and get some definitive figures, even though we do not have a budget, to put on *Hansard* for future reference and public scrutiny from this government before we approve this bill at all. I think it is absolutely essential. I expect the minister representing the Treasurer to outline in his reply to the second reading debate, line by line, where this borrowing is to be spent over the next four years, what the government's plan is, how it will back it up, and what consultation has taken place with each department for this expenditure. We do not want a thought bubble. We do not want something that the government makes up, as Hon Ken Baston saw during question time the other day. It is a very good example of how this government is prepared to mushroom the guys and ladies in this place.

On Tuesday, Hon Ken Baston asked the minister representing the Minister for Emergency Services a question relating to a 10 April report in *The West Australian*—so it was a public utterance by the minister—in which the minister estimated the cost of a rural fire service at $400 million. He asked if the costing was based on departmental advice or on modelling. That is a fair question and a responsible question from an opposition. The response was that it was not an estimate—that is fine—but a figure used to demonstrate the unaffordability of a Western Australian rural fire service comparable to eastern states models. What? One minute this is not an estimate, and then we find out it was not even a guesstimate. I do not know where the figure comes from; we may never know where the $400 million figure came from. For a minister of the Crown to respond to a question like that is a damn good example of how this government is operating and it is a perfect example of what this bill is asking us to do. That is an issue for us. It is an issue to which I and all members have to give some serious consideration over the next few days. We can all sit over here and say, "Yes, yes, rubberstamp", but if members think they are here to do that, I suggest they pack their bags and go home, because they would not be serving the communities that voted them in here.

The former government had a very good pre-election policy going forward—I admit we did not sell it very well, because it went forward at the last minute—which was the sale of 51 per cent of Western Power for a projected $11 billion. Who knows if it would have got to $11 billion? It might have got to $13 billion; it might have been $8 billion or $9 million, but the marketplace would have set that price. Hon Colin Tincknell asked about the people who cannot afford alternative forms of energy, and that is a good question. The end reality is that the people who cannot afford alternative forms of energy will subsidise those who can, and in 10 or 15 years they will be carrying the weight of the infrastructure of Western Power in every power bill. This is a massive issue.

The Labor Party in opposition went out and told the public of Western Australia a raft of lies that were based on nothing but fear. It played the fear game. It was prepared to sacrifice its own principles as honourable members of Parliament in the public arena to win government. That is absolutely untenable. The Labor Party was so desperate to win government after eight and a half years in opposition that it said and did everything and anything to do so, and that starts at the top, with the Premier. The Sicilians have a wonderful old saying: the smell always starts at the head. We have seen that again and again as this government has discovered that being in government is a very heady, responsible place to be. We have seen backflip after backflip, and we will get to the point at which Western Power will not be sold and we will therefore not be the recipients of the between $8 billion and $11 billion that would have at least defrayed $5 billion to $8 billion of state debt, while the rest could have been utilised on public infrastructure requirements. No, because the unions would not let it happen.

Debate interrupted, pursuant to standing orders.

[Continued on page 992.]

Sitting suspended from 4.15 to 4.30 pm