SELECT COMMITTEE INTO STATE DEBT

Establishment — Motion

MR B.S. WYATT (Victoria Park) [5.03 pm]: I move —

> That a select committee be appointed to inquire into and report on the level of increases to the state debt since 2000, particularly borrowings which are growing state debt to extraordinary levels, and the effects that these and other borrowings may have on the future financial management of Western Australia, and in particular, to —
>
> (a) ascertain the overall level of debt of the state, its agencies and business enterprises, and the amount of its increase since 2000;
>
> (b) estimate the level of likely borrowings over the next six years which will be needed to cover existing or foreseeable liabilities;
>
> (c) identify any contingent liabilities which may require borrowings during the next six years;
>
> (d) identify the contributions of individual government departments, agencies and business enterprises to this level of debt and future or contingent liabilities;
>
> (e) ascertain whether the debt of individual government departments, agencies or business enterprises is fully, partially or not matched by realistically valued assets;
>
> (f) assess the impact of the debt on the revenue and expenditure of the state over the next six years;
>
> (g) recommend strategies for management of the debt over the next six years which will minimise the adverse effect of the debt on the revenues and expenditures of the state, and on the taxpayers of the state; and
>
> (h) recommend a long-term policy approach to the management and reporting of government debt.

The opposition has spent a considerable amount of time in this Parliament talking about fees and the impacts of those rises on Western Australians all over the state. The opposition has also spent a considerable amount of time talking about debt and the levels of debt under this government—certainly the debt levels in the forward estimates compared with the debt levels under the previous Labor government, which was in power for almost eight years. These discussions tend to occur in places such as this chamber and in places along St Georges Terrace, but they very rarely take place in the households of Western Australians.

However, we are now freshly out of a federal election during which the Liberal Party ran a very strong campaign on public sector debt. Tony Abbott said —

> Debt and deficit is probably the critical issue of this campaign.

He was referring to the 2010 federal election campaign just concluded. People in the two states of Western Australian and Queensland understand capital. They understand debt and they have historical experience of not just capital itself, but also foreign investment.

I rise having moved this motion this afternoon to very strongly support the current Premier—admittedly my support may be 20 years late. My motion is in reasonable detail and asks —

> That a select committee be appointed to inquire into and report on the level of increases to the state debt since 2000, particularly borrowings which are growing state debt to extraordinary levels, and the effects that these and other borrowings may have on the future financial management of Western Australia, and in particular, to —

I then list paragraphs (a) through to (h). I will not read them all out. We can all read them. They are in front of us. My motion is identical to a motion moved by the now Premier back in August 1991. I accept that the financial circumstances and history of the state that led to the member for Cottesloe moving that motion in 1991 and the financial circumstances and history that led to me moving this motion today are different. The state finances were in a different situation in the lead-up to the member for Cottesloe's motion in 1991; however, the growth in state debt is similar. One difference is that growth in state debt now is far outpacing the growth in state debt in 1991. I think the Premier will support me on this motion. I am sure the Premier has been stewing for 20 years after he moved a similar motion for a select committee to get up; in fact, he said in this place that it was the very first significant speech he gave as a member of Parliament. Now he has the opportunity to support his own motion, 20 years after he first moved it, to ensure that a select committee is appointed to inquire into and report on those eight issues that I outlined in detail in my motion.

We all know, and it is important to note, that debt itself is not a bad thing. We know that debt, when used productively, can produce good outcomes. Tony Abbott made much during the last election campaign of the federal government borrowing $100 million day, and I think it had an impact on people. I believe Western Australians in particular were concerned by that, regardless that the level of debt growing at the federal level is already significantly lower than the historical average going back to the net debt level in the early 1970s, which I will come to a little later; and despite the fact that, as a percentage of the share of our economy, the level of state debt far exceeds the debt level of the federal government. I have said this before in this place: the difference is that when the commonwealth government spends and uses an expansionary fiscal policy to stimulate the economy, like it did during the global financial crisis, what tends to happen with a stimulated economy is a rapid return of revenue for the federal government. It does not work in that way at a state level. Much was made by the former Treasurer and the current Treasurer, the Premier, about the asset investment program and how that went to support jobs and investment during the global financial crisis. However, as I will explain shortly, the asset investment program was no bigger than the capital works program in prior years; indeed, it looks as though it will be significantly less than the capital works program. We will find that out in the next couple of weeks when the annual report on the state's finances for 2009–10 is finally tabled in this Parliament.

As a percentage of our economy, the level of debt in Western Australia far outpaces the national debt level. The issues that the Premier, the member for Cottesloe, raised in 1991 in support of his motion are much more extreme now than they ever were back then. We are literally in an environment of debt. We are talking about debt on a regular basis. It is actually a new subject for discussion in state Parliaments—in particular, the Western Australian Parliament. It is a reasonably new discussion. The member for Cottesloe moved his motion back in 1991. However, if we do a search of *Hansard*, we find debates on public sector debt over the past 30 years. The measurement of net debt is very new; it has only taken place since the late 1980s. Until then, the measurements have been at the gross debt level. Why is it important? We know that levels of debt are a key measure of the strength of public finances. Debt can get to a certain level before it has a drag impact, a negative impact, on economic growth and it winds back economic growth. At a federal level, we see that impact with interest rates and the crowding out of private sector debt and private demand. At a state level, it limits the capacity of state governments to deliver key services as they are delivering from a limited revenue base.

I turn to the *Economic and Fiscal Outlook* of the 2008–09 budget, the last budget of the former Labor government, and highlight the impact of strong financial management. We made sure we ran surplus positions and made sure that those surpluses were used to fund the capital works program or the asset investment program or whatever we call it. Page 37 of the 2008–09 *Economic and Fiscal Outlook* contains a very good table that outlines debt repaid or avoided by the use of surplus positions to fund capital works and estimated annual interest savings. It states —

> Over the last few years, the Government has used cash surpluses to retire existing borrowings and avoid new borrowings totalling $3.9 billion. This includes repayment of all Consolidated Account borrowings, and the debt-free construction of the New MetroRail project and the new Fiona Stanley Hospital. This prudent use of cash surpluses has reduced interest costs by around $250 million per year, and significantly reduced interest rate risk into the future.

There are two issues there that I will mention now and reflect on a little later. Interest costs of $250 million a year were avoided. That is $250 million a year that the state government could spend delivering core services in health, education, child protection and all those key areas in which state governments are required to provide services. That significantly reduces the risk of the impact of interest rate rises in the future.

We have really had three periods of growth in debt in Australia. After the global financial crisis and the stimulus packages announced by the Rudd Labor government, we saw debt increase again. The Australian economy did not suffer as expected; that is, those stimulus packages worked, so the Australian economy did not go into recession. As a result, revenues held up. We are now seeing that the debt levels that were projected 12 months ago are rapidly being reduced. If we look at the 30-year average of the net debt position of Australia, we will not even be hitting the average, despite some extraordinarily successful spending. I know that the Building the Education Revolution spending has had a huge impact on the electorates of every member in this place, not only in reinvigorating our schools but also in supporting our local economies.

Between 1850 and 1900 our nation was very much dependent on foreign debt from London. Effectively, London raised our money for us. Between 1856 and 1880, on average, around 73 per cent of Australia's colonial debt was issued in London. We were not able to raise our own debt. We did not have a domestic economy that could support the demands of a rapidly growing nation, so London provided significant amounts of the capital requirements of Australia.

[Quorum formed.]

Mr B.S. WYATT: The yields from those colonial bonds were running significantly lower than the yields from Australian private debt being issued at the time. In the first decade following Federation, Australia ran surplus positions. Obviously sitting behind all of this was the economic theory at the time. Eventually with the Great Depression and Keynesian economics, it changed the way government raised and spent its money and the rise of the welfare state changed things over time. When we look back at Australia, that was really the first time when —

The ACTING SPEAKER (Mrs L.M. Harvey): Member for Victoria Park, I interrupt you briefly. Members, there are a lot of conversations going on in the background, and I am having difficulty hearing the member for Victoria Park.

Mr B.S. WYATT: When the federal government took on the Northern Territory and took on some of the debt as a result of railway construction in South Australia, we started to see that first level of commonwealth debt increase in those early periods. The second period was the First World War. During that time, gross Australian debt increased from around 2.2 per cent of gross domestic product to around 50 per cent of GDP. About a third of that increase was financed in loans from London. However, by way of comparison, in the Second World War, the third increase in debt was largely financed domestically. Gross Australian debt increased from around 40 per cent of GDP in 1939 to around 120 per cent of GDP in 1945, primarily raised from domestic savings here in Australia. The domestic economy obviously matured and it was willing to invest in war bonds or war savings certificates during that time. Interestingly, whilst we had this debt of 120 per cent of GDP at the end of World War II, it took until the early 1970s before that debt reduced to an insignificant level. We were still paying World War II debt when I was born in 1974. That is the real impact of debt. This is the national government; it takes a long time to pay debt off. We are seeing a new approach from the Premier; that is, that debt does not have to be repaid. The reality, as we all know, is that debt ultimately has to be repaid and the impact that will have on the future generations of Western Australians will be significant. It was not until about 1974, the year I was born, that gross debt came down from 120 per cent to eight per cent of GDP.

The next phase of Australian accumulation of debt was in the 1980s. What was different? We moved to the net debt measurement. Gross debt was still measured but net debt became the favoured approach to the budget bottom line. Between 1985 and 1986, net debt reached 10.4 per cent of GDP. Economic growth returned rapidly, and, as I said, at a federal level, when the economy grew, the debt level rapidly unwound and within three years it reduced by six percentage points to about four per cent of gross domestic product. Also during that time, we started issuing our debt in Australian currency. In 1995–96 the worldwide recession, which affected most modern economies, saw our net debt increase to 18.5 per cent of GDP. During the period of the Howard government, two things happened: fiscal consolidation through a growing economy and the sale of public assets that saw our net debt position become negative; that is, we had no net debt. It was just over three per cent by 2007–08. We are now in the fourth period, which is what we are seeing now. I will call it the fourth period, even though historically it is not a hugely significant level of debt as a share of our national economy. The accumulation of debt as a result of the global financial crisis and the stimulus packages introduced by the Rudd Labor government will see net debt probably peak at just under six per cent of GDP. Almost on a monthly basis, the finances are reported as coming further and further back, because the national economy is quite significantly growing. Since 1970–71 the historical average of net debt in Australia has been 5.7 per cent.

Western Australia and Australia are two very different things. Since Federation, the Western Australian revenue base has shrunk considerably. That is, our own taxation base has shrunk considerably and we are now more reliant on the federal government and its generosity to provide us with revenue. Regardless of the fact that we have the benefit of royalty income, we are still in the position in which we are reliant and will continue to be very reliant on the federal government.

Like Australia, the story of Western Australia is the story of access to capital or lack thereof. From 1829 to 1850 and through the late 1800s we saw an economy emerge from a very small population largely based on wool, agriculture and timber. In the late 1800s, effectively when convicts arrived, gold was found in Halls Creek initially and then obviously there was the gold rush in the Goldfields that continues to this day. That dramatically changed the nature of the Western Australian economy. I want to refer to a document from the Department of Treasury and Finance. For those people interested in economic history—I know the member for Riverton is very keen on these things—the document is titled "An Economic History of Western Australia since Colonial Settlement". It is a research paper dated December 2004. It is a very good document. It sets out economically where and how Western Australia got to where it is today.

Dr M.D. Nahan: Who is the author?

Mr B.S. WYATT: It is a Treasury document, so there was a bunch of people involved, but in particular it is Professor Reg Appleyard. It is a very good document that outlines Western Australia's gradual move to where it is now—primarily a big state constrained by a small population. What further exacerbated that constraint was the limited access to capital. This is an interesting statistic: in 1850, about 5 886 Europeans lived in the south west of Western Australia. By 1868, some 18 years later, this number had grown to 18 400, of which 9 700 were convicts. So half our population were convicts. In the 10 years between 1850 and 1860, when the Legislative Council finally said, "Let's get convicts into Western Australia", our economy increased fourfold, due mainly to the sudden population growth that created an economy, and labour was very cheap, obviously. As a result of that we saw large public expenditure. It says here that the first government railway line was from Geraldton to a copper mine near Geraldine, followed by a line across the Darling Range. In the 1880s we saw sewerage, water, telegraph lines, roads and the sort of public investment that led to the growth of Western Australia, which ultimately was fundamentally changed by the discovery of gold, as I said a minute ago, initially in the Kimberley. The gold rush started in the Goldfields and continues to this day. I will quote from that document by Treasury and Finance, if I can, which reads —

> The discovery of large deposits of alluvial and reef gold brought thousands of diggers (and later, sometimes their families) from other colonies and from overseas. It also attracted a large amount of investment in mining ventures, marking not only a period of rapid expansion in the Colony but also, for the first time, the new position of being a Colony rich in money capital.

It was not until gold was found that Western Australia had its own capital base from which to expand. The government could raise revenue and could expand, and, importantly, there was a private sector able also to spend money on its own infrastructure.

I have set this out as a historical narrative to outline the fact that Western Australians and Queenslanders in particular have an understanding of the need for capital to fund infrastructure—the need for foreign capital. I say this by way of aside, as I do not intend to enter into a debate on the topic. The key problem that the former Prime Minister had when he first proposed his super profits tax was when he came on TV and said that the tax is against foreign companies and foreign shareholders. I think that Western Australians and Queenslanders saw that for what it was. Political leaders had for a long time been making the point that as a country and as a state we had been dependent on foreign capital since day dot, and we still are to a large degree.

Where are we now, Madam Acting Speaker? I note that the Premier is in the house now, and as I indicated a little while ago, I look forward to the Premier's strong support on this motion because, as I said, this mirrors a motion that the Premier moved some 20 years ago. The Premier may have been frustrated for 20 years at not being able to get this motion up and a select committee formed. So no doubt the Premier will be supporting us this afternoon.

Mr M. McGowan interjected.

Mr B.S. WYATT: It is a 20-year plan. What we have now is a state taking on levels of debt at a much more rapid rate than when the member for Cottesloe initially moved his motion back in 1991. Effectively, there is a debt control plan. These plans have been in place in budgets over time. Members can go through any budget and they will see that the former Labor government primarily focused on keeping the net-debt-to-revenue ratio below the target of 47 per cent. That was the figure that effectively controlled debt over time. The fiscal strategy of this government has changed somewhat. We have moved from a net-debt-to-revenue ratio to the key measurement being to maintain net interest costs as a share of revenue below 4.5 per cent. We now know there is another measurement on top of that. The Premier has made the point that he wants to keep net debt below $20 billion. That may appear in the budget papers as part of the fiscal strategy next year; however, that is a new aspect of debt control. The other part of the fiscal strategy is to achieve an operating surplus for the general government sector, and I have already outlined briefly the importance of surplus positions. The last budget of the former Labor government, the 2008–09 budget, outlined the importance of spending the surplus position on the capital works program. The amount of interest that saves over time can be redirected to core service delivery and core infrastructure programs. This is the key that I will come back to again shortly: to ensure that real per capita own purpose general government expenses do not increase. That is where this government is failing considerably. This government will continue to run surplus positions because the state economy is growing strongly, and the expectations are that it will continue to grow strongly—certainly over the next three or four years. The surplus positions will not be the problem. What will be the problem is that with those surplus positions, the increased revenue will hide generally what is taking place on the expense side.

In the first full year of this government we saw expense growth of 13.5 per cent. In 2009–10 it will be about 12.3 per cent or thereabouts. The annual report that will come out in the next couple of weeks will finally let us know what that is. However, expense growth at those levels is fundamentally what is driving the debt problem. It is not the capital works program, and I will come back to explain why in a moment. It is fine to keep the surplus position. Theoretically, if the government can keep the growth in general government expenditure to the per capita level, it will control its debt levels. What is not included in these documents is this new aspect announced by the Premier through the press—that is, to keep net debt at $20 billion or less. That is new. That is different. That has not appeared in the budget papers before. I presume it will now make its way into the *Economic and Fiscal Outlook* for the 2011–12 budget.

When I read the *Hansard* of the member for Cottesloe's motion that a select committee be appointed to inquire into state debt—his motion was in identical terms to this motion, although the dates have changed—I found that he said —

> In 1980—the beginning point of the proposed Select Committee's investigations—the level of debt was $2.47 billion. In 10 years Western Australia's debt has increased by 370 per cent.

He went on to say that it was equal to $5 570 per person in the population at that time. In the past 12 months in Western Australia, our net debt position has increased by 60 per cent, or $5 billion. That is in one 12-month period. We have made this argument previously in this place and we have moved motions on debt before. But I do not think that is sinking in for the government backbench. That is an extraordinary historic increase in the level of debt in 12 months.

Dr K.D. Hames: What is that per person as a comparison?

Mr B.S. WYATT: I will get to that in a moment.

Mr M. McGowan: How much was it in total?

Mr B.S. WYATT: In one year, there has been an increase in the net debt position of 60 per cent, or $5 billion. From 2008 to 2011, which is a three-year period, total public sector net debt will rise by 325 per cent. If we take this out to 2014, which is as far as the forward estimates go, there will be a 452 per cent rise in the total public sector net debt position of this state. I remind members again that when the member for Cottesloe moved his motion back in 1991, he was worried about a 370 per cent increase in net debt over 10 years. In four years we have seen a 452 per cent increase in the net debt position of this state. The growth now occurring in the net debt position of Western Australia has no historic precedent. This is stronger growth in net debt than we have ever had before.

When the member for Cottesloe became Premier, there was no net debt in the general government sector. A larger and larger percentage of that net debt is being held in the general government sector. In 2010 there was a 1.7 per cent increase in the general government net debt position, which equates to $197 million. There was a massive jump between 2010 and 2011 of 18.9 per cent. The net debt position went from $197 million to $2.92 billion. By 2012, the increase will be 24.9 per cent, and by 2014 the net debt held in the general government sector as a percentage of the total public sector will be 28.9 per cent, which amounts to $5.8 billion. That means that more and more of the government's spending on health, education, law and order, and child protection is being debt funded. The main services of a state government are the core services to its citizens. This is not a cost-reflectivity issue. We have had the debate about electricity and water. Those services sit outside the general government sector. We will have our dispute about the timing with which the government moves to cost reflectivity and the impact it will have on households. The Premier was correct back in 1991 when he said —

> I put to the House that what follows is that as debt servicing costs grow this Government, or a future Government, will have no choice but to cut expenditure. That cut will typically be in the social areas. That will be the only choice available. That is the budgetary problem of a growth in debt.

The member for Cottesloe was right then. He is incorrect now, but he was right then. The fact of the matter is that when there is that sort of growth in the general government sector, it has to be paid back ultimately. It is paid back in one of two ways—either services are cut or taxes are increased. We have seen one round of tax increases imposed on the small business sector by this Premier. His very first act as Treasurer was to impose a $511 million increase in taxation on the small business sector. We are already seeing a wind back in service delivery by this government.

Dr K.D. Hames: Did your side support that motion when he moved it? What happened?

Mr B.S. WYATT: I will get to that as well, funnily enough, Deputy Premier. Interestingly, Mr Deputy Speaker—I know that you will be terribly concerned by this—that increase to 30 per cent in the general government sector does not incorporate the costs for Royal Perth Hospital, the Perth waterfront, Roe Highway stage 8, the northern reinforcement line, the new stadium, Princess Margaret Hospital for Children or the Oakajee port, the risks for which are outlined on page 55 of the 2010–11 budget. There are billions of dollars in commitments by the Barnett government in the general government sector that are yet to be funded or brought to book in the budget or the forward estimates. That means that the 30 per cent of debt held in the general government sector as a percentage of the total public sector will only increase. It has to increase. I note that Peter Kerr from *The Australian Financial Review* has made the point that if we are to have a new stadium, it will have an impact on the debt position of this state. He is correct. The Premier needs to understand that debt will ultimately have to be repaid. When he sat on this side of the house for a long period, he moved motions and gave many speeches about debt. He was very consistent when he sat on this side of the house. Things have changed dramatically since he has moved to the other side of the house. I am sure that the Premier is not the only member of Parliament to have done that. This goes to the core belief of the member for Cottesloe, and I am surprised that he has reneged on that core belief so quickly in government.

Even more interesting are the net debt levels of the state, which will still be on an upward trajectory by the end of the forward estimates. During question time last week, the Premier said that the global financial crisis occurred and that is why debt is increasing. If that was indeed the case, debt would be declining in the out years; we would see it coming off, as we can see in the Australian budget papers. Net debt has come off because the federal government brought on spending to stimulate the economy during the global financial crisis. The state's net debt position will continue to increase well into the out years. Between the 2009–10 budget and the 2010–11 budget, state revenues have been revised to increase by $5.3 billion, yet at the same time the net debt position of the state continues to increase. The surplus position between 2009–10 and 2010–11 increased by $2.5 billion, yet debt continues to increase. As I have said, this is before we consider Royal Perth Hospital, the Perth waterfront, Roe Highway stage 8, the new stadium, Princess Margaret Hospital for Children and the potential cost blow-outs for Oakajee. There is more revenue and more surplus positions, yet there is an increase in net debt. I do understand that, and I will get to that in a moment. That is one of the reasons that the select committee needs to be formed. We need to have a thorough and accurate understanding of the debt position of the state now, but also where it is going not just over the forward estimates, but in the next 10 years. We understand the weaknesses of a 10-year forecast, but that is what we need to better understand the state's debt position and the impact that will have on services. As the member for Cottesloe said in 1991, if the government increases its debt position in the general government sector to the levels that it is being increased to now, services will have to be cut. That is the only way governments can do it. Services have to be cut or taxes have to be increased; it is one or the other. The Premier has increased taxes already and he has cut some services, but there are still more to come.

I will talk about the asset investment program, which was otherwise known under our watch as the capital works program. This government has made some changes to it. For example, Keystart was taken out of what we considered to be part of the capital works program. The asset investment program allows the government to continue to do what it does, which is to invest in infrastructure and capital works. I will outline to the house the changes that have been made to that program. I have with me some speeches made by the Leader of the Opposition, who is the former Labor Treasurer, and by the former Liberal Treasurer and the Premier. In 2006–07, $5.2 billion was budgeted to be spent on the capital works program out of a total of $18.1 billion. In 2007–08, that amount increased to $5.8 billion out of a total package worth $21.6 billion. In 2008–09, which was the Labor government's last budget, $7.6 billion was budgeted to be spent on the capital works program, but the capital works program had grown to $26.1 billion. The 2009–10 budget had budgeted $8.3 billion for the capital works program. It must be remembered that when the member for Cottesloe became Premier, he and the then Treasurer, the member for Vasse, talked about the global financial crisis and the asset investment program. They said that that program was supporting jobs and was bigger and better than before. It was not. It was well in line with what had been taking place in the years leading up to that time. I dare say that the Premier said during question time last week that the annual report of the state's finances would show an improved debt position for this financial year, because although the 2009–10 budget shows that the government would spend $8.3 billion on its asset investment program, the 2010–11 budget actually estimated that amount to be $7.1 billion. That is already a $1.2 billion underspend in the asset investment program for the 2009–10 financial year. I am sure that the Leader of the Opposition would be interested in that fact. When the annual report is tabled in a couple of weeks, I dare say that we will see a considerable underspend in the asset investment program. That is why the Premier said last week that the debt position of the state was expected to be significantly improved. If that is the case, why does the government simply not bring that to book? If the government is not going to spend the funds allocated to the capital works program, do not budget to spend it. Do not leave the state and the opposition with an unclear picture of the net debt position of the state. That is why we have moved this motion for a select committee. By 2010–11, the asset investment program will be $7.6 billion.

The former Treasurer, the member for Vasse, and the Premier have been highlighting the fact that the capital works program, or the asset investment program, did not change at all during the global financial crisis. That was spending that had been taking place for at least five years leading up to the global financial crisis. We now know that there will be a considerable underspend in the 2009–10 financial year of well over $1 billion. The only impact that the government had on the global financial crisis was to conduct the capital works audit, whereby everything was effectively frozen for six months while the government tried to work out what it would cut and what it would defer. That, it could be argued, had a negative impact on the state's finances. We know that the capital works program—the asset investment program—is not driving the growth in net debt; it is not that. We know that the revenue position of the state remained stable. It did not come back. It did not decrease from its historic high during the previous resources boom. The projections may have decreased, but the actual revenue into the state's coffers did not decrease, nor did the capital works program increase. That leaves us with what is driving the net debt. I alluded to this previously. The historic unsustainable growth in general government expenditure was 13.5 per cent during the member for Vasse's first full year as Treasurer and is likely to be about 12.3 per cent for the 2009–10 financial year, yet the government expects us to believe that in 2010–11, growth in general government spending will be 3.9 per cent, down from 13.5 per cent in the member for Vasse's first year as Treasurer. That is what is growing the net debt position of Western Australia.

When the former Treasurer was the Leader of the Opposition and shadow Treasurer, he spent a lot of time attacking the then Labor Treasurer over the expense growth under the Labor government. He made great hay about the expense growth. Over the eight years of the former Labor government, expense growth averaged 7.5 per cent. In some years it was higher and in others it was lower. That was the average growth when the economy doubled in size. Let us not forget that. During the eight years of the former Labor government, the Western Australian economy doubled in size. That created huge demands for capital works, essential government services, more police on the beat and extra nurses. The average growth during that time was 7.5 per cent. I said in May before the 2010–11 budget was tabled that if this government could maintain—on the back of the 13.5 per cent expense growth in its first year—7.5 per cent across the forward estimates, it would find the net debt position better off to the tune of about $7 billion. Since then, the government has brought down its budget and the surplus position of the state has increased over the forward estimates by $2.4 billion, which I factored into my calculations. Based on what we know of the state's finances today, if this government can maintain the average expenditure growth of the former Labor government, the net debt position will be $4.6 billion better than it will be by the end of the forward estimates. Think about the amount of interest that would be saved on a yearly basis. That is $300 million a year in interest payments alone that the government will save if it can match the average expense growth of the former Labor government. That is what is driving the net debt position of Western Australia. The expense growth in the general government sector is driving the expense growth. It is not the capital works program and it is not that there was a huge decline in revenue due to the global financial crisis. That is simply not true. The member for Cottesloe raised the issue in the very first paragraph in support of his motion back in 1991 that state debt would equate to $5 570 per person. This government and the Premier will be getting our debt position —

Quorum

Mr M. McGOWAN: Mr Deputy Speaker, I draw your attention to the state of the house. In doing so, I note that not one single minister is in the house, in particular neither the Treasurer nor any other senior minister.

[Bells rung.]

[Quorum formed.]

Debate Resumed

Mr B.S. WYATT: The point I was just making was that when the member for Cottesloe moved a motion for a select committee back in 1991, he railed against the fact that state debt per person would be $5 570. The net debt position of the state by 2014 will be $8 200 for every man, woman and child, based on the population projections contained in the budget, and the gross debt position will be $13 500 per person. The state's debt has never before reached those levels on a per capita basis, neither when the member for Cottesloe moved his motion in 1991 nor since. That is the reality of what is going on at the moment with this 452 per cent growth in the state's net debt position.

At the time I gave notice of this motion, Tony Abbott said that debt and deficit would be the defining issues of the federal election campaign, even though at that time the net debt position of the commonwealth government was going to get to about 6.9 per cent of GDP. We now know that net debt is winding back and will probably be less than six per cent. How do we go at a state level? Measuring the size of debt as a component of the economy is a traditional debt measurement. Net debt to GSP—that is, gross state product—in 2010–11 is 9.09 per cent; by 2011–12, it will be 9.85 per cent; by 2012–13, 10.32 per cent; and by 2013–14, 10.63 per cent. That is the size of the net debt position of Western Australia. On a per capita basis, that is more than New South Wales. Our debt per person is more than the debt level in New South Wales. We are not in a position whereby we can simply sit back and rely on the continued growth of the economy to ensure that our debt levels as a percentage of the economy do not continue to increase at an unsustainable level. The reality is that the real debt position of the state is increasing dramatically both as a percentage of the size of the economy and as a measurement per capita.

It is unfortunate that the member for Cottesloe has been in the chamber for no more than a couple of minutes during this debate, because I have some questions for him.

Dr K.D. Hames: He's paired.

Mr B.S. WYATT: He is not on our pairs list.

One of the matters raised by the member for Cottesloe in 1991 was the cost of debt servicing. The member stated —

> I mentioned previously that in 1989–90, $360.4 …

Hansard says "billion" but I am pretty sure that it is supposed to be "million" —

> or 7.7 per cent of total CRF expenditure went to service debt, a major commitment from the Budget.

I assume—I do not know, because it is sometimes hard to compare the budgets of the early 1990s with the budgets of today—that the member is talking about the general government sector.

Dr M.D. Nahan interjected.

Mr B.S. WYATT: A smaller proportion—okay; it now makes it hard for me to compare that 7.7 per cent. If the Treasurer and member for Cottesloe was in the chamber, we could perhaps have the discussion about exactly what he meant by that. However, the member for Cottesloe was talking about $360.4 million. The member for Riverton has said that that is a smaller component of what we call the general government sector, yet the general government sector annual interest bill is getting up to $571 million a year by 2014. That is what the general government sector will pay in interest payments. As a percentage of the total general government revenue, as we now know, it is only 2.5 per cent, so it is not that 7.7 per cent referred to by the member for Cottesloe. We are not comparing apples with apples in this situation, but I think that that is something that a select committee can and should resolve. How do we compare the debt position now with when the member for Cottesloe first moved this motion? As the member said, that motion was the first significant speech he gave as a member of Parliament.

The select committee would be tasked to look into contingent liabilities of government and other liabilities of government agencies. The member for Cottesloe also looked at the unfunded superannuation liability of the state. He stated —

> There are many other unknown contingent liabilities that will impact on debt and potential future debt. For example, it is estimated that there is a $3.9 billion unfunded superannuation liability for Government employees. It has been a longstanding practice not to fund that superannuation liability. However, the State needs to accept that responsibility and start to fund and manage that liability as it is growing rapidly. An amount of $3.9 billion is immense. It is a growing liability which a responsible financial enterprise, which this State should be, would bring under control.

That is what the member for Cottesloe said in 1991 when the unfunded superannuation liability was $3.9 billion. There have been many media reports about the state of the finances and I accept that the unfunded superannuation liability will rise and fall on sharemarket volatility and the economy as it grows and contracts over time. However, in 2007 that $3.9 billion had grown to $5.5 billion. By 2009, the unfunded superannuation liability for public servants was $7.1 billion and as at last year it was projected to blow out to $7.5 billion. We do not know what the underlying real liability is because, as I said before, as the sharemarket moves and the economy grows and contracts, that liability will decrease and increase. However, as the member for Cottesloe said 20 years ago —

> It is a growing liability which a responsible financial enterprise, which this State should be, would bring under control.

The select committee would be tasked to look into that particular contingent liability, to examine ways in which that liability can be managed and to propose solutions going forward. But there certainly are many other contingency liabilities across government.

Another statistic that the member for Cottesloe referred to during his speech was the proportion of each dollar in the CRF that went on capital works. Did the member for Riverton say that the CRF is the effect of consolidated revenue?

Dr M.D. Nahan: Yes.

Mr B.S. WYATT: About the percentage of consolidated revenue going into the capital works program, the member for Cottesloe said in 1991 —

> It is a fact that in 1982–83 for every dollar spent from CRF only 44c went on capital works. Today, —

Being 1991 —

> for every dollar spent from CRF only 27c goes on capital works.

The member was making the point that from 1982–83 to 1991 there had been a decline in the percentage of money spent from the CRF on the capital works program from 44 per cent to 27 per cent.

The problem, Mr Deputy Speaker, with statistics is that we tend to misplace them exactly when we need them! It is a shame that I am having difficulty finding it because I am sure that it is one of the more persuasive points that I want to make.

Mr J.E. McGrath: Do you need an assistant?

Mr B.S. WYATT: I do need an assistant; is the member for South Perth volunteering?

I have found what I was looking for! To reiterate, the member for Cottesloe said in 1991 that we were seeing a decline in the percentage of money spent from the CRF on capital works. At the time the member for Cottesloe said —

> Therefore, we have increasing debt levels and borrowings but a higher proportion of those borrowings go not on building capital works—real things that last into the future—but on financing current Government activities. That has been a long term and disturbing trend.

Thankfully, that has not been a long-term and disturbing trend in Western Australia over the past 10 years. However, as I said, the percentage of net debt in the general government sector is increasing quite dramatically. I am not saying that it is being used to fund recurrent expenditure, but it is growing considerably. I tried to do that analysis, although it is a bit difficult because the records are a little patchier; however, I came up with very different statistics from the 44c and 27c figures that the member for Cottesloe referred to. This is another reason that it is a shame that the Treasurer is not in the chamber today to have this discussion. This is a simple calculation so it has flaws in that it may not be comparable with what the member for Cottesloe said in 1991. In 2005, 30.8c was spent on capital works; in 2006, 34c; in 2007, 33.1c; in 2008, 30.6c; and in 2009, 33.5c.

My point is that the amount of money going from consolidated revenue into capital works seems to be hovering around the low 30c mark. Does that continue? The asset investment program in the government's budget winds back quite considerably over the forward estimates from $7.1 billion this year—remembering that the budget stated that $8.3 billion would be spent—before winding back in 2013–14 to $5.5 billion. Therefore, while the asset investment program is declining quite considerably, the net debt position of the state is continuing to increase. What is driving that increase? It is the general government spending growth that is out of control; namely, 13.5 per cent and 12.3 per cent. Until he moved from this side of the house and went to sit on the other side, the member for Cottesloe had been fairly consistent when it came to debt. He said back in 2003 when he was Leader of the Opposition —

> … what really matters is how much is owed, when it will be paid back and the interest bill. That is the amount written on the cheque and the amount this State owes the bank.

Let us compare this to what the member for Cottesloe stated as reported in *The West Australian* on 4 September this year —

> In reality you don't have to pay back the debt, what you have to do is make sure the debt is under control and as a guide I'm intending keeping our total level of net debt below $20 billion.

That is quite extraordinary. Do people honestly think that when they get their credit card bills and their mortgage bills that that debt does not ultimately have to be repaid? The member for Cottesloe certainly never thought of that when he said —

> … what really matters is how much is owed, when it will be paid back and the interest bill.

Apparently, in reality, we do not have to pay back the debt. The Premier is walking a dangerous path. He holds the view that he can wander around Western Australia making unfunded commitments that are barely even costed, and at the end of the day this debt is for somebody in the future to worry about. The fiscal strategy outlined in this budget, which has been outlined in budgets for the last 10 years—there have been changes, but there has been a fiscal strategy—is all about debt management; it is not about debt repayments. That is the problem the Premier faces today. He is of the view that the debt does not have to be repaid. The people of Western Australia know that that is fundamentally wrong. At the end of the day, there is a net debt position of $20 billion and increasing that will have to be repaid. Will it be repaid by my generation or will it be repaid by my daughter's generation? That is the problem that the Premier faces. He may well go from this place, but the problems he is creating will be around for a long time.

The people of Western Australia right now are suffering through record increases in fees and charges. By 2014, 30 per cent of that $20 billion in net debt will be held in the general government sector. Two things could happen: taxes could go up or services could get cut. That is what the member for Cottesloe said in 1991. He was right then and we all know he was right. We cannot just carry debt indefinitely when it increases by 452 per cent in four years. It cannot be done. Members on the other side should remember that the member for Cottesloe was complaining in 1991 about a 370 per cent increase over 10 years. The Premier is giving us a 452 per cent increase in four years based on a declining capital works program and increasing surplus positions, yet our net debt position continues to grow to a point at which every single Western Australian will have a liability of $8 200, or $13 500 on a gross basis. Members should think about that. This may all wash over members as numbers and figures, but, ultimately, it means, as the member for Cottesloe said 20 years ago back in 1991, there have to be cuts, and, ultimately, social spending of government will be cut, fees and charges will be raised, and a future generation of Western Australians will pay the price for what Colin Barnett, Treasurer and Premier of Western Australia, is doing today.

I am simply moving the motion that the member for Cottesloe moved 20 years ago. Members on the other side should support us on this. Let us have a look at exactly what the debt levels of this state are doing and whether we are leaving a debt for our children that will see government services cut and government made redundant for the people of Western Australia.

MR E.S. RIPPER (Belmont — Leader of the Opposition) [6.05 pm]: What a pleasure to follow such an excellent speech by the shadow Treasurer, the member for Victoria Park.

Sometimes politics gives us a second chance. Twenty years ago I did not vote for this motion, even though I did sit and listen to the member for Cottesloe speak to it. Now I have got a second chance, and this time I do intend to vote for the motion that is being moved by the member for Victoria Park. I sat in this house, roughly in the row where the member for Wanneroo sits now, and I listened to the speech delivered by the member for Cottesloe, now the Premier. It was a good speech and I think it helped him become the Deputy Leader of the Liberal Party, although I understand that he only beat Cheryl Edwardes after a draw out of a hat; the votes were tied and he became the deputy leader after that draw! I was here during that debate and I listened intently and the now Premier painted himself as a responsible financial manager looking at a long-term strategic issue of significance.

Mr J.H.D. Day: Do you remember the debate?

Mr E.S. RIPPER: I do remember the debate.

It is a pity that the Premier in his actual performance as a financial manager has not lived up to the rhetoric that he put before the house way back in 1991. His time as a minister and as the Premier and the Treasurer have been characterised by risky financial decisions, a lack of respect for traditional financial management processes and a great deal of perhaps misplaced optimism about future economic developments and what they will do for the state's finances.

My view is that if we want a single metric to measure a state budget by, we should go to the net debt figure. There are lots of figures in the budget and lots of ways that we can measure budgets—revenue increase, expense growth, operating balance with growth in public service numbers and the size of the capital works program. There are all sorts of ways we can test the value of a budget. However, if one single measure is wanted to sum it all up, net state debt is it.

Let us have a look at what net state debt is, and the basic facts that we are talking about. This government inherited a net debt figure of about $3.6 billion. That was the figure as at 30 June 2008. This financial year—that is, until 30 June 2011—the figure is projected to be $15.4 billion, and it is projected to grow to $20.63 billion as at 30 June 2014. What we see is a very substantial growth in state debt. Let us summarise that: in two years this government has quadrupled state debt. That is quite an impressive and alarming statistic. What happened under the previous government was something quite different. Under the previous government, state debt actually declined. The previous government invested about $30 billion in capital works, state debt declined by about $900 million and there was no privatisation.

I will make a few observations about debt at the state level. This, in itself, is not a bad thing; it is reasonable to borrow for long-term infrastructure that will have benefits for subsequent generations. It is reasonable to spread some of the costs to those subsequent generations who will benefit from the long-term infrastructure that is built with the investment. That said, it is certainly wrong to use debt to fund recurrent expenses. It is certainly wrong to borrow to invest in white elephants that will not provide a return for the subsequent generations who will nevertheless have to service the debt. Debt levels have to be sustainable at any given point in time, and the trend has to be sustainable. What worries me about this quadrupling of state debt over the period of two years is that I do not think it is sustainable and I do not think the trend is sustainable. I think that the Premier and his ministerial colleagues are placing a lot of faith in their very optimistic views of where the state's economy is going. They are basically taking decisions, crossing their fingers, and hoping that something will turn up to make it all better. However, if things do not turn up to make it all better, there will be serious consequences.

At one level people might say that this is just an issue for financial commentators and that a few people who write columns in newspapers might be concerned about it but it is not an issue for the ordinary person in the street. It is an issue for the ordinary person in the street. Why is it an issue for the ordinary person in the street? It has consequences for the services that they will be able to enjoy in the future, and it has consequences for what they will have to pay the government. Most of the commentary on this sort of issue focuses on whether the government will be able to retain the state's AAA credit rating. The AAA credit rating has become a bit like a star rating system for the quality of state finances. We need not bother with the analysis; we can just go and look at how many stars the state budget has. The issues are much more important than the retention or otherwise of the state's AAA credit rating. Basically, if we do not manage the debt, we could get to a point at which servicing the debt will chew up the money that we should be putting into the health system, schools and policing. We could produce a situation in which the state ultimately has difficulty funding the basic services that people need. When a state has difficulty funding the basic services that people need, the government will quite often then resort to increases in taxation.

Quite frankly, when the Labor Party came to power in 2001, there were two budget deficits forecast and $500 million of unfunded commitments that had been entered into by the previous government. We had no alternative in 2001 but to increase taxation levels. We have publicly said that the third round of tax increases introduced in 2003 were, with hindsight, unjustified, and we apologised for the third round of tax increases. However, there was no doubt that it was absolutely necessary to increase taxes in 2001 and 2002. That is what happens when the finances are not managed properly. They were not managed properly by the Court government, and the current Premier was a member of the budget committee in the Court government. Finances were not managed properly by the Court government, and eventually an incoming government had to put the finances in order, which meant an impact on taxation levels in this state.

Poor management of debt can impact on services and taxes, but there is another way in which poor management of debt can impact on people. A lot of the debt is incurred by government trading enterprises. If the government trading enterprises are not managed well and investments in those trading enterprises are not made wisely, people will ultimately pay in the form of higher utility bills. They will pay more for electricity, water and public transport if the debt and investment programs in the government trading enterprises are not managed properly.

There is yet another way in which government trading enterprises can be used to manage debt in a way that will impact adversely on the living standards of Western Australians. When a government is desperate for revenue, one of the things it might do is increase the dividend-payout ratio for government trading enterprises, and that is exactly what this government is doing. People are paying more to the electricity utilities, and the electricity utilities are paying more to the government. People are paying more to the Water Corporation, and the Water Corporation is paying more to the government. While the government says, officially, that the increases in family bills are all about cost recovery, in fact the government has its taxing hand in the pockets of Western Australian families through its dividend-payout ratio policy for government trading enterprises.

Mr F.A. Alban: In layman's terms, the crux of your argument and the previous speaker's argument is based on the debt level in 1991 and the debt level now. I remember 1991 very clearly. You said that in 1991 the debt level was $5 000 per person. I can tell you what you could buy in 1991. You could buy two of the Toyota hatchbacks that Brocky won Bathurst in. If the debt level per person is $8 000 or $13 000, what two cars do you think you could buy? Is there relevance?

Mr B.S. Wyatt: Member, that is not the crux of the argument at all. The crux of the argument is about the increase in debt over a short period of time.

Mr E.S. RIPPER: The member for Victoria Park has it exactly right. We have seen a quadrupling of debt in only two years. The debt inherited by the government was $3.6 billion and it will go to $20 billion by the end of the government's first term, with no sign that it has peaked or will peak; it is just a continued upward trajectory. The trend is the issue; the member can make whatever comments he might like to make about debt and the economy, but we have an unprecedented and very rapid increase in debt, albeit off a low base, courtesy of the financial management of the previous Labor government. There will be consequences as a result of this sudden and large increase in debt and a debt trend that is taking us to ever higher levels.

One of the things that concerns me is that I think the official debt figures are understated. They are understated because the government runs an unofficial budget by way of press release that is different from the official budget in the budget papers. The government has announced many projects that are not fully funded in the budget papers. The government wants to have its cake and eat it; it presents more modest official figures in the official budget, while giving itself the liberty of announcing a lot of projects that are not properly accounted for. If we take into account all the projects that the government has announced and has committed itself to and put the full financial impacts of those projects into the budget and forward estimates, we will get a much worse set of debt figures than is currently being reported.

I know what will happen: next week or the week after, the Premier will release the annual report on state finances. The spin surrounding the release of that report will be that debt has improved. However, it will have improved only compared with the terrible forecasts in the budget produced in May. It will have improved only because of the government's failure to deliver on its capital works program. Because the government will not have spent as much as it budgeted to spend on its capital works program, there will be an improvement in the reported debt figures. As the government gets on with the projects, if it ever does, the debt figures will rebound to the higher levels projected in the budget papers.

Total debt is one thing; total net debt includes spending on asset investment in government trading enterprises when, in most cases, there is a commercial return. Another sort of debt that is important in government finances is debt in the general government sector. That debt in the general government sector is important because it is not covered by commercial returns; it is covered only by taxation. That is because the investment program in the general government sector is on non–income earning assets such as schools, hospitals and police stations. In 2008–09 there were positive financial assets in the general government sector. There was \$2.6 billion worth of positive financial assets—not only no debt, but \$2.6 billion in the bank. At the end of this financial year we will have debts of \$2.9 billion in the general government sector and by the end of the forward estimates, we will have debt of \$5.8 billion in the general government sector. We will have gone from \$2.6 billion in the bank to \$5.8 billion in the sector of government that does not generate a return on investments but where the debt has to be serviced by taxation.

The government's debt position is not good. We saw the Liberal Party, nationally, run a huge campaign on federal government debt, which is six per cent of the economy. This government's own party ran a big campaign on the basis that \$100 million a day is being borrowed. If we come back to what this government is doing at a state level, we see that debt is about 10 per cent of the state's economy compared with federal debt at six per cent of the nation's economy. This government is borrowing \$11 million a day. Based on the appropriate adjustments of scale, if we think the federal debt issue is serious and worth making into a central plank for an election campaign, this Liberal government's state debt position is worse. Comparatively, it is borrowing more given the size of this government and the state's economy. Comparatively, this state Liberal government owes more money given the size of its debt and the size of the Western Australian government. Those members of the Liberal Party who thought that what Tony Abbott said about the nation's debt was an issue of substance should carefully reflect on what the Premier is doing with his government's management of debt. It is not an issue just for policy wonks and financial commentators. This is an issue that can have a real impact on the services enjoyed by the people of Western Australia, on the taxes and family bills they will pay in the future and on the infrastructure they will get in the future. It is deserving of examination. It has not been properly analysed, perhaps because part of the Liberal Party's brand, for some strange reason, is a better reputation on financial management than the other side of politics. That reputation is not borne out when we look at the record of the Court government and of the Gallop and Carpenter governments and at the emerging record of the Barnett government with this quadrupling of debt in two short years.

MS R. SAFFIOTI (West Swan) [6.24 pm]: I also rise to support this motion to refer the issue of state debt for examination by a select committee. I am concerned about the level of debt. As has been outlined by the member for Victoria Park and the member for Belmont, there have been extraordinary increases in debt from year to year. As we saw at the end of 2007–08, total public sector net debt stood at \$3.6 billion. It increased to \$6.7 billion as at June 2009, and we expect debt to be \$11.4 billion as at June 2010. That is what was outlined in the budget papers. Yesterday we heard the Treasurer outline that he believed debt would come in a bit lower than anticipated. Even if it comes in a few billion dollars less than anticipated, we will still have seen a massive increase in debt in only two years—a \$5 billion increase. That is an extraordinary amount.

I refer to comments made by the member for Cottesloe in 2001 when he was talking about annual increases in debt. He said —

> The public of this State, particularly the financial sector, remembers that under the Lawrence and Dowding Labor Governments of the early 1990s, state debt rose \$1 billion a year. That is why this State became a laughing stock and why it lost its financial credibility and AAA credit rating. Hang on cowboys, because here we go again. We are about to see a repeat performance.

Mr E.S. Ripper: Is that what he said about us?

Ms R. SAFFIOTI: Yes, in 2001. He was talking about debt increasing by $1 billion a year. He went on to say —

> The Labor Party runs around talking about Barnett's black hole and Barnett's budget blow-out. It does not even understand forward estimates.

Several members interjected.

Ms R. SAFFIOTI: The man who does not believe in forward estimates was accusing us of not understanding forward estimates. He was calling us financial cowboys because net debt increased by $1 billion a year. I have indexed that $1 billion a year to CPI for a comparative analysis. In today's terms, "financial cowboy" should apply to any government that increases net debt by $1.9 billion a year. I am being conservative and saying that, even if net debt comes in a bit lower than anticipated for 2009–10—it may do because the asset investment program is delayed as is always the case when capital projects do not meet the deadlines—at, say, a couple of billion dollars lower than forecast, it is still more than a $5 billion increase over two years. If we were financial cowboys when the increase in net debt was $1 billion a year, what do we call the government now when net debt has increased by more than $2.5 billion a year?

An opposition member interjected.

Ms R. SAFFIOTI: A posse of cowboys! As the member for Victoria Park outlined, this is an issue not only for the government or the Premier of the day; it is an issue for the next generation and the generation to come. I do not believe our children should be burdened with massive increases in debt. Let us look at the current general economic environment.

Mr E.S. Ripper: It will be an issue for the next government after 2013.

Ms R. SAFFIOTI: It will be an issue for our children, and that is the most important issue.

Mr J.H.D. Day: What do you want us to stop building?

Ms R. SAFFIOTI: I want the government to have some accountability and respect for the state's finances. I want it to properly fund programs when it announces them. How much will the waterfront cost?

Mr J.H.D. Day: The amount allocated so far is about $21 million. Obviously, it will be more and that will be addressed in the next budget.

Ms R. SAFFIOTI: The government has announced it and set a deadline for its completion.

Mr J.H.D. Day: Obviously it has to be funded.

Ms R. SAFFIOTI: Why not do an estimate and some rigorous costing before committing to it?

Mr J.H.D. Day: I think it's public knowledge that it's between $250 million and $300 million. That has been said; there is nothing new about it.

Ms R. SAFFIOTI: When the Liberal Party canned our waterfront project, the member for Cottesloe said that $300 million was an excessive amount for a waterfront project. That is why we will get a scaled-down version that will cost $300 million!

Mr J.H.D. Day: Dubai on Swan was not well received. I think that was the main issue.

Ms R. SAFFIOTI: No.

Ms M.M. Quirk interjected.

Mr J.H.D. Day: It will not be low key; it will be much more appropriate and tasteful.

Ms R. SAFFIOTI: It will be modest and tasteful.

Mr J.H.D. Day: I said appropriate.

Ms R. SAFFIOTI: I mean, honestly! The Minister for Planning's generation telling us what is tasteful!

I am saying that the waterfront project is a classic case: it has been announced and we have seen the artist's diagrams, as we always do. The minister has given it a time frame but no full costing and no budgeted amount. Can I ask the minister about the museum? That is another project that the minister canned. He canned development of the East Perth power station because, again, he wanted to do something more tasteful and more moderate. The minister has said he will redevelop the Perth Cultural Centre. How much will it cost and where is the funding?

Mr J.H.D. Day: I've never put a time scale on it. From my point of view, I want it to happen much sooner rather than later, but that is obviously something that we need to consider further; and it is being considered.

Ms R. SAFFIOTI: Okay. The Perth Cultural Centre is a case in point—one of the projects that have been announced with absolutely no consideration given to the budget process. There is no doubt that this government does not take financial —

Mr F.A. Alban: You announced half of Western Australia's planning and nothing happened. We did lots of announcements the whole time —

Ms R. SAFFIOTI: How is the Ellenbrook rail line going that you committed to?

Mr F.A. Alban: There are lots of announcements. There is actually an announcement in the paper about what's happening with our public transport. Are you impressed with the public transport we have given Ellenbrook?

Ms R. SAFFIOTI: Where is the Ellenbrook rail line?

Mr F.A. Alban: Do you have a nice word to say about it?

Ms R. SAFFIOTI: Where is the Ellenbrook rail line?

Mr F.A. Alban: Did you have anything nice to say about it?

Ms R. SAFFIOTI: Why does the member for Swan Hills not stand up for his constituents?

The DEPUTY SPEAKER: Members!

Ms R. SAFFIOTI: The member for Swan Hills is a grubby little politician who runs around giving little stories to the media.

The DEPUTY SPEAKER: Members!

Ms R. SAFFIOTI: That is all the member for Swan Hills does. He runs around giving little stories to the media. He does not actually tackle the issues or deliver the promises.

Mr F.A. Alban: You do nothing out there. Of course they have nothing to write about you.

Ms R. SAFFIOTI: The member for Swan Hills does not actually deliver the promises.

Mr F.A. Alban: People who do things get mentioned. Get off your backside and do something and you might get some media!

The DEPUTY SPEAKER: Member for Swan Hills!

Ms R. SAFFIOTI: I know how the member for Swan Hills operates.

Mr J.H.D. Day: Tell us about the arena project. Have you got a comment on that one?

Ms R. SAFFIOTI: The Perth Arena project?

Mr J.H.D. Day: Yes.

Ms R. SAFFIOTI: It is okay to say, "Yes, the Perth Arena budget has gone over estimate because we've put an estimate on it." The Minister for Planning does not put an estimate on things. He announces things with no estimate. We cannot compare how the waterfront project goes because he has not put an estimate on it. I mean, really! What is the estimate for the waterfront project, minister?

Mr J.H.D. Day: I have given it to you. I agree that it is not funded at this stage; that needs to be dealt with, and it will be.

Ms R. SAFFIOTI: So, what is the actual costed estimate for the waterfront project?

Mr J.H.D. Day: I've given that to you.

Ms R. SAFFIOTI: It is between $250 million and $300 million roughly. Is that the net cost or the total cost? What time frame is it? What is it?

Mr J.H.D. Day: Wait and see.

Ms R. SAFFIOTI: Okay. So, the minister is having a go because we actually put estimates on projects and, yes, sometimes they came in over estimate. However, the minister does not put estimates on projects. Sure, he is getting away with it. Let us face it: it is in a different environment. Put some estimates on the projects.

Mr J.H.D. Day: Look at the Link project. It's been talked about for 100 years. It is actually funded.

Ms R. SAFFIOTI: Yes, because the federal government has come in and funded half of it; let us face it.

Mr J.H.D. Day: The state is putting in about $350 million, from memory.

Ms R. SAFFIOTI: What is the total cost of the project?

Mr J.H.D. Day: About $650 million.

Ms R. SAFFIOTI: Is that the new estimate?

Mr J.H.D. Day: It is the most recent figure that I recall.

Ms R. SAFFIOTI: Okay. So, we have a government that does not give the priority to financial management that the previous government did; it is pretty clear. As I said, there have always been three parts to this government: the National Party, which operates under a completely different financial regime; the Premier, who does not believe in forward estimates and who has said that he does not believe in forward estimates—I am not making up that accusation; and the Minister for Police, who said today, "The $600 000 recovery we were going to get from charging for police officers to attend ticketed events—well, that didn't happen, it's not going to happen, and now the figure is a bit less. But, you know, that's how things operate under our government." There is no financial rigour under this government.

As I said, we have debt increasing by extraordinary amounts. I think it is important to look at the massive increases and, again, the difference between total public sector debt and general government sector debt. As we all know, total public sector debt is incurred by both the general government sector and trading enterprises. Trading enterprises, by their nature, undertake activities for which they charge; whereas the general government sector involves the general operations of government, including things like schools and hospitals. There is no charge for those activities; therefore, the only way in which that general government debt can be paid off is through things like increases in taxes. That is the only way of generating the revenue to cover general government debt. As the Leader of the Opposition outlined, the general government sector has gone from being a net lender to a net borrower. Two years ago the state was owed $2.6 billion, and in two years that has turned around to the state owing $2.9 billion. That is more than a $5 billion turnaround in general government sector debt. Again, that is a very big issue. It is a big issue because it relates to general government operations. It also means that future generations will have to pay off that debt.

As I said, the Premier was angry and upset when total public sector debt was increasing by $1 billion a year back in 2001. Indexing that to the consumer price index, it would equate now to about $1.9 billion a year. This government is increasing total public debt by a far greater amount than $1.9 billion a year. As I said, I am concerned about the disregard that this government has for debt. The fact is that this government will never have to pay it off; that is what the Premier said in *The West Australian*. He said that it is fine if the debt is kept at under $20 billion. It may be fine for the government of the day for the following year or two, but it is not fine for the next generation. It means that the next generation will have to make the choice of not having new assets or cutting down expenditure to pay off debt for a government that, let us face it, has revenue coming through the door to the tune of billions of dollars. Therefore, debt is out of control, revenue is coming through the door, and, of course, the other issue for the government is uncontrolled expense growth—massive issues that this government is not tackling. I understand there will be a cabinet reshuffle at the end of the year. It is possible that the Minister for Planning will be the next Treasurer.

Mr J.H.D. Day: I wouldn't bet on it.

Ms R. SAFFIOTI: The minister would not bet on it?

Mr M. McGowan: I'm not backing you on that one!

Ms R. SAFFIOTI: I think the Minister for Planning would be a good Treasurer, although his disregard for putting estimates on projects could be a bit of a problem!

Mr M. McGowan: That's right—but apart from that!

Ms R. SAFFIOTI: Apart from the fact that he does not believe in putting estimates on projects, the Minister for Planning would be a good Treasurer.

Mr J.H.D. Day: Things are happening!

Mr B.S. Wyatt: He could be a perfect Treasurer.

Ms R. SAFFIOTI: He could not be any worse.

Mr J.H.D. Day: The Link project is happening. You talked about it for years. It is happening.

Ms R. SAFFIOTI: How is the bus station going?

Mr J.H.D. Day: Which one?

Ms R. SAFFIOTI: How is the Wellington bus station going?

Mr J.H.D. Day: That is part of the project.

Ms R. SAFFIOTI: What is the cost of that?

Mr J.H.D. Day: That is part of the $650 million roughly that will be spent over about —

Ms M.M. Quirk interjected.

Ms R. SAFFIOTI: I do not know. I do not think they have as rigorous a process as the previous government had.

There are, of course, other unfunded projects out there in the community. Roe Highway stage 8—is it there or is it not? It was there; it is not there now. The government is still committed to it. That seems to be unfunded. There is the Ellenbrook rail line, which I hope is still a government commitment

Mr D.A. Templeman interjected.

Ms R. SAFFIOTI: I think when I last looked at the budget, $10 million was put aside for the Ellenbrook rail line. What should that get you—a ticket machine?

Mr D.A. Templeman: A push me, pull me caboose thing!

Ms R. SAFFIOTI: A ticket machine maybe.

There are of course hospitals that are not fully funded.

Mr F.A. Alban: We won't be putting them anywhere near any ice-cream vans, member.

Ms R. SAFFIOTI: So the member for Swan Hills did see the letter.

Mr J.M. Francis: You told us it was an ice-cream van.

Several members interjected.

The DEPUTY SPEAKER: Member for West Swan!

Mr D.A. Templeman: I reckon we've got "Duffygate" now!

Several members interjected.

The DEPUTY SPEAKER: Members! Sit down, please, member for West Swan.

Mr F.A. Alban interjected.

The DEPUTY SPEAKER: Member for Swan Hills, will you stop it! Member for West Swan.

Ms R. SAFFIOTI: There are unfunded projects. As we said, there are the hospitals, Roe stage 8, the waterfront, the museum and the Ellenbrook rail line, which I hope is still a government commitment.

Mr F.A. Alban: We'll clear all the ice-cream vans out first.

Ms R. SAFFIOTI: What has the member got against ice-cream? I like it. I like a good choc top.

Basically, this government is not committed to financial management. Expense growth is out of control. Revenue is coming through the door in the billions. Net debt is out of control and there are unfunded capital projects. I agree that we need a committee to look at debt. If we cannot control debt when billions of dollars are coming through the door, when can we control debt? There are billions of dollars in extra revenue through taxes and charges on households and royalties, yet debt is still out of control.

Mr J.M. Francis: This is from the person who leaked the 2004 budget from the Premier's office to the media.

Ms R. SAFFIOTI: I ask the member to say that again.

Mr J.M. Francis: You know what I'm talking about.

Ms R. SAFFIOTI: I did not leak it. That is a big accusation. I never did it. I ask the member to withdraw that remark because he has made a very serious allegation.

Withdrawal of Remark

Mr M.P. WHITELY: The member for Jandakot clearly made an accusation about behaviour that is unparliamentary of a member —

Ms R. Saffioti: It is illegal.

Mr M.P. WHITELY: —and illegal, and I ask that you ask him to withdraw.

The DEPUTY SPEAKER: I do not think that is a point of order.

Ms R. SAFFIOTI: The member for Jandakot accused me of doing something illegal. I ask him to withdraw.

Mr J.M. Francis: If you can give it, you can take it. Just get on with it.

Ms R. SAFFIOTI: I asked the member to withdraw. That was a very serious allegation.

Mr J.M. Francis: Take it up with the Deputy Speaker.

Mr E.S. RIPPER: There was actually a Corruption and Crime Commission investigation into the leaking of that 2004 budget. It is a serious matter to accuse a member of Parliament of having done that. I think it is unparliamentary.

Mr J.M. FRANCIS: I withdraw the comment directed at the member for West Swan.

Debate Resumed

Ms R. SAFFIOTI: The depths that members opposite are going to are absolutely incredible.

A select committee is needed to investigate net debt in this state because net debt is out of control. Billions of dollars of revenue are coming through the door. Net debt in the public sector increased by over $5 billion in two years. I am being conservative. General government debt increased too, meaning that future generations will have to pay more in household charges and taxes to pay off the financial mismanagement of this government.

DR M.D. NAHAN (Riverton) [6.43 pm]: I would like to make some comments on this issue and speak against the motion.

Mr B.S. Wyatt: Could I just confirm that you are the lead speaker?

Dr M.D. NAHAN: Yes, I am the lead speaker. I will start by congratulating the member for Victoria Park. The level of debt and growth is an issue. More importantly, although I do not accept all his arguments, and I will counter them, he presented them in a positive manner.

Mr B.S. Wyatt: Can I say, member for Riverton, deliberately so, because the issues the Premier raised in an identical motion in 1991 are just as relevant today.

Dr M.D. NAHAN: I counter that. Along with the Leader of the Opposition, I was also involved in that debate, although not in this house. I remember it very clearly, not only the level of debt but also some changes that have taken place since then that charged, in part, the need for a select committee and also the need to ensure that transparency of the conditions are much more open than they were back in 1991. The facts of the matter, as the member presented, are that debt has grown quite significantly, to about $20 billion in the total public sector, including about $6 billion for the general government sector. They are the facts. They are the estimates in the budget papers. We cannot argue about that. We can argue about whether we hit it or whether it changed. Those forward estimates are always open to substantial changes. We could look at the commonwealth's books. As the member for Victoria Park says, every time the commonwealth government looks at it—I think three times over the past four months—it changes dramatically. The world is an uncertain place.

I would like to add that in the last budget—the 2008–09 budget of the Labor government—the then government also forecast that total public sector spending would grow to $11.4 billion in the year 2011–12, which was the end of the forward estimates of that time. It was going to grow substantially under the previous Labor government. In that budget the government also forecast an average of $1.2 billion surpluses over that period. It was forecasting very large increases in debt—a 300 per cent increase in debt—in the context of very expected, very robust periods and very large general government surpluses, as I said, averaging $1.2 billion over the four years of the forward estimates.

Mr B.S. Wyatt: I just missed that bit. The $1.2 billion was the surplus position.

Dr M.D. NAHAN: That is what was expected under the forward estimates.

Mr E.S. Ripper: Member, if you go to the pre-election financial projections statement, which was the last document, it sets the scene, and the maximum debt forecast was $9 billion.

Dr M.D. NAHAN: I am just going by the budget papers. I did not look at the pre-election forecast. The former government had forecast a very large increase in debt, about $5 billion less than what we forecast, which was about $17 billion, but it had very large expectations of underlying surpluses. What was the debt used for? It was used in full—this is very important when we compare it with 1991—for assets, largely for revenue-earning assets. The $7.6 billion asset program of last year was made up of the following: $1.1 billion for electricity; $1 billion for schools, a large amount of which was the commonwealth's Building the Education Revolution program, which I will get to later; $1 billion for water, largely the residual for the desalination plant, which will earn some money, and it was a long served asset; $890 million for health; $683 million for housing, some of which is revenue earning but it is very much needed; $516 million for roads; and $416 million for bridges. On top of that, we have City Link, Fremantle port and the rail to Butler. This is a very large capital works program that is used for productive long-term assets. As members opposite have said repeatedly, there is nothing wrong with debt if it is used for long-term assets. It is particularly important in a state such as Western Australia that has huge infrastructure needs. No-one would argue with that. Indeed, over the past year, before the run-up to the budget and after the budget, when members opposite had a chance to talk about the budgetary needs that were relevant in their local communities, they never failed to say that they needed more—more roads, more schools and all sorts of things.

There is a huge capital need, more than we can afford. I know the opposition does not like to admit it but the global financial crisis did lead to a sharp downturn in our own sourced revenue. The commonwealth government—rightly, to some extent; I would argue it overdid it, but nonetheless as the central government is wont to do, it acts as the swing factor—came in with a very large stimulus program that injected huge amounts of money into the Western Australian budget. One thing about the commonwealth is that it spends about zero directly on capital. It appropriately provides grants to the states to undertake that capital. It committed $1.3 billion to the Western Australian government to partially fund its capital works program. A large amount of that capital program and that large increase in debt that was referred to was driven by countercyclical behaviour by the commonwealth. Even though it put money in, it required the states to match it to various degrees. One of the reasons we undertook that very large increase in debt over recent times was in fact in concert with the commonwealth to undertake a stimulus program to counteract the decrease in private sector demand. It was not just demand at that time; there was a very large drop in a lot of capital works programs around the state. The Leader of the Opposition knows well from his time as Treasurer that one of the problems during the boom times was just trying to get capital works done on budget because of rapid growth in costs. In fact, costs were out of control because BHP, Rio Tinto and other mining firms were absorbing all the labour.

Mr E.S. Ripper: We were no different from any other proponent.

Dr M.D. NAHAN: I am not saying that.

Mr E.S. Ripper: Except perhaps that we did not have the full project management expertise available to us that they might have had.

Dr M.D. NAHAN: Yes, I will go through that. But what I am saying is when there is a downturn and everything else is slow, that is the time to build capital. That is what we have done. How are we going to get that capital? Yes, we can get grants from the commonwealth; we have to borrow for the rest of it. It is long-term assets.

What is the difference between now and 1991? The fundamental difference is chalk and cheese. First, it was 20 years ago. If we look at the data back then and compare debt—which was low if we look at it in dollars of the day—in 1992 the total public sector debt was $8.4 billion. That is equivalent to 20 per cent of gross state product. Today in 2011, that $15 billion is equivalent to 8.4 per cent of GSP, which is less than half. On our estimates it will peak at 8.9 per cent; less than half.

Mr B.S. Wyatt: 8.9—what debt measurement is the member using there?

Dr M.D. NAHAN: Total public sector. It is the $20 billion that the member referred to.

Mr B.S. Wyatt: Obviously I am using a different measurement of what the GSP is. I have got it out at 10.6 per cent.

Dr M.D. NAHAN: No.

Mr B.S. Wyatt: Where did the member use the GSP figure from?

Dr M.D. NAHAN: Treasury provided this to me.

Mr B.S. Wyatt: I am using ABS to factor it into the budget.

Dr M.D. NAHAN: This is an inconsistent framework. We can get data from this but we cannot use the consolidated revenue data.

Mr B.S. Wyatt: Yes; we have had that discussion.

Dr M.D. NAHAN: It peaked as a percentage of GSP in 1992. The year after the member for Cottesloe made that speech, it peaked at 20 per cent. There were a couple of other reasons that was a frightening figure. One, part of it was used at that time for recurrent purposes. We had very poor estimates at that time. It was before accrual accounting came in. We had no idea what the repair and maintenance bill was—it was not in the budget. Capital was treated separately. We could not separate how much went to repair and maintenance and how much went to capital. Subsequent analysis came out that a sizeable portion of that borrowing was used to meet recurrent purposes. As the Leader of the Opposition made clear, that is a no-no—one does not borrow to meet today's expenses.

Mr B.S. Wyatt: I think everybody accepts that.

Dr M.D. NAHAN: Okay; but I am comparing today with 1991. My point is: what is the difference between now and 1991? What is the difference between the member's proposal and the Premier's proposal of 1991? First, the debt levels as a percentage of GSP were much higher; second, a large amount of the debt was used for recurrent purposes—a sizeable portion, not a large amount; and, third, the amount of the interest that is covered, or how much of the debt is used, is different. I think the member said today it was less than 2.5 per cent.

Mr B.S. Wyatt: Yes, but there is the same issue about CRF.

Dr M.D. NAHAN: I have access to Treasury documents—it was over eight per cent.

Mr B.S. Wyatt: Sorry; over eight per cent of? Is the member doing the comparison of general government revenue now?

Dr M.D. NAHAN: No; this is total public sector. I will give the member the figures. I will show the member what the share of debt is. I will get to that when I find it. I have the same problem the member does—too many pieces of paper! The net interest today is about 2.5 per cent. That is in the budget. In 1992 it was about eight per cent.

Mr B.S. Wyatt: Is that a direct comparison? Can we actually compare that?

Dr M.D. NAHAN: Yes. Eight per cent back then; 2.5 per cent today.

Mr B.S. Wyatt: I want to make the comparison clear. We had a discussion earlier about CRF comparison, but does that factor that into account?

Dr M.D. NAHAN: Yes.

Mr B.S. Wyatt: Is it an apple-for-apple comparison?

Dr M.D. NAHAN: Yes, it is. The books back then, as the Leader of the Opposition will know well, were a mess in their lack of consistency and treatment. A large amount of the expenditure was off-budget. We have significantly improved the transparency of our accounts since then. It is one reason things have changed.

The member raised another point; that is, we in Western Australia, as in Queensland, historically have been concerned about levels of debt and focused on international issues. We have been drawing in large recipients of foreign investment. We continue to do so. One of the hallmarks of Queensland was that it had a sterling set of accounts for years. Indeed, until recently, even before the Leader of the Opposition was the Treasurer, we had negative net debt. In the general government sector the debt minus our assets was negative. Queensland has had that for decades. Queensland has been very focused on debt levels for years. Things changed dramatically in this period of time; dramatically indeed. By all measures Queensland's debt has blown out. In 2012–13 our debt will be in the vicinity of $20 billion, as the member said. In Queensland it will be nearly $50 billion. Queensland got hit with two whammies: firstly, the global financial crisis, which led the government to try to stimulate the economy with capital works; and, secondly, it had all that money invested in the stock market when it went down. Its assets had less and less value. Anyway, the net debt level of the total public sector in Queensland is shockingly higher than ours, by any measures whatsoever. When we look at what they are in other states—I think I am looking at Queensland's budget paper again—by all measures general government projected net debt per capita as of the end of June this year in WA is supposed to be 1 252; Victoria 2 091; New South Wales 1 900 —

Mr B.S. Wyatt: In respect of that Queensland figure, does the member have the figure when Queensland net debt peaks?

Dr M.D. NAHAN: No; it is growing throughout the forward estimates.

Mr B.S. Wyatt: It continues on the upward trend?

Dr M.D. NAHAN: Yes. It is growing about 10 per cent a year. If we take it on net debt per capita, we are the lowest outside Tasmania. I will get to Tasmania. If we look at the projected ratio of financial assets to financial liabilities, that includes superannuation. Western Australia is clearly again, outside Tasmania, the best off. If we look at projected per capita net worth—that is, how many assets we have per capita in the public sector—Western Australia is clearly the highest, with $50 000 worth of public sector net assets per capita versus Victoria of $20 000. Our net asset base in the public sector is twice as high as the net asset base in Victoria, New South Wales and South Australia and significantly higher than in Queensland. What is my point here? My point is twofold: first, we are in a far superior fiscal position than other states; and, second, we have a good set of data on our debt levels and debt exposure positions. We have a high degree of transparency on these things. 1991 was a different world from today in terms of what we know about the budget, the level of debt per capita and other measurements and our ability to afford that, but, more importantly, in 1991 we did not know what actually took place. There is no comparison. The member also raised the issue of Abbott's $100 million a day or a month, was it?

Mr M. McGowan: A day.

Dr M.D. NAHAN: There is one reason: that was said in the heat of an election campaign! Generally the significant thing at the commonwealth level was that when the Rudd government came into power, it had a public sector surplus.

Debate adjourned, pursuant to standing orders.

House adjourned at 7.00 pm