

WESTERN AUSTRALIAN RESOURCES HERITAGE FUND BILL 2007

Second Reading

MR J.H.D. DAY (Darling Range) [4.01 pm]: I move -

That the bill be now read a second time.

This bill is for the purpose of establishing a future fund for the state, to be known as the Western Australian Resources Heritage Fund, to ensure that future generations of Western Australians can benefit from some of the substantial, but finite, natural resources available to us at present. This follows on from a speech that I made in this house in March last year.

There is no doubt that Western Australians are very fortunate to live where we do - all the more so because of the strong economic conditions that currently exist in the state. The good fortune that is flowing around Western Australia at present has led to low unemployment of three per cent; a high economic growth rate - in 2005-06 the gross state product rose by 15.9 per cent in price terms and 4.9 per cent in volume terms; large increases in real estate values; and significant increases in incomes for some in the workforce, particularly in the resources sector. Much of this situation is due to the substantial increase in demand for the natural resources we are fortunate to have in the state in abundance, including iron ore, natural gas, gold, coal, bauxite, nickel, diamonds, mineral sands and others. The combination of our longer term export markets with newer and growing markets has produced these conditions, with the value of exports in 2006 being \$43 billion, up from \$28 billion in the previous year. It is worth noting that in 2006 destination countries for natural resource exports in descending order of value were Japan, China, Korea, the United Kingdom, India, Singapore, Thailand, the United States of America, Indonesia, Taiwan, South Africa, New Zealand, Finland and the United Arab Emirates.

The increase in mineral and petroleum exports has also resulted in a substantial boost to the state government's revenue from royalties, with \$2.21 billion forecast to be collected in the *Government Mid-year Financial Projections Statement*. This compares with \$1.16 billion in 2000-01 and \$263 million in 1990-91. The forecast budget surplus for 2006-07 is now \$1.74 billion, up from the previous forecast last May of \$1.27 billion.

However, it is important for us all to appreciate that all of the resources that are producing this large increase in revenue are non-renewable and therefore have a finite life. They cannot be extracted and exported forever. For example, it is estimated that about 60 years of known reserves of iron ore remain at the current rate of production. Natural gas is expected to last in the vicinity of 100 years. The major gold deposits being extracted from the Kalgoorlie Superpit are expected to be depleted in 2020. We therefore need to ask ourselves two important questions. First, is it acceptable for us to continue to export more and more of these finite and non-renewable natural resources without making adequate provision for the future? Second, should we retain in perpetuity some of the benefits currently being received for those who will follow us in the future? The Liberal Party believes that the answer to the first question is no, and to the second question yes.

It can be argued that increased expenditure by government on infrastructure, such as railways or roads, and community facilities, such as schools, health facilities or police stations, is an appropriate use of the substantial increase in revenue now available to the state. There is no doubt that this is true, in part. However, it also needs to be appreciated that many of these facilities have a life span of 30 to 50 years and will need replacement in the future. It is also the case that many such facilities, such as the Perth to Mandurah rail project, while being important in social terms, will have little or no effect in enhancing the state's export revenue.

It can also be argued, correctly, that repayment of state debt is important and is a way of investing the state's income for the future. However, it also needs to be appreciated that just as governments can reduce debt, they can also increase it. Without the discipline of putting something aside from the state's resources revenue into a separate fund, there is no guarantee that anything will be available for future generations. It is also relevant to note that the general government sector is forecast to remain net debt free in 2006-07 and in the future. Most public sector debt that exists is held by the major trading agencies, particularly the Water Corporation and the various electricity corporations. We therefore believe that the time has come to establish an investment fund for the state from a proportion of non-renewable resource revenue to ensure that an income stream is available for the benefit of future generations. This bill proposes creating such a fund, to be known as the Western Australian Resources Heritage Fund. The name is intended to indicate that our non-renewable natural resources should be regarded as a heritage for all Western Australians, now and in the future.

I will now outline the essential elements of the bill. First, an investment fund will be established from a proportion of non-renewable resource revenue received by the state. This includes both royalty revenue received directly by the state under relevant legislation and the revenue received via the commonwealth government under the agreement in relation to the North West Shelf project. Clause 16 enables the government to transfer funds from the consolidated account to the investment fund, being a proportion of non-renewable resource

revenue each year, and for the amount and proportion to be advised to Parliament as soon as practicable thereafter. With the amount of revenue now available to the government, the opportunity exists to establish the fund with a significant initial deposit and to continue to grow the fund in the future. This is particularly in the context of the *Government Mid-year Financial Projections Statement* forecasting an increase in the budget surplus of \$464 million to \$1.74 billion, a figure that may well end up being even higher. Current revenue projections enable such action to be undertaken, in addition to reducing rates of state taxation. This bill is quite deliberately framed around the principle of retaining a proportion of non-renewable resource revenue for the future needs of the state. However, it will in fact be entirely possible for a government to deposit funds from any source, so long as the appropriate legislative and parliamentary processes are followed. Clause 17 provides the ability for additional amounts to be appropriated from time to time as determined by Parliament.

Second, a board of five members will be established to manage the fund. Clause 7(3) provides for board members to have professional experience or expertise in the management of financial assets. This provision is the same as that which exists in the commonwealth Future Fund Act 2006. Clauses 6 and 8 to 14 make provision for the proper functioning of the board, and provide similar protections for members to those that exist in similar statutes, such as the Western Australian Treasury Corporation Act.

Third, clause 18(4) provides that investments made by the board should have the objective of maximising long-term financial returns. Clause 18(5) provides further direction for the board in making investments to ensure that a prudent approach is taken. These two subclauses are drawn from the Alberta Heritage Savings Trust Fund Act, which governs a similar fund in the province of Alberta, Canada, which was established in 1976. It is expected that the board would take a similar approach to that of managing a well-managed superannuation fund. Investments would include shares in appropriate companies, real estate and interest-bearing deposits.

Fourth, the bill provides for the income of the fund to accumulate and be reinvested until 1 July 2012. This is to enable the fund to grow in its early years while the state's finances are forecast to remain strong. Subsequent to 1 July 2012, clause 19(3) provides for the net income for the previous financial year to be transferred to the consolidated account to assist in developing the state or otherwise for the benefit of the people of the state. This provision therefore ensures that the income can be used for a wide range of purposes. This may include providing infrastructure; providing additional health, education or other community facilities; or funding education programs, early childhood development programs or health programs to assist in the prevention of disease or with the ageing population. These are examples only, and clause 19(4) ensures that such expenditure is supported by both houses of Parliament. Clause 20 provides for sufficient income to be retained in the fund each year to ensure that the real value is maintained; that is, to ensure it is inflation proof.

Fifth, to ensure that members of the Western Australian community are adequately informed about the progress and value of the fund, it is proposed that reports be provided to Parliament every three months. Clause 22 ensures that this will occur at the end of each financial year through the provisions of the Financial Management Act 2006. Clause 23 provides for additional reports to be provided at the end of the first three quarters of each financial year. The bill does not provide for a new parliamentary committee to oversee the fund because it is assumed that adequate oversight would be provided through the existing standing committee system.

The concept of establishing an investment fund to put something aside for the future from a proportion of non-renewable resource revenue has been put into effect in other jurisdictions where similar circumstances exist. In particular, as mentioned earlier, the Canadian province of Alberta established the Alberta heritage savings trust fund in 1976 and its current value is approximately \$A17 billion. In the American state of Alaska, a constitutional amendment in 1976 led to the establishment of the Alaska permanent fund, with 25 per cent of resource revenue being deposited each year. The fund is currently valued at approximately \$A46 billion. Norway established the government petroleum fund in 1990. This fund is now known as the government pension fund and its current value is \$A347 billion. It is pertinent to note that all these funds have significant investments in Australian companies, including those in the resources sector, and so are benefiting from the current resources boom in this state. The establishment of a similar fund in Western Australia would enable current and future residents of the state to benefit from our natural endowments in the long term and to a greater extent than would otherwise be the case.

There is quite rightly a desire in Western Australia to establish more downstream processing industries to obtain a greater return from our natural resources. This aspect certainly should be pursued as strongly as possible and there have been some successes. However, the challenges in doing so are often large; for example, the cost of labour relative to many Asian countries, lack of economies of scale, remoteness and technical and environmental issues. The \$2 billion hot briquetted iron plant at Port Hedland is a notable example of a project that was tried but did not succeed. Setting up a fund such as proposed by this bill would, so long as it is able to grow sufficiently, ensure that greater value can be obtained from our resources as an alternative to downstream processing.

In my view, there is also a significant moral aspect to this issue; namely that we cannot, with a clear conscience, continue to dig up and send overseas more and more of our finite resources without leaving something behind for future generations. The reality is, of course, that this bill will succeed only with the support of the government in addition to that of the opposition. I therefore urge the government to consider this proposal seriously, so that in a bipartisan manner we can do something that is in the genuine long-term interests of the state and its people. There will probably never be a better time economically to take such action and future generations would judge us harshly if we failed to do so. I commend the bill to the house.

Debate adjourned, on motion by **Mr J.C. Kobelke (Leader of the House)**.