**WESTERN AUSTRALIAN FUTURE FUND BILL 2012**

*Second Reading*

Resumed from an earlier stage of the sitting.

**HON KEN TRAVERS (North Metropolitan)** [5.06 pm]: I will summarise where I got to before question time. The government has introduced the Western Australian Future Fund Bill. It will require us to borrow money to put into a thing called the future fund which will invest predominantly in other state government bonds—called semi-government bonds, but they are basically state government bonds—to try to generate an income. It is predicated on us maintaining our AAA credit rating, which is now at risk partly because of the horizontal fiscal equalisation process given to us by Mr Court, Mr Barnett, Mr Howard and Mr Costello in a form that prevents the state changing the agreement without the agreement of other states. It locks us in in perpetuity to that process. Even though it was known at the time that it would be a risk to the state, the previous Liberal government chose to look after its commonwealth colleagues. At the same time we are expected to put $4 billion into this fund—or, over the next four years, $1 billion. State debt will continue to rise.

This government has taken the general government sector from a $3 billion surplus to a $5.5 billion net debt deficit today, rising to $8.5 billion over the forward estimates. In the government trading enterprises section of the budget, the government has taken the figure of $11 billion in the *Pre-election Financial Projections Statement* to an estimated $14 billion at the end of this financial year, rising through to 2016. If the Barnett government is re-elected, the net debt figure that is normally quoted includes those public financial corporations' surpluses, but the real debt this state will need to repay is around $24.8 billion. The other thing that needs to be remembered in all of that is that the former Labor government kept general government sector debt around zero. We used to have a position in which general government debt was around zero. In those circumstances putting money into a future fund would have made sense. The big growth in debt under this government has not been in areas such as general government trading enterprises, which actually produce an income—the government has underinvested in that area—it has been in the general government sector. That is why we have looming problems with a lack of port capacity around the state. Just about every port is at capacity. If this government gets another term in office, by the time that four years is up, health will be the number one expenditure item, education will be number two, police will be number three, and there will be competition for interest payments.

The government is telling us that it is making money provisions for the future by this bill. It is an absolute fraud and a nonsense to suggest that. If we are to borrow that money, let us put it into productive areas of the economy that will get a return for Western Australia, drive the economy and hopefully broaden our tax base. Again, because of the deal done between the federal and state Liberal governments at the turn of the century, we are limited in our capacity, and they knew it. They reduced the state's revenue-raising capacity and they did it knowingly. Now the government is trying to tell us that it understands and that it has this great scheme. All those debt figures are predicated on the figures in the budget but we know that on top of that will be added a range of activities committed to by this government that are yet to be expended. Another couple of hundred million dollars will need to be expended from the road trauma trust fund that has not yet been expended in the budget and when it is, the debt will go up. When people look at the pretty pictures on page 57 of budget paper No 3 that was issued some time ago showing net debt rising for the next couple of years and then starting to decline, they must look very carefully because, in reality, the net debt climbs dramatically under this government and continues to climb. It does not actually start to decline as expected. That is why I say it is ironic and significant that we are debating this bill on the same day that Standard and Poor's will revise the state's AAA credit rating to a negative outlook. Standard and Poor's understands the state's finances even if this government does not. The Labor Party will be looking forward to thoroughly examining this bill in detail. As I said from the outset, we have no problems with the principle of a future fund, but we need to get it right and it must be done when we are not borrowing for the general government sector.

There is one area that we must look at nationally. Although I accept that the states own the royalties, the GST deal that was done means that whatever our source of revenue is, it goes into a big pot for the nation. We need to focus on two things. The first is that if we want a future fund, we must negotiate with the rest of the country that the royalty income from around the country will be put into a genuine sovereign wealth fund for the future because we will not have royalties forever. We need to think about what will happen when the royalty stream runs out. The second thing we need to focus on is our debate. We can try to score cheap political points about the commonwealth–state financial arrangements but the real debate with the other states must ensure that they understand that providing money to Western Australia to invest in infrastructure will allow the pie to grow bigger for all of us. We expect to get a fair share of the pie when it grows bigger but the country must invest in Western Australia to allow the pie to get bigger. If the other states do not invest in Western Australia and assist us in the infrastructure demands of a state that is growing as rapidly as WA, we will not continue to grow and prosper; it will be a disincentive for growth. That is the message we must take to the other states because the current message will not resonate with them. We must have a rational debate and accept that the deal done at the turn of the century by the state and federal Liberal Party has locked us into a difficult negotiating position. I believe that we can get out of that difficult position by coming up with a win–win scenario, putting forward the arguments for the future and arguing that royalties from across the country should be going into a sovereign fund for the benefit of all states while at the same time negotiating a better deal for Western Australia. That is the real future that we can look forward to but I do not think that will occur under this government. Under this government, whether it is in this area or law and order, we get a press release then a piece of legislation is delivered, none of which makes sense.

As I say, there are many aspects of this bill that need to be tested, such as the manner and form provision. I will not go through that in any detail today. Other members may raise it but I suspect it is probably best left for the committee stage when we can test whether even the manner and form provision that the government wants to put into this bill will actually have any real impact on the desired outcomes of the bill. Even if it does hold up, there are so many discrepancies in the way this legislation is constructed that the manner and form provision may not have the desired effect, presuming that all the assumptions that have been made come to fruition, including keeping our AAA credit rating. If Queensland gets its AAA credit rating back, I do not know how the economics of this bill will work. I know that other members are keen to comment on this legislation and I look forward to the committee stage.

**HON JON FORD (Mining and Pastoral)** [5.16 pm]: I will not go into what I find is a dry fiscal argument. My colleague Hon Ken Travers has quite eloquently gone into the detail of the Western Australian Future Fund Bill 2012 and not much more needs to be said. I will talk for the general punter on the street when we talk about our future and what the future means to them. It is perhaps fortuitous that we are discussing this bill on Melbourne Cup day, which is the biggest gambling day for the nation, because the bill is predicated on a range of things that may happen if the wind is blowing right, the world economy is in good shape and the interest rates fall the way the government believes they will. We are talking about hopefully investing—that implies a return—$1 billion over four years to offset the real debt that this government has generated, which will exceed $24 billion.

What does the future mean to the punter in the street? I will talk about an example that is on my table at the moment. I will go into it in some detail because it tells us what the future holds and what people think we should be debating and concentrating on in this chamber. This person is typical of many people I talk to in my day-to-day business in my electorate. I talked to a 64-year-old woman in Halls Creek who has spent her whole life working for her community. She has brought up dozens of kids, formally and informally. In fact, wherever I am with this woman it never ceases to surprise me how many people come out of the blue and say, “How are you going? Do you remember me?” She remembers them all. First, it gives us an idea of the extent of the philanthropic work she has done over the years for her community; indeed, in Western Australia, bringing up kids who find themselves in trouble, abandoned by their parents or in situations in which their parents cannot afford to raise them. The other side is that it gives us an inkling into the size of the Western Australian community. We can spend our whole lives in Sydney and never bump into anyone we do not want to bump into, but we can go anywhere in Western Australia and on a daily basis bump into people we have not seen for years.

The interesting thing is that this 64-year-old woman said to me, “You know, the only thing I regret about my life, Jon, is that I cannot actually give anything to my children.” She is 64 years old and has worked her whole life for the community. She lives in public housing. Her husband has worked for more than 30 years in local government, yet she has nothing to leave to her children. In real terms that is no superannuation and no house. She lives in a public house. She cannot afford a loan to buy that public house because the market price for that house exceeds the amount of money the house is worth. It is a strange situation. Because it is in Halls Creek and because of her husband’s salary, they cannot afford to buy the house even though it has been offered to them. We would think that in real money, a house like that would be worth $30 000 or $40 000, which would be reasonable. But she is being asked to pay around $370 000 to $400 000. She cannot even buy a house so that she has something to leave to her children and she has no superannuation. That is the sort of future she would like us to be talking about in here, not a big gamble. How can we fix it? For $350 000, rather than putting $1 billion over four years into a future fund that may deliver, we could buy her a house. We could at least subsidise her to the extent she could buy what she can afford—$30 000 or $40 000 as I said. That is what people think about when they talk about their future and daily lives here and now. But here we are talking about grandiose plans that may or may not occur.

I will tell members what is reality in my electorate. This is a simple example of people in my electorate. As I said before, I will take members through it in some detail. My office received the following email —

> Hi

I will not identify the person, but we will call her Mrs Smith —

> Mrs Smith and her family are currently living in tents near the old meat works in Broome. They have been there since July/August this year and the residents at their bush camp include her l3mth old grand daughter.
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> Attached is the letter of authority and a letter from sister outlining some of the issues that led to their family moving out of One Arm Point.
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> As discussed yesterday has a debt with Homeswest but has been paying it off (total of $8000 down to $7000 at $50 a wk or fortnight) and they have been in contact with DCP for support of their priority application.
>
> She is expecting a call from your office today, her number is on the authority letter,

That letter gives me authority to negotiate with Homeswest on her behalf. It is a simple problem. She was thrown out of her house and owes money to Homeswest, finds herself in difficult circumstances and needs help to get into housing. That is the point. We are debating in here $1 billion that may or may not deliver against a big debt sometime in the future, while our constituents with small children are finding themselves living in tents in Broome as we head into the wet season. This would not be so bad if it were a single case. But I can tell members that there are people like this all over Broome, Fitzroy Crossing, Kununurra, Newman and Port Hedland. What does she think of the future fund? I can tell members that she is worried about getting some food and protecting her children.

I will give members the lead-up to this. In the context of what we are debating in this house, we could fix this but we are choosing not to. I have talked in this house before about endemic bigotry. This bill is a classic example of how we get priorities wrong. This bill is rubbish. It is rubbish that we should not be dealing with when there are people in these difficult circumstances. The letter reads —

> Dear …
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> It was nice to meet you the other day at the Sisters Day Out. I briefly mentioned my niece’s problems and I am seeking advice from people who deal with these situations consistently. Perhaps if I give you the whole picture that might help you or others to direct us to the best possible help.
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> It all started when my niece was just 11 years old in late 2010, when she was taken to the remote clinics for abdominal pains and then sent by the Royal Flying Doctor service to the nearest town of Derby. My sister was not really informed appropriately by the medical staff that her daughter needed to be taken to Derby otherwise she would have gone with her daughter. However the partner of my sister’s son accompanied my niece to the hospital in Derby instead.
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> A day later not knowing what was wrong with her daughter; my sister received several calls from the Detectives investigating sexual abuse of her daughter. Apparently the health staff contacted child protection and the police of this abuse. My niece told her story and it concerned two young males, one 18 year old and a 14 or 15 year old who forced her to have sex with them one after the other and apparently my niece was not the only young girl abused in this way.
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> As the story unfolded my sister reported the incident to the community chairperson at the time, and that person organised a meeting with the local Police lady who specialises in child abuse cases. At the meeting which was held at the Dampier Peninsular Police station near Broome, there was my sister and another of our sisters, the chairperson of the community and another office staff from the community.
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> To my sisters knowledge, the report was taken down and thinking that the Police would continue the investigation, but to this day she has had no help what so ever from them. In fact, when my sister and her family were receiving verbal and threatening abuses from the perpetrators family and my sister tried to seek protection orders, she was told by the Police that she needs to travel back to Broome and get that protection order from the Police in Broome. My sister did not have any vehicle to travel 230km to Broome. She was also told by the senior sergeant “it is the cultural way” when my sister complained about being threatened by that same family with the boomerangs.

What of a future fund for this family? What does that mean? Why are we debating this now when, clearly, as a government and as a Parliament we have the resources to fix this problem; but, no, we say, “Get into a car and go 230 kilometres away to Broome and make the complaint”? The letter continues —

> My sister was working at the time in the local shop and every day was very abusive for her from that same family. My sister reported all the incidents to her management and community counsel but this did not stop the abuse. My sister’s children were all receiving the same abuse which got so out of control that … ended up fleeing for safety to Broome.

The letter goes on but that makes the point, I think. She is now living in a tent on the outskirts of Broome while we are in here discussing a future fund. She has no future at the moment and I feel very sad for her. She is relying on a member of Parliament in opposition who has limited abilities to resolve her problem. He can only shake the cage. How will she feel when she asks, "What were you doing to help me on Melbourne Cup day on Tuesday?" Our reply is, "Well, we got up and talked about the future fund." What does that mean for that person? It means absolutely nothing. All we have to do as a society is give her and her children protection from obvious abuse. Even if, given the way criminal law works and the sorts of accusations that can be made, it is proved down the track that it was not abuse, we could still put her children into safety. The question I am asking is: what are our priorities? I will talk about a couple of other things and come back to those cases, because I need to cool down a bit.

We have specially raised in this house issues with the Nullagine Road as a road that has problems. It is used heavily by industry; in fact, it has been sealed mainly by industry up past Roy Hill Station, yet people constantly have accidents on it. It needs to be upgraded. It certainly ain't gonna cost a billion dollars to fix it! But because of where it is, the chances of it being upgraded in the future are nil and Buckley's. I know how much it will cost. I am sure every member in this house could debate using the billion dollars to fix roads, which may or may not give the state a return. I am all for future funds, but as Hon Ken Travers said, if we did not have a debt and we wanted to bank a surplus, that would be the time to have a future fund—not when there is incredible debt on the state's credit card.

I saw pictures of a four-trailer road train that had done a 180-degree turn and had ended up on its side pointing to where it had come from. That happened six months ago. It was fully coupled up and laying on its side. Tanami Road is interesting, because once it reaches the South Australian border, it becomes a fantastic road—it is just the bit between Halls Creek and the border that is rotten. It is a great tourist road, but increasingly it is becoming a strategic road for mining. In the future, certainly with rare earths, it will become more and more important to this state, but we are not investing in that road now.

It will be interesting to learn what local governments really think about the future fund. I have been told by a few what they really think; indeed, they all have the same view. Local governments are pretty good with the old purse strings as they know how to make a little bit of money go a long way and how to use that money to supply lots of services. A lot of local governments I have talked to, particularly in the Mining and Pastoral Region and above the twenty-sixth parallel—I am sure it is no different in the wheatbelt, down south or in the goldfields—have told me that despite having had their financial assistance grants discounted, and therefore having lost significant income, they have been asked to deliver services in remote communities. Yes, they can apply for money through royalties for regions. But they do not have surety in their budgets. They have responsibility, but they do not have surety. Their future is at risk because they have the responsibility, but they do not know whether they will be able to afford to deliver the services they need to deliver—services that are essential for people such as the constituent to whom I referred earlier who lives with her grandchildren on the outskirts of Broome.

I now refer to integrated power in the Pilbara. Hon Ken Travers talked about investing in the ports and how all the state's ports are either at or exceeding their current capacities. Certainly their future capacity is way beyond what they have now. Investing in our ports is planning for the future. If we were actually investing in them now and gathering debt for something that would give us a return, again as Hon Ken Travers pointed out, I would be much happier. I was at a meeting the other day with pastoralists in Fitzroy Crossing. To this day, I think pastoralists give the state the best return for money that it gets for pastoral rangeland care. It is not the best, but for value for money, they do a great job. We treat them as individuals: there is the great Australian idea of the squatter and his sheep or landed gentry, which is absolute rubbish! These are hardworking people who really struggle to make ends meet and who face continuing demands on their properties. We do not treat them as an industry. If we treated them as an industry, we would look at investing in the creation of infrastructure for pastoralists. If we were really worried about live animal exports, we would invest money into moving it away from live exports into a chilled meat industry, which would be strategic and be an investment in the future, but we are not doing that; we are putting cash in the bank. Unfortunately, that is not linked, and, as has been pointed out, the credit card limit is going up and up and up! All of a sudden, a billion dollars does not look like very much money.

I refer to housing affordability and public housing. If we were really concerned about investing money for the state's future, we would address those issues. One billion dollars would go a long way, especially if the Department of Housing thought outside the box with community housing. In that case, we would not have constituents like those to whom I referred—whose children who have been abused—who have been forced out of their homes and are living in tents in the backblocks of Broome or up on Kennedy Hill or out towards the Willare Bridge Roadhouse or out the back on Gibb River Road or out the back of Newman, where a government-funded outstation is deteriorating in the same way that every other outstation has done before it, thereby becoming a blight on society. Here we are debating a future fund when we have not dealt, are not dealing, with the present. I am sure that if every one of us in the chamber had this money in our back pocket, we would deal it out to our constituents, who expect us to run the state on their behalf, and make a better investment and give them a better life, which, after all, is what we are supposed to be doing. I will tell members why I think we are dealing with the Western Australian Future Fund Bill today. It is a smokescreen. Nobody wants to talk about the state's debt. Unfortunately, the media does not want to talk about debt, either. Mind you, I reckon by the time we finish this session of Parliament, there probably will not be any media left—there certainly will not be any journalists or print media. I think 30 Channel 9 journalists have been given the boot. I do not know how it is going to work out in the end.

**Hon Simon O'Brien**: Any news on *The Sunday Times*?

**Hon JON FORD**: We all live in hope.

It is nonsensical that a future fund is being brought before us before we pay off the debt—before we can afford it. It is just a political smokescreen. It is a political smokescreen, because out in public we cannot talk about the future fund in the detail that we get to talk about it in here. People say to me, "Putting away a billion dollars in the bank for the future, that has to be a good thing, Jon", and I say, "Yes, it would be a good thing if we were not facing this level of debt". They then say, "But governments always have debt", to which I say, "But let us talk about interest payments", and then we start getting into the detail that Hon Ken Travers has talked about. I then say, "Let us talk about the inability to maintain an effective public sector and service delivery", and their eyes glaze over and they ask me if I want to have another beer. So it is very effective as a political smokescreen. But it is, at this point in time, a sham.

I come back now to my original point, which is something that I have said in this place before. When we have these phoney debates—that is what I am calling this—about a political smokescreen, we are adding to that entrenched endemic bigotry that we all perpetrate against the most disadvantaged people in this state. We are not having a debate about this poor woman and her grandchildren who are living in tents in Broome, and we are not talking about my friend in Halls Creek, who after a life of service to her community will never own a home and will never have the option of superannuation, but we sit here and talk about the free market. We are not addressing the issue of the schoolteachers who have to deal with severely disabled kids with foetal alcohol disorder and do not have any support services in the rural bush. We are discriminating against them. We are discriminating against the people in Halls Creek. We are discriminating against the people in the outstations in Kalgoorlie. We are discriminating against the street kids in the city who are forced out of their homes. We are discriminating against our children, under the guise of dealing with their future. We are not dealing with their future. We are dealing with the future of the current government, and we are assisting the government in the passage of this bill.

So I would like the people in this chamber just to pinch their memories. Next time members are in their party room and somebody comes up with a bright-spark idea like this, which has been born out of some political discussion in some minister's office or around informal cabinet, we need to remember that what we should be doing and delivering for the people of this state is a real future. At a time when the rest of the world is on its knees, still, and people are holding their breath to see who wins the election in America so that we will see where the world will end up fiscally, we are the envy of the world. But we are throwing away money and creating debt in non-income producing pursuits, by putting money into a so-called future fund, when we have such a big job to do now.

I cannot speak for city members, but I know from the discussions that I have had with my country colleagues in this chamber that we all have examples of where a little bit of money now would provide a future to these kids, these troubled families and these troubled women. These people do not see themselves as disadvantaged. My friend in Halls Creek does not see herself as disadvantaged. She is just having a moment where she feels disappointed that she will not be able to give something to her kids when she dies. She believes that she has had a good life. But we could give her something. We could make that house affordable so that she could pay it off. It is too late for her now, but we could do something for her children by providing affordable housing. It is ridiculous that a public house in Halls Creek costs between $350 000 and $500 000 and we say, "Oh, they can buy the house off us." Give us a break! We have to accept that we need to build affordable housing and subsidise it and give people some self-esteem by enabling them to pay off a reasonable debt over their lifetime so that they can achieve something. That is how we give people a step up in life. I am using Halls Creek as an example. I am not picking on Halls Creek, because I am sure the same situation applies throughout the wheatbelt and the great southern. My children would love to live in regional Western Australia but they cannot afford to do it. So we have taken away their future in the regions.

So, please, let us try to move away from introducing pretend bills. We have the ability to give people in Western Australia, disadvantaged people in particular, a real future. Let us try to do that, instead of sitting here and having a phoney debate about a fund that is just a political smokescreen and that will not deliver a future for Western Australians, especially for the people whom we have been elected to serve now.

**HON PHILIP GARDINER (Agricultural)** [5.46 pm]: I rise to speak to the Western Australian Future Fund Bill 2012, with some ambivalence, but nonetheless in the end concluding that it is a sufficiently worthy bill that it should make its passage through this chamber. The intention with the future fund, as outlined in the bill, is to put aside funds today to generate funds in the future. We need to consider this future fund in the context of other future funds within Australia. We have the Future Fund of the Australian government, which at the end of December 2011 was worth in the order of $89 billion. That future fund is in place at a time when we have serious budget deficits—possibly this year a surplus—and we have a high level of government borrowings. So the context in which this fund, administered out of Canberra, is being considered has a parallel with our own sovereign wealth fund.

I have a lot of sympathy with the view that governments should not borrow to invest with the intention of making a marginal profit. It is a tough business, and we can often get it wrong. The political consequences of getting it wrong are one thing. It is a matter of how it is managed and how to get the best portfolio managers. We all know that some portfolio managers will do well for two, three or four years, and then it will all go wrong. It is not a continuing stream, as Hon Jon Ford said, of making profits. It does not work that way. It is a bit like gambling on the horses. We do have some knowledge. But even those fund managers who are the most professional in the business still have difficulty in generating returns. The problem that I have with this fund is borrowing and investing under government auspices, especially when it is related to generating funds for the future. It is a lovely ideal, and a lovely aspiration, even, but there are risks about the generation of those funds for the future.

To take this parallel a little further, it is interesting to look more closely at the federal government's Future Fund. During 2008, when there was a budget deficit of $27 billion, and 2009, when there was also a budget deficit of $57 billion, $47 billion was added to the Future Fund. At least one can say that the commitment the Australian government has to the Future Fund is serious enough that it even adds to it in years when it is running deficits. That Future Fund includes a fund for building Australian infrastructure and it has an educational investment component and a health and hospitals component. Together with the main body of the Future Fund, which totals $89 billion, $73 billion of it has made a compounded return of 4.4 per cent since it was first funded in May 2006 under the Howard–Costello government. I am told—I have not seen these numbers—that that is one of the highest returns of any privately managed fund over that length of time. That goes against my view that maybe the government should not have these funds, which is my underlying premise, but it is confounded by that result.

Let me give members an idea of where the money in the Future Fund is invested. Ten per cent is invested in Australian equities, 16 per cent in global equities, five per cent in private equity, which I presume is non-listed companies, although I may be wrong about that, 6.3 per cent in property, 19 per cent in debt—I do not know whether that is semi-government debt or bank debt or just corporate notes—and 11 per cent cash. The people who are managing this fund include David Gonski, Peter Costello, David Murray and Carol Austin—people who are pretty experienced in this area. It is interesting that they are making it work. That Future Fund is not too dissimilar to one of Singapore's funds, Temasek Holdings, which is owned by the Ministry of Finance of Singapore. I think it began in the early 1970s. The Ministry of Finance took a stake in some of those businesses from which the British, for example, were withdrawing. I think it was a munitions factory and a shipbuilding business worth up to about $100 million, which were corporatised to this organisation called Temasek, which now has about 400 employees. Since 1974, it has accumulated a portfolio of $161 billion. It was a surprise to me too. Somehow there is the expertise coming in to do it but we should not forget that during the global financial crisis, it lost 31 per cent. That is the risk, which is always there. Having been in some parts of this business, to which I will come later, I know how hard it is to get these returns.

This legislation is about putting aside funds for the future. As Hon Ken Travers said, the way that the state accounts for these funds is that if we borrow and invest them as a cash asset or an investment asset in liquid form, that totally cancels that borrowing. Therefore, if it is done that way, the government debt is neutral. If the government borrows to invest in ports or railways or whatever it might be, that is not neutral; it is investing in non-liquid assets. When investing in liquid assets, there is no effect on borrowings; one cancels out the other. In a way, we can borrow $50 billion and start playing around with it like Temasek Holdings in Singapore does and like other countries do. There is a downside to that, which I will come to.

In a way, we are talking about a fund that falls under the umbrella of sovereign wealth funds. I thought it might be useful to go through some background to put ours in context. There are mostly two types of sovereign wealth funds; one is for savings and one is for stabilisation. Countries such as Chile or Norway accumulate savings as a result of a particular resource endowment, such as oil and gas in the case of Norway. That country has a population of 4.6 million people. With the oil revenue flows coming into that country—I do not believe it is part of the European Union—its currency would just go sky high because of all those receivables coming in. It nets them before they come into the economy. If they do come into the Norway krone, that money is reinvested into foreign assets so there is no net effect upon its currency. It has a twofold effect. One is savings, which it is generating for its future because it has surpluses in its budget. It has no borrowings. It has this big inflow coming in, risking its currency and therefore risking a whole lot of its industry. By investing into foreign assets, selling the krone to buy the currency to buy the foreign assets, that renders it neutral on its currency.

A host of different sovereign wealth funds have been around for a long time. The first sovereign wealth fund was the Kuwait Investment Authority, created in 1953, which is not that long ago. It was created before independence from the United Kingdom. That fund is now estimated to be worth around $300 billion. Another example of a fund, again rising because of its resources of phosphate as a fertiliser, is the Revenue Equalization Reserve Fund of Kiribati in Micronesia. That has now grown to about $520 million, which is a big amount for a small country. Invariably, these funds are created when governments have budget surpluses and have little or no government debt. We are doing it abnormally both as a state and a country. We have only small surpluses so we pass that test but we have rising debt. I think it is $14 billion or $15 billion. Looking at the forward estimates, it will be about $22 billion, $23 billion or $24 billion. In a way, that is not the best of all situations in which to create a future fund.

The total size of assets under the sovereign wealth funds around the world at the end of 2011 was a record $4.8 trillion. The amazing thing about that is that is how much is being investment-managed by governments. The biggest is Norway's, with $656 billion. The next biggest is Abu Dhabi in the United Arab Emirates, with $627 billion, just a little lower. Then there are two China funds. I do not know how they are separated, but each is worth roughly $500 billion.

*Sitting suspended from 6.00 to 7.30 pm*

**The DEPUTY PRESIDENT (Hon Col Holt)**: Good evening, members, and a special welcome to the women members of the chamber.

**HON PHILIP GARDINER**: I was going through some of the future funds or these sovereign wealth funds that we know are in existence around the world. I think I got down to mentioning a number of them and that Singapore is a very major player. I talked about the size of the investments of Temasek Holdings and about investments it has made. The Future Fund of Australia is in about the top 15 or so of these sovereign wealth funds of the world, and the Australian government's Future Fund commenced only in 2004. The interesting thing about this list, which is a list of 60 or so funds around the world, is that neither the United Kingdom, Germany, the Netherlands, Spain nor countries in central Europe are named, but there are smaller countries that I mentioned earlier, such as Kiribati, Gabon and Mauritania. Why have these future funds been set up in these countries? Their origin arises mostly from resources revenue, and in the majority from oil. I refer to Norway, the United Arab Emirates, Saudi Arabia, Kuwait, Russia, Qatar, Dubai in the United Arab Emirates, Libya, Kazakhstan, Algeria et cetera. There are others, though, such as Temasek Holdings, that are non-commodity future funds. Temasek is a fund of the size of $161 billion and has had a compounded rate of return of 17 per cent from the time of inception in 1974. Those of us who are surprised that funds such as this are able to generate a rate of return of that magnitude over the longer term might well ask what can be the differentiating property. In my view, the only differentiating property is that the funds are long-term investors. When we think of government investment, whether it puts money into a future fund or applies money to infrastructure in the normal course of government spending, it is always a long-term investment. There is nothing different. It is quite different, though, from the way in which a corporate fund or even a superannuation fund might invest. When governments are making investments, the distinguishing characteristic is that they probably have a longer-term view. That means that they have a mindset for ignoring the temptation to try to satisfy voters with short-term returns, which is exactly what the superannuation funds do in their professional investing. Would a private sector fund have invested in post and telecommunications in the old days, knowing it would lead to the sale of Telstra with the revenues it gave to governments, and knowing it would form part of the source of funds to go into the Australian Future Fund? The answer would be no. Market failure is mostly where governments spend. So it is very interesting to note that where there is market failure, there is also opportunity if there is the term perspective for making the investments.

In terms of the Western Australian Future Fund, I note a quote outlined in a speech given by Malcolm Turnbull in 2010, which states —

> The Premier of Western Australia, Colin Barnett … revealed himself as a supporter of a wealth fund — a West Australian wealth fund, that is. He said he was considering funding such a vehicle out of State budget surpluses. The Premier neatly summarized a common argument for such funds: —

This is a quote from the Premier —

> "Given that we are dealing with finite resources, it does make sense to preserve some of that wealth for future generations."

It is a broad philosophy. Nonetheless, it was a gleam in the eye of the Premier back in 2012 that the circumstances prevailing in framing the budget for 2012–13 clearly allowed that to be realised. That was realised at that time with Brendon Grylls, the Leader of the National Party and Minister for Regional Development, who envisaged that the funds, which could not be invested from the royalties for regions fund and which had a $1 billion cap, could be put into seed funding for the future fund of Western Australia. The question then is about borrowing and putting this money into a future fund or having alternative investments. There were some alternatives for royalties for regions in those days, one of which I know very personally. That alternative was to invest in a gravity wave observatory for which we had $140 million on the table from the United States as long as we invested dollar for dollar. The question is: would the return be greater from putting cash into a future fund or from putting money into a scientific project of the size for detecting gravitational waves when we needed to have that detector to complement the three in the Northern Hemisphere, and the preferred location in the Southern Hemisphere was to be at Gingin in Western Australia where we already have a school of gravity—or Gravity Discovery Centre as many people know it? The decision was made to put the surplus cash in royalties for regions into the future fund as the seed capital. It demonstrates to others outside and makes us in a way feel comfortable that we have some disciplinary aptitude in the state to put aside this money. It can give us pride and it represents some sense of vision in that broad perspective, if you like, of taking it out of where the best investment is made. We therefore have the warm, fuzzy feeling; and then we have the hard financial return of where the money should go. The specific justification, therefore, for the future fund is that, and it is consistent with the royalties for regions money being spent in the regions where there was neglect for so many years. With the neglect and with the money being spent in response to reversing that neglect, those in regional communities get a bigger sense of ownership, which the five National Party members on this side of the chamber note is what is needed out in regional Western Australia. With that renewed pride and the building of that, we hope to then attract the businesses, which is going to increase the population and allow the economic growth to emerge. It is all very well being aspirational about it, but aspirations fail unless we have a reality check. The reality check is how much difference that money will make to attracting a population and industry to regional centres, which can be done. We have ideas about how to do that, but the support of money from royalties for regions funds is needed to allow that to occur. It is also a change that allows local government authorities to enhance the capacity that they are building, because one thing the royalties for regions fund has done, along with the Department of Local Government, is to give more accountability in strategic planning and asset investment by local government authorities. The more delegation, in my view, that local government authorities have, the better the people we will get on to those councils. If we keep taking away the responsibility and make it rigid and difficult to do things, it will be very hard to find people to go into local governance. But if we give responsibility in a way that has prudential criteria around it, we will attract people in because they know they are doing something meaningful that is not just dotting i's and crossing t's; it is something meaningful that will help develop their communities.

One of the things that brings me to vote for the future fund is that any spending out of it after, I think, 2032, occurs only if there is agreement between the Treasurer and the Minister for Regional Development. Therefore, if the Treasurer wishes to invest in a particular direction and the Minister for Regional Development does not, nothing will happen.

**Hon Ken Travers**: No; that's not right. It will go to cabinet and it will be resolved by cabinet. But we can deal with that in Committee of the Whole.

**Hon PHILIP GARDINER**: That may be right. Although I do not see cabinet mentioned in the bill; nonetheless, in the practical sense, that may be correct. But at least there is some balance, which has to be struck between the Treasurer and the Minister for Regional Development. That is one of the ways in which I see a preservation of that money being allocated to regional Western Australia in a sustainable way well into the future. I think that in this whole house, none of us would have a problem with that. That is what we all want. It might be that the knowledge of what regional Western Australia wants and desires is most concentrated in the five members sitting in these seats here. I know there are members in other parties who have equal knowledge, but there is not the same concentration.

Therefore, when we come to the general rule of a future fund, we have discussed that ideally we have a future fund only when debt is close to zero or zero and there are general government operating surpluses. Of course, when we have general government operating surpluses and a future fund, we can, on a national basis, draw down on that future fund, as has occurred and is allowed in that of Norway and others, when we have an economic downturn of such a serious nature as we had in 2008 and 2009. Our own Australian Future Fund was drawn down on. This is typical Keynesian thinking. I am an advocate of Keynesian thinking, but like everything, we cannot have that in isolation; we have to have the monetary policy as well. But Keynesian stimulation, I am very firmly of the view, which is quite different from that of Malcolm Turnbull, whom I quoted earlier, is essential to get the confidence back up for businesses to start hiring people or to retain people and grow. As we know, confidence is a very fickle thing; no-one knows when a government is moving it until it is well after the time, and if the government does not move it by inaction, the country really is heading for a big trough. Australia was able to avoid that trough and I am very, very confident that the stimulation package that arose from that $50 billion or $60 billion—I cannot quite remember the precise number—drawn from the Future Fund, which had built up during the surplus time under Howard and Costello, aided that recovery very much.

Let us just go to the fund that we will have, which will get to $4.7 billion after 20 years. According to my calculation, that will be fairly difficult because the constraints on the assets in which investments can be made relies on the Financial Management Act. In looking at it—I did not quite get to the whole thing—investments can be made in the same way as occurs under the Trustees Act, which includes equities and property and so on. That is not dissimilar from the model that I have seen with the Singapore fund, Temasek, or with the Norway fund. However, the first thing we have to look at is the risk.

The risks that we have can be fairly minor. I will give some examples. We can invest based on a margin benefit for the same maturity or tenure of a security. If we use current rates, Western Australia's borrowing rate is about 3.06 per cent for three years. We could then invest in Westpac's corporate notes at 4.5 per cent, so it is a state government borrowing and investing in one of Australia's banks, which operates under the prudential eye of the Australian Prudential Regulation Authority that inspects that and ensures it stays within the constraints laid down. That would be a straight margin on the assumption that Westpac is a firm and secure investment. That is nearly a 1.5 per cent positive margin. But the same rate at which Westpac is borrowing at 4.5 per cent for three years is the rate at which Bankwest is borrowing. Members might say, "Now Bankwest is owned by Commonwealth Bank; therefore, it is okay." But let us say that before the global financial crisis when Bankwest was not the Commonwealth Bank, that could have been a big risk to the debenture or note holder of the state and which may well have rendered that 1.5 per cent margin to zero or to a loss. Let us take another example. The 10-year rate for Queensland and South Australia is 4.13 per cent per annum. The Western Australian 10-year rate is 3.77 per cent per annum. Therefore, in theory and possible practice, we could issue notes for 10 years by the government borrowing, because that is what is going to go into the future fund, so effectively our borrowing rate is 3.77 per cent, and invest in Queensland or South Australian securities at 4.13 per cent, which is a 0.36 per cent per annum running margin. That is a pretty reliable income really. It is highly, highly unlikely that any state of Australia is going to default. Another alternative is if we have a maturity mismatch in which Western Australia is borrowing at 3.06 per cent for three years, which goes into the future fund, and invests for 10 years in a Queensland–South Australian government security, which gives us a running margin of 1.07 per cent. However, the risk is that when the future fund rolls over the borrowing or the state rolls over the borrowing and passes it on to the future fund, the 3.06 per cent may have gone up one or two per cent, because it is a yield-curve play. I am just trying to point out the risks even when dealing with some of the most secure financial instruments.

Then, we have gold as a permissible investment. Gold is really no different from a currency. It is a liquid instrument that can be bought and sold 24 hours a day, and it is no different from buying or selling US dollars or Swiss francs or whatever the currency might be. The gold market is a pretty mature market. I used to be in the gold market pretty seriously when it was quite different. We used to be able to cash and carry, and it was money for jam. We would buy physical gold and sell futures, because futures was where the speculators were. They did not have the capital to buy the physical gold, so they bought the futures because they were more highly leveraged and there was a margin between what physical gold could be bought at and what the futures could be sold for, which was much higher than the cost of borrowing to buy the gold. When there was that, it was just a running arbitrage, accepting that the gold price could plummet just as quickly. When it goes down very quickly, an investor has to be very nimble on their feet. They can still work the arbitrage, but they have to be very nimble on their feet to actually get out of it. The reason people can get out of it with profits is that the futures price will always fall more than the physical price because of the leverage factor, and that is where people who have not got the capital deal, and they are most likely to panic, whereas those who have the capital do not panic as much and hold on to the physical gold for longer. Therefore, one will fall much more and it can be made to work. Gold is a risky business. If we will be trading gold, why do we not trade US dollars? I have already broached that with the Under Treasurer in our estimates committee. Of course, he is very reluctant to trade with the currency risk that prevails on our foreign currency royalties. That might be rightly so, but that is no different, really, from having gold in the future fund, because the risks are pretty much the same.

**Hon Ken Travers**: Do you accept that by investing in gold you are also investing in regional Western Australia?

**Hon PHILIP GARDINER**: No, because investing in regional Western Australia is really investing in gold to refine it. That is a separate business to this. Investing in gold is really investing at a location—London or New York or Perth. It has little to do with investing in regional Western Australia unless it leads to developing a trading business in Western Australia around gold. I recall having this discussion with former Premier Charles Court in Tasmania, where we were each delivering an address. He wanted Western Australia to become a financial centre. However, becoming a currency market in Western Australia, even though the time zone worked with us in the Asian region, was too big a vision, especially with Sydney and Melbourne already being financial centres. I suggested to him that he just consider having gold being focused on in Perth, because our time zone favoured us to both the markets in Hong Kong, which was operating strongly at that time, and London—Perth is a better time zone in Sydney or Melbourne—and refining was able to be done through the Perth Mint, which is a world market refiner. I think that could have worked with the right incentives, which would have made Perth a financial bullion centre in the world. It could still happen if we provided the right incentives.

I come to Norway and go through what its portfolio is in its $654 billion fund. Think of that number, $654 billion—we are talking about $5 billion in WA, and our total general government spending is around $24 billion. Norway has $654 billion in its fund. It invests six per cent of that into equities, and, as I mentioned before, it lost 23 per cent of its value during the global financial crisis, which was in 2008, but it has since recouped that. Norway has 35 per cent of its fund in fixed interests and five per cent in property, and its performance in 2011 was minus 2.5 per cent, so it did not do that well. Also, it has some pretty big influences on what happens to the prices of other securities. I think four or five months ago—it might have been a bit less—it was decided not to invest in Spanish or Italian bonds.

**Hon Max Trenorden**: I wonder why.

**Hon PHILIP GARDINER**: Exactly; the question is why. However, in doing so, with the size of Norway's fund, it could have a serious impact on bond prices. We could imagine those countries going to the Norwegian fund and making some pretty solicitous statements to try to encourage Norway to maintain its investment. There is also the issue of any future fund with ethics. Are we investing in tobacco manufacturers or are we investing in, maybe, uranium, for those who do not want it, and so on? At least with the Norway fund there is a fiscal rule guide that states that it works on an average of a four per cent rule and if there is something greater than that four per cent rule and there is a cyclical downturn, all that four per cent comes out to try to provide the Keynesian stimulus to which I referred before.

**Hon Ken Travers**: Are you saying they have to make sure that the fund is growing by four per cent above new capital invested each year?

**Hon PHILIP GARDINER**: Yes, if it is less than four per cent and if the economy is going well, there is nothing put into the economy at all.

**Hon Ken Travers**: You can't take any money out of it.

**Hon PHILIP GARDINER**: That is right, yes. That is a guide for the fund only. I do not think I have the information about how much was drawn out during the global financial crisis, but in the normal circumstance that is the guide that governs how much can be taken out and under what conditions it can be taken out.

In summing up, I am concerned about having a future fund when we have borrowings of the kind we have. Although we have surpluses, they are small. I would have preferred not to do it until the borrowings were repaid, because I have a great fear about how we are going to pay our borrowings as they grow, during the forward estimates, up to about $22 billion or $24 billion, and I think the community will have a great fear also. This $5 billion in this future fund may help a bit, but not very much. However, I am confident that other sovereign wealth funds seem to be able to demonstrate yields that are relevant and mostly positive. I have been unable to get the information about yields that, for example, Angola or Trinidad and Tobago might get with their funds, but at least in the countries we can look at as peers, such as Norway and Singapore, they have been able to do it effectively. I think it is good to have a reflected discipline and a reflected pride on the state in having something that looks to the future, and that, in our case especially, because we have the minerals and gas, we are putting something away, even though the relevance of that view is dependent upon the fund making a return higher than the state's cost of borrowing. The part that preserves some regionality, even though it may not be watertight, is an added advantage of having a future fund.

**HON LJILJANNA RAVLICH (East Metropolitan)** [8.00 pm]: I, too, rise to support the second reading of the Western Australian Future Fund Bill 2012. In doing so, I add my concerns about this legislation and make some comments in relation to those concerns. If we go back a while, we might remember that the former Treasurer of the state, Hon Christian Porter, resigned his commission. At the time, Hon Christian Porter, as Treasurer, would have had a fairly close look at the books in the state. The picture he would have seen, had he projected it forward, was phenomenal state debt on the rise and totally unchecked spending on the one hand, and a decline in revenue on the other. He probably did his sums and realised this was going to be a difficult thing to manage over the forward estimates. How much that played in his decision to jump ship and attempt to head for a seat in the federal Parliament, I do not know. But what I do know is that when we look at the budget papers, we see that there has been a significant burden on the Western Australian public through increases in fees and charges, particularly in utilities bills. At the same time that taxpayers are making this ultimate sacrifice, we see unchecked spending. It is out-of-control spending by a Premier and cabinet ministers who are spending as though there is no tomorrow.

The Premier and this government were clearly looking for a diversion. At the time the future fund was announced, they wanted Western Australians to take their eye off the debt that was being generated by an out-of-control Premier who could not control his spending and by out-of-control ministers who could not control their spending. The Premier wanted basically to divert attention over to something that might take people’s attention away from the real picture. That is what he wanted to do and that is exactly what happened with the announcement of Western Australian Future Fund Bill 2012.

The situation we find ourselves in is indeed very concerning. For example, in the 2011–12 budget the government recorded a surplus of only $196 million. However, debt increased to $15.6 billion. When Labor lost office in 2008 state debt was down to $3.6 billion. However, by the 2011–12 financial year, we saw debt increase to $15.16 billion. In 2012–13 it increased to $18.54 billion. And in 2014–15 it is anticipated to increase to $23.96 billion. Clearly, that is spending that is way out of control. At the end of the day, somebody is going to have to pay for that spending. I think it is fair to say that Western Australian taxpayers—Western Australian householders—have already been burdened enough and so the future of how this money is going to be repaid will be very interesting to watch. We do not really see any strategy from this government about how it is in fact going to be able to control its level of spending and control the level of debt. Certainly the government has not provided any information to the Parliament in terms of how it will control those spending levels and debt levels. Very little information has been provided to the Parliament on how savings in terms of the three per cent efficiency dividends will be harvested, so we are pretty much none the wiser in that respect. However, suffice it to say this problem is not going to go away.

Honourable members have already spoken about the challenges that are faced by the government. Clearly this is about deferred consumption to set up a future fund, which is designed to take the light off the real picture of what is happening with respect to state finances. I think it is a diversion, it is a distraction and it is something that we should be concerned about—that is, tying up vast sums of money for expenditure some time into the future whilst we have current pressing needs that need to be attended to.

There is an economic term that refers to the opportunity cost of doing one thing as opposed to perhaps doing something else. The real issue for me is: what is the opportunity cost of tying up vast sums of money for some future expenditure way down the track? I will explore that a little later. But clearly the objective of the future fund is to set aside and accumulate a portion of the revenue from the state’s finite mineral resources for the benefit of future generations of Western Australians. It is estimated that the future fund will be established with seed capital from the royalties for regions fund totalling an estimated $1.04 billion over the period 2012–13 to 2015–16.

If we look at that, that seeding fund is clearly taking money out of the royalties for regions bucket. That means it will not be spent in the regions, which is what royalties for regions was set up to do, but will be diverted into the future fund. I think that is a breach of trust for regional and rural Western Australians, because the money that was set aside through the royalties for regions fund will not be used for its intended purpose; in other words, it will be carried across to the future fund. That means that there will be an opportunity cost, because that money will not be expended in regional and rural Western Australia. We would have to say that regional and rural Western Australians feel quite betrayed by the fact that that money will not be spent in a way that will enable them to benefit from it more directly. That is a real issue. It has not been explained to my satisfaction, and I doubt very much to the satisfaction of anybody living in regional and rural Western Australia, how the proposed transfer of that money into the future fund will be of more benefit to regional and rural residents than if the money were spent directly in regional and rural areas, as was always intended under the royalties for regions program.

The next point I want to take up is that from 2016–17 onwards, the future fund will be credited each and every year with a minimum of one per cent of the state's royalty income. Clearly, three years ago, one per cent of the state's royalty income would have had a significantly different value from one per cent of the state's royalty income currently, because we have seen some fluctuation in royalty income values in accordance with drops in iron ore prices, and that will impact on what that royalty income amount will be.

It will be very interesting to find out whether there has been a re-estimation or a re-evaluation of the figures that were used in the modelling to determine the amount of revenue that would be generated in the future fund. If that modelling has been done, it will be interesting to find out whether the benefit of the future fund would be the same today as it might have been at the time that modelling was done originally. I do not know, but I think that is a fair enough question to ask, and certainly that will be a question that I will be asking of the minister later during the committee stage of this bill.

I have some serious reservations about this bill. I doubt very much that the future fund will deliver all that it promises to deliver. I am particularly concerned that, since the Barnett government took power, state revenue has increased by 31 per cent but expenditure has increased by 47 per cent. Clearly, we are living beyond our means in this state. This has been going on for four years now, and it cannot continue to go on. It is also not a sustainable situation.

What the government has not thought through to the extent that it should have are some of the challenges that the establishment of this future fund will pose. I made a comment earlier about the opportunity cost of establishing this fund rather than doing alternative things with these moneys. I have spoken in this place previously about the cuts to services across the public sector, and about the cuts to the budgets of government agencies directly involved in the delivery of services to the people of this state. When we look at what is happening with health, education and law and order—being the things that matter to the people of Western Australia—we see a situation that I do not think many people understand. We see drastic cuts to services. On the one hand, the government is promising that there will be additional funding in the areas of health, education and law and order, but, on the other hand, the government is making significant cuts to these areas through efficiency dividends. Something like $716 million worth of revenue over the forward estimates will be taken out of the health budget in the form of efficiency dividends. Most of that will be achieved through reductions in staffing or not filling public service positions. At the end of the day, that means that an inferior quality of health service will be provided to the people of the state. It means that the people of this state will have to wait longer for their health services. It means that some people may die waiting to be treated in a hospital. This is the practical outcome of what we have before us.

The government is making a decision to establish a future fund that will lock up the money until 2024, from memory—quite some length of time away—while at the same time it is cutting services and making access to government services much, much harder than it otherwise would be. That is a very, very big opportunity cost in terms of what that future funding could be used for if it was applied here and now.

I also want to put on the public record what is happening in the police portfolio. The police are under considerable pressure. We saw this a few weeks ago when the Commissioner of Police appeared before the Standing Committee on Estimates and Financial Operations and told the committee the impact the efficiency dividend cuts would have on his agency. Basically, he told us the cuts were not sustainable and would be very, very difficult for him. He was then scolded by the Premier, who made the comment that the police commissioner should not have advised the committee of such and should have dealt through his minister, and said that he deserved a clip over the ear. The point is that the Commissioner of Police was quite within his rights to bring this matter to the attention of the committee. What he was trying to tell the committee was that his department is under siege. He and his department cannot continue to deliver public safety and provide the services that the police provide in this state if they continue to be deprived of resources. No wonder the Commissioner of Police was concerned. He is concerned because he will have some $160 million taken out of his budget over the forward estimates. He has every right to be concerned, because, on the one hand, he has already had cuts made to his budget. This $160 million worth of cuts comes from the accumulation of the efficiency dividend cuts for the 2012–13, 2013–14, 2014–15 and 2015–16 financial years. These are the cuts over the forward estimates. So very, very concerned he should be.

The point is that while the Commissioner of Police is making these cuts, while calls that go to the police are sometimes not responded to, while there are not enough police on the beat, while home invasions are not followed up and while the basic services that are required to protect the community are not provided because of the cuts to the police budget as a result of the efficiency dividends, at the same time we see a proposal to establish a fund that will quarantine some $4.7 billion. That should be concerning to all Western Australian taxpayers.

I will also quickly put on the public record what is happening in education. Time and again we hear in this place that education is one of the most important things we can give to people in a civil society. Very few things can be more important than quality education and the preparation of our young people for taking on future roles in this state and nation; yet, once again, what we see under this government is a cut in funding to education of $316 million over the forward estimates. One might ask whether we would have needed to find that quantum of money had we not moved towards the establishment of a future fund. I, for one, am not convinced that the future fund will deliver much at all; I hold the view that a lot could be done with that money now. It could go towards removing some of the burden from Western Australian taxpayers and making sure they are not ripped off, whether through electricity prices or water prices. It could also go towards ensuring that we have police officers on the beat, providing good policing services to the Western Australian community. It could go towards ensuring that access to our health system is readily available and that the quality of the health care provided is of a world standard. These things are all very important to all Western Australians, and there is no doubt that they may be put at risk as a result of money being shovelled into a future fund, to be spent somewhere in 2030; that seems like a very, very long way away from where we are now in respect of our community needs. There are so many challenges in the education portfolio that quarantining so much money for the future just does not make a great deal of sense to me.

I am the opposition spokesperson for the area of mental health, and there is clearly a very, very great need for more resources in that space. There is no full staffing in the area of mental health, in common with a range of other portfolios. Full staffing is a thing of the past. In fact, very few agencies run with full staffing. We have found that some positions have been left unfilled and others have not been made permanent, and this is happening for a clear reason: it is a major strategy used by the government to achieve savings across government agencies. While this is happening, the government claims that front-line services are not being affected; however, the reality is that when one person has to do a job that was formerly done by three people because the other two positions have not been filled, it is simply nonsense to argue that front-line services have not been impacted, because one individual physically cannot do the job of three people.

I have serious reservations about the future fund. It will be interesting to go through the detail of the Western Australian Future Fund Bill 2012. Certainly, honourable members have raised some interesting points during this debate. Hon Philip Gardiner raised some interesting issues, particularly about risk. I notice that under the proposed fund it would appear that only low-risk investment options will be undertaken; investment in gold is one of them, I think. One would think that investment in gold would be a fairly low-risk investment. Low-risk investments generally deliver a low return, so it will be interesting to see what sorts of projections have been made. I do not have the bill open at the moment, but I will be interested to know what modelling was done in respect of the restrictive investment types, given that they will be low risk. What sort of returns can we expect, in money terms? It would be good if the minister could provide that level of information during Committee of the Whole.

The real point I want to get across is that although the opposition will support this legislation, we also recognise that by establishing this future fund, opportunities will be lost in terms of the other things that money could have been used for, both immediately and over the whole time that the fund is accumulating revenue. I would like to look at some of the serious modelling that might have been done on the figures that have been bandied around about revenue to the fund. I would like some greater clarity on what the fund can specifically be used for. I note that there is reference in the short title to “related purposes”; I would like some clarity on what those related purposes might or might not be. I would also like to know on what basis moneys need to be kept in the fund until 2032. Why was that particular year determined? It seems to me that it was plucked out of the air in some way. I do not know that there is any financial significance about the year 2032, so I will certainly seek some answers as to why that particular year and not 2038 or whatever.

Having said all that, I will go back to where I started: the real picture. The real picture, of course, is that this government’s spending is totally out of control. It was desperate for a diversion, and the future fund has provided that diversion, but I think people will see through it; I think people have already seen through it. It is interesting how it came about. Apparently, it was originally flagged in an email a year or so before it was announced by the Premier. It came through an email interchange between merchant banker Mr Justin Mannolini and his old university mate Christian Porter when Mr Mannolini pitched an idea that would paint the government as visionary while changing the conversation around state debt. An article by Gareth Parker dated 22 May 2012 states —

> Mr Mannolini, the managing director of Gresham, an investment bank chaired by leading businessman Michael Chaney, sent an email to the Treasurer in February last year to see if the Government had any interest in a sovereign wealth fund.

> He also offered Gresham's services to design and advise on the fund for a "concessional" fee.

It will be interesting to see whether Mr Gresham was in fact paid any fee by the government for his advice, what that advice might have been and what services were offered. Mr Mannolini is reported to have said —

> "There is the chance for national thought leadership here which might be attractive," Mr Mannolini wrote in an email uncovered by Labor using Freedom of Information laws.
>
> "Also, I know you are being lined up for a debate on the State debt and a (future fund) if it made sense might reorient the debate a little."
>
> A year later Mr Barnett outlined the first details of the future fund that was unveiled in last week's Budget.

That is the budget just gone —

> Mr Porter told Parliament today that discussions had already been taking place within Government about a future fund before Mr Mannolini's email.
>
> He admitted meeting with Gresham because they were "experts" in sovereign wealth funds but the firm will get no business from the Government …

And so it goes on. It will be interesting to find out what actually transpired in the arrangements between Mr Mannolini and the former Treasurer in the establishment of this future fund and what moneys were exchanged between the two. It is quite clear that this was a strategy, as outlined through this conversation between the two parties, to divert the attention of Western Australians away from the real issue—that is, the level of debt, which was totally unsustainable—to something that they thought would con Western Australians; that is, the establishment of a future fund. I do not think it has conned Western Australians. At the end of the day, the Premier of this state needs to explain to Western Australian taxpayers how he managed to take the level of state debt from $3.6 billion in 2008 to a projected $23.156 billion in 2014–15. He needs to explain what has happened with that money and why he cannot control himself with the public purse. I think it is fair enough for Western Australian taxpayers to ask him why he cannot stop himself from spending their hard-earned money and what he is going to do to check his spending, because he simply cannot keep spending money that he does not have. If he does not have it, he has to borrow it, and if he borrows it, he has to pay interest on it. At the end of the day, he will come and he will go, but Western Australian taxpayers will be left with the burden.

There are many questions that need to be answered in the debate. We will ask those questions on behalf of Western Australian taxpayers. There is no doubt that the excesses of the Barnett government provide at least some indication of where some of this money has gone, but not all of it. For example, there has been enormous expenditure on spin doctors and on empty government offices. I did a summing up of all the money that the Minister for Energy has wasted single-handedly on all the energy projects that have overrun because of his lack of ability to monitor the projects in his portfolio. There are overruns of something like $900 million under one minister. And he was promoted! He should have been sacked, but he was promoted by the Premier. Quite frankly, that was definitely not the right thing to do.

I have had a good opportunity to put on the public record my concerns about this bill. I think that we should rightly be concerned about it. We definitely need some answers from the government about the details of it, and provided that we get those answers, we will give the bill our support.

**HON MAX TRENORDEN (Agricultural)** [8.36 pm]: I assure Hon Ed Dermer that I will not be long, so he does not need to leave his seat!

**Hon Ken Travers**: Are you prepared to put a bottle of red wine on that?

**Hon MAX TRENORDEN**: Yes; okay.

**Hon Ken Travers**: What do you consider to be "not long"?

**Hon MAX TRENORDEN**: Three hours! If it is a bottle of red wine, I think that is about fair.

The reason I want to say a few words about the Western Australian Future Fund Bill 2012 is that I have been lucky enough over the years to be Chairman of the Australasian Council of Public Accounts Committees for two or four years—I cannot remember exactly how long it was—and also Chairman of the Public Accounts Committee in the other place. I spent a considerable amount of time in Alberta. When we look at what Western Australia is going through now and we look at the experience of Alberta a decade ago, we can understand why people would think about future funds. Substantial amounts of gas and oil were found in Alberta and so it flew into its future with great enthusiasm, until, after a while, the volume of oil and gas started to drop and therefore the returns started to drop. All of a sudden, having spent money quite vigorously for a number of years, Alberta found that all those things it had put in place had to be kept in place; they had to be maintained. That is one of the problems with running a hot economy, or running a boom as people like to call it. When we look at the Alberta context, or at the Western Australian context, we find that natural resources such as gas and oil, or in our case iron ore, gas and numerous other minerals, are finite. The day comes when they do not exist. That makes it all the more reason why governments would seriously consider a future fund. The negative of a future fund—I do not intend to go into a long debate; I am probably better off saying that I agree with Hon Philip Gardiner's argument—is that if a government cannot make more in return than it is spending in borrowing costs, it has to think about it. The longer we make things more than our future costs, we will transfer to the future a substantial amount of debt. The least we can do is transfer some amount of recompense to the future through a future fund.

**Hon Ken Travers**: But if you borrow the money to do that, you are still transferring the debt to the future.

**Hon MAX TRENORDEN**: Yes, we are, plus a margin.

**Hon Ken Travers**: If you can get a margin.

**Hon MAX TRENORDEN**: If we cannot get the margin, we should not have a future fund. I will go through the figures that Hon Philip Gardiner put to us. Many of the comparable states in finance to Western Australia are able to perform at a level higher than the borrowing rate. It was in the media only a week or two ago that the Australian Future Fund has outperformed every superannuation fund in Australia of any size.

**Hon Ken Travers**: That is a fund that operates in a very different way to how this one is proposed to because it is about funding unfunded superannuation.

**Hon MAX TRENORDEN**: That is not the point of the article or the point I was trying to make. If we get some fund managers and some people with expertise and they manage it into the long term, there is a substantial argument that there is more of a gain in the percentage earned than those people who have the requirement to fund for the short term. When we look at superannuation managers, we see that there are people looking at retirement immediately and people who have just started superannuation funds. The flexibility of the cash in a superannuation fund is significantly different from what is required in a future fund. I think this is a bit like the games that teachers used to play with me and probably other members in primary school; 20 people lined up and someone whispered something in the first ear and we would see what the story was when it got to the last ear. That is similar to the argument about a future fund. This is really a debate about our concept of a future fund. I would argue that for the Australian Future Fund and this one, the context should be simple—that is, to take the activity of today, when this state is going very well, and transfer that to the future for some small degree of insurance for times when it may not travel so well. Personally, I think there are signs that just around the corner we might be in for a fairly tough time.

I subscribe to *The Economist*. Last week's edition has a very substantial article about the cash flow out of China and how the Chinese government is struggling to stop private individuals gathering wealth and siphoning the money out of China as fast as they can. So much money is flowing out of China that it is affecting their trade deficit. We all look at the world and put the world in a box, but the world is never in a box. I can remember as a child people telling me that the Japanese miracle would never come to an end. It came to a very sudden end about 20 years ago. Now I listen to people tell me that the Chinese miracle will never come to an end. Yes, it will. It will have a crunch, and for us that crunch will be quite serious. That may not be for five years. It may not be for 10 years. It may not be for 20 years.

The argument about a future fund is quite simple. I agree immediately with Hon Ken Travers and others that we have to relate it to the borrowing rates because we have debt. If the future fund cannot earn at a rate greater than the borrowing rate of the state, we should question the future fund. However, I have confidence that it will. I have confidence in saying to the people of Western Australia that we understand as a group of people in this Parliament that we are going through pretty productive times in minerals and gas and with our long history of gold and all these sorts of issues. Therefore, we can take a small section of that and move it to the future for the benefit of the people who come behind us. In reality we are taking a chunk of debt and moving that to the future at the same time.

Debt is a lot harder to repay than borrowing it; as we all know, as most of us experience that in our lives. The important thing in this debate is not to overcomplicate it. We are not talking about some sort of magical formula. This is not some sort of sleight of hand. We might argue about where the money came from and all those issues. I do not mind members of Parliament doing that. However, in the end this is about transferring some money that is available now, even though it corresponds at a time of debt as I have said three times already, to the future. I have confidence that we can get people to apply that with an earning rate that is successful for the future. If members watched the news tonight, they would know that the Reserve Bank did not cut interest rates. What happened to the Australian dollar? It went up half a per cent. Why do members reckon it went up half a per cent?

**Hon Ken Travers**: They want to put money into Australia to get the interest rate.

**Hon MAX TRENORDEN**: Exactly. If the world understands that that is an opportunity, we should understand that in this state.

**HON ED DERMER (North Metropolitan)** [8.48 pm]: I approach the Western Australian Future Fund Bill 2012 with two minds, in this sense: I think the notion of a future fund and reserving part of our revenue that we may have today for future needs is prudent and wise. I have had discussions with people about the fund that Hon Ken Travers referred to that was established by the Kingdom of Norway as it was receiving large levels of revenue from the oil in the North Sea. It understood that the oil can be used only once. In the same way that it was explained again by Hon Ken Travers today, royalties are not really a recurrent revenue, but they are capital revenue that we receive by expending the minerals that can be extracted only once. The government of the Kingdom of Norway understood this and it realised that the supply of money derived from the North Sea oil was finite. For that reason it established a sovereign fund based on real revenue at a time when a high level of revenue was being received by the government of the Kingdom of Norway. In that sense, a future fund is a good idea.

I understand that the Future Fund established by the Howard government with Peter Costello as Treasurer occurred—this is closer to home and it is in reasonable memory—at a time when the commonwealth government was in receipt of high levels of revenue, so it made sense to establish a future fund. The concept of a future fund is a positive one and normally I would be very keen to embrace such a concept and support such a bill.

My reservations are based on the fact that I do not believe that the Barnett government is capable of managing our revenues at this time. For that reason I am concerned to see such a fund in the hands of this set of ministers that Western Australia has at this time. It is illogical to set money aside for a future fund when the government's debt is ever escalating. We will have a savings account, and to take comfort from that when that savings account is much smaller than the money we owe is probably self-delusional. I heard the very thorough and professional analysis of the circumstances explained by my friend and colleague Hon Ken Travers this afternoon. When he explains that the only way we can borrow money and then reinvest it for the future fund to receive a rate of return on that in excess of the cost of borrowing is to go to Queensland—the only reason that Queensland is offering a better interest rate is because it is seen as at greater risk with its capacity to repay its debt—I think that is an irresponsible and dangerous policy to pursue. Again, I am in two minds. A future fund is a good idea. A future fund in the hands of a capable government with a capable Treasurer, a capable finance minister and a capable Premier is a good idea. A future fund in the hands of this government is very, very concerning. I think the debate I have heard so far has reinforced that view, particularly the very insightful contribution of my colleague Hon Ken Travers. I was also very interested to listen carefully to Hon Ljiljanna Ravlich, because Hon Ljiljanna Ravlich related another area in which this government cannot afford to have a future fund at this time. As well as there being an accumulated financial debt by this government, there is also an accumulated social debt of areas neglected in Western Australia. I think the financial debt and the social debt need to be addressed long before this state can afford to consider a future fund.

I was interested again in Hon Ken Travers' analysis in which he explained that, because of Queensland's financial difficulties, it offers a higher interest rate. It made me wonder, Hon Ken Travers, what interest rate we would get if we actually invested in Greece or Portugal or somewhere like that.

**Hon Ken Travers**: You wouldn't be allowed to under the FMA regulations of 2007.

**Hon ED DERMER**: They are very wise regulations, are they not, Hon Ken Travers? They are very wise for the same reason that our little aside this afternoon about investing in lotto or horseracing would be similarly excluded by those regulations because, of course, this is a relationship. The higher the rate of interest returned, the higher the level of risk, and we are entitled to go to the riskiest possible investment within those regulations, I would imagine, Hon Ken Travers, which is in Queensland. Why is it offering a higher interest rate? It is because its capacity to pay its debt is the most questionable within the range of possible investments within those regulations, as I understand it. I am sure Hon Ken Travers will correct me if I am incorrect in saying that. Not having heard from him, I presume that that is the right sense.

**Hon Ken Travers**: What were you saying again?

**Hon ED DERMER**: Queensland is offering the highest rate of return available within the regulations that Hon Ken Travers quoted.

**Hon Ken Travers**: It is within the semi-government bonds of which they intend to hold 80 per cent. They can hold 20 per cent in different corporate levels. They may give you a higher rate of return, but certainly in terms of the semi-government bonds, in which 80 per cent will be invested, Queensland is the only place where you'll get a greater rate of return on investments.

**Hon ED DERMER**: So for 80 per cent of the total, obviously the lion's share of what would be in this future fund, the highest rate of return is in Queensland. Is it reasonable to assume that the reason the Queensland bonds provide the highest available return is the question mark over the Queensland government's capacity to manage its own debt. Is that a fair assumption?

**Hon Ken Travers**: It's because they've got AA+; they're not AAA rated, and that means there is an increased risk by lending to them.

**Hon ED DERMER**: That is why the interest rates are higher and there is a possibility of actually earning more than what we are paying through this future fund, as I understand Hon Ken Travers's comments earlier. If I also understand his comments correctly, the recent Standard and Poor's comment on the Western Australian government's financial situation means that there is a one chance in three of our credit rating being reduced to the same level as Queensland's. Is that correct, Hon Ken Travers?

**Hon Ken Travers**: Over the next two years, that's correct.

**Hon ED DERMER**: Over the next two years. That is very interesting—one chance in three. That is slightly better than the odds we might have got on the horserace this afternoon, but it is hardly the type of odds that fill me with comfort. I would very rarely take risks in life anywhere near one chance in three, and there is one chance in three that our credit rating could be reduced to the point at which there would be no reason why our interest rate being offered would be any different from Queensland's, which I imagine would neutralise any argument for having the future fund under the arrangements that have been explained.

If you were to tell me, Mr Deputy President, that there was one chance in three of my car being involved in an accident on the way home, I would decide to walk rather than drive the car. That is the analogy I am endeavouring to use to demonstrate how unwise it would be to pursue this future fund under a regime in which there is one chance in three that our credit rating could be reduced to the same as that of Queensland, which, if I understand correctly the logic that Hon Ken Travers explained so well this afternoon, would take away the opportunity for the future fund to actually show a profit.

I was very pleased to listen to Hon Ken Travers because I have long regretted the lack of foresight shown by Hon Colin Barnett, when he was deputy to Hon Richard Court, in signing up to this appalling agreement by which Western Australia receives so little from the goods and services tax by way of the Commonwealth Grants Commission structure that Hon Ken Travers explained so well. For the first time I actually heard a hopeful prognosis for bringing the states of Australia—which are the actual beneficiaries and recipients of the money we forgo in that unfair process that Richard Court and Colin Barnett signed up to—to understand the need for us to improve our infrastructure in this state to achieve long-term benefit for each of the states of Australia. I look forward to the idea of Hon Ken Travers being the finance minister in the next government of Western Australia and actually having an argument that could bring states, which today may be the beneficiaries of the unfair system, to understand that the opportunity to invest in Western Australian infrastructure could increase the total pie to the point at which all states would benefit, including those that are the beneficiaries of the fact that we receive an unfair proportion of our goods and services revenue because of royalties and other income-earning capacities that we have as a state.

It gets back again to my basic quandary: a future fund is obviously a good idea. It is not a good idea to have a future fund run by this state government when the Treasurer and the Premier have regularly demonstrated their incapacity to manage things, when the level of debt accumulating adds to the absurdity of having a future fund when the risk of a downgrade in our credit rating would remove the possibility of actually making money out of the future fund by putting us on a parity with Queensland, with that risk being put at one-third by my friend and colleague Hon Ken Travers.

We have an election in March next year and ultimately I will bring myself to vote for this bill because I have a very confident expectation that after the second Saturday in March next year there will be a new set of ministers of the Crown responsible for the government of Western Australia. I do believe that with Hon Ken Travers as the finance minister, Mr Ben Wyatt as the Treasurer and the very able leadership of Hon Mark McGowan, those three gentlemen will have the capacity to make a future fund work. One of the things I am very pleased about is that the state Parliamentary Labor Party is applying a very rigorous, analytical process to any proposal for expenditure that we will put forward in the course of the election. We are starting in opposition as we mean to go on in government. It is no accident that in the time when Hon Eric Ripper was Treasurer the state's financial situation was much more sound. But the level of debt has increased extraordinarily in the short time of the Barnett government. I am confident that, given a reasonable time, Hon Ken Travers, Mr Ben Wyatt and the rest of the team will become the new government of Western Australia after March and there will be an ability to turn the ship around, so to speak, and to apply appropriate fiscal rigour to the work of the government; and they, I am sure, could achieve a financial circumstance for the state in which a future fund would become feasible.

Fundamentally, a future fund is a good idea. A future fund dependent on us having a higher standing than the government of Queensland is vulnerable to say the least. Hon Ken Travers has explained that there is one chance in three of us losing that over the next two years. Of course, I wish the people of Queensland well—in all things perhaps except the Sheffield Shield—and I hope that they reacquire their AAA rating. As I understand it, if either we were to reduce to Queensland's level, a AA+ rating, or Queensland was to reacquire a AAA rating, the differential would disappear and the future fund would no longer have an opportunity to raise money. So, I think there is a large degree of absurdity in claiming a future fund at a time when we have increasing state debt. It makes me wonder, therefore, why the government has put this proposal forward. It appears to me that it might be some sort of an endeavour to give the people of Western Australia the impression of responsibility as something that would cover for the gross irresponsibility that is evident when we look at the accumulating state debt.

I was very interested to listen to Hon Ljiljanna Ravlich's comments and the email that she referred to, because I strongly suspect that Hon Ljiljanna Ravlich may well be on to something. A future fund in an environment of grossly and irresponsibly accumulating state debt is not logical. A future fund subject to the variations of the credit ratings of different states is not prudent. A future fund based on an email between political operatives saying that if we run up a future fund at the same time we run up state debt, people might not notice the state debt, sadly, to me sounds like the most feasible explanation of why this government has put forward this proposal. The email that Hon Ljiljanna Ravlich shared with the house I think stands as strong evidence in support of that.

I also refer to another area to explain why we cannot afford to run a future fund in the circumstances described in this bill under this government. I have already talked about the fact that a future fund as a source of savings does not make sense while at the same time we are accumulating ever-growing state debt. That is a financial level of state debt, and I believe that Western Australia suffers another level of indebtedness that is not immediately financial; we suffer an indebtedness that comes from the neglect of services. Hon Ken Travers talked about neglect in the field of transport, which is one of his areas of particular focus. When I listened to Hon Ken Travers speaking, what immediately came to mind for me was traffic congestion. How many Western Australians arrive late to work because they have just spent an hour and a half looking at the bumper of a car immediately in front of them?

**Hon Ken Travers**: You are passing the test of whether you were listening to me!

**Hon ED DERMER**: I think it is a very sad day when I do not learn something, and I am very pleased to say that I learnt a great deal from Hon Ken Travers' speech. Most importantly for me, as well as learning, was that uplifting point about the hope of convincing those states that are the beneficiaries of our disadvantage that we have inherited from Richard Court and Colin Barnett that they will see a future in which all of Australia's states and people can advance together. Based on that argument I think, when Hon Ken Travers is the Minister for Finance and Mark McGowan is in the Premier's office and Ben Wyatt is assisting in managing the purse strings, we will have success in convincing even Tasmania that there is an advantage for all Australians in investing in Western Australia.

**Hon Ken Travers**: It won't be long now, Hon Ed Dermer!

**Hon ED DERMER**: I am looking forward to the day!

So, there is the absurdity of putting forward a future fund while we have accumulating debt. There is another level of debt, not at the dollars and cents level but which is nevertheless very important—namely, when the government neglects to provide the state with the services its people need. Hon Ken Travers referred to transport. That relates directly to productivity, which relates directly to the opportunity for Western Australian businesses to be more successful and pay more taxes to the state and federal government. It is a virtuous, not a circle, but a succession. If we are able to improve transport, Western Australian workers will get to work earlier and in a better frame of mind. I think people's frame of mind is very important to a day's productive work and if someone has just spent an hour and a half watching a bumper sticker, that is not going to improve their frame of mind once they get to the office.

**Hon Ken Travers**: On top of that you get the economic benefits, because there is actually an economic cost of congestion. It has a direct cost on the economy—congestion.

**Hon ED DERMER**: Absolutely, and there is an opportunity to not only remove the cost but also advance —

**Hon Ken Travers**: Socially.

**Hon ED DERMER**: — socially and economically and to advance revenue for the state, which under the guidance of Mark McGowan, yourself and Ben Wyatt will be spent very well.

**Hon Ken Travers**: For the commuters, the trick will be to get a world-class public transport system so that they can come in via that rather than driving.

**The DEPUTY PRESIDENT (Hon Col Holt)**: Order, members! Hon Ed Dermer, address your remarks to the Chair.

**Hon ED DERMER**: Thank you, Mr Deputy President; I should do that. I hope I did not call Hon Ken Travers "he" or anything like that or "you". I am sure I did not; I think I referred to him by his proper title.

**Hon Ken Travers**: You did!

**Hon ED DERMER**: But, Mr Deputy President, I cannot help being distracted for a moment to see, alongside Hon Ken Travers, Hon Sally Talbot. While Hon Ken Travers, Ben Wyatt and Mark McGowan are looking after the dollars and cents and making sure that the infrastructure is in place and the services are being provided, Hon Sally Talbot will be attending to even more fundamental needs such as the cleanliness of the water that we get to drink, the safety of the food that we get to eat and, perhaps most fundamentally, the quality of the air that we get to breathe. With that investment in public transport and road transport, the improvement in congestion would be fundamental and central to the type of improvements that Hon Sally Talbot will achieve for the state as Minister for Environment in the forthcoming McGowan government.

In the last sitting week, we heard a very interesting motion put forward by Hon Jim Chown to congratulate the government on its achievements in law and order. I was very interested to hear the comments of Hon Ken Travers, not today but in his earlier contribution to this debate, about the very large proportion of state government expenditure that is on corrective services or prisons. This is absolutely fundamental. I want for a moment to just address the fundamental question of crime and punishment because I think it relates directly to how this state needs to invest for a better future. I am not persuaded when it comes to matters of justice by the argument that a person may have committed the crime because of the social misfortune of their earlier life and therefore should be treated leniently. I can understand the argument, but I do not accept it because a person needs to responsible for their own actions. Justice serves an important purpose in providing a deterrent against bad behaviour and, ultimately, imprisonment achieves the immediate objective of physically removing a person who is of a violent nature, or is otherwise a threat to their fellow citizens, from the community. All those purposes are worthwhile. At the other end of the justice argument, neither am I convinced by people who demand ever and ever more severe punishments. It is interesting that I had a discussion with a constituent who I know quite well, a gentleman in his 70s, when we looked at the horrific photographs in *The West Australian* a couple of weeks ago, showing the taxidriver and the visiting British scientist who were killed by a person driving out of control who smashed into their car. I know that when I travel—I do not do it very often officially—the first thing I do when I get to a destination is ring home and say, "I'm pretty safe now; I've just arrived." I can imagine the horror for the British scientist's family and friends who, after he had phoned from the airport to say that he had made it all the way from London to Perth, he was then so soon wiped out on the road. Obviously, I understand that the taxidriver was a family man as well.

**Hon Ken Travers**: He was soon to be a family man.

**Hon ED DERMER**: He was soon to be a family man.

**Hon Ken Travers**: That is the saddest part about it, that his wife was pregnant and due in a couple of weeks.

**Hon ED DERMER**: I hope she gets a lot of comfort from the child when she will need it most.

**Hon Ken Travers**: Hopefully it gives her some comfort.

**Hon ED DERMER**: Yes.

I was talking to this gentleman in his 70s. People look to me as a member of Parliament and think it is quite simple for me to change the law, and his reaction was to say that people who drive without a licence or after a licence has been suspended should then have their licence suspended for life, and if they are caught driving after that life suspension, they should be jailed for 20 years. When I put the view that I thought that was excessive, this particular fellow would have none of it. When I put the point of view that we could not afford to imprison that many people, he started to understand why I did not support his position. However, it was very interesting to hear his position and it would be very interesting to know whether the people close to the taxidriver and the scientist might share his position; I do not know. I also read recently in one of the newspapers that it is believed that less than half the crimes that occur in our society are ever detected and lead to a conviction. So, I wish our law enforcement people well and I hope that, technically, they are able to achieve a higher rate of solving.

If we are to make progress in making our community safer; if prison must exist, as I believe it must, as an ultimate form of sanction; and if longer sentences are to be applied—often I hear of very short sentences for very serious crimes and I wonder about the judges who reach those conclusions—our community must invest in improving our prison system. This is a big expense. I am not a shadow minister, I am not a spokesman for my party, I am certainly not making commitments and I am absolutely delighted that Hon Ken Travers and colleagues in our expenditure review committee make sure that we, as a prospective government, do not make commitments that we cannot afford. But if there is any member in this place who believes that there is not an urgent need to invest in the prison system in Western Australia, I suggest they arrange a visit to Bandyup Women's Prison. As part of the Standing Committee on Public Administration, I went there with my colleagues some weeks ago, and I thoroughly recommend to members' attention the report presented today by our chairman, Hon Max Trenorden. It is the fifteenth report of the Standing Committee on Public Administration, "Omnibus Report — Activity During 38th Parliament". I recommend pages 33 through to 39, which is section 18, relating to work that the committee does with the Office of the Inspector of Custodial Services.

I saw a number of things that concerned me enormously when I visited Bandyup prison. The relevance of this to the bill in front of us is that the type of deficit we have as a society by having an inadequate prison system is a debt, although not a dollars and cents debt, in the same way that the ever-increasing debt in dollars and cents terms that this government has is a debt. We need to be addressing these issues before we start deluding ourselves with future funds. If I had gone to the type of prison that I hear described in some of our countries to our near north, I expect I would not have found them that different from part of what I saw at Bandyup. Some parts of Bandyup were quite civilised. Obviously, the place is terribly overcrowded with a prisoner population far in excess of what the prison was designed to accommodate. There were very small cells, which would have been designed for one person but which had two prisoners accommodated in them, one on the bed and one on a mattress on the floor. The small, confined cell with a mattress on the floor had a toilet. The person using the toilet is using the toilet, with all the odours and all the rest of it that can go with that, in this very confined space shared by another prisoner. So, if the prisoner lying on the bed rather than the mattress on the floor wants to use the toilet, they have to step over the other prisoner on a mattress, and the mattress is up against the toilet. This is how we are treating Western Australians. If we believe that questions of justice and crime and punishment are best advanced by discouraging people who commit crimes from doing so again, it is essential that we treat them in a civilised manner. Two women both sleeping in this confined space where there is an open toilet—open in the sense that it is all open in the one room—is an outrage.

If I put aside my concern for the personal needs of the prisoners—I will not do that because it is very important, remembering we need to invest in resolving these issues—and I just think about the law and order outcome we might want to achieve, I remain very concerned, because what I would like to see is some very significant money spent in our custodial system to make sure that everything is done to give all prisoners an opportunity to walk out with enough dignity, and hopefully a skill that they can trade in the employment market, to minimise the probability of any particular prisoner reoffending. What is happening at Bandyup is demeaning and brutalising people, and treating them in a way that, rather than improving the probability of any individual prisoner actually having a successful law-abiding life after they are released, must be increasing the probability of them reoffending. It certainly reduces their sense of personal hope, and I think a sense of personal hope is the key to someone having a positive and contributory life rather than a negative life acting to the disadvantage of others.

Hon Ken Travers talked about transport and the need to invest in transport to make a better Western Australia. I am not the shadow minister or the spokesman for anything, which gives me a degree of freedom in what I say. I am not making commitments on behalf of the state Parliamentary Labor Party because, for those same reasons I explained earlier, I have confidence that we will not, as a state Parliamentary Labor Party, make any commitments in the lead-up to the state election without thoroughly making sure that they can be afforded. It is for these reasons that I put forward the proposition that a future fund is very good in concept and that in the capable hands of prospective ministers such as Hon Mark McGowan, Hon Ken Travers, Mr Ben Wyatt, the member for Victoria Park, and others, a future fund would work very well, because a future fund under those prospective ministers I have referred to would be one put in place at a time when the state's financial books are in order and at a time when we are not accumulating debt at the outrageous rate at which the current government is doing, and also at a time when the social and infrastructure debt of Western Australia is being addressed rather than compounded. Hon Ken Travers talked about transport—an experience I live every day is trying to use the Mitchell Freeway—and there is a need for us to invest in our prison system, both to accommodate more prisoners, if our law enforcement officers become more successful in protecting us, and to make sure that people who are held in our care as prisoners are treated humanely—first, for their own wellbeing and, second, to reduce the probability of them behaving in a criminal fashion after they are released, and in that way making the community safer for all of us.

There are so many reasons to think that a future fund is a good idea, but before we start trying to put the icing on the cake, we have to bake the cake; we have to make sure that our debt levels are under control. Debt financing makes sense when we invest in an area that will generate future income. I can well understand an argument for investing in an improved roads system. If we understand it in the way that Hon Ken Travers explained earlier, an improved road system will increase productivity and grow the economic cake. I have used the cake analogy twice, and I should not do that because it might lead to confusion. Let me try that again. If we invest in an area such as road transport, it reduces congestion. That moves workers, goods and components around in a more efficient manner. That leads to a better economy. A better economy leads to greater state revenue, and that state revenue is then reinvested in further improving our state. That makes a lot of sense. That is a virtuous succession, a virtuous chain of events. It could also be said to be a virtuous cycle in the sense that improvements in the economy will lead to improved revenue and in that way there is a cyclical pattern to what I am describing. Debt investment in that way makes sense because where there is improved economy, improved revenue for the state and there is an opportunity to raise revenue with which to service the debt that might be accumulated.

One of the great joys of spending all of my life in Western Australia is experiencing the Swan River Foreshore as it is. I regard proposals to chop it up and do this, that and the other as near on vandalism personally. When I hear about the hundreds of millions of dollars to be spent on that, I think it is absurd. When someone says to me that that is an investment in the future, I think they are deluding themselves. It is like a person who goes out and buys a Mercedes Benz or a Rolls Royce when they cannot really afford it and says that it is an investment. They are really deluding themselves. They just want to indulge in it, because obviously a car is going to depreciate under any normal wear and tear circumstances, so it cannot be an investment.

A very large part of the expenditure that is leading to the state's debt is not an investment. To call it an investment is a delusion, because a large part of the expenditure—I think the changes to the foreshore is a prime example—is spending money on something that is not needed. It certainly will not generate enough revenue to pay the principal let alone the interest—to pay both—that will be accumulated from that debt. I look forward to 9 March when the people of Western Australia in their wisdom choose a set of ministers of the Crown who will undertake their responsibilities responsibly, who will make sure that when they commit themselves to improvements about our state and expenditure it has a purpose, a capacity to improve lives, a capacity to generate future wealth, and is not wasteful and unnecessary. In such circumstances a future fund would be a worthy idea—that is, circumstances in which responsible ministers make sure that Western Australia's debt is under control and that funds are used only when there is investment opportunity from the application of the money raised by the debt. In circumstances in which responsible ministers make sure that the needs of our community, whether it is transport infrastructure or a decent prison system without the overcrowding—or the many other areas I could think of—are not neglected, a future fund is a good idea. With this set of ministers, with Colin Barnett as Premier, the man who was responsible for burdening the state with an outrageous deal on the divvying up of the goods and services tax and linking it to the royalties that we earn, I despair.

However, 9 March is very close; the opportunity for Western Australians to choose a responsible set of ministers is close. Under those circumstances, it will take some time to turn the ship around and start the improvements, but I am confident that under Hon Ken Travers, Mark McGowan and my colleagues right across the front bench who are bracing themselves to be excellent ministers, a future fund will make sense. But with this current set of ministers, I am very concerned. I have just given myself the signal to conclude because I find that I am saying something for the second time.

**HON SALLY TALBOT (South West)** [9.25 pm]: I am very pleased to contribute to this debate on the establishment of a future fund in Western Australia. My colleagues from the opposition who have spoken before me, including Hon Ed Dermer, have done an excellent job of pointing out some of the fundamental problems with the establishment of a future fund in Western Australia at this time. The future fund is a bit like motherhood. It is a terribly good idea as long as it is done at the right time. If it is not done at the right time, it can be a catastrophe. That is where I, along with my colleagues on this side of the house, fear this move is going to take us.

I wanted to start by asking whether honourable members remember what we were doing precisely 13 years ago. On this very day, 6 November, in 1999 Australia was voting on whether to become a republic. I was reminded of the debate around the republic issue when I was doing some background reading to this contribution tonight on the Western Australian Future Fund Bill 2012. Those members who take more than a passing interest in political debate, which hopefully is most of us in this place, will remember that the argument put up by conservative opponents of a republic at the time was that we could not possibly adopt the model proposed by the republicans because too much power would be given to politicians. We actually had the bizarre spectacle of conservative politicians in Australia standing up and arguing that people could not trust them to run that model of a republic. I put it to honourable members that we have a very similar situation here tonight, because the whole genesis of this bill lies with thought bubbles of the previous Treasurer of the state, the member for Bateman, who is on record as saying that he wanted to lock up some of Western Australia's capital so that it could not be frittered away in election promises. I put it to honourable members that that is as bizarre a thing for a state Treasurer to say as some of those comments that were made 13 years ago that eventually persuaded Australians not to support a republic. It is simply a nonsense; if someone is doing their job properly and acting responsibly, it is impossible to stand up and argue that people in their profession cannot be trusted to be as professional as they are being. For me and for many on this side of the house, this whole debate should not be happening. It comes from a flawed premise, and we have only been able to add the colour and movement to illustrate the depths of those flaws as this debate has moved on.

I am only briefly going to recap some of those points, because I have some points of major substance in relation to Peel. Speaking as the shadow minister for Peel, I think it is very important to place those comments on the record in this place tonight. Let me very briefly recap some of the flaws in the government's move that we are canvassing in this bill. Shortly before the Barnett government came to office, state net debt was running at $3.6 billion. It has already been pointed out that Labor paid its debts and ran a very economically responsible budget in that sense.

Currently, just over four years later, state net debt has blown out to $19 billion. Of course it is predicted in the out years to reach a total of $23 billion. That is a colossal increase in state debt over a relatively short period of time.

Of course, the Premier is on record as saying that he does not really believe in out years accounting, but we can only take what we see published in the government's own figures for those years. By 2015–16 the state is going to be facing a net debt of nearly $23 billion. This is despite a background narrative being spun by this government about falling revenues, particularly in relation to GST revenue. The government is cutting away part of its own ground, with its own rhetoric, by talking about falling revenues. As many members who spoke before me in this debate have very eloquently pointed out, it is a fundamental economic nonsense to talk about saving at a time when our net revenue is falling and our net debt is increasing.

I am going to use a form of economic shorthand here, but most people in this place will know what I mean when I say that we can all distinguish between good debt and bad debt. That is not what this debate is about. We all understand that debt is not a bad thing per se; there is such a thing as good debt. Good debt is obviously debt that produces income. In the days when I was working as a musician, I and many of my colleagues in the profession went into a considerable degree of debt to buy ourselves decent instruments to play. That clearly is the sort of debt that is classified as good debt, because the better the instrument one plays, the better the sound one makes, the more work one gets, the more income one makes and the quicker one pays off one's debt; it is a very simple formula.

Good debt, in the sense of running a state budget, is debt that increases productivity; increased productivity leads to more jobs; and more jobs lead to more people paying tax. Again, it is very simple formula. Unfortunately, when we look at the state of the finances in Western Australia today and in the out years as projected in the government's own figures, what we see is not an increase in good debt but an increase in bad debt. Bad debt is debt that does not produce income, does not increase productivity and does not lead to more jobs, and that leads, essentially, to a burden being placed on the community. That burden is a very direct and obvious burden that will be experienced by every person living in Western Australia, because the simple question that will be put to them in years to come is: what should we be spending money on? I will go through a few of those things in just a moment, but I can tell members that if they were to go to the community of Western Australia and ask them what we should be spending money on, I know what they would not say. They would not say that our major expenditure should be on repaying interest. They will not say that they want one of the biggest line items in this state government's budget to be interest repayments. They will talk about things such as health and education. They will talk about those fundamentally important community services that we need on the streets where people are living, delivered into their local communities. They will not talk about any pleasure or reward to be found in massive interest repayments, yet that is what the government is committing us to, on one hand; on the other hand, it is committing us to locking up capital in the future fund. This is absolutely the wrong time to be doing that.

I will now spend a few minutes giving honourable members a concrete illustration of why this is so wrong. I am referring now to a document that I understand has been tabled in the other place. I, for one, am totally mystified about why this document has not been tabled in this place, despite the fact that it was referred to all through question time in the other place. It is the "Royalties for Regions: Progress Report July 2011–June 2012", so it is the latest instalment of royalties for regions. Of course, coming as I do from the Peel region, and being shadow minister for Peel, I immediately turned to the Peel pages. I can tell members that those of us on this side of the house who work in Peel have had it finally confirmed today that Peel is the forgotten region for this government. We have royalties for regions, but we also have a forgotten region of Western Australia. Peel is the third largest region in the state by population, and we are the third largest royalty-producing region, yet when I go through these figures with members, they will see why we are the forgotten region as far as the Barnett government is concerned.

I will read out the figures. Peel received for the year of this report—July 2011 to June 2012—a grand total of $18.71 million. I will now go through the figures for the other regions. The Kimberley got $123.65 million; Gascoyne, $57.3 million; goldfields–Esperance, $50.92 million; great southern, $52.56 million; midwest, $56.62 million; Pilbara, $239.21 million; south west, $59.67 million; and wheatbelt, $78.04 million. Honourable members should just remember that figure: the wheatbelt got $78.04 million. Peel, which has a population many, many times that of the wheatbelt, got $18.71 million. That is an absolute disgrace.

Let me just go through some of the fine print of the two measly pages of this quite thick document that are devoted to the Peel region, and tell members about one of the first things that caught my eye, because it stands out like the proverbial. On the second page, under the umbrella heading of "Peel: Regional Infrastructure and Headworks Fund", there is reference to items such as carbon farming, completion of the new Rushton Park pavilion facilities, conservation parks infrastructure and roads; and then we find this: South Hedland town centre revitalisation stage 2 of 2, $1 871 946. I am really happy that the South Hedland town centre revitalisation program has received nearly $1.9 million from royalties for regions in this accounting year, but I am blowed if I can see what that has to do with Peel. Presumably, we have to take nearly $2 million away from the $18.71 million before we even start looking at where this money has gone in the region. I then cross-referenced to the Pilbara, thinking anybody could make a mistake—even the Barnett government, and even Brendon Grylls, the Minister for Regional Development. I will just provide some page numbers, in case anybody in this place ever gets hold of a copy of the report. Peel is on page 107, and Pilbara is on page 111. We find, on page 111, an amount of $22 935 543 for South Hedland town centre revitalisation, stage 2 of 2. I do not know whether we have to add the $2 million back into the Pilbara, or what; that is something of a mystery, and I am sure that someone in this place will be able to explain it at some stage.

We have here a region, the Peel region, that is absolutely bursting at the seams and being starved of money by a government that is so arrogant that it thinks that, in the face of a community that is under such intense pressure, it can turn around and say, "Our solution to this is that we are going to start locking up capital in this state so that politicians cannot fritter the money away on election promises". What an act of absolute contempt for our community.

Let me just share some of the realities of Peel with honourable members. This is from a report published in February 2012, "Peel Away the Mask II"; the first version was in 2001, so this is an update, 11 years later. It starts off thus —

> The Peel is distinguishable from other WA regions in significant ways:
>
> - It has experienced ongoing rapid population expansion of around 42% since 2001, during which time the Peel accounted for 34% of the increase in the WA population.

Those figures have been disputed from time to time. Some people think they are a bit more; some think they are a bit less. It has been pointed out to me many times that it really depends on how the figures are done. The Mayor of Mandurah, Paddi Creevey, has a foolproof way of counting the population increase, at least in the City of Mandurah: she counts the rubbish bins. Month by month, she asks for an update on how many new bins have been provided. Give or take the few that perhaps have been broken because they have been run over or whatever, that gives a very solid sense of how that community is growing. This increase of 42 per cent since 2001 also gives a very keen sense of how the Peel region has grown, whereas other regions such as the wheatbelt have shrunk. People choose to go to the Peel because it is a place where they think they can give their kids a good start and where they can retire and live relatively comfortably near the water in an environment that is the envy of most people in the rest of Australia.

The second thing I want to point out from this report is —

> - The Peel is the fastest growing region in the state and one of the fastest in the country: at present, one in six people living in regional WA lives in the Peel.

One in six people living in regional Western Australia come from the Mandurah area. How can that fact about population growth in the Peel be reconciled with spending $18 million over a year in royalties for regions? The government undercuts all its logic for spreading the benefits to royalty-producing regions by its very own documents when we are faced with these kinds of figures. The report continues —

> By 2031 it is projected that the Peel region will rival the South West as WA's most populous region outside Perth. By 2021 nearly one in four people living in regional WA will be living in the Peel.

The year 2021, which is only nine years away, is when a quarter of the population in regional Western Australia will live in the Peel. They are the kinds of pressures that we are facing in the Peel every day. That is why the primary school just around the corner from my office, which we still think of as a brand-new school, has 20 demountable classrooms. That is how fast our region is growing. They are the kinds of population pressures that we are facing, yet this government, when asked what we should be spending money on in the future, says that a significant line item of its budget is for the repayment of interest and that it is going to lock up all the spare bits of capital it can find. There is one more thing I want to share specifically about what we will now call Barnett and Grylls' forgotten region. That is —

- More so than any other region in WA, the Peel spans the divide between the Perth Metropolitan Region and regional WA and shares developmental issues in common with Perth as well as the rest of the state's regions.

Mr Barnett refuses to recognise Mandurah's special situation in spanning that divide between the metropolitan area and regional WA. The Premier of this state wants to talk only about Bunbury when he talks about regional centres. He says that because Mandurah has a train, it does not count as one of the regions. That is absolutely wrong and every single page of the "Peel Away the Mask II" report confirms that the Premier is wrong to say that the Peel does not have those particular pressures that face people living in regional Western Australia. Every page of this report contains quotes such as —

> *People are struggling to make payments. The working poor is a reality.*

That quote is in relation to employment and income. In relation to education, the report states —

> *Young people in the area can tend to "lose a bit of heart for education; they ask themselves 'what's the point when I can't afford to go on, don't have the means to travel further?'" …*

In relation to health and community services, the report states —

> *The accelerated population growth since the first Peel Away the Mask report was released has not been matched by an increase in funding or resourcing for agencies in the region — services have been increasingly unable to meet demand.*

Those are the voices of real people living in the Peel—the people who turned out to give evidence to the committee that put this report together—about the things that they want the government to spend money on in the Peel region. Has the Barnett government heard what people in the Peel are saying? Clearly, it has not only not heard it, but also actually turned away. It is not that it is just deaf; it has actually turned its back on this forgotten region of Western Australia.

Debate adjourned, pursuant to standing orders.