HANSARD 22 SEPTEMBER 2010

SELECT COMMITTEE INTO STATE DEBT

Establishment — Motion

DR M.D. NAHAN (Riverton) [6.23 pm]: I will continue my remarks on this issue, which follow on from the remarks I made last week. The essence of this motion is that the member for Cottesloe and now Premier back in 1991 argued for the need for a select committee to inquire into state debt. That is a long time ago.

The member for Victoria Park argued essentially that things are the same today as they were back in 1991 and argued the case for a select committee to inquire into state debt. My simple argument is that 1991 is not today. Things have changed significantly in the conditions and the level of state debt, no matter how they are measured. Comparing today with 1991 is like comparing chalk with cheese. Back then there was a crisis, largely because we simply did not know how much the state debt was and the accounts were not transparent. We knew there were indications that we were borrowing quite substantial amounts for recurrent purposes and also our expenditure on capital was very low. In the past 20 years we have had major reforms of the accounts; we have had the development of many institutions that hold state governments accountable for state debt and other issues; and we have had huge improvements in transparency.

Back to the issue at hand: how large is the state debt? I say to the member for Victoria Park that I do not believe the level of state debt today and over the forward estimates is up for debate. The level of debt is elucidated in full and clearly in the *Budget Statements*, which state that the estimate of state debt all told, other than state-owned financial institutions, is expected to reach $15.4 billion this year and is forecast to peak in the vicinity of $20 billion in 2013. If we compare debt simply in nominal dollars today to 2012–13, as the member for Victoria Park did, with state debt in 1991, it is large.

It is $20 billion compared with $8.4 billion back in 1991. But this is what the economists call a money illusion. In 1991 I bought a house and paid $220 000 for it. That house today is worth $1.5 million—more than double, which is essentially what state debt has done. We therefore must look at it with some other comparison. By all accepted measures, state debt today is lower than it was in 1991.

The ACTING SPEAKER (**Mr P.B. Watson)**: Member for Wanneroo, would you please acknowledge the Chair when you pass, especially your own Speaker.

Dr M.D. NAHAN: State debt as a percentage of gross domestic product is forecast to peak at 8.9 per cent in 2012–13. Back in 1991, when the Premier gave his speech, we now know it was at 19.7 per cent; in other words, it has substantially more than doubled. In terms of the affordability of debt, back in 1991 the net interest as a percentage of total revenue was about eight per cent; today it is 2.4 per cent and is expected to peak at three per cent at the end of the forward estimates. That is well within all accepted measures. More importantly, we know what it is and it is transparent.

Another comparison we can make is of our state debt with that of other states. The member for Victoria Park rightly said that the benchmark in the past has been Queensland. Queensland has historically, and in fact in 1991, had no net debt. It had had a longstanding policy of controlling debt and had also put aside money for all of its public servants' superannuation.

When we include those assets offset against Queensland's debt, it had no net debt. Today Queensland has changed significantly, particularly over the past five years and under the current government. Queensland this year has a public sector debt level in the vicinity of $50 billion; that is, two and a half times our debt, and Queensland has an economy of approximately double ours. New South Wales has a state debt of $52.8 billion. All three states have experienced a rapid increase in debt. New South Wales' net interest payments are 10 per cent—three times ours. Compared with any measure, Western Australia has low debt within accepted measures today; the opposite held in 1991.

These levels are all on the record and all available. In fact, if we compare net debt on a per capita basis, New South Wales' net debt per capita is 52 per cent higher than Western Australia's; Victoria's is 59 per cent higher than Western Australia's; and South Australia's is 40 per cent higher than Western Australia's. We are a low-debt state by any measure.

The member for Victoria Park raised the interesting issue of commonwealth responsibility. Tony Abbott, the federal Leader of the Opposition, during the last election campaign talked about borrowing $100 million a day.

He said that because when Mr Rudd took over the reins in Canberra, he inherited a $57 billion net surplus. On top of that, he had $60 billion in other assets in the fund. As of the last federal budget, the budget deficit is forecast to be $135 billion. In other words, under Rudd and Gillard, debt increased by $181 billion.

All state governments have increased their debt levels for a good reason: they have been spending a lot of money on capital. The commonwealth spends virtually no money on capital. All its debts are accrued either from handing out money to the states or for spending on recurrent purposes. When the commonwealth is forecast to have a budget deficit of $135 billion, less than two per cent of its expenditure will be spent on capital. Most of it, in other words, is on-tick recurrent expenditure. That is why Mr Abbott and the public were concerned about this level of accumulation of debt.

Mr J.M. Francis: A lot of Pink Batts.

Dr M.D. NAHAN: It is a lot of Pink Batts. To put this into context, when the Liberal–National government took the reins, it inherited a budget, the 2008–09 budget, that also forecast a 300 per cent increase in net debt. The last budget of the Carpenter government, running up to an election, forecast a very large increase in capital spending, and that the level of net debt was going to go from $6.7 billion in 2008–09 to $11.4 billion in 2011–12. That is a large increase.

On top of that, it also forecast very large budget surpluses over that period. In fact, the Labor government expected the boom to continue and forecast that over four years it was going to reap about $5 billion in operating surpluses. That of course did not happen. If we factor in the disappearing surpluses and put in our government's own meagre surpluses, the Labor government would have forecast debts in the vicinity of the one that we have now. In other words, the Liberal–National government inherited a budget position that was leading to very large increases in debt no matter what. In short, if Labor had won that election, its debt would have been in at least in the same vicinity.

As the Leader of the Opposition indicated, debt is not necessarily bad if it is used properly. In 1991, the debt, which first of all not was measured very well, was used to a large extent to fund recurrent purposes.

Today we have recurrent surpluses; in other words, we are borrowing solely for long-term capital expenditure. We are funding about 50 per cent of the debt from our own source of revenue—largely from public trading enterprises—and we have a record capital spend. I might add that back in 1991, public sector capital expenditure as a percentage of total government expenditure was about 11 to 12 per cent. Today it is a record 21 per cent. Our increase in debt levels in recent years has been driven by record levels of capital expenditure in both nominal terms and as a share of total expenditure.

Why did the government incur capital expenditure at this level? The reason is obvious: we, as a state, are growing very rapidly and we have huge needs for capital expenditure, particularly for expenditure on long-lived capital. As members opposite like to remind us when they stand up and speak on any budget issue, we need roads, we need ports, we need schools and we need electrical lines—we need capital of all sorts. Indeed, given the demand for capital and given that we have recurrent surpluses, it would have been remiss and improper for the government not to incur large capital expenditure and not to borrow for it, because most of this capital will last across generations.

Contrary to what the member for Victoria Park said earlier today in a different debate, in 2008–09, the global financial crisis significantly hit state-owned-source revenue. Our own-source revenue shrank in 2008–09. That shrinkage was countered by large transfers of commonwealth grants. The commonwealth came up with this stimulus package, which was targeted to a great extent towards capital expenditure. The commonwealth does not spend capital expenditure itself, so it handed that stimulus money over to the states in the form of recurrent grants. That increased the revenue to our state and that is why our overall revenue grew. That is what happened.

I am not complaining; it is just a statement of reality. Some of the money was spent very well on schools, for example—at least in WA. When the commonwealth gave us money, there were always conditions attached to it. We had to spend it in a certain way and also had to have matching funds. In other words, the commonwealth gave us capital with strings attached. Although the money allocated to schools through the Building Education Revolution was largely funded with commonwealth money, the money allocated to housing and all sorts of other purposes came with the condition that we had have matching funds of different levels. We had to contribute to the stimulus package. Are we going to decry that? No, it was the right thing to do. Some of it did not happen quickly enough, but that is the nature of capital in Australia—it takes time. Shovel-ready does not mean ready to go.

During the last boom, everyone involved in capital in this state had a hard time getting projects done. I remember that the CEO of BHP Billiton saying, I think in 2007, that the company would not commit to any additional projects in Western Australia because every time he spent a dollar on a new project, it increased the cost of an existing project by a dollar. We had a hard time getting things done; everything was overheated. In 2007–08, the capital expenditure programs of most of the mining companies and others in the private sector collapsed or dropped sharply. That not only provided the need for the state and the commonwealth to come in in a counter-cyclical manner, it also provided the opportunity to get capital up and running cheaply. There is no doubt that we have incurred large growths in debt in recent times, which has been spent on capital and has been spent well.

One of the big differences between 1991 and today is that back in 1991 the state accounts were, to say the least, opaque and Balkanised. The consolidated revenue fund, it was called at the time, was part of the operating budget, but did not include the whole of general government budget. It also had a range of trust funds.

Even on the recurrent side of the general government sector, there was no consolidated assessment of revenue expenditure. The capital works budget was also treated separately. At the time, the Australian Bureau of Statistics started to publish separate national accounts, but they came six to eight months later with a rudimentary accounting process. Therefore, back in 1991, there was no accurate measure of the financial state of the government sector, net debt, budget surplus or budget deficit. That measure is available today. Back in 1991, our budgets were based on cash accounting: everything went in and everything went out. As a result, there were no measures of repair and maintenance or accrued liabilities.

We had no measure of accrual liabilities for superannuation in the public sector. The measures of net interest were rudimentary and Balkanised. When the member for Cottesloe stood up in 1991 and said that he thought Western Australia had a debt crisis, in large part it was because we had no accurate way of measuring the level of net debt then or into the future. He did know that the capital works program was very low then—indeed, it was almost a record low. He did know that third parties had estimated that the state at the time was borrowing for recurrent purposes. He did not know how much. It was clear that we were borrowing to fund repair and maintenance. The central issue back in 1991 was that our books were a mess and we had no knowledge of how big the mess was or if it was going to get worse.

Back in 1991 there was another issue: the government of the day had not admitted to the debt problem and had no debt targets or policies to address it. It was an issue that the government tried to overlook. That is not the case today. We know what the debt levels are. We know they have grown. We know they have been used for capital purposes. We know they are within all the accepted margins; and we have a commitment from the Treasurer not to let it grow beyond $20 billion.

Back in 1991, we had the Public Accounts Committee but we had very few other standing committees. Now we have a very vigorous set of standing committees that have the power to scrutinise all aspects of government activity. That includes the Public Accounts Committee. In addition, we have the various rating Agencies—Standard and Poor's, Moody's Investors Service, and others if we wished—that scrutinise state debt and report on it rigorously, and we also have the commonwealth doing the same, and many other business associations, economists and others, who regularly talk about, measure and comment on state debt. We have a vigorous set of institutions today that look at, measure, comment on and have knowledge about the level of state debt. That did not exist in the 1991. It is chalk and cheese.

One thing that the member for Victoria Park emphasised is that in order to avoid excessive growth of state debt at a state level, the government has to control own-source expenditure. That is true. I have said it myself before. I would not be honest if I argued otherwise. Essentially, even though all our debt currently is being used for capital purposes and we are funding about 50 per cent of our capital works program in the total public sector out of own-source revenue—largely public trading enterprise revenue—the larger the surplus, the greater the recurrent contribution and the lower the debt levels.

It is important to control own-source revenue. In the first few years of the Liberal–National government there was a very large growth in own-source revenue. It arose from a couple of sources. First, is the stimulus package. We came in with a fairly large stimulus package, largely commonwealth grants going through the state and then out.

Another reason is that when we went into the election of 2008, the opposition and the government at the time thought the boom times would continue, and one of the priorities we gave was a very large increase in teachers' salaries. It was not just in the context of buoyant economic times; it was in the context of a growing severe teacher shortage and the need to draw the best people into teaching. During the last few years, the teacher shortage has abated, but it will come back.

Mr W.J. Johnston: On that issue of the teachers' package, how come it is not being funded? Why was the money withdrawn out of the budget? There was a $30 million saving presented by the member for Vasse when he was the Treasurer.

Dr M.D. NAHAN: The commitment to teachers and police in the run-up to the budget during the 2008 election campaign was a major contributing factor to the growth of own-operating revenue, and teachers and police got their pay rise. That is a simple fact.

Mr W.J. Johnston: Why isn't the government spending the money?

Dr M.D. NAHAN: We have. Now the task is to control own-source revenue going forward. As members opposite well know, one of the things we have to do is to first provide good indicators of what own-purpose expenditures are. That is outlined on page 34 of the 2010–11 budget paper No 3. This debate is largely about transparency. Do we know what the levels of debt are and what is growing it? Real per capita own-purpose expenditure is outlined in full for what has been and what is forecast. It shows there was a large growth in 2009–10 and 2010–11, and then it is declining.

It indicates that the government has undertaken about four or five things to significantly address that matter. One was the three per cent efficiency dividend. I can remember when the three per cent efficiency dividend was put in place and members opposite spent days on end decrying not only it but its effect and saying that cutting back on all sorts of expenditures would affect front-line services and that it was a diabolical thing to restrain the growth of own-purpose expenditure. The government also put a ceiling on public sector staff numbers. The government has implemented a public sector wages policy, and has put in place two rounds of voluntary severance packages.

I might add that, as a result, salaries growth in the general public sector at the last period of the previous government was growing at approaching 12 per cent; that is, in the last year of the Carpenter government. It did grow the next year under the current Liberal–National government to a little bit over 12 per cent. However, because of the policies that were put in place, salary growth is now forecast to drop in 2009–10 to less than 10 per cent.

In other words, we have recognised what the member for Victoria Park indicated; that is, if we are going to have a sound debt policy, we have to control own-source expenditure. The key to own-source expenditure is salary growth, and the government has put in place policies to specifically do that. I might add, if members remember the debates in this house last week on a matter of public interest about the Liquor, Hospitality and Miscellaneous Workers Union's current campaign for wages in the hospital sector, the government has offered, as is consistent with its wages policy, I believe in the vicinity of three per cent for each year—or something like that. The gist of the argument from members opposite was that that was miserly, inadequate and needed to be higher. Obviously, looking back to 2007 and 2008, the Labor government put taxpayers' money where their mouth is and did give very large increases.

However, as the member for Victoria Park indicated, it is imperative, particularly in these less buoyant times, to control own-source expenditure, which is driven by salaries; the government has put in place a wages policy, which it must if it is going to control salaries. The government has in good faith stated that policy and negotiated with all public sector workers. Therefore, the arguments last week from members opposite that our wages policy was inadequate was inconsistent with what the member for Victoria Park, the shadow Treasurer, argued in that MPI.

I might add, as with the efficiency dividends of last year and staff ceilings, we have had matters of public interest on most of our efforts to control expenditure. People opposite have criticised all those measures but now turn around and say we should in effect do more. It is not just the issue of own-source revenue that needed to be sharpened dramatically. The previous government had serious problems not only in getting capital works undertaken but also keeping them within cooee of the budget. One of our top priorities was to provide some expertise and coherence, and try to keep capital works projects at least approaching expected budgets.

A report put out by the government entitled "Work Reform: Business Solution Plan" puts together a series of policies to keep public works under control. It contains a list of 17 major projects committed to by the previous government. Of these, seven, or 41 per cent, had cost blow-outs of over 100 per cent. Four, or 23 per cent, had cost blow-outs of over 200 per cent. Of these projects, when they were first put in the budget —

Mr P. Papalia interjected.

The ACTING SPEAKER (Mr P.B. Watson): Member, you will be building if you talk out of your chair once again. I suggest if you want to say something, go back to your chair!

Dr M.D. NAHAN: When these 17 projects were first budgeted for, the estimate was $1.5 billion. The current estimate is about $3.85 billion—in other words, $2.3 billion of pure blow-outs. Some of these are worse. Albany Entertainment Centre, which is currently in the news, was first approved at $14 million. In April 2009 the budget was $70 million, a 400 per cent blow-out. We know the City of Albany does not want to touch this hot potato because there is word that it is going to have to somehow make a grossly overpriced resource pay. I might add that a large amount of the debt that the member for Victoria Park criticised—$2.3 billion of additional debt—was due to these blow-outs and due to the lack of management of projects.

There was an Auditor General's report on Fiona Stanley Hospital. It started at $420 million. In April 2009 it was estimated at $1.8 billion. In other words, it went from $420 million to $1.8 billion. Fiona Stanley Hospital added $1.2 billion to the increase in debt that the member for Victoria Park complained about. As the Auditor General reported, the problem was a grossly inadequate statement of scope for the project. As time went by, the former health minister went on an international trip and visited some people. He said, "Let's convert this hospital to single-bed wards." He converted it to single-bed wards. The problem was that it led to a monumental expansion of the project, which was not reflected or referred to in his statements, but was just slipped in.

At the time it was announced it could be done because the government of the day had a $2 billion surplus. Money was easy. There was every expectation in the years 2006, 2007 and 2008 that the good times would continue to roll on forever.

It was easy to go out and announce major projects and worry about delivery down the track in the hope that money would roll in. Those times do not exist now. We have to come up with a number of areas that not only increase the capital program but also make sure the capital works program comes on with correct specifications, that we get into the public sector the skills needed to both define and deliver them—that was a problem in the past—and that when we identify a project and put it in the budget, it has some kind of budgetary rigour to it. That is what we are trying to do.

Members opposite have to learn that one of the errors in the past of these blow-outs is that items were put in the budget when it was not known what was going to be put in. The former government put Fiona Stanley Hospital in the budget and it did not have it adequately scoped. It allowed it to expand as time went on.

Several members interjected.

The ACTING SPEAKER: Members! The member is not taking interjections. I suggest you be quiet so that I can hear what he has to say.

Dr M.D. NAHAN: We also reviewed the Perth Arena, which is rising into the skyline. It is a massive structure. It first went in at about $160 million. There was some trouble about where the parking lot would be and whether the roof moved. The government forgot to put the parking in and then decided to put the parking in. It had to dig it out again. Then it had to get it ready for the Hopman Cup. The government had no specifications. In April 2009 it was forecast to be $442 million, a blow-out of 177 per cent.

The point is that one cannot complain about debt levels if expenditure is not controlled. The member for Victoria Park was very clear about this. He did not talk about the delivery of capital works, but he was correct when talking about own-source revenue that only way we can control debt levels is to control expenditure and target it well. The member for Victoria Park's point was right—it is a task. The way to start out is to set targets, and show that there are not only targets but also policies to implement them, which we have done, and staff ceilings and three per cent efficiency dividends —

Mr B.S. Wyatt: The point I was also making is that over the forward estimates the capital works program declines significantly, yet the debt level continues to increase significantly. That is why I was making the point that recurrent spending —

Dr M.D. NAHAN: That is right. The member's point simply is that we know what the debt levels are and what the estimates are. It is transparent —

Several members interjected.

The ACTING SPEAKER: Members on both sides, I want to hear what the member has to say.

Dr M.D. NAHAN: The next two to three years, whatever way it is measured, there will be a record level of capital works.

Mr B.S. Wyatt: Compared with what?

Dr M.D. NAHAN: Compared with total expenditure. Total expenditure in this next year —

Mr B.S. Wyatt interjected.

Dr M.D. NAHAN: I am just going by the data; it is right. After that, capital works declines.

Mr B.S. Wyatt: In 2009–10, as at the 2010–11 budget, they revised what the expectations are, there is an underspend for 2009–10 of $1.3 billion, which takes it back considerably lower than what the capital works program has been the past three years. What the member is saying is not correct. I dare say the annual report this week or next week, whenever it comes down, will show a bigger underspend.

Dr M.D. NAHAN: I do not know that. All I am going on is what the budget says. The figures for 2009–10 total capital works—total public sector as a share of total public sector expenditure—were at a record level.

In summary, where are we at? There is no need for a select committee. We have a large number of standing committees that deal with these issues. Transparency and knowledge of our debt levels are significantly better today than they were in 1991 when the member for Cottesloe, the now Premier, made his argument for a select committee. It was a different world then. We have improved things since then. More importantly, what we know now is that our debt levels are manageable, well targeted, under control and within the revenue range.

Debate adjourned, pursuant to standing orders.