

Extract from Hansard

20 May 2009

APPROPRIATION (CONSOLIDATED ACCOUNT) RECURRENT 2009-10 BILL 2009 APPROPRIATION (CONSOLIDATED ACCOUNT) CAPITAL 2009-10 BILL 2009

Second Reading — Cognate Debate

DR M.D. NAHAN (Riverton) [12.40 pm]: I would like to make a few comments on the budget, and also highlight some challenges that will arise from the budget. I will also compare the state budget with Mr Rudd's federal budget, which members opposite have raised as a benchmark.

In my view, this is one of the best Western Australian state budgets brought down in the last 20 years. We have to recognise that it was brought down in a difficult environment—that is, that of a new government that had had a period of difficult opposition for seven years or eight years.

This year's budget was handed down after an election that was waged during the aura of endless boom, and it was framed during a period of global panic. Every government around the world is trying to figure out what to do about the financial crisis.

This budget had to deal with some practicalities, such as the largest collapse of state revenue in living memory. The second largest source of tax income—that is, transfer fees and conveyancing on homes—dropped by over 50 per cent—\$1 billion gone!

Goods and services tax payments, the state's largest source of tax revenue, are down by 6.8 per cent this year, and are forecast to be down by 23 per cent over the next four years. That is a huge drop. Royalty income, which was growing at between 16 to 22 per cent a year over the last few years, is down 3.7 per cent next year, and remains low over the forward estimates. This is the biggest collapse of revenue that I have ever seen, and perhaps in living memory. The world economy will probably not recover quickly, as it did not after the recession in the 1930s.

This year's budget was framed in a fiscal position whereby in previous years expenditure had not been held under control. Underlying expenditure was growing at 7.7 per cent a year, and the new government inherited a massive capital works program of \$26 billion from the previous government.

Of course, at the same time, private sector demand—though higher in this state than others—was down. State demand—that is, the activity excluding exports—is forecast to decline by 7.2 per cent over the next two years. In other words, according to the budget forecast, we will enter a recession over the next two years. This state has not had a recession like that for a long time.

Mr M.P. Whitely: Since the last time you were in government!

Dr M.D. NAHAN: No; I will come to that.

Employment growth is forecast to decline; that is, after record growth of nearly four per cent a year for between three years and five years, employment growth will be down two per cent next year.

Private investment, just like commodity prices, is down by five per cent after growing in double digits—indeed, two years ago it was growing at 22 per cent. We have never seen a drop like it. This is a worldwide phenomenon. Western Australia is better off than most, clearly, but it will be a major challenge.

What was the task faced by the government when handing down this budget? The Treasurer enunciated that, firstly, it was to support jobs. I think we all agree with that strategy. Secondly, the government had to prepare for the next wave of growth. In this state, at least, the next wave will come. Thirdly, the government chose to meet election promises. They could have been ditched, but that is done too often and undermines people's support for governments. Fourthly, and importantly—this is the hallmark of this budget compared with other budgets around the country—the government chose to safeguard the state's finances.

I will provide some data with which to compare this state budget and Kevin Rudd's federal budget. Last year, before the recession hit, Kevin Rudd's forecast for 2009-10 was a budget surplus of \$20 billion. In the last federal budget, handed down last week, he forecast a \$57 billion deficit—in other words, a \$77 billion turnaround in the forward estimates.

What does the state budget forecast? A \$400 million surplus.

The largest surplus of any government, and I guarantee it is one of the few budgets in surplus. When the previous Labor government handed down last year's budget, it also forecast a very sharp reduction in the budget surplus, taking it to \$1.6 billion. In short, Rudd has had a major turnaround; WA has had a decline but of nowhere near the same magnitude.

The key thing is debt. We hear from members opposite that debt is growing, and it is. We also hear that Rudd is doing a lot to stimulate the economy. Well, from last year to this year, Mr Rudd has manipulated a \$400 billion build-up of debt over the forward estimates —I repeat, \$400 billion build-up of debt! It has gone from a \$100 million cash balance to a \$300 million forecast level of net debt for the government sector.

What has the current state government done? Last year, the Carpenter government forecast that the state would have an \$11 billion debt at the end of the forward estimates. That was a large increase, but relatively small compared with other states and territories. What did we forecast this time? It was \$19 billion. In other words, the Rudd government has a turnaround of \$400 billion in debt; we have a \$7 billion growth, and all of it will be used for capital works.

An issue has also been raised about the use of Kevin Rudd's stimulus packages and what they are doing to help the economy. Was it well-targeted, well-spent capital? To date, most of Mr Rudd's spend of \$30 billion has used as cash handouts. Members will have seen the headline in *The West Australian* that reported that people who earn over \$100 000 are getting these cash handouts.

In a previous headline it was reported that backpackers are getting the cash handouts; people living in the United Kingdom are getting these cash handouts. I read in the press yesterday that one of the side effects of the cash handouts is that Harvey Norman outlets are running out of flat-screen televisions. That was not good policy.

What is the current state government trying to do with its budget? It is maintaining the AAA credit rating and the budget surplus, implementing a reduced tax effort and engaging in a record capital spend. That is how a budget should be framed.

The importance is the quality of the infrastructure the capital is spent on. The state budget reorientates from an aura of ever-growing boom, which the previous budget was forecast on, to the realities of today.

The capital spend has moved away from entertainment to essential services. Ditched are the glossy, overpriced museums, stadiums and foreshore dreams. They were never going to go ahead and they should not ever go ahead, even in the boom times.

Instead, the current government has focused on schools, with a capital spend of \$300 million. This will result in 32 new schools being built, or existing schools substantially upgraded, including Rossmoyne Senior High School, in my electorate, which will receive \$14 million, as well as schools in Attorney General's electorate. Rossmoyne is a fine school that has been overlooked for decades.

The budget includes a major spend on roads. Finally the Roe Highway extension will be completed. We are overcoming decades of what can only be described as planning bastardry. This budget will allow the most vital and essential roadworks in the state to now be undertaken. The previous government kowtowed to a few nimbies in the former Labor-held seat of Fremantle and stopped that work going ahead for decades.

Funding has been made available for prisons in the state budget. During debate after debate in this house and elsewhere we have heard how we have to get tough on crime, but the prisons were never built. After people are arrested, where would they be put? We could stick them, as we heard yesterday, on the floor next to the toilet, but that is inhumane. Finally, we will follow up on getting tough on crime and actually build prison beds. Funding of \$655 million has been allocated in the budget to provide 1 657 beds.

Importantly, the last government's major failure was in the housing market. Not only did it get addicted to transfer fees, but also its planning mechanism and public works structure did not allow enough houses to be built. This budget will accelerate the building of 1 000 new dwellings; and, with the assistance of the commonwealth, will construct of 2 600 new public houses.

Finally, trying to reduce the massive public housing waiting lists is one of the things that we must deal with now. When we came to government, the waiting list for public housing was 20 000 people. How a Labor government could have allowed that waiting list to grow to that number is beyond me. It will get larger.

People are going to struggle to get housing in the private market when they lose their jobs, and the queue for public housing is going to get larger and larger. The Liberal-National government has shown that it is more sensitive to the plight of those people than members opposite, who more often represent them.

Seven new hospitals or upgrades are underway. That is massive. The capital works program has targeted priorities. It is affordable. It has brought forward, bunched now, to fill the gap in the private sector. It supports future growth, and it is realistic.

One of the defining differences between Liberal and Labor governments is tax. Labor is big tax; the Liberals are low tax. This budget supports this. There are no tax increases in this budget; in fact, we cut taxes.

Several members interjected.

Dr M.D. NAHAN: Charges are different from taxes, and I will deal with that. There has been a series of tax cuts. One of the first things that the Treasurer did when we came into government was, in fact, to try to reduce land tax rates. This budget uses cuts in the payroll tax—and we could debate its effectiveness or otherwise.

Mr M.P. Whitely: What about the idea of proposing a cut of, say, up to \$1.6 million for everyone across the board?

Dr M.D. NAHAN: I will discuss that with the member for Bassendean at a later date, but not now. I think this one was just a one-off issue.

Mr A.P. O’Gorman interjected

Dr M.D. NAHAN: I will go through that. What the previous government did related to the underlying decision not to price electricity properly.

Mr A.P. O’Gorman: Why?

Dr M.D. NAHAN: There were a couple of reasons: one, the previous government was hoping that competition would overcome the upward pressure. It did not; competition did not work. Second, the cost of inputs increased. The price of oil went from \$112 a barrel to \$50 a barrel.

Mr A.P. O’Gorman interjected

Dr M.D. NAHAN: Then the previous government —

Mr A.P. O’Gorman interjected.

The SPEAKER: Member for Riverton, please continue.

Mr A.P. O’Gorman interjected.

The SPEAKER: Member for Joondalup, order!

Dr M.D. NAHAN: The previous government was forced to publicise this because as part of the reform agenda, it had to look at the sustainability of the reforms. It found a huge gap. Up until that time, rather than price energy properly, it had chosen to force the cost onto Verve and the system. That undermined the viability of the providers of electricity—Verve and others—and capital expenditure, and it left huge losses.

What the government did when it realised this was to say, “We will fund that.” How was it going to fund it under the budget? How was it going to be paid for? It was through payroll tax.

The former government thought that was its only option. It could not control the goods and services tax, royalties or transfer fees; therefore, payroll tax was its only available option.

The Labor government was saying, "We will not charge people the proper price for electricity because we are considerate. We will put in a payroll tax." For a Labor government, supposedly concerned about jobs, that is odd. And the Treasury would have told them over and over that is what, in fact, was happening.

In other words, the Liberal-National government went out to the community and said, since the former government has systematically failed to price electricity, we will do the proper thing. We will price it properly, rather than fund it through payroll tax, and we will also assist those who are going to struggle to pay.

We felt it was also necessary to price electricity properly because we wanted to encourage people to use energy more efficiently. We will move to smart metering, hopefully someday, and that will work only if we have properly priced energy. If we want to include alternative energy, we have to price it properly. It is only logical.

The previous government got caught with its pants down on this right before the last election, and it panicked. That is why we have had a change of government and we have rectified the situation. This is an excellent Liberal-National government born for the right times, set for a full term. If we fulfil our potential, it will set us up for a second term.

The budget has a number of threats within it. We have discussed this at length at times. The forward estimates indicate that in the two out-years, under current forecasts, there will be budget deficits.

Unfortunately, the orthodoxy has become that governments use forward estimates to juggle the figures to get the outcomes they want. The Rudd government did this by saying, "The out-years look pretty bad, and we want to show that the budget is miraculously coming back into surplus so we will forecast a return to boom in two years time." No one believes that!

That approach undermined the credibility of the Treasury, and this government has not done it. Rudd is forecasting growth in the out-years of 4.5 per cent this budget and 3.75 per cent for the next year. Prime Minister Rudd and the commonwealth government have no hope of even coming close to that if Western Australia does not grow at six to seven per cent, which it will not!

In order to make the outcomes nice, previous state governments have said that miraculously, without any effort, they will control their underlying expenses: "Yes, it has been growing at seven per cent and we have not done anything to change it, but let us pretend that it will go down two, three or four per cent."

What this government has done in this budget is to ask Treasury for its forecasts, and then it has plugged them in there and indicated a budget deficit. It is transparent. The Premier and the Treasurer are saying that this government will include changes that in the future years will address it. It is not easy, but that is what they are going to do. They have announced a range of changes. When one looks at it, it is not all nussed out yet, but the economic outlook is transparent and it is in the budget.

Mr V.A. Catania interjected.

Dr M.D. NAHAN: The member for North West does not understand that this house is not about coming with a begging bowl; it is about growing the state. It is about preparing for the next boom. It is so strange that the member for North West wants to come here with a begging bowl! That is not the purpose of this place.

The forward estimates indicate that we have struggles in the out-years on budget outcomes. Reforms will be flowing through.

One of the issues that we have not talked about very much—no-one has—is increasing commonwealth control over the budget. The Premier has mentioned this and also that Prime Minister Rudd has come through with matching funds for serious projects—important projects, projects that this government supports from housing to schools to industry development—and with some glee members opposite have mentioned that in some cases he provided more than was expected.

The warning I have is that we have become more reliant on commonwealth expenditure than ever before. Funds from the commonwealth grant scheme now make up a larger share of our total revenue than ever before and GST payments under the existing system are going to shrink. Remarkably; there will be no growth in the out-years.
[Leave granted for the member's time to be extended.]

Dr M.D. NAHAN: Western Australia received 10 per cent of the total GST share a few years ago, and the forecast is that that will be reduced to 5.7 per cent. Importantly, tied grants—the grants that come with restrictions—this year account for 57 per cent of total money from the commonwealth, and in four years' time they will account for 67 per cent. The lesson is that what the commonwealth gives, it will take away.

What the commonwealth gives, it will want to control. When the Rudd government tries to rectify its fiscal position, it will cut grants to the states. When we are tied to the chariot wheels of the commonwealth, it is an uncomfortable and dangerous position.

If we do not rectify this—this is not a complaint against the previous government, but something the states have struggled with for years—in the end, someone will turn the lights off in this house.

Mr V.A. Catania: Do you agree with royalties for regions?

Dr M.D. NAHAN: The budget presents a huge delivery challenge for the government.

Mr V.A. Catania: You are not going to answer that question, are you?

Dr M.D. NAHAN: I ask that the member for North West allows me to continue and I will talk to him about it later.

The commonwealth infrastructure program is huge. Every primary school will get in the vicinity of \$2 million, and a lot of that is delivered through the Department of Education and Training. The capital works program is at a record high, and we need to have an efficiency drive.

This is a challenge for the Liberal-National government going forward. However, I think that the government has shown a commitment to delivery over rhetoric, a willingness to ditch projects whose costs blow out, a willingness, importantly, to allow greater private participation in projects. Over the past seven years, there has been a tendency to say, "We are public; no private, please."

There has been a willingness to look at new ways to do it. When we start seeing ministers produce coffee table books about their successes and otherwise, that will be a sign to worry. Finally, I turn to royalties for regions. The member for North West asked me about it before he assumed the chair. I was worried about royalties for regions.

I thought the election came about in a period of opulence, when royalties were at record highs and expected to grow for a long time. Most of the money was earmarked in future budgets for expenditure, and royalties for regions implied a major redistribution. Also, the money was reoriented to different places, although I did share the view—even the member for North West emphasised this—that we did overlook the regions in certain cases, particularly in terms of infrastructure development. We should look at projects such as the Pilbara revitalisation scheme. Houses are finally being built in those areas.

As I said before, only 46 new housing blocks were established in Port Hedland over a four-year period. No wonder the median house price went up to \$800 000. Money is finally being put into the Ord scheme. Not only is money being put in, but development is actually getting off the ground. If we look through most of the expenditures, we can see that they are appropriate. Yes, the Treasurer has had to cut some and choose others, but that is what is done in government.

Royalties for regions, particularly at this time, given the history of underspending in the area and the fact that it is targeted at helping to build the infrastructure that will enable us to catch the next wave of growth, is appropriate. It is a good program. It is costly. If we were going to do it, now is the time to do it. The private sector is down.

One of the best programs under royalties for regions is the \$80 million put into searching for new mineral resources. South Australia has had a mini mining boom. A large part of that was driven by the Department of Mines some 10 years ago. Money from the state budget was used to encourage miners to grow during a shutdown in that state's economy and a lack of drilling.

That is what this project has done. Right at the time when drill rigs were being tied up, the South Australian government gave the miners money to encourage them to go out and do things. Drilling and looking for new minerals is the most essential research and development in this state.

Mr C.J. Tallentire: Isn't that a subsidy?

Dr M.D. NAHAN: I am not against a subsidy if there is a social benefit for it. I am not against public schools, public hospitals or public transport. Of course it is a subsidy. What is the government giving the money for? It is giving it for greenfield sites because there is a potential public benefit. The information goes back to the state to collect and share with other people. It is a well thought out public benefit. It is also using private money to help public advantage.

Mr C.J. Tallentire: If a mineral is valuable, surely the companies could fund it themselves.

Dr M.D. NAHAN: The member does not understand this. There might be a great deal of uncertainty as to whether minerals are present. For example, geothermal is one of the major areas the government has focused on. Can it be found, is it going to be large enough, is it going to pay off and is it going to be at a location that can be used?

To some extent, our problem was the regulatory arrangement with geothermal. That has been resolved. We want the private sector to pay as much as we can, but if we leave it up to the private sector, it will say that the expected returns are too low, so its expenditures are matched with government money.

This is done with R&D all the time. Do members remember the 150 per cent R&D? We do it with environmental expenditures on farms and other things. Why do we not do it with this one? It is just logical to do so. Royalties for regions has worked out pretty well in relation to timing, the character of the expenditure and the location of the expenditure. I support royalties for regions. The opposition's problem politically is that it puts it on a bit of heat.

In conclusion, I think this is the best budget in 20 years. It is the only one that will have the largest surplus and a very high capital works program. It will re-engage reform in the public sector, and its timing was about right. Congratulations to the Treasurer.