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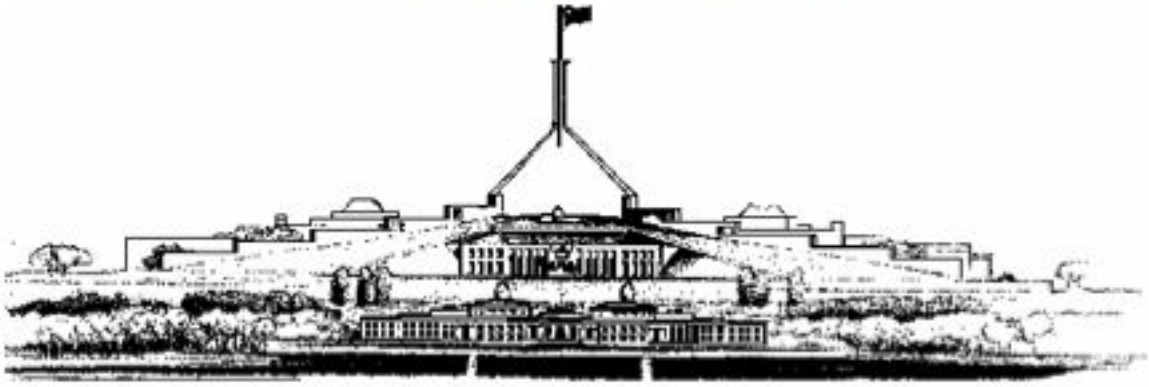

HOUSE OF REPRESENTATIVES

NATION-BUILDING FUNDS BILL 2008

NATION-BUILDING FUNDS (CONSEQUENTIAL AMENDMENTS) BILL 2008

COAG REFORM FUND BILL 2008

Second Reading

SPEECH

Tuesday, 25 November 2008

BY AUTHORITY OF THE HOUSE OF REPRESENTATIVES

SPEECH

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Speaker	Bishop, Julie, MP	**Question No.**	

Ms JULIE BISHOP (Curtin) (5.03 pm)—I rise this afternoon to speak on three cognate bills: the COAG Reform Fund Bill 2008, the Nation-building Funds Bill 2008 and the Nation-building Funds (Consequential Amendments) Bill 2008. I turn first to the COAG Reform Fund Bill. The purpose of the COAG Reform Fund is the making of grants of financial assistance to the states and territories. The COAG Reform Fund will channel payments from the three nation-building funds—the Building Australia Fund, the Education Investment Fund and the Health and Hospitals Fund—and also money from annual or special appropriations to the states and territories. As stated in the COAG Reform Fund Bill, the terms and conditions on which financial assistance is to be granted are to be set out in written agreements between the Commonwealth and states or territories. The COAG Reform Fund is to be established as a special account in accordance with the Financial Management Accountability Act 1997.

The Nation-building Funds Bill sets up three separate funds: the Building Australia Fund, the Education Investment Fund and the Health and Hospitals Fund. The bill grants the Treasurer and the finance minister power to credit money from the budget through a special account to the funds. The Future Fund Board of Guardians and the Future Fund Management Agency will manage the investments for all the funds under the Future Fund Act 2006. The building fund will have an initial capital of $12.6 billion—$7.5 billion from the Howard government's 2007-08 surplus as calculated at the end of June 2008 plus the proceeds from the Tax Laws Amendment (2008 Measures No. 3) Bill 2008 and the balance of the coalition's Communications Fund. The education fund will have $8.7 billion—$2.5 billion from the Howard government's 2007-08 surplus and the remainder from the coalition government's Higher Education Endowment Fund. The health fund will have $5 billion, to be funded entirely from the Howard government's 2007-08 surplus. The three funds will therefore have a total of $26.3 billion on their inception on 1 January 2009.

The government did announce in the 2008 budget that there would be $41 billion in these funds by 1 July 2009. The size of the funds must now be considerably smaller than was originally promised by the government, unless of course the government chooses to go into deficit to meet its commitments regarding the size of these funds. Based on current figures, there will be a shortfall of $14.7 billion due to the government's recent decision to spend half the forecast budget surplus. It is important for all Australians to note that this Labor government has not ever delivered a surplus. All funding that Labor is currently using is the legacy of the coalition, and that legacy includes the paying off of the $96 billion of Labor's debt from the last time Labor was in government. The repayment of that debt and the consequence that the government no longer had to find the $9 billion each year just to pay the interest on Labor's $96 billion debt—that $9 billion that should have been going to infrastructure had to fund the interest payments on Labor's debt—was achieved in full by the coalition in 2006.

The Rudd government is in the extremely fortunate position, unlike most other comparable governments around the world, of having no net government debt, thanks to the vision, the prudence and the strong economic management of the coalition when in government. Notwithstanding the fact that the Rudd Labor government inherited a $20 billion surplus on the day it came into office, it is now forecasting a surplus of just $5.4 billion, and there are serious doubts about that forecast. It forecast a surplus of more than $21 billion in the budget, but that forecast is in tatters.

The coalition supports the targeted, careful and prudent use of public money for worthwhile nation-building projects. In fact the coalition government invested huge sums in projects to upgrade Australia's transport, communications, education and health infrastructure during its time in office. In addition, the coalition undertook the single most important reform of Commonwealth-state funding relations since Federation when it introduced the GST, with all revenue going to the state governments. The GST has provided state governments with greater long-term certainty and independence in their funding base.

I would like nothing more than to stand here today and say that these additional funds were invested wisely by state governments. But, regrettably, over recent years these governments were mostly Labor state governments. The fact is that state Labor has not invested that additional revenue wisely. Respected economist Henry Ergas,

in his 2007 report titled *State of the states*, found there was a massive increase in revenue to state and territory governments in 2005-06 compared with 1999-2000 as a result of the GST. However, Dr Ergas found that while most of the $43.4 billion windfall—let me repeat that: the $43.4 billion windfall—was spent on the provision of government services, particularly health, education, law and order, and transport and communications, there was very little improvement in service delivery, and in many cases it went backwards.

Dr Ergas found that a very substantial part of the increased funding went to higher wages for public servants and increasing the numbers of public servants—increasing the public sector. Only a very small percentage of that windfall, of that funding to state Labor governments, was invested in the states' infrastructure. That is why the federal coalition has serious concerns about the management of these funds and about ensuring they are not used to prop up incompetent state Labor governments that have failed to invest in their own infrastructure, state Labor governments that have largely squandered the opportunities provided by the GST windfall. For example, the coalition is concerned that the Commonwealth investments may in fact replace previously planned state and territory public works for no net economic gain. State governments may simply take infrastructure projects off their own books and bid for federal funds.

Why would we think this? In the recent New South Wales mini-budget, the Rees government listed four infrastructure priority projects that had been submitted to Infrastructure Australia and stated that they:

> … will only proceed before 2012 if they are substantially funded by the Commonwealth.

A week before the mini-budget the intention was that these projects would be 100 per cent funded by the New South Wales state government. Is cooperative federalism under Labor just a code for cover-up federalism? The issue of probity and transparency has been called into question by the revelations in the *Sydney Morning Herald* that former New South Wales Premier Morris Iemma was told by federal Labor not to apply for funds for the North-West Metro as there were 'no votes in it for federal Labor'.

The *Age* newspaper reported a rift between the federal Minister for Finance and Deregulation and the Minister for Infrastructure, Transport, Regional Development and Local Government over the key issue of ministerial discretion and how funds will be distributed from the Building Australia Fund. Concerns that these moneys could be used as a slush fund were further exacerbated by media reports that the original Building Australia Fund legislation was delayed from introduction into this House by the minister for infrastructure because, according to the reports, it gave him insufficient ministerial discretion over how the money would be allocated.

True to the form of New South Wales Labor, the minister for infrastructure wanted more discretion over project approvals, and we know what that means in terms of funding for marginal Labor electorates. Labor code is not very subtle. If ministers in the Rudd Labor government cannot agree on how this legislation will work and on accountability measures to ensure the money is spent wisely, how can the opposition—and the Australian public—be confident that funding will be invested in the national interest rather than in the self-serving interests of the Labor Party?

The coalition, when in government, spent more on nation building than any Commonwealth government since Federation, and I predict that the coalition's record for infrastructure funding will exceed that of the Rudd government. For example, the coalition established the Higher Education Endowment Fund with an initial investment of $6 billion in 2007. Our vision was for this fund to be a perpetual growth fund, with further injections of capital from the government and hopefully from state governments and from the private sector to provide a source of growth funding for our universities—in perpetuity, not subject to the vagaries of election cycles.

It was part of the coalition's vision to provide universities with greater independence through this fund and to support efforts at fostering world-class research and teaching infrastructure. It was to inculcate a culture of philanthropy through an endowment fund for our universities. I was education minister at the time. I had been impressed by the endowment structures held by the great universities of the world, particularly in the United States. I noted the efforts of the United Kingdom government to build on the endowment funds for Oxford and Cambridge. I had the long-term vision that one of our universities would be included in the top 10 universities in the world, supported by public and private sector endowment funds.

The Higher Education Endowment Fund preserved the capital with the earnings on the investment allocated each year for world-class infrastructure and research projects. In contrast, the Rudd government has no understanding of an endowment fund, no understanding of a perpetuity fund. The Rudd government will spend

the capital. It will not be an endowment fund for generations to come; it will be spent in the short term. What a lost opportunity of serious proportions should the education fund be spent in its entirety within a few short years!

Labor would have you believe that the coalition did not invest in education infrastructure, but this is simply not true. The Howard government provided record funding for school education every year. A record $3 billion in federal funding was provided for new capital works for schools from 2005 to 2008, and this included the hugely successful and popular Investing in Our Schools Program abolished by the Rudd Labor government. As most members would recall, this was a program that provided grants to support the priorities of individual schools in the public and private sectors and gave them the independence to decide what was best for their schools without having the federal government dictate its agenda to them. Schools were able to invest in a range of priority projects, including computers and technology if those were their priority need—and indeed almost $130 million was used for that purpose.

The coalition also established a network of Australian technical colleges to provide an incentive for students to study years 11 and 12 while also undertaking technical education and training. Many of the students would have otherwise left school and may have fallen through the cracks and not undertaken further training. The strength of the model was the strong links with local employers and the community. Labor has abolished this program.

Commonwealth spending on health more than doubled under the coalition from $20 billion in 1995-96 to $48 billion in 2006-07. The coalition also provided record funding to medical research and research infrastructure during its time in government. Once we had paid off Labor's debt we were able to establish the Higher Education Endowment Fund and we were able to establish a health and medical infrastructure fund with $2.5 billion, the capital to be preserved in perpetuity with earnings from the fund to help build capacity in health and medical research.

As Minister for Education, Science and Training at the time I was delighted that amongst the long list of health and medical research institutions to receive funding under the coalition grants were, for example: $100 million towards the creation of the first facility in the Southern Hemisphere for developing new lifesaving biopharmaceuticals at Princess Alexandra Hospital and the University of Queensland, $100 million towards the construction of two innovative research facilities at the Western Australian Institutes for Health, $55 million for a new 13-storey medical research facility at the Queensland Institute of Medical Research, $50 million towards a new world-class facility at Murdoch Children's Research Institute—the list went on and on. Amongst that list I was delighted to be able to announce $50 million in Commonwealth government funding to contribute to the operating costs of the Australian Synchrotron. The Synchrotron is and will be a world-class facility performing leading-edge science.

In the area of roads, it was the coalition that established AusLink 1 and AusLink 2, which revolutionised the planning and funding of Australia's national road and rail networks and established a coordinated national approach to transport infrastructure development including national investment priorities. The coalition allocated $15 billion for AusLink from 2004-05 to 2008-09 and an additional $22.2 billion was committed in the 2007-08 budget to AusLink 2 with funding going out to 2013-14—long-term investment, long-term planning. Almost 200 transport projects of national significance were funded by AusLink under the coalition government.

In the area of communications, the coalition invested to ensure broadband, mobile phone coverage and other services were upgraded and improved. Billions of dollars were invested to provide improved services, particularly in rural and regional areas where private sector investment lagged behind that taking place in larger cities. The programs were structured to cater to the needs and priorities of regional communities to support their priorities.

Turning to the coalition's concerns about these particular bills, the government's bills do not provide a transparent and accountable framework. The funds are unlikely to reach the government's target, given just a few months ago, and have little prospect for growth for the next three years. But the explanatory memorandum states that where specific projects have an ongoing cost component it is intended that such funding would be sourced through other means. Now this could include direct funding from the budget outside the Building Australia Fund or funding by the states or territories in relation to proposals that are brought forward as part of the current reform agenda. But running costs for the states and territories will be particularly high for health, research and education projects, for a start, because of high staffing costs. With state Labor governments increasingly in debt one has to ask: where is the funding going to come from? The splitting of capital costs and ongoing operational and maintenance costs could lead to instances where the whole-of-life costs of an asset are not properly considered when these funds are being invested.

A whole-of-life costing approach means that the cost of the project is considered over its lifetime, self-evidently. It includes not just capital but ongoing operational, maintenance, replacement and service costs. We have reason to be concerned about federal Labor's behaviour in this area. A recent example of the failure to undertake a whole-of-life approach is Labor's shambolic computers in schools policy, where funds for the installation and maintenance of the computers and training were not allocated. We have seen state governments refusing to stump up with the funding for a federal Labor election promise. Labor's much-vaunted $1.2 billion digital education revolution grossly underfunded the real cost of providing a computer to each student in years 9 to 12. And, given that there are nearly one million students eligible for a computer and that the government has so far provided about 10 per cent in its first year, it does not appear that there is any hope that this election promise will be met in this term of government or anytime soon.

Further, there is a recurring problem with this government in that it routinely makes decisions without any serious economic analysis underpinning those decisions—in fact, any analysis at all, as it turns out. The Rudd government has bungled Fuelwatch, the education revolution, the ready-to-drink tax, GROCERYchoice and the bank guarantees, to name a few. And in each instance there was no analysis and no modelling—or, at least, none the government was prepared to make public—and, from the quality of the outcomes, it must have all been back-of-the-envelope stuff.

Take Fuelwatch. Labor introduced Fuelwatch without regard to the advice of the Department of the Prime Minister and Cabinet, the Department of Finance and Deregulation and other departments that Fuelwatch was, at best, pointless and, at worst, harmful. The introduction of the digital education revolution was made without any analysis of the costs of the program to the states or to the schools or parents. The promise of a computer for every year 9 to year 12 student is unachievable for Labor's budget. The increased tax on ready-to-drink beverages ignored research that showed drinkers would turn to relatively cheaper substitutes, including spirits by the bottle or even illegal drugs, and that these substitutes are likely to be more harmful. Likewise, GROCERYchoice was done without any analysis.

It has been obvious from the day of its announcement that the consequences of the bank guarantees had not been fully thought through. The consequences might have been unintended but they were certainly foreseeable. Rather, as is typical with the Rudd government, the bank guarantees were from the first all about a political strategy, with no regard for sound economic management. Since the announcement of the bank guarantee policy, the government have been continually playing catch-up to correct a series of unintended but largely foreseeable difficulties arising from their hasty actions. It is for this reason that we will be debating yet another bill later this afternoon, which has been introduced in great haste with little information to provide an appropriations framework for the guarantees. All these government initiatives have been conspicuous by the absence of rigorous analysis and the coalition is concerned that the same poor approach to public policy will occur with the significant amounts of public money in these three funds. The lack of analysis underpinning a range of government decisions, including the recent economic stimulus, raises concerns that the government will choose projects with little regard to their long-term benefits. These recent government decisions, including the decision to spend half the budget surplus in one hit but without any modelling or research, as Treasury admitted in Senate estimates, have had little analysis. There has been nothing public and there is nothing to show that they will achieve the desired result.

The Reserve Bank governor said recently:

> … it is still important for fiscal measures to pass the 'good policy' test. Poor public policy proposals should not be accepted simply because they are presented as boosting short-term aggregate demand …

Putting all these concerns together, the coalition worries that the Rudd government is going down the same path as the failed, incompetent, corrupt New South Wales Labor government: wasting money, with little or no accountability and with an increasing risk of continuing budget deficits.

Given the coalition's strong record in infrastructure funding, we support in principle the stated objectives of these bills to recreate funds from the existing coalition funds to provide for valuable infrastructure around Australia. However, to put it bluntly, we do not trust Labor to manage these funds appropriately and, in the interests of safeguarding taxpayer funds and in the interests of good public policy, I foreshadow a number of amendments to the Nation-building Funds Bill 2008 that reflect the following principles. First, we will seek to insert transparency clauses to require the public disclosure of all documentation—for example, evaluation criteria, business cases, cost-benefit analysis and advisory board evaluation against criteria relating to proposed projects. Let me give you an example of why we are insisting on such a transparency clause, why we do not trust

Labor on the issue of accountability and transparency. Let me just use the example of the government's emissions trading scheme. The green paper released by the government offends against numerous standards set out in the government's own best practice guidelines. This is a stark reminder that the government does not adhere to best practice guidelines when it comes to cost-benefit analysis and accountability.

Second, we will seek to add a requirement that money may only be spent on projects that have been analysed by the Productivity Commission, with those commission reports being made public. Third, we will seek to ensure that the determinations by the Minister for Finance and Deregulation and the Treasurer that credit money into the accounts are disallowable instruments. Fourth, we will seek to ensure that money will be spent only on projects that satisfy competitive neutrality guidelines—that is, the public sector cannot undercut private businesses in the provision of services. Fifth, we will seek to ensure that all reports to the finance minister from the advisory boards and the Future Fund board are made public. Sixth, we will seek to insert a clause which requires that all project funding decisions need to ensure that there are financial commitments from all asset owners and stakeholders to meet the whole-of-life asset costs. Seventh, we will seek to prohibit the payment of up-front fees on projects in situations where the federal government puts in its money but the state or the private sector does not. Also, we will seek to maintain the existing Communications Fund as a separate fund for ensuring that there is money available in perpetuity for new and emerging technologies.

We will bring forward these amendments in the hope that the government will understand the importance of sound and considered legislation when dealing with significant amounts of public money. While we have seen no evidence in the past year that the government has any regard for sound legislation or good financial management, it is the duty of the opposition to hold the government to account and to ensure that it serves the Australian people responsibly.