

## SUBMISSION TO SENATE SELECT COMMITTEE ON STATE GOVERNMENT FINANCIAL MANAGEMENT



The Victorian State Labor Government has been in office since 1999 during a period which has coincided with one of the longest periods of unbroken economic growth in Australia's history. This period of prosperity has supplied an almost unprecedented flow of revenue into the State's coffers. Labor has had every opportunity to plan and implement a visionary, dynamic program of economic, infrastructure, social and community development in Victoria. Yet it has not done so. It has also failed to deliver on its promises. It has failed to use its huge budget windfalls to deliver better services, to help grow industries, to lay the basis to turn around lagging growth, and repair worn out infrastructure or build Victoria's economic and social infrastructure for the future.

It has failed to act to reverse the deterioration in transport, water, education and health services. From leading the nation economically during most of the 1990s, the Victorian economy is experiencing below average growth for nearly every year in the last eight and will under-perform the nation again in 2007-08. The momentum established in the 1990s has been lost through State government inaction, lack of direction, wasted opportunities, failure to competently manage, rising taxation and over-regulation.

### **The State Budget**

The Labor Government has been the beneficiary of an unprecedented tax and revenue windfall. Since 1999, budget revenues under Labor will have risen by over 88% to an estimated \$36 billion this financial year on top of having access to a budget surplus of \$1.8 billion when they reached government in 1999. This at a time when hospital waiting lists have grown, water infrastructure crumbled, violent crime has increased on our streets, housing affordability has plunged to record levels and trains and roads have reached their capacity limits. There has been no equivalent 88% improvement in services – the very basic obligation of a State government.

The Budget has risen from \$18.2 billion in 1998-99 to an estimated \$35 billion this financial year. And in 2008-09 expenditure will break the \$36 billion barrier. In effect the size of the Victorian State budget will have doubled in a decade – enough to totally reshape the economy, fund the total renovation of the State's infrastructure and deliver world class service delivery. None of these have been achieved and there are no plans to do so, merely an ad hoc approach to dealing with various crises as they emerge.

This unmatched period of Budget expansion has been funded by a record level of State taxes and grants from the Federal Government. Victoria has received \$57 billion in revenues from the GST which has grown strongly from \$5.1 billion in 2000-01 to \$9.2 billion this year. The Grants Commission has also recently allocated Victoria an additional \$1 billion in GST over the 2007-09 period. There have also been unbudgeted, windfall tax revenues from Victoria's own State tax sources of \$6.1 billion under Labor.

State finances have become increasingly dependent on a narrow band of taxes based principally on the strength of the property market.

- Land taxes have grown by over 160% to almost \$1 billion.
- Insurance taxes have risen 106% to \$1.1 billion.
- Stamp duties are estimated to have skyrocketed 250% from \$1 billion to \$3.5 billion this financial year. Victorians pay the highest level of stamp duty in Australia.
- Payroll tax will have ballooned nearly 70% from \$2.2 billion to \$3.7 billion this financial year.
- Police fines will have more than quadrupled to over \$400 million.

- Gambling taxes are estimated to raise over \$1.5 billion this year and are growing above the inflation rate. Labor has raised the tax on gaming machines by an extra \$39 million - 1200% above the tax in 1999.
- Labor has imposed 14 new or extended taxes that extract hundreds of millions of dollars a year extra from Victorian communities and businesses and removed the cap on the annual increase in land tax.

Not once has Treasurer and now Premier Brumby achieved his Budget estimates for revenue or expenditure. Labor has now made it a serial practice to take hundreds of millions of dollars every year and spend hundreds of millions of dollars more every year, above the levels expected in each and every Budget.

Yet Labor has not matched the opportunities that have been available to it with the sound investment essential to meet Victoria's immediate needs and lock in its future prosperity. Nor has it exercised the prudent financial management that allows for the inevitable rainy day.

The Victorian State Labor Government continues its spending splurge at a time when the Federal Government is looking at measures to reduce expenditure in order to contain inflationary pressures.

In the seven months between the May 2007 Budget and the Budget Update in December last year, estimated revenues rose by \$7.7 billion in the forward estimates period. Most of this huge surge in expected revenues has been spent already with the Brumby Government committing to spend an additional \$6 billion over the forward estimate period over and above its commitments in its 2006-07 Budget.

At a time when the Federal Government is calling for fiscal restraint, the Victorian State Government has embarked on a spending spree. At a time when the Federal Government is attempting to cut billions of dollars from budget outlays with a razor gang to try and take some of the heat out of inflationary pressures, the Victorian Government is raising its spending by billions of dollars and stoking inflationary fires.

At a time of rising interest rates, falling housing affordability, rising cost pressures right across the economy, this Brumby spending spree is in direct conflict with the Federal Government's professed economic concerns and strategy. The Victorian Coalition notes that the State from where the Federal Finance Minister comes from is actually undermining the professed strategic objectives of that Minister.

The Brumby spending spree is an irresponsible policy that has made substantial spending commitments with funds the Victorian Government does not as yet have. The Brumby Government has taken the risky gamble that the good times will continue to roll to finance his profligate spending plans. The people of Victoria can only hope this gamble with their welfare is successful for if it isn't there will be a large black hole in the State's finances that will have to be filled by increased taxation and/or spending cuts to the public service and established programs.

### **State Debt and Infrastructure**

State debt can cripple a State's finances as happened in during the Labor Governments of Cain and Kirner during the 1980s and early 1990s. By 1992, Victorian net debt had reached \$32 billion, requiring an annual debt servicing of \$3 billion much of which was required to cover recurrent expenditures. Good government requires that debt be carefully and cautiously managed and that is what happened during the Kennett years as the State debt burden and annual servicing costs were managed down.

Debt should be used to finance public infrastructure and investment that will add to the productive capacity and competitiveness of Victoria's industries and provide an efficient living environment. The Bracks/Brumby government has continually maintained in recent years that this is how the rapid rise in Victoria's public debt is being used. However there are severe doubts that adequate investment is actually occurring on the ground. The latest National Accounts indicated that over the

last two years the Victorian public sector had actually suffered disinvestment in its capital formation.

Net debt levels for the general government sector will rise on present budget estimates from \$1.5 billion in 2005 to almost \$9 billion in 2011. At the same time overall net public sector (including net debt of public non-financial corporations) is set to more than triple from \$4 billion in 2005 to almost \$20 billion in 2010. It is of real concern that total public sector debt was revised upward by almost \$5 billion in the seven month period between the May 2007-08 Budget and the Budget Update in December 2007.

It is unclear for what purpose this debt is being generated. According to the Brumby Government, nearly all of its big ticket infrastructure projects are being built under public private partnerships and will not require public debt financing. At the same time debt is burgeoning.

A year ago the Liberal Party warned the Government that rising debt exposes the State to potential serious risk from higher interest rates or a slowdown in the global economy. This scenario has now come to pass. The spike in Victoria's debt situation can only worsen as the growing international credit crunch raises the cost of capital for debt financing of Victoria's infrastructure projects.

The situation will be aggravated by the lack of planning and foresight, policy neglect and loose financial management of the Bracks/Brumby Labor Government.

By the Government's own admission, public infrastructure projects were being funded primarily by cash operating surpluses, plus surplus financial assets and from debt. However, according to Budget Paper No. 2 of 2006-07, the Government's cash position will be substantially in deficit every year from next financial year. This means the only real option to finance infrastructure is through debt.

The mushrooming debt position is the inevitable result of Victoria playing catch-up with the development of its road, rail, water, social and ports infrastructure.

- For the last 8 year Victoria has spent less than half the amount per capita on its water infrastructure than nearly every other State. It now finds it has to spend billions of dollars for projects that will not come on line for another four to five years, even though the water problems have been clearly evident since the early part of this decade.
- An East-West road link appears only weeks away from being belatedly given approval but this is after the Government was warned for years that this was an infrastructure priority and initially actually ruling such a project out when it was first considered. Now it will cost far more and will not be ready for years to help with roads that are already clogged.
- Our train network cannot handle the present level of patronage and is already over crowded and yet new trains will not be available for another two years and there are no plans to build new lines to Melbourne's growth areas until 2016 when even more debt will be required.

The size of the neglect is apparent. Victoria was still spending less per capita on infrastructure projects than any other State last year and also at the lowest level compared to State Gross Product. The rapid rise in debt onto the backs of Victorians is due critically to the Labor Government's failure to use its huge surpluses productively in previous years to build the State's infrastructure progressively and responsibly. An historic opportunity to renovate Victoria's infrastructure and build for the new century, without lumping a huge burden on future generations, has been lost. All Victorians will now pay the price in the years to come.

**KIM WELLS MP**  
**Shadow Treasurer**  
**State Member for Scoresby**

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