

QUEENSLAND COALITION

2007-2008 Budget

Dr. Bruce Flegg MP Shadow Treasurer



Please take a moment to read through this report and share your ideas with me at www.bruceflegg.com

2007/08 Budget Review: Queensland sinks deep into debt

As of this week the State Government currently has:

- Queensland's State Government borrowing to top \$52 billion by 2010/11 (up by \$30 billion in just four years).
- Queensland no longer a low tax state as state taxes have soared.
- Debt skyrocketing despite receiving record revenues and \$3.5 billion in asset sales. Net debt was negative but the borrowing spree has made us a debtor state.
- Interest on borrowings to top \$2 billion each and every year by 2010/11
- Forecast is for cash deficits every year from 2007/08 to 2010/11.

State tax revenue doubles!

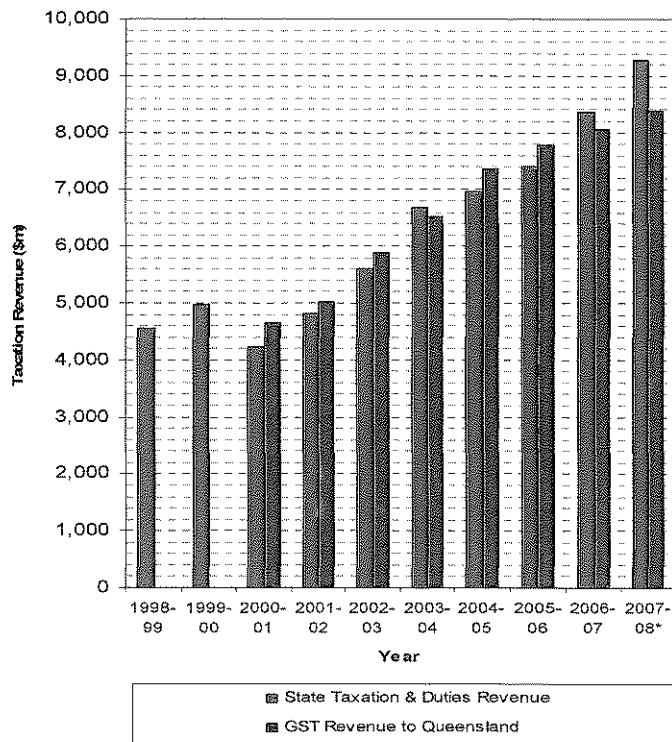
State taxation revenue is up 13.2 per cent from the previous year!

Revenue from state taxes like, stamp duty, land tax and payroll tax has **more than doubled since 2000/01.**

Since the GST was introduced it had consistently been the largest source of state revenue except for a property boom blip in 2003. Now Queensland collects more in State taxation than GST revenue.

State taxes have now eclipsed even GST revenue! (see graph over)

State Taxation Revenue & GST Revenue



In recent years we have seen Queensland lose its long held status as Australia's lowest taxes State.

Queensland state taxes have risen 30 per cent in just three (3) budgets compared to other states which have overall risen only 10 per cent. (see below)

State Budget Paper 2, 2007-08

Table 5.7 Queensland's tax competitiveness									
	QLD	NSW	VIC	WA	SA	TAS ⁴	ACT	NT ⁴	Avg ⁵
Taxation per capita ¹ (\$)	2,226	2,510	2,229	2,614	2,037	1,559	2,640	1,735	2,357

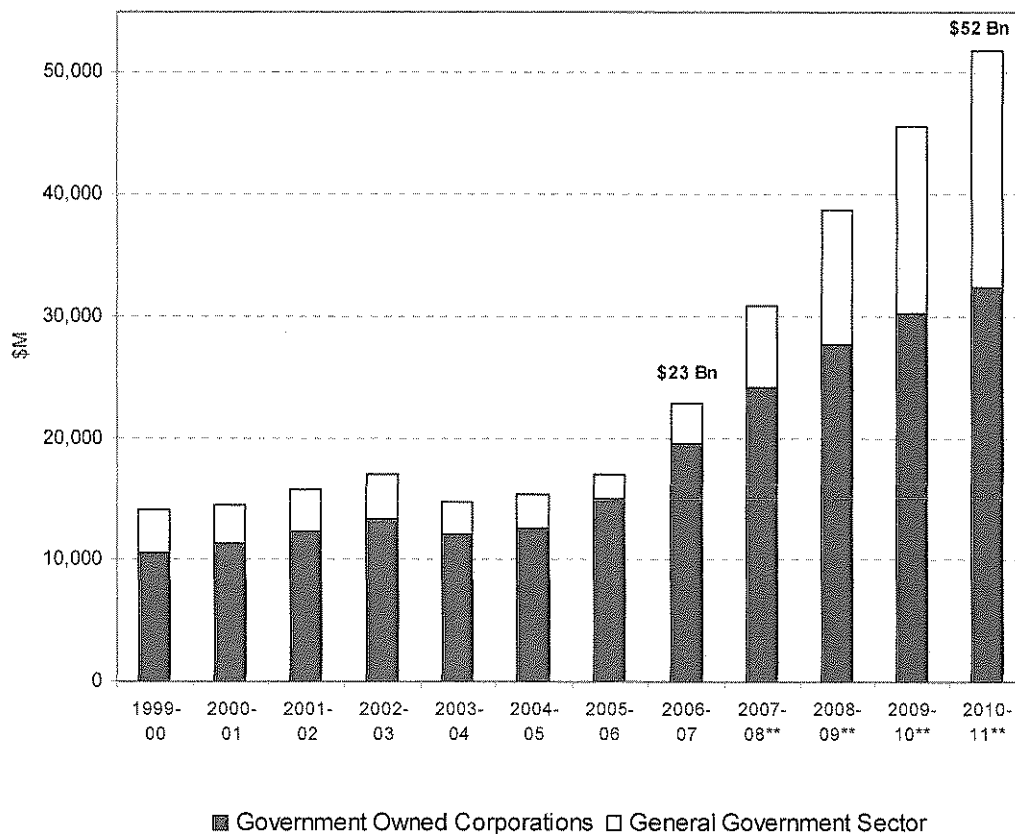
State Budget Paper 2, 2005-06

Table 5.7 Queensland's Tax Competitiveness									
	QLD	NSW	VIC	WA	SA	TAS ⁴	ACT	NT ⁴	Avg ⁵
Taxation per capita ¹ (\$)	1,708	2,384	2,038	1,965	1,852	1,373	2,382	1,471	2,135

Expect much higher charges coming from Government Corporations

Government owned businesses have been forced to borrow heavily. In 2006-07 this sector had accumulated borrowings of \$19.6 billion. In this budget GOC borrowings are forecast to top \$32 billion in 2010/11.

State Government Borrowing



The overall State Government borrowing amounted to \$22.53 billion in 2006-07. This represents the amount of **both** the borrowing of the general government sector and the government corporation sector. State Government borrowing is forecast to grow to \$51.73 billion in 2010/11. A dramatic increase of \$29 billion.

The chart shows the escalation of unprecedented and dangerous borrowing that is forecast to 2010/11.

Increased interest payments will lead to higher charges. More asset sales are likely. Ballooning debt has the Premier and Treasurer looking to sell off more

Queensland icons. Golden Casket, Energex Retail, Allgas, Ergon Retail were all sold over the past year.

Debt & Debt Servicing:

The general government sector incurred interest expenses of \$218 million in 2006-07. This debt servicing cost is forecast to grow to \$390 million next financial year, and then blow out to \$1.145 billion in 2010/11. This is despite record GST windfalls, royalty windfalls, property tax windfalls and asset sales.

Looking at the **opportunity cost** of \$1.14 billion in interest payments per year in 2010/11:

- One major 700 bed adult/children's hospital per year.
- 30 new fully equipped public schools per year
- More than a 3000 extra Police Officers per year.
- Build a major highway infrastructure equivalent to the Tugun bypass.
- Build at least three 200 Mega-litre desalination plants.
- Build one power station equivalent to 500 megawatts.

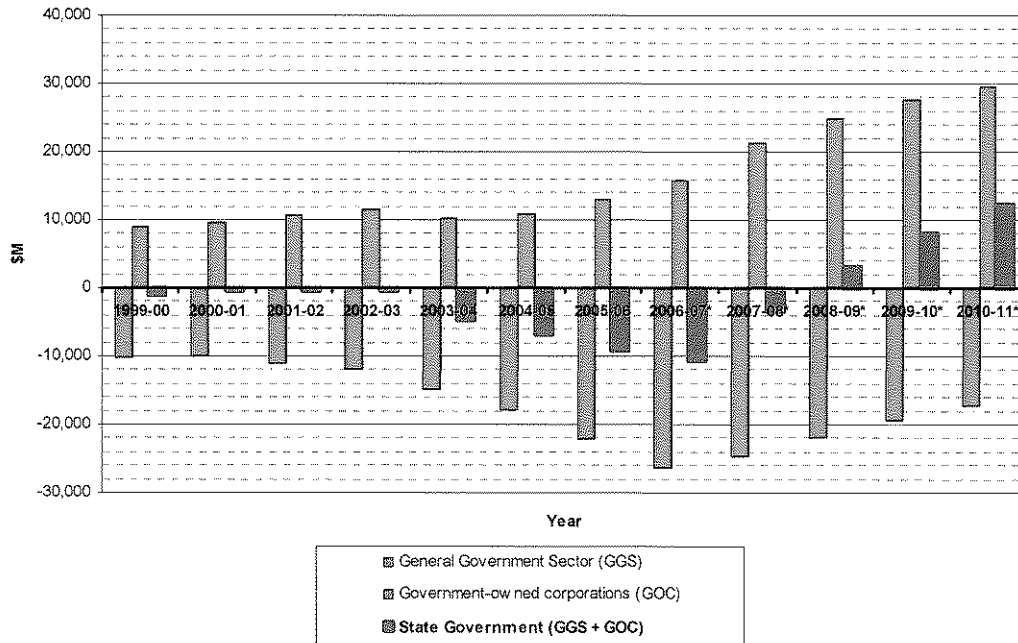
This is an opportunity cost of the debt that we are about to inherit year in and year out.

The cost of debt servicing in the government corporations is forecast to reach \$1.595 billion per year in 2010/2011. This will inevitably lead to higher service charges.

The net debt position of the government corporations is currently \$15.7 billion. This is forecast to increase to \$29.6 billion in 2010/11. Because of negative net debt (\$17.2 billion) in the general government sector, the overall State Government debt is forecast to rise to at least \$12.4 billion in 2010/11.

The accumulation of this debt will end up a burden our kids. It is a tax on future generations. To be borrowing aggressively at the top of a boom when revenue is pouring in is unusual indeed and is a concern if the economy struck tougher times.

QLD Net Debt



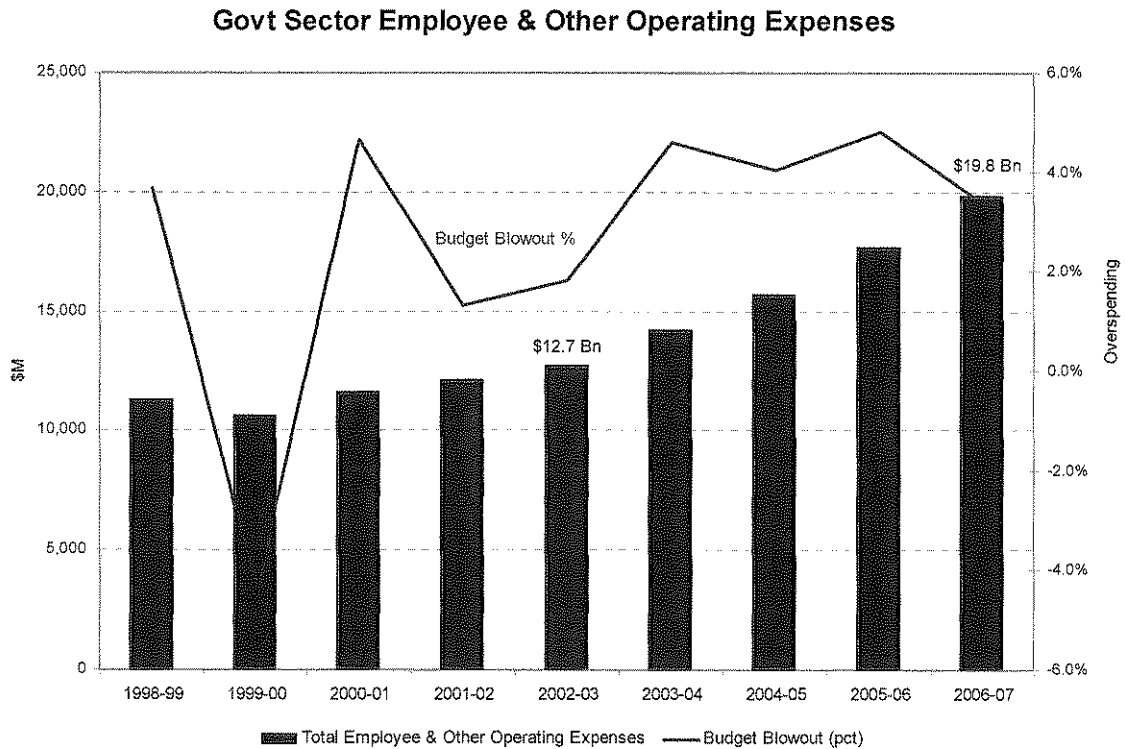
Poor Financial Management

Anna Bligh cannot manage finances. Despite this being her second attempt at the State Budget, Ms Bligh already has the worst financial management record of any recent Queensland Treasurer.

For instance:

- Looking at **both** the general government sector and the government corporations, the State Government has produced a fiscal deficit of \$5.85 billion in 2006-07 with a cash deficit of \$3.2 billion.
- Looking at **both** the general government sector and the government corporations, Net Debt was forecast to be \$3.5 billion in 2009/10 at the time of last year's budget. This has now blown out to \$8.2 billion.
- Worse still, in 2010/2011, the State Government Net Debt is expected to grow to \$12.4 billion.
- This represents a four year \$22 billion turn around on the surplus of \$10 billion in 2007/07.
- Recurrent expenditure is out of control and there is nothing to show for it....

This is where the money has gone!



For instance:

- Total employee and outsourced expenses^[1] grew by 12% in 2006/07. Meanwhile the Queensland wage price index grew by 4.5% in 2006/07.
- This is not a one-off. Estimated actual employee and outsourced expenses grew by 13% in 2005/06, 10% in 2004/05 and 12% in 2003/04.
- Looking at this from a view of what was budgeted and what was spent, there has been a budget blowout in employer and other expenses by in 3.4% in 2006/07. This follows a blow out of 5% in 2005/06, 4% in 2004/05 and 5% again in 2003/04. This budget is out of control.
- At the same time there is no evidence to suggest that we are receiving better service in Hospital, in Schools or in our Emergency Services. Has the 30 percent increase in government service funding been absorbed by middle management bureaucracy before it can reach the front line?

Infrastructure catch-up – Boom and bust in government construction

The government's sudden realization it has failed to invest in infrastructure, and the resultant multi-billion catch-up spree occurring as it has at the top of a business and mining boom, has put severe strain on skilled staff, contractors and services.

Figure 1: SEQ Infrastructure Plan activity 2007–2015



Source: South East Queensland Infrastructure Plan and Program 2007-2026

It has bid up costs for the whole economy and resulted in Queenslanders getting less infrastructure for the billions invested. It also points to a slow down in government spending in later years when business investment could also soften leading to a more pronounced downturn.

Interest Rates

The State government's borrowing spree plus its bidding up of costs in construction is putting upward pressure on inflation. This inflationary pressure represents a threat in the form of higher interest rates that will undo the fiscal discipline of the Federal government.

The recent economic successes of Queensland belong to the people and businesses located in the State. Our success has allowed the Beattie government to have a long rest on its laurels. Economic areas under State responsibility should have been assembled with the growth of the State in mind.

^[1] Employee expenses include salaries and wages, annual leave, long service leave and superannuation expense. Other operating expenses comprise the non-labour costs of providing goods and services, repairs and maintenance, consultancies, contractors, electricity, communications and marketing.

All data in the charts sourced from QLD State Budget Papers