Speech by

Dr DAVID WATSON

MEMBER FOR MOGGILL

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1999 BUDGET SPEECH

Dr WATSON (Moggill—LP) (Leader of the Liberal Party) (12.18 p.m.): It gives me pleasure to enter the Budget debate for this year. Following the Leader of the Opposition, I wish to explore in some detail some of the issues upon which he has already touched.

As the shadow Treasurer and a former professor of commerce, I would usually approach the delivery of the annual State Budget with a certain degree of expectation. After all, it should be an opportunity for the Government to outline its policies and a vision for Queensland not just over the next 12 months but for a longer period. It is an opportunity for the Government to present detailed costings of its proposed expenditures, its plans for capital investment and the sources of revenue on a consistent, transparent and accountable basis. Unfortunately, this year, it is with a sense of disappointment that I must report that the second Budget of the Beattie Government is not only very underwhelming, it also reveals some very worrying trends which spell danger for our State economy and for the future standard of living of all Queenslanders.

This Budget may be the rushed product of a fragile Premier and part-time Treasurer but, frankly, the Queensland public deserves more. There is no doubt that there was disruption behind the scenes—disruption in the preparation of this year's State Budget—which has probably tarnished the product. It was a sad sight when David Hamill sat over there the other day. One of the Courier-Mail reporters said that he was "looking like an Olympic athlete disqualified for false starts and forced to watch from the sidelines."

My starting point for analysing this year's State Budget begins with a number of questions. Does this Government have a vision for the future of Queensland? Is this Budget outcome driven? And what is Peter Beattie doing to achieve the "jobs, jobs, jobs" of which he is so fond of speaking? The answers to all of these questions are, sadly: no, no and no. And in addressing those issues in detail, I thought I might start with what was the centrepiece—supposedly—of this State Budget. That was, of course, the Smart State. But when we scratch beneath the surface of the Premier's rather glib grab, we find a lot of rhetoric and very little substance.

Let us look at the commitment. There is probably no better place to start than to look at the highlights that were issued with the Budget, because presumably that was the part on which most Queenslanders, including ourselves, were supposed to concentrate. Let us look at the first issue that comes up in the Smart State, that is, the $270m commitment to biotechnology. That $270m is spread over a 10-year period—an average of $27m a year. What was the first year's commitment? There is supposed to be a commitment this year to the Smart State, but what was the first year's commitment? $20m! That is less than the expected average. It is like the old adage that the cheque is in the mail—"We want a Smart State, but we want to make sure that we do not have to pay for it."

Mr Laming: What a smart Premier.

Dr WATSON: What a smart Premier? Half-smart, perhaps!

When we look at education, the same kind of issue comes to the fore: there is $40m. But again, when we look at the details of the Budget paper, we find that that figure is spread over four years. When we look at the commitment to IT in Queensland schools, we find $55m. Although we are not sure over how much time that is spread, it looks like four or five years. So again, we are looking at $10m or $15m a year. The figure for TAFE is $2.6m to equip Queensland's work force with TAFE skills through TAFE. But when we look at the numbers in the staffing of TAFE, particularly in the vocational education and training services, we find a reduction in the number of people. Are we led to believe that the Government is actually going to increase the number of people using TAFE to develop IT skills; that the Government somehow has a magic formula to reduce the number of people who are able to teach in the vocational and further education sector?

Last week, Terry Mackenroth, the Minister for Communication and Information, launched his product for information technology in Queensland. He indicated at that launch that the Government was going to commit $1 billion over the next five years—$200m a year. But we have to look at that $200m a year in the context of this Budget. Let us be generous for a moment and assume that the $200m is there—and I will come back to that. We have a Budget that was put forward of $16,845m, presumably. $200m in this year represents less than 1.5%.

This is the cornerstone of the State Budget—a Smart State—yet the Government can commit only 1.5% of the revenue that it expects to receive to try to achieve it. What kind of commitment is that? And that is presuming that it is all new. But when we look at the things that have been highlighted in this Budget statement and the things that we did as a Government, we will probably find that there is very little that is new. Quite a number of these things had already been committed by the previous Government. So if we peel that away and look at the real commitment, I suspect we will find that it is well less than $100m—well less than 1%. The cornerstone of this Government's strategy for Queensland demands less than 1% of the resources that we collect.

Mr Gibbs: It must be heartening to you when you look up at the public gallery and see the packed masses there listening to you.

Dr WATSON: It is heartening to know that you are here listening to me. I value your willingness to devote to this Parliament your very valuable time.

Mr DEPUTY SPEAKER (Mr Reeves): Order!

Mr Borbidge: His department is down about 26%.

Dr WATSON: Maybe he is actually going to learn to find out where it went.

Mr DEPUTY SPEAKER: Order! I remind the member to speak through the Chair.

Dr WATSON: Mr Deputy Speaker, I appreciate your protection from the Minister.

The other thing that concerns me about the cornerstone of the Smart State is that there is no indication from this Government, either in the Minister's statement last week or in this Budget, of exactly how this Government sees society changing and the impact that changing technology in the communication and information sector will have. There is no indication that this Government has an intellectual or emotive understanding of how our society is going to change in the future. That is unfortunate, because there have been some reports in the past that give us an indication of the kinds of changes that are going to take place.

I refer honourable members to a Federal Parliament report by a committee that was chaired by Barry Jones, the former Labor Federal Minister for Science and, of course, Federal ALP President. He addressed a number of issues in that report which any Government—whether it be Federal or State—should consider. For example, he pinpointed the growing disparity between information rich and information poor. That was in 1991, and he started to identify some of the issues.

One would have thought that, in this Budget, if we were going to try to promote Queensland as a Smart State, that first issue would have been addressed up front. We would have had some real ideas of how we were going to achieve that—not some very weak attention to education. My colleague the member for Merrimac will detail some of the issues associated with that in his contribution. This Budget should have started to address those real issues, but it does not. If members read that report from 1991, they will see that Barry Jones highlighted quite a number of points that any information policy and any attempt to bring any part of this country into the 21st century should address.

The other thing that I think comes through in this Budget is that not only is there a lack of a financial commitment in the sense of actually applying resources that this Government is collecting in tax revenue to addressing some of the fundamental issues of the Smart State, but there is actually no intellectual commitment anywhere in the documentation associated with the Budget or, might I say very glibly, associated with what the Minister for Communication and Information developed last week. There are many other aspects of this Budget which need to be examined in detail.

A Government member interjected.

Dr WATSON: We should table you and take you as read. It would be a very short story.

Mr Borbidge: He has lazy equity mixed up with lazy Ministers.

Dr WATSON: As the Leader of the Opposition said, he has lazy equity mixed up with lazy Ministers. We will talk about that later on. The outlook for the Queensland economy is very solemn. We see a slowing down in economic growth. We see a slowing down in investment growth. We see a slowing down in employment growth. This Budget makes Queensland a slow State.

I want to cover some of the other areas where I see problems with this Budget. Before referring to matters dealing with growth, I want to refer to some of the worrying signs which, if allowed to continue, will pose great danger for the Queensland economy. If there are any doubts about this, they were well and truly dispelled by yesterday's warning from the rating agency Standard and Poor's. Part of the Standard and Poor's report said—

> "For the state sector as a whole, a cash deficit of more than A$1.2 billion is forecast in fiscal 2000 after recording a cash deficit of A$0.4 billion in fiscal 1999. A 25% increase in the capital program of the public training enterprise will be financed by an increase in borrowing of A$1.3 billion."

I will address that matter later.

If we refer to page 87 of Budget Paper No. 2 we can see in the General Government GFS Statement of Cash Flows—and this type of presentation is made across Australia, so there is some comparability between the various State Governments and the Commonwealth Government—that the GFS deficit Is $350m. On page 88 we can identify a GFS deficit in the Public Trading Enterprises of $885m. I believe this represents a record in our recent history. It is 22 years since Queensland previously faced a deficit in this area.

We know what the Government is up to. The Government cannot hide and it cannot run away. The member for Hinchinbrook presented some very important evidence to this House a couple of weeks ago. A series of letters was sent to every public trading enterprise in this State. These letters demanded that there be a dividend of 95%. I want to refer to a couple of these letters.

The chairman of the Far North Queensland Electricity Corporation is Councillor Tom Pyne. Councillor Pyne was appointed under the former Goss Government. He continued as chairman under the coalition Government and is still in office. He is a life member of the ALP and is not in any way a coalition stooge. The letter in question was signed by the then Treasurer, David Hamill, and the Minister for Mines and Energy. The letter written on 25 September 1998 said this—

> "We have considered your Corporation's likely recommended dividend payment in light of its current financial structure and the returns the State, as owner of the Corporation, desires from its investment this financial year. On this basis, it is considered that your corporation is in a position to offer a dividend of approximately $11.7m, based on 95% of your Corporation's net operating profit after tax. In light of the Government's Budget imperatives, we request that your Board reconsider its initial dividend recommendation in framing its final recommendation to shareholding Ministers for the 1997-98 dividend."
>
> On 17 November Councillor Pyne replied to the Treasurer and said—
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> "Whilst the Directors appreciate the Government's desire for suitable financial returns, the Directors nevertheless wish to highlight their concerns. These are that a continuing high percentage of dividend payouts are likely to adversely affect the Corporation's ability to raise capital for ongoing infrastructure works, given that the debt to equity level is rising towards 70% and that FNQEB has now been downgraded to an 'A-' credit rating. The Directors have resolved that:
>
> > based on the recommendation of the shareholders, payment of the recommended dividend of $11.7m be made;"

This is somewhat prophetic, because the letter continues—

> "... the detrimental impact of an ongoing dividend policy of 95% of after tax net profits on the Corporation's capacity to maintain cash capacity to meet capital works and maintenance needs be highlighted; and
>
> the payment date be set to coincide with the Corporation's best cash position in December to minimise borrowings."

The Treasurer and the Minister were not satisfied with that because they indicated that the then FNQEB forecast of $12.3m was what led them to the $11.7m. When they received FNQEB's revised profit they found that the ratio was only 62.1%. They then sent another letter recommending that the dividend be increased to $18.17m, which is equivalent to the reported profit of $15.1m plus an admitted profit of $3.95m.

When we look at page 111 of Budget Paper No. 2 we see the effect of that. In the last financial year dividends rose substantially to $780m. In the last year this Government increased dividends and put all the public trading enterprises—the generators, the distributors, the port corporations and everyone else—under financial pressure. They were put under so much pressure that this year they are borrowing $1.328 billion.

This Government shored up the performance last year by extracting very high dividends from the public trading enterprises. This year the poor old cash-strapped PTEs had to borrow $1.328 billion to cover their projected capital works and other cash flow requirements. This is a strategy of short-sighted stupidity. Over the past decade and a half, when Australian Governments have found themselves in financial difficulties they started off with a Budget process similar to this. The Leader of the Opposition spoke about the black holes left by such people as Kirner, Cain, Burke and Bannon. I suppose we could add Keating and Beazley to that list. We now have the Beattie Government's black hole. The Government cannot rob Peter to pay Paul. The Government cannot undermine the financial viability of the public trading enterprises in this State simply to cover the failure of its policies in Government.

The Government cannot undermine the financial viability of the public trading enterprises to prop up the general Government area. That is what the Government is doing. It ripped the cash out of there and made them pay. In essence, the Government is getting them to borrow on its behalf and it is getting the cash from them by using the extremely high dividend payment.

Mr Fouras: You've got a cheek to be making those statements.

Dr WATSON: It is not a question of having a cheek; it is a fact.

Mr Fouras: You sold assets.

Dr WATSON: The member for Ashgrove has a very short memory. Mr Deputy Speaker, he was sitting in your chair and allowed a Budget to go through the Parliament. He was sitting in your chair when the Goss Government took $1,000m out of the electricity industry in order to pay partly for Keating's $10 billion black hole.

Mr Fouras interjected.

Dr WATSON: The member knows that.

Mr Fouras interjected.

Mr DEPUTY SPEAKER (Mr Reeves): Order! The member for Ashgrove will cease interjecting. The member for Moggill will speak through the chair.

Dr WATSON: Mr Deputy Speaker, I was actually referring to when the member was in your position. The member for Ashgrove ought to remember that because that billion dollars was not necessary after all. It was paid early prior to a Federal election. We found out when we saw the Commonwealth papers. It was not disclosed here. It was only after we got the Commonwealth Budget papers that we actually found out precisely what was going on in this place. So the member for Ashgrove has nothing to talk about. This is a similar situation. The Government has taken $1.328 billion out of the public trading enterprises, not to prop up a Federal Labor Government but to prop up the State Labor Government.

The other issue—and perhaps I might even say that it is less important, but I do not want to downgrade it—is, as the Leader of the Opposition was saying earlier, the next move that we have to be concerned about, and that is the downgrading of the commitment of this Government to the financial viability of the State's superannuation funds. Although in times of high growth it may be very easy for the Government to reduce its financial commitment due to the increasing market—and, after all, over the past few years we have seen phenomenally high growth on the stock market both here and internationally—it is something else to put that reduced financial commitment into legislation so that at some future time when there is less optimism about growth than there is today, there is a downgrading of the contribution of the State to the State superannuation fund from 14.55% to 12.75% as a maximum. That is cause for concern. It is particularly a cause for concern when we have seen what is happening with the public trading enterprises.

Yesterday, the Premier hailed a record level of capital outlays. In the cold light of day, we see a different reality. When one peels away the Government's rhetoric, one finds a picture of underlying capital investment. In the first instance, I should say that it is impossible to verify accurately whether or not there is a record level of capital outlays. We are finding ways of working that out. My own view is that when one looks at Budget Paper No. 5, one finds that those capital outlays have been inflated in particular ways. I will get to that at some later time.

The Government has seen fit to change the basis upon which the figures are reported. We support the move to accrual accounting. However, the Government has not given a full reconciliation between the items in the Budget—the capital outlays budget—in terms of last year's Budget with the Budget that was presented. Although at the end of Budget Paper No. 5 there is a statement giving the general outlays, we cannot see them item by item. It is not until we see that that we can really understand what is going on.

However, let me say that, by the Premier's own admission, he does not expect to reach the target that was set by the Government. This is a second year in a row that that has occurred. In other words, the Premier is a chronic, self-confessed underachiever. It is interesting to note that the capital works budget is one of the very few areas in which the Government has provided, in a different set of statements, its policy intentions going beyond the extremely short perspective of one year. In that respect, it has not revealed a record high. In fact, it reveals a continuing low.

On page 75 of Budget Paper No. 2—and I am concentrating only on the general Government sector but the same kind of arguments that I put forward in that regard apply to the PTEs—the gross fixed capital formation is shown as decreasing from $2,321m down to $1,604m over the next three years. So between now and 2002 we see a forward estimate of a commitment to gross fixed capital formation of a 40% drop. I am sure that the Government would argue that that is because it has not put in the policy changes for the future. However, when one looks at other parts of the Budget papers, one sees that this reduction in commitment to gross capital formation is really driving the figures that allow the Government to claim that it is going to fix its cash position in future years. In other words, the major thing that is driving the Government's ability to tell Standard and Poor's that it has a better cash position in future years is the fact that the Government's forward projections expect less gross fixed capital formation.

I ask: is the Government going to permit the deterioration of the public infrastructure of this State? If it intends to maintain and expand the public infrastructure, if it intends to create more gross fixed capital in the State, how is it going to finance it? The Government cannot have it both ways. It has to say either that it is going to allow the capital to deteriorate in this State—because that is what the figures show—or if it is going to fix it because it is going to make other policy changes, then it has to identify the sources of revenue. It is no use looking at the future tax revenue, as the Government has projected—even though expenses have also been projected—because that will not of itself satisfy the requirements.

Of course, that projection has a real impact upon potential jobs. Even using the Government's figures, it has the potential to mean the non-existence of 20,000 extra jobs in the future. Recently, we have heard the cry from the AMWU that capital projects such as Callide C will do more for jobs in Europe and America or elsewhere than jobs in Queensland. When one considers the Budget in terms of the capital works for regional Queensland—and earlier the member for Keppel referred to the problems in regional Queensland—one sees that outside south-east Queensland there has been a dramatic drop.

Mr McGrady: You never go outside of south-east Queensland. You wouldn't know.

Dr WATSON: I get around the State and I know what is going on around the State. You travel only from Mount Isa to here and back again.

An Opposition member: By aircraft.

Dr WATSON: By aircraft. You fly over all the problems; you do not actually get down on the ground to them. A number of times, I have driven through the area. The only time—

Mr DEPUTY SPEAKER (Mr Reeves): Order! I remind the member to speak through the Chair.

Dr WATSON: Mr Deputy Speaker, through the Chair to the Minister: if I recall, the last time the Minister drove around the areas, he could not address the problem at Cooktown. There were some problems with blackouts at Cooktown. The Minister could not be contacted to address those problems. For a couple of days, he disappeared. He was then found on the gravy train down at Longreach, or somewhere like that.

I return to the point. Let us look at areas outside of south-east Queensland. In the south west, capital works have fallen by 18.43%. In the Fitzroy region, capital works are up by 29%, only because of the Callide C, which was a project of the Borbidge Government. The contracts were signed under the Borbidge Government and this Government tried to get out of it.

Mr Borbidge: They called for the contracts to try to get out of it.

Dr WATSON: Yes. If it had not been for that, the Fitzroy would have also gone down by approximately $128m. It is up, but only because of Callide C. Capital works in the central-west are down by 28.3% this year. I do not know where the member for Mackay is, but he was heard on the radio this morning extolling the virtues of the Government. However, he did not actually tell his listeners that $48m has been cut out of the Mackay area, which is a fall of 19.62%. The northern area is down by just over 1%. The far north is just down a smidgen, 0.26%. Who is the member for the north-west?

Mr Borbidge: Mr McGrady, isn't it?

Dr WATSON: Is it? It is down by 43.15%.

Mr Mickel interjected.

Mr DEPUTY SPEAKER: I remind the member for Logan that, if he is going to interject, he will do so from his correct seat. It would be very helpful and would assist the debate if the member for Moggill continued.

Dr WATSON: I appreciate your comments, Mr Deputy Speaker. I am only try trying to induce a bit of debate across the Chamber when the Minister interjects and in the spirit of the Parliament, to respond to him in an appropriate way.

The Budget papers show that all increases in capital works—forgetting for the moment whether or not the numbers are correct—occur in the south-east corner of the State, and significant parts of this State will experience major shortfalls. As I said earlier, the Forward Estimates that we can see indicate that, under current policies, we are going to see a reduction in the capital works or the capital formation in this State, which is what is driving the cash forecasts for the future of Queensland.

I turn briefly to the Treasury forecasts associated with the Budget. Table 1.2 in Budget Paper No. 3 shows quite clearly that we can expect a deteriorating financial and economic situation in Queensland. According to Table 1.2, virtually every measure or forecast shows a deteriorating economy in Queensland. Household consumption is down from 6.5% growth to 3.75%. Private investment is down from 5.25% growth to 4.25%. Business investment, which was mentioned earlier by the Leader of the Opposition, is down 60% from a growth rate of 10.75% to 4.5%. Other buildings and structures are down from 7.5% to 6.5%. Investment in machine and equipment is absolutely critical to job creation and small businesses. Machine and equipment expects a decline from 12.75% to 3.5%. Private final demand is down from 6.75% growth to 3.75%. Public final demand is down from 7% growth to 2%. Gross State expenditure is down from 6.75% to 3.25%. Gross State product, of course, is down from 4.75% growth to 3.75%.

Every one of those indicators paints a picture of a declining economy in this State, which is borne out when one looks at unemployment. Last year there was 8.3% unemployment and this year the figure is projected to be 7.75%. However, the unemployment figure for last month, seasonally adjusted, was 7.6%. The expectation of Treasury is that there is going to be very little change in the level of unemployment. In addition, the Treasury forecast for jobs growth this year has fallen from 41,500 to 40,000. Every one of the estimates in the Budget paints a dismal picture for growth in Queensland in this financial year. Chris Murphy from Econtech is actually a little more optimistic. Even though he sees a decline in these areas across Queensland, and he sees that decline continuing to the years 2003 to 2004, he is somewhat more optimistic in terms of growth generally. However, he is more pessimistic in terms of employment growth.

The latest statistics in terms of capital expenditure in the business area also confirm some of the things that are occurring in Queensland. According to the latest forecast, there will be a decline in business investment in mining, manufacturing and other industries in this State. It is fair to say that rather than promoting increasing growth this Government has actually slammed the brakes on economic growth in Queensland. After two years of significant investment by the former coalition Government culminating in its third Budget and a rising trend in investment, employment growth and so on, it is all very well for the Beattie Government to come into office last year and take credit for that. However, this is the Beattie Government's first Budget. This is the first time that the Beattie Government has been in a position to have an impact on the Queensland economy, and the overwhelming message from this Budget is that the Government expects to have either no impact or a negative impact.

Revenue also represents a picture of deterioration in the State. One of the great boasts of Queensland for probably 30 years is that it is a low tax State. That was true under former coalition Governments, it was true under the Goss Labor Government and it was certainly true under the Borbidge Government. In this Budget and, indeed, throughout the 14 months of the Beattie Government, Queenslanders have been slugged an extra $269 per person on average every year. The tax per capita collections have gone up to $1,599 per person per year in this latest Budget. When we left Government, they were just $1,330. That is the kind of increase that we have had.

What is even more disturbing than the absolute increase in taxes is the State's relative position. All one has to do is compare the Budget Highlights booklet of the last coalition Budget with this one to see that. Under the previous coalition Government, Queensland had the lowest tax position of any State in Australia. Under this Government, we have actually lost that status. Tasmania has a lower set of taxes than Queensland.

Mr Borbidge: Fancy being beaten by Tasmania.

Dr WATSON: Fancy being beaten by Tasmania indeed. The Government may not think that it is particularly important that we have lost the position of the lowest taxing State in Australia to Tasmania. However, when one looks at the Queensland position compared with that of the other States, one will see that we have also lost our competitive position. The gap between Queensland and New South Wales, and Queensland and Victoria, has narrowed. In a competitive environment, businesses look at how their employees will fare in a particular State. We are losing our competitive advantage.

Sitting suspended from 1 p.m. to 2.30 p.m.

Dr WATSON: Prior to the luncheon recess, I was speaking about the rise in State taxes and the loss of our competitive advantage with respect to the other States. Importantly, even though the Budget does not show this—and the Government may not want to admit it—when, for example, tax revenue goes up by about 7.1%, as it is now, but the gross State product goes up by only 6%, there is a marginal decrease in our relative competitiveness. Nothing illustrates that point more graphically than the proposed changes in payroll tax. Whichever way we look at it, we see that the payroll tax on Queensland companies has gone up. The Premier crows about the reduction in the headline rate from 5% down to 4.9% this year and 4.8% the year after. However, by including employer superannuation contributions in the payroll tax base the Government is unquestionably increasing the effective rate. Eventually, that measure will add 9% to payroll calculations. When we make a calculation based on the existing payroll tax base, we see that at that time the amount of payroll tax paid will effectively be about 5.23%. Little wonder the Premier, as he has said, can afford to be stingy. The Premier's cynical changes to payroll tax mean that more and more businesses will simply pay more payroll tax. I indicated earlier that the figures on page 86 of Budget Paper No. 3 show that in aggregate payroll tax is going up from $1,246m to $1,345.8m, or an increase of 8%. That is about $100m.

Mr Beattie: Yes, but $70m of that is fiscal drag.

Dr WATSON: I recognise that. I will refer to that now. Of that $100m, $28m is specifically due to the supposed tax reductions. The fact of the matter is that the effective rate, before any reduction and once superannuation is included, which will add 7% to 8%, goes from 5% to 5.23%. Then, of course, it will be brought back. But at the end of two-year period the effective rate will be 5.23%, that is, when it is compared with the existing base. If we divide a company's existing payroll tax liability by its base and also work out the payroll tax liability in two years' time and divide that by its base, we see that there has been an effective tax increase. That will erode our competitive position, which I was speaking about prior to the luncheon recess.

Mr Beattie: I was listening to you.

Dr WATSON: The Premier would understand that erodes our competitive position. That will impact on continued business investment and, in the longer term, employment. Also, by increasing that base the Government will bring a few thousand more firms back into the payroll tax net.

Mr Beattie: It's between 30 and 40. We did the calculations.

Dr WATSON: When we raised the threshold—and these were Treasury figures at the time—from $800,000 to $850,000, some 3,000 firms were going to be exempted. That was in our Budget papers.

Mr Beattie: Treasury worked this out for me. They say it is about 30 or 40.

Dr WATSON: Thirty or forty?

Mr Beattie: Yes.

Dr WATSON: That is interesting.

Mr Beattie: That's not my figures.

Dr WATSON: When we were in Government, the Treasury figures indicated that by raising the threshold by $50,000 we were removing 3,000 small firms from the payroll tax net. In terms of the inclusion of contributions, 7% of $800,000 is $56,000. I would be amazed if the number of firms brought back into the net is not approximately the same as the number of firms exempted when we raised the threshold.

Mr Beattie: I just checked it with Treasury. The threshold difference has made the figures different. That's why.

Dr WATSON: I do not think so. Firms that had a payroll of $800,000 —

Mr Beattie: It was 850.

Dr WATSON: Firms with payrolls between $800,000 and $850,000 are exempted. Seven per cent of $800,000 is $56,000. That is more than the amount by which the threshold was raised. I would be amazed if it made that much difference. I am willing to accept that there have been changes.

Mr Beattie: The difference is between the 800 and the $3.4m. That's the difference as well. That is why it works out to be 30 or 40. I will give you the details later.

Dr WATSON: The Premier can give me the detail in his reply. Although the figure of $28m is interesting in itself, even if it is only 30 or 40, the Government has raised the effective tax rate and a number of firms—somewhere between one and 3,000; the Premier says it is 40—are now paying payroll tax when they were not paying it before.

Mr Beattie: It is only a small amount—a tiny amount. We are going to review it at the end of the year.

Dr WATSON: Perhaps they are paying only small amounts. However, that does not make any difference. The fact is that each and every one of these factors makes businesses marginally less competitive. Rather than going through the agony of having to fill out payroll tax forms and so on for a small amount of tax, small firms will end up either cutting back or not hiring employees. Importantly, instead of those small businesses at the margin feeling burdened by red tape, forms and so on, they will choose not to hire employees. The question of how many firms are affected is an empirical one, and I accept the number given by the Premier, if it is based on reasonable calculations. Interestingly, the Yellow Pages Small Business Index, which the Deputy Premier mentioned the other day—but he did not quote it all—

Mr Beattie: He didn't have time.

Mr Springborg interjected.

Dr WATSON: I agree with Mr Springborg; I do not think that was the reason. I think he forgot to read a couple of things on purpose.

In terms of the reaction of small businesses to the Government's policies, a lot of small businesses now think that the policies of the Beattie Government are working against them. I am sure that is related to IR and workers compensation. When the Government makes changes to the payroll tax arrangements, it cannot blame small business for being cynical about that. Even if, as the Premier claims, only a few firms are affected, the fact of the matter is that that increase in tax works against small businesses, reduces their competitiveness and adds to their workload. I think that will create problems for small businesses. Before I conclude, I will turn to a couple of other matters.

Mr Beattie interjected.

Dr WATSON: I understand that, but the principle is still there.

Mr Fenlon: This isn't a very good speech from a shadow Treasurer.

Dr WATSON: All I can say is that the member opposite will never be in a position where we will have to worry about any of his speeches.

Mr Schwarten: Somebody said that about Joh once.

Dr WATSON: As the Minister knows, I will admit it if I am wrong.

Mr Beattie interjected.

Dr WATSON: I was giving my speech about payroll tax. The Premier came back in and made some comments. I am quite willing to have a debate across the Chamber. I feel quite comfortable talking about these issues off the cuff. There is no acrimony; it is a question, and that is fair enough.

Let me talk about the wagering tax for a moment. I know that the wagering tax and things like that—

Mr Beattie interjected.

Dr WATSON: I just want to talk about it for a moment because I know that this Government is an open, honest and accountable Government! When I look at it, I say, "Fair enough." When I see that the wagering tax is going down by 44.5%, I say, "Isn't that good?" But if the Premier had been really straightforward and honest elsewhere in the paper, he would have indicated precisely what he expected to get from the privatisation of the TAB and how much of that was due to capitalising the tax reduction.

I understand how the Premier values firms when he is going to the market. What he is doing, of course, is lowering the effective tax rates and capitalising when he privatises. That is precisely what is happening. The Treasury people in the lobby are smiling because they know that that is precisely right. If the Premier had been really open and accountable, he would not have gone ahead and said, "Look at me. Aren't I wonderful? I'm lowering the tax", because that is only true technically. What he is doing is lowering the tax and collecting it up front as part of the privatised route. He has converted part of the longer term revenue into a capital gain now.

Mr Beattie interjected.

Dr WATSON: That might be true. The question is: what did the Premier do and how is he being open and accountable? That is the question. He says one thing, but people get caught out in these kinds of things. I guess all I can say is that obviously the advice that he gets from Treasury is up to its usual professional high standard.

I think there are also some issues with respect to accountability in relation to accrual accounting. I just want to say a little bit about the presentation of the Budget papers. My own view, of course, is that the presentation really leaves a lot to be desired.

Mr Fenlon: The colours—is that what you mean by presentation?

Dr WATSON: I know which university the member went to and where he tried to study business. However, I would have thought that even they could have taught him a little bit more about it than that the colours are different. Even he should have figured out by the end of a university education that, when people are changing these kinds of things, there is a little bit more to it than changing the colours.

One of the problems in moving from cash accounting to accrual accounting is that they are simply different concepts and it is not an easy transformation. At the back of Budget Paper No. 5 on page 135 there is an indication, of course, of how one reconciles capital outlays between the 1998-99 Budget and the 1999-2000 Budget. The problem is that, when one wants to read it and make comparisons, it is not done on an individual basis. There ought to have been in the Budget papers a reconciliation of the figures, but it is completely absent. The Premier must have done it. He has either done it on an aggregated basis, in which case he should have shown us how he did it, or he has done it by individual items, departments, programs or whatever. If he really wanted to do a transparent transformation from last year to this year, then there should have been a schedule in the Budget papers showing that movement.

Mr Beattie: Budget Paper No. 2 had all this recorded.

Dr WATSON: No, it did not. In terms of capital outlays, it did not have recorded how the Premier is doing it. Only in Appendix A of Budget Paper No. 5 is the general formula given. However, when one looks at the details of Budget Paper No. 5, one cannot move from Budget Paper No. 3 of the previous year—

Mr Beattie: I just signed an agreement to save the forests, otherwise we'd have had no forests left.

Dr WATSON: It could have been put on the Internet. I would have been quite happy to access it that way. Then the Premier would not have lost any paper—and he can bet on that!

The other thing that ought to be said— and I note that the Premier actually said it in a radio or TV interview—is that there is no reason why, when one is moving from cash accounting to accrual accounting, one needs to end up with a cash deficit in the way described by Standard and Poor's. If I remember correctly, last year the Federal Government moved from cash accounting to accrual accounting in its Budget, but it still had a surplus whichever way it was calculated. There was no reason for this Government to move from cash accounting to accrual accounting and end up with a cash deficit in those Budget papers, as is pointed out by Standard and Poor's. That deficit comes about because of policy decisions of this Government, not because of some change in accounting procedures.

That is the last thing I would suggest. When we are looking at the application of accrual accounting to Government departments, as we are now doing, we have to really ask the question: does it capture all the things that are relevant to decision making within the Government? I think this is probably the most significant question that remains outstanding. I notice the application of the 6% equity return, which I think we have appropriately dubbed the Beattie stealth tax—the BST.

Mr Fenlon: You don't really believe that.

Dr WATSON: Of course I mean it because, despite what I have heard, that is not inherently part of the accrual accounting system.

Mr Beattie: I think you're being a bit inconsistent.

Dr WATSON: One of the things that concerns me in terms of getting the rate of return is that a lot of decisions made in Government organisations, for example in Education, are not necessarily quarantined from effects on other departments, such as Transport and Health. The difference between a Government organisation and many business organisations is that those decisions can be quarantined and, if they are not quarantined, they usually have effect through a market system external to the organisation.

Mr Beattie: You would have done this.

Dr WATSON: No. The important thing is what the Premier did, and he has to actually account for it. There are some significant concerns that we have—that I have—

Mr Quinn interjected.

Dr WATSON: It was not adopted by the Cabinet and the Premier knows that. This is his decision and he ought to be proud to stand by that decision and not try to palm it off on everybody else. The objective of this Budget could have been laudable. Unfortunately, in the performance, it is simply not up to expectations.