Speech by

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MEMBER FOR MOGGILL

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STATE BUDGET 2003-04

Dr WATSON (Moggill—Lib) (4.14 p.m.): I rise to speak on the appropriation bills 2003 and to participate in debate on the budget. The budget certainly confirms that old adage—in fact, it gives proof positive—that you cannot make a silk purse out of a sow's ear. That is despite the fact that we have been inundated with colourful books and brochures, glossy photographs, Smart State rhetoric and a record attempt to manipulate the perceptions by the use of accounting changes and format changes. Those accounting changes include things such as changes in the way that capital works have been presented, changes in the way the operating budget has been presented and changes in the way the net worth has been presented. I will deal with each of those seriatim.

Firstly, let me talk briefly about the change in the capital works budget and capital outlays by entities. This year entities included in the Public Works and Housing portfolio are Q-Fleet, SDS, Q-Build and Project Services for an amount of approximately $159 million. One can argue that maybe they should be included in the capital outlays. There is probably an argument one can mount on that. What is very disturbing about the way it has been presented is simply that the changes were made this year. Last year's budget figures were also changed—

Mr Mackenroth interjected.

Dr WATSON: For comparative purposes, but there was no indication of that without going back and looking at last year's budget papers. To work it out we had to go back and do it. The perception that was attempted to be given is that the government had met its capital works budget for last year when in fact it failed to do it. That was the perception. I am not going to argue about whether or not it should or should not be in it; I think an argument can be made. One can make a comparative argument. The problem is that if the government is going to do that it ought to be transparent, it ought to be accountable for precisely that figure.

The same thing of course has occurred in the area of the operating result. Again, when we look at table 1.3 on page 10 of Budget Paper No. 2 the information it gives in the reconciliation of the operating result to the mid-year fiscal and economic review indicates that there are some changes because of policy decisions, which is acceptable, because after all that is what governments are elected for. For some things that are outside the control of the government, things such as investment returns, Commonwealth government general revenue returns—those kinds of things are perfectly acceptable. There is also an accounting change; a depreciation change. I am sure the Treasurer could make an argument as to why he changed the depreciation rates.

When we look at that the perception is that he has somehow managed to produce a surplus in this current budget and a smaller deficit in the current financial year but that has not been stated in a public sense—certainly not in anything that went out in terms of press releases or his budget speech. He did not indicate in that the kind of things the public hears. He did not indicate there that the reason he has been able to come in with a $153 million surplus, the reason he has been able to get the deficit down to $350 million this year in the operating result, is because he made a substantive accounting change. In other words, a book entry changed the outcome quite significantly. Along with the capital works, the perception was that everything was okay financially when in fact, at least on those two occasions—and I will come to net worth in a moment—they were simply a change in format or a change in the accounting presentation.

Why is the government doing this kind of thing? The reason the government is doing this is that there is a critical issue that underlies all budgets which this government is facing, as previous governments have also faced—that is, the issue of what is called gross fixed capital formation: how much money are we putting into the capital development of this state? It is fundamentally important for two reasons. If we do not have significant government gross fixed capital expenditure, then we are simply not, over time, going to encourage private investment into this state. If we do not encourage private investment, we do not encourage job creation and do not do anything about our standard of living. In fact, our standard of living will start to slip unless there is significant private investment. Gross fixed capital expenditure—or capital formation—is all about actually providing the fundamental infrastructure of this state. The concern that I have—the concern that has been expressed for quite some time—relates to the fact that this government and the previous Labor government have been running down the capital of this state. That has implications for the long run in terms of productivity, jobs and encouraging investment.

When we came to government after the Goss government we faced the same issue. Members would recall—and the Treasurer would recall, because he was a minister in that government—that a significant number of articles appeared in the newspapers at the time about the problem during the 1990s of the Queensland government not putting enough money into infrastructure development. When we came to government we addressed that issue, and we addressed it in an extremely responsible fashion. We privatised Suncorp but did it in a way which first of all reduced debt, so that we took away the implication of losing dividends from Suncorp in the future and put the extra funds into fundamental infrastructure—things like the hospital program and the Pacific Motorway.

A couple of weeks ago, during a speech I made on the adjournment debate, I said that one of the things that struck me when we did that was that the very day the Treasurer introduced the Suncorp Metway facilitation bill the ALP moved a motion in this House deploring the upgrade of the Pacific Motorway. Jim Elder moved the motion, but it was supported by everybody here. When Labor came to government it could not wait to take credit for that decision. But that was a courageous decision to ensure that the state's assets were used appropriately, that we actually freed up some capital to put into important infrastructure development. Since the Labor Party has been in office there has again been a significant decrease in the amount of gross fixed capital formation.

To see that, one only has to look at each of the budgets that the present government has brought down. In 1998-99 the amount was $4.269 billion. In 1999-2000 it was $4.257 billion, a slight drop. In 2000-01 it was $4.075 billion, a further drop. Of course, the big drop actually occurred in the 2001-02 financial year, but that cannot be calculated easily because, again, formats have changed. Whereas in previous budget papers gross fixed capital formation was actually declared and shown, in this set of budget papers what we have in place of it is the purchase of non-financial assets as a figure, and that is the figure which of course the government displays in all of its glossy little publications like *Smart State: Creating opportunities for the future*. That is what appears in that. What we have to do is adjust it for the fact that we have sales of non-financial assets, and of course there are some other adjustments. When we do that we get in 2001-02 a figure more like $3.6 billion, which is a significant reduction. In 2002-03, again it is probably slightly under $3.6 billion. This year—I will give the Treasurer credit—it looks like it is closer to $4.5 billion.

So finally in this budget we recognise what the Labor Party has been doing over the past five years—that is, running down the capital formation and the infrastructure of this state, and we will pay for that for quite some time. The problem is that, when we ask ourselves how that is being financed, the reality is that that extra $1 billion is basically being financed by an addition to the net debt of the state. If we look at the figures for net debt we see that net debt is projected in this year's budget to go up by $889 million. Basically, the extra $900 million of gross fixed capital formation is being financed by an increase in the net debt of the same amount.

Finally, belatedly, this government has recognised the problem with infrastructure development in this state. It is addressing it by going further into debt. Of course, the question that comes out of that is: precisely how long will it continue developing that kind of infrastructure and exactly how far is it going to go into debt? The reason it got into this situation was addressed by the Leader of the Liberal Party earlier in the debate. The government is in this situation simply because it has expanded the size of the Public Service significantly over the past four years. I will come to that in a moment.

The other point I want to make with respect to the issue of gross fixed capital formation is that, when looking at these figures, it came to my mind that there had been another accounting change in this process, and that was simply the calculation of net worth. Again, before the budget came down the Treasurer promulgated that we were going to have a $600 million increase in net worth. In the budget speech he referred to that, and in this year's budget papers there is the $1.62 billion increase in net worth. In both of those cases the primary reason for that increase is simply the revaluation of non-financial assets.

Mr Mackenroth interjected.

Dr WATSON: If the Treasurer looks at last year he will see that he reduced financial assets by something like half a billion dollars and increased liabilities by $1.721 billion. The thing that made it add up was the increase in the non-financial assets, and that was made up of two parts: about $1,075 million of new assets and about $1.8 billion in revaluation. That is how he got his increase in net worth, and he has done the same thing this year. Even though there is a net worth increase of $1.62 billion, he has in fact revalued the assets up again by about $1.7 billion. If the Treasurer wants to do that, he can argue for that. But he should not go out trumpeting good financial management when all it is is simply a revaluation of the non-financial assets of the state. The revaluation of the roads, the land, the hospitals, the schools, the police station and the courthouses is what provides the increase in net worth.

As I said earlier, the reason the government has gotten into this problem is simply because it has increased the size of the Public Service quite dramatically. In doing so, it has simply taken money that would have gone into grossed fixed capital formation—in other words, into capital works—and transferred that into recurrent expenditure in the operating budget. That is what they have done. We know the government is sensitive about this because on Tuesday morning, the day the budget was introduced, the Premier came into this House and delivered a ministerial statement. Interestingly, in that ministerial he simply concentrated on the last two years. He argued that there has been an increase of 6,043 new full-time staff during that period, most of which went into Education, Health and Police.

When we look at the Office of Public Service Merit and Equity, those figures are confirmed. In the last two years we had an increase of three per cent and 0.93 of one per cent. But it was the previous two years, in 1998-99 and 1999-2000, where the big increases occurred. In those two years we had 6,405 full-time equivalent increases in the public sector—4.78 per cent—and in the next year, 1999-2000, 7,783 or 5.54 per cent. I have not seen the Premier come out and indicate that in those two years 60 per cent or 70 per cent of them were teachers, doctors, nurses or police. That is not the case. That is where he got into trouble.

Compared with when we were in government, this Treasurer has increased the size of the Public Service not in doctors, nurses, teachers or police but in other areas of the Public Service such as the Premier's media unit and things like that, and he increased it by an amount which is costing the budget $700 million or $800 million. That explains the significant fall that has had to occur in capital formation in order to fund the increase in the public sector. The question is how long that can go on for. As the Leader of the Liberal Party said, the Treasurer has indicated that he already understands that those kinds of increases cannot go on indefinitely. That is why he is going through VERs and other arrangements to get public servants and teachers to retire early so that we can start to reduce the impact.

However, when any government increases its recurrent expenditure like that it will get into trouble. What it is going to do in Queensland's case and what has been done under Goss and under Beattie has hurt the capital formation of this state, and that means it has hurt private investment and the standard of living of Queenslanders.

In the final couple of minutes let me turn to something that I have some responsibility for in respect of the Department of Innovation and Information Economy. In terms of capital works in that department—ignoring energy; it is a GOC—for Smart State capital works we find about $25.5 million allocated. But for the sport part of the department we find $37.5 million. When we look at the recurrent expenses in the portfolio, in the innovation and information economy policy area, we get $78.8 million. But in the sport area we have $132.2 million. If we want to be the sports state, the Broncos state, the Lions state or the Reds state, perhaps that represents an appropriate allocation of resources. But if we want to be the Smart State, the rhetoric seems incongruous with the financial reality. If we want to be the Smart State we would expect to see in a department which did those kinds of things a greater financial emphasis on things that are important to developing a Smart State. We would want to see less emphasis on areas that are important in developing a sports crazy state.

I will conclude where I started: we cannot make a silk purse out of a sow's ear. We can have all of the glossy brochures, photographs and rhetoric, but when it comes down to it, what has to happen is that the financial reality has to follow that. If he is going to talk the talk, he had better walk the walk.