

The 2005/06 Queensland Budget

The 2005/06 Queensland budget extends the Beattie Government's broader strategy of lifting community services, sustaining business tax reform, and, especially, developing the State's economic and social infrastructure (including a sharp increase in new government borrowings). However, the Budget eschews and significant new measures to directly assist Queensland manufacturing.

As a result of this budget, Queensland will be much closer to fulfilling the various service delivery commitments pledged at the last election. The budget also provides a financial base for the co-ordinated development of the infrastructure needs accompanying rapid population and economic growth. Moreover, the new tax measures cement the competitiveness of Queensland's tax system, and are set to eventually deliver annual cost savings to Queensland taxpayers of over \$800 million.

This next phase in the government's fiscal strategy has been partly funded by upward revisions to baseline estimates of revenue. However, the budget also incorporates significant reductions in future operating surpluses, as a projected large increase in infrastructure borrowings underpin higher debt servicing, depreciation and maintenance costs.

Any short-term inflationary effect from the large increases in spending and the narrowing surplus is likely to be balanced by improved infrastructure and the ensuing enhancements to productivity growth. Nevertheless, there is some risk strong growth in service delivery costs and the declines in the operating surpluses could potentially curtail Queensland's fiscal flexibility.

Major Budget Aggregates

The 2004/05 general government operating surplus is now estimated at \$2,725 million, compared with the mid-year forecast of \$1,096 million and a surplus of \$3,340 million in 2003/04. The expected narrowing in the surplus relative to 2003/04 reflects an estimated 9.9% surge in general government expenses, compared with a 6.2% rise in revenues. In the 2004/05 budget, expenses were initially forecast to increase by 6.8%.

Similar to the Commonwealth and other State Governments, however, the upward revision to the 2004/05 surplus since the mid-year review largely reflects stronger revenue estimates. Higher Commonwealth grants and upward revisions to resource royalties and other taxation items (including a more moderate deterioration in property transfer duties than originally forecast) are together expected to boost revenue in 2004/05 by \$388 million.

Investment returns on the Government's financial assets are also expected to be significantly higher than originally forecast. The government is now assuming an average return of 14% in 2004/05 (in contrast to the 7.5% return factored into budget forecasts), boosting the surplus by an estimated \$921 million. Abstracting from the larger return on investments, the 'underlying' surplus is estimated at \$2,028 million.

Despite the significant upward revision to baseline revenue estimates (amounting to almost \$900 million in 2005/06), the surplus is forecast to steadily narrow in over the next four

years. The surplus is now estimated at \$934 million in 2005/06, before narrowing to \$588 million in 2006/07, \$556 million in 2007/08, and \$220 million in 2008/09.

The forecast fall in the surplus in 2005/06 is underpinned by a further 6.8% increase in expenses (including a 7.6% jump in employee expenses), and a 0.6% fall in revenues.

The continuing strong growth in expenses (annual growth in expenses is forecast to average 7.5% in the three years to 2006/07) primarily reflects:

- the government's earlier commitment to increase service delivery in the key areas of health, education and training, and community safety; and
- A rise in debt servicing costs, depreciation and maintenance accompanying the projected strong increase in capital investment and associated borrowings.

By contrast, the expected fall in revenues is driven by:

- tax cuts, including changes to the land tax schedule; and
- the forecast fall in investment earnings (with the estimated return reverting back from 14% to 7.5%).

Beyond the operating account, the government has budgeted for a significant increase in new capital expenditure (primarily to fund the South East Queensland Infrastructure Plan). Spending is estimated to increase by 14.7% in 2004/05 and by a further 30.6% in 2005/06 (for a cumulative increase of almost 50%).

Although part of the increase will be funded by reserves and the operating surpluses, general government new borrowings are projected to increase sharply over the next four years. Borrowings are estimated at \$119 million in 2004/05, before jumping to \$827 million in 2005/06 and \$2,255 million in 2006/07. As implied from above, the accompanying increase in debt servicing costs and other recurrent expenses are fully funded by recurrent revenues.

Major Initiatives

New measures announced in the Budget and potentially impacting members are summarized below.

Taxation

In addition to the foreshadowed abolition of debits tax on 1 July 2005, and within the context of longer-term reform to State taxation arrangements, the government has announced a series of other measures. The changes are expected to save Queensland taxpayers \$210 million in 2005/06, rising to over \$800 million in the first full year in which all the measures are effective (2011/12).

- A land tax relief and simplification package, to apply from 2005/06, will reduce the number of taxpayers by around 21,000 and provide rate reductions for all land tax payers, at a cost of \$847 million over four years. Tax-free thresholds will be raised for

both individuals and businesses (from \$170,000 to \$300,000 in the case of businesses), while two new schedules will replace the current system of 19 steps.

- Consistent with the recent agreement at the Council of Australian Governments, and as advocated by the Australian Industry Group in its pre-Budget Submission, the Queensland Government has agreed to abolish a series of ‘nuisance’ duties. The six taxes comprise lease duty and credit business (from 1 January 2006); hire and marketable securities duty (from 1 January 2007); mortgage duty (over 2008 and 2009); transfer duty on core business assets (over 2010 and 2011).

The government has left payroll tax unchanged at 4.75%, while the outlook for smaller budget surpluses most likely precludes further cuts in at least the next four years. Nevertheless, Queensland’s payroll tax rate is the lowest in Australia.

Infrastructure

Complementing the release of the draft SEQ Regional Plan, the 2005/06 budget provides for an additional \$2.0 billion of capital spending over existing commitments in the next four years. As advocated by Ai Group, high priority will be given to road transport systems in South east Queensland and measures to alleviate road congestion. Additional funding has also been provided for public transport and water, sewerage and recycling infrastructure, as well as for upgrading of regional coal terminals and Cairns airport.

Industry and Labour Market Initiatives

- As part of the SmartVET strategy (which receives \$1 billion of funding over three years), additional funding will be provided for traineeship places in new and emerging industries (under the Industry partnerships Program pilot).
- Some \$78 million over four years to further develop a highly skilled manufacturing workforce in priority industry sub-sectors including aviation, biotechnology, meat processing and engineering.
- Funding for the User Choice program, focusing on apprenticeships in the building and construction and engineering industries.
- Additional funding of \$470 million over four years for the next stage of the Smart State strategy, “*Smart Queensland: Smart State Strategy 2005-2015*”. Measures include further funding for the Innovation Start-up Scheme and the Smart State Industry Innovation Program.
- As part of the Breaking the Unemployment Cycle Initiative, additional assistance will be provided to help 1,000 parents and carers return to the workforce.

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