

# The Australian

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## Campbell must clean up state finances

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**THE challenge facing Queensland's new government is to clean up the legacy of 14 years of Labor rule, improve the state's infrastructure and deliver on its ambitious election promises.**

In doing all this, it should use the resource boom to undertake badly needed reforms, rather than squandering its good fortune on pork-barrel outlays, as Queensland governments have done time and again.

Labor's most tangible legacy has been a sustained rise in state borrowing.

In 2006-07, government revenues exceeded current expenses by \$1.8 billion, and with public investment running at \$2bn, the state was a net borrower of \$200 million.

By 2010-11, current expenses were up 40 per cent and exceeded revenues by \$1.5bn, and with public investment almost trebling to \$5.6bn, the state's net borrowings blew out to more than \$7bn.

The LNP has committed to reduce borrowings more rapidly than Labor envisaged, with a smaller deficit to 2013-14 and a higher surplus in 2014-15.

To that end, an expected \$1.1bn windfall in GST payments will be devoted to debt reduction and growth in the public-sector wage bill will be held to 3 per cent.

That is well below the trend increase under Labor and it will not be an easy target to achieve.

But any slippage could drastically impede debt reduction.

Given those risks, improving controls on public expenditure will be crucial, but that, too, will hardly be easy, especially with the spending pressures created by Queensland's rising population.

Not only is Queensland's population growth rate a third higher than that for Australia as a whole, but the differentials are especially large in the groups that impose the greatest burden on public spending: the 5-14 age group is growing three times more rapidly than the Australian average; the population aged 65 and over; and the indigenous population.

At the same time, the Brisbane conurbation's population is increasing even more quickly than that of the state as a whole.

With population more than doubling since 1981, the region's roads have struggled to cope, as has its power system, fuelling calls for added spending.

But however poorly targeted Labor's response to those pressures may have been, at least some of the shortfalls in the state's social and physical infrastructure have now been met.

Queensland's per capita outlays on education and health, which lagged the national average, currently equal or slightly exceed it, and with infrastructure spending at historic highs, a recent review of the state's power system concluded the deficiencies that caused widespread blackouts in 2003-04 have been remedied.

That should make it easier for the new government to shift focus from increasing outlays to ensuring resources are used wisely.

But that is an area where Queensland has long had difficulties, all the more given a reluctance to rationalise service provision in rural and remote regions.

Queensland's public health system, for example, is not as ineptly run as its spectacular mishaps might suggest.

But of 140 public hospitals, more than 100 seem below efficient scale, even though some have been reduced to little more than community-care centres.

Similar issues arise in transport infrastructure, in which the LNP's promise to devote 50 per cent of resource royalties to rural areas could simply fund boondoggles.

To prevent that, the new government should put in place structures, along the lines of Infrastructure NSW, that ensure investment decisions are based on transparent, rigorous cost-benefit evaluation. But the inefficiencies are not confined to country areas.

Capacity utilisation in Brisbane's rail and bus systems, for example, is barely 50 per cent of best practice, and those systems' revenues cover less than 40 per cent of operating expenses, with taxpayers funding the shortfall.

To improve cost recovery, Labor was increasing fares by 15 per cent a year for four calendar years, but with two years to go, the LNP has committed to capping increases at 7.5 per cent, slowing the transition to revenue adequacy.

Given that constraint, tighter cost control must be a priority, and so should it be for government-owned corporations generally, which account for half Queensland's total government borrowing, but at 4 per cent, their return on assets is below the cost of capital.

That reflects obligations that both increase costs and reduce revenues, so it is high time those obligations were subject to serious, independent appraisal.

Nowhere is the need for such appraisal greater than in respect of environmental policies.

The LNP has committed to slashing environmental programs and the bureaucracy that administers them, but it has promised to retain the extremely expensive solar feed-in tariff.

That is a pity, but the new government should at least offset the resulting losses by restructuring electricity charges.

Moves to improve quality of spending should be accompanied by efforts to enhance efficiency of the state's revenue base.

Queensland has a relatively narrow tax base: state taxes account for a quarter of the state's revenues, as compared with 30 per cent for the states generally.

The LNP's promise to significantly raise the threshold for payroll tax will narrow it further, making it even more important for Queensland to work with the other Coalition states towards comprehensive state and federal tax reform.

All those reforms are a necessary but not sufficient condition for meeting the LNP's overriding promise, which is to reduce the unemployment rate to 4 per cent.

That is not only far below the present rate of 5.7 per cent, but also below the level Queensland's economy could now sustain.

Queensland's labour market seems less flexible than that in other states, with larger, more persistent variations in unemployment rates between regions.

The Fair Work Act has worsened the problems, as will the carbon tax. But Queensland's own regulations, for example restricted shopping hours, are also to blame, limiting job opportunities for part-time workers.

Ultimately, little will be achieved without effective, ongoing scrutiny of economic policy.

The LNP's promise to expand the Queensland Competition Authority's remit to efficiency reviews is welcome, but must be accompanied by appropriate changes to that institution. And while the LNP's announced fiscal principles are a good start, a clearer set of fiscal rules is needed, as well as mechanisms for monitoring their implementation.

The new government's overwhelming mandate gives it every scope for far-reaching reform. And the resource boom is the ideal time in which to do so.

But Queensland's politics have long been about people and places, rather than about ideas; and learning nothing while forgetting nothing, its governments have been especially vulnerable to the populist temptation.

It is up to Campbell Newman to show he has the insight Queensland needs to secure its future, rather than merely repeat the errors of the past.

## **Have your say**

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