

Background

This afternoon, the Queensland Treasurer, the Hon. Tim Nicholls MP released the Newman Government's first [Budget](#).

The Budget was based on revised Treasury forward estimates from May, generated as part of the [Interim Report](#) of the *Queensland Commission of Audit*, after the Commissioners found previous budget assumptions to be overly optimistic.

In June the Interim Report mapped out a strategy towards fiscal repair and today's budget was based on its findings and recommendations.

The Interim Audit Report described the task of restoring Queensland to a position of fiscal strength as "enormous", recommending adjustments to both revenue and expenditure. It stated the majority of Queensland Government savings would need to be found in cuts to recurrent expenditure.

Other key findings of the Interim Report that set the scene for today's budget were:

- That Queensland's gross debt levels were higher than in other states;
- That Queensland's borrowing cost margins were higher than all other states except one, reflecting a lower credit rating than most states (AA+ as opposed to AAA);
- That the State's own sources of revenue included a small number of broad-based and stable revenue streams such as taxes, important but volatile revenue sources such as mining royalties, and other revenue collected mainly for regulatory reasons;
- That public sector growth had outstripped the other states over the past decade, increasing by 60,000 Full Time Equivalent (FTE) positions between 2000 and 2011. The total size of Queensland's public service, measured in FTE staff, was just over 204,400;
- That previous governments had embarked on very high levels of capital investment; and
- That if left unchecked, state debt was expected to top \$100 billion by 2018-19.

The Commission recommended that the Government embark on a two-stage strategy.

Stage One would see adjustments to revenue and expenditure to the value of \$3 billion over three years and a reduction in Queensland's debt to revenue ratio to within the AAA credit rating upgrade trigger band by 2015.

It was recommended that Stage Two involve realising assets to reduce debt by \$25-30 billion.

2012-13 Budget Overview

Today's budget saw the official start of the Government's implementation of the Stage One strategy outlined in the Interim Audit Report. The 2012-13 Budget is designed to place Queensland in the

position to return to a fiscal surplus by 2014-15, curtailing expenditure through tough reform and lay the foundations to regain the state's AAA credit rating.

The Treasurer outlined in his [Budget speech](#) that, "We are a reforming Government. Reform can be unpopular in some parts of our community. But in the 21st century reform of government is a 'must do' task. Our Government's vision is to deliver smarter, simpler and better outcomes that respond to the needs of Queenslanders...This budget starts delivering on that vision."

Key to this reform agenda are savings measures totaling \$7.8 billion, comprising of:

- Expense reductions of \$5.3 billion;
- Increased revenue of \$0.8 billion; and
- Reduced or deferred capital expenditure of \$1.7 billion.

Integral to achieving predicted expense reductions is a decrease in the Queensland Public Service by 14,000 Full Time Equivalent staff, or 10,600 redundancies.

Another key element is a Government spending shift which will see \$500 million moved from the public sector to the private sector. As the Treasurer stated, "This will provide new and exciting opportunities to all businesses, large and small, to increase their exposure to Government contracts and services. To show what they can deliver and how well they can deliver it."

Queensland's Fiscal Position

Moving away from the previous government's focus on reporting operating balances, which the Commission of Audit found to have "masked an imbalance between revenues and expenditures" in the past, Treasurer Nicholls handed down a Budget focusing on the state's fiscal balance.

The projected fiscal deficit in 2012-13 is \$10.768 billion, with the Government's reform agenda paving the way for a projected fiscal surplus of \$652 million in 2014-15. The Treasurer highlighted that these figures included spending that was locked-in by the previous government, as well as \$800 million set aside to fund public servant redundancy payments.

General Government Sector – key financial aggregates¹

	2010-11 Actual ²	2011-12 Est. Actual	2012-13 Budget	2013-14	2014-15	2015-16
				Forward Estimates		
Revenue (\$ million)	41,957	45,707	42,224	47,967	51,646	52,963
Expenses (\$ million)	43,473	46,021	48,518	47,950	48,776	50,722
Net operating balance (\$million)	(1,516)	(314)	(6,294)	17	2,871	2,241
Fiscal balance (\$million)	(7,089)	(5,623)	(10,768)	(3,752)	652	747
Gross borrowing (\$ million)	25,089	30,017	41,309	45,535	46,166	46,211

Notes:
1. Numbers may not add due to rounding.
2. Reflects published actuals.

Source: [QLD State Budget 2012-13: Budget Paper No.2, Table 2.5 "General Government Sector – key financial aggregates"](#)

Expenditure

Expenditure announced in the Budget closely reflects the Government's key policy areas and election commitments. These include expenditure designed to lower the costs of living for families, boost frontline services, and build a four pillar state economy.

Building a Four Pillar Economy

Since taking office in March, the Newman Government's key policy focus has been on growing a four pillar Queensland economy through focusing on tourism, agriculture, resources and construction, and by cutting red tape and regulation. Budget expenditure is reflective of these four pillars.

Agriculture

- \$11 million for land, pest management, sustainable agriculture and water quality initiatives;
- \$4.8 million for a partnership between the Queensland Government and the Queensland University of Technology to research to develop the State as the food bowl of Asia and as a leading exporter of pulses to Asia;
- \$4.6 million in additional funding to the Bureau of Sugar Experiment Stations to increase the productivity of Queensland's sugarcane industry.

Construction

- \$1 billion over 10 years to upgrade the Bruce Highway, focusing on improving safety and flood immunity (subject to a cost sharing agreement with the Australian Government);
- \$278.8 million of Queensland, Australian Government, local government and external developer funding towards the \$1.3 billion Gold Coast Rapid Transit light rail project from Southport to Broadbeach;
- Increase the First Home Owner Grant on newly-constructed homes from \$7,000 to \$15,000.

Resources

- \$495 million over four years for the *Royalties for the Regions* program to fund regional community infrastructure including \$285 million for the *Roads to Resources* program;
- \$85.5 million towards the RG Tanna Coal Terminal upgrade;
- \$39.6 million towards the Port of Townsville Berth 10 upgrade;
- \$2.5 million to establish and operate the Gasfields Commission to facilitate and monitor Queensland's burgeoning LNG industry.

Tourism

- \$20.5 million to progress planning for the 2018 Commonwealth Games on the Gold Coast;
- \$20 million to implement a Tourism Investment Strategy focussing on destination marketing and inward tourism attraction;
- \$8.3 million for the Great Barrier Reef Marine Park Authority's Field Management Program.

Lowering the Cost of Living

Another Government policy theme is lowering costs of living for families. This was reflected in a number of budget expenditure measures including:

- Freezing car registration fees;
- Reinstating the principal place of residence concessional rate of duty;
- Freezing the standard electricity tariff (Tariff 11);

- Providing \$80 rebates per domestic water connection in South East Queensland;
- Halving public transport fare increases, and free travel for regular public transport users.

Boosting Frontline Services

A commitment to boosting frontline services is also reflected in the budget through:

- \$1.3 billion set aside to construct, expand and redevelop hospitals;
- \$456.5 million to expand and improve social housing services;
- \$200 million over 2 years in grants to assist public schools to fix maintenance backlogs;
- \$146.9 million over 4 years to employ an additional 1,100 new police officers.

Cost Savings

As stated in the Interim Audit Report, since 2005-06 Queensland's expenses grew at an average of 10.5 percent per annum, while revenue grew at an average rate of 6.9 percent per annum – a trend that is unsustainable in the long-term.

In the Budget, the Government has committed to achieving cost savings and to a lesser extent, increasing revenue, moving the state towards fiscal repair. Fiscal repair saving projections (or budget dollar allocation reductions) have been set out for each government Department.

Projected Fiscal Repair Savings Measures by Department

	2012-13 \$'000	2013-14 \$'000	2014-15 \$'000	2015-16 \$'000
Department of Aboriginal & TS Islander & Multicultural Affairs	(1,718)	(3,475)	(3,475)	(3,475)
Department of Agriculture, Fisheries and Forestry	(26,592)	(47,093)	(46,343)	(46,343)
Department of Communities, Child Safety & Disability Services	(75,391)	(117,231)	(117,231)	(117,231)
Department of Community Safety	(29,928)	(48,321)	(48,272)	(48,314)
Department of Education, Training and Employment	(133,745)	(197,689)	(213,310)	(213,310)
Department of Energy and Water Supply	(3,262)	(10,176)	(6,376)	(6,376)
Department of Environment and Heritage Protection	(15,912)	(25,548)	(25,548)	(25,548)
Department of Housing and Public Works	(1,276)	(2,552)	(2,552)	(2,552)
Department of Justice and Attorney-General	(20,093)	(33,425)	(33,425)	(33,425)
Department of Local Government	(3,772)	(4,399)	(4,599)	(4,699)
Department of National Parks, Recreation, Sport & Racing	(6,312)	(11,422)	(11,422)	(11,422)
Department of Natural Resources and Mines	(22,268)	(43,270)	(43,770)	(43,970)
Department of Science, IT, Innovation and the Arts	(2,671)	(5,341)	(5,341)	(5,341)
Department of State Development, Infrastructure & Planning	(10,221)	(21,324)	(21,688)	(22,093)
Department of the Premier and Cabinet	(2,555)	(5,216)	(5,216)	(5,216)
Department of Tourism, Major Events, Small Business and the Commonwealth Games	(964)	(1,928)	(1,928)	(1,928)
Department of Transport and Main Roads	(82,049)	(150,496)	(150,496)	(150,496)
Queensland Health	(208,771)	(479,042)	(479,042)	(479,042)
Queensland Police Service	(24,761)	(49,112)	(49,092)	(49,442)
Queensland Treasury and Trade	(5,231)	(10,462)	(10,462)	(10,462)

Note: Other units such as the Electoral Commission of Queensland have been omitted, as compared to the original table.

Source: [QLD State Budget 2012-13: Budget Paper No.4, Table 1 – Fiscal Repair Savings Measures, Departments, 2012-13 to 2015-16.](#)

To achieve these overall Departmental savings, some specific cost saving measures have been identified for each Department.

Health

The budget outlines two key themes to reform Queensland Health:

1. The decentralisation of Queensland Health into a collection of independent entities to improve flexibility, responsiveness and innovation; and
2. A focus on strategies to enhance the sustainability of the health system in the face of an ageing population and increasing costs to provide services.

Preliminary estimates show Queensland Health is the most inefficient provider of healthcare of any of the mainland states. It costs the Department 11 percent more to provide healthcare than health departments in other states.

Queensland Health plans to make the following savings:

- Corporate restructure, devolution of decision making and systematic changes to provide \$2.049 billion in savings over 4 years;
- Staff reductions to deliver \$1.646 billion over 4 years;
- Discontinuing grants for non-essential services to save \$120 million over 4 years;
- Reductions in spending on consultants, travel and advertising to save \$283 million in 4 years.

A core element of the savings agenda of Queensland Health will be a commitment to outsourcing. The Department will seek to outsource:

- Payroll;
- Internal Audit;
- Diagnostic Services, such as pathology and radiography;
- Supply and logistic arrangements;
- Biomedical technology services;
- The Health Contact Centre;
- ICT functions including: Desktop support; helpdesk arrangements; in-house hosted software development and infrastructure.

Health and Hospital Boards will be expected to find efficiencies of \$944 million over the next 4 years but in a manner that does not impact on frontline services.

Health and Hospital Boards will be encouraged to consider outsourcing in areas including: Catering; cleaning; security; gardening; and general maintenance.

The boards will also be directed to look to partnering with private parties in areas like aged care.

Transport and Main Roads

The Department of Transport and Main Roads will focus on two major reforms:

- Transitioning RoadTek to “RoadTek version 2” which will be a scaleable business, leaving the private sector to compete for work wherever possible.
- Merging of the Translink transit authority, which coordinates public transport services, with the Department of Transport and Main Roads. The new entity will manage all passenger transport services across Queensland.

In 2012-13 the Department expects to achieve savings of \$405.7 million from areas such as:

- Reduced employee expenses;
- Reclassification of disaster relief spending; and
- Savings in advertising, consultants, travel and contractor expenses.

In 2013-14 the Department's projected savings will come from:

- Reduced employee costs of \$35.7 million;
- Reduced disaster relief spending of \$67 million;
- Change of classification of disaster relief spending of \$45 million;
- Increased departmental savings of \$57.5 million; and
- Decreasing grants and subsidies \$169 million.

Department of Natural Resources and Mines

The Department of Natural Resources and Mines was formed on 3 April 2012. Therefore, 2012-13 will be the first full financial year of operation.

Total expenses are estimated to be \$497.7 million in 2012-13. The major expenses for the department consist of:

- Employee expenses of \$239.6 million (48.1 per cent of total);
- Supplies and services of \$202.8 million (40.1 per cent of total); and
- Grants and subsidies of \$34.0 million (6.8 per cent of total).

Savings of \$28.6 million will be realised in 2012-13 and beyond, through a number of initiatives to assist with the State's fiscal repair task. These include, but are not limited to:

- Major legislative and operational reforms to reduce red tape with respect to land services;
- Implementing water metering reforms;
- Using technology to improve resource assessment and handle complaints and compliance;
- Streamlining water accounting and billing processes;
- Extending the life of Water Resource Plans and Resource Operations Plans;
- Realising administrative savings through online electronic services (known as the Streamlining Mining Tenure Approval process); and
- Rationalisation of corporate and support staff.

Further savings of \$21.1 million in 2013-14, \$21.6 million in 2014-15, and \$21.8 million ongoing from 2015-16 are expected to be achieved upon full implementation of the reforms.

If you are interested in knowing more about the impacts or potential opportunities of the Queensland 2012-13 Budget, please contact Gerard Paynter on (07) 3171 3333 or by email gpaynter@bartondeakin.com.au.