

28 May 2023

**The State Budget****The Budget**

The Treasurer presented the budget on Thursday, proclaiming it to be a budget for the times. According to the Treasurer, the budget presented "a safe course through the coming challenges", backed by "sensible, responsible economic and financial management". Our future, he said, will be "strong, safe, secure".

To add a cautionary note, the Treasurer advised that "strong headwinds" face us, with "worsening economic conditions" and vagueness about future revenues, in particular the GST

The four big spends were in health, housing, education and to ameliorate cost-of-living pressures. And the government would be introducing an "efficiency dividend" in 2024-25 to recoup some \$300m, meaning across the board cuts.

The pundits backed these sentiments, with phrases like "steady as she goes", "safe", and "sober". Certainly the document gave no indication of any reform to the tax system, or any definitive change of government policy

Critics were critical of the increase in debt, and postulated on the cost of servicing the debt.

The budget papers go into great detail on the state of the state's finances, and one can get mired in the detail very quickly. However, the following information has been derived from the Budget papers.

**GENERAL GOVERNMENT SECTOR**

Figures are in (\$'m)

*EXCLUDES government businesses (E.G POWER COMPANIES)*

	22-23		23-24	24-25	25-26	26-27
	bud	est	est	est	est	est
<b>INCOME STATEMENT</b>	(Table 1.1)					
REVENUE	7848.2	8540.0	8422.2	8599.4	8654.7	8786.3
EXPENSES	8322.8	8757.0	8719.7	8747.4	8642.1	8725.0
<b>Net Operating Balance</b>	-474.6	-217.1	-297.5	-148.1	12.7	61.2
	NB The NOB <i>includes</i> Federal funds for infrastructure...					
		356.1	459.2	453.3	319.0	268.7
	...but <i>excludes</i> expenditure on infrastructure					
	With capital expenditure included:					
Infrastructure	1324.2	968.5	1234.8	1204.5	993.4	839.5
	...and other adjustments made (derived)					
	662.9	586.8	543.5	582.3	568.1	588.7
<b>FISCAL BALANCE</b>	<b>-1135.9</b>	<b>-598.8</b>	<b>-988.8</b>	<b>-770.3</b>	<b>-412.6</b>	<b>-189.6</b>

**SO WHERE DOES THAT LEAVE US?**

<b>NET DEBT</b>	2994.0	2282.9	3497.2	4592.8	5135.7	5596.0
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The Table shows both estimated revenue (in blue) and expenditure (in red) falling next year before rising again the following year. The Fiscal Balance is the telling figure. It rises to negative \$988.8m, from negative \$598.8m, (in green) before falling again the following year, and net debt (the last line) continues to climb. So debt is an issue.

The following table provides more detail on the revenue side.

SOURCES OF REVENUE	From Table 4.1,					
	22-23		23-24	24-25	25-26	26-27
	bud	est	est	est	est	est
Grants - GST	3125.6	3678.6	3522.1	3540.7	3644	3810.4
Grants - Tied and Other Funding	1973.9	2047.2	2096.9	2104.2	1934.3	1874.8
Taxation	1613.3	1611.6	1684.5	1762.3	1848.3	1934.2
Goods and Services	451.1	430.6	418.7	431.4	437.6	444.1
Fines and Fees	111.2	120.5	123.4	134.9	136.4	126.4
Dividend (from GBE's)	336.2	342.7	302.8	361.8	384.8	319.5
Interest and Other	236.9	308.8	273.8	264.1	269.3	276.9
	<b>7848.2</b>	<b>8540</b>	<b>8422.2</b>	<b>8599.4</b>	<b>8654.7</b>	<b>8786.3</b>

Two particular matters of note:

The table highlights the dependence on GST receipts. As the Treasurer says, the future allocations of GST are clouded in uncertainty, and thus the forward projections.

Government Taxation comes from payroll tax (30%), property (40%), gaming (16%), and vehicles (14%). There has been no suggestion that taxation reform is in the air.

Estimated expenditure in the 23-24 year is shown in the following Table

#### EXPENDITURE (from Chart 1.5)

Health	2903.1	33%
Education	2132.5	24%
Social Protection	672.0	8%
Public Order	840.1	10%
Other	2172.0	25%
<b>TOTAL</b>	<b>8719.7</b>	

Borrowing costs are included in this figure, and over the following 4 years are estimated to be a total of \$882.7m,

23-24	24-25	25-26	26-27
est	est	est	est
144.9	201.6	250.7	285.5

INFRASTRUCTURE (Table 6.1, Chart 6.2)	23-24	24-25	25-26	26-27	over 4 yrs		
	est	est	est	est			
Roads and Bridges	683.1				2200.0		
Hospitals etc	161.3				502.9		
Schools etc	128.3				305.1		
Tourism and Culture	108.4				557.3		
ICT Support	78.6				311.7		
Law and Order	63.0				375.0		
Other	12.1				26.5		
<b>TOTAL</b>	<b>1324.2</b>	<b>968.5</b>	<b>1234.8</b>	<b>1204.5</b>	<b>993.4</b>	<b>839.2</b>	<b>4278.5</b>

NB Last year's estimate was underspent by over \$350m. It happens every year.

### **The AFL Deal and the Budget**

Infrastructure spend (in purple) is the third line in the first table. Infrastructure data is presented in two separate formats in the Budget Papers, as a summary for one year only (shown above) and in detail by agency for the full period of the forward estimates. The two do not easily marry. It would be helpful if they did. However, incorporated in the above data, within the allocation for the Department of State Growth, are two line items covering the Mac Point stadium and the high performance centre.

<b>THE AFL deal</b>	<b>23-24</b>	<b>24-25</b>	<b>25-26</b>	<b>26-27</b>
	<b>est</b>	<b>est</b>	<b>est</b>	<b>est</b>
Mac Pt.	15	30	60	125
HPC	10	40	10	

Now, the budget was drawn up long before the defection of the two Liberal backbenchers, who had complained about the lack of transparency in government decision making, concerns with the debt and the government's priorities in promoting the football stadium.

It would appear that they have been successful in making the government release the full details of the deal between the government and the AFL, and one can only vent total surprise at the open-ended nature of this deal. Control of the team would appear to stay very much with the AFL, and the financial downside will be the responsibility of the government. And that downside is real.

The Premier has announced that the project will now become a Project of State Significance, thereby bypassing certain processes. However, this has a separate approvals process, including obtaining parliamentary approval, but ONLY for the process to be followed, and I suspect MP's will have a view about that. Some have already voiced their concerns and they are not happy – the project may not pass the first hurdle.

Whether the details of this budget and the process to now be followed have alleviated the concerns of the two is unclear, although the issues surrounding debt and the deal itself may well have consolidated their view.

Either way they are now on the crossbench as independent members, and I suspect the door to rejoin the Party and the government has now closed on them, even if they wished to return. For now parliament is in for continuing upheavals as they now find their way as Independents in the parliament.

### **Back to the budget**

The government has announced an efficiency dividend to save \$300m, commencing in the 24-25 year, It takes a year to determine this? This is a very blunt instrument and does not take into account the government's project priorities, which one would think would be front and centre in the government's thinking. In fact, such a process could well lead to greater inefficiency and diminished effectiveness, and that would be the last thing the government needs right now.

Cost of living pressures are biting hard, and further increases in energy prices will be a savage blow, to individuals and businesses alike. The approach of offering concessions will be of some help to a few, but it needs an across-the-board fix. It is time for the government to revisit price capping, because it can.

### **Finally**

The media coverage of the AFL deal, the defection of the two Liberal backbenchers forcing the government into minority, and thus a crisis, was focused totally on the stadium. Somehow, it didn't matter whether the government survived as long as the stadium went ahead, and remarkably the coverage pivoted onto whether Labor was somehow at fault. It wasn't and it isn't. It is the government's problem.