

QUEENSLAND BUDGET 2019–20

Budget Strategy and Outlook

Budget Paper No.2

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2019–20 Queensland Budget Papers

1. Budget Speech
2. Budget Strategy and Outlook
3. Capital Statement
4. Budget Measures
5. Service Delivery Statements

Appropriation Bills

Budget Highlights

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Budget Strategy and Outlook

Budget Paper No. 2

ISSN 1445-4890 (Print)

ISSN 1445-4904 (Online)



State Budget 2019-20

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Overview

The latest National Accounts show the Queensland Economy leads the mainland states and territories in terms of domestic economic growth in March quarter 2019, while Queensland's 2¾% forecast growth in gross state product (GSP) in 2018-19 is expected to outpace forecast national gross domestic product (GDP) growth of 2¼%.

The underlying performance of the State's economy has been strong due to the unwavering commitment and focus by the Government to drive own-source revenue, focus on jobs and deliver the infrastructure necessary to support private sector investment.

Queensland has a dynamic, diversified export economy. The Government has built a strong, sustainable and growing export capability which has delivered 13 consecutive months of record annual export totals, with the 12 months to April 2019 topping \$85 billion. This is more than the total overseas goods exports of NSW and Victoria combined over the same period.

The top two export commodities in total export value were metallurgical coal (\$37.4 billion) and liquefied natural gas (LNG, \$15.2 billion). The LNG industry, which did not even exist in Queensland a decade ago, recorded more than twice the export value of thermal coal.

The 2019-20 Budget forecasts continuing strong growth for the coming financial year, with GSP forecast to grow by 3%.

However, in the face of this performance, national and global economic conditions have continued to deteriorate since late 2018 and forecasts indicate there will be a further weakening in global conditions. This uncertain external environment provides context for GSP growth to moderate to 2¾% over the forward estimates period beyond the 2019-20 financial year.

The Queensland Government will continue to use all levers at its disposal to drive economic growth and maintain a strong economy despite the loss of revenue due to the continual erosion of the State's share of GST.

The impact of the Commonwealth's GST reductions since the Mid Year Fiscal and Economic Review (MYFER) is taking \$1.5 billion out of Queenslanders' pockets over the forward estimates. The actions taken by the Commonwealth Government have meant that Queensland is the only jurisdiction in the Commonwealth that will receive less GST revenue in 2019-20 than in the previous year. These challenges are in addition to the budget impact of natural disasters which occurred in the 2018-19 year with a total cost of \$1.3 billion over the forward estimates.

While Queensland is unique in receiving less GST revenue, the impact of subdued activity in the housing market nationally has delivered a revenue reduction across many jurisdictions. In Queensland, transfer duties have been revised down by \$1 billion since the Mid Year Fiscal and Economic Review over the forward estimates period. Despite facing these headwinds, segments of the State's dwelling construction industry have held up well, with labour-intensive additions and alterations activity hitting a record high in March quarter 2019.

The net operating surplus for this year is almost \$700 million higher than forecast in the 2018-19 Budget. The State has conservatively budgeted revenue outcomes and this trend has been replicated for the past three budget years.

Over the preceding three budgets, revenues have exceeded original budget forecasts by \$7.3 billion. A continuation of this trend, of exceeding the 2019-20 Budget forecasts by 4%, would see an additional \$2.4 billion in actual revenues above the level currently forecast for 2019-20.

The 2019-20 Budget maintains its consistently prudent approach to forecasting revenue growth and delivering on the fiscal principles of the Queensland Government.

Building on the successful strategies, initiatives and substantial investment implemented in the Government's four previous budgets, the 2019-20 State Budget will continue to drive sustainable economic growth and create secure, well-paid jobs across all regions of Queensland.

Following the strong economic growth and 199,000 jobs created since 2015, ongoing solid jobs growth is forecast in Queensland over the four years to 2022-23.

In the face of a changing global landscape, Queensland's businesses, industries, communities and regions continue to grow and adapt as the State successfully transitions to a more resilient and diversified economy.

As Queensland's economy continues to evolve and grow, the 2019-20 Budget and the Government's economic plan will help create jobs across all regions of the State through an enhanced focus on:

- supporting businesses and business-led growth
- delivering sustainable investment in productive infrastructure and essential services
- fostering the next wave of innovation and investing in ideas
- investing in skills and training for current and future generations of Queenslanders.

Payroll tax initiatives - Supporting Queensland business and backing jobs

Queensland's small, medium and growing businesses across all regions will benefit from a \$885 million package of targeted payroll tax initiatives, making it easier for businesses to grow, invest and employ more Queenslanders.

Key elements of the package to be implemented in 2019-20 include:

- an increased exemption threshold – rising from \$1.1 million to \$1.3 million, which will benefit employers with annual wages up to \$6.5 million
- regional payroll tax discount – from 1 July 2019, a 1% payroll tax discount will apply for eligible employers with 85% of their employees outside of South East Queensland
- employment growth rebate – for two years from 1 July 2019, employers that have increased their number of full-time employees will be eligible for a rebate on the payroll tax paid on these additional employees

- extension of apprentice and trainee rebate – the Government is also extending the successful 50% payroll tax rebate for apprentices and trainees until 30 June 2021. Since the introduction of the rebate in 2015-16, over 5,300 businesses have claimed a total of \$76 million in rebates.

Growing our regions

The Queensland Government continues its commitment to building stronger regional economies by investing in transformative infrastructure to encourage industry development, investment, innovation, and creating secure and well paid regional jobs.

Close to 60% of the \$12.9 billion capital works program in 2019-20 is to be delivered in regions outside of the Greater Brisbane area, supporting 25,500 jobs in those regions.

Other key initiatives in the 2019-20 Budget supporting economic growth and jobs across regional Queensland include:

- ongoing funding of the \$600 million Works for Queensland program to support job-creating maintenance and minor infrastructure works across regional Queensland
- transformative regional tourism infrastructure projects such as \$41.4 million to develop the Wangetti Trail ecotourism walk from Palm Cove north to Port Douglas; and \$25 million to help industry rejuvenate the Great Barrier Reef Island resorts
- \$110 million over four years from 2019-20 to provide further support for the North West Minerals Province and to promote mining exploration and investment in the region; and the \$193.5 million Townsville Port channel capacity upgrade
- a \$70 million boost to Building our Regions, bringing total funding for the program to \$515 million, of which \$365 million is administered by the Department of State Development, Manufacturing, Infrastructure and Planning and \$150 million is administered by the Department of Transport and Main Roads through their Transport Infrastructure Development Scheme
- an increased commitment of \$25 million to the Jobs and Regional Growth Fund, bringing the total funding of this program to \$175 million, to assist businesses and projects that will generate ongoing economic development and employment opportunities in regional Queensland.

Investing in infrastructure

The \$49.5 billion capital works program over four years outlined in the Budget will directly support private sector jobs, with the \$12.9 billion capital works program in 2019-20 estimated to directly support 40,500 jobs across the State.

To further enhance the productive capacity of the State's businesses, industries, communities and regions, the Government will deliver a \$5.6 billion investment in transformative transport infrastructure in 2019-20. In addition, the energy and water portfolios will invest \$2.7 billion in infrastructure in 2019-20 to support the ongoing delivery of safe, secure, reliable and cost-effective energy and water across the State.

Capital expenditure across the health portfolio is \$777.7 million in 2019-20, including \$78.6 million as part of the Enhancing Regional Hospitals program and \$40.7 million as part of the Rural and Regional Infrastructure package. The Government's *Building Better Hospitals* commitment includes projects at three major south-east Queensland hospitals with a combined value of \$956.9 million.

The education portfolio's capital expenditure totals \$1.2 billion in 2019-20. This includes an additional \$272.8 million for new schools and classrooms, and air-conditioning. The 2019-20 Budget includes increased funding of \$532.6 million over seven years from 2018-19 to expand the Building Future Schools Fund to a total of \$1.3 billion to deliver world class learning environments for children, including new primary, secondary and special schools opening in 2020 and 2021.

Other highlights of the Government's capital works program include:

- ongoing construction of the transformative Cross River Rail project, which will ease congestion, improve network reliability and increase heavy rail accessibility to the Brisbane CBD for all South East Queensland regions. The State Government has allocated \$5.409 billion to the Cross River Rail, which will mean more trains, more often and turn-up-and-go transport for South East Queensland commuters
- major projects on the M1 Pacific Motorway, including the Varsity Lakes to Tugun and Eight Mile Plains to Daisy Hill projects, as well delivery of the Pacific Motorway/Gateway Motorway merge project, due for completion in 2020
- several key projects on the Bruce Highway, aimed at improving safety, flood resilience and capacity along its 1,700km length. These projects, being delivered in partnership with the Australian Government, will also continue to support construction jobs across regional Queensland
- several major infrastructure projects to support the Government's commitment to preventing offending and reoffending, and keeping young people out of courts and custody
- construction of the \$152 million Smithfield Bypass project to improve safety and traffic flow for road users around the northern beaches of Cairns
- a \$930.7 million investment in Townsville in 2019-20, contributing to the delivery of a number of significant productivity enhancing and job creating infrastructure projects in the region over the coming years, including:
 - \$225 million Townsville water security project to address long-term water security needs
 - \$193.5 million Stage 1 of the Townsville Port Expansion Project, to upgrade capacity of the Townsville Channel to allow access by larger vessels and boost trade at the Port of Townsville
 - completion of the \$290 million North Queensland Stadium, a 25,000-seat stadium in Townsville, in time for the 2020 National Rugby League Premiership Season
 - \$31.9 million Townsville (Pimlico) TAFE project to refurbish and expand training facilities
 - \$25 million to help industry rejuvenate the Great Barrier Reef Island resorts and offer world-class experiences to visitors

- \$7.3 million in 2019-20 out of a \$45.4 million total spend to rehabilitate and widen various sections of the Gregory Development Road for freight and productivity gains
- \$6.7 million in 2019-20 out of a \$44.4 million total spend to complete construction of the new North Shore State School.

Increasing frontline services

To ensure all Queenslanders have access to world-class essential services, no matter where they live across the State, the Government continues to maintain record spending on delivery of health and education and training services.

The 2019-20 Budget allocates a record \$18.5 billion for the provision of health services.

The 2019-20 Budget allocates a record \$14.9 billion for education and training services.

An additional \$847.9 million has been provided over five years for both capital investments and service provision in the justice system to keep Queensland's communities safe.

The Budget also outlines the Government's substantial ongoing investment in keeping our communities safe, protecting our environment for the future, supporting our Aboriginal and Torres Strait Islander communities and lowering the cost of living.

Investing in ideas and fostering the next wave of innovation

In the face of a changing global landscape, the Government is supporting businesses throughout the State to develop and adopt innovative approaches and seize new opportunities.

Advance Queensland, the Queensland Government's \$755 million flagship innovation program, continues to play a key role throughout the State in unlocking new opportunities to sustain and grow traditional industries while also helping to shape the development of emerging industries by fostering and supporting innovative ideas, research and technologies.

Highlights of the 2019-20 Budget that will foster and support adoption of the next wave of innovation by Queensland businesses and communities include:

- additional funding of \$19 million to establish an agenda for renewable hydrogen industry attraction and incentivisation to drive job creation, regional growth, and increased innovation and development, with Gladstone being a focus point for hydrogen development
- additional funding of \$8.6 million over two years is provided for FibreCo to potentially make high speed and low-cost internet available to regional Queensland, with substantial additional funding provided for a range of other key telecommunications infrastructure to enhance community connectivity across regional Queensland.

Skilling current and future generations of Queenslanders

With the number of employed persons in Queensland projected to surpass 2.6 million by 2022, the Palaszczuk Government is focused on providing people with the education, training and skills to access employment opportunities, including the jobs of the future.

The Budget includes several initiatives to support pre-school education and learning, including increased funding of \$63.6 million over four years and \$18.7 million ongoing to continue the provision of Early Childhood Development Programs, as well as \$30.4 million over two years for the continued provision of universal access to kindergarten for children in the year before school.

The Government is providing increased funding of approximately \$1.4 billion over calendar years 2019 to 2023 for Queensland state schools, as part of the five-year school funding agreement reached with the Australian Government in December 2018.

Further, significant commitments are made in the 2019-20 Budget to improve Queensland's state schools, including \$532.6 million over seven years to expand the Building Future Schools Fund and \$251.3 million over three years for additional facilities at existing state schools experiencing enrolment growth.

The 2019-20 Budget also builds on the Government's substantial existing investment in training and skills, through innovative initiatives such as the Micro-Credentialing Pilot and a Higher Level Apprenticeship Pilot to provide modern and flexible pathways to address current, emerging and future skills needs. Further targeted support is provided to disadvantaged groups, including mature-age jobseekers, through the \$420 million Skilling Queenslanders for Work initiative to help them re-enter and stay in the workforce.

Since the Free TAFE initiative launched in August 2018, more than 6,000 students have started a new qualification, subject or module as part of their vocational education.

Further, the Government is continuing to deliver Free TAFE to help Year 12 graduates gain the training they need to develop skills in growing industry areas by covering the full cost of training in one of 160 high priority qualifications to ensure they get the skills to start their career.

Building the resilience of our communities impacted by natural disasters

The Government remains committed to rebuilding regional communities impacted by the North Queensland floods and other recent natural disasters. Key elements of the Government's investment focused on improving existing infrastructure to improve the resilience of the State's communities (with partial funding provided by the Australian Government) include:

- a \$242 million disaster funding package following the North and Far North Queensland Monsoon Trough
- ongoing funding as part of the Queensland Government's \$110 million commitment for extraordinary recovery and reconstruction projects following Severe Tropical Cyclone Debbie
- supporting drought-affected communities through continuation of the Drought Assistance Package by providing up to \$74.6 million over four years.

Economic Outlook

Queensland's economy has continued to grow solidly. However, a range of global, national and local factors are expected to see Queensland's Gross State Product (GSP) growth ease to 2¾% in 2018-19.

Global economic conditions have deteriorated substantially since early 2018, with a slowdown in China's domestic economy, escalation of global trade tensions and uncertainty related to Brexit resulting in a slowing of global growth in late 2018. These trends have intensified in early 2019.

Nationally, the weaker global outlook and sharper than expected slowdown in the housing sector have led to an easing in domestic economic growth. Recent ABS *National Accounts* data confirmed this trend, with national GDP growing by only 0.4% (seasonally adjusted) in March quarter 2019, while Queensland recorded the strongest growth in state final demand (SFD) of all the mainland states and territories at 0.5% (seasonally-adjusted) for the same period.

An ongoing moderation in dwelling investment and the associated flow-on to consumption spending, as well as a moderation in business investment, are all contributing to the easing of growth in 2018-19.

The easing growth in 2018-19 also reflects the impact of the flooding event in North Queensland, which impacted many local communities. Losses in economic output from the floods are estimated to be around ¼ percentage point of GSP, spread across 2018-19 and 2019-20.

GSP growth is forecast to strengthen to 3% in 2019-20, underpinned by a pick-up in domestic activity as business investment strengthens. From 2020-21 onwards, economic growth is expected to remain solid, at around 2¾% per annum, consistent with its longer-term capacity and with a more balanced contribution from all major components across the economy.

As reflected in the fiscal revenue forecasts, the softer global and national outlook, a sharper than expected slowdown in the housing sector and the moderation in employment growth are expected to have impacts on the growth in key Queensland government revenues, including GST, transfer duty and payroll tax.

The strong GSP growth in 2017-18 was accompanied by exceptional employment growth of 4.1%, the strongest growth in more than a decade and the largest annual rise (97,700 persons) in the State's history. However, in line with more subdued domestic activity, employment is still expected to grow, but at more moderate rates of 1½% in 2018-19 and 1¼% in 2019-20.

As employment growth eases, the participation rate is expected to decline, and the unemployment rate is forecast to stabilise at around 6% in both years.

Beyond 2019-20, as domestic activity strengthens, jobs growth is expected to pick up to around 1¾%, while the unemployment rate is expected to edge lower to 5¾% by the end of the projection period.

Overview Table 1 **Queensland economic forecasts/projections¹**

	Actual	Est. Act.	Forecasts		Projections	
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Gross state product²	3.5	2¾	3	2¾	2¾	2¾
Nominal gross state product	5.7	6	3¼	3½	4½	4¾
Employment ³	4.1	1½	1¼	1½	1¾	1¾
Unemployment rate ⁴	6.0	6	6	6	6	5¾
Inflation ³	1.7	1¾	2	2¼	2½	2½
Wage Price Index ³	2.2	2¼	2¼	2½	2½	2¾
Population ³	1.7	1¾	1¾	1¾	1¾	1¾
Notes: 1. Unless otherwise stated, all figures are annual percentage changes. 2. Chain volume measure (CVM), 2016-17 reference year. 3. Annual percentage change, year-average. 4. Per cent, year-average. <i>Sources: ABS 3101.0, 6202.0, 6345.0, 6401.0 and Queensland Treasury.</i>						

Fiscal Outlook

The 2019-20 Budget demonstrates the Government's commitment to supporting job creation, investing in the regions and delivering the infrastructure and frontline services Queensland needs, in a financially sustainable manner.

Net operating surpluses are projected in each year of the forward estimates. This is being achieved despite a reduction in Queensland's share of GST revenue and downward revisions to transfer duty revenue. Across the forward estimates, the net operating balance is expected to improve as revenue growth outpaces expense growth with the gap widening each year from 2020-21 onwards.

A \$49.5 billion capital program over four years will deliver infrastructure that supports economic growth across Queensland, enhances frontline services and provides employment opportunities. This level of investment will be partly funded through borrowings.

Even so, General Government borrowings as a share of revenue are expected to remain substantially below the peak level reached in 2012-13. The Government will continue to fund infrastructure investment while managing debt. This is being achieved while retaining strategic assets, such as electricity and water businesses, in public ownership.

In the Non-financial Public sector, which also includes the government-owned corporations, borrowings are expected to peak as a share of revenue in 2021-22, before declining in 2022-23.

The 2019-20 Budget incorporates adoption of a new accounting standard, which requires operating leases, such as office accommodation leases, to be recognised on the balance sheet as liabilities, despite there being no change in the State's financial commitments. This new accounting standard has added \$2.2 billion to lease liabilities, and therefore net debt, in the General Government Sector in 2019-20. For the Non-financial Public sector, the new accounting standard has increased liabilities and net debt, by \$2.6 billion on adoption.

Overview Table 2 Key fiscal aggregates¹

	2017-18 Actual² \$ million	2018-19 MYFER \$ million	2018-19 Est. Act. \$ million	2019-20 Budget \$ million	2020-21 Projection \$ million	2021-22 Projection \$ million	2022-23 Projection \$ million
General Government Sector							
Revenue	58,087	59,002	60,068	60,387	61,729	63,583	65,540
Expenses	56,335	58,478	59,226	60,198	61,416	63,101	64,753
Net operating balance	1,753	524	841	189	313	483	787
PNFA ³	5,127	5,981	6,060	6,727	7,125	7,963	6,179
Fiscal balance	(586)	(2,632)	(2,677)	(3,527)	(3,667)	(4,280)	(1,731)
Borrowing with QTC⁴	29,256	30,610	29,933	32,781	35,218	40,174	42,589
Leases and similar arrangements ⁵	2,152	2,557	2,623	5,824	7,071	6,943	6,966
Securities and Derivatives	122	75	122	122	122	122	122
Non-financial Public Sector							
Borrowing with QTC	66,964	68,774	68,141	71,954	75,413	80,645	82,972
Leases and similar arrangements	2,152	2,557	2,623	6,217	7,430	7,266	7,254
Securities and Derivatives	405	278	671	544	502	492	492
Notes:							
1. Numbers may not add due to rounding. Bracketed numbers represent negative amounts.							
2. Reflects published actuals.							
3. PNFA: Purchases of non-financial assets.							
4. Queensland Treasury Corporation.							
5. This includes adoption of new accounting standard AASB 16 Leases.							

1 Economic Plan – Backing Queensland Jobs

Features

- Queensland's businesses, industries, communities and regions continue to grow and adapt as the State successfully transitions to a more resilient, diversified economy in the face of a changing global landscape.
- Queensland is not immune from the global forces shaping our economy – from technology to climate change to the changing nature of work in the future. This is what businesses in the private sector – from mining to agriculture, to financial services – are already adapting to: so too must the State's economic strategy.
- Jobs and growth in the future will require our economy to:
 - diversify more and embed technologies better
 - train our people in new skills and in different ways
 - tailor our products and services to better meet the demands of Australian and global consumers.
- As the State's economy continues to evolve and grow, creating jobs now and into the future remains at the heart of the Government's economic plan – a plan that will ensure all Queenslanders, across all regions, benefit from the opportunities that current and future economic and jobs growth will deliver.
- Leveraging off the successful initiatives and investment in the Government's four previous budgets, the 2019-20 Budget will continue to create secure, well-paid jobs and drive sustainable economic growth across all the State's regions through an enhanced focus on:
 - Supporting businesses and business-led growth
 - Delivering sustainable investment in productive infrastructure and essential services
 - Fostering the next wave of innovation and investing in ideas
 - Investing in skills and training for current and future generations of Queenslanders.
- Building on the 199,000 jobs created since 2015, ongoing solid jobs growth in Queensland is forecast over the four years to 2022-23. This growth is underpinned by the Government's commitment to provide Queensland's businesses with the confidence they need to grow, invest, innovate, export and employ.
- The gap between the regional and South East Queensland unemployment rates has continued to narrow, from 2.5 percentage points in mid-2016 to 0.7 percentage points over the year to April 2019. The Budget builds on this with further incentives and investments to drive jobs growth across Queensland, especially in regional Queensland.
- The 2019-20 Budget will see thousands of businesses across all areas of the State benefit from a \$885 million payroll tax package, a boost to the Back to Work jobs program,

increased funding for key business attraction and investment programs and a range of other initiatives to promote growth in key industries and priority sectors.

- Queensland remains highly competitive in terms of payroll tax and in terms of taxation per capita – in order to attract business and skilled people to our State.
- The Budget features a \$49.5 billion investment in productivity-enhancing capital works over four years, delivering critical economic and social infrastructure and jobs across all regions. The \$12.9 billion capital works program in 2019-20 will directly support 40,500 jobs across the State, with close to 60% of the 2019-20 capital works, estimated to support 25,500 jobs, to be delivered in regions outside of the Greater Brisbane area.
- The Budget also outlines ongoing and increased funding for a range of programs to support tens of thousands of jobs in key regional industries, including mining, agriculture, tourism, and emerging sectors supporting regional jobs.
- Record spending on health and education, and ongoing investment in schools, hospitals and other social infrastructure will ensure provision of world-class health, education and training services, as well as the justice services needed to keep communities safe and protect Queenslanders. This investment will help Queenslanders in all regions access secure, well-paid jobs and enjoy an improved quality of life.

1.1 A plan to create jobs and drive economic growth across Queensland's regions

A range of economic, social, demographic and environmental factors continue to impact the global economy, including: technological advancements; growth of knowledge-based industries; demographic change including ageing of the population; increased environmental concerns, including the impacts of severe weather events; and instability and uncertainty in global markets.

In the face of this changing global landscape, Queensland's businesses, industries, communities and regions continue to grow and adapt as the State continues to successfully transition to a more resilient, diversified economy.

To continue the State's growth and create jobs into the future, the Queensland Government understands the need to diversify the economy to meet the changing needs of the global economy and equip people with the skills they need.

The Queensland Government's economic plan (see Figure 1.1 below), including the key initiatives outlined in the 2019-20 Budget, will continue to create secure, well-paid jobs and drive sustainable economic growth, including the ongoing growth of the State's regional economies, through an enhanced focus on four key objectives:

- Supporting businesses and business-led growth – to attract more businesses and private sector activity, and embed new technologies to meet changing consumer and investor needs
- Delivering sustainable investment in productive infrastructure and essential services – to improve our wellbeing and lower the transaction costs of doing business

- Fostering the next wave of innovation and investing in ideas – to modernise our businesses and create the next wave of businesses engaging in new markets
- Investing in skills and training for current and future generations of Queenslanders - to boost employment and incomes.

Figure 1.1 Backing Queensland Jobs



1.1.1 Creating secure, well paid jobs

Since January 2015, the Queensland Government's priority has been creating jobs and improving labour market outcomes across all regions of Queensland, including for the State's young people and disadvantaged jobseekers.

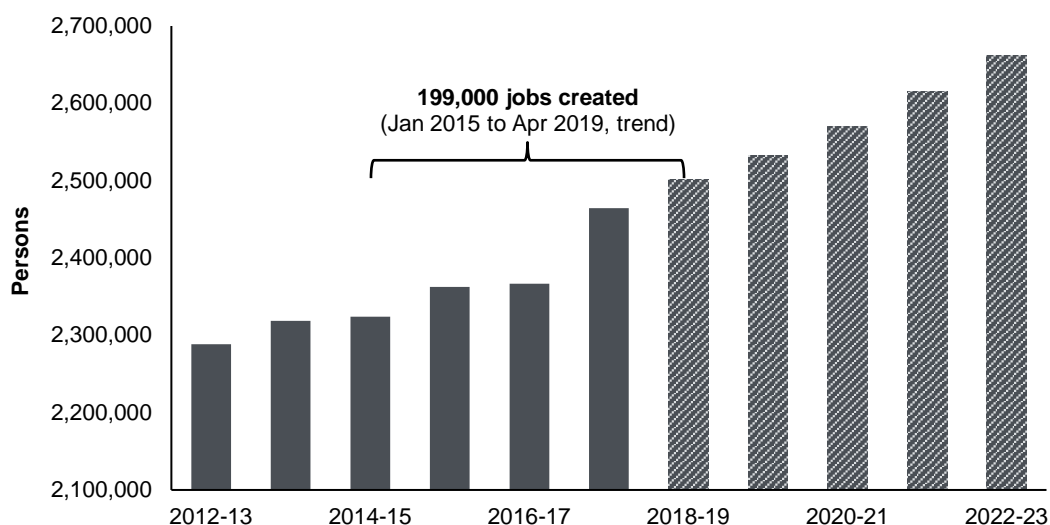
Over this period, 199,000 new jobs have been created across the State in trend terms, while the State's unemployment rate has improved, from 6.6% in January 2015 to 5.9% in April 2019. This is despite a slowdown in the national economy which has seen annual GDP growth slow to only 1.8% (seasonally adjusted) in the year to March quarter 2019 and prompted the Reserve Bank of Australia to cut the cash rate for the first time in almost three years.

Importantly, labour market conditions in many key regions have strengthened over recent years. As highlighted in Chapter 2, Chart 2.5, the gap between unemployment rates in regional Queensland and South East Queensland has narrowed significantly over the last two years.

In line with the Government's focus on creating jobs for the future, youth employment has also grown steadily over recent years, with 17,900 youth jobs created and the State's youth unemployment rate falling by 1.5 percentage points since January 2015.

Building on the Government's strong track record of job creation, ongoing solid jobs growth in Queensland is forecast over the four years to 2022-23 (see Chart 1.1 below).

Chart 1.1 Total employment, Queensland¹



Note:

1. 2018-19 to 2020-21 are forecasts; 2021-22 and 2022-23 are projections. Bars are in year average terms. Trend jobs growth and forecast jobs are not directly comparable. Jobs created reflects net additional jobs.

Sources: ABS 6202.0 and Queensland Treasury.

Key Palaszczuk Government initiatives are directly assisting Queenslanders secure well paid jobs. For example, the Jobs and Regional Growth Fund and Advance Queensland Industry Attraction Fund, which has successfully attracted the multimillion-dollar Qantas pilot training academy to Toowoomba, are attracting and supporting businesses and projects that are creating ongoing jobs across the State, including in our regional economies.

To maintain this momentum, the 2019-20 Budget includes a suite of new initiatives and increased funding to support business growth and create additional job opportunities, as well as investing in the skills and training needed to ensure jobseekers can capitalise on those opportunities.

Queensland's small, medium and growing businesses across all regions will benefit from the \$885 million payroll tax package, making it easier for businesses to grow, invest and employ more Queenslanders.

The \$49.5 billion capital works program over four years outlined in the Budget will directly support many tens of thousands of private sector jobs across the State. The \$12.9 billion capital works program in 2019-20 alone is estimated to directly support 40,500 jobs, with 25,500 of these jobs in regions outside the Greater Brisbane area.

The Queensland Government's *Our Future State: Advancing Queensland Priorities*, identified *Creating jobs in a strong economy* as one of its six priorities and highlighted the importance of supporting jobs across the State through key Budget initiatives.

1.1.2 Driving sustainable economic growth

Sustainable economic growth is essential to increase and maintain secure long-term employment opportunities, thereby increasing prosperity, incomes and living standards.

Aligned with the State's strong jobs growth since 2015 and the Government's ongoing focus on supporting growth across all sectors and regions, the State's economy grew by 2.7% per year on average over the four years to 2018. This is stronger than the 2.6% per annum growth in the rest of Australia over the same period.

Queensland's strong economic performance has been underpinned by a range of factors, including the State's trade sector, with the value of the State's overseas merchandise and services exports growing strongly and reaching record levels.

Box 1.1 Queensland exports at record levels

The value of Queensland's total overseas goods and services exports exceeded \$100 billion in 2018, with the value of both overseas goods and overseas services exports reaching record levels over the last year.

Queensland exported a record \$85.2 billion worth of goods overseas in the 12 months to April 2019, a rise of \$12 billion over the previous 12 months. This increase was driven primarily by higher prices and increased volumes of LNG and hard coking (metallurgical) coal exports.

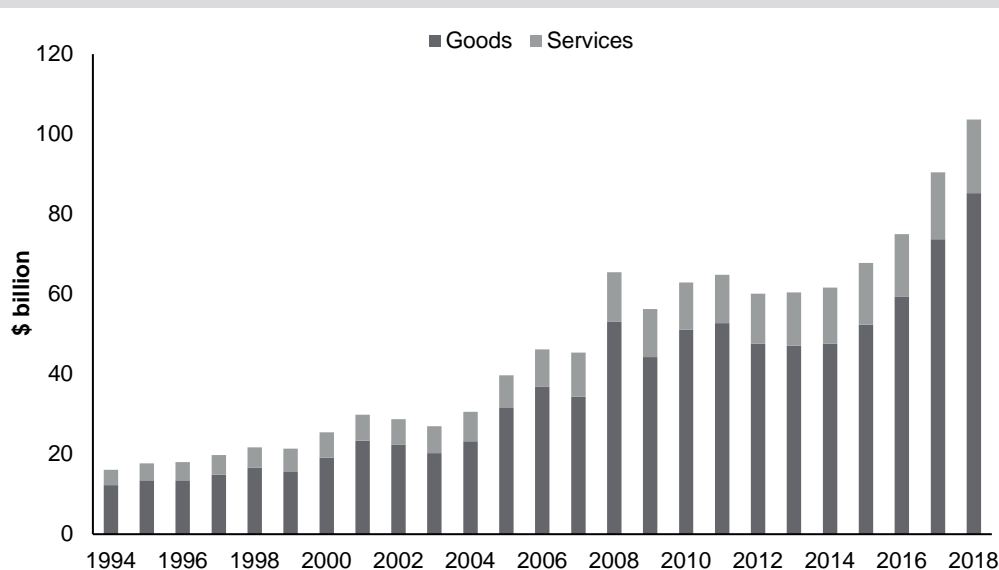
This was the 13th consecutive record breaking month for annual Queensland exports and was more than the value of goods exported overseas from New South Wales and Victoria combined over the same period.

Further, Queensland's key services exports such as tourism, education and business services, also continue to grow, with the latest Queensland State Accounts showing the value of overseas services exports totalled a record \$18.5 billion in 2018.

Driven by key regionally-important industries including mining, agriculture and manufacturing, around 80 per cent of Queensland's goods exports are shipped from the State's regional ports.

The exceptional performance of Queensland's goods and services exports over recent years is highlighted in Chart 1.2 below.

Chart 1.2 Overseas exports, Queensland, nominal



Source: Queensland Treasury (Queensland State Accounts).

In order to maintain this momentum and continue to drive sustainable growth across all regions, a key element of the Government's focus is to optimise the use of Queensland's natural resources.

By building on existing strengths and unlocking new opportunities, the resources sector will continue to deliver economic and social benefits for present and future generations, as well as supporting thousands of regional jobs.

The sustainable use and protection of the State's natural environment is also critical to support ongoing growth in other key regional industries such as tourism. In 2018, the Tropical North Queensland and the Whitsundays regions alone attracted around 3.6 million international and domestic overnight visitors, injecting over \$4.4 billion into the State's economy. This is helping support around 53,000 tourism jobs more broadly across regional Queensland.

Importantly, the Government has implemented a number of key measures to protect the State's world-renowned natural environment, including Queensland's land, vegetation, waterways and the iconic Great Barrier Reef. The sustainability of our environment will deliver benefits for Queenslanders and the entire global community, as well as attracting millions of tourists from around the globe and generating tourism-related jobs for decades and generations to come.

Another key focus of the Government's approach to driving sustainable economic growth is through the ongoing investment in its comprehensive waste management strategy, which will be instrumental in discouraging the disposal of waste to landfill, while generating investment in job-creating reuse, recycling, bioproducts and waste-to-energy industries.

Given the vital contribution of regional areas to Queensland's overall economic growth and the ongoing diversification of the State's economy, it is critical that sustainable growth is fostered and supported across all regions, as well as across key existing industries and emerging sectors. This will increasingly be necessary to build greater resilience in our industries, businesses and regions in the face of the headwinds, like more frequent natural disasters caused by climate change, and opportunities presented by new markets.

The 2019-20 Budget continues to build additional productive capacity through strategic infrastructure investment and a broad range of initiatives that will support sustainable business-led growth and investment across all sectors and regions of the State.

1.1.3 Supporting the ongoing growth of our regions

Regions outside of South East Queensland account for approximately one-third of the State's total economic output and are home to around 28% of the State's growing population.

More than 640,000 Queenslanders are employed in regional Queensland, including almost 70% of all agricultural jobs and two-thirds of all mining jobs across the State.

However, Queensland's regional economies have also transitioned over time to become increasingly diverse, with health care and social assistance (83,400), retail trade (67,400), education and training (59,000), and construction (48,700) the largest employing industries outside of South East Queensland as of March quarter 2019.

Queensland's industry structure varies significantly across regions, with key industries such as resources and agriculture, including the billions of dollars of exports they produce, comprising a much larger share of economic activity in regional areas than in South East Queensland.

Mining and agriculture combined comprised almost 40% of total gross regional product (that is, economic output) in regional Queensland in 2016-17, compared with less than 2% of economic activity in South East Queensland (see Chart 1.3 below).

Further, around 80% of Queensland's goods exports were shipped from the State's regional ports in 2017-18, highlighting the substantial contribution of our regions to the State's flourishing trade sector.

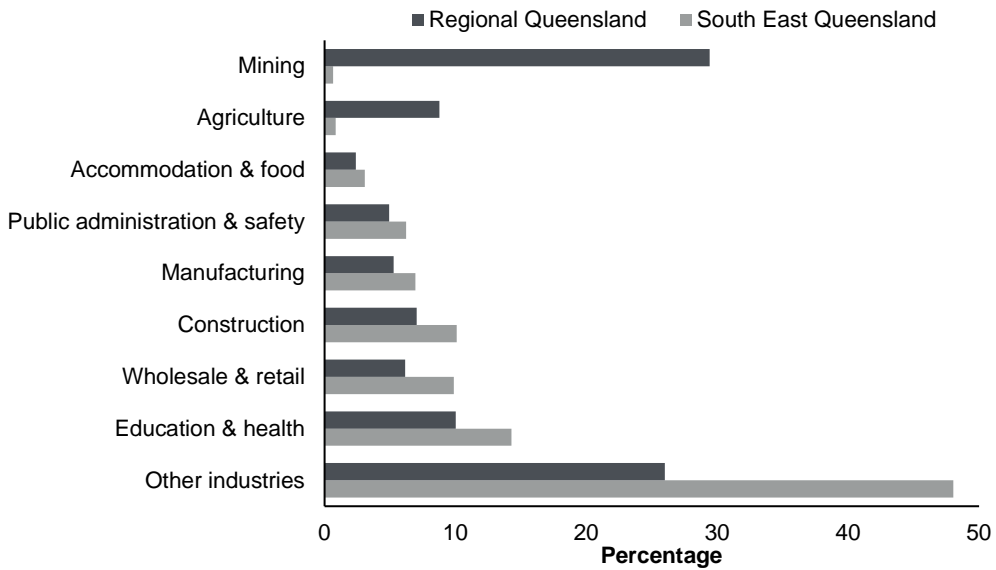
In the year to April 2019, Queensland exported \$37.4 billion of metallurgical coal, \$15.2 billion of LNG, \$10.6 billion of minerals and metals, \$9.9 billion of agricultural products, \$7.4 billion of thermal coal, and \$4.7 billion of other merchandise exports, including manufactured goods.

Additionally, total tourism expenditure in regional Queensland was worth \$9.2 billion in 2018, accounting for 38% of the total tourism expenditure in Queensland.

The Queensland Government clearly recognises the critical role the State's regional economies play in driving sustainable growth, increasing prosperity, building resilience in the face of a changing global landscape and, most importantly, supporting ongoing growth in secure, highly skilled and well-paid jobs.

Central to the Government's economic plan is providing all Queenslanders with incentives and transformative infrastructure, including improved connectivity of all communities, and the provision of essential services to communities across all areas of the State.

Chart 1.3 Industry structure, Regional Queensland and South East Queensland¹



Note:

1. Regional Queensland is defined as the summation of the following Statistical Area Level 4 (SA4) areas: Cairns, Darling Downs - Maranoa, Central Queensland, Mackay - Isaac - Whitsunday, Queensland - Outback, Townsville, and Wide Bay. South East Queensland comprises all remaining Queensland SA4s.

Source: *Queensland Treasury, 2016-17 estimates.*

Box 1.2 Building stronger regional economies

The Queensland Government continues its commitment to building stronger regional economies by investing in transformative infrastructure, encouraging industry development, investment, innovation, and creating secure and well paid regional jobs.

Some of the key existing and new initiatives supported in the 2019-20 State Budget include:

Investing in transformative regional infrastructure

Capital works – 60 per cent of the \$12.9 billion capital works program in 2019-20 will be delivered in regions outside of the Greater Brisbane area, directly supporting 25,500 jobs in 2019-20.

Building our Regions – The 2019-20 Budget commits an additional \$70 million to Building our Regions, bringing total funding for the program to \$515 million, to support infrastructure projects that meet specific community needs and support enduring economic outcomes and job creation in regions.

Works for Queensland – This \$600 million program, which commenced in 2016-17, supports regional councils to undertake job-creating maintenance and infrastructure projects.

Regional tourism infrastructure – Includes transformative projects such as the \$193.5 million Townsville Port channel capacity upgrade; a total of \$41.4 million to develop the Wangetti Trail ecotourism walk from Palm Cove north to Port Douglas; and \$25 million to help industry rejuvenate the Great Barrier Reef Island resorts.

FibreCo Qld – Additional funding of \$8.6 million over two years is provided to potentially make high speed and low cost internet available to regional Queensland. FibreCo Qld will utilise the existing Government infrastructure by unlocking spare capacity in government-owned fibre networks.

Other telecommunications infrastructure – Including additional funding of \$26.9 million over two years from 2018-19 to upgrade the Queensland Fire and Emergency Services regional radio networks and equipment; \$15 million through the Jobs and Regional Growth Fund to support the Sunshine Coast Council in delivering the Sunshine Coast International Broadband Submarine Cable network project; and a \$3.4 million investment in South West Queensland Connectivity projects funded through the Building our Regions program to provide high-speed, reliable internet networks to communities in Balonne, Murweh, Bulloo, Paroo and Maranoa.

Supporting industry development, investment and innovation

North West Minerals Province – Building on the \$39 million existing commitment, the 2019-20 Budget invests a further \$110 million over four years from 2019-20 to provide further support for this important mining region.

Hydrogen Strategy – Additional funding of \$19 million is provided to establish an agenda for renewable hydrogen industry attraction and incentivisation to drive job creation, regional growth, and increased innovation and development. Gladstone will be a focus point for

hydrogen development, drawing on the skills and talents of the regions, particularly those involved in the LNG industry.

Jobs and Regional Growth Fund – Now totalling \$175 million after an increased commitment of \$25 million in the 2019-20 Budget, the fund assists businesses and projects that will generate ongoing economic development and employment opportunities in regional Queensland.

Great Barrier Reef – The 2019-20 Budget continues to support the Palaszczuk Government's delivery of various commitments as part of the record \$330 million, five-year allocation to protect the Great Barrier Reef, including measures to protect and maintain marine and island ecosystems and improve water quality and reduce nutrient runoff.

Natural Disaster Recovery – The Queensland Government has secured Australian Government matching funding for \$254 million in extraordinary assistance under the jointly-funded Disaster Recovery Funding Arrangements. This includes a \$242 million disaster funding package following the North and Far North Queensland Monsoon Trough; and \$12 million to respond to the Central Queensland Bushfires. Preliminary estimates indicate the cost of recovery efforts related to the event is \$1.3 billion over the forward estimates.

Drought Assistance Package and Queensland Drought Reform – Up to \$74.6 million over four years is provided to support drought-affected regional communities.

Supporting small to medium regional businesses

Regional payroll tax discount – To support regional businesses and generate jobs, the Government is introducing, from 1 July 2019, a 1 per cent discount on the relevant payroll tax rate for businesses who have more than 85 per cent of their employees outside South East Queensland. Also available to regional business is the increase in the threshold to \$1.3 million, training and apprentice rebate, and the new employee rebate.

Back to Work – \$305 million regional component to give regional employers the confidence they need to take on eligible workers.

Under the Palaszczuk Government, more than \$36 billion has been budgeted to fund capital projects in regions outside of Greater Brisbane over the five years to 2019-20. This equates to an average annual per capita spend of around \$2,500 per person in regions outside of Greater Brisbane, compared with \$1,900 per person in Greater Brisbane over this period.

Reducing the cost of living for people living in regional areas is another critical element of the Government's economic plan. Under the Uniform Tariff Policy, the 2019-20 Budget allocates \$498 million to offset energy costs and ensure electricity prices in regional Queensland do not exceed prices in South East Queensland. The Budget also provides an additional \$14.3 million over two years to continue the Local Fare Scheme, subsidising the costs of airfares for residents of regional and remote Queensland travelling to neighbouring communities.

The 2019-20 Budget also provides record funding for the provision of essential services and additional support for the State's most vulnerable and disadvantaged. This funding will support safer, healthier communities across all regions of the State, including in rural and remote Aboriginal and Torres Strait Islander communities.

1.2 Backing Queensland Jobs – key focus areas of the economic plan

Building on the successful strategies, initiatives and investment announced in the Government's four previous Budgets, the economic plan and 2019-20 Budget will continue to create secure, well-paid jobs and drive sustainable economic growth, including the ongoing growth of strong regional economies.

1.2.1 Supporting business and business-led growth

A strong and competitive private sector, aligned with Queensland's economic strengths and comparative advantages, is critical to drive sustainable economic and jobs growth.

Business is the growth engine of the Queensland economy, with the private sector accounting for around 84% of total employment and around 76% of total economic activity.

The private sector also produces the vast majority of Queensland's merchandise and services exports. Therefore, the ongoing growth of Queensland businesses is critical to create and support employment in the trade sector, which is estimated to directly support one in every five jobs in Queensland.

Small and medium sized businesses (SMEs) are key contributors to private sector growth and employment across all regions of the State, with SMEs accounting for around 99% of total employing businesses and providing more than two thirds of all jobs in Queensland.

Small businesses account for 94% of total employing businesses in Queensland and are estimated to make up around 44% of total private sector employment in Queensland.

Building on Queensland's reputation as one of the most competitive tax destinations in Australia for businesses to locate and expand, the 2019-20 Budget outlines a \$885 million payroll tax package that provides targeted incentives for businesses across the State, particularly small, medium and growing businesses in regional areas, to invest, expand and create jobs.

Key elements of the package to be implemented in 2019-20 include: raising the payroll tax exemption threshold to \$1.3 million, a 1% discount on the relevant payroll tax rate for businesses who have more than 85% of their employees outside South East Queensland, and a rebate of the payroll tax on additional employees that businesses can demonstrate they have employed over and above their level of full time employees from 1 July 2019 until 30 June 2021.

The Government is also extending the successful 50% payroll tax rebate on the exempt wages of apprentices and trainees until 30 June 2021. Since the introduction of the rebate in 2015-16, over 5,300 businesses have claimed a total of \$76 million in rebates.

Further, the Budget provides increased funding of up to \$14 million for the flagship Back to Work program, bringing the total program to \$383 million, to ensure businesses in both regional Queensland and targeted areas of South East Queensland have the confidence to take on an eligible new employee. Since its inception in 2016-17, the Back to Work program has supported over 9,200 businesses to employ more than 19,000 persons.

The Back to Work program also predominantly benefits small businesses, with 77% of total firms accessing payments through the initiative employing less than 20 employees.

The 2019-20 Budget includes an additional \$70 million in funding to boost the Government's key business attraction and investment programs, comprising an additional \$45 million for the \$150 million Advance Queensland Industry Attraction Fund and an extra \$25 million for the \$175 million Jobs and Regional Growth Fund. This funding boost will continue to encourage businesses to establish and expand in Queensland, thereby boosting investment and creating new job opportunities across Queensland and its regions.

To support businesses in the tourism industry, the Budget allocates an additional \$48 million to Tourism and Events Queensland and \$17 million to create Indigenous jobs and business growth through Indigenous tourism development, Global Tourism Hubs and Ecotourism Trails. The Budget also allocates increased funding of \$35.7 million for the Production Attraction Strategy to support the growth of the State's world-renowned film and television industry and create job opportunities in this growth sector.

The Budget also builds on the existing Advancing Small Business Queensland Strategy 2016-2020 by committing an additional \$4 million in grant funding, bringing the total commitment under the Strategy to \$26.2 million.

In addition to this Strategy, the Government continues to reduce the cost of doing business through ongoing implementation of regulatory reform initiatives which should support growth and jobs over the coming years.

1.2.2 Sustainable investment in infrastructure and essential services

The Government recognises that investment in productive infrastructure and essential services is critical for keeping pace with global changes, and for unlocking economic and employment opportunities now and into the future. Well-targeted sustainable public investment acts as a catalyst for driving private sector investment and economic growth, as well as ensuring safe, healthy and thriving communities.

The Government's investment in transport, schools, roads, hospitals, technology and other vital infrastructure will position the Queensland economy for the future, while ensuring current and future generations of Queenslanders continue to have access to world-class health and education services.

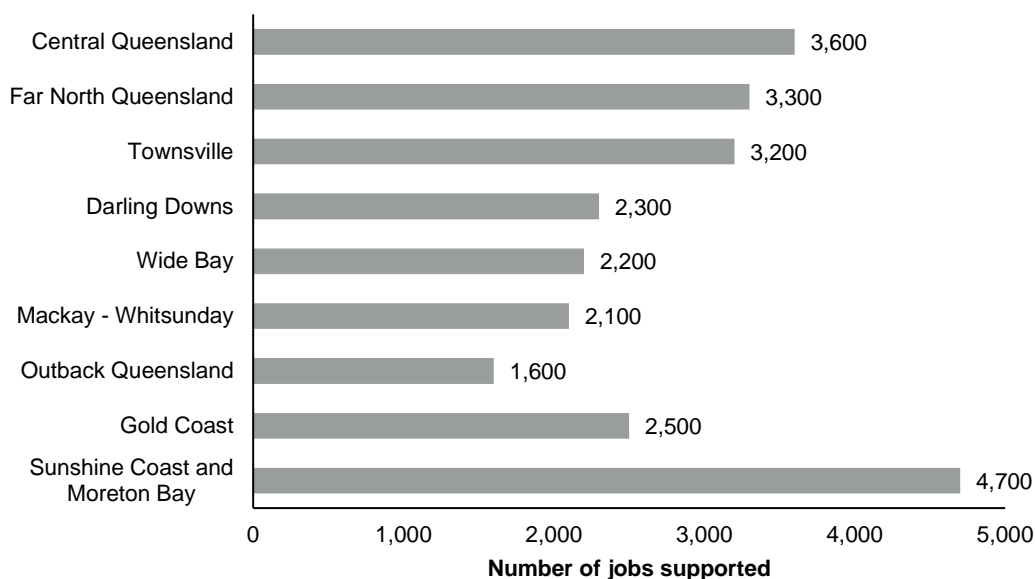
In 2019-20, the Government will deliver a \$5.6 billion investment in transformative transport infrastructure. To further help enhance the productive capacity of the State's businesses, industries, communities and regions, the energy and water portfolios will invest \$2.7 billion in infrastructure in 2019-20 to support the ongoing delivery of safe, secure, reliable and cost-effective energy and water across the State.

Capital expenditure across the health portfolio is \$777.7 million in 2019-20, including \$78.6 million as part of the Enhancing Regional Hospitals program and \$40.7 million as part of the Rural and Regional Infrastructure package. Additionally, the Government's *Building Better Hospitals* program includes projects at three major south-east Queensland hospitals with a combined value of \$956.9 million including the redevelopment of the Caboolture Hospital, expansion of the Logan Hospital and maternity ward and staged redevelopment of the Ipswich Hospital.

The education portfolio's capital expenditure totals \$1.2 billion in 2019-20. This Budget includes increased funding of \$532.6 million over seven years from 2018-19 to expand the Building Future Schools Fund to a total of \$1.3 billion to deliver world class learning environments for children, including new primary, secondary and special schools opening in 2020 and 2021.

In total, the 2019-20 Budget invests more than \$49.5 billion in productivity-enhancing infrastructure projects, with the Government's capital works program expected to directly support 40,500 jobs in 2019-20. Importantly, 25,500 of these jobs are in regions outside of the Greater Brisbane area (see Chart 1.4 below).

Chart 1.4 Jobs supported by capital works outside Greater Brisbane, 2019-20



Source: Queensland Treasury.

To ensure all Queenslanders have access to world-class essential services, the Government continues to maintain record spending on delivery of health and education and training services, as well as a substantial investment in keeping our communities safe, protecting our environment for the future, supporting our Aboriginal and Torres Strait Islander communities and lowering the cost of living for all Queenslanders.

The 2019-20 Budget allocates a record \$18.5 billion for the provision of health services and \$14.9 billion for education and training services in 2019-20. In addition, a further \$847.9 million over five years is allocated for both capital investments and service provision in the justice system to keep Queensland's communities safe.

This investment will not only ensure access to critical health and education services in the short term, but will enable all Queenslanders to increase their economic participation and improve their potential to earn higher incomes.

The Queensland Government is also taking strong action to put further downward pressure on electricity prices and secure Queensland's clean energy supply. Ensuring reliable and affordable energy is critical to supporting the competitiveness of Queensland's industries and businesses, and households' economic welfare. The Government's Queensland Renewable Energy Target (QRET) and focus on sustainable and reliable energy can also attract investment funds and new businesses, drive exports, and create new jobs into the future.

Ongoing funding flowing through to Queensland households and businesses as part of the \$1.16 billion Powering Queensland Plan and the broader \$2 billion Affordable Energy Plan will ensure Queenslanders have access to affordable, secure and sustainable energy.

Further, the Government has recently established a new clean energy government-owned corporation, CleanCo, which will put ongoing downward pressure on electricity prices and help grow investment and jobs in the renewable energy sector. The Government will also invest an additional \$250 million over 2019-20 and 2020-21 to progress the development of new public renewable energy generation assets.

The 2019-20 capital program includes a \$930.7 million investment in Townsville, contributing to the delivery of a number of significant productive enhancing and job creating infrastructure projects in the region over the coming years, including:

- \$225 million Townsville water security project to address long-term water security needs
- \$193.5 million Stage 1 of Townsville Port Expansion Project, to upgrade capacity of the Townsville Channel to allow access by larger vessels and boost trade at the Port of Townsville
- completion of the \$290 million North Queensland Stadium, a 25,000-seat stadium in Townsville, in time for the 2020 National Rugby League Premiership Season
- \$31.9 million Townsville (Pimlico) TAFE project to refurbish and expand training facilities
- \$25 million to help industry rejuvenate the Great Barrier Reef Island resorts and offer world-class experiences to visitors
- \$7.3 million in 2019-20 out of a \$45.4 million total spend to rehabilitate and widen various sections of the Gregory Development Road for freight and productivity gains

- \$6.7 million in 2019-20 out of a \$44.4 million total spend to complete construction of the new North Shore State primary school.

A key element of the Government's capital program is providing grants to local governments and non-government organisations to support their work within communities across Queensland. In total, the Government will provide \$1.599 billion in capital grants in 2019-20.

This includes an additional \$70 million over four years for Building our Regions, bringing the total investment in Building our Regions to \$515 million, and ongoing funding across all regional councils through the existing \$600 million Works for Queensland program.

The Government also remains committed to rebuilding regional communities impacted by the North Queensland floods and other recent natural disasters. Key elements of the Government's investment focused on improving existing infrastructure to improve the resilience of the State's communities include (in conjunction with the Australian Government):

- a \$242 million disaster funding package following the North and Far North Queensland Monsoon Trough
- ongoing funding as part of the Queensland Government's \$110 million commitment for extraordinary recovery and reconstruction projects following Severe Tropical Cyclone Debbie
- supporting drought-affected communities through continuation of the Drought Assistance Package by providing up to \$74.6 million over four years.

1.2.3 Supporting the next wave of innovation

As a key driver of increased productivity and enhanced business competitiveness, innovation is at the forefront of driving economic growth and the creation of new high value-added industries and jobs. A highly innovative economy will strongly position the State to most effectively address some of the challenges faced by Queenslanders both today and into the future and improve overall living standards for all Queenslanders.

Technological advancements continue to transform existing business models and create new opportunities for Queensland businesses. Meanwhile, markets for the State's exports are evolving, both internationally on the back of growing prosperity in Asia, and domestically as consumers increasingly demand new and more tailored products.

In the face of this changing global landscape, the Government is supporting businesses throughout the State to develop and adopt innovative approaches and seize new opportunities.

Advance Queensland, the Queensland Government's \$755 million flagship innovation program, continues to play a key role throughout the State in unlocking new opportunities to sustain and grow traditional industries while also helping to shape the development of emerging industries by fostering and supporting innovative ideas, research and technologies.

Building on this success and to drive the next wave of innovation, the Government will be releasing a new innovation strategy, *Building Our Innovation Economy*, later this year.

Supporting the development of this new strategy, the 2019-20 Budget contains numerous measures that will promote innovation activity throughout the State now and into the future.

In addition to the wide range of innovation-related opportunities from ongoing funding through the Advance Queensland initiative, the Budget also provides funding of \$25 million over four years to the Queensland Government Research Infrastructure Co-Investment Fund to support high-quality collaborative research and innovation in the State's research sector.

Further, the 2019-20 Budget commits \$19 million to develop the Queensland Hydrogen Industry Attraction and Development Strategy to build Queensland's capacity in producing this important renewable fuel that is increasingly in-demand globally.

Additionally, \$14 million has been allocated to support the Defence Cooperative Research Centre to develop drone and robotics technology for the Defence Force.

The Government is also contributing \$9 million towards Queensland hosting the World Science Festival for a further two years, offering collaboration and networking opportunities for industry and boosting the State's reputation as a world leader in science, technology and innovation.

These initiatives are aimed at ensuring traditional, emerging and new industries have the best possible chance to establish, grow and thrive in Queensland.

To support Queensland manufacturers to become more advanced and internationally competitive by adopting innovative processes and technologies, the 2019-20 Budget boosts the successful Made in Queensland program by allocating an additional \$6 million over two years, taking the total value of the program to \$46 million.

1.2.4 Investing in skills and training for current and future generations of Queenslanders

The world of work is always changing. Over recent decades, the global, national and Queensland labour markets have been transformed by forces such as increasing global integration, rapid improvements in information and communication technology, and significant social and demographic changes.

In response to this change, Queensland's workers, businesses and industries have developed, adopted and embraced the new skills needed to operate more productively in both emerging and established occupations and industries.

In the years ahead, the State's labour market and workplaces will continue to evolve as the Queensland economy adapts and transitions to a more diversified economy, in the face of factors such as increased automation and the continuing growth of Asia.

Box 1.3 Queensland's growing skills base

There is a global consensus among economists, academics and education specialists that a strong policy focus on education and training, and the resulting flexibility, adaptability and resilience it builds into the workforce, is essential to promote sustainable economic growth and increase productivity.

Just as importantly, ongoing skills development is critical to enable all Queenslanders to access and capitalise on employment opportunities, achieve higher incomes and improve their quality of life.

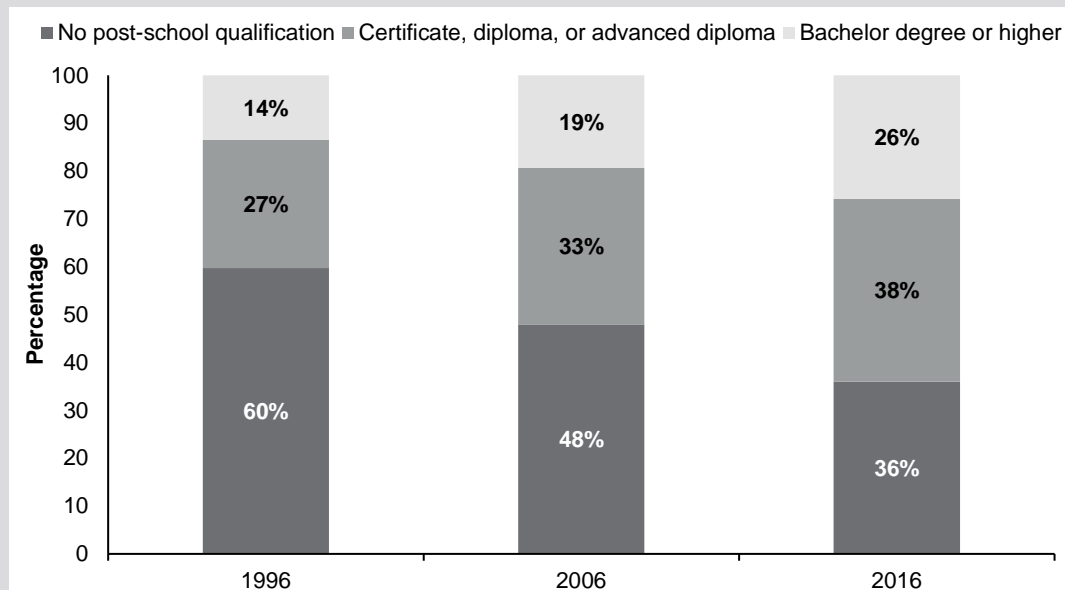
The benefits of education and training to individuals are clear. In 2015, in terms of average weekly personal income, Australian full-time workers with either one or two non-school qualifications respectively earned \$372 and \$667 more than full-time workers without non-school qualifications.¹

There is also a recognition that a lifelong approach to education and training is critical. Where a single qualification may once have set up a person for a 'job for life' in a single industry, it is now becoming more common for individuals to have multiple jobs in multiple industries over their careers. This is amplified by the fact that people are generally working longer - the average age of retirement for recent retirees increased from 60 in 2005 to 62.9 in 2017.²

Over the past 20 years, the proportion of employed persons in Queensland who hold a post-school qualification has risen noticeably. In 1996, around 60 per cent of persons employed in the State did not hold a post-school qualification, with this proportion declining to less than half (48 per cent) in 2006 and lowering even further to just over one-third (36%) by 2016.

Over this same period, the proportion of persons holding a university-based qualification has risen from 14 per cent in 1996 to over one-quarter of all employed persons in Queensland by 2016. Meanwhile, the proportion of employed persons with a TAFE-based qualification increased from 27 per cent in 1996 to 38 per cent in 2016 (see Chart 1.5 below).

Chart 1.5 Proportion of employed persons by level of educational attainment, Queensland



Source: ABS Census of Population and Housing (1996, 2006, and 2016).

Notes:

1. ABS 4235.0 - Qualifications and Work, Australia, 2015
2. ABS 6238.0 - Retirement and Retirement Intentions, Various

This analysis helps illustrate the evolving skills base of the Queensland workforce over the past two decades, reflecting ongoing economic diversification and the range of different job opportunities across both traditional and emerging industries that have arisen during this period.

The Queensland Government is committed to giving Queenslanders of all backgrounds and ages the education, training and skills development opportunities they need to take part in the future economy. Reflecting the need for lifelong learning, the Queensland Government is investing in skills and training across all life stages, from early education to adulthood.

Improving the wellbeing of children prior to school is a key priority for the Government. The 2019-20 Budget includes several initiatives to support pre-school education and learning, including increased funding of \$63.6 million over four years and \$18.7 million ongoing to continue the provision of Early Childhood Development Programs, as well as \$30.4 million over two years to support the continued provision of universal access to kindergarten for children in the year before school.

The Government is providing increased funding of approximately \$1.4 billion over calendar years 2019 to 2023 for Queensland state schools, as part of the five-year school funding agreement reached with the Australian Government in December 2018.

The Government is continuing to deliver Free TAFE to help Year 12 graduates gain the training they need to develop skills in growing industry areas by covering the full cost of training in one of 160 high priority qualifications to ensure they get the skills to start their career.

Since the Free TAFE initiative launched in August 2018, more than 6,000 students have started a new qualification, subject or module as part of their vocational education.

Further, significant commitments are made in the 2019-20 Budget to improve Queensland's state schools, including \$532.6 million over seven years to expand the Building Future Schools Fund and \$251.3 million over three years for additional facilities at existing state schools experiencing enrolment growth. The Budget also allocates increased funding of \$100 million to address air conditioning needs to give Queensland students the best possible learning environment.

The 2019-20 Budget builds on the Government's substantial existing investment in training and skills, through innovative initiatives such as the Micro-Credentialing Pilot and a Higher Level Apprenticeship Pilot to provide modern and flexible pathways to address current, emerging and future skills needs.

To help Queenslanders at all stages of life and from disadvantaged backgrounds access employment and training opportunities, the Queensland Government provides a higher level of subsidy to concessional students studying VET qualifications. Further targeted support is provided to disadvantaged groups, including mature-age jobseekers, through the \$420 million Skilling Queenslanders for Work initiative to help them re-enter and stay in the workforce.

In addition to substantial investments in skills and training, the Queensland Government is implementing a suite of initiatives to better connect Queenslanders with employment, education and training opportunities, particularly for the State's young people.

Initiatives funded in this Budget include:

- a \$4.6 million Digital Engagement Strategy to help re-engage at-risk youth back into school and training
- the \$9.6 million Link & Launch initiative to help disengaged year 12 leavers engage in education, training or employment
- a \$11.2 million expansion of the Regional Youth Engagement Hubs program to locate, case manage and re-engage early school leavers back into school and training
- \$16.6 million for FlexiSpaces to support schools to provide innovative learning spaces, as an alternative to traditional learning spaces to retain students who are at risk of disengagement and early leaving by providing wrap around support.

In preparing workers for the jobs of the future, a key focus will be the ongoing development of skills which cut across all industries and sectors, such as digital and commercial literacy, problem solving, communication, and entrepreneurial skills. These broad, cross-cutting skills complement field-specific expertise, and will be critical in helping workers to navigate job changes over time. In line with this, the next phase of the Advance Queensland agenda includes New Skills and New Jobs as one of its five priorities.

Going forward, the Queensland Government's focus on skills will also be bolstered by a new Skills Strategy, informed by the Skills and Industry Summit held in late 2018, and will continue to be guided by the strategic advice of Jobs Queensland on future skills and workforces.

2 Economic performance and outlook

Features

- A range of global, national and local factors are expected to see Queensland's Gross State Product (GSP) growth ease to an estimated 2¾% in 2018-19.
- Global economic conditions have deteriorated substantially since early 2018, with a slowdown in China's domestic economy, escalation of trade tensions between the United States (US) and China, and uncertainty surrounding Brexit resulting in a slowing of global growth in late 2018. These trends have intensified in early 2019.
- Nationally, the weaker global outlook and sharper than expected slowdown in housing have led to an easing in economic growth. As a result, the Reserve Bank of Australia (RBA) has downgraded forecasts for national growth and cut the cash rate to 1.25%.
- The easing in Queensland's economic growth in 2018-19 also reflects the impact of the North Queensland floods, with losses in economic output estimated to be around ¼ percentage point of GSP, spread across 2018-19 and 2019-20.
- The ongoing decline in dwelling investment and the flow-on impacts to consumption, as well as a moderation in business investment, have constrained growth in the domestic economy. However, the commencement of new metal mines and continued strong growth in education exports are expected to drive faster growth in overseas exports in 2018-19.
- Queensland's economic growth is forecast to strengthen to 3% in 2019-20, underpinned by a modest pick-up in domestic activity as business investment improves, as well as some recovery in regions and sectors impacted by the floods.
- Compared with both Australian Treasury and RBA forecasts, 2019-20 is expected to be the third consecutive year where Queensland growth outstrips national economic growth.
- As reflected in revenue forecasts, the softer global and national outlook, sharper than expected slowdown in housing and moderation in employment growth are expected to impact growth in key government revenues, including GST, transfer duty and payroll tax.
- From 2020-21 onwards, economic growth is expected to remain solid, at around 2¾% per annum, with a more balanced contribution from all major components across the economy.
- Strong GSP growth in 2017-18 saw employment growth of 4.1%, the strongest in more than a decade and the largest rise (97,700 persons) in any year in the State's history.
- However, in line with more subdued domestic activity, employment growth is expected to return to more sustainable rates of 1½% in 2018-19 and 1¼% in 2019-20.
- Similar to recent years, variations in employment growth are expected to be mostly absorbed by changes in participation, seeing the unemployment rate stabilise around 6%.
- Beyond 2019-20, as domestic activity strengthens, labour market conditions are set to improve modestly, with a strengthening of jobs growth and the unemployment rate edging lower to 5¾% by the end of the projection period.

2.1 International conditions

Following a strengthening in 2017, global growth remained robust for most of the first half of 2018. At the time, the International Monetary Fund (IMF) maintained a positive outlook for the international economy. In the second half of 2018, an escalation of US-China trade tensions, a slowdown in China's domestic economy and the uncertainty related to Brexit led to a downgrade to global growth forecasts and the outlook for industrial production in several key economies.

As of April 2019, the IMF had subsequently downgraded growth forecasts for 2019 (by 0.4 percentage point) and 2020 (by 0.1 percentage point) compared with their October 2018 outlook.

Growth in industrial production among Queensland's major trading partners, which drives their demand for Queensland's energy and mineral products, weakened over the course of 2018 and growth is expected to remain moderate in coming years (Table 2.1).

Table 2.1 Queensland's major trading partners' industrial production outlook¹

	Actual		Forecasts				
	2017	2018	2019	2020	2021	2022	2023
Major trading partners²	4.3	3.3	2.9	3.3	3.2	3.4	3.4
China	6.5	6.2	5.8	5.6	5.1	5.1	5.0
Japan	2.9	1.0	-0.1	0.6	0.7	0.8	1.1
India ³	4.4	3.6	5.7	5.7	5.8	6.3	5.8
Korea	2.5	1.3	0.6	1.6	1.8	2.1	2.2
Eurozone	2.9	0.9	0.3	1.4	1.0	1.5	1.4
Taiwan ⁴	5.3	3.9	1.1	3.2	2.9	2.9	2.7
USA	2.3	3.9	2.0	1.4	1.6	1.8	1.9
Notes:							
1. Annual percentage change. 2017 and 2018 are actuals; 2019 onwards are forecasts.							
2. Major trading partners include China, Japan, India, South Korea, Eurozone, Taiwan, USA, UK and NZ.							
3. India's growth profile is based on an April to March fiscal year. '2017' refers to 2017-18 fiscal year.							
4. Manufacturing production.							
Sources: April and May 2019 Consensus Forecasts and Queensland Treasury.							

China's gross domestic product (GDP) growth slowed from 6.8% in 2017 to 6.6% in 2018 and is expected to moderate further in 2019. Faced with the challenges of slowing domestic demand, US-China trade tensions and the substantial accumulation of private sector debt, China's short-term economic outlook likely depends on the effectiveness of the Chinese Government's stimulatory measures.

More broadly, trade tensions between the US and China have remained a key source of uncertainty and contributed to the softer global economic outlook. With tensions escalating in May 2019, the negative impact on industrial or manufacturing activity, particularly on the outlook for industrialised economies in Asia, is likely to be intensified during 2019.

Japan and, to a lesser degree, Korea have been particularly impacted by the increased uncertainty. Until late 2018, Japan's industrial production growth was expected to be around 2.2%-2.4% in 2019, but Japan is now forecast to record slightly negative growth in 2019.

Japan's weaker outlook may be compounded by the scheduled increase in the country's consumption tax (from 8% to 10%) as well as the peaking of Olympic Games' related construction activity. Korea's forecast industrial production growth in 2019 has also been downgraded, from around 2% to less than 1%. These downgrades have already been reflected in the slowing of coal imports into these two countries in early 2019.

In India, recent data indicate that the slowdown in industrial production is steeper than previously thought, suggesting Indian industrial production growth in 2019 may be weaker than suggested by the latest *Consensus Forecasts* (Table 2.1).

Brexit negotiations remain a key uncertainty in the United Kingdom (UK) and European Union (EU), weighing on business and consumer sentiment in recent times. The economic outlook for the UK and EU hinge largely on the outcome of these negotiations, due to be concluded before the 31 October 2019 Brexit deadline.

The impacts of the slowdown in industrial production on commodity prices have so far been uneven. While prices of industrial metals have declined over the year to mid-May 2019, supply issues have seen prices of hard coking coal and iron ore rise 15% and 38% respectively over the year. After falling from around US\$85/barrel (bbl) to almost US\$50/bbl in late 2018, Brent crude oil prices rebounded strongly in 2019, again due to supply and other geo-political factors.

Another significant effect of the slowdown in the global growth outlook has been the decline of long-term interest rates across many major economies, with yields on long-term government bonds falling substantially.

Industrialised economies in Asia have been the most affected by the trade tensions between China and the US. This is due to the stronger supply chain relationships between China and these economies, which has placed increased pressure on their exchange rates against the US\$. These impacts are expected to continue, or possibly intensify.

2.2 National conditions

Australian Treasury estimates Australian **real GDP** growth to be 2¼% in 2018-19, strengthening to 2¾% in 2019-20 and 2020-21, with most sectors expected to contribute to growth. Rising global and domestic challenges have seen the RBA downgrade its growth outlook markedly since late 2018, to 2¼% in 2018-19 and 2½% in 2019-20.

Recent ABS *National Accounts* data, which showed GDP growth of only 0.4% (seasonally adjusted) in March quarter 2019, confirmed this weakening national trend.

Household consumption growth is expected to be subdued in 2018-19 but pick up gradually over the forecast period, supported by strengthening wage growth and solid employment growth. However, uncertainty remains around the extent to which the national housing market downturn will influence overall household consumption.

Following solid gains over the past few years, growth in **dwelling investment** has moderated recently. Falling house prices, particularly in Sydney and Melbourne, tighter credit conditions and weakening investor sentiment are providing headwinds to the dwelling investment outlook. While a solid pipeline of work yet to be done in higher-density projects will support activity in 2018-19, dwelling investment is forecast to fall in 2019-20 and 2020-21 as existing projects are completed.

After a soft result in 2018-19, growth in **business investment** is forecast to be stronger in 2019-20 and 2020-21. Following an expected fall in 2018-19, mining investment is forecast to rise in 2019-20, as firms maintain large capital stocks and sustain production levels. Despite recent business surveys indicating a softening in business conditions, improving capital expenditure intentions suggest steady growth in non-mining investment over the forecast period.

Exports growth over the short-term continues to be supported by the ramp-up in national LNG production, a return to growth in rural exports, and continued steady growth in services exports. As construction of the remaining LNG projects in Western Australia and Northern Territory reach completion, capital imports are expected to ease and keep overall growth in **imports** modest.

Australian Treasury expects national **employment** growth to slow to 2% through the year to June quarter 2019 (down from 2.7% in 2018), and to broadly match population growth in the years to June quarter 2020 and 2021. With the participation rate to remain stable, the **unemployment rate** is expected to be steady at 5% over the forecast years.

Inflation is expected to gradually return to the mid-point of the RBA target band of 2-3%, with the pick-up in **wages** growth expected to be slightly faster as economic growth strengthens and spare capacity in the labour market continues to be reduced.

2.3 Queensland conditions and outlook

After stronger than expected growth of 3.5% in 2017-18, the combination of global, national and domestic factors impacting on economic activity is expected to see GSP growth in Queensland ease to 2¼% in 2018-19 (Chart 2.1).

Ongoing moderation in dwelling investment and the associated flow-on to consumption spending, as well as a moderation in business investment, have all contributed to this constrained growth in the domestic economy.

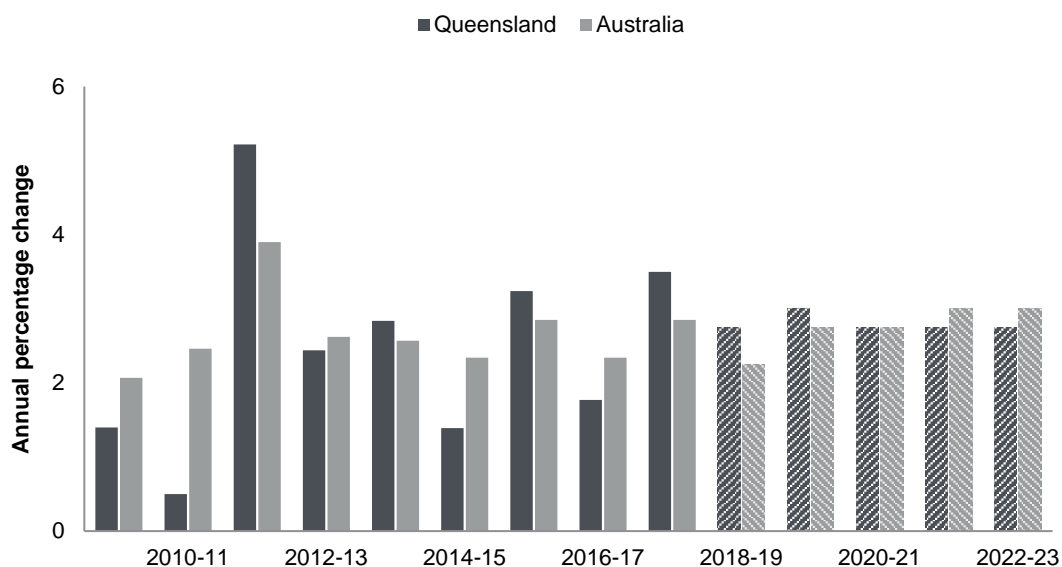
The moderation in Queensland's economic growth in 2018-19 also reflects the impact of the recent flooding event in North Queensland, which impacted many local communities. It is estimated the floods have resulted in economic losses (that is, reduced output, not including property damage) of around ¼ percentage point of GSP, spread across 2018-19 and 2019-20.

The state-wide impact of the event compares with estimated losses of around ¾ percentage point of GSP for Severe Tropical Cyclone (STC) Debbie and 2¼ percentage points for the 2010-11 Floods and STC Yasi. Despite the impact of the recent North Queensland floods on some export sectors, commencement of new metal mines and continued strong growth in education exports are expected to drive faster growth in total overseas exports in 2018-19.

Queensland's economic growth is forecast to strengthen to 3% in 2019-20, underpinned by a modest pick-up in domestic activity as business investment returns to growth. Despite this forecast strengthening in headline growth, domestic activity is still forecast to be constrained by subdued growth in household consumption and a further decline in dwelling investment.

Compared with both Australian Treasury and RBA forecasts, 2019-20 is expected to be the third consecutive year where Queensland growth outstrips national economic growth.

Chart 2.1 Economic growth¹, Queensland and Australia



Note:

1. CVM, 2016-17 reference year, 2018-19 to 2020-21 are forecasts, while 2021-22 and 2022-23 are projections.

Sources: ABS 5206.0, Australian Government Budget 2019-20 and Queensland Treasury.

From 2020-21 onwards, economic growth is expected to remain solid, at around 2¼% per annum (Table 2.2), with a more balanced contribution from all major components of the economy.

Reflecting the State's strong economic growth, employment grew 4.1% in 2017-18, the strongest year-average growth in over a decade and the largest single-year rise (97,700 persons) in the State's history. However, subdued domestic activity is expected to see employment growth return to more sustainable rates of 1½% in 2018-19 and 1¼% in 2019-20, while the unemployment rate is forecast to stabilise at around 6%.

As employment growth returns to more sustainable rates from 2018-19, the participation rate is expected to fall, reversing some of the sharp rise recorded in 2017-18 which limited reductions in the State's unemployment rate at that time. A modestly lower participation rate is expected to limit upward pressure on Queensland's unemployment rate in the near term.

Beyond 2019-20, as domestic activity strengthens, labour market conditions are set to improve modestly, with a strengthening in jobs growth and the unemployment rate edging lower to 5¼% by the end of the projection period.

Table 2.2 Queensland economic forecasts/projections¹

	Actual	Est. Act.	Forecasts		Projections	
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Gross state product²	3.5	2¾	3	2¾	2¾	2¾
Nominal gross state product	5.7	6	3¼	3½	4½	4¾
Employment ³	4.1	1½	1¼	1½	1¾	1¾
Unemployment rate ⁴	6.0	6	6	6	6	5¾
Inflation ³	1.7	1¾	2	2¼	2½	2½
Wage Price Index ³	2.2	2¼	2¼	2½	2½	2¾
Population ³	1.7	1¾	1¾	1¾	1¾	1¾
Notes:						
1. Unless otherwise stated, all figures are annual percentage changes.						
2. CVM, 2016-17 reference year.						
3. Annual percentage change, year-average.						
4. Per cent, year-average.						
Sources: ABS 3101.0, 6202.0, 6345.0, 6401.0 and Queensland Treasury.						

Household consumption

Following a strengthening in growth to 2.3% in 2017-18, supported by strong employment and a marginal pick-up in private sector wages, household consumption growth is forecast to remain subdued in 2018-19 and 2019-20.

With employment growth to slow and wages to pick up only modestly, household disposable income growth is forecast to be moderate. Weakness in dwelling investment is also likely to constrain spending on associated household goods and furnishings, while softer house prices are expected to constrain rises in household wealth. Consumers are also likely to exercise a degree of caution amid the uncertain global and domestic economic environments.

Following subdued growth in 2018-19 and 2019-20, consumption growth is forecast to pick up gradually in subsequent years, supported by an improvement in employment and wages growth.

Dwelling investment

Overall, dwelling investment is estimated to fall 5½% in 2018-19 and to decline a further 3% in 2019-20, before returning to growth in 2020-21 (up 2¾%).

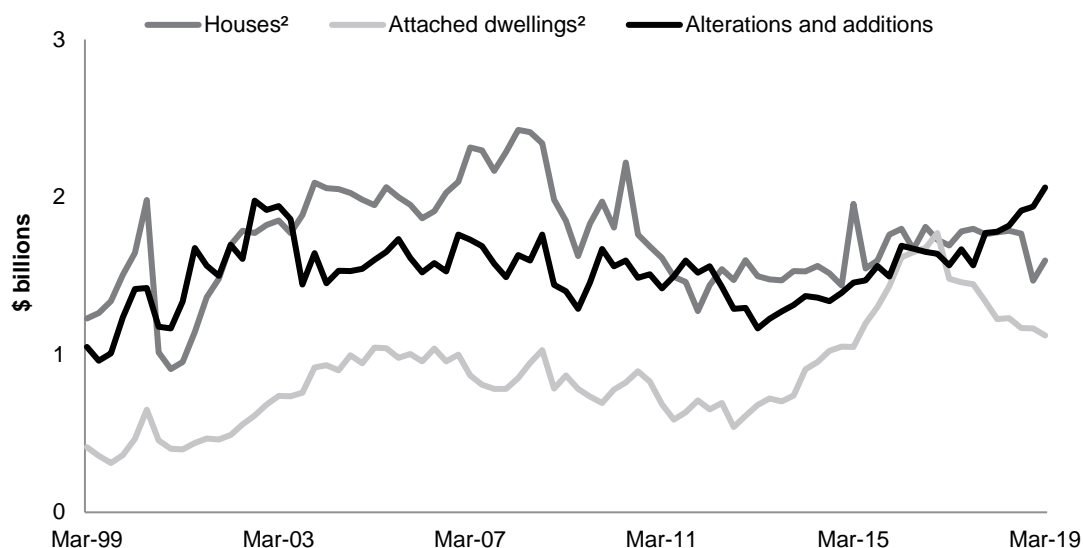
Highlighted as a key risk in the 2018-19 Mid-Year Fiscal and Economic Review (MYFER), the outlook for dwelling investment has weakened materially since late 2018, with approvals and finance commitments falling further and faster than previously anticipated. Approvals for new houses and attached dwellings have fallen 18.8% and 28.1%, respectively, in the first 10 months of 2018-19.

A range of factors have contributed to the weaker demand for new housing, including: the slowdown from the high levels of investment in apartments in previous years; a response by lenders and borrowers to tighter national lending regulations targeting investors and interest-only loans; a softer outlook for house prices, particularly in Sydney and Melbourne; and increased scrutiny of credit applications by banks, particularly in the context of the outcomes of the Banking Royal Commission.

Consequently, construction of attached dwellings (that is, units, apartments and townhouses) has continued to return to more sustainable levels following the apartment construction boom in inner Brisbane. Meanwhile, construction of detached housing (that is, houses) has also softened. Reflecting these trends, **new and used dwelling investment** is expected to decline 15½% in 2018-19 and a further 8¼% in 2019-20, before returning to modest growth in 2020-21.

Partly offsetting this decline, strong growth continues to be recorded in **alterations and additions** activity (that is, renovations), which has risen 76.6% since its trough in March quarter 2013 to reach a record high in March quarter 2019, and to be the largest individual component of dwelling investment (Chart 2.2). In an uncertain global and national economic environment, households are preferring to invest in their current homes. As a result, momentum in alterations and additions activity is expected to continue, with a strong 12½% rise in 2018-19 forecast to be followed by further rises of around 4% per annum in the next two years.

Chart 2.2 Dwelling investment, by component¹, Queensland



Notes:

1. CVM, quarterly, seasonally adjusted.
2. Work done, CVM, quarterly, seasonally adjusted.

Sources: ABS 5206.0 and 8755.0.

Business investment

Driven by investment in renewable energy projects, business investment rebounded strongly in 2017-18, making its first contribution to annual economic growth in Queensland since the peak of the LNG construction boom in 2012-13. However, business investment is expected to ease slightly in 2018-19, before returning to growth from 2019-20.

Engineering construction is expected to continue to be supported by renewable energy projects, as well as a number of resources projects either under construction or soon to commence, such as the Olive Downs and Byerwen metallurgical coal projects.

Since December 2016, 24 large-scale renewable projects have commenced operations, and a further 11 projects are financially committed or under construction in Queensland. This growth in the sector has led to significant employment gains, with the number of jobs in renewable energy increasing to 5,080 in 2017-18, a 44% growth over the year.

However, the increased uncertainty in both the global and domestic outlooks has seen mining investment more focused on maintaining or expanding the current large capital stock, rather than new major greenfield resource sector projects. This is likely to impact the outlook for engineering construction growth.

Despite strong growth in **non-residential building** investment in 2017-18, work yet to be done data suggest this component will be constrained in the near term. While accommodation projects and office buildings have supported recent activity, a lack of accommodation projects in the pipeline and elevated office vacancy rates suggest further investment is likely to be modest.

Investment in **machinery and equipment** has risen strongly in recent years. With risks to the global and domestic economic outlooks rising, many businesses are making investments in machinery and equipment to expand productive capacity, rather than committing to additional large-scale construction projects. These trends are likely to continue in the near-term, with investment in machinery and equipment also likely to be supported by recent strong growth in company profits and low lending costs for businesses.

Public final demand

Public final demand, which includes both consumption and investment spending across all levels of government, is expected to continue to grow strongly, averaging around 4% per annum over the forecast period to 2020-21.

The Queensland Government is continuing to invest in productivity-enhancing economic infrastructure and essential social infrastructure to create jobs, support Queensland businesses and drive economic growth across all regions of the State.

In this Budget, the Government has committed \$49.5 billion over the next four years to fund construction of the critical infrastructure and capital works needed to rebuild and grow the State's regions, facilitate and support business-led growth and deliver essential services to improve the quality of life enjoyed by the State's growing population.

The Government's capital program, including \$12.9 billion in 2019-20, will directly support substantial employment and economic activity across all regions of the State.

Overseas exports and imports

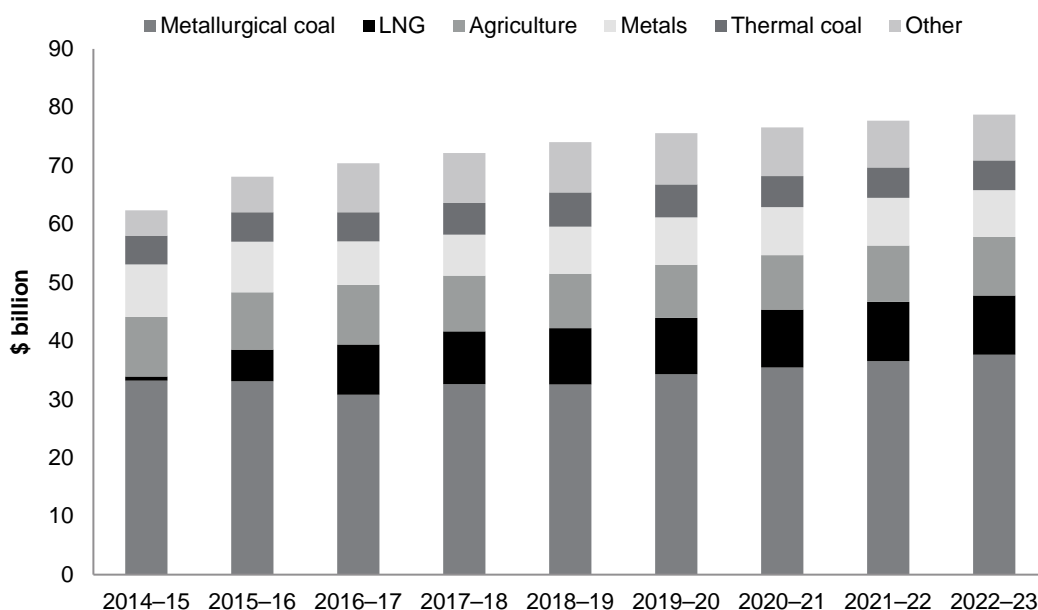
Coal export volumes are expected to grow only slightly in 2018-19. This subdued growth in 2018-19 partly reflects heightened import restrictions at Chinese ports since the end of 2018 and port disruptions at Abbot Point Coal Terminal in February following the North Queensland floods. Looking ahead, while coal export volumes are forecast to continue to grow, the rate of growth will likely be more modest than previously expected, reflecting the softer global outlook and the slowing of industrial production growth in most of the State's major coal export markets.

Importantly, around 70% of the volume of Queensland's coal exports is metallurgical coal used for steel making, whose demand has been less affected by port restrictions in China so far. Indeed, China's coking coal imports increased at an annual rate of 44% in the first four months of 2019, to 23.8 million tonnes, compared with a 24% decline in thermal coal imports over the same period.

Despite slower growth in export volumes, coal export earnings in 2018-19 have been supported by sustained high prices, with benchmark hard coking coal prices remaining high in 2018-19, partly driven by strong demand from India and supply disruptions. Meanwhile, the average thermal coal price in 2018-19 was only marginally lower than in 2017-18. This was despite benchmark spot thermal coal prices falling from around US\$120/t at the beginning of the financial year to around US\$72/t by late May 2019, partly in response to Chinese port restrictions and a signalling of decreasing reliance on coal fired power generation in developed economies.

Looking ahead, Queensland coal export volumes are forecast to increase at an average 1³/₄% per annum between 2018-19 and 2022-23. Commencement of new mining projects and some expansion of existing projects are expected to see the volume of metallurgical coal exports increase while thermal coal export volumes are forecast to decline slightly. Coal prices are assumed to gradually ease towards levels which are consistent with balancing global coal demand and supply.

Chart 2.3 Queensland's overseas goods exports¹



Note:

1. CVM, 2016-17 reference year. 2018-19 to 2020-21 are forecasts, while 2021-22 and 2022-23 are projections.

Sources: Unpublished ABS data and Queensland Treasury.

LNG export volumes are expected to grow modestly in 2018-19, driven by new coal seam gas developments which will also provide additional supply into the east coast domestic gas market. However, further growth in LNG export volumes is not expected until at least 2020-21, when substantial new gas supply begins to come online.

After four consecutive annual falls, **metal exports** are estimated to rebound and grow by 14½% in 2018-19. This recovery reflects the commencement of new projects, including Rio Tinto's Amrun bauxite mine, MMG's Dugald River zinc mine and New Century's reprocessing operation at the depleted Century zinc mine, along with the restart of Glencore's Lady Loretta zinc mine in 2018.

The North Queensland floods impacted rail transportation of metal products from Mount Isa to Townsville. However, these impacts were temporary, with the rail line re-opening on 29 April, while some of the disruptions were mitigated by temporary increases in road haulage. Metal processors have also noted that some lost production will be caught up by the end of 2019.

For further details on the impact of recent natural disasters, including the Government's responses, refer to the supplementary Budget paper on Disaster Recovery.

Although international metal prices were lower in 2018-19, their negative impacts on export earnings were offset by a lower A\$ exchange rate and a shift towards exports of metal concentrates, whose prices have been less aligned with metal prices in recent times. The ramp-up in metal production is expected to largely be completed by the end of 2019. Therefore, combined with an expected moderation in production at some existing mines due to lower ore grades, the volume of metal exports is expected to plateau by 2020-21.

Growth in **beef production and exports** have continued in 2018-19, as dry conditions persisted across many cattle regions in Queensland. An anticipated return to more favourable conditions will see restocking activity gradually increase, as challenging weather conditions have depleted herds in recent years. However, herd rebuilding in the north of the State is likely to be protracted due to local cattle losses following the North Queensland floods.

Sugar exports are expected to return to growth in 2018-19, reflecting elevated levels of sugar content in crushed cane. Drier conditions toward the end of 2018 allowed the harvest to take place over a shorter period, while sugar content was at optimal levels. A softening of sugar exports is expected in the near term, assuming a return to normal sugar content levels.

Cotton exports are expected to fall in 2018-19 as dry conditions continue to reduce the area planted to cotton. Similarly, **other crop exports** are expected to decline, reflecting a reduction in the area planted for most crops, and therefore, decreased production.

Following a sustained period of solid growth, **overseas tourism exports** are expected to ease in 2018-19. However, a competitive A\$, new air routes to Asia and the Brisbane airport expansion are expected to support a return to growth in following years.

Queensland's **international education exports** have continued to grow strongly in recent years with a competitive A\$ and ongoing demand from Asia driving growth over the forecast period. China remains a key market, accounting for around 23% of overseas student enrolments in 2018.

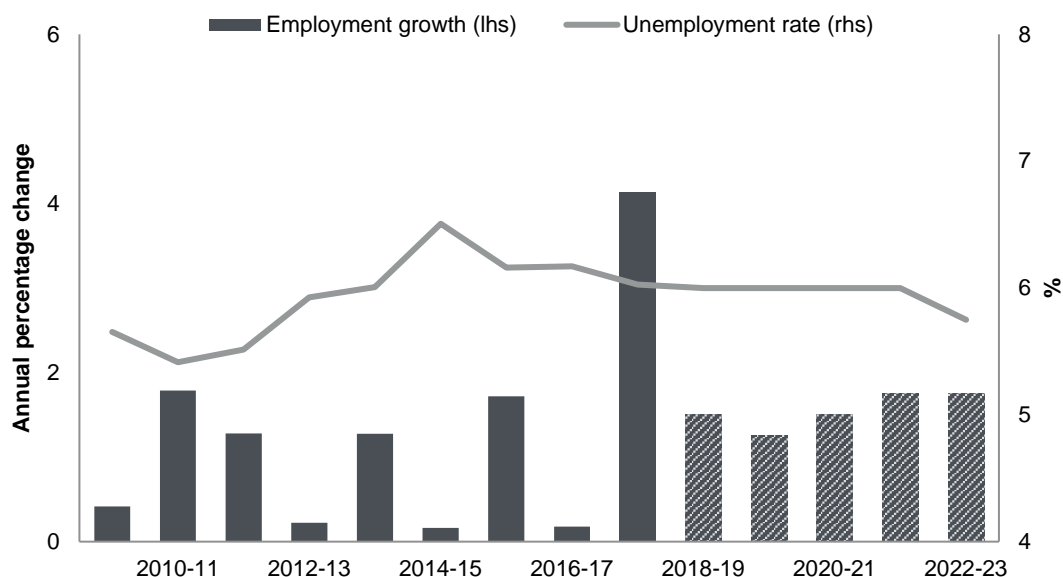
Overseas imports rose sharply in 2017-18, reflecting increased imports of capital goods (consistent with the rebound in business investment in that year, including several large scale renewable energy projects), petroleum products (which can be volatile) and motor vehicles (reflecting the cessation of domestic vehicle production in 2017). However, overseas imports are forecast to return to modest growth in 2018-19 and 2019-20, reflecting subdued growth in domestic activity.

Labour market

After exceptionally strong growth of 4.1% in 2017-18, employment growth is expected to return to more sustainable rates over the forecast period. With the outlook for domestic activity subdued in 2018-19 and 2019-20, employment growth is estimated to ease to 1½% in 2018-19 and 1¼% in 2019-20, before picking up to 1½% in 2020-21.

The unemployment rate is expected to remain relatively stable over the next two years. Labour force participation has moved broadly in line with employment growth in recent years, resulting in a relatively steady unemployment rate (Chart 2.4). This trend is expected to continue and, as a result, the State's unemployment rate is expected to stabilise at around 6% through to 2020-21.

Chart 2.4 Employment growth and unemployment rate, Queensland¹



Note:

1. Year-average. 2018-19 to 2020-21 are forecasts, while 2021-22 and 2022-23 are projections.

Sources: ABS 6202.0 and Queensland Treasury.

The strength of the Queensland labour market has seen 199,000 jobs created across the State since January 2015. This strong jobs growth, in particular the sharp rise in employment in 2017-18, saw additional jobseekers encouraged into the labour market, resulting in a spike in the participation rate which limited the reduction in the State's unemployment rate in that year.

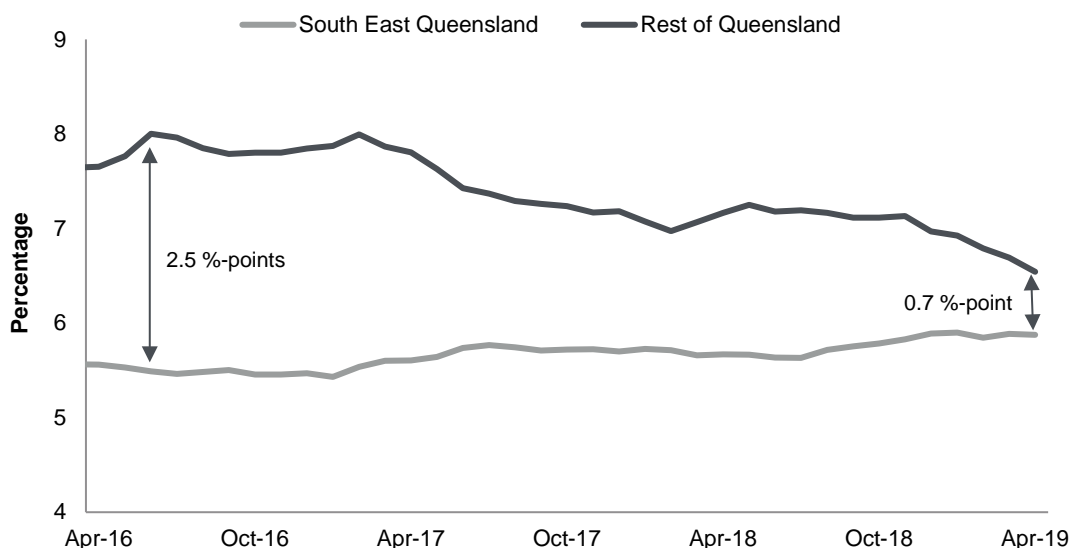
As employment growth returns to more sustainable rates, some workers are less likely to actively participate in job seeking and the participation rate is expected to decline. As a result, some of the moderation in employment growth is expected to be absorbed by a partial reversal of the previous spike in labour force participation, leaving the unemployment rate broadly stable.

Employment growth is projected to strengthen to 1¾% in 2021-22 and 2022-23, reflecting a pick-up in domestic activity, with the unemployment rate to edge down to around 5¾% by the end of the projection period in 2022-23.

Regional labour markets

Labour market conditions in regional Queensland have improved over the past year. Over the year to April 2019, employment in regional Queensland increased 8,700 persons, with jobs growth over the year (1.4%) being faster than population growth (0.7%). Further, the gap between the regional and South East Queensland unemployment rates has continued to narrow, from 2.5 percentage points in mid-2016 to 0.7 percentage point in the year to April 2019 (Chart 2.5), reflecting the stronger economic conditions in key regions.

Chart 2.5 Unemployment rate¹ by region, Queensland



Note:

1. Year-average. South East Queensland is defined as Greater Brisbane, Gold Coast, Sunshine Coast and Toowoomba.

Source: ABS 6291.0.55.001.

Mackay had the State's lowest unemployment rate (4.3%) in April 2019. Conditions in the region have eased over the past year, however this follows two years of strong jobs growth.

Central Queensland's labour market appears to be adjusting well following the end of the LNG construction boom, with employment up 6,900 persons over the year to April 2019 (the most in any region outside South East Queensland) and the unemployment rate falling to 5.6%.

The labour market in **Cairns** remains buoyed by strong domestic tourism, with employment up 4.5% over the year and the unemployment rate down 1.4 percentage points, to 4.8%.

Conditions in **Townsville** and the diverse **Queensland-Outback** region remain challenging. However, Townsville has shown improvement over the past two years, with the unemployment rate falling 2.9 percentage points and employment rising 10,200 persons.

While the north west of the Outback region has been impacted by the recent floods, the south and central west Outback are facing ongoing drought conditions. Further, there are elevated levels of unemployment across rural Indigenous communities in parts of the Outback region.

Wide Bay recorded modest employment growth (1.0%) over the past year and a falling unemployment rate (down 2.0 percentage points to 7.5%). This result was despite the region facing ongoing labour market challenges, low participation rates and relatively high rates of social disadvantage.

Labour market conditions in South East Queensland have remained robust over the year to April 2019, with employment up 1.9% and the unemployment rate remaining below the State average. Within South East Queensland, the Gold Coast has recorded the strongest labour market conditions, with employment growing by 4.7% and an unemployment rate of 4.8%, the equal second lowest in the State.

Prices and wages

Brisbane's consumer price growth has remained steady in recent years, with inflationary pressures remaining subdued in 2018-19. While the further 12.5% annual increase in the Australian Government's tobacco excise has provided upward pressure on inflation, this has been partially offset by falling global oil prices in late-2018 that have driven automotive fuel prices lower. A modest acceleration in inflation is forecast for 2019-20, driven by a further increase in the tobacco excise and a return to growth in dwelling rents, as apartment supply continues to be absorbed.

Nominal wage growth in Queensland has accelerated slightly in recent years but remains subdued by historical standards. However, despite the modest recent wages growth, slower consumer price inflation has seen real wages continue to rise. Wage growth is expected to strengthen over the medium-term as conditions in the domestic economy improve.

Population

Queensland's population growth is forecast to average around 1¼% in 2018-19, with similar rates of growth forecast in each year over the remainder of the forecast period.

Queensland's more affordable housing has supported higher net interstate migration from New South Wales. Meanwhile, the unwinding of the Western Australian resources investment boom has seen an increase in net inflows from that state over recent years, following a sustained period of outflows to Western Australia between 2008 and 2015. Queensland's net interstate migration is expected to moderate over coming years.

Net overseas migration to Queensland has grown strongly and is expected to continue to grow over the medium term, driven by a range of factors including rising incomes in Asia and a competitive A\$.

2.4 Risks to the outlook

In its April 2019 *World Economic Outlook*, the IMF noted risks to the global economic outlook are tilted to the downside.

US-China trade tensions could escalate further and the resulting policy uncertainty adversely affect global growth. This may particularly impact on the Chinese economy and its key Asian trading partners, leading to a weaker outlook for industrial production and tempering the outlook for Queensland export growth. Further, there is ongoing uncertainty about the duration of Chinese coal import restrictions and the impacts on coal exports and prices.

Nevertheless, the effect of the trade war on Queensland's coal exports may not be even. Given the high quality of Queensland's metallurgical coal, which comprise around 70% of the volume of Queensland's coal exports, and the dominance of the blast furnace method of steel making in Asia, Queensland metallurgical coal exports may be less affected. In fact, China's State Council announced in mid-May 2019 tariff exemptions on some US imports which included coking coal but not thermal coal.

With political discord in the EU already elevated and prolonged fiscal uncertainty in Italy, a "no deal" Brexit could heighten political and economic instability in that region, further impacting on global confidence.

At the national level, if economic growth was to soften further than currently anticipated, this could lead to continued weakness in wages growth and inflation. It may also prompt the RBA to consider monetary policy easing further or faster than current market expectations. However, with the RBA recently noting the limitations of monetary policy to stimulate demand in the current low interest rate environment, this scenario could also increase the importance of fiscal policy at the national level as a tool in managing demand.

The national and state housing markets have changed considerably since late 2018, as evidenced by the substantial price falls in Sydney and Melbourne. Housing approvals in Queensland have also fallen further than expected since the 2018-19 MYFER, and there remains a high level of uncertainty around the outlook for dwelling investment and property prices.

The moderate declines in dwelling investment forecast in 2018-19 and 2019-20 and a return to growth expected in 2020-21 are based on key underlying fundamentals that should help limit any more substantial weakening of the housing sector. These include the relatively modest price increases recorded in Queensland during the current housing cycle and the State's ongoing solid population growth.

However, if the dwelling sector were to weaken further than currently anticipated, this could have a negative impact on household wealth and consumption, with flow-on effects to employment.

Table 2.3 overleaf outlines the detailed components of GSP for the Actual 2017-18 outcome, the Estimated Actual 2018-19 outcome and the 2019-20 and 2020-21 forecast period.

Table 2.3 Queensland economic forecasts¹, by component

	Actual	Est. Act.	Forecasts	
	2017-18	2018-19	2019-20	2020-21
Economic output²				
Household consumption	2.3	2½	2½	2¾
Private investment	5.3	-3½	½	3¼
Dwelling investment	-3.9	-5½	-3	2¾
New and used	-8.7	-15½	-8¼	1½
Alterations and additions	6.1	12½	4¼	4
Business investment	13.1	-3	2¼	3¾
Non-dwelling construction	16.9	-9¼	1¼	3¼
Machinery and equipment	7.7	6½	3¾	4¼
Private final demand	3.1	1	2	2¾
Public final demand	4.0	4½	4¼	3½
Gross state expenditure	3.3	1¾	2½	3
Net overseas exports ³	-1.7	½	½	0
Overseas exports	2.6	3½	2½	1½
less Overseas imports	13.5	1½	1½	2¾
Gross state product	3.5	2¾	3	2¾
Nominal gross state product	5.7	6	3¼	3½
Employment ⁴	4.1	1½	1¼	1½
Unemployment rate ⁵	6.0	6	6	6
Inflation ⁶	1.7	1¾	2	2¼
Wage Price Index ⁶	2.2	2¼	2¼	2½
Population ⁶	1.7	1¾	1¾	1¾
Notes:				
1. Unless otherwise stated, all figures are annual percentage changes.				
2. CVM, 2016-17 reference year, except nominal GSP. Components not separately reported are other investment (cultivated biological resources, intellectual property products and ownership transfer costs) and the balancing item (including interstate trade, inventories and the statistical discrepancy).				
3. Goods and services, percentage point contribution to growth in gross state product.				
4. Annual percentage change, year-average. The comparable through-the-year growth rate to the June quarter (seasonally adjusted) are 3.1%, 1½%, 1¼% and 1½% from 2017-18 through to 2020-21.				
5. Per cent, year-average.				
6. Annual percentage change, year-average.				
Forecast assumptions include: an easing bias in the RBA cash rate in 2019 and 2020, before a gradual rise; a broadly stable A\$; oil prices to ease marginally from US\$70/bbl; and a drier outlook for weather conditions in the short-term.				
Sources: ABS 3101.0, 6202.0, 6345.0, 6401.0 and Queensland Treasury.				

3 Fiscal strategy and outlook

Features

- The 2019-20 Budget demonstrates this Government's commitment to sound fiscal management, with operating surpluses projected across the forward estimates, despite significant fiscal pressures.
- A General Government net operating surplus of \$841 million is expected for 2018-19, almost \$700 million higher than forecast in the 2018-19 Budget (\$317 million more than the 2018-19 Mid Year Fiscal and Economic Review estimate). Beyond 2018-19, the fiscal environment remains challenging with reductions in GST and transfer duty.
- The 2019-20 Commonwealth Budget included significant downward revisions in the GST pool forecasts. These revisions have further compounded the impact of changes to Queensland's relativity following the Commonwealth Grants Commission's 2019 Update which now excludes disaster recovery payments to local governments from the GST calculation. This has resulted in Queensland's share of GST revenue being revised down by \$2.3 billion since the 2018-19 Budget (\$1.5 billion since MYFER), over the period 2018-19 to 2021-22.
- A decline in the volume of residential property transactions since MYFER, particularly for investors, has resulted in forecasts for transfer duty revenues being downgraded by around \$1.3 billion since the 2018-19 Budget (\$1 billion since MYFER) over the period 2018-19 to 2021-22.
- While significant budget pressures exist, royalty revenue has remained strong. Since MYFER, royalty revenue has been revised upwards by approximately \$1.5 billion, excluding new measures, over 2018-19 to 2021-22. The largest factor in upwards revisions to royalties is the continued strength in the hard coking coal price (primarily used for steel production), resulting in an uplift to price assumptions, across the forward estimates.
- The preliminary cost of recovery efforts following the North and Far North Queensland Monsoon Trough is estimated to be around \$1.3 billion (operating and capital).
- A new Australian accounting standard, AASB 16 *Leases*, has been adopted in the 2019-20 State Budget. AASB 16 applies to all government and private sector reporting entities. Under AASB 16, operating leases that previously were not recognised on balance sheet will now be included as lease liabilities and lease assets on the State's balance sheet. The reporting change results in a one-off increase to General Government Sector borrowing of over \$2.2 billion and an increase for Non-financial Public Sector (NFPS) borrowing of over \$2.6 billion, on 1 July 2019.
- General Government and NFPS borrowing with Queensland Treasury Corporation (QTC) will increase over the period to 2022-23 because of ongoing investment in economic and social infrastructure, but remain largely in line with 2018-19 Budget projections. In 2019-20, General Government borrowing with QTC are estimated to be \$32.8 billion, which is around \$2.7 billion less than projected at the time of the 2016-17 Budget. For the NFPS,

borrowing with QTC in 2019-20 is estimated to be \$71.95 billion, which is \$3.6 billion lower than projected at the time of the 2016-17 Budget.

3.1 Context

The Queensland Government is committed to delivering the best possible services and infrastructure to all communities.

Building on the successful strategies, initiatives and investment announced in the Government's four previous Budgets, the 2019-20 Budget supports the Government's economic plan to create secure, well-paid jobs and drive sustainable economic growth, including the ongoing growth of strong regional economies.

Another key focus of the 2019-20 Budget is planning for delivery of *Our Future State: Advancing Queensland's Priorities*. Identifying priorities and delivering on them enables us as a government to confront and tackle the major opportunities and challenges facing our state.

Ongoing budget sustainability will be central for delivering on the Government's economic plan, addressing key priority target areas and continuing to deliver enhanced frontline services to the community. Since MYFER, revenue growth has been impacted by significant downward revisions in GST pool forecasts which were included in the 2019-20 Commonwealth Budget. These revisions have further compounded the impact of changes to Queensland's relativity following the Commonwealth Grants Commission's 2019 Update which now excludes disaster recovery payments to local governments from the GST calculation. In total, Queensland's share of GST revenue has been revised down by around \$1.5 billion since MYFER, over the period 2018-19 to 2021-22.

A sharp decline in the volume of residential property transactions, particularly for investors, has led to downward revisions to Queensland's transfer duty. The scale of transfer duty revisions in Queensland is much lower than seen in Victoria and New South Wales, partly due to house prices in Queensland remaining relatively stable, compared with significant declines in the southern capitals where house prices had been at unprecedented levels.

North and Far North Queensland endured a record-breaking monsoon flooding event which devastated infrastructure, businesses, primary producers and residents across 39 local government areas around Townsville and Western Queensland through to the far north of Queensland in January/February 2019. The preliminary cost of recovery efforts following the North and Far North Queensland Monsoon Trough is estimated to be around \$1.3 billion (operating and capital).

Due to significant reductions in key revenue sources, the 2019-20 Budget implements land tax, petroleum royalty, and payroll tax measures and a reprioritisation target to ensure the Budget remains sustainable over the forward estimates and that Queenslanders continue to receive the best possible services and infrastructure.

3.2 Key fiscal aggregates

The key fiscal aggregates for the 2019-20 Budget are outlined in Table 3.1 and are discussed in detail in this chapter.

Table 3.1 Key fiscal aggregates¹

	2017-18 Actual ² \$ million	2018-19 MYFER \$ million	2018-19 Est. Act. \$ million	2019-20 Budget \$ million	2020-21 Projection \$ million	2021-22 Projection \$ million	2022-23 Projection \$ million
General Government Sector							
Revenue	58,087	59,002	60,068	60,387	61,729	63,583	65,540
Expenses	56,335	58,478	59,226	60,198	61,416	63,101	64,753
Net operating balance	1,753	524	841	189	313	483	787
PNFA ³	5,127	5,981	6,060	6,727	7,125	7,963	6,179
Fiscal balance	(586)	(2,632)	(2,677)	(3,527)	(3,667)	(4,280)	(1,731)
Borrowing with QTC⁴	29,256	30,609	29,933	32,781	35,218	40,174	42,589
Leases and similar arrangements ⁵	2,152	2,557	2,623	5,824	7,071	6,943	6,966
Securities and derivatives	122	75	122	122	122	122	122
Non-financial Public Sector							
Borrowing with QTC⁴	66,964	68,774	68,141	71,954	75,413	80,645	82,972
Leases and similar arrangements ⁵	2,152	2,557	2,623	6,217	7,430	7,266	7,254
Securities and derivatives	405	278	671	544	502	492	492
Notes:							
1. Numbers may not add due to rounding (Bracketed numbers represent negative numbers).							
2. Reflects published actuals.							
3. PNFA: Purchases of non-financial assets.							
4. Queensland Treasury Corporation.							
5. This includes adoption of new accounting standard AASB 16 Leases.							

Box 3.1 Impact of AASB 16 Leases on borrowing

A new Australian accounting standard, AASB 16 *Leases*, has been applied to the 2019-20 Budget. AASB 16 applies to all government and private sector reporting entities. Under AASB 16, operating leases that previously were not recognised on balance sheet will now be included on the State's balance sheet as lease liabilities and lease assets. The reporting change results in a one-off increase to the General Government Sector borrowing of over \$2.2 billion and an increase for NFPS borrowing of over \$2.6 billion, on 1 July 2019.

Despite the change in reporting of operating leases, there is no material change to the State's financial obligations or the underlying financial sustainability of Queensland from the new standard, because the obligations already existed prior to implementation of the standard.

Because of the change required by the new standard, additional details are disclosed on the State's borrowing in the 2019-20 Budget, to distinguish between borrowing with QTC, leases and similar arrangements, and securities and derivatives. Further details are provided in Chapter 6.

The majority of leases now required to be reported on balance sheet under the new standard relate to office accommodation, with 1 William Street being the largest. Leases and similar arrangements also increases in 2019-20 due to the recognition of new finance leases on the New Generation Rollingstock and Toowoomba Second Range Crossing contracts, and activity on the Cross River Rail PPP. Leases and similar arrangements stabilises at around \$7 billion over the out years following the adoption of AASB 16 as new liabilities are largely set off by contractual repayments.

3.2.1 Net operating balance

Table 3.2 compares the General Government Sector net operating balance forecasts for the 2018-19 Budget and MYFER with 2019-20 Budget forecasts.

Table 3.2 General Government Sector - net operating balance forecasts

	2018-19 \$ million	2019-20 \$ million	2020-21 \$ million	2021-22 \$ million	2022-23 \$ million
2018-19 Budget	148	160	110	690	n.a.
2018-19 MYFER	524	193	145	119	n.a.
2019-20 Budget	841	189	313	483	787

The 2019-20 Budget projects net operating surpluses in each year of the forward estimates.

For 2018-19, a net operating surplus of \$841 million is expected which is a \$317 million improvement on the MYFER estimated surplus of \$524 million. Since MYFER, royalty revenue has exceeded estimates, mainly due to coal prices remaining higher than previously expected.

For 2019-20, the estimated General Government Sector operating surplus of \$189 million is in line with the MYFER projection of \$193 million.

In 2019-20, General Government Sector revenue is forecast to be 0.5% higher than the 2018-19 estimated actual. Significant reductions in GST and transfer duty revenue contribute to the low rate of growth. Expenses growth is forecast to be 1.6% higher than the 2018-19 estimated actual, and has been impacted by support for disaster recovery efforts in North and Far North Queensland.

Net operating surpluses will be achieved across the forward estimates with revenue growth expected to increase and exceed expense growth from 2020-21. The widening gap between revenue and expense growth provides increasing support for the net operating balance in the later years of the forward estimates.

Additional measures, detailed in Budget Paper 4 *Budget Measures*, support the Government's ongoing commitment to improve service delivery across the State.

Table 3.3 provides a breakdown of the movements in the net operating balance since MYFER.

Table 3.3 Reconciliation of net operating balance, 2018-19 MYFER to 2019-20 Budget¹

	2018-19 \$ million	2019-20 \$ million	2020-21 \$ million	2021-22 \$ million
2018-19 MYFER net operating balance	524	193	145	119
Taxation revisions ²	(188)	(228)	(299)	(334)
Royalty revisions ²	72	850	259	275
GST revisions	(268)	(560)	(434)	(237)
Measures ³				
<i>Expense</i>	5	(615)	(291)	(182)
<i>Revenue</i>	..	387	333	387
Net	5	(228)	42	205
Net flows from PNFC and PFC entities ⁴	320	167	10	96
Natural Disaster Revisions ⁵	142	(245)	300	(187)
Australian Government funding revisions ⁶	47	(151)	(4)	596
Other parameter adjustments ⁷	187	391	294	(50)
2019-20 Budget net operating balance	841	189	313	483
Notes:				
1. Numbers may not add due to rounding.				
2. Represents parameter adjustments to revenue forecasts, excluding revenue measures.				
3. Reflects the operating balance impact of Government decisions since MYFER. This differs from the revenue and expense measures listed in Budget Paper 4 due to the timing of some decisions previously held centrally (such as the National Schools Reform Agreement) and policy matters not yet finalised.				
4. Represents revisions to dividends and tax equivalent payments from, and community service obligations (CSOs) and Transport Service Contract (TSC) payments to, Public Non-financial Corporations and Public Financial Corporations.				
5. Impact of disaster expenses net of Disaster Recovery Funding from the Australian Government.				
6. Represents the net impact of funding provided by the Australian Government primarily for Specific Purpose Payments and National Partnership payments, excluding funding for disaster recovery.				
7. Refers to adjustments largely of a non-policy nature, including changes in interest, superannuation, depreciation, swaps, lapses and deferrals.				

3.2.2 Disaster Recovery Funding Arrangements

The Disaster Recovery Funding Arrangements (DRFA), and the previous National Disaster Relief and Recovery Arrangements (NDRRA) provide a cost sharing formula between the Queensland and Australian Governments, as well as a range of pre-agreed relief measures which may be activated by the Queensland Government immediately following a disaster event, once a need has been established.

The timing of expenditure in relation to natural disasters, and the anticipated DRFA reimbursements from the Australian Government, will impact Queensland's budget position.

Box 3.2 North and Far North Queensland Monsoon Trough

Queensland is the most disaster impacted state in Australia, which underscores our need to continually invest in disaster preparedness and resilience to help save lives, minimise economic loss and enable communities to recover faster.

Queensland's expertise in disaster management, recovery and mitigation is built upon experience managing more than 84 disaster events in the past decade. The Queensland Government is supporting resilience building initiatives as part of the 2019–20 State Budget. Rebuilding after a disaster is important, but increasing the resilience of our infrastructure to lessen the impacts of natural disasters means that communities can recover more quickly, and with less cost, after a natural disaster strikes.

North and Far North Queensland endured record-breaking monsoon flooding in 2019. The trough wreaked havoc across 39 local government areas and had a catastrophic impact on communities, businesses and primary producers from the Torres Strait in the far north to the South Australian border in the south west.

The preliminary cost of recovery efforts following the disasters is estimated to be \$1.3 billion, comprising around \$270 million worth of state infrastructure remediation works and around \$1 billion worth of operating expenses, the bulk of which is capital grants to local governments.

The direct negative impact of the floods on economic output is estimated at around ¼ percentage point of GSP, spread across 2018-19 and 2019-20. This compares with previously estimated losses of around ¾ percentage point of GSP for Severe Tropical Cyclone (STC) Debbie and 2¼ percentage points of GSP for the 2010-11 Floods and STC Yasi.

Under current Disaster Recovery Funding Arrangements, which apply to this event, the bulk of Commonwealth funding is currently expected in the 2020-21 financial year with a net fiscal balance cost to the State of the monsoon event expected to be around \$480 million over the forward estimates.

3.3 Fiscal strategies

The Palaszczuk Government is committed to the sound management of the State's finances, while delivering high quality services to all Queenslanders. This includes managing within the State's means and budgeting for a positive operating position in each year of the forward estimates.

Ongoing budget sustainability is central to delivering on the Government's economic plan, addressing key priority target areas and achieving public sector reform. To ensure Budget sustainability, revenue and expenditure measures have been introduced in the 2019-20 Budget.

3.3.1 State's operating capacity

As outlined in Chapter 7, almost half of Queensland's revenue is from the Australian Government. This means Queensland's fiscal position is exposed to decisions made by the Australian Government, such as not renewing expiring funding agreements, which leads to a lack of certainty about the funding that will be received each year and limits the Government's ability to respond to emerging service delivery pressures.

Despite the reliance on Commonwealth funding, the measures introduced in the 2019-20 Budget, together with a focus on expenditure discipline, will ensure the gap between revenue and expenditure growth widens across the forward estimates.

While the Government is delivering on its commitment to provide sound fiscal management, at any given time, issues exist with potentially significant adverse impacts. Until these issues have been considered by Government or formal agreements are in place, it remains unclear if or when these issues will impact the net operating balance. Until there is greater certainty, the potential fiscal impacts of such issues are not included in the forward estimates. These include:

- **Native Title Compensation Settlement:** The Government is potentially exposed to compensation liability arising from native title claims. At this stage it is not possible to quantify the potential liability.
- **Removal of Statutory Limitation on Physical Abuse:** The Government is actively considering the removal of the statutory limitation period of serious child physical abuse and connected psychological abuse, consistent with stakeholder views expressed in response to the Issues Paper: The civil litigation recommendations of the Royal Commission into Institutional Responses to Child Sexual Abuse: Redress and Civil Litigation Report – understanding the Queensland context. The Government acknowledges Queensland's potential liability that would arise from the removal of the statutory limitation.
- **Share of future GST revenue:** The Commonwealth Grants Commission may propose to amend its assessments in consultation with the States as part of its 2020 Methodology Review. The quantum of these impacts cannot be determined at present. If they are incorporated into the assessment methodology, they will impact on Queensland's GST Revenue from 2020-21.
- **The National Partnership on Remote Housing** finished on 30 June 2018, with no additional funding to Queensland provided in the Commonwealth Budget. There will be significant additional investment required to meet the growing housing needs in remote Indigenous communities.
- **Following the January 2011 Queensland flood events**, certain property owners commenced a class action making claims against the State. This class action commenced trial in December 2017. At the time of Budget preparation, a judgement is yet to be handed down.
- **National Partnership on Universal Access to Early Childhood Education:** The Australian Government has not committed to providing funding to support universal access to kindergarten for children in the year before school beyond 2020, resulting in uncertainty for Queensland, including service providers and parents.

Revenue

Ensuring Queensland remains a competitive taxation environment which supports business and jobs growth, and ensuring cost of living pressures do not place undue strain on Queensland households, are key priorities of this Government.

Queensland businesses and households benefit from one of the most competitive tax environments out of all states in Australia, and will continue to do so under the Palaszczuk Government. Policy and taxation settings are being balanced against appropriate management of the State's operating position. For the 2019-20 Budget, revenue measures have been introduced which promote jobs and support business while ensuring the continued delivery of high quality services:

Revenue Measures

- From the 2019-20 financial year, a payroll tax rate of 4.95% will apply to employers with total annual taxable wages above \$6.5 million. This rate remains lower than New South Wales (5.45%), Western Australia (5.5%), Tasmania (6.1%), Australian Capital Territory (6.85%) and Northern Territory (5.5%), and comparable to South Australia (4.95%) and Victoria (4.85%). This revenue measure will fund the payroll tax package.

Payroll Tax Package

The Government is increasing the exemption threshold for payroll tax from \$1.1 million to \$1.3 million of annual wages from 1 July 2019. This change will reduce the payroll tax paid by businesses with annual wages up to \$6.5 million by either keeping them below the threshold, or reducing the amount payable due to increasing the deduction threshold.

The Government is extending the 50% payroll tax rebate on the exempt wages of apprentices and trainees until 30 June 2021.

To further encourage regional employment, from 1 July 2019, the Government is introducing a 1% discount on the relevant payroll tax rate for businesses who have more than 85% of their employees outside South-East Queensland. This will benefit regional payroll tax paying businesses.

From 1 July 2019 until 30 June 2021, the Government is introducing a rebate of the payroll tax on additional employees that businesses can demonstrate they have employed over and above their level of full time employees.

- The petroleum royalty rate will increase by 2.5% to 12.5% from 2019-20 onwards. The Government will review design settings of the petroleum royalty regime during 2019-20. The review is discussed further in Chapter 4, Section 4.4.2.
- From 1 July 2019, the Government will increase land tax rates for companies, trusts and absentees by 0.25 cents for each dollar above \$5 million, and 0.25 cents for each dollar above \$10 million.
- From 2019-20, the land tax absentee surcharge rate will be harmonised with Victoria and New South Wales with a 0.5% increase, and application of the surcharge widened to include foreign corporations and trustees of foreign trusts.

- The Government will increase resourcing for Treasury to undertake a program of additional targeted tax compliance activities to ensure all Queenslanders are paying their fair share of taxes.

Further detail on these measures and more information on Queensland's revenue outlook are provided in Chapter 4.

Fiscal principle supporting revenue management

Taxation per capita in Queensland remains significantly lower than the average of other Australian states and territories. In 2019-20, Queensland's taxation per capita of \$2,952 will be \$666 per capita less than the average of the other jurisdictions.

In addition to comparing Queensland's competitive taxation status across jurisdictions, the Government also aims to support businesses and households by ensuring that own-source revenue in the General Government Sector, including user charges and royalties, remains at or below 8.5% of nominal gross state product (GSP), on average, across the forward estimates. Own-source revenue is derived from total State revenue less any grants received from external sources, mainly the Australian Government.

This principle is expected to be met over the forward estimates period, with revenue falling as a percentage of GSP. For 2019-20, General Government own-source revenue is forecast to be 8.5% of nominal GSP. This falls to 7.9% by 2022-23.

Expenditure

For the 2019-20 Budget, the government has introduced several savings measures to maintain budget sustainability, and to ensure service delivery remains high quality and provides the outcomes Queenslanders need.

Reprioritisation Target

Ongoing budget sustainability is central to delivering the Queensland Government's economic plan, addressing key priority target areas and achieving public sector reform.

Reprioritisation targets have been factored into the 2019-20 Budget of \$200 million in 2019-20 and \$500 million per annum from 2020-21 onwards.

Service Priority Review Office

From 1 July 2019, a new Service Priority Review Office (the Office) will be established in Queensland Treasury. In partnership with the Department of the Premier and Cabinet, the Office will drive the realisation of the reprioritisation targets, by conducting reviews of Queensland public sector agencies and programs.

The review of an agency's operations, programs and administration (both internal and contracted out), will identify how functions align with government's priorities, and consider how to optimise the alignment of functions and public resources against these priorities.

The Office will draw on expertise in service delivery from outside Government including from the business and community sectors.

Consistent with Government's employment security policy there will be no forced redundancies in realising these targets.

More information on Queensland's expenditure outlook is provided in Chapter 5.

Fiscal principle supporting expenditure management

In the General Government Sector, employee expenses equate to approximately 42% of total expenses in 2019-20. Increases in employee expenses reflect changes in the number of public sector employees as well as wages growth.

A key focus is to ensure a balance between high-quality service delivery, and the discipline that underpins the Government's commitment to fiscal sustainability.

To manage employee expenses growth, the Palaszczuk Government adopted a fiscal principle to maintain a sustainable public service by ensuring that overall growth in full-time equivalent (FTE) employees, on average over the forward estimates, does not exceed population growth.

One of the recommendations from the Coaldrake Review (discussed further in Chapter 5 in Box 5.1) was to nuance the representation of Fiscal Principle 6 to expand disclosure to show health and education growth separately from the rest of the sector. The Government accepted this recommendation in principle. This is now available in Chapter 5, Chart 5.3.

FTEs are estimated to increase by around 4,392 in 2019-20, with approximately 89% of this increase attributable to growth in health and education.

Average FTE growth over the forward estimates period from 2018-19 to 2022-23 is 1.68%, refer Table 3.4. This compares to an estimated Queensland population growth of 1¼% annually.

Further details are provided in Chapter 5, with Table 5.2 listing in-scope agencies and their FTE estimates for 2018-19 and 2019-20.

3.3.2 Investment

The Queensland Government has an important role in providing essential infrastructure and capital works to meet the State's increasing service needs and to promote increased productivity and efficiency for the State's industries. The Queensland Government also recognises that building infrastructure benefits local communities, strengthens local economies and supports local jobs.

Through the 2019-20 Budget, the Government continues to invest in health, education and roads that Queenslanders need. Key measures include:

Education

- Through the \$1.3 billion Building Future Schools Fund, the Government is building seven new secondary schools, two new special schools, and three new primary schools. For existing state schools, the Government's Renewing Our Schools Program provides \$235 million over four years to 2021-22 to enhance and upgrade facilities in identified state schools across Queensland. The Government is also providing increased funding of \$251 million over three years from 2018-19 for the provision of additional facilities at existing state schools experiencing enrolment growth.

Hospitals

- The Government's *Building Better Hospitals* commitment is a key priority for Queensland Health which will help address growing demand by enhancing public hospital capacity and services in the South East Queensland growth corridor. The program includes projects at three major South East Queensland hospitals including Caboolture, Logan and Ipswich with a combined value of \$957 million.

Roads

- The Queensland Government is investing \$898 million to deliver major projects on the M1, including the Varsity Lakes to Tugun and Eight Mile Plains to Daisy Hill projects. A safe, efficient and reliable M1 Pacific Motorway plays an important role in driving productivity and competitiveness across South East Queensland.
- The Government is also investing in several Bruce Highway upgrades through the 2019-20 Budget. Many Queenslanders are dependent on the Bruce Highway for their livelihood and lifestyle. With the Bruce Highway connecting cities and towns over a distance of almost 1,700 kilometres from Brisbane to Cairns, it is essential to maintain and upgrade the Bruce Highway to ensure freight, travel and commuter traffic is safe and efficient. The Queensland Government will continue to work with the Australian Government to deliver the Bruce Highway Upgrade Program, aimed at improving safety, flood resilience and capacity along its length.

Community Safety

- The Government has also committed around \$620 million, held centrally, towards an expansion of the Southern Queensland Correctional Precinct. The Stage 2 Expansion will deliver a correctional facility with a focus on health and rehabilitation, to reduce reoffending. This expanded facility, with its therapeutic health-centred operating model, will help address substance addiction and mental health issues. Further, it will enable Queensland Corrective Services and Queensland Health to provide rehabilitation and treatment in a world-class correctional facility. The Stage 2 Expansion will ease overcrowding across the correctional services system, helping keep correctional officers and prisoners safe.

Youth Justice

- The Government is committed to preventing offending and reoffending, and keeping young people out of courts and custody, supported by the development and upkeep of appropriate infrastructure facilities. This includes increasing capacity in Youth detention facilities by an additional 48 beds, with \$178 million for the completion of these projects over the next three years

Further information about the Government's capital program is provided in Chapter 6 and Budget Paper 3 *Capital Statement*.

Borrowing

The Government is committed to managing borrowings in a sustainable way. To achieve this, the government is focused on growing the net operating balance across the forward estimates to reduce future borrowing requirements, while allowing the Government to continue to invest in the infrastructure projects needed for Queensland's growing population.

The revenue and expense measures identified in Section 3.3.1 are supporting an ongoing improvement in the net operating balance, by ensuring that there is a widening gap between revenue growth and expenses growth. Expenditure control will be achieved without reducing services, with the Government boosting frontline staff in education and health while maintaining total public sector FTE growth at a rate below population growth. This ensures the government delivers the services Queenslanders need while reducing the State's borrowing requirements.

There are also a range of initiatives and development activities that are either planned, or are underway, that will further support the State's net operating balance and reduce borrowing requirements, which have not yet been factored into the Budget. These include:

Asset and Liability Management

A new board will be established to oversee the economic and financial risks to the State's Balance Sheet. This will provide the Government with central oversight of the identification and management of risks associated with whole-of government assets and liabilities.

This approach to managing the State's assets and liabilities will ensure the Government effectively manages its financial assets to achieve the best outcomes for government as a whole.

Projects that support revenue growth

While the forward estimates period is critical to the Budget planning, ensuring growth prospects are being planned now, for the future, is also important. To support future economic growth, which in turn drives revenue growth, the Government is providing support for the projects of the future. These include:

- North West Minerals Province
- Hydrogen industry development
- Releasing gas tenure to support domestic supply
- Export Hubs

- expansion of Port of Townsville and the Cairns Port
- further funding of Port of Gladstone
- Global tourism Gold Coast and Cairns.

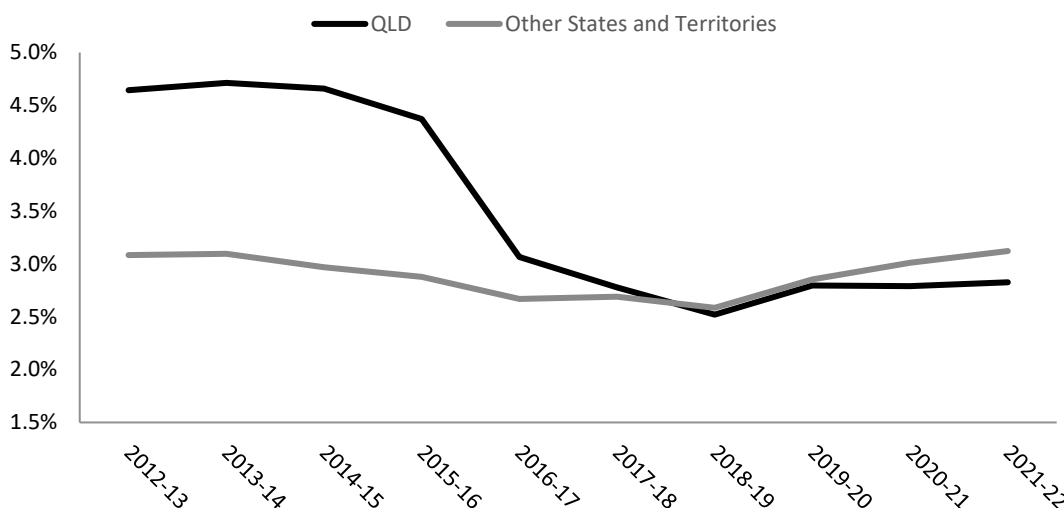
Borrowing costs have reduced

In addition to the improvement in the net operating balance from the measures outlined above, the State is benefitting from significant increased capacity to service its borrowing costs. As shown in Chart 3.1, the State's interest expense as a proportion of revenue has reduced substantially, reflecting both the reduction in the level of borrowings achieved since 2015 and reductions in interest rates.

While an increase in borrowings is projected across the forward estimates in support of the capital program, the serviceability of existing borrowings has dramatically improved since 2014-15. This means a smaller portion of state revenue is now required to service Queensland's debt. This provides greater capacity to reduce borrowings across the forward estimates.

From its peak in 2013-14 of 4.7%, Queensland's interest expense as a proportion of revenue has declined over successive budgets and is projected to remain relatively flat across the forward estimates. From 2020-21, Queensland's relative cost is below the average of the other states and territories, and is expected to be 2.8% of revenue in 2021-22.

Chart 3.1 General Government Sector – interest expense to total revenue



Note: 2022-23 not reported because some jurisdictions have not released their 2019-20 Budgets. AASB 16 Leases increases QLD annual interest expense by around \$60 million per annum.

Infrastructure funding

To deliver a sustainable capital program, the Government has adopted two fiscal principles which ensure a consistent flow of capital works; and seek to limit the borrowings required to fund capital investment. The two principles (reported in Table 3.4) are:

- Target net operating surpluses to ensure any new capital investment in the General Government Sector is funded primarily through recurrent revenues rather than borrowing.
- The capital program will be managed to ensure a consistent flow of works to support jobs and the economy and reduce the risk of backlogs emerging.

Fiscal principles supporting capital investment management

The General Government Sector Cash Flow Statement (refer Chapter 9, Table 9.7) provides details of the sources of funding for capital investment.

It shows that in 2018-19, recurrent revenues (General Government cash inflows from operating activities) are expected to provide 79% of the funding required for new capital investment (General Government net investments in non-financial assets). This is a significant improvement from the 2018-19 Budget estimate of 60%.

The improved ratio means a greater share of capital investment is funded from recurrent revenues rather than borrowings.

General Government net operating cash flows as a proportion of net investment in non-financial assets will average 62% over the 2019-20 budget and forward estimates. This is also a significant improvement from the 2018-19 Budget which estimated an average ratio of 49% over four years. This improvement has been achieved despite the challenging fiscal environment which has seen significant downward revisions to transfer duty and GST revenues.

While the value of the capital program can fluctuate across financial years, the 2019-20 Budget provides for an average General Government Sector Purchase of Non-financial Assets (PNFA) of \$7 billion across the budget and forward estimates. By maintaining the annual capital spend near the average, a consistent flow of works can be maintained which supports jobs and the economy and reduces the risk of backlogs emerging.

Fiscal principles supporting liabilities management

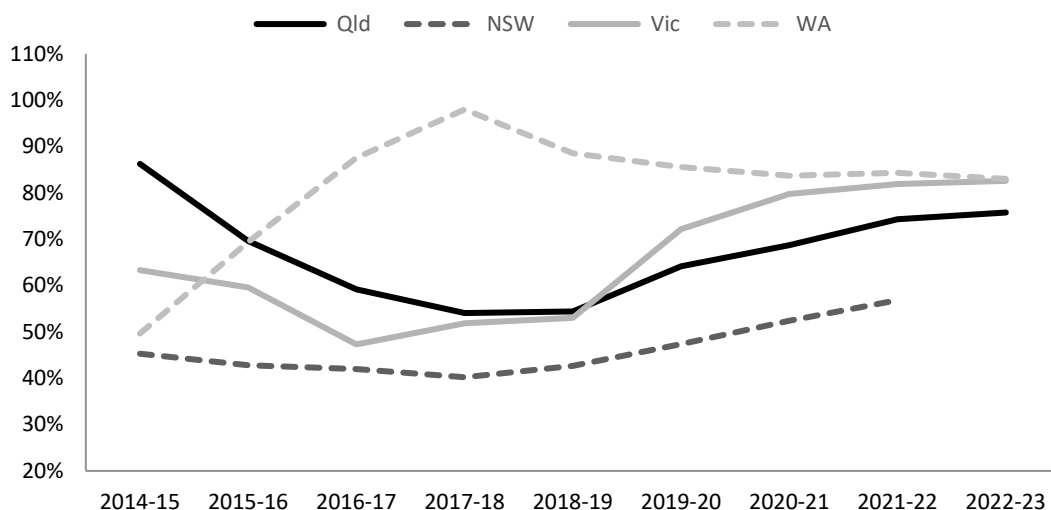
A primary objective of the Queensland Government in recent years has been to reduce General Government Sector debt.

Since 2015-16, the Queensland Government has achieved debt reductions both as a proportion of revenue and in real terms. This has allowed the Government to prioritise major infrastructure spending for all Queenslanders whilst keeping debt levels lower than the previous peak.

General Government Sector borrowing with QTC of \$29.933 billion at 30 June 2019 is forecast to be \$676 million lower than estimated at MYFER and around \$7 billion lower than projected at the time of the 2015-16 Budget.

The General Government Sector's debt to revenue ratio reduced from its peak in 2012-13 of 91% to a low of 54% in 2017-18 and 2018-19 budget years. The debt to revenue ratio for 2019-20 is estimated to be 64%, significantly lower than the 2012-13 peak. As shown in Chart 3.2, Queensland's General Government Sector debt to revenue ratio is expected to be lower than that in Western Australia and Victoria across the forward estimates period.

Chart 3.2 General Government Sector debt to revenue ratio interjurisdictional comparison



Note: At the time of publication of the Queensland 2019-20 State Budget, NSW had not yet released their 2019-20 Budget. Therefore, the NSW comparator does not include any potential increase in borrowings associated with AASB 16 Leases (refer Box 3.1).

The debt to revenue ratio in all states is impacted by changes in reported borrowing under AASB 16. From 2019-20, the debt to revenue ratio is estimated to be on average 3% higher across the budget and forward estimates due to the inclusion of operating leases (refer Box 3.1).

Leases and similar arrangements increase from 1 July 2019 due to the adoption of AASB 16 Leases (\$2.2 billion for General Government Sector and \$2.6 billion for NFPS, and recognition of new finance leases on the New Generation Rollingstock, Toowoomba Second Range Crossing as well as activity on the Cross River Rail PPP.

Across the forward estimates, the expected moderation in revenue growth and the timing of significant capital projects and associated borrowings, as well as the impacts of AASB 16, sees a gradual increase in the forecast debt to revenue ratio before a stabilisation in 2022-23. On average over the budget and forward estimates, the debt to revenue ratio is 71%.

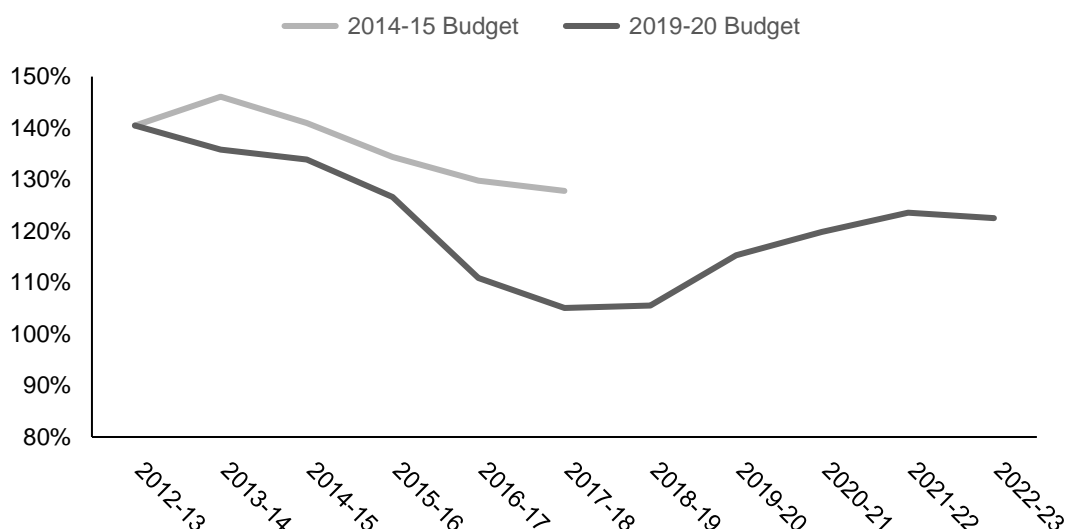
In the NFPS, which comprises the General Government Sector and government-owned corporations, borrowing with QTC is forecast to be \$68.141 billion at 30 June 2019. The NFPS debt to revenue ratio reached a peak in 2012-13 of 140.5% (while it had been expected to reach

146% at the time of the 2014-15 Budget, this was not realised). Since then the debt to revenue ratio is forecast to reach 123% in 2021-22 before reducing to 122% in the following year.

Like the General Government Sector debt to revenue ratio, the NFPS ratio will rise across the forward estimates, but remains lower than then estimates made in the 2014-15 Budget, as shown in Chart 3.3.

Through measures taken in the 2019-20 Budget, growth in NFPS borrowing is expected to halve from 6% in 2020-21 to only 3% by 2022-23, such that the NFPS debt to revenue ratio is expected to decline beyond 2021-22, while borrowing costs are at historical lows.

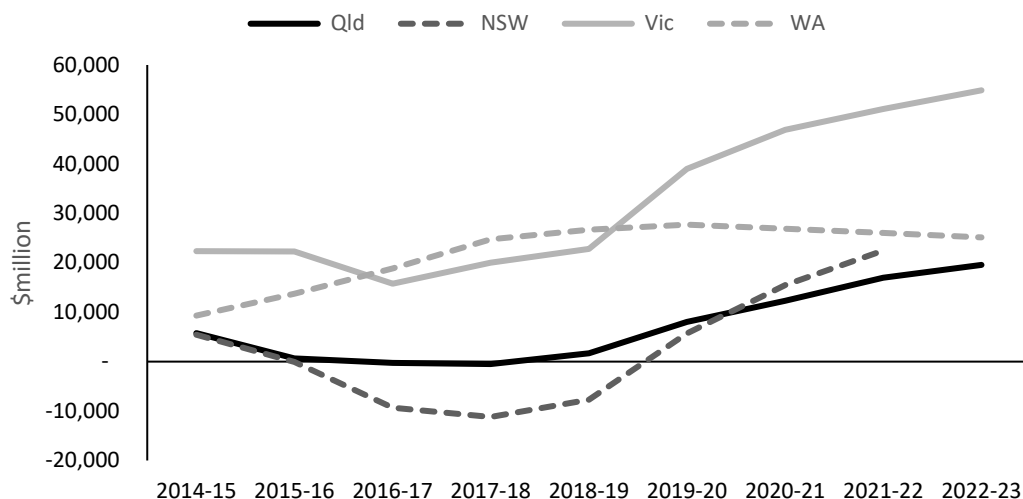
Chart 3.3 Non-financial Public Sector – Debt to Revenue Ratio



Another way of considering the sustainability of the State's finances is the net debt measure, which factors in investments the State holds, as well as borrowings. Queensland is unique among Australian states in fully funding employee (superannuation) liabilities.

An interstate comparison of net debt shows that Queensland is well placed, with General Government net debt of \$1.661 billion expected at 30 June 2019. Across the forward estimates period, Queensland's net debt is expected to be lower than in New South Wales, Victoria and Western Australia, as shown in Chart 3.4.

Chart 3.4 General Government Sector net debt interjurisdictional comparison



Note: At the time of publication of the Queensland 2019-20 State Budget, NSW had not yet released their 2019-20 Budget. Therefore, the NSW comparator does not include any potential increase in borrowings associated with AASB 16 *Leases* (refer Box 3.1).

The Government remains committed to maintaining the long-standing practice of ensuring that the State sets aside assets to meet long-term liabilities such as superannuation and WorkCover, in accordance with actuarial advice.

The State Actuary's most recent valuations indicate that, as at 30 June 2018, both the defined benefit superannuation scheme and the WorkCover scheme were fully funded.

3.4 Achievement of fiscal principles

Table 3.4 provides a summary of the Government's progress in meeting its fiscal principles' targets.

Table 3.4 The fiscal principles of the Queensland Government

Principle	Indicator		
<p>Target ongoing reductions in Queensland's relative debt burden, as measured by the General Government debt to revenue ratio.</p> <p><i>Note: The debt to revenue ratio includes borrowings from QTC; leases and similar arrangements and securities and derivatives (refer Box 3.1). To allow comparison to MYFER, the 2019-20 Budget is reported as including and excluding the impact of AASB 16 Leases.</i></p>	General Government debt to revenue ratio		
	2018-19 MYFER %	2019-20 Budget %	
		Excludes AASB 16 impact	Includes AASB 16 impact
	2018-19	56	54
	2019-20	62	61
	2020-21	65	65
	2021-22	69	71
	2022-23	n.a.	73
<p>Target net operating surpluses that ensure any new capital investment in the General Government Sector is funded primarily through recurrent revenues rather than borrowing.</p>	General Government net operating cash flows as a proportion of net investments in non-financial assets		
	2018-19 MYFER %		2019-20 Budget %
	2018-19	70	79
	2019-20	44	60
	2020-21	48	64
	2021-22	44	55
	2022-23	n.a.	70
<p>The capital program will be managed to ensure a consistent flow of works to support jobs and the economy and reduce the risk of backlogs emerging.</p>	General Government purchases of non-financial assets		
	2018-19 MYFER \$ million		2019-20 Budget \$ million
	2018-19	5,981	6,060
	2019-20	7,420	6,727
	2020-21	7,451	7,125
	2021-22	7,182	7,963
	2022-23	n.a.	6,179

Principle	Indicator
Maintain competitive taxation by ensuring that General Government Sector own-source revenue remains at or below 8.5% of nominal gross state product, on average, across the forward estimates.	General Government own-source revenue to GSP
	2019-20 Budget: 8.5%
	Average across the forward estimates 8.1%
Target full funding of long-term liabilities such as superannuation and WorkCover in accordance with actuarial advice.	As at the last actuarial review (as at June 2018), accruing superannuation liabilities were fully funded. The WorkCover scheme was also fully funded as at 30 June 2018.
Maintain a sustainable public service by ensuring that overall growth in full-time equivalents (FTE) employees, on average over the forward estimates, does not exceed population growth.	<i>FTE growth</i>
	Average across the forward estimates 1.68%
	<i>Population growth</i>
	Average across the forward estimates 1¾%

4 Revenue

Features

- Total General Government Sector revenue is estimated to be \$60.068 billion in 2018-19, \$1.98 billion (or 3.4 per cent) higher than in 2017-18 and \$2.330 billion (or 4.0 per cent) higher than estimated in the 2018-19 Budget.
- Total General Government Sector revenue is estimated to be \$60.387 billion in 2019-20. The increase of \$319 million (or 0.5 per cent) from 2018-19 is largely driven by higher than expected taxation revenue in 2019-20 due to the introduction of the waste disposal levy and taxation measures introduced in this budget. These are partially offset by lower current grants compared to 2018-19, driven by lower GST revenue and other Australian Government grants.
- Australian Government payments to Queensland in 2019-20 are expected to total \$27.744 billion, representing a decrease of \$628 million compared to payments in 2018-19. This decrease is driven by a \$746 million (2.8 per cent) decrease in GST revenue and other Australian Government grants. This is partially offset by a \$119 million (6.3 per cent) increase in Australian Government capital grants.
- The downward revision to GST revenue is primarily due to the Australian Government revising down its estimate of the GST pool and a reduction in Queensland's share of the GST pool. Chapter 7 provides a detailed analysis on Queensland's share of GST revenue and other Australian Government payments to Queensland.
- Total revenue is expected to grow at an average rate of 2.2 per cent over the four years to 2022-23. Revenue growth over this period is supported by average annual growth in taxation of 5.8% and current grants of 2.1 per cent but is also affected by declining royalties with coal prices expected to return to medium-term levels, lower interest income due to a reduction in the portfolio of financial assets held, and lower dividends from the Public Non-financial Sector.
- Queensland will maintain its competitive tax status, with per capita state tax estimated at \$2,952 in 2019-20, compared to an average of \$3,618 for the other states and territories. Taxation as a proportion of Queensland's economy will be 4.0 per cent in 2019-20, down from the peak of 4.3 per cent in 2014-15.
- The Government will introduce changes to payroll tax to reduce the tax payable by small businesses by increasing the exemption threshold, introducing a rate reduction for regional employers, as well as providing a temporary rebate to businesses that take on new employees and will maintain its apprentice and trainee rebate until 30 June 2021. These measures will be partially funded by the introduction of a higher rate of 4.95% for businesses with taxable wages above \$6.5 million per annum. Combined, the payroll tax package is estimated to have a net revenue reduction of \$341 million over the four years ending 2022-23.
- The Government will increase land tax rates by 0.25 percentage points for companies and trustees with aggregated landholdings over \$5 million. The absentee land tax surcharge

will be increased to 2 per cent and will also apply to foreign companies and trustees of foreign trusts. Revenue is expected to increase by \$778 million over the four years up to 2022-23. The definition of absentee for the purposes of land tax will also be refined to exclude Australian citizens and permanent residents holding permanent visas.

- The petroleum royalty rate will increase by 2.5 per cent to 12.5 per cent from 2019-20 onwards, with a transitional arrangement for one year for royalty payers who lodge and pay on an annual basis ending on 31 December 2019. This will lead to additional revenue of \$476 million across the four years until 2022-23.

4.1 Queensland Revenue Outlook

According to the latest National Account figures, GDP growth slowed to 1.8% (seasonally adjusted) over the year to March quarter 2019, the weakest annual growth since 2009. The Australian economy grew 0.4% in the March Quarter, while Queensland's domestic activity did the heavy lifting with the strongest growth in state final demand of all the mainland states at 0.5% (seasonally adjusted) for the same period.

Like the rest of the nation, Queensland is relying on the Commonwealth to provide the fiscal stimulus to the economy necessary for growth. Queensland will continue to deliver economic growth and prosperity through the delivery of programs which directly and indirectly drive economic growth. However, like all states and territories, Queensland is reliant on the Commonwealth Government to implement policies and programs that drive growth.

Reserve Bank of Australia (RBA) Governor Philip Lowe has commented that he would prefer government pull its weight by cutting tax and boosting spending, especially on infrastructure, and through policies that make Australia more productive.

Speaking publicly in May, the RBA Governor stated:

"the best approach to delivering lower unemployment and a stronger economy is through structural policies that support firms expanding, investing, innovating and employing people. As we ease monetary policy, it is in the country's interest that other policy options are considered too."

Queensland will continue to implement programs with a positive impact on driving economic and revenue growth, through public spending on infrastructure and funding programs supporting private sector investment.

Key elements in this Budget to deliver growth are underpinned by the measures to make Queensland the most attractive place to establish and operate a business in the nation. The policy settings of the Queensland Government are firmly focused on driving opportunities for growth.

Queensland ownership of energy assets allows for the use of necessary levers to drive down energy costs to business and keep household costs low. Additionally, Queensland's support for the LNG industry has delivered LNG revenues in 2018-19, with the value of LNG exports now twice the value of thermal coal exports. A continued commitment to growing this important export industry for the international market and providing tenements reserved for the production of gas for the domestic market will provide the necessary energy needs for industry and to provide additional exports from Queensland to the National Energy Market.

Since December 2016, 24 large-scale renewable projects have commenced operations, and a further 11 projects are financially committed or under construction in Queensland. This growth in the sector has led to significant employment gains, with the number of jobs in renewable energy increasing to 5,080 in 2017-18, a 44% growth over the year.

Queensland continues to focus its efforts on policies which drive capital investments in sectors and initiatives which will in turn grow investment and revenues including:

North West Minerals Province: Provisioning for a more efficient and effective route to export for the North West corridor for minerals of the future. Providing support for this area to open up new mineral resource to meet emerging domestic and global demand for resources. This will grow the industry and grow the resource revenue base.

Export Hubs: The Government is currently working with industry to grow export hubs. This has progressed to business case stage with \$10 million to partner with the private sector to deliver an export facility to expedite channels to market for Queensland agriculture and horticulture products.

Expansions at the Port of Townsville and the Cairns Port: To drive trade revenues.

Further funding to the Port of Gladstone: To grow capacity and export efficiency which in turn will grow royalty revenues.

Hydrogen Strategy: \$19 million to establish an agenda for renewable hydrogen industry attraction and to incentivise job creation, regional growth and increased innovation and development.

Global Tourism Gold Coast and Cairns: The Government is in the market for proposals from the private sector to deliver world-class tourism infrastructure to develop integrated resorts. These will have a broad range of tourist related facilities and attractions, and provide high-quality accommodation and a range of experiences encouraging longer visitor stays and greater tourism expenditure.

Advanced manufacturing: The Queensland Government is supporting the development of advanced manufacturing technologies, systems, products and services. The manufacturing sector is a major contributor to jobs and the economy. The Rheinmetall Defence Australia manufacturing facility based in Ipswich is playing a key role in further developing Queensland's heavy vehicle and defence manufacturing capability

The Government recognises the positive impact of these initiatives on driving revenue growth. Importantly, any revenues which may flow from these investments have not been incorporated in the forward estimates. However, Government considers these as providing the foundation for future potential revenue streams as the benefits from the investments begin to flow into the State's economy.

4.2 2018-19 estimated actual

General Government Sector revenue in 2018-19 is estimated to be \$60.068 billion, which is \$2.33 billion (or 4.0%) more than the 2018-19 Budget estimate. Significant variations from the 2018-19 Budget estimates include:

- a \$796 million (or 3.1%) increase in current grants, mainly due to additional funding from the Australian Government under Disaster Recovery Funding Arrangements to support North Queensland communities recover from the impacts of the 2019 floods and the upfront payment of a three-year agreement to assist disaster-affected primary producers in North and Far North Queensland.
- a \$750 million (or 16.2%) increase in revenue from royalties and land rents, mainly resulting from higher coal prices continuing for longer than expected in the 2018-19 Budget, with \$677 million of this revision made at the 2018-19 MYFER.
- a \$247 million (or 37.0%) increase in income tax equivalent income supported by increased earnings from electricity generation and network businesses.

These increases were partially offset by lower than estimated taxation revenue.

Table 4.1 General Government Sector revenue¹

	2017-18 Actual \$ million	2018-19 Budget \$ million	2018-19 Est. Act. \$ million	2019-20 Budget \$ million	2020-21 Projection \$ million	2021-22 Projection \$ million	2022-23 Projection \$ million
Taxation revenue	13,244	14,155	14,005	15,164	15,777	16,601	17,525
Sales of goods and services	5,884	5,731	5,869	6,004	6,190	6,307	6,389
Interest income	2,389	2,201	2,247	2,141	2,006	1,953	1,958
Grants revenue							
GST Revenue	15,129	14,794	14,441	14,214	14,204	14,907	15,357
Other current grants	10,968	11,207	12,356	11,789	12,873	13,219	13,790
Capital grants	1,870	1,700	1,913	2,000	2,769	2,545	2,256
Dividend and income tax equivalent income							
Dividends	1,909	1,552	1,749	1,473	1,054	1,080	1,205
Income tax equivalent income	1,010	666	912	764	600	600	642
Other revenue							
Royalties and land rents	4,457	4,615	5,364	5,621	4,770	4,799	4,918
Other	1,228	1,118	1,211	1,217	1,487	1,572	1,500
Total revenue	58,087	57,738	60,068	60,387	61,729	63,583	65,540
Notes:							
1. Numbers may not add due to rounding.							
2. Queensland Treasury estimates. Differs from Chapter 7 due to the inclusion of direct Australian Government payments to Queensland agencies for Commonwealth own purpose expenditure.							

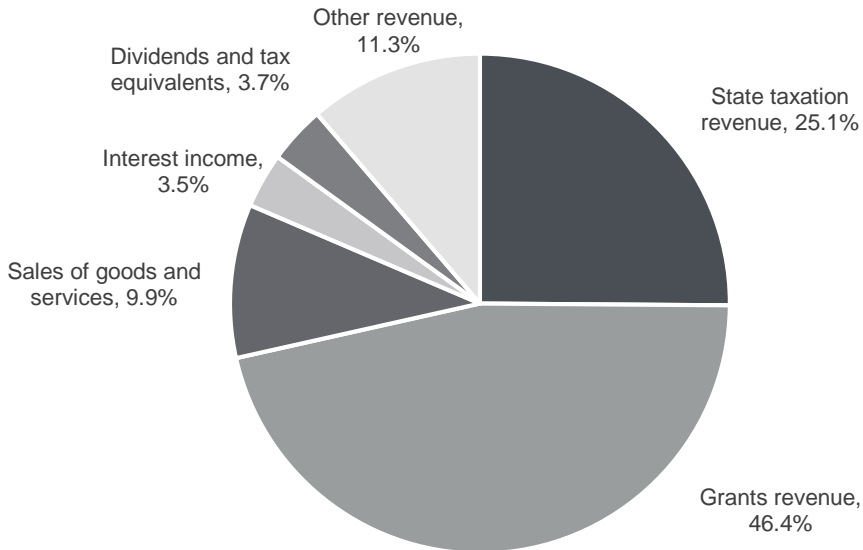
4.3 2019-20 revenue by category

General Government Sector revenue in 2019-20 is estimated to be \$60.387 billion, \$319 million (or 0.5%) higher than the 2018-19 estimated actual revenue of \$60.068 billion. The revenue increase in 2019-20 reflects a range of factors, including:

- Taxation revenue is expected to be \$1.159 billion higher than in 2018-19, reflecting the introduction of the new waste disposal levy, the new measures outlined in Section 4.3, and expected annual growth in most tax lines.
- Royalty collections are expected to be \$252 million higher than in 2018-19, reflecting the new petroleum royalty rate and increased revenue from other royalties, including base and precious metals.
- These increases were partially offset by current grants that are expected to be \$794 million lower in 2019-20 than in 2018-19, mainly due to lower GST and other Australian Government payments. Dividends and income tax equivalent income are also forecast to be \$424 million lower in 2019-20.

Major sources of General Government Sector revenue in 2019-20 are grants revenue (46.4%) and taxation revenue (25.1%). Table 4.1 details revenue estimates by category, and Chart 4.1 illustrates the composition of General Government Sector revenue.

Chart 4.1 Revenue by operating statement category, 2019-20¹



Note:

1. Numbers may not add up to 100% due to rounding.

4.4 2019-20 Budget initiatives

The 2019-20 Budget introduces new revenue measures including:

- changes to payroll tax including:
 - reducing tax payable for small businesses by increasing the exemption threshold to \$1.3 million
 - introducing a 1% rate reduction for regional employers
 - providing a temporary rebate of up to \$20,000 to businesses taking on new employees
 - continuing the 50% payroll tax rebate on the wages of apprentices and trainees until 30 June 2021
 - increasing the payroll tax rate for employers with taxable wages above \$6.5 million
- changes to land tax including:
 - changes to the definition of absentee for land tax to ensure that Australian citizens and permanent residents who hold permanent visas are not absentees

- increases to land tax rates for companies and trustees with aggregated landholdings over \$5 million
- an increase in the absentee land tax surcharge from 1.5% to 2%
- introduction of a foreign land tax surcharge of 2% applying to foreign companies and trustees of foreign trusts
- increasing the petroleum royalty rate from 10% to 12.5% of wellhead value from 2019-20 onwards
- increasing resourcing for Treasury to undertake a program of additional targeted tax compliance activities to ensure all Queenslanders are paying their fair share of taxes.

4.4.1 Payroll tax

The Government will increase the payroll tax threshold from \$1.1 million to \$1.3 million, while retaining the current \$1 in \$4 rate of reduction so that a deduction will be available if total annual Australian taxable wages are less than \$6.5 million. This will reduce the amount of tax paid by around 12,000 employers and around 1,500 employers will no longer form part of the payroll tax base.

A payroll tax increase for employers (or groups of employers) with taxable wages above \$6.5 million of 0.2% to 4.95% will also be introduced. The tax rate of 4.75% will be maintained for employers with annual taxable wages of \$6.5 million or less.

The Government will provide a 1% discount of the payroll tax rate to employers that have an ABN registered business address and at least 85% of their taxable wages paid to employees located outside South-East Queensland. Accordingly, a tax rate of 3.75% or 3.95% as applicable will apply to those businesses.

A payroll tax rebate of up to \$20,000 per employer per year will also be provided, for the 2019-20 and 2020-21 financial years, to employers that can demonstrate a net increase in full time employees. The rebate will be paid in the 2020-21 and 2021-22 financial years.

The Government is continuing the 50% payroll tax rebate on the wages of apprentices and trainees until 30 June 2021.

Combined, the payroll tax package is estimated to have a net revenue reduction of \$341 million over the four years ending 2022-23.

4.4.2 Petroleum royalty rate

The petroleum royalty rate will increase from 10% to 12.5% of wellhead value from 2019-20 onwards, with a transitional arrangement for one year for royalty payers who lodge and pay on an annual basis ending on 31 December 2019. This measure will increase revenue by \$476 million across the four years to 2022-23.

An increased petroleum royalty rate helps ensure a reasonable return is made to the community for the extraction of Queensland resources, and a rate of 12.5% for petroleum remains competitive with other royalty regimes internationally. For example, petroleum royalties in the USA and Canada are generally charged at a rate between 12.5% and 30% of the wellhead value. The new petroleum royalty rate is comparable with the near-term average royalty rate of just around 12% for high quality coking (metallurgical) coal at current prices.

The Government will also review the design of Queensland's current petroleum royalty regime to ensure greater certainty and equity for all parties and consider if there are opportunities to simplify the current regime, while providing an appropriate return to Queenslanders. While the Government has already taken measures to ensure greater certainty of domestic gas supply (for example, through release of gas tenures specifically to supply domestic gas), the review will identify further opportunities to strengthen domestic supply through the royalty regime settings.

4.4.3 Company, Trustee and Absentee land tax

For companies and trustees with aggregated landholdings over \$5 million, the Government will increase land tax rates by:

- 0.25 cents to 2.25 cents for each dollar above \$5 million
- 0.25 cents to 2.75 cents for each dollar above \$10 million.

These changes are estimated to increase revenue by \$238 million over the four years to 2022-23. The land tax rates for resident individuals remain unchanged.

For the 2019-20 Budget, the Government is changing the land tax policy settings for foreign companies and trustees of foreign trusts, which will be subject to a foreign surcharge from the 2019-20 land tax assessment year. This surcharge will be 2% and at the same time, the absentee surcharge is being increased from 1.5% to 2%.

The Government recognises that there may be particular landholdings where it would be appropriate, having regard to exceptional circumstances to be considered on a case-by-case basis, to grant foreign companies and trustees of foreign trusts ex gratia relief from the new foreign surcharge. Prior to 30 June 2019, the Office of State Revenue will commence consultation with property industry bodies on the arrangements for administering relief.

The Government is also making changes to the definition of absentee for land tax to ensure that Australian citizens and permanent residents who hold permanent visas are not absentees. Currently, a person may be considered an absentee if they do not ordinarily reside in Australia, including a person who is absent from Australia on 30 June or has been absent from Australia for more than 6 months ending on 30 June. Factors such as the reason for absence and the time spent outside of Australia are taken into consideration when determining an absentee status. This can result in Australian citizens and permanent residents being classed as absentees, with a lower tax-free threshold, higher rates of land tax and an additional land tax surcharge applying to them.

From the 2019-20 land tax assessment year, Australian citizens and permanent residents holding permanent visas who do not ordinarily reside in Australia will no longer be assessed as absentees for land tax purposes. This means they will benefit from the higher tax-free threshold of \$600,000 and lower rates of land tax currently applying to resident individuals and will not be subject to the absentee surcharge.

Increasing the surcharge to 2% and refining its application to exclude Australian citizens and permanent residents brings Queensland's land tax policy settings into closer alignment with those of New South Wales and Victoria.

In net terms, changes to the definition of absentee and the increased absentee surcharge rate together with the extension of the surcharge will raise an estimated \$540 million additional revenue over the four years to 2022-23.

4.4.4 Compliance Measures

The Government will increase resourcing for Treasury to undertake a program of additional targeted tax compliance activities to ensure all Queenslanders are paying their fair share of taxes, reconciling with broader public interest. The program will target key taxes such as payroll tax, land tax, transfer duty and royalties. It will maintain the integrity of the state tax base and build further community confidence in the equity and fairness of Queensland's tax system and its administration.

The compliance work program is expected to increase compliance-related revenue, net of the additional costs, by \$220 million over the four years ending 2022-23. It will also generate additional recurrent revenues from the entry of new tax payers into the tax system.

4.5 Queensland's revenue trends

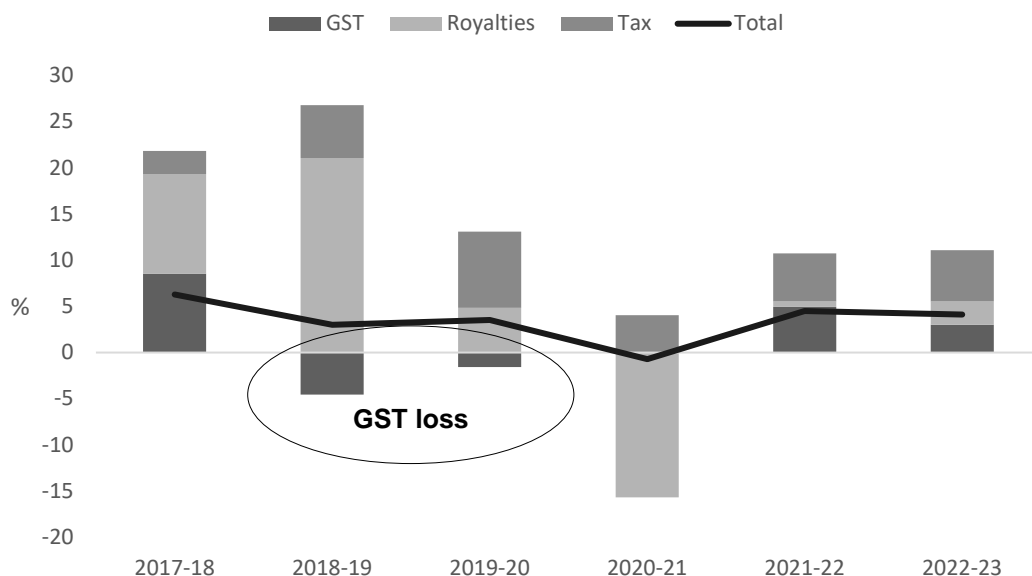
Total revenue growth is mainly driven by growth in GST, royalties, and taxation.

Total revenue growth is estimated to be 2.2% on average over the four years to 2022-23. This is far lower than the 7.3% average growth over the last fifteen years to 2017-18. This lower growth is driven by slower growth in GST revenue provided by the Australian Government. GST revenue accounts for 23.5% of total revenue expected in 2019-20, however it is only expected to grow by 1.5% per year on average over the four years to 2022-23.

Royalties were the largest driver of growth in 2018-19, due to the continued strength in the hard coking coal price. In 2019-20, taxation revenue contributes the largest proportion to growth. In 2020-21 royalties and GST revenue are both expected to decline.

Chart 4.2 examines the contribution of the key revenue sources of GST, taxation and royalties to revenue growth and incorporates the impacts of new measures discussed in Section 4.3.

Chart 4.2 Growth in key revenues¹



Note:

1. Annual growth in GST, royalties, and taxes. Total is the annual growth of the sum of the three categories.

4.5.1 GST revenue

Queensland's GST revenue is expected to decline in 2019-20, compared to 2018-19. This decline in GST revenue is primarily because the Australian Government

- significantly revised down the growth of the GST pool from 2018-19
- determined that Queensland has improved its fiscal capacity to deliver services relative to other states, and therefore requires a lesser share of GST.

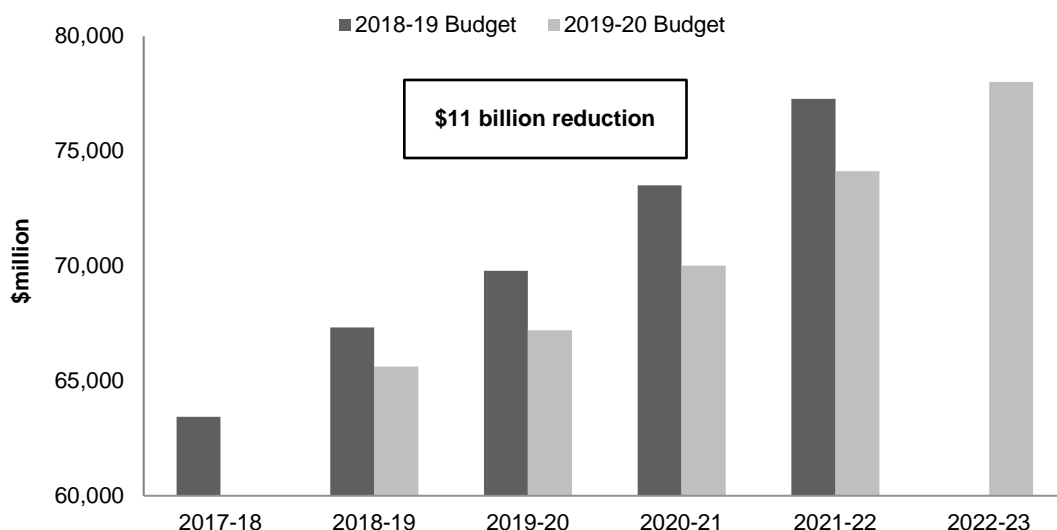
As a result, despite the GST pool continuing to grow, albeit slower than previously forecast, Queensland is the only state to receive less GST revenue in 2019-20 than in 2018-19.

Revisions to the GST pool

The decrease in GST revenue in 2019-20 reflects the Australian Government's outlook for the size of the GST pool. Since the Australian Government's 2018-19 Budget, the GST pool estimate is around \$11 billion lower over the years 2018-19 to 2021-22.

Chart 4.3 compares GST revenue pool forecasts published in the 2018-19 and 2019-20 Australian Budgets. This reflects that the GST pool forecasts at the 2019-20 Australian Budget are lower in each year compared to those forecast at the 2018-19 Australian Budget.

Chart 4.3 Australian Government forecast of GST revenue pool



Changes to assessed fiscal capacity

A further driver for the decline in Queensland's GST revenue is the Australian Government accepting the Commonwealth Grants Commission's (CGC's) assessment that Queensland's fiscal capacity has strengthened relative to other states and territories. This reflects improved mining royalties, lower natural-disaster-related expenditure, and a greater share of other Australian Government grants. Queensland is the only state to receive less GST revenue in 2019-20 compared to 2018-19.

Queensland's value of coal production increased substantially between 2014-15 and 2017-18, which increased its revenue raising capacity and reduced its GST share. Between 2014-15 and 2017-18, the value of coal production rose by more than any other mineral. This increased the revenue raising capacity of the biggest coal producer, Queensland, and reduced the capacities of other States.

Queensland's net natural disaster expenses were significantly lower in 2017-18 compared to 2014-15.

A further driver to the downward revision to Queensland's relativity in 2019-20 was the CGC's decision to adjust its method for assessing natural disaster expenditure, ignoring state expenditure on disaster-affected local government infrastructure.

4.5.2 Royalty revenue trends

Royalties were the largest driver of growth in 2018-19, due to the continued strength in the hard coking coal price. Lower revenue growth from royalties is expected in 2019-20 compared to 2018-19 due to an expected decline in coal prices during 2019-20.

Total royalty revenue is expected to decline in 2020-21 in line with coal prices gradually declining to medium-term levels by early 2021. This is followed by growth of 0.6% in 2021-22 and 2.5% in 2022-23.

4.5.3 Taxation revenue trends

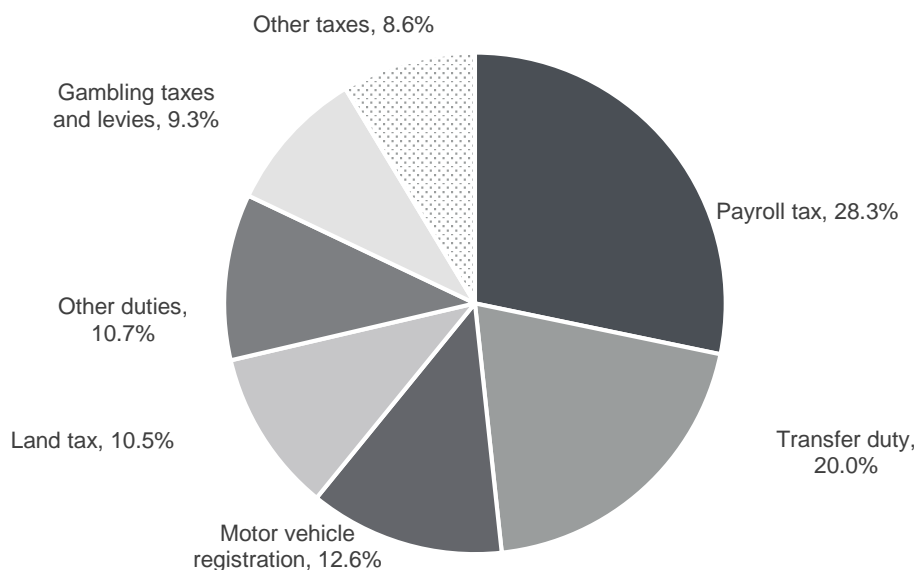
Total revenue growth over the forward estimates is mainly driven by moderate taxation revenue growth, averaging 5.8% over the four years to 2022-23, supported by expected growth in major taxes such as payroll tax, transfer duty and land tax, and by the introduction of the Waste Disposal Levy. Taxation revenue as a proportion of Queensland's economy will remain stable over this period rising only slightly from 4.0% in 2019-20 to 4.1% in 2022-23, below the recent peak of 4.3% in 2014-15.

4.6 Taxation revenue

Total revenue from taxation is expected to grow by 8.3% in 2019-20, following an estimated increase of 5.7% in 2018-19. Chart 4.4 indicates the composition of estimated State taxation revenue for 2019-20. The largest sources are payroll tax and transfer duty, which together represent around 48.3% of the State's total taxation revenue in 2019-20.

Payroll tax has a relatively stable base with its growth usually driven by the underlying strength of the economy. Transfer duty can present some variability reflecting residential and non-residential market conditions. While land tax can reflect variability in the property market, this impact is moderated by a relatively stable base and the effect on assessments from three-year averaging of land values.

Chart 4.4 State taxation by tax category, 2019-20¹



Note:

1. Percentages may not add to 100% due to rounding. 'Other duties' includes vehicle registration duty, insurance duty and other minor duties. 'Other taxes' includes the Emergency Management Levy, Waste Disposal Levy, guarantee fees and other minor taxes.

Table 4.2 shows the main components of taxation revenue. Increases in 2019-20 are driven by the introduction of the Waste Disposal Levy and other new revenue measures commencing in 2019-20. In addition, 2019-20 is the first full year in which the 15% betting tax applies, which commenced on 1 October 2018. This was introduced in the 2018-19 Budget in response to changing consumer behaviour facilitated by increased use of online and interactive technologies.

Table 4.2 State taxation revenue¹

	2017-18 Actual \$ million	2018-19 Est. Act. \$ million	2019-20 Budget \$ million	2020-21 Projection \$ million	2021-22 Projection \$ million	2022-23 Projection \$ million
Payroll tax	3,906	4,158	4,284	4,435	4,728	5,107
Duties						
Transfer	3,023	3,049	3,038	3,205	3,383	3,578
Vehicle registration	543	557	583	611	640	670
Insurance ²	894	957	1,005	1,056	1,108	1,164
Other duties ³	37	35	36	37	39	40
Total duties	4,498	4,598	4,663	4,909	5,170	5,451
Gambling taxes and levies						
Gaming machine tax	715	733	765	797	832	867
Health Services Levy	85	90	98	107	116	127
Lotteries taxes	256	306	314	322	331	340
Wagering taxes	9	74	101	103	105	108
Casino taxes and levies	104	110	113	117	120	124
Keno tax	20	19	20	21	22	22
Total gambling taxes and levies	1,190	1,331	1,410	1,466	1,526	1,588
Other taxes						
Land tax	1,180	1,331	1,589	1,670	1,744	1,807
Motor vehicle registration	1,770	1,847	1,908	1,977	2,049	2,124
Emergency Management Levy	512	538	559	584	610	637
Waste Disposal Levy	..	..	433	397	413	435
Guarantee fees	138	154	271	291	311	324
Other taxes ⁴	51	48	47	48	49	50
Total taxation revenue	13,244	14,005	15,164	15,777	16,601	17,525
Notes:						
1. Numbers may not add due to rounding.						
2. Includes duty on accident insurance premiums.						
3. Includes duty on life insurance premiums.						
4. Includes the Statutory Insurance Scheme Levy and Nominal Defendant Levy.						

4.6.1 Queensland's competitive tax status

Taxation can impact on business decisions regarding investment and employment, and household investment and home ownership. Maintaining the competitiveness of Queensland's tax system provides a competitive advantage to business and moderates the tax burden for its citizens, and is therefore fundamental to the Government's commitment to job creation and sustainable development.

One of the Government's fiscal principles is to maintain competitive taxation by ensuring General Government Sector own-source revenue remains at or below 8.5% of nominal gross state product (GSP), on average, across the forward estimates. Own-source revenue is the total State revenue less any grants received from external sources, mainly the Australian Government. On average, over the years 2018-19 to 2022-23, General Government own-source revenue is expected to account for 8.1% of nominal GSP, reducing from 8.5% in 2018-19 to 7.9% in 2022-23. Chapter 3 provides more detail on the Government's fiscal principles.

As Chart 4.5 shows, taxation per capita in Queensland is lower than the average taxation per capita in the other states and territories. In 2019-20, it is estimated that Queensland's taxation per capita of \$2,952 will be \$666 per capita less than the average of other jurisdictions. This is more competitive than 2014-15 when Queensland's taxation per capita was \$589 per capita below other jurisdictions.

Chart 4.5 Taxation per capita, 2019-20



Sources: 2019-20 Budgets for all jurisdictions except NSW, where Pre-Election Budget Update is used, and SA where 2018-19 Mid-year Update is used. Population data from 2019-20 Australian Budget.

Table 4.3 demonstrates that the Queensland tax system remains amongst the most competitive in Australia, using various measures of tax competitiveness.

Queensland's tax effort, as measured by the CGC, was 10.9% below the national average in 2017-18. A third measure of competitiveness, taxation as a share of GSP, also confirms that Queensland's taxes are competitive with other states.

The taxation effort metric is based on 2017-18 data from the CGC's 2019 Update using total tax revenue effort for assessed taxes (payroll, transfer duty, land tax, insurance duty and motor vehicle taxes). Revenue raising effort ratios are an indicator of the extent to which governments burden their revenue bases.

Table 4.3 Tax competitiveness

	NSW	Vic.	Qld	WA	SA	Tas. ³	ACT ⁴	NT ³	Avg ⁵
Taxation per capita ¹ (\$)	3,926	3,637	2,952	3,455	2,697	2,264	4,729	2,175	3,618
Taxation effort (%)	103.9	101.7	89.1	101.7	103.9	89.4	95.9	89.7	100.0
Taxation % of GSP ² (%)	5.2	5.4	3.8	3.3	4.3	3.8	4.3	2.4	4.7
Notes:									
1. 2019-20 Budgets for all jurisdictions except NSW, where Pre-Election Budget Update is used, and SA where 2018-19 Mid-year Update is used. Population data from 2019-20 Australian Budget.									
2. 2017-18 data. Sources: Australian Bureau of Statistics 5512.0 and ABS 5220.0.									
3. Low taxation per capita primarily reflects the lower revenue raising capacity of those jurisdictions.									
4. Figures include municipal rates.									
5. Weighted average of states and territories, excluding Queensland (aside from taxation effort, which is the average of all states).									

4.6.2 Payroll tax

Changes to payroll tax, as discussed in Section 4.3, will benefit small business and support employment growth in businesses. Additionally, the businesses with annual taxable wages greater than \$6.5 million will be subject to a slightly higher payroll tax rate.

All regional businesses subject to payroll tax can benefit from the discounted payroll tax rate and those businesses that can demonstrate a net increase in full time employees can benefit from a payroll tax rebate of up to \$20,000 per employer per year.

A deduction will be available if an employer's total annual Australian taxable wages are up to \$6.5 million. The maximum annual deduction will be \$1.3 million which phases out at a rate of \$1 for every \$4 of taxable wages above the threshold.

The increased payroll tax threshold of \$1.3 million is designed to ensure small businesses are subject to either no or minimal payroll tax.

The average annual payroll tax growth is forecast to be 5.3% over the four years to 2022-23, compared to the average of 7.4% over the period from 2002-03 to 2017-18.

4.6.3 Duties

Transfer duty

There are no changes to transfer duty rates in the 2019-20 Budget. Transfer duty is charged at various rates on the transfer of real and business property. The Queensland Government offers extensive concessions for the transfer of land where the property is purchased as a home. For example, eligible home buyers pay a 1% concessional rate on dutiable values up to \$350,000, rather than the normal schedule of rates between 1.5% and 3.5%. If a first home buyer purchases a property up to \$500,000 they will pay no duty, with reduced rates available up to \$550,000.

After growing by 0.9% in 2018-19, revenue from transfer duty is expected to be 0.3% lower in 2019-20. Revenue from transfer duty is expected to grow at an average rate of 4.1% over the four years to 2022-23.

Compared to the 2018-19 Budget forecasts, revenue from transfer duty is expected to be 5.1% lower in 2018-19, and on average around 10% lower in each of the out years.

These revisions are largely due to lower than expected revenue from residential transfer duties compared with the 2018-19 Budget. Revenue from residential transfer duties have been revised down from the 2018-19 Budget by 13% in 2018-19, and 15.6% in 2019-20.

These revisions are driven by a sharp decline in the volume of residential property transactions experienced over the first half of 2018-19, particularly for investors. With transaction volumes appearing to have stabilised over recent months, the scale of transfer duty revisions is much lower than seen in Victoria and New South Wales. This is also partly due to house prices in Queensland remaining relatively stable, compared with significant declines in the southern capitals.

Recent improvement has occurred with auction clearance rates and sale prices in NSW and Victoria showing signs of improvement. Additionally, the RBA's recent cut to its official interest rate by 0.25 percentage points to 1.25% and APRA's decision to ease lending standards may provide some improvement in the market conditions in 2019-20.

The downward revisions in 2018-19 are partially offset by an upward revision to transfer duty from large transactions of 17.1% since the 2018-19 Budget. Following this strong growth in 2018-19 collections, growth in transfer duty from large transactions is expected to normalise in 2019-20 although these transactions can be volatile.

Vehicle registration duty

There are no changes to vehicle registration duty rates in the 2019-20 Budget. Vehicle registration duty is charged on the dutiable value of a motor vehicle on the transfer or initial registration, with a general rate of 2% to 4% dependent on the number of cylinders or rotors of the vehicle. Since 1 July 2018, an additional \$2 per \$100 of dutiable value applies for vehicles valued above \$100,000.

Revenue from vehicle registration duty is expected to grow by 4.7% in 2019-20.

4.6.4 Gambling taxes and levies

There are no changes to gambling tax rates in the 2019-20 Budget. A range of gambling activities are subject to State taxes and levies. Total gambling tax and levy collections are estimated to grow by 5.9% in 2019-20, and 4.5% on average over the four years to 2022-23, with these growth rates supported by increased revenue from the point of consumption tax on betting (betting tax).

4.6.5 Land tax

Land tax is levied on the taxable value of the landowner's aggregated holdings of freehold land owned in Queensland as at midnight on 30 June each year. The landowner's home is exempt.

Resident individuals are generally liable for land tax if the total taxable value of the freehold land owned by that person as at 30 June is equal to or greater than \$600,000. Companies, trustees and absentees are liable for land tax if the total taxable value of the freehold land owned as at 30 June is equal to or greater than \$350,000.

Land tax is estimated to grow to \$1.589 billion in 2019-20 and this includes the impact of new marginal land tax rates for companies and trustees and the changes to the absentee land tax surcharge as outlined in Section 4.4.3.

4.6.6 Waste Disposal Levy

The Waste Disposal Levy, announced in the 2018-19 Budget, will commence on 1 July 2019 and will apply to 39 local government areas, covering more than 90% of the State's population. The waste disposal levy will apply to all general waste streams.

The levy will be set at \$75 per tonne for general waste, increasing by \$5 per annum for the first three years. Seventy per cent of proceeds from the waste levy will be used for waste programs, environmental priorities and community purposes.

Revenue of around \$433 million is expected from the Waste Disposal Levy in 2019-20. This is expected to decline to around \$397 million in 2020-21, reflecting expected behavioural changes in waste being disposed of in landfill following the introduction of the levy.

4.6.7 Tax expenditures

Tax expenditures are reductions in tax revenue that result from the use of the tax system as a policy tool to deliver Government policy objectives. Tax expenditures are provided through a range of concessions, including tax exemptions, reduced tax rates, tax rebates, tax deductions and provisions which defer payment of a tax liability to a future period. Appendix B provides details of tax expenditure arrangements currently provided by the Queensland Government.

4.7 Grants

Grants revenue is comprised of Australian Government grants, grants from the community and industry, and other miscellaneous grants. The 2.5% decline in grants revenue in 2019-20 is driven by a decline in GST revenue and other Australian Government grants.

Table 4.4 Grants revenue¹

	2017-18 Actual \$ million	2018-19 Est. Act. \$ million	2019-20 Budget \$ million	2020-21 Projection \$ million	2021-22 Projection \$ million	2022-23 Projection \$ million
Current grants						
GST revenue grants ²	15,129	14,441	14,214	14,204	14,907	15,357
Other Australian Government Grants ³	10,665	12,053	11,534	12,625	12,972	13,543
Other grants and contributions	303	303	255	248	247	248
Total current grants	26,096	26,797	26,003	27,077	28,126	29,147
Capital grants						
Australian Government grants	1,782	1,878	1,997	2,769	2,524	2,242
Other grants and contributions	88	35	4	0	21	14
Total capital grants	1,870	1,913	2,000	2,769	2,545	2,256
Total Australian Government payments	27,576	28,372	27,744	29,597	30,403	31,141
Total grants revenue	27,965	28,709	28,003	29,846	30,670	31,404
Note:						
1. Numbers may not add due to rounding.						
2. Includes entitlements to payments associated with the 'no worse off' guarantee as part of the Australian Government changes to the GST distribution.						
3. Queensland Treasury estimates. Differs from Chapter 7 due to the inclusion of direct Australian Government payments to Queensland agencies for Commonwealth own purpose expenditure.						

4.7.1 Australian Government payments

Australian Government payments to Queensland in 2019-20 are expected to total \$27.744 billion, representing a decrease of \$628 million compared to payments in 2018-19. This decrease is driven by a \$227 million (1.6%) decrease in GST revenue and a \$519 million (4.3%) decrease in other Australian Government grants. This is partially offset by a \$119 million (6.3%) increase in Australian Government capital grants.

Queensland is the only state to receive less GST revenue in 2019-20 compared to 2018-19. Queensland's GST revenue will be lower in 2019-20 primarily because the Australian Government has significantly revised down the growth of the GST pool from 2018-19 and accepted the CGC's assessment that Queensland should receive a smaller share. This reflects improved mining royalties, lower natural-disaster-related expenditure, and a greater share of Australian Government grants.

As a result, despite the GST pool continuing to grow, albeit slower, Queensland is the only state to receive less GST revenue in 2019-20 than in 2018-19.

The decline in payments to Queensland for Australian Government grants is primarily due to the redirection of National Disability SPP funding in 2019-20 to the National Disability Insurance Scheme (NDIS).

Other drivers of the reduction in Australian Government grants include:

- the Australian Government making an upfront payment in 2018-19 for a three-year agreement to assist disaster-affected primary producers in North and Far North Queensland; and
- seven non-infrastructure National Partnership Agreements expiring on 30 June 2019.

Chapter 7 provides detailed background on federal-state financial arrangements, including Queensland's share of GST revenue and other Australian Government payments to Queensland.

4.7.2 Other grants and contributions

Other grants and contributions are funds received from other state and local government agencies, other bodies and individuals. Contributions exclude Australian Government grants and user charges. The main sources of contributions are those received from private enterprise and community groups to fund research projects and community services and contributed assets and goods and services received for a nominal amount.

4.8 Royalty revenue

The State earns royalties from the extraction of coal, base and precious metals, bauxite, petroleum and gas, mineral sands and other minerals. Royalties ensure some of the proceeds of the extraction of non-renewable resources are returned to the community. Land rents are also earned from pastoral holdings, and mining and petroleum leases. Royalties and land rents are detailed in Table 4.5.

Table 4.5 Royalties and land rents¹

	2017-18 Actual \$ million	2018-19 Est. Act. \$ million	2019-20 Budget \$ million	2020-21 Projection \$ million	2021-22 Projection \$ million	2022-23 Projection \$ million
Coal	3,737	4,363	4,339	3,461	3,468	3,604
Petroleum ²	187	450	577	620	638	630
Other royalties ³	372	389	538	520	522	510
Land rents	162	163	168	169	172	174
Total royalties and land rents	4,457	5,364	5,621	4,770	4,799	4,918
Notes:						
1. Numbers may not add due to rounding.						
2. Includes impact of liquefied natural gas (LNG).						
3. Includes base and precious metal and other mineral royalties.						

While a large proportion of Queensland's royalties and land rents comes from coal mining, the majority of this revenue is attributable to the hard coking coal used in steel production. Lower royalties collected from thermal coal mining reflects the smaller volume of this type of coal mined in Queensland, as well as lower values per tonne of coal and the three-tiered coal royalty rate system, where lower value coal is charged a lower average royalty rate. Compared to coal, petroleum royalties make up a relatively smaller share of total royalties, though petroleum royalties have grown strongly over the last few years due to growth in the LNG industry and a recovery in prices compared to those experienced during 2015-16 and 2016-17.

There is a high degree of uncertainty associated with estimates of commodity prices, which can have significant impacts on royalty revenue. Risks to coal export volumes also have the potential to impact royalty estimates, though changes to export volumes may in turn impact prices. Specific risk factors are considered in developing forecasts and include the level of exposure of mining operations to the risk of natural disasters and the timing of scheduled maintenance for the rail network and ports.

Appendix C outlines key parameter assumptions, and the sensitivity of coal royalty estimates to individual changes in price, volume and exchange rate parameters.

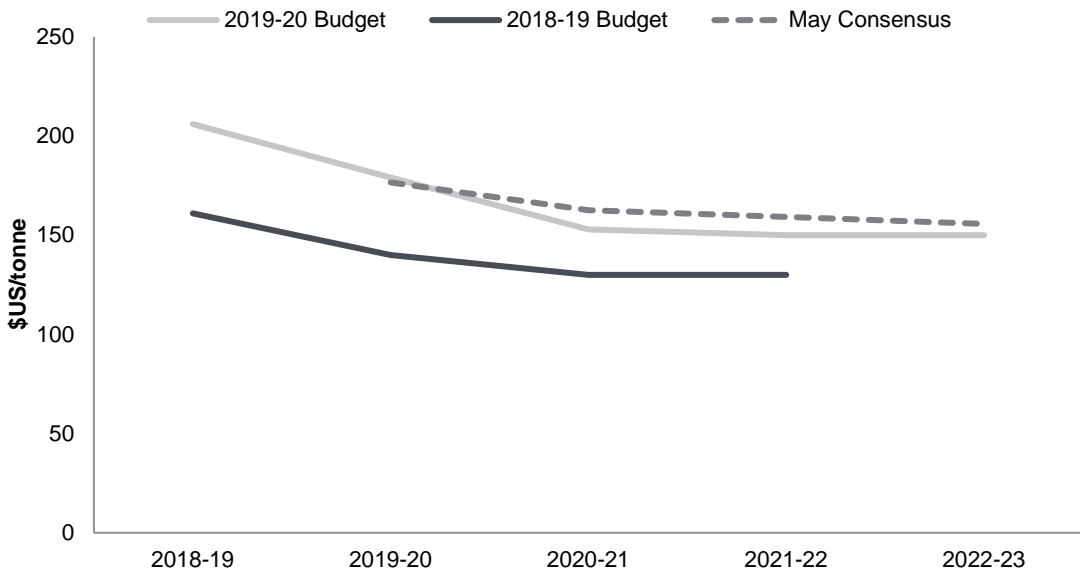
4.8.1 Coal royalties

Coal prices have remained elevated since the development of forecasts for the 2018-19 MYFER. Royalty forecasts in the 2019-20 Budget incorporate ongoing near-term strength in hard coking coal prices, and a gradual trajectory towards a medium-term expectation of US\$150 per tonne by the end of 2020.

On a year average basis, the premium hard coking coal price is estimated to have increased 3% in 2018-19 to \$US206 per tonne, and is expected to decline by 13% to \$US179 per tonne in 2019-20.

Chart 4.6 shows coking coal price forecasts compared to the 2018-19 Budget and average quarterly price from the latest Consensus Economics forecasts. The Australian Government's 2019-20 Budget assumed that the coking coal spot price would decline over the next year to reach US\$150 per tonne by the end of the March quarter 2020. Revisions since the 2018-19 Budget are in line with Consensus Economics forecasts in the next few years, with a degree of conservatism in the medium-term.

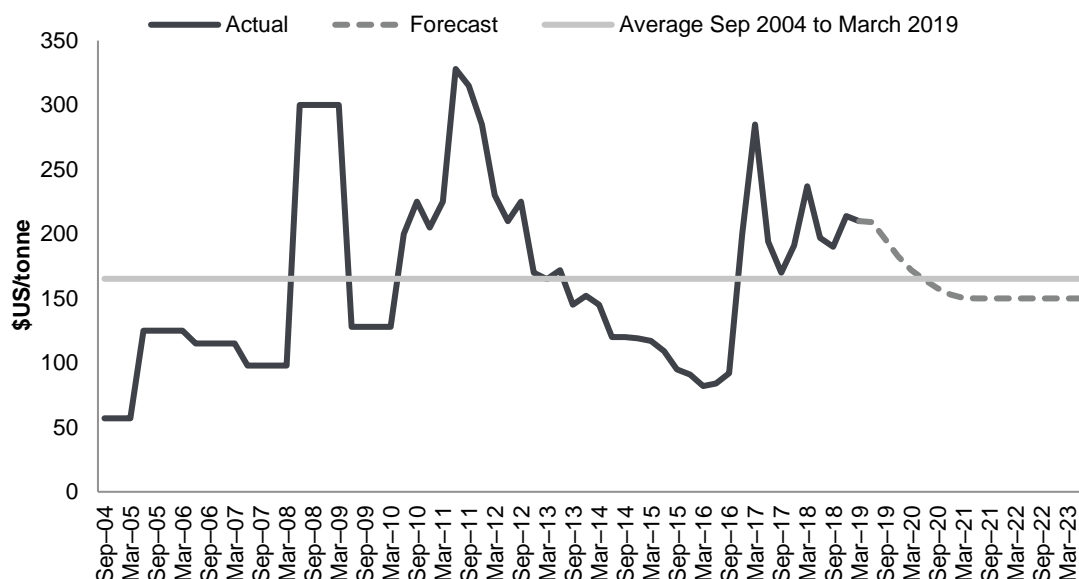
Chart 4.6 Coking coal price forecasts by iteration



The royalty impact of upward revisions to coal prices has been partially offset by downwards revisions to forecasts of coal export tonnages. Lower crown export tonnages are primarily due to a weakened outlook for the industrial production of major economies, but also consider factors such as disruptions to domestic ports and production in early 2019, and a fall in coal imports to China over the first four months of 2019.

Since the 2018-19 MYFER, coal royalty estimates have been revised upwards by \$838 million in 2019-20, with smaller uplifts of \$265 million in 2020-21 and \$296 million in 2021-22.

Chart 4.7 Coking coal price



Sources: Consensus Economics and Queensland Treasury.

4.8.2 Petroleum royalties

Oil prices factor strongly into royalty forecasts, with most of the LNG produced in Queensland sold under long-term contracts linked to oil prices. Since the 2018-19 Budget, estimates of Brent oil prices have been revised down by 5% to \$US69 per barrel on average in 2018-19. Downwards revisions to Brent oil price forecasts reflect decreased global growth expectations, decreased global oil demand and increased US stockpiles. From 2019-20 onwards, forecasts of the Brent oil price are largely unchanged compared to the 2018-19 MYFER, and are similar to Consensus Economics forecasts. Volumes for LNG have increased slightly compared to MYFER to reflect recent cargoes.

Significant growth in LNG exports over the last few years is supporting growth in petroleum royalty forecasts. Efforts to support LNG industry growth in Queensland also has broader benefits including job creation, and in turn supports increased revenue collection by the Australian Government.

Petroleum royalties have been revised upwards by \$131 million (29%) in 2019-20 since the 2018-19 Budget. This increase mainly reflects the policy decision to increase the rate by 2.5% to 12.5%.

4.8.3 Other royalties

Other royalties include revenue from metals mined in Queensland such as copper, lead and zinc and other minerals including bauxite. Revenue from other royalties is expected to grow 38.4% in 2019-20, supported by increased metals volumes, with flooding in North Queensland impacting volumes in 2018-19. Adjusting for the impact of the floods on volumes in 2018-19, volumes for these minerals are still expected to be higher on average in 2019-20 than in 2018-19, primarily reflecting production ramping up in recently started mines.

4.8.4 Land rents

Revenue from land rents derived from mining and petroleum leases and pastoral holdings are expected to grow 3.0% in 2019-20.

4.9 Sales of goods and services

Sales of goods and services revenue comprises cost recoveries from providing goods or services. Table 4.6 provides a breakdown of the category.

The Government provides concessions in the form of discounts, rebates and subsidies to improve access to and the affordability of a range of services for individuals or families, based on eligibility criteria relating to factors such as age, income and special needs or disadvantage. Appendix A provides details of the concession arrangements provided by the Queensland Government.

Table 4.6 Sales of goods and services¹

	2017-18 Actual \$ million	2018-19 Est. Act. \$ million	2019-20 Budget \$ million	2020-21 Projection \$ million	2021-22 Projection \$ million	2022-23 Projection \$ million
Fee for service activities	2,429	2,298	2,277	2,294	2,300	2,301
Public Transport: South East Queensland	343	356	377	387	401	416
Rent revenue	561	596	630	673	714	749
Sale of land inventory	48	53	77	114	105	80
Hospital fees	825	873	875	887	899	912
Transport and traffic fees	432	450	469	485	502	519
Other sales of goods and services	1,246	1,242	1,298	1,349	1,387	1,411
Total	5,884	5,869	6,004	6,190	6,307	6,389
Note:						
1. Numbers may not add due to rounding.						

4.9.1 Fee for service activities

Major items of fee for service activities across the General Government Sector include:

- recoverable works carried out by the Department of Transport and Main Roads and the commercialised arm of the department
- fees charged by Technical and Further Education (TAFE) colleges
- fees charged by CITEC to commercial clients for information brokerage services.

4.9.2 Other sales of goods and services

As shown in Table 4.6, there are a variety of other types of sales of goods and services. These include revenue from public transport ticketing arrangements, rent or lease of government property, hospital fees, transport and traffic fees, title registration fees and other licences and permits.

4.10 Interest income

Interest income primarily comprises interest earned on investments, including those held for superannuation and insurance purposes.

Interest income is estimated to account for 3.5% of total General Government Sector revenue in 2019-20. Consistent with previous budgets, interest income is expected to decline on average between 2018-19 and 2022-23 due to a reduction in the portfolio of financial assets held for defined benefit superannuation.

4.11 Dividend and income tax equivalent income

Dividend and income tax equivalent income accounts for 3.7% of total General Government Sector revenue in 2019-20.

Estimated revenue from dividend and income tax equivalent income in 2018-19 has been revised upwards by \$444 million since the 2018-19 Budget, supported by increased earnings from electricity generation and network businesses.

In 2019-20, dividend and income tax equivalent income is expected to decline \$424 million compared to 2018-19, driven by the electricity generation and network businesses.

Dividend and income tax equivalent income is expected to decline over the four years to 2022-23 (reaching a low in 2021-22), driven by reductions in dividend returns from the electricity network, electricity generation and water sectors. Factors include:

- revised assumptions for revenue performance under the next regulatory period for Energy Queensland Limited
- revised generation business assumptions for wholesale electricity prices.

Trends in dividends and income tax equivalent income are discussed in more detail in Chapter 8.

4.12 Other revenue

Other revenue, including royalty revenue, accounts for 11.3% of total General Government Sector revenue in 2019-20. Royalties themselves account for 9.0% of revenue in 2019-20, and are discussed in section 4.7.

The major fines and infringements included in this category are issued by the Department of Transport and Main Roads (DTMR) and Queensland Police Service (QPS), incorporating fixed and mobile camera offences, speeding and tolling offences.

Revenue from fines and forfeitures are expected to grow by 7.9% in 2019-20, with the expected growth in fines revenue due to increases in enforcement hours and the deployment of additional cameras in coming years.

Revenue not elsewhere classified includes assets contributed to the State and payments received for works delivered on behalf of government-owned corporations.

Table 4.7 Other revenue¹

	2017-18 Actual \$ million	2018-19 Est. Act. \$ million	2019-20 Budget \$ million	2020-21 Projection \$ million	2021-22 Projection \$ million	2022-23 Projection \$ million
Royalties and land rents	4,457	5,364	5,621	4,770	4,799	4,918
Fines and forfeitures	411	443	478	532	557	589
Revenue not elsewhere classified	818	768	738	955	1,015	910
Total other revenue	5,685	6,575	6,837	6,257	6,372	6,417
Note:						
1. Numbers may not add due to rounding.						

5 Expenses

Features

- The focus of the 2019-20 Budget is on developing the Government's economic plan for the next decade. This budget continues to target initiatives that drive job creation, business-led growth, sustainable public investment, support for the next wave of innovation and ensure Queenslanders have the skills for the future. The Government through its *Our Future State: Advancing Queensland's Priorities* is also focused on delivering on opportunities and tackling the major challenges facing the state.
- Expenses for 2018-19 are estimated to be \$59.226 billion, an increase of \$2.891 billion from 2017-18. The increase is due to growth funding to support ongoing demand for health services (around \$1.5 billion) and education services (around \$600 million). The operating expense component of natural disaster related expenses in 2018-19 is around \$500 million.
- Total expenses are projected to grow at an average annual rate of 2.3% over the four years to 2022-23. From 2020-21, revenues commence growing at a faster rate than expenses, with the gap widening across the remainder of the forward estimates.
- In 2019-20, General Government Sector expenses are estimated to be \$60.198 billion, an expected increase of \$972 million over the estimated actual for 2018-19.
- Ongoing budget sustainability is central to delivering on the Government's economic plan. A Service Priority Review Office (the Office) will be established in Queensland Treasury. In partnership with the Department of the Premier and Cabinet, the Office will drive the realisation of reprioritisation targets of \$200 million in 2019-20 and \$500 million per annum from 2020-21, by conducting reviews of Queensland public sector agencies and existing programs.
- In 2019-20, the major areas of expenditure are health and education, which together constitute approximately 56.1% of General Government Sector expenses.

This chapter provides an overview of General Government Sector expenses for the estimated actual for 2018-19, forecasts for the 2019-20 Budget year and projections for 2020-21 to 2022-23. The forward estimates are based on the economic projections outlined in Chapter 2.

5.1 2018-19 estimated actual

General Government Sector expenses in 2018-19 are estimated to be \$59.226 billion, \$748 million higher than the 2018-19 Mid Year Fiscal and Economic Review (MYFER) estimate. The increase since MYFER is largely driven by:

- higher hospital and health services
- increased natural disaster expenditure including disaster-affected primary producer grants following the North and Far North monsoon trough event in 2019
- advance payments to local councils to compensate for the commencement of the Queensland waste levy from 1 July 2019
- the Australian Government's advance payment of financial assistance grants to local governments in 2018-19 for the 2019-20 financial year
- actuarial adjustments for the State's Defined Benefit Superannuation Scheme.

These expenses were partly offset by lower than estimated payments to the National Disability Insurance Agency due to the slower than anticipated transition of Queenslanders to the NDIS.

5.2 2019-20 Budget and out-years

Table 5.1 General Government Sector expenses¹

	2017-18 Actual \$ million	2018-19 Est. Act. \$ million	2019-20 Budget \$ million	2020-21 Projection \$ million	2021-22 Projection \$ million	2022-23 Projection \$ million
Employee expenses	22,678	24,096	25,396	25,728	26,709	27,724
Superannuation interest costs	667	642	516	542	580	624
Other superannuation expenses	2,744	3,044	3,093	3,202	3,257	3,292
Other operating expenses	17,258	16,791	15,790	15,907	16,363	16,733
Depreciation and amortisation	3,325	3,449	3,961	4,097	4,231	4,334
Other interest expenses	1,614	1,514	1,688	1,721	1,797	1,848
Grants expenses	8,048	9,691	9,754	10,219	10,164	10,197
Total Expenses	56,335	59,226	60,198	61,416	63,101	64,753
Note:						
1. Numbers may not add due to rounding.						

General Government Sector expenses of \$60.198 billion in 2019-20 represent an increase of \$972 million (or 1.6%) over the 2018-19 estimated actual. Factors influencing the higher expenditure in 2019-20 include:

- increases in education expenditure largely reflects student enrolment growth and enterprise bargaining outcomes, and additional funding under the National School Reform Agreement and associated Bilateral Agreement.
- growth in demand for public hospital and health services. Increased health expenditure includes workforce requirements to meet the ongoing growth in demand for frontline health services
- additional funding for the public safety sector, including criminal and youth justice systems, transition of private prisons to public operation and addressing the outcomes of Taskforce Flaxton
- payment for works delivered on behalf of government-owned corporations
- natural disaster expenditure following the North and Far North monsoon trough event in 2019 including disaster-affected primary producer grants.

In 2019-20 expenses growth is also impacted by the Australian Government's advance payment of financial assistance grants in 2018-19 for 2019-20, advance payments in 2018-19 to local councils for compensation ahead of the commencement of Queensland Waste Levy from 1 July 2019 and whole-of-Government reprioritisation targets.

5.3 Expenses by operating statement category

As outlined in Chart 5.1, the largest expense categories in the General Government Sector in 2019-20 are employee and superannuation expenses (48.2%), followed by other operating expenses (26.2%) that reflect non-labour costs of providing goods and services to government and non-government recipients including transport service contract payments and repairs and maintenance.

Chart 5.1 Expenses by operating statement category, 2019-20

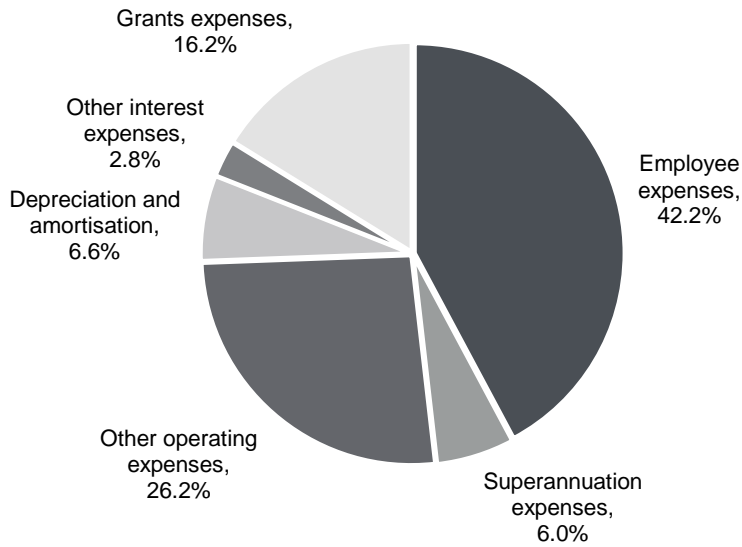
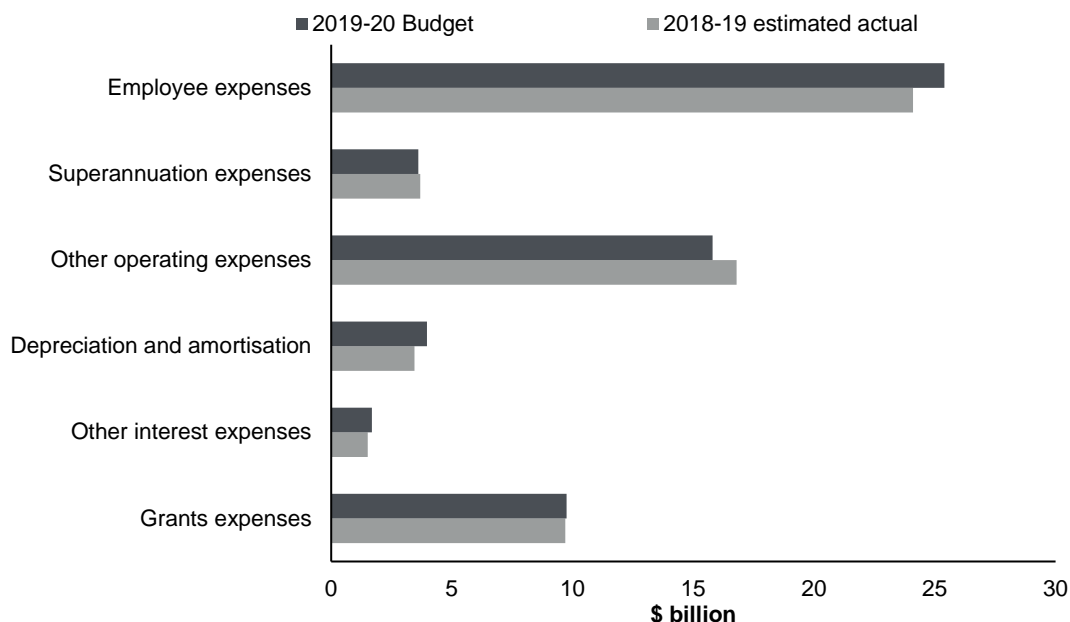


Chart 5.2 identifies the growth in expenses for each operating statement category between the 2018-19 estimated actual and the 2019-20 Budget. The largest increase is in employee expenses, which primarily reflects workforce requirements to meet the ongoing demand for frontline hospital and health services and school enrolment growth.

Chart 5.2 Growth in expenses by operating statement category – 2018-19 estimated actual to 2019-20 Budget



5.3.1 Employee expenses

Employee expenses include salaries and wages, annual leave and long service leave.

In 2019-20, employee expenses are expected to be \$25.396 billion, \$1.3 billion or 5.4% higher than the 2018-19 estimated actual. This reflects both growth in full-time equivalents (FTEs) and the Government's wages policy. Much of the increase in employee expenses in 2019-20 is the key frontline service areas of health and education reflecting increasing demand for health services and student population growth.

Full-time equivalents

During the 2015 election, the Government made commitments to revitalise frontline service delivery. This contributed in FTEs increasing 22,208 (or 11.0%) from 2014-15 to 2017-18, and an estimated further 5,518 (or 2.5%) in 2018-19. Between March 2015 and March 2019:

- teachers increased by 4,803 (or 11.4%)
- teacher aides increased by 1,399 (or 15.0%)
- nurses increased by 5,988 (or 21.5%)
- health practitioners increased by 1,761 (or 17.8%)
- doctors increased by 2,020 (or 25.5%)
- ambulance operatives increased by 510 (or 13.8%)
- police officers increased by 436 (or 3.9%).

As at March 2019, around 91.4% of public servants were engaged in frontline and frontline support roles.

Given the tight fiscal environment and the fact that employee expenses represent the State's largest expense category, the Government introduced a new fiscal principle in the 2016-17 Budget to maintain a sustainable public service where overall growth in FTEs, on average over the forward estimates, does not exceed population growth.

The introduction of the fiscal principle has resulted in FTE growth moderating, and continuing to moderate. FTEs are estimated to increase by around 4,391 in 2019-20. The overall average annual growth rate over 2018-19 to 2022-23, based on current estimates, is 1.68%. This compares to an estimated Queensland population growth of 1¾% annually.

One of the recommendations from the Coaldrake Review (discussed further in Box 5.1) was to nuance the representation of Fiscal Principle 6 to expand disclosure to show health and education growth separately from the rest of the sector. The Government accepted this recommendation in principle, with a commitment to explore changes to the reporting of Fiscal Principle 6.

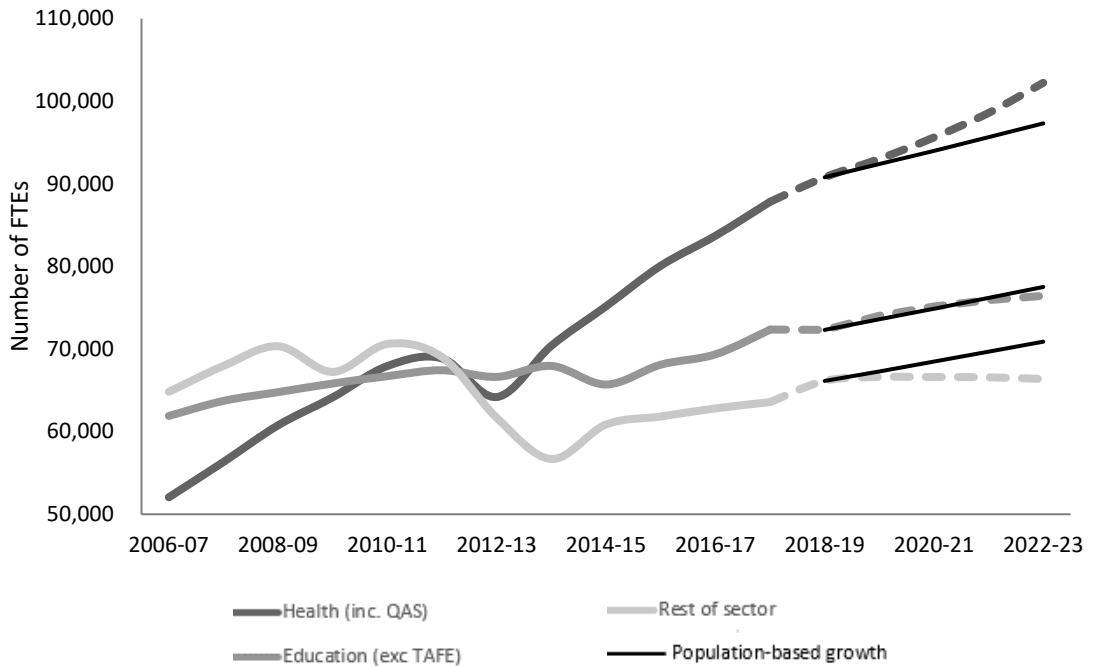
In response, Chart 5.3 shows the breakdown of actual FTE growth from 2006-07 to 2017-18 and estimated FTEs from 2018-19 to 2020-23, with health and education shown separately from the rest of the sector. Estimated FTEs for health, education and rest of sector are compared to forecast population growth.

Chart 5.3 demonstrates the growth in health (including Queensland Ambulance Service (QAS)) is expected to be higher than population growth, though not as strong as in previous years (falling from an average annual growth of 5.32% between 2014-15 and 2017-18 to an estimated 3.01% between 2018-19 and 2022-23). The ongoing high FTE growth within health is not unexpected with the Government injecting record health funding every year since coming to power to restore vital frontline services. Further, Commonwealth health funding is based on activity and demand principles, not population growth.

The growth embedded in health and education agreements with the Australian Government is one of the primary drivers of the growth in health and education expenditures and employee numbers, the effects which can be seen in Chart 5.3.

Growth in other agencies is slower, with many remaining relatively flat or declining. The reasons for agency declines include changes in service delivery, for example, due to the introduction of the NDIS.

Chart 5.3 Education, Health and Rest of Sector departmental FTEs¹



Note:

1. 2018-19 to 2022-23 are forecasts.

The Government is also committed to ensuring that public service staff are located where they are needed in the community. Around 47% of FTEs are located outside Greater Brisbane, of which around 96% are engaged in frontline and frontline support roles. Regional Action Plans show increases in key service delivery occupations across the regions.

The devolved frontline service delivery models used in some agencies continue to present challenges to FTE estimation and monitoring, in particular when funding is provided in such a way that agencies determine how to most efficiently deliver services. Consistent with last year, the 2019-20 Budget FTE estimates build in an allowance for this.

Box 5.1 Public Sector FTE Reporting

The Queensland Government is continuously examining ways to improve the Queensland public sector and its ability to meet the needs of Queenslanders. To ensure the Queensland public sector is the most responsive, consistent and reliable public service possible, the Queensland Government commissioned the *Review into the Queensland Public Sector Workforce Reporting* (Coaldrake Review).

The Coaldrake Review comprised of two stages and three reports and makes 13 recommendations for Government. The Government has accepted or accepted in principle all the recommendations, which included:

- adopting a single, authoritative and immediately retrievable workforce database
- replacing the current quarterly Workforce Profile Reports with half-yearly reports covering sector wide analysis of particular trends, and other matters as required by government from time to time
- adopting a consistent approach to the reporting and monitoring of the indirect workforce (e.g. contractors and consultants) which supports the Queensland public sector.

In response to these recommendations, the Public Service Commission (PSC) will change its FTE methodology from 1 July 2019 to reduce the inconsistencies in data collections. In addition, the PSC is working on changes and enhancements to the Workforce Profile Report. Queensland Treasury in conjunction with the PSC is assessing options to improve the reporting and monitoring of the indirect workforce.

Table 5.2 shows the funded FTE positions by department and is consistent with agency Service Delivery Statements.

Table 5.2 Funded controlled FTE positions by Department^{1,2,3}

	2018-19 Adj. Budget	2018-19 Est. Act	2019-20 Budget
Aboriginal and Torres Strait Islander Partnerships	324	328	321
Agriculture and Fisheries	2,128	2,127	2,124
Child Safety, Youth and Women	3,375	3,423	3,439
Youth Justice	1,459	1,499	1,566
Communities, Disability Services and Seniors ⁴	2,241	2,243	1,755
Education	72,784	73,190	74,885
Electoral Commission of Queensland	60	60	58
Employment, Small Business and Training	4,432	4,417	4,436
Environment and Science	3,093	3,101	3,089
Housing and Public Works	5,570	5,568	5,565
Innovation, Tourism Industry Development and the Commonwealth Games	173	175	175
Justice and Attorney-General	3,449	3,473	3,509
Local Government, Racing and Multicultural Affairs	188	188	183
Natural Resources, Mines and Energy	2,665	2,663	2,662
Office of the Inspector-General Emergency Management	22	22	22
Premier and Cabinet	467	465	480
Public Safety Business Agency	1,117	1,122	1,121
Public Service Commission	70	70	70
Queensland Audit Office	182	191	191
Queensland Corrective Services	5,039	5,039	5,761
Queensland Fire and Emergency Services	3,321	3,318	3,346
Queensland Health (total – disaggregation below)	90,095	90,791	93,009
Queensland Police Service	15,696	15,709	15,802
Queensland Treasury	994	998	1,027
State Development, Manufacturing, Infrastructure and Planning	1,016	1,016	990
The Public Trustee of Queensland	615	617	621
Transport and Main Roads	7,427	7,433	7,425
Total⁵	228,002	229,246	233,637

Budget Strategy and Outlook 2019-20

	2018-19 Adj. Budget	2018-19 Est. Act	2019-20 Budget
Queensland Health Disaggregation			
Health	7,645	7,820	7,728
Queensland Ambulance Service	4,507	4,585	4,707
Cairns and Hinterland Hospital and Health Service	4,971	5,079	5,101
Central Queensland Hospital and Health Service	3,052	3,072	3,167
Central West Hospital and Health Service	373	380	380
Children's Health Queensland Hospital and Health Service	3,700	3,862	3,823
Darling Downs Hospital and Health Service	4,549	4,636	4,713
Gold Coast Hospital and Health Service	8,063	8,323	8,385
Mackay Hospital and Health Service	2,312	2,371	2,356
Metro North Hospital and Health Service	16,165	16,272	16,860
Metro South Hospital and Health Service	12,882	13,465	13,478
North West Hospital and Health Service	782	780	781
South West Hospital and Health Service	819	794	816
Sunshine Coast Hospital and Health Service	6,400	6,000	6,007
Torres and Cape Hospital and Health Service	943	1,031	1,005
Townsville Hospital and Health Service	5,401	5,424	5,508
West Moreton Hospital and Health Service	3,572	3,717	3,659
Wide Bay Hospital and Health Service	3,132	3,180	3,266
Funded unallocated FTEs ⁶	827	..	1,269
Total Queensland Health	90,095	90,791	93,009
Notes:			
<ol style="list-style-type: none"> Numbers may not add due to rounding. Explanation of variations in departmental FTEs can be found in the Service Delivery Statements. Departmental totals may include multiple tables from Service Delivery Statements (SDSs), due to separate FTE tables being provided for Departmental service areas and Commercialised Business Units. Adjusted Budget reflects movements of FTEs following Machinery of Government changes only. The decrease in 2019-20 is due to the transition of State specialist disability services to the NDIS. Total 2019-20 Budget includes an additional 5 FTEs held centrally. Funded unallocated FTEs represents estimates of additional FTEs which have not yet been allocated to particular Hospital and Health Services. 			

5.3.2 Superannuation expenses

The superannuation interest cost represents the imputed interest on the Government's accruing defined benefit superannuation liabilities.

In determining the State's defined benefit superannuation liabilities, AASB 119 *Employee Benefits* requires the discounting of future benefit obligations using yield rates on Government bonds net of investment tax. Interest costs are calculated on a net liability approach by applying the discount rate to both the gross liability and superannuation plan assets.

Superannuation interest costs are dependent on the applicable discount rates at the beginning of the year. Rates have declined in 2018-19 comparative to 2017-18 before increasing across the forward estimates, resulting in lower superannuation interest costs in 2019-20 before marginally increasing across the remaining forward estimates. The defined benefit scheme, which is closed to new members and subject to interest rate fluctuations, will decline over time as members leave.

Other superannuation expenses represent employer superannuation contributions to accumulation superannuation and the current service cost of the State's defined benefit obligation (or the increase in the present value of the defined benefit obligation resulting from employee service in the current period).

5.3.3 Other operating expenses

Other operating expenses comprise the non-labour costs of providing goods and services, including services to government and non-government organisations, repairs and maintenance, consultancies, contractors, electricity, communications and marketing.

In 2019-20, other operating expenses are expected to be \$15.790 billion, a decrease of \$1 billion or 6.0% lower compared to the 2018-19 estimated actual.

Other operating expenses decline significantly in 2019-20 due to:

- the accounting treatment for the recognition of leases under the new accounting standard AASB 16 *Leases*, effective 1 July 2019. Under the new standard previous operating lease rental expenses have been replaced by depreciation expenses on the right of use asset
- continuing transition of specialist disability services to the NDIS. Queensland's contributions to the NDIS are reflected as grants expenses
- a proportion of savings targets allocated to other operating expenses.

5.3.4 Depreciation and amortisation

Depreciation and amortisation expense is an estimate of the progressive consumption of the State's assets through normal usage, wear and tear and obsolescence. Growth in this expense category primarily reflects asset revaluations and the increasing investment in State infrastructure.

As mentioned above, depreciation increases significantly in 2019-20 due to the implementation of AASB 16 *Leases*. Adoption of the new standard results in a reallocation from other operating expenses to depreciation for the right of use asset.

5.3.5 Other interest expenses

Other interest expenses include interest paid on borrowings, finance leases and similar arrangements to acquire capital assets and infrastructure such as roads and government buildings.

Other interest expenses are estimated to increase \$174 million in 2019-20 to \$1.688 billion compared to \$1.514 billion in 2018-19. Adoption of AASB 16 *Leases* from 1 July 2019 has resulted in previous operating lease rentals being recognised as finance lease liabilities on the Balance Sheet with a resulting reallocation from operating expenses to interest expenses in 2019-20.

Interest costs have fallen significantly since the recent peak of \$2.328 billion in 2014-15. The decline in General Government Sector debt servicing costs is due in part to the repatriation of surplus defined benefit superannuation assets and other balance sheet measures.

5.3.6 Grants expenses

Current grants include grants and subsidies to the community (such as non-state schools, hospitals, benevolent institutions and local governments) and personal benefit payments. Community Service Obligations (CSOs) are provided where Public Non-financial Corporations (PNFCs) are required to provide non-commercial services or services at non-commercial prices for the benefit of the community (for further details refer to Chapter 8).

Capital grants represent transfers to the PNFC Sector, local governments, not-for-profit institutions and other non-government entities, such as business and households (including the Queensland First Home Owners' Grant and non-state schools) for capital purposes.

Table 5.3 provides a breakdown of grants by category and recipient type.

Table 5.3 Grants expenses¹

	2017-18 Actual \$ million	2018-19 Est. Act. \$ million	2019-20 Budget \$ million
Current			
Grants to local government	691	853	471
Grants to private and not-for-profit organisations			
State funding for non-state schools	688	683	712
Australian Government funding for non-state schools	2,548	2,739	2,889
Other	1,449	1,663	1,713
Grants to other sectors of government			
Community service obligations to PNFCs	490	472	510
Other payments to PNFCs	46	29	32
Other (includes payments to NDIA)	408	1169	1,264
Other	281	363	554
Total current grants	6,601	7,971	8,145
Capital			
Grants to local government	930	1,214	997
State funding for non-state schools	93	98	100
Grants to private and not-for-profit organisations	183	268	392
Payments to PNFCs	45	13	10
Queensland First Home Owners' Grants	195	127	110
Other	1	..	..
Total capital grants	1,447	1,720	1,609
Total current and capital grants	8,048	9,691	9,754
Notes:			
1. Numbers may not add due to rounding.			

In 2018-19, total grant expenses are estimated to be \$9.691 billion; \$1.643 billion higher than 2017-18. This increase is mainly due to:

- grants and payments by the State to the NDIA on the progressive transition to the NDIS
- timing of grants under the Townsville Water Security program
- advance payments to local councils to compensate for the commencement of the Queensland waste levy from 1 July 2019
- disaster related grants to local councils and disaster-affected primary producer grants following the North and Far North Queensland monsoon event in 2019.

In 2019-20, total grant expenses are estimated to be \$9.754 billion, an increase of \$63 million from 2018-19.

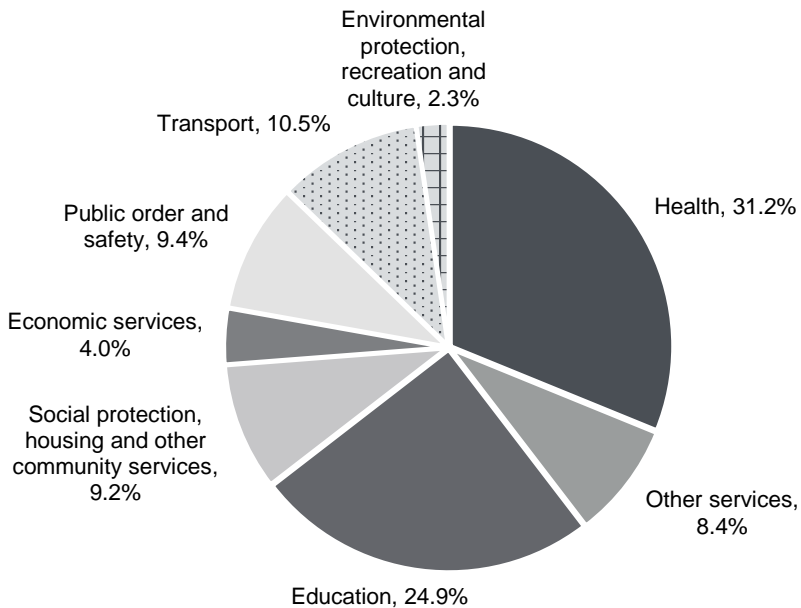
Growth in grants expenses remains comparatively low in 2019-20 mainly due to:

- the Australian Government again making advance payment of the 2019-20 financial assistance grants to local councils in 2018-19
- funding for the National Disability SPP being redirected to support the implementation of the NDIS
- significant proportion of grants for the Townsville Water Security program occurring in 2018-19
- compensation payments to local councils being made in advance of the introduction of the Queensland Waste Levy.

5.4 Operating expenses by purpose

Chart 5.4 indicates the proportion of expenditure by major purpose classification for the 2019-20 Budget. Health accounts for the largest share of expenses (31.2%) followed by Education (24.9%).

Chart 5.4 General Government Sector expenses by purpose, 2019-20



5.5 Departmental expenses

Data presented in Tables 5.4 and 5.5 provide a summary drawn from financial statements contained in the Service Delivery Statements (SDS). Further information on the composition of expenses, outputs delivered and factors influencing the movement in expenses can also be obtained from a department's SDS.

Table 5.4 Departmental controlled expense^{1,2}

	2018-19 Est. Act. \$ 000	2019-20 Budget \$ 000
Aboriginal and Torres Strait Islander Partnerships	83,154	83,016
Agriculture and Fisheries	513,423	525,015
Child Safety, Youth and Women	1,646,469	1,499,237
Communities, Disability Services and Seniors	1,016,266	381,116
Education	9,410,818	9,954,148
Electoral Commission of Queensland	24,969	70,261
Employment, Small Business and Training	1,078,183	1,077,636
Environment and Science	933,787	797,356
Health Consolidated ³	18,063,133	18,454,664
Housing and Public Works	2,409,933	2,548,569
Innovation, Tourism Industry Development and the Commonwealth Games	146,597	224,529
Inspector General Emergency Management	5,097	5,006
Justice and Attorney-General	597,380	659,136
Legislative Assembly	99,171	103,526
Local Government, Racing and Multicultural Affairs	416,093	284,297
Natural Resources, Mines and Energy	725,521	601,238
Office of the Governor	7,225	7,333
Office of the Ombudsman	9,059	9,491
Premier and Cabinet	131,216	116,397
Public Safety Business Agency	422,669	420,801
Public Service Commission	14,654	15,084
Queensland Audit Office	42,804	45,032
Queensland Corrective Services	933,744	1,003,977
Queensland Fire and Emergency Services	716,098	739,732
Queensland Police Service	2,361,742	2,428,036
Queensland Treasury	264,923	274,050
State Development, Manufacturing, Infrastructure and Planning	408,148	479,808
The Public Trustee of Queensland	93,307	96,436
Transport and Main Roads	6,085,610	6,189,222
Youth Justice	31,087	246,052
Total expenses	48,692,280	49,340,201

Notes:

1. Total expenses by department do not equate to total General Government expenses in Uniform Presentation Framework (UPF) terms reported elsewhere in the Budget Papers as General Government expenses include a wider range of entities including State Government statutory authorities. In addition, transactions eliminated between entities within the General Government Sector are excluded in the preparation of whole-of-Government UPF financial statements.
2. Explanation of variations in departmental controlled expenses can be found in the Service Delivery Statements.
3. This represents Health Consolidated in the Service Delivery Statement, which consolidates Queensland Health controlled, the Hospital and Health Services, and Queensland Ambulance Service.

Table 5.5 Departmental administered expense^{1,2}

	2018-19 Est. Act. \$ 000	2019-20 Budget \$ 000
Aboriginal and Torres Strait Islander Partnerships	11,113	10,105
Agriculture and Fisheries	92,168	235,613
Child Safety, Youth and Women	5,868	5,888
Communities, Disability Services and Seniors	1,592,118	1,592,208
Education	3,618,670	3,807,457
Environment and Science	142,581	147,276
Health Consolidated ³	30,952	30,959
Housing and Public Works	57,599	58,633
Innovation, Tourism Industry Development and the Commonwealth Games	103,016	109,902
Justice and Attorney-General	436,819	435,136
Local Government, Racing and Multicultural Affairs	548,636	326,714
Natural Resources, Mines and Energy	534,499	569,163
Premier and Cabinet	112,705	128,064
Queensland Police Service	734	739
Queensland Treasury	5,885,711	6,010,699
State Development, Manufacturing, Infrastructure and Planning	594,638	691,720
The Public Trustee of Queensland	718	734
Total expenses	13,768,545	14,161,010

Notes:

1. Total expenses by department does not equate to total General Government expenses in Uniform Presentation Framework (UPF) terms reported elsewhere in the Budget Papers as General Government expenses include a wider range of entities including State Government statutory authorities. In addition, transactions eliminated between entities within the General Government Sector are excluded in the preparation of whole-of-Government UPF financial statements.
2. Explanation of variations in departmental administered expenses can be found in the Service Delivery Statements.
3. This represents Health Consolidated in the Service Delivery Statement, which consolidates Queensland Health controlled, the Hospital and Health Services, and Queensland Ambulance Service.

6 Balance sheet and cash flows

Features

- Borrowing with QTC in 2018-19 for the General Government and Non-financial Public Sectors (NFPS) is forecast to be \$29.933 billion and \$68.141 billion respectively. These estimates are lower than projections in the 2018-19 Mid Year Fiscal Economic Review (MYFER) mainly due to improved operating cash flows.
- In 2019-20, QTC borrowing for the General Government Sector is forecast to be \$32.781 billion, which is lower than expected at MYFER and the 2018-19 Budget. NFPS is \$71.954 billion, \$1.011 billion lower than MYFER and \$345 million lower than the 2018-19 Budget. The increase in QTC borrowing from 2018-19 to 2019-20 arises from the funding of capital purchases.
- Borrowing for leases and similar arrangements increases significantly from 2018-19 to 2019-20 due to the adoption of the new lease accounting standard (\$2.2 billion for the General Government Sector and \$2.6 billion for NFPS at 1 July 2019). This adjustment largely relates to accommodation leases and does not have any economic impact on the State's finances.
- The increase in borrowing across the forward estimates arises from the funding of essential infrastructure.
- The State's net worth, the amount by which its assets exceed its liabilities, is forecast to increase from \$196 billion in 2018-19 to \$209.8 billion in 2022-23, primarily reflecting expected asset revaluations.
- At the time of the 2018-19 Budget, net cash inflows from operating activities for 2018-19 were expected to cover 60% of net investments in Non-financial Assets (NFAs) for the General Government Sector. The estimated actual coverage is now expected to be nearly 79% due to improved operating cash flows.
- Non-financial Public Sector capital expenditure totals \$45.458 billion for the period 2019-20 to 2022-23, which comprises \$40.519 billion of Purchases of Non-financial Assets (PNFA), and \$4.938 billion of capital grant expenses. In addition, acquisitions of NFAs under finance leases and similar arrangements of \$4.087 billion bring the total capital program for 2019-20 Budget to \$49.544 billion.

6.1 Context

The balance sheet shows the projected assets, liabilities and net worth of the General Government Sector as at 30 June each financial year. It is important for the Government to maintain a strong balance sheet to provide it with stability, flexibility and capacity to deal with emerging financial and economic pressures, and to provide a strong foundation for future economic growth. Due to expected changes required by the new accounting standard, AASB 16 *Leases*, more detail has been disclosed of the State's Borrowing, separating out QTC borrowing, Leases and similar arrangements), and securities and derivatives.

The cash flow statement shows the expected cash flows of the General Government Sector during each financial year of the forward estimates. The main difference between the accrual operating statement and the cash flow relates to the timing of cash payments and receipts and their recognition in accrual terms and the inclusion of non-cash expenses and revenues. The largest differences between accrual accounting and cash flows are in relation to depreciation and defined benefit superannuation. Differences due to the timing of receipt or payment of amounts are recorded as either a receivable or payable in the balance sheet.

6.2 Balance Sheet

Table 6.1 provides a summary of the key balance sheet aggregates for the General Government Sector.

Table 6.1 General Government Sector: summary of budgeted balance sheet¹

	2018-19 Budget \$ million	2018-19 Est. Act. \$ million	2019-20 Budget \$ million	2020-21 Projection \$ million	2021-22 Projection \$ million	2022-23 Projection \$ million
Financial assets	59,460	61,769	60,945	60,475	61,106	62,001
Non-financial assets	214,752	211,814	219,256	225,107	231,165	235,219
Total assets	274,212	273,583	280,202	285,582	292,271	297,220
Borrowings with QTC	29,735	29,933	32,781	35,218	40,174	42,589
Leases and similar arrangements	2,556	2,623	5,824	7,071	6,943	6,966
Securities and derivatives	19	122	122	122	122	122
Advances and deposits	1,816	2,272	1,618	1,443	1,212	1,257
Superannuation liability	23,414	26,739	25,567	24,107	22,409	20,660
Other provisions and liabilities	14,034	15,696	15,393	15,494	15,674	15,847
Total liabilities	71,575	77,386	81,306	83,455	86,533	87,441
Net worth	202,636	196,197	198,896	202,126	205,738	209,778
Net financial worth	(12,115)	(15,617)	(20,361)	(22,980)	(25,428)	(25,441)
Net financial liabilities	35,928	39,568	44,796	48,098	50,760	51,226
Net debt	2,815	1,661	8,001	12,306	16,961	19,562
Note:						
1. Numbers may not add due to rounding and bracketed numbers represent negative numbers.						

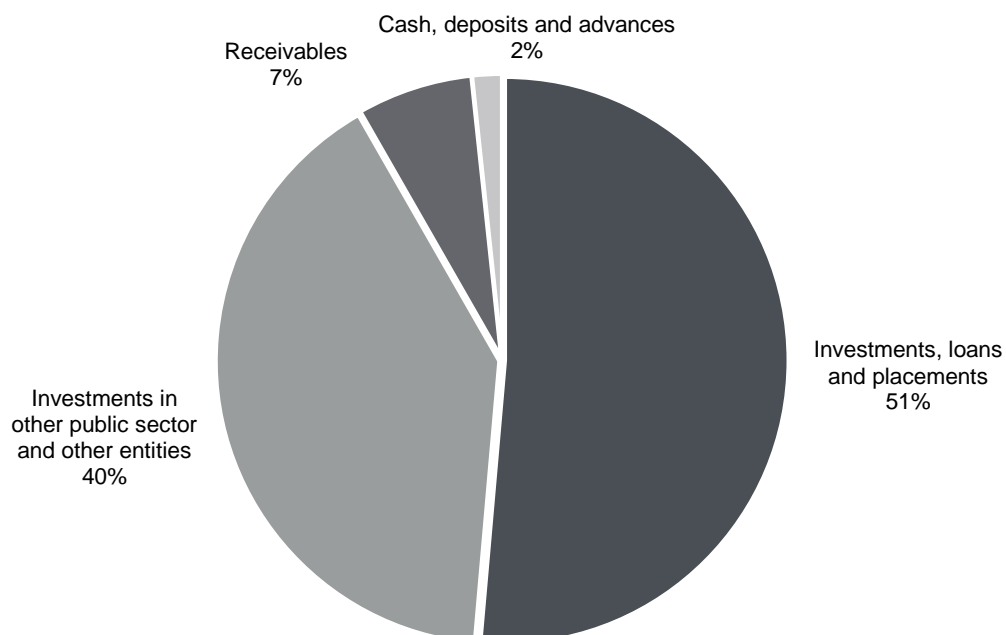
6.2.1 Financial assets

The General Government Sector holds the equity of the State's public enterprises, principally its shareholding in government-owned corporations (GOCs) but also Public Financial Corporations like Queensland Treasury Corporation (QTC), in much the same manner as the parent or holding company in a group of companies. The estimated investment in public enterprises is included in the General Government Sector's financial assets.

Financial assets of \$61.769 billion are estimated for 2018-19, \$2.309 billion higher than originally budgeted for 2018-19 mainly due to the reprofiling of repatriations from surplus assets in the defined benefit scheme and lower levels of beneficiary payments.

Chart 6.1 shows forecast General Government Sector financial assets by category at 30 June 2020. Investments held to meet future liabilities, including superannuation and insurance, comprise the major part of the State's financial assets.

Chart 6.1 Forecast General Government Sector financial assets by category, at 30 June 2020



6.2.2 Non-financial assets

General Government Sector non-financial assets are estimated to total \$211.814 billion at 30 June 2019, \$2.938 billion lower than forecast at 2018-19 Budget due to revaluation decrements on road infrastructure at 30 June 2018.

Non-financial assets in 2019-20 are expected to be \$7.442 billion higher than the 2018-19 estimated actuals, to be \$219.256 billion at 30 June 2020. These assets consist primarily of land and other fixed assets of \$212.382 billion, the majority of which are roads, schools, hospitals and other infrastructure used to provide services to Queenslanders. Other non-financial assets of \$6.874 billion held by the State include prepayments and deferred income tax assets relating to GOCs.

General Government Sector capital expenditure for 2019-20 is forecast to be \$8.335 billion, which comprises \$6.727 billion of PNFA, and \$1.609 billion of capital grant expenses. In addition to these, acquisitions of non-financial assets under finance leases are forecast to be \$1.119 billion, bringing the total General Government Sector capital program for 2019-20 to \$9.454 billion. This is over \$1 billion higher than in the 2018-19 Budget.

Over the four years to 2022-23, General Government Sector capital expenditure is forecast to be \$32.971 billion, which comprises \$27.993 billion of PNFA, and \$4.978 billion of capital grant expenses. Acquisitions of non-financial assets under finance leases and similar arrangements are forecast to be \$4.087 billion, bringing the total General Government Sector capital program over the period to \$37.058 billion. This is over \$3.8 billion higher than the capital program in the 2018-19 Budget.

General Government Sector PNFA are forecast to increase from \$6.060 billion in the 2018-19 estimated actual to \$7.963 billion in 2021-22. This increase reflects the Government's commitment to providing essential infrastructure and capital works to deliver productivity enhancing infrastructure, strengthening local economies and supporting local jobs.

One of the Government's fiscal principles targets net operating surpluses to ensure General Government Sector PNFA are funded primarily through recurrent revenues rather than borrowing. Forecast net operating cash flows from 2018-19 to 2022-23 of \$21.168 billion are funding net investments in NFAs of \$32.697 billion.

The State has also entered into a number of finance leases and similar arrangements, mainly in relation to Public Private Partnerships, totalling in excess of \$5 billion over the period 2018-19 to 2022-23, including for the Tunnel, Stations, Development components of Cross River Rail (including returned works), New Generation Rollingstock and the Toowoomba Second Range Crossing.

Generally, at the commencement of finance leases, the non-financial assets and the borrowings of the State increase by an equal amount to reflect the acquisition of the asset from the proponent. There are no cash impacts on the commencement of the lease – the finance lease liabilities are subsequently repaid under the terms of the Public Private Partnership agreement.

Purchases of non-financial assets by the NFPS over the period 2019-20 to 2022-23 are forecast to be \$40.519 billion, which is an average of \$10.13 billion per annum. With capital grant expenses of \$4.938 billion, this brings total capital expenditure to \$45.458 billion. In addition to this, acquisitions of non-financial assets under finance leases and similar arrangements of \$4.087 billion bring the total capital program over the period to \$49.544 billion. While its primary aim is to facilitate service delivery to Queenslanders, infrastructure investment makes an important contribution to the economy and is a cornerstone of the Queensland job market, particularly in the construction industry.

6.2.3 Liabilities

General Government Sector

Total estimated General Government Sector liabilities of \$77.386 billion in 2018-19 are \$5.811 billion higher than the 2018-19 Budget, partly due to an increase of \$2.182 billion flowing through from the audited actuals at 30 June 2018. The superannuation liability is expected to be higher than budgeted, impacted by actuarial adjustments such as lower discount rates, as well as lower beneficiary payments. Other provisions and liabilities are \$1.662 billion higher than budgeted and include the long service leave liability, which was increased as a result of lower interest rates and a modelling revision. Advances received were higher as more GOCs joined the cash management scheme.

Total liabilities in the General Government Sector in 2019-20 will increase by \$3.920 billion from the 2018-19 estimated actual, predominantly due to higher borrowing balances partly offset by lower superannuation liabilities and advances from GOCs.

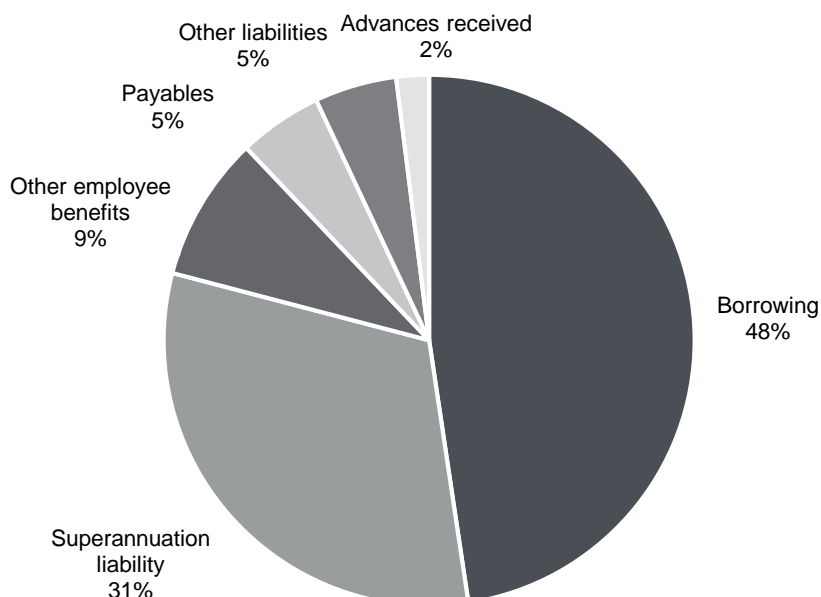
General Government Sector QTC borrowing is expected to increase \$2.848 billion, from \$29.933 billion in 2018-19 to \$32.781 billion in 2019-20, mainly to facilitate capital purchases. General Government Sector QTC borrowing for 2019-20 is \$432 million lower than the projection in the 2018-19 Budget and \$1.293 billion lower than projected at the time of the 2018-19 MYFER.

Lease liabilities and similar arrangements will increase by \$3.2 billion during 2019-20 due to the first-time adoption of AASB 16 *Leases* (\$2.2 billion). The recognition of leases for AASB 16 *Leases* largely relates to accommodation leases – for example, the recognition of the lease for 1 William Street increases liabilities by approximately \$700 million – but does not have any economic impact on the State's finances. The 2019-20 balance will also increase due to the recognition of new finance leases on the New Generation Rollingstock contract and the costs on the Cross River Rail PPP. Leases and other similar arrangements stabilise at around \$7 billion over the outyears following the adoption of AASB 16 as new liabilities are largely set off by contractual repayments.

The defined benefit superannuation liability is projected to be \$25.567 billion at 30 June 2020, a \$1.172 billion decrease on the 2018-19 estimated actual. The State's defined benefit fund has been closed to new entrants since 2008. Given the age profile of those employees still in that fund, retirements are also increasing. Accordingly, the State's superannuation liability is now declining over the forward estimates. In addition, an anticipated increase in bond rates across the forward estimates contributes to the expected decline in the liability.

The composition of the General Government Sector's forecast liabilities at 30 June 2020 is illustrated in Chart 6.2.

Chart 6.2 Forecast General Government Sector liabilities by category, at 30 June 2020



Borrowing in 2019-20 is budgeted to be 48% of total liabilities, compared with 53% in 2014-15, reflecting the reduction in borrowings over this period.

Non-financial Public Sector borrowings

NFPS borrowing with QTC of \$71.954 billion is expected for 2019-20, \$345 million lower than expected at the 2018-19 Budget, and \$1.011 billion lower than 2018-19 MYFER. This largely reflects the Government's commitment to fiscally responsible infrastructure investment, without substantially increasing debt.

NFPS leases and similar arrangements for 2019-20 are \$3.563 billion higher than forecast at MYFER due to the adoption of AASB 16 *Leases* (\$2.6 billion at 1 July 2019).

6.2.4 Net financial liabilities

Net financial liabilities are total liabilities less financial assets, other than equity investments in other public sector entities. This measure is broader than net debt as it includes other significant liabilities, rather than just borrowings (for example, accrued employee liabilities such as superannuation and long service leave entitlements).

The net financial liabilities of the General Government Sector for 2018-19 are estimated to be \$39.568 billion.

Net financial liabilities increase across the forward estimates as investments are repatriated from the actuarially assessed defined benefit superannuation fund surplus and borrowings are made to fund priority infrastructure projects.

6.2.5 Net worth

The net worth, or equity, of the State is the amount by which the State's assets exceed its liabilities. This is the value of the investment held on behalf of the people of Queensland by public sector instrumentalities.

Changes in the State's net worth occur for a number of reasons including:

- operating surpluses (deficits) that increase (decrease) the Government's equity
- revaluation of assets and liabilities as required by accounting standards
- movements in the net worth of the State's investments in the Public Non-financial Corporations and Public Financial Corporations sectors
- gains or losses on disposal of assets. Where the selling price of an asset is greater (less) than its value in an agency's accounts, the resultant profit (loss) affects net worth.

6.2.6 Net debt

Net debt is the sum of advances received and borrowings less cash and deposits, advances paid and investments, loans and placements.

Net debt for the General Government Sector in 2018-19 is estimated to be \$1.661 billion, \$1.154 billion less than the 2018-19 Budget mainly as a result of the improved operating position.

In the NFPS, net debt is estimated at \$37.428 billion in 2018-19, \$1.599 billion less than the 2018-19 Budget.

6.2.7 New accounting standards

As referred to above and in Box 3.1 in Chapter 3, AASB 16 *Leases* applies from 1 July 2019 and results in a one-off step up in the State's borrowings and non-financial assets of \$2.2 billion for General Government Sector and \$2.6 billion for the NFPS. This adjustment largely relates to accommodation leases (including 1 William Street) and does not have any economic impact on the State's finances.

AASB 1059 *Service Concession Arrangements* will apply to public sectors in Australia from 1 July 2020 and will significantly impact the State's balance sheet, increasing assets and liabilities. This standard was meant to take effect in 2019-20 but its implementation was deferred to 1 July 2020 by the Australian Accounting Standards Board.

The State, as a grantor, will recognise an asset and matching liability which may be classified as a borrowing or unearned revenue (included in other liabilities), depending on the individual contract. The adoption of this new standard will be addressed in the 2020-21 Budget. The most significant impact will likely to arise from transactions the State has previously entered into, such as the granting of concessions on the Gateway and Logan Motorways and AirportLink where the State will be required to recognise an infrastructure asset (included in land and other fixed assets on the balance sheet) and unearned revenue (included in other liabilities on the balance sheet).

Other transactions such as Gold Coast Light Rail are already on the State's balance sheet and may only be reclassified within non-financial asset categories.

6.3 Cash flows

The cash flow statement provides the cash surplus (deficit) measure which is comprised of the net cash flows from operating activities plus the net cash flows from investments in non-financial assets (or physical capital).

The estimated General Government Sector cash deficit of \$1.224 million in 2018-19 is \$1.024 billion lower than that forecast at the time of the 2018-19 Budget. This is largely due to the higher than expected operating cash flows.

After taking into account net investments in non-financial assets of \$6.422 billion, a cash deficit of \$2.586 billion is forecast for 2019-20, an improvement of \$1.381 billion compared to the 2018-19 MYFER and an improvement of \$1.709 billion compared to the 2018-19 Budget

Net cash flows from investments in financial assets for policy purposes include net cash flows from disposal or return of equity, net equity injections into GOCs and concessional loans and advances. Cash flows from the return of equity from the PNFC and PFC sectors are the primary driver of net inflows of \$295 million over the period 2018-19 to 2022-23.

Net cash flows from investments in financial assets for liquidity purposes represent net investment in financial assets to cover liabilities such as superannuation, other employee entitlements and insurance as well as drawdowns from the redraw facility. The repatriation of surpluses in the actuarially assessed defined benefit superannuation fund and the QGIF flow through this line in the Statement of Cash Flows.

Total General Government Sector PNFA of \$6.727 billion are budgeted for 2019-20 and, over the period 2019-20 to 2022-23, PNFA are expected to total \$27.994 billion in the General Government Sector.

7 Intergovernmental financial relations

Features

- Queensland is the only state to receive less GST revenue in 2019-20 compared to 2018-19. Queensland's GST revenue will be lower in 2019-20 primarily because the Australian Government has significantly revised down the growth of the GST pool from 2018-19 and accepted the Commonwealth Grants Commission's assessment that Queensland should receive a smaller share. This reflects improved mining royalties, lower natural-disaster-related expenditure, and a greater share of payments for specific purposes.
- The integrity of horizontal fiscal equalisation (principle of GST distribution) is at risk due to actions of the Australian Government. The Australian Government has legislated changes that have weakened the principles underpinning horizontal fiscal equalisation. It has also interfered with the independence of the Commonwealth Grants Commission by instructing the Commission to cease reviewing its mining revenue assessment as part of its 2020 Methodology Review. Without the Commission's proposed changes (due to come into effect in 2020-21), Queensland will continue to unfairly lose most of its coal seam gas royalty revenue through GST distribution.
- Australian Government payments comprise approximately 44.5 per cent of Queensland's General Government revenue.
- The Australian Government estimates that it will provide the Queensland Government \$26.902 billion in 2019-20 (\$360 million less than in 2018-19), comprising:
 - \$14.214 billion in payments for general revenue assistance (share of GST revenue) (\$227 million less than 2018-19)
 - \$12.688 billion in payments for specific purposes (\$134 million less than in 2018-19).
- Payments for specific purposes in 2019-20 comprise:
 - \$4.902 billion for National Health Reform
 - \$4.771 billion for Quality Schools
 - \$0.320 billion for National Housing and Homelessness
 - \$2.388 billion for National Partnership payments (e.g. Infrastructure Investment Program and Disaster Recovery Funding Arrangement)
 - \$0.308 billion for National Specific Purpose Payments (National Skills and Workforce Development).
- Payments to Queensland for specific purposes will be lower in 2019-20 primarily due to the redirection of funding to the National Disability Insurance Scheme (NDIS), an upfront payment in 2018-19 for disaster-affected primary producers in north Queensland, and seven non-infrastructure National Partnership Agreements expiring on 30 June 2019.
- Despite repeated requests, the Australian Government has not allocated funding for Queensland's Cross River Rail project or remote Indigenous housing.

7.1 Federal financial arrangements

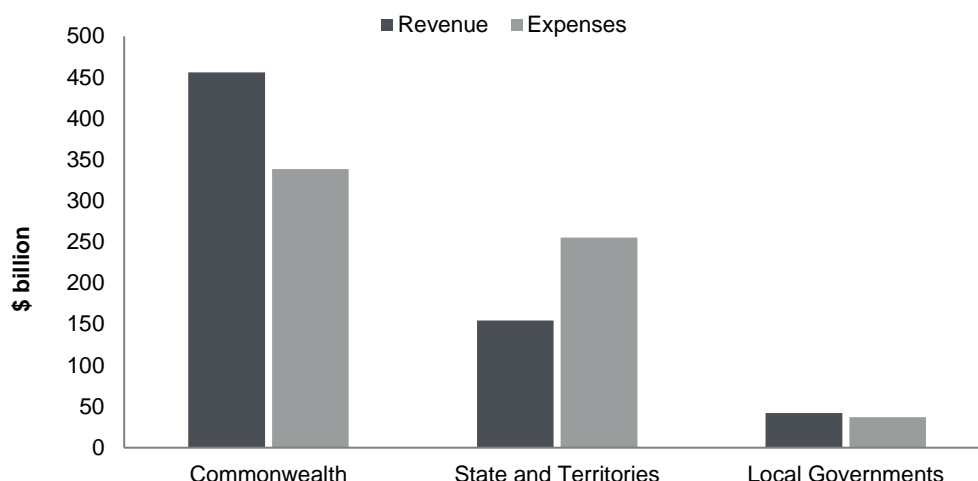
Vertical Fiscal Imbalance

Federal financial relations in Australia are characterised by different levels of government sharing responsibility for raising revenue and delivering services to communities. State and territory governments' ability to raise revenue is less than required to meet their service delivery responsibilities. Conversely, the Australian Government raises more revenue than is required to meet its service delivery responsibilities. This is called vertical fiscal imbalance (VFI), and requires the sharing of revenue between the Australian Government and states and territories.

In 2017-18, the Australian Government collected the majority of taxation revenues (80.7%), while states and territories (states)¹ collected 15.9% and local governments the remaining 3.4%².

Chart 7.1 illustrates the revenue and expense disparity between the different levels of government.

Chart 7.1 Own-source revenue and expenses by levels of government, 2017-18^{1,2}



Notes:

1. Revenue calculated as total revenue minus grant revenue.
2. Expenses calculated as total expenses minus grant expenses.

Source: ABS 5512.0 2017-18.

¹ States refers to states and territories unless otherwise specified.

² ABS Government Finance Statistics Cat No. 5506.0

In Australia, VFI is addressed through a system of intergovernmental payments from the Australian Government to the states which allows them to meet their service delivery and infrastructure responsibilities. The Australian Government makes two types of payments:

- general revenue assistance payments (e.g. shares of GST revenue) which can be used by states for any purpose (untied funding)
- payments for specific purposes (tied funding) such as National Specific Purpose Payments (SPPs, contribution toward states' service delivery) and National Partnership payments (NPs; funding to support the delivery of specific outputs or projects and to facilitate and incentivise reforms).

Without the contribution by the Australian Government, states would not be able to provide essential services and infrastructure to their communities.

Horizontal Fiscal Imbalance and Horizontal Fiscal Equalisation

Another feature of Australian federalism is horizontal fiscal imbalance (HFI). HFI arises from disparities between the states' capacity to raise revenue and deliver services. Some states can raise higher revenue or deliver services at a lower cost compared to other states. Over time, this can distort capital and labour mobility towards states providing higher level of services.

To address HFI, GST revenue collected by the Australian Government is distributed to states in a way that ensures each state is provided with the fiscal capacity to deliver the same standard of service and infrastructure to their population no matter where they live. This is known as horizontal fiscal equalisation (HFE).

The Commonwealth Grants Commission (CGC) uses the principles of HFE in recommending to the Australian Government how GST revenue should be distributed to the states. The amount each state receives is a function of the amount of GST revenue collected (the GST pool) and the share of revenue recommended by the CGC.

7.2 Australian Government funding to the states

The Australian Government estimates that it will provide states \$127.358 billion in 2019-20, \$646 million (0.5%) less than in 2018-19, comprising:

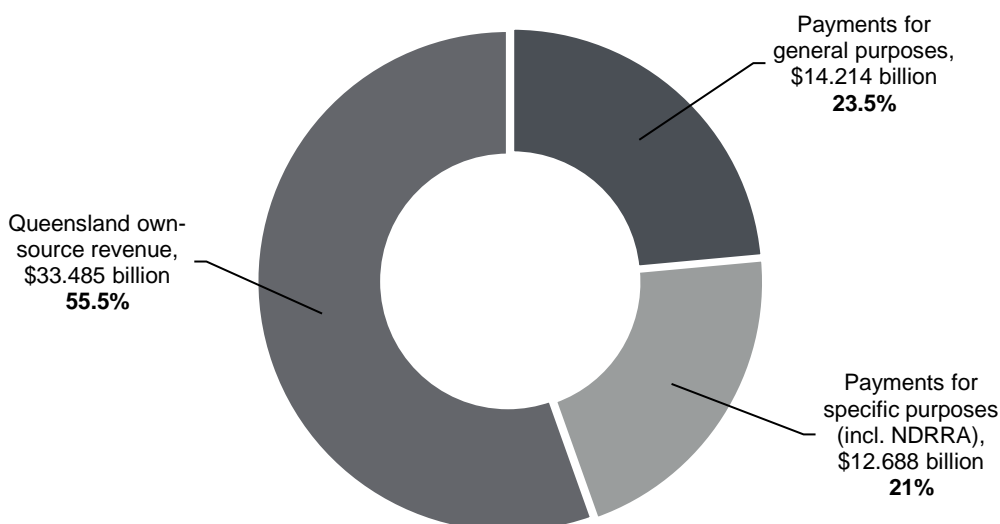
- \$67.2 billion in payments as shares of GST revenue, \$1.57 billion more than 2018-19
- \$58.305 billion in payments for specific purposes, \$2.565 billion (4.2%) less than in 2018-19, including:
 - \$22.535 billion in National Health Reform funding
 - \$20.944 billion in Quality Schools funding
 - \$1.565 billion in National Housing and Homelessness funding.
 - \$11.55 billion in National Partnership payments (e.g. Infrastructure Investment Program and Disaster Recovery Funding Arrangement (DRFA), and DisabilityCare Australia Fund)
 - \$1.712 billion in National Specific Purpose Payments
- \$1.853 billion in other payments (e.g. GST top-up and royalty payments).

7.3 Australian Government funding to Queensland

The Australian Government estimates that it will provide Queensland \$26.902 billion¹ in 2019-20, \$360 million (1.3%) less than in 2018-19.

Australian Government funding is estimated to account for 44.5% of Queensland's total General Government Sector revenue sources in 2019-20 (shown in Chart 7.2).

Chart 7.2 General Government Sector revenue sources, Queensland, 2019-20^{1,2}



Notes:

1. Percentage may not add to 100% due to rounding.
2. Queensland own-source revenue figure includes direct Australian Government payments to Queensland departments for Commonwealth own purpose expenditure.

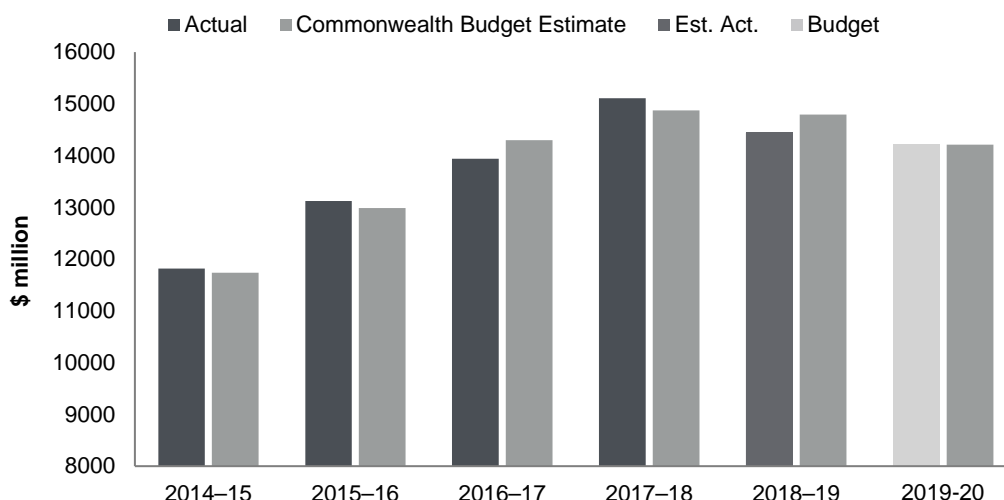
Source: 2019-20 Commonwealth Budget Paper No. 3 and Queensland Treasury estimates.

7.4 GST revenue

GST revenue accounts for all general revenue assistance payments Queensland receives. In 2019-20, Queensland expects to receive \$14.214 billion of GST revenue, \$227 million (1.6%) less than in 2018-19 (see Chart 7.3).

¹ This figure differs to Chapter 4 Australian Government payments estimates, owing to the exclusion of direct Australian Government payments to Queensland departments for Commonwealth own purpose expenditure.

Chart 7.3 Estimated GST payments to Queensland, 2014-15 to 2019-20¹



Note:

- Figures include the balancing adjustments which account for differences between the GST paid to states and the final GST pool size and population outcomes in the prior year.

Sources: 2019-20 Commonwealth Budget Paper No. 3 and Queensland Treasury estimates.

The anticipated decrease in GST revenue in 2019-20 is primarily because the Australian Government revised down the growth of the GST pool from 2018-19 by approximately \$11 billion over the forward estimates compared to the 2018-19 Commonwealth Budget.

They have also determined that Queensland has improved its fiscal capacity to deliver services relative to other states, and therefore requires a lesser share of GST. Fiscal strength is assessed and recommended by the Commonwealth Grants Commission and expressed numerically as a 'relativity'. In 2019-20, the Australian Government accepted the Commission's recommended relativity for Queensland of 1.05370, down from 1.09584 in 2018-19. As a result, despite the GST pool continuing to grow, albeit slower, Queensland is the only state to receive less GST revenue in 2019-20 than in 2018-19.

Specifically, the Commonwealth Grants Commission recommended a decreased share of GST revenue primarily due to:

- Queensland's value of mining production, particularly coal, has increased substantially, increasing the State's revenue raising capacity
- Queensland required less GST funding to cover natural disaster expenses. In addition, the Commission made a one-off correction to remove local government expenditure from its assessment of Queensland's natural disaster expenses. Queensland has raised concerns with this change as it assumes that local governments do not require the assistance of state governments to recover and it is not a true reflection of the support that the Queensland Government provides

- Queensland's share of payments for specific purposes has increased mainly due to higher shares of payments for health and infrastructure.

Marginal positive influences on Queensland's GST revenue were:

- slower than average growth in the value of property sales in Queensland for the assessment years reduced revenue raising capacity
- Queensland's below average growth in taxable land values reduced the State's revenue raising capacity.

Queensland's GST revenue is also adversely affected by the Australian Government excluding some payments from the GST distribution calculations. These have favoured other states in recent years, for example, funding for hospital infrastructure paid to Western Australia and funding for remote Indigenous housing paid to the Northern Territory. The adverse effect of such payments on Queensland's GST revenue lasts several years. For 2019-20 alone, Queensland's GST revenue is reduced by \$282 million compared to 2018-19 because of the exclusions.

The Commission's report on GST Sharing Relativities (2019 Update Report) provides details on the factors that determine Queensland's GST share. It also provides information on Queensland's GST share compared to other states and the reasons underpinning any differences.

The Commission is currently undertaking a comprehensive review of its methodology of assessing states' fiscal strength and recommending shares of GST revenue. This 2020 Methodology Review is due to be completed in 2019-20, with a final report to be provided to the Australian Government and the states by 28 February 2020. Through this review, Queensland aims to ensure the assessment accurately reflects the challenges of delivering services to a large and decentralised state and that the State receives its fair share of GST revenue.

Box 7.1 Changes to HFE

2018 was a disruptive year for horizontal fiscal equalisation, with the Australian Government introducing a series of reforms and undertaking unprecedented actions to selectively interfere with the independence of the Commonwealth Grants Commission; and, at other times, choosing to not intervene when it did not suit the Australian Government's interests.

Australian Government changes to Horizontal Fiscal Equalisation

On 5 July 2018, the Productivity Commission (PC) released its Final Report into Horizontal Fiscal Equalisation that recommended changes to GST distribution.

The Australian Government accepted many of the recommendations and passed the *Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Bill* on 14 November 2018. Among other things, the Bill legislated:

- 'Top up' payments to Western Australia and the Northern Territory from 2019-20 to 2021-22
- from 2021-22, all states will transition over six years to equalising to the stronger of New South Wales or Victoria, and not to the strongest state
- a GST relativity floor of 0.7 in 2022-23, raised to 0.75 from 2024-25
- a permanent boost to the GST pool. The Australian Government will inject \$600 million per annum from 2021-22 and an additional \$250 million per year from 2024-25. This funding will continue in perpetuity and grow at the same rate as the GST pool.

In response to states' concerns regarding the changes, the Australian Government legislated a 'no worse off' guarantee and another review by the Productivity Commission. The guarantee ensures that all states will receive GST revenue that is the better of the current distribution system or the new system over the transition period (2021-22 to 2026-27); and the Productivity Commission must conduct an inquiry by December 2026 to assess whether the updated distribution system is operating efficiently, effectively and as intended.

Australian Government interference in the 2020 Methodology Review

Every five years, the Commission undertakes a comprehensive review of its methodology for assessing states' fiscal strength and recommending shares of GST revenue. It is a rare opportunity to improve a 20-year-old system that accounts for approximately one quarter of Queensland's revenue.

Through the normal course of the review, the Commission proposed changes to the mining revenue assessment that improved its fairness and ensured that individual state policies do not have an undue influence on shares of GST. However, the Australian Government has taken an unprecedented step to instruct the Commission to not make any changes to the assessment. Without changes to the assessment (due to come into effect in 2020-21), Queensland will continue to lose most of the royalties collected from the State's growing coal seam gas industry through GST distribution because other states have chosen not to invest in this sector.

Disaster Recovery

The Commission unilaterally decided to adjust its method for assessing natural disaster expenditure, and no longer considers state government expenditure on disaster-affected local government assets to be necessary.

Queensland is the most disaster impacted state in Australia, and this change is not reflective of the support the Palaszczuk Government provides local governments.

The Australian Treasurer declined to intervene and prevent the Commission's methodology changes when requested by the Queensland Government, despite having the authority to do so. Queensland will lose out on its fair share of GST revenue from 2019-20 as a result. This change places additional strain on Queensland's budget and increases the fiscal burden when helping local governments recover from natural disasters.

7.5 Payments to Queensland for specific purposes

In 2019-20, Queensland expects to receive \$12.688 billion in payments for specific purposes, \$134 million (1.0%) less than in 2018-19.

Table 7.1 Estimated Payments to Queensland for Specific Purposes¹

	2017-18 Actual \$ million	2018-19 Est. Act. \$ million	2019-20 Budget \$ million
National Specific Purpose Payments ^{2,3}	925	673	308
National Health Reform funding	4,289	4,709	4,902
Quality Schools funding	4,163	4,474	4,771
National Housing and Homelessness funding ³	..	314	320
National Partnership Payments (incl. DRFA ⁴)	2,202	2,652	2,388
Total payments for specific purposes	11,579	12,822	12,688
Notes:			
1. Numbers may not add due to rounding.			
2. From 2019-20, the National Disability SPP will be redirected to the National Disability Insurance Agency to support implementation of the NDIS in Queensland.			
3. From 2018-19, funding under the National Affordable Housing SPP and the National Partnership Agreement on Homelessness is combined under the National Housing and Homelessness Agreement.			
4. The new Australian Government Disaster Recovery Funding Arrangements (DRFA) will apply from 1 November 2018 for eligible events that occur on or after that date. All eligible events occurring up to and including 31 October 2018 will be governed by the Natural Disaster Relief and Recovery Arrangements.			
Sources: 2019-20 Commonwealth Budget Paper No. 3 and Queensland Treasury estimates.			

Payments for specific purposes comprise funding for National Health Reform, Quality Schools, National Housing and Homelessness, National Specific Purpose Payments (SPPs) and National Partnership (NP) payments.

In 2019-20, National Health Reform funding accounts for 38.6% of the total payments for specific purposes. National Health Reform funding is estimated to increase by \$193 million (or 4.1%) from 2018-19. Queensland projections of National Health Reform funding differ from the projections contained in the 2019-20 Commonwealth Budget. Australian Government projections assume higher activity growth than projected in service agreements between the Queensland Department of Health and Hospitals and Health Services. Actual National Health Reform payments vary from estimates provided in budget papers as they are based on actual public hospital activity delivered each year.

Quality Schools funding, which accounts for 37.6% of the total payments for specific purposes, is expected to increase by 6.7% to \$4.771 billion in 2019-20 compared to 2018-19.

The growth embedded in these agreements with the Australian Government is one of the primary drivers of the growth in health and education expenditure and employee numbers, the effects of which can be seen in Chart 5.3.

National Housing and Homelessness funding commenced on 1 July 2018 and is expected to increase by \$6 million (or 1.9%) in 2019-20 compared to the previous year.

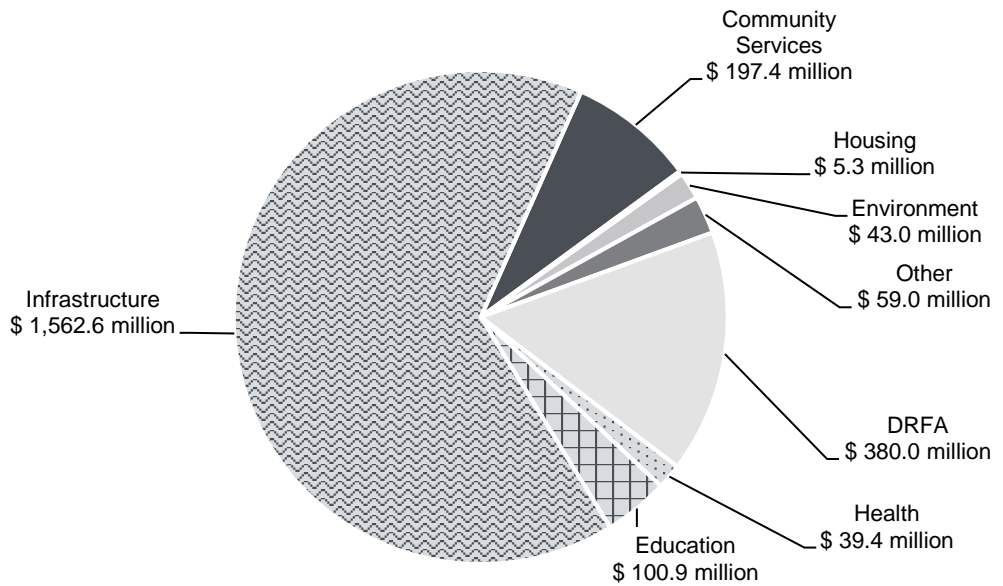
National Specific Purpose Payments (SPPs), which encompass 2.4% of the total payments for specific purposes, are expected to decrease by 54.2% to \$308 million in 2019-20 compared to 2018-19. The reduction is due to funding under the National Disability SPP being redirected to support implementation of the NDIS in Queensland from 2019-20.

National Partnership payments (including Disaster Recovery Financial Assistance (DRFA)), which account for 18.8% of the total payments for specific purposes, is expected to decrease by 10% to \$2.388 billion in 2019-20 compared to 2018-19. A significant proportion of National Partnership payments is allocated to infrastructure, DRFA, community services and education (refer to Chart 7.4).

The reduction in payments for specific purposes between 2018-19 and 2019-20 is mainly due to:

- funding for the National Disability SPP will be redirected, from 2019, to support the implementation of the NDIS
- the Australian Government made an upfront payment in 2018-19 for a three-year agreement to assist disaster-affected primary producers in North and Far North Queensland
- seven non-infrastructure National Partnership Agreements will expire on 30 June 2019.

Chart 7.4 National Partnership Payments by sector, 2019-20¹



Note:

1. Excludes Australian Government direct funding to local government.

Sources: 2019-20 Commonwealth Budget Paper No. 3 and Queensland Treasury estimates.

Box 7.2 Key impacts of 2019-20 Commonwealth Budget

Infrastructure

In the 2019-20 Commonwealth Budget, the Australian Government announced funding of \$4 billion over the next decade for new land transport infrastructure projects in Queensland. However, most of the funding is not provided until beyond the forward estimates.

Projects include:

- \$800 million for the Gateway Motorway extension from Bracken Ridge to Pine River
- \$320 million for Warrego Highway upgrades between Ipswich and Toowoomba
- \$287 million for the Cairns Ring Road
- \$1 billion under the Roads of Strategic Importance initiative, including \$200 million for the Tennant Creek to Townsville corridor and \$50 million for the Toowoomba (Gore Highway) to Seymour corridor
- \$379 million for projects under the Urban Congestion Fund, including \$50 million for the M1 intersection upgrades.

The Commonwealth Budget also allocated \$172.9 million under the proposed Regional Deal for Bundaberg and Hervey Bay to support local community and transport infrastructure projects.

There is no funding allocated in the Commonwealth Budget for the Cross -River Rail project.

North Queensland flood recovery

The Australian Government has provided \$232 million in 2018-19 under Disaster Recovery Funding Arrangements to support North Queensland communities recover from the impacts of the 2019 floods.

In addition, the 2019-20 Commonwealth Budget provided \$300 million in 2018-19 to assist Queensland primary producers impacted by the North and Far North Queensland monsoon trough (25 January to 14 February 2019). Funding will be provided through grants to purchase on-farm infrastructure, replace livestock and replant crops.

Health

The Australian Government is providing \$1.3 billion Australia-wide over seven years from 2018-19 through the Community Health and Hospitals Program to boost health services (state allocations yet to be finalised). The Program includes \$60 million to support the James Cook University Tropical Enterprise Centre in Queensland and \$24 million to improve health outcomes for individuals living with brain and spinal cord injuries in Queensland.

Environment

The Australian Government is providing \$9.2 million towards controlling yellow crazy ants in the Wet Tropics World Heritage Area in Queensland, \$18.3 million has been brought forward across three years from 2018-19 to help eradicate red imported fire ants in Queensland.

7.5.1 Projections of payments for specific purposes to Queensland

Across the forward estimates, total payments for specific purposes are expected to steadily increase, with average growth of approximately 5% between 2019-20 and 2022-23.

National Health Reform funding for Queensland is expected to increase by an average of 5.8% per annum from 2019-20. Under the Addendum to the National Health Reform Agreement, the Australian Government will fund 45% of efficient growth in hospital activity subject to a national growth cap of 6.5% per annum. Current estimates are based on this methodology; however, funding is subject to Queensland agreeing to the Addendum to the National Health Reform Agreement, including an agreed mechanism for finalising future National Health Reform funding determinations in a timely manner.

Growth in Quality Schools funding for Queensland is expected to average 6.1% per annum between 2019-20 and 2022-23 as a result of enrolment growth and increased per student funding. In December 2018, the Queensland Government signed the National Schools Reform Agreement and associated bilateral agreement with the Australian Government, securing Australian Government funding for Queensland schools for five calendar years, 2019 to 2023. Under the agreement, Queensland is expecting to receive \$8.381 billion for state schools and \$12.665 billion (including GST) for non-government schools from 2019-20 to 2022-23.

7.5.2 Expiring agreements

The original intent of the Intergovernmental Agreement on Federal Financial Relations was to limit the number of NPs, allowing for funding to flow to states for efficient service delivery and reduce the reporting burden. However, over time, the number of time-limited and low value NPs has increased, raising community expectations for ongoing services and reducing budget certainty.

When agreements expire, states are left with limited opportunities to deal with the expiring NP as the final decision on continued funding is made through the Australian Government's budget process. The expiry of many large NPs over the last few years, such as the National Partnership on Remote Housing and the National Partnership on Skills Reform, has brought the risks posed by fixed-term funding arrangements into sharp focus. Unilateral termination by the Australian Government of funding for essential programs, with little or no advice, impacts on the ability of the states to plan ahead and continue delivering essential services to communities. Early indication as to the continuation, lapse or other treatment of funding under expiring agreements is necessary to enable states to undertake effective service delivery and budgetary planning.

There are seven non-infrastructure NPs due to expire on 30 June 2019:

- Public Dental Services for Adults
- National Quality Agenda for Early Childhood Education and Care
- Family Advocacy and Support Services
- Pay Equity for the Social and Community Services Sector
- Managing Established Pest Animals and Weeds
- Pest Animals and Weed Management in Drought Affected Areas
- National Water Infrastructure Development (feasibility component)

A further 11 expire on 30 June 2020:

- Hummingbird House
- OzFoodNet program
- Addressing blood-borne viruses and sexually transmissible infections in the Torres Strait
- Mosquito control and cross border liaison in the Torres Strait protected zone
- Managing Torres Strait/Papua New Guinea cross border health issues
- Vaccine preventable diseases surveillance program
- Universal access to early childhood education – 2018 and 2019
- Implementing water reform in the Murray-Darling Basin
- Women's safety package – technology trials
- Legal assistance services
- Prepared communities (preparedness and resilience to disasters).

The 2019-20 Commonwealth Budget commits funding for some of these but, at the time of preparing this Budget, formal arrangements are not in place that guarantee their continuation. Queensland's priority agreements for extension include the NPs on Universal Access to Early Childhood Education, Public Dental Services for Adults and Legal Assistance Services. Also, Queensland is seeking renewal of the NP on Remote Housing which expired on 30 June 2018; no funding was allocated for remote Indigenous housing to Queensland in the 2019-20 Commonwealth Budget.

Queensland will continue to engage with the Australian Government to progress these agreements, noting the 2019-20 Commonwealth Budget committed to extending funding for:

- Universal Access to Early Childhood Education is proposed to be extended to the 2020 school year. This will be the sixth short-term extension for this agreement since 2008. \$86.6 million will be available to Queensland for 2019-20 under the NP
- Public Dental Services for Adults is proposed to be extended until 30 June 2020. Queensland is expecting \$21.7 million under the extension

- Legal Assistance Services is proposed to be extended and will receive funding of \$1.2 billion nationally (state allocations yet to be finalised) over three years from 2020-21, including services delivered by Legal Aid Commissions, Community Legal Centres and Aboriginal and Torres Strait Islander Legal Services. The funding is intended to be delivered through a new, single national mechanism for Commonwealth legal assistance from 1 July 2020.

There is no funding allocated to Queensland for remote Indigenous housing in the 2019-20 Commonwealth Budget.

When the Australian Government decides to cease funding for expiring agreements, it presents a significant ongoing fiscal risk for states, with impacts on the quality and continuity of much needed services delivered to some of the most vulnerable members of the community.

7.6 State-local government financial relations

In 2019-20, the Queensland Government will provide a total of \$1.468 billion in grants to local governments, compared to \$2.067 billion in 2018-19. The lower level of grants to local governments in 2019-20 is mainly due to early payment of Financial Assistance grants by the Australian Government, a bring forward of grants under the Works for Queensland program, and the early payment of grants as part of the Waste Levy scheme.

Table 7.2 Estimated Payments to Queensland for Specific Purposes^{1,2}

	2018-19 Budget \$ million	2018-19 Est. Act. \$ million	2019-20 Budget \$ million
Aboriginal and Torres Strait Islander Partnerships	7	5	8
Child Safety, Youth and Women	2	..	..
Communities, Disability Services and Seniors	60	58	59
Education	2	2	2
Environment and Science ³	61	152	8
Employment, Small Business and Training	..	6	6
Housing and Public Works	81	76	83
Innovation, Tourism Industry Development and the Commonwealth Games	2	3	3
Local Government, Racing and Multicultural Affairs ⁴	559	814	437
Natural Resources, Mines and Energy ⁵	..	160	55
Premier and Cabinet	1	1	..
Queensland Fire and Emergency Services	2	2	2
Queensland Treasury	2	7	7
State Development, Manufacturing, Infrastructure and Planning ⁶	544	491	391
Transport and Main Roads ⁷	213	265	187
Other ⁸	132	25	220
Total Queensland Government grants	1,667	2,067	1,468

Notes:

1. Includes current, capital and asset grants to local government authorities and Aboriginal and Islander councils. Includes Australian Government grants paid through the state to local governments.
2. Numbers may not add due to rounding.
3. The increase in 2018-19 is primarily related to new funding for payments to local councils for commencement of the Queensland Waste Levy on 1 July 2019. The reduction in 2019-20 is primarily due to Local Government payments relating to the Waste Levy not being reflected in the 2019-20 budget as the payment in 2018-19 was for 2019-20 operations. Other planned programs in 2019-20 include a capital grant for the Rockhampton Art Gallery.
4. Increase in 2018-19 Estimated Actual is principally due to the advance payment for the Financial Assistance Grants in June 2019 that applies to 2019-20. Decrease is due to the advance payment of the 2019-21 Works for Queensland program in May 2019 and the advance payment for the Financial Assistance Grants in June 2019 that applies to 2019-20.
5. The reduction in 2019-20 is due to the grant funding for the Haughton Water Pipeline Duplication (HWPDP) Project being realigned more closely with the Townsville City Council's expenditure.
6. Reduction from 2018-19 Budget to Estimated Actual is due to lower than expected payments under the Royalties for the Regions (R4R) and Building our Regions (BoR) grant programs. Additionally, the decrease from the 2018-19 budget to 2019-20 is primarily due to movements in expected payments under Disaster Recovery Funding Arrangements, with 2018-19 including progress payments for a suite of recovery projects funded by the Queensland Government following Severe Tropical Cyclone (STC) Debbie.
7. Increase in 2018-19 Estimated Actual primarily due to increased expenditure on local roads under the Commonwealth funded Cape York Region package and Improving Cattle Supply Chains. Decrease in 2019-20 Budget primarily due to reduction in capital projects on local roads, completion of payments under the Commonwealth funded Cape York Region Package and reduction in payments under the Commonwealth Funded Bridges Renewal Program.
8. Grants not yet allocated to government agencies, largely in relation to natural disaster relief.

The Queensland Government allocates considerable funding in the State Budget to support local governments across the State. The Queensland Government acknowledges the shared responsibilities in serving the people of Queensland and the important role local governments play. A summary of the major grant programs available to local governments are listed below.

Table 7.3 Grant programs exclusively available to local government

Program Name (Responsible Agency)	Description	Total Funding (from 2015-16 to 2022-23)
Works for Queensland	Support local governments in regional areas to undertake job-creating maintenance and minor infrastructure works.	\$600 million
Transport Infrastructure Development Scheme ¹	Provide targeted investment in regional local government transport infrastructure.	\$560 million
Building our Regions ¹	Provide funding for critical infrastructure in regional areas to support economic development, including generating jobs.	\$365 million
Local Government Grants and Subsidies Program	Provide funding for priority infrastructure projects that will enhance sustainable and liveable communities.	\$29 million per annum
Coastal Hazard Adaptation Program - QCoast ₂₁₀₀	Assist coastal local governments to prepare plans and strategies for addressing climate change.	\$12 million
Queensland Water Regional Alliances Program	Assist regional councils to collaborate and improve efficiencies and administration around water infrastructure.	\$6 million
Note: 1. The \$560 million includes \$150 million which falls under the Building Our Regions Program.		

In addition to the above grant programs, the Government has provided additional funding of \$38 million over four years from 2018-19 to establish the Disaster Resilience Fund. This fund administered by the Queensland Reconstruction Authority, will be available to a range of organisations including local governments, to deliver mitigation and resilience projects.

The Queensland Reconstruction Authority also administers the Disaster Recovery Funding Arrangements which is a joint funding initiative of the State and Australian Governments to provide disaster relief and recovery payments to help communities recover following the effects of natural disasters. Under these arrangements the State contributes significant funding (approximately \$700 million) to provide disaster relief and to assist with reconstruction of local government infrastructure damaged during natural disasters. The actual amount will be dependent on the final number of claims submitted.

The Government also understands there are added challenges faced by Indigenous local governments, which are often located in very remote areas of the State, to ensure their communities have access to essential services and critical infrastructure. In response, the Government has allocated substantial additional funding to specifically support Indigenous councils and their communities. A summary of grant programs available to Indigenous councils and their communities are listed below.

Table 7.4 Grant programs to support Indigenous councils and their communities

Program Name	Description	Total Funding (from 2015-16 to 2022-23)
Indigenous Councils Critical Infrastructure Program	Contribute water, wastewater and solid waste infrastructure in Indigenous communities.	\$120 million
Major Infrastructure Program	Deliver environmental health and other infrastructure upgrades within the Torres Strait Island Regional Council, Torres Shire Council and Northern Peninsula Area Regional Council areas.	\$15 million
State Government Financial Aid	A financial contribution (in lieu of rates) to meet the costs incurred by Indigenous councils in the provision of local government services.	\$34.5 million per annum
Indigenous Local Government Sustainability Program (2016-18)	Assist Indigenous councils to increase their capacity, capability and sustainability.	\$8.2 million

8 Public Non-Financial Corporations Sector

Features

- The Queensland Government expects its businesses to operate commercially and efficiently and improve services to Queenslanders.
- The Government is supporting \$3.496 billion of infrastructure investment through the Public Non-financial Corporations Sector in 2019-20. This includes \$2.234 billion on electricity infrastructure, \$261.7 million on water infrastructure, \$337.4 million on port infrastructure and \$638.6 million on rail infrastructure.
- The Public Non-financial Corporations Sector is forecast to generate dividends of \$1.365 billion in 2019-20. Importantly, dividends generated by the government-owned corporations (GOCs) are used to fund vital services for Queensland, such as public hospitals, schools and police.
- The Government has delivered on key energy policy reforms including the establishment of a new clean energy government-owned corporation, CleanCo Queensland Limited (CleanCo). CleanCo will put ongoing downward pressure on electricity prices, as well as growing investment and jobs in the renewable energy sector. The Government will invest \$250 million over 2019-20 and 2020-21 to develop new, public renewable energy generation assets.
- Government has taken action to put downward pressure on wholesale prices and the establishment of CleanCo will create an even more competitive market. Other initiatives include continuing to remove the costs of the Solar Bonus Scheme from customer bills in 2019-20. Queensland wholesale spot prices remained the lowest in the National Energy Market over the past two summers. The Queensland Competition Authority's Final Determination for Regulated Retail Electricity Prices estimates prices in regional Queensland will fall by 4.4 per cent in 2019-20 for the typical household bill, with prices in South East Queensland also expected to fall.
- Energy Queensland Limited has submitted its regulatory proposals for the new regulatory control period 2020-25, through which the Australian Energy Regulator will determine allowable revenues for the business.
- In 2019-20, Queensland Rail will work in partnership with the Department of Transport and Main Roads to ensure operational readiness for introduction of major new infrastructure including Cross River Rail and the European Train Control System. Queensland Rail will also progress a new subsidy for below rail users of Queensland Rail's Mount Isa Line.
- The government-owned port corporations will continue to progress key projects in 2019-20 across the State. This includes progressing delivery of the Cairns Shipping Development Project and the Channel Capacity Upgrade project at the Port of Townsville, progressing the detailed business case and seeking approvals to commence works on the Clinton

Vessel Interaction Project, and progressing construction and operation of containerised freight loading and unloading facilities at the Port of Townsville, subject to a business case.

- Progressing the Rookwood Weir project presents an opportunity to supplement urban water supplies and enhance agricultural and industrial development in the Fitzroy Basin and Gladstone region. The Queensland and Australian Government have agreed to work in partnership to deliver the project. In parallel, Sunwater has progressed preparatory works, with early works for the project expected to commence in the second half of 2019.
- In order to deliver budget sustainability and optimal performance of the State's GOCs, savings targets for GOCs have been factored into the 2019-20 State Budget. These savings targets, which will realise over \$840 million over the forward estimates period, will be reinvested into this sector to deliver a more sustainable business model. GOC proposals for reinvestment will be subject to shareholding Minister approval and will be subject to stringent assessment. Consistent with Government's employment security policy there will be no forced redundancies in realising these targets.

8.1 Context

Several industries are covered by the Public Non-financial Corporations (PNFC) Sector, including energy, rail, ports and water. Queensland's government-owned corporations (GOCs), declared by regulation to be GOCs under the *Government Owned Corporations Act 1993* (GOC Act), make up a large part of the PNFC Sector. Also included in the sector are non-GOC entities, the Queensland Bulk Water Supply Authority (trading as Seqwater), Queensland Rail, local water boards and other public corporations.

GOCs are accountable for their financial performance and are required to be commercial and efficient organisations. These requirements are legislated under the GOC Act.

PNFC Sector entities provide services or commodities like other businesses. The entities incur costs and bear commercial risks in the delivery of their services or products and generate revenue from the sale of these services or products. The aim of these entities is to deliver vital services while achieving a commercial rate of return for the Government.

The returns to Government are used to pay for important community services such as hospitals, education and concession payments. In some cases, part of a PNFC entity's revenue may arise from community service obligation (CSO) payments from the Government. These payments are used to subsidise a service or commodity provided by the entity, and allow it to be provided to the community at a lower price than it would be on a purely commercial basis. A key example of this is the CSO paid to Energy Queensland Limited to provide electricity in regional Queensland at prices based on the costs of supply in South East Queensland, in accordance with the Government's Uniform Tariff Policy. This ensures that electricity prices in regional Queensland are much lower than would otherwise be the case.

8.1.1 Electricity Networks

The Government owns two electricity network businesses that are responsible for transmitting safe, reliable electricity to consumers across the State – Powerlink and Energy Queensland Limited (EQL).

Powerlink

Powerlink owns, develops, operates and maintains the electricity transmission network in Queensland. Its network runs approximately 1,700 kilometres from north of Cairns to New South Wales. Powerlink's role in the electricity supply chain is to transmit high voltage electricity – generated at major power stations – through its transmission grid to the distribution networks.

Powerlink also transmits electricity to high usage industrial customers such as rail companies, mines and mineral processing facilities, and to New South Wales via the Queensland/New South Wales interconnector transmission line.

Energy Queensland Limited

On 30 June 2016, Energex and Ergon Energy were merged under the parent company, EQL. EQL owns and operates the low-voltage distribution network that transmits electricity from Powerlink's transmission network and distributes it to households and businesses across Queensland. Ergon Energy Network provides the distribution network in regional Queensland and Ergon Energy Retail offers its customers retail services in regional Queensland. Energex provides distribution network services to customers within South East Queensland.

EQL, through its subsidiary Yurika, is also involved in a range of other service delivery functions including demand management services, large-scale connections, microgrid solutions, the provision of contestable metering services and telecommunications infrastructure. Yurika is focused on pursuing strategic investments in unregulated markets to provide greater choice to customers and provide EQL an enhanced ability to respond to emerging trends.

When the Government announced the merger of Energex and Ergon Energy under EQL, it was estimated that through the merger and other efficiencies, savings of \$562 million were to be generated over five years. These savings will deliver benefits to both Government and electricity consumers, through improved returns from the business, and by putting downward pressure on electricity prices. EQL is on track to exceed its savings target by 2019-20, with forecast total savings of \$644 million.

Network Revenues

Revenues for the network businesses are largely derived from network services that are regulated by the Australian Energy Regulator (AER). The AER determines these revenues on a five-yearly basis, based on the businesses' proposals and its view of the reasonable benchmark efficient costs for a network business.

The AER published Powerlink's revenue determination in April 2017 for the 2017-22 regulatory control period, which resulted in a significant reduction in allowable revenues for the business. In January 2019, the Energex and Ergon Energy businesses submitted to the AER their regulatory proposals for the period 1 July 2020 to 30 June 2025. EQL will continue to consult with stakeholders and revise its regulatory proposals over 2019, with revised submissions due to the AER in December 2019, ahead of the AER's final determination in April 2020.

8.1.2 Electricity Generation

Queensland is in a strong position to deliver reliable and affordable energy through publicly owned baseload and renewable generation capacity.

Queensland had the lowest wholesale market spot prices over the past two summers and forward wholesale prices in Queensland remain the lowest in the National Electricity Market (NEM).

Queensland continues to operate Australia's youngest and most efficient fleet of coal-fired generators, safeguarding jobs in traditional industries as well as a growing industry of large-scale renewable projects. This will be supported into the future by CleanCo, the State's new clean energy GOC.

CleanCo will encourage competition in the energy sector ensuring that downward pressure on electricity prices is maintained. CleanCo will play a key role in delivering the Government's 50% Queensland Renewable Energy Target by 2030.

CleanCo

In December 2018, CleanCo was established as the third energy generation GOC with the appointment of the inaugural Board. CleanCo will be transferred the ownership, title and dispatch rights of a specified and strategic portfolio of low and no emission generation assets from CS Energy and Stanwell in 2019-20. CleanCo will add to its foundation portfolio, including through building, owning and operating new renewable energy generation assets under its mandate to support the development of 1,000 megawatts (MW) of new renewable energy generation by 2025.

CS Energy

CS Energy is a major provider of energy into the NEM. In addition to owning and operating power stations, CS Energy is also a party to the Gladstone Interconnection and Power Pooling Agreement, which entitles it to trade the output of the Gladstone Power Station that exceeds the requirements of the Boyne Island aluminium smelter.

Stanwell

Stanwell is a significant provider of energy into the NEM, with Queensland's largest portfolio of power stations. Stanwell also sells electricity directly to large commercial and industrial customers in Queensland, New South Wales, the Australian Capital Territory and Victoria.

Box 8.1 Clean Energy Leader

The Government is committed to reaching its 50 per cent Queensland Renewable Energy Target (QRET) by 2030.

As part of the Powering Queensland Plan (PQP), the Government committed to investigate the creation of a clean energy generation GOC. In August 2018, the Government endorsed its establishment and CleanCo was established as the State's new renewable electricity generator GOC in December 2018.

CleanCo is a structural solution to increase competition in the wholesale electricity market. This will drive down wholesale electricity prices, delivering cheaper energy to Queensland households and businesses. CleanCo builds on Government's reforms to secure a cleaner, affordable, sustainable and reliable energy supply for Queensland. These plans have worked, as Queensland had the lowest wholesale market spot prices over the past two summers.

CleanCo will have a strategic portfolio of low and no emission power generation assets when it is transferred ownership and dispatch rights to a foundation portfolio of existing government-owned renewable and low emission energy generation assets including the Wivenhoe pumped storage hydro plant, Swanbank E, Barron Gorge, Kareeya and Koombooloomba power stations. CleanCo will add to its foundation portfolio, including through building, owning and operating new renewable energy generation assets. This is supported through an initial funding allocation of \$250 million over 2019-20 and 2020-21.

Queensland's ownership of its assets means its businesses can be run for the benefit of Queenslanders, not just for profit. The PQP and Affordable Energy Plan have reformed the market and given direct price benefits to Queensland consumers. For instance, the Government is continuing to remove the costs of the Solar Bonus Scheme from customer bills over 2019-20.

Queensland has experienced significant growth in the renewable energy sector in recent years with over 1,500 MW of projects having commenced operations. These projects have brought over \$3.1 billion worth of investment and delivered over 3,200 construction jobs. A further \$800 million worth of projects are under construction or committed and are set to deliver another 1,000 MW of generation capacity by the end of 2019. These works will generate over 820 construction jobs, and put Queensland on track to achieve the 50 per cent QRET by 2030.

8.1.3 Rail

Queensland Rail is an integrated, publicly-owned rail operator, responsible for the delivery of passenger transport in South East Queensland, long distance passenger services in rural and regional Queensland and provision of third party access to networks for freight transport across the state.

The majority of Queensland Rail's services are delivered under a Rail Transport Services Contract (TSC) with the Government, represented by the Department of Transport and Main Roads. The Rail TSC provides funding for rail infrastructure, Citytrain (South East Queensland passenger services) and Traveltrain (regional passenger services).

In 2019-20, Queensland Rail will work in partnership with the Department of Transport and Main Roads to ensure operational readiness for introduction of major new infrastructure including Cross River Rail and the European Train Control System. Queensland Rail will also progress a new subsidy for below rail users of Queensland Rail's Mount Isa Line.

8.1.4 Ports

Queensland has a large network of ports along its coastline, ranging from small installations serving local communities to large, world class multi-user and multi-cargo ports, which have public and privately-owned import and export facilities. Apart from the Port of Brisbane, the port authorities responsible for all of Queensland's ports are owned and run by GOCs. Queensland's ports are a major component of the State's supply chain networks and economy, and their efficient and profitable operation is essential to continued economic growth, job creation, and sustainable development in the State.

The port sector's financial performance is influenced by various factors including supply chain expansions and disruptions, evolving transportation methods and the condition of the Queensland and global economies, particularly demand abroad for Queensland's natural resources and agricultural products. Queensland ports continue to look to enhance supply chain efficiency and identify new markets to improve financial outcomes and stimulate the economy, while meeting environmental and community obligations.

Key projects for the port GOCs in 2019-20 include progressing:

- construction and operation of containerised freight loading and unloading facilities at the Port of Townsville, subject to a business case
- delivery of the Cairns Shipping Development Project
- delivery of the Channel Capacity Upgrade project at the Port of Townsville
- works for Berth 4 upgrades at the Port of Townsville
- works for Tug Berth upgrades at the Port of Mackay
- the detailed business case and seeking approvals to commence works on the Clinton Vessel Interaction Project at the Port of Gladstone.

Cairns Shipping Development Project

The Cairns Shipping Development Project is a \$127 million port expansion project involving the deepening and widening of the Trinity Inlet shipping channel at the Port of Cairns, to allow larger cruise ships to pass through to the port. The project will promote expansion of the cruise shipping industry in Cairns and economic activity in the wider North Queensland region. The State is contributing \$60 million of the project cost, with the remainder to be funded by Ports North.

Significant steps have been taken throughout 2018-19 to progress this project, including the receipt of all council, State and Federal environmental approvals, and investment approval by shareholding Ministers. Construction works in preparation for dredging parts of the channel and ship swing basins have commenced, with upgrades to wharf areas scheduled to begin later in 2019. The project is due for completion in 2020-21.

8.1.5 Water

The two largest entities in the Queensland bulk water market are the Queensland Bulk Water Supply Authority (trading as Seqwater) and Sunwater Limited (Sunwater).

Seqwater

Seqwater is responsible for supplying safe, secure and reliable bulk drinking water for people across South East Queensland. Its assets and operations spread across a large geographic area from the New South Wales border, to the base of the Toowoomba ranges and as far north as Gympie. Seqwater provides essential flood mitigation services and manages seven water supply schemes which provide irrigation services.

Dams play a vital role in the South East Queensland water supply. Seqwater has an ongoing Dam Improvement Program (DIP) to ensure the safety of its dams and compliance with dam safety guidelines into the future.

Key projects for Seqwater in 2019-20 include:

- progressing planning for the Lake Macdonald Dam Upgrade
- progressing planning for the Somerset Dam Upgrade
- commencing construction on the Ewen Maddock Dam Upgrade.

As a result of extended hot and dry periods over the 2018-19 summer and the South East Queensland drinking water storage reaching 68% in early June 2019, Seqwater is preparing for a drought readiness phase.

Sunwater

Sunwater is the Government's major bulk water supply business for all regions outside of South East Queensland. It supplies untreated bulk water to approximately 5,000 customers across the industrial, mining, urban and irrigation customer segments. Sunwater provides this through an extensive regional asset base, owning and managing water infrastructure assets with a replacement value of around \$13 billion.

Dam safety is a major focus for Sunwater as it is for all bulk water suppliers. Sunwater commenced a prioritised DIP in 2005 to ensure that dam safety is maintained. The DIP is regularly reviewed to ensure highest priority projects are addressed first.

The DIP is an essential program to ensure the safety and stability of dams and the ongoing safety of downstream communities, and Sunwater must undertake dam safety work to meet its obligations under Queensland dam safety regulations. However, it is also likely to significantly influence Sunwater's financial performance and net flows to the Government over the forward estimates period and beyond.

Key projects for Sunwater in 2019-20 include:

- progressing construction on Fairbairn Dam spillway improvements to enhance the dam to meet future extreme weather events
- progressing planning for Paradise Dam spillway improvements to enhance the spillway to meet future extreme weather events
- progressing planning for Leslie Dam to enhance the dam to meet future extreme weather events
- progressing planning for Burdekin Falls Dam spillway improvements to enhance the spillway to meet future extreme weather events
- continuing feasibility studies into potentially raising Burdekin Falls Dam.

Box 8.2 Rookwood Weir

Progressing the Rookwood Weir project presents an opportunity to supplement urban water supplies and enhance agricultural and industrial development in the Fitzroy Basin and Gladstone region. The weir could add up to 76,000 megalitres of water for agricultural production along the Fitzroy River, as well as an eventual back-up supply for Gladstone, Rockhampton and Livingstone Shire. The project is also expected to create 100 jobs in regional Queensland during construction.

Significant steps have been taken throughout the year toward the construction of Rookwood Weir. The Queensland and Australian Government have agreed to work in partnership to deliver the project. In parallel, Sunwater has progressed preparatory works, with early works for the project expected to commence in the second half of 2019.

8.2 Finances and Performance

8.2.1 Earnings Before Interest and Tax

Total forecast PNFC Sector earnings before interest and tax (EBIT) for 2018-19 are estimated to be \$4.501 billion, up from \$3.976 billion forecast at the time of the 2018-19 State Budget. This increase is primarily due to increases in the electricity generation sector, driven primarily by non-operating revenue flowing from the valuation of a favourable coal supply agreement, higher than forecast wholesale energy market prices and coal rebate revenue.

Over the forward estimates, PNFC Sector EBIT is expected to decrease to \$3.077 billion in 2021-22. While EBIT is forecast to increase to \$3.305 billion in 2022-23 it remains significantly less than in 2018-19.

Relative to 2018-19, EBIT in the electricity sector is estimated to fall by 22% in 2019-20 and 31% in 2022-23. The decrease in electricity generation EBIT is primarily driven by forecast reductions in wholesale generation revenues as new renewable entrants (including CleanCo) enter the wholesale market, adding increased competition and driving down wholesale prices. While electricity generation EBIT is forecast to increase from 2021-22 to 2022-23 due to higher wholesale prices following the expected closure of the Liddell Power Station in New South Wales, it remains significantly less than in 2018-19.

Movements in electricity network EBIT over the forward estimates is influenced by forecasts of regulatory revenue collections for the network businesses. Electricity network EBIT is expected to fall from \$1.991 billion in 2018-19 to \$1.443 billion in 2020-21. Electricity network EBIT is then expected to increase to \$1.648 billion in 2022-23 but remains significantly less than in 2018-19. These movements are consistent with EQL's new regulatory proposals for the period of 1 July 2020 to 30 June 2025.

Water sector EBIT is expected to reach \$586 million in 2020-21, largely reflecting the upwards trend associated with the South East Queensland bulk water price path. Water sector EBIT is forecast to decline from 2021-22 in recognition of the increased spend by Sunwater associated with the DIP, some of which needs to be expensed.

Port sector EBIT is expected to trend steadily upwards over the forward estimates, driven by increased activity and forecast increased tonnage volumes.

Table 8.1 Earnings before interest and tax¹

	2017-18 Actual \$ million	2018-19 Budget \$ million	2018-19 Est. Act. \$ million	2019-20 Budget \$ million	2020-21 Projection \$ million	2021-22 Projection \$ million	2022-23 Projection \$ million
Electricity Networks	2,198	1,899	1,991	1,850	1,443	1,592	1,648
Electricity Generation	1,194	1,009	1,442	830	661	551	722
Rail	323	325	301	244	278	305	305
Ports	191	203	202	212	236	242	260
Water	499	556	562	571	586	419	403
Other ²	21	(16)	2	(34)	(30)	(32)	(33)
Total PNFC Sector	4,425	3,976	4,501	3,672	3,174	3,077	3,305
Notes:							
1. Numbers may not add due to rounding and bracketed numbers represent negative amounts. GOC savings targets are not included as allocations across the GOCs are yet to be determined.							
2. Includes other public corporations.							

8.2.2 Borrowings

Entities in the PNFC Sector utilise debt financing as a source of funds for asset renewal and capital investments, and to maintain an optimum capital structure.

PNFC Sector entities are required to take a prudent and sound approach to the management of debt, including the establishment of borrowing arrangements which are appropriate to the business risk of the organisation. These arrangements consider the appropriateness of the proposed capital expenditure program, together with the implications of the borrowings for key financial and performance related indicators.

Total forecast PNFC Sector borrowings for 2018-19 are estimated to be \$38.757 billion. Forecast borrowings are expected to increase to \$41.042 billion by 2022-23. The increase in borrowings over the forward estimates is primarily driven by the electricity network and rail businesses.

Electricity network borrowings are forecast to increase over the forward estimates in line with growth in the regulated asset base. Rail sector borrowings are expected to increase in line with the Queensland Rail capital program.

Port sector borrowings are forecast to increase to \$1.193 billion by 2022-23. The increase in borrowing is to fund new capital works and infrastructure projects primarily at the Port of Townsville and Ports North.

Borrowings in the water sector are largely attributable to Seqwater, which currently holds \$9.425 billion of debt. The debt balance was the result of the large investment in water infrastructure in response to the Millennium Drought and the associated price path. Seqwater's forecast borrowings reduce across the forward estimates.

The gearing levels of all GOCs continue to be monitored to ensure that they maintain metrics that are at a minimum consistent with an investment grade credit rating.

Table 8.2 Borrowings¹

	2017-18 Actual \$ million	2018-19 Budget \$ million	2018-19 Est. Act. \$ million	2019-20 Budget \$ million	2020-21 Projection \$ million	2021-22 Projection \$ million	2022-23 Projection \$ million
Electricity Networks	21,692	22,252	22,172	23,073	23,670	23,802	23,855
Electricity Generation	1,761	1,602	1,941	1,831	1,790	1,780	1,750
Rail	3,393	3,617	3,505	3,852	4,214	4,581	4,712
Ports	1,061	1,086	1,071	1,173	1,216	1,219	1,193
Water	9,984	10,005	9,984	9,981	9,977	9,724	9,482
Other ²	102	(2)	85	77	68	59	49
Total PNFC Sector	37,992	38,560	38,757	39,987	40,934	41,165	41,042
Notes:							
1. Numbers may not add due to rounding and bracketed numbers represent negative amounts.							
2. Includes other public corporations.							

8.2.3 Returns to Government

PNFC Sector entities provide returns to Government by way of dividends and tax equivalent payments.

Dividends

A GOC's dividend policy is agreed with shareholding Ministers as part of the Statement of Corporate Intent for the relevant period. A Statement of Corporate Intent represents a performance contract between the shareholding Ministers and a GOC board, with the board being accountable to shareholding Ministers for meeting financial and non-financial performance targets and delivering on the outcomes detailed in the Statement of Corporate Intent.

When establishing the dividend policy for the period, GOC boards are expected to ensure it considers the return shareholders expect on their investments and the levels of equity required to maintain a preferred capital structure. The final dividend payment is determined in accordance with the GOC Act.

Total forecast PNFC Sector dividends for 2018-19 are expected to be more than \$200 million (or 11%) less than in 2017-18. This is driven by a reduction of \$280 million in dividends from the electricity network businesses, substantially driven by lower electricity retail and network charges compared to 2017-18.

Importantly, the Government uses GOC dividend returns to help fund vital services for Queensland, such as public hospitals, schools and police, as well as investing in initiatives to reduce energy costs for Queenslanders. The PQP and Affordable Energy Plan have reformed the market and given direct price benefits to Queensland consumers. For instance, the Government is continuing to remove the costs of the Solar Bonus Scheme from customer bills over 2019-20.

Lower profits from the GOC sector across the forward estimates are translating into lower dividends. Relative to 2018-19, dividends are forecast to fall by 17% by 2019-20 and by 43% by 2020-21. PNFC Sector dividends are projected to decrease to \$932 million in 2020-21 before increasing to \$1.046 billion in 2022-23 (still 36 per cent less than in 2018-19). This reduction is being driven by the electricity sector, with electricity dividends almost halving across the forward estimates.

Electricity network dividends are expected to drop from \$695 million in 2018-19 to \$596 million in 2019-20, and further decline to \$297 million in 2020-21. Movements in electricity network dividends are influenced by forecasts of regulatory revenue collections for the network businesses.

Electricity generation dividends are expected to decline until 2021-22 in line with the reduction in generation earnings as renewable generation alternatives enter the market. In 2022-23, electricity generation dividends increase due to higher forecast wholesale prices following the expected closure of the Liddell Power Station in New South Wales.

Competitive pressures are translating into lower electricity prices, with the Queensland Competition Authority's Final Determination for Regulated Retail Electricity Prices estimating prices in regional Queensland will fall by 4.4% in 2019-20 for the typical household bill, with prices in South East Queensland also expected to fall.

The decline in water sector dividends across the forward estimates reflects the increased costs associated with Sunwater's DIP, to ensure the safety and stability of dams and the ongoing safety of downstream communities. For example, in 2019-20 Sunwater is progressing construction on Fairbairn Dam spillway improvements to enhance the dam to meet future extreme weather events.

Table 8.3 Dividends¹

	2017-18 Actual \$ million	2018-19 Budget \$ million	2018-19 Est. Act. \$ million	2019-20 Budget \$ million	2020-21 Projection \$ million	2021-22 Projection \$ million	2022-23 Projection \$ million
Electricity Networks	976	618	695	596	297	381	406
Electricity Generation	620	535	657	519	368	301	374
Rail	112	134	139	102	127	137	129
Ports	83	94	90	102	116	119	131
Water	48	55	52	45	23	6	6
Other ²	10	..	10	..	..	..	..
Total PNFC Sector	1,849	1,435	1,643	1,365	932	944	1,046
Notes:							
1. Numbers may not add due to rounding.							
2. Includes other public corporations.							

Tax Equivalent Payments

Tax equivalent payments (TEPs) are paid by the PNFC Sector entities to recognise the benefits derived because they are not liable to pay Australian Government tax. The primary objective of the payment is to promote competitive neutrality, through a uniform application of income tax laws between the government-owned entities and their privately held counterparts.

As TEPs generally move in line with earnings, TEPs are forecast to decrease from \$882 million in 2018-19 to \$541 million by 2021-22, then increase to \$576 million in 2022-23.

Table 8.4 Tax equivalent payments¹

	2017-18 Actual \$ million	2018-19 Budget \$ million	2018-19 Est. Act. \$ million	2019-20 Budget \$ million	2020-21 Projection \$ million	2021-22 Projection \$ million	2022-23 Projection \$ million
Electricity Networks	442	290	331	371	245	278	286
Electricity Generation	321	236	421	234	203	171	204
Rail	36	47	52	48	26	21	11
Ports	40	51	52	54	63	63	67
Water	24	3	20	8	8	3	4
Other ²	3	5	5	5	5	5	5
Total PNFC Sector	866	630	882	720	549	541	576
Notes:							
1. Numbers may not add due to rounding.							
2. Includes other public corporations.							

Competitive Neutrality Fees

In accordance with the National Competition Policy principles, GOCs are expected to operate on the basis that they do not experience significant advantages or disadvantages by virtue of their Government ownership. One of the most significant advantages available to GOCs is the ability to borrow funds at a lower rate than private sector competitors on the basis of the State Government's credit strength.

In order to account for this advantage, the Competition Principles Agreement requires a notional charge to be applied to a GOC's cost of debt. A competitive neutrality fee (CNF) is thus applied to all borrowings and financial arrangements in the nature of debt obligations. In general, changes in CNF payments reflect movements in borrowing amounts, interest rate spreads and the entity's stand-alone credit rating.

Total forecast PNFC Sector CNF payments for 2018-19 are estimated to be \$154 million, \$4 million higher than the \$150 million forecast in the 2018-19 State Budget. CNF payments are forecast to increase to \$225 million by 2022-23.

Table 8.5 Competitive neutrality fee payments¹

	2017-18 Actual \$ million	2018-19 Budget \$ million	2018-19 Est. Act. \$ million	2019-20 Budget \$ million	2020-21 Projection \$ million	2021-22 Projection \$ million	2022-23 Projection \$ million
Electricity Networks	67	84	89	106	125	145	157
Electricity Generation	20	17	17	17	17	18	17
Rail	34	32	32	30	30	33	35
Ports	11	11	11	12	12	12	12
Water	5	5	5	5	5	5	5
Total PNFC Sector	138	150	154	169	189	212	225
Note:							
1. Numbers may not add due to rounding.							

8.2.4 Community Service Obligation and Rail Transport Services Contract Payments

The Government sometimes directs or requires its businesses to perform activities that are not in the entity's commercial interest (for example, offering services at a reduced price to benefit the community). In these situations, the Government will often provide a Community Service Obligation (CSO) payment to the entity for the cost of delivering the service.

Transport Services Contract (TSC) payments are made to Queensland Rail to provide rail passenger services at non-commercial (subsidised) prices for the commuter and tourism markets.

In line with the Queensland Government's Uniform Tariff Policy, a CSO payment is provided to EQL to compensate the retail subsidiary for the increased costs of operating in regional Queensland. This subsidy is provided to ensure that Queenslanders, regardless of their geographic location, pay a similar price for their electricity.

Seqwater and Sunwater own and operate water supply schemes, where irrigation prices for some schemes are set below the level necessary to recover the cost of supplying water to irrigators. The Government provides a CSO to offset the reduced revenue and to ensure that increases in water prices paid by rural irrigation customers to recover costs are gradual.

Total forecast PNFC Sector CSO and TSC payments for 2018-19 are estimated to be \$2.270 billion, equal to the \$2.270 billion forecast at the time of the 2018-19 State Budget.

In 2019-20, it is estimated that the Government will provide CSO and TSC payments to PNFC Sector entities of \$2.309 billion. This is forecast to increase to \$2.436 billion by 2022-23, largely driven by the TSC. The increase in the TSC is due to a mix of factors such as changes in patronage, escalation of service delivery costs and forecast growth in services.

Water CSOs are forecast to reduce reflecting the inclusion of current Government approved amounts only. In future years, further approval processes will be undertaken for those elements which are not currently included but are expected to continue into the future.

Table 8.6 Community service obligation payments and Transport Services Contracts¹

	2017-18 Actual \$ million	2018-19 Budget \$ million	2018-19 Est. Act. \$ million	2019-20 Budget \$ million	2020-21 Projection \$ million	2021-22 Projection \$ million	2022-23 Projection \$ million
Electricity Networks	478	462	462	498	421	437	422
Rail	1,646	1,797	1,797	1,801	1,882	1,964	2,014
Water	11	11	10	10	7	7	..
Total PNFC Sector	2,136	2,270	2,270	2,309	2,310	2,408	2,436
Note:							
1. Numbers may not add due to rounding.							

8.2.5 Equity Movements

The levels and weightings of GOC debt and equity are managed by the Government to maintain an optimal and efficient capital structure. Corporations may have different target capital structures for different business entities or to support expected capital programs and projects.

Total forecast PNFC Sector equity movements for 2018-19 are estimated to be an increase of \$492 million.

Equity movements across the forward estimates are primarily influenced by the electricity networks sector. These equity movements reflect changes to ensure an efficient level of gearing is maintained for EQL and Powerlink.

Over the forward estimates, CleanCo will receive \$180 million initial equity funding as well as \$250 million to build, own and operate a renewable energy project, pending a business case. As part of the electricity generation restructure, Stanwell makes a \$160 million equity return in 2018-19 and will pay a \$100 million special dividend in 2019-20.

Queensland Rail will receive equity injections of \$460 million in 2018-19 for the Moreton Bay Rail Link project, and \$35 million in 2022-23 to support its capital program.

Over the forward estimates, Port of Townsville will receive equity injections totalling \$120 million for the Channel Capacity Upgrade project and Ports North will receive \$60 million for the Cairns Shipping Development Project.

In 2019-20, Stadiums Queensland will receive an equity injection of \$35 million for the refurbishment of the Gabba.

In 2020-21, Sunwater will receive an equity injection of \$100 million to undertake essential dam safety upgrades at Burdekin Falls Dam, which aligns with the updated timing for completion of the project's business case.

Table 8.7 Equity movements¹

	2017-18 Actual \$ million	2018-19 Budget \$ million	2018-19 Est. Act. \$ million	2019-20 Budget \$ million	2020-21 Projection \$ million	2021-22 Projection \$ million	2022-23 Projection \$ million
Electricity Networks	(50)	(110)	(74)	(106)	(130)	(439)	(311)
Electricity Generation	..	..	20	50	101	..	..
Rail	(5)	460	460	..	..	..	35
Ports	..	60	90	40	15	15	20
Water	(5)	(4)	(4)	..	100	..	..
Other ²	2	..	..	35	..	..	..
Total PNFC Sector	(58)	406	492	19	86	(424)	(256)
Notes:							
1. Numbers may not add due to rounding. Bracketed numbers represent equity returns from the PNFC Sector to the General Government Sector.							
2. Includes other public corporations including Stadiums Queensland.							

9 Uniform Presentation Framework

9.1 Context

This chapter contains detailed financial statements for the Queensland Public Sector prepared under the Uniform Presentation Framework (UPF) first agreed to at the Premier's Conference in 1991.

The UPF has been reviewed a number of times, most significantly following the release in October 2007 of the Australian Accounting Standards Board's (AASB) accounting standard, AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. The standard aims to harmonise Government Finance Statistics (GFS) and Generally Accepted Accounting Principles (GAAP) with the objective of improving the clarity and transparency of government financial statements.

Most recently, the UPF was reviewed in February 2019 following the 2015 update to the Australian GFS Framework. The changes formalised the revised reporting that had already been adopted by Queensland in the 2018-19 budget. In addition, the chapter provides:

- a reconciliation of the General Government Sector net operating balance to the accounting operating result
- a time series for the General Government Sector using the revised UPF
- details of General Government Sector grant revenue and expenses
- details of General Government Sector dividend and income tax equivalent income
- data on General Government Sector expenses and purchases of non-financial assets by function
- details of taxation revenue collected by the General Government Sector
- details of contingent liabilities
- background information on the revised UPF and disclosure differences arising from it, including the conceptual basis, sector definitions and a list of reporting entities.

9.2 Uniform Presentation Framework financial information

The tables on the following pages present operating statements, balance sheets and cash flow statements prepared on a harmonised basis for the General Government, Public Non-financial Corporations (PNFC) and Non-financial Public Sectors.

Under the UPF requirements, budgeted financial information for the Public Financial Corporations sector is not included.

Table 9.1 General Government Sector Operating Statement¹

	2017-18 Outcome \$ million	2018-19 Budget \$ million	2018-19 Est.Actual \$ million	2019-20 Budget \$ million	2020-21 Projection \$ million	2021-22 Projection \$ million	2022-23 Projection \$ million
Revenue from Transactions							
Taxation revenue	13,244	14,155	14,005	15,164	15,777	16,601	17,525
Grants revenue	27,966	27,701	28,709	28,003	29,846	30,670	31,404
Sales of goods and services	5,884	5,731	5,869	6,004	6,190	6,307	6,389
Interest income	2,389	2,201	2,247	2,141	2,006	1,953	1,958
Dividend and income tax equivalent income	2,920	2,217	2,661	2,237	1,653	1,680	1,848
Other revenue	5,685	5,733	6,575	6,837	6,257	6,372	6,417
Total Revenue from Transactions	58,087	57,738	60,068	60,387	61,729	63,583	65,540
Less Expenses from Transactions							
Employee expenses	22,678	23,807	24,096	25,396	25,728	26,709	27,724
Superannuation expenses							
Superannuation interest cost	667	667	642	516	542	580	624
Other superannuation expenses	2,744	2,887	3,044	3,093	3,202	3,257	3,292
Other operating expenses	17,258	15,774	16,791	15,790	15,907	16,363	16,733
Depreciation and amortisation	3,325	3,429	3,449	3,961	4,097	4,231	4,334
Other interest expenses	1,614	1,474	1,514	1,688	1,721	1,797	1,848
Grants expenses	8,048	9,552	9,691	9,754	10,219	10,164	10,197
Total Expenses from Transactions	56,335	57,590	59,226	60,198	61,416	63,101	64,753
Equals Net Operating Balance	1,753	148	841	189	313	483	787
Plus Other economic flows - included in operating result	(384)	85	(938)	16	1	317	247
Equals Operating Result	1,368	233	(97)	204	314	799	1,034
Plus Other economic flows - other movements in equity	(596)	2,717	585	2,495	2,917	2,812	3,007
Equals Comprehensive Result - Total Change In Net Worth	772	2,950	488	2,699	3,231	3,611	4,041
KEY FISCAL AGGREGATES							
Net Operating Balance	1,753	148	841	189	313	483	787
Less Net Acquisition of Non-financial Assets							
Purchases of non-financial assets	5,127	5,927	6,060	6,727	7,125	7,963	6,179
Less Sales of non-financial assets	291	345	292	305	250	260	251
Less Depreciation	3,325	3,429	3,449	3,961	4,097	4,231	4,334
Plus Change in inventories	13	(4)	47	17	32	(3)	(11)
Plus Other movements in non-financial assets	815	1,032	1,152	1,238	1,169	1,294	935
Equals Total Net Acquisition of Non-financial Assets	2,339	3,181	3,518	3,716	3,980	4,763	2,518
Equals Fiscal Balance	(586)	(3,033)	(2,677)	(3,527)	(3,667)	(4,280)	(1,731)
Note:							
1. Numbers may not add due to rounding.							

Table 9.2 Public Non-financial Corporations Sector Operating Statement¹

	2017-18 Outcome \$ million	2018-19 Budget \$ million	2018-19 Est.Actual \$ million	2019-20 Budget \$ million	2020-21 Projection \$ million	2021-22 Projection \$ million	2022-23 Projection \$ million
Revenue from Transactions							
Grants revenue	640	632	561	588	507	524	503
Sales of goods and services	12,435	11,718	12,142	11,981	11,828	12,132	12,637
Interest income	77	52	67	55	54	53	53
Dividend and income tax equivalent income	13	13	13	13	13	13	13
Other revenue	487	318	433	474	345	337	356
Total Revenue from Transactions	13,652	12,733	13,215	13,111	12,747	13,059	13,562
Less Expenses from Transactions							
Employee expenses	1,705	1,981	2,010	2,152	2,170	2,198	2,238
Superannuation expenses							
Superannuation interest cost	(11)	..	..	..	..	..	..
Other superannuation expenses	218	164	212	216	222	225	230
Other operating expenses	4,573	4,032	3,903	3,998	4,021	3,987	4,117
Depreciation and amortisation	2,480	2,618	2,776	2,857	2,896	2,970	2,972
Other interest expenses	1,903	1,908	1,876	1,847	1,862	1,879	1,884
Grants expenses	21	22	16	17	18	18	19
Other property expenses	870	637	886	724	553	545	581
Total Expenses from Transactions	11,759	11,361	11,679	11,811	11,741	11,823	12,040
Equals Net Operating Balance	1,893	1,372	1,536	1,300	1,006	1,236	1,522
Plus Other economic flows - included in operating result	(210)	(29)	227	7	(46)	(234)	(363)
Equals Operating Result	1,684	1,343	1,763	1,307	960	1,002	1,159
Plus Other economic flows - other movements in equity	(653)	(532)	(796)	(823)	(278)	(787)	(706)
Equals Comprehensive Result - Total Change In Net Worth	1,030	810	967	484	683	215	453
KEY FISCAL AGGREGATES							
Net Operating Balance	1,893	1,372	1,536	1,300	1,006	1,236	1,522
Less Net Acquisition of Non-financial Assets							
Purchases of non-financial assets	2,509	3,130	2,801	3,496	3,322	3,247	2,461
Less Sales of non-financial assets	47	11	44	21	5	..	3
Less Depreciation	2,480	2,618	2,776	2,857	2,896	2,970	2,972
Plus Change in inventories	36	35	36	(2)	(5)	..	5
Plus Other movements in non-financial assets	79	68	72	71	85	89	93
Equals Total Net Acquisition of Non-financial Assets	97	604	90	687	500	366	(416)
Equals Fiscal Balance	1,797	767	1,446	613	506	871	1,938
Note: 1. Numbers may not add due to rounding.							

Table 9.3 Non-financial Public Sector Operating Statement¹

	2017-18 Outcome \$ million	2018-19 Budget \$ million	2018-19 Est.Actual \$ million	2019-20 Budget \$ million	2020-21 Projection \$ million	2021-22 Projection \$ million	2022-23 Projection \$ million
Revenue from Transactions							
Taxation revenue	12,988	13,892	13,724	14,867	15,458	16,258	17,166
Grants revenue	28,006	27,788	28,745	28,028	29,871	30,696	31,429
Sales of goods and services	16,375	15,353	15,854	15,845	15,719	16,094	16,730
Interest income	2,421	2,219	2,270	2,160	2,025	1,966	1,965
Dividend and income tax equivalent income	217	164	149	164	185	206	237
Other revenue	6,168	6,051	6,957	7,207	6,284	6,339	6,513
Total Revenue from Transactions	66,175	65,467	67,699	68,272	69,542	71,558	74,040
Less Expenses from Transactions							
Employee expenses	24,283	25,688	25,987	27,430	27,775	28,782	29,836
Superannuation expenses							
Superannuation interest cost	656	667	642	516	542	580	624
Other superannuation expenses	2,962	3,051	3,256	3,309	3,423	3,483	3,522
Other operating expenses	19,868	17,703	18,481	17,539	17,308	17,629	18,290
Depreciation and amortisation	5,804	6,047	6,225	6,818	6,994	7,201	7,306
Other interest expenses	3,336	3,198	3,192	3,330	3,360	3,427	3,464
Grants expenses	7,469	9,029	9,182	9,208	9,753	9,681	9,736
Total Expenses from Transactions	64,378	65,383	66,965	68,148	69,155	70,783	72,778
Equals Net Operating Balance	1,797	84	734	124	387	775	1,262
Plus Other economic flows - included in operating result	(644)	(54)	(785)	(183)	(174)	(357)	(428)
Equals Operating Result	1,153	31	(51)	(60)	213	419	835
Plus Other economic flows - other movements in equity	(380)	2,920	539	2,759	3,018	3,192	3,206
Equals Comprehensive Result - Total Change In Net Worth	773	2,950	488	2,699	3,231	3,611	4,041
KEY FISCAL AGGREGATES							
Net Operating Balance	1,797	84	734	124	387	775	1,262
Less Net Acquisition of Non-financial Assets							
Purchases of non-financial assets	7,644	9,057	8,856	10,223	10,447	11,210	8,640
Less Sales of non-financial assets	339	356	335	326	255	260	255
Less Depreciation	5,804	6,047	6,225	6,818	6,994	7,201	7,306
Plus Change in inventories	49	31	83	15	27	(2)	(6)
Plus Other movements in non-financial assets	894	1,100	1,224	1,309	1,254	1,382	1,028
Equals Total Net Acquisition of Non-financial Assets	2,443	3,785	3,602	4,403	4,479	5,129	2,102
Equals Fiscal Balance	(647)	(3,701)	(2,868)	(4,279)	(4,092)	(4,353)	(840)
Note:							
1. Numbers may not add due to rounding.							

Table 9.4 General Government Sector Balance Sheet¹

	2017-18 Outcome \$ million	2018-19 Budget \$ million	2018-19 Est.Actual \$ million	2019-20 Budget \$ million	2020-21 Projection \$ million	2021-22 Projection \$ million	2022-23 Projection \$ million
Assets							
Financial Assets							
Cash and deposits	1,298	303	489	407	489	467	450
Advances paid	629	703	676	620	629	653	675
Investments, loans and placements	32,846	30,306	32,125	31,318	30,429	30,370	30,248
Receivables	4,750	4,182	4,377	4,019	3,663	4,136	4,696
Equity							
Investments in other public sector entities	23,120	23,812	23,951	24,435	25,118	25,333	25,785
Investments - other	155	154	151	147	147	147	147
Total Financial Assets	62,797	59,460	61,769	60,945	60,475	61,106	62,001
Non-financial Assets							
Land and other fixed assets ²	200,458	207,985	205,180	212,382	218,163	224,136	228,059
Other non-financial assets	7,392	6,767	6,634	6,874	6,944	7,030	7,160
Total Non-financial Assets	207,850	214,752	211,814	219,256	225,107	231,165	235,219
Total Assets	270,647	274,212	273,583	280,202	285,582	292,271	297,220
Liabilities							
Payables	4,396	4,088	4,265	4,148	4,215	4,273	4,326
Superannuation liability	26,000	23,414	26,739	25,567	24,107	22,409	20,660
Other employee benefits	5,974	5,888	7,073	7,177	7,291	7,444	7,572
Deposits held	2	2	2	2	2	2	2
Advances received	2,747	1,814	2,270	1,616	1,441	1,210	1,255
Borrowing with QTC	29,256	29,735	29,933	32,781	35,218	40,174	42,589
Leases and similar arrangements ²	2,152	2,556	2,623	5,824	7,071	6,943	6,966
Securities and derivatives	122	19	122	122	122	122	122
Other liabilities	4,290	4,059	4,358	4,068	3,988	3,957	3,949
Total Liabilities	74,939	71,575	77,386	81,306	83,455	86,533	87,441
Net Worth	195,708	202,636	196,197	198,896	202,126	205,738	209,778
Net Financial Worth	(12,141)	(12,115)	(15,617)	(20,361)	(22,980)	(25,428)	(25,441)
Net Financial Liabilities	35,261	35,928	39,568	44,796	48,098	50,760	51,226
Net Debt	(494)	2,815	1,661	8,001	12,306	16,961	19,562
Notes:							
1. Numbers may not add due to rounding.							
2. Approximately \$2.2 billion of the increase in 2019-20 is due to the new lease accounting standard AASB16 which brings operating leases onto the balance sheet of lessees.							

Table 9.5 Public Non-financial Corporations Sector Balance Sheet¹

	2017-18 Outcome \$ million	2018-19 Budget \$ million	2018-19 Est.Actual \$ million	2019-20 Budget \$ million	2020-21 Projection \$ million	2021-22 Projection \$ million	2022-23 Projection \$ million
Assets							
Financial Assets							
Cash and deposits	581	465	599	697	817	949	1,254
Advances paid	2,284	1,360	1,869	1,327	1,219	1,037	1,131
Investments, loans and placements	482	547	545	469	461	472	485
Receivables	1,580	1,432	1,703	1,601	1,584	1,578	1,601
Equity							
Investments - other	238	240	250	250	250	250	250
Total Financial Assets	5,165	4,043	4,967	4,345	4,332	4,287	4,721
Non-financial Assets							
Land and other fixed assets ²	62,506	63,882	63,881	65,791	67,119	68,160	68,387
Other non-financial assets	1,113	1,203	1,220	1,220	1,190	1,166	1,137
Total Non-financial Assets	63,619	65,085	65,101	67,011	68,308	69,325	69,524
Total Assets	68,784	69,128	70,068	71,356	72,640	73,612	74,245
Liabilities							
Payables	3,495	2,890	3,183	2,695	2,333	2,834	3,046
Superannuation liability	(368)	(316)	(368)	(368)	(368)	(368)	(368)
Other employee benefits	769	746	719	742	754	769	783
Deposits held	15	17	17	17	17	17	17
Advances received	7	6	6	5	5	4	3
Borrowing with QTC	37,708	38,279	38,208	39,173	40,195	40,471	40,384
Leases and similar arrangements ²	..	..	..	392	358	324	288
Securities and derivatives	283	281	549	422	380	370	370
Other liabilities	7,970	7,901	7,883	7,922	7,929	7,939	8,016
Total Liabilities	49,879	49,805	50,197	51,000	51,602	52,359	52,539
Net Worth	18,905	19,323	19,872	20,356	21,038	21,253	21,706
Net Financial Worth	(44,715)	(45,761)	(45,230)	(46,655)	(47,270)	(48,072)	(47,818)
Net Debt	34,667	36,212	35,767	37,516	38,458	38,727	38,192
Notes:							
1. Numbers may not add due to rounding.							
2. Approximately \$400 million of the increase in 2019-20 is due to the new lease accounting standard AASB16 which brings operating leases onto the balance sheet of lessees.							

Table 9.6 Non-financial Public Sector Balance Sheet¹

	2017-18 Outcome \$ million	2018-19 Budget \$ million	2018-19 Est.Actual \$ million	2019-20 Budget \$ million	2020-21 Projection \$ million	2021-22 Projection \$ million	2022-23 Projection \$ million
Assets							
Financial Assets							
Cash and deposits	1,879	768	1,088	1,104	1,307	1,416	1,704
Advances paid	622	682	670	615	624	649	671
Investments, loans and placements	33,328	30,852	32,669	31,787	30,890	30,843	30,732
Receivables	4,273	3,808	4,142	4,008	4,072	4,174	4,670
Equity							
Investments in other public sector entities	4,216	4,490	4,080	4,080	4,080	4,080	4,080
Investments - other	393	394	401	397	397	397	397
Total Financial Assets	44,711	40,994	43,050	41,991	41,370	41,559	42,255
Non-financial Assets							
Land and other fixed assets ²	262,964	271,866	269,060	278,173	285,281	292,295	296,445
Other non-financial assets	1,591	1,014	1,187	1,300	1,244	1,130	1,005
Total Non-financial Assets	264,554	272,880	270,248	279,473	286,525	293,425	297,450
Total Assets	309,265	313,874	313,298	321,463	327,895	334,984	339,705
Liabilities							
Payables	5,861	5,193	5,537	5,259	5,401	5,596	5,775
Superannuation liability	25,632	23,098	26,371	25,199	23,739	22,041	20,292
Other employee benefits	6,743	6,634	7,792	7,920	8,046	8,213	8,356
Deposits held	18	19	19	19	19	19	19
Advances received	462	439	400	289	222	173	125
Borrowing with QTC	66,964	68,015	68,141	71,954	75,413	80,645	82,972
Leases and similar arrangements ²	2,152	2,556	2,623	6,217	7,430	7,266	7,254
Securities and derivatives	405	300	671	544	502	492	492
Other liabilities	5,319	4,982	5,546	5,168	4,998	4,801	4,642
Total Liabilities	113,556	111,237	117,101	122,568	125,769	129,247	129,927
Net Worth	195,709	202,636	196,197	198,896	202,126	205,738	209,778
Net Financial Worth	(68,845)	(70,243)	(74,051)	(80,577)	(84,399)	(87,687)	(87,672)
Net Financial Liabilities	73,062	74,733	78,131	84,657	88,479	91,768	91,752
Net Debt	34,173	39,027	37,428	45,517	50,764	55,688	57,755
Notes:							
1. Numbers may not add due to rounding.							
2. Approximately \$2.6 billion of the increase in 2019-20 is due to the new lease accounting standard AASB16 which brings operating leases onto the balance sheet of lessees.							

Table 9.7 General Government Sector Cash Flow Statement¹

	2017-18 Outcome \$ million	2018-19 Budget \$ million	2018-19 Est.Actual \$ million	2019-20 Budget \$ million	2020-21 Projection \$ million	2021-22 Projection \$ million	2022-23 Projection \$ million
Cash Receipts from Operating Activities							
Taxes received	13,232	14,153	14,003	15,162	15,776	16,600	17,523
Grants and subsidies received	28,020	27,712	28,991	28,000	29,846	30,662	31,038
Sales of goods and services	5,916	5,947	6,175	6,294	6,423	6,545	6,630
Interest receipts	2,389	2,199	2,245	2,139	2,004	1,951	1,956
Dividends and income tax equivalents	2,668	2,619	2,815	2,565	2,083	1,593	1,654
Other receipts	6,992	7,007	8,027	8,226	7,603	7,766	7,770
Total Operating Receipts	59,216	59,637	62,256	62,386	63,734	65,117	66,572
Cash Payments for Operating Activities							
Payments for employees	(25,964)	(27,701)	(27,598)	(29,080)	(29,521)	(30,622)	(31,804)
Payments for goods and services	(18,496)	(17,635)	(18,802)	(18,152)	(17,982)	(18,458)	(18,797)
Grants and subsidies	(8,014)	(9,492)	(9,799)	(9,649)	(10,132)	(10,119)	(10,077)
Interest paid	(1,590)	(1,474)	(1,513)	(1,669)	(1,665)	(1,703)	(1,752)
Other payments	(1)	..	(1)	(1)	(1)	(1)	(1)
Total Operating Payments	(54,066)	(56,303)	(57,712)	(58,550)	(59,301)	(60,904)	(62,430)
Net Cash Inflows from Operating Activities	5,150	3,334	4,544	3,836	4,433	4,213	4,142
Cash Flows from Investments in Non-Financial Assets							
Purchases of non-financial assets	(5,127)	(5,927)	(6,060)	(6,727)	(7,125)	(7,963)	(6,179)
Sales of non-financial assets	291	345	292	305	250	260	251
Net Cash Flows from Investments in Non-financial Assets	(4,835)	(5,582)	(5,769)	(6,422)	(6,875)	(7,703)	(5,928)
Net Cash Flows from Investments in Financial Assets for Policy Purposes	534	(53)	(92)	28	(100)	121	338
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	(1,095)	2,877	1,426	3,611	2,037	100	155
Receipts from Financing Activities							
Advances received (net)	905	(410)	(475)	(651)	(173)	(228)	48
Borrowing (net)	(396)	(393)	(452)	(486)	759	3,473	1,225
Deposits received (net)	7	(47)	..	..	..	..	..
Net Cash Flows from Financing Activities	517	(851)	(927)	(1,137)	586	3,245	1,273
Net Increase/(Decrease) in Cash held	271	(275)	(816)	(85)	81	(24)	(18)
Net cash from operating activities	5,150	3,334	4,544	3,836	4,433	4,213	4,142
Net cash flows from investments in non-financial assets	(4,835)	(5,582)	(5,769)	(6,422)	(6,875)	(7,703)	(5,928)
Surplus/(Deficit)	315	(2,248)	(1,224)	(2,586)	(2,442)	(3,490)	(1,785)
Derivation of ABS GFS Cash Surplus/Deficit							
Cash surplus/(deficit)	315	(2,248)	(1,224)	(2,586)	(2,442)	(3,490)	(1,785)
Acquisitions under finance leases and similar arrangements	(584)	(864)	(974)	(1,119)	(1,019)	(1,117)	(832)
ABS GFS Cash Surplus/(Deficit) Including Finance Leases and Similar Arrangements	(269)	(3,112)	(2,198)	(3,705)	(3,461)	(4,607)	(2,617)
Note:							
1. Numbers may not add due to rounding.							

Table 9.8 Public Non-financial Corporations Sector Cash Flow Statement¹

	2017-18 Outcome \$ million	2018-19 Budget \$ million	2018-19 Est.Actual \$ million	2019-20 Budget \$ million	2020-21 Projection \$ million	2021-22 Projection \$ million	2022-23 Projection \$ million
Cash Receipts from Operating Activities							
Grants and subsidies received	707	585	551	572	492	509	488
Sales of goods and services	14,226	13,113	13,267	13,130	12,926	13,258	13,803
Interest receipts	73	52	66	56	54	53	52
Dividends and income tax equivalents	13	13	13	13	13	13	13
Other receipts	426	215	286	486	242	223	228
Total Operating Receipts	15,445	13,977	14,182	14,257	13,727	14,056	14,584
Cash Payments for Operating Activities							
Payments for employees	(1,885)	(2,143)	(2,273)	(2,344)	(2,377)	(2,408)	(2,454)
Payments for goods and services	(5,615)	(4,610)	(4,619)	(4,801)	(4,774)	(4,711)	(4,880)
Grants and subsidies	(270)	(264)	(298)	(233)	(46)	(18)	(19)
Interest paid	(1,896)	(1,910)	(1,876)	(1,833)	(1,842)	(1,866)	(1,867)
Other payments	(1,452)	(1,172)	(1,395)	(1,313)	(1,043)	(992)	(1,054)
Total Operating Payments	(11,118)	(10,098)	(10,461)	(10,525)	(10,082)	(9,995)	(10,273)
Net Cash Inflows from Operating Activities	4,327	3,879	3,722	3,732	3,645	4,061	4,311
Cash Flows from Investments in Non-Financial Assets							
Purchases of non-financial assets	(2,509)	(3,130)	(2,801)	(3,496)	(3,322)	(3,247)	(2,461)
Sales of non-financial assets	47	11	44	21	5	..	3
Net Cash Flows from Investments in Non-financial Assets	(2,462)	(3,119)	(2,758)	(3,475)	(3,316)	(3,247)	(2,458)
Net Cash Flows from Investments in Financial Assets for Policy Purposes	(988)	284	341	436	(22)	17	(513)
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	71	(3)	(47)	(12)	(12)	(13)	(14)
Receipts from Financing Activities							
Advances received (net)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Borrowing (net)	(32)	471	500	925	977	231	(133)
Dividends paid	(1,658)	(1,805)	(1,850)	(1,633)	(1,365)	(932)	(944)
Deposits received (net)	(2)	..	1	..	..	..	..
Other financing (net)	(138)	60	110	125	215	15	55
Net Cash Flows from Financing Activities	(1,831)	(1,275)	(1,240)	(583)	(174)	(687)	(1,022)
Net Increase/(Decrease) in Cash held	(883)	(233)	18	97	121	132	304
Net cash from operating activities	4,327	3,879	3,722	3,732	3,645	4,061	4,311
Net cash flows from investments in non-financial assets	(2,462)	(3,119)	(2,758)	(3,475)	(3,316)	(3,247)	(2,458)
Dividends paid	(1,658)	(1,805)	(1,850)	(1,633)	(1,365)	(932)	(944)
Surplus/(Deficit)	207	(1,045)	(886)	(1,376)	(1,037)	(117)	910
Derivation of ABS GFS Cash Surplus/Deficit							
Cash surplus/(deficit)	207	(1,045)	(886)	(1,376)	(1,037)	(117)	910
ABS GFS Cash Surplus/(Deficit) Including Finance Leases and Similar Arrangements	207	(1,045)	(886)	(1,376)	(1,037)	(117)	910
Note:							
1. Numbers may not add due to rounding.							

Table 9.9 Non-financial Public Sector Cash Flow Statement¹

	2017-18 Outcome \$ million	2018-19 Budget \$ million	2018-19 Est.Actual \$ million	2019-20 Budget \$ million	2020-21 Projection \$ million	2021-22 Projection \$ million	2022-23 Projection \$ million
Cash Receipts from Operating Activities							
Taxes received	12,982	13,891	13,723	14,866	15,457	16,257	17,165
Grants and subsidies received	28,048	27,788	29,015	28,008	29,857	30,672	31,048
Sales of goods and services	18,210	16,609	16,759	16,728	16,489	16,885	17,560
Interest receipts	2,421	2,217	2,267	2,157	2,023	1,963	1,963
Dividends and income tax equivalents	220	166	159	154	172	188	216
Other receipts	7,416	7,222	8,268	8,602	7,527	7,619	7,737
Total Operating Receipts	69,298	67,892	70,191	70,517	71,524	73,586	75,690
Cash Payments for Operating Activities							
Payments for employees	(27,749)	(29,743)	(29,751)	(31,304)	(31,776)	(32,906)	(34,131)
Payments for goods and services	(22,157)	(19,789)	(20,697)	(20,143)	(19,577)	(19,877)	(20,540)
Grants and subsidies	(7,602)	(9,247)	(9,569)	(9,318)	(9,694)	(9,636)	(9,616)
Interest paid	(3,315)	(3,202)	(3,192)	(3,297)	(3,284)	(3,320)	(3,351)
Other payments	(647)	(503)	(571)	(518)	(480)	(501)	(542)
Total Operating Payments	(61,470)	(62,484)	(63,781)	(64,582)	(64,811)	(66,241)	(68,180)
Net Cash Inflows from Operating Activities	7,827	5,408	6,410	5,935	6,713	7,345	7,510
Cash Flows from Investments in Non-Financial Assets							
Purchases of non-financial assets	(7,644)	(9,057)	(8,856)	(10,223)	(10,447)	(11,210)	(8,640)
Sales of non-financial assets	339	356	335	326	255	260	255
Net Cash Flows from Investments in Non-financial Assets	(7,305)	(8,701)	(8,520)	(9,897)	(10,192)	(10,950)	(8,385)
Net Cash Flows from Investments in Financial Assets for Policy Purposes	484	(104)	(57)	46	(16)	(30)	(26)
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	(1,024)	2,873	1,379	3,599	2,025	86	141
Receipts from Financing Activities							
Advances received (net)	(34)	(16)	(60)	(109)	(65)	(46)	(46)
Borrowing (net)	(428)	78	48	439	1,736	3,704	1,092
Deposits received (net)	5	(47)	1	..	..	..	..
Other financing (net)	(138)	..	..	..	..	..	..
Net Cash Flows from Financing Activities	(595)	15	(11)	330	1,671	3,658	1,046
Net Increase/(Decrease) in Cash held	(612)	(509)	(798)	13	202	110	286
Net cash from operating activities	7,827	5,408	6,410	5,935	6,713	7,345	7,510
Net cash flows from investments in non-financial assets	(7,305)	(8,701)	(8,520)	(9,897)	(10,192)	(10,950)	(8,385)
Surplus/(Deficit)	522	(3,293)	(2,110)	(3,962)	(3,478)	(3,605)	(876)
Derivation of ABS GFS Cash Surplus/Deficit							
Cash surplus/(deficit)	522	(3,293)	(2,110)	(3,962)	(3,478)	(3,605)	(876)
Acquisitions under finance leases and similar arrangements	(584)	(864)	(974)	(1,119)	(1,019)	(1,117)	(832)
ABS GFS Cash Surplus/(Deficit) Including Finance Leases and Similar Arrangements	(62)	(4,157)	(3,084)	(5,081)	(4,498)	(4,721)	(1,707)
Note:							
1. Numbers may not add due to rounding.							

9.3 Reconciliation of net operating balance to accounting operating result

The primary difference between the net operating balance and the accounting operating result calculated under Australian Accounting Standards is that valuation adjustments are excluded from the net operating balance.

Data presented in Table 9.10 provides a reconciliation of the General Government Sector net operating balance to the accounting operating result.

Table 9.10 Reconciliation of UPF net operating balance to accounting operating result¹

	2018-19 Budget \$ million	2018-19 Est. Act. \$ million	2019-20 Budget \$ million
Net operating balance General Government sector (Table 9.1)	148	841	189
<i>Remeasurement/valuation adjustments</i>			
Bad debts and amortisation	(96)	(118)	(103)
Deferred tax equivalents	(1)	(60)	(111)
Dividends from network GOCs under Debt Action Plan (treated as return of equity for UPF)	110	74	206
Market value adjustments on financial assets and liabilities	11	46	9
Revaluation of provisions	87	(864)	48
Decommissioned infrastructure assets and land under roads	(12)	..	..
Gain/(loss) on assets sold/written off/impaired	(12)	(16)	(33)
Accounting operating result General Government sector	233	(97)	204
Note:			
1. Numbers may not add due to rounding.			

9.4 General Government Sector time series

Data presented in Table 9.11 provides a time series from 2006-07 to 2017-18 for the General Government Sector on the key fiscal aggregates used by the Government to measure financial performance. These aggregates have been backcast (as far as possible) to comply with AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

Table 9.11 General Government Sector time series ¹

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	Actual \$ million	Actual \$ million	Actual \$ million	Actual \$ million	Actual \$ million	Actual \$ million	Actual \$ million	Actual \$ million	Actual \$ million	Actual \$ million	Actual \$ million	Actual \$ million
Revenue from Transactions												
Taxation revenue	8,484	9,546	8,866	9,375	9,981	10,608	10,937	11,840	12,598	12,547	12,919	13,244
Grant revenue	14,378	15,510	17,481	20,205	20,338	22,652	18,322	21,740	23,583	23,740	27,384	27,966
Sales of goods and services	2,909	3,357	3,648	3,961	4,172	5,002	5,087	5,039	5,443	5,712	5,642	5,884
Interest income	3,338	(275)	1,482	2,204	2,368	2,485	2,444	2,460	2,543	2,543	2,351	2,389
Dividend and income tax equivalent income	858	1,244	1,180	949	1,232	1,112	1,351	1,975	2,554	2,661	2,675	2,920
Other revenue	2,032	2,041	4,421	3,033	3,921	3,942	3,415	3,650	3,322	3,577	5,223	5,685
Total Revenue	31,999	31,424	37,078	39,727	42,013	45,801	41,755	46,705	49,970	50,780	56,194	58,087
Expenses from Transactions												
Employee expenses	11,731	13,175	14,310	15,566	16,826	18,250	18,130	17,816	18,592	20,045	21,258	22,678
Superannuation expenses												
Superannuation interest costs	1,154	816	858	1,320	1,240	1,216	923	963	878	767	514	667
Other superannuation expenses	1,513	1,865	2,012	2,051	2,171	2,301	2,420	2,277	2,319	2,507	2,661	2,744
Other operating expenses	6,138	6,646	7,300	7,568	8,646	9,497	12,817	13,108	14,539	14,811	15,578	17,258
Depreciation and amortisation	1,764	1,851	2,486	2,501	2,507	2,777	2,902	3,060	3,137	2,921	3,068	3,325
Other interest expenses	180	347	599	803	1,125	1,659	1,940	2,200	2,328	2,220	1,722	1,614
Grant expenses	7,565	8,329	9,525	9,790	10,963	10,327	7,182	6,792	7,758	6,841	8,568	8,048
Total Expenses	30,046	33,030	37,099	39,599	43,479	46,028	46,312	46,217	49,551	50,112	53,369	56,335
Net Operating Balance	1,953	(1,606)	(21)	128	(1,466)	(226)	(4,558)	488	420	668	2,825	1,753
OTHER KEY AGGREGATES												
Purchases of non-financial assets	4,412	5,725	6,772	8,959	8,237	7,971	7,001	6,323	4,635	4,044	4,620	5,127
Net acquisition of non-financial assets	2,157	3,680	4,349	6,665	5,583	5,241	3,389	3,087	992	1,164	2,265	2,339
Fiscal Balance	(204)	(5,286)	(4,371)	(6,537)	(7,049)	(5,467)	(7,947)	(2,599)	(572)	(497)	560	(586)
Cash Surplus/(Deficit)	2,360	(4,924)	(2,866)	(5,341)	(5,880)	(4,951)	(8,585)	(3,213)	(105)	866	1,448	315
Net Worth	118,532	183,838	184,277	175,588	177,875	170,745	172,963	166,492	171,933	188,099	194,988	195,708
Net Debt	(26,622)	(22,586)	(19,251)	(13,354)	(9,542)	(5,720)	2,399	5,208	5,749	653	(355)	(494)
Borrowing with QTC ²	1,984	5,819	9,671	15,182	23,711	28,391	36,508	33,864	41,343	34,200	31,358	29,256
Leases and similar arrangements	274	508	637	734	882	1,126	1,370	1,503	1,761	1,286	1,882	2,152
Borrowing with QTC (NFPS)	19,857	29,358	41,726	50,745	52,521	60,205	67,116	70,668	73,256	71,160	69,107	66,964
Leases and similar arrangements (NFPS)	302	545	637	735	884	1,127	1,559	1,752	1,802	1,316	1,882	2,152
Securities and derivatives (NFPS)	3,812	953	282	234	303	210	411	216	175	446	895	405

Notes:

1. Numbers may not add due to rounding.

2. Borrowing with QTC in 2013-14 includes bank overdraft of \$1.434 billion.

Source: Report on State Finances for Queensland 2006-07 to 2017-18. (Numbers have been recast for changes to UPF presentation.)

9.5 Other General Government uniform presentation framework data

Data in the following tables is presented in accordance with the UPF.

9.5.1 Grants

Data presented in Tables 9.12 and 9.13 provide details of General Government Sector current and capital grant revenue and expenses.

Table 9.12 General Government Sector grant revenue¹

	2018-19 Est. Act. \$ million	2019-20 Budget \$ million
Current grant revenue		
Current grants from the Commonwealth		
General purpose grants	14,470	14,233
Specific purpose grants	8,746	8,329
Specific purpose grants for on-passing	3,238	3,147
Total current grants from the Commonwealth	26,454	25,709
Other contributions and grants	342	294
Total current grant revenue	26,797	26,003
Capital grant revenue		
Capital grants from the Commonwealth		
Specific purpose grants	1,870	1,996
Specific purpose grants for on-passing	5	..
Total capital grants from the Commonwealth	1,875	1,996
Other contributions and grants	38	4
Total capital grant revenue	1,913	2,000
Total grant revenue	28,709	28,003
Note:		
1. Numbers may not add due to rounding.		

Table 9.13 General Government Sector grant expenses¹

	2018-19 Est. Act. \$ million	2019-20 Budget \$ million
Current grant expense		
Private and Not-for-profit sector	2,327	2,402
Private and Not-for-profit sector on-passing	2,759	2,912
Local Government	361	221
Local Government on-passing	492	251
Grants to other sectors of Government	1,671	1,806
Other	362	554
Total current grant expense	7,971	8,145
Capital grant expense		
Private and Not-for-profit sector	366	492
Local Government	1,209	997
Local Government on-passing	5	..
Grants to other sectors of Government	13	10
Other	127	110
Total capital grant expense	1,720	1,609
Total grant expense	9,691	9,754
Note:		
1. Numbers may not add due to rounding.		

9.5.2 Dividends and income tax equivalent income

Table 9.14 provides details of the source of dividend and income tax equivalent income in the General Government Sector.

Table 9.14 General Government Sector dividend and income tax equivalent income¹

	2018-19 Est. Act. \$ million	2019-20 Budget \$ million
Dividend and Income Tax Equivalent income from PNFC sector	2,525	2,085
Dividend and Income Tax Equivalent income from PFC sector	136	151
Total Dividend and Income Tax Equivalent income	2,661	2,237
Note:		
1. Numbers may not add due to rounding.		

9.5.3 Expenses by function

Data presented in Table 9.15 provides details of General Government Sector expenses by function.

Table 9.15 General Government Sector expenses by function¹

	2018-19 Budget \$ million	2018-19 Est. Act. \$ million	2019-20 Budget \$ million	2020-21 Projection \$ million	2021-22 Projection \$ million	2022-23 Projection \$ million
General public services	5,368	5,583	5,073	4,846	5,064	5,006
Public order and safety	5,154	5,347	5,652	5,660	5,710	5,900
Economic affairs	2,241	2,142	2,431	2,185	1,939	1,901
Environmental protection	631	745	624	737	691	659
Housing and community amenities	275	1,093	1,108	1,006	1,045	1,021
Health	17,347	18,304	18,761	19,139	19,887	20,718
Recreation, culture and religion	842	843	776	767	703	771
Education	14,006	14,243	15,013	15,765	16,319	16,946
Social protection	5,865	4,689	4,458	4,516	4,880	5,037
Transport	5,861	6,238	6,303	6,794	6,863	6,794
Total Expenses	57,590	59,226	60,198	61,416	63,101	64,753
Note:						
1. Numbers may not add due to rounding.						

9.5.4 Purchases of non-financial assets by function

Data presented in Table 9.16 provides details of General Government Sector purchases of non-financial assets by function.

Table 9.16 General Government Sector purchases of non-financial assets by function¹

	2018-19 Budget \$ million	2018-19 Est. Act. \$ million	2019-20 Budget \$ million	2020-21 Projection \$ million	2021-22 Projection \$ million	2022-23 Projection \$ million
General public services	373	215	323	161	80	36
Public order and safety	555	426	697	659	515	202
Economic affairs	47	47	43	39	57	23
Environmental protection	67	62	66	30	26	17
Housing and community amenities	78	374	422	358	353	188
Health	1,099	723	771	883	1,031	542
Recreation, culture and religion	161	41	121	151	124	63
Education	711	858	1,242	885	622	387
Social protection	384	40	57	29	30	25
Transport	2,451	3,275	2,984	3,930	5,126	4,696
Total Purchases	5,927	6,060	6,727	7,125	7,963	6,179
Note:						
1. Numbers may not add due to rounding.						

9.5.5 Taxes

Data presented in Table 9.17 provides details of taxation revenue collected by the General Government Sector.

Table 9.17 General Government Sector taxes¹

	2018-19 Est. Act. \$ million	2019-20 Budget \$ million
Taxes on employers' payroll and labour force	4,158	4,284
Taxes on property		
Land taxes	1,331	1,589
Stamp duties on financial and capital transactions	3,049	3,038
Other	727	1,299
Taxes on the provision of goods and services		
Taxes on gambling	1,331	1,410
Taxes on insurance	1,005	1,052
Taxes on use of goods and performance of activities		
Motor vehicle taxes	2,403	2,490
Total Taxation Revenue	14,005	15,164
Note:		
1. Numbers may not add due to rounding.		

9.6 Contingent liabilities

Contingent liabilities represent items that are not included in the Budget as significant uncertainty exists as to whether the Government would sacrifice future economic benefits in respect of these items. Nevertheless, such contingencies need to be recognised and managed wherever possible in terms of their potential impact on the Government's financial position in the future.

The State's quantifiable and non-quantifiable contingent liabilities are detailed in the *2017-18 Report on State Finances* – whole-of-government financial statements (note 43).

A summary of the State's quantifiable contingent liabilities as at 30 June 2018 is provided in Table 9.18.

Table 9.18 Contingent liabilities

	2017-18 \$ million
Nature of contingent liability	
Guarantees and indemnities	11,203
Other	16
Total	11,219

9.7 Background and interpretation of uniform presentation framework

As mentioned in the introduction to this chapter, the UPF was reviewed in 2007 following the release of the AASB accounting standard, AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

This standard aims to harmonise GFS and GAAP with the objective of improving the clarity and transparency of government financial statements.

9.7.1 Accrual Government Finance Statistics framework

The GFS reporting framework, developed by the Australian Bureau of Statistics (ABS), is based on international statistics standards (the International Monetary Fund Manual on Government Finance Statistics and the United Nations System of National Accounts). This allows comprehensive assessments to be made of the economic impact of government.

The accrual GFS framework is based on an integrated recording of stocks and flows. Stocks refers to a unit's holdings of assets and liabilities at a point in time, whilst flows represent the movement in the stock of assets and liabilities between two points in time. Flows comprise two separate types, transactions and other economic flows. Transactions come about as a result of mutually agreed interactions between units or within a single unit. Other economic flows would include revaluations and destruction or discovery of assets that do not result from a transaction.

In GFS operating statements, other economic flows, being outside of the control of government, are excluded and do not affect the net operating balance or fiscal balance.

9.7.2 Generally Accepted Accounting Principles

In addition to the GFS framework, public sector entities were previously required to report at year end against AAS 31 Financial Reporting by Government, which meant complying with the Accounting Standards issued by the AASB.

9.7.3 Harmonisation under AASB 1049

This dual reporting regime caused confusion for financial report users and the Financial Reporting Council asked the AASB to develop a framework harmonising GAAP and GFS and to issue an Australian accounting standard for a single set of government reports.

In the development of the AASB 1049, the AASB adopted the following approaches:

- adoption of GAAP definition, recognition and measurement principles in almost all cases
- amending presentation requirements to encompass a comprehensive result that retains GAAP classification system but overlays it with a transaction and other economic flows classification system based on GFS
- expanding the disclosure requirements to incorporate key fiscal aggregates required by GFS.

9.7.4 Revisions to the Uniform Presentation Framework

Following the introduction of AASB 1049, the Australian, state and territory governments consider that the UPF will continue to be an important framework for ensuring comparability of financial information across jurisdictions. The UPF shall continue to apply to financial statements produced by government in budgets, mid-year budget updates and final budget outcome reports, whereas the accounting standard applies only to outcome reports.

Therefore, rather than replacing the UPF with the accounting standard, the framework was updated to align with AASB 1049. Australia, state and territory governments agreed that the updated framework would continue to provide a common core of comparable financial information in their budget papers and comparable data amongst jurisdictions while maintaining at least the current level of transparency.

Aligning the framework with the AASB 1049 was not intended to create a UPF that complies with all the reporting requirements of AASB 1049. For example, the UPF does not include the same level of detail in relation to disclosure requirements as AASB 1049. Instead, the revised UPF allows jurisdictions to utilise the framework as the base set of statements and add additional relevant information in order to comply with AASB 1049.

9.8 Sector classification

GFS data is presented by institutional sector, distinguishing between the General Government Sector and the PNFC sector.

Budget reporting focuses on the General Government Sector, which provides regulatory services, and goods and services of a non-market nature that are provided at less than cost or at no cost. These services are largely financed by general revenue (Australian Government grants and state taxation). This service comprises government departments, their commercialised business units/shared service providers and certain statutory bodies.

The PNFC Sector comprises bodies that provide mainly market goods and services that are of a non-regulatory and non-financial nature. PNFCs are financed through sales to consumers of their goods and services and may be supplemented by explicit government subsidy to satisfy community service obligations. In general, PNFCs are legally distinguishable from the governments that own them. Examples of PNFCs include the energy entities and Queensland Rail.

Together, the General Government Sector and the PNFC Sector comprise the Non-financial Public Sector.

Further discussion of the GFS framework of reporting, including definitions of GFS terms, can be obtained from the webpage of the ABS at www.abs.gov.au.

9.9 Reporting entities

The reporting entities included in the General Government and PNFC Sectors in these Budget papers are provided below.

9.9.1 General Government

Departments

Aboriginal and Torres Strait Islander Partnerships

Agriculture and Fisheries

Child Safety, Youth and Women

Communities, Disability Services and Seniors

Education

Electoral Commission of Queensland

Employment, Small Business and Training

Environment and Science

Housing and Public Works

Innovation, Tourism Industry Development and the Commonwealth Games

Justice and Attorney-General

Legislative Assembly

Local Government, Racing and Multicultural Affairs

Natural Resources, Mines and Energy

Office of the Governor

Office of the Inspector-General Emergency Management

Office of the Ombudsman

Premier and Cabinet

Public Safety Business Agency

Public Service Commission

Queensland Audit Office

Queensland Corrective Services

Queensland Fire and Emergency Services

Queensland Health

Queensland Police Service

Queensland Treasury

State Development, Manufacturing, Infrastructure and Planning

The Public Trustee of Queensland

Transport and Main Roads

Youth Justice

Commercialised Business Units

Building and Asset Services

CITEC

Economic Development Queensland

QFleet

RoadTek

Shared Service Providers

Corporate Administration Agency

Queensland Shared Services

Statutory Authorities

Board of the Queensland Museum

Crime and Corruption Commission

Cross River Rail Delivery Authority

Gold Coast 2018 Commonwealth Games Corporation

Gold Coast Waterways Authority

Hospital and Health Services

 Cairns and Hinterland

 Central Queensland

 Central West

 Children's Health Queensland

 Darling Downs

 Gold Coast

 Mackay

 Metro North

 Metro South

 North West

 South West

 Sunshine Coast

 Torres and Cape

 Townsville

 West Moreton

 Wide Bay

Human Rights Commission

Legal Aid Queensland

Library Board of Queensland

Motor Accident Insurance Commission

Nominal Defendant

Office of the Information Commissioner

Office of the Health Ombudsman

Prostitution Licensing Authority

Queensland Agricultural Training Colleges

Queensland Art Gallery Board of Trustees

Queensland Building and Construction Commission

Queensland Curriculum and Assessment Authority

Queensland Family and Child Commission

Queensland Mental Health Commission

Queensland Performing Arts Trust

Queensland Racing Integrity Commission

Queensland Reconstruction Authority

Queensland Rural and Industry Development Authority

Residential Tenancies Authority

South Bank Corporation

TAFE Queensland

The Council of the Queensland Institute of Medical Research

Tourism and Events Queensland

Trade and Investment Queensland

9.9.2 Public Non-financial Corporations

Brisbane Port Holdings Pty Ltd

CleanCo Queensland Ltd

CS Energy Limited

DBCT Holdings Pty Ltd

Energy Queensland

Far North Queensland Ports Corporation Limited

Gladstone Area Water Board

Gladstone Ports Corporation Limited

Mount Isa Water Board

North Queensland Bulk Ports Corporation Limited

Port of Townsville Limited

Powerlink Queensland

Queensland Bulk Water Supply Authority (Seqwater)

Queensland Lottery Corporation Pty Ltd

Queensland Rail

Queensland Treasury Holdings Pty Ltd

Stadiums Queensland

Stanwell Corporation Limited

Sunwater Limited

Appendix A: Concessions statement

Context

The Queensland Government provides a wide range of concessions across a variety of services and products. In addition to targeted discounts, rebates and subsidies for Queenslanders based on eligibility criteria relating to factors such as age, income and special needs or disadvantage, broader concession arrangements are in place to reduce the price paid by all consumers in areas such as transport, electricity and water.

The majority of Queenslanders benefit from at least one concession and in many cases, may benefit from multiple concessions each year. For example, aged pensioners are eligible for a number of Queensland Government concessions, such as discounts on their council rates, water, gas and electricity bills, vehicle registration fees as well as subsidised optometry and dental services.

Further information on the eligibility requirements and benefits of a range of Government concessions can be found at:

<http://www.qld.gov.au/community/cost-of-living-support/concessions/>.

Focus

This statement highlights the cost and nature of concessions provided by the Queensland Government. It covers both concessions that are direct Budget outlays (for example, fee subsidy payments), and concessions that are revenue foregone through fees and charges that are set at a lower rate than applies to the wider community or, in the case of broader concessions, the full cost of service provision.

Sections A.2 and A.3 set out the individual concessions by agency and government-owned corporation (GOC) respectively, sorted in descending order. The total value of these concessions is estimated to be \$5.66 billion in 2019-20. This represents a significant Government and taxpayer commitment to improving the accessibility and affordability of a diverse range of services, and reducing the price paid by consumers of those services to ease cost of living pressures.

The 2019-20 concessions estimate is almost \$29 million higher than the 2018-19 estimated actual amount of \$5.631 billion, and more than \$75 million higher than the 2018-19 budget amount of \$5.584 billion. This takes into account the cessation of the Electricity Asset Ownership Dividend, which was a temporary measure to provide Queensland households with a \$50 electricity rebate in 2017-18 and 2018-19. This initiative was funded from the dividends of Queensland's GOCs and formed part of the \$2 billion Affordable Energy Plan.

Explanation of scope

For the purposes of this document, concessions include:

- discounts, rebates and subsidies to improve access to, and the affordability of, a range of services for individuals or families based on eligibility criteria relating to factors such as age, income and special needs or disadvantage
- concessional prices for Government services, where the price charged to all consumers is less than the full cost of service provision.

Both General Government and Public Non-financial Corporations (PNFC) Sector concessions are included. Where a payment is made from a General Government Sector agency to a PNFC entity for a concession arrangement, the expenditure is reported against the General Government Sector agency only to avoid double counting. To be included in this statement, concessions must meet the minimum materiality threshold of estimated expenditure or revenue foregone of \$50,000 in 2019-20.

Varying methods have been used to estimate the cost of concessions depending on the nature of the concessions, including:

- direct Budget outlay cost (for example, direct subsidy or rebate payments or Government's contribution in the case of items such as rental subsidies)
- revenue foregone (for example, concessional fees and charges)
- cost of goods and services provided.

For the purposes of illustration, the document often uses averages to demonstrate the potential value of the concession to consumers. However, averages are not reflective of individual circumstances, meaning the actual dollar value of the concession to consumers may vary from person to person.

The Concessions Statement does not include Tax Expenditures (for example, tax exemptions, reduced tax rates, tax rebates and deductions). Information on Tax Expenditures can be found in Appendix B – Tax expenditure statement.

A.1 Concessions summary

Table A.1.1 Concession by entity¹

Concession by entity	2018-19 Est. Act. \$ million	2019-20 Estimate \$ million
Agency		
Department of Agriculture and Fisheries	32.9	42.4
Department of Communities, Disability Services and Seniors	371.6	283.1
Department of Education	128.3	139.7
Department of Employment, Small Business and Training	450.5	470.7
Department of Environment and Science	11.0	9.8
Department of Housing and Public Works	461.3	457.1
Department of Justice and Attorney-General	94.6	101.5
Department of Natural Resources, Mines and Energy	755.5	802.2
Department of Transport and Main Roads	2,874.8	2,918.2
Queensland Fire and Emergency Services	9.9	10.3
Queensland Health	308.0	292.8
Total Agency	5,498.4	5,527.8
Government-owned corporations		
Energy Queensland	25.6	25.5
Far North Queensland Ports Corporation Limited	0.9	0.8
Gladstone Ports Corporation Limited	47.0	45.8
North Queensland Bulk Ports Corporation Limited	1.7	1.7
Port of Townsville Limited	5.9	6.0
Queensland Rail Limited	1.9	2.0
Sunwater Limited	49.4	50.2
Total Government-owned corporations	132.4	132.0
Total all entities	5,630.8	5,659.8
Note:		
1. Numbers may not add due to rounding.		

A.2 Concessions by agency

Table A.2.1 Department of Agriculture and Fisheries

Concession	2018-19 Est. Act. \$ million	2019-20 Estimate \$ million
Drought Relief Assistance Scheme ¹	16.5	21.0
Primary Industry Productivity Enhancement Scheme (PIPES) ²	15.0	18.0
Vessel Tracking Rebate Scheme ³	0.4	2.5
Farm Management Grant ⁴	1.0	0.9
Total	32.9	42.4
<p>Notes:</p> <ol style="list-style-type: none"> 1. In 2019-20 the Government is providing funding of up to \$21 million, held centrally, for subsidies and rebates associated with the continuation of the Drought Relief Assistance Scheme (DRAS). The demand for DRAS assistance is expected to increase in 2019-20, based on current forecasts which show that the percentage of the State drought declared may increase. 2. The variance is due to an anticipated increased take up of PIPES lending from \$80 million in 2018-19 to \$100 million in 2019-20. The 2018-19 year is considered to have been affected by prolonged adverse seasonal conditions of drought and the northern Queensland flooding event. 3. The variance is due to an anticipated increased take up of the Vessel Tracking Rebate Scheme in 2019-20. During the 2018-19 year there has been slow take up of the scheme due to supply issues; clarifying the requirements of the scheme, with most applications being processed after 1 January 2019. 4. The scheme closes 30 June 2019, however there is expected to be an increase in applications at the end of the financial year which will be paid in the 2019-20 financial year. 		

Drought Relief Assistance Scheme

The Drought Relief Assistance Scheme provides freight subsidies and emergency water infrastructure rebates to support producers and communities that have been affected by drought conditions across the State. Freight subsidies of up to 50% and emergency water infrastructure rebates of up to 50% are available to eligible applicants, up to a maximum of between \$20,000 and \$50,000 per property, per financial year. This is funded through the Drought Assistance Package.

Primary Industry Productivity Enhancement Scheme (PIPES)

PIPES is administered by the Queensland Rural and Industry Development Authority (QRIDA) and provides concessional rates of interest on loans to eligible primary producers in need of financial assistance. First Start Loans and Sustainability Loans of up to \$2 million and \$1.3 million respectively support applicants to enter primary production and to improve productivity and sustainability. The average concessional interest rate for new lending is 3.69%. The amounts shown in the above table represent the fair values of the interest rate concessions pertaining to loans issued in each of the financial years shown.

Vessel Tracking Rebate Scheme

The Queensland Sustainable Fisheries Strategy 2017-2027 requires vessel tracking on all commercial fishing boats by 2020 to assist in the management of Queensland Fisheries. This initiative is designed to assist commercial fishers by providing rebates up to prescribed amounts, to offset the cost of purchasing and installing approved vessel tracking units.

Farm Management Grant

The Farm Management Grant aims to assist eligible Queensland primary producers, or their relatives, to offset the costs of professional advice associated with succession planning. The grant provides rebates of up to 50% of the amount paid for professional advice, up to a maximum of \$2,500 per financial year.

Table A.2.2 Department of Communities, Disability Services and Seniors

Concession	2018-19 Est. Act. \$ million	2019-20 Estimate \$ million
Electricity Rebate Scheme ^{1, 2}	187.0	192.3
Pensioner Rate Subsidy Scheme	53.0	55.2
South East Queensland Pensioner Water Subsidy Scheme	17.4	18.9
Home Energy Emergency Assistance Scheme	8.0	10.0
Reticulated Natural Gas Rebate Scheme	2.5	2.6
Electricity Life Support Concession Scheme ²	2.2	2.3
Medical Cooling and Heating Electricity Concession Scheme ²	1.5	1.8
Electricity Asset Ownership Dividend	100.0	..
Total	371.6	283.1
Notes:		
1. The variance is primarily due to the estimated growth in recipients, primarily Health Care Card holders.		
2. Electricity price rebates are adjusted annually according to the Queensland Competition Authority's (QCA) price determination for the general household electricity tariff (Tariff 11). For 2019-20, the QCA determined Tariff 11 will decrease by 4.4%. However, Government has determined existing rebate values will not be decreased and will continue to apply in 2019-20.		

Electricity Rebate Scheme

The Electricity Rebate Scheme provides a rebate of up to approximately \$341 per annum, to assist with the cost of domestic electricity supply to the home of eligible holders of a Pensioner Concession Card, a Queensland Seniors Card or a Department of Veterans' Affairs Gold Card (and receive a War Widow/er Pension or special rate Totally or Permanently Incapacitated Pension).

Additionally, the rebate was extended to Commonwealth Health Care Card Holders and asylum seekers from 1 January 2017, allowing an estimated 157,000 additional Queensland families to access the rebate.

Pensioner Rate Subsidy Scheme

The Pensioner Rate Subsidy Scheme offers a 20% subsidy (up to a maximum of \$200 per annum) to lessen the impact of local government rates and charges on pensioners, thereby assisting them to continue to live in their own homes.

South East Queensland Pensioner Water Subsidy Scheme

The South East Queensland Pensioner Water Subsidy Scheme provides a subsidy of up to \$120 per annum to eligible pensioner property owners in the South East Queensland Water Grid to lessen the impact of water prices. This subsidy is in addition to the Pensioner Rate Subsidy Scheme.

Home Energy Emergency Assistance Scheme

The Home Energy Emergency Assistance Scheme provides emergency assistance of up to \$720 once in a two-year period to assist low income households experiencing a short-term financial crisis and who are unable to pay their current electricity and/or reticulated natural gas account. It is not a requirement for the claimant to hold a concession card.

Reticulated Natural Gas Rebate Scheme

The Reticulated Natural Gas Rebate Scheme provides a rebate of up to approximately \$74 per annum to assist with the cost of reticulated natural gas supplied to the home of eligible holders of a Pensioner Concession Card, Queensland Seniors Card or a Department of Veterans' Affairs Gold Card (and receive the War Widow/er Pension or special rate Totally or Permanently Incapacitated Pension).

Electricity Life Support Concession Scheme

The Electricity Life Support Concession Scheme is aimed at assisting seriously ill people who use home based life support systems by providing a rebate of up to approximately \$694 per annum for users of oxygen concentrators and a rebate of up to approximately \$465 per annum for users of kidney dialysis machines to meet their electricity costs. The concession is paid quarterly and is subject to the patient being medically assessed in accordance with Queensland Health eligibility criteria.

Medical Cooling and Heating Electricity Concession Scheme

The Medical Cooling and Heating Electricity Concession Scheme provides a rebate of up to approximately \$341 per annum for eligible concession card holders with a medical condition who have dependence on air conditioning to regulate body temperature.

Table A.2.3 Department of Education

Concession	2018-19 Est. Act. \$ million	2019-20 Estimate \$ million
Textbook and Resource Allowance ¹	60.3	67.7
School Transport Assistance for Students with Disabilities ²	42.2	45.8
Living Away from Home Allowance Scheme ²	7.4	7.5
Tuition Fee Exemptions/Waivers - Dependants of International Students ²	7.1	7.3
Non-Government Schools Transport Assistance Scheme ²	6.1	6.2
Dalby State High School - Bunya Campus Residential Facility	2.5	2.5
Spinifex State College - Mount Isa Student Residential Facility	1.1	1.1
Distance Education - Information and Communication Technology Subsidy Scheme	0.9	0.9
Distance Education - Non-Government Student Fee Subsidy	0.7	0.7
Total	128.3	139.7
Notes:		
1. The variance is due to a combination of indexation and student enrolment growth due to the full cohort of students in 2020.		
2. The variance is due to indexation.		

Textbook and Resource Allowance

The Textbook and Resource Allowance is available for all parents/caregivers of secondary school age students attending State and non-government schools, and children registered in home education of equivalent age, to assist with the cost of textbooks and learning resources. Parents may sign over this allowance to the school to reduce the fees associated with participating in the school's Student Resource Scheme. In 2019, the rates per annum are \$127 for students in Years 7 to 10 and \$276 for students in Years 11 and 12.

School Transport Assistance for Students with Disabilities

School Transport Assistance for Students with Disability is provided for eligible students to attend State school programs that meet their individual education needs. This assistance includes co-ordinated service delivery in taxis or specialised contracted minibuses, payment of fares on buses, ferries and trains, or an allowance for parents who drive their children to school or a transport point. The benefit level is to a maximum of \$400 per week, per student, however in exceptional circumstances higher amounts may be approved. A separate scheme is in place for students with disabilities attending non-government schools (refer 'Non-Government Schools Transport Assistance Scheme').

The COAG Disability Reform Council has agreed that states and territories will continue to deliver these services for National Disability Insurance Scheme (NDIS) participants on an 'in kind' basis until the end of the 2023 school year. The Department of Education is working with the Department of Transport and Main Roads (DTMR), the Australian Government, the National Disability Insurance Agency and other jurisdictions to develop viable national models for the delivery of school transport for students with disability under the NDIS.

Living Away from Home Allowance Scheme

The Living Away from Home Allowances Scheme provides financial assistance to support geographically isolated families. The scheme assists with the costs of children required to live away from home to attend school. This concession is available to Queensland students attending both state and non-state schools.

The benefits available for eligible students in 2019 are:

- Remote Area Tuition Allowance - assistance is available for primary students of up to \$3,808 per annum and for secondary students of up to \$5,483 per annum.
- Remote Area Travel Allowance - available where the distance from the family home to the boarding location is at least 50km. Benefit levels depend on the distance travelled, and range from \$144 to a maximum of \$1,756 per annum.
- Remote Area Allowance - assistance of \$2,394 per annum is available to students attending campuses of the Queensland Agricultural Training Colleges in lieu of Years 11 and 12.
- Remote Area Disability Supplement - available to students with disabilities who incur additional costs associated with living away from home to attend school. Benefits are up to \$7,789 per student per annum.

Tuition Fee Exemptions/Waivers - Dependants of International Students

International students who meet the approved exemption criteria and wish to enrol their child in Preparatory (Prep) Year to Year 12 of schooling are exempt from paying dependant tuition fees. The exemption only applies for the duration of the main temporary visa holder's (parent) course of study in Queensland. A dependant student (Prep to Year 12) of a temporary visa holder may also be eligible for a tuition fee waiver in certain circumstances, including financial hardship.

The estimated average amount exempted or waived per student is \$7,469 for the 2019-20 financial year.

Non-Government Schools Transport Assistance Scheme

The Non-Government Schools Transport Assistance Scheme assists families by providing funding towards the transport costs of students attending non-government schools outside of the Brisbane City Council area. Under the scheme, payments are provided for transport expenses above a set weekly threshold amount. In 2019, the weekly threshold is \$20 per family, or \$15 for families with a current Health Care, Pensioner or Veteran's Affairs Card.

The program also assists families of students with disabilities who attend a non-government school. The level of assistance provided is dependent on the type of transport needed and travel assistance already provided by the DTMR. For families using taxis, assistance is capped at \$300 per week.

The Department of Education is working with the DTMR and other jurisdictions to establish a long-term solution for the delivery of school transport for students with disability under the NDIS.

Dalby State High School - Bunya Campus Residential Facility

The Dalby State High School - Bunya Campus Residential Facility provides affordable residential accommodation for secondary school students in a boarding facility. The concession particularly targets secondary school students from rural and remote communities, however, any secondary age student is eligible. Students accommodated at the residential facility are enrolled at Dalby State High School and participate in agricultural education programs.

Spinifex State College - Mount Isa Student Residential Facility

The Spinifex State College - Mount Isa Student Residential Facility provides an affordable residential facility in Mount Isa for students from the North Western area of the state whose home community does not provide secondary schooling. The funding meets the cost of wages for the residential college, increasing the affordability of the accommodation rates charged to students.

Distance Education - Information and Communication Technology Subsidy Scheme

The Distance Education - Information and Communication Technology Subsidy Scheme provides assistance to students enrolled in a school of distance education that are geographically isolated or in the medical category.

The scheme provides \$250 per annum to assist with purchasing, replacing or upgrading computer hardware for students in the distance/geographically isolated and medical categories, and \$500 per annum to assist students in the distance/geographically isolated category to meet the costs of broadband Internet access and download charges for the home classroom. Eligible students also receive access to free software licences.

Distance Education - Non-Government Student Fee Subsidy

The Distance Education – Non-Government Student Fee Subsidy is available to students who are enrolled in non-government schools and also choose to access distance education subjects. It provides an average annual subsidy of approximately \$1,390 per distance education subject enrolment.

This subsidises approximately 50% of the total average cost per annum of providing a subject through distance education for non-government school student. The concession contributes towards the state continuing to make distance education available to non-government schools, ensuring the widest possible subject choice for students, while recovering a proportion of the teaching and overhead costs.

Table A.2.4 Department of Employment, Small Business and Training

Concession	2018-19 Est. Act. \$ million	2019-20 Estimate \$ million
User Choice - Apprentice and Trainee Training Subsidy ¹	187.0	199.0
Vocation Education and Training (VET) - Certificate 3 Guarantee Tuition Fee Subsidy ¹	189.2	193.7
VET - Higher Level Skills Tuition Fee Subsidy ¹	72.0	75.0
Travel and Accommodation Subsidy ¹	2.3	3.0
Total	450.5	470.7
Note:		
1. The variance is due to the anticipated increase in activity due to the demand driven nature of the programs.		

User Choice - Apprentice and Trainee Training Subsidy

The User Choice - Apprentice and Trainee Training Subsidy program provides government funding towards the costs of training and assessment for eligible Queensland apprentices and trainees or complementary pathways leading to apprenticeship and traineeship outcomes. The subsidy is available to public and private registered training organisations (pre-approved as pre-qualified suppliers) to subsidise tuition fees to reduce the cost of required accredited, entry level training for apprentices and trainees. The program provides greater flexibility for apprentices, trainees and their employers to select a preferred registered training organisation and to negotiate the type of training to meet their specific needs.

The value of this subsidy for each qualification ranges from \$1,150 to \$50,720 depending on the eligibility and qualification subsidised. The average subsidy value is \$9,673.

Vocation Education and Training (VET) - Certificate 3 Guarantee Tuition Fee Subsidy

The Vocational Education and Training (VET) Certificate 3 Guarantee Tuition Fee Subsidy provides a government subsidy to allow eligible Queenslanders to obtain their first post-school Certificate III qualification to gain a job or to improve their employment status. The subsidy is available to private and public registered training organisations (pre-approved as pre-qualified suppliers) to subsidise tuition fees paid by students undertaking eligible vocation education and training qualifications (primarily Certificate III qualifications).

The value of this subsidy for each qualification ranges from \$448 to \$6,400 depending on the eligibility and qualification subsidised. The average subsidy value is \$2,934.

VET - Higher Level Skills Tuition Fee Subsidy

The VET Higher Level Skills Tuition Fee Subsidy provides a government subsidy to eligible students and employers to undertake a priority Certificate IV, diploma or advanced diploma or industry endorsed skill set. This program will help individuals gain employment in a critical occupation, career advancement in a priority industry or transition to university to continue their studies. The subsidy is available to private and public registered training organisations (pre-approved as pre-qualified suppliers) to subsidise tuition fees paid by students undertaking eligible vocational education and training qualifications at Certificate IV or above.

The value of this subsidy for each qualification ranges from \$1,130 to \$9,979 depending on the eligibility and qualification subsidised. The average subsidy value is \$4,041.

Travel and Accommodation Subsidy

The Travel and Accommodation Subsidy provides financial assistance to Queensland apprentices and trainees for travel expenses incurred in attending off the job training at a registered training organisation. To be eligible, apprentices must attend the closest registered training organisation that offers the required qualification and travel a minimum of 100 kilometres (km) return from their usual place of residence to the registered training organisation. The subsidy provides for:

- return land travel to the registered training organisation of 15 cents per km for distances between 100-649 km, increasing to 19 cents per km for distances between 650-1,400 km
- cost of ferry travel if necessary
- a return economy air ticket to the location of the registered training organisation if necessary
- accommodation assistance of \$28 per day for overnight stay within Queensland and \$68 for interstate travellers, if it is necessary to live away from their usual place of residence to attend training.

Table A.2.5 Department of Environment and Science

Concession	2018-19 Est. Act. \$ million	2019-20 Estimate \$ million
Queensland Performing Arts Trust - Arts concessional entry fees ¹	4.2	3.0
Queensland Museum - Arts concessional entry fees ²	2.6	2.3
Queensland Art Gallery - Arts concessional entry fees ³	0.1	0.6
Arts Queensland - Discount on property lease rentals	0.7	0.6
Queensland Performing Arts Trust - Venue hire rebates	0.5	0.5
State Library of Queensland - Venue hire rebates	0.5	0.5
Arts Queensland - Venue hire rebates	0.2	0.3
Tour fee and access permit concessions	2.2	2.0
Total	11.0	9.8
<p>Notes:</p> <ol style="list-style-type: none"> 1. Variance between published budget and estimated actual is due to an increase by Queensland Performing Arts Centre in the net investment of International Series events in 2018-19, thereby allowing more concessional tickets to be offered and greater than expected levels of activity compared to budget. 2. Variance is mainly due to higher level of visitation as a result of programming and events, i.e. spaces being re-opened at Southbank campus, for example Sparklab that were not included in the original budget calculation. Reduction in next year's estimate is based on changes in programming in the current year. 3. Increase in concessions in 2019-20 is due to a planned ticketed exhibition. 		

Queensland Performing Arts Trust - Arts concessional entry fees

Concessional entry fees are offered for specific Queensland Performing Arts Trust productions and to provide support for other not for profit theatre companies to enable tickets to be sold at concessional prices. The level of concession provided varies depending on the number and size of events being held each year.

Queensland Museum - Arts concessional entry fees

Queensland Museum provides concessional entry fees to seniors, students, children, families and a variety of concession card holders for ticketed exhibitions at Queensland Museum and Sciencentre and for general entry to Cobb & Co Museum Toowoomba, The Workshops Rail Museum Ipswich and Museum of Tropical Queensland Townsville. Concessions are also provided to targeted groups, such as schools, to encourage visits to museums. The level of concession provided varies depending on the venue and the event.

Queensland Art Gallery - Arts concessional entry fees

Queensland Art Gallery's ticket prices are set to ensure that they are affordable and to maximise attendance, with additional concessions provided to seniors, students, children, families and a variety of concession card holders. The purpose of the Queensland Art Gallery Arts concessional entry fees concession is to contribute to the cultural, social and intellectual development of Queenslanders, and encourage diverse audiences.

Arts Queensland - Discount on property lease rentals

Property lease rentals are provided to arts and cultural organisations at a discount from market rental rates at the Judith Wright Centre of Contemporary Arts, Festival House and the Cairns Centre of Contemporary Arts. Discounts range from 20% to 100% of the market rate (dependent on location) of the commercial office space. Further discounts on specialist rehearsal and gallery space are given as negotiated at the time of entering the lease and dependent on the individual arts or cultural organisation and its funding.

Queensland Performing Arts Trust - Venue hire rebates

Venue hire rebates are offered to Government funded cultural organisations, charitable organisations, government departments and educational institutions. Organisations currently receiving discounts are Queensland Symphony Orchestra, Opera Queensland, Queensland Theatre Company and Queensland Ballet.

State Library of Queensland - Venue hire rebates

State Library of Queensland provides venue hire concessions to targeted community and non-profit groups including cultural and charitable organisations and educational institutions in order to support events and programs directly linked to State Library of Queensland's services, programs and activities.

Arts Queensland - Venue hire rebates

Venue hire rebates support Queensland Government funded arts organisations and professional artists to develop and present new work at the Judith Wright Centre of Contemporary Arts and the Cairns Centre of Contemporary Arts.

Tour fee and access permit concessions

Admission and ranger guided tour fee concessions are available at several attractions for children, pensioners and educational purposes. Vehicle access permit concessions are available in the Cooloola Recreation Area, Moreton, Bribie and K'gari (Fraser) islands. Camping concessions are available in all national park and forest camping areas for educational purposes and children under five.

Table A.2.6 Department of Housing and Public Works

Concession	2018-19 Est. Act. \$ million	2019-20 Estimate \$ million
Government managed housing rental rebate ¹	404.1	398.0
National Rental Affordability Scheme	29.3	29.9
Home Assist Secure	20.8	21.5
Non-residential buildings - subsidised rents	5.9	6.5
Rental Bond Loans	0.9	0.9
Queensland Recreation Centres - Concessional usage rates	0.3	0.3
Non-government managed housing ²	..	..
Total	461.3	457.1
Notes:		
1. The concession is estimated to decrease in 2019-20 due to a variation in the estimated amount of rent charges.		
2. The value of this concession arrangement cannot be easily quantified.		

Government managed housing rental rebate

The Government managed housing rental rebate targets low income families and individuals and represents the difference between the rents that would be payable in the private market and rent that is charged by Government based on household income.

Assistance is provided to approximately 53,700 households. The estimated average yearly subsidy per household for 2019-20 is \$7,416.

National Rental Affordability Scheme

The National Rental Affordability Scheme (NRAS) is an Australian Government initiative, delivered in partnership with the Queensland Government, to increase the supply of new affordable rental housing. The scheme provides financial incentives to investors to build well located dwellings and rent them to eligible low to moderate income households, at a discounted rate at least 20% below market rent.

Under the scheme, the concession to the tenant is provided by the property owner. Due to the nature of the arrangement, the overall value of the concession to the tenant cannot be quantified. In 2019-20, the Government has allocated \$29.9 million for the payment of financial incentives to NRAS investors who are then required to discount rents to tenants.

Home Assist Secure

Home Assist Secure provides free safety related information and referrals, and subsidised assistance to eligible clients unable to undertake or pay for critical maintenance services without assistance. To be considered for assistance, home owners or tenants over the age of 60 or of any age with a disability must hold a Pensioner Concession Card and be unable to complete the work themselves. In addition, they must be unable to access assistance from other services. Labour costs (up to \$500 per household per year) for the assistance provided are subsidised by Home Assist Secure while the balance of the costs (including the materials) are met by the client.

Home Assist Secure targets home owners and those in rental housing who are over 60 years of age or have disability, and who require assistance to remain living in their home. In 2019-20, it is estimated that over 40,000 households will be assisted.

Non-residential buildings - subsidised rents

Accommodation is provided to 41 community, education, arts and not-for-profit organisations in Government owned non-residential buildings. Tenures for the occupancies are by way of leases, licences or month to month arrangements. Rents paid by the organisations are often below independently assessed market rent levels. Subsidised rental arrangements are provided to 25 properties comprising a total floor area of approximately 27,631 square metres. The total subsidy is calculated by deducting the actual amount paid by the occupants from the total estimated annual market rent for the office space.

Rental Bond Loans

The Government provides interest-free rental bond loans through two products, 1. Bond Loans: equivalent to a maximum amount of four weeks rent or 2. Bond Loan Plus: equivalent to a maximum amount of six weeks rent, to people who cannot afford to pay a full bond to move into private rental accommodation reducing the need for more costly, subsidised housing assistance. The interest free bond loan targets low-income households and can stabilise tenancies, prevent households from entering the cycle of homelessness and engaging with fringe, high interest credit providers. The concession represents the interest saving for the client on the bond loan. In 2019-20, \$28.5 million in bond loans and bond loan plus may be advanced to an estimated 22,000 clients.

Queensland Recreation Centres - Concessional usage rates

Concessional usage rates are offered to students and children 17 years and under, for the use of Queensland Recreation Centres, primarily at Currimundi and Tallebudgera. These concessional rates provide a discount between 3.25% to 18% of the full charge to approximately 31,000 recipients.

Non-government managed housing

The Government provides contributions to social housing providers, including capital grants, granted land or properties, or recurrent funding, to assist in increasing housing affordability and access to social housing. Due to the nature of the arrangement, the overall value of the concession provided by the Government cannot be easily quantified.

Rents charged for social housing managed by the providers are based on between 25% and 30% of a household's assessable income or the market rent, whichever is lower, which substantially reduces accommodation costs for eligible individuals and families. Many of these families may also be eligible for Commonwealth Rent Assistance to assist in the cost of their accommodation.

Table A.2.7 Department of Justice and Attorney-General

Concession	2018-19 Est. Act. \$ million	2019-20 Estimate \$ million
Public Trustee of Queensland – Concessions	37.9	39.4
Court Services - Civil Court	24.4	26.4
Queensland Civil and Administrative Tribunal	19.3	21.8
Blue Card - Volunteer Applicants	10.5	11.0
Body Corporate and Community Management - Dispute Resolution	2.5	2.5
Office Liquor and Gaming Regulation - Rural Hotel Concessions	..	0.4
Total	94.6	101.5

Public Trustee of Queensland - Concessions

The Public Trustee of Queensland (the Public Trustee) is a self-funding organisation and uses a scale of fees which is designed to reflect a fair cost for the services provided.

The Public Trustee has established a safety net limit on the annual fees payable by certain clients which provides for a rebate of fees for some clients with limited assets. The rebate is applied to clients such as financial administration clients with impaired capacity, or estate administration clients of limited means. The Public Trustee also provides Will making services at no cost for all Queenslanders.

In addition, the Public Trustee provides funding to the Public Guardian and financial assistance under the Civil Law Legal Aid Scheme administered by Legal Aid Queensland, to enable these organisations to provide services to the people of Queensland.

Court Services - Civil Court

The Supreme, District and Magistrates Courts hear civil disputes between two or more parties (people or organisations) where one party sues the other, usually to obtain compensation, or seek some other remedy. These disputes may involve anything from defamation to outstanding debts. Civil Court Fees are prescribed under the *Uniform Civil Procedure (Fees) Regulation 2009* for proceedings commenced in civil matters and are set below full cost recovery to ensure that civil remedies are accessible to all Queenslanders.

Queensland Civil and Administrative Tribunal

The Queensland Civil and Administrative Tribunal (QCAT) is an independent tribunal which makes decisions and resolves disputes across a wide range of jurisdictions for the community. Fees for these services are set below cost recovery to ensure services are accessible, fair and inexpensive. QCAT provides human rights services with no application fees for matters in guardianship and administration of adults, children and young people and anti-discrimination.

Blue Card - Volunteer Applicants

Individuals providing child-related services or conducting child-related activities in regulated service environments are required to undergo an assessment of their police and relevant disciplinary information, and if approved, are issued with a blue card. A blue card is valid for three years unless cancelled or suspended earlier. Since the inception of the blue card system in 2001, Government has met the cost of blue card assessment for volunteer applicants.

Body Corporate and Community Management - Dispute Resolution

The Office of the Commissioner for Body Corporate and Community Management provides a dispute resolution service to parties unable to resolve disputes themselves. The service consists of conciliation, with the aim of achieving a voluntary agreement, and adjudication, which results in a formal order. The service is delivered below full cost recovery so as to not restrict access to justice due to affordability reasons. The commissioner has the discretion to waive application fees on the grounds of financial hardship.

Office Liquor and Gaming Regulation - Rural Hotel Concessions

The Office of Liquor and Gaming Regulation licenses hotels and clubs under the *Liquor Act 1992*. Under the *Liquor (Rural Hotels Concession) Amendment Act 2019*, the Rural Hotels Concession provides licence fee relief to establishments in remote communities by reducing the base licence fees for hotels and community clubs with no more than 2,000 members for eligible licences from July 2019.

Table A.2.8 Department of Natural Resources, Mines and Energy

Concession	2018-19 Est. Act. \$ million	2019-20 Estimate \$ million
Energy Queensland - Uniform Tariff Policy (excluding Isolated Systems) ¹	413.5	440.3
Energy Queensland - Uniform Tariff Policy for Isolated Systems ¹	48.3	57.9
Powering Queensland Plan Electricity Affordability Package ²	259.2	247.6
Affordable Energy Plan - Energy Savers Program ³	0.7	14.8
Affordable Energy Plan - Solar & Storage Interest Free Loans Scheme	4.6	4.8
Affordable Energy Plan - Energy Savvy Families ⁴	2.5	1.4
Extending existing drought relief arrangements - Water Licence Fee Waiver and Land Rental Rebates	4.2	4.2
Origin Energy - Uniform Tariff Policy	2.8	2.8
Solar for Rental Property Rebate ⁵	0.3	2.7
Sunwater Rural Irrigation Water Price Subsidy	2.1	2.2
Cloncurry Pipeline Water Supply Subsidy	5.9	6.3
Extending existing drought relief arrangements - Electricity Charge Scheme ⁶	9.3	15.0
Seqwater Bulk Water Rural Irrigation Water Price Subsidy	2.1	2.2
Total	755.5	802.2
Notes:		
<ol style="list-style-type: none"> For 2019–20, the increase in the community service obligation (CSO) largely relates to an increase in Ergon Energy's distribution charges relative to Energex's charges. All CSO payments are agreed by both parties prior to execution of the CSO Deed. This means that DNRME must be in agreement with the assumptions applied. The annual CSO payment for 2019-20 is higher than the 2018-19 CSO payment because the consumption volume assumed for 2019-20 is higher than 2018-19. Financing of the Solar Bonus Scheme was moved from electricity distribution network prices to the state budget from 1 July 2017 for three years until 30 June 2020, as part of the Powering Queensland Plan. The government will make a decision about the ongoing costs of the Solar Bonus Scheme closer to when this current commitment will end. The variance between the 2018-19 estimated actual and 2019-20 budget is due to the transfer of \$12.5 million in 2018-19 to QRIDA from DNRME. This was to support program administration of the application for grant funds under the Affordable Energy Plan - Energy Savers program. The remainder estimated actual relates to the delivery of free energy audits under the program. Delivery of goods and services to the value of the outstanding expenditure are already substantively delivered, and anticipated to be completely delivered and the department invoiced by the end of the financial year. This project was launched on 5 March 2019. The increase from 2018-19 estimated actuals to 2019-20 budget is due to the expected uptake of the solar for rental property rebate. Expenditure is dependent on the number of registered eligible parties in drought declared areas seeking a rebate for fixed charges of their electricity accounts. This includes annual fixed charges under Tariff 66, service fees and minimum payments. The arrangement only applies to electricity used to pump water for farm or irrigation purposes. 		

Energy Queensland - Uniform Tariff Policy (excluding Isolated Systems)

The Energy Queensland - Uniform Tariff Policy (excluding Isolated Systems) ensures that, where possible, all Queensland non-market electricity customers of a similar type pay a similar price for electricity regardless of where they live. As the notified prices do not reflect the full cost of electricity supply for most remote and regional Queenslanders, a subsidy is provided. The community service obligation (CSO) payment to the regional retailer Energy Queensland covers the difference between the revenue earned by charging customers notified prices and the actual costs in the regional areas (due to differences in network costs and energy losses).

Energy Queensland - Uniform Tariff Policy for Isolated Systems

The Energy Queensland - Uniform Tariff Policy for Isolated Systems ensures that, where possible, all Queensland non-market electricity customers of a similar type pay a similar price for electricity regardless of where they live. Energy Queensland owns and operates 33 isolated power stations which supply electricity to remote and isolated Queensland communities. Energy Queensland retails electricity to these customers at the notified prices, and the Government provides funding to the retailer to cover the difference between the revenue earned and the cost of supplying electricity to these customers.

Powering Queensland Plan – Electricity Affordability Package

The Powering Queensland Plan provided one-off funding in 2016-17 of \$771 million to support the stabilisation of electricity prices for Queensland consumers, by funding the removal of costs of the Solar Bonus Scheme from electricity prices for three years from 1 July 2017 to 30 June 2020, and directing Energy Queensland to remove costs from network charges. This has placed downward pressure on electricity prices, with an average saving of \$51 for households and \$90 for small businesses, compared with the increase which would have occurred in 2017-18, without Government intervention. It is estimated that the benefit to Queenslanders in 2019-20 as a result of this measure will be \$247.6 million.

Affordable Energy Plan - Energy Savers Program

The \$20 million Business Energy Savers Program, an initiative under the Affordable Energy Plan, provides free energy audits for agricultural customers and large business customers, and co-contributions to fund energy efficiency upgrades. It includes a three year extension of the existing Energy Savers Plus Program (for agricultural businesses) and the Large Customer Adjustment Program (for large electricity users).

Under the expanded Energy Savers Plus Program, up to 200 additional audits for agricultural customers will be completed. In addition to this, co-contribution grants of up to \$20,000 will be made available to assist businesses in implementing the recommendations from the audit.

Under the expanded Large Customer Adjustment Program up to 30 additional audits of large customers will be completed and 50% co-contributions, capped at up to \$250,000, will be made available to help encourage the business to implement the audit recommendations.

Affordable Energy Plan - Solar & Storage Interest Free Loans Scheme

This scheme is designed to assist households and small businesses address electricity affordability by providing upfront capital to those who otherwise would not have access to funds to invest in rooftop solar and battery energy storage technology.

Affordable Energy Plan - Energy Savvy Families

Under this plan, \$4 million has been provided over three years to enable the provision of digital electricity meters as well as providing educational material and information to low income families in regional Queensland to help them better understand and manage their energy use.

Extending existing drought relief arrangements - Water Licence Fee Waiver and Land Rental Rebates

As part of the Government's drought assistance package, the annual water licence fee of \$82 will be waived for 2019-20 for landholders in Local Government Areas (LGA) that are drought declared and other properties that are individually drought declared. The estimate is dependent on drought declarations and the demand for drought assistance.

Category 11 Grazing and Primary Production landholders under the Land Act 1994 will also be eligible to a rent rebate in 2019-20. The rebate is available to lessees, other than those on minimum rent that are in a drought declared LGA and to individually drought declared properties. In addition to this rebate, drought declared landholders will be granted a hardship deferral for required rent payments.

Origin Energy - Uniform Tariff Policy

The Origin Energy - Uniform Tariff Policy ensures that, where possible, all Queensland non-market electricity customers of a similar type pay the similar price for electricity regardless of where they live. Origin Energy retails electricity to approximately 5,450 Queensland non-market customers in the Goondiwindi, Texas and Inglewood areas who are supplied electricity through the New South Wales (NSW) Essential Energy distribution network.

The Government provides a rebate to these customers, via a CSO payment to Origin Energy, to ensure they pay no more for electricity than similar customers in Queensland. Therefore, the CSO amount depends on the relative difference between Queensland and New South Wales retail electricity tariffs for non-market customers.

Solar for Rental Property Rebate

The \$3.58 million solar for rentals trial is an initiative of the government's affordable energy plan. It aims to help landlords and tenants share the value of installing solar systems. As part of the trial, around 1,000 rebates of up to \$3,500 are available for eligible landlords to install solar and monitoring at their rental properties in the Bundaberg, Gladstone and Townsville local government areas.

Sunwater Rural Irrigation Water Price Subsidy

Sunwater owns and operates water supply schemes across regional Queensland. As the owner of Sunwater, the Government decides how much to recover of Sunwater's costs through irrigation prices. Currently, Sunwater's irrigation water prices for some schemes are set below the level necessary to recover the cost of supplying water to the irrigators.

Government funding is provided to Sunwater to offset the reduced revenue and to ensure that increases in water prices paid by rural irrigation customers to recover costs are gradual.

Cloncurry Pipeline Water Supply Subsidy

North West Queensland Water Pipeline Limited (NWQWP), a Sunwater Limited (Sunwater) subsidiary, owns and operates the Cloncurry Pipeline between the Ernest Henry Mine and Cloncurry. The pipeline guarantees Cloncurry Shire Council's long-term water supply and supports industrial development in the region. As the construction and operation of the Cloncurry Water Pipeline is a non-commercial investment, the Government provides funding to NWQWP to ensure that Sunwater receives a return on its investment in the pipeline.

Extending existing drought relief arrangements - Electricity Charge Scheme

Drought Relief Arrangements provide relief to farming customers from fixed charges for electricity accounts that are used to pump water for farm or irrigation purposes during periods of drought. The concessions can vary depending on the shires that are drought declared and the number of eligible customers.

Seqwater Bulk Water Rural Irrigation Water Price Subsidy

Seqwater owns and operates water supply schemes across South East Queensland which also supply bulk water services to rural irrigation customers. Currently Seqwater's rural irrigation prices for some schemes are set below the level necessary to recover the cost of supplying water to the irrigators. Government funding is provided to Seqwater to offset the reduced revenue and to ensure that increases in water prices paid by rural irrigation customers to recover costs are gradual.

Table A.2.9 Department of Transport and Main Roads

Concession	2018-19 Est. Act. \$ million	2019-20 Estimate \$ million
General Public Transport Concessions (South East Queensland) ¹	1,433.3	1,410.5
Rail Network and Infrastructure Funding	684.6	700.4
General Public Transport Concessions (Regional Queensland)	256.1	270.7
Vehicle and boat registration concessions ²	175.9	185.1
School Transport Assistance Scheme	137.1	139.0
TransLink Transport Concessions (South East Queensland)	78.4	83.4
Rail Concession Scheme	37.4	38.5
Livestock and Regional Freight Contracts	37.2	37.4
Other transport concessions (Regional Queensland) and taxi subsidies	27.2	25.4
Mount Isa Line Below Rail subsidy	..	20.0
Practical Driving Test	3.8	3.9
Designated Public Transport Concessions for Seniors Card Holders	3.8	3.9
Total	2,874.8	2,918.2
Notes:		
1. The decrease is due to the continuing negotiations for a new contract with Transport for Brisbane (TfB) and an increase in fare revenue.		
2. The increase is due to the increasing number of vehicles and boats becoming eligible for concessions as the population ages and the value of the concession.		

General Public Transport Concessions (South East Queensland)

The General Public Transport Concessions (South East Queensland) represents the direct funding contribution that Government makes towards the cost of operating public transport services within South East Queensland. This contribution effectively reduces the ticket price paid by all public transport users on bus, rail and ferry services, increasing the affordability of these services.

Rail Network and Infrastructure Funding

Rail network and infrastructure funding ensures that the State supported rail network is safe, reliable and fit for purpose. The contract also provides funding to Queensland Rail to support major capital projects and related asset strategies. The funding provided via this contract directly benefits customers of the State supported rail network, including both freight and passengers. Without this funding, rail access charges (including public transport fares) would be significantly higher for all users of the rail network.

General Public Transport Concessions (Regional Queensland)

The General Public Transport Concessions (Regional Queensland) represents the financial contribution that Government provides across a range of transport services in regional Queensland. The impact of this contribution benefits all public transport users through reduced transport fares. This concession covers:

- TravelTrain (excluding the 'Rail Concession Scheme' for eligible pensioners, veterans and seniors)
- subsidies for Kuranda Scenic Railway
- subsidies for Heritage Rail Services
- subsidies for regional bus and ferry operators (excluding concessional top up amounts and School Transport Assistance Scheme related amounts)
- subsidies for the Rail XPT Service (Sydney-Brisbane) and Savannahlander (Atherton Tableland)
- subsidies for air services to remote and rural communities within the State
- subsidies for long distance coach services to rural/remote communities within the State.

Vehicle and boat registration concessions

Registration concessions for light and heavy motor vehicles and recreational boats are provided to holders of the Pensioner Concession Card, Queensland Seniors Card and to those assessed by the Department of Veterans' Affairs as meeting the necessary degree of incapacity or impairment. The concession is aimed at improving access to travel for pensioners, seniors and persons with a disability by providing a reduced rate of registration fees. For most eligible card holders, a concession for a family 4-cylinder vehicle would reduce the 12 month registration charge from \$328.60 to \$164.30. For a recreational boat, up to and including 4.5 metres in length, the concession reduces the registration charge from \$88.70 to \$44.35 (based on registration charges at 1 July 2019).

A Special Interest Vehicle (SIV) registration concession is offered for motor vehicles that have low use associated with vintage and historic and street rod car club events. A 12 month registration for a 6-cylinder SIV concession reduces registration from \$520.30 to \$92.60. A concession is also available for specific purposes such as water, mineral or oil exploration and bee keeping. Other motor vehicle registration concessions are also provided to primary producers, local governments, charitable and community service organisations, and people living in remote areas without access to the wider road network. Other vessel registration concessions may be provided to accredited surf lifesaving clubs and schools.

School Transport Assistance Scheme

The School Transport Assistance Scheme assists students that do not have a school in their local area or who are from defined low income groups with travel costs. The scheme provides funding to reduce the cost of travelling to school on bus, rail and/or ferry services, with allowances for private vehicle transport in certain circumstances. A typical concession would be to fully fund the cost of travel from home to the nearest State primary or high school where no local primary or high school is available (for example, from Bargara to Bundaberg High School).

TransLink Transport Concessions (South East Queensland)

The TransLink Transport Concessions (South East Queensland) are provided by the Government to ensure access and mobility for Queenslanders who require assistance because of age, disability or fixed low income. Passengers entitled to receive public transport concessions include holders of a Pensioner Concession Card, Veterans' Affairs Gold Card, Seniors Card (all states and territories), Companion Card, Vision Impairment Travel Pass, Total Permanent Incapacitated (TPI) Veteran Travel Pass, children, secondary and tertiary students, Newstart and Youth Allowance (Job Seeker) recipients, asylum seekers and White Card Holders. Under the new 2019 fares, for a peak one zone journey using a go card, the concession will reduce an adult fare from \$3.31 to \$1.66.

Rail Concession Scheme

The Queensland Rail Concession Scheme improves the affordability of long distance and urban rail services for eligible pensioners, veterans, seniors and current/past rail employees with 25 years of service. Assistance for long distance rail services is provided through discounted fares and free travel vouchers. For TravelTrain (long distance rail) services, depending on the service, the concession may be for free travel for up to four trips per year for Queensland pensioners (subject to availability of seats and payment of an administration fee).

Livestock and Regional Freight Contracts

The Livestock and Regional Freight Contracts provide funding to support the movement of cattle (via rail only) and freight (via road and rail) to and from regional areas of Queensland. The funding provided directly benefits the cattle industry and enables regional Queensland communities to maintain employment and directly benefits those communities who are reliant on rail freight services by reducing the cost of these freight services for users.

Other transport concessions (Regional Queensland) and taxi subsidies

Other transport concessions (Regional Queensland) and taxi subsidies are provided by the Government to ensure access and mobility for Queenslanders who require assistance because of age, disability or fixed low income. Passengers entitled to receive public transport concessions include holders of a Pensioner Concession Card, Veterans' Affairs Gold Card, Seniors Card (all states and territories), Companion Card, Vision Impairment Travel Pass, TPI Veteran Travel Pass, children, secondary and tertiary students, Newstart and Youth Allowance (Job Seeker) recipients, asylum seekers and White Card holders. The Taxi Subsidy Scheme aims to improve the mobility of persons with severe disabilities by providing a 50% concession fare up to a maximum subsidy of \$25 per trip.

Practical Driving Test

As part of the State's driver licensing arrangements, applicants for new licences are required to undertake a practical driving test. The total cost to pre-book driver examinations and to perform the practical driver assessment is not fully recovered by the fee charged (\$53.82 (ex GST) as at 1 July 2019), providing a direct concession to applicants.

Mount Isa Line Below Rail Subsidy

In recognition of the importance the Mount Isa Line plays in facilitating the transportation of the freight task from pit to port, the Queensland Government will introduce a \$20M per annum Transport Services Contract payment for this freight line.

This payment will be to reduce below rail access costs for users and further promote rail for freight, as well as support continued development of the North West Minerals Province.

Designated Public Transport Concessions for Seniors Card Holders

Designated Public Transport Concessions for Seniors Card Holders allows visitors from interstate, who hold a state or territory Seniors Card, to access public transport concessions within Queensland and is fully funded by the Queensland Government.

Table A.2.10 Queensland Fire and Emergency Services

Concession	2018-19 Est. Act. \$ million	2019-20 Estimate \$ million
Emergency Management Levy Concession	9.9	10.3
Total	9.9	10.3

Emergency Management Levy Concession

The Emergency Management Levy applies to all prescribed properties within Queensland. The levy provides a funding base for emergency services including emergency management, fire and rescue services. Owners of prescribed properties who are in receipt of an Australian Government pension are eligible to receive a discount of 20% on the levy payable for a property that is their principal place of residence. In addition, community organisation owners of specified properties are exempt from payment of the levy.

Table A.2.11 Queensland Health

Concession	2018-19 Est. Act. \$ million	2019-20 Estimate \$ million
Oral Health Scheme	163.6	163.6
Patient Travel Subsidy Scheme	90.2	92.5
Medical Aids Subsidy Scheme ¹	35.9	27.4
Spectacle Supply Scheme	9.3	9.3
Community Aids Equipment, Assistive Technologies Initiative and Vehicle Options Subsidy Scheme ²	9.0	..
Total	308.0	292.8
Notes:		
1. The 2019-20 estimate is lower than the 2018-19 estimated actual as funding of activity for NDIS eligible applicants is transferred to the NDIS.		
2. CAEATI and VOSS stopped receiving applications from 1 October 2018 in preparation of full transition of clients to the NDIS.		

Oral Health Scheme

The Oral Health Scheme provides free dental care to eligible clients and their dependants who possess a current Health Care Card, Pensioner Concession Card, Queensland Seniors Card or Commonwealth Seniors Card. The average value of a course of treatment for eligible clients is approximately \$600 for general care, \$1,600 for treatment involving dentures, and \$250 for emergency dental care. In rural and remote areas where no private dental practitioner exists, access to dental care for the general public is provided at a concessional rate, generally 15% to 20% less than average private dental fees.

Patient Travel Subsidy Scheme

The Patient Travel Subsidy Scheme (PTSS) provides financial assistance to patients travelling for specialist medical services that are not available locally. The PTSS provides a financial subsidy toward the cost of travel and accommodation for patients and, in some cases, an approved escort when patients are required to travel more than 50 kilometres from their nearest public hospital or public health facility to access specialist medical services.

Patients receive fully subsidised commercial transport for the most clinically appropriate cost-effective mode or will be subsidised at the economy/government discount rate (less GST). A mileage subsidy rate of 30 cents per kilometre is paid where patients travel by private car. Accommodation subsidies are \$60 per person per night, for the patient and approved escort if they stay in commercial accommodation, or a subsidy of \$10 per person per night if staying with family or friends.

Medical Aids Subsidy Scheme

The Medical Aids Subsidy Scheme (MASS) provides access to subsidy funding assistance for the provision of a range of aids and equipment to eligible Queensland residents with permanent and established conditions or disabilities. Aids and equipment are provided primarily to assist people to live at home therefore avoiding premature or inappropriate residential care or hospitalisation.

Subsidies vary based on service category and clinical criteria and are provided to assist with the costs of communication aids, continence aids, daily living aids, medical grade footwear, mobility aids, orthoses and oxygen. The scheme provided over 63,000 occasions of service to approximately 54,000 clients during 2018-19.

The NDIS is currently being rolled out in Queensland. MASS clients who are NDIS eligible are being transitioned to the scheme with associated funding progressively cashed out to the NDIS. As the NDIS is rolled out, it is assuming responsibility for the provision of necessary supports for eligible Queenslanders, including medical aids and equipment. The transition point from state funded to NDIS is the implementation of an NDIS plan or when an area has been classified as fully transitioned.

Spectacle Supply Scheme

The Spectacle Supply Scheme provides eligible Queensland residents with free access to a comprehensive range of basic spectacles every two years including bifocals and trifocals. Applicants must be holders of eligible concession cards and be deemed by a prescriber to have a clinical need for spectacles.

The scheme provides around 82,000 items each year to approximately 72,000 clients (some clients require more than one pair of spectacles due to clinical need). The average cost of services provided to applicants is approximately \$114.60 per item, including the costs of administering the scheme through the Medical Aids Subsidy Scheme.

Community Aids Equipment, Assistive Technologies Initiative and Vehicle Options Subsidy Scheme

The Community Aids Equipment and Assistive Technologies Initiative (CAEATI) and Vehicle Options Subsidy Scheme (VOSS) provide financial assistance to eligible Queensland residents to support them to be more independent, participate further in social and economic opportunities in the community and contribute to a better quality of life.

CAEATI funding is capped at \$10,000 per client over a three-year period. CAEATI includes aids, equipment and assistive technologies for postural support, communication support, community mobility and active participation.

VOSS funding is capped at \$10,000 per client over a five-year period. VOSS provides subsidies for a range of vehicle access options, including the subsidy of driving lessons on a suitably modified vehicle, modifications to a vehicle, purchase of a suitably modified vehicle or vehicle suitable for modification.

To receive funding through either of these schemes, an individual must be assessed as eligible for specialist disability support under the Disability Support Act 2006. Queensland resident eligibility is determined during the intake process, and confirmed as part of the assessment process.

The NDIS is currently being rolled out in Queensland. CAEATI and VOSS clients who are NDIS eligible are being transitioned to the scheme with associated funding progressively cashed out to the NDIS.

CAEATI and VOSS stopped receiving applications from 1 October 2018 in preparation of full transition of clients to the NDIS.

A.3 Concessions by entity – Government-owned corporations

Table A.3.1 Energy Queensland

Concession	2018-19 Est. Act. \$ million	2019-20 Estimate \$ million
Regulated Service Charges – Energex	17.8	17.0
Regulated Service Charges – Ergon Energy	7.8	8.5
Total	25.6	25.5

Regulated Service Charges - Energex

Under Schedule 8 of the *Electricity Regulation 2006*, charges for a range of services provided by Energex Limited (Energex) to energy retailers, for example disconnection and reconnection of supply, are capped. The maximum amount Energex is able to charge for these services is, on average, less than the value which the Australian Energy Regulator ascribes to the provision of these services by Energex, resulting in a concession provided to energy retailers and in turn, to households.

Regulated Service Charges – Ergon Energy

Under Schedule 8 of the *Electricity Regulation 2006*, service charges for a range of services provided by Ergon Energy Corporation Limited (Ergon Energy) to energy retailers, for example disconnection and reconnection of supply, are capped. The maximum amount Ergon Energy is able to charge for these services is, on average, less than the value which the Australian Energy Regulator ascribes to the provision of these services by Ergon Energy, resulting in a concession provided to energy retailers and in turn, to households.

Table A.3.2 Gladstone Ports Corporation Limited

Concession	2018-19 Est. Act. \$ million	2019-20 Estimate \$ million
Concessional Port Charges	43.7	42.9
Total	43.7	42.9

Concessional Port Charges

The Gladstone Ports Corporation Limited (GPC) is subject to a number of long-term major industry contracts where port charges are significantly lower than market rates. These historical contracts were entered into to support various industries and government initiatives from time to time. The amounts shown are estimates of the revenue foregone by GPC as a result of being unable to charge commercial rates.

Table A.3.3 Sunwater Limited

Concession	2018-19 Est. Act. \$ million	2019-20 Estimate \$ million
Water Supply Contracts	49.4	50.2
Total	49.4	50.2

Water Supply Contracts

Sunwater Limited has a number of historic non-commercial water supply contracts that benefit specific entities (including local governments). The amount shown represents the difference between the estimated revenue under these contracts and that which could be recovered under a full cost allocation model. Sunwater is continuing to work together with stakeholders to agree new arrangements for water supply.

Table A.3.4 Concessional Leases (Industry, Commercial and Community) by entity

Concession	2018-19 Est. Act. \$ million	2019-20 Estimate \$ million
Far North Queensland Ports Corporation Limited	0.9	0.8
Gladstone Ports Corporation Limited	3.3	2.9
North Queensland Bulk Ports Corporation Limited	1.7	1.7
Port of Townsville Limited	5.9	6.0
Queensland Rail Limited	1.9	2.0
Total	13.7	13.4

Concessional Leases (Industry, Commercial and Community)

The above government-owned corporation entities provide leases to various community organisations, local councils, Government departments and industry participants at below commercial rates. The amounts shown are estimates of the revenue foregone by not charging commercial rates.

Appendix B: Tax expenditure statement

Context

Governments employ a range of policy tools to achieve social and economic objectives. These include the use of direct budgetary outlays, regulatory mechanisms and taxation. This Tax Expenditure Statement (TES) details revenue foregone as a result of Government decisions relating to the provision of tax exemptions or concessions. The TES is designed to improve transparency in the use of tax expenditures and increase public understanding of the fiscal process.

Tax expenditures are reductions in tax revenue that result from the use of the taxation system as a policy tool to deliver Government policy objectives. Tax expenditures are provided through a range of measures, including:

- tax exemptions
- the application of reduced tax rates to certain groups or sectors of the community
- tax rebates
- tax deductions
- provisions which defer payment of a tax liability to a future period.

Labelling an exemption or concession as a tax expenditure does not necessarily imply any judgement as to its appropriateness. It merely makes the amount of the exemption or concession explicit and thereby facilitates its scrutiny as part of the annual Budget process.

Methodology

Revenue foregone approach

The method used almost exclusively by governments to quantify the value of their tax expenditures is the revenue foregone approach. This method estimates the revenue foregone through use of the concession by applying the benchmark rate of taxation to the volume of activities or assets affected by the concession. One of the deficiencies of the revenue foregone approach is that the effect on taxpayer behaviour resulting from the removal of the particular tax expenditure is not factored into the estimate. Consequently, the aggregation of costings for individual tax expenditure items presented in the TES will not necessarily provide an accurate estimate of the total level of assistance provided through tax expenditures.

Measuring tax expenditures requires the identification of:

- a benchmark tax base
- concessionally taxed components of the benchmark tax base such as a specific activity or class of taxpayer
- a benchmark tax rate to apply to the concessionally taxed components of the tax base.

Defining the tax benchmark

The most important step in the preparation of a TES is the establishment of a benchmark for each tax included in the statement. The benchmark provides a basis against which each tax concession can be evaluated. The aim of the benchmark is to determine which concessions are tax expenditures as opposed to structural elements of the tax. The key features of a tax benchmark are:

- the tax rate structure
- any specific accounting conventions applicable to the tax
- the deductibility of compulsory payments
- any provisions to facilitate administration
- provisions relating to any fiscal obligations.

By definition, tax expenditures are those tax concessions not included as part of the tax benchmark.

Identification of benchmark revenue bases and rates requires a degree of judgement and is not definitive. Furthermore, data limitations mean that the tax expenditures are approximations and are not exhaustive. This statement does not include estimates of revenue foregone from exemptions or concessions provided to Government agencies. Very small exemptions or concessions are also excluded.

The Tax Expenditure Statement

This year's statement includes estimates of tax expenditures in 2017-18 for payroll tax, land tax, duties and gambling taxes. A summary of the major tax expenditures valued on the basis of revenue foregone is presented in Table B.1. Not all expenditures can be quantified at this time. Accordingly, the total value of tax expenditures should be considered as indicative only.

Table B.1 Tax expenditure summary¹

	2017-18 ² \$ million	2018-19 \$ million
Payroll Tax		
Exemption threshold	1,377	1,373
Deduction scheme	357	381
Section 14 exemptions		
Local Government	145	149
Education	196	201
Hospitals	422	451
Total Payroll Tax	2,497	2,554
Land Tax		
Liability thresholds ³	752	781
Graduated land tax scale	719	1,308
Primary production deduction	94	105
Part 6 Divisions 2 and 3 exemptions not included elsewhere ⁴	147	171
Land developers' concession	12	14
Total Land Tax	1,724	2,379
Duties		
Transfer duty on residential property		
Home concession	407	388
First home concession	219	207
First home vacant land	32	21
Insurance duty		
WorkCover	58	68
Health insurance	437	452
Total Duties	1,152	1,137
Taxes on Gambling		
Gaming machine taxes	115	125
Casino taxes	9	8
Total Gambling Tax	124	133
Total		
Notes:		
1. Numbers may not add due to rounding.		
2. 2017-18 estimates may have been revised since the 2018-19 Budget.		
3. Land tax is payable only on the value of taxable land above a threshold which depends on the ownership structure.		
4. Applicable, but not limited, to religious bodies, public benevolent institutions and other exempt charitable institutions.		

Discussion of individual taxes

Payroll tax

The benchmark tax base for payroll tax is assumed to be all taxable wages, salaries and supplements (including employer superannuation contributions) paid in Queensland, as defined in the *Payroll Tax Act 1971*. The benchmark tax rate for payroll tax is assumed to be the statutory rate applying in each financial year.

Payroll tax exemption threshold

Employers who employ in Queensland with an annual Australian payroll of \$1.1 million or less are exempt from payroll tax. On the basis of December 2018 quarter average weekly adult total earnings, this threshold corresponded to approximately 13 full-time equivalent employees. This exemption is designed to assist small and medium sized businesses. From 1 July 2019, the exemption threshold will be increased to \$1.3 million in annual Australian wages.

Deduction scheme

Employers who employed in Queensland with Australian payrolls between \$1.1 million and \$5.5 million benefited from a deduction of \$1.1 million, which reduced by \$1 for every \$4 by which the annual payroll exceeded \$1.1 million. The deduction is pro-rated for interstate wages. There was no deduction for employers or groups that had an annual payroll in excess of \$5.5 million. From 1 July 2019, the deduction will apply between annual Australian payrolls of \$1.3 million and \$6.5 million.

Section 14 exemptions

A number of organisations are provided with exemptions from payroll tax under Section 14 of the *Payroll Tax Act 1971*. The activities for which estimates have been calculated are wages paid by public hospitals, non-tertiary private educational institutions and local governments (excluding commercial activities).

Land tax

The benchmark tax base is assumed to be all freehold land within Queensland, excluding residential land used as a principal place of residence and land owned by individuals with a value for that year below the threshold. The benchmark tax rate for land tax is assumed to be the top rate of land tax applicable in Queensland in each financial year.

Liability thresholds

Land tax is payable on the value of taxable land equal to or above a threshold which depends on the land's ownership. The threshold for companies, trusts and absentees is \$350,000 and for resident individuals the threshold is \$600,000.

Land owned by resident individuals as their principal place of residence is excluded from the estimate. The exemption from paying below a minimum amount is not included as a tax expenditure as it is regarded as the application of an administration threshold.

Graduated land tax scale

A graduated (concessional) scale of land tax rates is applicable to land with a taxable value of less than \$5 million for resident individuals and companies, trustees and absentees. The benchmark rates used for estimating the tax expenditures were 1.75% for individuals and 2% for companies, trustees and absentees.

Primary production deduction

The taxable value of land owned by a resident individual, trustee or some absentees and companies does not include all or part of their land that is used for the business of agriculture, pasturage or dairy farming.

Part 6 Divisions 2 and 3 exemptions (not elsewhere included)

A number of land tax exemptions are granted in Part 6 Divisions 2 and 3 of the *Land Tax Act 2010* to eligible organisations. These include, but are not limited to, public benevolent institutions, religious institutions and other exempt charitable institutions, retirement villages, trade unions and showgrounds.

Land developers' concession

Land tax payable by land developers is calculated on the basis that the unimproved value of (undeveloped) land subdivided in the previous financial year and which remains unsold at 30 June of that year is 60% of the Valuer-General's value. This concession is outlined in Section 30 of the *Land Tax Act 2010*.

Duties

Home concession

A concessional rate of duty applies to purchases of a principal place of residence. A 1% concessional rate applies on dutiable values up to \$350,000, rather than the normal schedule of rates between 1.5% and 3.5%. For properties valued over \$350,000, the scheduled rates of transfer duty apply on the excess.

First home concession

Where a purchaser has not previously owned a residence in Queensland or elsewhere, the purchaser of a home receives a more generous concession on duty. This concession comprises a rebate in addition to the home concession on properties (this concession may not be applicable if the purchase price is less than the full market value of the property). The size of the rebate

depends on the value of the property. A full concession is provided to purchases of a first principal place of residence valued up to \$500,000.

First home vacant land concession

A first home concession is available for the purchase of certain vacant land up to the value of \$400,000, with a full concession available on certain vacant land up to the value of \$250,000.

Insurance duty

The benchmark tax base is assumed to be all premiums for general insurance policies (not for life insurance). The benchmark tax scale is assumed to be the scale that actually applied in each financial year.

Gambling taxes

Gaming machine tax concessions for licensed clubs

The benchmark tax base is assumed to be all gaming machines operated by licensed clubs and hotels in Queensland. The benchmark tax rate is assumed to be the highest marginal tax rate (as is applied to hotels) that actually applied in each financial year.

A progressive tax rate scale applies to gaming machines operated by licensed clubs. The tax rate is calculated monthly on the gaming machine taxable metered win and the top tax rate is only applied to the portion of gaming machine revenue where the monthly metered win exceeds \$1.4 million for any licensed club.

Casino tax concessions

The benchmark tax base is assumed to be all casinos operating in Queensland. The benchmark tax rate is assumed to be the highest tax rate that is actually applied in each financial year.

A tax rate of 20% of gross revenue applies for standard transactions in the Brisbane and Gold Coast casinos. A concessional tax rate of 10% applies for gross revenue from standard transactions in the Cairns and Townsville casinos. The tax rate applicable to gaming machines in casinos is 30% of gross revenue in the Brisbane and Gold Coast casinos and 20% in the Cairns and Townsville casinos.

In addition, concessional rates of 10% also apply for revenue from high rollers table game play in all casinos. A goods and services tax (GST) credit is provided to casinos that approximates a reduction in the above tax rates of 9.09%

Queensland Waste Levy

The Queensland Waste Levy will commence on 1 July 2019 at \$75 per tonne (higher for regulated wastes). The levy is payable on waste disposed to landfill, except waste generated and disposed in the non-levy zone.

Levy exemptions of 100% are available on application for different wastes, such as waste from charitable recycling organisations and community clean-up events. Levy discounts of 50% are available on application for residue wastes from particular recycling activities. General levy exemptions exist for other wastes, such as those from declared disasters and severe local weather events. Seventy per cent of proceeds from the waste levy will be used for waste programs, environmental priorities and community purposes.

Appendix C: Revenue and expense assumptions and sensitivity analysis

The Queensland Budget, like those of other jurisdictions, is based in part on assumptions made about parameters that are uncertain, both internal and external to the State, which can impact directly on economic and fiscal forecasts.

This appendix outlines the assumptions underlying the revenue and expense estimates and analyses the sensitivity of the estimates to changes in the economic and other assumptions. This analysis is provided to enhance the level of transparency and accountability of the Government.

The forward estimates in the Budget are framed on a no policy change basis. That is, the expenditure and revenue policies in place at the time of the Budget (including those announced in the Budget) are applied consistently throughout the forward estimates period.

The following discussion provides details of some of the key assumptions, estimates and risks associated with revenue and expenditure and, where a direct link can be established, the indicative impact on forecasts resulting from a movement in those variables.

Table C.1 Taxation and royalty revenue¹

	2017-18 Actual \$ million	2018-19 Est. Act. \$ million	2019-20 Budget \$ million	2020-21 Projection \$ million	2021-22 Projection \$ million	2022-23 Projection \$ million
Payroll tax	3,906	4,158	4,284	4,435	4,728	5,107
Transfer duty	3,023	3,049	3,038	3,205	3,383	3,578
Other duties	1,474	1,549	1,624	1,704	1,787	1,873
Gambling taxes and levies	1,190	1,331	1,410	1,466	1,526	1,588
Land tax	1,180	1,331	1,589	1,670	1,744	1,807
Motor vehicle registration	1,770	1,847	1,908	1,977	2,049	2,124
Other taxes	701	740	1,310	1,320	1,383	1,447
Total taxation revenue	13,244	14,005	15,164	15,777	16,601	17,525
Royalties						
Coal	3,737	4,363	4,339	3,461	3,468	3,604
Petroleum ²	187	450	577	620	638	630
Other royalties ³	372	389	538	520	522	510
Land rents	162	163	168	169	172	174
Total royalties and land rents	4,457	5,364	5,621	4,770	4,799	4,918
Notes:						
1. Numbers may not add due to rounding.						
2. Includes impact of liquefied natural gas (LNG).						
3. Includes base and precious metal and other mineral royalties.						

Taxation revenue assumptions and revenue risks

The rate of growth in tax revenues is dependent on a range of factors that are linked to the rate of growth in economic activity in the State. Some taxes are closely related to activity in specific sectors of the economy, whilst others are broadly related to the general rate of economic growth, employment, inflation and wages. A change in the level of economic activity, resulting from economic growth differing from forecast levels, would impact upon a broad range of taxation receipts.

Wages and employment growth - payroll tax collections

Wages and employment growth have a direct impact on payroll tax collections. The Budget assumptions are for an increase in wages of 2¼% and an increase in employment of 1¼% in 2019-20. The composition of the payroll tax base is also important as businesses in fast growing sectors such as tourism, retail and hospitality are often outside the tax base because they are below the threshold. A one percentage point variation in either Queensland wages growth or employment would change payroll tax collections by approximately \$43 million in 2019-20.

Transfer duty estimates

Transfer duty collections in 2019-20 are expected to decrease by 0.3% on the 2018-19 estimated actual. This decrease is driven by a decline in the volume of residential property transactions, particularly for investors

Across the forward estimates period, annual average growth of around 4.1% is expected in both the residential and non-residential components of transfer duty.

A one percentage point variation in either the average value of property transactions or the volume of transactions would change transfer duty collections by approximately \$30 million in 2019-20.

Royalty assumptions and revenue risks

Table C.2 Coal royalty assumptions

	2018-19 Est. Act.	2019-20 Budget	2020-21 Projection	2021-22 Projection	2022-23 Projection
Tonnages – crown export ¹ coal (Mt)	213	220	224	229	237
Exchange rate US\$ per A\$ ²	0.72	0.72	0.73	0.73	0.73
Year average coal prices (US\$ per tonne)³					
Hard coking	206	179	153	150	150
Semi-soft	153	138	121	118	118
Thermal	106	93	86	84	84
Year average oil price					
Brent (\$US per barrel) ⁴	69	69	68	67	66
Notes: 1. Excludes coal produced for domestic consumption and coal where royalties are not paid to the Government, i.e. private royalties. 2019-20 estimate for domestic coal volume is approximately 24.7 Mt and private coal is 9.4 Mt. 2. Year average. 3. Price for highest quality coking and thermal coal. Lower quality coal can be sold below this price with indicative average prices for 2019-20 as follows: Hard coking US\$167/t and thermal US\$76/t. 4. Published Brent oil prices are lagged by one quarter to better align with royalty revenue.					

Royalty Assumptions

Table C.2 provides the 2019-20 Budget assumptions regarding coal royalties, which represent the bulk of Queensland's royalty revenue.

Exchange rate and commodity prices and volumes - royalties estimates

Estimates of mining royalties are sensitive to movements in the A\$-US\$ exchange rate and commodity prices and volumes. Contracts for the supply of commodities are generally written in US dollars. Accordingly, a change in the exchange rate impacts on the Australian dollar price of commodities and therefore expected royalties collections.

Coal

For each one cent movement in the A\$-US\$ exchange rate, the impact on royalty revenue would be approximately \$74 million in 2019-20.

A 1% variation in export coking and thermal coal volumes would lead to a change in royalty revenue of approximately \$37 million. A 1Mt variation would lead to a change in royalty revenue of approximately \$19 million.

A 1% variation in the average price of export coal would lead to a change in royalty revenue of approximately \$54 million.

Parameters influencing Australian Government GST payments to Queensland

The Queensland Budget incorporates estimates of GST revenue grants to Queensland based on Australian Government estimates of national GST collections and Queensland Treasury assumptions of Queensland's share. The estimates of collections are primarily determined by the value of consumption subject to GST.

Since the Australian Government payments are based on the amount actually collected, it is Queensland's Budget that bears the risks of fluctuations in GST collections. As with all other tax estimates, there is a risk of lower collections than estimated if economic growth and consumption are weaker than expected.

Due to the complexities associated with the GST base, the information provided in the Australian Government Budget Papers is not sufficient to prepare indicative forecasts of the sensitivity of GST estimates to key variables.

Sensitivity of expenditure estimates and expenditure risks

Public sector wage costs

Salaries and wages form a large proportion of General Government Sector operating expenses. Increases in salaries and wages are negotiated through enterprise bargaining agreements.

The 2019-20 Budget and forward estimates reflect wage increases as per existing agreements and the Government's wages policy where outcomes are yet to be finalised.

A general 1% increase in wage outcomes in one year would increase expenses by around \$254 million in that year. The impact would compound and be much larger in the later years.

Interest rates

The General Government Sector has a total debt servicing cost estimated at \$1.688 billion in 2019-20. The current average duration of General Government Sector debt is just over 5.5 years. The majority of General Government Sector debt is held under fixed interest rates and therefore the impact of interest rate variations on debt servicing costs in 2019-20 would be relatively modest, with the impact occurring progressively across the forward estimates.

Actuarial estimates of superannuation and long service leave

Liabilities for superannuation and long service leave are estimated by the State Actuary with reference to, among other things, assumed rates of investment returns, salary growth, inflation and discount rate. These liabilities are therefore subject to changes in these parameters. Similarly, the long service leave liabilities are subject to the risk that the actual rates of employee retention will vary from those assumed in the liability calculation.

Appendix D: Fiscal Aggregates and Indicators

Table D.1 Key Fiscal Aggregates¹.

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
	Actual ² \$ million	Actual ² \$ million	Actual ² \$ million	Actual ² \$ million	Actual ² \$ million	Actual ² \$ million	Actual ² \$ million	Revised \$ million	Budget \$ million	Projection \$ million	Projection \$ million	Projection \$ million
General Government												
Total revenue	45,801	41,755	46,705	49,970	50,780	56,194	58,087	60,068	60,387	61,729	63,583	65,540
Tax revenue	10,608	10,937	11,840	12,598	12,547	12,919	13,244	14,005	15,164	15,777	16,601	17,525
Total expenses	46,028	46,313	46,217	49,551	50,112	53,369	56,335	59,226	60,198	61,416	63,101	64,753
Employee expenses	18,250	18,130	17,816	18,592	20,045	21,258	22,678	24,096	25,396	25,728	26,709	27,724
Net operating balance	(226)	(4,558)	488	420	668	2,825	1,752	841	189	313	483	787
Capital purchases	7,971	7,001	6,323	4,635	4,044	4,620	5,127	6,060	6,727	7,125	7,963	6,179
Net capital purchases	5,241	3,387	3,085	996	1,163	2,265	2,339	3,518	3,716	3,980	4,763	2,518
Fiscal balance	(5,467)	(7,944)	(2,597)	(576)	(495)	560	(586)	(2,677)	(3,527)	(3,667)	(4,280)	(1,731)
Borrowings with QTC	28,391	36,508	39,864	41,343	34,200	31,358	29,256	29,933	32,781	35,218	40,174	42,589
Leases and similar arrangements ³	1,126	1,370	1,503	1,761	1,286	1,882	2,152	2,623	5,824	7,071	6,943	6,966
Securities and Derivatives	1	1	1	(0)	(0)	(0)	122	122	122	122	122	122
Net debt	(5,720)	2,466	5,208	5,749	654	(355)	(497)	1,661	8,001	12,306	16,961	19,562
Non-Financial Public Sector												
Total revenue	52,307	49,181	53,502	56,178	57,393	64,855	66,164	67,699	68,272	69,542	71,558	74,040
Capital purchases	11,980	10,774	9,313	7,811	6,852	7,291	7,644	8,856	10,223	10,447	11,210	8,640
Borrowings with QTC	60,205	67,116	70,668	73,256	71,160	69,107	66,964	68,141	71,954	75,413	80,645	82,972
Leases and similar arrangements ³	1,127	1,559	1,752	1,802	1,316	1,882	2,152	2,623	6,217	7,430	7,266	7,254
Securities and Derivatives	210	411	216	175	446	895	405	671	544	502	492	492
Notes:												
1. Bracketed numbers represent negative amounts.												
2. With the implementation of the latest GFS Manual (AGFS15), some categories have been restated above to ensure comparability.												
3. Approximately \$2.2 billion increase in General Government and \$2.6 billion in NFPS in 2019-20 on adoption of the new lease accounting standard AASB 16												

Table D.2 Key Fiscal Indicators¹

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
	Actual ² %	Actual ² %	Actual ² %	Actual ² %	Actual ² %	Actual ² %	Actual ² %	Revised %	Budget %	Projection %	Projection %	Projection %
General Government												
Revenue/GSP	16.5	14.8	16.1	16.9	16.7	17.2	16.7	16.3	15.8	15.6	15.4	15.2
Tax/GSP	3.8	3.9	4.1	4.3	4.1	4.0	3.8	3.8	4.0	4.0	4.0	4.1
Own source revenue/GSP	8.3	8.3	8.6	8.9	8.9	8.8	8.6	8.5	8.5	8.1	8.0	7.9
Expenses/GSP	16.5	16.4	16.0	16.8	16.5	16.3	16.2	16.0	15.8	15.6	15.3	15.0
Employee expenses/GSP	6.6	6.4	6.2	6.3	6.6	6.5	6.5	6.5	6.7	6.5	6.5	6.4
Net operating balance/GSP	(0.1)	(1.6)	0.2	0.1	0.2	0.9	0.5	0.2	0.0	0.1	0.1	0.2
Capital purchases/GSP	2.9	2.5	2.2	1.6	1.3	1.4	1.5	1.6	1.8	1.8	1.9	1.4
Net cash inflows from operating activities/Net cash flows from investments in non-financial assets	36.3	(40.7)	45.9	97.5	122.9	134.2	106.7	78.8	59.7	64.5	54.7	69.9
Fiscal balance/GSP	(2.0)	(2.8)	(0.9)	(0.2)	(0.2)	0.2	(0.2)	(0.7)	(0.9)	(0.9)	(1.0)	(0.4)
Total borrowings/GSP	10.6	13.4	14.3	14.6	11.7	10.2	9.1	8.9	10.2	10.7	11.4	11.5
Total Borrowings/Revenue	64.4	90.7	88.6	86.3	69.9	59.2	54.3	54.4	64.1	68.7	74.3	75.8
Revenue growth	9.0	(8.8)	11.9	7.0	1.6	10.7	3.4	3.4	0.5	2.2	3.0	3.1
Tax growth	6.3	3.1	8.3	6.4	(0.4)	3.0	2.5	5.7	8.3	4.0	5.2	5.6
Expenses growth	5.9	0.6	(0.2)	7.2	1.1	6.5	5.6	5.1	1.6	2.0	2.7	2.6
Employee expenses growth	8.5	(0.7)	(1.7)	4.4	7.8	6.1	6.7	6.3	5.4	1.3	3.8	3.8
Non-Financial Public Sector												
Capital purchases/GSP	4.3	3.8	3.2	2.6	2.3	2.2	2.2	2.4	2.7	2.6	2.7	2.0
Total borrowings/GSP	22.1	24.5	25.1	25.5	24.0	22.0	20.0	19.4	20.7	21.1	21.4	21.0
Total Borrowings/Revenue	117.7	140.5	135.8	133.9	127.1	110.8	105.1	105.5	115.3	119.8	123.5	122.5
Net financial liabilities ² /revenue	115.6	133.4	129.8	125.2	127.4	111.2	110.4	115.4	124.0	127.2	128.2	123.9

Notes:

1. Bracketed numbers represent negative amounts.

2. UFF definition, which is equal to total financial assets less investments in other public sector entities less total liabilities. Has been revised since 2018-19 MYFER to correct an error in the calculation.

3. With the implementation of the latest GFS Manual (AGFS15), some categories have been restated above to ensure comparability.



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