State Budget 2008–09

Budget Strategy and Outlook

Budget Paper No.2

Queensland **the Smart State**

Queensland Government

2008-09 State Budget Papers

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

A number of changes have been made to the Budget documents for 2008-09, to promote the accessibility and readability of the Budget documents.

One of these changes is the introduction of Budget Paper No. 4 - Budget Measures which provides comprehensive information on all significant Government policy decisions that involve changes to expense, capital and revenue activities since the previous Budget. This new document provides a comprehensive statement of new policy measures.

The former individual Ministerial Portfolio Statements are now combined into Budget Paper No. 5 - Service Delivery Statements. The revision will reduce duplication. Performance measures by output and agency financial statements and variance notes have been retained. The Service Delivery Statements will continue to provide the primary source of information for the hearings of the Parliamentary Estimates Committees.

To further improve the information in the Budget Papers in coming years, new measures will be incorporated in line with the proposed reforms of the *Financial Administration and Audit Act 1977* which are currently underway.

The Budget Papers are available online at www.budget.qld.gov.au or they can be purchased through
The Queensland Government Bookshop, individually or as a set. Please phone (07) 3883 8700
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Queensland
Government

STATE BUDGET 2008-09

BUDGET STRATEGY AND OUTLOOK

Budget Paper No. 2

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1 BUDGET STRATEGY, PERFORMANCE AND OUTLOOK

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- **The forecast underlying operating result for 2007-08 (adjusted for superannuation arrangements comparable to other states) is a surplus of $272 million. This compares to a forecast surplus at the Mid Year Fiscal and Economic Review of $213 million and at Budget of $268 million.**
- **Under the Uniform Presentation Framework, the General Government sector is forecast to have a headline net operating deficit of $995 million in 2007-08. This is primarily due to the subdued performance of investment markets, which has impacted on the returns the State receives on the substantial funds set aside to meet future liabilities.**
- **The 2008-09 budgeted net operating surplus for the General Government sector is $809 million with a strong surplus of $540 million in 2009-10 and a surplus of $265 million by 2011-12.**
- **Cash deficits in the General Government sector are projected for each year across the forward estimates and are the result of the State's significant planned capital expansion.**
- **The State's capital program is an estimated $17 billion, a 19% increase on 2007-08 estimated outlays. The capital outlays of Public Non-financial Corporations (commercial) sector entities constitute approximately 52% of total outlays in 2008-09.**
- **The State's net worth is forecast to increase to $128.563 billion in 2008-09 and rise to $140.243 billion by 2011-12.**

This chapter discusses:

- the summary of financial aggregates for the General Government sector for the 2008-09 Budget. A discussion of the Public Non-financial Corporations (PNFC) sector can be found in Chapter 4
- the Government's fiscal strategy as outlined in the *Charter of Social and Fiscal Responsibility*.

SUMMARY OF KEY FINANCIAL AGGREGATES

Table 1.1 provides aggregate actual outcome information for 2006-07, estimated actual outcome information for 2007-08, forecasts for 2008-09 and projections for the outyears.

Table 1.1
General Government sector – key financial aggregates[1]

	2006-07 Actual[2] $ million	2007-08 Est. Act. $ million	2008-09 Budget $ million	2009-10 Projection $ million	2010-11 Projection $ million	2011-12 Projection $ million
Revenue	31,981	32,276	36,582	37,240	38,638	40,385
Expenses	30,125	33,271	35,772	36,700	38,422	40,120
Net operating balance	1,856	(995)	809	540	215	265
Cash surplus/(deficit)	2,304	(3,547)	(1,970)	(2,654)	(2,669)	(2,059)
Capital purchases	4,418	5,223	6,651	6,693	6,590	5,824
Net borrowing	(262)	3,531	2,915	4,448	4,383	3,593
Net worth	117,831	123,095	128,563	132,708	136,490	140,243
Net debt	(26,686)	(24,371)	(21,928)	(18,670)	(15,560)	(13,227)

Notes:
1. Numbers may not add due to rounding.
2. Reflects published actuals. Does not include any recasting of data that may have occurred subsequently.

BUDGET OUTCOMES 2007-08

Key financial aggregates

Table 1.2
General Government sector – key financial aggregates[1]

	2007-08 Budget $ million	2007-08 MYFER $ million	2007-08 Est. Act. $ million
Revenue	32,551	33,342	32,276
Expenses	32,282	33,129	33,271
Net operating balance	268	213	(995)
Cash surplus/(deficit)	(892)	(2,481)	(3,547)
Capital purchases	5,463	5,888	5,223
Net borrowing	3,569	4,427	3,531
Net worth	119,799	124,642	123,095
Net debt	(24,709)	(25,226)	(24,371)

Note:
1. Numbers may not add due to rounding.

Operating balance

The operating balance expected for 2007-08 is a deficit of $995 million. The estimated 2007-08 deficit reflects the subdued performance of equity markets, with investment returns well below the long-term assumed rate of return of 7.5%.

With around $27 billion in funds invested in a portfolio of equities, property, cash and fixed interest, the performance of international financial markets has a major influence on the Budget result. While Budget and Mid Year Fiscal and Economic Review (MYFER) estimates for investment returns were based on the expected long-term average result for the portfolio of 7.5%, the 2007-08 estimated actual is based on returns as at mid-May which were around 2%. This compares favourably with the ASX 200 Index which has declined by 6% between June 2007 and mid-May 2008.

The estimate of expenditure in 2007-08 is similar to the MYFER forecast. Revenue is estimated to decrease from the MYFER forecast as a result of low investment returns, as outlined above.

Further details on revenue and expenditure projections are contained in Chapters 5 and 6 respectively.

The underlying operating balance

Investment market volatility impacts on the Queensland Budget in 2007-08 more than it does for other states. This is due to differences in the way Queensland's public sector superannuation arrangements are structured and the size of Queensland's investments compared to other states. Queensland's financial assets set aside to meet future superannuation liabilities are held as General Government sector assets and associated superannuation liabilities are similarly recorded as General Government sector financial liabilities. In contrast, other jurisdictions generally have structures whereby all investments are held in superannuation funds and only the net superannuation liability is recorded in the General Government balance sheet.

This results in investment market volatility in Queensland in the current year and represents the difference between the actuary's assumption on investment returns (currently 7.5%) and actual results achieved during the year.

If Queensland's superannuation arrangements were structured on the same basis as generally applied in other states, the General Government sector underlying operating balance for 2007-08 would be a surplus of approximately $272 million. The result is outlined in Table 1.3 and is calculated on a consistent basis with that used in the other states.

Table 1.3 Calculation of underlying net operating balance[1]	
	2007-08 Est. Act. $ million
Net operating balance	(995)
Add investment earnings below long term rate[2]	1,267
Underlying balance	**272**

Notes:

1. With the transfer of assets to Queensland Treasury Corporation (see Box 1.1), the calculation of an underlying surplus in the outyears is no longer relevant.
2. Represents the long-term rate of 7.5% less estimated investment returns on financial assets held to meet future defined benefit superannuation liabilities that would be foregone if those assets were transferred to the superannuation fund.

The Queensland Government has decided to remove investment return volatility from the General Government net operating balance through transferring the Consolidated Fund's superannuation and other assets held to meet long term liabilities of the Government to the Queensland Treasury Corporation (QTC) (see Box 1.1). The outcome of this will mean that, like other states, there will be no difference between the underlying and headline surplus.

Box 1.1
Removing investment volatility in the General Government Sector

Queensland has financial assets set aside to meet future employee and other obligations. These funds are invested with the Queensland Investment Corporation (QIC) and, while the assumption is that these funds earn a long-term average rate of 7.5%, the actual returns have fluctuated between negative 5% and positive 21% over the past seven years.

While returns on these investments are not available for other purposes, movements in investment returns have a significant impact on the General Government net operating balance. This can mask the real quantum of funding available for service delivery.

To overcome this, the Government has decided to transfer the assets to the Queensland Treasury Corporation (QTC) in exchange for a debt instrument that earns the General Government sector 7.5% per annum. Given QTC sits outside of the General Government sector, the transfer allows Queensland to remove the earnings volatility from the General Government sector net operating balance. Instead, QTC will bear the investment return volatility of the assets invested with QIC.

The transfer will have no impact on the current governance or investment arrangements with the investments continuing to be managed by QIC.

This transfer is intended to improve the legibility of the General Government sector accounts as the net operating balance will no longer be significantly impacted by movements in investment returns. Standard and Poor's and Moody's ratings agencies have advised that this transaction will have no impact on the State's credit rating.

Cash surplus/(deficit)

Consistent with running a large capital program, the General Government sector is estimated to record a cash deficit in 2007-08 of $3.547 billion.

At the time of the MYFER, a cash deficit of $2.481 billion was expected in 2007-08 for the General Government sector. The larger than expected cash deficit is predominantly the result of the cash impact of the downward revision to investment returns from 7.5% to 2%.

Capital purchases

General Government investment in capital (purchases of non-financial assets) in 2007-08 is estimated to be $5.223 billion. The estimated 2007-08 capital spend is below the 2007-08 Budget and MYFER estimates, reflecting capacity constraints in the construction and civil engineering sector resulting in a modest level of capital deferrals. Capital spending in the PNFC sector is $837 million more than forecast at the time of the Budget primarily due to increased spending on water infrastructure.

The total capital program for 2007-08, including capital grants, is expected to be $14.285 billion, $257 million higher than expected at the time of the 2007-08 Budget. For further details see Budget Paper 3 – Capital Statement.

Borrowing

Responsible borrowing for capital purposes is consistent with the Government's fiscal principles. Net borrowings of $3.531 billion are expected in 2007-08, $896 million less than forecast at the time of the MYFER and $38 million less than forecast at the 2007-08 Budget.

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 entities. The net worth of the General Government sector at 30 June 2008 is estimated at $123.095 billion. This is $3.296 billion higher than the forecast in the 2007-08 Budget and $5.264 billion higher than the 30 June 2007 audited actual. Net worth is $1.547 billion lower than the net worth forecast at the time of the MYFER primarily as a result of the low return on investments.

Net debt

The net debt of the General Government sector is estimated to be negative $24.371 billion at 30 June 2008, compared to negative $25.226 billion estimated at the time of the MYFER. The change in net debt reflects the impact of lower investment returns than forecast, partially offset by lower borrowings.

BUDGET 2008-09 AND OUTYEAR PROJECTIONS

Key financial aggregates

Table 1.4
General Government sector – key financial aggregates[1]

	2008-09 Budget $ million	2009-10 Projection $ million	2010-11 Projection $ million	2011-12 Projection $ million
Revenue	36,582	37,240	38,638	40,385
Expenses	35,772	36,700	38,422	40,120
Net operating balance	809	540	215	265
Cash surplus/(deficit)	(1,970)	(2,654)	(2,669)	(2,059)
Capital purchases	6,651	6,693	6,590	5,824
Net borrowing	2,915	4,448	4,383	3,593
Net worth	128,563	132,708	136,490	140,243
Net debt	(21,928)	(18,670)	(15,560)	(13,227)

Note:
1. Numbers may not add due to rounding.

Operating balance

The budgeted position for the General Government sector is for an operating surplus of $809 million in 2008-09. This surplus is being driven by increased coal royalty revenue, reflecting an increase in the value of coal and a change in the royalty rate.

The forecast budget surpluses are expected to moderate across the forward estimates as a result of expected reductions in royalty revenues, the abolition of a number of State taxes including mortgage duty from 1 July 2008 and duty on the transfer of core business assets progressively from 1 January 2010, growth in recurrent expenditure in support of the capital program and slower growth in GST receipts particularly as a result of Queensland becoming a net donor state. Queensland's relativity is likely to further decline given the growth in the State's royalty revenue.

The increase in expenditure relative to 2007-08 primarily relates to service enhancements in key service delivery areas, recurrent expenditure in support of the capital program and moderate increases in wages.

Further details on revenue and expenditure projections are contained in Chapters 5 and 6 respectively.

Cash surplus and capital purchases

A cash deficit of $1.970 billion is expected in 2008-09 for the General Government sector. The cash deficit is forecast to be $2.654 billion in 2009-10, reducing to $2.059 billion by 2011-12.

Apart from the cash impact of smaller recurrent operating surpluses relative to 2008-09, the major factor contributing to lower cash results is the significant planned capital expansion. The Government will continue to have cash invested with QTC which has been quarantined for use on Queensland Future Growth Fund projects.

Total General Government capital purchases of $6.651 billion are budgeted for 2008-09, reflecting a range of infrastructure initiatives including those announced in the *South East Queensland Infrastructure Plan and Program*. Budget Paper No. 3 – Capital Statement provides details, by portfolio, of budgeted 2008-09 capital outlays.

Over the period 2008-09 to 2011-12, purchases of non-financial assets (capital purchases) in the General Government sector of $25.758 billion are planned.

Borrowing

Responsible borrowing for capital purposes is consistent with the Government's fiscal principles. Net borrowings of $2.915 billion are budgeted for 2008-09 in support of $6.651 billion in purchases of non-financial assets.

The remainder of the General Government capital program will continue to be financed through the operating cash flow with the exception of the Mount Isa, Cairns and Mackay Hospitals. These hospitals will be funded through the long-term lease of the Mackay and Cairns airports and the disposal of the Port of Brisbane Corporation's remaining stake in Brisbane Airport Corporation Pty Ltd.

Over the Budget and forward estimates period, total General Government borrowings of $15.339 billion are planned. Of this amount, some $2.023 billion is to fund net equity injections to Queensland's PNFC sector entities to support expansion of the State's water, ports, energy and rail infrastructure.

Net worth

State net worth is projected to increase from the 2007-08 estimated actual by $5.468 billion to $128.563 billion at 30 June 2009. Net worth is also expected to increase in all outyears.

Net debt

In 2008-09, net debt in the General Government sector is estimated to be negative $21.928 billion compared to the MYFER estimate of negative $22.716 billion. The change in net debt from the MYFER primarily reflects the flow through of lower than forecast investment returns on the estimated value of investments, partly offset by lower levels of borrowings. More information on the State's net worth, assets and liabilities is provided in Chapter 7.

RECONCILIATION OF NET OPERATING BALANCE

Table 1.5 provides a reconciliation of the current General Government sector net operating balances for 2007-08 and 2008-09 to the MYFER estimates.

Table 1.5
Reconciliation of 2007-08 and 2008-09 net operating balance to MYFER estimates[1]

	2007-08 Est. Act. $ million	2008-09 Budget $ million
MYFER net operating balance	**213**	**156**
Expenditure policy decisions[2]	(33)	(353)
Taxation and royalty policy decisions[3]	..	520
Other significant variations impacting on operating balance		
- Investment returns and interest earnings[4]	(1,261)	(116)
- Revenue from the Australian Government[5]	79	(226)
- Taxation, royalty and revisions to net flows from PNFC sector entities[6]	(91)	1,386
- Other parameter adjustments[7]	98	(559)
2008-09 Budget	**(995)**	**809**

Notes:
1. Denotes impact on net operating balance. Numbers may not add due to rounding.
2. Reflects expenditure policy decisions taken since the MYFER. Budget Paper 4 – Budget Measures, outlines in detail the policy decisions taken since the 2007-08 Budget.
3. Reflects changes in transfer duty, royalties, land tax, payroll tax and mortgage duty. These changes are outlined in further detail in Chapter 5 and in Budget Paper 4 – Budget Measures.
4. Reflects revisions of estimated rate of return on investments from 7.5% to 2% in 2007-08 and earnings on cash balances.
5. Includes outcomes of Commonwealth Grants Commission 2008 Update, population changes and most recent estimates of GST revenue included in the 2008-09 Australian Government Budget as well as changes to Specific Purpose Payments.
6. Refers to adjustments of a non-policy nature in taxation and royalty estimates. Includes adjustments to net flows in Public Non-financial Corporations and Public Financial Sector entities.
7. Refers to adjustments of a non-policy nature such as movements in expenditure and revenue relating to economic and technical parameters and expenditure lapses in 2007-08. Major contributors are increased spending for natural disaster relief, growth funding provided to support service delivery in key agencies, increased depreciation expense.

FISCAL STRATEGY

The *Charter of Social and Fiscal Responsibility* outlines the Government's fiscal principles and is an integral part of the Government's commitment to the community. The fiscal principles, detailed in Box 1.2, have been framed to meet a number of objectives, with the overriding requirement to maintain the integrity of the State's finances.

The fiscal principles establish the basis for sustainability of the Government's policies. They require services provided by Government be funded from tax and other revenue sources over the long term. The principles are supported by an accrual budgeting framework, which recognises future liabilities of the State and highlights the full cost of sustaining the Government's operations on an ongoing basis.

The fiscal principles recognise the importance of a strong financial position for the State. A state government, because of its more limited tax base, does not have the same capacity as a national government to cushion economic and financial shocks. At the same time, state governments have a responsibility to provide continuity of services, such as health, police and education.

A strong financial position, as indicated by a AAA credit rating, enables lower borrowing costs and is an indication of the soundness of the financial position and policies of the Government, rather than a goal in itself.

The success of Queensland's financial and economic management has been consistently affirmed by international ratings agencies. These agencies have cited Queensland's strong balance sheet and dynamic economic base as reasons underpinning the State's AAA credit rating.

Box 1.2
The fiscal principles of the Queensland Government

Principle	Achievement Budgeted for 2008-09	Indicator
Competitive tax environment The Government will ensure that State taxes and charges remain competitive with the other states and territories in order to maintain a competitive tax environment for business development and jobs growth.	✓	Taxation revenue per capita: Queensland: $2,342 Average of other states and territories: $2,616
Affordable service provision The Government will ensure that its level of service provision is sustainable by maintaining an overall General Government operating surplus, as measured in Government Finance Statistics terms.	✓	GFS operating surplus: $809 million
Sustainable borrowings for capital investment Borrowings or other financial arrangements will only be undertaken for capital investments and only where these can be serviced within the operating surplus, consistent with maintaining a AAA credit rating.	✓	General Government borrowings: $2.915 billion General Government total purchases of non-financial assets: $6.651 billion AAA credit rating confirmed by Moody's and Standard and Poor's (highest rating available)
Prudent management of financial risk The Government will ensure that the State's financial assets cover all accruing and expected future liabilities of the General Government sector.	✓	General Government net financial worth: $15.164 billion
Building the State's net worth The Government will maintain and seek to increase total State net worth.	✓	Net worth to increase to $128.563 billion

Competitive tax environment

One of the Queensland Government's key social and fiscal objectives is to maintain a competitive tax environment that raises sufficient revenue to meet the infrastructure and government service delivery needs of the people of Queensland, while at the same time providing a low-cost environment for business to promote economic development and jobs' growth.

The competitiveness of a state's tax system is usually assessed by using one of the following measures:

- taxation revenue on a per capita basis
- taxation relativities based on the Commonwealth Grants Commission methodology
- taxation revenue expressed as a percentage of gross state product (GSP).

Queensland's competitive tax position is confirmed by all three measures:

- per capita tax collections in Queensland in 2008-09 are estimated at $2,342, compared with an estimated $2,616 for the average of the other states
- Commonwealth Grants Commission data indicate that Queensland's taxation effort ratio is 84.6% compared with the standard (100%)
- latest Australian Bureau of Statistics data shows Queensland's tax collections are 4.34% of GSP compared to 4.75% for the average of the other states.

The 2008-09 Budget includes changes to transfer duty, land tax, payroll tax and mortgage duty, in addition to adjustments to the royalty regime. Details of these changes and other revenue items are provided in Chapter 5.

Affordable service provision

The objective of maintaining affordable service provision requires the maintenance of a budget operating surplus, to ensure recurrent services can be funded from recurrent revenue sources.

The 2008-09 Budget and forward estimates provide funding for implementation of the Government's key priority areas including health, congestion management and frontline services.

More information on these initiatives is provided in Budget Paper 4 – Budget Measures.

Queensland is already one of the more efficient providers of government services among the states. Nevertheless, further improving the efficiency and effectiveness of government services is an essential element of delivering on these key policy priorities in a way that is both affordable and sustainable.

Sustainable borrowings for capital investment

The provision of adequate levels of infrastructure is an ongoing challenge for a state such as Queensland that continues to experience high levels of economic and population growth. In meeting this challenge, the Government funds capital expenditure per capita well above the average of the other states and territories.

Investment in core infrastructure is a key feature of the 2008-09 Budget with a record capital program of $17 billion. This represents an increase of 19% over the estimated 2007-08 outlays. The capital outlays of the PNFC sector constitute approximately 52% of total outlays in 2008-09.

In recognition of Queensland's capital requirements, the *Charter of Social and Fiscal Responsibility* allows borrowing for capital where the costs of the borrowing can be serviced within the context of an overall operating surplus.

Queensland's 2008-09 capital program will be funded from a mix of recurrent sources, cash balances and borrowings. Details of the State capital program for 2008-09 and sources of funds are provided in Budget Paper No. 3 – Capital Statement.

Prudent management of financial risk

Queensland has a long-standing policy of setting aside funds to accumulate financial assets sufficient to meet future liabilities, the largest being for future employee entitlements, most notably superannuation.

In this respect, Queensland is far better placed than any of the other state or territory governments to fund future accruing liabilities, as most other jurisdictions have substantial unfunded superannuation liabilities.

The State's policy of setting aside funds to meet future liabilities and reinvesting all earnings provides the capacity to manage cycles in investment markets without impacting on the Government's ability to fund ongoing services to the community.

Building the State's net worth

The *Charter of Social and Fiscal Responsibility* policy of building the State's net worth is intended to ensure infrastructure and other assets are not run down to the detriment of future citizens and taxpayers. It is an important element in ensuring intergenerational equity.

Queensland's net worth is forecast to grow over the forward estimates. Queensland's per capita net worth is expected to be 46% greater in 2008-09 than the average per capita net worth of the other states.

Further information on State net worth and other balance sheet aggregates can be found in Chapter 7.

INDICATORS OF FISCAL CONDITION

Table 1.6 provides information on the Government's service delivery capacity, financial sustainability and financial capacity.

Service delivery capacity

This financial data provides an indication of the non-financial capital resources of the General Government sector. These resources generally relate to capital infrastructure and therefore indicate the capacity of the Government to provide services to the community. The data, showing increasing levels of, and additions to, non-financial assets, reflect the State's heightened commitment to infrastructure provision in recent years.

Financial sustainability

These ratios provide an indication of the sustainability of current policy settings – including the size of the operating surplus (relative to expenses) and the level of debt servicing costs (relative to revenue). A large operating balance and stable low debt servicing costs indicate that current policies are sustainable.

Financial capacity

These ratios provide an indication of the State's capacity to respond to unexpected events or opportunities. Low levels of borrowing and taxation and large negative net debt provide the State with the capacity for additional resources to be called upon if required.

Table 1.6
Indicators of fiscal condition - General Government sector[1]

	2007-08 Est. Act.	2008-09 Budget	Other States[2] 2008-09
Service Delivery Capacity			
Non-financial assets[3]/population ($)	23,663	24,930	15,329
Purchases of non-financial assets/non-financial assets (%)	5.2	6.2	4.8
Financial Sustainability			
Operating balance/total expenses (%)	(3.0)	2.3	3.4
Debt servicing cost/total revenue (%)	1.2	1.5	1.9
Financial Capacity			
Total borrowings/total assets (%)	3.6	5.2	6.3
Total liabilities/total assets (%)	22.5	23.6	24.8
Net worth/population ($)	29,164	29,795	20,444
Net debt/GSP (%)	(11.1)	(9.3)	0.4
Taxation/GSP (%)	4.4	4.3	4.6

Notes:
1. 2006-07 actual has not been included as the new reporting framework (see Chapter 9) makes inter-year and interstate comparisons difficult.
2. Weighted average of all states and territories, excluding Queensland.
3. Refers to land and other fixed assets.

Source: *QLD, VIC, WA, NT, ACT State Budgets, NSW, SA, TAS Mid-Year Reviews/Budget Updates*

2 ECONOMIC PERFORMANCE AND OUTLOOK

FEATURES

- **The Queensland economy is estimated to expand by 3¾% in 2007-08 and exceed growth nationally for the 12th successive year.**
- **Reflecting strong growth in consumer incomes and house prices, household consumption growth is estimated to strengthen to 5¼% in 2007-08. Limited spare capacity in the economy is estimated to drive further growth in private and public investment, albeit at more modest rates than in recent years.**
- **Temporary disruptions to supply are estimated to subdue growth in export volumes in 2007-08, while growth in imports of consumer and capital goods is estimated to remain strong. As a result, the trade sector is estimated to continue to detract from overall economic growth.**
- **Economic growth in Queensland is forecast to strengthen to 4¼% in 2008-09, compared with an anticipated moderation in growth for the nation as a whole.**
- **Queensland is forecast to experience some rebalancing in economic growth, with improved trade sector performance and stronger growth in business investment more than offsetting an easing in household consumption growth.**
- **Capacity expansions and improved weather conditions are forecast to drive exports growth of 4¼% in 2008-09, the strongest rate in four years. Business investment is forecast to grow by 9¼% to a total of $36 billion, representing a doubling in real investment over the past six years.**
- **Reflecting some easing in domestic demand growth, jobs growth is forecast to ease to 2¾% in 2007-08 and 2½% in 2008-09. This growth still represents an increase in employment of more than 105,000 persons over the two years.**
- **The State's year-average unemployment rate is estimated to fall to a 34 year low of 3¾% in 2007-08 and remain there in 2008-09, representing a rate well below that nationally for the fifth consecutive year.**

INTRODUCTION

This chapter presents the economic context within which the 2008-09 State Budget has been prepared. It provides an overview of recent developments in Queensland's external economic environment, examines the performance of and outlook for the Queensland economy and highlights risks to, and opportunities for, economic growth during the forecast period. The chapter details estimated actuals and forecasts for growth in the major components of State economic activity for 2007-08 and 2008-09 respectively (see Table 2.1) and presents projections for key economic variables over the medium term to 2011-12 (see Table 2.2).

EXTERNAL ENVIRONMENT

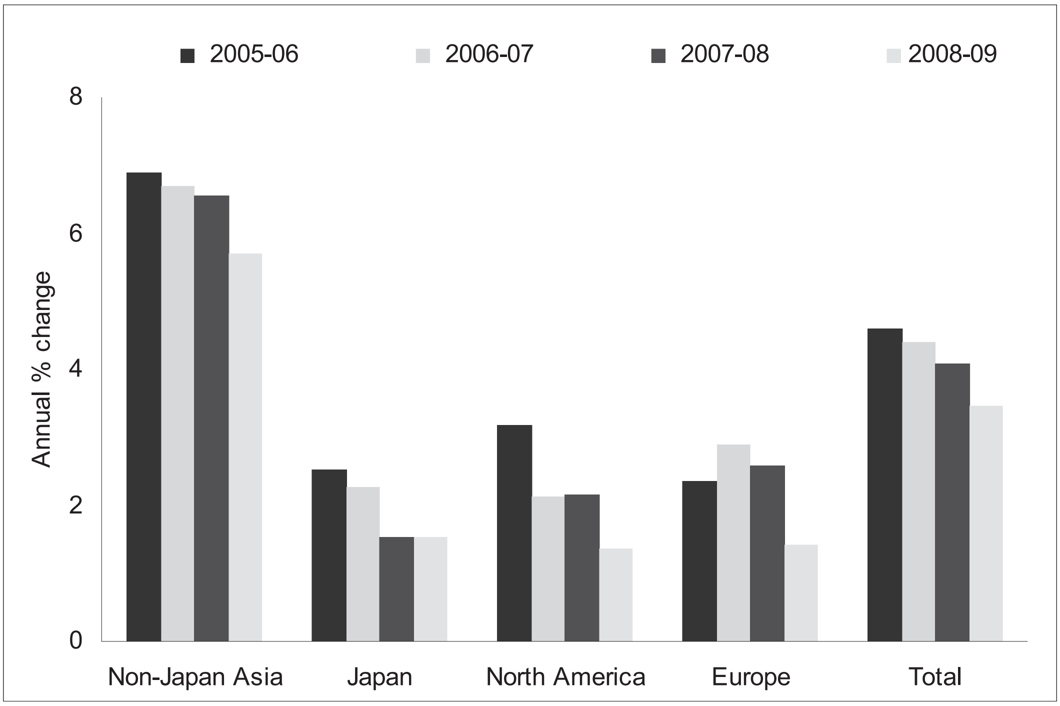
International conditions

The world economic outlook has been clouded by uncertainty over the extent of the slowing in the US economy, as well as tighter credit conditions triggered by the sub-prime mortgage fallout. Further, rising inflationary pressures may limit the extent of any accommodative easing in monetary policy around the globe. As a consequence, economic growth in Queensland's major trading partners is estimated to ease from 4.4% in 2006-07 to 4% in 2007-08, and moderate further to 3½% in 2008-09 (see Chart 2.1), its lowest rate in six years.

Despite some relief since mid-March 2008, global credit conditions remain tight. This has been reflected in a widening spread between yields of debt instruments issued by the banking and corporate sectors compared with government bonds and also in the greater difficulty faced by the corporate sector in borrowing directly from capital markets.

Tight credit conditions have exacerbated the housing downturn in the US, where the number of housing starts has fallen almost 60% from its peak. It also appears that the impact of the housing downturn has spread to the household and business sectors, coinciding with softer labour market outcomes so far in 2008.

Chart 2.1
Economic growth in Queensland's major trading partners[1]



Note:
1. 2007-08 is an estimate, 2008-09 is a forecast.
Sources*: Queensland Treasury and Consensus Economics.*

The US economic downturn is expected to not only spill over to other advanced economies, such as Japan and Europe, but also to emerging economies, such as China and India, through trade and financial linkages. In particular, underdeveloped financial infrastructure has led some emerging economies to become overly reliant on foreign capital, which also leaves these economies vulnerable to restrictive credit conditions.

Another development clouding the world economic outlook is the possibility of high global inflation. Prices for petroleum and thermal coal have risen more than 75% and 100% respectively since July 2007. Also, a substantial rise in iron ore and coking coal prices should see steel prices rise significantly in 2008-09. Further, global food prices have surged, including a near tripling of rice prices in Asia since the beginning of 2008 and substantial price rises for other major sources of carbohydrates, such as corn and wheat. With elevated global inflation, major central banks may have to limit the extent of their monetary easing despite the weaker economic outlook.

Australian economy

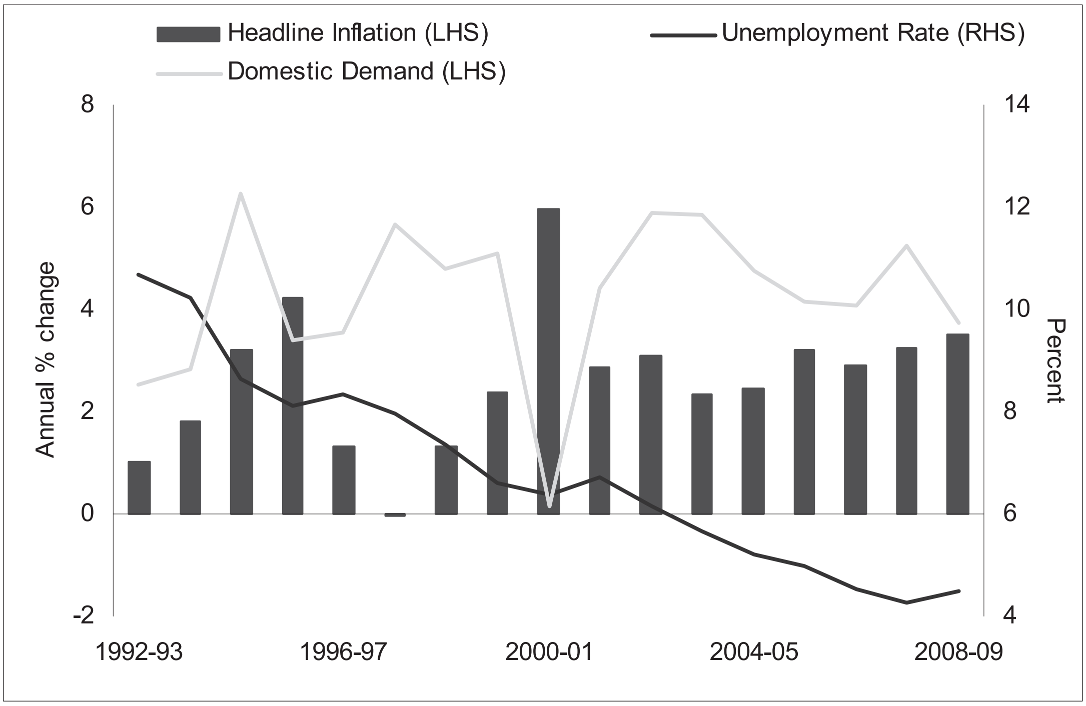
In the 2008-09 Budget, the Australian Government forecast that a moderation in world economic growth, tighter credit conditions and significantly higher interest rates will adversely affect the household sector and slow growth in the national economy from 3½% in 2007-08 to 2¾% in 2008-09. With households becoming more indebted, higher interest rates are expected to have a greater impact on consumption than in previous tightening cycles. Falls in share prices have suppressed growth in household wealth and are anticipated to induce saving for precautionary purposes. Higher mortgage rates are also forecast to suppress dwelling investment growth.

Partly offsetting the subdued outlook for the household sector, business investment and exports are forecast to support economic growth in 2008-09. Investment should benefit from a large amount of work under construction, a strong Australian dollar (A$) and high levels of capacity utilisation, while an increase in the terms of trade flowing from a surge in coal and iron ore prices is expected to support mining investment. A return to more normal seasonal conditions and recent rises in agricultural prices are also expected to result in a recovery in farm incomes. Reflecting increases in mining and agricultural production, exports growth is forecast to strengthen significantly.

In line with an expected easing in overall economic growth, national employment growth is forecast to moderate from 2½% in 2007-08 to 1¼% in 2008-09, causing the year-average unemployment rate to rise ¼ of a percentage point, to 4½% in 2008-09.

Despite a forecast moderation in domestic demand, inflation is expected to stay above the Reserve Bank of Australia's (RBA) target band of 2-3%, at 3½% in 2008-09. This reflects the fact that the Australian economy has been running at close to full capacity for some time, as well as higher energy and food prices and further rises in housing costs.

Chart 2.2
Domestic demand[1,2], inflation[2,3] and unemployment rate[2], Australia



Notes:
1. CVM, 2005-06 reference year.
2. 2007-08 is an estimated actual, 2008-09 is a forecast.
3. 2007-08 year-average estimate is derived from Australian Government 2008-09 Budget through-the-year estimate.

Sources: *ABS 5206.0, 6202.0, 6401.0, Queensland Treasury and Australian Government 2008-09 Budget.*

THE QUEENSLAND ECONOMY

External forecast assumptions

As a small open economy, forecasts for economic growth in Queensland are based on assumptions about the national economy, trading partners and financial markets:

- economic growth in Queensland's major trading partners is estimated to grow at 4% in 2007-08, 0.4 of a percentage point lower than in 2006-07. Growth is forecast to ease further to 3½% in 2008-09, reflecting a slowing in the US economy
- while the A$ continued to appreciate in 2007-08, reaching a 24 year high of 96.44USc in late May 2008, the A$ is assumed to depreciate slightly against the United States dollar (US$) by the latter part of 2008-09. This reflects a forecast easing in Australian economic growth and an assumed ending of aggressive monetary easing in the US
- supply disruptions pushed oil prices above US$130 per barrel in late May 2008. The strength in oil prices is expected to be maintained until late 2008, before moderating somewhat in the second half of 2008-09, as the global economic slowdown moderates oil demand

- forecasts of rural production and exports are based on an assumed return to normal seasonal conditions in Queensland in 2008-09
- the Australian Government's economic forecasts and projections, as outlined in the Australian Government Budget delivered on 13 May 2008, have been adopted as the basis for national economic performance over the forecast period
- the Australian official cash rate is assumed to remain unchanged over the forecast period.

A discussion of the risks and opportunities associated with these assumptions is contained later in this chapter.

Overall economic growth

The Queensland economy is estimated to expand by 3¾% in 2007-08 and exceed growth nationally, forecast at 3½%, for the 12th consecutive year. Growth in domestic demand in Queensland is estimated to remain strong, at 6% in 2007-08, but is expected to be partly offset by an ongoing detraction from economic growth by the trade sector.

Consumer spending and investment are estimated to drive growth in domestic demand in 2007-08. After easing for three consecutive years, growth in household consumption is estimated to strengthen to 5¼% in 2007-08. This partly reflects the lagged impact of a recovery in housing activity in 2006-07 on purchases of household goods and services. A re-acceleration in house price growth has also supported a rebound in discretionary spending on retail items and consumer durables. In response to an economy running near full capacity, business investment is estimated to rise further. However, the pace of growth is expected to slow noticeably from earlier in the cycle, due to the completion of a number of significant projects. Largely reflecting increases in transport, water and energy investment, the public sector is estimated to make the largest contribution to growth in the infrastructure base in 2007-08.

Nevertheless, a significant increase in lending rates is estimated to negatively affect other sectors of the domestic economy. While their adverse affect on disposable incomes and consumer spending has been partially offset by income tax cuts in 2007-08, the rise in mortgage interest rates is estimated to cause dwelling investment to decline for the first time since 2000-01, when the GST was introduced.

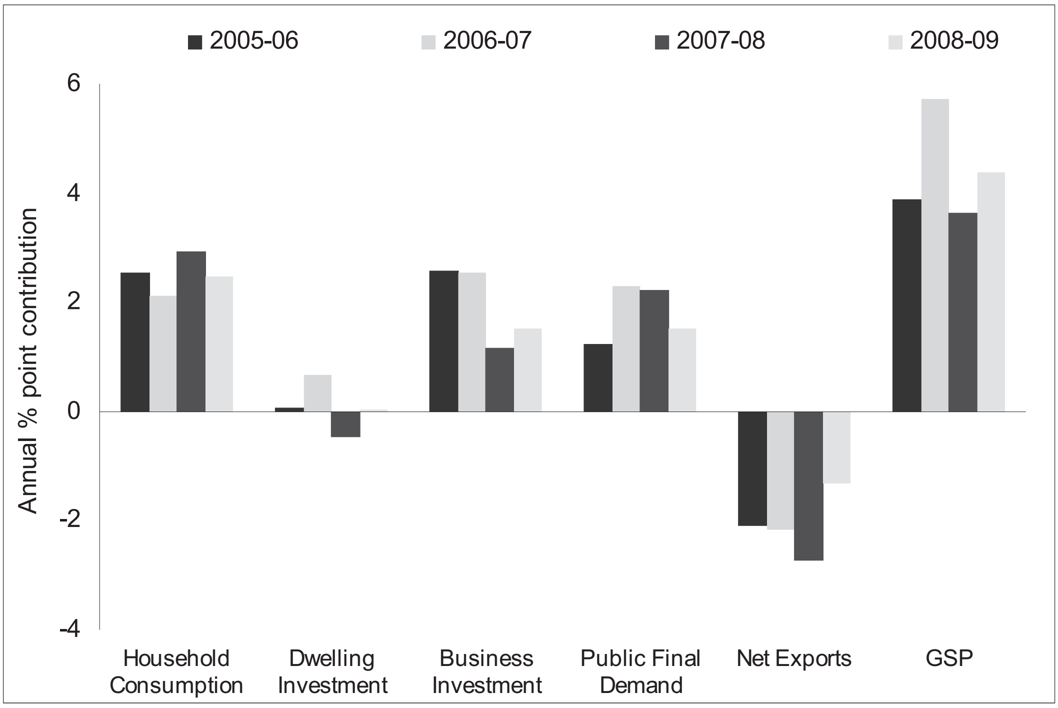
The economy, and the trade sector in particular, has also absorbed a range of adverse external and domestic shocks since late 2007. Flooding, the effects of port and rail capacity upgrades, as well as mine maintenance and expansions temporarily disrupted coal and base metal exports in 2007-08. Improved rainfall also encouraged herd rebuilding, with a resultant decline in beef exports. An appreciation in the A$, combined with a deterioration in global economic and financial conditions, has also suppressed tourism and other services exports in 2007-08. As a result, the detraction from economic growth by the trade sector is estimated to widen in 2007-08.

Growth in the Queensland economy is forecast to accelerate slightly to 4¼% in 2008-09, in contrast to an anticipated easing in national growth to 2¾%. A significant strengthening in exports growth, combined with stronger growth in business investment, is anticipated to more than offset an easing in growth in consumer demand, facilitating some rebalancing in the composition of economic growth.

Additional income tax cuts and continued growth in wages are anticipated to support growth in disposable incomes. However, growth in consumption is forecast to ease, in response to lower levels of housing activity in 2007-08, anticipated slower growth in household wealth and elevated petrol prices. Despite higher borrowing costs and subdued equity prices, business investment is forecast to rise further in 2008-09, reflecting ongoing high levels of capacity utilisation. A surge in the terms of trade is forecast to drive an additional wave of investment in mining and metals processing, while limited office space has resulted in the planning of several major commercial projects.

While world economic growth is anticipated to slow, improved domestic supply conditions are forecast to lead to a significant recovery in exports. The completion of several port and rail expansions, as well as mine and refinery upgrades, should benefit coal and base metal exports, while improved rainfall should lead to a recovery in crop exports. As a result, overall exports growth is forecast to strengthen to a four-year high of 4¼% in 2008-09.

Chart 2.3
Contribution to growth in Queensland's gross state product[1]



Note:
1. CVM, 2005-06 reference year. 2007-08 is an estimated actual, 2008-09 is a forecast.
Source: *Queensland Treasury.*

Table 2.1
State and National Economic Forecasts[1]

	Outcomes 2005-06 %	Outcomes 2006-07 %	Est. Actual 2007-08 %	Forecast 2008-09 %
Queensland forecasts[2]				
Domestic production				
Household consumption	4.6	3.8	5¼	4½
Private investment[3,4]	11.6	12.7	3¾	6¾
Dwellings	0.9	8.2	-5½	½
Business investment[4,5]	21.3	17.9	7¼	9¼
Other buildings and structures[4]	25.4	23.4	½	10½
Machinery and equipment[4]	18.5	13.9	12½	8¼
Private final demand[4]	6.7	6.6	4¾	5¼
Public final demand[4]	5.7	10.6	9¾	6¼
Gross state expenditure[6]	5.9	7.7	6	5¼
Exports of goods and services	-0.3	2.8	½	4¼
Imports of goods and services	5.7	8.7	8	6¾
Net exports[7]	-2.1	-2.2	-2¾	-1¼
Gross state product	3.9	5.7	3¾	4¼
Other state economic measures				
Population	2.4	2.2	2¼	2¼
Inflation	3.1	3.3	4	3½
Wage Price Index	4.4	4.5	4½	4½
Employment	3.5	4.6	2¾	2½
Unemployment rate (%, year-average)	4.8	4.0	3¾	3¾
Labour force	3.3	3.7	2½	2½
Participation rate (%, year-average)	66.3	67.1	67	67
National forecasts[2]				
Domestic production				
Household consumption	2.6	3.6	4½	2¾
Private investment	na	na	na	na
Dwellings	-4.3	2.4	2½	2
Business investment[4,5]	na	6.7	9½	8½
Other buildings and structures[4]	na	12.4	8½	5½
Machinery and equipment[4]	na	2.9	9½	11
Private final demand[4]	na	4.0	5¼	4
Public final demand[4]	na	4.3	4¾	3
Gross national expenditure[6]	3.8	4.2	5½	3½
Exports of goods and services	2.2	3.8	3	6
Imports of goods and services	7.2	8.9	11	9
Net exports[7]	-1.1	-1.2	-2	-1
Gross domestic product	3.0	3.2	3½	2¾
Other national economic measures				
Population	1.4	1.5	1½	1½
Inflation[8]	3.2	2.9	3¼	3½
Wage Price Index	4.1	4.0	4¼	4¼
Employment	2.4	2.7	2½	1¼
Unemployment rate (%, year-average)	5.0	4.5	4¼	4½
Labour force	2.2	2.2	na	na
Participation rate (%, year-average)	64.4	64.8	65¼	65¼

Notes:
1. Unless otherwise stated, all figures are annual % changes. Decimal point figures indicate an actual outcome.
   na - Indicates not available.
2. CVM, 2005-06 reference year.
3. Private investment includes livestock, intangible fixed assets and ownership transfer costs.
4. Excluding second-hand asset sales between the public and private sectors and including the impact of the privatisation of Telstra.
5. National calculations of business investment include investment in livestock and intangible fixed assets, which are not included in the Queensland calculations.
6. Includes statistical discrepancy and change in inventories.
7. Percentage point contribution to growth in gross state or domestic product.
8. 2007-08 year-average estimate is derived from Australian Government 2008-09 Budget through-the-year estimate.

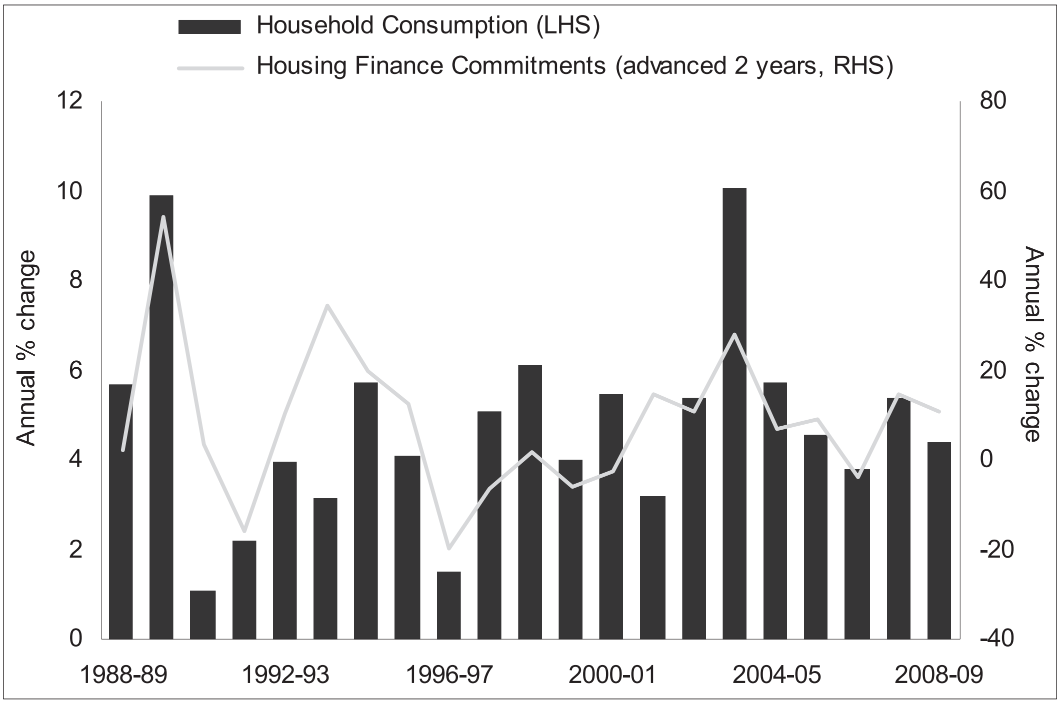
Sources*: Queensland Treasury, Australian Government 2008-09 Budget and ABS 5206.0.*

Household consumption

Household consumption growth is estimated to strengthen to 5¼% in 2007-08, after easing for three consecutive years from a peak in 2003-04 during the housing boom. The lagged impact of a re-acceleration in growth in dwelling investment in 2006-07 has driven faster growth in spending on household services and furnishings in 2007-08. Further, a strengthening in house price growth in 2007 has seen spending on other retail goods and consumer durables recover. Motor vehicle purchases are also estimated to rebound, driven by a fall in oil prices from late 2006 to early 2007 and an unseasonal and transitory shift in the timing of motor vehicle purchases. In addition to solid growth in employment and wages, tax cuts partially offset the impact of higher interest rates on disposable incomes in 2007-08.

Further income tax cuts and solid labour market conditions are forecast to continue to support disposable incomes in 2008-09, while an increase in the terms of trade should also benefit wages in trade-related industries. Despite this, growth in private consumption is forecast to ease to 4½% in 2008-09. A rise in mortgage interest rates is estimated to cause a decline in dwelling investment in 2007-08, which is forecast in turn to result in slower growth in housing-related expenditure the following year. Anticipated slower growth in asset prices is forecast to result in lower growth in household wealth and related spending. This, combined with a rise in petrol prices in the first half of 2008, is predicted to dampen growth in spending on consumer durables such as passenger vehicles in 2008-09.

Chart 2.4
Household consumption[1] and housing finance commitments, Queensland



Note:
1. CVM, 2005-06 reference year. 2007-08 is an estimated actual, 2008-09 is a forecast.
Sources: *Queensland Treasury and ABS 5609.0.*

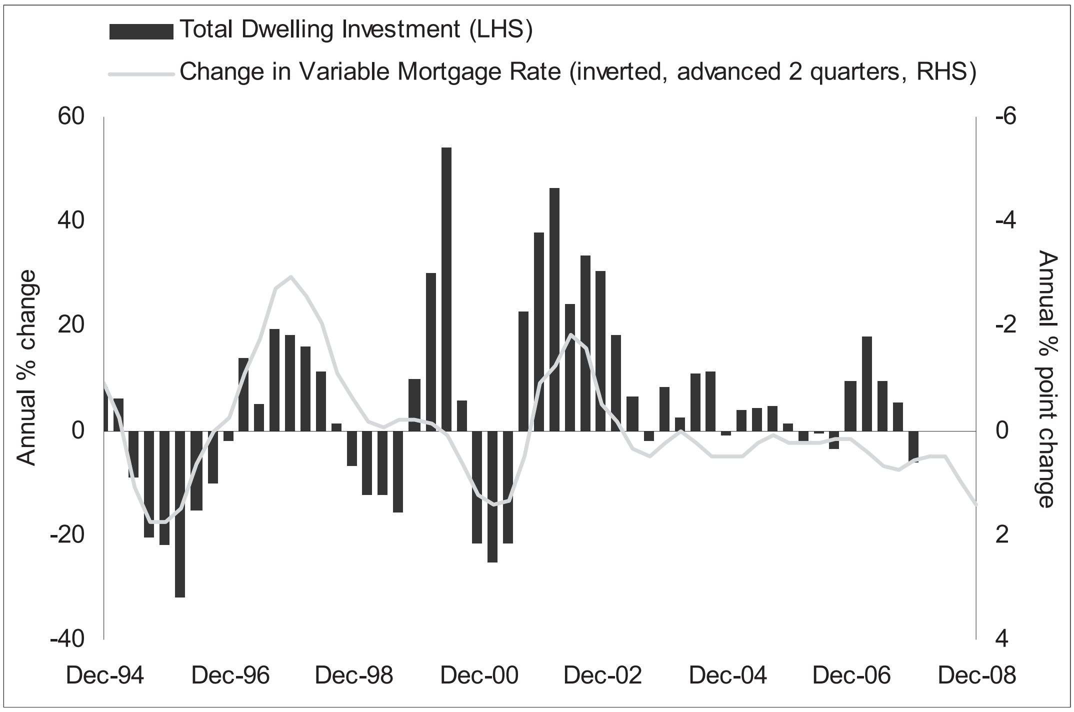
Dwelling investment

Following an increase of more than 90% between 2000-01 and 2006-07, dwelling investment is estimated to decline 5½% in 2007-08, representing the first fall since the introduction of the GST in 2000-01. However, led largely by a rebound in renovation activity, dwelling investment is expected to rise by a marginal ½% in 2008-09.

New housing construction activity declined sharply in the first half of 2007-08 and leading indicators such as dwelling approvals and housing finance suggest further declines through 2008. Higher interest rates, resulting from a rise in the official cash rate and independent rises in bank mortgage rates, represent an impediment to first home buyers entering the dwelling market (see Chart 2.5). Further, higher lending rates along with elevated house prices have raised borrowing costs for investors, while increases in rents have not kept pace with house prices over the past year. As a result, lower net rental returns have also discouraged investor activity. Renovation activity also declined sharply in the first half of 2007-08 in response to higher interest rates.

Pent-up demand for housing, reflected in low vacancy rates and driven by a buoyant labour market and strong population growth, is forecast to translate into a recovery in new construction late in 2008-09, supported by an assumed stabilisation in interest rates. Renovation activity is anticipated to rebound more strongly, as solid growth in disposable incomes improves the ability to finance alterations and additions activity.

Chart 2.5
Dwelling investment[1] and interest rates[2], Queensland



Notes:
1. CVM, 2005-06 reference year, quarterly, seasonally adjusted.
2. June quarter 2008 interest rate based on April 2008.

Sources: *Queensland Treasury and Reserve Bank of Australia.*

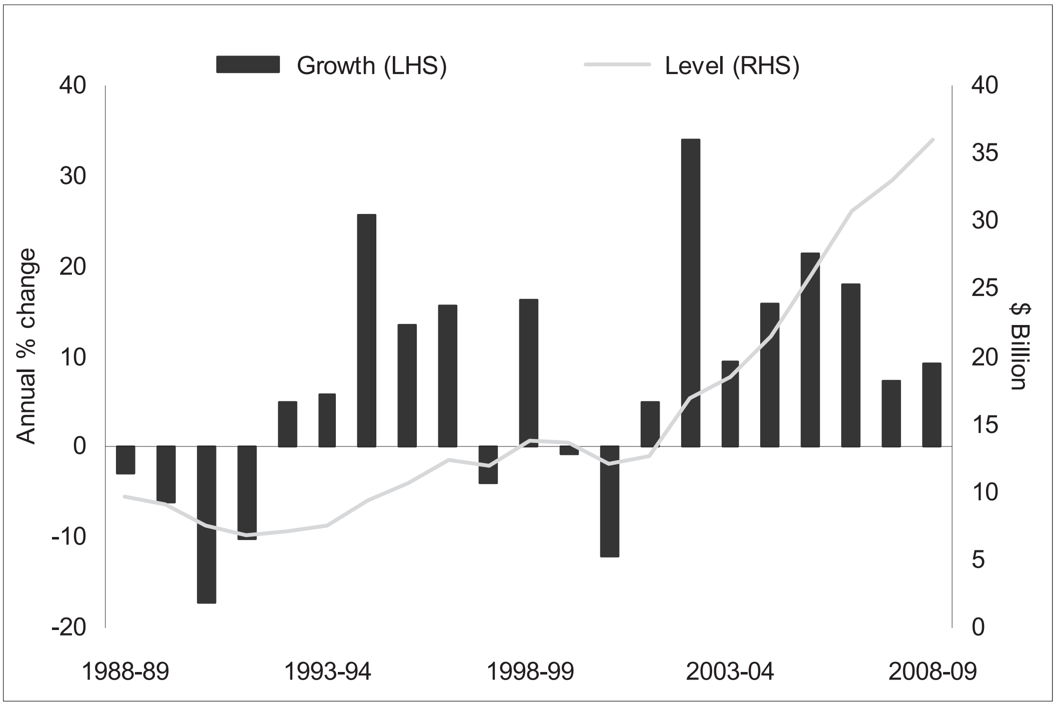
Business investment

Business investment is expected to continue to increase, albeit at a slower rate than the very strong growth recorded in recent years (see Chart 2.6). Despite poorer equity returns and higher corporate borrowing costs, the volume of business investment is estimated to increase 7¼% in 2007-08, reflecting sustained demand for the State's major export commodities and limited spare capacity across many sectors of the economy.

Investment in machinery and equipment is estimated to rise 12½% in 2007-08, supported by a higher A$, which has subdued the price of imported capital goods. After surging by 55% over the last two years, investment in other buildings and structures is estimated to grow marginally (½%) in 2007-08, reflecting the completion of several major projects, as well as stoppages caused by substantial rainfall in early 2008.

Growth in business investment is forecast to strengthen slightly to 9¼% in 2008-09, with the level of investment totalling $36 billion, representing a doubling in real terms over the past six years. Growth in investment in other buildings and structures is forecast to pick up to 10½% in 2008-09, with a surge in the terms of trade inducing another wave of investment in mining and base metals manufacturing projects, and rising demand for office space stimulating several major commercial development projects. Forecast growth of 8¼% in machinery and equipment investment is anticipated to be supported by the ongoing strength in the A$, as well as a rebound in investment by the rural sector.

Chart 2.6
Business investment, Queensland[1,2]



Notes:
1. CVM, 2005-06 reference year. 2007-08 is an estimated actual, 2008-09 is a forecast.
2. Excludes private sector net purchases of second-hand public sector assets and includes changes to the allocation of investment due to the full privatisation of Telstra.

Source: *Queensland Treasury.*

Public final demand

Public final demand is estimated to rise by 9¾% in 2007-08 and forecast to increase by a further 6¼% in 2008-09. Investment by state and local general government and public trading enterprises is forecast to double in real terms over the four years to 2008-09, reflecting increased investment in water, energy and transport infrastructure.

Net exports

Transitory factors, as well as a continued appreciation of the A$, have suppressed exports in 2007-08. While an easing in growth in domestic demand has also seen import growth moderate during the year, net exports are estimated to detract 2¾ percentage points from overall economic growth in 2007-08, larger than the 2.2 percentage point detraction recorded in the previous year.

Expansions in the coal infrastructure network and floods in Central Queensland delayed coal production and exports in 2007-08, while increased rainfall prompted beef producers to re-build herds. Despite improved rainfall since late 2007, cotton production fell significantly in 2007-08, given planting mostly occurs before December. While better rainfall has boosted cereal grain production, exports have been limited by the replenishment of wheat stockpiles.

Services exports (which include tourism) have been adversely affected by a number of factors over the course of 2007-08, including a strong A$ and a slowing global economy. As a result, the total volume of exports of goods and services is forecast to rise only ½% in 2007-08.

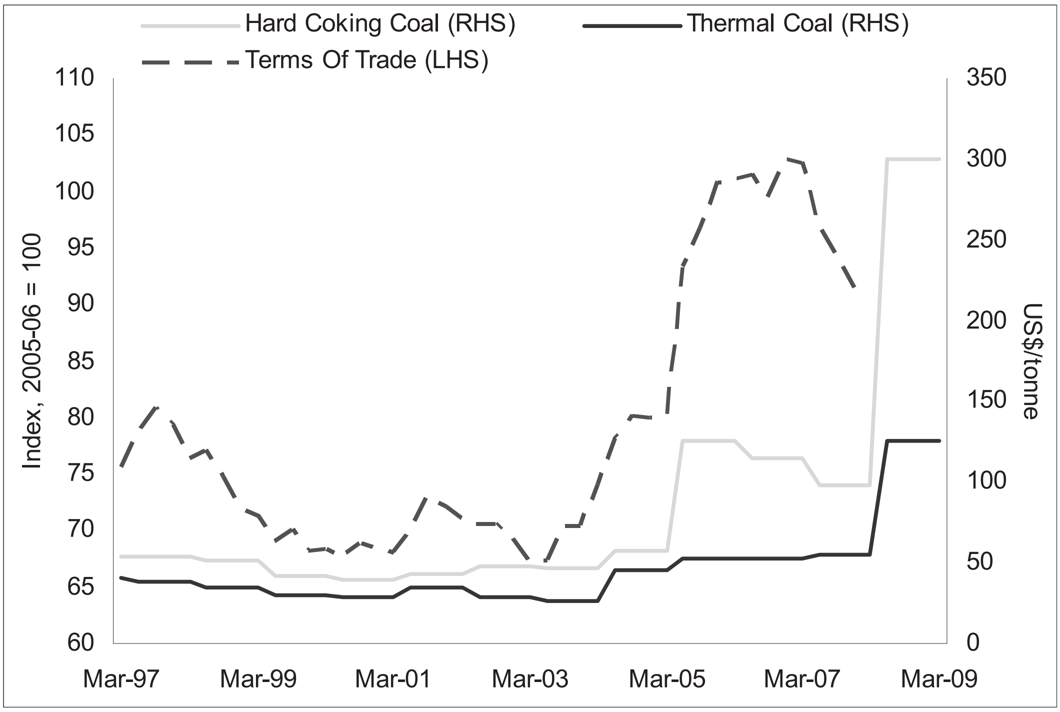
In contrast, the total volume of imports of goods and services is estimated to rise by 8% in 2007-08. With the economy operating close to full capacity, the propensity to import has increased in recent years. Further, imports of consumer durables and machinery and equipment have been boosted by a higher A$, which has kept prices low.

Improved supply conditions are forecast to see exports improve substantially in 2008-09, despite some deterioration in world economic growth prospects. The volume of goods and services exports is forecast to grow by 4¼% in 2008-09, representing the highest rate of growth in four years. Good rainfall since late 2007 and a return to normal seasonal conditions should boost agricultural production and exports. Transport upgrades and a resumption of production in flood affected mines are forecast to increase coal exports. Further, the completion of maintenance and expansions should see production and exports of base metals in Queensland increase significantly.

In addition to higher export volumes, export returns are expected to rise significantly next year, with contract prices for hard coking and thermal coal for the 2008 Japanese fiscal year (April 2008 to March 2009) tripling and doubling respectively. As a result, Queensland's terms of trade are projected to resume a strong upward trend in 2008-09, after edging lower in the past two years (see Chart 2.7).

An easing in growth in private consumption and machinery and equipment investment is forecast to moderate growth in total imports to 6¾% in 2008-09. This, combined with the anticipated improvement in exports growth, is forecast to see net exports detract only 1¼ percentage points from overall growth in 2008-09.

Chart 2.7
Terms of trade, Queensland



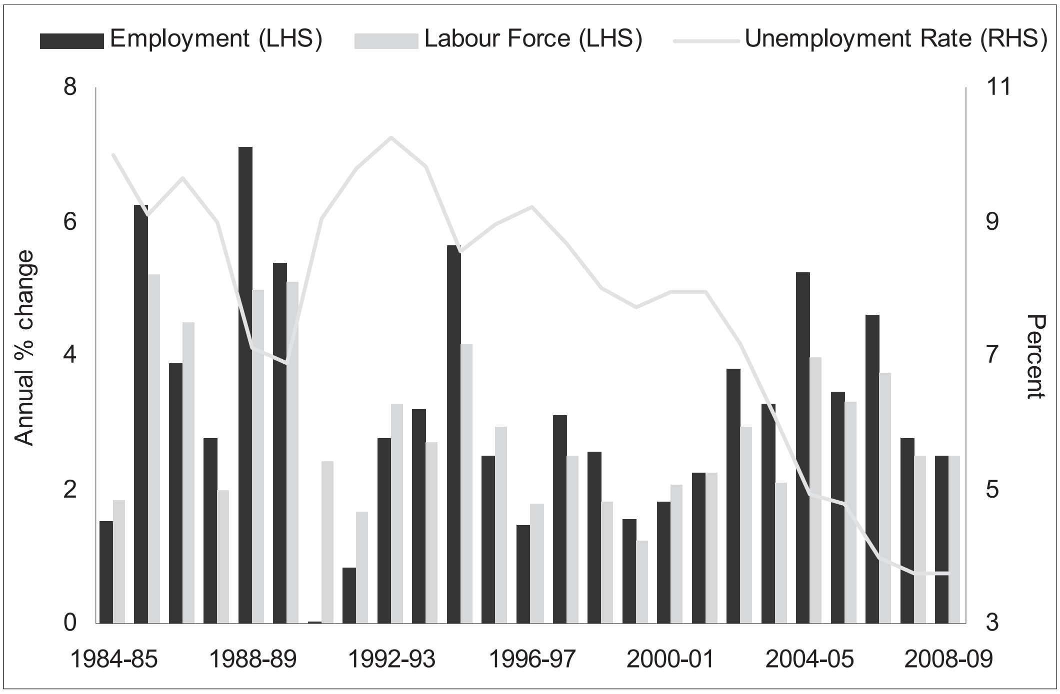
Sources: *Queensland Treasury, Australian Bureau of Agricultural and Resource Economics.*

Labour Market

Following five years of above average growth, jobs growth is estimated to ease to 2¾% in 2007-08, representing an increase in employment of more than 55,000 persons. The easing in jobs growth reflects a moderation in growth in domestic demand, particularly in the labour-intensive construction sector. However, slower overall economic growth is also expected to reduce inflows of marginally attached workers into the labour force, resulting in the participation rate levelling out at 67% in 2007-08. This follows a sharp rise in the participation rate of 2.5 percentage points over the past three years, as mature aged labour force entrants in particular responded to surging demand in the construction, health and retail sectors.

With the participation rate estimated to be unchanged, labour force growth is estimated to match civilian population growth, at 2½% in 2007-08. As a result, jobs growth is estimated to surpass labour force growth, reducing the State's unemployment rate for the sixth consecutive year, to 3¾% in 2007-08, the lowest year-average rate in 34 years.

Chart 2.8
Employment growth, labour force growth and unemployment rate, Queensland[1]



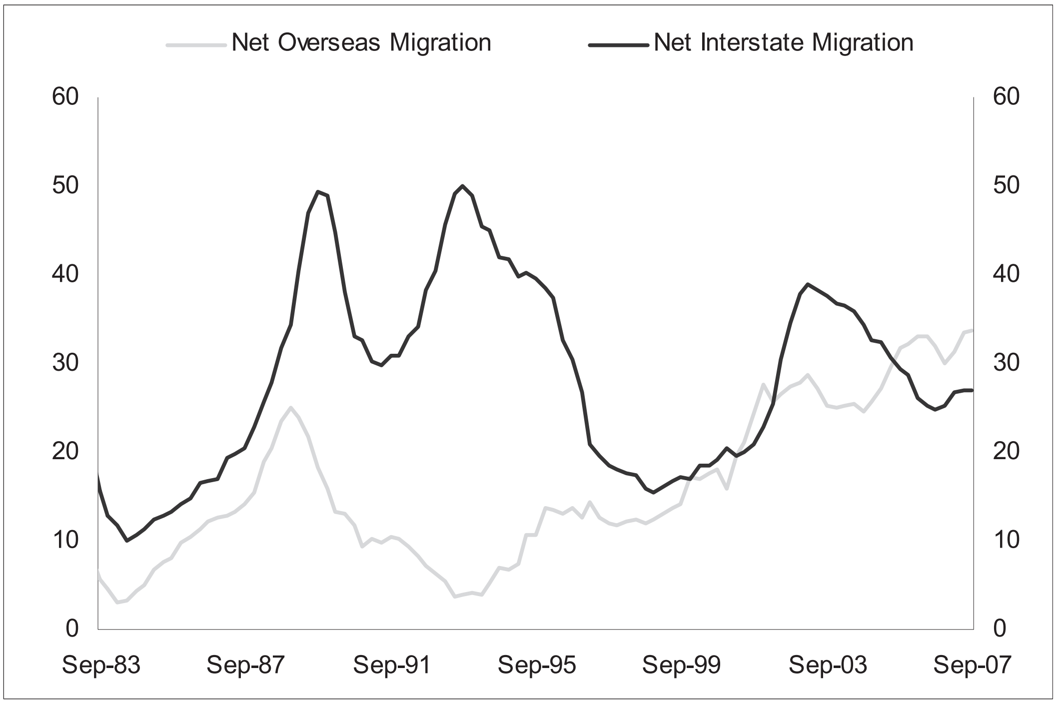
Note:
1. Year-average, 2007-08 is an estimated actual, 2008-09 is a forecast.
Sources: *Queensland Treasury and ABS 6202.0.*

Jobs growth is forecast to moderate further, albeit marginally, to 2½% in 2008-09, translating into an additional 50,000 persons in employment. Jobs growth should be supported by an acceleration in non-dwelling construction activity, as well as the positive impact of a rise in the terms of trade on growth in business incomes relative to wage costs. However, the rate of employment growth in 2008-09 is expected to be limited by available supply, with unemployment reaching very low levels and the participation rate expected to remain largely unchanged in the short term. As a result, jobs growth is forecast to match civilian population and labour force growth of 2½%, leaving the year-average unemployment rate unchanged at a generational low of 3¾%.

Population

Queensland's population is forecast to continue to grow at its long run rate of 2¼% in 2007-08 and 2008-09, translating into an additional 190,000 persons, or more than 1,800 persons per week. Net overseas migration has become the main driver of population growth in recent years (see Chart 2.9), coinciding with a widening economic growth differential between Australia and countries which are the main source of overseas migrants. Queensland also continues to attract the most interstate migrants of any state, reflecting factors such as a lower cost of living and preferable climate. As a result, the State's population is expected to continue to grow at well above the national rate.

Chart 2.9
Components of population growth, Queensland
('000s persons, four quarter rolling sum)



Source: *ABS 3101.0.*

Wages

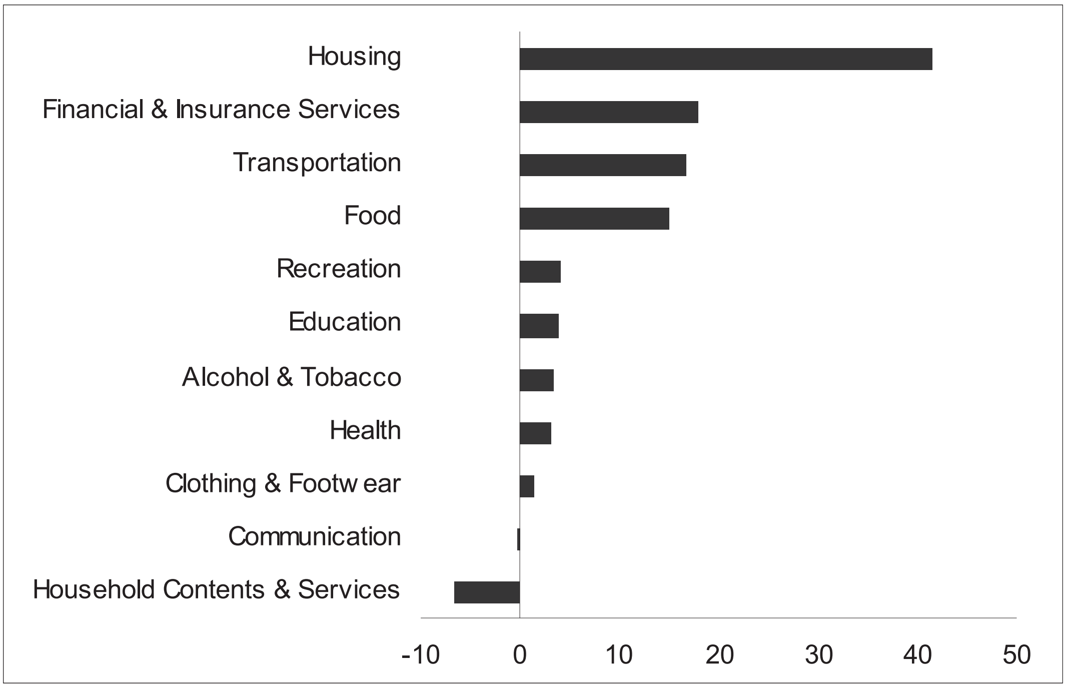
Growth in the Wage Price Index (WPI) in Queensland is forecast to remain steady at 4½% in 2007-08 and 2008-09, after generally strengthening over the past decade to reach this rate of growth in 2006-07. Tight labour market conditions are expected to underpin growth in wages across a variety of service industries, in addition to strong wage gains in recent years in the mining industry.

Inflation

Reflecting both domestic and external pressures, inflation, measured by movements in the Brisbane Consumer Price Index (CPI), is estimated to strengthen to 4% in 2007-08, following an outcome of 3.3% in 2006-07.

The housing sector has been the key contributor to inflation so far in 2007-08, driven by rising rents as well as increases in housing construction costs (see Chart 2.10). A tightening in global credit conditions has seen financial institutions widen margins between lending and deposit rates, causing financial and insurance services to make the second largest contribution to inflation in the first three quarters of 2007-08. A significant rise in petrol prices has also driven higher transportation costs, while food prices have also increased. Partly offsetting these pressures, a higher A$ has coincided with subdued prices for retail and household goods in 2007-08.

Chart 2.10
Components of consumer price inflation, Brisbane
(% of total change in CPI, three quarters to March quarter 2008)



Source: *ABS 6401.0.*

Inflation is forecast to ease to 3½% in 2008-09. Continuing tight labour market conditions and high capacity utilisation will limit downward pressure on inflation, as will ongoing growth in rents. However, a return to normal seasonal conditions should exert downward pressure on growth in domestic food prices, while growth in the financial and insurance services component of the CPI is likely to moderate as credit conditions stabilise. Further, an assumed levelling out in world oil prices in 2008-09 should also result in a smaller contribution from transport costs to inflation next year.

Risks and opportunities

Domestic inflation pressures represent the key risk to the Queensland and national economy in 2008-09. The RBA forecasts underlying inflation to remain above its 2-3% target band until 2010, when a moderation in the pace of national domestic demand is expected to eventually ease capacity pressures. However, several risks to inflation include a boost to incomes and spending from a higher terms of trade, further increases in global energy prices, and faster growth in world food prices. If any of these trends eventuate or intensify, inflation outcomes may be higher than expected.

Any further increase in lending rates would follow a rise of around 150 basis points so far in 2007-08, reflecting four official rate rises by the RBA and independent rises by banks due to tighter credit conditions. Since households have been carrying a larger amount of debt and using a larger share of income for interest payments, the recent rise in lending rates, along with any further rate rises, may exert a greater impact on household consumption and dwelling investment than in previous tightening cycles.

The possibility of a US-led global economic downturn represents a key risk to the state economy. The ongoing correction in the US housing market has caused consumers in the US to wind back spending and employment conditions to worsen significantly in early 2008. The US remains a major export market and Asia has become increasingly exposed to global financial markets linked to the US. As a result, *Consensus Economics* downgraded forecasts for economic growth in Queensland's major trading partners in Asia from 4¾% to 4% for 2008-09 between December 2007 and April 2008. With Asia representing the largest destination for Queensland's goods and education exports, as well as the second largest source of tourism, a further deterioration in Asian growth prospects would adversely affect the state's exports in 2008-09.

Closely related to weaker US economic conditions has been the financial market fallout from the US sub-prime mortgage crisis. International investors have become more risk averse, causing a tightening in credit conditions and a decline in equity prices in the US — trends which have spread to other major economies. In Australia, the yield on A rated corporate bonds averaged 8.9% in April 2008 compared with 7.1% in June 2007, while the premium against Australian Government Treasury bonds increased four-fold over the same period. The ASX 200 Index also declined by 6% between June 2007 and mid-May 2008. Any further rise in corporate borrowing costs or decline in equity prices may dampen business investment in 2008-09.

Disruptions due to heavy rainfall and floods adversely affected agricultural and mining production in 2007-08. Nevertheless, following good rainfall since late 2007 and forecasts for a wetter than normal winter in 2008, a significant rebound in crop production is expected in 2008-09. Further, previously strong La Niña conditions have subsided across the Pacific, suggesting weather may revert to a more normal pattern in 2008-09. However, any reoccurrence of adverse weather conditions has the potential to delay any recovery in agricultural and mining exports.

With the differential between economic growth in Queensland and the rest of Australia expected to widen in 2008-09, Queensland may benefit from a greater inflow of interstate and overseas migrants than currently anticipated. As a result, population growth may be stronger than expected, which may benefit labour force and employment outcomes given current tight conditions in the labour market.

Medium-term outlook

Queensland Treasury provides projections for key economic parameters for the three years following the immediate forecast period in the annual Budget. The projections for the years 2009-10 to 2011-12, shown in Table 2.2, provide a broad indication of the likely path of economic conditions in the State and nationally over the medium-term, rather than point estimates of actual growth for this period. The projections assume a continuation of the longer-term Australian Government policy framework of a stable budget position and monetary policy consistent with a low inflation environment.

Economic growth in Queensland is projected to remain around its average growth rate over the longer-term. Ongoing growth in domestic activity is expected to be complemented by improved trade sector performance, reflecting a significant increase in productive capacity flowing from the investment boom. Overall, economic growth of around 4½% per annum is projected for the period 2009-10 to 2011-12. Jobs growth of 2½% per annum is projected to outpace population growth of 2¼% per annum. This implies a moderate increase in labour force participation and the maintenance of the current low unemployment rate over the medium term.

Table 2.2
Economic parameters/projections[1]
(annual % change)

	Outcome 2006-07	Est. Act. 2007-08	Forecast 2008-09	Projections[2] 2009-10 to 2011-12
Queensland				
Gross state product[3]	5.7	3¾	4¼	4½
Employment	4.6	2¾	2½	2½
Inflation	3.3	4	3½	2½
Wage Price Index	4.5	4½	4½	4
Population	2.2	2¼	2¼	2¼
Australia				
Gross domestic product[3]	3.2	3½	2¾	3
Employment	2.7	2½	1¼	1¼
Inflation[4]	2.9	3¼	3½	2½
Wage Price Index	4.0	4¼	4¼	4
Population	1.5	1½	1½	1½

Notes:
1. Decimal point figures indicate an actual outcome.
2. Average annual percentage change over the period.
3. CVM, 2005-06 reference year.
4. 2007-08 year-average estimate is derived from Australian Government 2008-09 Budget through-the-year estimate.

Sources: *ABS 6401.0, Queensland Treasury and Australian Government 2008-09 Budget.*

3 ECONOMIC STRATEGY

FEATURES

- **Queensland's economic strategy focuses on sustainable growth – maintaining Queensland's strong economic growth and investing the dividends of growth into infrastructure, skills, and the environment.**
- **In per capita terms, Queensland's General Government sector capital spending in 2008-09 remains at approximately double the average of the other states, at $1,541 per person.**
- **With a total capital program of $17 billion in 2008-09, new infrastructure will be created at an average rate of more than $320 million a week.**
- **Over the past decade, Queensland's productivity growth has exceeded the national average. The Government will continue to drive productivity growth by participating in the Council of Australian Governments reform agenda, implementing its own extensive reform program and advancing the *Smart State Strategy*.**
- **Skills development continues to be a major priority, with the *Queensland Skills Plan* delivering 63,200 new apprentices and trainees in the year to 30 September 2007.**
- **Environmental sustainability is being advanced through a range of programs and reforms, with the upcoming national emissions trading scheme a major focus.**

SUSTAINABLE GROWTH

If Queensland's economic growth is to be sustainable, it is critical that the responsibilities and challenges that come with rapid population and economic growth and a changing global outlook are addressed. The Government's economic strategy recognises that the long-term wellbeing of Queenslanders depends on investing now in world-class infrastructure, an increasingly skilled workforce, and a sustainable environment.

The economic strategy also acknowledges Queensland's economic and fiscal links with other state and territory governments and the Australian Government. Increasingly, the challenges faced by state governments – such as skill shortages, provision of major infrastructure, population growth and ageing, and climate change – require coordinated national solutions.

This coordinated approach is being pursued under the Council of Australian Governments (COAG) reform agenda. In December 2007, all Australian governments committed to a new reform agenda. COAG's key priorities include a focus on lifting the productive capacity of the Australian economy.

Major COAG initiatives include:

- an accelerated business regulation reform agenda across 27 ‘hot spot’ areas of reform, including harmonisation of occupational health and safety laws, and further progress in environmental assessment and approvals, payroll tax administration, trade licenses, national trade measurement, and the consumer policy framework, in addition to a renewed focus on competition reforms
- a nationally-coordinated approach to Australia’s infrastructure needs which will see the completion of a National Infrastructure Audit by the end of 2008, and the development of an Infrastructure Priority List by March 2009
- agreement to a new productivity agenda involving long-term and ongoing reforms across all aspects of education and training, with special areas of focus including early childhood education, Indigenous educational attainment and the needs of low socio-economic status school communities
- a new framework for Specific Purpose Payments which greatly reduces the number of agreements, emphasises outcomes rather than inputs, and provides financial incentives for participation in national reform (see Chapter 8 for further details)
- agreement to a national approach to addressing climate change through a national emissions trading scheme, with a comprehensive framework to be finalised by COAG in October 2008
- a focus on health, affordable housing and reforms to Indigenous services, including a review of the respective roles of the Australian Government and state governments in the delivery of services.

The Queensland Government recognises that a strong commitment to the COAG process and to the real reforms that make up the COAG agenda is of vital importance to Queensland.

A STRONG ECONOMY

In an environment of record low unemployment and an ageing population, strong and sustainable growth in per capita economic output depends on expanding the productive capacity of the Queensland economy – in particular, through policies that promote productivity growth and labour force participation.

Productivity

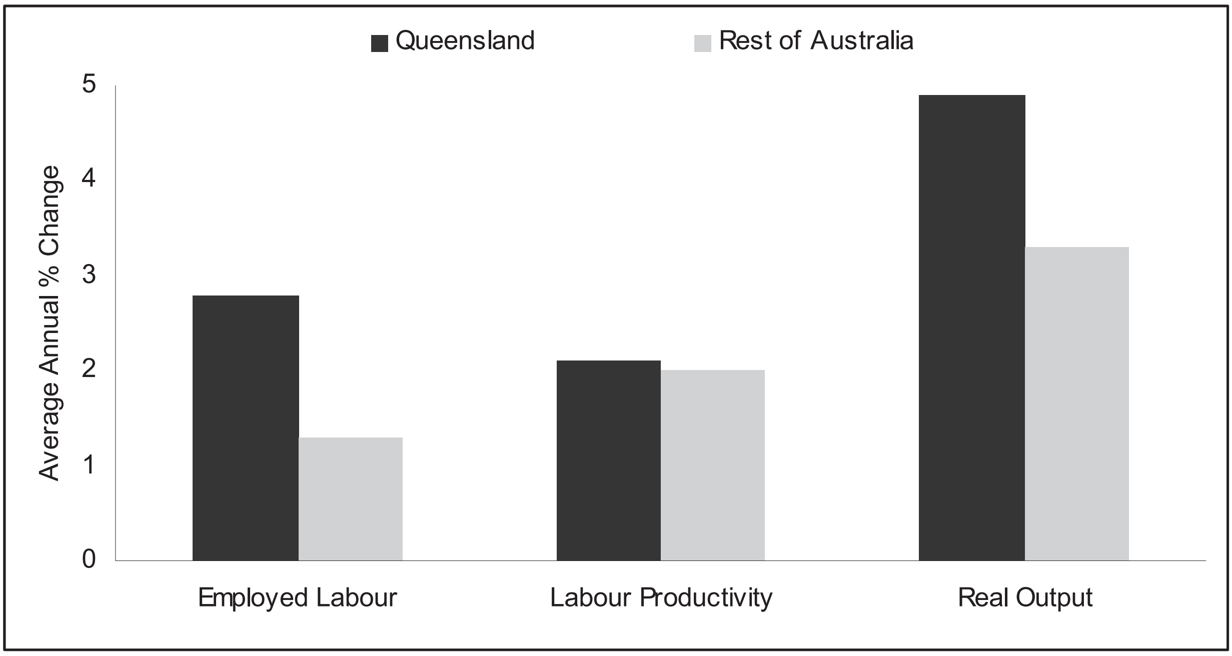
The productivity of the economy reflects the effectiveness and efficiency with which labour, capital and other inputs are used. Put simply, the more that is produced from our inputs, the more that is available for consumption and trade and the higher the material living standards of Queenslanders.

The benefits of productivity growth may be exhibited in a number of ways:

- higher wages and profits
- lower prices for consumers
- better and more efficient public services
- better environmental outcomes.

While employment growth remains a significant source of Queensland's economic expansion, productivity growth has been almost as important. Chart 3.1 shows that almost half of the growth in Queensland's real output over the past decade was due to higher labour productivity (output per hour worked), rather than higher employment. Additionally, labour productivity has grown slightly faster on average in Queensland (2.1% per annum) than in the rest of Australia (2% per annum).

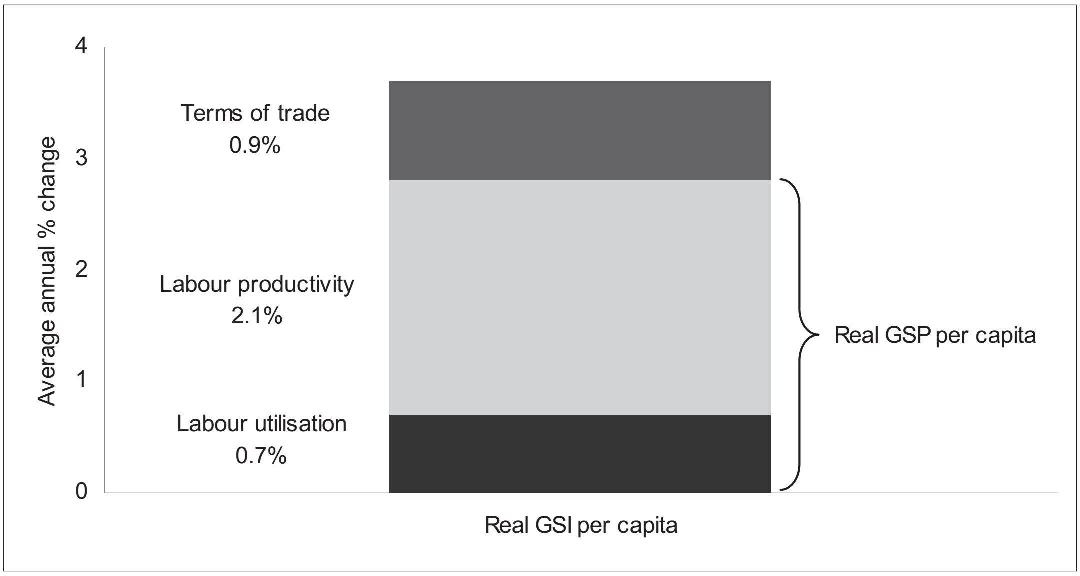
Chart 3.1
Employed labour, labour productivity and real output, 1996-97 to 2006-07



Source*: Queensland State Accounts, ABS 6202.0 unpublished data and Queensland Treasury estimates.*

Productivity has also been a much more important source of growth in spending power for Queenslanders than increases in the terms of trade arising from high mineral export prices. Chart 3.2 shows that the contribution of labour productivity growth to the increase in Gross State Income per person (a measure of overall spending power) over the past decade was more than twice the contribution of the terms of trade.

Chart 3.2
Composition of growth in Gross State Income per person, 1996-97 to 2006-07

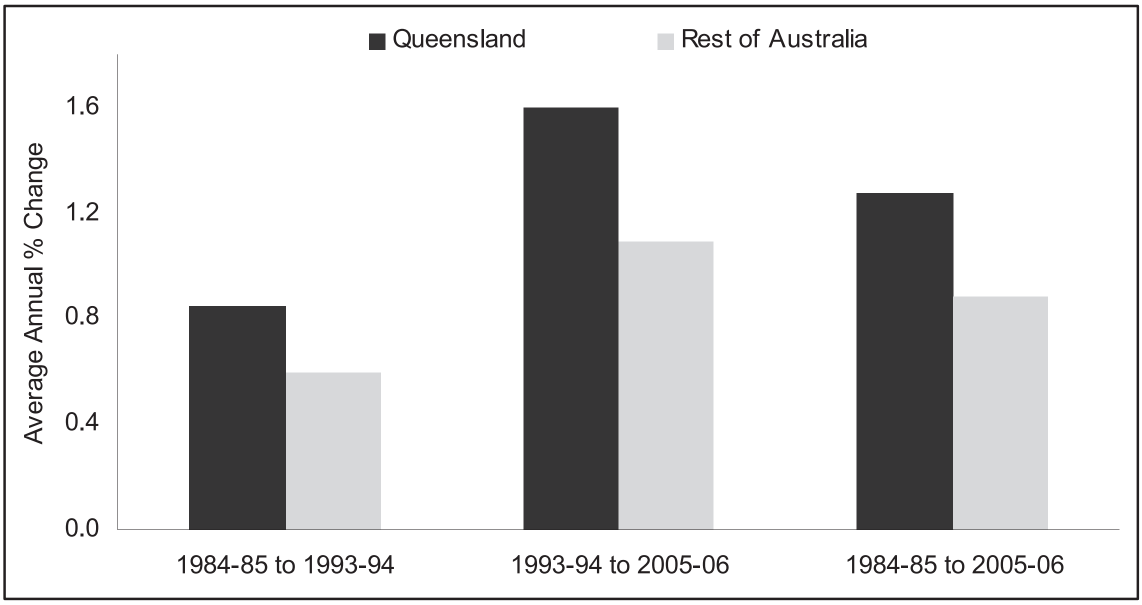


Source*: ABS 5206.0, ABS 6202.0 and Queensland Treasury estimates*

An important component of labour productivity is so-called *multifactor* productivity (output per combined unit of labour and capital). This is sometimes known as 'smart' or 'sustainable' productivity growth because it usually involves the application of new knowledge, which creates opportunities to expand output without increasing physical inputs or imposing more waste products on the environment.

Since the mid-1980s, Queensland (together with Western Australia) has had the highest rate of growth in multifactor productivity (MFP) in Australia. Chart 3.3 shows that over the two decades to 2005-06, Queensland's MFP growth averaged 1.3% per annum, much higher than the 0.9% per annum average for the rest of Australia.

Chart 3.3
Multifactor productivity growth, Queensland and Rest of Australia, 1984-85 to 2005-06



Source: *Queensland Treasury estimates*

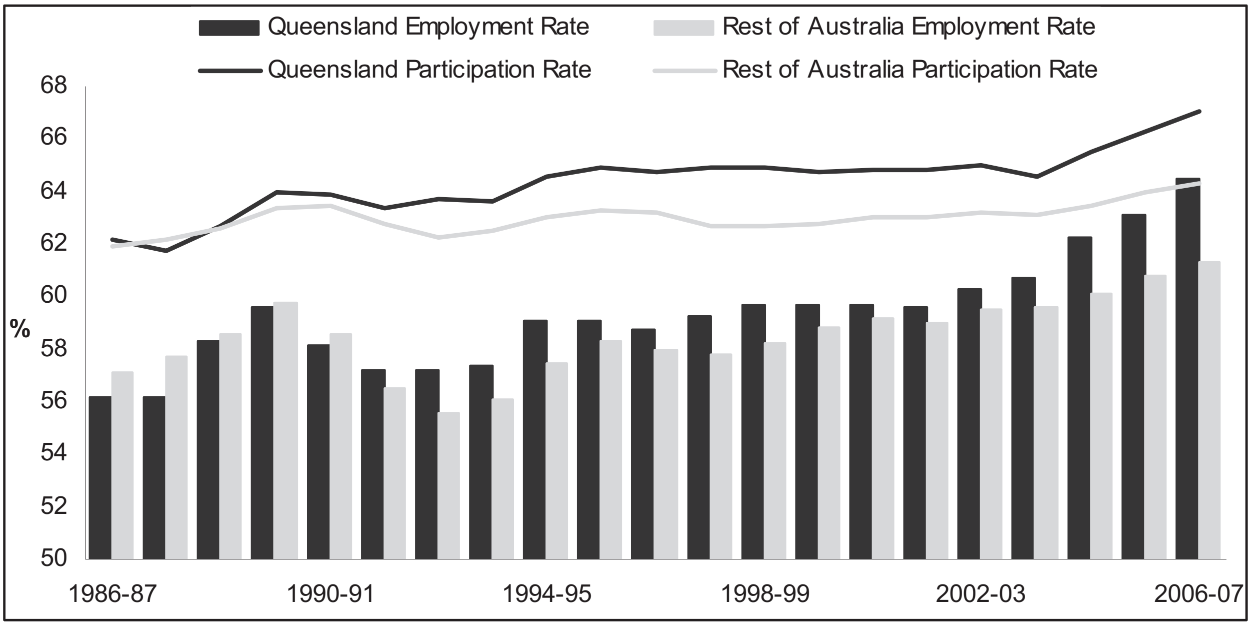
Chart 3.3 also shows that Queensland's MFP growth rate has approximately doubled over the past decade, from 0.9% per annum to 1.6% per annum. This acceleration means that Queensland enterprises are increasingly developing new and better products and production methods, and in this respect Queensland's performance has surpassed that of all other states and territories since the mid-1990s.

Participation

Labour force participation reflects the level of engagement of the working age population in work. High labour force participation depends on the structure of incentives to work, and on having skills that are in demand. The structure of incentives is predominantly a policy area of the Australian Government, with the key settings relating to income taxes, welfare payments, childcare subsidies, and superannuation. The states play a large role in skilling the workforce, with key outcomes relating to literacy and numeracy, participation in the early years and senior years of schooling, and post-school qualification rates. Evidence shows that highly-skilled people are much more likely to participate in the labour force than unskilled people.

Chart 3.4 compares Queensland's participation rate and employment rate with the corresponding rates for the rest of Australia. It shows that since the early 1990s, Queensland's performance has been above the rest of Australia average in almost every year, and this is expected to continue for the foreseeable future. Further, the sharp increase in Queensland's labour force participation from 2003-04 has helped to mitigate the skill and labour pressures being experienced by Queensland employers.

Chart 3.4
Labour force participation rate[1] and employment rate[2], 1986-87 to 2006-07

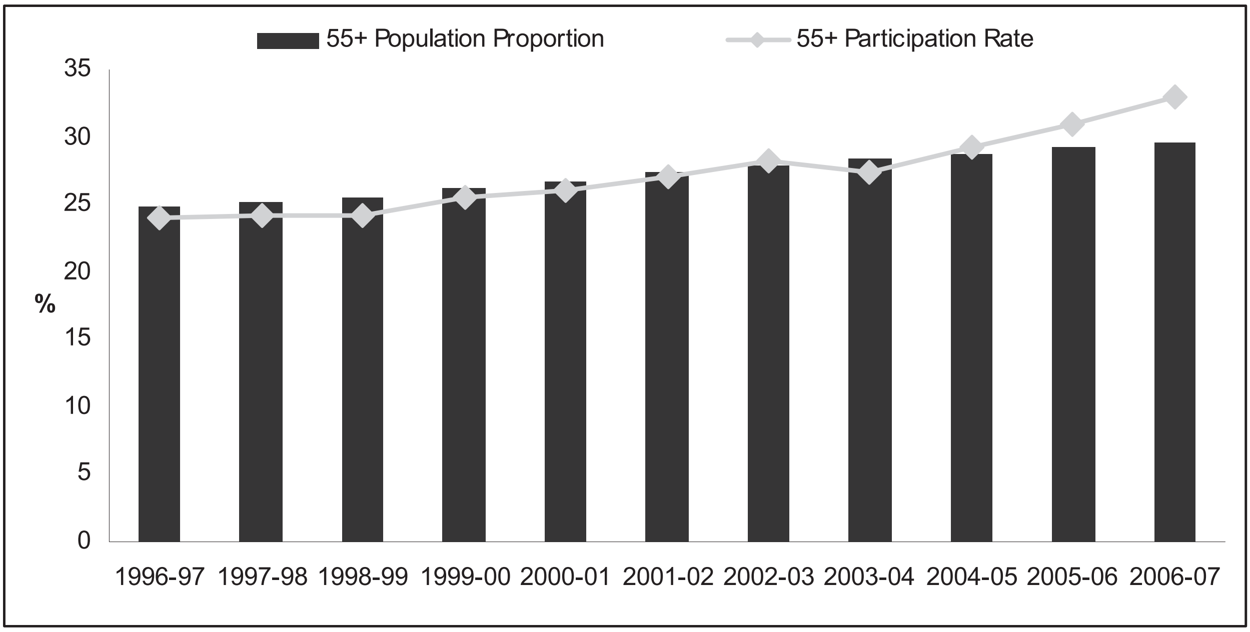


Notes:
1. Labour force as a percentage of civilian population aged 15 and over.
2. Employment as a percentage of civilian population aged 15 and over.

Source*: ABS 6202.0, Queensland Treasury estimates*

If Queensland is to maintain its strong participation performance, increased participation by older Queenslanders will be critical, given our ageing population. Chart 3.5 shows that over the past decade, the proportion of Queensland's civilian working age population that is aged 55 and over has increased from 24.7% to 29.6%. By 2016-17, the 55+ share is projected to increase to 34.9%.

Chart 3.5
Queenslanders aged 55 and over: working age population proportion[1] and labour force participation rate



Notes:
1. Percentage of the civilian population aged 15 and over
Source: *ABS 6202.0, Queensland Treasury estimates*

Chart 3.5 also shows that labour force participation in the 55+ age group has increased significantly over the past decade, with an acceleration from 2004-05 which is possibly linked to the retirement income policy changes introduced by the Australian Government in that year. Given the level of Queensland's 55+ population in 2006-07, the increase in participation from 1996-97 levels delivered an additional 179,000 workers to the Queensland economy in 2006-07. The Queensland Government is working to ensure that its own policies continue to support mature age participation as more Queenslanders move into the mature age category.

FRAMEWORK FOR SUSTAINING ECONOMIC GROWTH

Overall, the Government's role is to maintain an economic environment that sets strong incentives to participate, invest and innovate, and allows flexibility in the allocation of resources among products, processes, and industries in response to changing technology and market conditions.

The Government's framework for a strong, sustainable economy has four main pillars:

- advancing microeconomic reform, particularly in utility markets and services
- investing in economic infrastructure to accommodate continuing strong growth
- investing in skills and fostering new knowledge and innovation
- managing the linkages between the economy and the environment.

The Queensland Government's strategies and initiatives in relation to these four pillars are described below.

Microeconomic reform

The role of government in economic reform is two-fold – firstly, to set appropriate rules for the market sector, ensuring clear incentives, ample flexibility, and low compliance and monitoring costs; and secondly, to improve its own operations, including Government-owned corporations.

The Government is committed to an ongoing reform agenda both through the broader COAG arena as well as identifying specific reform opportunities for Queensland. The Queensland Government is currently developing and implementing a wide range of major reform initiatives, which will deliver productivity dividends in 2008-09 and into the future.

Reform of the economic regulation framework

In May 2008, the Queensland Government amended the *Queensland Competition Authority Act 1997* (the Act). The amendments are in line with the national *Competition and Infrastructure Reform Agreement*, agreed by all states, territories and the Australian Government. Queensland is one of the first states to have delivered on this agreement.

The amendments make the Act more responsive to the changing investment climate in Queensland. Highlights include:

- a new 'light-handed' price monitoring option for the Queensland Competition Authority (QCA) to oversee prices set by monopoly businesses and indicate where there could be problems, without having to do a detailed investigation. The new price monitoring powers will be used by the QCA to monitor changes in local government water prices in South East Queensland as the new water supply arrangements come into effect

- the implementation of nationally consistent objectives and pricing principles for the third party access regime
- the introduction of a six month time limit (with stop-the-clock provisions) on regulatory decisions made by the QCA under the third party access regime. The new time limits should expedite the upcoming QR Limited and Dalrymple Bay Coal Terminal regulatory determination processes (due in 2009 and 2010 respectively)
- the capacity for the QCA to develop binding rulings on certain regulatory issues without needing a more formal regulatory process. Binding rulings will provide regulated or potentially regulated enterprises with the option to apply for a ruling from the QCA on how it would exercise its judgement in relation to decisions on key regulatory issues. It is expected the new rulings section will provide greater regulatory certainty and also facilitate investment in regulated significant infrastructure.

Reform of utility markets and services

Queensland has been progressively implementing extensive reform across the energy, transport and water markets and the Government-owned commercial entities which operate in these markets.

The market-based reforms build on the competition policy achievements of the late 1990s and early 2000s, and include a strong energy market in Queensland with both private sector and public sector participation, transport reform which aims to break bottlenecks in key infrastructure areas, and substantial institutional and market reforms to drought-proof Queensland for future generations. This reform agenda also targets the achievement of robust outcomes from the Government-owned Corporations (GOC) portfolio – in particular, the provision of high-standard services and the achievement of a commercial rate of return.

In some cases, decisions are being taken to exit mature and effective markets, freeing up funds to be redirected into significant and important government priorities. For example, the State GOCs are no longer a part of the energy retail sector in South East Queensland. More recently, the Government announced that the long-term lease of its airport assets in Cairns and Mackay and sale of Port of Brisbane Corporation's remaining stake in Brisbane Airport Corporation Pty Ltd will fund the expansion of hospital services in Cairns, Mackay and Mount Isa.

Chapter 4 discusses the Public Non-financial Corporations sector and related reforms in detail.

Full retail competition

Full retail competition (FRC) was introduced for smaller Queensland electricity and gas users on 1 July 2007, with consumers now able to choose their retailer.

To date, the introduction of FRC has resulted in a significant increase in the number of retailers operating in Queensland and a relatively high take-up rate of market contracts by both electricity and gas customers.

For the first nine months of FRC almost 259,000 electricity customers signed a new market contract with either their current retailer or a competitor, which is significantly higher than the equivalent take-up rates experienced in New South Wales and Victoria. This level of market activity indicates that customers are exercising their right to choose between competitive retailers, with retailers offering incentives including discounts to standard electricity tariffs.

The Queensland Government has established a number of consumer protection measures, including the ability of residential and small business customers to revert to the uniform tariffs and the introduction of a pensioner gas rebate scheme. The QCA has been delegated responsibility for setting the Benchmark Retail Cost Index (BRCI) for electricity. The BRCI is set annually so that regulated electricity prices increase by no more than the actual increase in production costs.

The Minister for Mines and Energy has recently directed the QCA to review small customer gas pricing and competition in the Queensland retail gas market. The QCA will consider issues in Queensland's small customer gas market such as current levels of competition in the markets for reticulated natural gas and substitute fuels, the impact on retail prices from movements in prices and costs in the upstream gas market, and the extent of current small customer gas market activity. The QCA is due to report to the Minister by 1 December 2008.

Review of port competition and regulation

The final report of the *Review of Current Port Competition and Regulation in Queensland* (the review) was released in April 2008. Queensland was one of the first jurisdictions to complete the review and release the final report, which was a requirement of the national *Competition and Infrastructure Reform Agreement*.

The review examined the regulatory framework applied to significant ports in Queensland including the Port of Brisbane, Port of Gladstone, Port of Hay Point, Port of Mackay, Port of Abbot Point, Port of Townsville, and Port of Weipa.

The review's key findings included overall stakeholder support for the current economic regulatory framework and no demonstrated need for further regulation of any ports in Queensland. However, the report also noted that, should the need for further regulation arise in the future, Queensland's current 'light-handed' regulatory regime could be applied to the areas of port pricing and infrastructure.

The main issue highlighted in the report was not regulation, but the need for better coordination and cooperation between supply chain participants. The Government is addressing these issues in the Goonyella coal supply chain by implementing the recommendations of the *O'Donnell Review into Goonyella Coal Supply Chain Capacity*.

Regulatory efficiency

The Queensland Government has had a long standing commitment to regulatory reform. The broad legislation review agenda completed over the last decade removed legislation which hindered competition and was the most significant review ever undertaken of Queensland's legislation.

At a federal level, COAG has embarked on a new National Reform Agenda, the first tranche of which focuses on harmonisation of 27 key areas of regulation that impact at an inter-jurisdictional level, including:

- a new national consumer policy framework, including mortgage credit, consumer credit and financial services
- national harmonisation of occupational health and safety laws
- national harmonisation of payroll tax administration
- improved assessment processes for housing developments, to reduce costs and improve housing affordability
- food regulation
- standard business reporting.

Queensland is also committed to ongoing review of its regulatory environment to promote productivity, facilitate innovation and increase competitiveness.

Complementing our commitment to the COAG reform agenda, Queensland is committed to a new regulatory reform agenda which builds on previous reform work by tackling the quantity of existing regulation and the quality of future regulation simultaneously.

In tackling the existing stock of regulation, the Government intends to focus on removing unnecessary and excessive regulation and associated regulatory requirements, with a focus on reducing or removing tangible and measurable burden, providing real and immediate relief to business and the community.

This approach to tackling the existing stock of regulation will ensure that appropriate and relevant safeguards and protections are maintained.

To improve the quality of future legislation and regulation, the Government will introduce a streamlined, but more rigorous and harmonised, set of processes designed to better measure and understand the regulatory impacts to both business and the community.

Public sector reforms

Queensland is committed to the provision of efficient public services. Key reforms include:

- creating a new Public Service Commission by amalgamating the Service Delivery and Performance Commission with the Office of the Public Service Commissioner. This will save money, deliver greater efficiencies and bring together the State's performance management expertise and human resources management knowledge and expertise
- creating a Civil and Administrative Tribunal, replacing around 26 different tribunals
- establishing an Expenditure Review Committee of Cabinet to review and prioritise government spending
- conducting a review of all government boards and statutory bodies – some 600 altogether – to cut red tape and find savings that can be redirected to front line services, to be completed by the end of 2008.

Local government reform

The new Queensland local government model was implemented on 15 March 2008. The reduced number of local governments in Queensland is intended to increase the effectiveness and sustainability of councils.

In support of the new model, the Government is restructuring the the Department of Local Government, Sport and Recreation, moving about 150 positions into new regional offices in order to provide tailored, localised support for Queensland's diverse councils.

Taxation reform

The Government has a commitment to the ongoing reform of the state tax system, with the aim of minimising compliance costs for business and maintaining a competitive tax environment.

Key business tax reforms include:

- harmonising Queensland's payroll tax system with those of New South Wales and Victoria in order to reduce compliance costs for large firms operating along the eastern seaboard. At the same time, Queensland's low payroll tax rate (the lowest in Australia at 4.75%) and high threshold ($1 million) have been maintained. The new arrangements will commence on 1 July 2008
- easing the withdrawal of the payroll tax threshold deduction to phase out at $5 million, rather than $4 million, resulting in a reduction in tax payable for businesses with payrolls between $1 million and $5 million, from 1 July 2008
- abolishing mortgage duty from 1 July 2008, in advance of the commitment made in the 2005-06 Budget

- halving duty on the transfer of core business assets from 1 January 2010 and fully abolishing it from 1 January 2011
- revising and simplifying the land tax rate structure, providing land tax benefits for approximately 17,500 companies, trustees and absentees with taxable land holdings valued at up to $750,000 (after averaging and capping) from 1 July 2008
- implementing the next stage of the Office of State Revenue's management system, called Duties Online, from January 2009. Among other benefits, Duties Online will provide an electronic lodgement facility for returns, expanded electronic payment options and downloadable duty payment calculators. The new system will reduce the time, effort and cost of complying with the tax regime, as well as the Government's administration and monitoring costs.

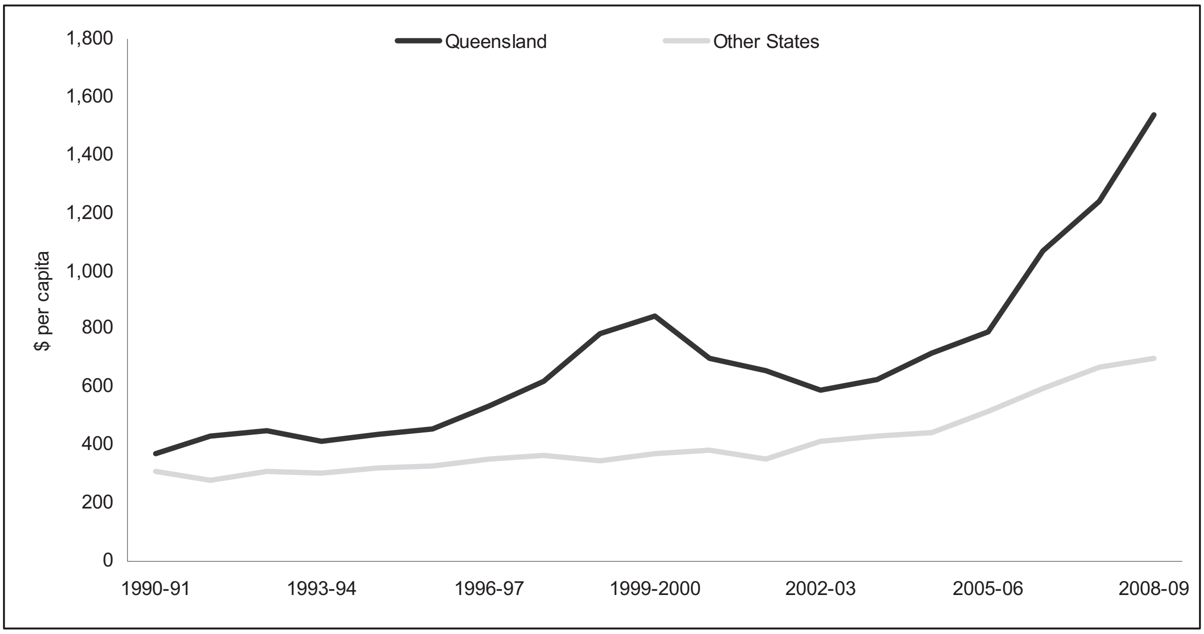
Infrastructure investment

The rapid growth of Queensland's economy and population results in escalating demand for economic and social infrastructure. For example, population growth in Queensland has averaged 2.3% per annum over the past five years (twice the national rate), and a similar growth rate is expected in the foreseeable future. This means that Queensland's stock of infrastructure must expand at a comparable rate in order to keep pace – a massive investment undertaking that places Queensland under more pressure than any other state. This is reflected in the scale of Queensland's capital program, and in the range of recent reforms to infrastructure planning and management introduced by the Government.

Capital spending

For the General Government sector, capital spending is estimated to be $6.651 billion in 2008-09. Annual capital expenditure by the Queensland Government has now almost trebled from its 2002-03 level of $2.232 billion.

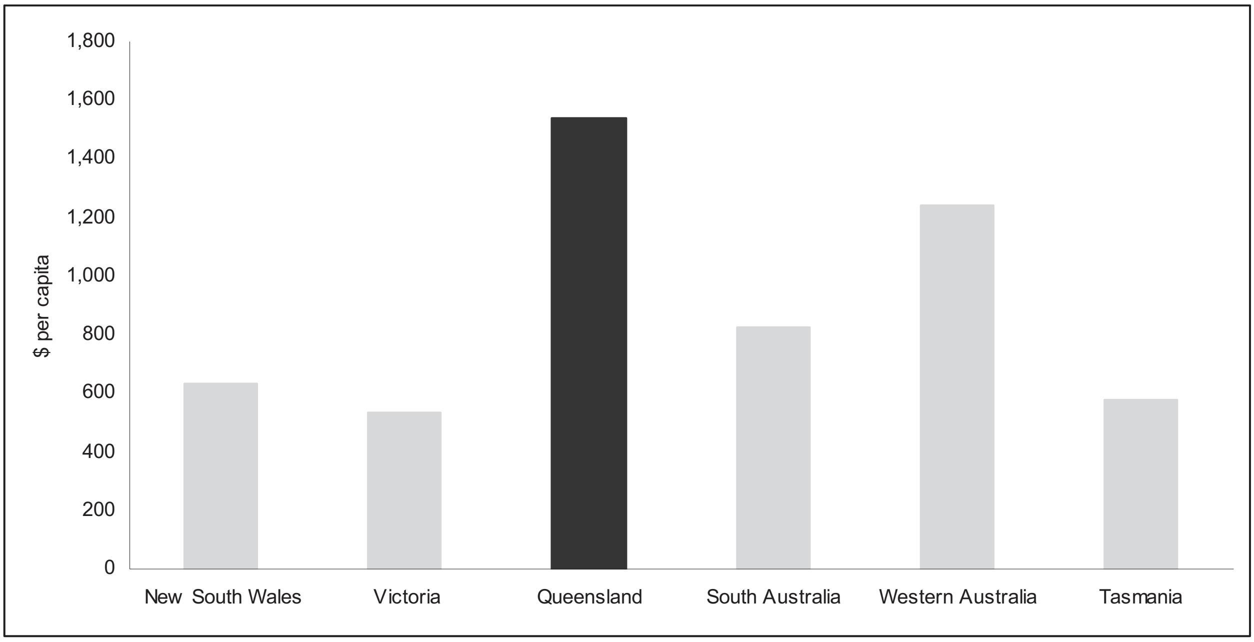
Chart 3.6
General Government purchases of non-financial assets $ per capita



Sources: *Unpublished ABS 5512.0 and 3101.0; various State Budget papers, Mid Year Reviews and Budget Updates; population estimates from Australian Government Budget Paper No.3, 2008-09*

In per capita terms, the Queensland Government's capital spending in the General Government sector remains at approximately double the average of the other states, at $1,541 per person (Figure 3.6). Among the states, Queensland has the highest capital expenditure per person in 2008-09, 24.1% above next-highest Western Australia, which is also experiencing rapid growth (Figure 3.7).

Chart 3.7
General Government purchases of non-financial assets $ per capita, 2008-09



Sources*: QLD, VIC, WA State Budgets, NSW, SA, TAS Mid Year Reviews/Budget Updates.*

The State's total capital outlays in 2008-09, including outlays by the Public Non-financial Corporations sector, are expected to be $17 billion, an increase of 19.1% on estimated actual 2007-08 capital outlays.

Major Queensland Government infrastructure initiatives for 2008-09 include:

- continuing the Gateway Upgrade Project, a $1.883 billion investment in duplicating the Gateway Bridge, refurbishing the existing bridge, upgrading the Gateway Motorway, and establishing a new link to Brisbane Airport, with improvements to be introduced progressively to 2012
- continuing construction of the $9 billion SEQ Water Grid, including completion of three key components: the Gold Coast Desalination Plant, the Western Corridor Recycled Water Project, and the Southern Regional Water Pipeline
- progressing initial infrastructure works ($14.4 million) for the Northern Missing Link, a new rail line proposed to link Central Queensland coal mines with the Abbot Point export facility near Bowen
- further upgrading the Abbot Point Coal Terminal, including the X25 Expansion ($70 million) and on immediately to the X50 Expansion ($250 million) which will more than double the terminal's capacity to 50 million tonnes per annum
- progressing feasibility and approval processes for the new Wiggins Island Coal Terminal near Gladstone, which aims to provide an additional annual export capacity of 25 million tonnes by 2012, and 85 million tonnes when all three stages are completed
- progressing new hospitals for the Sunshine Coast (to be delivered in 2014), and Gold Coast (2012), along with Stage 2 of the Prince Charles Hospital Upgrade (2009) and the new Queensland Children's Hospital (first stage 2011).

Further details of the State's capital program are provided in Budget Paper 3 – Capital Statement.

Infrastructure planning and management

With a $6.7 billion General Government capital program in 2008-09, there is a large call on the Government's planning and management functions.

To ensure the efficiency and effectiveness of this extensive capital program, the Government has introduced a number of significant reforms, including:

- creating the Department of Infrastructure and Planning, to bring together regional planning, economic development and whole-of-Government infrastructure planning and coordination
- creating the Translink Transit Authority to integrate and manage public transport services across the South East

- implementing the SEQ Water Grid Manager, which gives the Queensland Government control and accountability for water and water assets in the South East.

Additionally, the Government has commenced developing its *Congestion Management Strategy*, which will include both capacity building and demand management initiatives. A key initiative under the strategy will be the expansion of the TravelSmart program ($22.6 million over four years), which works with communities, schools, destinations and workplaces to raise awareness, improve access to information and generate opportunities to use sustainable transport modes, such as walking, cycling and using public transport.

The Government will continue to monitor the effectiveness of these reforms and will continue to investigate further reform opportunities, to ensure that the infrastructure essential to our future growth is delivered in the most timely and effective way.

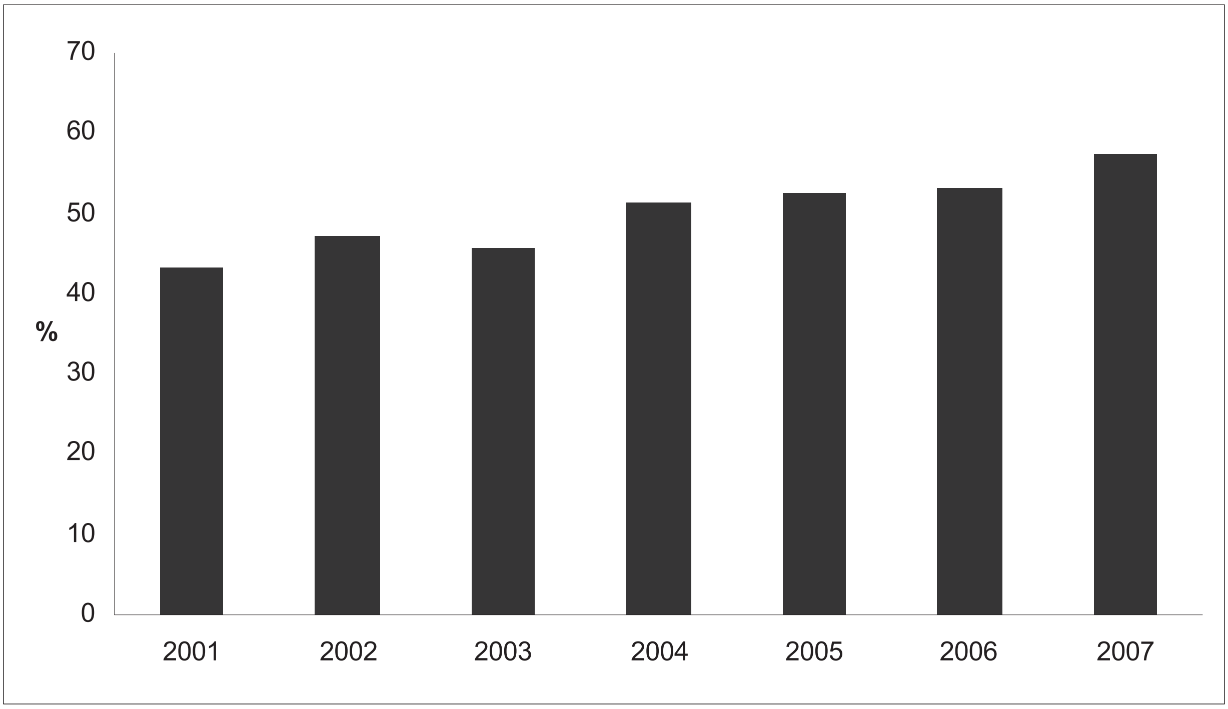
Skills and innovation

For Queensland's skilled workers, the pace of economic growth is generating significant benefits in terms of choice of work and high wages. However, for Queensland's employers, it is becoming much more difficult to recruit and retain skilled workers, particularly in industries like mining, construction and health, and in agriculture, where scarce workers are being attracted away from employment on the land.

While some skill shortages are cyclical in nature, others reflect long-term changes in Queensland's economic environment. For example, low and medium technology manufacturing and services employment is increasingly being reallocated from the developed countries, including Australia, to countries like China and India, which have a comparative advantage in low-skilled labour. The onus is now on developed economies like Queensland to 'move up the value chain', which means an increasing focus on activities requiring substantial inputs of knowledge, technology, and intangible assets – which in turn requires an increasingly skilled workforce and an effective innovation system.

The latest Australian Bureau of Statistics skills data indicate that young Queenslanders are acquiring post-school qualifications at a higher rate then ever before. Over the period 2001 to 2007, the proportion of Queenslanders aged 25 to 34 with a qualification at Certificate III level or above increased from 43.3% to 57.4% (Chart 3.8).

Chart 3.8
Queenslanders aged 25 to 34 with a qualification at Certificate III level or above



Sources: *ABS 6227.0 and Queensland Treasury estimates.*

The centrepiece of the Government's skills agenda is the *Queensland Skills Plan* (QSP), a substantial policy framework launched in 2006, entailing 24 actions to transform and modernise the vocational education and training system. The QSP is paying off for Queensland, with 63,200 new apprentices and trainees commencing in the 12 months to 30 September 2007. This represents an increase of 12.9% on the previous year, compared with an increase of 4.8% nationally. QSP initiatives for 2008-09 include: $14.9 million for 3,500 additional training places at Certificate IV or higher, with a target of 14,000 additional places available by 2010; and $17.1 million to create 4,250 additional trade training places, with a target of 17,000 extra places available by 2010.

The importance of skills as an enabler of innovation and productivity growth is recognised in the *Smart Industry Policy*, which aims to realise the Smart State vision by placing productivity at the centre of the Government's industry development agenda.

For 15 priority industry sectors, the *Smart Industry Policy* targets five key issues to drive innovation:

- connecting industry with ideas
- boosting incentives for productivity
- developing skilled people
- building markets for smart products
- promoting an innovative business culture.

The third stage of the *Smart State Strategy – Queensland's smart future 2008-2012* – will involve a major overhaul of existing programs and a shift in emphasis from the provision of research infrastructure to investing in people through scholarships and fellowships, in key areas such as health and medical research. Over the next four years, the Government will invest $120 million in this next phase of the *Smart State Strategy*.

Environmental sustainability

One of the first actions of the current Government was to create the portfolio of Sustainability, Climate Change and Innovation in order to coordinate whole-of-Government responses to environmental challenges.

A key challenge within this portfolio is the upcoming national emissions trading scheme (ETS). In April 2007, the Australian Labor Party and state and territory governments tasked Professor Ross Garnaut to examine the economic and environmental risks of climate change and recommend a path for the implementation of policies to 2050. In December 2007, COAG decided that the Australian Government would work with the states and territories (through the Climate Change Working Group) on its plan for finalising the design and implementation of a national ETS starting no later than 2010. The Garnaut Review's final report, due by the end of September 2008, will be one input to the Australian Government's ETS deliberations.

The Queensland Government firmly supports emissions trading, as well as the setting of strong interim emissions reduction targets consistent with the national goal of a 60% reduction in emissions by 2050. At the same time, the Government recognises that introducing a price for carbon will create significant structural adjustment pressures in key sectors of the Queensland economy. It is therefore important that the design and implementation of the ETS recognises the significant lead times associated with new low-emission technologies, particularly as coal gasification and carbon capture and storage will not be deployed for some 12 to 17 years. Setting ambitious targets, which the economy and industry may not realistically have the capacity to meet without significant economic dislocation and large transition costs in the short to medium term, would be a concern, particularly from the perspective of ensuring ongoing energy security. From an economic perspective, maintaining investor confidence and security of supply in the energy sector is critical.

The Government also considers the final design of Australia's ETS needs to ensure the international competitiveness of trade-exposed emission-intensive industries is preserved.

As well as being involved in national preparations for emissions trading, the Government has developed a strong independent response to the climate challenge which includes the following initiatives:

- reviewing ClimateSmart 2050, the Government's long-term agenda for addressing the climate challenge. The Review will build on the suite of greenhouse gas reduction measures contained in the original ClimateSmart strategy, and will outline additional measures across all sectors of the economy
- establishing the Queensland Climate Change Fund dividend, using the proceeds of the sale of government energy assets. This will enable a fixed ongoing allocation of $30 million per annum for greenhouse gas reduction programs and climate change adaptation actions.

4 PUBLIC NON-FINANCIAL CORPORATIONS SECTOR AND RELATED REFORMS

FEATURES

- **The Government is committed to actively monitoring its shareholding in Public Non-financial Corporations with the aim of maximising value to Queenslanders.**
- **Proceeds arising from the sale of a number of Government-owned corporations' assets have been or will be used to fund important priorities for Queensland including the upgrade of existing, and building of new, hospitals and funding climate change initiatives.**
- **A $5.4 billion Coal Transport Infrastructure Investment Program has been launched to ensure that Queensland can continue to efficiently service the growing coal export market through rail and ports.**
- **QR Limited (QR) is undertaking a sequenced program of reform in 2008 which will improve its competitiveness and profitability. New subsidiaries will be created for QR's passenger, network and services businesses which will improve customer focus and increase accountability for safety, performance and bottom-line results.**

The Public Non-financial Corporations (PNFC) sector is currently undergoing a period of significant reform and renewal.

In recent years the Government has been actively reviewing its strategic shareholding in certain types of commercial asset classes, with the aim of optimising the returns to Queenslanders as the ultimate owners of these assets. Where appropriate, decisions have been taken to exit mature and effective markets, where Government ownership is no longer required and where it has been assessed that the private sector is better placed to manage these risks.

Recent activities include:

- the transfer of 25% of Port of Brisbane Corporation's interest in Brisbane Airport Corporation Pty Ltd to the Queensland Investment Corporation on 17 August 2007
- the wind-up of Queensland Power Trading Corporation (Enertrade) following the sale of its gas business and its interest in the Oakey Power Purchase Agreement, and the transfer of its remaining assets and liabilities to Stanwell Corporation Limited (Stanwell), CS Energy Limited (CS Energy) and Ergon Energy Corporation Limited (Ergon)
- sale of the wind farms owned by Tarong Energy Corporation Limited (Tarong) and Stanwell in December 2007

- the recently announced decision to lease the Cairns and Mackay Airports on a long-term basis and to dispose of the Port of Brisbane Corporation's remaining 12.4% interest in Brisbane Airport Corporation Pty Ltd
- transfer of the ownership, management and control of the Port of Bundaberg from the Bundaberg Port Authority to a subsidiary of the Port of Brisbane Corporation in October 2007
- significant progress in the implementation of major reforms to the institutional and regulatory arrangements governing urban water supply in South East Queensland, consistent with the recommendations of the Queensland Water Commission in its report to Government of May 2007.

Proceeds from these and previous sales have been or will be used to fund important Government priorities, including:

- the new Queensland Children's Hospital
- new hospital facilities in Cairns and Mackay and a major upgrade of Mount Isa Hospital
- climate change initiatives
- the Queensland Future Growth Fund.

The Government will continue to actively monitor its investment in the PNFC sector by reviewing individual entities' service delivery, financial performance and risk profiles against the overall policy and market environment in which they operate.

In this context, the Government remains committed to continuing to improve the commercial performance and financial returns of these entities, while optimising broader competition, service delivery, trade and market outcomes in these sectors. The purpose of this strategy is to ensure maximum value, for the benefit of Queensland taxpayers This will be achieved through increased returns on its investment, the continued provision of quality services to the community and customers, and economic benefits to Queensland through increased trade and output.

Further information on the detailed financial outlook for the PNFC sector, which incorporates the Government-owned corporations (GOCs), is provided in Chapter 9.

TRANSPORT SECTOR

Coal infrastructure projects

Strong economic growth in China and India continues to contribute significantly to growing demand from the coal-reliant steel and electricity production sectors. Economic growth in the Republic of Korea and Malaysia is also a strong driver of demand for coal used in electricity production. Japan's persistent strong demand for imported coal has continued.

Japan remains our number one export destination for both thermal and coking coal with exports in 2006-07 of 19.2 million tonnes (mt) and 38.6 mt respectively. The number two export destinations were the Republic of Korea for thermal coal and India for coking coal.

Table 4.1
Queensland's major coal export destinations, 2006-07

Coking Coal		Thermal Coal	
Country	**Tonnage (Mt)**	**Country**	**Tonnage (Mt)**
Japan	38.6	Japan	19.2
India	17.4	Republic of Korea	7.9
Republic of Korea	10.9	Taiwan	5.9
Netherlands	6.4	China	1.8
Brazil	5.6	Thailand	1.5

In the past decade, Queensland, as the supplier of almost 58% of Australia's coal exports, has increased the volume of its coal exports by 50% to 153.4 million tonnes per annum (mtpa) and its value by 76%. This strong demand is forecast to continue with Queensland's coal exports predicted to grow by approximately 42% by 2010 and a further 40% by 2015 to reach 306 mtpa.

In response to these coal demand forecasts, the Queensland Government launched a $5.4 billion Coal Transport Infrastructure Investment Program (the Program) which involves significant investment in Government-owned rail and port infrastructure as well as major investments by private coal terminal operators.

The Program, outlined in the document *Queensland coal transport – planning for growth*, issued in February 2008, sets out Queensland's current port and rail capacities, likely expansions by 2015 and possible expansions by 2020 where demand warrants. The port expansions in the Program could provide export capacity over 300 mtpa by 2015 and over 400 mtpa by 2020. Rail expansions could provide similar additional capacity.

Abbot Point Coal Terminal

In November 2007, the Ports Corporation of Queensland Limited (PCQ) completed an expansion of the Abbot Point Coal Terminal which increased the coal export capacity of the terminal from 15 mtpa to 21 mtpa. PCQ is currently undertaking a further expansion of the terminal to increase capacity to 25 mtpa. This expansion is expected to be completed in June 2009.

PCQ is now planning a further expansion of the Abbot Point Coal Terminal which will expand the terminal to 50 mtpa. The expansion, referred to as X50, is underwritten by commercial contracts with coal companies and is due for completion in 2010-11.

Work on the expansion, estimated to cost $818 million, including financing charges, will commence in the near future, with $250 million to be spent on early works in 2008-09.

This will coincide with QR Limited's (QR) construction of the Goonyella to Abbot Point (GAP) Expansion Project which includes the Northern Missing Link, a 69 kilometre rail link between the North Goonyella and Newlands rail systems in the Bowen Basin. The GAP Expansion Project will provide mines in the Goonyella system with access to the Abbot Point Coal Terminal.

The GAP Expansion Project is currently in its final stages of planning prior to the commencement of construction which is expected to occur in August 2008. QR is scheduled to construct the GAP expansion project to a capacity of 25 mtpa by March 2010 and to a capacity of 50 mtpa by end 2010.

Funding will be provided in 2008-09 for this project, subject to final approvals and successful completion of contractual negotiations with coal company customers. It is anticipated that the full cost of the first stage of the GAP project will be over $1 billion.

Wiggins Island Coal Terminal

With demand for the State's resources forecast to remain solid over the coming years, the Port of Gladstone will form a central part of the required expansion of the Capricornia and Surat Coal Supply Chains.

The proposed location for a new coal terminal to support the expansion of the Capricornia and Surat Coal Supply Chains is to the north of the current RG Tanna Coal Terminal at Wiggins Island.

The ultimate export capacity of the proposed Wiggins Island Coal Terminal is expected to be approximately 70 mtpa. A further port connection linking the proposed terminal to the RG Tanna Coal Terminal may provide additional capacity of 15 mtpa, increasing new throughput capacity to approximately 85 mtpa.

Should the proposed Wiggins Island Coal Terminal project demonstrate commercial and engineering feasibility and progress to implementation, the first stage of the proposed Wiggins Island Coal Terminal is expected to provide initial capacity of 25 mtpa by the end of 2012.

In late 2006, Gladstone Ports Corporation and QR commenced the environmental impact statement planning process, culminating in the receipt of the necessary environmental approval under the *Environmental Protection and Biodiversity Conservation Act 1999* for the proposed Wiggins Island Coal Terminal and associated infrastructure in April 2008.

Gladstone Ports Corporation has now commenced detailed engineering and commercial feasibility investigations. In addition, a joint Government/Industry Reference Group to work through possible financing options for the Wiggins Island Coal Terminal has been established. QR also has made significant progress in the planning of the new rail infrastructure, including a second marshalling yard, required to accompany the development of the Wiggins Island Coal Terminal.

QR Limited

To manage growth in the coal freight market, QR will be undertaking a substantial capital investment to meet customers' needs. The overarching strategy for QR's coal business incorporates innovation in rollingstock and operations, and negotiation of contracts to achieve improved returns and to maintain their coal haulage industry leader position in Queensland.

In 2008-09, QR will spend $576.4 million on additional track works on the coal network in Central Queensland. The majority of this amount ($400 million) will be spent on the upgrade of the Jilalan Rail Yard near Sarina. The project includes the construction of two new bypass rail tracks, two provisioning tracks and maintenance tracks plus provisioning and wagon maintenance facilities. Other specific projects include the GAP expansion project which includes the Northern Missing Link (subject to approvals).

QR will also invest $303.7 million in 2008-09 for coal rollingstock to meet demand in the Central Queensland coal network. QR's total coal rollingstock program out to 2011 is $2 billion. This program will enable QR to transport more than 260 mtpa - a 59% increase in Queensland alone from 2006-07.

QR is in the process of building a leading national transport and logistics company with the aim of achieving excellence in customer service and commercial outcomes.

QR has a sequenced program of reform in 2008 to improve its competitiveness and profitability, and position itself for a sustainable commercial future. Key initiatives underpinning QR's reforms involve a corporate restructure which includes the creation of new subsidiaries for QR's passenger, network and services businesses (all wholly owned by QR), and new wholly-owned subsidiaries created within QR Freight for the coal and regional freight businesses to operate alongside the existing subsidiaries used for the intermodal and bulk businesses.

The above restructure recognises that QR has a portfolio of businesses operating in distinctly different markets that need to be separate, customer-focussed and accountable for safety, performance and bottom line results. QR has been consulting unions and employees on the changes, which will gradually roll out over 2008-09.

Airport assets

On 15 April 2008, the Government announced the intention to lease the Mackay and Cairns airports on a long term basis and the disposal of the Port of Brisbane Corporation's remaining shareholding in the Brisbane Airport Corporation Pty Ltd.

The proceeds from the airport transactions will provide for the expansion of the Cairns Hospital and delivery of a new clinical wing, a new Mackay Base Hospital and a major upgrade of Mount Isa Hospital.

The decision to divest the State's interests in its remaining airports is based on the Government's view that it no longer needs to own and operate airports to ensure their successful operation and financial viability. The Government believes that the private sector is now best placed to manage the operation and development of these assets, due to factors such as its greater ability to attract specialist airport management expertise, develop the airport business and generate commercial returns.

Review of port structure

As both Cairns and Mackay airports form significant parts of their respective port operations, a review of the best structure and management framework for the management of the State's seaports will be undertaken in parallel with the airport transactions.

The review will be based on the premise that the State will maintain overall ownership of the State's port network whilst actively encouraging private sector investment in port infrastructure and services.

The outcomes expected by the State from the seaport network review are:

- that the seaport network continues to facilitate existing and future trade potential to assist in maximising economic growth, regional development and value to the State
- to maintain a strong business approach and appropriate commercial returns which also provide for a financially sustainable, and operationally safe and secure seaport network.

This review is focused on options for the management of the network and is not specifically focused on the discrete roles or functions of individual port authorities. The principal focus of this review is on the management of the port network from Hay Point northwards.

Queensland Motorways Limited

Queensland Motorways Limited (QML) is required by a new Road Franchise Agreement, established in July 2007, to commission, operate and maintain a new tolling system that incorporates full free-flow tolling (FFT). In February 2008, the Minister for Main Roads and Local Government announced the Queensland Government's approval of QML's plan to simultaneously introduce free-flow tolling on the Gateway and Logan Motorways in mid 2009.

In response, QML has commenced the design, development and installation of a new tolling system and associated civil works (gantries, interchange redesign) that incorporate full FFT facilities and provide for both E toll and casual or infrequent motorway users. FFT is expected to be implemented on the Gateway Bridge, Gateway Extension Motorway and Logan Motorway during 2009 in accordance with the decision of Government in February 2008.

The FFT project will deliver significant benefits to motorists using QML toll roads through improved safety and reduced congestion, improved traffic speeds with improved environmental outcomes, and more flexible and convenient payment options for customers.

Following an extensive tender process, two leading international technology providers, Thales and IBM, were selected to deliver the roadside and back-office systems components of the project. Together these vendors will deliver for QML and the State the smartest electronic tolling technology available in the world today. The technology will also provide the capability to adjust to emerging tolling strategies that may address vehicle occupancy, time and place, and vehicle emissions as a further response to traffic congestion. The civil works component of the project will be delivered through an alliance contracting arrangement.

In 2008-09, QML will spend $537.6 million towards the construction of a second Gateway Bridge river crossing and to increase capacity on the Gateway Motorway between Mt Gravatt-Capalaba Road and Nudgee Road. The project has an estimated total cost of $1.883 billion.

Investment – ports and rail

Transport GOCs are increasingly delivering new projects in partnership with the private sector. Significant investment is occurring in the port and rail sectors with Government and the private sector developing infrastructure and services to ensure that the State continues to deliver essential services and grows to meet future requirements.

The Port of Brisbane Corporation Limited (PBC) will invest $536.6 million over five years in constructing new wharves 11 and 12 and establishing associated land works at Fisherman Islands. Wharf 11 is expected to be operational by 2012 and Wharf 12 in 2014. This will increase Brisbane's container-handling facility by 25% and take the number of dedicated container wharves at the port to nine. Hutchison Port Holdings Limited (HPH), one of the world's leading port investors, developers and operators, has entered into an agreement to lease the new container wharves and will become the third stevedore operating in Brisbane. HPH will subsequently undertake and fund the development of container terminal facilities for the new wharves.

Construction of the new wharves by PBC and construction of the associated container terminals by HPH represent the most significant one-off construction project that PBC has undertaken to date. The introduction of the new wharves and terminals will provide the foundation for the port to meet the future container trade requirements of Queensland, maintain the price competitiveness of the port and provide a future framework for maximising the efficiency of the three stevedores at the port.

QR is seeking to grow its intermodal containerised freight business, a market which is expected to double in the next 20 years. QR’s long-term intermodal strategy recognises the need for new inland terminals and rail connections to capitalise on its expected growth. In December 2007 QR announced it was entering into a joint venture with Stockland and Kaplan Funds Management via a $30 million purchase (a 10% stake) of a future national freight terminal site at Moorebank in New South Wales.

In March 2008 QR announced a joint venture logistics partnership with P&O Trans Australia which will result in the creation of a combined domestic and international rail hub at Yennora in western Sydney. The agreement will see the partners establish a joint operation of rail and terminal services at the existing Yennora Rail Site to enhance their current operations. This includes an intermodal terminal operated by P&O on behalf of both partners, which will cater for QR’s national intermodal business and also a new Port Shuttle Service carrying international cargo to and from Port Botany.

In another dimension to QR's growing business, QR established Australia's first major rail multi-user terminal in partnership with P&O at Acacia Ridge. The multi-user terminal is QR-owned, and is a key location for the transfer of interstate freight between road and rail. QR is undertaking long-term planning for terminal upgrades to meet rail volume increases.

The Queensland coal export market is currently experiencing strong growth. While QR will remain the dominant rail haulage provider, its competitor, Pacific National has announced it is investing about $530 million in diesel and electric locomotives and expects to commence coal rail operations in the first half of 2009-10. Pacific National anticipates it will capture in excess of 30 mtpa by 2011.

The Surat Basin Railway, a proposed 207 km railway linking Wandoan and Banana, will allow development of Surat Basin coal deposits and the export of coal from the Port of Gladstone. The Government has granted an unconditional exclusive mandate to a consortium comprising Australian Transport and Energy Corridor Ltd, Industry Funds Management, QR, Xstrata and Anglo Coal to build the Surat Basin Railway.

QRNational has continued its strong expansion into interstate freight markets by doubling coal tonnages in the Hunter Valley in 2006-07. QR holds a 15% share of the market it entered in 2002 through the acquisition of NSW-based freight business Interail.

ENERGY SECTOR

Emissions trading

One of the key challenges facing the energy sector is the transition to an emissions trading environment. The broader issues associated with the implementation of an emissions trading scheme are discussed in Chapter 3.

The Queensland Government is actively participating in work on the development of an emissions trading scheme for Australia and keenly awaits the Federal Government's decisions later this year. It is actively assessing the range of potential impacts on the GOCs, and in particular shareholder value in the generator GOCs.

A further area being actively investigated by the Government, ENERGEX and Ergon, is demand side management, in turn potentially reducing network, distribution and generation infrastructure requirements, electricity demand and consequently emissions.

It is important that the Queensland Government continue to be actively involved in the review agenda to manage impacts on these businesses, ensure continued electricity supply security and reliability across the state, and smooth the transition to an emissions trading environment while still achieving the desired emissions outcomes.

Investment – energy

The Government will continue to invest in transmission and distribution infrastructure across the State, to ensure that peak demand will be met. ENERGEX and Ergon are reaching the end of their current regulatory period under the Queensland Competition Authority (QCA), and a new determination for their capital expenditure will be made by the Australian Energy Regulator (AER) for the new five year regulatory period from 1 July 2010.

Transmission infrastructure and augmentation will be improved with Powerlink Queensland (Powerlink) investing $675.4 million in 2008-09, while a total of $1.915 billion will be invested in 2008-09 in enhancements to the distribution networks by ENERGEX and Ergon. This investment will ensure that the State maintains reliable and secure transmission and distribution electricity networks.

The Government's recently-commissioned state-of-the-art Kogan Creek Power Station has added another 750 megawatts of generation capacity to the State. Government-owned generators continue to examine possible generation projects which, once further developed and submitted for consideration, will be examined by Government.

There has been a history of private sector participation in the State's energy sector, including in joint venture arrangements with GOCs. The private sector currently owns 42.3% of total generation capacity within the State, which will increase to 48.6% with the commissioning of five new gas-fired plants currently under construction. In 2009-10, privately-developed and operated gas-fired generation will add an additional 1,516 megawatts of capacity to the State's electricity supply. These plants will be progressively commissioned at Mt Stuart, Braemar, Darling Downs, Condamine and Yarwun.

While joint venture arrangements with private sector players provide GOCs with access to capital and expertise, it also indicates an environment that does not inhibit private sector investment in major infrastructure assets in the State and is a reflection of the confidence of the private sector to undertake significant investment in partnership with GOCs. Examples include the Callide C and Tarong North power stations in which private sector investors have a 50% interest. Private sector investors include major Japanese, Chinese and American energy companies.

GOCs continue to engage with private sector players in a range of energy-related activities, particularly in securing fuel supply for their generation plant. The CS Energy-owned Kogan Creek coal mine has been developed and is being operated by Golding Contractors, a major Queensland mining company. CS Energy has also been involved in facilitating the development of gas sources through farm-in arrangements with private sector gas companies such as Queensland Gas Corporation, Arrow Energy and Metgasco in the Surat basin and in northern New South Wales.

ZeroGen Mark II

ZeroGen is a leading-edge clean coal technology project aimed at integrating coal gasification with carbon capture and storage technologies to produce low emission baseload power. The integration of these technologies has the potential to achieve cuts of up to 90% in greenhouse gas emissions from large-scale commercial electricity generation.

The ZeroGen project has been reconfigured to a two-stage development involving a revised Stage One demonstration leading to a Stage Two commercial scale project.

Stage One of the ZeroGen project now involves the construction of an 80 megawatt coal gasification demonstration plant adjacent to the existing Stanwell Power Station. The proposed new plant for Stage One will demonstrate capture of up to 75% of carbon dioxide emissions and also demonstrate underground storage by transporting carbon dioxide to identified geological storage sites in the Northern Denison Trough. A Stage One feasibility study is presently scheduled for completion in late 2009.

With additional funding support, Stage Two of the project can be developed concurrently with Stage One and will involve the deployment of a large-scale 300 megawatt coal gasification plant with 90% carbon capture and storage facilities. A pre-feasibility study will investigate suitable areas in Queensland for the location of the Stage Two project.

The State has currently committed, through the Queensland Future Growth Fund, funding of $102.5 million for the ZeroGen project, with the Australian Coal Association, through the COAL21 Fund, providing a further $26 million towards costs of the Stage One feasibility study. The Queensland Government and ZeroGen Pty Ltd will also be seeking Australian Government and private sector funding support for the ZeroGen Stage One demonstration plant and Stage Two feasibility studies.

Market developments

In the 2006-07 financial year, Government-owned generators operated in an increasingly volatile and competitive market, with drought conditions having varied impacts on generation capacity and profitability for the generators, depending on their access to water and exposure to pool prices. The commissioning of Kogan Creek Power Station, with its advanced design utilising dry-cooling technology (which results in 90% less water consumption than an equivalent-sized wet-cooled power station) was of considerable benefit to the State in providing capacity to manage the drought issue.

Generators, in particular Tarong, have also faced fuel supply issues. Tarong, in response to its diminishing coal supply at Meandu mine, is currently progressing preliminary development activities associated with the Kunioon coal resource, thereby working to ensure its ability to continue to provide generation capacity for Queenslanders.

The Government has moved to ensure security of water supply by investing approximately $9 billion in water infrastructure. A key element of this initiative is the provision of recycled water to the Swanbank and Tarong sites. Swanbank began receiving recycled water in August 2007 and Tarong will commence receiving recycled water from 1 July 2008. These measures guarantee water supply to the two sites and secure continued operation of these plants in similar future drought conditions.

More recently, the Queensland Government decided to divest its interests in wind and gas assets owned by Government-owned generators to climate change initiatives. Proceeds from the sale will enable a fixed ongoing allocation of $30 million per annum for greenhouse gas reduction programs and climate change adaptation actions. Consolidation across the Government generation portfolio has also occurred with the wind-up of Enertrade in April 2008.

Ergon franchise load

Ergon was formed in 1999 by the State Government from the then six regional Queensland electricity distributors and their subsidiary retailers. Ergon Energy Queensland Limited (EEQ) was formed as a wholly-owned subsidiary of Ergon and became operational from 1 November 2006. It was created to provide electricity retail services to the 600,000 plus non-market customers in regional Queensland who were transferred from Powerdirect Australia prior to its sale.

The Government is committed to ensuring that Queenslanders, regardless of where they live in the State, should have access to affordable electricity supply. The Government provides a maximum uniform tariff across Queensland in order to ensure Queenslanders are not disadvantaged by the higher cost of supplying electricity in regional areas. This policy is supported by community service obligation payments by the Government to EEQ, which in 2008-09 are budgeted to be $440 million. The Government also provides a range of concessions to eligible persons to reduce the cost of their electricity bills.

Regulation under the Australian Energy Regulator

Economic regulation of Queensland's energy sector increasingly falls under the auspices of the Australian Energy Regulator (AER). The AER regulates the wholesale electricity market and electricity transmission and distribution networks in the national electricity market (NEM). The AER will also be responsible for the economic regulation of gas transmission and distribution networks and enforcing the national gas law and national gas rules (once enacted) as well as regulation of retail markets with the exception of retail pricing in all jurisdictions except Western Australia.

Since 1 July 2007 Powerlink has operated under the AER's transmission revenue regulation, with ENERGEX and Ergon operating under the QCA's regulatory determination for electricity distribution until 30 June 2010. The next distribution regulatory determination will be set by the AER prior to 1 July 2010.

While the transition from the QCA to the AER presents new challenges and risks for ENERGEX and Ergon, the Queensland Government recognises the importance of a consistent regulatory regime across NEM jurisdictions. The Queensland Government is aware that there are a number of factors that will apply significant upward pressure on distribution tariffs in 2010-11, including the increased demand on the ENERGEX and Ergon networks, and increasing input costs (particularly construction costs). This is likely to coincide with upward pressure on energy costs resulting from the introduction of an Emissions Trading Scheme.

WATER SECTOR

In May 2007, the Queensland Water Commission delivered a report to Government recommending major structural reform of urban water supply arrangements in South East Queensland (SEQ). Historically, the institutional arrangements for water supply have been provincial and fragmented, with bulk source, transport and treatment assets owned by 25 different entities, servicing 17 separate retail businesses.

The Commission's recommendations targeted the serious systemic weaknesses inherent in the existing arrangements as highlighted by the current drought.

The key reforms accepted by the Government include transitioning control and operation of larger bulk water assets to the State, the establishment of a Water Grid Manager and the amalgamation of local governments' distribution and retail water businesses.

The passage of the *South East Queensland Water (Restructuring) Act 2007* (the Water Restructuring Act) in November 2007 helps facilitate the bulk water supply and transport business restructure. Under the revised institutional arrangements, the State – via three new statutory authorities – will control and operate the larger bulk water assets that hold, manufacture and distribute bulk water in the region.

The Water Restructuring Act also provides for the establishment of a Water Grid Manager, to be responsible for equitable distribution of water across the region through a water grid from 1 July 2008.

With the amalgamation of local governments' distribution and retail water businesses, local governments will be responsible for distributing and selling water to consumers through one distribution entity and a number of retailers. Councils have until July 2010 to give effect to these reforms.

As part of the first stage of the Government's reforms, SEQ local governments will receive over $2 billion in compensation for the bulk water assets being transferred to the Queensland Bulk Water Supply Authority and Queensland Bulk Water Transport Authority. The compensation is determined on the basis of foregone earnings and in line with council pricing and regulatory principles. The acquisition of existing bulk water businesses is being debt funded. To limit the impact on the overall level of combined local-State Government debt, compensation for the acquisition of assets is being applied to the repayment of councils' debt in the first instance.

SEQ councils will continue to own, and be entitled to the dividends from, around 82% of their total water assets being retained through the distribution and retail businesses.

To meet current and future water supply needs for SEQ, new water infrastructure is currently being built by four special-purpose vehicle companies established by the Government. These include the $1.2 billion SEQ (Gold Coast) Desalination Company and the $2.5 billion Western Corridor Recycled Water Company, both of which are expected to complete their core construction projects by the end of 2008.

The Government-owned Queensland Water Infrastructure Company has commenced design on the $1.6 billion Traveston Crossing and $0.3 billion Wyaralong dams, both of which are currently awaiting environmental approvals. These dams are expected to be completed by 2011. The Southern Regional Water Pipeline Company is constructing an interconnecting pipe network (Southern, Northern and Eastern) to link these bulk water sources, at an estimated cost of over $1.5 billion. Expenditure in 2008-09 on new infrastructure is estimated to be over $2 billion with the total cost of the new infrastructure being approximately $9 billion.

South East Queensland is not the sole focus for the development of water projects to ensure water security across the State of Queensland. SunWater will continue to progress feasibility investigations and prepare business cases for key regional water projects in line with the Program of Works for Statewide Water Grid Regional Water Projects. These projects include the Nathan Dam, Connors River Dam, Fitzroy River Weir, Nullinga Dam, Kinchant Dam and Water for Bowen.

FORESTRY

Forestry Plantations Queensland (FPQ) will continue the expansion of its hardwood sawlog plantations to satisfy the Government's commitment under the Western Hardwoods Region Plan to make available 20,000 hectares of hardwood sawlog plantations.

FPQ will continue to progress the commercial reform of its plantation forestry business to improve operations and promote the long term sustainability and overall competitiveness of Queensland's plantation timber industry.

5 REVENUE

FEATURES

- **Total General Government sector revenue is estimated to be $36.582 billion in 2008-09. The increase of $4.306 billion (or 13.3%) on 2007-08 estimated actual revenue primarily reflects increased coal royalty revenue, along with moderate growth in taxation revenue, relative to recent years.**
- **Mortgage duty will be abolished from 1 July 2008, providing $190 million in tax relief in 2008-09, including $100 million associated with bringing forward the abolition by six months.**
- **The first home buyer transfer duty exemption threshold and principal place of residence concessional rate threshold will both increase from $320,000 to $350,000 from 1 July 2008. The first home buyer exemption threshold will further increase to $500,000 from 1 September 2008.**
- **The transfer duty rate schedule will be revised and simplified, reducing the number of rate bands from seven to five from 1 July 2008, with the highest marginal rate increasing from 4.5% to 5.25%.**
- **The combination of the new transfer duty rate schedule and increased thresholds for homebuyers will mean lower duty payable for homebuyers purchasing homes valued at between $320,000 and $1 million and those purchasing property, other than homes, valued at up to $590,000.**
- **The land tax schedule will be revised and simplified from 1 July 2008, reducing the number of rate bands from five to three for resident individuals and from four to two for companies, trustees and absentees.**
- **The amount of tax payable at the land tax threshold will be reduced from $1,200 to $500 for resident individuals and reduced from $2,250 to $1,450 for companies, trustees and absentees.**
- **Employers with eligible wages between $1 million and $5 million will benefit from an extended payroll tax deduction, from 1 July 2008.**
- **Overall, the tax changes above will result in a net tax reduction of $157.4 million in 2008-09.**
- **Queensland will retain its competitive tax status, with per capita state tax estimated at $2,342 in 2008-09, compared to an average of $2,616 for the other states and territories.**
- **A two tier royalty on coal will be introduced from 1 July 2008, with the current 7% rate to apply to coal revenue up to $100 per tonne, with a higher 10% rate to apply to the portion of revenue above $100 per tonne.**
- **Revised royalty rates for base and precious metals will be introduced from 1 January 2011, at the conclusion of the current five year nomination period.**

INTRODUCTION

This chapter provides an overview of General Government sector revenue for the 2007-08 estimated actual outcome, forecasts for the 2008-09 Budget year and projections for 2009-10 to 2011-12.

Table 5.1
General Government revenue[1]

	2007-08 Budget $ million	2007-08 Est. Act. $ million	2008-09 Budget $ million	2009-10 Projected $ million	2010-11 Projected $ million	2011-12 Projected $ million
Revenue						
Taxation revenue	9,272	9,552	10,106	10,843	11,753	12,612
Grants revenue						
Current grants	13,726	14,474	14,631	14,869	15,088	15,550
Capital grants[2]	1,441	1,018	1,056	1,180	1,172	1,152
Sales of goods and services	3,005	3,245	3,385	3,369	3,465	3,524
Interest income	2,190	841	2,199	2,253	2,335	2,421
Dividend and income tax equivalent income						
Dividends	915	970	841	1,039	1,160	1,571
Income tax equivalent income	201	247	210	453	539	632
Other revenue						
Royalties and land rents	1,436	1,449	3,644	2,860	2,746	2,542
Other	366	481	509	374	378	382
Total Revenue	**32,551**	**32,276**	**36,582**	**37,240**	**38,638**	**40,385**

Notes:
1. Numbers may not add due to rounding.
2. The variance between the 2007-08 Budget and Estimated Actual primarily relates to an Australian Government grant, expected to be expensed by the General Government sector to the Western Corridor Recycled Water Scheme, but was instead paid directly to Western Corridor Recycled Water Pty Ltd, a Public Non-financial Corporations sector entity.

Forward estimates are based on the economic projections outlined in Chapter 2 and are formulated on a no policy change basis.

General Government revenue in 2007-08 is estimated to be $32.276 billion, which is $275 million (or 0.8%) less than the 2007-08 Budget estimate.

Significant variations include:

- lower interest income, reflecting the weakness in investment markets, which is expected to result in the return from the State's financial assets in 2007-08 being lower than the assumed long-term rate of return
- higher current grants revenue, primarily due to stronger than anticipated GST revenues, flowing from an increase in the GST pool against Queensland's declining share of GST, and increased specific purpose payments across a range of functions

- higher taxation revenue, primarily due to increased revenue from duty on property transfers as a result of stronger than anticipated market activity during the first half of 2007-08, overcoming softer results in the second half.

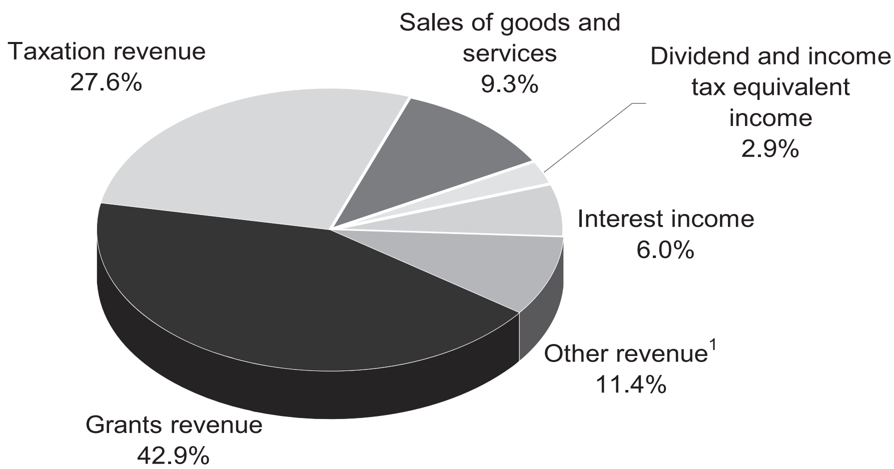
General Government revenue in 2008-09 is estimated to be $36.582 billion, 13.3% higher than the 2007-08 estimated actual revenue of $32.276 billion. This is largely due to:

- increased coal royalties, reflecting both an increase in the value of coal and changes to the royalty rate structure
- interest income returning to 7.5%, reflecting the interest earned on the QTC debt instrument, as discussed in Chapter 1.

REVENUE BY OPERATING STATEMENT CATEGORY

Major sources of General Government revenue in 2008-09 are grants and subsidies (42.9% of revenue) and taxation revenue (27.6%). Chart 5.1 illustrates the composition of General Government revenue.

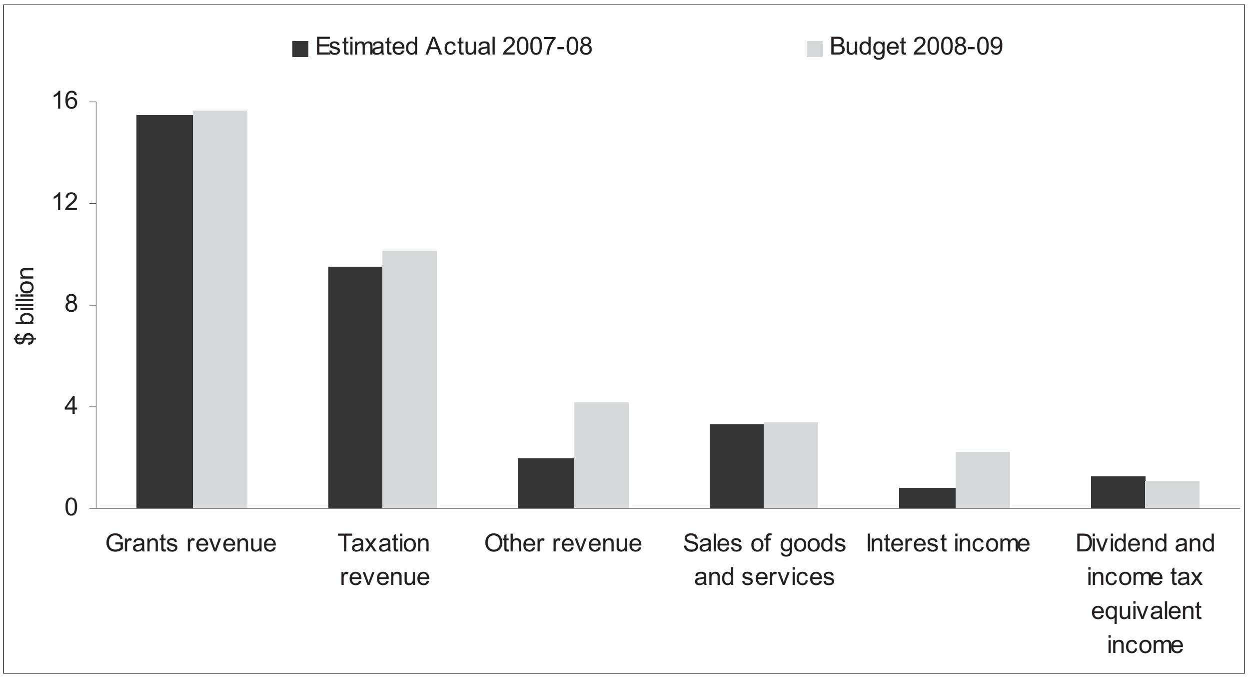
Chart 5.1
Revenue by operating statement category 2008-09



Note:
1. The major component of 'Other revenue' is royalties and land rents (10.0%).

Chart 5.2 compares 2008-09 estimates with 2007-08 estimated actuals. The overall result primarily reflects strong growth in royalties and interest income, supplemented by moderate growth in taxation revenue and grants revenue.

Chart 5.2
Revenue by operating statement category for 2007-08 and 2008-09



TAXATION REVENUE

One of the Queensland Government's key social and fiscal objectives is to maintain a competitive tax environment while raising sufficient revenue to meet the infrastructure and Government service delivery needs of the people of Queensland.

Total revenue from taxation is expected to increase by 5.8% in 2008-09. This reflects the expected impact of continued strength in employment and wage growth on payroll tax revenue and the impact of higher property values on land tax.

Table 5.2
Taxation revenue[1]

	2006-07 Actual $ million	2007-08 Est. Act. $ million	2008-09 Budget $ million
Payroll tax	**2,232**	**2,482**	**2,702**
Duties			
Transfer[2]	2,542	2,970	3,141
Vehicle registration	289	380	518
Insurance[3]	361	386	403
Mortgage	343	335	15
Other duties[4]	25	6	14
Total duties	**3,560**	**4,077**	**4,091**
Gambling taxes and levies			
Gaming machine tax	489	535	578
Health Services Levy	29	39	47
Lotteries taxes	201	202	210
Wagering taxes	36	37	38
Casino taxes and levies[5]	57	58	61
Keno tax	13	16	17
Total gambling taxes and levies	**825**	**886**	**950**
Other taxes			
Land tax	485	622	797
Motor vehicle registration	887	945	991
Fire levy	252	264	279
Community Ambulance Cover	115	128	133
Guarantee fees	67	84	98
Other taxes	60	64	65
Total taxation revenue	**8,484**	**9,552**	**10,106**

Notes:
1. Numbers may not add due to rounding.
2. Includes marketable securities duty in 2006-07.
3. Includes duty on accident insurance premiums.
4. Includes duty on rental arrangements in 2006-07 and life insurance premiums in all years.
5. Includes community benefit levies.

Budget tax initiatives

Transfer duty

Increased concessions – first home buyers

Queensland currently provides a transfer duty exemption for first home buyers purchasing a home valued at up to $320,000. Based on the current duty rates, this represents a saving of up to $9,675 compared to the duty payable by purchasers who do not receive a concession.

This Budget increases the first home buyer transfer duty exemption to $350,000 from 1 July 2008, providing further savings of up to $1,650 for those purchasing their first home.

In addition, from 1 September 2008 the first home buyer transfer duty exemption will be increased to $500,000, providing savings of up to $9,500 when compared with the current schedule. This will ensure that the duty payable on a first home is either nil or lower in Queensland than in any other jurisdiction for all first home buyers purchasing a home valued at up to approximately $1.5 million.

This initiative will provide savings of $54.1 million to first home buyers in 2008-09 and will result in first home buyers paying up to $15,925 less than purchasers who do not receive a concession.

Table 5.3 provides an interstate comparison of the transfer duty payable on the purchase of a first home, from 1 September 2008.

Table 5.3
Duty payable on first home purchases, from 1 September 2008

Dutiable Value $	QLD $	NSW $	Vic $	WA $	SA $	Tas $
100,000	..	..	..	..	1,415	..
200,000	..	..	3,370	..	5,615	1,675
300,000	..	..	8,370	..	11,330	5,550
400,000	..	..	13,370	..	16,330	13,550
500,000	..	..	18,970	..	21,330	17,550
600,000	12,850	22,490	31,070	22,515	26,830	21,550
700,000	17,350	26,990	37,070	27,265	32,330	25,550
800,000	21,850	31,490	43,070	32,316	37,830	29,550
900,000	26,350	35,990	49,070	37,466	43,330	33,550
1,000,000	31,000	40,490	55,000	42,616	48,830	37,550
1,500,000	57,250	66,740	82,500	72,200	76,330	57,550

Increased concessions – homebuyers

Queensland also currently provides a principal place of residence concession, by applying a 1% rate to the first $320,000 of the value of the home. Based on the current duty rates, this represents a saving of up to $6,475 for those purchasing their own home, other than their first.

This Budget increases the principal place of residence concession to the first $350,000 of the value of the home from 1 July 2008, providing further savings of up to $750 for those purchasing their own home, other than their first.

Queensland's transfer duty concessions for homebuyers are already significant, particularly when considered in the context of concessions available in other states. The increased concession will ensure that less duty is payable in Queensland than in any other state on the purchase of a home valued at up to approximately $1.5 million.

This initiative will provide savings of $16.9 million to homebuyers in 2008-09 and will result in homebuyers paying up to $7,175 less than purchasers who do not receive a concession.

Table 5.4 provides an interstate comparison of the transfer duty payable on the purchase of a home, other than a first home, from 1 July 2008.

Table 5.4
Duty payable on home purchases, from 1 July 2008

Dutiable Value $	QLD $	NSW $	Vic $	WA $	SA $	Tas $
100,000	1,000	1,990	2,150	1,500	2,830	2,425
200,000	2,000	5,490	6,370	5,035	6,830	5,675
300,000	3,000	8,990	11,370	8,835	11,330	9,550
400,000	5,250	13,490	16,370	13,015	16,330	13,550
500,000	8,750	17,990	21,970	17,765	21,330	17,550
600,000	12,850	22,490	31,070	22,515	26,830	21,550
700,000	17,350	26,990	37,070	27,265	32,330	25,550
800,000	21,850	31,490	43,070	32,316	37,830	29,550
900,000	26,350	35,990	49,070	37,466	43,330	33,550
1,000,000	31,000	40,490	55,000	42,616	48,830	37,550
1,500,000	57,250	66,740	82,500	72,200	76,330	57,550

Revised transfer duty rate structure

In addition to the increased exemptions for first home buyers and concessions for other home buyers, this Budget revises and simplifies the transfer duty rate structure and generally improves competitiveness with other states. The new transfer duty rate structure is presented in Table 5.5.

Table 5.5
Transfer duty rates from 1 July 2008 – standard rates[1]

Dutiable value	**Current**	Dutiable value	**New**
up to $20,000	1.50%	up to $5,000	Nil
$20,001 - $50,000	$300 + 2.25%	$5,001 - $75,000	1.50%
$50,001 - $100,000	$975 + 2.75%		
$100,001 - $250,000	$2,350 + 3.25%	$75,001 - $540,000	$1,050 + 3.50%
$250,001 - $500,000	$7,225 + 3.50%		
$500,001 - $700,000	$15,975 + 4.00%	$540,001 - $980,000	$17,325 + 4.50%
above $700,000	$23,975 + 4.50%	above $980,000	$37,125 + 5.25%

Note:
1. Rates are marginal rates unless otherwise specified.

When combined with the increase in concessions and exemptions for homebuyers and first home buyers, the revised transfer duty schedule will mean a reduction in duty payable on all homes valued at between $320,000 and $1 million.

The revised structure will also result in a reduction in duty payable on the purchase of all other property, other than homes, valued up to $590,000.

It is expected that the changes to transfer duty will result in a lower amount of duty being payable for a substantial majority of transactions. Approximately 75% of transactions that occurred during 2007 would have been subject to a lower rate of duty, while there would have been no change for a further 15% of transactions.

Table 5.6 details the changes to duty payable at standard rates and for those receiving a homebuyer concession or first home buyer exemption, across a range of values. Table 5.6 also identifies the standard amount of duty payable in selected states.

The changes to transfer duty rates will take effect from 1 July 2008. When combined with the increased first home buyer exemption and homebuyer concession thresholds, the changes are expected to provide an additional $74.6 million of revenue in 2008-09, due to the application of higher duty rates to properties with relatively high values.

Table 5.6
Changes to transfer duty payable and interstate comparison, 1 September 2008

Dutiable value	First home buyers duty payable		Homebuyers (not first) duty payable		Standard rates duty payable		Interstate comparison – duty payable at standard rates		
	New	Saving	New	Saving	New	Saving	NSW	VIC	WA
$	$	$	$	$	$	$	$	$	$
100,000	..	..	1,000	..	1,925	425	1,990	2,150	2,090
200,000	..	..	2,000	..	5,425	175	5,490	7,070	5,890
300,000	..	..	3,000	..	8,925	50	8,990	13,070	10,165
350,000	..	1,650	3,500	750	10,675	50	11,240	16,070	12,540
400,000	..	4,400	5,250	750	12,425	50	13,490	19,070	14,915
500,000	..	9,500	8,750	750	15,925	50	17,990	25,070	19,665
750,000	19,600	150	19,600	150	26,225	-550	29,240	40,070	32,540
1,000,000	31,000	..	31,000	..	37,475	-700	40,490	55,000	45,415
2,000,000	83,500	-7,500	83,500	-7,500	90,675	-8,200	95,490	110,000	96,915

Abolition of mortgage duty

In the 2005-06 Budget, the Queensland Government announced a tax abolition schedule as part of the *Intergovernmental Agreement on the Reform of Commonwealth–State Financial Relations* (IGA), which included a halving of the rate of mortgage duty from 1 January 2008, with abolition of mortgage duty from 1 January 2009.

This Budget brings forward the abolition of mortgage duty to 1 July 2008, providing benefits for Queensland homebuyers, investors and businesses taking out a mortgage.

The abolition of mortgage duty will provide total savings of approximately $190 million to taxpayers in 2008-09. This includes a $90 million saving from the previous commitment to abolish mortgage duty from 1 January 2009 and a further $100 million saving due to bringing forward the abolition to 1 July 2008.

Concessions to assist older persons

The Queensland Government recognises that as a person ages they are often required to make changes to their living arrangements, which may result in transitional costs, including taxes.

This Budget, therefore, introduces a package of concessions to assist older persons. These concessions include:

- extending the transfer duty home concession to retirement village residents who adopt lease and sub-lease occupancy arrangements
- providing a land tax exemption for aged care facilities, which will complement the existing exemption for retirement villages
- reducing the application of the provision that provides for retrospective assessment of land tax on the subdivision of a principal place of residence.

Land tax relief package

Queensland has experienced strong growth in land values for a number of years. Although the taxation consequences have been mitigated by the application of three-year averaging and 50% capping of land valuation increases for assessments, the Government has also taken substantial steps to moderate the increase in the numbers of landowners liable for land tax and growth in land tax liabilities for landowners already in the system.

If the land tax schedule in place during 2002-03 had been retained, it is estimated that the Government would be receiving an additional $450 million in land tax revenue in 2008-09.

This Budget continues the Government's program of land tax relief and simplification through the revision of the land tax schedules.

The new land tax schedule for resident individuals is presented in Table 5.7.

Table 5.7
Land tax schedules for 2008-09 – resident individuals[1]

Unimproved Land Value	**Current**	Unimproved Land Value	**New**
$600,000 - $749,999	$1,200 + rate of 0.70%	$600,000 - $999,999	$500 + rate of 1.00%
$750,000 - $1,249,999	$2,250 + rate of 1.45%		
$1,250,000 - $1,999,999	$9,500 + rate of 1.50%	$1,000,000 - $2,999,999	$4,500 + rate of 1.65%
$2,000,000 - $2,999,999	$20,750 + rate 1.675%		
$3,000,000 and above	1.25% on full value	$3,000,000 and above	1.25% on full value

Note:
1. Rates are marginal rates unless otherwise specified.

The current $600,000 threshold, the highest of any state, will be maintained, with the tax payable at the threshold to be reduced from $1,200 to $500. Table 5.8 provides an interstate comparison of land tax thresholds and maximum land tax rates applicable in 2008-09.

Table 5.8
Land tax thresholds and maximum rates – resident individuals, 2008-09

	QLD	NSW	VIC	WA	SA	TAS
Threshold	$600,000	$359,000	$225,000	$300,000	$110,000	$25,000
Maximum rate[1]	1.25%	1.6%	2.5%	2.3%	3.7%	2.5%

Note:
1. The maximum rate is the rate applying to the highest value landholding band.

Approximately 88% of resident individual land tax payers, representing approximately 15,000 taxpayers with taxable land holdings valued at up to $1.8 million (after averaging and capping), will benefit as a result of the change, compared with the current schedules.

This Budget also provides land tax relief for companies, trustees and absentees through simplification and revision of the rate structure. The new land tax schedule for companies, trustees and absentees is presented in Table 5.9.

This will result in approximately 17,500 companies, trustees and absentees with taxable land holdings valued at up to $750,000 (after averaging and capping) being better off as a result of the change. The current $350,000 threshold, which is already competitive, will be maintained, with the tax payable at the threshold reduced from $2,250 to $1,450.

Table 5.9
Land tax schedules for 2008-09 – companies, trustees and absentees[1]

Unimproved Land Value	**Current**	Unimproved Land Value	**New**
$350,000 - $749,999	$2,250 + rate of 1.50%	$350,000 - $2,249,999	$1,450 + rate of 1.70%
$750,000 - $1,249,999	$8,250 + rate of 1.65%		
$1,250,000 - $1,999,999	$16,500 + rate 1.80%		
$2,000,000 and above	1.50% on full value	$2,250,000 and above	1.50% on full value

Note:
1. Rates are marginal rates unless otherwise specified.

The revisions to the land tax rate structures will take effect from 1 July 2008 and are estimated to provide $17 million in land tax relief in 2008-09.

This package continues the land tax reforms introduced by the Queensland Government in the past four Budgets, which included threshold increases, rate reductions and the introduction of a 50% cap on taxable values. In addition, it is estimated that the revenue foregone as a result of three-year averaging is approximately $304 million in 2008-09.

Payroll tax deduction extension

Queensland currently has a competitive payroll tax threshold of $1 million and a highly competitive payroll tax rate of 4.75%. However, the Queensland Government recognises the effective marginal payroll tax rate immediately above the exemption threshold has a particular impact on the tax payable by medium sized businesses.

This Budget further improves the competitiveness of Queensland's payroll tax regime by extending the $1 million deduction such that it phases out at a rate of $1 in every $4 of taxable wages above the threshold, rather than $1 in every $3. This will provide a benefit to all businesses with taxable wages between $1 million and $5 million.

The extension of the payroll tax deduction is estimated to provide $20 million in payroll tax relief in 2008-09.

The Queensland Government has also announced a policy decision to review the rate at which the deduction phases out in subsequent Budgets.

Abolition of state taxes

The IGA, agreed to by the Australian Government and all state and territory governments in 1999, required the abolition and review of a number of state taxes.

In accordance with the requirements of the IGA, transfer duty on quoted marketable securities and debits tax were abolished in 2001 and 2005 respectively. In 2005, Queensland participated in a multijurisdictional review into the need to retain a number of state duties, as required by the IGA. By abolishing these two duties and participating in the review of other listed duties, the Government met its IGA obligations for tax abolitions in full as of 1 July 2005.

Following the review of duties listed in the IGA, a timetable for the abolition of the majority of these duties was announced in the 2005-06 Budget and agreed to by the Australian Government in the Ministerial Council Meeting of March 2006.

The timing of the duty abolitions balances a range of community priorities, including the maintenance of the State's tax competitiveness while funding the delivery of essential community services and the provision of critical new infrastructure.

The Government has completed a number of duty abolitions announced in the 2005-06 Budget, with the removal of credit business and lease duties from 1 January 2006, hire duty and marketable securities duty (unquoted) from 1 January 2007 and the halving of the rate of mortgage duty from 1 January 2008.

The 2008-09 Budget includes the abolition of mortgage duty from 1 July 2008, six months earlier than scheduled.

Following the abolition of mortgage duty, the only duty remaining on the schedule is duty on the transfer of core business assets, which is to be abolished by 2011.

The savings to Queenslanders from the abolition of these nine taxes has already risen from $290 million in 2005-06 to $840 million in 2008-09 and will rise to over $1.3 billion per year by 2011-12. The cost to revenue from the abolition of these taxes will exceed $5.4 billion over this seven year period.

Table 5.10 presents the full schedule of tax abolitions under the IGA.

Table 5.10
Abolition of state taxes under the IGA

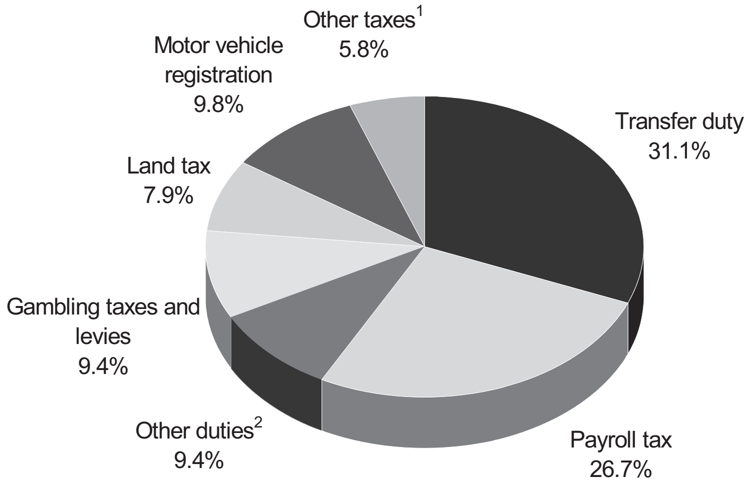
Tax	Description	Abolition	Full year cost[1] $ million
Marketable securities duty (quoted)	Payable on the transfer of marketable securities listed on the Australian Stock Exchange or another recognised stock exchange.	✓ July 2001	35
Credit card duty[2]	Payable on credit card transactions.	✓ August 2004	20
Debits tax	Payable on debits to accounts with cheque drawing facility.	✓ July 2005	190
Lease duty	Payable on the lease of land or premises in Queensland. Residential leases exempted.	✓ January 2006	27
Credit business duty	Payable on the amount of credit provided under a loan, a discount transaction or a credit arrangement.	✓ January 2006	19
Hire duty	Payable on the hiring charges of the hire of goods.	✓ January 2007	19
Marketable securities duty (unquoted)	Payable on the transfer of marketable securities not listed on the Australian Stock Exchange or another recognised stock exchange.	✓ January 2007	17
Mortgage duty	**Payable on entering into a mortgage over property in Queensland.**	✓ **July 2008 six months ahead of schedule**	**439**
Duty on transfer of core business assets	Payable on the transfer of non-realty business assets.	50% 1 Jan 2010 100% 1 Jan 2011	326

Notes:
1. Estimated revenue foregone in financial year following full abolition.
2. Credit card duty was abolished prior to its review under the IGA.

Estimates of state taxation revenue

Chart 5.3 indicates the composition of estimated state taxation revenue for 2008-09.

Chart 5.3
Taxation by tax category



Note:
1. 'Other taxes' includes the fire levy, community ambulance cover, guarantee fees and other minor taxes.
2. 'Other duties' includes vehicle registration duty, insurance duty and other minor duties.

The largest sources of taxation revenue are payroll tax and transfer duty, which together represent 57.8% of the State's total taxation revenue in 2008-09.

Payroll tax (26.7% of total tax revenue in 2008-09) has a solid base with relatively stable growth driven by the underlying strength in the state economy. In contrast, revenue growth from transfer duty (representing 31.1% of tax revenue) can vary significantly from year to year with its base being subject to the volatile movements of the property market.

Other duties, including vehicle registration duty, insurance duty and other smaller duties, represent 9.4% of total tax revenue.

Gambling taxes and levies also represent 9.4% of tax revenues in 2008-09. Motor vehicle registration, which is classified as a tax for budget purposes, represents 9.8% of total tax revenue.

Land tax represents 7.9% of total revenue in 2008-09. While also subject to the volatility of price movements in the property market, this impact is moderated by a relatively stable base and the effect of three-year averaging of land values for assessments.

Payroll tax

Payroll tax is chargeable at a rate of 4.75% when the total yearly Australian taxable wages of an employer, or those of a group of related employers, exceed the exemption threshold of $1 million.

Payroll tax collections are estimated to increase by 8.9% in 2008-09, reflecting general growth in employment and wages, with particular strength in key industries, such as construction, mining and property and business services.

The payroll tax rate has been reduced in recent years from 5% to its current level of 4.75%, making Queensland's payroll tax rate overall the lowest of any state. Further, an employer paying annual taxable wages of less than $1 million from 2007-08 is not liable for payroll tax – this is amongst the highest thresholds in Australia.

As mentioned above, the competitiveness of Queensland's payroll tax regime will be enhanced via an extension of the $1 million deduction.

Duties

Duties are levied on a range of financial and property transactions. Overall, revenue from duties is forecast to increase by 0.3% in 2008-09. This moderate growth is driven by the abolition of mortgage duty almost entirely offsetting growth in the other major duties.

The major duties include transfer, vehicle registration and insurance duties.

- 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 first or subsequent home.

  Revenue from transfer duty is expected to increase by 5.8% in 2008-09 as a result of moderate growth in the Queensland property market and revisions to the rate structure being partly offset by increased concessions for homebuyers.

- Vehicle registration duty is charged at rates of between 2% and 4% of the dutiable value of a motor vehicle on the transfer or initial registration of the motor vehicle, with the rate depending on the number of cylinders of the vehicle.

  Revenue from vehicle registration duty is expected to experience underlying growth of 5% in 2008-09. Combined with the effect of new rate regime announced in the 2007-08 Budget, which commenced on 1 January 2008, total growth is expected to be 36.4%.

- Insurance duty is charged on contracts of general insurance, life insurance and accident insurance. The base rate for most general insurance products is 7.5%, with certain general insurance products, life insurance and accident insurance charged at the rate of 5%.

  Revenue from insurance duty is expected to grow by 4.3% in 2008-09, reflecting moderate growth in the number of insurance policies and the value of insured items.

Gambling taxes and levies

A range of gambling activities are subject to State taxes and levies. Total gambling tax and levy collections are estimated to increase by 7.2% in 2008-09, a slightly slower rate than is estimated for 2007-08, partly associated with the Government's gambling reforms that will take effect from 1 January 2009. Gaming machine taxes are estimated to increase by 8%, the Health Services Levy by 20%, lotteries taxes by 4%, and other gambling taxes by 5%.

Land tax

Land tax is levied on the unimproved value of the landowner's aggregated holdings of freehold land owned in Queensland as at midnight on 30 June each year. The principal place of residence is deducted from this value. A 50% cap on the annual increase in land values used for the purposes of calculating land tax liabilities commenced from 1 July 2007 and will continue until 2009-10.

Resident individuals are generally liable for land tax if the total unimproved 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 generally liable for land tax if the total unimproved value of the freehold land owned as at 30 June is equal to or greater than $350,000.

Land tax is estimated to grow by 28.1% in 2008-09, with strong underlying growth associated with recent increases in land values being partially offset by the revisions to the rate structure outlined above.

The application of three-year averaging for assessments, whereby the land value is determined by averaging the unimproved property values for the current and preceding two years rather than simply using the current year valuation, moderates and delays the impact of valuation increases. It is estimated that the revenue foregone as a result of three-year averaging will be approximately $304 million in 2008-09. Queensland was the first state to apply three-year averaging to land tax, with New South Wales also introducing averaging recently.

Motor vehicle registration fees

Motor vehicle registration fees are expected to grow by 4.8% in 2008-09, primarily reflecting fee adjustments related to the consumer price index (CPI).

Fire levy

Fire levy revenue, which is used to fund the Queensland Fire and Rescue Authority, is expected to increase in line with the growth of the number of contributors and CPI.

Community Ambulance Cover

The Community Ambulance Cover Scheme was introduced in 2003-04 to replace the Ambulance Subscription Scheme and to provide a sustainable funding base for the Queensland Ambulance Service. It is collected through a payment on non-exempt electricity accounts. Growth in 2008-09 reflects CPI adjustment and growth in the number of non-exempt electricity accounts.

Guarantee fees

Guarantee fees are revenues collected by Queensland Treasury Corporation (QTC) on behalf of the State and comprise performance dividends, competitive neutrality fees and credit margin fees. These fees promote competitive neutrality between public sector agencies and those in the private sector and ensure that the benefits accruing from the financial backing and superior borrowing performance of the State (through QTC) are shared between the borrower and the State.

Other taxes

Other taxes represent revenue from taxes such as the Statutory Insurance Scheme Levy, the Nominal Defendant Levy and other sundry taxes.

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 A provides details of tax expenditure arrangements set in place by the Queensland Government.

QUEENSLAND’S COMPETITIVE TAX STATUS

Taxation can impact on business decisions regarding investment and employment and also 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.

Recent tax changes have sought to improve the efficiency and equity of the State’s tax system, increase consistency with other jurisdictions, strengthen the funding base of essential services and reduce or eliminate taxes to the benefit of taxpayers.

In pursuit of these objectives over recent years, the Government has:

- rationalised the payroll tax system by reducing the rate from 5% to 4.75%, offset by a broadening of the tax base
- increased the payroll tax threshold from $850,000 to $1,000,000
- introduced legislation to harmonise Queensland’s payroll tax system with that in New South Wales and Victoria from 1 July 2008, reducing compliance costs for businesses operating across jurisdictions
- increased the land tax threshold for resident individuals to $600,000 and the threshold for companies, trustees and absentees to $350,000
- provided land tax exemptions to moveable dwelling parks and expanded the principal place of residence exemption
- applied a 50% cap on the annual increase in the value of land for the purposes of calculating land tax liability
- introduced the Community Ambulance Cover to secure the funding base for the Queensland Ambulance Service, while minimising the impact through a range of exemptions
- extended the transfer duty concession for purchases of first homes from $80,000 to $320,000 (with the concession phasing out at $500,000)
- provided a transfer duty concession for first home buyers purchasing vacant land valued at up to $150,000 (with the concession phasing out at $300,000) on which to build their first home
- increased some transfer duty rates to assist the funding of the *Health Action Plan*
- extended the mortgage duty exemption threshold for first home buyers from $100,000 to $250,000
- halved the rate of mortgage duty
- reduced the base insurance duty rate from 8.5% to 7.5%

- revised the structure of vehicle registration duty rates
- abolished transfer duty on quoted marketable securities, credit card duty, debits tax, lease duty, credit business duty, hire duty and unquoted marketable securities duty.

Consistent with this commitment to ongoing tax reform, the Government has announced in this Budget:

- the abolition of mortgage duty from 1 July 2008, providing $190 million of tax relief in 2008-09, in addition to savings associated with the halving of mortgage duty rates from 1 January 2008
- an increase in the transfer duty exemption for first home buyers from 1 July 2008, such that there is no duty payable on the purchase of a first home valued at up to $350,000 (previously $320,000), with a further increase in the exemption to $500,000 from 1 September 2008
- an increase in the principal place of residence concession available to other homebuyers from $320,000 to $350,000 from 1 July 2008
- a simplification of the transfer duty rate structure from 1 July 2008, with an increase in the highest marginal rate, to provide additional revenue for service delivery and infrastructure provision
- the net impact of the transfer duty changes is a reduction in the amount of duty payable on the purchase of all homes valued at between $320,000 and $1 million and all other properties valued at up to $590,000, offset by increases in rates applied to properties at higher values
- a package of concessions to assist older persons
- a simplification of the land tax rate structure from 1 July 2008, including a reduction in the initial tax payable once the threshold has been reached, for both resident individuals and companies, trustees and absentees
- an extension to the payroll tax deduction, such that taxpayers with eligible wages of up to $5 million (previously $4 million) will benefit from the deduction, from 1 July 2008.

The *Charter of Social and Fiscal Responsibility* commits the Government to maintaining competitive tax levels in relation to other states. Table 5.11 demonstrates that this commitment is being met, with various measures of tax competitiveness all indicating the Queensland state tax system remains amongst the most competitive in Australia.

Table 5.11
Queensland's tax competitiveness

	QLD	NSW	VIC	WA	SA	TAS[4]	ACT	NT[4]	Avg[5]
Taxation per capita[1] ($)	**2,342**	2,747	2,512	3,016	2,157	1,706	3,016	1,809	2,616
Taxation effort[2] (%)	**84.6**	104.0	103.0	102.7	112.6	95.5	105.9	101.6	100.0
Taxation % of GSP[3] (%)	**4.34**	5.29	4.73	4.04	4.67	3.55	4.30	2.54	4.75

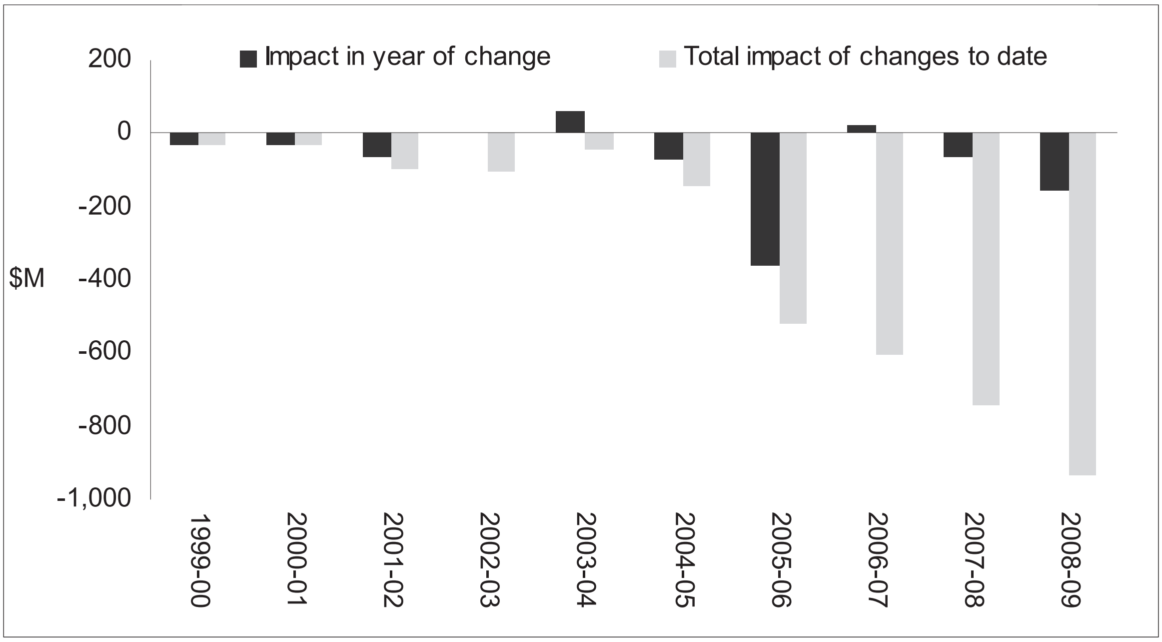
Notes:
1. 2008-09 data. Sources: *QLD, VIC, WA, ACT, NT State Budgets, NSW, SA, TAS, Mid Year Reviews.*
2. 2006-07 data. Source: *Commonwealth Grants Commission: 2008 Update.*
   Revenue raising effort ratios, assessed by the Commonwealth Grants Commission, isolate policy impacts from revenue capacity impacts and are an indicator of the extent to which the governments burden their revenue bases. Queensland's tax revenue raising effort is well below the Australian policy standard (equal to 100%).
3. 2006-07 data. Sources: *ABS 5506.0 and ABS 5220.0.*
4. Low taxation per capita primarily reflects the lower revenue raising capacity of those jurisdictions.
5. Weighted average of states and territories, excluding Queensland.

As Table 5.11 shows, taxation per capita in Queensland is lower than the average taxation per capita in the other states. However, the gap has narrowed in recent years as strong economic growth in Queensland has resulted in significant increases in employment, leading to growth in payroll tax, and property values and volumes, leading to growth in transfer duty and land tax.

Other measures of competitiveness, such as taxation effort and taxation as a share of gross state product (GSP), provide a clearer view of the level of taxation imposed on the Queensland economy and confirm that Queensland's taxes are competitive with other states.

Chart 5.4 provides further evidence that increases in taxation per capita are primarily the result of strong economic growth, rather than changes to taxation policy. The chart shows that, since 1999-2000, there have been seven years in which taxes were cut, with the most significant of these being the land tax reforms of 2005-06. There were two years in which taxes were increased (the Community Ambulance Cover levy was introduced in 2003-04 and transfer duty rates were increased in 2006-07 to help fund the *Health Action Plan*) and a year in which there was no net change to taxes.

Chart 5.4
Revenue impact of recent tax initiatives



The net impact of these changes is that the level of taxation in 2008-09 is $934 million, or $216 per capita, lower than it would have otherwise been.

GRANTS REVENUE

Grants revenue is comprised of Australian Government grants, grants from the community and industry and other miscellaneous grants. Growth of $195 million (or 1.3%) in 2008-09 is primarily due to increases in GST revenue and health funding from the Australian Government.

Table 5.12
Grants revenue[1]

	2006-07 Actual $ million	2007-08 Est. Act. $ million	2008-09 Budget $ million
Current grants			
Australian Government grants	13,081	13,983	14,119
Other grants and contributions	408	491	512
Total current grants	**13,489**	**14,474**	**14,631**
Capital grants			
Australian Government grants	819	1,012	1,054
Other grants and contributions	18	6	3
Total capital grants	**837**	**1,018**	**1,056**
Total grants revenue	**14,326**	**15,492**	**15,687**

Note:
1. Numbers may not add due to rounding.

Australian Government payments

Australian Government payments to Queensland comprise:

- general purpose payments, comprised of GST revenue grants and associated payments. General purpose payments are 'untied' and are used for both recurrent and capital purposes
- specific purpose payments (SPPs), including grants for health, education and roads, which are used to meet Australian Government and shared policy objectives.

Australian Government payments to Queensland in 2008-09 are expected to total $15.172 billion, an increase of $177 million (or 1.2%) over payments in 2007-08.

Chapter 8 provides detailed background on Commonwealth-state financial arrangements, including an overview of the reforms the Council of Australian Governments has embarked on in relation to SPPs and National Partnership Payments.

Table 5.13 Australian Government payments[1]			
	2006-07 Actual $ million	2007-08 Est. Act. $ million	2008-09 Budget $ million
General purpose payments			
GST revenue grants and associated payments[2]	8,092	8,596	8,686
Specific Purpose Payments[3,4]			
Queensland Health	2,008	2,248	2,429
Education, Training and the Arts	2,025	2,075	2,133
Main Roads	448	703	718
Local Government, Sport and Recreation	329	367	381
Disability Services Queensland	323	351	377
Housing	193	203	197
Other	481	451	251
Total Specific Purpose Payments	**5,808**	**6,399**	**6,486**
Total Australian Government payments	**13,900**	**14,995**	**15,172**

Notes:
1. Numbers may not add due to rounding.
2. Includes compensation for GST deferral relating to the Australian Government's small business measures in 2006-07 and partial repayment of this compensation in 2007-08.
3. SPPs are shown by relevant Queensland Government department. 2006-07 data has been backcast to reflect current departmental responsibilities.
4. Differences between SPPs in this chapter and Australian Government Budget estimates can arise and generally reflect the outcome of agency-to-agency discussions or the absence of state level information.

General purpose payments

GST revenue grants

GST revenue grants and associated payments to Queensland in 2008-09 are expected to be $8.686 billion, which represents an increase of $90 million on 2007-08. This reflects expected growth of $148 million (or 1.7%) in GST revenue being partly offset by reductions associated with other Australian Government decisions.

GST revenue projections are based on expected growth in economic parameters, such as household consumption and dwelling investment, which have a strong link to the GST base. The distribution of GST revenues is based on the recommendations of the Commonwealth Grants Commission in accordance with the application of horizontal fiscal equalisation principles.

The 1.7% growth in GST payments to Queensland in 2008-09 compares with 7.4% average growth in GST payments to the other states and territories. The below-average growth in GST funding to Queensland takes into account the above-average growth in Queensland's economy and the associated growth in own-source revenue, with 2008-09 being the first year in which Queensland's share of GST funding is below a per capita share. Further declines in Queensland's share of GST are expected, particularly as a result of strong growth in royalty revenue.

Specific purpose payments

SPPs for Queensland in 2008-09 are estimated at $6.486 billion, an increase of 1.4% from 2007-08.

Queensland Health

Queensland receives funding for public hospital services from the Australian Government under the Australian Health Care Agreement (AHCA). The AHCA provides the majority of Queensland Health's Australian Government funding and is adjusted annually for population growth and increases in costs and utilisation. Queensland expects to receive almost $2 billion in Health Care Grants in 2008-09. The current AHCA was due to expire on 30 June 2008 but has been extended to 30 June 2009 while a new broader National Health Agreement is negotiated.

Queensland Health will also receive tied funding of $276 million in 2008-09 for a range of programs including Highly Specialised Drugs, Essential Vaccines and National Public Health. Queensland will also receive $60 million for nursing home benefits.

Department of Education, Training and the Arts

SPPs for education purposes comprise recurrent and capital grants for distribution to state and non-state schools and other organisations. The moderate increase in Australian Government grants in 2008-09 primarily reflects increased recurrent grants, which recognise cost indexation and enrolment growth.

The Australian Government also provides funding for a range of specific vocational education and training programs. In 2008-09, the department expects to receive around $236 million in vocational education and training funding.

Department of Main Roads

Funding is received from the Australian Government for infrastructure and maintenance works on the AusLink Network and for Black Spot Road Safety projects. The 2008-09 allocation reflects funding available under the Australian Government's AusLink program.

Department of Local Government, Sport and Recreation

SPPs to the Department of Local Government, Sport and Recreation primarily relate to Financial Assistance Grants provided to local government in Queensland.

Disability Services Queensland

The current Commonwealth-State and Territory Disability Agreement is set to expire on 30 June 2008 and is proposed to be extended to December 2008. A new national disability services agreement is in the process of being negotiated between the Australian and state and territory governments.

Disability Services Queensland will also receive funding from the Australian Government for the Home and Community Care (HACC) program, with the Queensland Government accepting a new agreement that commenced on 1 July 2007. The HACC Review Agreement, coupled with projected growth funding, ensures the program is a key part of the community care system and will continue to assist frail older people and those with disabilities to live as independently as possible in their own homes.

Department of Housing

In 2008-09, the Department of Housing expects to receive $197 million in SPP funding, including funding under the Commonwealth-State Housing Agreement, which is due to expire on 31 December 2008, and the anticipated National Affordable Housing Agreement from 1 January 2009. This funding will be used for the continued development of a core social housing sector to assist people unable to access alternative suitable housing options, through the delivery of affordable, appropriate, flexible and diverse housing assistance responses that provide people with choice and are tailored to their needs, local conditions and opportunities.

Other

Other SPPs include funding for a range of programs including exceptional circumstances assistance and natural disaster relief.

Other grants and contributions

Other grants and contributions are funds received from other state and local government agencies, other bodies and individuals where there is no direct benefit to the provider. 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, including the contributions of parents and citizens associations to state schools
- contributed assets and goods and services received for a nominal amount.

Table 5.14
Other grants and contributions

	2006-07 Actual $ million	2007-08 Est. Act. $ million	2008-09 Budget $ million
Other grants and contributions	426	497	515

Revenues will vary from year to year based on the number and size of research projects, assets transferred between the Government and the private sector and contributed assets and services.

SALES OF GOODS AND SERVICES

Sales of goods and services revenue comprises cost recoveries from the provision of goods or services. Revenue from this source is expected to increase by 4.3% in 2008-09.

Table 5.15
Sales of goods and services[1]

	2006-07 Actual $ million	2007-08 Est. Act. $ million	2008-09 Budget $ million
Fee for service activities	1,065	1,302	1,294
TransLink	224	239	251
Rent revenue	320	412	465
Sale of land inventory	76	100	112
Hospital fees	277	288	274
Transport and traffic fees	226	230	241
Other sales of goods and services	699	672	746
Total sales of goods and services	**2,889**	**3,245**	**3,385**

Note:
1. Numbers may not add due to rounding.

Fee for service activities

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

- recoverable works carried out by both the Department of Main Roads and the commercialised arm of the department
- fees charged by Technical and Further Education (TAFE) colleges
- fees charged by CITEC for information and telecommunications services to the private sector.

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 B provides details of the concession arrangements established by the Queensland Government.

TransLink

Revenues arise from the arrangements associated with TransLink integrated ticketing and public transport arrangements, which commenced in July 2004. Instead of subsidising public transport operators for the gap between operating costs and revenues, the TransLink entity collects revenues from the operation of public transport services in South East Queensland to fund public transport services in the region. These revenues are estimated at $251 million in 2008-09.

Rent revenue

Rent revenue is earned on the rent or lease of Government buildings, housing, plant and equipment, motor vehicles and car parks. Major items under this category include public housing rentals and rents charged for Government buildings.

Sale of land inventory

Sale of land inventory comprises land sales undertaken by agencies, where the buying and selling of land is a core business activity of the agency, such as the Property Services Group under the Department of Infrastructure and Planning. As such, it is distinct from property disposals undertaken by most Government agencies.

Hospital fees

Hospital fees are collected by public hospitals for a range of hospital services. Fees include those received from private patients and other third party payers, as well as payments received from the Australian Government Department of Veterans' Affairs for the treatment of veterans.

Transport and traffic fees

This category comprises state transport fees, the Traffic Improvement Fee, drivers' licence fees and various marine licence and registration fees.

Other sales of goods and services

Other sales of goods and services includes items such as Title Registration Fees, recreational ship registrations and other licences and permits.

INTEREST INCOME

Interest income primarily comprises interest earned on the Treasurer's Cash Balances, Queensland Future Growth Fund balances and investments held to finance future employee entitlements, for example superannuation and long service leave.

Table 5.16
Interest income

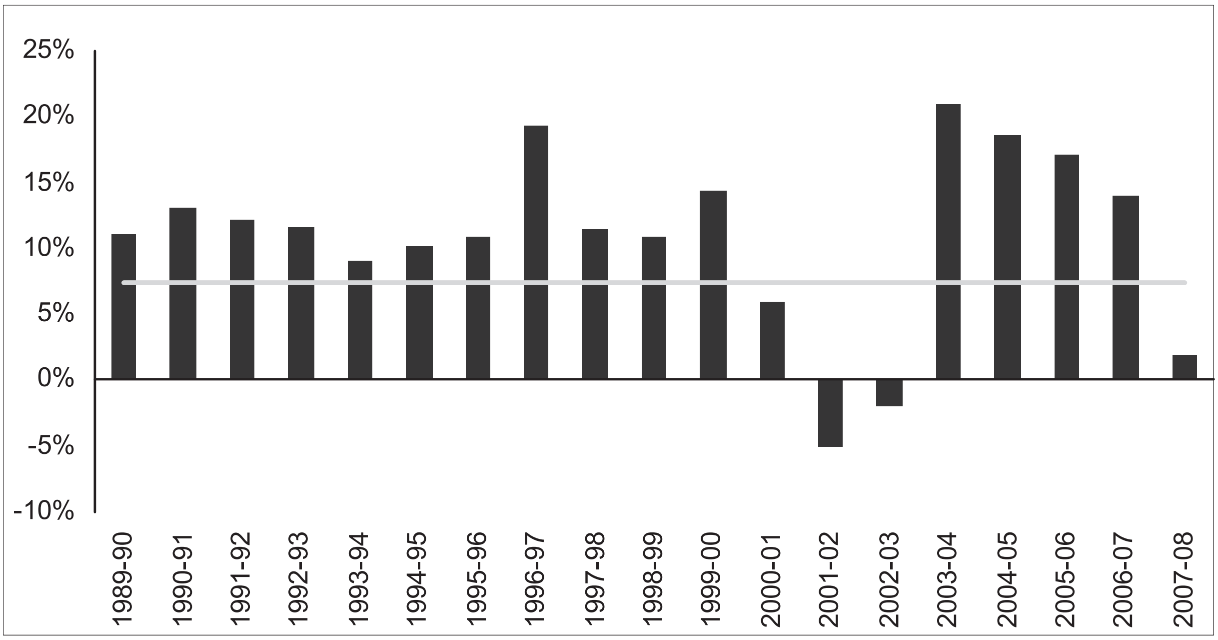
	2006-07 Actual $ million	2007-08 Est. Act. $ million	2008-09 Budget $ million
Interest income	3,348	841	2,199

QTC manages the State's short-term investments, such as the Treasurer's Cash Balances, while the Queensland Investment Corporation manages the State's long-term investments, primarily employee entitlement provisions (including assets held to meet employer superannuation liabilities). The State's investment portfolio includes a diversified holding of equities, property, fixed interest and other diversified assets.

Entities such as the Public Trust Office, Nominal Defendant and Residential Tenancies Authority also have substantial investments held to meet future liabilities.

Chart 5.5 shows investment return rates achieved over time.

Chart 5.5
Investment returns (% per annum)[1,2]



Notes:
1. Line represents actuarial assumed long term average.
2. 2007-08 is an estimate.

Source: 1989-90 to 2007-08: Queensland Investment Corporation

The weak performance of domestic and international equity markets negatively impacted interest income in 2007-08, with an estimated rate of return of 2%. This estimate is based on actual year-to-date investment returns at the time of the finalisation of the Budget estimates.

As discussed in Chapter 1, the Government has decided to transfer the assets it holds in the Consolidated Fund to meet future employee and other obligations to QTC in exchange for a debt instrument that earns the General Government sector 7.5% per annum. This transfer will allow the State to reduce the volatility in interest income and hence the General Government net operating balance.

DIVIDEND AND INCOME TAX EQUIVALENT INCOME

Dividends

Dividends are received from the State's equity in Public Non-financial Corporations and Public Financial Corporations, for example, the Queensland electricity supply industry, Queensland Investment Corporation, port authorities and Queensland Rail.

Dividends are expected to decline by 13.3% in 2008-09, reflecting a reduction in dividends from the energy sector and the one-off dividend received from the Queensland Lotteries Corporation in 2007-08, following the Golden Casket transaction.

Table 5.17
Dividends[1]

	2006-07 Actual $ million	2007-08 Est. Act. $ million	2008-09 Budget $ million
Energy sector	372	556	429
Transport sector (rail and ports)	227	289	376
Other[2]	23	124	36
Total dividends	**622**	**970**	**841**

Notes:
1. Numbers may not add due to rounding.
2. Includes dividends from Forestry Plantations Queensland, Queensland Investment Corporation, Queensland Lotteries Corporation and SunWater.

In total, dividends account for 2.3% of total General Government revenue in 2008-09. Further detail on Public Non-financial Corporations is provided in Chapter 4 and Chapter 9.

Income tax equivalent income

Income tax equivalent income comprises payments by Government-owned corporations in lieu of state and Australian Government taxes and levies from which they are exempt. These payments arise from an agreement reached between the Australian Government and state governments in 1994 to establish a process for achieving tax uniformity and competitive neutrality between public sector and private sector trading activities.

Table 5.18
Income tax equivalent income[1]

	2006-07 Actual $ million	2007-08 Est. Act. $ million	2008-09 Budget $ million
Energy sector	102	175	144
Transport sector (rail and ports)	47	40	36
Other	93	32	30
Total income tax equivalent income	**241**	**247**	**210**

Note:
1. Numbers may not add due to rounding.

OTHER REVENUE

Table 5.19
Other revenue[1]

	2006-07 Actual $ million	2007-08 Est. Act. $ million	2008-09 Budget $ million
Royalties and land rents	1,430	1,449	3,644
Fines and forfeitures	209	211	241
Revenue nec	385	270	268
Total Other Revenue	**2,024**	**1,930**	**4,154**

Note:
1. Numbers may not add due to rounding.

Royalties and land rents

Budget royalty initiatives

The Queensland Government is charged with the responsibility of ensuring that the people of Queensland receive a fair and appropriate return on the non-renewable mineral and petroleum resources that they own.

The opportunity has been taken to review the full spectrum of Queensland royalties with a view to ensuring the maintenance of an appropriate return to the community. This review also provides an opportunity to streamline administrative arrangements and ensure Queensland's royalty regime keeps pace with significant changes in Queensland's mineral industry. The last time a comprehensive review of the total royalty system was undertaken was in 1974.

Substantial increases in coal contract prices and continued strong market conditions for most other commodities prices translate to increases in the value held by those who retain the right to extract resources in Queensland. While there have also been substantial increases in production costs in recent years, the increase in the value of these resources is considered to substantially outweigh the additional costs faced in extracting them.

Coal

The recent surge in contract prices for export coal has increased the value of Queensland's coal resources. In this context, the 2008-09 Budget introduces a two tier royalty rate structure with effect from 1 July 2008 that is designed to increase the return to the Queensland community when the value of this non-renewable resource increases.

When the Australian dollar value of coal produced by a mine exceeds $100 per tonne, on average across all coal types, a higher royalty rate of 10% will effectively be applied to the value of coal above $100.

For example, if the average value of coal is $150 in a particular quarter, the royalty rate applied will equate to 7% on the first $100 and 10% on the remaining $50, resulting in an effective royalty rate of 8%.

Where the average value of coal is less than $100 per tonne, the current royalty rate of 7% will continue to apply.

In acknowledgement of the strong industry support for the Australian Coal Association Low Emissions Technologies levy, it has been decided to extend allowable deductions by including this levy in the determination of the value of coal. The deduction will be backdated to the inception of the levy.

Base and precious metals

The value of most base and precious metals has also risen in recent years. To ensure the Queensland community receives an appropriate return from the value of these resources, the 2008-09 Budget announces a revision to royalty rates, including the elimination of the fixed rate, from 1 January 2011, at the expiration of the current five-year period, in which companies were able to nominate either fixed or variable royalty rates.

Other initiatives

Other initiatives included in the 2008-09 Budget for commencement from 1 July 2008 are:

- changes to bauxite royalty arrangements, with the royalty rate for domestic bauxite increasing from 50% to 75% of the calculated export rate – the resultant 25% processing discount is now more closely aligned with that applying to other metals, which range from 20% to 35%
- changes to royalty thresholds
- changes to royalty rates for industrial and sundry minerals
- a royalty rate reduction for gemstones
- provision for royalties on high value minerals, such as iron ore, molybdenum and tungsten
- expansion of section 42 of the *Mineral Resources Regulation 2003* to accommodate the increasing trend of vertically integrated operations
- reduced frequency of lodgement of petroleum royalty returns
- common due date for payment of petroleum tenure rentals.

The Budget also announces a review of payable metal deductions for base and precious metals.

Further detail on these initiatives is available from the Department of Mines and Energy website – www.dme.qld.gov.au

The Government is investing the proceeds of the royalty changes into the community, including key mineral provinces, in the form of improved services and infrastructure. Other Budget Documents, such as Budget Paper 3 – Capital Statement, Budget Paper 4 – Budget Measures and the Regional Budget Statements provide further detail.

Royalty estimates

The State earns royalties from the extraction of coal, base and precious metals, bauxite, petroleum, mineral sands and other minerals and land rents from pastoral holdings, mining and petroleum tenures. Royalties return some of the proceeds of the extraction of non-renewable resources to the community.

Coal royalties make up the bulk of royalty and land rent revenue, having risen in recent years as a result of increases in the value of coal produced in Queensland. Royalties from base and precious metals have also risen, with global demand for commodities also causing increases in the value of base and precious metals.

Royalty and land rent revenue in 2007-08 is estimated to be $1.449 billion, representing a 1.3% increase from 2006-07.

Royalty and land rent revenue is expected to increase by $2.196 billion (or 152%) in 2008-09 due to a reported trebling and doubling, respectively, in contract prices for coking and thermal coal, along with the implementation of the two tier royalty system.

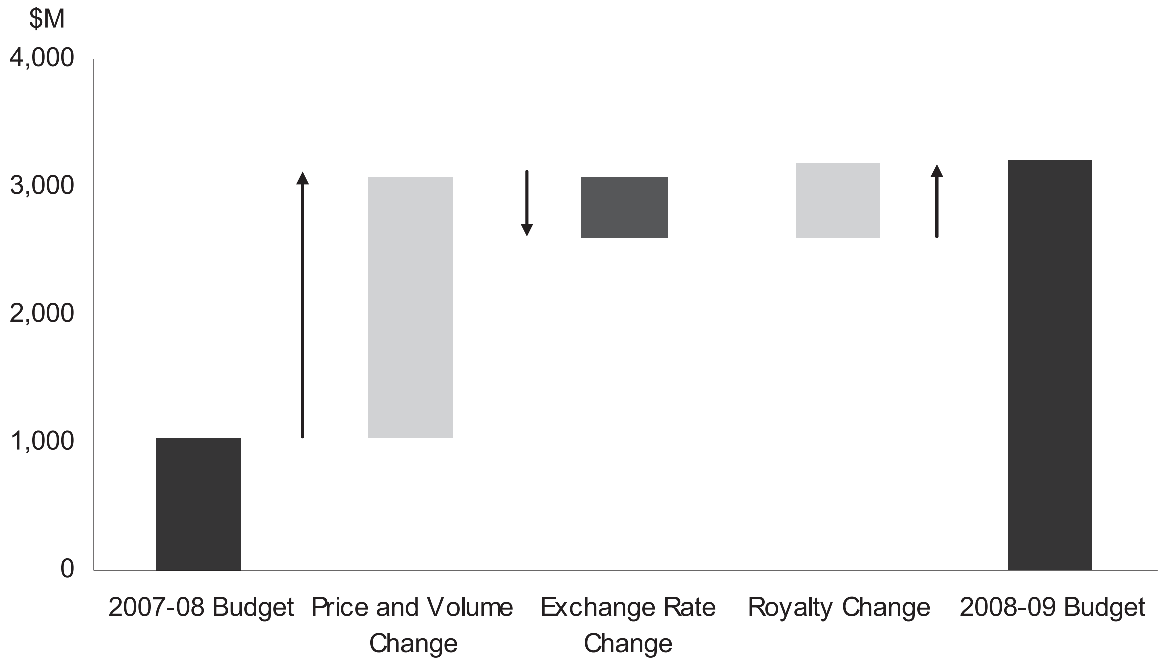
Table 5.20
Royalties and land rents[1]

	2006-07 Actual $ million	2007-08 Budget $ million	2007-08 Est. Act. $ million	2008-09 Budget $ million
Coal	1,019	1,020	1,027	3,213
Other royalties[2]	341	368	374	383
Land rents	70	48	48	49
Total royalties and land rents	1,430	1,436	1,449	3,644

Notes:
1. Numbers may not add due to rounding.
2. Includes base and precious metal, petroleum and other minerals royalties.

The 2008-09 coal royalty estimate is $2.193 billion higher than the 2007-08 Budget estimate. This increase is primarily associated with the substantial increase in export coal prices, supported by an increase in export volumes. These parameter changes are partly offset by the increased strength of the Australian dollar. The royalty changes announced in this Budget are expected to provide an additional $578 million in 2008-09. An indicative breakdown of the increase between the 2007-08 Budget estimate and the 2008-09 Budget estimate is provided in Chart 5.6.

Chart 5.6
Breakdown of increase in coal royalty estimate
2007-08 Budget to 2008-09 Budget



Estimates of mining royalties are based predominantly on forecasts of production compiled by the Department of Mines and Energy, using information provided by mining companies. Price estimates are broadly consistent with those published by the Australian Bureau of Agricultural and Resource Economics and Consensus Economics.

There is a significant degree of uncertainty associated with estimates of commodity prices and Australian dollar-US dollar exchange rates, both of which have significant impacts on royalty revenue. Further discussion of the risks associated with the royalty estimates, including a sensitivity analysis, is provided in Appendix C.

Fines and forfeitures

The major fines included in this category are traffic and court fines. There is an expected increase of 14.1% in collections of fines and forfeitures in 2008-09.

Revenue nec

Revenue nec includes other revenues not elsewhere classified. The moderate decrease in 2008-09 primarily reflects an expected decline in asset transfers from non-Queensland Government entities.

6 EXPENSES

FEATURES

- **Total General Government sector expenses are expected to increase by \$2.501 billion (or 7.5%) over the estimated actual for 2007-08, to \$35.772 billion in 2008-09.**
- **Growth in expenses includes a range of service developments and initiatives with a particular focus on the areas of health, disability services, housing and education and training.**
- **The major areas of expenditure are health and education, which together constitute approximately 47.3% of General Government sector expenses.**

INTRODUCTION

This chapter provides an overview of General Government sector expenses for the estimated actual outcome for 2007-08, forecasts for the 2008-09 Budget year and projections for 2009-10 to 2011-12. The forward estimates are based on the economic projections outlined in Chapter 2 and are formulated on a no policy change basis.

Table 6.1
General Government sector expenses[1]

	2007-08 Budget \$ million	2007-08 Est.Act. \$ million	2008-09 Budget \$ million	2009-10 Projection \$ million	2010-11 Projection \$ million	2011-12 Projection \$ million
Expenses						
Employee expenses	12,595	12,840	13,896	14,710	15,590	16,452
Superannuation interest cost	969	996	1,219	1,280	1,337	1,389
Other superannuation expenses	1,681	1,913	1,959	2,009	2,069	2,090
Other operating expenses	6,194	6,240	6,782	6,808	6,983	7,182
Depreciation and amortisation	2,015	2,257	2,665	2,721	2,766	2,882
Other interest expenses	390	383	539	787	1,036	1,293
Grants expenses	8,438	8,641	8,713	8,385	8,641	8,833
Total Expenses	**32,282**	**33,271**	**35,772**	**36,700**	**38,422**	**40,120**

Note:
1. Numbers may not add due to rounding.

General Government expenses in 2007-08 are estimated to be $33.271 billion, an increase of $142 million over the 2007-08 Mid Year Fiscal and Economic Review forecast of $33.129 billion. This increase is primarily due to:

- additional expenditure under Natural Disaster Relief Arrangements including flood relief for Northern Queensland
- additional expenditure to match increases in specific purpose grants from the Australian Government and other own-source revenues.

The General Government operating statement provides for aggregate expenses of $35.772 billion in 2008-09, representing an increase of $2.501 billion (or 7.5%) over the 2007-08 estimated actual. Factors influencing the growth in expenses include growth in service delivery to meet increased demand and the implementation of service enhancements which are outlined in Budget Paper 4 – Budget Measures.

EXPENSES BY OPERATING STATEMENT CATEGORY

This section provides a breakdown of General Government expenses in 2008-09 by category and discusses the significant variances between 2007-08 estimated actual and 2008-09 Budget by expense category.

The Service Delivery Statements provide details of expenditure for individual departments.

Chart 6.1 indicates that the largest expense category in the General Government sector is employee and superannuation expenses (47.7%), reflecting the direct service provision nature of Government activities, followed by grant expenses (24.4%) that include community service obligation payments to Government-owned corporations (GOCs) and the fuel subsidy and First Home Owner Grant schemes.

Chart 6.1
Expenses by operating statement category, 2008-09

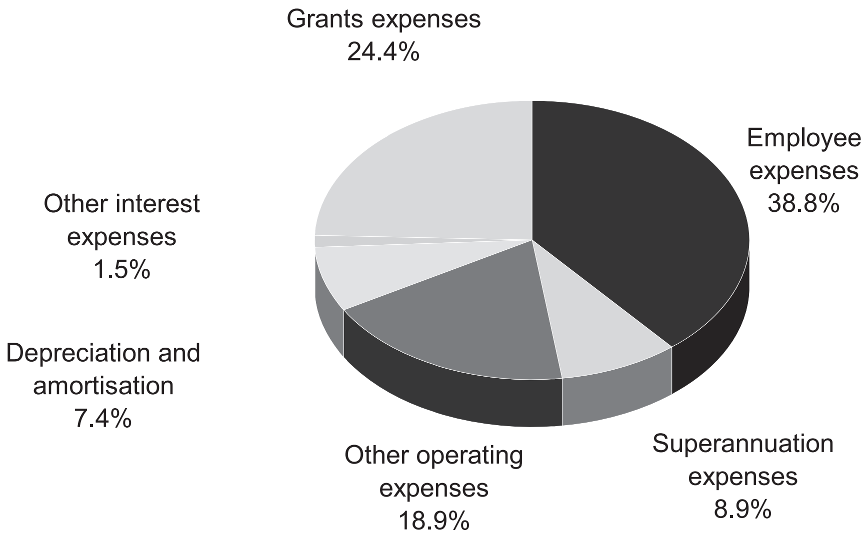
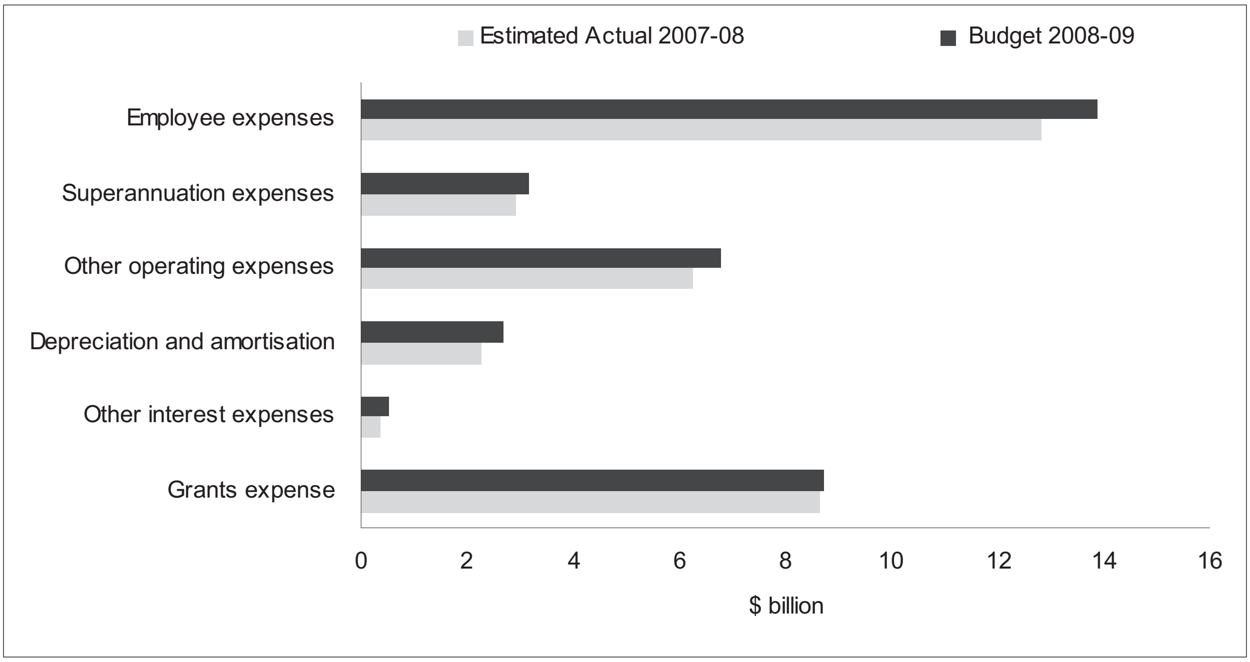


Chart 6.2 compares the 2007-08 estimated actual expenses for each operating statement category with the 2008-09 Budget.

Chart 6.2
Expenses by operating statement category
2007-08 and 2008-09



DETAILS OF EXPENSES

Employee expenses

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

Employee expenses are forecast to increase by $1.056 billion or 8.2% to $13.896 billion in 2008-09. The increase reflects a combination of wage increases related to enterprise bargaining agreements and other services' growth and enhancements.

The additional staffing provided in the 2008-09 Budget is predominantly in key service delivery areas, including 270 additional teachers and teacher aides to meet enrolment growth in Queensland state schools and to support students with disabilities and other initiatives and 250 additional ambulance officers across the State in response to increasing demand for ambulance services, as well as 200 additional sworn police positions by October 2009.

In 2005, the Queensland Government committed to build a better health system and implemented major health reforms through the *Health Action Plan*. Reforms to date include recruiting an additional 1,573 doctors, 5,013 nurses and 1,810 allied health professionals as at April 2008.

Superannuation expenses

The superannuation interest cost represents the imputed interest on the Government's accruing defined benefit superannuation liability. 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, estimated at 6%. Offset against this expense is the revenue from plan assets based on long-term rates of return of 7.5% per annum.

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).

Other operating expenses

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

Other operating expenses in 2008-09 are expected to be $6.782 billion, which represents an increase of $542 million (or 8.7%) on 2007-08. The higher spending in health to improve service delivery and meet demand is a significant contributor to this increase.

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 size of the State's capital program.

Other interest expense

The other interest expense includes interest paid on borrowings to acquire capital assets and infrastructure such as roads and government buildings. The growth in this expense over the forward estimates reflects growth in borrowings to fund the State's capital program. The interest expense remains modest with interest costs as a percentage of revenue only 1.5% in 2008-09 and reaching only 3.2% by 2011-12.

Grants expenses

Current grants include grants and subsidies to the community (such as schools, hospitals, benevolent institutions and local governments) and personal benefit payments. Current grants to non-government recipients represent grants to non-government organisations and householders. Funding includes support for non-government healthcare providers, organisations servicing the community in partnership with government in the family support, disability, youth and childcare sectors. Community service obligations (CSOs) are provided where GOCs are required to provide non-commercial services or services at non-commercial prices for the benefit of the community. The State's fuel subsidy scheme is considered to be a current grant and is estimated to total around $570 million in 2008-09.

Current grants are estimated to increase $200 million in 2008-09 (see Table 6.2). Increases in current grants to non-government schools, non-profit organisations and other non-government recipients are partially offset by a reduction in CSOs resulting from lower anticipated electricity pool prices in 2008-09. CSO payments mainly to Queensland Rail and Ergon Energy total $1.706 billion in 2008-09.

Capital transfers represent grants to GOCs, local governments, non-profit institutions and other non-government entities, such as households and businesses for capital purposes. The First Home Owner Grant represents a significant capital grant. From 1 January 2009, the Government will limit eligibility for the $7,000 First Home Owner Grant to first home buyers purchasing a home valued below $1 million.

Table 6.2 indicates the composition of grant payments by recipient.

Table 6.2
Current and capital grants[1]

	2007-08 Est. Act. $ million	2008-09 Budget $ million
Current		
Fuel Subsidy Scheme	555	572
Grants to local government	496	507
Grants to non-government schools	1,637	1,736
Grants to non-profit organisations	924	1,067
Grants to other non-government recipients	1,837	1,932
Payments to GOCs	1,964	1,799
Total current transfers	**7,413**	**7,613**
Capital		
First Home Owner Grant Scheme	210	214
Grants to local government	555	526
Grants to non-profit organisations	95	163
Grants to other non-government recipients	368	197
Total capital transfers	**1,228**	**1,100**
Total current and capital transfers	**8,641**	**8,713**

Note:
1. Numbers may not add due to rounding.

OPERATING EXPENSES BY PURPOSE

Chart 6.3
General Government expenses by purpose, 2008-09

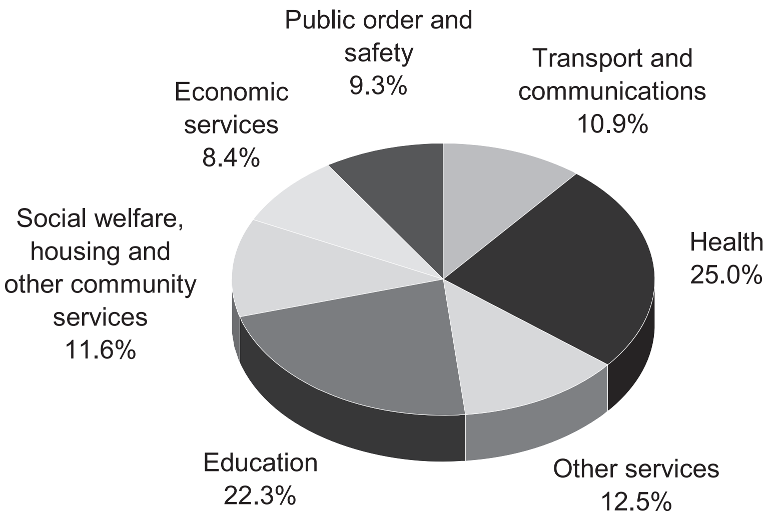
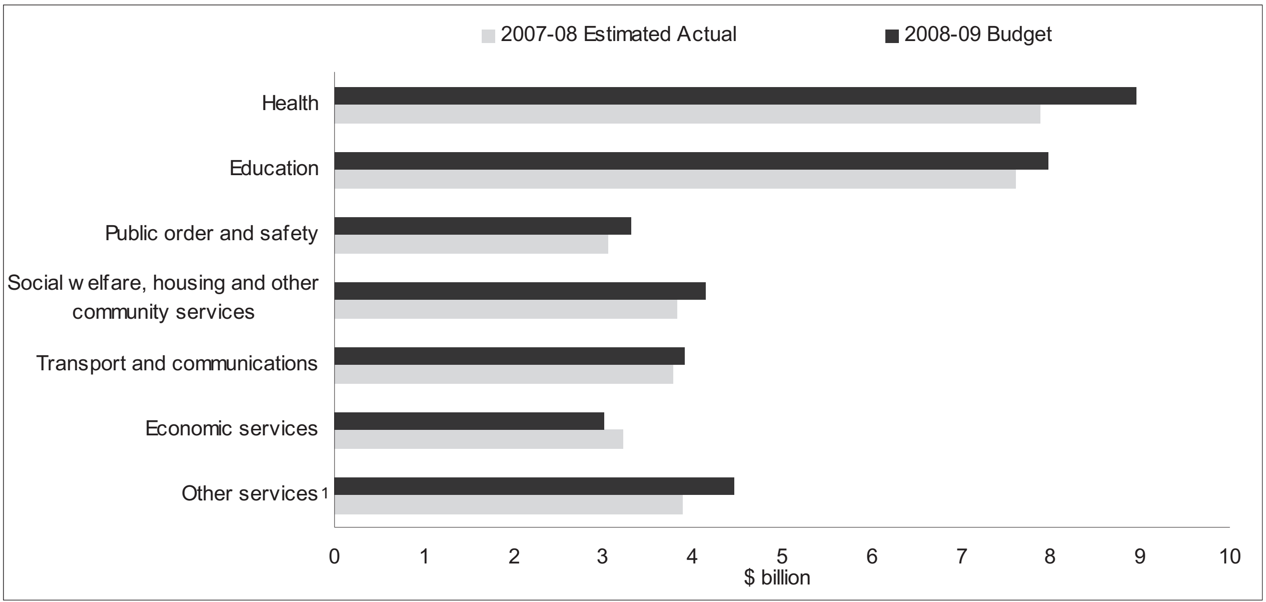


Chart 6.3 indicates the proportion of expenditure by major purpose classification for the 2008-09 Budget. Health accounts for the largest share of expenses (25%) followed by Education (22.3%).

Chart 6.4
General Government expenses by purpose
2007-08 and 2008-09

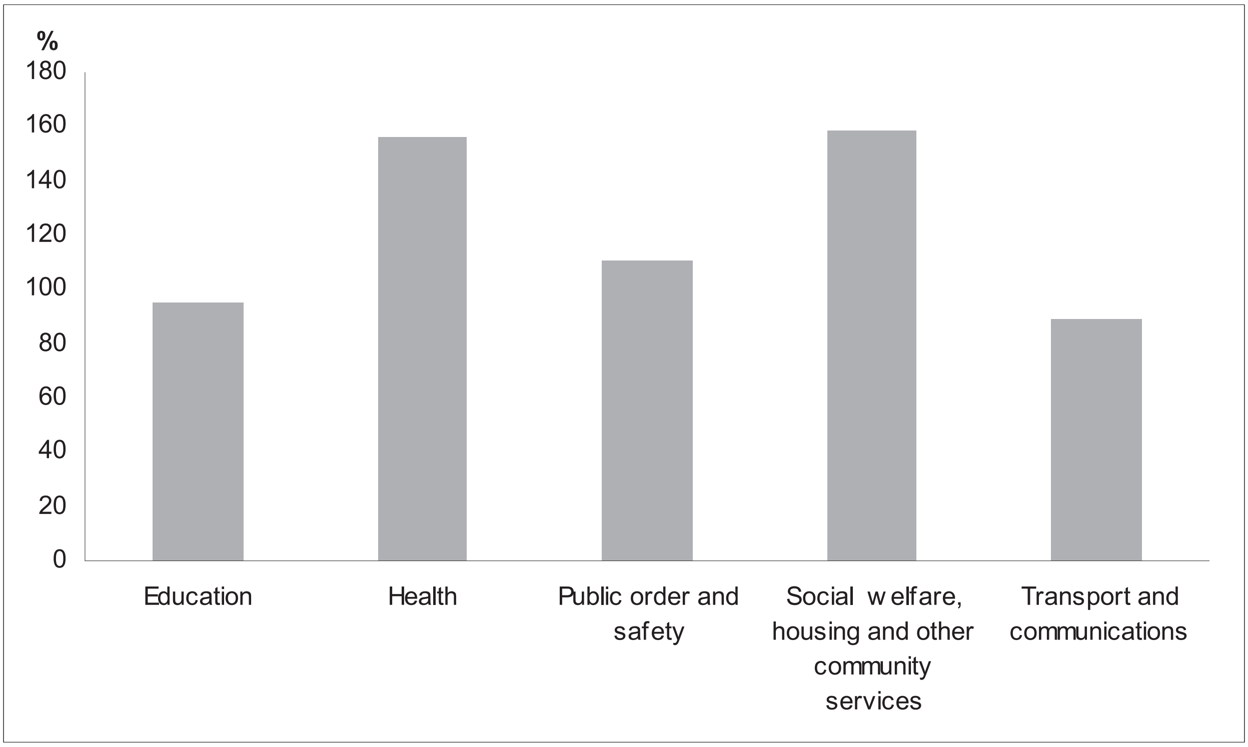


Note:
1. Growth primarily reflects funding for Natural Disaster Relief Arrangements and superannuation interest expense.

As evidenced in the chart above, expenditure increases in all key service delivery areas from 2007-08 estimated actual to 2008-09 Budget.

The Government's *Charter of Social and Fiscal Responsibility* sets out the Government's priorities for delivering high quality services and improving the quality of life for Queenslanders. The Government has consistently had a clear focus on improving key service areas such as education, health, public order and safety and community services. The Queensland Government's focus on these areas since 1998-99 can be seen in the following chart.

Chart 6.5
General Government expenses by purpose
Growth from 1998-99 to 2008-09



Source: *Queensland Treasury's data supplied to ABS.*

Education

The State's investment in education has been steadily growing since 1998-99. This investment has improved the individual opportunities for students and benefited the State as a whole by supporting productivity growth.

In order to provide a framework for investing in skills and innovation, in 1998 the Government developed the Smart State Strategy. This strategy continues to drive economic growth by improving the quality of, and access to, education and training across the State.

The 95% ($3.880 billion) growth in funding delivered in this area since 1998-99 encompasses primary, secondary and tertiary education and technical and further education. Specifically, initiatives have delivered a reduction in class sizes, enhancement of the assessment and reporting of students' achievements, broadening of student pathways to further education and training options and improvements in opportunities for Aboriginal and Torres Strait Islander students. Early years of schooling have also been reformed with the introduction of the Prep Year, first introduced on a trial basis and then implemented State-wide in 2007.

The three-year SmartVET initiative and the more recent *Queensland Skills Plan* have set out the Government's strategy for learning programs to support the high-skills needs of growth industries, professionals and new technologies. The Government, in partnership with industry and employers, has worked to modernise the apprenticeship system, ensure the VET system is better targeted to economic needs and provide more flexible training options. The *Queensland Skills Plan* aims to provide an additional 17,000 trade training places and an additional 14,000 higher level training places each year by 2010.

Other initiatives that have contributed to the growth in education expenditure include:

- support of greater than expected growth in apprenticeships and traineeships training
- the introduction of Queensland Academies, giving senior students the opportunity to excel in science, maths, technology and the creative arts
- the *State Schools of Tomorrow* package, which provides funding for projects to modernise and refurbish Queensland schools
- investment in TAFE infrastructure to modernise and provide new facilities across the State.

Health

Since 1998-99, the total growth in the health function within the Queensland Government has been 155.8% ($5.448 billion). Spending by Queensland Health now amounts to $8.352 billion in 2008-09.

The Government's *Health Action Plan*, first released in 2005, has provided a blueprint for reform of the health system. Investment under the *Health Action Plan* has focused on:

- increasing the number of medical professionals by providing additional places for medical students, employing more interns and attracting qualified medical staff to Queensland. As at the end of April 2008, 1,573 extra doctors and 5,013 extra nurses were appointed
- continuing to support hospitals through the More Beds for Hospitals program
- improving the quality of health services through the Health Quality and Complaints Commission.

Queensland Health continues to build a dependable healthcare system with better health outcomes for all Queenslanders by:

- improving programs to prevent illness and injury, promoting and protecting good health and wellbeing of the population, while reducing the health status gap between the most and least advantaged in the community
- providing equitable access to quality health services
- improving the functional status of a patient with an impairment or disability, slowing the progression of a person's health condition and assisting them to maintain and better manage their health condition
- guiding mental health reform through the *National Mental Health Strategy* and the *Queensland Plan for Mental Health 2007-2017*.

Public order and safety

Public order and safety includes funding to police, legal services and law courts, fire protection, prisons and corrective services. Contributing to the 110.4% ($1.740 billion) growth in public order spending since 1998-99 is the consistent increase in police numbers, which has maintained the police to population ratio at or above the national average, as well as additional allocations relating to infrastructure. Funding has been provided for the planning and construction of new courthouse facilities including the Brisbane Supreme and District Court Complex, and for the expansion and redevelopment of prison infrastructure such as Lotus Glen Correctional Centre and the new South East Queensland (SEQ) correctional precinct at Gatton.

In addition, law enforcement services have benefited from the implementation of new information and communications technologies, such as:

- the Public Safety Network, which establishes a common ICT network for the Departments of Police, Corrective Services and Justice and Attorney-General
- QPRIME, which provides a means to effectively manage the increasing volume of information used by operational police.

Social welfare, housing and other community services

The continuously strong growth in social welfare, housing and community services expenditure is a reflection of a range of policy initiatives designed to respond to issues relating to child safety, community support and housing shortages. Over the last few years, several essential reforms to child protection have been instigated, including upgrades to therapeutic and alternative care, suspected child abuse and neglect teams, and the accelerated increase of frontline staffing.

A number of initiatives have been implemented to address the social housing needs, including the purchase and construction of additional dwellings for the Public Housing and Aboriginal and Torres Strait Islander Housing rental programs, and the construction and purchase of new dwellings under the Community-managed Studio Units program. Since 1998-99, housing assistance has increased by 106%.

Since 1998-99, the investment in disability services has grown by over 245%. This increased expenditure has been directed towards early intervention, the implementation of service systems reform, delivering a comprehensive response to the recommendations from the Carter Report, strengthening the capacity of non-government organisations, expanding the Home and Community Care program and responses to people with mental illness.

This function also includes expenditure relating to families, communities and the environment, all of which have benefited from being part of key Budget priorities in recent years. In total, the area of social welfare, housing and community services has experienced a 159% ($2.547 billion) growth in expenditure since 1998-99.

Transport and communications

The Government is taking action to address urban congestion and is investing heavily in infrastructure and services. The *South East Queensland Infrastructure Plan and Program* details the Government's commitment to providing new infrastructure.

Spending in this area has experienced a total growth of 88.8% ($1.837 billion) since 1998-99. This funding has supported the development of transport and road projects including provision of funding to QR Limited to provide Citytrain services, freight transport in and out of SEQ and high-quality connections between the region's key activity centres. A major focus for the Government is to tackle the growing issue of urban congestion by:

- building capacity for growth through new roads and infrastructure
- improving efficiency of the existing network
- better land use and planning
- improving public transport services
- addressing travel demand.

Initiatives aimed at reducing congestion in SEQ include TravelSmart initiatives, the Land Use and Public Transport and Accessibility Index (a land use and planning tool) and off-peak freight delivery trials. Outside SEQ, initiatives to reduce congestion include the implementation of fare equalisation for all regional urban bus services, higher frequency services, the upgrade of bus stops, the introduction of wheelchair accessible taxis into small rural and regional communities and disability compliant bus and ferry infrastructure across regional centres.

Road safety issues have also been addressed, with the development of an action plan based on the recommendations of the Queensland Road Safety Summit of February 2006. This includes changes to driver licence requirements and the investigation of further speed enforcement technologies.

DEPARTMENTAL EXPENSES

Data presented in Tables 6.3 and 6.4 provide a summary drawn from financial statements contained in Budget Paper 5 - Service Delivery Statements. Further information on the composition of expenses, outputs delivered and factors influencing the movement in expenses can also be obtained from the Service Delivery Statements.

Table 6.3
Departmental Controlled Expense [1,2]

	2007-08 Est. Actual $'000	2008-09 Estimate $'000
Child Safety	563,434	592,438
Communities	564,170	680,900
Corrective Services	510,219	511,190
Disability Services Queensland	1,052,733	1,234,532
Education, Training and the Arts	6,099,051	6,445,311
Electoral Commission of Queensland	28,641	11,429
Emergency Services	848,203	940,781
Employment and Industrial Relations	206,423	216,081
Environmental Protection Agency	345,000	411,078
Forestry Plantations Queensland Office	31,956	31,155
Health	7,456,983	8,352,012
Housing	626,894	728,859
Infrastructure and Planning	115,301	127,619
Justice and Attorney-General	345,349	359,331
Legislative Assembly	68,533	69,336
Local Government, Sport and Recreation	678,386	626,734
Main Roads	1,606,453	1,467,370
Mines and Energy	107,180	144,370
Natural Resources and Water	724,792	560,651
Office of the Governor	4,613	4,934
Office of the Ombudsman	6,364	6,869
Office of the Public Service Commissioner	14,780	10,035
Police	1,446,806	1,570,994
Premier and Cabinet	111,616	119,765
Primary Industries and Fisheries	403,393	342,361
Public Works	466,450	492,325
Queensland Audit Office	33,137	34,417
The Public Trustee of Queensland	67,951	71,697
Tourism, Fair Trading and Wine Industry Development (ceased 13 September 2007)	15,973	..
Tourism, Regional Development and Industry	205,463	225,457
Transport	2,392,754	2,513,808
Treasury	206,548	209,659
Total Expenses	**27,355,549**	**29,113,498**

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 and also transactions eliminated between entities within the General Government sector (for example payroll tax payments) 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.

Table 6.4
Departmental Administered Expense [1,2]

	2007-08 Est. Actual $'000	2008-09 Estimate $'000
Communities	165,398	186,666
Education, Training and the Arts	1,894,970	2,000,875
Health	18,469	24,138
Infrastructure and Planning	32,710	32,776
Justice and Attorney-General	152,499	158,592
Local Government, Sport and Recreation	375,106	393,656
Mines and Energy	754,070	485,210
Natural Resources and Water	15,358	14,458
Police	405	420
Premier and Cabinet	134,823	186,111
Primary Industries and Fisheries	34,503	21,056
Public Works	25,686	56,286
The Public Trustee of Queensland	1,745	2,013
Tourism, Fair Trading and Wine Industry Development (ceased 13 September 2007)	13,232	..
Tourism, Regional Development and Industry	38,744	49,276
Transport	4,233	3,068
Treasury	3,339,401	2,922,667
Total Expenses	**7,001,352**	**6,537,268**

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 and also transactions eliminated between entities within the General Government sector (for example payroll tax payments) 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.

Table 6.5
Reconciliation of Departmental to UPF Expenses [1]

	2007-08 Est. Actual $ million	2008-09 Estimate $ million
Departmental expenditure per Service Delivery Statements - Controlled (Table 6.3)	27,356	29,113
- Administered (Table 6.4)	7,001	6,537
Non-UPF departmental expenses and whole-of-Government schemes [2]	(1,428)	(746)
Other General Government entities (e.g. CBUs, SSPs, Statutory Bodies)	3,423	3,290
	36,351	**38,194**
Superannuation Interest expense	937	978
Eliminations and Other whole-of-Government adjustments		
Elimination of payments to CBUs and SSPs	(3,012)	(3,065)
Payroll Tax elimination	(456)	(481)
Other eliminations and adjustments	(549)	146
Total General Government UPF Expenses	**33,271**	**35,772**

Notes:
1. Numbers may not add due to rounding.
2. Certain expenses such as asset valuation changes are excluded from UPF reporting. In addition, this item removes the effect of cash payments for whole-of-Government schemes such as the State's share of superannuation beneficiary payments reported in Treasury Administered's expenses. Costs associated with these schemes are accrued annually.

7 BALANCE SHEET AND CASH FLOWS

FEATURES

- **The Queensland Government's strong financial position is expected to strengthen further in 2008-09. State net worth is projected to rise by $5.468 billion through the year to $128.563 billion.**
- **Net worth is also forecast to increase each year over the forward estimates period, meeting the Government's commitment in its *Charter of Social and Fiscal Responsibility* to maintain and seek to increase total State net worth.**
- **The General Government sector is well placed to meet all its present and future liabilities. Financial assets are projected to exceed liabilities by $15.164 billion in the General Government sector at 30 June 2009, consistent with the Government's Charter principles.**
- **The General Government sector is expected to record a cash deficit of $1.970 billion in 2008-09, after allowing for $6.311 billion in net asset purchases.**

INTRODUCTION

The 2008-09 balance sheet shows the projected assets, liabilities and net worth of the General Government sector as at 30 June 2009. It is important for the Government to maintain a strong balance sheet to provide it with the stability, flexibility and capacity to deal with any emerging financial and economic pressures.

The assets and liabilities in the balance sheet are defined according to the Uniform Presentation Framework (UPF).

Detailed balance sheet and cashflow information for the General Government sector and the rest of the public sector is contained in Chapter 9.

BALANCE SHEET

Table 7.1 provides a summary of the key balance sheet measures for the General Government sector.

Table 7.1
General Government sector: summary of budgeted balance sheet[1]

	2007-08 Budget [2] $ million	2007-08 Est. Act. $ million	2008-09 Budget $ million	2009-10 Projection $ million	2010-11 Projection $ million	2011-12 Projection $ million
Financial assets	54,859	53,420	54,811	57,398	59,699	61,737
Non-financial assets	100,177	105,437	113,399	120,462	127,447	133,792
Total Assets[3]	**155,036**	**158,857**	**168,209**	**177,860**	**187,146**	**195,529**
Borrowings and advances	7,158	6,193	9,311	13,801	18,211	21,808
Superannuation liability	19,955	20,849	21,874	22,816	23,674	24,442
Other provisions and liabilities	8,124	8,722	8,461	8,534	8,771	9,038
Total Liabilities	**35,237**	**35,762**	**39,646**	**45,152**	**50,656**	**55,287**
Net Worth	**119,799**	**123,095**	**128,563**	**132,708**	**136,490**	**140,243**
Net Financial Worth	**19,622**	**17,657**	**15,164**	**12,246**	**9,043**	**6,451**
Net Financial Liabilities	**855**	**2,343**	**5,504**	**9,488**	**13,499**	**16,596**
Net Debt	**(24,709)**	**(24,371)**	**(21,928)**	**(18,670)**	**(15,560)**	**(13,227)**

Notes:
1. Numbers may not add due to rounding.
2. Numbers have been restated where subsequent changes in classification have occurred.
3. For UPF purposes, the State's assets are classed as either financial or non-financial assets.

Financial assets

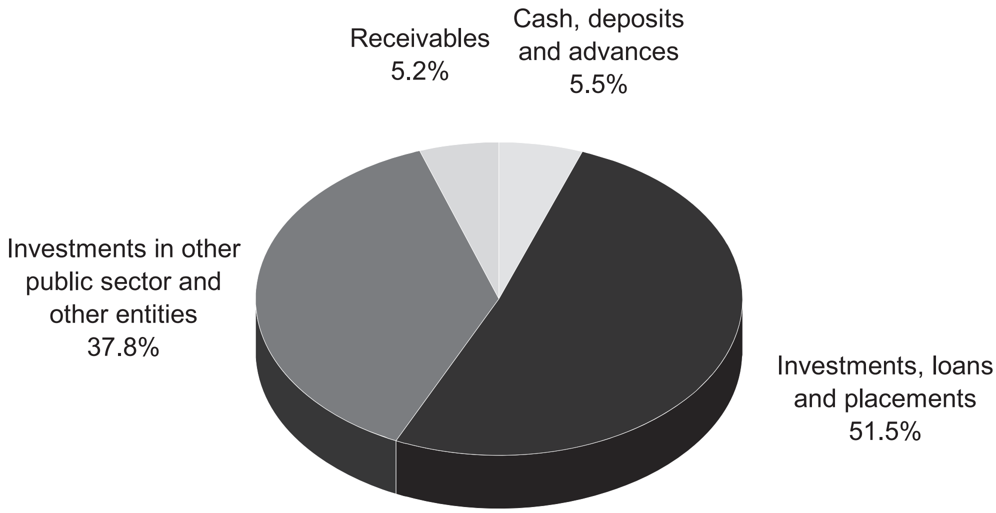
The General Government sector holds the full equity of the State's public enterprises, principally its shareholding in Government-owned corporations (GOCs), in much the same manner as the parent or holding company in a group of companies. The estimated net investment in public enterprises ($20.669 billion at 30 June 2009) is included in the General Government sector's financial assets.

In the year to 30 June 2009, financial assets are projected to increase by $1.391 billion, attributable principally to increased investment in assets set aside to meet future employee liabilities and higher investment in the State's public enterprises.

Financial assets of $53.420 billion are forecast for 2007-08, or $1.439 billion lower than originally budgeted, reflecting lower than forecast investment returns. At the time of the 2007-08 Budget, investment earnings were based on the long-term rate of return of 7.5%. Subdued performance in financial markets investments in 2007-08 has resulted in a downward revision of investment returns to 2%. The stability of earnings on investments in future years has been addressed by the transfer of certain investment assets to the Queensland Treasury Corporation (QTC) in exchange for a debt instrument that will earn the General Government sector a 7.5% return per annum (see Box 1.1 in Chapter 1). Therefore, investment earnings in 2008-09 and the outyears are based on 7.5%.

Chart 7.1 shows projected General Government sector financial assets by category at 30 June 2009. Investments held to meet future liabilities including superannuation and long service leave comprise the major part of the State's financial assets.

Chart 7.1
Projected General Government financial assets by category at 30 June 2009



Non-financial assets

General Government non-financial assets are projected to total $113.399 billion at 30 June 2009. These assets consist primarily of land and other fixed assets of $107.569 billion, the majority of which are roads, schools, hospitals and other infrastructure used to provide services to Queenslanders. Other non-financial assets of $5.829 billion held by the State include prepayments and deferred tax assets relating to income tax equivalents collected primarily from GOCs.

Changes in non-financial assets occur for a number of reasons including:

- construction and purchase of assets, either to replace existing assets or provide additional capacity for the State to deliver services
- revaluations of assets required under accounting standards
- depreciation and disposals of assets.

Non-financial assets in the year ending 30 June 2009 are expected to grow by $7.962 billion over the 2007-08 estimated actual. Of this increase, $6.651 billion represents the acquisition of non-financial assets.

The Government has traditionally funded new infrastructure at levels well beyond that of the other states. General Government purchases of non-financial assets per capita have far exceeded the average of the other states and territories for well over a decade (see Chart 3.6 in Chapter 3).

Liabilities

The largest accruing liability in the General Government sector is employee entitlements (principally superannuation and long service leave) which are projected to total $25.539 billion at 30 June 2009. The other major component of liabilities is borrowings and advances received.

Total liabilities are budgeted to increase by $3.884 billion in 2008-09, largely on account of increased borrowing to support the State's capital program and growth in the General Government superannuation liability.

State public sector superannuation liabilities include defined benefit liabilities for current employees and the balance of former scheme members (retirement, resignation etc) who choose to retain their funds within QSuper.

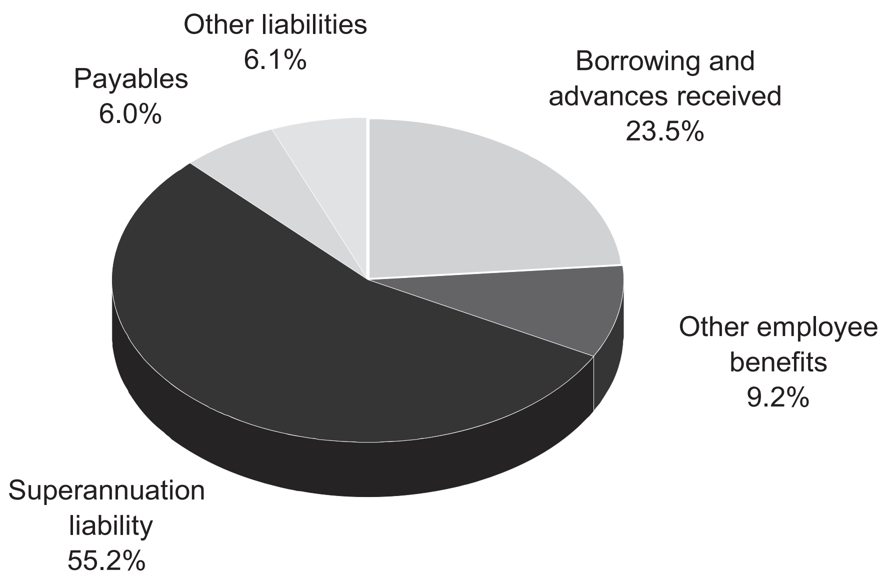
The proportion of the State's total superannuation liability relating to former scheme members is expected to increase over the forward estimates period as these investment balances grow and new public sector employees join the accumulation scheme, in preference to the defined benefit scheme.

Over the Budget and forward estimates period, total additional General Government borrowings and advances of $15.260 billion are planned. These borrowings are to partially fund the $25.758 billion worth of capital projects in the General Government sector and $2.023 billion worth of equity injections to the Public Non-financial Corporations sector to support expansion of the State's water, ports, energy and rail infrastructure.

The remainder of the liabilities balance consists of payables and other liabilities such as unearned revenue and provisions.

The composition of the General Government sector's liabilities is illustrated in Chart 7.2.

Chart 7.2
Projected General Government liabilities by category at 30 June 2009



Net financial worth

The net financial worth measure is an indicator of financial strength. Net financial worth is defined as financial assets less all existing and accruing liabilities. Financial assets include cash and deposits, advances, financial investments, loans, receivables and equity in public enterprises.

The net financial worth measure is broader than the alternative measure – net debt – which measures only cash, advances and investments on the assets side and borrowings and advances on the liabilities side. As it is more comprehensive, the net financial worth measure is more appropriate in an accrual accounting framework.

The net financial worth of the General Government sector for 2008-09 is forecast at $15.164 billion, indicating that the State is able to meet all of its current and recognised future obligations, without recourse to material adjustments in fiscal policy settings.

This position is consistent with the principle in the Government's *Charter of Social and Fiscal Responsibility* that the State's financial assets cover all accruing and expected future liabilities of the General Government sector.

Based on current projections, the General Government sector will continue to meet the commitment in the Government's Charter to ensure that financial assets cover all accruing and expected future liabilities in all years through to 30 June 2012. Net financial worth reduces in future years reflecting the State's increased borrowings to fund the purchase of infrastructure assets (which are not included in the calculation of net financial worth).

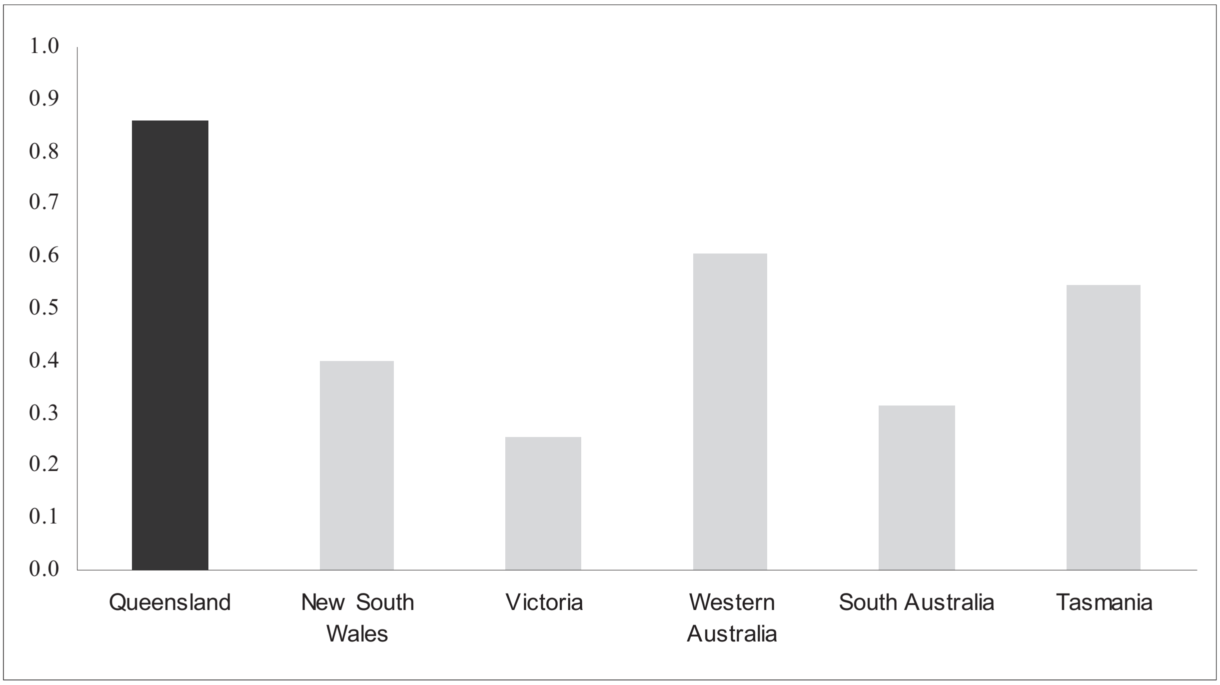
Queensland has consistently pursued sound long-term fiscal policies such as the full funding of employee superannuation entitlements. The strong balance sheet and high levels of liquidity in the General Government sector clearly demonstrate the success of these policies.

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 significant liabilities, other than borrowing (for example, accrued employee liabilities such as superannuation and long service leave entitlements). The net financial liabilities of the General Government sector for 2008-09 are forecast at $5.504 billion, further demonstrating the high level of liquidity of the State.

Queensland's level of liquidity is well in excess of other states as illustrated in Chart 7.3.

Chart 7.3
Projected ratio of financial assets to liabilities
(excluding investments in public enterprises) at 30 June 2009
General Government sector



Source: *State Budget Papers for QLD, VIC and WA. Mid Year Reviews/Budget Updates for NSW, SA and TAS.*

Net worth

The *Charter of Social and Fiscal Responsibility* specifically requires the Government to maintain and seek to increase total State net worth.

The net worth, or equity, of the State is the amount by which the State's assets exceed its liabilities (which is equivalent to General Government net worth). 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. Some financial liabilities are revalued on a regular basis. For example, the Government's accruing liabilities for employee superannuation and long service leave are determined by actuarial assessments
- 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. Government agencies routinely buy and sell 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.

Net worth of the General Government sector in 2007-08 of $123.095 billion is forecast. This exceeds growth forecasts in the 2007-08 Budget by $3.296 billion primarily as a result of the flow through of significantly higher net worth in the 2006-07 outcome.

Net worth is forecast to grow by $5.468 billion to $128.563 billion in 2008-09. This is due to the General Government's operating surplus and increases in assets as a result of revaluations of major assets as part of the State's asset revaluation cycle.

Chart 7.4 shows the State's strong net worth compared with the other states and territories. Queensland's per capita net worth is 45.7% greater than the average per capita net worth of the other states and territories.

Chart 7.4
Interjurisdictional comparison of projected per capita net worth at 30 June 2009

Note:
1. Western Australia values land under roads as part of its overall asset base. This has been adjusted to allow comparison with other jurisdictions which do not value land under roads.

Source: State Budget Papers for QLD, VIC, WA, ACT and NT. Mid Year Reviews/Budget Updates for NSW, SA and TAS. Population data from Australian Government Budget Paper No.3, 2008-09.

Net debt

Net debt is the sum of advances received and borrowings less cash and deposits, advances paid and investments, loans and placements. The extent of accumulated net debt is used to judge the overall strength of a jurisdiction's fiscal position. High levels of net debt impose a call on future revenue flows to service that debt and meeting these payments can limit government flexibility to adjust outlays. Excessive net debt can call into question the ability of government to service that debt.

As shown in Table 7.2, the General Government sector has negative net debt, that is, a surplus of financial assets over financial liabilities.

Queensland's negative net debt of $5,082 per capita, compares to the weighted average net debt of $352 per capita in the other states. This indicates the strength of Queensland's financial position relative to the other states. Queensland has had negative net debt in the General Government sector for many years.

Table 7.2
Projected net debt per capita at 30 June 2009

	QLD	NSW	VIC	WA	SA	TAS
Net debt per capita ($)	(5,082)	744	702	(1,260)	509	(2,346)

Source: *State Budget Papers for QLD, VIC and WA. Mid Year Reviews/Budget Updates for NSW, SA and TAS. Population data from Australian Government Budget Paper No.3, 2008-09.*

CASH FLOWS

The cash flow statement provides information on the Government's estimated cash flows from its operating, financing and investing activities.

The cash flow statement records estimated cash payments and cash receipts and hence differs from accrued revenue and expenditure recorded in the operating statement. In particular, the operating statement often records revenues and expenses that do not have an associated cash flow (for example, depreciation expense). The timing of recognition of accrued revenue or expense in the operating statement may differ from the actual cash disbursement or receipt (for example, tax equivalents). A reconciliation between the cash flows from operations and the operating statement is provided later in this chapter.

The cash flow statement also records cash flows associated with investing and financing activities that are otherwise reflected in the balance sheet. For example, purchases of capital equipment are recorded in the cash flow statement and impact on the balance sheet through an increase in physical assets.

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

The Australian Bureau of Statistics Government Finance Statistics (GFS) surplus (deficit) is derived by including the initial increase in liability at the beginning of finance leases in the cash surplus (deficit). This measure is also used to derive the Loan Council Allocation nomination, provided in Chapter 9.

A cash deficit of $1.970 billion is forecast in 2008-09 for the General Government sector, with the cash result forecast to remain in deficit in the outyears. Apart from the cash impact of smaller recurrent operating surpluses, the major factor contributing to lower cash results is the planned capital expansion. Total General Government capital purchases of $6.651 billion are budgeted for 2008-09.

Over the period 2008-09 to 2011-12, capital expenditure is expected to total $25.758 billion in the General Government sector. This substantial investment in capital will impact on the cash surplus (deficit).

Table 7.3 provides summary cash flow information for the General Government sector for 2007-08, 2008-09 and the outyears. Detailed cash flow tables are included in Chapter 9.

Table 7.3
General Government sector: summary of budgeted cash flows[1]

	2007-08 Budget[2] $ million	2007-08 Est. Actual $ million	2008-09 Budget $ million	2009-10 Projection $ million	20010-11 Projection $ million	2011-12 Projection $ million
Cash receipts from operating activities	34,057	32,833	37,297	37,625	39,055	40,674
Cash payments for operating activities	(29,817)	(31,591)	(32,955)	(33,869)	(35,468)	(37,165)
Net cash inflows from operating activities	**4,240**	**1,242**	**4,341**	**3,756**	**3,586**	**3,509**
Net cash flows from investing activities	(7,600)	(3,053)	(7,786)	(8,511)	(8,207)	(7,353)
Receipts from financing activities	3,555	3,522	2,897	4,421	4,366	3,576
Net increase/(decrease) in cash held	**195**	**1,711**	**(548)**	**(334)**	**(255)**	**(269)**
Derivation of cash surplus (deficit)						
Net cash inflows from operating activities	**4,240**	**1,242**	**4,341**	**3,756**	**3,586**	**3,509**
Net cash flows from investments in non-financial assets	(5,132)	(4,789)	(6,311)	(6,410)	(6,256)	(5,568)
Equals cash surplus/(deficit)	**(892)**	**(3,547)**	**(1,970)**	**(2,654)**	**(2,669)**	**(2,059)**

Notes:
1. Numbers may not add due to rounding.
2. Numbers have been restated where subsequent changes in classification have occurred.

Cash flows from operating activities

Table 7.4 provides a disaggregation of operating cash flows.

Table 7.4
General Government sector: cash flows from operating activities[1]

	2007-08 Budget [2] $ million	2007-08 Est. Act. $ million	2008-09 Budget $ million
Cash receipts from operating activities			
Taxes received	9,271	9,551	10,105
Grants and subsidies received	15,029	15,396	15,526
Sales of goods and services	3,347	3,667	3,749
Interest receipts	2,190	832	2,197
Dividend and income tax equivalents	1,858	931	1,012
Other receipts	2,362	2,455	4,707
Total operating receipts	**34,057**	**32,833**	**37,297**
Cash payments for operating activities			
Payments for employees	(13,928)	(15,092)	(15,674)
Payments for goods and services	(6,524)	(6,714)	(7,246)
Grants and subsidies	(8,278)	(8,704)	(8,757)
Interest paid	(391)	(383)	(540)
Other payments	(696)	(697)	(739)
Total operating payments	**(29,817)**	**(31,591)**	**(32,955)**
Net cash inflows from operating activities	**4,240**	**1,242**	**4,341**

Notes:
1. Numbers may not add due to rounding.
2. Numbers have been restated where subsequent changes in classification have occurred.

Cash inflows from operating activities include receipts from taxes, grants from the Australian Government, fees and charges levied on the provision of goods and services, interest receipts from investments and dividend and income tax receipts from public non-financial and financial corporations.

Taxes received by the General Government sector are forecast at $10.105 billion in 2008-09, an increase of 5.8% or $554 million on the 2007-08 estimated actual of $9.551 billion. This reflects the continued effect of property market activity on transfer duty and land tax revenue, employment and wage growth on payroll tax revenue and increases in vehicle registration duty, partially offset by the full abolition of mortgage duty from 1 July 2008.

Grants and subsidies received are forecast at $15.526 billion in 2008-09, a marginal increase of $130 million or 0.8% on the 2007-08 estimated actual of $15.396 billion.

Sales of goods and services are forecast at $3.749 billion for 2008-09 an increase of 2.2% and include fines and regulatory fees and user charges.

Interest receipts are expected to increase in 2008-09 by $1.365 billion or 164%, to $2.197 billion. This reflects earnings of 7.5% on the debt instrument issued by QTC. The subdued performance in equities markets resulted in a downward revision to investment returns to 2% in 2007-08, reflecting year to date returns to mid May. The transfer of certain investment assets to QTC in exchange for a debt instrument that earns the General Government sector 7.5% per annum will in future insulate the General Government sector from such market volatility.

Estimated dividends and income tax equivalents in the 2007-08 year are $927 million lower than budgeted. This is mainly due to tax equivalent receipts on the privatisation of the electricity retail sector which were returned as policy purposes cash flows instead of tax equivalent receipts as originally budgeted. Dividends and tax equivalents received from public non-financial and public financial corporations are expected to increase in 2008-09 by $81 million to $1.012 billion.

Other receipts are forecast at $4.707 billion in 2008-09 an increase of 91.7% primarily as a result of increased coal royalty revenue (see Chapter 5).

Operating cash outflows represent payment for goods and services, wages and salaries, finance costs and grants and subsidies paid to households, businesses and other Government agencies. In 2008-09 the largest cash disbursement is payments for employees at $15.674 billion or 47.6% of total cash payments from operating activities. Payments for employees include superannuation beneficiary payments which have increased substantially in the 2007-08 estimated actual as a result of changes to the Commonwealth legislation governing superannuation. These payments are expected to moderate in 2008-09, with a forecast increase of 3.9% in payments for employees.

In 2008-09, payments for goods and services are expected to increase 7.9% to $7.246 billion primarily as a result of growth funding and expanded service delivery.

Cash payments for grants and subsidies are expected to increase by $53 million in 2008-09 to $8.757 billion. This figure includes recurrent grants paid by the Australian Government through the State to non-state schools, grants paid to industry and grants to non-profit institutions. This item also includes community service obligation payments to the energy sector and QR Limited and capital grants which are largely paid to local government authorities to fund capital works.

Interest paid is expected to increase by $157 million reflecting the borrowings for the capital program.

Other payments mainly comprise sundry expenditure such as insurance claims and Goods and Services Tax (GST) remitted to the Australian Taxation Office.

Cash flows from investments

Cash flows from investments include both financial and non-financial assets. Table 7.5 provides a disaggregation of investment cash flows into the different types.

Table 7.5
General Government sector: cash flows from investing activities

	2007-08 Budget [1] $ million	2007-08 Est. Act. $ million	2008-09 Budget $ million
Cash flows from investments in non-financial assets	(5,132)	(4,789)	(6,311)
Net cash flows from investments in financial assets for policy purposes	(885)	1,020	(389)
Net cash flows from investments in financial assets for liquidity purposes	(1,583)	716	(1,086)
Net cash flows from investing activities	**(7,600)**	**(3,053)**	**(7,786)**

Note:
1. Numbers have been restated where subsequent changes in classification have occurred.

The largest cash disbursement for the Government, outside of recurrent operations, is for investments in non-financial assets. This represents the Government's capital works program which provides for infrastructure such as schools, hospitals and roads.

Cash outflows from investments in non-financial assets are expected to increase to $6.311 billion in 2008-09 from $4.789 billion in 2007-08, an increase of 31.8%.

The cash expenditure on investments in non-financial assets differs from the estimates of capital works expenditure in Budget Paper 3 – Capital Statement. The estimates contained in that paper are on a gross basis and incorporate both departmental agencies and investments by the Public Non-financial Corporations sector. In addition, Budget Paper 3 only includes capital expenditure (including capital grants) within Queensland and does not offset proceeds from asset sales.

Apart from investing in infrastructure, governments also manage financial assets in order to finance overall expenditures. In addition, Queensland manages financial assets set aside to provide for future employee benefits (for example, superannuation and long service leave). The Government manages its financial assets through a combination of borrowing or investing funds and reducing or increasing equity in government or private sector entities. Investments in financial assets include activities relating to both policy and liquidity.

Investments in financial assets for policy purposes include net equity injections into Government and other business enterprises and the net cash flow from disposal or return of equity in Government business enterprises.

Cash inflows from investments for policy purposes for 2007-08 of $1.020 billion reflect equity transactions by the General Government sector with public non-financial and financial corporations. In 2007-08, this includes the return of proceeds totalling $1.537 billion from the previously announced sale of businesses, offset to some extent by equity transactions with public enterprises, in particular injections to QR Limited for the *South East Queensland Infrastructure Plan and Program*.

Cash outflows from investments in financial assets for policy purposes for 2008-09 of $389 million also reflect equity injections into public enterprises, offset to some extent by the return of proceeds on the long-term lease of the Cairns and Mackay airports and the sale of the Port of Brisbane Corporation's remaining share in the Brisbane Airport Corporation Pty Ltd.

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.

The 2007-08 estimated net cash inflow from investments in financial assets for liquidity purposes of $716 million is substantially higher than the forecast outflow in the 2007-08 Budget due to the lower than forecast return on investments and their subsequent reinvestment, as well as the liquidation of investments to make beneficiary payments.

Net cash outflows from investments in financial assets for liquidity purposes are estimated to be $1.086 billion in 2008-09. The increased out flow compared to 2007-08 reflects the reinvestment of interest earnings based on the earnings on QTC debt instrument of 7.5%.

Cash flows from financing activities

Cash flows generated from financing activities are outlined in Table 7.6 below.

Table 7.6
General Government sector: cash flows from financing activities[1]

	2007-08 Budget[2] $ million	2007-08 Est. Act. $ million	2008-09 Budget $ million
Advances received (net)	(14)	(1)	(18)
Borrowing (net)	3,569	3,531	2,915
Other financing (net)	..	(8)	..
Net cash flows from financing activities	**3,555**	**3,522**	**2,897**

Note:
1. Numbers may not add due to rounding.
2. Numbers have been restated where subsequent changes in classification have occurred.

Net cash flows from financing activities include cash flows from net borrowing (increase in borrowing less redemption), net advances (gross investment in new loans less redemption of loans issued) and other financing.

In 2007-08 net cash inflows from financing activities are estimated at $3.522 billion. This represents borrowings for the State's capital program.

Net cash inflows from financing activities for 2008-09 are estimated at $2.897 billion, reflecting borrowings to partially fund the General Government's capital program of $6.651 billion. In spite of higher levels of capital purchases, borrowings for 2008-09 are lower than forecast in the 2007-08 Budget. This has been achieved by utilising the operating cash flow to invest in capital.

RECONCILIATION OF OPERATING CASH FLOWS TO THE OPERATING STATEMENT

Table 7.7 provides a reconciliation of the cash flows from operating activities to the operating result for the General Government sector.

Table 7.7
General Government sector: reconciliation of cash flows from operating activities to accrual operating activities [1]

	2007-08 Budget [2] $ million	2007-08 Est. Act. $ million	2008-09 Budget $ million
Revenue from transactions	**32,551**	**32,276**	**36,582**
Plus/(less) movement in tax equivalent and dividend receivables	742	(287)	(40)
Plus GST receipts	939	949	980
Plus/(less) movement in other receivables	(175)	(105)	(225)
Equals cash receipts from operating activities	**34,057**	**32,833**	**37,297**
Expenses from transactions	**32,282**	**33,271**	**35,772**
(Less) non-cash items			
Depreciation and amortisation expense	(2,015)	(2,257)	(2,665)
Accrued superannuation expense	(1,738)	(2,063)	(2,030)
Accrued employee entitlements	(352)	(416)	(422)
Other accrued costs	(416)	(261)	(292)
Plus superannuation benefits paid – defined benefit	408	893	419
Plus/(less) movement in employee entitlement provisions	181	273	266
Plus/(less) GST paid	963	1,015	1,018
Plus/(less) movement in other provisions and payables	504	1,136	889
Equals cash payments for operating activities	**29,817**	**31,591**	**32,955**

Notes:
1. Numbers may not add due to rounding.
2. Numbers have been restated where subsequent changes in classification have occurred.

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 difference is on the expenses (expenditure) side, with large non-cash expenses associated with depreciation and superannuation. Differences due to the timing of receipt or payment of amounts are recorded as either a receivable or payable in the balance sheet.

8 INTERGOVERNMENTAL FINANCIAL RELATIONS

FEATURES

- **The Commonwealth Grants Commission's *2008 Update Report on State Revenue Sharing Relativities* shows that for the first time, Queensland will receive a below per capita share of GST revenue in 2008-09. Queensland's share of GST revenue in 2008-09 will be reduced by $409.3 million in underlying terms compared with 2007-08 due to a downward revision to the State's assessed relativity.**
- **The Commonwealth Grants Commission's assessment was based largely on Queensland's strong growth in relative capacity to raise transfer duty on property conveyances, and changes in the characteristics of the State's population which were identified in the results of the 2006 Census.**
- **The expected reduction in Queensland's share of GST in 2008-09 follows underlying losses experienced in recent years. It is anticipated that by 2011-12 Queensland will experience an annual cumulative loss in GST funding of more than $1.8 billion since the 2004 Review of methodology.**
- **Revenue reductions for Queensland from the abolition of certain duties will be over $840 million in 2008-09, increasing to more than $1.3 billion in 2011-12. The abolition of these duties means that Queensland is becoming increasingly reliant on Australian Government funding, with approximately 41% of Queensland's revenue being sourced from the Australian Government in 2008-09.**
- **While Queensland's revenue from GST is estimated to grow at an annual average rate of 3.4% from 2007-08 to 2011-12, Queensland's available GST revenue per capita, adjusted for tax reform costs, is expected to decline on average by 0.6% per annum over the same period.**
- **The Queensland Government provides strong fiscal support to the local government sector. In 2008-09, the Queensland Government will provide $847.9 million in grants to Queensland local government authorities, comprising 61.8% of grant funding for local government in Queensland.**
- **The election of a new federal government has resulted in an increased focus on improving intergovernmental fiscal relations, with the Council of Australian Governments (COAG) initiating major reforms to tied funding arrangements between the Australian Government and the states.**

COMMONWEALTH-STATE FINANCIAL ARRANGEMENTS

In December 2007, the Council of Australian Governments (COAG) seized the initiative to embark on a collaborative approach to improve Commonwealth-state financial relations. The reform initiative has two major components.

The first of these reforms is to simplify and rationalise the more than 90 Specific Purpose Payments (SPPs) by grouping most of the relatively larger SPPs into five groups, including:

- health care
- affordable housing
- education (early childhood and schools)
- education (vocational education and training)
- disability services.

It is proposed that many of the smaller SPPs will be cashed out, or bundled into a single, untied payment to states. In addition, the bundling or grouping of the major SPPs will occur along with streamlining the administrative arrangements – with the Australian Government making a single, monthly SPP payment to state treasuries – and replacing input controls associated with SPPs in the past with performance based outcome measures.

The second reform initiative involves the development of National Partnership payments (NPPs) which will take the form of incentive and/or reward payments, designed to foster or trigger reform in areas of service delivery, or simply represent payment for specific outputs the State is delivering on behalf of the Australian Government.

It is anticipated that the new SPP framework will go some way to clarifying the roles and responsibilities of the Australian and state governments respectively. It is proposed that the Australian Government will drive national reforms, monitor and review program outcomes and provide funding. The role of the states will be to complement the Australian Government's funds from own-source revenue, as well as provide and administer the services to deliver agreed benchmarks and outcomes. States will have the flexibility to allocate resources within broader service delivery areas (such as health) in ways that will produce the best outcomes for the community.

While not resolving the substantial vertical fiscal imbalance that continues to exist within the Australian Federation, under the new SPP framework the Australian Government has acknowledged the need to revise both the base and escalation factors associated with each of the five SPPs in a way that recognises the funding gap between states' limited own-revenue sources and the revenue needs arising from their constitutionally assigned service delivery responsibilities.

Under the new framework for Commonwealth-state financial relations there will be four categories of funding provided to the states:

- a small number of national SPP agreements covering health, education, disability and housing
- National Partnership payments for specific projects or reform-linked incentives
- other general revenue assistance payments
- GST revenue payments.

Key elements of the new framework for Commonwealth-state financial relations are discussed in Box 8.1.

Box 8.1
New framework for Commonwealth-state financial relations

The framework is based on the following elements:

- rationalisation of SPPs, by combining many of them into a smaller number of new national SPP agreements, while maintaining total Australian Government funding for these activities
- at the centre of each new national SPP agreement will be a mutually agreed statement of roles, responsibilities, objectives and outcomes to which both levels of government commit
- these new agreements and the Australian Government funding to support them will be on-going, rather than for fixed periods, but will still be subject to review:
  - periodically (e.g. every four to five years) in terms of adequacy of funding and related outcomes
  - on a continuous basis in terms of the relevance of the stated objectives and outcomes, the achievement of outcomes and performance monitoring
- each national SPP agreement will contain simpler, standardised and more transparent performance reporting, with a focus on the achievement of outcomes, value for money and timely provision of publicly available performance information:
  - the focus on outcomes-based public accountability will replace input controls and other controls on how state funding is spent
- the provision of NPPs for:
  - funding specific outputs or projects, including for some programs currently classified as SPPs (such as AusLink)
  - facilitating or rewarding broader reforms of national importance (reward payments will only be made following independent assessment that performance benchmarks have been achieved)
- funding arrangements for the new framework to be negotiated as a financial package by Treasurers:
  - the three elements of base SPP funding, growth factors and NPPs should be considered as part of the overall Australian Government funding contribution provided to the states
- all aspects of the arrangements will be actively monitored through the COAG process, including a new COAG Intergovernmental Agreement to underpin the SPP reforms and new NPP agreements.

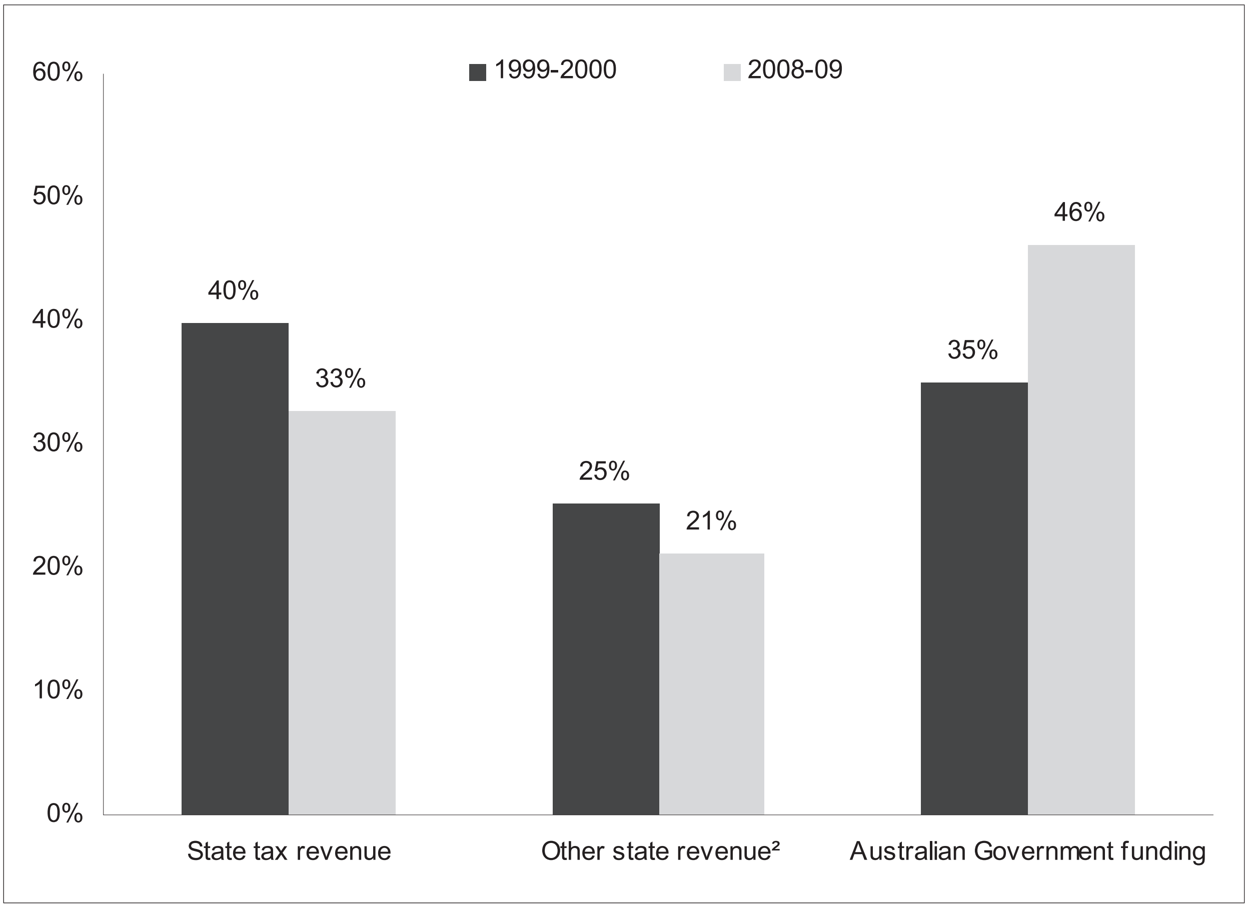
Australian Government funding to states

Commonwealth-state financial relations are characterised by a disparity between the revenue-raising capacity and the expenditure responsibilities of the Australian and state governments respectively. This mismatch is known as vertical fiscal imbalance.

The Australian Government collects the major share of taxation revenues and states must rely on grants from the Australian Government to meet their expenditure requirements.

Since the introduction of the Australian Government's national tax reforms in 2000, states' dependence on Australian Government funding has increased further. Chart 8.1 shows all states' funding sources for 1999-2000 and 2008-09. In 1999-2000 the states received 35% of their revenues from the Australian Government. This is estimated to increase to 46% in 2008-09. In contrast, the proportion of the states' revenues from state taxes has declined from 40% in 1999-2000 to an estimated 33% in 2008-09.

Chart 8.1
Revenue sources, all states, 1999-2000 and 2008-09[1]



Notes:
1. 2008-09 data are estimates.
2. Includes user charges, interest earnings, contributions from trading enterprises and mining revenue.

Sources: *ABS Government Finance Statistics Cat No. 5512.0 and state and Australian Government Budget Papers.*

Table 8.1 shows that Australian Government payments to the states in 2008-09 are expected to total $77.9 billion, an increase of $3.7 billion or 5% compared with 2007-08.

Table 8.1
Estimated Australian Government payments to the states, 2007-08 and 2008-09[1]

	2007-08 $ million	2008-09 $ million	Change Nominal Terms %	Change Real[2] Terms %	Change Real[2] Per Capita %
GST Revenue	42,630	45,280	6.2	3.4	1.8
Other General Revenue	..	178	..	..	..
Payments for Specific Purposes					
- 'to' the States	23,940	24,138	0.8	(1.9)	(3.3)
- 'through' the States	7,639	8,324	9.0	6.1	4.5
Total Payments for Specific Purposes	**31,579**	**32,462**	**2.8**	**0.0**	**(1.4)**
Total Payments	**74,209**	**77,922**	**5.0**	**2.2**	**0.7**

Notes:
1. Numbers may not add due to rounding.
2. Deflated by the 2007-08 year average national inflation forecast of 2.75% and national population growth of 1.5%.
3. Payments for specific purposes includes existing SPPs, new national SPPs and NPPs.
4. Payments for specific purposes are not strictly comparable as some payments are to be reclassified as general revenue assistance from 1 January 2009.
5. Other general revenue includes NCP payments, royalties, compensation for Australian Government policy decisions and ACT municipal services.

Source: *Australian Government Budget Paper No.3, 2008-09.*

GST revenue from the Australian Government to all states is expected to increase from $42.6 billion in 2007-08 to $45.3 billion in 2008-09, an increase of 6.2% in nominal terms. In real per capita terms, GST is expected to increase by 1.8%.

Total payments for specific purposes in 2008-09 are expected to be $32.5 billion. This represents an increase of $883 million, or 2.8% in nominal terms, over 2007-08. Payments "to" the states will increase by 0.8% in nominal terms, compared with an increase of 9% in payments for specific purposes "through" the states.

State shares of Australian Government Funding

Table 8.2 shows the expected shares of total Australian Government payments to each state for 2008-09 compared with each state's population share. Queensland's anticipated share of total Australian Government funding of 19.4% in 2008-09 will be less than its population share of 20.1%.

Table 8.2 Relative shares of payments to the states, 2008-09[1]			
	Share of payments %	Share of population %	Relative share[2] %
New South Wales	30.1	32.6	92.4
Victoria	22.3	24.8	90.0
Queensland	19.4	20.1	96.6
Western Australia	10.4	10.1	102.3
South Australia	8.7	7.5	116.8
Tasmania	3.3	2.3	142.0
Australian Capital Territory	1.8	1.6	112.5
Northern Territory	4.0	1.0	389.7

Notes:
1. Numbers may not add due to rounding.
2. A state's relative share is measured as its funding share as a percentage of its population share.

Source: *Australian Government Budget Paper No.3, 2008-09.*

Queensland's share of Australian Government funding

Table 8.3 details Queensland's share of estimated Australian Government payments in 2008-09 and the difference from its population share. Queensland expects to receive $341.3 million less than a per capita share of GST revenue. Additionally, Queensland expects to receive $103.4 million less than a per capita share of total payments for specific purposes. In terms of total Australian Government funding, Queensland expects to receive $444.7 million less than a per capita share in 2008-09.

Table 8.3 Queensland's share of estimated Australian Government payments 2008-09		
	Queensland's Share %	Difference from Population Share $ million
GST Revenues[1]	19.3	(341.3)
Payments for Specific Purposes		
- 'to' the State	19.8	(63.3)
- 'through' the State	19.6	(40.1)
Total Payments for Specific Purposes	**19.7**	(103.4)
Total Australian Government Payments[1]	**19.4**	(444.7)

Notes:
1. Adjustment for GST deferral included.

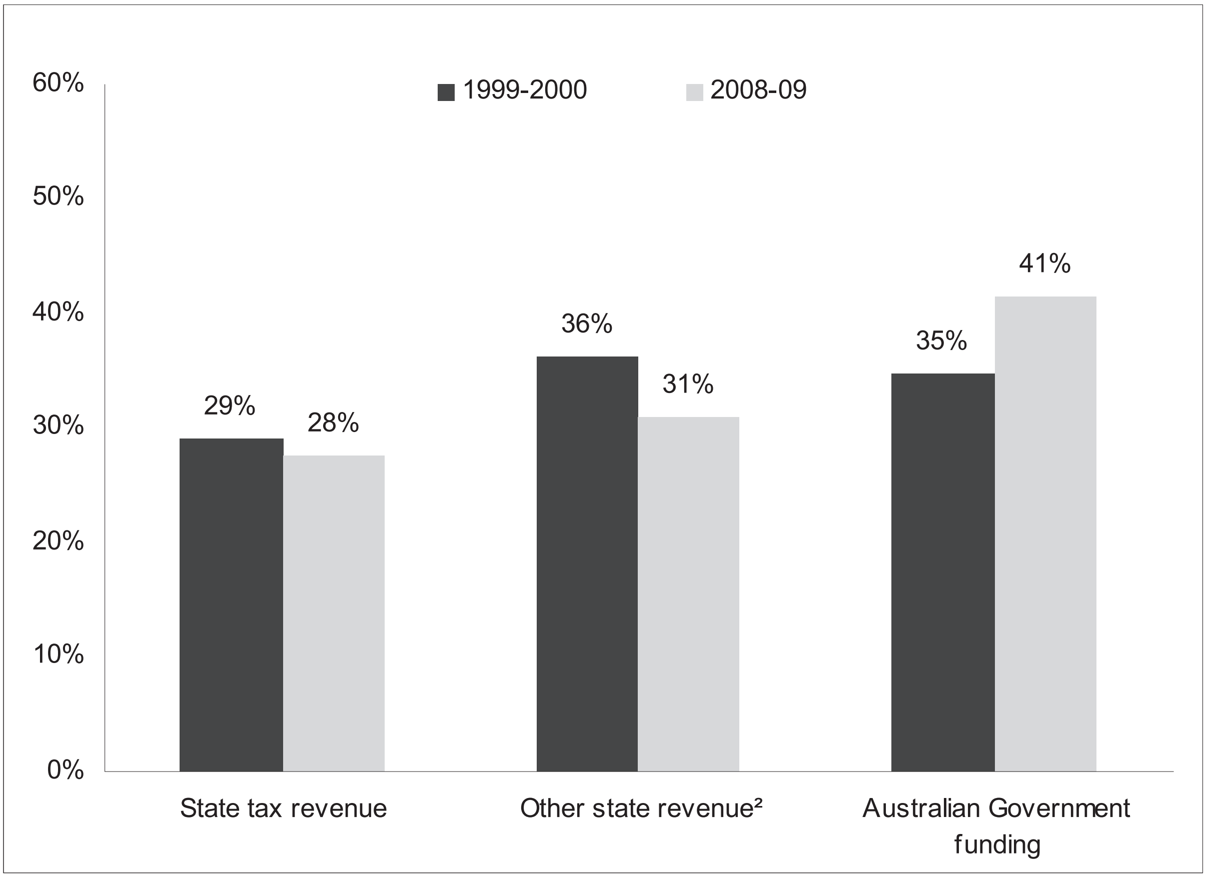
Source: *Australian Government Budget Paper No.3, 2008-09.*

In addition to the Commonwealth funding discussed above, the Australian Government also provides assistance directly to industry through tariffs, tax concessions or direct budgetary outlays. The major beneficiaries of this assistance in 2006-07, as a percentage of gross state product (GSP), were Victoria and South Australia at around 1% of GSP, while assistance to Queensland industry was around 0.5% of GSP.

Queensland's reliance on Australian Government funding

Queensland's reliance on Australian Government funding, as shown in Chart 8.2, is consistent with the national trend, with the share of total funding sourced from the Australian Government increasing from 35% in 1999-2000 to an estimated 41% in 2008-09. Meanwhile Queensland's own-source revenue has fallen from 65% in 1999-2000 to 59% in 2008-09.

Chart 8.2
Revenue sources, Queensland, 1999-2000 and 2008-09[1]



Notes:
1. 2008-09 data are estimates.
2. Includes user charges, interest earnings, contributions from trading enterprises and mining revenue.
Source: *ABS Government Finance Statistics Cat No. 5512.0 and Queensland Budget estimates.*

DISTRIBUTION OF GST FUNDS

Commonwealth Grants Commission

The Commonwealth Grants Commission (CGC) advises the Australian Government on the distribution of GST revenue among the states. Under its terms of reference the CGC is required to determine its recommendations on the basis of horizontal fiscal equalisation, as detailed in Box 8.2.

Box 8.2
Horizontal fiscal equalisation and distribution of GST

Commonwealth Grants Commission

The Commonwealth Grants Commission (CGC) advises the Australian Government on the distribution of GST revenue among the states and each year updates the financial, economic and demographic data that underpin its recommendations.

Horizontal Fiscal Equalisation

The Australian Government distributes GST revenue to states based on the principle of horizontal fiscal equalisation (HFE), using per capita relativities recommended by the CGC. Queensland supports the principle of HFE and the role of the independent CGC in determining each state's share of GST revenue.

The principle of HFE is that state governments should receive funding from the Australian Government such that, if each made the same effort to raise revenue from its own sources and operated at the same level of efficiency of service delivery, each would have the capacity to provide services to the same standard.

A distribution based on HFE principles recognises the different financial capacities of the states, particularly that some states have inherently greater capacity to raise revenue and that some states have inherently greater costs to meet in providing services to an Australian standard. If the distribution of the GST to the states were on any basis other than HFE, some taxpayers would be forced to accept either a lower standard of state services or a higher level of state taxation than other taxpayers in similar circumstances.

Complaints about Equalisation

New South Wales and Victoria have complained about the distribution of GST because they do not receive the GST revenue they claim has been paid by their taxpayers. Aside from the absence of data required to determine how much of the GST is attributable to one state or another, it would not be fair to distribute a tax on the basis of where it was collected. The GST is a nationally based tax and to suggest that it should be distributed back to the states on the basis of where it was raised is akin to saying that the Australian Government income tax should be spent in the states where it was collected. If wealthy states retained all the national taxes that they contribute it would be inequitable, unfair and contrary to the national interest.

More information on HFE and GST distribution can be accessed through the Queensland Government Treasury website: www.treasury.qld.gov.au/gst-factsheets or the Commonwealth Grants Commission website: www.cgc.gov.au.

2008 Update Report on State Revenue Sharing Relativities

At the 2008 Treasurer's Conference, the Australian Government accepted the CGC's *2008 Update Report on State Revenue Sharing Relativities* (2008 Update) as the basis for the distribution of the GST revenue to the states in 2008-09.

In the 2008 Update, the CGC recommended an underlying decrease in Queensland's share of GST revenue of $409.3 million in 2008-09, as shown in Table 8.4. This has resulted in Queensland receiving a less than per capita share of GST funding for the first time in 2008-09.

New South Wales and Victoria have gained significantly from the 2008 Update with underlying increases of $341.5 million and $316.9 million respectively.

Table 8.4
Components of underlying change in states share of GST revenue 2007-08 to 2008-09[1]

	NSW $ million	VIC $ million	QLD $ million	WA $ million	SA $ million	TAS $ million	ACT $ million	NT $ million
Revenue	325.1	255.9	(289.2)	(323.5)	26.0	(4.2)	3.9	6.1
Expenditure	59.2	31.2	(96.5)	(5.1)	(35.3)	(17.7)	(7.9)	72.1
SPPs	(41.8)	30.7	(23.5)	2.2	14.7	5.3	12.1	0.5
Total	**341.5**	**316.9**	**(409.3)**	**(326.7)**	**5.8**	**(16.2)**	**8.2**	**79.8**

Note:
1. Numbers may not add due to interactions between Expenditure and SPP assessments.
Source: *Commonwealth Grant Commission 2008 Update Report on State Revenue Sharing Relativities.*

The decrease in Queensland's GST revenue share follows reductions in its share of GST funding of $174 million in 2006 and $166 million in 2007. It is expected that Queensland will experience further losses of GST share in future updates as the economy continues to perform strongly. It is anticipated that by 2011-12 Queensland will have experienced a cumulative loss in GST funding of more than $1.8 billion since the 2004 Review of Methodology.

Queensland's declining share of GST revenue reflects the state's increased fiscal capacity, particularly from strong performances in the property market and mining sector. The change in Queensland's GST share over the last three years demonstrates the responsiveness of the CGC's methodology to changes in states' revenue earning capacities and expenditure needs. However, the current methodology does not adequately account for the increases in capital expenditure required by states driven by high population growth. Queensland is working with the CGC and the other states to develop a capital assessment as a part of the 2010 Review process (see Box 8.3 for more details).

Box 8.3
Queensland's Declining Share of GST Revenue

The CGC uses the latest available data in its assessments, which reflect the relative economic circumstances of the states. For example, in the 2008 Update, the CGC found that Queensland had a relatively greater capacity to raise revenue from stamp duty on conveyances and mining revenue. This greater revenue raising capacity, amongst other things, is reducing Queensland's share of GST funding. Changes in the characteristics of Queensland's population such as age and income levels, along with the removal of some state taxes from the CGC's assessment also reduced Queensland's share of GST funding in the 2008 Update.

In 2008-09 Queensland will receive a share of GST below its per capita share, with the state's share of GST revenue expected to continue to decline over the next few years. The decreased share of GST revenue will impact the State's capacity to provide additional services, or enhance existing services to meet the needs of Australia's fastest growing population base.

However, Queensland recognises that states which experience higher than average economic growth should expect, other things being equal, to see their share of GST revenue fall. This is an intended consequence of the current GST distribution process and is a key aspect of maintaining equity between the states. The 2008 Update shows that New South Wales and Victoria will benefit from $658.4 million being redistributed to them, mostly from Queensland and Western Australia.

The CGC currently use an average of the five most recent single year relativities to reduce the volatility of the annual results. In the absence of this process for smoothing changes in state shares, the current strong performance of the Queensland and Western Australian economies would result in larger changes in redistributions between the states. In particular New South Wales and Victoria would have received an even greater benefit from the 2008 Update, had the current process for smoothing changes in state shares of GST not acted as a mechanism to provide greater stability in GST funding to states.

The Commission's latest outcomes demonstrate that the grant distribution process is responsive and reflects changes in states' circumstances.

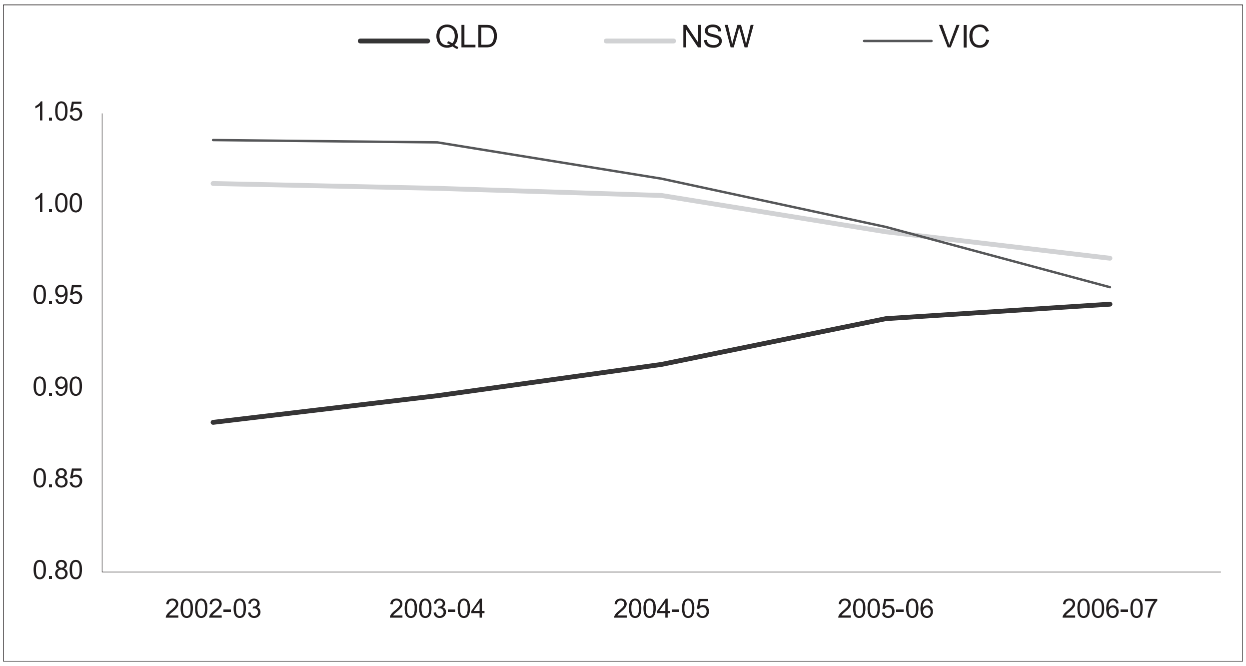
A key concern that Queensland has with the Commission's current processes is that they do not adequately take account of states' need for increased capital expenditure associated with a fast growing population. Queensland is currently experiencing population growth almost twice that of the national average, which is driving expenditure on infrastructure. At the same time, Queensland is receiving a smaller share of the GST funding and this lack of immediacy in recognising capital investment needs to be addressed as a matter of urgency. Queensland intends supporting a capital assessment proposed by the Commission for the 2010 Review of methodology that will account for share of population growth and result in more immediate consideration of capital expenditure.

Relationship between GST distribution and economic performance

A key feature of recent Updates has been the convergence of the fast growing states of Queensland and Western Australia with the more established economies of New South Wales and Victoria.

There has been some criticism of the GST distribution process on the basis that it does not adequately take into account the rapid growth in the Queensland and Western Australian economies. Chart 8.3 shows that Queensland's GSP per capita has been converging with that of both New South Wales and Victoria over the period from 2002-03 to 2006-07.

Chart 8.3
Convergence between larger states – GSP per capita relativities

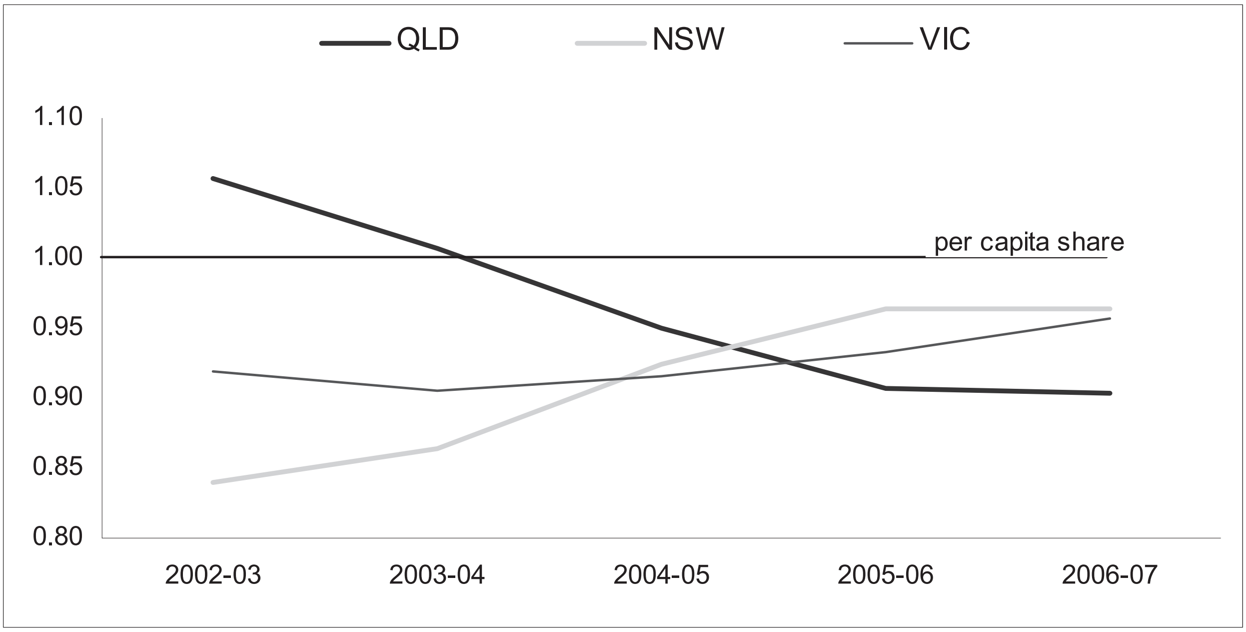


Source: *Commonwealth Grants Commission Relative Fiscal Capacities of the States 2008.*

Over these four years, Victoria's GSP per capita has declined from 4% above the Australian average, while Queensland's GSP per capita has risen substantially towards the national average.

At the same time, New South Wales' assessed GST single year relativity, which is a key determinant of its share of the GST pool, has risen from 0.84 to 0.96. Over the same period Queensland's single year GST relativity has fallen from 1.06 to 0.90 as shown in Chart 8.4.

Chart 8.4
Convergence between larger states – single year GST relativities



Source: *Commonwealth Grants Commission 2008 Update Report on State Revenue Sharing Relativities.*

The CGC's 2008 Update data shows that for both 2005-06 and 2006-07, Queensland's assessed single year GST relativity was lower than that for both New South Wales and Victoria, which means that for the past two years Queensland has been assessed as requiring less per capita from the GST pool than either of these states.

It is clear that as the relative economic strength of a state changes, so too does its assessed share of GST funding. Queensland recognises that this is the intended consequence of the GST assessment process.

2010 Review of State Revenue Sharing Relativities - progress report

The CGC undertakes a substantive review of its methodology every five years, with the next review due to be completed in 2010. The terms of reference for the *2010 Review of State Revenue Sharing Relativities* (2010 review) direct the CGC to simplify its processes and introduce a more streamlined approach to HFE, based on a simplified methodology and better quality data as discussed in Box 8.4. The 2010 review is different to previous reviews and can be viewed as an overhaul of the way the CGC structures its assessments.

Box 8.4
The 2010 review

Some states have raised concerns about the GST distribution process, including suggestions that GST should be distributed on the basis of which state it is raised in, and that grant distribution processes inhibit states from introducing efficiency reforms. Some states have raised concerns that the current process is complex and should be simplified.

An overhaul of how the Commission determines the distribution of the GST

The CGC is currently conducting a review, due in 2010, of the processes used to determine the distribution of the GST revenue. The CGC has indicated that it intends to vigorously pursue both equalisation and simplification for the 2010 review, and has adopted a strategy that:

- starts with a clean slate when it comes to devising assessment methods
- adopts a top-down approach, only disaggregating assessment categories if doing so materially improves equalisation and it can be done reliably
- works toward improving the quality of data used in the assessments
- establishes new assessment guidelines with stronger reliability and materiality criteria.

Using this strategy, the CGC believes that simplification will improve the reliability and robustness of the processes and acceptability of the outcomes. The CGC is providing all states with the opportunity to put forward arguments about the distribution process. To date no substantive body of evidence has been put forward to support claims that there is anything conceptually wrong with the current principle of fiscal equalisation and the Commission has ruled that discussion regarding this principle is now closed.

Queensland has been proactively involved with working with the Commission to identify areas for simplification of assessments in the 2010 review. A number of alternative approaches and models have been suggested by Queensland to simplify and enhance assessments such as road measurement, dispersion and wages input costs.

Queensland agrees that the strategy adopted by the CGC should make the process simpler, more transparent and ensure that the data used in the assessments is more accurate, consistent and comparable across states.

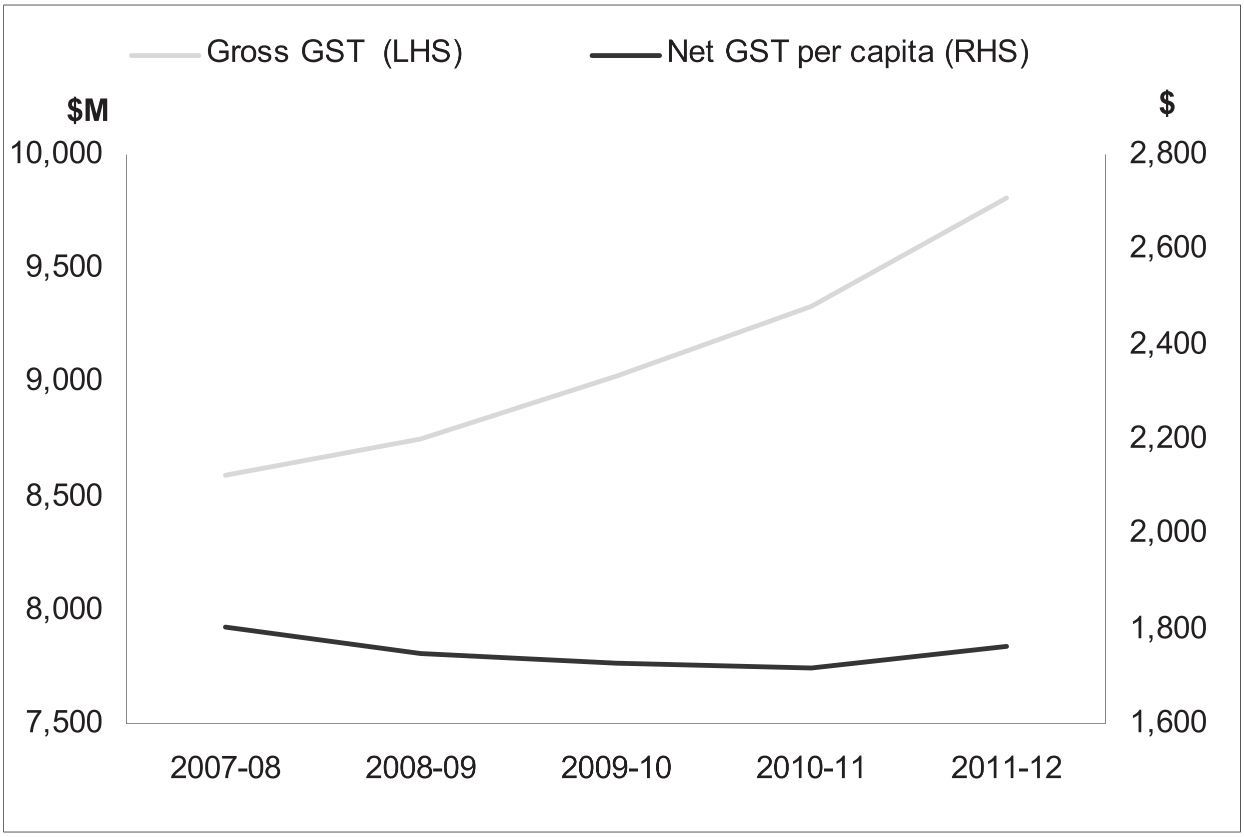
Progress reports on the 2010 review process were provided to the Ministerial Council for Commonwealth-State Financial Relations in March 2007 and 2008. These reports are available on the CGC's web site: www.cgc.gov.au.

Queensland's available GST revenue

The amount of GST revenue provided to Queensland is not equal to the amount of funding available to be spent by the Queensland Government, as can be seen in Chart 8.5. The Queensland Government has to meet a number of costs associated with its commitments under the *Intergovernmental Agreement on Commonwealth-State Financial Relations* (IGA): the First Home Owners Grant scheme; GST administration costs payable to the Australian Tax Office; and the cost of taxes abolished as part of the IGA.

It is anticipated that Queensland's total share of GST will continue to grow at an annual average rate of 3.4 % from 2007-08 to 2011-12. The increase in GST is largely attributable to population growth in Queensland along with the increase in the size of the overall GST pool. However, Chart 8.5 shows that after taking the costs listed above, as well as the state's relatively rapid population growth into consideration, Queensland's available GST revenue per capita is estimated to decline on average by 0.6 % per annum over the same period.

Chart 8.5
Queensland gross GST and net GST revenue per capita, 2007-08 to 2011-12



Note:
1. Net GST revenue per capita represents net available revenue after meeting First Home Owners Grant Scheme costs, GST administration costs and the cost of taxes abolished under the IGA.

Source: *Australian Government Budget Paper No.3, 2008-09 and Queensland Treasury*.

STATE-LOCAL GOVERNMENT FINANCIAL RELATIONS

In 2008-09, a total of $1.373 billion in grants will be provided to Queensland's local governments (up from $1.202 billion in 2007-08), with 61.8% of this amount provided by the Queensland Government and the balance provided by the Australian Government.

Table 8.5 details Queensland Government and Australian Government grants to local government in Queensland.

The overall increase in total Queensland Government grants to local government authorities in 2008-09 reflects the expansion of some existing programs or the introduction of new initiatives by some Queensland Government agencies, including:

- Indigenous Community Housing (Department of Housing)
- South East Queensland Cycle Network (Queensland Transport)
- Dam Safety Upgrade Program (Department of Natural Resources and Water)
- 150th Anniversary Legacy Infrastructure Program, Water and Sewerage Program and Smaller Communities Assistance Program (Department of Local Government, Sport and Recreation).

Table 8.5 Grants to local government in Queensland [1,2,3]			
	2006-07 Actual $ million	2007-08 Estimated Actual $ million	2008-09 Budget Estimate $ million
Queensland Government grants			
Communities	50.7	56.1	60.8
- including Pensioner Rates Rebate	41.5	44.3	49.3
Education, Training and Arts	18.4	19.7	19.4
Employment and Industrial Relations	23.4	7.6	8.7
Emergency Services	7.1	8.1	8.5
Housing	52.7	69.1	94.6
Local Government, Sport and Recreation	391.3	400.3	507.2
Main Roads	74.0	104.0	78.8
Natural Resources and Water[4]	56.1	2.3	14.0
Public Works	1.9	32.1	1.7
Disability Services	13.2	17.0	17.1
Environmental Protection Agency	0.7	3.9	0.9
Health	1.1	1.6	1.6
Transport	11.0	19.0	32.2
Other	2.3	3.1	2.4
Total Queensland Government grants	**703.8**	**743.9**	**847.9**
Australian Government grants			
Australian Government "through"	327.3	346.8	363.9
Australian Government "direct"	77.0	110.9	161.1
Total Australian Government grants	**404.3**	**457.7**	**525.0**
Total Grants to Local Government Authorities and Aboriginal and Torres Straight Islander Councils	**1,108.1**	**1,201.5**	**1,372.9**

Notes:
1. For current and capital purposes to local government authorities and Aboriginal and Islander councils.
2. Numbers yet to be confirmed and may be subject to revision.
3. Numbers may not add due to rounding.
4. Ross River Dam completed 2006-07.

Source: *Queensland Treasury, Australian Government Final Budget Outcome 2006-07, Australian Government Budget paper No.3 2008-09.*

Grant purposes

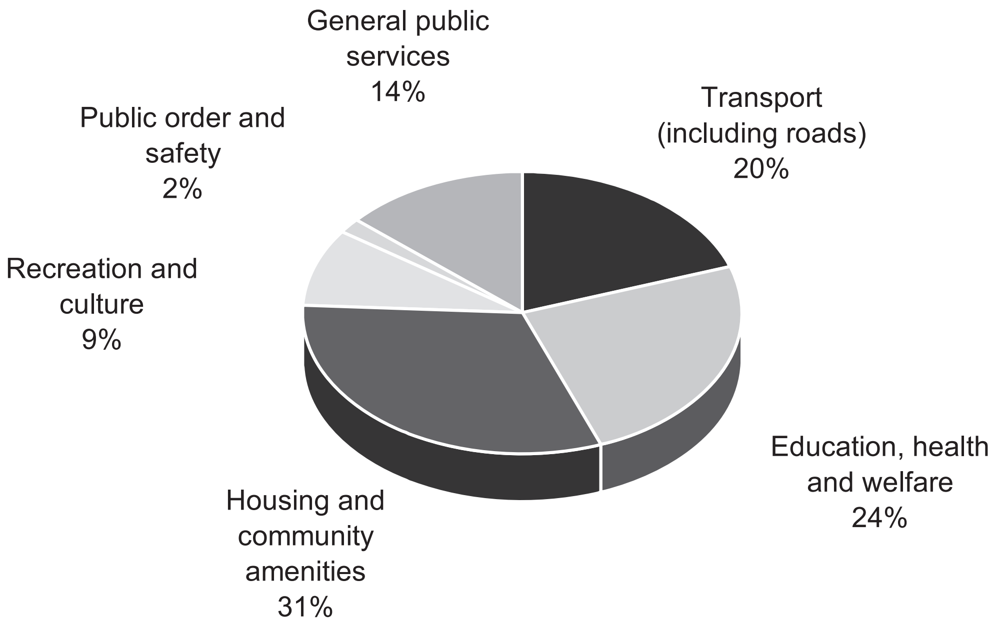
The majority of grants to local government are for capital purposes. In 2008-09 capital grants will comprise 79.7% of Queensland Government grants to local government (up from 75.4% in 2007-08).

Grants for housing and community amenities comprise the largest component of Queensland Government grants. Other significant grant purposes include:

- general public services (including contribution to the costs of providing local government services where councils are unable to levy land rates)
- the provision of rate subsidies to eligible pensioners
- capital works subsidies provided towards the costs of local public infrastructure
- road subsidies for local roads, networks and drainage.

Chart 8.6 highlights the broad range of purposes for which local government grants were provided by the Queensland Government in 2007-08.

Chart 8.6
State grants to local government in Queensland by purpose 2007-08



9 UNIFORM PRESENTATION FRAMEWORK

INTRODUCTION

This chapter contains detailed financial statements for the Queensland Public Sector prepared under the Uniform Presentation Framework (UPF) of reporting as required under the Australian Loan Council arrangements.

The Framework has recently been reviewed following the release in October 2007 of the Australian Accounting Standards Board's (AASB) new accounting standard, AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

The new 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.

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 grant revenue and expenses
- details of General Government sector dividend and income tax equivalent income
- data on General Government expenses and purchases of non-financial assets by function
- details of taxation revenue collected by the General Government sector
- the State's revised Loan Council Budget allocation
- background information on the revised UPF and disclosure differences arising from it, including the conceptual basis, sector definitions and a list of reporting entities.

This chapter also includes a discussion of the operations of the Public Non-Financial Corporations (PNFC) sector.

Under the UPF requirements, budgeted financial information for the Public Financial Corporations (PFC) sector is not included.

GENERAL GOVERNMENT SECTOR

A detailed analysis of the General Government sector is provided in Chapter 5 – Revenue, Chapter 6 – Expenses and Chapter 7 – Balance Sheet and Cash Flows.

PUBLIC NON-FINANCIAL CORPORATIONS SECTOR

The PNFC sector (which includes the GOCs, Queensland Motorways Limited and the SEQ Bulk Water entities including the Water Grid Manager) continues to perform strongly despite the impact of an increasingly competitive environment and cost pressures. The PNFC sector has forecast total dividend payments of $831 million in 2008-09, with current tax equivalent payments of $192 million.

Government is committed to ensuring that essential services such as electricity and public transport continue to be provided to Queenslanders at a reasonable cost through the provision of Community Service Obligation (CSO) payments. In 2008-09, a total of $1.706 billion in CSO payments will be provided, mainly to QR Limited (QR) in respect of passenger rail travel and Ergon Energy in respect of the electricity uniform tariff.

Investment in PNFC infrastructure is required to ensure PNFC entities continue to provide essential services and an appropriate return to Government. Net additional funding of approximately $389 million by way of equity injections has been budgeted for in 2008-09 to enable PNFCs to undertake such investments and remain financially sound. In 2008-09, significant investment will occur in the water and rail sectors with QR budgeted to receive over $670 million. Partially offsetting these injections will be the expected returns to Government from the previously announced airport sales.

PNFC operating statement

The majority of revenue generated in the PNFC sector is received through the sale of goods and services, and the receipt of current grants and subsidies.

For PNFC entities, the majority of sales of goods and services are to customer markets. These revenues are therefore heavily linked to the performance of the Queensland economy and the ability of the sector to compete in increasingly competitive markets.

The major components of PNFC sector revenues include rail freight charges, electricity sales, electricity network and distribution charges, port charges and agricultural and bulk water delivery charges. Key determinants of PNFC revenue growth in 2008-09 will be energy demands, driving electricity pool prices, and continued growth in Queensland's export markets, in particular coal exports, which generate demand for rail and port services.

Across the PNFC sector, it is anticipated that sales of goods and services will generate revenues of $8.308 billion in 2008-09, with total revenues forecast at $10.561 billion. Total revenues generated by the sector are forecast to grow to $14.020 billion in 2011-12. Again, major drivers include continued demand for PNFC services and supplies in the electricity, rail, water and port sectors.

PNFC revenues are also derived from CSO payments. CSOs are provided by the State where PNFCs are required to provide non-commercial services or services at non-commercial prices for the benefit of the community. Major CSOs include the uniform electricity tariff and QR passenger rail services.

The PNFC sector distributes dividends to the State as shareholder. Dividends from the PNFC sector are a function of net profits and the dividend payout ratio. In general, the dividend payout ratio for the 2008-09 Budget is based on 80% of net profit after tax. In some cases, forecast net profit after tax will be adjusted to exclude any unrealised (i.e. non-cash) forecast gains or losses, for example, from upward revaluation of non-current assets or financial instruments.

The dividend payout ratio does not affect a PNFC's capacity to carry out necessary maintenance and repairs, as dividends are paid after PNFCs have met their commitments to operating and maintenance expenses. Shareholding Ministers consider the circumstances of individual PNFCs and advice from their boards before arriving at a final determination of dividend payments.

The PNFC sector reflects positive performance with a forecast UPF net operating balance for the 2008-09 year of $604 million.

PNFC balance sheet and cash flow statement

The ability of PNFCs to efficiently and effectively service their customers is reliant upon the investment in and maintenance of underlying infrastructure.

In 2008-09, the PNFC sector is expected to invest approximately $9.985 billion in capital projects. Significant levels of investment are expected to continue across the forward estimates period although they decline in 2011-12 reflecting the completion of a number of major projects including the Gateway Upgrade Project, several major water projects including the proposed Traveston dam and a number of significant energy generation projects.

PNFCs undertake infrastructure investment on a commercial basis and in response to the needs of the market sectors they service.

Investment in electricity infrastructure is driven by peak demand which continues to grow, largely as a result of Queensland's significant population and economic growth. The focus of capital expenditure in the sector during the year will be on ensuring ongoing generation plant reliability and efficiency, a secure and reliable transmission network across the State and the security and reliability of the extensive distribution network.

In 2008-09, $86 million will be invested by Tarong in developing coal resources at the Kunioon mine, reflecting the continued commitment to security of supply. Capital works programs for 2008-09 will also contribute to the improved level of reliability of electricity transmission and distribution, with a focus on service quality, reliability, availability and capacity improvements. The combined capital network expenditure of Powerlink, Ergon Energy and ENERGEX in 2008-09 totals $2.591 billion.

Powerlink will invest $675 million on new transmission infrastructure and augmentation, while ENERGEX and Ergon Energy will similarly invest a total of $1.916 billion on the distribution networks to maintain reliable and secure transmission and distribution electricity networks across the State.

As one of the State's largest industries, the coal industry continues to be a key economic driver. Proposed rail and port expansion programs reflect ongoing capital investment in coal supply chains. This includes QR Limited's forecast 2008-09 expenditure of approximately $880 million on coal network track works and upgraded locomotives and wagons to increase and provide support for additional coal haulage in Central Queensland. The Ports Corporation of Queensland will invest $250 million in 2008-09 in further expanding the coal export capacity of the Abbot Point terminal to 50 million tonnes per annum.

The PNFC capital investment also includes key SEQ bulk water projects, including the Western Corridor Recycled Water project, the South East Queensland (Gold Coast) Desalination Plant, the Southern Regional Water Pipeline and stage 1 of the Northern Pipeline Interconnector.

Financing of capital projects will differ according to the individual circumstances of the relevant PNFC and the specific nature of the project. There are a number of ways in which PNFCs fund these investments, including utilising cash flows from their business, borrowings, and equity injections from shareholding Ministers. The Government is committed to PNFCs being at all times able to fund viable projects whilst at the same time retaining a sound financial position, by ensuring that all PNFCs remain sufficiently well capitalised to ensure an investment grade credit rating as determined by independent credit ratings agencies.

Reflecting the level of support for capital investment within a sound financial framework, an estimated $2.023 billion in net equity support is budgeted to be provided to the PNFC sector for the forward estimates period 2008-09 to 2011-12.

It is worth noting that the PNFC balance sheet is significantly impacted by the requirement of the revised UPF to recognise deferred tax assets and liabilities. In 2008-09 this reduces PNFC net worth by $4.614 billion. (Refer Box 9.1 for further information on disclosure and classification differences arising from the revised UPF.)

The Public Non-financial Corporations sector is discussed in more detail in Chapter 4.

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 and Non-financial Public sectors.

Table 9.1 General Government Sector Operating Statement [1]		2007-08 Budget [2] $ million	2007-08 Est.Actual $ million	2008-09 Budget $ million	2009-10 Projection $ million	2010-11 Projection $ million	2011-12 Projection $ million
	Revenue from Transactions						
	Taxation revenue	9,272	9,552	10,106	10,843	11,753	12,612
	Grants revenue	15,167	15,492	15,687	16,049	16,261	16,701
	Sales of goods and services	3,005	3,245	3,385	3,369	3,465	3,524
	Interest income	2,190	841	2,199	2,253	2,335	2,421
	Dividend and income tax equivalent income	1,116	1,217	1,051	1,492	1,699	2,203
	Other revenue	1,802	1,930	4,154	3,234	3,124	2,923
	Total Revenue from Transactions	**32,551**	**32,276**	**36,582**	**37,240**	**38,638**	**40,385**
Less	**Expenses from Transactions**						
	Employee expenses	12,595	12,840	13,896	14,710	15,590	16,452
	Superannuation expenses						
	Superannuation interest cost	969	996	1,219	1,280	1,337	1,389
	Other superannuation expenses	1,681	1,913	1,959	2,009	2,069	2,090
	Other operating expenses	6,194	6,240	6,782	6,808	6,983	7,182
	Depreciation and amortisation	2,015	2,257	2,665	2,721	2,766	2,882
	Other interest expenses	390	383	539	787	1,036	1,293
	Grants expenses	8,438	8,641	8,713	8,385	8,641	8,833
	Total Expenses from Transactions	**32,282**	**33,271**	**35,772**	**36,700**	**38,422**	**40,120**
Equals	**Net Operating Balance**	**268**	**(995)**	**809**	**540**	**215**	**265**
Plus	Other economic flows - included in operating result	49	1,374	579	(8)	(12)	(6)
Equals	**Operating Result**	**318**	**380**	**1,388**	**532**	**203**	**259**
Plus	Other economic flows - other movements in equity	5,015	4,868	4,080	3,613	3,579	3,494
Equals	**Comprehensive Result - Total Change In Net Worth**	**5,333**	**5,247**	**5,468**	**4,145**	**3,782**	**3,752**
	KEY FISCAL AGGREGATES						
	Net Operating Balance	**268**	**(995)**	**809**	**540**	**215**	**265**
Less	**Net Acquisition of Non-financial Assets**						
	Purchases of non-financial assets	5,463	5,223	6,651	6,693	6,590	5,824
	Less Sales of non-financial assets	331	434	340	283	334	256
	Less Depreciation	2,015	2,257	2,665	2,721	2,766	2,882
	Plus Change in inventories	62	45	97	9	31	54
	Plus Other movements in non-financial assets	(134)	6	200	50	50	50
	Equals **Total Net Acquisition of Non-financial Assets**	**3,045**	**2,583**	**3,944**	**3,749**	**3,572**	**2,790**
Equals	**Net Lending / (Borrowing)**	**(2,777)**	**(3,577)**	**(3,134)**	**(3,209)**	**(3,356)**	**(2,525)**

Notes:
1. Numbers may not add due to rounding.
2. Numbers have been restated where subsequent changes in classification have occurred.

Table 9.2
Public Non-financial Corporations Sector Operating Statement [1]

		2007-08 Budget [2] $ million	2007-08 Est.Actual $ million	2008-09 Budget $ million	2009-10 Projection $ million	2010-11 Projection $ million	2011-12 Projection $ million
	Revenue from Transactions						
	Grants revenue	2,217	2,469	1,905	1,928	2,025	2,084
	Sales of goods and services	6,489	7,023	8,308	9,447	10,381	11,491
	Interest income	78	174	96	93	99	99
	Dividend and income tax equivalent income	5	12	..	..	..	..
	Other revenue	322	298	251	320	300	346
	Total Revenue from Transactions	**9,111**	**9,977**	**10,561**	**11,788**	**12,805**	**14,020**
Less	**Expenses from Transactions**						
	Employee expenses	2,178	2,153	2,569	2,707	2,849	3,031
	Superannuation expenses						
	Superannuation interest cost	..	..	..	..	..	..
	Other superannuation expenses	95	71	70	80	86	90
	Other operating expenses	2,399	3,115	3,088	3,172	3,353	3,385
	Depreciation and amortisation	1,726	1,699	1,897	2,140	2,347	2,566
	Other interest expenses	1,327	1,478	2,136	2,398	2,822	3,045
	Grants expenses	24	54	3	3	3	3
	Other property expenses	182	230	194	435	518	606
	Total Expenses from Transactions	**7,930**	**8,800**	**9,956**	**10,934**	**11,977**	**12,726**
Equals	**Net Operating Balance**	**1,181**	**1,177**	**604**	**854**	**828**	**1,294**
Plus	Other economic flows - included in operating result	(49)	511	429	77	62	48
Equals	**Operating Result**	**1,132**	**1,688**	**1,034**	**931**	**890**	**1,342**
Plus	Other economic flows - other movements in equity	396	(763)	(365)	134	(81)	(837)
Equals	**Comprehensive Result - Total Change In Net Worth**	**1,528**	**925**	**668**	**1,065**	**809**	**505**
	KEY FISCAL AGGREGATES						
	Net Operating Balance	**1,181**	**1,177**	**604**	**854**	**828**	**1,294**
Less	**Net Acquisition of Non-financial Assets**						
	Purchases of non-financial assets	7,919	8,756	9,985	7,439	7,051	4,933
	Less Sales of non-financial assets	84	18	92	77	52	88
	Less Depreciation	1,726	1,699	1,897	2,140	2,347	2,566
	Plus Change in inventories	29	134	24	2	40	(22)
	Plus Other movements in non-financial assets	(12)	(14)	23	26	28	31
	Equals **Total Net Acquisition of Non-financial Assets**	**6,126**	**7,158**	**8,045**	**5,250**	**4,719**	**2,289**
Equals	**Net Lending / (Borrowing)**	**(4,946)**	**(5,982)**	**(7,441)**	**(4,396)**	**(3,891)**	**(995)**

Notes:
1. Numbers may not add due to rounding.
2. Numbers have been restated where subsequent changes in classification have occurred.

Table 9.3
Non-financial Public Sector Operating Statement [1]

		2007-08 Budget [2] $ million	2007-08 Est.Actual $ million	2008-09 Budget $ million	2009-10 Projection $ million	2010-11 Projection $ million	2011-12 Projection $ million
	Revenue from Transactions						
	Taxation revenue	9,126	9,377	9,921	10,631	11,433	12,258
	Grants revenue	15,277	15,967	15,755	16,116	16,327	16,775
	Sales of goods and services	9,320	10,061	11,494	12,612	13,640	14,806
	Interest income	2,267	1,015	2,295	2,346	2,435	2,520
	Dividend and income tax equivalent income	38	39	28	33	40	249
	Other revenue	2,121	2,221	4,398	3,547	3,417	3,262
	Total Revenue from Transactions	**38,149**	**38,680**	**43,890**	**45,286**	**47,292**	**49,870**
Less	**Expenses from Transactions**						
	Employee expenses	14,704	14,898	16,373	17,311	18,327	19,365
	Superannuation expenses						
	Superannuation interest cost	969	996	1,219	1,280	1,337	1,389
	Other superannuation expenses	1,776	1,984	2,029	2,089	2,155	2,179
	Other operating expenses	8,419	9,136	9,658	9,761	10,114	10,339
	Depreciation and amortisation	3,741	3,957	4,561	4,861	5,113	5,448
	Other interest expenses	1,638	1,779	2,579	3,077	3,650	4,101
	Grants expenses	6,355	6,710	6,889	6,539	6,697	6,838
	Total Expenses from Transactions	**37,573**	**39,460**	**43,307**	**44,918**	**47,392**	**49,661**
Equals	**Net Operating Balance**	**547**	**(781)**	**583**	**367**	**(101)**	**209**
Plus	Other economic flows - included in operating result	1	620	625	69	50	41
Equals	**Operating Result**	**548**	**(161)**	**1,207**	**437**	**(51)**	**251**
Plus	Other economic flows - other movements in equity	4,785	5,276	4,261	3,709	3,834	3,502
Equals	**Comprehensive Result - Total Change In Net Worth**	**5,333**	**5,116**	**5,469**	**4,145**	**3,783**	**3,753**
	KEY FISCAL AGGREGATES						
	Net Operating Balance	**547**	**(781)**	**583**	**367**	**(101)**	**209**
Less	**Net Acquisition of Non-financial Assets**						
	Purchases of non-financial assets	13,383	13,979	16,637	14,132	13,641	10,757
	Less Sales of non-financial assets	415	452	432	360	386	344
	Less Depreciation	3,741	3,957	4,561	4,861	5,113	5,448
	Plus Change in inventories	91	179	121	11	71	32
	Plus Other movements in non-financial assets	(146)	(9)	224	76	78	81
	***Equals* Total Net Acquisition of Non-financial Assets**	**9,172**	**9,741**	**11,989**	**8,999**	**8,291**	**5,079**
Equals	**Net Lending / (Borrowing)**	**(8,624)**	**(10,522)**	**(11,406)**	**(8,631)**	**(8,391)**	**(4,870)**

Notes:
1. Numbers may not add due to rounding.
2. Numbers have been restated where subsequent changes in classification have occurred.

Table 9.4
General Government Sector Balance Sheet [1]

	2007-08 Budget [2] $ million	2007-08 Est.Actual $ million	2008-09 Budget $ million	2009-10 Projection $ million	2010-11 Projection $ million	2011-12 Projection $ million
Assets						
Financial Assets						
Cash and deposits	2,069	2,752	2,204	1,871	1,616	1,347
Advances paid	753	743	816	889	951	990
Investments, loans and placements	29,046	27,069	28,218	29,712	31,205	32,697
Receivables	2,256	2,817	2,864	3,153	3,345	3,616
Equity						
Investments in other public sector entities	20,477	20,000	20,669	21,734	22,542	23,047
Investments - other	259	39	39	39	39	40
Total Financial Assets	**54,859**	**53,420**	**54,811**	**57,398**	**59,699**	**61,737**
Non-financial Assets						
Land and other fixed assets	94,726	99,876	107,569	114,144	120,603	126,294
Other non-financial assets	5,451	5,562	5,829	6,318	6,844	7,498
Total Non-financial Assets	**100,177**	**105,437**	**113,399**	**120,462**	**127,447**	**133,792**
Total Assets	**155,036**	**158,857**	**168,209**	**177,860**	**187,146**	**195,529**
Liabilities						
Advances received	447	545	530	506	492	479
Borrowing	6,711	5,648	8,781	13,295	17,719	21,329
Superannuation liability	19,955	20,849	21,874	22,816	23,674	24,442
Other employee benefits	3,407	3,499	3,665	3,686	3,820	3,950
Payables	2,431	2,449	2,388	2,466	2,549	2,640
Other liabilities	2,286	2,774	2,408	2,382	2,402	2,448
Total Liabilities	**35,237**	**35,762**	**39,646**	**45,152**	**50,656**	**55,287**
Net Worth	**119,799**	**123,095**	**128,563**	**132,708**	**136,490**	**140,243**
Net Financial Worth	19,622	17,657	15,164	12,246	9,043	6,451
Net Financial Liabilities	855	2,343	5,504	9,488	13,499	16,596
Net Debt	(24,709)	(24,371)	(21,928)	(18,670)	(15,560)	(13,227)

Notes:

1. Numbers may not add due to rounding.
2. Numbers have been restated where subsequent changes in classification have occurred.

Table 9.5
Public Non-financial Corporations Sector Balance Sheet [1]

	2007-08 Budget [2] $ million	2007-08 Est.Actual $ million	2008-09 Budget $ million	2009-10 Projection $ million	2010-11 Projection $ million	2011-12 Projection $ million
Assets						
Financial Assets						
Cash and deposits	1,497	1,857	1,461	1,675	1,901	2,179
Advances paid	294	291	253	226	203	180
Investments, loans and placements	1,152	383	321	309	307	310
Receivables	931	1,319	1,547	1,616	1,709	1,753
Equity						
Investments - other	199	278	80	97	115	134
Total Financial Assets	**4,074**	**4,128**	**3,662**	**3,923**	**4,235**	**4,556**
Non-financial Assets						
Land and other fixed assets	46,624	46,534	55,707	61,501	66,854	69,501
Other non-financial assets	595	1,538	2,087	2,140	2,127	2,135
Total Non-financial Assets	**47,219**	**48,073**	**57,794**	**63,642**	**68,982**	**71,636**
Total Assets	**51,292**	**52,201**	**61,456**	**67,565**	**73,217**	**76,192**
Liabilities						
Deposits held	64	57	58	58	59	60
Borrowing	24,163	24,755	32,823	37,335	41,471	43,065
Superannuation liability	(161)	(279)	(278)	(278)	(278)	(278)
Other employee benefits	645	716	729	741	755	771
Payables	1,501	2,058	2,234	2,335	2,512	2,702
Other liabilities	6,329	6,755	7,082	7,501	8,017	8,688
Total Liabilities	**32,543**	**34,062**	**42,649**	**47,693**	**52,536**	**55,007**
Net Worth	**18,749**	**18,138**	**18,807**	**19,872**	**20,681**	**21,185**
Net Financial Worth	(28,470)	(29,934)	(38,987)	(43,770)	(48,301)	(50,450)
Net Debt	21,285	22,282	30,847	35,183	39,119	40,455

Notes:
1. Numbers may not add due to rounding.
2. Numbers have been restated where subsequent changes in classification have occurred.

Table 9.6
Non-financial Public Sector Balance Sheet [1]

	2007-08 Budget [2] $ million	2007-08 Est.Actual $ million	2008-09 Budget $ million	2009-10 Projection $ million	2010-11 Projection $ million	2011-12 Projection $ million
Assets						
Financial Assets						
Cash and deposits	3,566	4,609	3,665	3,545	3,516	3,526
Advances paid	990	1,016	1,051	1,098	1,137	1,153
Investments, loans and placements	30,198	27,451	28,539	30,022	31,512	33,007
Receivables	2,426	3,010	3,260	3,372	3,517	3,610
Equity						
Investments in other public sector entities	1,763	1,896	1,896	1,896	1,896	1,896
Investments - other	458	318	119	136	155	174
Total Financial Assets	**39,401**	**38,301**	**38,532**	**40,069**	**41,733**	**43,367**
Non-financial Assets						
Land and other fixed assets	141,316	146,375	163,242	175,611	187,423	195,761
Other non-financial assets	386	522	1,275	1,404	1,391	1,378
Total Non-financial Assets	**141,702**	**146,897**	**164,517**	**177,015**	**188,814**	**197,139**
Total Assets	**181,103**	**185,198**	**203,049**	**217,084**	**230,547**	**240,506**
Liabilities						
Deposits held	66	58	58	59	59	60
Advances received	448	545	530	506	492	479
Borrowing	30,817	30,385	41,587	50,613	59,172	64,376
Superannuation liability	19,793	20,570	21,595	22,537	23,396	24,163
Other employee benefits	4,053	4,214	4,394	4,426	4,574	4,720
Payables	3,201	3,395	3,486	3,419	3,538	3,598
Other liabilities	2,926	2,936	2,836	2,816	2,824	2,866
Total Liabilities	**61,303**	**62,103**	**74,486**	**84,376**	**94,056**	**100,262**
Net Worth	**119,799**	**123,095**	**128,563**	**132,708**	**136,490**	**140,243**
Net Financial Worth	(21,902)	(23,802)	(35,954)	(44,307)	(52,323)	(56,895)
Net Financial Liabilities	23,665	25,698	37,850	46,203	54,219	58,792
Net Debt	(3,555)	(2,089)	8,919	16,513	23,559	27,228

Notes:
1. Numbers may not add due to rounding.
2. Numbers have been restated where subsequent changes in classification have occurred.

Table 9.7
General Government Sector Cash Flow Statement [1]

	2007-08 Budget [2] $ million	2007-08 Est.Actual $ million	2008-09 Budget $ million	2009-10 Projection $ million	2010-11 Projection $ million	2011-12 Projection $ million
Cash Receipts from Operating Activities						
Taxes received	9,271	9,551	10,105	10,842	11,752	12,611
Grants and subsidies received	15,029	15,396	15,526	16,017	16,228	16,669
Sales of goods and services	3,347	3,667	3,749	3,628	3,713	3,779
Interest receipts	2,190	832	2,197	2,249	2,315	2,399
Dividends and income tax equivalents	1,858	931	1,012	1,038	1,303	1,665
Other receipts	2,362	2,455	4,707	3,851	3,743	3,551
Total Operating Receipts	**34,057**	**32,833**	**37,297**	**37,625**	**39,055**	**40,674**
Cash Payments for Operating Activities						
Payments for employees	(13,928)	(15,092)	(15,674)	(16,857)	(17,770)	(18,795)
Payments for goods and services	(6,524)	(6,714)	(7,246)	(7,268)	(7,445)	(7,670)
Grants and subsidies	(8,278)	(8,704)	(8,757)	(8,382)	(8,639)	(8,831)
Interest paid	(391)	(383)	(540)	(786)	(1,036)	(1,292)
Other payments	(696)	(697)	(739)	(577)	(578)	(578)
Total Operating Payments	**(29,817)**	**(31,591)**	**(32,955)**	**(33,869)**	**(35,468)**	**(37,165)**
Net Cash Inflows from Operating Activities	**4,240**	**1,242**	**4,341**	**3,756**	**3,586**	**3,509**
Cash Flows from Investments in Non-Financial Assets						
Purchases of non-financial assets	(5,463)	(5,223)	(6,651)	(6,693)	(6,590)	(5,824)
Sales of non-financial assets	331	434	340	283	334	256
Net Cash Flows from Investments in Non-financial Assets	**(5,132)**	**(4,789)**	**(6,311)**	**(6,410)**	**(6,256)**	**(5,568)**
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**(885)**	**1,020**	**(389)**	**(692)**	**(549)**	**(393)**
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**(1,583)**	**716**	**(1,086)**	**(1,409)**	**(1,402)**	**(1,392)**
Receipts from Financing Activities						
Advances received (net)	(14)	(1)	(18)	(27)	(17)	(17)
Borrowing (net)	3,569	3,531	2,915	4,448	4,383	3,593
Other financing (net)	..	(8)	..	..	..	..
Net Cash Flows from Financing Activities	**3,555**	**3,522**	**2,897**	**4,421**	**4,366**	**3,576**
Net Increase/(Decrease) in Cash held	**195**	**1,711**	**(548)**	**(334)**	**(255)**	**(269)**
Net cash from operating activities	4,240	1,242	4,341	3,756	3,586	3,509
Net cash flows from investments in non-financial assets	(5,132)	(4,789)	(6,311)	(6,410)	(6,256)	(5,568)
Cash Surplus/(Deficit)	**(892)**	**(3,547)**	**(1,970)**	**(2,654)**	**(2,669)**	**(2,059)**
Derivation of ABS GFS Cash Surplus/Deficit						
Cash surplus/(deficit)	(892)	(3,547)	(1,970)	(2,654)	(2,669)	(2,059)
Acquisitions under finance leases and similar arrangements	..	(80)	(152)	..	..	..
ABS GFS Cash Surplus/(Deficit) Including Finance Leases and Similar Arrangements	**(892)**	**(3,627)**	**(2,122)**	**(2,654)**	**(2,669)**	**(2,059)**

Notes:
1. Numbers may not add due to rounding.
2. Numbers have been restated where subsequent changes in classification have occurred.

Table 9.8

Public Non-financial Corporations Sector Cash Flow Statement [1]

	2007-08 Budget [2] $ million	2007-08 Est.Actual $ million	2008-09 Budget $ million	2009-10 Projection $ million	2010-11 Projection $ million	2011-12 Projection $ million
Cash Receipts from Operating Activities						
Grants and subsidies received	2,242	2,064	1,904	1,928	2,024	2,084
Sales of goods and services	7,395	7,833	8,647	10,028	11,073	12,105
Interest receipts	75	171	93	90	96	96
Dividends and income tax equivalents	5	12	..	..	..	..
Other receipts	1,009	825	702	784	780	865
Total Operating Receipts	**10,726**	**10,906**	**11,346**	**12,830**	**13,974**	**15,150**
Cash Payments for Operating Activities						
Payments for employees	(2,189)	(2,256)	(2,625)	(2,775)	(2,920)	(3,105)
Payments for goods and services	(3,044)	(3,791)	(3,944)	(3,650)	(3,753)	(3,689)
Grants and subsidies	(32)	(12)	..	..	..	..
Interest paid	(1,155)	(1,226)	(1,759)	(2,226)	(2,624)	(2,927)
Other payments	(1,846)	(896)	(731)	(950)	(1,042)	(1,092)
Total Operating Payments	**(8,267)**	**(8,181)**	**(9,059)**	**(9,601)**	**(10,340)**	**(10,812)**
Net Cash Inflows from Operating Activities	**2,459**	**2,724**	**2,286**	**3,228**	**3,634**	**4,337**
Cash Flows from Investments in Non-Financial Assets						
Purchases of non-financial assets	(7,919)	(8,756)	(9,985)	(7,439)	(7,051)	(4,933)
Sales of non-financial assets	84	18	92	77	52	88
Net Cash Flows from Investments in Non-financial Assets	**(7,836)**	**(8,738)**	**(9,894)**	**(7,362)**	**(6,999)**	**(4,846)**
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**..**	**536**	**(324)**	**..**	**..**	**..**
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**(11)**	**10**	**..**	**..**	**..**	**..**
Receipts from Financing Activities						
Borrowing (net)	4,433	5,797	8,007	4,488	4,070	1,540
Dividends paid	(841)	(713)	(861)	(831)	(1,026)	(1,144)
Deposits received (net)	(3)	23	1	1	1	1
Other financing (net)	860	(1,262)	388	690	547	391
Net Cash Flows from Financing Activities	**4,449**	**3,843**	**7,535**	**4,348**	**3,591**	**787**
Net Increase/(Decrease) in Cash held	**(938)**	**(1,624)**	**(396)**	**214**	**226**	**278**
Net cash from operating activities	2,459	2,724	2,286	3,228	3,634	4,337
Net cash flows from investments in non-financial assets	(7,836)	(8,738)	(9,894)	(7,362)	(6,999)	(4,846)
Dividends paid	(841)	(713)	(861)	(831)	(1,026)	(1,144)
Cash Surplus/(Deficit)	**(6,218)**	**(6,727)**	**(8,468)**	**(4,965)**	**(4,391)**	**(1,653)**
Derivation of ABS GFS Cash Surplus/Deficit						
Cash surplus/(deficit)	(6,218)	(6,727)	(8,468)	(4,965)	(4,391)	(1,653)
Acquisitions under finance leases and similar arrangements	..	..	..	..	..	..
ABS GFS Cash Surplus/(Deficit) Including Finance Leases and Similar Arrangements	**(6,218)**	**(6,727)**	**(8,468)**	**(4,965)**	**(4,391)**	**(1,653)**

Notes:

1. Numbers may not add due to rounding.
2. Numbers have been restated where subsequent changes in classification have occurred.

Table 9.9
Non-financial Public Sector Cash Flow Statement [1]

	2007-08 Budget [2] $ million	2007-08 Est.Actual $ million	2008-09 Budget $ million	2009-10 Projection $ million	2010-11 Projection $ million	2011-12 Projection $ million
Cash Receipts from Operating Activities						
Taxes received	9,125	9,376	9,920	10,630	11,432	12,257
Grants and subsidies received	15,165	15,467	15,592	16,084	16,293	16,742
Sales of goods and services	10,568	11,292	12,197	13,453	14,581	15,675
Interest receipts	2,265	1,003	2,290	2,339	2,411	2,494
Dividends and income tax equivalents	32	50	20	28	33	240
Other receipts	3,373	3,273	5,402	4,628	4,516	4,409
Total Operating Receipts	**40,528**	**40,461**	**45,421**	**47,161**	**49,266**	**51,816**
Cash Payments for Operating Activities						
Payments for employees	(16,049)	(17,253)	(18,207)	(19,527)	(20,578)	(21,783)
Payments for goods and services	(9,416)	(10,310)	(11,003)	(10,725)	(11,004)	(11,159)
Grants and subsidies	(6,204)	(6,731)	(6,930)	(6,533)	(6,692)	(6,833)
Interest paid	(1,465)	(1,528)	(2,203)	(2,904)	(3,451)	(3,982)
Other payments	(1,535)	(1,387)	(1,311)	(1,321)	(1,347)	(1,357)
Total Operating Payments	**(34,669)**	**(37,209)**	**(39,654)**	**(41,009)**	**(43,073)**	**(45,115)**
Net Cash Inflows from Operating Activities	**5,859**	**3,252**	**5,767**	**6,152**	**6,193**	**6,701**
Cash Flows from Investments in Non-Financial Assets						
Purchases of non-financial assets	(13,383)	(13,979)	(16,637)	(14,132)	(13,641)	(10,757)
Sales of non-financial assets	415	452	432	360	386	344
Net Cash Flows from Investments in Non-financial Assets	**(12,968)**	**(13,527)**	**(16,205)**	**(13,773)**	**(13,255)**	**(10,414)**
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**(25)**	**287**	**(324)**	**(2)**	**(2)**	**(2)**
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**(1,594)**	**726**	**(1,085)**	**(1,409)**	**(1,403)**	**(1,392)**
Receipts from Financing Activities						
Advances received (net)	(14)	(1)	(18)	(27)	(17)	(17)
Borrowing (net)	8,002	9,328	10,922	8,936	8,452	5,133
Deposits received (net)	(3)	17	1	1	1	1
Other financing (net)	..	6	(1)	..	..	..
Net Cash Flows from Financing Activities	**7,986**	**9,349**	**10,904**	**8,910**	**8,436**	**5,116**
Net Increase/(Decrease) in Cash held	**(742)**	**86**	**(943)**	**(122)**	**(30)**	**9**
Net cash from operating activities	5,859	3,252	5,767	6,152	6,193	6,701
Net cash flows from investments in non-financial assets	(12,968)	(13,527)	(16,205)	(13,773)	(13,255)	(10,414)
Cash Surplus/(Deficit)	**(7,109)**	**(10,275)**	**(10,438)**	**(7,620)**	**(7,061)**	**(3,713)**
Derivation of ABS GFS Cash Surplus/Deficit						
Cash surplus/(deficit)	(7,109)	(10,275)	(10,438)	(7,620)	(7,061)	(3,713)
Acquisitions under finance leases and similar arrangements	..	(80)	(152)	..	..	..
ABS GFS Cash Surplus/(Deficit) Including Finance Leases and Similar Arrangements	**(7,109)**	**(10,355)**	**(10,590)**	**(7,620)**	**(7,061)**	**(3,713)**

Notes:
1. Numbers may not add due to rounding.
2. Numbers have been restated where subsequent changes in classification have occurred.

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 (AAS) 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 surplus[1]

	2007-08 Budget $ million	2007-08 Est.Act. $ million	2008-09 Budget $ million
Net operating balance General Government sector (Table 9.1)	268	(995)	809
Remeasurement/valuation adjustments			
Bad debts and amortisation	(40)	(57)	(57)
Deferred tax equivalents	210	191	329
Dividends received on privatisation sales	..	1,229	384
Market value adjustments investments/loans	30	66	16
Revaluation of provisions	(18)	62	14
Decommissioned infrastructure assets and land under roads	(143)	(143)	(143)
Gain/(loss) on assets sold/written off	11	26	36
AAS net surplus General Government sector	**318**	**380**	**1,388**

Note:
1. Numbers may not add due to rounding.

GENERAL GOVERNMENT TIME SERIES

Data presented in Table 9.11 provides a time series from 2000-2001 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 is possible) to comply with AASB 1049 *Whole of Government and General Government Sector Financial Reporting.*

Table 9.11

General Government Sector[1]

	2000-01 Actual $ million	2001-02 Actual $ million	2002-03 Actual $ million	2003-04 Actual $ million	2004-05 Actual $ million	2005-06 Actual $ million	2006-07 Actual $ million
Revenue from Transactions							
Taxation revenue	4,255	4,815	5,598	6,676	6,952	7,396	8,484
Grant revenue	9,233	10,052	10,666	11,528	12,755	13,590	14,373
Sales of goods and services	1,747	1,837	1,964	2,105	2,381	2,586	2,889
Interest income	818	(464)	(128)	2,723	2,972	3,414	3,348
Dividend and income tax equivalent income	1,116	1,287	1,036	1,148	1,028	1,057	863
Other revenue	1,109	1,316	1,118	1,035	1,473	2,039	2,024
Total Revenue	**18,278**	**18,842**	**20,253**	**25,214**	**27,562**	**30,084**	**31,982**
Expenses from Transactions							
Employee expenses	7,452	7,969	8,431	8,972	9,595	10,615	11,731
Superannuation expenses							
Superannuation interest costs	467	626	630	1,040	1,009	826	1,154
Other superannuation expenses	771	851	892	1,061	1,182	1,367	1,513
Other operating expenses	3,309	3,398	3,794	3,948	4,392	5,227	6,109
Depreciation and amortisation	1,395	1,511	1,460	1,460	1,585	1,679	1,880
Other interest expenses	337	245	222	213	209	174	180
Grant expenses	5,404	5,100	4,813	5,180	5,647	6,482	7,558
Total Expenses	**19,135**	**19,701**	**20,241**	**21,874**	**23,619**	**26,370**	**30,128**
Net Operating Balance	**(857)**	**(858)**	**12**	**3,340**	**3,942**	**3,714**	**1,855**
OTHER KEY AGGREGATES							
Purchases of non-financial assets	2,520	2,416	2,232	2,415	2,843	3,186	4,418
Net acquisition of non-financial assets	813	708	155	503	1,053	1,236	2,067
Net lending / (borrowing)	(1,671)	(1,602)	(140)	2,838	2,873	2,478	(211)
Net Worth	57,623	58,093	64,894	77,723	96,433	105,035	117,831
Net Debt	(10,631)	(11,572)	(11,802)	(14,811)	(19,406)	(23,202)	(26,686)
Cash Surplus/Deficit	534	188	645	3,490	4,640	4,648	2,350

Note:
1. Numbers may not add due to rounding.

Source: Budget Papers and *Outcomes Reports for Queensland 2000-01 to 2006-07. (Numbers have been recast for recent changes to UPF presentation.)*

OTHER GENERAL GOVERNMENT UPF DATA

Data in the following tables is presented in accordance with the Uniform Presentation Framework.

Grants

Data presented in Tables 9.12(a) and 9.12(b) provides details of General Government current and capital grant revenue and expenses.

Table 9.12(a)
General Government Sector Grant Revenue [1]

	2007-08 Est. Act. $ million	2008-09 Budget $ million
Current grant revenue		
Current grants from the Commonwealth		
General purpose grants	10,977	11,239
Specific purpose grants	1,377	1,196
Specific purpose grants for on-passing	1,628	1,683
Total current grants from the Commonwealth	13,983	14,119
Other contributions and grants	491	512
Total current grant revenue	**14,474**	**14,631**
Capital grant revenue		
Capital grants from the Commonwealth		
General purpose grants	20	18
Specific purpose grants	968	1,012
Specific purpose grants for on-passing	25	25
Total capital grants from the Commonwealth	1,012	1,054
Other contributions and grants	6	3
Total capital grant revenue	**1,018**	**1,056**
Total grant revenue	**15,492**	**15,687**

Note:
1. Numbers may not add due to rounding.

Table 9.12(b) General Government Sector Grant Expense [1]	2007-08 Est. Act. $ million	2008-09 Budget $ million
Current grant expense		
Private and Not-for-profit sector	3,446	3,823
Private and Not-for-profit sector on-passing	1,281	1,319
Local Government	149	143
Local Government on-passing	347	364
Grants to other sectors of Government	1,964	1,799
Other	226	165
Total current grant expense	**7,413**	**7,613**
Capital grant expense		
Private and Not-for-profit sector	261	290
Private and Not-for-profit sector on-passing	25	25
Local Government	555	526
Grants to other sectors of Government	20	28
Other	367	231
Total capital grant expense	**1,228**	**1,100**
Total grant expense	**8,641**	**8,713**

Note:
1. Numbers may not add due to rounding.

Dividend and Income Tax Equivalent Income

Table 9.13 provides details of the source of Dividend and Income Tax Equivalent income in the General Government sector.

Table 9.13 General Government Sector Dividend and Income Tax Equivalent Income [1]	2007-08 Est. Act. $ million	2008-09 Budget $ million
Dividend and Income Tax Equivalent income from PNFC sector	1,190	1,023
Dividend and Income Tax Equivalent income from PFC sector	23	24
Other Dividend income	4	4
Total Dividend and Income Tax Equivalent income	**1,217**	**1,051**

Note:
1. Numbers may not add due to rounding.

Expenses by function

Data presented in Table 9.14 provides details of General Government sector expenses by function.

Table 9.14
General Government Sector Expenses by Function[1]

	2007-08 Budget $ million	2007-08 Est. Act. $ million	2008-09 Budget $ million	2009-10 Projection $ million	2010-11 Projection $ million	2011-12 Projection $ million
General public services	1,744	2,001	2,065	2,003	2,057	2,223
Public order and safety	2,924	3,055	3,316	3,527	3,709	3,958
Education	7,403	7,607	7,963	8,365	8,607	8,829
Health	7,745	7,893	8,944	9,387	9,925	10,260
Social security and welfare	1,917	1,873	2,104	2,087	2,231	2,377
Housing and community amenities	1,511	1,161	1,233	1,194	1,176	1,226
Recreation and culture	787	793	814	812	828	846
Fuel and energy	1,048	1,317	1,068	1,002	1,029	1,055
Agriculture, forestry, fishing and hunting	886	1,003	930	822	837	889
Mining, manufacturing and construction	131	140	157	162	163	175
Transport and communications	3,521	3,772	3,907	4,063	4,315	4,532
Other economic affairs	753	765	864	783	737	750
Other purposes	1,912	1,892	2,407	2,492	2,810	3,000
Total Expenses	**32,282**	**33,271**	**35,772**	**36,700**	**38,422**	**40,120**

Note:
1. Numbers may not add due to rounding.

Purchases of non-financial assets by function

Data presented in Table 9.15 provides details of General Government sector purchases of non-financial assets by function.

Table 9.15
General Government Sector Purchases of Non-financial Assets by Function[1]

	2007-08 Budget $ million	2007-08 Est. Act. $ million	2008-09 Budget $ million
General public services	349	413	424
Public order and safety	725	613	970
Education	439	443	527
Health	556	544	902
Social security and welfare	170	63	152
Housing and community amenities	368	333	340
Recreation and culture	94	112	164
Agriculture, forestry, fishing and hunting	51	59	67
Mining, manufacturing and construction	7	11	20
Transport and communications	2,648	2,604	2,947
Other economic affairs	55	30	138
Total Purchases	**5,463**	**5,223**	**6,651**

Note:
1. Numbers may not add due to rounding.

Taxes

Data presented in Table 9.16 provides details of taxation revenue collected by the General Government sector.

Table 9.16
General Government Sector Taxes [1]

	2007-08 Est.Actual $ million	2008-09 Budget $ million
Taxes on employers' payroll and labour force	2,482	2,702
Taxes on property		
Land taxes	622	797
Stamp duties on financial and capital transactions	3,306	3,156
Other	353	391
Taxes on the provision of goods and services		
Taxes on gambling	886	950
Taxes on insurance	449	468
Taxes on use of goods and performance of activities		
Motor vehicle taxes	1,325	1,509
Other	128	133
Total Taxation Revenue	**9,552**	**10,106**

Note:
1. Numbers may not add due to rounding.

Loan Council Allocation

The Australian Loan Council requires all jurisdictions to prepare Loan Council Allocations (LCA) to provide an indication of each government's probable call on financial markets over the forthcoming financial year.

Table 9.17 presents the State's revised LCA Budget allocation and the Loan Council endorsed LCA for 2008-09.

Table 9.17
Loan Council Allocation [1]

		2008-09 Nomination $ million	2008-09 Budget $ million
	General Government sector cash deficit/(surplus) [2]	1,983	1,970
	PNFC sector cash deficit/(surplus) [2]	6,061	8,468
	Non Financial Public Sector cash deficit/(surplus) [2]	**8,043**	**10,438**
	Acquisitions under finance leases and similar arrangements [3]	..	(152)
Equals	**ABS GFS cash deficit/(surplus)**	**8,043**	**10,590**
Less	Net cash flows from investments in financial assets for policy purposes	..	(324)
Plus	Memorandum items [4]	506	506
	Loan Council Allocation	**8,549**	**11,420**

Notes:
1. Numbers may not add due to rounding.
2. Figures in brackets represent surpluses.
3. Finance leases are shown with a negative sign as they are deducted in compiling the ABS GFS cash deficit/surplus.
4. Memorandum items include operating leases and local government borrowings.

The State's Budget LCA allocation is a deficit of $11.42 billion. This compares to the LCA nomination of $8.549 billion.

A tolerance limit of two per cent of Non-financial Public sector receipts applies between the LCA nomination and the Budget allocation. For 2008-09, the LCA Budget allocation exceeds the LCA nomination by more than the two per cent tolerance limit.

The increased deficit is largely due to higher net borrowing requirements as a result of increased spending on capital infrastructure in the PNFC sector.

BACKGROUND AND INTERPRETATION OF UNIFORM PRESENTATION FRAMEWORK

As mentioned in the introduction to this chapter, the UPF has recently been reviewed following the release of the Australian Accounting Standards Board's (AASB) new accounting standard, AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

The new 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.

Accrual GFS framework

The GFS reporting framework, developed by the Australian Bureau of Statistics (ABS), is based on international statistical 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 refer to a unit's holdings of assets, liabilities and net worth 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 result.

Generally Accepted Accounting Principles

In addition to the GFS framework, public sector entities have been required to report at year end against AAS 31 *Financial Reporting by Government*, which meant complying with the Accounting Standards issued by the Australian Accounting Standards Board (AASB).

Harmonisation under AASB 1049

This dual reporting regime caused confusion for financial report users and so the Financial Reporting Council asked the AASB to develop a framework harmonising GAAP and GFS to issue an Australian accounting standard for a single set of government reports.

In the development of 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 transactions and other economic flows classification system based on GFS
- Expanding the disclosure requirements to incorporate key fiscal aggregates required by GFS.

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. There are a number of important areas where the UPF provides either additional information or clearer guidance on the preparation of government financial statements to that of AASB 1049. For example, the Australian, state and territory governments agree that net debt, a fiscal indicator not required by the new standard, continues to be an important indicator in transparent budget reporting and should continue to be presented on the face of the financial statements as a fiscal aggregate. Further, 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 new accounting standard applies only to outcome reports.

Therefore, rather than replacing the UPF with the new accounting standard, the framework was updated to align with AASB 1049. Australian, 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 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.

Major disclosure differences arising from the adoption of the revised UPF are outlined in Box 9.1.

Box 9.1
Major disclosure differences arising from the adoption of the revised Uniform Presentation Framework

ALL SECTORS

Operating Statement

- Current and capital grants revenue and expenses have been grouped together in the Operating statement.
- Dividend and income tax equivalent income has been split out from Other revenue.
- Superannuation expenses have been separately disclosed from Employee expenses.
- Other economic flows are now shown on the Operating statement, separated into those affecting the Operating result (or accounting profit) and those affecting equity or reserves.

Balance Sheet

- Deferred tax assets and liabilities are now recognised in the balance sheet in the categories Other non-financial assets and Other liabilities respectively.
- Prepayments are included in Other non-financial assets rather than with receivables, which reduces the Net financial worth.

Cash Flow Statement

- Interest receipts and Dividend and income tax equivalent receipts have been split out from Other receipts.
- Payments for employees have been separated from Payments for goods and services.

GENERAL GOVERNMENT SECTOR

Operating Statement

- Expanded grant revenue and expense information is supplied in two additional tables 9.12 (a) and (b).
- Additional information on Dividend and income tax equivalent income is supplied in Table 9.13.

Balance Sheet

- The recognition of deferred tax assets and liabilities in the balance sheet is offset exactly by a reduction in the Investment in other public sector entities.
- Net worth is therefore not impacted by this change but Net financial worth is, as the Deferred tax assets are disclosed as non-financial.

Box 9.1 (cont.)
Major disclosure differences arising from the adoption of the revised Uniform Presentation Framework

PUBLIC NON-FINANCIAL SECTOR

Operating Statement

- Competitive neutrality fees, performance dividends and credit margin fees are now included in Other interest expenses rather than other operating expenses.
- The Net operating balance for the PNFC sector no longer includes dividends declared and paid, and these are now included in Other economic flows – other movements in equity.
- This also impacts on the Net lending aggregate which now excludes dividends.
- The Operating result for the PNFC sector is effectively accounting profit after tax.

Balance Sheet

- The overfunded defined benefit superannuation is classified as a negative liability rather than an asset.
- The net worth of the PNFC sector is reduced by the recognition of deferred tax assets and liabilities in the balance sheet.
- The Net financial worth is reduced by the amount of the deferred tax liabilities as well as the deferred tax asset which disclosed as non-financial.

Cash Flow Statement

- Income tax paid is included in Other payments in the cash flow statement rather than Distributions paid, which increases the Cash surplus/(deficit).

Operating statement

The operating statement combines the net result from transactions (net operating balance) and the impact of other economic flows to calculate the comprehensive result (total change in net worth). Neither other economic flows nor the comprehensive result were required under the former UPF.

Net operating balance is represented by revenues less expenses from transactions and excludes any other economic flows such as revaluations, gains or losses on asset disposals and allowances for doubtful debts.

In addition to the net result from transactions (net operating balance), the operating statement also includes other economic flows which are the total change in net worth driven by economic flows other than through transactions. Other economic flows are split between those that relate to the operating result (under GAAP) and those that relate to equity. The total of the net operating balance and all other economic flows equals the comprehensive result (total change in net worth).

Net lending is the net operating balance less net acquisition of non-financial assets. It is also referred to as the fiscal balance. It measures, in accrual terms, the gap between Government savings plus net capital transfers and investment in non-financial assets. A surplus indicates that the State Government is placing financial resources at the disposal of other sectors of the economy, whilst a deficit reflects the State utilising the financial resources of other sectors. Queensland's net lending is driven by the size of the State's capital program.

Balance sheet

The balance sheet shows stocks of financial and non-financial assets and liabilities. Key indicators in the balance sheet are net worth, net financial worth, net financial liabilities and net debt.

Net worth, also known as net assets, is defined as total assets less total liabilities. It provides a more comprehensive picture of a government's position as all assets and liabilities are taken into account.

Net financial worth, on the other hand, is calculated as financial assets minus total liabilities. It measures a government's net holdings of financial assets.

Net financial liabilities (a new key aggregate for the UPF) is calculated by deducting equity investments in the PNFC/PFC sectors from the net financial worth.

Net debt is represented by the sum of selected financial liabilities (such as deposits held, advances received and borrowings) minus the sum of selected financial assets (cash and deposits, loans and placements). It provides an indication of the strength of a government's financial position.

Cash flow statement

Cash means cash on hand (notes and coins held and deposits held at call with a bank or financial institution) and cash equivalents (highly liquid investments readily convertible to cash and overdrafts considered integral to the cash management functions).

The cash flow statement demonstrates how cash is generated and applied in a single accounting period.

The cash surplus/deficit is the cash counterpart of the fiscal balance as disclosed in the operating statement. A surplus reflects the availability of cash to increase the State's financial assets or decrease its liabilities, whilst a deficit reflects the requirement for cash either by running down the State's financial assets or by drawing on the cash reserves of other sectors of the economy. It comprises net cash received/paid from operating activities, from sales and purchases of non-financial assets and from financing activities.

SECTOR CLASSIFICATION

GFS data is presented by institutional sector, distinguishing between the General Government sector and the Public Non-financial Corporations (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 sector 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 QR and the energy entities.

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 Australian Bureau of Statistics at www.abs.gov.au.

REPORTING ENTITIES

The reporting entities included in the General Government and PNFC sectors for the 2008-09 Budget are provided below.

General Government

Departments

Child Safety
Communities
Corrective Services
Disability Services Queensland
Education, Training and the Arts
Electoral Commission of Queensland
Emergency Services
Employment and Industrial Relations
Environmental Protection Agency
Forestry Plantations Queensland Office
Health
Housing
Infrastructure and Planning
Justice and Attorney-General
Legislative Assembly
Local Government, Sport and Recreation
Main Roads
Mines and Energy
Natural Resources and Water
Office of the Governor
Office of the Ombudsman
Public Service Commissioner
Police
Premier and Cabinet
Primary Industries and Fisheries
Public Works
Queensland Audit Office
The Public Trustee of Queensland
Tourism, Regional Development and Industry
Transport
Treasury

Statutory Authorities

Anti-Discrimination Commission
Australian Agricultural College Corporation
Board of the Queensland Museum
City North Infrastructure Pty Ltd
Commission for Children and Young People and Child Guardian
Crime and Misconduct Commission
Family Responsibilities Commission
Health Quality and Complaints Commission
Legal Aid Queensland
Library Board of Queensland
Motor Accident Insurance Commission
Nominal Defendant
Office of the Information Commissioner
Prostitution Licensing Authority
Queensland Art Gallery Board of Trustees
Queensland Building Services Authority
Queensland Events Corporation Pty Ltd
Queensland Future Growth Corporation
Queensland Performing Arts Trust
Queensland Rural Adjustment Authority (QRAA)
Queensland Studies Authority
Queensland Treasury Holdings Pty Ltd
Residential Tenancies Authority
South Bank Corporation
Southbank Institute of Technology
The Council of The Queensland Institute of Medical Research
Tourism Queensland
Urban Land Development Authority
Workers' Compensation Regulatory Authority (Q-Comp)

Commercialised Business Units

CITEC
Goprint
Main Roads – RoadTek
Project Services
Property Services Group
QBuild
QFleet
SDS

Shared Service Providers

Corporate Administration Agency
Corporate and Professional Services
CorpTech
Queensland Health Shared Service Provider
Shared Service Agency

Public Non-financial Corporations

Cairns Ports
CS Energy Ltd
DBCT Holdings Pty Ltd
ENERGEX Ltd
Ergon Energy Corporation Limited
Forestry Plantations Queensland
Gladstone Area Water Board
Gladstone Ports Corporation
Gold Coast Events Co Pty Ltd
Mackay Ports
Major Sports Facilities Authority
Mount Isa Water Board
Port of Brisbane Corporation Limited
Port of Townsville
Ports Corporation of Queensland Limited
Powerlink Queensland
Queensland Bulk Water Supply Authority
Queensland Bulk Water Transport Authority
Queensland Lottery Corporation Pty Ltd
Queensland Manufactured Water Authority
Queensland Motorways Limited
Queensland Power Trading Corporation (Enertrade)
QR Limited
Queensland Water Infrastructure Pty Ltd
SEQ Water Grid Manager
South East Queensland (Gold Coast) Desalination Company Pty Ltd
Southern Regional Water Pipeline Company Pty Ltd
Stanwell Corporation Ltd
SunWater
Tarong Energy Corporation Ltd
The Trustees of Parklands Gold Coast
Western Corridor Recycled Water Pty Ltd
ZeroGen Pty Ltd

APPENDIX A – TAX EXPENDITURE STATEMENT

OVERVIEW

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. As required by the *Charter of Social and Fiscal Responsibility*, this Tax Expenditure Statement (TES) details revenue foregone as a result of Government decisions relating to the provision of tax 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 concessions, 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 2006-07 and 2007-08 estimates of tax expenditures for payroll tax, land tax, duties, the community ambulance cover and gambling taxes. A summary of the major tax expenditures valued on the basis of revenue foregone is presented in Table A.1. Not all expenditures can be quantified at this time. Accordingly, the total value of tax expenditures should be considered as indicative only.

Table A.1
Tax expenditure summary[1]

	2006-07[2] $ million	2007-08 $ million
Payroll Tax		
Exemption threshold[3]	901	999
Deduction scheme[4]	171	218
Section 14 exemptions		
Local Government	87	95
Education	140	153
Hospitals	215	235
Total Payroll Tax	**1,514**	**1,700**
Land Tax		
Liability thresholds[5]	293	354
Graduated land tax scale	142	131
Primary production deduction	60	75
Section 13 exemptions not included elsewhere[6]	46	55
Land developers' concession	15	14
Total Land Tax	**556**	**629**
Duties		
Transfer duty on residential property		
Home concession	390	402
First home concession	205	222
First home vacant land concession	2	2
Insurance duty		
Non-life insurance	111	116
Workcover	23	21
Health insurance	129	145
Total Duties	**860**	**908**
Community Ambulance Cover		
Concession to pensioners and seniors[7]	**42**	**44**
Taxes on Gambling		
Gaming machine taxes	114	119
Casino taxes	6	10
Total Gambling Tax	**120**	**129**

Notes:
1. Numbers may not add due to rounding.
2. 2006-07 estimates may have been revised since last year's Budget.
3. Exemption threshold of $1 million applies.
4. Deduction of $1 million, which reduces by $1 for every $3 above $1 million, is applicable to employers with an annual payroll between $1 million and $4 million.
5. Land tax is payable only on the value of taxable land above a threshold which depends on the ownership structure.
6. Applicable, but not limited, to religious bodies, public benevolent institutions and other exempt charitable institutions.
7. Estimates are based on the revenue foregone through the use of the levy exemption by pensioners and senior citizens.

DISCUSSION OF INDIVIDUAL TAXES

Payroll tax

The benchmark tax base for payroll tax is assumed to be all wages, salaries and supplements (including employer superannuation contributions) paid in Queensland, as defined in the *Pay-roll 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 million or less are exempt from payroll tax. On the basis of average weekly earnings, this threshold corresponds to approximately 18 full-time equivalent employees. This concession is designed to assist small and medium sized businesses.

Deduction scheme

Employers who employ in Queensland with Australian payrolls between $1 million and $4 million benefit from a deduction of $1 million, which reduces by $1 for every $3 by which the annual payroll exceeds $1 million. In 2006-07 and 2007-08, there is no deduction for employers or groups with an annual payroll in excess of $4 million.

Section 14 exemptions

A number of organisations are provided with exemptions from payroll tax under Section 14 of the *Pay-roll 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 above a threshold which depends on the land's ownership. In 2006-07, the thresholds were $300,000 for companies, trusts and absentees and $500,000 for resident individuals. In 2007-08, the threshold for companies, trusts and absentees was increased to $350,000 and for resident individuals was increased to $600,000.

Residential land owned by resident individuals as their principal place of residence is excluded from the estimate. The exemption from paying below a minimum amount ($500 in 2006-07 and $1,200 in 2007-08) 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 $3 million for resident individuals and $2 million 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.

Section 13 exemptions (not elsewhere included)

A number of land tax exemptions are granted under Section 13 of the *Land Tax Act 1915* 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

From 1 July 1998, land developers have been charged land tax on 60% of the unimproved value of (undeveloped) land subdivided in the previous financial year and which remains unsold at 30 June of that year. This concession is outlined in Section 3CA of the *Land Tax Act 1915*.

Transfer duty concession on residential property

The benchmark tax base is assumed to be all sales of residential property within Queensland. The benchmark tax scale is assumed to be the scale that actually applied in each financial year.

Home concession

A concessional rate of duty applies to purchases of a principal place of residence. From 1 July 2006, a concessional rate of 1% has applied on dutiable values up to $320,000 compared to the normal schedule of rates between 1.5% and 3.5%. For properties valued over $320,000, the scheduled rates of transfer duty applied 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. Duty relief is provided to purchases of a first principal place of residence valued up to $500,000.

First home vacant land concession

Since 1 January 2007, a first home concession has been available for the purchase of certain vacant land up to the value of $300,000.

Insurance duty

The benchmark tax base is assumed to be all premiums for general insurance policies (except for life insurance). The benchmark tax scale is assumed to be the scale that actually applied in each financial year.

The rate of duty applicable to most types of general insurance is 7.5%. Concessional rates apply to some other general insurance types (5% for motor vehicle insurance other than compulsory third party (CTP), workers' compensation and professional indemnity insurance and 10c on a premium for CTP insurance). Data limitations mean that these insurance types are categorised into non-life insurance cover and WorkCover. An exemption from duty is also provided for private health insurance.

Duty on mortgages – home concessions and first home concessions

The benchmark tax base is assumed to be all mortgages and loans taken out in Queensland. The benchmark tax scale is assumed to be the scale that actually applied in each financial year.

A concession from duty is allowed where a home mortgage secures an advance attributable to the purchase or construction of the borrower's home.

The data required to estimate the revenue foregone is not available.

Community Ambulance Cover

Concession to pensioners and seniors

Pensioners and senior card holders are exempt from paying the Community Ambulance Cover charge levied quarterly on electricity accounts.

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 concessional graduated tax rate scale applies to gaming machines operated by licensed clubs. The tax rate is calculated on the gaming machine monthly 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. In addition concessional rates also apply for revenue from high rollers in all casinos. High roller revenue is taxed at 10% in the Brisbane and Gold Coast casinos and 8% for the Cairns and Townsville Casinos. A GST credit is provided to casinos that approximates a reduction in the above tax rates of 9.09%.

APPENDIX B – CONCESSIONS STATEMENT

INTRODUCTION

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.

This statement serves to highlight the cost and nature of concessions covering both concessions which are reflected as outlays in the Budget (for example, direct subsidy payments) and revenue foregone through fees and charges which are set at a rate lower than that applying to the wider community.

Varying methods have been used to estimate the cost of concessions depending on the nature of the concession, including:

- direct Budget outlay cost (for example, direct subsidy or rebate payments)
- revenue foregone (for example, concessional fees and charges)
- cost of goods and services provided.

Table B.1 sets out the cost of concessions by agency. The total value of concessions is estimated at $1 billion in 2008-09.

Table B.1
Concessions by agency[1]

Agency	2007-08 Est.Act. $ million	2008-09 Estimate $ million
Department of Communities		
Electricity Rebate Scheme	67.5	86.5
Electricity Life Support Scheme	0.7	0.8
Pensioner Rate Subsidy Scheme	44.3	49.3
Rail Concession Scheme	34.1	35.0
Reticulated Natural Gas Rebate Scheme	..	5.8
Home Energy Emergency Assistance Scheme	1.1	2.7
SEQ Pensioner Water Subsidy Scheme	..	6.5
Department of Education, Training and the Arts		
Living Away from Home Allowances Scheme	6.0	6.4
School Transport Assistance for Students with Disabilities	30.0	30.0
Non-State School Transport Assistance Scheme[2]	2.8	4.4
Venue Hire and Lease Discount – Judith Wright Centre of Contemporary Art	0.4	0.4
Arts Concessional Entry Fees	1.0	0.9
Venue Hire Discount – Queensland Performing Arts Trust	0.4	0.3
TAFE Concessions	15.5	15.4
Department of Emergency Services		
Urban Fire Levy Concession	5.4	5.7
Environmental Protection Agency		
Environmental Licence Fee Waiver[3]	0.1	..
Entry and Tour Fee Concessions	0.1	0.2
Queensland Health		
Spectacles Supply Scheme	6.4	6.4
Medical Aids Subsidy Scheme	22.0	25.8
Patient Travel Subsidy Scheme	34.4	34.5
Oral Health Scheme	99.2	103.1
Department of Housing		
Aboriginal and Torres Strait Islander Housing Rental Rebate	14.3	14.5
Public Rental Housing Rebate[4]	256.2	291.5
Department of Justice and Attorney-General		
Public Trustee of Queensland – Rebates of Fees	17.7	18.6
Department of Local Government, Sport and Recreation		
Active Recreation Centres – Concessional Usage Rates	0.1	0.2
Department of Natural Resources and Water		
Rebates on Fixed Water Charges	3.6	5.0

Table B.1 (continued) Concessions by agency[1]		
Agency	2007-08 Est.Act. $ million	2008-09 Estimate $ million
Department of the Premier and Cabinet		
South Bank Corporation – Venue Hire Discounts	0.2	0.2
Department of Primary Industries and Fisheries		
Drought Rate Rebate Scheme[5]	8.5	..
Department of Transport		
Transport Concessions incl. Taxi Subsidies	70.7	74.3
Motor Vehicle Registration Concession	50.6	51.9
Recreational Ship Registration Concession	0.8	0.8
School Transport Assistance Scheme	125.7	129.6
Total	**919.9**	**1,006.8**

Notes:
1. Numbers may not add due to rounding.
2. 2007-08 estimated actual includes a return of $1.6M excess funds previously accumulated by the Queensland Catholic Education Commission.
3. Due to the introduction of new environmental protection regulation, this concession will cease on 1 January 2009.
4. Increases in markets rents have resulted in an increased estimated level of rental rebate for 2008-09.
5. This scheme will cease on 30 June 2008.

Department of Communities

The Department of Communities has responsibility for the Queensland Government Electricity Rebate Scheme that provides a rebate on the cost of domestic electricity supply to the home of eligible holders of a Pensioner Concession Card, Queensland Seniors Card or a Repatriation Health Card for All Conditions (Gold Card) who receive a War Widow or Special Rate Totally and Permanently Incapacitated (TPI) pension.

The Electricity Life Support Concession Scheme is aimed at assisting seriously ill people who use home-based life support systems such as oxygen concentrators and kidney dialysis machines.

The Pensioner Rate Subsidy Scheme alleviates the impact of local government rates and charges on pensioners, thereby assisting them to continue to live in their own homes.

The Queensland Rail Concessions Scheme assists pensioners, veterans and seniors to reduce the cost of public transport and to maintain an active and healthy lifestyle.

Two additional schemes were introduced in the 2007-08 financial year – the Reticulated Natural Gas Rebate Scheme and the Home Energy Emergency Assistance Scheme.

The Reticulated Natural Gas Rebate Scheme provides a rebate off the cost of reticulated natural gas supplied to the home of eligible holders of a Pensioner Concession Card, Queensland Seniors Card or Repatriation Health Card for All Conditions (Gold Card) who receive a War Widow or Special Rate Totally and Permanently Incapacitated (TPI) pension.

The Home Energy Emergency Assistance Scheme provides one-off emergency assistance to low income households suffering a short term financial crisis and who are unable to pay their current electricity and/or reticulated natural gas account and are at risk of disconnection.

To lessen the impact of increased water prices on pensioners, the Government has established the South East Queensland (SEQ) Pensioner Water Subsidy Scheme. It will be phased in over three years with the increased water prices and will provide a subsidy of $40 in 2008-09, $70 in 2009-10 and $100 from 2010-11. The Scheme, which will only apply to eligible pensioners in the SEQ Water Grid, will be in addition to the current Pensioner Rate Subsidy Scheme of up to $180 per annum.

Department of Education, Training and the Arts

The Department of Education, Training and the Arts provides a living away from home allowance to students in Years 1 to 12 in state and non-state schools whose homes are geographically isolated from local schools. The allowances offset the costs associated with boarding away from home to attend school on a daily basis and include tuition and travel costs.

The Department also offers assistance to students with disabilities to access school programs to meet their educational needs. Assistance is in the form of the provision of taxis or specialised contracted minibuses, payment of fares on regular buses or trains, or an allowance for parents who drive their children to school.

The Non-State School Transport Assistance Scheme assists families of students attending non-state schools outside Brisbane whose bus fare is over a weekly threshold amount. The program also assists families of students with disabilities who attend a non-state school.

Discounts apply to venue rental fees charged to arts and community organisation hirers and rent reductions apply to lease amounts for resident cultural organisation tenants at the Judith Wright Centre of Contemporary Art.

Concessional ticket entry fees apply to a variety of concession card holders, students, children and families for special exhibitions at the Queensland Art Gallery and the Queensland Museum.

Queensland Performing Arts Trust offers discounts on venue rental fees charged to Government funded organisations, primarily Opera Queensland, Queensland Ballet, Queensland Orchestra and Queensland Theatre Company.

Concessions on TAFE tuition fees for Government-funded training are offered to a range of concession card holders, students of Aboriginal and Torres Strait Islander descent and students who can demonstrate extreme financial hardship.

Department of Emergency Services

Pensioners are eligible for a 20% discount on the Urban Fire Levy payable on prescribed properties of which they are the owner or part-owner.

Environmental Protection Agency

A fee waiver may be granted on environmental licences on the grounds of financial hardship or if there is a small or insignificant environmental risk. Due to the introduction of new environmental protection regulation, this concession will conclude on 1 January 2009. The Department also offers concessional entry fees for specified protected areas including St Helena Island, David Fleay Wildlife Park and Mon Repos Conservation Park.

Queensland Health

The Spectacles Supply Scheme assists eligible Queensland residents by providing a comprehensive range of free basic spectacles. The scheme is administered through the Medical Aids Subsidy Scheme, following transfer of the administration and management of the Scheme from Health Service Districts, effective 1 January 2008.

The Medical Aids Subsidy Scheme provides eligible Queensland residents with permanent and stabilised conditions or disabilities with access to subsidy funding assistance for the provision of a range of aids and equipment. Aids and equipment are provided primarily to assist people to live at home thus avoiding premature or inappropriate residential care or hospitalisation.

Queensland Health's Patient Travel Subsidy Scheme provides financial assistance to patients who need to access specialist medical services which are not available within their local area. The Scheme provides a subsidy towards the cost of travel and accommodation for patients and, in some cases, an escort.

The Oral Health Scheme provides free dental care to eligible clients and their dependents who possess a current Health Care Card, Pensioner Concession Card, Queensland Seniors Card or Commonwealth Seniors Card. 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.

Department of Housing

The Aboriginal and Torres Strait Islander Housing Rental Rebate targets low income Indigenous families and individuals and represents the difference between the rents that would be payable in the private market and the rent that is charged based on the household's income.

The Public Rental Housing Rebate targets low income families and individuals and represents the difference between the rent that would be payable in the private market and the rent that is charged based on the household's income. Increasing market rents result in an increasing level of rental rebate.

Department of Justice and Attorney-General

The Public Trustee offers fee rebates (full or partial) for clients who, because of financial circumstances, cannot pay the full amount of fees that have been levied.

Department of Local Government, Sport and Recreation

Concessional rates are offered to school groups for the use of a number of Active Recreation Centres, such as those at Currimundi and Tallebudgera.

Department of Natural Resources and Water

A rebate on fixed water charges (Part A charges) is provided for rural irrigation users in areas where there is low water availability (users with an announced water allocation of 20% or less). The rebate is capped at $10,000 per annum and can provide up to 100% of fixed water charges on water bills for the period from 1 July 2006 to 30 June 2008. Estimated outlays in 2008-09 primarily represent residual claims expected to be received after 30 June 2008. Relief will also be provided on fixed water charges for two billing periods to eligible flood affected irrigators in the Emerald area.

Department of the Premier and Cabinet

Community groups and charities are given discounted charges for the hire of venues within the South Bank parklands, such as the Suncorp Piazza.

Department of Primary Industries and Fisheries

To assist primary producers who have been detrimentally affected by drought leading to financial difficulty, assistance is provided in the form of a rebate of local government rates. A rebate of 50% is available to eligible applicants.

The scheme commenced in 2006-07 and will conclude on 30 June 2008.

Department of Transport

Transport concessions are provided by the Government in a variety of forms and across a range of activities to ensure access and mobility for Queenslanders who are transport disadvantaged. Eligible categories to receive a concession include Pensioner Concession Card holders, Seniors Card holders, children and secondary and tertiary students. Members of the Taxi Subsidy Scheme also receive concessions on taxi travel. The provision of these concessions is in the form of a subsidy payment to transport operators.

Motor vehicle and boat registration concessions are provided to holders of the Pensioner Concession Card, Queensland Seniors Card and to those receiving a Totally or Permanently Incapacitated Ex-serviceperson Pension. The concession is aimed at improving the access to travel of pensioners and seniors.

The School Transport Assistance Scheme is a program for students whose access to school is disadvantaged by distance or who are from defined low income groups. Assistance is provided towards the cost of travel on bus, rail and/or ferry with allowances for private vehicle transport.

APPENDIX C – STATEMENT OF RISKS AND SENSITIVITY ANALYSIS

INTRODUCTION

The Queensland Budget, like those of other states, is based in part on assumptions made about future elements of uncertainty, both internal and external to the State, which can impact directly on economic and fiscal forecasts. Operating results achieved in recent years reflect the fact that the actual fiscal result achieved depends on the direction of such variables.

Consistent with the *Charter of Social and Fiscal Responsibility*, this section analyses the sensitivity of the estimates to changes in the economic and other assumptions used in developing the Budget and forward estimates. This analysis is provided, as required under the Charter, to enhance the level of transparency and accountability of the Government.

Notwithstanding the risks associated with the Budget, Queensland is well placed to manage adverse impacts. Queensland's strong balance sheet and low tax status means it has substantial capacity to withstand the risks normally associated with any state or territory budget.

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 and risks associated with revenue and expenditure forecasts and, where a direct link can be established, the indicative impact on forecasts resulting from a movement in those variables.

IMPACT OF DROUGHT

The 2008-09 Budget and forward estimates assume a return to average seasonal conditions and a partial recovery from drought. While much of Queensland experienced substantial rainfall over the summer months, close to 60% of the State, predominantly in the south, remains drought declared.

If follow-up rains do not occur, the continuation of drought conditions would have a negative impact on both revenue and expenditure items. For example, reduced levels of rural employment associated with drought would be expected to result in reduced payroll tax revenues, while expenditures on drought assistance programs would be expected to increase.

SENSITIVITY OF EXPENDITURE ESTIMATES AND EXPENDITURE RISKS

Public sector wage costs

Salaries and wages form a large proportion of General Government operating expenses. Increases in salaries and wages are negotiated through enterprise bargaining agreements.

The 2008-09 Budget and forward estimates include funding for wage increases as per the most recent round of enterprise bargaining.

For agreements yet to be reached, funding provisions are consistent with the Government's wages policy.

Interest rates

The General Government sector has a very moderate level of debt with a total debt servicing cost forecast at $539 million in 2008-09.

The current average duration of General Government debt is approximately three years. Accordingly, a one percentage point variation in interest rates would lead to a very modest change in debt servicing costs in 2008-09.

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 and inflation. 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.

While these impacts have been estimated and allowances made in the Budget and forward estimates to accommodate them, the actual outcome may differ from the estimates calculated for the Budget.

Demographic and demand based risks

Unforeseen changes in the size, location and composition of Queensland's population can impact on the demand for goods and services and therefore on the cost of maintaining existing policies. This is particularly evident in the health, education, community services and criminal justice sectors.

State government expenditure is often more closely associated with socio-demographic factors, such as the number of school age children or the number of elderly residents, than with economic activity. However, such changes are unlikely to impact significantly in the short term.

For this reason, the composition, size and location of the State's population are more significant in projecting the State's expenditure needs across the forward estimates period than for the current or budget year.

Unforeseen events

Events will occur during the financial year which will require additional expenditure but could not be foreseen or quantified at the time of the Budget.

Contingency funding for such events is provided in the Budget through the Treasurer's Advance. The Treasurer's Advance is an amount of appropriation within Treasury's Administered Budget as a whole-of-Government provision for potentially emergent costs.

In 2008-09, the Treasurer's Advance allocation is $50 million.

SENSITIVITY OF REVENUE ESTIMATES 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.

Other revenue items are influenced by external variables such as the exchange rate or the performance of financial markets.

Performance of financial markets – investment returns

The Queensland Government has decided to remove investment return volatility from the General Government net operating balance through transferring the Consolidated Fund superannuation and other assets held to meet long term liabilities of the Government to the Queensland Treasury Corporation. See Chapter 1 for further details.

The 2007-08 estimates are based on investment returns to mid-May, which were around 2%. Given the transfer of the assets is not to take place until 1 July 2008, volatility associated with equity markets still remains in 2007-08.

Exchange rate and commodity prices and volumes – royalties estimates

Estimates of mining royalties are sensitive to movements in the Australian dollar-US dollar 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.

A one cent variation in the Australian dollar-US dollar exchange rate would lead to a change in royalty revenue of approximately $43 million in 2008-09.

Also impacting on royalty estimates are volume effects. A large component of Queensland's royalty collections is derived from coal. A 1% variation in export coking and thermal coal volumes would lead to a change in royalty revenue of approximately $32 million.

The 2008-09 Budget assumptions for export coal prices are derived by taking into account various price forecasts made by coal companies. A 1% variation in the price of export coal would lead to a change in royalty revenue of approximately $37 million.

Property values and volumes – transfer duty estimates

Over recent years, high levels of activity in the property market have resulted in strong growth in revenue collections through transfer duty receipts. The increase in duty receipts flowing from the property market activity has a number of elements. The key elements are the value and volume of properties changing hands.

For 2008-09, a moderation of the recent strong growth in the property market is forecast. The underlying assumption is for moderate growth in property prices and reduced volumes, compared to the high levels of activity in the first half of 2007-08.

A 1% variation in the average value of property transactions would change transfer duty collections by approximately $43 million in 2008-09.

A 1% variation in the volume of transactions would change transfer duty revenues by approximately $38 million in 2008-09.

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 the Wage Price Index of 4½% and employment growth of 2½% in 2008-09.

A one percentage point variation in wages growth would change payroll tax collections by approximately $27 million. Similarly, a one percentage point variation in employment growth would change payroll tax collections by $27 million.

Parameters influencing Australian Government GST payments to Queensland

Estimates of Australian Government GST revenue grants to states and territories are dependent on total GST revenue collected, which tends to be closely correlated with the general level of economic activity. The Australian Government has provided estimates of total GST collections in its Budget Papers. In 2008-09, Queensland's Budget will bear the risks of fluctuations in GST revenues and the other components of the package, such as the First Home Owner Grant Scheme, administrative costs associated with the GST and taxes foregone.

The Australian Government's estimate of GST revenue in 2008-09 is based on its forecast of national non-farm GDP growth of 2¾%, household consumption growth of 2¾%, and a 3½% rate of inflation. However, as the GST is imposed on some goods and services but not others, there is no precise link between these parameters and the GST base. As with all other tax estimates, there is a risk of lower collections than estimated by the Australian Government if economic growth and consumption is weaker than expected.

Relative to other states, Queensland has been assessed as having an increasing capacity to raise revenue from transfer duty and mining revenue in recent years. As a result, Queensland's share of GST funding (relativity) has declined and is expected to be below a population share for the first time in 2008-09. As Queensland continues to raise relatively more revenue because of strong resource and property sectors, it is expected that Queensland's relativity and therefore share of GST funding will decline further.

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.

Australian Government grants (Specific Purpose Payments)

The Council of Australian Governments has agreed to reform the system of Specific Purpose Payments (SPPs) to the states. The reform process is intended to improve transparency and accountability, and to reduce the factors which lead to the 'blame game' and sub-optimal outcomes for the Australian community.

While it is anticipated that the new SPP framework will go some way to clarifying the roles and responsibilities of the Australian and state governments respectively, it will not resolve the substantial vertical fiscal imbalance that continues to exist within the Australian Federation.

The Australian Government has provided a commitment that no state will be financially disadvantaged by the reforms to the financial framework. The Australian Government has acknowledged the need to revise the base and escalation factors associated with each of the new SPPs as part of the reform process.

Chapter 8 provides further details of Australian Government funding and SPP reforms.

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 *2006-07 Report on State Finances* – Consolidated Financial Statements (Note 46).

A summary of the State's quantifiable contingent liabilities as at 30 June 2007 is provided below.

Table C.1
Contingent liabilities

	2007 $ million
Nature of contingent liability	
Guarantees and indemnities	6,215
QTC – stock loans	1,186
Other	45
Total	**7,446**

By authority: R. J. Hunt, Government Printer, Queensland-2008

State Budget 2008–09

Budget Strategy and Outlook

Budget Paper No.2

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