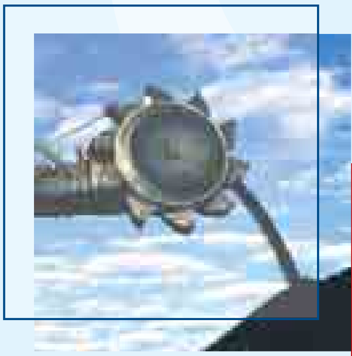
Cyclone Larry response



State Budget 2006–07

Budget Strategy and Outlook

Budget Paper No. 2

Queensland **the Smart State**

Queensland Government

2006-07 State Budget Papers

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Queensland
Government

STATE BUDGET 2006-07

BUDGET STRATEGY AND OUTLOOK

Budget Paper No. 2

TABLE OF CONTENTS

1.	**Budget Strategy, Performance and Outlook**	**1**
	Summary of Key Financial Aggregates	1
	Budget Outcomes 2005-06	2
	Budget 2006-07 and Outyear Projections	5
	Reconciliation of Operating Result	7
	Fiscal Strategy	8
	Indicators of Fiscal Condition	12
2.	**Economic Performance and Outlook**	**13**
	Introduction	13
	External Environment	14
	The Queensland Economy	19
3.	**Economic Strategy**	**37**
	Introduction	37
	Productivity Growth	38
	Fostering Productivity Growth	40
	Energy Reform	48
	Water Reform	51
	Forestry Reform	54
4.	**Budget Priorities and Initiatives**	**57**
	Introduction	57
	Improving Health Care and Strengthening Services to the Community	60
	Growing a Diverse Economy and Creating Jobs	67
	Realising the Smart State Through Education, Skills and Innovation	69
	Managing Urban Growth and Building Queensland’s Regions	74
	Protecting Our Children and Enhancing Community Safety	80
	Protecting the Environment for a Sustainable Future	85
	Delivering Responsive Government	87
5.	**Revenue**	**89**
	Introduction	89
	Revenue by Operating Statement Category	90
	Taxation Revenue	92
	Queensland’s Competitive Tax Status	102
	Grants and Subsidies	104
	Sales of Goods and Services	108
	Interest Income	110
	Other Revenue	111

6. Expenses 115

Introduction 115
Expenses by Operating Statement Category 116
Details of Expenses 118
Operating Expenses by Purpose 121
Departmental Expenses 124

7. Balance Sheet and Cash Flows 129

Introduction 129
Balance Sheet 129
Cash Flows 137
Reconciliation of Operating Cash Flows to the Operating Statement 144

8. Intergovernmental Financial Relations 145

Commonwealth-State Financial Relations 146
Institutional and Governance Arrangements 147
Australian Government Funding to States 150
Queensland's Share of Commonwealth Funding 154
Current Specific Purpose Payment Negotiations 160
State-Local Government Relations 163

9. Government Finance Statistics 167

Introduction 167
General Government Sector 167
Public Non-Financial Corporations Sector 167
Uniform Presentation Framework Financial Information 169
Reconciliation of GFS Net Operating Balance to Accounting Surplus 179
General Government Time Series 180
Other General Government GFS Data 181
Background and Interpretation of Government Finance Statistics 185
Sector Classification 186
Reporting Entities 187

Appendix A – Tax Expenditure Statement 191

Appendix B – Concessions Statement 199

Appendix C – Statement of Risks and Sensitivity Analysis 205

1. BUDGET STRATEGY, PERFORMANCE AND OUTLOOK

KEY POINTS

- **In 2005-06, the General Government sector is forecast to have a net operating surplus of $2.853 billion and a cash surplus of $3.381 billion.**
- **For 2006-07, there is a budgeted General Government net operating surplus of $245 million and a cash deficit of $796 million.**
- **The State's capital program in 2006-07 is budgeted to be $10.136 billion, a 23% increase on estimated 2005-06 outlays.**
- **The State's net worth is forecast to increase across the forward estimates to $107.361 billion by 2009-10.**

This chapter discusses:

- the summary financial aggregates of the 2006-07 Budget
- 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 2004-05, estimated actual outcome information for 2005-06, forecasts for 2006-07 and projections for the outyears.

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

	2004-05 Actual $ million	2005-06[2] Est. Act. $ million	2006-07 Budget $ million	2007-08 Projected $ million	2008-09 Projected $ million	2009-10 Projected $ million
Revenue	27,609	29,586	29,070	30,271	31,242	32,456
Expenses	23,683	26,733	28,825	30,024	31,019	32,354
Net operating balance	3,926	2,853	245	247	224	102
Cash surplus/(deficit)	4,640	3,381	(796)	(786)	(809)	(1,169)
Capital purchases	2,843	2,914	3,958	4,016	3,961	4,152
Borrowings	6	(842)	1,800	2,686	2,762	3,334
Net worth	96,433	96,388	99,032	101,720	104,516	107,361

Notes:
1. Numbers may not add due to rounding.
2. Australian Equivalents to International Financial Reporting Standards were adopted from 1 July 2005. A decline in net worth of $3.792 billion was recorded on adoption of these new standards.

BUDGET OUTCOMES 2005-06

Key financial aggregates

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

	2005-06 Budget $ million	2005-06 SFES $ million	2005-06 Est. Act. $ million
Revenue	26,604	26,931	29,586
Expenses	25,670	26,214	26,733
Net operating balance	934	718	2,853
Cash surplus/(deficit)	98	(39)	3,381
Capital purchases	3,616	3,800	2,914
Borrowings	827	440	(842)
Net worth	85,344	94,836	96,388

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

Operating balance

The operating balance expected for 2005-06 is a surplus of $2.853 billion. The estimated 2005-06 surplus reflects the continuing strength of the economy flowing through to taxation and related revenues and investment returns above the long-term assumed rate of return.

At the time of the 2005-06 Budget, a reduction in taxation revenues was expected, primarily due to an anticipated moderation in activity in the property market together with a number of tax reduction initiatives including the abolition of debits tax, the implementation of a land tax relief package and the first tranche of stamp duty abolitions. The expected decline in transfer duties did not eventuate with other taxation revenues also performing more strongly than expected. This has led to upward revisions to revenues at both the time of the *Special Fiscal and Economic Statement* (SFES) and in the context of the 2006-07 Budget.

Estimates of royalty revenue have also increased reflecting higher commodity prices and growth in export volumes.

With over $22 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 *Special Fiscal and Economic Statement* estimates for investment returns were based on the expected long-term average return for the portfolio of 7.5%, the 2005-06 estimated actual is now based on a forecast rate of return of 16%.

The underlying operating balance

Investment market volatility impacts on the Queensland Budget in 2005-06 more in Government Finance Statistics (GFS) terms than it does for other states. This is in part due to differences in the way Queensland's public sector superannuation arrangements are structured. Queensland's financial assets set aside to meet future employer 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.

With the introduction of internationally harmonised accounting standards in 2005-06, the GFS methodology for calculating the Government's defined benefits obligations and associated costs has been revised. With this change in accounting standards the Government is seen to bear the interest risk associated with defined benefit obligations regardless of whether or not superannuation assets and liabilities are included in the General Government sector. As a result, the General Government sector will include interest on Superannuation Fund surpluses/deficits.

This has eliminated the significant differences that previously existed between the states in accounting for superannuation. There is now a consistent approach across the states with the impact of investment market volatility in Queensland being contained to the current year and representing the difference between the actuary's assumptions on investment returns and actual returns achieved during the year.

If Queensland's superannuation arrangements were structured on the same basis as generally applies in other states, the General Government sector underlying operating balance for 2005-06 would be a surplus of approximately $1.721 billion. The Budget and outyear results are also outlined in Table 1.3 and are calculated on a consistent basis with that used in the other states. This table illustrates that Queensland expects to report underlying operating surpluses in the Budget year and each of the outyears that are virtually the same as the reported operating balance.

Table 1.3 Calculation of underlying operating balance					
	2005-06 Est. Act. $ million	2006-07 Budget $ million	2007-08 Projection $ million	2008-09 Projection $ million	2009-10 Projection $ million
Operating Balance	2,853	245	247	224	102
Less Investment Earnings[1]	2,240	1,231	1,304	1,376	1,447
Plus Superannuation Interest Expense[2]	502	563	593	623	651
Plus Net Return on Fund Surplus[3]	606	660	703	752	796
Underlying Balance	**1,721**	**237**	**240**	**224**	**102**

Notes:
1. Represents investment earnings (net of fees and charges) on financial assets held to meet future defined benefit and defined contribution superannuation liabilities.
2. Represents current superannuation interest expense calculated on the basis of gross liability less the current level of member fund assets.
3. Represents interest on the defined benefit fund surplus (i.e. the extent to which the assets exceed the liabilities for defined benefit superannuation assuming all defined benefit investments are transferred to the superannuation trust). The inclusion of this item is the result of a revision to the Australian Bureau of Statistics' methodology for calculating the Government's defined benefit obligations and associated costs.

Cash surplus

The General Government sector is estimated to achieve a cash surplus in 2005-06 of $3.381 billion.

At the time of the *Special Fiscal and Economic Statement,* a cash deficit of $39 million was expected in 2005-06 for the General Government sector. Factors contributing to the improvement in the estimated surplus include the cash impact of the upward revision to investment returns from 7.5% to 16% and higher than expected levels of receipts from taxation revenues.

The underlying strength of the General Government cash flow for 2005-06 is demonstrated by the absence of borrowings and the repayment of debt during the course of the year.

Capital purchases

General Government investment in capital (purchases of non-financial assets) in 2005-06 is estimated to be $2.914 billion. The estimated capital spend in 2005-06 is below the estimates in the *Special Fiscal and Economic Statement*, reflecting capacity constraints in the construction and civil engineering sector resulting in a modest level of capital deferrals. However, spending by Government-owned corporations has been higher than expected at the time of the 2005-06 Budget and the *Special Fiscal and Economic Statement*. This has resulted in a total capital program for 2005-06, including capital grants, of $8.222 billion, $241 million higher than expected at the time of the 2005-06 Budget. For further details see Budget Paper No. 3 – Capital Statement.

Borrowing

Despite estimated capital acquisitions of $2.914 billion in 2005-06, the strong cash position has meant the General Government sector has not needed to borrow. During the course of 2005-06 the Government was able to repay debt in the General Government sector, including the debt owed by Queensland Health.

Net worth

The net worth, or equity, of the State is the amount by which the State's assets exceed its liabilities. This is the value of the investment held on behalf of the people of Queensland by public sector instrumentalities. The net worth of the General Government sector at 30 June 2006 is estimated at $96.388 billion. This is $1.552 billion higher than net worth forecast at the time of the *Special Fiscal and Economic Statement*, reflecting an improved operating position and an increase in the value of the State's equity holding in Government-owned corporations.

BUDGET 2006-07 AND OUTYEAR PROJECTIONS

Key financial aggregates

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

	2006-07 Budget $ million	2007-08 Projected $ million	2008-09 Projected $ million	2009-10 Projected $ million
Revenue	29,070	30,271	31,242	32,456
Expenses	28,825	30,024	31,019	32,354
Net operating balance	245	247	224	102
Cash surplus/(deficit)	(796)	(786)	(809)	(1,169)
Capital purchases	3,958	4,016	3,961	4,152
Borrowings	1,800	2,686	2,762	3,334
Net worth	99,032	101,720	104,516	107,361

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 $245 million in 2006-07.

The forecast budget surpluses are expected to remain at around this level for 2007-08 and 2008-09 and moderate in 2009-10. Key factors leading to the expected reduction in the Budget surplus in 2009-10 are:

- financing and other recurrent costs associated with the significant increase in General Government capital investment
- implementation of the *Health Action Plan* and increased expenditure commitments in key service delivery areas including child safety and disability services
- lower taxation revenue growth, reflecting the implementation of the Government's schedule of tax abolitions.

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

Cash surplus and capital purchases

A cash deficit of $796 million is expected in 2006-07 for the General Government sector. The cash result is forecast to remain around this level in 2007-08 and 2008-09 with a cash deficit of $1.169 billion projected in 2009-10.

Apart from the cash impact of smaller recurrent operating surpluses relative to 2005-06, as outlined above, the major factor contributing to lower cash results is the significant planned capital expansion.

Total General Government capital purchases of $3.958 billion are budgeted for 2006-07, 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 2006-07 capital outlays.

Over the period 2006-07 to 2009-10, net additions (i.e. after deducting depreciation and asset sales) to the General Government capital stock of approximately $7 billion are planned. This substantial investment in additional capital will impact on the GFS cash result.

Borrowing

Borrowing for capital purposes is consistent with the Government's fiscal principles. Net borrowings of $1.8 billion are budgeted for 2006-07 in support of $3.958 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.

Over the Budget and forward estimates period, total General Government borrowings of $10.582 billion are planned. Of this amount, some $1.918 billion (including $318 million in 2006-07) is to fund equity injections to Queensland's Government-owned corporations to support expansion of the State's electricity, rail and ports infrastructure.

Net worth

State net worth is projected to increase from the 2005-06 estimated actual by $2.644 billion to $99.032 billion at 30 June 2007. Net worth is also expected to increase in all outyears. More information on the State's net worth, assets and liabilities is provided in Chapter 7.

RECONCILIATION OF OPERATING BALANCE

Table 1.5 provides a reconciliation of the General Government sector operating balance for 2005-06 and 2006-07 published in the *Special Fiscal and Economic Statement* and current Budget estimates.

Table 1.5
Reconciliation of 2005-06 and 2006-07 operating balance to SFES estimates[1]

	2005-06 Est. Act. $ million	2006-07 Budget $ million
SFES Operating Balance	**718**	**175**
Expenditure Policy Decisions[2]	(140)	(754)
Revenue Policy Decisions[3]	..	(31)
Other Significant Variations Impacting on Operating Balance		
- Investment Returns and Interest Earnings[4]	1,538	127
- General Revenue Grants from the Australian Government[5]	22	77
- Taxation and Royalty Revisions[6]	697	716
- Other Parameter Adjustments[7]	18	(65)
2006-07 Budget	**2,853**	**245**

Notes:
1. Denotes impact on Operating Balance. Numbers may not add due to rounding.
2. Reflects expenditure policy decisions taken during 2005-06 and in the Budget context. Major initiatives in 2005-06 relate to increased funding for non-government schools as part of the Tomorrow's Schools program, funding for Cyclone Larry restoration costs and funding for water initiatives to combat drought in South East Queensland. For details relating to key decisions made in the context of the 2006-07 Budget, see Chapter 4.
3. Reflects reductions in payroll tax, land tax and other tax initiatives – see Chapter 5.
4. Reflects revisions of estimated rate of return on investments from 7.5% to 16% in 2005-06 and earnings on cash balances. Includes earnings on all investments, not only those held for employee liabilities.
5. Includes outcomes of Commonwealth Grants Commission 2006 Update, population changes and most recent estimates of GST revenue included in the 2006-07 Australian Government Budget as well as final payments under National Competition Policy and changes to Specific Purpose Payments.
6. Includes adjustments to Government-owned corporations net flows.
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 2005-06.

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 1.1, 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 the 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, sound financial operations, modest debt levels and dynamic economic base as reasons underpinning the State's AAA credit rating.

Box 1.1 The Fiscal Principles of the Queensland Government		
Principle	**Achievement Budgeted for 2006-07**	**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: $1,927 Average of other states and territories: $2,272
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 of $245 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: $1.8 billion General Government total purchases of non-financial assets: $3.958 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: $18.489 billion
Building the State's net worth The Government will maintain and seek to increase total State net worth.	✓	Net worth to increase to $99.032 billion

Competitive tax environment

One of the Queensland Government's key social and fiscal objectives is to maintain a competitive tax environment which 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 2006-07 are estimated at $1,927, compared with an estimated $2,272 for the average of the other states.
- Commonwealth Grants Commission data indicates that Queensland's taxation effort ratio is 85.8% compared with the standard (100%).
- Latest Australian Bureau of Statistics data shows Queensland's tax collections are 4.4% of GSP compared to 4.7% for the average of the other states.

The 2006-07 Budget includes an increase in the payroll tax threshold and the land tax tax-free threshold for resident individuals. 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 sources.

The 2006-07 Budget and forward estimates continues the implementation of the *Health Action Plan* with funding to Queensland Health more than doubling Queensland Health's Budget in the 10 years to 2008-09.

The Budget also provides for significant increases in expenditure in the areas of child safety, education and disability services.

More information on these initiatives is provided in Chapter 4.

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.

As announced in the *Special Fiscal and Economic Statement*, the Queensland Government established an independent Service Delivery and Performance Commission to ensure government services are effectively meeting the needs of the community. One aspect of the Commission will involve improving the provision of services in Queensland to ensure duplication and inefficiencies are minimised.

Sustainable borrowings for capital investment

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

Investment in core infrastructure is a key feature of the 2006-07 Budget with a record capital program of $10.136 billion. This represents an increase of 23% over the estimated 2005-06 outlays.

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 2006-07 capital program will be funded from a mix of recurrent sources, cash balances and borrowings. Details of the State capital program for 2006-07 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.

In 2005-06 investment returns are estimated at 16%.

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 that 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 2006-07 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 and additions of 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

	2004-05 Actual	2005-06 Est. Act.	2006-07 Budget	Other States[1] 2006-07
Service Delivery Capacity				
Non-financial assets/population ($)	18,851	19,102	19,722	13,308
Purchases of non-financial assets/ non-financial assets (%)	3.8	3.8	4.9	4.4
Financial Sustainability				
Operating balance/total expenses (%)	16.6	10.7	0.8	0.6
Debt servicing cost/total revenue (%)	0.7	0.6	0.8	1.6
Financial Capacity				
Total borrowings/total assets (%)	2.3	1.6	3.0	6.1
Total liabilities/total assets (%)	18.9	22.5	23.8	27.5
Net debt/GSP (%)	(12.1)	(12.9)	(11.5)	0.8
Taxation/GSP (%)	4.4	4.4	4.4	4.6

Note:
1. Weighted average of all states and territories, excluding Queensland.

Source: State Budget Papers for VIC, WA and NT. Mid-Year Reviews/Budget Updates for other states and territories.

2. ECONOMIC PERFORMANCE AND OUTLOOK

KEY POINTS

- **The Queensland economy is estimated to grow by 3½% in 2005-06, well above growth of 2½% nationally. This represents the tenth consecutive year that the State has outperformed economic growth in the rest of Australia.**
- **The composition of domestic economic growth is estimated to change in 2005-06, as investments in additional productive capacity see the business and public sectors replace households as the main driver of economic growth.**
- **Relatively strong growth in domestic demand is expected to see growth in imports continue to exceed exports growth, resulting in a detraction in growth by the trade sector for the fifth year in a row.**
- **Economic growth in Queensland is forecast to strengthen to 4¼% in 2006-07. This is largely due to an anticipated strengthening of exports growth to a six-year high of 4¾%, as strong global economic growth benefits coal and other mineral exports.**
- **Positive labour market conditions and growth in real incomes are forecast to support growth in consumer spending in 2006-07, while further increases in private and public sector investment are forecast to continue to expand the State's infrastructure base.**
- **Job gains are expected to be broad-based in the current and next financial year, as ongoing strength in the domestic economy is complemented by an improvement in trade sector performance. Employment growth is forecast to remain relatively strong at 3% in 2005-06 and 2½% in 2006-07, representing rates of growth well above forecasts of national jobs growth.**
- **With employment growth forecast to match growth in the State's labour force in 2005-06 and 2006-07, the year-average unemployment rate is forecast to remain near a three-decade low of around 5% in both years, representing a rate slightly below the national unemployment rate (5¼%).**

INTRODUCTION

This chapter presents the economic framework within which the 2006-07 Budget has been produced. It examines recent developments in Queensland's external economic environment, reviews the performance and outlook for the Queensland economy and highlights any risks and opportunities to economic growth during the forecast horizon. The chapter details estimated actuals and forecasts for the major components of State economic activity for 2005-06 and 2006-07 respectively (see Table 2.2) and presents projections for key economic variables over the medium-term to 2009-10 (see Table 2.3).

EXTERNAL ENVIRONMENT

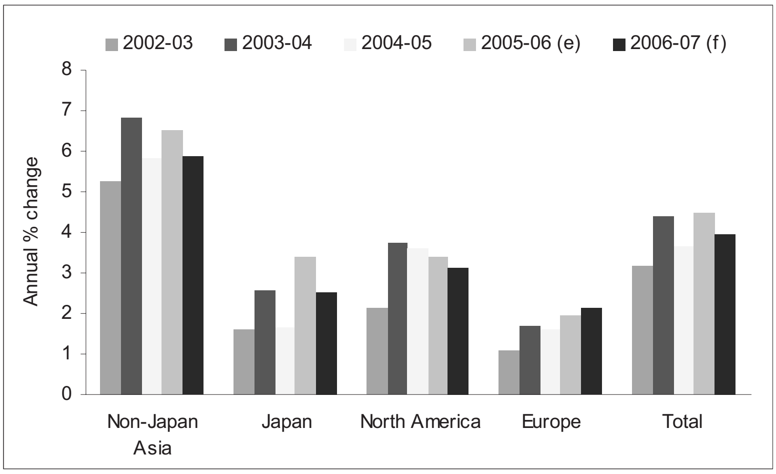
Current conditions and outlook

International

After easing in 2004-05, Queensland's major trading partner growth is estimated to strengthen to 4½% in 2005-06, to match the recent peak in growth in 2003-04 (see Chart 2.1). Stronger growth in 2005-06 reflects a continued economic recovery in Japan (the State's major trading partner), as well as ongoing strength in non-Japan Asia, in particular China and India. However, stronger global growth has also coincided with less accommodative monetary policy stances across major central banks, resulting in higher long-term interest rates. As a result, Queensland's major trading partner growth is forecast to ease slightly to 4% in 2006-07.

Despite growth in the United States (US) moderating in December quarter 2005, the initial estimate for growth in gross domestic product in March quarter 2006 showed a considerable improvement. The strength of the economy has been evident from a continuing increase in the rate of capacity utilisation and a recovery in corporate profits. Labour market conditions in the US have also improved substantially, with the unemployment rate falling below 5% since late 2005. The measured tightening in monetary policy in the US, which has seen the federal funds rate increase by 400 basis points to 5.0% in two years, has kept core inflation low. Subtracting growth in food and energy prices, consumer price inflation has remained only slightly above 2% per annum since mid-2005. Despite core inflation in the US appearing to accelerate somewhat in April 2006, its impact on inflation expectations has so far been benign. As a result, most analysts expect that the monetary tightening cycle in the US may end later this year.

Chart 2.1
Economic growth in Queensland's major trading partners



(e) 2005-06 is an estimate, (f) 2006-07 is a forecast.
Source: Queensland Treasury and Consensus Economics.

Looking further forward, there may be potential for the US economic outlook to be restrained by the ongoing deterioration in its current account deficit (CAD). Following a brief period of improvement in 2003, the CAD in the US surpassed 5% of gross domestic product in March quarter 2004 and reached 7% in December quarter 2005. With the CAD in the US absorbing 75% of the world's current account surpluses, any adjustment in the US$ or interest rates would have implications for the global economy. Not only has the US$ depreciated somewhat against the Yen and Euro since late 2005, 10-year US Treasury bond yields have also risen by 50 basis points over the same period, surpassing 5% since April 2006. Higher long-term US interest rates may see world economic growth return toward long-run average rates beyond 2006-07, particularly if accompanied by any further depreciation of the US$, which would erode the profitability of export sectors in the newly industrialised and emerging economies in Asia.

Following the recession in the early 1990s, the Japanese economy has undergone several cyclical upswings and downturns. However, the current expansion has proved more sustainable than previous ones, with corporate profits continuing to improve and the lending attitude of private banks becoming less conservative. The improved business environment has been conducive to a higher level of employment, which in turn has led to a recovery in consumer spending. Another positive development since late 2005 has been the end of consumer price deflation. Core consumer prices (the consumer price index excluding fresh food) in Japan have now recorded an annual rise since November 2005, after falling consistently over the previous six years.

In response to a stronger domestic economy and consumer price inflation, the Bank of Japan (BoJ) announced in March 2006 that it would revert back to the overnight call rate (an official interest rate) for its monetary target and reduce its excess reserves held by the financial sector. This announcement officially ended the BoJ's 'quantitative easing' era. During this period, the BoJ provided ample supply of liquidity to the financial sector and enabled banks to restructure their balance sheets and reduce the size of non-performing debts. However, this policy led to a large increase in Japanese investment in the US Treasury bond market. Therefore, the reduction of excess liquidity by the BoJ will place upward pressure not only on long-term interest rates in Japan, but also those in the US, which is anticipated to see global economic growth ease in the medium term.

Defying widespread speculation that the Chinese economy would undergo a cyclical downturn, economic growth in China accelerated in March quarter 2006, rising at an annual rate of 10.2%. Driven by a rising trade surplus, foreign exchange reserves in China have increased rapidly in recent years, which in turn has put upward pressure on the value of the Chinese Yuan. However, given that the profit margin of the export sector in China is likely to be squeezed further if the Yuan rises substantially, most analysts suggest the Chinese government will be reluctant to submit to pressure to any significant revaluation of the Yuan. As a result, the performance of China and its export sector should continue to be positive through 2006-07.

Economic growth in the Euro-zone continued to be subdued in 2005. After rising 2.0% in 2004, the combined gross domestic product of the EU-12 countries rose only 1.3% in 2005, constrained by sluggish economic performance in Germany and Italy. However, recent business and consumer surveys indicate a marked improvement in economic sentiment in the Euro-zone. This turnaround has been led by a surge in business confidence in Germany, with the IFO Business Climate Index rising at an annual rate of 13.9% in April 2006 and reaching its highest level in 15 years. A more positive outlook for the Euro-zone in 2006 and 2007, along with concerns over inflationary pressures and excessive credit growth, has resulted in the European Central Bank raising interest rates twice since December 2005.

National

The Australian economy continued to benefit from the global commodity price boom in 2005. With the terms of trade rising a further 11.6% in 2005, gross domestic income (gross domestic product adjusted for the terms of trade) in Australia increased by 4.7% over the year, following 5.1% growth in 2004. However, with growing signs that the domestic economy is reaching full capacity, the rise in domestic demand induced by higher incomes has increasingly been fulfilled by imports. As a result, strong growth in incomes has translated into lower growth in national domestic production. Gross domestic product in Australia is estimated to increase by only 2½% in 2005-06, with net exports detracting one percentage point from overall economic growth over the year.

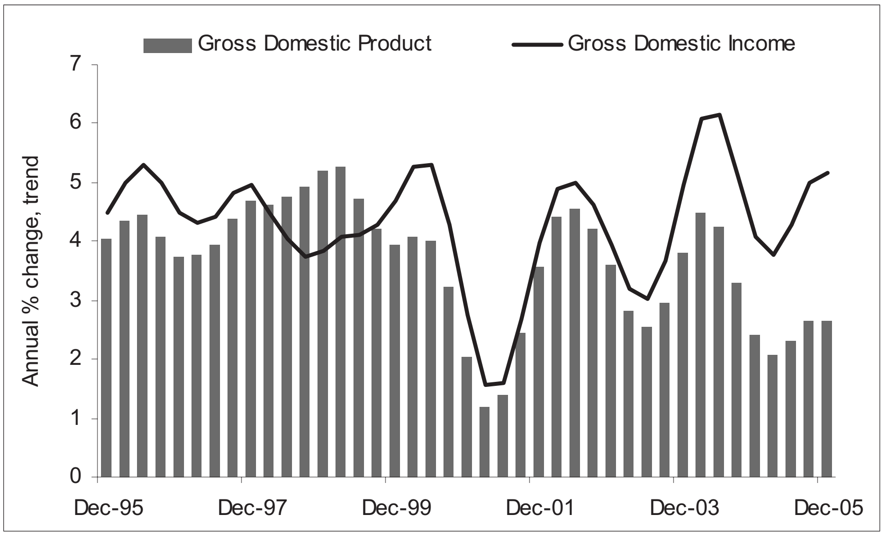
Higher domestic incomes, as well as increasing demand for mineral products, saw business investment in Australia increase by an estimated 14% in 2005-06, the fourth consecutive year of double-digit growth. Investment in other buildings and structures as well as machinery and equipment increased by an estimated 14% and 15% respectively over the year. In contrast, growth in private consumption moderated in 2005-06, with evidence that consumers began to consolidate household budgets due to a significant increase in household debt following the housing boom.

A strong domestic economy also translated into solid jobs growth during the year, albeit at a more moderate rate than in 2004-05. The number of persons employed in Australia rose by an estimated 2% in 2005-06, compared with 3.0% growth in 2004-05. However, with employment growth matching labour force growth, the year-average unemployment rate is estimated to remain largely unchanged at 5¼% in 2005-06.

Growth in domestic economic activity is forecast to ease in 2006-07, largely due to a moderation in business investment and public final demand growth. Despite higher oil prices, household debt and interest rates, growth in consumer spending is forecast to strengthen slightly, largely reflecting the expansionary impact of income tax cuts and changes to family tax benefit arrangements announced by the Australian Government. As a result, the overall easing in growth in domestic activity is expected to be modest in 2006-07. Further, the moderation in domestic activity is forecast to be more than offset by a significant improvement in exports growth, driven by strong global demand and expansions to transport infrastructure and trade-related production capacity. As a result, overall national economic growth is forecast to strengthen to 3¼% in 2006-07.

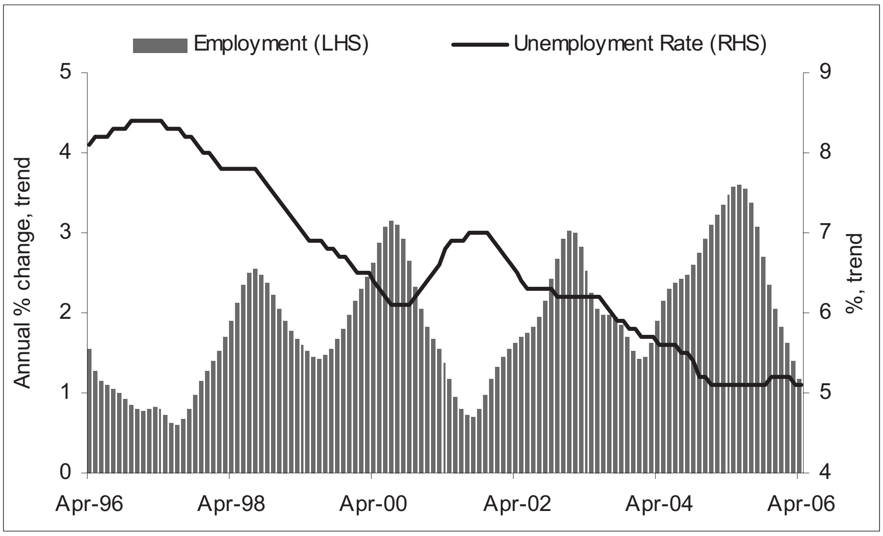
Ongoing growth in the labour-intensive domestic sector is forecast to increase employment by a further 1% in 2006-07. However, with the economy operating at near full capacity, the unemployment rate is forecast to remain at around 5¼% in 2006-07.

Chart 2.2
Gross domestic product and gross domestic income, Australia



Source: ABS 5206.0.

Chart 2.3
Employment growth and unemployment rate, Australia



Source: ABS 6202.0.

External assumptions

As a small open economy, Queensland's economic performance is related to the outlook for both the national and international economies. Therefore, forecasts for economic growth in Queensland are based on assumptions about the external environment, including the national economy, trading partners and financial markets (see Table 2.1).

- Economic growth in Queensland's major trading partners is expected to moderate in 2006-07, albeit from very high growth in 2005-06. This easing is due to an anticipated slowing in growth in countries such as the US, Japan and China.
- Inflation in Queensland's major trading partners is forecast to be 2¼% in 2006-07, slightly lower than that in 2005-06.
- As outlined in the Australian Budget delivered on 9 May 2006, the Australian Government's economic forecasts, projections and changes to personal income taxation and family benefit arrangements have been adopted as the basis for national economic performance over the forecast period.
- With underlying consumer price inflation remaining within the Reserve Bank of Australia's 2-3% target band, the official cash rate is assumed to remain largely unchanged over the forecast horizon.
- After depreciating to below US71c in late March 2006, the A$ traded at a higher level towards the end of 2005-06. The A$ is assumed to be largely unchanged from its current rate over the forecast period, in both US$ and trade-weighted terms.

- Forecasts of rural production and exports are based on an assumption of a return towards average seasonal conditions in Queensland in 2006-07 and beyond, taking into account the damage caused by Cyclone Larry in March 2006.

A discussion of the risks to these assumptions is contained later in this chapter.

Table 2.1
External assumptions

	Outcomes 2003-04 %	Outcomes 2004-05 %	Est. Act. 2005-06 %	Forecast 2006-07 %
International assumptions				
Major trading partner economic growth	4.4	3.7	4½	4
Major trading partner inflation	1.6	2.1	2½	2¼
National assumptions				
Economic growth	4.0	2.5	2½	3¼
Inflation	2.4	2.4	3	2¾

Source: Queensland Treasury, ABS 5206.0, ABS 6401.0, Australian Treasury and Consensus Forecasts.

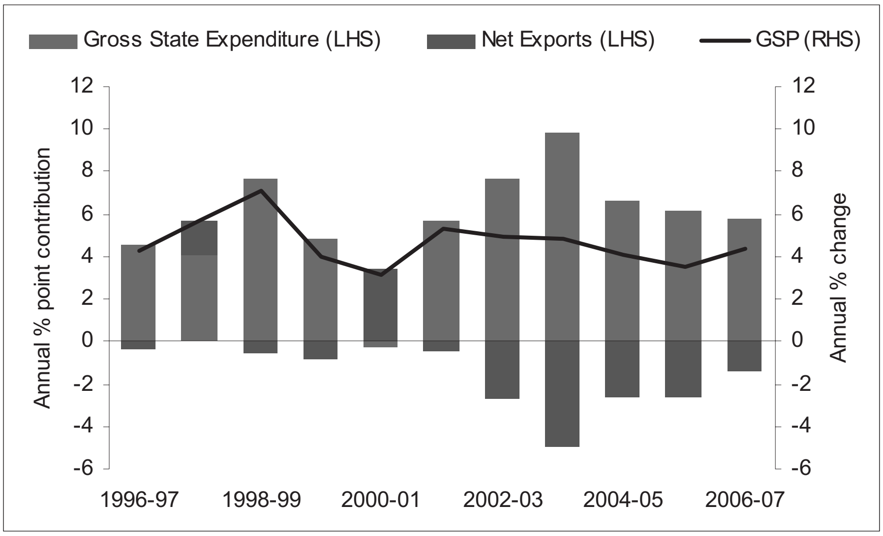
THE QUEENSLAND ECONOMY

Overall economic growth

Ongoing strength in the domestic sector is expected to drive overall economic activity in 2005-06. The Queensland economy is estimated to grow by 3½%, well above national growth of 2½% and representing the tenth consecutive year that the State has outperformed economic growth in the rest of Australia. However, the composition of domestic growth is estimated to change, with business and public sector investment expected to replace households as the main driver of economic growth in 2005-06.

Driven by strong growth in employment and wages, consumer spending is expected to grow at a solid rate of 4½% in 2005-06, but represents a growth rate below that experienced during the peak of the housing cycle. In contrast, business investment is forecast to surge by 16½%, as strong global and domestic demand encourage expansions to productive capacity in the service and trade sectors. Public investment is also expected to rise significantly, supporting population growth and expansions to transport, energy and other infrastructure. However, strong domestic activity is expected to see growth in imports (7½%) exceed exports growth (1%), resulting in a detraction from growth from the trade sector for the fifth year in a row in 2005-06.

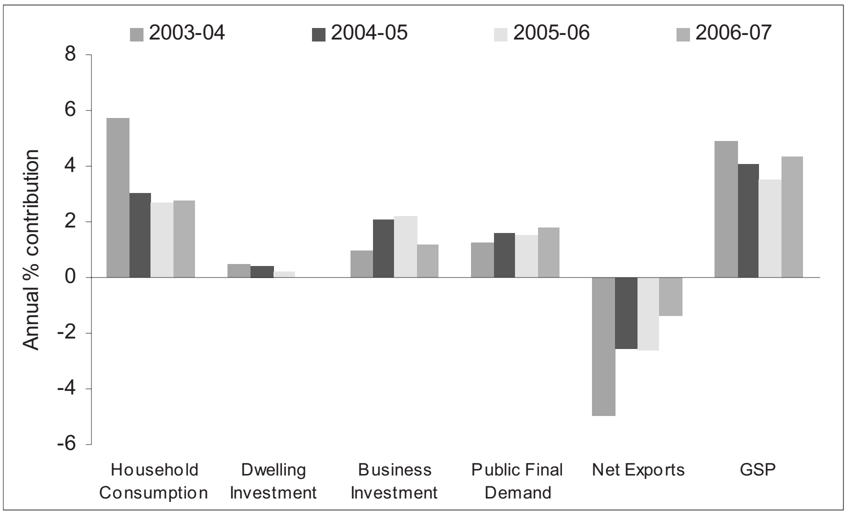
Chart 2.4
Queensland economic growth[1]



Note:
1. CVM, 2003-04 reference year. 2005-06 is an estimated actual, 2006-07 is a forecast.
Source: Queensland Treasury.

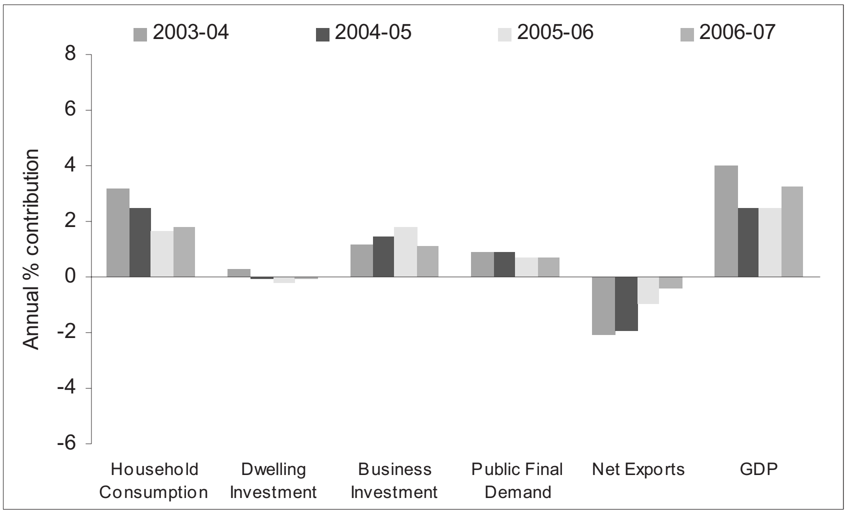
Economic growth is forecast to strengthen to 4¼% in 2006-07, with a slight easing in growth in domestic activity to be more than offset by an improvement in the trade sector. Further growth in wages as well as income tax cuts are anticipated to partially counter the effects of slightly higher interest rates and petrol prices on disposable incomes in 2006-07. As a result, consumer spending is forecast to continue to grow at a solid rate. In comparison, growth in business investment, while forecast to remain strong at 8% in 2006-07, is anticipated to moderate from the very high growth rates achieved in previous years. Exports growth is expected to strengthen to a six-year high of 4¾% in 2006-07, as greater export capacity and global economic growth benefit coal and base metal exports.

Chart 2.5
Contribution to growth in Queensland's gross state product[1]



Note:
1. CVM, 2003-04 reference year. 2005-06 is an estimated actual, 2006-07 is a forecast.
Source: Queensland Treasury.

Chart 2.6
Contribution to growth in Australia's gross domestic product[1]



Note:
1. CVM, 2003-04 reference year. 2005-06 is an estimated actual, 2006-07 is a forecast.
Source: Queensland Treasury and Australian Treasury.

Table 2.2
State and National Economic Forecasts[1]

	Outcomes 2003-04 %	Outcomes 2004-05 %	Est. Actual 2005-06 %	Forecast 2006-07 %
Queensland forecasts[2]				
Domestic production				
Household consumption	9.8	5.0	4½	4½
Private investment[3,4]	9.5	8.6	9½	4½
Dwellings	5.8	4.7	2½	0
Business investment[4, 5]	8.8	17.9	16½	8
Other buildings and structures[4]	1.2	9.6	18	8¾
Machinery and equipment[4]	14.0	23.0	15¾	7½
Private final demand[4]	9.7	6.0	6	4½
Public final demand[4]	5.9	7.3	6½	7½
Gross state expenditure[6]	9.5	6.2	5½	5
Exports of goods and services	0.9	3.4	1	4¾
Imports of goods and services	15.5	9.6	7½	6¾
Net exports[7]	-5.0	-2.6	-2½	-1½
Gross state product	4.9	4.1	3½	4¼
Other state economic measures				
Population	2.3	2.0	2	2
Inflation	2.9	2.6	3	2¾
Wage Price Index	3.6	3.8	4½	4¼
Employment (labour force survey)	3.3	5.6	3	2½
Unemployment rate (%, year-average)	6.2	4.9	5	5
Labour force	2.3	4.1	3	2½
Participation rate	64.8	65.8	66¼	66¼
National forecasts[2]				
Domestic production				
Household consumption	5.5	4.2	2¾	3
Private investment	na	na	na	na
Dwellings	4.0	-1.5	-3	-1
Business investment[4,5]	na	11.7	14	8
Other buildings and structures[4]	na	7.7	14	6
Machinery and equipment[4]	na	15.4	15	9
Private final demand[4]	na	4.5	4¼	3¾
Public final demand[4]	na	4.3	3¼	3¼
Gross national expenditure[6]	6.3	4.1	4	3½
Exports of goods and services	1.4	2.5	2	7
Imports of goods and services	12.7	12.0	6	7
Net exports[7]	-2.1	-2.0	-1	- ½
Gross domestic product	4.0	2.5	2½	3¼
Other national economic measures				
Population	1.1	1.1	1¼	1¼
Inflation	2.4	2.4	3	2¾
Wage Price Index	3.6	3.8	4	4
Employment (labour force survey)	1.8	3.0	2	1
Unemployment rate (%, year-average)	5.8	5.3	5¼	5¼
Labour force	1.3	2.4	2	1
Participation rate	63.5	64.0	64½	64¼

Notes:
1. Unless otherwise stated, all figures are annual % changes. Decimal point figures indicate an actual outcome.
   na - Indicates not available.
2. CVM, 2003-04 reference year.
3. Private investment includes livestock, intangible fixed assets and ownership transfer costs.
4. Excluding private sector net purchases of second-hand public sector assets.
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.

Source: Queensland Treasury, Australian Treasury and ABS 5206.0.

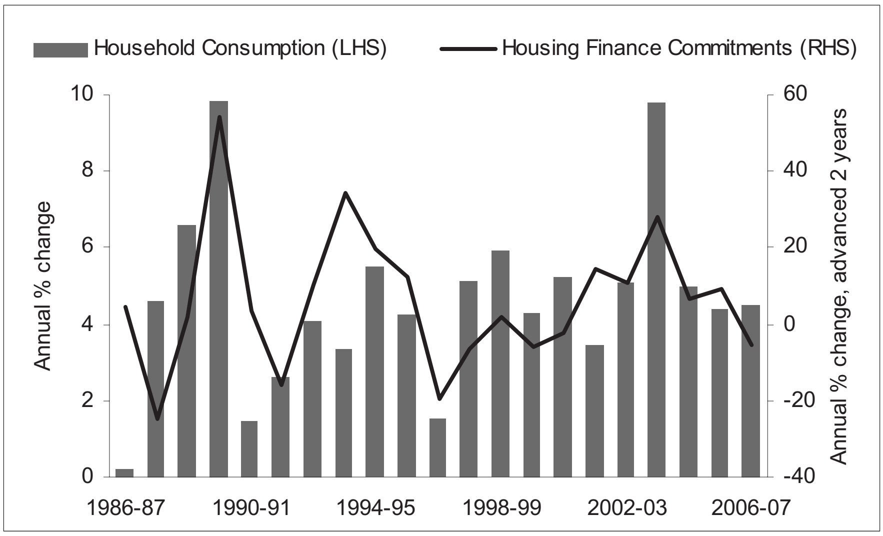
Household consumption

Consumer spending continued to be one of the main contributors to economic growth over the first half of 2005-06, supported by growth in employment and very strong growth in employee earnings. However, growth in consumption is expected to remain at more sustainable rates for the remainder of 2005-06 and 2006-07, compared with the very high growth achieved during the housing boom (see Chart 2.7).

Household consumption growth is estimated to ease slightly to 4½% in 2005-06, following 5.0% growth recorded in 2004-05. Part of the moderation in growth can be explained by the peaking in the housing cycle, which has seen growth in spending on furnishings, household equipment and related household services moderate so far in 2005-06. Similarly, the rise in petrol prices, particularly in September quarter 2005, coincided with a fall in spending related to motor vehicles and transport services in the first half of the current financial year.

Offsetting these factors, the rapid increase in the terms of trade (export prices relative to import prices) has benefited incomes and spending in 2005-06. Higher commodity prices directly benefited employee wages in related industries, but also improved stock market gains and in turn consumer sentiment and wealth more generally. This coincided with strong growth in discretionary areas of spending, such as hospitality, recreation and other services during the first half of the year. With global competition lowering the price of imported retail products, growth in retail spending also remained strong in the first three quarters of 2005-06.

Chart 2.7
Household consumption[1] and housing finance commitments, Queensland



Note:
1. CVM, 2003-04 reference year. 2005-06 is an estimated actual, 2006-07 is a forecast.
Source: Queensland Treasury and ABS 5609.0.

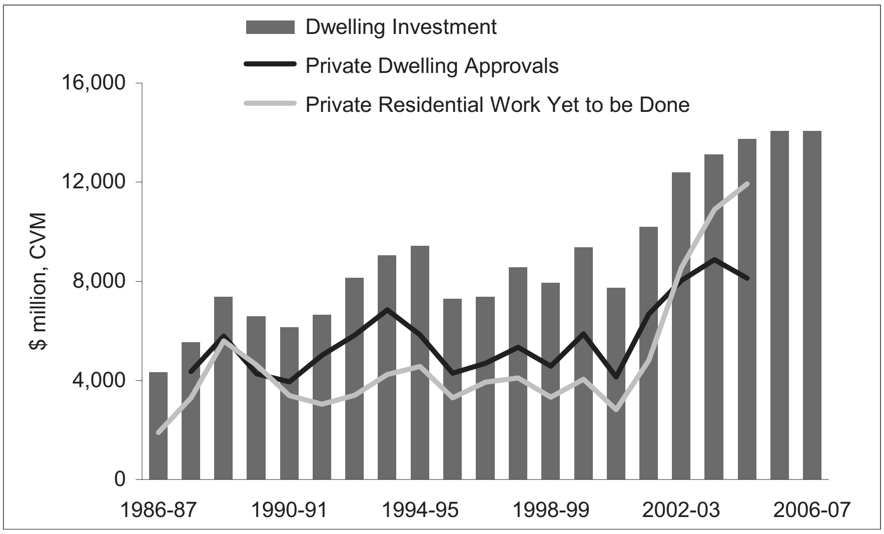
Slightly higher interest rates, combined with higher household debt and petrol prices, are expected to have some adverse affect on discretionary incomes next financial year. However, these factors are expected to be offset by the positive effects on overall incomes from ongoing growth in real wages and employment, as well as income tax cuts, in 2006-07. As a result, consumer spending is forecast to remain around its long-run average growth rate of 4½% next financial year.

Dwelling investment

Following a surge in dwelling investment since early 2000, Queensland has defied a downward trend nationally and continued to record an increase in total housing investment over the past year and a half. As a result, dwelling investment is anticipated to rise a further 2½% over 2005-06 as a whole.

While housing investment is anticipated to continue to rise in 2005-06, the composition of growth is expected to change. After driving growth in total dwelling investment over the past four years, new home construction began to decline over the first half of 2005-06. However, the rate of decline in new construction has been modest, reflecting the fact that the volume of approved construction work still to be completed has reached historical highs (see Chart 2.8). In addition to a large amount of residential work in the pipeline, monthly private house approvals have largely stabilised around their long-run level in the first ten months of 2005-06.

Chart 2.8
Dwelling investment[1], dwelling approvals and work yet to be done[2], Queensland



Note:
1. CVM, 2003-04 reference year. 2005-06 is an estimated actual, 2006-07 is a forecast.
2. Work yet to be done is deflated using ABS 6416.0 House Price Index: Project Homes: Brisbane.
Source: Queensland Treasury, ABS 8371.0, 8752.0 and 6416.0.

In comparison, renovation activity rose by almost 10% in annual terms in the first half of 2005-06, with homeowners continuing to utilise increased home equity to improve their properties. Ongoing growth in alterations and addition activity is expected to more than offset subdued new construction for the remainder of the year, seeing overall housing investment increase in 2005-06.

After rising by an estimated 80% in the five years to 2005-06, the overall volume of dwelling investment in Queensland is forecast to remain largely unchanged in 2006-07. This levelling out in dwelling investment does not reflect any anticipated deterioration in the economic fundamentals underpinning demand and supply in the housing sector, but rather reflects the historically high level of housing investment reached following the previous housing boom.

Despite an increase in official interest rates in early May 2006, a backlog of work yet to be done as well as several major apartment projects committed for next year should see any decline in new construction from historical highs remain modest in 2006-07. Further, renovation activity, strong population growth and robust labour market conditions should also support a high level of housing investment in 2006-07.

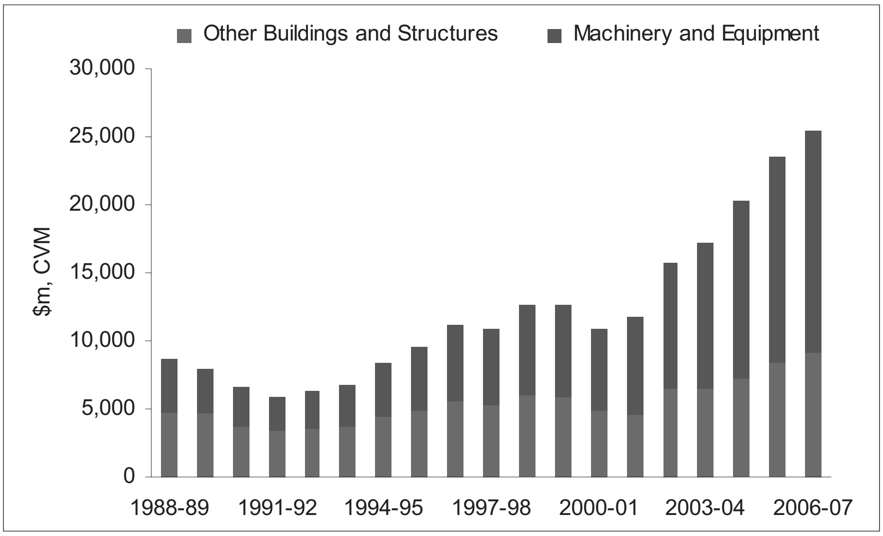
Business investment

Business investment in Queensland entered its fifth consecutive year of expansion in 2005-06 and is estimated to surge 16½% over the year. The current business investment cycle has been supported by generally strong domestic and global economic conditions, low borrowing costs and rising rates of capacity utilisation.

Non-dwelling construction is estimated to increase by 18% in 2005-06. Strong global demand for Queensland's resource exports and high world commodity prices have encouraged strong growth in engineering construction related to mining and other trade-related industries. Further, solid growth in the domestic economy, rising household incomes and population growth have encouraged high levels of non-residential construction in sectors such as education, offices, shops and transport. Machinery and equipment investment, which comprises the largest part of business investment, is estimated to record a rise of 15¾% in 2005-06, with solid domestic demand and a relatively high A$ exchange rate encouraging business spending on imported capital items.

Business investment is forecast to rise a further 8% in 2006-07, to surpass $25 billion next financial year. Reflecting continued efforts to expand capacity in the domestic and export sectors, non-dwelling construction is forecast to increase a further 8¾% in 2006-07, while machinery and equipment investment is forecast to grow by 7½% next financial year.

Chart 2.9
Business investment, Queensland[1]



Note:
1. CVM, 2003-04 reference year. 2005-06 is an estimated actual, 2006-07 is a forecast. Excluding private sector net purchases of second-hand public sector assets.

Source: Queensland Treasury.

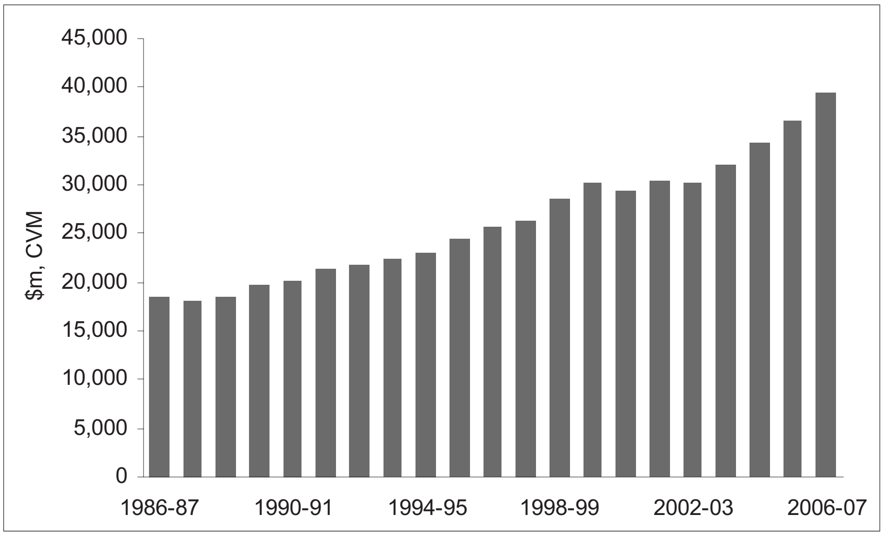
Public final demand

Following solid increases in the previous two years, growth in total public final demand in Queensland is forecast to grow by 6½% in 2005-06 and 7½% in 2006-07, representing rates of growth well above the long-run average.

Strong growth in public final demand in the current and upcoming financial year partly reflects infrastructure spending initiatives associated with the State Government's *South East Queensland Infrastructure Plan and Program* (SEQIPP), which aims to provide the necessary infrastructure to manage an expected increase in South East Queensland's population of more than one million persons over the next 20 years. Under SEQIPP, investment of more than $2 billion is planned for water, transport, energy, education and health infrastructure in 2006-07. In addition to SEQIPP, the Queensland Government's *Blueprint for the Bush* aims to ensure appropriate infrastructure and service provision for regional and rural Queensland.

Queensland's Government-owned corporations are also set to continue to increase their capital programs, in response to growing demands on the State's infrastructure base. In particular, a record $1.7 billion in expenditure is planned by ENERGEX and Ergon Energy, as well as major investments in rail and ports infrastructure to meet world demand for the State's commodity exports.

Chart 2.10
Public final demand, Queensland[1]



Note:
1. CVM, 2003-04 reference year. 2005-06 is an estimated actual, 2006-07 is a forecast. Excluding private sector net purchases of second-hand public sector assets.

Source: Queensland Treasury.

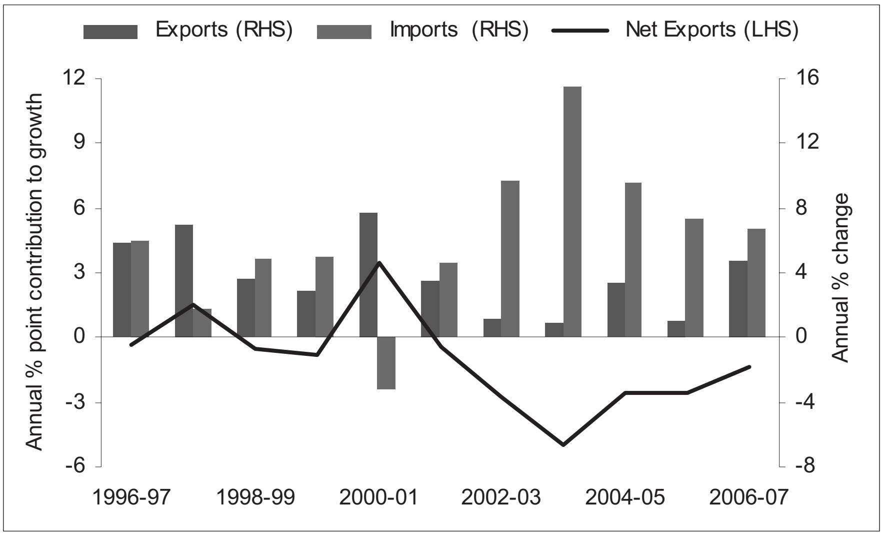
Net exports

With growth in imports continuing to exceed exports growth, the trade sector is expected to detract from overall economic growth for the fifth consecutive year in 2005-06. Net exports are expected to detract 2½ percentage points from economic growth, similar to the 2.6 percentage point detraction recorded in 2004-05.

Exports are estimated to record modest growth of 1% in 2005-06, after rising by 3.4% in 2004-05. Base metals (such as aluminium, copper and zinc) are expected to record the strongest growth among mineral commodities in 2005-06, benefiting from expansions in mining and refining operations in the state and strong growth in global industrial production and resource demand. In comparison, growth in coal exports is estimated to be subdued in 2005-06. This partly reflects the fact that coal exports had already surged to a record high in 2004-05, as well as transitory factors affecting the supply and demand for coal in 2005-06. These included a disruption to capacity at one of the State's major ports and evidence that overseas customers were relying on stocks in anticipation of lower negotiated prices late in the financial year.

Declines in other commodity exports are also expected to partly offset the growth in mineral exports. Beef exports are estimated to fall marginally in 2005-06, as some improvement in growing conditions allow herds to begin to be rebuilt. The adverse affect of rainfall during harvesting season is estimated to lower sugar exports in 2005-06.

Chart 2.11
Exports and imports, Queensland[1]



Note:
1. CVM, 2003-04 reference year. 2005-06 is an estimated actual, 2006-07 is a forecast.
Source: Queensland Treasury.

Finally, interstate tourism exports are estimated to decline in 2005-06. The number of interstate visitors to Queensland fell over the first half of the financial year, with the Commonwealth Games in Victoria also expected to moderate interstate tourism in March quarter 2006. This trend in interstate tourism also follows the greater impact of higher petrol prices on car travel relative to air travel. This, combined with a relatively higher A$ exchange rate and strong growth in household incomes, has seen residents in the rest of Australia substitute interstate holidays with overseas travel.

In contrast to subdued growth in exports, imports grew an estimated 7½% in 2005-06. A strong domestic economy and a relatively high A$ encouraged household and business spending on imported consumer durables and capital items. Furthermore, the high exchange rate, combined with strong growth in employee earnings, encouraged Queenslanders to travel overseas, increasing imports of overseas tourism services.

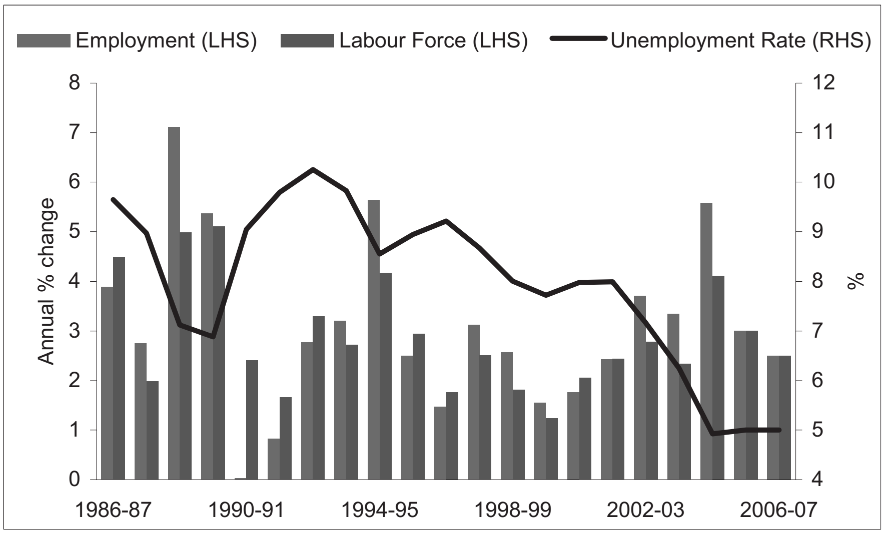
The net performance of the State's trade sector is forecast to improve in 2006-07, with the detraction from overall economic growth of net exports anticipated to narrow to 1½ percentage points. Exports growth is forecast to strengthen to a six-year high of 4¾% in 2006-07. Stronger growth in coal exports is anticipated to help drive overall growth in exports, reflecting an improvement in the economic outlook for Queensland's major coal export destinations (such as Japan, Korea and China), as well as new coal mining facilities and expansions of coal transportation networks. Further, interstate tourism exports are also anticipated to rebound from the previous year. However, the impact of Cyclone Larry on sugar cane plantations in the Innisfail area is forecast to result in a further reduction in sugar export volumes in 2006-07.

In comparison, imports growth is forecast to moderate only slightly, to 6¾% in 2006-07, reflecting ongoing solid rates of growth in consumer and business spending.

Employment

After reaching a 10-year high of 5.6% in 2004-05, employment growth is estimated to ease to a more sustainable rate of 3% in 2005-06, reflecting some easing in growth in the labour-intensive sectors of the domestic economy this year. However, this rate of jobs growth remains slightly above the average rate of growth over the past ten years and represents the creation of around 55,000 jobs during the year.

Chart 2.12
Employment growth, labour force growth and unemployment rate, Queensland[1]



Note:
1. Year-average, 2005-06 is an estimated actual, 2006-07 is a forecast.
Sources: Queensland Treasury and ABS 6202.0.

Employment growth was broad-based in 2005-06. High levels of consumer spending and housing activity have seen the construction sector, retail trade and property and business services generate significant annual job gains over the first three quarters of 2005-06. Employment in these industries collectively rose by more than 40,000 persons. Similarly, strong global demand for the State's resource exports has seen mining employment rise by more than 50%, or nearly 13,000 persons, in annual terms for the same period. Offsetting these factors, drier than normal conditions in recent years has seen employment in agriculture and related food manufacturing continue to decline, falling by around 18,000 persons in annual terms in the first three quarters of 2005-06.

The labour force participation rate is expected to edge higher to reach an historical peak of 66¼% in 2005-06, as ongoing strength in the domestic economy and signs of higher living costs (such as petrol prices and rent) induce persons to enter the labour force. The rise in the participation rate, along with population growth, is estimated to result in a 3% increase in the size of the State's labour force in 2005-06. With jobs growth forecast to ease to a pace in line with labour force growth, the unemployment rate is estimated to remain largely unchanged at a year-average rate of 5% in 2005-06.

Employment growth is forecast to ease to 2½% in 2006-07, with growth in economic activity shifting further away from the labour-intensive domestic sector toward the more capital-intensive trade sector. Despite an anticipated levelling out in the labour force participation rate at its current historic high in 2006-07, strong population growth is forecast to underpin a 2½% rise in the labour force in the next financial year. With labour force growth matching anticipated jobs growth, the year-average unemployment rate is forecast to remain at around a three-decade low of 5% in 2006-07.

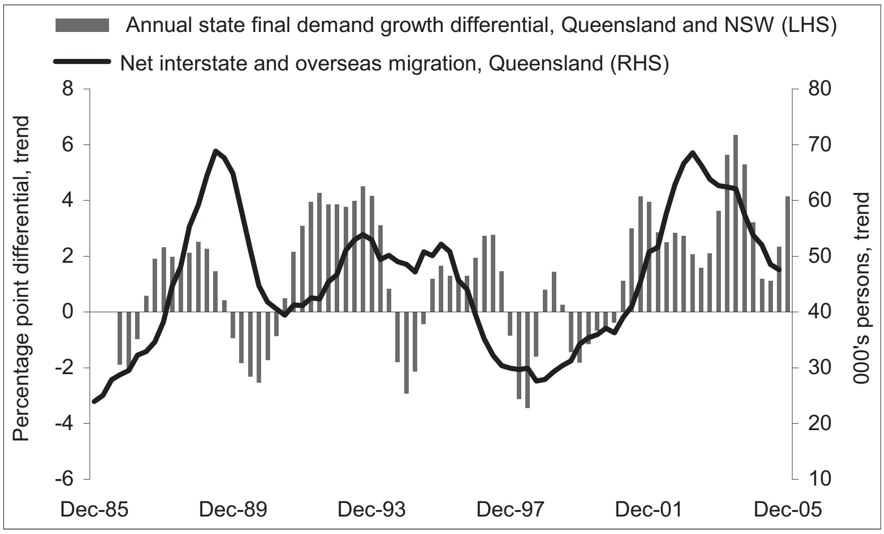
Population

Queensland's population growth is anticipated to largely stabilise at around 2% in the current and next financial year, after easing from 2.4% in 2002-03 to 2.0% in 2004-05. As a consequence of this steady growth, the State's population is anticipated to increase by approximately 150,000 persons over the next two years, reaching a total of above 4.1 million persons by the end of 2006-07, to represent around one fifth of the national population.

The easing in population growth in recent years largely reflects a decline in net inflow of interstate migrants following the passing of the peak of the housing boom, which initially encouraged migrants from southern States to migrate north due to lower house prices. The net inflow of interstate migrants peaked at more than 39,000 persons in 2002-03, before easing to below 32,000 persons in 2004-05 (see Chart 2.13).

However, net inflows of interstate and overseas migration are expected to stabilise at current levels and remain high relative to other States, reflecting long-established factors such as the State's stronger economic growth, a competitive tax environment, preferable climate and quality lifestyle. As a result, population growth in Queensland is forecast to remain around double that in the rest of Australia in 2005-06 and 2006-07.

Chart 2.13
Domestic economic growth differential and migration, Queensland



Source: ABS 3101.0 and 5206.0.

Wages

Queensland is expected to record strong wages growth in 2005-06, with the Wage Price Index (WPI) expected to increase by 4½%. This strong growth reflects tight labour market conditions, characterised by low unemployment, as well as strong growth in the terms of trade and private investment, which has allowed solid wage increases for employees in resource, construction and export-related sectors. Wages are estimated to have risen at a faster rate than the overall level of prices in 2005-06, implying a rise in real earnings during the year. This improvement in real incomes in Queensland is estimated to in turn support growth in consumer spending over the year.

Growth in the WPI is forecast to remain strong in 2006-07, rising a further 4¼%. With forecast wages growth remaining above anticipated inflation for the next year, Queensland employees are anticipated to continue to benefit from rising real wages in 2006-07.

Inflation

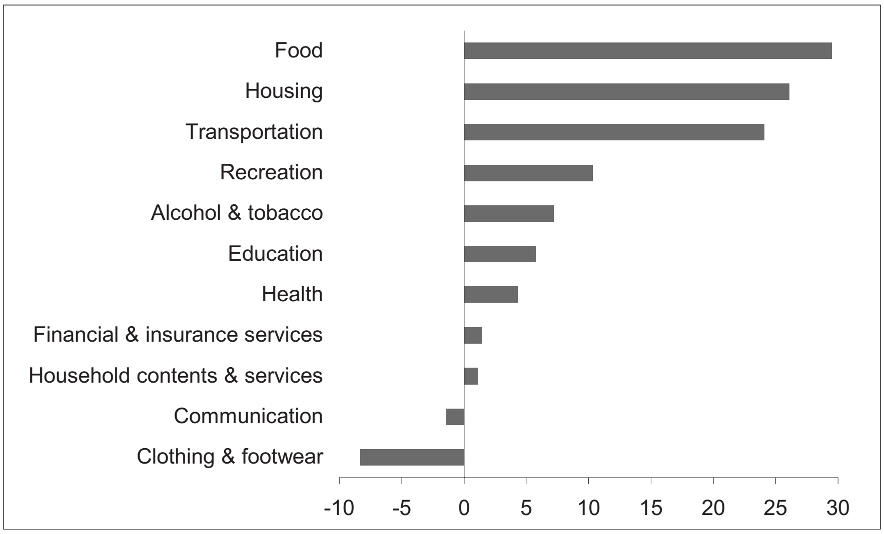
Consumer price index (CPI) inflation is forecast to strengthen slightly to 3% in 2005-06, following an inflation rate of 2.6% in 2004-05, but remain in line with estimated national price inflation of 3%. Both domestic and international factors are estimated to contribute to higher prices in Queensland in 2005-06.

In terms of domestic factors, food and housing costs contributed more than half of the increase in the Brisbane CPI over the first three quarters of 2005-06 (see Chart 2.14). Increases in housing-related costs largely reflected increases in rents over the year. Fruit and vegetable prices also rose over the first three quarters of 2005-06 and are estimated to have risen further in the last quarter of the financial year, due to the destruction of fruit supplies caused by Cyclone Larry in North Queensland.

The main external influence placing upward pressure on consumer prices in 2005-06 continued to be fuel prices, which rose sharply in the first and last quarter of the financial year. In contrast, strong global competition continued to see price declines on many retail items during the year, such as clothing and footwear.

Consumer price inflation in Queensland is forecast to ease slightly to 2¾% in 2006-07, in line with the Australian Government's forecast of inflation nationally. Slightly higher interest rates should place downward pressure on consumer price inflation in 2006-07. Further, ongoing global competition is expected to maintain stable prices on many imported retail and consumer items next year. However, these dampening influences are anticipated to be partly offset by several upstream prices influences next year. In particular, the increase in petrol prices in the last quarter of 2005-06 is anticipated to flow on to prices in other sectors of the economy. In addition, increasing business costs, as evidenced by strong growth in the producer price index in early 2006, are also likely to be partly passed on to higher consumer prices next year.

Chart 2.14
Components of consumer price inflation, Queensland
(% of total change in CPI, three quarters to March quarter 2006)



Source: ABS 6401.0.

Risks and opportunities

As a small open economy, national and global developments have a key influence on sectors of the Queensland economy. As a result, the expected rate of economic growth in major trading partners, future movements in world commodity and oil prices, as well as the exchange rate, represent key external risks and opportunities to Queensland economic growth. Domestic factors, such as the housing cycle, inflation and seasonal conditions may also influence forecast economic growth in Queensland.

Major trading partner growth

Growth in major Asian trading partners represents a key opportunity for the Queensland economy and exports in particular in 2006-07. Japan, South Korea, China and India represent Queensland's four largest export destinations, together accounting for more than half of the State's overseas commodity exports. Growth in these economies has outperformed market expectations in the first three months of 2006. If growth in these economies proves higher than expected over the remainder of 2006 and into 2007, this may result in stronger economic growth in Queensland than currently anticipated.

In particular, stronger than expected global growth may encourage the commencement of a greater number of projects in the mineral and energy sector, such as gas pipelines and coal mining facilities, than currently anticipated. This would in turn result in higher than forecast growth in business investment and exports.

However, solid global economic growth has also resulted in major central banks joining the US Federal Reserve Board in raising official interest rates. The European Central Bank raised interest rates in March 2006 for the second time in three months, while the Bank of Japan ended its 'quantitative easing policy' in March. If official interest rates globally rise at a faster rate than expected in 2006, business and consumer spending both domestically and in Queensland's trading partners would be affected.

Commodity prices

Higher world commodity prices have boosted Queensland's export earnings and related business investment. Higher prices for resource exports have also allowed strong wage increases in the trade sector and provided a source of wealth to households more generally through stockmarket gains. While concerns regarding the potential impact of higher US interest rates on global economic growth caused some correction in the world price of base metals in mid-May 2006, world commodity prices still remain well above levels of previous years. However, if world economic growth eases at a faster than expected pace in 2006-07, or global resource supply significantly increases, commodity prices may continue to ease in the next financial year. Any significant easing in world resource prices may in turn cause business investment and consumer spending, as well as employment related to these sectors, to be lower than currently anticipated.

Exchange rate

The A$ has fluctuated over the past year, in response to changes in global economic conditions, commodity prices and monetary policy settings. The A$ depreciated from around US77c in early September 2005 to US74c in early March 2006, following a narrowing in interest rate differentials between the US and Australia. After the Bank of Japan ended its ‘quantitative easing’ policy in mid March 2006, the A$ depreciated a further 5% against the US$ and Yen, to around US70c and 82Yen by late March 2006. The A$ again appreciated to around US78c in early-May, reflecting the financial market’s response to a surge in world prices for base metals, before falling back toward US75c in response to some correction in metal prices in late-May.

Given Queensland forecasts are based on the A$ exchange rate remaining largely unchanged, future movements in the A$ may influence the performance of the trade sector and the economy more generally. Any significant appreciation in the A$ may adversely impact on economic growth in 2006-07, by making imported goods more attractive while reducing A$ returns to exporters, while any depreciation of the A$ may potentially improve trade sector performance next year.

Oil prices

An ongoing external risk to the economy is the possibility of higher oil prices. After peaking at nearly $1.30 per litre in September quarter 2005, higher petrol prices had a clear impact on certain components of consumer spending (motor vehicles and transport services) during the first half of 2005-06. While petrol prices eased to below $1.00 in December quarter 2005, they again rose to above $1.30 per litre in the final quarter of 2005-06. If the global oil supply is disrupted by natural disasters or political unrest in major oil producing countries in 2006-07, oil prices are likely to rise further. This would in turn adversely affect global economic growth and consumer spending in Queensland.

Inflation

A key domestic risk to the Queensland and national economies relates to the possibility of further increases in official interest rates. The Reserve Bank of Australia raised the cash rate to 5.75% in May 2006, sighting several sources of inflationary pressure. These included strong growth in incomes due to rising terms of trade, capacity constraints, higher oil prices and signs of stronger growth in consumer credit. If any of these sources of inflationary pressure, in addition to the expansionary impact of the income tax cuts announced in the Australian Budget, cause further increases in the official interest rate, overall growth in economic activity and employment is likely to be lower than that currently forecast for 2006-07. In addition, if capacity constraints manifest themselves in terms of skill shortages or higher labour costs, this would also have direct implications for employment growth in Queensland in the next financial year.

Housing cycle

Another domestic risk concerns the rate of moderation in housing activity in Queensland. Underpinned by stronger population growth and rising levels of renovation activity, the State's overall housing activity has continued to grow, in contrast to the downward trend nationally. House prices in Queensland have also proved more resilient than expected, with the ABS measuring established house prices in Brisbane to have increased by 2.8% over the year to March quarter 2006. However, any further rise in interest rates, or a fall in house prices, may adversely affect home construction and consumer spending.

Seasonal conditions

Agricultural production and exports in Queensland in 2006-07 are forecast to be supported by a gradual improvement in seasonal conditions toward more normal patterns. However, there remains the risk of drier weather conditions or natural disasters, such as the recent cyclone in the Innisfail region, which may delay and prolong any sustainable recovery in rural production and related exports.

Medium-term outlook

Queensland Treasury provides projections for key economic parameters for the three years following the immediate forecast period in the annual Budget and in the Mid Year Fiscal and Economic Review. The projections for the years 2007-08 to 2009-10, shown in Table 2.3, 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 fiscal policy and the monetary policy stance of the Reserve Bank of Australia. These policies aim to maintain a stable budget position and a low inflation environment to foster sustainable economic growth. The projections incorporate the anticipated effects of the 2006-07 Australian Budget released on 9 May 2006. Following exceptional growth in 2005-06, economic activity in Queensland's major trading partners is forecast to return toward its long-run average growth rate over the projection period, as major overseas economies continue to raise interest rates toward more neutral levels.

Economic growth in Queensland is anticipated to return towards its average growth rate over the past decade, around 4½% per annum, projected for the period to 2009-10. Jobs growth of 2½% per annum over this period is projected to outpace population growth of 1¾% per annum. This implies a moderate increase in labour force participation and the maintenance of a relatively low unemployment rate over the medium term.

Table 2.3
Economic parameters/projections[1]
(annual % change)

	Outcome 2004-05 %	Est.Act. 2005-06 %	Forecast 2006-07 %	Projections[2] 2007-08 to 2009-10 %
Queensland				
Gross state product[3]	4.1	3½	4¼	4½
Employment	5.6	3	2½	2½
Inflation	2.6	3	2¾	2½
Wage Price Index	3.8	4½	4¼	4
Population	2.0	2	2	1¾
Australia				
Gross domestic product[3, 4]	2.5	2½	3¼	3¼
Employment[4]	3.0	2	1	1¼
Inflation	2.4	3	2¾	2½
Wage Price Index[4]	3.8	4	4	4
Population	1.1	1¼	1¼	1¼

Notes:
1. Decimal point figures indicate an actual outcome.
2. Average annual percentage change over the period.
3. CVM, 2003-04 reference year.
4. The Australian Government forecasts 3½% growth in gross domestic product in 2007-08, easing to 3¼% in 2008-09 and 2009-10 respectively. The Australian Government forecasts 1½% employment growth in 2007-08, easing to 1¼% in 2008-09 and 2009-10 respectively. The Australian Government forecasts 3¾% wage growth in 2007-08, rising to 4% in 2008-09 and 2009-10 respectively.

Source: Queensland Treasury and Australian Treasury.

3. ECONOMIC STRATEGY

KEY POINTS

- **Queensland's economic strategy continues to target the key driver of economic growth – productivity growth – through investing in infrastructure, human capital and innovation.**
- **Economic growth is determined by population, participation and productivity. All three factors have grown strongly over the last decade.**
- **The key policies forming the Government's economic strategy are the maintenance of a sound fiscal and economic environment as a foundation for growth, investments in skills and innovation to help drive productivity and infrastructure provision and sectoral reforms.**
- **Energy reform continues with the introduction of full retail competition from 1 July 2007 and the restructuring of the electricity sector in response to the Energy Review.**
- **The Queensland Future Growth Fund will operate by investing the proceeds of the sale of ENERGEX Retail, the contestable elements of Ergon Retail and the Allgas Network. The proceeds from the sale, anticipated at more than $1 billion, will be invested in new initiatives including new technologies to mitigate climate change, particularly clean coal technology, new water infrastructure to help Queensland deal with the effects of climate change and new infrastructure to promote Queensland's continued strong economic development.**
- **The Government is continuing to reform the State's water sector with the creation of the Queensland Water Commission being a key initiative.**

INTRODUCTION

The aim of the Queensland Government's economic strategy is to ensure strong economic and productivity growth. This underpins one of the Government's key economic and social policy priorities outlined in its *Charter of Social and Fiscal Responsibility,* which is to enhance the quality of life for all Queenslanders.

Queensland's economic strategy targets the key driver of economic growth – productivity growth – by investing in infrastructure, human capital and fostering innovation through the Smart State Strategy.

Economic growth is determined by population growth, economic participation and productivity growth. Queensland has experienced strong population and participation growth in recent years. These trends are discussed in more detail in Chapter 2. The economic impact of Queensland's population growth was discussed in detail in Chapter 3 of Budget Paper No. 2 of the 2004-05 Budget.

Productivity growth will generate high rates of sustainable economic growth and provide employment and improved living standards for Queenslanders.

This chapter discusses the Queensland Government's economic policies that foster productivity growth, with a special focus on infrastructure policies and sectoral reforms.

PRODUCTIVITY GROWTH

Productivity growth is the most important determinant of sustainable long-term economic growth and living standards. Productivity growth means that more goods and services can be produced from a given level of inputs.

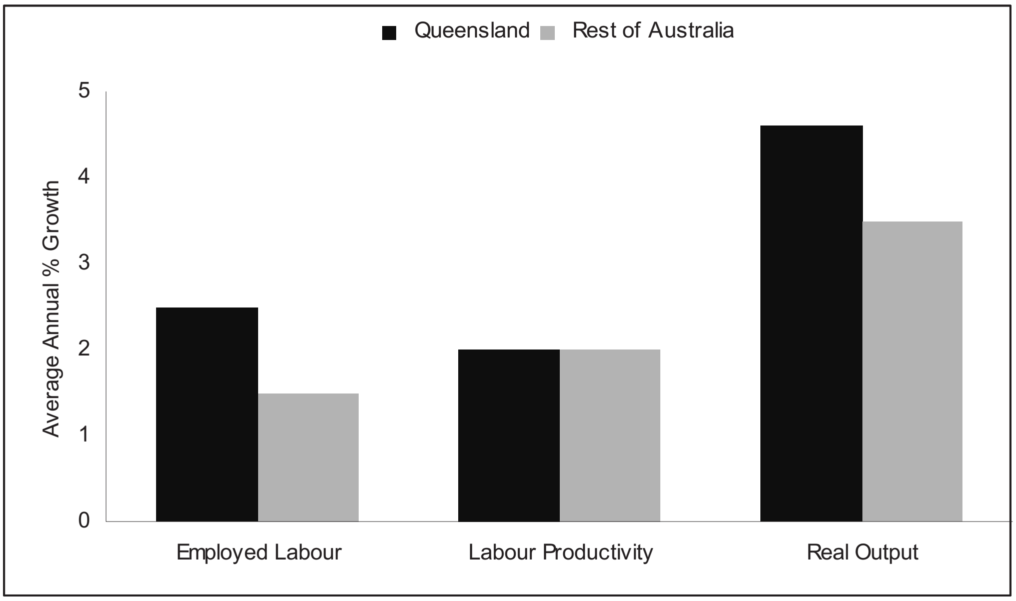
Productivity growth generally results from increases in capital inputs (physical capital and human capital), efficiency improvements (making better use of existing capital and labour inputs and resources given current technology) and technological progress (driven by innovation).

Productivity growth can be passed onto employees in the form of higher real wages, to consumers in the form of lower prices, or to employers and businesses in the form of lower inputs costs and increased profitability. In each case, productivity growth ultimately results in higher real incomes and improved standards of living.

Productivity growth and particularly higher real incomes play an important role in maintaining and improving the Government's long-term revenue base, providing capacity to enhance the delivery of a wide range of goods and services throughout Queensland such as health and aged care, education, transport, crime prevention, cultural activities, regional development and environmental protection.

Chart 3.1 shows the relationship between productivity growth and sustainable long-term economic growth. Over the past 10 years, Queensland has generated an average annual growth rate of about 4.6%, with labour productivity growth accounting for about two-fifths of this growth and employment growth the remainder.

Chart 3.1
Employed labour, labour productivity and real output, 1994-95 to 2004-05



Source: Queensland State Accounts, ABS 6202.0 unpublished data.

The growth in employment has occurred despite increases in labour force participation rates to record levels (Chart 3.2).

Chart 3.2
Labour force participation rate[1] and employment rate[2]

Source: ABS 6202.0, Queensland Treasury, Australian Treasury.
(e) estimate
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.

FOSTERING PRODUCTIVITY GROWTH

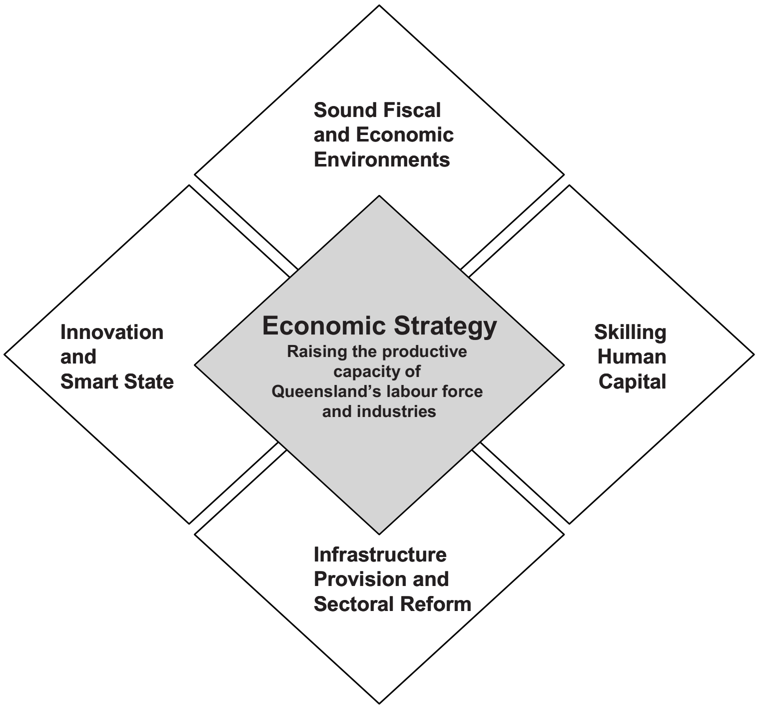
The maintenance of a sound fiscal and economic environment provides an essential foundation for growth.

This strategy reflects the findings of the Government's Drivers of Economic Growth research study released in 2003. The economic evidence assembled through the study indicates that the main areas in which the State Government could support productivity growth include:

- **maintaining the strong fundamentals of the Queensland economy**, especially through responsible fiscal policy, competitive taxation policies, a supportive environment for business investment and periodic review of the regulation – these fundamentals provide certainty to industry and boost business confidence, which in turn promotes physical capital investment and productivity growth
- **fostering innovation**, supporting research and development and encouraging the adoption and adaptation of new technology by new and existing industries – this leads to technological progress and productivity growth
- **improving the quality of the State's human capital**, through appropriately directed education and training programs – this investment in human capital improves labour productivity
- **maintaining adequate and appropriate levels of infrastructure and undertaking reforms to the State's key infrastructure sectors** to increase their economic efficiency – infrastructure is both an important industry in its own right and a strong influence on private physical capital investment.

A sound fiscal position supports a competitive tax environment, enhances business competitiveness and provides a stable economic environment allowing businesses to make investment decisions with a reasonable degree of certainty and confidence. These key settings, coupled with targeted government policies in the areas of innovation, human capital and infrastructure provision, form the framework for the Government's economic strategy as shown in Figure 3.1 below.

Figure 3.1
Queensland's Economic Strategy



Sound fiscal and economic environment

Charter of Social and Fiscal Responsibility

The Government's economic and social priorities are outlined in its *Charter of Social and Fiscal Responsibility*. The Government is committed to delivering high quality services to improve the quality of life for Queenslanders. A central element is to further develop the State's already strong economy. Government strategies that aim to maintain a strong diversified economy include:

- expanding market access, export and trade opportunities
- creating additional job opportunities
- maintaining a competitive tax environment for business development and jobs growth
- diversifying and strengthening the economy through value adding, productivity growth and the development of future growth industries.

To best support the diversification of the economy and sustainable service delivery, the Government remains committed to responsible management of the State's financial resources. A sound fiscal and economic environment allows the Government to develop and implement policies and enables industry to make decisions that increase capital investment, while encouraging the development of technology and innovation to improve the skills of human capital. These key elements of productivity growth support the continued growth of the Queensland economy.

More detail about the Government's fiscal objectives and performance is in Chapter 1. The State's economic performance is detailed in Chapter 2.

Regulatory reform

The Queensland Government is developing a new reform agenda to further enhance the Queensland business environment. The Government is undertaking a Review of Hot Spots for Regulatory Reform to identify regulatory issues adversely affecting business in Queensland and to develop a program of review for regulation where the burden is considered to be excessive.

The Review is being conducted in parallel with other Government activities including the sector reviews under the Small Business Policy, which are investigating the impact of regulations in the manufacturing, retail and tourism industries.

The consultation period for the Review closed in March 2006 and a final report detailing regulatory 'hot spots' is currently being prepared.

Innovation and Smart State

Innovation involves the development and introduction of new or improved products, services or production processes that boost the efficiency and productive capacity of labour or capital or both. Innovation in the private sector generates greater income from given resources and is a primary source of productivity growth, improved living standards and enhanced job opportunities. Public sector innovation generally focuses on areas with important social benefits, such as environmental protection and health care, which are also crucial contributors to productivity and improved living standards.

The Government plays an important role in facilitating innovation by providing incentives for potential innovators, enhancing the capacity of the innovation system through infrastructure and skill development and generating a culture of innovation in the community. In addition, the Organisation for Economic Cooperation and Development estimates that innovation accounts for 50% of long-term economic growth in advanced economies. For these reasons, innovation and fostering innovation is at the heart of the Smart State Strategy.

Research and development (R&D) is widely considered as an important input into innovation activities and processes. Recognising the importance of R&D to innovation, the Queensland Government has taken an active role in this area by providing R&D infrastructure and facilities to foster and influence innovation in the State's economy. Since 1998 the Queensland Government has invested more than $2.4 billion in research, science and innovation and related infrastructure and facilities. Some recent investments by the Queensland Government in world-leading infrastructure and facilities include the:

- University of Queensland's Institute for Molecular Bioscience
- Queensland University of Technology's Institute for Health and Biomedical Innovation
- Queensland Brain Institute at the University of Queensland
- Griffith University's Eskitis Institute for Cellular and Molecular Therapies
- University of Queensland's Australian Institute for Bioengineering and Nanotechnology
- Griffith University's Institute for Glycomics
- Centre of Excellence in Engineered Fibre Composites at the University of Southern Queensland
- Queensland University of Technology's Creative Industries Precinct.

Another example of the Queensland Government investing in R&D infrastructure is the establishment of the Ecosciences Precinct by redeveloping the former Boggo Road Gaol site into an integrated knowledge precinct focusing on ecosystems science. The site will be transformed into a mixed-use urban village comprising research, commercial, retail and residential facilities, bringing together a vital mix of people including researchers, commercialisation experts and entrepreneurs for several research organisations. The main participating Queensland Government agencies will be the Department of Natural Resources, Mines and Water, the Department of Primary Industries and Fisheries and the Environmental Protection Agency.

The Smart State Strategy has been an integral part of the Queensland Government's broader economic development strategy. The recently released *Smart Queensland: Smart State Strategy 2005-2015* is the second stage of the Smart State Strategy, which began in 1998. Smart Queensland will continue creating jobs, improving education and the economy and fostering innovation, new technologies and industries that will improve our health and way of life. The Government will commit at least $473 million over the next few years to implement the Smart Queensland Strategy and this will provide an immediate stimulus to boost industry innovation and commercial capacity for greater global export and trade gains.

Key initiatives of Smart Queensland include:

- $200 million over four years for three new funds to build research centres and support innovation across a broad range of fields, including health and medicine, the environment, agriculture and mining
- $56 million over four years to establish two new state schools of excellence for senior school students in creative arts and science, maths and technology.

Skilling human capital

Human capital refers to the stock of knowledge, skills and attributes available in the workforce. Human capital can be enhanced by formal education and training, informal training, including work and life experiences, increased participation in the labour force and skilled immigration. The enhancement of human capital has a positive effect on productivity and economic growth through innovation, the adoption of new technology and the formation of new production processes.

Two important policies that aim to enhance the human capital of Queensland are the *Queensland Skills Plan* and the Government's Education and Training Reforms for the Future.

Queensland Skills Plan

Technological changes, globalisation, an ageing population and low unemployment rates have contributed to significant changes in Queensland's labour market. Skills shortages have been identified across a number of key industry areas, including traditional trades and para-professional occupations.

Following state-wide consultation regarding proposed reforms to the Queensland vocational education and training system, the State Government launched the *Queensland Skills Plan* in March 2006. The *Queensland Skills Plan* establishes a policy framework that will better match the supply of skilled labour to industry needs and the demands of the economy. In addition, the *Queensland Skills Plan* outlines a range of actions that the Queensland Government will implement to transform and modernise the State's vocational education and training system.

Major initiatives include:

- an additional 17,000 trades training places and an additional 14,000 Certificate IV and above training places available each year by 2010
- improvements to Queensland's apprenticeship system (including fully implementing competency-based training arrangements)
- a major capital works program to upgrade and enhance Technical and Further Education (TAFE) institutes State-wide

- a new State-wide Trade and Technician Skills Institute to lead product development and delivery in key trades areas
- three new Centres of Excellence to promote skills development in the energy, manufacturing and engineering and building and construction industries
- 10 new sites for Skilling Solutions Queensland established in 2006-07, to provide face to face career and training information services. This enhancement follows the success of pilot sites which opened in early 2005
- a Skilling Queenslanders for Work initiative to provide sustainable employment outcomes for Queenslanders who are disadvantaged in the labour market. While this initiative will replace the highly successful Breaking the Unemployment Cycle program, it will combine some features of the existing program, as well as providing new measures that will allow assistance to be better matched to an individual's needs.

Over the next four years, around $800 million in recurrent expenditure will be invested to implement vocational education and training reforms (including an estimated $542 million in new recurrent funding). Around $46 million is budgeted in 2006-07 by the Department of Employment and Training to implement capital initiatives outlined within the *Queensland Skills Plan*, including modernisation of the State's network of TAFE institutes (part of a total capital commitment exceeding $300 million over six years).

Education and Training Reforms for the Future

Improvements in education outcomes are an important way of increasing human capital. The 2006-07 Budget provides $186.7 million for the continuation of the Government's Education and Training Reforms for the Future across the early (Preparatory Year to year 3), middle (years 4 to 9) and senior (years 10 to 12) phases of education. From 2007, this will include the commencement of a full-time Preparatory Year available at state and non-state primary schools. It is expected that approximately 25,000 students born between January and June 2002 will enrol in the Preparatory Year in 2007. This is expected to rise to around 50,000 in 2008 when a full year group is eligible to enrol.

In addition, the Government's comprehensive 'learning or earning' reforms for senior schooling are making learning more flexible, exciting and relevant to students. Young Queenslanders will have access to better support services and programs to help them stay in education, training or work until they turn 17 years of age.

Students commencing Year 11 in 2007 will be eligible for the new Queensland Certificate of Education (QCE) in 2008. Achievement of a QCE will require a significant amount of learning at a set standard and is subject to specific literacy and numeracy requirements. The new qualification will recognise a broad range of achievement including TAFE courses, school-based apprenticeships, university subjects, job readiness programs and structured work experience.

National Reform Agenda - Human Capital Intergovernmental Action Plans

The Council of Australian Governments (COAG) agreed on 10 February 2006 to work on a stream of reforms aimed at improving workforce participation and productivity by focussing on health, education and training and work incentives. Work is progressing for further COAG consideration of outcomes and associated progress measures in these areas together with actions and milestones. Subject to the resolution of associated funding arrangements, Intergovernmental Action Plans will be developed for COAG consideration.

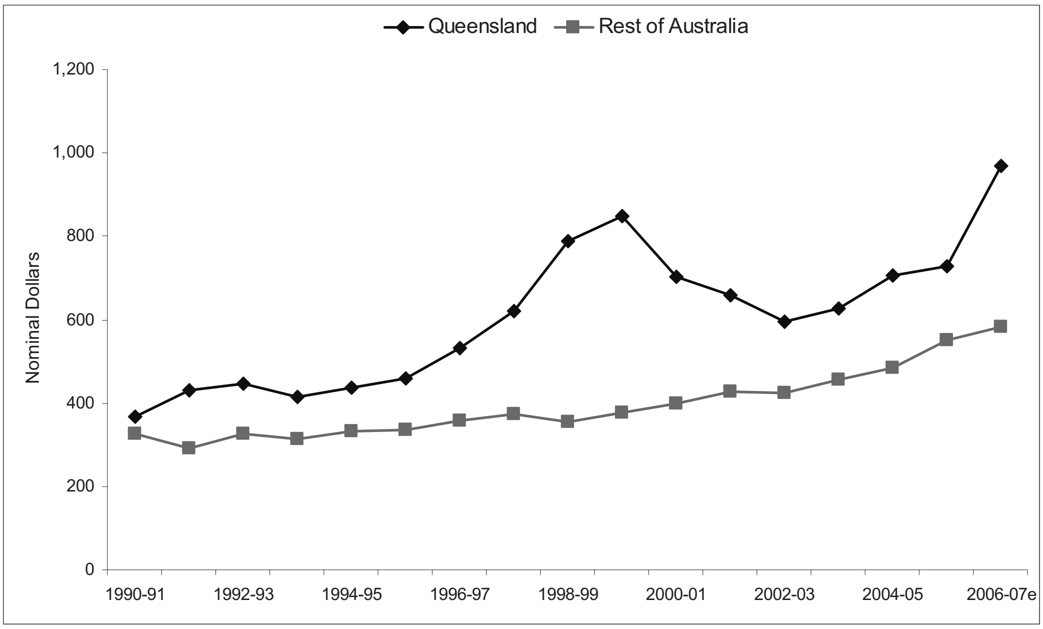
Infrastructure provision and sectoral reforms

Increasing the State's infrastructure base

The Queensland Government recognises the central role that infrastructure investment has in increasing the State's productive capacity. The Government's commitment to increasing the State's capital infrastructure base is reflected in the scale of the State's capital infrastructure program. For the General Government sector, purchases of non-financial assets are estimated to be $3.958 billion in 2006-07. On a per capita basis, this is the largest capital program of any State (see Chart 3.3).

Effective and responsive planning of infrastructure networks can improve the efficiency of both current and future infrastructure. For example, coordinated planning can assist in ensuring that infrastructure assets function effectively as part of an integrated network. The *South East Queensland Infrastructure Plan and Program* is an example of an infrastructure planning framework which will give direction and momentum to both Government and private infrastructure investment in the south east of the State over the next 20 years.

Chart 3.3
General Government Purchases of Non-financial Assets $ per capita



Sources : Unpublished ABS 5512.0 and 3101.0; various State Budget papers and State Budget Mid Year Reviews/Budget Updates; population estimates from Australian Government Budget Paper No.3, 2006-07
(e) estimate

Competition and infrastructure regulation

COAG has agreed that governments will establish a simpler and consistent national approach to the economic regulation of significant infrastructure. Subsequently, Queensland, along with other states and territories, agreed that national consistency in relation to infrastructure regulation could be strengthened by working towards common principles to govern the operation of access regimes and minimise costs for infrastructure users operating across jurisdictions. These elements will include common objects clauses and pricing principles and the adoption of six months binding time limits on decisions by regulators. In addition, the application of competitive neutrality principles to government business enterprises engaged in significant business activities in competition with the private sector will be enhanced.

Further, price monitoring for services provided by means of significant infrastructure facilities will also be introduced in Queensland in line with the COAG agenda. Price monitoring requires businesses to report their prices, costs and profitability on a regular basis and puts businesses on notice that additional price regulation may be applied if they take unfair advantage of their market power. Thus, price monitoring offers a light-handed and cost effective approach to regulation where an infrastructure service provider has significant market power.

The COAG infrastructure reforms also involve the development of a simpler and consistent national system of regulation for ports and export-related infrastructure and rail freight infrastructure. The Queensland Government is committed to a review of port authority and handling facility operations to ensure the competition and regulatory frameworks operating in significant ports are appropriate. It will also consider the application of the Australian Rail Track Corporation access undertaking to nationally significant railways.

Queensland is also participating in COAG reviews of transport and energy regulation. The transport reviews are examining urban transport congestion and the efficient pricing of road and rail freight infrastructure. On energy, an expert Energy Reform Implementation Group is being established to report back to COAG by the end of 2006 with proposals for achieving a national transmission grid and other structural issues affecting the national electricity sector.

Sectoral reforms

The Government is implementing sectoral reforms across the State's infrastructure sectors to increase the efficiency and productivity of these sectors.

Increasing the efficiency of the State's infrastructure sectors enables higher levels of outputs to be provided with the same level of inputs. Increasing the efficiency of existing infrastructure can be achieved through policy or regulatory mechanisms. Using existing infrastructure more efficiently may confer greater economic benefits to society than new infrastructure investment, as it minimises the need to draw upon the Government's resources.

Discussion of economic reforms of the State's energy and water follows. Reform of an important resources sector, Queensland's forestry sector, is also outlined.

ENERGY REFORM

The Government is implementing substantial reform of Queensland's energy sector. The reforms aim to improve the efficiency of the sector and modernise its industry structure in response to changes in the national and Queensland energy markets.

Energy Market Developments Driving Change

The energy market developments underlying the reforms are the continued growth of Queensland's energy market, structural change in the National Electricity Market (NEM) and the introduction of full retail competition (FRC) to Queensland's energy sector.

- Queensland is the second largest and fastest growing market in the NEM, which includes NSW, Victoria, South Australia, Tasmania and the ACT. This growth is driven by strong demand from Queensland's industries because of Queensland's rapid economic growth, Queensland's population growth and increased use of air-conditioning. Continued economic and population growth means that electricity demand is expected to continue to grow strongly.
- The NEM was established in 1998 and has led to substantially increased competition in the energy market. As the NEM has evolved, a number of changes have occurred, in particular the trend towards the vertical integration or re-aggregation of generation and retail assets. This has occurred prominently in other jurisdictions, most notably Victoria.
- FRC is being introduced into the Queensland energy market from 1 July 2007. From that date, all consumers will be able to choose the retailer from whom they wish to purchase their energy. The introduction of FRC is the culmination of a series of electricity and gas reforms from 1998 in which competition has been progressively extended from the largest industrial customers through medium sized industrial and commercial customers to all customers from 1 July 2007.

These developments have provided customers with greater choice, more flexibility and more efficient energy prices, while Government retains responsibility for ensuring reliable and adequate energy supply to cater for the expected growth in the market. The Government's response to this growth in demand, which includes tariff reform and investment projects, was outlined in the *Special Fiscal and Economic Statement*. However, the Government considered that the supply side of the industry needed further review and in October 2005 it established the Energy Government-Owned Corporations Structural Review.

Energy Government-Owned Corporations Structural Review

The Review reported in March 2006 and in April 2006 the Government announced the following key decisions:

- the State's transmission and distribution networks are to remain in public ownership
- generation assets will remain under current arrangements
- ENERGEX's retail business, Ergon Energy's contestable retail activities and the Allgas gas distribution business are to be sold
- Enertrade is to retain its North Queensland gas assets
- the power purchase arrangements managed by Enertrade are to be reviewed with a view to Government exit.

The reasons underlying the Government's decisions were:

- the Government will retain ownership of generation, transmission and distribution assets in order to protect the reliability of adequate energy supply to Queensland businesses and consumers
- FRC, which is likely to result in strong retail competition, will increase the risk associated with owning retail assets to unacceptable levels and expose the Government to the risk of significant losses. Exiting the retail businesses would eliminate this financial risk and allow ENERGEX and Ergon Energy to focus on core electricity distribution roles.

Specific decisions in respect of ENERGEX were:

- ENERGEX's retail activities will be brought under the name of Sun Retail and be divested through a trade sale that is structured to support competition in the retail market
- other ENERGEX activities to be exited are gas retail and contracts, ENERGEX's LPG business and Allgas distribution
- there will be no forced redundancies for all employees directly affected who are covered by awards or enterprise bargaining agreements (EBAs), with a large proportion of employees to be offered reversion rights to employment within the ENERGEX distribution business.

Specific decisions in respect of Ergon Energy were:

- Ergon Energy is to exit its existing contestable retail business
- Ergon Energy is not to compete in the contestable domestic and small business markets (100 Megawatt hours and below)
- there will be provisions similar to those in ENERGEX regarding redundancies and rights of reversion for those award or EBA employees directly affected.

An implementation team has been established within Queensland Treasury to manage the sales process. The implementation team is aiming to achieve financial close for the divestment process by the end of the 2006 calendar year.

Queensland Future Growth Fund

The Government has decided to establish the Queensland Future Growth Fund. The Fund will operate by investing the proceeds of the sale of ENERGEX Retail, the contestable elements of Ergon Retail and the Allgas Network. The proceeds of the sale, anticipated at more than $1 billion, will be invested in initiatives including:

- new technologies to mitigate climate change effects, particularly clean coal technology

- new water infrastructure to help Queensland deal with the effects of climate change
- new infrastructure to promote Queensland's continued strong economic development.

The Future Growth Fund will operate separately from the State Budget.

As a priority under the Fund, the Government intends to accelerate the building of two new dams and two new weir projects. Subject to Australian Government cooperation, these projects are now likely to be completed by the end of 2011. Together they are expected to deliver up to an extra 235,000 megalitres per year.

The dams comprise a major new dam on the Mary River in the Gympie region and the bringing forward of the construction of a new dam proposed for the upper reaches of the Logan River. As part of the process for the Logan River Dam, the Government will re-examine the existing proposal for the Wyaralong Dam site as compared to a new site which has been identified at Tilley’s Bridge near Rathdowney.

On the Fitzroy River in Central Queensland, the Eden Bann Weir will be raised and a new weir built at Rookwood.

A further priority for the Fund will be to support the development of clean coal technology. The allocation will be used for projects which aim to both support the coal industry’s future and protect the environment through reductions in emissions from power generation.

Further details of the Fund will be released following the sale of the retail assets.

WATER REFORM

The Queensland Government remains committed to developing and maintaining an economically viable and environmentally sustainable water industry. Water reform has been actively underway since the mid to late 1990s. This has been by national agreement under COAG’s Water Resource Policy from 1994, the implementation of National Competition Policy in the late 1990s and now the National Water Initiative.

The rate of progress on water reform in Queensland increased with the introduction of the *Water Act 2000*. This represents the most fundamental rewrite of water industry legislation in Queensland since the early 1900s and provides a clear separation between water industry regulators and water service providers. The implementation of the *Water Act 2000* establishes, among other things, a system which enables effective water resource planning on a catchment-by-catchment basis and facilitates water trading through a framework to progressively create tradeable water allocations on completion of water resource planning in each catchment. Once water resource planning in each catchment has been finalised, water entitlements will be separated from property with the creation of tradeable water allocations.

The ability to trade water, including more cost reflective water pricing, promotes the most efficient and effective use of water over time, with water progressively being drawn towards its highest value and best use.

Continuing this reform trend, in August 2005 the Queensland Government released the Water Plan for 2005 to 2010. This sets out the seven strategies for improving sustainable water management:

- securing water for the environment and users through water resource planning
- planning for future water needs through regional water supply strategies
- smarter use of existing supplies through greater rural and urban water efficiency
- pricing water for sustainability, including new price paths for rural water users
- protecting water quality, including implementation of the Reef Water Quality Protection Plan
- compliance to protect users and the environment
- investing in science and technology to better inform water management decisions.

Several notable individual activities within this overall framework for water reform are detailed below.

Queensland Water Commission

The Queensland Water Commission has been established to improve the water planning processes for regions across Queensland. It will initially focus on the South East Queensland region, where water supply issues have been brought sharply into focus for the State and local governments by the current drought, which is the worst on record.

The Water Commission's task will be to immediately assume control over water restriction regimes to ensure that a regional approach is taken to the use of this scarce resource. It will complete the Water Supply Strategy for the region, which has been underway for several years and will identify the current and future demand for water and the current and potential supply sources available to meet that demand.

Importantly, given the cost of new water sources is expected to be significantly greater than existing dams, it will focus on achieving water supply security for the region on a cost effective basis and ensure the costs and benefits of water supply security are equitably shared within the region.

Water pricing

The Queensland Government, as a signatory to the National Water Initiative (NWI), has committed to ensuring that the price of water, both rural and urban, reflects the costs of supply and encourages people to invest in efficient water supply and use. Urban water prices generally reflect the full cost of the infrastructure required to deliver water to industry and households. However, for rural water, this policy has required the implementation of price paths to transition prices towards full cost recovery over time and where practicable.

SunWater, the State Government-owned corporation that supplies the vast bulk of irrigation water, is completing negotiations for the second set of rural water price paths, covering the period 2006 to 2011. This will continue to move rural water prices towards a greater degree of cost recovery and will be supported by community service obligation payments from the State, where appropriate, to ease the transition for rural water users.

The NWI also seeks for water resource management costs to be identified and attributed to water users. The Government is currently investigating options for recovering water resource management costs from urban, industrial and rural water users, with independent analysis of this issue to be concluded by late 2006. The Government will continue to work with key stakeholders on implementation of water charges and the application of the NWI water charge principles.

Water infrastructure development

Queensland's approach to infrastructure development is to undertake a considered needs-based assessment of new infrastructure proposals to ensure that the infrastructure is economically and environmentally sustainable. This is consistent with the Government's Guidelines for Financial and Economic Evaluation of New Water Infrastructure in Queensland and is a key element of the Regional Water Supply Strategies, including:

- the **South East Queensland Regional Water Supply Strategy.** Significant infrastructure proposals are under consideration for South East Queensland to secure regional water supplies, both in response to the current drought and also in the medium to long term to underpin the significant population growth forecast for the region
- the **Central Queensland Regional Water Supply Strategy.** Released in draft for comment in late 2005, this strategy outlines a range of future infrastructure options available to meet increased demand associated with continued urban, industrial and rural development in that region.

FORESTRY REFORM

The State Government is implementing the commercial reform of the State-owned plantation forests in Queensland. These reforms will underpin the long-term sustainability and competitiveness of the plantation timber industry, provide appropriate market signals for both the state's commercial plantation manager and private plantation growers to invest in the Queensland market and secure the future of the some 6,000-plus jobs that are dependent on the plantation sector in the State.

Forestry Plantations Queensland is being established as the new commercial manager of the State-owned plantation assets. It is established as a corporation sole with two responsible ministers, the Treasurer and the Minister for Primary Industries and Fisheries. It will be given property rights, assets, an appropriate accountability framework and clearly defined objectives required to operate in a commercial manner, including:

- the requirement for it to agree and adhere to an annual operational plan, which outlines key strategies, activities, targets, performance criteria and operational and policy guidelines
- the provision of responsible ministers with the power to issue directions
- the consent for it to enter into the financial arrangements and transactions needed to undertake commercial activities detailed in its operational plan, particularly its investments
- the provision of certain assets previously controlled by DPI Forestry
- access to state plantation forests and the rights to deal with natural resource products
- compliance with the *Financial Administration and Audit Act 1977*
- quarterly reports to responsible ministers on the targets and performance criteria and the publication of an annual report.

The commercial governance structure for Forestry Plantations Queensland will include:

- the ability to appoint a commercial advisory board
- delegated responsibility of the board's strategic planning, development and negotiation of the operational plan, performance monitoring and review
- the responsibility of ministers to provide the board with other duties and responsibilities as required.

These reforms have been designed for the Queensland environment and provide the State-owned plantation grower with the commercial reforms that were applied to competitors in southern states and New Zealand. Specifically, these reforms will enable Forestry Plantations Queensland to benchmark itself against southern and New Zealand growers, address the low productivities experienced in a number of the State's plantations, develop commercial governance and risk management structures, establish commercial partnerships, maximise value, add opportunities and better respond to the demands of major clients which are facing challenges in maintaining market shares.

4. BUDGET PRIORITIES AND INITIATIVES

KEY POINTS

- **The key areas for service enhancements in the 2006-07 Budget include health, disability services, child safety, education, employment and training, police and water infrastructure.**
- **The *Blueprint for the Bush* commits more than $150 million over the next four years for additional initiatives across rural and regional Queensland.**
- **Queensland Health's Budget in 2006-07 is estimated at $6.6 billion, a 24% increase on the 2005-06 Budget of $5.4 billion. The Health Budget is estimated to grow to $7.8 billion in 2009-10, an increase of 45% on the 2005-06 Budget.**
- **An additional $128 million in recurrent funding and $6 million in capital funding over four years will improve the delivery of disability services.**
- **An investment of $1 billion over five years is provided for Queensland state schools, including $850 million over five years for modernisation and refurbishment.**
- **Over the next four years, around $800 million will be invested to implement reforms outlined in the *Queensland Skills Plan*, including additional trades and Certificate IV and above training places and a major capital works investment program to modernise the State's network of Technical and Further Education (TAFE) institutes.**
- **The Budget provides an additional $172.5 million recurrent and $76.4 million capital funding over the next four years for the further enhancement of the Queensland Police Service's information and communications systems.**
- **The Budget also provides significant funding for the development of new water infrastructure to meet urban, industrial and agricultural demand.**
- **The capital program for 2006-07 is $10.136 billion, $1.914 billion more than last year's estimated actuals and includes $2.856 billion for energy projects, over $2 billion for roads, $856 million for ports and $838 million for rail projects.**

INTRODUCTION

This chapter details:

- the Government's identified outcomes and priorities which underpin the 2006-07 Budget
- service delivery initiatives and developments for each of the Government's key priorities.

As part of its commitment to ensuring a better quality of life for all Queenslanders, the Government has identified eight outcomes that it is working to achieve for the people of Queensland. These outcomes are outlined in the *Charter of Social and Fiscal Responsibility* and include economic development, community wellbeing and environmental sustainability. All government services contribute to one or more of these outcomes for the community.

To support the achievement of these outcomes, the Government has a clear policy agenda, currently targeting seven priority areas in which the Government will concentrate efforts to improve performance and respond to changing community needs and expectations.

These priorities are:

- improving health care and strengthening services to the community
- growing a diverse economy and creating jobs
- realising the Smart State through education, skills and innovation
- managing urban growth and building Queensland's regions
- protecting our children and enhancing community safety
- protecting the environment for a sustainable future
- delivering responsive government.

The 2006-07 Budget provides for a range of specific initiatives and service developments that will assist in achieving these key policy priorities. The major revenue initiatives to achieve the Government's priorities in the 2006-07 Budget relate to State taxation, including payroll tax and land tax. A full discussion of the revenue initiatives and issues is provided in Chapter 5.

Spending to achieve these priorities falls into two categories, recurrent and capital. Recurrent expenses are the costs incurred in providing services and running and maintaining assets and are addressed in detail in Chapter 6. Capital expenditure relates almost exclusively to the purchase and construction of assets that are used to support service delivery, such as hospitals, schools, courthouses, police stations, fire and ambulance stations and roads. Capital expenditure is discussed in Budget Paper No. 3 – Capital Statement.

Details of some of the service delivery initiatives in the 2006-07 Budget that support the achievement of the Government's priorities are described below. While highlights of the Budget are described in terms of their primary impact on the community, many assist the Government in pursuing more than one key priority.

A number of the initiatives in the 2006-07 Budget are related to four policy documents released by the Government:

- *Health Action Plan* (see Box 4.1)
- *Queensland Skills Plan* (see Box 4.2)
- *South East Queensland Infrastructure Plan and Program* (see Box 4.3)
- *Blueprint for the Bush* (see Box 4.4).

Details of the Government's response to Cyclone Larry are provided in Box 4.5.

As well, details on the State's investment in information and communication technology are provided in Box 4.6.

More detailed information on service delivery initiatives can be found in individual Ministerial Portfolio Statements.

IMPROVING HEALTH CARE AND STRENGTHENING SERVICES TO THE COMMUNITY

Improving hospital and health services as well as other services to the community is a continuing priority for the Government. Major service developments and initiatives relating to this priority are detailed below.

To support this priority, the Government released the *Health Action Plan* in October 2005. An update on the Plan is provided in Box 4.1.

Health initiatives

Health staff remuneration

Additional funding of $1.3 billion over four years ($241.6 million in 2006-07) is provided for the finalisation of Queensland Health's staff enterprise bargaining agreements. Agreements have been reached with medical staff and negotiations are near completion for nurses and at various stages of negotiation for allied health professionals and other staff. The enterprise bargaining agreements provide for competitive remuneration and will assist to meet the Government's plan to recruit and retain health staff, including doctors, nurses and allied health professionals.

Mater Hospital redevelopment operating costs

A significant boost to public health services will be provided from an injection of $157.1 million over four years ($24.9 million in 2006-07 increasing to $50.7 million in 2008-09 and ongoing) for the enhanced services being provided through the public component of the redevelopment of the Mater Adult and Mothers Hospitals.

The redevelopment of the Mater Hospital complex was a 2004 election commitment which provided for 50 extra adult inpatient/day beds, eight extra emergency department short stay beds, seven extra intensive care/coronary care beds, 47 extra public obstetric beds, 11 extra neonatal cots and improved parking access. Since the announcement in 2004, the Government has provided a significant funding boost for the redevelopment. As a result of some scope changes and increases in construction costs, the Government's original contribution of $88 million towards the public component of the redevelopment has increased to $123.6 million.

Forensic services reform

Capital funding of $18 million over three years is provided to implement key infrastructure priorities at Queensland Health Scientific Services and, together with recurrent funding of $9 million over three years and $3 million ongoing, to deal with the backlog of forensic cases. This is in addition to ongoing funding of $2.4 million announced in the *Special Fiscal and Economic Statement* to address issues with regard to DNA profiling and crime scene samples.

Services for people with disabilities

The 2006-07 Budget provides $128 million in recurrent funding and $6 million in capital funding over four years, including $26.7 million in new recurrent funding and $1.5 million in new capital funding for 2006-07, to enhance disability services in Queensland. This brings Disability Services Queensland's operating budget to $634 million in 2006-07, an increase of 22% over the 2005-06 Budget and builds on the $180 million over four years provided in the 2005-06 Budget.

Key elements of this additional funding are:

- $4 million over four years to expand early intervention strategies for families caring for children with autism under five years of age, who have complex and challenging behaviours
- $16 million over four years to establish new and/or enhanced respite services for families living with a family member with a disability
- $6 million over four years for the Post Schools Services – Adult Lifestyle Support Program, which assists young people with high and complex disability support needs who do not have work or further education options when leaving school
- $17.4 million over five years in recurrent funding and $6 million over four years in capital funding, to reduce the number of young people living in nursing homes
- $15.7 million over four years to implement the *Disability Services Act 2006*, introducing fundamental safeguards for people receiving disability services
- $6 million over four years for the Carers Action Plan Initiative which will ensure better recognition of the role of carers in the community and support the Queensland Government Carer Recognition Policy
- $40 million over four years to strengthen the capacity of non-government organisations to provide high-quality disability services.

Spinal injury

Additional funding of $15.9 million in recurrent funding ($3.9 million in 2006-07) and $38.5 million in capital funding ($6 million in 2006-07) over four years is provided across a number of agencies to improve the lives of people with an acquired spinal cord injury. This funding will enable people with spinal cord injuries to receive further care and support upon discharge from the Spinal Injuries Unit in Brisbane and to resume their lives upon their return to the community.

Citytrain network

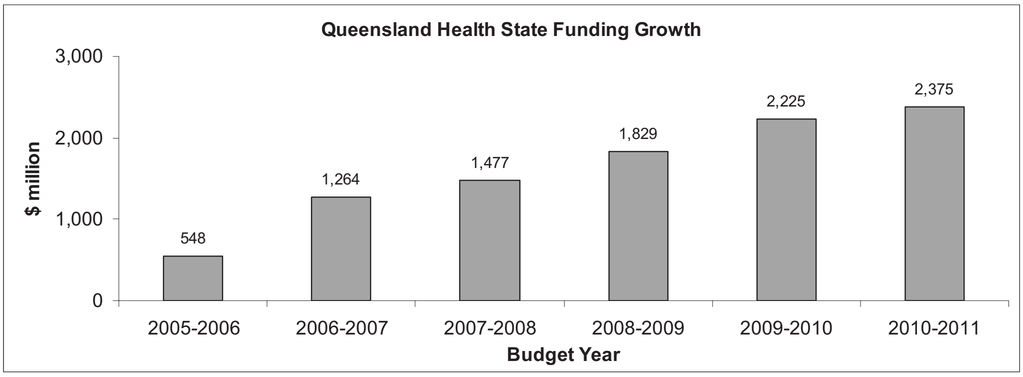
The Budget provides $47.7 million in 2006-07 to make modifications to the Citytrain network to further improve access to trains and train stations for people with a disability.

Box 4.1
Health Action Plan

With the release of the *Health Action Plan* in October 2005, the Government commenced a major transformation and renewal of Queensland's public health system.

The *Health Action Plan* announced a record injection of funding totalling $6.4 billion in just over five years to 2010-11, of which $4.4 billion was new money. Through the 2006-07 Budget, State funding for Queensland Health will grow by $9.7 billion over the five years.

Chart 1
Growth in Queensland Health State Funding



As a result of the significant injection of new State funding, Queensland Health's Budget in 2006-07 is estimated at $6.6 billion, which is a 24% increase on the 2005-06 Budget of $5.4 billion. Queensland Health's Budget is estimated to grow to $7.8 billion in 2009-10. This represents an increase of 45% on the 2005-06 Budget.

In the first six months, the Government has made significant progress on a number of key aspects of the *Health Action Plan*.

A critical achievement of the Government has been progress in addressing workforce issues, such as attracting and retaining clinical staff. A fundamental element in attracting and retaining staff is to provide and maintain competitive and attractive remuneration.

- To address the problem of a chronic shortage of health professionals, the *Health Action Plan* contained a commitment to recruit an additional 1,200 clinicians over an 18 month period. This involved recruiting 300 extra doctors, 400 extra allied health professionals and 500 extra nurses (actual staff numbers rather than full-time equivalents).
- Queensland Health is well on its way to meeting the recruitment targets with a total of 272 extra doctors, 413 allied health professionals and 1,082 nurses recruited by the end of April 2006.
- Agreements have been secured with medical staff, providing for a competitive remuneration package aimed at retaining and attracting medical professionals.
- Agreements are also being progressed for nurses and other Queensland Health staff.

The total cost of renewing Queensland Health's enterprise bargaining agreements will top $3.5 billion (over the period 2006-07 to 2009-10) and will cost some $1 billion ongoing in 2009-10. This represents a significant investment in delivering on the Government's priority of addressing recruitment, retention and training strategies for the health workforce.

Another key element to the reform of the health system is to ensure adequate and targeted investment in health services infrastructure.

Queensland Health is budgeting to spend $585.4 million in 2006-07 on a range of capital projects such as hospital refurbishments, community heath centres, improved renal services, staff accommodation and information and communication technologies. More detail is provided in Budget Paper No. 3 - Capital Statement.

Accountability and transparency will be enhanced through the establishment of the new Health Quality and Complaints Commission to commence 1 July 2006. A budget of $7.7 million is provided for the Commission in 2006-07. A new Consumer Health Council will be established to provide patients and their families a greater say in how the health system operates.

The Government's health reform agenda is long-term and while the Government has made significant progress in the first six months, more work is required. A key element of the longer term reform agenda is the development of a better capacity to plan for future service delivery. The Government is committed to better planning through the development of a State-wide health services plan, to be completed by December 2006.

Major service delivery priorities to be targeted include:

- Cancer Services – $87.9 million in 2006-07 for new and existing cancer services across the State
- Chronic Disease – $14.6 million in increased funding in 2006-07 for initiatives for prevention and management of chronic disease
- Home and Community Care – more than $10 million in additional funding in 2006-07 will be allocated to provide a range of services to the community
- Healthier Ageing – $78 million over four years across two initiatives, the Transition Care Program (jointly funded by the Australian Government) and the Government's Direction for Aged Care 2004-2011 policy.

The Queensland Government has committed new funding of $78.3 million in 2006-07 ($349.4 million over five years) across a number of service delivery agencies, including Queensland Health, to improve the quality of and access to mental health services throughout the State. This funding will support the National Action Plan on Mental Health 2006-2011 being prepared for consideration by the Council of Australian Governments in July 2006. It will also complement the Queensland Mental Health Strategy being developed by Queensland Health in 2006.

In addition to the significant injection of new funds for health reform announced in the *Health Action Plan*, the 2006-07 Budget provides an additional $1.5 billion over the four years to 2009-10 to enhance the reform program.

The additional funding comprises the following initiatives:

- additional funding of $1.3 billion over four years ($241.6 million in 2006-07) for Queensland Health staff enterprise bargaining agreements
- an investment of $157 million over four years ($24.9 million in 2006-07) to provide additional services arising from the redevelopment of the Mater Adult and Mothers Hospital
- a further injection of funds to support the Mater Adult and Mothers Hospital redevelopment, increasing the contribution to $123.6 million
- additional funding of $12 million over four years ($4.2 million in 2006-07) and $18 million in capital funding over three years to boost forensic services.

Initiatives to address homelessness and housing

Responding to homelessness

The Responding to Homelessness initiative continues in 2006-07 with $34 million in capital funding and $3.9 million in recurrent funding for the Department of Housing to deliver a range of accommodation initiatives. This includes the continued development of the Lady Bowen Complex to further expand the housing options for homeless people in inner Brisbane as well as further allocations to the Crisis Accommodation and Boarding House Programs.

Other housing initiatives

The Government will allocate:

- $285.4 million for the Public Housing and Aboriginal and Torres Strait Islander Housing rental programs and the Long Term Community Housing Program to acquire 584 dwellings, complete construction of 333 dwellings, upgrade existing dwellings and purchase land for future construction
- $46.3 million for the Boarding House Program, to commence construction or purchase up to 278 new units of accommodation, complete construction of 95 dwellings and purchase and develop land for future construction of approximately 100 units of accommodation
- $35.5 million for the Crisis Accommodation Program, to provide four shelters and 47 units of accommodation, complete four shelters and seven units of accommodation commenced in previous years and purchase and develop land to facilitate future construction of approximately 96 units of accommodation and provide current grants to assist in responding to homelessness.

Services to support Indigenous communities

Indigenous communities initiatives

The Budget provides additional funding of approximately $0.3 million in 2006-07 for communication activities to raise awareness of the alcohol management programs in Queensland's Indigenous communities.

Indigenous Queenslanders will also benefit from an additional allocation of $20 million to provide a total of $98.2 million for maintenance, upgrades and new construction in the 34 Indigenous communities. This includes the provision of $5.1 million for factory built homes to increase social housing assets on smaller communities.

Indigenous justice initiatives

Recurrent funding of $12.9 million over four years ($3.4 million in 2006-07) is allocated for Indigenous initiatives, as part of the Government's ongoing commitment to reducing Indigenous incarceration consistent with the Queensland Indigenous and Torres Strait Islander Justice Agreement. Funding will enable expanded Family Counselling Services, the Indigenous Drivers Licensing project and a three year pilot of Murri Courts.

Queensland Indigenous Alcohol Diversion Program

The 2006-07 Budget commits $36.4 million over the forward estimate period towards the Queensland Indigenous Alcohol Diversion Program. The program aims to improve Indigenous health, reduce the number of Indigenous people in the criminal justice system and reduce alcohol-related harm to individuals and their communities. The program will divert defendants charged with alcohol-related offences to treatment and case management while on bail. The program, proposed to be trialled in three regional locations would represent best practice in Australia for coordinated interventions for Indigenous offenders.

Other community services

Indexation for non-government organisations

As part of the 2006-07 Budget, new indexation arrangements are being introduced for State grants provided by Queensland Health, Disability Services Queensland and the Departments of Child Safety and Communities to non-government organisations. The new arrangements will more appropriately reflect movements in wage and non-wage costs in Queensland. At 3.4% in 2006-07, this will be higher than the historical approach of indexing grants by changes in the Consumer Price Index.

Licensing and monitoring of child care services

Additional funding of $7.7 million over four years ($1.9 million in 2006-07) is provided for increased licensing and monitoring of child care services. Monitoring functions will be enhanced and a specialist licensing and compliance team will be established to assist staff with complex legislative issues, manage and decide applications for alternative solutions to meeting building standards and streamline licensing processes.

Prevention and early intervention

Additional funding of $35 million over four years ($5 million in 2006-07) is provided for increased prevention and early intervention services. This investment will establish four early years service centres to provide professional services, programs and information for families with young children and access to education, health and children's services in the local community. Funds will also be allocated towards family support services, such as parenting programs and counselling services, and early childhood services, such as toy libraries or play groups.

Strengthening rural communities

As part of the *Blueprint for the Bush*, $30 million over three years ($8.3 million in 2006-07) will be provided to implement the Blueprint and establish two grant programs - Strengthening Rural Communities Grants and Strengthening Rural Non-Government Organisation (NGO) Grants. The rural communities program will assist communities to attract new businesses and services, fund practical projects to allow better use of existing community facilities, host trainee teachers from urban communities and promote careers in the rural sector. The NGO program will enable NGOs to share buildings and other resources, allow workers and volunteers to participate in training programs and implement specific measures to strengthen rural Indigenous NGOs.

The fight against obesity

Obesity and excessive weight gain is a global epidemic that affects over half of all adults and almost one in four children in Australia. The Queensland Government is committed to a concerted partnership with the community, industry, local governments and the Australian Government to address this serious health issue.

In recognition of its commitment, the Government will provide more than $21 million over the next three years to help fight obesity. As part of the Queensland Obesity Summit held at Parliament House on 3 and 4 May 2006, the Government announced a range of initiatives to address obesity, including:

- a household self-help package of educational and other information resources, a dedicated website and a marketing campaign to promote healthy eating and exercise
- partnership with the Australian Medical Association (Queensland) to extend its Kids GP campaign to strengthen obesity education in the classroom
- a new community partnership grants scheme for community organisations and local government aimed at increasing physical activity participation and encouraging healthy food choices
- investment in a world class cycle transit centre under King George Square in collaboration with the Brisbane City Council
- a new School’s Out – Open Playground Program to provide easier community access to school facilities outside of school hours
- a Better Choice Strategy to provide healthier food and drink to staff and visitors to all Queensland Health facilities
- a new business awards program to encourage employers to promote healthy eating and lifestyles to workers.

GROWING A DIVERSE ECONOMY AND CREATING JOBS

Building on Queensland's strong economic base benefits all Queenslanders through job creation and an enhanced quality of life. Major service developments and initiatives to stimulate economic development throughout Queensland are detailed below.

Chapter 3 also provides more details on the Queensland Government's strategies to achieve this priority.

Industry initiatives

Implementation of full retail competition

Additional funding of $3.2 million over two years has been allocated to continue the development and implementation of Full Retail Competition (FRC) in the Queensland electricity and gas markets. FRC will be introduced from 1 July 2007. The Energy Competition Committee will continue to consult with industry and community stakeholders to ensure that the rules, procedures and systems that underpin FRC minimise barriers for new industry participants.

Centre for Advanced Animal Science

Additional funding totalling $11.8 million over three years from 2005-06 ($6 million in 2006-07) is provided for a joint Queensland Government and University of Queensland animal research facility being developed at the University's Gatton campus. This funding is in addition to $9.5 million previously provided from the Smart State Research Facility Fund. The world class facility will be a model of multi-institutional collaboration and builds critical mass in strategic areas to maintain capacity to respond to disease incursions in large animals and maintain market access for Queensland's animal industries.

Tourism initiatives

An additional $1 million per year for four years is provided to Queensland's 14 regional tourist organisations for destination marketing and development, increasing the current grant to these organisations to $4.1 million per year.

The Budget also provides $1.5 million in 2006-07 to fund the Australian Tourism Exchange, to be hosted by Tourism Queensland in 2007. The Exchange is the largest travel trade fair in the Southern Hemisphere and is staged annually by Tourism Australia.

Coral reef management plan and fishery resource assessments

An additional $5 million is provided over two years to ensure the continued management of Queensland marine fisheries in accordance with the principles of ecologically sustainable development, as required under the provisions of the *Commonwealth Environmental Protection and Biodiversity Conservation Act 1999*. Fisheries research and monitoring, quota management and compliance activities support the program.

Hardwood plantation research and development funding

An additional $2 million is provided over two years for hardwood research and development activities including breeding, pest and disease control and new wood products to support investment in hardwood plantations in Queensland.

Indigenous Business Development Program

Funding of $2.5 million per year for the next four years allows for the continuation of the Indigenous Business Development Program that commenced in 2003. This program specifically targets the attraction of support from the Australian Government and the private sector in establishing viable Indigenous business, assisting with building Indigenous business capacity and skills and assisting with the creation of Indigenous employment opportunities throughout Queensland. The program has already delivered a number of substantial Indigenous employment and business outcomes with strong Australian Government and private sector support and partnerships.

Queensland Indigenous Arts Marketing and Export Agency

An additional $2 million over four years is provided for the Queensland Indigenous Arts Marketing and Export Agency Arts Partnership Program, which collaborates with prominent galleries, dealers, festival and event organisers across all art forms (Visual Arts and Crafts, Performing Arts and Literature) to market and export Queensland Indigenous arts internationally and domestically.

Centre for Native Floriculture

Additional funding of $1.7 million over three years has been provided to enable the Centre to capitalise on Queensland’s vast, diverse and unique native flora resources by developing new floriculture products to facilitate growth in the value of Queensland's native floriculture industries in generating employment opportunities. The Centre will continue to support the phasing out of harvesting timber in State forests in accordance with the South East Queensland Forest Agreement and the development of new industry opportunities in those areas impacted by the Western Hardwoods Agreement.

Drought relief

Additional funding will be provided in 2006-07 on a needs basis, based on actual expenses, to continue the existing State Drought Relief Assistance Scheme and for the Queensland contribution to the joint Commonwealth/State Exceptional Circumstance (Drought) Business Support scheme.

Queensland cruise shipping infrastructure projects

Additional funding of $2.5 million is provided over the three year period from 2006-07 to 2008-09 for the continued development of the Brisbane Cruise Terminal including headworks and dredging. Additional funding of $1.4 million is provided in 2006-07 for continued planning of the proposed Gold Coast Marine Development Project.

REALISING THE SMART STATE THROUGH EDUCATION, SKILLS AND INNOVATION

In recent years, the Government has laid the foundation for establishing Queensland as the Smart State. Initiatives have focused on education and training reforms and facilities and improving workforce skills for current and future needs by focusing on lifelong learning. In March 2006, the Queensland Government released the *Queensland Skills Plan* for the vocational and training system. Details on this plan are provided in Box 4.2.

Other major initiatives to support the Smart State priority are detailed below.

Education initiatives

The 2006-07 Budget will provide up to 224 additional teachers to meet enrolment growth and 150 extra teachers to continue to reduce class size targets in Years 4 to 10 from 30 to 28 students.

Tomorrow's Schools

An investment of $1 billion over five years will ensure Queensland students have the best possible facilities to meet the needs of the future. This will include:

- $50 million in 2006-07 to fund priority minor capital works projects for state schools, with projects selected on the advice of parents
- a further $850 million over five years to modernise and refurbish Queensland state schools
- an additional $100 million to non-state schools, provided in 2005-06, as capital assistance.

Improving outcomes for Indigenous students

In 2006-07 an additional $6.2 million in capital funding and $3.5 million in recurrent funding will be invested in projects to improve education, training and career opportunities for Aboriginal and Torres Strait Islanders. This funding is part of a new four year commitment by the State Government comprising $19.4 million in recurrent funding and $9.2 million in capital funding to students in Cape York and the Torres Strait through its Bound For Success initiative.

Increased funding for students with disabilities

An additional $37.9 million four year commitment will provide additional teachers, teacher aides and therapists to continue specialist support for students with disabilities.

Preparatory Year introduced State-wide

2007 sees the historic introduction of Queensland's new Preparatory Year of schooling. In 2006-07, the State Government will provide:

- $106 million for the further construction and refurbishment of classrooms to ensure a total of 1,600 Preparatory Year classrooms are available for the full implementation of the Preparatory Year in state schools
- funding for 100 new teachers, who will join the existing early years teachers to staff the new year of school
- up to an additional 10,000 teacher aide hours per week to support the full implementation of the Preparatory Year
- $1.4 million for professional development for state school Preparatory Year teachers
- $11 million in grants to schools for Preparatory Year curriculum resources such as books, art and craft materials and indoor play equipment.

Building new schools and better facilities

The total education capital works program of $497.1 million is comprised of $427.1 million for building new schools and classrooms to meet student growth and $70 million from the Tomorrow's Schools program.

Funding of $169.8 million is provided for the construction of new classrooms and facilities to accommodate Queensland's growing student population. A further $98.5 million is provided for building improvement programs to modernise state school libraries and administration areas, upgrade toilets and special education facilities and increase schools' power capacity to operate new technologies.

The investment in school maintenance will include $35.4 million for the replacement of roofs in state schools as part of the Accelerated Asbestos Roof Replacement Program and $4.5 million from a new $9 million two year program to install electrical safety switches in approximately 100 state schools.

Equipping students with the essentials

The four year literacy framework, Literacy – the Key to Learning: Literacy Framework for Action 2006-2008 will employ and train regional literacy experts to work with state schools to improve student literacy outcomes and provide professional development for teachers of literacy and teacher aides across Queensland.

Box 4.2
Queensland Skills Plan

Following State-wide consultation regarding proposed reforms to the Queensland vocational education and training system, the Government launched the *Queensland Skills Plan* in March 2006. This plan establishes a policy framework that will better match the supply of skilled labour to industry needs and the demands of the economy and outlines a range of actions that the Queensland Government will implement to transform and modernise the State's vocational education and training system.

The *Queensland Skills Plan* provides for initiatives including:

- an additional 17,000 trades training places and an additional 14,000 Certificate IV and above training places to be available each year by 2010
- 10 new sites for Skilling Solutions Queensland to be established in 2006-07 to provide a face-to-face career and training information service
- three additional centres of excellence to be created to promote skills development in the important industries of energy, manufacturing and engineering, and building and construction
- a major capital works investment program to be implemented to modernise the State's network of Technical and Further Education (TAFE) institutes.

Over the next four years, around $800 million in recurrent expenditure will be invested to implement reforms outlined within the *Queensland Skills Plan* (including an estimated $542 million in new recurrent funding). Around $46 million is budgeted in 2006-07 to implement capital initiatives of the *Queensland Skills Plan*, including modernisation of the State's network of TAFE institutes (part of a total capital commitment exceeding $300 million over six years).

Queensland Academies

The 2006-07 Budget provides capital funding of $12.5 million for first stage works on two new Queensland Academies for the State's best and brightest. The maths, science and technology academy at Toowong will have links with the University of Queensland, while the creative industries academy will have links with the Queensland University of Technology at Kelvin Grove.

Vocational education and training and employment initiatives

Skilling Queenslanders for Work

The Government will maintain its focus on labour market initiatives, in recognition of the high levels of support required by clients who are still struggling to gain employment in the current economy. During 2006-07, the Government will transition from the highly successful Breaking the Unemployment Cycle program to a new labour market response Skilling Queenslanders for Work, as part of the *Queensland Skills Plan*. This initiative combines some features of the existing program, as well as providing new measures that will allow assistance to be better matched to an individual's needs.

Other vocational education, training and employment initiatives

In 2006-07 the Government will allocate:

- $27.1 million for the Community Jobs Plan program to support 6,020 long term unemployed, mature age and other disadvantaged jobseekers with targeted job placements, job search assistance and training
- funding to continue the implementation of the Cyclone Larry Employment Assistance Package to provide support to workers in the affected area (a total commitment of up to $18.6 million over 2005-06 and 2006-07)
- $22.8 million to fund up to 1,100 traineeships through the First Start program. The First Start program provides subsidies to public sector agencies to employ disadvantaged jobseekers as trainees
- $9.8 million to provide employment preparation assistance for young people aged 15 to 17 years who have left school before completing Year 12, or who are at risk of leaving without engaging in further education, training or employment (part of the Education and Training Reforms Pathways Program - Get Set for Work program)
- $7.1 million for employer incentives to increase school-based apprenticeship and traineeship opportunities (part of the Education and Training Reforms Pathways Program - Youth Training Incentive).

Major capital initiatives for 2006-07 include:

- $19.1 million capital funding to commence site works and construction of the new Coomera Campus of the Gold Coast Institute of TAFE (part of a total capital investment of $31.7 million). The new campus will deliver programs with a focus on creative industries including film and television, graphic design, interior design, architecture, building technology and information technology
- $19.3 million capital funding to establish major Trade and Technician Skills Institute campuses at Acacia Ridge and Eagle Farm in Brisbane (part of a total capital investment of $120.5 million)
- $11.8 million capital funding to acquire land and commence detailed planning for the establishment of major trade training centres at Barrier Reef (Townsville) and Central Queensland (Mackay) Institutes of TAFE (part of a total capital investment of $58.2 million)
- $15.9 million capital funding for Information and Communication Technology capital initiatives (with a further $2.8 million to be invested in infrastructure equipment).

Other initiatives

Institute of Molecular Bioscience

Funding of $50 million over five years from 2009-10 to 2013-14 will be provided for this world class institute. This will enable the Institute for Molecular Bioscience to attract and retain internationally recognised scientists, capitalise on its achievements to date and plan for the longer term. This new funding is in addition to the $92.5 million provided by the Queensland Government since 2000.

Boggo Road Precinct redevelopment

Capital funding of $335.5 million is provided for the Boggo Road Precinct Redevelopment for infrastructure works, planning, construction and fit-out of facilities planned for completion in 2009-10. The redevelopment includes the Boggo Road Ecosciences Precinct, the Coopers Plains Health and Food Sciences Precinct and other ancillary offsite facilities. These centres will bring together the research activities of a number of State agencies. The State is currently discussing the possibility of collocating with the Australian Commonwealth Scientific and Research Organisation.

Queensland Education and Training International initiative

Additional funding of $2 million per year for five years has been provided for the second stage of the Queensland Education and Training International initiative. Stage Two seeks to build on the success of Stage One, to develop a sustainable international education industry in Queensland. To meet the demands of an increasingly competitive market, broader focused strategies will be developed.

MANAGING URBAN GROWTH AND BUILDING QUEENSLAND'S REGIONS

Queensland's strong population growth presents challenges for transport systems and other infrastructure, services and the environment. Major service developments and initiatives to support this priority are detailed below.

To plan for urban growth in the South East Queensland region, the Government released the *South East Queensland Infrastructure Plan and Program* (SEQIPP) in April 2005, which outlines key infrastructure priorities. An update on the SEQIPP is provided in Box 4.3. In June 2006, the Queensland Government announced its *Blueprint for the Bush*, focusing on building the sustainability, liveability and prosperity of rural Queensland. Details on the Blueprint are provided in Box 4.4.

Water Infrastructure initiatives

Water infrastructure

The development of new water infrastructure to meet urban, industrial and rural demand on an environmentally sustainable and economically responsible basis is a key priority for the Government, particularly in South East Queensland. The acquisition of land for future water infrastructure projects will continue, with $69 million set aside in 2006-07 for strategic land purchases, including an additional $50 million to accelerate land acquisitions for two new dams located on the Logan and Mary rivers.

Water efficiency

Funding of $32 million has been provided to address the major issue of water wastage and loss, to assist South East Queensland councils to repair water main breaks and leaks over 2005-06, 2006-07 and 2007-08.

The Budget also provides $20 million to South East Queensland councils and SEQWater to help cut water use through a new water efficiency program to be implemented during 2006-07. Residents will receive special water audits and water saving devices will be installed where needed, alongside a water efficiency audit program for commercial and industrial water users.

Investigations for Connors River Dam

New funding of $1.5 million is provided in the Budget for environmental baseline studies, geotechnical investigations and preliminary engineering design for the proposed Connors River Dam, which will supply water to coal mines and mining communities in the Northern Bowen Basin.

Western Corridor recycled water scheme

To facilitate implementation of a recycled water pipeline in South East Queensland's Western Corridor additional funding of $100 million has been provided in 2006-07.

Box 4.3
South East Queensland Infrastructure Plan and Program

To support the South East Queensland Regional Plan and guide the preferred pattern of development, the Office of Urban Management has prepared the new *South East Queensland Infrastructure Plan and Program 2006-2026*. This is the first in a series of annual updates to this long-term investment program.

The 2006 Plan covers investment in transport and freight, water, energy, information and communication technology and social and other community infrastructure (including health, education, vocational education and training and sport and recreation).

Progress on projects and investigations over the previous 12 months is provided below.

- Planning for the $216 million Eastern Busway (Buranda to Boggo Road) is well advanced, with construction to commence in mid-2006.
- Construction of the inner city section of the Inner Northern Busway has commenced and scheduled for completion by 2008.
- Pre-construction work on the $543 million Tugun Bypass has commenced with all works to be finalised by late 2008.
- Assessment of tenders for the Gateway Upgrade Project including duplication of the Gateway Bridge and upgrades to 20km of existing motorway is underway and expected to be finalised by September 2006.
- Construction is underway on the upgrade of the Prince Charles Hospital with completion of Stage 1 scheduled for December 2006.
- Planning of health services for Health Hubs at Robina, Northlakes, Browns Plains and the Sunshine Coast is underway, with sites acquired at both Northlakes and Browns Plains.
- New State Colleges at Stretton and Meridian Plains have opened to students from the Preparatory Year to Year Six.
- In partnership with local governments in the region, a program to reduce water pressure, manage leakages and install water saving devices is being implemented.
- Design and land acquisition for the Western Corridor Recycled Water Scheme is underway.
- Significant investments in new electricity distribution infrastructure have been made by Ergon Energy and ENERGEX.

The 2006 Plan also outlines the impacts of key initiatives such as the Regional Drought Strategy, the *Health Action Plan* and the *Queensland Skills Plan*.

In total, the 2006 Plan envisions approximately $66 billion of infrastructure over the coming 20 years, including almost $28 billion in road and public transport projects, $90 million to investigate another possible $14 billion worth of road and public transport projects, $5 billion in social and community infrastructure, $5 billion in expected water infrastructure projects (excluding the two new South East Queensland dams and connecting infrastructure), $4 billion spending on energy networks (over the next five years) and $10 billion in expected outlays on energy networks (beyond the first five years).

Transport initiatives

Integrated Ticketing System

The 2006-07 Budget provides $20 million towards the new Integrated Ticketing System. The new Integrated Ticketing System includes the use of smart card technology as part of a wider program by TransLink to introduce a new fare collection system. The system will make it easier and quicker for customers to pay fares and travel across South East Queensland.

Regional Airport Development Scheme

The Regional Airport Development Scheme 2006-07 investment of $3.2 million includes the commencement of the enhanced program under the *Blueprint for the Bush* initiative. This initiative will provide an additional $5 million over three years.

South East Queensland Infrastructure Plan and Program

In the 2006-07 Budget, the Government continues to progress the implementation of the SEQIPP. Some major projects included in SEQIPP are:

- $118 million towards the construction of the Inner Northern Busway. This project has a total estimated cost of $333 million and will link the Queen Street Bus Station to the already completed stages of the Inner Northern Busway near Roma Street
- $10.3 million towards the construction of cycle links to enhance the cycle network in South East Queensland. This is made up of $4.3 million towards the construction of State owned cycle links and $6 million in grants to be provided to local authorities
- $33.5 million towards construction of a two-lane Eastern Busway corridor connection from Buranda to Boggo Road to the Green Bridge
- $5 million for ongoing land acquisitions as part of a $2.6 billion commitment to construct the Caboolture to Maroochydore Corridor Study rail link between the North Coast line (at Beerwah) and the high growth area of the Sunshine Coast.

Road network

Significant increases in funding have been approved by the Government for investment in the road network, including:

- $1.4 billion over five years for road projects under SEQIPP. Additional roads funding to meet the $27.7 billion commitment to major transport infrastructure identified in SEQIPP over the 20 years from 2005-06 totals some $8.7 billion
- $359 million over four years under the Rural and Regional Roads Funding special initiative for acceleration of regionally significant projects outside the south east corner

- $170 million over five years for the $350 million Regional Bridge Renewal Program to replace more than 100 timber bridges and older concrete and steel structures across the State
- $88 million over three years for the Accelerated Road Rehabilitation Program to rehabilitate and widen 71 kilometres of the Dawson Highway between Gladstone and Banana and replace five timber bridges in Central Queensland and 31 timber bridges in Southern Queensland.

Road projects for 2006-07

Key roadworks that are being progressed in 2006-07 include:

- continuation of the construction of the $543 million ($423 million of which is State funded, $120 million of which is Australian Government funded) four lane bypass on the Pacific Motorway between Tugun and Tweed Heads, scheduled to be completed by the end of 2008
- $71 million in 2006-07 for works on duplicating the Sunshine Motorway between Sippy Downs and Pacific Paradise, including the second Maroochy River bridge and major interchanges at Mooloolaba and Maroochydore Roads and Pacific Paradise, at a total estimated cost of $223 million
- $11.8 million towards construction of the South West Arterial (Springfield to Ripley to Yamanto extension) at a total estimated cost of $270 million
- commencement of major works for a second Gateway Bridge river crossing and increased capacity on the Gateway Motorway between Mt Gravatt-Capalaba Road and Nudgee Road. This will be Queensland's largest single road project with a total estimated cost of $1.6 billion
- $4.1 million in 2006-07 towards construction of the Bundaberg Ring Road to provide an alternative route from the Isis Highway to the industrial areas and the port to the east of Bundaberg City, at a total estimated cost of $42 million
- widening and upgrading of Roma-Taroom Road to support oil and gas development and improve regional community access, at a total estimated cost of $30 million
- the completion of detailed planning for the duplication of the Forgan Bridge in Mackay to allow construction to start in the second quarter of 2007 (at a total estimated cost of $50 million) and to allow a start on the replacement of the Hospital Bridge in Mackay in late 2006 (at a total estimated cost of $24 million)

- duplication of North Ward Road in Townsville between William Street and Ingham Road and between Walker Street and Heatleys Parade, at a total estimated cost of $33.8 million
- widening of Mulgrave Road in Cairns from four to six lanes, at a total estimated cost of $16 million.

Road safety

The Budget allocates $42 million in 2006-07, with $183 million to be allocated over four years from 2006-07, for road safety capital programs as part of the State's Safer Roads Sooner initiative. This initiative aims to reduce road trauma and its social consequences by targeting road safety improvements.

Box 4.4
Blueprint for the Bush

In February 2005, Premier Peter Beattie made a commitment at a Community Cabinet meeting in Charleville, to work in partnership with AgForce Queensland to develop a *Blueprint for the Bush*.

Based on an extensive consultation process with rural and regional Queenslanders, the Government released the *Blueprint for the Bush* through its partnership with AgForce and the Local Government Association of Queensland on 1 June 2006. The Blueprint is a 10 year plan that advances strategic directions and initiatives that focus on building the sustainability, liveability and prosperity of rural Queensland.

The Blueprint is accompanied by the *Rural Economic Development and Infrastructure Plan* which is a five year plan focusing on the economic outlook for the Bush and outlining a range of Government and private sector investment initiatives for rural and regional Queensland.

The Blueprint commits more than $150 million in additional State-wide initiatives across rural and regional Queensland over the next four years.

The key focus areas of the *Blueprint for the Bush* include:

- driving economic development and innovation
- facilitating infrastructure planning and provision
- implementing a more cohesive regional planning model to help drive future investment and service delivery
- improving service delivery and developing new service models tailored to rural communities in relation to health, education, transport and community services
- reducing ‘red tape’ and streamlining support to rural communities
- improving local input to planning, decision-making and actions
- strengthening relationships and extending the Blueprint partnership approach.

The Blueprint is a dynamic plan that will continue to develop through the partnership agreement and in consultation with rural Queenslanders. It will identify and respond to emerging issues and help inform future rural policy directions and investments.

Other initiatives

Queensland's 150th celebrations

The Government has provided additional funding of $10 million over four years for a program of events to celebrate Queensland's sesquicentenary. The program will celebrate and reflect on past achievements, current opportunities and future directions. Main elements of the program will include:

- funding for local communities to promote community engagement in locally organised and delivered celebrations
- funding for an educational and awareness program
- funding for a State-wide touring program
- additional funding for an expanded Queensland Week celebration program.

Queensland Events Regional Development Program

The Government has maintained its annual recurrent $2.4 million commitment to the Queensland Events Regional Development Program. Events in regional centres play a key role in fostering regional tourism and economic development, are valuable for local community involvement and are effective for promoting a particular region.

Rural Infrastructure Access Initiative

$1 million will be provided under the *Blueprint for the Bush* Rural Infrastructure Access Initiative for feasibility and financing studies of high priority regional infrastructure. This funding complements the $25 million provided over five years through the Regional Collaboration and Capacity Building Program.

Additional funding of $4.5 million will be provided under the *Blueprint for the Bush* to expand the Government's current regional planning program by establishing three additional Regional Planning Advisory Committees, for North Western, Central Western and South Western Queensland.

PROTECTING OUR CHILDREN AND ENHANCING COMMUNITY SAFETY

The Government has attached a high priority to implementing strategies which protect our children and contribute to safe communities. Major service developments and initiatives to support this priority are detailed below.

Box 4.5 provides details of a range of measures to assist the recovery of communities affected by Cyclone Larry, which caused severe damage to homes and essential infrastructure across Far North Queensland in March 2006.

Child protection initiatives

The 2006-07 Budget provides new recurrent and capital funding of $133.2 million and $4.9 million respectively over four years for child safety initiatives. Of this, $28.1 million in recurrent funding and $4.8 million in capital funding is provided in 2006-07. This brings the Department of Child Safety's operating budget to $503.1 million in 2006-07, a 28% increase over the 2005-06 Budget and builds on the significant funding for the Child Protection Blueprint projects initiated in the 2004-05 Budget. Key elements of the new funding provided in the 2006-07 Budget are outlined below.

Additional front-line child protection officers

Funding of $32.1 million over four years ($7.6 million in 2006-07) has been provided to support the recruitment of an additional 50 child safety officers to address ongoing demand pressures in Queensland's child protection system. These funds will also provide incentives to attract and retain staff particularly in regional, rural and remote areas of Queensland.

Out-of-home care placements

Recurrent funding of $50.2 million over four years ($10 million in 2006-07) has been provided for non-government partners to deliver further alternative care placements for children in care with complex and extreme needs as well as general foster care placements. Capital funding of $4 million has also been provided in 2006-07 for the establishment of two therapeutic residential facilities in South East Queensland.

A further $24 million over four years ($6 million in 2006-07) has been provided to address the increased number of children entering into general foster care as well as for the growth in kinship foster carers and planned respite for Queensland's foster carers.

Service delivery hubs in remote Indigenous communities

An additional $11.6 million over four years ($2.6 million in 2006-07) has been provided to enhance localised child protection responses in a number of remote Indigenous communities in the Gulf and Cape/Torres regions and Palm Island. This will provide a permanent presence of child safety support staff in local communities to enhance social and cultural networks and assist with community capacity building. A further $0.9 million over two years ($0.8 million in 2006-07) in capital funding has been provided to support the establishment of the service delivery hubs.

Youth justice services and interventions

Additional funding of $12.7 million over four years ($3.1 million in 2006-07) is provided to expand youth justice services, including increased capacity of the youth justice conferencing program, additional services for people on community-based youth justice orders, the establishment of a Far North Queensland campus of Boonah Outlook, additional treatment services for juvenile sex offenders and the establishment of a State-wide youth justice quality assurance team to introduce a new assessment tool.

Additional funding for Employment Screening Services and Community Visitor programs

The Government’s ongoing commitment to safeguarding children and young people, particularly those most vulnerable, sees additional funding of $22.1 million over the next four years for Employment Screening Services. This funding will be used to promote safe service environments for children and young people by screening people who work or volunteer with children, as well as through the criminal history screening of foster carers, kinship carers, adult members of these households and relevant persons associated with licensed care services.

The Government has also committed additional funding of $9.6 million over the next four years to ensure that the Community Visitor program is maintained at its current level of monitoring and reporting on children in out-of-home care.

Policing Initiatives

Support for police

For 2006-07, the Police Service’s operating budget increases by 10.3% over the 2005-06 published Budget. The Budget provides for additional recurrent funding of $233.6 million and additional capital funding of $173.8 million over the next four years.

Additional police officers

The Queensland Police Service's funded sworn strength will be increased to 9,728 by September 2007 through the creation of an additional 350 new police positions. This strong growth in police numbers will more than meet the Government's commitment to maintain police numbers at or above the national average police to population ratio.

Capital works

An additional $97.3 million in capital and $15.6 million in recurrent funding is provided over four years for new and upgraded police stations, watchhouses, police beats and police housing across the State.

Enhancement of Queensland Police Service information and communication technology

Over the next four years, the Budget provides an additional $172.5 million recurrent and $76.4 million in capital funding for the continued enhancement of the Queensland Police Service's information and communications technology (ICT).

The State-wide implementation of QPRIME, an integrated policing solution, will be supported through recurrent funding of $68.6 million and capital funding of $25.8 million over the next four years. QPRIME will provide the tools to effectively manage the ever increasing volume of information used by operational police, ranging from location data, to traffic management and crime management data.

Implementation of the Public Safety Network will provide a common ICT network for the Departments of Police, Emergency Services, Corrective Services and Justice and Attorney-General. The Government will invest $103.9 million in recurrent funding and $50.6 million in capital funding over the next four years in the Public Safety Network.

Emergency services initiatives

Aeromedical and air rescue helicopter services

An additional $13.2 million is provided over four years from 2006-07 to increase grants to Community Helicopter Providers for upgrading the aeromedical and air rescue helicopters to twin engine helicopters and for introducing a stronger safety auditing system.

Increased capital funding of $7.5 million will be provided in 2007-08 for the replacement of the Emergency Management Queensland Helicopter Rescue Bell 412 helicopter fleet which will involve a total capital cost of $48.3 million.

Queensland Ambulance Service

The Budget provides an additional $35.3 million over three years to the Queensland Ambulance Service (QAS) for the recruitment of 144 additional ambulance officers for service delivery purposes. An additional $12.4 million funding over four years is provided to QAS for the recruitment of 35 additional communication officers to improve ambulance call response times at communication centres.

Improving information and communication network support

An additional $1.1 million capital funding is provided in 2006-07 to upgrade emergency services current electronic information and communication connections to operational locations.

Box 4.5
Cyclone Larry Response

On 20 March 2006, Tropical Cyclone Larry crossed the Queensland coast near Innisfail as a Category Five storm – the highest on the intensity scale – with winds of up to 290 kilometres per hour. In addition to the severe damage caused to homes and essential infrastructure across Far North Queensland communities, the impact of the cyclone on local residents, primary producers and businesses has been immense.

Following the immediate disaster management response, the Government appointed General Peter Cosgrove to lead a taskforce to oversee the rebuilding of communities. The State and Australian Governments have initiated a range of measures to assist the recovery of affected communities, including:

- an enhanced loan/grant assistance scheme providing concessional loan assistance packages of up to $500,000 to primary producers and small businesses, with 25% of the package being in the form of a grant (capped at $50,000)
- emergency assistance of up to $150 per person (to a maximum of $700 per family)
- essential household contents grants of up to $1,500 per individual and $4,500 per couple/family
- grants for structural repairs to dwellings of up to $17,000 for individuals and $20,000 per family (less amounts paid for essential household content grants)
- up to $5 million for Operation Farm Clear to assist primary producers through the high priority clearing of debris necessary to maintain human safety and animal welfare
- freight subsidies of up to $5,000 for primary producers and assistance for the cost of generator hire
- support for workers and farmers under the $18.6 million Cyclone Larry Employment Assistance Package, including $14 million for the employment of up to 1,000 local displaced residents under the Community Jobs Plan.

The Australian Government will contribute to the cost of some of the above measures that fall within the scope the Natural Disaster Relief Arrangements.

Criminal justice initiatives

Integrated Justice Information System

The Budget contains capital funding of $20.9 million over two years ($11.3 million in 2006-07) for further components of the Integrated Justice Information System to allow consistent and quality data transfers between criminal justice agencies. Additional recurrent funding of $18.2 million over four years is provided to support this initiative.

Videoconferencing

Capital funding of $4.2 million ($3.7 million in 2006-07) is allocated to expand the use of videoconferencing in the criminal justice sector. This will enable video links between correctional centres and courthouses and is supported by recurrent funding of $6.1 million over four years.

Courthouses

The Budget provides funding for the construction of new courthouse facilities State-wide. Additional capital funding of $73.3 million over three years is provided for construction of a new Ipswich courthouse, as part of a combined facility including a watchhouse and police station. Construction of a new Mareeba courthouse is facilitated through capital funding of $5.3 million over two years. Additional capital funding of $3 million over two years is allocated for the completion of the new Pine Rivers courthouse.

Correctional centres

The Budget provides $139.3 million in capital funding over three years from 2006-07 for the expansion and redevelopment of the Townsville Correctional Centre. Recurrent funding of $44.8 million over three years from 2007-08 supports the expanded operations. The Budget also includes increased capital funding of $68.4 million over two years to complete the expansion of Sir David Longland and Arthur Gorrie Correctional Centres and the construction of the new women's facility in Townsville. An additional $21.8 million over four years will also be provided to operate the remaining 202 unused prison cells in Maryborough, Woodford and Brisbane Women's Correctional Centres, due to anticipated prisoner population growth in South East Queensland.

Probation and parole services

The Budget provides additional recurrent funding of $35 million over four years to overhaul the community corrections system by establishing a new probation and parole service. By building a service with a strong surveillance and compliance capacity, combined with a focus on rehabilitation, a viable diversionary alternative for low risk, non-violent offenders is provided. A further $3.9 million in capital funding is allocated for this initiative. The initiative is in addition to funding of $10 million over four years already allocated to facilitate the management of an expected increased number of offenders on parole orders issued by the courts. Together, these initiatives will ensure that offenders serve their entire sentence, either in jail or in community supervision.

PROTECTING THE ENVIRONMENT FOR A SUSTAINABLE FUTURE

The sustainable use of natural resources and the maintenance of biodiversity are key priorities of the Government. The Government will continue to promote sustainable development through responsible use of the State's natural resources.

Major service developments and initiatives to support this priority are detailed below.

Blueprint for the Bush initiatives

Reclaim the Bush, a Pest Offensive

Additional funding of $11 million over three years ($3 million in 2006-07) is provided for the improved management of high risk weeds and pest animals across Queensland. This initiative will include an increased emphasis on improved delivery of preventative programs throughout rural areas of Queensland.

Environmental Partnership Scheme

Additional funding of $5.5 million over three years ($1.5 million in 2006-07) is provided to combine and enhance a package of strategies designed to recognise and reward effective land management practices. The scheme will provide a coordinated, whole-of-Government approach to assist landholders.

State Rural Leasehold Land Strategy

Additional funding of $4 million in 2006-07, as part of a package of $19 million over four years, is provided for development of tools and information products to support land condition assessment and monitoring, the acquisition of skills in condition assessment and negotiation and support for the increased compliance requirements under the proposed State Rural Leasehold Land Strategy.

High-Priority Artesian Bore Capping initiative

Additional funding of $0.5 million over three years ($0.2 million in 2006-07) is provided to subsidise the capping of nine high risk bores as part of the Great Artesian Basin Sustainability Initiative. This scheme limits the landholder contributions for initial access works to $20,000 per bore.

OnePlan initiative

Additional funding of $3 million over four years ($0.6 million in 2006-07) is provided to implement the OnePlan initiative that will provide rural landholders with a coordinated and consistent approach to the preparation of a wide range of mainly regulatory property planning documents.

Rural Water Use Efficiency Stage 3

Additional funding of $4 million over three years ($1.3 million in 2006-07) is provided to extend Rural Water Use Efficiency Stage Three (RWUE3) across Queensland. This funding is in addition to the $2.5 million over two years provided for RWUE3 in 2005-06 and the $15 million over 10 years as announced in 2005-06 as part of the *South East Queensland Infrastructure Plan and Program* for rural water use efficiency initiatives in South East Queensland. This additional funding will enable partner industries in rural Queensland to provide complete programs addressing water use efficiencies, on-farm water management and natural resource impacts.

Other environmental initiatives

East Trinity property management and acid sulphate soil remediation

Additional funding of $1.2 million of recurrent funding and $1.3 million of capital funding is provided over three years for the continued remediation, management and monitoring of the degraded East Trinity site. This is in addition to $4.5 million in recurrent funding and $0.7 million in capital funding provided in 2005-06 over four years for the East Trinity Property Management strategy. A planned program of continued acid sulphate soil remediation and maintenance, including the upgrade of the existing bund wall, floodgates and roads, will build on the success of earlier works and deliver remediation of the site allowing alternate land uses in the future.

Haulage assistance rebates

Additional funding of $1.8 million over three years ($0.8 million in 2006-07) is provided to continue hardwood timber haulage assistance rebates in South East Queensland and extend rebates to the Western Hardwoods Region.

Koala Conservation Plan implementation package

Additional funding of $2.1 million over four years ($0.5 million in 2006-07) is provided to support a package of initiatives to assist in halting the decline of the koala population in Queensland, especially South East Queensland. Key components of the package include the survey and mapping of koala habitat, planning and assessment activities to ensure development is compatible with conserving koalas and koala habitat and community engagement activities to raise awareness of issues and responsibilities for koala conservation.

Cape York Peninsula land acquisition program

Additional funding of $3 million is provided in 2006-07 to continue the implementation of the Cape York Peninsula Land Acquisition Program, through the acquisition of land containing representative samples of Cape York ecosystems for inclusion within the Protected Area Estate. This funding is in addition to $7.5 million provided in 2004-05.

Delivery of natural resource management in Cape York region

Additional funding of $2.1 million over two years ($1 million in 2006-07) is provided for the continued delivery of regional natural resource management in Cape York under the Natural Heritage Trust program.

South East Queensland Conservation initiative

Additional funding of $20 million is provided in 2006-07 to acquire properties within South East Queensland to increase green space. The land will be added to the protected estate.

Funding day-to-day management of the Great Barrier Reef Marine Park

In recognising the importance of the Great Barrier Reef the Government is working with the Great Barrier Reef Marine Park Authority in determining the priorities and directions for the Great Barrier Reef Marine Park. Additional funding of $12.2 million over four years is allocated to ensure that the Great Barrier Reef Marine Park and its island National Parks are managed in accordance with community expectations, which provides certainty to the world class tourism industry and supports the fishing industry through improved compliance and management.

DELIVERING RESPONSIVE GOVERNMENT

The *Financial Administration and Audit Act 1977* and the associated *Financial Management Standard 1997* put in place a comprehensive framework of governance and accountability for the Government and its agencies. The Government also places priority on delivering responsive Government through a range of actions and strategies including engaging communities in government decisions and processes through the continuation of regional community forums and regional Cabinet meetings.

Fuel Subsidy Scheme – change in definition of fuel

The Budget provides for a planned change in the definition of fuel under the *Fuel Subsidy Act 1997*. Presently, fuel must be of a type ordinarily sold by a retailer to qualify for subsidy. This definition will be expanded to cater for certain emerging forms of motor spirit and diesel fuels. The change will apply from the date of Royal Assent to the amending legislation.

Box 4.6
The State's investment in information and communication technology

The Queensland Government recognises that opportunities exist to achieve better business and information and communication technology (ICT) value from a consolidated and coordinated approach to ICT service provision to the community. These opportunities also exist through the implementation of an overarching e-Government approach to connect Government internally to communities and to other jurisdictions.

The Office of Government ICT assists agencies to achieve this by:

- developing and implementing a whole-of-Government ICT strategic planning methodology
- using this information to assist in more strategic decision-making and to identify opportunities that cross agency boundaries
- designing the Government Enterprise Architecture, incorporating the design elements and standards for business, information, applications and technologies, and the standardisation of the infrastructure to enable cross-agency interactions to occur
- increasing the ICT skills, capabilities and professional development of both individuals and agencies.

Some of the key Government initiatives in ICT in 2006-07 include:

- **Enhancement of Queensland Police Service ICT**, including the State-wide implementation of QPRIME, an integrated policing solution to effectively manage the ever increasing volume of information used by operational police and the implementation of the Public Safety Network to provide a common ICT network across a number of agencies
- **Integrated Client Management System,** a key project under the Shared Information Solutions ICT initiative, will support information management and decision making in the child protection and youth justice systems. The first component of this system, the Directory of Carers, was delivered in 2005. Remaining functions will be completed by 2007
- **Integrated Justice Information System**, with $20.9 million over two years and $18.2 million over four years in capital and recurrent funding respectively, to enhance consistent and quality data transfers between criminal justice agencies
- **Health ICT**, an investment of $87.2 million supports improved access to information and systems for clinicians in hospital and community care settings and the continued development, integration and replacement of technical infrastructure underpinning enterprise systems and networks
- **Smart Classrooms**, with $79 million in recurrent and $5 million in capital funding invested in school technology projects in 2006-07, which will enable the establishment of a central state schools computer help desk, parents to log on to their local school computer network and grants for targeted technology programs and projects
- **Smart Service Queensland,** with $16.3 million recurrent funding and $1.8 million in capital to expand services available to the public. This funding will enable agencies to transition their high priority services to Smart Service Queensland, providing the public with easier access to Queensland Government services and information
- **Shared Service Initiative**, which is now in the third year of a five year implementation phase and moves from the piloting of new finance and human resource business solutions to a comprehensive roll-out across most agencies in the next two years.

5. REVENUE

KEY POINTS

- **Total General Government sector revenue is estimated to be $29.070 billion in 2006-07. The decrease of $516 million (or 1.7%) on 2005-06 estimated actual revenue primarily reflects the return of investment returns to the assumed long-term average earnings rate of 7.5%.**
- **Payroll tax relief will be provided to small and medium sized businesses from 1 July 2006, with the payroll tax threshold to be increased from $850,000 to $1 million.**
- **The tax-free threshold for resident individual land tax payers will be increased from $450,000 to $500,000 from 1 July 2006.**
- **A new first home transfer duty concession will be available for certain acquisitions of vacant land from 1 January 2007.**
- **Hire duty and marketable securities duty will be abolished on 1 January 2007.**
- **As previously announced, transfer duty rates will increase from 1 July 2006 for transfers of dutiable property over $500,000. This will be partially offset by an increase in the concession for home purchases.**
- **Queensland will retain its competitive tax status, with per capita tax estimated at $1,927 in 2006-07 compared to an average of $2,272 for the other states.**

INTRODUCTION

This chapter provides an overview of General Government sector revenue for the estimated actual outcome for 2005-06, forecasts for the 2006-07 Budget year and projections for 2007-08 to 2009-10.

Table 5.1
General Government revenue[1]

	2005-06 Budget $ million	2005-06 Est. Act. $ million	2006-07 Budget $ million	2007-08 Projected $ million	2008-09 Projected $ million	2009-10 Projected $ million
Revenue						
Taxation revenue	6,843	7,356	7,871	8,331	8,736	9,198
Current grants and subsidies	12,682	12,809	13,143	13,460	13,785	14,243
Capital grants	528	591	683	951	870	676
Sales of goods and services	2,401	2,500	2,693	2,773	2,836	2,910
Interest income	1,421	3,200	1,802	1,891	1,991	2,096
Other	2,729	3,129	2,879	2,865	3,025	3,333
Total Revenue	**26,604**	**29,586**	**29,070**	**30,271**	**31,242**	**32,456**

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

The 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 2005-06 is estimated to be $29.586 billion or 11.2% more than the 2005-06 Budget estimate.

Significant variations include higher:

- interest income, reflecting the strong performance of investment markets which has significantly improved the returns from the State's financial assets held to meet future employee entitlements. Excluding the higher revenue from interest income reduces estimated actual revenue to 4.5% higher than budgeted
- taxation revenue, primarily due to higher revenue from duty on property transfer transactions resulting from stronger than expected market activity, as well as higher payroll tax from high employment and wage growth
- payments from the Australian Government
- tax equivalent payments and royalty revenue.

General Government revenue in 2006-07 is estimated to be $29.070 billion, a decrease of $516 million or 1.7% on the 2005-06 estimated actual revenue of $29.586 billion. This is largely due to:

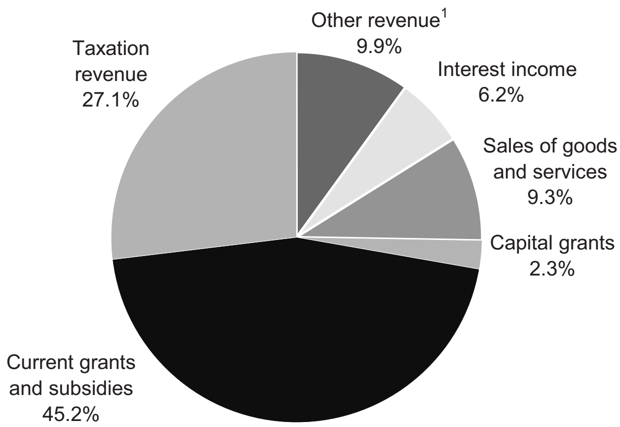
- reduced interest income, reflecting the return of investment returns to the assumed long-term average earnings rate of 7.5%
- reduced revenue from tax equivalent payments.

These revenue reductions are partly offset by forecast increases in GST revenue grants and tax revenue.

REVENUE BY OPERATING STATEMENT CATEGORY

Major sources of General Government revenue in 2006-07 are current grants and subsidies (45.2% of revenue) and taxation revenue (27.1%). Chart 5.1 illustrates the composition of General Government revenue.

Chart 5.1
Revenue by operating statement category 2006-07

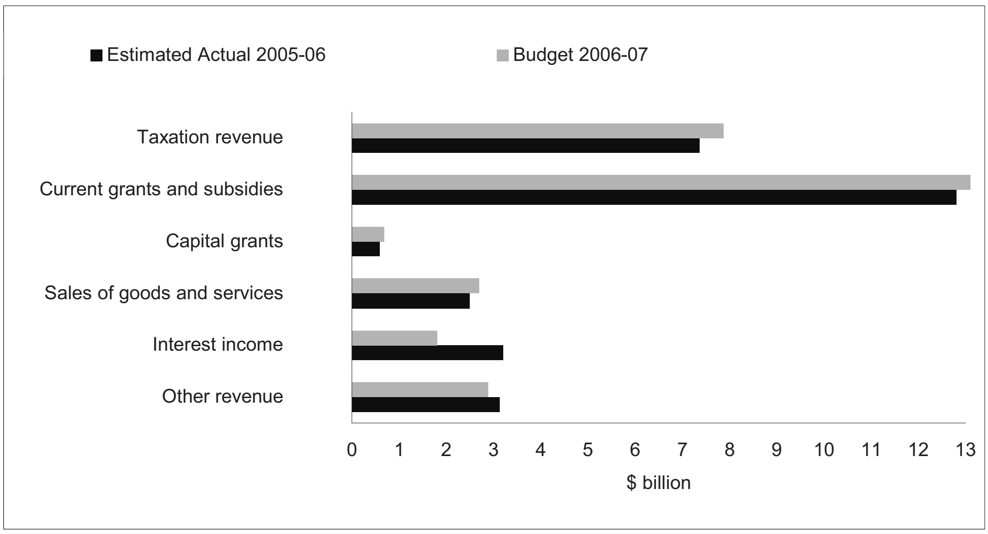


Note:
1. The major components of 'other revenue' are dividends (2.2%), royalties and land rents (5.2%) and tax equivalent payments from public corporations (1.3%).

Chart 5.2 compares the composition of General Government revenue, based on 2005-06 estimated actuals and 2006-07 estimates.

The overall result primarily reflects anticipated decreases in interest income and other revenue being partly offset by increases in current grants and subsidies and taxation revenue.

Chart 5.2
Revenue by operating statement category for 2005-06 and 2006-07



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 7.0% in 2006-07. This reflects the continued robustness of the property market on duty revenue as well as employment and wage growth on payroll tax revenue.

Table 5.2
Taxation revenue[1]

	2004-05 Actual $ million	2005-06 Est. Act. $ million	2006-07 Budget $ million
Payroll tax	**1,674**	**1,916**	**2,054**
Duties			
Transfer[2]	1,744	1,906	2,116
Vehicle registration	267	272	279
Insurance[3]	316	331	346
Mortgage	256	290	310
Other duties[4]	60	68	26
Total Duties	**2,642**	**2,867**	**3,078**
Gambling taxes and levies[5]			
Gaming machine tax and levies[6]	520	563	582
Lotteries taxes	181	181	186
Wagering taxes	33	33	35
Casino taxes and levies	59	60	63
Keno tax	13	13	14
Total Gambling taxes and levies	**806**	**851**	**881**
Other taxes			
Land tax	419	424	500
Debits tax	189	1	0
Motor vehicle registration	767	813	846
Fire levy	225	235	247
Community Ambulance Cover	112	116	121
Guarantee fees	64	75	83
Other taxes	55	58	61
Total Taxation	**6,952**	**7,356**	**7,871**

Notes:
1. Numbers may not add due to rounding.
2. Includes marketable securities duty.
3. Includes accident insurance premiums.
4. Includes duty on leases, rental arrangements, credit business and life insurance premiums.
5. Includes community benefit levies.
6. Includes the Major Facilities Levy and Health Services Levy.

Budget tax initiatives

Payroll tax relief

Queensland has experienced strong growth in its labour market for a number of years and this is expected to continue into the future. A consequence of this performance has been an increase in the number of employers liable for payroll tax. In recent years, the impact has been moderated by the application of a high threshold and a tapered deduction system and by incremental reductions in the payroll tax rate from 5.0% in 1999-2000 to the current 4.75%.

Even so, in the absence of further payroll tax relief, many employers would be entering the payroll tax system for the first time. This Budget delivers payroll tax relief from 1 July 2006 which provides for an increase in:

- the exemption threshold from $850,000 to $1 million of employers' annual Australian payrolls
- the maximum payroll at which taxpayers receive a deduction, from $3.4 million to $4 million.

Compared to the current payroll tax threshold, the revised threshold will:

- reduce by approximately 600 the number of employers in the payroll tax base in 2006-07. As a result, approximately 90% of Queensland employers will not be liable for payroll tax
- provide significant tax reductions for current payroll tax payers with payrolls below $4 million, as shown in Table 5.3 below
- save taxpayers $34.3 million in 2006-07.

Table 5.3
Payroll tax payable

Payroll $	Current $	New $
850,000	-	-
900,000	3,167	-
1,000,000	9,500	-
1,250,000	25,333	15,833
1,500,000	41,167	31,667
2,000,000	72,833	63,333
2,500,000	104,500	95,000
3,000,000	136,167	126,667
3,500,000	166,250	158,333
4,000,000	190,000	190,000

Table 5.4 shows that a combination of a high threshold and a low flat rate will make Queensland payroll tax amongst the most competitive in Australia.

Table 5.4
Payroll tax schedules for 2006-07

	QLD		NSW	VIC	WA	SA	TAS
	Current	New					
Threshold $000s	850	1,000	600	550	750	504	1,010
Rate %	4.75%	4.75%	6%	5.15%	5.50%	5.50%	6.10%

Land tax

Queensland has experienced strong growth in land values since 2001. Although moderated by the application of three year averaging of land valuations for assessments, a consequence has been a potential increase in the numbers of landowners liable for land tax and growth in land tax liabilities for landowners already in the system. The Government responded last year by overhauling the land tax system, increasing the tax free thresholds and reducing tax rates.

This Budget delivers further land tax relief by increasing the tax free threshold for resident individuals from the current $450,000 to $500,000. This means resident individuals will not be subject to land tax until the unimproved value of their landholdings, excluding their principal place of residence, amounts to $500,000. Compared to the current schedule, the increased threshold will reduce by over 5,000 the number of resident individuals in the land tax system in 2006-07 and provide a benefit for a further 15,000 individuals. No taxpayer will be worse off. The new land tax schedule for resident individuals is presented in Table 5.5 and the savings are presented in Table 5.6.

Table 5.5
Land tax schedules for 2006-07 – resident individuals[1]

Unimproved Land Value	**Current**	Unimproved Land Value	**New**
$450,000 - $749,999	$400 + rate 0.70%	$500,000 - $749,999	$500 + rate of 0.70%
$750,000 - $1,249,999	$2,500 + rate 1.45%	$750,000 - $1,249,999	$2,250 + rate 1.45%
$1,250,000 - $1,999,999	$9,750 + rate 1.50%	$1,250,000 - $1,999,999	$9,500 + rate of 1.50%
$2,000,000 - $2,999,999	$21,000 + rate 1.65%	$2,000,000 - $2,999,999	$20,750 + rate 1.675%
$3,000,000 and above	Rate 1.25% on full value	$3,000,000 and above	Rate 1.25% on full value

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

Table 5.6 Land tax payable			
Taxable Value $	**Current $**	**New $**	**Savings $**
450,000	400	0	400
500,000	750	500	250
600,000	1,450	1,200	250
800,000	3,225	2,975	250
1,000,000	6,125	5,875	250
1,500,000	13,500	13,250	250
2,000,000	21,000	20,750	250
2,500,000	29,250	29,125	125
3,000,000	37,500	37,500	0

The changes to the land tax threshold for individual resident taxpayers will take effect for the 2006-07 financial year. The cost to the Budget is estimated to be $6.7 million in 2006-07.

Table 5.7 shows that a combination of high tax-free thresholds and low rates will make the Queensland land tax system one of the most competitive amongst the states.

Table 5.7 Land tax schedules for 2006-07 – resident individuals						
	QLD	**NSW**	**VIC**	**WA**	**SA**	**TAS**
Tax-free threshold ($'000)	500	352	200	150	110	25
Maximum tax rate[1] (%)	1.25	1.7	3.0	2.5	3.7	2.5

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

Transfer duty

From 1 January 2007 a new first home owner transfer duty concession will be available for the purchase of vacant land. Providing the other eligibility criteria are satisfied, first home owners who purchase a vacant block of land to build their first home:

- will not be liable for duty where the value of the land is up to $100,000
- will be better off where the value of the land is up to $250,000.

This measure is estimated to cost $1.1 million in 2006-07 and $2.2 million in a full year and will apply to transactions entered into on or after 1 January 2007.

As previously announced, from 1 July 2006, rates of duty payable on property transfers will increase for transfers with dutiable values above $500,000. The rate for transfers valued between $500,000 and $700,000 will increase from 3.75% to 4%, with the rate above $700,000 increasing from 3.75% to 4.5%.

At the same time, the threshold for the home concession will increase from $300,000 to $320,000, ensuring that buyers of homes valued below $700,000 will not pay more duty.

Land rich duty and transfer duty relating to land holding entities

The duty provisions relating to acquisitions of majority interests in land rich corporations and certain land holding trusts will be strengthened. The land component threshold of a land rich corporation's total assets will be reduced from the current 80% to 60%. In addition, the acquisition trigger will be adjusted from an interest of 'more than 50 percent' to '50 percent or more' for both land rich corporations and certain land holding trusts.

These changes are consistent with the position adopted by most other jurisdictions in relation to these tests. These changes will apply to acquisitions made or agreed to be made on or after the date that the legislation giving effect to these changes receives Royal Assent.

Although primarily a measure for the purposes of revenue protection, the measure will raise additional revenue of approximately $10 million a year.

Abolition of state taxes

The Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations (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.

Last year, Queensland participated in a multijurisdictional review into the need to retain a number of state duties, as required by 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.

Table 5.8 presents the full schedule of tax abolitions under the IGA.

Table 5.8 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.	1 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.	1 January 2007	14
Mortgage duty	Payable on entering into a mortgage over property in Queensland.	50% 1 Jan 2008 100% 1 Jan 2009	380
Duty on transfer of core business assets	Payable on the transfer of non-realty business assets.	50% 1 Jan 2010 100% 1 Jan 2011	200

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

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 the first tranche of duty abolitions announced in last year's Budget, with the removal of credit business and lease duties from 1 January 2006.

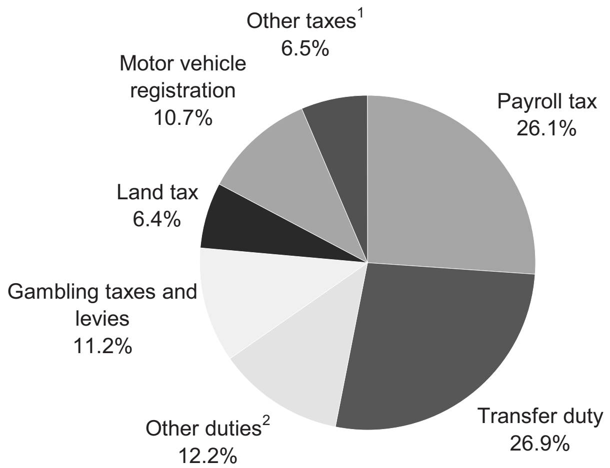
A further four taxes are scheduled to be abolished. Hire duty and transfer duty on unquoted marketable securities will be abolished from 1 January 2007, with mortgage duty and duty on the transfer of core business assets to be abolished by 2011.

The savings to Queenslanders from the abolition of these nine taxes will rise from $290 million in 2005-06 to over $1 billion per year by 2011-12. The cost to revenue from the abolition of these taxes will be $4.5 billion over this seven year period.

Estimates of state revenue

Chart 5.3 indicates the composition of estimated state tax revenue for the 2006-07 year.

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, mortgage duty and other minor duties.

The largest sources of taxation revenue are payroll tax and transfer duty, which together represent over half of the State's total taxation revenue in 2006-07.

Payroll tax (26.1% of total tax revenue in 2006-07) 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 26.9% 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, mortgage duty and other smaller duties, represent 12.2% of total tax revenue. This proportion is likely to decline as duties are abolished in accordance with the Government's schedule of tax abolitions.

Land tax represents 6.4% of total revenue in 2006-07. 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.

Gambling taxes and levies represent 11.2% of tax revenues in 2006-07. Motor vehicle registration, which is classified as a tax for budget purposes, represents 10.7% of total tax revenue.

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 $850,000.

Payroll tax collections are estimated to increase by 7.2% in 2006-07, reflecting growth in employment and wages in key industries.

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 2006-07 will not be liable for payroll tax – amongst the highest thresholds in Australia.

Duties

Duties are levied on a range of financial and property transactions. Overall, revenue from duties is forecast to increase by 7.4% in 2006-07. This is largely driven by increased revenues from transfer and mortgage duty arising from the continued strength in housing and non-residential property transactions and the revenue initiatives announced in the *Special Fiscal and Economic Statement*. This growth will be partially offset by the abolition of hire duty and transfer duty on unquoted marketable securities in 2007.

The major duties include transfer, mortgage, 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 to the transfer of land where the property is purchased as a first or subsequent home.

  Revenue from transfer duty is expected to grow in 2006-07 by 11% as a result of the continued strength of the Queensland property market coupled with the revenue measure announced in the *Special Fiscal and Economic Statement*. Recent years have seen a shift in the composition of the base from residential investments to commercial property purchases.

- Mortgage duty is levied at a rate of 0.4% of the total amount secured by the mortgage.

  Revenue from mortgage duty is estimated to grow by 6.9% in 2006-07, driven by continued strength in the property market. Mortgage duty is to be halved from 1 January 2008 and fully abolished from 1 January 2009.

- Vehicle registration duty is charged at the rate of 2% of the dutiable value of a motor vehicle on the transfer or initial registration of the motor vehicle.

  Revenue from vehicle registration duties is expected to grow slightly in 2006-07 in line with projections for activity within the sector. Motor vehicle duty has shown sluggish growth in recent times due mainly to a subdued motor vehicle market and weak price growth.

- Insurance duty is charged on contracts of general, 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 4.5% in 2006-07, reflecting growth in the number of insurance policies moderated by the relative stability of premiums.

Gambling taxes and levies

A range of gambling activities is subject to state taxes and levies. Total gambling tax and levy collections are estimated to increase by 3.5% in 2006-07. Gaming machine taxes and levies are estimated to increase by 3.4%, lotteries taxes by 3%, wagering taxes by 6% and other gambling taxes by 5%. Growth in gaming machine taxes and levies is expected to be impacted by the complete ban on smoking in venues from 1 July 2006.

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.

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 $450,000, which is to be increased to $500,000 from 1 July 2006. 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 $300,000.

Land tax is estimated to grow by 17.9% in 2006-07.

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 $171.5 million in 2005-06. Queensland is the only state to apply three year averaging to land tax.

Motor vehicle registration fees

Motor vehicle registration is influenced primarily by the growth of the vehicle fleet and 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.

To minimise the impact of the levy, a range of exemptions are provided, including for pensioners, certain farm sheds and water pumps, religious bodies and other institutions and government. Additional exemptions were provided in November 2003 for certain common and multiple accounts for commercial and residential buildings, security lighting and public parks, hot water systems and electricity accounts relating to a medical condition.

An extension to the exemption for farm sheds and water pumps has been made to include certain amenity horticulture activities. In particular, the exemption will apply to farm sheds and water pumps used solely in the commercial production of any horticultural products, whether food or non-food, but will not apply to retail activities and other associated services.

Growth in 2006-07 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

Revenue from other taxes includes the Statutory Insurance Scheme Levy, the Nominal Defendant Levy and other sundry taxes.

Tax expenditures

Taxation expenditures are reductions in tax revenue that result from the use of the taxation system as a policy tool to deliver Government policy objectives. Taxation 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. 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 economic development.

Recent tax changes have sought to improve the efficiency and equity of the State's tax system, 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
- raised land tax thresholds, reduced tax rates and simplified the land tax system. It has also provided exemptions to moveable dwelling parks and expanded the principal place of residence exemption
- 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 (with the concession phasing out at $160,000) to $250,000 (with the concession phasing out at $500,000)
- extended the mortgage duty exemption threshold for first home buyers from $100,000 to $250,000
- extended the transfer duty home concession from $250,000 to $300,000 (and to $320,000 from 1 July 2006)
- reduced the base insurance duty rate from 8.5% to 7.5%
- increased some transfer duty rates to assist the funding of the *Health Action Plan*
- abolished transfer duty on quoted marketable securities, credit card duty, debits tax, lease duty and credit business duty.

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

- payroll tax relief
- land tax relief
- a new first home buyer transfer duty concession for certain purchases of vacant land
- changes to land rich duty and transfer duty relating to certain land holding trusts as a revenue protection measure
- the continued progressive abolition of a number of duties.

Since 2004, the Government has introduced initiatives that will deliver total net tax reductions of $3 billion over the next four years.

The *Charter of Social and Fiscal Responsibility* commits the Government to maintaining competitive tax levels in relation to other states. Table 5.9 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 5.9
Queensland's tax competitiveness

	QLD	NSW	VIC	WA	SA	TAS[4]	ACT	NT[4]	Avg[5]
Taxation per capita[1] ($)	1,927	2,451	2,147	2,464	1,953	1,484	2,388	1,562	2,272
Taxation effort[2] (%)	85.8	102.3	102.4	103.4	116.4	99.1	100.3	102.4	na
Taxation % of GSP[3] (%)	4.4	5.0	4.7	4.3	4.9	4.3	3.9	2.9	4.7

Notes:
1. 2006-07 data. Sources: QLD, VIC, WA, NT State Budgets, NSW, SA, TAS, ACT Mid Year Reviews/Budget Updates
2. 2004-05 data. Source: Commonwealth Grants Commission: 2006 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. 2004-05 data. Sources: ABS 5506.0 and ABS 5220.0.
4. Low taxation per capita reflects the lower revenue raising capacity of those jurisdictions.
5. Weighted average of states and territories, excluding Queensland.

GRANTS AND SUBSIDIES

Current grants and subsidies comprise revenues from the Australian Government, grants from the community and industry and other miscellaneous grants. The moderate growth of 3.2% in 2006-07 largely reflects the expected growth in Australian Government grants.

Table 5.10
Grants and subsidies[1]

	2004-05 Actual $ million	2005-06 Est. Act. $ million	2006-07 Budget $ million
Current grants and subsidies			
Australian Government grants	11,739	12,278	12,570
Other grants and contributions	515	532	573
Total current grants and subsidies	**12,255**	**12,809**	**13,143**
Capital grants and subsidies			
Australian Government grants	489	568	683
Other grants and contributions	2	23	0
Total capital grants and subsidies	**491**	**591**	**683**
Total grants and subsidies	**12,745**	**13,401**	**13,826**

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

Australian Government payments

Australian Government payments to Queensland comprise:

- general purpose payments, including GST revenue grants and National Competition Policy 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 transport, which are used to meet Australian Government and shared policy objectives.

Australian Government payments to Queensland in 2006-07 are expected to total $13.3 billion, an increase of $407 million or 3.2% over payments in 2005-06.

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. Chapter 8 provides more detailed background on Commonwealth-state financial arrangements.

Table 5.11 Australian Government payments[1]			
	2004-05 Actual $ million	2005-06 Est. Act. $ million	2006-07 Budget $ million
General Purpose Payments			
GST Revenue Grants and other payments	7,354	7,639	7,972
National Competition Policy Payments	143	179	0
Total General Purpose Payments	**7,498**	**7,818**	**7,972**
Specific Purpose Payments[2]			
Health	1,911	2,015	2,126
Education and the Arts	1,439	1,540	1,641
Local Government, Planning, Sport & Recreation	298	315	312
Employment and Training	201	218	220
Housing	186	188	191
Treasury	90	98	103
Disability Services Queensland	109	117	119
Main Roads	260	264	400
Other	236	275	169
Total Specific Purpose Payments	**4,730**	**5,028**	**5,280**
Total Australian Government Payments	**12,228**	**12,846**	**13,253**

Notes:
1. Numbers may not add due to rounding.
2. Specific Purpose Payments are shown below by relevant Queensland Government department.

General purpose payments

GST revenue grants

GST revenue grants to Queensland in 2006-07 are expected to be $7.969 billion which represents an increase of $356 million on 2005-06.

GST revenue projections are based on consumption estimates, which incorporate assumed growth in the outyears. The distribution of these revenues is based on the recommendations of the Commonwealth Grants Commission in accordance with the application of horizontal fiscal equalisation principles. The moderate increase in GST revenue grants primarily reflects underlying growth of the tax base.

The Australian Government provides compensation to the states for the deferred GST revenue resulting from its decision to allow businesses who are below the GST registration threshold and voluntarily registered for GST to report and pay GST annually instead of quarterly.

Queensland also accrued a residual adjustment amount of $38.8 million in 2004-05. Residual adjustment amounts are provided to offset any unintended consequences of the transitional arrangements applied when states no longer require budget balancing assistance.

National Competition Policy payments

The distribution of National Competition Policy (NCP) payments is population based, with payments dependent on the states making satisfactory progress with the implementation of the specified reforms. NCP payments to Queensland will cease in 2005-06.

Specific purpose payments

SPPs for Queensland in 2006-07 are estimated at $5.3 billion, an increase of 5% from 2005-06. Table 5.11 provides the distribution of SPPs by Queensland Government department.

Queensland Health

Queensland receives funding for public hospitals and other health services from the Australian Government under the Australian Health Care Agreement (AHCA). The AHCA provides the majority of Queensland Health's revenue from the Australian Government and is adjusted annually for population growth, increases in cost and utilisation. The 2003-2008 AHCA commenced on 1 July 2003. Under the current agreement, Queensland will receive $1.7 billion in 2006-07 in Health Care Grants.

Queensland Health will also receive additional tied funding in 2006-07 for a range of programs including Home and Community Care, Highly Specialised Drugs, Essential Vaccines, National Public Health and nursing home benefits.

Department of Education and the Arts

SPPs for education purposes comprise recurrent and capital grants for distribution to state and non-state schools and other organisations. A 6.5% increase in Australian Government grants in 2006-07 reflects cost indexation, enrolment growth, commencement of new programs and funding for capital projects.

Department of Local Government, Planning, Sport and Recreation

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

Department of Employment and Training

The 2005-2008 Commonwealth-State Agreement for Skilling Australia's Workforce provides the Department of Employment and Training with funding for a range of specific vocational education and training programs. In 2006-07, the Department expects to receive around $208 million in funding under the Agreement, an increase of 4% over 2005-06 ($200 million). Additional funding is provided by the Australian Government for a range of other programs.

Further discussion of the Agreement is provided in Chapter 8.

Department of Housing

In 2006-07, the Department of Housing will receive $191 million in SPPs under the current Commonwealth-State Housing Agreement covering the period 2003-2008. The Budget estimate for 2006-07 represents a 2% increase against estimated payments in 2005-06 reflecting growth funding built into the 2003-2008 Agreement.

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.

Queensland Treasury

Treasury receives payments from the Australian Government for joint Commonwealth-state natural disaster relief measures, concessions for Pensioner Concession Card Holders and compensation for foregone revenue on the establishment of the Australian Securities Commission.

Disability Services Queensland

The Commonwealth-State Disability Agreement for the period 2002-2007 was signed by the Queensland Government in June 2003. Australian Government funding for Disability Services Queensland is estimated to increase by 2% in 2006-07.

Department of Main Roads

Funding is received from the Australian Government for infrastructure and maintenance works on the National Network and for Black Spot Road Safety projects. The 2006-07 allocation reflects road works programmed under the Australian Government's AusLink program.

Other

Other SPPs are expected to decline in 2006-07, with a number of agencies expected to receive reduced payments from the Australian Government.

Other grants and contributions

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 5.12
Other grants and contributions

	2004-05 Actual $ million	2005-06 Est. Act. $ million	2006-07 Budget $ million
Other grants and contributions	518	555	573

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 7.7% in 2006-07.

Table 5.13
Sales of goods and services[1]

	2004-05 Actual $ million	2005-06 Est. Act. $ million	2006-07 Budget $ million
Fee for service activities	983	1,000	1,086
TransLink	184	196	218
Rent revenue	274	295	319
Sale of land inventory	38	56	97
Hospital fees	191	215	207
Transport and traffic fees	183	194	179
Other sales of goods and services	528	543	588
Total sales of goods and services	**2,381**	**2,500**	**2,693**

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 set in place 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 $218 million in 2006-07.

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 Coordinator-General. 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

Revenue from other sales of goods and services is estimated to increase by 8.3% in 2006-07.

INTEREST INCOME

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

Table 5.14
Interest income

	2004-05 Actual $ million	2005-06 Est. Act. $ million	2006-07 Budget $ million
Interest income	2,972	3,200	1,802

Queensland Treasury Corporation manages the State's short term investments, such as the Treasurer's Cash Balances, while 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 and fixed interest.

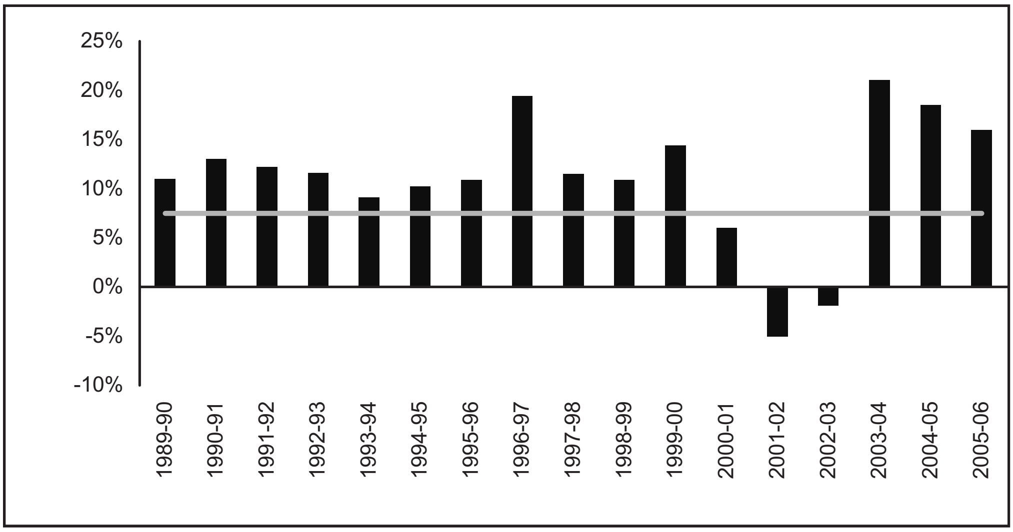
With respect to investments held to meet employer superannuation liabilities, the State has, during the course of 2005-06, effected a significant reduction in its equity holdings and further diversified its portfolio.

While the previous asset allocation was appropriate in the context of managing very long term liabilities, the introduction of the Accumulation Scheme option for State employees and the actuarial surplus in the superannuation fund resulting from the strong performance of equity markets has presented an opportunity to alter the asset allocation.

The strong performance of domestic and international equity markets positively impacted interest income in 2005-06, with an estimated return of 16%. This estimate is based on actual year-to-date investment returns at the time of the finalisation of the Budget.

Interest income in 2006-07 is based on investment returns achieving the assumed long term average earnings rate of 7.5%. Chart 5.4 shows investment return rates achieved over time.

Chart 5.4
Investment returns (% per annum)[1,2]



Note:
1. Line represents actuarial assumed long term average.
2. 2005-06 is an estimate.
Source: 1989-90 to 2004-05: Queensland Investment Corporation

OTHER REVENUE

Other revenue comprises dividends, tax equivalent payments, royalties, fines and forfeitures and other sundry revenues. Other revenue is expected to decrease in 2006-07, largely due to an expected reduction in tax equivalent payments.

Table 5.15
Other revenue[1]

	2004-05 Actual $ million	2005-06 Est. Act. $ million	2006-07 Budget $ million
Dividends	683	625	635
Tax equivalents	390	627	374
Royalties and land rents	1,028	1,479	1,517
Fines and forfeitures	188	177	200
Revenue nec	269	222	153
Total Other Revenue	**2,558**	**3,129**	**2,879**

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

Dividends

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

Table 5.16
Dividends[1]

	2004-05 Actual $ million	2005-06 Est. Act. $ million	2006-07 Budget $ million
Energy sector	395	431	411
Transport sector (rail and ports)	248	164	186
Other[2]	40	30	37
Total Dividends	**683**	**625**	**635**

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

Dividends are expected to increase by 1.6% in 2006-07.

Dividend revenue from public enterprises is a function of both net operating profits and dividend payout ratios.

The dividend pay-out ratio recommended by the Boards of Government-owned corporations does not impact on the capacity and requirement of these entities to carry out necessary maintenance and repairs and asset replacement (via provision for depreciation). Dividends are paid after providing for such costs. The dividend payout ratio for 2005-06 and the assumption on which the 2006-07 Budget and forward estimates are based is 80% of net operating profit after tax (except SunWater). Shareholding Ministers also consider the circumstances of individual Government-owned corporations and the advice of their boards before arriving at a final determination.

In total, dividends account for 2.2% of total General Government revenue in 2006-07.

Tax equivalent payments

Tax equivalent payments comprise 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.

Tax equivalent payments are expected to decline by 40% in 2006-07. This is primarily due to higher tax equivalent payments in 2005-06 from WorkCover Queensland as a result of a significant increase in its taxable income arising from a reduction in its provision for outstanding claims.

Table 5.17
Tax equivalent payments[1]

	2004-05 Actual $ million	2005-06 Est. Act. $ million	2006-07 Budget $ million
Energy sector	227	234	216
Transport sector (rail and ports)	100	92	106
Other[2]	62	301	52
Total Tax Equivalent Payments	**390**	**627**	**374**

Notes:
1. Numbers may not add due to rounding.
2. Increase in 2005-06 due to higher WorkCover payments.

Royalties and land rents

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 other leases. Royalties return some of the proceeds for the extraction of non-renewable resources to the community.

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

Royalty revenue is expected to remain at high levels in 2006-07 due to continued growth in coal exports to meet strong overseas demand. Outyear projections incorporate a moderation in royalty revenues.

Fines and forfeitures

The major fines included in this category are traffic and court fines. There is an expected increase of 13% in collections of fines and forfeitures in 2006-07.

Revenue nec

Revenue nec includes other revenues not elsewhere classified. The decrease in 2006-07 reflects a number of one-off receipts across agencies in 2005-06.

6. EXPENSES

KEY POINTS

- **Total General Government sector expenses are expected to increase by $2.092 billion (or 7.8%) over the estimated actual for 2005-06, to $28.825 billion in 2006-07.**
- **Growth in expenses includes a range of service developments and initiatives with a particular focus on the areas of health, education, water management and infrastructure enhancements.**
- **The major areas of expenditure are education and health, which together constitute approximately 48% of General Government sector expenses.**

INTRODUCTION

This chapter provides an overview of General Government sector expenses for the estimated actual outcome for 2005-06, forecasts for the 2006-07 Budget year and projections for 2007-08 to 2009-10. The forward estimates are based on the economic projections outlined in Chapter 2 and are formulated on a no policy change basis.

The Ministerial Portfolio Statements provide details of expenditure for individual departments.

Table 6.1
General Government sector expenses[1]

	2005-06 Budget $ million	2005-06 Est.Act. $ million	2006-07 Budget $ million	2007-08 Projected $ million	2008-09 Projected $ million	2009-10 Projected $ million
Expenses						
Gross operating expenses						
Employee expenses	11,719	12,051	13,324	14,047	14,718	15,616
Other operating expenses	5,161	5,641	5,844	5,855	5,930	6,079
Depreciation	1,617	1,632	1,754	1,876	1,951	2,017
Superannuation interest	604	502	563	593	623	651
Other interest	232	186	222	366	543	744
Current transfers	5,494	5,754	6,094	6,404	6,555	6,602
Capital transfers	844	966	1,024	882	698	645
Total Expenses	**25,670**	**26,733**	**28,825**	**30,024**	**31,019**	**32,354**

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

General Government expenses in 2005-06 are estimated to be $26.733 billion, an increase of $1.063 billion over the 2005-06 Budget forecast of $25.670 billion. This increase is primarily due to:

- additional funding for the *Health Action Plan*
- provision for costs arising from damage sustained in Far North Queensland as a result of Cyclone Larry in March 2006
- funding for new initiatives approved by the Government during the year including increased capital grant funding to non-government schools as part of the Tomorrow's Schools program, acceleration of the Asbestos Roof Replacement Program in State Schools, various initiatives aimed at improving Queensland's water supply including better water management, water recycling projects and contributions to upgrade the Wivenhoe Dam spillway
- additional expenditure to match increases in specific purpose grants and other own source revenues.

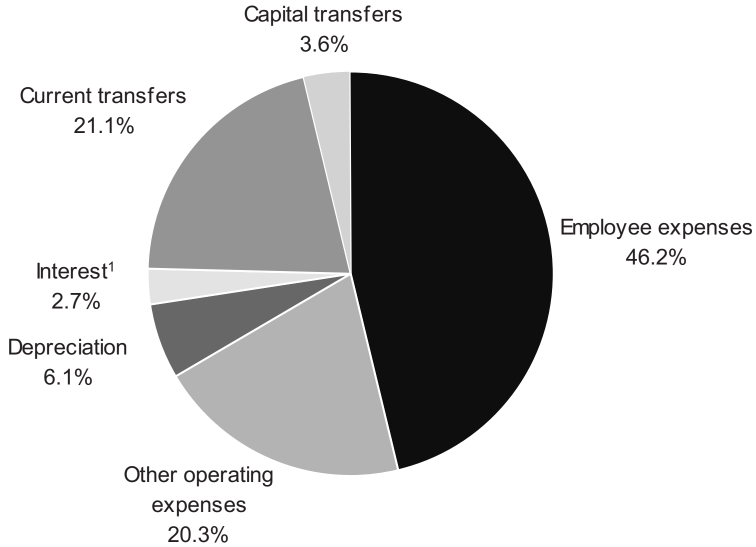
The General Government operating statement provides for aggregate expenses of $28.825 billion in 2006-07, representing an increase of $2.092 billion (or 7.8%) over the 2005-06 estimated actual. Factors influencing the growth in expenses include the implementation of service enhancements and initiatives outlined in Chapter 4 and other cost increases such as wage increases as part of enterprise bargaining agreements.

EXPENSES BY OPERATING STATEMENT CATEGORY

This section provides a breakdown of General Government expenses in 2006-07 by category and discusses the significant variances between 2005-06 estimated actual and 2006-07 Budget by expense category.

Chart 6.1 indicates that the single largest expense category in the General Government sector is employee expenses, reflecting the direct service provision nature of Government activities, followed by current transfers that include community service obligation payments to Government-owned corporations (GOCs) and the fuel subsidy scheme.

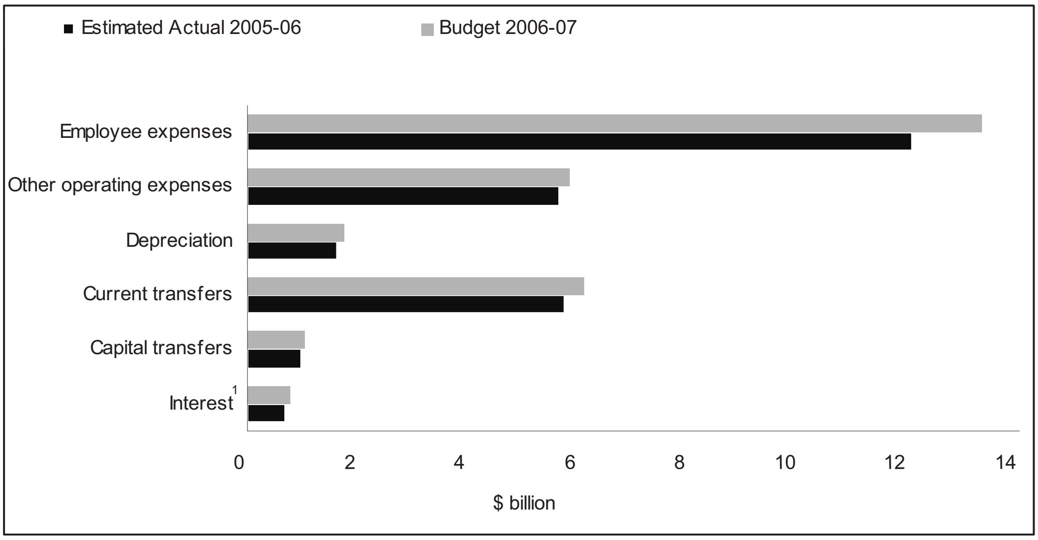
Chart 6.1
Expenses by operating statement category, 2006-07



Note:
1. Includes superannuation interest expense.

Chart 6.2 compares the 2005-06 estimated actual expenses for each operating statement category with the 2006-07 Budget.

Chart 6.2
Expenses by operating statement category[1]
2005-06 and 2006-07



Note:
1. Includes superannuation interest expense.

DETAILS OF EXPENSES

Employee expenses

Employee expenses include salaries and wages, annual leave, long service leave and superannuation expense. Superannuation expense represents the current service cost or the increase in the present value of the State's defined benefit obligation resulting from employee service in the current period.

Employee expenses are forecast to increase by $1.273 billion or 10.6% to $13.324 billion in 2006-07. The increase reflects a combination of wage increases related to established enterprise bargaining agreements, provision for future agreements and significant additional staffing resulting from the implementation of the *Health Action Plan* and other services growth and enhancements.

The additional staffing provided in the 2006-07 Budget is predominantly in key service delivery areas, including recruiting 300 extra doctors, 400 extra allied health professionals and 500 nurses over an 18 month period, 224 additional teachers to meet enrolment growth, 150 extra teachers to reduce class sizes and 350 additional sworn police officers by September 2007.

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 are expected to increase by 3.6% to $5.844 billion in 2006-07, reflecting projected increases in these input costs and also growth in service provision.

Depreciation

Depreciation 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 additions to the asset base.

Queensland's depreciation expense as a percentage of fixed assets is generally higher than that of other states, reflecting a more conservative provision for asset replacement. Although this results in lower operating surpluses, over time it will lead to a younger asset base. It is also more sustainable by making available larger amounts of funding from recurrent sources to finance capital expenditure.

Current and capital transfers

Current transfers include grants and subsidies to the community (such as to schools, hospitals, benevolent institutions and local governments) and personal benefit payments. Current transfers to non-government recipients represent grants to non-government organisations and householders. Funding includes support to non-government health care 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.

Capital transfers represent grants by the Government for capital purposes to local governments, non-profit institutions and other non-government entities, such as households and businesses.

Increases in CSO payments to GOCs and grants to local governments are factors contributing to an estimated increase of $398 million or 6% in 2006-07 (see Table 6.2).

The increase in State fuel subsidy payments in 2006-07 reflects expected increased fuel consumption. It also incorporates the impact of the recently announced extension of the fuel subsidy scheme to on-road use of diesel fuel by equipment type vehicles such as concrete pumping trucks, mobile cranes and elevated work platforms (but excludes conditionally registered vehicles, or those of a kind eligible for conditional registration in Queensland such as backhoes, harvesters, graders, golf buggies and road pavers/finishers).

In addition, the increase in fuel subsidy payments takes account of a planned change in the definition of fuel under the *Fuel Subsidy Act 1997*. Presently, fuel must be of a type ordinarily sold by a retailer to qualify for subsidy. This definition will be expanded to cater for certain emerging forms of motor spirit and diesel fuels. The change will apply from the date of Royal Assent to the amending legislation.

Higher CSO payments reflect funding to QR for additional track and rollingstock throughout Queensland as part of the *South East Queensland Infrastructure Plan and Program* (SEQIPP). The increase in capital grants to local governments in 2006-07 primarily reflects grants to support SEQIPP. Commitments from year to year in capital transfers are also influenced by the timing of capital projects and the progressive completion of approved projects.

Table 6.2 indicates the composition of transfer payments by recipient.

Table 6.2
Current and capital transfers[1]

	2005-06 Est. Act. $ million	2006-07 Budget $ million
Current		
Fuel Subsidy Scheme	524	553
Grants to local government	438	409
Grants to non-government schools	1,239	1,264
Grants to non-profit organisations	814	983
Grants to other non-government recipients	1,460	1,427
Payments to GOCs	1,279	1,458
Total current transfers	**5,754**	**6,094**
Capital		
First Home Owner Grant Scheme	172	198
Grants to local government	311	493
Grants to non-profit organisations	109	115
Grants to other non-government recipients	374	218
Total capital transfers	**966**	**1,024**
Total current and capital transfers	**6,720**	**7,118**

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

Interest

The superannuation interest expense represents the imputed interest on the Government's accruing defined benefit superannuation liability. In determining the State's defined benefit superannuation liabilities, AASB 119 requires the discounting of future benefit obligations using yield rates on government bonds net of investment tax, estimated at 4.9%.

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 for capital asset acquisitions, including new infrastructure investment as part of SEQIPP. However, interest expense will only rise to 2% of total operating expenses by the end of the forward estimates period.

OPERATING EXPENSES BY PURPOSE

Chart 6.3 indicates the proportion of expenditure by major purpose classification for the 2006-07 Budget. Education and health account for the largest shares of expenses (around 24% each).

Chart 6.3
General Government expenses by purpose, 2006-07

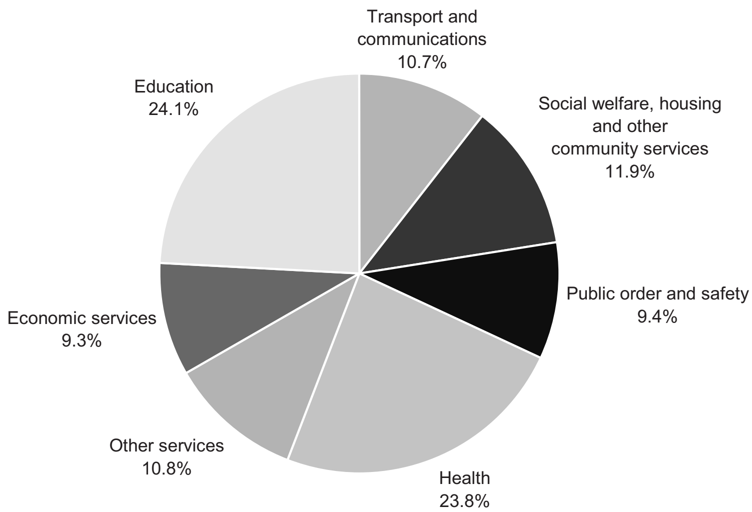
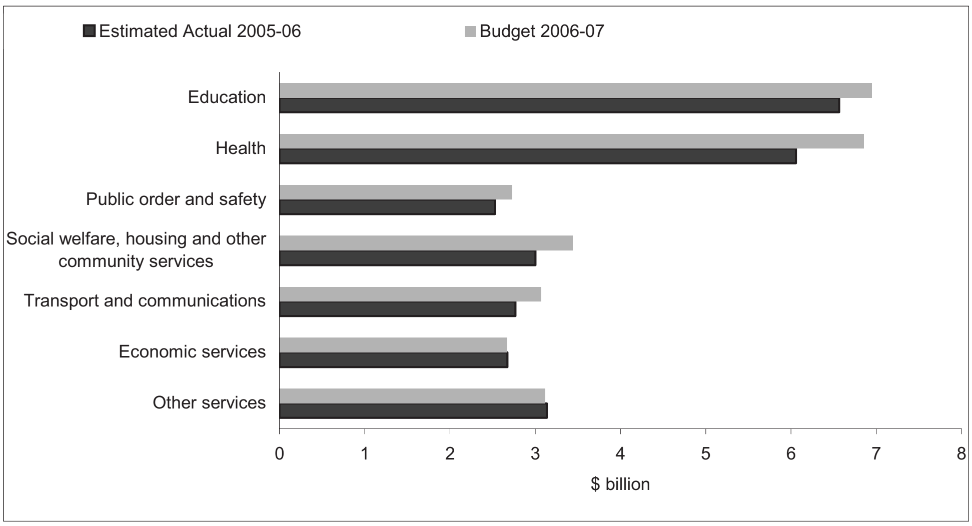
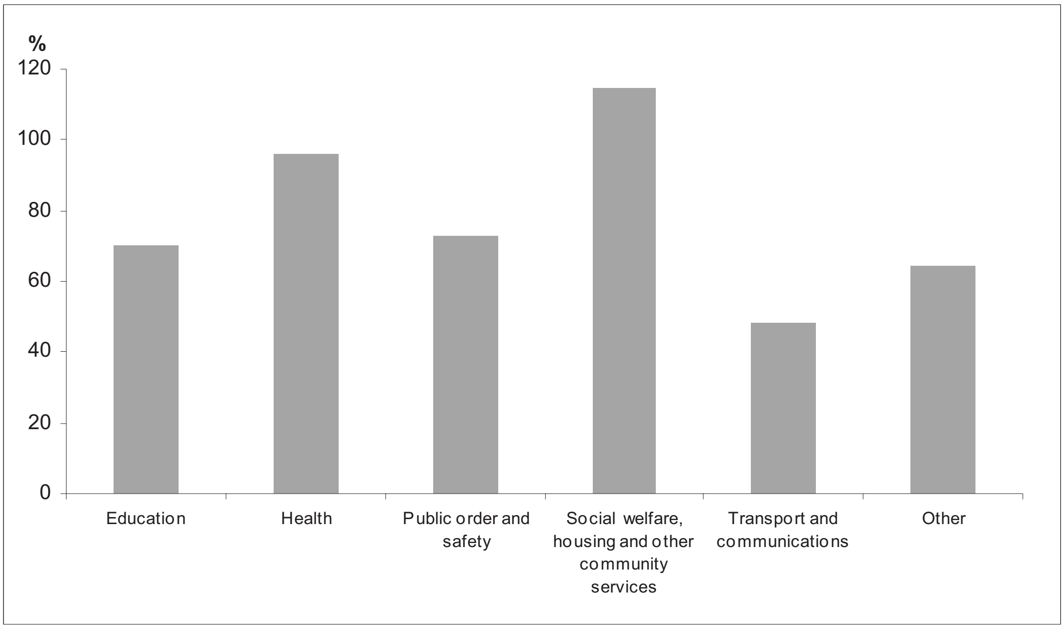


Chart 6.4
General Government expenses by purpose
2005-06 and 2006-07



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 2006-07



Source: Queensland Treasury's data supplied to ABS.

Education

The education function includes primary and secondary education, tertiary education (including technical and further education) and the transportation of school students. The 2006-07 Budget for this functional area is $6.947 billion, representing an increase of 70% ($2.864 billion) between 1998-99 and 2006-07.

The consistently strong annual growth in education and training expenditure has ensured that, in addition to services having kept pace with cost increases, services have also been enhanced and expanded. The implementation of education and training reforms and initiatives over this period has included a large increase in the number of school based apprenticeships and traineeships, enhanced services in special education, significant investments in literacy and numeracy initiatives and computers in schools.

The Government continues to further its education and training strategy in the 2006-07 Budget with the introduction statewide of the Preparatory Year of schooling, investment in school maintenance with the Accelerated Asbestos Roof Replacement Program and continued support for vocational education and training reforms with the launch of the *Queensland Skills Plan,* providing funding for additional trades and other training places and improvements to Queensland's apprenticeship system.

Health

The health function includes expenses relating to hospital and health services, acute care institutions, mental health institutions, nursing homes for the aged and community health services including patient transport. By 2006-07, expenses for providing health services are estimated to have increased by 96% ($3.354 billion) since 1998-99 reflecting a range of service developments including growth in service capacity (including elective surgery initiatives), implementation of new medical technology, expansion of Home and Community Care services and the operational costs of new facilities.

In 2005, the Government committed to reforming the Queensland public health system through the *Health Action Plan*. The *Health Action Plan* announced a record injection of funding totalling $6.4 billion in just over five years to 2010-11, of which $4.4 billion was new money. Through the 2006-07 Budget, State funding for Queensland Health will grow by $9.7 billion over the five years.

Public order and safety

The public order and safety function includes police and fire protection services, law courts and legal services and prisons and corrective services. Expenditure on the public order and safety function are estimated to total $2.728 billion in 2006-07, an increase of 73% since 1998-99.

The strong growth in the public order and safety function is the result of the Government's commitment to maintain police numbers above the national average police to population ratio. By September 2007, the Queensland Police Service's sworn strength will be increased to 9,728 through the creation of an additional 350 new police positions.

Social welfare, housing and other community services

Services provided under the category of social welfare, housing and other community services include family and disability services, child protection, housing and community amenities including Aboriginal and Torres Strait Islander communities, environmental services, arts and cultural outlays. The 2006-07 Budget provides for total expenditure of over $3.439 billion, representing an estimated increase of $1.836 billion or 115% between 1998-99 and 2006-07.

Growth in expenses in this category reflects a range of initiatives over this period spanning a number of functional areas. Particular areas experiencing major service enhancements have been disability services, child protection and family support services.

Transport and communications

The transport and communications function includes the State's road network and transport systems including bus, rail and port systems. Expenditure on the transport and communications function is estimated to total $3.070 billion in 2006-07, an increase of 48% since 1998-99. Growth under the function relates to major road and transport projects undertaken as a result of the implementation of the SEQIPP.

Details of 2006-07 initiatives and service developments are provided in Chapter 4.

DEPARTMENTAL EXPENSES

Data presented in Tables 6.3 and 6.4 provide a summary drawn from financial statements contained in the Ministerial Portfolio Statements reports. Further information on the composition of expenses, outputs delivered and factors influencing the movement in expenses can be obtained from individual Ministerial Portfolio Statements.

Table 6.3
Departmental Controlled Expense[1,2]

	2005-06 Est. Actual $'000	2006-07 Estimate $'000
Aboriginal and Torres Strait Islander Policy	61,916	61,002
Child Safety	407,094	503,064
Communities	407,945	472,093
Coordinator-General	66,886	44,915
Corrective Services	422,137	416,199
Disability Services Queensland	526,312	633,971
Education and the Arts	4,464,401	4,724,744
Electoral Commission of Queensland	9,174	23,983
Emergency Services	690,798	744,113
Employment and Training	938,724	978,700
Energy	19,599	19,642
Environmental Protection Agency	287,189	294,488
Forestry Plantations Queensland Office	5,776	36,217
Health	5,832,492	6,649,890
Housing	569,528	649,691
Industrial Relations	94,570	99,184
Justice and Attorney-General	257,804	267,197
Legislative Assembly	62,128	63,123
Local Government, Planning, Sport and Recreation	519,431	573,503
Main Roads	1,305,427	1,318,996
Natural Resources, Mines and Water	603,189	650,501
Office of the Governor	4,006	4,232
Office of the Ombudsman	5,157	5,461
Office of the Public Service Commissioner	7,338	6,956
Police	1,189,776	1,300,143
Premier and Cabinet	106,426	88,508
Primary Industries and Fisheries	336,021	307,977
Public Works	340,937	344,433
Queensland Audit Office	26,636	27,640
State Development, Trade and Innovation	453,425	238,550
The Public Trustee of Queensland	50,352	57,152
Tourism, Fair Trading and Wine Industry Development	57,447	56,855
Transport	1,817,524	2,083,981
Treasury	187,464	190,789
Total Expenses	**22,135,029**	**23,937,893**

Note:
1. Total expenses by department does not equate to total General Government expenses in GFS terms reported elsewhere in the Budget Papers as GFS General Government expenses include a wider range of entities such as State Government statutory authorities. Transactions between entities within the General Government sector (for example, payroll tax payments) are also excluded in the preparation of whole-of-Government GFS financial statements.
2. Explanations of variations in departmental controlled expenses can be found in individual agency Ministerial Portfolio Statement documents.

Table 6.4
Departmental Administered Expense[1,2]

	2005-06 Est. Actual $'000	2006-07 Estimate $'000
Communities	156,270	152,384
Coordinator-General	218	..
Education and the Arts	1,687,067	1,710,862
Employment and Training	1,443	..
Energy	398,077	387,700
Health	446	3,227
Justice and Attorney-General	150,007	151,033
Local Government, Planning, Sport and Recreation	327,219	332,318
Natural Resources, Mines and Water	12,865	8,503
Police	376	391
Premier and Cabinet	91,421	90,616
Primary Industries and Fisheries	13,182	8,356
Public Works	21,495	19,352
State Development, Trade and Innovation	1,915	1,915
The Public Trustee of Queensland	2,049	2,036
Tourism, Fair Trading and Wine Industry Development	44,929	47,109
Transport	230	375
Treasury[3]	1,424,438	2,399,204
Total Expenses	**4,333,647**	**5,315,381**

Note:
1. Total expenses by department does not equate to total General Government expenses in GFS terms reported elsewhere in the Budget Papers as GFS General Government expenses include a wider range of entities such as State Government statutory authorities. Transactions between entities within the General Government sector (for example, payroll tax payments) are also excluded in the preparation of whole-of-Government GFS financial statements.
2. Explanations of variations in departmental administered expenses can be found in individual agency Ministerial Portfolio Statement documents.
3. In its capacity as manager of the State's finances, Treasury borrows on behalf of the Government. The increase in the 2006-07 estimate represents interest on additional funds borrowed during 2006-07 to support the expansion of the State's capital program.

Table 6.5
Reconciliation of Departmental to GFS Expenses [1]

	2005-06 Est. Actual $ million	2006-07 Estimate $ million
Departmental expenditure per MPS - Controlled (Table 6.3)	22,135	23,938
- Administered (Table 6.4)	4,334	5,315
Non-GFS departmental expenses [2]	(19)	(577)
Other General Government entities (e.g. CBUs, SSPs, Statutory Bodies)	2,856	2,877
	29,306	**31,553**
Superannuation Interest expense	502	563
Eliminations and Other whole-of-Government adjustments		
Elimination of payments to CBUs and SSPs	(2,480)	(2,534)
Payroll Tax elimination	(384)	(391)
Other eliminations and adjustments	(212)	(366)
Total General Government GFS Expenses	**26,733**	**28,825**

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

7. BALANCE SHEET AND CASH FLOWS

KEY POINTS

- **The Queensland Government's strong financial position is expected to strengthen further in 2006-07. State net worth is projected to rise by $2.644 billion through the year to $99.032 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 $18.489 billion in the General Government sector at 30 June 2007, consistent with the Government's Charter principles.**
- **The General Government sector is estimated to record a cash deficit of $796 million in 2006-07, after allowing for $3.656 billion in net asset purchases.**

INTRODUCTION

The 2006-07 balance sheet shows the projected assets, liabilities and net worth of the General Government sector as at 30 June 2007. 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 Australian Bureau of Statistics Government Finance Statistics (GFS) standard.

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]	2005-06 Budget $ million	2005-06 Est. Act. $ million	2006-07 Budget $ million	2007-08 Projected $ million	2008-09 Projected $ million	2009-10 Projected $ million
Financial assets	44,209	47,899	49,489	52,120	54,929	58,227
Non-financial assets	67,632	76,450	80,543	84,573	88,570	92,779
Total Assets[2]	**111,842**	**124,349**	**130,032**	**136,693**	**143,499**	**151,006**
Borrowings and advances	4,155	2,486	4,419	7,184	9,960	13,375
Superannuation liability	16,192	17,959	19,005	20,065	21,103	22,087
Other provisions and liabilities	6,151	7,515	7,576	7,724	7,921	8,184
Total Liabilities	**26,497**	**27,961**	**31,000**	**34,972**	**38,983**	**43,645**
Net Worth	**85,344**	**96,388**	**99,032**	**101,720**	**104,516**	**107,361**
Net Financial Assets	**17,712**	**19,938**	**18,489**	**17,147**	**15,946**	**14,582**
Net Debt	**(17,654)**	**(22,130)**	**(21,054)**	**(19,779)**	**(18,422)**	**(16,745)**

Notes:
1. Numbers may not add due to rounding.
2. For GFS 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, in much the same manner as the parent or holding company in a group of companies. The estimated net investment in public enterprises ($17.117 billion at 30 June 2007) is included in the General Government sector’s financial assets[1].

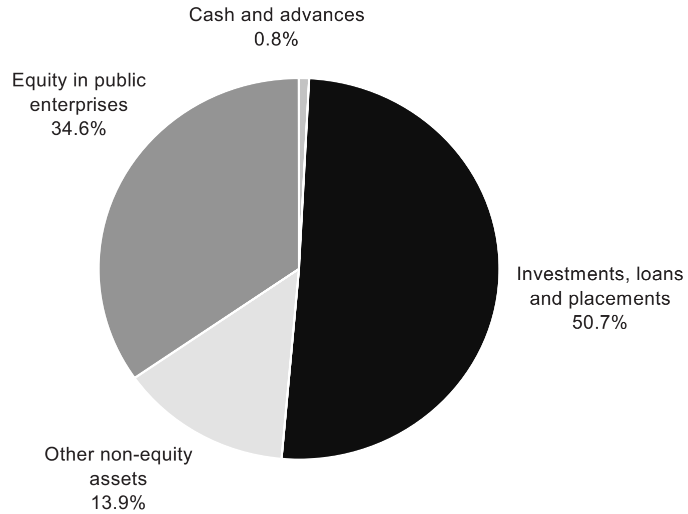
In the year to 30 June 2007, financial assets are projected to increase by $1.590 billion, attributable principally to increased investment in assets set aside to meet future employee liabilities and higher investment in the State’s public enterprises. This is partially offset by the decline in cash balances to fund the State’s capital program.

[1] Some credit rating agencies and analysts set aside the equity investment in public enterprises in assessing net financial assets. Their view is that as these investments are held for policy purposes and are not readily realisable they cannot, in practice, be used to offset liabilities.

Financial assets of $47.899 billion are forecast for 2005-06, or $3.690 billion higher than originally budgeted, reflecting the impact of stronger earnings on investments during the year. At the time of the 2005-06 Budget, investment earnings were based on the long term rate of return of 7.5%. Strong performance in the equities investments in 2005-06 has resulted in an upward revision of investment returns to 16%. Investment earnings in 2006-07 and the outyears are based on long term rate of return assumptions.

Chart 7.1 shows projected General Government sector financial assets by category at 30 June 2007. Investments held to meet future liabilities for superannuation and long service leave comprise the major part of the State's financial assets.

Chart 7.1
General Government financial assets by category as at 30 June 2007



Non-financial assets

General Government non-financial assets are projected to total $80.543 billion at 30 June 2007. The majority of these non-financial assets are roads, schools, hospitals and other infrastructure used to provide services to Queenslanders. Other non-financial assets held by the State include intangibles (mainly computer software and licences), inventories and land.

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 infrastructure assets required under accounting standards
- depreciation and disposals of assets.

Non-financial assets in the year ending 30 June 2007 are expected to grow by $4.093 billion. Of this increase, $1.992 billion represents the net acquisition of non-financial assets as part of the Government's capital program.

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 3.3 of 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 $23.671 billion at 30 June 2007. Other liabilities include borrowings and advances received.

Liabilities are budgeted to increase by $3.039 billion in 2006-07, largely on account of growth in the General Government superannuation liability and increased borrowing to support the State's capital program.

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.

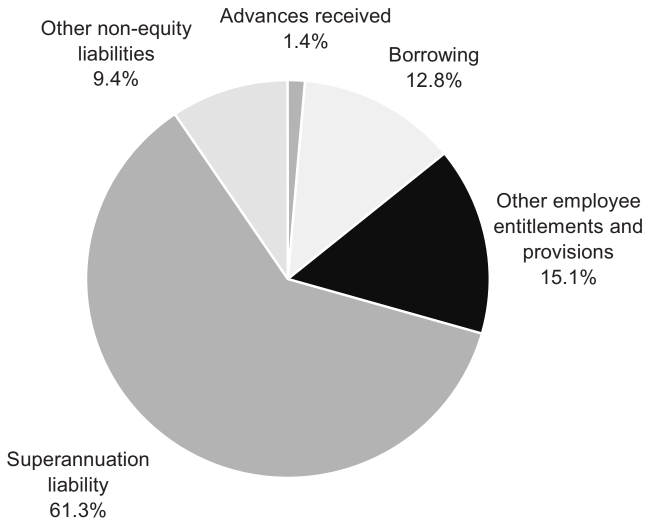
The proportion of the State's total superannuation liability relating to former scheme members is expected to increase over the forward estimates period as these investment balances grow and new public sector employees join the accumulation fund, as opposed to defined benefit fund.

Over the Budget and forward estimates period, total additional General Government borrowings of $10.523 billion are planned. Of this amount, some $1.9 billion (including $318 million in 2006-07) is to fund equity injections to Queensland's Government-owned corporations to support expansion of the State's energy, rail and ports infrastructure, with the remainder required to fund infrastructure projects in the General Government sector.

Other non-equity liabilities include payables, unearned revenue and other liabilities excluding borrowings and provisions.

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

Chart 7.2
General Government liabilities by category as at 30 June 2007



Net financial assets

The net financial assets (net financial worth) measure is an indicator of financial strength. Net financial assets are 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 assets 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. Because of its comprehensive nature, the net financial assets measure is more appropriate in an accrual accounting framework.

The net financial assets of the General Government sector for 2006-07 are forecast at $18.489 billion, indicating that the State is well able to meet all its current and recognised future obligations, without recourse to material adjustments in fiscal policy settings.

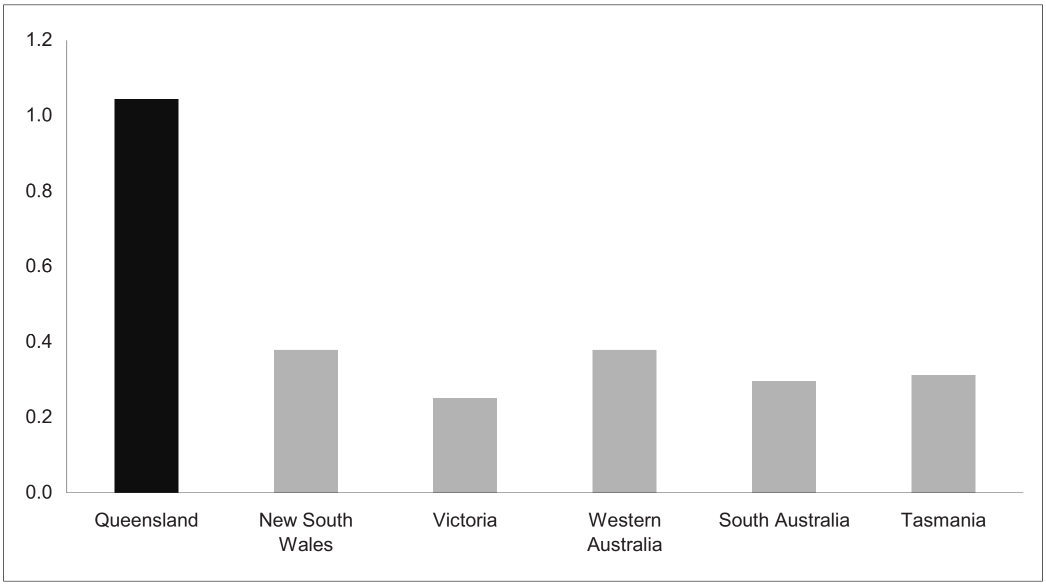
This position is consistent with the principle in the Government's *Charter of Social and Fiscal Responsibility* that the State's financial assets cover all accruing and expected future liabilities of the General Government sector.

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 2010. The level of net financial assets 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 assets).

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.

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

Chart 7.3
Ratio of financial assets to liabilities
(excluding investments in public enterprises) as at 30 June 2007
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:

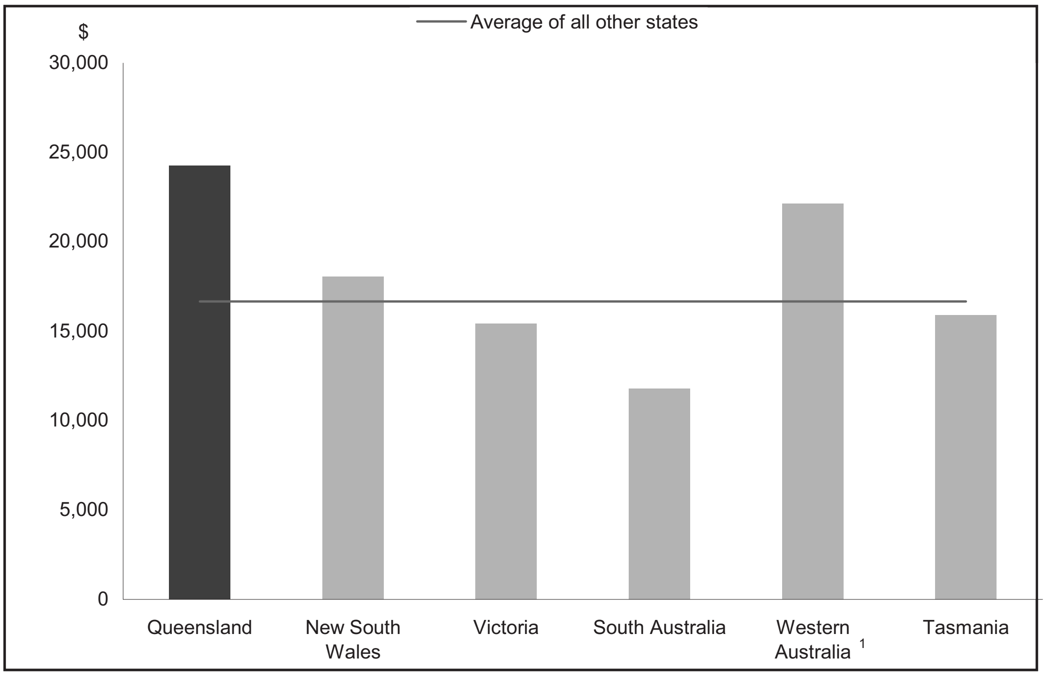
- operating surpluses (deficits) that increase (decrease) the Government's equity
- revaluation of assets and liabilities as required by accounting standards. Some financial liabilities are revalued on a regular basis. For example, the Government's accruing liabilities for employee superannuation and 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 2005-06 of $96.388 billion is forecast. This exceeds growth forecasts in the 2005-06 Budget by $11.044 billion primarily as a result of the flow through of significantly higher net worth in the 2004-05 outcome ($11.428 billion).

Net worth is forecast to grow by $2.644 billion to $99.032 billion in 2006-07. 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. During the year the Departments of Main Roads, Natural Resources, Mines and Water and Education and the Arts will carry out major revaluations.

Chart 7.4 shows the State's strong net worth compared with the other states. Queensland's per capita net worth is 46% greater than the average per capita net worth of the other states.

Chart 7.4
Interstate comparison of per capita net worth as at 30 June 2007



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 and WA. Mid Year Reviews/Budget Updates for NSW, SA and TAS. Population data from Australian Government Budget Paper No.3, 2006-07.

Net debt

Net debt is the difference between gross debt and financial assets (less equity in public enterprises and non-equity assets). The extent of accumulated net debt is currently the most common measure 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 Queensland General Government sector has negative net debt, that is, a surplus of financial assets over financial liabilities, in comparison to other states, thus indicating the strength of Queensland's financial position relative to the other states.

Queensland's negative net debt of $5,155 per capita (net financial assets), compares to the average net debt of $111 per capita (net financial liabilities) in the other states.

Table 7.2 Net debt per capita as at 30 June 2007						
	QLD	NSW	VIC	WA	SA	TAS
Net debt per capita ($)	(5,155)	740	549	(493)	205	(448)

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, 2006-07.

In April 2006, the Australian Government eliminated its General Government sector net debt with negative net debt forecast at 30 June 2007. This compares with Queensland, which has had negative net debt in the General Government sector for many years.

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 detailed 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). This measure is also used to derive the Loan Council Allocation nomination, provided in Chapter 9.

A cash surplus of $3.381 billion is forecast in 2005-06 for the General Government sector, a revision of $3.283 billion from the 2005-06 Budget. The upward revision is primarily the result of improved net flows from operating activities and lower expenditure on the capital program.

The cash result is forecast to move into deficit in 2006-07 and the outyears. The cash deficit for 2006-07 is $796 million.

Apart from the cash impact of smaller recurrent operating surpluses relative to 2005-06, the major factor contributing to lower cash results is the planned capital expansion. Total General Government capital purchases of $3.958 billion are budgeted for 2006-07.

Over the period 2006-07 to 2009-10, net additions (i.e. after deducting depreciation and asset sales) to the General Government capital stock of close to $7.4 billion are planned. This substantial investment in additional capital will impact on the GFS cash result.

Table 7.3 provides summary cash flow information for the General Government sector for 2005-06, 2006-07 and the outyears. Detailed cash flow tables are included in Chapter 9.

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

	2005-06 Budget $ million	2005-06 Est. Actual $ million	2006-07 Budget $ million	2007-08 Projected $ million	2008-09 Projected $ million	2009-10 Projected $ million
Cash receipts from operating activities	27,148	30,318	29,890	30,787	31,669	32,851
Cash payments for operating activities	(23,731)	(24,378)	(27,030)	(27,947)	(28,832)	(30,152)
Net cash flow from operating activities	**3,417**	**5,940**	**2,860**	**2,840**	**2,837**	**2,699**
Net cash flows from investing activities	(4,846)	(6,882)	(5,246)	(5,496)	(5,590)	(5,931)
Net cash flows from financing activities	813	(860)	1,785	2,671	2,747	3,320
Net increase/(decrease) in cash held	**(617)**	**(1,801)**	**(602)**	**15**	**(6)**	**88**
Derivation of GFS cash surplus (deficit)						
Net cash flow from operating activities	**3,417**	**5,940**	**2,860**	**2,840**	**2,837**	**2,699**
Less net cash flow from investments in non-financial assets	3,319	2,559	3,656	3,626	3,647	3,869
Equals GFS cash surplus (deficit)	**98**	**3,381**	**(796)**	**(786)**	**(809)**	**(1,169)**

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

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]

	2005-06 Budget $ million	2005-06 Est. Act. $ million	2006-07 Budget $ million
Receipts from operating activities			
Taxes received	6,842	7,348	7,870
Grants and subsidies received	13,216	13,761	13,768
Sales of goods and services	2,669	2,892	2,993
Other receipts	4,420	6,317	5,259
Total receipts from operating activities	**27,148**	**30,318**	**29,890**
Payments for operating activities			
Payments for goods and services	(16,631)	(16,783)	(19,161)
Grants and subsidies	(6,201)	(6,705)	(7,036)
Interest	(233)	(187)	(223)
Other payments	(666)	(703)	(609)
Total payments for operating activities	**(23,731)**	**(24,378)**	**(27,030)**
Net cash inflows from operating activities	**3,417**	**5,940**	**2,860**

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

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 tax receipts from Public Non-financial and Financial Corporations.

Taxes received by the General Government sector are forecast at $7.870 billion in 2006-07, an increase of 7% or $522 million on the 2005-06 estimated actual of $7.348 billion. This reflects the impacts of taxation initiatives announced prior to and in this Budget, the continued strength of property market activity on duty revenue and employment and wage growth on payroll tax revenue.

Grants and subsidies receipts of $13.768 billion in 2006-07 remain at similar levels to 2005-06.

Other receipts include investment earnings, dividends and tax equivalents received from Government-owned corporations (GOCs) and royalties. Other receipts are expected to decrease in 2006-07 by $1.058 billion to $5.259 billion. This largely reflects a return to the long term average earnings rate of 7.5% on investments. Strong performance in the equities investments resulted in an upward revision to investment return to 16% in 2005-06. Investment earnings in 2006-07 and the outyears are based on long term rate of return assumptions. Partially offsetting this decline is an increase in dividends and tax equivalent receipts from GOCs.

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 2006-07 the largest cash disbursement is employee expenses at $13.030 billion or 48.2% of total cash payments from operating activities.

In 2006-07, payments for goods and services, including wages and salaries, are expected to increase 14.2% to $19.161 billion. This increase reflects payments pertaining to employer superannuation (accumulation scheme) contributions and State share of superannuation beneficiary payments, increased employee entitlements in line with enterprise bargaining agreements and growth related to new and enhanced services.

Cash payments for grants and subsidies are expected to increase by $331 million or 4.9% in 2006-07 to $7.036 billion. This item 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 and capital grants which are largely paid to local government authorities to fund capital works.

Other payments mainly comprise personal benefit payments and other transfer payments. This item is estimated to decline by 13.4% in 2006-07 to $609 million. This is primarily attributable to a decline in personal benefit payments in 2006-07 across a range of departments and the expensing of research and development costs by Queensland Health in 2005-06.

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

	2005-06 Budget $ million	2005-06 Est. Act. $ million	2006-07 Budget $ million
Net payments for investments in non-financial assets	(3,319)	(2,559)	(3,656)
Net cash flows from investing activities in financial assets for policy purposes	(271)	(694)	(318)
Net cash flows from investing activities in financial assets for liquidity purposes	(1,256)	(3,629)	(1,272)
Net increase/(decrease) in cash held from investing activities	**(4,846)**	**(6,882)**	**(5,246)**

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 investing in non-financial assets are expected to increase to $3.656 billion in 2006-07 from $2.559 billion in 2005-06, an increase of 42.9%.

The cash expenditure on investment in non-financial assets differs from the estimates of capital works expenditure in Budget Paper No. 3 – Capital Statement. The estimates contained in that paper are on a gross basis and incorporate both departmental agencies and Government-owned corporations. In addition, Budget Paper No. 3 only includes capital expenditure, including capital grants, within Queensland and does not offset proceeds from asset sales.

Apart from investing in new capital expenditure, 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 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 outflows from investments for policy purposes for 2005-06 of $694 million reflect equity transactions by the General Government sector with Public Non-financial and Financial Corporations. In 2005-06, this includes the injection of $300 million to Central Queensland Port Authority for the RG Tanna Coal Terminal, $250 million to Enertrade to meet commitments associated with State Power Purchase Agreements, $86 million to QR for the Citytrain MetTrip initiative and $53 million to SunWater for the Burdekin Moranbah Pipeline project.

Cash outflows from investments for policy purposes for 2006-07 of $318 million also reflect equity transactions with public enterprises, in particular additional equity injections of $298 million into QR for the Citytrain MetTrip and *South East Queensland Infrastructure Plan and Program* initiatives and $20 million into Queensland Motorways.

Cash flows from investments for liquidity purposes represent net investment in financial assets such as to cover superannuation and other employee entitlements.

The 2005-06 estimated cash outflows from investments in financial assets for liquidity purposes of $3.629 billion is substantially higher than forecast in the 2005-06 Budget and primarily reflects the increase in interest earnings on investments from 7.5% to 16%.

The reinvestment of interest earnings, investment of contributions set aside for the Government’s defined benefit superannuation scheme and employee entitlements and investing of the Treasurer’s cash balances in short term deposits with Queensland Treasury Corporation have resulted in higher cash outflows for 2005-06. These outflows are partially offset by payments for employee entitlements during the year.

Cash outflows from investments in financial assets for liquidity purposes are estimated to be $1.272 billion in 2006-07. The decline from 2005-06 reflects reinvestment of interest earnings based on the long term rate of return of 7.5% and a higher State share of superannuation beneficiary payments. In 2005-06, the State’s share of superannuation beneficiary payments were reduced in line with the funding recommendation outlined in the most recent actuarial investigation.

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

	2005-06 Budget $ million	2005-06 Est. Act. $ million	2006-07 Budget $ million
Net cash flows from advances	(14)	(18)	(15)
Net cash flows from borrowing (net)	827	(842)	1,800
Net increase/(decrease) in cash held from financing activities	**813**	**(860)**	**1,785**

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 (net movement in government securities on issue).

In 2005-06 net cash outflows from financing activities are estimated at $860 million. This represents the extinguishment of debt by the General Government as a result of strong cash surpluses in 2004-05 and 2005-06.

During 2005-06, $493 million of Queensland Health's debt was extinguished as part of the *Health Action Plan*. The completion of the Burnett Water Dam and its subsequent sale to SunWater also resulted in the retirement of $188 million of associated debt by the Department of State Development, Trade and Innovation.

Cash inflows from financing activities for 2006-07 are estimated at $1.785 billion, reflecting borrowings to partially fund the General Government's capital program of $3.958 billion.

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 for the Budget year.

Table 7.7
General Government sector: Reconciliation of cash flows from operating activities to accrual operating activities

	2005-06 Budget $ million	2005-06 Est. Act. $ million	2006-07 Budget $ million
GFS accrual revenue	**26,604**	**29,586**	**29,070**
Plus/(less) movement in tax equivalent and dividend receivables	(228)	(449)	99
Plus GST receipts	845	904	907
Plus/(less) movement in other receivables	(73)	277	(186)
Equals GFS cash receipts	**27,148**	**30,318**	**29,890**
GFS accrual expense	**25,670**	**26,733**	**28,825**
(Less) non-cash items			
Depreciation and amortisation expense	(1,617)	(1,632)	(1,754)
Accrued superannuation expense	(1,534)	(1,468)	(1,586)
Accrued employee entitlements	(574)	(311)	(328)
Other accrued costs	(230)	(404)	(241)
Plus Superannuation benefits paid – defined benefit	420	55	430
Plus/(less) movement in employee entitlement provisions	426	193	203
Plus/(less) GST paid	866	941	936
Plus/(less) movement in other provisions and payables	304	271	545
Equals GFS cash expenditure	**23,731**	**24,378**	**27,030**

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

KEY POINTS

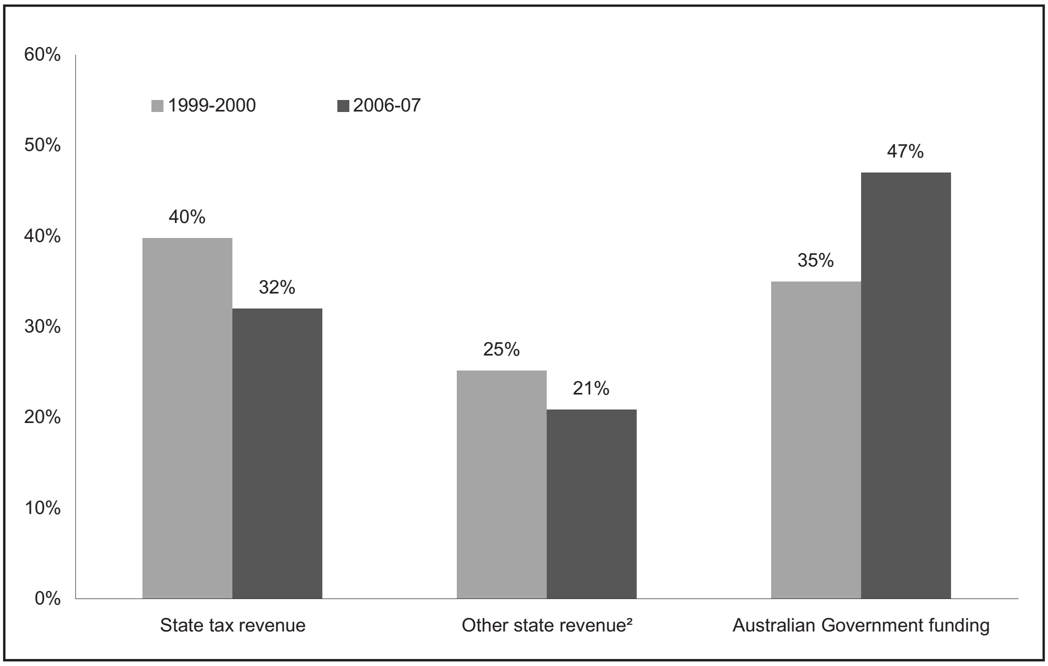
- **Following the introduction of the GST in 2000 and the abolition of a number of state taxes, the states have become increasingly reliant on Australian Government funding. Approximately 46% of Queensland's revenue will be sourced from Australian Government funding in 2006-07.**
- **The Commonwealth Grants Commission's 2006 Update Report recommended a $174.1 million reduction in Queensland's underlying share of GST. This reduction is largely due to relatively strong growth in Queensland's capacity to raise stamp duty on property conveyances. The Commonwealth Grants Commission's latest relativity assessments imply a reduction in Queensland's share of GST over the next few years.**
- **The Australian Government will cease National Competition Policy (NCP) payments to the states from 30 June 2006. This will mean a reduction in funding for Queensland of $178.7 million in 2006-07.**
- **Revenue reductions for Queensland associated with the abolition of business taxes covered by the Intergovernmental Agreement of 1999 will be $340 million in 2006-07, increasing to $828 million in 2009-10.**
- **Queensland's reduced GST funding share combined with the cessation of NCP payments and the revenue lost through abolishing business taxes will limit the Government's ability to fund further tax reductions.**
- **Queensland has not benefited as much from the introduction of the GST as is often claimed. On a per capita basis, Queensland taxpayers are expected to be $309 better off in 2006-07 as a result of lower taxes and other reforms associated with the introduction of the GST. This is less than the average benefit of $329 per capita across all states and less than the $330 per capita benefit taxpayers in New South Wales are expected to receive.**
- **The Queensland Government provides strong support to the Local Government sector. In 2006-07, the Queensland Government will provide $730.9 million in grants to Queensland local government authorities, comprising 63.1% of grant funding for local government in Queensland.**

COMMONWEALTH-STATE FINANCIAL RELATIONS

Commonwealth-state[1] financial relations are characterised by a mismatch between the revenue-raising capacity and the expenditure responsibilities of the Australian and state governments. This mismatch is known as vertical fiscal imbalance. The Australian Government collects the major share of taxation revenues and, increasingly, states must rely on grants from the Australian Government to meet expenditure requirements.

Chart 8.1 shows all states' funding sources for 1999-2000 and 2006-07 and highlights the states' increased reliance on Australian Government funding since the introduction of the Australian Government's national tax reforms in 2000. In 1999-2000 the states received 35% of their revenues from the Australian Government. This is estimated to increase to 47% in 2006-07. In contrast, the proportion of the states' revenues from state taxes has reduced from 40% in 1999-2000 to an estimated 32% in 2006-07.

Chart 8.1
Revenue sources, all states, 1999-2000 and 2006-07[1]



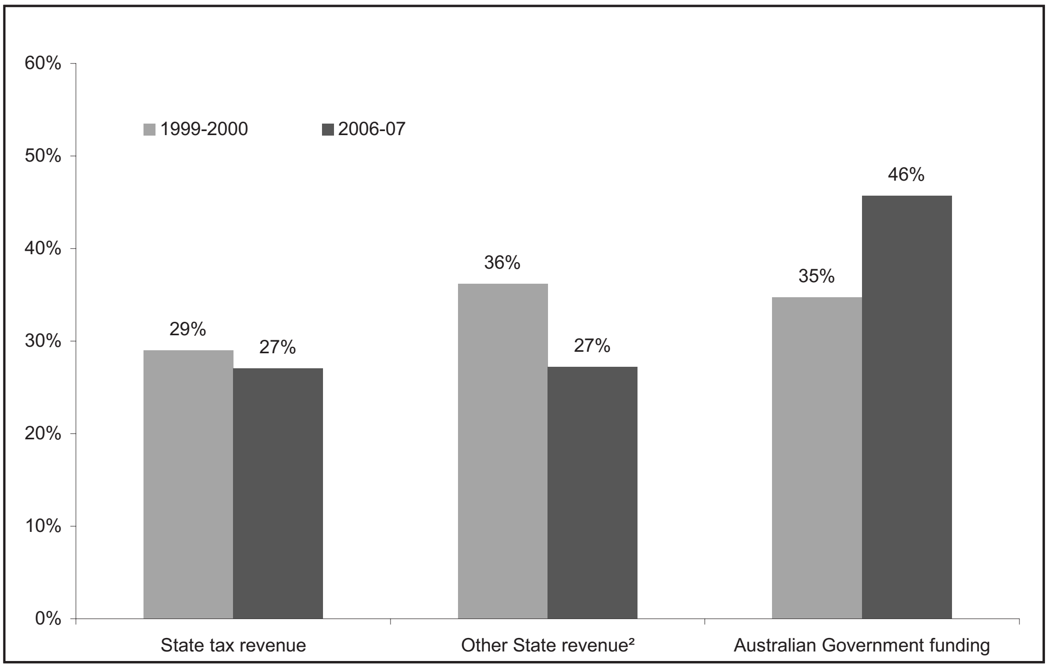
Notes:
1. 2006-07 data are estimates.
2. Includes user charges, interest earnings, contributions from trading enterprises and mining revenue.

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

[1] In this chapter, the term 'state' refers to Australian states and territories.

Queensland's reliance on Australian Government funding, as shown in Chart 8.2, follows the national trend, with the share of total funding sourced from the Australian Government rising from 35% in 1999-2000 to an estimated 46% in 2006-07. Meanwhile state taxation revenue has decreased from 29% of total revenue in 1999-2000 to an estimated 27% in 2006-07.

Chart 8.2
Revenue sources, Queensland, 1999-2000 and 2006-07[1]



Notes:
1. 2006-07 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.

Queensland's reliance on Australian Government funding is expected to further increase in the future, as planned stamp duty reforms are implemented.

INSTITUTIONAL AND GOVERNANCE ARRANGEMENTS

The framework for Commonwealth-state financial arrangements includes:

- the Ministerial Council for the Reform of Commonwealth-State Financial Relations
- the Australian Loan Council
- the Commonwealth Grants Commission.

Ministerial Council

The Ministerial Council for the Reform of Commonwealth-State Financial Relations (Ministerial Council) comprises the Australian Government and state government treasurers and was established in June 1999 to oversee the operation of the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA).

The Ministerial Council generally meets towards the end of the first quarter of every calendar year and considers matters such as:

- GST policy and administration issues
- recommendations of the Commonwealth Grants Commission and Heads of Treasuries and the Australian Treasurer's advice regarding estimated payments to states
- taxation issues relevant to Commonwealth-state financial relations
- Specific Purpose Payments to the states
- competition and economic reform matters.

Australian Loan Council

The Australian Loan Council comprises the Australian Government Treasurer and state treasurers. It meets immediately following the annual Ministerial Council meeting. Nominations for Loan Council Allocations (LCAs) for 2006-07 put forward by the Australian and state governments reflect current best estimates of non-financial public sector deficits or surpluses. For 2006-07, the Loan Council endorsed total LCAs of $27.4 billion (a projected public sector surplus). This amount reflects a surplus of $36.0 billion for the Australian Government and a net deficit of $8.6 billion collectively for the states.

Queensland's LCA deficit for 2006-07 is estimated at $4.219 billion. This figure incorporates a funding requirement for the State's $10.136 billion capital program in 2006-07. Borrowings in the General Government sector will be consistent with the Government's commitments in the *Charter of Social and Fiscal Responsibility*. In recognition of Queensland's capital requirements, the Charter allows borrowing for capital purposes where the costs of borrowing can be serviced within the context of an overall operating surplus.

Commonwealth Grants Commission

The role of the Commonwealth Grants Commission (CGC) is to advise 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 (HFE), as detailed in Box 8.1. Each year the CGC updates the financial, economic and demographic data that underpin its recommendations.

Box 8.1
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 Commonwealth Grants Commission (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.

HFE provides the capacity for all communities to have access to a similar level of state government services regardless of where they are located. 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.

More information on HFE 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.

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 direct the CGC to simplify its processes and introduce a more streamlined approach to HFE, based on a simplified methodology and better quality data. The 2010 review is more far reaching than previous reviews and includes proposals for a substantial change in the way the CGC structures its assessments.

Under the terms of reference for the review, the CGC is required to make progress reports to Ministerial Council in 2006 and 2007. The CGC presented its first progress report at the 2006 Ministerial Council meeting and has subsequently made the report publicly available.

During 2006 the CGC will seek views from the states on the nature and scope of HFE, progress its work on devising more aggregated assessment categories and continue the examination of the quality and reliability of major data sets. The CGC's 2007 report to the Ministerial Council will outline the findings and proposals from its work program in 2006.

AUSTRALIAN GOVERNMENT FUNDING TO STATES

Australian Government payments to the states in 2006-07 are expected to total $66.975 billion, an increase of $2.829 billion or 4.4% compared with 2005-06.

Table 8.1 compares estimated Australian Government payments to the states in 2006-07 with those for 2005-06.

Table 8.1
Estimated Australian Government payments to the states, 2005-06 and 2006-07[1]

	2005-06 $ million	2006-07 $ million	Change Nominal Terms %	Change Real[2] Terms %	Change Real[2] Per Capita %
General Purpose Payments					
GST Revenue	36,813	39,130	6.3	3.2	1.9
Budget Balancing Assistance	44	..	n.a.	n.a.	n.a.
Compensation for GST deferral	127	17	(86.5)	(86.9)	(87.0)
Residual Adjustment Amounts	51	..	n.a.	n.a.	n.a.
National Competition Policy Payments	820	..	n.a.	n.a.	n.a.
Total General Purpose Payments	**37,855**	**39,147**	**3.4**	**0.4**	**(0.8)**
Specific Purpose Payments					
SPPs 'to' the States	19,399	20,464	5.5	2.4	1.2
SPPs 'through' the States	6,891	7,363	6.8	3.7	2.5
Total Specific Purpose Payments	**26,290**	**27,827**	**5.8**	**2.8**	**1.5**
Total Payments	**64,146**	**66,975**	**4.4**	**1.4**	**0.1**

Notes:
1. Numbers may not add due to rounding.
2. Deflated by the 2006-07 year average national inflation forecast of 3.0% and Australian population growth of 1.25%.

Source: Australian Government Budget Paper No.3, 2006-07.

General Purpose Payments

General purpose payments comprise GST revenue, Budget Balancing Assistance, compensation for the deferral of GST revenue, residual adjustment amounts and (until 2005-06) National Competition Policy payments. General purpose payments from the Australian Government are expected to increase from $37.855 billion in 2005-06 to $39.147 billion in 2006-07, an increase of 3.4% in nominal terms. In real per capita terms, general purpose payments are expected to decrease by 0.8%. The distribution of GST revenue is discussed in Box 8.2.

National Competition Policy payments

National Competition Policy payments to the states, which reflected the economic benefits of the National Competition agenda, will cease on 30 June 2006. This will mean a reduction in funding for Queensland of $178.7 million in 2006-07.

National Reform Agenda

Australia has benefited from various structural reforms implemented by the Australian and state governments over the past decade.

Current efforts are focussed on sustaining Australia's strong economic performance through productivity growth and increasingly competitive, well-functioning markets. In February this year, the Council of Australian Governments (COAG) supported a new National Reform Agenda and the creation of a COAG Reform Council (CRC) to replace the National Competition Council.

The National Reform Agenda (NRA) will be developed around three streams:

- human capital – aimed at improving workforce participation and productivity by focussing on health, education and training and work incentives
- competition – focussed on further reforms in energy, transport, infrastructure regulation and planning
- reducing the regulatory burden.

The NRA will be supported by Intergovernmental Action Plans (IAPs) to be developed by Senior Officials in 2006. The IAPs to be agreed by COAG will set out agreed outcomes and commitments, progress measures, actions and milestones. The CRC will report annually to COAG on the progress in implementing the NRA.

The Australian Government has indicated it will provide funding to the states on a case-by-case basis once specific implementation plans have been developed. Payments to the states and, where appropriate, to local government, will be linked to agreed actions or progress measures and achieving demonstrable economic benefits.

Detailed funding arrangements that ensure a fair sharing of the costs and benefits of reform will need to be developed as part of the further work being done to progress implementation of the NRA.

Box 8.2
Distribution of the GST in Australia

The *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations,* signed by all states and territories (states) in 1999, specified that GST revenue will be distributed among the states on an untied basis in accordance with the principle of horizontal fiscal equalisation (HFE). Prior to the introduction of the GST, HFE underpinned the distribution of federal financial assistance grants to the states.

HFE is intended to ensure that each state government has the same financial capacity to provide the same standard of services to their populations. The Commonwealth Grants Commission (CGC) provides independent and objective advice to the Australian Government on how GST revenue should be distributed to the states, in accordance with the principles of HFE.

The distribution of GST revenue that occurs under HFE works to counteract the differences between states that arise for reasons that are beyond their control. The CGC takes into account the entire range of state revenues and the costs involved in delivering state services.

For example, smaller states suffer diseconomies of scale because of their population size. States like Queensland and Western Australia suffer disadvantages associated with population dispersion which affect their ability to provide services in regional and remote areas. Wage differentials between states affect the cost of providing services. Some states have a greater abundance of natural resources than others, while some states have stable, developed economies compared with others that have growing economies. These are some of the key issues that are taken into consideration by the CGC to ensure all states get a fair share of GST revenue.

In aggregate, the CGC currently considers Queensland requires more than a population share of GST revenue, while New South Wales and Victoria require less than a population share of GST revenue. However, the latest CGC assessment implies that Queensland's share of GST revenue is expected to decline over the next few years.

The collection of GST is not related to the distribution of the GST revenue

There has been consistent criticism by New South Wales that it does not receive a fair share of GST. New South Wales has argued that it should receive most if not all of the GST revenue it claims is paid by New South Wales taxpayers. 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 is derived is analogous to saying that the Australian Government income tax should be allocated across the states on the basis of where it was generated. No-one expects this to happen as it would be inequitable and unfair if wealthy states retained all the national taxes that they contribute. In any case, it is impossible to say how much of the GST is attributable to one state or another. The tax data required to make such an assessment simply does not exist, as GST revenue can be generated in one state but reported in another.

Even if it were able to be measured, distributing tax revenue based on where it is generated would mean that Australians would not enjoy fair access to services because each state government would not have the capacity to provide services to their populations to the same standard.

The distribution of GST revenue does not act as a disincentive for good performance

Some states have asserted that the current allocation method compensates for poor policy performance or provides a disincentive for states to pursue efficiency improvements because the gains they make are lost through the GST revenue distribution process. However, as noted above, the distribution of GST revenue is based on the inherent differences between states rather than economic performance.

The CGC developed a case study which demonstrates that any state improving its service delivery is not disadvantaged by the distribution of GST revenue and in fact may receive more GST revenue:

> *Suppose Victoria was able to improve the efficiency of its hospitals to such an extent that it reduced its actual expenses by 10 per cent. Its cost of providing Inpatient Services in 2004-05 was $4.558 billion, so its improved efficiency would have generated budget savings of $456 million…*
>
> *…A reduction in Inpatient Services average expenses of $456 million in 2004-05 would produce a (very small) redistribution of $1.9 million to the benefit of States assessed to have cost advantages in Inpatient Services in 2004-05. They were: Victoria (its share of GST revenue would increase by $0.9 million); Western Australia ($0.2 million); and the ACT ($0.2 million).*
>
> *Source: CGC, 2006, Relative Fiscal Capacities of the States 2006.*

In other words, Victoria would benefit from its efficiency savings of $456 million and improve its GST revenue share by $0.9 million.

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 (see below) and is a key aspect of maintaining equity between the states.

The process for distribution of the GST is dynamic and independent

The CGC uses the latest available data in its assessments, which reflect the relative economic circumstances of the states. For example, in the 2006 Update Report, 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.

This declining share of GST revenue may impact the State's capacity to provide additional services, or enhance existing services. However, Queensland recognises that it is fair for a state that has an increased capacity to raise revenue from its own sources to have that capacity recognised when GST revenue is distributed to the states.

The CGC is currently conducting a review, due in 2010, of the processes used to determine the distribution of the GST revenue. In this review the CGC, working with states, is seeking to make the process simpler and more transparent and ensure that the data used in the assessments is more accurate, consistent and comparable across states. A progress report on the 2010 review process was provided to the Ministerial Council for Commonwealth-State Financial Relations in March 2006 and is available on the CGC's web site: www.cgc.gov.au.

Specific Purpose Payments

Specific Purpose Payments (SPPs) are provided by the Australian Government to states for particular purposes under conditions negotiated between Governments. Separate agreements are negotiated for each SPP, with the agreements covering both funding and policy issues.

SPP funding to states is provided either 'to' or 'through' the state. An SPP 'to' a state assists in funding areas of state responsibility – for example, health and disability services. Payments 'through' the state are passed to other service providers such as non-government schools and local governments.

Total SPPs in 2006-07 are expected to be $27.827 billion. This represents an increase of $1.537 billion, or 5.8% in nominal terms, over 2005-06. Payments to the states increased by 5.5%, which represents an increase of 1.2% in real per capita terms. SPPs through the states are growing at a slightly faster rate and are expected to increase by 6.8% in nominal terms, a real per capita increase of 2.5%.

QUEENSLAND'S SHARE OF COMMONWEALTH FUNDING

Table 8.2 shows the expected shares of total Australian Government payments to each state for 2006-07 compared with each state's population share. Queensland's expected share of total Australian Government funding of 19.8% is marginally greater than its population share of 19.7%.

Table 8.2
Relative shares of payments to the states, 2006-07[1]

	Share of payments %	Share of population %	Relative share[2] %
New South Wales	29.7	33.2	89.7
Victoria	22.2	24.7	90.1
Queensland	19.8	19.7	100.6
Western Australia	11.0	10.0	110.1
South Australia	8.5	7.5	113.5
Tasmania	3.3	2.4	141.1
Australian Capital Territory	1.8	1.6	112.2
Northern Territory	3.6	1.0	354.6

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

Source: Australian Government Budget Paper No.3, 2006-07.

Table 8.3 details Queensland's share of estimated Australian Government payments in 2006-07 and the difference from its population share.

Queensland expects to receive $250.2 million more than a per capita share of GST revenue, including compensation for GST revenue deferral, in 2006-07. This is partly offset by the $169.7 million less than a per capita share of SPP funding Queensland is expected to receive. In terms of total Australian Government funding, Queensland expects to receive $80.6 million more than a per capita share in 2006-07.

Table 8.3
Queensland's share of estimated Australian Government payments 2006-07[1]

	Queensland's Share %	Difference from Population Share $ million
General Purpose Payments		
GST Revenues	20.4	250.2
Compensation for GST deferral	20.3	0.1
Total General Purpose Payments	**20.4**	**250.3**
Specific Purpose Payments		
SPPs 'to' the State	19.0	(138.9)
SPPs 'through' the State	19.3	(30.7)
Total Specific Purpose Payments	**19.1**	**(169.7)**
Total Australian Government Payments	**19.8**	**80.6**

Note:
1. Numbers may not add due to rounding.
Source: Australian Government Budget Paper No.3, 2006-07.

2006 Relativities update

The Australian Government accepted the Commonwealth Grants Commission's (CGC) *2006 Update Report on State Revenue Sharing Relativities* (2006 Update Report) as the basis for the distribution of the GST revenue to the states in 2006-07. The March 2006 meeting of the Ministerial Council endorsed the CGC's recommendations for payments relating to 2006-07.

In the 2006 Update Report, the CGC recommended an underlying decrease in Queensland's share of GST revenue of $174.1 million in 2006-07 (Table 8.4). The recommended decrease in Queensland's share of grants is largely due to relatively strong growth in Queensland's capacity to raise stamp duty on property conveyances.

The 2006 Update Report outcome demonstrates the responsiveness of the CGC's methodology to changes in the relative circumstances of states. The CGC's latest relativity assessments imply a reduction in Queensland's GST share over the next few years.

Table 8.4
Components of underlying change in states' share of GST revenue 2005-06 to 2006-07[1,2]

	NSW $ million	VIC $ million	QLD $ million	WA $ million	SA $ million	TAS $ million	ACT $ million	NT $ million
Revenue	-9.2	199.2	-144.7	-32.9	-33.3	7.0	-8.2	22.1
Expenditure	101.4	17.5	-38.8	-49.0	-22.2	-15.0	9.5	-3.4
SPPs	-19.7	4.4	9.4	-7.2	0.2	4.0	0.7	8.2
Total	**72.7**	**221.4**	**-174.1**	**-89.3**	**-55.4**	**-4.0**	**1.9**	**26.8**

Note:
1. Numbers may not add due to interactions between Expenditure and SPP assessments.
2. Following the release of the CGC 2006 Update Report, minor changes were made to use the corrected data on the value of property transfers provided by South Australia. These are not included in this table.

Source: Commonwealth Grants Commission 2006 Update Report on State Revenue Sharing Relativities.

Review of state taxes

All Australian states signed the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA) in June 1999. The stated objectives of the IGA are:

- the achievement of a new national tax system, including the elimination of a number of existing inefficient taxes which are impeding economic activity
- the provision to state and territory governments of revenue from a more robust tax base that can be expected to grow over time
- an improvement in the financial position of all state and territory governments, once the transitional changes have been completed, relative to that which would have existed had the current arrangements continued.

The IGA also contains a number of reform requirements of both the states and the Australian Government. For the states, these requirements include:

- abolishing bed taxes, from 1 July 2000
- abolishing financial institutions duty, from 1 July 2001
- abolishing stamp duty on quoted marketable securities, from 1 July 2001
- abolishing debits tax by 1 July 2005, subject to review by Ministerial Council
- reviewing the need for retention of stamp duty on non-residential conveyances, leases, mortgages, debentures, bonds and other loan securities, credit arrangements, instalment purchase arrangements and rental arrangements, cheques, bills of exchange and promissory notes and unquoted marketable securities, by 2005.

Queensland has met all of the IGA requirements. Queensland abolished stamp duty on quoted marketable securities on 1 July 2001 and had never imposed bed taxes or financial institutions duty. Debits tax was abolished on 1 July 2005.

In 2005, Queensland participated in a comprehensive review of the need to retain the stamp duties identified in the IGA. At the conclusion of this review, Queensland decided some of the additional revenue provided by the GST could be used to abolish these stamp duties. Queensland also found the strong demand for infrastructure and a higher standard of services in the State was at least as important as abolishing these stamp duties. Therefore, Queensland committed to a program for abolishing a majority of duties listed in the IGA over a timeframe which will allow the State to also provide additional infrastructure and enhanced services to Queenslanders.

Impact of IGA reforms

Revenue reductions for Queensland associated with the abolition of business taxes covered by the Intergovernmental Agreement of 1999 will be $340 million in 2006-07, increasing to $828 million in 2009-10. Details of Queensland's schedule for the abolition of these state taxes can be found in Chapter 5.

It has been claimed that Queensland receives the greatest benefit from GST revenue on the basis that it receives the largest amount of GST revenue in excess of the Guaranteed Minimum Amount (GMA). The GMA is a measure of the amount of revenue which the states would have received if the GST had not been introduced. Comparing GST revenue in excess of the GMA is an oversimplified way of looking at the impact of IGA reforms, as it does not account for the differences in tax regimes prior to the abolition of state taxes.

The revenue foregone due to abolishing these taxes, along with the cost of providing First Home Owner Grant (FHOG) Scheme payments, is included in the calculation of the GMA. While Queensland receives a relatively higher amount of GST revenue in excess of the GMA, states such as New South Wales have larger amounts of tax reductions included in their GMA.

Table 8.5 shows the Australian Government's estimated impact of IGA reforms on a per capita basis for each state in 2006-07. This table shows that Queensland taxpayers have benefited less than the average from the IGA reforms. This is because Queensland did not impose financial institutions duty or bed taxes, which other states were required to abolish, prior to the IGA reforms.

When the complete picture is considered, it becomes apparent Queenslanders have received the second lowest amount of benefit, on a per capita basis, from the national tax reforms. In contrast, as shown in Table 8.5 below, residents in states such as New South Wales have gained significantly more benefit, largely as a result of the tax abolitions required under the IGA.

Table 8.5 Impact of IGA reforms in each State, per capita, 2006-07[1, 2]				
	Taxes Abolished[2] $	First Home Owner Grant Scheme $	GST in Excess of GMA $	Total $
New South Wales	264.4	42.5	23.3	330.2
Victoria	195.9	58.2	58.4	312.5
Queensland	**101.6**	**44.9**	**162.8**	**309.3**
Western Australia	161.5	62.9	131.0	355.5
South Australia	126.4	43.5	124.4	294.3
Tasmania	104.3	38.0	209.3	351.6
Australian Capital Territory	206.3	49.2	184.1	439.7
Northern Territory	213.7	49.8	588.5	852.0
Average	**189.6**	**49.0**	**90.4**	**329.1**

Notes:
1. Numbers may not add due to rounding.
2. Includes the abolition of certain stamp duties listed in the Australian Government Budget.

Source: Australian Government Budget Paper No.3, 2006-07 and unpublished data provided by states.

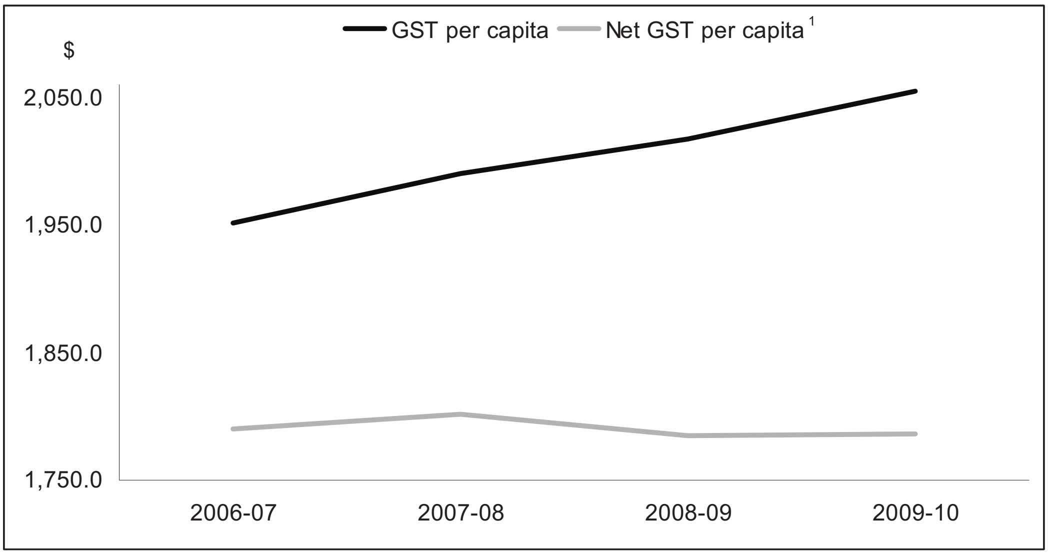
Queensland's available GST revenue

The amount of GST revenue reported in the Budget is not the full amount available to be spent in Queensland as can be seen in Chart 8.3. This is because the Queensland Government has to meet a number of costs associated with its commitments under the IGA.

It is anticipated that total GST collections per capita will continue to grow at an annual average rate of 4% from 2006-07 to 2009-10. However, the State's declining relativity means that Queensland's GST revenue per capita is estimated to grow at an annual average rate of only 1¾% over the same period.

Queensland faces the following costs associated with its commitments under the IGA: 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. When these costs are taken into consideration, Queensland's net GST revenue per capita declines marginally over the period. This means that Queensland's net GST revenue per capita over the period falls in real terms.

Chart 8.3
Queensland GST revenue per capita, 2006-07 to 2009-10



Note:
1. Net GST revenue per capita represents net available revenue after meeting First Home Owner Grant Scheme costs, GST administration costs and the cost of taxes abolished under the IGA.

Source: Australian Government Budget Paper No.3, 2006-07 and Queensland Treasury.

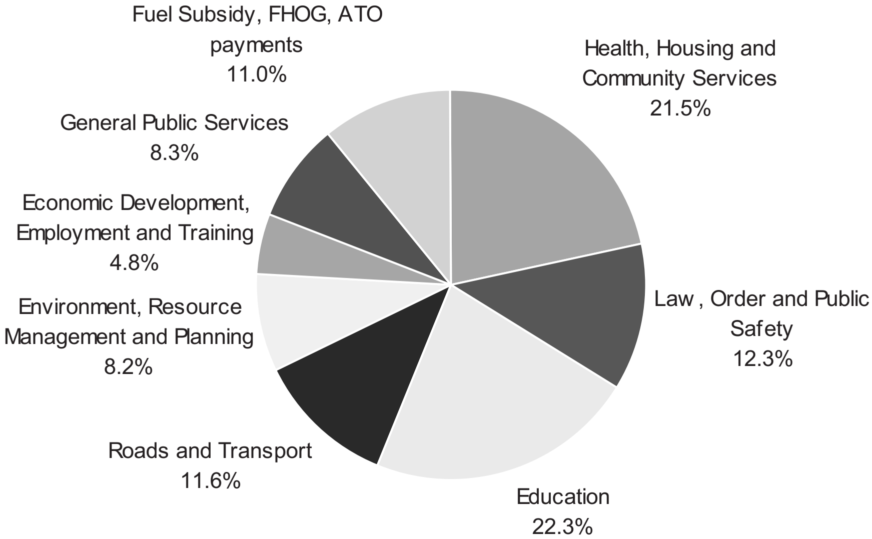
The impact of the costs associated with Queensland's commitments under the IGA coupled with the declining share of GST revenue implied by the Commonwealth Grants Commission's latest relativity assessment indicate limited capacity to further reduce State taxes while continuing to meet the service needs of a growing population.

Queensland's allocation of its GST revenue

The IGA provides for GST revenue to be freely available for use by the states for any purpose. Since 2002-03, when Queensland first received additional funding as a result of the GST, increases in GST revenue have been allocated to delivering additional services, including the implementation of a preparatory year of school.

Chart 8.4 below provides a notional allocation of 2006-07 GST revenues to government services.

Chart 8.4
Allocation of GST revenue, 2006-07



Source: Queensland Treasury

CURRENT SPECIFIC PURPOSE PAYMENT NEGOTIATIONS

The Australian Government has taken a clear position in recent SPP negotiations with the states to use individual SPP negotiations to actively pursue its own policy objectives. This and other factors have led to several SPP negotiations becoming protracted during 2005-06. Some SPP negotiations were not finalised until after existing SPP agreements expired, which placed additional pressure on state budgetary positions.

Queensland works cooperatively with other states through an SPP Working Group which gives the states a forum to progress SPP issues. All states have expressed concerns with the current SPP arrangements, including:

- requirements for the states to provide a public commitment to future state funding in a number of SPP portfolio areas, which tends to constrain states' future budgetary flexibility
- input and accountability controls for SPPs which can inhibit reform and efficiency improvements in service delivery at the state level. Queensland supports the use of outcome-based objectives to facilitate innovation and provide opportunities to introduce efficiencies. There are opportunities for the Australian Government to work co-operatively with the states to explore options for improving efficiency and encouraging innovation

- the implementation of federally focused policies through SPP agreements. The Australian Government can require states to deliver on national SPP terms and conditions by withholding a percentage of total funding if states do not comply with Australian Government requirements. The funding risk resulting from non-compliance with the terms and conditions has potential budget impacts for Queensland. For example, the Australian Government is making the adoption of its industrial relations practices, under the National Building Code of Practice and Commonwealth Implementation Guidelines, a condition of receiving federal capital grants.

In 2005-06, the SPP Working Group has focussed on examining budget flexibility issues in individual SPP agreements that are approaching renewal. It is currently reviewing the Commonwealth-State and Territory Disability Agreement which expires on 30 June 2007.

The Australian Government is expected to retain a preference for input controls, rather than an outcome/output framework for SPP management. The SPP Working Group will continue to focus on examining budget flexibility issues, reviewing developments in SPP negotiations and undertaking research projects that may be agreed to from time to time.

Commonwealth-State Agreement for Skilling Australia's Workforce

Late in 2005, all state training Ministers agreed to sign the Australian Government's new 2005-2008 Commonwealth-State Agreement for Skilling Australia's Workforce (the Agreement), replacing the Australian National Training Authority Agreement 2001-2005 which expired on 30 June 2005.

Under the Agreement, the Australian Government will provide $4.970 billion to the states over the four calendar years 2005 to 2008. This includes additional funding of $215 million. States are required to match this amount.

States have agreed to a number of activities and targets under the Agreement, including national targets of 10,000 additional places for new apprenticeship commencements in skills shortages areas for trades and 10,000 additional training places in other (non-trade apprenticeship) skill shortage areas.

The new Agreement requires states to implement workplace reforms in Technical and Further Education (TAFE) institutions, including offering staff Australian Workplace Agreements or other individual agreements where the lack of corporate status of the TAFE institution means that it is not covered by the Australian Government's *Workplace Relations Act 1996*. The latter is the case in Queensland.

Home and Community Care

The Home and Community Care (HACC) SPP provides for basic community care services to frail aged and younger people with disabilities and their carers. HACC was due for renewal on 1 July 2005. However, as there is no sunset clause, funding is ongoing until such time as a new agreement is finalised.

The Australian Government has proposed that the HACC Agreement continue and that the current matching arrangements and program responsibilities be maintained (i.e. states maintain day-to-day responsibility for management of the program). The HACC SPP is currently increased by around 8% per annum by the Australian Government.

The new HACC Agreement is expected to be finalised towards the end of 2006.

AusLink

The Australian Government released its AusLink White Paper on 7 June 2004, detailing proposed reform of land transport planning and funding. AusLink became operational from 1 July 2004. The Australian Government introduced new legislation to provide for the administration of the program, including transitional arrangements, for example for national highway projects already approved under the *Australian Land Transport Development Act 1988*.

The AusLink arrangements provide for shared state/federal funding of the declared AusLink Network. The Queensland Government will be responsible for funding some projects on the declared AusLink Network (e.g. the Flinders Highway) and may be required to contribute to projects relating to the former National Highway System, which was fully funded by the Australian Government prior to the implementation of AusLink.

The AusLink Agreement between Queensland and the Australian Government was finalised in December 2005. Following the Australian Government's 2006-07 Budget, funding of $2.166 billion is to be provided to the Queensland Government for roads over the five year period from 2004-05 to 2008-09.

STATE-LOCAL GOVERNMENT RELATIONS

Local government has a responsibility to deliver a variety of facilities and services to their individual communities. Queensland's major cities and coastal towns continue to experience significant population growth. These demographic changes pose challenges in terms of environmental impacts, the balance between urban and productive land, water resources, air quality and maintenance of public infrastructure.

In regional, rural and remote Queensland, many inland towns and communities are facing different challenges associated with declining populations and economic well-being. Despite divergent issues, all communities across the State have high expectations in relation to amenity and well-being and look to Government for services and associated support.

The Queensland Government has an interest in assisting local governments across the state to achieve and improve delivery standards and enhance equitable access to services and facilities, particularly in smaller communities. To facilitate this, the Queensland Government provides considerable financial assistance to local government by way of grant and program funding. The Australian Government also provides funding to local government through financial assistance grants and SPPs.

Fiscal capacity

There is a large disparity in local governments' ability to raise revenue due to large differences in the tax base (rating ability) and differential ability to levy user charges among urban, regional, rural and remote councils. Variables that influence an individual council's rating ability include unimproved capital values of rateable land (residential, commercial and rural), the number of rateable properties within a jurisdiction and each community's economic well-being.

Councils in Aboriginal communities have less opportunity to raise revenue than local governments elsewhere. This is largely due to differences in land tenure. Aboriginal councils are the trustees of Deed of Grant in Trust land held on behalf of the entire community. The absence of private property means Aboriginal councils do not raise rates, a key source of revenue for other local governments.

Queensland provides more funding to local government than any other state. This reflects the significant proportion of regional and rural and remote councils within Queensland. Table 8.6 provides the most recent data on total and per capita grants from states to local government.

Table 8.6 Grants from states to local governments, 2003-04	State grants $ million	State grants $ per capita
New South Wales	230	34.30
Victoria	322	65.20
Queensland	**341**	**88.50**
Western Australia	165	83.90
South Australia	47	31.00
Tasmania	12	25.30
Northern Territory	42	209.90
Total	**1,159**	**58.90**

Source: Australian Bureau of Statistics unpublished data, Australian Government Department of Transport and Regional Services unpublished data.

Queensland provided a total of $341 million in grants to local governments in 2003-04, which was almost 30% of the total grants paid by Australian state governments to local governments. In per capita terms, Queensland's payment of $88.50 per person was 50% higher than the Australian average of $58.90 per person.

Grant assistance to local government

In 2004-05, a total of $843.9 million in grants was provided to Queensland's local governments, with 58.5% of this amount provided by the Queensland Government and the balance provided by the Australian Government.

Current estimates indicate that the proportion of funding provided by the Queensland Government will increase to 59.1% in 2005-06 with a further increase in 2006-07 to 63.1%. Table 8.7 details Queensland Government and Australian Government grants to local governments in Queensland.

In 2006-07 it is expected that the Queensland Government will provide a total of $730.9 million in grant funding to Queensland local governments. Of this, $534.8 million will be grants for capital purposes.

Table 8.7 Grants to Local Government in Queensland[1,2]			
	2004-05 Actual $ million	2005-06 Est. Act. $ million	2006-07 Budget $ million
Queensland Government Grants			
Communities	51.7	58.3	59.3
- includes Pensioner Rates Rebate	42.3	48.9	51.1
Education and the Arts	18.0	18.1	18.1
Emergency Services	2.2	8.7	9.5
Employment and Training[3]	21.4	23.2	10.5
Environmental Protection Agency	2.2	0.8	0.8
Health	11.5	12.1	10.8
Housing	36.0	44.2	110.6
Local Government, Planning, Sport and Recreation	268.0	288.3	402.2
Main Roads	71.9	106.4	86.8
Public Works	2.4	0.2	6.0
State Development, Trade and Innovation	0.9	0.9	3.1
Transport	3.5	7.6	8.9
Other	4.3	4.4	4.3
Total Queensland Grants	**493.9**	**573.0**	**730.9**
Australian Government Grants			
Australian Government "through"	295.7	310.8	323.7
Australian Government "direct"	54.2	85.6	103.5
Total Australian Government Grants	**350.0**	**396.4**	**427.2**
Total Grants to Local Government Authorities and Aboriginal and Islander Councils[4]	**843.9**	**969.4**	**1,158.1**

Notes:
1. For current and capital purposes to local government authorities and Aboriginal and Islander councils.
2. Numbers may not add due to rounding.
3. This estimate may be revised upward depending on demand for services during the financial year.
4. Totals may differ to those provided in Chapter 6 due to differences in the scope of payments.

Source: Queensland Treasury, Australian Government Final Budget Outcome 2004-05, Australian Government Budget Paper No.3, 2006-07.

The overall increase in Queensland Government grants to local government in 2006-07 reflects the expansion of some existing programs and the introduction of new initiatives in some Queensland Government agencies, including:

- Indigenous Planned Maintenance Program (Department of Housing)
- Local Government Infrastructure Grants & Subsidy Programs: first year of funding for the $700 million, five year program (Department of Local Government, Planning, Sport and Recreation)
- Indigenous Environmental Health Infrastructure Program (Department of Local Government, Planning, Sport and Recreation)
- Mackay Convention Precinct (Department of Public Works).

Grant purposes

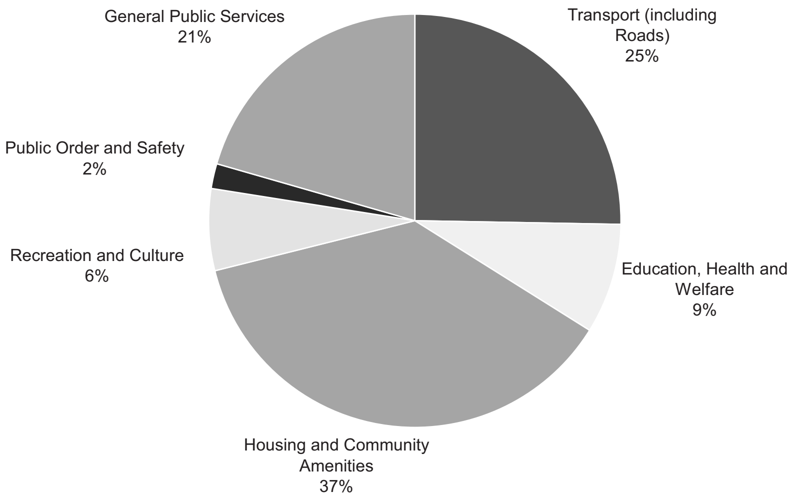
The composition of Queensland's grants to local government can vary from year to year. The major areas of funding in 2005-06 were:

- general public services including contribution to the costs of providing local government services where councils are unable to levy land rates
- employment and training programs to support and mentor trainees and apprentices and enhance community employment
- 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.

Grants for capital purposes comprised 71.6% of grants provided to local government by the Queensland Government in 2005-06. This proportion is expected to rise to 73.2% in 2006-07.

Chart 8.5 highlights the broad range of purposes for which local government grants were provided by the Queensland Government in 2005-06.

Chart 8.5
State Grants to Local Government in Queensland by Purpose 2005-06



Source: Queensland Treasury

9. GOVERNMENT FINANCE STATISTICS

INTRODUCTION

Government Finance Statistics (GFS) data is used extensively in the presentation of financial statement information in the Budget Papers.

This chapter contains detailed financial statements for the Queensland Public Sector based on Australian Bureau of Statistics (ABS) GFS standards. These tables provide financial information prepared under the Uniform Presentation Framework of reporting as required under the Australian Loan Council arrangements. In line with these requirements, budgeted financial information for the Public Financial Corporations sector is not included.

In addition, the chapter provides:

- reconciliation of the General Government sector GFS net operating balance to the accounting surplus
- a GFS time series for the General Government sector
- 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 GFS, including the conceptual basis, sector definitions and a list of reporting entities.

GENERAL GOVERNMENT SECTOR

For a detailed analysis of the General Government sector, readers should refer to Chapter 5 – Revenue, Chapter 6 – Expenses and Chapter 7 – Balance Sheet and Cash Flows.

PUBLIC NON-FINANCIAL CORPORATIONS SECTOR

The Public Non-financial Corporations (PNFC) sector comprises entities operating in a range of industries. These entities are mainly engaged in the production and sale of goods and services to the market.

In Queensland a significant part of the PNFC sector is comprised of the State's Government-owned corporations (GOCs) operating in a number of key industries including energy, rail, ports and water delivery services. GOCs operate as commercially focussed entities and their activities are targeted at meeting needs identified within the market sectors they service.

PNFC operating statement

The majority of revenue generated by GOCs is driven by the sale of goods and services to customer markets. GOC revenues are heavily linked to the performance of the Queensland economy and the ability of these entities to compete in increasingly competitive markets. Major components of GOC revenues include rail freight charges, electricity sales, port charges and agricultural and industrial water delivery.

Across the PNFC sector, it is anticipated that sales of goods and services will generate revenues of $8.064 billion in 2006-07, an increase of 11.6% when compared to the 2005-06 estimated actual. Growth in sales revenue is expected to continue, increasing by 19% from 2006-07 to 2009-10.

Another source of revenue for GOCs is community service obligation payments (CSOs). These are included in current grants and subsidies revenue. CSOs are provided by the State where GOCs are required to provide non-commercial services or services at non-commercial prices for the benefit of the community. The main CSOs are the uniform electricity tariff and QR passenger rail services.

GOCs distribute dividends to the State as shareholder. Dividends from the GOC sector are a function of net profits and the dividend payout ratio. The dividend payout ratio does not affect a GOC's capacity to carry out necessary maintenance and repairs. Dividends are paid after providing for these costs.

In general, the dividend payout ratio for the 2006-07 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 from upward revaluation of non-current assets. Shareholding Ministers consider circumstances of individual GOCs and advice from their boards before arriving at a final determination.

The sector reflects positive performance with the forecast GFS net operating balance of $78 million in 2006-07 after dividends of $629 million.

PNFC balance sheet and cash flow statement

The ability of GOCs to efficiently and effectively service their customers is reliant upon the investment in and maintenance of underlying infrastructure.

In 2006-07, the PNFC sector is expected to invest approximately $5.603 billion in capital projects. Significant levels of investment are expected to continue across the forward estimates period.

GOCs undertake infrastructure investment on a commercial basis and in response to the needs of the market sectors they service. Key areas of attention for GOCs continue to be electricity generation and network reliability and building capacity in Queensland ports and rail infrastructure.

There are a number of ways in which GOCs fund these investments including utilising cash flow from their business, borrowing and equity injections from Shareholding Ministers.

Financing of capital projects will differ according to the individual circumstances of the relevant GOC and the specific nature of the project. The Queensland Government is committed to GOCs being at all times able to fund viable projects whilst at the same time retaining a sound financial position, by ensuring that all GOCs remain sufficiently well capitalised to ensure an investment grade credit rating as determined by independent credit ratings agencies.

Over the period 2006-07 to 2009-10, the sector is budgeting to receive a total of $1.918 billion in equity support from the State.

UNIFORM PRESENTATION FRAMEWORK FINANCIAL INFORMATION

The tables on the following pages present operating statements, balance sheets and cash flow statements prepared on an accrual GFS basis for the General Government, Public Non-financial Corporations and Non-financial Public sectors.

Table 9.1 General Government Sector Operating Statement [1]						
	2005-06 Budget $ million	2005-06 Est.Actual $ million	2006-07 Budget $ million	2007-08 Projection $ million	2008-09 Projection $ million	2009-10 Projection $ million
GFS Revenue						
Taxation revenue	6,843	7,356	7,871	8,331	8,736	9,198
Current grants and subsidies	12,682	12,809	13,143	13,460	13,785	14,243
Capital grants	528	591	683	951	870	676
Sales of goods and services	2,401	2,500	2,693	2,773	2,836	2,910
Interest income	1,421	3,200	1,802	1,891	1,991	2,096
Other	2,729	3,129	2,879	2,865	3,025	3,333
Total Revenue	**26,604**	**29,586**	**29,070**	**30,271**	**31,242**	**32,456**
Less **GFS Expenses**						
Gross operating expenses						
Employee expenses	11,719	12,051	13,324	14,047	14,718	15,616
Other operating expenses	5,161	5,641	5,844	5,855	5,930	6,079
Depreciation	1,617	1,632	1,754	1,876	1,951	2,017
Superannuation interest expense	604	502	563	593	623	651
Other interest expense	232	186	222	366	543	744
Current transfers	5,494	5,754	6,094	6,404	6,555	6,602
Capital transfers	844	966	1,024	882	698	645
Total Expenses	**25,670**	**26,733**	**28,825**	**30,024**	**31,019**	**32,354**
Equals **GFS net operating balance**	**934**	**2,853**	**245**	**247**	**224**	**102**
Less **Net acquisition of non-financial assets**						
Purchases of non-financial assets	3,616	2,914	3,958	4,016	3,961	4,152
Sales of non-financial assets	(297)	(355)	(302)	(391)	(314)	(283)
Less Depreciation	1,617	1,632	1,754	1,876	1,951	2,017
Plus Change in inventories	27	18	75	28	(3)	12
Plus Other movements in non-financial assets	14	40	15	15	15	15
Equals Total net acquisition of non-financial assets	**1,742**	**984**	**1,992**	**1,792**	**1,708**	**1,879**
Equals **GFS Net lending / (borrowing) (Fiscal Balance)**	**(808)**	**1,869**	**(1,747)**	**(1,546)**	**(1,484)**	**(1,777)**

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

Table 9.2
Public Non-financial Corporations Sector Operating Statement [1]

		2005-06 Budget $ million	2005-06 Est.Actual $ million	2006-07 Budget $ million	2007-08 Projection $ million	2008-09 Projection $ million	2009-10 Projection $ million
	GFS Revenue						
	Current grants and subsidies	1,349	1,260	1,443	1,551	1,586	1,621
	Capital grants	17	22	18	18	18	18
	Sales of goods and services	7,175	7,225	8,064	8,577	9,192	9,611
	Interest income	77	85	80	75	75	78
	Other	464	538	591	532	513	493
	Total Revenue	**9,082**	**9,130**	**10,195**	**10,753**	**11,383**	**11,821**
Less	**GFS Expenses**						
	Gross operating expenses						
	Employee expenses	1,802	1,846	2,002	2,098	2,167	2,266
	Other operating expenses	3,734	3,913	4,472	4,538	4,667	4,509
	Depreciation	1,413	1,363	1,532	1,707	1,855	1,989
	Other interest expense	874	795	951	1,129	1,249	1,300
	Other property expenses	964	973	967	1,025	1,177	1,428
	Current transfers	84	108	181	219	151	131
	Capital transfers	..	30	12	..	..	..
	Total Expenses	**8,871**	**9,028**	**10,118**	**10,716**	**11,266**	**11,623**
Equals	**GFS net operating balance**	**210**	**102**	**78**	**37**	**117**	**197**
Less	**Net acquisition of non-financial assets**						
	Purchases of non-financial assets	3,952	4,561	5,603	4,515	4,132	3,929
	Sales of non-financial assets	(26)	(60)	(49)	(83)	(54)	(56)
	Less Depreciation	1,413	1,363	1,532	1,707	1,855	1,989
	Plus Change in inventories	65	94	..	(13)	(16)	(13)
	Plus Other movements in non-financial assets	30	(30)	(12)	..	..	..
	Equals Total net acquisition of non-financial assets	**2,609**	**3,202**	**4,010**	**2,712**	**2,208**	**1,872**
Equals	**GFS Net lending / (borrowing) (Fiscal Balance)**	**(2,399)**	**(3,101)**	**(3,932)**	**(2,675)**	**(2,091)**	**(1,674)**

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

Table 9.3
Non-financial Public Sector Operating Statement [1]

		2005-06 Budget $ million	2005-06 Est.Actual $ million	2006-07 Budget $ million	2007-08 Projection $ million	2008-09 Projection $ million	2009-10 Projection $ million
	GFS Revenue						
	Taxation revenue	6,508	7,021	7,518	7,965	8,360	8,819
	Current grants and subsidies	12,605	12,732	13,002	13,287	13,646	14,111
	Capital grants	528	591	683	951	870	676
	Sales of goods and services	9,424	9,571	10,601	11,191	11,868	12,362
	Interest income	1,499	3,285	1,881	1,966	2,066	2,174
	Other	2,224	2,689	2,497	2,367	2,356	2,393
	Total Revenue	**32,788**	**35,890**	**36,183**	**37,728**	**39,166**	**40,536**
Less	**GFS Expenses**						
	Gross operating expenses						
	Employee expenses	13,521	13,897	15,326	16,146	16,886	17,883
	Other operating expenses	8,391	9,061	9,804	9,864	10,057	10,045
	Depreciation	3,030	2,995	3,286	3,583	3,806	4,006
	Superannuation interest expense	604	502	563	593	623	651
	Other interest expense	1,106	981	1,173	1,495	1,792	2,044
	Current transfers	4,165	4,525	4,689	4,896	4,979	4,978
	Capital transfers	826	974	1,021	867	683	630
	Total Expenses	**31,643**	**32,934**	**35,861**	**37,444**	**38,826**	**40,235**
Equals	**GFS net operating balance**	**1,145**	**2,956**	**322**	**283**	**341**	**300**
Less	**Net acquisition of non-financial assets**						
	Purchases of non-financial assets	7,568	7,409	9,561	8,532	8,094	8,082
	Sales of non-financial assets	(323)	(349)	(351)	(474)	(368)	(339)
	Less Depreciation	3,030	2,995	3,286	3,583	3,806	4,006
	Plus Change in inventories	92	111	75	15	(19)	(1)
	Plus Other movements in non-financial assets	44	10	3	15	15	15
	Equals Total net acquisition of non-financial assets	**4,352**	**4,187**	**6,003**	**4,504**	**3,916**	**3,751**
Equals	**GFS Net lending / (borrowing) (Fiscal Balance)**	**(3,207)**	**(1,231)**	**(5,680)**	**(4,221)**	**(3,575)**	**(3,451)**

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

Table 9.4

General Government Sector Balance Sheet [1]

	2005-06 Budget $ million	2005-06 Est.Actual $ million	2006-07 Budget $ million	2007-08 Projection $ million	2008-09 Projection $ million	2009-10 Projection $ million
Assets						
Financial Assets						
Cash and deposits	1,344	783	181	197	191	279
Advances paid	197	202	204	206	208	209
Investments, loans and placements	20,268	23,632	25,088	26,559	27,984	29,631
Other non-equity assets	5,467	6,894	6,898	7,160	7,552	8,043
Equity	16,933	16,388	17,117	17,997	18,995	20,064
Total Financial Assets	**44,209**	**47,899**	**49,489**	**52,120**	**54,929**	**58,227**
Non-Financial Assets	67,632	76,450	80,543	84,573	88,570	92,779
Total Assets	**111,842**	**124,349**	**130,032**	**136,693**	**143,499**	**151,006**
Liabilities						
Advances received	471	469	455	441	426	413
Borrowing	3,684	2,017	3,964	6,743	9,534	12,962
Superannuation liability	16,192	17,959	19,005	20,065	21,103	22,087
Other employee entitlements and provisions	3,722	4,512	4,666	4,917	5,203	5,496
Other non-equity liabilities	2,429	3,003	2,910	2,807	2,718	2,688
Total Liabilities	**26,497**	**27,961**	**31,000**	**34,972**	**38,983**	**43,645**
Net Worth	**85,344**	**96,388**	**99,032**	**101,720**	**104,516**	**107,361**
Net Financial Worth	17,712	19,938	18,489	17,147	15,946	14,582
Net Debt	(17,654)	(22,130)	(21,054)	(19,779)	(18,422)	(16,745)

Note:

1. Numbers may not add due to rounding.

Table 9.5
Public Non-financial Corporations Sector Balance Sheet [1]

	2005-06 Budget $ million	2005-06 Est.Actual $ million	2006-07 Budget $ million	2007-08 Projection $ million	2008-09 Projection $ million	2009-10 Projection $ million
Assets						
Financial Assets						
Cash and deposits	847	1,079	837	721	809	870
Investments, loans and placements	1,032	918	904	911	923	944
Other non-equity assets	1,942	2,213	2,364	2,477	2,641	2,739
Equity	47	39	47	54	60	66
Total Financial Assets	**3,869**	**4,250**	**4,151**	**4,163**	**4,433**	**4,619**
Non-Financial Assets	33,337	34,219	38,563	41,638	44,207	46,507
Total Assets	**37,206**	**38,469**	**42,714**	**45,802**	**48,639**	**51,126**
Liabilities						
Deposits held	65	73	74	72	71	71
Borrowing	14,269	15,001	17,822	19,682	21,083	21,970
Superannuation liability	..	11	12	12	12	12
Other employee entitlements and provisions	5,096	6,322	6,598	6,838	7,241	7,748
Other non-equity liabilities	1,752	1,717	2,134	2,244	2,281	2,304
Total Liabilities	**21,182**	**23,124**	**26,640**	**28,848**	**30,688**	**32,105**
Net Worth	**16,024**	**15,345**	**16,073**	**16,954**	**17,951**	**19,021**
Net Financial Worth	(17,313)	(18,874)	(22,489)	(24,685)	(26,256)	(27,486)
Net Debt	12,455	13,076	16,156	18,121	19,422	20,226

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

Table 9.6
Non-financial Public Sector Balance Sheet [1]

	2005-06 Budget $ million	2005-06 Est.Actual $ million	2006-07 Budget $ million	2007-08 Projection $ million	2008-09 Projection $ million	2009-10 Projection $ million
Assets						
Financial Assets						
Cash and deposits	2,191	1,862	1,018	918	1,000	1,150
Advances paid	181	190	188	190	192	193
Investments, loans and placements	21,278	24,531	25,970	27,443	28,872	30,535
Other non-equity assets	2,671	3,028	2,808	2,807	2,851	2,840
Equity	990	1,115	1,124	1,131	1,136	1,141
Total Financial Assets	**27,311**	**30,726**	**31,108**	**32,488**	**34,051**	**35,858**
Non-Financial Assets	100,936	110,635	119,072	126,178	132,742	139,252
Total Assets	**128,246**	**141,361**	**150,180**	**158,666**	**166,793**	**175,110**
Liabilities						
Deposits held	65	73	75	72	72	71
Advances received	471	469	455	440	425	412
Borrowing	17,914	16,987	21,748	26,380	30,566	34,875
Superannuation liability	16,192	17,970	19,017	20,077	21,114	22,099
Other employee entitlements and provisions	4,463	5,112	5,302	5,553	5,863	6,196
Other non-equity liabilities	3,797	4,362	4,551	4,424	4,236	4,095
Total Liabilities	**42,902**	**44,973**	**51,148**	**56,946**	**62,277**	**67,749**
Net Worth	**85,344**	**96,388**	**99,032**	**101,720**	**104,516**	**107,361**
Net Financial Worth	(15,591)	(14,247)	(20,040)	(24,458)	(28,227)	(31,890)
Net Debt	(5,199)	(9,054)	(4,898)	(1,657)	1,000	3,481

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

Table 9.7
General Government Sector Cash Flow Statement [1]

	2005-06 Budget $ million	2005-06 Est.Actual $ million	2006-07 Budget $ million	2007-08 Projection $ million	2008-09 Projection $ million	2009-10 Projection $ million
Receipts from operating activities						
Taxes received	6,842	7,348	7,870	8,330	8,735	9,197
Grants and subsidies received	13,216	13,761	13,768	14,291	14,572	14,890
Sales of goods and services	2,669	2,892	2,993	3,070	3,132	3,203
Other receipts	4,420	6,317	5,259	5,095	5,230	5,562
Total	**27,148**	**30,318**	**29,890**	**30,787**	**31,669**	**32,851**
Payments for operating activities						
Payments for goods and services	(16,631)	(16,783)	(19,161)	(19,832)	(20,593)	(21,722)
Grants and subsidies	(6,201)	(6,705)	(7,036)	(7,167)	(7,131)	(7,120)
Interest	(233)	(187)	(223)	(368)	(544)	(746)
Other payments	(666)	(703)	(609)	(580)	(565)	(564)
Total	**(23,731)**	**(24,378)**	**(27,030)**	**(27,947)**	**(28,832)**	**(30,152)**
Net cash inflows from operating activities	**3,417**	**5,940**	**2,860**	**2,840**	**2,837**	**2,699**
Payments for investments in non-financial assets						
Purchases of non-financial assets	(3,616)	(2,914)	(3,958)	(4,016)	(3,961)	(4,152)
Sales of non-financial assets	297	355	302	391	314	283
Total	**(3,319)**	**(2,559)**	**(3,656)**	**(3,626)**	**(3,647)**	**(3,869)**
Payments for investments in financial assets for policy purposes	**(271)**	**(694)**	**(318)**	**(512)**	**(559)**	**(529)**
Payments for investments in financial assets for liquidity purposes	**(1,256)**	**(3,629)**	**(1,272)**	**(1,358)**	**(1,384)**	**(1,533)**
Receipts from financing activities						
Advances received (net)	(14)	(18)	(15)	(15)	(15)	(14)
Borrowing (net)	827	(842)	1,800	2,686	2,762	3,334
Total	**813**	**(860)**	**1,785**	**2,671**	**2,747**	**3,320**
Net increase/(decrease) in cash held	**(617)**	**(1,801)**	**(602)**	**15**	**(6)**	**88**
Net cash from operating activities and investments in non-financial assets	98	3,381	(796)	(786)	(809)	(1,169)
GFS Surplus/(deficit)	**98**	**3,381**	**(796)**	**(786)**	**(809)**	**(1,169)**

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

Table 9.8

Public Non-financial Corporations Sector Cash Flow Statement [1]

	2005-06 Budget $ million	2005-06 Est.Actual $ million	2006-07 Budget $ million	2007-08 Projection $ million	2008-09 Projection $ million	2009-10 Projection $ million
Receipts from operating activities						
Grants and subsidies received	1,377	1,440	1,577	1,650	1,694	1,734
Sales of goods and services	8,115	8,031	9,143	9,366	9,988	10,491
Other receipts	917	975	1,116	1,020	1,005	988
Total	**10,409**	**10,446**	**11,837**	**12,036**	**12,687**	**13,214**
Payments for operating activities						
Payments for goods and services	(5,613)	(5,997)	(6,568)	(6,683)	(6,918)	(6,951)
Grants and subsidies	(83)	(107)	(180)	(218)	(151)	(131)
Interest	(929)	(734)	(879)	(1,027)	(1,121)	(1,157)
Other payments	(1,039)	(1,134)	(1,144)	(1,197)	(1,269)	(1,282)
Total	**(7,664)**	**(7,973)**	**(8,771)**	**(9,124)**	**(9,459)**	**(9,520)**
Net cash inflows from operating activities	**2,746**	**2,474**	**3,065**	**2,912**	**3,228**	**3,693**
Payments for investments in non-financial assets						
Purchases of non-financial assets	(3,952)	(4,561)	(5,603)	(4,515)	(4,132)	(3,929)
Sales of non-financial assets	26	60	49	83	54	56
Total	**(3,927)**	**(4,502)**	**(5,554)**	**(4,432)**	**(4,079)**	**(3,873)**
Payments for investments in financial assets for policy purposes	**..**	**(6)**	**..**	**..**	**..**	**..**
Payments for investments in financial assets for liquidity purposes	**(20)**	**363**	**(43)**	**(44)**	**(44)**	**(44)**
Receipts from financing activities						
Borrowing (net)	1,684	1,879	2,786	1,790	1,302	770
Deposits received (net)	..	(3)	..	(3)	(1)	(1)
Distributions paid	(716)	(758)	(816)	(851)	(877)	(1,013)
Other financing (net)	271	699	318	512	559	529
Total	**1,239**	**1,817**	**2,289**	**1,448**	**983**	**285**
Net increase/(decrease) in cash held	**38**	**147**	**(243)**	**(116)**	**88**	**61**
Net cash from operating activities and investments in non-financial assets	(1,181)	(2,028)	(2,489)	(1,520)	(851)	(180)
Distributions paid	(716)	(758)	(816)	(851)	(877)	(1,013)
GFS Surplus/(deficit)	**(1,897)**	**(2,786)**	**(3,305)**	**(2,371)**	**(1,729)**	**(1,193)**

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

Table 9.9
Non-financial Public Sector Cash Flow Statement [1]

	2005-06 Budget $ million	2005-06 Est.Actual $ million	2006-07 Budget $ million	2007-08 Projection $ million	2008-09 Projection $ million	2009-10 Projection $ million
Receipts from operating activities						
Taxes received	6,508	7,013	7,517	7,964	8,359	8,818
Grants and subsidies received	13,150	13,842	13,743	14,199	14,524	14,854
Sales of goods and services	10,632	10,769	11,980	12,278	12,961	13,535
Other receipts	4,617	6,532	5,560	5,262	5,356	5,518
Total	**34,908**	**38,156**	**38,801**	**39,703**	**41,200**	**42,725**
Payments for operating activities						
Payments for goods and services	(22,090)	(22,629)	(25,573)	(26,362)	(27,362)	(28,508)
Grants and subsidies	(4,841)	(5,452)	(5,615)	(5,643)	(5,539)	(5,481)
Interest	(1,095)	(921)	(1,102)	(1,395)	(1,665)	(1,902)
Other payments	(1,436)	(1,497)	(1,400)	(1,403)	(1,445)	(1,455)
Total	**(29,462)**	**(30,500)**	**(33,691)**	**(34,802)**	**(36,012)**	**(37,346)**
Net cash inflows from operating activities	**5,445**	**7,656**	**5,110**	**4,900**	**5,188**	**5,379**
Payments for investments in non-financial assets						
Purchases of non-financial assets	(7,568)	(7,409)	(9,561)	(8,532)	(8,094)	(8,082)
Sales of non-financial assets	323	349	351	474	368	339
Total	**(7,245)**	**(7,060)**	**(9,211)**	**(8,058)**	**(7,726)**	**(7,742)**
Payments for investments in financial assets for policy purposes	..	..	..	..	..	..
Payments for investments in financial assets for liquidity purposes	**(1,276)**	**(3,266)**	**(1,315)**	**(1,402)**	**(1,428)**	**(1,577)**
Receipts from financing activities						
Advances received (net)	(14)	(19)	(15)	(15)	(15)	(14)
Borrowing (net)	2,511	1,038	4,586	4,476	4,064	4,104
Deposits received (net)	..	(3)	..	(3)	(1)	(1)
Total	**2,497**	**1,016**	**4,572**	**4,459**	**4,049**	**4,090**
Net increase/(decrease) in cash held	**(579)**	**(1,654)**	**(844)**	**(100)**	**83**	**149**
Net cash from operating activities and investments in non-financial assets	(1,800)	596	(4,101)	(3,157)	(2,538)	(2,363)
GFS Surplus/(deficit)	**(1,800)**	**596**	**(4,101)**	**(3,157)**	**(2,538)**	**(2,363)**

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

RECONCILIATION OF GFS NET OPERATING BALANCE TO ACCOUNTING SURPLUS

The primary difference between GFS net operating balance and the accounting surplus calculated under Australian Accounting Standards (AAS) is that valuation adjustments are excluded from the GFS net operating balance.

Data presented in Table 9.10 provides a reconciliation of the General Government sector GFS net operating balance to the accounting surplus.

Table 9.10
Reconciliation of GFS net operating balance to Accounting surplus[1]

	2005-06 Budget $ million	2005-06 Est.Act. $ million	2006-07 Budget $ million
GFS net operating balance General Government sector	934	2,853	245
Remeasurement/valuation adjustments			
Bad debts and amortisation	(50)	(48)	(43)
Market value adjustments QTC loans[2]	..	48	..
Market value adjustments investments	6	25	9
Revaluation of superannuation provision[3]	..	(679)	(89)
Revaluation of other provisions	1	(70)	(36)
Decommissioned Main Roads assets and land under roads written off	(173)	(106)	(145)
Loss on sale of Burnett Water Pty Ltd to SunWater	..	(199)	..
Other gains/(losses) on assets sold/written off	9	(24)	..
AAS net surplus General Government sector	**727**	**1,801**	**(60)**

Notes:
1. Numbers may not add due to rounding.
2. The adjustment from book value to market value on QTC loans for 2005-06 has been based on market values as at 31 March 2006, being the best available estimate. No market value estimate has been made for the Budget as the calculation is dependent on future interest rates.
3. The superannuation provision is calculated based on a number of actuarial assumptions such as long term bond rates and expected returns on assets, price and salary inflation and demographic assumptions. Variations from these assumptions will result in revaluations of the superannuation provision.

GENERAL GOVERNMENT TIME SERIES

Data presented in Table 9.11 provides a time series from 1999-2000 for the General Government sector on the key GFS indicators used by the Government to measure financial performance.

Table 9.11

General Government Sector[1]

	1999-00 Actual $ million	2000-01 Actual $ million	2001-02 Actual $ million	2002-03 Actual $ million	2003-04 Actual $ million	2004-05 Actual $ million
OPERATING STATEMENT						
GFS Revenue						
Taxation revenue	5,051	4,255	4,815	5,598	6,676	6,952
Current grants and subsidies	6,203	8,539	9,520	10,175	10,992	12,255
Capital grants	448	483	696	510	553	491
Sales of goods and services	1,695	1,747	1,837	1,964	2,105	2,381
Interest income	1,773	852	(464)	(128)	2,723	2,972
Other	2,222	2,382	2,453	2,138	2,165	2,558
Total Revenue	**17,392**	**18,258**	**18,857**	**20,256**	**25,214**	**27,609**
Less **GFS Expenses**						
Gross operating expenses	11,060	12,844	13,733	14,562	15,709	17,018
Superannuation interest expense	710	467	626	630	750	752
Other interest expense	283	339	223	220	211	207
Current transfers	3,511	4,413	4,713	4,271	4,500	4,915
Capital transfers	766	1,052	456	558	704	791
Total Expenses	**16,330**	**19,116**	**19,751**	**20,241**	**21,874**	**23,683**
Equals **GFS net operating balance**	**1,062**	**(858)**	**(894)**	**15**	**3,340**	**3,926**
OTHER KEY AGGREGATES						
Purchases of non-financial assets	2,992	2,520	2,416	2,232	2,415	2,843
Net acquisition of non-financial assets	1,166	813	708	155	503	1,053
GFS Net lending / (borrowing) (Fiscal Balance)	(104)	(1,671)	(1,602)	(140)	2,838	2,873
Net Worth	57,293	57,623	58,093	64,894	77,723	96,433
Net Debt	(10,122)	(10,082)	(11,032)	(11,260)	(14,851)	(19,446)
Cash Surplus/Deficit	(1,281)	534	188	645	3,490	4,640

Note:
1. Numbers may not add due to rounding.
Source: Budget Papers and *Outcomes Reports for Queensland 1999-2000 to 2004-05.*

OTHER GENERAL GOVERNMENT GFS DATA

Data presented in the following tables are presented in accordance with GFS and Uniform Presentation Framework guidelines which present data on a consolidated basis.

Expenses by function

Data presented in Table 9.12 provides details of General Government sector expenses by function.

Table 9.12
General Government Sector Expenses by Function[1]

	2005-06 Budget $ million	2005-06 Est. Act. $ million	2006-07 Budget $ million	2007-08 Projection $ million	2008-09 Projection $ million	2009-10 Projection $ million
General public services	1,550	1,500	1,593	1,632	1,647	1,691
Public order and safety	2,455	2,527	2,728	2,874	3,007	3,170
Education	6,346	6,564	6,947	7,277	7,593	7,843
Health	5,593	6,059	6,851	7,319	7,693	8,274
Social security and welfare	1,333	1,356	1,591	1,664	1,727	1,772
Housing and community amenities	1,016	1,009	1,166	1,026	1,051	1,053
Recreation and culture	678	638	683	698	731	733
Fuel and energy	998	938	958	1,014	1,048	1,079
Agriculture, forestry, fishing and hunting	772	841	824	716	602	597
Mining, manufacturing and construction	115	115	124	116	120	120
Transport and communications	2,577	2,770	3,070	3,223	3,267	3,340
Other economic affairs	802	778	765	785	743	732
Other purposes	1,435	1,636	1,526	1,679	1,789	1,951
Total Expenses	**25,670**	**26,733**	**28,825**	**30,024**	**31,019**	**32,354**

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

Purchases of non-financial assets by function

Data presented in Table 9.13 provides details of General Government sector purchases of non-financial assets by function.

Table 9.13
General Government Sector Purchases of Non-financial Assets by Function[1]

	2005-06 Budget $ million	2005-06 Est. Act. $ million	2006-07 Budget $ million
General public services	324	409	313
Public order and safety	331	178	507
Education	437	377	373
Health	520	315	515
Social security and welfare	78	66	79
Housing and community amenities	320	291	332
Recreation and culture	198	135	124
Agriculture, forestry, fishing and hunting	63	37	103
Mining, manufacturing and construction	1	6	4
Transport and communications	1,262	1,043	1,564
Other economic affairs	33	58	43
Other purposes	49	0	1
Total Purchases	**3,616**	**2,914**	**3,958**

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

Taxes

Data presented in Table 9.14 provides details of taxation revenue collected by the General Government sector.

Table 9.14
General Government Sector Taxes [1]

	2005-06 Est.Actual $ million	2006-07 Budget $ million
Taxes on employers' payroll and labour force	1,916	2,054
Taxes on property		
Land taxes	424	500
Stamp duties on financial and capital transactions	2,227	2,426
Financial Institutions' Transactions Taxes	1	..
Other	347	356
Taxes on the provision of goods and services		
Taxes on gambling	851	881
Taxes on insurance	389	408
Taxes on use of goods and performance of activities		
Motor vehicle taxes	1,085	1,125
Other	116	121
Total Taxation Revenue	**7,356**	**7,871**

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 9.15 presents the State's revised LCA Budget allocation and the Loan Council endorsed LCA for 2006-07.

Table 9.15
Loan Council Allocation [1]

		2006-07 Nomination $ million	2006-07 Budget $ million
	General Government sector cash deficit/(surplus) [2]	833	796
	PNFC sector cash deficit/(surplus) [2]	2,047	3,305
	Non Financial Public Sector cash deficit/(surplus) [2]	**2,882**	**4,101**
Less	Net cash flows from investments in financial assets for policy purposes	..	..
Plus	Memorandum items [3]	118	118
	Loan Council Allocation	**3,000**	**4,219**

Note:
1. Numbers may not add due to rounding.
2. Figures in brackets represent surpluses.
3. Memorandum items include operating leases and local government borrowings.

The State's Budget LCA allocation is a deficit of $4.219 billion. This compares to the LCA nomination in March 2006 of $3 billion.

A tolerance limit of two per cent of Non-financial Public sector receipts applies between the LCA nomination and the Budget allocation. For 2006-07, 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 GOVERNMENT FINANCE STATISTICS

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.

Nature of the GFS framework

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.

The GFS statements reported in the Budget are the operating statement, balance sheet and cash flow statement.

Operating statement

This statement is designed to capture the details of transaction flows of GFS revenue and GFS expense items as well as net acquisitions of non-financial assets for an accounting period. Unlike operating statements prepared on Australian Accounting Standard principles, a GFS operating statement reports two major fiscal measures – the GFS net operating balance and GFS net lending/borrowing.

Net operating balance is represented by GFS revenues less GFS expenses and excludes any other economic flows such as revaluations, gains or losses on asset disposals and allowances for doubtful debts.

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.

Balance sheet

The balance sheet shows stocks of financial and non-financial assets and liabilities. Key indicators in the balance sheet are net debt and net 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.

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.

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 GFS surplus/deficit is the cash counterpart of the fiscal balance as disclosed in the GFS 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 are provided below.

General Government

Departments

Aboriginal and Torres Strait Islander Policy
Child Safety
Communities
Corrective Services
Disability Services Queensland
Education and the Arts
Electoral Commission of Queensland
Emergency Services
Employment and Training
Energy
Environmental Protection Agency
Forestry Plantations Queensland Office
Health
Housing
Industrial Relations
Justice and Attorney-General
Legislative Assembly
Local Government, Planning, Sport and Recreation
Main Roads
Natural Resources, Mines and Water
Office of the Governor
Office of the Ombudsman
Office of the Public Service Commissioner
Police
Premier and Cabinet
Primary Industries and Fisheries
Public Works
Queensland Audit Office
State Development, Trade and Innovation
The Coordinator-General
The Public Trustee of Queensland
Tourism, Fair Trading and Wine Industry Development
Transport
Treasury

Statutory Authorities

Anti-Discrimination Commission Queensland
Australian Agricultural College Corporation
Board of the Queensland Museum
Commission for Children and Young People and Child Guardian
Crime and Misconduct Commission
Legal Aid Queensland
Library Board of Queensland
Motor Accident Insurance Commission
Nominal Defendant
Prostitution Licensing Authority
Queensland Art Gallery Board of Trustees
Queensland Building Services Authority
Queensland Events Corporation Pty Ltd
Queensland Institute of Medical Research
Queensland Performing Arts Trust
Queensland Studies Authority
Queensland Treasury Holdings Pty Ltd
QRAA
Residential Tenancies Authority
Service Delivery and Performance Commission
SGH Ltd
South Bank Corporation
The Office of the Information Commissioner
Tourism Queensland
Workers Compensation Regulatory Authority (Q-Comp)

Commercialised Business Units

CITEC
GoPrint
Main Roads – RoadTek
Project Services
Property Services Group
Q-Build
Q-Fleet
Sales and Distribution Services

Shared Service Providers

Corporate Administration Agency
Corporate and Professional Services
CorpTech
Queensland Health Shared Service Provider
Shared Service Agency

Public Non-financial Corporations

Betty Rees Group Pty Ltd (CRT)
Bundaberg Port Authority
Burnett Water Pty Ltd
Cairns Port Authority
Central Queensland Port Authority
CS Energy Ltd
DBCT Holdings Pty Ltd
ENERGEX Ltd
Ergon Energy Corporation Ltd
Eungella Water Pipeline Pty Ltd
Forestry Plantations Queensland
Gladstone Area Water Board
Gold Coast Events Co Pty Ltd
Golden Casket Lottery Corporation Ltd
Heritage Train Company Pty Ltd
Mackay Port Authority
Major Sports Facilities Authority
Mount Isa Water Board
National Logistics Alliance Pty Ltd
North West Queensland Water Pipeline Pty Ltd
On Track Insurance Pty Ltd
Port of Brisbane Corporation
Ports Corporation of Queensland
Powerlink Queensland
Queensland Motorways Ltd
Queensland Power Trading Corporation (Enertrade)
QR
Interail Australia Pty Ltd
Stanwell Corporation Ltd
SunWater
Tarong Energy Corporation Ltd
The Trustees of Parklands Gold Coast
Townsville Port Authority

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 2004-05 and 2005-06 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]		
	2004-05[2] $ million	2005-06 $ million
Payroll Tax		
Exemption threshold[3]	676	755
Deduction scheme[4]	106	118
Section 14 exemptions		
Local Government[3]	74	83
Education[3]	81	91
Hospitals[3]	145	166
Total Payroll Tax	**1,082**	**1,213**
Land Tax		
Liability thresholds[5]	191	282
Graduated land tax scale	130	124
Primary production deduction	48	51
Section 13 exemptions not included elsewhere[6]	40	41
General land tax rebate[7]	11	-
Additional land tax rebate[7]	3	-
Land developers' concession	8	19
Total Land Tax	**431**	**517**
Duties		
Transfer duty on residential property		
Home concession	442	421
First home concession	161	186
Insurance duty on general insurance		
Non-life insurance[3]	97	102
Workcover[3]	21	22
Health insurance[3]	124	135
Total Duties	**845**	**866**
Community Ambulance Cover		
Concession to pensioners and seniors[8]	**39**	**41**
Taxes on Gambling		
Gaming machine taxes	113	119
Casino taxes	7	10
Total Gambling Tax	**120**	**129**

Notes:
1. Numbers may not add due to rounding.
2. 2004-05 estimates may have been revised since last year's Budget.
3. Methodology changes employed in this Budget account for significant variations from estimates of previous Budgets.
4. Deduction of $850,000, which reduces by $1 for every $3 above $850,000, is applicable to employers with an annual payroll between $850,000 and $3.4 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. The revision of land tax schedules in 2005-06 effectively incorporated the general and additional land tax rebates into the schedules.
8. Estimates are based on the revenue foregone through the use of the levy exemption by pensioners and senior citizens. The estimated cost of providing the service to pensioners and senior citizens exempted from the levy is significantly higher, estimated at $150 million in 2004-05 and $174 million in 2005-06.

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 $850,000 or less are exempt from payroll tax. On the basis of average weekly earnings, this threshold corresponds to approximately 20 full-time equivalent employees. This concession is designed to assist small and medium sized businesses. (The threshold is to be increased to $1 million from 1 July 2006.)

Deduction scheme

Employers who employ in Queensland with Australian payrolls between $850,000 and $3.4 million benefit from a deduction of $850,000, which reduces by $1 for every $3 by which the annual payroll exceeds $850,000. There is no deduction for employers or groups with an annual payroll in excess of $3.4 million. (The increase in the payroll tax exemption threshold to $1 million from 1 July 2006 will result in a deduction for employers or groups with payrolls up to $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 2004-05, the thresholds were $170,000 for companies, absentees and trusts and $220,000 for resident individuals. In 2005-06 the thresholds were $300,000 for companies, absentees and trusts and $450,000 for resident individuals (to be increased to $500,000 for the 2006-07 year).

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 ($350 in 2004-05 and $400 in 2005-06) 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 $1.5 million for 2004-05 and $3 million for resident individuals and $2 million for companies, absentees and trustees for 2005-06.

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.

General land tax rebate

A general rebate on land tax of 15% was provided to resident individual land tax payers in 2004-05. The substantial revision of land tax rate schedules in 2005-06 effectively incorporated the general land tax rebate into the schedules.

Additional land tax rebate

Trustees, companies and absentees received a phasing in rebate of a maximum of 36%, reducing by 0.5 percentage point for every $1,000 of taxable value over $170,000 in 2004-05. The substantial revision of land tax rate schedules in 2005-06 effectively incorporated the additional land tax rebate into the schedules.

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. Until 31 July 2004, a concessional rate of 1% applied on dutiable values up to $250,000 compared to the normal schedule of rates between 1.5% and 3.25%. For properties valued over $250,000, the scheduled rates of transfer duty applied on the excess.

From 1 August 2004, the concessional rate of 1% has applied to the purchase of a principal place of residence valued up to $300,000 (to be increased to $320,000 from 1 July 2006).

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. (From 1 January 2007, a new first home concession will be provided for the purchase of certain vacant land up to the value of $250,000).

Insurance duty

The benchmark tax base is assumed to be all premiums for general insurance policies (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 has been 8.5% until August 2004 and 7.5% thereafter. 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 scale is assumed to be the rate of taxation that applies to gaming machines in hotels in each financial year (which is 35.91% of the monthly metered win).

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 full tax rate (as applies to hotel gaming machines) is only applied to 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 scale is assumed to be the flat rate of 20% of casino gross revenue that applies for standard transactions in the Brisbane and Gold Coast casinos.

A concessional tax rate of 10% applies for normal gross revenue for the Cairns and Townsville casinos. In addition, concessional rates apply for revenue from high rollers in all casinos. High roller revenue is taxed at 10% for the Brisbane and Gold Coast casinos and 8% for the Cairns and Townsville casinos.

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 $767.1 million in 2006-07.

Table B.1
Concessions by agency[1]

Agency	2005-06 Est.Act. $ million	2006-07 Estimate $ million
Department of Communities		
Electricity Rebate Scheme	59.4	62.5
Electricity Life Support Scheme	0.5	0.5
Pensioner Rate Subsidy Scheme	48.9	51.1
Rail Concession Scheme	32.2	33.2
Department of Education and the Arts		
Arts Concessional Entry Fees	0.4	0.4
Living Away from Home Allowances Scheme	5.6	5.5
School Transport Assistance for Students with Disabilities	27.0	27.0
Non-State School Transport Assistance Scheme	3.9	4.0
Department of Emergency Services		
Urban Fire Levy Concession	5.3	5.5
Department of Employment and Training		
TAFE Concessions	11.7	12.1
Environmental Protection Agency		
Environmental Licence Fee Waiver	0.2	0.3
Concessions Entry and Tour Fees	0.1	0.1
Queensland Health		
Spectacles Supply Scheme	4.9	5.9
Medical Aids Subsidy Scheme[2]	16.7	16.3
Patient Travel Subsidy Scheme	5.0	5.1
Oral Health Scheme	90.5	94.1
Department of Housing		
Aboriginal and Torres Strait Islander Housing Rental Rebate	9.2	9.6
Public Rental Housing Rebate	186.9	190.0
Department of Justice and Attorney-General		
Public Trustee of Queensland – Rebates of Fees	11.6	12.3
Department of the Premier and Cabinet		
South Bank Corporation – Venue Hire Discounts	0.2	0.2
Department of Transport		
Transport Concessions incl. Taxi Subsidies[3]	54.5	58.5
Motor Vehicle Registration Concession	50.3	51.5
Recreational Ship Registration Concession	0.8	0.8
School Transport Assistance Scheme	119.8	120.6
Total	**745.5**	**767.1**

Notes:
1. Numbers may not add due to rounding.
2. The Estimated Actual for 2005-06 is higher than the Budget for 2006-07 due to an internal reallocation of funding to the program in 2005-06 on a one-off basis to meet additional demand in that financial year.
3. The 2005-06 Estimated Actual expenditure reflects an increase in concessions provided under the Taxi Subsidy Scheme, which has resulted from a sustained increase in usage by eligible scheme participants.

Department of Communities

The Department of Communities has responsibility for the Queensland Government Electricity Rebate Scheme and reimburses the electricity retail corporations for electricity rebates provided. The scheme provides a rebate on the cost of domestic electricity supply to 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 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.

Department of Education and the Arts

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.

The Department of Education 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.

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.

Department of Employment and Training

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.

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. 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 prescription spectacles. Queensland Health administers the Scheme through its network of public hospitals and community health services.

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.

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 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 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.

Motor vehicle and boat registration concessions are provided to people with a Pensioner Concession Card, Queensland Seniors Card or a Totally or Permanently Incapacitated Ex-serviceperson Pension as a means of improving pensioners and seniors access to travel.

The School Transport Assistance Scheme is a program for students whose access to school is disadvantaged by distance or 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 State 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 greater capacity than any other jurisdiction in Australia 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.

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.

Most of the major enterprise bargaining agreements across the General Government sector, including the agreement for the core public sector, have now been finalised or are currently under negotiation. The 2006-07 Budget and forward estimates for these agencies incorporates a provision for wage increases consistent with an outcome of approximately 4% per annum or, where an agreement has been reached, the expected cost of implementing that agreed outcome. A central provision is held for agreements expiring post 2006-07.

Interest rates

The General Government sector has a very moderate level of debt with a total debt servicing cost forecast at $222 million in 2006-07.

The current average duration of General Government debt is approximately 5.97 years. Accordingly, a one percentage point variation in interest rates would lead to a very modest change in debt servicing costs in 2006-07.

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

It is almost inevitable that some 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 2006-07, the Treasurer's Advance allocation is $100 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

Investment earnings are based on the assumption of long-term average market returns for an acceptable level of risk. These investments principally cover the superannuation investment funds. The Government's financial investments are held in a portfolio comprising property, domestic and offshore equities and fixed interest.

The assumed long-term rate of return used in Budget estimates is 7.5%. Actual returns will depend on the performance of sectors which comprise the portfolio.

Given Queensland's large holding of financial assets, actual revenues are highly sensitive to small variations from the assumed long run rate of return.

In 2006-07, a one percentage point variation in investment earnings on assets held to meet future employee entitlements would lead to a change in net investment revenue of approximately $180 million.

Exchange rate and coal prices and volumes – royalties estimates

Estimates of mining royalties are sensitive to movements in the A$/US$ exchange rate and commodity prices and volumes.

Contracts for the supply of commodities are generally written in US$. Accordingly, a change in the exchange rate impacts on the A$ price of commodities and therefore expected royalties collections.

A one cent variation in the A$/US$ would lead to a change in royalties revenue of approximately $20 million in 2006-07.

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 $12 million.

The 2006-07 Budget assumptions for export coal prices are derived by taking into account various price forecasts made by coal companies. A US$1 variation in the price of export coal would lead to a change in royalty revenue of approximately $16 million.

Property prices and volumes – transfer duty estimates

Over recent years, strong growth in State taxation receipts has been a result of high levels of activity in the residential property market through its impact on transfer duty receipts. The increase in stamp duty receipts flowing from residential property market activity has two elements – the price of properties changing hands and the volume of properties changing hands.

For 2006-07, an easing in the property market is forecast. The assumption underpinning the expected reduction in stamp duties is for property prices to remain at current levels, but for a reduction in transaction volumes.

A one percentage point variation in the average value of property transactions would change transfer duty collections by approximately $22 million in 2006-07.

A one percentage point variation in the volume of transactions would change transfer duty revenues by approximately $20 million in 2006-07.

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 4¼% and employment growth of 2½% in 2006-07.

A one percentage point variation in wages growth would change payroll tax collections by approximately $21 million. Similarly, a one percentage point variation in employment growth would change payroll tax collections by $21 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 2006-07, 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 gambling tax foregone.

The Australian Government's estimate of GST revenue in 2006-07 is based on its forecast of national GDP growth of 3¼% and household consumption growth of 3%. 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 stamp duty on conveyances and mining revenue in recent years. As a result, Queensland's share of GST funding (relativity) has declined. If Queensland continues to raise relatively more revenue because of strong resource and housing sectors, there is a prospect that its relativity and therefore share of GST funding could decline further and be lower than its population share.

There is insufficient information provided in the Australian Government Budget Papers to prepare indicative forecasts of the sensitivity of GST estimates to key variables.

Australian Government grants (Specific Purpose Payments)

Specific Purpose Payments (SPPs) are payments made by the Australian Government to promote its policy objectives. The majority of SPPs are remitted directly to state governments, with a proportion of these passed through to other bodies, while some SPPs are remitted directly to local government authorities.

Indexation arrangements and distributions between the states vary for each SPP. The Australian Government reviews the payments each year and has guaranteed that it will not reduce the overall, aggregate level of SPPs to states. However, in recent years growth in payments 'through' the states has exceeded that for payments directly 'to' states (refer Table 8.1 in Chapter 8).

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 *2004-05 Report on State Finances* – Consolidated Financial Statements (Note 33).

A summary of the State's quantifiable contingent liabilities as at 30 June 2005 is provided below.

Table C.1
Contingent liabilities

	2005 $ million
Nature of contingent liability	
Guarantees and indemnities	5,849
QTC – stock loans	597
Other	23
Total	**6,469**

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