



Queensland
Government

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2003-04



Budget Strategy and Outlook

Budget Paper No.2

2003-04 Budget Papers

1. Budget Speech
2. Budget Strategy and Outlook
3. Capital Statement

Budget Highlights

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Smart State: Creating opportunities for the future

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Queensland
Government

STATE BUDGET

2003-04

BUDGET STRATEGY AND OUTLOOK

Budget Paper No. 2

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1. BUDGET STRATEGY, PERFORMANCE AND OUTLOOK

KEY POINTS

- Cash surpluses are forecast for 2002-03, 2003-04 and the outyears in the General Government sector.
- For 2003-04, there is a budgeted net operating surplus of \$153 million, with a sustained and improving surplus position throughout the outyears.
- In 2002-03, the General Government sector is forecast to have an accrual deficit of \$350 million. This is due to the poor performance of investment markets, which has impacted on the returns the State receives on the substantial funds set aside to meet future employee entitlements.
- The forecast underlying operating result for 2002-03 (adjusted for comparable superannuation arrangements) is for a surplus of \$587 million.
- The State's net worth is forecast to increase in 2002-03, 2003-04 and the outyears to \$67.012 billion.
- The State capital program in 2003-04 is budgeted to be \$5.273 billion, an 8% increase on the estimated 2002-03 outlays. 62.5% of the capital program will be spent outside the Brisbane region.

INTRODUCTION

This chapter discusses:

- the Government's fiscal strategy as outlined under the *Charter of Social and Fiscal Responsibility*
- the summary financial aggregates of the 2003-04 Budget.

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, which are 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 that 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 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**

Competitive tax environment

The Government will ensure that State taxes and charges remain competitive with the other states and territories.

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.

Capital funding

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.

Managing financial risk

The Government will ensure that the State's financial assets cover all accruing and expected future liabilities of the General Government sector.

Building the State's net worth

The Government will at least maintain and seek to increase total State net worth.

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, whilst 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 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 2003-04 are estimated at \$1,480, compared with an estimated \$1,892 for the average of the other states.
- Commonwealth Grants Commission data indicates that Queensland's taxation effort ratio of 85.7% is considerably less than the standard (100%).
- Latest Australian Bureau of Statistics data shows Queensland's tax collections at 4% of GSP compared to 4.8% for the average of the other states.

The 2003-04 Budget includes a land tax relief measure. Details of this change and other revenue items are provided in Chapter 5.

Affordable Service Provision

The objective of maintaining affordable service provision is to require the maintenance of a budget operating surplus, to ensure recurrent services can be funded from recurrent resources.

As discussed below, the achievement of a headline budget surplus in an environment of poor international investment returns has not been possible. However, the underlying revenue and expenditure balance, which provides the funding basis for Government service delivery, has improved during 2002-03. Surpluses in excess of \$150 million are forecast for 2003-04 and the outyears.

The Government's expenditure strategy is based around providing targeted funding for high priority community services, and increasing opportunities for individuals through expenditure in education and training.

Following on from the significant funding package for families to deliver better outcomes for children and young people announced in the 2002-03 Budget, the 2003-04 Budget and forward estimates also includes new funding for high priority community service delivery in areas such as health and for disability services reform.

The 2003-04 Budget and forward estimates continue the implementation of the *Government's Education and Training Reforms for the Future* including trials for a preparatory year of schooling and substantial investment in information and communication technology. The adoption of new measures for the Smart State Strategy to enhance the capacity of the Queensland economy are also included in the 2003-04 Budget and forward estimates.

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.

The Government has in place an ongoing Aligning Services and Priorities (ASAP) program which provides for a process of ongoing activity and process review to ensure that Government resources are used efficiently so that funding can be directed to the high priority areas outlined above.

In this context, the Government has recently announced a shared service initiative designed to achieve best practice in corporate services across Government, with the savings to be achieved from this initiative to be directed to service delivery.

Capital Funding

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. Meeting this challenge, the Government provides for consistently higher levels of capital expenditure per capita than any other state.

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

Despite this capacity, the bulk of Queensland's 2003-04 capital program will be funded from recurrent sources and the forward estimates provide for only modest levels of borrowing consistent with net capital acquisitions.

Details of the State capital program for 2003-04 and sources of funds are provided in Budget Paper No. 3. – Capital Statement.

Managing 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, or indeed the Commonwealth Government, to fund future accruing liabilities as most other jurisdictions have substantial unfunded superannuation liabilities.

In common with other superannuation managers in both the public and private sectors Queensland has experienced poor investment returns over recent years, and these have continued into 2002-03. Nonetheless, the State's policy of managing financial risk and setting aside funds to meet future liabilities remains sound.

Building the State's Net Worth

The Charter 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 inter-generational equity.

Queensland's net worth is forecast to grow over the forward estimates. Queensland's per capita net worth is expected to be 16% greater in 2003-04 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.

SUMMARY OF KEY FINANCIAL AGGREGATES

Table 1.1 provides aggregate estimated actual outcome information for 2002-03 and projections for 2003-04 and the outyears.

Table 1.1 General Government sector –Key Financial Aggregates ¹					
	2002-03 Est. Act. \$ million	2003-04 Budget \$ million	2004-05 Projected \$ million	2005-06 Projected \$ million	2006-07 Projected \$ million
Revenue	19,913	21,382	22,186	23,107	24,097
Expenses	20,263	21,229	22,024	22,909	23,814
Net operating balance	(350)	153	162	198	283
Cash surplus	51	152	521	622	885
Capital purchases	2,410	2,545	2,122	1,927	1,818
Net worth	58,692	60,312	62,396	64,636	67,012
Note: 1. Numbers may not add due to rounding.					

BUDGET OUTCOMES 2002-03

Operating Result

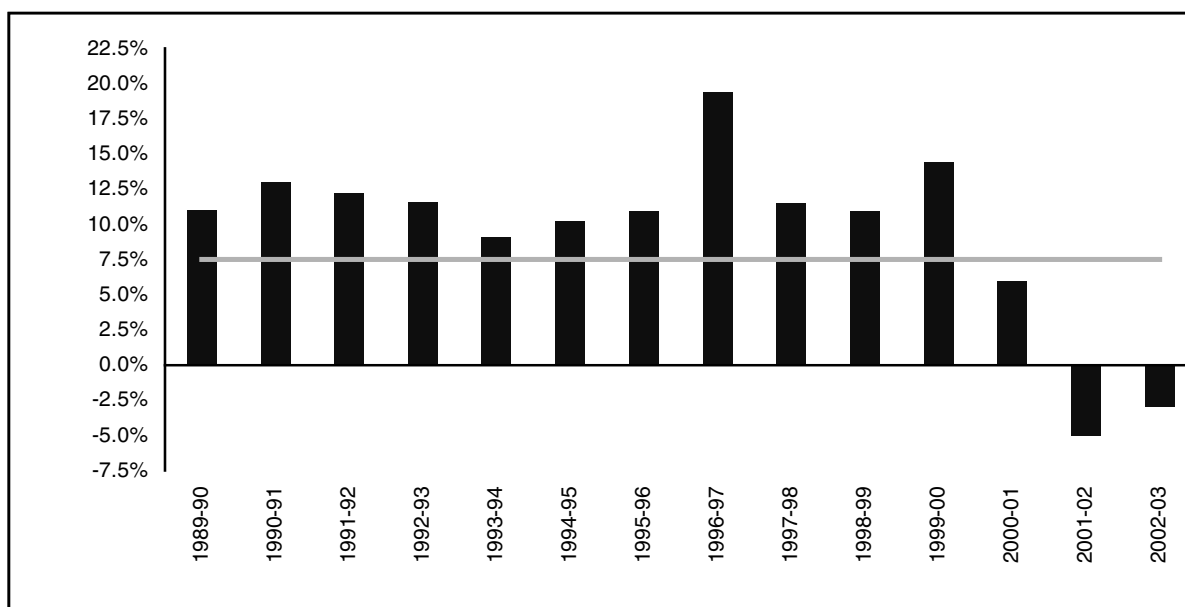
The operating result expected for 2002-03 is a deficit of \$350 million. The estimated 2002-03 deficit is the result of poor investment returns. The investment return rate assumed at the time of the Mid-Year Review was 0% for 2002-03 on financial assets held to meet long-term liabilities such as superannuation. In light of the ongoing poor performance of equity markets, the investment return rate assumption has been revised to -3% for 2002-03.

Budget estimates for investment returns are based on the expected long-term average return for the portfolio of 7.5%.

With over \$12.6 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.

Following a period of very high returns in the 1990s, equity markets have performed very poorly. While returns achieved by the Government's fund manager, Queensland Investment Corporation (QIC), in the 1990s averaged around 12% per annum, returns in 2001-02 and currently in 2002-03 have been negative (-5% and -3% respectively), as illustrated in Chart 1.1.

Chart 1.1
Investment Returns
1989-90 to 2002-03¹ (% per annum)



Note:

1. Estimate.

Source: 1989-90 to 2001-02: Queensland Investment Corporation.

The past two years have been extraordinary in terms of investment history, with one of the largest market downturns in several decades. In the last 100 years, the current downturn is comparable to the Oil Crisis in the 1970s and is only exceeded by the Great Depression in 1929.

Despite the further downward revision to investment earnings, the 2002-03 operating deficit represents an improvement on that forecast at the Mid-Year Review. At the time of the Mid-Year Review investment earnings forecasts and other estimates indicated an expected deficit outcome of \$741 million.

Factors contributing to this overall improvement include increases in revenue reflecting the continued strength of the property market, higher Commonwealth revenues following upward revisions to the GST estimates in the recent Commonwealth Budget and reduced expenses. Significant adjustments since the publication of the Mid-Year Review are detailed in Table 1.3.

The Underlying Operating Result

In the absence of poor investment returns, the 2002-03 operating result would have been a strong surplus.

Investment market volatility impacts on the Queensland Budget 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 only the net superannuation liability is recorded in the balance sheet.

The differing superannuation structure leads to a significant difference in accounting treatment between states. For example, in other states poor investment returns are largely treated as asset revaluations, reflecting changes in the net superannuation liability. In contrast, poor investment returns impact directly on Queensland's operating result as a decrease in revenue associated with the investment of financial assets held to meet future liabilities.

If Queensland's superannuation arrangements were structured on the same basis as generally applies in other states the General Government sector underlying operating result for 2002-03 would be in surplus, as outlined in Table 1.2 below. The underlying result concept is based on the treatment of variations between Budget and revised assumptions. For the 2003-04 Budget no adjustment is required to the forecast operating result as both the earnings rate on financial assets and the interest rate for the nominal superannuation interest expense are based on long-term actuarial assumptions.

Table 1.2
Calculation of Underlying Result

	2002-03 Est. Act. \$ million
Operating Balance	(350)
Less Investment Earnings ¹	(295)
Plus Nominal Superannuation Expense ²	642
Underlying Balance	587
Notes:	
1. Represents investment earnings on financial assets held to meet future defined benefit superannuation liabilities.	
2. Represents the adjustment required to the nominal superannuation expense to be calculated on the basis of the net superannuation liability.	

Cash Surplus

The General Government sector is estimated to achieve a cash surplus in 2002-03 of \$51 million.

At Mid-Year Review, the cash surplus for 2002-03 was an estimated \$364 million. Factors contributing to the reduction in the size of the estimated surplus include the cash impact of the further downward revision to investment returns from 0% to -3%, and the recommencement of payments for the State's component of superannuation beneficiary payments (following the expiration of the \$1.1 billion forward funding payment made in 1999-2000). Continued strength in property related taxes and increased Commonwealth revenues have in part offset these additional cash outflows.

The underlying strength of the General Government cash flow for 2002-03 is demonstrated through the borrowing requirement.

Borrowings for 2002-03 have been further revised down to \$168 million, from \$342 million at the Mid-Year Review 2002-03 (Budget estimate \$635 million).

Capital Purchases

General Government investment in capital in 2002-03 is estimated to be \$2.41 billion, broadly consistent with the amount forecast at Mid-Year Review.

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 2003 is estimated at \$58.692 billion. This is \$756 million higher than net worth forecast at the Mid-Year Review, and reflects the improved operating position together with the impact of asset revaluations, particularly on the value of Crown land.

BUDGET 2003-04 AND OUTYEAR PROJECTIONS

Operating Result

The budgeted position for the General Government sector is for an operating surplus of \$153 million in 2003-04, growing steadily in the outyears.

The surpluses provide capacity to manage external factors that can impact on the Budget and are consistent with the Government's fiscal commitment to a competitive tax regime, and the already strong balance sheet position of the State.

The increase in expenditure relative to 2003-04 levels primarily relates to employee expenses, service enhancements and parameter based adjustments.

Taxation revenue growth is expected to moderate in 2003-04 with an easing in property market activity, while investment returns are based on the assumption of long-term investment return rates.

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

Cash Surplus

A cash surplus of \$152 million is expected in 2003-04 for the General Government sector. The cash surplus is forecast to grow strongly in the outyears, reaching \$885 million by 2006-07.

Growth in the cash surplus in the outyears is due to a moderation in net capital purchases from the high levels budgeted for 2003-04.

Capital Purchases

This Budget continues the trend of sizeable State capital works programs, in both nominal and per capita terms. General Government capital purchases in 2003-04 are expected to be slightly higher than the 2002-03 estimated actual. Budget Paper No.3 – Capital Statement provides details by portfolio of 2002-03 estimated actual and budgeted 2003-04 capital outlays.

Net Worth

State net worth is projected to increase from the 2002-03 estimated actual by \$1.62 billion to \$60.312 billion at 30 June 2004. Net worth is also expected to increase in all forward estimate years.

More information on the State's net worth, assets and liabilities is provided in Chapter 7.

RECONCILIATION OF OPERATING RESULT

Table 1.3 provides a reconciliation of the General Government sector operating result for 2002-03 and 2003-04 published in the *Mid-Year Fiscal and Economic Review* (MYFER) and current Budget estimates.

Table 1.3 Reconciliation of 2002-03 and 2003-04 Operating Result to MYFER Estimates ¹		
	2002-03 Est. Act. \$ million	2003-04 Budget \$ million
MYFER Operating Balance	(741)	72
Expenditure Policy Decisions ²	(4)	(217)
Revenue Policy Decisions ³	..	(12)
Other Significant Variations Impacting on Operating Result		
- Agency Depreciation Expense Adjustments ⁴	195	198
- Superannuation Expense Adjustment ⁵	154	..
- Investment Returns ⁶	(383)	(42)
- Commonwealth General Revenue Grants ⁷	204	167
- Other Parameter Adjustments ⁸	225	(13)
2003-04 Budget	(350)	153
Notes: 1. Denotes impact on Operating Result. 2. Reflects expenditure policy decisions taken in the Budget context. 3. Land tax relief provided in 2003-04 Budget – see Chapter 5. 4. During 2002-03, the Department of Main Roads and the Department of Housing conducted reviews of the depreciation methodology applied to fixed assets. These reviews resulted in an extension in the useful life of those assets and a consequent reduction in depreciation expense. 5. The reduction in superannuation expense reflects a reduction in liabilities associated with lower investment earnings on non-defined benefit post-retirement accounts. 6. Reflects revisions of estimated rate of return on investments from 0% to -3% in 2002-03. 7. Includes outcomes of Commonwealth Grants Commission 2003 Update, population changes and most recent estimates of GST revenue included in the 2003-04 Commonwealth Budget. 8. Generally refers to adjustments relating to movements in underlying social and/or economic parameters or other no policy change adjustments to estimates. For 2002-03 includes upward revisions to taxation estimates of approximately \$140 million.		

2. ECONOMIC PERFORMANCE AND OUTLOOK

KEY POINTS

- Economic growth in Queensland has been particularly strong in 2002-03 with expected growth of 4¾%, significantly higher than the 3% forecast nationally.
- The strong growth in 2002-03 reflects substantial increases in household consumption, dwelling investment and business investment, while net exports are expected to detract from overall growth.
- Employment has grown strongly in Queensland in 2002-03, up an expected 3¼%, outpacing growth in the State's labour force. As a result, the State's year-average unemployment rate is expected to fall to 7%, the lowest rate in more than a decade.
- Queensland's economic growth is expected to moderate slightly to 4% in 2003-04 but is once again set to exceed the national forecast of 3¼%.
- The forecast easing in the rate of Queensland's economic growth in 2003-04 reflects a combination of factors. A forecast decline in dwelling investment from current record levels is expected to flow through to a slight moderation in household consumption expenditure. Business investment is still forecast to record solid growth, albeit less than the exceptional growth experienced in 2002-03. Net exports are expected to again detract from growth, with a forecast increase in exports likely to be offset by a further increase in imports, resulting primarily from the stronger Australian dollar.
- Employment growth is forecast to moderate to 2¼% in 2003-04, in line with the general slowing of domestic economic activity. With the labour force expected to grow at a similar rate to employment, Queensland's year-average unemployment rate is forecast to remain unchanged at 7% in 2003-04.

INTRODUCTION

This chapter presents the economic framework within which the 2003-04 Budget has been produced. It examines recent developments in Queensland's external economic conditions, both international and national, and reviews the performance and outlook for the Queensland economy. It details estimated actuals and forecasts for the major components of State economic activity for 2002-03 and 2003-04 respectively, and presents projections for key State economic variables over the medium-term to 2006-07¹.

¹ The timing of the presentation of the State Budget has meant actual data on gross state product and its components, and other measures of State economic performance are not available for all quarters of the 2002-03 fiscal year. Consequently, the 2002-03 growth rates represent estimated actuals. Decimals have been used to describe actual outcomes, with fractions used for estimated actuals, forecasts and projections.

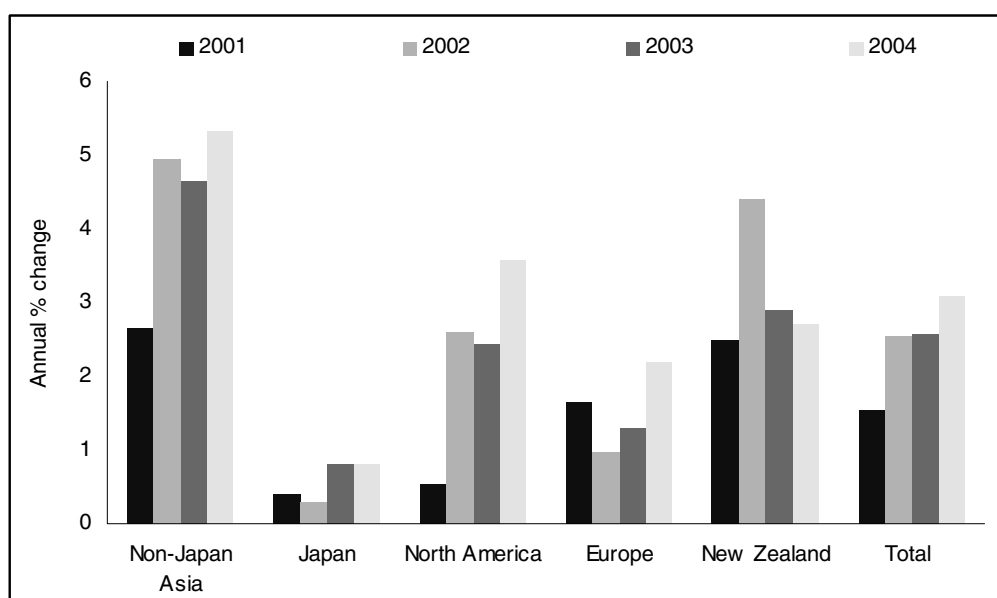
EXTERNAL ENVIRONMENT

Current Conditions

International

Queensland's major trading partners have experienced relatively modest economic growth over the first few years of the new century. The second half of the 1990s was characterised by strong growth in Queensland's traditional markets of North America and Europe. However, the last two years have seen Non-Japan Asia re-emerge as the area of economic strength, with the US and Euro area struggling to recover from the world economic slowdown that commenced in 2000. As a result, economic growth in Queensland's major trading partners in 2003-04 is likely to show only a modest improvement compared with that recorded in 2002-03. This improvement is not expected to eventuate until early 2004 (see Chart 2.1).

Chart 2.1
Economic Growth in Queensland's Major Trading Partners¹



Note:

1. Growth in calendar years 2003 and 2004 represent forecasts.

Sources: Queensland Treasury and Consensus Forecasts.

The performance of the US economy has remained lacklustre in 2002-03. Prospects of an immediate recovery in growth are also limited, with personal consumption expenditure, the main driver of aggregate demand in the US over the past year, recently showing signs of moderation. A recovery in business investment is also yet to be seen, however the US business sector is likely to benefit from reduced uncertainty in its external environment following the war in Iraq. In particular, the recent unwinding of 'war premiums' on US corporate bond yields and oil prices, combined with the depreciation of the US\$, has significantly improved the outlook for business investment over the remainder of 2003.

The resultant appreciation of the Euro against the US\$ has reduced the prospect of an export-led recovery in the Euro area. In particular, Germany appears to be facing major structural adjustment challenges which continue to limit economic growth in the largest member country of the Euro area.

The outbreak of Severe Acute Respiratory Syndrome (SARS) in Non-Japan Asia has disrupted economic activity in the region. While the SARS epidemic has not spread to Japan, the Japanese economy has been increasingly undermined by deflation, with consumers becoming accustomed to continuing declines in consumer prices.

National

Strong domestic demand has continued to support economic growth in Australia in 2002-03, with gross domestic product estimated to grow by 3%. Solid growth in business and dwelling investment has more than offset the negative impacts associated with severe drought conditions and heightened geopolitical uncertainty.

A substantial decline in agricultural production due to the drought and a surge in imports of capital goods are expected to lead to net exports detracting an estimated 2¾ percentage points from overall growth in 2002-03. In contrast, low interest rates and positive employment conditions have supported domestic demand, countering the weakness in Australia's external environment. Australian businesses have continued to invest, taking advantage of historically low interest rates. The national housing boom, which began in the middle of 2001, has continued in 2002-03, with housing alterations and additions activity a key driver of this growth.

The national labour market strengthened in the first half of 2002-03 but has moderated somewhat in the second half of the year. Strong growth in construction and retail employment, reflecting robust housing construction and consumption spending, has more than offset job losses in the farm sector over the course of the year. As a result, the national unemployment rate is estimated to fall to a year-average 6% in 2002-03.

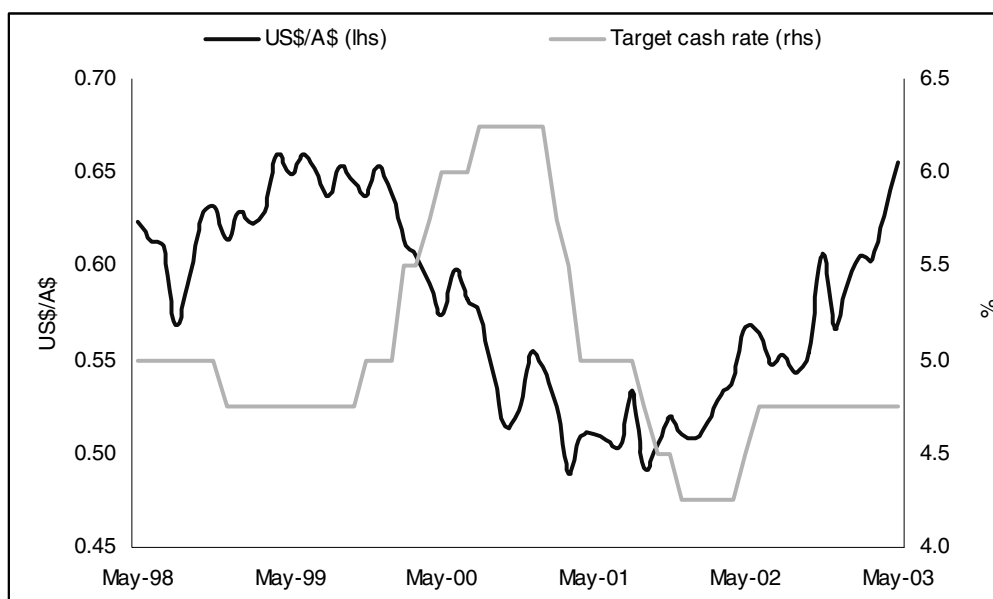
A number of temporary factors such as higher fuel and food prices, due to international geopolitical tensions and the drought, respectively, have led to an acceleration in headline consumer price inflation in 2002-03, with the year-average inflation rate estimated to be 3¼%. This will be the highest inflation rate since 1995-96, excluding 2000-01 when the GST was introduced. However, the underlying rate of inflation has been more contained and is expected to remain around the lower end of the Reserve Bank of Australia's (RBA) 2-3% target band in the final quarter of 2002-03.

Looking forward to 2003-04, economic growth in Australia is forecast to be similar to that in 2002-03. While growth in private investment should revert to a more sustainable level in 2003-04, an anticipated return to normal seasonal conditions is expected to lead to a recovery in rural exports.

The greatest risk to this outlook for the national economy relates to the prospect of a continued appreciation in the A\$ over the coming year. The A\$ has increased in value by around 15% against the US\$ over the 11 months to May 2003² and any further appreciation in the A\$ could be expected to significantly affect Australia's export performance in 2003-04.

² Exchange rates calculated on an end of month basis. For May 2003, the exchange rate is based on the latest available data at the time of preparation of the Budget Papers.

Chart 2.2
Exchange Rates and Interest Rates, Australia¹

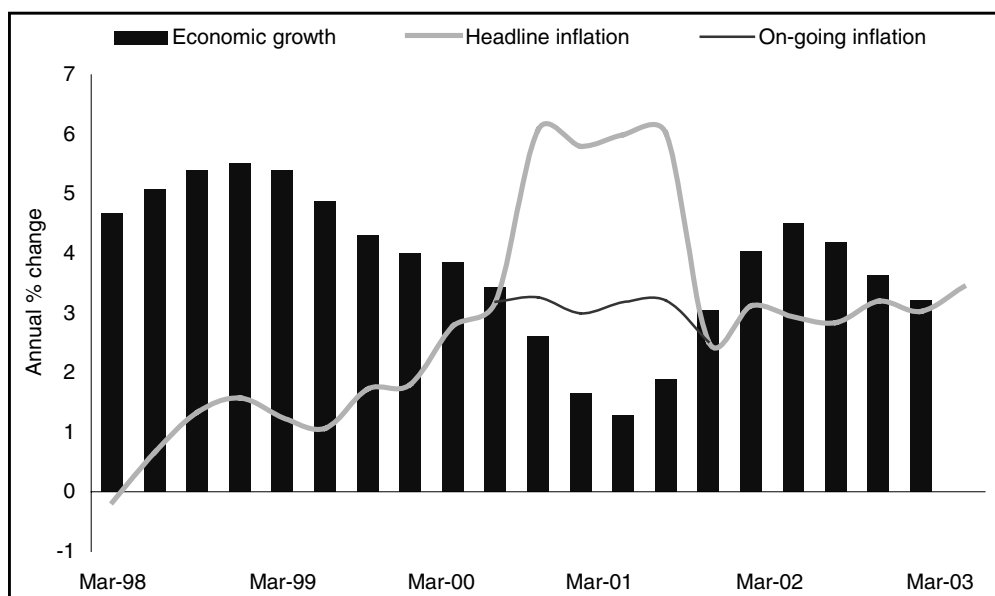


Note:

1. Exchange rates and cash rates have been calculated on an end of month basis. For May 2003, rates were calculated based on the latest available data at the time of preparation of the budget papers.

Sources: Reuters and RBA.

Chart 2.3
Gross Domestic Product and Inflation, Australia¹



Note:

1. Economic growth presented on a trend basis. Ongoing inflation excludes an estimated 2.4% impact of the GST on the consumer price index in September quarter 2000.

Sources: Queensland Treasury and Australian Bureau of Statistics (ABS) 6401.0.

EXTERNAL ASSUMPTIONS

Queensland has strong links with both the national and international economies. Consequently, the performance of the State economy is, in part, dependent on the economic outlook for Australia and its major trading partners. The forecasts for the Queensland economy in 2003-04 are therefore based on the following key assumptions about the State's external environment (see Table 2.1).

- Economic growth in Queensland's major trading partners is not expected to show any sustained recovery until 2004, with forecast year-average growth of 2¾% in 2003-04 only slightly higher than that experienced over the current financial year. Non-Japan Asia is assumed to remain the fastest growing region of the world, although any failure to control the outbreak of SARS may result in lower than expected growth in that region.
- Inflation is assumed to remain at low levels in Queensland's major trading partners, as a result of lower than average economic growth and a return to generally lower oil prices than have been experienced throughout 2002-03.
- As a result, Australian monetary policy is assumed to be broadly unchanged over 2003-04, with interest rates to remain around their current low levels.
- Commonwealth Government economic forecasts and projections, as at May 2003, have been adopted as the basis for national economic performance over the forecast horizon, with national growth of 3¼% assumed for 2003-04 and 3½% for the outyears.
- The Queensland economic forecasts have been based on an A\$ exchange rate at around current levels, in both US\$ and trade-weighted index terms, reflecting the weakness of the US currency and the relatively more positive outlook for the Australian economy in comparison with the world's major economies. This contrasts with the assumption that the exchange rate would remain around US\$0.60c, contained in the recently-released 2003-04 Commonwealth Budget.

Information on the risks to these assumptions is contained in a later section of this chapter.

Table 2.1 External Assumptions ¹				
	Outcomes		Est. Actual	Forecast
	2000-01	2001-02	2002-03	2003-04
	%	%	%	%
International assumptions				
Major trading partner economic growth	3.3	1.1	2½	2¾
Major trading partner inflation	1.0	1.7	1¼	1½
National assumptions				
Economic growth	1.8	4.0	3	3¼
Inflation ²	3.2	2.9	3¼	2¾
Note: 1. Decimal point figures indicate an actual outcome. 2. Inflation, calculated on a year-average basis, excludes the first round effects of the introduction of the GST in 2000-01. Sources: Queensland Treasury, ABS 6401.0, Commonwealth Treasury and Consensus Forecasts.				

THE QUEENSLAND ECONOMY

Overall Economic Growth

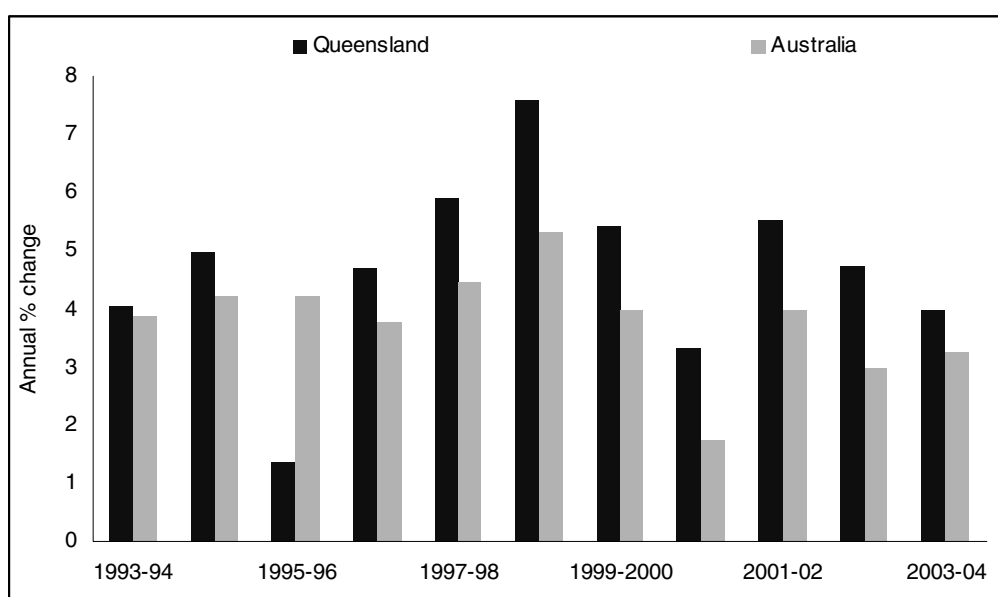
The Queensland economy has continued to perform strongly in 2002-03, despite ongoing weakness and uncertainty in the global economic environment. Gross state product in Queensland is expected to grow by 4¾% in 2002-03, outperforming estimated growth of 3% nationally (see Chart 2.4 and Table 2.2).

Domestic demand has been the main driver of growth in 2002-03, with household consumption, dwelling investment and business investment all growing strongly. In contrast, net exports is expected to detract from growth, reflecting the subdued nature of the global economy, as well as the impacts of the drought and external shocks on tourism exports.

The outlook for the Queensland economy remains positive, with solid growth of 4% forecast for 2003-04. The slight moderation in activity in 2003-04 reflects an expected easing in growth in private final demand, particularly dwelling investment. However, the recent appreciation of the A\$, in addition to continued construction activity in the mining and manufacturing sectors, should help maintain strong growth in business investment. Furthermore, low interest rates and strong population growth are expected to provide continued underlying support for solid economic growth in Queensland in 2003-04.

Net exports are forecast to result in a greater detraction from growth in Queensland (-¾ percentage point) than nationally (-¼ percentage point) in 2003-04. This partially reflects the expected slower recovery from the drought of some of Queensland's major agricultural exports, in particular meat and sugar. Compared with the 2003-04 Commonwealth Budget forecasts, the larger detraction from growth of net exports in Queensland also reflects the difference in exchange rate assumptions discussed above.

Chart 2.4
Aggregate Economic Growth¹



Note:

1. Chain volume measure, 2000-01 reference year. Growth for 2002-03 represents an estimated actual rate while growth for 2003-04 represents a forecast.

Sources: Queensland Treasury and Commonwealth Treasury.

Table 2.2
State and National Economic Forecasts

	Outcomes		Est. Actual	Forecast
	2000-01	2001-02	2002-03	2003-04
	%	%	%	%
Queensland forecasts				
Domestic production¹				
Household consumption	4.6	2.8	5	4¾
Private investment ^{2,3}	-9.1	20.6	18½	5¼
Dwellings	-15.0	30.9	21	-1½
Business investment ^{3, 4}	-9.7	12.7	23½	9½
Other buildings and structures ³	-6.6	-2.8	27¼	12¾
Machinery and equipment ³	-11.4	21.8	21¾	7¾
Private final demand ³	1.1	6.8	8½	5
Public final demand ³	-2.2	4.7	2	3¼
Gross state expenditure ⁵	-0.2	6.4	7	4¾
Exports of goods and services	6.3	4.7	3¾	4
Imports of goods and services	-3.0	7.0	9¼	5½
Net exports ⁶	3.5	-1.0	-2¼	-¾
Gross state product	3.3	5.5	4¾	4
Other state economic measures				
Population	1.8	2.0	2¼	2¼
Inflation ⁷	3.0	2.9	3¼	2½
Average earnings (state accounts basis)	6.1	2.9	4¼	4¼
Employment (labour force survey)	1.8	1.9	3¼	2¼
Unemployment rate (% , year-average)	8.0	7.9	7	7
Labour force	2.1	1.8	2¼	2¼
Participation rate	65.1	65.0	65	65
National forecasts				
Domestic production¹				
Household consumption	3.0	3.4	3¾	3¼
Private investment	na	na	na	na
Dwellings	-20.9	19.5	18	-5
Business investment ^{3,4}	na	4.6	15	7
Other buildings and structures ³	na	9.7	28	14
Machinery and equipment ³	na	2.1	12	4
Private final demand ³	na	4.9	6¼	3
Public final demand ³	na	4.3	3¾	3¼
Gross national expenditure ⁵	0.0	4.8	5¾	3½
Exports of goods and services	7.3	-1.5	0	6
Imports of goods and services	-1.3	2.3	13	6
Net exports ⁶	1.9	-0.9	-2¾	-¼
Gross domestic product	1.8	4.0	3	3¼
Other national economic measures				
Population	1.3	1.3	1¼	1¼
Inflation ⁷	3.2	2.9	3¼	2¾
Average earnings (national accounts basis) ^{8, 9}	3.8	4.3	3¼	4
Employment (labour force survey)	2.1	1.1	2½	1¾
Unemployment rate (% , year-average)	6.4	6.6	6	6
Labour force	1.9	1.4	1¾	1¾
Participation rate	63.7	63.7	64	64

Notes: Unless otherwise stated, all figures are annual % changes. Decimal point figures indicate an actual outcome. na – not available.

1. Chain volume measure, 2000-01 reference year.

2. Private investment includes livestock, intangible fixed assets and ownership transfer costs.

3. Excluding private sector net purchases of second-hand public sector assets.

4. National calculations of business investment includes investment in livestock and intangible fixed assets, which are not included in the Queensland calculations.

5. Includes statistical discrepancy and change in inventories.

6. Percentage point contribution to growth in gross state or domestic product.

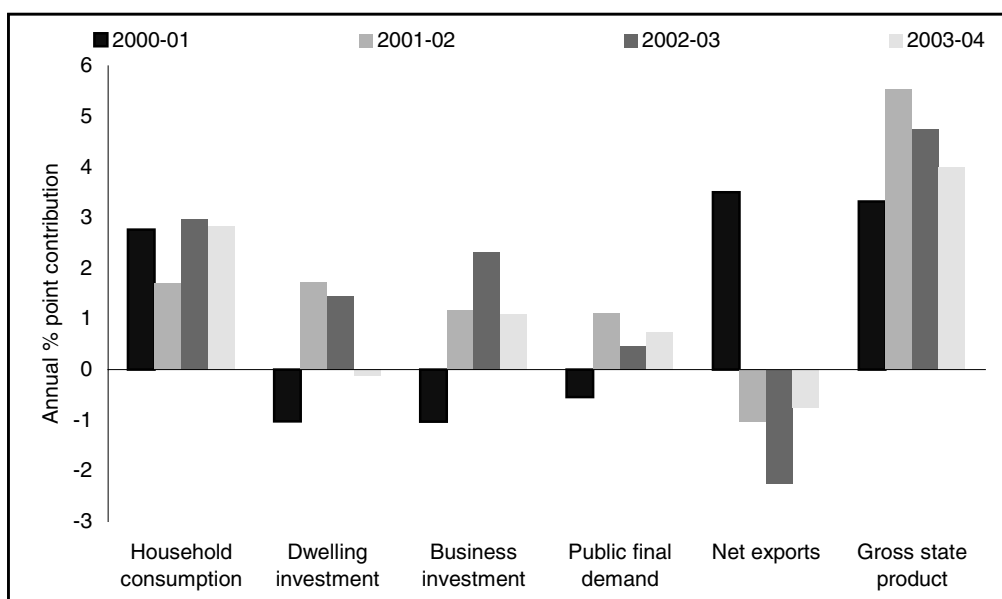
7. Excludes the first round effects of the introduction of the GST in 2000-01.

8. 2000-01 average compensation of employees (national accounts basis).

9. 2001-02 average non-farm compensation of employees (national accounts basis).

Sources: Queensland Treasury, Commonwealth Treasury and ABS 5206.0.

Chart 2.5
Contribution to Growth in Queensland's Gross State Product¹

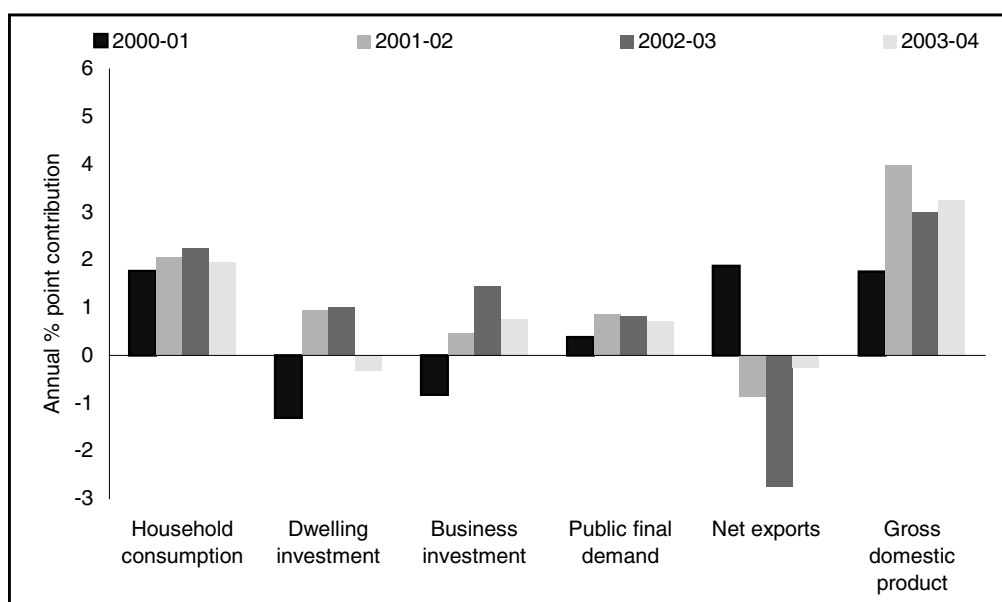


Note:

1. Chain volume measure, 2000-01 reference year. Contributions for 2002-03 represent estimated actuals while contributions for 2003-04 represent forecasts.

Source: Queensland Treasury.

Chart 2.6
Contribution to Growth in Australia's Gross Domestic Product¹



Note:

1. Chain volume measure, 2000-01 reference year. Contributions for 2002-03 represent estimated actuals while contributions for 2003-04 represent forecasts.

Sources: Queensland Treasury and Commonwealth Treasury.

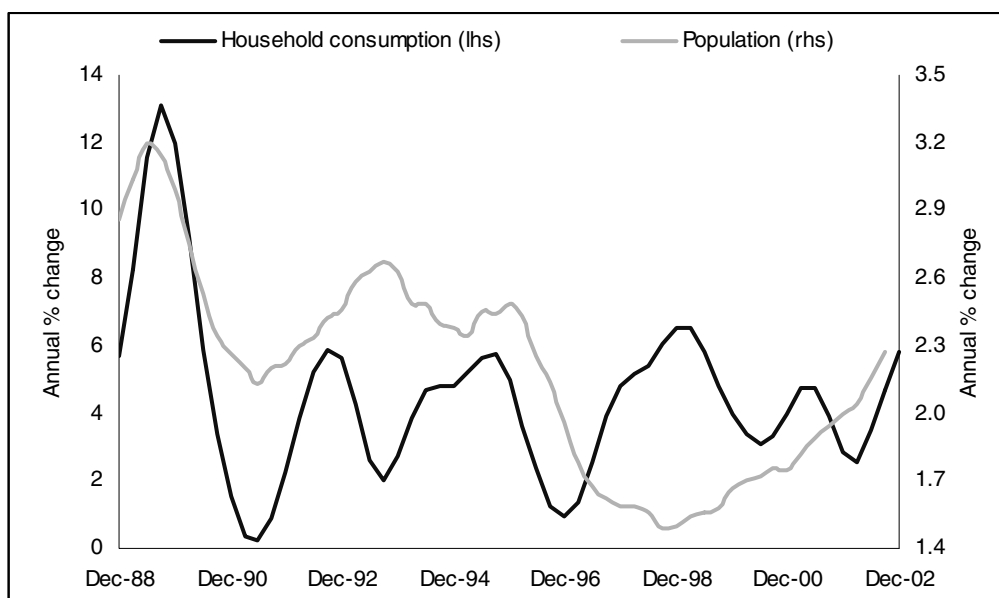
Household Consumption

Household consumption, the largest single component of the Queensland economy, is expected to grow by 5% in 2002-03, almost double the rate of growth recorded in the previous year. Consumption expenditure has been supported by sustained low interest rates and strong population growth throughout the year. This has more than compensated for any negative impact on consumption resulting from the drought, negative external shocks and the easing in housing activity in the State over the second half of the year.

Retail trade, which accounts for approximately 40% of household consumption, has experienced moderating growth over the year. This has partially reflected declining sales in the previously strong household goods sector, while negative shocks, such as the war in Iraq and the drought, contributed to an easing in consumer sentiment, further inhibiting the rate of retail trade growth late in the year.

Growth in household consumption is forecast to moderate slightly to 4¾% in 2003-04. This reflects an expected moderation in labour market conditions and a slowdown in the housing industry. However, there are several factors which will continue to support household consumption in Queensland. Continued low interest rates will continue to underpin consumption expenditure over the coming year, while growth in average earnings is expected to outpace inflation, resulting in increases in real incomes. In addition, continued high levels of interstate migration to Queensland are expected to maintain strong population growth, providing further underlying support for household consumption growth in Queensland.

Chart 2.7
Household Consumption and Population Growth, Queensland



Sources: Queensland Treasury and ABS 3101.0.

Dwelling Investment

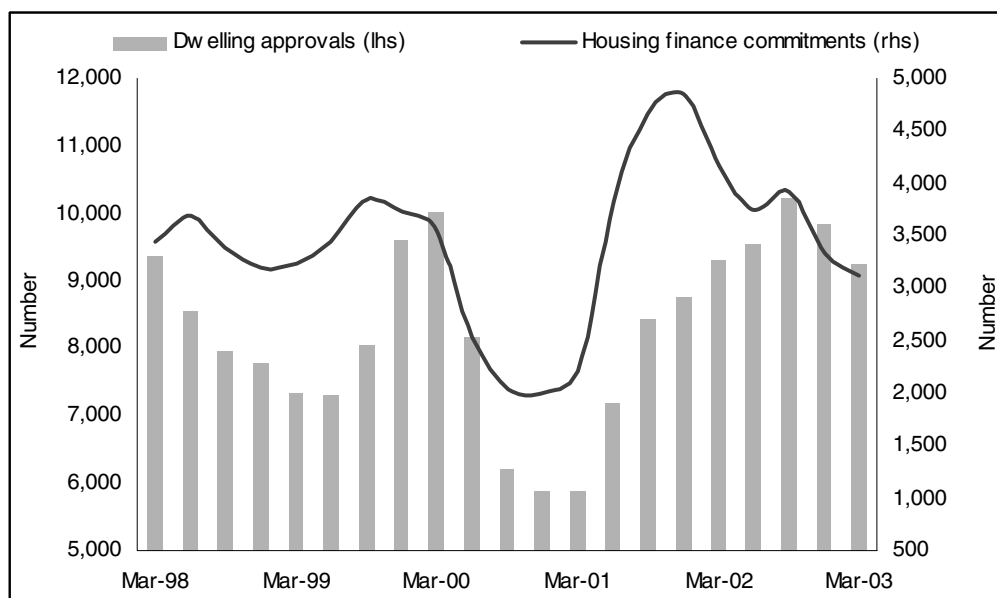
Following exceptionally strong growth in 2001-02, dwelling investment in Queensland has remained robust in 2002-03 and is expected to grow by 21% over the year.

The strong growth in dwelling investment reflects a combination of new dwelling construction and alterations and additions to existing dwellings. Demand from first home buyers subsided in 2002-03, following the removal of the additional component of the First Home Owner Grant. However, rising house prices have fuelled demand for investment properties in Queensland and have led to many home owners drawing on their increased equity to renovate their properties. This has resulted in a surge in alterations and additions activity, with the value of private residential alterations and additions in the first half of 2002-03 increasing by more than 45% compared with the same period a year earlier.

Dwelling investment is expected to return to a more sustainable level over the coming year, with a decline in dwelling investment of 1½% forecast for 2003-04. Leading indicators, such as dwelling approvals and housing finance commitments, suggest that dwelling investment is likely to moderate. The number of private dwelling approvals peaked in September 2002 and has recently fallen to a level similar to that recorded in late 2001. Meanwhile, the number of finance commitments for the construction of new owner occupied dwellings fell 24% in the first three quarters of 2002-03, compared with the same period a year earlier.

Continued low interest rates, high population growth and continued strong alterations and additions expenditure, in addition to a large number of recently approved unit developments, should cushion the forecast decline in dwelling investment during 2003-04.

Chart 2.8
Dwelling Approvals and Housing Finance Commitments¹, Queensland



Note:

1. Housing finance commitments for owner-occupied new dwellings.

Sources: ABS 8731.0 and 5609.0.

Business Investment

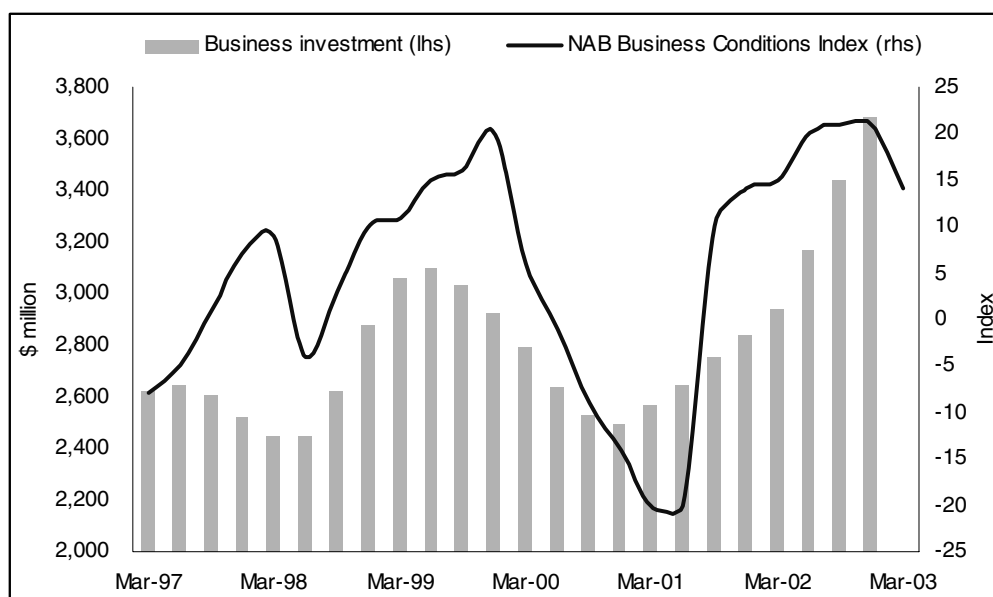
Economic conditions have been conducive to continued high levels of business investment in 2002-03. Low interest rates, a substantial appreciation of the A\$ over much of the year and a general improvement in business conditions are expected to result in business investment rising 23½% in 2002-03.

With the US economy struggling to emerge from a period of sluggish growth and ongoing geopolitical uncertainty, the RBA has refrained from further tightening monetary policy since June 2002. The A\$ has recovered strongly since early 2002, appreciating by around 15% against the US\$ and more than 10% on a Trade Weighted Index (TWI) basis over the 11 months to May 2003³, primarily reflecting the weakening of the US\$.

Combined with solid business conditions in Queensland, these factors resulted in strong growth in both of the major components of business investment in 2002-03. Investment in other buildings and structures is expected to rise by 27¼%, while investment in machinery and equipment is predicted to rise by 21¾%.

With ongoing construction activity in Queensland's mining and manufacturing sectors, investment in other buildings and structures is forecast to increase by a further 12¾% in 2003-04. Meanwhile, investment in machinery and equipment, which is expected to be supported by continued strong A\$ exchange rates and, to a lesser degree, falling international prices of information technology products, is forecast to grow by a further 7¾%. As a result, total business investment in Queensland is forecast to rise 9½% in 2003-04.

Chart 2.9
Business Investment and Business Conditions, Queensland



Sources: Queensland Treasury and National Australia Bank.

³ Exchange rates calculated on an end of month basis. For May 2003, the exchange rate is based on the latest available data at the time of preparation of the Budget Papers.

Net Exports

A relatively subdued global economy is expected to lead to only marginal growth of 3¼% in Queensland exports in 2002-03, while imports are estimated to rise by 9¼%, reflecting the relative strength of the Queensland economy. As a consequence, net exports are expected to detract 2¼ percentage points from overall growth in Queensland in 2002-03.

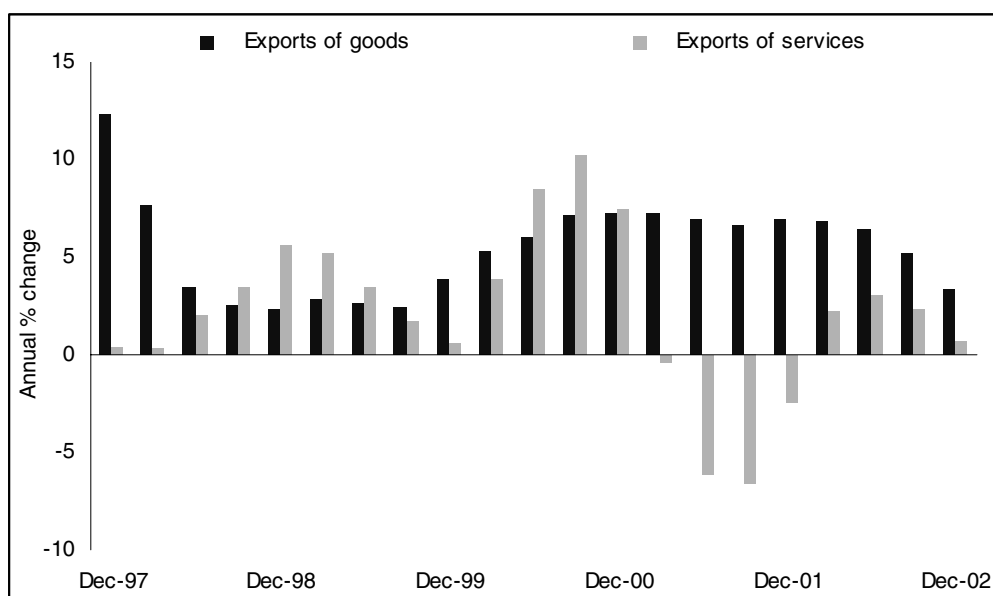
Growth in merchandise exports has moderated in 2002-03, reflecting the subdued economic conditions of many of Queensland's trading partners. Exports of coal and non-ferrous metals have been hampered by low growth in global industrial production and a stronger A\$, with nominal earnings from coal exports further reduced due to easing international coal prices. The drought is also likely to impact on rural exports during the remainder of 2002-03.

Growth in Queensland's tourism exports has also remained subdued throughout 2002-03. The beginning of a recovery in international tourism, following terrorist attacks and the collapse of Ansett Airlines, has been disrupted by the war in Iraq and the SARS epidemic in the East Asia region. This has resulted in a decline in visitors from the Asian region, as well as a decline in visitors, mainly from Europe, who would have travelled via Asia. Offsetting this weakness has been the continued strength of interstate tourism to Queensland.

The anticipated end of the drought and a gradual recovery in the global economy are forecast to lead to a slight increase in growth in merchandise exports in 2003-04. Exports of cereals and textile fibres should increase, while beef exports are likely to be affected by herd rebuilding following the drought. As global industrial production gradually increases, this is expected to lead to an improvement in export earnings, largely through higher commodity prices, while increases in Queensland coal production should lead to higher export volumes.

The key factor influencing net exports in 2003-04 will be the higher Australian dollar exchange rate, which is expected to drive a further increase in imports. As a consequence, net exports are forecast to detract ¾ of a percentage point from State economic growth in 2003-04.

Chart 2.10
Merchandise Trade and Services Exports, Queensland



Source: Queensland Treasury.

Employment

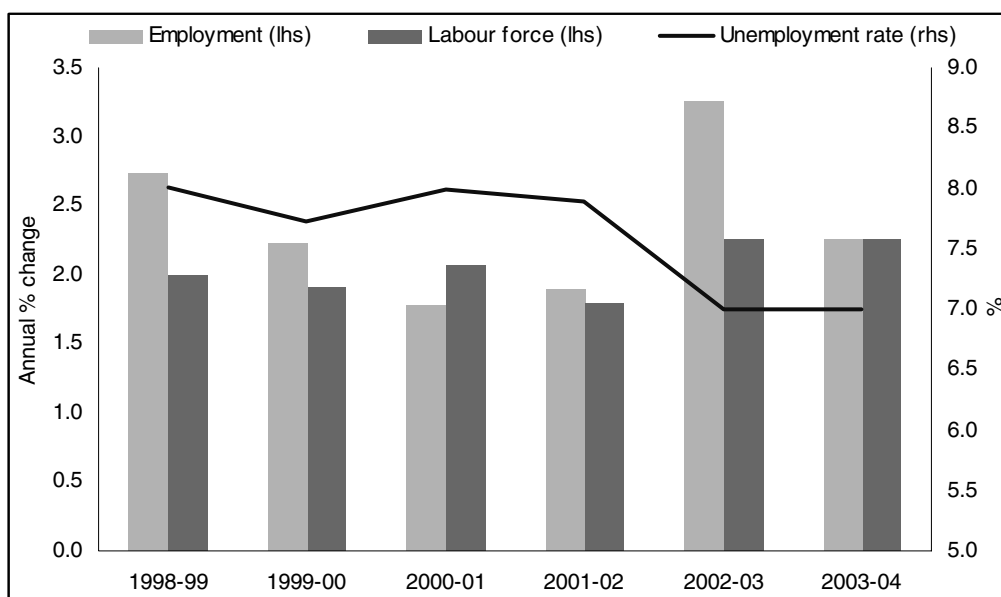
The number of people employed in Queensland is estimated to rise, in year-average terms, by around 55,000 or 3¼% in 2002-03. This strong increase in employment should more than offset labour force growth, resulting in a further decline in the State's year-average unemployment rate to an expected 7%, the lowest rate in Queensland since 1989-90.

Employment growth in Queensland has been particularly strong throughout most of 2002-03, reflecting the performance of many of Queensland's labour-intensive industries. In particular, solid consumption expenditure has led to strong employment growth in the service sector while the robust performance of the housing sector has supported employment growth in the construction industry. However, employment growth is expected to moderate in the final months of 2002-03, in line with the recent easing of growth in the housing and retail trade industries, job losses in the drought-affected farm sector and the negative impacts of the uncertain external environment on tourism.

Given these factors will continue to influence employment conditions in the early part of 2003-04, combined with the expected easing in economic growth generally in coming quarters, employment growth is forecast to ease to 2¼% in 2003-04. This remains above forecast national employment growth of 1¾% for 2003-04 and translates into the creation of an expected 38,000 jobs in Queensland in year-average terms.

Labour force growth is expected to be similar to employment growth in 2003-04, resulting in the forecast year-average unemployment rate remaining unchanged at 7%.

Chart 2.11
Employment Growth, Labour Force Growth and Unemployment Rate, Queensland¹



Note:

1. Growth rates and unemployment rates for 2002-03 represent estimated actuals while figures for 2003-04 represent forecasts.

Sources: Queensland Treasury and ABS 6202.0.

Population

Queensland is estimated to record strong population growth of 2¼% in 2002-03, with a similar rate of growth forecast for 2003-04. As a result, Queensland's population is expected to increase by approximately 80,000 persons in each of the two years to a total of more than 3.8 million persons in 2003-04, representing 19.1% of the forecast national population.

Queensland's forecast strong population growth partially reflects the impact of a recent increase in net overseas migration, consistent with the national trend. However, the substantially higher forecast population growth in Queensland compared with that nationally continues to be primarily driven by net interstate migration.

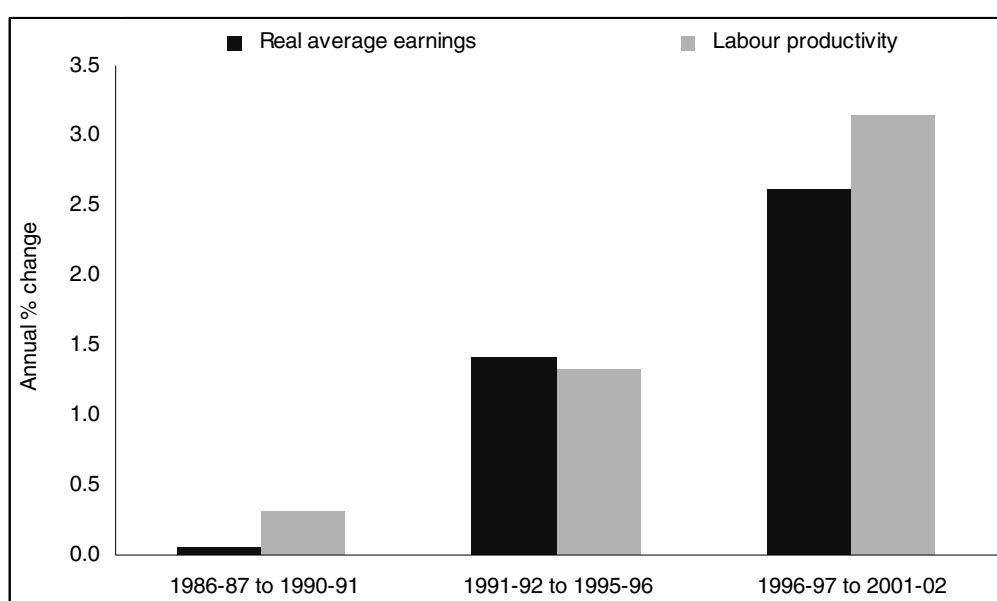
The recent surge in net interstate migration to Queensland is expected to continue in 2003-04 and may partially be a response to the impact of the housing boom in Sydney and Melbourne, with the substantially higher prices increasing the relative cost of housing in those States. However, the increased number of interstate arrivals to Queensland suggests that interstate migration continues to be underpinned by more traditional factors. These factors include improved employment prospects, reflecting Queensland's stronger employment growth, the State's generally lower cost of living and other socio-economic factors such as Queensland's lifestyle and preferable climate.

Average Earnings

Nominal average earnings in Queensland are expected to increase by 4¼% in 2002-03, outpacing inflation and implying a rise in real average earnings during the year.

Nominal earnings growth is expected to remain at around 4¼% in 2003-04. However, with the rate of inflation expected to ease during the year, real earnings are expected to increase further in 2003-04, reflecting continued strong growth in labour productivity.

Chart 2.12
Real Average Earnings and Labour Productivity, Queensland



Source: Queensland Treasury.

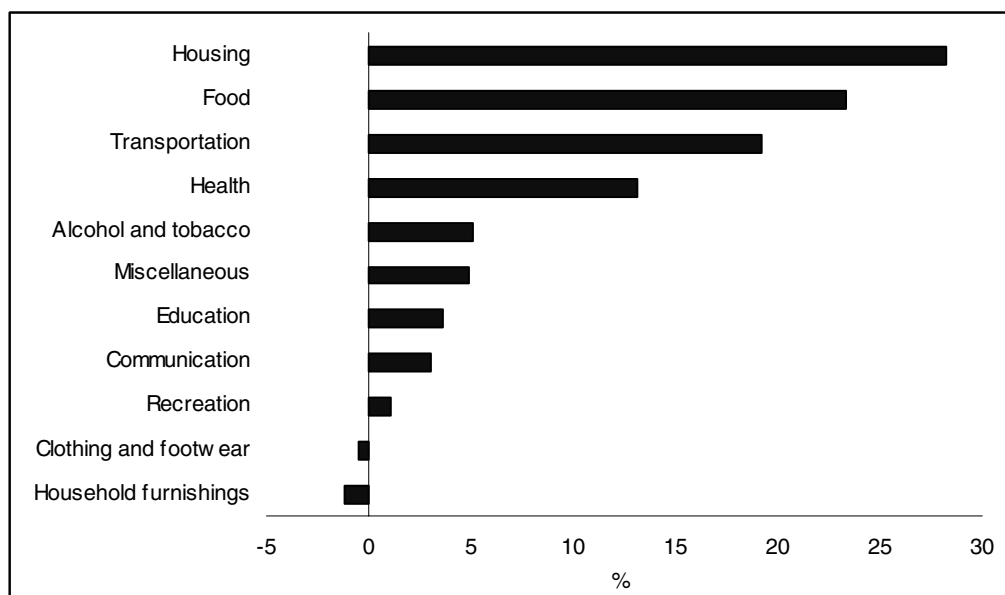
Inflation

A combination of circumstances is expected to lead to a slightly greater than expected rise in consumer prices of an estimated 3¼% in 2002-03. Exceptional growth in the State's housing sector has led to considerable increases in the cost of renting and dwelling prices. Higher vegetable prices, associated with drought conditions across most of Australia, have also resulted in a significant increase in the cost of food. Meanwhile, higher world oil prices, brought about primarily as a result of the military conflict in Iraq, have directly affected the price of automotive fuel. As a result, rises in the prices of housing, food and transportation accounted for more than 70% of the total rise in the Queensland Consumer Price Index (CPI) over the four quarters to March 2003 (see Chart 2.13).

Inflation is expected to moderate to a year-average of 2½% in 2003-04. An expected easing in growth in domestic final demand over the year suggests that any upward pressure on prices is not likely to be broad-based, particularly at a time when growth in some key sectors of the economy, such as housing, is expected to moderate. Continued weakness in the US\$ is also expected to maintain a high A\$ exchange rate over the coming year, curbing any potential import-based inflation.

Moreover, many of the factors which impacted on consumer prices in 2002-03 are generally expected to subside over the course of 2003-04. In addition to the pending moderation in activity in the State's housing sector, world oil prices have fallen back to around pre-Iraq war levels and this is already being reflected in lower automotive fuel prices. The intensity of the drought has also eased slightly in Queensland, with food prices likely to return to pre-drought levels.

Chart 2.13
Contribution to Growth in the CPI by Component, Queensland¹



Note:

1. Contributions to growth based on % share of the change in the Brisbane CPI over the four quarters to March quarter 2003.

Source: ABS 6401.0

Risks and Opportunities

National and international economic conditions will continue to have a major impact on the outlook for the Queensland economy in 2003-04 and beyond, with exports of goods and services comprising over 36% of Queensland's gross state product. The continuing weakness in the US and key European economies, combined with uncertainty in world financial markets, may undermine any global economic recovery, while SARS threatens to have a major impact on economic growth in key Asian economies, at least in 2003. There may also be a significant direct impact from SARS on the Queensland economy, mainly through its impact on tourism.

Domestically, the continuing drought situation in some regions of the State and any sudden downturn in the dwelling cycle remain the key risks to the Queensland economy. The factors discussed below are therefore likely to remain the key identifiable risks to the Queensland economy in 2003-04.

International Conditions

As in the previous two State budgets, international conditions remain a key risk to the State economy. The much awaited recovery in the US economy is proving elusive, with the pace of recovery so far being lacklustre, despite highly expansionary fiscal and monetary policy settings. In the early part of this year, Consensus Forecasts revised down their estimates for US economic growth for both 2003 and 2004. Forecasts of growth in the Euro area have also been consistently downgraded in recent months and major structural adjustment challenges continue to face several of the area's largest economies, particularly Germany.

Despite some recent signs of improvement, economic activity in Japan remains generally flat with persistent deflationary pressure hampering domestic economic activity. Concerns over the SARS virus have also resulted in estimates of growth in Non-Japan Asia for 2003 being downgraded recently.

A sustained recovery in the world economy is now not expected until 2004. However, should the recovery in economic growth in Queensland's major trading partners be delayed beyond the beginning of 2004, or the impact of SARS on growth in Non-Japan Asia be greater than currently expected, Queensland's export performance will be weaker than forecast.

Moreover, the general weakness in the world's major economies has led to the recent appreciation of the A\$ against the US\$ and on a trade-weighted basis. Therefore, any further weakening of the global economy could lead to a continued appreciation of the A\$ and, consequently, a greater impact on Queensland's net exports position than currently forecast.

International Financial Markets

The ongoing weakness in the outlook of the world's major economies is reflected in world financial markets. Despite a rally following the invasion of Iraq, equity markets have not rebounded as decisively as many analysts had predicted. This may dampen consumer and business confidence in the US in particular, where household wealth has been particularly adversely impacted upon by weak equity markets. US firms also continue to face high borrowing costs, with low official interest rates supplemented by high risk premiums, the risk being that business investment will not experience the rapid turnaround required to kick-start the US economy. This would result in lower than expected growth in the US and its key trading partners in Non-Japan Asia in 2003 and into 2004.

Severe Acute Respiratory Syndrome

In addition to the effect that SARS is having on economic growth in the affected countries, the outbreak of the virus in East Asian nations presents a specific risk to Queensland tourism. The East Asian region has accounted for around 40% of international visitors to Queensland over the past five years. In addition, visitors from Europe, who make up a further quarter of overseas visitors to Australia, tend to travel via Singapore or an alternative Asian stopover.

Queensland tourism has already been adversely impacted by the SARS outbreak, coming on top of the weakness in international tourism induced by the Iraq war. The number of overseas visitors to Australia was down 13% over the year to April 2003.

Almost two thirds of overseas visitors to Australia may potentially be discouraged from travelling during this epidemic. This impact may be offset to some extent by Queenslanders and other Australians opting to holiday in Queensland rather than travel overseas. However, the relative sizes of these components of Queensland's tourism sector mean that the overall effect on economic activity is still likely to be negative.

The direct impact of SARS on the Queensland economy is not limited to the tourism sector. Merchandise exports to the Asian region are also likely to be adversely affected. Aquaculture exports to Asia have already suffered, with restaurant trade in key Asian markets dramatically reduced.

The current forecasts assume that the SARS epidemic will be brought under control quickly, with the major impact over by early 2003-04. Any prolonging of the epidemic beyond this period will result in tourism and food exports in 2003-04 falling below the levels currently forecast.

Drought

While Autumn rains have gone some way toward breaking the drought in several regions of the State, other regions have not experienced any improvement in water availability and further good rainfalls are required to result in any significant increase in summer crop production. The assumed recovery in agricultural production in 2003-04 is dependent upon the drought breaking by around mid-2003 and normal seasonal conditions then resuming, that is, the drought is not followed by floods or other damaging weather conditions. Should the drought continue into 2003-04, export and overall economic growth and, as a result, employment growth will all be lower than currently forecast.

Population Growth

Only one quarter of data on the components of population growth in Queensland for 2002-03 were available at the time of preparing the economic forecasts. Recent data show a return to strong levels of net interstate migration and a rise in net overseas migration. The forecast population growth of 2¼% in 2003-04 is based on this trend continuing. However, should net migration return sharply to the levels of the late 1990s, population growth will be lower than forecast, resulting in weaker household consumption and dwelling investment.

Dwelling Investment

The economic forecasts are based on a decline in new dwelling construction, partially offset by continuing growth in alterations and additions (which makes up more than 40% of dwelling investment).

The downside risk to this forecast is that households may choose to reinvest their increased housing equity, which resulted from the recent rapid rise in house prices, in other investment opportunities, such as the share market. In this case, dwelling investment in 2003-04 will be weaker than currently forecast.

Business Investment

Business investment is forecast to continue to be a major driver of growth in 2003-04. However, should business confidence be adversely affected by external factors, lower business investment would result, resulting in slower economic growth.

Inflation

Inflation has been forecast to remain around the middle of the RBA's 2-3% target band in 2003-04. However, there is some likelihood that prices may rise by less than forecast. Two of the major drivers of inflation in 2002-03, fuel and fresh food, may well experience price falls in 2003-04 as the price effects of geopolitical uncertainty and the drought dissipate. This would result in real incomes rising more rapidly than currently forecast, with positive flow-on effects on household consumption and employment.

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 2004-05 to 2006-07, 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.

World economic conditions are projected to improve, with economic growth in Queensland's major trading partners assumed to grow at around 3½%.

The following medium-term projections assume a continuation of the longer-term Commonwealth Government fiscal policy and monetary stance of the RBA. These are directed at the maintenance of a stable budget position and economic growth in a low inflationary environment. In particular, the projections incorporate the anticipated impacts of the Commonwealth Government's 2003-04 fiscal strategy and Budget priorities.

Economic growth in Queensland is projected to return towards the average growth rate over the past decade, with an increase of around 4½% per annum projected for the period to 2006-07. Average employment growth of 2½% per annum over this period is projected to outpace population growth of 1¾% per annum, implying an ongoing improvement in the unemployment rate over the medium-term.

Queensland's economic growth is expected to remain higher than that recorded nationally over the medium-term. However, for Queensland to sustain high rates of economic growth over the longer-term, it is essential that the productive capacity of the State's industries and workforce continues to be enhanced. This is the ultimate aim of the Government's economic strategy, which is described in detail in the following chapter.

Table 2.3
Economic Parameters/Projections
(annual % change)

	Outcome 2001-02 %	Est. Actual 2002-03 %	Forecast 2003-04 %	Projections ¹ 2004-05 to 2006-07 %
Queensland				
Gross state product ²	5.5	4¾	4	4½
Employment	1.9	3¼	2¼	2½
Inflation	2.9	3¼	2½	2½
Average earnings ³	2.9	4¼	4¼	3¾
Population	2.0	2¼	2¼	1¾
Australia				
Gross domestic product ²	4.0	3	3¼	3½
Employment	1.1	2½	1¾	1½
Inflation	2.9	3¼	2¾	2½
Average earnings ³	4.3	3¼	4	3¾
Population	1.3	1¼	1¼	1¼
<p>Notes: Decimal point figures indicate an actual outcome.</p> <p>1. Average annual percentage change over the period.</p> <p>2. Chain volume measure, 2000-01 reference year.</p> <p>3. Average earnings are on a National/State Accounts basis.</p> <p>Sources: <i>Queensland Treasury and Commonwealth Treasury.</i></p>				

3. ECONOMIC STRATEGY

KEY POINTS

- **Queensland's economic strategy is focused on raising productive capacity, given its importance in achieving sustainable economic growth, higher living standards and greater employment opportunities –key economic and social policy priorities of the State Government.**
- **The economic strategy complements sound economic fundamentals with a Smart State strategy that fosters innovation and invests in human capital, the main drivers of productivity growth in a modern service-based economy.**
- **The Government is focused on improving economic fundamentals through a sound fiscal environment, ensuring an appropriate infrastructure base, improving industry efficiency and regulatory reform, to enable industries and businesses to make effective and efficient investment decisions.**
- **In fostering innovation, the Government has implemented initiatives that support the creation and adoption of new technologies, to raise the productive capacity of established industries, and to foster growth in emerging areas of technological opportunity where the State has a competitive advantage.**
- **The Government's investment in human capital focuses on education, training and employment programs that promote successful labour market participation, to provide more Queenslanders with the opportunity to make a valuable contribution to society and to share the benefits of economic progress.**

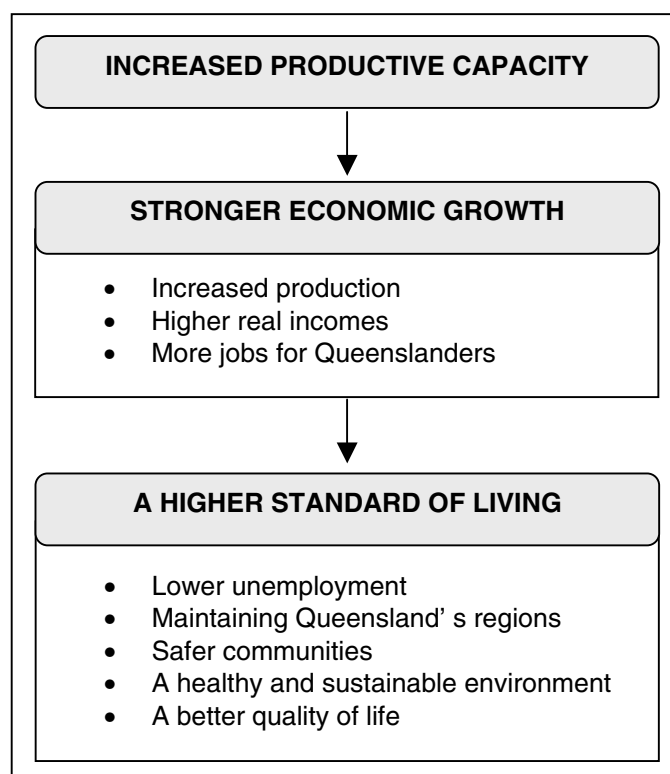
AIMS OF THE ECONOMIC STRATEGY

The State Government's economic strategy is aimed at enhancing Queensland's economic performance and providing a better quality of life for all Queenslanders, in keeping with the Government's key economic and social policy priorities outlined in its *Charter of Social and Fiscal Responsibility*.

One of the key objectives of the strategy is to raise the productive capacity of Queensland's labour force and industries. A more productive workforce will generate higher rates of sustainable economic growth. This will result in the further development of the State's industries and regions, and lead to increased employment opportunities for Queenslanders.

In turn, lower levels of unemployment and growth in household incomes will help grow the revenue base needed to provide essential services throughout Queensland's regions and to maintain the quality of the State's natural environment and the safety of Queensland communities – providing a higher standard of living for all Queenslanders (see Figure 3.1).

Figure 3.1
Queensland's Economic Strategy



The economic strategy is supported by the findings of the Drivers of Economic Growth research project, which will be published shortly. This research project was undertaken by senior academics, working in a collaborative partnership with Queensland Treasury. The project sought to determine the main factors that have impacted on the State's past economic performance and identify factors likely to drive Queensland's economic growth in the future.

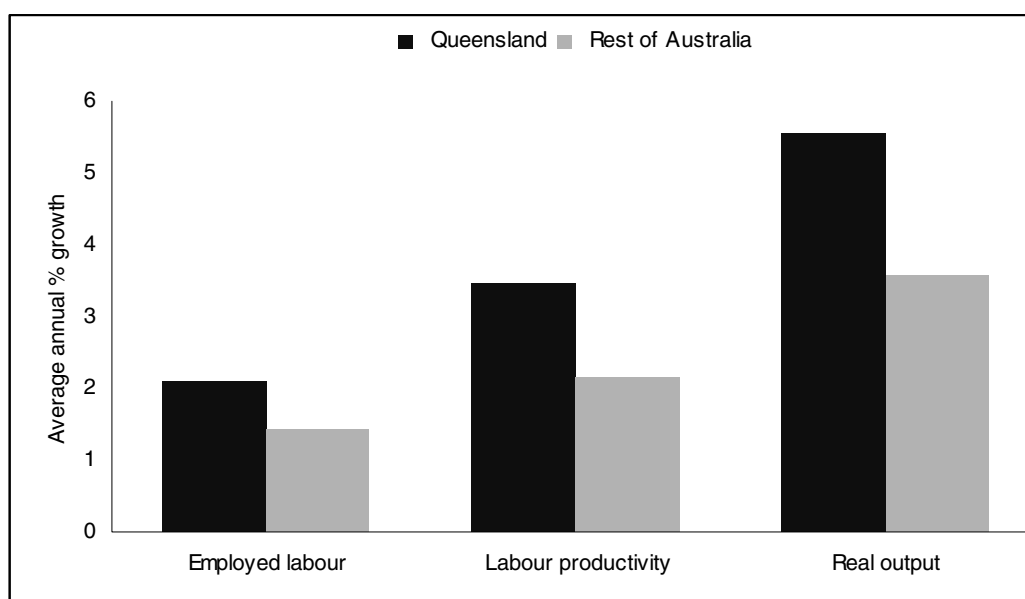
The Drivers of Economic Growth project highlighted the need to maintain Queensland's existing sound economic fundamentals and enhance the traditional drivers of growth, such as developing the State's physical infrastructure. More importantly, the research highlighted the importance of focusing on those factors embodied in the Government's Smart State strategy – fostering innovation and investing in human capital. Along with maintaining sound economic fundamentals, these factors will be the main drivers of improvements in productive capacity and higher rates of sustainable economic growth for future generations of Queenslanders.

THE IMPORTANCE OF IMPROVING PRODUCTIVE CAPACITY

People are the State's most valuable resource, creating output, income and wealth through their skills, innovation and employment. Growth in the amount of labour employed in an economy therefore directly contributes to the increased production of goods and services. However, the extent to which people contribute to economic activity depends primarily on their productive capacity – that is, the rate at which they can convert economic inputs into valuable output. Economic growth can be then seen as driven by two main factors: increases in employed labour and the growth of labour productivity.

Chart 3.1 shows the contribution of these factors to economic activity in Queensland and the rest of Australia between 1997-98 and 2001-02. This period is often dubbed the New Economy era, due to the marked increase in labour productivity and economic growth in the United States and other major economies. Queensland generated average annual economic growth of 5.6% over this period, well above the 3.6% growth recorded in the rest of Australia. Queensland's faster economic growth was partly driven by stronger growth in employed labour, that is, the total number of hours worked by the labour force. However, two-thirds of the economic growth differential resulted from greater productivity, with Queensland averaging annual productivity growth of 3.5%, compared with 2.1% in the rest of Australia.

Chart 3.1
Drivers of Economic Growth: 1997-98 to 2001-02



Source: Queensland State Accounts, ABS 6202.0 unpublished data.

Queensland's stronger growth in employed labour over this period has been partly driven by faster population growth. This trend has in turn been underpinned by strong interstate migration, with Queensland attracting an average annual net inflow of more than 20,000 interstate migrants between 1997-98 and 2001-02. This was more than five times the average inflow to Victoria, while all other states recorded net outflows over this period. Net interstate migration swelled to over 29,000 persons in Queensland in 2001-02, more than 9,000 persons higher than in 2000-01 and representing the highest level in the past six years. Most recently, net interstate migration totalled well over 9,000 persons in September quarter 2003, compared with a marginal inflow in Victoria and net outflows in all other states.

However, the major source of economic growth in Queensland in recent years has been the higher productivity of Queensland workers, reflecting the smarter use of available resources. The key drivers of productivity growth are capital deepening (providing workers and firms with access to greater amounts of investment and higher quality capital infrastructure), efficiency improvements (making better use of existing resources given current technology) and technological progress (driven by innovation and improvements in human capital).

Growth in productive capacity is also the main source of improvement to individual living standards over time. Productivity growth creates more output from given inputs. This generates a greater amount of income to be shared among citizens and raises real per capita incomes – the main economic indicator used to measure living standards. Productivity gains can be passed on to employees in the form of higher real wages, to consumers in the form of lower prices, or to employers and shareholders in the form of higher dividends. In each case, productivity gains ultimately result in higher real incomes.

Table 3.1 illustrates how accelerating productivity growth has driven growth in real per capita output in Queensland over the past 15 years. Productivity growth rose from a five-year average annual rate of 0.8% in 1991-92 to 1.7% in 1996-97, before jumping to 3.5% in 2001-02. As a result, average annual growth in real per capita output strengthened from 1.3% to 2.1% and 3.8% over the three periods. This increased rate of growth was largely due to a rapidly increasing contribution from labour productivity growth over the last 15 years.

Table 3.1 Real Output Per Capita: 1987-88 to 2001-02 (average annual percentage point contribution to growth)			
	1987-88 to 1991-92	1992-93 to 1996-97	1997-98 to 2001-02
Real output per capita	1.3	2.1	3.8
Labour productivity	0.8	1.7	3.5
Employed labour as a share of population	0.5	0.4	0.3
Working age share of population	0.3	0.2	0.2
Rise in participation rate	0.4	0.4	0.1
Fall in unemployment rate	0.0	0.1	0.3
Average hours worked	-0.1	-0.4	-0.3

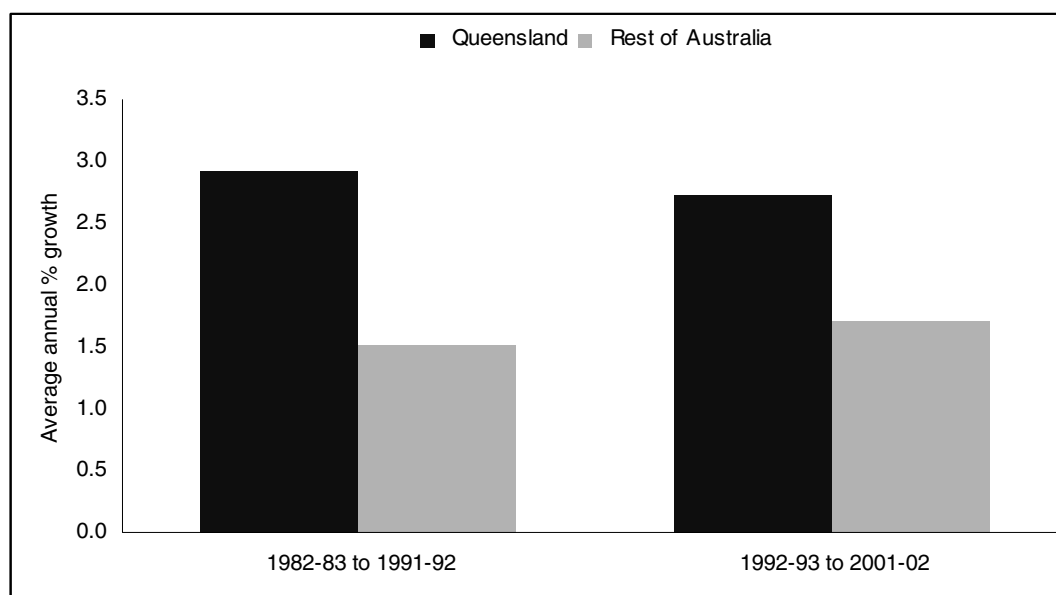
Source: Queensland State Accounts, ABS 3101.0, 6202.0 unpublished data.

The remaining growth in real per capita output over the past 15 years has resulted from an increase in employed labour as a share of the population. This has been underpinned by a rise in the working age share of the population as the baby-boomer generation moved into the middle years of working life. There has also been a rise in the labour force participation rate during this period, underpinned primarily by increased female participation. A fall in the unemployment rate, particularly since 1997-98, has also increased the share of the population actively in employment.

The increase in employment has been partially offset by a reduction in the average hours worked per employee in Queensland over the period. This primarily reflects a greater incidence of part-time employment, which itself has been partly due to a shift toward a more service-based economy. This trend towards shorter average hours of work also highlights the extent to which Queensland workers have become more productive – working smarter not longer, over the last decade.

This increased productivity has raised per capita incomes, leading to increased demand for goods and services, and making labour a more attractive resource to employers. These factors stimulated employment demand and resulted in the creation of more jobs – a key policy priority of the Queensland Government. Chart 3.2 illustrates how Queensland has outperformed the rest of Australia in terms of employment growth over the past two decades.

Chart 3.2
Employment Growth: 1982-83 to 2001-02
 (average annual % change)



Source: ABS 6202.0.

Productivity growth also plays an important role in the delivery of the Government's social policy priorities. For instance, policies that create better healthcare services or improve the efficient use of natural resources will raise individual well being and improve environmental sustainability, respectively. The rise in real incomes and employment generated by productivity growth also gives the Government the means to increase spending on education, crime and poverty prevention, cultural activities, regional development, health and aged care, and environmental protection. As incomes increase, individuals also tend to devote more time to other activities associated with a better quality of life.

Emerging intergenerational issues also highlight the importance of productive capacity as a source of sustainable growth. Intergenerational research by the Queensland Government suggests that the population will slowly age over the first half of the 21st century, as the baby-boomers move into retirement age. This highlights the importance of productivity growth, and policies that encourage increased labour force participation by youth and mature age workers, to achieve sustainable growth in economic activity and living standards for future generations. Box 3.1 provides more details of the Intergenerational Research Project¹ in Queensland Treasury and its implications for the State's economic strategy.

¹ The Intergenerational Research Project is a component of a broader Treasury research agenda on the drivers of economic growth in Queensland. It is being conducted by the Office of Economic and Statistical Research, to ascertain the potential future effects of demographics and other economic and fiscal factors on the Queensland economy and Budget.

Box 3.1

The Intergenerational Research Project

An important long-term issue confronting Queensland is the economic, social and fiscal impacts of demographic change. It is projected that the Queensland population will continue to age over the next 50 years, as fertility remains below the replacement level and life expectancy continues to increase.

The State Government has initiated a whole-of-Government research program to analyse the long-term sustainability of State finances and Queensland living standards in the context of demographic change. A key finding of the Intergenerational Research Project is the importance of the growth of productive capacity to the welfare of Queenslanders over the long term. Put simply, an ageing population means that the share of the population actively working will slowly decline. This highlights the need to offset this trend through policies that raise productivity growth and encourage labour force participation, to maintain strong growth in overall living standards.

The project has highlighted several demographic issues relating to raising long-term productive capacity, including:

- The age structure of the workforce itself could influence productive capacity. On average, older workers are more productive because long-term participation in work builds skills. This means that the human capital currently residing within the large baby-boomer age group will be difficult to replace when this generation retires from the workforce.
- Overseas and interstate migration will become more important sources of labour and productive capacity in Queensland. Natural increase (births less deaths) will decline as a source of population growth over the next 40 years, due to falling fertility rates and higher life expectancy. Policies that attract skilled migrants to the economy, and training and employment programs for migrants will become even more important in this respect.

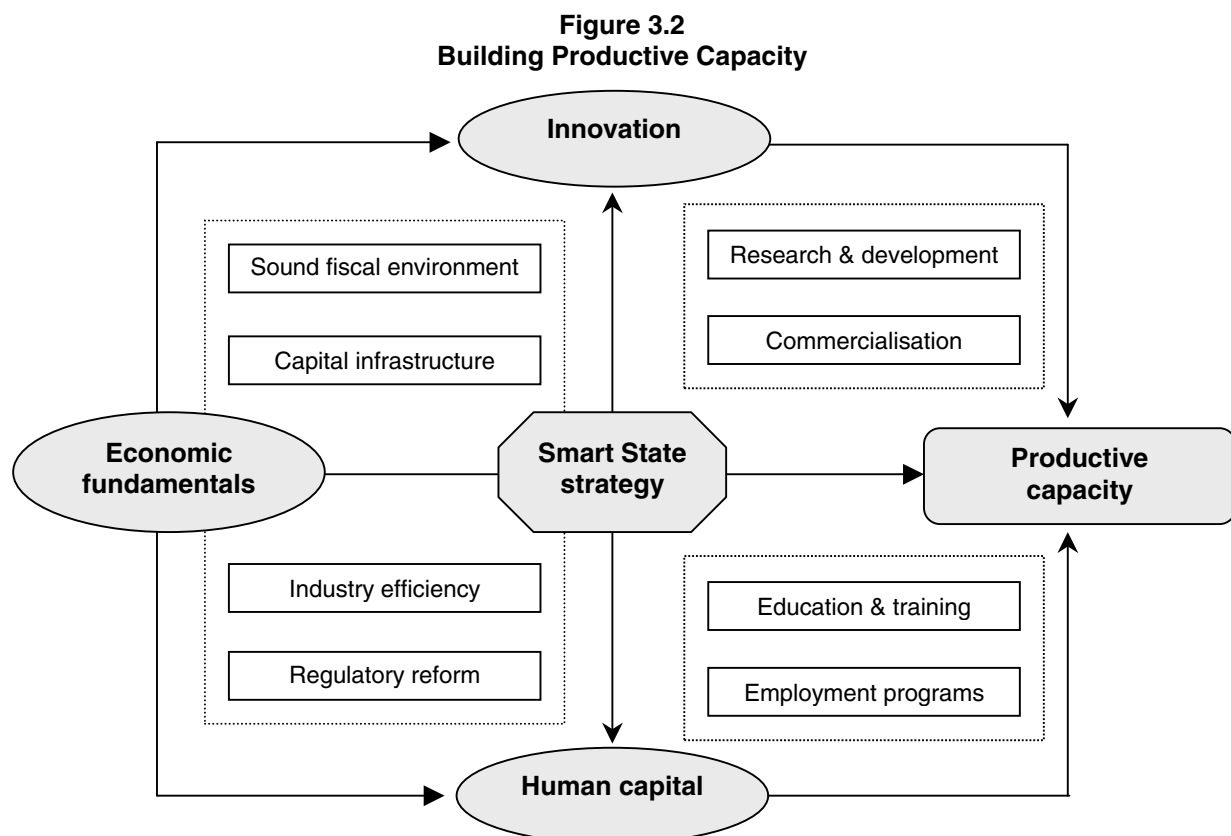
Several policies within Queensland's current economic strategy aim to raise long-term growth in productivity and living standards in the context of population ageing. For instance, the Education and Training Reforms for the Future package for secondary schooling aims to maximise the productive capacity of the current generation of youth that will reach their prime years of working life as the baby-boomer generation retires. Similarly, a commitment to building a strong research and development infrastructure base in Queensland will raise the State's innovative capacity as well as attract skilled labour to Queensland. Finally, employment programs under the Breaking the Unemployment Cycle initiative aim to skill and educate those at risk of repeated or long-term unemployment spells, helping to raise the long-term potential for labour market participation. These initiatives are outlined in more detail in the body of this chapter.

The Intergenerational Research Project is continuing to evaluate the potential impacts of population ageing on the Queensland Budget and economy. Additionally, Queensland Treasury is liaising with other state and territory Treasuries to evaluate the implications for Australia's states and territories as a whole.

Appendix D provides further information on this important issue.

A STRATEGY FOR SUSTAINABLE ECONOMIC GROWTH

The Queensland Government's economic strategy focuses on raising the productive capacity of Queensland's labour force and industry, given the importance of productivity to improving overall economic growth, living standards and employment opportunities. The strategy aims to achieve this by improving economic fundamentals, fostering innovation and investing in human capital (see Figure 3.2). These are the main drivers of productivity growth in a modern service-based economy, as highlighted by the Drivers of Economic Growth project.



ECONOMIC FUNDAMENTALS

The maintenance of a stable, supportive economic environment is a vital element in enabling the State's industries and businesses to make effective and efficient investment decisions. This has been underlined in recent years by the resilience of the State's economy in the face of several major external threats, including the Asian crisis, the introduction of the GST and in the aftermath of international terrorist attacks.

The Government will continue to ensure Queensland enjoys an economic environment that supports business development and promotes investment in physical and human capital, the key drivers of sustainable economic growth. The key elements of the economic strategy that achieve this aim are:

Providing a Sound Fiscal Environment

By maintaining and improving the State's sound fiscal position, the Government will continue to promote business and investor confidence. A responsible fiscal approach is also necessary to enable the Government to effectively target its key social policies.

The key measure here is the underlying fiscal balance, as evidence of the sustainability of the Government's revenue and expenditure policies. In underlying terms, the fiscal position of the Government has strengthened during 2002-03. In the absence of poor investment returns, the General Government sector would have recorded a significant surplus.

As outlined in the *Charter of Social and Fiscal Responsibility*, a critical component of maintaining a sound fiscal environment in Queensland is ensuring the services provided by the public sector are being delivered as efficiently and effectively as possible – the ultimate goal of the State's Aligning Services and Priorities (ASAP) process.

A key outcome of ASAP has been the Shared Service Initiative. This initiative will result in new shared service providers servicing clusters of agencies, while infrastructure services and applications support services will be delivered by a new technology centre of skill.

This initiative will also lead to improved productivity in the public service, reflecting the Government's broader economic strategy. Productivity growth in the Queensland public sector benefits the community through more efficient and cost-effective service delivery. It is also a major contributor to Queensland's broader productive capacity, given that the public sector accounts for over one-fifth of economic output and employs more than one-fifth of total employees in the State.

Ensuring an Appropriate Infrastructure Base

Public and private infrastructure investment are crucial to raising the productive capacity of workers and enhancing economic growth. Public sector investment will continue to provide much of the key infrastructure needed to allow business to operate more efficiently.

Capital outlays are estimated to be around \$5.3 billion in 2003-04, representing an 8% increase on 2002-03 estimated actual expenditure, and continuing the four-year Priority Infrastructure Package introduced last financial year. General Government capital expenditure per capita in Queensland remains higher than in any other state.

The Government is focusing on more effective and innovative ways of encouraging increased private sector infrastructure investment, as well as fostering greater public and private sector collaboration on major infrastructure projects. Initiatives aimed at achieving these objectives include the second round of funding for the Smart State Research Facility Fund to be announced in early 2003-04. These funds will be channelled directly into assisting in the construction of world-class science and technology research and development infrastructure. The Government is also pursuing the Public Private Partnerships initiative, encouraging private sector involvement in public sector infrastructure projects in instances where it will result in more efficient outcomes for Queensland taxpayers.

The energy sector, in particular, has seen significant private sector involvement in Queensland in recent years. Of the \$5 billion invested in the National Electricity Market since the State joined in December 1998, \$3.4 billion has been in Queensland, and 70% of that has involved the private sector. This private sector involvement includes InterGen's \$1.5 million Millmerran power station and the 50% interest in CS Energy's \$887.2 million Callide C power station, as well as Tepco-Mitsui's 50% stake in Tarong Energy's \$652 million Tarong North power project.

Improving Industry Efficiency

The continued emphasis on improving the efficient operation of key industries, particularly essential services such as energy, water, and transport, is vital if Queensland industries are to become more productive.

Where clear public benefits arise, the Government will continue to implement national reforms aimed at reducing the cost of inputs and removing impediments to the creation of new firms. Increasing the efficiency of these industries is particularly important as they provide significant inputs to production in virtually all other industries. These reforms will ultimately help create more efficient and productive firms and industries throughout the State, leading to lower prices for Queensland consumers.

Improving the efficiency of our essential services is vital, not only for the cost effectiveness of Queensland industry, but also to ensure the long-term sustainability of Queensland's vast natural resources. Changes to the State's water and energy policies over recent years demonstrate the Government's active and effective management of these scarce resources. The following are some of the more significant industrial reforms which have been introduced in recent years or are currently being implemented in Queensland:

Water. The Government has made major advances in water reform over recent years, including the corporatisation of SunWater and commercial reforms to the water and sewerage businesses of the 18 largest local Governments. The Government has also introduced the *Water Act 2000*, which makes provision for the trading of water allocations to encourage an efficient market for water, while consumption-based cost reflective pricing has also been introduced in recent years. These reforms are collectively aimed at improving both the productivity and environmental sustainability of the water industry.

Energy. The Government is committed to ensuring Queensland households and industry have access to competitively priced electricity and gas, while ensuring the greenhouse impacts of energy generation are appropriately managed. In particular, the Government is taking a lead role in developing policies to ensure investment in electricity transmission between the States is optimal, facilitating electricity trade across jurisdictions and enhancing the competitiveness of the industry.

Transport. Important recent reforms in the transport industry include the approval of Queensland Rail's Access Undertaking, which allows third party access to Government-owned rail lines and promotes greater competition in Queensland's above-rail market. The Government has also committed to an inter-governmental agreement, ensuring that the safety accreditation of Queensland Rail operators will be recognised in other states. This allows for a greater ease of movement for railway operators across state borders. The efficiency of the State's public transport services will also be greatly enhanced through the establishment of Translink, as an agency within Queensland Transport, for the introduction of a coordinated and integrated public transport system in South East Queensland.

Sugar. In consultation with the sugar industry, the Government is currently seeking to introduce a range of reforms to create a business environment that will promote productivity gains and ensure the future sustainability of this vital industry.

Focusing on Regulatory Reform

Regulatory reform promotes economic growth by removing or improving regulations that hinder investment or competition and thereby impede business activity. The State's regulatory reform process ensures that market regulation is in the public interest, with reforms aimed at minimising the administrative burden on Queensland businesses and structuring regulation so it provides the appropriate incentives for investment. By June 2003, the Government will have completed a substantial seven-year review of 140 pieces of legislation, aimed at eliminating restrictions on competition.

Sound economic fundamentals are also crucial to supporting other key drivers of economic growth, such as innovation. For instance, regulatory reform and improving the efficiency and competitiveness of industries creates greater incentives for firms to be more innovative and to learn from, adapt or use new technologies. Fostering innovation forms the second key component of the Queensland Government's economic strategy.

INNOVATION

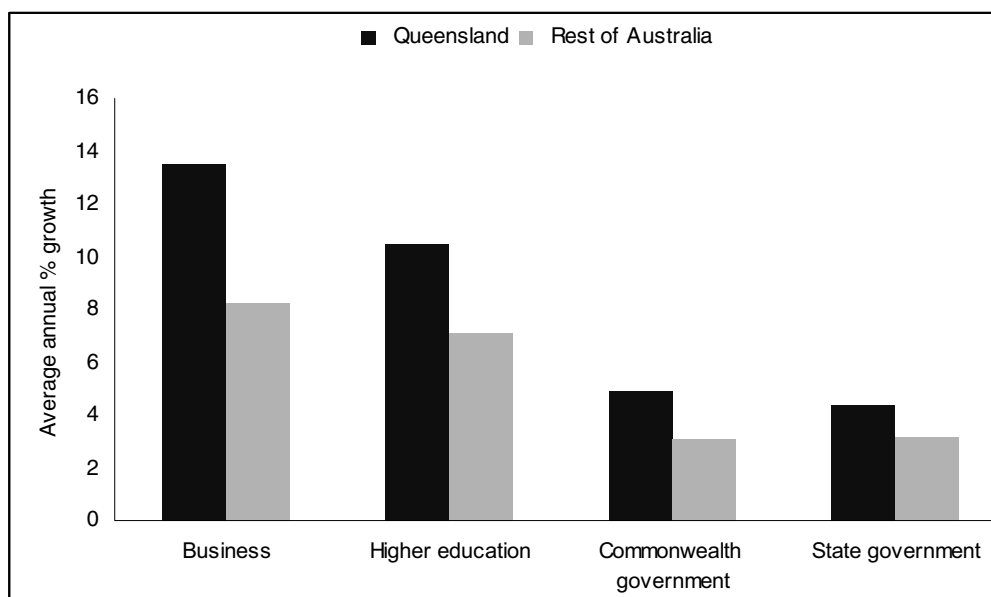
Innovation involves the development of new and improved products or services and their use throughout the wider economy. Private sector firms innovate by creating new or improved products for consumers or developing more efficient production processes. In both cases, innovation generates greater output from given resources, and is thus a primary source of productivity growth, improved living standards and better job opportunities. Public sector innovation is generally focused on areas of important social benefit, such as the environment and health, again providing a crucial source of improvement in people's standard of living.

In addition to direct public sector innovation, the Government has an important role to play in fostering a broader environment conducive to successful innovation. This includes addressing incentives to innovate through intellectual property rights, taxation and subsidy arrangements, and fostering a competitive environment. It also involves raising the institutional capacity of the broader innovation system by improving the availability of infrastructure, adequate skills and opportunities for collaborative links between researchers, financiers and entrepreneurs.

Recent international trends have highlighted the importance of innovation to growth. The information and communication technologies (ICT) boom provides the most recent example, boosting productivity growth in the United States and spawning the New Economy era. The Organisation for Economic Cooperation and Development (OECD) has also stressed the role ICT has played in raising productivity and incomes in ICT-using, as well as ICT-producing countries. In fact, the OECD singles out Australia as a case in point, where the latest technologies have been used to work smarter across both traditional and new industries. Several indicators suggest that innovative activity has grown faster in Queensland than in the rest of Australia in recent years.

For instance, research and development (R&D) spending represents an important input to the innovation process. Chart 3.3 shows Queensland outperformed the rest of Australia in terms of growth in R&D by business, higher education institutions, and the Commonwealth and state governments over the decade to 2001-02. Significantly, businesses recorded the fastest R&D growth of any sector over the period.

Chart 3.3
Growth in R&D Expenditure, 1992-93 to 2001-02
 (average annual % change)



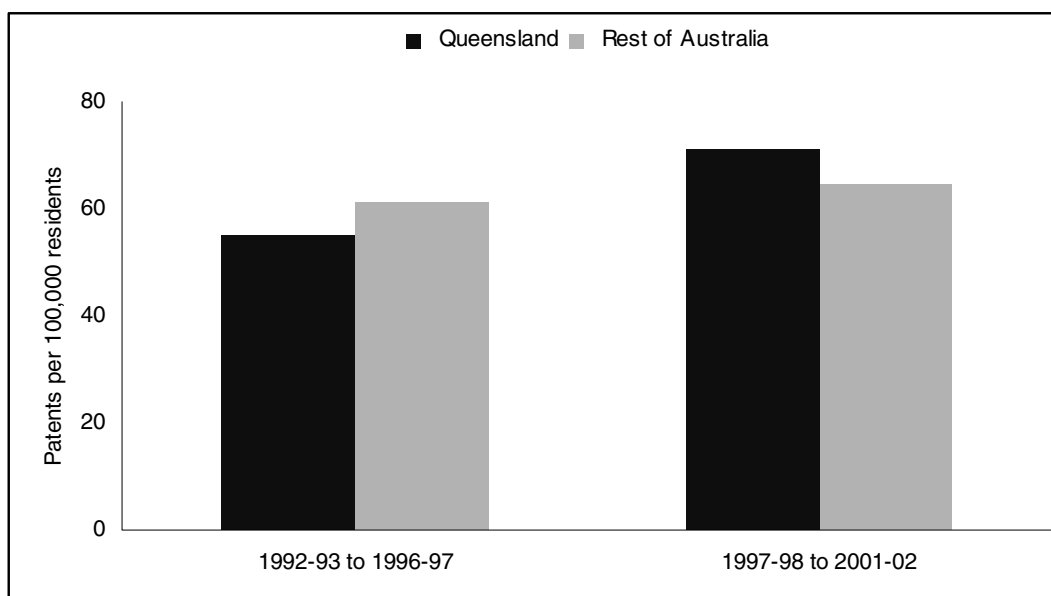
Source: ABS 8112.0.

The Drivers of Economic Growth project highlighted the importance of business innovation in explaining interstate differences in economic performance. This research showed that on average growth in business R&D spending could explain up to 60% of labour productivity growth across the Australian states over the past 15 years, with the states that recorded the highest growth in business R&D, such as Queensland and Western Australia, generating the highest productivity growth.

While R&D is an important input to innovation, patents provide one of the key indicators of innovative output. In particular, the number of patents granted per head of the population is often used to indicate the 'inventiveness' of individual economies. Chart 3.4 illustrates that while Queensland scored slightly lower on this ratio relative to the rest of Australia over the five years to 1996-97, Queensland surpassed the rest of Australia in terms of the number of patents per capita over the five years to 2001-02.

Fostering innovation is at the heart of the Smart State strategy. This strategy aims to support the development and adoption of new technologies in order to raise productive capacity and competitiveness in established industries, such as mining and agriculture. It also aims to diversify the economy by fostering innovation in emerging areas of technological opportunity where the State has a competitive advantage, such as biotechnology.

Chart 3.4
Patents granted per Head of Population, Queensland vs Rest of Australia
 (average annual patents per 100,000 residents)



Source: Intellectual Property (IP) Australia, ABS 3101.0.

Queensland's innovation strategy promotes economic growth and diversification by providing R&D infrastructure to increase the innovative capacity of the economy, forging private-public partnerships that ensure public sector innovations are developed into commercial products that benefit the wider community, and ensuring an environment conducive to successful private sector innovation. Major initiatives include:

- **The Queensland BioIndustries Strategy.** In May 1999, the Government announced a \$270 million 10-year BioIndustries Strategy to position Queensland as a centre of excellence in biotechnology. This reflects Queensland's competitive edge in this emerging growth industry. Queensland's diverse natural resources provide the State with an advantage in the development of products that will benefit society in areas of health care, disease prevention and cure, food production and the protection of the environment.

As part of this strategy, \$15 million has been committed to infrastructure costs and \$77.5 million in operational funding over 10 years for the Institute of Molecular Bioscience. This institute was officially opened in May 2003, as part of the launch of the Queensland Bioscience Precinct at the University of Queensland. The Institute is a world-class research facility that will provide economic and social benefits across industries, including agriculture, health, food, mining, environmental management and manufacturing.

- **The Smart State Research Facility Fund (SSRFF).** This five-year \$100 million fund was established in 2001-02 to assist the construction of world-class science and technology R&D infrastructure. The SSRFF reflects international evidence that emerging areas of technological opportunity, such as biotechnology and ICT, are dependent on strong public research foundations. It also reflects Australian evidence that suggests funding for research infrastructure is being outpaced by growing demand for research facilities.

Funding was allocated to six projects during the first round (2001-02). This included up to \$22.5 million toward a \$70 million Institute of Health and Biomedical Innovation at the Queensland University of Technology. This institute will conduct research into injury prevention or rehabilitation, health development, advanced diagnostics, molecular farming, tissues bio-regeneration and vision improvement. The second funding round for the SSRFF is to be announced in early 2003-04.

- **Cooperative Research Centres (CRCs).** CRCs bring together universities and private and public sectors to maximise the community benefits from public R&D. The Government has set up a competitive fund to assist State applications to the Commonwealth CRC Program, with almost one-quarter of national CRCs now having their headquarters in Queensland. Most recently, \$1.8 million has been provided over seven years to a CRC for Sugar Industry Innovation through Biotechnology. Queensland CRCs cover industries such as manufacturing, ICT, mining, energy, agriculture and medical science.
- **ICT Industry Development Strategy.** This strategy includes initiatives such as facilitating the development of industry clusters in multimedia, e-learning, e-security and spatial information; expanding export opportunities for ICT firms through the International Tradeshow Assistance Program; and support for building the capacity of the regional ICT industry. This strategy reflects both the direct importance of the ICT industry as a source of employment and exports, but also its crucial role as an enabling technology and source of competitive advantage across all industries.
- **Innovation Start-Up Scheme (ISUS).** This scheme provides pre-seed funding to assist highly innovative start-up companies in commercialising their new technology products or services. To date, funding has been awarded to 40 projects across areas such as ICT, biotechnology, electronics, mining, environment, health and medicine, with almost half the recipients from regional Queensland. The establishment of ISUS reflects growing evidence that a lack of venture capital presents a major impediment to high technology start-ups – a crucial part of the commercialisation and broader innovation process.

Shortly after the State Budget, the Queensland Government will release a document which details the State's investments in science, research and innovation over the past five years and evaluates Queensland's performance in achieving the Smart State vision. The document will also announce a comprehensive four-year \$100 million Smart State strategy, to be launched early in 2003-04. Key areas of investment will include:

- research – medical, cancer, biodiscovery, microtechnology
- tropical marine science
- clean coal technology
- e-health and e-security
- supercomputing
- business incubation
- skills development
- developing existing industries
- strategic partnerships
- precinct for knowledge industries and community living
- sports science.

HUMAN CAPITAL

Human capital reflects the skills that individuals have developed through formal education, work experience and informal training, as well as their personal characteristics. Increases in human capital are a crucial driver of better employment outcomes, productivity growth and higher living standards in an economy.

Table 3.2 shows that people with relatively higher education qualifications tend to achieve better labour force outcomes. For instance, persons who only complete education up to or below Year 10 are estimated to have unemployment and work force participation rates of 10.2% and 60.5% respectively. This compares with 2.9% and 87.5% for persons holding a bachelor degree.

Table 3.2 Labour Force Outcomes by Education Level, Australia, 2001		
Highest level of education attainment	Labour force outcomes	
	Unemployment rate	Participation rate
Postgraduate degree	2.9	91.0
Bachelor degree	2.9	87.5
Advanced diploma / diploma	4.8	82.4
Year 12	7.0	76.4
Year 10 or below	10.2	60.5

Source: ABS 6227.0.

The Drivers of Economic Growth project highlighted the important role human capital plays in explaining differences in per capita output across the Australian states. In particular, the results indicated that interstate variations in educational profiles could explain up to 87% of the difference in per capita output between some states.

The importance of R&D and education in explaining interstate differences in economic performance in the Drivers of Economic Growth project also highlighted the interrelationship between innovation and human capital. Human capital influences productivity growth through its effect on innovation, as it is people's analytical and creative skills that determine the rate at which an economy can create better products or absorb and improve upon technology developed elsewhere. Similarly, innovation adds to human capital, either directly through R&D activity, or indirectly by attracting highly skilled people into the economy.

The importance of human capital as a driver of innovation, productive capacity and economic growth forms a core part of the Government's Smart State strategy. This strategy focuses on educating and skilling people so they have the best opportunity to compete for and create jobs in new and emerging fields, as well as applying their skills to revitalise and advance the growth prospects of traditional industries. The following are major strategies fostering human capital:

- **The Queensland State Education 2010 Strategy.** This strategy outlines a vision to advance public education to meet the unique challenges posed by the transition to a globalised knowledge economy and society. The key objective of this strategy is raising the completion rate for Year 12 from 68% in 1998 to 88% by 2010.

This focus reflects strong evidence that those who complete secondary school are more likely to find employment and be productive workers. The Drivers of Economic Growth project highlighted the importance of this particular stage of education, with the results indicating that up to 66% of the differences in per capita output between states could be explained by interstate differences in secondary level education profiles alone.

- **Education and Training Reforms for the Future (ETRF).** This package of reforms provides funding to operationalise the *Queensland State Education 2010* vision. It aims to implement initiatives in the early, middle and senior years of schooling to raise high school completion rates and advance the quality of secondary education, with trials beginning in selected areas across the State over the first half of 2003-04.

Early years of schooling. A full-time preparatory year before Year 1 of school is being trialled as part of the ETRF reforms. This initiative reflects research indicating the importance of early childhood education to lifelong learning, whereby early investment in human capital promotes investment in education and skills upgrading through later stages in life.

Middle years of schooling. A new target for Queensland students to achieve national Year 7 literacy and numeracy benchmarks by 2005, along with a greater focus on the learning needs of students, will be introduced for the middle years of schooling. This reflects growing evidence of the importance of basic literacy and analytical skills as a foundation for innovation and economic growth.

Senior years of schooling. Legislation will be introduced that makes it compulsory for youth to be 'learning or earning' up until 17 years of age. This involves students staying in school until they complete Year 10 and then participating for a further two years of study to obtain a Senior Certificate or Certificate III vocational qualification. Young people engaged in full-time work provide the only exception.

The ETRF strategy also aims to broaden pathways to further education and work, by providing more flexible options for students, such as offering a wider range of tailored courses and more school-based apprenticeships. This strategy recognises that while the traditional route from a curriculum-based Senior Certificate to university will still provide the main pathway for youth into employment, it will not be suitable for all students or fields of study. The reform package seeks to expand the Senior Certificate to include a broader range of learning, including vocational education and school-based apprenticeships and traineeships.

The reforms also provide more ICT for schools and professional development training in ICT for teachers. The Government has met its objective of achieving a ratio of one computer per five students on a statewide basis for Years 8 to 12 by 2002, and is making progress towards a similar ratio for Years 3 to 7 by 2005. The Government's commitment to ICT in schools not only reflects the importance of being able to use and apply ICT as a source of greater productivity and living standards, but also reflects growing evidence that ICT has positive effects on student attitudes toward learning.

- **The Breaking the Unemployment Cycle initiative.** This initiative encompasses labour market programs aimed at improving the employment opportunities for the long-term unemployed, groups at risk of long-term unemployment, including young and mature aged individuals, and other disadvantaged job seekers. Box 3.2 outlines the outcomes and rationales of several of the Breaking the Unemployment Cycle labour market programs.

Box 3.2 **Breaking the Unemployment Cycle Programs**

Community Employment Programs

These programs provide disadvantaged job seekers, including youth, the disabled and people with non-English speaking or indigenous backgrounds, with a job in community projects. The program gives participants the opportunity to gain skills and work experience that will help them obtain ongoing employment. The program also funds public and community organisations to provide assistance to these groups in overcoming barriers to finding work. This assistance includes vocational training, work experience and job search assistance.

The programs' focus on long-term unemployed persons reflects strong evidence that long unemployment spells have both a de-skilling effect and impact on a person's motivation or ability to search for work. A review of the Breaking the Unemployment Cycle initiative found the Community Employment Programs outperformed similar Commonwealth programs in terms of the share of participants achieving ongoing employment.

Worker Assistance Program

The Worker Assistance Program is an early intervention program that provides assistance for workers made redundant through large-scale retrenchments to find alternative employment. Assistance includes training and skills development to meet local labour market needs, job preparation assistance, wage subsidies and relocation assistance. Nearly 4,000 people have been assisted since the program's inception in 1999, with over 70% of those assisted living in regional Queensland. The Program played an integral part in assisting Queenslanders affected by the collapse of Ansett, with 1,021 of the 1,550 people who were laid off receiving assistance in order to explore new job opportunities and avoid long-term unemployment.

This program is consistent with research that highlights the importance of supporting retrenched employees to re-skill and find new employment or entrepreneurial opportunities and to avoid serious losses of human capital. It also reflects evidence that nearly 40% of all entries into long-term unemployment result from retrenchment.

Public Sector Employment Program

This program provides apprenticeships and traineeships for youth and other disadvantaged job seekers in Government agencies, councils and other community organisations. The program reflects evidence that traineeships provide a successful path to ongoing employment in situations where a lack of experience is a significant obstacle to finding work. The recent Breaking the Unemployment Cycle review suggested such a program held particular value in regional communities, by providing local job opportunities and delivering vital services.

Community Training Partnerships

This program provides accredited training and skill development in areas such as literacy and numeracy, and support in accessing further training or job opportunities. It is aimed at people who would benefit from an informal and supportive learning environment that is often best offered in community-based settings. The program engages industries and communities to identify local skills and training requirements to develop training responses that address the skills needs of a diverse range of disadvantaged job seekers and communities.

The initiative plays a crucial role in increasing human capital and productive capacity in Queensland. By providing disadvantaged job seekers with opportunities to develop skills through on-the-job training, the initiative provides more Queenslanders the opportunity to make valuable contributions to society and share in the benefits of economic progress. The initiative's focus on long-term unemployment also reflects evidence that long spells of unemployment can have a de-skilling effect.

The Government is committing \$255 million in funding to extend the Breaking the Unemployment Cycle initiative through to 2006-07. The Breaking the Unemployment Cycle initiative's current target is to provide 56,000 apprenticeships, traineeships and job placement opportunities over the six years to June 2004. The initiative is on track to exceed this target, with almost 55,000 placements secured by April 2003.

POSITIONING QUEENSLAND'S ECONOMIC FUTURE

The Government faces many challenges and opportunities as it positions Queensland for the future. Evolving intergenerational issues, greater globalisation and a diverse industry structure mean more traditional approaches to fostering growth need to be complemented by forward-looking policies to ensure continued improvement in living standards and greater job opportunities for Queenslanders.

The State's changing demographics, as the population slowly ages over the first half of the century, present a particular challenge. In this context, the ETRF package for secondary schooling is an investment in the productive capacity of the current generation of Queensland youth who will form the basis of the workforce as the baby-boomer generation retires. This will help ensure sustainable growth in living standards during demographic change. Similarly, employment programs under the Breaking the Unemployment Cycle initiative aim to skill and educate people at risk of repeated or long unemployment spells, helping to boost the long-term potential for labour market participation and raise individual living standards.

Queensland has an opportunity to overcome traditional constraints associated with its geographical position and lower population density, with trade flows becoming increasingly complemented by knowledge flows in the modern, globalised, knowledge-based economy. Economies that will prosper in this environment are those that develop intellectual property as a source of wealth creation and, more importantly, are able to apply technologies developed elsewhere to bolster growth in domestic industries. The Government's commitment to fostering human capital, R&D and commercialisation as sources of innovative capacity will help Queensland capitalise on the many growth opportunities offered by the international economy.

An increasingly globalised economy also highlights the importance of a diversified domestic economy, with Queensland showing resilience in the face of recent external shocks such as the Asian crisis and geopolitical tension. Diverse natural resources have provided the State with a competitive advantage in traditional industries such as mining and agriculture, but also in emerging industries such as biotechnology. The State's Smart State Strategy aims to build on these advantages by investing in the productive capacity of people to continue to grow the economy. It aims to skill individuals so they have the best opportunity to advance growth prospects of traditional industries and to compete for and create jobs in new fields. It also aims to support the development and adoption of new technologies, such as ICT, in increasing productivity in established industries and fostering growth in emerging areas of technological opportunity.

By complementing sound economic fundamentals with a strong investment in the human capital and innovative capacity of its people, the State Government's economic strategy aims to provide continued growth in employment opportunities and to improve living standards for both current and future generations of Queenslanders.

4. BUDGET PRIORITIES

KEY POINTS

- **Key areas for service enhancements in the 2003-04 Budget include health services, a major increase in funding for disability services and increased investment to foster innovation.**
- **The health budget will increase by \$300 million or almost 7% on last year's budget including additional investment and service enhancements in acute hospital care, elective surgery, home and community care and mental health. Over the four years to 2006-07, the annual health budget will grow by over \$1 billion.**
- **An additional \$200 million in State funding over four years will enhance disability services, including \$35 million in 2003-04 to address service viability and sustainability and a range of new and enhanced support services. In addition, \$90.5 million is provided over four years for grant indexation, enterprise bargaining and other cost factors.**
- **A Smart State Strategy will be launched early in 2003-04 which will include a \$100 million four-year package of initiatives with areas of investment including medical and biodiscovery research, tropical marine science and clean coal technology.**
- **The Budget also provides for service developments and initiatives across a range of other portfolios consistent with the Government's five key policy priorities.**

INTRODUCTION

This chapter details:

- the Government's policy priorities which underpin the 2003-04 Budget
- service delivery highlights for each of the Government's five key policy priorities
- Queensland's financial management and governance framework.

GOVERNMENT POLICY PRIORITIES

As part of its commitment to developing Queensland the Smart State, and ensuring a better quality of life for all Queenslanders, the Government has a clear agenda targeting five key policy priorities. These priorities were developed in consultation with the community and underpin the continuing delivery of Government services and development of new initiatives.

Underlying these policy priorities for the community, the Government remains committed to high standards of accountability, leadership and innovation in delivering services to the community and managing available resources.

The priorities continue to provide focus for the development of the Government's Budget for 2003-04 across all portfolio areas. For each of the last three financial years, the Government has formally assessed the efficiency and effectiveness of its policies and activities in pursuing each of its key priorities. An assessment has been published, in accordance with the *Charter of Social and Fiscal Responsibility*, in the Government's *Priorities in Progress Report*. This ongoing monitoring of the Government's services and policies is an important element in guiding the Government in delivering ongoing services to the community and developing new policy initiatives.

Box 4.1 Government's Five Key Policy Priorities

More Jobs for Queensland –Skills and Innovation –the Smart State

The Government's Smart State strategy aims to diversify and strengthen the Queensland economy, to encourage research and innovation, and to maximise opportunities for Queenslanders to possess appropriate skills and knowledge. The Government recognises that access to learning significantly enhances employment opportunities and shared prosperity.

Safer and more supportive communities

The impact of crime and accidents on the community cannot be overstated. The Government makes it a priority to address crime against people and property, to reduce accidents, to protect children and to create a sense of safety within Queensland's communities.

Community engagement and a better quality of life

The Government is committed to strengthening its engagement with the community and working to ensure quality of opportunity and equitable access to high standards of health, housing, family services, transport, and support for people with a disability.

Valuing the environment

The State's natural resources and ecology are essential to its future. The Government will protect Queensland's natural and cultural heritage to ensure current and future generations enjoy a clean, liveable and healthy environment that supports sustainable development.

Building Queensland's regions

Queensland is the most decentralised state in mainland Australia. The Government will work with the regions to capitalise on their unique assets and resources to provide economic growth, regional infrastructure and improve the liveability of cities, towns, regions and remote communities.

SERVICE DELIVERY HIGHLIGHTS

This section provides a summary of key service delivery developments and initiatives provided for in the Budget to support the achievement of the Government's policy priorities. Although highlights of the Budget have been described in terms of their primary impact on the community, many will assist the Government in pursuing more than one key priority. More details on service delivery development and initiatives can be found in individual Ministerial Portfolio Statements.

More Jobs for Queensland - Skills and Innovation –the Smart State

The Government's Smart State strategy is about creating a stronger and diversified economy and industries with jobs for the new century. Queenslanders should be well educated and skilled to take up these jobs, now and in the future, as well as having the life and social skills that enrich Queensland's communities.

To contribute to this priority, this Budget provides for the following service developments and initiatives:

Economic Development, Capacity Building and Job Creation

- \$82.9 million in grants and subsidies in 2003-04 through the Breaking the Unemployment Cycle initiative which includes an additional \$3.8 million (\$19 million over four years) for the employment of 300 public sector apprentices in targeted skill shortage areas. The Breaking the Unemployment Cycle initiative will also be extended beyond 2003-04 to 2006-07 at a cost of \$85 million per annum.
- \$26 million over four years (\$6.9 million in 2003-04) to implement Making Queensland's Future – A Manufacturing Development Plan to expand the State's manufacturing base and improve international competitiveness, by combining new initiatives with a refocusing and enhancement of existing programs.
- \$8.7 million over three years (\$2.7 million for 2003-04) for Indigenous economic development by assisting to establish Indigenous businesses and promoting Indigenous art exports.
- Adopt new measures for the Smart State strategy, to enhance the innovative capacity of the Queensland economy. Shortly after the Budget, the Queensland Government will release a document, *Queensland –Smart State –Investing in Science, Research and Innovation* which will detail a package of \$100 million over four years for a range of initiatives in areas including medical and biodiscovery research, clean coal technology and tropical marine science.
- \$1.8 million over seven years to establish a Co-operative Research Centre for Sugar Industry Innovation through Biotechnology.

- Facilitate the development of world-class science and technology infrastructure through the second round of projects supported by the \$100 million Smart State Research Facilities Fund.
- An additional \$3.3 million in 2003-04 to develop options for implementing a new Queensland driver license. This will provide an opportunity to lead Australia in the introduction of the latest developments for driver licensing technology and potential to offer secure on-line transactions. The Government is investigating whether delivering the project through a Public Private Partnership will provide better value for money.
- \$10.8 million in 2003-04 to support continued operation of the Lexmark Indy 300 motor race on the Gold Coast.

Skilling Queenslanders

- The 2003-04 Budget continues initiatives that will make the Education and Training Reforms for the Future a reality. \$18 million over three years has been allocated to support the trial of a preparatory year of schooling in addition to the funding for the reform package of \$162 million over four years which includes a substantial investment in information and communication technologies (ICTs), and reforms to the senior phases of learning that lead to further education, training or work.

Highlights include:

- the extension of the trial of a preparatory year of schooling to better prepare children before they enter school so they can achieve more in their early years. These trials will be expanded in 2003-04 to an additional 25 schools including 20 State schools at a cost of \$6.8 million;
- \$35.6 million in funds through the Education and Training Reforms for the Future ICTs for Learning strategy which brings funding to a total of \$67 million for ICTs for 2003-04. These funds will improve ICT access and ICT skills for students and teachers.
- As part of this commitment the Government will provide an additional \$1 million over two years to fund improved ICTs for non-State schools as part of the Education and Training Reforms for the Future. This brings funding for ICTs for the non-State schooling sector to a total of \$4.7 million; and
- \$40.3 million for a three-year package to significantly improve outcomes for all students and support students at risk of leaving school early. The first tranche of \$7.3 million will fund a range of initiatives for youth support and local initiatives to improve opportunities in the senior phase of learning.

- In total, 636 additional teachers will be employed from Semester 1, 2004. These are comprised of:
 - 327 teachers as the final stage of the Government commitment to employ an additional 800 teachers over four years;
 - 249 teachers for enrolment growth; and
 - 60 teachers representing the second stage of the \$60 million initiative over four years to support students with disabilities.

This will bring the total number of additional teachers appointed since 1998 to around 3,000.

- \$7 million as the first tranche of \$45 million over three years for renewal projects in primary and secondary State schools to support improved educational services. This new program will build on the successful Secondary Schools Renewal and Building Better Schools programs.
- Continue airconditioning projects in 99 schools that were successful in round four of the Cooler Schools program at an estimated cost of \$16.7 million. These projects fulfill and exceed the Government's election commitment to the Cooler Schools program. In addition 50 non-State schools will be provided with a total of \$2.7 million in 2003-04 under the Government's Cooler Schools Program.
- \$149.7 million to construct three new schools, undertake staged work at 11 schools, acquire land for new schools and provide additional classrooms at existing schools in growth areas throughout the State for the commencement of the 2004 school year.
- \$63.2 million to replace and enhance facilities at existing schools, and to provide additional and replacement toilet facilities.
- \$2.3 million to continue planning and examine private sector investment in the development of the Southbank Education and Training Precinct which incorporates the Southbank campus of the Southbank Institute of TAFE.
- \$5.5 million to establish a new Arts and Environmental Tourism campus at Cooloola Sunshine Institute of TAFE at Noosa.

Safer and More Supportive Communities

Queenslanders live in safe communities by Australian standards. The Government wants all Queenslanders to live in communities where they are protected from harm, where the differences between people are respected, and where everyone is treated fairly and with dignity. Safety and security, including services to respond to incidents, are a critical priority for the Government.

A number of service developments and initiatives in the Budget contribute to this priority:

Criminal Justice and Crime Prevention

- The number of police officers will increase by approximately 300 in 2003-04 as the Service progresses towards the achievement of 9,100 officers by 2005.
- An additional \$30 million over two years commencing in 2003-04 to allow the Queensland Police Service to continue implementation of the Service's Information Management Strategic Plan 2001-10. The upgrade to existing Police IT systems includes incident recording systems and the roll-out of an Investigation Management System.
- An additional \$5.3 million over the next two years for the South East Queensland Drug Court trial.
- \$107.1 million in 2003-04 for the commencement of construction of a new courthouse in Caloundra, the continuation of construction of new courthouses in Brisbane, Richlands, and Thursday Island, and the upgrade and refurbishment of courthouses at Hervey Bay, Mackay and Cooktown.
- \$1.7 million per annum to continue the expanded urinalysis drug testing regime in community supervision across the State.
- \$8.2 million in 2003-04 for the finalisation of contracts and minor works at the new correctional centre at Maryborough. The total cost of this facility is \$97 million.
- \$1 million in 2003-04 for the continuation of the trial of the Queensland Aboriginal and Torres Strait Islander Police initiative in the Woorabinda, Badu Island and Yarrabah communities.
- Additional \$0.9 million per annum commencing in 2003-04 for the establishment of a DNA Sample Management Unit and to allow for the sharing of DNA information with the Commonwealth and other jurisdictions through the national DNA database.
- \$4.5 million per annum to continue community supervision programs including activities such as advisory services to courts and boards and the facilitation of offender intervention programs throughout the State.
- \$3.9 million in 2003-04 to build a modern, purpose-built accommodation facility at the Cleveland Youth Detention Centre.

Personal and Public Safety

- \$32 million in 2003-04 as part of last Budget's \$188 million four year initiatives package aimed at achieving better outcomes for children, young people and families, including strengthening the child protection system.
- Additional funding of \$16.1 million in 2003-04 to implement the Road Safety Initiatives Package through activities of Queensland Transport, Queensland Police Service and Department of Justice and Attorney-General. Funding will cover administration and operational costs, speed camera capital items and road safety, policy and legislation reviews.
- An additional \$6.3 million to the Queensland Ambulance Service (QAS) to cater for increased demand. Funding includes an additional \$2.7 million towards employment of 110 extra officers and \$3.6 million for buildings and equipment.
- Capital investments by the QAS in 2003-04 of \$27.1 million, which includes the commencement or completion of 17 replacement ambulance stations and four new stations and \$9.9 million for replacement ambulances.
- Capital investments by the Queensland Fire and Rescue Service in 2003-04 of \$37.5 million, which includes \$10.4 million for replacement of seven stations and upgrade of a further nine stations or facilities. The Service will invest \$1.9 million for land purchases for future stations, \$14 million in new or replacement urban vehicles as part of its fleet replacement program to meet enhanced service delivery requirements, and \$3.8 million investment in 74 rural vehicles.
- \$1.7 million in 2003-04 of the \$39.5 million project for works to improve public safety on the Citytrain network throughout South East Queensland.
- \$3 million under the SchoolBUS program to assist with the purchase of rollover compliant school buses less than five years old in non-urban areas of the State.

Community Engagement and a Better Quality of Life

The Government aims to deliver services that enable people to maintain and improve the quality of their lives. The Government wants all Queenslanders to take part in the rich cultural, social and economic life of the State.

The Government places a high priority on improving health service delivery to the community.

The 2003-04 Budget also places a high priority on more effectively responding to the needs of Queenslanders with a disability, their families, carers, advocates and service providers.

Service developments and initiatives provided for in the 2003-04 Budget to contribute to this priority include:

Health

- Increased State funding of \$7.5 million to bring total funding in 2003-04 for the Home and Community Care program to approximately \$224 million. This funding will increase the capacity of non-government organisations to provide services such as domestic assistance, respite care, transport assistance and community based nursing. An additional \$1.2 million will also be provided to assist non-government organisations to meet increasing costs of service delivery.
- An \$8 million (\$2 million in 2003-04) investment in additional medical inpatient services at the Logan and Caboolture hospitals to relieve pressure on accident and emergency departments. This funding is in addition to a further \$1 million provided to the Logan Hospital in 2003-04 for the full-year effect of enhanced medical services.
- An additional \$10 million for the continuation of the Elective Surgery Enhancement Initiative in Queensland's public hospital system. With the funding allocation in 2003-04, Queensland Health will have spent an additional \$30 million since 2001-02 targeting waiting times for elective surgery.
- \$40 million in increased funding to manage demand pressures for oncology and cancer care services (\$13.2 million), hospital inpatient and home care renal dialysis services (\$13.1 million), intensive care services (\$6.2 million), cardiac services (\$3.2 million), emergency services (\$2.2 million) and patient transport assistance (\$3.6 million).
- \$5 million to manage the increasing demand for dental care including improved access and better management of waiting lists.
- Increased funding of \$8.4 million for mental health services including funding for 40 additional community mental health staff and adult acute services at the Princess Alexandra, Nambour and The Prince Charles Hospitals, and psycho-geriatric inpatient services at the Townsville Hospital.
- \$3 million to manage the increasing costs of a sufficient and safe supply of quality blood and blood products.
- \$29 million for the redevelopment of State Government Residential Aged Care facilities with planning, design and construction continuing in 2003-04.
- \$26.7 million for hospital redevelopment at the Ayr, Gympie, Herston (Education Centre and demolitions) and Gold Coast (mental health) hospitals in 2003-04.
- \$7.3 million in 2003-04 for the Queensland Health Skills Development Centre at the Herston Campus to provide skills enhancement opportunities for clinical, technical and procedural staff.
- \$29.8 million to commence the roll-out of replacement clinical and patient administration systems. In addition, \$2 million has been allocated recurrently to the pilot of Queensland HealthLinks, an information management project to replace the current patient information management system, which will provide a clinical information system and promote patient focused, integrated care.

Community Support

- An additional \$200 million to Disability Services Queensland over four years to implement Funding Reform Project initiatives. Of this, \$35 million is allocated in 2003-04 including:
 - \$13.5 million (\$79 million over four years) to enhance the viability and sustainability of service provision to people with a disability, their family and carers;
 - \$4.5 million (\$30.5 million over four years) for Support for Young Adults;
 - \$5.5 million (\$32 million over four years) for Urgent and Unavoidable Care for Adults;
 - \$7.5 million (\$39 million over four years) to enhance support for children and families; and
 - \$3 million (\$15.5 million over four years) for community enhancement initiatives and Local Area Coordination.
- An additional \$90.5 million over the next four years to cover expenditure, including indexation of existing grants to non-Government organisations, depreciation, capital grants to service providers and the delivery of disability services by the State.
- \$8 million over two years to allow Disability Services Queensland to develop and establish a disability information system.
- \$12.5 million capital investment in 2003-04 to enhance disability services delivered within the government and non-government sectors. This is part of the Government's 2001-02 Budget commitment of \$20 million capital funding over three years for initiatives, including innovative accommodation options for people with high support needs and new respite and family support services.
- \$15.5 million for homelessness initiatives including the provision of an additional 60 dwellings for transitional housing to provide improved options for homeless people in crisis.
- \$48.9 million in capital grants to 34 discrete Aboriginal and Torres Strait Islander Community Councils for constructing new houses and upgrading existing dwellings.
- \$171.5 million for public rental housing allowing for the commencement of 300 dwellings, the completion of 239 dwellings and upgrades to existing dwellings.
- \$12.5 million in funding and property to the Brisbane Housing Company for the second year of the commitment by the Queensland Government which will total \$50 million over four years.
- Redevelopment of the \$15.7 million Cultural Centre busway station has commenced with \$12 million to be expended on construction during 2003-04. The redevelopment is expected to be completed during 2003-04.

- Construction of the Inner Northern Busway between Gilchrist Avenue and Roma Street will continue with \$42 million to be expended during 2003-04. This stage is expected to be completed by December 2003 with a total project cost of \$135 million.
- The Transit Development project was approved in the 2001-02 Budget to progress to the introduction of an integrated ticketing system in South East Queensland. This initiative will encompass standardised public transport fares, zones and concessions. It will also include a new contracting regime with transport operators in South East Queensland. Funding of \$21.4 million is provided in 2003-04 for capital expenditure to develop systems associated with the introduction of a smartcard ticketing, due for implementation in 2004.
- \$10.9 million in 2003-04 to improve access to trains and train stations for people with a disability across the Citytrain network in South East Queensland and the Traveltrain long distance train network.
- \$1.5 million in capital funding in 2003-04 to upgrade the neighbourhood centres and community facilities at a number of regional locations in a three year program totalling \$5.3 million.

Sense of Community and Fairness

- \$92.6 million for ongoing capital works for the Millennium Arts Project including \$3.8 million for the Musgrave Park Indigenous Cultural Centre.
- \$9.8 million recurrent funding for the Millennium Arts Project towards new jobs, systems and equipment in preparation for the opening of new facilities, including:
 - \$4.8 million for the Queensland Gallery of Modern Art; and
 - \$0.88 million for the Queensland Theatre Company, the Queensland Museum, and regional initiatives.
- An additional \$2.1 million over four years for Queensland arts and cultural organisations towards the provision of essential infrastructure and operating funding and the extension of successful Arts Queensland programs.
- An additional \$1.1 million over four years to the Queensland Orchestra, the Queensland Opera, the Queensland Theatre Company and the Queensland Ballet as part of the Major Performing Arts Company funding agreements with the Commonwealth Government aimed at ensuring the long term financial viability of these organisations.
- \$4 million to the State Library of Queensland over four years towards the continued acquisition of new book stock.
- Additional funding of \$1.9 million in 2003-04 to the Queensland Museum for operational support for the Workshops Rail Museum, Ipswich.

- \$1.7 million to the State Library of Queensland, over three years, to continue the Online Public Access in Libraries program. This program will extend access to online databases and services as well as increasing the digitisation of unique local pictures from regional and remote Queensland communities.
- Following a positive result from consultation with potential claimants, in November 2002 the Government decided to proceed with its May 2002 Offer of Reparation to Aboriginal and Torres Strait Islander Queenslanders whose wages and savings were controlled from the 1890s to the 1980s under the Protection Acts. The Government offer is a total of up to \$55.4 million (\$18 million in 2003-04) for individual reparation payments to people assessed as eligible.
- \$3.1 million in 2003-04 as part of an ongoing funding initiative in the 2002-03 Budget to continue the implementation of Meeting Challenges, Making Choices, the Government's response to the Cape York Justice Study. Over a three-year period, government-community partnerships will be established to address priority areas for Aboriginal and Torres Strait islander communities, including alcohol and substance abuse, local crime and justice, and community governance.

Valuing the Environment

Sustainable use of Queensland's natural resources, including maintenance of its natural biodiversity, is critical to Queensland's social, economic and environmental objectives. Queensland's strong population growth and diverse economic development continue to place pressure on the State's natural environment. The Government is committed to ensuring the State's air, water and land quality provides a clean, liveable and healthy environment for Queenslanders.

Service developments and initiatives in the 2003-04 Budget build on recent strategies, policies and reforms to address environmental priorities including:

- An additional \$75 million in State funding over five years as part of the recently announced \$150 million Commonwealth-State tree clearing reduction package. The proposed package includes \$130 million in financial incentives to assist landholders with the transition, or for exit assistance if necessary, \$12 million in incentives to improve the management of more valuable remnant vegetation, and \$8 million to develop best practice for farm management plans.
- An additional \$8 million over four years (\$2 million in 2003-04) to support the assessment, monitoring and enforcement of existing legislation concerning vegetation, water, land and pests.
- Additional \$1.8 million in 2003-04 for the Great Artesian Basin Sustainability Initiative. This will enable further bore capping, bore rehabilitation and bore drain replacement projects to contribute to enhanced environmental outcomes and improved water infrastructure management practices.

- An additional \$3.5 million over four years (\$0.5 million in 2003-04) to resource the introduction and implementation of new cultural heritage legislation which seeks to provide effective recognition and protection of Aboriginal and Torres Strait Islander cultural heritage and establish practical and workable processes for managing cultural heritage impacts.
- \$11 million in 2003-04 as part of the State's total funding of \$81 million over seven years for the National Action Plan for Salinity and Water Quality which includes the Salinity Work Plan, the Water Quality Work Plan, the Community Capacity Building Activities, and statewide social and economic activities.
- An additional \$15.9 million over four years (\$3.9 million for 2003-04) towards the Statewide Forests Process, including funding for regional assessments, industry restructuring and stakeholder engagement.
- \$19 million in 2003-04 for research and development, targeting the sustainable productivity of primary industries.
- \$0.5 million for the investigation of the tenure change process in association with the expansion of the conservation estate from forest estate.
- \$0.5 million to provide a high standard of facilities in national parks on Cape York to enhance visitation growth.
- \$3.2 million in 2003-04 for the continued development of Great Walks of Queensland projects in the Mackay Highlands, the Sunshine Coast and Gold Coast Hinterlands, Fraser Island, the Whitsunday region and the Misty Mountains (Wet Tropics) areas, as part of a five year \$10 million plan.
- \$1.3 million for the continuing acquisition of parcels of land for the State's protected estate.

Building Queensland's Regions

More than one-third of all Queenslanders live in regional areas of the State. The Government is committed to supporting Queensland's regions, capitalising on their unique assets and resources. The Budget maintains the Government's commitment to building Queensland's regions, involving the growth of regional economies, regional infrastructure and improving the livability of cities, towns, regions and remote communities.

Service developments and initiatives supporting this priority in the Budget include:

Regional Economies and Infrastructure

- An additional \$30 million over four years for sugar industry initiatives, subject to the Commonwealth Government's continued commitment to the Memorandum of Understanding on the sugar industry. The State's package includes a \$10 million Sugar Industry Innovation Fund, a \$10 million Sugar Industry Change Management Program and a \$10 million Farm Consolidation Loan Program. The Commonwealth Government's component of \$120 million will be funded from the sugar levy.
- \$25 million in 2003-04 for drought assistance activities including resourcing and administering the Drought Relief Assistance Scheme, Exceptional Circumstances Assistance and activities including farm financial counselling, drought management and recovery workshops, climate modelling and research into drought resistant plants.
- \$39 million in 2003-04 for the continued risk management of biosecurity threats including \$5.8 million for market assurance services, \$10.2 million for animal and plant health risk analysis and surveillance, and \$23 million for biosecurity responses.
- \$30.1 million over six years (\$5.1 million in 2003-04) on a new Future Directions Strategy for hardwood plantations and forest management services, including investment to expand the hardwood plantation estate on private and state-owned land in South East Queensland by a further 5,000 hectares.
- \$49.8 million for the Rockhampton – Townsville – Cairns Track Upgrade project to renew life-expired track to enable freight trains to run more efficiently between Rockhampton, Townsville and Cairns. The works include resleepering, flood proofing, curve easing earthworks, formation and drainage.
- \$2.4 million for the Cairns Tilt Train project in 2003-04 to finalise the \$138 million project to build two diesel tilt trains that will operate between Cairns and Brisbane. The new trains are expected to come into service in June 2003, further reducing travelling time by rail between the two cities.
- \$94 million for the upgrading and acquisition of new coal and freight rolling stock including \$30 million for the acquisition of 11 x 4000 Class Diesel Electric Locomotives to be built in Maryborough. The current program is for the first locomotive to be commissioned mid-2004 and the final locomotive commissioned mid-2005.

- \$30 million towards widening the Bruce Highway to six lanes between Dohles Rocks Road and Boundary Road.
- \$26.9 million to continue construction of the Douglas Arterial in Townsville between University Road and Upper Ross River Road.
- \$25 million towards planning and construction of the four lane Tugun Bypass on the Pacific Motorway.
- \$13.7 million to complete the duplication of the Gatton Bypass on the Warrego Highway.
- \$14.5 million to complete the Kawana Arterial on the Nicklin Way, Sunshine Motorway.
- \$9 million to construct the South Johnstone bridge and approaches on the Innisfail–Japoon Road.
- \$60.5 million in 2003-04 for Burnett Water Infrastructure Development, including the Burnett River Dam, and the Eidsvold, Barlil and Jones (stage 2) Weir developments, to underpin substantial regional development in the Wide Bay-Burnett region.
- \$60.8 million in 2003-04 for common user infrastructure in Gladstone to facilitate major industrial developments, including the Comalco Alumina Refinery.
- \$64.4 million in 2003-04 for the completion of the Gold Coast Convention and Exhibition Centre.

Regional Liveability

- \$50 million over four years (2003-04 to 2006-07) to extend the Regional Centres Program to assist local governments with populations of more than 15,000 on a wide range of infrastructure and community facilities.
- Capital grants of \$14.5 million for water supply and sewerage upgrades and the Torres Strait Major Infrastructure Program. This includes \$3 million in 2003-04 as part of a \$12 million four-year commitment in the 2002-03 Budget to improve environmental health-related infrastructure in Indigenous communities.
- \$1.8 million for construction and enhancements to council chambers at Doomadgee, Lockhart River, Mapoon, New Mapoon and Woorabinda.
- \$2 million for regional capital projects as part of the ongoing Regional Millennium Arts program, including a number of Indigenous projects.

FINANCIAL MANAGEMENT AND GOVERNANCE

Overview

High standards of financial management and governance are critical to the Government's pursuit of its social and fiscal objectives. The Government's financial regulatory and administrative framework supports the development and management of its budget and ensures accountability to the community. The foundation of financial management and accountability across the Queensland Government is the *Financial Administration and Audit Act 1977*. This Act in turn gives effect to the Government's *Charter of Social and Fiscal Responsibility* and the *Financial Management Standard 1997*.

The *Charter of Social and Fiscal Responsibility* outlines the broad objectives and priorities of the Government. This includes the Government's priorities for the community in delivering its services, as well as the Government's fiscal objectives. The Charter also outlines the requirements of the Government in outlining its progress and achievements against its priorities for the community outlined in the Charter.

The alignment of the Government's desired outcomes for the community, including relevant indicators, and its key priorities is shown in Box 4.2 below. The Government directs service delivery and other policies towards these priorities. *Ministerial Portfolio Statements* prepared as part of Budget documents illustrate how Department outputs, and more specific activities, contribute to these priorities of the 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 Queensland Government and its agencies. This legislation ensures that all Government departments and statutory bodies operate within the boundaries of sound corporate governance and transparent accountability to Parliament and the wider community. Key requirements of the Government and its agencies include full compliance with relevant provisions of Australian Accounting Standards, comprehensive planning and management of organisational resources and services, and in-depth review of activities and reporting of all Government entities by the Queensland Auditor-General.

The *Charter of Social and Fiscal Responsibility* and the current financial management legislation reflect the financial management and accountability reforms implemented across the Queensland Government under the Managing for Outcomes framework. Building on that framework, a number of other major initiatives have commenced to ensure that the Government's policy decisions and agency activities continue to better focus on social, economic and environmental outcomes for Queensland.

Box 4.2 Alignment of the Government's Outcomes for the Community and Key Policy Priorities	
Priority - More Jobs for Queensland –Skills and Innovation –t he Smart State	
<i>Outcomes</i> <ul style="list-style-type: none"> • A community of well skilled and knowledgeable people • A strong, diversified economy 	<i>Indicators of Success</i> <ul style="list-style-type: none"> • Educational status of the community • Life skills, social skills and knowledge • Economic performance • Capacity building • Business diversity
Priority - Safer and more supportive communities	
<i>Outcomes</i> <ul style="list-style-type: none"> • Safe and secure communities 	<i>Indicators of Success</i> <ul style="list-style-type: none"> • Safety and security
Priority - Community engagement and a better quality of life	
<i>Outcomes</i> <ul style="list-style-type: none"> • Healthy, active individuals and community • A fair, socially cohesive and culturally vibrant society • Improved standard of living for all Queenslanders 	<i>Indicators of Success</i> <ul style="list-style-type: none"> • Longevity • Health status • Sense of community • Community support • Fairness • Household income • Unemployment
Priority - Valuing the environment	
<i>Outcomes</i> <ul style="list-style-type: none"> • A clean, liveable and healthy environment • Maintenance of the natural resource base 	<i>Indicators of Success</i> <ul style="list-style-type: none"> • Air, water and land quality • Noise levels • Sustainable use of natural resources • Maintenance of biodiversity
Priority –Building Queensland's Regions	
<p>The Government is committed to ensuring that Queensland's regional communities enjoy a level of community amenity appropriately equitable to that achieved for the State capital for each of the above indicators and that Queensland can capitalise on its unique regional assets and resources.</p>	

Managing For Outcomes

The Managing for Outcomes (MFO) framework is the Government's financial planning and management model to ensure that allocation of the Government's resources is efficiently and effectively aligned with the Government's priorities for the community. Based on the implementation of output-based accrual budgeting and management across the general government sector of the State Government, the framework integrates planning, budgeting, performance management, and external reporting.

The MFO framework emphasises the importance of a focused effort across the Queensland Government towards setting and achieving the Government's priorities and ensuring resources are being best directed to areas of greatest need and benefit. In doing so, MFO encourages accountability for results, rather than the more traditional reliance on compliance, and a more active and integrated approach to managing service delivery and financial performance.

Aligning Services and Priorities

The Aligning Services and Priorities (ASAP) program commenced in 2001 and has continued throughout 2002-03. ASAP was established by the Government to review its operations and ensure that services provided by agencies are aligned with the priorities the Government seeks to achieve for the community.

The objectives of ASAP are to:

- align the corporate objectives and directions of departments with the strategic outcomes sought by Government
- identify opportunities to realign activities and resources to achieve the Government's outcomes and to improve efficiency
- review departments' current and planned activities that involve cross-agency responsibility to ensure Government outcomes are effectively achieved.

The overriding aim of this process is to ensure that Queensland Government service delivery continues to provide value and meet the needs of the community, and to provide greater flexibility in the allocation of resources to meet emerging priorities.

The ASAP program consists of a number of agency specific and cross-agency reviews, as well as whole-of-Government reviews including strategic information management and corporate services.

Agency specific reviews are being pursued by most agencies to meet the ASAP objectives listed above. Cross agency reviews are being progressed across agencies to provide better alignment of agencies' activities where a number of agencies contribute to individual outcomes. Activity relating to existing agency specific and cross-agency reviews, and the identification of additional work as required, will continue throughout 2003-04.

The whole-of-Government review of corporate services has progressed to implementation to become the Shared Service Initiative.

Shared Service Initiative

The Shared Service Initiative is a whole-of-Government approach to corporate services delivery. The vision is to provide high-quality and cost-effective corporate support services to agency customers from centres of excellence. The shared service approach standardises business processes, consolidates technology and pools resources and expertise to deliver seamless, cost-effective and client-focussed service. This initiative is expected to yield savings of over \$100 million per annum once fully implemented. These savings will be allocated by the Government to key priority service delivery activities.

The initiative will be achieved through consolidating corporate services functions across Government into five large-scale and two smaller-scale shared service providers and a technology centre of skill. These providers will be hosted by existing Government departments and provide services to a cluster of client agencies.

Initial establishment of the shared service providers will occur on 1 July 2003. Many corporate services professionals in agencies who provide corporate services functions including finance, human resources (including payroll), and corporate systems support, will transition to the agency's shared service provider or technology centre of skill on this date. In addition, applicable assets and liabilities associated with the delivery of corporate services will be transferred to the new providers.

The details of the resources to be transferred are currently being finalised. As a consequence, the 2003-04 Budget documentation including the Ministerial Portfolio Statements reflects the resourcing arrangements in place prior to the implementation of the Shared Service Initiative.

Priorities in Progress

A critical part of government accountability is the requirement to publish regular, informative reports on the outcomes of the Government's activities against previously announced priorities. The *Charter of Social and Fiscal Responsibility* establishes a framework for assessing the Government's overall performance in achieving progress towards its priorities, and ensures that performance is not assessed purely against economic and financial criteria, but that the social and environmental consequences are considered as well.

As a result, the Government has released the *Priorities in Progress* report to inform the community about the efficiency and effectiveness of its activities in delivering its priorities and community outcomes.

The third *Priorities in Progress* report, released in December 2002, informs the community about the impact of the Government's policies and initiatives in the 2001-02 financial year. The report highlights areas where Queensland is performing well, and identifies opportunities for improvement.

The *Priorities in Progress Report 2002-03* may be viewed online at www.treasury.qld.gov.au around December 2003.

5. REVENUE

KEY POINTS

- **Total General Government sector revenue is expected to increase by \$1.469 billion (or 7.4%) over the estimated actual for 2002-03, to \$21.382 billion in 2003-04.**
- **The previously announced Community Ambulance Cover, to commence from 2003-04, will replace the current ambulance subscription scheme and ensure a secure funding base for the Queensland Ambulance Service.**
- **From 2003-04, the land tax statutory deduction for residents will be increased from \$200,000 to \$220,000. The exemption threshold for companies, trustees and absentees will be increased from \$150,000 to \$170,000. In addition, the minimum required payment for land tax will be increased from \$100 to \$350. As a result, there will be 6% fewer land tax payers in 2003-04 than in 2002-03.**
- **Per capita tax collections (on a GFS basis) are estimated at \$1,480 in 2003-04 compared to an estimated average of \$1,892 for the other states.**

INTRODUCTION

This chapter provides an overview of General Government sector revenue for the estimated actual outcome for 2002-03, forecasts for the 2003-04 Budget year and projections for 2004-05 to 2006-07.

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

Table 5.1
General Government Revenue¹

	2002-03 Budget \$ million	2002-03 Est. Actual \$ million	2003-04 Budget \$ million	2004-05 Projected \$ million	2005-06 Projected \$ million	2006-07 Projected \$ million
Revenue						
Taxation Revenue	4,909	5,511	5,664	5,951	6,117	6,454
Current Grants and Subsidies	9,477	10,071	10,389	10,847	11,417	11,958
Capital Grants	462	477	480	419	331	316
Sales of Goods and Services	1,814	1,880	1,914	1,918	1,958	2,002
Interest Income	1,116	(247)	1,038	1,109	1,174	1,238
Other	2,402	2,221	1,897	1,942	2,110	2,129
Total Revenue	20,181	19,913	21,382	22,186	23,107	24,097
Note: 1. Numbers may not add due to rounding.						

General Government revenue in 2002-03 is estimated to be \$268 million or 1.3% less than the 2002-03 Budget estimate. Significant variations include:

- interest income in 2002-03 down by \$1.363 billion, reflecting the poor performance of domestic and international equity markets which has impacted on the returns from the State's substantial employee entitlement investments
- taxation revenue exceeded the Budget estimate in 2002-03 by \$602 million, primarily due to higher revenue from duty on property transfer transactions resulting from significant growth within the housing and non-residential property sector
- grants from the Commonwealth Government were higher than budgeted, reflecting additional specific purpose payments and higher GST payments, following upward revisions in the Commonwealth Budget
- other revenue was lower than the Budget estimate, reflecting lower royalty payments due to an increase in the exchange rate, lower than expected coal production, and lower than expected prices for base metals, precious metals and coal.

In addition, revenue related to industry and community contributions has been reclassified from other revenue to current and capital grants since the 2002-03 Budget.

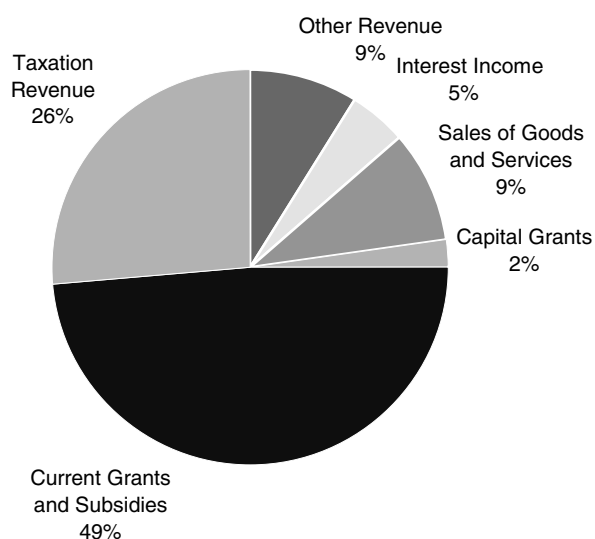
General Government revenue in 2003-04 is estimated to be \$21.382 billion, an increase of \$1.469 billion or 7.4% over the 2002-03 estimated actual of \$19.913 billion. This is largely due to:

- increased interest income, based on the return to the long term average earnings rate of 7.5% on investments
- moderate taxation revenue growth, despite a forecast reduction in duty revenues associated with an anticipated slowdown in property market activity
- moderate growth in grants from the Commonwealth Government.

REVENUE BY OPERATING STATEMENT CATEGORY

A major source of General Government revenue is Current Grants and Subsidies (49% of revenue). State Taxation Revenue comprises a further 26% of revenue. Chart 5.1 illustrates the composition of General Government revenue.

Chart 5.1
Revenue by Operating Statement Category 2003-04



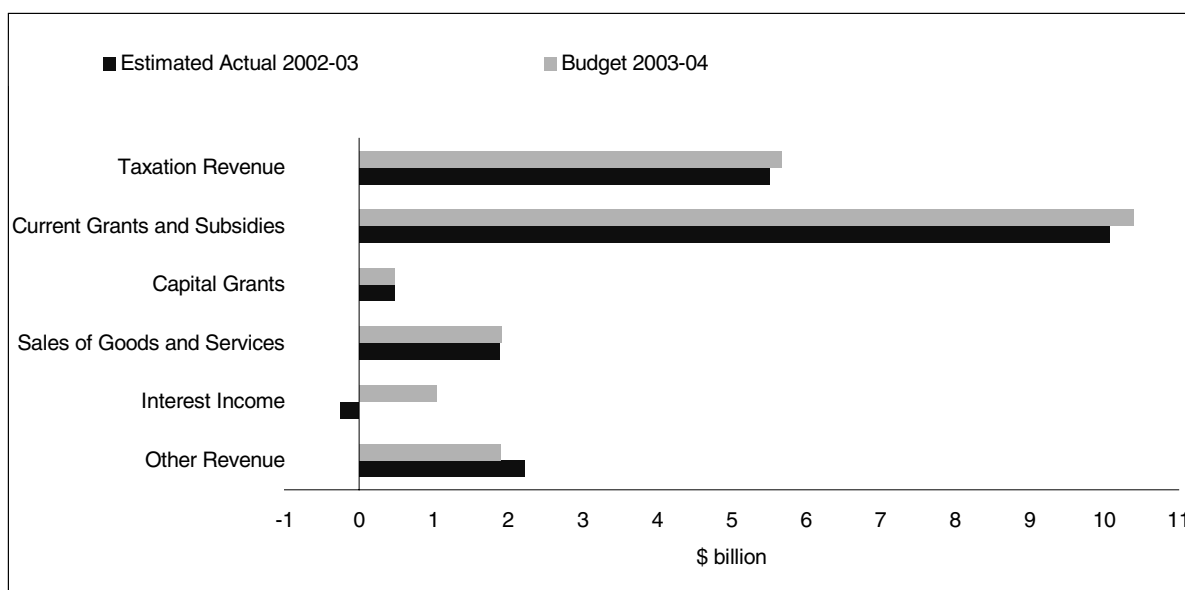
Note:

1. The major components of Other Revenue are dividends (3.0%), royalties (3.4%) and tax equivalent payments from public corporations (1.2%).

Chart 5.2 compares the composition of General Government revenue, based on 2002-03 estimated actuals and 2003-04 estimates.

Overall growth primarily reflects anticipated increases in interest income, together with modest growth in taxation revenue, and grants and subsidies.

Chart 5.2
Revenue by Operating Statement Category for 2002-03 and 2003-04



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 2.8% in 2003-04. Despite the impact of an anticipated slowdown in property market activity on transfer duties, strong economic and employment outcomes are expected to lead to solid growth across a range of other taxes in 2003-04.

Taxation can impact on business decisions regarding investment and employment. It is important therefore to maintain a tax system that minimises distortions to private sector economic activity and maximises equity. By maintaining competitive tax rates, Queensland provides a competitive advantage to business and a moderate tax burden for its citizens.

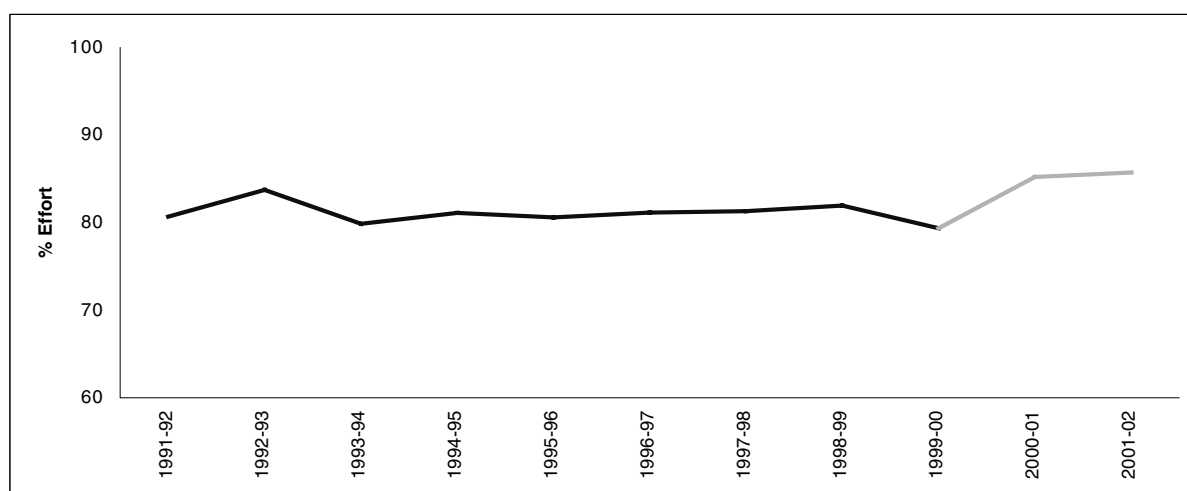
The maintenance of Queensland's competitive tax status is fundamental to the Government's commitment to job creation and economic development.

Although total taxation revenue is expected to increase due to factors such as economic and population growth, the State continues to maintain competitive tax levels in relation to other states. This reflects the Government's Charter commitment to ensure that state taxes and charges remain competitive with the other states.

Box 5.1 discusses a range of comparative measures of tax competitiveness, all of which indicate that the Queensland state tax system is amongst the most competitive in Australia.

Chart 5.3 shows that Queensland's taxation revenue raising effort, as assessed by the Commonwealth Grants Commission, has remained below the Australian policy standard (equal to 100%) for some time. The moderate increase in effort from 2000-01 primarily reflects the abolition of taxes in other states which Queensland did not collect (for example, financial institutions duty).

Chart 5.3
Taxation Revenue Raising Effort Ratios for Queensland



Note:

1. Financial Assistance Grant relativities are used to 1999-00, GST relativities from 2000-01.

Source: Commonwealth Grants Commission.

Box 5.1 Measuring Queensland's Tax Competitiveness

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 Commonwealth Grants Commission methodology
- taxation revenue expressed as a percentage of gross state product.

Queensland's competitive tax position is confirmed by all three measures, as shown in Table 5.2.

Table 5.2 Queensland's Tax Competitiveness									
	QLD	NSW	VIC	WA	SA	TAS	ACT	NT	Avg ⁴
Taxation per Capita ¹ (\$)	1,480	2,053	1,910	1,800	1,551	1,122	1,980	1,240	1,892
Taxation Effort ² (%)	85.7	100.7	107.8	97.5	110.7	92.8	97.6	96.5	n.a.
Taxation % of GSP ³ (%)	4.0	5.3	4.8	3.8	4.7	4.3	4.1	2.5	4.8
Notes: 1. 2003-04 data. Estimates are on a GFS basis. <i>Sources: State Budget Papers and Mid-Year Review papers for NSW, SA and NT.</i> 2. 2001-02 data. GST relativities are used to reflect states' post-tax reform revenue capacities. <i>Source: Commonwealth Grants Commission: 2003 Update.</i> 3. 2001-02 data. <i>Source: ABS 5506.0 and ABS 5220.0.</i> 4. Weighted average of other states, excluding Queensland.									

Taxation Revenue Per Capita

Per capita collections of state taxation, on a GFS basis, in Queensland in 2003-04 are estimated at \$1,480, compared with an estimated \$1,813 for the national average. The average tax burden of all the other states, excluding Queensland, is \$1,892, or 28% higher than Queensland's per capita taxation for 2003-04.

Per capita comparisons only provide a partial measure of tax competitiveness since low per capita taxation may reflect limited revenue capacity rather than a policy intent to maintain low rates of taxation. For this reason, measures which adjust for the varying capacities of states to raise revenue are more indicative of the underlying tax policy settings of states.

Commonwealth Grants Commission's Revenue Raising Effort Ratios

The Commonwealth Grants Commission's revenue raising effort ratios provide an impartial and independent assessment of relative state tax competitiveness by isolating policy impacts from revenue capacity impacts. Revenue raising effort ratios are calculated as the ratio of actual revenue to standardised revenue, where standardised revenue is determined by the application of national average tax rates to a state's assessed revenue base.

Queensland's taxation effort ratio of 85.7% in 2001-02 indicates the State's taxation effort was considerably less than the national policy standard. This confirms Queensland's taxation policies are competitive when compared with those of other states.

Taxation Revenue Relative to Gross State Product

A third way of comparing relative tax burdens is taxation revenue measured as a proportion of gross state product (GSP) – that is, as a proportion of the value of goods and services produced in the state. This measure broadly relates the tax burden to the economy's capacity to pay and thereby is an indicator of the tax impost on the economy. Table 5.2 compares taxation revenue as a percentage of GSP across all states for 2001-02 – the latest published ABS data. The analysis confirms Queensland's competitive tax status against the other states, with Queensland state taxation at 4.0% of GSP compared to the weighted average of the other states (excluding Queensland) of 4.8%.

Revenue from State taxes is summarised in Table 5.3.

Table 5.3 Taxation Revenue¹				
	2001-02 Actual \$ million	2002-03 Est. Actual \$ million	2003-04 Budget \$ million	Change Budget over Est. Actual %
Payroll Tax	1,202.0	1,287.0	1,363.5	6.0
Duties				
Transfer ²	1,055.8	1,370.0	1,220.0	(10.9)
Vehicle Registration ³	184.3	210.0	219.5	4.5
Insurance ⁴	238.0	286.8	299.3	4.4
Mortgages	143.8	180.0	158.0	(12.2)
Other Duties ⁵	106.0	96.3	99.7	3.6
Total Duties	1,727.9	2,143.1	1,996.6	(6.8)
Gambling Taxes and Levies⁶				
Gaming Machine Tax and Levies ⁷	322.2	373.3	404.2	8.3
Lotteries Taxes	159.6	171.0	177.8	4.0
Wagering Taxes	27.3	28.9	30.3	5.0
Casino Taxes and Levies	52.8	53.2	55.9	5.0
Keno Tax	6.8	11.4	12.0	5.0
Total Gambling Taxes and Levies	568.8	637.8	680.2	6.6
Other Taxes				
Land Tax	230.8	277.9	314.5	13.2
Debits Tax	199.8	190.0	185.0	(2.6)
Motor Vehicle Registration	595.5	645.0	676.6	4.9
Fire Levy	191.8	205.7	215.6	4.8
Community Ambulance Cover	n.a.	n.a.	105.0	n.a.
Guarantee Fees	57.9	66.0	74.1	12.2
Other Taxes	40.4	58.2	53.1	(8.6)
Total Taxation	4,814.8	5,510.6	5,664.2	2.8
Notes: 1. Numbers may not add due to rounding. 2. With the commencement of the <i>Duties Act 2001</i> , Conveyancing Duty has been renamed Transfer Duty. 3. With the commencement of the <i>Duties Act 2001</i> , Motor Vehicle Transfers Duty has been renamed Vehicle Registration Duty. 4. Includes accident insurance premiums (formerly referred to as workers compensation premiums). 5. Includes duty on leases, rental arrangements, credit business, marketable securities and life insurance premiums. 6. Includes community benefit levies. 7. Includes the Major Facilities Levy.				

Payroll Tax

Payroll tax collections are estimated to increase by 6.0% in 2003-04, reflecting growth in employment and wages.

The payroll tax rate has been reduced in recent years from 5% to its current level of 4.75%. Queensland's payroll tax rate is overall the lowest of any state. Further, an employer paying taxable wages of less than \$850,000 per annum is not liable for payroll tax. This threshold is one of the highest of any state.

Duties

Duties are levied on a range of financial and property transactions. Overall, total revenue from duties is forecast to decrease by 6.8% in 2003-04. This is largely driven by declining revenues from transfer and mortgage duty due to an anticipated moderation in housing and non-residential property transactions from very high levels of activity in 2002-03.

Vehicle registration duties and insurance duties are expected to achieve positive growth in 2003-04 in line with projections for activity within these sectors. Receipts from other duties are estimated to increase in line with market activity.

Gambling Taxes and Levies

A range of gambling activities are subject to state taxes and levies. Total gambling tax and levy collections are estimated to increase by 6.6% in 2003-04.

Land Tax

Land tax is estimated to grow by 13.2% in 2003-04 due to increases in land valuations across the State. The Government's application of three-year averaging – 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 – has mitigated the impact of these valuation increases on land tax payers. It is estimated that the revenue foregone as a result of three-year averaging was approximately \$33 million in 2002-03. Queensland is the only state to apply three-year averaging to land tax.

From 2003-04, the land tax statutory deduction for residents will be increased by \$20,000, from \$200,000 to \$220,000. The exemption threshold for companies, trustees and absentees will also be increased by \$20,000, from \$150,000 to \$170,000. In addition, the minimum required payment for land tax will be increased from \$100 to \$350.

The measures will increase the value of land holdings before residents become liable for land tax from \$221,665 to \$275,997. The deduction for the principal place of residence and the 15% land tax rebate will remain. The increase in the exemption threshold to \$170,000 for companies, trustees and absentees will be accompanied by the extension of the phasing-in rebate from its current expiry at \$215,000 to a new expiry of \$235,000.

The measures will reduce the number of resident taxpayers in 2003-04 by around 11,400 relative to the number of taxpayers in the absence of these changes. There will be approximately 3,050 fewer resident taxpayers in 2003-04 compared to 2002-03.

Further, all resident tax payers will receive a tax benefit from the increase in the statutory deduction.

The measures will also limit the increase in the number of company, trustee and absentee taxpayers to 450. Without the threshold increase, the number of company, trustee and absentee taxpayers would have grown by approximately 2,750.

In addition, another 4,660 companies, trustees and absentees will receive a tax benefit from the extension of the phasing-in rebate.

In total there will be a 6% decline in the number of land tax payers in 2003-04 compared to 2002-03. Tax paying companies, trustees and absentees with land holdings of less than \$235,000 and all resident land tax payers will benefit from the changes.

Debits Tax

Debits tax is levied on debits to accounts with a cheque drawing facility. Debits tax revenue is expected to decline by 2.6% in 2003-04. This decline reflects an increasing trend towards the use of non-cheque payment mechanisms.

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 contributors and CPI.

Community Ambulance Cover

The previously announced Community Ambulance Cover, to commence from 2003-04, will replace the current ambulance subscription scheme and ensure a secure funding base for the Queensland Ambulance Service.

Community Ambulance Cover will replace the voluntary Queensland Ambulance Service Subscription Scheme and transport charges for non-subscribers, reported under Sales of Goods and Services in 2002-03. It will be collected through a payment of \$22 per quarter on 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. Guarantee fee revenues are expected to grow moderately in 2003-04.

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
- 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.

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

GRANTS AND SUBSIDIES

Current grants and subsidies comprise revenues from the Commonwealth, grants from the community and industry, and other miscellaneous grants.

The moderate growth of 3.1% in 2003-04 largely reflects the expected growth in Commonwealth grants.

Table 5.4 Grants and Subsidies¹				
	2001-02 Actual \$ million	2002-03 Est. Actual \$ million	2003-04 Budget \$ million	Change Budget over Est. Actual %
Current Grants and Subsidies				
Commonwealth Grants	9,126.1	9,712.4	10,063.1	3.6
Other Grants and Contributions	394.3	358.1	326.1	(8.9)
Total Current Grants and Subsidies	9,520.4	10,070.5	10,389.2	3.2
Capital Grants and Subsidies				
Commonwealth Grants	511.7	456.7	456.8	0.0
Other Grants and Contributions	184.6	20.3	23.4	15.4
Total Capital Grants and Subsidies	696.3	477.1	480.2	0.7
Total Grants and Subsidies	10,216.7	10,547.6	10,869.4	3.1
Note: 1. Numbers may not add due to rounding.				

Commonwealth Payments

Commonwealth payments to Queensland in 2003-04 are expected to total \$10.52 billion, an increase of \$350.7 million or 3.4% over payments in 2002-03. Commonwealth payments to Queensland in 2003-04 will comprise:

- General purpose payments, which include GST revenue grants, Budget Balancing Assistance (BBA) and National Competition Policy (NCP) 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 Commonwealth and shared policy objectives.

Table 5.5
Commonwealth Payments¹

	2001-02 Actual \$ million	2002-03 Est. Actual \$ million	2003-04 Budget \$ million	Change Budget over Est. Actual %
General Purpose Payments				
GST Revenue Grants	5,018.6	5,880.8	6,193.4	5.3
Budget Balancing Assistance	524.4	37.9	0.0	(100.0)
National Competition Policy Payments ²	147.9	138.9	146.2	5.3
Total General Purpose Payments	5,690.9	6,057.6	6,339.6	4.7
Specific Purpose Payments³				
Health	1,543.7	1,681.3	1,722.9	2.5
Education	1,064.5	1,165.0	1,239.8	6.4
Local Government and Planning	258.5	274.6	285.5	4.0
Employment and Training	184.7	193.9	188.5	(2.8)
Housing	200.6	201.7	179.6	(11.0)
Treasury	155.4	73.4	67.9	(7.6)
Disability Services Queensland	97.3	102.8	106.1	3.2
Main Roads	255.3	222.8	255.9	14.9
Families	27.7	28.5	28.2	(0.9)
Other	159.1	167.5	105.8	(36.8)
Total Specific Purpose Payments	3,946.9	4,111.6	4,180.3	1.7
Total Commonwealth Payments	9,637.8	10,169.2	10,519.9	3.4
Notes: 1. Numbers may not add due to rounding. 2. The 2001-02 payment includes the reinstatement of \$12.9 million suspended from 2000-01 payments. 3. Specific Purpose Payments are shown below by relevant Queensland Government department.				

The estimates are generally consistent with estimates provided in the 2003-04 Commonwealth Budget. However, small differences between SPPs in this Chapter and Commonwealth Budget estimates can arise and generally reflect the outcome of agency to agency discussions and negotiating between the State and the Commonwealth. Chapter 8 provides more detailed background on Commonwealth-State financial arrangements.

General Purpose Payments

GST Revenue Grants

The GST revenue grant to Queensland in 2003-04 is expected to be \$6.193 billion which represents an increase of \$312.6 million since 2002-03.

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.

Budget Balancing Assistance

Under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA), the Commonwealth guaranteed that no state would be worse off as a result of national tax reform. The guaranteed minimum amount (GMA) has been used by Commonwealth and state governments as a benchmark for the funding each state would have received had national tax reform not been implemented.

To meet this guarantee, any shortfall between a state's GMA and its share of GST revenue is met by BBA funded by the Commonwealth.

Queensland is not expected to receive any BBA in 2003-04, since GST revenue grants are expected to exceed the GMA.

National Competition Policy Payments

The distribution of NCP payments is population based and payments depend on the states making satisfactory progress with the implementation of the specified reforms. NCP payments to Queensland are expected to be \$146.2 million in 2003-04.

Specific Purpose Payments

SPPs for Queensland in 2003-04 are estimated at \$4.180 billion, an increase of 1.7% from 2002-03. Table 5.5 provides the distribution of SPPs by Queensland Government department.

Health

Queensland receives funding for public hospital and other health services from the Commonwealth under the Australian Health Care Agreement (AHCA). The AHCA provides the majority of Queensland Health's revenue from the Commonwealth, and is adjusted each year for population growth and increases in costs and utilisation of hospitals. The 1998-2003 AHCA is due to expire on 30 June 2003.

States are currently negotiating the terms of the 2003-2008 AHCA with the Commonwealth. Based on the Commonwealth's offer received in April 2003, Queensland will receive AHCA payments of approximately \$1.4 billion in 2003-04, an increase of approximately 6% on 2002-03. The AHCA payments include \$51.3 million to cover mental health, palliative care and quality programs as well as the Commonwealth's Pathways Home Program. The Commonwealth's offer is contingent on the State meeting a number of conditions including matching funding and performance reporting requirements. States are continuing to negotiate the overall AHCA package including the various terms and conditions. Further discussion of the AHCA is contained in Chapter 8.

In 2003-04, Queensland Health will also receive an estimated \$262.4 million in recurrent and capital funding from the Commonwealth for a range of specific health programs. These include home and community care, public health and high-cost drugs. Queensland Health will also receive an estimated \$46.0 million for nursing home benefits.

Education

Commonwealth SPPs to the Department of Education comprise recurrent education grants for distribution to state and non-state schools and other organisations. A 6.8% increase in recurrent grants in 2003-04 reflects enrolment growth and commencement of new programs. Capital SPPs, received for capital expenditure on state schools and capital grants to non-state schools, will remain broadly in line with the 2002-03 estimated actuals.

Local Government and Planning

Commonwealth recurrent SPPs to the Department of Local Government and Planning are grants to Queensland Local Government Authorities (formerly grants to Local Authorities Trust Fund).

Employment and Training

In 2003-04, the Department of Employment and Training will receive \$188.5 million in SPP funding from the Commonwealth for a range of vocational education and training programs. This represents a decrease of 2.8% on 2002-03. The decrease in funding can be predominately attributed to cessation of funding for Industry Training Advisory Bodies, Access to Prevocational Training and Australian National Training Authority (ANTA) Strategy, and one-off payments for National Priority programs being received in 2002-03.

Housing

Whilst negotiations with the Commonwealth on the next Commonwealth-State Housing Agreement are still being finalised, the Budget estimate reflects the Commonwealth's funding offer which represents a decrease of 11% over estimated payments in 2002-03. This is principally due to the cessation of Commonwealth funding compensation for the impact of the GST on the costs of providing public housing assistance.

Treasury

Treasury receives payments from the Commonwealth for joint Commonwealth-State natural disaster relief measures, concessions for Pensioner Concession Card Holders and to compensate the State for foregone revenue on the establishment of the Australian Securities Commission. The extended First Home Owners Grant (FHOG) scheme for first homebuyers who contract to build or buy a newly built dwelling was also funded by a SPP from the Commonwealth. The fall in payments to Treasury is primarily due to the cessation of the scheme.

Disability Services Queensland

Commonwealth funding for Disability Services Queensland is estimated to increase by 3.2% in 2003-04. Negotiations are continuing between the states and the Commonwealth regarding funding arrangements to apply for disability services from 2002-03, following the expiry of the existing Commonwealth-State Disability Agreement at the end of 2001-02.

Main Roads

Funding is received from the Commonwealth for infrastructure and maintenance works on the National Highway System, Roads of National Importance and for Black Spot Road Safety projects. Funding is forecast to increase by 14.9% in 2003-04 primarily due to increases in Commonwealth funding for Roads of National Importance (an additional \$5.3 million), national highway maintenance (\$7 million) and capital work on national highways (\$43.7 million).

Families

The Department of Families is expected to receive SPPs of \$28.2 million in 2003-04 representing a small decrease from estimated payments in 2002-03. The payments from the Commonwealth relate to the Supported Accommodation Assistance Program. This program is a State-Commonwealth funded program which provides support to homeless men, women and young people as well as to women and children escaping from intolerable domestic circumstances.

Other

SPPs to other agencies are expected to decline in 2003-04 by \$62 million in 2003-04. A major component is a reduced grant to the Department of Natural Resources and Mines due to the wind down of the first phase of the Natural Heritage Trust (NHT). Discussions are continuing with the Commonwealth with regard to the second phase of the NHT.

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 Commonwealth 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
- revenues received from statutory authorities outside the General Government sector, where that money is used to meet Government policy objectives, for example, community service obligation payments.

Table 5.6				
Other Grants and Contributions				
	2001-02 Actual \$ million	2002-03 Est. Actual \$ million	2003-04 Budget \$ million	Change Budget over Est. Actual %
Other Grants and Contributions	578.9	378.4	349.5	(7.6)

Other Grants and Contributions revenue is expected to decrease by 7.6% in 2003-04. 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 1.8% in 2003-04.

Table 5.7 Sales of Goods and Services¹				
	2001-02 Actual \$ million	2002-03 Est. Actual \$ million	2003-04 Budget \$ million	Change Budget over Est. Actual %
Fee for Service Activities ²	999.9	963.4	964.7	0.1
Rent Revenue	236.4	235.9	245.8	4.2
Sale of Land Inventory	9.8	36.4	46.4	27.5
Hospital Fees	145.5	151.4	146.9	(3.0)
Transport and Traffic fees	130.6	147.0	155.2	5.6
Other Sales of Goods and Services	314.3	345.8	354.7	2.6
Total Sales of Goods and Services	1,836.5	1,879.8	1,913.7	1.8
Note: 1. Numbers may not add due to rounding. 2. Formerly Sales of Goods and Services in Budget Paper No.3 2002-03.				

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
- water charges for rural and industrial users
- fees charged by CITEC for information and telecommunications services to the private sector.

From 1 July 2003 ambulance subscription fees and user charges have been replaced by Community Ambulance Cover (discussed in the section on Taxation Revenue). As a result, a negligible increase in fee for service revenue is forecast for 2003-04.

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 Department of State Development's Property Services Group. As such, it is distinct from property disposals undertaken by most Government agencies.

Hospital Fees

Hospital fees are collected by public hospitals for chargeable bed days. In 2003-04, hospital fee revenue is expected to decrease by 3% on 2002-03 collections. This reduction is largely due to a decrease in private patient revenue and third party payments.

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

Revenues from other sales of goods and services are expected to increase by 2.6% in 2003-04.

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.

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 5.8 Interest Income				
	2001-02 Actual \$ million	2002-03 Est. Actual \$ million	2003-04 Budget \$ million	Change Budget over Est. Actual %
Interest Income ¹	(463.7)	(247.4)	1,037.6	n.a.
Note: 1. Formerly Investment Earnings in Budget Paper No.3 2002-03.				

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. The State's investment portfolio includes a diversified holding of equities, property and fixed interest.

The poor performance of domestic and international equity markets adversely impacted interest income in 2002-03.

Interest income in 2003-04 is based on the assumed long term average earnings rate of 7.5% on investments.

OTHER REVENUE

Other Revenue comprises dividends, tax equivalent payments, royalties, fines and forfeitures, and other sundry revenues. Other Revenue is expected to decrease in 2003-04, largely due to an expected decrease in dividends.

Table 5.9 Other Revenue¹				
	2001-02 Actual \$ million	2002-03 Est. Actual \$ million	2003-04 Budget \$ million	Change Budget over Est. Actual %
Dividends	983.1	867.3	631.7	(27.2)
Tax Equivalents	303.8	251.2	260.9	3.9
Royalties	769.2	730.5	725.8	(0.7)
Fines and forfeitures	133.1	140.4	152.4	8.6
Revenue nec	263.9	231.5	126.7	(45.3)
Total Other Revenue	2,453.0	2,220.8	1,897.4	(14.6)
Note: 1. Numbers may not add due to rounding.				

Dividends

Dividends are received from the State's equity in Public Non-financial Corporations (PNFCs) and Public Financial Corporations. These include, for example, the Queensland Electricity Supply Industry, Queensland Investment Corporation, Port Authorities, Queensland Rail and Golden Casket.

Table 5.10 Dividends¹				
	2001-02 Actual \$ million	2002-03 Est. Actual \$ million	2003-04 Budget \$ million	Change Budget over Est. Actual %
Electricity Sector ²	663.9	537.0	414.7	(22.8)
Transport Sector (Rail and Ports)	228.4	184.2 ³	183.0	(0.7)
Other ⁴	90.8	146.1	34.0	(76.7)
Total Dividends	983.1	867.3	631.7	(27.2)
Notes: 1. Numbers may not add due to rounding. 2. Includes the following special dividends: 2001-02 Actual - \$150 million from Energex; 2002-03 Est. Actual - \$30 million from Energex and \$20 million from Ergon; 2003-04 Budget - \$30 million from Energex and \$20 million from Ergon. 3. Includes \$25 million special dividend related to the lease of Dalrymple Bay Coal Terminal. 4. Includes Forestry, Golden Casket Corporation, Queensland Treasury Corporation and Queensland Investment Corporation. 2001-02 Actual also includes \$26 million related to the Goodwill Games. 2002-03 Estimated Actual also includes \$74 million dividend from the sale of Brisbane Market Corporation.				

Dividends are forecast to decline by 27.2% to \$631.7 million in 2003-04. This primarily reflects a one-off dividend payment from the Brisbane Market Corporation following its sale, and reduced dividends from the electricity sector due to forecast lower electricity pool prices.

The dividend payout ratio set by the Government for its public enterprises 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.

In total, dividends account for less than 3% of total General Government revenue in 2003-04.

Tax Equivalent Payments

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

Table 5.11 Tax Equivalent Payments¹				
	2001-02 Actual \$ million	2002-03 Est. Actual \$ million	2003-04 Budget \$ million	Change Budget over Est. Actual %
Electricity Sector	217.1	209.3	148.6	(29.0)
Transport Sector (Rail and Ports)	106.0	65.9	81.1	23.1
Other ²	(19.3)	(24.0)	31.2	n.a.
Total Tax Equivalent Payments	303.8	251.2	260.9	3.9
Note: 1. Numbers may not add due to rounding. 2. Negative payments in 2001-02 and 2002-03 primarily reflect the impact of poor investment returns on WorkCover tax equivalent payments in those years.				

Tax equivalent payments are expected to increase by 3.9% in 2003-04.

Net Revenue from Public Enterprises

Revenue from Public Non-financial Corporations (PNFCs) and Public Financial Corporations (PFCs) includes dividends and tax equivalents as outlined above and also competitive neutrality fees.

Competitive neutrality fees promote neutrality in borrowing costs between the public and private sectors. Details of competitive neutrality fees are shown in Table 5.12.

Table 5.12 Competitive Neutrality Fees¹				
	2001-02 Actual \$ million	2002-03 Est. Actual \$ million	2003-04 Budget \$ million	Change Budget over Est. Actual %
Electricity Sector	28.1	24.9	32.0	28.5
Transport Sector (Rail and Ports)	29.1	38.7	39.3	1.6
Other	0.8	1.1	0.9	(18.2)
Total Competitive Neutrality Fees	57.9	64.7	72.2	11.6
Note: 1. Numbers may not add due to rounding.				

Government also makes payments to PNFCs in the form of community service obligations (CSOs).

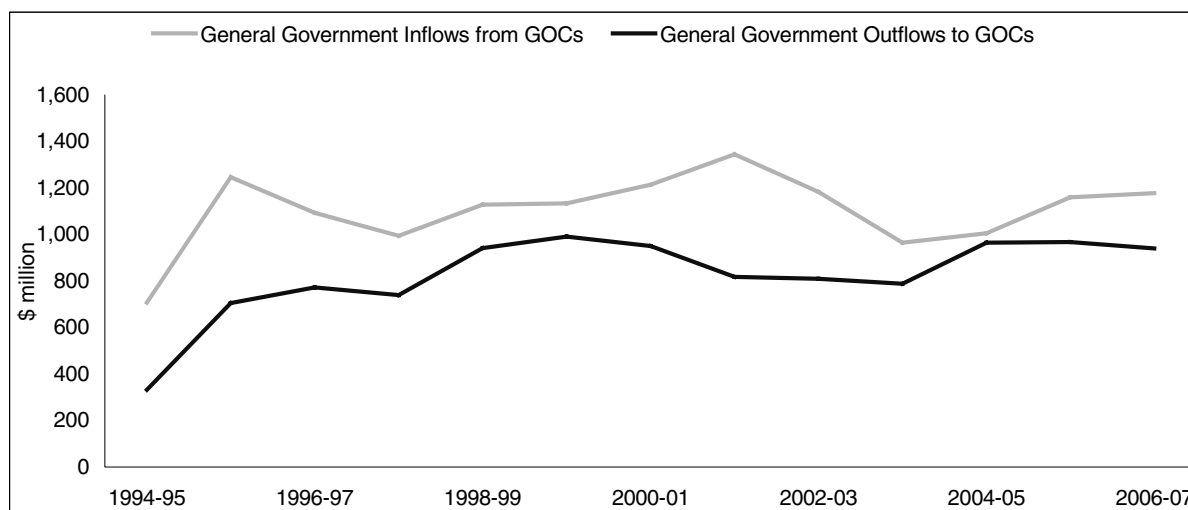
CSO payments are made by Government to government owned corporations (GOCs) as a way of purchasing products and services that would otherwise not be undertaken (or undertaken at a higher price) in a commercial environment. They allow Government to purchase services in line with the Government's priorities and community needs, whilst at the same time ensuring the lines of accountability for performance are not blurred. In Queensland, CSO payments are mainly provided for rail (eg. passenger transport) and electricity services (eg. maintenance of uniform tariffs).

Table 5.13 shows how CSO payments are distributed across sectors.

Table 5.13 Community Service Obligations¹				
	2001-02 Actual \$ million	2002-03 Est. Actual \$ million	2003-04 Budget \$ million	Change Budget over Est. Actual %
Electricity Retailers ²	191.5	136.8	85.8	(37.3)
QRail	611.4	663.4	694.0	4.6
SunWater	14.9	9.5	8.1	(14.7)
Total Community Service Obligations	817.7	809.6	787.8	(2.7)
Note: 1. Numbers may not add due to rounding. 2. The decrease in 2003-04 reflects an anticipated fall in electricity pool prices in that year, which is expected to lead to a reduction in CSO payments required to support the Uniform Price Tariff.				

Chart 5.4 illustrates that the General Government sector is forecast to receive a small net return above the community service obligations paid to the PNFC and PFC sectors over the forward estimates.

Chart 5.4
Net Revenues from Public Corporations



Royalties

The State earns royalties from the extraction of coal, base and precious metals, bauxite, petroleum, mineral sands and other minerals. In addition, royalty revenue includes rents received by the State 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 and Mines. Royalties are expected to decline slightly in 2003-04 in line with the recent rise in the Australian dollar relative to the US dollar.

Fines and Forfeitures

The major fines included in this category are traffic and court fines. There is a forecast increase of 8.6% in collections of fines and forfeitures in 2003-04, partly due to increased enforcement activity associated with road safety initiatives.

Revenue nec

Revenue nec includes other revenues not included elsewhere. These revenues are estimated to decrease by 45.3% in 2003-04 reflecting a number of one-off receipts across agencies in 2002-03.

6. EXPENSES

KEY POINTS

- Total General Government sector expenses are budgeted to increase by 5.3% over the 2002-03 Budget, to \$21.229 billion in 2003-04.
- Growth in expenses includes a range of service developments and initiatives with a particular focus in the areas of disability services and health.
- The major areas of expenditure are education and health which together constitute some 48% of General Government sector expenses.

INTRODUCTION

This chapter provides an overview of the operating statement expenses for the General Government sector for the estimated actual outcome for 2002-03, the forecast for the 2003-04 Budget year, and projections for 2004-05 to 2006-07.

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 and Appendix F provide details on total expenditure for departments. Detailed information on new spending initiatives is provided in Chapter 4.

Table 6.1
General Government Sector Expenses¹

	2002-03 Budget \$ million	2002-03 Est. Act. \$ million	2003-04 Budget \$ million	2004-05 Projected \$ million	2005-06 Projected \$ million	2006-07 Projected \$ million
Expenses						
Gross operating expenses						
Employee expenses	9,085	9,244	9,962	10,291	10,824	11,493
Other operating expenses	3,422	3,492	3,614	3,879	3,978	4,099
Depreciation	1,544	1,396	1,429	1,446	1,461	1,474
Current transfers	4,670	4,752	4,804	4,970	5,133	5,172
Capital transfers	471	512	422	347	320	308
Nominal superannuation interest	715	642	751	804	857	910
Other interest	250	225	247	287	336	358
Total Expenses	20,157	20,263	21,229	22,024	22,909	23,814
Note: 1. Numbers may not add due to rounding.						

General Government expenses in 2002-03 are estimated to be \$20.263 billion, compared to the Budget estimate of \$20.157 billion, a within-year variation of only 0.5%.

Significant areas of variation in 2002-03 include:

- Parameter and policy changes implemented during the year contributing towards higher employee and grants expenses.
- A reclassification from nominal superannuation interest expense to a superannuation expense item within employee expenses. This reclassification relates to changes in superannuation liability for non-defined benefit liabilities such as post-retirement investment linked accounts.
- A reduction in depreciation expense primarily due to a review of asset lives by the Departments of Main Roads and Housing.

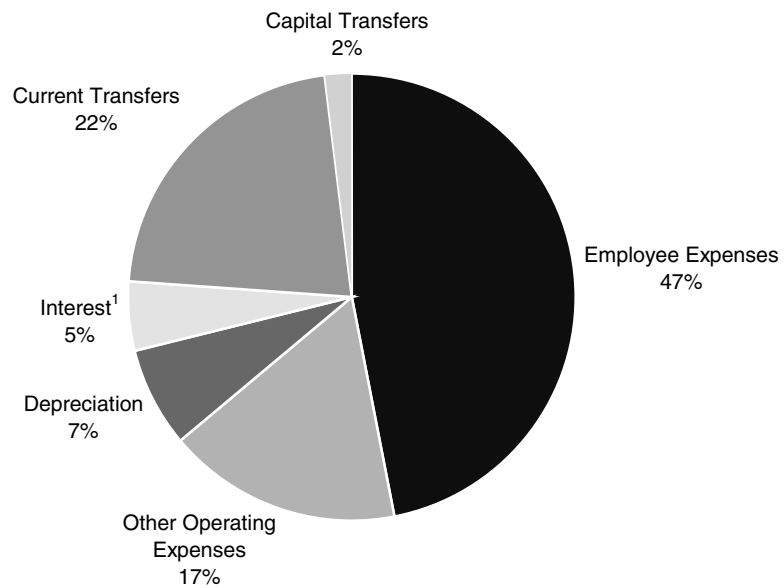
The General Government operating statement provides for aggregate expenses of \$21.229 billion in 2003-04, representing an increase of \$1.072 billion (or 5.3%) over the 2002-03 Budget. Factors influencing the growth in expenses include the service enhancements outlined in Chapter 4 and cost increases including recent enterprise bargaining agreements.

EXPENDITURE BY CATEGORY

This section provides a breakdown of the General Government operating statement in 2003-04 by category and discusses the significant variances between 2002-03 estimated actual and 2003-04 Budget by these expense categories.

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 State Government activities, followed by current transfers which include community service obligation payments to Government-owned corporations and the fuel subsidy scheme.

Chart 6.1
Expenses by Operating Statement Category for 2003-04

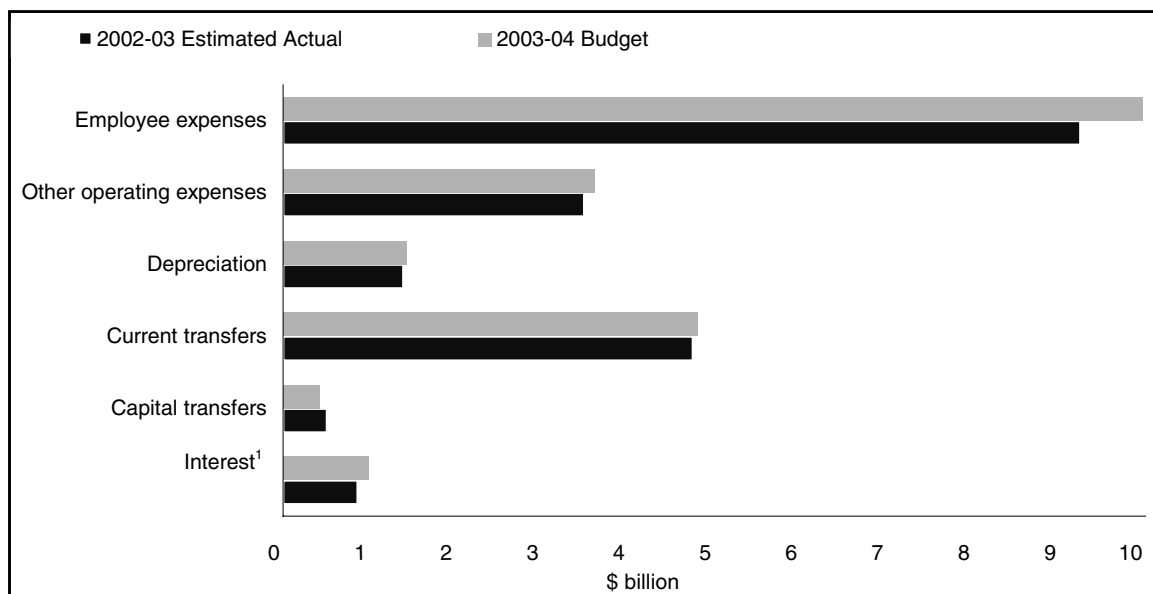


Note:

1. Includes Nominal Superannuation Interest Expense.

Chart 6.2 compares the 2002-03 estimated actual expenses for each operating statement category with the 2003-04 Budget.

Chart 6.2
Expenses by Operating Statement Category
for 2002-03 and 2003-04



Note:

1. Includes Nominal 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 employer's contribution to the superannuation of Government employees in the General Government sector.

Employee expenses are forecast to increase by \$718 million or 7.8% to \$9.962 billion in 2003-04.

The 2003-04 Budget and forward estimates include a provision for wage increases consistent with an outcome of approximately 3.5% per annum or, where an agreement has been reached, the expected cost of implementing that agreed outcome.

The 2003-04 Budget also provides funding for additional staffing for the implementation of expanded and enhanced services, particularly in relation to the departments of Education, Health and Police (for example, the Budget provides funding for over 600 additional teachers and approximately 300 additional police). Together, these portfolios account for 64% of General Government employee expenses.

The reclassification from nominal superannuation interest expense to employee expenses referred to earlier in this chapter had the effect of increasing employee expenses by approximately \$130 million.

Other operating expenses

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

The moderate increases in the forward years reflect projected increases in these input costs and also reflects a 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. As noted earlier, the Departments of Main Roads and Housing undertook reviews of asset lives to ensure that the depreciation expense fully reflected the progressive consumption of their assets. The reviews found that useful asset lives were longer than previously assumed and this has led to a reduction in depreciation expense.

Notwithstanding this reduction, 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 over time. 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 transfers

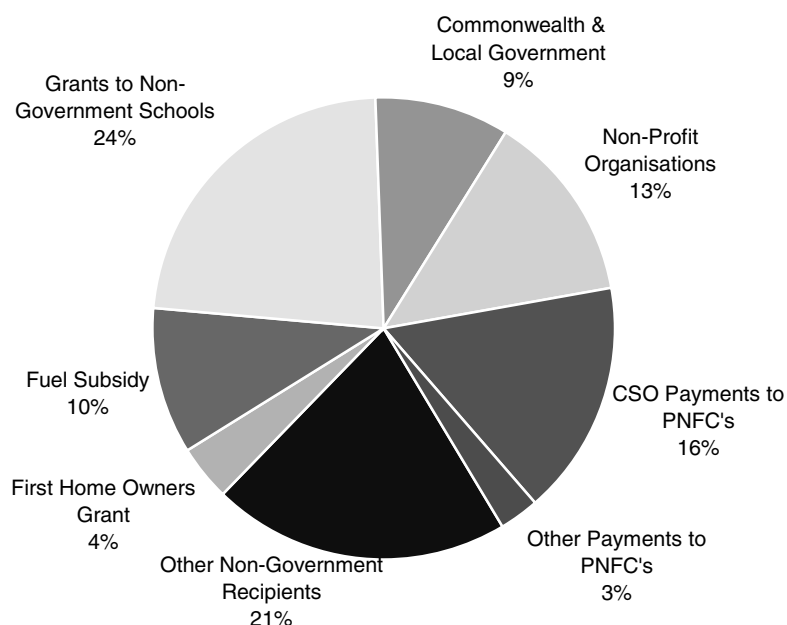
Current transfers include grants and subsidies to the community (such as to schools, hospitals, benevolent institutions, and local governments), personal benefit payments, and Commonwealth taxes such as Fringe Benefits Tax. Grants and subsidies include the First Home Owners Grant scheme, community service obligation payments to Government-owned corporations and payments made under the State's fuel subsidy scheme. Information on concessions provided in the form of subsidies and rebates to organisations and individuals are provided in Appendix B.

Various recipients of current transfers include grants to non-Government schools (24%), CSO payments to public non-financial corporations (16%), fuel subsidies (10%), and payments for first home owners (4%).

Current transfers are estimated to increase by \$52 million in 2003-04 as a result of additional local government financial assistance grants from the Commonwealth for local councils and additional funding for housing assistance programs.

Chart 6.3 indicates the composition of current transfers by recipient.

Chart 6.3
Current transfers by recipient 2003-04



Capital transfers

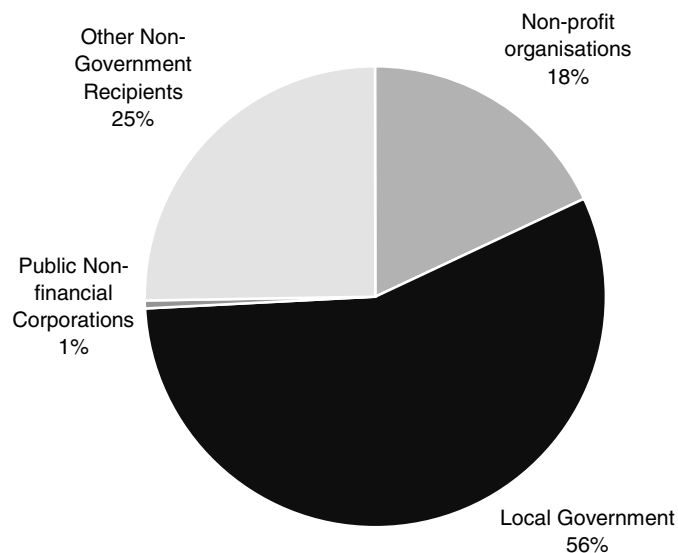
Capital transfers represent grants by the Government for capital works to local governments, non-profit institutions and other non-government entities, such as businesses. The primary purpose of capital transfers in 2003-04 relates to funding for Aboriginal and Community housing projects, road and water and sewerage projects undertaken by local governments and transfers to non-government schools for infrastructure.

Movements from year to year in capital transfers are influenced by the timing of capital projects and the progressive completion of approved projects. Donations of capital assets are also included as capital transfers.

Capital transfers are forecast to decline \$90 million relative to the 2002-03 estimated actual. The decrease is primarily the result of the transfer of the Bureau of Sugar Experiment Stations (BSES), a statutory body, to an industry-controlled corporate structure in 2002-03. The transfer of the BSES (valued at \$42 million) is treated as a grant to the sugar industry. Also contributing to the reduction in capital transfers is the substantial completion of the Queensland Heritage Trails Network grants program during 2002-03.

Chart 6.4 provides a breakdown of capital transfers by recipients. The major recipient of capital transfers by the Government is local government (56%). Further information on grants to local government authorities is provided in Chapter 8.

Chart 6.4
Capital transfers by recipient 2003-04



Interest

The nominal superannuation interest expense represents the imputed interest on the Government's accruing defined benefit superannuation liability.

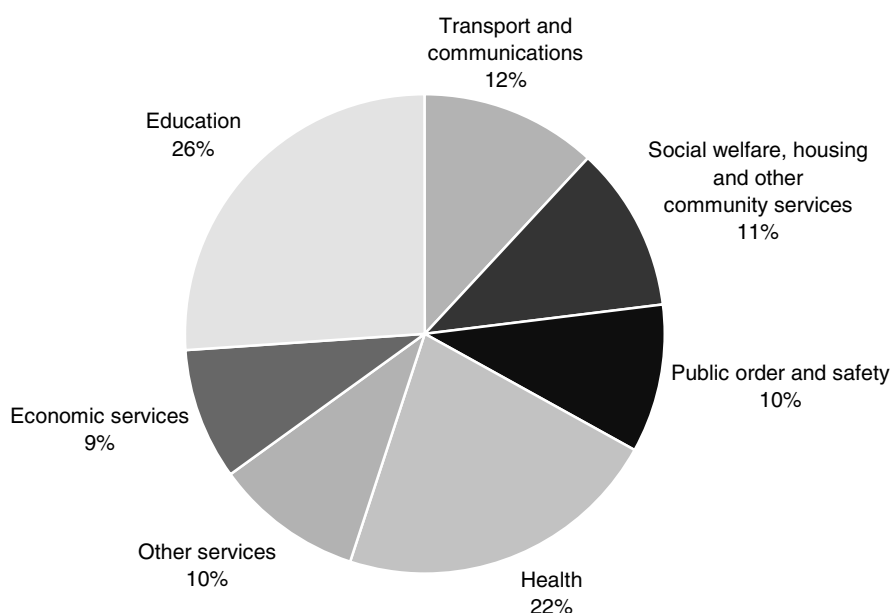
The other interest expense includes interest paid by agencies, principally to the Queensland Treasury Corporation, on borrowings to acquire capital assets and infrastructure such as roads and government buildings. The growth in this expense over the forward estimates reflects moderate growth in borrowings for capital asset acquisitions.

Nominal superannuation interest expense is estimated to grow consistently in 2003-04 and the forward years, relative to the 2002-03 amount, due to factors including actuarial estimates of the liabilities, enterprise bargaining agreements and increases in the number of public sector employees associated with planned growth in services.

OPERATING EXPENSES BY PURPOSE

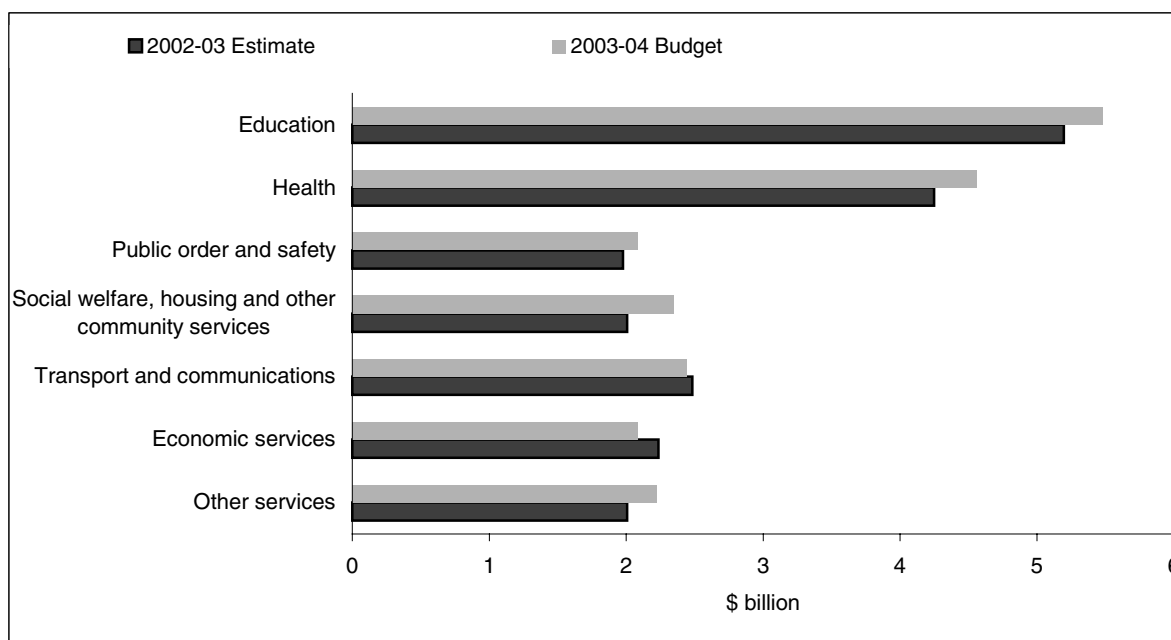
Chart 6.5 indicates the proportion of expenditure by major purpose classification for the 2003-04 Budget. Education accounts for the largest share of expenses (26%), followed by Health (22%) and Transport and Communications (12%).

Chart 6.5
General Government Expenses By Purpose 2003-04



A comparison of General Government expenditure by purpose growth from 2002-03 to 2003-04 Budget is outlined in Chart 6.6.

Chart 6.6
General Government Expenses By Purpose
for 2002-03 and 2003-04



LEVEL OF SERVICE PROVISION

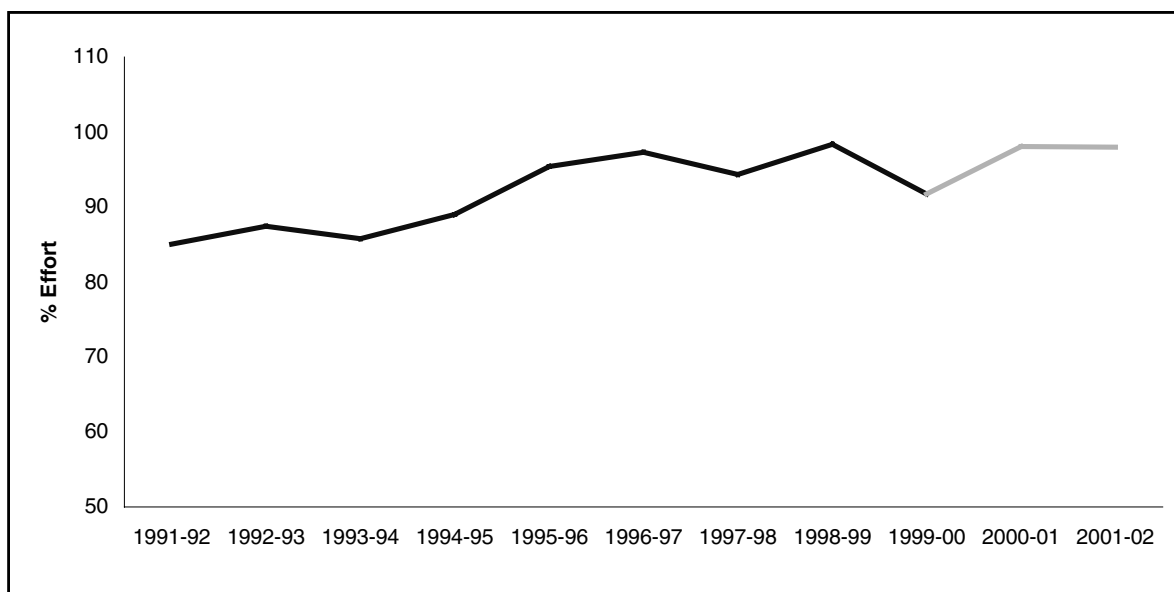
Over the last ten years, successive Governments have responded to Queensland's social and economic challenges by increasing expenditure effort and altering the mix of resources to meet changing community needs. Enhancements to service delivery are reflected in Queensland spending more than previously in key social service delivery areas.

One method for measuring the aggregate level of service provision is to utilise the assessments undertaken by the Commonwealth Grants Commission (CGC) for the determination of the distribution of GST funding grants to the states.

Expenditure effort, as shown in Chart 6.7, is a measure calculated by the CGC. More detail on how this measure is derived is provided in Box 6.1.

In general terms, Chart 6.7 indicates that Queensland's level of aggregate expenditure (relative to the Commission's assessment of that required to provide an Australian average level of service) has increased from 85% in 1991-92 to 98% in 2001-02. As Queensland is often recognised as an efficient low-cost provider of services a ratio of less than 100% does not necessarily mean a lesser level of services is being provided (see Box 6.1).

Chart 6.7
Level of Service Provision Ratio



Note:

1. Financial Assistance Grant relativities are used to 1999-00 and GST relativities from 2000-01.

Source: Commonwealth Grants Commission

Box 6.1 **Commonwealth Grants Commission's Level of Service Provision Ratios**

The Grants Commission assesses a state's need for Commonwealth financial assistance by taking into account its revenue capacities and expenditure needs (what a state is required to spend to provide an Australian average level of service). These assessments are prepared on a policy neutral basis, which means that only those factors that are beyond a state's control are considered.

The level of service provision ratio measures both the level of services provided in a state relative to what is required to provide a policy standard level of service, given conditions outside a state's control, or the relative efficiency with which they are provided.

Ratios of greater than 100% indicate above standard effort and ratios of less than 100% indicate below standard effort, assuming a standard level of efficiency and effectiveness in the provision of services.

7. BALANCE SHEET AND CASH FLOWS

KEY POINTS

- The Queensland Government's already strong financial position is expected to strengthen further in 2003-04. State net worth is projected to rise by \$1.62 billion through the year to \$60.3 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 \$10.657 billion in the General Government sector at 30 June 2004, consistent with another of the Government's Charter principles.
- The General Government sector is estimated to record a cash surplus of \$152 million in 2003-04, after allowing for \$2.3 billion in net asset purchases.
- The General Government sector is budgeted to achieve strong cash surpluses in the forward years.

INTRODUCTION

The 2003-04 balance sheet shows the projected assets, liabilities and net worth of the General Government sector as at 30 June 2004. It is important for the Government to maintain a strong and growing 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 Government Finance Statistics (GFS) standard of the Australian Bureau of Statistics.

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

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 Sheet¹						
	2001-02 Outcomes \$ million	2002-03 Est. Act. \$ million	2003-04 Budget \$ million	2004-05 Projected \$ million	2005-06 Projected \$ million	2006-07 Projected \$ million
Financial assets	31,615	31,878	32,935	34,691	36,561	38,400
Non-financial assets	45,485	47,395	49,655	51,541	53,289	54,968
Total Assets²	77,100	79,273	82,590	86,232	89,850	93,368
Borrowings	3,459	3,683	4,383	4,893	5,270	5,403
Superannuation	10,062	11,668	12,722	13,791	14,859	15,935
Other provisions and liabilities	5,486	5,230	5,173	5,152	5,085	5,018
Total Liabilities	19,007	20,581	22,278	23,836	25,214	26,356
Net Worth	58,093	58,692	60,312	62,396	64,636	67,012
Net Debt	(11,032)	(10,636)	(10,800)	(11,336)	(11,972)	(12,864)
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.						

BALANCE SHEET

Financial Assets

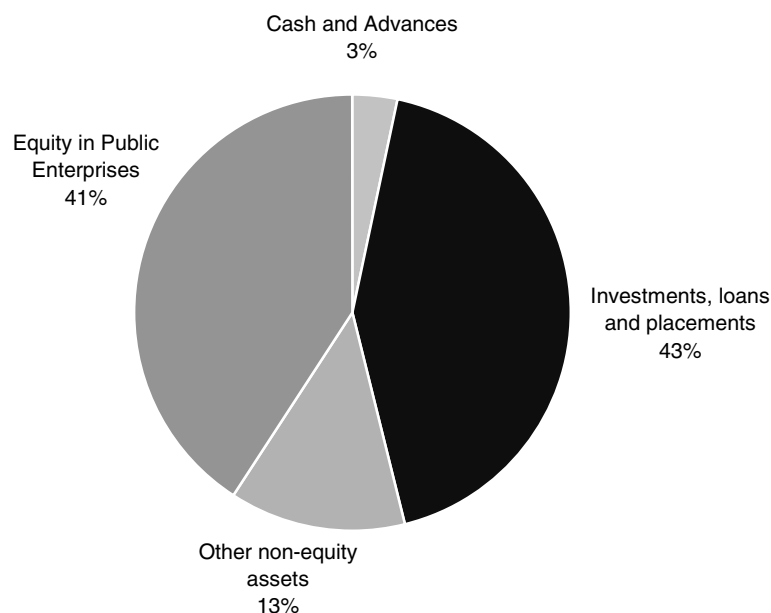
The General Government sector holds the full equity of the State's public enterprises, principally its shareholding in Government-owned corporations, in much the same manner as the parent or holding company in a group of companies. The estimated net investment in public enterprises (\$13.484 billion at 30 June 2004) is included in the General Government sector's financial assets¹.

In the year to 30 June 2004, financial assets are projected to increase by \$1.057 billion, attributable principally to increased investment in superannuation assets. The modest growth in financial assets in 2002-03 reflects the impact of negative earnings on investments in that year. Investment earnings in 2003-04 and the outyears are based on long term rate of return assumptions.

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.

Chart 7.1 shows General Government sector financial assets by category at 30 June 2004. 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 2004



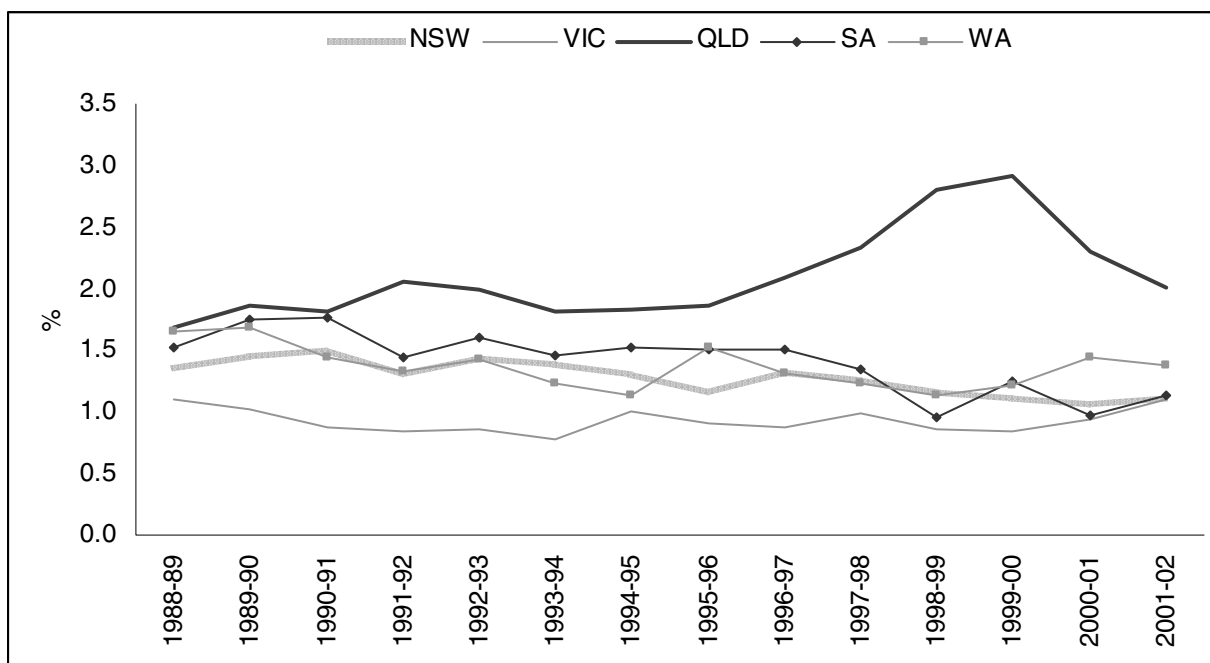
Non-Financial Assets

General Government non-financial assets are projected to total \$49.655 billion at 30 June 2004. 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.

After allowing for the purchase and/or construction of replacement or new assets, asset revaluations, depreciation and disposals, physical assets in the year ending 30 June 2004 are expected to grow by \$2.26 billion during 2003-04.

The Government has traditionally funded new infrastructure at levels well beyond that of the other states. Over the last decade, Queensland purchases of non-financial assets as a percentage of Gross State Product have exceeded that of all other major states (see Chart 7.2).

Chart 7.2
General Government Purchases of Non-Financial Assets
as a Percentage of Gross State Product



Sources: ABS 5512.0, 5501.1.55.001, 5501.2.55.00, 5501.3.55.00, 5501.4.55.00, 5501.5.55.00, 5501.6.55.00, 5220.0
 Queensland Treasury Outcomes Report for the year ended 30 June 2002.

Liabilities

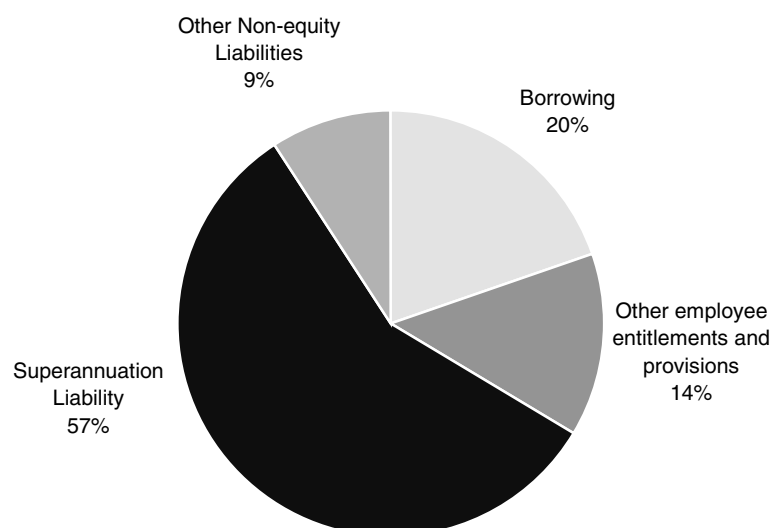
The largest single accruing liability in the General Government sector is employee entitlements (principally superannuation and long service leave) which, as at 30 June 2004, is projected to total \$15.074 billion. Other liabilities include borrowings and advances received.

Liabilities are budgeted to increase by \$1.697 billion in 2003-04, largely on account of normal growth in the General Government superannuation liability and borrowings for capital purposes.

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 7.3.

Chart 7.3
General Government Liabilities by Category as at 30 June 2004



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 2003-04 are forecast at \$10.657 billion, reflecting the cumulative impact of sound fiscal policies and indicate that the State is capable of meeting all its current and recognised future obligations, without recourse to material adjustments in fiscal policy settings.

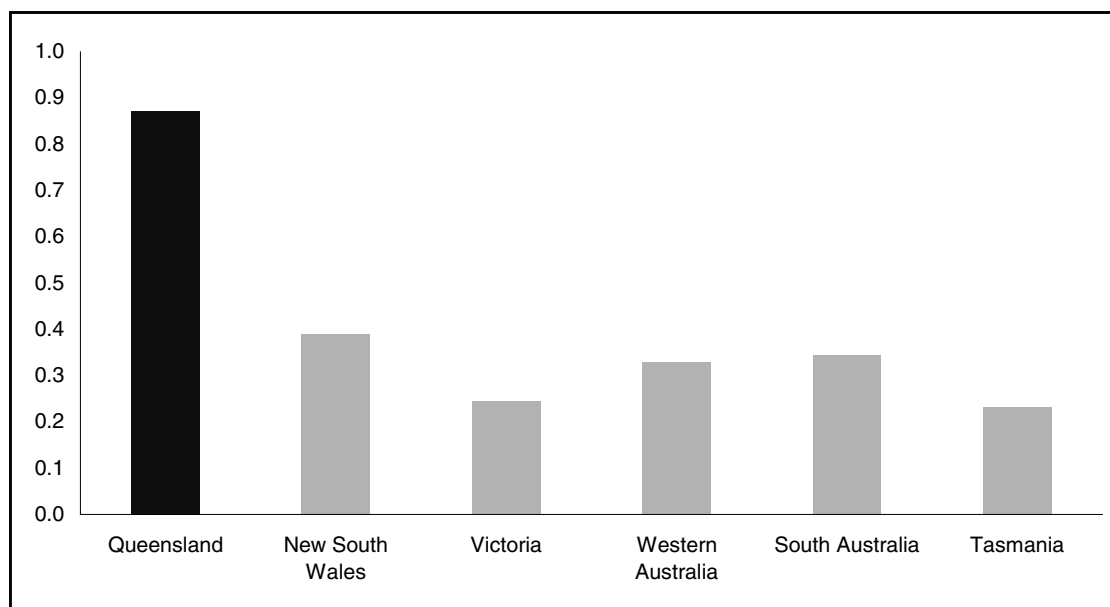
The second key Charter principle relating to balance sheet management specifically requires that the State's financial assets cover all accruing and expected future liabilities of the General Government sector.

The State's net financial asset position remains extremely sound. 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 the years through to 30 June 2007.

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 that of other states as illustrated in Chart 7.4.

Chart 7.4
Ratio of Financial Assets to Liabilities (excluding Investments
in Public Enterprises) as at 30 June 2004
General Government Sector



Source: State budget papers for QLD, VIC, WA and TAS. NSW and SA Mid-Year Review.

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:

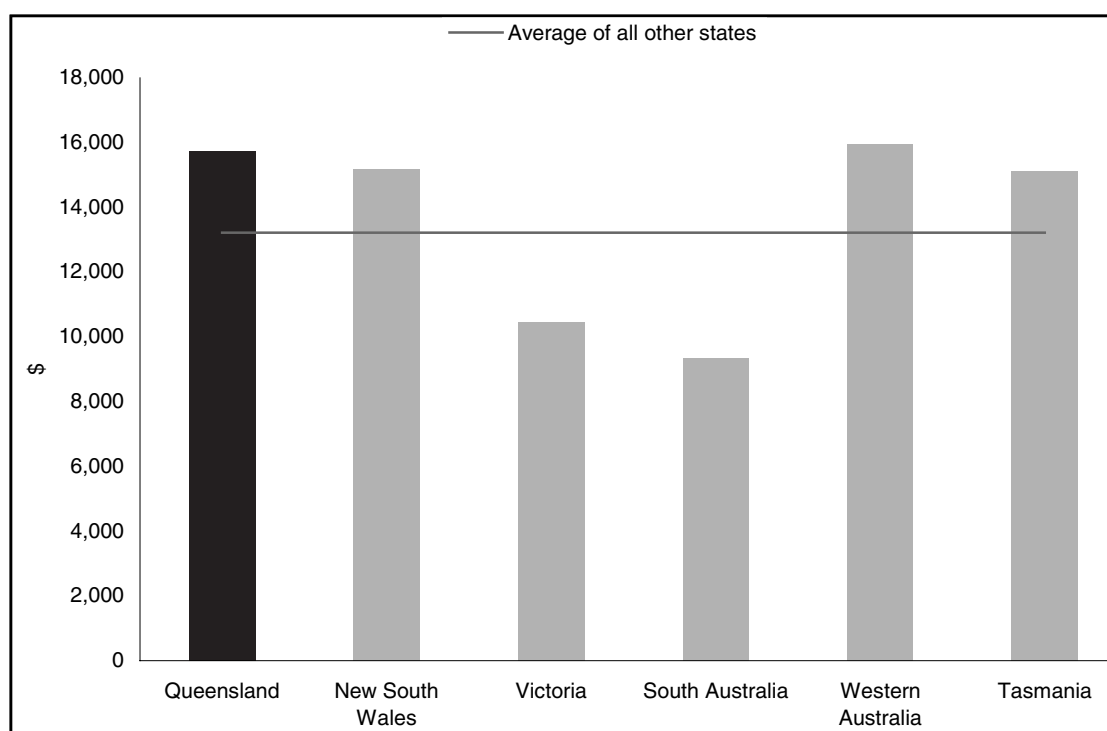
- operating surpluses (deficits) that increase (decrease) the Government's equity
- revaluation of assets and liabilities as required by accounting standards. Some financial liabilities are revalued on a regular basis. For example, the Government's accruing liabilities for employee superannuation and 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.

In the year ending 30 June 2003, the financial position of the General Government sector has been impacted by a number of events, in particular low returns on investments.

Despite these impacts, the net worth of the General Government sector is expected to grow by \$599 million over the 2001-02 actual net worth. This is due to increases in assets as a result of revaluations of assets as part of the State's asset revaluation cycle. During the year, the departments of Natural Resources, Main Roads, and Housing carried out major revaluations.

Chart 7.5 illustrates the State's strong net worth compared with the other states. Queensland's per capita net worth is 16% greater than the average per capita net worth of the other states.

Chart 7.5
Interstate Comparison of Per Capita Net Worth as at 30 June 2004



Note:

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

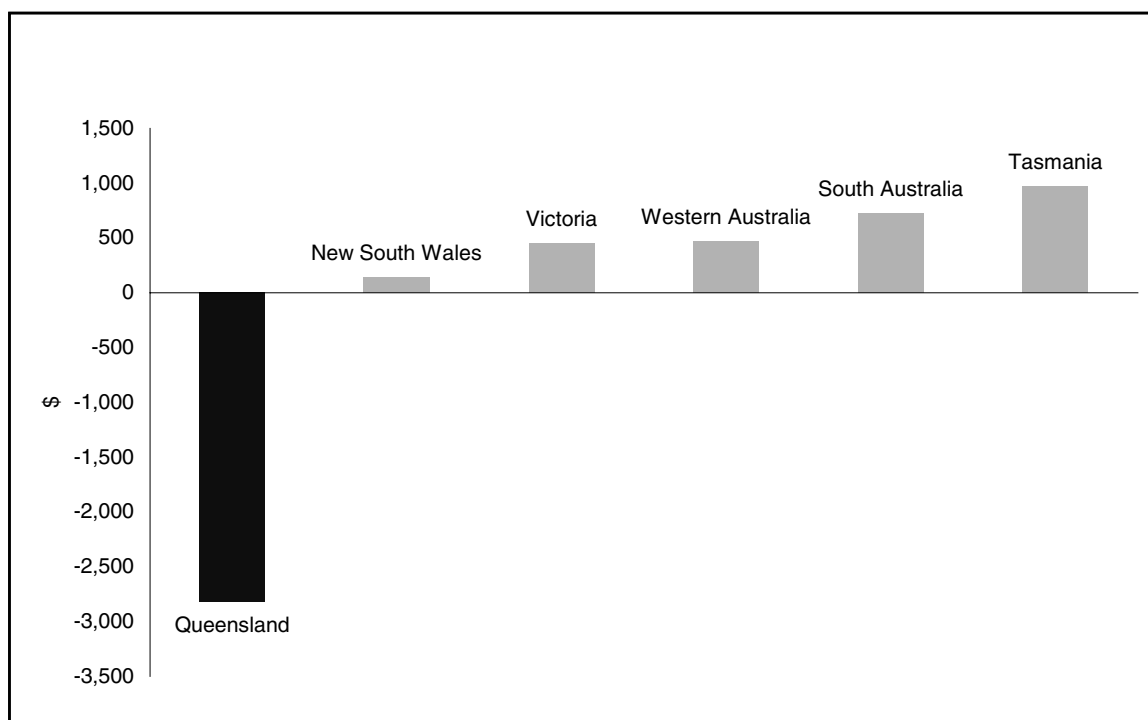
Source: *State Budget Papers for QLD, VIC, WA and TAS. NSW and SA Mid-Year Budget Review. Population data from Commonwealth Budget Paper 3.*

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 seen in Chart 7.6, 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 \$2,821 per capita (net financial assets), compares to the average net debt of \$364 per capita (net financial liabilities) in the other states.

Chart 7.6
Net Debt Per Capita as at 30 June 2004



Source: Net debt from State Budget Papers for QLD, VIC, WA and TAS. SA and NSW are Mid-Year Review. Population Data from Commonwealth Budget Paper 3.

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). Also 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 a key aggregate or fiscal indicator used by a number of financial and economic commentators and analysts. The cash (deficit) measure 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 Appendix E.

Table 7.2 provides summary cash flow information for the General Government sector for 2002-03, 2003-04 and the outyears. Detailed cash flow tables are included in Appendix E.

Table 7.2
General Government Sector: Summary of Budgeted Cash Flows¹

	2002-03 Est. Act. \$ million	2003-04 Budget \$ million	2004-05 Projected \$ million	2005-06 Projected \$ million	2006-07 Projected \$ million
Cash receipts from operating activities	20,216	21,772	22,400	23,207	24,261
Cash payments for operating activities	(18,342)	(19,300)	(20,003)	(20,889)	(21,768)
Net cash flow from operating activities	1,874	2,472	2,397	2,318	2,493
Net cash flows from investing activities	(2,056)	(3,264)	(2,817)	(2,665)	(2,550)
Net cash flows from financing activities	168	570	469	354	109
Net increase/(decrease) in cash held	(14)	(222)	49	7	52
Derivation of GFS cash surplus (deficit)					
Net cash flow from operating activities	1,874	2,472	2,397	2,318	2,493
Less net cash flow from investments in non-financial assets	1,823	2,320	1,876	1,696	1,608
Less Finance leases and similar arrangements	..	..	..	..	..
Equals GFS cash surplus (deficit)	51	152	521	622	885
Note: 1. Numbers may not add due to rounding.					

Cash Flows from Operating Activities

Table 7.3 provides a disaggregation of operating cash flows.

Table 7.3 General Government Sector: Cash Flows from Operating Activities		
	2002-03 Est. Act. \$ million	2003-04 Budget \$ million
Receipts from operating activities		
Taxes received	5,511	5,664
Grants and subsidies received	10,527	10,865
Sales of goods and services	2,086	2,155
Other receipts	2,092	3,088
Total receipts from operating activities	20,216	21,772
Payments for operating activities		
Payments for goods and services	(12,326)	(13,365)
Grants and subsidies	(4,814)	(4,806)
Interest	(227)	(245)
Other payments	(975)	(884)
Total payments for operating activities	(18,342)	(19,300)
Net cash inflows from operating activities	1,874	2,472

Cash inflows from operating activities include receipts from taxes, grants from the Commonwealth Government, fees and charges levied on the provision of goods and services, interest receipts from investments, and dividend and tax receipts from Public Financial and Non-financial Corporations.

Taxes received by the General Government sector are forecast at \$5.664 billion in 2003-04, up marginally on the 2002-03 estimated actual of \$5.511 billion. In 2003-04, taxation revenue is expected to moderate as a result of a projected fall in stamp duty on property conveyancing transactions relative to 2002-03 levels, in line with expectations of an easing in the property market.

Grants and subsidies receipts are expected to increase modestly in 2003-04 to \$10.865 billion, of which Commonwealth grants are expected to account for \$10.528 billion.

Other receipts include investment earnings, dividends and tax equivalents received from Government-owned corporations (GOCs) and royalties. Other receipts are expected to increase in 2003-04 by \$996 million to \$3.088 billion. This largely reflects the flow through of higher investment earnings in 2003-04 based on the return to the long term average earnings rate of 7.5% on investments. The lower investment earnings in 2002-03 are largely the result of forecast negative investment return of -3% on investments held to meet future employee liabilities such as superannuation.

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 2003-04 the largest cash disbursement is employee expenses, at \$9.570 billion or 50% of total cash payments from operating activities.

The 2003-04 estimate for payments for goods and services, which includes wages and salaries, is expected to increase by 8.4% to \$13.365 billion. This reflects the estimated 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 remain relatively constant at \$4.806 billion in 2003-04. This item includes recurrent grants paid by the Commonwealth through the State to non-state schools, grants paid to industry, and grants to non-profit institutions. This item also includes 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 9.3% in 2003-04 to \$884 million. This is primarily attributable to lower First Home Owner Grant scheme and HIH Insurance Compulsory Third Party claim expenditures.

Cash Flows from Investments

Cash flows from investments include both financial and non-financial assets. Table 7.4 provides a disaggregation of investment cash flows into the different types.

Table 7.4 General Government Sector: Cash Flows from Investing Activities		
	2002-03 Est. Act. \$ million	2003-04 Budget \$ million
Net payments for investments in non-financial assets	(1,823)	(2,320)
Net cash flows from investing activities in financial assets for policy purposes	(367)	3
Net cash flows from investing activities in financial assets for liquidity purposes	134	(947)
Net increase/(decrease) in cash held from investing activities	(2,056)	(3,264)

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

Cash outflows from investing in non-financial assets are expected to increase to \$2.320 billion in 2003-04 from \$1.823 billion in 2002-03 reflecting increased net capital purchases in 2003-04.

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 GOCs. In addition, Budget Paper No. 3 includes capital grants 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 selling or acquiring equity in government or private sector entities. Investment activities 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 2002-03 of \$367 million reflect equity transactions by the General Government sector with Public Non-financial Corporations. In 2002-03, this includes the injection of \$300 million into Enertrade to facilitate its recapitalisation and \$25 million to Queensland Motorways. In addition, net assets of \$48 million from the cessation of the Stadium Redevelopment Authority will be injected into the Major Sports Facility Authority (located in the Public Non-financial Corporations sector). These outflows are partially offset by a \$15 million share buy-back payment instigated by the Ports Corporation of Queensland to return surplus funds to the Government as its shareholder.

Cash inflows from investments for policy purposes for 2003-04 of \$3 million reflect equity transactions with public enterprises, in particular a further \$15 million share buy-back by the Ports Corporation of Queensland, offset by an equity injection of \$12 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.

Estimated cash inflows from investments in financial assets for liquidity purpose of \$134 million in 2002-03, reflect the impact of negative investment earnings on superannuation investments and the payment of employee entitlements. These cash inflows are partially offset by the investment of defined benefit employer contributions during the year.

Cash outflows from investments in financial assets for liquidity purposes are estimated to be \$947 million in 2003-04, a net purchase of investments. This primarily reflects the re-investment of interest earnings and the investment of contributions set aside for the Government's defined benefit superannuation scheme.

Cash Flows from Financing Activities

Cash flows generated from financing activities are outlined in Table 7.5 below.

Table 7.5		
General Government Sector: Cash Flows from Financing Activities		
	2002-03 Est. Act. \$ million	2003-04 Budget \$ million
Net cash flows from advances received (net)	..	..
Net cash flows from borrowing (net)	168	570
Net cash flows from other financing	..	..
Net increase/(decrease) in cash held from financing activities	168	570

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). Cash flows from borrowings are estimated to increase in 2003-04 to \$570 million, reflecting borrowings to fund capital projects. The lower level of borrowings in 2002-03 reflects a reduced borrowing requirement as a result of stronger cash receipts, particularly taxation receipts.

RECONCILIATION OF OPERATING CASH FLOWS TO THE OPERATING STATEMENT

Table 7.6 provides a reconciliation of the cash flows from operating activities to the operating result for the General Government sector for the Budget year.

Table 7.6 General Government Sector: Reconciliation of Cash Flows from Operating Activities to Accrual Operating Activities		
	2002-03 Est. Act. \$ million	2003-04 Budget \$ million
GFS accrual revenue	19,913	21,382
Add/(less) movement in dividend and taxation receivable	(72)	(41)
Add GST receipts from ATO	327	351
Add/(less) movement in other receivables	48	80
Equals GFS cash receipts	20,216	21,772
 GFS accrual expense	 20,263	 21,229
Less non-cash items		
Depreciation and amortisation expense	1,396	1,429
Accrued superannuation expense	1,295	1,583
Accrued employee entitlements	486	496
Other accrued costs	71	23
Add/(less) movement in employee entitlement provisions	679	952
Add/(less) GST paid to ATO	348	369
Add/(less) movement in other provisions and payables	299	281
Equals GFS cash expenditure	18,342	19,300

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. INTER-GOVERNMENTAL FINANCIAL RELATIONS

KEY POINTS

- Following the introduction of the GST in 2000 and the abolition of a number of state taxes, states have become increasingly reliant on Commonwealth funding.
- Queensland has been a long standing supporter of the principle of horizontal fiscal equalisation and is an active participant in the Commonwealth Grants Commission's 2004 Review of State Revenue Sharing Relativities.
- In 2003-04, Queensland is expected to receive 18.9% of the total Commonwealth funding to the states or \$147 million less than a per capita share.
- Queensland is currently negotiating several major specific purpose payment agreements worth in excess of \$2 billion to the State.
- In 2002-03, the Queensland Government will provide 61% of all grants to Queensland local government.

COMMONWEALTH-STATE FINANCIAL RELATIONS

Two major issues continue to dominate Commonwealth-state financial relations. The first relates to states' increased reliance on the Commonwealth for funding, a factor which was significantly aggravated with the abolition of a number of state taxes and the implementation of the Goods and Services Tax (GST).

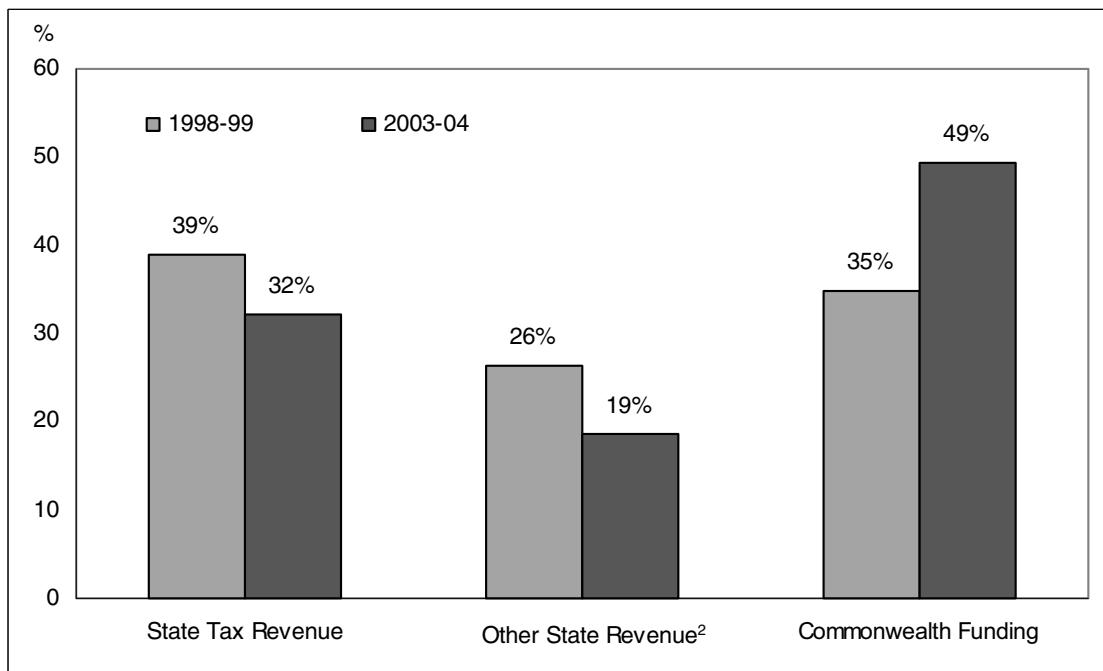
The second issue concerns the Commonwealth's implementation of specific purpose payment (SPP) agreements which reduces the ability of states to provide appropriate and adequate services across a range of areas.

Commonwealth-state financial relations are characterised by a mismatch between states' expenditure responsibilities and access to sufficient own-source revenues. The Commonwealth collects the major share of taxation revenues, with the result that states must rely on grants from the Commonwealth to meet expenditure requirements.

Chart 8.1 shows states' funding sources for 1998-99 and 2003-04 and demonstrates the states' increased reliance on Commonwealth funding since the introduction of the Commonwealth's national tax reforms in 2000. In 1998-99 the states received 35% of their revenues from the Commonwealth. This increased to an estimated 49% in 2003-04. In contrast, the proportion of states' revenues from state taxes has reduced from 39% in 1998-99 to an estimated 32% in 2003-04.

Queensland's reliance on Commonwealth funding as shown in Chart 8.2, has increased from 36% in 1998-99 to an estimated 49% in 2003-04. Consistent with the all state trend, Queensland's taxation revenue share has decreased from 29% in 1998-99 to an estimated 26% in 2003-04. Queensland's lower than average proportion of taxation revenue reflects Queensland's competitive taxation policy.

Chart 8.1
Revenue Sources, All States, 1998-99 and 2003-04¹



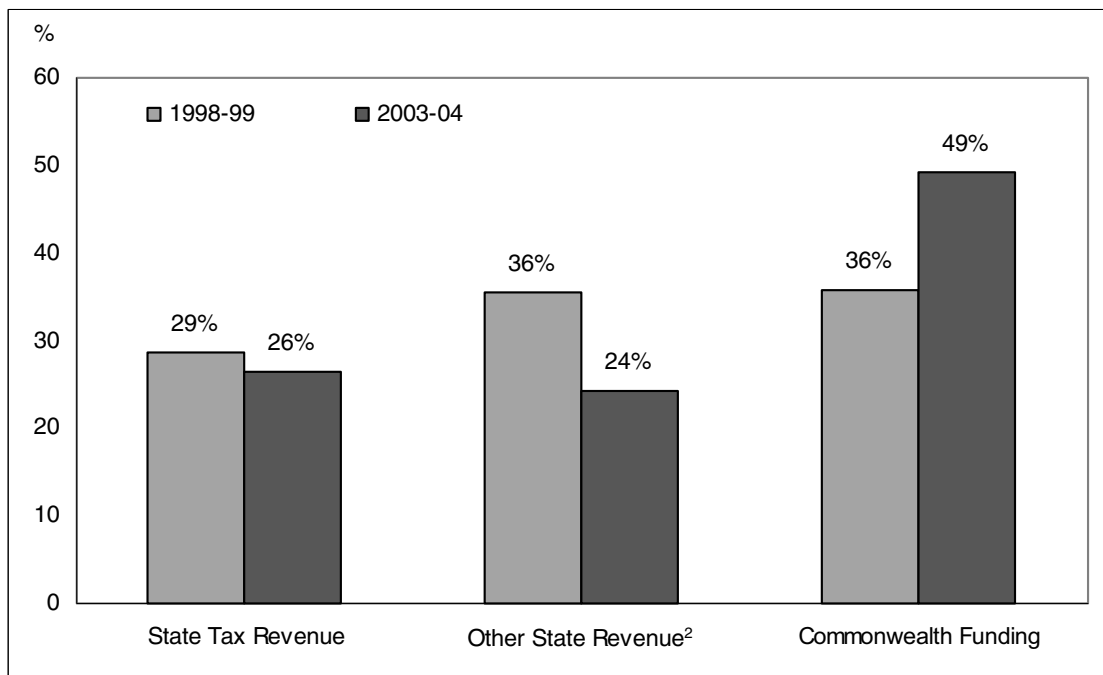
Notes:

1. 2003-04 data are estimates.

2. Includes user charges, interest earnings, contributions from trading enterprises and mining revenue.

Source: ABS Government Financial Statistics Cat No. 5512.0 and State Budget Papers.

Chart 8.2
Revenue Sources, Queensland, 1998-99 and 2003-04¹



Notes:

1. 2003-04 data are estimates.

2. Includes user charges, interest earnings, contributions from trading enterprises and mining revenue.

Source: ABS Government Financial Statistics Cat No. 5512.0 and Queensland Budget estimates.

COMMONWEALTH FUNDING TO THE STATES

Commonwealth payments to the states in 2003-04 are expected to total \$55.774 billion, an increase of \$1.87 billion or 3.5% more than 2002-03 levels. Table 8.1 compares estimated Commonwealth payments to the states in 2003-04 with those for 2002-03.

Table 8.1 Estimated Commonwealth Payments to the States, 2002-03 and 2003-04¹					
	2002-03 \$ million	2003-04 \$ million	Change Nominal Terms %	Change Real ² Terms %	Change Real ² Per Capita %
General Purpose Payments					
GST Revenues	30,465.1	31,700.0	4.1	1.3	0.0
Budget Balancing Assistance	1,004.0	820.1	(18.3)	(20.5)	(21.5)
NCP Payments	739.9	764.8	3.4	0.6	(0.6)
Total General Purpose Payments	32,209.0	33,284.9	3.3	0.6	(0.6)
Specific Purpose Payments					
SPPs "to" the States	16,203.5	16,593.4	2.4	(0.3)	(1.5)
SPPs "through" the States	5,491.2	5,895.6	7.4	4.5	3.2
Total Specific Purpose Payments	21,694.7	22,489.0	3.7	0.9	(0.3)
Total Commonwealth Payments	53,903.7	55,773.9	3.5	0.7	(0.5)
Notes: 1. Numbers may not add due to rounding. 2. Deflated by 2003-04 year-average national forecast inflation of 2.75% and Australian population growth of 1.23%. Source: <i>Commonwealth Budget Paper No.3, 2003-04</i> .					

General Purpose Payments

General purpose payments comprise GST revenue, budget balancing assistance (BBA) and National Competition Policy (NCP) payments. General purpose payments from the Commonwealth are expected to increase from \$32.209 billion in 2002-03 to \$33.285 billion in 2003-04, an increase of 3.3% in nominal terms. However, in real per capita terms, general purpose payments are expected to decrease by 0.6%.

GST Revenue

The Commonwealth distributes GST to states based on the principles of horizontal fiscal equalisation (HFE), which are embodied in the per capita relativities recommended by the Commonwealth Grants Commission (CGC). Queensland continues to support the principle of HFE and the methods used by the CGC to determine each state's share of GST revenue (see Box 8.1).

GST collections for 2003-04 are expected to be \$31.7 billion, an increase of \$1.235 billion compared with 2002-03.

Budget Balancing Assistance

Under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA), the Commonwealth guaranteed that no state would be worse off as a result of national tax reform. Since the introduction of the GST, any shortfall between a state's guaranteed minimum amount and its share of GST revenue is met by BBA funded by the Commonwealth. Each state's guaranteed minimum amount includes Commonwealth revenues foregone, abolished state taxes and the costs of new expenditure responsibilities.

Total BBA for 2003-04 is expected to be \$820 million, a reduction of 18.3% compared with 2002-03. This is a result of the underlying growth of GST revenues from 2002-03 to 2003-04. Further, only New South Wales, Victoria and South Australia will require BBA reflecting the higher tax regimes prevailing in these states when national tax reform was implemented.

National Competition Policy Payments

NCP payments to the states are expected to be \$764.8 million in 2003-04. The distribution of NCP payments is based on states' population shares and their progress with the implementation of specified reforms. States' performances are subject to review by the National Competition Council which will release its report mid-2003.

Specific Purpose Payments

SPPs are provided by the Commonwealth to states for particular purposes and under conditions negotiated between Governments. Separate agreements are negotiated for each SPP, with the agreements covering both funding and policy issues.

SPPs include grants "to" and "through" the state. SPPs "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 and comprise mainly payments to non-government schools and grants to local government.

Total SPPs in 2003-04 are expected to be \$22.489 billion. This represents an increase of \$794.3 million or 3.7%, in nominal terms over 2002-03. Payments "to" the states increased by 2.4% which represents a real decrease of 1.5% when inflation and population growth are taken into account. In contrast, SPPs "through" the states are expected to increase by 7.4%. The main reason for this increase is an increase in the Commonwealth's contribution to non-government schools of an expected 10.7%.

STATE SHARES OF COMMONWEALTH FUNDING

Relative Shares of Funding to the States

Table 8.2 shows the expected shares of total Commonwealth payments to each state for 2003-04 compared with each state's population share. Queensland's Commonwealth funding share of 18.9% is less than its population share of 19.1%. Chart 8.3 shows the percentage by which each state's per capita share of total Commonwealth payments in 2003-04 is expected to differ from a per capita distribution.

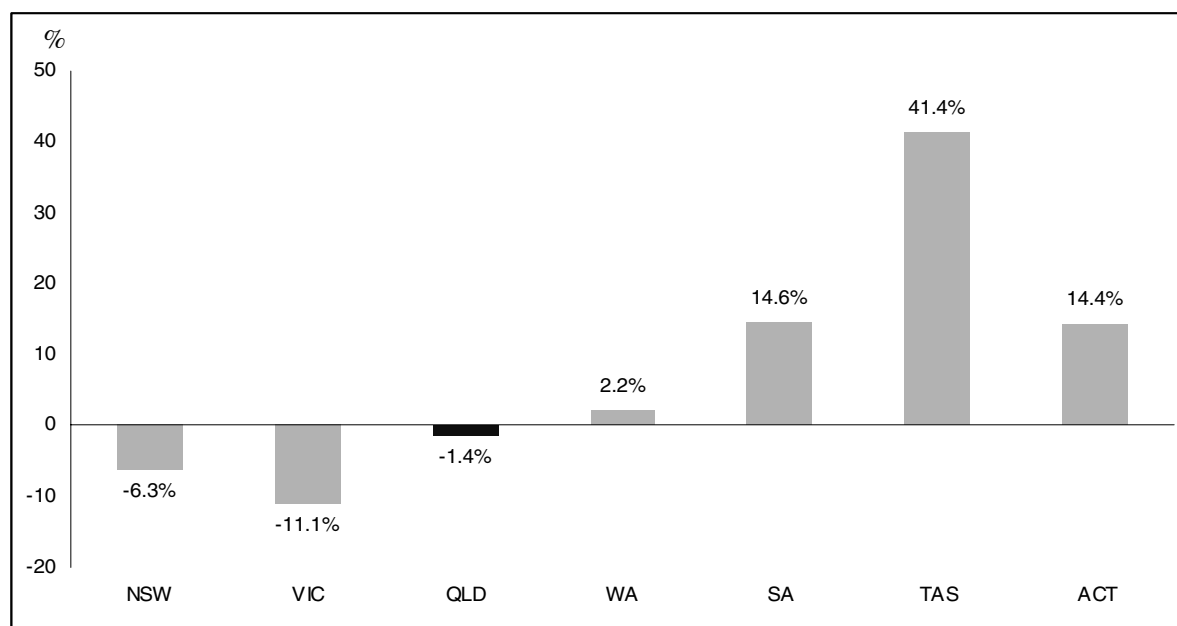
Table 8.2 Relative Shares of Payments to the States, 2003-04¹			
	Share of Payments %	Share of Population %	Relative Share ² %
New South Wales	31.5	33.6	93.7
Victoria	22.0	24.8	88.9
Queensland	18.9	19.1	98.6
Western Australia ³	10.0	9.8	102.2
South Australia	8.8	7.7	114.6
Tasmania	3.4	2.4	141.4
Australian Capital Territory	1.9	1.6	114.4
Northern Territory ³	3.6	1.0	359.0

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.
3. Includes grants paid in lieu of royalties.

Source: Commonwealth Budget Paper No. 3, 2003-04.

Chart 8.3
Total Commonwealth Payments - All States, Deviation from Population Share, 2003-04¹



Note:

1. The chart does not include the Northern Territory which has a corresponding deviation from population share of 259%.

Queensland, in addition to New South Wales and Victoria, receives less than a per capita share of total Commonwealth funding. Queensland's share of total payments is expected to be 1.4% less than its population share.

QUEENSLAND'S SHARE OF FUNDING

Table 8.3 details Queensland's share of estimated Commonwealth payments in 2003-04 and the difference from a population share. (Detailed revenue data are provided in Chapter 5.)

Table 8.3		
Queensland's Share of Estimated Commonwealth Payments, 2003-04¹		
	Queensland's Share %	Difference from Population Share \$ million
General Purpose Payments		
GST Revenues	19.7	172.3
Budget Balancing Assistance	0.0	(156.8)
NCP Payments	19.1	0.0
Total General Purpose Payments	19.2	15.5
Specific Purpose Payments		
SPPs "to" the State	18.5	(108.5)
SPPs "through" the State	18.2	(53.6)
Total Specific Purpose Payments	18.4	(162.1)
Total Commonwealth Payments	18.9	(146.5)
Note:		
1. Numbers may not add due to rounding.		

Queensland is expected to receive \$172.3 million more than a per capita share of GST in 2003-04. However, in terms of total Commonwealth funding, Queensland will receive \$146.5 million less than its per capita share.

Any future benefits to Queensland from GST are contingent on a number of factors including the following:

- Growth in private final consumption expenditure and the effectiveness of ongoing GST compliance.
- The outcome of the Commonwealth Grants Commission's 2004 Review of State Revenue Sharing Relativities, which will affect the distribution of the GST revenue grants from 2004-05. Past reviews have resulted in a reduction in Queensland's share of general revenue funding (see Chart 8.4).
- Future reviews of state taxes and Commonwealth compensation for revenues forgone. Debits tax is scheduled for review by 2005, and in the same year Ministerial Council will review the need for retention of stamp duties on:
 - non-residential property conveyancing

- non-quotable marketable securities
- leases
- mortgages, bonds, debentures and other loan securities
- credit arrangements, instalment purchase arrangements and rental arrangements
- cheques, bills of exchange and promissory notes.

INSTITUTIONAL ARRANGEMENTS

The institutions that provide the framework for Commonwealth-state financial arrangements are:

- 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 Commonwealth-State Financial Relations comprises Commonwealth and State Treasurers and was established to oversee the operation of the IGA. The Ministerial Council met on 28 March 2003 to consider payments to the states in 2003-04 where the following issues were considered:

- GST administration issues
- GST revenue and transitional assistance
- monitoring the level of SPPs
- a review of horizontal fiscal equalisation.

GST Administration Issues

The Australian Taxation Office (ATO) collects all GST revenue on behalf of the states. The costs of collection and compliance are borne by the states and administered under the GST Administration Performance Agreement.

The Ministerial Council considered a report from the GST Administration Subcommittee (GSTAS) about GST administration issues. The Council endorsed both the ATO's budget for 2003-04 and a set of targets and benchmarks for monitoring ATO performance in its administration of the GST.

In addition to the GSTAS, Queensland is represented on the GST Rulings Panel and the States GST Policy Group. This group monitors and researches issues relating to the application and administration of GST in Australia. The group reports to States Heads of Treasury on potential risks to the GST revenue base.

GST Revenue and Distribution

The Ministerial Council noted estimated GST revenue for 2003-04 and endorsed the revised Commonwealth Grants Commission's (CGC) 2003 Update of State Revenue Sharing Relativities as the basis for the distribution of the GST general revenue to the states in 2003-04.

Monitoring the Level of Specific Purpose Payments

The Commonwealth undertook in the IGA not to reduce aggregate SPPs as a result of national tax reform. The Commonwealth has met this undertaking in real per capita terms when current payments are compared with the level of SPPs in 1999-2000. However, SPPs "through" states have increased more than SPPs "to" states. In 2003-04, SPPs "to" the states are estimated to decline in real per capita terms by 1.5% compared with estimated actual payments in 2002-03 (see Table 8.1).

The position taken by the Commonwealth Government in negotiating SPPs with the States represents a significant risk to the provision of essential services, particularly health and disability services in Queensland. The Queensland Government's concerns in this area are discussed later in this chapter.

Review of Horizontal Fiscal Equalisation

New South Wales, Victoria and Western Australia jointly proposed a review of Commonwealth-state funding arrangements.

The 2003 Ministerial Council noted that a major review of revenue sharing methodology is currently being undertaken by the CGC, with a report due in 2004. It was also noted that all states agreed to current HFE arrangements in 2000, and in the absence of any agreement to a new review of HFE by the majority of states, the Commonwealth Treasurer decided not to pursue further the issues raised by New South Wales, Victoria and Western Australia.

Australian Loan Council

The Australian Loan Council comprises Commonwealth and State Treasurers. Its 2003 meeting was held immediately following the March 2003 Ministerial Council meeting. Loan Council Allocations (LCAs) nominations for 2003-04 reflected current best estimates of non-financial public sector deficits or surpluses. For 2003-04, the Loan Council endorsed total LCAs of \$3.876 billion (a projected public sector surplus). This amount reflects a surplus of \$5.715 billion for the Commonwealth and a net deficit of \$1.839 billion for the states. Queensland's projected LCA deficit for 2003-04 was estimated at \$190 million.

Commonwealth Grants Commission

The role of the CGC is to advise the Commonwealth Government on the distribution of the GST revenue among the states. Under its terms of reference the CGC is required to base its recommendations on the basis of HFE (see Box 8.1). The CGC reviews its methods every five years. During the interim period it updates annually the financial, economic and demographic data that underpin its recommendations.

Box 8.1 Horizontal Fiscal Equalisation

GST revenue grants are distributed to the states on the basis of HFE. The principle of HFE is that state governments should receive funding from the Commonwealth such that, if each made the same effort to raise revenue from its own sources and operated at the same level of efficiency, each would have the capacity to provide services at the same standard.

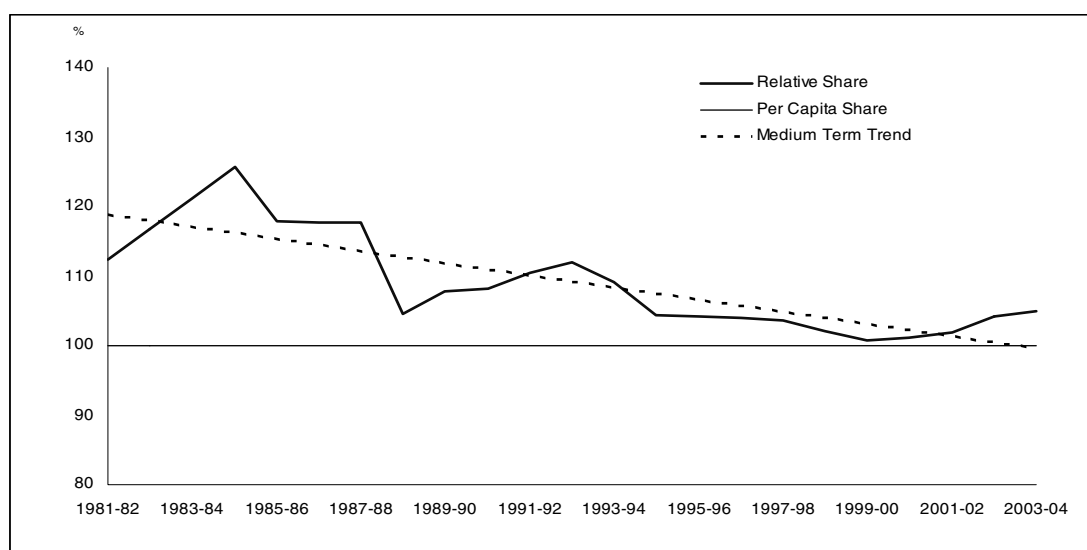
HFE provides the capacity for all communities to enjoy a similar level of state government services regardless of where they are located. This is a key feature of the Australian Federation, made necessary because the Commonwealth generally imposes taxes at uniform rates across Australia. If the distribution of these taxes 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.

2003 Update

In its determinations of the distribution of GST, the CGC assessed Queensland as having a higher fiscal need compared with the average of all states. This higher fiscal need takes into account Queensland's below average share of SPPs, its dispersed population, socio-demographic profile and relative capacity to raise revenue. Accordingly, in 2003-04, Queensland is expected to receive a higher percentage of GST revenue grants (19.7%) compared with its population share (19.1%), to ensure Queenslanders are not disadvantaged.

In the CGC's 2003 Update, Queensland was assessed as requiring a marginally increased share of GST revenue in 2003-04. This additional revenue accrued largely because Queensland had a relatively lower capacity to raise revenue from state taxation over the previous five years. The largest contribution arose from a reduced capacity to raise stamp duty on conveyances relative to other states. Despite this increase, the CGC has assessed Queensland's funding need as declining over the medium term. Chart 8.4 highlights the overall decline in Queensland's share of financial assistance grants/GST compared with a per capita share since 1981-82.

Chart 8.4
Queensland's Relative Share (%) of Funding¹



Notes:

1. Relative share is measured as funding share expressed as a percentage of population share.

Source: Commonwealth Grants Commission.

2004 Review

The outcomes of the CGC's 2004 Review of State Revenue Sharing Relativities will apply from 2004-05 to 2008-09. The CGC's review involves an extensive consultation process with the states and other interested parties. In this context, during 2001-02 the CGC visited Queensland for Workplace Discussions and Queensland lodged its main submission with the CGC.

During 2002-03, Queensland's continuing contribution to the process has included attendance at a Heads of Treasuries conference convened by the CGC, a major rejoinder submission and bilateral discussions between the CGC and senior officers from a number of Queensland Government Departments. Queensland will continue to participate in the 2004 Review with further conferences and a final submission scheduled for completion in October 2003.

Queensland's arguments to the CGC have focussed on important issues relating to the costs and demands of service provision and Queensland's revenue capacity. These issues include:

- **Input Costs** – The CGC assesses comparative state wages such that those states with high private sector wage levels are assessed as requiring more general revenue funding than those states with low private sector wage levels. Queensland contends the use of private sector wage levels is not representative of public sector wage levels. Further, there is no evidence of significant differences among states in actual public sector wage levels, in particular, those of nurses, teachers and police.
- **Location Specific Disabilities** – The provision of services to Queensland's dispersed population, in particular isolated communities, is more costly than urban communities. Further, increased use of technology to deliver services to rural and isolated communities has enhanced service provision and raised expectations.
- **Mining Revenue** – The CGC's assessment of states' capacities to raise royalty revenue is based on mining profits whereas for most mining products royalty revenue is based on mining production.
- **Depreciation and Debt Charges** – The CGC's assessment is based on states' borrowing requirements and is influenced by a range of factors including construction costs. There are recognised flaws in the current assessment and all states are working with the CGC towards an improved method.
- **Economic Development** – Some states contend that revenue capacities should be adjusted to account for state expenditures towards the infrastructure used in developing the revenue source, for example mining infrastructure and its nexus with royalty revenue. The flaw in this argument is that soft economic development, for example the Queensland Government's Smart State policies and low tax policies, may not be accorded the same treatment as expenditure on hard infrastructure.

The financial impact to Queensland of the 2004 Review is uncertain, making it difficult to predict GST forward estimates for 2004-05 and following years. The CGC will report its preliminary outcomes of the 2004 Review in July 2003 and the final report will be released in February 2004.

SPECIFIC PURPOSE PAYMENTS

Current Issues

In July 2002 the Commonwealth informed states it would place greater emphasis on its own policy objectives through SPP funding. Current negotiations are proving protracted and problematic, resulting in agreements not being finalised, with associated uncertainty about final outcomes.

All states have expressed concerns with the emerging trends in negotiations and some aspects of the Commonwealth's proposals. These concerns include:

- the Commonwealth extending the conditions of eligibility for SPP funding to include new requirements that states agree to commit either prescribed amounts or percentage growth in states-own funding in the area of the SPP
- the Commonwealth's focus on control over states' inputs such as matching funding arrangements, rather than a focus on outcomes and outputs in an attempt to improve service delivery
- a trend for the Commonwealth to promote its policy objectives in SPP agreements, rather than consensus national objectives
- proposals by the Commonwealth to withhold some funding in SPP agreements contingent on states meeting Commonwealth objectives
- where SPP agreements provide for cost indexation, broad, general inflation factors are proposed by the Commonwealth rather than industry specific indexation that reflect real cost pressures.

Australian Health Care Agreements

The current Australian Health Care Agreements (AHCAs) expire on 30 June 2003.

The AHCAs provide Commonwealth financial support for the provision of public hospital services. States received the Commonwealth's offer for the new agreements in April 2003. For Queensland, the Commonwealth's offer is \$8 billion over five years, which represents a reduction against a straight roll-over of the current agreement of \$160 million over the life of the new agreement.

The funding growth rate in the Commonwealth's offer is lower than the current agreement and cannot sustain the existing quality of services or infrastructure over the life of the new agreement. This is due to cost and other indexation factors not matching actual cost and demand pressures. Further, the Commonwealth's offer includes additional conditions, to which states would have to agree if they are to receive the full amount of proposed Commonwealth funding. These conditions include matching the growth rate of Commonwealth funding for public hospitals which has not been a provision in previous agreements. The difficulty for Queensland, as for many states, is that the Commonwealth's proposal, while imposing new conditions, does not accept any funding risk during the life of the agreement effectively shifting the risk of cost and demand increases onto the states.

The states have responsibility for broader community health services, and so the Commonwealth's demand for matched funding for public hospitals can limit the capacity for states to allocate appropriate priorities across all health services. In addition, the Commonwealth's offer is silent on a range of health reform areas identified by Health Ministers over the last year including workforce, the interface between acute and residential care, the health of Aboriginal and Torres Strait Islander people and the interface between emergency departments and general practitioners.

Commonwealth State/Territory Disability Agreement

The Commonwealth State/Territory Disability Agreement (CSTDA) expired on 30 June 2002 and has been extended while negotiations on a new agreement are conducted. The delay is partly due to concerns relating to the Commonwealth's offer of limited growth funds for accommodation and specialist support services, which are provided by states with financial assistance from the Commonwealth under the CSTDA. The Commonwealth's offer is not adequate to meet increased demand and real increases in the cost of delivering services.

Despite states being responsible for the delivery of these services and the primary funder, the Commonwealth is attempting to prescribe how much states will allocate from own sources for disability services over the period of the agreement.

Commonwealth State Housing Agreement

The current Commonwealth State Housing Agreement (CSHA) expires on 30 June 2003. The Commonwealth's offer for the new agreement represents a significant reduction in funding. This is largely due to the discontinuation of compensation for the impact of the GST on the costs of providing public housing assistance.

The Commonwealth has agreed to include for the first time in the CSHA some provision for cost increases, but not for increased demand for assistance. However, the impact of the Commonwealth's offer is diminished by the continuation of a 1% per annum reduction in funding for an efficiency dividend.

The Commonwealth also proposes up to 5% of the Commonwealth's funding will be withheld if states do not comply with specified Commonwealth reporting and policy requirements.

Natural Heritage Trust 2

The Commonwealth has proposed a five-year extension of the Natural Heritage Trust (NHT2) from 2002-03 to 2006-07. NHT2 will be directed towards conservation of biodiversity, sustainable use and management of land and water, and capacity building for individuals, industry and communities. Negotiations for an agreement between Queensland and the Commonwealth are nearing completion. The Commonwealth has agreed that the NHT2 grant can be matched by Queensland through in-kind support, but details are not finalised.

STATE-LOCAL GOVERNMENT RELATIONS

While local government has a responsibility to deliver various facilities and services to their individual communities, the Queensland Government has an interest in helping local government across the State achieve and improve delivery standards, and enhance equitable access to services and facilities, particularly in smaller communities. To do this, the Queensland Government provides considerable financial assistance to local government through a variety of grants and program funding. The Commonwealth also provides funding to local government through financial assistance grants and specific purpose payments.

There is a relatively complex funding relationship among local government, state governments and the Commonwealth. This arises from the nature of institutional arrangements in Australia and the respective roles and responsibilities of the three levels of government. In recognition of this complex funding relationship, details of state assistance to local government in Queensland are being reported in budget papers for the first time.

Grant Assistance

There is a wide 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 and rural/remote councils. Of Queensland's 157 councils, 17 are located in the south east corner of the State (Noosa Shire to the New South Wales border), eight regional city councils are located along Queensland's eastern seaboard (Cook Shire to Noosa Shire), while the remaining 132 are located in rural parts of the State and the Torres Strait¹. In this context, grants are a significant source of income to many local governments, especially in regional or rural communities. For some councils, grants can comprise more than 50% of their total revenue².

In 2001-02, \$878 million in grants was provided to Queensland's local governments. Of this amount, 58% was provided by the Queensland Government with the balance being provided by the Commonwealth. Current estimates for 2002-03 indicate the proportion of funding provided by the Queensland Government will increase to 61%, and remain at that level in 2003-04. Table 8.4 details State and Commonwealth grants to Queensland local government.

1. Department of Transport and Regional Services 2001-02 Report on the operation of the *Local Government (Financial Assistance) Act 1995* - Appendix F
2. Ibid - Chapter 1 Page 13.

Table 8.4
Grants to Local Government in Queensland¹

	2001-02 Actual \$'000	2002-03 Estimated Actual \$'000	2003-04 Estimate ² \$'000
Queensland Grants			
Aboriginal and Torres Strait Islander Policy	31,249	31,795	35,076
Arts Queensland	19,830	23,826	19,730
Emergency Services	1,971	4,051	4,659
Employment and Training	25,183	29,634	23,969
Families	47,798	54,805	56,180
Health	7,535	8,124	7,141
Housing	39,654	56,667	59,891
Local Government and Planning ³	214,316	185,143	188,506
Main Roads	45,791	38,151	40,927
Natural Resources and Mines	4,504	3,744	9,100
Queensland Transport	40,445	37,751	101,162
Sport and Recreation Queensland	15,465	19,662	14,676
Other	14,566	8,580	2,341
Total Queensland Grants	508,307	501,933	563,358
Commonwealth Grants			
Commonwealth – through the state	258,400	274,600	285,200
Commonwealth – direct to local government	111,295	50,436	74,327
Total Commonwealth Grants	369,695	325,036	359,527
Total Grants to Local Government Authorities and Aboriginal and Torres Strait Islander Councils	878,002	826,969	922,885
Notes: 1. Grants for current and capital purposes to local government authorities and Aboriginal and Torres Strait Islander councils. 2. Numbers yet to be confirmed and may be subject to revision. 3. Includes National Competition Payments. Source: Queensland Treasury and Commonwealth Budget Paper No.3, 2002-03 and 2003-04.			

The reduction in grants by some Queensland Government agencies in 2003-04 compared with previous years reflects the completion, or near completion, of several projects including:

- Cairns Esplanade Enhancement (Premier and Cabinet)
- Regional Landscape Strategy (Environmental Protection Agency)
- Burdekin Rangelands Reef Initiative (Primary Industries)
- Youth for the Environment and Local Communities Program (Employment and Training)
- Queensland Heritage Trails Network (Arts Queensland).

Further, several agencies provide responsive, demand driven programs where local government has the opportunity of pursuing funding.

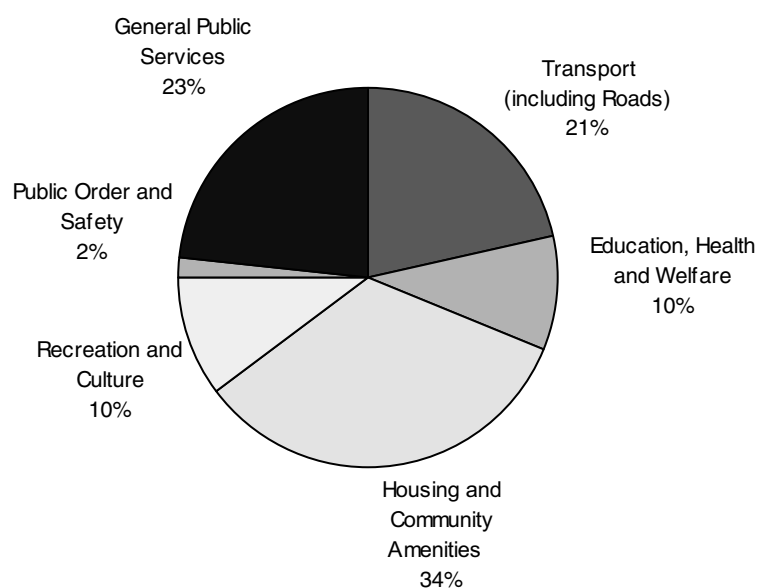
Grant Purposes

The composition of Queensland's grants to local government can vary from year to year. Nonetheless, the major areas of ongoing annual funding remain:

- general public services including contribution to the costs of providing local government services where councils are unable to levy land rates
- public library schemes where funding is provided to purchase books, upgrade equipment and increase the community use of library services
- employment and training programs to support and mentor trainees and apprentices, and enhance community employment
- the provision of rate subsidies to eligible pensioners
- bus service funding to the Brisbane City Council to support urban bus services
- capital works subsidies provided towards the costs of local public infrastructure
- road subsidies for local roads, networks and drainage.

Chart 8.5 highlights the broad range of purposes that local government grants are provided for by the Queensland Government.

Chart 8.5
State Grants to Local Government in Queensland by Purpose 2002-03



Future Developments

Review by the Local Government Grants Commission

The Queensland Local Government Grants Commission (the Commission) is an independent body created under the *Local Government Act 1993*. The Commission's primary role is to make recommendations to the State Local Government Minister on the distribution of financial assistance grants made available to local government under the Commonwealth *Local Government (Financial Assistance) Act 1995*.

The method for recommending the distribution of Commonwealth grants to local government was recently reviewed by the Commission and a new distribution methodology is due to commence in 2003-04. Agreement is still to be reached with the Commonwealth regarding an appropriate phase-in period for this new distribution methodology.

The Commission will undertake further research to refine its methodology on issues that were not resolved in this review. These issues include local government revenue raising capacity, inconsistencies in traffic volume data and cost weightings.

QUEENSLAND AS A TAXPAYER

Queensland, like other states, is liable for certain Commonwealth taxes including the GST and Fringe Benefits Tax (FBT). In addition, the National Tax Equivalents Regime (NTER) for Government Owned Corporations (GOCs) and selected business units imposes the equivalent of an income tax on these entities. Based on these taxes, the Queensland Government's annual Commonwealth tax exposure is over \$1 billion.

This exposure means there is a requirement to manage any liability associated with these taxes and the flow-on effects to Queensland's operating position and balance sheet. Proper management of these Commonwealth and other tax liabilities ensures there is minimal impost to the Queensland community.

GST Input Tax Credits and GST Liabilities

Overall there are some 3,300 Queensland Government bodies registered for the GST, of a total of almost 19,000 government bodies registered nationwide. This has created an ongoing compliance requirement for Queensland Government bodies to ensure all steps are being taken to accurately account for the GST, including claiming input tax credits and accounting for GST liabilities.

For 2002-03 the major Queensland Government departments and agencies are expected to generate a GST exposure of over \$1 billion, comprising gross GST input tax credits and gross GST liabilities. In 2001-02, the major Queensland Government departments and agencies GST exposure was \$1.041 billion, comprising \$805 million in gross GST credits and \$236 million in gross GST payable.

The Queensland Government's GST exposure is largely driven by the departments of Health, Transport, Education (including schools), Main Roads, Public Works and Families. This reflects the size of these agencies and their dealings with other Queensland Government departments.

Fringe Benefits Tax

In 2002-03, Queensland's FBT liability is estimated to be in the order of previous annual FBT liabilities (in 2001-02 the FBT liability was approximately \$22 million). The Education, Justice and Attorney-General, Police, Main Roads and Health portfolios are major contributors to Queensland's total FBT liability, collectively comprising 40% of the total FBT liability in 2001-02. Vehicle related expenses continue to be a major generator of FBT liabilities, currently comprising approximately 60% of the 2001-02 total FBT liability.

National Tax Equivalents Regime

The NTER is an administrative arrangement between the Commonwealth and the states under which Commonwealth income tax laws are applied to certain government bodies, namely GOCs and commercialised business units (CBUs). The NTER regime is administered by the ATO which charges the Queensland Government on a fee-for-service basis.

The primary objective of the NTER is to promote competitive neutrality, through a uniform application of income tax laws, between NTER entities and their privately held counterparts.

In 2001-02, Queensland's NTER entities generated \$79.7 million in income tax equivalent receipts. GOCs comprised 91% of these receipts, with the remainder coming from CBUs.

Commonwealth Tax Management

Further emphasis will be placed on agencies' corporate governance arrangements where the GST is concerned, to ensure Queensland Government agencies registered for the GST meet their Commonwealth tax obligations. In addition, there will be a continuing review of aspects of the Queensland Government's other Commonwealth tax liabilities.

APPENDIX A –TAX EXPENDITURE STATEMENT

OVERVIEW

Governments employ a range of policy tools to achieve social and economic objectives. These include 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 exempted 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 that is 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 charities, religious organisations or Government agencies. Very small exemptions or concessions are also excluded.

THE TAX EXPENDITURE STATEMENT

This year's statement includes 2002-03 estimates of tax expenditures for payroll tax, land tax, stamp duties 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 Summary¹

	2001-02 ² \$ million	2002-03 \$ million
Payroll Tax		
Exemption Threshold	718.3	768.9
Deduction Scheme ³	86.8	93.0
Offshore Banking Units and Regional Headquarters Concession	0.8	0.9
Section 10 Exemptions ⁴		
Local Government	62.0	66.4
Education	56.6	61.9
Hospitals	89.6	95.9
Total Payroll Tax	1,014.1	1,087.0
Land Tax		
Liability Thresholds ⁵	144.8	162.9
Graduated Land Tax Scale	94.5	78.9
Primary Production Deduction	48.1	50.1
Section 13 Exemptions Not Included Elsewhere ⁴	29.2	26.7
General Land Tax Rebate	41.3	5.8
Additional Land Tax Rebate	2.0	2.0
Land Developers' Concession	6.1	3.1
Total Land Tax	366.0	329.5
Duties		
Transfer Duty on Residential Property		
Home Concession	237.9	287.5
First Home Concession	45.9	55.5
Insurance Duty on General Insurance		
Non-life Insurance	148.4	175.4
Workcover	18.2	25.4
Health Insurance	109.7	109.9
Total Duties	560.1	653.7
Taxes on Gambling		
Gaming Machine Taxes	90.8	94.0
Casino Taxes	11.6	10.3
Total Gambling Tax	102.4	104.3
Notes:		
1. Numbers may not add due to rounding.		
2. 2001-02 estimates may have been revised since last year's Budget.		
3. Deduction of \$0.85 million, which reduces by \$1 for every \$3, is applicable to employers with an annual payroll between \$0.85 million and \$3.4 million.		
4. Applicable but not limited to religious bodies, public benevolent institutions and other exempt charitable institutions.		
5. Land tax is payable only on the value of taxable land above a threshold which depends on the ownership structure.		

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

Sole employers who employ in Queensland (not those who are part of a group for payroll tax purposes) with an annual payroll of \$0.85 million or less are exempt from payroll tax. On the basis of average weekly earnings, this threshold corresponds to approximately 23 full time equivalent employees. This concession is designed to assist small business.

Deduction Scheme

Sole employers who employ in Queensland with payrolls between \$0.85 million and \$3.4 million benefit from a deduction of \$0.85 million, which reduces by \$1 for every \$3 by which the annual payroll exceeds \$0.85 million. There is no deduction for employers with an annual payroll in excess of \$3.4 million.

Offshore Banking Units (OBUs) and Regional Headquarters Concessions (RHQs)

Under the *Offshore Banking Units and Regional Headquarters Act 1993* and *Offshore Banking Units and Regional Headquarters Regulation 1994*, offshore banking units and regional headquarters are exempted from paying payroll tax on payrolls relating directly to Queensland-based activities for the period.

Section 10 Exemptions

A number of organisations are provided with exemptions from payroll tax under Section 10 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. Residential land owned by individuals is excluded from the estimate.

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.

Primary Production Deduction

The taxable value of land owned by an individual, trustee or some absentees and companies does not include all or part of the 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 show grounds.

General Land Tax Rebate

A general rebate on land tax of 15% is provided to non-absentee individual land tax payers. The rebate was available to company, trustee and absentee land tax payers in 2001-02.

Additional Land Tax Rebate

In 2001-02, an additional phasing-in rebate was available to trustees and companies where the taxable land value was less than \$165,000, with a schedule of rebates offered according to the taxable value of the land. In 2002-03, the phasing-in rebate was expanded to include absentees and adjusted to a maximum of 36%, reducing by 0.5 percentage points for every \$1000 of taxable value over \$150,000.

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 intended to be a principal place of residence. A concessional rate of 1% applies on values up to \$250,000 compared to the normal schedule of rates between 1.5% and 3.25%. For properties valued greater than \$250,000, the scheduled scale of conveyancing duty applies on the excess.

First Home Concession

Where a purchaser has not previously owned a residence in Queensland or elsewhere, a stamp duty rebate in addition to the home concession is applicable on properties valued up to \$160,000. (This concession is not 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 and ranges in value from \$800 for properties valued under \$80,000 to \$200 for properties valued between \$155,000 and \$160,000.

Insurance Duty

The benchmark tax base is assumed to be all premiums for general insurance policies (except for life assurance). The benchmark tax scale is assumed to be the scale that actually applied in each financial year.

The rate of duty applicable to general insurance is 8.5%. However, concessional rates apply to other insurance types (5% for motor vehicle 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 mortgage is exempt up to an amount of \$100,000 advanced for a first home and \$70,000 advanced for others with mortgage duty payable on the balance of the amount secured. Similarly, a concession from mortgage duty is also available of an amount up to the first \$100,000, for refinancing an amount outstanding under a mortgage on the borrower's home.

The data required to estimate the revenue foregone are not available.

Gambling Taxes

Gaming Machine Tax Concessions for Licensed Clubs

The benchmark tax base is assumed to be all gaming machines operated by 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 also 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 concessions statement serves to highlight the cost and nature of concessions covering both concessions which are reflected as outlays in the Budget (eg. 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 (eg. direct subsidy or rebate payments)
- revenue foregone (eg. concessional fees and charges)
- cost of goods and services provided.

As this represents the first presentation of a concessions statement it is likely to be subject to future refinement, development and revision. As such the total value of concessions should be considered as indicative only.

Table B.1 sets out the cost of concessions by agency. The total value of concessions is estimated at \$739 million in 2003-04.

**Table B.1
Concessions by Agency¹**

Agency	2002-03 Est. Act \$million	2003-04 Estimate \$million
Department of Arts		
Concessional Entry Fees	0.3	0.4
Department of Education		
Living Away from Home Allowances Scheme	5.6	5.8
School Transport Assistance for Students with Disabilities	20.7	22.8
Non-State School Transport Assistance Scheme	3.7	3.8
Department of Emergency Services		
Provision of Free Ambulance Services to Pensioners and Seniors	116.0	124.5
Urban Fire Levy Concession	4.7	4.9
Department of Employment and Training		
TAFE Concessions	9.6	9.9
Environment Protection Agency		
Concessions Entry and Tour Fees	0.1	0.2
Department of Families		
Electricity Rebate Scheme	43.9	47.7
Electricity Life Support Scheme	0.5	0.5
Pensioner Rate Subsidy Scheme	45.3	46.7
Rail Concession Scheme	31.7	35.2
Department of Health		
Spectacles Supply Scheme	3.3	3.3
Medical Aids Subsidy Scheme	12.9	13.0
Patient Travel Subsidy Scheme	1.5	1.6
Oral Health	73.5	78.3
Department of Housing		
ATSI Housing Rental Rebate	7.6	8.0
Public Rental Housing Rebate	122.6	130.0
Department of Justice and Attorney-General		
Public Trust Office – Rebates for Fees	7.9	8.2
Department of the Premier and Cabinet		
South Bank Corporation – Venue Hire Discounts and Car Park Student Concession	0.2	0.2
Department of Transport		
Transport Concessions incl. Taxi Subsidies	38.1	39.5
Motor Vehicle Registration Concession	45.0	48.2
Boat Registration Concessions	0.6	0.7
School Transport Assistance Scheme	104.5	106.2
Total	700.9	739.3
Note: 1. Numbers may not add due to rounding.		

Department of 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.

Department of Education

The Department of Education 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 costs and travel costs.

The department also offers assistance to students with disabilities to access school programs able 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

Since the beginning of the first term of the current Government, Pensioners and Seniors Card holders have been provided with access to free ambulance and patient transport services through the Queensland Ambulance Service. Pensioners and Seniors card holders will continue to receive this free service following the commencement of Community Ambulance Cover on 1 July 2003.

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 subjects 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.

Environment Protection Agency

The department offers concessional entry ticket prices on specified national parks including St Helena Island, David Fleay Wildlife Park and Mon Repos Conservation Park.

Department of Families

The Department of Families has responsibility for the Queensland Government Electricity Rebate Scheme and reimburses the electricity retail corporations for rebates provided. The scheme provides a rebate to eligible pensioners and Seniors Card holders throughout Queensland.

The Electricity Life Support Concession Scheme is aimed at assisting seriously ill people who use home-based life support systems (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 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 health lifestyle.

Department of Health

The Spectacles Supply Scheme assists eligible Queensland residents by providing a comprehensive range of free basic prescription spectacles.

The Medical Aids Subsidy Scheme subsidises the cost of a range of aids and equipment from an approved list to assist eligible people with stabilised or permanent disabilities to remain living at home.

The Patient Travel Subsidy Scheme (PTSS) provides subsidised assistance for both travel and accommodation to all eligible Queensland patients and in some cases their carers to enable patients to access specialist medical services from which they are isolated. Concession card holders qualify for a level of accommodation assistance through the PTSS and this is the sole expenditure reflected in Table B.1.

The Oral Health Scheme provides free dental care to eligible clients and their dependents who possess a current Health Care Card, Pensioner Concession Card or Queensland 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 concession represents revenue foregone in rental agreements with Indigenous households in targeted public housing. The target group is low to moderate income Indigenous households.

The Public Rental Housing Rebate targets low to moderate income families and individuals and represents the difference between market rent and the rent that is charged based on the tenant's income.

Department of Justice and Attorney-General

The Public Trust Office offers fee rebates for clients who, because of financial circumstances, cannot pay the full amount of a fee charged by the Office.

Department of the Premier and Cabinet

Community groups and charities are given discounted charges for the hire of venues within the South Bank parklands.

Discounted charges apply to students when they park in the South Bank carpark.

Department of Transport

Transport concessions are provided by Government to ensure a reasonable level of access and mobility for people who are transport disadvantaged. Eligible categories include Pensioner Concession Card holders, Seniors Card holders, children and secondary students. Transport concessions include the payment of taxi subsidies for people with an eligible disability. Motor vehicle and boat registration concessions are provided to holders of a Pensioner Concession Card, Seniors Card and Totally or Permanently Incapacitated Card as a means to making the cost of travel more affordable for people who are transport disadvantaged.

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 in a strong position to manage adverse impacts. Queensland's AAA credit rating, based on its low tax status and low debt position, means it has greater capacity than any other jurisdiction in Australia to withstand the risks that are 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 expenditure. Increases in salaries and wages are negotiated through Enterprise Bargaining Agreements.

The 2003-04 Budget and forward estimates include a provision for wage increases consistent with an outcome of approximately 3.5% per annum or, where an agreement has been reached, the expected cost of implementing that agreed outcome.

All other things being equal, a one percentage point variation in public sector wage outcomes for the General Government sector broadly equates to \$110 million in 2003-04 (assuming a full-year impact).

Electricity Pool Prices –Impact on Community Service Obligation Payments

The Queensland Government is committed to a policy of uniform electricity tariffs. This policy provides that all franchise customers of the same class in Queensland pay the same rate for electricity no matter where they are located in the State. The Government gives effect to this policy through the provision of Community Service Obligation (CSO) payments to Queensland electricity retailers.

The quantum of these payments in any given year is influenced in part by the electricity pool price, which is the prevailing wholesale electricity price in the national electricity market.

Depending on whether the electricity is being sourced from Queensland Government owned or private sector/interstate generators, there is the scope for increases/(decreases) in CSO payments to be offset by higher/(lower) dividend and tax equivalent payments from the electricity supply industry.

The assumption used in the Budget is that pool prices will decrease over the course of 2003-04 reflecting the commissioning of a number of new generation projects.

In practice, the level of contract cover held by Queensland electricity retailers is an important factor in determining whether a variation in pool prices translates to a change in CSO expense. However, holding all other assumptions constant, a \$1 per MWh variation in electricity pool prices would lead to a change in CSO expenses of approximately \$25 million.

Interest Rates

The General Government sector has a very moderate level of debt with a total debt servicing cost forecast at \$247 million in 2003-04.

The current average duration of General Government debt is approximately four years. Accordingly, a one percentage point variation in interest rates would lead to a very modest change in debt servicing costs in 2003-04.

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 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 (i.e. within a given Budget year).

For this reason, the composition, size and location of the State's population is critical in projecting the State's expenditure needs across the forward estimate period.

Unforeseen Events

It is almost inevitable that some events will occur during the 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 (TA) is an amount of appropriation within Treasury's administered Budget as a whole-of-Government provision for potentially emergent costs, for example natural disasters, and also contains some items that have not been finalised for inclusion in agency estimates at the time of the Budget.

In 2003-04, the Treasurer's Advance allocation is \$86 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 run 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.

A one percentage point variation in investment earnings on assets held to meet future employee entitlements would lead to a change in investment revenue of approximately \$100 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.

The 2003-04 Budget royalty estimates are based on a year average A\$/US\$ exchange rate of around 65 cents.

A one cent variation in the A\$/US\$ would lead to a change in royalties revenue of approximately \$10 million in 2003-04.

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 \$5 million.

The 2003-04 Budget assumptions for export coal prices are derived 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 \$14 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 2003-04, 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 \$12.5 million in 2003-04.

A one percentage point variation in the volume of transactions would change transfer duty revenues by approximately \$10.5 million in 2003-04.

Wages and Employment Growth –Payroll Tax Collections

Wages and employment growth have a direct impact on payroll tax collections. The 2003-04 Budget assumptions are for average earnings growth of 4.25% and employment growth of 2.25%.

A one percentage point variation in average earnings growth would change payroll tax collections by approximately \$8 million.

A one percentage point variation in employment growth would change payroll tax collections by approximately \$16 million.

Parameters Influencing Commonwealth GST Payments to Queensland

The Commonwealth Government's national tax reform package was introduced with effect from 1 July 2000. As part of this package, the Commonwealth and all State and Territory Governments signed an *Intergovernmental Agreement on the Reform of Commonwealth - State Financial Relations* (IGA). Under this agreement, there have been substantial changes to the funding arrangements for states and territories, including compensation for certain costs and revenue foregone.

Estimates of Commonwealth GST revenue grants to States and Territories are dependent on GST revenue collection which is likely to be closely correlated with the general level of economic activity. The Commonwealth Government has provided estimates of GST collections in its Budget Papers. In 2003-04, Queensland's Budget will bear the risks of fluctuations in GST revenues and the other components of the package (First Home Owners Grant scheme, administrative costs associated with the GST, gambling tax losses, etc).

The Commonwealth's estimate of collections in 2003-04 is based on its forecast of national GDP growth of 3.25% and consumption growth of 3.25%. As with all other tax estimates, there is a risk of lower collections than estimated by the Commonwealth if economic growth and consumption is weaker than expected.

There is not enough information provided in the Commonwealth Budget Papers to prepare indicative forecasts of the sensitivity of GST estimates to key variables. However, based on current Commonwealth estimates, Queensland's maximum exposure in 2003-04 is presently \$197 million, which represents the amount GST revenue would need to reduce by before the Guaranteed Minimum Amount provisions would be activated.

Commonwealth Grants (Specific Purpose Payments)

Specific Purpose Payments (SPPs) are payments made by the Commonwealth to promote its policy objectives. Indexation arrangements and distribution among the States vary for each SPP. The Commonwealth reviews the payments each year and it has guaranteed it will not reduce SPPs as a result of national tax reform. However, the State has no guarantee that the Commonwealth will not reduce SPPs for other purposes.

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 Consolidated Financial (AAS31) Report (Note 34).

A summary of the State's quantifiable contingent liabilities as at 30 June 2002 is provided below.

Table C.1 Contingent Liabilities	
	2002 \$ million
Nature of Contingent Liability	
Guarantees and indemnities	6,412
QTC – stock loans	1,181
Training agreement	47
Grants and subsidies	9
Other	11
Total	7,660

APPENDIX D –DEMOGRAPHIC TRENDS

Trends in government service delivery reflect the general social and economic trends affecting the State and the fiscal strategies adopted by the Government. Changes in the size and structure of the population affect overall economic growth and the demand for government services and subsequently have an impact on the State Budget.

The Queensland Government has long recognised the importance of demographic change and the challenges it poses to effective service delivery and sustainability of the State's sound fiscal position. Preliminary indications from Queensland Treasury's Intergenerational Research Project¹ are that demographic change will generate increased fiscal pressure in the years ahead.

It is imperative that state funds continue to be directed to areas of emerging need in a timely and appropriate manner. To achieve this, the Queensland Government has developed a capacity to generate state-of-the-art demographic projections and to analyse demographic issues and impacts. The principal demographic issues likely to impact on state service delivery and finances are described below.

POPULATION GROWTH

Since the early 1970s, Queensland's population has consistently grown at a faster rate than the larger states of New South Wales and Victoria, as shown in Table D.1. Over the past five years, Queensland has recorded the fastest growth rate of any state. At 30 June 2002, Queensland's share of the national population reached 18.9% compared with 18.3% five years ago (expected to reach 19.2% by June 2004). The State's share of the nation's population growth over this five-year period was 27.3%.

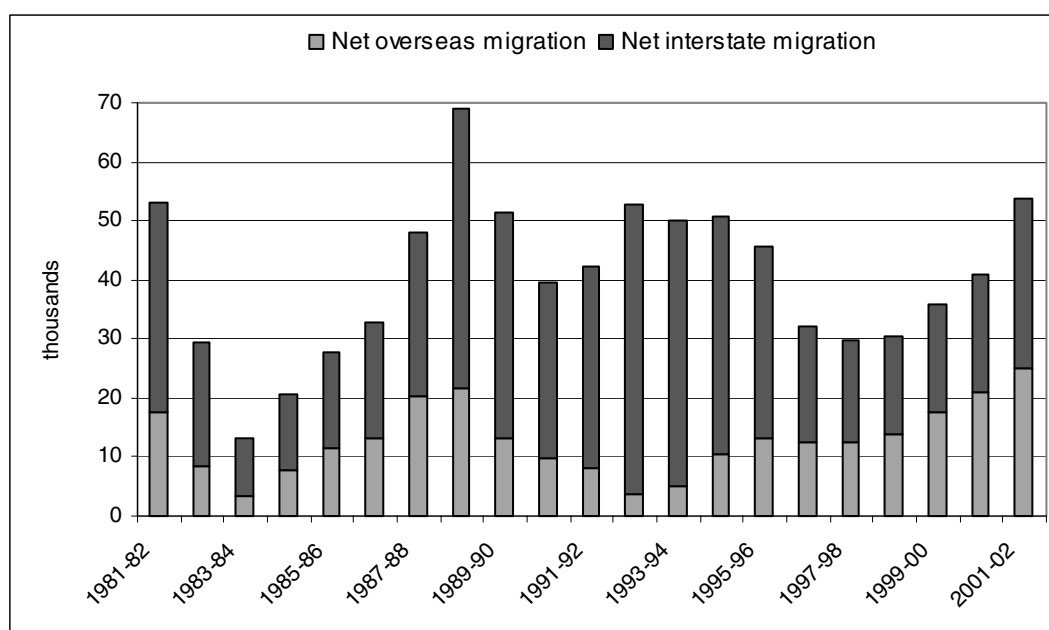
Table D.1 Proportion of National Population and Population Growth Five Years Ending 30 June 2002			
	Share of Population as at 30 June 2002 (%)	Share of Population Growth Over Five Years (%)	Average Annual Growth Rate Over Five Years (%)
State			
New South Wales	33.8	31.7	1.1
Victoria	24.8	24.0	1.2
Queensland	18.9	27.3	1.8
Western Australia	9.8	11.6	1.4
South Australia	7.7	3.4	0.5
Tasmania	2.4	(0.1)	0.0
Australian Capital Territory	1.6	1.1	0.8
Northern Territory	1.0	1.0	1.2
Australia	100.0	100.0	1.2
<i>Source: ABS 3101.0.</i>			

¹ The Intergenerational Research Project is a component of a broader Treasury research agenda on the drivers of economic growth in Queensland. It is being conducted by the Office of Economic and Statistical Research, and its aim is to ascertain the potential future effects of demographics and other economic and fiscal factors on the Queensland economy and budget.

Migration

Interstate and overseas migration has been the major contributor to Queensland's population growth over the past five years. Net migration has accounted for 61% of Queensland's population growth over the five years ending 30 June 2002, with the remaining 39% accounted for by natural increase (births less deaths).² Chart D.1 shows that net migration has accelerated over the past five years to reach 53,900 persons in 2001-02, the highest level since 1989-90. The strong growth in Queensland's population over the past year has been due to growth in both interstate and overseas migration.

Chart D.1
Components of Net Migration Growth in Queensland



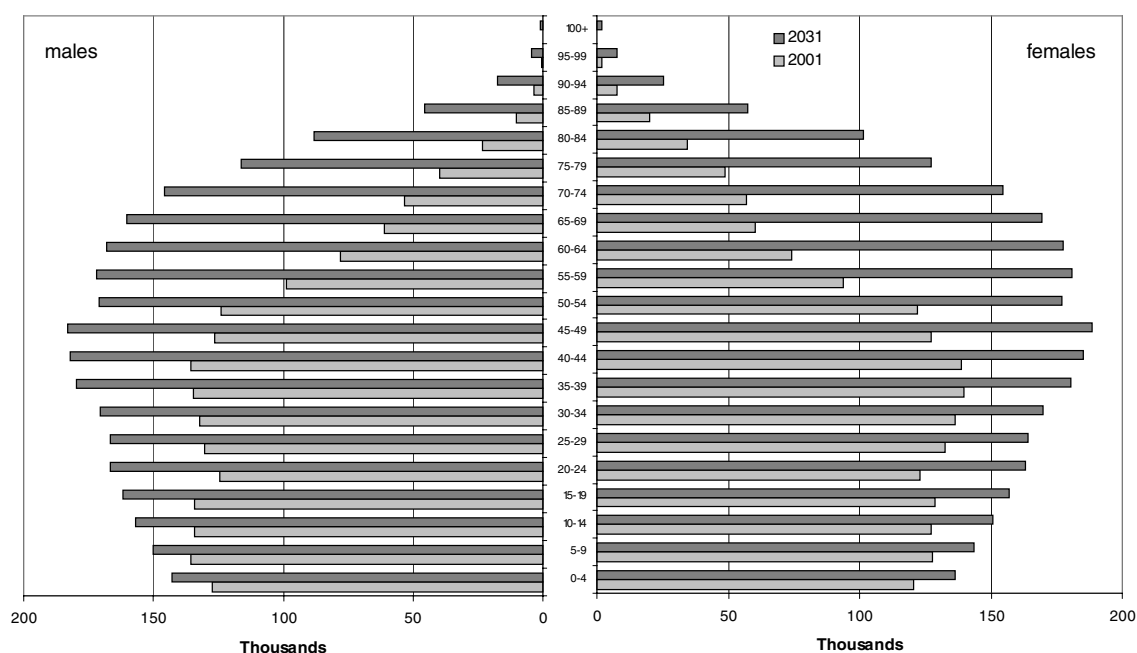
Source: ABS 3101.0.

Ageing Population

The main demographic change affecting all Australian states is the changing age structure of the population. Chart D.2 indicates that the traditional age pattern will change substantially in coming decades as the proportion of older people increases and the proportion of young people decreases.

² ABS 3101.0.

Chart D.2
Age and Sex Distribution, Queensland, 2001 and 2031



Source: ABS 3201.0; and OESR, unpublished population projections

In 2001, more Queenslanders were aged under 15 years (21.3%) than 65 years and over (11.6%). As shown in Table D.2, this is expected to change over the next 30 years, with people aged 65 years and over living in Queensland projected to increase three-fold in number, and to nearly double their share of population to 22%. While the number of people aged under 15 years is projected to increase slightly, their share of population is expected to decline to 15.8% in 2031.

By 2031, the dependency ratio, i.e. the ratio of the dependent population (those aged 0-14 years plus those 65 years and over) to the working age population (those aged 15-64 years), is expected to be similar to that in 1971, but with the majority of the dependent group being aged people rather than younger people as was the case earlier.

Table D.2 Queensland's population: Past (1971), Present (2001) and Future (2031)¹ Proportion by Age Group and Dependency Ratio			
	1971	2001	2031
Age Group			
0-14 years	29.8	21.3	15.8
15-64 years	61.5	67.1	62.2
65 years and over	8.8	11.6	22.0
Dependency Ratio	62.7	49.1	60.8
Note: 1. Numbers may not add due to rounding. Source: ABS 3101.0; and OESR, unpublished projections			

The ageing of the population will place increasing demands on government services, particularly health and community services, placing strong pressure on state governments to build the capacity to deliver social services to those in the older age groups.

Indigenous Demographics

Indigenous Australians comprise 3% of the Queensland population and Queensland's Indigenous population represents 27% of the total Indigenous population nationally.³

The age distribution of the Aboriginal and Torres Strait Islander population in Queensland is very different to the Queensland population as a whole. The Indigenous population is relatively young, with 40% being aged under 15 years compared with 21% of the general population.⁴ Indigenous Queenslanders have a life expectancy more than 20 years less than that for non-Indigenous people,⁵ while only 3% of the Indigenous population are older than working age (65 years and over) compared with 12% for the entire population.⁶

Queensland Indigenous women have higher rates of fertility (2.1 babies per woman) than all Queensland women (1.7 babies per woman), with fertility rates of young Indigenous women (aged 20-24 years) more than twice that of non-indigenous women in the same age group. The health status of Indigenous babies tends to be poorer as indicated by low birth weight.⁷

REGIONAL DISPERSION

Queensland is the least centralised of the Australian mainland states. At 30 June 2002, 54% of the State's population lived outside the Brisbane metropolitan area (Brisbane Statistical Division) whereas in the other states combined, only 32% of the population lived outside the metropolitan areas (capital city statistical divisions).⁸ While the growth rate in Brisbane's population was slightly higher than in the rest of Queensland over the past five years, the rate of growth in the State's population outside the metropolitan area exceeded the growth in population living outside the other states' metropolitan areas.

There has been a trend for people to leave Queensland's rural western areas and move to the State's coastal centres, the south-east corner or interstate. One of the effects of young people and persons of working age, leaving rural parts of the State is the change in the mix of age groups who choose to remain in rural areas. One result is an increase in the proportion of older people in rural areas. Changes such as this have implications for service providers such as those associated with health care.

³ ABS 4705.0.

⁴ ABS 2001 Census of Population and Housing.

⁵ ABS 3302.0.

⁶ ABS 2001 Census of Population and Housing.

⁷ ABS 3301.0.

⁸ ABS 3201.0.

While population growth and associated urban development demand attention in terms of infrastructure and service provision, so does the spatial distribution of particular population characteristics such as increasing proportions of aged, unemployed and low income people in many communities that are not experiencing rapid population growth. Certain areas of the State have a high proportion of people with low levels of education, which has implications for the economic development of these regions. This education status is then mirrored by the distribution of persons earning relatively low incomes. In turn, this has implications for service providers, especially those associated with income support, community safety, training and health.

Temporary Populations

Available evidence suggests that temporary movements of people from the southern states generate a substantial redistribution of population to Queensland. Temporary movers are people who are seasonal or fly-in/fly-out workers, those on extended holidays, and students.

These movements have significant implications for the cities and regions that attract temporary migrants. An influx of temporary migrants can radically alter the size and composition of the population and hence the demand for services and facilities.

Temporary movers contribute to the economies of their destinations through demand for goods and services and, in the case of production-related moves, through provision of labour. Temporary movements also have other implications. Visitors place pressure on the local environment and have social impacts on the communities with which they interact. Equally important is the demand exerted on local infrastructure, services and facilities.

COMPOSITION OF FAMILIES AND HOUSEHOLDS

Average family size is declining as a result of declining fertility rates and increasing numbers of divorces, single parent families and aged people living alone. Australian Bureau of Statistics medium household projections, shown in Table D.3, indicate that couple-only families will become the dominant family type in Queensland within the next 10 years. These factors will contribute to the growth in the number of households significantly exceeding forecast population growth.

Table D.3 Queensland's Families: Projected Number of Families by Family Type, 2001 to 2021¹ (Medium Series)						
Family Type	2001		2011		2021	
	' 000	%	' 000	%	' 000	%
Couple Families With Children	435.8	43.2	468.3	38.7	524.2	37.1
Couple Families Without Children	393.1	39.0	519.9	43.0	638.7	45.2
One Parent Families	161.7	16.0	198.6	16.4	226.4	16.0
Other	18.7	1.9	22.0	1.8	24.1	1.7
Total	1,009.2	100.0	1,208.8	100.0	1,413.4	100.0
Note: 1. Numbers may not add due to rounding. Source: ABS 3236.0.						

IMPLICATIONS OF DEMOGRAPHIC TRENDS

Demographic changes will have social, economic, fiscal and environmental implications including:

- growing demand for services, and therefore growing fiscal pressure, for all three tiers of government, particularly in areas such as health and aged care
- additional demands for infrastructure including transport, water, sewerage, energy, community centres and recreational facilities
- changes in the mix of service demands including an increased demand for lifelong education and training
- changing production and consumption patterns linked to an ageing population
- environmental impacts from increased resource use and urbanisation.

APPENDIX E –GOVERNMENT FINANCE STATISTICS

INTRODUCTION

Government Finance Statistics (GFS) data is used extensively in the presentation of financial statement information in the Budget Papers.

This appendix contains detailed financial statements for the Queensland Public Sector based on Australian Bureau of Statistics (ABS) Government Finance Statistics 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 appendix provides background information on GFS, including the conceptual basis for GFS and its relationship with Australian accounting standards, sector definitions and a list of reporting entities.

The following tables present the operating statement, balance sheet and cash flow statements for the General Government, Public Non-financial Corporations (PNFC) and Non-financial Public sectors on an accrual GFS basis.

General Government Sector

For 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 is projected to have a net operating deficit in 2003-04 of \$176 million (\$216 million deficit in 2002-03).

The deficit partly reflects the inclusion in the sector of some entities which, in the course of their normal operation, do not operate in surplus. In addition, some dividends are paid from prior year surpluses, capital restructuring and gains on the sale of assets. Under GFS conventions, proceeds from these sources are not included in revenues and hence dividend payments arising from these sources produce negative operating results.

The PNFC sector is expected to produce a net operating surplus of \$87 million in 2004-05 and continue to improve in the outyears.

Payments for investments in non-financial assets, which represents capital expenditure less sales of physical assets, are projected to increase by \$441 million from the estimated actuals to \$2,193 million in 2003-04. This is partly due to the Fisherman Island expansion facility and development of a new gas fired power station in Townsville. Electricity entities will be carrying out replacement and upgrade of infrastructure supporting the electricity network, and Queensland Rail will enhance its rail network while the Government's ports will also be making significant investments.

The PNFC sectors net worth was \$12.169 billion in 2001-02, and is expected to increase to \$12.644 billion in 2002-03 and \$12.802 billion in 2003-04. Further increases in net worth are expected across all the outyears.

UNIFORM PRESENTATION FRAMEWORK FINANCIAL INFORMATION

The following tables 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 E.1 General Government Sector Operating Statement ⁽¹⁾						
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
	Actual	Est.Act	Budget	Projection	Projection	Projection
	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million
GFS Revenue						
Taxation revenue	4,815	5,511	5,664	5,951	6,117	6,454
Current grants and subsidies	9,520	10,071	10,389	10,847	11,417	11,958
Capital grants	696	477	480	419	331	316
Sales of goods and services	1,837	1,880	1,914	1,918	1,958	2,002
Interest income	(464)	(247)	1,038	1,109	1,174	1,238
Other	2,453	2,221	1,897	1,942	2,110	2,129
Total Revenue	18,857	19,913	21,382	22,186	23,107	24,097
<i>Less</i> GFS Expenses						
Gross operating expenses						
Employee expenses	8,800	9,244	9,962	10,291	10,824	11,493
Other operating expenses	3,423	3,492	3,614	3,879	3,978	4,099
Depreciation	1,510	1,396	1,429	1,446	1,461	1,474
Superannuation interest expense	626	642	751	804	857	910
Other interest expense	223	225	247	287	336	358
Current transfers	4,713	4,752	4,804	4,970	5,133	5,172
Capital transfers	456	512	422	347	320	308
Total Expenses	19,751	20,263	21,229	22,024	22,909	23,814
<i>Equals</i> GFS net operating balance	(894)	(350)	153	162	198	283
<i>Less</i> Net acquisition of non-financial assets						
Purchases of non-financial assets	2,416	2,410	2,545	2,122	1,927	1,818
Sales of non-financial assets	(351)	(587)	(225)	(246)	(231)	(210)
<i>Less</i> Depreciation	1,511	1,396	1,429	1,446	1,461	1,474
<i>Plus</i> Change in inventories	(2)	36	8	(12)	(12)	(23)
<i>Plus</i> Other movements in non-financial assets	155	(44)	(1)	(10)	(5)	..
<i>Equals</i> Total net acquisition of non-financial assets	708	419	898	408	218	111
<i>Equals</i> GFS Net lending / (borrowing) (Fiscal Balance)	(1,602)	(769)	(745)	(246)	(20)	172
Note: 1. Numbers may not add due to rounding.						

Table E.2						
Public Non-financial Corporations Sector Operating Statement ⁽¹⁾						
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
	Actual	Est.Act	Budget	Projection	Projection	Projection
	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million
GFS Revenue						
Current grants and subsidies	988	926	983	1,145	1,141	1,115
Capital grants	43	50	43	44	44	45
Sales of goods and services	6,012	5,950	6,263	6,509	6,825	7,081
Interest income	72	78	77	64	59	64
Other	280	331	281	330	336	380
Total Revenue	7,395	7,335	7,647	8,092	8,405	8,685
<i>Less</i> GFS Expenses						
Gross operating expenses						
Employee expenses	1,331	1,471	1,533	1,567	1,586	1,611
Other operating expenses	3,162	3,081	3,320	3,403	3,478	3,446
Depreciation	1,080	1,125	1,215	1,289	1,365	1,432
Other interest expense	629	726	795	806	826	887
Other property expenses	1,289	1,118	860	873	972	1,071
Current transfers	88	27	72	64	58	58
Capital transfers	7	3	28	3	3	3
Total Expenses	7,587	7,551	7,823	8,005	8,288	8,508
<i>Equals</i> GFS net operating balance	(192)	(216)	(176)	87	117	177
<i>Less</i> Net acquisition of non-financial assets						
Purchases of non-financial assets	2,096	2,216	2,240	2,723	2,045	1,506
Sales of non-financial assets	(675)	(464)	(47)	(248)	(139)	(102)
<i>Less</i> Depreciation	1,080	1,125	1,215	1,289	1,365	1,432
<i>Plus</i> Change in inventories	(4)	6	3	(6)	2	(2)
<i>Plus</i> Other movements in non-financial assets	13	24	..	25	26	27
<i>Equals</i> Total net acquisition of non-financial assets	349	657	981	1,205	569	(3)
<i>Equals</i> GFS Net lending / (borrowing) (Fiscal Balance)	(541)	(873)	(1,157)	(1,118)	(452)	180
Note: 1. Numbers may not add due to rounding.						

Table E.3						
Non-financial Public Sector Operating Statement ⁽¹⁾						
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
	Actual	Est.Act	Budget	Projection	Projection	Projection
	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million
GFS Revenue						
Taxation revenue	4,533	5,164	5,301	5,575	5,732	6,061
Current grants and subsidies	9,478	10,079	10,401	10,853	11,420	11,962
Capital grants	734	519	523	462	376	361
Sales of goods and services	7,733	7,665	8,012	8,261	8,617	8,917
Interest income	(393)	(182)	1,102	1,160	1,220	1,289
Other	1,419	1,456	1,337	1,401	1,477	1,451
Total Revenue	23,504	24,701	26,676	27,712	28,842	30,041
<i>Less</i> GFS Expenses						
Gross operating expenses						
Employee expenses	10,131	10,664	11,444	11,807	12,359	13,053
Other operating expenses	6,465	6,133	6,477	6,795	6,968	7,062
Depreciation	2,591	2,521	2,644	2,736	2,825	2,905
Superannuation interest expense	626	642	751	804	857	910
Other interest expense	850	938	1,029	1,079	1,148	1,232
Current transfers	3,491	3,864	3,907	3,892	4,047	4,107
Capital transfers	457	504	447	350	323	311
Total Expenses	24,612	25,266	26,699	27,463	28,527	29,580
<i>Equals</i> GFS net operating balance	(1,107)	(565)	(23)	249	315	461
<i>Less</i> Net acquisition of non-financial assets						
Purchases of non-financial assets	4,478	4,362	4,785	4,845	3,973	3,324
Sales of non-financial assets	(1,015)	(788)	(272)	(494)	(369)	(312)
<i>Less</i> Depreciation	2,591	2,521	2,644	2,736	2,825	2,905
<i>Plus</i> Change in inventories	(6)	42	11	(18)	(10)	(24)
<i>Plus</i> Other movements in non-financial assets	169	(20)	(1)	15	21	27
<i>Equals</i> Total net acquisition of non-financial assets	1,035	1,075	1,879	1,612	790	110
<i>Equals</i> GFS Net lending / (borrowing) (Fiscal Balance)	(2,142)	(1,640)	(1,902)	(1,363)	(475)	351
Note:						
1. Numbers may not add due to rounding.						

Table E.4
General Government Sector Balance Sheet ⁽¹⁾

	2001-02 Actual \$ million	2002-03 Est.Act \$ million	2003-04 Budget \$ million	2004-05 Projection \$ million	2005-06 Projection \$ million	2006-07 Projection \$ million
Assets						
Financial Assets						
Cash and deposits	1,179	1,167	944	993	999	1,050
Advances paid	152	149	165	185	200	215
Investments, loans and placements	13,161	13,003	14,074	15,051	16,043	17,002
Other non-equity assets	4,319	4,231	4,268	4,455	4,706	4,898
Equity	12,804	13,328	13,484	14,007	14,613	15,235
Total Financial Assets	31,615	31,878	32,935	34,691	36,561	38,400
Non-Financial Assets	45,485	47,395	49,655	51,541	53,289	54,968
Total Assets	77,100	79,273	82,590	86,232	89,850	93,368
Liabilities						
Borrowing	3,459	3,683	4,383	4,893	5,270	5,403
Superannuation liability	10,062	11,668	12,722	13,791	14,859	15,935
Other employee entitlements and provisions	3,360	3,178	3,132	3,109	3,058	2,997
Other non-equity liabilities	2,125	2,052	2,041	2,043	2,027	2,021
Total Liabilities	19,007	20,581	22,278	23,836	25,214	26,356
Net Worth	58,093	58,692	60,312	62,396	64,636	67,012
Net Financial Worth	12,608	11,297	10,657	10,855	11,347	12,044
Net Debt	(11,032)	(10,636)	(10,800)	(11,336)	(11,972)	(12,864)

Note:

1. Numbers may not add due to rounding.

Table E.5
Public Non-financial Corporations Sector Balance Sheet ⁽¹⁾

	2001-02 Actual \$ million	2002-03 Est.Act \$ million	2003-04 Budget \$ million	2004-05 Projection \$ million	2005-06 Projection \$ million	2006-07 Projection \$ million
Assets						
Financial Assets						
Cash and deposits	732	942	717	642	818	1,043
Investments, loans and placements	973	902	890	924	958	991
Other non-equity assets	1,738	1,274	1,210	1,156	1,150	1,146
Equity	51	41	38	43	52	60
Total Financial Assets	3,494	3,159	2,855	2,765	2,978	3,240
Non-Financial Assets	25,133	26,124	27,451	29,086	30,117	30,531
Total Assets	28,627	29,283	30,306	31,851	33,095	33,771
Liabilities						
Deposits held	72	92	92	92	92	92
Borrowing	12,269	12,701	13,517	14,366	14,516	14,340
Other employee entitlements and provisions	3,088	3,110	3,148	3,317	3,581	3,781
Other non-equity liabilities	1,028	736	747	751	975	1,006
Total Liabilities	16,458	16,639	17,504	18,526	19,164	19,219
Net Worth	12,169	12,644	12,802	13,325	13,931	14,552
Net Financial Worth	(12,964)	(13,480)	(14,649)	(15,761)	(16,186)	(15,979)
Net Debt	10,636	10,949	12,002	12,892	12,832	12,398
<p>Note:</p> <p>1. Numbers may not add due to rounding.</p>						

Table E.6
Non-financial Public Sector Balance Sheet ⁽¹⁾

	2001-02 Actual \$ million	2002-03 Est.Act \$ million	2003-04 Budget \$ million	2004-05 Projection \$ million	2005-06 Projection \$ million	2006-07 Projection \$ million
Assets						
Financial Assets						
Cash and deposits	1,911	2,109	1,661	1,635	1,816	2,092
Advances paid	133	130	146	166	181	196
Investments, loans and placements	14,069	13,828	14,879	15,910	16,936	17,929
Other non-equity assets	2,919	2,345	2,090	1,929	1,769	1,606
Equity	719	759	756	763	772	781
Total Financial Assets	19,751	19,171	19,532	20,403	21,474	22,604
Non-Financial Assets	70,584	73,484	77,072	80,593	83,372	85,465
Total Assets	90,335	92,655	96,604	100,996	104,846	108,069
Liabilities						
Deposits held	72	92	92	92	92	92
Borrowing	15,645	16,288	17,796	19,175	19,701	19,659
Superannuation liability	10,062	11,668	12,722	13,791	14,859	15,935
Other employee entitlements and provisions	3,484	3,377	3,253	3,229	3,178	3,101
Other non-equity liabilities	2,979	2,538	2,429	2,313	2,380	2,270
Total Liabilities	32,242	33,963	36,292	38,600	40,210	41,057
Net Worth	58,093	58,692	60,312	62,396	64,636	67,012
Net Financial Worth	(12,491)	(14,792)	(16,760)	(18,197)	(18,736)	(18,453)
Net Debt	(396)	313	1,202	1,556	860	(466)
<p>Note:</p> <p>1. Numbers may not add due to rounding.</p>						

Table E.7
General Government Sector Cash Flow Statement ⁽¹⁾

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
	Actual	Est.Act	Budget	Projection	Projection	Projection
	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million
Receipts from operating activities						
Taxes received	4,910	5,511	5,664	5,951	6,117	6,454
Grants and subsidies received	10,031	10,527	10,865	11,273	11,756	12,282
Sales of goods and services	1,959	2,086	2,155	2,135	2,178	2,221
Other receipts	2,224	2,092	3,088	3,041	3,156	3,304
Total	19,124	20,216	21,772	22,400	23,207	24,261
Payments for operating activities						
Payments for goods and services	(11,279)	(12,326)	(13,365)	(14,001)	(14,685)	(15,499)
Grants and subsidies	(4,506)	(4,814)	(4,806)	(4,894)	(5,021)	(5,040)
Interest	(237)	(227)	(245)	(284)	(332)	(355)
Other payments	(851)	(975)	(884)	(824)	(851)	(874)
Total	(16,873)	(18,342)	(19,300)	(20,003)	(20,889)	(21,768)
Net cash inflows from operating activities	2,251	1,874	2,472	2,397	2,318	2,493
Payments for investments in non-financial assets						
Purchases of non-financial assets	(2,416)	(2,410)	(2,545)	(2,122)	(1,927)	(1,818)
Sales of non-financial assets	351	587	225	246	231	210
Total	(2,065)	(1,823)	(2,320)	(1,876)	(1,696)	(1,608)
Payments for investments in financial assets for policy purposes	430	(367)	3	(10)	(25)	(25)
Payments for investments in financial assets for liquidity purposes	336	134	(947)	(931)	(944)	(917)
Receipts from financing activities						
Borrowing (net)	173	168	570	469	354	109
Distributions paid	1	..	..	..	..	..
Other financing (net)	(13)	..	..	..	..	..
Total	161	168	570	469	354	109
Net increase/(decrease) in cash held	1,114	(14)	(222)	49	7	52
Net cash from operating activities and investments in non-financial assets	186	51	152	521	622	885
less Finance leases and similar arrangements	(2)	..	..	..	..	..
GFS Surplus/(deficit)	188	51	152	521	622	885
Note: 1. Numbers may not add due to rounding.						

Table E.8
Public Non-financial Corporations Sector Cash Flow Statement ⁽¹⁾

	2001-02 Actual \$ million	2002-03 Est.Act \$ million	2003-04 Budget \$ million	2004-05 Projection \$ million	2005-06 Projection \$ million	2006-07 Projection \$ million
Receipts from operating activities						
Grants and subsidies received	1,038	959	976	1,145	1,145	1,119
Sales of goods and services	6,260	6,847	6,953	7,235	7,672	7,731
Other receipts	756	789	711	773	781	879
Total	8,054	8,595	8,640	9,153	9,598	9,729
Payments for operating activities						
Payments for goods and services	(4,334)	(4,828)	(4,959)	(5,048)	(5,132)	(5,165)
Grants and subsidies	(85)	(11)	(58)	(46)	(35)	(30)
Interest	(659)	(709)	(775)	(787)	(804)	(866)
Other payments	(977)	(978)	(874)	(946)	(948)	(959)
Total	(6,055)	(6,526)	(6,666)	(6,827)	(6,919)	(7,020)
Net cash inflows from operating activities	1,999	2,069	1,974	2,326	2,679	2,709
Payments for investments in non-financial assets						
Purchases of non-financial assets	(2,096)	(2,216)	(2,240)	(2,723)	(2,045)	(1,506)
Sales of non-financial assets	675	464	47	248	139	102
Total	(1,420)	(1,752)	(2,193)	(2,475)	(1,906)	(1,404)
Payments for investments in financial assets for policy purposes	27	48	..	..	..	..
Payments for investments in financial assets for liquidity purposes	(121)	31	(38)	(72)	(72)	(71)
Receipts from financing activities						
Advances received (net)	(110)	(9)	(10)	(10)	(10)	(10)
Borrowing (net)	589	393	790	807	101	(230)
Deposits received (net)	(1)	21	..	..	..	..
Distributions paid	(895)	(900)	(747)	(661)	(642)	(795)
Other financing (net)	(299)	310	(3)	10	25	25
Total	(716)	(185)	30	146	(526)	(1,010)
Net increase/(decrease) in cash held	(231)	211	(227)	(75)	175	224
Net cash from operating activities and investments in non-financial assets	579	317	(219)	(149)	773	1,305
Distributions paid	(895)	(900)	(747)	(661)	(642)	(795)
GFS Surplus/(deficit)	(316)	(583)	(966)	(810)	131	510

Note:

1. Numbers may not add due to rounding.

Table E.9
Non-financial Public Sector Cash Flow Statement ⁽¹⁾

	2001-02 Actual \$ million	2002-03 Est.Act \$ million	2003-04 Budget \$ million	2004-05 Projection \$ million	2005-06 Projection \$ million	2006-07 Projection \$ million
Receipts from operating activities						
Taxes received	4,638	5,164	5,301	5,575	5,732	6,061
Grants and subsidies received	8,101	10,560	10,870	11,279	11,763	12,289
Sales of goods and services	10,037	8,765	8,939	9,204	9,683	9,786
Other receipts	2,025	1,982	3,065	3,149	3,299	3,403
Total	24,801	26,471	28,175	29,207	30,477	31,539
Payments for operating activities						
Payments for goods and services	(15,469)	(16,928)	(18,103)	(18,831)	(19,605)	(20,473)
Grants and subsidies	(3,561)	(3,903)	(3,893)	(3,801)	(3,921)	(3,960)
Interest	(844)	(867)	(956)	(1,004)	(1,065)	(1,143)
Other payments	(1,595)	(1,729)	(1,525)	(1,510)	(1,531)	(1,556)
Total	(21,468)	(23,427)	(24,477)	(25,146)	(26,122)	(27,132)
Net cash inflows from operating activities	3,333	3,044	3,698	4,061	4,355	4,407
Payments for investments in non-financial assets						
Purchases of non-financial assets	(4,478)	(4,362)	(4,785)	(4,845)	(3,973)	(3,324)
Sales of non-financial assets	1,015	788	272	494	369	312
Total	(3,463)	(3,574)	(4,513)	(4,351)	(3,604)	(3,012)
Payments for investments in financial assets for policy purposes	156	(9)	..	..	..	..
Payments for investments in financial assets for liquidity purposes	215	177	(976)	(1,024)	(1,016)	(988)
Receipts from financing activities						
Advances received (net)	(89)	(9)	(10)	(9)	(9)	(10)
Borrowing (net)	742	549	1,351	1,296	455	(121)
Deposits received (net)	(1)	21	..	..	..	..
Other financing (net)	(12)	..	..	..	..	..
Total	641	561	1,341	1,287	446	(131)
Net increase/(decrease) in cash held	882	199	(450)	(27)	181	276
Net cash from operating activities and investments in non-financial assets	(130)	(530)	(815)	(290)	751	1,395
less Finance leases and similar arrangements	(2)	..	..	..	..	..
GFS Surplus/(deficit)	(128)	(530)	(815)	(290)	751	1,395
Note: 1. Numbers may not add due to rounding.						

OTHER GFS DATA

Expenses by Function

Data presented in Table E.10 provides details of General Government sector expenses by function. The data is presented in accordance with GFS and Uniform Presentation Framework guidelines which presents data on a consolidated basis.

Table E.10 General Government Sector Expenses by Function ⁽¹⁾		
	2002-03 Est. Actual \$ million	2003-04 Budget \$ million
General public services ⁽²⁾	519	767
Public order and safety	1,981	2,084
Education	5,310	5,480
Health	4,364	4,564
Social security and welfare	864	908
Housing and community amenities	1,016	977
Recreation and culture	477	464
Fuel and energy	626	591
Agriculture, forestry, fishing and hunting	767	669
Mining, manufacturing and construction	108	111
Transport and communications	2,325	2,446
Other economic affairs	752	710
Other purposes	1,154	1,458
Total Expenses	20,263	21,229
Note: 1. Numbers may not add due to rounding. 2. The increase relative to 2002-03 reflects negative returns on post retirement accounts in 2002-03.		

Taxes

Data presented in Table E.11 provides details of taxation revenue collected by the General Government sector. The data is presented in accordance with GFS and Uniform Presentation Framework guidelines, which presents data on a consolidated basis.

Table E.11 General Government Sector Taxes ⁽¹⁾		
	2002-03 Est. Actual \$ million	2003-04 Budget \$ million
Taxes on Employers' Payroll and Labour Force	1,287	1,364
Taxes on Property		
Land Taxes	278	314
Stamp Duties on Financial and Capital Transactions	1,593	1,424
Financial Institutions' Transaction Taxes	256	259
Other	53	54
Taxes on the Provision of Goods and Services		
Excises and Levies	206	321
Taxes on Gambling	638	680
Taxes on Insurance	333	349
Taxes on Use of Goods and Performance of Activities		
Motor Vehicles	855	896
Other	12	3
Total Taxes	5,511	5,664
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 E.12 presents the State's revised LCA nomination for 2003-04 and the estimated outcome for 2002-03.

Table E.12 Queensland Loan Council Allocation ¹		
	2002-03 Est. Actual \$ million	2003-04 Budget \$ million
General Government sector Cash Deficit (Surplus) ²	(51)	(152)
PNFC sector Cash Deficit (Surplus) ²	583	966
Non-financial Public Sector Cash Deficit (Surplus)²	530	815
Net cash flows from investments in financial assets for policy purposes	9	..
Memorandum Items ³	(187)	(157)
Loan Council Allocation	352	658
Notes: 1. Numbers may not add due to rounding. 2. Figures in brackets represent surpluses. 3. Other memorandum items are operating leases.		

The State's revised LCA nomination for 2002-03 is a deficit of \$352 million. This compares to the Mid Year Review estimate of \$329 million.

In 2003-04, the State's Budget LCA is a deficit of \$658 million, compared with the LCA nomination in March of \$190 million. The variation mainly reflects higher net borrowing requirements by the Public Non-financial Corporation sector as a result of increased spending on capital infrastructure.

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 of 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 acquisition 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 (otherwise known as fiscal balance).

Net operating balance is represented by GFS revenues less GFS expenses and excludes any other economic flows such as revaluations, gain or loss on assets disposals and allowances for doubtful debts.

Net lending is the net operating balance less net acquisition of non-financial assets. It also is 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 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, 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 the state to increase its 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 from operating activities and from sales and purchases of non-financial assets less cash from financing activities, finance leases and similar arrangements.

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 that provides regulatory services or goods and services of a non-market nature, that are charged at less than cost or at no cost. These services are largely financed by general revenue (taxation). This sector comprises government departments and certain statutory bodies.

The PNFC sector comprises bodies that provide goods and services that are mainly market, non-regulatory and non-financial in 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 Queensland Rail and the electricity entities.

Together, the general government sector and the PNFC sector comprise the Non-financial Public sector.

Further discussions 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 detailed below.

General Government

Departments

Aboriginal and Torres Strait Islander Policy	Council of the Queensland Institute of Medical Research
Arts Queensland	Crime and Misconduct Commission
Corrective Services	Dalby Agricultural College Board
Disability Services Queensland	Emerald Agricultural College Board
Education	Legal Aid Queensland
Electoral Commission of Queensland	Library Board of Queensland
Emergency Services	Longreach Pastoral College Board
Employment and Training	Motor Accident Insurance Commission
Environmental Protection Agency	Nickel Resources North Queensland
Families	Nominal Defendant
Health	Prostitution Licensing Authority
Housing	Queensland Art Gallery
Industrial Relations	Queensland Building Services Authority
Innovation and Information Economy, Sport and Recreation Queensland	Queensland Events Corporation Pty Ltd
Justice and Attorney-General	Queensland Institute of Medical Research Trust (ceased 2002-03)
Legislative Assembly of Queensland	Queensland Museum
Local Government and Planning	Queensland Performing Arts Trust
Main Roads	Queensland Rural Adjustment Authority
Natural Resources and Mines	Queensland Studies Authority
Office of the Governor	Queensland Theatre Company
Office of the Public Service Commissioner	Queensland Treasury Holdings
Ombudsman	Residential Tenancy Authority
Police	Royal Children's Hospital Foundation
Premier and Cabinet	SGH Limited
Primary Industries	South Bank Corporation
Public Trust Office	Stadium Redevelopment Authority (ceased 2002-03)
Public Works	Tourism Queensland
Queensland Audit Office	
State Development	
Tourism, Racing and Fair Trading	
Transport	
Treasury	

Statutory Authorities

Anti-Discrimination Commission Queensland	
Australian College of Tropical Agriculture	
Bureau of Sugar Experiment Stations (ceased 2002-03)	
Commission for Children and Young People	
	<i>Commercialised Business Units</i>
	Citec
	GoPrint
	Main Roads – Road Tek
	Project Services
	Property Services Group
	Q-Build
	Q-Fleet
	Sales and Distribution

Public Non-financial Corporations

Brisbane Market Corporation (ceased 2003-04)

Bundaberg Port Authority

Cairns Port Authority

CS Energy Ltd

DBCT Holdings Pty Ltd

DPI Forestry

Energex

Ergon Energy

Eungella Water Pipeline Pty Limited

Gladstone Area Water Board

Gladstone Port Authority

Gold Coast Events Corporation

Golden Casket Lottery Corporation Limited

2001 Goodwill Games Brisbane Ltd

Mackay Port Authority

Major Sports Facilities Authority

Mt Isa Water Board

North West Queensland Water Pipeline Pty Limited

Pioneer Valley Water Board

Port of Brisbane Corporation

Ports Corporation of Queensland

Powerlink Queensland

Queensland Abattoir Corporation (ceased 2002-03)

Queensland Motorways Limited

Queensland Power Trading Corporation

Queensland Rail

Rockhampton Port Authority

Stanwell Corporation Ltd

Sun Water

Tarong Energy Corporation Ltd

Townsville Port Authority

Trustees of the Albion Park Paceway

APPENDIX F –DEPARTMENTAL EXPENSES

Table F.1
Departmental Controlled Expenses ⁽¹⁾

	2002-03 Budget \$'000	2002-03 Est.Actual \$'000	2003-04 Estimate \$'000
Aboriginal and Torres Strait Islander Policy	108,093	109,548	99,655
Corrective Services	393,908	396,309	397,258
Department of Arts Queensland	120,928	132,223	105,001
Disability Services Queensland	330,960	349,640	384,885
Education	3,867,941	3,996,718	4,089,379
Electoral Commission	8,379	8,422	21,579
Emergency Services	558,600	580,919	607,591
Employment and Training	862,578	895,338	885,805
Environmental Protection Agency	312,216	304,065	301,176
Families	395,230	404,015	408,631
Health	4,330,603	4,462,422	4,631,111
Housing	782,279	774,382	778,605
Industrial Relations	74,097	79,937	79,275
Innovation and Information Economy, Sport and Recreation Qld	216,561	203,628	227,417
Justice and Attorney-General	206,559	202,022	208,336
Legislative Assembly	55,664	56,655	57,081
Local Government and Planning	189,577	194,028	184,857
Main Roads	2,131,211	2,052,311	2,088,696
Natural Resources and Mines	391,507	448,345	412,118
Office of the Governor	3,324	3,324	3,355
Office of the Public Service Commissioner	5,808	6,576	4,224
Ombudsman	5,852	5,872	5,855
Police	917,464	925,785	1,001,472
Premier and Cabinet	90,372	99,248	84,342
Primary Industries	357,368	352,098	350,404
Public Works	297,624	308,864	299,281
Queensland Audit Office	21,503	22,602	23,052
State Development	192,055	228,714	167,512
Tourism, Racing and Fair Trading	51,440	59,526	56,909
Transport	1,335,797	1,331,650	1,409,831
Treasury	170,351	179,678	184,598
Total Expenses²	18,785,849	19,174,864	19,559,291

Note:

1. This table provides a summary drawn from financial statements contained in the Ministerial Portfolio Statements (MPS) reports. Further information on the composition of expenses, outputs delivered and factors influencing the movement in expenses can be obtained in individual Ministerial Portfolio Statements.
2. Total expenses by department does not equate to total general government expenses in Government Finance Statistics (GFS) terms reported elsewhere in the Budget Papers as GFS General Government expenses include a wider range of entities including State Government statutory authorities and also transactions between entities within the General Government sector (for example payroll tax payments) are excluded in the preparation of whole-of-Government GFS financial statements.

Table F.2
Departmental Administered Expenses ⁽¹⁾

	2002-03 Budget \$'000	2002-03 Est.Actual \$'000	2003-04 Estimate \$'000
Department of Arts Queensland	85,868	88,978	92,320
Education	1,126,772	1,131,107	1,222,553
Families	122,780	121,609	128,570
Health	..	5	7
Housing	5,026	5,201	6,342
Innovation and Information Economy, Sport and Recreation Qld	58,888	19,914	198,945
Justice and Attorney-General	95,256	110,240	119,414
Local Government and Planning	272,116	296,461	314,685
Natural Resources and Mines	5,191	5,191	5,480
Police	755	755	7,493
Premier and Cabinet	84,157	87,272	86,925
Primary Industries	6,285	6,970	6,385
Public Works	13,033	16,346	12,992
State Development	27,030	29,545	27,399
Tourism, Racing and Fair Trading	47,169	47,422	47,519
Transport	1,479	2,547	731
Treasury	1,254,102	1,626,495	1,829,956
Total Administered Expenses	3,205,907	3,596,058	4,107,716

Note:

1. Further information on departmental expenses is contained in the Ministerial Portfolio Statements (MPS) reports. Administered expenses reported in this table excludes the transfer of administered revenues.

Table F.3
Reconciliation of Departmental to GFS Expenses ⁽¹⁾

	2002-03 Budget \$ million	2002-03 Est.Actual \$ million	2003-04 Estimate \$ million
Departmental expenditure per MPS - Controlled	18,786	19,175	19,559
- Administered	3,206	3,596	4,108
	21,992	22,771	23,667
Other General Government entities (e.g. CBUs, Statutory Bodies)	2,174	2,226	1,925
Nominal Superannuation Interest expense	715	642	751
Non-GFS departmental expenses ²	(292)	(742)	(786)
Eliminations and Other w hole-of-Government adjustments			
Equity Return elimination	(2,055)	(2,116)	(2,186)
Payments to Commercialised Business Units elimination	(1,283)	(1,288)	(1,276)
Payroll Tax elimination	(319)	(325)	(355)
Other eliminations and adjustments	(775)	(905)	(511)
Total General Government GFS Expenses	20,157	20,263	21,229
<p>Note:</p> <p>1. Numbers may not add due to rounding</p> <p>2. Certain expenses such as asset valuation changes are excluded from GFS reporting.</p>			