

Strategy and Outlook

State Budget

05-

06

Budget Paper No.2

Smart State

2005-06 Budget Papers

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

Budget Highlights

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Queensland
Government

STATE BUDGET

2005-06

BUDGET STRATEGY AND OUTLOOK

Budget Paper No. 2

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1. BUDGET STRATEGY, PERFORMANCE AND OUTLOOK

KEY POINTS

- In 2004-05, the General Government sector is forecast to have a net operating surplus of \$2.725 billion and a cash surplus of \$3.127 billion.
- For 2005-06, there is a budgeted General Government net operating surplus of \$934 million and a cash surplus of \$98 million.
- The State capital program in 2005-06 is budgeted to be approximately \$8 billion, a 32% increase on estimated 2004-05 outlays.
- Beyond 2005-06, smaller General Government operating surpluses and cash positions are forecast, primarily reflecting costs associated with a significant investment in new infrastructure and the abolition of a number of State taxes.
- The State's net worth is forecast to increase in all years, to be \$93.857 billion by 2008-09.

This chapter discusses:

- the summary financial aggregates of the 2005-06 Budget
- the Government's fiscal strategy as outlined in the *Charter of Social and Fiscal Responsibility*.

SUMMARY OF KEY FINANCIAL AGGREGATES

Table 1.1 provides aggregate estimated actual outcome information for 2004-05, forecasts for 2005-06 and projections for the outyears.

Table 1.1 General Government Sector – Key Financial Aggregates¹						
	2003-04 Actual \$ million	2004-05 Est. Act. \$ million	2005-06 Budget \$ million	2006-07 Projected \$ million	2007-08 Projected \$ million	2008-09 Projected \$ million
Revenue	25,214	26,771	26,604	27,776	29,051	29,793
Expenses	21,874	24,046	25,670	27,188	28,494	29,573
Net operating balance	3,340	2,725	934	588	556	220
Cash surplus/(deficit)	3,490	3,127	98	(559)	223	426
Capital purchases	2,415	2,769	3,616	3,659	3,371	2,926
Borrowings ²	(330)	119	827	2,255	1,566	1,638
Net worth	77,723	85,005	85,344	88,182	91,145	93,857
Notes:						
1. Numbers may not add due to rounding.						
2. Borrowings figure for 2003-04 differs to that published in the 2003-04 Report on State Finances due to a reclassification of advances to align with Australian Bureau of Statistics' definitions.						

BUDGET OUTCOMES 2004-05

Key Financial Aggregates

Table 1.2 General Government Sector – Key Financial Aggregates¹			
	2004-05 Budget \$ million	2004-05 MYFER \$ million	2004-05 Est. Act. \$ million
Revenue	24,009	24,964	26,771
Expenses	23,363	23,868	24,046
Net operating balance	646	1,096	2,725
Cash surplus/(deficit)	1,059	1,509	3,127
Capital purchases	2,718	2,845	2,769
Borrowings ²	60	(23)	119
Net worth	72,464	81,731	85,005
Notes:			
1. Numbers may not add due to rounding.			
2. Borrowings figures for 2004-05 Budget and Mid Year Fiscal and Economic Review (MYFER) differ to those published in the Budget and MYFER due to a reclassification of advances to align with Australian Bureau of Statistics' definitions.			

Operating Result

The operating result expected for 2004-05 is a surplus of \$2.725 billion. The estimated 2004-05 surplus reflects the continuing strength of the economy flowing through to taxation and related revenues, upward revisions to GST payments from the Australian Government and investment returns above the long-term assumed rate of return.

At the time of the 2004-05 Budget, a reduction in taxation revenues was expected, primarily due to an anticipated large fall in property market activity. The expected decline in transfer duties has been modest, and more than offset by increases in other taxation revenues flowing from the strong economy. This has led to upward revisions to revenues at both the Mid Year Review and in the context of the 2005-06 Budget.

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

With over \$17 billion in funds invested in a portfolio of equities, property, cash and fixed interest, the performance of international financial markets has a major influence on the Budget result. While Budget and Mid Year Review estimates for investment returns were based on the expected long-term average return for the portfolio of 7.5%, the 2004-05 estimated actual is now based on a forecast rate of return of 14%, reflecting the strong performance of investment markets.

The Underlying Operating Result

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 all investments are held in superannuation funds and only the net superannuation liability is recorded in the balance sheet.

The differing superannuation structure leads to a significant difference in GFS accounting treatment between states.

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 2004-05 would be a surplus of approximately \$2 billion, as outlined in Table 1.3 below.

For the 2005-06 Budget, no adjustment is required to the forecast operating result as the earnings rate on financial assets for the revenue estimates is the long-term assumed rate of return that is used in the calculation of the superannuation interest expense.

Table 1.3 Calculation of Underlying Result	
	2004-05 Est. Act. \$ million
Operating Balance	2,725
Less Investment Earnings ¹	1,444
Plus Superannuation Interest Expense ²	747
Underlying Balance	2,028
Notes:	
1. Represents investment earnings on financial assets held to meet future defined benefit superannuation liabilities.	
2. Represents the adjustment required to the superannuation interest 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 2004-05 of \$3.127 billion.

At Mid Year Review, the cash surplus for 2004-05 was an estimated \$1.509 billion. Factors contributing to the improvement in the estimated surplus again include the cash impact of the upward revision to investment returns from 7.5% to 14%, high levels of receipts from taxation revenues and upward revisions to GST payments from the Australian Government.

The underlying strength of the General Government cash flow for 2004-05 is demonstrated by a modest borrowing requirement of \$119 million.

Capital Purchases

General Government investment in capital in 2004-05 is estimated to be \$2.769 billion, slightly below Mid Year Review estimates, reflecting a modest level of capital deferrals.

Borrowing

Despite estimated net capital acquisitions of \$972 million in 2004-05, the strong cash position has meant the General Government sector's borrowing requirement has been negligible. Net borrowings of \$119 million are expected for 2004-05, reflecting the individual borrowing intentions of the entities which comprise the General Government sector rather than the liquidity requirements of the sector as a whole.

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 2005 is estimated at \$85.005 billion. This is \$3.274 billion higher than net worth forecast at Mid Year Review, reflecting the improved operating position together with an increase in the value of the State's equity holding in Government-owned corporations.

BUDGET 2005-06 AND OUTYEAR PROJECTIONS

Key Financial Aggregates

Table 1.4 General Government Sector – Key Financial Aggregates¹				
	2005-06 Budget \$ million	2006-07 Projected \$ million	2007-08 Projected \$ million	2008-09 Projected \$ million
Revenue	26,604	27,776	29,051	29,793
Expenses	25,670	27,188	28,494	29,573
Net operating balance	934	588	556	220
Cash surplus/(deficit)	98	(559)	223	426
Capital purchases	3,616	3,659	3,371	2,926
Borrowings	827	2,255	1,566	1,638
Net worth	85,344	88,182	91,145	93,857
Note: 1. Numbers may not add due to rounding.				

Operating Result

The budgeted position for the General Government sector is for an operating surplus of \$934 million in 2005-06.

The forecast budget surpluses are expected to moderate over the period 2006-07 to 2008-09. Key factors leading to the expected reduction in Budget surpluses are:

- financing and other recurrent costs associated with the significant increase in General Government capital investment
- costs associated with implementing the recommendations of the Electricity Distribution and Service Delivery Review

- lower taxation revenue growth, reflecting the abolition of Debits Tax from 1 July 2005, the progressive abolition of a range of State stamp duties and a land tax relief and simplification initiative.

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

Cash Surplus and Capital Purchases

A cash surplus of \$98 million is expected in 2005-06 for the General Government sector. The cash result is forecast to move into deficit in 2006-07, while modest surplus positions are forecast for 2007-08 and 2008-09.

Apart from the cash impact of smaller recurrent operating surpluses relative to 2004-05, the reasons for which are outlined above, the major factor contributing to lower cash results is the significant planned capital expansion.

Total General Government capital purchases of \$3.616 billion are budgeted for 2005-06, reflecting a range of infrastructure initiatives including those announced in the *South East Queensland Infrastructure Plan and Program 2005-2026* (SEQIPP), released in April 2005. Budget Paper No. 3 – Capital Statement provides details, by portfolio, of budgeted 2005-06 capital outlays.

Over the period 2005-06 to 2008-09, net additions (i.e. after deducting depreciation and asset sales) to the General Government capital stock of approximately \$6 billion are planned. This substantial investment in additional capital will impact on the GFS cash result.

Borrowing

Borrowing for capital purposes is entirely consistent with the Government's fiscal principles. Net borrowings of \$827 million are budgeted for 2005-06 in support of \$1.742 billion in net additions to the capital stock.

The majority of the General Government capital program has and will continue to be financed through recurrent cash flow.

Over the Budget and forward estimates period, total General Government borrowings of \$6.3 billion are planned. Of this amount, some \$1.9 billion (including \$271 million in 2005-06) is to fund equity injections to Queensland's Government-owned corporations to support expansion of the State's electricity, rail and ports infrastructure.

Net Worth

State net worth is projected to increase from the 2004-05 estimated actual by \$339 million to \$85.344 billion at 30 June 2006. 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 1.5 provides a reconciliation of the General Government sector operating result for 2004-05 and 2005-06 published in the Mid Year Fiscal and Economic Review (MYFER) and current Budget estimates.

Table 1.5 Reconciliation of 2004-05 and 2005-06 Operating Result to MYFER Estimates¹		
	2004-05 Est. Act. \$ million	2005-06 Budget \$ million
MYFER Operating Result	1,096	789
Expenditure Policy Decisions ²	(13)	(577)
Revenue Policy Decisions ³	..	(169)
Other Significant Variations Impacting on Operating Result		
- Investment Returns and Interest Earnings ⁴	921	125
- Commonwealth General Revenue Grants ⁵	98	(8)
- Taxation and Royalty Revisions	290	702
- Other Parameter Adjustments ⁶	333	72
2005-06 Budget	2,725	934
Notes: 1. Denotes impact on Operating Result. 2. Reflects expenditure policy decisions taken in the Budget context. 3. Reductions in land tax and abolition of certain stamp duties provided in 2005-06 Budget – see Chapter 5. 4. Reflects revisions of estimated rate of return on investments from 7.5% to 14% in 2004-05 and earnings on cash balances. 5. Includes outcomes of Commonwealth Grants Commission 2004 Update, population changes and most recent estimates of GST revenue included in the 2005-06 Commonwealth Budget. 6. Refers to remaining adjustments of a non-policy nature such as movements in expenditures and revenues relating to economic and technical parameters, and expenditure lapses in 2004-05.		

FISCAL STRATEGY

The *Charter of Social and Fiscal Responsibility* outlines the Government's fiscal principles and is an integral part of the Government's commitment to the community. The fiscal principles, detailed in Box 1.1, have been framed to meet a number of objectives, with the overriding requirement to maintain the integrity of the State's finances.

The fiscal principles establish the basis for sustainability of the Government's policies. They require 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		
Principle	Achievement Budgeted for 2005-06	Indicator
Competitive tax environment The Government will ensure that State taxes and charges remain competitive with the other states and territories in order to maintain a competitive tax environment for business development and jobs growth.	✓	Taxation revenue per capita: Queensland: \$1,708 Other states average: \$2,135
Affordable service provision The Government will ensure that its level of service provision is sustainable by maintaining an overall General Government operating surplus, as measured in Government Finance Statistics terms.	✓	GFS operating surplus of \$934 million.
Sustainable borrowings for capital investment Borrowings or other financial arrangements will only be undertaken for capital investments and only where these can be serviced within the operating surplus, consistent with maintaining a AAA credit rating.	✓	General Government borrowings \$827 million and General Government total purchases of non-financial assets \$3.616 billion. AAA credit rating confirmed by Moody's and Standard and Poor's (highest rating available).
Prudent management of financial risk The Government will ensure that the State's financial assets cover all accruing and expected future liabilities of the General Government sector.	✓	General government net financial worth: \$17.712 billion
Building the State's net worth The Government will maintain, and seek to increase, total State net worth.	✓	Net worth to increase to \$85.344 billion.

Competitive tax environment

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

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

- taxation revenue on a per capita basis
- taxation relativities based on 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 2005-06 are estimated at \$1,708, compared with an estimated \$2,135 for the average of the other states.
- Commonwealth Grants Commission data indicates that Queensland's taxation effort ratio of 86.9% is considerably less than the standard (100%).
- Latest Australian Bureau of Statistics data shows Queensland's tax collections are 4.7% of GSP compared to 5.0% for the average of the other states.

The 2005-06 Budget includes reductions in land tax and the phased abolition of a number of taxes. Details of these changes and other revenue items are provided in Chapter 5.

Affordable service provision

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

The Government's expenditure strategy is based around providing targeted funding for high priority community services. The strategy is built upon the delivery of commitments made in the context of the most recent State election. These commitments are also reflected in the Government's outcomes and priorities for Queensland as outlined in its *Charter of Social and Fiscal Responsibility*.

Consistent with the Government's stated priorities, the 2005-06 Budget provides for the implementation of a range of service enhancements in key areas including child safety, health and disability services.

The 2005-06 Budget and forward estimates also continues the implementation of the Government's Education and Training Reforms for the Future including a preparatory year of schooling from 2007 and substantial investment in innovation, research and development as part of the Government's 10 year Smart State Strategy.

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.

In this context, the Government's Shared Service Initiative, designed to achieve best practice in corporate services across Government, commenced in July 2003. The savings achieved from this initiative through consolidation and standardisation of core corporate services and systems will be directed to service delivery.

Sustainable borrowings for capital investment

The provision of adequate levels of infrastructure is an ongoing challenge for a state such as Queensland which continues to experience high levels of economic and population growth. Meeting this challenge, the Government provides for consistently higher levels of capital expenditure per capita than any other state.

Investment in core infrastructure is a key feature of the 2005-06 Budget with a record capital program of \$8 billion. This represents an increase of 32% over the estimated 2004-05 outlays.

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

Queensland's 2005-06 capital program will be funded from a mix of recurrent sources, cash balances and borrowings. Details of the State capital program for 2005-06 and sources of funds are provided in Budget Paper No. 3 – Capital Statement.

Prudent management of financial risk

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

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

In 2003-04 significant growth in equity markets produced investment returns well in excess of actuarially assumed long-term rates of return. In 2004-05 investment returns are estimated at 14%.

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

Building the State's net worth

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

Queensland's net worth is forecast to grow over the forward estimates. Queensland's per capita net worth is expected to be 40% greater in 2005-06 than the average per capita net worth of the other states.

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

INDICATORS OF FISCAL CONDITION

The indicators shown in Table 1.6 provide additional perspectives on the Government's financial condition – service delivery capacity, financial sustainability and financial capacity.

Service Delivery Capacity

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

Financial Sustainability

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

Financial Capacity

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

Table 1.6
Indicators of Fiscal Condition - General Government Sector

	2003-04 Actual	2004-05 Est. Act.	2005-06 Budget	Other States ¹ 2005-06 Budget
Service Delivery Capacity				
Non-financial assets/population (\$)	16,122	16,440	16,879	12,198
Purchases of non-financial assets/ non-financial assets (%)	3.9	4.3	5.3	4.5
Financial Sustainability				
Operating balance/total expenses (%)	15.3	11.3	3.6	0.9
Debt servicing cost/total revenue (%)	0.8	0.7	0.9	1.8
Financial Capacity				
Total borrowings/total assets (%)	2.7	2.6	3.3	6.4
Total liabilities/total assets (%)	21.5	20.7	23.7	30.8
Net debt/GSP (%)	(10.4)	(11.7)	(10.8)	0.2
Taxation/GSP (%)	4.7	4.6	4.2	4.8
Note: 1. Weighted average of all States, excluding Queensland. Source: <i>State Budget Papers</i> .				

2. ECONOMIC PERFORMANCE AND OUTLOOK

KEY POINTS

- Driven by a strong domestic sector and exports growth, the Queensland economy is expected to grow by 4¼% in 2004-05, more than double growth nationally (2%).
- The strength of the Queensland economy is estimated to have raised employment growth to a 16 year high of 5¾% (104,000 jobs) in 2004-05, reducing the year-average unemployment rate to 5%, representing its lowest rate since the mid 1970s and a rate below that nationally (5¼%) for the first time in 10 years.
- Consumer spending is estimated to grow at an above average rate of 5% in 2004-05, reflecting increases in household wealth, while dwelling investment is expected to defy the national trend and rise by 5%, sustained by high levels of migration. Further, business investment is expected to surge by 13¼%.
- Solid global economic growth is expected to improve growth in exports to 4% in 2004-05. However, with imports estimated to increase by 9¾%, net exports are expected to detract 2¾ percentage points from economic growth in 2004-05.
- The Queensland economy is forecast to grow a further 4¼% in 2005-06, exceeding national growth for the tenth consecutive year. Importantly, domestic activity in the State is predicted to ease, but be offset by an improvement in the trade sector.
- While growth in consumer spending is forecast to ease, capital investment is expected to make a solid contribution to growth, with business investment forecast to increase by 4¾%. Public final demand is forecast to grow by 10% in 2005-06, reflecting the Government's significant capital infrastructure program.
- The trade sector is forecast to improve in 2005-06, with net exports to detract only ¾ percentage point from growth, their lowest deduction in five years. Increases in coal and other mineral exports and production capacity are forecast to strengthen exports growth to a five-year high of 6¾%, while imports growth is forecast to ease in line with domestic activity.
- With economic activity remaining strong in 2005-06, employment is forecast to grow a further 2½%, maintaining the unemployment rate at a 30-year low.

INTRODUCTION

This chapter presents the economic framework within which the 2005-06 Budget has been produced. It examines recent developments in Queensland's external economic environment, reviews the performance and outlook for the Queensland economy, and highlights any risks and opportunities to Queensland economic growth during the forecast horizon. The chapter details estimated actuals and forecasts for the major components of State economic activity for 2004-05 and 2005-06 respectively (see Table 2.2), and presents projections for key State economic variables over the medium-term to 2008-09¹ (see Table 2.3).

¹ Decimals have been used to describe actual outcomes, with fractions used for estimated actuals, forecasts and projections.

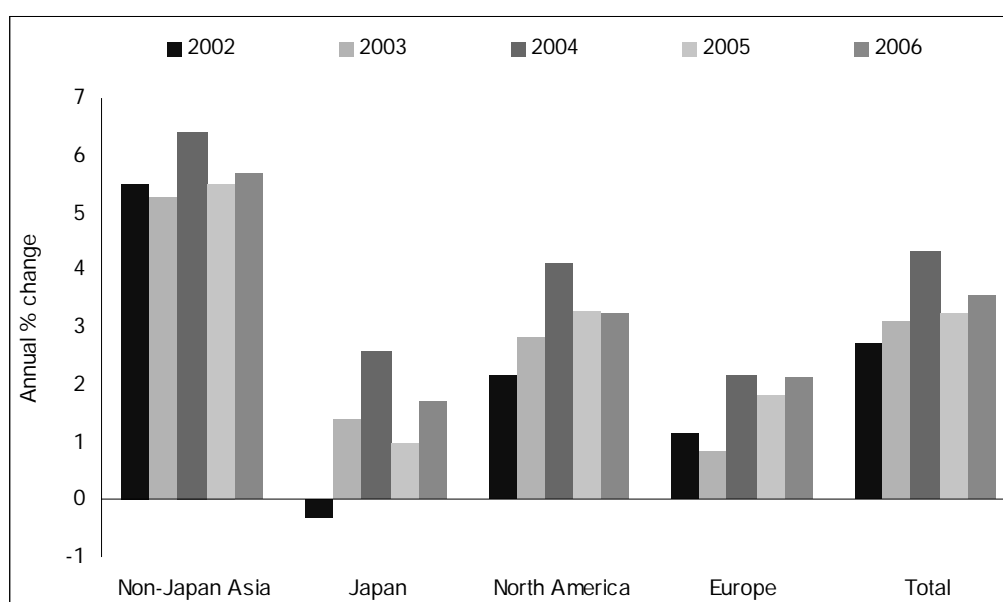
EXTERNAL ENVIRONMENT

Current conditions

International

The outlook for the international economy remains strong, following on from exceptional growth of above 4% in Queensland's major trading partners in 2004. Economic activity in the United States and China continued to expand rapidly during the year. Partly offsetting this, the latter part of 2004 saw a slowdown in some major European countries and Japan, where economic output fell in some quarters. Looking forward, growth is expected to remain strong in India, while growth in the United States and China is expected to ease slightly. Further, the economies of Europe and Japan are expected to improve into 2006 from a forecast slowing in growth in 2005. As a result, major trading partner growth is expected to ease to 3 % in 2005, before strengthening to 3 % in 2006 (see Chart 2.1).

Chart 2.1
Economic Growth in Queensland's Major Trading Partners¹



Note:

1. Growth in calendar years 2005 and 2006 represent forecasts.

Sources: Queensland Treasury and Consensus Economics.

The United States continued to grow strongly over 2004, recording annual growth of 4% or above in each quarter of the year. A primary driver of activity has been a resurgence in business investment, supported by an improvement in corporate profitability, following a period of falling investment during 2001 and 2002. However, part of the strong growth in the United States has come at the expense of weaker growth in other countries, with a depreciation of the US\$ helping to boost export growth in the United States.

The performance of the United States economy over the past year and a half has led the Federal Reserve to raise official interest rates from 1.0% in the middle of 2004, to 3.0% in early May 2005. The impact of higher interest rates, combined with higher crude oil prices, is likely to lead to a moderation in economic growth in both 2005 and 2006. Further, the persistence of large budget and trade deficits in the United States may result in a tightening of fiscal policy, leading to lower growth in both the United States and the global economy more generally, relative to 2004.

Non-Japan Asia continues to be the key driver of growth in Queensland's major trading partners, led by rapid growth in China and India. Government measures implemented to slow the Chinese economy, including moderating credit growth and a rise in official interest rates, have had little impact so far, with the economy growing by 9.5% in annual terms in the final quarter of 2004. Despite further interest rate rises anticipated by most analysts, the Chinese economy is forecast to grow by around 9% in 2005 and 8% in 2006. Economic growth in South Korea (Queensland's second largest trading partner) was weak in the early part of 2005, with the strong value of the Korean Won against the \$ hampering exports and higher oil prices constraining domestic activity. Growth in South Korea is expected to improve in 2006, driven primarily by a recovery in household spending.

Economic activity in Europe is expected to strengthen over 2005, following a slowdown in late 2004, where the economies of Germany and Italy both contracted in the December quarter. However, several factors may constrain longer-term growth prospects in the region, including the increase in oil prices in early 2005, as well as the strength of the Euro against the \$, which has placed pressure on export-focused industries. Persistent high unemployment throughout much of the region may also threaten any recovery in household spending. As a result, Consensus Economics forecasts calendar year growth in Europe to average around 2% in both 2005 and 2006, similar to growth in 2004.

The Japanese economy recorded its strongest growth rate in eight years in 2004, growing by 2.6%. Activity stalled in late 2004, leading to a downward revision to economic growth forecasts for 2005 in expectation of continued weakness. However, the Japanese economy expanded by 1.3% in March quarter 2005, more than double market expectations of a 0.6% rise. The Japanese economy is forecast to continue to strengthen into 2006.

National

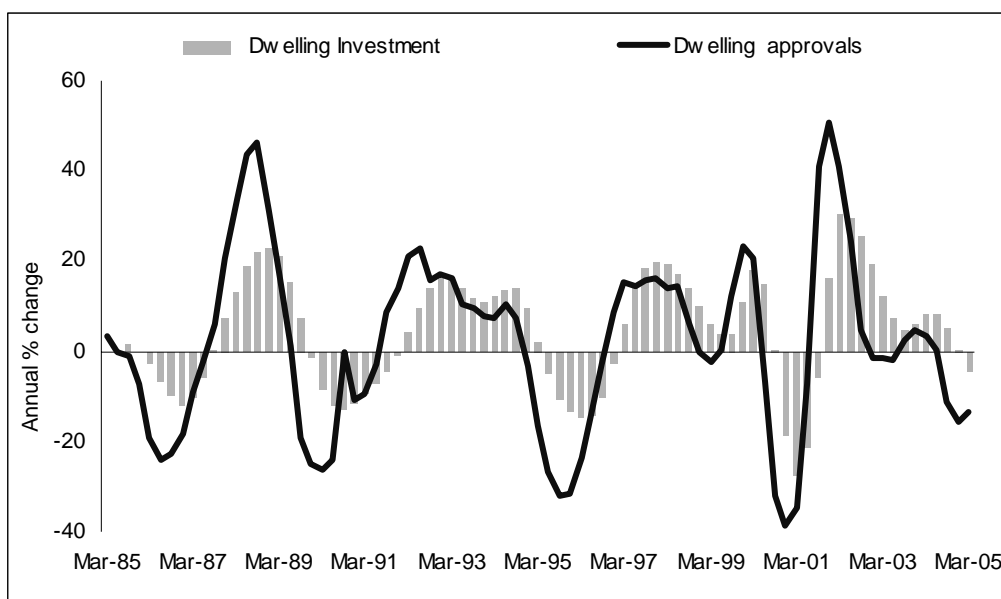
Strong domestic demand continues to be the key driver of the Australian economy, which is expected to grow by 2% in 2004-05. Gross national expenditure is estimated to grow by 3% in 2004-05, driven by growth in household consumption and business investment.

The strength of private consumption and business investment is expected to be partially offset by weakness in the housing market and the trade sector. Dwelling investment is expected to decline by 2% in 2004-05, following very strong growth over the past three years (see Chart 2.2). Net exports are expected to detract 2 percentage points from growth in 2004-05. Export growth has continued to be subdued, partly due to the high value of the A\$ and some capacity constraints in the resources sector, while imports have grown strongly in response to solid domestic demand.

The composition of growth is likely to slowly rebalance over 2005-06, with economic growth forecast to improve to 3%. Gross national expenditure is forecast to show slight improvement in growth to 3%. However, this improvement is due solely to a rebuilding of inventories. All other components of domestic demand, including household consumption, private dwelling and business investment, and public final demand, are forecast to grow at a slower, or similar, pace over the year.

Net exports are forecast to detract only 1 percentage point from total growth in 2005-06, as exports rise in response to strong investment in productive capacity over previous years and rural exports benefit from an assumed return to more normal seasonal conditions in the farm sector. Imports growth is forecast to moderate slightly in response to slower growth in consumer and business spending in 2005-06.

Chart 2.2
Building Approvals and Dwelling Investment, Australia¹

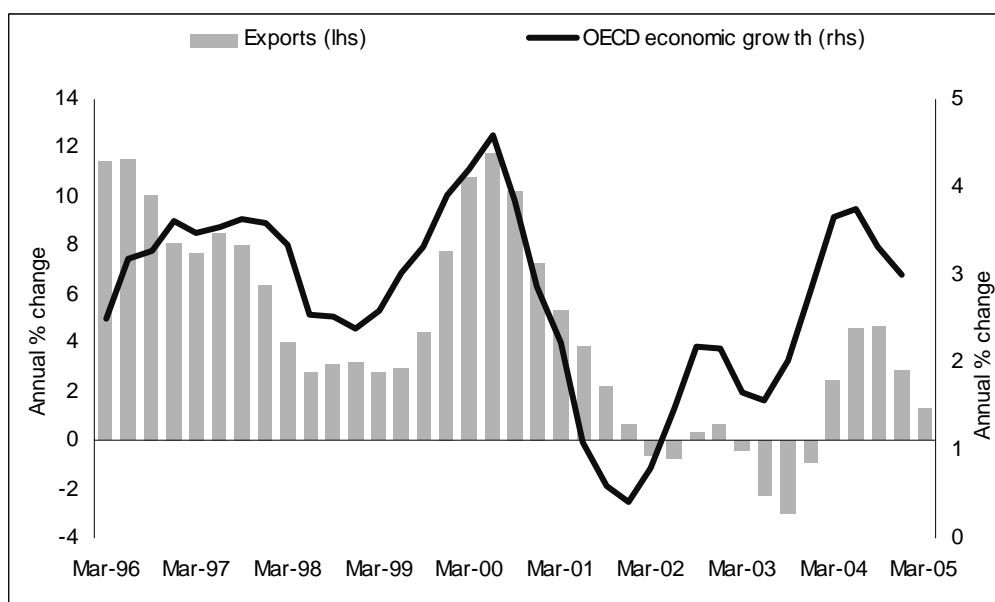


Note:

1. Number of dwelling approvals in trend terms. Dwelling investment in trend terms, chain volume measure, 2002-03 reference year.

Sources: Australian Bureau of Statistics (ABS) 5206.0 and 8731.0.

Chart 2.3
World Economic Growth and Exports, Australia¹



Note:

1. Exports are in trend terms, chain volume measure, 2002-03 reference year.

Sources: ABS 5206.0 and OECD Main economic indicators.

External assumptions

Queensland is a diversified open economy, characterised by trade and investment links with other parts of Australia and the rest of the world. The State's economic performance is therefore partly dependent on the outlook for both the national and international economy. As a result, the forecasts for the Queensland economy in 2005-06 are based on key assumptions about the State's external environment, including the national economy, major trading partners and financial markets (see Table 2.1).

- Growth in Queensland's major trading partners is expected to remain strong in 2005-06, at 3 %, compared with estimated growth of 3 % in 2004-05. Ongoing strength in the international economy is expected to be driven by traditional trading partners, such as the United States, as well as exceptional growth in emerging economies, such as China and India.
- Inflation in Queensland's major trading partners is forecast to remain at 2% in 2005-06.
- Australian monetary policy is assumed to be broadly unchanged over 2005-06, with interest rates to remain around their current levels.
- The Australian Government's economic forecasts and projections, as outlined in their Budget delivered on 10 May 2005, have been adopted as the basis for national economic performance over the forecast period, with national growth of 3% assumed for 2005-06, 3 % for 2006-07 and 2007-08, and 3 % in 2008-09.
- Queensland economic forecasts have been based on an A\$ exchange rate at around current levels, in both S\$ and trade-weighted index terms.
- Forecasts and projections of rural production and exports are based on an assumption of a return toward average seasonal conditions in Queensland in 2005-06 and beyond.

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

Table 2.1 External Assumptions				
	Outcomes		Est. Act.	Forecast
	2002-03	2003-04	2004-05	2005-06
	%	%	%	%
International assumptions				
Major trading partner economic growth	2.9	3.7	3	3
Major trading partner inflation	1.4	1.5	2	2
National assumptions				
Economic growth	3.2	4.1	2	3
Inflation	3.1	2.4	2	2
<i>Sources: Queensland Treasury, ABS 5206.0, ABS 6401.0, Australian Treasury and Consensus Forecasts.</i>				

THE QUEENSLAND ECONOMY

Overall economic growth

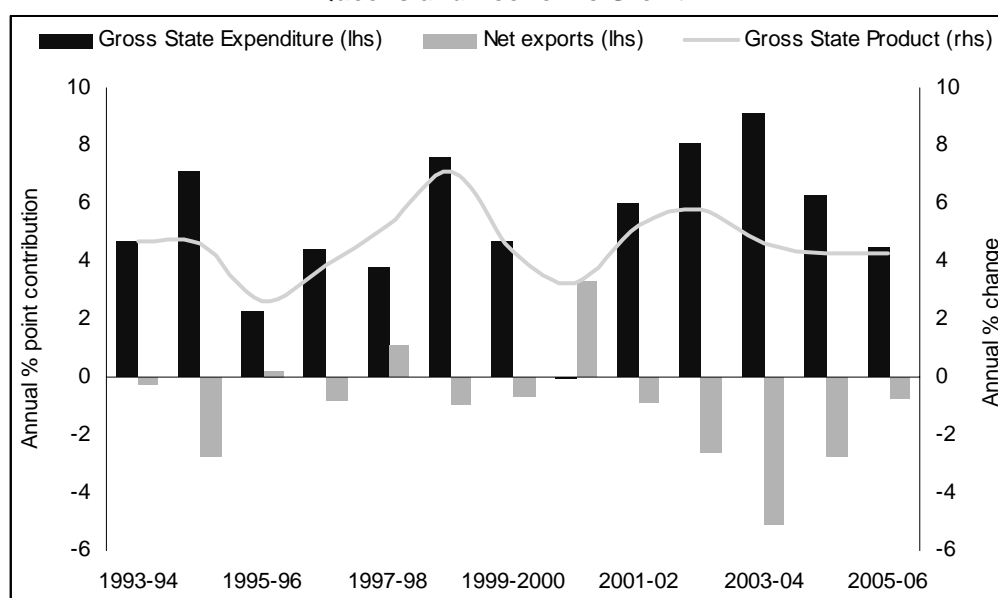
A strong domestic sector is expected to underpin Queensland economic growth for the fourth year in a row in 2004-05. With a further improvement in exports, the Queensland economy is forecast to grow by 4 %, more than double the estimated national growth for 2004-05.

Household consumption is expected to grow at an above average rate of 5% in 2004-05, driven by the ongoing wealth effects of the recent housing boom, growth in real incomes and exceptional labour market conditions. Defying the national trend, dwelling investment is expected to again rise, by 5%, sustained by high levels of interstate and overseas migration. Strong corporate profitability and global economic growth are expected to see business investment rise by an estimated 13 % in 2004-05, while a positive external environment is also expected to strengthen growth in exports to 4%. However, imports are again predicted to grow rapidly (9 %), reflecting high levels of consumer and business spending. As a result, net exports are estimated to detract 2 percentage points from growth in 2004-05.

The State economy is forecast to grow by a further 4 % in 2005-06, exceeding growth nationally for the tenth consecutive year. Queensland's rebalancing in growth is expected to continue into 2005-06, with activity in the domestic sector easing and net exports improving significantly (see Chart 2.4). Growth in consumer spending is anticipated to ease to 4 %, while dwelling investment is forecast to fall marginally, by 3%, in 2005-06. However, capital investment is forecast to make an important contribution to growth in 2005-06. Business investment is predicted to increase a further 4 %, while public final demand is anticipated to grow 10%, reflecting the Government's significant capital infrastructure program.

The performance of the trade sector is forecast to improve further in 2005-06, with net exports anticipated to detract only percentage point from growth. Export growth is anticipated to strengthen to 6 %, driven by higher coal and other mineral exports and production capacity, while imports growth is expected to ease in line with domestic activity.

Chart 2.4
Queensland Economic Growth¹



Note:

1. Chain volume measure, 2002-03 reference year. 2004-05 represents an estimated actual, 2005-06 represents a forecast. Source: Queensland Treasury.

Table 2.2
State and National Economic Forecasts⁸

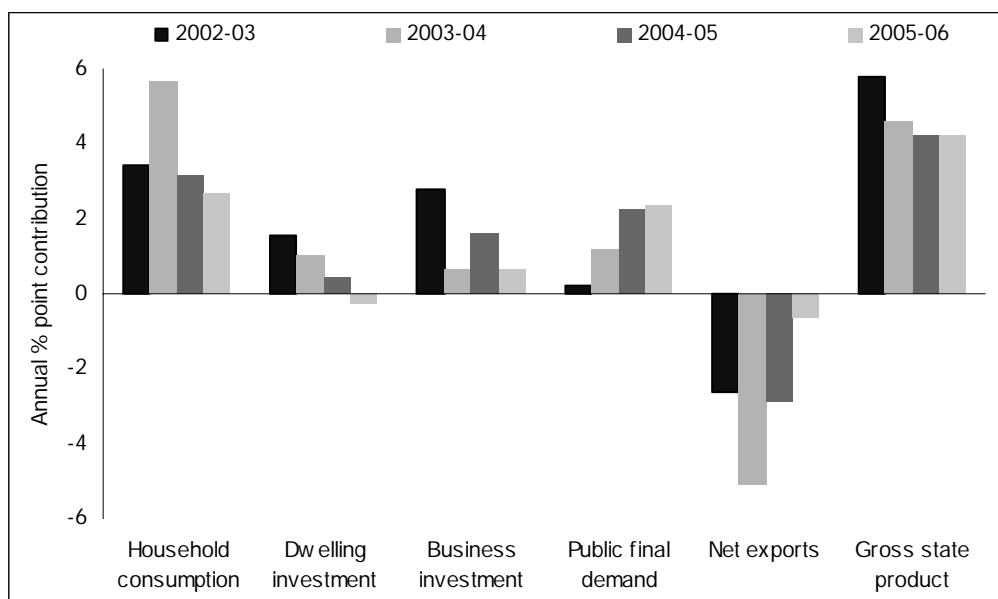
	Outcomes		Est. Act.	Forecast
	2002-03	2003-04	2004-05	2005-06
	%	%	%	%
Queensland forecasts				
Domestic production¹				
Household consumption	5.7	9.4	5	4¼
Private investment ^{2,3}	23.6	9.1	7	2½
Dwellings	21.2	12.2	5	-3
Business investment ^{3,4}	34.5	5.7	13¼	4¾
Other buildings and structures ³	43.1	0.9	12¾	5½
Machinery and equipment ³	30.5	8.1	13½	4½
Private final demand ³	10.1	9.3	5½	3¾
Public final demand ³	0.8	5.4	10	10
Gross state expenditure ⁵	8.1	9.1	6¼	4½
Exports of goods and services	2.5	0.9	4	6¾
Imports of goods and services	9.1	13.7	9¾	6¼
Net exports ⁶	-2.6	-5.1	-2¾	-¾
Gross state product	5.8	4.6	4¼	4¼
Other state economic measures				
Population	2.4	2.2	2	2
Inflation	3.2	2.9	2¾	2¾
Average earnings (state accounts basis) ⁷	3.4	3.4	4½	4
Employment (labour force survey)	3.7	3.3	5¾	2½
Unemployment rate (% , year-average)	7.1	6.2	5	5
Labour force	2.8	2.3	4¼	2½
Participation rate	65.0	64.8	65¾	65¾
National forecasts				
Domestic production¹				
Household consumption	4.0	5.6	4	3¼
Private investment	na	na	na	na
Dwellings	14.7	7.3	-2	-2
Business investment ^{3,4}	na	9.4	8	6
Other buildings and structures ³	na	12.5	2	2
Machinery and equipment ³	na	7.8	11	7
Private final demand ³	na	6.2	3¾	3½
Public final demand ³	na	3.8	6	3¾
Gross national expenditure ⁵	6.2	6.2	3½	3¾
Exports of goods and services	-0.6	1.6	2	7
Imports of goods and services	13.1	12.4	10	8
Net exports ⁶	-2.8	-2.4	-2	-1
Gross domestic product	3.2	4.1	2	3
Other national economic measures				
Population	1.2	1.2	1¼	1¼
Inflation	3.1	2.4	2½	2¾
Wage Price Index ⁷	3.5	3.6	3¾	4
Employment (labour force survey)	2.5	1.8	2¾	1¾
Unemployment rate (% , year-average)	6.2	5.8	5¼	5
Labour force	1.9	1.3	2¼	1½
Participation rate	63.7	63.5	63¾	63¾

Notes:

1. Chain volume measure, 2002-03 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. The Australian Government has moved to a measure of growth in wages based on the ABS Wage Price Index, whereas the State measure of average earnings is still estimated on a State Accounts basis.
8. Unless otherwise stated, all figures are annual % changes. Decimal point figures indicate an actual outcome.
na – Indicates not available.

Sources: Queensland Treasury, Australian Treasury and ABS 5206.0.

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

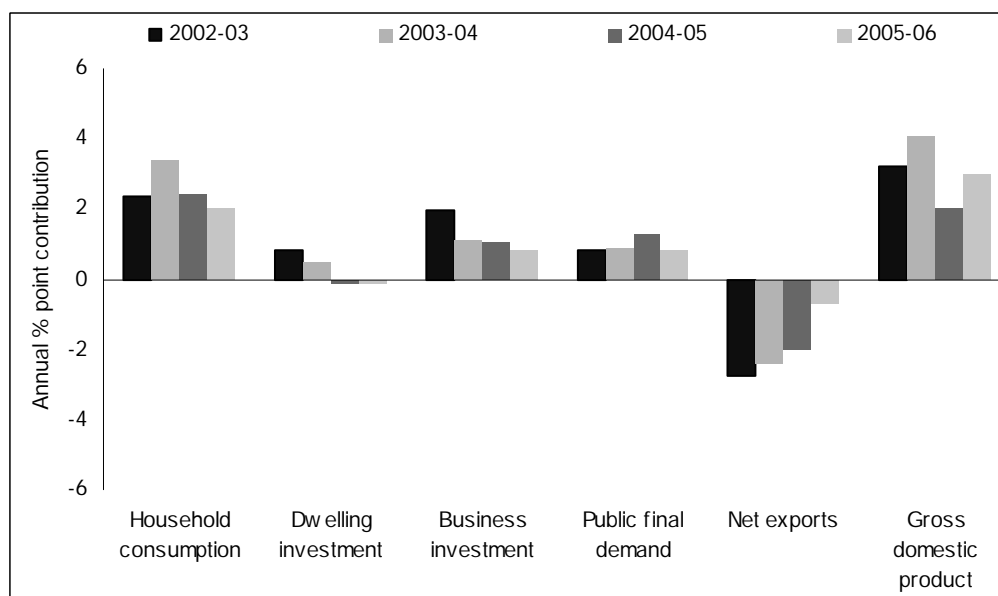


Note:

1. Chain volume measure, 2002-03 reference year. Contributions for 2004-05 represent estimated actuals while contributions for 2005-06 represent forecasts.

Source: Queensland Treasury.

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



Note:

1. Chain volume measure, 2002-03 reference year. Contributions for 2004-05 represent estimated actuals while contributions for 2005-06 represent forecasts.

Sources: Queensland Treasury and Australian Treasury.

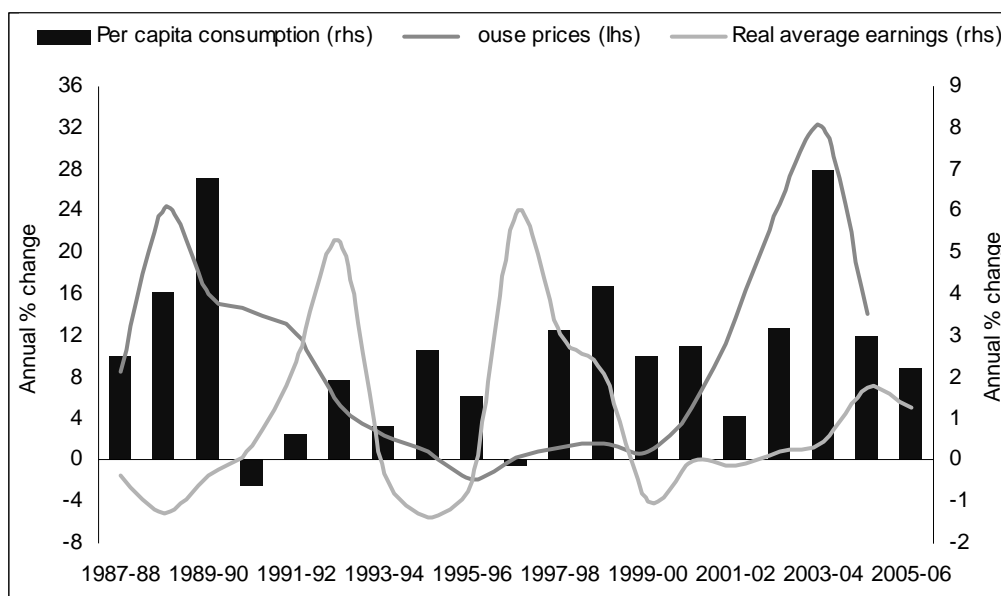
Household Consumption

As the largest sector of the Queensland economy, household consumption continued to be one of the key drivers of economic activity in Queensland over the first three quarters of 2004-05. Following near record growth of 9.4% in 2003-04, household consumption is estimated to grow by 5% in 2004-05, once more above its long-term average growth rate. Consumption expenditure has been driven by the continued effects of increased household wealth, sustained high levels of consumer confidence, exceptional labour market conditions and above average rates of interstate and overseas migration. In addition, a strong AS\$, which has made imported goods less expensive, has supported spending on consumer durables, such as motor vehicles and household furnishings and equipment.

A number of factors are expected to dampen consumer spending in late 2004-05 and into 2005-06. An increase in petrol prices in AS\$ terms, particularly since December 2004, will act to reduce discretionary incomes, as will the impact of the interest rate increase in March 2005. While the recently announced income tax cuts should provide a partial offset to these contractionary influences, this effect is anticipated to be limited, with higher household debt levels seeing consumers save (rather than spend) a greater proportion of their tax cuts than would normally be the case.

Overall, growth in household consumption is forecast to moderate to 4¼% in 2005-06. This reflects an anticipated easing in the growth of both housing-related consumer purchases and wealth-related spending, as the effects of the recent stabilisation of house prices flow through to consumption. Higher household debt levels may also act to dampen consumption growth in 2005-06. However, continued strength in the labour market, gains in consumer wealth from higher equity prices, rising real incomes (with the increase in average earnings once again expected to outpace inflation) and solid population growth are expected to underpin robust growth in consumption expenditure in 2005-06, albeit at a more moderate rate when compared with the very strong growth of recent years.

Chart 2.7
Household Consumption¹, House Prices² and Real Average Earnings, Queensland



Note:

1. Chain volume measure, 2002-03 reference year. 2004-05 estimated actual, 2005-06 forecast.

2. 2004-05 represents percentage change for September and December quarters 2004 on the same period in 2003.

Sources: Queensland Treasury and ABS 3101.0, 6202.0, 6401.0 and 6416.0.

Dwelling Investment

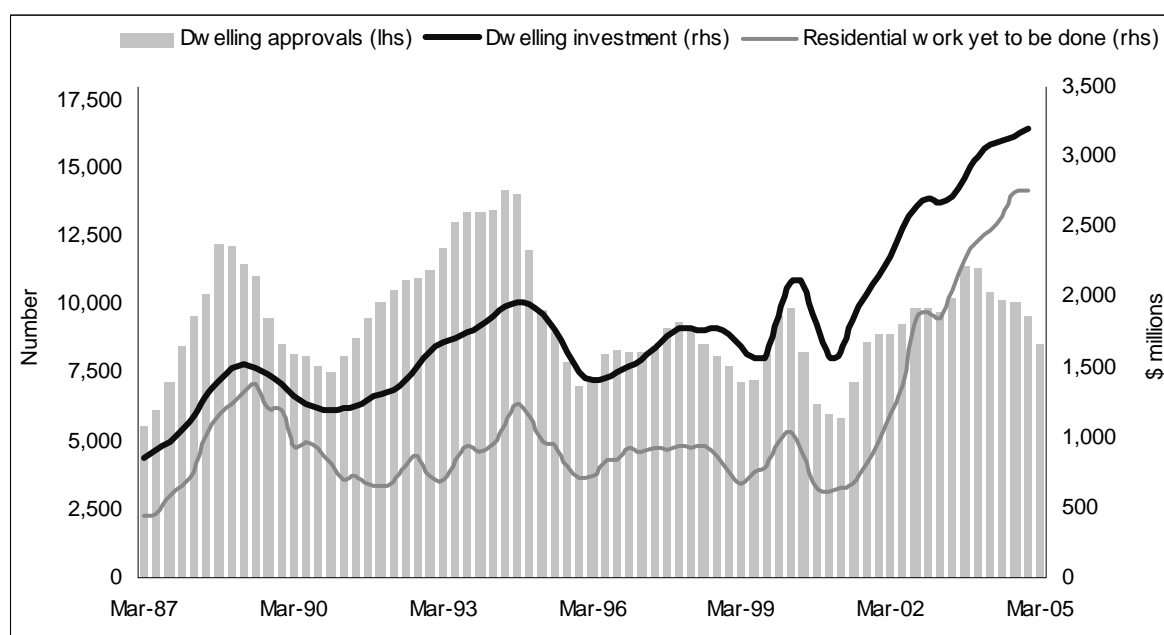
Following remarkably strong growth in each of the past three years, dwelling investment has continued to grow through 2004-05 and is expected to rise by 5% over the year.

Despite reaching record levels in 2003-04, housing construction continued to grow over the first three quarters of 2004-05. Although monthly dwelling approvals have been easing steadily since October 2003, new dwelling construction has been maintained by a large volume of approved work still to be completed (see Chart 2.8). Strong population growth, low home loan interest rates and a very buoyant labour market have also continued to support the demand for house construction. The rapid increase in residential house prices in recent years abated during 2004-05, yet housing finance data suggest that investor demand for house construction currently remains at relatively high levels. After three years of rapid growth, renovation spending now represents almost half of total dwelling investment and has continued to increase in the first three quarters of 2004-05.

While the pace of growth in dwelling investment has begun to ease, a large volume of approved work in the pipeline should support construction levels through much of 2005-06. Continued strength in renovation activity is forecast to partially offset an expected decline in new dwelling construction, with alterations and additions spending continuing to grow as home owners utilise higher property valuations to improve their homes. Overall, dwelling investment in Queensland is forecast to decline slightly, by 3%, in 2005-06.

The anticipated turnaround in dwelling investment beginning in 2005-06 is a product of the recent boom, which has seen housing construction activity increase by over 90% since 2000-01, rather than any deterioration in the economic fundamentals that drive dwelling construction.

Chart 2.8
Dwelling Investment and Work Yet to be Done, Queensland¹



Note:

1. Dwelling approvals and investment in trend terms. Dwelling investment and residential work yet to be done in volume terms (\$M, 2002-03). Residential work yet to be done deflated using ABS 6416.0 House Price Index: Project homes: Brisbane.

Sources: ABS 8371.0, 8752.0, 6416.0, Queensland Treasury.

Business Investment

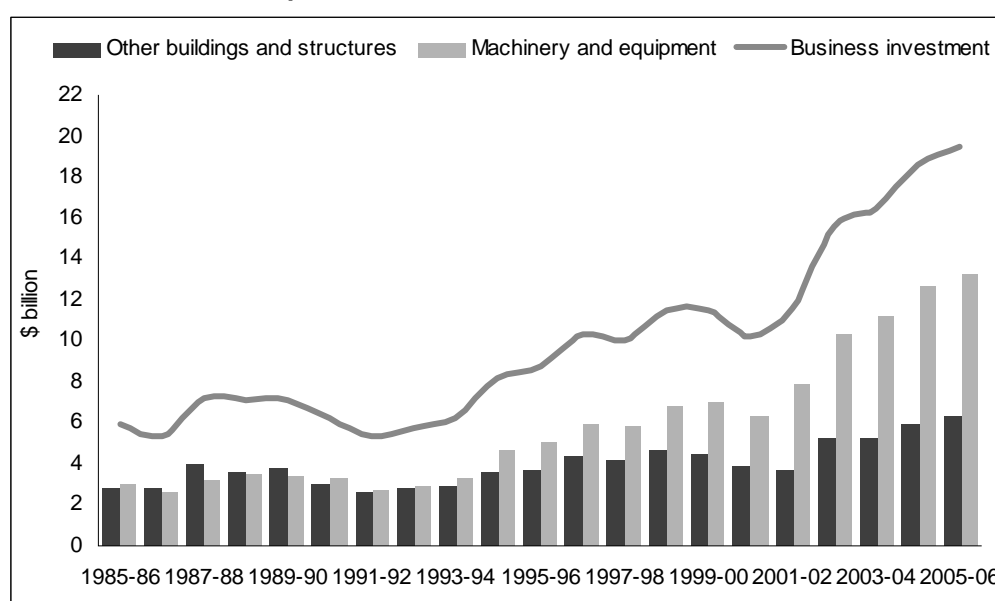
Following three years of very strong growth, business investment is anticipated to increase by a further 13¼% in 2004-05. Both of the major components of business investment are anticipated to rise, with other buildings and structures investment expected to grow 12¾% and machinery and equipment investment forecast to increase 13½%.

The current business investment cycle began in 2001-02, driven by an acceleration in consumer demand, capacity constraints beginning to be felt, and a recovery in world economic growth from 2002-03 onwards. Domestic demand, which remains one of the primary drivers of business investment, eased through the first three quarters of 2004-05, following very strong growth in 2003-04. Reflecting this, survey data suggest that business confidence has moderated early in 2005, after reaching very high levels in late 2004. However, businesses continue to enjoy relatively low borrowing costs and experience strong profitability.

Offsetting the easing in domestic conditions, demand for Queensland's major exports has continued to accelerate, driven by strong growth in the State's trading partners. This has been accompanied by a sharp rise in world prices of mineral and energy products, some of which reached 15 year highs during 2004-05. The impact of high commodity prices on corporate profitability has, and should continue to, facilitate investment in additional productive capacity in mining-related and metals manufacturing industries.

Recent economic developments suggest that domestic-focused business investment may ease in 2005-06, while those industries linked to world markets should continue to seek increased capacity. In particular, the positive outlook for economic growth in China and non-Japan Asia should continue to fuel strong demand for mineral and energy commodities. Overall, business investment is forecast to rise by 4¾% in 2005-06, with other buildings and structures investment expected to grow by 5½% and equipment and machinery investment forecast to increase by 4½%.

Chart 2.9
Major Components of Business Investment, Queensland¹



Note:

1. Chain volume measure, 2002-03 reference year. 2004-05 estimated actual, 2005-06 forecast.

Source: Queensland Treasury.

Public Final Demand

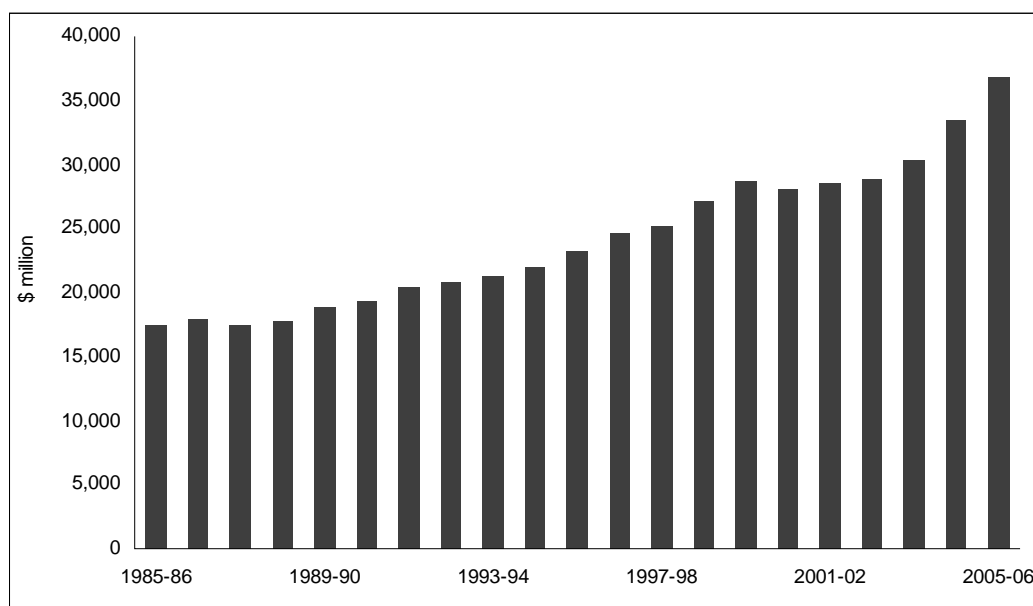
After strong growth in 2003-04, total public final demand in Queensland is estimated to increase sharply in 2004-05, rising by 10%. Building on this growth, public final demand is forecast to increase a further 10% in 2005-06, largely reflecting the commencement of the State Government's significant investment program in infrastructure as outlined in the *South East Queensland Infrastructure Plan and Program 2005-2026*. In addition, Queensland's Government-owned corporations plan to undertake increased capital expenditure in response to growing demands on the State's infrastructure base, both from rapid population growth and a strong world economy.

Capital works to be undertaken in 2004-05 and 2005-06 reflect key Government priorities and include transport and water infrastructure, education and training, health, housing and child safety. Major transport projects will provide further improvements to the State's arterial roads, passenger rail services and busways. Other capital projects include the ongoing redevelopment and upgrading of the State's schools and hospitals.

Capital expenditure by Queensland's Government-owned corporations is also forecast to rise substantially in 2005-06. This includes the construction of the Kogan Creek base load power station through 2005-06, reflecting the State Government's commitment to increasing electricity generation capacity in Queensland, as well as ongoing improvements to the State's electricity transmission and distribution systems.

In response to surging demand for the State's coal exports, key investments by Government-owned corporations include further upgrades to the State's coal rail network and coal rollingstock, as well as expansion of the RG Tanna coal terminal. In addition, upgrades to infrastructure at the Port of Brisbane and Cairns airport will facilitate increased volumes of merchandise and tourism exports.

Chart 2.10
Public final demand, Queensland¹



Note:

1. Chain volume measure, 2002-03 reference year. 2004-05 estimated actual, 2005-06 forecast.

Source: Queensland Treasury.

Net Exports

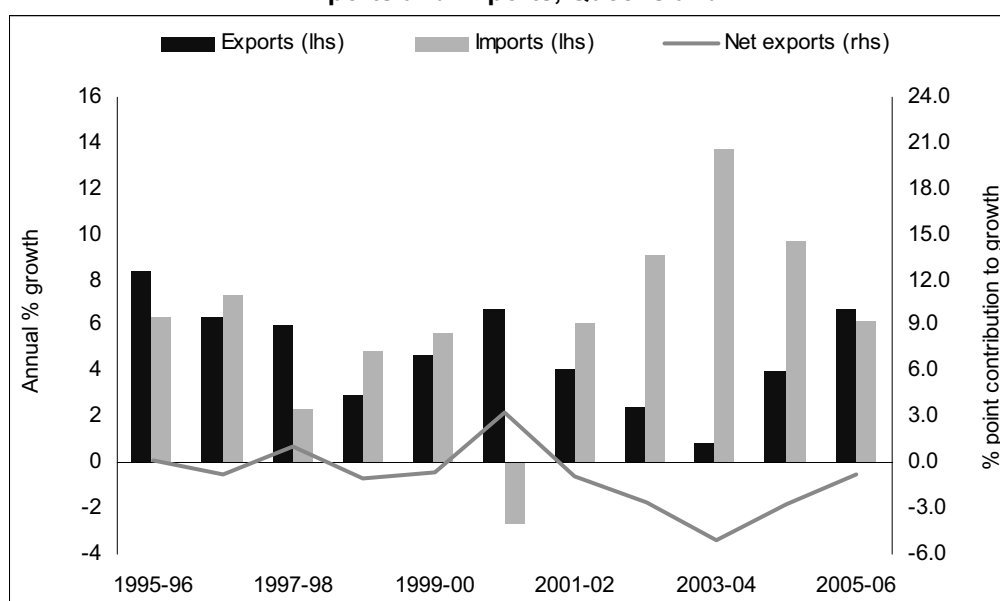
Despite growth in imports continuing to exceed growth in exports, the relative performance of the trade sector improved in 2004-05. Net exports are estimated to detract $2\frac{3}{4}$ percentage points from growth in 2004-05, following a very large detraction from growth in 2003-04.

Overseas merchandise and tourism exports from Queensland are expected to grow strongly in 2004-05. Despite an appreciation in the A\$ against the US\$ over the first half of the year, a number of factors have supported exports of goods overseas. Strong world economic growth has sustained growth in coal exports, while the Japanese ban on beef imports from the United States and Canada also saw a strong rise in meat exports. Further, a continued recovery from the drought saw a rebound in rural exports during the year. Tourism exports also appear to have recovered from the adverse effects of major international shocks in recent years (such as SARS and avian influenza), which had previously affected international visitor arrivals. However, with domestic demand in the rest of Australia easing in 2004-05, growth in Queensland's interstate exports is expected to be more subdued compared with overseas exports. As a result, total exports are estimated to grow by 4% in 2004-05.

Meanwhile, imports are expected to rise by $9\frac{3}{4}\%$ in 2004-05. Robust domestic growth, due to high levels of household spending and business investment, has led to increased demand for imported consumer durables, such as motor vehicles, and imported capital equipment.

The performance of trade sector is forecast to improve further in 2005-06, with net exports predicted to detract only $\frac{3}{4}$ percentage point from economic growth. Growth in exports is expected to strengthen to a five-year high of $6\frac{3}{4}\%$ in 2005-06, supported by continuing strong economic growth in Queensland's major trading partners, particularly in emerging economies such as China and India. Box 2.1 outlines the implications of strong growth in China and India on the State's trade sector. A forecast increase in coal exports is expected to contribute to the overall rise in exports, as producers respond to higher prices by expanding production capacity. Meanwhile, imports growth is expected to moderate to $6\frac{1}{4}\%$, in line with an anticipated easing in growth in the domestic economy.

Chart 2.11
Exports and Imports, Queensland¹



Note:

1. Chain volume measure, 2002-03 reference year. 2004-05 is an estimated actual, 2005-06 represents a forecast.

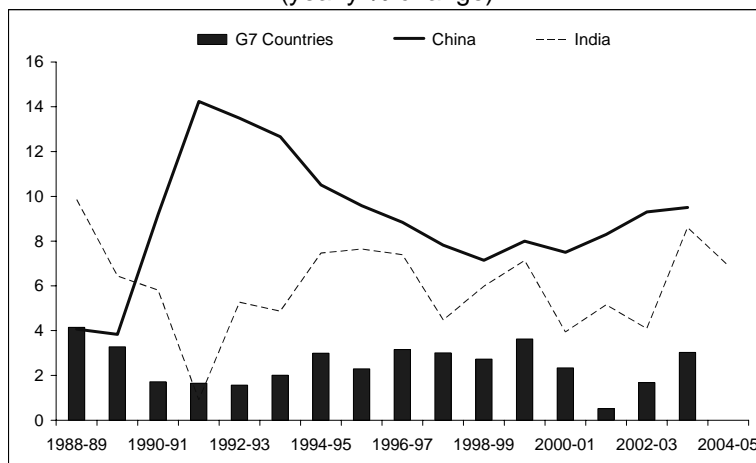
Source: Queensland Treasury.

Box 2.1 Emerging Economies of China and India Their Implications for Queensland

Queensland's trading performance is forecast to improve significantly in 2005-06, with exports growth anticipated to strengthen to a five-year high of 6 % during the year. An important driver of this recovery in exports growth has been the emergence of China and India as rapidly growing economies, helping to drive strong global growth in recent years. This box documents the direct and indirect implications for Queensland's trading performance from strong growth in these economies.

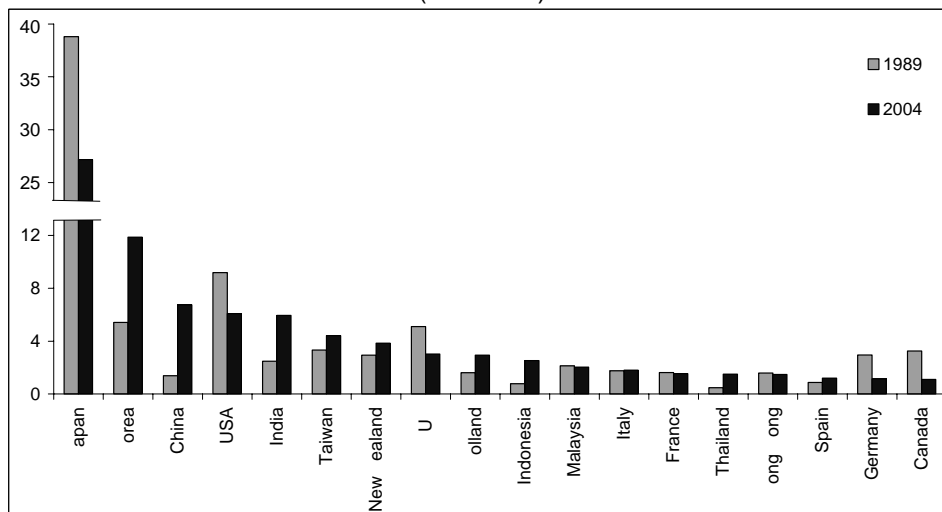
Economic growth in China and India has greatly exceeded that in developed economies in recent years, to the extent that these two economies are forecast to contribute around 30% of Queensland's export-weighted major trading partner growth in 2005. Chart 1 shows that China's economy grew at an average annual rate of 8.6% over the ten years to 2003-04, while India grew at 6.2% per annum over the decade. This compares with average growth of 2.5% in G7 countries over a similar period. China's rapid growth follows a series of government-led reforms, focused on beginning the transition to a market economy, while the Indian Government's liberal approach to regulation has coincided with rapid export-led growth in India, based on strong growth in services and manufacturing.

Chart 1 Economic growth, China and India
(yearly % change)



The overarching implication for Queensland of stronger growth in China and India is the growing importance of these economies as destinations for the State's exports. Their share of the value of Queensland's overseas exports of goods has more than trebled from 3.9% in 1989 to 12.6% in 2004. Chart 2 shows that China (6.7%) is now Queensland's third largest export destination, following Japan and Korea, while India (5.9%) is now the fifth largest export market, slightly behind the United States.

Chart 2 Destination of Queensland exports¹
(% of total)



¹ Other is treated as a separate area for trade purposes.

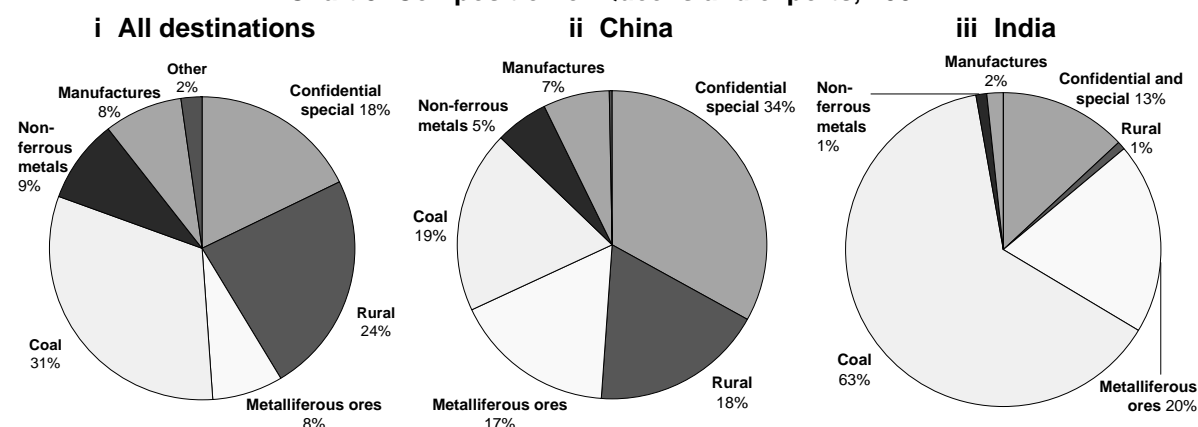
Another important although indirect implication for Queensland's trade performance is that exceptional growth in China and India has also enhanced growth in Queensland's other major trading partners. China's main trading partners include Hong Kong, Japan, the United States and South Korea, while the United States, Hong Kong and China represent some of India's major trading partners. These additional economies account for a further 50% of the value of the State's overseas exports of goods.

Certain sectors of Queensland's export industry, such as coal, metalliferous ores (such as copper, lead and alumina) and sugar, are likely to benefit most from the growth in China and India. Chart 3 illustrates that Queensland exports a greater proportion of coal and metalliferous ores to India (panel iii) than it exports to other destinations generally (panel i), while the State exports a greater proportion of confidential and special items – which include coal and sugar exports – and metalliferous ores to China (panel ii) than it exports to other countries as a whole.

Queensland's coal industry has benefited from several trends in China and India. Despite being the world's largest and third largest producers of coal respectively, much of the coal produced in China and India is of lower quality than the coking coal produced in Queensland. Further, rapid growth in these economies has required domestic coal production to be supplemented by coal imports, to service energy requirements for large populations and energy intensive industries, such as steel production. As a result, over the last five years the value of Queensland coal exports to India rose by nearly 90% to total \$859.5 million, and rose by more than 210% to China to \$294.6 million in 2004.

Queensland has also benefited from the rapid rise in commodity prices, induced by strong resource demand from China and India. For instance, the large increase in the value of coal exports to these economies not only reflects a rise in the export volumes, but also rises in coal prices. Importantly, the rise in world US\$ prices of some commodities has more than offset the appreciation of the A\$, with Queensland coal prices in A\$ terms rising by around 50% over the year to December quarter 2004.

Chart 3 Composition of Queensland exports, 2004¹



¹ The confidential and special category includes data which are confidentialised to prevent the identification of the activities of individual exporters and importers, and includes the value of sugar exports and a proportion of coal exports

China and India have also made a growing contribution to the State's services export sector, such as tourism and education, in recent years. Arrivals to Queensland from China rose by 58.7% to 58,876 persons in 2004, while arrivals from India rose by 40.9% to 11,340 persons, well above growth of 15.5% in arrivals from all destinations generally. The number of students from China and India studying at Australian universities has also increased significantly in recent years.

Looking forward, most analysts expect growth in China and India to remain strong, interpreting recent growth rates as part of a long-term structural shift toward industrialisation, rather than a temporary phenomenon associated with the business cycle. Despite some concerns about possible overheating in the Chinese economy and India's ongoing structural budget deficit, Consensus Economics forecasts the Chinese economy to grow a further 8.9% and 8.0% in 2005 and 2006, respectively, with India forecast to grow at around 7.0% per annum over this period.

If these forecasts prove accurate, the positive impact of these emerging economies on the State's trade sector, both directly in terms of Queensland's commodity and service export performance, and indirectly through high commodity prices and strong growth in major trading partners, should continue over the medium term.

mplo ment

Queensland is set to record exceptional jobs growth in 2004-05. The number of persons employed in Queensland, in year-average terms, is estimated to rise by 5¾%, an increase of around 104,000 jobs, representing the fastest rate of annual growth in 16 years. Despite an increase in labour force participation to an historic high of 65¾%, the State's jobs growth has been stronger than labour force growth throughout 2004-05. As a result, the State's year-average unemployment rate is forecast to fall to 5%, its lowest rate since 1974-75. This is the first time in 10 years that Queensland's unemployment rate has been below the national rate (5¼%).

The employment-related effects of the recent housing boom and high levels of interstate and overseas migration continued to be seen in 2004-05, notably in the consumption and housing sectors of the domestic economy. As a result, jobs growth was strong in labour-intensive industries, such as construction, retail trade, as well as health and community services, which more than offset a decline in agricultural employment, due to poor agricultural conditions following the drought of recent years.

While jobs growth has remained solid in the second half of 2004-05, it is expected to moderate into 2005-06. This reflects an expected easing in growth in the labour-intensive domestic sector of the Queensland economy. However, partly offsetting this trend, employment is expected to remain strong in trade-related industries, such as mining, manufacturing and transport, reflecting the positive global outlook. Overall, the State's employment growth is forecast to moderate to 2½% in 2005-06, but to remain above the forecast national growth of 1¾%.

Queensland's forecast employment growth translates into the creation of around 47,000 additional jobs in Queensland in 2005-06. With labour force growth predicted to match employment growth in 2005-06, the year-average unemployment rate is forecast to remain at its 30-year low of 5%.

Chart 2.12
Employment Growth, Labour Force Growth and Unemployment Rate, Queensland¹



Note:

1. 2004-05 represents an estimated actual, 2005-06 represents a forecast.

Sources: Queensland Treasury and ABS 6202.0.

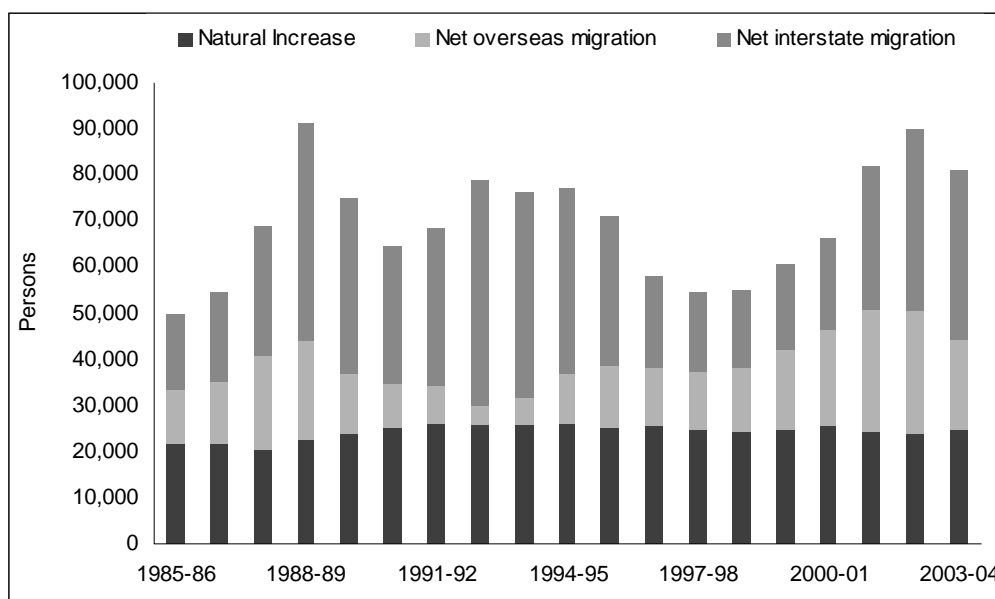
Population

Queensland is estimated to experience solid population growth of 2% in 2004-05, with similar growth forecast for 2005-06. Consequently, the State's population is expected to increase by approximately 150,000 persons over the two years, to total more than four million persons by the end of 2005-06, representing around one fifth of the national population.

Population growth of 2% in Queensland in both 2004-05 and 2005-06 represents a slight easing when compared with growth in the previous three years, reflecting an expected moderation in the level of net interstate and overseas migration. While net migration has steadily eased from a near-record annual inflow of around 69,000 persons in March quarter 2003, annual net migration remains well above its long-run average. Above average levels of interstate migration reflect the lagged impact of greater economic growth in Queensland and the national housing boom, which have encouraged persons from southern states to migrate north in search of job opportunities and a lower cost of living.

Despite the expected easing in 2004-05, population growth in Queensland is forecast to remain substantially higher than that nationally over the current and upcoming financial years, with Queensland maintaining its position as the dominant state in terms of net interstate migration. Migration to Queensland will also continue to be supported by long-established factors such as the State's stronger employment growth, generally lower cost of living and other factors such as Queensland's desirable climate.

Chart 2.13
Components of Population Growth, Queensland



Source: ABS 3101.0.

ve age a nings

Queensland is expected to show strong nominal average earnings growth of 4½% in 2004-05, driven by the exceptional labour market conditions experienced over the year. Nominal earnings are anticipated to outpace estimated inflation over 2004-05, implying a rise in real average earnings. Nominal earnings growth is expected to moderate slightly to around 4% in 2005-06. However, this is still well above anticipated inflation for the year, leading to another forecast increase in real earnings in 2005-06.

Inflation

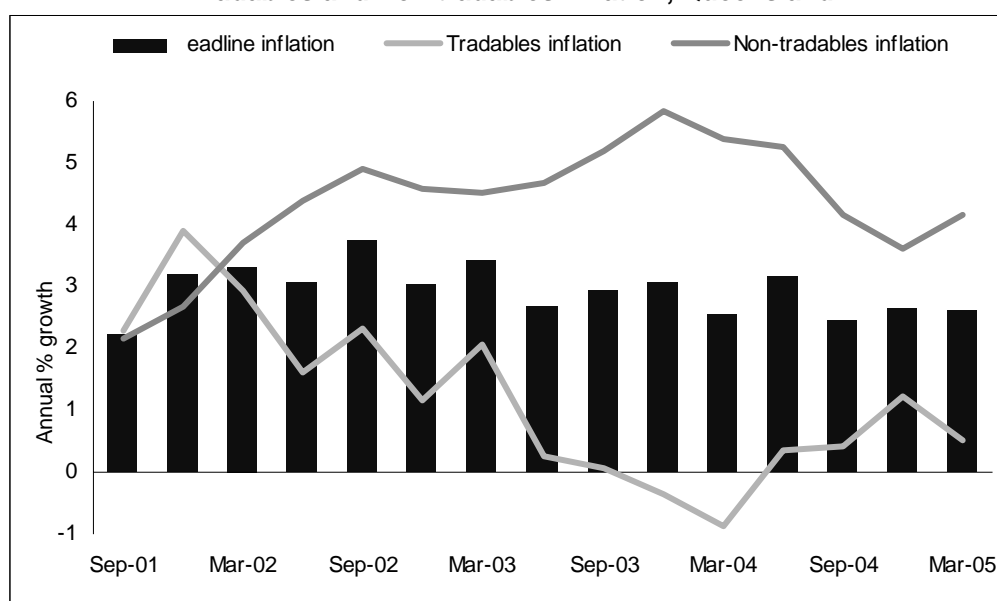
Inflation in Queensland continues to be driven by domestic pressures. Over the year to March quarter 2005, inflation in non-traded goods and services, which generally reflects the rate of domestic economic activity, continued to outpace inflation in tradable products, though the gap has narrowed in recent quarters (see Chart 2.14). The primary driver of non-tradables inflation was rising housing costs, which contributed more than one third of the increase in Brisbane consumer prices over the year to March quarter 2005.

In comparison, tradables inflation has been low over the past couple of years. This has been due to an appreciation of the A\$ against the US\$, which has placed downward pressure on import prices, as well as cheaper imports of manufactured goods from China and a reduction in tariffs on some imported goods. Overall, consumer prices are expected to rise by 2¾% in 2004-05.

Consumer price inflation is forecast to remain steady at 2¾% in 2005-06, but a change in the composition of price pressures relative to 2004-05 is anticipated. Current tight labour market conditions are expected to provide some support to domestic inflationary pressures. However, house price growth is likely to contribute less in 2005-06 as activity in the housing market slows, putting downward pressure on non-tradables inflation, as will a forecast easing in domestic economic activity more generally.

Meanwhile, tradables inflation is expected to continue to move upwards into 2005-06, as world economic activity continues to expand, the impact of the A\$ appreciation over the past three years on import prices dissipates, and as higher crude oil prices push up transport costs. Inflation in Queensland in 2005-06 is forecast to be similar to the 2¾% forecast nationally.

Chart 2.14
Tradables and Non-tradables inflation, Queensland



Source: ABS 6401.0.

Risks and opportunities

As a diversified open economy, forecasts for economic growth in Queensland are partly dependent on economic conditions internationally and nationally. External factors that will influence growth in 2005-06 include the strength of the world economy and its impact on commodity prices and the exchange rate, while the possibility of higher oil prices and domestic inflation also represent key risks. In addition, economic growth in Queensland will also be influenced by domestic factors, such as the outlook for the housing sector, seasonal conditions for the rural sector and the strength of population growth.

Major trading partner growth

The ongoing strength and resilience of the United States and Chinese economies, two major drivers of world growth, represents a significant opportunity for the Queensland economy in 2005-06. Growth in these two economies alone is forecast to contribute one quarter of total major trading partner growth for Queensland in 2005.

The United States and Chinese economies have outperformed market expectations in recent quarters. Consensus Economics have progressively revised upwards their 2005 growth forecast for China from 7.7% in September 2004 to 8.9% in May 2005. In the United States, employment growth – the primary indicator used to gauge the sustainability of growth in the economy – has significantly exceeded market expectations in recent months. If growth in these economies is higher than forecast in 2005 and 2006, this may result in stronger exports and economic growth in Queensland than currently anticipated. This is particularly the case with China, with the State's share of exports to this country rising in each of the last seven years (see Box 2.1).

However, lower than expected world growth also represents a risk in 2005-06. There is some evidence that higher fuel prices are beginning to feed into global producer and consumer prices, by acting as a tax on consumer and business spending. Any further increase in oil prices has the potential to slow economic growth in the United States and the rest of the world. Similarly, some analysts remain concerned whether China can engineer a soft landing, predicting more severe increases in interest rates, in addition to tighter mortgage lending to slow rapid growth in fixed-asset and residential investment.

Slower growth in the United States and China would also adversely affect Queensland's other major trading partners, such as Japan and Europe, given ongoing growth in these economies may rely to some extent on export growth. In addition, any further adjustment to the value of the US\$ in light of the economy's 'twin deficits' (budget and trade deficits) may also hamper an export-led recovery in other parts of the global economy.

Commodity prices

Strong global economic growth has resulted in higher world commodity prices, particularly for some of Queensland's major exports, such as coal. As a result, the State has benefited significantly from the national improvement in the terms of trade, with higher A\$ returns to exporters enhancing incentives for business investment (primarily in the mining and metal processing industries) and providing increases in consumer wealth via sharemarket gains. Stronger than anticipated world growth may place upward pressure on commodity prices. On the other hand, if significant increases in global supply occur in 2005-06, this may have some dampening effect on commodity prices. If either scenario eventuates, this may influence exports growth, and business and consumer spending during the year.

It should also be noted that slower than expected world growth and therefore lower commodity prices may place downward pressure on the A\$/US\$ exchange rate. The possibility of an A\$ depreciation would be heightened if the upward trend in global interest rates proved sharper than expected, which would also lower Australia's interest rate differential with major economies and reduce the attractiveness of A\$-denominated investments. Given Queensland forecasts are based on the A\$/US\$ exchange rate remaining largely unchanged, any depreciation in the A\$ may have an offsetting beneficial impact on economic growth in 2005-06, by reducing imports growth and raising the A\$ returns to exporters.

Oil prices

The price of oil more than doubled over the past two years to US\$57 in March 2005, due to strong global demand and a sequence of events that have constrained supply. The potential for further increases in oil prices continues to pose a risk through its influence on the State's major trading partners and, more directly, by affecting domestic consumption.

Until recently, the direct impact on Queensland has been alleviated to some extent, by an appreciation in the A\$ to around US80c in March 2005. However, the A\$ has since depreciated slightly, while oil prices have remained around US\$50 per barrel. As a result, petrol prices have risen from 80c per litre in December 2004 to around \$1 per litre in May 2005. Any significant increase in oil prices, assuming a steady A\$/US\$ exchange rate, may begin to directly affect economic growth in Queensland by reducing discretionary incomes and therefore growth in consumer spending in 2004-05. Box 2.2 places the recent rise in oil prices in context and discusses its implications for Queensland in more detail.

Inflation

While the Australian Government has forecast national inflation to average 2¾% in 2005-06, there are a number of factors that may push inflation higher over the year. High oil prices may begin to feed through to 'underlying' inflation, if producers begin to pass on this increased cost to consumers (as seen in the airline industry fuel levy). A tight labour market has also pushed unit labour costs higher. Indeed, productivity recorded its second consecutive annual fall in March quarter 2005, while annual growth in real earnings strengthened in the quarter. Finally, any depreciation in the A\$ exchange rate may increase inflation in tradable goods, reversing the dampening effect the A\$ appreciation (and the subsequent decline in tradable goods prices) has had on headline inflation in 2004.

If these factors push underlying inflation toward the upper limit of the Reserve Bank of Australia's 2-3% target band, this may require a further rise in official interest rates, adversely affecting both national and Queensland economic growth in 2005-06.

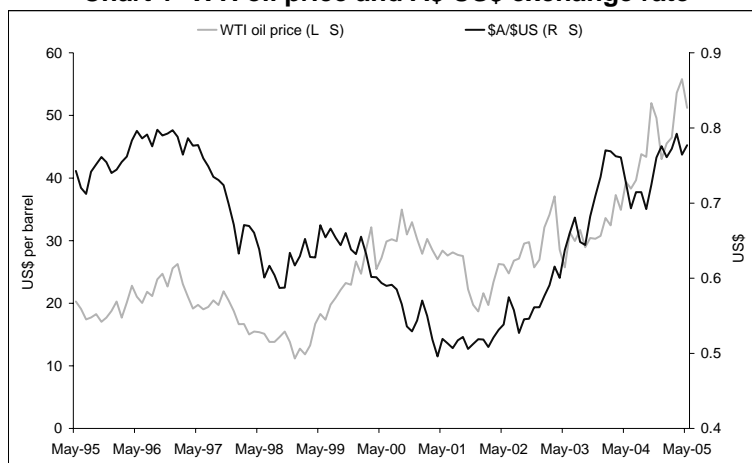
Housing sector

The outlook for the housing sector will also be an important influence on economic growth in Queensland. The forecast easing in housing investment in 2005-06 is based on the assumption of broadly unchanged interest rates during the year, as well as a stabilisation in house prices. Any rise in interest rates, or significant fall in house prices, may reduce new construction in owner-occupier and investor markets, as well as reduce renovation activity, which has been supported by the wealth effects of house price growth.

Box 2.2 Recent Oil Price Movements and their implications for Queensland

One of the most important developments in the world economy over recent years has been the rapid rise in the price of crude oil. The West Texas Intermediate, or WTI, price rose to over US\$50 per barrel in late February 2005 from around US\$20 per barrel in early 2002 (see Chart 1). Being an essential part of both business and household spending, a rise in the price of oil is expected to constrain activity in most economies, including Queensland. This is certainly the case when looking at the rise in oil prices in isolation. However, these price rises need to be viewed in the context of what factors have driven prices higher and how these factors have affected commodity prices and the value of the A\$. This provides a more balanced picture of the overall impact on the Queensland economy.

Chart 1 WTI oil price and A\$ US\$ exchange rate



A range of factors has driven oil prices higher over recent years, but importantly, one of these factors is higher growth in global economic activity. The rapid rise in world oil consumption has been driven to a large extent by exceptional growth in China and India (see Box 2.1 for more information on these economies), as well as a recovery in the world economy generally. Global oil supply has not kept pace with the rise in demand, and spare production capacity (largely from Saudi Arabia) has fallen to around 20-year lows, limiting the extent to which new production can be brought on line. These supply constraints, combined with an increase in demand, has led to a sharp rise in the price of oil.

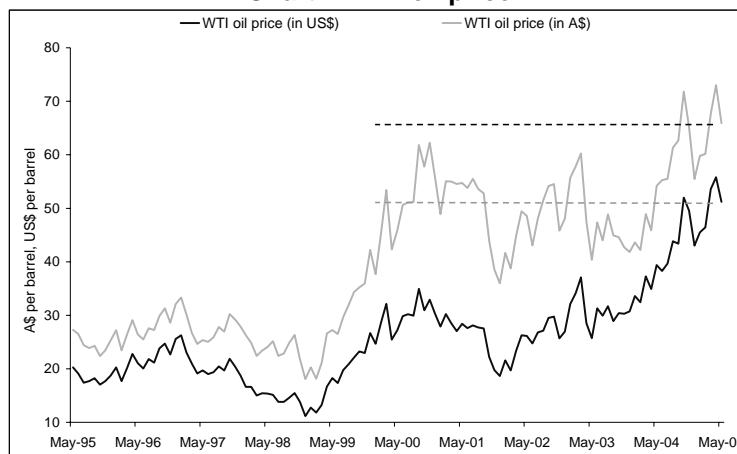
Higher oil prices dampen economic activity through a variety of channels. The most obvious channel is through higher petrol prices, to which consumers need to devote a larger share of their disposable incomes, leaving less to spend on other consumables. Higher oil prices raise business costs, which may lead to a reduction in business profits. If prolonged, this may result in a reduction in business spending on capital and labour. If profit margins are maintained by businesses, by passing on the cost of higher oil prices to consumers, then this may invoke a reaction from the central bank raising interest rates to combat the threat of higher inflation. This may dampen economic activity by raising borrowing costs to business and households. To the extent to which these channels adversely affect economies globally, another impact on Queensland may be reduced demand for exports.

The first point to consider in placing oil prices in context is that the increase in the price of oil must be compared with the rise in the cost of other business inputs and consumer prices generally. Although, in US\$ terms, oil prices are currently roughly double what they were at the peak of the oil price boom in the late 1970s, consumer prices are more than 200% higher. For the current increase in oil prices to have an equivalent economic impact to the 1970s oil price boom, oil prices would need to increase significantly from current levels.

Secondly, the fact that the current increase in oil prices has been due in large part to demand factors rather than purely supply-side factors has resulted in some offsetting benefits to economic growth. The rise in global demand for oil has extended to mineral and energy commodities more generally, particularly coal, which has seen the value of Queensland's merchandise exports increase rapidly.

Additionally, with Australia being a major exporter of commodities, the rise in commodity prices has led to a large appreciation of the A\$. As a result, the greater purchasing power of the A\$ has partially offset the rise in US\$ oil prices. Since late 2000, WTI oil prices in A\$ terms have increased by only A\$5 per barrel, against a US\$20 per barrel increase in US\$ terms (see Chart 2).

Chart 2 WTI oil price

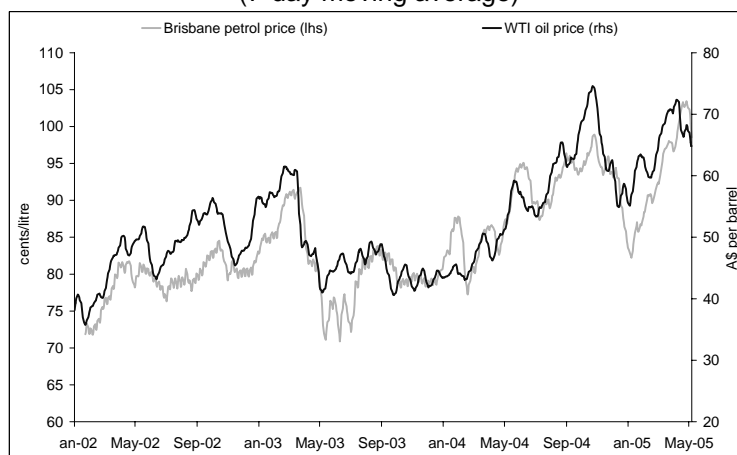


When considering the impact of a rise in petrol prices on consumer spending in Queensland, it is therefore important to look at the price converted to A\$, rather than the crude oil price reported in the media, which is generally the WTI price denominated in US\$. Chart 3 shows how, over time, there is a fairly close relationship between Brisbane petrol prices at the pump, and crude oil prices denominated in A\$ terms. Since the beginning of 2005, petrol prices have increased from around 80c per litre to around \$1 in May.

A final consideration in determining the impact of a rise in oil prices on the economy is the share of total consumer spending that is devoted to petrol. In 2004, spending on petrol accounted for 2.7% of total household consumption in Queensland. This is a small share compared with the proportion of consumer spending accounted for by rent (17.2%), recreation and culture (12.3%), food (11.1%), hospitality (8.9%), insurance (6.6%) and household furnishings (5.9%). In general, petrol is an essential consumption item, and unlike other items the ability to switch to cheaper products is limited. Therefore, the 25% rise in petrol prices since December 2004 is likely to add around 0.7% point to the share of total spending devoted to petrol. If households act to maintain a given level of consumption, households would have to spend slightly less (0.7% less) on other consumables.

In summary, while rising petrol prices are a constraint on the economy, several factors have worked to alleviate the impact on Queensland. This includes the fact that the rise in oil prices in real terms has been more modest than in nominal terms, and has also been less marked in A\$ terms. Further, oil price increases have been largely demand-led, benefiting commodity exports and prices. Finally, petrol expenses continue to represent only a small share of total consumer spending.

**Chart 3 A\$ oil prices and Brisbane petrol price
(7-day moving average)**



On the other hand, the volume of construction work yet to be completed in the housing sector remains around three times its historical average. This backlog of construction work in the pipeline, combined with stronger population growth in Queensland, may see dwelling investment continuing to grow in 2005-06, with related positive impacts on household consumption and employment during the year.

Seasonal conditions

With the rural sector generating over one quarter of Queensland's total overseas exports, the forecast of 6¼% growth in overall exports in 2005-06 is based on the assumption that seasonal conditions will allow a gradual return towards average production performance in the rural sector. However, there is a risk that current borderline El Nino conditions, associated with reduced rainfalls, may continue into 2005-06. While rainfall in Queensland has been higher over the past 12 months than in the past three years, several years of below-average rainfall has created challenges for the farm sector, such as very low soil moisture levels for crop production and low stock levels in the cattle industry.

Current rainfall conditions suggest winter crop production in 2005-06 is likely to be below average. If poor seasonal conditions continue throughout 2005 and into 2006, this is likely to have an adverse effect on overall agricultural production and exports in Queensland in 2005-06.

Population growth

Despite moderating slightly in recent quarters, the net inflow of interstate and overseas migrants has remained higher than its long-run average annual rate in recent years. This partly reflects the lagged impact of greater economic and employment growth in Queensland and the impact of the recent national house price boom, which has caused persons to migrate from southern states to Queensland.

Accordingly, the forecast for 2% population growth in 2004-05 assumes that net interstate and overseas migration, while continuing to ease slightly, will remain above their long-run levels reflecting continuing stronger State economic conditions than nationally. However, if net migration falls below its long-run level, this would result in slightly lower population growth and weaker economic growth than currently forecast, particularly in relation to household consumption and dwelling investment.

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 2006-07 to 2008-09, 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.

After exceptionally strong growth in 2004, economic growth in Queensland's major trading partners is forecast to ease marginally in 2005 and, following an improvement in 2006, world economic conditions are expected to remain relatively stable over the projection period. As discussed earlier, key risks to global growth include the ability of China to engineer a soft landing and, should oil prices remain high, maintaining growth in countries that are large users of oil, such as the United States, Japan and South Korea.

The projections also assume a continuation of the longer-term Australian Government fiscal policy and the monetary policy stance of the Reserve Bank of Australia. These policies aim to maintain a stable budget position and a low inflation environment to foster sustainable economic growth. The projections incorporate the anticipated impacts of the 2005-06 Commonwealth Budget released on 10 May 2005.

Economic growth in Queensland is projected to return towards its average growth rate over the past decade, around 4½% per annum, projected for the period to 2008-09. Jobs growth of 2½% per annum over this period is projected to outpace population growth of 1¾% per annum. This implies a moderate increase in labour force participation and the maintenance of a relatively low unemployment rate over the medium term.

The Queensland Government's economic strategy targets productivity growth and innovation, the key drivers of economic growth, by investing in infrastructure and human capital. This strategy, described in detail in the following chapter, is expected to see Queensland's economic growth continue to outperform that nationally over the longer term.

Table 2.3 Economic Parameters Projections¹ annual % change				
	Outcome 2003-04 %	Est. Act 2004-05 %	Forecast 2005-06 %	Projections ² 2006-07 to 2008-09 %
Queensland				
Gross state product ³	4.6	4	4	4
Employment	3.3	5	2	2
Inflation	2.9	2	2	2
Average earnings ⁴	3.4	4	4	3
Population	2.2	2	2	1
Australia				
Gross domestic product ^{3,5}	4.1	2	3	3
Employment	1.8	2	1	1
Inflation	2.4	2	2	2
Wage Cost Index ⁴	3.6	3	4	3
Population	1.2	1	1	1
Notes: 1. Decimal point figures indicate an actual outcome. 2. Average annual percentage change over the period. 3. Chain volume measure, 2002-03 reference year. 4. The Australian Government measure of growth in wages based on the ABS Wage Price Index, whereas the State measure of average earnings is estimated on a State Accounts basis. 5. The Australian Government forecasts 3 % GDP growth in 2006-07 and 2007-08, and an easing to 3 % in 2008-09. Sources: Queensland Treasury and Australian Treasury.				

3. ECONOMIC STRATEGY

KEY POINTS

- Queensland's economic strategy targets the key driver of economic growth — productivity growth — by investing in infrastructure and human capital and realising the Smart State Strategy.
- The economic strategy is complemented by a sound fiscal environment and solid economic fundamentals — including sound institutions and abundant natural resources.
- Productivity growth will generate high rates of sustainable economic growth, provide employment opportunities and improved living standards for all Queenslanders.
- Queensland's strong population growth is projected to continue. To accommodate this expected growth, the Government is investing in new infrastructure and enhancing the capacity of existing infrastructure across the State.
- The Government's investment in infrastructure will raise the State's productive capacity by providing workers and firms with access to increased levels of high quality capital.
- Fostering innovation and investing in human capital also enhances productivity and economic growth, generates higher real incomes and assists the Government achieving its social and environmental priorities.
- The Smart State Strategy is a core part of the Government's economic strategy, reflecting the role of information, knowledge, creativity, innovation and skills development in driving economic growth to improve prosperity and quality of life for all Queenslanders.

POSITIONING QUEENSLAND FOR CONTINUED GROWTH

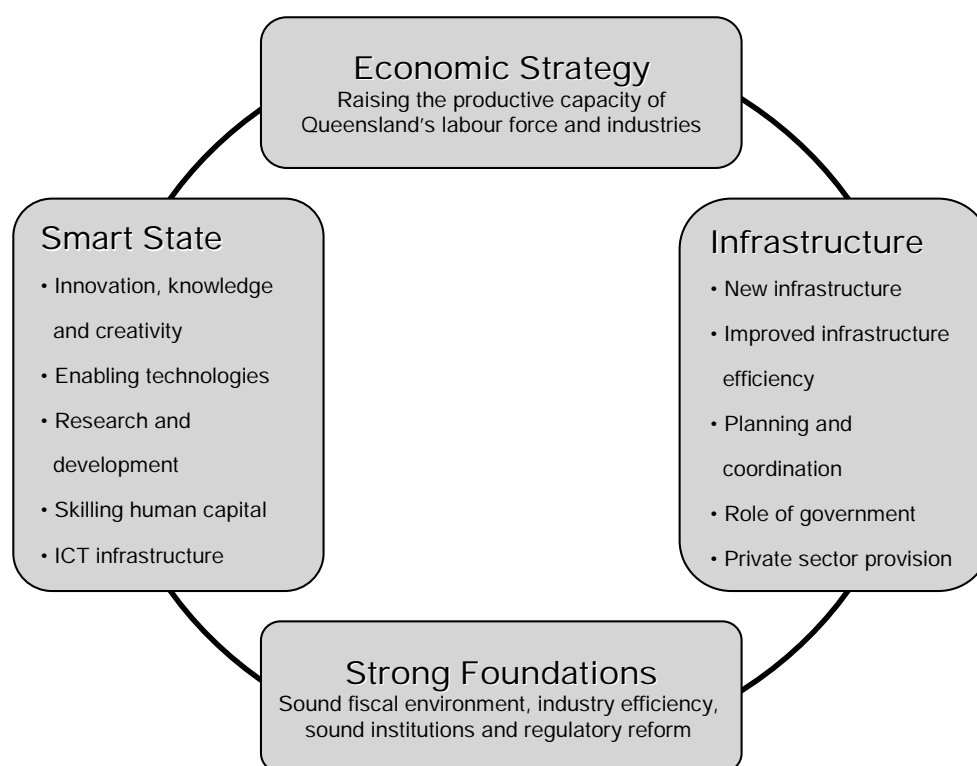
The Queensland Government's economic strategy aims to continue Queensland's strong economic growth performance and, by achieving strong growth, enable a better quality of life for all Queenslanders, in keeping with the Government's key economic and social policy priorities outlined in its *Charter of Social and Fiscal Responsibility*.

The rapidly evolving global marketplace and the associated increase in competition means the Government faces many challenges and opportunities as it positions Queensland's economy for the future. It must also meet these challenges and opportunities within an environment of ever-growing demands on Government's limited resources.

Consequently, all levels of government have a shared responsibility to achieve the key objectives of the economic strategy. In particular, infrastructure provision as a platform for sustainable economic growth requires effective collaboration and coordination across government to ensure economic, social and 'smart' infrastructure is appropriately planned, funded and delivered.

QUEENSLAND'S ECONOMIC STRATEGY

Figure 3.1
Queensland's Economic Strategy



Queensland's economic strategy is to raise the productivity of Queensland's labour force, and subsequently increase industry productivity, with productivity growth leading to higher rates of sustainable economic growth, improved living standards and greater employment opportunities – key economic and social policy priorities of the State Government.

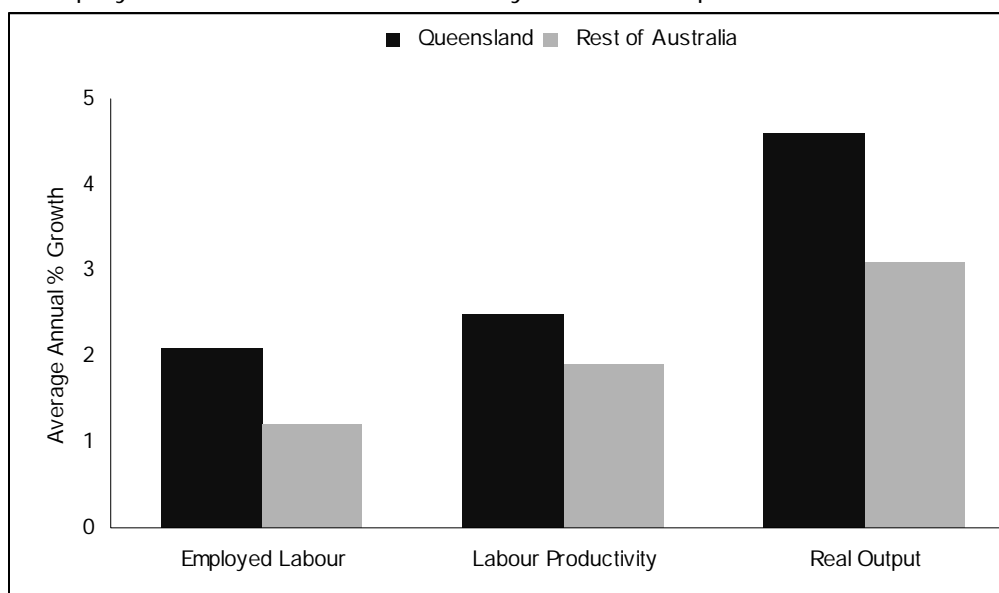
At its simplest, productivity growth creates more output from given inputs. Productivity growth can be passed on to employees in the form of higher real wages, to consumers in the form of lower prices, or to employers and businesses in the form of lower input costs and higher profits. In each case, productivity gains ultimately result in higher real incomes and improved standards of living.

The key drivers of productivity growth across the labour force and industry are:

- *increasing capital inputs* - providing workers and firms with access to greater amounts of machinery and equipment or infrastructure such as roads, railways and educational facilities
- *efficiency improvements* - making better use of existing capital and labour inputs and resources given current technology
- *technological progress* - driven by innovation and improvements in human capital.

Over the past decade and a half, Queensland has generated average annual economic growth of 4.6%, well above the 3.1% growth recorded for the rest of Australia (see Chart 3.1). Two-fifths of the economic growth differential was due to increased productivity, illustrating the relationship between productivity growth and sustainable long-term economic growth.

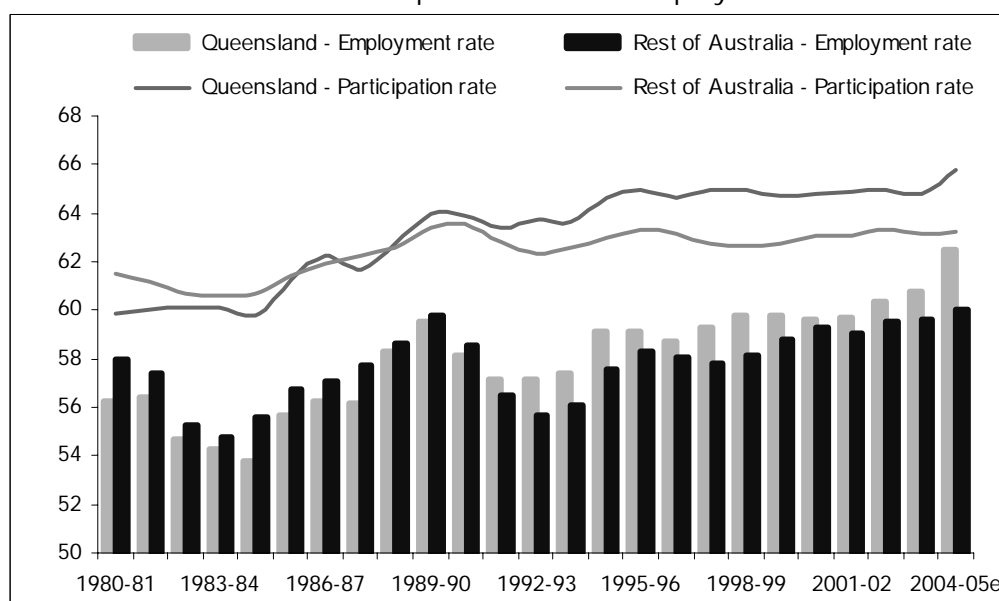
Chart 3.1
Employed Labour, Labour Productivity and Real Output: 1998-99 to 2003-04



Source: Queensland State Accounts, ABS 6202.0 unpublished data.

The remaining differential in economic growth between Queensland and the rest of Australia has been due to stronger growth in employment. Importantly, stronger growth in employment in Queensland in recent years has not only been due to stronger population growth. As Chart 3.2 shows, employment as a share of the population is estimated to reach an historical high in 2004-05, well above that in the rest of Australia.

Chart 3.2
Labour Force Participation Rate¹ and Employment Rate²



Source: ABS 6202.0, Queensland Treasury, Australian Treasury.

(e) represents estimated actual for 2004-05.

1. Labour force as a percentage of civilian population aged 15 and over.

2. Employment as a percentage of civilian population aged 15 and over.

This also reflects historically faster growth in labour force participation in Queensland and highlights the relationship between productivity and participation as the major drivers of sustainable productivity growth. Increases in traditional infrastructure or knowledge and information infrastructure (including human capital), which raise productivity growth, also increases the demand for and supply of labour, which increases participation. Increases in real incomes driven by productivity growth also create greater employment demand and participation in the work force.

Productivity growth also plays an important role in maintaining a sound fiscal and economic environment, as it maintains a long-term revenue base for Government to effectively target its key economic and social policy objectives. For instance, higher real incomes, generated through productivity growth, increase the State's revenue base, which allows the Government to enhance delivery of a wide range of goods and services throughout Queensland including education, health and aged care, transport, water, energy, crime prevention, cultural activities, regional development and environmental protection.

A sound fiscal position also allows for a competitive tax environment, enhancing business competitiveness. The Queensland Government's AAA credit rating reflects the positive assessment of the State's fiscal policy settings by independent ratings agencies. A sound economic environment allows the State's businesses to make economic choices with a reasonable degree of certainty and confidence. This facilitates new investment to lay down the foundation for the development of the State's industries and regions, which leads to increased employment opportunities for all Queenslanders, now and into the future. Strong business investment in Queensland over recent years underlines the Queensland Government's success in ensuring a supportive and stable economic environment.

INFRASTRUCTURE

The role of infrastructure in productivity growth

Public investment in capital infrastructure has played a key role in promoting and facilitating productivity growth in Queensland. This is because infrastructure, such as roads, railways, bridges, electricity, water, educational and health facilities, plays a central role in underpinning the economy's development and productivity growth.

Queensland's public infrastructure investment program during the second half of the twentieth century was integral to the State's increased economic growth, productivity growth and population growth. Public infrastructure investment in port, rail, road and water infrastructure facilitated the development of export oriented industries in Queensland, in particular, promoting and facilitating the growth of Queensland's mining industry.

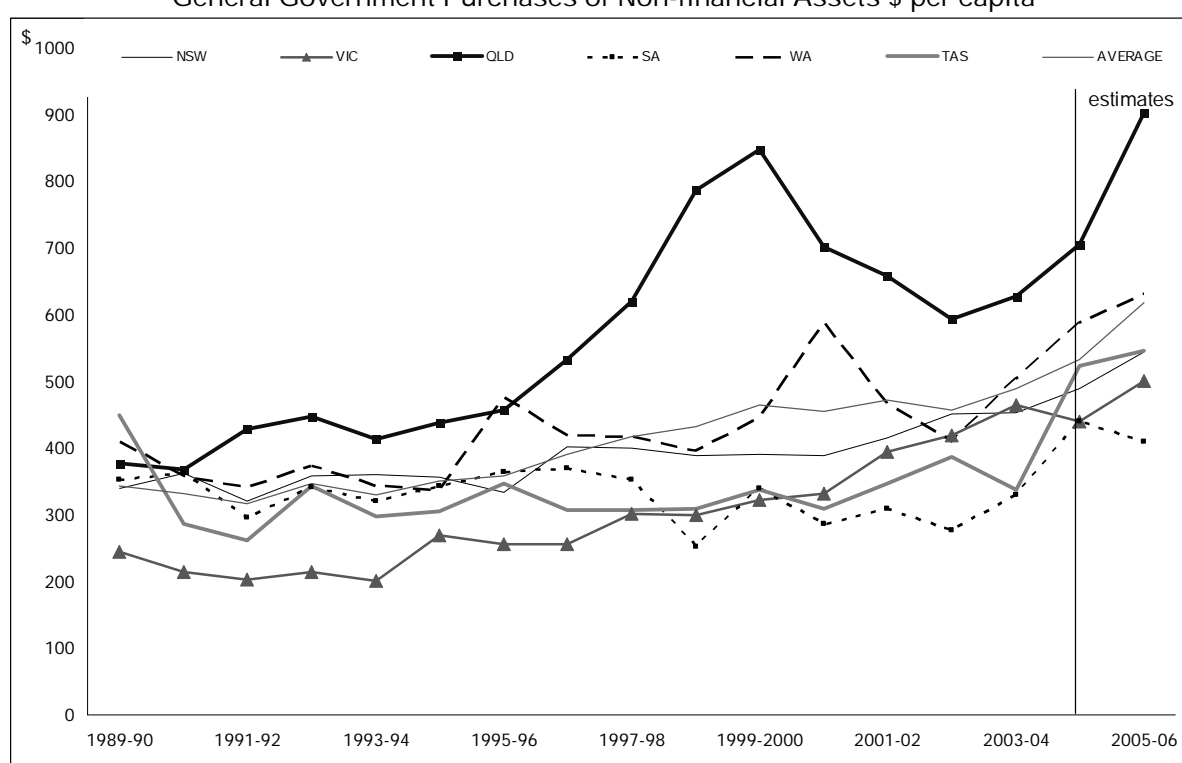
Queensland experienced its most rapid decade of export growth during the 1970s following a period of substantial investment in public infrastructure. Merchandise exports overseas rose by more than five fold over the 1970s decade, predominantly driven by an increase in the value of coal exported. The mining industry in Queensland is now one of our largest industries and is a major export earner for Australia. Consequently, the Government's investment in capital infrastructure provides considerable economic benefit to the State by contributing to the State's economic growth and productivity growth through enabling changes to the production processes of firms that result in more efficient production and distribution networks, reducing overall production costs. Public investment in infrastructure can also improve service levels by increasing infrastructure capacity or improving the condition of existing infrastructure.

The extent to which services provided by infrastructure contribute to economic growth depends not only on the extent and type of infrastructure investment, but on the effectiveness and efficiency with which existing infrastructure is used.

Increasing the State's infrastructure base

The Government's commitment to increasing the State's capital infrastructure base is reflected in the scale of the State's capital program over the last decade. On a per capita basis, the Queensland Government will continue to fund the largest capital program of any State (see Chart 3.3). Capital outlays are estimated to be around \$8 billion in 2005-06, representing a 32% increase on the 2004-05 Budget. Budget Paper No. 3 – Capital Statement details the Government's proposed capital outlays in 2005-06.

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



Sources: Unpublished ABS data; ABS 5512.0 and 3101.0; various state Budget papers; population estimates from Commonwealth Budget Paper No.3, 2005-06. Average includes all States and Territories, per capita in nominal dollars.

Increasing the efficiency of existing capital infrastructure stock

Government investment in capital infrastructure is not the only platform for improving the State's productive capacity. Increasing the efficiency of existing capital infrastructure stock given current technology can also improve productivity, as it enables higher levels of outputs to be provided with the same level of inputs. Indeed, improving the efficiency with which existing infrastructure is used may confer greater economic benefits to society than new infrastructure investment, as it minimises the need to draw upon Government's limited resources for new infrastructure investment. The Government can then use these resources for other Government priorities, such as health, education and the environment.

Increasing the efficiency of existing infrastructure can be achieved through policy or regulatory mechanisms, such as demand management, regulatory reforms and effective and responsive planning. In the case of demand management, it is based on the premise of changing behaviours of infrastructure users by introducing educational or incentive measures to bring about voluntary changes to consumer behaviour.

Efficiency-enhancing regulatory reforms are based on reducing the costs of infrastructure inputs, removing competition impediments and providing the appropriate incentives for investment. For example, third party access to Government-owned rail lines promotes greater competition in Queensland's rail freight market and therefore will help create a more efficient and productive rail network.

Effective and responsive planning of infrastructure networks can improve the efficiency with which current and future infrastructure is used. For example, coordinated planning can assist in ensuring that infrastructure assets function effectively as part of an integrated network. An integrated network improves connectivity and efficiency between hubs of economic activity, thereby boosting productivity. The *State Infrastructure Plan* (SIP), which was released in 2001, is an example of the Government proactively developing an integrated and coordinated plan to ensure connectivity and efficiency between hubs of economic activity, as is the recently released *South East Queensland Infrastructure Plan and Program 2005-2026* (SEQIPP).

The Government will continue to explore efficiency-enhancing mechanisms for the State's existing infrastructure to extract the maximum possible economic and social benefits from its use.

Infrastructure provision and the role of government

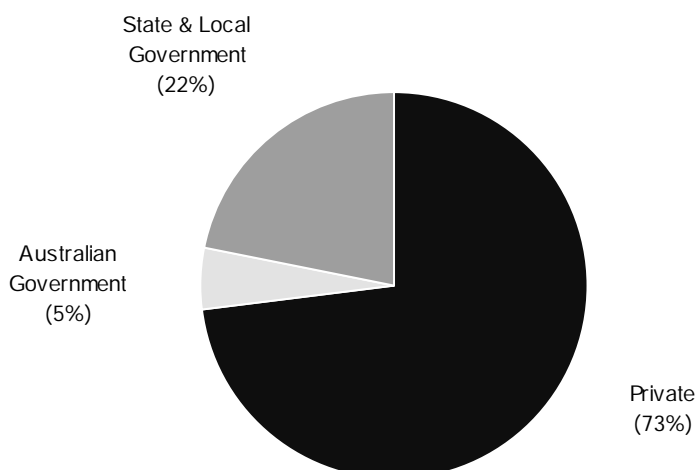
Infrastructure, by its nature, requires the involvement of government. As indicated above, infrastructure is often supported by government regulation to ensure that natural monopolistic characteristics of infrastructure are not exploited to the disadvantage of public consumers. Direct government involvement in infrastructure provision may also be warranted when the public benefits of such provision clearly exceed the costs.

Infrastructure provision in Australia is a shared responsibility between the Australian, state and local governments and the private sector. In some areas of infrastructure provision there is a clear delineation of provision and funding responsibility between governments. For example, the Australian Government is constitutionally responsible for the funding and provision of defence, postal infrastructure and telecommunications. Road infrastructure is an example of shared responsibility, with reasonably clear delineation of provision and funding responsibilities between governments: the Australian Government is responsible for national highways; the State Government is responsible for state highways, motorways and major roads linking towns and cities; and local governments are responsible for local road networks. However, in other areas, such as education infrastructure, there is a lack of clarity in the roles to be played by various levels of government in respect of provision and funding. This ambiguity in responsibilities merits further discussion of the roles of the various levels of government, in particular whether the Australian Government should be doing more to support infrastructure provision by state and local governments and the private sector.

- *State Government* – The Queensland Government has a major role in infrastructure provision, as it establishes the key planning, regulatory and legislative frameworks, manages the approval process and is a significant owner and manager of infrastructure assets through Government departments such as Main Roads, Education, Health and State Government-owned corporations. The present value of all State Government owned non-financial assets used in the provision of infrastructure-related services, is over \$95 billion.
 - SEQIPP is an example of an infrastructure planning framework which will give direction and momentum to both Queensland Government and private infrastructure investment in the south east of the State over the next 20 years.
 - The *Water Act 2000* is an example of a regulatory and legislative framework for water infrastructure. The Act requires the preparation of water resource plans, and where necessary, resource operation plans to ensure sustainable planning and management of the State's water resources.
 - The Queensland Government has undertaken a series of competition reforms in the gas and electricity sectors over recent years to encourage private investment in infrastructure. This includes entry in the National Electricity Market and increasing retail contestability, corporatisation and restructuring of the Government-owned electricity industry to increase efficiency and competition, and facilitating free and fair trade in gas and contestability of gas markets under the National Gas Access Code.
- *Local Governments* – local governments play a significant role in the provision of urban and rural infrastructure, as they are responsible for water supply, drainage, local road networks, sewage treatment plants and a wide range of community facilities. In addition, within their land use planning and approval responsibilities, they organise and sequence the provision of infrastructure for residential areas, industrial areas and urban centres. To assist local governments in these tasks, the State Government provides financial assistance in the form of capital grants and subsidies to assist local governments in the provision of local infrastructure. In 2005-06, the Queensland Government will provide \$339 million in capital grants and subsidies to local governments.
- *Australian Government* – In comparison with state and local governments, the Australian Government has limited direct involvement in infrastructure provision. Indirectly, however, the Australian Government has been a source of funding for state and local government infrastructure provision through specific purpose payments. For instance, the Australian Government provides specific purpose payments for provision, maintenance and upgrading of part of the State's education facilities. The Australian Government also influences infrastructure provision through regulation, legislation and other framework policies.

For many years, governments (at all levels) have utilised the private sector to design and construct major capital works. Consequently, most public capital infrastructure projects have involved the private sector through conventional tender arrangements. Over recent years, the nature of private sector participation in the provision of infrastructure has changed to also include infrastructure financing and operation. The importance of private sector participation and provision is highlighted in Chart 3.4. The private sector accounted for around 73% of the State's non-dwelling fixed capital investment on average over the past five years compared with the State and local governments' contribution of around 22% over this period.

Chart 3.4
Non-Dwelling Fixed Capital Investment in Queensland - Five Year Average, 1999-00 to 2003-04



Source: Queensland State Accounts.

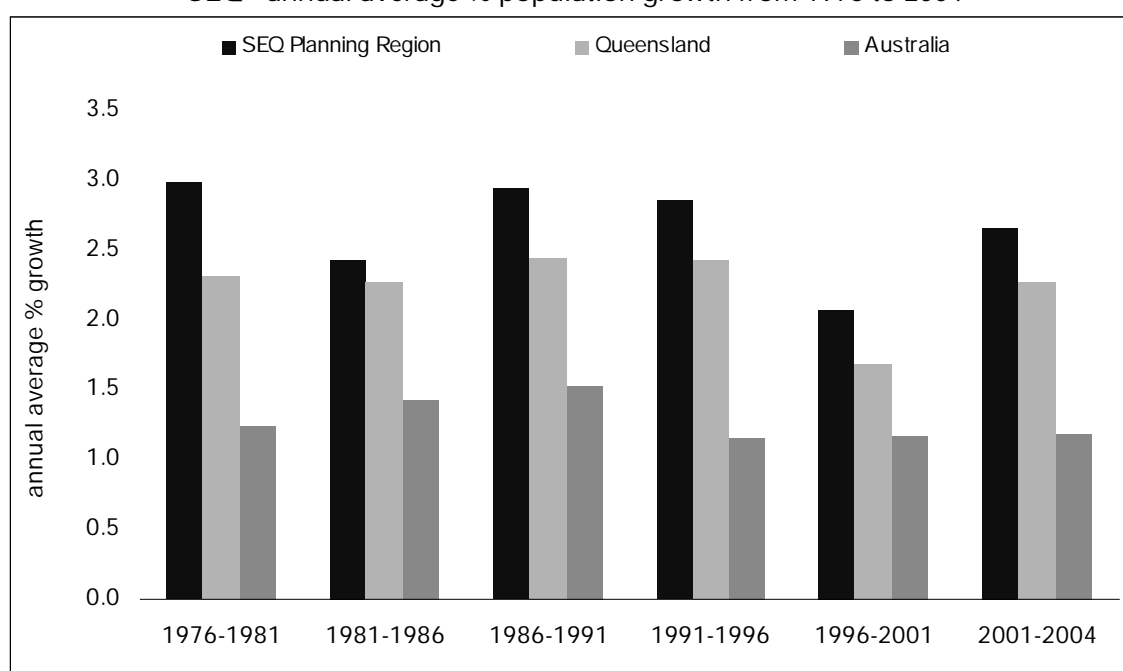
The Government continually strives to develop and implement improved and lower-cost procurement of infrastructure and encourage private sector involvement in public infrastructure provision where it can be shown that the State will achieve better value for money. The Queensland Government released its Public Private Partnerships policy in 2001, which provides a framework for the partnership of Government and the private sector, to develop 'Value for Money' solutions to public infrastructure services. In summary the principles of the policy and framework are to:

- deliver improved services and value for money through appropriate risk sharing between public and private sector parities
- encourage private sector innovation
- optimise asset utilisation
- achieve integrated whole of life management of public infrastructure.

Infrastructure to manage growth in South East Queensland

Population growth in South East Queensland (SEQ) continues to grow faster than both Queensland as a whole and Australia (see Chart 3.5), with the population in the South East expected to reach 3.7 million by 2026 – an increase of more than one million people. SEQ is the largest economic region of Queensland, with more than 60% of the State's employed persons. In recent years, the SEQ economy has been growing considerably faster than the Australian average, driven by business investment, dwelling and non-dwelling investment, population growth, consumption and exports.

Chart 3.5
SEQ - annual average % population growth from 1976 to 2004



Source: ABS 3216.0, Queensland Year Books (various).

Population growth is a major driver of infrastructure demand and government spending. As discussed above, infrastructure's unique characteristics such as long asset life and capital intensive nature means that it is provided within a strategic and forward-looking planning framework in order to sustain and improve productivity, economic growth and standards of living. For these reasons the Government developed and recently released the SEQIPP.

SEQIPP outlines the State's infrastructure priorities and investment intentions for South East Queensland in three distinct phases over a 20 year period. It provides for transport, water, energy infrastructure, as well as community infrastructure, rural development infrastructure and information and communication technology infrastructure.

Transport infrastructure is a key infrastructure priority of SEQIPP, due to the expected strong growth in passenger and freight trips in South East Queensland over the medium term. Road freight in particular is expected to double by 2020, as a result of the rapidly expanding import and export activities of the Port of Brisbane. This will place increasing demands on the existing transport infrastructure and could lead to an augmentation of traffic congestion, declining air quality and lower productivity. Therefore, the Government has placed a high priority on roads and transport systems initiatives within SEQIPP. Major initiatives include:

- \$1.6 billion Gateway Upgrade Project – this project will build a second Gateway Bridge and upgrade 20 km of Gateway Motorway between Mt Gravatt-Capalaba Road and Nudgee Road
- \$530 million Northern Busway – this project will build a Northern Busway, connecting the Inner Northern Busway at Royal Brisbane Hospital to Chermside, Aspley and Bracken Ridge
- \$300 million Springfield passenger rail line – this project will extend the passenger rail line from Darra to Springfield to provide a viable public transport option for this growing centre

- **\$265 million Gold Coast Rail Line Upgrade** – this project will provide additional track and upgrades from Ormeau to Coomera, Helensvale to Robina, Salisbury to Kuraby.

These major initiatives will help ensure that population growth does not compromise the region's liveability or environmental values, while at the same time contributing to Queensland's productivity and economic development through:

- *Travel time savings* – travel time savings are benefits resulting from an improvement in the efficiency of the transport system via shortened routes, better traffic flows and improved access to connection services. Industry benefits from travel time savings as it reduces the hourly cost of transport services and therefore freight costs. Community benefits from travel time savings as it increases the time available for leisure based activities
- *Reduced vehicle operating costs* – improved transit flows reduce vehicle operating costs in terms of fuel, lubricating oil, parts and repair and maintenance
- *Improve safety outcomes* – many transport infrastructure projects reduce the probability of accidents occurring. Improved safety outcomes through the avoidance of personal injury results in a healthier and more productive society
- *Improved market access* – transport networks work as an integrator or connector for transferring goods and services between geographical regions and markets. For high value goods or perishable goods, such as seafood or fruit and vegetables, timely access to integrated transport networks is likely to improve access to interstate or overseas markets
- *Improved environmental outcomes* – reducing transport congestion improves local air quality and reduces greenhouse gas emissions via a reduction in CO₂ emissions.

Infrastructure throughout Queensland

Regional Queensland constitutes a vital part of the Queensland economy, accounting for around 64% of the State's merchandise exports overseas. The Queensland Government is committed to investing in capital infrastructure in regional Queensland to support ongoing economic and social development.

In Queensland, a major challenge of infrastructure provision in regional areas is to identify and provide infrastructure that increases productivity in these regions. The Government responded to this challenge by releasing the SIP in 2001. This five year plan was developed to provide a strategic and coordinated approach to developing the infrastructure requirements for the State and its regions.

The main objectives of SIP are to coordinate and integrate infrastructure provision to support economic development, establish strategic economic development objectives for all public and private sector infrastructure planning, identify those possible infrastructure responses likely to strongly support sustainable economic development, optimise the use of existing infrastructure, establish economic infrastructure priorities for the State Budget, provide a mechanism for identifying private sector investment opportunities in infrastructure provision and provide greater confidence for businesses to expand and invest in new developments.

There are nine regional infrastructure strategies in the SIP. These include South East, South West, Wide Bay Burnett, Gladstone, Central, Mackay, Northern, Far North and North West of Queensland. The Government's commitment to improve the State's regional infrastructure base is reflected in the level of investment in 2005-06. Budget Paper No. 3 – Capital Statement details the Government's proposed capital outlays for Queensland in 2005-06.

KNOWLEDGE AND INFORMATION INFRASTRUCTURE

Complementing the provision of traditional infrastructure, such as roads and water, is the provision of knowledge and information infrastructure. Knowledge and information infrastructure refers to infrastructure that facilitates and promotes creativity, innovation and skills such as research and scientific institutions, information and communications technology networks and education and training facilities. This infrastructure also provides the building blocks for Queensland's Smart State Strategy, which is at the centrepiece of the Queensland Government's broader economic development strategy.

Enabling technologies

Technological advancement has typically occurred in stages or waves (see Box 3.1). The current wave of technological advancement is information and communications technology (ICT). Key sectors within this wave are computers, software, integrated digital networks, ICT services, biotechnology, nanotechnology, space/satellite and environmental technologies. History shows that nations that adapt and respond to these waves are likely to experience higher economic and social prosperity than nations that lag. The Smart State Strategy, including the recently released *Smart Queensland: Smart State Strategy 2005-2015* is the Government's blueprint and action plan for responding to the current wave of enabling technological development and securing Queensland's future in the 21st century.

ICT infrastructure, such as computer networks, servers and storage devices supports many technology-led applications, such as broadband e-commerce, m-commerce, e-learning and e-health. These applications have yet to fully develop but are likely to have a large impact on future growth, productivity, living standards and international competitiveness. Consequently, ICT infrastructure is vital to the Queensland economy to:

- maintain and improve the productivity of existing industries
- stimulate the development of information and knowledge based industries and businesses
- help Queensland integrate with the global economy and our major trading partners
- develop more efficient and effective government.

The Government has introduced a number of initiatives to facilitate ICT infrastructure investment and development throughout the State. These include:

- the establishment of Project En@ble to develop a clear and consistent approach to strategic and statutory planning throughout the State for telecommunications infrastructure development
- Smart ICT – Taking it to the World – an initiative that will help facilitate ICT infrastructure investment in the State by promoting Queensland's capabilities in international markets, facilitating partnerships between large corporations and local companies, and accessing specialised markets where Queensland has strong competitive strengths. The ICT industry in Queensland currently employs an estimated 56,000 Queenslanders, has annual revenue of \$14.6 billion and has \$850 million worth of overseas exports.

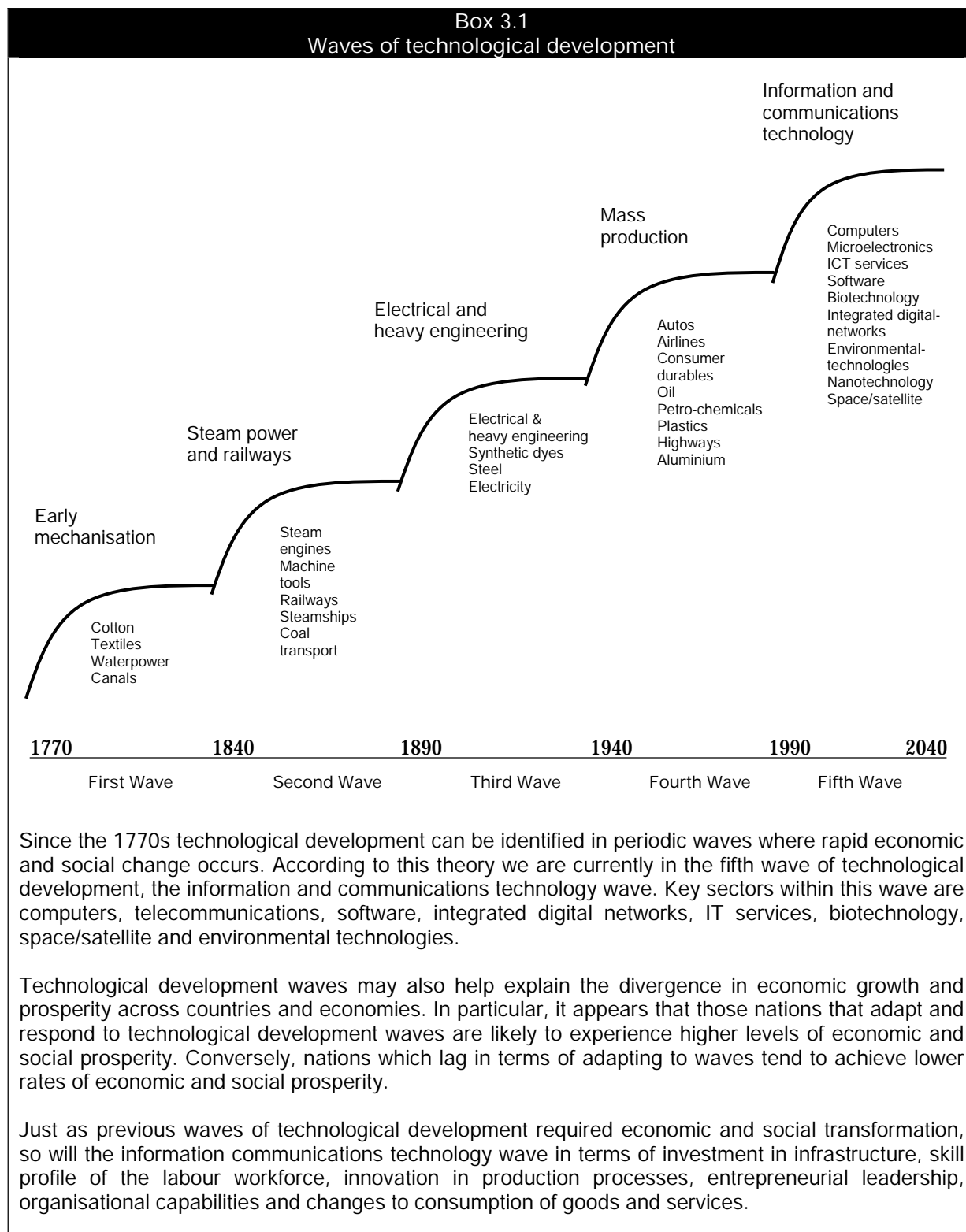
As with traditional infrastructure, the provision and regulation of knowledge and information infrastructure is a shared responsibility between all levels of government. However, the legislative and regulatory responsibility for the provision of telecommunications networks in Australia rests largely with the Australian Government. These networks underpin ICT-led applications and investment. The regulatory framework and market structure in the telecommunications market is therefore critical to support investment that ensures a pro-competitive and innovative communications market, which is able to keep pace with the requirements of the global market place. In addition, the regulatory and market structure should also support the provision of services to remote, rural and regional Queensland to allow all Queenslanders to participate in the global market via telecommunications infrastructure and have the opportunity to access interstate and overseas markets.

The Queensland Government believes that a truly competitive environment is essential to ensuring all Queenslanders have the opportunity to access the benefits available to them in the information age. These benefits are multi-faceted, including innovation and productivity growth from e-commerce and social benefits from electronic service delivery and improved communication systems, as well as benefits through industry and regional development.

However, a truly competitive environment is still not present in the majority of telecommunications market. Telstra's continued domination of some markets, notably the local loop, is one example of this. Consequently, access and competitive conduct regulation remains essential to delivering effective outcomes. As the most decentralised mainland state, telecommunication networks and markets are particularly important, as Queensland's economic base is dependant upon decentralised industries of mining and mineral processing, agribusiness and tourism. As a result, the Queensland Government will continue to work with the Australian Government to ensure legislative and regulatory arrangements facilitate a more competitive and innovative telecommunications market for all Queenslanders.

Nanotechnology is a key sector within the current wave of technological development and is an example of an emerging enabling technology. Nanotechnology, or molecular level engineering, allows for the manipulation of individual atoms and molecules, making it possible to build machines the size of a human cell or create materials with desired properties. Nanotechnology has the potential to create revolutionary new products and processes, make products and processes smaller, cheaper and more environmentally friendly, create new industries and job opportunities, as well as helping existing industries to improve their productivity relative to international competitors.

The Queensland Government recently contributed \$20 million to the new \$50 million Australian Institute for Bioengineering and Nanotechnology at the Queensland Biosciences Precinct at the University of Queensland in Brisbane. This investment will help develop one of the largest research and development clusters in nanotechnology in the Southern Hemisphere.



Source and adapted from: Dodgson, M. (2003). *The Management of Technological Innovation: An International Strategic Approach*. Oxford University Press.

Innovation and Research and Development

Innovation involves the development of new or improved products or services or developing more efficient production processes. Innovation is a key driver of productivity growth, economic growth and higher living standards. The Organisation for Economic Co-operation and Development (OECD) estimates that innovation accounts for 50% of long-term economic growth in advanced economies, which is why innovation and fostering innovation is at the heart of the Smart State Strategy.

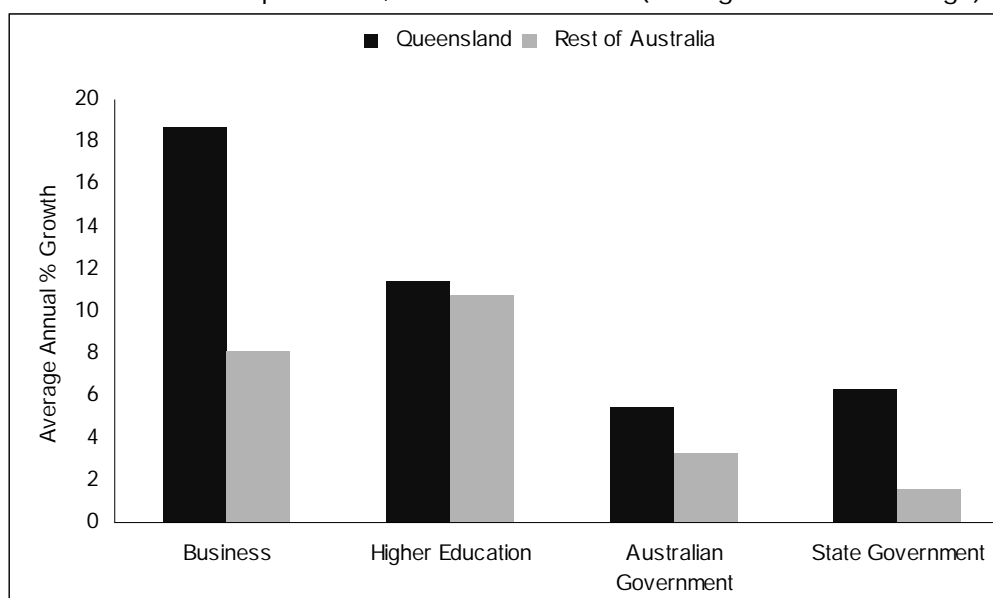
Research and development (R&D) represents an important input into innovation. Recognising the importance of R&D to innovation the Queensland Government has taken an active role in this area by providing R&D infrastructure to increase innovation in the State's economy. Over the past five years, the Queensland Government has invested more than \$2.4 billion in research projects and infrastructure including:

- the Smart State Research Facilities Fund, a major investment program for supporting the development of new R&D infrastructure. Since 2001 the Government has committed \$170 million under the fund to stimulate research and development activity in Queensland, provide access to unique and leading research facilities for Queensland industries and extend Queensland's comparative advantage in existing industry and build on comparative advantage in knowledge intensive industries
- the Queensland Government is involved in 54 of Australia's 72 Cooperative Research Centres (CRC), which bring together universities, private and public sectors to maximise the commercial and community benefits from public R&D efforts. The Queensland Government has contributed more than \$155 million to date in support of Queensland associated CRCs, through its Queensland CRC Development Grants Program.

Building on the successes of the Smart State Research Facilities Fund, and as part of the recently released *Smart Queensland: Smart State Strategy 2005-2015*, the Queensland Government will, in 2005-06, establish the Innovation Building Fund, with \$128 million over four years, to further stimulate research, development, commercialisation and technology diffusion. This major infrastructure program will establish pioneering research and innovation institutes, facilities, and centres of excellence in Queensland. It will also fund major items of research equipment.

Chart 3.6 illustrates Queensland's average annual growth in R&D expenditure by business, higher education institutions, the Australian Government and state governments. Queensland has outperformed the rest of Australia in all four categories over the 1994-95 to 2002-03 period, which illustrates the Government's ongoing commitment to R&D expenditure.

Chart 3.6
Growth in R&D expenditure, 1994-95 to 2002-03 (average annual % change)



Source: ABS 8112.0

Skilling human capital

The term human capital refers to the stock of knowledge, skills and attributes available in the workforce. Human capital can be enhanced by formal education and training, informal training, including work and life experiences, increased participation in the labour force and skilled immigration. The enhancement of human capital has a positive effect on productivity and economic growth in an economy. Human capital also influences productivity and economic growth through 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.

As a result, and to achieve and sustain the Government's Smart State vision, the Government recognises the importance of investment in human capital through education and training. Statistics show people with higher levels of education and training tend to achieve better employment outcomes and higher paid jobs. Increasing the levels of education and training for all Queenslanders has been, and continues to be, a key priority for the Government. In 2005-06, more than \$800 million will be invested in publicly funded vocational education and training in Queensland. In addition, \$140 million will be allocated towards Education and Training Reforms for the Future to cater for students' individual needs, enhance academic achievement and equip students for the world of work.

The Government will also commence a comprehensive review of Queensland's vocational education and training system and develop a range of strategies to make it more flexible and responsive to rapidly changing skill needs of the economy, and deliver up-to-date training to more Queenslanders. The Government is also implementing a range of labour market initiatives in 2005-06 to address the skill shortages in some key industries such as building and construction and engineering.

4. BUDGET PRIORITIES AND INITIATIVES

KEY POINTS

- The key areas for service enhancements in the 2005-06 Budget include health, homelessness, child protection, disability services, education and law and order.
- The health budget increases by \$413 million, or 8.4%, and includes enhancements in areas such as elective surgery and cardiac, cancer prevention, mental health and Indigenous health services.
- An additional \$120.4 million in recurrent funding and \$115.1 million in capital funding over four years is allocated to address homelessness by improving and adding to existing responses and better integrating services for people who are homeless, particularly without access to any shelter.
- A funding increase of \$123.1 million in 2005-06, including \$61.7 million in new funding, is allocated to child safety for a range of initiatives including the accelerated implementation of the commitment to increase frontline staffing.
- An additional \$180 million over four years will improve the delivery of disability services in Queensland.
- Additional funding of approximately \$470 million over four years will support the Government's Smart State Strategy, with major enhancements to research and development and for education, including the establishment of two new Queensland Smart Academies.
- Police staffing and resources will be enhanced and \$231 million over four years is allocated to upgrade and extend correctional facilities.
- As well, the *South East Queensland Infrastructure Plan and Program* identifies capital projects of around \$55 billion. Over the next four years, approximately \$2 billion extra is allocated over current Budget commitments.

INTRODUCTION

This chapter details:

- the Government's identified outcomes and priorities which underpin the 2005-06 Budget
- service delivery initiatives and developments for each of the Government's key priorities.

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

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

The alignment of the Government's desired outcomes for the community and its priorities is shown in Box 4.1.

Box 4.1 Alignment of the Government's Outcomes for the Community and Policy Priorities							
Building Queensland's economy			Strengthening Queensland communities			Protecting Queensland's environment	
Community Outcomes							
A strong diversified economy	A community of well-skilled and knowledgeable people	Improved standard of living for all Queenslanders	Safe and secure communities	Healthy, active individuals and communities	A fair, socially cohesive and culturally vibrant society	A clean, liveable and healthy environment	Maintenance of the natural resource base
<div>Priorities<div><div></div><div></div><div></div></div></div>							
Growing a diverse economy and creating jobs	Realising the Smart State through education, skills and innovation	Managing urban growth and building Queensland's regions	Improving health care and strengthening services to the community	Protecting our children and enhancing community safety	Protecting the environment for a sustainable future		
Delivering responsive government							

Each year, the Government releases a *Priorities in Progress* report to inform the community about its activities in delivering its priorities and community outcomes. The fifth *Priorities in Progress* report (January 2005) informs the community about the impact of the Government's policies and initiatives in the 2003-04 financial year. The report highlights areas where Queensland is performing well, and identifies opportunities for improvement. The *Priorities in Progress Report 2003-04* may be viewed online at www.treasury.qld.gov.au.

The 2005-06 Budget provides for a range of specific initiatives and service developments that will assist in achieving these key policy priorities. The major revenue initiatives to achieve the Government's priorities in this year's Budget relate to State taxation, specifically land tax and stamp duties. A full discussion of the revenue initiatives and issues is in Chapter 5.

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

This year, many of these initiatives are contained in two policy documents recently released by the Government:

- *Smart Queensland: Smart State Strategy 2005-2015* (see Box 4.2)
- *South East Queensland Infrastructure Plan and Program 2005-2026* (see Box 4.3).

Details of some of the service delivery initiatives in the 2005-06 Budget that support the achievement of the Government's priorities are described below. While highlights of the Budget are described in terms of their primary impact on the community, many assist the Government in pursuing more than one key priority. More detailed information on service delivery can be found in individual Ministerial Portfolio Statements.

GROWING A DIVERSE ECONOMY AND CREATING JOBS

Building on Queensland's strong economic base benefits all Queenslanders through job creation and an enhanced quality of life. The Government will continue to stimulate economic development throughout Queensland with initiatives designed to:

- expand market access, export and trade opportunities
- create additional job opportunities and break the unemployment cycle for Queenslanders out of work
- maintain a competitive tax environment for business development and jobs growth
- ensure a fairer industrial relations system and improve workforce management by putting people, safe jobs and workplaces first
- diversify and strengthen the economy through value adding, productivity growth and the development of future growth industries.

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

Smart State programs

New grants programs

In the 2005-06 Budget the Government will commit \$136 million in recurrent and \$64 million in capital funding over four years for three new grants programs to build research facilities and support innovation across a broad range of fields, including health and medical, environmental, agriculture and mining.

- \$64 million in recurrent and \$64 million in capital funding over four years is allocated to the Smart State Innovation Building Fund to stimulate research, development, commercialisation and technology diffusion. This fund will support the establishment of pioneering research and innovation institutes, facilities and centres of excellence as well as fund major items of research equipment.
- \$60 million over four years is allocated to the Smart State Innovation Projects Fund which will provide operational funding for collaborative projects and research projects that are strategically important to Queensland both in terms of established and emerging industries.
- \$12 million over four years will be invested in the Smart State Innovation Skills Fund to provide scholarships and fellowships to attract and retain top research talent.

Research Facilities Fund

The 2005-06 Budget increases funding under the current and final round of the Smart State Research Facilities Fund by \$20 million in capital funding, which will bring the value of the funding committed since the fund was launched in 2001 to \$170 million.

University Internships

Additional funding of \$1 million over three years has been provided for the Smart State University Internships. The program will provide support for the coordination of industry placements for undergraduate and postgraduate students from Queensland universities. The program aims to expose students to other disciplines and career options and increase the attractiveness of science, technology and engineering as a career path.

Box 4.2 Smart State Strategy

The Smart State Strategy is the centrepiece of the Queensland's Government broader economic development strategy, complementing the Government's investment in infrastructure to support economic development. It provides the strategic framework for the Government's investments in skills and innovation to drive economic growth to improve the prosperity and quality of life for all Queenslanders.

The Government commenced the first stage of the Smart State Strategy in 1998 with a focus on strengthening Queensland's research and development base, broadening and diversifying the economy to create new export industries and jobs, improving the productivity and export performance of established industries and reforming Queensland's education and training systems.

Since 1998, economic growth has averaged 5% per year compared with the Australian average of 3.7%. Labour productivity in Queensland has grown faster at 2.9% than the Australian average of 2.3%. Exports of value-added goods and services continue to follow an upward trend and in 2003-04, made up 37% of Queensland's exports of goods and services. The productivity performance of traditional industries such as agriculture and mining has increased significantly.

More than 370,000 additional jobs have been created for Queenslanders since 1998 and the State now has the lowest unemployment rate of all states. Queensland is now recognised as a centre for new industries, from electronic games to biotechnology. 5,000 new jobs have been created in the aviation industry, 9,100 jobs in the education exports industry and about 2,000 people in the biotechnology industry.

The second stage of the Smart State Strategy, Smart Queensland: Smart State Strategy 2005-2015, was released on 18 April 2005. The Queensland Government undertook an extensive consultation process during 2004 to inform development of the strategy. Smart Queensland builds on the momentum of the first stage of the Smart State Strategy.

Smart Queensland is supported by approximately \$470 million in new funding. Key elements of the strategy are:

- speeding up industry innovation through substantial investment in the research, development, diffusion and commercialisation of ideas and through collaborative ventures, networks and alliances
- building the foundations for a sustainable innovative society by investing in knowledge, skills, diversity, creativity and connectivity.

Smart State Industry Innovation Program

The Government will provide \$1.5 million over three years to the Smart State Industry Innovation Program to encourage companies to collaborate on projects that will improve industry operations and introduce smart practices in line with the Smart State Strategy.

Innovation Start-up Scheme

Further funding of \$1.9 million over three years has been provided for the Innovation Start-Up Scheme that aims to support Smart State high technology projects which show scientific excellence and commercial promise.

Smart Exploration Program

Additional funding of \$20 million over four years (\$5 million in 2005-06) is provided under the Smart State Strategy to establish the Smart Exploration Program to identify and support new opportunities for mineral exploration in Queensland by collecting and combining geological and geophysical data to create an expanded geoscience knowledge base.

Industry initiatives

Biosecurity protection and response

Increased funding of \$2.2 million per year, including an additional \$1.2 million per year in the 2005-06 Budget, is provided to ensure market access and to maintain consumer confidence for primary products. The Government will increase biosecurity preparedness in emergent domestic and international issues affecting Queensland's compliance with biosecurity and food safety standards. Increased funding will strengthen Queensland's response to national threats such as exotic fruit flies, foot and mouth disease, Transmissible Spongiform Encephalopathies, Johne's disease, tuberculosis and arboviruses in collaboration with Australian and other state governments.

Citrus canker eradication

An additional \$0.3 million is provided for eradication of the exotic citrus canker disease detected on two Emerald district properties. The \$11 million program is jointly funded with the Australian Government and citrus-growing states and territories.

New Asian markets for horticulture

An additional \$1.5 million over three years will enable the Government to spearhead a horticultural export drive into Asian markets. Valued at an estimated \$3 billion in 2004-05, the horticulture industry in Queensland is the second largest primary industry and underpins the employment and economic fabric of many Queensland regional communities. In conjunction with industry, the department will prioritise market potential for fresh and value added products, identify impediments along the supply chain and develop and implement initiatives to facilitate exports.

Aquaculture industry growth

The Government will provide an additional \$4 million over four years to Queensland's Aquaculture Development Initiative. In partnership with industry, this initiative invests in increased research and development, support and export market development in the fast growing sectors of the aquaculture industry such as prawns and barramundi and the emerging sectors – crabs, sea scallops and reef fish.

Wine industry development

The Budget provides an additional \$0.5 million in 2005-06 as well as ongoing funding to increase the Government's capacity in delivering viticulture advice and technical services to Queensland's wine industry.

State-wide forests process

Additional funding of \$18.8 million over seven years is provided to implement the Western Hardwoods Plan. The plan aims to develop sustainable forest management and Crown timber supply options.

Ethanol Industry Action Plan

The Ethanol Industry Action Plan has been formulated in response to a need to progress industry growth and investment in the Ethanol Industry. The Government has allocated \$7.3 million over two years for implementation of rebates for cleaning storage tanks in order to hold E10 fuel; a marketing campaign to raise public awareness; operational guidelines for diesel ethanol blends, engine conversion and related issues; and blending and distribution facilities for E10 and diesel ethanol blends.

Forestry plantation expansion

To facilitate the phase out of native forest logging in South East Queensland (SEQ) by 2024 and strengthen the growth potential of the timber industry, \$6 million in recurrent and \$0.7 million in capital funding is allocated in 2005-06 to plant a further 1,000 hectares of hardwood plantations, and maintain existing plantations. In addition, \$9.6 million is allocated in 2005-06 to establish and re-establish 6,554 hectares of State-owned softwood plantation to provide for future timber supplies to Queensland's timber industry.

Other initiatives

Drought relief

The Government will participate in and contribute funding to the expanded Exceptional Circumstances Scheme recently announced by the Australian Government which will provide much needed additional support to farmers suffering from prolonged drought conditions.

Breaking the Unemployment Cycle

The successful Breaking the Unemployment Cycle initiative provides a suite of employment programs aimed at assisting the most disadvantaged job seekers and increasing Queensland's labour force participation rate to counteract the effect of an ageing workforce. The initiative includes a new Back to Work: Parents and Carers Program, which will provide a range of employment assistance services to 1,000 parents and carers. Additionally, the Community Jobs Plan will pilot arrangements in six locations across Queensland to further integrate employment services with nationally recognised training. The pilot will target areas and specific groups in the community that experience persistent levels of unemployment.

Knowledge Based Research and Business Precincts

The Budget provides an initial investment of \$2 million to facilitate the detailed specification and design process for the Knowledge Based Research and Business Precincts incorporating an Ecosystems Science Precinct at the Boggo Road Gaol and a Health and Food Science Precinct at Coopers Plains. The development of the precincts will provide opportunities to combine research skills, facilities and infrastructure of State and Australian Government agencies and support the Smart State initiative.

Capital funding of \$45.5 million is also provided in 2005-06 under the *South East Queensland Infrastructure Plan and Program* (SEQIPP) towards site preparation and infrastructure works for the Boggo Road Precinct redevelopment. The redevelopment will contribute significantly to the Smart State initiatives with the first stage of the proposed knowledge based research and business component providing approximately 60,000 m² gross of office and laboratory space for scientific research into eco-science.

REALISING THE SMART STATE THROUGH EDUCATION, SKILLS AND INNOVATION

In recent years, the Government has laid the foundation for establishing Queensland as the Smart State. Initiatives have focused on:

- implementing education and training reforms and upgrading education and training facilities
- improving workforce skills for current and future needs by focusing on lifelong learning
- encouraging world-class research that builds on Queensland's unique resources
- encouraging and rewarding ideas, innovation, entrepreneurship and hard work across all sectors of the Queensland community, industry and government.

In April 2005, after an extensive consultation process in 2004, the Government released *Smart Queensland: Smart State Strategy 2005-2015* to continue the push for growth through investment in skills and innovation. Box 4.2 provides further details on this strategy.

Major service developments and initiatives to support the Smart State priority are detailed below.

Education initiatives

A projected additional 286 teachers will be employed from Semester 1, 2006 for enrolment growth.

Enhanced levels of education and training will facilitate and sustain the Government's *Smart Queensland: Smart State Strategy 2005-06* agenda. Key initiatives funded by the 2005-06 Budget to support this strategy are outlined below.

Queensland Smart Academies

An additional \$45.8 million is provided over four years, including \$40 million in construction and fit-out costs, to establish two new Queensland Smart Academies for senior students who excel in science, maths and technology and the creative arts. Students will be able to complete a Queensland Certificate of Education, fast track studies, study university subjects, or work with industry to combine career-based and university-level studies. Years 10 and 11 students will start in 2007 and Year 12 students in 2008.

Education and Training Reforms for the Future

The Education and Training Reforms for the Future (ETRF) cater for students' individual needs, enhance academic achievement, and equip students for the world of work. As part of the reforms, the three-year ICTs for Learning initiative has exceeded targets and been successfully completed. The remaining elements of ETRF are the early, middle and senior phases of learning. The 2005-06 Budget provides \$139.9 million to ensure the ETRF becomes a reality for more Queensland young people and includes:

- preparatory year phase-in for an additional 25 state and non-state schools in 2006
- investment of \$18.8 million in 2005-06 to improve outcomes for students in the senior phase of learning through support for further state-wide reforms, including supporting local education and training programs and students at risk of leaving school early.

Information and communication technology

\$80.1 million in 2005-06 is provided to improve information and communication technologies (ICT) access, technical support and skills for students and teachers including:

- \$14 million per annum over the next four years for Smart Classrooms, to provide each of Queensland's 1,300 state schools with the capacity for students, their parents and teachers to have access to class work and on-line learning materials
- \$3.5 million to provide laptops or personal computers for 1,500 teachers in 2006, in a trial to improve learning and communication through technology.

Queensland Curriculum, Assessment and Reporting Framework

An additional \$8.3 million over three years is provided to develop and progressively implement the Queensland Curriculum, Assessment and Reporting Framework. The new framework will provide greater clarity about what must be taught in Queensland schools, more rigorous and comprehensive assessment of student achievements against set standards and increased comparability in reported student performance.

Implementation of the framework will increase the consistency and quality of schooling in Queensland, equip teachers with high quality assessment tools and provide an education that prepares young Queenslanders to contribute effectively to Smart Queensland.

Education capital works program

The 2005-06 education capital works program of \$455.1 million (including \$67.8 million for expensed items) will invest substantial funds in educational facilities to ensure students can thrive in quality learning environments, including:

- \$147 million to fund the construction of classrooms at new and existing schools in growth areas throughout the State and allow the acquisition of additional land. This includes completion of the first stage construction of two new schools. A new primary school will open in the Drewvale area of Brisbane and a new school catering for preparatory year to year 12 will open in the west of Caloundra on the Sunshine Coast
- \$81.6 million to continue the delivery of facilities to support the phase-in of the preparatory year, which builds on the \$16.9 allocated in 2004-05, and continues the progress towards full introduction of the preparatory year of schooling in 2007
- \$187.8 million to replace and enhance learning facilities at existing schools to ensure state school premises are comfortable, safe and suitable to deliver modern curriculum initiatives including:
 - \$38.3 million for the Smart Schools Renewal Program, allowing participating schools and other educational centres to upgrade facilities and provide spaces that support an expanded curriculum and more fully integrate ICTs;
 - \$15.3 million for the Core Facilities Upgrade Program, providing updated and expanded administration and library facilities in schools where growth has outstripped the original size of their support facilities; and
 - \$27.9 million for the Building Inclusive Schools Program to enhance special education facilities. A significant number of special schools and special education facilities in other state schools have been enlarged and had their functionality improved through this program.

Asbestos replacement

The Budget provides \$7.2 million in 2005-06 as part of a 10-year, \$120 million accelerated asbestos replacement program, replacing all asbestos roofs in state schools.

Vocational education and training initiatives

In 2005-06 the Government will commence a comprehensive review of Queensland's vocational education and training system to ensure that the system is able to respond to current skilling challenges. Other key initiatives and service developments in the 2005-06 Budget in the area of vocational education and training are outlined below.

SmartVET

As part of the Government's previously announced \$1 billion three year *SmartVET* strategy, \$291.9 million in recurrent funding and \$62.7 million in capital funding is allocated in 2005-06, bringing total investment since 1 July 2004 to \$580.9 million in recurrent funding and \$109 million in capital funding. This continues the range of innovative, new pilot programs and existing skilling initiatives including:

- Skilling Solutions Queensland, an innovative, new customised face-to-face career information and skills assessment service
- the Industry Training Partnerships Program pilot, providing additional traineeship training places, where Government and employers each contribute 50% of the training costs required to upgrade the qualifications of workers in new and emerging industries experiencing skills shortages
- designing and creating additional accelerated apprenticeship training places
- the Mining Centre of Excellence, to assist in alleviating the current and emergent skilling issues impacting on the Queensland mining industry's sustainability and growth.

Other vocational education and training initiatives

The Department of Employment and Training will also allocate:

- \$114.5 million for the User Choice program, an increase of 3.6%, with a focus on improved access in 'thin market' areas and new training places in traditional apprenticeships for the building and construction and engineering industries
- \$78.4 million to further develop a highly skilled manufacturing workforce in priority industry sub-sectors including aviation, biotechnology, boat building, food processing, meat processing, engineering and light metals
- an additional \$7.8 million over two years to support the amalgamation of the four Queensland Agricultural Colleges as a single corporation. This funding will be used to enhance the information technology infrastructure network, review and realign the business and provide one-off funding assistance, and is in addition to the \$14.3 million in direct grant funding that will be provided to this corporation for the provision of priority vocational education and training.

MANAGING URBAN GROWTH AND BUILDING QUEENSLAND'S REGIONS

Queensland's strong population growth, particularly in SEQ, presents challenges for transport systems and other infrastructure, services and the environment. The Government has attached a high priority to:

- supporting Queensland's regions through state-wide infrastructure development and regional job creation
- ensuring that accelerated growth in SEQ is managed in an integrated and coordinated manner
- linking Queensland through efficient and integrated transport options
- building on the strengths of Queensland's diverse regions.

To set out the future pattern of development for the SEQ region, a draft SEQ Regional Plan was released in October 2004 with the final plan to be released in June 2005. Supporting this document is the SEQIPP, released in April 2005, which outlines the Government's infrastructure priorities. Box 4.3 provides further details on these plans.

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

Water Infrastructure initiatives

Water Reform – Continuity of Supply

Additional funding over four years of \$31 million in recurrent funding and \$4.5 million in capital funding is provided as part of the Smart State Strategy for a package of water related projects to ensure security of supply, maximise efficiency of use, promote recycling and improve knowledge and understanding of water systems, demand and use. This funding is in addition to funding for water initiatives associated with SEQIPP.

New State Water Infrastructure

Under SEQIPP, additional funding of \$243 million is allocated for new state water infrastructure. This infrastructure includes two new weirs, on the Mary and Logan rivers, a new dam at Wyaralong and new water storage options on the Mary River. All of these projects are subject to the outcomes of the South East Queensland Regional Water Supply Strategy (to which the State will contribute a further \$1.6 million) and the outcomes of detailed investigation and approval processes, expected to be completed by the end of 2006.

Recurrent Water Initiatives

Additional funding of \$69 million is allocated over ten years for a suite of recurrent water programs as part of SEQIPP. This is in addition to funding of \$9 million over five years provided in 2004-05 to accelerate water resource and water supply planning in SEQ. The initiatives contained in this package include: urban water accounting; rural water use efficiency; integrated urban water management including water recycling; groundwater investigations; desalination investigations; and water quality improvement.

Dam Spillway Upgrades

The State has set aside \$89.9 million over 10 years to fund high priority dam safety upgrades and to improve dam safety regulation. The Government will prepare new dam safety guidelines which reflect the new national safety guidelines for spillway adequacy and other dam safety matters.

Box 4.3
SEQ Regional Plan
SEQ Infrastructure Plan and Program

The Government released the draft SEQ Regional Plan in October 2004, with the final plan to be released on 30 June 2005. The regional plan sets out the pattern for the future development of the region. It outlines the preferred urban structure that will guide development, protect the environmental values and liveability of the region and support economic development.

The SEQIPP outlines the Government's infrastructure priorities to support the SEQ Regional Plan. It establishes priorities for regionally significant infrastructure over the next 10 years, within the 20-year planning horizon and identifies projects amounting to around \$55 billion over the next 20 years. Strategically focussed infrastructure investment will help to lead and support the preferred pattern of development and achieve key policy outcomes.

The objectives of the SEQ Regional Plan establish priorities for infrastructure investment in the region. A central objective is a more efficient form of development and more economical use of infrastructure and resources. The key objectives include:

- a more compact urban form - accommodating a higher proportion of population growth within existing areas will achieve the most efficient use of land, infrastructure and services. In particular, the SEQ Regional Plan seeks to increase population density around transport nodes and activity centres and assist with appropriate urban renewal and infill
- Western Corridor - many of the opportunities for major development are in the western corridor. This increase in development is supported by the corridor's potential for major industrial uses, its capacity to support employment growth and the availability of affordable and relatively unconstrained land
- sub-regional self containment - the SEQ Regional Plan seeks to reduce traffic and limit traffic congestion by encouraging communities to gain access wherever possible to goods and services, jobs and leisure within their sub-regional or local areas.

The SEQIPP supports these objectives in terms of the priority of particular infrastructure investments. In some instances, this means infrastructure provision ahead of existing need.

Transport initiatives

Road network

The recently released SEQIPP provides extra state funding for the road network of \$691 million over four years from 2005-06, including additional allocations for the following major state-funded projects:

- **duplication of the Houghton Highway at Redcliffe**
- **extension of the Centenary Highway Corridor from Springfield to Yamanto**
- **upgrade of the Mt Lindesay Highway between Green Road and Rosia Road to four lanes.**

In addition to this substantial investment, the State Government is providing additional funding of \$359 million over a period of four years from 2005-06 for the Rural and Regional Roads Funding Initiative in Southern, Central and North Queensland.

Other significant projects that are being progressed in 2005-06 are:

- construction of the \$360 million four-lane bypass on the Pacific Motorway between Tugun and Tweed Heads (\$240 million State and \$120 million Australian Government)
- construction of the Yeppoon Western Bypass, Yeppoon – Tanby Road, Kinka Beach Connection Road and associated Livingstone Shire Demaining Package as part of a \$26 million package of works
- sealing of sections of the Cooktown Developmental Road between Scrubby Creek and Sackleys Hill, Sackleys Hill and East Normanby River and between East Normanby River and West Normanby River at a total estimated cost of \$42 million
- an extra \$88 million provided over three years from 2005-06 as part of the Accelerated Road Rehabilitation Program to rehabilitate 71 kilometres of the Dawson Highway between Gladstone and Banana and replace 36 timber bridges in Central and Southern Regions
- planning and land acquisition (\$183 million over three years with \$77 million provided for 2005-06) for the Gateway Upgrade Project.

In addition, the Government will provide \$17 million in 2005-06 from camera-detected offence revenue under its \$42 million Safer Roads Sooner program for targeted road safety initiatives throughout the State.

Busway networks

The Budget includes \$306.2 million over four years to continue the Government's investment in the Inner Northern Busway, including \$82 million in 2005-06 towards the Queen Street Bus Station to Roma Street extension, \$9.4 million in 2005-06 to complete construction of the Royal Children's Hospital and Normanby Bus Stations and an additional \$2 million in 2005-06 to commence construction of the Roma Street Bus Station.

The Budget also provides additional funding for busway networks, including \$27 million in 2005-06 provided under SEQIPP to commence construction of a two-lane Eastern Busway corridor connection from Buranda to Boggo Road to Green Bridge.

TransLink

The Budget provides a further \$28.7 million in capital funding in 2005-06 towards the implementation of TransLink - improving the integration and coordination of bus, ferry and rail services in SEQ by progressing integrated ticketing, the use of smartcard technology, together with standardising concessions and fares. This amount includes an additional \$3 million in 2005-06 to include school transport in the TransLink smartcard.

Other Transport initiatives

The Budget also provides additional funding of:

- \$4.3 million to commence construction of bus priority measures along the Gold Coast Highway
- \$10 million (including \$6 million in capital grants) in 2005-06 towards the planning and construction of cycle links as identified in the Integrated Regional Cycle Network Plan.

Other urban services initiatives

Local government infrastructure grant and subsidy funding

The Government will provide additional funding through grant and subsidy payments to local governments to improve water, sewerage and water recycling infrastructure services to their communities, including:

- \$256.6 million over the next five years (\$18.8 million in 2005-06) for SEQ local governments undertaking water, sewerage and water recycling infrastructure projects under SEQIPP. This additional funding brings total State assistance available to SEQ local governments to undertake these infrastructure projects to \$388.6 million over the next five years
- \$145.6 million over the next five years (\$26.2 million in 2005-06) for non-SEQ local governments undertaking water, sewerage and water recycling infrastructure projects outside SEQ. This additional funding brings total State assistance available to non-SEQ local governments to undertake these infrastructure projects to \$232.8 million over the next five years.

Ipswich central business district (CBD) revitalisation

The Government will provide up to \$1.1 million in 2005-06 as a contribution towards a \$2.2 million planning study for the redevelopment and revitalisation of the Ipswich CBD. The need to redevelop and revitalise the Ipswich CBD as a key regional centre was highlighted in the draft SEQ Regional Plan.

Queensland's 150th birthday

\$100 million over three years is allocated towards a joint program with local governments throughout Queensland for capital projects which will be practical tributes to Queensland's 150th birthday in 2009.

IMPROVING HEALTH CARE AND STRENGTHENING SERVICES TO THE COMMUNITY

The improvement of health and other services to the community is a continuing area of priority for the Government. The Government will continue to support the Queensland community with initiatives designed to:

- improve the standard and accessibility of hospital and health services
- support an increased quality of life through disease prevention and active participation
- develop and implement strategies to support Queensland families
- improve the lives of people with a disability, their families and carers
- work with Aboriginal and Torres Strait Islander communities to improve economic and social wellbeing
- improve Queenslanders' access to affordable housing.

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

Health initiatives

Chronic disease

A \$151 million funding package over the next four years is committed towards preventing chronic diseases and their key risk factors, reducing avoidable hospital admissions, and improving the quality of life for people with chronic diseases. This includes an initial investment of \$10 million in 2005-06.

Elective surgery

Recurrent funding of \$20 million is provided over two years, targeting public hospital waiting times, so a further 4,000 people can receive operations and surgical procedures on time. This funding is in addition to \$110 million provided over three and a half years to continue to target elective surgery waiting times across the State.

Other health services

The Government is allocating:

- an additional \$60 million over the next four years in cardiac services, with \$5.8 million in 2005-06 to improve secondary and tertiary care
- \$62.5 million over the next four years to target cancer prevention and treatment, including funding of \$5.5 million in 2005-06 for projects such as the enhancement of the multi-strategy tobacco control initiative (\$4.5 million)
- a four year package of \$49 million for improved quality of life for sufferers of renal disease to continue to improve access to renal services and meet growing demand
- \$65 million over four years towards the enhancement of community mental health services, including an investment of \$8.2 million in 2005-06
- \$78 million over four years towards healthier ageing in Queensland. In 2005-06, \$9.6 million is allocated to a joint funding agreement with the Australian Department of Health and Ageing to secure 200 transition care places in 2005-06, expanding to 351 places in 2006-07.

Health infrastructure investment

The Government will provide:

- \$146.2 million in 2005-06 for major hospital redevelopments, including emergency department upgrades and redevelopments at both rural and metropolitan centres
- \$96 million over four years through SEQIPP to expand and enhance services at the Caloundra Hospital and to provide two integrated ambulatory and community health campuses at Robina and Caboolture.

Initiatives to address homelessness and housing

Responding to homelessness

The Budget provides \$115.1 million in capital funding and \$120.4 million in recurrent funding over four years to further develop responses to homelessness. State Government agencies are working together to improve and add to existing responses and better integrate services for people who are homeless, particularly without access to any shelter. These initiatives will minimise the impacts of homelessness on individuals and the community by enhancing the capacity of the service system to provide early responses. This funding has been distributed amongst seven government agencies and includes:

- \$114.2 million in capital funding and \$13 million in recurrent funding for a range of accommodation initiatives including the five-year project to establish the Lady Bowen Complex in inner-Brisbane and a \$50 million package of assistance for the provision of boarding house style accommodation for single people including single homeless people. This includes \$5.8 million from the Smart State Building Fund
- \$56.5 million to establish an integrated service response to prevent and address homelessness, public intoxication and substance abuse in inner Brisbane, Cairns, Mt Isa, Townsville and the Gold Coast
- \$43.6 million to establish Homelessness Intervention Teams and to provide support for people with mental illness who are in transitional housing post-separation from Queensland Health facilities.

Other housing initiatives

- The Government will enhance the public rental housing program through a capital investment of \$250.3 million, including funding for the commencement of 377 new dwellings and the completion of 316 dwellings.
- The public rental housing capital investment also includes \$33.3 million as part of a long-term strategy to redevelop and refurbish older style public housing stock and provide for a significant increase in unit-style accommodation.
- The Brisbane Housing Company will receive grants of \$16.9 million to provide 135 new units of accommodation and a further \$10 million will be targeted to expand the supply of affordable housing in major regional centres.

Services to support Indigenous communities

Indigenous health services

The Government is allocating \$13.2 million in 2005-06, as part of an additional \$89.5 million over four years, as a targeted investment to improve the health of Indigenous Queenslanders and implement Queensland's response to the National Strategic Framework for Aboriginal and Torres Strait Islander Health. This initiative places significant emphasis on prevention, early detection and early intervention, supporting healthy and safe children, young people and families and strengthening responses to alcohol and substance misuse. A significant focus of the investment is on increasing the number of Aboriginal and Torres Strait Islander Queenslanders working within the health system. The initiative is to be implemented across a range of agencies in the Queensland Government.

Indigenous environmental health

The Government will assist Aboriginal and Island Councils to deliver local government services and environmental health related services by providing additional funding of \$100 million over five years (\$20 million in 2005-06) for new environmental health infrastructure and its operation and maintenance, in mainland Indigenous communities, subject to a matching contribution from the Australian Government.

Other support for Indigenous communities

The Budget also provides:

- \$5 million over two years to fund merit-based initiatives that are consistent with the goals of Partnerships Queensland in Aboriginal and Torres Strait Islander communities
- \$2.2 million over two years to replace Island Board of Industry and Services stores at Mabuiag Island and Dauan Island
- \$70.5 million for the provision and upgrading of housing in 34 discrete Indigenous communities.

Services for people with disabilities

Additional funding of \$180 million over four years is provided to improve the delivery of disability services in Queensland. This comprises \$30 million in 2005-06, \$40 million in 2006-07, \$50 million in 2007-08 and \$60 million in 2008-09. This additional funding builds on the \$200 million over four years provided in the 2003-04 Budget and the \$220 million over four years provided in the 2004-05 Budget. The total impact of these initiatives has been to increase the annual budget for Disability Services Queensland by \$247 million between 2000-01 and 2005-06, which equates to a 90% increase over that period. Key elements of this funding are outlined below.

Strengthening non-government organisations for disability services

Funding of \$10 million in 2005-06, as part of \$70 million over four years, is provided to strengthen the capacity of non-government organisations to provide high-quality disability services. Additional funding will assist these providers to establish new services where gaps exist in locations and in type of service provided; develop and enhance the skills of the disability sector workforce; maintain, upgrade or replace high-use equipment and assets; and strengthen their planning capacity to enable them to provide a quality service.

Early intervention strategies

The Budget provides \$30 million over four years (\$5 million in 2005-06) to implement early intervention strategies. Additional funding will be allocated to program priorities including: the Family Support Program to assist families caring for a relative with a disability, a program to pilot succession planning for families caring for a person with a disability and early intervention strategies for families caring for children with autism under five years of age who have complex and challenging behaviours.

Accommodation support and community services

The Government is providing \$80 million in recurrent funds over four years (\$15 million in 2005-06) plus \$25.7 million in capital funding over three years (\$7.3 million in 2005-06) for improved accommodation support and community services, including:

- non-government respite services for carers of children or adults with a disability
- people with a disability without carers
- accommodation support options for people with high and complex support needs
- the Post School Services Program
- services for people with a spinal injury, to assist them to return to community life from acute care.

Other community services

Strengthening non-government organisations for community services

The Government commits a further \$24.3 million over four years, including \$9.3 million in 2005-06, for a range of initiatives arising from the Government's Strengthening Non-Government Organisations strategy that will support funded non-Government organisations in areas such as family support, homelessness, domestic violence, neighbourhood centre, youth and childcare.

Arts and cultural initiatives

The Budget increases funding to meet the capital maintenance requirements of the Queensland Cultural Centre to \$6.5 million per annum. An additional \$2.5 million is also provided to meet strategic priorities within the arts and cultural sector with particular emphasis on strengthening small to medium arts and cultural organisations.

New funding of \$1.5 million in 2005-06 is also provided to enhance Queensland's arts and cultural festivals, including:

- an additional \$1 million to the 2005 Queensland Music Festival to expand its successful state-wide program to five more regional areas. This allocation will also maximise the opportunities the Australian International Music Market can provide to Queensland artists
- an additional \$0.2 million for the Queensland Performing Arts Trust to expand the highly popular Out of the Box Festival for young children in 2006
- \$0.3 million for the Pacific Film and Television Commission to develop Cine Sparks – The Australian Film Festival for Young People in 2005.

PROTECTING OUR CHILDREN AND ENHANCING COMMUNITY SAFETY

Protecting our children and enhancing community safety is a particular focus for the Government. The Government has attached a high priority to:

- reforming the child protection system for the wellbeing of Queensland children
- implementing strategies which contribute to safe communities
- addressing crime and the social and economic causes of crime
- minimising the risk and impact of accidents, emergencies and disasters.

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

Child protection initiatives

Child safety

In the 2004-05 Budget, major funding increases were provided to implement the recommendations of the Crime and Misconduct Commission (CMC) report *Protecting Children: an inquiry into abuse of children in foster care*. The Government has allocated further substantial funding in 2005-06 for child-focussed services that will be provided directly by Government and indirectly by non-government organisations and carers. Since the CMC report in January 2004, funding for child protection has been increased by \$212.5 million, which equates to a 116.6% increase between 2003-04 and 2005-06.

The overall funding increase for the 2005-06 financial year is \$123.1 million, which incorporates funding for Blueprint projects already initiated in the 2004-05 Budget and also includes \$61.7 million in new funding to enable the accelerated implementation of the commitment to increase frontline staffing and provide alternative care placements. Funding increases in 2005-06 will provide for a range of services, including:

- an additional \$28.8 million to respond to increasing demand for child protection services. This will enable new permanent staff announced in the Blueprint to be recruited over two rather than three years. The total increase during 2005-06 is expected to be 151 positions
- continued recruitment of foster carers including Aboriginal and Torres Strait Islander foster carers, and indexation of foster care allowances
- funding of \$19.6 million for non-government partners including for further alternative care places, family reunification services, extended support services to foster carers and sexual abuse counselling services
- an additional \$25 million in capital funding over two years to expand the number of child safety service centres across the State.

Policing Initiatives

Support for police

The Budget provides for an additional \$69.8 million over four years, including \$10 million in 2005-06, to increase support resources for operational police officers. As well, an additional \$60 million over four years in capital funding is provided for new and upgraded police stations, watchhouses, police beats and police housing across the State. As a result, more than \$160 million will be expended on capital works projects over the next four years.

Additional Police Officers

For 2005-06, the police operating budget increases by 12.7% over the 2004-05 adjusted budget. The police service's sworn strength will be increased to 9,378 by September 2006 through the creation of an additional 228 new police positions. This includes an additional 50 Juvenile Aid Bureau officers to complement the 50 Juvenile Aid Bureau officers engaged in 2004-05, through funding of \$16.2 million over the next four years, and a further \$2.1 million over two years for capital. This strong growth in police numbers will meet the Government's commitment to maintain police numbers above the national average police to population ratio, and will be complemented by a civilianisation program which will return 500 police officers to operational duties over a three year period, beginning in 2005-06.

Enhancement of Queensland Police Service information and communication technology

The Budget provides additional funding in 2005-06 for the continued enhancement of information and communications technology. \$12.6 million in recurrent and \$16.9 million in capital funding is provided in 2005-06 for the upgrade of the Service's fixed data network and for continued development and implementation of the Integrated Policing Solution. \$1.9 million is also provided in 2005-06 for planning associated with the development of a Public Safety Network, which aims to share the ICT networks of the Departments of Police, Emergency Services, Corrective Services and Justice and Attorney-General.

Mental health crisis intervention teams

Recurrent funding of \$7 million and capital funding of \$2.3 million is provided over four years to the Queensland Police Service, Queensland Health and the Queensland Ambulance Service as part of a whole-of-Government strategy to improve the response of emergency personnel to call-outs involving people with a mental illness.

Emergency services initiatives

Bushfire Mitigation and Response Enhancement Package

The Budget provides an additional \$3.3 million over four years to enhance bushfire response capability through additional community, volunteer and staff training and education.

Queensland Ambulance Service

An additional \$5.7 million capital funding over two years and \$6.6 million recurrent funding over four years is provided for the implementation of the Strategic Information Management Initiative, aimed at reducing paperwork by paramedics, as well as improving service availability and response times.

Aeromedical and Air Rescue Helicopter Services in the Torres Strait and Northern Peninsula Area

An additional \$7.9 million is provided over three years from 2006-07 to upgrade aeromedical and air rescue helicopter to a twin engine helicopter services.

Queensland Combined Emergency Services Academy

The Budget provides an additional \$20 million in capital funding over three years to expand the Queensland Combined Emergency Service Academy at Whyte Island, Brisbane, as an integrated, multi-service, multi-agency, practical emergency service training facility.

Criminal justice initiatives

Courthouses

The Budget provides \$6.9 million over two years (\$2.7 million in 2005-06) to construct a new courthouse at Sandgate and to purchase land and commence planning for a new courthouse, watchhouse and police station at Ipswich. The Budget also provides an additional \$1 million each year and \$0.3 million in capital in 2005-06 to upgrade courthouse security.

Prosecutions Case Management System

The Budget provides \$4 million over two years (\$2.2 million in 2005-06) in capital funding to develop and implement a new Prosecutions Case Management System which will improve the management of case information and facilitate timely and efficient prosecutions. Funding of \$4.2 million over four years supports the operational activities of the enhanced system.

Youth justice conferencing

Additional funding of \$10 million over four years is provided to expand the capacity of Queensland's youth justice conferencing program, to meet increased demand following the state-wide roll-out.

Correctional centres

The Budget provides \$231 million in capital funding over three years (\$21.2 million in 2005-06) for the planning and redevelopment of existing facilities and construction of new infrastructure. The program includes construction of a new 150 bed female facility at Townsville and redevelopment and expansion of facilities at Sir David Longland and Arthur Gorrie Correctional Centres. Preliminary planning will also commence on the future expansion of Lotus Glen and Townsville Correctional Centres.

Other community safety initiatives

Early intervention services

The Budget provides additional funding of \$3.8 million over four years to enhance early intervention services for men who perpetrate domestic and family violence. Early intervention after the first incidence of violence can have a significant influence in achieving behavioural change and in the prevention of further domestic and family violence.

Volatile substance abuse

The volatile substance misuse place of safety services, focusing on improving the safety of those intoxicated in public places, helping to reduce conflict or crisis in public places and enabling recovery in a supervised, controlled environment will be continued through the provision of \$8.8 million over four years in the 2005-06 Budget.

Service delivery for adults with impaired decision-making capacity

The Government will provide an additional \$8.4 million over four years (\$2.1 million in 2005-06) in recurrent funding to enhance service delivery outcomes to adults with impaired decision-making capacity, their families and their carers.

PROTECTING THE ENVIRONMENT FOR A SUSTAINABLE FUTURE

The sustainable use of natural resources and the maintenance of biodiversity are key priorities of the Government. The Government will continue to:

- protect Queensland's unique environmental and heritage assets
- promote sustainable development through responsible use of the State's natural resources
- encourage the development of environmentally sustainable industries and jobs
- protect Queensland's diverse plants and animals.

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

Environmental initiatives

Funding management package for expanded Queensland Parks and Wildlife Service Estate

The Budget provides \$58 million in recurrent funding and \$25 million in capital funding over four years for the management of an estimated additional 3.46 million hectares of Queensland Parks and Wildlife Service (QPWS) estate. The expanding QPWS estate is a result of election commitments including the Western Hardwood forest transfer process and Daintree land acquisition.

The Government is also working with the Australian Government, traditional owners and other stakeholders to finalise tenure resolution of State-owned lands in Cape York Peninsula. Investment in the management of the Cape York protected area estate will bring substantial benefits in terms of regional development, tourism, community renewal, Indigenous engagement, Indigenous employment and native title reconciliation outcomes.

Innovative research to control the cane toad

Additional funding of \$1 million over three years (\$0.4 million in 2005-06) is provided as part of the Smart State Strategy to fund innovative research to control the cane toad. Research will be undertaken by the Invasive Animal Cooperative Research Centre through Queensland research institutions to assess prospects for a biotechnology solution to control the cane toad.

Fire ant eradication

In 2005-06, \$2.1 million is allocated by Queensland to continue the eradication of red imported fire ants in SEQ reflecting the in-principle contributions of all governments under an agreed cost sharing arrangement. The \$175.4 million program over six years to 2006-07 is jointly funded by all Australian governments.

ClimateSmart Communities – Energy Policy

The ecoBiz program will continue to support Queensland organisations to improve the way they do business by adopting resource-efficient practices. This program addresses water, energy and material management where businesses can reduce costs and eliminate waste. \$10 million has been allocated over four years.

Queensland Sustainable Energy Innovation Fund (QSEIF) receives additional funding of \$4.4 million over four years to continue to encourage local innovation by providing financial assistance to Queensland organisations to develop, demonstrate and commercialise world-best sustainable technologies. QSEIF and ecoBiz are part of the Smart State Strategy.

Implementation of the New Vegetation Management framework

Additional funding of \$9 million over two years (\$5 million in 2005-06) is provided for departmental costs associated with the implementation of the New Vegetation Management Framework, which delivers on the Government's election commitment to phase out broadscale clearing by December 2006.

Natural resource management legislation compliance

Additional funding of \$2.5 million per annum is provided to enhance the Government's capacity to address instances of non-compliance with natural resource management legislation under the responsibility of the department, including illegal clearing of vegetation.

East Trinity property management

Additional funding of \$4 million in recurrent funding and \$0.4 million in capital funding is provided over four years to continue the management strategy of acid sulfate soils on East Trinity property near Cairns which is aimed at bringing the acid and metal discharges under control. As well, \$0.5 million of recurrent funding plus \$0.3 million in capital funding is provided to build on the successes of stage one of the project by establishing a management plan that delivers remediation of the site into the future and will, in time, allow for alternate land uses such as scientific research and tourism.

DELIVERING RESPONSIVE GOVERNMENT

The *Financial Administration and Audit Act 1977* and the associated *Financial Management Standard 1997* put in place a comprehensive framework of governance and accountability for the Government and its agencies. The Government also places priority on delivering responsive Government through a range of actions and strategies including:

- engaging communities in government decisions and processes through the continuation of regional community forums and regional Cabinet meetings
- ensuring service provision is financially sustainable and that Total State Worth is at least maintained
- supporting a responsive public sector, focused on improving government service delivery through the *Charter of Social and Fiscal Responsibility*.

One of the major service delivery initiatives under this priority is the expansion of services available to the public through a single access point, Smart Service Queensland. In 2005-06 the Budget provides \$9 million recurrent funding and \$8.8 million in capital across a range of agencies to implement the Smart Service Queensland service delivery model. This funding will be used to develop key whole-of-Government systems for use across multiple agencies and to assist these agencies in transitioning their high priority services to Smart Service Queensland, achieving savings through economies of scale, standardisation and streamlining of services and providing the Queensland public with easier access to Queensland Government agencies.

Additionally, \$45 million will be invested in 2005-06 in the development of whole-of-Government human resources, finance, and documents and records management solutions. These solutions will deliver efficiencies through streamlined standard processes and innovative corporate service delivery.

5. REVENUE

KEY POINTS

- Total General Government sector revenue is estimated to be \$26.604 billion in 2005-06. The decrease of \$167 million (or 0.6%) on 2004-05 estimated actual revenue primarily reflects the impact of tax reduction initiatives and the return of interest income to the assumed long-term average earnings rate.
- A land tax relief and simplification package will reduce the number of taxpayers by around 21,000 and provide rate reductions for all land tax payers, at a cost of \$847 million over four years.
- Seven state taxes will be progressively abolished over six years. The taxes to be abolished are:
 - debits tax from 1 July 2005
 - lease duty and credit business duty from 1 January 2006
 - hire duty and marketable securities duty from 1 January 2007
 - half of mortgage duty in 2008, with full abolition in 2009
 - half of transfer duty on core business assets in 2010, with full abolition in 2011.

Queenslanders will save \$3.5 billion over the next seven years from the abolition of these state taxes.

- Queensland will retain its competitive tax status, with per capita tax estimated at \$1,708 in 2005-06 compared to an average of \$2,135 for the other states.

INTRODUCTION

This chapter provides an overview of General Government sector revenue for the estimated actual outcome for 2004-05, forecasts for the 2005-06 Budget year and projections for 2006-07 to 2008-09.

Table 5.1
General Government Revenue¹

	2004-05 Budget \$ million	2004-05 Est. Act. \$ million	2005-06 Budget \$ million	2006-07 Projected \$ million	2007-08 Projected \$ million	2008-09 Projected \$ million
Revenue						
Taxation revenue	6,338	6,945	6,843	7,221	7,630	7,970
Current grants and subsidies	11,803	12,369	12,682	12,994	13,594	14,021
Capital grants	468	492	528	634	795	621
Sales of goods and services	2,142	2,339	2,401	2,487	2,551	2,578
Interest income	1,215	2,227	1,421	1,514	1,605	1,697
Other	2,043	2,399	2,729	2,926	2,876	2,905
Total Revenue	24,009	26,771	26,604	27,776	29,051	29,793

Note:

1. Numbers may not add due to rounding.

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

General Government revenue in 2004-05 is estimated to be \$2.762 billion or 11.5% more than the 2004-05 Budget estimate.

Significant variations include:

- higher interest income, reflecting the strong performance of investment markets which has significantly improved the returns from the State's financial assets held to meet future employee entitlements. Excluding the higher interest income reduces estimated actual revenue to 7.3% higher than budgeted
- higher taxation revenue, primarily due to higher revenue from duty on property transfer transactions resulting from stronger than expected market activity within the housing and non-residential property sector
- higher current and capital grants, reflecting additional specific purpose payments and GST payments
- higher other revenue, reflecting higher royalty revenue.

General Government revenue in 2005-06 is estimated to be \$26.604 billion, a decrease of \$167 million or 0.6% on the 2004-05 estimated actual of \$26.771 billion. This is largely due to:

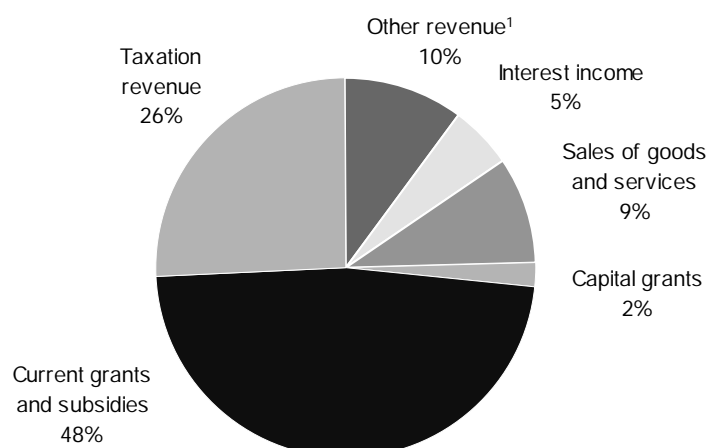
- tax reduction initiatives – the abolition of debits tax, the implementation of a land tax relief package and the first tranche of stamp duty abolitions – and expected continued moderation in activity in the property market
- reduced interest income, reflecting a return to the assumed long-term average earnings rate of 7.5% on investments.

These revenue reductions are offset by forecast increases in GST revenue grants and coal royalties.

REVENUE BY OPERATING STATEMENT CATEGORY

Major sources of General Government revenue are current grants and subsidies (48% of revenue) and taxation revenue (26% of revenue). Chart 5.1 illustrates the composition of General Government revenue.

Chart 5.1
Revenue by Operating Statement Category 2005-06



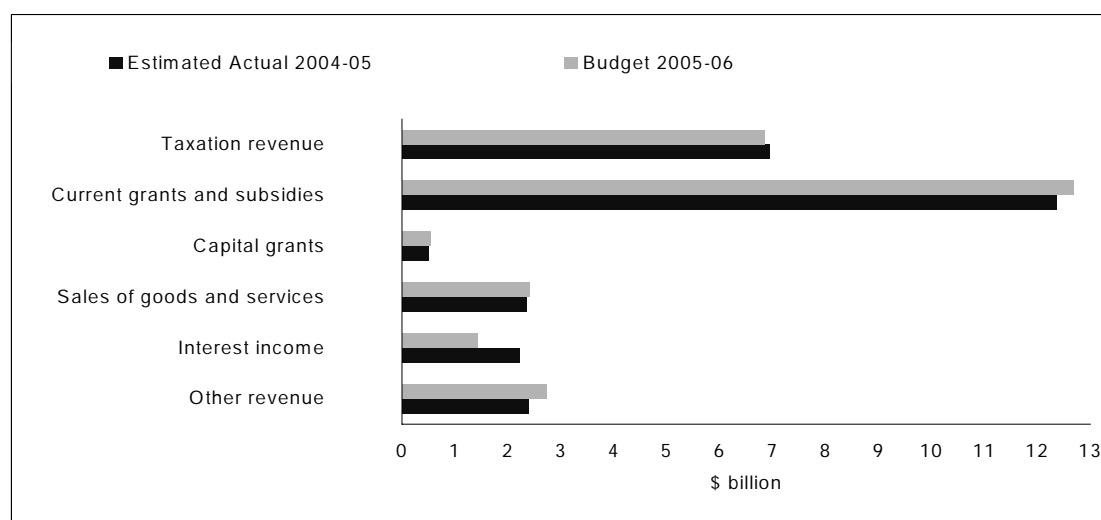
Note:

1. The major components of Other Revenue are dividends (2.4%), royalties and land rents (5.2%) and tax equivalent payments from public corporations (1.4%).

Chart 5.2 compares the composition of General Government revenue, based on 2004-05 estimated actuals and 2005-06 estimates.

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

Chart 5.2
Revenue by Operating Statement Category for 2004-05 and 2005-06



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 decrease by 1.5% in 2005-06. This reflects the impacts of taxation initiatives announced prior to and in this Budget, and a continued moderation in property market activity on duty revenue.

Table 5.2 Taxation Revenue ¹			
	2003-04 Actual \$ million	2004-05 Est. Act. \$ million	2005-06 Budget \$ million
Payroll tax	1,479	1,652	1,767
Duties			
Transfer	1,863	1,735	1,582
Vehicle registration	271	259	259
Insurance ²	315	312	332
Mortgages	251	255	237
Other duties ³	132	94	76
Total Duties	2,832	2,655	2,487
Gambling taxes and levies ⁴			
Gaming machine tax and levies ⁵	454	525	592
Lotteries taxes	174	185	192
Wagering taxes	31	32	33
Casino taxes and levies	56	57	60
Keno tax	11	13	13
Total Gambling taxes and levies	726	812	892
Other taxes			
Land tax	313	425	431
Debits tax	191	188	..
Motor vehicle registration	703	763	793
Fire levy	213	224	232
Community Ambulance Cover ⁶	96	108	112
Guarantee fees	70	67	75
Other taxes	53	52	55
Total Taxation	6,676	6,945	6,843
Notes: 1. Numbers may not add due to rounding. 2. Includes accident insurance premiums. 3. Includes duty on leases, rental arrangements, credit business, marketable securities and life insurance premiums. 4. Includes community benefit levies. 5. Includes the Major Facilities Levy. 6. Growth in 2005-06 reflects CPI adjustment and growth of non-exempt electricity accounts.			

Budget Tax Initiatives

Land Tax Relief and Simplification Package

Queensland has experienced strong growth in property market activity and land values since 2001, with this growth having slowed only recently. Although moderated by the application of three year averaging of land valuations in making assessments, a consequence of this 'property boom' has been increasing numbers of landowners liable for land tax and growing land tax liabilities for landowners already in the system. The Government responded in 2003-04 to property price increases in the early years of the boom by increasing the statutory deduction and minimum payment for resident individuals and the threshold for companies, trustees and absentees.

Land valuations have continued to grow since that time. In the absence of further land tax relief, many landowners would be entering the land tax system or facing large increases in their land tax liabilities. This Budget delivers a land tax relief package which provides for:

- resident individual taxpayers not being subject to land tax until the unimproved value of their landholdings – excluding their principal place of residence – amounts to \$450,000 (previously \$275,997)
- companies, trustees and absentees not being subject to land tax until their landholdings amount to \$300,000 (previously \$170,000)
- a new simplified tax structure which reduces effective tax rates for all taxpayers.

The new land tax schedules are presented in Table 5.3.

Table 5.3 New Land Tax Schedules		
	Resident individuals	Companies, trustees and absentees
\$0 - \$299,999	-	-
\$300,000 - \$449,999		\$1,500 + marginal rate 1.50%
\$450,000 - \$749,999	\$400 + marginal rate 0.70%	
\$750,000 - \$1,249,999	\$2,500 + marginal rate 1.45%	\$8,250 + marginal rate 1.65%
\$1,250,000 - \$1,999,999	\$9,750 + marginal rate 1.50%	\$16,500 + marginal rate 1.80%
\$2,000,000 - \$2,999,999	\$21,000 + marginal rate 1.65%	Rate of 1.50% on full value
\$3,000,000 and above	Rate of 1.25% on full value	

Compared to the current land tax schedule, the revised land tax system will:

- reduce the number of taxpayers in the land tax system by around 21,000 in 2005-06
- provide significant tax rate reductions to all land tax payers. Smaller businesses and resident investors will benefit from the largest rate reductions. Companies, trustees and absentees with high value landholdings will have their tax rate reduced from 1.8% to 1.5% and higher value resident investors will have a tax rate of 1.25%

- simplify the land tax system by replacing the current 19 step schedule, including its rebates and statutory deduction, with two new simplified schedules.

The Government will retain three year averaging to moderate the impact of future land valuation increases. Queensland is one of only two jurisdictions to use three year averaging.

The changes to the land tax system will take effect from 1 July 2005 for the 2005-06 financial year. The cost to the Budget will be \$147.5 million in 2005-06 and \$847 million over four years. The savings to taxpayers under the new arrangements are presented in Table 5.4.

Table 5.4 Land tax payable				
Unimproved land value (\$)	Resident individuals		Companies, trustees and absentees	
	Current (\$)	Revised (\$)	Current (\$)	Revised (\$)
200,000	0	0	1,497	0
300,000	560	0	3,095	1,500
400,000	1,436	0	4,380	3,000
450,000	1,917	400	5,065	3,750
500,000	2,427	750	5,750	4,500
750,000	5,280	2,500	9,770	8,250
1,000,000	8,741	6,125	14,465	12,375
2,000,000	27,234	21,000	36,000	30,000
5,000,000	73,134	62,500	90,000	75,000
10,000,000	149,634	125,000	180,000	150,000
50,000,000	761,634	625,000	900,000	750,000

Table 5.5 shows that a combination of high tax-free thresholds and low rates will make the Queensland land tax system one of the most competitive of the states.

Table 5.5 Land tax schedules for 2005-06							
	QLD		NSW	VIC	WA	SA	TAS
	Residents	Companies					
Tax-free threshold (\$'000)	450	300	330	200	130	110	25
Maximum tax rate (%)	1.25	1.5	1.7	3.5	2.5	3.7	2.5
Note: 1. The maximum tax rate is the rate applying to the highest value landholding band.							

In addition to the change to the rate schedules, relief is also provided for caravan parks – those with more than 50% long-term residents will be exempted from land tax. Legislation will also be developed, effective for land tax in 2005-06, to allow a full exemption where certain working arrangements are incidental to the residential use and where there is limited letting of a home for residential purposes. An apportionment of the exemption will apply in other circumstances.

Abolition of state stamp duties and debits tax

In accordance with the requirements of the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations (IGA)*, Queensland participated earlier this year in a review conducted by Australian governments into the need to retain a number of state stamp duties.

A timetable for the abolition of these duties has been announced. The timing of the duty abolitions balance a range of community priorities, including the maintenance of the State's tax competitiveness while funding the delivery of essential community services and the provision of critical new infrastructure.

The abolition of these duties is in addition to the abolition of debits tax to which Commonwealth, State and Territory governments agreed last year. Debits tax will be abolished from 1 July this year.

The timetable for the abolition of debits tax and the duties is presented in Table 5.6.

Table 5.6 Abolition of State Taxes under the IGA				
Tax	Description	Date of abolition	Full year cost ¹ \$ million	Cost 2005-06 - 2011-12 ² \$ million
Debits tax	Payable on debits to accounts with cheque drawing facility.	1 July 2005	190	1,330
Lease duty	Payable on the lease of land or premises in Queensland. Residential leases exempted.	1 January 2006	27	205
Credit business duty	Payable on the amount of credit provided under a loan, a discount transaction or a credit arrangement.	1 January 2006	18	139
Hire duty	Payable on the hiring charges of the hire of goods.	1 January 2007	21	132
Marketable securities duty	Payable on the transfer of marketable securities not listed on the Australian Stock Exchange.	1 January 2007	14	88
Mortgage duty	Payable on entering into a mortgage over property in Queensland.	50% 1 Jan 2008 100% 1 Jan 2009	299	1,238
Duty on transfer of core business assets	Payable on the transfer of non-realty business assets.	50% 1 Jan 2010 100% 1 Jan 2011	183	351
TOTAL				3,483
Notes:				
1. Estimated revenue foregone in financial year following full abolition. Over time, revenues from these taxes would have been expected to grow, with the revenue foregone in 2011-12 estimated at over \$800 million.				
2. Estimated revenue foregone over period 2005-06 to 2011-12.				

The savings to Queenslanders from the abolition of these taxes will rise from \$210 million in 2005-06 to over \$800 million per year by 2011-12. The cost to revenue from the abolition of these taxes will be \$3.5 billion over the next seven years.

Payroll tax

Payroll tax collections are estimated to increase by 7% in 2005-06, 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%, making Queensland's payroll tax rate overall the lowest of any state. Further, an employer paying annual taxable wages of less than \$850,000 is not liable for payroll tax – one of the highest thresholds 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 6.3% in 2005-06. This is largely driven by the abolition of lease and credit business duty from 1 January 2005 and declining revenues from transfer and mortgage duty due to a continued moderation in housing and non-residential property transactions from the very high levels of activity in 2003-04. The transfer duty estimate assumes relatively stable property values but a decline in the volume of transactions.

Vehicle registration duties are expected to be stable in 2005-06 in line with projections for activity within the sector, while insurance duty revenue is expected to increase in line with projected growth in the economy.

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 9.9% in 2005-06. Gaming machine taxes and levies are estimated to increase by 13%, lotteries taxes by 4% and wagering taxes, casino taxes and levies, and keno tax by 5%.

Land tax

As a result of the land tax relief and simplification package, growth in land tax revenue will be limited to 1.4% in 2005-06.

Debits tax

This Budget confirms the Government's previously announced abolition of debits tax from 1 July 2005, saving taxpayers approximately \$190 million each year.

Debits tax is levied on debits to accounts with a cheque drawing facility.

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 Community Ambulance Cover was introduced in 2003-04 to replace the ambulance subscription scheme and to provide a sustainable funding base for the Queensland Ambulance Service. It is collected through a payment on non-exempt electricity accounts.

Growth in 2005-06 reflects CPI adjustment and growth of non-exempt electricity accounts.

Guarantee fees

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

Other taxes

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

Tax expenditures

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

QUEENSLAND'S COMPETITIVE TAX STATUS

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

Recent increases in taxation collections have been driven by the strength in the underlying economic conditions rather than a policy of revenue raising. Recent tax changes have sought to improve the efficiency and equity of the State tax system, strengthen the funding base of essential services, and reduce or eliminate State taxes to the benefit of taxpayers. In pursuit of these objectives over recent years, the Government has:

- rationalised the payroll tax system by reducing the rate from 5% to 4.75%, offset by broadening of the tax base
- abolished duty on quoted marketable securities
- raised the land tax threshold, statutory deduction and minimum payment
- introduced the Community Ambulance Cover to replace the voluntary ambulance subscription scheme, securing the funding base for the Queensland Ambulance Service

- extended the transfer duty concession for purchases of first homes from \$80,000 (with a concession phasing out at \$160,000) to \$250,000 (with a concession phasing out at \$500,000)
- extended the mortgage duty exemption threshold for first home buyers from \$100,000 to \$250,000
- extended the transfer duty home concession from \$250,000 to \$300,000
- reduced the base insurance duty rate from 8.5% to 7.5%
- abolished credit card duty
- committed to the abolition of debits tax, from 1 July 2005.

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

- a land tax relief and simplification package
- the progressive abolition of a number of duties.

The *Charter of Social and Fiscal Responsibility* commits the Government to maintaining competitive tax levels in relation to other states. Table 5.7 demonstrates that this commitment continues to be met, with various measures of tax competitiveness all indicating that the Queensland state tax system remains amongst the most competitive in Australia.

Table 5.7 Queensland's Tax Competitiveness									
	QLD	NSW	VIC	WA	SA	TAS ⁴	ACT	NT ⁴	Avg ⁵
Taxation per capita ¹ (\$)	1,708	2,384	2,038	1,965	1,852	1,373	2,382	1,471	2,135
Taxation effort ² (%)	86.9	99.4	105.4	103.7	118.2	95.8	108.6	90.6	n.a.
Taxation % of GSP ³ (%)	4.7	5.3	4.9	4.6	5.2	4.4	4.6	2.8	5.0
Notes: 1. 2005-06 data. Sources: State Budget Papers. 2. 2003-04 data. Source: Commonwealth Grants Commission: 2005 Update. Revenue raising effort ratios, assessed by the Commonwealth Grants Commission, isolate policy impacts from revenue capacity impacts and therefore are a good indicator of the extent to which the Government burdens its revenue base. Queensland's tax revenue raising effort is well below the Australian policy standard (equal to 100%). 3. 2003-04 data. Sources: ABS 5506.0 and ABS 5220.0. 4. Low taxation per capita reflects the lower revenue raising capacity of those jurisdictions. 5. Weighted average of states, excluding Queensland.									

GRANTS AND SUBSIDIES

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

The moderate growth of 2.7% in 2005-06 largely reflects the expected growth in Australian Government grants.

Table 5.8 Grants and Subsidies ¹			
	2003-04 Actual \$ million	2004-05 Est. Act. \$ million	2005-06 Budget \$ million
Current grants and subsidies			
Australian Government grants	10,448	11,839	12,228
Other grants and contributions	544	530	454
Total current grants and subsidies	10,992	12,369	12,682
Capital grants and subsidies			
Australian Government grants	514	491	528
Other grants and contributions	40	0	0
Total capital grants and subsidies	553	492	528
Total grants and subsidies	11,545	12,861	13,210
Note: 1. Numbers may not add due to rounding.			

Australian Government payments

Australian Government payments to Queensland in 2005-06 are expected to total \$12.8 billion, an increase of \$425 million or 3.5% over payments in 2004-05. Australian Government payments to Queensland in 2005-06 will comprise:

- general purpose payments, including GST revenue grants 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 Australian Government and shared policy objectives.

Differences between SPPs in this chapter and Australian Government Budget estimates can arise and generally reflect the outcome of agency-to-agency discussions or the absence of state level information. Chapter 8 provides more detailed background on Commonwealth-state financial arrangements.

Table 5.9
Australian Government Payments¹

	2003-04 Actual \$ million	2004-05 Est. Act. \$ million	2005-06 Budget \$ million
General Purpose Payments			
GST Revenue Grants	6,515	7,374	7,721
National Competition Policy Payments	88	143	156
Other Payments	..	84	26
Total General Purpose Payments	6,603	7,601	7,903
Specific Purpose Payments²			
Health	1,765	1,912	2,013
Education	1,297	1,438	1,497
Local Government, Planning, Sport and Recreation	291	299	313
Employment and Training	198	200	203
Housing	182	186	185
Treasury	69	83	97
Disability Services Queensland	106	109	117
Main Roads	268	257	273
Other	184	245	154
Total Specific Purpose Payments	4,359	4,729	4,852
Total Australian Government Payments	10,962	12,330	12,756
Notes:			
1. Numbers may not add due to rounding.			
2. Specific Purpose Payments are shown below by relevant Queensland Government department.			

General Purpose Payments

GST Revenue Grants

The GST revenue grant to Queensland in 2005-06 is expected to be \$7.721 billion which represents an increase of \$347 million on 2004-05.

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

National Competition Policy Payments

The distribution of National Competition Policy (NCP) payments is population based, with payments dependent on the states making satisfactory progress with the implementation of the specified reforms. NCP payments to Queensland are expected to be \$156 million in 2005-06.

Other Payments

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

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

Specific Purpose Payments

SPPs for Queensland in 2005-06 are estimated at \$4.9 billion, an increase of 2.6% from 2004-05. Table 5.9 provides the distribution of SPPs by Queensland Government department.

Health

Queensland receives funding for public hospitals and other health services from the Australian Government under the Australian Health Care Agreement (AHCA). The AHCA provides the majority of Queensland Health's revenue from the Australian Government, and is adjusted annually for population growth, increases in cost and utilisation of hospitals. The 2003-2008 AHCA commenced on 1 July 2003. Under the current Agreement, Queensland will receive \$1.6 billion in 2005-06 in Health Care Grants.

Queensland Health will also receive additional tied funding of \$344 million in 2005-06 for a range of programs including Home and Community Care, Highly Specialised Drugs, Essential Vaccines and National Public Health. Queensland will also receive \$56 million for nursing home benefits.

Education

SPPs to the Department of Education comprise recurrent and capital grants for distribution to State and non-State schools and other organisations. A 4.1% increase in Australian Government grants in 2005-06 reflects cost indexation, enrolment growth, commencement of new programs and funding for capital projects.

Local Government, Planning, Sport and Recreation

Australian Government recurrent SPPs to the Department of Local Government, Planning, Sport and Recreation are grants to Queensland Local Government Authorities (formerly grants to Local Authorities Trust Fund). The 4.7% increase in 2005-06 reflects an increase in Financial Assistance Grants for local government following the 2005-06 Australian Government Budget.

Employment and Training

Pending the finalisation of the new Commonwealth-State Training Agreement, in 2005-06 the Department of Employment and Training expects to receive \$203 million in SPP funding from the Australian Government for a range of vocational education and training programs.

States and territories are currently negotiating with the Commonwealth in relation to the conditions of the proposed new Commonwealth-State Training Agreement to apply from 1 July 2005 to December 2008.

These negotiations include discussion about the Commonwealth's proposals for new arrangements for the National Training System.

Housing

In 2005-06, the Department of Housing will receive \$185 million in SPPs under the current Commonwealth-State Housing Agreement covering the period 2003-08. The Budget estimate for 2005-06 represents a reduction against estimated payments in 2004-05 due to lower Aboriginal Rental Housing Program funding and continued imposition of the 1% per annum productivity dividend offset by the impact of indexation.

This funding will be used for the continued development of a core social housing sector to assist people unable to access alternative suitable housing options through the delivery of affordable, appropriate, flexible and diverse housing assistance responses that provide people with choice and are tailored to their needs, local conditions and opportunities.

Treasury

Treasury receives payments from the Australian Government 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 increase in 2005-06 is largely due to a higher debt redemption payment paid under the Commonwealth *Financial Agreements Act 1994*.

Disability Services Queensland

The Commonwealth-State Disability Agreement for the period 2002-07 was signed by the Queensland Government in June 2003. Australian Government funding for Disability Services Queensland is estimated to increase by 7.3% in 2005-06.

Main Roads

Funding is received from the Australian Government for infrastructure and maintenance works on the National Network and for Black Spot Road Safety projects. The 2005-06 allocation reflects road works programmed under the Australian Government's AusLink program.

Other

Other SPPs are expected to decline in 2005-06, with a number of agencies expected to receive reduced payments from the Australian Government.

Other grants and contributions

Grants and contributions are funds received from other state and local government agencies, other bodies and individuals where there is no direct benefit to the provider. Contributions exclude Australian Government grants and user charges. The main sources of contributions are:

- those received from private enterprise and community groups to fund research projects and community services, including the contributions of Parents and Citizens Associations to State schools
- contributed assets and goods and services received for a nominal amount

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

Table 5.10 Other Grants and Contributions			
	2003-04 Actual \$ million	2004-05 Est. Act. \$ million	2005-06 Budget \$ million
Other grants and contributions	584	530	454

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 2.7% in 2005-06.

Table 5.11 Sales of Goods and Services ¹			
	2003-04 Actual \$ million	2004-05 Est. Act. \$ million	2005-06 Budget \$ million
Fee for service activities	913	968	991
TransLink	..	187	202
Rent revenue	252	264	277
Sale of land inventory	77	48	71
Hospital fees	202	182	185
Transport and traffic fees	168	168	168
Other sales of goods and services	494	522	508
Total sales of goods and services	2,105	2,339	2,401
Note: 1. Numbers may not add due to rounding.			

Fee for service activities

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

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

TransLink

Revenues arise from the arrangements associated with TransLink integrated ticketing and public transport arrangements, which commenced in July 2004. Instead of subsidising public transport operators for the gap between operating costs and revenues, the TransLink entity collects revenues from the operation of public transport services in South East Queensland to fund public transport services in the region. These revenues are estimated at \$202 million in 2005-06.

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

Transport and traffic fees

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

Other sales of goods and services

Revenues from other sales of goods and services are estimated to decrease in 2005-06.

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.

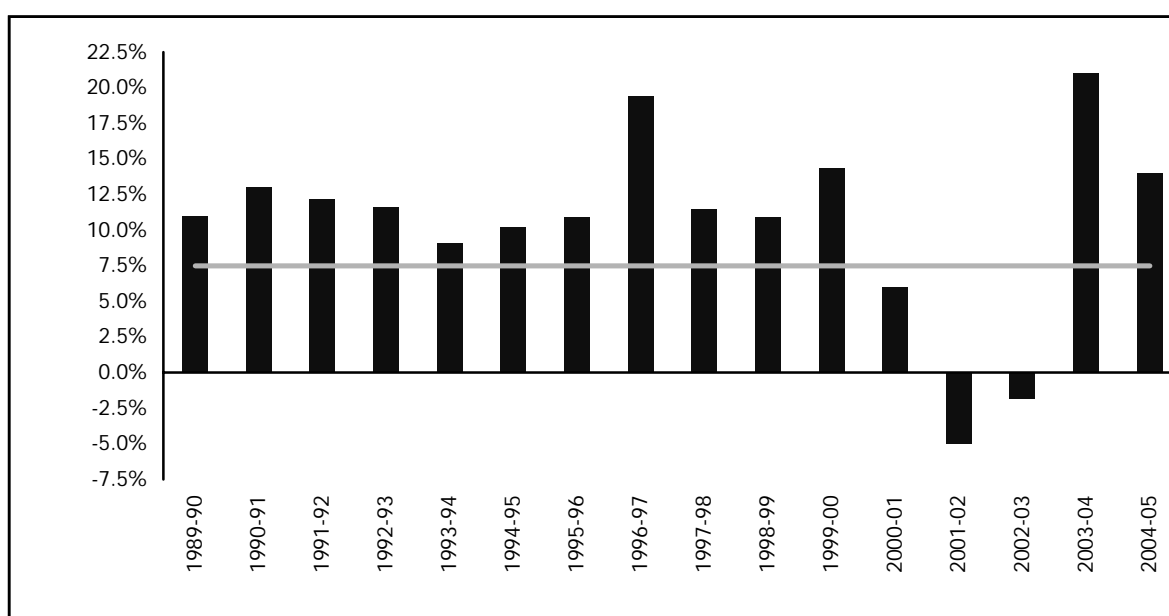
Table 5.12 Interest Income			
	2003-04 Actual \$ million	2004-05 Est. Act. \$ million	2005-06 Budget \$ million
Interest income	2,723	2,227	1,421

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 strong performance of domestic and international equity markets positively impacted interest income in 2004-05, with an estimated return of 14%. This estimate is based on actual year to date investment returns at the time of the finalisation of the Budget.

Interest income in 2005-06 is based on the assumed long term average earnings rate of 7.5% on investments. Chart 5.3 shows investment return rates achieved over time.

Chart 5.3
Investment Returns
1989-90 to 2004-05¹ (% per annum)



Note:

1. 2004-05 is an estimate. Line represents actuarial assumed long term average.

Source: 1989-90 to 2003-04: Queensland Investment Corporation

OTHER REVENUE

Other revenue comprises dividends, tax equivalent payments, royalties, fines and forfeitures, and other sundry revenues. Other revenue is expected to increase in 2005-06, largely due to an expected increase in revenue from royalties.

Table 5.13 Other Revenue ¹			
	2003-04 Actual \$ million	2004-05 Est. Act. \$ million	2005-06 Budget \$ million
Dividends	691	635	628
Tax equivalents	457	405	373
Royalties and land rents	674	948	1,396
Fines and forfeitures	179	186	187
Revenue nec	163	225	144
Total Other Revenue	2,165	2,399	2,729
Note: 1. Numbers may not add due to rounding.			

Dividends

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

Table 5.14 Dividends ¹			
	2003-04 Actual \$ million	2004-05 Est. Act. \$ million	2005-06 Budget \$ million
Energy sector	473	381	410
Transport sector (rail and ports)	174	218	186
Other ²	44	36	32
Total Dividends	691	635	628
Notes: 1. Numbers may not add due to rounding. 2. Includes dividends from Forestry, Golden Casket Corporation, Queensland Investment Corporation and SunWater.			

Dividends are expected to decline by 1.1% in 2005-06. This is primarily due to lower net profits in 2004-05 by some transport sector Government-owned corporations, resulting in lower dividends to Government in 2005-06.

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

The dividend pay-out 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. The dividend payout ratio for 2004-05, and the assumption on which the 2005-06 Budget and forward estimates are based, is 80% of net operating profit after tax. Shareholding Ministers also consider the circumstances of individual Government-owned corporations and the advice of their boards before arriving at a final determination.

In total, dividends account for 2.4% of total General Government revenue in 2005-06.

Tax equivalent payments

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

Tax equivalent payments are expected to decline by 7.9% in 2005-06. This is primarily due to lower net profits in 2004-05 by some transport sector Government-owned corporations, resulting in lower tax equivalent payments to Government in 2005-06.

Table 5.15 Tax Equivalent Payments ¹			
	2003-04 Actual \$ million	2004-05 Est. Act. \$ million	2005-06 Budget \$ million
Energy sector	231	220	225
Transport sector (rail and ports)	117	116	88
Other	108	69	60
Total Tax Equivalent Payments	457	405	373
Notes: 1. Numbers may not add due to rounding.			

Royalties and land rents

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

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

Royalties and land rents are expected to increase by 47.3% in 2005-06 largely due to anticipated strong growth in coal exports and prices arising from high levels of overseas demand. Consistent with the ABARE forecasts and the Commonwealth Budget, outyear projections incorporate a moderation in royalty revenues in line with projections of world demand and supply of coal.

Fines and forfeitures

The major fines included in this category are traffic and court fines. There is an expected increase of 0.5% in collections of fines and forfeitures in 2005-06.

Revenue nec

Revenue nec includes other revenues not elsewhere classified. The decrease in 2005-06 reflects a number of one-off receipts across agencies in 2004-05.

6. EXPENSES

KEY POINTS

- Total General Government sector expenses is expected to increase by \$1.624 billion (or 6.8%) over the estimated actual for 2004-05, to \$25.67 billion in 2005-06.
- Growth in expenses includes a range of service developments and initiatives with a particular focus on the areas of child protection services, disability services, homelessness, education, health, and law and order.
- Current and capital transfers are forecast to increase by 7.9% in 2005-06 reflecting cost increases, service enhancements and growth in community service obligation payments to electricity retailers to maintain uniform tariffs for franchise customers.
- The major areas of expenditure are education and health which together constitute some 47% of General Government sector expenses.

INTRODUCTION

This chapter provides an overview of General Government sector expenses for the estimated actual outcome for 2004-05, forecasts for the 2005-06 Budget year, and projections for 2006-07 to 2008-09.

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

The Ministerial Portfolio Statements provide details on total expenditure for departments.

Table 6.1
General Government Sector Expenses¹

	2004-05 Budget \$ million	2004-05 Est.Act. \$ million	2005-06 Budget \$ million	2006-07 Projected \$ million	2007-08 Projected \$ million	2008-09 Projected \$ million
Expenses						
Gross operating expenses						
Employee expenses	10,666	10,892	11,719	12,347	13,085	13,730
Other operating expenses	4,406	4,788	5,161	5,361	5,566	5,792
Depreciation	1,585	1,544	1,617	1,705	1,779	1,843
Current transfers	5,006	5,049	5,494	5,946	6,137	6,214
Capital transfers	741	825	844	877	830	757
Superannuation interest expense	757	747	604	636	665	693
Other interest	202	200	232	317	433	544
Total Expenses	23,363	24,046	25,670	27,188	28,494	29,573
Note:						
1. Numbers may not add due to rounding.						

General Government expenses in 2004-05 are estimated to be \$24.046 billion broadly consistent with the Mid Year Review revised estimate of \$23.868 billion. The increase in expenses over the Budget estimate of \$23.363 billion is primarily due to:

- additional expenditure to match increases in specific purpose payments and other own source revenues
- actuarial revisions to superannuation, long service leave and insurance expense estimates
- the extinguishment of a loan made to Australian Magnesium Corporation (AMC) Limited to provide payments to distribution entitled shareholders
- the final timing of expenses between 2003-04 and 2004-05.

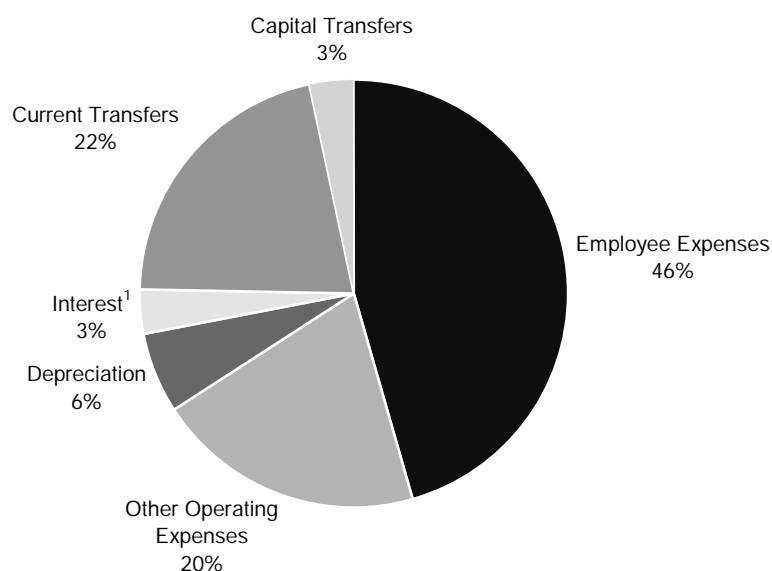
The General Government operating statement provides for aggregate expenses of \$25.67 billion in 2005-06, representing an increase of \$1.624 billion (or 6.8%) over the 2004-05 estimated actual. Factors influencing the growth in expenses include the implementation of service enhancements and initiatives outlined in Chapter 4 and other cost increases such as wage increases under enterprise bargaining agreements.

EXPENSES BY CATEGORY

This section provides a breakdown of General Government expenses in 2005-06 by category and discusses the significant variances between 2004-05 estimated actual and 2005-06 Budget by expense category.

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

Chart 6.1
Expenses by Operating Statement Category for 2005-06

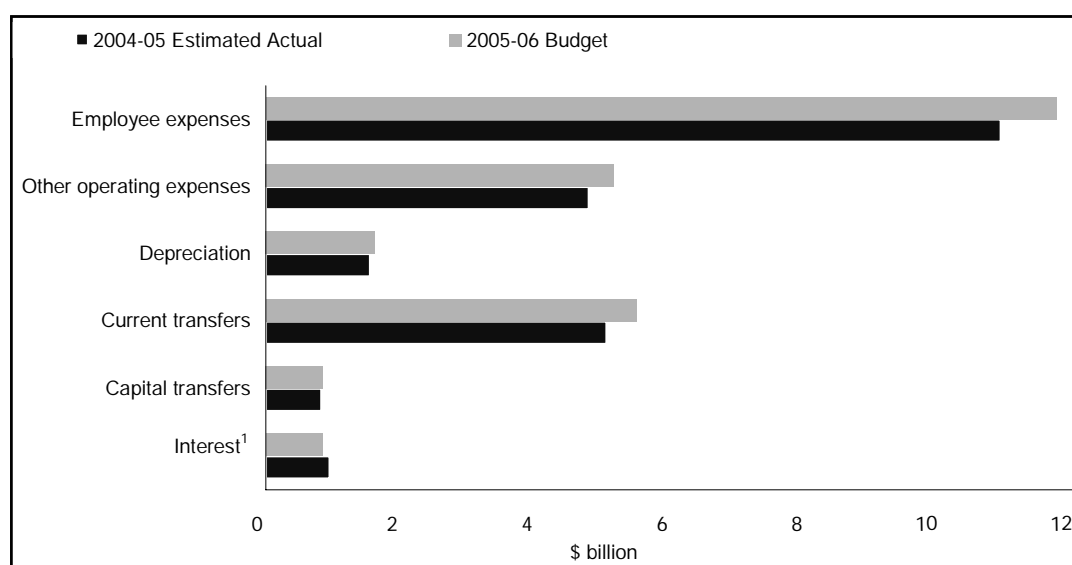


Note:

1. Includes superannuation interest expense.

Chart 6.2 compares the 2004-05 estimated actual expenses for each operating statement category with the 2005-06 Budget.

Chart 6.2
Expenses by Operating Statement Category
for 2004-05 and 2005-06



Note:

1. Includes superannuation interest expense.

DETAILS OF EXPENSES

Employee expenses

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

Employee expenses are forecast to increase by \$827 million or 7.6% to \$11.719 billion in 2005-06. The increase reflects a combination of wage increases related to established enterprise bargaining agreements, provision for future agreements and significant additional staffing associated with service growth and other service enhancements.

The additional staffing provided in the 2005-06 Budget is predominantly in key service delivery areas, including 286 additional teachers to meet enrolment growth, 228 additional police, 352 extra nurses and 151 additional frontline and support staff for the Department of Child Safety.

Superannuation current service costs have also increased from 2005-06 with the adoption of the Australian Equivalents to International Financial Reporting Standards (AEIFRS) AASB119 *Employee Benefits* offsetting a reduction in superannuation interest expense.

Other operating expenses

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

Other operating expenses are expected to increase in 2005-06 reflecting projected increases in these input costs and also growth in service provision, particularly in the key areas of health and police services.

As part of the 2005-06 Budget, an amount of \$50 million per annum has been provided for a whole-of-Government Asset Maintenance Initiative to address urgent maintenance priorities and increase the maintenance effort of agencies on an ongoing basis.

Depreciation

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

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

Current and Capital Transfers

Current transfers include grants and subsidies to the community (such as to schools, hospitals, benevolent institutions, and local governments) and personal benefit payments.

Increases in community service obligation (CSO) payments to Government-owned corporations and grants to non-Government schools are factors contributing to an estimated increase of \$464 million in 2005-06 (see Table 6.2). Higher CSO payments are a result of new shareholders' agreements to support services undertaken by QR and higher costs associated with the provision of uniform tariffs for franchise customers through Queensland's two electricity distributors, Energex and Ergon.

Current transfers to non-government recipients represent grants to non-government organisations and householders. Funding includes support to non-government health care providers, organisations servicing the community in partnership with government in the family support, disability, youth and childcare sectors and subsidies such as the school transport assistance scheme.

Capital transfers represent grants by the Government for capital purposes to local governments, non-profit institutions and other non-Government entities, such as households and businesses. The increase in capital grants to local governments includes grants to support the implementation of the *South East Queensland Infrastructure Plan and Program 2005-2026* (SEQIPP). Movements from year to year in capital transfers are also influenced by the timing of capital projects and the progressive completion of approved projects.

Table 6.2 indicates the composition of transfer payments by recipient.

Table 6.2 Current and Capital Transfers ¹		
	2004-05 Est. Act. \$ million	2005-06 Budget \$ million
Current		
Fuel Subsidy	511	532
Grants to local government	372	435
Grants to non-government schools	1,172	1,239
Grants to non-profit organisations	804	876
Grants to other non-government recipients	1,119	1,069
Payments to GOCs	1,070	1,343
Total Current Transfers	5,049	5,494
Capital		
First Home Owners' Grant scheme	160	170
Grants to local government	305	339
Grants to non-profit organisations	96	106
Grants to other non-government recipients	264	229
Total Capital Transfers	825	844
Total Current and Capital Transfers	5,874	6,338
Note:		
1. Numbers may not add due to rounding.		

Interest

The superannuation interest expense represents the imputed interest on the Government's accruing defined benefit superannuation liability. Superannuation interest expense is estimated to decline in 2005-06 with the adoption of AEIFRS AASB 119 *Employee Benefits*. In determining the State's defined benefit superannuation liabilities AASB 119 requires the discounting of future benefit obligations using yield rates on government bonds net of investment tax, estimated at 5.6%. Previously, the interest rate used to calculate the superannuation interest expense was matched to the expected long term investment return of 7.5%. The lower annual superannuation interest expense is partly offset by higher superannuation current service costs arising from the adoption of AEIFRS and included in employee expenses.

The other interest expense includes interest paid by agencies on borrowings to acquire capital assets and infrastructure such as roads and government buildings. The growth in this expense over the forward estimates reflects growth in borrowings for capital asset acquisitions including new infrastructure investment as part of the SEQIPP.

OPERATING EXPENSES BY PURPOSE

Chart 6.3 indicates the proportion of expenditure by major purpose classification for the 2005-06 Budget. Education accounts for the largest share of expenses (25%), followed by Health (22%).

Chart 6.3
General Government Expenses by Purpose 2005-06

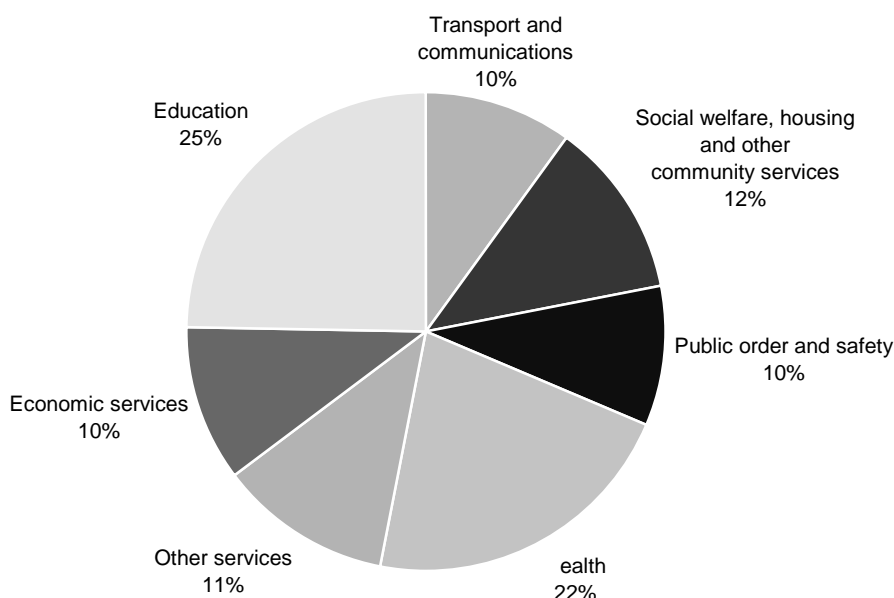
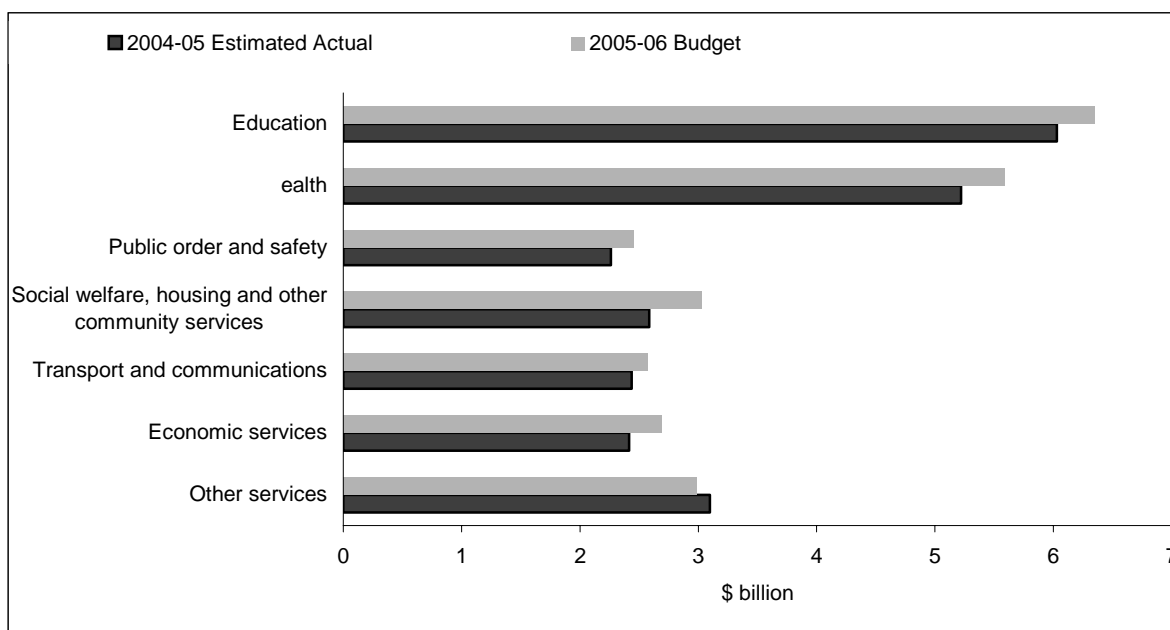
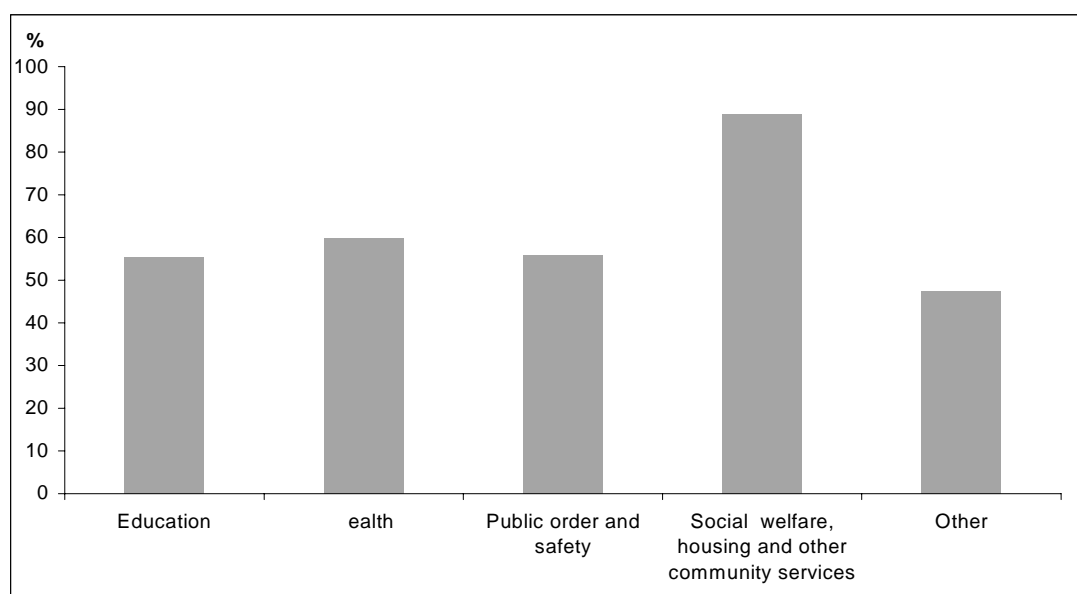


Chart 6.4
General Government Expenses By Purpose
for 2004-05 and 2005-06



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

Chart 6.5
General Government Expenses by Purpose
Growth from 1998-99 to 2005-06



Source: Queensland Treasury's data supplied to ABS.

Education

The Education function includes primary and secondary education, tertiary education (including technical and further education) and the transportation of school students. The 2005-06 Budget for this functional area is \$6.3 billion representing an increase of 55% (\$2.263 billion) between 1998-99 and 2005-06.

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

The Government continues to further its education and training strategy in the 2005-06 Budget with additional funding for two new Queensland Smart Academies for senior students, the phase-in of the preparatory year for an additional 25 state and non-state schools in 2006 as part of the Education and Training Reforms of the Future strategy and continuing support for the vocational education and training *SmartVET* initiative.

Health

The Health Function includes expenses relating to acute care institutions, mental health institutions, nursing homes for the aged and community health services including patient transport. By 2005-06, expenses on providing Health services are estimated to have increased by 60% (\$2.1 billion) since 1998-99 reflecting a range of service developments including growth in service capacity (including elective surgery initiatives), implementation of new medical technology, expansion of Home and Community Care Services and the operational costs of new facilities.

The Government is committed to improving the standard and accessibility of hospital and health services. The focus in 2005-06 is on prevention and early detection of cancer and other chronic diseases and the accessibility of health services including cardiac and mental health services. Additional funding is also provided for Indigenous health services and the implementation of Queensland's response to the National Strategic Framework for Aboriginal and Torres Strait Islander Health.

Public Order and Safety Function

The Public Order and Safety Function includes police and fire protection services, law courts and legal services and prisons and corrective services. Expenditure on the Public Order and Safety Function are estimated to total \$2.4 billion in 2005-06, an increase of 56% since 1998-99.

The strong growth in public order and safety function is the result of the Government's commitment to maintain police numbers above the national average police to population ratio. By September 2006, Police Service's sworn strength will be increased to 9,378 through the creation of an additional 228 new police positions and an additional 50 Juvenile Aid Bureau officers to complement the 50 Juvenile Aid Bureau officers engaged in 2004-05. Growth in police numbers are to be complemented by a civilianisation program that will return 500 police to operational duties over a three year period, beginning in 2005-06.

Social Welfare, Housing and other Community Services

Services provided under the category of Social Welfare, Housing and other Community Services include family and disability services, child protection, housing and community amenities including Aboriginal and Torres Strait Islander communities, environmental services, arts and cultural outlays. The 2005-06 Budget provides for total expenditure of over \$3 billion representing an estimated increase of \$1.4 billion or 89% between 1998-99 and 2005-06.

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

Details of 2005-06 initiatives and service developments are provided in Chapter 4.

DEPARTMENTAL EXPENSES

Data presented in Tables 6.3 and 6.4 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 from individual Ministerial Portfolio Statements.

Abolition of the Equity Return

In 1999-2000, as part of the *Managing for Outcomes* reforms, an equity return was introduced to provide an incentive to agencies to manage their asset holdings more efficiently. The equity return was levied on departments' net assets at a rate of 6%.

The intent of the equity return was to act as an incentive for agencies to review their asset holdings. Agencies would then either return surplus equity from underutilised assets to the Consolidated Fund in return for additional recurrent funding, or redirect the proceeds internally towards higher value service delivery uses.

From 2002-03, the equity return became budget neutral, with the funding provided to departments fully aligned to the amount they were required to pay.

During 2004-05, a decision was taken to remove the equity return altogether. This decision reflects the difficulties in applying the concept in the public sector context. Most other jurisdictions over recent years have adopted similar positions in relation to the application of asset charges.

Table 6.3
Departmental Controlled Expense

	2004-05 Est. Actual \$ 000	2005-06 Estimate \$ 000
Aboriginal and Torres Strait Islander Policy	63,107	64,183
Child Safety	296,751	394,777
Communities	296,784	358,744
Corrective Services	390,741	405,694
Disability Services Queensland	451,008	520,439
Education and the Arts	4,130,900	4,349,347
Electoral Commission of Queensland	8,955	8,769
Emergency Services	629,844	667,464
Employment and Training	885,569	911,722
Energy	12,004	15,137
Environmental Protection Agency	267,544	271,949
Health	5,013,606	5,354,461
Housing	526,986	613,128
Industrial Relations	87,557	96,217
Justice and Attorney-General	221,834	241,681
Legislative Assembly	58,623	60,573
Local Government, Planning, Sport and Recreation	450,402	507,471
Main Roads	1,204,638	1,229,300
Natural Resources and Mines	484,713	575,757
Office of the Governor	3,726	3,682
Office of the Information Commissioner (Statutory Body from 1 July 2005)	593	..
Office of the Ombudsman	5,646	5,017
Office of the Public Service Commissioner	5,051	4,760
Police	1,055,954	1,178,254
Premier and Cabinet	116,054	115,724
Primary Industries and Fisheries	336,801	313,445
Public Works	341,444	333,219
Queensland Audit Office	25,079	25,732
State Development and Innovation	170,068	285,538
The Public Trustee of Queensland	47,603	52,941
Tourism, Fair Trading and Wine Industry Development	53,568	54,288
Transport	1,686,153	1,811,920
Treasury	175,804	180,644
Total Expenses ¹	19,505,110	21,011,977

Note:

1. 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 6.4
Departmental Administered Expense

	2004-05	2005-06
	Est. Actual	Estimate
	\$ 000	\$ 000
Communities	127,389	131,097
Education and the Arts	1,535,331	1,590,672
Employment and Training	1,885	1,414
Energy	206,492	358,134
Health	7	7
Justice and Attorney-General	126,033	116,070
Local Government, Planning, Sport and Recreation	329,478	322,216
Natural Resources and Mines	35,640	11,834
Police	2,510	376
Premier and Cabinet	107,771	109,904
Primary Industries and Fisheries	9,866	5,772
Public Works	15,373	18,023
State Development and Innovation	11,908	1,997
Tourism, Fair Trading and Wine Industry Development	45,611	44,929
Transport	1,050	100
Treasury	1,438,889	2,146,140
Total Expenses ¹	3,995,233	4,858,685
<p>Note:</p> <p>1. 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.</p>		

Table 6.5
Reconciliation of Departmental to GFS Expenses ¹

	2004-05 Est. Actual \$ million	2005-06 Estimate \$ million
Departmental expenditure per MPS - Controlled (Table 6.3)	19,505	21,012
- Administered (Table 6.4)	3,995	4,859
Non-GFS departmental expenses ²	(62)	(497)
Other General Government entities (e.g. CBUs, SSPs, Statutory Bodies)	2,717	2,673
	26,156	28,047
Superannuation Interest expense	747	604
Eliminations and Other whole-of-Government adjustments		
Elimination of payments to CBUs and SSPs	(1,898)	(1,959)
Payroll Tax elimination	(355)	(364)
Other eliminations and adjustments	(605)	(658)
Total General Government GFS Expenses	24,045	25,670
<p>Notes:</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. In addition, this item removes the effect of cash payments for whole-of-Government schemes such as the State's share of defined superannuation beneficiary payments reported in Treasury Administered's expenses. Costs associated with these schemes are accrued annually. 2004-05 is lower than 2005-06 due to a \$450 million prepayment of superannuation beneficiary payments made in 2003-04.</p>		

7. BALANCE SHEET AND CASH FLOWS

KEY POINTS

- The Queensland Government's already strong financial position is expected to strengthen further in 2005-06. State net worth is projected to rise by \$339 million through the year to \$85.344 billion, despite a \$2 billion impact on net worth due to the adoption of Australian Equivalents to International Financial Reporting Standards (AEIFRS).
- 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 \$17.712 billion in the General Government sector at 30 June 2006, consistent with another of the Government's Charter principles.
- The General Government sector is estimated to record a cash surplus of \$98 million in 2005-06, after allowing for \$3.319 billion in net asset purchases.

INTRODUCTION

The 2005-06 balance sheet shows the projected assets, liabilities and net worth of the General Government sector as at 30 June 2006. It is important for the Government to maintain a strong balance sheet to provide it with the stability, flexibility and capacity to deal with any emerging financial and economic pressures.

The assets and liabilities in the balance sheet are defined according to the 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 Chapter 9.

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

Table 7.1 General Government Sector: Summary of Budgeted Balance Sheet ¹							
	2003-04 Actual \$ million	2004-05 Budget \$ million	2004-05 Est. Act. \$ million	2005-06 Budget \$ million	2006-07 Projected \$ million	2007-08 Projected \$ million	2008-09 Projected \$ million
Financial assets	37,010	36,817	42,612	44,209	47,190	50,109	53,359
Non-financial assets	61,981	58,479	64,558	67,632	71,012	74,040	76,622
Total Assets ²	98,991	95,296	107,170	111,842	118,201	124,149	129,981
Borrowings and Advances	3,208	3,571	3,277	4,155	6,408	7,982	9,606
Superannuation liability	11,930	13,607	12,896	16,192	17,345	18,545	19,770
Other provisions and liabilities	6,130	5,654	5,993	6,151	6,266	6,478	6,748
Total Liabilities	21,268	22,832	22,165	26,497	30,019	33,004	36,124
Net Worth	77,723	72,464	85,005	85,344	88,182	91,145	93,857
Net Financial Assets ³	15,742	13,985	20,447	17,712	17,171	17,105	17,235
Net Debt	(14,851)	(15,015)	(17,829)	(17,654)	(16,344)	(16,281)	(16,122)
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.							
3. 2003-04 Actuals were some \$2.2 billion higher than forecast at the time of the 2004-05 Budget.							

BALANCE SHEET

Financial assets

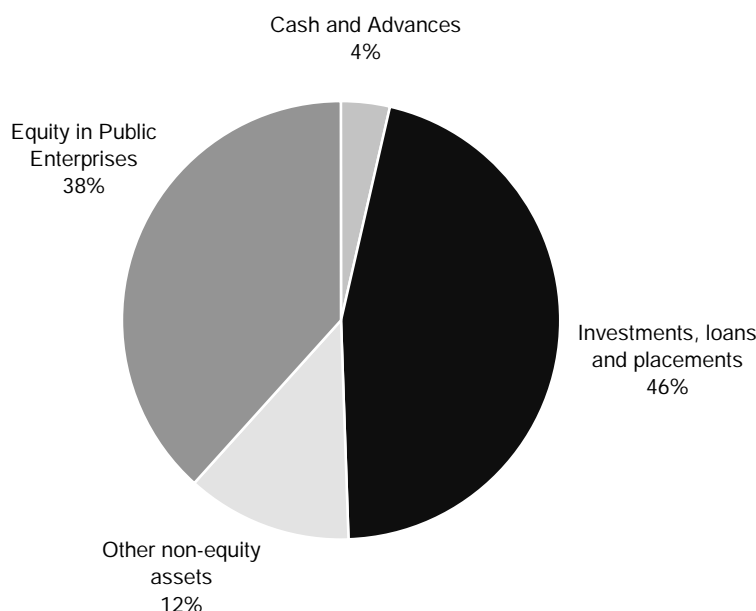
The General Government sector holds the full equity of the State's public enterprises, principally its shareholding in Government-owned corporations, in much the same manner as the parent or holding company in a group of companies. The estimated net investment in public enterprises (\$16.933 billion at 30 June 2006) is included in the General Government sector's financial assets¹.

In the year to 30 June 2006, financial assets are projected to increase by \$1.597 billion, attributable principally to increased investment in superannuation assets. Growth of \$5.602 billion in financial assets in 2004-05 reflects the impact of strong earnings on investments in that year. Investment earnings in 2005-06 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 2006. 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 2006



Non-financial assets

General Government non-financial assets are projected to total \$67.632 billion at 30 June 2006. 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.

As a result of the purchase and/or construction of replacement or new assets, asset revaluations, depreciation and disposals, physical assets in the year ending 30 June 2006 are expected to grow by \$3.074 billion. Of this increase, \$1.742 billion represents the net acquisition of non-financial assets as part of the Government's capital program.

The Government has traditionally funded new infrastructure at levels well beyond that of the other states. General Government purchases of non-financial assets per capita have exceeded that of all other major states for well over a decade (see Chart 3.2).

Liabilities

The largest single accruing liability in the General Government sector is employee entitlements (principally superannuation and long service leave) which are projected to total \$16.192 billion as at 30 June 2006. Other liabilities include borrowings and advances received.

Liabilities are budgeted to increase by \$4.332 billion in 2005-06, largely on account of growth in the General Government superannuation liability. This liability has been impacted substantially by the introduction of AEIFRS with a \$2 billion revaluation being recorded in addition to normal growth of the liability. This revaluation arises because AEIFRS requires a different discount rate to calculate the defined benefit superannuation liabilities. Previously the discount rate used to calculate the liability was the assumed long-term earnings rate for related financial assets. Under AEIFRS, the discount rate used is the long-term bond rate and the use of this rate significantly increases the liability.

The AEIFRS discount rate of 5.6% is well below the 7.5% assumed long-term investment return rate that has been used to date to calculate the superannuation liability. For the purpose of determining a funding strategy for superannuation, it is considered that the present value of the liability should be based on the long-term earnings rate likely to be achieved through the actual investment strategy. Given a strategic asset allocation for defined benefit assets includes a significant allocation to growth assets, it is expected that the long-term earnings rate will exceed the long-term bond rate. For funding purposes, the long-term earnings rate will continue to be used and accordingly, the adoption of AEIFRS for reporting purposes will not impact on the funding strategy for the scheme, including the level of employer contributions to the scheme.

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

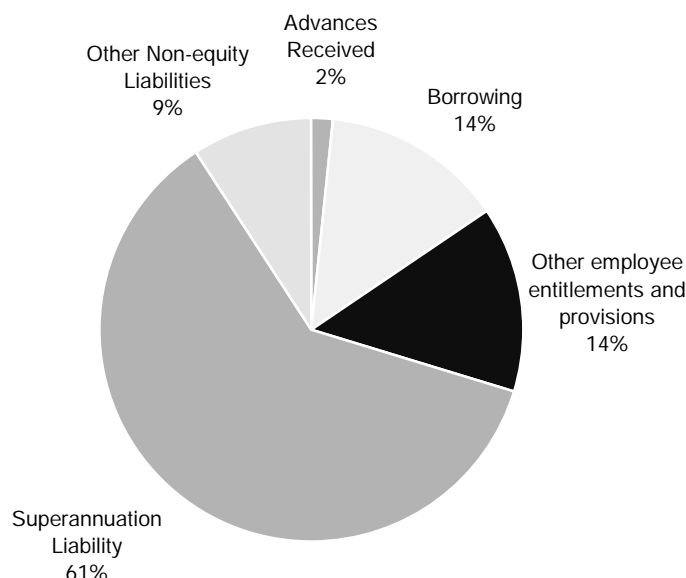
The proportion of the State's total superannuation liability relating to former scheme members is expected to increase over the forward estimates period as these investment balances grow and new public sector employees join the accumulation, as opposed to defined benefit, fund.

Over the Budget and forward estimates period, total General Government borrowings of \$6.3 billion are planned. Of this amount, some \$1.9 billion (including \$270 million in 2005-06) is to fund equity injections to Queensland's Government-owned corporations to support expansion of the State's energy, rail and ports infrastructure, with the remainder required to fund infrastructure projects in the General Government sector.

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

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

Chart 7.2
General Government Liabilities by Category as at 30 June 2006



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 2005-06 are forecast at \$17.712 billion, indicating that the State is well able to meet all its current and recognised future obligations, without recourse to material adjustments in fiscal policy settings.

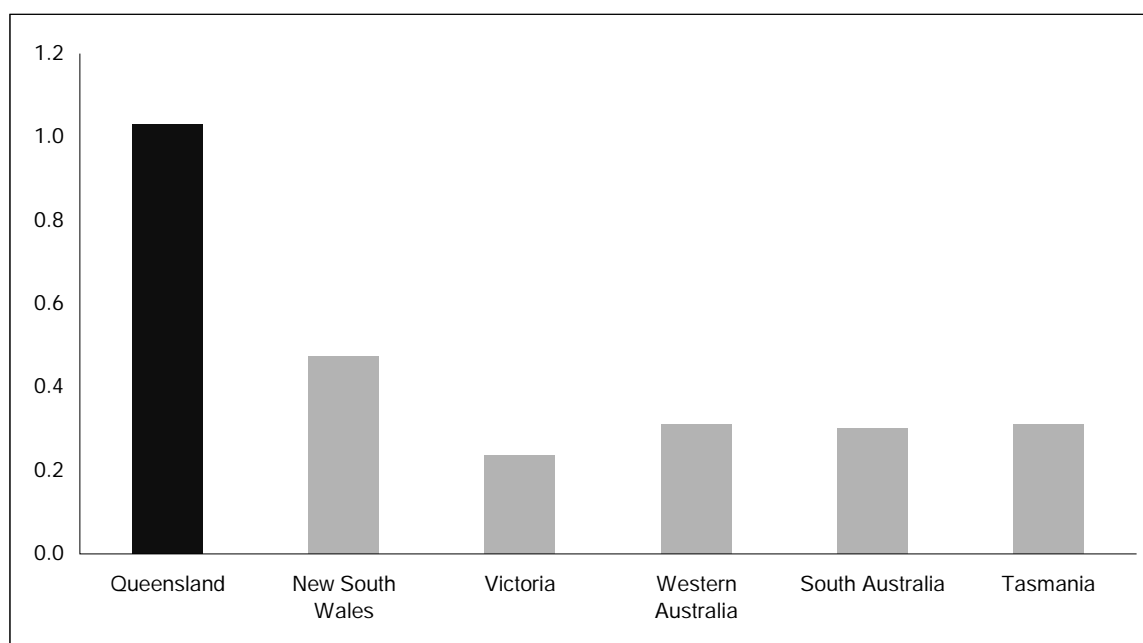
This position is consistent with the Government's Charter principle that the State's financial assets cover all accruing and expected future liabilities of the General Government sector.

Based on current projections, the General Government sector will continue to meet the commitment in the Government's Charter to ensure that financial assets cover all accruing and expected future liabilities in all the years through to 30 June 2009. The level of net financial assets reduces slightly in future years due to increased borrowings to fund the purchase of infrastructure assets (which are not included in the calculation of net financial assets).

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

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

Chart 7.3
Ratio of Financial Assets to Liabilities (excluding Investments
in Public Enterprises) as at 30 June 2006
General Government Sector



Source: State budget papers.

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:

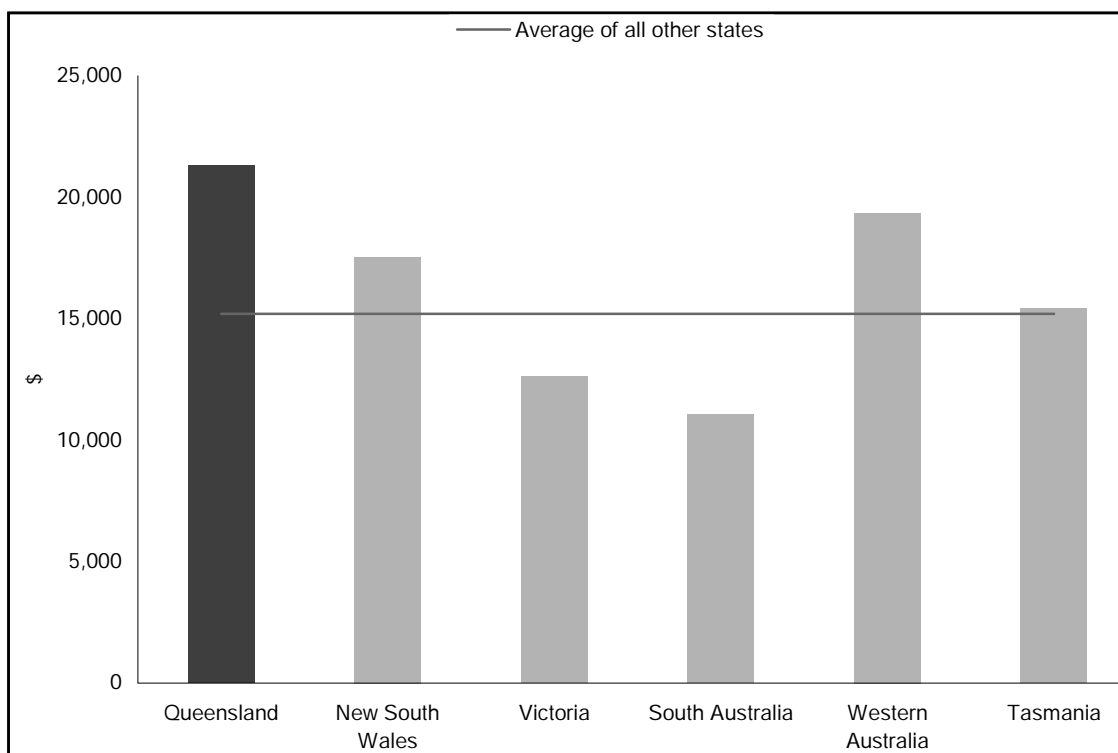
- operating surpluses (deficits) that increase (decrease) the Government's equity
- revaluation of assets and liabilities as required by accounting standards. Some financial liabilities are revalued on a regular basis. For example, the Government's accruing liabilities for employee superannuation and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

Net worth of the General Government sector in 2004-05 is expected to grow by \$7.282 billion over the 2003-04 actual net worth. This growth reflects the impact of the Government's substantial operating surplus in 2004-05, increases in assets as a result of revaluations of assets as part of the State's asset revaluation cycle and increases in the value of the Public Non-Financial Corporations Sector.

Chart 7.4 illustrates the State's strong net worth compared with the other states. Queensland's per capita net worth is 40% greater than the average per capita net worth of the other states.

Chart 7.4
Interstate Comparison of Per Capita Net Worth as at 30 June 2006



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, NSW, SA, WA and TAS. Population data from Australian Government 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 Table 7.2, the Queensland General Government sector has negative net debt – that is, a surplus of financial assets over financial liabilities, in comparison to other states, thus indicating the strength of Queensland's financial position relative to the other states.

Queensland's negative net debt of \$4,406 per capita (net financial assets), compares to the average net debt of \$96 per capita (net financial liabilities) in the other states.

Table 7.2 Net Debt Per Capita as at 30 June 2006						
	QLD	NSW	VIC	WA	SA	TAS
Net debt per capita (\$)	(4,406)	(225)	581	68	82	(27)

Source: Net debt from State Budget Papers. Population Data from Australian Government Budget Paper No.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). The timing of recognition of accrued revenue or expense in the operating statement may differ from the actual cash disbursement or receipt (for example, tax equivalents). A detailed reconciliation between the cash flows from operations and the operating statement is provided later in this chapter.

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

The cash flow statement provides the cash surplus (deficit) measure which is comprised of the net cash flow from operating activities plus the net cash flow from investment in non-financial assets (or physical capital). This measure is also used to derive the Loan Council Allocation nomination, provided in Chapter 9.

A cash surplus of \$98 million is expected in 2005-06 for the General Government sector. The cash result is forecast to move into deficit in 2006-07. Modest surplus positions are forecast for 2007-08 and 2008-09.

Apart from the cash impact of smaller recurrent operating surpluses relative to 2004-05, the major factor contributing to lower cash results is the significant planned capital expansion. Total General Government capital purchases of \$3.6 billion are budgeted for 2005-06.

Over the period 2005-06 to 2008-09, net additions (i.e. after deducting depreciation and asset sales) to the General Government capital stock of close to \$6 billion are planned. This substantial investment in additional capital will impact on the GFS cash result.

Table 7.3 provides summary cash flow information for the General Government sector for 2004-05, 2005-06 and the outyears. Detailed cash flow tables are included in Chapter 9.

Table 7.3 General Government Sector: Summary of Budgeted Cash Flows ¹						
	2004-05 Budget \$ million	2004-05 Est. Actual \$ million	2005-06 Projected \$ million	2006-07 Projected \$ million	2007-08 Projected \$ million	2008-09 Projected \$ million
Cash receipts from operating activities	24,646	27,270	27,148	28,053	29,615	30,355
Cash payments for operating activities	(21,150)	(21,688)	(23,731)	(25,211)	(26,272)	(27,242)
Net cash flow from operating activities	3,496	5,583	3,417	2,842	3,342	3,113
Net cash flows from investing activities	(4,031)	(5,457)	(4,846)	(5,399)	(4,703)	(4,602)
Net cash flows from financing activities	40	106	813	2,241	1,552	1,623
Net increase/(decrease) in cash held	(495)	231	(617)	(316)	191	133
Derivation of GFS cash surplus (deficit)						
Net cash flow from operating activities	3,496	5,583	3,417	2,842	3,342	3,113
Less net cash flow from investments in non-financial assets	2,434	2,452	3,319	3,401	3,119	2,687
Less Finance leases and similar arrangements	3	3	..	..	..	..
Equals GFS cash surplus (deficit)	1,059	3,127	98	(559)	223	426
Note: 1. Numbers may not add due to rounding.						

Cash flows from operating activities

Table 7.4 provides a disaggregation of operating cash flows.

Table 7.4 General Government Sector: Cash Flows from Operating Activities			
	2004-05 Budget \$ million	2004-05 Est. Act. \$ million	2005-06 Budget \$ million
Receipts from operating activities			
Taxes received	6,337	6,944	6,842
Grants and subsidies received	12,273	12,875	13,216
Sales of goods and services	2,384	2,601	2,669
Other receipts	3,652	4,850	4,420
Total receipts from operating activities	24,646	27,270	27,148
Payments for operating activities			
Payments for goods and services	(14,691)	(15,086)	(16,631)
Grants and subsidies	(5,603)	(5,707)	(6,201)
Interest	(202)	(203)	(233)
Other payments	(654)	(692)	(666)
Total payments for operating activities	(21,150)	(21,688)	(23,731)
Net cash inflows from operating activities	3,496	5,583	3,417

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

Taxes received by the General Government sector are forecast at \$6.842 billion in 2005-06, down marginally on the 2004-05 estimated actual of \$6.944 billion.

Grants and subsidies receipts are expected to increase in 2005-06 by \$341 million to \$13.216 billion.

Other receipts include investment earnings, dividends and tax equivalents received from Government-owned corporations (GOCs) and royalties. Other receipts are expected to decrease in 2005-06 by \$430 million to \$4.42 billion. This largely reflects that the 2005-06 estimates are based on the return to the long-term average earnings rate of 7.5% on investments. The higher investment earnings in 2004-05 are the result of an estimated investment return of 14% on investments held to meet future employee liabilities such as superannuation. This decrease is partially offset by the expected increase in royalty receipts due to anticipated higher prices and demand from overseas markets.

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 2005-06 the largest cash disbursement is employee expenses at \$11.312 billion or 48% of total cash payments from operating activities.

In 2005-06, payments for goods and services, including wages and salaries, are expected to increase 10.2% to \$16.631 billion. This increase reflects payments pertaining to employer superannuation (accumulation scheme) contributions and State share of superannuation beneficiary payments, increased employee entitlements in line with enterprise bargaining agreements, and growth related to new and enhanced services.

Cash payments for grants and subsidies are expected to increase by \$494 million or 8.7% in 2005-06 to \$6.201 billion. This item includes recurrent grants paid by the Australian Government through the State to non-State schools, grants paid to industry and grants to non-profit institutions. This item also includes community service obligation payments to the energy sector and QR, and capital grants which are largely paid to local government authorities to fund capital works.

Other payments mainly comprise personal benefit payments and other transfer payments. This item is estimated to decline by 3.8% in 2005-06 to \$666 million. This is primarily attributable to lower HIH Insurance compulsory third party claim payments.

Cash flows from investments

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

Table 7.5 General Government Sector: Cash Flows from Investing Activities			
	2004-05 Budget \$ million	2004-05 Est. Act. \$ million	2005-06 Budget \$ million
Net payments for investments in non-financial assets	(2,434)	(2,452)	(3,319)
Net cash flows from investing activities in financial assets for policy purposes	(105)	(171)	(271)
Net cash flows from investing activities in financial assets for liquidity purposes	(1,492)	(2,834)	(1,256)
Net increase/(decrease) in cash held from investing activities	(4,031)	(5,457)	(4,846)

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

Cash outflows from investing in non-financial assets are expected to increase to \$3.319 billion in 2005-06 from \$2.452 billion in 2004-05, an increase of 35.4%.

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

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

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

Cash outflows from investments for policy purposes for 2004-05 of \$171 million reflect equity transactions by the General Government sector with Public Non-financial and Financial Corporations. In 2004-05, this includes the injection of \$112 million to Central Queensland Port Authority for the RG Tanna Coal Terminal, \$36 million to QR for the Citytrain MetTrip initiative and \$13 million to Queensland Motorways.

Cash outflows from investments for policy purposes for 2005-06 of \$271 million also reflect equity transactions with public enterprises, in particular additional equity injections of \$163 million into QR for the Citytrain MetTrip initiative, \$95 million into Central Queensland Port Authority for the RG Tanna Coal Terminal and \$13 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 outflows from investments in financial assets for liquidity purpose of \$2.834 billion in 2004-05, reflect the re-investment of interest and the investment of contributions set aside for the Government's defined benefit superannuation scheme. These cash outflows are partially offset by drawdowns which are lower than 2003-04 due to the \$450 million forward funding of superannuation benefits in 2003-04, to pay employee entitlements.

Cash outflows from investments in financial assets for liquidity purposes are estimated to be \$1.256 billion in 2005-06, 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, partially offset by drawdowns which return to normal levels after the forward funding runs out, to pay employee entitlements.

Cash flows from financing activities

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

Table 7.6 General Government Sector: Cash Flows from Financing Activities			
	2004-05 Budget ¹ \$ million	2004-05 Est. Act. \$ million	2005-06 Budget \$ million
Net cash flows from advances	(20)	(13)	(14)
Net cash flows from borrowing (net)	60	119	827
Net increase/(decrease) in cash held from financing activities	40	106	813
Note: 1. Advances and Borrowing figures for the 2004-05 Budget differ to that published in the Budget due to a reclassification of advances to align with Australian Bureau of Statistics' definitions.			

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 financing activities are estimated to increase in 2005-06 to \$813 million, reflecting borrowings to fund capital projects.

RECONCILIATION OF OPERATING CASH FLOWS TO THE OPERATING STATEMENT

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

Table 7.7 General Government Sector: Reconciliation of Cash Flows from Operating Activities to Accrual Operating Activities			
	2004-05 Budget \$ million	2004-05 Est. Act. \$ million	2005-06 Budget \$ million
GFS accrual revenue	24,009	26,771	26,604
Add/(less) movement in tax equivalent and dividend receivables	(93)	(206)	(228)
Add GST receipts from ATO	623	646	659
Add/(less) movement in other receivables	107	59	113
Equals GFS cash receipts	24,646	27,270	27,148
GFS accrual expense	23,363	24,046	25,670
(Less) non-cash items			
Depreciation and amortisation expense	(1,585)	(1,544)	(1,617)
Accrued superannuation expense	(1,479)	(1,521)	(1,534)
Accrued employee entitlements	(518)	(557)	(574)
Other accrued costs	(187)	(356)	(230)
Add/(less) movement in employee entitlement provisions	532	513	846
Add/(less) GST paid to ATO	654	667	671
Add/(less) movement in other provisions and payables	370	440	500
Equals GFS cash expenditure	21,150	21,688	23,731

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

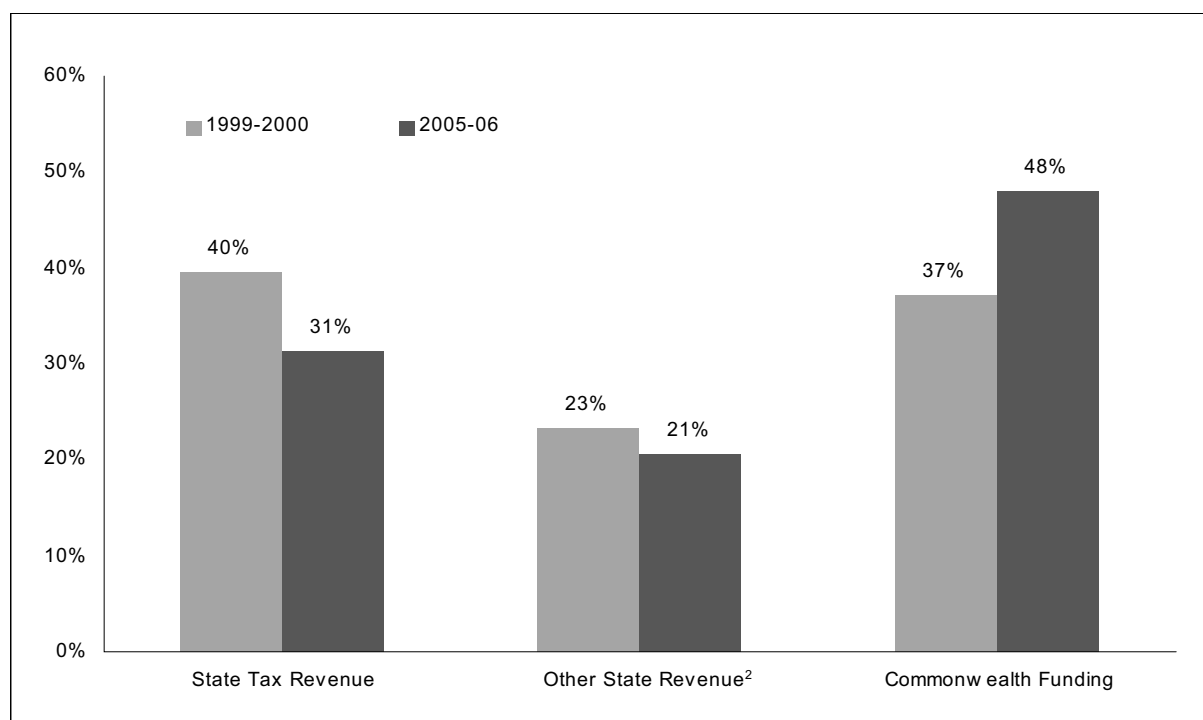
- Following the introduction of the Goods and Services Tax in 2000 and the abolition of a number of state taxes, states have become increasingly reliant on Australian Government funding. Approximately 48% of Queensland's revenue will be sourced from Australian Government funding in 2005-06.
- On a per capita basis, Queensland taxpayers are expected to be \$292 better off in 2005-06 as a result of lower taxes, first home owners grants and increased services associated with the GST reforms. This is less than the average benefit of \$334 per capita across all states, and less than the \$350 per capita benefit taxpayers in New South Wales are expected to receive due to its relatively higher taxes.
- The Commonwealth Grants Commission's 2005 Update recommended a \$93.7 million reduction in Queensland's underlying share of GST funding in 2005-06. This reduction was largely due to the relative strength of Queensland's property market, which resulted in stronger than average growth in Queensland's capacity to raise revenue.
- Overall, Queensland is expected to receive 19.8% of total Australian Government funding to the states in 2005-06, compared with its population share of 19.6%.
- Queensland's higher than per capita share of Australian Government funding largely reflects the greater costs Queensland faces in delivering services and infrastructure to a dispersed population.
- Specific Purpose Payment negotiations continue to be challenging as the states are increasingly required to commit to the priorities of the Australian Government and meet strict input and accountability controls. The Queensland Government would prefer a more cooperative, outcome focussed model.
- In 2005-06, the Queensland Government will provide 59% of all grants to Queensland local government.

COMMONWEALTH-STATE FINANCIAL RELATIONS

Commonwealth-state financial relations are characterised by a mismatch between the states' expenditure responsibilities and access to own-source revenues. This mismatch is known as vertical fiscal imbalance. The Australian Government collects the major share of taxation revenues and increasingly states must rely on grants from the Australian Government to meet expenditure requirements.

Chart 8.1 shows all states' funding sources for 1999-2000 and 2005-06 and highlights the states' increased reliance on Australian Government funding since the introduction of the Australian Government's national tax reforms in 2000. In 1999-2000 the states received 37% of their revenues from the Australian Government. This is estimated to increase to 48% in 2005-06. In contrast, the proportion of the states' revenues from state taxes has reduced from 40% in 1999-2000 to an estimated 31% in 2005-06.

Chart 8.1
Revenue Sources, All States, 1999-2000 and 2005-06¹



Notes:

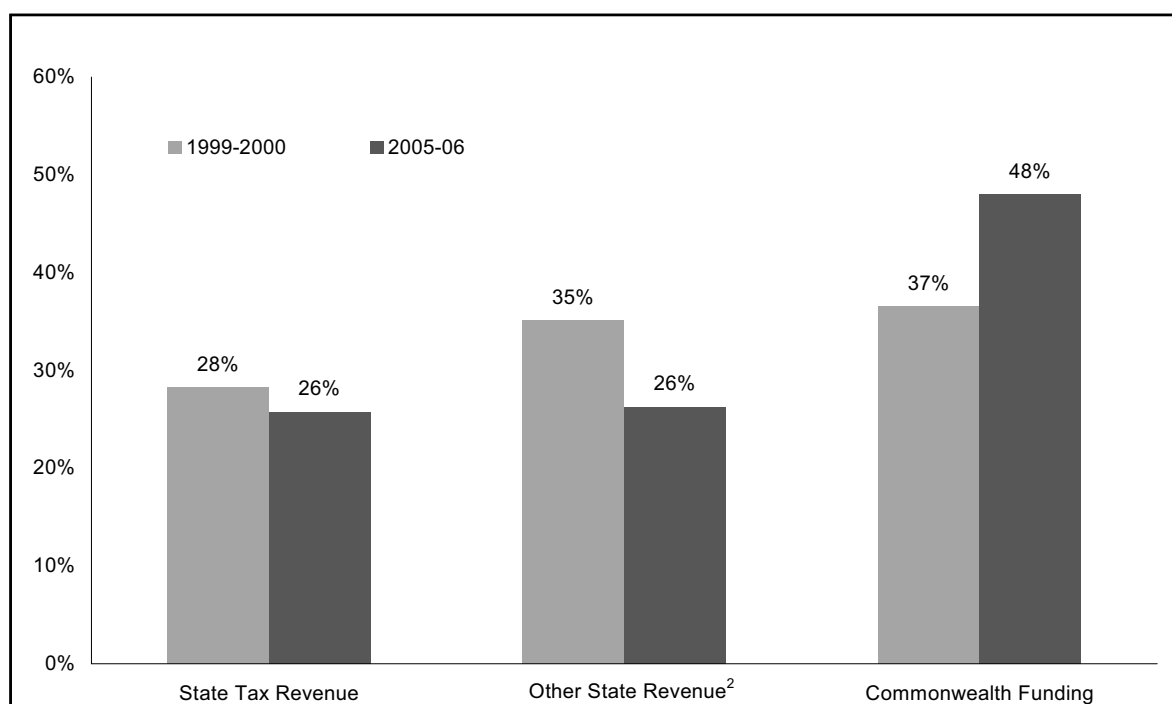
1. 2005-06 data are estimates.

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

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

Queensland's reliance on Australian Government funding, as shown in Chart 8.2, follows the national trend, with its share of total funding sourced from the Australian Government rising from 37% in 1999-2000 to an estimated 48% in 2005-06. Meanwhile state taxation revenue has decreased from 28% in 1999-2000 to an estimated 26% in 2005-06. Queensland's lower than average dependence on state taxation revenue reflects its competitive taxation policy.

Chart 8.2
Revenue Sources, Queensland, 1999-2000 and 2005-06¹



Notes:

1. 2005-06 data are estimates.

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

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

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

REVIEW OF STATE TAXES

Queensland, along with all other jurisdictions, signed the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations (IGA) in June 1999. The stated objectives of the IGA are:

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

Queensland considers these objectives to be of equal importance. In cases where these objectives are conflicting, a balance should be found to ensure no objective is disregarded. This is particularly important in the context of tax reform, as abolishing taxes reduces the revenue available to states and detracts from their financial position.

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

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

Queensland has met of all these requirements. Queensland abolished stamp duty on quoted marketable securities on 1 July 2001 and had never imposed bed taxes or financial institutions duty. Queensland committed to abolishing debits tax on 1 July 2005 in the 2004-05 State Budget, with the necessary legislation passed by Parliament in May 2005.

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

Details of Queensland's proposal can be found in Chapter 5.

Queensland's proposal was presented to the Australian Government Treasurer on 20 April 2005, along with proposals from Victoria, South Australia, Tasmania, the Australian Capital Territory and the Northern Territory. The Australian Government Treasurer has publicly welcomed these proposals.

Impact of IGA reforms

Table 8.1 shows the estimated impact of reforms associated with the IGA, on taxpayers in each state, in 2005-06. The total impact combines the abolition of four taxes – financial institutions duty, marketable securities duty, bed taxes and bank account debits tax, as the IGA required the abolition of these taxes by 1 July 2005 – with first home owners grant (FHOG) payments, and the amount of GST each state receives in excess of their guaranteed minimum amount¹ (GMA).

The revenue foregone due to abolishing these taxes, along with the cost of providing FHOG payments, is included in the calculation of the GMA. Combining these amounts presents a more complete estimate of the impact of the IGA reforms than simply measuring the amount of GST received by states in excess of their GMA. While Queensland receives a relatively higher amount of GST in excess of the GMA, states such as New South Wales have a larger amount of tax reductions included in their GMA.

Table 8.1 Impact of IGA Reforms in each State, 2005-06 ^{1,2,3}							
	Financial Institutions Duty	Marketable Securities Duty	Bed Taxes	Debits Tax	First Home Owners Grant	GST in Excess of GMA	Total
	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million	\$million
New South Wales	772.0	513.0	96.0	323.6	286.9	60.4	2,051.9
Victoria	422.6	265.8	..	257.8	271.7	198.5	1,416.4
Queensland	..	29.0	..	330.2	174.9	594.8	1,128.9
Western Australia	161.0	32.9	..	114.0	132.1	230.3	670.3
South Australia	107.4	17.5	..	57.7	68.9	166.5	418.0
Tasmania	25.4	0.8	..	21.7	19.1	97.9	164.9
Australian Capital Territory	21.0	26.0	..	17.7	14.5	53.6	132.8
Northern Territory	19.8	1.2	10.0	7.7	9.8	137.9	186.4
Total	1,529.2	886.2	106.0	1,130.3	977.8	1,540.0	6,169.5
Notes:							
1. Numbers may not add due to rounding.							
2. Does not include the impact of states' proposed abolition of certain stamp duties.							
3. The figures for taxes abolished shown in this table are those used in the Australian Government's GMA calculations and were provided by states in 1999. Table 8.2 uses revised estimates provided by states during the review of state taxes.							
Queensland's current estimates of debits tax foregone are provided in Chapter 5 of this Budget Paper.							
Source: Australian Government Budget Paper No.3, 2005-06.							

¹ The GMA estimates the financial position states would be in, with regard to Australian Government funding, if the GST reforms had not occurred.

Table 8.2 shows the estimated impact of IGA reforms on a per capita basis for each state in 2005-06. On this basis, Queensland taxpayers have benefited less than the average from the IGA reforms. This is because Queensland did not impose financial institutions duty or bed taxes, which other states were required to abolish, prior to the IGA reforms. Therefore, Queensland's GST in excess of the GMA does not fully offset the higher tax reductions in other states.

Claims that Queenslanders receive the greatest benefit from the GST do not take into account the full range of associated reforms, as set out in the IGA. When the complete picture is considered, it becomes apparent Queenslanders have received the second lowest amount of benefit, on a per capita basis, from the GST reforms.

In contrast, residents in states such as New South Wales have gained significantly more benefit, largely as a result of the tax abolition required under the IGA.

Table 8.2 Impact of IGA Reforms in each State, Per Capita, 2005-06¹				
	Taxes Abolished ^{2,3} \$	First Home Owners Grant \$	GST in Excess of GMA \$	Total \$
New South Wales	298.63	42.05	8.85	349.53
Victoria	232.58	53.72	39.25	325.55
Queensland	100.38	43.65	148.45	292.48
Western Australia	165.04	64.98	113.28	343.29
South Australia	135.63	44.59	107.76	287.98
Tasmania	122.95	39.19	200.87	363.01
Australian Capital Territory	224.19	44.51	164.54	433.24
Northern Territory	179.59	48.10	676.83	904.52
Average	211.44	47.74	75.18	334.36
Notes: 1. Numbers may not add due to rounding. 2. Does not include the impact of states' proposed abolition of certain stamp duties. 3. Differs from Table 8.1 as this table is based on more recent estimates of taxes abolished, as provided by states during the review of state taxes. Source: Australian Government Budget Paper No.3, 2005-06 and unpublished data provided by states.				

AUSTRALIAN GOVERNMENT FUNDING TO THE STATES

Australian Government payments to the states in 2005-06 are expected to total \$64.357 billion, an increase of \$3.267 billion, or 5.3%, compared with 2004-05. Table 8.3 compares estimated Australian Government payments to the states in 2005-06 with those for 2004-05.

Table 8.3 Estimated Australian Government Payments to the States, 2004-05 and 2005-06¹					
	2004-05 \$ million	2005-06 \$ million	Change Nominal Terms %	Change Real ² Terms %	Change Real ² Per Capita %
General Purpose Payments					
GST Revenues	35,505.0	37,340.0	5.2	2.4	1.1
Compensation for GST deferral	219.4	127.0	(42.1)	(43.7)	(44.4)
Residual Adjustment Amounts	100.4	..	..	..	..
NCP Payments	724.3	799.2	10.3	7.4	6.1
Total General Purpose Payments	36,549.1	38,266.2	4.7	1.9	0.6
Specific Purpose Payments					
SPPs 'to' the States	17,960.5	19,065.6	6.2	3.3	2.0
SPPs 'through' the States	6,580.5	7,025.4	6.8	3.9	2.6
Total Specific Purpose Payments	24,541.0	26,091.0	6.3	3.5	2.2
Total Payments	61,090.1	64,357.2	5.3	2.5	1.3
Notes: 1. Numbers may not add due to rounding. 2. Deflated by 2005-06 year-average national forecast inflation of 2.75% and Australian population growth of 1.25%. Source: Australian Government Budget Paper No.3, 2005-06.					

General Purpose Payments

General purpose payments comprise Goods and Services Tax (GST) revenue, compensation for the deferral of GST revenue, residual adjustment amounts and National Competition Policy (NCP) payments. General purpose payments from the Australian Government are expected to increase from \$36.549 billion in 2004-05 to \$38.266 billion in 2005-06, an increase of 4.7% in nominal terms. In real per capita terms, general purpose payments are expected to increase by 0.6%.

GST Revenue

GST collections for 2005-06 are expected to be \$37.34 billion, an increase of \$1.835 billion, compared with 2004-05.

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

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

Compensation for GST Deferral

The Australian Government provides compensation to the states for the deferral of GST revenue resulting from the Australian Government's decision to allow certain small businesses and non-profit organisations to pay GST annually. The Australian Government will provide \$127 million to the states in 2005-06 to compensate for the net impact of this decision.

Residual adjustment amounts

The Australian Government will provide \$100.4 million to the states as residual adjustment amounts in 2004-05. Residual adjustment amounts are provided to offset any unintended consequences of the transitional arrangements applied when states no longer require budget balancing assistance (BBA).

National Competition Policy payments

NCP payments to the states will be a maximum of \$799.2 million in 2005-06. 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 is expected to release its assessment mid year.

NCP payments to Queensland in 2004-05 are estimated at \$143 million, compared to a published budget of \$151.4 million. This reflects a combination of suspensions and permanent reductions of \$37.9 million relating to the National Competition Council's most recent recommendations offset in part by the recovery of prior year suspensions. The Queensland Government has recently decided to extend gas contestability and is undertaking a review into the decision not to adopt full retail contestability to electricity. Accordingly, Queensland considers that it has met, or will meet, all of its NCP obligations.

The Australian Government has previously indicated NCP funds beyond 2005-06 will be directed to the Australian Water Fund. However, at the time of preparing Budget documents, it was expected the future of NCP would be discussed at the next Council of Australian Governments meeting, scheduled for 3 June 2005.

Specific Purpose Payments

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

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

Total SPPs in 2005-06 are expected to be \$26.091 billion. This represents an increase of \$1.55 billion, or 6.3%, in nominal terms over 2004-05. Payments to the states increased by 6.2%, which represents a real increase of 2% when inflation and population growth are taken into account. SPPs through the states are growing at a slightly faster rate and are expected to increase by 6.8% in nominal terms, a real increase of 2.6%.

STATE SHARES OF AUSTRALIAN GOVERNMENT FUNDING

Relative shares of funding to the states

Table 8.4 shows the expected shares of total Australian Government payments to each state for 2005-06 compared with each state's population share. Queensland's expected share of Australian Government funding of 19.8% is greater than its population share of 19.6%.

Table 8.4 Relative Shares of Payments to the States, 2005-06¹			
	Share of payments %	Share of population %	Relative share ² %
New South Wales	29.9	33.3	89.8
Victoria	22.2	24.7	89.8
Queensland	19.8	19.6	101.2
Western Australia	10.8	9.9	108.5
South Australia	8.7	7.5	115.4
Tasmania	3.4	2.4	140.8
Australian Capital Territory	1.8	1.6	115.6
Northern Territory	3.5	1.0	348.2
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.			
<i>Source: Australian Government Budget Paper No. 3, 2005-06.</i>			

QUEENSLAND'S SHARE OF FUNDING

Table 8.5 details Queensland's share of estimated Australian Government payments in 2005-06 and the difference from its population share. (Detailed revenue data are provided in Chapter 5.)

Table 8.5 Queensland's Share of Estimated Australian Government Payments, 2005-06¹		
	Queensland's Share %	Difference from Population Share \$ million
General Purpose Payments		
GST Revenues	20.7	416.7
Compensation for GST deferral	20.4	1.1
NCP Payments	19.6	..
Total General Purpose Payments	20.7	417.8
Specific Purpose Payments		
SPPs 'to' the State	18.4	(220.4)
SPPs 'through' the State	18.9	(48.5)
Total Specific Purpose Payments	18.5	(268.9)
Total Australian Government Payments	19.8	148.9
Note: 1. Numbers may not add due to rounding. Source: Australian Government Budget Paper No. 3, 2005-06.		

Queensland expects to receive \$417.8 million more than a per capita share of GST, including compensation for GST deferral, in 2005-06. This is partly offset by the \$268.9 million less than a per capita share of SPPs Queensland is expected to receive. In terms of total Australian Government funding, Queensland expects to receive \$148.9 million more than a per capita share in 2005-06.

Queensland's share of GST

A key objective of the GST reforms, from a state perspective, was to provide the states with a more robust source of revenue than the financial assistance grants states previously received from the Australian Government. The financial assistance grants arrangements provided the Australian Government with a significant degree of discretion in determining the pool of funds to be distributed to states, whereas the amount of GST collected is entirely based on economic activity.

While the GST arrangements ensure states, in total, will receive the quantum of funds they are entitled to, certain states are still dissatisfied with the distribution of GST revenue among states. For example, New South Wales and Victoria often compare the GST collected in each state with the amount of GST revenue distributed to each state, to demonstrate a lack of fairness in the distribution system. This comparison clearly ignores the principle of HFE, a key element of Australia's federal system.

The distribution of GST revenue is discussed in Box 8.1.

Box 8.1

The Facts Concerning the Distribution of GST Revenue

The Method Used to Distribute GST Revenue is Fair and Equitable

The distribution of GST is not a system by which one state subsidises another. Nor is it a system in which there are donor states and recipient states. All states are recipients of GST revenue, which has been collected from taxpayers, at a uniform rate, by the Australian Taxation Office (ATO). States which receive more than a population share of GST revenue do so because the Commonwealth Grants Commission (CGC) considers these states need a higher level of funding to provide the same level of services.

The CGC takes into account the entire range of state revenues and the cost of delivering state services. In some of these areas they consider Queensland requires more than a population share of GST. An example is population dispersion, where Queensland is considered to require an additional \$137 million to be able to provide services in regional and remote areas. In other categories, states such as New South Wales receive more. An example is wage costs, where New South Wales is considered to require an additional \$776 million to meet the state's higher wages bill, while Queensland is considered to require \$470 million less than its population share.

In aggregate, the CGC considers Queensland requires more than a population share of GST revenue and New South Wales requires less than a population share of GST revenue. The total amount of revenue collected by the ATO is then distributed in this way. There are no subsidies from one state to another.

The Collection of GST is Not Related to the Distribution of GST

Some states have claimed GST revenue should be returned to the state in which it was collected, on the grounds of fairness. This is similar to arguing those living on the north shore of Sydney Harbour should receive the highest welfare payments from the Australian Government, as they pay higher amounts of income tax. Returning GST revenue to the state in which it was collected would only serve to create inequalities in the standard of living available to residents in different states. In contrast, the purpose of HFE is to provide each State Government with the capacity to deliver a standard level of service to all Australians, regardless of which state they live in.

Even if there was some basis to this argument, it is not possible to determine how much GST has been generated in each state. This is because companies which operate in one state generally remit the GST through their head office. For example, any GST payable on purchases made at a Queensland branch of a national chain would be provided to the Australian Taxation Office from the chain's head offices, which are often located in Sydney or Melbourne. This amount of GST would then be recognised as being collected in New South Wales or Victoria, even though the consumer paid the GST in Queensland.

Similarly, attempts to estimate the amount of GST generated in each state on the basis of economic activity do not stand up to scrutiny. For example, while the Australian Bureau of Statistics' state accounts data provides details of expenditure in each state, it does not adjust for expenditure on GST-free items, such as health, education and many food items. A further complication results from export sales being GST-free, with Queensland's large mining and agriculture sectors generating significant economic activity, but not generating an equivalent amount of GST revenue.

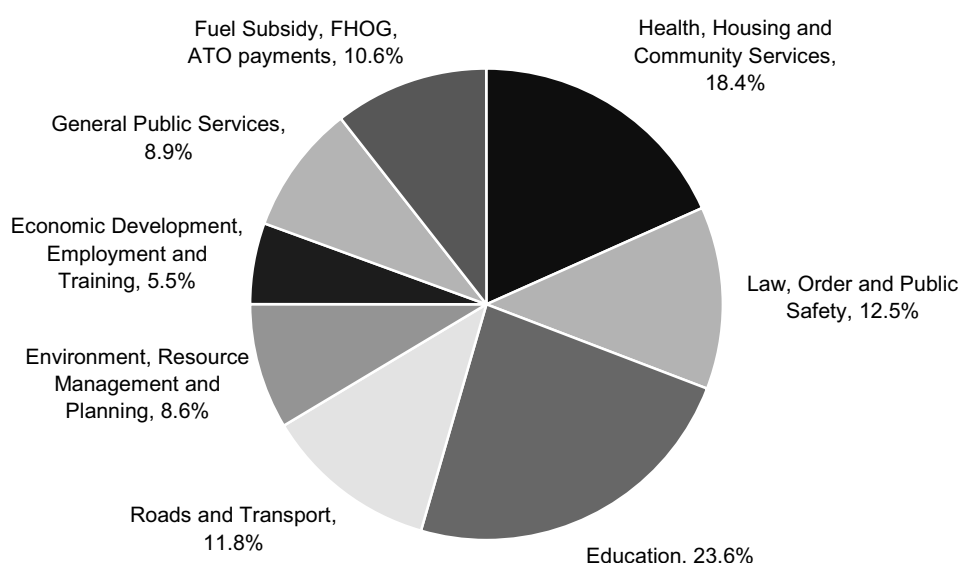
For these reasons the ATO, which collects and administers the GST, is unable to determine the state in which GST revenue is generated. Accordingly, arguments based on GST collections by State are, at best, misleading and should be viewed as such.

Queensland's allocation of GST revenue

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

Chart 8.3 below provides a notional allocation of 2005-06 GST revenues to policy areas.

Chart 8.3
Allocation of GST Revenue, 2005-06



Source: Queensland Treasury

Queensland considers the appropriate use of future GST revenue growth must reflect a balance between providing additional infrastructure and a higher standard of services to Queenslanders, and reducing a number of taxes identified in the IGA. Any future benefits to Queensland from GST revenue growth are contingent on a number of factors, including:

- growth in private final consumption expenditure, particularly in the areas of retail trade and construction activity, and the effectiveness of ongoing GST compliance by the ATO. Queensland expects to provide \$118.1 million to the ATO in 2005-06 to fund Queensland's share of the administration of the GST
- the outcome of the CGC's 2006 Update of State Revenue Sharing Relativities, which will affect the distribution of the GST revenue grants in 2006-07. Queensland anticipates a steady decline in relativities over the medium term, due to the State's higher than average growth in economic activity
- the Australian Government maintaining its commitment to the IGA by allowing states to use GST revenue for their own purposes.

INSTITUTIONAL ARRANGEMENTS

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

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

Commonwealth Grants Commission

The role of the CGC is to advise the Australian Government on the distribution of the GST revenue among the states. Under its terms of reference the CGC is required to determine its recommendations on the basis of HFE. The CGC usually reviews its methods every five years, with the most recent review completed in February 2004. During the intervening period it updates annually the financial, economic and demographic data that underpin its recommendations.

2005 Update – underlying change

In the *2005 Update Report on State Revenue Sharing Relativities*, the CGC recommended an underlying decrease in Queensland's share of GST revenue of \$93.7 million in 2005-06. The recommended decrease in Queensland's share of grants is largely due to relatively strong growth in Queensland's capacity to raise stamp duty on property conveyances. Slower than average wages growth also reduced Queensland's expenditure needs, relative to other states.

Table 8.6 Underlying Change Resulting from 2005 Update, by State¹								
	NSW \$ million	Vic \$ million	Qld \$ million	WA \$ million	SA \$ million	Tas \$ million	ACT \$ million	NT \$ million
Revenue	-87.6	75.4	-37.0	7.1	25.2	13.5	-4.1	7.6
Expenditure	93.6	32.1	-49.3	-30.4	-28.1	-25.5	13.0	-5.5
SPPs	5.7	-1.7	-7.2	-0.6	-0.3	5.3	0.3	-1.5
Total	12.0	106.2	-93.7	-24.0	-3.2	-6.8	9.2	0.3
Note: 1. Numbers may not add due to interactions between Expenditure and SPP assessments. Source: <i>Commonwealth Grants Commission Report on State Revenue Sharing Relativities, 2005 Update</i>								

This 2005 Update outcome demonstrates the responsiveness of the CGC's methodology to changes in the relative circumstances of states. It is likely the continued relative strength of the Queensland economy, particularly in the mining and property sectors, will result in further declines in Queensland's share of GST over the next few years.

2005 Update – net results

The net results of the 2005 Update are shown in Table 8.7. 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 relatively lower capacity to raise revenue, relatively higher cost of delivering services, and below average share of SPPs. Accordingly, in 2005-06, Queensland is expected to receive \$369.3 million more than a per capita share of GST revenue to ensure Queenslanders are not disadvantaged.

Table 8.7								
2005 Update Results, Difference to Equal Per Capita Distribution, by State^{1,2}								
	NSW \$ million	Vic \$ million	Qld \$ million	WA \$ million	SA \$ million	Tas \$ million	ACT \$ million	NT \$ million
Revenue	(1,357.1)	611.1	255.4	(790.3)	755.6	377.6	106.2	41.5
Expenditure	(594.5)	(2,023.4)	97.0	898.0	(38.9)	226.0	(1.9)	1,437.8
SPPs	81.7	105.6	16.4	0.1	(54.9)	(36.7)	(6.2)	(106.0)
Total	(1,871.5)	(1,307.9)	369.3	108.3	662.3	567.2	98.2	1,374.2
Note:								
1. Numbers may not add due to interactions between Expenditure and SPP assessments.								
2. The total for Queensland is different to that presented in Table 8.3 as it was calculated by the CGC prior to the Australian Government revising the 2005-06 GST revenue estimate in its 2005-06 Budget.								
Source: Commonwealth Grants Commission Report on State Revenue Sharing Relativities, 2005 Update								

Revenue

Queensland is assessed as requiring \$255.4 million more than a per capita share of GST revenue as a result of a lower than average capacity to raise revenue. This is largely due to Queensland's relatively low wages, with Queensland assessed as requiring \$350.8 million to balance a below average capacity to raise payroll tax.

Expenditure

The CGC assessed Queensland as facing a relatively high cost of delivering services, due to the socio-demographic composition and dispersed nature of the Queensland population. Queensland is assessed as requiring \$818.7 million more than a per capita share of GST revenue as a result of these two factors.

However, Queensland was also assessed as requiring \$470.7 million less than a per capita share of GST revenue because of Queensland's lower wages (measured against a private sector benchmark). Queensland is also assessed as requiring less than a per capita share of funding due to some economies of scale (\$97.9 million) and because Queensland has a relatively small urban population (\$80.7 million).

The net result provides Queensland with \$97 million more than a per capita share of GST revenue in relation to expenditure.

Specific Purpose Payments

Queensland is assessed as requiring \$16.4 million as recognition for the less than per capita share of SPP funding Queensland actually receives.

Ministerial Council

The Ministerial Council for the Reform of Commonwealth-State Financial Relations comprises the Australian Government and State Treasurers and was established to oversee the operation of the IGA. At the meeting of 23 March 2005, the Ministerial Council considered the following issues:

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

GST administration issues

The 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 policy and administration issues. The Council agreed to revised ATO performance measures and accepted the ATO's budget for 2005-06.

In addition to the GSTAS, Queensland is represented on the States GST Policy Group. The States GST Policy Group monitors and researches issues relating to the application and administration of GST in Australia. The group reports to State Heads of Treasuries on potential risks to the GST revenue base. Queensland also currently represents all states on the Indirect Taxes (GST) Rulings Panel and the Cash Economy Taskforce.

GST revenue and distribution

The Australian Government accepted the CGC's 2005 Update Report on State Revenue Sharing Relativities as the basis for the distribution of the GST general revenue to the states in 2005-06. Significantly, no state objected to adopting the recommendations of the CGC.

Review of Horizontal Fiscal Equalisation Methodology

As agreed at the 2004 Ministerial Council meeting, Heads of Treasuries (HoTs) undertook a review of the methodology used by the CGC in applying the principle of HFE. The review considered:

- whether the present approach, which is based on a comprehensive assessment of virtually all receipts and expenses in the operating statements of states, is appropriate and necessary
- the size and trend of the redistributions
- simplification
- data issues.

The review found there was considerable merit in the CGC pursuing a program of simplification, consistent with the principle of HFE, which would be guided by the work undertaken by HoTs. Terms of Reference were also prepared to guide the CGC's work program, as part of the CGC's next methodology review, scheduled for completion in 2010.

The key features of the terms of reference include requesting the CGC to consider ways to improve its assessments by:

- (a) addressing issues relating to quality and fitness for purpose of data used by the Commission;
- (b) undertaking a program of continuous improvement of assessments;
- (c) reviewing the scope for the use of more general indicators of revenue capacity and expenditure need;
- (d) developing mechanisms to maintain simplification once achieved; and
- (e) improving quality assurance processes.

The Ministerial Council noted the HoTs review and supported the provision of the terms of reference to the CGC. The Ministerial Council also supported a recommendation the CGC reports to Ministerial Council in 2006 and 2007 regarding their findings and progress in relation to various aspects of the work program.

Review of State Taxes

The Ministerial Council considered a report on the review of the need to retain a number of stamp duties, as required by the IGA. The Australian Government Treasurer then presented a proposal for abolishing all of these duties, other than stamp duty on business conveyances of real property, by 1 July 2007. New South Wales was expected to require an additional \$330 million in BBA if the proposal was implemented. This figure was then revised upwards to \$563.1 million in the Australian Government's 2005-06 Budget.

States considered the timeframe proposed by the Australian Government to be unrealistic, particularly with most states facing significant demand for additional infrastructure. As discussed above, a majority of states have now presented their own proposed timetables for abolishing most of the duties listed in the IGA to the Australian Government.

Monitoring the Level of Specific Purpose Payments

In the IGA, the Australian Government undertook to not reduce aggregate SPPs as a result of national tax reform. The Australian Government 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' the states have increased more than SPPs 'to' the states over this time.

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

Australian Loan Council

The Australian Loan Council comprises the Australian Government and state Treasurers. Its 2005 meeting was held immediately following the March 2005 Ministerial Council meeting. Loan Council Allocations (LCAs) nominations for 2005-06 reflected current best estimates of non-financial public sector deficits or surpluses. For 2005-06, the Loan Council endorsed total LCAs of \$2.099 billion (a projected public sector surplus). This amount reflects a surplus of \$5.972 billion for the Australian Government and a net deficit of \$3.873 billion for the states. Queensland's projected LCA deficit for 2005-06 was estimated at \$392 million.

SPECIFIC PURPOSE PAYMENTS

Current issues

The Australian Government has taken an adversarial position in recent SPP negotiations with the states and has used individual SPP negotiations to actively pursue its own policy objectives. This resulted in many SPP negotiations becoming protracted and problematic during 2004-05. Some SPP negotiations were not finalised until after existing SPP agreements expired, which placed additional pressure on state budgetary positions.

All states have expressed concerns over the Australian Government's manner of negotiating SPPs. These concerns include:

- The Australian Government insists states provide a public commitment to future state funding in a number of SPP portfolio areas, which constrains an individual state's future budgetary flexibility.
- Input and accountability controls imposed by the Australian Government inhibit reform and efficiency improvements in service delivery at the state level. Queensland supports the use of broader outcome-based objectives to facilitate innovation and provide broader opportunities to introduce efficiencies. In contrast, the Australian Government's focus on input controls implies states have no sovereign interest in delivering more efficient services to the community. Queensland considers the Australian Government needs to work with states to create an environment where innovation and improved efficiencies can be explored, rather than micro-managing the program being funded.
- The Australian Government is tending to apply its policy objectives more often in SPP agreements to promote, and even impose on states, federally focused policies. The Australian Government aims to ensure states deliver on federally imposed SPP terms and conditions by withholding a percentage of total funding if states do not comply. The funding risk resulting from non-compliance with the terms and conditions has significant potential budget impacts for Queensland. For example, the Australian Government is making the adoption of its industrial relations practices, under the National Building Code of Practice and Commonwealth Implementation Guidelines, a condition of receiving federal capital grants.

The states work cooperatively to address their common concerns about the Australian Government's current approach to SPP negotiations and participate in a SPP Working Group to review and progress SPP issues with the Australian Government.

In 2004-05, the SPP Working Group undertook two research projects to:

- highlight the degree of budget inflexibility imposed on the states by current Australian Government SPP policy
- formulate a SPP outcome/output framework as an alternative to the Australian Government's preferred input control model.

The SPP Working Group found there is merit in considering ways to improve budget flexibility in future SPP agreements. However, the Australian Government is expected to retain a preference for input controls, rather than an outcome/output framework for SPP management. The SPP Working Group will continue to discuss the outcome of both projects with the Australian Government.

National Code of Practice for the Construction Industry

The Australian Government intends to make construction funding conditional on the application of its National Building Code of Practice and Commonwealth Implementation Guidelines (National Building Code). This will apply to new projects involving an Australian Government contribution of at least \$5 million and at least 50% of the total project value, or a federal contribution of \$10 million or more, irrespective of the proportion of project funding provided by the Australian Government.

In new or renegotiated SPP agreements for infrastructure projects, the Australian Government will require states to comply with its industrial relations regulations relating to building and construction by adopting the National Building Code. The Australian Government is now, in effect, pursuing its industrial relations objectives through SPP arrangements with the states.

To date, the following proposed agreements with capital components, all currently under negotiation, include a clause requiring the states to adopt the National Building Code for capital projects above the defined thresholds:

- Government and Non-Government Schools Quadrennial Funding 2005-2008
- AusLink.

It is expected that the new *Commonwealth-State Agreement for Skilling Australia's Workforce*, which will replace the Australian National Training Authority (ANTA) Agreement, will also include this requirement, given that it was previously flagged in the draft 2004-05 ANTA Agreement.

Queensland has expressed concern at the intrusion of the Australian Government's industrial relations policy into areas of state responsibility and will continue to work with the Australian Government to achieve appropriate outcomes.

Supported Accommodation and Assistance Program

The Supported Accommodation Assistance Program (SAAP) is a joint Australian Government/state funded program providing crisis and transitional accommodation, and support services to homeless people or those at risk of becoming homeless. The current SAAP agreement expires on 30 June 2005.

The Australian Government provided its new SAAP offer to the states, proposing a reduction in the Australian Government matching contribution from 60% to 50% while maintaining the Australian Government's total annual contribution in real terms. The remaining funds would be placed by the Australian Government in an innovation fund for pre-crisis intervention, improved linkages with other services, especially for women and families, and better post-crisis support. Specific fund details are yet to be developed.

States formally rejected the Australian Government's offer in January 2005, expressing concerns over the absence of any real increase in Australian Government funding for the program, cost shifting to the states through reduced matching contributions, and continuing concerns regarding the adequacy of indexation arrangements over the life of the new agreement.

Queensland has specifically indicated a need for the Australian Government to increase SAAP funding to the State. Despite having 19.4% of the total Australian population and an estimated homeless population share of 25%, Queensland receives only 16.6% of Australian Government SAAP funding.

Discussions are continuing between the states and the Australian Government regarding the specific details of the new SAAP agreement.

Australian National Training Authority Agreement - Skilling Australia's Workforce

The ANTA Agreement 2001-2005 expires on 30 June 2005. States are currently negotiating with the Australian Government in relation to the conditions for a new *Commonwealth-State Agreement for Skilling Australia's Workforce*, which will apply from 1 July 2005 to 31 December 2008.

The Australian Government has announced it will abolish the Australian National Training Authority from 30 June 2005. The current negotiations include discussions about the Australian Government's proposal for new arrangements for the national training system to apply from 1 July 2005.

Queensland has consistently argued for an increase in training funding. Despite having 19.4% of the total Australian working age population, Queensland is expected to receive only 17.5% of total funding available under the Australian Government's new national training Agreement.

The details of the Australian Government's offer to the states are being negotiated, including the negotiation of an amount to be set aside for a national project and other national expenses. The amount of the offer available for Queensland will depend on the outcome of these negotiations.

AusLink

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

The Australian Government proposes each state enter into a bilateral infrastructure and funding agreement. The agreement would cover the full package of proposed projects for the state, identify proposed funding contributions and identify planning and other responsibilities of each party, including requirements for reporting and provision of data about network condition and performance. The *AusLink White Paper* indicates the proposed level of state funding contributions vary significantly from project to project.

Concerns have been raised by the states on various aspects of AusLink. The Queensland Government holds concerns regarding the extent of funding for the national network, the proposed lease of the standard gauge rail line between Acacia Ridge and the New South Wales border to the Australian Rail Track Corporation, and the imposition of the Australian Government's implementation guidelines for the National Building Code. For example, the Australian Government, apart from the Logan Motorway Interchange, is yet to commit funds to the Queensland Government's preferred option of an urgent full upgrade of the Ipswich Road section of the national highway.

STATE-LOCAL GOVERNMENT RELATIONS

While Queensland's major cities and coastal towns continue to absorb significant population growth, they are experiencing challenges regarding their natural environments, productive land, water resources, urban air quality, and the maintenance of public infrastructure. In regional and rural/remote Queensland, many inland towns and communities are facing different challenges associated with declining populations and economic well being. Despite divergent issues, all communities have high expectations for amenity and liveability outcomes to be delivered by government.

Local government has a responsibility to deliver a variety of facilities and services to their individual communities. At the same time, the Queensland Government has an interest in assisting local governments across the state achieve and improve delivery standards, and enhance equitable access to services and facilities, particularly in smaller communities. To enable this, the Queensland Government provides considerable financial assistance to local government by way of grant and program funding. The Australian Government also provides funding to local government through financial assistance grants and SPPs.

Grant assistance

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

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

Of Queensland's 157 councils, 18 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 the eastern seaboard (Cook Shire to Noosa Shire) and the remaining 131 are located in rural or remote parts of the State. Urban councils are less reliant on grants compared with regional councils, and regional councils are less reliant than rural councils. Remote councils are the most reliant². For some councils, grants can comprise more than 50% of their total revenue³.

Historically, Queensland has provided the highest amount of funding to local government of any state. This reflects the significant proportion of regional and rural/remote councils within Queensland. Table 8.8 provides the most recent data on total and per capita grants from states to local government.

Table 8.8 Grants from States to Local Government, 2002-03		
	State grants \$ million	State grants \$ per capita
New South Wales	237.9	35.82
Victoria	138.4	28.52
Queensland	305.9	83.35
Western Australia	101.4	52.87
South Australia	36.9	24.31
Tasmania	5	10.64
Northern Territory	20.7	103.59
Total	846.2	43.90
<i>Source: Australian Bureau of Statistics unpublished data, Australian Government Department of Transport and Regional Services unpublished data.</i>		

² Department of Transport and Regional Services 2002-03 Report on the Operation of the *Local Government (Financial Assistance) Act 1995* – Chapter 1 Page 13.

³ Ibid – Chapter 1 Page 19.

In 2003-04, a total of \$774.6 million in grants was provided to Queensland's local governments, with 54.2% of this amount provided by the Queensland Government and the balance provided by the Australian Government. Current estimates indicate the proportion of funding provided by the Queensland Government will increase to 58.8% in 2004-05 and 60% in 2005-06. Table 8.9 details Queensland Government and Australian Government grants to local government in Queensland.

Table 8.9
Grants to Local Government in Queensland¹

	2003-04 Actual \$'000	2004-05 Est. Act. \$'000	2005-06 Budget ² \$'000
Queensland Government Grants			
Communities	49,680	52,885	52,833
- includes Pensioner Rates Rebate	41,789	43,810	45,126
Education and the Arts	19,031	18,637	17,934
Emergency Services	2,155	3,535	7,823
Employment and Training	21,730	23,904	13,080
Environmental Protection Agency	1,518	2,434	860
Health	10,429	10,611	9,536
Housing	42,412	39,710	80,983
Local Government, Planning, Sport and Recreation	179,995	269,260	285,210
Main Roads	52,705	66,505	66,423
Natural Resources and Mines	4,101	9,842	36,370
Premier and Cabinet	1,220	1,286	1,354
Transport	34,166	5,067	5,506
Other	718	3,703	8,253
Total Queensland Grants	419,860	507,379	586,165
Australian Government Grants			
Australian Government "through"	284,943	296,124	310,403
Australian Government "direct"	69,978	59,842	81,007
Total Australian Government Grants	354,741	355,966	391,410
Total Grants to Local Government Authorities and Aboriginal and Islander Councils	774,601	863,345	977,575
Notes:			
1. Grants for current and capital purposes to local government authorities and Aboriginal and Islander councils.			
2. Numbers yet to be confirmed and may be subject to revision.			
Source: Queensland Treasury, Australian Government Final Budget Outcome 2003-04, Australian Government Budget Paper No.3 2005-06.			

The overall increase in grants by some Queensland Government agencies in 2005-06 compared with previous years reflects the expansion of several programs including:

- Aboriginal and Torres Strait Islander Housing (Housing)
- Capital Works Subsidy Scheme (Local Government, Planning, Sport and Recreation)
- Indigenous Environmental Health Infrastructure Program (Local Government, Planning, Sport and Recreation)
- Ross River Dam Repairs (Natural Resources and Mines).

The reduction in grants by the Department of Transport since 2003-04 reflects changes to bus service funding paid to the Brisbane City Council for urban bus services. From 1 July 2004, with the implementation of Integrated Ticketing within south east Queensland, bus services provided by Brisbane City Council will be operating under contract and will be paid on the basis of agreed services provided. In 2004-05, bus service payments are contract payments and are no longer accounted for as a grant to local government.

Grant purposes

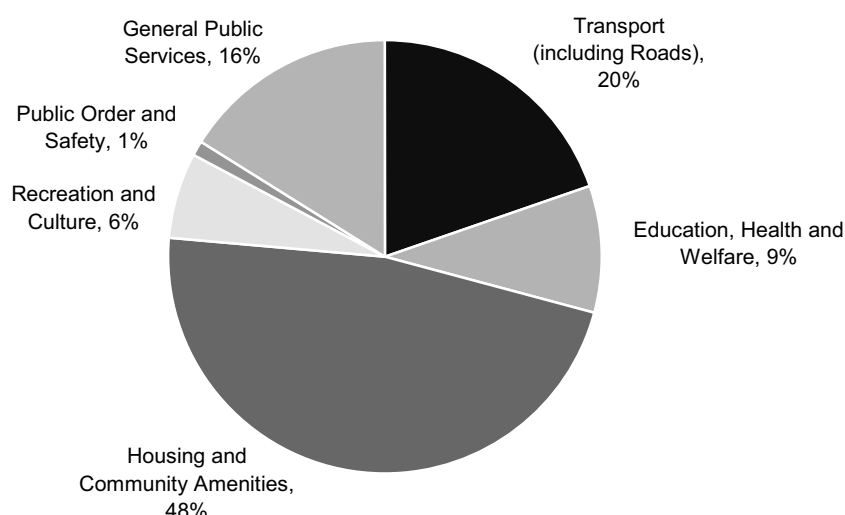
The composition of Queensland's grants to local government can vary from year to year. The major areas of funding in 2004-05 were:

- 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
- capital works subsidies provided towards the costs of local public infrastructure
- road subsidies for local roads, networks and drainage.

Grants for capital purposes comprised 69.3% of grants provided to local government by the Queensland Government in 2004-05. This proportion is expected to rise to 75% in 2005-06.

Chart 8.4 highlights the broad range of purposes for which local government grants were provided by the Queensland Government in 2004-05.

Chart 8.4
State Grants to Local Government in Queensland by Purpose 2004-05



Source: Queensland Treasury

QUEENSLAND GOVERNMENT AS A TAXPAYER

The Queensland Government, like other state governments, is liable for certain Australian Government taxes including the GST and Fringe Benefits Tax (FBT). In addition, the National Tax Equivalents Regime (NTER) for Government-owned corporations and selected business units imposes the equivalent of an income tax on these entities. Based on these taxes, the Queensland Government's annual Australian Government tax exposure is over \$2 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 Australian Government 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, out of a total of almost 19,000 government bodies registered nationwide. As reported in the 2004-05 Budget papers, this creates 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.

In 2004-05, the major Queensland Government agencies' GST exposure is estimated to be \$1.213 billion, comprising \$913.6 million in gross GST credits and \$299.2 million in gross GST payable. For 2005-06, the major Queensland Government agencies are again expected to generate a GST exposure of over \$1 billion.

The Queensland Government's GST exposure continues to be driven by the Departments of Health, Education and the Arts (including schools), Main Roads, Public Works, Child Safety (formerly Families) and Queensland Transport. This reflects the size of these agencies and their dealings with other Queensland Government entities.

Fringe Benefits Tax (FBT)

In 2004-05, Queensland's FBT liability is estimated to be more than \$20 million. The Education, Justice and Attorney-General, Police, Main Roads and Health portfolios are the major contributors, collectively comprising approximately 47% of the Queensland Government's total FBT liability.

National Tax Equivalents Regime (NTER)

The NTER is an administrative arrangement between the Australian Government and the states, under which Australian Government income tax laws are applied to certain government bodies, namely Government-owned corporations and commercialised business units (CBUs). The NTER 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 2004-05, Queensland entities will make estimated cash payments of \$133 million under the NTER. Government-owned corporations comprise 73% of these payments, with the remainder from CBUs.

Initiatives for 2005-06

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 Australian Government tax obligations. A focus for 2005-06 will be promoting the ATO's *Better Practice Guide for the Management of GST Administration* and its six GST compliance outcomes to departments and agencies for use in their Australian Government taxes compliance frameworks.

9. GOVERNMENT FINANCE STATISTICS

INTRODUCTION

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

This chapter contains detailed financial statements for the Queensland Public Sector based on Australian Bureau of Statistics (ABS) 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 chapter provides:

- reconciliation of the General Government sector GFS net operating balance to the accounting surplus
- a GFS time series for the General Government sector
- data on General Government expenses and purchases of non-financial assets by function
- details of taxation revenue collected by the General Government sector
- the State's revised Loan Council Budget allocation
- background information on GFS, including the conceptual basis for GFS, sector definitions and a list of reporting entities.

AUSTRALIAN EQUIVALENT TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AEIFRS)

Following the agreement of Australia's Financial Reporting Council that Australia would adopt International Financial Reporting Standards, the Australian Accounting Standards Board approved that AEIFRS come into effect for reporting periods commencing on or after 1 January 2005.

While Queensland's Budget financial statements are prepared and presented on a GFS basis in accordance with the Uniform Presentation Framework the adoption of AEIFRS will have some impact on the elements of the financial statements. As the 2005-06 Report on State Finances will be prepared under the new standards, the 2005-06 Budget GFS financial statements have been prepared consistent with AEIFRS so that 2005-06 outcome reporting can be compared against the Budget estimates.

2004-05 and prior years' information is presented consistent with current Australian Accounting Standards. Generally the GFS based financial statements are not significantly impacted by AEIFRS. Where any significant impacts occur in comparing 2005-06 financial information to 2004-05 and prior years, such as the way defined benefit superannuation liabilities are measured under AEIFRS, these impacts are noted and discussed in supporting commentary in the relevant chapters of this Budget Paper.

GENERAL GOVERNMENT SECTOR

For a detailed analysis of the General Government sector, readers should refer to Chapter 5 – Revenue, Chapter 6 – Expenses, and Chapter 7 – Balance Sheet and Cash Flows.

PUBLIC NON-FINANCIAL CORPORATIONS SECTOR

The Public Non-Financial Corporation sector (PNFC) comprises entities mainly engaged in the production and sale of services to the market. In Queensland the sector is primarily made up of the State's Government-owned corporations (GOCs), which operate across a range of industries - including energy, rail, port and water delivery services.

GOCs operate as commercial business entities and their activities are based upon the needs of the market sectors which they service.

Performance statement

The majority of revenue generated by GOCs is driven by the sale of goods and services to customer markets. GOC revenues are heavily linked to the performance of the Queensland economy, and the ability of these entities to compete in increasingly competitive markets.

Major components of GOC revenues include charges for rail freight, sales of electricity, port charges and water delivery.

Key determinants of GOC revenue growth in 2005-06 will be electricity pool prices supported by increased energy demand and export throughput, particularly coal. Across the sector, it is anticipated that sales will generate revenues of \$7.175 billion in 2005-06, an increase of 6.1% on 2004-05 estimated actual revenues.

Growth is expected to continue with sales revenue increasing by 15.5% over the period 2005-06 to 2008-09.

Another source of revenue for GOCs is Community Service Obligation (CSOs) payments. These payments are included in the 'Grants and Subsidies Received' items. CSOs are provided by the State where GOCs are required to provide non-commercial services or services at non-commercial prices for the benefit of the community. Major CSOs include the electricity uniform price tariff and QR passenger rail services.

GOCs remit dividends to the State as shareholder. The 2004-05, 2005-06 and forward estimates assumption is that the GOC dividend payout ratio will be 80% of Net Profit After Tax. This dividend is paid after GOCs have met their commitments to operating and maintenance expenses.

Under the GFS framework, dividends are treated as an expense in the calculation of the Net Operating Balance for the sector.

The overall strong performance of GOCs is demonstrated in that after allowing for dividends of \$628 million, the sector is expected to generate an operating surplus of \$210 million in 2005-06, growing consistently throughout the forward estimates period.

PNFC Balance Sheet and Cash Flow Statement

The ability of GOCs to efficiently and effectively service their customers is reliant upon the investment in and maintenance of the underlying infrastructure. In 2005-06, the sector is expected to invest approximately \$3.952 billion in capital. High levels of investment are expected to continue across the forward estimates.

GOCs undertake infrastructure investment on a commercial basis in response to the needs of the markets they service. A key focus of current investment is electricity generation and network reliability, and increasing the export capacity of ports and rail infrastructure.

Energy GOCs have budgeted a record capital spend over the next four years. Given the forecast increase in electricity demand in the coming years, significant expenditure will be undertaken to ensure adequate generation capacity and network reliability.

As part of implementing the recommendations of the Electricity Distribution and Service Delivery Review, \$1.046 billion is budgeted in 2005-06 towards strengthening the electricity distribution network. In addition, Powerlink will spend approximately \$227 million on the transmission network in 2005-06.

In respect of generation capacity, a major highlight will be completing the construction of the \$1.176 billion Kogan Creek Power project, which is due to be completed in time for the peak summer demand of 2007-08.

Coal is a key industry for the Queensland economy as it is one of the State's largest industries by value and employment. Over the next five years, it is anticipated that overseas demand for Queensland's coal will rise significantly. Queensland's GOCs are expected to play a significant role through proposed port and rail expansions.

As a consequence of these significant capital investments, the Sector is expected to run GFS cash deficits throughout the forward estimates period, implying an ongoing funding requirement.

There are a number of ways in which GOCs fund these investments. These options include utilising cash flow from their business, borrowing, or equity injections from Shareholding Ministers.

The method of financing will differ according to the individual circumstances of the relevant GOC and the specific nature of the project in question. The Queensland Government is committed to GOCs being at all times able to fund viable projects whilst retaining a sound financial position, by ensuring that all GOCs remain sufficiently well capitalised to ensure an investment grade credit rating as determined by independent credit ratings agencies.

Over the period 2004-05 to 2008-09, the Sector is budgeting to receive a total of \$2.077 billion in equity support from Government.

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. 2005-06 Budget and forward years have been prepared consistent with AEIFRS.

Table 9.1						
General Government Sector Operating Statement ¹						
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
	Actual	Est. Actual	Budget	Projection	Projection	Projection
	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million
GFS Revenue						
Taxation revenue	6,676	6,945	6,843	7,221	7,630	7,970
Current grants and subsidies	10,992	12,369	12,682	12,994	13,594	14,021
Capital grants	553	492	528	634	795	621
Sales of goods and services	2,105	2,339	2,401	2,487	2,551	2,578
Interest income	2,723	2,227	1,421	1,514	1,605	1,697
Other	2,165	2,399	2,729	2,926	2,876	2,905
Total Revenue	25,214	26,771	26,604	27,776	29,051	29,793
GFS Expenses						
Gross operating expenses						
Employee expenses	10,004	10,892	11,719	12,347	13,085	13,730
Other operating expenses	4,245	4,788	5,161	5,361	5,566	5,792
Depreciation	1,460	1,544	1,617	1,705	1,779	1,843
Superannuation interest expense	750	747	604	636	665	693
Other interest expense	211	200	232	317	433	544
Current transfers	4,500	5,049	5,494	5,946	6,137	6,214
Capital transfers	704	825	844	877	830	757
Total Expenses	21,874	24,046	25,670	27,188	28,494	29,573
GFS net operating balance	3,340	2,725	934	588	556	220
Net acquisition of non-financial assets						
Purchases of non-financial assets	2,415	2,769	3,616	3,659	3,371	2,926
Sales of non-financial assets	(356)	(317)	(297)	(258)	(251)	(239)
Depreciation	1,460	1,544	1,617	1,705	1,779	1,843
Change in inventories	(13)	9	27	60	9	6
Other movements in non-financial assets	(83)	56	14	15	15	15
Total net acquisition of non-financial assets	503	972	1,742	1,771	1,364	865
GFS Net lending borrowing						
Fiscal Balance	2,838	1,753	808	1,182	808	645

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

Table 9.2
Public Non-financial Corporations Sector Operating Statement ¹

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
	Actual	Est. Actual	Budget	Projection	Projection	Projection
	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million
GFS Revenue						
Current grants and subsidies	1,000	1,083	1,349	1,534	1,680	1,692
Capital grants	55	14	17	15	15	15
Sales of goods and services	6,625	6,757	7,175	7,562	7,901	8,290
Interest income	101	96	77	80	85	92
Other	350	437	464	570	537	525
Total Revenue	8,130	8,387	9,082	9,761	10,217	10,614
<i>ess</i> GFS Expenses						
Gross operating expenses						
Employee expenses	1,517	1,667	1,802	1,851	1,907	1,955
Other operating expenses	3,457	3,509	3,734	3,831	3,974	4,126
Depreciation	1,216	1,267	1,413	1,533	1,677	1,740
Other interest expense	742	749	874	942	1,059	1,114
Other property expenses	1,052	975	964	1,260	1,263	1,287
Current transfers	198	164	84	69	52	35
Capital transfers	16	..	..	..	..	..
Total Expenses	8,197	8,331	8,871	9,487	9,932	10,258
<i>E uals</i> GFS net operating balance	67	56	210	274	286	356
<i>ess</i> Net acquisition of non-financial assets						
Purchases of non-financial assets	1,804	2,822	3,952	3,620	3,037	3,050
Sales of non-financial assets	(384)	(152)	(26)	(47)	(56)	(59)
<i>ess</i> Depreciation	1,216	1,267	1,413	1,533	1,677	1,740
<i>lus</i> Change in inventories	(15)	(25)	65	(15)	12	(13)
<i>lus</i> Other movements in non-financial assets	(7)	24	30	33	36	39
<i>E uals</i> Total net acquisition of non-financial assets	182	1,401	2,609	2,058	1,353	1,277
<i>E uals</i> GFS Net lending borrowing						
Fiscal Balance	249	1,345	2,399	1,784	1,068	921
Note: 1. Numbers may not add due to rounding.						

Table 9.3						
Non-financial Public Sector Operating Statement ¹						
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
	Actual	Est. Actual	Budget	Projection	Projection	Projection
	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million
GFS Revenue						
Taxation revenue	6,358	6,625	6,508	6,868	7,264	7,595
Current grants and subsidies	10,817	12,217	12,605	12,930	13,544	13,986
Capital grants	592	492	528	634	795	621
Sales of goods and services	8,622	8,943	9,424	9,894	10,295	10,710
Interest income	2,821	2,324	1,499	1,594	1,689	1,789
Other	1,470	1,857	2,224	2,232	2,145	2,139
Total Revenue	30,681	32,458	32,788	34,151	35,733	36,840
GFS Expenses						
Gross operating expenses						
Employee expenses	11,520	12,559	13,521	14,198	14,992	15,684
Other operating expenses	7,591	7,810	8,391	8,668	9,001	9,370
Depreciation	2,676	2,812	3,030	3,238	3,455	3,583
Superannuation interest expense	750	747	604	636	665	693
Other interest expense	952	949	1,106	1,259	1,491	1,658
Current transfers	3,216	3,989	4,165	4,428	4,471	4,533
Capital transfers	703	809	826	862	815	742
Total Expenses	27,407	29,677	31,643	33,289	34,891	36,263
GFS net operating balance	3,274	2,781	1,145	862	842	576
Net acquisition of non-financial assets						
Purchases of non-financial assets	4,219	5,590	7,568	7,279	6,408	5,976
Sales of non-financial assets	(740)	(469)	(323)	(305)	(307)	(298)
Depreciation	2,676	2,812	3,030	3,238	3,455	3,583
Change in inventories	(28)	(16)	92	44	21	(6)
Other movements in non-financial assets	(90)	79	44	48	51	54
Total net acquisition of non-financial assets	685	2,373	4,352	3,829	2,718	2,143
GFS Net lending borrowing						
Fiscal Balance	2,589	408	3,207	2,967	1,876	1,566
Note:						
1. Numbers may not add due to rounding.						

Table 9.4
General Government Sector Balance Sheet ¹

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
	Actual ²	Est. Actual	Budget	Projection	Projection	Projection
	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million
Assets						
Financial Assets						
Cash and deposits	1,729	1,960	1,344	1,028	1,219	1,353
Advances paid	173	183	197	204	212	219
Investments, loans and placements	16,157	18,963	20,268	21,520	22,832	24,156
Other non-equity assets	4,318	4,468	5,467	5,971	6,206	6,482
Equity	14,633	17,038	16,933	18,466	19,640	21,150
Total Financial Assets	37,010	42,612	44,209	47,190	50,109	53,359
Non-Financial Assets	61,981	64,558	67,632	71,012	74,040	76,622
Total Assets	98,991	107,170	111,842	118,201	124,149	129,981
Liabilities						
Advances received	500	485	471	457	443	428
Borrowing	2,708	2,792	3,684	5,951	7,539	9,178
Superannuation liability	11,930	12,896	16,192	17,345	18,545	19,770
Other employee entitlements and provisions	3,590	3,641	3,722	3,837	4,047	4,298
Other non-equity liabilities	2,540	2,352	2,429	2,429	2,431	2,450
Total Liabilities	21,268	22,165	26,497	30,019	33,004	36,124
Net Worth	77,723	85,005	85,344	88,182	91,145	93,857
Net Financial Worth	15,742	20,447	17,712	17,171	17,105	17,235
Net Debt	(14,851)	(17,829)	(17,654)	(16,344)	(16,281)	(16,122)

Note:

- Numbers may not add due to rounding.
- Advances received and Borrowing figures for 2003-04 differ to that published in the 2003-04 Report on State Finances due to a reclassification of advances to align with Australian Bureau of Statistics' definitions.

Table 9.5
Public Non-financial Corporations Sector Balance Sheet ¹

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
	Actual	Est. Actual	Budget	Projection	Projection	Projection
	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million
Assets						
Financial Assets						
Cash and deposits	1,025	808	847	1,162	1,408	1,599
Investments, loans and placements	997	969	1,032	1,027	1,022	1,024
Other non-equity assets	1,909	1,898	1,942	1,958	2,019	2,132
Equity	60	64	47	58	71	83
Total Financial Assets	3,992	3,739	3,869	4,205	4,520	4,838
Non-Financial Assets	27,160	30,648	33,337	35,911	37,795	39,614
Total Assets	31,152	34,388	37,206	40,116	42,316	44,452
Liabilities						
Deposits held	84	65	65	65	65	65
Borrowing	12,066	12,632	14,269	14,891	15,743	16,062
Other employee entitlements and provisions	3,954	4,116	5,096	5,557	5,726	6,000
Other non-equity liabilities	1,314	1,446	1,752	2,041	2,047	2,080
Total Liabilities	17,419	18,259	21,182	22,554	23,581	24,207
Net Worth	13,733	16,129	16,024	17,562	18,735	20,245
Net Financial Worth	(13,427)	(14,520)	(17,313)	(18,349)	(19,060)	(19,368)
Net Debt	10,128	10,919	12,455	12,767	13,377	13,503
Note:						
1. Numbers may not add due to rounding.						

Table 9.6
Non-financial Public Sector Balance Sheet ¹

	2003-04 Actual ² \$ million	2004-05 Est. Actual \$ million	2005-06 Budget \$ million	2006-07 Projection \$ million	2007-08 Projection \$ million	2008-09 Projection \$ million
Assets						
Financial Assets						
Cash and deposits	2,754	2,769	2,191	2,190	2,627	2,952
Advances paid	157	166	181	188	196	203
Investments, loans and placements	17,145	19,915	21,278	22,518	23,819	25,139
Other non-equity assets	2,695	2,683	2,671	2,619	2,578	2,606
Equity	993	1,007	990	995	1,008	1,019
Total Financial Assets	23,745	26,540	27,311	28,510	30,228	31,919
Non-Financial Assets	89,107	95,172	100,936	106,888	111,802	116,202
Total Assets	112,852	121,713	128,246	135,398	142,030	148,121
Liabilities						
Deposits held	85	65	65	65	65	65
Advances received	500	485	471	457	443	428
Borrowing	14,748	15,392	17,914	20,797	23,231	25,182
Superannuation liability	11,930	12,896	16,192	17,345	18,545	19,770
Other employee entitlements and provisions	4,180	4,320	4,463	4,601	4,778	5,077
Other non-equity liabilities	3,686	3,551	3,797	3,950	3,824	3,742
Total Liabilities	35,129	36,708	42,902	47,216	50,885	54,264
Net Worth	77,723	85,005	85,344	88,182	91,145	93,857
Net Financial Worth	(11,384)	(10,167)	(15,591)	(18,706)	(20,657)	(22,345)
Net Debt	(4,723)	(6,909)	(5,199)	(3,577)	(2,903)	(2,619)

Note:

1. Numbers may not add due to rounding.

2. Advances received and Borrowing figures for 2003-04 differ to that published in the 2003-04 Report on State Finances due to a reclassification of advances to align with Australian Bureau of Statistics' definitions.

Table 9.7
General Government Sector Cash Flow Statement ¹

	2003-04 Actual ² \$ million	2004-05 Est. Actual \$ million	2005-06 Budget \$ million	2006-07 Projection \$ million	2007-08 Projection \$ million	2008-09 Projection \$ million
Receipts from operating activities						
Taxes received	6,635	6,944	6,842	7,220	7,629	7,969
Grants and subsidies received	11,535	12,875	13,216	13,633	14,378	14,651
Sales of goods and services	2,448	2,601	2,669	2,732	2,786	2,817
Other receipts	5,104	4,850	4,420	4,468	4,822	4,918
Total	25,721	27,270	27,148	28,053	29,615	30,355
Payments for operating activities						
Payments for goods and services	(14,305)	(15,086)	(16,631)	(17,531)	(18,366)	(19,220)
Grants and subsidies	(4,954)	(5,707)	(6,201)	(6,684)	(6,830)	(6,834)
Interest	(209)	(203)	(233)	(319)	(435)	(546)
Other payments	(704)	(692)	(666)	(677)	(641)	(641)
Total	20,172	21,688	23,731	25,211	26,272	27,242
Net cash inflows from operating activities	5,549	5,583	3,417	2,842	3,342	3,113
Payments for investments in non-financial assets						
Purchases of non-financial assets	(2,415)	(2,769)	(3,616)	(3,659)	(3,371)	(2,926)
Sales of non-financial assets	356	317	297	258	251	239
Total	2,059	2,452	3,319	3,401	3,119	2,687
Payments for investments in financial assets for policy purposes	632	171	271	756	292	587
Payments for investments in financial assets for liquidity purposes	2,398	2,834	1,256	1,242	1,292	1,328
Receipts from financing activities						
Advances received (net)	(13)	(13)	(14)	(15)	(15)	(15)
Borrowing (net)	(330)	119	827	2,255	1,566	1,638
Total	343	106	813	2,241	1,552	1,623
Net increase decrease in cash held	116	231	617	316	191	133
Net cash from operating activities and investments in non-financial assets	3,490	3,131	98	(559)	223	426
less Finance leases and similar arrangements	..	3	..	..	..	..
GFS Surplus deficit	3,490	3,127	98	559	223	426

Notes:

1. Numbers may not add due to rounding.
2. Advances received and Borrowing figures for 2003-04 differ to that published in the 2003-04 Report on State Finances due to a reclassification of advances to align with Australian Bureau of Statistics' definitions.

Table 9.8
Public Non-financial Corporations Sector Cash Flow Statement ¹

	2003-04 Actual \$ million	2004-05 Est. Actual \$ million	2005-06 Budget \$ million	2006-07 Projection \$ million	2007-08 Projection \$ million	2008-09 Projection \$ million
Receipts from operating activities						
Grants and subsidies received	1,031	1,062	1,377	1,609	1,730	1,746
Sales of goods and services	7,192	7,559	8,115	8,547	8,727	9,004
Other receipts	747	841	917	1,068	1,013	981
Total	8,970	9,461	10,409	11,224	11,470	11,731
Payments for operating activities						
Payments for goods and services	(4,696)	(4,992)	(5,613)	(5,787)	(5,942)	(6,040)
Grants and subsidies	(129)	(180)	(83)	(68)	(51)	(35)
Interest	(801)	(802)	(929)	(998)	(1,125)	(1,181)
Other payments	(1,017)	(1,010)	(1,039)	(1,078)	(1,194)	(1,108)
Total	(6,642)	(6,983)	(7,664)	(7,932)	(8,312)	(8,365)
Net cash inflows from operating activities	2,328	2,478	2,746	3,292	3,158	3,367
Payments for investments in non-financial assets						
Purchases of non-financial assets	(1,804)	(2,822)	(3,952)	(3,620)	(3,037)	(3,050)
Sales of non-financial assets	384	152	26	47	56	59
Total	(1,420)	(2,670)	(3,927)	(3,573)	(2,982)	(2,991)
Payments for investments in financial assets for policy purposes	(6)	..	..	..	..	..
Payments for investments in financial assets for liquidity purposes	(52)	6	(20)	(38)	(37)	(37)
Receipts from financing activities						
Borrowing (net)	(823)	595	1,684	664	891	351
Deposits received (net)	2	(20)	..	..	..	..
Distributions paid	(774)	(767)	(716)	(786)	(1,077)	(1,086)
Other financing (net)	692	161	271	756	292	588
Total	(902)	(32)	1,239	634	106	(147)
Net increase/(decrease) in cash held	(53)	(217)	38	315	246	192
Net cash from operating activities and investments in non-financial assets	907	(192)	(1,181)	(281)	177	376
Distributions paid	(774)	(767)	(716)	(786)	(1,077)	(1,086)
GFS Surplus/(deficit)	133	(959)	(1,897)	(1,067)	(901)	(710)

Note:

1. Numbers may not add due to rounding.

Table 9.9
Non-financial Public Sector Cash Flow Statement ¹

	2003-04 Actual ² \$ million	2004-05 Est. Actual \$ million	2005-06 Budget \$ million	2006-07 Projection \$ million	2007-08 Projection \$ million	2008-09 Projection \$ million
Receipts from operating activities						
Taxes received	6,318	6,624	6,508	6,867	7,263	7,594
Grants and subsidies received	11,428	12,689	13,150	13,628	14,364	14,655
Sales of goods and services	9,519	10,007	10,632	11,124	11,356	11,663
Other receipts	5,074	4,962	4,617	4,749	4,756	4,813
Total	32,339	34,282	34,908	36,368	37,739	38,724
Payments for operating activities						
Payments for goods and services	(18,885)	(19,972)	(22,090)	(23,159)	(24,155)	(25,112)
Grants and subsidies	(3,985)	(4,639)	(4,841)	(5,139)	(5,137)	(5,127)
Interest	(941)	(941)	(1,095)	(1,246)	(1,477)	(1,640)
Other payments	(1,425)	(1,437)	(1,436)	(1,477)	(1,548)	(1,452)
Total	25,237	26,990	29,462	31,021	32,317	33,332
Net cash inflows from operating activities	7,102	7,292	5,445	5,347	5,422	5,393
Payments for investments in non-financial assets						
Purchases of non-financial assets	(4,219)	(5,590)	(7,568)	(7,279)	(6,408)	(5,976)
Sales of non-financial assets	740	469	323	305	307	298
Total	3,479	5,122	7,245	6,974	6,101	5,678
Payments for investments in financial assets for policy purposes	30	10	..	..	..	..
Payments for investments in financial assets for liquidity purposes	2,451	2,827	1,276	1,280	1,329	1,365
Receipts from financing activities						
Advances received (net)	(13)	(13)	(14)	(15)	(15)	(15)
Borrowing (net)	(1,095)	713	2,511	2,919	2,458	1,989
Deposits received (net)	3	(20)	..	..	..	..
Other financing (net)	26	..	..	..	..	..
Total	1,079	680	2,497	2,905	2,443	1,974
Net increase decrease in cash held	63	14	579	2	436	324
Net cash from operating activities and investments in non-financial assets	3,622	2,171	(1,800)	(1,626)	(678)	(285)
less Finance leases and similar arrangements	..	3	..	..	..	..
GFS Surplus deficit	3,622	2,168	1,800	1,626	678	285

Note:

1. Numbers may not add due to rounding.

2. Advances received and Borrowing figures for 2003-04 differ to that published in the 2003-04 Report on State Finances due to a reclassification of advances to align with Australian Bureau of Statistics' definitions.

RECONCILIATION OF GFS NET OPERATING BALANCE TO ACCOUNTING SURPLUS

The primary difference between GFS net operating balance and the accounting surplus calculated reporting under Australian Accounting Standards (AAS) is that valuation adjustments are excluded from the GFS net operating balance.

Data presented in Table 9.10 provides a reconciliation of the General Government sector GFS net operating balance to the accounting surplus.

Table 9.10			
Reconciliation of General Government GFS net operating balance to Accounting surplus ¹			
	2003-04	2004-05	2005-06
	Actual	Est.Act.	Budget
	\$ million	\$ million	\$ million
GFS net operating balance General Government sector	3,340	2,725	934
<i>Measurement valuation adjustments</i>			
Bad debts and amortisation	(38)	(51)	(50)
Market value adjustments QTC loans ²	148	8	..
Market value adjustments investments	55	36	6
Revaluation of superannuation provision ³	602	648	..
Revaluation of other provisions	61	61	1
Decommissioned Main Roads assets and land under roads written off	(138)	(164)	(173)
Gain/(loss) on assets sold/written off	(28)	19	9
Prior year adjustments	(1)	..	..
AAS net surplus General Government sector	4,001	3,282	727
Notes:			
1 Numbers may not add due to rounding.			
2 The adjustment from book value to market value on QTC loans for 2004-05 has been based on market values as at 31 March 2005, being the best available estimate. No market value estimate has been made for the Budget as the calculation is dependent on future interest rates.			
3 The superannuation provision is heavily dependent on investment returns as it represents the residual liability of the State after deducting members' fund assets. Any variation from the long term rate of 7.5% results in a revaluation of the provision.			

GENERAL GOVERNMENT TIME SERIES

Data presented in Table 9.11 provides a time series from 1999-2000 for the General Government sector on the key GFS indicators used by the Government to measure financial performance.

Table 9.11 General Government Sector ¹					
	1999-00 Actual \$ million	2000-01 Actual \$ million	2001-02 Actual \$ million	2002-03 Actual \$ million	2003-04 Actual \$ million
OPERATING STATEMENT					
GFS Revenue					
Taxation revenue	5,051	4,255	4,815	5,598	6,676
Current grants and subsidies	6,203	8,539	9,520	10,175	10,992
Capital grants	448	483	696	510	553
Sales of goods and services	1,695	1,747	1,837	1,964	2,105
Interest income	1,773	852	(464)	(128)	2,723
Other	2,222	2,382	2,453	2,138	2,165
Total Revenue	17,392	18,258	18,857	20,256	25,214
GFS Expenses					
Gross operating expenses	11,060	12,844	13,733	14,562	15,709
Superannuation interest expense	710	467	626	630	750
Other interest expense	283	339	223	220	211
Current transfers	3,511	4,413	4,713	4,271	4,500
Capital transfers	766	1,052	456	558	704
Total Expenses	16,330	19,116	19,751	20,241	21,874
GFS net operating balance	1,062	858	894	15	3,340
OTHER KEY AGGREGATES					
Purchases of non-financial assets	2,992	2,520	2,416	2,232	2,415
Net acquisition of non-financial assets	1,166	813	708	155	503
GFS Net lending / (borrowing) (Fiscal Balance)	(104)	(1,671)	(1,602)	(140)	2,838
Net Worth	57,293	57,623	58,093	64,894	77,723
Net Debt	(10,122)	(10,082)	(11,032)	(11,260)	(14,851)
Cash Surplus/Deficit	(1,281)	534	188	645	3,490
Note: 1. Numbers may not add due to rounding. Source: Budgetary Results and Outcomes Reports for Queensland 1999-2000 to 2003-04.					

OTHER GENERAL GOVERNMENT GFS DATA

Data presented in the following tables are presented in accordance with GFS and Uniform Presentation Framework guidelines which present data on a consolidated basis.

Expenses by Function

Data presented in Table 9.12 provides details of General Government sector expenses by function.

Table 9.12						
General Government Sector Expenses by Function¹						
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
	Actual	Est. Act.	Budget	Projection	Projection	Projection
	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million
General public services	1,352	1,432	1,550	1,670	1,788	1,923
Public order and safety	2,083	2,262	2,455	2,547	2,698	2,831
Education	5,622	6,031	6,346	6,721	7,044	7,406
Health	4,733	5,221	5,593	6,000	6,440	6,742
Social security and welfare	882	1,096	1,333	1,456	1,515	1,570
Housing and community amenities	870	877	1,016	977	976	978
Recreation and culture	566	611	678	713	727	786
Fuel and energy	749	755	998	1,066	1,167	1,159
Agriculture, forestry, fishing and hunting	645	774	772	738	672	583
Mining, manufacturing and construction	92	114	115	114	114	116
Transport and communications	2,113	2,435	2,577	2,768	2,910	3,003
Other economic affairs	673	772	802	842	741	721
Other purposes	1,493	1,665	1,435	1,574	1,703	1,754
Total Expenses	21,874	24,046	25,670	27,188	28,494	29,573
Note:						
1. Numbers may not add due to rounding.						

Purchases of non-financial Assets by Function

Data presented in Table 9.13 provides details of General Government sector purchases of non-financial assets by function.

Table 9.13 General Government Sector Purchases of Non-financial Assets by Function ¹		
	2004-05 Est. Act. \$ million	2005-06 Budget \$ million
General public services	242	324
Public order and safety	252	331
Education	319	437
Health	345	520
Social security and welfare	52	78
Housing and community amenities	296	320
Recreation and culture	124	198
Fuel and energy	1	0
Agriculture, forestry, fishing and hunting	44	63
Mining, manufacturing and construction	3	1
Transport and communications	898	1,262
Other economic affairs	167	33
Other purposes	27	49
Total Purchases	2,769	3,616
Note:		
1. Numbers may not add due to rounding.		

Taxes

Data presented in Table 9.14 provides details of taxation revenue collected by the General Government sector.

Table 9.14 General Government Sector Taxes ¹		
	2004-05 Est. Actual \$ million	2005-06 Budget \$ million
Taxes on employers payroll and labour force	1,652	1,767
Taxes on property		
Land taxes	425	431
Stamp duties on financial and capital transactions	2,044	1,852
Financial Institutions Transactions Taxes	188	..
Other	331	349
Taxes on the provision of goods and services		
Taxes on gambling	812	892
Taxes on insurance	365	387
Taxes on use of goods and performance of activities		
Motor vehicle taxes	1,022	1,052
Other	107	112
Total Taxation Revenue	6,945	6,843
Note: 1. Numbers may not add due to rounding.		

Loan Council Allocation

The Australian Loan Council requires all jurisdictions to prepare Loan Council Allocations (LCA) to provide an indication of each government's probable call on financial markets over the forthcoming financial year.

Table 9.15 presents the State's revised LCA Budget allocation and the Loan Council endorsed LCA for 2005-06.

Table 9.15 Loan Council Allocation ¹		
	2005-06 Nomination \$ million	2005-06 Budget \$ million
General Government sector cash deficit/(surplus) ⁽²⁾	(871)	(98)
PNFC sector cash deficit/(surplus) ⁽²⁾	1,291	1,897
Non Financial Public Sector cash deficit/(surplus) ⁽²⁾	422	1,800
<i>Less</i> Net cash flows from investments in financial assets for policy purposes	..	..
<i>Plus</i> Memorandum items ⁽³⁾	(30)	(30)
Loan Council Allocation	392	1,770
Note: 1. Numbers may not add due to rounding. 2. Figures in brackets represent surpluses. 3. Memorandum items include operating leases and local government borrowings.		

The State's Budget LCA allocation is a deficit of \$1.77 billion. This compares to the LCA nomination in March 2005 of \$392 million.

A tolerance limit of two percent of non-financial public sector receipts applies between the LCA nomination and the Budget allocation. For 2005-06 the LCA Budget allocation exceeds the LCA nomination by more than the two percent tolerance limit.

The increased deficit is largely due to higher net borrowing requirements as a result of increased spending on capital infrastructure in both the General Government and the PNFC sectors.

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/borrowing.

Net operating balance is represented by GFS revenues less GFS expenses and excludes any other economic flows such as revaluations, gains or losses on 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 increase the State's financial assets or decrease its liabilities, whilst a deficit reflects the requirement for cash either by running down the State's financial assets or by drawing on the cash reserves of other sectors of the economy. It comprises net cash received/paid from operating activities, from sales and purchases of non-financial assets and from financing activities.

SECTOR CLASSIFICATION

GFS data is presented by institutional sector, distinguishing between the General Government sector and the Public Non-financial Corporations (PNFC) sector.

Budget reporting focuses on the General Government sector that provides regulatory services and goods and services of a non-market nature that are provided at less than cost or at no cost. These services are largely financed by general revenue (taxation). This sector comprises government departments, their commercialised business units/shared service providers and certain statutory bodies.

The PNFC sector comprises bodies that provide mainly market goods and services that are of a non-regulatory and non-financial nature. PNFCs are financed through sales to consumers of their goods and services and may be supplemented by explicit government subsidy to satisfy community service obligations. In general, PNFCs are legally distinguishable from the governments that own them. Examples of PNFCs include QR and the energy entities.

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

Further 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
 Child Safety
 Communities
 Corrective Services
 Disability Services Queensland
 Education and the Arts
 Electoral Commission of Queensland
 Emergency Services
 Employment and Training
 Energy
 Environmental Protection Agency
 Health
 Housing
 Industrial Relations
 Justice and Attorney-General
 Legislative Assembly
 Local Government, Planning, Sport and Recreation
 Main Roads
 Natural Resources and Mines
 Office of the Governor
 Office of the Ombudsman
 Office of the Public Service Commissioner
 Police
 Premier and Cabinet
 Primary Industries and Fisheries
 Public Works
 Queensland Audit Office
 State Development and Innovation
 The Office of the Information Commissioner (ceasing 30/6/05)
 The Public Trustee of Queensland
 Tourism, Fair Trading and Wine Industry Development
 Transport
 Treasury

Statutory Authorities

Anti-Discrimination Commission Queensland
 Board of the Queensland Museum
 Commission for Children and Young People
 Crime and Misconduct Commission
 Dalby Agricultural College Board
 Emerald Agricultural College Board
 Legal Aid Queensland
 Library Board of Queensland
 Longreach Pastoral College Board
 Motor Accident Insurance Commission
 Nominal Defendant
 Prostitution Licensing Authority
 Queensland Art Gallery Board of Trustees
 Queensland Building Services Authority
 Queensland Events Corporation Pty Ltd
 Queensland Institute of Medical Research
 Queensland Performing Arts Trust
 Queensland Rural Adjustment Authority
 Queensland Studies Authority
 Queensland Treasury Holdings Pty Ltd
 Residential Tenancy Authority
 SGH Ltd
 South Bank Corporation
 The Australian College of Tropical Agriculture
 The Office of the Information Commissioner
 Tourism Queensland
 Workers Compensation Regulatory Authority (Q-Comp)

Commercialised Business Units

Citec

GoPrint

Main Roads – RoadTek

Project Services

Property Services Group

Q-Build

Q-Fleet

Sales and Distribution Services

Shared Service Providers

Corporate Administration Agency

Corporate and Professional Services

Corporate Solutions Queensland

Queensland Health Shared Service Provider

PartnerOne

CorporateLink

CorpTech

Public Non-financial Corporations

Bundaberg Port Authority

Cairns Port Authority

Central Queensland Port Authority

CS Energy Ltd

DBCT Holdings Pty Ltd

DPI Forestry

ENERGEX Ltd

Ergon Energy Corporation Ltd

Eungella Water Pipeline Pty Ltd

Gladstone Area Water Board

Gold Coast Events Co Pty Ltd

Golden Casket Lottery Corporation Ltd

Heritage Train Company Pty Ltd

Mackay Port Authority

Major Sports Facilities Authority

Mount Isa Water Board

On Track Insurance Pty Ltd

North West Queensland Water Pipeline Pty Ltd

Port of Brisbane Corporation

Ports Corporation of Queensland

Powerlink Queensland

Queensland Motorways Ltd

Queensland Power Trading Corporation (Enertrade)

QR (Queensland Rail)

QR National Pty Ltd (Interail Australia)

Stanwell Corporation Ltd

SunWater

Tarong Energy Corporation Ltd

The Trustees of Parklands Gold Coast

Townsville Port Authority

APPENDIX A – TAX EXPENDITURE STATEMENT

OVERVIEW

Governments employ a range of policy tools to achieve social and economic objectives. These include 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 provided through tax expenditures.

Measuring tax expenditures requires the identification of:

- a benchmark tax base
- concessionally taxed components of the benchmark tax base such as a specific activity or class of taxpayer
- a benchmark tax rate to apply to the concessionally taxed components of the tax base.

Defining the tax benchmark

The most important step in the preparation of a TES is the establishment of a benchmark for each tax included in the statement. The benchmark provides a basis against which each tax concession can be evaluated. The aim of the benchmark is to determine which concessions are tax expenditures as opposed to structural elements of the tax. The key features of a tax benchmark are:

- the tax rate structure
- any specific accounting conventions applicable to the tax
- the deductibility of compulsory payments
- any provisions to facilitate administration
- provisions relating to any fiscal obligations.

By definition, tax expenditures are those tax concessions not included as part of the tax benchmark.

Identification of benchmark revenue bases and rates requires a degree of judgement and is not definitive. Furthermore, data limitations mean that the tax expenditures are approximations and are not exhaustive. This statement does not include estimates of revenue foregone from exemptions or concessions provided to Government agencies. Very small exemptions or concessions are also excluded.

THE TAX EXPENDITURE STATEMENT

This year's statement includes 2003-04 and 2004-05 estimates of tax expenditures for payroll tax, land tax, duties, the community ambulance cover and gambling taxes. A summary of the major tax expenditures valued on the basis of revenue foregone is presented in Table A.1. Not all expenditures can be quantified at this time. Accordingly, the total value of tax expenditures should be considered as indicative only.

Table A.1
Tax Expenditure Summary¹

	2003-04 ² \$ million	2004-05 \$ million
Payroll Tax		
Exemption threshold	755	843
Deduction scheme ³	102	114
Offshore banking units and regional headquarters concession ⁴	0	..
Section 10 exemptions		
Local Government	68	76
Education	67	75
Hospitals	105	117
Total Payroll Tax	1,097	1,225
Land Tax		
Liability thresholds ⁵	186	158
Graduated land tax scale	80	115
Primary production deduction	45	46
Section 13 exemptions not included elsewhere ⁶	32	39
General land tax rebate	7	12
Additional land tax rebate	2	3
Land developers' concession	4	4
Total Land Tax	356	377
Duties		
Transfer duty on residential property		
Home concession	339	356
First home concession	20	141
Insurance duty on general insurance		
Non-life insurance	58	42
Workcover	27	21
Health insurance	134	121
Total Duties	578	681
Community Ambulance Cover		
Concession to pensioners and seniors ⁷	38	39
Taxes on Gambling		
Gaming machine taxes	107	114
Casino taxes	15	6
Total Gambling Tax	122	120
Notes:		
1. Numbers may not add due to rounding.		
2. 2003-04 estimates may have been revised since last year's Budget.		
3. Deduction of \$0.85 million, which reduces by \$1 for every \$3 above \$0.85 million, is applicable to employers with an annual payroll between \$0.85 million and \$3.4 million.		
4. Estimate of \$0.218 million in 2003-04. The Act expired at the end of 2003.		
5. Land tax is payable only on the value of taxable land above a threshold which depends on the ownership structure.		
6. Applicable but not limited to religious bodies, public benevolent institutions and other exempt charitable institutions.		
7. The estimate is based on the revenue foregone through the use of the levy exemption by pensioners and senior citizens. The estimated cost of providing the service to pensioners and senior citizens exempted from the levy is significantly higher - estimated at \$133 million in 2004-05.		

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 or groups with an annual payroll in excess of \$3.4 million.

Offshore banking units and regional headquarters concession

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 licencees received state tax concessions in relation to prescribed activities carried out in support of the multi-national groups' offshore activities. These concessions included debits tax, land tax, payroll tax and duty concessions. With the sunseting of the Act at the end of 2003, new administrative arrangements were set in place for the existing licenseees.

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. In 2003-04 and 2004-05, the thresholds were \$170,000 for companies, absentees and trusts, and \$220,000 for individuals.

Residential land owned by individuals is excluded from the estimate. The exemption from paying below a minimum amount (\$350 in 2003-04 and 2004-05) is not included as a tax expenditure as it is regarded as the application of an administration threshold.

Graduated land tax scale

A graduated (concessional) scale of land tax rates is applicable to land with a taxable value of less than \$1.5 million.

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 their land that is used for the business of agriculture, pasturage or dairy farming.

Section 13 exemptions (not elsewhere included)

A number of land tax exemptions are granted under Section 13 of the *Land Tax Act 1915* to eligible organisations. These include, but are not limited to, public benevolent institutions, religious institutions and other exempt charitable institutions, retirement villages, trade unions and show grounds.

General land tax rebate

A general rebate on land tax of 15% is provided to non-absentee individual land tax payers in 2003-04 and 2004-05.

Additional land tax rebate

Trustees, companies and absentees have received a phasing-in rebate of a maximum of 36%, reducing by 0.5 percentage point for every \$1000 of taxable value over \$170,000 in 2003-04 and 2004-05.

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. Until 1 August 2004, a concessional rate of 1% applied 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 transfer duty applied on the excess.

From 1 August 2004, the concessional rate of 1% has applied to the purchase of a principal place of residence valued up to \$300,000.

First home concession

Where a purchaser has not previously owned a residence in Queensland or elsewhere, the purchaser of a home receives a more generous concession on duty. This concession comprises a rebate in addition to the home concession on properties (this concession 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.

Until May 2004 the rebate ranged in value from \$800 for properties valued under \$80,000 to \$200 for properties valued between \$155,000 and \$160,000. From 1 May 2004, the first home duty concession was extended so that no duty is payable for properties valued up to \$250,000 and a rebate of up to \$2,500 is payable for properties valued between \$250,000 and \$500,000.

Insurance duty

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

The rate of duty applicable to general insurance has been 8.5% until August 2004 and 7.5% thereafter. 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. Until 1 May 2004, the mortgage has been exempt from duty 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 has also been available for an amount up to the first \$100,000, for refinancing an amount outstanding under a mortgage on the borrower's home.

From 1 May 2004, the first home concession was extended such that the mortgage is now exempt up to an amount of \$250,000 advanced for a first home.

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

Community Ambulance Cover

Concession to pensioners and seniors

Pensioners and senior card holders are exempt from paying the Community Ambulance Cover charge levied quarterly on electricity accounts.

Gambling taxes

Gaming machine tax concessions for licensed clubs

The benchmark tax base is assumed to be all gaming machines operated by 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 35.9% of the monthly metered win).

A concessional graduated tax rate scale applies to gaming machines operated by licensed clubs. The tax rate is calculated on the gaming machine monthly metered win and the full tax rate (as applies to hotel gaming machines) is only applied to gaming machine revenue where the monthly metered win exceeds \$1.4 million for any licensed club.

Casino tax concessions

The benchmark tax base is assumed to be all casinos operating in Queensland. The benchmark tax scale is assumed to be the flat rate of 20% of casino gross revenue that applies for standard transactions in the Brisbane and Gold Coast casinos.

A concessional tax rate of 10% applies for normal gross revenue for the Cairns and Townsville casinos. In addition concessional rates apply for revenue from high rollers in all casinos. High roller revenue is taxed at 10% for the Brisbane and Gold Coast casinos and 8% for the Cairns and Townsville casinos.

A GST credit is provided to casinos that offsets the tax rate set by the State Government.

APPENDIX B – CONCESSIONS STATEMENT

INTRODUCTION

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

This statement serves to highlight the cost and nature of concessions covering both concessions which are reflected as outlays in the Budget (for example, direct subsidy payments) and revenue foregone through fees and charges which are set at a rate lower than that applying to the wider community.

Varying methods have been used to estimate the cost of concessions depending on the nature of the concession, including:

- direct Budget outlay cost (e.g. direct subsidy or rebate payments)
- revenue foregone (e.g. concessional fees and charges)
- cost of goods and services provided.

Table B.1 sets out the cost of concessions by agency. The total value of concessions is estimated at \$710 million in 2005-06.

Table B.1
Concessions by Agency¹

Agency	2004-05 Est.Act. \$ million	2005-06 Estimate \$ million
Department of Communities		
Electricity Rebate Scheme	51.6	53.6
Electricity Life Support Scheme	0.5	0.5
Pensioner Rate Subsidy Scheme	43.8	45.1
Rail Concession Scheme	31.4	31.9
Department of Education and the Arts		
Arts Concessional Entry Fees	0.4	0.4
Living Away from Home Allowances Scheme	5.8	5.8
School Transport Assistance for Students with Disabilities	25.3	27.0
Non-State School Transport Assistance Scheme	3.8	3.9
Department of Emergency Services ²		
Urban Fire Levy Concession	5.1	5.5
Department of Employment and Training		
TAFE Concessions	10.4	11.1
Environmental Protection Agency		
Environmental Licence Fee Waiver	0.5	0.3
Concessions Entry and Tour Fees	0.1	0.1
Department of Health		
Spectacles Supply Scheme	5.7	5.9
Medical Aids Subsidy Scheme	16.2	16.6
Patient Travel Subsidy Scheme ³	4.0	4.1
Oral Health	87.4	90.5
Department of Housing		
ATSI Housing Rental Rebate ⁴	8.2	9.2
Public Rental Housing Rebate ⁴	130.0	161.0
Department of Justice and Attorney-General		
Public Trustee of Queensland – Rebates of Fees	10.8	12.2
Department of the Premier and Cabinet		
South Bank Corporation – Venue Hire Discounts	0.1	0.1
Department of Transport		
Transport Concessions incl. Taxi Subsidies ^{5,6}	55.1	51.7
Motor Vehicle Registration Concession	51.5	54.5
Recreational Ship Registration Concession	0.9	0.9
School Transport Assistance Scheme	108.7	118.3
Total	657.3	710.2

Notes to Table B.1 Concessions by Agency¹

Notes:

1. Numbers may not add due to rounding.
2. With the establishment and operation of the Community Ambulance Cover which provides access to ambulance services for the whole community without the application of a usage charge, the provision of free ambulance services to pensioners and seniors is no longer classified as a concession for the purposes of this statement. However, pensioners and senior card holders receive an exemption from paying the Community Ambulance Cover levied quarterly on electricity accounts and the cost of their tax concession is included in Appendix A - Tax Expenditure Statement.
3. The 2004-05 Budget was based on accommodation costs only. 2004-05 Estimated Actual and 2005-06 Estimate have been revised to cover both travel and accommodation costs.
4. The increased concession from 2004-05 Estimated Actual to 2005-06 Estimate is mainly due to the impact of market rent reviews resulting in the application of higher market rents for the portfolio, offset by an estimated increase in rent charged.
5. The methodology used to calculate the concession was based upon the subsidies paid to the various transport operators. With the introduction of Integrated Ticketing in South East Queensland in 2004-05, the methodology changed to reflect the concession component of total fare revenue to be collected by Queensland Transport under the new system. Due to data constraints, 2004-05 Budget was not calculated using the new methodology.
6. The 2004-05 Estimated Actual reflects an increase in concessions provided under the Taxi Subsidy Scheme. This increase has not been reflected in the 2005-06 Estimate as it has not yet been determined whether the increase was transitory or resulted from a sustained increase in usage by eligible scheme participants.

Department of Communities

The Department of Communities has responsibility for the Queensland Government Electricity Rebate Scheme and reimburses the electricity retail corporations for electricity rebates provided. The scheme provides a rebate on the cost of domestic electricity supply to eligible pensioners, Seniors Card and other eligible 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 healthy lifestyle.

Department of Education and the Arts

Concessional ticket entry fees apply to a variety of concession card holders, students, children and families for special exhibitions at the Queensland Art Gallery and the Queensland Museum.

The Department of Education provides a living away from home allowance to students in Years 1 to 12 in State and non-State schools whose homes are geographically isolated from local schools. The allowances offset the costs associated with boarding away from home to attend school on a daily basis and include tuition and travel costs.

The department also offers assistance to students with disabilities to access school programs to meet their educational needs. Assistance is in the form of the provision of taxis or specialised contracted minibuses, payment of fares on regular buses or trains, or an allowance for parents who drive their children to school.

The Non-State School Transport Assistance Scheme assists families of students attending non-State schools outside Brisbane whose bus fare is over a weekly threshold amount. The program also assists families of students with disabilities who attend a non-State school.

Department of Emergency Services

Pensioners are eligible for a 20% discount on the Urban Fire Levy payable on prescribed properties of which they are the owner or part owner.

Department of Employment and Training

Concessions on TAFE tuition fees for Government-funded training are offered to a range of concession card holders, students of Aboriginal and Torres Strait Islander descent and students who can demonstrate extreme financial hardship.

Environmental Protection Agency

A fee waiver may be granted on environmental licences on the grounds of financial hardship or if there is a small or insignificant environmental risk. The department also offers concessional entry fees for specified protected areas including St Helena Island, David Fleay Wildlife Park and Mon Repos Conservation Park, among others.

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 provides subsidised assistance for 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.

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 targets low to moderate income Indigenous families and individuals and represents the difference between market rent and rent that is charged based on the household's income.

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 Trustee offers fee rebates (full or partial) for clients who, because of financial circumstances, cannot pay the full amount of fees that have been levied.

Department of the Premier and Cabinet

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

Department of Transport

Transport concessions are provided by Government in a variety of forms and across a range of activities to ensure access and mobility for Queenslanders who are transport disadvantaged. Eligible categories to receive a concession include Pensioner Concession Card holders, Seniors Card holders, children, and secondary and tertiary students from July 2004. Members of the department's Taxi Subsidy Scheme also receive concessions on taxi travel.

Motor vehicle and boat registration concessions are provided to holders of a Pensioner Concession Card, Queensland Seniors Card and Totally or Permanently Incapacitated Ex-serviceperson Pension as a means of improving pensioners and seniors access to travel.

The School Transport Assistance Scheme is a program for students whose access to school is disadvantaged by distance or are from defined low-income groups. Assistance is provided towards the cost of travel on bus, rail and/or ferry with allowances for private vehicle transport.

APPENDIX C – STATEMENT OF RISKS AND SENSITIVITY ANALYSIS

INTRODUCTION

The Queensland State Budget, like those of other states, is based in part on assumptions made about future elements of uncertainty both internal and external to the State which can impact directly on economic and fiscal forecasts. Operating results achieved in recent years reflect the fact that the actual fiscal result achieved depends on the direction of such variables.

Consistent with the *Charter of Social and Fiscal Responsibility*, this section analyses the sensitivity of the estimates to changes in the economic and other assumptions used in developing the Budget and forward estimates. This analysis is provided, as required under the Charter, to enhance the level of transparency and accountability of the Government.

Notwithstanding the risks associated with the Budget, Queensland is well placed to manage adverse impacts. Queensland's strong balance sheet and low tax status means it has greater capacity than any other jurisdiction in Australia to withstand the risks normally associated with any state or territory budget.

The forward estimates in the Budget are framed on a no policy change basis. That is, the expenditure and revenue policies in place at the time of the Budget (including those announced in the Budget) are applied consistently throughout the forward estimates period.

The following discussion provides details of some of the key assumptions and risks associated with revenue and expenditure forecasts and, where a direct link can be established, the indicative impact on forecasts resulting from a movement in those variables.

SENSITIVITY OF EXPENDITURE ESTIMATES AND EXPENDITURE RISKS

Public sector wage costs

Salaries and wages form a large proportion of General Government operating expenditure. Increases in salaries and wages are negotiated through Enterprise Bargaining Agreements.

A number of Enterprise Bargaining Agreements across the General Government sector are due for renegotiation over the next 12 months. Those which will cease prior to 30 June 2006 include agreements covering major employee groups in departments such as Education Queensland, Queensland Health, Main Roads and Emergency Services. The 2005-06 Budget for these departments incorporates funding for a wage increase of 3.5% per annum, which represents the annual wage increase secured across the General Government under current agreements.

A central provision is held for other agreements expiring post 2005-06.

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 Government negotiated a long-term procurement agreement with Energex and Ergon for the purchase of electricity for the franchise load. The outcome from these negotiations is that the price risk associated with the cost of electricity will now be borne by the retailers. As a consequence of this agreement, unlike previous years, any variations in the pool price or contract levels secured by retailers will not affect CSO payments.

Interest rates

The General Government sector has a very moderate level of debt with a total debt servicing cost forecast at \$232 million in 2005-06.

The current average duration of General Government debt is approximately 2.75 years. Accordingly, a one percentage point variation in interest rates would lead to a very modest change in debt servicing costs in 2005-06.

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 more significant in projecting the State's expenditure needs across the forward estimates 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 is an amount of appropriation within Treasury's administered Budget as a whole-of-Government provision for potentially emergent costs.

In 2005-06 the Treasurer's Advance allocation is \$100 million.

SENSITIVITY OF REVENUE ESTIMATES AND REVENUE RISKS

The rate of growth in tax revenues is dependent on a range of factors that are linked to the rate of growth in economic activity in the State. Some taxes are closely related to activity in specific sectors of the economy, whilst others are broadly related to the general rate of economic growth, employment, inflation and wages. A change in the level of economic activity, resulting from economic growth differing from forecast levels, would impact upon a broad range of taxation receipts.

Other revenue items are influenced by external variables such as the exchange rate or the performance of financial markets.

Performance of financial markets — investment returns

Investment earnings are based on the assumption of long-term average market returns for an acceptable level of risk. These investments principally cover the superannuation investment funds. The Government's financial investments are held in a portfolio comprising property, domestic and offshore equities and fixed interest.

The assumed long-term rate of return used in Budget estimates is 7.5%. Actual returns will depend on the performance of sectors which comprise the portfolio.

Given Queensland's large holding of financial assets, actual revenues are highly sensitive to small variations from the assumed long run rate of return.

In 2005-06, 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 \$130 million.

Exchange rate and coal prices and volumes – royalties estimates

Estimates of mining royalties are sensitive to movements in the A\$/US\$ exchange rate, and commodity prices and volumes.

Contracts for the supply of commodities are generally written in US\$. Accordingly, a change in the exchange rate impacts on the A\$ price of commodities and therefore expected royalties collections.

A one cent variation in the A\$/US\$ would lead to a change in royalties revenue of approximately \$20 million in 2005-06.

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 \$11 million.

The 2005-06 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 2005-06, 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 \$16.7 million in 2005-06.

A one percentage point variation in the volume of transactions would change transfer duty revenues by approximately \$14.7 million in 2005-06.

Wages and employment growth – Payroll tax collections

Wages and employment growth have a direct impact on payroll tax collections. The 2005-06 Budget assumptions are for average earnings growth of 4% and employment growth of 2½ %.

A one percentage point variation in average earnings growth would change payroll tax collections by approximately \$14.1 million. Similarly, a one percentage point variation in employment growth would change payroll tax collections by the same amount.

Parameters influencing Commonwealth GST payments to Queensland

The Australian Government's national tax reform package was introduced with effect from 1 July 2000. As part of this package, the Australian Government 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 Australian Government has provided estimates of GST collections in its Budget Papers. In 2005-06, Queensland's Budget will bear the risks of fluctuations in GST revenues and the other components of the package, such as the First Home Owners Grant scheme, administrative costs associated with the GST and gambling tax losses.

The Australian Government's estimate of collections in 2005-06 is based on its forecast of national GDP growth of 3% and consumption growth of 3¼ %. As with all other tax estimates, there is a risk of lower collections than estimated by the Australian Government if economic growth and consumption is weaker than expected.

There is not enough information provided in the Commonwealth Budget Papers to prepare indicative forecasts of the sensitivity of GST estimates to key variables.

Commonwealth grants (Specific Purpose Payments)

Specific Purpose Payments (SPPs) are payments made by the Australian Government to promote its policy objectives. Indexation arrangements and distribution among the states vary for each SPP. The Australian Government 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 Australian Government 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 2003-04 Report on State Finances – Consolidated Financial Statements (Note 33).

A summary of the State's quantifiable contingent liabilities as at 30 June 2004 is provided below.

Table C.1 Contingent Liabilities	
	2004 \$ million
Nature of contingent liability	
Guarantees and indemnities	5,468
QTC – stock loans	1,243
Other	28
Total	6,739

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