Queensland Government

STATE BUDGET 2000-2001

ECONOMIC AND REVENUE OUTLOOK

Budget Paper No. 3

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1. ECONOMIC OUTLOOK

KEY POINTS

- *The Queensland economy is estimated to have grown by 4¼% in 1999-2000, supported by a recovery in exports of goods and services and continued growth in domestic demand.*

- *Total employment grew by 2.2% in 1999-2000, resulting in an additional 36,100 jobs in year-average terms. Labour force growth remained strong during the year at 1.9%, while the participation rate remained steady, averaging 65.0%. With growth in employment exceeding the rise in the labour force, Queensland's year-average unemployment rate fell 0.3% point in 1999-2000, to 8.0%.*

- *Inflationary pressures remained subdued in Queensland during 1999-2000, with the consumer price index rising an estimated 1¾%, compared with a national inflation rate of 2½%.*

- *Consistent with national trends, growth in the Queensland economy is forecast to moderate slightly in 2000-01, to 3¾%. The composition of growth is expected to shift, with an easing in domestic activity, in particular private investment, partially offset by strong growth in exports.*

- *In line with the expected moderation in economic growth in 2000-01, employment growth is forecast to ease slightly, to a year-average 2%, resulting in an additional 31,000 jobs in the State.*

- *However, sustained growth in the labour force is forecast to offset the rise in employment. Consequently, Queensland's year-average unemployment rate is forecast to remain unchanged at 8% in 2000-01.*

INTRODUCTION

This chapter presents the economic framework upon which the 2000-01 Budget has been developed. It examines recent developments in Queensland's external economic conditions, both international and national. In the context of this external environment, the chapter reviews the performance of the Queensland economy over the past year. It outlines estimated actual outcomes and forecasts for the major components of State economic activity for 1999-2000 and 2000-01 respectively, and presents projections for key State economic variables over the medium term, to 2003-04. Finally, details of the Queensland Government's activities with respect to competition policy during 1999-2000 are provided.

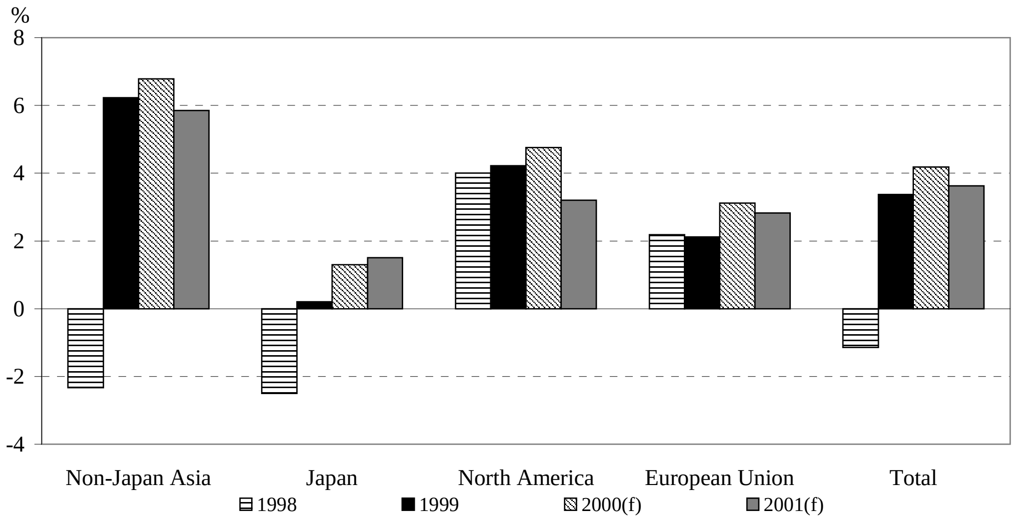
INTERNATIONAL AND NATIONAL ECONOMIC DEVELOPMENTS

INTERNATIONAL CONDITIONS

The global economy accelerated throughout 1999 and entered 2000 with considerable momentum. The collective easing of monetary policy by central banks around the world in 1998, partly in response to the Asian crisis, has assisted this growth in the world economy through most of the past financial year. The strong global performance to date has been underpinned by a very robust expansion in the US, along with a sharp rebound in demand from South-East Asia and solid growth in Europe.

However, global growth is forecast to moderate later in the year and into 2001, in response to widespread monetary policy tightening in industrialised economies. The US economy, which accounts for around one quarter of the world's total output, is widely expected to slow over this period. The US Federal Reserve has raised official cash rates by 175 basis points over the past year in response to building inflationary pressures, with the possibility of more to follow. Nevertheless, growth in Queensland's major trading partners is expected to be strong in 2000, with *Consensus Forecasts* indicating that growth will be around 4.2%, followed by a slight moderation to 3.6% in 2001.

Chart 1.1
Economic Growth in Queensland's Major Trading Partners
(annual % change)



(a) Weighted in terms of regional/country shares of Queensland's 1997-98 overseas merchandise exports.
(f) Forecast
Source: Queensland Treasury and Consensus Forecasts.

Japan

The Japanese economy stabilised throughout 1999 to record only marginal growth of 0.2%, after experiencing its worst post-war recession during 1998 when GDP fell 2.5%. Despite extremely large fiscal stimulus measures by the Japanese Government over the past two years, Japan's economic prospects still remain weak. Consumer demand remains depressed and needs to improve significantly if the economy is to experience a sustained recovery. In addition, with unemployment remaining at historically high levels and corporate restructuring adding to job uncertainty, consumer confidence is also low.

Weak consumer spending is ensuring that deflationary forces remain prevalent, which in turn is encouraging consumers to defer spending. Japanese consumers appear to be very aware of the forward implications associated with the large accumulated budget deficit and are concerned that taxes will need to rise at some stage in the future to fund this deficit. However, while the consumer sector of the economy remains subdued, there are some encouraging signs emanating from the industrial sector. Strong demand from other Asian economies has increased demand for Japanese exports and helped boost industrial production, which should ensure that growth remains positive. *Consensus Forecasts* expects economic growth for Japan to be 1.3% in 2000, followed by growth of 1.5% in 2001.

Non-Japan Asia

The economies of Queensland's other major Asian trading partners rebounded strongly in 1999 with aggregate growth of 6.2%, following a 2.3% fall in 1998. While strong external demand has ensured that growth returned to the region as a whole, some countries have experienced much sharper recoveries than others. In particular, South Korea, Malaysia and Thailand have all experienced strong, broad-based recoveries. The high global demand for electronic-related exports has seen those countries with large, technology-based sectors accelerate faster than other countries in the region. In addition, supportive monetary and fiscal policies have ensured that the recovery broadened from the external sector into the wider economy.

The outlook for growth in the region remains positive, with ongoing global growth underpinning demand for exports. In addition, rising household incomes, resulting from improved employment prospects, should see domestic demand continue to recover. However, while the economic expansion is expected to continue in the Asian region through 2000 and into 2001, the recent rises in US interest rates and prospects for slower US growth do present a downside risk to the growth outlook for the region. With the US economy absorbing a large proportion of the region's exports, the business cycles of Non-Japan Asia and the US are closely aligned. *Consensus Forecasts* expects growth in Non-Japan Asia to be 6.8% in 2000, with a slight moderation expected to 5.9% in 2001.

United States

The United States maintained its strength in 1999, with US gross domestic product rising 4.1% over the year, following growth of 4.3% in 1998. Robust consumer spending and business investment contributed strongly to the overall growth result. Consumer confidence has remained high in the US over the past year, due to rising household wealth underpinned by a sharp rise in house prices, surging equity markets and strong employment growth over the past year. These wealth effects have seen the economy enter 2000 with considerable momentum.

This acceleration of growth into 2000 has seen the Federal Reserve increase official interest rates 175 basis points over the past year, to 6.5%, in response to growing supply/demand imbalances with associated inflationary pressures. Despite tentative recent signs that the US economy may be beginning to slow, further increases in official interest rates cannot be ruled out at this stage, as the potential remains for inflationary pressures to build from a tight labour market.

Looking forward, the US economy is expected to slow towards a more sustainable pace, in a lagged response to higher interest rates. However, there is a risk that the economy could slow by more than is currently expected, particularly if the Federal Reserve continues to increase interest rates aggressively from present levels in response to inflationary pressures. *Consensus Forecasts* expects US economic growth to be 4.9% in 2000, moderating to 3.2% in 2001.

Europe

While economic growth in Queensland's major European trading partners moderated over 1999 as a whole, growth recovered in the second half of the year. European growth slowed in the first half of 1999, largely owing to reduced export demand following the emerging-market crisis, which related primarily to Russia's debt problems. However, as the global economy strengthened throughout 1999, the prospects for growth in the region have improved accordingly. As a result, industrial production and employment have strengthened in line with export growth. Business and consumer confidence indicators have also improved, due to strengthening regional demand and enhanced employment prospects. Growth in the United Kingdom, Queensland's largest trading partner in the region, was also affected by the emerging-market crisis in the first half of 1999, but accelerated over the second half of the year in response to improved global demand and an easing in domestic monetary conditions.

While growth in the European region is expected to remain strong throughout 2000, recent tightenings of monetary policy by the European Central Bank and the Bank of England are likely to restrain growth in the coming year. *Consensus Forecasts* expects economic growth for the region as a whole to be 3.1% in 2000, following growth of 2.1% in 1999, before moderating slightly to 2.8% in 2001.

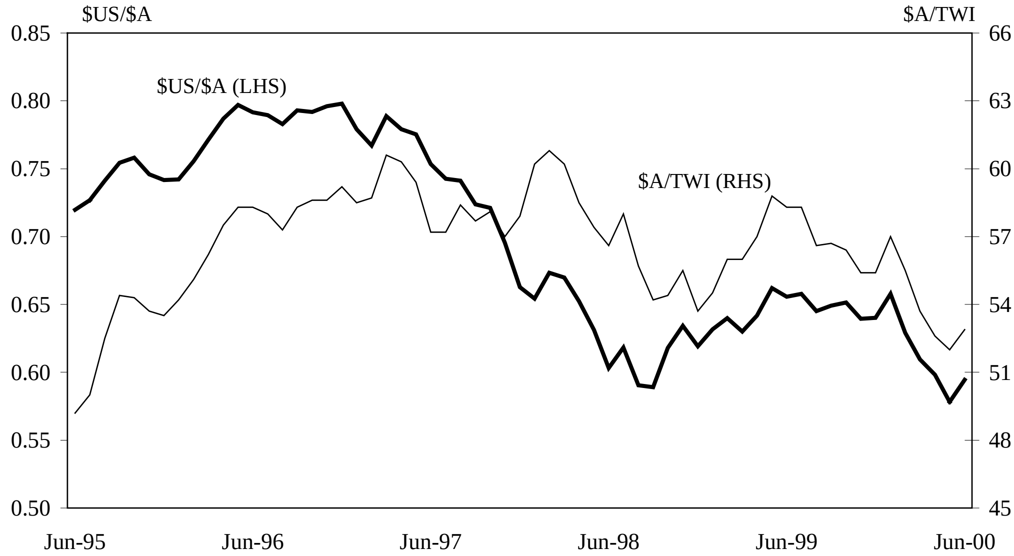
Exchange Rates

The value of the Australian dollar ($A) has been uncharacteristically volatile over the past year, failing to meet initial market expectations of a sustained appreciation. While the $A appreciated over the second half of 1999 and into January 2000, following an acceleration in global growth and commodity prices, it has since weakened against most major currencies. Despite generally rising commodity prices in the first half of 2000, the $A fell to a 20 month low of US56.8c in late May 2000, before strengthening slightly in June. (See Chart 1.2.)

Traditionally, the $A has been driven primarily by changes in commodity prices. However, more recently the value of the $A appears to have been determined by expected differentials in economic growth relative to other countries. While growth in the Australian economy is forecast to slow over the course of 2000-01, growth in the United States is generally expected to exceed that in Australia over the coming year. Another reason for the weak performance of the $A is that prices of Australia's major export commodities, such as coal, sugar and wheat have failed to match the price rises of other commodities.

While the global economy is forecast to slow slightly over the coming year, the $A is expected to appreciate against most major trading partners over this period. The $A should benefit from a slowing in the US economy over the coming year, which is likely to reverse some of the $US strength witnessed during the past year. However, the $A may not perform as well against the Euro, which also should benefit from some $US weakness.

Chart 1.2
Australian Dollar Exchange Rates
(monthly average)



Source: ABS 5368.0 and Reuters

NATIONAL CONDITIONS

The Australian economy performed well for most of 1999-2000, against the backdrop of a strong global economy. The strong performance of the domestic economy saw the labour market strengthen over the year. However, inflationary pressures began to emerge during the year, in response to the combined effects of rising global commodity prices (particularly oil), a low $A and growing domestic capacity constraints. The current account deficit recovered during 1999-2000 as strong global demand for exports improved the trade balance.

The 2000-01 Commonwealth Government Budget, delivered in May 2000, estimated real gross domestic product to have expanded by 4¼% in 1999-2000, primarily driven by private consumption, dwelling investment and public spending. Both stocks and net exports were estimated to have detracted from growth over the year, as strong domestic demand reduced existing stocks and growth in imports surged. National economic growth is forecast by the Commonwealth Government to moderate to 3¾% in 2000-01, due to the impact on domestic demand of higher domestic interest rates and the pull-forward of expenditure ahead of the GST. However, net exports are expected to contribute strongly to growth over 2000-01, with global growth remaining firm and the Sydney Olympics expected to result in a surge in tourism exports.

National employment growth accelerated from a strong base in the first half of 2000, flowing from the robust domestic demand experienced in the second half of 1999. These strong gains in employment resulted in the year-average unemployment rate in 1999-2000 falling to 6.9%, after recording an average of 7.6% in 1998-99. Forward indicators for the labour market suggest some easing in employment growth. This is consistent with Commonwealth government forecasts. Employment growth is expected to gradually moderate over the course of 2000-01, with average growth of 2¼% currently forecast, down from a 2.7% rise in 1999-2000. Despite this moderation in employment growth, the Commonwealth Government Budget forecasts indicate that the unemployment rate will move lower over 2000-01, to average 6½%.

Inflation, as measured by the change in the consumer price index, rose over 1999-2000, owing to a combination of the sharp rise in global commodity prices (particularly oil), a low $A and growing domestic capacity constraints. The Commonwealth Government expects headline inflation to have averaged 2½% over 1999-2000, following inflation of 1.3% in the previous year. The consumer price index for private sector goods and services, which removes the influence of several volatile items and which provides an approximation to underlying price pressures, recorded a more moderate increase of 2.2% over the year to March quarter 2000.

The largest contributions to the increase in inflation during 1999-2000 were higher petrol prices, rising housing costs and changes to the taxation of tobacco. The pull-forward of housing demand before the introduction of the GST led to labour and material shortages in the construction industry, pushing the price of project homes and other building costs higher. While wage pressures remained relatively modest over the course of 1999-2000, the Commonwealth Government expects average earnings to increase by 4¼% in 2000-01, following an estimated rise of 3% in 1999-2000. The Commonwealth Government has forecast headline inflation to rise to 5¾% in 2000-01 as a result of the inflationary impact from the introduction of the GST.

The Reserve Bank of Australia has raised official cash rates by 125 basis points since November 1999, to 6.0%. This tightening in monetary policy has been in response to rising inflationary pressures, both domestic and global, and signs that some sectors of the domestic economy are experiencing capacity constraints. While recent commentary from the Reserve Bank of Australia suggests that interest rates are likely to remain unchanged in the coming months, the possibility of further tightening does exist. The inflationary impact from the GST remains uncertain and there is a risk that it may result in a higher inflation outcome than has been officially forecast. A larger than expected inflation outcome could lead to higher wage claims, to which the Reserve Bank of Australia would be forced to respond with higher interest rates. The risks for inflation, and therefore official interest rates, still remain on the upside in the near term.

The current account deficit was $34.8 billion (5.6% of gross domestic product) for the year to March 2000, slightly higher than the $32.8 billion deficit (5.5% of gross domestic product) recorded in 1998-99. The Commonwealth Government expects only a modest improvement in the current account deficit over 2000-01, with a forecast deficit of $31.5 billion. The expected modest improvement in the current account reflects a forecast improved trade balance.

RECENT QUEENSLAND PERFORMANCE

As has been the case in recent years, the timing of the presentation of the State Budget has meant that actual data on the economic performance of the State for the most immediate past financial year are not available. For the 1999-2000 financial year, data on gross state product and its components are available only up to March quarter 2000. Consequently, the growth rates for these series for 1999-2000 are estimated actuals. To indicate the different level of precision implicit in the figures which follow, decimals have been used to describe actual outcomes, with fractions used for estimated actuals, forecasts and projections.

OVERALL ECONOMIC GROWTH

Economic growth in Queensland is estimated to have averaged 4¼% in 1999-2000, slightly above the forecast 3¾% presented in the 1999-2000 Budget. While household consumption continued to grow at an historically high rate and was the largest contributor to the State's economic growth performance in 1999-2000, a recovery in exports of goods and services also supported Queensland’s economic activity during the year.

- Household consumption is estimated to have experienced growth of 5% in 1999-2000. This was the third consecutive year of above average growth. While the rate of increase moderated, partly reflecting only moderate average wage outcomes during the year, it was higher than last year's Budget forecast of 3¾%.

- Following a weak performance in 1998-99, exports of goods and services are estimated to have recovered strongly in 1999-2000, underpinned by the recovery in Asia and the continued strength of North America and Europe. However, growth in imports of goods and services was stronger than expected. As a result, State net exports are estimated to have detracted ¼% point from economic growth in 1999-2000, compared with last year's Budget forecast contribution of ¼% point.

COMPONENTS OF ECONOMIC GROWTH

The contributions to growth experienced in the State during 1999-2000 were not consistent across all sectors of the economy. This is illustrated in the growth rates and contributions to growth of the major components of gross state product shown in Table 1.1. The contributions of the components to recent economic growth in Queensland and Australia are also presented in Charts 1.4 and 1.5.

Household Consumption

Household consumption grew strongly by an estimated 5% in 1999-2000, although this was slightly lower than the 5.4% growth recorded in 1998-99. Stable labour market conditions provided support for consumption activity in the State, while a number of other factors had a moderating effect on consumption activity during 1999-2000.

The series of interest rate rises by the Reserve Bank of Australia appear to have had an immediate impact on consumer confidence. High levels of household debt, accumulated during the lower end of the interest rate cycle, became an increasing concern to consumers in a rising interest rate environment. In addition, the recent volatility experienced on equity markets, together with only modest increases in average earnings, meant that the strong gains experienced in household wealth in recent years were not sustained in 1999-2000.

- Following a peak of 0.8% in September 1999, monthly trend growth in nominal retail turnover moderated sharply in late 1999, remaining unchanged in each of the five months to May 2000. In addition, new passenger vehicle registrations fell sharply in the 12 months ending May 2000, as households postponed new vehicle purchases in anticipation of lower car prices as a result of the introduction of the GST.

Table 1.1
Components of Growth [1]

	Queensland				Australia			
	Annual Growth (%)		Annual Contribution to Growth (% points)		Annual Growth (%)		Annual Contribution to Growth (% points)	
	1998-99	1999-00	1998-99	1999-00	1998-99	1999-00	1998-99	1999-00
Household Consumption	5.4	5	3.3	3	4.2	4½	2.5	2¾
Private Investment	5.8	2	1.2	½	3.3	3½	0.7	¾
Dwellings	-6.3	7½	-0.4	½	8.4	6	0.4	¼
Business Investment	11.1	-4	1.2	-½	-1.0	-2¼	-0.1	-¼
Other Buildings and Structures	5.9	-2½	0.2	-¼	1.8	-12	0.1	-½
Machinery and Equipment	14.0	-4¾	1.0	-¼	-2.4	3	-0.2	¼
Private Final Demand	5.5	4¼	4.5	3½	4.0	4¼	3.1	3¼
Public Final Demand	6.7	5¾	1.6	1½	7.1	5	1.6	1
Gross State/National Expenditure[2]	6.4	4½	6.8	4¾	5.4	4¼	5.4	4¼
Exports of Goods and Services	0.8	5¼	0.3	1¾	2.0	9	0.4	1¾
less Imports of Goods and Services	5.4	5¼	2.2	2¼	4.9	10	1.0	2
Net Exports	na	na	-1.9	-¼	na	na	-0.6	-½
Gross State/Domestic Product	4.8	4¼	4.8	4¼	4.8	4¼	4.8	4¼

Note: 1999-2000 data for Queensland and Australia are estimated actuals.
na – not applicable
1. Chain volume measure, with reference year 1997-98.
2. Includes statistical discrepancy and change in inventories.

Source: Queensland Treasury, Commonwealth Treasury and ABS 5206.0

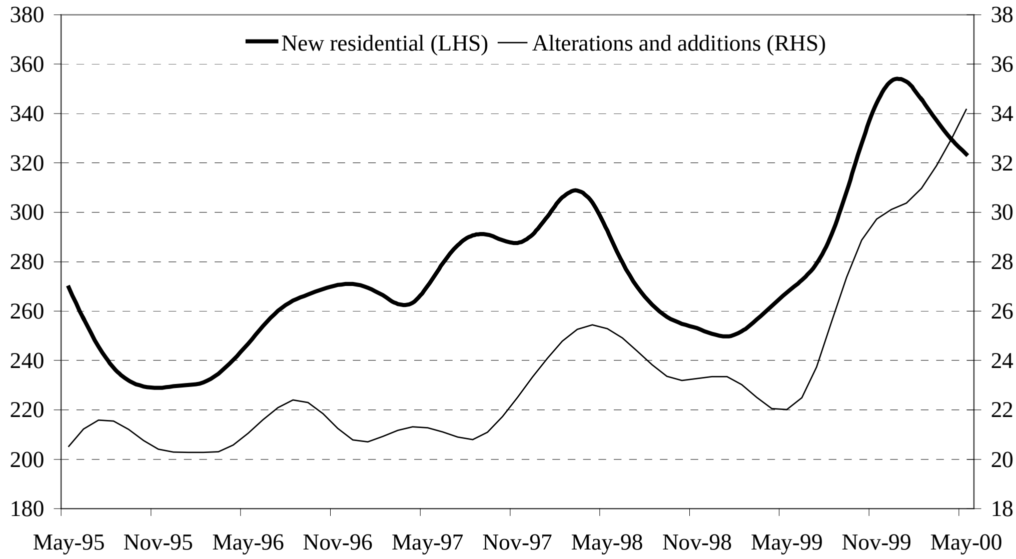
Dwelling Investment

Dwelling investment is estimated to have grown strongly in 1999-2000, rising 7½%, following a 6.3% decline in 1998-99. This recovery, however, was due primarily to the bringing forward of residential construction activity into 1999-2000 to avoid anticipated higher building costs associated with the GST.

Growth in dwelling investment is estimated to have strengthened in the second half of 1999-2000, following a surge in building approvals in the latter half of 1999. However, the recovery in residential housing construction activity is not expected to be sustained, with leading indicators of residential construction activity suggesting that the pull-forward effect has peaked (see Chart 1.3).

- Although the value of approvals for alterations and additions continued to grow during May 2000, the value of total residential building approvals (trend) fell for the fifth consecutive month. Further, housing finance commitments for the construction of owner-occupied dwellings declined by 15.9% in the three months ending May 2000, compared with the three months ending February 2000.

Chart 1.3
Trend Value of Residential Building Approvals, Queensland
($ million, current prices)



Source: ABS 8731.0

Dwelling investment also benefited from improved housing affordability conditions in 1999-2000, with nominal mortgage rates reaching their lowest level in two decades in mid-1999, while house prices in Queensland showed only modest gains. However, with variable mortgage rates rising by around 100 basis points since October 1999, housing affordability for new market entrants deteriorated in the first half of 2000. This lower housing affordability, together with continued excess housing supply and weaker population growth, will hamper the growth of dwelling investment in the medium term.

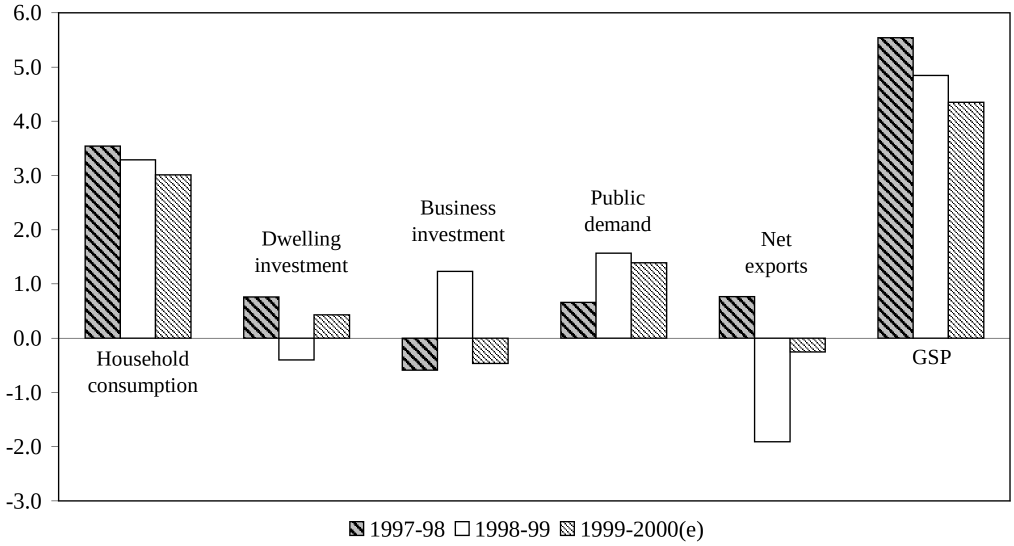
Business Investment

Business investment is estimated to have declined by 4% in 1999-2000, following strong growth of 11.1% in the previous year. With a number of large major projects finalised at the beginning of the year, growth in both components of business investment is estimated to have moderated substantially. In addition, uncertainty surrounding the introduction of the GST, business tax reform, higher interest rates and the depreciation of the $A were other limiting factors impacting on business investment in the State during 1999-2000.

- In contrast to its strong performance in 1998-99, machinery and equipment investment is estimated to have fallen by 4¾% in 1999-2000. Business confidence weakened sharply in the second half of 1999-2000, reflecting increased uncertainty surrounding the impact of the GST and a higher interest rate environment. A lower value of the $A against both the Japanese Yen and the $US also contributed to the decline in equipment investment, through increased costs associated with capital goods imports. Further, subdued coal prices continued to hinder the progress of some mining related projects in Queensland.

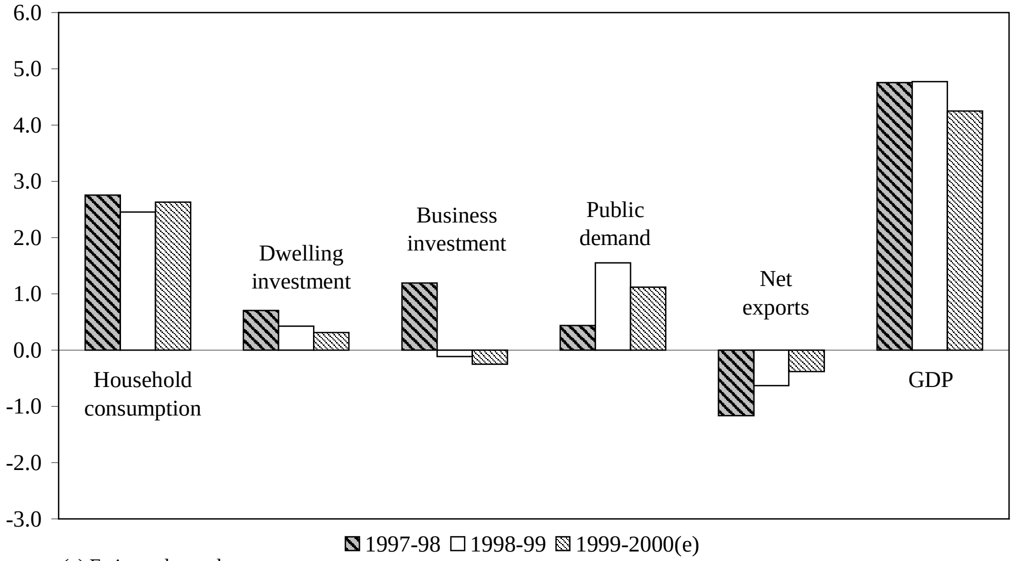
- Investment in other buildings and structures is estimated to have fallen by 2½% in 1999-2000, following a 5.9% increase in the previous year. An estimated increase in engineering construction was more than offset by a decline in private non-residential building construction over the year.

Chart 1.4
Contributions to Growth in Queensland's Gross State Product (annual % point contribution, 1997-98 chain volume measure)



(e) Estimated actual
Source: Queensland Treasury

Chart 1.5
Contributions to Growth in Australia's Gross Domestic Product (annual % point contribution, 1997-98 chain volume measure)



(e) Estimated actual
Source: Commonwealth Treasury and ABS 5206.0

Public Final Demand

Total public final demand in Queensland is estimated to have increased by 5¾% in 1999-2000. While all components experienced growth for the year, general government final consumption remained the primary driver of growth in public final demand.

Net Exports

Queensland’s net exports position strengthened considerably in 1999-2000, after a weak performance in 1998-99. Net exports are estimated to have detracted just ¼% point from growth in the year, after detracting 1.9% points in 1998-99.

Exports of goods and services grew strongly in 1999-2000, rising by an estimated 5¼% following subdued growth of 0.8% in 1998-99. Progressive recovery across the economies of Asia throughout the year drove the stronger demand for Queensland exports, with substantial gains in trade realised with Japan and South-East Asia. Strong economic growth in the US also contributed to demand for Queensland exports. Much of the improvement in merchandise export performance was achieved in the second half of 1999-2000, suggesting that the export recovery is in an early stage. While export volumes of coal, Queensland's single largest export commodity, rose strongly in 1999-2000, other export categories to record significant growth during the year were non-ferrous metals, meat and manufactured goods.

Exports of tourism services increased during the year, with the stronger economic environment in Asia resulting in an increase in the number of visitor arrivals from South-East Asia, while the low value of the $A continued to support strong growth in arrivals from North America and Europe. However, the number of arrivals from Japan declined further in 1999-2000, restraining overall growth in visitor arrivals to Queensland.

Imports of goods and services are estimated to have grown by 5¼% in 1999-2000, with continued growth in domestic activity maintaining the momentum in imports.

OTHER ECONOMIC MEASURES

Employment

Employment conditions in Queensland remained steady throughout the course of 1999-2000, with total employment rising by 2.2% over the year, following growth of 2.7% in 1998-99. The rise in employment during the year resulted in an additional 36,100 jobs in Queensland in 1999-2000, in year-average terms.

While an easing in domestic demand partly contributed to this moderation, business surveys suggest that the uncertainty surrounding the changing economic environment had a substantial impact on employment growth. In particular, a pessimistic assessment by business operators of future business performance following the introduction of the GST, and rising interest rates, caused delays in labour hiring decisions.

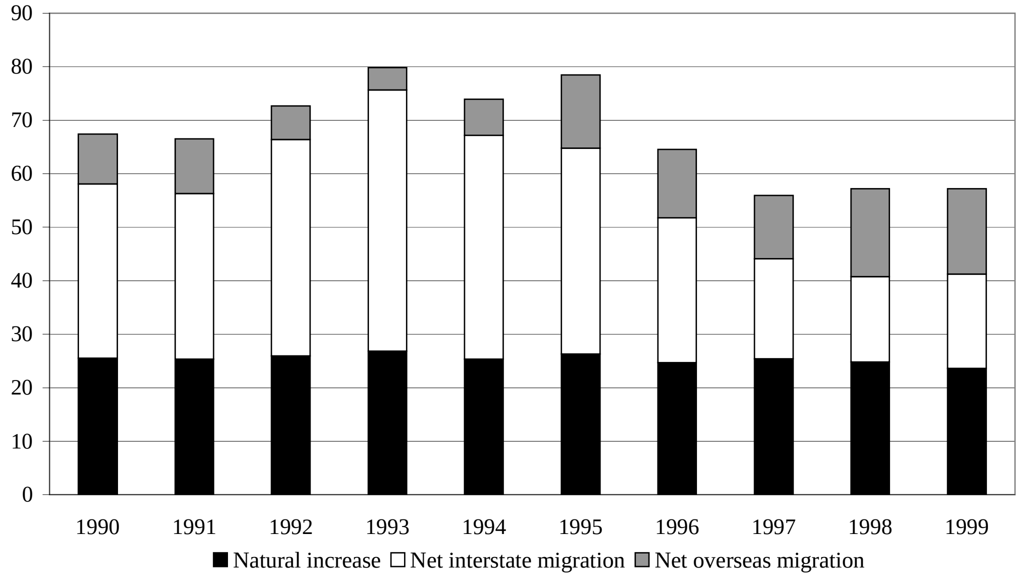
The Queensland labour market continued to be characterised by persistently strong labour force growth in 1999-2000 with a 1.9% increase in the State’s labour force, and the year-average participation rate remaining steady, at 65.0%. Queensland's participation rate remained around 2.0% points above the rest of Australia and underpinned the increase in the labour force. This largely offset the 2.2% rise in employment, limiting the extent of the decline in Queensland’s year-average unemployment rate, which fell by 0.3% point to average 8.0% in 1999-2000.

Population

Queensland's population is estimated to have grown by 1¾% in 1999-2000. This follows a similar rate of growth in 1998-99. While there has been some easing in the rate in recent years, population growth in Queensland continues to outpace growth in the rest of the nation.

Natural increase has been the primary driver of population growth in Queensland in each of the last three years and is estimated to have accounted for around 41% of the total increase in the State's population in 1999-2000. This was followed by net interstate and net overseas migration, which are estimated to have contributed 31% and 28% respectively to the overall population increase. (See Chart 1.6.)

Chart 1.6
Components of Queensland's Population Growth
('000 persons)



Source: ABS 3101.0

Inflation

The rate of inflation in Queensland, as measured by the change in the Brisbane consumer price index, is estimated to have been 1¾% during 1999-2000, representing an increase from inflation of 1.0% in 1998-99. While price pressures in the State increased slightly over the course of 1999-2000, the rise in inflation is largely attributable to the impact of external and one-off factors on prices during the year. Three key factors which impacted on inflation were:

- the rise in the price of fuel, which was a direct result of higher world oil prices;
- an increase in housing construction costs, which largely reflected demand pressures associated with the pull-forward of construction activity ahead of the GST; and
- an increase in the taxation of tobacco as part of the Commonwealth's tax reform package.

While the lower $A exchange rate throughout the year represented a potential threat in terms of import-price inflation, the extent to which higher costs were passed on to consumers by Queensland business operators appears to have been limited. Moreover, a general moderation in domestic demand over the year also helped to relieve any emerging inflationary pressure.

Average Earnings

Average earnings[1] in Queensland are estimated to have increased by a modest 1¼% in 1999-2000, representing a moderation from growth of 3.3% experienced in 1998-99. This compares with the nation as a whole, where average earnings are estimated to have risen by 3% in 1999-2000, following growth of 4.1% in the previous year.

FORECAST ASSUMPTIONS

POLICY FRAMEWORK

The 2000-01 forecasts for the Queensland economy are framed within the national and international economic context discussed above. They are influenced, therefore, by the policies, assumptions and forecasts of the Commonwealth Government and other State Governments, and by the international economic environment. In addition, the forecasts incorporate the fiscal stance and other economic, financial and social policies of the Queensland Government, detailed elsewhere in the Budget Papers.

KEY ECONOMIC ASSUMPTIONS

The forecasts for 2000-01, presented in Table 1.2, are based on the following assumptions:

- Economic growth in Queensland's trading partners is assumed to ease slightly to 3¼% in 2000-01, from the 3¾% growth estimated for 1999-2000.

- Inflation experienced in Queensland's major trading partners is expected to increase over the forecast period to 1½% in 2000-01, from an estimated ½% in 1999-2000.

- All official Commonwealth Government forecasts and projections, as at June 2000, have been adopted as the national framework for the Queensland forecasts. The forecast easing in the rate of economic growth in Australia in the next financial year, from an estimated 4¼% in 1999-2000 to a forecast 3¾% in 2000-01, has been incorporated into the Queensland forecasts for 2000-01, as has the forecast increase in consumer prices.

- The official interest rate in Australia rose 125 basis points between November 1999 and June 2000, to 6.0%. No further tightening in monetary policy by the Reserve Bank of Australia has been assumed over the forecast horizon.

- The $A strengthened over much of 1999, with its improvement primarily related to a recovery in commodity prices. However, these gains were partly lost, with the $A depreciating sharply in the first five months of 2000, as expectations of a significant economic growth differential between Australia and the US began to emerge. With a gradual slowing in the US economy expected over the coming year, the forecasts have assumed a slight appreciation of the $A through the year to June 2001.

[1] Average earnings refers to average compensation of employees, on a State Accounts basis, not to the average weekly earnings series published by the Australian Bureau of Statistics in ABS 6302.0.

FORECASTS

The forecasts for the major components of economic activity in Queensland for 2000-01, along with their recent historical outcomes and comparable figures for Australia, are presented in Table 1.2. The forecasts should be interpreted as broad indicators of economic change in Queensland, rather than precise point estimates. For this reason, fractions have been used for forecasts of all economic variables, as well as for the components of domestic production and other economic measures for which final 1999-2000 data are not yet available. The contributions to overall economic growth from the major components of activity in Queensland and Australia are presented in Charts 1.7 and 1.8 respectively.

OVERALL ECONOMIC GROWTH FORECASTS

Queensland gross state product is forecast to grow by 3¾% in 2000-01, following estimated growth in 1999-2000 of 4¼%. This is consistent with expectations for economic growth in Australia as a whole. This forecast moderation in aggregate economic growth is largely in response to an easing in domestic demand, brought about by a moderation in household consumption and a decline in private investment.

Partly offsetting the moderation in domestic activity, growth in exports of goods and services is expected to strengthen in 2000-01, with the first year-average contribution to economic growth from net exports expected since 1997-98.

COMPONENTS OF FORECAST ECONOMIC GROWTH

Household Consumption

Growth in **household consumption** is forecast to ease to 4% in 2000-01 from an estimated 5% in 1999-2000. This anticipated slowing in 2000-01 represents the third consecutive year of moderating growth in household consumption in Queensland, following a peak of 5.8% in 1997-98. A similar trend has been experienced nationally, where slightly lower growth of 3¾% is forecast over the year.

The rate of growth in household consumption in Queensland is expected to be constrained by marginally lower population growth, a slight easing in employment growth during the year and a rise in the level of interest repayments on private debt, owing to the higher interest rate environment. In addition, recent increases in mortgage and credit card interest rates are likely to partly offset the boost to discretionary incomes arising from the personal income tax cuts applying from 1 July 2000. Further, price confusion associated with the introduction of the GST is expected to have an impact on underlying consumption patterns, at least in the first half of 2000-01, as consumers adjust to new pricing and taxation arrangements.

Despite the forecast moderation, household consumption is expected again to be the single largest component of growth in the State economy, contributing 2½% points to growth in gross state product in 2000-01.

Private Investment

Following sustained growth over the past four years, **private investment** is forecast to fall by 4% in 2000-01. Dwelling investment is expected to reverse the upward trend evident in 1999-2000, following the pull-forward of expenditures ahead of the introduction of the GST, while business investment is expected to decline further in 2000-01.

- In contrast to its strong performance in 1999-2000, **dwelling investment** is forecast to fall by 4½% in 2000-01, detracting ¼% point from growth in gross state product. However, this decline is exaggerated by the distortion of housing activity in 1999-2000, owing to the pull-forward of residential construction activity ahead of the introduction of the GST. Additional factors that are expected to adversely affect dwelling investment in 2000-01, relative to 1999-2000, are higher mortgage interest rates, the higher cost of new homes stemming from the GST, and a slight moderation in population growth.

- **Business investment** is expected to decline in 2000-01, with a forecast fall of 5¾%. Both components of business investment are forecast to decline over the period. While the rate of decline of investment in **other buildings and structures** is expected to ease to ¾%, investment in **machinery and equipment** is forecast to fall by 8¼%. Following the surge in investment in IT equipment associated with Year 2000 compliance, and in the absence of new investment to replace a number of large projects finalised in the second half of 1999, the positive impact of lower capital costs due to the new tax system is expected to be more than offset by weaker economic growth, higher interest rates and a continuing low $A exchange rate. Overall, business investment is forecast to detract ½% point from aggregate growth in gross state product.

Public Final Demand

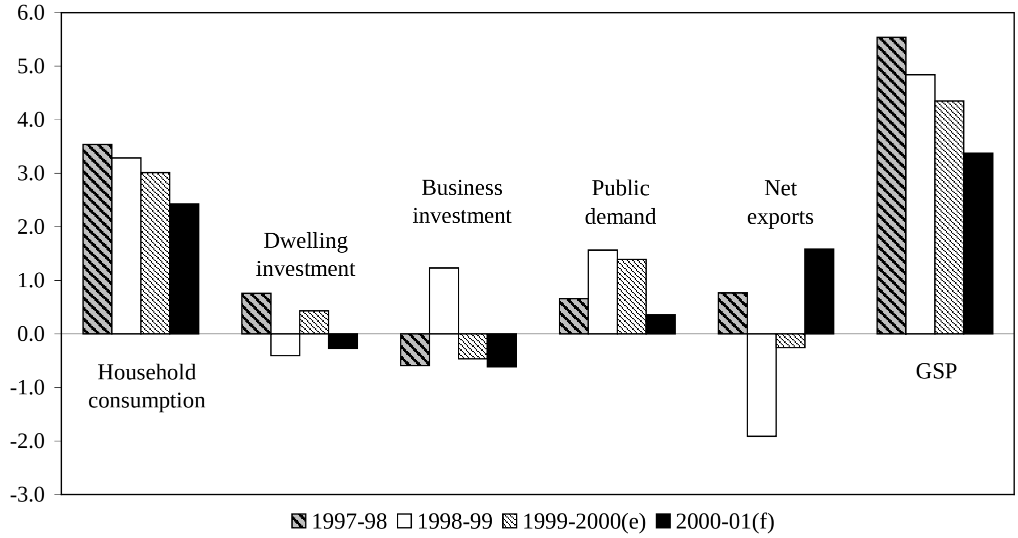
The rate of increase in **public final demand** is expected to ease to 1½% in 2000-01, reflecting base effects following estimated strong growth of 5¾% in 1999-2000. This easing is the combined effect of a subdued outlook for Commonwealth expenditures through the year, as well as the peaking in expenditure of a number of large State Government capital works projects, such as the Health Building Program and the Pacific Motorway, in 1999-2000.

Net Exports

Exports of goods and services are forecast to rise by 6% in 2000-01, primarily reflecting increased export volumes in line with stronger world demand and a boost to overseas exports of tourism services arising from the Sydney 2000 Olympics. Improvement in world prices of sugar and wool are expected to enhance returns to exporters during the year, while coal prices are expected to remain low. Meanwhile, moderating growth in consumption and falling investment in machinery and equipment are expected to lead to lower growth in imports of goods and services in 2000-01, of 1¼%, down from 5¼% in 1999-2000.

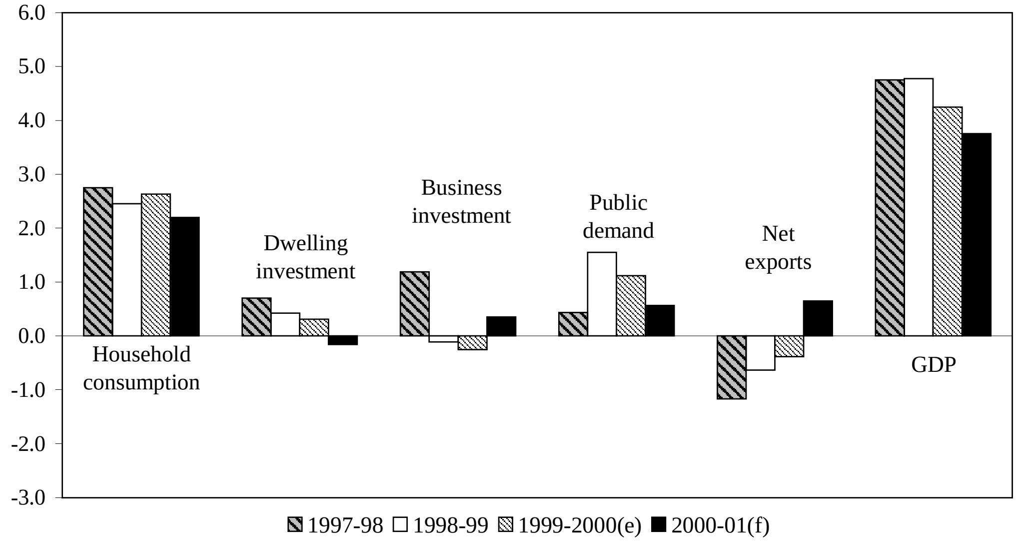
With growth in exports expected to exceed the rise in imports, **net exports** are forecast to contribute 1½% points to economic growth in 2000-01. This represents a substantial turnaround in Queensland's trade performance following an estimated ¼% point detraction in 1999-2000 and a 1.9% point detraction from growth in 1998-99.

Chart 1.7
Forecast Contributions to Growth, Queensland Gross State Product (annual % point contribution, 1997-98 chain volume measure)



(e) Estimated actual (f) Forecast
Source: Queensland Treasury

Chart 1.8
Forecast Contributions to Growth, Australian Gross Domestic Product (annual % point contribution, 1997-98 chain volume measure)



(e) Estimated actual (f) Forecast
Source: Commonwealth Treasury and ABS 5206.0

Table 1.2
Forecast and Forecasting Assumptions

	Outcomes 1997-98	Outcomes 1998-99	Estimated Actual 1999-2000	Forecast 2000-01
International Assumptions				
Major trading partner economic growth	0.6	0.4	3¾	3¼
Major trading partner inflation	2.2	1.0	½	1½
State Forecasts				
Domestic Production [1]				
Household consumption	5.8	5.4	5	4
Private investment [2]	1.9	5.8	2	-4
Dwellings	12.7	-6.3	7½	-4½
Business investment [2]	-4.8	11.1	-4	-5¾
Other buildings and structures [2]	-6.0	5.9	-2½	-¾
Machinery and equipment	-4.0	14.0	-4¾	-8¼
Private final demand [2]	4.8	5.5	4¼	2
Public final demand [2]	2.7	6.7	5¾	1½
Gross state expenditure [3]	4.5	6.4	4½	2¼
Exports of goods and services	6.7	0.8	5¼	6
Imports of goods and services	3.8	5.4	5¼	1¼
Net exports [4]	0.8	-1.9	-¼	1½
Gross state product	5.5	4.8	4¼	3¾
Other State Economic Measures				
Population	1.7	1.7	1¾	1½
Inflation [5]	0.5	1.0	1¾	2¼
Average earnings (state accounts basis)	3.5	3.3	1¼	4
Employment (labour force survey basis)	3.2	2.7	2.2	2
Unemployment rate (%, year-average)	9.0	8.3	8.0	8
Labour force	2.5	2.0	1.9	2
Participation rate (%, year-average)	65.0	65.0	65.0	65
National Forecasts				
Domestic Production [1]				
Household consumption	4.7	4.2	4½	3¾
Private investment	13.2	3.3	3½	2¾
Dwellings	15.5	8.4	6	-3
Business investment	10.6	-1.0	-2¼	3¼
Other buildings and structures	17.0	1.8	-12	-9
Machinery and equipment	7.6	-2.4	3	9
Private final demand	6.7	4.0	4¼	3½
Public final demand	1.9	7.1	5	2½
Gross national expenditure [3]	5.9	5.4	4¼	3
Exports of goods and services	3.7	2.0	9	7
Imports of goods and services	9.7	4.9	10	4
Net exports [4]	-1.2	-0.6	-½	¾
Gross domestic product	4.8	4.8	4¼	3¾
Other National Economic Measures				
Population	1.2	1.2	1	1
Inflation[5]	0.0	1.3	2½	2¾
Average earnings (national accounts basis)	3.3	4.1	3	4¼
Employment (labour force survey basis)	1.4	2.2	2.7	2¼
Unemployment rate (%, year-average)	8.3	7.6	6.9	6½
Labour force	1.0	1.5	1.9	1¾
Participation rate (%, year-average)	63.1	63.2	63.4	63½

Notes: Unless otherwise indicated, all figures are annual percentage changes. Decimal point figures indicate an actual outcome.
1. Chain volume measure, 1997-98 reference year.
2. Figures for 1997-98 exclude the inter-sectoral effects of the State Gas Pipeline sale.
3. Includes statistical discrepancy and change in inventories.
4. Percentage point contribution to growth in gross state or domestic product.
5. Excludes the first round effects of the introduction of the GST on the consumer price index in 2000-01.

Source: Queensland Treasury, Commonwealth Treasury and ABS 5206.0

OTHER ECONOMIC MEASURES

Employment

Total employment in Queensland is forecast to increase by 2% in year-average terms in 2000-01. This represents a slight moderation from growth of 2.2% in 1999-2000, a reflection of some easing in economic growth over the year. Moreover, a change in the composition of economic growth from labour intensive to capital intensive sectors of the economy is expected to contain employment gains during the year. However, average annual employment in the State is still expected to increase by around 31,000 jobs in 2000-01.

With the average rate of labour force participation expected to remain steady in 2000-01, at 65%, growth in the Queensland labour force of 2% is forecast. Therefore, with employment growth expected to be fully offset by the increase in labour supply, the average unemployment rate in 2000-01 in Queensland is forecast to remain unchanged at 8%.

Population

Population growth in the State is expected to moderate slightly in 2000-01, to 1½% from an estimated 1¾% in the previous year. The contribution to population increase from net interstate migration has declined considerably in recent years and, while growth in this component has recovered in recent quarters, only a modest improvement is expected through 2000-01.

Inflation

Headline inflation will be significantly affected by the one-off impact on the consumer price index from the GST introduced on 1 July 2000. As a result, year-average headline inflation in Queensland is forecast to rise from an estimated 1¾% in 1999-2000 to 5¾% in 2000-01. However, ongoing inflation in the State (abstracting from the direct effect of the GST on the consumer price index) is expected to rise to 2¼%.

The forecast rise in underlying inflation is based on an expectation that a sustained high price for oil will begin to impact on domestic production costs, while some import price inflation is also expected to begin to emerge as a result of the low value of the $A experienced in the first half of 2000.

Average Earnings

Following only a modest rise in labour incomes in 1999-2000, where average earnings on a state accounts basis rose by an estimated 1¼%, growth is expected to return towards the average rate of growth experienced over the past decade. With the superannuation guarantee charge having increased from 1 July 2000, and with wage bargaining outcomes in the private and public sectors, the rate of growth in average earnings is forecast to rise to 4% in 2000-01.

FORECAST RISK APPRAISAL

As indicated in Chapter 1 of Budget Paper 2, the Budget positions for the 2000-01 fiscal year and outyears are consistent with the economic forecasts and assumptions presented in this chapter. However, if the economic outcomes for 2000-01 should be different from that assumed or forecast in this chapter, there will be associated impacts on the Budget position. Some of these possible fiscal impacts have been addressed in Budget Paper 2. This section deals more broadly with the key risk factors which may affect the assumptions upon which the forecasts are based. A summary of these factors is presented, together with an indication of the likely direction of any possible impact on the economic forecasts, both for Queensland and Australia.

- There is a degree of uncertainty associated with the performance of the US economy in 2000-01. Recent monetary policy tightening in the US has been directed at slowing economic growth to a more sustainable rate in order to reducing inflationary pressures. With the US Federal Reserve having already increased interest rates by 175 basis points, an aggressive monetary stance over the remainder of 2000 could result in a more significant slowing in US economic growth than is currently anticipated. This would have implications for economic growth in Queensland's major trading partners, with the sustained economic recovery of many of the Asian economies particularly dependent on sustained growth in the US economy.

- An additional risk associated with the potential for continued increases in US interest rates arises from any renewal in downward pressure on the $A. Without any change in Australian monetary policy settings, a depreciation in the $A resulting from a widening in interest rate differentials could reinforce inflationary pressures. If these were to materialise in increased prices, an increase in domestic interest rates by the Reserve Bank of Australia may be necessary. The forecasts contained in this chapter have been formulated on the basis of unchanged official interest rates. As such, any further tightening in domestic interest rates could result in lower economic growth than forecast, both nationally and in Queensland.

- There is a greater challenge than usual associated with forecasting the economic performance of Queensland and the rest of Australia in 2000-01, with cuts to personal income taxes occurring at a time of significant changes to the indirect tax base. The introduction of GST, although occurring at the start of the 2000-01 fiscal year, had a substantial impact on confidence and on the timing of expenditure in the State and the national economy in the 1999-2000 fiscal year. These impacts have been discussed above. What is less clear is the likely response to the income tax changes, how consumers perceive price changes in light of the shift in the tax mix, and family and other social benefits increases.

- The forecasts have assumed only a gradual readjustment in equity markets to the lower rate of economic growth. A rapid fall in the value of shares would result in a decline in the value of household (and business) wealth. This would impact adversely on forecast growth in household consumption, and consequently economic growth, both for Queensland and more generally for Australia as a whole.

- Net exports are forecast to contribute strongly to growth in 2000-01, as the trade sector becomes a major driver of growth in Queensland. This forecast is based on the assumption that there will be sustained economic growth in our major trading partners and that the $A appreciates moderately from its current level. If major trading partner growth were to be slower than forecast, there would be a reduction in demand for Queensland exports, placing downward pressure on the rate of economic growth in the State. Similarly, if the $A were to appreciate rapidly from its current level, Queensland's export competitiveness would decline, with slower than forecast growth in exports and consequently gross state product.

- Finally, the Queensland economy is highly integrated with the rest of the Australian economy. Any significant policy changes which are implemented by, in particular, the Commonwealth Government over the forecast horizon, or any unanticipated change in the economic performance in the rest of Australia would be expected to have an impact on economic conditions in Queensland. The forecasts contained in this chapter include the implementation of national tax reforms on 1 July, 2000, but are formulated on the basis of no further major policy changes in Australia.

MEDIUM TERM OUTLOOK

Queensland Treasury regularly 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 2001-02 to 2003-04, shown in Table 1.3, 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 gross state product growth for this period.

World economic conditions are projected to remain stable, with economic growth in Queensland's major trading partners assumed to grow at around 3% over the projection horizon, although it should be recognised that, by even the end of horizon, growth is projected to remain well below the trend rates of growth achieved prior to the Asian financial crisis. As indicated above in the forecast risk appraisal, the extent of any slowdown in the US economy is critical to a continuation of the recovery in the East Asian region.

The following medium term projections assume a continuation of the current Commonwealth Government fiscal and monetary policy stances, directed at maintaining economic growth in a low inflationary environment and the maintenance of a stable Budget position. The projections incorporate the anticipated impacts of the national tax reforms implemented from 1 July 2000. However, there may be further impacts on State economic activity if the tax package produces price, demand and/or other effects significantly different from what is currently expected.

Economic growth is projected to return towards the average growth rate over the past decade, with an increase of around 4¼% per annum projected for the period to 2003-04. With average employment growth of 2½% per annum over this period projected to outpace population growth of 1½% per annum, an ongoing improvement in the unemployment rate is implied over the medium term, provided there is no unanticipated increase in labour force participation.

Table 1.3
Economic Parameters/Projections[1]
(annual % change)

	Outcome	Estimated Actual	Forecast	Projections		
	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04
Queensland						
Gross state product[2]	4.8	4¼	3¾	4¼	4¼	4¼
Employment	2.7	2.2	2	2½	2½	2½
Inflation[3]	1.0	1¾	2¼	2½	2½	2½
Average earnings[4]	3.3	1¼	4	3½	3½	3½
Population	1.7	1¾	1½	1½	1½	1½
Australia						
Gross domestic product[2]	4.8	4¼	3¾	3½	3½	3½
Employment	2.2	2.7	2¼	2	2	2
Inflation[3]	1.3	2½	2¾	2½	2½	2½
Average earnings[4]	4.1	3	4¼	3½	3½	3½
Population	1.2	1	1	1	1	1

Notes:
1. Decimal point figures indicate an actual outcome.
2. Chain volume measure, 1997-98 reference year.
3. Excludes the first round effects of the introduction of the GST on the consumer price index in 2000-01
4. Average earnings on a state/national accounts basis.

Source : Queensland Treasury, Commonwealth Treasury and ABS 5206.0

COMPETITION POLICY

The Queensland Government has adopted a sensible cooperative approach to the implementation of its National Competition Policy obligations. The Government is a signatory to a number of agreements at Commonwealth, State and local government levels which focus on changes to improve prices and service standards in sectors that have a significant influence on the costs and the competitiveness of Queensland's industries. These agreements come under the jurisdiction of the Council of Australian Governments (CoAG) and are formalised in the National Competition Policy (NCP).

Energy

The Queensland Government announced its plan to implement the National Greenhouse Strategy in October 1999. The Government also announced the Queensland Energy Policy on 24 May 2000. This Policy calls for 15% of Queensland's electricity to be sourced from gas or renewable energy by 2005.

Electricity

Queensland has entered the National Electricity Market (NEM). A number of reforms were delivered in 1999-2000, including the completion of industry restructuring and the introduction of contestability (resulting in price reductions of up to 40 percent for large industrial customers). Further progress in establishing an effective national electricity market will occur with the commissioning of the interconnection with NSW in late 2000.

Subject to a public benefit test, it is expected that full retail contestability will be introduced in Queensland in line with other States participating in the NEM.

Regulation of distribution and transmission will be transferred to the Queensland Competition Authority (QCA) and the Australian Competition and Consumer Commission (ACCC) respectively from December 2000.

Gas

The Queensland Government introduced the *Gas Pipeline Access (Queensland) Act 1998* on 19 May 2000 that will further facilitate competition in the supply of gas to domestic and industrial customers. Possible new gas sources to supply the central and North Queensland markets include south west Queensland, Papua New Guinea, the Timor Sea and coal seam methane.

The Queensland Government has adopted a strategy of phasing in contestability of customers, starting with larger customers (those who use more than 100 TeraJoules of gas per year) in 2000-01. Subject to a public benefit test, full retail contestability may be introduced in 2001-02.

Water

Significant water reforms in Queensland in 1999-2000 were as follows:

- The State's larger local governments' water and sewerage businesses completed their second year operating under full cost pricing and commercialisation arrangements.

- The Queensland Government introduced the Water Bill 2000, which will apply equally to public and private sector operators and removes any impediments to private sector participation in the delivery of water infrastructure in Queensland.

- In 1999-2000, the Fitzroy Water Allocation and Management Plan (WAMP) was developed, the first of its kind in Queensland, as well as draft WAMPs for the Condamine-Balonne and Burnett catchments. A pilot for transferable water entitlements was also implemented in the Mareeba-Dimbulah Irrigation Area.

- Comprehensive rural water price paths have been completed (based on the operating, maintenance, administrative and renewals and taxation costs) for irrigation water supplied by State Water Projects, including a benchmarking process ensuring that only the efficient costs of water provision are being reflected in water prices to users.

- The South East Queensland Water Company (SEQWCo) was created as a joint State-local government owned company, to take over the operations of the South East Queensland Water Board (SEQWB).

Road Transport

In 1999-2000, Queensland adopted a number of the CoAG reforms for the Road Transport Sector, including the National Heavy Vehicle Registration Scheme and Australian Road Rules. Cost free conversion of interstate drivers licences took effect from 1 July 2000.

Local Governments

Of the five year $150 million financial incentive package for local governments implementing reforms (particularly in the area of competitive neutrality), $31.1 million was allocated by the Queensland Government to local governments in 1999-2000 for the implementation of reforms in accordance with the agreed Guidelines.

Corporatisation

Privatisation of the TAB was completed in November 1999 pursuant to the *TAB Queensland Limited Privatisation Act 1999*. In December 1999, the Brisbane Market Authority was corporatised and registered as the Brisbane Market Corporation Limited. In 2000-01, a fully government owned corporation, SunWater, will be created from the State Water Projects group within the Department of Natural Resources.

Legislation Review Program

During 1999-2000, the Government released new guidelines for undertaking public benefit tests in the legislation review process. The guidelines, which are publicly available and open for public comment, place increased emphasis on social, regional and employment impacts and have been designed to provide equal consideration of non-quantitative issues.

The Queensland Government has scheduled 135 reviews of legislation for completion by the end of 2000. By June 2000, 62 reviews had been completed including four that resulted in the repeal of the relevant legislation. A further 59 reviews had commenced while a further 11 were yet to commence. All reviews are scheduled to be completed by December 2000, although implementation of review recommendations may extend beyond 2000.

Queensland Competition Authority

As the Queensland Government's independent economic regulator, the Queensland Competition Authority (QCA) is charged with several responsibilities under its governing legislation, the *Queensland Competition Authority Act 1997*. Some recent amendments have been made to this Act which include:

- the principle of competitive neutrality will be applied where a government agency allegedly enjoys an advantage over its competitors solely because it is not required to pay debt guarantee fees, or where it is not subject to tax equivalent regimes, or where it enjoys procedural or regulatory advantages;

- the prices oversight regime has been extended to cover local government businesses and for private sector water suppliers; and

- the State based third party access regime now applies to local government owned infrastructure.

The service of providing transportation by rail (using Queensland Rail's (QR) rail transport infrastructure) has been declared under the third party access regime. During the course of 1999-2000, the QCA has been assessing a draft access undertaking submitted by QR for the purpose of clarifying the terms and conditions of access to this service.

2. REVENUE OUTLOOK

KEY POINTS

- *Total Net General Government Revenue (on a GFS basis) is expected to grow by 4.4% in 2000-01, due to increases in Commonwealth grant revenues, offset by lower projections for growth in investment earnings, lower taxes, fees and fines as a result of national tax reform, and a reduction in gains, revaluations and other revenue.*

- *Payroll tax has been reduced from 5.0% to 4.9% from 1 July 2000, with a further reduction to 4.8% to occur from 1 July 2001.*

- *Bookmaker's turnover tax has been abolished, while the totalisator tax will be replaced with a wagering tax at significantly lower rates.*

- *A proposed Duties Bill will harmonise stamp duty arrangements for mortgage duty and reduce compliance costs thereby improving the competitiveness of Queensland business.*

- *The Budget is structured to accommodate changes in State revenues and grants received arising from national taxation reform. These changes include reductions in State gambling taxes, abolition of Financial Assistance Grants, and cessation of Federal safety net arrangements for tobacco, liquor and fuel.*

INTRODUCTION

This chapter outlines how the Government intends to raise revenue in 2000-01 to meet the costs of Government services, while maintaining Queensland's competitive tax status.

Only revenue received by the General Government Sector is shown. Revenue received by Public Trading Enterprises and Public Financial Enterprises is excluded. General Government Sector revenue flows primarily from three sources: taxes and charges, payments from the Commonwealth and income from State assets.

Gross revenue, which includes revenues from entities within the General Government Sector, is shown in order to provide the reader with an overview of all transactions which impact on the overall financing and revenue flows within Government.

SUMMARY OF RESULTS AND RECONCILIATION WITH CONSOLIDATED DATA

The General Government financial statements detailed in Budget Paper No. 2 are presented on a consolidated basis. This involves the addition of all the entities which comprise the General Government Sector and the elimination of intra entity transactions to reflect the financial position of the General Government as a single economic unit. Examples include dividends, tax equivalents, payroll tax and user charges paid by entities within the General Government Sector.

To aid in a comparison between the consolidated GFS and accounting results, and the gross data in this chapter, the following table reconciles GFS net revenues to gross revenues. This involves the incorporation of the GFS adjustments and intra governmental eliminations within consolidated accounting results back into the gross revenue figures.

Table 2.1
Reconciliations of GFS Revenues to Gross Revenues

Panel A
Elimination of GFS Consolidations and Intra General Government (GG) Transactions

	Estimated Actual 1999-2000 $ million	Estimate 2000-01 $ million	% Change Estimate to Actual
Total GFS Revenue	**17,407**	**18,180**	**4.4**
Plus GFS Consolidations:			
Gains and Revaluations	302	9	
Fuel Subsidy Payments[1]	610	n/a	
Total General Purpose Financial Report Revenue	**18,319**	**18,189**	
Intra Governmental transactions	3,958	3,958	
Total Gross GG Revenue	**22,277**	**22,147**	**-0.6**

Panel B
Detailed Reconciliation of General Purpose Financial Report Revenues to Gross Revenues

	GPFR Estimate 2000-01 $ million	Intra Sector Transactions 2000-01 $ million	Gross Revenue 2000-01 $ million
Taxes, Fees and Fines	4,610.6	276.4	4,887.0
Grants from the Commonwealth	8,553.0	Nil	8,553.0
Revenue from Financial Assets	2,733.6	120.8	2,854.4
User Charges	1,409.7	1,111.3	2,521.2
Royalties	507.6	Nil	507.6
Grants and Contributions	236.7	463.2	700.0
Gains, Revaluations and Other Revenue	137.6	1,991.4	2,123.3
Total	**18,188.8** [2]	**3,957.7**	**22,146.6**

Notes:
1. Fuel subsidy payments were treated as a negative tax in 1999-2000 under the GFS reporting arrangements for section 90 safety net payments.
2. This total matches that shown in the General Purpose financial report in Appendix B of Budget Paper No. 2.

Revenues within this chapter are presented on a gross accrual basis, in line with Queensland's accrual output budget approach. For most State revenue items, there is little or no difference between cash and accrual figures. The major exception to this is income derived from tax equivalent payments and dividends, where there is a lag between the financial year in which the revenue is earned (and hence recorded in accrual terms) and the payment of the corresponding cash amount.

Table 2.1 provides a summary of the composition and comparison of gross General Government Sector receipts for 1999-2000 and 2000-01. The net revenue growth of 4.4% (on a GFS basis) is due primarily to the significant growth of Commonwealth payments in 2000-01. As illustrated in Table 2.2, the largest component of State own source revenue is taxes, fees and fines, which is expected to be down slightly in 2000-01. Revenues from financial assets and from gains, revaluation and other revenue are also expected to be lower in 2000-01, generally reflecting large one-off amounts received in 1999-2000. The remainder of this chapter provides a summary of each revenue item and presents a detailed breakdown of revenue estimates.

Table 2.2
Total General Government Revenue (Gross Basis)

	Actual 1998-99 $ million	Estimated Actual 1999-2000 $ million	Estimate 2000-01 $ million	% Change Estimate to Actual
Taxes, Fees and Fines	4,605.2	4,905.5	4,887.0	-0.4
Commonwealth Payments[1]	7,587.6	7,966.5	8,553.0	7.4
Revenue from Financial Assets	2,923.1	3,530.6	2,854.4	-19.2
User Charges	2,662.9	2,432.6	2,521.3	3.6
Royalties	535.8	478.4	507.6	6.1
Grants and Contributions	787.1	718.0	700.0	-2.5
Gains, Revaluation and Other Revenue[2]	507.1	2,245.2	2,123.3	-5.4
General Government Revenue[3]	**19,608.8**	**22,276.8**	**22,146.6**	**-0.6**

Notes:
1. The Commonwealth payments figures in this table relate to General Government Sector receipts that take account of post Budget parameter changes, while Chapter 4 of this document relates to total Commonwealth payments as reported in Commonwealth Budget Documentation.
2. Equity Return payments commenced in 1999-2000.
3. Net General Government revenue growth (on a GFS basis) is 4.4% for 2000-01. Refer Chapter 3 of Budget Paper 2 for more information on revenue.

TAXES, FEES AND FINES

State revenue from taxes, fees and fines is summarised in Table 2.3.

By maintaining competitive tax rates in 2000-01, the Government will ensure that Queensland continues to enjoy an economic environment that is conducive both to business and employment. Per capita collections of State taxes, fees and fines in Queensland in 2000-01 are estimated at $1,359, compared with $1,733 for the average of the other States and Territories. The tax burden in the other States is forecast to be 27.6% higher, on average, than Queensland in 2000-01.

The Government will reduce several tax rates as part of its strategy to maintain a competitive tax environment. Payroll tax has been reduced from 5.0% to 4.9% from 1 July 2000 with a further reduction to 4.8% to occur from 1 July 2001. Bookmaker's turnover tax has been abolished, while the totalisator tax will be replaced with a wagering tax at significantly lower rates.

Further, a Duties Bill will be introduced into Parliament in the first half of 2001 which will improve the competitiveness of Queensland business by reducing business compliance costs. In particular, the harmonisation of stamp duty arrangements for mortgage duty will be of benefit to business, to the extent of $13 million per annum.

A detailed summary of Queensland's tax concessions is provided in the Tax Expenditure Statement, Appendix A to this chapter. This statement highlights the considerable tax concessions provided in Queensland.

Table 2.3
Taxes Fees and Fines Revenue

	Actual 1998-99 $ million	Est. Actual 1999-2000 $ million	Estimate 2000-01 $ million	% Change Estimate to Actual
Taxation				
Payroll Tax	1,246.2	1,350.8	1,450.5	7.4
Stamp Duties				
• *Conveyancing*	653.0	772.0	682.0	-11.7
• *Motor Vehicles Transfers*	167.2	166.0	183.2	10.4
• *Insurance*	160.4	185.9	195.3	5.1
• *Mortgages, Bonds etc*	95.2	100.0	98.0	-2.0
• *Other Stamp Duties*[1]	51.5	61.5	64.6	5.0
Total Stamp Duties	1,127.3	1,285.5	1,223.1	-4.9
Gambling Taxes[2]				
• *Gaming Machine Tax*	257.2	309.0	243.5	-21.2
• *Lotteries Taxes*	181.0	186.0	166.6	-10.5
• *Wagering Taxes*	84.5	45.0	26.4	-41.3
• *Casino Taxes*	88.9	94.7	53.7	-43.3
• *Keno Tax*	9.0	9.0	4.9	-45.6
Total Gambling Taxes	620.6	643.7	495.1	-23.1
Land Tax	232.4	220.0	224.7	2.2
Debits Tax	206.8	211.0	215.2	2.0
Total Taxation	**3,433.3**	**3,710.9**	**3,608.6**	**-2.8**
Regulatory Fees				
Motor Vehicle Registration[3]	521.3	518.0	565.0	9.1
Fire Levy	142.4	167.9	176.7	5.2
Transport and Traffic Fees	121.2	126.4	133.5	5.6
Other Fees and Levies	290.9	262.3	300.6	14.6
Total Regulatory Fees	**1,075.8**	**1,074.6**	**1,175.8**	**9.4**
Fines and Forfeitures	96.1	120.0	102.6	-14.5
Total Taxes, Fees and Fines	**4,605.2**	**4,905.5**	**4,887.0**	**-0.4**

Notes:
1. Includes stamp duty on leases, rental arrangements and credit business.
2. Includes community benefit levies. Gambling tax revenues have been reduced in 2000-01 due to the impact of the GST.
3. 6 month payment option on motor vehicle registration introduced in 1999-2000.

PAYROLL TAX

The projected increase in payroll tax collections of 7.4% in 2000-01 results from a combination of the projected growth in wages and State employee numbers, and the full-year inclusion of superannuation contributions into the payroll tax base. Payroll tax growth, however, will be partially offset by the reduction of the payroll tax rate to 4.9%, which occurred from 1 July 2000.

STAMP DUTY

Stamp duty is levied on a range of financial and property transactions. The overall decrease of 4.9% is due largely to a reduction in conveyancing transactions flowing from a number of factors impacting upon this revenue base. Both national taxation reform (including a "pull forward" effect of the GST on building activity) and the current economic environment are expected to dampen growth within the building industry and thus negatively impact upon conveyancing revenue during 2000-01. 1999-2000 stamp duty also contained a significant number of large one-off transactions, including those relating to the restructure of the electricity industry, which are not expected to be repeated in 2000-01.

Motor vehicle transfers, insurance and other stamp duties are expected to achieve positive growth in 2000-01 in line with projections for activity within these sectors.

GAMBLING TAXES

A range of gambling activities are subject to State taxes. The expected 23.1% decrease in collections from gambling taxes results from the requirement for Queensland, along with all other States and Territories, to make tax "room" for the imposition of the GST. Gambling tax revenue foregone in 2000-01 as a result of this requirement is approximately $190 million.

LAND TAX

Land tax collections are expected to increase by 2.2%, as a result of expected subdued growth within the property market in 2000-01.

DEBITS TAX

Debits tax is levied on debits to accounts with a cheque drawing or payment order facility. Debits tax revenue is expected to grow by 2.0% in 2000-01. This subdued growth rate reflects an increasing trend in the use of non-cheque payment mechanisms.

MOTOR VEHICLE REGISTRATION FEES

Motor vehicle registration revenue is influenced primarily by population growth impacting on the fleet size, and Consumer Price Index (CPI) related fee adjustments. Motor vehicle registration fee revenue is expected to increase by 9.1% in 2000-01, due to a combination of CPI growth, and the one-off impacts of the six monthly registration payment scheme flowing into a full year. In addition, vehicle purchases are expected to increase as a result of lower prices post GST.

FIRE LEVY

Fire levy revenue, which is used to fund the Queensland Fire and Rescue Authority (QFRA), is expected to increase by 5.2% in 2000-01. This increase is in line with the growth of rate contributors in 2000-01and incorporates a normal CPI adjustment.

TRANSPORT AND TRAFFIC FEES

This category comprises State transport fees, the Traffic Improvement Fee and various marine licensing and registration fees. Transport and traffic fees are expected to increase by 5.6% in 2000-01, reflecting a combination of CPI and registration growth.

OTHER FEES

Other regulatory fees include land title fees, court fees, workplace registration and registration of business names fees. This item is expected to grow by 14.6% in 2000-01. A significant proportion of this growth is due to the impact of the State Penalties Enforcement Registry initiative designed to streamline the enforcement and payment of outstanding warrants, penalties and fines.

COMMONWEALTH PAYMENTS

For many years, the States have relied heavily on a range of General Purpose and Specific Purpose Payments from the Commonwealth to supplement their own revenue sources and fulfil their expenditure responsibilities.

Under revised Commonwealth funding arrangements arising from national tax reform (which are outlined in more detail in the following chapters), Commonwealth payments received by the State in 2000-01 will comprise:

- General Purpose (or untied) Payments (includes GST Revenue Grants, Budget Balancing Assistance and National Competition Policy Payments) for both recurrent and capital purposes; and

- Specific Purpose (or tied) Payments (eg. grants for health, education, transport, etc.) for both recurrent and capital purposes.

Table 2.4 details total budgeted Commonwealth payments to Queensland. The figures for Commonwealth payments below incorporate parameter and other changes which have occurred since the delivery of the Commonwealth Budget on 9 May 2000.

Table 2.4
Commonwealth Payments

	Actual 1998-99 $ million	Est. Actual 1999-2000 $ million	Estimate 2000-01 $ million	% Change Estimate to Actual
General Purpose Payments	4,546.9	4,678.8	5,059.5	8.1
Specific Purpose Recurrent Payments	2,687.4	2,863.6	3,001.6	4.8
Specific Purpose Capital Payments	355.3	424.1	491.9	16.0
Total Commonwealth Payments	**7,587.6**	**7,966.5**	**8,553.0**	**7.4**

GENERAL PURPOSE PAYMENTS

Table 2.5
General Purpose Payments

	Actual 1998-99 $ million	Est. Actual 1999-2000 $ million	Estimate 2000-01 $ million	% Change Estimate to Actual
General Purpose Payments				
Financial Assistance Grants	3,195.8	3,252.4	-	n/a
Revenue Replacement Payments	1,310.8	1,344.9	-	n/a
GST Revenue Grants	-	-	4,604.1	n/a
Budget Balancing Assistance	-	-	369.0	n/a
Grant	-	-	*254.9*	n/a
Loan (treated as revenue)[1]	-	-	*114.1*	n/a
National Competition Policy	40.3	81.5	86.4	6.0
Total General Purpose Payments	**4,546.9**	**4,678.8**	**5,059.5**	**8.1**

Note:
1. Consistent with the advice of the Queensland Auditor General and the treatment by other States, the loan item within Budget Balancing Assistance payments has been treated as revenue.

Financial Assistance Grants and Revenue Replacement Payments

From 1 July 2000, Financial Assistance Grants and Revenue Replacement Payments have ceased and have been replaced with GST Revenue Grants.

GST Revenue Grants

Queensland’s share of federally collected GST revenue is expected to be $4,604.1 million in 2000-01. This inaugural share of GST revenue is apportioned on the basis of horizontal fiscal equalisation and cannot be directly compared to Commonwealth payments received in prior years.

Budget Balancing Assistance

As discussed in Chapter 4, the Commonwealth has agreed to provide Budget Balancing Assistance payments to the States if their GST revenue is less than their Guaranteed Minimum Amount (GMA). Queensland’s GMA is $4,973.1 million for 2000-01, resulting in Budget Balancing Assistance payments comprised of a $254.9 million grant and a $114.1 million interest free notional loan, which has been treated as revenue. This treatment is consistent with the advice of the Queensland Auditor General and the treatment by the other States. In 2000-01, Queensland will receive 13.7% of the Budget Balancing Assistance payments to the States and Territories compared with a population percentage of 18.6%.

National Competition Policy Payments

As a signatory to National Competition Policy (NCP) agreements, the Queensland Government is required to consider and, where relevant, implement competition-related reforms over the next decade. Under agreed Commonwealth-State financial reforms, the commitment to maintain real per capita Financial Assistance Grants is absorbed into the GMA calculation. The Commonwealth also makes Competition Payments to the State.

These payments are being made over the nine year period from 1997-98 to 2005-2006 and are distributed to the States on an equal per capita basis on the recommendation of the National Competition Council (NCC) to the Commonwealth.

If the Commonwealth accepts the recommendation of the National Competition Council that a State has not undertaken the required competition-related reforms within the timeframes specified by the NCP agreements, its share, or a proportion of the "bonus" competition payments, may be retained.

Prospective NCP payments to States and Territories in 2000-01 are outlined in Table 2.6. The full $86.4 million competition payment expected to be received by Queensland has been included as revenue for 2000-01. Under previous arrangements, escalation of the former Financial Assistance Grants (FAGs) paid by the Commonwealth Government to the States and Territories was linked to NCP implementation. No such conditions apply to the payment of GST revenues.

Table 2.6
NCP Payments to the States and Territories in 2000-01

	Estimate $ million
New South Wales	156.5
Victoria	115.1
Queensland	86.4
Western Australia	45.8
South Australia	36.1
Tasmania	11.3
Australian Capital Territory	7.5
Northern Territory	4.7
Total	**463.4**

SPECIFIC PURPOSE PAYMENTS

Table 2.7
Specific Purpose Payments

	Actual 1998-99 $ million	Est. Actual 1999-2000 $ million	Estimate 2000-01 $ million	% Change Estimate to Actual
Specific Purpose Recurrent Payments				
Health	1,272.1	1,338.9	1,393.6	4.1
Education	698.1	765.5	828.1	8.2
Communication, Information, Local Government and Planning	222.5	235.3	247.7	5.3
Employment, Training & Industrial Relations	128.3	137.9	130.5	-5.4
Disability Services Queensland	n/a	n/a	83.5	} 15.9
Families, Youth and Community Care	80.0	92.4	23.6	
Main Roads	73.2	59.6	63.2	6.1
Treasury	66.7	58.2	57.4	-1.4
Other	146.5	175.8	174.0	-1.0
Sub-Total	2,687.4	2,863.6	3,001.6	4.8
Specific Purpose Capital Payments				
Main Roads	136.5	174.7	191.5	9.6
Housing	121.4	131.0	176.1	34.4
Education	54.8	56.3	57.4	2.0
Employment, Training & Industrial Relations	28.2	35.9	32.7	-8.9
Other	14.4	26.2	34.2	30.5
Sub-Total	355.3	424.1	491.9	16.0
Total Specific Purpose Payments	**3,042.7**	**3,287.7**	**3,493.5**	**6.3**

SPECIFIC PURPOSE RECURRENT PAYMENTS

Health

Australian Health Care Agreement

Queensland receives funding for public hospital and other health services from the Commonwealth under the Australian Health Care Agreement. Funding under the Agreement increases each year in line with age and sex weighted population growth, and increasing hospital costs and utilisation rates. The base funding component of the Agreement is expected to increase by 5.8% to $1,095.6 million in 2000-01. Queensland should receive additional funding consistent with the ruling of an independent Arbiter provided for under the Agreement. At the time of the Arbiter's decision this would have provided $116 million over four years. The Commonwealth has refused to accept the Arbiter's determination. The Estimated Actual figures reflect the outcome of Commonwealth-State negotiations in 1999-2000. In addition to the base grant, Queensland Health will receive $61 million in AHCA specific purpose payments in 2000-01 to cover mental health, palliative care and quality enhancement.

Other

In 2000-01, Queensland Health also will receive $237 million ($238.9 million in 1999-2000) in funding from the Commonwealth for a range of specific health programs, including programs such as home and community care, mental health, quality enhancement, palliative care, public health, blood services and high cost drugs. The decrease of $1.9 million from 1999-2000 is mainly attributable to the phasing in of the National Development Fund over the duration of the program. This has offset growth in funding for other initatives.

Education

Commonwealth Specific Purpose Payments to the Department of Education represent funding for recurrent education grants to State and non-State schools. The budgeted increase of 8.2% in 2000-01 reflects enrolment growth and new non-State grant methodologies used by the Commonwealth.

Communication and Information, Local Government, Planning and Sport

Commonwealth recurrent Specific Purpose Payments to the Department of Communication, and Information, Local Government, Planning and Sport relate to Commonwealth Grants to Queensland Local Government Authorities (formerly Commonwealth Grants to Local Authorities Trust Fund). The increase of 5.3% in the 2000-01 Budget reflects Commonwealth indexation of these payments.

Employment, Training and Industrial Relations

Commonwealth recurrent funding for the Department of Employment, Training and Industrial Relations is estimated to decrease by 5.4% in 2000-01 to $130.5 million, due mainly to reduced funding for Vocational Education and Training (VET) in Schools and Australian National Training Authority (ANTA) recurrent programs. Funding for Adult Migrant Education also has been changed from a Specific Purpose Payment to payments being made by the Commonwealth on a fee for service basis.

Families, Youth and Community Care

On an aggregate basis, Specific Purpose Payments for the Department of Families, Youth and Community Care and Disability Services Queensland are estimated to increase by 15.9%. This is due to an increase in payments under the Commonwealth-State Disability Agreement (CSDA).

Main Roads

The Department of Main Roads receives funding from the Commonwealth towards the maintenance of the National Highway System. Specific purpose recurrent payments are projected to increase by 6.1% in 2000-01 to $63.2 million. This increase is partly due to the inclusion of funding for grants to local governments for Black Spot treatments ($5 million). This funding was included within capital grants in previous years.

Treasury

Treasury receives payments from the Commonwealth under the Commonwealth-State natural disaster relief measures and the Commonwealth’s contribution to concessions for Pensioner Concession Card Holders. These payments will be down 1.4% on 1999-2000 levels at a total of $57.4 million for 2000-01, primarily due to a reduction in National Disaster Relief Assistance (NDRA) payments following a large payment in 1999-2000.

Other

Other Commonwealth payments include recurrent funding under the Commonwealth-State Housing Agreement and ongoing payments relating to the establishment of the Australian Securities Commission. Other Commonwealth payments are expected to fall slightly in 2000-01 to $174.0 million.

SPECIFIC PURPOSE CAPITAL PAYMENTS

Main Roads

Capital Specific Purpose Payments to the Department of Main Roads represent funding for infrastructure works on the National Highway System, the Black Spot program and the Pacific Motorway project. Funding is provided on a project by project basis and the level of funding in the Commonwealth program for road works in 2000-01 is independent of 1999-2000.

Education

The Commonwealth provides capital Specific Purpose Payments to the Department of Education for capital grants to State and non-State schools. In 2000-01, these payments will remain broadly in line with the 1999-2000 actual receipts.

Housing

The Department of Housing is expected to receive an additional 34.4% in capital payments for 2000-01. This increase is due to primarily an additional $19.8 million payment to compensate the Department for the imposition of the GST and a reclassification of some Commonwealth grants previously classified as recurrent payments to capital payments.

Employment, Training and Industrial Relations

The Department of Employment, Training and Industrial Relations receives capital funding from the Commonwealth for vocational education and training infrastructure. This item is expected to decrease by $3.2 million in 2000-01, due mainly to a reduction in Infrastructure Equipment - Private Providers funding. This follows from an unusually high level of funding in 1999-2000.

REVENUE FROM FINANCIAL ASSETS

Table 2.8
Revenue from Financial Assets

	Actual 1998-99 $ million	Est. Actual 1999-2000 $ million	Estimate 2000-01 $ million	% Change Estimate to Actual
Investment Earnings	1,408.2	1,739.1	1,304.2	-25.0
Dividends	973.4	1,219.2	926.6	-24.0
Tax Equivalents	412.4	416.5	495.6	19.0
Guarantee Fees	72.9	76.2	78.5	3.1
Other Revenue from Financial Assets	56.2	79.5	49.4	-37.9
Total Revenue from Financial Assets	**2,923.1**	**3,530.6**	**2,854.4**	**-19.2**

INVESTMENT EARNINGS

Investment earnings primarily comprise interest earned on the Treasurer's Cash Balances, reserves of the Consolidated Fund, and investments held to finance future employee entitlements (ie. superannuation, long service leave). The State's superannuation reserves are invested with Queensland Investment Corporation (QIC), while other balances are held primarily at Queensland Treasury Corporation (QTC).

Earnings were again strong in 1999-2000, primarily as a result of excellent investment returns from QIC, which were in the order of 14%. QIC's high investment returns were achieved due to higher than forecast returns in both Australian equities and international equities when measured in Australian dollars.

In accordance with normal practice, projected returns for the Budget and forward years are based on the assumption of a return to longer term trend investment earnings.

DIVIDENDS

Dividends are received from the State's equity in Government Owned Corporations and Commercialised Business Units. These include:

- Queensland Treasury Holdings, QTC, the Queensland Electricity Supply Industry (QESI), QIC, Port Authorities, QRail, Golden Casket; and
- Commercialised Business Units (DPI Forestry, QBuild, the Centre for Information Technology and Communications (CITEC), Q-Fleet, Property Management, Project Services, Sales and Distribution, and GoPrint).

Dividends are projected to fall by 24.0% to $926.6 million, due to the payment of special dividends from the Queensland Treasury Corporation and the Queensland Infrastructure Financing Fund Trust in 1999-2000, which will not occur in 2000-01.

TAX EQUIVALENT PAYMENTS

Tax equivalent payments comprise payments by Government Owned Corporations and Commercialised Business Units, in lieu of State and Commonwealth taxes and levies, from which they are exempt. These payments arise from an agreement reached between the Commonwealth and State Governments in 1994 to establish a process for achieving tax uniformity and competitive neutrality between public sector and private sector trading activities. Tax equivalent payments are expected to increase 19.0% in 2000-01, in accordance with estimates provided by participating entities. A significant increase in tax equivalent payments is projected for the Queensland Electricity Supply Industry.

GUARANTEE FEES

Guarantee fees are revenues collected by QTC and comprise performance dividends, competitive neutrality fees and credit margin fees. These fees facilitate competitive neutrality between public sector agencies and those in the private sector, and ensure that the benefits accruing from the financial backing and superior borrowing performance of the State (through QTC) are shared between the borrower and the State. Guarantee fee revenues are expected to grow by 3.1% in 2000-01 in line with government owned corporation borrowing levels.

OTHER REVENUE FROM FINANCIAL ASSETS

Other revenue from financial assets includes revenue from the sale of licences and royalties on intangibles, such as the rights to use computer software, copyrights and patents. The reduction of 37.9% represents a return to normal levels after the one-off receipt in 1999-2000 from the sale of the TAB gaming licence.

USER CHARGES

Table 2.9
User Charges

	Actual 1998-99 $ million	Est. Actual 1999-2000 $ million	Estimate 2000-01 $ million	% Change Estimate to Actual
Sales of Goods and Services	2,148.7	1,910.6	2,004.4	4.9
Rent Revenue	392.5	384.8	372.8	-3.1
Sale of Land Inventory	8.1	30.9	31.0	0.3
Hospital Fees	113.6	106.3	113.0	6.3
Total User Charges	**2,662.9**	**2,432.6**	**2,521.3**	**3.6**

SALES OF GOODS AND SERVICES

Sales of goods and services represent revenue earned where the seller is seeking to recover the cost of goods supplied or services rendered where there is a direct benefit to the user.

Major items across General Government include:

- fees charged to other Government agencies by the Commercialised Business Units of the Department of Public Works, for building, maintenance and vehicle fleet services;
- recoverable works carried out by both the Department of Main Roads and the commercialised arm of Main Roads;
- charges for ambulance transport services, including subscriptions;
- fees charged by TAFE colleges;
- water charges for rural and industrial users; and
- fees charged by CITEC, for information and telecommunications services to the public and private sectors.

Sales of goods and services revenue is expected to increase by 4.9% in 2000-01, representing the combined impacts of growth in both volumes and fees charged for services.

The reduction in revenue from 1998-99 to 1999-2000 actuals is partly due to a restructure of revenue streams within the Department of Main Roads and the cessation of revenue for Queensland Corrections after it was wound up in 1999 (this was a Budget neutral change, as Queensland Corrections was paid on a fee for service basis by the Department of Corrective Services).

RENT REVENUE

Rent revenue represents revenues 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 to Government agencies by the Department of Public Works for government buildings. Rental revenues are expected to decline by approximately 3.1% in 2000-01, reflecting a general reduction across departments.

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 Estate Construction Fund. As such, it is distinct from property disposals undertaken by most Government agencies, where only the gain on sale would flow through the operating statement.

HOSPITAL FEES

Hospital fees are fees collected by public hospitals for chargeable bed days. In 2000-01, hospital fee revenue is expected to increase by 6.3% on 1999-2000 collections. This increase is due to a combination of CPI increases and increased service provision.

ROYALTIES

Table 2.10 Royalties	Actual 1998-99 $ million	Est. Actual 1999-2000 $ million	Estimate 2000-01 $ million	% Change Estimate to Actual
Royalties	535.8	478.4	507.6	6.1

The State earns royalties from the extraction of coal, base and precious metals, bauxite, petroleum, mineral sands and other minerals. In addition, royalties revenue includes rents received by the State from pastoral holdings, mining and other leases.

Estimates of mining royalties are based predominantly on forecasts of production compiled by the Department of Mines and Energy (DME). The increase in royalties of 6.1% in 2000-01 is due in part to the impact of the lower Australian dollar on the domestic valuation of mineral commodities.

GRANTS & CONTRIBUTIONS

Table 2.11 Grants and Contributions	Actual 1998-99 $ million	Est. Actual 1999-2000 $ million	Estimate 2000-01 $ million	% Change Estimate to Actual
Grants and Contributions	787.1	718.0	700.0	-2.5

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

- those received from private enterprise and community groups to fund research projects and community services;
- contributed assets and goods and services received for a nominal amount; and
- revenues received from government by Queensland Government Departments, Statutory Authorities, Trust Funds and Commercialised Business Units where that money is used to meet government policy objectives (eg. Community Service Obligation payments).

Grants and Contributions revenue is expected to decrease by 2.5% in 2000-01. The reduction in revenue from 1998-99 to 1999-2000 is primarily due to the treatment of services provided by QBuild to the Department of Education.

GAINS, REVALUATIONS AND OTHER REVENUE

Table 2.12
Gains, Revaluations and Other Revenue

	Actual 1998-99 $ million	Est. Actual 1999-2000 $ million	Estimate 2000-01 $ million	% Change Estimate to Actual
Equity Return	-	1,869.9	1,965.2	5.1
Gains and Revaluations	76.9	222.1	8.5	-96.2
Other Revenue	430.2	153.2	149.6	-2.3
Total Gains, Revaluations and Other Revenue	**507.1**	**2,245.2**	**2,123.3**	**-5.4**

The Equity Return is a periodic payment made by agencies reflecting the opportunity cost to the Government of the assets held by agencies, and is calculated on the value of an agency's total equity. Equity returns were first introduced in 1999-2000 as part of the accrual output budgeting framework. In 1999-2000, agencies were fully funded for the Equity Return, and this has been built into ongoing funding. In 2000-01, the Equity Return is expected to grow by 5.1% in line with the general growth in departmental equity.

Gains and revaluations include the excess of net proceeds over book value from asset disposals, and the revaluation of assets where a previous decrement has been expensed through the operating statement. The reduction in 2000-01 arises from a return to normal levels due primarily to the large one-off gain from the sale of the TAB in 1999-2000.

Other revenue includes overpayments recovered, revenue for work performed on an agency basis, and proceeds from asset sales below a certain threshold. The closure of the Building Society Fund and the return of the remaining balance to the Consolidated Fund increased other revenues in 1999-2000, which are expected to return to normal levels in 2000-01.

The fall in actual revenues from 1998-99 to 1999-2000 is attributable to the 1998-99 year containing a number of abnormal items. These included contributions from a significant asset sale program by the Department of Public Works.

TAX EXPENDITURE STATEMENT

OVERVIEW

Governments employ a range of policy tools to achieve social and economic policy objectives. These include use of direct budgetary outlays, regulatory mechanisms and, importantly, taxation. As required by the *Charter of Social and Fiscal Responsibility*, the Government prepares an annual Tax Expenditure Statement (TES), published in the Budget papers, detailing revenue foregone as a result of Government decisions relating to the provision of tax concessions.

The statement is designed to improve transparency in the use of tax expenditures and result in better informed policy decisions by government and increased public understanding of the fiscal process.

A taxation expenditure is the reduction in tax revenue that results 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; and
- 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 scrutiny as part of the annual Budget.

This year's statement includes 1999-2000 estimates of tax expenditures for payroll tax, land tax, stamp duties and gambling taxes. A summary of the major tax expenditures valued on the basis of revenue foregone is presented in Table 2.13. Not all expenditures are able to be quantified at this time. Accordingly, the total value of tax expenditures should be considered as indicative only.

The full statement appears at Appendix A of this document.

Table 2.13
Tax Expenditure Summary

	1998-99[1] $ million	1999-2000 $ million
Payroll Tax		
Exemption Threshold	644.9	699.1
Deduction Scheme[2]	64.1	69.5
Offshore Banking Units and Regional Headquarters concession	0.2	0.2
Section 10 exemptions[3]		
Local Government	51.4	55.8
Education	39.8	43.1
Hospitals	84.7	91.9
Total	**885.2**	**959.5**
Land Tax		
Liability Thresholds[4]	140.0	148.2
Graduated Land Tax Scale	67.3	86.8
Primary Production Deduction	37.4	41.7
Section 13 exemptions not included elsewhere[3]	33.2	32.4
General Land Tax Rebate[5]	12.2	40.2
Additional Land Tax Rebate	1.9	1.9
Land Developers' Concession	*n.a.*	*n.a.*
Offshore Banking Units and Regional Headquarters concession	0.0	0.0
Total	**291.9**	**351.2**
Stamp Duties		
Stamp Duty on Residential Conveyances		
Principal Place of Residence	137.2	162.2
First Home Buyers Rebate	6.8	8.1
Stamp Duty on Mortgages and Loan Securities	*n.a.*	*n.a.*
Stamp Duty on General Insurance		
Non-life Insurance	108.1	125.3
Workcover	21.5	25.0
Health Insurance	72.7	78.7
Total	**346.4**	**399.1**
Taxes on Gambling		
Gaming Machine Taxes	84.3	84.9
Casino Taxes	6.6	4.5
Total	**90.9**	**89.4**

Notes:
1. 1998-1999 estimates may have been revised since last year's Budget.
2. Deduction of $0.85 million, which reduces by $1 for every $3, is applicable to employers with an annual payroll between $0.85 million and $3.4 million.
3. Applicable but not limited to religious bodies, public benevolent institutions and other exempt charitable institutions.
4. Land tax is payable only on the value of taxable land above a threshold which depends on the land's ownership.
5. The general land tax rebate increased from 5% to 15% effective from 1 July 1999.

n.a. not available due to data limitations.
Numbers may not add to totals due to rounding.

QUEENSLAND’S TAX COMPETITIVENESS

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.

While a comparison of tax rates provides a broad indication of tax competitiveness, there are other aspects of a competitive tax system. It is not just the rate of tax that affects the tax burden of individuals and business, but the fundamental design of the tax system, including the costs and time associated with complying with tax laws. A simple tax system creates an attractive environment for business expansion and development and is conducive to employment creation.

A Duties Bill which will be introduced into Parliament in the first half of 2001, will enhance business competitiveness through alignment of the law with current business practices, clearer statements of what transactions are liable to stamp duty, and the facilitation of interstate transactions with other States’ legislation. The harmonisation of stamp duty arrangements for mortgage duty will be of particular benefit to business. These reforms, together with the adoption of uniform administrative provisions for the main revenue Acts, are designed to reduce compliance costs for business and costs of administration for the State.

MEASURING QUEENSLAND’S TAX COMPETITIVENESS

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

- taxation revenue expressed on a per capita basis;
- revenue relativities based on Commonwealth Grants Commission methodology; or
- taxation revenue expressed as a percentage of gross state product.

Queensland’s competitive tax position is confirmed by all three measures.

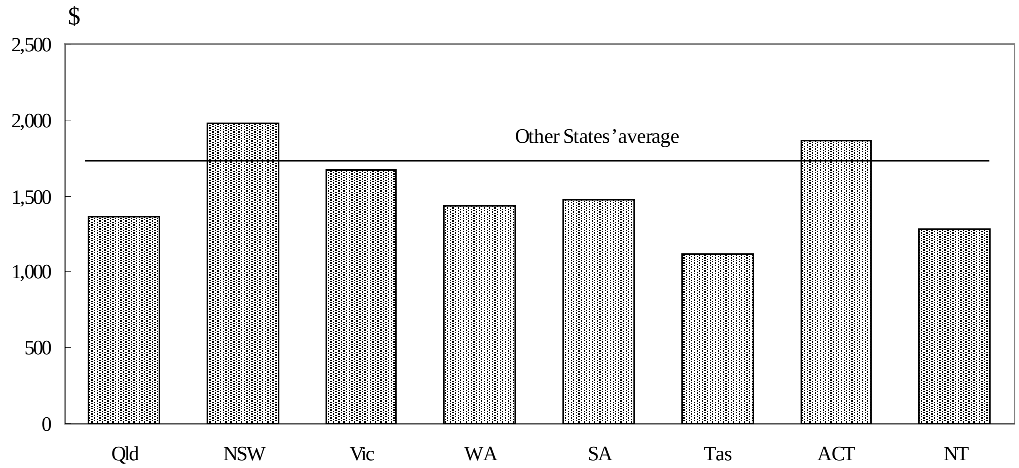
Taxation Revenue Per Capita

Chart 2.1 shows the estimated per capita tax burden for all States and Territories for 2000-01. Per capita collections of State taxes, fees and fines in Queensland in 2000-01 are estimated at $1,359, significantly lower than the average of the other States. The tax burden of the other States is forecast to be 27.6% higher, on average, than Queensland’s per capita taxes for 2000-01.

Due to changes in State taxation revenue associated with national taxation reform, it is not possible to compare taxation revenue per capita in 1999-2000 against estimates for 2000-01. State tax receipts are estimated to fall in 2000-01, with the abolition of franchise fee replacement grants and the reduction in gambling taxes from 1 July 2000.

Per capita comparisons only provide a partial measure of tax competitiveness since low per capita taxation may reflect limited revenue capacity rather than a policy intent to maintain low rates of taxation.

Chart 2.1
Taxes, Fees and Fines per capita, 2000-01



Source: Various 2000-01 State and Territory Budget papers

Commonwealth Grants Commission Measure of Revenue Effort

The Commonwealth Grants Commission measure of revenue effort provides an independent assessment of relative State tax competitiveness. This is because it isolates policy impacts from revenue capacity impacts. Revenue effort is calculated as the ratio of actual revenue to standardised revenue, where standardised revenue is determined by the application of national average tax rates to a State's revenue base. In the 1999-2000 Queensland State Budget Paper No. 3, Commonwealth Grants Commission data were published for 1997-98, which indicated that Queensland's revenue effort was 81.8%; that is, Queensland's revenue policy was 18.2% less onerous than the average of the other States.

The Commonwealth Grants Commission's published estimates of revenue efforts for 1998-99 in its 2000 Update reflect the full application of changes in States' tax policies arising from national taxation reform from 1 July 2000. The published estimates are therefore not fully representative of the States' actual revenue efforts in 1998-99. Accordingly, they have been adjusted to reflect actual tax policies (State and Commonwealth) which occurred in 1998-99. These estimates are presented in Table 2.14 below.

Table 2.14
Revenue Effort by State, 1998-99, %

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Adjusted[1]	109.6	100.9	81.4	91.9	105.5	93.5	98.7	102.3

Note:
1. Derived from data published in Commonwealth Grants Commission General Revenue Grant Relativities 2000 Update and adjusted to reflect actual State tax policies in 1998-99.

Taxation Revenue Relative to Gross State Product (GSP)

A third way of comparing relative tax burdens is taxation revenue measured as a proportion of GSP. This measure has proven useful in assessing how tax competitiveness has changed over time. However, the introduction of accrual accounting has led to methodological changes in the ABS calculation of tax revenue data for 1998-99. Accordingly, a comparable time series is no longer available. Table 2.15 compares taxation revenue as a percentage of GSP across all States for 1998-99 – the latest published data. The data confirm Queensland's competitive tax status against all States and Territories.

Table 2.15
Taxation Revenue as a % of GSP, 1998-99[1]

NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Average
6.5	6.0	4.7	5.0	5.8	5.8	5.1	5.2	5.8

Note:
1. Data for State tax revenue is preliminary only.

Source: ABS 5506.0 and 5220.0

BENEFITS OF A COMPETITIVE TAX SYSTEM

Globalisation and the liberalisation of international markets for capital and, to some degree, labour are increasing competition for investment and jobs. This pressure has forced businesses to look for new ways to maintain their competitiveness.

Taxation can impact on business decisions regarding investment and employment and can be a major determinant of firm start-up and relocation decisions. It is important therefore to maintain a tax system which minimises distortions to private sector economic activity and maximises equity. By maintaining competitive tax rates, Queensland provides a competitive advantage to business and a moderate tax burden for its citizens.

The following case study provides an interstate comparison of the typical State taxes facing a small to medium sized business and highlights the benefits to firms of locating or expanding in Queensland. The comparisons confirm that over a range of costs, Queensland's low tax regime represents real savings to business.

Case Study – ABC Enterprises

The tax comparisons outlined in Table 2.16 are presented for a hypothetical firm, ABC Enterprises, which incurs the following expenses:

- payroll of 30 staff;
- rent for 500 square metres of prime CBD office accommodation;
- purchase of company car valued at $30,690;
- annual motor vehicle comprehensive insurance premium of $700;
- annual insurance premium for office equipment of $6,000; and
- annual turnover of around $5 million.

Queensland's payroll tax regime underscores the State's comparative tax advantage. Based on average weekly earnings in each State and employer superannuation contributions of 8% for a staff of 30, ABC Enterprises would incur an annual payroll tax liability of $8,827 in Queensland, compared with an average liability in the other States of $24,544 per annum.

The State's competitive CBD office rentals, combined with low lease duty, make Brisbane an attractive location for business headquarters. Lease duty on 500m^2 of prime CBD office space in Brisbane is estimated at $280 per annum compared with the average of the other States of $522 per annum. While lease duty is imposed at the same rate in Queensland and New South Wales, lower office rents for prime CBD sites maintain Queensland's competitive advantage.

Stamp duty on motor vehicle registration is considerably lower in Queensland than all other States, providing a significant benefit to business, particularly those with large car fleets. ABC Enterprises would pay $614 in stamp duty on the registration of a new company car (valued at $30,690) in Queensland, a saving of $367 compared with the average of the other States.

Insurance represents a standard expense for most businesses. In this example, ABC Enterprises has an annual motor vehicle comprehensive insurance policy premium of $700 and an annual insurance policy premium for office equipment of $6,000. ABC Enterprises would save $180 in stamp duty on both policies by locating in Queensland over New South Wales. The average saving on both policies in Queensland compared with the other States is around 16%.

Queensland does not levy financial institutions duty. ABC Enterprises would save $3,036 per annum in Queensland compared with the average of the other States, assuming annual transactions totalling $5 million.

In summary, Table 2.16 shows illustrative tax savings of some 65% for this hypothetical enterprise from locating in Queensland compared with the average tax burden it would face elsewhere in Australia. Figure 2.1 highlights Queensland's relative advantage for individual tax items.

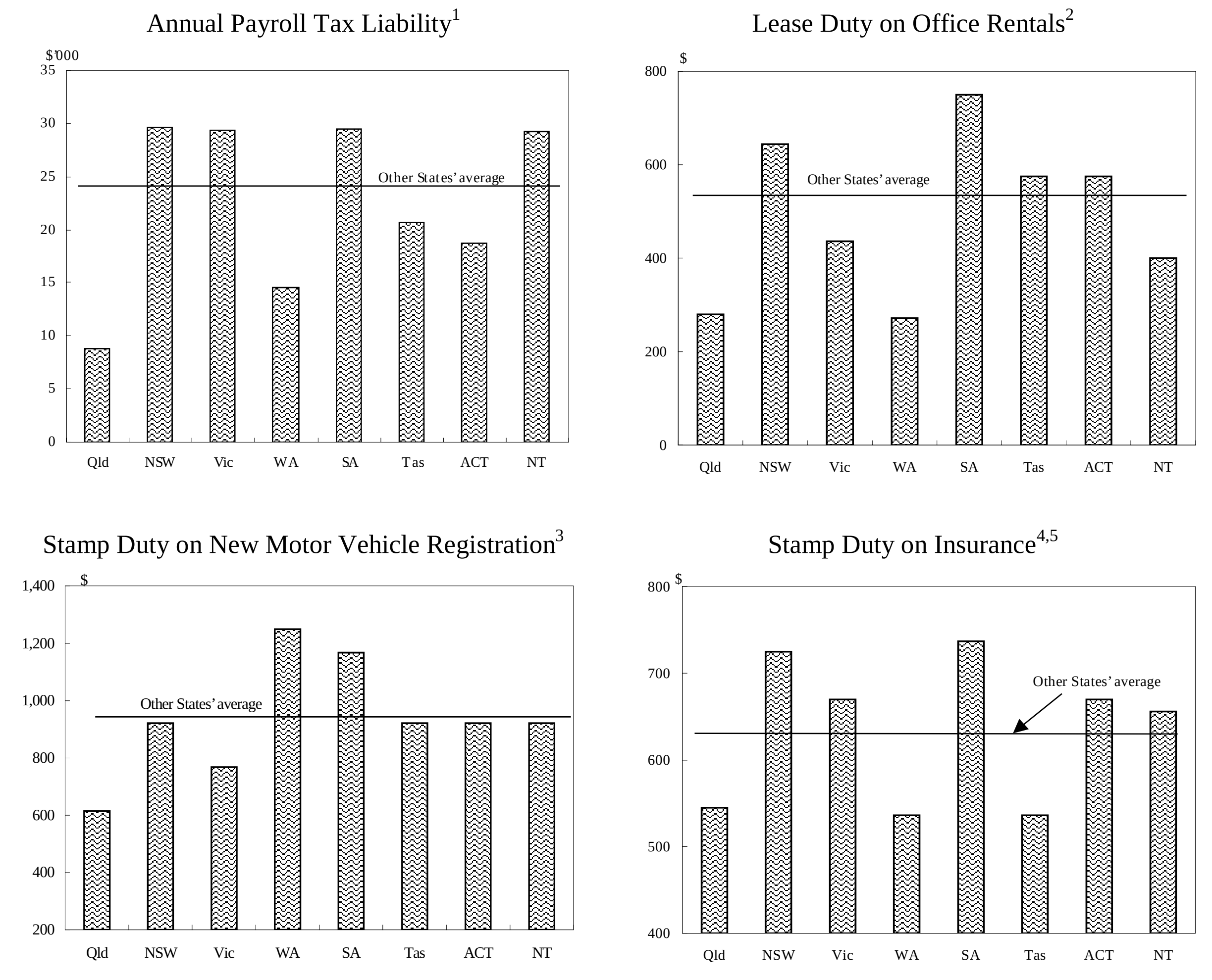
Case Study (Continued)

Table 2.16
Illustrative Tax Savings
ABC Enterprises

Tax	Queensland Tax $	Average Tax[1] $	Tax Savings $
Payroll tax	8,827	24,544	15,717
Lease duty	280	522	242
Stamp duty on motor vehicle registration	614	981	367
Stamp duty on insurances	545	649	104
Financial institutions duty[2]	0	3,036	3,036
Total[3]	**10,266**	**29,731**	**19,466**

Notes:
1. Average of the other States.
2. Based on the standard rate of duty.
3. Numbers may not sum due to rounding.

Figure 2.1
Illustrative Tax Liability by State



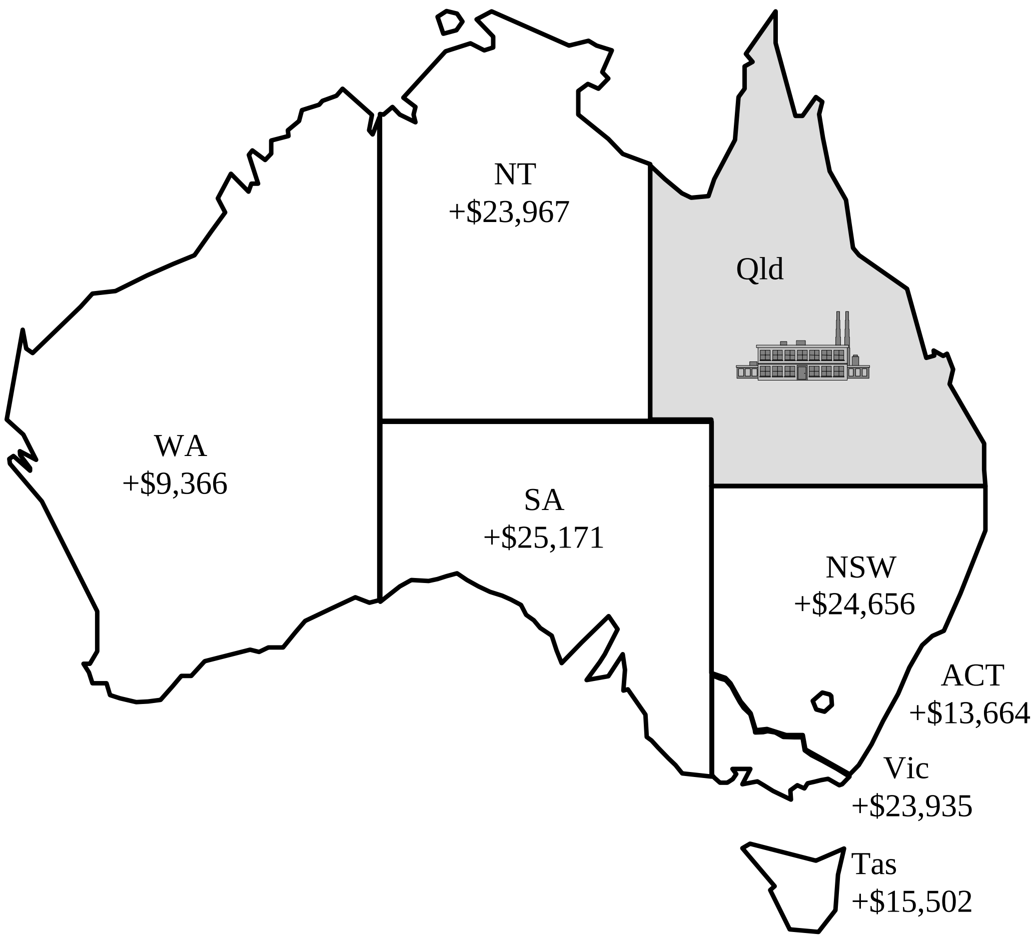
Notes:

1. Based on each State's average weekly earnings (total earnings) for August 1999 and employer superannuation contribution of 8%. Payroll tax rates applicable for 2000-01.
2. Lease duty payable on a 12 month (definite) lease of 500 m^2 of prime CBD office accommodation. Based on CBD rentals for September quarter 1999 published by Colliers Jardine.
3. Based on purchase price of $30,690.
4. Stamp duty payable on annual motor vehicle comprehensive insurance premium of $700 and annual insurance premium for office equipment of $6,000.
5. Stamp duty on workers' compensation is not presented. Queensland, South Australia and Western Australia are the only States which levy stamp duty on workers' compensation. However, despite the stamp duty impost, the total cost of workers' compensation is less in Queensland, on average, than all States due to competitive premiums. If ABC Enterprises was located in Queensland the firm would be liable for stamp duty on workers' compensation of $798, assuming an average premium rate of 1.75%. In Western Australia, the impost would rise to $1,552 due to that State's higher average premium rate of 3.44% (current as at 4 May 2000). In South Australia the impost is greater at $2,762. [Note: Premiums are based on the average premium rate charged by the relevant workers' compensation authority in each State. However, the actual rate would depend on the claims experience of the firm.]

Sources: ABS 6302.0
2000-01 State and Territory Budget papers
Colliers Jardine Asia Pacific Property Trends, October 1999

Case Study (Continued)

Figure 2.2
Queensland's Relative Tax Advantage[1]



1. Tax burden of business location relative to Queensland on the basis of savings identified in Figure 2.1.

Figure 2.2 presents the tax advantage to ABC Enterprises of locating in Queensland relative to the other States. The comparative analysis shows that ABC Enterprises' State tax liability is $23,935 lower in Queensland than Victoria. The saving is greater in relation to New South Wales and South Australia, demonstrating Queensland's tax competitiveness.

APPENDIX A

TAX EXPENDITURE STATEMENT (TES)

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 aggregations of costings for individual tax expenditure items presented in the TES will not necessarily provide an accurate estimate of the total level of assistance that is provided through tax expenditures.

Measuring tax expenditures requires the identification of:

- a benchmark tax base;
- concessionary taxed components of the benchmark tax base such as a specific activity or class of taxpayer; and
- a benchmark tax rate to apply to the concessionary 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 tax for each tax included in the statement. The tax 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; and
- 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 to be exercised and is not definitive. Furthermore, data limitations mean that the tax expenditures are approximations and are not exhaustive. This statement does not include estimates of revenue foregone from exemptions or concessions provided to charities, religious organisations or government agencies. Very small exemptions or concessions are also excluded.

The numbers presented below are the tax expenditure estimates for 1999-2000.

PAYROLL TAX

The benchmark tax base for payroll tax is assumed to be all wages, salaries and supplements 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 ($699.1 million)

Employers 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 28 employees. This concession is designed to assist small business.

Deduction Scheme ($69.5 million)

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

Section 10 Exemptions ($190.8 million)

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).

Offshore Banking Units (OBUs) and Regional Headquarters Concessions (RHQs) ($0.2 million)

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

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 owned by individuals, with a value below the threshold for that year. 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 ($148.2 million)

Land tax is payable on the value of taxable land above a threshold which depends on the land's ownership. Residential land owned by individuals is excluded from the estimate.

Graduated Land Tax Scale ($86.8 million)

A graduated (concessionary) scale of land tax rates is applicable to land with a taxable value of less than $1.5 million.

Primary Production Deduction ($41.7 million)

The taxable value of land owned by an individual, absentee, company or trustee does not include all or part of the land that is used for the business of agriculture, pasturage or dairy farming.

Land Tax Exemptions (not elsewhere included) ($32.4 million)

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 ($40.2 million)

A general rebate on land tax of 15% is provided to taxpayers. This increased from 5% effective from 1 July 1999 resulting in a significant increase in the tax expenditure estimate.

Additional Land Tax Rebate ($1.9 million)

An additional rebate is available to trustees and companies where the taxable land value is less than $165,000. A schedule of rebates is offered according to the taxable value of the land.

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*.

There is no estimate currently available on the value of the concession for 1999-2000.

Offshore Banking Units (OBUs) and Regional Headquarters (RHQs) 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 are exempted from paying land tax on concessional land relating directly to Queensland-based OBU or RHQ activities. No land tax concessions were provided to OBUs and RHQs in 1999-2000.

STAMP DUTY ON RESIDENTIAL CONVEYANCES

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.

Principal Place of Residence Exemption ($162.2 million)

A concessional rate of stamp duty applies to purchases intended to be a principal place of residence. The maximum land area claimable as a principal place of residence is 0.5 hectares. A concessionary rate of 1% applies on values up to $250,000 compared to the normal schedule of rates between 1.5% and 3.25%. For properties valued greater than $250,000, the scheduled scale of conveyancing duty applies on the excess.

First Home Buyers Rebate ($8.1 million)

Where a purchaser has not previously owned a residence in Queensland or elsewhere, a stamp duty rebate is applicable on properties valued up to $160,000. (This concession is not applicable if the purchase price is less than the full market value of the property.) The size of the rebate depends on the value of the property and ranges in value from $800 for properties valued under $80,000 to $200 for properties valued between $155,000 and $160,000.

OTHER STAMP DUTIES

Stamp Duty Concessions on General Insurance ($229.0 million)

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

The stamp duty rate applicable to general insurance is 8.5%. However concessional rates apply to other insurance types (5% for motor vehicle, workers' compensation and professional indemnity insurance, and 3% for tourism and travel insurance). Data limitations mean that these insurance types are categorised into non-life insurance cover and Workcover. An exemption from stamp duty is also provided for private health insurance.

Stamp Duty on Mortgages and Loan Securities – Principal Place of Residence Exemption

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.

An exemption from stamp duty is allowed where a home mortgage secures an advance attributable to the purchase or erection of the borrower's principal home. The mortgage is exempt up to an amount of $100,000 for a first home and $70,000 for others. (Since 1 July 1996, the *Stamp Act 1894* also provides for an exemption from mortgage duty of an amount up to the first $100,000, for refinancing an amount outstanding under a mortgage on the borrower's principal place of residence.)

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

GAMBLING TAXES

Gaming Machine Tax Concessions for Licensed Clubs ($84.9 million)

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 (which is 45% 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 ($4.5 million)

The benchmark tax base is assumed to be all casinos operating in Queensland. The benchmark tax scale is assumed to be the flat rate of 20% of casino gross revenue that applies for standard transactions in the Brisbane and Gold Coast casinos.

A concessional tax rate of 10% applies for normal gross revenue for the Cairns and Townsville casinos. In addition concessional rates also apply for revenue from high rollers in all casinos. High roller revenue is taxed at 10% for the Brisbane and Gold Coast casinos and 8% for the Cairns and Townsville casinos.

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A concessional tax rate of 10% applies for normal gross revenue for the Cairns and Townsville casinos. In addition concessional rates also apply for revenue from high rollers in all casinos. High roller revenue is taxed at 10% for the Brisbane and Gold Coast casinos and 8% for the Cairns and Townsville casinos.

3. NATIONAL TAX REFORM – IMPLICATIONS FOR QUEENSLAND

KEY POINTS

- *National tax reform will deliver smaller reductions in State taxes in Queensland than in any other jurisdiction.*
  - *Effectively, taxpayers in Queensland will be disadvantaged because of the State's low tax regime.*
- *As a result, Queensland will receive only $410.3 million in Budget Balancing Assistance, or only 4.8% of the total assistance of $8,481.3 million made available to all States and Territories through to 2003-04.*
- *The new Commonwealth arrangements will not deliver additional funding to Queensland until 2002-03, and even then the increase will be marginal. The Commonwealth is expected to retain any increase in GST revenue in the early years by way of offsetting its Budget Balancing Assistance to States and Territories.*
- *The interaction of tax reductions and increased Commonwealth grants will produce a net positive impact for Queensland of only $527 per capita over the next five years, lower than all jurisdictions other than Tasmania and 38.7% lower than the average of $860 per capita for all States and Territories.*
- *National tax reform will increase the dependence of States and Territories on Commonwealth funding. In 2000-01, Commonwealth grants will represent 47% of Queensland's total revenue, compared with 43% in 1999-2000.*

INTRODUCTION

This chapter describes the implications for Queensland's revenue arrangements arising from national tax reform. For States and Territories, national tax reform resulted in the abolition of certain State taxes (although this was concentrated in higher taxing jurisdictions), revised funding arrangements with the Commonwealth and a new Ministerial Council for the management of Commonwealth-State financial relations.

The Commonwealth and State and Territory Governments embodied these reforms in the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations (IGA), which Queensland signed on 25 June 1999. Although the Queensland Government remains opposed to the introduction of the GST, it agreed to and has successfully implemented the IGA to ensure Queenslanders were not further disadvantaged.

While the new arrangements for Commonwealth-State financial relations remove some unsatisfactory aspects of previous arrangements, the States and Territories nevertheless remain heavily dependent on funding arrangements with the Commonwealth for much of the revenue required to support their expenditure responsibilities. Further reform will be necessary to achieve an improvement in Commonwealth-State financial arrangements.

INTERGOVERNMENTAL AGREEMENT

The main features of the IGA are:

- certain State taxes have been, or are to be abolished;
- State gambling tax arrangements will be adjusted to take account of the impact of the GST on gambling operators;
- the temporary arrangements for the taxation of petrol, liquor and tobacco under the safety net arrangements announced by the Commonwealth on 6 August 1997 ceased on 1 July 2000;
- the Financial Assistance Grants that the Commonwealth made annually to the States ceased from 1 July 2000;
- the States will receive, for any purpose, all the revenue raised by the Goods and Services Tax (GST);
- the Commonwealth will continue to provide Specific Purpose Payments (SPPs) to the States and has stated it has no intention of cutting aggregate SPPs as part of the reform process set out in the IGA;
- a First Home Owners' Scheme has been introduced by the States to mitigate the impact of the GST on the price of homes for first home owners, entailing a lump sum payment to eligible home owners of $7,000 from 1 July 2000;
- the States have adopted the Schedule version of Part VB of the *Trade Practices Act 1974*, which regulates pricing behaviour inconsistent with tax reform, to extend the measures in Part VB to cover those areas outside the Commonwealth's constitutional power;
- the States will make voluntary GST payments in regard to the property of the States; and
- a National Tax Equivalent Regime (NTER) for income tax is proposed to be introduced for government business enterprises from 1 July 2001. The parties also intend to apply reciprocal taxation between all levels of government.

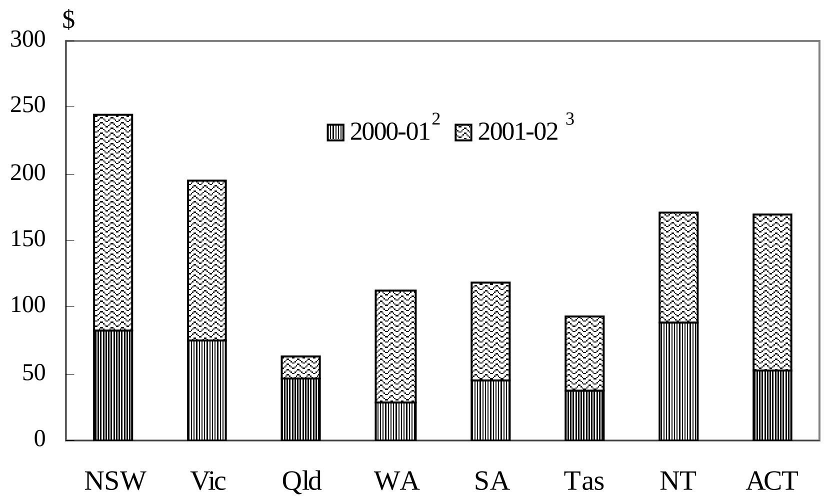
STATE TAX REFORM

Apart from restructuring financial relations, the IGA also was originally intended to fund the removal of several State taxes. These included State taxes on financial transactions (including Debits Tax, Financial Institutions Duty, Mortgage Duty, Cheque Duty, Stamp Duty on Marketable Securities etc), Bed Taxes and Stamp Duty on Non-Residential Conveyances. The States also agreed to reduce State gambling taxes to make "room" for the imposition of the GST. There is a perception in the community that Payroll Tax and Stamp Duty on insurance also would be removed; however, this was never planned.

The extent of State tax reform originally proposed has been scaled back following the agreement between the Commonwealth and the Australian Democrats to reduce the GST base. This resulted in a reduced amount of revenue available to the States to fund the removal of State taxes.[1] The State taxes that will be abolished include Bed Taxes, Financial Institutions Duty, Stamp Duty on marketable securities quoted on the Australian Stock Exchange or other recognised stock exchange and Debits Tax. The first two of these taxes are not levied in Queensland.

Chart 3.1 shows the per capita reduction in State taxes expected in the first two years after the introduction of the GST. The chart highlights the disparity in State tax relief embodied in the IGA. For example, per capita tax reductions in NSW are almost four times larger than those for Queensland in 2001-02. Effectively, the IGA disadvantages taxpayers in Queensland because successive Queensland Governments have adopted fiscal policies that embodied lower tax revenue.

Chart 3.1
State Tax Reductions, 2000-01 to 2001-02[1]
$ per capita



1. Per capita estimates were derived using the population projection for 31 December 2000 from Commonwealth Budget Paper No 3, Table 4, p. 14.
2. Includes abolition of Bed Taxes and gambling tax reductions.
3. Includes Bed Taxes, Financial Institutions Duty and gambling tax reductions.

AMENDMENTS TO STATE TAXES

In implementing the IGA, Queensland has reduced gaming machine tax rates, abolished the Bookmakers Turnover Tax and will allow other gambling operators to deduct from their State tax liability their global GST liability. These changes were effected through the *GST and Related Matters Act 2000* which was passed by the Queensland Parliament on 20 June 2000.

Queensland also has amended the *Pay-roll Tax Act 1971* and the *Stamp Act 1894* where the interaction of the GST and the State tax would have produced an unintended policy outcome.

[1] The timetable for the removal of State taxes can be found in Appendix A of the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations. The IGA is attached as a Schedule to the *GST and Related Matters Act 2000*.

Prior to the introduction of the GST, Commonwealth taxes did not affect payroll tax liability. The *Pay-roll Tax Act 1971* has been amended to ensure that the GST is excluded from the payroll tax base.

In the case of Stamp Duty, where there always has been a relationship between Commonwealth taxes and stamp duty, the situation is slightly different. Stamp duties are assessed on values that include Commonwealth taxes (mainly Wholesale Sales Tax, Excise and Tariffs). The same situation will apply post-GST. This outcome reflects the fact that the State and Commonwealth sometimes apply different taxes on the same tax base. However, in the case of Stamp Duty on insurance, rental business and instalment purchase agreements, a tax cascade occurs. The Commonwealth amended the GST legislation to remove the cascade in respect of insurance but declined to remove the cascade on rental business and instalment purchase agreements. The amendment to the *Stamp Act 1894* will address this anomaly with respect to these agreements and remove the cascade effect.

FUNDING REFORMS

At the core of the IGA is an agreement to provide the States with all revenue from the GST to replace existing untied sources of Commonwealth grants and foregone State tax revenue and to fund new expenditure responsibilities. In 2000-01, the Commonwealth is projected to raise just over $24 billion from the GST, which it will provide unconditionally to the States. However, the certainty of the States' access to all the GST revenue relies on the good faith of future Commonwealth Governments in accepting the arrangements set out in the IGA. It should be noted that intergovernmental agreements ultimately are political compacts that have no legal status and therefore are not enforceable except through moral suasion.

Although the Queensland Government opposed the introduction of the GST, it participated in the development of the IGA to minimise any adverse impact on Queenslanders. The original Commonwealth reform proposal heavily disadvantaged Queensland citizens through a combination of two factors.

- Firstly, the Commonwealth proposed to use the GST revenue to abolish several State taxes; however, some of these taxes were not levied in Queensland. This meant that citizens in other States would receive greater reductions in State tax than Queenslanders.

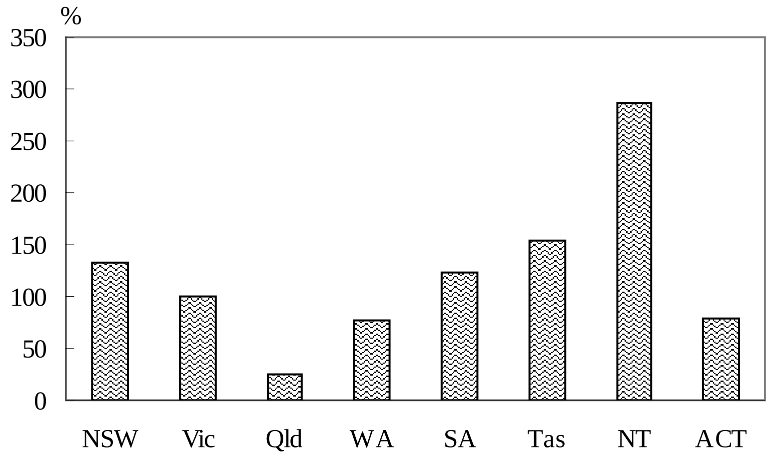
  Moreover, for several years after the introduction of the GST, the Commonwealth will provide Budget Balancing Assistance to the States and Territories, which in part funds the abolition of State taxes. Over the period 2000-01 to 2003-04, the Commonwealth will provide $8,481.3 million in Budget Balancing Assistance Grants (see Table 3.1). Queensland will receive $410.3 million, or 4.8% of the total assistance to be provided. This share is significantly lower than the State's population share (refer Chart 3.2). In the event that the GST revenue exceeds the Commonwealth's forecasts, the additional revenue will reduce the Budget Balancing Assistance Grants, which benefits the Commonwealth. The effects of the GST revenue being over or underestimated are discussed in Chapter 4.

Table 3.1 Budget Balancing Assistance $ million								
	NSW	Vic	Qld	WA	SA	Tas	NT	ACT
2000-01	982.1	663.5	369.0	246.9	236.5	90.8	62.6	41.3
2001-02	1,432.7	792.6	41.3	274.2	311.0	125.3	91.6	43.6
2002-03	807.8	400.9	0.0	111.7	163.2	68.0	59.6	21.6
2003-04	593.5	269.5	0.0	11.1	98.9	33.9	34.4	2.4
Total[1]	3,816.1	2,126.5	410.3	643.9	809.6	318.0	248.2	108.9
% of total	45.0	25.1	4.8	7.6	9.5	3.7	2.9	1.3

Note:
1. Totals may not sum due to rounding.

Source: Commonwealth Budget Paper No.3, 2000-01.

Chart 3.2
Budget Balancing Assistance[1]
Relative Shares (%), 2000-01 to 2003-04



1. A State’s relative share is calculated as the ratio of the State's share of payments to its share of population.

Source: Commonwealth Budget Paper No. 3, 2000-2001

- Secondly, the Commonwealth decided to suspend the principle of horizontal fiscal equalisation – which underpins the distribution of Commonwealth untied funding to the States[2] – in order to fund the planned reforms. Originally the Commonwealth planned to suspend these principles for a period of three years, but the Queensland Government negotiated with the Commonwealth to reduce this period to two years. This is projected to provide Queensland with $68 million in additional funding in 2002-03.[3] Although this sum is small relative to total State revenue, it enables the Government to partially offset the disadvantage of receiving lower reductions in State taxes compared with other States and Territories. This opportunity would have been foregone if Queensland had chosen not to participate in the IGA.

[2] The principle of horizontal fiscal equalisation means that State Governments should receive funding from the Commonwealth such that if each State made the same revenue 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.

[3] When the IGA was originally negotiated in April 1999 the additional revenue for 2002-03 was projected to be $150 million. The revised forecast reflects changes in the IGA, in CGC relativities and revenue projections.

A funding issue that was not addressed through the IGA was the shortfall in revenue replacement payments received by Queensland for fuel. The cost of providing fuel subsidies has been a significant financial disadvantage to Queensland since the commencement of the safety net arrangements in 1997. Queensland has incurred losses of some $210 million since the arrangements were put in place, despite an undertaking from the Prime Minister that Queensland would not be disadvantaged financially.

On 20 June 2000, the Queensland Government established a Taskforce to investigate alternatives to the fuel subsidy scheme with a view to minimising the current level of losses. However, advice from the fuel industry is that significant losses are likely to continue on an on-going basis. In particular, the Commonwealth's takeover of full responsibility for off-road diesel subsidies has left the State with a potential exposure in relation to on-road diesel subsidies. Further scheme redesign is being considered by the Taskforce to address this issue.

BUDGET IMPACTS

The Commonwealth agreed to provide States with budgetary assistance until such time as the GST revenue exceeds what would have been the budget position of the States and Territories if national tax reform had not occurred. The Commonwealth's commitment to preserve the States' pre-tax reform budget position is limited to defined revenue and expenditure items, which together determine a "Guaranteed Minimum Amount". The Guaranteed Minimum Amount (GMA) for Queensland is described in detail in Chapter 4. The GMA does not include all the impacts of national tax reform on the Queensland Budget. For example, State Government GST implementation costs are not included in the GMA, although they have a significant budgetary impact.

Current GST revenue projections and GMA calculations indicate that Queensland will be the first State to receive an improvement in its financial position as a result of the IGA, which occurs because fewer State taxes are being abolished in Queensland. This will not occur until 2002-03.

Table 3.2 presents the impact under the IGA by State for the period, 2000-01 to 2004-05. As well as showing the relative State and Territory budget impacts of the IGA, Table 3.2 shows the relative reductions in State taxes. The total impact, which provides an indicative measure of the effect on households by State, is the aggregate of increased Commonwealth grants and the estimated reduction in State taxes.

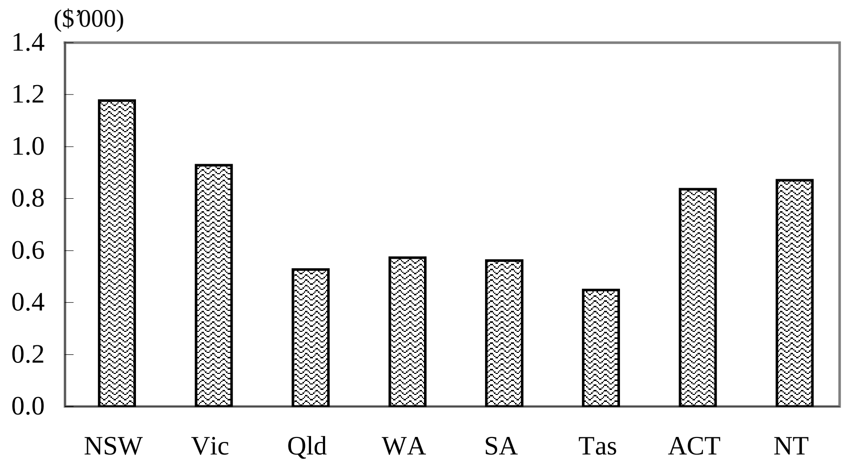
Table 3.2
IGA Tax/Grant Impact by State
2000-01 to 2004-05, $ million

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Increased grants (a)[1]	0.0	0.0	758.6	95.2	0.0	0.0	14.2	1.1
Reduction in State taxes(b)[2]	7,672.8	4,452.0	1,137.4	996.2	844.0	210.5	248.6	170.7
Total impact (a+b)	7,672.8	4,452.0	1,896.0	1,091.4	844.0	210.5	262.8	171.8
$ Impact per capita[3]	1,177.0	928.6	527.2	572.5	561.5	448.6	836.1	870.8

Notes:
1. Based on impacts recognised in the calculation of the Guaranteed Minimum Amount.
2. Includes reductions in gambling taxes.
3. Based on Commonwealth Grants Commission population estimates for 2000-01.

As indicated, New South Wales residents are expected to receive a tax reduction of $1,177 per capita over this period compared with tax reductions and increased Commonwealth grants of $527 per capita in Queensland. These results clearly demonstrate that the impact of the reform of State taxes will not be spread evenly across the States. Moreover, the measure confirms that the increase in Commonwealth grants to Queensland did not compensate Queenslanders for receiving a smaller reduction in State taxes. Chart 3.3 shows the uneven distribution of the IGA's per capita impacts across the States and Territories.

Chart 3.3
IGA Tax/Grant Impact by State
$ per capita, 2000-01 to 2004-05



The States and Territories have accepted two major new expenditure items under the IGA. From 1 July 2000, eligible first home buyers will receive a grant of $7,000 to offset the impact of the GST on house prices. In Queensland, the Office of State Revenue will administer the grants. It is expected that $137.1 million in grants will be paid in 2000-01. The States also will reimburse the Commonwealth the cost of administering the GST. Queensland's share of GST administration costs in 2000-01 is projected to be $151 million.

OTHER IMPACTS

The Commonwealth Government's national tax reform package assumed that the States and Territories would realise savings from the abolition of embedded Wholesale Sales Tax. However, as these projected savings are to be offset against foregone revenue in calculating the GMA, they will not improve the States and Territories' Budget positions. For example, savings of $83.6 million from the abolition of Wholesale Sales Tax and excise reductions were assigned for the General Government Sector in Queensland in 2000-01. Whereas the private sector is expected to pass on similar savings through price adjustments, State and Territory Government savings already have been offset in the GMA calculation by the Commonwealth Government. As a result in 2000-01, those general government charges, for which there is a GST liability, generally will be increased by 10%.

The GST is not expected to have a significant impact on State revenue. The Commonwealth has assumed that increased economic growth, as a result of its tax reforms, will increase tax revenue in Queensland by $14.3 million in 2000-01, an increase of less than 0.3% of tax revenue forecast for 2000-01. Should the GST precipitate greater than expected inflation or wages outcomes, it is unlikely that even this minimal increase in revenue will be achieved.

IGA IMPLEMENTATION

On signing the IGA, Queensland agreed to implement a range of commitments. Queensland has fully met the commitments required under the IGA for 2000-01.[4] Table 3.3 lists Queensland's commitments and how they were implemented.

[4] The States and Territories are required to abolish Debits Tax by 1 July 2005, subject to review by the Ministerial Council.

Table 3.3 Queensland's IGA Implementation	
Attaching the IGA as a Schedule to relevant State legislation	*GST and Related Matters Act 2000*
State legislation requires compliance with the IGA	*GST and Related Matters Act 2000*
State to cease to apply Stamp Duty on Marketable Securities from 1 July 2001	*GST and Related Matters Act 2000*
State to adjust gambling tax arrangements to take account of the impact of the GST on gambling operators	*GST and Related Matters Act 2000*
State off-road diesel subsidies to cease	*GST and Related Matters Act 2000*
Increase in pensions and allowances specified in *A New Tax System* will not flow through to increase public housing rents where the rents are linked to the level of the pension	Administrative arrangement by the Department of Housing
States to fund and administer a nationally uniform First Home Owners Scheme	*First Home Owners Grant Act 2000*
State and local Governments and their statutory corporations and authorities will operate as if they were subject to GST	*GST and Related Matters Act 2000*
Commonwealth, States and Territories agree that the GST does not apply to the payment of some taxes and compulsory charges	Queensland has agreed to two Determinations issued by the Commonwealth Treasurer under Division 81 of the GST Act
State will adopt the Schedule version of Part VB of the *Trade Practices Act 1974*	*New Tax System Price Exploitation Code (Queensland) Act 1999*

MINISTERIAL COUNCIL

The IGA established a Ministerial Council comprising the Commonwealth Treasurer and the Treasurers of the States and Territories. The Ministerial Council is supported by the GST Administration Sub-Committee, which comprises Commonwealth, State and Territory Treasury officials.

The Ministerial Council met on 17 March 2000, its first meeting since being established on 1 July 1999, and has also dealt with a number of matters by correspondence.

The Ministerial Council has agreed to a number of Ministerial Determinations which amend the GST base by providing GST-free treatment to supplies covered by the Determinations:

- two Determinations under Division 81 of the GST Act concerning government taxes, fees and charges; and

- seven Determinations by Commonwealth Ministers under Division 38 of the GST Act concerning education, health and community services.

The Ministerial Council has also reached agreement on the financial arrangements for 2000-01. These arrangements are discussed in Chapter 4.

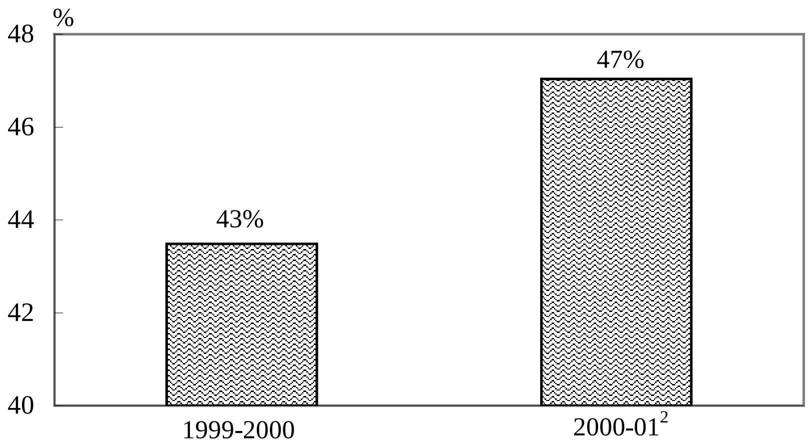
IMPLICATIONS FOR COMMONWEALTH-STATE FINANCIAL RELATIONS

National tax reform provided an opportunity to address the fundamental imbalance between expenditure responsibilities and revenue powers that exists in the Australian Federation. Over many years, and for a variety of reasons, the Commonwealth gained access to the more efficient and robust revenue instruments available in Australia. Rather than sharing these tax bases with the States – thereby allowing the States to balance revenue and expenditure responsibilities – the Commonwealth chose to collect and redistribute revenue to the States through tied and untied grants.

The IGA continues Commonwealth-State financial relations within a revenue sharing framework. The major difference between the old and new arrangements is that, under the IGA, untied revenue grants will be determined by an agreed formula, rather than being determined by negotiation at the annual Financial Premiers' Conference. However, revenue sharing ultimately does not address the imbalance between revenue raising and expenditure responsibilities. Indeed, the Commonwealth's tax reform package will exacerbate this imbalance by increasing over time the reliance of State budgets on revenue raised by the Commonwealth.

Chart 3.4 shows that Commonwealth payments will increase from 43% of total Queensland revenue in 1999-2000 to 47% in 2000-01. This percentage will be even higher with the further planned abolition of State taxes under the IGA.

Chart 3.4
Commonwealth Payments
% of Total Queensland Revenue[1]



1. Net revenues presented on an accounting basis.
2 Includes GST revenue grants.

Because the IGA is based on a revenue sharing arrangement, there are potential risks which would prevent the States and Territories from realising the benefits from the IGA. Foremost amongst these risks is the potential for a future Commonwealth Government to revert to an arrangement that provides the Commonwealth with discretion over the level of untied funding. Although the Commonwealth has legislated its commitment to the IGA in the *A New Tax System (Commonwealth-State Financial Arrangements) Act 1999,* it is open to a future Commonwealth Parliament to repeal or amend that Act.

The other major concern is that any improvements over time in funding under the IGA could be dissipated or undermined by changes in other Commonwealth funding arrangements such as Specific Purpose Payments (SPPs) or through cost shifting. To address these concerns, at least in part, the Commonwealth has made a commitment in the IGA not to cut aggregate SPP funding as part of national tax reform. This undertaking will be monitored by the Ministerial Council.

4. FEDERAL FINANCIAL RELATIONS

KEY POINTS

- *Queensland is expected to receive total gross Commonwealth payments of $8,453.7 million in 2000-01. This comprises:*

  - *$4,604.1 million in GST Revenue Grants;*
  - *$3,394.2 million in Specific Purpose Payments;*
  - *$369.0 million in Budget Balancing Assistance; and*
  - *$86.4 million in National Competition Payments.*

- *Total Commonwealth funding to Queensland in 2000-01 is expected to be broadly equivalent to its population share. However, Queensland's share of GST Revenue Grants for 2000-01 is estimated at 19.1% of the GST revenue pool of funds, which is higher than its estimated population share of 18.6%.*

- *Queensland will receive an underlying increase in General Revenue Assistance of $18.6 million as a result of the Commonwealth Grants Commission's 2000 Review of Per Capita State Relativities*

  - *Since 1993, Queensland has experienced a reduced share of funding as a result of the application of new methods of assessment by the Commission. For 2000-01, the reduction is estimated to be $345.6 million.*

INTRODUCTION

The impact on Queensland of the implementation of the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations (IGA)* is discussed in Chapter 3. This chapter outlines the institutional arrangements which constitute the federal fiscal framework, and provides details of Commonwealth funding in 2000-01.

Funding Transfers

Funding transfers from the Commonwealth comprise General Revenue Assistance and Specific Purpose Payments. General Revenue Assistance is not tied to particular purposes and is available to spend at each State's discretion. Under revised arrangements applying from 1 July 2000, General Revenue Assistance includes GST Revenue Grants, Budget Balancing Assistance and National Competition Payments.

In contrast, Specific Purpose Payments are tied to particular Commonwealth policy objectives and are subject to varying conditions, performance criteria and other constraints as to their use. Specific Purpose Payments are distributed among the States as specified by the funding agreements that govern the payments.

FEDERAL FISCAL FRAMEWORK

There have been some changes to the federal fiscal framework as a result of the IGA. The institutions which now underpin federal fiscal arrangements in Australia are:

- Ministerial Council;
- Australian Loan Council; and
- Commonwealth Grants Commission.

MINISTERIAL COUNCIL

As discussed in Chapter 3, the Ministerial Council comprises Commonwealth and State and Territory Treasurers. Its role is to oversee the implementation and operation of the IGA and to ensure compliance with its terms. In particular, the Ministerial Council also provides a forum for the discussion of the per capita relativities recommended by the Commonwealth Grants Commission. The Ministerial Council replaces the annual financial Premiers' Conference process. The last financial Premiers' Conference was held on 9 April 1999.

The inaugural Ministerial Council meeting was held in Canberra on 17 March 2000. The main purpose of the initial Ministerial Council meeting was for Commonwealth, State and Territory Treasurers to consider expected revenue payments to the States and Territories in 2000-01, as well as a range of GST administration issues. Key outcomes of the meeting were:

- the Council endorsed the CGC's 2000 Update relativities for use in the distribution of the GST revenue and Health Care Grants to the States for 2000-01;

- the Council endorsed the Commonwealth's Statement of Estimated Payments specifying the amounts each State will receive in 2000-01;

- the Commonwealth re-affirmed its commitment under the IGA not to cut aggregate SPPs to the States as part of the national tax reform process;

- the Council noted the list of Commonwealth and State taxes and charges that will not be subject to the GST (Ministerial Determination under Division 81 of the GST Act);

- the Council noted that all States will implement a First Home Owners Scheme (FHOS) from 1 July 2000. The States' establishment of a FHOS is a requirement under the IGA;

- the Commonwealth advised its intention to legislate that States withhold from any local government authority that does not register and pay GST a sum equivalent to the tax payments which ought to have been made. The States are also to implement laws that will allow them to detect any non-compliance by local government bodies and to determine the level of local government financial assistance grants to be withheld in such cases; and

- the Council endorsed 1 July 2001 as the target date for implementing the National Tax Equivalent Regime for income tax for State government business enterprises.

AUSTRALIAN LOAN COUNCIL

The Australian Loan Council also comprises Commonwealth, State and Territory Treasurers. Its role is to co-ordinate public sector borrowing by endorsing what are termed Loan Council Allocations (LCAs) for the Commonwealth and each State. The LCAs essentially reflect each jurisdiction's maximum call on financial markets for the coming year.

The 139th Australian Loan Council meeting was held immediately after the inaugural Ministerial Council meeting. For 2000-01, the Loan Council has endorsed LCAs totalling negative $6,657 million (a projected public sector surplus). This aggregate comprised an endorsed LCA of negative $6,910 million for the Commonwealth, and net endorsed LCAs of $253 million for the States and Territories.

In its 2000-01 Budget, the Commonwealth presented a revised LCA estimate of an $8,513 million surplus, compared with the nominated surplus of $6,910 million approved by the Loan Council. This revision from the estimate approved by Loan Council reflects an improvement in the general government cash balance.

The Loan Council observed that economic growth in Australia is expected to remain strong in 2000-01 and noted the importance of consolidating improvements in budgetary outcomes of recent years at this stage of the economic cycle. Against this background, the Loan Council considered aggregate LCA nominations as being consistent with current macroeconomic policy objectives. Details of Queensland's revised LCA nomination are provided in Appendix A of Budget Paper No. 2.

COMMONWEALTH GRANTS COMMISSION

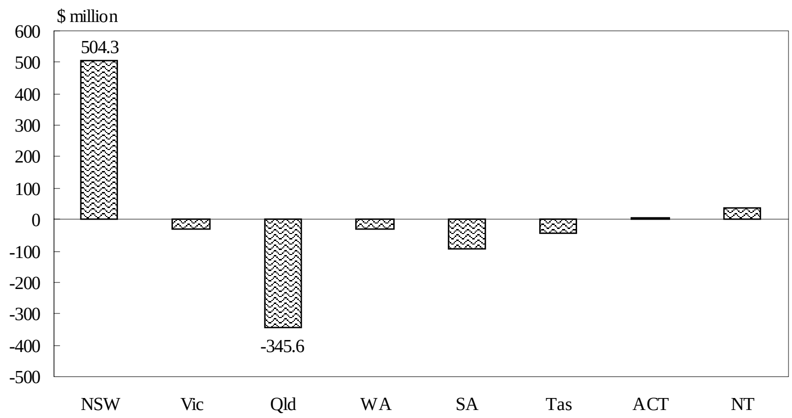
The Commonwealth Grants Commission (CGC) is an independent statutory authority. Its role is to determine and recommend per capita relativities for the distribution of certain Commonwealth payments to the States each year. These per capita relativities are designed to achieve horizontal fiscal equalisation (HFE). Recommendations of the CGC are considered by the Ministerial Council.

Subject to the transitional arrangements applying under the IGA, from 1 July 2000, the principle of HFE is to be applied to the distribution of GST Revenue Grants and Health Care Grants among the States and Territories. The principle of HFE, as applied in Australia, is that State Governments should receive funding from the Commonwealth to ensure 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 same capacity to provide services at the same standard.

The CGC calculates each State's share of General Revenue Assistance according to HFE principles. In its 2000 review of funding distribution, the CGC assessed that Queensland required additional General Revenue Assistance of $18.6 million. The additional assistance was deemed necessary because Queensland had a reduced capacity to raise own source revenue due to a decline in the housing sector, meaning that revenue from stamp duty on conveyances was diminished. Secondly, Queensland's economic activity during 1998-99 resulted in lower revenues from financial transaction taxes and land revenues.

Although our share of Commonwealth funds increased moderately this year in underlying terms, the trend over the past seven years has been one of decline. Over this time, the CGC has introduced new assessment factors that have had an adverse impact on Queensland's relative share of Commonwealth funds. In its 1993 Review, the CGC changed its assessment of location specific disabilities and introduced a wages input cost disability. In 1999, the CGC introduced an assessment of depreciation expenditure. These three CGC methodology changes have resulted in $345.6 million less in Commonwealth funds for Queensland in 2000-01.

Chart 4.1
Impact of Urbanisation, Input Costs and Depreciation By State, 2000-01



TRANSITION TO NEW FUNDING ARRANGEMENTS

In the initial years of the new funding arrangements, GST revenue is not expected to be sufficient to meet the States' existing funding requirements and the additional expenditure responsibilities placed on them by the Commonwealth's tax reforms. As a result, the Commonwealth has guaranteed that in the transitional years, budgetary positions of the States and Territories will be no worse off than they would have been if the reforms had not been implemented. However, as discussed in Chapter 3, this guarantee is limited to a specified number of budget impacts and does not compensate the States for all budget impacts. The level of funding guaranteed by the Commonwealth is called the Guaranteed Minimum Amount (GMA).

The amount of funding which a State will receive from the Commonwealth during the transition period is to be determined by reference to the GMA, as outlined below:

- if a State's share of GST revenue is less than its GMA, the shortfall is met by the payment of Budget Balancing Assistance (BBA); and

- in the first two years of the transition period, if a State's share of GST revenue is more than its GMA, the difference is redistributed to other States that still require BBA.

Accordingly, during the first two years of the transition period, no State will be worse off but neither will any State be entitled to receive GST revenue in excess of the GMA, irrespective of the HFE distribution. This is a significant erosion of the principle of HFE in this period.

Beyond the first two years, States will be able to retain GST revenue in full, without having to forego any excess beyond the GMA.

BBA will continue to be available for individual jurisdictions until such time as GST revenue exceeds the funding that would have been received had national tax reform not occurred.

Table 4.1 shows the derivation of the GMA and hence BBA for Queensland and for all States and Territories in aggregate in 2000-01.

Table 4.1
Calculation of Guaranteed Minimum Amount, GST Revenue and Budget Balancing Assistance, 2000-01[1]

	Queensland $ million	All States/ Territories $ million	Queensland's Share (%)
Commonwealth grants foregone:			
- Financial Assistance Grants	3,421.6	17,992.1	19.0
- safety net revenues (fuel, tobacco, liquor)	1,323.9	6,860.7	19.3
Plus reduced States' own source revenues:			
- accommodation taxes abolished	Nil	79.4	
- reduced net gambling revenue	168.1	1,163.1	14.5
- wholesale sales tax equivalents abolished	18.0	112.7	16.0
- interest costs on changed revenue cashflow	11.7	35.2	33.2
Plus new expenditures:			
- First Home Owners Scheme	137.1	762.2	18.0
- GST administration costs	151.0	810.5	18.6
Minus expenditure savings:			
- off road diesel subsidies[2]	160.5	516.7	31.1
- savings from tax reform	83.6	451.0	18.5
Minus growth dividend on remaining State taxes:	14.3	103.0	13.9
Guaranteed Minimum Amount	**4,973.1**	**26,745.1**	**18.6**
GST revenues from Commonwealth	**4,604.1**	**24,052.6**	**19.1**
Budget Balancing Assistance	**369.0**	**2,692.6**	**13.7**
- Notional loan	114.1	1,655.6	6.9
- Commonwealth grant	254.9	1,036.9	24.6

Notes: Numbers may not sum due to rounding.
1. Estimates only.
2. Represents eleven months of savings in 2000-01. In accrual terms, the savings to Queensland will be in the order of $175 million.

Source: Commonwealth Budget Paper No. 3, 2000-01

The Commonwealth Budget Paper estimates indicate that the national revenue shortfall for 2000-01 will be $2,692.6 million, of which Queensland's share is projected to be $369.0 million. BBA to Queensland will be provided as a grant of $254.9 million and the remainder as an interest free notional loan of $114.1 million. In 2000-01, Queensland is expected to receive only 13.7% of BBA, well below our population share of 18.6%. During the Commonwealth's forward estimates period (4 years), Queensland's share of total BBA is expected to be even lower at 4.8%.

In the event that the amount of GST revenue collected exceeds the estimated amount of $24,052.6 million, the Commonwealth will offset the surplus by reducing BBA to the States. The benefits of any higher than expected GST revenues therefore will accrue to the Commonwealth and not to the States. Conversely, if the amount of GST revenue collected is less than the estimated amount, the Commonwealth will be required under the terms of the IGA to increase the BBA by a commensurate amount.

Both the grant and loan components have been included as General Revenue Assistance. Interest free notional loans made to the States in 2000-01 are to be paid back to the Commonwealth in 2001-02 from GST Revenue Grants and BBA.

Table 4.2 shows the estimated GMA, GST Revenue Grants and BBA for all States and Territories in 2000-01.

Table 4.2
Estimated Guaranteed Minimum Amount (GMA),
GST Revenue Grants and Budget Balancing Assistance (BBA), 2000-01

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
				$ million				
GMA	8,162.4	5,690.8	4,973.1	2,584.7	2,484.3	1,062.7	511.9	1,275.3
GST Revenue Grants	7,180.3	5,027.3	4,604.1	2,337.8	2,247.7	971.9	470.6	1,212.7
BBA	982.1	663.5	369.0	246.9	236.5	90.8	41.3	62.6
Notional Loan	674.3	412.6	114.1	159.6	161.8	65.1	22.4	45.7
Grants	307.8	250.9	254.9	87.3	74.7	25.6	18.9	16.8

Source: Commonwealth Budget Paper No. 3, 2000-01

2000-01 COMMONWEALTH FUNDING

OVERALL OUTCOMES

Commonwealth payments to the States in 2000-01 are expected to total $45,552.9 million, an increase of $10,109.6 million or 28.5% over 1999-2000 levels. Table 4.3 compares total Commonwealth payments to the States for 1999-2000 and 2000-01. Percentage changes are indicated in nominal, real and real per capita terms where applicable.

Table 4.3 Commonwealth Payments to the States, 1999-2000 and 2000-01[1]					
	1999-2000 $ million	2000-01 $ million	Change - Nominal Terms %	Change - Real[8] Terms %	Change - Real[8] Per Capita %
General Revenue Assistance					
- GST Revenues	n/a	24,052.6			
- Budget Balancing Assistance[2]	n/a	2,692.6			
- Financial Assistance Grants	17,299.4	n/a			
- Special Revenue Assistance	13.2	13.5			
- National Competition Payments	439.5	463.4			
Total General Revenue Assistance[3]	17,752.1	27,222.1			
Specific Purpose Payments (SPPs)					
- SPPs “to”[4]	13,459.8	13,802.6	2.6	0.0	(1.8)
- SPPs “through”[5]	4,231.4	4,528.2	7.0	4.1	2.4
Total Specific Purpose Payments	17,691.2	18,330.8	3.6	0.8	(0.8)
Commonwealth Payments	**35,443.3**	**45,552.9**			
Revenue Replacement Payments[6,7]	6,968.2	363.3			
Total	**42,411.5**	**45,916.2**	**8.3**	**5.3**	**3.6**

Notes:
1. The figures in this table relate to total Commonwealth Payments as reported in Commonwealth Budget documentation, while Chapter 2 of this document relates to General Government Sector receipts that take account of post budget parameter changes.
2. Budget Balancing Assistance comprises both grants and notional loans.
3. Annual comparison not provided due to new CGC relativity assessment methodology which reflects increased State expenditure responsibilities and revenue foregone from 2000-01.
4. Payments direct to States excluding SPPs for FBT Transitional Grants for Public and Not-for-Profit Hospitals and payments made for on passing to local government and other bodies.
5. Payments to State Governments for on passing to local governments and other bodies.
6. Payments from Commonwealth to State under “Safety Net” arrangements for tobacco, alcohol and petroleum excise.
7. Government Finance Statistics (GFS) classify Revenue Replacement Payments as a State tax.
8. Deflated by annual percentage change in CPI to March 2000 of 2.8%.

Source: Commonwealth Budget Paper No. 3, 2000-01

A comparison of General Revenue Assistance (GRA) for 1999-2000 and 2000-01 has been provided in Table 4.3 for information purposes only. In 2000-01, the CGC revised its relativity assessment methodology to accommodate provisions of the IGA. The IGA imposes additional expenditure responsibilities on the States and reduces own source revenue collections. An evaluation of the change in the level of GRA funding is therefore difficult given the 1999-2000 GRA comprised Financial Assistance Grants (FAGs), National Competition Payments and Special Revenue Assistance and in 2000-01, GRA consists of GST Revenue Grants, Budget Balancing Assistance, National Competition Payments and Special Revenue Assistance.

National Competition Payments (NCPs) commenced in 1997-98 at an annual level of $200 million with increases to $400 million in July 1999 and $600 million July 2001, at 1994-95 prices. The payments are indexed by increases in the CPI. Distribution of NCPs was $439.5 million in 1999-2000 rising to $463.4 million in 2000-01. This increase in 2000-01 includes an estimated 5.4% CPI (GST inclusive) rise. NCPs are distributed among the States on an equal per capita basis.

Total SPPs in 2000-01 are expected to be $18,330.8 million. This represents an increase of $639.5 million or 3.6% more than total SPPs distributed in 1999-2000.

Revenue Replacement Payments have been excluded from total Commonwealth funding in Table 4.3 as they are collected from additional excise levied on behalf of the States. The Revenue Replacement Payments for 2000-01 represent a timing delay only and are taxes collected on behalf of the States during 1999-2000 but yet to be distributed.

OUTCOMES FOR QUEENSLAND

Table 4.4 details Queensland's share of total Commonwealth payments in 2000-01.

Table 4.4
Commonwealth Payments to Queensland, 2000-01

	Queensland $ million	Australia $ million	Queensland's Share (%)
General Revenue Assistance			
- GST Revenue Grants	4,604.1	24,052.6	19.1
- Budget Balancing Assistance[1]	369.0	2,692.6	13.7
- Special Revenue Assistance[2]		13.5	
- National Competition Payments	86.4	463.4	18.6
Total General Revenue Payments	5,059.5	27,222.1	18.6
Specific Purpose Payments			
- "to" the State	2,571.9	13,802.6	18.6
- "through" the State	822.3	4,528.2	18.2
Total Specific Purpose Payments	3,394.2	18,330.8	18.5
Total Payments	**8,453.7**	**45,552.9**	**18.6**

Notes:
1. Comprises $114.1 million in notional loans and $254.9 million in grants.
2. Assistance provided to the Australian Capital Territory only in accordance with CGC recommendations.

Source: Commonwealth Budget Paper No. 3, 2000-01

In 2000-01, Queensland is expected to receive total Commonwealth payments of $8,453.7 million, which represents 18.6% of the total pool of $45,552.9 million. This allocation is broadly equivalent to Queensland's estimated population share.

General Revenue Assistance

General Revenue Assistance to Queensland will comprise revenue from GST Revenue Grants, Budget Balancing Assistance and National Competition Payments.

- *GST Revenue Grants*

  GST revenue to Queensland in 2000-01 is expected to be $4,604.1 million or 19.1% of the total pool. Queensland has been assessed by the CGC to have a higher relative fiscal need compared with the average fiscal need of the other Australian States. The CGC therefore provides a greater percentage of the total GST pool (19.1%) compared with the State's population (18.6%) to ensure that Queensland's fiscal capacity is equivalent to the Australian average.

  GST Revenue Grants will fund:

  - the cessation of Financial Assistance Grants and other Commonwealth revenues;
  - the abolition of selected State taxes; and
  - the additional expenditure responsibilities imposed on the States under the IGA.

  The distribution of GST revenue to the States has been calculated using horizontal fiscal equalisation principles and is available for each State to utilise for its own purposes.

- *Budget Balancing Assistance*

  As outlined above, BBA is to be paid to the States and Territories to ensure that their budgets are no worse off as a result of national tax reform. In 2000-01, Queensland is expected to receive $369 million in BBA, representing some 13.7% of total payments to all States and Territories.

  From 2000-01 to 2003-04, Queensland is expected to receive just 4.8% of total BBA. (See Chapter 3 for further details.) This is because, by keeping taxes low, Queensland will forego less revenue through the abolition of certain States taxes as part of the national tax reforms. In contrast, other jurisdictions with relatively high levels of taxation will be entitled to receive relatively high shares of BBA.

- *National Competition Payments*

  NCPs are provided in accordance with the *Agreement to Implement the National Competition Policy and Related Reforms*. Receipt of NCPs is subject to the State making satisfactory progress with the implementation of specified reform conditions in the Agreement. Prior to the scheduled payment of NCPs in 2000-01, the National Competition Council will assess whether each State has met these conditions and provide a report for consideration by the Commonwealth.

  Queensland's share of National Competition Payments for 2000-01 is estimated at $86.4 million, or 18.6% of the total to all States.

Specific Purpose Payments

SPPs for Queensland in 2000-01 are estimated at $3,394.2 million or 18.5% of total SPPs available. This distribution is marginally less than Queensland's population share of 18.6%. Queensland's share of SPPs in 2000-01 is 7.3% higher than that received in 1999-2000 ($3,162.5 million) and compares with an average increase of 3.6% nationally.

SPPs can be classified into two groups:

- SPPs *"to"* the State which comprise Commonwealth assistance to States to fund areas of State responsibility; and
- SPPs *"through"* the State which comprise payments to States to be passed on to local government, other bodies and individuals. The main payments in this category relate to non-government schools and local government financial assistance grants.

Queensland's share of payments "to" the States is estimated to be $2,571.9 million or 18.6% of the total ($13,802.6 million).

Queensland's share of payments "through" the States is estimated to be $822.3 million, or 18.2% of the total ($4,528.2 million).

Table 4.5 compares the major SPPs to Queensland for both 1999-2000 and 2000-01.

Table 4.5
Estimates of Selected Specific Purpose Payments "to" Queensland

	1999-2000 $ million	2000-01 $ million	Change %
Health Care Grants	1,075.8	1,139.1	5.9
Government Schools	272.1	285.4	4.9
CSHA Block Assistance[1]	137.7	152.5	10.7
Roads	184.3	259.4	40.7
HACC and SAAP[2]	109.4	120.4	10.1
Disabilities Services	69.6	83.2	19.5
Natural Disaster Relief	32.1	30.1	-6.2
Other	514.3	501.8	-2.4
Total SPPs "to" Queensland	**2,395.3**	**2,571.9**	**7.4**

Notes:
1. Commonwealth-State Housing Agreement Block Assistance
2. Home & Community Care and Supported Accommodation Assistance Program

Source: Commonwealth Budget Paper No. 3, 2000-01

Queensland's higher than average increase in SPPs can be attributed to higher than average increases in road funding (40.7% compared with 5.2% nationally) and Health Care Grants (5.9% compared with 5.2% nationally). A greater than average increase in road funding is largely due to increased maintenance and capital works in the National Highway Scheme, whilst the increased share of Health Care Grants generally reflects Queensland's higher population growth.

Table 4.6 compares the amounts for SPPs within broad subgroups for Queensland and Australia for 2000-01. The table also shows Queensland's share of the funding and its share relative to its population.

Table 4.6
Broad Specific Purpose Payments Groupings, 2000-01

	Queensland	Australia	Share	Relative Share[1]
	$ million	$ million	%	%
Education	1,074.4	5,922.6	18.1	97.4
Health	1,290.9	7,049.8	18.3	98.3
Social Security & Welfare	215.8	1,242.5	17.3	93.2
Housing & Community Amenities	193.0	1,052.6	18.3	98.4
Agriculture, Forestry & Fishing	26.4	135.1	19.5	104.9
Transport & Communication	286.3	1,011.1	28.3	152.0
Other	307.4	1,917.1	16.0	86.1
Total Specific Purpose Payments "to" and "through" the States	**3,394.2**	**18,330.8**	**18.5**	**99.4**

Note:
1. A State's relative share is calculated as the ratio of the State's share of payments to its share of population.

Source: Commonwealth Budget Paper No. 3, 2000-01.

The Commonwealth has committed to continue to provide SPPs to the States and has no intention of cutting aggregate SPPs as part of the reform process set out in the IGA. Historically, Queensland has received less than its population share of total SPPs from the Commonwealth. Table 4.7 compares Queensland's historic share of total SPPs with total SPPs distributed in 2000-01.

Table 4.7
Total Specific Purpose Payments to Queensland (Estimated)
1995-96 to 2000-01 – Nominal

	1996-97	1997-98	1998-99	1999-2000	2000-01
	$ million	$ million	$ million	$ million	$ million
SPPs "to" Queensland	2,061.2	1,980.2	2,241.5	2,395.3	2,571.9
SPPs "through" Queensland	1,269.1	1,246.3	701.1	767.2	822.3
Total Specific Purpose Payments	**3,330.3**	**3,226.5**	**2,942.7**	**3,162.5**	**3,394.2**
Relative Share (%)[1]	95.7	96.1	95.7	96.3	99.4

Note: Numbers may not sum due to rounding.
1. The State's relative share is calculated as the ratio of the State's share of payments to its share of population.

Source: Commonwealth Budget Paper No. 3, 1997-1998, 1999-2000 and 2000-01.
Queensland 1996-1997 SPPs were sourced from the 1997 Premiers' Conference Offer Document.

An additional $74.8 million in SPPs is expected to be distributed to the States for fringe benefit tax transitional grants for Public and Not-for-Profit Hospitals. This payment has not been included in the total SPPs, as distribution among the States is yet to be determined. Should this payment be distributed on an equal per capita basis, Queensland could expect an additional $14.2 million in Health SPPs.

RELATIVE SHARES OF FUNDING

Table 4.8 shows the expected level of General Revenue Assistance and Specific Purpose Payments for all States for 2000-01 together with each State's relative share of total payments.

Table 4.8
Relative Shares of Payments to the States, 2000-01

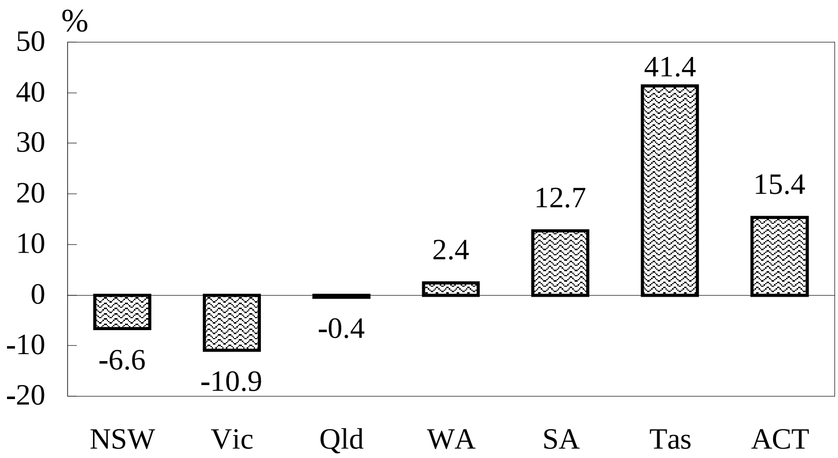
	General Revenue Assistance $ million	Specific Purpose Payments $ million	Total Payments $ million	Relative Share[1] %
New South Wales	8,318.9	6,050.8	14,369.7	93.39
Victoria	5,805.9	4,272.9	10,078.8	89.07
Queensland	5,059.5	3,394.2	8,453.7	99.60
Western Australia	2,630.5	1,976.6	4,607.1	102.41
South Australia	2,520.3	1,478.8	3,999.1	112.73
Tasmania	1,074.0	491.3	1,565.3	141.41
Australian Capital Territory	532.9	322.2	855.1	115.38
Northern Territory	1,280.0	344.1	1,624.1	349.29
Total	**27,222.1**	**18,330.8**	**45,552.9**	

Note: Numbers may not sum due to rounding.
1. A State's relative share is calculated as the ratio of a State's share of payments to its share of population.

Source: Commonwealth Budget Paper No. 3, 2000-01

Chart 4.1 shows the percentage by which each State's per capita share of total Commonwealth payments in 2000-01 is expected to differ from the average for all States.

Chart 4.2
Total Commonwealth Payments - All States, Deviation from the Average, 2000-01[1]



1. Does not include the Northern Territory, which has a corresponding deviation of positive 249.3%.

Queensland's per capita share of total payments is expected to be 0.4% less than its population share. If Queensland were to receive a share of total Commonwealth funding commensurate with its population share, this would mean an additional $19.1 million in revenue. New South Wales and Victoria are also expected to receive a below average share of payments, while the remaining States are expected to receive payments which are substantially above their population shares.

FUTURE DEVELOPMENTS

As outlined in the IGA, one of the roles of the Ministerial Council is to consider ongoing reforms of Commonwealth-State financial relations.

Three major projects that have implications for federal financial relations are being progressed by the CGC. These projects are as follows:

- The CGC commenced a major five-year review of its methodology for determining per capita relativities. This review is due to be completed by February 2004.

  The CGC conducts a full review of its methodology over a period of usually five years. The current five-year review cycle commenced in April 2000. The review will assess the per capita relativities that the CGC would regard as appropriate to apply after 2003-04, for the distribution of the combined pool of GST revenue grants and Health Care Grants among the States and Territories. Within each five-year period, the methods for determining per capita relativities are generally held constant, while data is updated annually.

- The Commonwealth has requested the CGC to provide a report into the distribution of Commonwealth funds for fundamental projects that affect indigenous Australians, by March 2001. The inquiry will review the relative needs of indigenous Australians for programs including health, education, housing and employment, training and infrastructure that are funded directly by the Commonwealth or indirectly through the States or local government.

- The CGC is reviewing Commonwealth General Purpose Grants to local government under the *Local Government (Financial Assistance) Act 1995*. Grants are distributed on an equal per capita basis between the States (excluding identified road grants that are distributed on historical shares) and on fiscal equalisation principles within States (minimum grant entitlements apply for each municipality). The report will assess the effectiveness of achieving fiscal equalisation within each State and is due by June 2001.

Queensland participates in these projects through formal submissions to the CGC and through participation in general conferences on methodology and workplace discussions. Queensland's submissions on the CGC's methodology for determining per capita relativities in particular are based on an on-going research program to identify proposals that will improve the achievement of horizontal fiscal equalisation in Australia.