Queensland Government

State Budget 2001-02

Economic and Revenue Outlook

Budget Paper No. 3

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STATE BUDGET 2001-02

ECONOMIC AND REVENUE OUTLOOK

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ECONOMIC AND REVENUE OUTLOOK - HIGHLIGHTS

ECONOMIC STRATEGIES

- **The Government is pursuing economic strategies aimed at lifting Queensland's economic growth in order to increase living standards, employment and economic opportunities. The strategies comprise a mix of measures encompassing a responsible fiscal policy, a supportive business environment, employment initiatives, balanced structural adjustment and infrastructure investment.**

- **These strategies are accompanied by targeted government action in the key areas of education and training, regional growth, industry growth and innovation and market reform.**

ECONOMIC PERFORMANCE AND OUTLOOK

- **Economic growth in Queensland is estimated to average $3^1/_2$% in 2000-01, growing to 4% in 2001-02. Total employment is forecast to rise 2% in year-average terms, or around 33,000 jobs. With labour force growth of around 2% also expected, Queensland's unemployment rate will be 8% in year-average terms.**

REVENUE OUTLOOK

- **The rate of payroll tax will be reduced to 4.8% from 1 July 2001 and 4.75% from 1 July 2002. Payroll tax concessions on termination payments and grossed up fringe benefits will be removed from 1 July 2002.**

- **From 1 July 2001, the most profitable gaming machine venues will pay the Major Facilities Levy, used to finance major public sporting and cultural facilities and infrastructure.**

- **Stamp duty on marketable securities listed on recognised stock exchanges will be abolished from 1 July 2001, in accordance with national tax reform measures.**

FEDERAL FINANCIAL RELATIONS

- **Overall, Queensland has been disadvantaged by national tax reform, compared with other States. This is because of Queensland's competitive tax environment in place before the introduction of national tax reform.**

- **In 2001-02, Queensland's Guaranteed Minimum Amount will increase by $286 million. Approximately $36 million is due to the Commonwealth Grants Commission's annual review. The balance results from population and price growth, revised estimates of revenue foregone and additional expenditure responsibilities.**

- **Taking into account, all Commonwealth payments "to" the States in 2001-02, Queensland will receive approximately $270 million less than a per capita share.**

1. ECONOMIC STRATEGY

STRENGTHENING QUEENSLAND'S ECONOMIC GROWTH

The Government's economic strategies aim to lift the State's sustainable level of economic growth in order to increase the living standards, employment and economic opportunities for Queenslanders.

The strategies comprise a mix of economic fundamentals – responsible fiscal policy, a supportive business environment, employment initiatives, balanced structural adjustment and infrastructure investment – with targeted government action in the key areas of education and training, regional growth, industry growth and innovation and market reform.

Analysis of highly successfully economies indicates that a mix of strong fundamentals and targeted government action is the most effective way to increase economic growth (Box 1.1).

Box 1.1:
OECD Growth Strategy (2001)

The Organisation for Economic Co-operation and Development (OECD) released the final report of its two-year economic growth project in May 2001. The OECD concluded that a comprehensive growth strategy would involve governments:

- **Strengthening economic and social fundamentals** by ensuring macroeconomic stability, encouraging openness, improving the functioning of markets and institutions and addressing the distributive consequences of change.

- **Investing in human capital** by strengthening education and training, making the teaching profession more attractive, improving the links between education and the labour market and adapting labour market institutions to the changing nature of work.

- **Facilitating the diffusion of information and communications technology** by increasing competition in telecommunications and technology, improving skills, building confidence and making electronic government a priority.

- **Fostering innovation** by giving greater priority to fundamental research, improving the effectiveness of public R & D funding and promoting the flow of knowledge between science and industry.

- **Stimulating firm creation** by improving access to high-risk finance, reducing burdensome administrative regulations and instilling positive attitudes towards entrepreneurship.

STRONG FUNDAMENTALS

Responsible Fiscal Policy

The core of the State's economic strategy is responsible fiscal policy. A strong financial position, while not an end in itself, is important to achieving the Government's objectives for the community. The Queensland Government's AAA rating reflects the positive assessment of the State's fiscal policy by independent rating agencies.

A responsible State fiscal position is critical for business and investor confidence. It also allows the State to maintain a competitive tax environment and fund growth promoting investments in areas such as education and training, innovation, information technology and infrastructure.

Details of the State's fiscal strategy for 2001-02 are provided in Budget Paper No. 2. The fiscal strategy continues to be based upon the Government's commitments under the *Charter of Social and Fiscal Responsibility.*

Supportive Business Environment

Economic growth depends upon business growth. One of the key objectives of the Queensland Government's economic policies is to provide a supportive business environment. This involves providing:

- a competitive taxation environment;
- a rigorous and balanced approach to government regulations;
- a stable and fair industrial relations system; and
- competitive charges for services provided by government and Government Owned Corporations.

Overall, Queensland has one of the lowest tax burdens in the country. On a GFS basis, per capita collections of State taxes, fees and fines in Queensland in 2001-02 are estimated at $1,211. The tax burden in other States is forecast to be 35.2% higher, on average, than Queensland's per capita taxes for 2001-02.

Queensland has highly competitive government taxes and charges relating to labour. Queensland's payroll tax rate of 4.8% from 1 July 2001 is the lowest in Australia (and will be reduced to 4.75% from 1 July 2002).

The Government has cut the average workers' compensation premium rate to 1.55%, down from 1.58% a rate already the lowest of all Australian States. The new 1.55% average premium rate will apply to premium assessments for the period 1 July 2000 to 30 June this year as well as to next year's premium and is the third successive reduction. It is estimated these successive premium reductions have saved employers across Queensland in excess of $120 million.

The Government is addressing the regulatory environment through:

- reviewing regulations for all new or amended subordinate legislation that is likely to impose an 'appreciable cost' on business and/or the community;
- the business licence rationalisation program which has progressed towards the target of a 50% cent reduction in the number of business licenses (from 520 to 270), and a Red Tape Reduction Task Force of business and government which reports to the Minister for State Development on ways to reduce red tape, especially for small business; and

- an extensive program of legislation review for anti-competitive provisions which is nearing completion. Of some 130 possible reviews, 60% have been completed and signed-off by government. Many of the reviews still in progress are close to completion with draft review reports about to be considered by government.

The Government's industrial relations framework is set out in the *Industrial Relations Act 1999*. The Act was developed after exhaustive consultation and aims to achieve certainty, stability and fairness in industrial relations. Key features include fair standards for employment and workplace conditions, flexible arrangements for making agreements and a strong and independent role for the Queensland Industrial Relations Commission.

Queensland's Government Owned Corporations (GOCs) have been substantially reformed in the last decade. GOCs conduct commercially orientated activities in the transport, energy, funds management, gaming and water resources sectors. The reforms' primary objectives have been improved efficiency of operation, stronger accountability and improved shareholder returns.

The Government has been careful to ensure that during the reform process, customer pricing has remained competitive. Reflecting this, real energy and transport charges in aggregate have been held constant, or have fallen, since 1997-98.

The Government has established an Office of Government Owned Corporations to manage the Government's shareholding relationship with GOCs. The Office monitors the performance of GOCs and assists the shareholding Ministers to negotiate annual performance agreements with GOCs. In 2001-02, the Office will develop policies to deal with GOC investments and audit and reporting requirements. These will facilitate GOC investment decisions and improve the accountability framework for GOC subsidiaries.

Employment Initiatives

The State's economic strategies – targeted on economic growth – directly produce jobs. Through a combination of a supportive business environment and targeted incentives the Government has attracted business enterprises to Queensland.

The Government is also implementing a range of labour market initiatives to improve employment opportunities for Queenslanders.

The *Breaking the Unemployment Cycle* program will be extended until 2003-04, bringing the program's total funding to $470 million over six years. This program includes two labour market programs which provide assistance to the long-termed unemployed. The Community Jobs Plan (CJP) provides full-time employment for three to six months for long-term unemployed people and those at risk of becoming long-term unemployed; and the Community Employment Assistance Program (CEAP) provides funding to community and public sector organisations to assist long-term unemployed people and those at risk of becoming long-term unemployed to find work.

The *Breaking the Unemployment Cycle* program will also be enhanced by the following programs:

- The *Get Set for Work* program will assist 500 early school leavers aged 15-24 years in communities with high unemployment - providing participants with intensive, specialised employment and training assistance at a cost of up to $10,000 per participant, including a $4,000 wage subsidy to employers. $5 million is provided in 2001-02.

- The *Youth for the Environment and Local Communities* program will enable 15-24 year olds to gain nationally accredited qualifications through work in their local communities, primarily in environmental protection, horticulture and waste management areas. $10 million is provided in both 2001-02 and 2002-03.

- The *Experience Pays* program will aid mature workers by providing wage subsidies of $4,000 to employers when they employ long term unemployed job seekers aged 45 and over for a period of 12 months. The program has been allocated $5.4 million over three years.

- The *Back to Work* Program will assist mature workers who have been unemployed for three months or more gain job search and information technology skills. The program has been allocated $1.5 million over three years.

Balanced Structural Adjustment

The structure of Queensland's economy is changing in response to global and national economic forces and policies.

These changes are important for the future growth of the Queensland economy but are also leading to shifts in resources, employment and wealth between regions, communities, businesses and individuals. Sometimes change is rapid and unexpected, allowing those affected by change little opportunity to adapt.

The Government aims to manage structural change to deliver the greatest benefit for Queensland. This involves careful assessment and management of potential reforms and government programs to assist people, business and regions to adjust to structural change. Major changes to National Competition Policy have been made which reflect the Queensland Government's approach. On 3 November 2000, the Council of Australian Governments (COAG) agreed that Governments should give consideration to explicitly identifying the likely impact of reform measures on specific industry sectors and communities, including expected costs involved in adjusting to change. COAG also reviewed the role of the National Competition Council and decided that while the Council will continue to have a role in considering whether legislation review outcomes fall within a range of reasonable outcomes, it is a matter for Governments to determine what policy is in the public interest.

In that regard, the Government has defined Queensland's Public Benefit Test Guidelines, for competition assessments, to include full assessment of employment, regional development, social, environmental and consumer effects.

Many programs deliver structural adjustment benefits, especially the State's employment, education and training and regional economic programs. In addition, assistance is being provided by:

- the *Worker Assistance* program, which is an early intervention program, to assist workers displaced by large-scale retrenchments to make the transition to alternative employment. The program's target groups include: workers aged 45 and over, disabled persons, those from non-English speaking backgrounds, indigenous people, people lacking literacy and numeracy skills, and/or the low skilled. Assistance of up to $5,000 per worker, including job search assistance, training, relocation and employer wage subsidies, is available; and

- up to $30 million in combined State and Commonwealth funding over three years to continue the ongoing skill development and continuous improvement for primary producers so that they become more self reliant and adopt farm management practices for the long-term sustainability of Queensland's food and fibre industries.

Infrastructure Investment

Quality infrastructure is essential to economic growth and job creation. The availability, capacity and efficiency of different types of infrastructure can enhance economic development. The Government has funded record levels of public investment with General Government capital expenditure in Queensland accounting for more than 30% of all capital expenditure by Australian State and Territory Governments in 2000-01.

The State's 2001-02 Capital program is discussed in detail in Chapter 6 of Budget Paper No. 2 and in Budget Paper No. 4. The total 2001-02 program is $5.115 billion – an increase of 2.2% on 2000-01. As well as direct public provision, the Queensland Government is increasingly involving the private sector in infrastructure provision. Significant projects involving private sector participation include:

- $1.463 billion from private sector power plant developers, lead by Intergen, for a 2 x 420 MW coal-fired power station and associated infrastructure at Millmerran. The expected commissioning date for Unit 1 is June 2002, followed by Unit 2 in December 2002;

- $887.2 million for CS Energy's Callide C 2 x 420 MW power station. This is a joint venture with Intergen which involves a 50% investment by a GOC of $443.6 million. The expected commissioning date for Unit 1 is June 2001, with Unit 2 following in December 2001;

- the Airtrain Consortium for the Brisbane Airport Rail Link (BARL) involving an 8.5 kilometre spur line from Queensland Rail's northern line to the Brisbane Airport terminals. This is a project where the private sector has assumed the risks of service delivery through full ownership of the project, with ownership transferring to the State after a 35 year period;

- the $130 million Gold Coast Convention and Exhibition Centre which involves a total Government contribution of $100 million, including $30 million in 2001-02;

- redevelopment of the Southbank precinct by the Southbank Corporation in conjunction with several private sector entities including Mirvac. Private sector participation will contribute to the $81 million masterplan redevelopment of the Southbank site; and

- expansion of the Dalrymple Bay Coal Terminal facilitated through a long-term leasing arrangement over the Coal Terminal - $35 million of Government funding has already been allocated to the Ports Corporation of Queensland to finalise redevelopment of Stage 5 of the terminal.

GROWTH STRATEGIES

Education and Training Investments

The quality of human capital – the skills and capabilities of the workforce – is closely linked to economic growth. The Queensland Government has developed *Queensland State Education – 2010*, which provides directions for public education in the next ten years. The Government's goal is to increase the participation and involvement of Queenslanders in the education system. It is also redesigning curriculum to more closely fit the employment market, to encourage a more diverse student body and to provide expanded options for students in their final years of schooling (Box 1.2).

Box 1.2:
New Approaches to Queensland State Education

The Government is:

- Reforming school curricula to give students knowledge, skills and competencies more closely aligned with the needs of Queensland's labour market and economy and community expectations;

- Developing new pathways – beyond the traditional years 11 and 12 in school – for students to gain entry to post school education and training;

- Placing much greater focus on the use and possibilities of information technology in education;

- Developing new education programs and settings for students with difficulty in conventional school;

- Creating schools which are more flexible and responsive to the community; and

- Improving equality and access to education, especially for indigenous people, students with special education needs, and students at risk.

The Government is seeking to increase the proportion of students completing year 12 or equivalent to 88% by 2010. In 1999, the Year 12 retention rate for all Queensland schools was 77.5%, which is significantly higher than the national average of 72.3%.

Improving the education system to ensure school retention and sound levels of literacy and numeracy is an important way of reducing youth unemployment. As at May 1999, persons who had not completed the highest level of high school had an unemployment rate of 12% compared with 4.1% for people with skilled vocational qualifications and 2.5% for people with a bachelors degree.

Schools-based 2001-02 Budget initiatives include:

- the creation of eight new centres of excellence in maths, science and technology in schools at a cost of $10 million over three years;

- $15 million provided in 2001-02 for networked learning communities in schools; and

- $3 million over three years provided for the ongoing expansion of the New Basics program which consists of an innovative framework of curriculum, teaching and assessment to equip students for the new work places and industries of the future.

Higher education is also a key priority. The proportion of those 15 to 64 years obtaining a post-secondary qualification increased from 38.2% in 1997 to 41.2% in 1999 and enrolment in vocational education and training has improved so that in 1999 Queensland involvement exceeded the national average.

The 2001-02 Budget funds investment in further and vocational and educational training, including:

- $55.2 million has been provided for construction and upgrading of TAFE facilities;

- $13.7 million for the upgrade of communication and information technology across TAFE Queensland;

- $7 million over three years for the *Youth Access* program, which will provide vocational education and training for around 600 students ‘at risk’ of leaving school early and having difficulty in securing employment; and

- a total of $10 million over two years for the Australian Aviation Centre of Excellence which, in partnership with Queensland TAFE and the private sector, will provide courses in cabin crew training, aerospace medicine, flight simulation, air traffic control, catering and other aviation services. The Centre is designed to help South-East Queensland develop as a global aviation and transport hub.

Regional Growth

The Government's economic strategy capitalises on the strength of Queensland's regions. Sustainable regional economic growth is being pursued through infrastructure investment and facilitating expansion of export markets and further value adding by regional industry, through:

- infrastructure to support regional economic and social development. Approximately three-fifths of capital expenditure in 2001-02 will be undertaken outside Brisbane. Major regional infrastructure projects funded in the 2001-02 Budget include $487 million for main roads capital funding, $46 million for the Cairns Tilt Train, $105 million for rail track renewal between Cairns and Rockhampton and a substantial upgrading of regional port facilities;

- regional International Trade Action Plans for each region in Queensland to assist regional industries to exploit international trade opportunities;

- major regional tourism initiatives – $33 million is provided through the Federation Fund for the Queensland Heritage Trails Network in 2001-02 and $100 million in total for the Gold Coast Convention Centre (including $30 million in 2001-02); and

- the Regional Business Development scheme and its partner scheme the Queensland Regional Development Initiative which have been allocated a total of $15.4 million over the next four years.

As well as economic measures, the Government is funding improved social infrastructure for regional Queensland. This will promote regional economic growth through flow-on effects from government expenditures, and by increasing confidence and the quality of life in regions.

Highlights for 2001-02 will be the completion of several regional hospital redevelopments: Cairns (at a total cost of $109 million), Townsville ($181 million), Gold Coast ($54 million), Rockhampton ($26 million) and Nambour ($26 million). There will also be a substantial upgrade of regional law and order infrastructure with police station works in Mt Isa, Roma, Toowoomba, Rockhampton, Fraser Island, Loganholme, Calamvale, Rockhampton North and Ipswich.

Industry Growth and Innovation

The Queensland Government is committed to developing knowledge-based industries as well as value adding to the State's traditional industries. The 2001-02 Budget is funding programs to assist emerging industries, particularly those in the "new economy" such as the information and communication industries and biotechnology. It is also funding programs that aim to accelerate innovation and increase research and development.

The Government created a new department in April 2001 – the Department of Innovation and Information Economy – in recognition of the importance of this area.

Key Queensland industry growth and innovation programs are:

- the establishment of a $100 million Smart State Research Facility Fund which will allow the State Government to make strategic investments to further its achievements against the commitment to a Smart State. The Fund will be used to establish science and technology infrastructure needed to facilitate specialised research not otherwise possible. The Fund will apply to the construction or purchase of new facilities or the rehabilitation of existing facilities located in Queensland and to enable the purchase or development of technologies and/or materials required to support leading edge research and its application;

- the Queensland Innovation Strategy, which was established in 2000 to provide grants for infrastructure, skills and other projects that aim to lead to innovations and promote a culture of innovation. Funding for 2001-02 is estimated at $6.4 million;

- the Queensland Industry Development Scheme, which provides grants to help business fund new projects, especially those involving expansion into new markets, innovative products and services, new technology and improved process design. The program started in November 1998 and by June 2002 will have received $29.75 million of government funding; and

- the Communication and Information Industries Development Strategy, which has received $10.3 million in funding over four years to 2003-04.

The Government's Biotechnology Strategy underpins Queensland's aim of being Australia's leading centre of biotechnology industries. The $270 million, ten year, Bioindustries Strategy, commenced in 1999. The Strategy involves early stage funding and support for the commercialisation of research which identifies, develops and promotes specific activities to maximise bioindustry trade and investment. It also provides information to the community on the benefits and risks of biotechnology and enables stakeholders and the community to engage in informed discussion.

As well as "new industries", the Government continues to encourage the development of the State's minerals and processing base. Major projects already announced include:

- establishment of Australia's first magnesium metals plant at Stanwell, near Rockhampton. The proposed plant will trigger the development of a new, high value added and internationally competitive magnesium metal industry in Queensland. The $1.3 billion plant will require a peak construction workforce of 1,350 people, generate 350 direct jobs, and at least 700 support jobs in the region; and

- the $425 million Hail Creek coal mine near Mackay which will stimulate employment in that region.

Market Reform

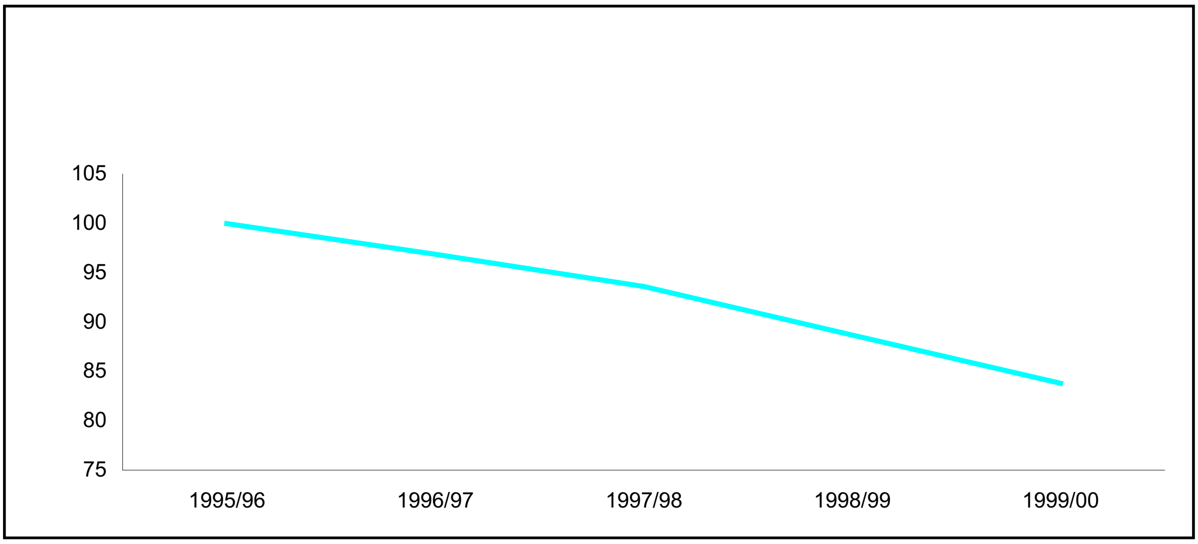
Growth policies such as government investment in skills, infrastructure and industry development work more effectively with highly competitive markets because competition drives productivity gains and innovation.

Strong competition in domestic markets has been found to be a major factor in developing strong, competitive industries. Competition drives economic growth by providing incentives for firms to become more efficient and productive. Higher productivity and growth is essential to support higher wages and improved job prospects.

The Government is reforming three important markets in Queensland – transport, water and energy – to make them more competitive.

Progress in reform of Queensland's rail sector has already lead to significant gains to business (Chart1.1).

Chart 1.1
Index of Rail Freight Charges 1995-96 to1999-2000



Note:
Index is based on freight sales revenue by the traffic task (NTK). The data is based on the total freight task which includes general freight, other commodities and livestock, minerals and coal. The index excludes the coal royalty. It should also be noted, the mix of product and the length of haul would have some impact on the result.

Reform of Queensland's rail sector will continue in 2001-02 with an access undertaking for Queensland Rail's declared infrastructure expected to be completed. This will provide expanded private sector access to government-owned rail infrastructure and increase competition in the sector. Further reductions in the cost of rail freight can be expected to flow from greater competition.

Considerable progress has been made in the area of water reform with: enactment of the *Water Act 2000*; creation of SunWater (a commercial entity for delivery of rural water supplies); commercialisation of the Gladstone Area Water Board; commercialisation of Mount Isa Water Board; transfer of the Townsville-Thuringowa Water Board to local government control and commercialisation; and incorporation of the South East Queensland Water Board. In addition, a new set of rural water prices has been implemented to ensure long-term financial viability of rural water supplies, there has been continued "roll out" of Water Resource Plans across Queensland, and 85-90% of Local Government water connections are now on a commercial water pricing regime.

Market-based reforms have been introduced into the energy sector through third party access arrangements for monopoly gas pipelines and the national electricity market arrangements.

Electricity customers with a demand in excess of 200 MWh/pa are all able to enter the contestable market and negotiate electricity supply arrangements with retailers. Gas retail contestability will be introduced from 1 July 2001 for customers with demand in excess of 100 terajoules per year.

Market reforms are underpinning new investment in energy infrastructure including private sector participation in electricity generation projects and Powerlink's investment in the Queensland-New South Wales interconnector. The Government also expects these reforms will facilitate private sector interest in new sources of gas supply and transportation into the State under the Government's Energy Policy – A Cleaner Energy Strategy. Private sector investors are currently competing to supply gas from a number of new sources including PNG, Timor Sea and domestically based coal seam methane.

2. ECONOMIC PERFORMANCE AND OUTLOOK

KEY POINTS

- **The Queensland economy is expected to strengthen in 2001-02, with gross state product forecast to grow by 4%. A recovery in private investment through the year is forecast, resulting in the composition of growth weighted more toward domestic activity than that experienced in 2000-01.**

- **Employment conditions are expected to improve over the course of 2001-02 as the recovery in domestic activity gathers momentum. Total employment is forecast to rise 2% in year-average terms or around 33,000 jobs. A steady labour force participation rate and continued firm population growth are expected to result in labour force growth of around 2% during the year.**

- **With improved employment outcomes through the year, the unemployment rate is forecast to fall through the year to June quarter 2002. In year-average terms, continued growth in labour supply is expected to offset the rise in employment, resulting in an unemployment rate of 8%.**

- **Economic growth in Queensland is estimated to average 3½% in 2000-01, with a strong contribution from net exports offsetting a sharp moderation in domestic demand.**

- **Growth in domestic economic activity was constrained in 2000-01 by external economic factors, including monetary policy settings and transitory impacts of Commonwealth tax reform.**

- **In line with domestic activity, employment growth is expected to ease to an estimated year-average 2% in 2000-01. This represents an increase of around 31,000 jobs in the State as forecast in the 2000-01 Budget.**

- **Headline inflation rose sharply in 2000-01 in response to the first round effects of the GST on prices. Abstracting from this, ongoing inflation is expected to average around 3%.**

INTRODUCTION

This chapter presents the economic framework upon which the 2001-02 Budget has been developed. It examines recent developments in Queensland's external economic conditions, both international and national, and reviews the performance and outlook for the Queensland economy. It outlines estimated actuals and forecasts for the major components of State economic activity for 2000-01 and 2001-02 respectively, and presents projections for key State economic variables over the medium term, to 2004-05[1].

[1] The timing of the presentation of the State Budget has meant that actual data on gross state product and its components and other measures of State economic performance are not available for all quarters of the 2000-01 fiscal year. Consequently, the 2000-01 growth rates for these series represent estimated actuals. Decimals have been used to describe actual outcomes, with fractions used for estimated actuals, forecasts and projections.

EXTERNAL ENVIRONMENT

Current Conditions

International

Consensus Forecasts indicate that the global economy grew an estimated 4.5% in 2000. Growth is expected to slow to around 2.6% in 2001 before recovering slightly to 3.4% in 2002.

Economic growth in many of Queensland's key trading partners, including the US and Japan, slowed toward the end of 2000 and into the first half of 2001, with earlier monetary tightenings, rising oil prices and falling returns on equity investment weighing heavily on domestic demand and trade activity. The inability of the technology sector, particularly in the US, to deliver the level of productivity gains and returns to investors seen in previous years prompted a widespread downgrade of technology stocks, shaking business and consumer confidence.

The global economic environment is expected to strengthen in 2001, particularly in the second half of the year. However, two factors cloud the outlook for growth: firstly, uncertainty surrounding the extent of the US economic slowdown and the potential flow-on effects for the rest of the world, particularly Asia; and secondly, the impacts of further OPEC oil production cuts on world oil supply and energy prices. In response to the relatively high degree of economic uncertainty, global monetary authorities have lowered official interest rates aggressively, led notably by the US Federal Reserve which has cut official interest rates by 2.5% points (from 6.5% in December 2000 to 4.0% in May 2001) and Japan which has effectively adopted a zero interest rate policy. The European Central Bank, which had previously left official rates unchanged, took action on evidence of slowing growth and cut rates by 0.25% points to 4.5% in May 2001.

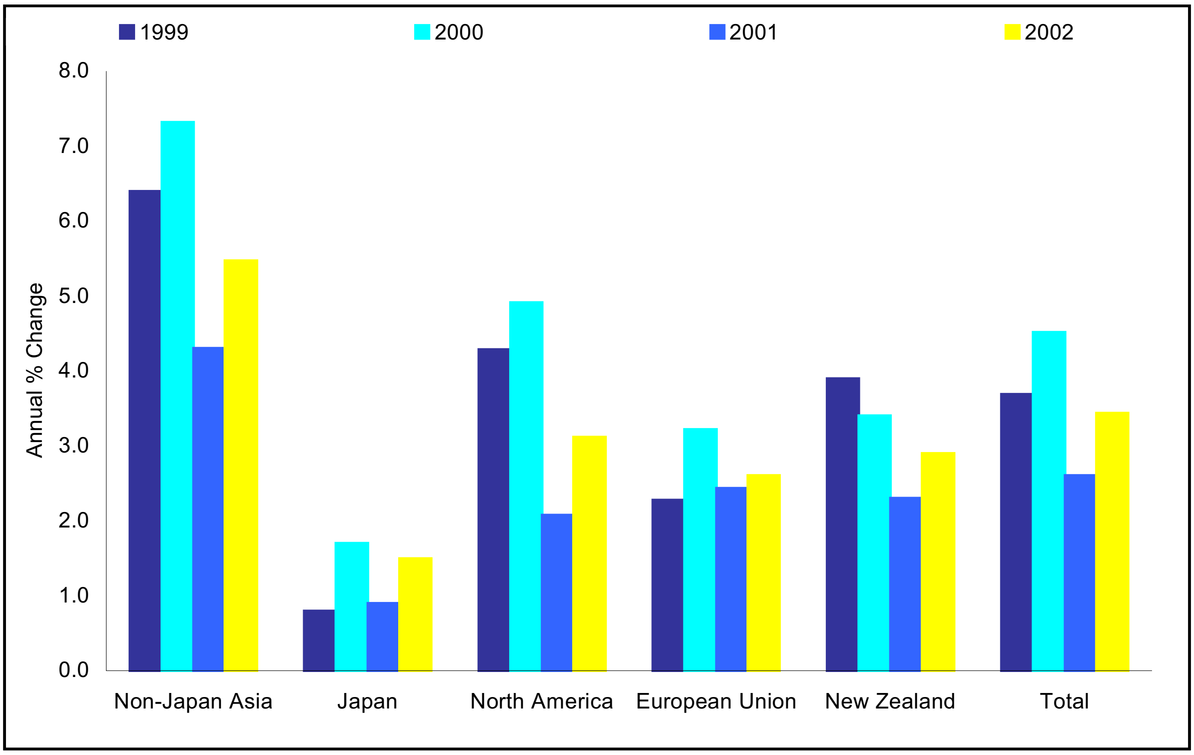
Growth in US gross domestic product moderated in the three quarters to March 2001. The US economic slowdown is in part a lagged response to the monetary tightenings during 1999 and 2000 but also due to the reduced household wealth arising from lower gains on equity markets. The recent series of aggressive official interest rate cuts signals an attempt to prevent growth slowing further and recent releases of partial indicators, while still showing subdued growth, appear to have reached a trough. The US manufacturing sector and employment overall remain weak, however consumer sentiment and retail spending have demonstrated more resilience. Despite increased world oil prices, inflationary pressures have not yet become a major problem in the US. *Consensus Forecasts* expect US growth of 1.9% in 2001 reflecting a modest recovery in the second half of the year, although well down on the 5.0% growth achieved in 2000. Growth is expected to strengthen to around 3.0% in 2002.

Economic activity in Europe also moderated during 2000, but to a much lesser extent than the slowdown in the US. The sharp increase in oil prices in 2000 contributed to the slowing in the European economy by reducing domestic private consumption, while official interest rate rises dampened total private sector spending. Europe has not achieved the strong growth in 'new economy' productivity seen in the US in recent years, and is not expected to be as severely affected by the resultant post-boom slowdown. Part of Europe's resilience maybe due to the closed nature of the economy with intra-regional trade accounting for approximately 50% of European countries' exports. *Consensus Forecasts* expect gross domestic product growth of 2.4% in Europe in 2001, rising to 2.6% in 2002.

In an attempt to break the cycle of deflation which continues to undermine policy responses to Japan's poor economic performance over recent years, the Bank of Japan (BOJ) shifted its monetary policy focus towards money supply, increasing the level of reserve deposits within the banking sector such that interest rates effectively returned to zero. The BOJ stated that this new policy stance will continue until the CPI inflation rate stabilises above zero with 0.5% being the initial target. Japan, however, faces a greater need for reform than that served by monetary policy, with rising levels of unemployment, reduced export growth and the continuing burden of bad loans within the banking sector. The recently elected Koizumi Government has outlined policies of deregulation, structural reform and the writing off of bad debts within the banking sector. *Consensus Forecasts* place Japan's 2001 gross domestic product growth at just 0.9% with only a modest recovery in 2002 to 1.5%.

The outlook for non-Japan Asia's economic growth in 2001 remains closely tied to US demand and technology spending. Not only is the area vulnerable to the slowdown in the US, but there is a risk that, if Japan's zero interest rate policy substantially devalues the Yen, other Asian countries will have to endure a decrease in export prices, resulting in reduced corporate profitability. While China's anticipated accession to the World Trade Organisation may provide stimulus for foreign and domestic investment in that country, ongoing political instability in Indonesia, the Philippines and, to a lesser degree, Thailand continues to add to business risk in the Asian region. *Consensus Forecasts* expect economic growth in non-Japan Asia of 4.3% in 2001, rising to 5.5% in 2002.

Chart 2.1
Economic Growth in Queensland's Major Trading Partners



Notes:

Total major trading partner economic growth is weighted in terms of regional/country shares of Queensland's overseas merchandise exports. Growth for calendar 2000 represents an estimated actual while 2001 and 2002 are forecasts.
Source: Queensland Treasury and Consensus Forecasts.

National

National economic growth slowed in the first half of 2000-01. The contraction in overall activity was the result of various combined effects, including earlier monetary policy tightening, the introduction of national tax reform, the post Olympic spending squeeze and higher world oil prices. Economic conditions have tended to stabilise in the second half of the year, with strengthening domestic demand met by a run down in inventories. Dwelling investment, which accounted almost entirely for the contraction in gross domestic product in December quarter 2000, also experienced some degree of a turnaround in the second half of the year. Commonwealth Treasury estimates suggest overall economic growth of 2% in 2000-01. A strong result for March quarter 2001 gross domestic product suggests this estimate is likely to be conservative.

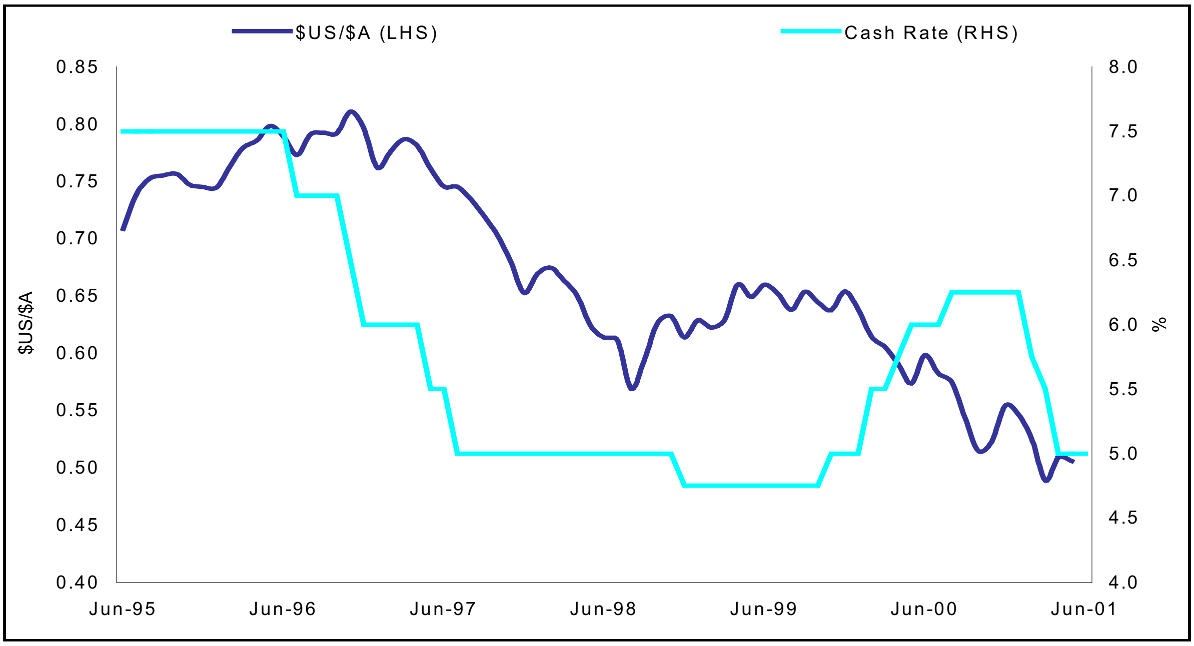
The outlook for the Australian economy is encouraging. Economic activity appears to have passed the low point in the current cycle, with a substantial amount of accumulated stimulus remaining. This stimulus comes from three factors: the lowering of official interest rates by 125 basis points in the second half of 2000-01; the expansionary fiscal stance of the Commonwealth Government; and the continuing low Australian dollar ($A) exchange rate providing a favourable trade environment. As a result, Commonwealth Treasury has forecast an acceleration in economic growth in 2001-02 to 3¼%, with all sectors of the economy forecast to contribute to growth over the year. The international economic environment represents the key risk to the growth recovery in 2001-02. While the global economy is expected to stabilise over the coming year, any renewed weakness in key trading partners such as the United States and Japan would adversely impact on Australian exports and the economy as a whole.

A range of factors contributed to a high degree of job churning in 2000-01, including GST compliance requirements, the Olympics and the volatile construction sector. Within this context, total employment in Australia is estimated to rise 2%, resulting in an estimated year-average unemployment rate of 6¼%. Looking forward to 2001-02, employment growth is forecast to slow to around 1%, representing a lagged response to slower overall economic growth in 2000-01. This is forecast to result in a significant rise in the national unemployment rate to 7% in year-average terms.

Ongoing inflation (that is, inflation excluding the impact of the GST on the consumer price index) increased to an estimated 3¼% in 2000-01 due to a number of factors, including higher import prices and a weather related spike in fresh food prices. An expected easing in world oil prices should see the rate of ongoing inflation ease in 2001-02, with Commonwealth Treasury forecasting consumer prices to increase a more modest 2½%. In contrast to the effect the GST had on prices in 2000-01, the abolition of Financial Institutions Duty and other elements of the New Tax System are likely to put downward pressure on prices in 2001-02 to the order of ½% point, implying lower headline inflation of around 2%.

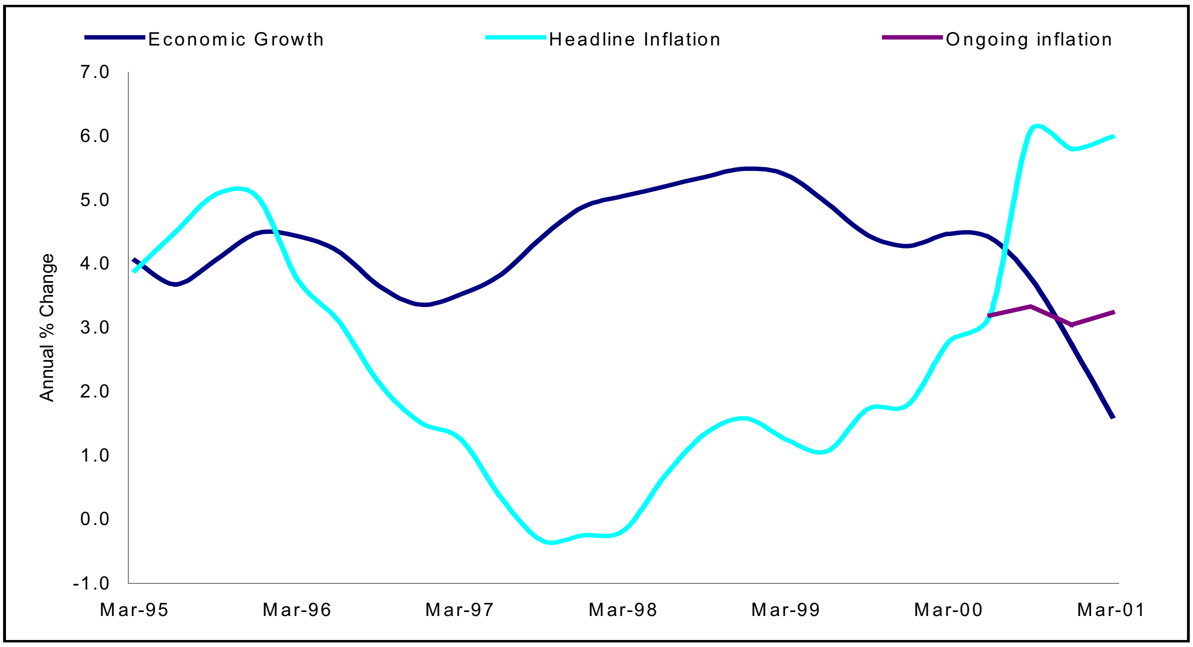
The $A was weak against the currencies of all its major trading partners in 2000-01, falling to an historical low of US47.8¢ in early April 2001. Australian financial assets now carry a weighting of less than 1% in global investment funds, which continues to represent a major structural limitation to any substantial appreciation in the $A. However, the low $A exchange rate continues to assist Australia's current account deficit (CAD) position, with the CAD expected to represent around 3% of gross domestic product in both 2000-01 and 2001-02, down from 5.3% in 1999-2000.

Chart 2.2
Exchange Rates and Interest Rates



Source: Reuters and Reserve Bank of Australia.

Chart 2.3
Gross Domestic Product and Inflation, Australia



Notes:

Economic growth presented on a trend basis. Ongoing inflation excludes an estimated 2¾% impact of the GST on the consumer price index in September quarter 2000.
Source: ABS 5206.0 and ABS 6401.0.

EXTERNAL ASSUMPTIONS

The forecasts for 2001-02 are based on a number of key assumptions pertaining to Queensland's external environment. These include:

- Economic growth in Queensland's trading partners, in particular in the United States and Japan, is expected remain stable in 2001-02.
- Inflationary pressures experienced in Queensland's major trading partners in 2000-01 due partly to higher energy costs are expected to ease in 2001-02.
- All official Commonwealth Government forecasts and projections, as at June 2001, have been adopted as the national framework for the Queensland forecasts. National economic growth is expected to strengthen in 2001-02, following a domestic demand driven moderation in 2000-01.
- Monetary policy settings are assumed to be unchanged by the Reserve Bank of Australia over the forecast horizon.
- Increased global economic stability in 2001-02, particularly in the US, should favour the $US/$A exchange rate with a modest appreciation expected over the year.

Table 2.1
External Assumptions

	Outcomes		Estimated Actual	Forecast
	1998-99	1999-2000	2000-01	2001-02
International Assumptions				
Major trading partner economic growth	1.0	4.4	2¾	2¾
Major trading partner inflation	0.9	0.5	1¼	1
National Assumptions				
Economic growth	5.4	4.3	2	3¼
Inflation[1]	1.3	2.4	3¼	2½

Notes:

1. Excludes the first round effects of the introduction of the GST in 2000-01 and impacts of subsequent tax reform measures in 2001-02.

Source: Consensus Forecasts and Commonwealth Treasury.

THE QUEENSLAND ECONOMY

Overall Economic Growth

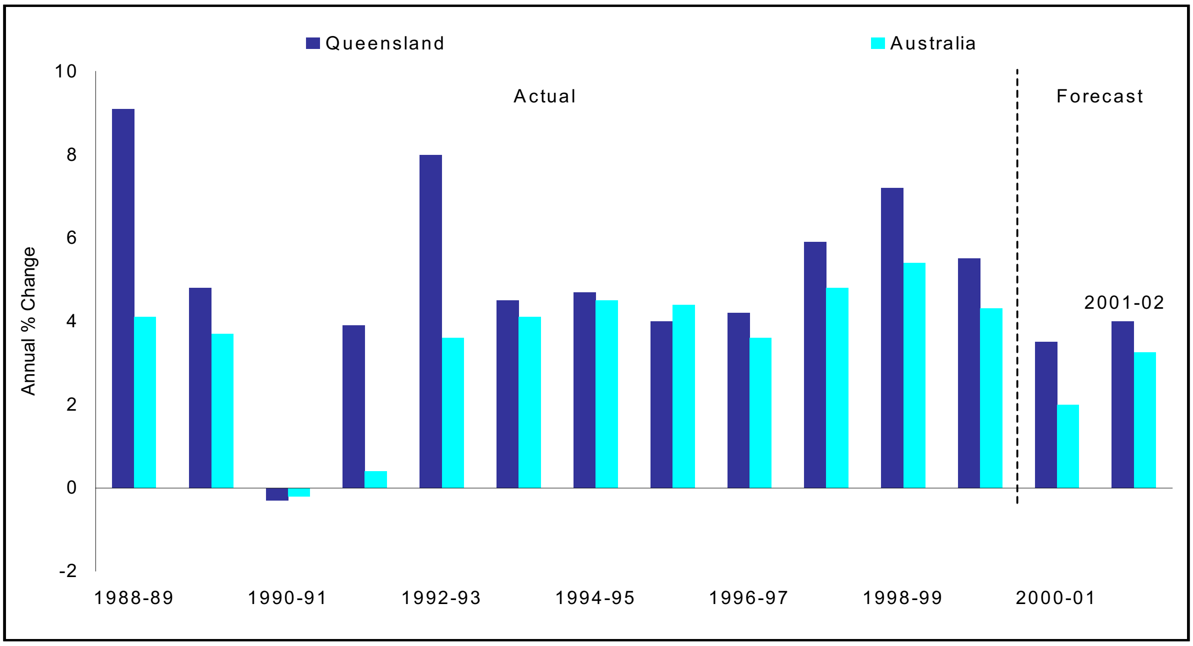
Economic growth in Queensland is estimated to average 3½% in 2000-01, slightly below the forecast 3¾% presented in the 2000-01 Budget. A number of external factors resulted in this lower than expected outcome, including the greater than anticipated effects of the introduction of the GST on the construction sector, in particular, and confidence levels in general as well as the further tightening of monetary policy in August 2000.

Looking forward, a reversal of this growth profile is forecast, with a recovery in all components of private investment leading to a solid contribution to growth from domestic demand. In turn, this increased demand is forecast to lead to a strengthening in imports, particularly from overseas, resulting in no contribution to growth from net exports. Overall economic growth in Queensland is forecast strengthen to 4% in 2001-02.

- Private investment is expected to fall by an estimated 13% in 2000-01, with investment constrained by higher interest rates through much of the year, and low levels of business confidence. Dwelling investment, in particular, has been adversely affected by the pull-forward effects associated with the introduction of the GST, falling by an estimated 19¼%. These conditions are expected to improve in 2001-02, leading to a recovery in private investment, which is forecast to grow by a solid 5%.

- The State's export sector has continued to record strong growth with demand supported by continued global economic growth and sustained international competitiveness underpinned by $A exchange rate. Exports of goods and services are estimated to grow by 6¾% in 2000-01, easing to 4½% in 2001-02.

Chart 2.4
Aggregate Economic Growth



Notes:

Growth for 2000-01 represents an estimated actual rate and 2001-02 a forecast.
Source: Queensland Treasury and Commonwealth Treasury.

Table 2.2
State and National Economic Forecasts

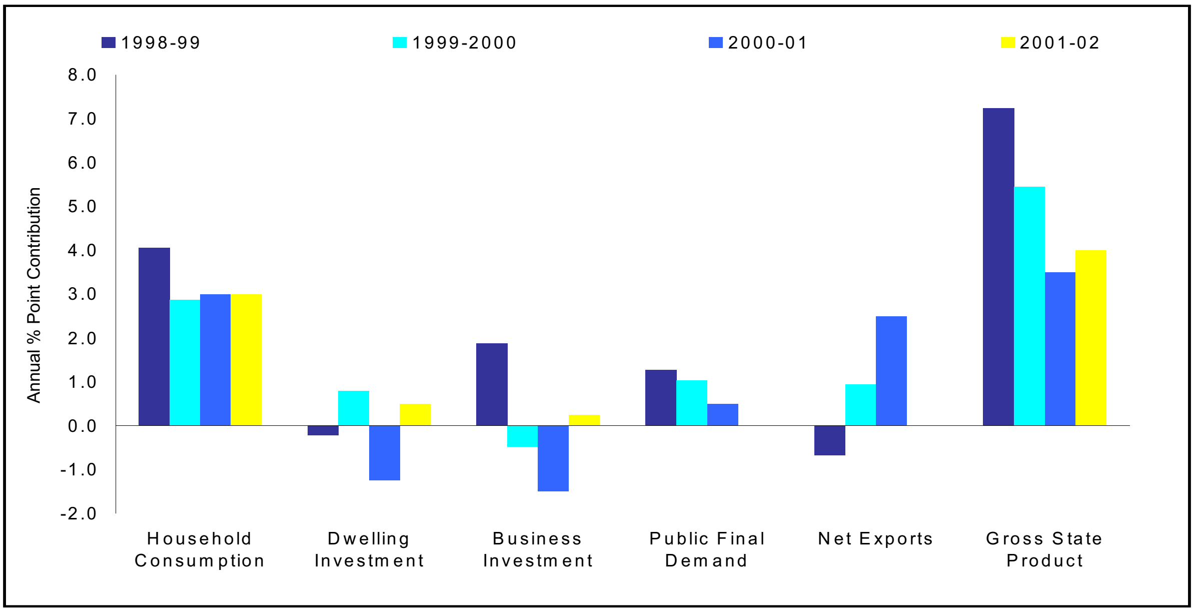
	Outcomes		Estimated Actual	Forecast
	1998-99	1999-2000	2000-01	2001-02
Queensland Forecasts				
Domestic Production[1]				
Household consumption	6.6	4.7	4¾	5
Private investment[2]	9.2	3.0	-13	5
Dwellings	-3.4	13.7	-19¼	10
Business investment	16.7	-4.0	-14½	3
Other buildings and structures	19.0	-10.1	-16¼	3½
Machinery and equipment	15.4	-0.3	-13½	2¾
Private final demand	7.2	4.2	¼	5
Public final demand	4.7	4.2	2¼	¼
Gross state expenditure[3]	7.4	4.2	¾	3¾
Exports of goods and services	2.0	4.9	6¾	4½
Imports of goods and services	3.3	1.7	-1	3¾
Net exports[4]	-0.7	0.9	2½	0
Gross state product	7.2	5.5	3½	4
Other State Economic Measures				
Population	1.6	1.6	1¾	1¾
Inflation[5]	1.0	1.8	3	2¾
Average earnings (state accounts basis)	3.3	0.4	5½	4
Employment (labour force survey)	2.7	2.2	2	2
Unemployment rate (%, year-average)	8.0	7.7	8	8
Labour force	2.0	1.9	2	2
Participation rate	65.0	64.9	65	65
National Forecasts				
Domestic Production[1]				
Household consumption	5.0	4.5	2¾	3
Private investment	na	na	na	na
Dwellings	11.0	12.4	-25	5
Business investment[6]	na	3.6	0	5
Other buildings and structures[6]	na	-11.0	-22	6
Machinery and equipment[6]	na	8.8	5	3
Private final demand[6]	na	5.0	0	3½
Public final demand[6]	na	5.6	2¼	2¼
Gross national expenditure[3]	6.1	4.5	½	3
Exports of goods and services	2.0	9.2	6	5
Imports of goods and services	4.9	12.5	0	4
Net exports[4]	-0.6	-0.9	1¼	¼
Gross domestic product	5.4	4.3	2	3¼
Other National Economic Measures				
Population	1.1	1.1	1	1¼
Inflation[5]	1.3	2.4	3¼	2½
Average earnings (national accounts basis)	4.2	2.8	3½	3¾
Employment (labour force survey)	2.2	2.7	2	1
Unemployment rate (%, year-average)	7.4	6.6	6¼	7
Labour force	1.5	1.9	1½	1¾
Participation rate	63.1	63.4	63¾	63¾

Notes: Unless otherwise stated, all figures are annual percentage changes. Decimal point figures indicate and actual outcome.

1. Chain volume measure, 1998-99 reference year.
2. Private investment includes livestock, intangible fixed assets and ownership transfer costs
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 in 2000-01 and impacts of subsequent tax reform measures in 2001-02.
6. Excluding private sector net purchases of second-hand public sector assets.

Source: Queensland Treasury, Commonwealth Treasury and ABS 5206.0.

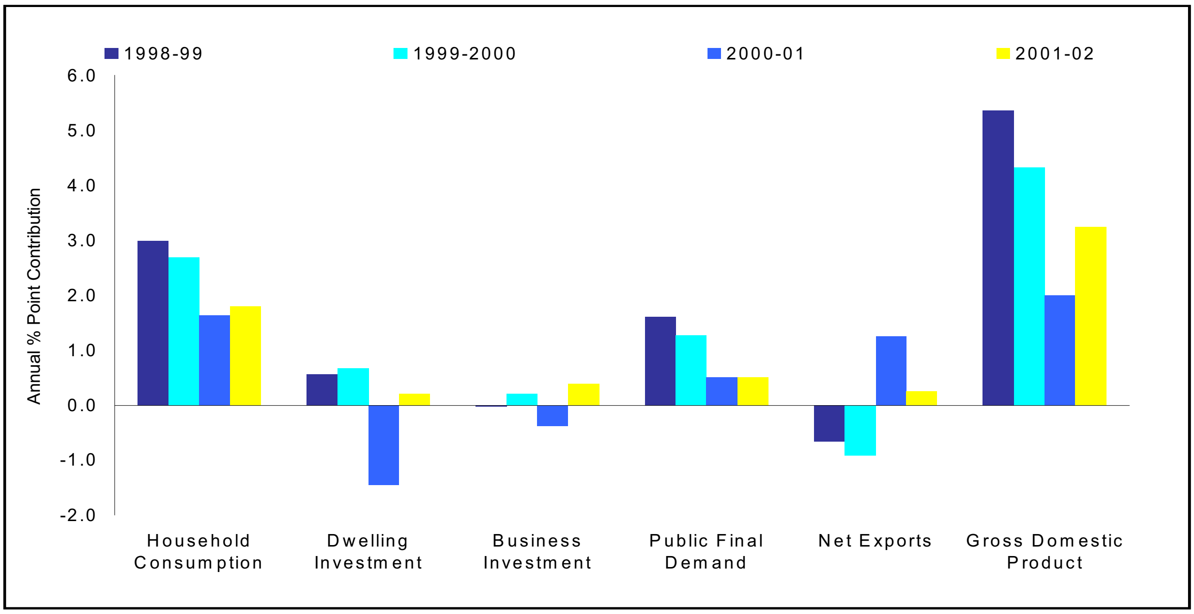
Chart 2.5
Contribution to Growth in Queensland's Gross State Product



Notes:

1998-99 chain volume measure. Contributions for 2000-01 represent estimated actuals and 2001-02 forecasts.
Source: Queensland Treasury.

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



Notes:

1998-99 chain volume measure. Contributions for 2000-01 represent estimated actuals and 2001-02 forecasts.
Source: Commonwealth Treasury and Queensland Treasury.

Household Consumption

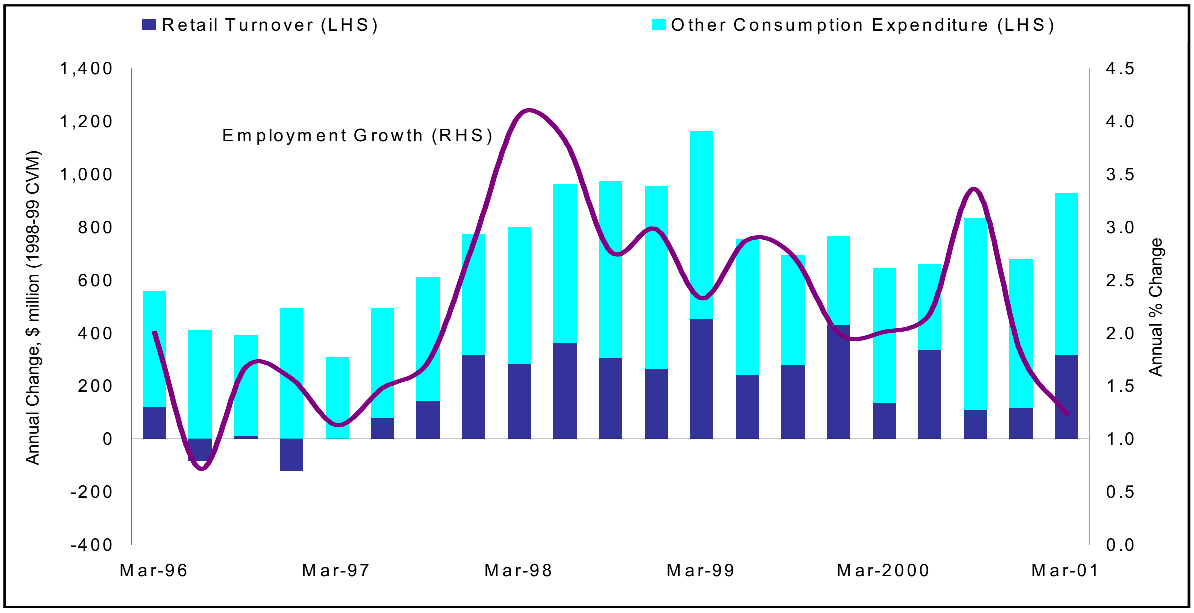
Household consumption in Queensland followed a steady growth path in 2000-01. Consumption is estimated to grow by 4¾% in 2000-01, following a similar result in 1999-2000. Although the first half of 2000-01 saw falls in consumer confidence associated with concerns about short-term economic performance and high petrol prices, these were offset by rising disposable incomes underpinned by income tax cuts and growth in nominal average earnings.

The introduction of the GST on 1 July 2000 also resulted in distortions to the patterns of individual components of consumption. Some retail spending was pulled forward into 1999-2000 ahead of the GST, while the removal of wholesale sales tax on motor vehicles resulted in purchases being delayed until 2000-01. The net result was that, overall, consumption remained reasonably steady through the transition period.

Household consumption is forecast to grow by 5% in 2001-02, representing a slight acceleration in growth compared with 2000-01. It is anticipated that consumption will contribute 3% points to economic growth in 2001-02.

The latest data on retail trade, which represents 40% of household consumption, suggest consumer confidence may have consolidated. Annual growth in real retail trade reached 4.0% in March quarter 2001, following three quarters of growth below 3%. Historically low interest rates should also expand household discretionary incomes, supporting higher consumption levels, while a modest improvement in employment growth is also likely to underpin solid growth in household expenditure during the year.

Chart 2.7
Household Consumption and Employment Growth



Notes:

Data presented are seasonally adjusted.
Source: Queensland Treasury and ABS 6202.0, 8501.0.

Dwelling Investment

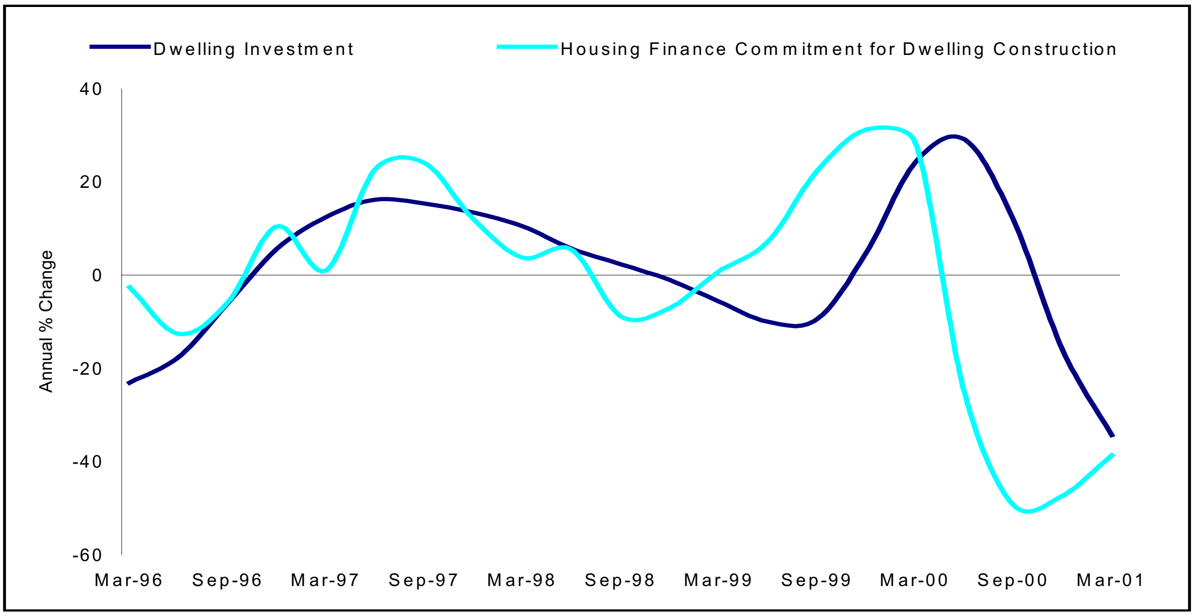
Dwelling investment in Queensland experienced a sharp decline in 2000-01, falling an estimated 19¼% over the year.

Dwelling investment surged in 1999-2000 as consumers brought forward spending to avoid higher building costs associated with the introduction of the GST. The size and speed of the subsequent downturn in housing construction was more severe than expected. With residential construction activity recording an unsustainably high rate of growth in 1999-2000, a sharp correction occurred in the first half of 2000-01. As a result, dwelling investment had a substantial dampening effect on economic growth over the year, detracting an estimated 1¼% points from aggregate growth in GSP.

The outlook for dwelling construction in 2001-02 is more encouraging, with dwelling investment forecast to grow by 10%.

Partial indicators suggest the rate of decline in construction activity eased in the second half of 2000-01, primarily in response to a series of reductions in official interest rates by the Reserve Bank which were passed through almost immediately by most commercial banks and other lending institutions in the form of lower home loan interest rates. The lower interest rate environment is expected to continue to encourage investment in 2001-02, as should the Commonwealth Government's decision to extend the First Home Owner Grant Scheme.

Chart 2.8
Dwelling Investment and Housing Finance



Source: Queensland Treasury and ABS 5609.0.

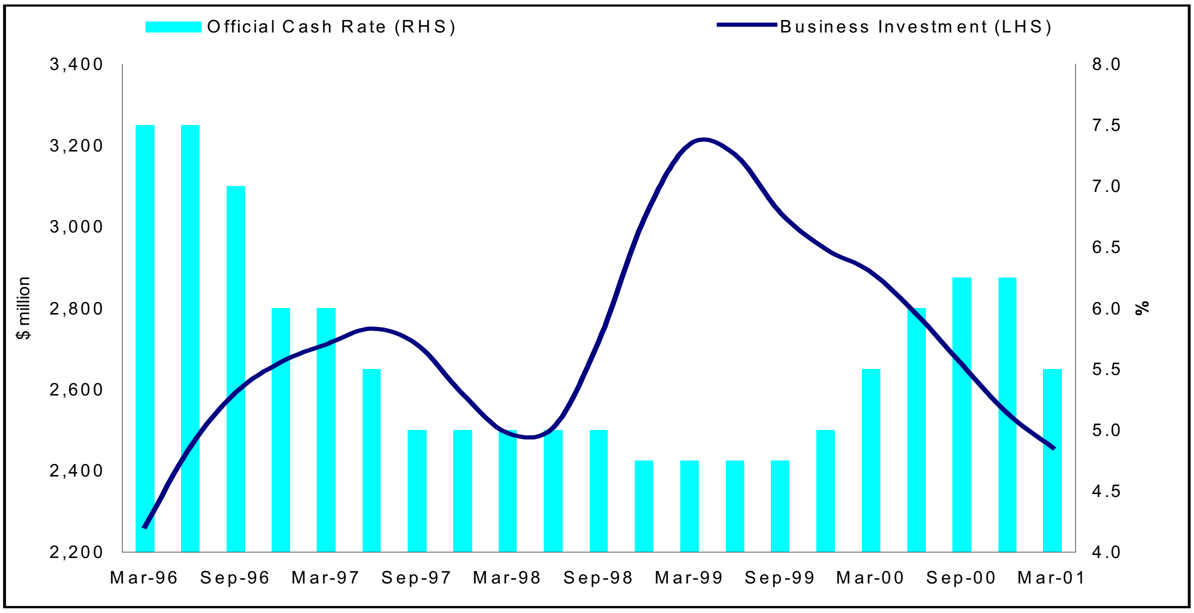
Business Investment

Total business investment in Queensland is estimated to fall in 2000-01, down 14½% over the year, following a 4.0% decline in 1999-2000. Five consecutive increases in the official cash rate between November 1999 and August 2000 had a detrimental impact on incentives to invest during the year. This was exacerbated by higher costs of imported equipment following the substantial depreciation in the $A.

Investment in machinery and equipment, the larger component of business investment, is estimated to fall by 13½% in 2000-01, after declining 0.3% in 1999-2000, while investment in other buildings and structure is estimated to have declined 16¼% in 2000-01, following a 10.1% fall in the previous year. A rise in operating costs due to continuing high fuel prices and increased import prices, the result of the low $A, added to the rate of decline in both components of business investment during the year. Business confidence was also damaged as a result of the disruption to domestic economic activity caused by the GST, forcing many investors to defer their investment decisions. This is supported by the Australian Bureau of Statistics *Survey on Private New Capital Expenditure* which indicates that, based on survey respondents expectations for the six months ending June 2001, the investment outlook for Queensland remains subdued over the remainder of 2000-01.

Business investment is forecast to recover in 2001-02, albeit modestly, as domestic and overseas economic conditions improve in the second half of 2001 and businesses benefit from the lower capital costs associated with the several interest rate cuts delivered since February 2001. Investment in other buildings and structures and machinery and equipment is forecast to increase 3½% and 2¾% respectively, resulting in an expected 3% rise in total business investment.

Chart 2.9
Business Investment and the Official Cash Rate



Source: Queensland Treasury and Reserve Bank of Australia.

Net Exports

Net exports are expected to support economic growth in Queensland in 2000-01, contributing an estimated 2½% points to the total increase in gross state product, compared with 0.9% point in 1999-2000.

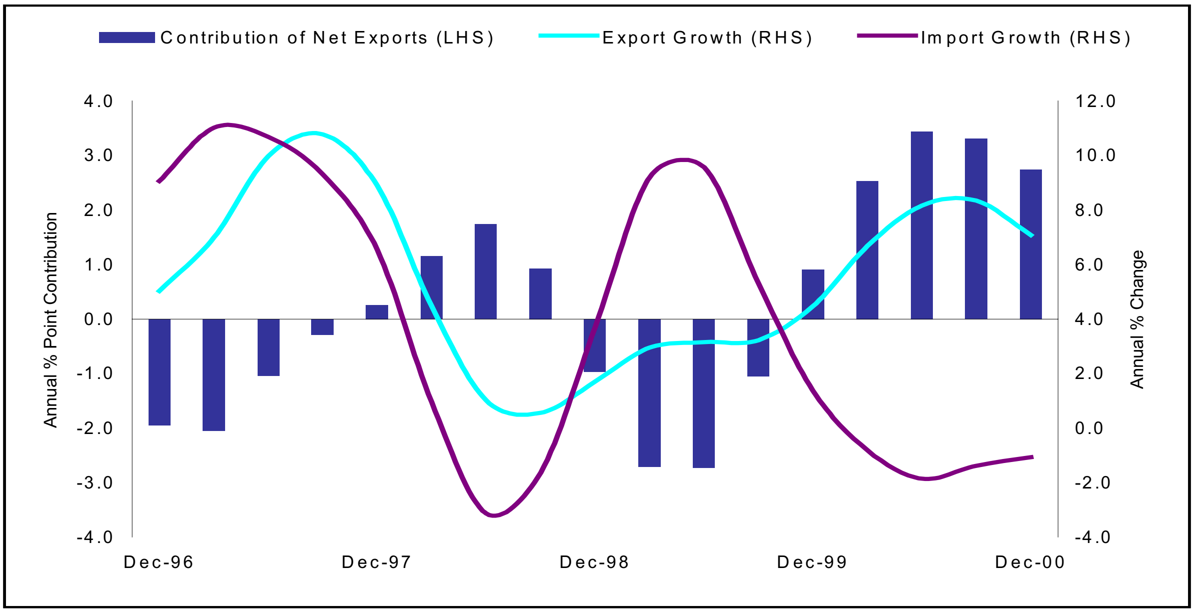
The substantial depreciation in the value of the $A saw growth in exports of goods and services increase from 4.9% in 1999-2000 to an estimated 6¾% in 2000-01. Strong growth was recorded in exports to markets in the United States, Europe and Japan in both traditional commodities, such as coal, non-ferrous metals and wool, and services such as tourism which benefited from the lower exchange rate as well as from an increase in the number of overseas visitors due to the 2000 Sydney Olympic Games.

At the same time, the low $A exchange rate and the slowdown in domestic economic activity reduced the demand for imports over the year. As a result, imports of goods and services are estimated to fall 1% in 2000-01, following growth of 1.7% in 1999-2000.

The contribution of net exports to growth in GSP is forecast to fall to zero in 2001-02, largely due to a recovery in the domestic sector of the Queensland economy leading to higher demand for imports.

Growth in exports is forecast to ease to 4½% in 2001-02, incorporating a slowing in overseas export growth and a moderation in tourism exports following the positive indirect impacts of the Sydney Olympics. However, the low value of the $A is expected to preserve the international competitiveness of Queensland exports, while relatively strong world prices for most commodities, including coal, beef and wheat should maintain returns to exporters. Meanwhile, stronger domestic economic conditions are expected to reverse the 1% decline in imports in 2000-01, with 3¾% growth forecast in 2001-02.

Chart 2.10
Net Exports Contribution to Growth in GSP and Export and Import Growth



Source: Queensland Treasury.

Employment

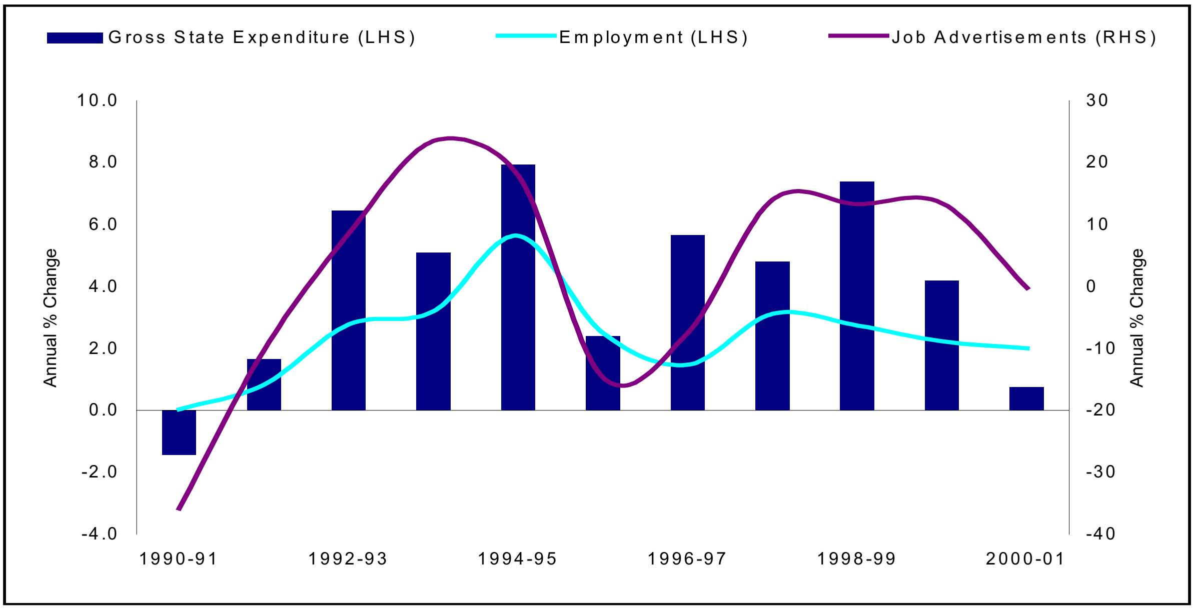
Employment growth is estimated to remain strong at 2% in 2000-01, representing an increase of around 31,000 jobs over the year. Strong growth in Queensland's labour force of 2% offset this increase in employment resulting in an estimated year-average unemployment rate of 8% in 2000-01.

Job losses in both the construction and agriculture industries limited overall employment growth in 2000-01. Construction employment declined in line with the sharp downturn in dwelling investment following the introduction of the GST, while agriculture also sustained a large fall in employment over the year as poor seasonal conditions in certain regions of the State forced extensive job lay-offs. Meanwhile, solid growth in household consumption ensured further job gains in business services, health and community services and retail trade.

Employment growth is expected to improve over 2001-02, as interest rate cuts take their effect and investment levels recover. The State Government's lowering of the payroll tax rate and microeconomic reforms, such as the introduction of competition into the energy sector, should also begin to foster long-term jobs growth in the State. In the short run, the lagged effects of subdued business confidence, high oil prices and GST compliance from 2000-01 are expected to restrain employment growth during the first half of 2001-02.

The creation of 33,000 new jobs is forecast in 2001-02, representing year-average employment growth of 2%. This compares with forecast growth of 1% nationally. With a continuing high participation rate (65%) and solid population growth underpinning further strong growth in labour supply, Queensland's year-average unemployment rate is forecast to be 8%. Strengthening employment over the year is forecast to result in an improvement in the State's unemployment rate through the year to June quarter 2002.

Chart 2.11
Domestic Activity, Job Advertisements and Employment



Notes:

Data for 2000-01 represent estimated actuals.
Source: ABS 6202.0, ANZ Job Advertisement Series and Queensland Treasury.

Population

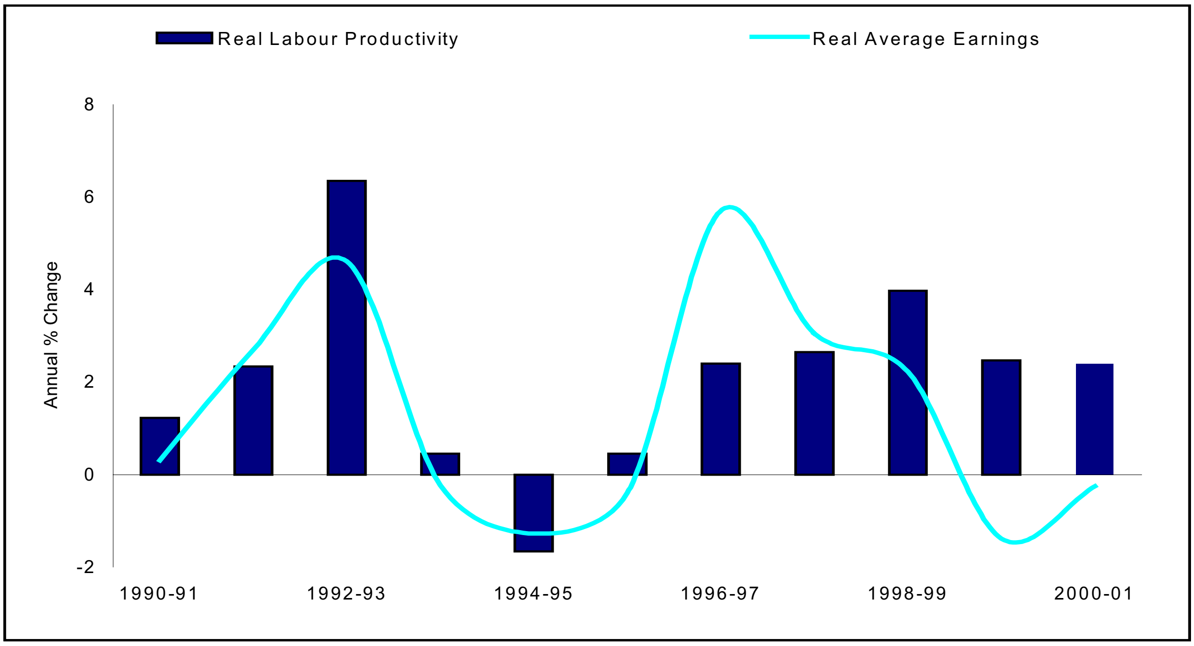
Population growth is forecast to strengthen slightly from 1.6% in 1999-2000 to 1¾% in both 2000-01 and 2001-02, slightly below the long-run average growth in the State (2.1%), but well above that expected nationally of 1% in 2000-01 and 1¼% in 2001-02.

Net interstate migration has accounted for around 45% of the total rise in Queensland's population over the past decade. Past experience suggests the recent slowdown in the national economy may result in continued high levels of interstate migration to Queensland. Residents from southern states tend to migrate north during periods of national economic downturn, taking advantage of Queensland's historically higher rate of job creation, competitive tax environment, lower property prices and generally lower cost of living.

Average Earnings

While nominal average earnings growth is forecast to moderate from an estimated 5½% in 2000-01 to 4% in 2001-02, growth in real average earnings is expected to strengthen from a slight fall in 2000-01 to growth of 1¾% in 2001-02. In order to avoid a rise in unit labour costs which could have consequences for labour demand going forward, productivity growth in Queensland will need to continue at around the average rate experienced in the second half of the 1990s.

Chart 2.12
Real Average Earnings and Labour Productivity



Source: Queensland Treasury.

Inflation

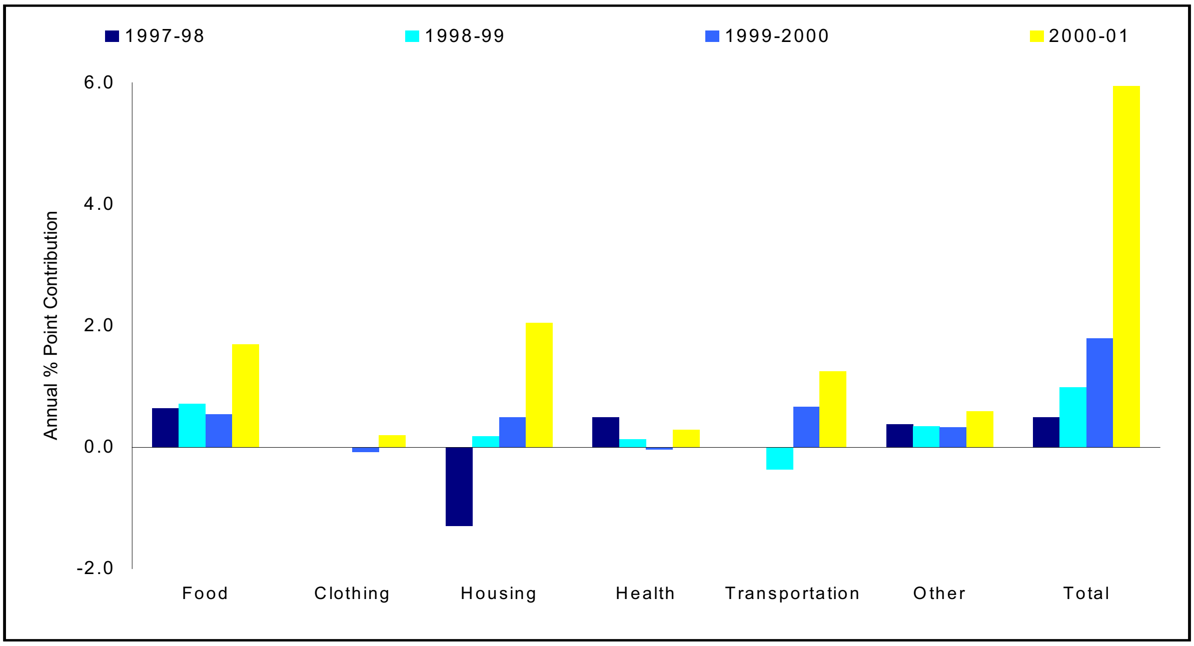
Headline inflation in Queensland is estimated to rise to 5¾% in 2000-01. However, ongoing inflation in the State (that is, inflation excluding the impact of the GST on the consumer price index) was better contained, rising to around 3%.

A range of extraordinary factors influenced price levels over the course of 2000-01, making interpretation of price movements more difficult than usual. The greatest impact came from the introduction of the GST, which consensus estimates suggest added around 2¾% points to the overall year-average rise in consumer prices. Structural adjustments to the pricing of tobacco and cigarettes, pharmaceutical benefits and private education also led to higher prices during the year, while increased competition led to falling prices in domestic aviation.

The threats to domestic inflation posed by the low $A exchange rate and high fuel prices during the year seemed to pass without any major impact on consumer prices. The risk was that higher import prices and rising fuel costs would spill over into more generalised inflationary pressures in the domestic economy. Instead, general economic uncertainty appeared to reduce corporate pricing power, meaning that higher input costs were mainly absorbed in profit margins rather than passed onto the consumer.

In 2001-02, inflation is expected to moderate from 3% to 2¾%, due in part to a stabilisation of fuel prices and on the assumption of a slight appreciation of the $A over the forecast period.

Chart 2.13
Contributions to Growth in Queensland's Consumer Price Index



Notes:

Data for 2000-01 are based on the average of the three quarters to March 2001.
Source: Queensland Treasury and ABS 6401.0.

Opportunities and Risks

The outlook for Queensland economic growth in 2001-02 and beyond is tied to a substantial extent to the national economic climate and that of its major trading partners. The balance of risks in any particular year varies. In 2000-01, the failure of economic activity to achieve the rate of growth forecast in last year's Budget papers related to the unanticipated extent of the weakness in domestic activity, brought about by the slump in confidence of consumers and the business sector following the introduction of the GST in July 2000.

This year, 2001-02, the major downside risks lie in the external environment. The forecasts presented in this chapter assume stable international conditions in 2001-02, with demand for Queensland exports supported by an assumed low value of the Australian dollar against the US dollar and other major trading partners' currencies.

The main threats to Queensland economic growth from international economic conditions lie in the assumed modest recovery in the US economy, and the associated strengthening of the economies of Asia, specifically Japan and South East Asia. Recovery in the US economy from its current sluggish rates of growth is essential for an improvement in economic growth in Asia. South East Asia, in particular, is dependent on sustained demand for electronic components to support its export performance, with the US being the major market for such products. Should the US economy fail to grow at the rates assumed, the flow-on effects on economic conditions in Asia would be damaging for Australia.

The exchange rate has been assumed to recover only moderately from its recent low value in 2001-02. However, if the Australian dollar were to appreciate sharply against the currencies of Queensland's major trading partners, lower export growth may ensue, and import growth may accelerate in response to improved relative competitiveness. In this case, net exports would detract from economic growth in 2001-02 resulting in lower than forecast economic growth.

Domestically, the two areas of potential downside risk relate to dwelling and business investment. The forecasts assume a recovery in dwelling investment, supported by improved affordability as well as the enhanced Commonwealth Government's First Home Owner Grant Scheme. This follows the dramatic decline in dwelling investment in 2000-01 in response to the GST pull forward of housing construction into 1999-2000. This recovery may be delayed by the recent collapse of HIH, with some building activity in southern States stalling in response to increased uncertainty associated with the loss of major insurance coverage. The impact on building activity in Queensland is likely to be minimal on account of the State operating a statutory building insurance scheme administered by the Queensland Building Services Authority.

Business investment has experienced a protracted period of weakness in Queensland. While some of this weakness resulted from unsustainably high levels of business investment over the second half of the 1990s, the slide in investment expenditure has been exacerbated by falling business confidence during 2000-01. A modest recovery in business investment has been assumed in response to a steadying in the $A and reduced costs of borrowing. However, should profit margins continue to be squeezed over the second half of 2001, falling profitability may limit the positive impact of these two forces.

There is some upside risk associated with the forecasts, related to the effects of national fiscal and monetary policy settings. The recent Commonwealth Budget economic forecasts have been assumed in determining the outlook for the Queensland economy. Some commentators have suggested that these forecasts maybe unduly pessimistic in the light of the current expansionary stance of both monetary and fiscal policy. Should the Commonwealth have underestimated the stimulatory effect of their policy settings, national growth maybe faster than forecast, with a consequent positive flow-on to economic activity in Queensland.

Some upside risk may also be associated with the forecast modest recovery in business investment in 2001-02. Although there are signs of some improvement for June quarter 2001, business confidence in Queensland remains at low levels. Recent expectations survey results in regard to firms' capital expenditure plans for 2001-02 reflect this weak business confidence. The forecasts contained in this chapter are, in part, based on these survey data. A more rapid recovery in business confidence over the near future could lead to a higher than forecast realisation rate for private sector capital expenditure expectations. This in turn would result in the recovery in business investment being stronger than forecast.

The commitment of major investment projects, such as Australian Magnesium Corporation and Hail Creek, may also underpin an improvement in business confidence, with the potential for stronger than forecast growth.

There are a number of factors which may impact on labour market outcomes in 2001-02. On the supply-side, the labour force participation rate has been forecast to remain stable at 65% in year-average terms in 2001-02. Should there be a substantial increase in the labour force participation rate, there will be a corresponding increase in the year-average unemployment rate. With respect to labour demand, the expected rise in employment is based on a strengthening in domestic activity in 2001-02. Should the eventual recovery differ substantially from the forecast, the actual rise in employment may also vary from the expected increase of 2%.

Medium Term Outlook

Queensland Treasury provides projections for key economic parameters for the three years following the immediate forecast period in the annual Budget and in the Mid Year Fiscal and Economic Review. The projections for the years 2002-03 to 2004-05, shown in Table 2.3, provide a broad indication of the likely path of economic conditions in the State and nationally over the medium term, rather than point estimates of actual gross state product growth for this period.

World economic conditions are projected to stabilise, with economic growth in Queensland's major trading partners assumed to grow at around 3%. The strength of the US economy going forward is critical to the outlook for world growth given the vast influence the US economy has on world markets.

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. In particular, the projections incorporate the anticipated impacts of the Commonwealth Government's 2001-02 fiscal strategy and budget priorities as presented on 22 May 2001, which include cash surpluses for each of the forward years.

Economic growth is projected to return towards the average growth rate over the past decade, with an increase of around 4½% per annum projected for the period to 2004-05. With average employment growth of 2½% per annum over this period projected to outpace population growth of 1¾% 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 2.3
Economic Parameters/Projections[1]
(annual % change)

	Outcome	Estimated Actual	Forecast	Projections[2]
	1999-2000	2000-01	2001-02	2002-03 to 2004-05
Queensland				
Gross state product[3]	5.5	3½	4	4½
Employment	2.2	2	2	2½
Inflation[4]	1.8	3	2¾	2½
Average earnings[5]	0.4	5½	4	3½
Population	1.6	1¾	1¾	1¾
Australia				
Gross domestic product[3]	4.3	2	3¼	3½
Employment	2.7	2	1	2
Inflation[4]	2.4	3¼	2½	2½
Average earnings[5]	2.8	3½	3¾	3½
Population	1.1	1	1¼	1¼

Note:

1. Figures not quoted as a fraction are an actual outcome.
2. Average annual percentage change over the period.
3. Chain volume measure, 1998-99 reference year.
4. Inflation figures for 2000-01 and 2001-02 are net of GST effects.
5. Average earnings are on a National/State Accounts basis.

Source: Queensland Treasury and Commonwealth Treasury.

3. REVENUE OUTLOOK

KEY POINTS

- **The Government's program of payroll tax rate reductions will continue, with the rate reducing to 4.8% from 1 July 2001, and 4.75% from 1 July 2002. Payroll tax concessions on termination payments and grossed up fringe benefits will be removed from 1 July 2002.**

- **From 1 July 2001, the most profitable hotel gaming machine venues will pay the Major Facilities Levy, which will be used to finance major public sporting and cultural facilities and infrastructure in Queensland.**

- **Stamp duty on marketable securities listed on recognised stock exchanges is to be abolished from 1 July 2001, in accordance with national tax reform arrangements agreed by all States.**

- **A Duties Bill and a Taxation Administration Bill, to be introduced into Parliament in the second half of 2001, will simplify stamp duty arrangements and reduce compliance costs for business.**

INTRODUCTION

This chapter sets out how the Government will raise revenue in 2001-02 to meet the costs of delivering services, while maintaining Queensland's competitive tax status.

Queensland's costs in delivering services are financed from two main sources:

- State own-source revenue, primarily comprising taxes and charges and income from State assets; and

- payments from the Commonwealth, comprising Goods and Services Tax (GST) revenue grants, budget balancing assistance, national competition payments and specific purpose payments.

State own-source revenue represents 60.3% of General Government Revenue in 2001-02, while payments from the Commonwealth make up the balance. Table 3.1 provides a summary of the composition of gross General Government Sector receipts in 2001-02.
The amount of funding available from each major source depends upon a range of broad factors. Taxes and charges are subject to the *Charter of Social and Fiscal Responsibility*, which among other things, commits the Government to ensuring that taxes and charges remain competitive with the other States and Territories. Many taxes and charges are also affected by general market conditions because, while the Government determines the rates of taxes and charges, the size of the base to which those rates are applied varies according to prevailing economic conditions.

Payments from the Commonwealth are subject to the independent and impartial assessment of fiscal needs by the Commonwealth Grants Commission in relation to general revenue grants or the outcome of Commonwealth-State arrangements in the case of Specific Purpose Payments. The institutional arrangements underpinning this major source of funds are complex and involve active participation from the Queensland Government so that full information is available to ensure the State receives an appropriate allocation of Commonwealth funding. Federal fiscal arrangements are discussed in detail in Chapter 4.

Revenues within this chapter are presented on a gross accrual basis, in line with Queensland's accrual output budget approach. Only revenue received by the General Government Sector is shown. Revenue received by Public Trading Enterprises and Public Financial Enterprises is excluded. 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. For this reason, revenues within this chapter differ from revenues in Budget Paper No. 2, which are prepared on a Government Finance Statistics (GFS) basis. A reconciliation between the gross data presented in this chapter and the GFS data presented in Budget Paper No. 2 is provided in Table 3.12.

The remainder of this chapter provides a detailed breakdown of revenue estimates summarised in Tables 3.1.

Table 3.1
Total General Government Revenue (Gross Basis)

	Actual 1999-2000 $ million	Est. Actual 2000-01 $ million	Budget 2001-02 $ million	Change Budget over Est. Actual %
Taxes, Levies, Fees and Fines	4,990.1	4,903.8	5,137.0	4.8
Commonwealth Payments	7,933.8	8,963.6	9,388.3	4.7
Revenue from Financial Assets	3,232.9	2,748.6	2,903.1	5.6
User Charges	2,544.6	2,466.7	2,515.4	2.0
Royalties	511.3	577.4	696.4	20.6
Grants and Contributions	826.7	781.2	714.6	(8.5)
Gains, Revaluation and Other Revenue	2,407.7	2,544.6	2,302.1	(9.5)
General Government Revenue	**22,447.0**	**22,985.8**	**23,656.9**	**2.9**

Numbers may not sum due to rounding.

OWN SOURCE REVENUE

This section sets out estimates of revenue raised or earned by the State. Own source revenue in 2001-02 is expected to total $14.269 billion. As illustrated in Table 3.1, the largest component of State own source revenue is taxes, levies, fees and fines.

TAXES, LEVIES, FEES AND FINES

Revenue from taxes, levies, fees and fines is summarised in Table 3.2.

By maintaining competitive tax rates in 2001-02, the Government will ensure that Queensland continues to enjoy an economic environment that is conducive to both business and employment. Per capita collections of State taxation, on a GFS basis, in Queensland in 2001-02 are estimated at $1,211 compared with an estimated $1,637 for the average of the other States and Territories.

Table 3.2
Taxes, Levies, Fees and Fines Revenue 2001-02

	Actual 1999-2000 $ million	Est. Actual 2000-01 $ million	Budget 2001-02 $ million	Change Budget over Est. Actual %
Taxation				
Payroll Tax	1,379.6	1,465.0	1,555.0	6.1
Stamp Duties				
• *Conveyancing*	767.3	640.0	679.0	6.1
• *Motor Vehicle Transfers*	167.3	169.0	177.0	4.7
• *Insurance*	185.4	210.3	218.9	4.1
• *Mortgages, Bonds etc*	102.6	100.0	106.5	6.5
• *Other Stamp Duties*[1]	97.2	111.6	82.4	(26.2)
Total Stamp Duties	1,319.7	1,230.9	1,263.8	2.7
Gambling Taxes and Levies[2]				
• *Gaming Machine Tax and Levies*[3]	310.6	281.7	322.3	14.4
• *Lotteries Taxes*	184.0	162.0	168.9	4.3
• *Wagering Taxes*	49.4	26.4	27.5	4.2
• *Casino Taxes and Levies*	97.4	55.1	57.9	5.1
• *Keno Tax*	9.3	5.2	5.4	3.8
Total Gambling Taxes and Levies[4]	650.8	530.5	581.9	9.7
Land Tax	222.8	224.7	231.0	2.8
Debits Tax	210.4	210.0	190.0	(9.5)
Total Taxation and Levies	**3,783.3**	**3,661.2**	**3,821.8**	**4.4**
Regulatory Fees				
Motor Vehicle Registration	523.2	565.0	592.0	4.8
Fire Levy	163.3	177.9	185.4	4.2
Transport and Traffic Fees	128.2	124.6	130.7	4.9
Other Fees and Levies	295.4	281.1	296.3	5.4
Total Regulatory Fees	**1,110.0**	**1,148.6**	**1,204.4**	**4.9**
Fines and Forfeitures	96.8	94.0	110.9	18.0
Total Taxes, Levies, Fees and Fines	**4,990.1**	**4,903.8**	**5,137.0**	**4.8**

Notes:
1. Includes stamp duty on leases, rental arrangements, credit business and brokerage of marketable securities. Duty on brokerage of listed securities will be abolished from 1 July 2001.
2. Includes community benefit levies.
3. Includes the Major Facilities Levy from 1 July 2001.
4. Estimated actual gambling tax revenues in 2000-01 are less than actual 1999-2000 due to the State making "tax room" for the GST.

Numbers may not sum due to rounding.

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

Payroll Tax

Payroll tax collections are estimated to increase by 6.1% in 2001-02, reflecting growth in employment and wages, partially offset by the reduction of the payroll tax rate to 4.8% which occurs from 1 July 2001 (down from 4.9% currently).

Payroll tax concessions involving termination payments and the grossing up of fringe benefits will be removed from 1 July 2002, consistent with similar arrangements introduced in Victoria and South Australia. The inclusion of the full grossed-up value of fringe benefits in the payroll tax base will ensure consistency with the treatment of cash salaries and remove the distortion in the current arrangements that unfairly favours remuneration in the form of fringe benefits. The inclusion of certain termination payments in the payroll tax base will provide a greater degree of consistency with the treatment of such payments under Commonwealth tax law.

Queensland's payroll tax rate from 1 July 2001 of 4.8%, and threshold of $850,000, remain very competitive with rates and thresholds in other States, as illustrated in Table 3.3. Queensland's payroll tax rate will be further reduced to 4.75% from 1 July 2002. Table 3.3 also illustrates that the Queensland payroll tax will continue to be competitive compared with initiatives for future rate and threshold reductions announced by other States.

Table 3.3
State Comparison Payroll Tax Rates and Thresholds

	As at 1 January 2001	As at 1 July 2001	As at 1 July 2002
Payroll tax rates:	%	%	%
Queensland	4.90	4.80	4.75
New South Wales	6.20	6.20	6.00
Victoria	5.75	5.45	5.45
Western Australia	5.56	5.56	5.56
South Australia	6.00	5.75	5.67
Tasmania	6.53	6.30	6.24
ACT	6.85	6.85	6.85
Northern Territory	6.60	6.50	6.50
Thresholds:	($'000)	($'000)	($'000)
Queensland	850	850	850
New South Wales	600	600	600
Victoria	515	515	515
Western Australia	675	675	675
South Australia	456	456	504
Tasmania	606	1,000	1,010
ACT	900	1,250	1,500
Northern Territory	600	600	600

Source: Information on maximum payroll tax rates, and thresholds, announced in States' 2001-02 Budgets. For Western Australia, based on 2000-01 Budget. The Victorian rate will reduce to 5.35%, and threshold increase to $550,000, from 1 July 2003.

Stamp Duty

Stamp duty is levied on a range of financial and property transactions. Overall, total receipts from stamp duties are forecast to increase by 2.7% in 2001-02. Receipts from stamp duty on property conveyancing transactions are estimated to increase by 6.1% in 2001-02, due to an anticipated recovery in housing and non-residential property investment from low levels of activity in 2000-01. Stamp duty on the transfer of marketable securities listed on recognised stock exchanges, included in Other Stamp Duties in Table 3.2, will be abolished from 1 July 2001 as part of national tax reform.

A Duties Bill and a Taxation Administration Bill, to be introduced into Parliament in the second half of 2001, will simplify stamp duty arrangements. The harmonisation of stamp duty arrangements for mortgage duty will result in stamp duty being collected on a narrower range of instruments. Along with other changes to align mortgage duty arrangements with current business practice, this will be of particular benefit to business.

Motor vehicle transfers and insurance stamp duties are expected to achieve positive growth in 2001-02 in line with projections for activity within these sectors. Receipts from Other Stamp Duties are estimated to decline by 26.2%, reflecting the abolition of stamp duty on the transfer of listed marketable securities from 1 July 2001.

Gambling Taxes and Levies

A range of gambling activities is subject to State taxes and levies. Total gambling tax and levy collections are estimated to increase by 9.7% in 2001-02. The Major Facilities Levy applies from 1 July 2001 to the most profitable hotel gaming machine venues, with the proceeds used to finance major public sporting and cultural facilities and infrastructure in Queensland. The Major Facilities Levy is estimated to collect $6.3 million in 2001-02, contributing to the estimated 14.4% growth in gaming machine tax and levy collections. Moderate growth is forecast for other gambling taxes.

Land Tax

Land tax is estimated to grow moderately by 2.8% in 2001-02 in line with land valuation trends.

Debits Tax

Debits tax is levied on debits to accounts with a cheque drawing facility. Debits tax revenue is expected to decline by 9.5% in 2001-02. This decline reflects an increasing trend in the use of non-cheque payment mechanisms. It also reflects the impact of the abolition of Financial Institutions Duty in other States from 1 July 2001, which may reduce the incentive for businesses to transact through Queensland domiciled accounts, which are not subject to Financial Institutions Duty. The implications of the New South Wales Government's decision to abolish Debits Tax from 1 January 2002, contingent on the Commonwealth Government providing certain funding guarantees, is discussed in Chapter 4.

Motor Vehicle Registration Fees

Motor vehicle registration is influenced primarily by the growth of the available fleet and fee adjustments related to the Consumer Price Index (CPI). Motor vehicle registration revenue is expected to increase by 4.8% in 2001-02, due to a combination of CPI and population growth.

Fire Levy

Fire levy revenue, which is used to fund the Queensland Fire and Rescue Authority (QFRA), is expected to increase by 4.2% in 2001-02. This increase is in line with the growth of contributors in 2001-02 and incorporates a CPI adjustment.

Transport and Traffic Fees

This category comprises State transport fees, the Traffic Improvement Fee, drivers' licence fees and various marine licence and registration fees. Revenue from transport and traffic fees is expected to rise by 4.9% in 2001-02, due primarily to CPI increase and population growth.

Other Fees

Receipts from other regulatory fees and levies are expected to increase by 5.4% in 2001-02. This item includes a $5 levy on motorists from 1 October 2001 for compulsory third party insurance, which is expected to raise $9 million in 2001-02. This levy is a direct result of the collapse of HIH Insurance (which controlled FAI Insurance) and its subsequent provisional liquidation on 15 March 2001, which left the State responsible for claims against FAI Insurance Compulsory Third Party policies that expired on or before 31 December 2000. More information is provided in Chapter 3 of Budget Paper No. 2.

Fines and Forfeitures

The major fines included in this category are traffic and court fines. The forecast increase of 18.0% in collections of fines and forfeitures in 2001-02 is largely a result of the first full-year application of the State Penalties Enforcement Registry (SPER) to recover outstanding fines. Lower estimated actual receipts in 2000-01 for SPER are due to the impact of an amnesty that applies for a seven-month period ending 30 June 2001.

REVENUE FROM FINANCIAL ASSETS

Table 3.4
Revenue from Financial Assets

	Actual 1999-2000 $ million	Est. Actual 2000-01 $ million	Budget 2001-02 $ million	Change Budget over Est. Actual %
Investment Earnings	1,790.2	990.1	1,268.7	28.1
Dividends	992.8	1,185.8	1,164.3	(1.8)
Tax Equivalents	309.2	464.9	368.7	(20.7)
Guarantee Fees	77.8	79.5	79.3	(0.3)
Other Revenue from Financial Assets	62.9	28.4	22.1	(22.2)
Total Revenue from Financial Assets	**3,232.9**	**2,748.6**	**2,903.1**	**5.6**

Numbers may not sum due to rounding.

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 and long service leave).

Queensland Investment Corporation (QIC) manages the State's long-term investments, primarily employee entitlement provisions, through the QIC Investment Trust (QICIT). The QICIT is a diversified portfolio consisting of Australian and international equities, Australian and international fixed interest, currencies, cash, and property.

Investment earnings in 2000-01 were lower than actual earnings in 1999-2000, primarily as a result of reduced returns from international equity markets. Despite this, QIC's investment performance remains above comparative benchmark returns.

Investment earnings for 2001-02 and the forward years are expected to return to long-term average levels.

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, Centre for Information Technology and Communications (CITEC), Q-Fleet, Property Management, Project Services, Sales and Distribution, and GoPrint.

Dividends are projected to decline by 1.8% to $1.164 billion in 2001-02. This reflects a reduction in dividends from QESI as a result of expected falls in electricity market prices.

2000-01 also saw the final dividend receipts from Queensland Treasury Holdings (a General Government Sector entity) relating to the State's interest in Suncorp Metway Exchanging Instalment Notes Series II.

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 decrease by 20.7% in 2001-02, in accordance with estimates provided by participating entities. In particular, expected falls in electricity market prices in QESI have resulted in reduced tax equivalents estimates in the electricity sector.

Guarantee Fees

Guarantee fees are revenues collected by QTC and comprise performance dividends, competitive neutrality fees and credit margin fees. These fees promote competitive neutrality between public sector agencies and those in the private sector, and ensure that the benefits accruing from the financial backing and superior borrowing performance of the State (through QTC) are shared between the borrower and the State. Guarantee fee revenues are expected to remain constant in 2001-02.

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 22.2% is mainly attributable to a reduction in the service fee paid to the State by the Queensland Motorway Corporation.

The decrease from 1999-2000 is due to the one-off receipt in 1999-2000 from the sale of the TAB gaming licence.

USER CHARGES

Table 3.5 User Charges	Actual 1999-2000 $ million	Est. Actual 2000-01 $ million	Budget 2001-02 $ million	Change Budget over Est. Actual %
Sales of Goods and Services	2,008.9	1,938.0	1,986.3	2.5
Rent Revenue	388.3	388.9	397.8	2.3
Sale of Land Inventory	26.0	21.0	18.1	(13.8)
Hospital Fees	121.5	118.8	113.2	(4.7)
Total User Charges	**2,544.6**	**2,466.7**	**2,515.4**	**2.0**

Numbers may not sum due to rounding.

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 2.5% in 2001-02, representing the combined impacts of changes in both volumes and fees charged for services.

The decrease from 1999-2000 primarily relates to the corporatisation of State Water Projects. Revenue from State Water Projects is no longer reflected in the General Government Sector and is now included in the Public Trading Enterprise Sector with its corporatisation as SunWater.

A review will be undertaken during 2001-02 of ambulance funding including the subscription scheme and potential partnerships between the QAS and Health Funds to improve its funding base.

Rent Revenue

Rent revenue is earned on the rent or lease of Government buildings, housing, plant and equipment, motor vehicles and car parks. Major items under this category include public housing rentals and rents charged to Government agencies by the Department of Public Works for Government buildings. Rental revenues are expected to increase by approximately 2.3% in 2001-02.

Sale of Land Inventory

Sale of land inventory comprises land sales undertaken by agencies, where the buying and selling of land is a core business activity of the agency, such as the Department of State Development's Property Services Group. As such, it is distinct from property disposals undertaken by most Government agencies, where only the gain on sale would flow through the operating statement.

Hospital Fees

Hospital fees are collected by public hospitals for chargeable bed days. In 2001-02, hospital fee revenue is expected to decrease by 4.7% on 2000-01 collections. This decrease is primarily due to an expected reduction in the portion of compensable patients and a general reduction in the length of stay in hospitals.

ROYALTIES

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 Natural Resources and Mines. The increase in royalties of 20.6% in 2001-02 is due in part to the impact of the lower Australian dollar on the domestic valuation of mineral commodities, particularly coal. The Government proposes to review the coal royalty regime, without increasing the rate, to ensure that the Queensland community receives appropriate returns on the use of this non-renewable resource. The Government will consult with the coal industry on this further refinement of the royalty arrangements.

Table 3.6
Royalties

	Actual 1999-2000 $ million	Est. Actual 2000-01 $ million	Budget 2001-02 $ million	Change Budget over Est. Actual %
Royalties	511.3	577.4	696.4	20.6

GRANTS AND CONTRIBUTIONS

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

- those received from private enterprise and community groups to fund research projects and community services;
- 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).

Table 3.7
Grants and Contributions

	Actual 1999-2000 $ million	Est. Actual 2000-01 $ million	Budget 2001-02 $ million	Change Budget over Est. Actual %
Grants and Contributions	826.7	781.2	714.6	(8.5)

Grants and contributions revenue is expected to decrease by 8.5% in 2001-02. The reduction in revenue is mainly due to a number of one-off revenue increases in 2000-01, including the provision of grant revenue to the Queensland Rural Adjustment Authority for the East Coast Trawl licence buyback and completion of a stage of Queensland Institute of Medical Research Trust's Comprehensive Cancer Research Centre's expansion program.

GAINS, REVALUATIONS AND OTHER REVENUE

Table 3.8
Gains, Revaluations and Other Revenue

	Actual 1999-2000 $ million	Est. Actual 2000-01 $ million	Budget 2001-02 $ million	Change Budget over Est. Actual %
Equity Return	1,870.0	1,995.2	2,027.3	1.6
Gains and Revaluations	258.2	355.5	10.8	(97.0)
Other Revenue	279.6	193.9	264.0	36.2
Total Gains, Revaluations and Other Revenue	**2,407.7**	**2,544.6**	**2,302.1**	**(9.5)**

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 2001-02, the equity return is expected to grow by 1.6% 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 higher revenue in 2000-01 arises mainly from the receipt of sale proceeds of the second tranche of the Suncorp-Metway Exchanging Instalment Notes.

Other revenue includes overpayments recovered, revenue for work performed on an agency basis, and proceeds from asset sales below a certain threshold. These revenues are estimated to increase in 2001-02 reflecting anticipated proceeds from the sale of the Brisbane Markets as well as general revenue growth across departments.

COMMONWEALTH PAYMENTS

Commonwealth payments to Queensland in 2001-02 are expected to total $9.388 billion, an increase of $424.7 million or 4.7% over payments in 2000-01. Commonwealth payments received by Queensland in 2001-02 comprise:

- General Purpose Payments including GST Revenue Grants, Budget Balancing Assistance and National Competition Policy Payments. General Purpose Payments are 'untied' and are used for both recurrent and capital purposes; and

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

These estimates are generally consistent with estimates provided in the Commonwealth Budget on 22 May 2001, apart from three exceptions. The position with funding for non-government schools is currently being clarified with the Commonwealth. Commonwealth payments to nursing homes are being shown as a Specific Purpose Payment. However, these payments are technically Commonwealth own-purpose outlays. Finally, the Commonwealth has not provided details at State level for a number of payments under the Natural Heritage Trust.

Table 3.9 details total Commonwealth payments to Queensland. General Purpose Payments in 1999-2000 are not directly comparable with estimates for subsequent years, due to the impact of national tax reform associated with the introduction of the Goods and Services Tax that resulted in new financial arrangements between the Commonwealth and the States from 1 July 2000.

Table 3.9
Commonwealth Payments

	Actual 1999-2000 $ million	Est. Actual 2000-01 $ million	Budget 2001-02 $ million	Change Budget over Est. Actual %
General Purpose Payments	4,663.2	5,289.0	5,545.9	4.9
Specific Purpose Recurrent Payments	2,832.9	3,179.9	3,338.9	5.0
Specific Purpose Capital Payments	437.7	494.6	503.5	1.8
Total Commonwealth Payments	**7,933.8**	**8,963.6**	**9,388.3**	**4.7**

Numbers may not sum due to rounding.

GENERAL PURPOSE PAYMENTS

Table 3.10
General Purpose Payments

	Actual 1999-2000 $ million	Est. Actual 2000-01 $ million	Budget 2001-02 $ million	Change Budget over Est. Actual %
General Purpose Payments				
Financial Assistance Grants	3,249.5	-	-	
Revenue Replacement Payments	1,332.1	77.9	-	
GST Revenue Grants	-	4,636.1	5,198.3	12.1
Budget Balancing Assistance	-	489.1	213.0	(56.5)
National Competition Policy	81.5	85.9	134.6	56.7
Total General Purpose Payments	**4,663.2**	**5,289.0**	**5,545.9**	**4.9**

Numbers may not sum due to rounding.

General Revenue Assistance is forecast to increase by 4.9% in 2001-02. The majority of General Revenue Assistance comes from the pool of Goods and Service Tax (GST) revenue, all of which the Commonwealth has guaranteed to return to the States. Queensland's share of GST revenue in 2001-02 is expected to be $5.198 billion.

The growth of the GST pool reduces the need for Budget Balancing Assistance (BBA). BBA is paid to the States by the Commonwealth to ensure that the State budgets are no worse off as a result of national tax reform. The Commonwealth will continue to provide BBA until GST revenue for each State exceeds the funding that would have been received had taxation reform not taken place. Queensland's BBA will decrease by 56.5% in 2001-02. Queensland is now also expected to require Budget Balancing Assistance in 2002-03.

Queensland's share of National Competition Policy (NCP) payments for 2001-02 is estimated at $134.6 million. NCP payments are provided in accordance with the *Agreement to Implement the National Competition Policy and Related Reforms*, and are subject to the State making satisfactory progress with the implementation of specified reform conditions in the Agreement. A schedule of payments is attached to the original Agreement, which provides for three levels of payment. The 56.7% increase in 2001-02 over NCP payments received in 2000-01 is due to Queensland receiving the third level of payment in 2001-02. This level of National Competition payment is expected to be maintained in real terms in future years.

SPECIFIC PURPOSE PAYMENTS

Specific Purpose Payments (SPPs) for Queensland in 2001-02 are estimated at $3.842 billion, an increase of 4.6% over 2000-01.

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

Specific Purpose Payments are detailed in Table 3.11. An explanation of major items follows.

Table 3.11
Specific Purpose Payments

	Actual 1999-2000 $ million	Est. Actual 2000-01 $ million	Budget 2001-02 $ million	Change Budget over Est. Actual %
Specific Purpose Recurrent Payments				
Health	1,337.8	1,423.0	1,508.6	6.0
Education	759.3	919.4	985.7	7.2
Local Government and Planning	236.4	246.2	260.7	5.9
Employment and Training	137.5	133.7	133.9	0.1
Treasury	92.4	123.0	110.4	(10.2)
Disability Services Queensland [1]	-	83.2	94.4	13.5
Main Roads	66.1	62.1	57.2	(7.9)
Families [1]	93.2	25.9	25.1	(3.1)
Other	110.2	163.4	162.9	(0.3)
Sub-Total	2,832.9	3,179.9	3,338.9	5.0
Specific Purpose Capital Payments				
Main Roads	154.9	202.0	215.2	6.5
Housing	175.5	176.1	172.6	(2.0)
Education	56.7	59.3	60.4	1.9
Employment and Training	37.0	33.2	32.1	(3.3)
Other	13.6	23.9	23.1	(3.3)
Sub-Total	437.7	494.6	503.5	1.8
Total Specific Purpose Payments	**3,270.6**	**3,674.5**	**3,842.4**	**4.6**

Note:
1. Payments for disability services in 1999-2000 are included in payments to Department of Families.

Specific Purpose Recurrent Payments

Health

Queensland receives funding for public hospital and other health services from the Commonwealth under the Australian Health Care Agreement (AHCA). The AHCA provides the majority of Health's income from the Commonwealth, and is adjusted in each year for population growth and increases in costs and utilisation of hospitals. The base funding component of the Agreement is expected to increase by 6.9% to $1.174 billion in 2001-02. In addition to the base grant, Queensland Health will receive $75.8 million in AHCA specific purpose payments in 2001-02 to cover mental health, palliative care and quality enhancement programs.

In 2001-02, Queensland Health will also receive an estimated $216.1 million in recurrent funding from the Commonwealth for a range of specific health programs. These include home and community care, public health, blood transfusion services, essential vaccines and high-cost drugs. Queensland Health will also receive an estimated $43.1 million for nursing home benefits.

Education

Commonwealth Specific Purpose Payments to the Department of Education represent funding for recurrent education grants to State and non-State schools and organisations. The budgeted increase of 7.2% in 2001-02 reflects enrolment growth, and new non-State school grant methodologies used by the Commonwealth.

Local Government and Planning

Commonwealth recurrent Specific Purpose Payments to the Department of Local Government and Planning are Commonwealth Grants to Queensland Local Government Authorities (formerly Commonwealth grants to Local Authorities Trust Fund). The increase of 5.9% in the 2001-02 budget reflects Commonwealth indexation of these payments.

Employment and Training

In 2001-02, the Department of Employment and Training will receive $133.9 million in recurrent funding from the Commonwealth for a range of vocational education and training programs. This represents an increase of $0.2 million from 2000-01, mainly attributable to projected increases in Australian National Training Authority general recurrent grants and Group Scheme funding, offset by the cessation of Australian National Training Authority program funding for Training Packages and Regional Consultations.

Treasury

Treasury receives payments from the Commonwealth for joint Commonwealth-State natural disaster relief measures, concessions for Pensioner Concession Card Holders and to compensate the State for foregone revenue on the establishment of the Australian Securities Commission. The extended First Home Owner Grant for first home-buyers who contract to build or buy a newly built dwelling before 31 December 2001 will be funded by a Specific Purpose Payment from the Commonwealth in 2001-02. The 10.2% decrease in total payments to Treasury in 2001-02 is primarily due to a reduction in Natural Disaster Relief Assistance (NDRA) payments following accelerated works programs by local governments in 2000-01.

Disability Services Queensland

Specific Purpose Payments for Disability Services Queensland are estimated to increase by 13.5% in 2001-02 due to an increase in payments under the Commonwealth-State Disability Agreement, representing Commonwealth funding which matches equivalent State-funded increases.

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 decrease by 7.9% in 2001-02 to $57.2 million. This decrease is due mainly to a change in the classification of Black Spot funding which is now included in Specific Purpose Capital Payments.

Families

The Department of Families is expected to receive Specific Purpose Payments of $25.1 million in 2001-02, representing a decrease of 3.1% over estimated payments in 2000-01. The decrease is attributable to one-off payments in 2000-01 under the Supported Accommodation Assistance Program.

Other

Other Commonwealth payments are expected to fall slightly in 2001-02 to $162.9 million. These payments include compensation payments for the impact of the Goods and Services Tax (GST) on programs funded under the Commonwealth-State Housing Agreement and other recurrent funding under the Agreement.

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 and the Black Spot program. Funding is provided on a project by project basis.

Housing

The Department of Housing is expected to receive $172.6 million in capital payments for 2000-01, a decrease of 2.0% over estimated payments in 2000-01. This decrease represents primarily the impact of the Commonwealth's policy to apply a productivity dividend to payments made under the Commonwealth-State Housing Agreement.

Education

The Commonwealth provides capital Specific Purpose Payments to the Department of Education for capital expenditure on State schools and capital grants to non-State schools. In 2001-02, these payments will remain broadly in line with the 2000-01 estimated actual receipts.

Employment and Training

The Department of Employment and Training will receive an estimated $32.1 million capital funding in 2001-02 from the Commonwealth for vocational education and training infrastructure. Revenue for buildings and equipment is expected to decrease by $1 million in 2001-02.

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 Government Finance Statistics (GFS) 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 back into the gross revenue figures.

Table 3.12
Detailed Reconciliation of GFS General Government Revenues to Gross Revenues

	Gross Revenue 2001-02 $ million	Intra Sector Transactions 2001-02 $ million	Net Revenue 2001-02 $ million
Taxes, Levies, Fees and Fines	5,137.0	296.9	4,840.1
Commonwealth Payments	9,388.3		9,388.3
Revenue from Financial Assets	2,903.1	315.0	2,588.0
User Charges	2,515.4	1,264.1	1,251.3
Royalties	696.4		696.4
Grants and Contributions	714.6	527.2	187.4
Gains, Revaluations and Other Revenue	2,302.1	2,083.6	218.6
Total	**23,656.9**		**19,170.1**
GFS Consolidation:			
Revaluations and other GFS adjustments[1]			90.7
Total GFS Revenue[2]			**19,260.8**

Notes:
1. The major differences between revenue estimates presented in this chapter and the GFS presentation in Budget Paper No. 2 is that GFS is presented on a net basis, ie. excluding intra-sector transactions, and also that GFS excludes gains and losses on asset sales and other asset revaluation adjustments. Appendix A of Budget Paper 2 contains additional information on GFS concepts.
2. Total GFS Revenue as shown in the General Government GFS Net Operating Result in Appendix A of Budget Paper No. 2.

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 and a Taxation Administration Bill will be introduced into Parliament in the second half of 2001. This legislation will enhance business competitiveness through alignment of the law with current business practices, provide clearer statements of what transactions are liable to stamp duty, and facilitate interstate transactions. The harmonisation of stamp duty arrangements for mortgage duty is 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;
- taxation relativities based on Commonwealth Grants Commission methodology; or
- taxation revenue expressed as a percentage of Gross State Product (GSP).

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

Under the terms of the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA), national tax reform resulted in the abolition of certain State taxes. Two of the taxes, Financial Institutions Duty and Stamp Duty on marketable securities quoted on the Australian Stock Exchange or other recognised stock exchange, are abolished from 1 July 2001. Financial Institutions Duty is not levied in Queensland. The abolition of this tax in other States, funded from Commonwealth Budget Balancing Assistance, will impact on States' relative tax competitiveness.

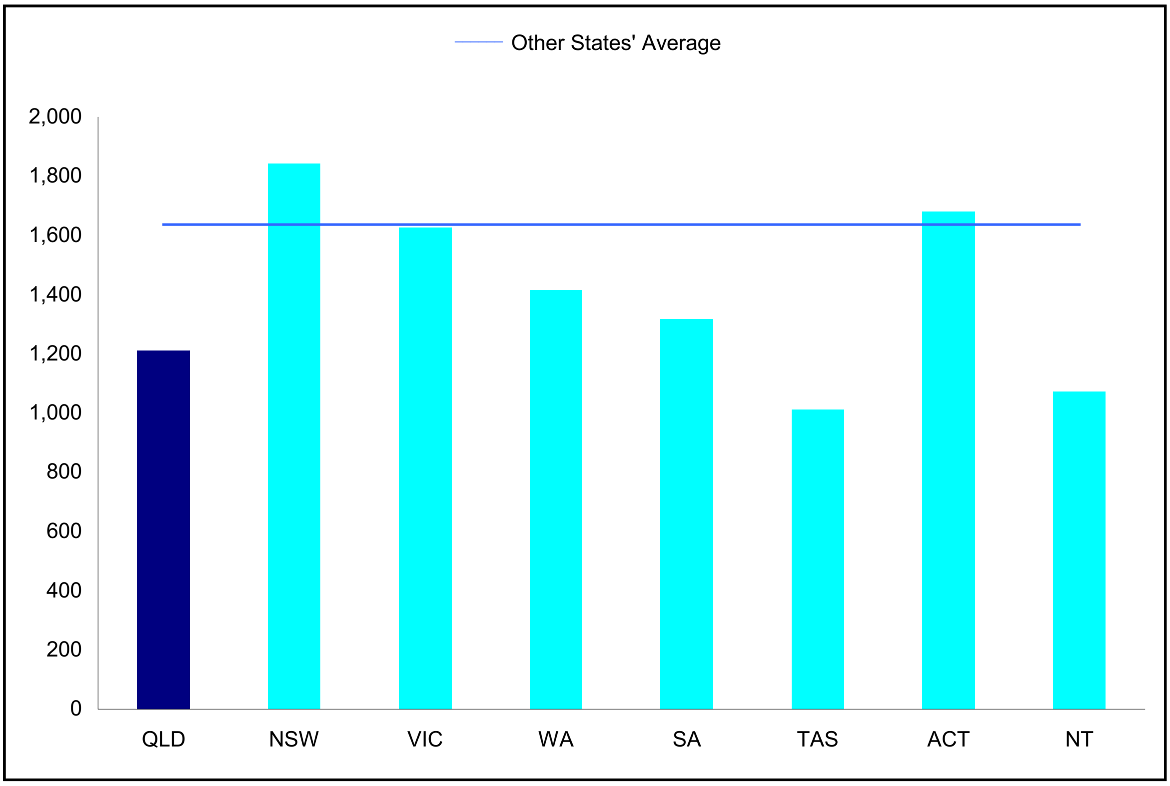
Globalisation and the liberalisation of international markets for capital and, to some degree, labour are increasing competition for investment and jobs. This pressure has forced businesses to look for new ways to maintain their competitiveness.

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 that minimises distortions to private sector economic activity and maximises equity. By maintaining competitive tax rates, Queensland provides a competitive advantage to business and a moderate tax burden for its citizens.

Taxation Revenue Per Capita

Chart 3.1 shows the estimated per capita tax burden for all States and Territories for 2001-02. Per capita collections of State taxation, on a GFS basis, in Queensland in 2001-02 are estimated at $1,211, compared with an estimated $1,637 for the average of the other States. The tax burden of the other States is forecast to be 35.2% higher, on average, than Queensland's per capita taxation for 2001-02.

Chart 3.1
Taxation per Capita, 2001-02



Source: State and Territory 2001-02 Budget Papers. Estimate for Western Australia based on 2000-01 Pre-Election Financial Projections Statement. Estimates are on GFS basis.

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

Commonwealth Grants Commission's Revenue Raising Effort Ratios

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

The Commonwealth Grants Commission's published revenue raising effort ratios for 1999-2000 in its 2001 Update reflect the full application of changes in States' tax policies arising from national taxation reform from 1 July 2000. The published ratios are therefore not fully representative of the States' actual effort ratios for total taxation. Accordingly, they have been adjusted to reflect actual tax policies (State and Commonwealth) which occurred in 1999-2000. These ratios, in respect of taxation effort only, are presented in Table 3.13.

Table 3.13
Taxation Effort by State, 1999-00, %

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
Adjusted[1]	105.5	103.8	80.8	93.3	112.1	94.7	106.6	109.3

Note:
1. Derived from data published in Commonwealth Grants Commission General Revenue Grant Relativities 2001 Update and adjusted to reflect actual State tax policies in 1999-00.

Queensland's taxation effort ratio of 81% indicates that Queensland's taxation policy was 19% less onerous than the average of the other States. This confirms Queensland's taxation policies are the most competitive when compared with those of other States.

Taxation Revenue Relative to Gross State Product

A third way of comparing relative tax burdens is taxation revenue measured as a proportion of 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 since 1998-99. Accordingly, a comparable time series over a long period is no longer available. Table 3.14 compares taxation revenue as a percentage of GSP across all States for 1999-00 – the latest published data. The data confirm Queensland's competitive tax status against all States and Territories.

Table 3.14
Taxation Revenue as a % of GSP, 1999-00

NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Average
6.5	6.0	4.6	4.7	6.0	5.7	5.2	4.9	5.8

Source: ABS 5506.0 and 5220.0.

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 its scrutiny as part of the annual Budget process.

This year's statement includes 2000-01 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 3.15. Not all expenditures can be quantified at this time. Accordingly, the total value of tax expenditures should be considered as indicative only.

The full statement follows at Appendix A of this document.

Table 3.15 Tax Expenditure Summary		
	1999-2000[1] $ million	2000-01 $ million
Payroll Tax		
Exemption Threshold	664.1	691.1
Deduction Scheme[2]	72.1	75.0
Offshore Banking Units and Regional Headquarters Concession	0.6	0.6
Section 10 Exemptions[3]		
Local Government	58.2	60.5
Education	41.9	43.6
Hospitals	89.4	93.1
Total	**926.3**	**963.9**
Land Tax		
Liability Thresholds[4]	131.2	138.9
Graduated Land Tax Scale	86.8	92.4
Primary Production Deduction	41.7	46.7
Section 13 Exemptions Not Included Elsewhere[3]	32.4	23.7
General Land Tax Rebate	40.2	42.3
Additional Land Tax Rebate	1.9	2.1
Land Developers' Concession	7.0	7.4
Total	**341.2**	**353.5**
Stamp Duties		
Stamp Duty on Residential Conveyances		
Principal Place of Residence	181.6	151.5
First Home Buyers Rebate	6.8	5.7
Stamp Duty on General Insurance		
Non-life Insurance	108.1	125.1
Workcover	21.5	21.9
Health Insurance	81.2	115.5
Total	**399.2**	**419.7**
Taxes on Gambling		
Gaming Machine Taxes	86.1	83.5
Casino Taxes	8.7	11.1
Total	**94.8**	**94.6**

Notes:
1. 1999-2000 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.

n.a. not available due to data limitations.

Numbers may not sum due to rounding.

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 2000-01.

Payroll Tax

The benchmark tax base for payroll tax is assumed to be all wages, salaries and supplements (including employer superannuation contributions) paid in Queensland, as defined in the *Pay-roll Tax Act 1971*. The benchmark tax rate for payroll tax is assumed to be the statutory rate applying in each financial year.

Payroll Tax Exemption ($691.1 million)

Sole Queensland employers (not those who are part of a group for payroll tax purposes) with an annual payroll of $0.85 million or less are exempt from payroll tax. On the basis of average weekly earnings, this threshold corresponds to approximately 27 employees. This concession is designed to assist small business.

Deduction Scheme ($75.0 million)

Sole Queensland 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 ($197.2 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) ($0.6 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 ($138.9 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 ($92.4 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 ($46.7 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) ($23.7 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. As the Department of Natural Resources no longer values non-rateable land the total land tax value of section 13 exemptions is reduced significantly from the 1999-2000 estimate.

General Land Tax Rebate ($42.3 million)

A general rebate on land tax of 15% is provided to taxpayers. Initially introduced in 1997, it was increased from 5% effective from 1 July 1999.

Additional Land Tax Rebate ($2.1 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 ($7.4 million)

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*.

Stamp Duty Concession 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 ($151.5 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 ($5.7 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 ($262.5 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 cents per policy 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 ($83.5 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 in each financial year (which is 35.91% of the monthly metered win for 2000-01).

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 ($11.1 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.

A GST credit is provided to casinos that approximates a reduction in the above tax rates of 9.09%.

4. FEDERAL FINANCIAL RELATIONS

KEY POINTS

- **Queensland has been disadvantaged by national tax reform, compared with other States[1]. This is because of the competitive tax environment in Queensland prior to the implementation of the new national tax system.**

- **Queensland taxpayers will receive a reduction in total State taxes of only $213 per person over the transition period (2000-01 to 2006-07) as a result of national tax reform, compared with a national average reduction of $819 per person.**

- **Over the same period, Queensland will receive only a very small share of budget balancing assistance from the Commonwealth. Information tabled at the March 2001 Ministerial Council meeting indicated that Queensland would receive just 1.7% of the total budget balancing assistance available to the States.**

- **In 2001-02, Queensland will receive an increase of $286 million in its Guaranteed Minimum Amount. Approximately $36 million results from the Commonwealth Grants Commission's annual review of the distribution of GST revenue grants. The balance results from population and price growth, revised estimates of revenue foregone and additional expenditure responsibilities.**

- **Queensland's relative share of the former Financial Assistance Grants and their replacement GST revenue grants has been declining over time because of changes to the Commonwealth Grants Commission's assessment of States' needs.**

- **Taking into account all Commonwealth payments "to" the States[2] in 2001-02, Queensland will receive approximately $270 million less than a per capita share.**

INTRODUCTION

National tax reform, embodied in the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA) and implemented from 1 July 2000, has addressed some aspects of previous Commonwealth-State financial arrangements that have concerned the States. The changes have, for example, potentially given States access to a tax base that offers the opportunity for growth more in line with expenditure needs than the previous arrangements. However, the transitional measures adopted for implementing national tax reform have had, and will continue to have, significant negative implications for Queensland.

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1 In this Chapter, the term "States" should be read as encompassing the Australian Capital Territory and the Northern Territory.

2 Payments "to" the States include General Revenue Assistance and Specific Purpose Payments to fund areas of State responsibility. Specific Purpose Payments "through" the States, which are passed on to local government, other bodies or individuals, are excluded.

This chapter outlines the institutional arrangements (including those arising from national tax reform) that constitute the federal fiscal framework and prevailing issues in Commonwealth-State financial relations.[3]

COMMONWEALTH PAYMENTS

Funding transfers from the Commonwealth comprise general revenue assistance and Specific Purpose Payments (SPPs). In broad terms, general revenue assistance represents 61% of Commonwealth payments to Queensland while SPPs represent 39%.

General revenue assistance is not tied to particular purposes and is available to be spent at each State's discretion, and includes Goods and Services Tax (GST) Revenue Grants, Budget Balancing Assistance (BBA) and National Competition Payments (NCPs).

In contrast, SPPs are tied to particular policy objectives agreed between the Commonwealth and the State. These payments are subject to a variety of conditions, performance criteria and other constraints on their use.

Distribution

The GST Revenue Grants are distributed among the States on the basis of horizontal fiscal equalisation (HFE). The principle of HFE, as applied in Australia, is that State Governments should receive funding from the Commonwealth such that, if each made the same effort to raise revenue from its own sources and operated at the same level of efficiency, each would have the capacity to provide services at the same standard.

Queensland remains a longstanding supporter of HFE because it provides the capacity for all communities to enjoy a similar level of State Government services regardless of where they are located. This is a key feature of the Australian federation, made necessary because the Commonwealth generally imposes taxes at uniform rates across Australia. It is from these taxes that the grants are funded, so to distribute them on any basis other than HFE would mean that some taxpayers are being forced to accept either a lower standard of State services or a higher level of State taxation than other taxpayers in similar circumstances.

BBA is paid to the States to ensure that their budgets are no worse off as a result of national tax reform. The Commonwealth has agreed to provide this budgetary assistance until GST revenue exceeds what would have been the States' budget position if national tax reform had not occurred. BBA distribution is therefore based on each State's fiscal policies before the introduction of national tax reform.

NCPs are distributed among the States on the basis of population share and are dependent upon the States meeting their obligations under the *Agreement to Implement the National Competition Policy and Related Reforms*.

SPPs are distributed among the States as specified by the Commonwealth-State funding agreements that govern these payments.

[3] Data in this Chapter relate to total Commonwealth Payments as reported in Commonwealth Budget Paper No. 3, *Federal Financial Relations 2001-02*.

GST AND THE VERTICAL FISCAL IMBALANCE

One of the key implications of national tax reform for State finances is that Australia's vertical fiscal imbalance (VFI) has increased. VFI relates to a mismatch between the expenditure responsibilities of various levels of government and their access to own-source revenue. Under the IGA, certain State taxes are abolished and replaced by GST revenue collected by the Commonwealth. This has resulted in the States becoming increasingly dependent on Commonwealth funding to meet their expenditure responsibilities.

Vertical fiscal imbalance reduces the accountability of both the State and Commonwealth governments. The Commonwealth raises the funds needed to make grants to the States but is not responsible for the spending of those funds on services. On the other hand, States spend the funds on those services but are not responsible for raising the revenue.

One undesirable feature of Australia's level of VFI is that it has allowed the Commonwealth, through its financial power, to exert undue influence over State priorities, particularly through the use of SPPs.

Some degree of vertical fiscal imbalance is evident in most federal systems of government to allow the national government to pursue national policy objectives. However, the extent of the imbalance in Australia, which was high by international standards before national tax reform, is now greater still, further increasing the Commonwealth's financial power over the States.

FEDERAL FISCAL FRAMEWORK

The institutions that underpin federal fiscal arrangements are:

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

Ministerial Council

The Ministerial Council for the Reform of Commonwealth-State Financial Relations comprises the Commonwealth Treasurer and the State Treasurers. Its role is to oversee the implementation and operation of the Intergovernmental Agreement and to ensure compliance with its terms. The Ministerial Council also provides a forum for discussing the distribution of GST revenue grants, as recommended by the Commonwealth Grants Commission (CGC).

The second Ministerial Council meeting was held in Canberra on 30 March 2001. The main purpose of the meeting was for Commonwealth and State Treasurers to consider payments to the States in 2001-02, as well as a range of GST administration issues. At the meeting the Council:

- Noted the Commonwealth's Statement of Estimated Payments specifying current estimates of revenues each State will receive in 2001-02.

- Endorsed the CGC's 2001 Update recommendations for the distribution of GST revenue grants to the States for 2001-02, subject to the CGC adjusting for problems with data provided by Western Australia.

- Noted that all States have implemented the First Home Owner Grant Scheme in accordance with the Intergovernmental Agreement. The Council further noted that funding will be provided for an additional $7,000 grant to first home owners contracting to build new homes or to purchase previously unoccupied homes, between 9 March 2001 and 31 December 2001.

- Noted that an Interim Performance Agreement for 2001-02 between the States and the Australian Taxation Office has been developed. The Council also discussed GST administration costs and related issues.

- Endorsed the implementation of the National Tax Equivalent Regime for income taxation of State government business enterprises with effect from 1 July 2001.

Australian Loan Council

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

The 140th Australian Loan Council meeting was held immediately after the second Ministerial Council. For 2001-02, the Loan Council has endorsed LCAs totalling negative $13.483 billion (a projected public sector surplus). This aggregate comprises an endorsed LCA of negative $12.573 billion for the Commonwealth and net endorsed LCAs of negative $910 million for the States. Queensland's share of the States net endorsed LCAs is 12% or a projected public sector surplus of $110 million.

The Loan Council noted that the overall outlook for the Australian economy remained positive but acknowledged that economic circumstances continue to vary across different regions of Australia. Against this background, the Loan Council considered aggregate LCA nominations to be consistent with current macroeconomic policy objectives.

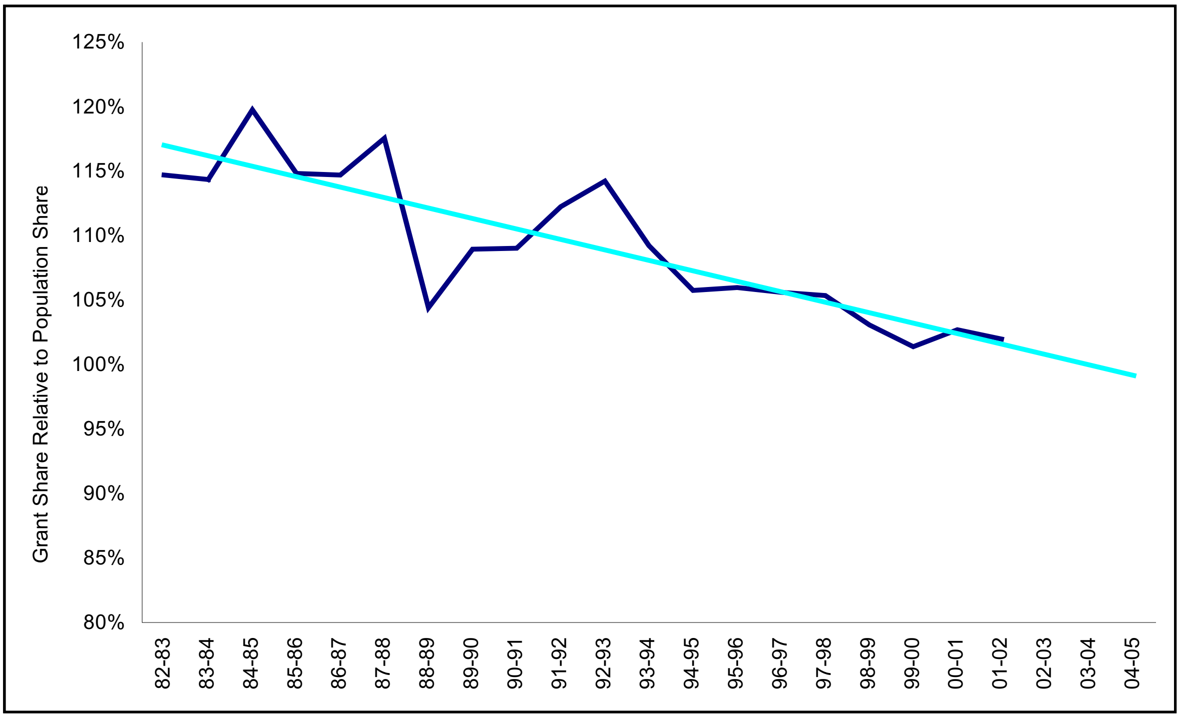
Commonwealth Grants Commission

The CGC is an independent statutory authority. Its role is to recommend the distribution of GST revenue grants to the States each year, based on the principle of HFE. The CGC's recommendations are considered by the Ministerial Council, but authority for approving its recommendations rests with the Commonwealth Treasurer.

In its 2001 Update, the CGC assessed that Queensland requires an additional $36.1 million in GST revenue grants, in underlying terms, for 2001-02. This additional grant revenue accrued because Queensland had a reduced capacity to raise revenue from stamp duty on conveyances and land tax relative to other States.

Despite the modest increase in underlying terms this year, Queensland's relative per capita share of the former Financial Assistance Grants and their replacement, GST revenue grants, has declined over the long term. Since 1993, the CGC has revised its methods for assessing States' needs for these grants. In particular, 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. The overall impact of these three revisions is $356.4 million less in Commonwealth funds for Queensland, in 2001-02. Chart 4.1 highlights the decline of untied Commonwealth funding.

Chart 4.1
Financial Assistance/GST Revenue Grants to Queensland
Relative Share(%)



TRANSITIONAL ARRANGEMENTS

In the early years of the new funding arrangements, GST revenue will not be sufficient to ensure that States are no worse off as a result of national tax reform. The Commonwealth has therefore guaranteed that each State will receive a guaranteed minimum amount (GMA), comprising estimates of Commonwealth revenues foregone, additional expenditure responsibilities, the value of reduced or abolished State taxes and other costs and benefits to the States as a result of national tax reform.

Any shortfall between a State's GMA and its share of GST revenue is met by BBA funded by the Commonwealth. Further, in the first two years of national tax reform, if a State's share of GST revenue is greater than its GMA, then the additional amount does not flow to the State involved. Instead, it is used to reduce the Commonwealth's BBA liability to other States.

Budget Balancing Assistance

The BBA arrangements, while necessary to support the implementation of national tax reform, represent a significant erosion of the principle of HFE. BBA, like all other grants from the Commonwealth to the States, is funded by taxes that are levied at uniform rates and should therefore be distributed according to HFE, not according to the fiscal policies of each State prior to the introduction of national tax reform.

The distribution of BBA among the States disadvantages Queensland in particular.

Table 4.1 details information presented to the Ministerial Council in March this year. Estimates of BBA are somewhat imprecise, largely due to uncertainty about the total amount to be raised annually from the GST. The Commonwealth Budget in May 2001 provided revised estimates of BBA and GST for 2000-01 and 2001-02. Nonetheless, Table 4.1 remains relevant in broadly detailing the extent to which Queensland is disadvantaged.

Table 4.1
Budget Balancing Assistance

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	AUS
					$ million				
2000-01	390.7	243.1	30.6	25.0	73.8	21.9	8.9		794.0
2001-02	862.6	483.0	42.1	131.6	152.1	53.1	28.8	22.6	1,775.9
2002-03	850.1	473.4	36.6	128.2	153.2	58.0	26.7	32.3	1,758.5
2003-04	586.0	328.6		43.6	95.9	29.6	8.1	21.6	1,113.4
2004-05	308.2	155.7			33.3	11.4		6.3	514.9
2005-06	273.1	209.5			59.5	27.0			569.1
2006-07	15.2	22.0			0.8	7.7			45.7
Total	3,285.9	1,915.3	109.3	328.4	568.6	208.7	72.5	82.8	6,571.5
%	50.0%	29.1%	1.7%	5.0%	8.7%	3.2%	1.1%	1.3%	100.0%

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

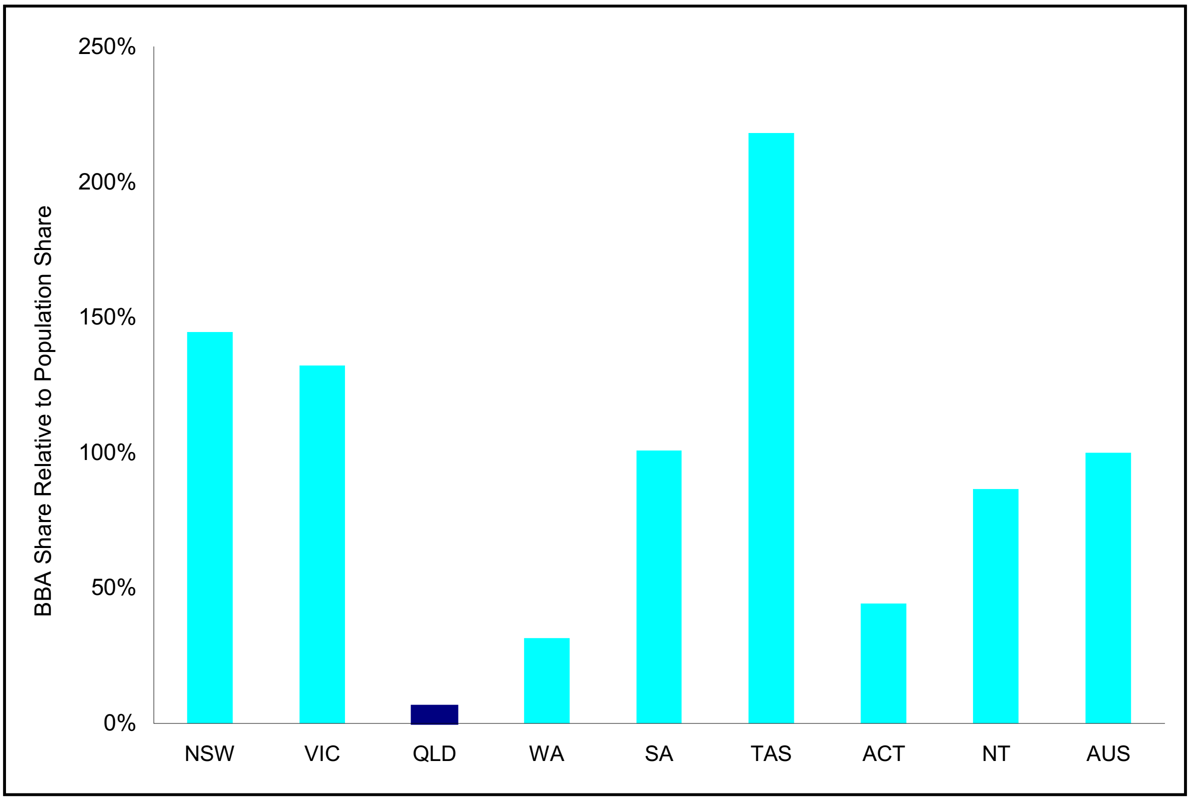
Source: Heads of Treasuries Report to the Ministerial Council for Commonwealth-State Financial Relations March 2001- Estimated Payments to the States and Territories.

The information presented to the Ministerial Council indicated that, over the period 2000-01 to 2006-07, the Commonwealth would need to provide an estimated $6.572 billion in BBA.

New South Wales and Victoria were to receive nearly 80% of total BBA, with forecast payments of $3.286 billion (50.0% of total) and $1.915 billion (29.1% of total) respectively. On the other hand, Queensland was to receive $109.3 million, or just 1.7% of the total assistance provided over the entire transition period.

Again using the information presented to the Ministerial Council, Chart 4.2 shows all States' relative shares of BBA, calculated as the ratio of each State's share of the payments to its population share.

Chart 4.2
Budget Balancing Assistance to All States
Relative Shares (%) 2000-01 to 2006-07



BBA favours those States which had implemented high State tax regimes in the past. While this is a transitional measure, its impact will continue to influence Queensland's share of Commonwealth untied funding for at least seven years.

In the lead up to the Ministerial Council meeting in March, New South Wales and Victoria issued media statements attacking the current system for distributing Commonwealth grants among the States. New South Wales and Victoria claimed that the present system resulted in residents of those States subsidising Queensland and other States. These claims misrepresent the true situation as they fail to take into account all Commonwealth payments to the States. Instead, they selectively focus on GST revenue, only one component of Commonwealth payments.

When all Commonwealth payments "to" the States are considered, Queensland will receive approximately $270 million less than its per capita share of Commonwealth payments in 2001-02. This is despite the CGC's assessment that the State needs more than a per capita share of GST revenue to provide an average level of services to the people of Queensland. Table 4.2 illustrates Queensland's per capita share of Commonwealth grants.

Table 4.2 Queensland Share of Commonwealth Grants			
	2001-02 $ million	Per Capita Share $ million	Variance $ million
General Revenue Assistance			
GST Revenues	5,198.3	5,156.6	+41.7
Budget Balancing Assistance	213.0	458.5	-245.5
National Competition Payments	134.6	134.4	0.2
Total General Revenue Assistance[2]	5,545.9	5,749.5	-203.7
Specific Purpose Payments (SPPs)			
SPPs “to”	2,762.9	2,830.3	-67.4
SPPs “through”	790.1	950.9	-160.8
Total Specific Purpose Payments	3,553.0	3,781.2	-228.2
Total Commonwealth Payments	**9,098.9**	**9,530.8**	**-431.9**
Total Commonwealth Payments “to” Queensland[3]	8,308.8	8,579.9	-271.1

Notes:
1. Numbers may not add due to rounding.
2. Excludes Queensland’s potential share of Special Revenue Assistance (SRA). SRA is received by only one State, the Australian Capital Territory.
3. General Revenue Assistance and SPPs “to” the State.

Source: Commonwealth Budget Paper No. 3, 2001-02.

State Taxes Abolished

As part of national tax reform, States are to progressively abolish several State taxes. Appendix A details those taxes abolished or to be reviewed.

New South Wales and Victoria will have the greatest reduction in taxes, both in overall terms and in per capita terms. Residents of both States receive a per capita reduction in State taxes, of $1,243 and $884 respectively. In contrast, Queenslanders receive the smallest per capita reduction at $213 per capita. Queensland’s reduction reflects the State’s low tax regime relative to other States prior to national tax reform. Queensland has never levied Financial Institutions Duty or accommodation taxes and therefore receives no compensation for these eliminations.

New South Wales announced in its 2001-02 Budget Statement its intention to abolish Debits Tax from 1 January 2002, conditional upon the Commonwealth’s guarantee that New South Wales’ compensation under the IGA will not be adversely affected.

Under the IGA, Debits Tax is due to cease by 1 July 2005, subject to review by the Ministerial Council. Queensland’s position on this matter is that it should not be resolved through bilateral discussions between the Commonwealth and the New South Wales Governments. Rather, the matter should be considered by the Ministerial Council. In particular, the Ministerial Council would need to decide whether the New South Wales’ Debit Tax decision should be subject to the Commonwealth’s guarantee.

Victoria also announced in its 2001-02 Budget Statement the reduction of several State taxes including Stamp Duty on Non-Residential Leases from 26 April 2001, Stamp Duty on Marketable Securities from 1 July 2003 and Stamp Duty on Mortgages from 1 July 2004. Abolition of these latter taxes, again is earlier than scheduled under the IGA.

Queensland maintains that States should be treated equitably in the transitional arrangements for national tax reform. Queensland is already being significantly disadvantaged under these arrangements. Any attempts at further erosion of Queensland's position would be viewed seriously by the Queensland Government.

The position with New South Wales' Debit Tax is not dissimilar from Queensland's position with Financial Institutions Duty, where instead of bringing forward abolition, Queensland never introduced it. However, in Queensland's case, the State will not receive any compensation through BBA.

Table 4.3 outlines for each State the impact of State taxes to be abolished over the transition period. Table 4.4 details the State taxes to be abolished in per capita terms over the same period.

Combined Impact

The high levels of BBA provided to New South Wales and Victoria will underpin the ability of those States to provide a higher level of services or reductions in State taxes and charges in coming years.

In contrast, Queensland will receive a very small share of overall BBA and under 6% of the benefit of State tax abolition.

Table 4.3
State Taxes Abolished (Projected)[2] 2000-01 to 2006-07

	NSW	VIC	QLD	WA	SA	TA	ACT	NT
				$ million				
2000-01	72.4							7.0
2001-02	1,047.7	543.9	24.9	153.2	98.7	21.8	39.0	21.9
2002-03	1,177.0	609.8	27.0	173.4	111.3	24.3	43.7	24.9
2003-04	1,241.0	634.8	27.0	180.0	115.7	25.0	44.8	26.8
2004-05	1,308.0	660.9	28.0	186.9	120.2	25.6	45.9	28.8
2005-06	1,704.6	946.2	338.1	307.9	182.6	47.9	64.7	38.7
2006-07	1,815.3	1,001.1	388.8	327.7	193.4	51.0	67.9	41.8
Total	8,366.0	4,396.7	833.8	1,329.1	821.9	195.6	306.0	189.9
%	50.9%	26.7%	5.1%	8.1%	5.0%	1.2%	1.9%	1.2%

Notes:
1. Numbers may not add due to rounding.
2. Taxes abolished: accommodation taxes from 2000-01; Financial Institutions Duty from 2001-02; stamp duty on quoted marketable securities from 2001-02; and debits tax from 2005-06 (the abolition of debits tax is subject to review by the Ministerial Council).
3. Excludes the effect of reduced gambling taxes effective from 2000-01; application of GST to gambling effectively replaced the reduction in State gambling taxes.
4. This table does not include fiscal equalisation effects arising from the abolition of these taxes or tax changes announced by New South Wales or Victoria in their 2001-02 Budget Statements.

Source: Impact of National Tax Reform State by State – Version 26 Ministerial Council Meeting March 2001, SA Treasury.

Table 4.4 State Taxes Abolished per Capita 2000-01 to 2006-07								
	NSW	**VIC**	**QLD**	**WA** **$**	**SA**	**TAS**	**ACT**	**NT**
2000-01	11.1							35.5
2001-02	159.6	112.1	6.8	79.6	65.6	46.4	124.5	109.3
2002-03	177.7	124.4	7.3	88.8	73.7	51.8	138.4	122.5
2003-04	185.6	128.4	7.2	90.9	76.4	53.4	140.9	130.0
2004-05	194.0	132.6	7.3	93.1	79.1	54.7	143.3	137.7
2005-06	250.6	188.4	86.7	151.1	119.8	102.4	200.7	182.5
2006-07	264.6	197.8	98.1	158.6	126.5	109.0	209.1	194.4
Total	1,243.2	883.6	213.2	662.2	541.3	417.7	956.9	911.9

Notes:
1. Numbers may not add due to rounding.
2. Taxes abolished: accommodation taxes from 2000-01; FID from 2001-02; stamp duty on quoted marketable securities from 2001-02; and debits tax from 2005-06 (the abolition of debits tax is subject to review by the Ministerial Council).
3. Excludes the effect of reduced gambling taxes effective from 2000-01; application of GST to gambling effectively replaced the reduction in State gambling taxes.
4. This table does not include fiscal equalisation effects arising from the abolition of these taxes or tax changes announced by New South Wales or Victoria in their 2001-02 Budget Statements.

Source: Impact of National Tax Reform State by State – Version 26 Ministerial Council Meeting March 2001, SA Treasury.

2001-02 COMMONWEALTH FUNDING

Commonwealth payments to the States in 2001-02 are expected to total $50.876 billion, an increase of $4.008 billion or 8.6% over 2000-01 levels. Table 4.5 compares total Commonwealth payments to the States for 2000-01 to 2001-02. Percentage changes are indicated in nominal, real and real per capita terms.

Table 4.5
Commonwealth Payments to the States, 2000-01 and 2001-02

	2000-01 $ million	2001-02 $ million	Change - Nominal Terms %	Change - Real [2] Terms %	Change Real [2] Per Capita %
General Revenue Assistance					
- GST Revenues	24,180.0	27,480.0	13.6	7.2	6.0
- Budget Balancing Assistance	2,957.5	2,443.6	-17.4	-22.1	-22.9
- Special Revenue Assistance	13.5	14.2	5.2	-0.8	-1.9
- National Competition Payments	461.2	716.3	55.3	46.6	44.9
Total General Revenue Assistance	27,612.2	30,654.1	11.0	4.7	3.6
Specific Purpose Payments (SPPs)					
- SPPs “to”	14,569.2	15,154.8	4.0	-1.9	-3.0
- SPPs “through”	4,687.3	5,067.5	8.1	2.0	0.8
Total Specific Purpose Payments	19,256.5	20,222.3	5.0	-0.9	-2.0
Total Commonwealth Payments	**46,868.7**	**50,876.4**	**8.6**	**2.4**	**1.3**

Notes:
1. Numbers may not add due to rounding.
2. Deflated by annual percentage change in CPI to March 2001 – 6.0%.

Source: Commonwealth Budget Paper No. 3, 2001-02.

General Revenue Assistance will increase in real per capita terms by 3.6% over 2001-02. The majority of the increased Commonwealth funding comes from the growing pool of GST revenue, all of which the Commonwealth has guaranteed to return to the States. The growth of the GST pool has in turn reduced the need for BBA. BBA will decrease by 22.9% (real per capita) during the year.

NCPs commenced in 1997-98 at an annual level of $200 million with increases to $400 million and $600 million in July 1999 and July 2001 respectively, at 1994-95 prices. The payments are indexed by increases in the Consumer Price Index (CPI). NCPs will total $716.3 million in 2001-02. This amount includes an estimated 6.0% CPI (GST inclusive) rise. NCPs are distributed among the States based on population.

Total SPPs in 2001-02 are expected to be $20.222 billion. This represents an increase of $965.8 million or 5.0%, in nominal terms than total SPPs distributed in 2000-01.

Outcomes for Queensland

Table 4.6 details Queensland's share of total Commonwealth payments in 2001-02.

Table 4.6
Commonwealth Payments to Queensland, 2001-02

	Queensland $ million	Australia $ million	Queensland's Share (%)
General Revenue Assistance			
- GST Revenues	5,198.3	27,480.0	18.9
- Budget Balancing Assistance	213.0	2,443.6	8.7
- Special Revenue Assistance[2]	0.0	14.2	0.0
- National Competition Payments	134.6	716.3	18.8
Total General Revenue Payments	5,545.9	30,654.1	18.1
Specific Purpose Payments			
- "to" the State[3,4]	2,762.9	15,154.8	18.3
- "through" the State	790.1	5,067.5	15.6
Total Specific Purpose Payments	3,553.0	20,222.3	17.6
Total Payments	**9,098.9**	**50,876.4**	**17.9**

Notes:
1. Numbers may not add due to rounding.
2. To the Australian Capital Territory only in accordance with CGC recommendations.
3. The Australian total for SPPs "to" the States includes $72 million for Fringe Benefit Tax transitional grants for public hospitals. As the distribution to each State is yet to be finalised, the amount has been excluded for the purposes of calculating Queensland's share.
4. Should Queensland receive its population share of Fringe Benefits Tax transitional grants for public hospitals, the State could expect an additional $13.5 million in SPPs "to" the State.

Source: Commonwealth Budget Paper No. 3, 2001-02.

In 2001-02, Queensland is expected to receive total Commonwealth payments of $9.099 billion, which represents 17.9% of the total pool of $50.876 billion. This allocation is significantly less than Queensland's estimated 18.8% population share.

General Revenue Assistance

General revenue assistance to Queensland will comprise revenue from GST, BBA and NCPs.

GST Revenue

GST revenue to Queensland in 2001-02 is expected to be $5.198 billion or 18.9% of the total pool ($4.636 billion or 19.2% in 2000-01). Queensland has been assessed by the Commonwealth Grants Commission (CGC) to have a higher relative fiscal need compared with the average fiscal need of the other Australian States. The State therefore receives a greater percentage of the total GST pool compared with the State's population (18.8%) to ensure that Queensland's fiscal capacity is equivalent to the Australian average.

Budget Balancing Assistance

BBA is paid to the States by the Commonwealth to ensure that the State budgets are no worse off as a result of national tax reform. BBA will continue until such time as GST revenue for all States exceeds the funding that would have been received had taxation reform not taken place.

The national GST revenue shortfall for 2000-01 was $2.958 billion of which Queensland's share was $489.1 million or 16.5%. In 2001-02, Queensland is expected to receive only 8.7% of BBA, well below our population share of 18.8%. Over the transition period for introducing national tax reform, Queensland's total share of total BBA is expected to be even lower at 1.7% (based on estimates presented at the Ministerial Council for Commonwealth-State Financial Relations held in March 2001).

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 2001-02, 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 NCPs for 2001-02 is estimated at $134.6 million, or 18.8% of the total to all States.

Specific Purpose Payments

SPPs for Queensland in 2001-02 are estimated at $3.553 billion or 17.6% of total SPPs available. This distribution is notably less than Queensland's population share of 18.8%. Queensland's share of SPPs in 2001-02 is 4.0% higher than that received in 2000-01 ($3.416 billion) and compares with an average increase of 5.0% nationally.

Excluding Fringe Benefits Tax transitional grants which have yet to be distributed among the States, Queensland's share of SPPs "to" the States is estimated to be $2.763 billion or 18.3% of the total. Queensland's share of payments "through" the States is estimated to be $790.1 million, or 15.6% of the total ($5.068 billion).

Table 4.7 compares the major SPPs to Queensland for both 2000-01 and 2001-02. Table 4.8 compares the amounts for SPPs within broad policy areas for Queensland and Australia for 2001-02, identifying Queensland's share of the funding and its share relative to its population.

Table 4.7
Estimates of Selected Specific Purpose Payments "to" Queensland

	2000-01 $ million	2001-02 $ million	Change %
Health Care Grants	1,152.0	1,231.1	+6.8
Government Schools	292.6	306.7	+4.8
CSHA Block Assistance[2]	156.8	155.0	-1.1
Roads	257.7	245.0	-4.9
HACC and SAAP[3]	131.1	140.9	+7.4
Disabilities Services	82.9	96.4	+16.3
Natural Disaster Relief	64.1	36.5	-43.1
Other	610.5	551.3	+6.6
Total SPPs "to" Queensland[4]	**2,686.8**	**2,762.9**	**+2.8**

Notes:
1. Numbers may not add due to rounding.
2. Commonwealth-State Housing Agreement Block Assistance.
3. Home & Community Care and Supported Accommodation Assistance Program.
4. Does not include Queensland's share of Fringe Benefit Tax transitional grants for public hospitals, as the distribution of these grants is not available.

Source: Commonwealth Budget Paper No. 3, 2001-02.

Queensland's lower than average increase in total SPPs "to" the State can be attributed to the lower than average increase in disability service grants (16.3% compared with 17.2% nationally) and decreases in road funding (-4.9% compared with 22.5% nationally). Queensland will receive a higher than average increase in health care grants in 2001-02 (6.8% compared with 6.3% nationally). The greater than average increase in Queensland's share of health care grants generally reflects the State's higher than average age weighted population growth.

Table 4.8 Estimated Specific Purpose Payments, 2001-02				
	Queensland $ million	Australia $ million	Share %	Relative Share[2] %
Education	1,074.3	6,623.2	16.2	86.2
Health	1,368.0	7,451.3	18.5	98.8
Social Security & Welfare	286.2	1,560.6	18.3	97.3
Housing & Community Amenities	212.2	1,102.6	19.2	102.2
Agriculture, Forestry & Fishing	13.8	117.8	11.7	62.2
Transport & Communication	262.5	1,304.5	20.1	106.9
Other[3]	136.0	2,062.3	6.8	36.2
Total Specific Purpose Payments "to" and "through" the States[4]	**3,553.0**	**20,222.3**	**17.6**	**93.8**

Notes:
1. Numbers may not add due to rounding.
2. A State's relative share is calculated as the ratio of the State's share of payments to its share of population.
3. Includes grants paid in lieu of royalties to Western Australian and the Northern Territory.
4. The Australian total for SPPs includes $72 million for Fringe Benefit Tax transitional grants for public hospitals. As the distribution to each State is yet to be finalised, the amount has been excluded for the purposes of calculating Queensland's share and relative share.

Source: Commonwealth Budget Paper No. 3, 2001-02.

Historically, Queensland has received less than its population share of total SPPs from the Commonwealth. Table 4.9 sets out Queensland's share of total SPPs with total SPPs over the period 1997-98 to 2001-02.

Table 4.9 Total Specific Purpose Payments to Queensland 1997-98 to 2001-02 – Nominal					
	1997-98 $ million	1998-99 $ million	1999-2000 $ million	2000-01 $ million	2001-02 (estimated)[3] $ million
SPPs "to" Queensland	1,980.2	2,241.5	2,395.3	2,686.8	2,762.9
SPPs "through" Queensland	1,246.3	701.1	767.2	728.9	790.1
Total Specific Purpose Payments	**3,226.5**	**2,942.7**	**3,162.5**	**3,415.7**	**3,553.0**
Relative Share (%)[2]	96.1	95.7	96.3	95.0	93.8

Notes:
1. Numbers may not add due to rounding.
2. The State's relative share is calculated as the ratio of the State's share of payments to its share of population.
3. The Australian total for SPPs includes $72 million for Fringe Benefit Tax transitional grants for public hospitals. As the distribution to each State is yet to be finalised, the amount has been excluded for the purposes of calculating Queensland's relative share.

Source: Commonwealth Budget Paper No. 3, 1997-1998,1999-2000, 2000-01 and 2001-02.

Relative Share of Commonwealth Funding

Table 4.10 shows the expected level of general revenue assistance and specific purpose payments for all States for 2001-02 together with each State's relative share of total payments.

Table 4.10
Relative Shares of Payments to the States, 2001-02

	General Revenue Assistance $ million	Specific Purpose Payments[2] $ million	Total Payments[2] $ million	Relative Share[3] %
New South Wales	9,642.1	6,606.0	16,248.1	94.9
Victoria	6,572.8	4,935.6	11,508.4	91.0
Queensland	5,545.9	3,553.0	9,098.9	95.4
Western Australia[4]	2,894.3	2,215.6	5,109.9	101.8
South Australia	2,822.2	1,564.8	4,387.0	111.8
Tasmania	1,180.4	497.6	1,678.0	137.1
Australian Capital Territory	609.3	343.4	952.7	116.6
Northern Territory[4]	1,387.1	425.2	1,812.3	346.9
Total	**30,654.1**	**20,222.3**	**50,876.4**	

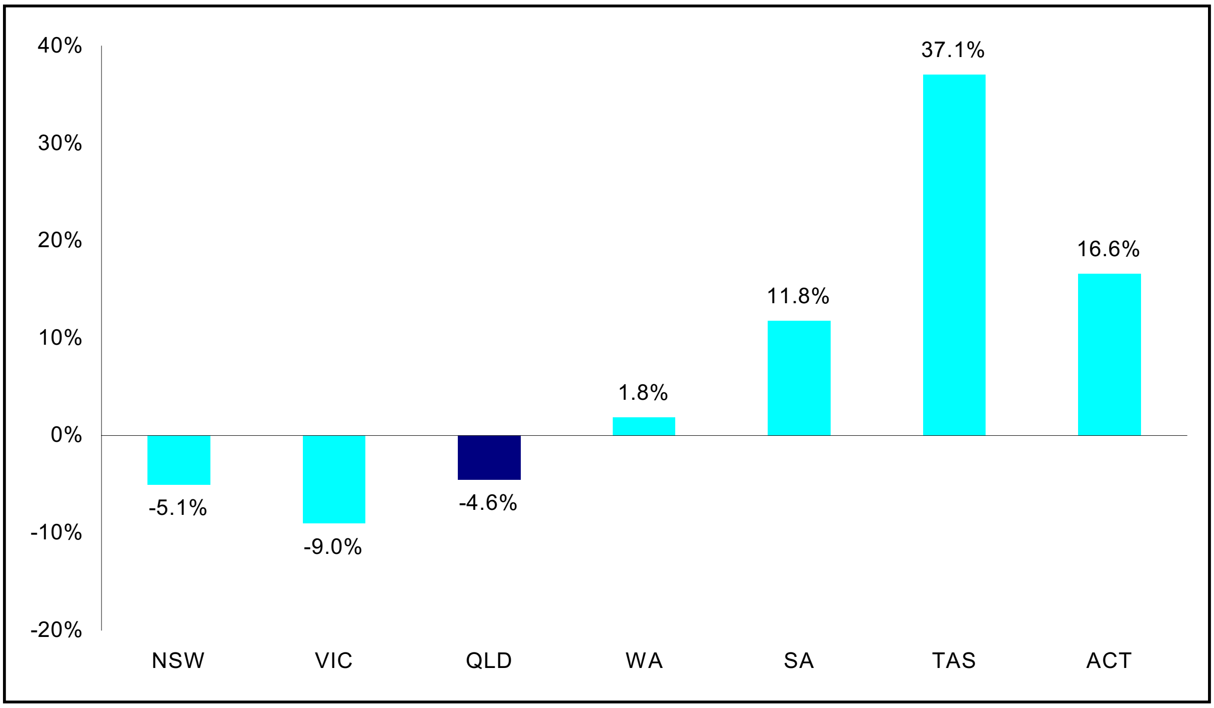
Notes:
1. Numbers may not add due to rounding.
2. Excludes State splits for Fringe Benefit Tax transitional grants for public hospitals as indicative estimates of the distribution to each State are not currently available.
3. A State's relative share is calculated as the ratio of a State's share of payments to its share of population.
4. Includes grants paid in lieu of royalties to Western Australian and the Northern Territory.

Source: Commonwealth Budget Paper No. 3, 2001-02.

For example, whereas Western Australia has argued that it receives a below population share of general revenue assistance, this needs to be balanced against its above average share of SPPs which includes grants in lieu of royalties. The CGC correctly adjusts for this payment, as it does for royalty revenue generated by other States. This further demonstrates that comparisons of general revenue shares alone are misleading and incomplete.

Chart 4.3 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 4.3
Total Commonwealth Payments - All States,
Deviation from Population Share, 2001-02[1]



Note:
1. Does not include the Northern Territory, which has a corresponding deviation of 246.9%.

Queensland's per capita share of total payments is expected to be 4.6% less than its population share.

FUTURE DEVELOPMENTS

Major issues confronting Australia's system of federal financial relations include:

- The ongoing implementation of the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*. Queensland has been disadvantaged by national tax reform and given its share of GST revenue grants, is likely to fall below a per capita share in the medium term. It is essential that the State's position is not further eroded through changes to the current grants system being pursued by some States.

- The CGC's five yearly review of its methodology for recommending the distribution of GST revenue is underway and is due to be completed in 2004. The CGC conducts a full review of its methodology over a five year cycle. During which time, the methods for determining per capita relativities are generally held constant, while data is updated annually.

Queensland will participate in CGC's workplace discussions this year and continues to pursue a comprehensive research program aimed at ensuring that the State's cost disabilities and revenue capacities are reflected accurately in the CGC's assessments. To date, Queensland has made three formal submissions to the CGC as part of this review on Superannuation, Urban Transit and Depreciation and Debt Charges.

Based on experience over the last three CGC reviews, Queensland may receive a less than per capita share of GST revenue beyond the 2004 review. Nonetheless, Queensland continues to support the current federal fiscal arrangements because they provide the capacity for all communities to enjoy a similar level of State Government services regardless of where they are located.

- The Queensland Government is also now focussing on its role as a GST taxpayer and its relationship with the Australian Taxation Office (ATO). Under the Intergovernmental Agreement, the Queensland Government is responsible for collecting GST on a wide range of goods and services it provides as well as for paying GST on most of the goods and services it acquires for use in its activities. In net terms, the impact on Queensland as a taxpayer is that the State receives input tax credits amounting to approximately $560 million per year. Any leakage of those credits will have significant financial implications for the State and it is therefore essential that appropriate tax management strategies are in place.

- From July 2001, the ATO will take over the assessment of tax equivalents payable by State Government Owned Corporations and commercial business undertakings. The tax equivalents (some $273 million, including $89 million in one off amounts in 2000-01) will remain payable to the State but the ATO has been appointed by the States to administer the regime on their behalf.

APPENDIX A

Summary of Commonwealth-State Financial Reform Under the Intergovernmental Agreement	
New Tax	**Timetable**
• GST	1 July 2000
Taxes to be Abolished	
• Wholesale Sales Tax (Commonwealth)	1 July 2000
• Accommodation taxes (NSW & NT only)	1 July 2000
• Financial Institutions Duty (All States excluding Qld)	1 July 2001
• Stamp Duty on Quoted Marketable Securities (All States)	1 July 2001
Taxes to be Reviewed by Ministerial Council	
• Debits Tax	by 1 July 2005
• Stamp Duty on Non-Residential Conveyances	by 1 July 2005
• Stamp Duty on Non-Quotable Marketable Securities	by 1 July 2005
• Stamp Duties on Credit Arrangements, Instalment Purchase Arrangements and Rental Agreements	by 1 July 2005
• Stamp Duty on Leases	by 1 July 2005
• Stamp Duty on Mortgages, Bonds, Debentures and Other Loan Securities	by 1 July 2005
• Stamp Duty on Cheques, Bills of Exchange and Promissory Notes	by 1 July 2005
Loss of Other State Revenue	
• Financial Assistance Grants	1 July 2000
• Gambling Tax Arrangements (partial reduction)	1 July 2000
• Section 90 Safety Net Arrangements – Petrol, Liquor and Tobacco	1 July 2000
New State Expenditure Responsibilities	
• First Home Owner Grant Scheme	1 July 2000
• GST Administration Costs	1 July 2000

Source: Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations, 1999.