



Queensland
Government

State Budget 2002-03
Economic and Revenue Outlook
Budget Paper No. 3



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STATE BUDGET

2002-03

ECONOMIC AND REVENUE OUTLOOK

Budget Paper No. 3

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ECONOMIC AND REVENUE OUTLOOK – HIGHLIGHTS

ECONOMIC PERFORMANCE AND OUTLOOK

- The Queensland economy is estimated to grow by 3¾% in 2001-02 with strong growth in private investment. A recovery in exports is forecast to lift the pace of economic growth to 4¼% in 2002-03, half a percentage point higher than forecast growth nationally.
- Labour market conditions are expected to improve with total employment forecast to rise 2½% in year-average terms resulting in 43,000 additional jobs. The State's unemployment rate is forecast to fall to a year-average 7½%, the lowest in more than a decade.

ECONOMIC STRATEGY

- Queensland's 2002-03 economic growth continues to be higher than the rest of Australia. The Government's economic strategy is focused on maintaining Queensland's superior economic growth performance through continued improvements in productivity.
- Investment in human capital, innovation and technology and a maintenance of the sound economic fundamentals of the Queensland economy will be key to future productivity growth in the State.

REVENUE

- Total General Government revenue is expected to increase by \$0.839 billion, or 4.3% over the estimated actual for 2001-02, to \$20.181 billion in 2002-03.
- Queensland's payroll tax rate will reduce to 4.75% from 1 July 2002 in conjunction with the removal of payroll tax concessions on termination payments and grossed up fringe benefits.
- Stamp duty relief on public liability insurance policies will be provided to non-profit community organisations.
- From 1 July 2002, the 15% general land tax rebate for companies, trustees and absentees will be abolished. To assist small business, the land tax exemption threshold will be increased from \$100,000 to \$150,000.

FEDERAL FINANCIAL RELATIONS

- Commonwealth payments to Queensland in 2002-03 are expected to total \$9.782 billion. This amounts to 18.4% of the total Commonwealth funding to the States or \$251 million less than a per capita share.
- The Commonwealth has forced the States to bear the cost of its decision to abolish petroleum excise indexation from 2002-03. Queensland's initial share of the cost will be \$25 million.

1. ECONOMIC PERFORMANCE AND OUTLOOK

KEY POINTS

- **Queensland's economy is expected to grow by 4¼% in 2002-03, exceeding both the previous financial year and national performance. Strong growth in business investment and a recovery in exports are expected to underpin growth during the year.**
- **Strong growth in the labour-intensive sectors of the economy is expected to lift employment growth to 2½%, representing an increase in total employment of around 43,000 jobs. The rate of unemployment in Queensland is expected to fall to 7½% in 2002-03, the lowest year-average rate in more than a decade.**
- **The Queensland economy is estimated to grow by 3¾% in 2001-02, slightly above the Mid-Year Fiscal and Economic Review estimate. Strong growth in dwelling investment and robust growth in interstate exports, which offset a subdued performance in overseas trade, are expected to support growth during the year.**
- **The downturn in global economic growth in 2001-02 subdued Queensland's overseas export performance, in particular with respect to services. While interstate trade is expected to offset this to a certain extent, net exports are estimated to detract 1¾ percentage points from overall economic growth.**
- **In year-average terms, the rate of inflation is estimated to remain at 3% in 2001-02. While seasonal factors contributed to sharp increases in food prices, structural changes in the airline and insurance industries also contributed to inflation during the year.**

INTRODUCTION

This chapter presents the economic framework within which the 2002-03 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 2001-02 and 2002-03 respectively, and presents projections for key State economic variables over the medium term to 2005-06¹.

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 2001-02 fiscal year. Consequently, the 2001-02 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

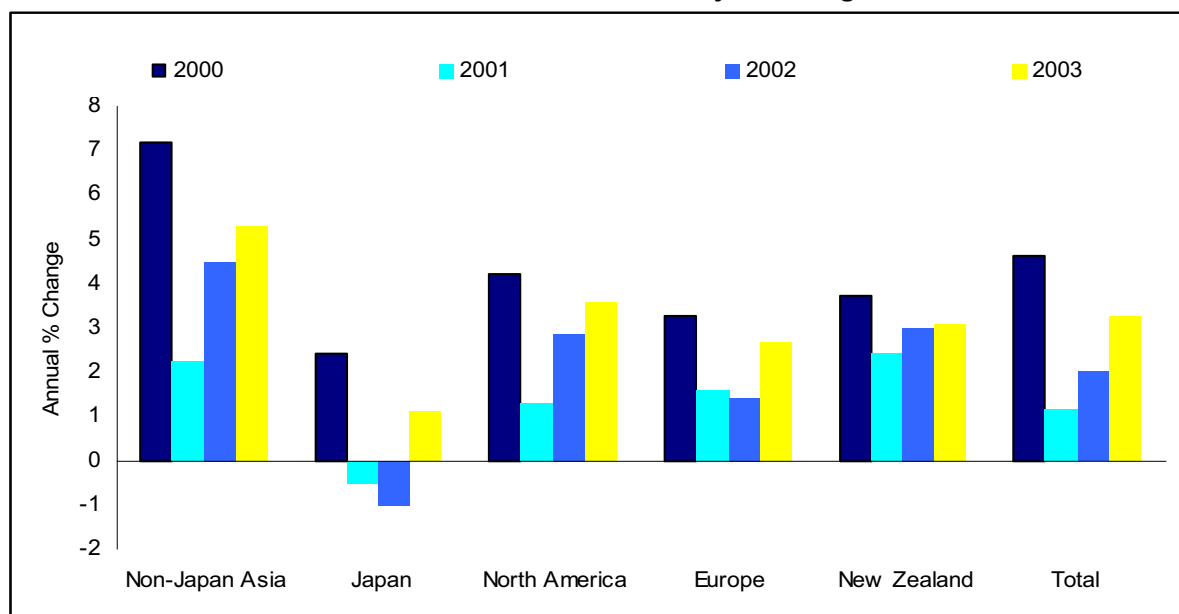
International

The current global economic downturn has lasted longer than first anticipated. The vast production capacity built up during the technology boom and the subsequent large-scale depletion of capital following the sector's collapse in the second half of 2000 triggered the first recession in the United States (US) since 1990-91. While the intensity of the recession has been less severe than generally expected, the duration of the downturn has extended well beyond any so-called "V-shaped" recovery. The September 11 terrorist attacks further damaged business and consumer confidence, not only in the US, but also across the industrialised world.

The effects of the US recession also flowed to many Asian economies, which had only just recovered from the Asian financial crisis. Due to their strong dependence on technology-based exports, Singapore, South Korea and Taiwan were hardest hit. Japan, the second largest economy in the world, once again fell into recession as export earnings deteriorated.

The US economy showed signs of recovery in the first quarter of 2002 as the shock of the terrorist attacks subsided and the positive effects of interest rate cuts began to emerge. While the pace and timing of the economic recovery in the US are still subject to debate, the outlook is broadly positive. This is reflected in the consistent upgrading of the outlook for the US economy in 2002, from an expected 0.7% growth presented in the November 2001 issue of *Consensus Forecasts*, to an expected 2.8% growth in May 2002. Indeed, as the US economy continues to strengthen, a modest global economic recovery in 2002-03 is likely, provided the military and political tension surrounding the conflict in the Middle East and southern Asia remains contained.

Chart 1.1
Economic Growth in Queensland's Major Trading Partners



Note:

1. Growth in calendar years 2002 and 2003 represent forecasts.

Sources: Queensland Treasury and Consensus Forecasts.

National

Despite difficult external conditions, the Australian economy is expected to outperform the major industrialised economies of the world in 2001-02, with Commonwealth Treasury estimating economic growth of 3¾% in year-average terms. Historically low interest rates and the First Home Owner Grant (FHOG) scheme bolstered domestic activity, generating strong growth in dwelling investment and enabling another year of solid growth in household consumption. Meanwhile, the impact of lower world growth on demand for Australian exports was softened by a low Australian dollar, although exports are still estimated to record a slight fall in 2001-02.

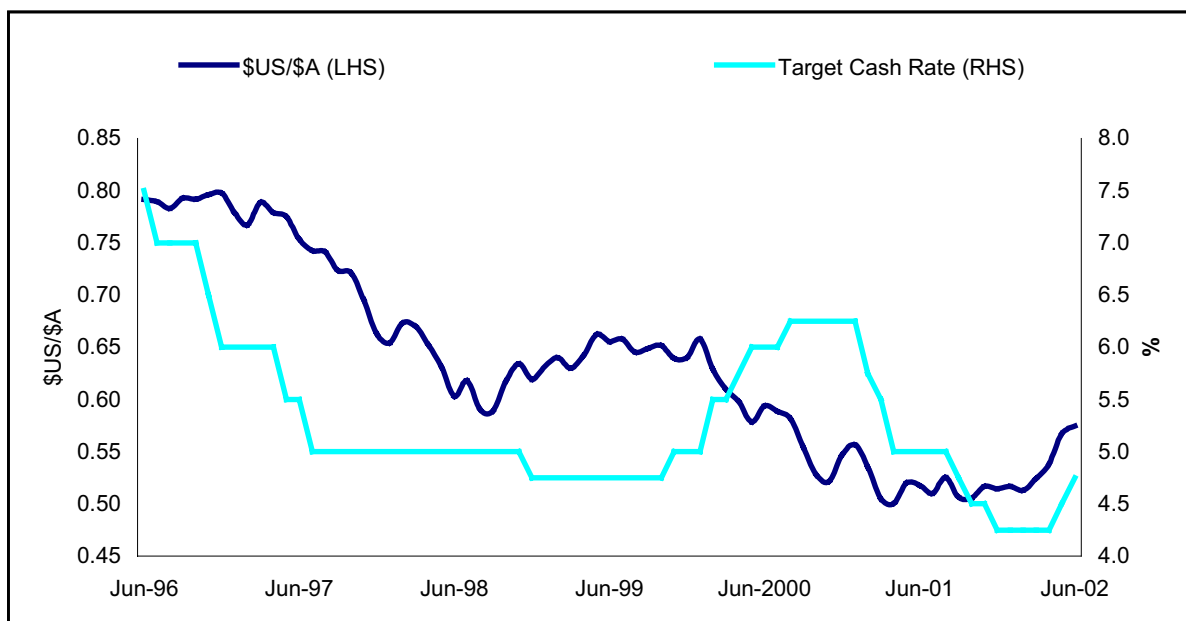
Similar growth is forecast for 2002-03, with the Australian economy expected to grow by a further 3¾%. Business investment is expected to be the main driver of growth over the year. On the other hand, the rapid growth seen in housing construction activity in 2001-02 is not expected to be maintained with dwelling investment forecast to detract from growth in 2002-03. Household consumption is once again expected to make a solid contribution to overall growth in gross domestic product. Australia's export performance is forecast to rebound, in line with the anticipated recovery in world growth. Despite this pick-up, net exports are still expected to detract slightly from overall growth due to increased domestic activity leading to much higher demand for overseas imports.

Labour market conditions moderated in 2001-02, following subdued economic growth in the previous financial year and other disruptions to the business operating environment such as the introduction of the GST. Total employment is estimated to rise 1% in 2001-02, resulting in a higher year-average unemployment rate of 6¾%. In 2002-03, an improved labour market outlook sees a forecast acceleration in employment growth to around 1¾% and a fall in the unemployment rate to 6¼%. Ongoing strength in the domestic economy and moderate wages growth should ensure solid employment gains over the coming year. Commonwealth Treasury suggests that the outlook bodes well for employment in service industries such as property and business services, while labour market outcomes in the construction industry will be affected by the forecast moderation in dwelling investment in 2002-03.

Average annual inflation of 2¾% is expected in 2001-02, with various temporary and seasonal factors again the main influences on prices over the year. These factors make the estimation of the underlying rate of inflation in the economy more difficult than usual. Despite this, it is clear that prices have risen and the annual rate of inflation remains at the upper end of the Reserve Bank of Australia's (RBA) target band of 2-3%. Moderate price pressures are expected to persist in 2002-03 as a stronger economic environment creates the opportunity for businesses to rebuild margins. However, labour costs, the key driver of inflation over the medium term, are expected to remain subdued, limiting the overall upside risk to the inflation outlook.

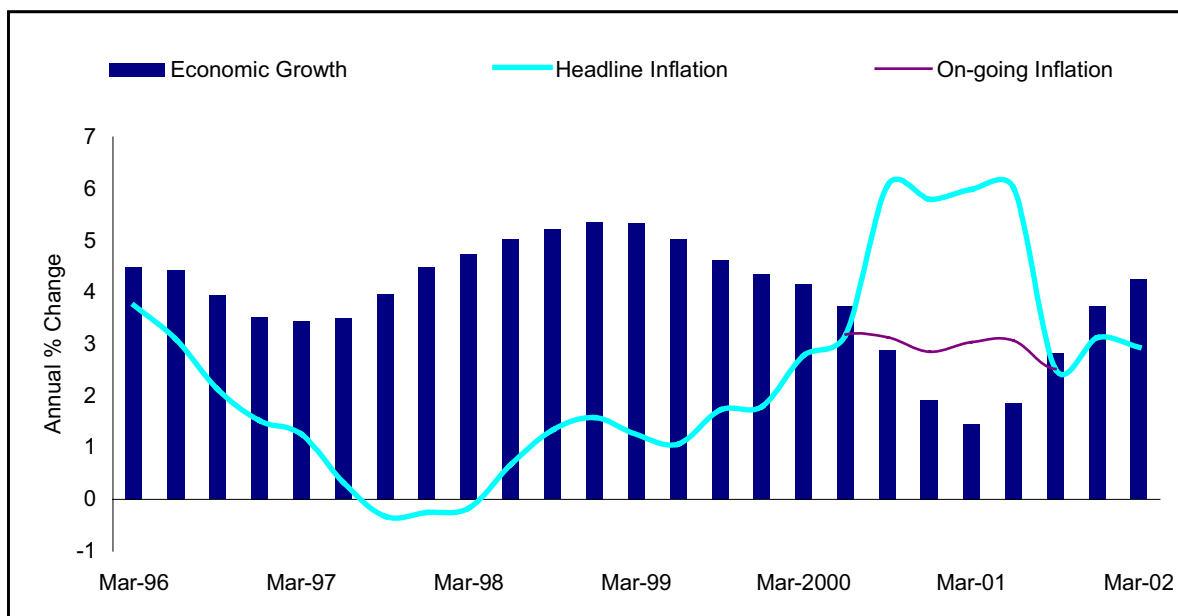
The positive growth outlook, combined with the emergence of some price pressure in the Australian economy, saw the RBA raise interest rates by 25 basis points after each of the May and June Board meetings, taking the official cash rate from a historically low 4.25% to 4.75%. Statements by Governor Macfarlane before the House of Representatives Standing Committee on Economics suggest that the RBA will continue to raise rates in a considered fashion over the coming year. The rate rises are expected to be paced in line with the turnaround in the global economy to minimise impacts on the broad economic outlook.

Chart 1.2
Exchange Rates and Interest Rates, Australia



Sources: Reuters and Reserve Bank of Australia.

Chart 1.3
Gross Domestic Product and Inflation, Australia



Note:

1. Economic growth presented on a trend basis. Ongoing inflation excludes an estimated 2¼% impact of the GST on the consumer price index in September quarter 2000.

Source: Australian Bureau of Statistics (ABS) 5206.0 and ABS 6401.0.

EXTERNAL ASSUMPTIONS

The forecasts for 2002-03 are based on a number of key assumptions pertaining to Queensland's external environment. These include:

- Economic growth in Queensland's trading partners is expected to recover in 2002-03, following the significant slowdown in the global economy in 2001-02. In particular, the outlook for the US is for growth to return towards the average of the past decade. The Japanese economy is assumed to recover from recession although growth is likely to remain weak.
- Only a moderate rise in the rate of inflation among Queensland's major trading partners is expected in 2002-03.
- All official Commonwealth Government forecasts and projections, as at June 2002, have been adopted as the national framework for the Queensland forecasts. Commonwealth Treasury forecasts national economic growth of 3¾% in 2002-03.
- Following a period of extremely low interest rates, it is assumed that the RBA will move to unwind the current expansionary stance of monetary policy settings over the forecast horizon.
- The \$US/\$A exchange rate is assumed to appreciate over the year, in line with the anticipated recovery in world demand.

Table 1.1 External Assumptions				
	Outcomes		Est. Actual	Forecast
	1999-2000	2000-01	2001-02	2002-03
	%	%	%	%
International Assumptions				
Major trading partner economic growth	4.6	2.2	¼	2¼
Major trading partner inflation	0.5	1.1	½	¾
National Assumptions				
Economic growth	4.3	1.9	3¾	3¾
Inflation ¹	2.4	3¼	2¾	2¾
Note: Decimal point figures indicate an actual outcome. 1. Year-average, excludes the first round effects of the introduction of the GST in 2000-01. Sources: ABS 5206.0, ABS 6401.0, Commonwealth Treasury, Consensus Forecasts and Queensland Treasury.				

THE QUEENSLAND ECONOMY

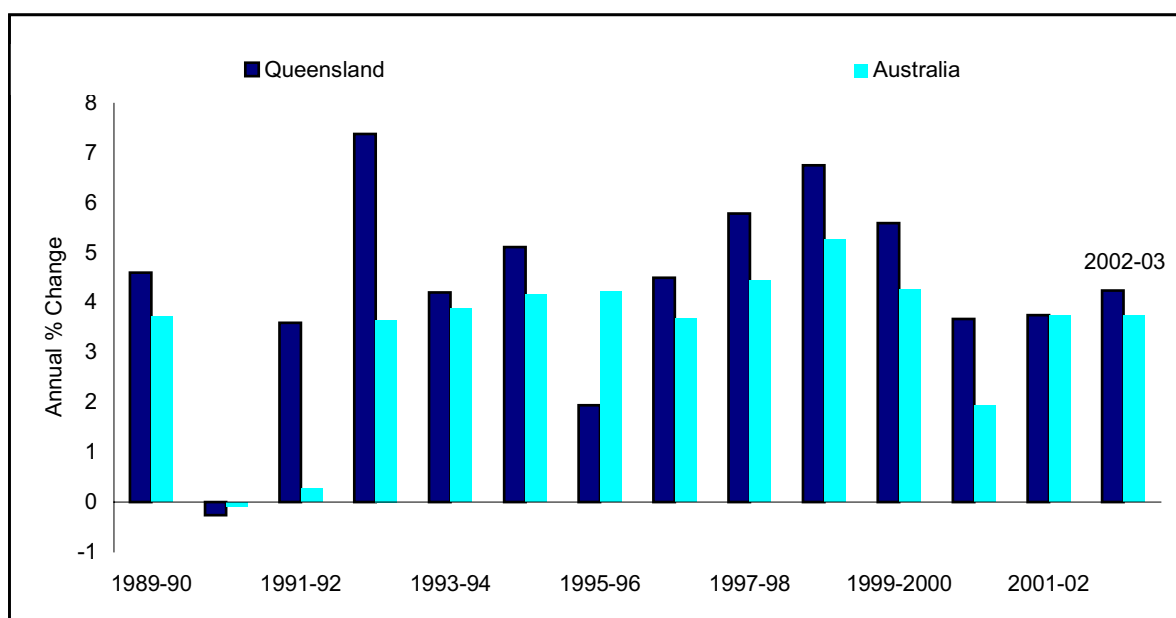
Overall Economic Growth

Despite the emergence of a challenging global economic climate at the beginning of the year, economic growth in Queensland is estimated to be 3¾% in 2001-02, similar to that recorded in 2000-01. In contrast to the composition of growth in the previous year, domestic demand, in particular household consumption and private investment, is expected to be the main engine of growth in 2001-02, offsetting a detraction from net exports.

While household consumption moderated somewhat as increased housing and other personal finance commitments offset growth in household disposable incomes, dwelling investment staged a strong turnaround during the year, induced by historically low mortgage rates and extensions to the FHOG scheme. Also, business confidence recovered, leading to strong growth in investment in machinery and equipment in 2001-02.

Looking forward, growth in business investment is expected to accelerate in 2002-03 with the commencement of a number of major investment projects. An anticipated improvement in employment conditions will support growth in household consumption. Exports are forecast to recover strongly during the year, although this will be offset by strengthening domestic activity fueling import demand. Overall, the Queensland economy is forecast to grow by 4¼% in 2002-03.

Chart 1.4
Aggregate Economic Growth



Note:

1. Chain volume measure, 1999-2000 reference year. Growth for 2001-02 represents an estimated actual rate while growth for 2002-03 represents a forecast.

Sources: Queensland Treasury and Commonwealth Treasury.

Table 1.2
State and National Economic Forecasts

	Outcomes		Est. Actual	Forecast
	1999-2000	2000-01	2001-02	2002-03
	%	%	%	%
Queensland Forecasts				
Domestic Production¹				
Household consumption	4.4	4.5	4	4¼
Private investment ^{2,3}	6.5	-11.9	16¼	8
Dwellings	15.1	-13.6	26	-½
Business investment ³	1.0	-15.0	10½	17¼
Other buildings and structures ³	2.9	-17.2	-9½	20½
Machinery and equipment ³	-0.1	-13.7	21¾	15¾
Private final demand ³	4.9	0.4	6½	5¼
Public final demand ³	7.1	1.8	1	2
Gross state expenditure ⁴	5.0	0.6	5½	4¾
Exports of goods and services	4.1	6.3	3½	6¾
Imports of goods and services	2.8	-2.2	7½	7
Net exports ⁵	0.2	3.0	-1¾	-½
Gross state product	5.6	3.7	3¾	4¼
Other State Economic Measures				
Population	1.6	1.7	1¾	1¾
Inflation ⁶	1.8	3.0	3	2¾
Average earnings (state accounts basis)	0.4	6.4	3½	3¾
Employment (labour force survey)	2.2	1.8	1¾	2½
Unemployment rate (% , year-average)	7.7	8.0	8	7½
Labour force	1.9	2.1	1¾	2
Participation rate	64.9	65.1	65	65¼
National Forecasts				
Domestic Production¹				
Household consumption	4.1	2.4	3¾	4
Private investment	na	na	na	na
Dwellings	13.7	-20.6	16	-3
Business investment ³	na	-3.1	4	12
Other buildings and structures ³	na	-20.1	6	14
Machinery and equipment ³	na	0.6	3	12
Private final demand ³	na	-0.3	4¾	4¾
Public final demand ³	na	0.5	3½	3¼
Gross national expenditure ⁴	4.6	-0.2	4¼	4¾
Exports of goods and services	9.3	7.0	-2	6
Imports of goods and services	12.5	-1.4	2	11
Net exports ⁵	-0.8	1.7	-¾	-1
Gross domestic product	4.3	1.9	3¾	3¾
Other National Economic Measures				
Population	1.1	1.2	1	1¼
Inflation ⁶	2.4	3¼	2¾	2¾
Average earnings (national accounts basis)	3.1	3.9	3¼	3¾
Employment (labour force survey)	2.7	2.1	1	1¾
Unemployment rate (% , year-average)	6.6	6.4	6¾	6¼
Labour force	1.9	1.9	1½	1¼
Participation rate	63.4	63.7	63¾	63¾

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

1. Chain volume measure, 1999-2000 reference year.

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

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

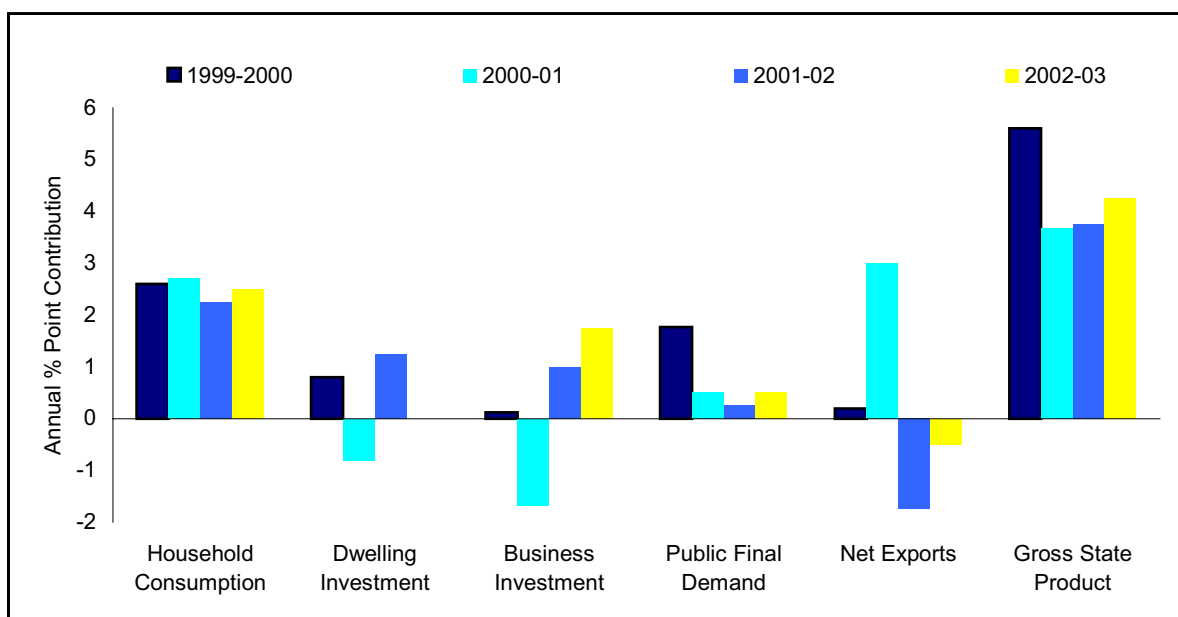
4. Includes statistical discrepancy and change in inventories.

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

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

Source: Queensland Treasury, Commonwealth Treasury and ABS 5206.0.

Chart 1.5
Contribution to Growth in Queensland's Gross State Product

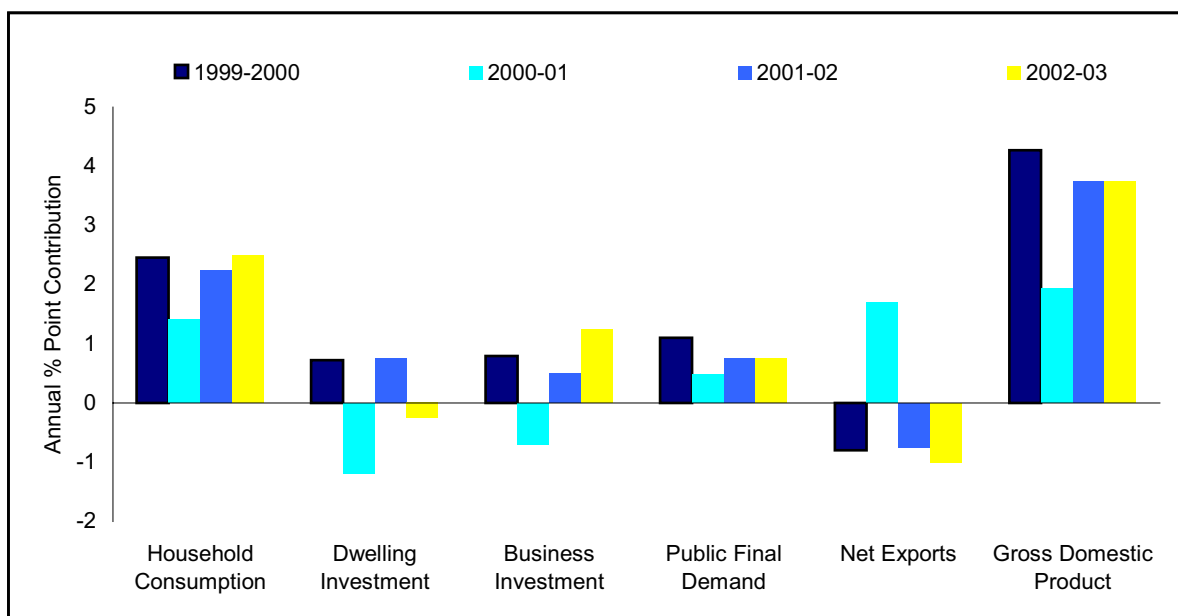


Note:

1. Chain volume measure, 1999-2000 reference year. Contributions for 2001-02 represent estimated actuals while contributions for 2002-03 represent forecasts.

Source: Queensland Treasury.

Chart 1.6
Contribution to Growth in Australia's Gross Domestic Product



Note:

1. Chain volume measure, 1999-2000 reference year. Contributions for 2001-02 represent estimated actuals while contributions for 2002-03 represent forecasts.

Sources: Commonwealth Treasury and Queensland Treasury.

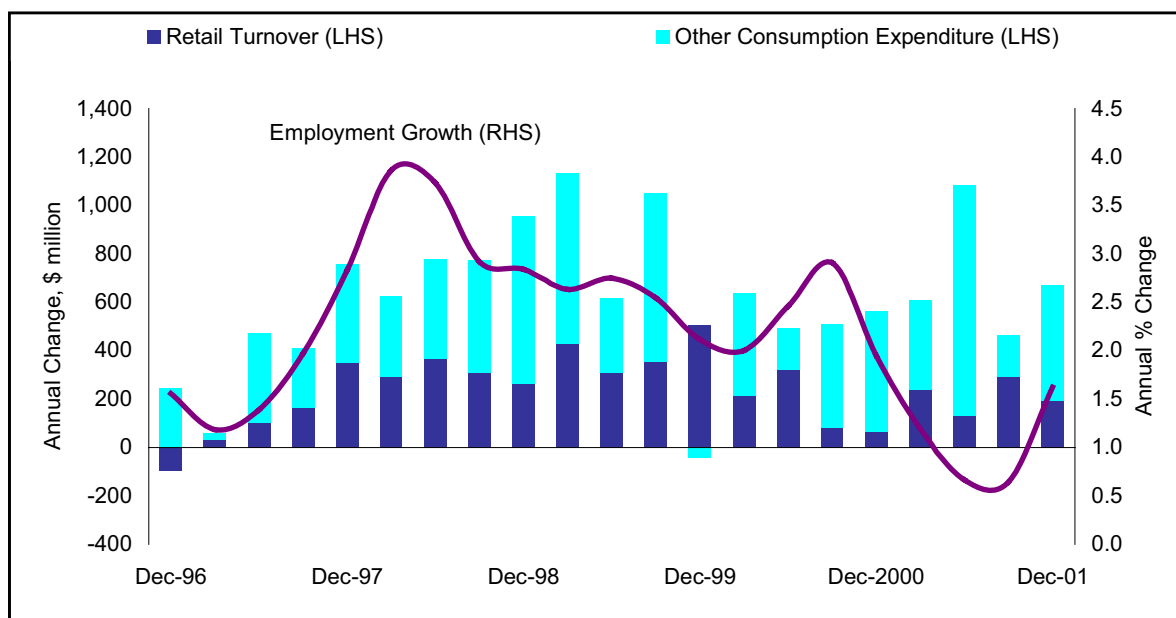
Household Consumption

Growth in household consumption in Queensland is expected to ease slightly in 2001-02 with estimated growth of 4%, following growth of 4.5% in 2000-01. Despite historically low interest rates, increased housing and other personal finance commitments acted as a drain on household incomes during the year, shrinking the discretionary income base available for consumption expenditure.

Growth in retail trade during the year, which represents about 40% of household consumption, was underpinned by growth in household goods, reflecting the recovery of the housing sector. Spending on services in the State, the other major component of consumption, was relatively contained. This was particularly the case in the first half of the year, with consumer confidence shaken by a number of events, including the September 11 terrorist attacks and domestic corporate collapses.

Household consumption is forecast to grow by 4¼% in 2002-03, representing a slight acceleration in growth compared with 2001-02. Improved labour market conditions, combined with a forecast rise in real wages, should support growth during the year. Further, the realisation of house price gains in 2001-02 may have a modest wealth-effect on consumer spending in 2002-03. One dampening factor on household consumption over the coming year will be higher interest rates. The ratio of household debt to income has risen substantially in recent years meaning the relative impact of higher interest rates on household disposable income and consumption will be greater than in previous interest rate cycles.

Chart 1.7
Household Consumption and Employment Growth, Queensland



Sources: Queensland Treasury, ABS 6202.0 and ABS 8501.0.

Dwelling Investment

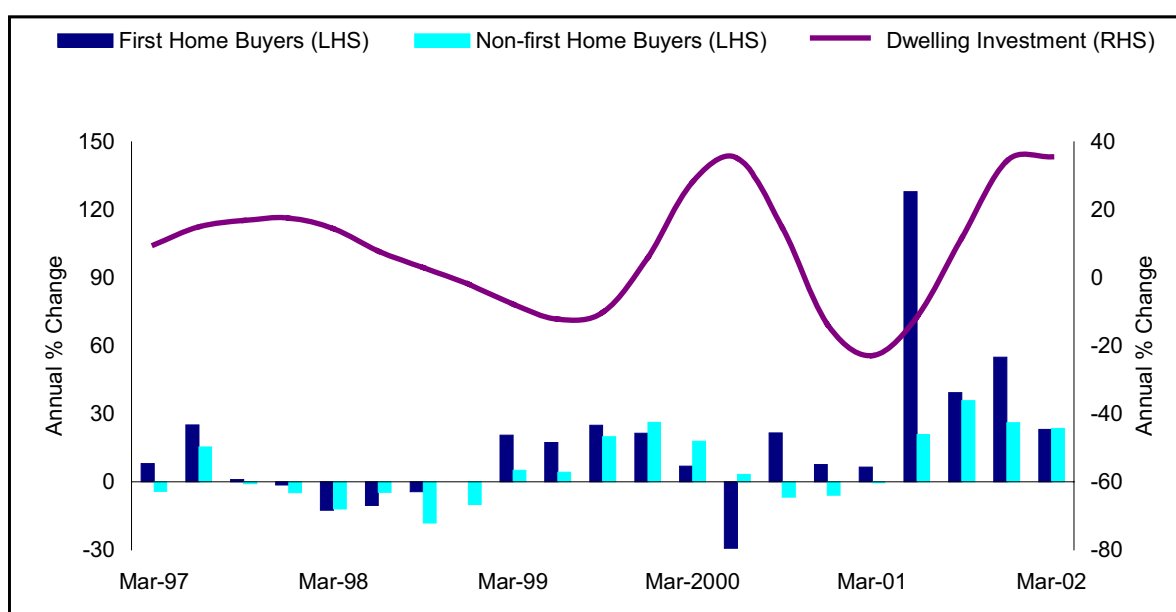
Following a sharp 13.6% decline in 2000-01, dwelling investment in Queensland is expected to stage a strong rebound in 2001-02, rising an estimated 26%, the highest yearly growth in more than a decade.

Several factors contributed to the surge in housing construction activity in the State in 2001-02. Firstly, home loan interest rates fell 2 percentage points over the course of 2001 to levels not seen since 1970. Secondly, weak returns on stock markets reignited interest in residential property investment. Thirdly, the extension of the FHOG from \$7,000 to \$14,000 in March 2001 further encouraged demand for residential property, beginning with first home buyers, and later with non-first home buyers and property investors, as property prices escalated.

Given the momentum in dwelling construction activity in 2001-02, the current housing boom is likely to continue into the first half of 2002-03. Total private building approvals in Queensland were up 43.8% over the 12 months to April 2002, compared with a 34.1% increase in the rest of Australia. A number of major Brisbane inner city dwelling construction projects have helped support growth in overall approvals in Queensland as private housing approvals have levelled off.

The phased reduction of the FHOG to \$7,000 in July 2002 is expected to contribute to a forecast moderation in dwelling investment in the second half of 2002-03. Higher interest rates are also expected to limit growth in the second half of the year. On balance, dwelling investment is forecast to fall ½% over the year.

Chart 1.8
Dwelling Investment and Housing Finance Commitments for New Dwellings, Queensland



Source: ABS 5206.0 and ABS 5609.0.

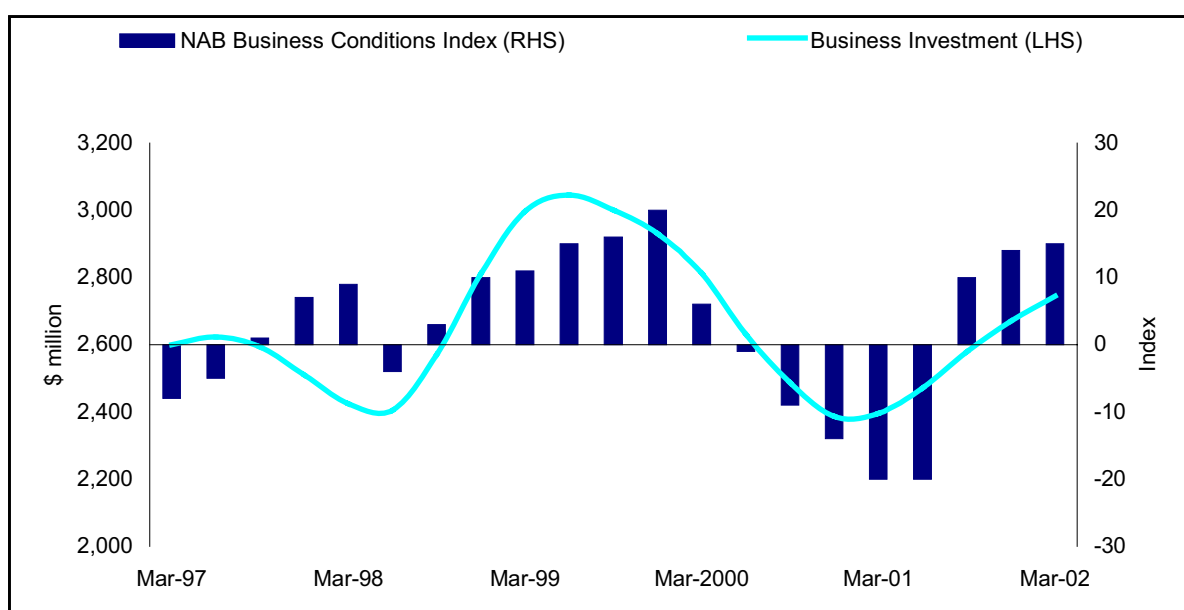
Business Investment

The negative factors constraining business investment in 2000-01 gradually subsided in 2001-02. A higher cost of capital equipment resulting from depreciation of the Australian dollar and higher interest rates, as well as some disruption to business activity associated with GST compliance, led business investment to fall 15.0% in 2000-01. As businesses became familiar with the new tax system, together with a less pessimistic outlook for both the domestic and international economies, business confidence began to recover, strengthening the incentive for business investment in 2001-02.

With the exception of a brief disruption due to the events of September 11, business conditions in Queensland improved steadily in 2001-02. A series of official interest rate cuts in 2001 saw business loan interest rates fall substantially over the period. The emergence of a tentative economic recovery in the US and Asia since late 2001 provided another boost to business confidence. These positive developments are expected to trigger a strong recovery in investment in machinery and equipment in 2001-02 (up an estimated 21¾%). In contrast, investment in other buildings and structures is expected to continue its downward trend in 2001-02 (down an estimated 9½%), although the rate of decline will not be as acute as in 2000-01. In total, business investment is forecast to rise 10½% in 2001-02.

Consistent with more favourable domestic and international economic conditions, business investment is forecast to rise 17¼% in 2002-03, with both investment in machinery and equipment as well as investment in other buildings and structures anticipated to strengthen during the year. Further, a number of major investment projects commenced in the State in early 2002. Expenditure on these projects will support growth in business investment in the medium term.

Chart 1.9
Business Investment and Business Confidence, Queensland



Sources: ABS 5206.0 and National Australia Bank.

Net Exports

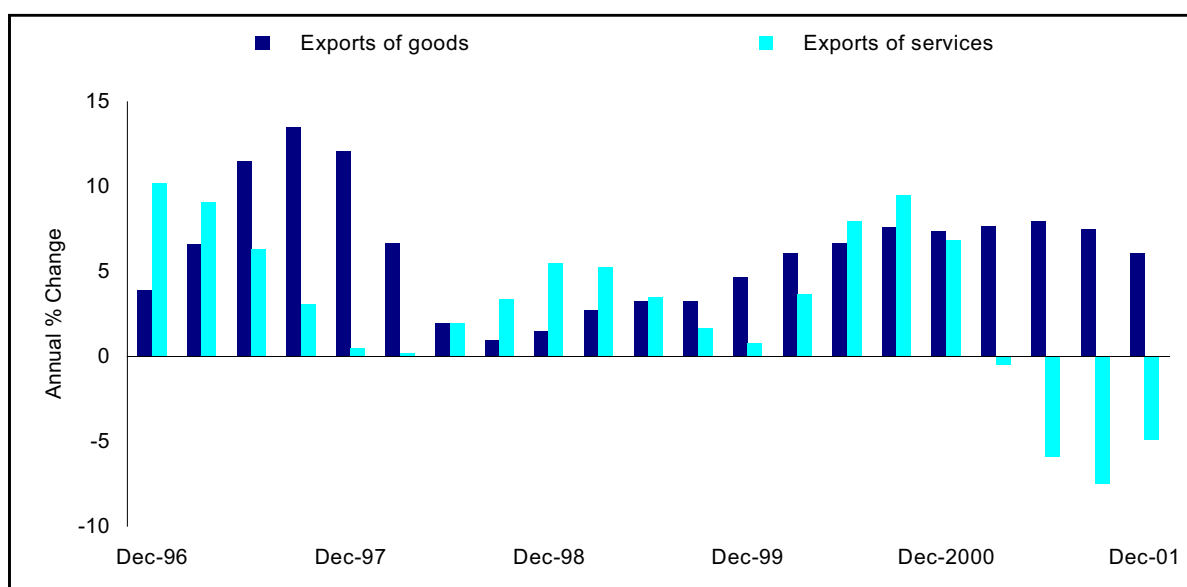
A deepening global economic downturn will restrain growth in Queensland exports (up an estimated 3½%) in 2001-02, while imports (up 7½%) will be bolstered by the strong performance of dwelling and equipment investment. As a consequence, net exports will produce a larger detraction from overall growth in 2001-02 than previously expected.

Growth in merchandise exports is expected to moderate in 2001-02, reflecting the subdued economic conditions of many of Queensland's trading partners. In particular, growth in coal and non-ferrous metals exports is expected to slow considerably due to the decline in the level of industrial production in Asia. Beef exports are also expected to be adversely affected by the discovery of Bovine Spongiform Encephalopathy in several Japanese cattle herds. The negative impact of the decline in beef exports was partially offset by a recovery in sugar exports, resulting from higher production levels brought about by supportive growing conditions.

Overseas tourism was disrupted by the September 11 terrorist attacks on the US, with a substantial decline in visitor arrivals from Japan, New Zealand, Taiwan and the US. Strong growth in interstate tourism offset this, despite the difficulties surrounding the collapse of Ansett Airlines, suggesting some domestic residents chose not to travel overseas, but made domestic holiday plans, of which Queensland was a key beneficiary.

Growth in merchandise exports is forecast to improve in 2002-03, as a result of the anticipated global economic recovery. The negative impact of the US terrorist attacks on international travel should continue to subside, allowing overseas tourism exports to revert to a normal growth pattern. Meanwhile, a solid recovery in business investment together with an assumed modest appreciation of the Australian dollar is expected to drive a further increase in imports. As a consequence, net exports is forecast to detract half a percentage point from overall economic growth in 2002-03, following an estimated 1¼ percentage point detraction in 2001-02.

Chart 1.10
Merchandise Trade and Services Exports, Queensland



Source: Queensland Treasury.

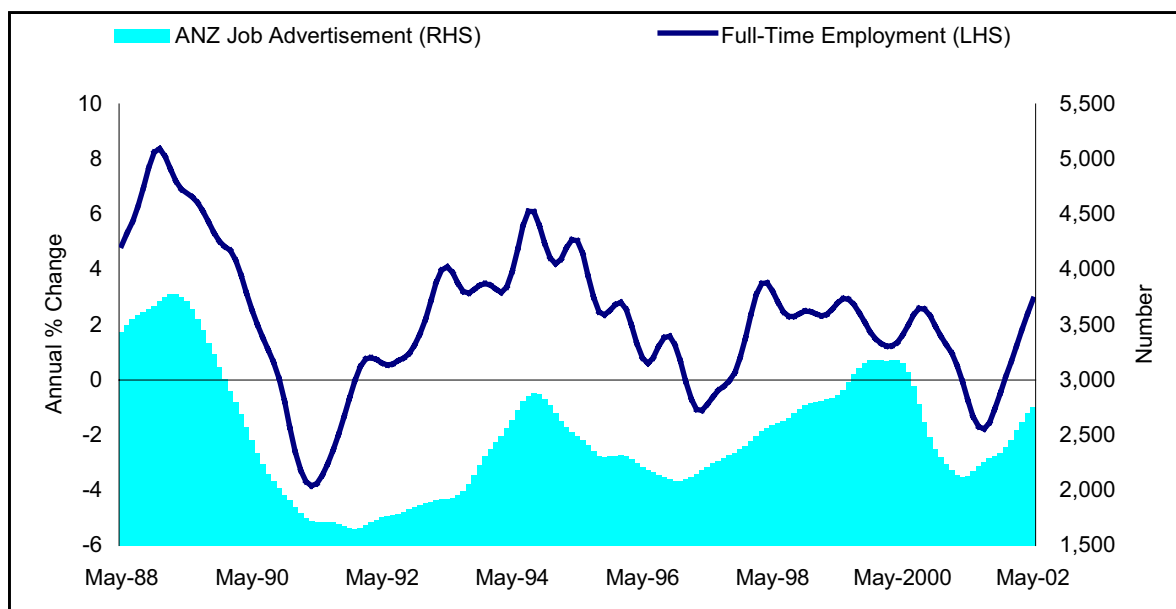
Employment

The number of people employed in Queensland is estimated to rise by around 31,000 or 1¾% in 2001-02. This increase in employment is expected to be offset by a similar number of new entrants into the State's labour force over the year. As a result, Queensland's year-average unemployment rate is estimated to remain unchanged at 8%.

Demand for labour continued to grow at below average rates during 2001-02, although employment growth accelerated in the second half of the year. This partly reflects the level of construction activity and weakness in services exports. While housing construction is estimated to have risen sharply in 2001-02, this has been offset by continued weakness in the non-residential construction sector. As a result, the overall level of construction activity in the State remains well below the peak of 1999-2000. With respect to services exports, the subdued state of the global economy in 2001-02 has dampened overseas demand for Queensland services, including tourism, during the year.

Looking ahead to 2002-03, labour market conditions are forecast to improve during the year on the back of a positive outlook for private investment in the State, solid growth in household consumption and a broad based recovery in exports, in particular, tourism and other services. Year-average employment growth of 2½% is forecast in 2002-03, representing the creation of an additional 43,000 jobs and yielding an average unemployment rate of 7½%.

Chart 1.11
Job Advertisements and Employment, Queensland



Sources: ABS 6202.0 and ANZ Job Advertisement Series.

Population

From approximately 3.6 million people in 2000-01, Queensland's population is forecast to grow by more than 60,000 people or 1¾% in both 2001-02 and 2002-03. This compares favourably with expected growth nationally of 1% in 2001-02 and 1¼% in 2002-03.

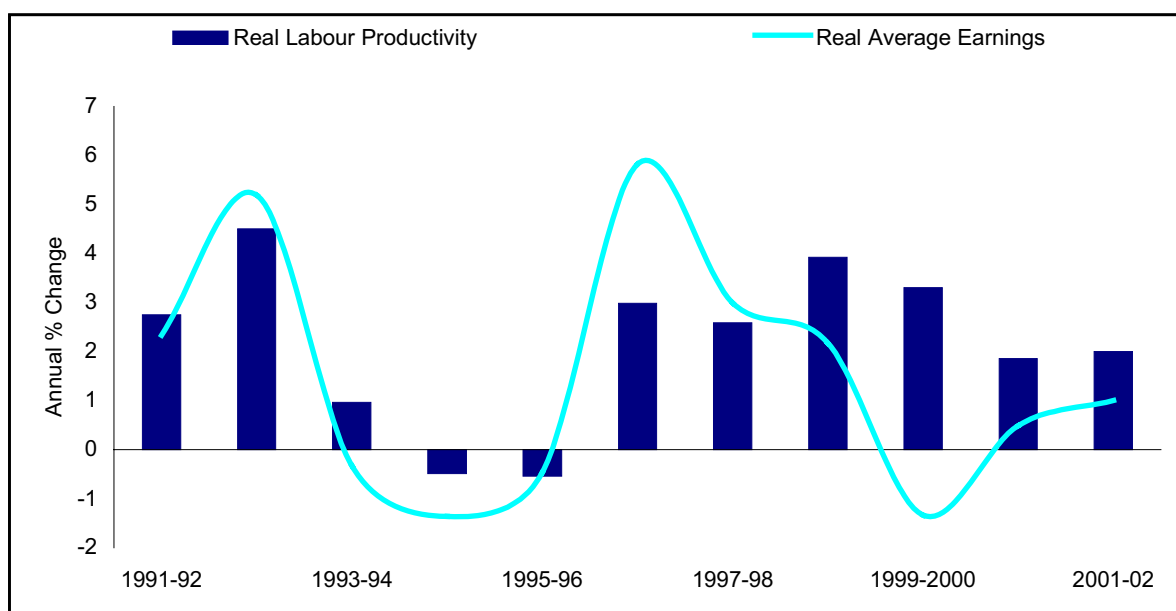
Queensland is the only State to have recorded positive net interstate migration in every year of the past two decades. A number of economic and social factors, including Queensland's relatively lower dwelling prices, continue to attract interstate migrants particularly from New South Wales and Victoria. However, improved economic conditions in these States has seen the overall number of interstate migrants coming to Queensland revert to a more sustainable level in recent years. Other demographic factors also continue to ensure Queensland maintains a faster rate of population growth than that nationally, including high levels of overseas migration and a younger population mix, leading to a higher rate of natural increase.

Average Earnings

Average earnings in Queensland are expected to increase by 3½% in 2001-02. Nominal wages growth more than compensated for price inflation, implying a rise in real average earnings over the year.

Steady growth in average earnings of 3¾% is forecast in 2002-03, with slightly tighter labour market conditions expected to lead to a modest increase in wages growth over the year.

Chart 1.12
Real Average Earnings and Labour Productivity, Queensland



Source: Queensland Treasury.

Inflation

The Queensland consumer price index (CPI) is estimated to rise 3% in 2001-02. While this is a substantial easing in the rate of inflation from the headline 5.9% recorded in 2000-01, it represents little improvement compared with the GST adjusted rate of ongoing inflation of around 3%.

Consistent with the experience of the late 1990s, productivity growth continued to offset real wage increases during 2001-02, containing unit labour costs and any related inflationary pressure. Instead, a number of cyclical and structural factors acted to sustain the rate of inflation in 2001-02. In the three quarters to March 2002, price increases in meat and fruit and vegetables contributed to a 7.2% rise in the cost of food. Housing costs also rose due to increased rental and utility costs and the increased cost of house purchases arising from the reduction of the FHOG on 1 January 2002. The other major impact on inflation during the year has been in the recreation sector with the collapse of Ansett Airlines leading to higher average airfares, due principally to reduced competition, and the introduction of additional taxes and levies by the Commonwealth Government. In total, price rises in the CPI groups of food, housing and recreation accounted for around 75% of the total rise in the Queensland CPI over the period.

Inflation is expected to moderate slightly to a year-average of 2¾% in 2002-03. The prospect of businesses re-building profit margins within a robust economic environment, increased insurance costs to households (including medical insurance) and higher average petrol prices will hold up inflation over the year. On the other hand, factors that should act to dampen price inflation include continued labour productivity growth restraining unit labour costs and the assumed appreciation of the Australian dollar leading to cheaper imports.

Table 1.3
Contributions to Growth in the Consumer Price Index¹

	Queensland		Australia	
	Index points	Share %	Index points	Share %
Food	1.15	37.1	0.91	32.5
Alcohol and tobacco	0.22	7.1	0.24	8.6
Clothing and footwear	-0.09	-2.9	-0.02	-0.7
Housing	0.62	20.0	0.76	27.1
Household furnishings, supplies and services	0.00	0.0	0.01	0.4
Health	0.17	5.5	0.17	6.1
Transportation	-0.11	-3.5	-0.38	-13.6
Communication	0.06	1.9	0.06	2.1
Recreation	0.60	19.4	0.78	27.9
Education	0.23	7.4	0.17	6.1
Miscellaneous	0.25	8.1	0.12	4.3
All groups	3.10		2.80	
Note: 1. Three quarters ending March 2002. Source: ABS 6401.0				

Risks and Opportunities

The outlook for the Queensland economy in 2002-03 and beyond is to a large extent tied to national economic conditions and those of its major trading partners. In last year's State Budget, the key risks identified for economic growth in 2001-02 related to Queensland's external environment, including the exchange rate and private investment. Looking forward to 2002-03, these areas remain the key risks for economic growth, although the balance of risks has changed slightly over the past year. In addition, there is the prospect of drought conditions impacting on agricultural production during the year.

The forecasts presented assume a moderate improvement in international conditions over 2002-03, with demand for Queensland exports also supported by a low, although modestly appreciating, Australian dollar.

The outlook for growth in Queensland's major trading partners remains a key risk going forward. While recent data from the US suggest an economic recovery is under way, there is still substantial downside risk to the assumed strength of the US recovery in 2002. The US Federal Reserve's "wait and see" approach to monetary policy indicates that some degree of uncertainty surrounding the US economy remains. The economies of Asia, not including Japan, are reliant on a sustained US recovery to allow a return to more normal growth rates. Similarly, weakening exports have resulted in the Japanese economy once more moving into recession, with growth expected to remain weak in the near future. In the case of less than expected major trading partner growth, particularly in the US, Queensland's exports will be adversely affected.

An adverse effect on exports may also be felt should the Australian dollar continue to appreciate at recent rates. The valuation of the Australian dollar is proving a challenge for economic forecasters, with a quite rapid and unexpected appreciation of the Australian dollar against a wide range of currencies in April and May. In the forecasts, only a modest appreciation of the currency has been assumed. Should the Australian dollar appreciate steadily over the forecast horizon towards US\$60c, levels not seen for two years, net exports may detract more from economic growth than currently forecast, resulting in lower growth in gross state product (GSP).

Domestically, there is downside risk associated with private investment, including both dwelling investment and business investment. This partly relates to the assumed increases in interest rates. Should inflationary pressures continue to appear in the Australian economy, the increase in interest rates required to contain inflationary expectations may be higher than assumed, with a consequent dampening of activity.

Historically low interest rates and the FHOG have fueled dwelling investment in 2001-02. Despite the current strength in building approvals in the State, there is some risk that, as interest rate rises coincide with the reduction in the FHOG, a greater than forecast moderation in dwelling investment may result.

Business investment is forecast to grow rapidly following a subdued performance over the past two years. This forecast is based on exceptional capital expenditure expectations data combined with the commencement of a number of large projects in the State. In addition, business sentiment is supportive of such investment activity. However, should some of the major projects be delayed, business investment in the State will be less than that presented in the economic forecasts, with a subsequent reduced rate of economic growth.

The potential for widespread drought in Queensland represents another negative risk to the 2002-03 economic forecasts. Recent dry conditions throughout the State are expected to continue into the winter crop sowing season. Production levels in Queensland's agricultural industry, including wheat, sugar and barley, largely depend on the extent and timing of required rainfall, suggesting that in the absence of sufficient rainfall, production levels are likely to be significantly lower. Queensland's beef industry also typically suffers during times of drought. Should drought conditions eventuate, the value of agricultural production, and consequently exports, would be lower than currently expected resulting in a significant impact on the forecast rate of economic growth.

The final key risk to the economic forecasts lies in inflationary expectations. Inflation has been at or above the top end of the RBA target range for two quarters, both nationally and in Queensland. While many of the increases in prices over this period can be explained in terms of one-off or seasonal effects, there is a danger that the period of low inflation expectations may be coming to an end. With domestic economic activity forecast to remain strong, accompanied by a strengthening labour market, inflationary pressures may become more entrenched, with a higher inflation outcome for 2002-03. If inflation were to remain at or above the 3% level in 2002-03, a greater than otherwise expected tightening of interest rates may be required to bring inflation back within the RBA target range.

The international and domestic outlook may also contain some opportunities for greater than forecast State economic growth. As noted above, the current interest rate settings in the US are highly expansionary, with real interest rates close to zero. There is some chance that the economic recovery in the US will be swift, following six quarters of sluggish growth. Such a sharp recovery would stimulate similar growth among our Asian trading partners, with a positive effect on Queensland exports and GSP.

Household consumption is forecast to grow at around a 10-year average rate, with rising interest rates containing after-housing discretionary spending. Some stimulus to consumption growth could come from increased wealth holdings by Queenslanders. Established house prices rose by almost 8% in March quarter 2002, a quarterly rate not experienced in the State since late 1988. Should households realise this increase in wealth, consumption may grow at an above average rate over 2002-03. With household consumption constituting around 60% of GSP, any overshooting of the consumption forecast would feed through strongly into higher than forecast overall economic growth.

In light of continued house price gains, there is an upside risk associated with the forecast for dwelling investment. Unlike any other State, Queensland building approvals have continued to grow in 2002, with the value of building approvals for both private housing and private other dwellings higher than at any time since Queensland's housing boom of 1993-94. There is the potential for the recent rapid rise in house prices, following almost 10 years of minimal capital gain to fuel further a housing boom, which could again encourage speculative building activity in the State.

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 2003-04 to 2005-06, shown in Table 1.4, provide a broad indication of the likely path of economic conditions in the State and nationally over the medium term, rather than point estimates of actual growth for this period.

World economic conditions are projected to improve, with economic growth in Queensland's major trading partners assumed to grow at around 3%.

The following medium term projections assume a continuation of the longer term Commonwealth Government fiscal policy and monetary stance of the RBA directed at the maintenance of a stable budget position and economic growth in a low inflationary environment. In particular, the projections incorporate the anticipated impacts of the Commonwealth Government's 2002-03 fiscal strategy and budget priorities.

Economic growth in Queensland is projected to return towards the average growth rate over the past decade, with an increase of around 4½% per annum projected for the period to 2005-06. 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.

Table 1.4 Economic Parameters/Projections (annual % change)				
	Outcome 2000-01 %	Est. Actual 2001-02 %	Forecast 2002-03 %	Projections ¹ 2003-04 to 2005-06 %
Queensland				
Gross state product ²	3.7	3¾	4¼	4½
Employment	1.8	1¾	2½	2½
Inflation ³	3	3	2¾	2½
Average earnings ⁴	6.4	3½	3¾	3½
Population	1.7	1¾	1¾	1¾
Australia				
Gross domestic product ²	1.9	3¾	3¾	3½
Employment	2.1	1	1¾	2
Inflation ³	3¼	2¾	2¾	2½
Average earnings ⁴	3.9	3¼	3¾	3½
Population	1.2	1	1¼	1¼
Notes: Decimal point figures indicate an actual outcome. 1. Average annual percentage change over the period. 2. Chain volume measure, 1999-2000 reference year. 3. Inflation figure for 2000-01 is net of GST effects. 4. Average earnings are on a National/State Accounts basis. Sources: Queensland Treasury and Commonwealth Treasury.				

2. ECONOMIC STRATEGY

KEY POINTS

- **Productivity growth is central to achieving sustainable long-term economic growth and underpins the Queensland Government's economic strategy.**
- **Through its beneficial effects on employment and incomes, economic growth supports the Government's social and economic priorities.**
- **The key to productivity growth in a modern service economy like Queensland is investment in people and through fostering technological innovation.**
- **Education and training, and technology and innovation policies form the core of the productivity strategies adopted by the Queensland Government.**
- **Complementing these Smart State strategies is the maintenance of strong economic fundamentals in Queensland: a sound fiscal position; competitive taxation; improving the efficiency of regulation; and investing in high quality infrastructure.**

ECONOMIC GROWTH – A KEY POLICY FOCUS

Sustained economic growth through increased productivity is crucial to achieving the Government's economic and social objectives. Sustained economic growth generates increased employment and higher incomes while growth in household incomes results in improved health and education standards. Productivity growth, making our people and our physical capital resources work more effectively, is at the heart of sustainable economic growth for the long run and is therefore central to the Government's economic strategy.

Economic growth can result from either an accumulation of production inputs, such as capital and labour, or growth in total factor productivity, that is, the rate at which inputs are turned into outputs. Queensland has experienced higher rates of economic growth than the rest of Australia over the past 15 years. This superior economic performance is projected to be maintained over the medium term. Queensland's annual economic growth - measured as the change in gross state product (GSP) – over the period 1985-86 to 2000-01 was 4.9% compared with 3.3% for the rest of Australia. The annual increase in total factor productivity in Queensland over this period was 2.0% compared with 1.1% for the rest of Australia. The components of economic growth in Queensland and the rest of Australia are summarised in Table 2.1.

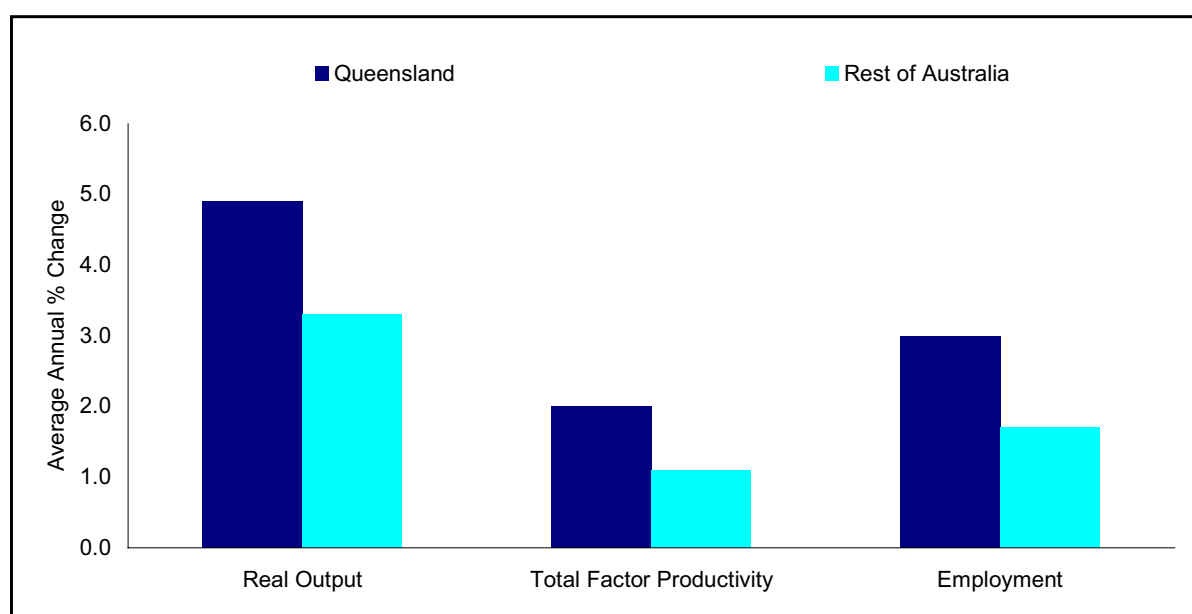
Productivity growth has accelerated in Queensland over the past six years. From 1995-96 to 2000-01, total factor productivity growth in Queensland has been 2.3% per year, a higher growth rate than in Queensland in the previous 10 years, and also higher than the growth rate in the rest of Australia since 1995-96 (1.8%).

Table 2.1 Average Annual Percentage Point Contributions to Growth, 1985-86 to 2000-01				
Region	Real GSP %	Generated by productivity components		
		Capital %	Labour %	TFP ¹ %
Queensland	4.9	0.9	2.0	2.0
Rest of Australia	3.3	1.0	1.1	1.1

Note:
1. Total factor productivity growth: the growth in output not accounted for by growth in inputs.
Source: Office of Economic and Statistical Research – Queensland Treasury, Annual Economic Report 2000-01.

The strong productivity growth which Queensland has experienced over the past 15 years has underpinned the superior economic performance of the State over this period. This economic growth has been accompanied by employment growth nearly double that experienced in the rest of Australia (Chart 2.1).

Chart 2.1
Queensland's Economic, Productivity and Employment Growth: 1985-86 to 2000-01

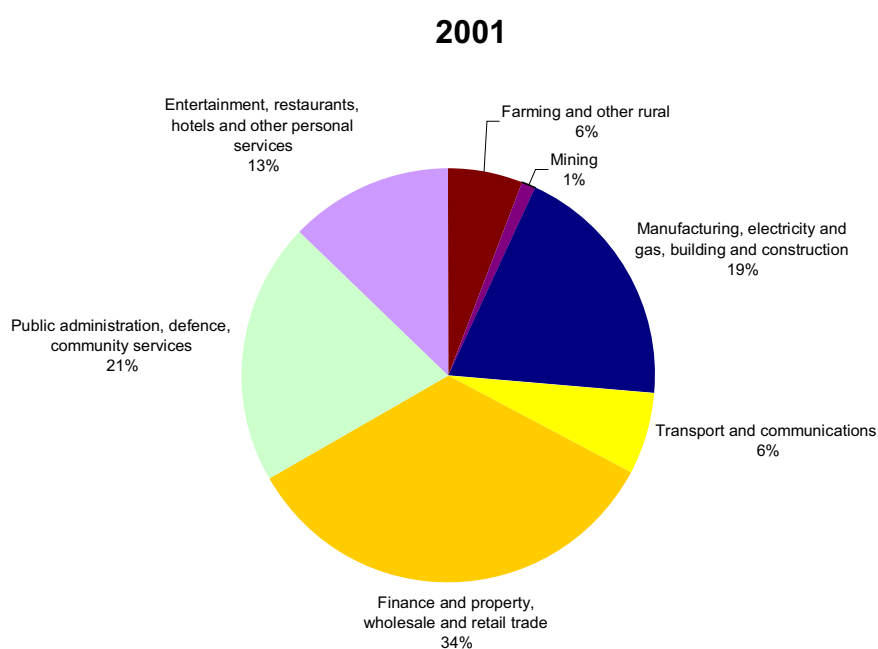
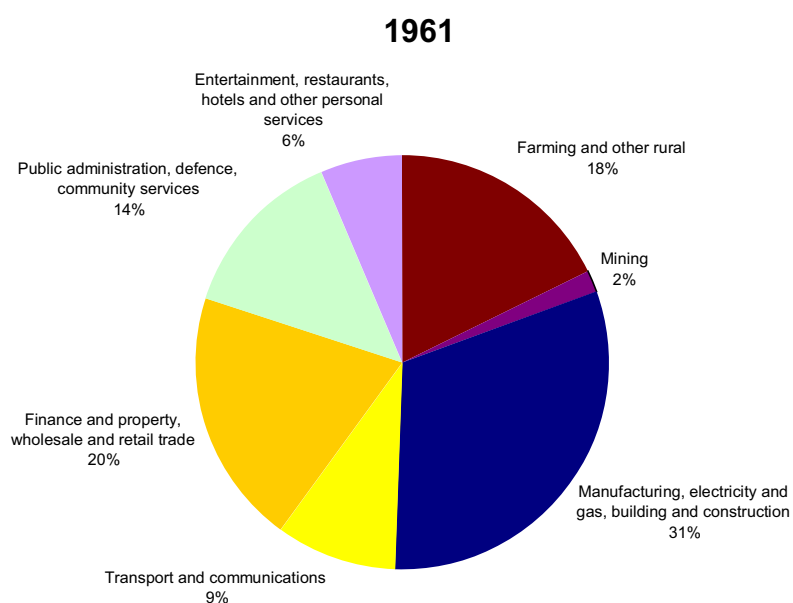


Sources: Queensland Treasury, ABS 5206.0 and ABS 6202.0

An Evolving Economy

The State's economic policy stance continues to develop and evolve in line with, and in response to, changes in the Queensland, Australian and world economies. Queensland's industrial structure has evolved over the 20th century, from an economy heavily dependent on agriculture and mining at the time of Federation, to a modern service economy a century later. As Chart 2.2 shows, the economy has moved strongly into services over the past 40 years.

Chart 2.2
Queensland's Industrial Structure: 1961 and 2001
(Employment share by sector, %)



Sources: Office of the Government Statistician, "Queensland Past and Present", Queensland Government, 1998 and ABS 6203.0

The pace of economic change in the State continues to be rapid. Over the past five years, for example, employment growth has been strongest in service industries, including business services and tourism related industries (Chart 2.3). While traditional industries and commodities will continue to make an important economic contribution to the State and the nation, in particular through strong exports performance, much future employment and income growth will come from service industries.

The policies which underpin productivity growth, and therefore future economic growth, in the services sector are less to do with the provision of traditional “hard” infrastructure, such as roads and dams, and more with the provision of “soft” infrastructure, such as education and information and communication technology. With service industries being generally labour-intensive, the keys to productivity growth in these industries include both investment in people and through fostering technological innovation.

Queensland Government research has identified a number of factors which contribute to productivity improvements and economic growth (see Box 2.1).

Box 2.1 Drivers of Economic Growth

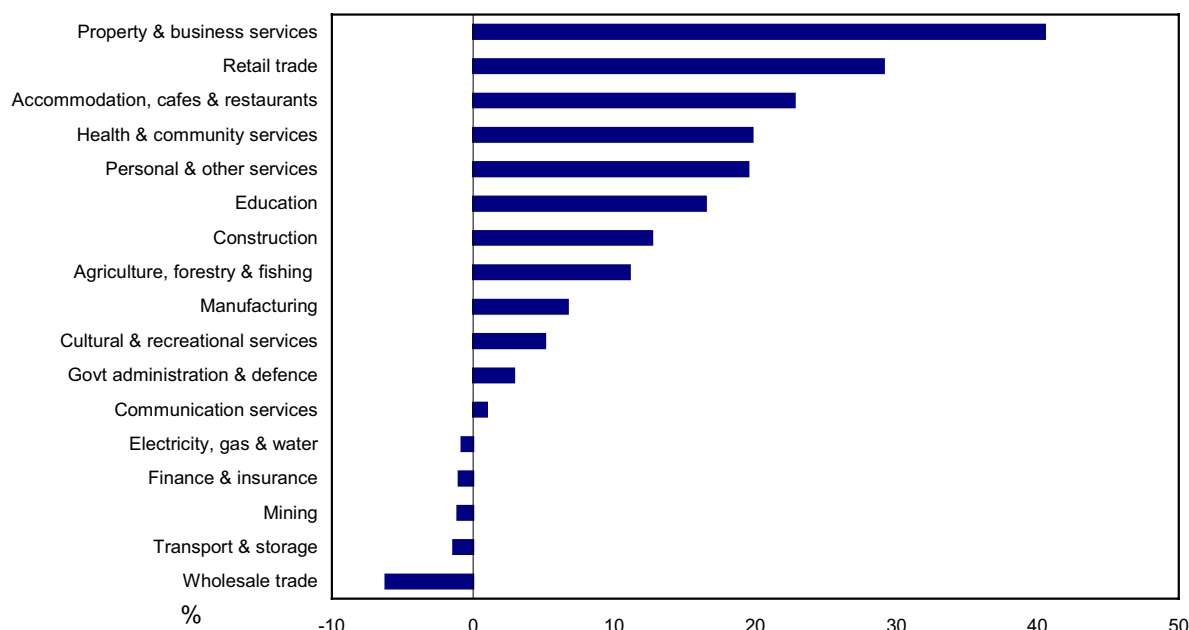
Queensland Treasury, through its Office of Economic and Statistical Research, established the Drivers of Economic Growth project in March 2000, working in a collaborative research partnership with senior academics at the University of Queensland and Griffith University. The key objective of this research project was to identify the fundamental factors that have resulted in Queensland having a higher rate of economic growth than the rest of Australia, with the objective of identifying those factors which may impact on Queensland's economic growth in the future.

The first stage of the research into the drivers of economic growth in Queensland is now complete, with the results of the analysis soon to be published. The research indicates a clear role for the State Government in underpinning economic growth in Queensland, by promoting strong productivity growth in the State. The key areas identified whereby productivity growth can be supported by State Government policy are:

- by improving the quality of the State's human capital, through appropriately directed education and training programs, increasing labour productivity;
- by fostering innovation, supporting research and development, and encouraging the adoption and adaptation of new technology by new and existing industries, improving total factor productivity; and
- by maintaining the strong fundamentals of the Queensland economy, for example, through periodic review of the regulatory environment, reducing unintended impediments to business growth and development.

The challenge now is to integrate the results of this research into focused economic policies for Queensland. The research points to some clear areas for policy development – innovation, research and development, industrial development, the labour market and education.

Chart 2.3
Employment Growth by Industry Sector: 1996 to 2001



Source: ABS 6203.0

FOUNDATIONS FOR ECONOMIC GROWTH

Human Capital

The importance of human capital to economic growth has been increasingly emphasised in economic research. OECD research shows a significant positive impact of human capital accumulation on growth in labour productivity and per capita output. Successful economies of the future will be built upon human capital, which is based on sound general education, emphasising high literacy and numeracy standards among semi-skilled and skilled workers, and very high levels of analytical and creative capabilities in highly skilled and professional workers.

Individuals who complete secondary school are more likely to find employment and be more productive workers than people without this qualification. Therefore, increasing the number of students completing Year 12 is an important means to increase their employability and productivity.

Encouragingly, the apparent Year 12 retention rate increased from 71.8% in July 1999 to 73.6% in July 2001. In addition, the proportion of Year 12 State School students eligible to enter tertiary studies, by obtaining an Overall Position score, or who had a vocational education and training qualification has increased from 81.5% in 1999 to 87% in 2001.

It is also essential that the State's human capital should be maintained – even from the productivity perspective alone, it is important that periods of unemployment do not de-skill the workforce.

Investment in Human Capital

The Government places a high priority on improving future life and employment opportunities for Queenslanders through a range of strategies including:

- **Queensland State Education – 2010** – This strategy outlines present and future initiatives aimed at meeting the challenges for education over the next decade. Strategy objectives include increasing the completion rate for year 12 from 68% in 1998 to 88% by 2010 (matching that projected for leading OECD countries) and improving the pathways for students from school and vocational education into the workforce.
- **Education and Training Reforms for the Future** – In March 2002, the Queensland Government announced this package of reforms for education and training. The Budget provides \$158.3 million in new funding over four years for the reforms. The reforms propose a full time preparatory year of school, improved information and communication technology in schools, and more flexible pathways including legislation requiring young people aged 15 - 17 to be engaged in schooling, vocational education and training or work.
- **Skilling Queensland – A Strategy for Vocational Education and Training 2001-2004** – provides the overarching direction for Queensland's vocational education and training system. It focuses on increasing the skills and qualifications of Queenslanders, embraces information and biotechnology, expands innovation and collaborative business practices, and builds on the quality of vocational education and training.
- **Training and Employment Act 2000** – introduced a national training framework, as well as increased flexibility and provision for the appropriate negotiation of requirements between employers, apprentices/trainees and registered training bodies.
- **Breaking the Unemployment Cycle** – provides employment and training opportunities for the long-term unemployed or people at risk of becoming long-term unemployed, in particular young people, older people returning to work and indigenous people. These programs have resulted in the creation of 40,000 employment and training positions from October 1998 to April 2002, towards the target of 56,000 positions by 2004.

Innovation

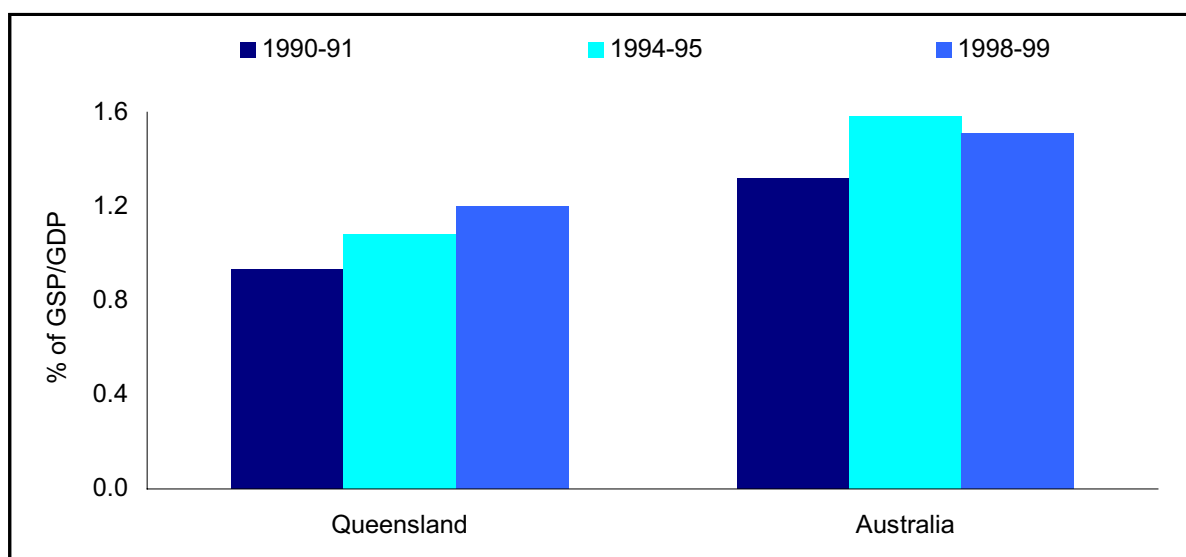
Innovation is a key driver of economic growth. Advances in the application of scientific and technical knowledge deliver major improvements in the quality of life through new and better products, services and processes. Innovation is also a major source of competitive advantage and wealth creation. Successful investment in innovation creates new or improved products that expand market share or leads to the implementation of more efficient processes that cut production costs. In both cases, greater output and income is generated from available inputs, making innovation a primary source of total factor productivity growth.

The rate of multi-factor productivity growth, combined with the rate of accumulation of inputs (such as labour and capital), determines the overall rate at which an economy can grow. By driving productivity growth, successful innovation also generates a greater amount of income to be shared among residents of an economy, raising real income per capita and thus living standards.

Queensland performs reasonably well against indicators of innovative activity by international standards. Queensland recorded average annual growth of around 8.6% in patent grants over the second half of the 1990s, compared with 3.1% growth in the rest of Australia. In addition, Queensland also had a higher number of patent grants per 100,000 residents (8.5) than the rest of Australia (7.5) in 1999-2000, a measure often used to indicate the “inventiveness” of individual economies.

A key indicator of research and development (R&D) activity suggests that the Queensland and Australian economies are becoming more focused on innovation. Chart 2.4 shows an upward trend in Queensland R&D expenditure (as a share of GSP) during the 1990s. While R&D is only an input to the innovation process, this indicates that businesses are recognising the importance of investment in R&D and innovative activity. Although the indicator in Queensland is below the average for all Australian States, expenditure on R&D continues to grow in Queensland.

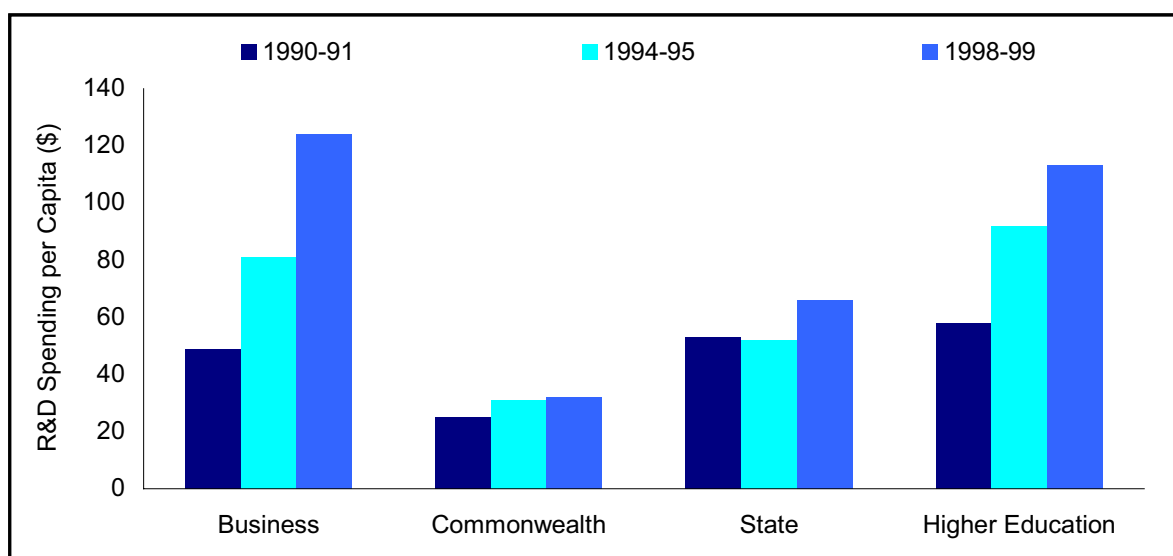
Chart 2.4
Total Expenditure on R&D as a Percentage of Gross State/Domestic Product



Sources: ABS, *Research and Experimental Development* (8104.0, 8109.0, 8111.0 and unpublished data) and Office of the Government Statistician, *Queensland State Accounts*.

Chart 2.5 shows the distribution of R&D spending in Queensland across sectors. Business R&D expenditure has more than doubled on a per capita basis over the past decade. However, Government-funded research is an important complement to research by the business sector. Chart 2.5 shows the increase in per capita State Government R&D expenditure in Queensland over the 1990s. Commonwealth funding in Queensland has risen, albeit more modestly. Higher education spending on R&D has also grown strongly.

Chart 2.5
R&D Expenditure Per Capita by Sector, Queensland



Source: Queensland R&D Strategy Background Report, R&D Expenditure 1990-91 to 1999-2000, April 2002.

Access to high-risk finance is often thought to be an impediment to high technology start-ups. An Australian Bureau of Statistics survey of venture capital activity in Australia showed that, for the year to June 2000, only \$142 million, of a national total of \$2,279 million (or 6.2%) of venture capital, was invested in companies located in Queensland.

Investment in Innovation

Successful economies will increasingly rely on “smart” industry and “smart” technologies for economic growth and job creation. The Queensland Government is implementing a number of key strategies concerned with fostering innovation and stimulating industry growth within the Smart State framework. These include:

- **The Queensland Innovation Strategy: Innovation - Queensland’s Future** – provides an action plan to coordinate the allocation of Government resources to innovation activities that will yield the greatest dividends for the community. The Queensland Innovation Council will continue to provide support for the implementation of the Innovation Strategy. The Council is proactive in forging public and private partnerships and providing strategic advice to the Government on innovation policy.
- **The Queensland BioIndustries Strategy** – a 10 year \$270 million Queensland BioIndustries Strategy focusing on harnessing areas in which Queensland has a capacity to build a biotechnology capability for the future.
- **The BioCapital Fund** – To assist in increasing access to venture capital in a key emerging sector in Queensland, the State Government has assigned \$100 million of its investment funds to establish a BioCapital Fund. The BioCapital Fund will be a 10-year closed-end fund managed by the Queensland Investment Corporation (QIC) and will provide venture capital to biotechnology projects. Up to a further \$50 million from other QIC clients can be accommodated in the fund.

- **Smart State Research Facility Fund** – \$100 million funding is committed over the period 2001-2007 to assist in the acquisition and/or construction of research facilities to support the conduct of world-class research that would not otherwise be undertaken without Government support. \$64 million of the fund has been committed to date including:
 - up to \$20 million to support the establishment of an Australian Institute of Bioengineering and Nanotechnology at the University of Queensland; and
 - up to \$22.4 million for an Institute of Health and Biomedical Innovation at the Queensland University of Technology.
- **The Queensland Research and Development Strategy** – to provide a systematic, long-term framework for coordinating and prioritising the Government's investment in research and development. An issues paper has already been released as part of the strategy development process.
- In the 2002-03 Budget, the Government is supporting a \$10 million per year innovation package to continue the following Smart State initiatives:
 - Emerging Technologies Program;
 - Information Economy Infrastructure Operations;
 - Smart State Skills Development;
 - Queensland Innovation Council; and
 - Government Electronic Marketplace.

Economic Fundamentals

Actions by Government to create a supportive climate for business growth will complement investment in innovation and human capital, as obtaining the maximum benefits from these investments relies on a stable macroeconomic environment, an economy open to domestic and international competition and an economy with well-functioning markets and institutions. The following areas are fundamental factors in creating such an environment.

Sound Fiscal Policies

Maintaining a sound fiscal position provides a stronger long-term base for Government service delivery and also allows for a competitive tax environment. The Government's key goals for fiscal policy are to maintain an operating surplus for the General Government sector and to maintain or increase State public sector net worth. In 2001, Queensland had the highest per capita net worth of any State Government. On taxation, the Government's goal is to maintain a competitive taxation environment. The tax burden of the other States is forecast to be 33.0% higher, on average, than Queensland's per capita taxation for 2002-03.

It is critical that public sector services are provided efficiently and are continuously focused on the areas of highest priority. In order to achieve this, the Government is reviewing many of its operations and services, through a process known as Aligning Services and Priorities (ASAP). ASAP seeks to ensure that agency resourcing enables the delivery of Government priorities by the most effective means achievable.

The ASAP initiative aims to enhance the cross agency integration of services and provides the capacity for enhanced Government service delivery to all Queenslanders. ASAP reviews are being conducted in respect of individual agencies, across groups of agencies and at the whole-of-Government level in areas such as strategic information management, corporate services and building maintenance.

Improving the Efficiency of Markets

Ensuring that markets operate efficiently plays a key role in promoting growth by reducing costs of business inputs, reducing restrictions on firms' activities, and removing barriers to the creation of new firms, facilitating total factor productivity growth. The Queensland Government is participating in national reform activities to improve the operation of markets for key services, such as gas, electricity and water, and to review legislation which restricts competition. The Government has also taken a range of initiatives aimed at minimising the administrative burden faced by Queensland businesses.

Electricity

Structural reforms in the electricity market, such as the separation of transmission from generation and the creation of a market in generation, have led to a fall in Queensland wholesale electricity prices by more than 23% since the competitive electricity market commenced in 1998. This has contributed to lowering costs for business.

The Queensland Government has introduced retail competition for customers purchasing more than 200 megawatt hours per year. The Government has decided not to extend full retail competition to customers purchasing fewer than 200 megawatt hours per year following an assessment in 2001 of the costs and benefits of this next stage in competition. Recognising that the costs and benefits of full retail competition may change in the future, the Government will reconsider the extension of competition to lower volume customers in 2004.

While the introduction of full retail competition in Queensland does not provide net benefits, there may be benefits in extending retail competition to a further sub-group of customers who remain on regulated tariffs. A report on this issue is currently being prepared for the Government.

Gas

Queensland has introduced contestability for customers taking 100 terajoules or more of gas a year. It is anticipated that market rules for contestability for customers purchasing this volume of gas will be in place by 1 July 2002. The development of market rules is essential to allow for allocation of gas among different suppliers, which was not required with the previous exclusive franchise arrangements.

In relation to full retail contestability in gas supply, the Government has indicated that full retail contestability in gas will be implemented on 1 January 2003 subject to a review of the costs and benefits of this reform.

Queensland Government policy measures are stimulating substantial development of the State's gas industry and gas infrastructure network. The Government's Energy Policy is encouraging significant new investment in the gas supply industry and gas-fired generation within Queensland.

The Government recently facilitated a competitive process to establish gas-fired generation and gas delivery to Townsville. The preferred developer, Enertrade, has been selected to deliver the Townsville Power and Gas Project, which will result in \$500 million investment in gas supply and transportation and gas-fired electricity generation. The Enertrade project will provide a strategic 390 km pipeline link between the North Bowen Basin and Townsville and encourage additional investment in the State's extensive domestic coal seam methane gas reserves. With significant commercial potential for interconnection of the pipeline into the State's wider gas infrastructure network, the project will contribute to future gas-on-gas competition in the State.

Water

Reforms to the water sector have included the introduction of consumption-based cost reflective pricing, with most progress in urban water supply, and the implementation of water trading in an environmentally sustainable way. These reforms are designed to make better use of Queensland's water resources.

Queensland has made significant progress towards developing a framework for efficient water trading. Over the past two years, a trial of water trading has been in operation in the Mareeba Dimbulah Water Supply Scheme and is being extended to the Lower Mary Water Supply Scheme. In the trial, trading in water has not been separated from land ownership. In 2002, permanent trading of water, separate to land, will be implemented with the introduction of the Resource Operations Plan in the Fitzroy Basin. A release of the draft Resource Operations Plan is expected to occur in July 2002 and other basins will follow.

Rail

Reform in the rail sector has also increased the scope for competition in rail transportation contributing to a fall in haulage prices. Such a fall in transportation costs assists in improving the competitiveness of Queensland exporters.

Queensland Rail has been subject to competition in the above-rail services market since its rail network was declared open to third party access in March 1998. The benefits of competition reforms have already been substantial. Queensland's agriculture, mining and bulk freight users have experienced approximately a 19% reduction in average bundled haulage rates from 1997-98 to 2000-01.

In December 2001 the Queensland Competition Authority approved a rail access undertaking to apply to Queensland Rail's declared below rail infrastructure. The new rail access undertaking identifies large benefits which will flow to Queensland's agricultural, freight and resource industries. For example the new undertaking:

- imposes a 15% improvement in efficiency in Queensland Rail's below rail maintenance operations which will translate to reduced input costs to the people and industries reliant upon rail transport; and
- resulted in an average reduction in rail access charges to Queensland Rail's coal customers of 4.2% in two steps, in October 2001 and January 2002.

Competition in the above rail market will drive efficiencies in the pricing of above rail services. The ability of third party operators to compete on an equal basis will encourage Queensland Rail to ensure the efficient utilisation of its infrastructure and reduce excess costs.

Ports

The Queensland Government included the Ports Corporation of Queensland and seven independent port authorities in its corporatisation program for public enterprises in the 1990s. Competition among different ports has kept charges for services down. For example, charges for container ships by the Port of Brisbane declined by 24% in real terms (remaining stable in nominal terms) between 1990-91 and 2000-01. The estimated savings to customers from reductions in real container and bulk shipping charges by the Port of Brisbane were \$30.4 million in 2000-01¹.

Regulatory Reform

Regulation can significantly influence the structure and efficiency of markets. Unnecessary or ineffective regulation hinders investment, competition and innovation and therefore economic growth. There is a growing debate about the appropriate form and type of regulation that should be applied to markets, in particular, infrastructure areas such as energy, transport and water. The Queensland Government is committed to ensuring market regulation is in the public interest and provides the appropriate incentives for investment. For example, the Queensland Government has advocated its position in the current review (by the Council of Australian Governments) of the effectiveness of the national electricity market.

Under the Competition Principles Agreement (1995), the Queensland Government has undertaken an extensive review of legislation to minimise anti-competitive provisions, while ensuring the objectives of the legislation continue to be met. Legislation reviews conducted as part of national competition policy reforms have facilitated market reform in the public interest. The Government expects to have completed the scheduled reviews, except for a small number of national reviews to which the State is a party, by 30 June 2002. Reforms related to the reviews will continue to be implemented over 2002-03.

Through the application of its Public Benefit Test Guidelines, the Queensland Government has tested whether retaining restrictions on competition is in the public interest. In 2002-03 the National Competition Council (NCC) will assess whether Queensland has met its obligations under the National Competition Policy (NCP) Agreements.

Outcomes produced from reviewing anti-competitive legislation include increased competition, removal of unnecessary legislative provisions, more scope for business to innovate and improved policy processes. Benefits from legislation reviews include:

- extensive change to the regulation of some 13 health and medical practitioner professions following a wide-ranging review. Commercial controls on practitioner businesses have been removed, advertising restrictions substantially reduced and the reservation of certain professional titles has been removed;

¹ Productivity Commission 2002, *Trends in Australian Infrastructure Prices 1990-91 to 2000-01*, Performance Monitoring.

- removal of the restrictions on ownership of optometry practices following the NCP review of the *Optometry Act 1974*. The removal of these restrictions has benefited the optometry industry by removing the compliance costs to industry resulting from overly rigid regulatory barriers to entry; and
- introduction of competition to the assessment and approval of development applications, following the Review into Building Certification in Queensland, which had been previously the exclusive prerogative of councils. The adoption of competition has significantly reduced overall approval times and the cost of approvals with a subsequent saving for the building industry, owners and other consumers of building services.

As part of the overall microeconomic reform agenda of the 1990s, all jurisdictions agreed to a cooperative process for implementing road transport reforms aimed at rationalising road transport regulation across Australia. The road transport reforms covered six key areas: heavy vehicle charges; transportation of dangerous goods by road; vehicle operation; vehicle registration; driver licensing; and compliance and enforcement. The road transport reforms form part of the NCP related agreements, which are linked to the competition payments from the Commonwealth. Queensland has now implemented all the assessable road transport reforms identified for the three NCP tranche assessments.

The Government has recently taken the following initiatives to reduce paper work, time and costs involved for businesses obtaining the necessary licences:

- development of a set of Guidelines on Alternatives to Prescriptive Regulation to assist Government agencies design and implement better regulatory systems as an alternative to prescriptive legislation;
- increasing the capacity of SmartLicence to better meet the needs of business and industry. SmartLicence is a one-stop shop for State and Commonwealth business registration, licensing and information requirements; and
- the Business Licence Rationalisation scheme, which aims to reduce the number of business licences by 50%.

The 2002-03 Budget provides funding for additional measures to streamline regulatory frameworks through continued *Integrated Planning Act* (IPA) reform and increasing the capacity of the Office of Fair Trading:

- The provision of additional funding of \$2.6 million over three years (\$1 million in each of 2002-03 and 2003-04 and \$0.6 million in 2004-05) will continue IPA reform. This will ensure Queensland's nationally innovative planning system is fully implemented and maintained so the State's development applications (approximately 100,000 each year) can be decided faster than similar developments in other States and so that Queensland continues to attract investment.
- The provision of an additional \$1 million per year will improve the Office of Fair Trading's capacity to meet its existing marketplace regulatory responsibilities and therefore improve confidence in the operation of markets.

Openness to Trade

A higher trade orientation allows a country or region to obtain benefits by exporting those goods and services which firms within the area produce most efficiently, while importing those which other countries or regions produce more efficiently.

Additional benefits from an increased orientation to trade include improvements in management and work practices and quality required to compete internationally. Exposure to the standards of overseas markets and competitors also provides benchmarking and broadens perspectives. Producers and consumers also benefit from access to imports, which can increase the range and quality of goods and services available and reduce costs. Openness to international trade leads to faster transfer of technology in many ways - access to technology in goods and services through exposure to overseas practices and through skills transfer, which leads to faster economic growth.

- The Government is promoting Queensland's trade orientation through its trade strategy, Export Solutions, announced in October 2001. The strategy includes objectives to increase the number of exporters from Queensland by 20% and the value of knowledge-intensive exports by 50%. To assist implementation of the strategy, the Government is providing \$2 million per year to support improvements in the operations of Queensland's overseas offices, continuing the International Business Cadetships Program (which gives young people experience in working in the Government's overseas offices), expanding skills of Queensland exporters and expanding Queensland's commercial networks in major markets.

Physical Capital

Both public and private investment support sustained economic growth. Investment enables the capital stock to be expanded and updated, increasing both the capacity to produce and the efficiency of production. Infrastructure investment is essential to support the delivery of economic services including energy, transport and tourism, and social services such as health, housing education and law and order. Capital outlays can have a positive impact on employment, both in the construction stage, and more importantly through the support that infrastructure provides for other economic activities. The provision of economic infrastructure remains a high priority, with over 85% of the State's capital program in 2002-03 being directed towards economic purposes.

The Queensland Government has traditionally funded new infrastructure at levels significantly higher than other major States. Since the early 1980s, Queensland's purchases of new non-financial assets as a percentage of GSP has exceeded that of all other major States (see Budget Paper No. 2 – Budget Statement, Chapter 7).

Investing in Physical Capital

The Queensland Government has instigated a number of strategies aimed at ensuring the ongoing provision and maintenance of infrastructure:

- **Infrastructure Provision** –The Government's State Infrastructure Plan provides a foundation for future infrastructure development in Queensland. The Plan consists of the Strategic Directions statement (released in 2001) setting out the policy framework for infrastructure development. Annual Implementation Plans will contain initiatives to improve the efficiency of State-wide infrastructure provision, and regional Infrastructure Strategies, to identify priority infrastructure projects to support economic development in each region of the State.

- **Priority Infrastructure Package** – a four-year, \$400 million package commencing in 2002-03. The package includes \$50 million for health technologies, \$40 million for police information systems and capital works and \$150 million for schools infrastructure. It will also support Burnett water infrastructure, the Tugun Bypass and a multipurpose centre in Mackay.
- **Brisbane City and South East Queensland Telecommunications Infrastructure Strategy** – Telecommunications infrastructure is crucial for businesses seeking to develop new markets. The policy and regulation affecting telecommunications services is primarily a Commonwealth responsibility. However, the Queensland Government is addressing gaps in the current regulatory system to achieve the objectives of a more competitive telecommunications industry structure, improving State and local governments' treatment of telecommunications infrastructure in planning processes and stimulating and aggregating demand to reduce costs of access. The Government released the draft strategy for public comment in December 2001 and plans to release the final strategy in July 2002.
- **Public Private Partnerships (PPPs)** – will be pursued where the State will achieve better value for money on a whole of project life basis compared with traditional delivery methods. The Government recently released proposed guidelines for PPPs. The guidelines provide further details on specific aspects of the PPP process, in particular risk management, probity and process governance and project resourcing. It is anticipated that final versions of these guidelines will be released in the second half of 2002. Budget Paper No. 4 – Capital Statement provides further details of private sector provision of infrastructure.

ECONOMIC STRATEGY – A SHARED RESPONSIBILITY

The economic policy framework is broadening as the Queensland economy continues to grow and develop. The Queensland economy has an industrial structure in which the quality of its people and their ability to adapt and change in response to increasing global economic competition, provide the keys to continued economic prosperity. The perception of Queensland as a farm or mine to port economy does not match the modern reality. Research progressed by Queensland Treasury confirms that human capital, innovation and maintenance of the fundamentals, including improvements in regulation, are key drivers of past and future economic growth.

While the Queensland Government has in place policies and programs to achieve greater productivity, the development of Queensland's economy is a shared responsibility between all levels of government and the private sector. For example, the Queensland Government intends to work in greater partnership with the private sector in developing infrastructure. Local Government has a key role to play in service delivery and the Commonwealth Government, in particular, has a major role to play, through its macroeconomic, regulatory, taxation and telecommunication policies especially in the regions.

3. REVENUE

KEY POINTS

- **Queensland's payroll tax rate will reduce to 4.75% from 1 July 2002, in conjunction with the removal of payroll tax concessions on termination payments and grossed-up fringe benefits.**
- **Stamp duty relief on public liability insurance policies to be provided to non-profit community organisations. Urgent consultations will commence with the relevant parties on the most effective way to provide this relief.**
- **From 1 July 2002 the 15% general land tax rebate for companies, trustees and absentees will be abolished. To assist small business the land tax exemption threshold will be increased for these taxpayers from \$100,000 to \$150,000. This will remove 27% of existing company, trustee and absentee land taxpayers from the tax base in 2002-03. Individual landholders will not be affected by these changes and will continue to receive the current 15% general land tax rebate.**
- **Per capita tax collections on a Government Finance Statistics basis are estimated at \$1,321 in 2002-03 compared with an estimated \$1,757 for the average of the other States¹.**

INTRODUCTION

This chapter outlines how the Government will raise revenue in 2002-03 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 taxes and charges and income from State assets; and
- payments from the Commonwealth, comprising Goods and Services Tax (GST) revenue grants, Budget Balancing Assistance (BBA), National Competition Policy (NCP) payments and Specific Purpose Payments (SPPs).

State own source revenue represents 51.4% of General Government sector revenue in 2002-03, while payments from the Commonwealth make up the balance. Table 3.1 provides a summary of the composition of General Government sector revenue in 2002-03. 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. 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.

¹ Unless otherwise stated, the term "States" refers to States and Territories.

Payments from the Commonwealth and the institutional arrangements underpinning this major source of funds are detailed in Chapter 4 of this Budget Paper.

Revenues within this chapter are presented on a Government Finance Statistics (GFS) basis for the consolidated General Government sector. This involves the addition of all the entities that comprise the General Government sector and the elimination of intra-entity transactions to reflect the financial position of the General Government sector as a single economic unit. Examples of eliminated transactions include dividends, tax equivalents, payroll tax and user charges paid by entities within the General Government sector.

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

Table 3.1 Total General Government Revenue (GFS)				
	Actual 2000-01 \$ million	Est. Actual 2001-02 \$ million	Budget 2002-03 \$ million	Change Budget over Est. Actual %
Taxes, Levies, Fees and Fines	4,785.8	5,230.7	5,379.4	2.8
Commonwealth Payments	8,908.7	9,719.0	9,812.8	1.0
Revenue from Financial Assets	2,078.8	1,668.8	2,297.2	37.7
User Charges	1,341.3	1,378.9	1,361.4	(1.3)
Royalties	631.0	766.7	879.8	14.8
Grants and Contributions	362.0	428.0	320.8	(25.0)
Other Revenue	150.4	150.1	129.4	(13.8)
General Government Revenue	18,258.0	19,342.2	20,180.8	4.3
Note: 1. Numbers may not add due to rounding.				

OWN SOURCE REVENUE

This section outlines estimates of revenue raised or earned by the State. Own source revenue in 2002-03 is expected to total \$10.368 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 2002-03, the Government will ensure that Queensland continues to enjoy an economic environment that is conducive to both business and employment. Queensland's 2002-03 per capita taxation collections (GFS basis excluding levies, fees and fines) are estimated at \$1,321 compared with an estimated \$1,757 for the average of the other States.

Table 3.2
Taxes, Levies, Fees and Fines Revenue 2002-03

	Actual 2000-01 \$ million	Est. Actual 2001-02 \$ million	Budget 2002-03 \$ million	Change Budget over Est. Actual %
Taxes				
Payroll Tax	1,170.0	1,212.7	1,287.8	6.2
Stamp Duties				
• <i>Conveyancing</i>	699.5	1,015.0	905.0	(10.8)
• <i>Motor Vehicle Transfers</i>	167.3	180.0	190.0	5.6
• <i>Insurance</i> ²	205.6	238.5	255.0	6.9
• <i>Mortgages, Bonds etc.</i>	102.6	142.0	131.0	(7.7)
• <i>Other Stamp Duties</i> ³	119.1	109.6	102.9	(6.1)
Total Stamp Duties	1,294.0	1,685.1	1,583.9	(6.0)
Gambling Taxes and Levies ⁴				
• <i>Gaming Machine Tax and Levies</i> ⁵	279.4	320.3	349.7	9.2
• <i>Lotteries Taxes</i>	157.8	157.8	161.0	2.0
• <i>Wagering Taxes</i>	26.0	27.5	28.9	5.0
• <i>Casino Taxes and Levies</i>	53.4	54.4	55.7	2.5
• <i>Keno Tax</i>	5.1	6.4	6.7	5.0
Total Gambling Taxes and Levies	521.7	566.4	602.0	6.3
Land Tax	229.6	228.2	277.9	21.8
Debits Tax	207.2	200.0	190.0	(5.0)
Total Taxes and Levies	3,422.6	3,892.4	3,941.5	1.3
Regulatory Fees				
Motor Vehicle Registration	558.3	602.0	629.1	4.5
Fire Levy	184.7	185.8	192.9	3.8
Transport and Traffic Fees	124.0	130.5	147.6	13.2
Other Fees and Levies	297.6	302.6	347.7	14.9
Total Regulatory Fees	1,164.6	1,220.9	1,317.3	7.9
Fines and Forfeitures ⁶	198.6	117.4	120.7	2.8
Total Taxes, Levies, Fees and Fines	4,785.8	5,230.7	5,379.4	2.8

Notes:

1. Numbers may not add due to rounding.
2. Includes workers compensation premiums.
3. Includes stamp duty on leases, rental arrangements, credit business and brokerage of marketable securities. Duty on brokerage of listed securities was abolished from 1 July 2001.
4. Includes community benefit levies.
5. Includes the Major Facilities Levy from 1 July 2001.
6. The high level of fines and forfeitures for 2000-01 was largely due to an increase in receivables attributable to the withdrawal of warrants which existed before the introduction of the State Penalties Enforcement Registry (SPER) amnesty period and also due to no warrants being issued during the amnesty period of 27 November to 30 June 2001.

Payroll Tax

Payroll tax collections are estimated to increase by 6.2% in 2002-03, reflecting growth in employment and wages.

As announced in the 2001-02 Budget, the payroll tax rate will reduce to 4.75% from 1 July 2002 (down from 4.8%), in conjunction with the removal of payroll tax concessions on termination payments and grossed-up fringe benefits. This is consistent with similar arrangements in the other States. The inclusion of the grossed-up value of fringe benefits in the payroll tax base will remove the distortion in the current arrangements that unfairly favours remuneration in the form of fringe benefits and will provide a greater degree of consistency with the treatment of such payments under Commonwealth tax law.

Stamp Duty

Stamp duty is levied on a range of financial and property transactions. Overall, total revenue from stamp duties is forecast to decrease by 6.0% in 2002-03. Revenue from stamp duty on property conveyancing transactions is estimated to fall by 10.8% in 2002-03, due to an anticipated moderation in housing and non-residential property transactions from very high levels of activity in 2001-02. Stamp duty on mortgages is expected to decline by 7.7% in 2002-03, also reflecting the slowing of the property sector from 2001-02 growth levels.

Motor vehicle transfers and insurance stamp duties are expected to achieve positive growth in 2002-03 in line with projections for activity within these sectors. Receipts from other stamp duties are estimated to decline by 6.1%, reflecting higher revenue in 2001-02 due to the inclusion of a one-off receipt of lease duty from the lease of the Dalrymple Bay Terminal.

In response to community concerns over public liability insurance for not-for-profit organisations, the Government is implementing a group insurance arrangement for the sector which is expected to commence on 1 September 2002. The arrangement will offer a number of advantages, including premium savings and a coordinated risk management approach.

As a further measure, the Government is urgently considering how stamp duty relief on public liability insurance policies can be provided to non-profit community organisations. Full details will be released following consultation with the insurance industry and relevant organisations on the most effective way to provide this relief.

Gambling Taxes and Levies

A range of gambling activities are subject to State taxes and levies. Total gambling tax and levy collections are estimated to increase by 6.3% in 2002-03.

The Major Facilities Levy applies 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 \$15.1 million in 2002-03, contributing to the estimated 9.2% growth in gaming machine tax and levy collections. Moderate growth is forecast for other gambling taxes.

Land Tax

Land tax is estimated to grow by 21.8% in 2002-03 due to increases in land valuations across Queensland and changes to land tax arrangements for companies, trustees and absentees.

From 1 July 2002 the 15% general land tax rebate for companies, trustees and absentees will be abolished. To assist small business, the land tax exemption threshold will be increased from \$100,000 to \$150,000. To assist those taxpayers just exceeding the threshold, the phasing-in rebate will also be adjusted to a maximum of 36%, reducing by 0.5 percentage points for every \$1,000 of taxable value over \$150,000, and cutting out when the taxable value reaches \$215,000.

Under the changes, all company, trustee and absentee landholders with taxable land values between \$100,000 and \$191,000 will either no longer pay tax at all or pay less tax. This equates to 41.5% of existing company, trustee and absentee land taxpayers, including 27% which will be removed from the land tax base.

Individual landholders will not be affected by these changes and will continue to receive the current 15% general land tax rebate.

Debits Tax

Debits tax is levied on debits to accounts with a cheque drawing facility. Debits tax revenue is expected to decline by 5% in 2002-03. This decline reflects an increasing trend towards 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 reduced the incentive for businesses to transact through Queensland domiciled accounts not subject to financial institutions duty.

Motor Vehicle Registration Fees

Motor vehicle registration is influenced primarily by the growth of the vehicle fleet and fee adjustments related to the consumer price index (CPI).

Fire Levy

Fire levy revenue, which is used to fund the Queensland Fire and Rescue Authority, is expected to increase in line with the growth of contributors and CPI.

Transport and Traffic Fees

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

Other Fees

Revenues from other regulatory fees and levies are expected to increase by 14.9% in 2002-03. This is primarily due to the transfer of functions from ports (external to the General Government sector) to Maritime Safety Queensland, a body that will exist within the Department of Transport.

Fines and Forfeitures

The major fines included in this category are traffic and court fines. There is a forecast increase of 2.8% in collections of fines and forfeitures in 2002-03.

Revenue from Financial Assets

Table 3.3 Revenue from Financial Assets				
	Actual 2000-01 \$ million	Est. Actual 2001-02 \$ million	Budget 2002-03 \$ million	Change Budget over Est. Actual %
Investment Earnings	852.4	166.9	1,116.2	568.8
Dividends	820.4	1,071.8	803.3	(25.1)
Tax Equivalents	340.8	328.3	281.4	(14.3)
Guarantee Fees	52.6	79.3	77.0	(2.9)
Other Revenue from Financial Assets	12.6	22.5	19.3	(14.1)
Total Revenue from Financial Assets	2,078.8	1,668.8	2,297.2	37.7
Note: 1. Numbers may not add due to rounding.				

Investment Earnings

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

Queensland Investment Corporation (QIC) manages the State's long-term investments, primarily employee entitlement provisions. The State's investment portfolio includes a diversified holding of equities, property and fixed interest.

The poor performance of domestic and international equity markets adversely impacted investment earnings in 2001-02. This return is the lowest reported since QIC was incorporated in 1989. Despite this, QIC's investment performance remains above comparative benchmark returns.

Investment earnings for 2002-03 are based on the standard assumption of the long run rate of return for the portfolio.

Dividends

Dividends are received from the State's equity in Government Owned Corporations (GOCs). These include the Queensland Electricity Supply Industry (QESI), QIC, Port Authorities, Queensland Rail and Golden Casket.

Dividends are forecast to decline by 25.1% to \$803 million in 2002-03. This primarily reflects an expected reduction in dividends from QESI as a result of forecast falls in electricity market prices.

Tax Equivalent Payments

Tax equivalent payments comprise payments by GOCs, 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 14.3% in 2002-03. 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 Queensland Treasury Corporation (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 relatively constant in 2002-03.

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 14.1% is mainly attributable to a reduction in the service fee paid to the State by the Queensland Motorway Corporation.

User Charges

Table 3.4 User Charges				
	Actual 2000-01 \$ million	Est. Actual 2001-02 \$ million	Budget 2002-03 \$ million	Change Budget over Est. Actual %
Sales of Goods and Services	960.0	1,023.6	973.2	(4.9)
Rent Revenue	227.8	229.5	234.1	2.0
Sale of Land Inventory	19.9	16.1	46.6	189.2
Hospital Fees	133.6	109.8	107.5	(2.0)
Total User Charges	1,341.3	1,378.9	1,361.4	(1.3)
Note: 1. Numbers may not add due to rounding.				

Sales of Goods and Services

Sales of goods and services represent revenue earned from fee for service activities.

Major items across the General Government sector include:

- 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 Technical and Further Education (TAFE) colleges;
- water charges for rural and industrial users; and
- fees charged by CITEC for information and telecommunications services to the private sector.

Rent Revenue

Rent revenue is earned on the rent or lease of Government buildings, housing, plant and equipment, motor vehicles and car parks. Major items under this category include public housing rentals and rents charged for Government buildings.

Sale of Land Inventory

Sale of land inventory comprises land sales undertaken by agencies, where the buying and selling of land is a core business activity of the agency, such as the Department of State Development's Property Services Group. As such, it is distinct from property disposals undertaken by most Government agencies. Sales of land originally planned for 2001-02 have now been deferred to 2002-03.

Hospital Fees

Hospital fees are collected by public hospitals for chargeable bed days. In 2002-03, hospital fee revenue is expected to decrease by 2.0% on 2001-02 collections. This reduction is largely due to a decrease in private patient revenue and third party payments.

Royalties

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

Estimates of mining royalties are based predominantly on forecasts of production compiled by the Department of Natural Resources and Mines. The increase in royalties is partly attributable to the full year operation of the new coal royalty regime. In addition, it is anticipated that coal, base and precious metals and petroleum production will increase in 2002-03.

Table 3.5 Royalties				
	Actual 2000-01 \$ million	Est. Actual 2001-02 \$ million	Budget 2002-03 \$ million	Change Budget over Est. Actual %
Royalties	631.0	766.7	879.8	14.8

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 Queensland Government Departments, statutory authorities, trust funds and Commercialised Business Units where that money is used to meet Government policy objectives, for example, Community Service Obligation payments.

Table 3.6 Grants and Contributions				
	Actual 2000-01 \$ million	Est. Actual 2001-02 \$ million	Budget 2002-03 \$ million	Change Budget over Est. Actual %
Grants and Contributions	362.0	428.0	320.8	(25.0)

Grants and contributions revenue is expected to decrease by 25.0% in 2002-03. Revenues will vary from year to year based on the number and size of research projects, assets transferred between the Government and the private sector, and contributed assets and services.

Other Revenue

Table 3.7 Other Revenue				
	Actual 2000-01 \$ million	Est. Actual 2001-02 \$ million	Budget 2002-03 \$ million	Change Budget over Est. Actual %
Other Revenue	150.4	150.1	129.4	(13.8)

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 decrease by 13.8% in 2002-03 reflecting sundry variations across departments.

COMMONWEALTH PAYMENTS

Commonwealth payments to Queensland in 2002-03 are expected to total \$9.813 billion, an increase of \$93.8 million or 1.0% over payments in 2001-02. Commonwealth payments received by Queensland in 2002-03 comprise:

- General Purpose Payments which include GST revenue grants, BBA and NCP payments. General Purpose Payments are “untied” and are used for both recurrent and capital purposes; and
- SPPs, for example, for health, education and transport are used to meet Commonwealth and shared policy objectives.

Table 3.8 Commonwealth Payments				
	Actual 2000-01 \$ million	Est. Actual 2001-02 \$ million	Budget 2002-03 \$ million	Change Budget over Est. Actual %
General Purpose Payments	5,272.0	5,703.0	5,850.7	2.6
Specific Purpose Payments	3,636.7	4,016.0	3,962.1	(1.3)
Total Commonwealth Payments	8,908.7	9,719.0	9,812.8	1.0
Note: 1. Numbers may not add due to rounding.				

General Purpose Payments are forecast to increase by 2.6% in 2002-03. In contrast, SPPs are expected to decrease by 1.3%. In total, Commonwealth payments are expected to increase by 1.0% in nominal terms.

The estimates are generally consistent with estimates provided in the Commonwealth Budget. However, small differences within SPPs are attributable to parameter changes. For more detailed information refer to Chapter 4.

General Purpose Payments

Table 3.9 provides the components of Queensland's General Purpose Payments.

Table 3.9 General Purpose Payments				
	Actual 2000-01 \$ million	Est. Actual 2001-02 \$ million	Budget 2002-03 \$ million	Change Budget over Est. Actual %
Revenue Replacement Payments ²	77.9	-	-	
GST Revenue Grants	4,658.2	5,076.7	5,643.6	11.2
BBA	462.9	478.4	67.5	(85.9)
NCP Payments ³	73.0	147.9	139.6	(5.6)
Total General Purpose Payments	5,272.0	5,703.0	5,850.7	2.6
Notes: 1. Numbers may not add due to rounding. 2. Discontinued since the implementation of national tax reform. 3. The 2001-02 payment includes the reinstatement of \$12.9 million suspended from 2000-01 payments. Source: Commonwealth Budget Paper No. 3, 2002-03.				

Specific Purpose Payments

SPPs for Queensland in 2002-03 are estimated at \$3.962 billion, a decrease of 1.3% from 2001-02.

Commonwealth SPPs "to" the State fund areas of State responsibility. Payments "through" the State are passed on to local government, other bodies and individuals. The main payments in this latter category are for non-government schools and local government grants. Table 3.10 provides the distribution of SPPs by Queensland Government department.

Table 3.10 Specific Purpose Payments				
Department	Actual 2000-01 \$ million	Est. Actual 2001-02 \$ million	Budget 2002-03 \$ million	Change Budget over Est. Actual %
Health	1,448.3	1,537.6	1,625.3	5.7
Education	972.5	1,088.1	1,148.3	5.5
Local Government and Planning	246.6	259.0	272.3	5.1
Employment and Training	163.3	184.6	185.2	0.3
Housing	187.9	172.6	175.1	1.4
Treasury	112.1	172.4	63.5	(63.2)
Disability Services Queensland	84.0	96.5	99.2	2.8
Main Roads	253.8	265.9	222.8	(16.2)
Families	26.9	27.3	27.1	(0.7)
Other	141.4	212.0	143.2	(32.5)
Total	3,636.7	4,016.0	3,962.1	(1.3)
Note: 1. Numbers may not add due to rounding.				

Health

Queensland receives funding for public hospital and other health services from the Commonwealth under the Australian Health Care Agreement (AHCA). The AHCA provides the majority of Queensland Health's revenue from the Commonwealth, and is adjusted each year for population growth and increases in costs and utilisation of hospitals. The base funding component of the AHCA is expected to increase by 6.6% to \$1.261 billion in 2002-03. In addition to the base grant, Queensland Health will receive \$70.7 million in AHCA SPPs in 2002-03 to cover mental health, palliative care and quality enhancement programs.

In 2002-03, Queensland Health will also receive an estimated \$247.6 million in recurrent and capital 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 \$46.0 million for nursing home benefits.

Education

Commonwealth SPPs to the Department of Education comprise recurrent education grants to State and non-State schools and organisations. The 5.5% increase in 2002-03 reflects enrolment growth, and new non-State school grant methodologies used by the Commonwealth. Capital SPPs, received for capital expenditure on State schools and capital grants to non-State schools will remain broadly in line with the 2001-02 estimated actual receipts.

Local Government and Planning

Commonwealth recurrent SPPs to the Department of Local Government and Planning are grants to Queensland Local Government Authorities (formerly grants to Local Authorities Trust Fund). The increase of 5.1% in 2002-03 broadly represents real per capita indexation.

Employment and Training

In 2002-03, the Department of Employment and Training will receive \$185.2 million in SPP funding from the Commonwealth for a range of vocational education and training programs. This represents an increase of 0.3% on 2001-02.

Housing

The Department of Housing is expected to receive \$175.1 million in capital payments for 2002-03, an increase of 1.4% over estimated payments in 2001-02.

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 (FHOG) for first homebuyers who contract to build or buy a newly built dwelling was also funded by a SPP from the Commonwealth in 2002-03. The decrease in total payments to Treasury in 2002-03 is primarily due to the cessation of the extended FHOG scheme on 30 June 2002.

Disability Services Queensland

Commonwealth funding for Disability Services Queensland is estimated to increase by 2.8% in 2002-03. Negotiations are continuing between the States and the Commonwealth regarding funding arrangements to apply for disability services from 2002-03, following expiry of the existing Commonwealth State Disability Agreement at the end of 2001-02.

Main Roads

Funding is received from the Commonwealth for infrastructure and maintenance works on the National Highway System, Roads of National Importance and for Black Spot Road Safety projects. Funding is forecast to decline by 16.2% in 2002-03 primarily due to a substantial reduction in Commonwealth funding for National Highway capital works.

Families

The Department of Families is expected to receive SPPs of \$27.1 million in 2002-03 representing a decrease of 0.7% from estimated payments in 2001-02.

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.

The *Duties Act* and *Taxation Administration Act* commenced on March 1 2002. 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, were designed to reduce compliance costs for business and costs of administration for the State.

Measuring Queensland's Tax Competitiveness

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

- taxation revenue on a per capita basis;
- taxation relativities based on Commonwealth Grants Commission methodology; 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*, 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, were abolished from 1 July 2001. Financial institutions duty was not levied in Queensland. The abolition of this tax in other States has had an impact on Queensland's relative tax competitiveness.

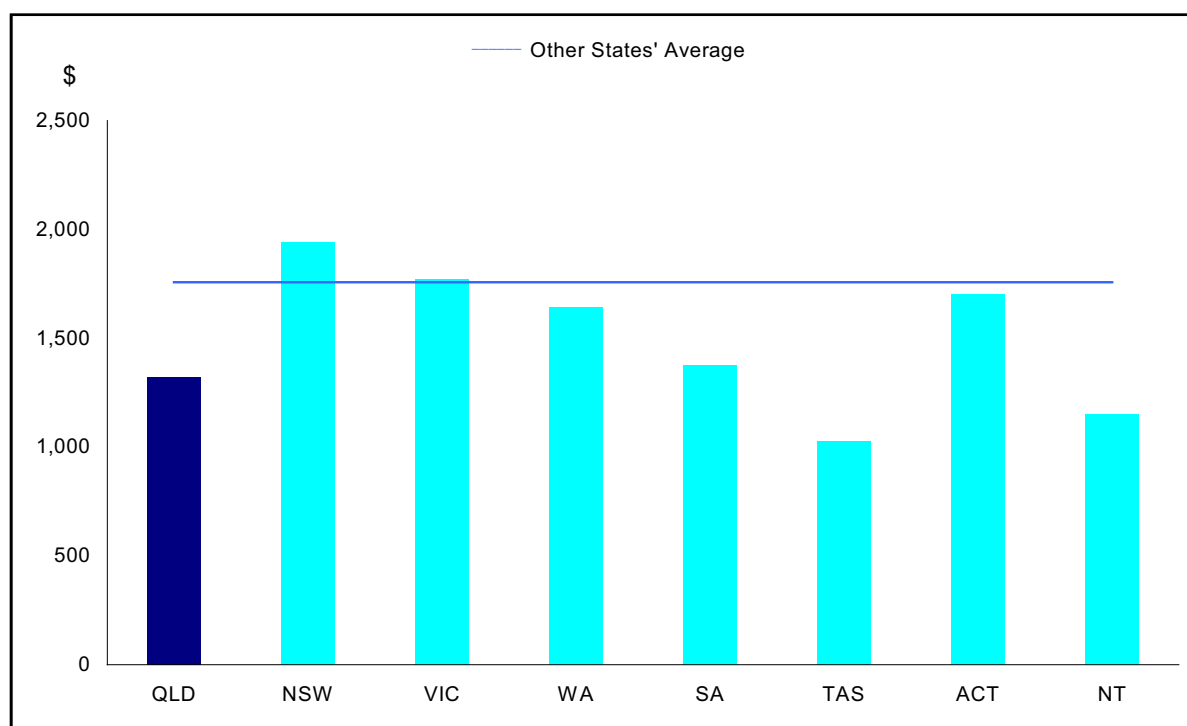
Globalisation and the liberalisation of international markets for capital and, to some degree, labour are increasing competition for investment and jobs. This pressure has forced businesses to look for new ways to maintain their competitiveness.

Taxation can impact on business decisions regarding investment and employment. 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 for 2002-03. Per capita collections of State taxation, on a GFS basis, in Queensland in 2002-03 are estimated at \$1,321, compared with an estimated \$1,757 for the average of the other States. The tax burden of the other States is forecast to be 33.0% higher, on average, than Queensland's per capita taxation for 2002-03.

Chart 3.1
Taxation per Capita, 2002-03



Note:

1. Estimates are on a GFS basis.

Sources: State Budget Papers and Mid-year review papers for SA.

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

Commonwealth Grants Commission's Revenue Raising Effort Ratios

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

The Commonwealth Grants Commission's published revenue raising effort ratios in its 2002 Update reflect States' pre tax reform policies. Revenue raising effort ratios for States' tax revenue for 2000-01 are presented in Table 3.13.

Table 3.13 Taxation Effort by State - 2000-01							
NSW %	VIC %	QLD %	WA %	SA %	TAS %	ACT %	NT %
105.6	104.0	79.3	99.3	107.7	96.1	102.7	100.2
Note: 1. Given that all States will require BBA in 2002-03, Financial Assistance Grant relativities are used to reflect States' pre-tax reform revenue capacities. Source: Commonwealth Grants Commission Report on State Revenue Sharing Relativities 2002 Update.							

Queensland's taxation effort ratio of 79% indicates that Queensland's taxation effort was considerably less than the average of other States. This confirms Queensland's taxation policies are competitive when compared with those of other States.

Taxation Revenue Relative to Gross State Product

A third way of comparing relative tax burdens is taxation revenue measured as a proportion of 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 Australian Bureau of Statistics (ABS) calculation of tax revenue data since 1998-99. Accordingly, a comparable time series is no longer available. Table 3.14 compares taxation revenue as a percentage of GSP across all States for 2000-01 – the latest published ABS data. The data confirm Queensland's competitive tax status against the other States.

Table 3.14 Taxation Revenue as a Percentage of GSP - 2000-01								
NSW %	VIC %	QLD %	WA %	SA %	TAS %	ACT %	NT %	Average %
5.6	5.0	3.9	3.9	5.1	4.7	4.8	2.6	4.9
Source: ABS 5506.0 and ABS 5220.0.								

TAX EXPENDITURE STATEMENT

Overview

Governments employ a range of policy tools to achieve social and economic objectives. These include use of direct budgetary outlays, regulatory mechanisms and taxation. As required by the *Charter of Social and Fiscal Responsibility*, 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 TES 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.

Taxation expenditures are reductions in tax revenue that result from the use of the taxation system as a policy tool to deliver Government policy objectives. Taxation expenditures are provided through a range of concessions, including:

- tax exemptions;
- the application of reduced tax rates to certain groups or sectors of the community;
- tax rebates;
- tax deductions; 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 2001-02 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.

Table 3.15
Tax Expenditure Summary

	2000-01 ² \$ million	2001-02 \$ million
Payroll Tax		
Exemption Threshold	689.2	699.7
Deduction Scheme ³	70.2	72.7
Offshore Banking Units and Regional Headquarters Concession	0.8	0.8
Section 10 Exemptions ⁴		
<i>Local Government</i>	59.3	60.2
<i>Education</i>	54.0	56.0
<i>Hospitals</i>	86.8	88.1
Total Payroll Tax	962.1	978.8
Land Tax		
Liability Thresholds ⁵	138.9	137.7
Graduated Land Tax Scale	92.4	92.8
Primary Production Deduction	46.7	45.0
Section 13 Exemptions Not Included Elsewhere ⁴	23.7	19.3
General Land Tax Rebate	42.3	41.7
Additional Land Tax Rebate	2.1	2.0
Land Developers' Concession	7.4	6.3
Total Land Tax	353.4	344.8
Stamp Duties		
Stamp Duty on Residential Conveyances		
<i>Principal Place of Residence</i>	153.1	226.2
<i>First Home Buyers Rebate</i>	40.0	59.1
Stamp Duty on General Insurance		
<i>Non-life Insurance</i>	125.1	148.4
<i>Workcover</i>	21.9	18.6
<i>Health Insurance</i>	107.8	109.7
Total Stamp Duties	447.9	562.0
Taxes on Gambling		
Gaming Machine Taxes	85.8	90.6
Casino Taxes	11.2	11.3
Total Gambling Tax	97.0	101.8

Notes:

1. Numbers may not add due to rounding.
2. 2000-01 estimates may have been revised since last year's Budget.
3. Deduction of \$0.85 million, which reduces by \$1 for every \$3, is applicable to employers with an annual payroll between \$0.85 million and \$3.4 million.
4. Applicable but not limited to religious bodies, public benevolent institutions and other exempt charitable institutions.
5. Land tax is payable only on the value of taxable land above a threshold which depends on the ownership structure.

APPENDIX A

TAX EXPENDITURE STATEMENT

Methodology

Revenue Foregone Approach

The method used almost exclusively by governments to quantify the value of their tax expenditures is the revenue foregone approach. This method estimates the revenue foregone through use of the concession by applying the benchmark rate of taxation to the volume of activities or assets exempted by the concession. One of the deficiencies of the revenue foregone approach is that the effect on taxpayer behaviour resulting from the removal of the particular tax expenditure is not factored into the estimate. Consequently, the aggregation of costings for individual tax expenditure items presented in the TES will not necessarily provide an accurate estimate of the total level of assistance that is provided through tax expenditures.

Measuring tax expenditures requires the identification of:

- a benchmark tax base;
- 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 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 2001-02.

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 (\$699.7 million)

Sole employers who employ in Queensland (not those who are part of a group for payroll tax purposes) with an annual payroll of \$0.85 million or less are exempt from payroll tax. On the basis of average weekly earnings, this threshold corresponds to approximately 24 full time equivalent employees. This concession is designed to assist small business.

Deduction Scheme (\$72.7 million)

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

Section 10 Exemptions (\$204.3 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) (\$0.8 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 land owned by individuals with a value for that year below the threshold. The benchmark tax rate for land tax is assumed to be the top rate of land tax applicable in Queensland in each financial year.

Liability Thresholds (\$137.7 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 (\$92.8 million)

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

Primary Production Deduction (\$45.0 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) (\$19.3 million)

A number of land tax exemptions are granted under Section 13 of the *Land Tax Act 1915* to eligible organisations. These include, but are not limited to, public benevolent institutions, religious institutions and other exempt charitable institutions, retirement villages, trade unions and show grounds.

General Land Tax Rebate (\$41.7 million)

A general rebate on land tax of 15% was provided to all taxpayers in 2001-02. Initially introduced in 1997, it was increased from 5% effective from 1 July 1999.

Additional Land Tax Rebate (\$2.0 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 (\$6.3 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 (\$226.2 million)

A concessionary 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 (\$59.1 million)

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

Other Stamp Duties

Stamp Duty Concessions on General Insurance (\$276.7 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, concessionary 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 are not available.

Gambling Taxes

Gaming Machine Tax Concessions for Licensed Clubs (\$90.6 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 2001-02 when the Major Facilities Levy is excluded).

A concessionary 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 (\$11.3 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 concessionary 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.

4. FEDERAL FINANCIAL RELATIONS

KEY POINTS

- Commonwealth payments to Queensland in 2002-03 are expected to total \$9.782 billion. This amounts to 18.4% of the total Commonwealth funding to the States¹ or \$251 million less than a per capita share.
- In 2002-03 there will be no net benefit to Queensland from national tax reform. Budget Balancing Assistance will be required for 2002-03 but is expected to cease in 2003-04.
- Queensland's share of general revenue for 2002-03 is expected to be \$5.851 billion, an increase of 2.6% in nominal terms.
- Specific Purpose Payments "to" Queensland² are expected to be \$2.932 billion, an increase of 1.6% in nominal terms.
- At the 2002 Ministerial Council, the States signed the Goods and Services Tax Administration Performance Agreement with the Australian Taxation Office.
- Queensland continues to support the principle of Horizontal Fiscal Equalisation. In 2001-02, Queensland lodged its Main Submission to the 2004 Review of General Revenue Grant Relativities with the Commonwealth Grants Commission and will continue to work with the Commission during 2002-03 to ensure an appropriate allocation of GST revenue grants.
- Queensland is currently negotiating several major Specific Purpose Payment agreements worth in excess of \$2 billion.

INTRODUCTION

Federal financial relations are characterised by a mismatch of revenue and expenditure responsibilities known as vertical fiscal imbalance. States have insufficient revenue raising powers to meet their expenditure responsibilities. As a result, States must rely upon grants from the Commonwealth to supplement their own source revenue.

This chapter outlines the institutional arrangements that constitute the federal fiscal framework, details of Commonwealth funding³ to Queensland for 2002-03 and prevailing issues in Commonwealth-State financial relations.

¹ Unless otherwise stated, the term "States" refers to States and Territories.

² SPPs "to" States fund areas of State responsibility. SPPs "through" States are passed on to local government and other bodies.

³ Data in this Chapter relate to Commonwealth Payments as reported in Commonwealth Budget Paper No. 3, *Federal Financial Relations 2002-03* unless otherwise specified.

INSTITUTIONAL ARRANGEMENTS AND THE 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 third Ministerial Council meeting was held in Canberra on 22 March 2002. The main purpose of the meeting was for Commonwealth and State Treasurers to consider payments to the States in 2002-03, in addition to a range of Goods and Services Tax (GST) administration issues.

At the meeting the Commonwealth Treasurer announced his intention to reduce States' funding outcome for 2002-03 by \$134 million (net) to reflect the Commonwealth Government's decision to abolish indexation of the excise on petroleum. Queensland's share will be \$25 million. The effect of this decision is States are forced to bear the cost of the Commonwealth's policy decision from 2002-03.

The Ministerial Council:

- noted the Commonwealth's Statement of Estimated Payments specifying current estimates of revenues each State will receive in 2002-03;
- endorsed the Commonwealth Grants Commission's (CGC) 2002 Update recommendations for the distribution of GST revenue grants to the States for 2002-03;
- agreed to introduce the National Excise Concession Scheme for Low Alcohol Beer. The scheme replaces a range of State beer subsidy schemes with a nationally uniform concession in the rate of excise on low alcohol beer. (This agreement will result in a reduction of Queensland low alcohol beer prices of up to 7.5%.); and
- agreed to not proceed with any national action on applying State taxes to the Commonwealth or Local Governments.

At the meeting, the States signed the GST Administration Performance Agreement with the Australian Taxation Office (ATO). Under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA), the States are required to reimburse the Commonwealth the costs of GST administration (estimated at \$558.6 million for 2002-03). The ATO is required to report regularly to the States on several key performance indicators including GST revenue collections, compliance cost per GST registrant and the cost of collecting GST revenue.

The Performance Agreement also requires the Commonwealth, through the ATO, to report to the States certain annual and monthly data on gross and net GST collections. Given States' reliance on Commonwealth GST revenue, all parties have agreed to improve data to meet States' budget needs.

Australian Loan Council

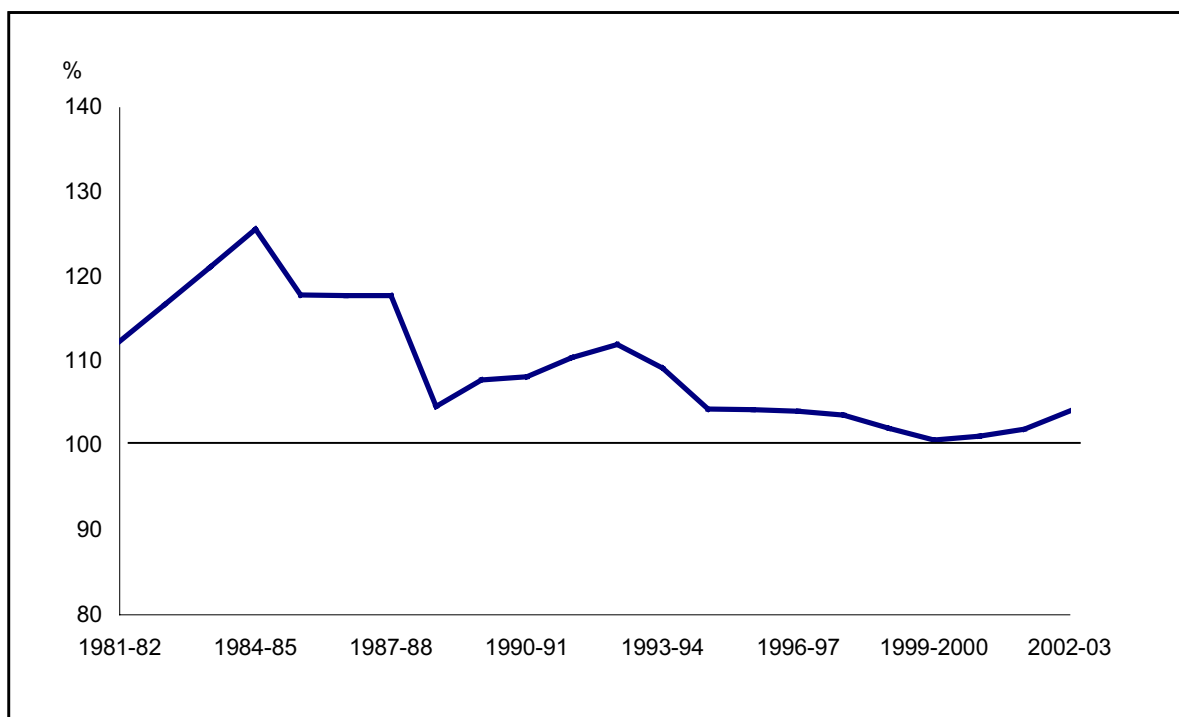
The 141st Australian Loan Council meeting was held immediately after the March 2002 Ministerial Council meeting. For 2002-03, the Loan Council endorsed Loan Council Allocations (LCAs) of \$539 million (a projected public sector deficit). This amount comprises an endorsed LCA of negative \$215 million for the Commonwealth and net endorsed LCAs of \$754 million for the States. Queensland's projected LCA was estimated at \$388 million. This figure will be revised upwards in light of information contained in the 2002-03 Budget.

Commonwealth Grants Commission

In its 2002 Update, the CGC assessed that Queensland requires an additional \$99.9 million in GST revenue grants, in underlying terms, for 2002-03. This additional revenue accrued because Queensland had a relatively lower capacity to raise revenue from virtually all revenue categories with the exception of mining revenue. The largest contribution arose from a reduced capacity to raise stamp duty on conveyances relative to other States.

Despite the increase in underlying terms, Queensland's relative per capita share of the former Financial Assistance Grants, and replacement GST revenue grants, has declined over the medium-term. Chart 4.1 highlights the overall decline in Queensland's share of untied Commonwealth funding compared with its population share since 1981-82.

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



Source: Commonwealth Grants Commission

COMMONWEALTH FUNDING TO THE STATES

Commonwealth payments to the States in 2002-03 are expected to total \$53.194 billion, an increase of \$717 million or 1.4% more than 2001-02 levels. Table 4.1 compares estimated Commonwealth payments to the States for the years 2001-02 and 2002-03.

Table 4.1 Estimated Commonwealth Payments to the States, 2001-02 and 2002-03					
	2001-02 \$ million	2002-03 \$ million	Change Nominal Terms %	Change Real ² Terms %	Change Real ² Per Capita %
General Revenue Assistance					
GST Revenues ³	26,851.9	29,380.0	9.4	6.5	5.3
Budget Balancing Assistance ³	3,856.8	1,741.2	(54.9)	(56.1)	(56.5)
Special Revenue Assistance	14.2	14.7	3.5	0.8	(0.3)
NCP Payments ⁴	733.3	739.8	0.9	(1.8)	(2.9)
Total General Revenue Assistance	31,456.2	31,875.7	1.3	(1.4)	(2.4)
Specific Purpose Payments					
SPPs "to" the States	15,578.9	15,827.2	1.6	(1.1)	(2.2)
SPPs "through" the States	5,441.7	5,491.3	0.9	(1.8)	(2.9)
Total Specific Purpose Payments⁵	21,020.6	21,318.5	1.4	(1.3)	(2.4)
Total Commonwealth Payments	52,476.8	53,194.2	1.4	(1.3)	(2.4)
Notes: 1. Numbers may not add due to rounding. 2. Deflated by 2002-03 year-average national forecast inflation of 2.75% and Australian population growth of 1.1%. 3. GST revenue for 2001-02 has been adjusted downwards to account for the final 2000-01 outcome. To correspond, Budget Balancing Assistance for 2001-02 was adjusted upwards by the same amount. 4. National Competition Payments. For 2001-02, Queensland and Northern Territory entitlements include the reimbursement of suspensions imposed in 2000-01. 5. Data are generally consistent with State GFS estimates. Differences are attributable to parameter changes. Source: Commonwealth Budget Paper No. 3, 2002-03.					

General Revenue Assistance

General revenue is expected to increase from \$31.456 billion in 2001-02 to \$31.876 billion in 2002-03, an increase of 1.3% in nominal terms. In real per capita terms, General Revenue Assistance is expected to decrease by 2.4%.

GST Revenue

GST collections for 2002-03 are expected to be \$29.38 billion, an increase of \$2.528 billion compared to 2001-02. The majority of the increase comes from Australia's growing economy. The remainder is due to a downward adjustment of \$578.1 million to the 2001-02 GST pool to account for the final 2000-01 outcome.

Box 4.1

Horizontal Fiscal Equalisation

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

Some States argue that this definition is inappropriate in today's context. However, the Commonwealth Government in its 2002-03 Budget⁴ noted:

"HFE gives practical effect to Australians' concerns about equity and substance to the Federation by giving each State a more equal capacity to provide their (sic) citizens with access to essential services (such as health and education) at a standard that is not lower than other States."

HFE provides the capacity for all communities to enjoy a similar level of State Government services regardless of where they are located. This is a key feature of the Australian Federation, made necessary because the Commonwealth generally imposes taxes at uniform rates across Australia. If the proportion of these taxes distributed to the States as grants were distributed on any basis other than HFE, some taxpayers would be forced to accept either a lower standard of State services or a higher level of State taxation than other taxpayers in similar circumstances.

Budget Balancing Assistance

Under the IGA, the Commonwealth guaranteed that no State would be worse off as a result of national tax reform. Any shortfall between a State's guaranteed minimum amount and its share of GST revenue is met by Budget Balancing Assistance (BBA) funded by the Commonwealth.

Total BBA for 2002-03 is expected to be \$1.741 billion, a reduction of 54.9% since 2001-02. This is the result of both a downward adjustment of the 2001-02 pool of GST of \$578.1 million, which required a corresponding upward adjustment of BBA, and underlying growth of the GST pool from 2001-02 to 2002-03. This amount includes the netting off of States' contributions of \$62.9 million to the National Excise Concession Scheme for Low Alcohol Beer.

National Competition Policy Payments

The distribution of National Competition Policy (NCP) payments is population based and payments depend on the States making satisfactory progress with the implementation of the specified reforms. NCP payments are expected to be \$739.8 million in 2002-03.

Specific Purpose Payments

Total Specific Purpose Payments (SPPs) in 2002-03 are expected to be \$21.319 billion. This represents an increase of \$298 million or 1.4%, in nominal terms over 2001-02. However, in real per capita terms, SPPs are expected to decrease by 2.4%.

⁴ Commonwealth Budget Paper No 3, *Federal Financial Relations 2002-03*, page 18.

COMMONWEALTH FUNDING TO QUEENSLAND

Table 4.2 details the amount and growth of Commonwealth payments to Queensland for the years 2001-02 and 2002-03. Table 4.3 details Queensland's share of estimated Commonwealth payments in 2002-03 and the difference from a population share.

Table 4.2 Estimated Commonwealth Payments to Queensland, 2001-02 and 2002-03					
	2001-02 \$ million	2002-03 \$ million	Change Nominal Terms %	Change Real ² Terms %	Change Real ² Per Capita %
General Revenue Assistance					
GST Revenues ³	5,076.7	5,643.6	11.2	8.2	6.5
Budget Balancing Assistance ³	478.4	67.5	(85.9)	(86.3)	(86.5)
NCP Payments ⁴	147.9	139.6	(5.6)	(8.1)	(9.6)
Total General Revenue Assistance	5,703.0	5,850.7	2.6	(0.2)	(1.7)
Specific Purpose Payments					
SPPs "to" the State	2,886.3	2,932.4	1.6	(1.1)	(2.7)
SPPs "through" the State	1,007.9	999.2	(0.9)	(3.5)	(5.0)
Total Specific Purpose Payments	3,894.2	3,931.6	1.0	(1.7)	(3.3)
Total Commonwealth Payments	9,597.2	9,782.3	1.9	(0.8)	(2.4)
Notes:					
1. Numbers may not add due to rounding.					
2. Deflated by 2002-03 year average Queensland forecast inflation of 2.75% and the Commonwealth's estimate of Queensland population growth of 1.61%.					
3. GST revenue for 2001-02 has been adjusted downwards to account for the final 2000-01 outcome. To correspond, BBA for 2001-02 was adjusted upwards by the same amount.					
4. The 2001-02 payment includes the reinstatement of \$12.9 million suspended from the 2000-01 NCP payments.					
Source: Commonwealth Budget Paper No. 3, 2002-03.					

Table 4.3 Estimated Commonwealth Payments to Queensland, 2002-03				
	Queensland \$ million	Australia \$ million	Queensland's Share %	Difference from Population Share \$ million
General Revenue Assistance				
GST Revenues	5,643.6	29,380.0	19.2	102.0
Budget Balancing Assistance	67.5	1,741.2	3.9	(260.9)
Special Revenue Assistance	0.0	14.7	0.0	(2.8)
NCP Payments	139.6	739.8	18.9	0.0
Total General Revenue Payments	5,850.7	31,875.7	18.4	(161.6)
Specific Purpose Payments				
SPPs "to" the State	2,932.4	15,827.2	18.5	(52.9)
SPPs "through" the State	999.2	5,491.3	18.2	(36.6)
Total Specific Purpose Payments	3,931.6	21,318.5	18.4	(89.5)
Total Payments "to" the State ²	8,783.1	47,702.9	18.4	(214.5)
Total Commonwealth Payments	9,782.3	53,194.2	18.4	(251.1)
Notes:				
1. Numbers may not add due to rounding.				
2. General Revenue Payments and SPPs "to" the State.				
Source: Commonwealth Budget Paper No. 3, 2002-03.				

In 2002-03, based on Commonwealth data, Queensland is expected to receive Commonwealth payments of \$9.782 billion which represents an 18.4% share and an increase of 1.9% in nominal terms compared to 2001-02. However, in real per capita terms, Queensland's Commonwealth payments are expected to decrease by 2.4%.

Claims by some States of "subsidising" Queensland are based on a selective use of data. When all Commonwealth payments to the States are considered, Queensland is expected to receive \$251.1 million less than its population share in 2002-03. Of all Commonwealth payment categories, GST revenue is the only category where Queensland will receive greater than a per capita share.

In its determinations of the distribution of GST, the CGC has assessed Queensland as having a higher relative fiscal need compared with the average of all States. The CGC also takes into account Queensland's below average share of SPPs (18.4%). Accordingly, Queensland receives a higher percentage of GST revenue grants (19.2%) compared with the State's population share (18.9%) to ensure Queenslanders are not disadvantaged.

Queensland's share of BBA is \$260.9 million less than its population share. The distribution of BBA reflects each State's fiscal policies before the introduction of national tax reform and benefits those States with high state tax regimes. Queensland's 3.9% share of BBA in 2002-03 reflects its highly competitive tax policies and the extent to which Queensland has been disadvantaged for its fiscal discipline. Queensland's low tax policies, which included no financial institutions duty, have resulted in a lower reliance on BBA. Current Commonwealth projections indicate that BBA to Queensland is expected to cease in 2003-04 as Queensland is expected to be a net beneficiary. However, any future benefits to Queensland are contingent on a number of issues including:

- Future GST collections depend on private final consumption expenditure and GST compliance. Private final consumption expenditure may not rise as expected, in particular when interest rates are increasing. Further, the ATO is required to enforce GST legislation. Insufficient compliance effort can lead to revenue leakage thus reducing the size of the GST revenue pool for distribution.
- The outcome of the CGC's 2002 Update is an underlying gain of \$100 million to Queensland in 2002-03. Variations of a similar magnitude, positive or negative, can occur throughout the Update process.
- The CGC's 2004 Review will affect the distribution of the GST revenue grants from 2004-05. Historically, each Review has resulted in a reduction in Queensland's share of general revenue funding (see Chart 4.1). A continuation of this trend will reduce any future benefits to Queensland.
- The costs of future Commonwealth policy decisions may be passed on to States in a similar manner to the Commonwealth's decision to abolish indexing petroleum excise.

- State revenues may be reduced if more State taxes are abolished through national tax reform. Debits tax may cease to apply from 1 July 2005 as its planned abolition is subject to review by the Ministerial Council. Further, in 2005, the Ministerial Council will review the need for retention of stamp duties on:
 - non-residential property conveyancing;
 - non-quotable marketable securities;
 - leases;
 - mortgages, bonds, debentures and other loan securities;
 - credit arrangements, instalment purchase arrangements and rental arrangements; and
 - cheques, bills of exchange and promissory notes.

In keeping with the Government's commitment to improving employment opportunities for Queenslanders, any future benefits will be primarily used towards the costs of education and training reforms. These include the strategies, Queensland State Education – 2010 Strategy and the Education and Training Reforms for the Future. Both are aimed at raising school retention rates and increasing long-term investment in school information and communication technologies.

Table 4.4 details information on BBA released by the Commonwealth Treasurer following the March 2002 Ministerial Council. The estimates of BBA are dependent on the total annual GST collections and subject to change. Further, the Commonwealth Budget in May 2002 provided revised estimates of BBA and GST for 2001-02 and 2002-03.

Over the period 2000-01 to 2006-07, the Commonwealth will provide an estimated \$10.382 billion in BBA. New South Wales and Victoria will receive an estimated 70% of these funds with forecast payments of \$4.504 billion and \$2.768 billion respectively. In contrast, it is estimated Queensland will receive \$995.1 million or just 9.6% of total BBA.

Table 4.4 Budget Balancing Assistance, 2000-01 to 2006-07									
	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	AUS
	\$ million								
2000-01	1,007.2	670.5	462.9	213.0	267.8	99.1	45.2	52.5	2,818.1
2001-02 ²	1,510.1	930.7	481.9	311.7	331.8	123.5	66.5	87.1	3,843.4
2002-03 ²	851.0	436.3	50.3	93.9	165.0	54.3	22.0	17.4	1,690.4
2003-04	575.1	340.7	0.0	36.7	80.4	9.8	12.4	6.5	1,061.6
2004-05	333.0	188.5	0.0	0.0	16.0	0.0	2.2	0.0	539.8
2005-06	227.2	200.0	0.0	0.0	0.0	0.0	0.0	0.0	427.2
2006-07	0.0	1.7	0.0	0.0	0.0	0.0	0.0	0.0	1.7
Total	4,503.6	2,768.4	995.1	655.3	861.0	286.7	148.3	163.5	10,381.8
Share %	43.4	26.7	9.6	6.3	8.3	2.8	1.4	1.6	100.0
Notes: 1. Numbers may not add due to rounding. 2. BBA for 2001-02 and 2002-03 differ from the more recent data published in the 2002-03 Commonwealth Budget Papers. These data are used to maintain consistency with later years. Source: Ministerial Council for Commonwealth-State Financial Relations, March 2002 – Commonwealth Treasurer's Press Release.									

General Revenue Assistance

GST Revenue Grant

The GST revenue grant to Queensland in 2002-03 is expected to be \$5.644 billion which represents an increase of \$566.9 million since 2001-02. However, \$108.9 million of the increase is attributed to a downward adjustment of the 2001-02 GST pool to account for the final outcome of the 2000-01 GST collections.

Budget Balancing Assistance

In 2002-03, Queensland is expected to receive \$67.5 million or 3.9% of BBA. An offset for Queensland's contribution of \$4.8 million to the National Excise Concession Scheme for Low Alcohol Beer is included in this amount.

National Competition Policy Payments

Queensland's share of NCP payments for 2002-03 is estimated at \$139.6 million. The \$147.9 million for 2001-02 includes the reinstatement of \$12.9 million which was suspended from the 2000-01 payments. The suspended amount included \$4.3 million in relation to water reform issues and \$8.6 million in relation to the Community Service Obligation Framework for public transport in south-east Queensland. As Queensland had met its National Competition Policy obligations, the suspended amounts were reinstated in 2001-02.

Specific Purpose Payments

SPPs for Queensland for 2002-03 are estimated at \$3.932 billion representing an 18.4% share. In nominal terms, the growth of SPPs from the previous year is expected to be 1.0%. However, in real per capita terms, SPPs will decrease by 3.3%. Queensland's share of SPPs "to" the States is estimated to be \$2.932 billion for 2002-03 and its share of payments "through" the States is estimated to be \$999.2 million.

Table 4.5 compares the major SPPs to Queensland for both 2001-02 and 2002-03. Table 4.6 compares the amounts for SPPs within broad Commonwealth policy areas for Queensland and Australia for 2002-03.

Table 4.5 Estimates of Selected Specific Purpose Payments "to" Queensland, 2002-03			
	2001-02 \$ million	2002-03 \$ million	Change %
Health Care Grants	1,244.8	1,332.4	7.0
Government Schools	316.7	333.4	5.3
CSHA Block Assistance ²	155.8	154.1	(1.1)
Roads	280.4	233.1	(16.9)
HACC and SAAP ³	140.9	138.8	(1.5)
Disabilities Services ⁴	96.5	99.2	2.8
Other	651.2	641.4	(1.5)
Total SPPs "to" Queensland	2,886.3	2,932.4	1.6
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. The provision of funding and its final distribution are subject to the signing of a new Commonwealth-State Disability Agreement. <i>Source: Commonwealth Budget Paper No. 3, 2002-03.</i>			

The greater than average increases in Queensland's share of health care grants and Government school funding reflect the State's higher than average age weighted population growth. Capital road funding will decrease by 16.9% reflecting the completion of major roads projects.

Table 4.6
Estimated Specific Purpose Payments, 2002-03

	Queensland \$ million	Australia \$ million	Share %	Relative Share ² %
Education	1,318.5	7,177.4	18.4	97.4
Health	1,466.1	7,916.4	18.5	98.2
Social Security and Welfare	294.8	1,696.8	17.4	92.1
Housing & Community Amenities	204.9	1,038.6	19.7	104.6
Agriculture, Forestry and Fishing	36.5	151.5	24.1	127.7
Transport & Communications	271.6	1,135.9	23.9	126.8
Other ³	339.2	2,201.9	15.4	81.7
Total Specific Purpose Payments	3,931.6	21,318.5	18.4	97.8

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.

Source: Commonwealth Budget Paper No. 3, 2002-03.

Historically, Queensland has received less than its population share of total SPPs. Table 4.7 provides details of Queensland's SPPs over the period 1998-99 to 2002-03.

Table 4.7
Total Specific Purpose Payments to Queensland, 1998-99 to 2002-03

	1998-99 \$ million	1999-2000 \$ million	2000-01 \$ million	Estimated 2001-02 \$ million	Estimated 2002-03 \$ million
SPPs "to" the State	2,241.5	2,395.3	2,686.8	2,886.3	2,932.4
SPPs "through" the State	701.1	767.2	728.9	1,007.9	999.2
Total SPPs to Queensland	2,942.6	3,162.5	3,415.7	3,894.2	3,931.6
Total SPPs to all States	16,651.7	17,691.3	19,256.5	21,020.6	21,318.5
Relative Share (%) ²	95.6	96.3	95.0	98.7	97.8

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.

Source: Commonwealth Budget Paper No. 3, 1999-2000, 2000-01, 2001-02 and 2002-03.

RELATIVE SHARES OF COMMONWEALTH FUNDING

Relative Shares of Funding to the States

Table 4.8 shows the expected level of general revenue assistance and SPPs for each State for 2002-03 with each State's relative share of total payments. Chart 4.2 shows the percentage by which each State's per capita share of total Commonwealth payments in 2002-03 is expected to differ from the average for all States.

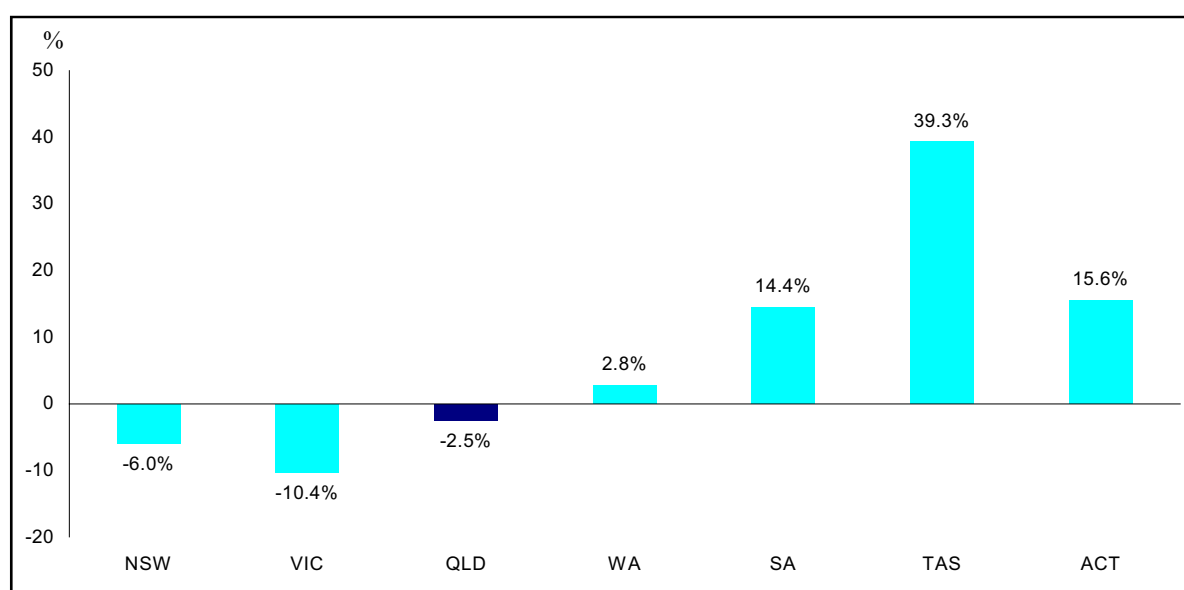
Table 4.8 Relative Shares of Payments to the States, 2002-03				
	General Revenue Assistance \$ million	Specific Purpose Payments \$ million	Total Payments \$ million	Relative Share ² %
New South Wales	9,830.6	6,981.5	16,812.1	94.0
Victoria	6,793.0	5,101.3	11,894.3	89.6
Queensland	5,850.7	3,931.6	9,782.3	97.5
Western Australia ³	2,997.7	2,401.3	5,399.0	102.8
South Australia	2,966.9	1,701.5	4,668.4	114.4
Tasmania	1,274.5	498.4	1,772.9	139.3
Australian Capital Territory	636.3	353.3	989.6	115.6
Northern Territory ³	1,525.9	349.6	1,875.5	345.6
Total	31,875.6	21,318.5	53,194.1	

Notes:

- Numbers may not add due to rounding.
- A State's relative share is calculated as the ratio of a State's share of payments to its share of population.
- Includes grants paid in lieu of royalties.

Source: Commonwealth Budget Paper No. 3, 2002-03.

Chart 4.2
Total Commonwealth Payments - All States, Deviation from Population Share, 2002-03¹



Note:

- The chart does not include the Northern Territory which has a corresponding deviation of 245.6%.

Queensland, in addition to New South Wales and Victoria, receives less than a per capita share of all Commonwealth funding. Queensland's share of total payments is expected to be 2.5% less than its population share.

QUEENSLAND AS A TAXPAYER

Queensland, like other States, is liable for certain Commonwealth taxes including the GST and Fringe Benefits Tax (FBT). In addition, the National Tax Equivalents Regime (NTER) for Government Owned Corporations (GOCs) and selected business units imposes the equivalent of an income tax on these entities. Based on these taxes, Queensland has a gross tax exposure of around \$930 million.

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

GST Collections and Input Tax Credits

There are currently some 2,400 Queensland Government bodies registered for GST, of a total of almost 18,000 government bodies registered nationwide. This has created an ongoing compliance requirement for Queensland Government bodies to ensure all steps are being taken to accurately account for the GST, including claiming of input tax credits.

In 2000-01, Queensland Government departments and agencies claimed just over \$520 million in total net input tax credits, comprising \$726 million in gross GST credits and \$206 million in gross GST payable. In 2000-01, the Departments of Health, Transport, Education (including schools), Main Roads and Families contributed more than 80% of Queensland's total net input tax credits.

National Tax Equivalents Regime

The NTER is an administrative arrangement between the Commonwealth and the States under which Commonwealth income tax laws are applied to certain government bodies, namely GOCs and Commercialised Business Units. The NTER regime is administered by the ATO which charges the Queensland Government on a fee for service basis.

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

In 2000-01, Queensland's NTER entities generated \$184 million in income tax equivalent receipts. GOCs comprised 86% of these receipts, with the remainder coming from commercialised business units.

Fringe Benefits Tax

In 2001-02, Queensland's Fringe Benefits Tax (FBT) liability is estimated to be \$22.2 million. The Education, Justice and Attorney General, Police, Main Roads and Health portfolios comprised 40% of Queensland's total FBT liability. Vehicle related expenses are responsible for approximately 70% of the total FBT liability.

Commonwealth Tax Management

Increased emphasis will be placed on tax training and knowledge to ensure Queensland Government agencies have the sufficient skills to manage their Commonwealth tax liabilities. Raising agencies' awareness of the benefits of corporate tax governance controls will also be a key objective.

FUTURE DEVELOPMENTS

Commonwealth Grants Commission's 2004 Review of Per Capita Relativities

The CGC reviews its methodology for recommending the distribution of general revenue over a five year cycle. The current review is due for completion in February 2004, with the new methodology applying from 2004-05 to 2008-09.

The CGC's review involves an extensive consultation process with the States and other interested parties. In this context, the CGC visited Brisbane, Logan, Barcaldine and the Torres Strait Islands during Queensland's Workplace Discussions in October 2001. Further, Queensland lodged its Main Submission for the 2004 Review with the CGC in April 2002.

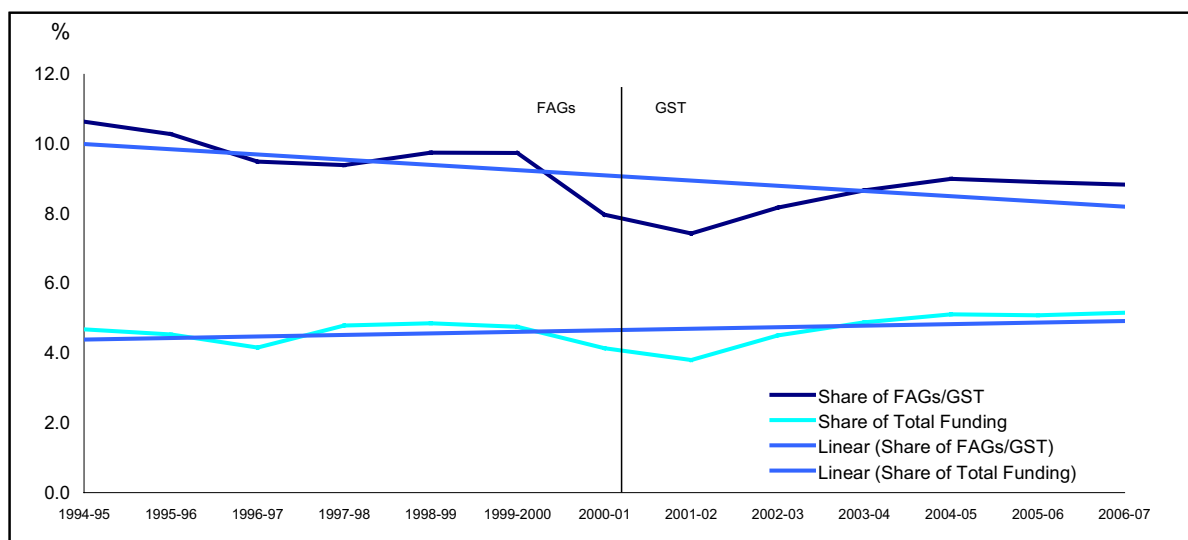
Both the Workplace Discussions and the Main Submission provided opportunities to demonstrate to the CGC issues beyond the State's control and focused on:

- **Input Costs** – The CGC assesses comparative State wages such that those States with high private sector wage levels are assessed as requiring more general revenue funding than those States with low private sector wage levels. Queensland contends that the use of private sector wage levels is not representative of public sector wage levels. Further, there is no evidence of significant differences among States in actual public sector wage levels, in particular, those of nurses, teachers and police.
- **Location Specific Disabilities** – The provision of services to Queensland's dispersed population, in particular isolated communities, is more costly than urban communities. Further, increased use of technology to deliver services to rural and isolated communities has enhanced service provision and raised expectations.
- **Mining Revenue** – The CGC's assessment of Queensland's capacity to raise royalty revenue involves an elasticity adjustment based on States' royalty rate policies. Statistical modelling suggests that revenue capacity is largely a function of world commodity prices and industrial production whereas the influence of royalty rates is limited.
- **Depreciation and Debt Charges** – The CGC's assessment is based on States' borrowing requirements and is influenced by a range of factors including construction costs. There are recognised flaws in the current assessment and all States are working with the CGC towards an improved method.

Queensland will continue to participate in the 2004 Review with general conferences, rejoinder and final submissions scheduled for completion over the next 18 months.

The New South Wales, Victoria and Western Australia Governments continue to agitate about the allocation of Commonwealth grants to the States. Claims include increasing amounts of “cross-subsidisation” by these States since national tax reform. Chart 4.3 demonstrates that over the medium-term, trends in fiscal equalisation requirements are not significantly increasing when viewed as a proportion of general revenue funds and total Commonwealth funding.

Chart 4.3
Trends in Fiscal Equalisation Requirements



Source: Queensland Treasury.

Further, based on limited data, these three States view themselves as donor States. All States receive funding from the Commonwealth and are thus all recipient States. States do not subsidise other States. Rather, some individuals subsidise other individuals through Commonwealth and State taxes.

Any proposals by these States, which diverge from the current arrangements of distributing GST revenue grants in accordance with HFE principles, would require the support of all States and the Commonwealth.

Reform of Specific Purpose Payments

Best Practice Management of SPPs

In 2000-01, the Queensland Government released guidelines to assist agencies to maximise the financial outcomes in negotiating SPPs with the Commonwealth. These guidelines included two important reform initiatives.

Firstly, the guidelines provide a suggested set of 12 best practice principles to be used as a resource by agencies to enhance the quality of outcomes when negotiating SPPs with the Commonwealth.

In addition, the SPP guidelines outline arrangements within the Queensland Government requiring agencies with major SPP responsibilities to seek Government endorsement both prior to formally negotiating and signing any major SPP agreement. A key objective of this process is to ensure a whole-of-Government approach is taken when negotiating SPPs to ensure gains are achieved across all SPPs affecting Queensland.

Queensland is working with other States to identify common SPP issues for discussion with the Commonwealth. The benefits from this national approach are evident in the form of better coordination between jurisdictions on intergovernmental relations issues.

Major Specific Purpose Payments Currently Under Negotiation

Over the next two years, several major SPP agreements worth in excess of \$2 billion to Queensland are due for renewal. The most significant agreements include:

- **Disability Services (June 2002)** – The Commonwealth is proposing to continue funding for previous unmet need growth (Queensland's share being \$18.3 million in 2001-02) but include other Commonwealth policy priorities. Also, Commonwealth funding increases are contingent on the States matching the Commonwealth's total growth share, including disability employment services and the passage of disability pension reform legislation. Under the Disability agreement, States are only responsible for accommodation support, community support services and respite care.
- **Commonwealth-State Housing (June 2003)** – Under the agreement, matched funding arrangements are split into tied and untied components. Queensland is required to match 50% of the untied component. The Commonwealth has indicated that it plans to continue the practice of not providing indexation to funding and will continue with the annual reduction of 1% of the base funding as a productivity dividend to the Commonwealth. There is currently no indication whether the Commonwealth will continue to provide GST compensation in the new agreement.
- **Australian Health Care (June 2003)** – Negotiations will include assessing any impact the new Australian Health Care Agreement (AHCA) may have on GST revenue grants. Health related SPPs vary in their matched funding from the States. For example, while there is no specific requirement for States to match growth in the Commonwealth AHCA revenues in any form, it does suggest that States should continue to contribute own source funding towards the public hospital system.

SPPs are a priority concern for Queensland. Under the IGA, the Commonwealth made a commitment to continue to provide SPPs to the States and not to cut aggregate SPPs as part of national tax reform process as this was consistent with the objective of the State Governments being financially better off under the new arrangements.

As the burden of an ageing population increases, there is a risk that the Commonwealth may increase States expenditure responsibilities with no corresponding increase in SPPs. Queensland will continue to pressure the Commonwealth to abide by the IGA and continue to provide SPPs at appropriate levels sufficient to support Queensland's service delivery needs.

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