# ECONOMIC AND FISCAL COORDINATION

**SERVICE REPORT**

## Jobs and a strong economy

Treasury provides economic and fiscal advice and strategy to support the government's focus on creating jobs, delivering responsive government, driving sustainable economic growth, increasing private sector investment, and delivering quality frontline services.

This advice helps inform the development of the government's economic and fiscal policies, strategies and initiatives to enhance the quality of life and living standards of all Queenslanders.

### Treasury does this by

- delivering whole-of-government economic, fiscal, revenue, financial management, accounting, policy and reporting services to the Under Treasurer, the Treasurer and the Cabinet Budget Review Committee

- coordinating the development of the Queensland Budget each year, and managing the state's debt and balance sheet in accordance with government policies

- providing economic policy advice, economic impact modelling and data to inform public policy and decision making, and to promote economic growth and job creation

- through the Queensland Government Statistician, delivering statistical, demographic research and program evaluation services across government.

## OUR OPERATING ENVIRONMENT

**Revenue and expenses growth 2017–18 to 2021–22**
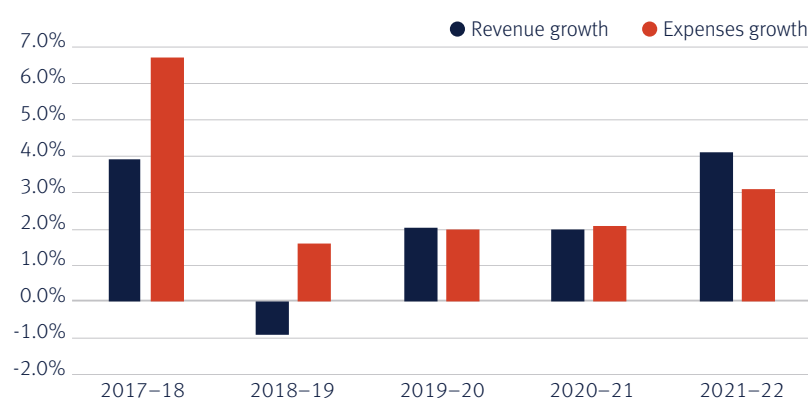


**Analysis**

*The fiscal environment beyond 2017–18 is heavily influenced by anticipated reductions in Australian Government grants, as well as an expected decrease in dividends and coal royalties. While the operating balance is forecast to remain in surplus, the surpluses are expected to moderate as the average annual growth in revenue is budgeted to be 2.07 per cent, with expenses to grow 2.9 per cent. We will assist the government to manage the fiscal pressures to support the ongoing delivery of its fiscal strategy. Read more about the government's fiscal strategy on page 9. Source: Queensland Treasury*

**Economic growth[1], Queensland and Australia**
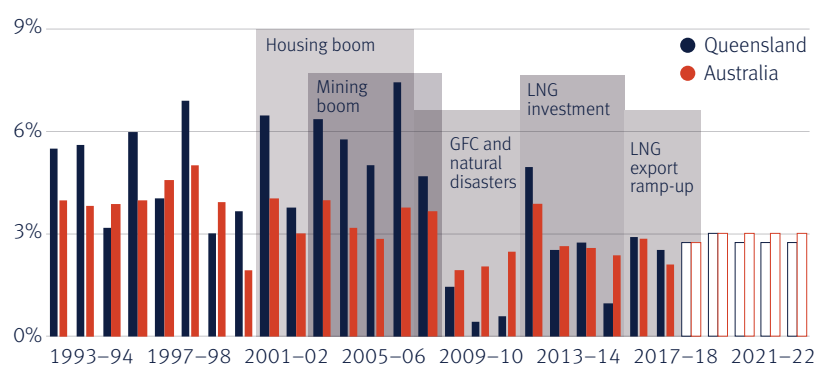


**Analysis**

*Growth in the Queensland economy is expected to strengthen to 2¾ per cent in 2017–18, reflecting further improvement in domestic demand and a recovery in coal exports following Severe Tropical Cyclone Debbie. Economic growth is forecast to accelerate further to 3 per cent in 2018–19, before increasing 2¾ per cent in both 2019–20 and 2020–21.*

*Note: 1. Chain volume measures, 2015–16 reference year, 2017–18 onwards are forecasts/ projections. Sources: ABS 5206.0, Australian Government Budget 2018–19 and Queensland Treasury.*

# ECONOMIC AND FISCAL COORDINATION

## SERVICE REPORT

**Employment growth[1] and unemployment rate[2], Queensland[3]**
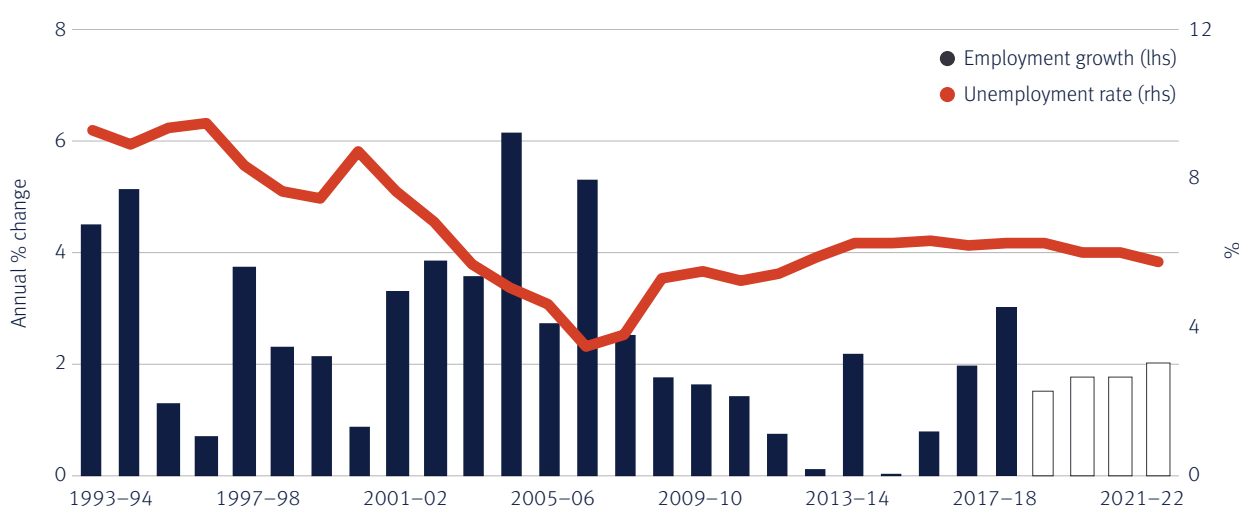


**Analysis**

*Employment growth was stronger than expected in 2017–18. While employment growth moderated in early 2018, the exceptional gains in late 2017 mean growth over the year to June quarter 2018 was 3.0 per cent. Employment growth is expected to return to more sustainable rates of 1½ per cent and 1¾ per cent respectively over the next two years.*

*By industry, health care (up 39,000 persons in year-average terms), education (up 14,000), agriculture and support services (both up 10,500) were the main drivers of Queensland employment growth in 2017–18. Labour market conditions in many regional areas improved in 2017– 18 and the overall gap between regional and South East Queensland unemployment rates narrowed substantially.*

*Strong jobs growth has encouraged jobseekers to re-enter the labour force, seeing the participation rate climbing to its highest rate in three years. As a result, the unemployment rate is forecast to remain at 6¼ per cent in the near term (June quarter 2019).*

*Notes:*

*1. Through-the-year growth rate to the June quarter (seasonally adjusted).*

*2. Seasonally adjusted rate for the June quarter.*

*3. 2018–19 onwards are forecasts/projections.*

*Sources: ABS 6202.0 and Queensland Treasury.*

## OBJECTIVE

### Enable sustainable growth that supports current and future government objectives

In Treasury's role as the government's expert on state finances and the economy, it develops each year's Queensland Budget, which:

- outlines the state's financial performance
- explains the state's economic plan and economic position
- implements the government's fiscal objectives and fulfils the government's priorities for the community.

The framework for the Queensland Budget 2018–19 was the government's objective to 'deliver the infrastructure, skills and services that equip Queensland to manage growth and navigate the changing economy'.

This objective is reflected in the Budget strategy as job creation, building the economy and delivering improvements in community services, particularly health and education, all of which are central to the government's Advancing Queensland's Priorities forward agenda.

In line with the government's economic plan, highlights of the 2018–19 Budget that support delivery of these objectives included:

- a $45.8 billion infrastructure program, which will support around 38,000 jobs
- $4.9 billion for roads and transport
- a record $17.3 billion health program
- a $369 million investment over four years in the Back to Work program
- $3.5 billion for community safety
- $1.3 billion for child and family services.

Read more about the Queensland Budget 2018–19 at www.budget. qld.gov.au

During the year, the team continued monitoring and reporting on the state's position by publishing the *2016–17 Report on State Finances* and the *2017–18 Mid Year Fiscal and Economic Review*.

To better manage the annual budget process, Treasury established a permanent Budget Office.

The Budget Office focuses on coordinating information across Treasury and departments, providing decision makers with timely and quality briefing material, coordinating the Mid Year Fiscal and Economic Review, and delivering the Budget. Having a dedicated team on the task will help ensure that future budgets are responsive and accessible to stakeholders and communities.

As the budget cycle continues throughout 2018–19, Treasury will assist in delivering the 2017–18 Report on State Finances, the 2018–19 Mid Year Fiscal and Economic Review, and the Queensland Budget 2019–20.

Throughout 2018–19, Treasury's role in enabling sustainable growth will also evolve in the context of the Our Future State; Advancing Queensland's Priorities. Read more about the priorities on page 11, and at www.ourfuture.qld.gov.au

### Delivering a modern budget

The focus on modernising Queensland's budget process commenced in 2017. One of the first enhancements was a Budget Map application that presents budget information on a map of Queensland. Looking forward to the year ahead, a new online application (BudgetPlus) for developing and submitting funding requests throughout the Budget cycle will be deployed. This whole-of-government tool will enable better management, reporting and presentation of information to decision-makers. Ultimately, BudgetPlus will allow government to develop and deliver a Budget more efficiently and effectively and have the tools to reach a wider audience.

# ECONOMIC AND FISCAL COORDINATION

## SERVICE REPORT

### Strong, sustainable regulatory frameworks

A constant presence in the business sector's operating environment is government regulation. In response to previous issues raised by business, last year the government began developing an enhanced regulatory reform framework to:

– support a more risk-based approach to regulation
– ensure more timely review of regulation
– drive improved regulatory engagement and performance.

Ongoing development and implementation of the framework will help re-focus and re-invigorate the government's regulatory reform efforts to reduce red tape and the regulatory burden for Queensland businesses, families and communities.

### Accountability for taxpayers' resources

As a central agency, Treasury plays a key role in public sector financial accountability by equipping agencies (including Treasury) with policies and guidelines to be accountable for the financial resources they use on behalf of Queenslanders when delivering services.

Over the next two years, Queensland Government agencies will adopt several new accounting standards. Treasury's role will be to engage with agencies on proposed transitional accounting methods and accounting policies ahead of their introduction. A smooth transition for agencies will ultimately mean uninterrupted service delivery to communities.

## OBJECTIVE

### Partner proactively to facilitate better outcomes for the community

### Building community safety and wellbeing

Understanding communities is the key to improving the wellbeing of Queenslanders: how they live, where they live, and the benefit they can draw from the infrastructure and services provided by government.

The *Queensland Population Projections* is one of Treasury's key statistical products. In the year ahead, updated projections will be released, allowing government agencies, business and the community to use to inform decision making and plan services and infrastructure in areas such as transport networks, schools and health services.

During the year, Treasury collaborated with the Centre of Policy Studies at Victoria University to model the economic impacts of interstate migration on the Queensland economy. This research, which informed preparation of the Queensland Budget 2018–19, supported the government's focus on servicing Queensland's growing population.

Understanding the origins and patterns of crime is also an essential part of knowing communities and aligns with the government's Our Future State priority of keeping communities safe.

During 2017–18 Treasury established the Crime Statistics and Research Unit in the Queensland Government Statistician's Office and commenced development of a range of crime-related statistical products. A Crime Research Reference Committee was also established to develop a research agenda covering key criminal justice themes. This work will help support keeping communities safe across the whole of Queensland.

# AGENCY PERFORMANCE

## SERVICE REPORT

## Clients are at the heart of Treasury's purpose.

Treasury's role is to manage public policy, fiscal and economic issues across government so that agencies can improve frontline services for Queenslanders, by

- providing economic and fiscally responsible public policy analysis and advice to agencies to support government priorities
- partnering with agencies to optimise performance, balancing service delivery within budget parameters
- managing and coordinating intergovernmental financial relations issues
- managing whole-of-government banking and payment services contracts.

### OPERATING ENVIRONMENT

The operating environment of Treasury and the agencies with whom it partners is influenced significantly by:

- decision making and negotiations on funding in the national arena
- emerging issues in the community services sphere such as homelessness and housing affordability
- communities' ongoing needs for social infrastructure.

These emphasise the need for Treasury to continue to grow its strategic partnerships with agencies and ensure positive outcomes are achieved for Queenslanders.

### OBJECTIVE
### Partner proactively to facilitate better outcomes for the community

2017–18 provided many opportunities to improve the wellbeing of Queenslanders by working with agencies on the following initiatives:

- In partnership with the Department of Housing and Public Works, negotiating the new National Housing and Homelessness Agreement, to secure funding for social housing and homelessness.
- Providing advice on a range of policy and financial matters related to the National Disability Insurance Scheme, with the Department of Communities, Child Safety and Disability Services, the Department of the Premier and Cabinet and other relevant agencies.
- Worked with the Department of Education on the long-term school funding agreement with the Australian Government to provide funding for Queensland schools beyond 2018.
- Delivering the 2018 Gold Coast Commonwealth Games on time and on budget. Griffith University modelling predicted that, after taking into account the government's $1.5 billion investment, the Games will contribute $2 billion to Gross State Product for Queensland.
- Negotiating contracts with private providers for public transport bus services in South East Queensland.
- Advising government on future provision of whole-of-government financial services. These arrangements underpin all financial transactions between government agencies and their clients.

- Working with agencies to deliver the government's significant capital program to meet community service needs and create jobs, particularly in the development of strategic and detailed business cases for capital works projects across the state.

### OBJECTIVE
### Enable sustainable growth that supports current and future government objectives

**Advocating for Queensland's interest in Commonwealth–State financial relations**

Treasury takes a lead role in managing and coordinating intergovernmental relations. Key activities in 2017–18 included:

- advocating that Queensland receives its fair share of GST revenue. This included the Deputy Premier and Under Treasurer presenting Queensland's position on horizontal fiscal equalisation to the Australian Productivity Commission at a public hearing in Brisbane in February 2018. The Productivity Commission's final report has been released and the Australian Government has responded with a series of long-term recommendations. As the negotiation of the reforms progresses, Treasury will respond to the Australian Government's proposal in a way designed to ensure Queensland's fair share of revenue.
- negotiating, in partnership with agencies, a range of funding agreements around health, education, housing and homelessness, remote housing, and the National Disability Insurance Scheme.

# COMMERCIAL SERVICES

## SERVICE REPORT

## Value for money infrastructure and attracting investment

Treasury secures the infrastructure Queensland needs to grow by:

– providing commercial and financial advice to government on infrastructure projects

– managing the procurement of privately financed major public infrastructure and service projects

– working with government agencies to realise the contracted value of major public infrastructure projects through the delivery phase

– providing policy advice on private sector investment in Queensland

– ensuring rigorous project procurement across government through administration of the state's project assessment framework

– assessing government-owned corporations' (GOCs) capital investments and driving a focus on maximising performance and rates of return through improved commercial focus.

### Key issues in our environment

The government's ability to realise its priorities as they relate to infrastructure and service delivery objectives may be impacted by the following:

– Australian Government decisions around which infrastructure projects it will fund will impact the affordability of critical infrastructure delivery.

– The current dynamic market change in the energy sector will need to be taken into account as Treasury works to place Queensland in a strong position to deliver reliable, affordable energy with the right mix of baseload and renewable energy.

## OBJECTIVE

### Partner proactively to facilitate better outcomes for the community

#### Cross River Rail

Cross River Rail, Brisbane's $5.4 billion, 10.2 kilometre underground rail link from Dutton Park to Bowen Hills, is the government's highest priority infrastructure project. It will ease congestion, improve network reliability and increase accessibility to the Brisbane CBD.

During 2017–18, this project progressed to early works and procurement. It is being managed by the Cross River Rail Delivery Authority through the Cross River Rail Delivery Authority Board, which is chaired by the Under Treasurer.

Treasury will continue to advise the authority and board on subsequent project phases including assessment of station precinct redevelopment proposals.

Construction is due to be completed by 2024. Read more about Cross River Rail at www.crossriverrail.qld.gov.au

#### Brisbane International Cruise Terminal

The Brisbane International Cruise Terminal project is a market-led proposal from Port of Brisbane Pty Ltd (PBPL) for a new terminal at Luggage Point at the mouth of the river. This $158 million, privately funded and financed project will support an average of 245 jobs per annum during construction. In October 2017, the government signed a contract with PBPL. Responsibility for managing delivery is now with the Department of State Development, Manufacturing, Infrastructure and Planning.

#### Continued support for major infrastructure projects

During the year, support continued for Building Queensland and Treasury's government agency partners with feasibility assessment and preparation for investment in a range of major infrastructure and service delivery projects, including:

– expansions at the Logan and Caboolture Hospitals

– five new schools at Ripley (primary and secondary), Mango Hill, Yarrabilba and Coomera

– the Lower Fitzroy River Infrastructure Project (Rookwood Weir)

– the Townsville Eastern Access Rail Corridor

– procurement of heavy vehicle tolling services for Toowoomba Second Range Crossing

- contract advice and support to the Department of Transport and Main Roads in the delivery phase of the New Generation Rollingstock public private partnership.

Support for these projects will continue throughout 2018–19.

**Rookwood Weir**

During the year, Treasury worked with the Department of Natural Resources, Mines and Energy (DNRME) on the proposed Rookwood Weir, a major component of the Lower Fitzroy River Infrastructure Project located approximately 60 kilometres south-east of Rockhampton.

When completed, the weir (with associated roads, bridges and other infrastructure) will be capable of supplying 76,000 ML per annum for customers.

In 2017–18, Building Queensland released the project's detailed business case. The Queensland Government allocated $176 million across the next four years, matched by the Australian Government. Engagement with relevant Australian Government agencies will continue in 2018–19 to formalise funding arrangements to facilitate construction from 2019.

Treasury will also work with DNRME and SunWater (the preferred constructor and operator for Rookwood Weir) to progress the project.

**Local management arrangements for irrigation schemes**

During the year, Treasury supported DNRME in investigating the transfer of SunWater's irrigation water channel distribution schemes to local irrigator ownership. The government reached agreement on the terms of transfer for two schemes at St George and Theodore. As more agreements are reached throughout 2018–19, support for the department in completing agreements to transfer to local management arrangements will continue.

## OBJECTIVE

### Enable sustainable growth that supports current and future government objectives

Our advice to government on reforms to key economic sectors helps strengthen the roles those sectors play in the economy of this state.

**Power for Queensland**

Implementation of the $1.16 billion Powering Queensland Plan, designed to ensure affordable, secure and sustainable electricity supply for our state, began in 2017–18.
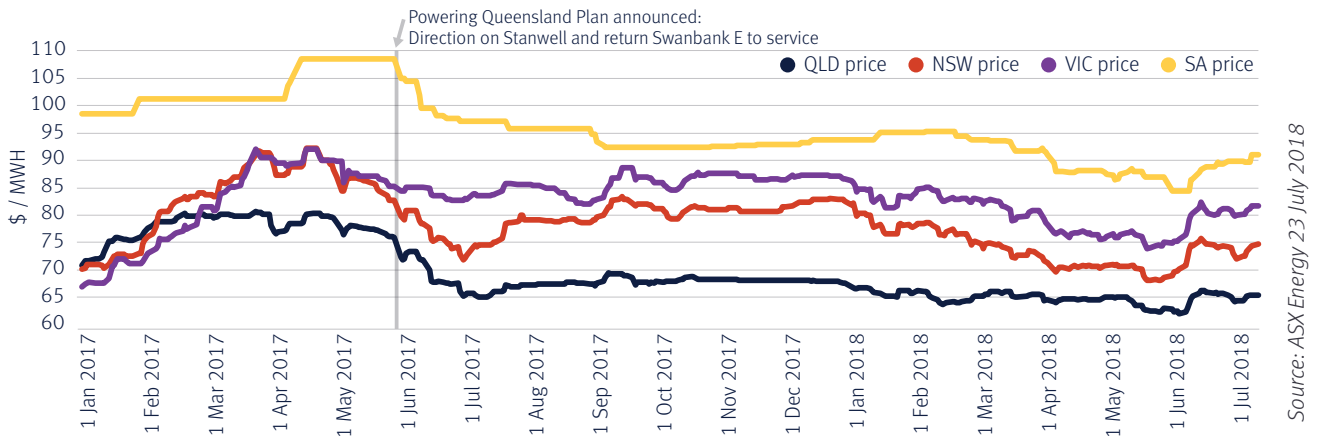
Its actions include:

- $770 million to cover the cost of the Solar Bonus Scheme
- returning Swanbank E gas-fired power station to operation
- directions to Stanwell to put downward pressure on wholesale prices

- $386 million to strengthen and diversify North Queensland's energy supply, including a commitment of $100 million towards the Burdekin Hydro Power Station (subject to investigations)
- confirmation of the Queensland Renewable Energy Target of 50 per cent renewable energy by 2030
- progress the Renewables 400 auction, which will allow the state to procure 400 megawatts of renewable energy
- establish the Queensland Energy Security Taskforce to coordinate the work of government departments and energy GOCs in ensuring reliable electricity supply for Queensland
- investigate the establishment of CleanCo, a separate generator to operate Queensland's existing renewable and low-emissions energy generation assets
- implement the Queensland Gas Action Plan
- improve large-scale renewable project facilitation, planning and network connections
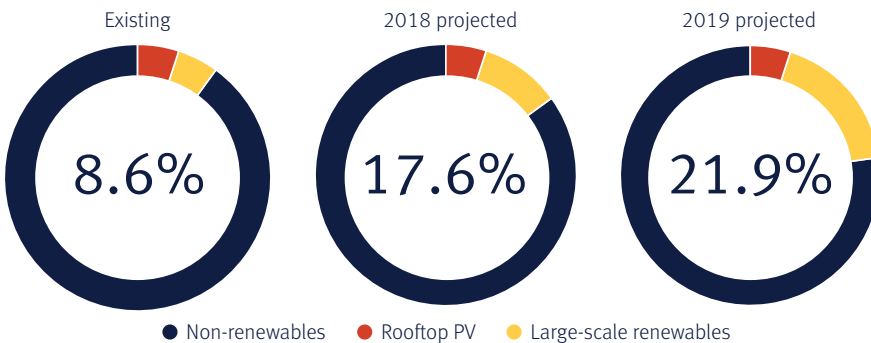- advocacy for stable, integrated national climate and energy policies.

# COMMERCIAL SERVICES

## SERVICE REPORT

**ASX Base Futures Prices – 2019 calendar year**



Powering Queensland Plan announced:
Direction on Stanwell and return Swanbank E to service

● QLD price   ● NSW price   ● VIC price   ● SA price

*Source: ASX Energy 23 July 2018*

*Following the government's announcement to return Swanbank E power station to service and directing Stanwell to put downward pressure on wholesale prices, electricity futures fell across the National Electricity Market (NEM) and Queensland futures continue to remain the lowest in the NEM compared to other states.*

## Queensland Renewables Output



Existing
**8.6%**

2018 projected
**17.6%**

2019 projected
**21.9%**

● Non-renewables   ● Rooftop PV   ● Large-scale renewables

*Significant progress has also been made towards reaching the Queensland Renewable Energy Target of 50 per cent by 2030. By the end of 2018, approximately 17.6 per cent of Queensland output is expected to be comprised of renewables. This is expected to grow to 21.9 per cent by the end of 2019.*

The Powering Queensland Plan has the potential to bring about generational change in the state's energy sector.

Our focus in 2018–19 will be to:

– monitor and implement the Powering Queensland Plan's initiatives to ensure they are providing responsive services to consumers

– work towards strong growth in renewables and the 50 per cent Queensland Renewable Energy Target

– progress options to improve reliability and price through the transition to renewables, including:

– working with Building Queensland to finalise the business case for the Burdekin Hydro Power Station.

– work with Building Queensland, Stanwell, and DNRME to finalise the government's position on the project

– continuing our work with stakeholders and DNRME on the establishment of CleanCo.

Read more about the Powering Queensland Plan at **www.dnrme.qld.gov.au**

## Business Development Fund

With around 86 per cent of Queensland jobs delivered by the private sector, stimulating business investment is one of the government's highest priorities.

The Business Development Fund (BDF) is the Queensland Government's $80 million early stage and follow-on venture capital fund for growing innovative Queensland businesses.

2017–18 was a productive year for BDF, with the fund investing a total of $14.2 million into businesses, including:

– $1 million in Find-Me Technologies, for a personal wristwatch-like emergency alert system to help elderly people and people with dementia

– $215,000 in Spare Workspace, a marketplace for people to book short-term commercial workspace

– $1 million in Lode Solutions, an online employment marketplace connecting employers with university talent

– $2.5 million in Serene Medical Pty Ltd, a platform technology for locating and treating motor nerves for facial applications.

The 2018–19 Queensland Budget committed a further $40 million towards BDF, bringing total investment in the fund to $80 million. Throughout 2018–19, BDF will continue to support innovative businesses, create high-value jobs and strengthen Queensland's entrepreneurial ecosystem.

The report of the BDF Investment Panel is available at www.treasury. qld.gov.au. Read more about BDF at www.advance.qld.gov.au

## Cities Transformation Taskforce

In late 2017, the government's Cities Transformation Taskforce joined Treasury, where it continued implementing the Townsville City Deal, signed in 2016.

Treasury also established the Queensland Cities Advisory Group and the SEQ City Deal Queensland Government Agency Steering Committee, and released the SEQ Benchmarking Report and SEQ Economic Foundations Paper, which will act as the framework for a future SEQ City Deal.

Work on both the Townsville and South East Queensland City Deals will continue over the coming year, the latter in collaboration with the Council of Mayors SEQ.

## Jobs and Regional Growth Fund

This fund supports economic activity and job creation in regional Queensland by helping businesses to grow and expand.

Our partnership with the Department of State Development, Manufacturing, Infrastructure and Planning leverages private sector investment to maximise employment and economic opportunities across regional Queensland. A rigorous assessment framework ensures value for money from the state's investment and that the fund meets its objectives.

In 2017–18, the fund assessed and supported many applications, including:

– the expansion of the Swickers Bacon Factory at Kingaroy and associated SunPork Commercial Piggeries, which created 110 new long-term jobs

– Hawker Pacific's $4.5 million expansion to its aviation facility in Cairns, helping to create 39 new operational jobs and 50 jobs during construction

– up to 400 jobs in the meatworks industry, by helping workers displaced by the closure of the Churchill abattoir into employment at JBS Australia's facilities at Wacol and Dinmore.

The 2018–19 Budget allocated a further $20 million to the Jobs and Regional Growth Fund, taking the total of the fund to $150 million. The additional funding will help fast track even more business activity in regional Queensland.

# COMMERCIAL SERVICES

## SERVICE REPORT

### Resources Regional Development Framework

During the year, Treasury administered applications under the Resources Regional Development Framework, which promotes investment in undeveloped or underdeveloped resource regions across Queensland, including the Galilee and Surat Basins, and the North West Minerals Province.

Project proponents are required to provide jobs and common-user infrastructure, and to have a positive impact on the state's finances. Administering applications includes active engagement with proponents to ensure that they meet the conditions for accessing the framework's benefits.

### Financial assurance for mine rehabilitation

During 2017–18, a large-scale reform project to deliver improved financial assurance outcomes in the resources sector was continued. Financial assurance is the money held by government to ensure mining sites are properly rehabilitated when mining ends. The focus during the year was in collaborating with key stakeholder agencies, the resources sector and environment and community groups.

Treasury's work resulted in the Mineral and Energy Resources (Financial Provisioning) Bill 2018 being introduced into Parliament in February 2018. When enacted, this legislation will form the basis for a new, responsive financial provisioning scheme.

### Queensland's third-party access regime

Treasury reformed the state's third-party access regime with the introduction and passage of the *Queensland Competition Authority Amendment Bill 2018* in early 2018. Queensland's access regime is contained under Part 5 of the *Queensland Competition Authority Act 1997* and provides the framework for competitors to access significant monopoly infrastructure in Queensland such as ports and railways, with the objective of promoting competition and delivering economic benefits. The amendments to the regime clarify its application and emphasise economic efficiency.

Treasury will continue to monitor Queensland's regulatory environment to identify further opportunities for reform.

### Queensland Competition Authority Declaration Review

On 4 April 2018, the QCA commenced a review into whether services declared for third-party access under the *Queensland Competition Authority Act 1997* should remain declared after the existing declarations expire in September 2020.

In Queensland, the "declared services" are:

- rail transport services on the Central Queensland Coal Network
- rail transport services on the intrastate passenger and freight network operated by Queensland Rail
- coal handling services at Dalrymple Bay Coal Terminal.

The review is important for ensuring that third-party access is only applied where it is appropriate.

The QCA will make its recommendations to the Deputy Premier at least six months, but not more than 12 months, before the expiry of each declaration.

### Queensland Competition Authority Performance Framework

In 2017–18, Treasury and the QCA jointly developed a performance framework for the QCA.

The framework will operate from 2018–19 with public reporting of results in the QCA's annual report and website. The aim of the framework is to improve the operational performance of the QCA and provide increased transparency and accountability.

The framework involves the QCA regularly and publicly reporting its activities against performance standards and engaging in a process of self-assessment and continuous improvement.

The framework sets key standards in the following fields:

- effective and efficient regulatory outcomes
- timely and transparent processes
- efficient and reasonable QCA costs and regulatory fees
- effective stakeholder engagement and communication.

Work with the QCA to refine the framework over the first few years of its operations will continue in the coming year.

### Queensland Manufacturing Inquiry

Manufacturing enterprises in Queensland, from small niche business to large-scale concerns, employ 160,000 people and earn Queensland around $15.6 billion in exports. There is much to be gained from ensuring that this important sector is performing at optimum levels.

The Queensland Productivity Commission (QPC) delivered its Final Report on Manufacturing in Queensland to the government in October 2017. The report contained 17 recommendations for improving the productivity and competitiveness of the Queensland manufacturing sector.

Treasury and the Department of State Development, Manufacturing, Infrastructure and Planning developed the government's response to the report, which was published in May 2018. The government largely accepted all but one of the QPC's recommendations. A key part of the government's response is the establishment of a Manufacturing Ministerial Committee, which will take charge with a renewed focus on building Queensland's manufacturing base.

Both the QPC's report and the government's response can be accessed from www.qpc.qld.gov.au/inquiries/manufacturing

### South East Queensland bulk water prices

In April 2018, the Queensland Competition Authority (QCA) publicly released its Final Report Seqwater Bulk Water Price Review 2018–21.

Treasury and DNRME worked together to analyse the QCA's recommendations and their implications for bulk water prices for the three years to 2021. As a result of analysis of the two options proposed by the QCA, the government accepted the 'smoothed' pricing option, setting price increases over three years with all council areas reaching the common price of $3.12 per kilolitre in July 2020. This option is expected to provide certainty for councils, and reduce cost-of-living pressures for customers.

### Rural Irrigation Water Price Review

Irrigation water prices across 39 water supply schemes in Queensland are currently set until 30 June 2019. Throughout 2017–18 Treasury partnered with relevant state agencies and stakeholders to progress key policies which underpin irrigation water pricing. In deciding on the policies for future prices, the government will seek the right balance between customer impacts and cost-recovery. The QCA, as the state's independent economic regulator, is expected to commence a review of irrigation pricing later this year, subject to a direction from government.

# COMMERCIAL SERVICES

## SERVICE REPORT

### Developing Northern Australia

In 2017, the Deputy Premier assumed responsibility for Queensland's response to Australian Government Policy on the Development of Northern Australia. Treasury's role is to support the Deputy Premier, and to progress outcomes of the Ministerial Forum on Northern Development and the Northern Australia Senior Officials Network Group (NASONG).

During the year, NASONG led an audit of economic infrastructure across northern Australia and an audit of programs and policies for Indigenous business innovation and growth. The group's findings helped inform a forward program of work agreed to by the Ministerial Forum on Northern Development in April 2018.

The Ministerial Forum, which meets twice-yearly, will next meet in Queensland, in November 2018. This body reports on the progress of developing the north, including strategies to enhance defence industry capability and tourism.

Treasury coordinates the North Queensland Interdepartmental Committee, which identifies matters of strategic importance to north Queensland and ensures information sharing and a collaborative response across agencies. It also works closely with the Department of the Premier and Cabinet to support preparations for the Northern Australia Strategic Partnership.

In addition, Treasury leads the Queensland Government's engagement with the Cairns-based Northern Australia Infrastructure Facility (NAIF). The objective is to maximise NAIF's value to our state and ensure Queensland proponents secure a fair share of the available financial assistance.

In April 2018, the Australian Government changed NAIF's flexibility and ability to support a broader portfolio of projects. Treasury will continue to engage with NAIF, with a view to building on the state's efforts in delivering important infrastructure for Queensland.

### Land Restoration Fund

To drive the government's 'Saving Habitat, Protecting Wildlife and Restoring Land' commitment, during the year Treasury began supporting the establishment of the Land Restoration Fund. This fund will:

- facilitate a pipeline of qualifying Queensland-based carbon offset projects, including through private and philanthropic investment
- pursue other environmental, economic and social benefits for the community
- undertake or commission research and development into emerging carbon farming areas where Queensland has a comparative advantage.

Treasury has partnered with the Department of Environment and Science (DES) to establish the fund's Project Management Office in that department. The office will manage a $30 million budget to:

- establish the fund and its associated research and science program
- undertake extensive community and stakeholder consultation
- procure expert advice from the finance, agricultural and conservation sectors
- fund pilot projects for its research and development program.

# REVENUE MANAGEMENT

**SERVICE REPORT**

## Customers are the focus

To help fund services for Queenslanders, Treasury administers a revenue base of around $15.3 billion by delivering and administering simple, efficient and equitable revenue management services for state taxes and royalty revenue. It also undertakes revenue compliance, grant schemes, debt recovery and penalty infringement enforcement activities for the government.

Treasury's strategic objectives are achieved through:

- leading e-business practices with high-level client support and firm and fair enforcement
- legislation and revenue policy advice to government
- transforming the Revenue Management System to support innovative business practices
- targeted, fair and efficient penalty infringement enforcement strategies
- leading end-to-end penalty debt management improvements through collaborative stakeholder engagement
- business intelligence and behavioural insights to inform enforcement and debt collection policy and strategies.

**Key issues in our environment**

Queensland's economic growth in 2018–19 is forecast to be 3 per cent.

Changes and trends in the Queensland and global economies invariably impact on the revenue available to government to fund service delivery. Revenue from taxation is forecast to increase at an average rate of 2.1 per cent over the 5 years to 2021–22. This growth, in major taxes such as transfer duty, land tax and payroll tax, is supported by average annual growth in taxation of 5.3 per cent and current grants of 3 per cent:

- Growth in transfer duty revenue is expected to be driven by modest growth in both residential and non-residential transactions, and by the introduction of the additional registration duty for premium vehicles and the increase in the rate of the additional foreign acquirer duty from 1 July 2018.
- Land tax revenue is estimated to grow in 2018–19, largely due to the new marginal tax rate on land holdings above $10 million from 1 July 2018, along with growth in land values in recent years.
- Payroll tax revenue is expected to grow in 2018–19 following key sectors such as construction, manufacturing and mining and associated industries contributing to growth for the first time in two years in 2017–18.

Higher-than-budgeted growth in revenue in 2017–18 is due to increased GST revenue from the Australian Government, and from royalties. However, royalty revenue from coal is forecast to decline gradually over the 4 years to 2021–22. Although coal royalties are expected to decline, other royalties are expected to grow from other factors, such as stronger petroleum revenue (including liquefied natural gas).

## OBJECTIVE

### Ensure our services are tailored, fit-for-purpose and easy to access

Throughout 2017–18, efforts were focussed on transforming Treasury's business to deliver quicker, easier and more consistent services for clients, most visibly through:

- the new intelligent virtual assistant Sam, who responds to routine payroll tax inquiries 24/7. In its first few months of operation in early 2018, Sam was able to resolve 77 per cent of queries at first contact, which is above the industry standard of 65 per cent. Sam has been extended across all revenue lines from July 2018.
- more personalised client services through increased use of data analytics, machine learning, targeted education campaigns and improved data quality and client validation

# REVENUE MANAGEMENT

## SERVICE REPORT

– a 'low touch' taxation approach, in which services are designed for the majority of clients who do the right thing, rather than those who do not. 'Low touch' also means that compliance activities will be based on risk, transparency and behaviour, knowing that most clients will do the right thing willingly. This allows the organisation to offer a 'nimbler' approach, with simple and accessible revenue services, reliable and easy to understand information, and services that are tailored to clients' behaviours and circumstances.

From August 2018, Treasury will take this further by replacing a number of repetitive, rule-based transactions with automated machine-based responses, including automated form approvals, decision-making support capability, and, from 2019, robotic process automation.

Treasury's work in this space will be aided greatly by a new enterprise-wide data warehouse (EDW), which will consolidate most data sources into a single data repository. The EDW will allow Treasury to leverage the full value of its data in all analytics and intelligence-related activities. A data quality firewall has been established to protect and optimise the value of this critical asset.

### Improving service delivery through digital technologies

Treasury has long known that predicting taxpayer behaviour would lead to better services for clients and improved debt collection. In 2017, the opportunity to do this came in the form of machine learning.

Machine learning occurs when a computer 'learns' from the data it takes in and then makes predictions based on that data. In July 2017, Treasury partnered with global giant SAP to develop a proof of concept for machine learning.

The proof of concept solution provided never-before-seen insights into the taxpayer journey, identifying the high-risk events or influences that led to payment default and predicting taxpayers who may become debtors with a 71 per cent accuracy.

The production roll-out of the solution is now underway with a focus on increasing both data quality and sources, to drive improvements in the overall accuracy of the predictions and insights. The first implementation is planned for land tax in August 2018.

The business value of this solution will be significant, as it will provide the ability to deploy proactive intervention strategy to reduce the number of taxpayers becoming debtors; and provide management strategies tailored to individual taxpayers' circumstances.

This project was recognised internationally, receiving the global SAP 2018 Next-Gen Innovator Award in May 2018.

### OBJECTIVE

### Enable sustainable growth that supports current and future government objectives

Each year, Treasury implements revenue initiatives designed to deliver a secure, sustainable revenue base to support the government's objectives for the community.

#### Absentee landowners

In 2017–18, Treasury implemented the government's 1.5 per cent land tax surcharge for absentee landowners, which applies to land holdings with a value of $350,000 or higher (in addition to other land tax payable). This charge is designed to ensure absentee landowners make a fair contribution for the benefits they receive by owning property in Queensland.

#### Additional foreign acquirer duty

Additional foreign acquirer duty (AFAD) is an additional amount of duty paid by foreign acquirers (usually purchasers, either directly or indirectly) of residential property. It was introduced by the government in the 2016–17 Queensland Budget, at a rate of 3 per cent, to ensure foreign acquirers of residential property who benefit from government services and infrastructure also contribute to their delivery. From 1 July 2018, the rate of this duty will rise to 7 per cent.

In the 2018–19 financial year, AFAD is forecast to raise approximately $33 million in revenue, which will be applied to deliver services to Queenslanders.

### Premium motor vehicle duty

During the year, preparations were made to implement additional vehicle registration duty for vehicles of more than $100,000 in (dutiable) value from 1 July 2018. This premium motor vehicle duty applies an additional $2 for each $100 for light vehicles. Revenue forecast to result from this duty is $24.02 million in 2018–19.

### Land tax for landholdings over $10 million

Preparations were also made for a 0.5 percentage point increase in land tax rates for high-value landholdings from 2018–19. Revenue forecast to result from this increase is $71 million in 2018–19.

### Wagering (betting) tax

In 2017, the government announced a new point of consumption (POC) tax on betting. In June 2018 the *Betting Tax Act 2018*, which commences from 1 October 2018, became law. The POC is a tax on the revenue of betting operators from bets made by customers in Queensland. The POC tax applies a rate of 15 per cent on taxable betting revenue exceeding an annual threshold of $300,000 ($225,000 in 2018–19 due to the 1 October 2018 commencement).

This POC will supersede Queensland's point of supply wagering tax, and responds to rapidly changing technology and betting consumer behaviour.

During the year, Treasury undertook industry consultation which informed the design and implementation of the tax.

The betting tax is expected to generate revenue of $367 million over four years (including $71 million in 2018–19 reflecting the October start date). For its implementation, Treasury created supporting electronic lodgement and payment systems, client education initiatives, and staff training.

### Apprentice and trainee wages rebate

In Queensland, apprentice and trainee wages are generally exempt from payroll tax. A payroll rebate of 25 per cent for businesses who employ apprentices and trainees, calculated on the exempt wages of those employees, was introduced in 2015. This rebate was doubled to 50 per cent from 1 July 2016 until 30 June 2018. The 50 per cent rebate on the exempt wages of apprentices and trainees has been further extended until 30 June 2019. From 1 July 2015 to 30 June 2018, 4,668 businesses benefitted from the rebate to the value of $51.6 million.

### First Home Owners' Grant

The First Home Owners' Grant helps Queenslanders buy their first home and stimulates employment and growth in the state's construction and related sectors. The grant applies to newly constructed houses, townhouses or units valued at less than $750,000.

As part of the Queensland Budget 2018–19, the government further extended the (temporary) $5,000 increase in the First Home Owners Grant until 30 June 2018, after which it has revereted to $15,000. Over the course of 2017–18, Treasury received 9,493 applications worth $187.9 million.

## OBJECTIVE

### Partner proactively to facilitate better outcomes for the community

Treasury's approach to achieving better outcomes for the community in the field of penalty debt is threefold:

- streamlined services that help people resolve their debt
- firm measures for high-value customers
- realistic options for people in hardship.

### Improvements in penalty debt management

The new business model for the State Penalties Enforcement Registry (SPER) will culminate when the new ICT platform is fully implemented. This platform will offer:

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- new self-service tools for customers and stakeholders
- a new case management approach informed by data analytics and behavioural economics
- the ability to take a tailored approach to a customer's entire case from the time their debt first comes to SPER.

Transforming the SPER business resulted in a substantial increase in performance in 2017–18:

- Growth in the debt pool fell from almost 15 per cent in 2015–16 to just 3.2 per cent.
- A debt finalisation rate of 99 per cent was achieved, well above the target rate of 75 per cent.
- The prediction that people would respond to a personal phone call (rather than a mailed reminder) proved correct. In 2017–18, 48,000 customers were called, resulting in the collection of $20.2 million.

### Better options for people in hardship

Queenslanders expect that people with SPER debt will do the right thing and resolve it as quickly as possible. However, when a person is in hardship, simply expecting the debt to be paid is often not realistic. The aim was to offer more avenues for people who genuinely want to meet their obligations, but can't afford to do so financially.

In late 2017, Treasury launched work and development orders (WDOs) to give people in financial hardship an additional option to resolve their debt.

WDOs are offered to customers in partnership with Queensland Corrective Services (QCS), who supervise people as they undertake unpaid community work.

Since December 2017, approximately 3,200 people have applied for WDOs with QCS. Of these, 928 people have successfully completed their WDOs, which has resolved $1.8 million worth of SPER debt. A further $7.5 million in penalty debt is set to be finalised through orders that are currently in place.

In the coming year, WDOs will be expanded to a range of government and community-based organisations who will partner with SPER to provide options for debtors experiencing hardship, including from domestic and family violence, homelessness, mental illness or cognitive disability, or serious substance abuse.

### Enforcement for high-value debtors

In 2016, SPER began a vehicle immobilisation (wheel clamping), seizure and sale (VISS) program for high-value debtors (people who owe $5,000 or more). In just over two years, the program has collected more than $8.1 million in debt.

SPER also participated in a number of joint roadside operations with Queensland Police Service, and expanded the program to regional areas by undertaking VISS operations in Toowoomba and Bundaberg. In the coming year, VISS will be further expanded to more areas in Queensland.

### Penalty Debt Management Council

During the year, SPER continued its active involvement with the Penalty Debt Management Council, a forum in which agencies that issue fines collaborate to improve how penalty debt is managed.

In early 2018, the Queensland Auditor-General published a report into the fine collection process, which recommended a more integrated end-to-end approach to improve the finalisation of fines in Queensland.

Developing an action plan to address the Queensland Audit Office's recommendations is a major commitment for members of the Penalty Debt Management Council.

## Grants management capability

Other government agencies continued to leverage Treasury's success in grants management to improve their own service delivery through the QGrants solution, most notably in the following agencies:

Department of Employment, Small Business and Training

- $73.19 million in regional back-to-work grants
- $17.9 million in back-to-work grants in South East Queensland

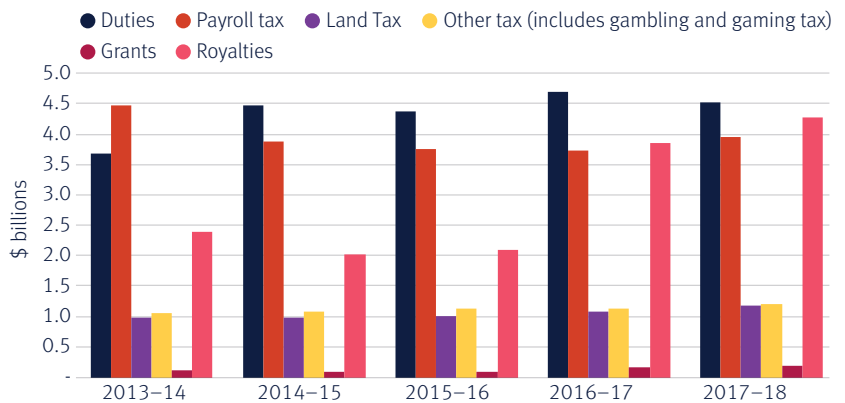### Department of Housing and Public Works

- $6.17 million in Get Started vouchers redeemed, to encourage young people to play club sport
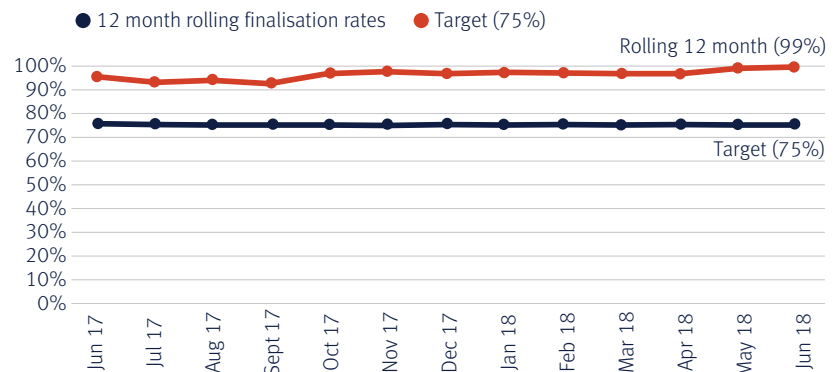
### Department of Education

- $64.52 million in grants for long day care programs
- $84.21 million in grants to kindergarten providers
- $40.70 million in grants to early years' service programs
- $122,572 in grants for the pre-prep kindergarten program
- $5.60 million in grants for disability inclusion support for the Queensland Kindergarten program

In the coming year, much of the government's focus will be on creating jobs, giving children a great start in life, and on keeping Queenslanders healthy. Efficient, effective grants management will help ensure these and many other grants programs achieve the lifechanging impact for which they were designed.

## Total revenue administered by Office of State Revenue 2013-14 to 2017-18

Legend: ● Duties ● Payroll tax ● Land Tax ● Other tax (includes gambling and gaming tax) ● Grants ● Royalties



## SPER Debt Finalisation rate for 2017-18 FY

Legend: ● 12 month rolling finalisation rates ● Target (75%)



Rolling 12 month (99%)

Target (75%)

## Office of State Revenue administered revenue 2017-18

- Royalties 28%
- Payroll tax 26%
- Transfer duty 20%
- Gambling taxes 8%
- Land tax 8%
- General insurance duty 5%
- Vehicle registration duty 3%
- Other duties 1%
- Grants 1%