

Queensland  
State Budget  
2007–08

Budget Strategy  
and Outlook

Budget Paper No.2

Queensland **the Smart State**



**Queensland**  
Government

# 2007-08 State Budget Papers

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

**Budget Highlights**

**Appropriation Bills**

**Ministerial Portfolio Statements**

**Queensland the Smart State – Water for the Future**

The Budget Papers are available online at [www.budget.qld.gov.au](http://www.budget.qld.gov.au) or they can be purchased through The Government Bookshop, individually or as a set. Please phone (07) 3118 6900.

© Crown copyright  
All rights reserved  
Queensland Government 2007

Excerpts from this publication may be reproduced, with appropriate acknowledgement, as permitted under the Copyright Act.

**Budget Paper No. 2 – Budget Strategy and Outlook**  
**ISSN 1445-4890 (Print)**  
**ISSN 1445-4904 (Online)**



**Queensland  
Government**

---

# **STATE BUDGET 2007-08**

---

**BUDGET STRATEGY AND  
OUTLOOK**

Budget Paper No. 2



## TABLE OF CONTENTS

<b>1. Budget Strategy, Performance and Outlook .....</b>	<b>1</b>
Summary of Key Financial Aggregates .....	1
Budget Outcomes 2006-07 .....	2
Budget 2007-08 and Outyear Projections.....	6
Reconciliation of Operating Balance.....	8
Fiscal Strategy.....	8
Indicators of Fiscal Condition .....	13
<b>2. Economic Performance and Outlook .....</b>	<b>15</b>
Introduction.....	15
External Environment .....	16
The Queensland Economy .....	18
<b>3. Economic Strategy .....</b>	<b>31</b>
Economic and Productivity Growth.....	31
Framework for Economic and Productivity Growth.....	34
Responsible Economic and Fiscal Management.....	35
Microeconomic Reform.....	36
Infrastructure Investment.....	42
Skills and Innovation.....	46
<b>4. Budget Priorities and Initiatives .....</b>	<b>51</b>
Introduction.....	51
Improving Health Care and Strengthening Services to the Community .....	53
Growing a Diverse Economy and Creating Jobs .....	62
Realising the Smart State Through Education, Skills and Innovation .....	64
Managing Urban Growth and Building Queensland's Regions....	67
Protecting Our Children and Enhancing Community Safety .....	73
Protecting the Environment for a Sustainable Future .....	78

<b>5. Revenue.....</b>	<b>85</b>
Introduction .....	85
Revenue by Operating Statement Category.....	87
Taxation Revenue .....	88
Queensland’s Competitive Tax Status .....	98
Grants and Subsidies .....	101
Sales of Goods and Services .....	105
Interest Income .....	107
Other Revenue .....	108
<b>6. Expenses.....</b>	<b>113</b>
Introduction .....	113
Expenses by Operating Statement Category .....	114
Details of Expenses.....	116
Operating Expenses by Purpose.....	119
Departmental Expenses .....	123
<b>7. Balance Sheet and Cash Flows .....</b>	<b>127</b>
Introduction .....	127
Balance Sheet.....	127
Cash Flows .....	135
Reconciliation of Operating Cash Flows to the Operating Statement.....	142
<b>8. Intergovernmental Financial Relations .....</b>	<b>143</b>
Commonwealth-State Financial Arrangements .....	144
Distribution of GST Funds .....	149
Impact of the Intergovernmental Agreement .....	154
Specific Purpose Payments .....	156
State-Local Government Financial Relations .....	156
Australian Loan Council .....	158

<b>9. Government Finance Statistics .....</b>	<b>161</b>
Introduction.....	161
General Government Sector.....	161
Public Non-Financial Corporations Sector.....	161
Uniform Presentation Framework Financial Information.....	164
Reconciliation of GFS Net Operating Balance to Accounting Surplus .....	174
General Government Time Series.....	175
Other General Government GFS Data .....	176
Background and Interpretation of Government Finance Statistics .....	180
Sector Classification .....	181
Reporting Entities .....	182
 <b>Appendix A – Tax Expenditure Statement .....</b>	 <b>185</b>
 <b>Appendix B – Concessions Statement.....</b>	 <b>193</b>
 <b>Appendix C – Statement of Risks and Sensitivity Analysis .....</b>	 <b>199</b>





# 1. BUDGET STRATEGY, PERFORMANCE AND OUTLOOK

## FEATURES

- In 2006-07, the General Government sector is forecast to have a net operating surplus of \$2.393 billion and a cash surplus of \$1.722 billion.
- The 2007-08 budgeted operating surplus for the General Government sector is \$268 million and a cash deficit of \$892 million.
- The State's capital program is an estimated \$14.029 billion, a 15.6% increase on 2006-07 estimated outlays. The capital outlays of Government-owned corporations constitute approximately 51% of total outlays in 2007-08. The 2006-07 estimated capital outlays are 19.7% higher than budgeted, primarily due to increased spending on water infrastructure.
- The State's net worth is forecast to increase to \$119.799 billion in 2007-08 and rise to \$130.941 billion by 2010-11.

This chapter discusses:

- the summary of financial aggregates for the 2007-08 Budget
- the Government's fiscal strategy as outlined in the *Charter of Social and Fiscal Responsibility*.

## SUMMARY OF KEY FINANCIAL AGGREGATES

Table 1.1 provides aggregate actual outcome information for 2005-06, estimated actual outcome information for 2006-07, forecasts for 2007-08 and projections for the outyears.

	2005-06 Actual \$ million	2006-07 Est. Act. \$ million	2007-08 Budget \$ million	2008-09 Projection \$ million	2009-10 Projection \$ million	2010-11 Projection \$ million
Revenue	30,084	32,557	32,551	33,307	34,605	35,979
Expenses	26,370	30,164	32,282	33,056	34,364	35,766
Net operating balance	3,714	2,393	268	251	241	213
Cash surplus/(deficit)	4,648	1,722	(892)	(2,248)	(2,298)	(2,045)
Capital purchases	3,186	4,137	5,463	5,839	5,899	5,947
Borrowings	(750)	743	3,569	4,275	4,193	4,021
Net worth	105,035	114,466	119,799	123,302	127,072	130,941

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

## BUDGET OUTCOMES 2006-07

### Key financial aggregates

**Table 1.2**  
**General Government sector – key financial aggregates<sup>1</sup>**

	2006-07 Budget \$ million	2006-07 MYFER \$ million	2006-07 Est. Act. \$ million
Revenue	29,070	29,568	32,557
Expenses	28,825	29,342	30,164
Net operating balance	245	226	2,393
Cash surplus/(deficit)	(796)	(66)	1,722
Capital purchases	3,958	4,329	4,137
Borrowings	1,800	1,449	743
Net worth	99,032	107,755	114,466

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

### Operating balance

The operating balance expected for 2006-07 is a surplus of \$2.393 billion. The estimated 2006-07 surplus reflects the continuing strength of the economy flowing through to taxation and related revenues and investment returns above the long-term assumed rate of return. Significantly higher than anticipated tax equivalent payments arising from the sale of ENERGEN's electricity and gas businesses, the Allgas distribution network and the competitive parts of Ergon Energy's electricity retail business including Powerdirect have also contributed to the higher than forecast operating surplus in 2006-07.

With over \$26 billion in funds invested in a portfolio of equities, property, cash and fixed interest, the performance of international financial markets has a major influence on the Budget result. While Budget and Mid Year Fiscal and Economic Review estimates for investment returns were based on the expected long-term average result for the portfolio of 7.5%, the 2006-07 estimated actual is now based on an estimated rate of return of 14%.

## **The underlying operating balance**

Investment market volatility impacts on the Queensland Budget in 2006-07 more in Government Finance Statistics (GFS) terms than it does for other states. This is in part due to differences in the way Queensland's public sector superannuation arrangements are structured. Queensland's financial assets set aside to meet future employer superannuation liabilities are held as General Government sector assets and associated superannuation liabilities are similarly recorded as General Government sector financial liabilities. In contrast, other jurisdictions generally have structures whereby all investments are held in superannuation funds and only the net superannuation liability is recorded in the General Government balance sheet.

With the introduction of internationally harmonised accounting standards in 2005-06, the GFS methodology for calculating the Government's defined benefit obligations and associated costs has been revised. With this change in accounting standards the Government is seen to bear the interest risk associated with defined benefit obligations regardless of whether or not superannuation assets and liabilities are included in the General Government sector. As a result, the General Government sector includes interest on its superannuation fund surpluses/deficits.

This has eliminated the significant differences that previously existed between the states in accounting for superannuation. There is now a consistent approach across the states with the impact of investment market volatility in Queensland being contained to the current year and representing the difference between the actuary's assumptions on investment returns and actual returns achieved during the year.

If Queensland's superannuation arrangements were structured on the same basis as generally applied in other states, the General Government sector underlying operating balance for 2006-07 would be a surplus of approximately \$1.307 billion. The Budget and outyear results are outlined in Table 1.3 and are calculated on a consistent basis with that used in the other states. This table illustrates Queensland expects to report underlying operating surpluses in the Budget year and each of the outyears that are the same as the reported operating balance.

**Table 1.3**  
**Calculation of underlying operating balance**

	2006-07 Est. Act. \$ million	2007-08 Budget \$ million	2008-09 Projection \$ million	2009-10 Projection \$ million	2010-11 Projection \$ million
Operating Balance	2,393	268	251	241	213
Less Investment Earnings in excess of long term rate <sup>1</sup>	1,086	..	..	..	..
<b>Underlying Balance</b>	<b>1,307</b>	<b>268</b>	<b>251</b>	<b>241</b>	<b>213</b>
Notes:					
1. Represents investment earnings, in excess of the long-term rate of 7.5%, on financial assets held to meet future defined benefit superannuation liabilities that would be foregone if those assets were transferred to the superannuation fund.					

## Cash surplus

The General Government sector is estimated to achieve a cash surplus in 2006-07 of \$1.722 billion.

At the time of the Mid Year Fiscal and Economic Review, a cash deficit of \$66 million was expected in 2006-07 for the General Government sector. Factors contributing to the improved estimated position include the cash impact of the upward revision to investment returns from 7.5% to 14% and higher than expected levels of receipts from taxation revenues.

Cash in the General Government sector is also higher than expected as a result of proceeds from the sale of ENERGEX's electricity and gas retail businesses, the Allgas distribution network, the competitive parts of Ergon Energy's electricity retail business including Powerdirect and from the partnership between Golden Casket Lottery Corporation and Tattersall's. Proceeds from the sale of the energy assets have been quarantined for use on Queensland Future Growth Fund projects.

## Capital purchases

General Government investment in capital (purchases of non-financial assets) in 2006-07 is estimated to be \$4.137 billion. The estimated 2006-07 capital spend is below Mid Year Fiscal and Economic Review estimates, reflecting capacity constraints in the construction and civil engineering sector resulting in a modest level of capital deferrals. However, capital spending in 2006-07 is expected to be higher than forecast at the time of the 2006-07 Budget. This increase reflects the implementation of Government's election commitments and additional funding for a range of projects including critical health infrastructure.

Capital spending in the Public Non-financial Corporations sector has been higher than expected at the time of the 2006-07 Budget and Mid Year Fiscal and Economic Review, mainly due to the Government's water infrastructure projects.

The total capital program for 2006-07, including capital grants, is expected to be \$12.135 billion, \$1.999 billion higher than expected at the time of the 2006-07 Budget. For further details see Budget Paper No. 3 – Capital Statement.

## **Borrowing**

Despite estimated capital acquisitions of \$4.137 billion in 2006-07, the strong cash position has meant the General Government sector is forecast to borrow only \$743 million, \$706 million less than forecast at the time of the Mid Year Fiscal and Economic Review and \$1.057 billion less than forecast at the 2006-07 Budget. This will be the first time since 2000-01 that Treasury has borrowed to support the State's capital program.

## **Net worth**

The net worth, or equity, of the State is the amount by which the State's assets exceed its liabilities. This is the value of the investment held on behalf of the people of Queensland by public sector instrumentalities. The net worth of the General Government sector at 30 June 2007 is estimated at \$114.466 billion. This is \$6.711 billion higher than the net worth forecast at the time of the Mid Year Fiscal and Economic Review, reflecting an improved operating position and higher projected revaluations of non-financial assets.

## BUDGET 2007-08 AND OUTYEAR PROJECTIONS

### Key financial aggregates

<b>Table 1.4 General Government sector – key financial aggregates<sup>1</sup></b>				
	2007-08 Budget \$ million	2008-09 Projection \$ million	2009-10 Projection \$ million	2010-11 Projection \$ million
Revenue	32,551	33,307	34,605	35,979
Expenses	32,282	33,056	34,364	35,766
Net operating balance	268	251	241	213
Cash surplus/(deficit)	(892)	(2,248)	(2,298)	(2,045)
Capital purchases	5,463	5,839	5,899	5,947
Borrowings	3,569	4,275	4,193	4,021
Net worth	119,799	123,302	127,072	130,941
Note: 1. Numbers may not add due to rounding.				

### Operating balance

The budgeted position for the General Government sector is for an operating surplus of \$268 million in 2007-08. The forecast budget surpluses are expected to moderate slightly across the forward estimates.

The increase in expenditure relative to 2006-07 primarily relates to moderate increases in wages, the implementation of election commitments and other service enhancements across key service delivery agencies and recurrent expenditure in support of the capital program.

Taxation revenue is forecast to continue to grow over the forward estimates.

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

### Cash surplus and capital purchases

A cash deficit of \$892 million is expected in 2007-08 for the General Government sector. The cash deficit is forecast to increase to over \$2 billion in 2008-09 and remain around this level in 2009-10 and 2010-11.

Apart from the cash impact of smaller recurrent operating surpluses relative to 2006-07, the major factor contributing to lower cash results is the significant planned capital expansion. Despite this cash deficit, the Government will have cash invested with Queensland Treasury Corporation which has been quarantined for use on Queensland Future Growth Fund projects.

Total General Government capital purchases of \$5.463 billion are budgeted for 2007-08, reflecting a range of infrastructure initiatives including those announced in the *South East Queensland Infrastructure Plan and Program*. Budget Paper No. 3 – Capital Statement provides details, by portfolio, of budgeted 2007-08 capital outlays.

Over the period 2007-08 to 2010-11, purchases of non-financial assets (capital purchases) in the General Government sector of \$23.148 billion are planned.

## **Borrowing**

Borrowing for capital purposes is consistent with the Government's fiscal principles. Net borrowings of \$3.569 billion are budgeted for 2007-08 in support of \$5.463 billion in purchases of non-financial assets.

The remainder of the General Government capital program will continue to be financed through the operating cash flow.

Over the Budget and forward estimates period, total General Government borrowings and advances of \$16.014 billion are planned. Of this amount, some \$1.9 billion (including \$860 million in 2007-08) is to fund equity injections to Queensland's Government-owned corporations to support expansion of the State's rail and energy infrastructure.

## **Net worth**

State net worth is projected to increase from the 2006-07 estimated actual by \$5.333 billion to \$119.799 billion at 30 June 2008. Net worth is also expected to increase in all outyears. More information on the State's net worth, assets and liabilities is provided in Chapter 7.

## RECONCILIATION OF OPERATING BALANCE

Table 1.5 provides a reconciliation of the current General Government sector operating balances for 2006-07 and 2007-08 to the Mid Year Fiscal and Economic Review estimates.

<b>Table 1.5</b>		
<b>Reconciliation of 2006-07 and 2007-08 operating balance to MYFER estimates<sup>1</sup></b>		
	2006-07 Est. Act. \$ million	2007-08 Budget \$ million
<b>MYFER Operating Balance</b>	<b>226</b>	<b>210</b>
Expenditure Policy Decisions <sup>2</sup>	(277)	(750)
Revenue Policy Decisions <sup>3</sup>	..	30
Other Significant Variations Impacting on Operating Balance		
- Investment Returns and Interest Earnings <sup>4</sup>	1,406	205
- General Revenue Grants from the Australian Government <sup>5</sup>	84	266
- Taxation, Royalty and GOC Revisions <sup>6</sup>	960	210
- Other Parameter Adjustments <sup>7</sup>	(5)	98
<b>2007-08 Budget</b>	<b>2,393</b>	<b>268</b>
Notes:		
1. Denotes impact on Operating Balance. Numbers may not add due to rounding.		
2. Reflects expenditure policy decisions taken during 2006-07 and in the Budget context. Major initiatives in 2006-07 relate primarily to election commitments and funding for the Redress Scheme in the Department of Communities. For details relating to key decisions made in the context of the 2007-08 Budget, see Chapter 4.		
3. Reflects reductions in land tax and changes to motor vehicle duty. Does not include reduction in mortgage duty. See Chapter 5.		
4. Reflects revisions of estimated rate of return on investments from 7.5% to 14% in 2006-07 and earnings on cash balances. Includes earnings on all investments, not only those held for employee liabilities.		
5. Includes outcomes of Commonwealth Grants Commission 2007 Update, population changes and most recent estimates of GST revenue included in the 2007-08 Australian Government Budget as well as changes to Specific Purpose Payments.		
6. Includes adjustments to Government-owned corporations net flows.		
7. Refers to adjustments of a non-policy nature such as movements in expenditure and revenue relating to economic and technical parameters and expenditure lapses in 2006-07.		

## FISCAL STRATEGY

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



The fiscal principles establish the basis for sustainability of the Government's policies. They require services provided by Government be funded from tax and other revenue sources over the long term. The principles are supported by an accrual budgeting framework, which recognises future liabilities of the State and highlights the full cost of sustaining the Government's operations on an ongoing basis.

The fiscal principles recognise the importance of a strong financial position for the State. A state government, because of its more limited tax base, does not have the same capacity as a national government to cushion economic and financial shocks. At the same time, state governments have a responsibility to provide continuity of services, such as health, police and education. A strong financial position, as indicated by a AAA credit rating, enables lower borrowing costs and is an indication of the soundness of the financial position and policies of the Government, rather than a goal in itself.

The success of Queensland's financial and economic management has been consistently affirmed by international ratings agencies. These agencies have cited Queensland's strong balance sheet and dynamic economic base as reasons underpinning the State's AAA credit rating.

**Box 1.1**  
**The fiscal principles of the Queensland Government**

Principle	Achievement Budgeted for 2007-08	Indicator
<p><b>Competitive tax environment</b> The Government will ensure that State taxes and charges remain competitive with the other states and territories in order to maintain a competitive tax environment for business development and jobs growth.</p>	✓	Taxation revenue per capita: Queensland: \$2,226 Average of other states and territories: \$2,357
<p><b>Affordable service provision</b> The Government will ensure that its level of service provision is sustainable by maintaining an overall General Government operating surplus, as measured in Government Finance Statistics terms.</p>	✓	GFS operating surplus: \$268 million
<p><b>Sustainable borrowings for capital investment</b> Borrowings or other financial arrangements will only be undertaken for capital investments and only where these can be serviced within the operating surplus, consistent with maintaining a AAA credit rating.</p>	✓	General Government borrowings: \$3.569 billion General Government total purchases of non-financial assets: \$5.463 billion AAA credit rating confirmed by Moody's and Standard and Poor's (highest rating available)
<p><b>Prudent management of financial risk</b> The Government will ensure that the State's financial assets cover all accruing and expected future liabilities of the General Government sector.</p>	✓	General Government net financial worth: \$25.073 billion
<p><b>Building the State's net worth</b> The Government will maintain and seek to increase total State net worth.</p>	✓	Net worth to increase to \$119.799 billion

## Competitive tax environment

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

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

- taxation revenue on a per capita basis
- taxation relativities based on the Commonwealth Grants Commission methodology
- taxation revenue expressed as a percentage of gross state product (GSP).

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

- Per capita tax collections in Queensland in 2007-08 are estimated at \$2,226, compared with an estimated \$2,357 for the average of the other states.
- Commonwealth Grants Commission data indicates that Queensland's taxation effort ratio is 85.2% compared with the standard (100%).
- Latest Australian Bureau of Statistics data shows Queensland's tax collections are 4.06% of GSP compared to 4.7% for the average of the other states.

The 2007-08 Budget includes changes to the land tax tax-free threshold for resident individuals as well as for companies, trusts and absentees and a 50% cap on the increase in land values on which land tax applies. The Budget also includes changes to the basis on which motor vehicle transfer duty is applied. Details of these changes and other revenue items are provided in Chapter 5.

### **Affordable service provision**

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

The 2007-08 Budget and forward estimates provide funding for the implementation of the Government's election commitments as well as significant increases in expenditure in the areas of health, mental health and disability and emergency services.

More information on these initiatives is provided in Chapter 4.

Queensland is already one of the more efficient providers of government services among the states. Nevertheless, further improving the efficiency and effectiveness of government services is an essential element of delivering on these key policy priorities in a way that is both affordable and sustainable.

### **Sustainable borrowings for capital investment**

The provision of adequate levels of infrastructure is an ongoing challenge for a state such as Queensland which continues to experience high levels of economic and population growth. In meeting this challenge, the Government provides capital expenditure per capita well above the average of the other states and territories.

Investment in core infrastructure is a key feature of the 2007-08 Budget with a record capital program of \$14.029 billion. This represents an increase of 15.6% over the estimated 2006-07 outlays. The capital outlays of Government-owned corporations constitute approximately 51% of total outlays in 2007-08.

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

Queensland's 2007-08 capital program will be funded from a mix of recurrent sources, cash balances and borrowings. Details of the State capital program for 2007-08 and sources of funds are provided in Budget Paper No. 3 – Capital Statement.

### **Prudent management of financial risk**

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

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

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

### **Building the State's net worth**

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

Queensland's net worth is forecast to grow over the forward estimates. Queensland's per capita net worth is expected to be 55% greater in 2007-08 than the average per capita net worth of the other states.

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

## INDICATORS OF FISCAL CONDITION

Table 1.6 provides information on the Government's service delivery capacity, financial sustainability and financial capacity.

### Service delivery capacity

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

### Financial sustainability

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

### Financial capacity

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

	2005-06 Actual	2006-07 Est. Act.	2007-08 Budget	Other States <sup>1</sup> 2007-08
<b>Service Delivery Capacity</b>				
Non-financial assets/population (\$)	20,335	21,416	22,738	14,341
Purchases of non-financial assets/ non-financial assets (%)	3.9	4.7	5.8	4.7
<b>Financial Sustainability</b>				
Operating balance/total expenses (%)	14.1	7.9	0.8	1.8
Debt servicing cost/total revenue (%)	0.6	0.7	1.2	1.9
<b>Financial Capacity</b>				
Total borrowings/total assets (%)	1.6	2.3	4.3	6.6
Total liabilities/total assets (%)	20.7	20.9	22.5	26.6
Net worth/population (\$)	26,153	27,987	28,757	18,555
Net debt/GSP (%)	-12.7	-13.3	-11.5	0.8
Taxation/GSP (%)	4.1	4.2	4.4	4.6
Note:				
1. Weighted average of all states and territories, excluding Queensland.				
Source: QLD, VIC, WA, NT State Budgets, NSW, SA, TAS, ACT Mid-Year Reviews/Budget Updates.				



## 2. ECONOMIC PERFORMANCE AND OUTLOOK

---

### FEATURES

- Growth in the Queensland economy is estimated to strengthen to an above-average rate of 5½% in 2006-07 and exceed growth nationally for the 11<sup>th</sup> successive year.
- Investment is expected to be the main driver of growth in domestic demand in 2006-07. Business investment is estimated to rise 18% and be broad-based across the trade, property and service sectors, while public investment in water, transport and energy infrastructure is also expected to grow strongly.
- A rebound in coal and tourism exports is estimated to increase total exports by 2¼% in 2006-07. However, strong domestic demand is expected to result in faster growth in imports (5¼%) relative to exports, causing the trade sector to detract from overall economic growth.
- The Queensland economy is forecast to grow by 5% in 2007-08 and again exceed growth nationally. Investment by the business and public sector combined is forecast to reach 25% of gross state product, compared with 15% five years earlier, adding significantly to the State's productive capacity.
- However, a slight rebalancing in overall economic growth is anticipated, reflecting some easing in investment growth, albeit from very high rates, and a forecast strengthening in exports growth to a seven-year high of 3¾%.
- Households are anticipated to return as the principal driver of growth in domestic demand in 2007-08, with higher consumer spending reflecting strong growth in employment and wages, as well as a pick-up in housing investment.
- Employment is estimated to grow at an above-average rate of 4¾% in 2006-07, before returning to its long-run average of 3% growth in 2007-08, representing the creation of more than 150,000 jobs over the two years.
- The State's year-average unemployment rate is estimated to fall to a 33-year low of 4% in 2006-07 and remain steady in 2007-08, representing a rate well below that nationally.

### INTRODUCTION

This chapter presents the economic framework within which the 2007-08 Budget has been prepared. It provides an overview of recent developments in Queensland's external economic environment, examines the performance and outlook for the Queensland economy, and highlights risks and opportunities to economic growth during the forecast horizon. The chapter details estimated actuals and forecasts for the major components of state economic activity for both 2006-07 and 2007-08 (see Table 2.1) and projections for key economic variables over the medium-term to 2010-11 (see Table 2.2).

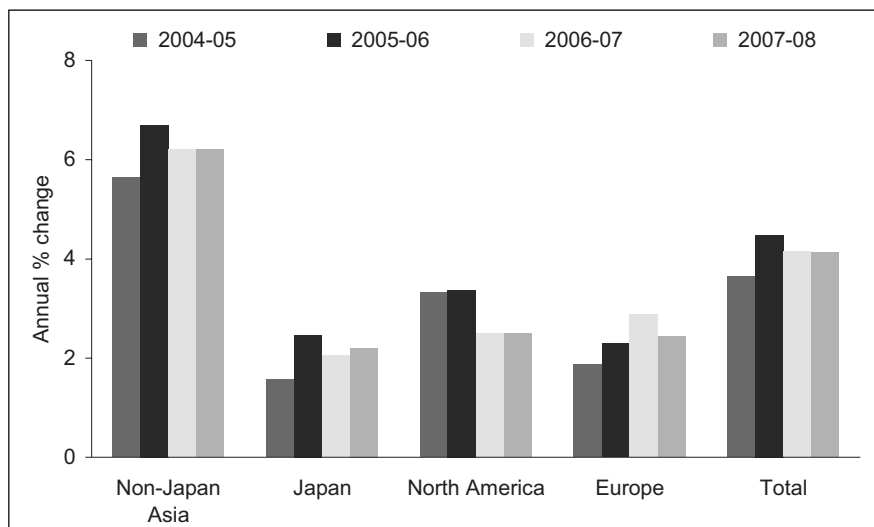
## EXTERNAL ENVIRONMENT

### International conditions

Queensland's major trading partner growth is expected to ease slightly to 4¼% in 2006-07, mainly as a result of slower growth in the Asian region (see Chart 2.1). While the outlook for the rapidly developing economies of China and India is robust, growth in the export-oriented industrialised Asian economies is expected to be adversely affected by a softening in overseas demand, especially from the United States (US). Economic activity in the US has moderated in the first three quarters of 2006-07 due to a decline in housing construction and, to a lesser extent, business investment. However, there has been little evidence of US weakness spilling over to Europe. In fact, a broad-based improvement in European economic growth in 2006-07 coincided with a boost in spending due to the 2006 FIFA World Cup.

The US economy is predicted to begin a recovery during 2007-08, as the temporary slowdown in investment and housing construction unwinds. This is forecast in turn to support growth in Asian economies, such as Korea and Taiwan, offsetting a mild policy-led moderation in growth in China and India. In contrast, European economic growth is forecast to moderate to around the long-run average in 2007-08, in response to monetary and fiscal policy tightening. As a whole, major trading partner growth is forecast to remain steady at around 4¼% in 2007-08, which would represent the third consecutive year of above-average growth for Queensland's major trading partners.

**Chart 2.1**  
**Economic growth in Queensland's major trading partners<sup>1</sup>**



Note:

1. 2006-07 is an estimate, 2007-08 is a forecast.

Sources: Queensland Treasury and Consensus Economics.



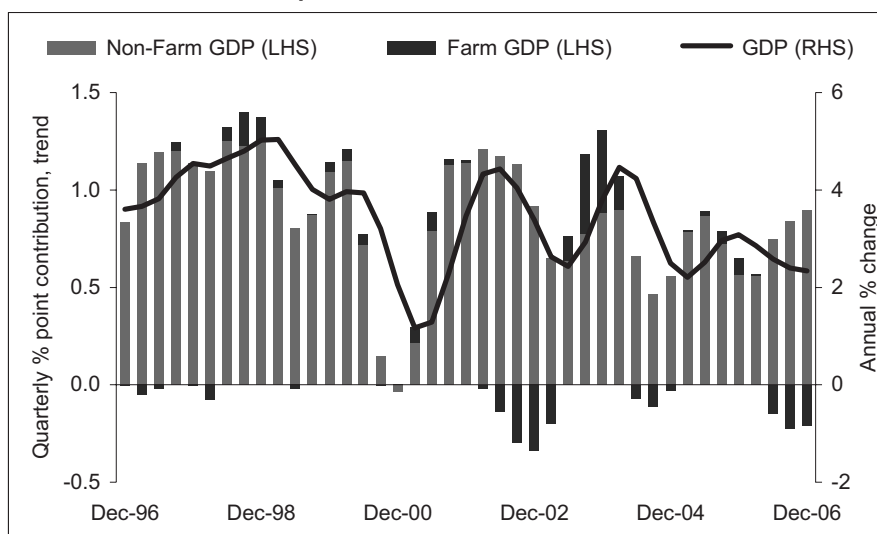
A key theme affecting the global economic outlook is an apparent divergence in global monetary policy settings. While the US Fed funds rate has remained unchanged since June 2006, other major economies have engaged in monetary tightening. With the US alone currently absorbing around three-quarters of global savings, this divergence in monetary policy settings should reduce the pace of capital flow into the US and therefore assist in the orderly unwinding of current global financial imbalances.

## Australian economy

National economic growth in 2006-07 is expected to be limited by severe drought conditions, despite the non-rural economy benefiting from strong overseas demand for Australia's energy and mineral products. Specifically, farm output is estimated to fall by 20% in 2006-07, leading to a decline in rural exports and investment by the agricultural sector. In contrast, the household sector is expected to recover in 2006-07, due to strong employment and wages growth as well as increased immigration. Stronger growth in household spending is expected to result in higher growth in imports, particularly with a high Australian dollar (A\$) subduing prices of imported goods. As a whole, Australian Treasury expects economic growth to ease from 2.9% in 2005-06 to 2½% in 2006-07.

An assumed unwinding of drought conditions and an increase in mining production are anticipated to boost economic growth in 2007-08. The assumed return to average seasonal conditions is forecast to add ½ percentage point to gross domestic product (GDP) growth, while expanded capacity in the mining sector is anticipated to strengthen growth in exports. These factors, combined with a rebound in machinery and equipment investment, are forecast to accelerate overall economic growth to 3¾% in 2007-08.

**Chart 2.2**  
Gross domestic product, farm and non-farm GDP, Australia



Source: ABS 5206.0.

The Australian Treasury's view is that, despite a forecast improvement in economic growth, employment growth nationally is anticipated to ease from an estimated 2½% in 2006-07 to 1½% in 2007-08. Further, the year-average unemployment rate is anticipated to rise ¼ percentage point, to 5% in 2007-08, as new entrants into the labour force take time to find jobs.

## **THE QUEENSLAND ECONOMY**

### **External forecast assumptions**

As a small open economy, Queensland's economic growth forecasts are based on assumptions about the national economy, trading partners and financial markets.

- Queensland's major trading partner economies are expected to grow at an above-average rate of 4¼% in 2006-07 and 2007-08.
- While the A\$ in April 2007 reached its highest level against the US\$ since 1990, an anticipated peaking in commodity prices is forecast to result in some depreciation in the A\$ during 2007-08.
- The Australian Government's economic forecasts and projections, as outlined in the Australian Budget delivered on 8 May 2007, have been adopted as the basis for national economic performance over the forecast period.
- Forecasts of rural production and exports are based on an assumption of a return to average seasonal conditions in Queensland in 2007-08.
- The Australian official cash rate is assumed to remain largely unchanged, with the Reserve Bank of Australia (RBA) forecasting underlying inflation to remain within its 2-3% target band.

A discussion of the risks and opportunities associated with these assumptions is contained later in this chapter.

### **Overall economic growth**

Growth in the Queensland economy is estimated to strengthen to an above-average rate of 5½% in 2006-07, driven by strong domestic demand and a recovery in exports. This will represent a growth rate more than double the 2½% estimated nationally, and the 11<sup>th</sup> successive year that Queensland's economic growth has exceeded that nationally.

Following an expansion lasting a decade and a half, the State economy has operated near full capacity in recent years. In response to this, investment is expected to be the main driver of domestic demand growth, rather than consumption, in 2006-07 (see Chart 2.3). Business investment is estimated to rise a further 18% and be broad-based across trade related sectors, commercial property and services. Public investment is also expected to continue to grow strongly, reflecting transport, energy and water infrastructure spending.

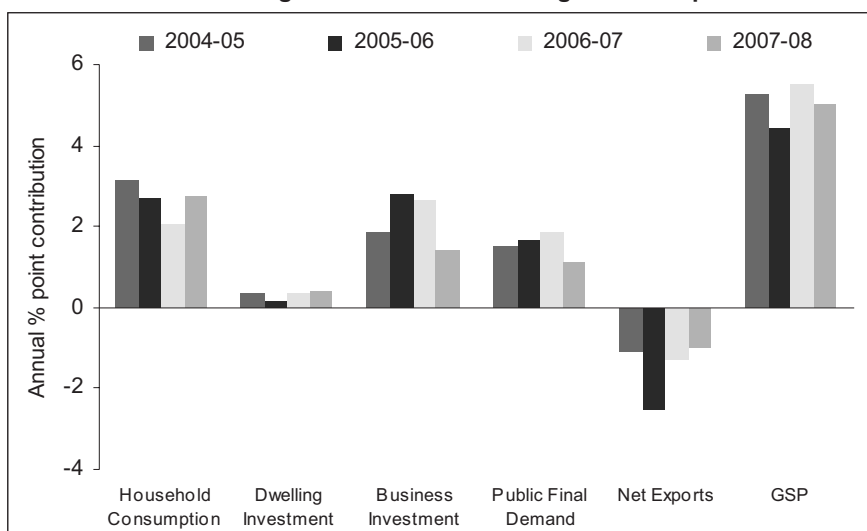
In comparison, growth in consumer spending is expected to ease due to higher interest rates and the continued effects of a moderation in the housing cycle in previous years. Housing investment, however, is expected to regain momentum through 2006-07, as higher returns encourage investor activity and population growth supports owner-occupied housing construction.

A rebound in coal and tourism exports is expected to offset a fall in base metal and rural exports in 2006-07, resulting in total exports rising an estimated 2¼%. However, with strong domestic demand expected to result in higher growth in imports (5¼%) relative to exports, the trade sector is estimated to detract from overall growth.

The Queensland economy is forecast to grow by 5% in 2007-08 and again exceed growth nationally. Investment by the business and public sector combined is forecast to reach 25% of gross state product, compared with 15% five years ago, and boost the productive capacity of the economy. However, a slight rebalancing in growth is forecast in 2007-08, with some easing in investment growth, albeit from very high rates, leading to a moderation in growth in domestic demand, while export growth is forecast to strengthen to a seven-year high of 3¾%. In particular, a rebound in rural and base metal exports is forecast to complement continued growth in coal exports due to strong global demand.

Households are anticipated to return as the principal driver of domestic demand in 2007-08. Consumer spending is forecast to strengthen to 4¾%, reflecting exceptional labour market conditions characterised by strong growth in employment and wages, a more stable interest rate outlook and a pick-up in housing construction activity.

**Chart 2.3**  
**Contribution to growth in Queensland's gross state product<sup>1</sup>**



Note:

1. Chain Volume Measure (CVM), 2004-05 reference year. 2006-07 is an estimated actual, 2007-08 is a forecast.

Source: Queensland Treasury.

**Table 2.1**  
**State and National Economic Forecasts<sup>1</sup>**

	Outcomes		Est. Actual	Forecast
	2004-05	2005-06	2006-07	2007-08
	%	%	%	%
<b>Queensland forecasts<sup>2</sup></b>				
<b>Domestic production</b>				
Household consumption	5.4	4.6	3½	4¾
Private investment <sup>3,4</sup>	7.6	12.2	11¼	7¾
Dwellings	3.8	1.6	3¾	4¼
Business investment <sup>4, 5</sup>	16.1	22.2	18	8¾
Other buildings and structures <sup>4</sup>	10.6	29.5	28¾	9¼
Machinery and equipment <sup>4</sup>	19.8	17.8	10¾	8¼
Private final demand <sup>4</sup>	6.0	6.9	6	5¾
Public final demand <sup>4</sup>	7.0	7.6	8¼	4¾
Gross state expenditure <sup>6</sup>	6.1	6.6	6½	5¾
Exports of goods and services	3.6	0.0	2¼	3¾
Imports of goods and services	6.2	7.1	5¼	5½
Net exports <sup>7</sup>	-1.1	-2.5	-1¼	-1
Gross state product	5.3	4.4	5½	5
<b>Other state economic measures</b>				
Population	2.2	2.1	2	2
Inflation	2.6	3.1	3	2¾
Wage Price Index	3.8	4.4	4½	4¼
Employment (labour force survey)	5.6	2.9	4¾	3
Unemployment rate (% , year-average)	4.9	5.0	4	4
Labour force	4.1	3.0	3¾	3
Participation rate	65.8	66.3	67¼	67½
<b>National forecasts<sup>2</sup></b>				
<b>Domestic production</b>				
Household consumption	4.3	2.6	3½	3½
Private investment	na	na	na	na
Dwellings	-1.5	-3.9	2½	2½
Business investment <sup>4,5</sup>	na	16.2	4	7½
Other buildings and structures <sup>4</sup>	na	21.6	12	7
Machinery and equipment <sup>4</sup>	na	14.5	-1½	6½
Private final demand <sup>4</sup>	na	4.4	3½	4¼
Public final demand <sup>4</sup>	na	4.3	4	3¾
Gross national expenditure <sup>6</sup>	4.5	4.1	3½	4¼
Exports of goods and services	3.1	2.2	3	5
Imports of goods and services	12.1	7.2	8½	6½
Net exports <sup>7</sup>	-1.8	-1.1	-1¼	-½
Gross domestic product	2.7	2.9	2½	3¾
<b>Other national economic measures</b>				
Population	1.2	1.3	1¼	1¼
Inflation	2.4	3.2	2¾	2½
Wage Price Index	3.8	4.1	4¼	4¼
Employment (labour force survey)	3.0	2.2	2½	1½
Unemployment rate (% , year-average)	5.3	5.1	4¾	5
Labour force	2.4	2.1	2¼	1¾
Participation rate	64.0	64.5	64¾	65

Notes:

1. Unless otherwise stated, all figures are annual % changes. Decimal point figures indicate an actual outcome.  
na - Indicates not available.
2. CVM, 2004-05 reference year.
3. Private investment includes livestock, intangible fixed assets and ownership transfer costs.
4. Excluding private sector net purchases of second-hand public sector assets and incorporating changes to the allocation of investment due to the full privatisation of Telstra.
5. National calculations of business investment include investment in livestock and intangible fixed assets, which are not included in the Queensland calculations.
6. Includes statistical discrepancy and change in inventories.
7. Percentage point contribution to growth in gross state or domestic product.

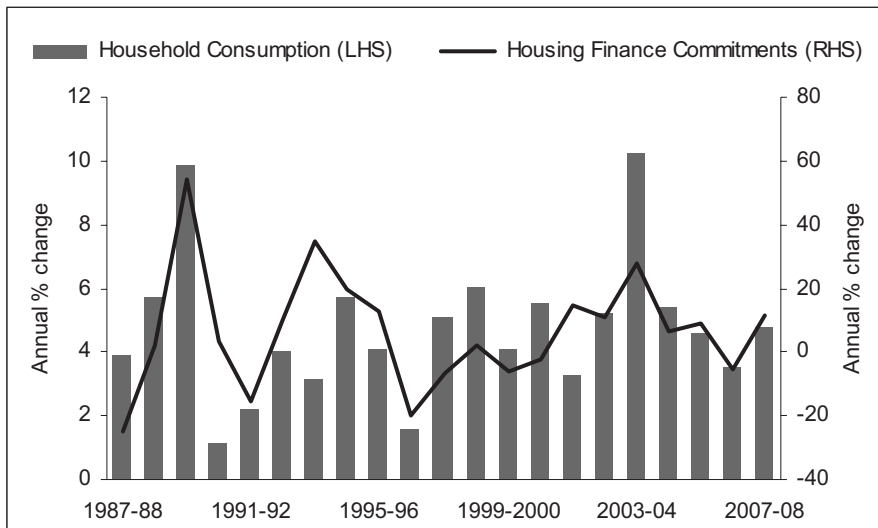
Sources: Queensland Treasury, Australian Treasury and ABS 5206.0.

## Household consumption

Growth in household consumption is expected to moderate for a third consecutive year, to 3½% in 2006-07, representing a trough in the consumption cycle. A number of factors have dampened consumer spending in 2006-07, despite above-average growth in employment, wages and share prices boosting incomes and wealth during the year. One dampening factor on consumer spending has been the lagged impact of the moderation in housing investment, which initially supported spending on household items as well as wealth-related spending due to strong house price growth (see Chart 2.4). Further, three interest rate rises in 2006 have seen growth moderate in discretionary areas of spending, while higher petrol prices in late 2005-06 have resulted in reduced spending on transport into 2006-07.

Growth in household consumption is forecast to strengthen to 4¾% in 2007-08, underpinned by strong growth in incomes, wealth and employment, as well as some stabilisation in interest rates and petrol prices. The strength of the domestic economy as well as the high level of Queensland's terms of trade (export prices relative to import prices) are anticipated to support income growth. Renewed strength in the housing sector is forecast to result in stronger real growth in spending related to household services and furnishings in 2007-08, while the recent strengthening in Queensland house price growth should also support increases in household wealth and, hence, consumption.

**Chart 2.4**  
Household consumption<sup>1</sup> and housing finance commitments<sup>2</sup>, Queensland



Notes:

1. CVM, 2004-05 reference year. 2006-07 is an estimated actual, 2007-08 is a forecast.

2. Advanced two years.

Sources: Queensland Treasury and ABS 5609.0.

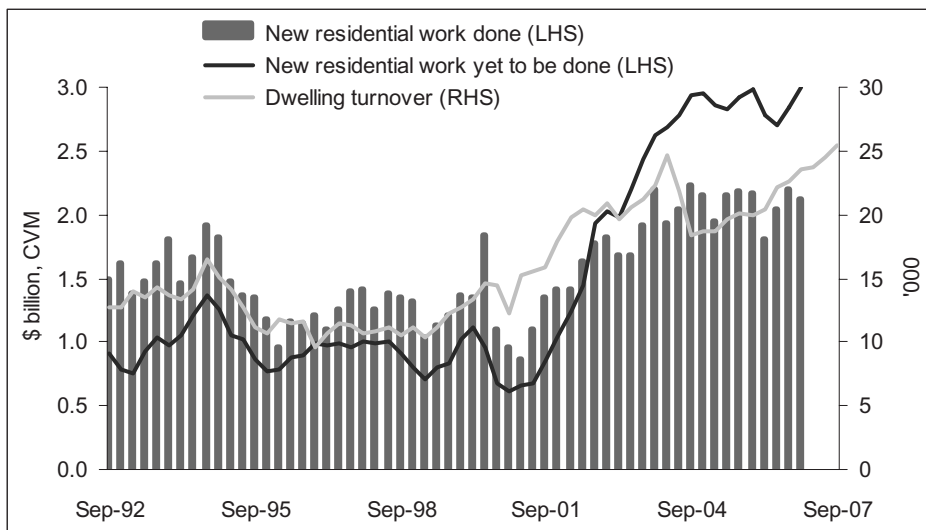
## Dwelling investment

Following modest growth in 2005-06, growth in dwelling investment in Queensland is expected to strengthen to 3¾% in 2006-07 and 4¼% in 2007-08, driven by ongoing growth in renovation activity as well as a turnaround in new home construction activity.

In contrast to the peak years of the latest housing cycle, renovation activity has been the primary driver of growth in housing investment in recent years. Alterations and additions activity has been supported by strong growth in incomes and excellent labour market conditions. Continued growth in property prices across the State has also provided owner-occupiers with increased home equity to finance renovations, as well as making it more cost effective at the margin to renovate rather than purchase a new home. These factors driving renovation activity are expected to continue into 2006-07 and 2007-08.

After declining in 2005-06, new construction activity has recovered in the first half of 2006-07, with forward indicators and a build up of construction work yet to be done suggesting this should continue for the remainder of the fiscal year (see Chart 2.5). Despite recent increases in interest rates, strong population growth is forecast to maintain growth in demand for owner-occupied housing in 2007-08, while low rental vacancy rates and higher rental yields across much of the State should support investor activity in the housing market.

**Chart 2.5**  
Dwelling construction<sup>1,2</sup> and turnover<sup>3</sup>, Queensland



Notes:

1. CVM, 2004-05 reference year.
2. Residential work yet to be done deflated using ABS 6416.0 House Price Index: Project Homes: Brisbane.
3. Finance approvals for purchase of established dwellings, excluding refinancing. Advanced two quarters.

Sources: ABS 5609.0, 6416.0 and 8752.0.

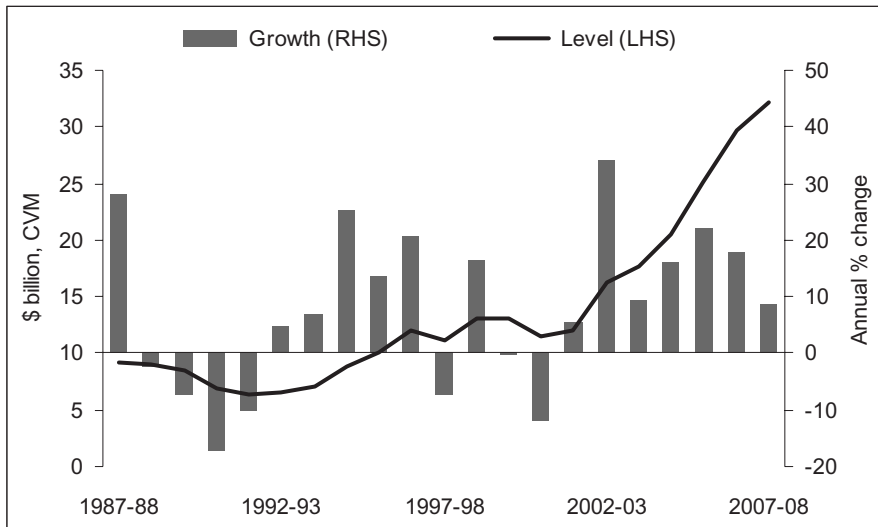
## Business investment

The rapid growth in business investment in Queensland has continued into 2006-07, with the volume of investment estimated to surge a further 18% (see Chart 2.6). Continued buoyant economic conditions, both domestically and in the State's major trading partners, as well as high rates of corporate profitability and capacity utilisation, have added considerable momentum to the current cycle.

Investment in other buildings and structures is estimated to rise by 28¾% in 2006-07. Growth has been broad-based, with rising household incomes and population growth encouraging non-residential construction in sectors such as education, retail, office property as well as entertainment and recreation. Sustained high prices and strong global demand for the State's mineral exports have also boosted profitability and encouraged engineering construction related to mining and other export industries. Strong growth in domestic demand is estimated to lead to a 10¾% rise in machinery and equipment investment, with a high A\$ also encouraging spending on imported capital goods.

Ongoing strong growth in global demand and continued high levels of capacity utilisation domestically are anticipated to see business investment rise a further 8¾% in 2007-08. Despite moderating from the very high rates of previous years, this forecast growth should see the overall volume of business investment surpass \$32 billion in real terms next financial year, with non-dwelling construction forecast to increase a further 9¼% and machinery and equipment investment by 8¼% in 2007-08.

**Chart 2.6**  
**Business investment, Queensland<sup>1</sup>**



Note:

1. CVM, 2004-05 reference year. 2006-07 is an estimated actual, 2007-08 is a forecast. Excluding private sector net purchases of second-hand public sector assets and incorporating changes to the allocation of investment due to the full privatisation of Telstra.

Source: Queensland Treasury.

## **Public final demand**

With further increases in spending on water, transport, energy and social infrastructure, public final demand is estimated to grow at a strong rate of 8¼% in 2006-07 and 4¾% in 2007-08. This forecast growth takes into account the full privatisation of Telstra, which will result in this corporation's investment being treated as private, rather than public, investment from March quarter 2007 onwards.

## **Net exports**

Despite an expected recovery in exports, strong growth in domestic demand is estimated to result in comparatively higher imports growth. As a result, net exports are estimated to detract 1¼ percentage points from economic growth in 2006-07.

After remaining almost unchanged in 2005-06, the volume of exports is expected to recover to record growth of 2¼% in 2006-07, largely reflecting a rebound in coal and tourism exports. Coal exports rose strongly in the first three quarters of 2006-07, driven by continued increases in Asia's energy demands, growth in global steel production, and capacity expansions in coal production and transport infrastructure, with the latter having temporarily disrupted exports in 2005-06.

In contrast, exports of other goods overseas are estimated to fall in 2006-07. Transitory factors, including mine expansion and maintenance, as well as disruptions in processing, are expected to lower base metal exports (such as aluminium, copper and zinc), while a high A\$ has coincided with a fall in exports of manufactures in the first three quarters of 2006-07.

Continued drought conditions across the majority of the State will subdue rural exports in 2006-07. The impact of Cyclone Larry and poor harvest conditions are expected to lower sugar exports. However, this decline is likely to be largely offset by higher meat exports, as producers reduce stock levels due to drought conditions and improved access to key Asian markets following a ban on North American beef imports between 2004 and 2006.

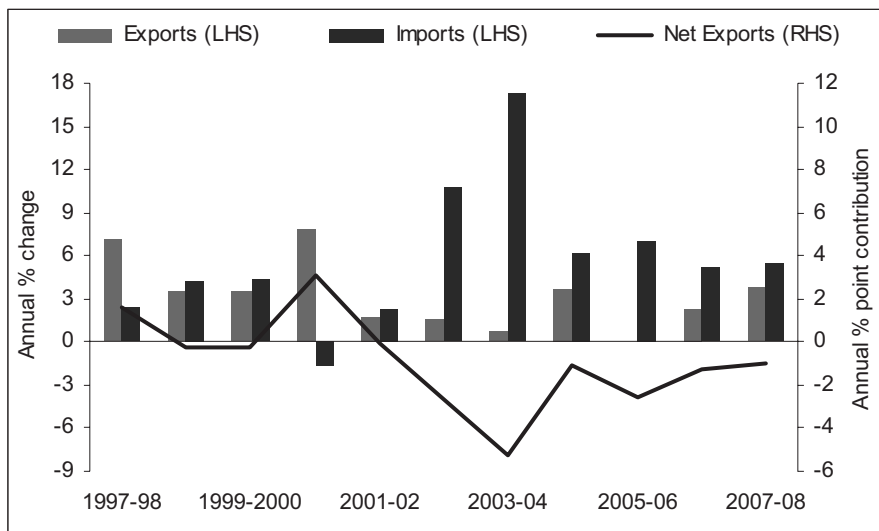
While growth in export volumes has been mixed across commodities and other goods, exporters continue to benefit from high world commodity prices, with Queensland's terms of trade remaining near historic highs in the first half of 2006-07. In particular, prices for selected base metals, such as aluminium, lead and zinc, have continued to increase, providing a boost to profitability, investment and employment in this sector.

Import growth is estimated to remain solid at 5¼% in 2006-07. Strong growth in incomes and corporate profitability, combined with a high A\$, has encouraged household and business spending on imported consumer durables and capital items.



Net exports are forecast to improve slightly in 2007-08, detracting one percentage point from economic growth. Exports growth is forecast to strengthen further to a seven-year high of 3¾%, with Queensland’s major trading partner economies predicted to continue to grow at an above-average rate. Further growth in coal exports and a recovery in base metal and sugar exports are forecast to drive commodity exports growth in 2007-08. Exports of manufactures and tourism services are also anticipated to contribute to the recovery. In comparison, imports growth is forecast to edge higher to 5½% in 2007-08, with an anticipated strengthening in growth in imports by the household sector more than offsetting more moderate growth in imports of machinery and equipment.

**Chart 2.7**  
**Exports and imports, Queensland<sup>1</sup>**



Note:

1. CVM, 2004-05 reference year. 2006-07 is an estimated actual, 2007-08 is a forecast.

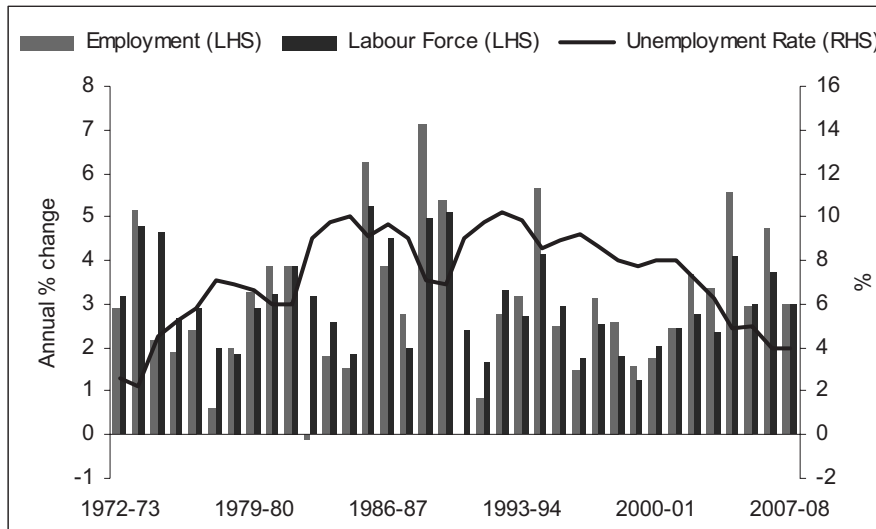
Source: Queensland Treasury.

### **Labour Market**

Employment growth is estimated to strengthen to an above-average rate of 4¾% in 2006-07, representing the creation of more than 90,000 jobs over the year. Record levels of business and public infrastructure spending, together with solid housing activity, have driven job gains in construction as well as property and business services during the year. Queensland Government initiatives have also contributed to employment growth in health and community services. Further, prices for outputs (particularly for exports) have continued to rise faster than wages in recent years. This improvement in profitability and fall in unit labour costs (wages paid as a share of income earned) has encouraged labour demand, and subsequently jobs growth, in 2006-07.

The year-average labour force participation rate is estimated to reach a new high of 67¼% in 2006-07, as strong growth in domestic demand and wages encourage mature-age persons, in particular, to re-enter the workforce. This rise in the participation rate, combined with solid population growth, is estimated to increase the size of the labour force by 3¾% in 2006-07. However, with employment growth expected to exceed labour force growth, the State's year-average unemployment rate is estimated to fall to a 33-year low of 4% in 2006-07.

**Chart 2.8**  
**Employment growth, labour force growth and unemployment rate, Queensland<sup>1,2</sup>**



Notes:

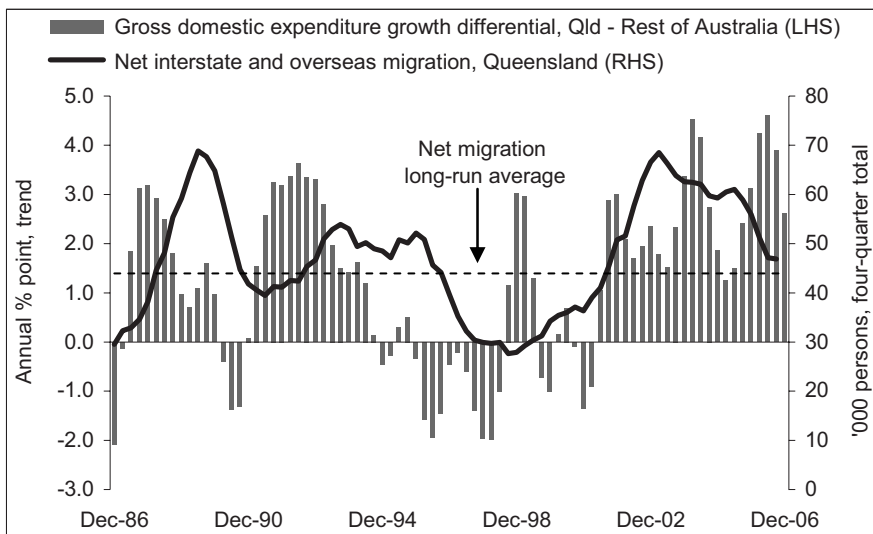
1. Year-average, 2006-07 is an estimated actual, 2007-08 is a forecast.
  2. Revisions to ABS labour force data and estimation methods are due in June 2007.
- Sources: Queensland Treasury and ABS 6202.0.

Reflecting some moderation in growth in overall domestic activity, employment growth is forecast to return to the long-run average rate of 3% in 2007-08, representing the creation of a further 60,000 jobs next financial year. The labour force participation rate is forecast to rise further to 67½% in 2007-08, as tight labour market conditions encourage more persons into the labour force. This, along with solid population growth, is forecast to result in labour force growth of 3% in 2007-08. With employment and the labour force forecast to grow at a similar rate, the year-average unemployment rate in 2007-08 is anticipated to remain at around the 33-year low of 4% expected in 2006-07.

## Population

After surpassing four million persons in December 2005, Queensland's population is forecast to continue to grow at a solid rate of 2% per annum in 2006-07 and 2007-08. This would translate into a net addition of 150,000 persons, or nearly 1,500 persons per week, over the two years. Traditional factors such as the State's stronger economic growth (see Chart 2.9), lower cost of living and preferable lifestyle, are expected to maintain high levels of net interstate migration. As a result, population growth in Queensland is forecast to remain around double that in the rest of Australia.

**Chart 2.9**  
**Domestic economic growth differential and migration, Queensland<sup>1</sup>**



Note:

1. Revisions to ABS population data and estimation methods are due in June 2007.

Sources: ABS 3101.0 and 5206.0.

## Wages

Queensland is expected to continue to record strong wages growth in 2006-07, with the Wage Price Index (WPI) estimated to grow by 4½%. Tight labour market conditions, as well as a strong terms of trade, have allowed above-average wages growth for employees in resource, trade and construction related sectors. Sustained demand for labour is forecast to see growth in the WPI remain solid at 4¼% in 2007-08, supported by an anticipated pick-up in labour productivity growth and ongoing high profitability.

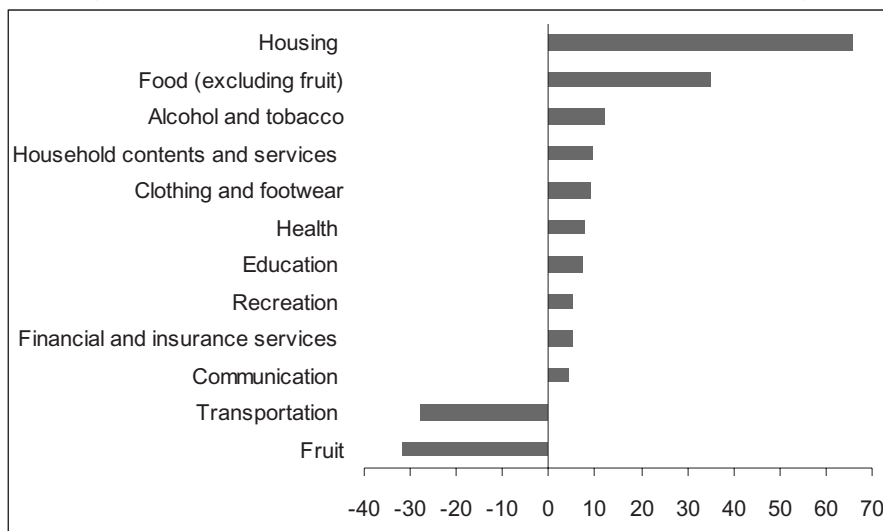
With wages growth forecast to remain above inflation in both 2006-07 and 2007-08, employed persons in Queensland are expected to continue to benefit from rising real wages over the forecast period.

## Inflation

Consumer price inflation (as measured by movements in the Brisbane consumer price index) is estimated to be 3% in 2006-07, similar to the 3.1% recorded in 2005-06. Domestically, tight housing market conditions have driven rents and housing purchase costs higher in 2006-07. Banana prices have returned to more normal levels, after reaching a temporary high in 2006 due to the effects of Cyclone Larry. However, ongoing drought conditions have seen higher food prices (excluding fruit) over the first three quarters of 2006-07 (see Chart 2.10). External factors are expected to moderate overall inflation, with fuel prices averaging lower in the first three quarters of the current financial year compared with the same period in 2005-06.

Inflation is forecast to ease to 2¾% in 2007-08, following an assumed return to normal seasonal conditions, which should dampen food price inflation next year, while a pick-up in labour productivity growth is expected to restrain growth in production costs.

**Chart 2.10**  
**Components of consumer price inflation, Brisbane**  
**(% of total change in CPI, three quarters to March quarter 2007)**



Source: ABS 6401.0.

## Risks and opportunities

The world economy continues to provide both opportunities and risks to economic growth in Queensland. Despite some global tightening in interest rates, the performance of Queensland's major trading partners has consistently exceeded market expectations. If growth prospects in the State's major trading partners continue to improve, exports growth in Queensland may be stronger than currently forecast.

However, the recent downturn in the US economy represents a risk to global economic activity. In particular, given the US represents the major destination for exports from China and Japan, softer growth in the US economy will have flow-on effects for Queensland exports, given China and Japan also represent major export destinations for Queensland commodities.

Despite widespread speculation of an easing in metal prices, stronger than expected world growth has seen prices generally maintain historic high levels. If global economic growth continues to exceed expectations, any fall in commodity prices may be further postponed, supporting domestic income and spending in Queensland. Conversely, in the case that the turnaround in commodity prices is earlier and deeper than currently predicted, growth in business and consumer spending may be adversely affected.

In line with market expectations, forecasts presented above assume that the A\$ will depreciate slightly over the forecast period. If the A\$ remains at its current high level or strengthens further, growth in non-commodity exports, such as tourism and manufactures, may be affected in 2007-08. On the other hand, any larger than expected depreciation in the A\$ should benefit non-commodity overseas exports.

Current high rates of capacity utilisation in the trade sector mean that any reoccurrence of transitory factors that affected the supply of some commodities in recent years, such as mine maintenance and temporary disruptions due to capacity expansions, is more likely to affect export performance than in previous years.

The labour force participation rate is expected to rise further in 2007-08, both nationally and in Queensland, supporting labour supply growth. However, this partly reflects Australian Government policy changes promoting workforce participation among groups not previously attached to the workforce. As a result, this process of labour market adjustment has the potential to increase the unemployment rate, as these new entrants take time to transition into employment.

Despite leaving interest rates unchanged since November 2006, the RBA continues to closely monitor inflationary pressures from a strong world economy, strong demand growth and limited spare capacity. In the case that interest rates rise further, household consumption and, to a lesser degree, private investment may be adversely affected in 2007-08. Specifically, given elevated household debt levels following the housing boom, the impact of interest rates rises on consumption may be greater than in the past.

With recent indicators suggesting that El-Niño conditions have declined markedly since early 2007, an assumed improvement in weather conditions underpins a forecast recovery in rural exports. However, if rainfall does not improve sufficiently in 2007-08, water storage levels will remain low. If this eventuates, rural exports and food prices may be adversely affected.

## Medium-term outlook

Queensland Treasury provides projections for key economic parameters for the three years following the immediate forecast period in the annual Budget. The projections for the years 2008-09 to 2010-11, shown in Table 2.2, 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. The projections assume a continuation of the longer-term Australian Government policy framework of a stable budget position and monetary policy consistent with a low inflation environment.

Economic growth in Queensland is projected to return towards its average growth rate over the longer-term. Growth in domestic activity, driven by the current surge in both business investment and public sector infrastructure spending, is expected to ease. Partly offsetting this, the resulting increase in capacity, combined with sustained strong global demand, is expected to improve trade sector performance. Overall, economic growth of around 4½% per annum is projected for the period 2008-09 to 2010-11. Jobs growth of 2½% per annum is projected to outpace population growth of 1¾% per annum. This implies a moderate increase in labour force participation and the current low unemployment rate to be maintained over the medium-term.

**Table 2.2**  
**Economic parameters/projections<sup>1</sup>**  
**(annual % change)**

	Outcome 2005-06	Est. Act. 2006-07	Forecast 2007-08	Projections <sup>2</sup> 2008-09 to 2010-11
<b>Queensland</b>				
Gross state product <sup>3</sup>	4.4	5½	5	4½
Employment	2.9	4¾	3	2½
Inflation	3.1	3	2¾	2½
Wage Price Index	4.4	4½	4¼	4
Population	2.1	2	2	1¾
<b>Australia</b>				
Gross domestic product <sup>3</sup>	2.9	2½	3¾	3
Employment	2.2	2½	1½	1¼
Inflation	3.2	2¾	2½	2½
Wage Price Index	4.1	4¼	4¼	4
Population	1.3	1¼	1¼	1¼
Notes:				
1. Decimal point figures indicate an actual outcome.				
2. Average annual percentage change over the period.				
3. CVM, 2004-05 reference year.				
Sources: Queensland Treasury and Australian Treasury.				

### 3. ECONOMIC STRATEGY

---

#### FEATURES

- Queensland's strategy for continued economic growth and prosperity focuses on productivity growth, driven by the maintenance of sound fiscal and economic settings, microeconomic reform, infrastructure investment and investments in skills and innovation.
- Queensland is maintaining strong policy fundamentals through the *Charter of Social and Fiscal Responsibility*.
- The Government is implementing a program of microeconomic reform to improve the efficiency of Queensland's economy and industry.
- Infrastructure investment is at a record level and continues to be the largest capital investment program per capita in Australia by a sizable margin. A special focus is the development of water infrastructure and water reform, particularly in the South East Queensland region.
- Continued emphasis is being placed on skills development in order to increase labour productivity and employment. Key plans are the *Queensland Skills Plan*, the *Skilling Queensland for Work* program and *Education and Training Reforms for the Future*.
- The Smart State Strategy and other innovation measures are a further area of attention. Queensland's innovation performance has improved significantly in the last five years.

#### ECONOMIC AND PRODUCTIVITY GROWTH

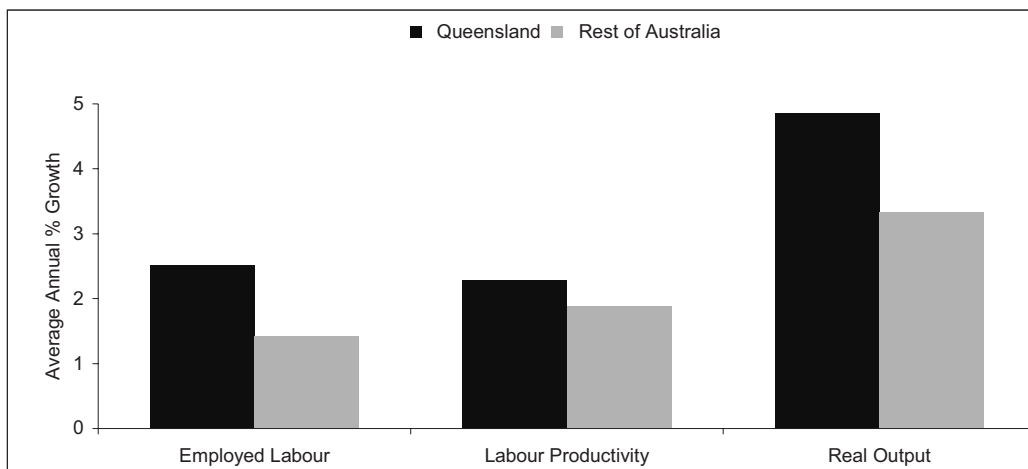
This chapter discusses the Queensland Government's economic policies and framework, especially those policies which are designed to maintain the State's strong economic and productivity growth.

##### Productivity

Productivity growth plays a key role in improving the State's economy and is the single most important determinant of economic growth in the longer term and a key influence on improving living standards.

Over the past 10 years, Queensland has generated an average annual growth rate of 4.9% per annum, compared with 3.3% for the rest of Australia. Labour productivity growth accounts for around half of this growth. Chart 3.1 shows the levels of productivity growth and long-term economic growth over the last decade.

**Chart 3.1**  
**Employed labour, labour productivity and real output, 1995-96 to 2005-06**



Source: Queensland State Accounts, ABS 6202.0 unpublished data.

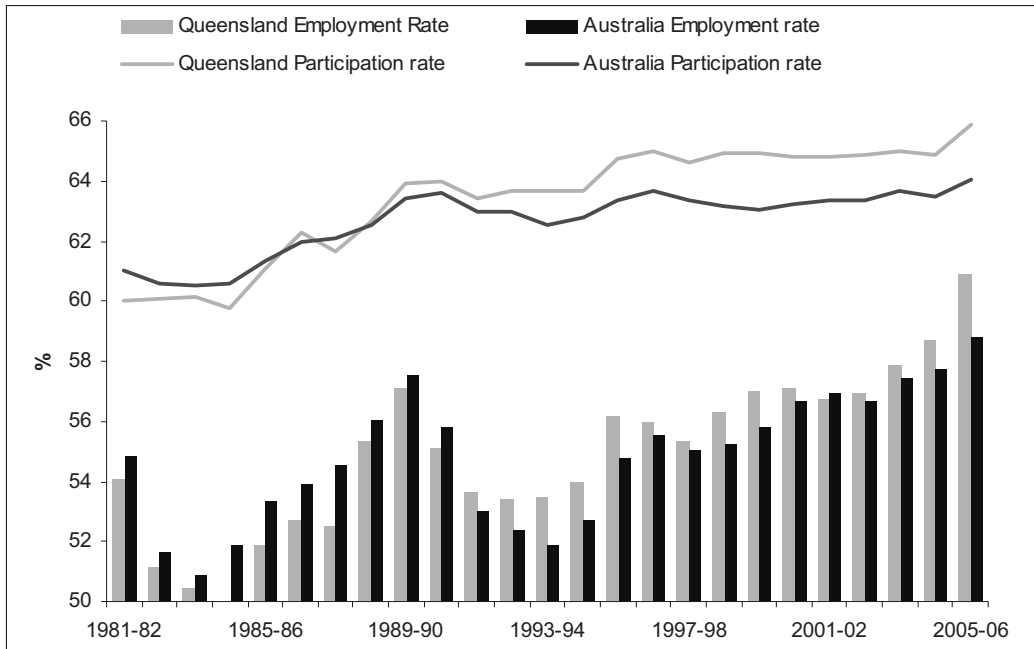
## Participation

As well as productivity growth, Queensland's rate of future economic growth depends on the rate at which the workforce will grow. This in turn depends on population growth and labour force participation.

Queensland's population growth has averaged 2.0% over the past decade, compared with an Australian average of 1.2% per annum, and is projected to average 1.7% over the next decade. Chart 3.2 shows Queensland's labour force participation rate has also grown strongly over the last decade, reaching record levels and being significantly higher than the rest of Australia. This growth in participation has been accompanied by sustained growth in employment and the achievement of the lowest unemployment rate in 33 years.



**Chart 3.2**  
**Labour force participation rate<sup>1</sup> and employment rate<sup>2</sup>**



Notes:

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

Source: ABS 6202.0, Queensland Treasury, Australian Treasury.

Over the longer term, demographic forces including an ageing population structure and decreased fertility rates, are likely to increase pressure to achieve higher participation rates. Without policy intervention and continued increases in productivity, lower rates of labour force growth would put downward pressure on economic growth and make the State's fiscal policies harder to maintain.

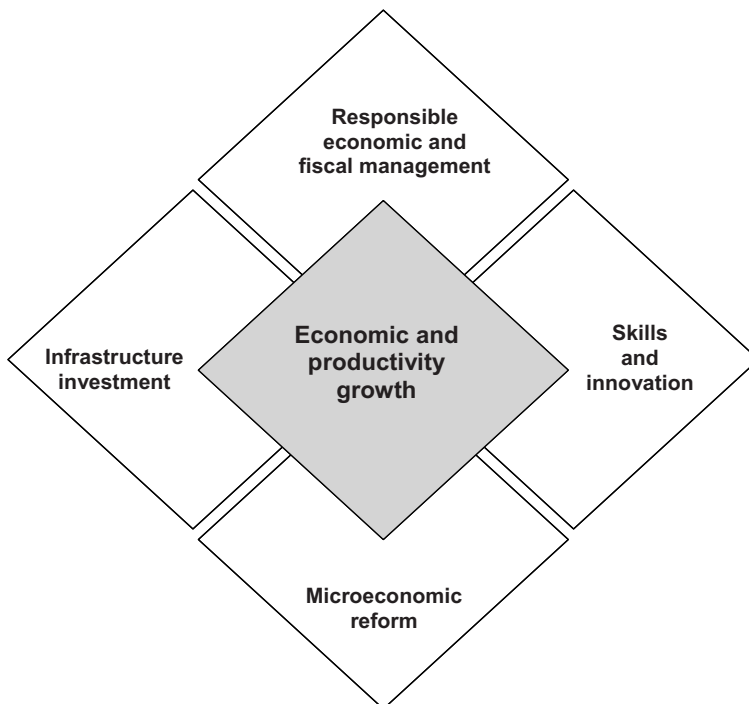
The key influences on people's decisions whether to participate in the labour market include: age, tax and social security arrangements, family situation, child care, educational status and retirement arrangements. These factors lie mainly within the Australian Government's responsibilities. However, one of the areas – education and training – is a key State responsibility. Organisation for Economic Co-operation and Development (OECD) research indicates that the workforce participation rate is strongly and positively linked to educational achievement. The State's education and training policies are discussed later in this chapter and in Chapter 4.

## FRAMEWORK FOR ECONOMIC AND PRODUCTIVITY GROWTH

To maintain and increase the State's economic and productivity growth the Government focuses on four policy settings, namely:

- responsible economic and fiscal management – to provide a stable economic and fiscal environment to support growth
- microeconomic reform – to improve the efficiency and competitiveness of Queensland's economy and industries
- infrastructure investment – to service Queensland's continued population and industry growth
- skills and innovation – to drive increases in labour and capital productivity.

**Figure 3.1**  
**Framework for economic and productivity growth**



## **RESPONSIBLE ECONOMIC AND FISCAL MANAGEMENT**

The *Charter of Social and Fiscal Responsibility* sets out the Government's commitment to building and maintaining a strong diversified economy, and to deliver high quality services to improve the quality of life for Queenslanders. Key strategies include:

- expanding market access, export and trade opportunities
- creating additional job opportunities
- maintaining a competitive tax environment for business development and jobs growth
- diversifying and strengthening the economy through value adding, productivity growth and the development of future growth industries.

More detail about the Government's fiscal objectives and performance is in Chapter 1. The State's economic performance is detailed in Chapter 2.

### **Taxation reform**

The Government has a commitment to the ongoing reform of the State tax system in order to minimise the burden on Queensland taxpayers while still raising sufficient revenue for the funding of high quality State services and infrastructure. Further details on tax policy are provided in Chapter 5.

#### ***Payroll tax harmonisation***

The Queensland Government recognises the importance to business of increased harmonisation across jurisdictions and has been working with other states and territories to increase consistency in their application of payroll tax.

The Queensland Government will further increase consistency across jurisdictions by aligning in a number of areas Queensland's payroll tax system with those of other states, including the harmonised system announced by the Victorian and New South Wales governments in January 2007.

#### ***Land tax reform***

The Government recognises that a vibrant property market can result in sharply rising land valuations and short-term financial pressure on land owners through large increases in land tax liabilities.

Building on land tax reforms announced in recent Budgets, the Government is providing further assistance through a package that:

- caps the increase in annual average land values at 50% each year for three years for the purposes of calculating land tax liabilities, commencing 1 July 2007

- increases the tax-free threshold for resident individual land tax payers from \$500,000 to \$600,000 from 2007-08
- increases the tax-free threshold for company, trustee and absentee land tax payers from \$300,000 to \$350,000 from 2007-08.

### ***Stamp duty abolitions***

The Government is committed to a schedule of stamp duty abolitions that balances a range of community priorities, including the maintenance of the State's tax competitiveness while funding the delivery of essential community services and the provision of critical new infrastructure.

The schedule includes the abolition of nine stamp duties. To date, seven have been abolished, yielding savings to taxpayers of \$345 million in 2006-07.

The remaining two stamp duties will be abolished by 2011.

- Mortgage duty will be halved from 1 January 2008 and fully abolished from 1 January 2009.
- Duty on the transfer of core business assets will be halved from 1 January 2010 and fully abolished from 1 January 2011.

## **MICROECONOMIC REFORM**

The Government is implementing a program of microeconomic reform to improve the efficiency and competitiveness of the Queensland economy and industry.

### **Full Retail Competition**

The Government is introducing Full Retail Competition (FRC) into the Queensland electricity market from 1 July 2007. This means households and small businesses will be able to choose from which retailer they purchase their electricity.

FRC will encourage the energy sector in Queensland to become more competitive and be more responsive to customer needs.

No customer will be made worse off as a result of the introduction of FRC because they will have the choice of remaining on State-wide regulated tariffs.

The FRC reform will also be a catalyst for long-term investment in electricity generation in Queensland. Major integrated energy companies with retail customers will have an incentive to invest in generation.

From 1 July 2007 FRC will also be introduced for gas. Introducing this reform to coincide with electricity FRC will enable retailers to enter the market in Queensland to offer customers the opportunity to supply both gas and electricity. This will have the effect of expanding the gas market in Queensland, which by interstate standards is comparatively small.

It also provides the basis for greater competition in gas wholesale supplies and further impetus for pipeline development in this State.

More gas supplies and increased pipeline developments will mean better outcomes for customers both in respect of price and choice and, when coupled with electricity deregulation, will allow Queensland to meet growing energy demand.

### **Reform of economic regulation framework**

Queensland is finalising a review of the regulation framework which will improve the system of economic regulation in the State.

The *Queensland Competition Authority Act 1997* provides the legislative framework for the State's third-party access regime. It establishes a legal right for competing firms to share certain significant infrastructure services, such as rail and ports in Queensland, through the independent pricing and access advice provided by the Queensland Competition Authority (QCA). The proposed changes to the framework will enhance the ability of the QCA to provide quality targeted advice to parties operating under the regulatory regime in Queensland. The reforms will also forge a consistent national approach to the regulation of these infrastructure services and increase certainty for parties operating in the regulatory regime in Queensland. This will encourage investment in infrastructure in Queensland, enhance competition and benefit Queensland consumers.

A number of the proposed changes will comply with the requirements of the new Competition and Infrastructure Reform Agreement (Agreement) signed by the Council of Australian Governments (COAG) in February 2006. These changes include the introduction of nationally consistent objects clauses and pricing principles, in addition to binding six month time limits on decisions by regulators.

### **Asset sales and the Queensland Future Growth Fund**

The energy retail asset sales will contribute to the future economic prosperity of Queensland by encouraging greater competition in the new fully contestable energy retail market, which is scheduled to commence from 1 July 2007.

Robust competition will help ensure customers get the best possible deals from the energy retailers. Queensland is a booming economy, with strong growth in energy demand driven by the economy.

It was considered that, given the expected level of intensity in competition with full retail contestability, it was no longer appropriate for public resources to be allocated through ENERGEX and Ergon Energy to a service function which will be able to be fully met in an economic and efficient way by the private sector.

This decision has enabled ENERGEX and Ergon Energy to more fully devote their resources to the large network upgrade programs they are required to deliver. In 2007-08, for example, the combined capital program of the two energy distributors will be a record \$1.738 billion.

Ergon Energy also will retain responsibility for managing those customers who choose to remain on the energy franchise, and not enter the contestable market. It is expected that about 600,000 customers in rural and regional locations will choose to remain on the franchise and remain with Ergon Energy.

The Queensland Future Growth Fund is financed from the proceeds of energy asset sales – ENERGEX’s electricity and gas retail business, the Allgas distribution network and the competitive parts of Ergon Energy’s electricity retail business including Ergon Energy’s subsidiary, Powerdirect. The sale processes were very competitive and delivered positive outcomes for the State. The prices received for the businesses compare favourably with previous retail asset sales in Australia and reflect the growth opportunities available in South East Queensland.

The proceeds have been transferred into the Queensland Future Growth Fund and are being used across a range of infrastructure projects. Details of these initiatives are outlined in Chapter 4.

## **Climate change – *ClimateSmart 2050***

Climate change represents a major global challenge that requires short, medium and long-term policies that provide for a transition to a low carbon emissions future. Building on a range of actions already taken to address climate change, including the banning of broadscale clearing of vegetation, a commitment to participate in a National Emissions Trading Scheme and investment in clean coal technology (including \$300 million from the Queensland Future Growth Fund), *ClimateSmart 2050* is Queensland’s climate change strategy.

*ClimateSmart 2050* involves policy and program initiatives that will facilitate the transition to a low carbon future including:

- increasing the 13% target for electricity from gas-fired generation to 18% by 2020
- setting a renewable and low emissions energy target of 10% by 2020
- \$100 million from the Queensland Future Growth Fund for a program of initiatives involving renewable energy research and development and programs to achieve industry and household energy savings.

A new \$300 million Queensland Climate Change Fund has also been established to support future investments in climate change initiatives.

## **Ports review**

The Queensland Government is undertaking a review of port operations and commercial business practices at the significant ports in Queensland. The review aims to ensure that these ports:

- are managed efficiently and, where appropriate, allow for competition in the provision of port and related infrastructure
- maximise the opportunity for competition in upstream and downstream markets, and do not misuse market power
- are only subject to economic regulation where there is a clear need.

The review is expected to be completed by the end of 2007.

## **Reform of the legal profession**

This year, the Government enacted the final tranche of legislation to implement a national model for reform of the legal profession. The national model is aimed at improving the efficiency of the legal profession and further developing the national market in legal services.

The reforms have simplified and streamlined legislation governing the legal profession, promoted competitive practices by eliminating unnecessary regulation and reducing cross-border compliance costs, and enhanced overall accountability of the legal profession and professional bodies in regulating their members.

## **Tort law reform and Compulsory Third Party motor vehicle insurance**

The Government's implementation of tort law reform has made the insurance environment more sustainable, with benefits progressively flowing to the consumer in all facets of liability insurance.

One consequence has been greater competition in the market for compulsory third party motor vehicle insurance (CTP). Actuarial advice indicates strong evidence of a continued reduction in claim frequency across all claims in the CTP scheme. For example, motorists are now saving up to 12.7% or \$37.40 on their previous 12 monthly Class 1 (sedans and station wagons) renewal. This recent reduction in premiums is on the back of reductions over the preceding year in the order of 9%.

## WorkCover premiums

Queensland has maintained the lowest average workers' compensation rate of any state in Australia for the last seven years. In 2005-06, significant increases in wages growth combined with stronger than expected investment returns enabled WorkCover Queensland to maintain a fully funded position while allowing for an appropriate balance between workers' benefits and employer premiums.

An independent review of Queensland's workers' compensation system was undertaken in February 2007. Following the Report of the Review, the Government announced a further reduction in premiums from \$1.20 per \$100 in wages to \$1.15 per \$100 in wages for the next three years. This reduction in premium will take effect from 1 July 2007 and will result in the average premium rate having fallen by over 19% since 1 July 2005.

## Regulatory efficiency

The Queensland Government's *Review of Hot Spots for Regulatory Reform* and *Review of Legislative/Regulatory Reform Initiatives* in the Queensland Government were completed in 2006.

*The Review of Hot Spots for Regulatory Reform*, conducted in parallel with three industry specific reviews of the impact of regulation on the manufacturing (including food production and processing), retail and tourism industries, identified regulatory issues adversely affecting business in Queensland. The Review provided business and the community with an opportunity to provide input into Queensland's regulatory reform agenda.

*The Review of Legislative/Regulatory Reform Initiatives* in the Queensland Government – Phase 1 was undertaken by the Service Delivery and Performance Commission to examine and identify improvements in regulatory reform initiatives in Queensland.

In addition to State-based regulatory reforms, Queensland is committed to the COAG led regulatory reforms, as part of the COAG National Reform Agenda announced in February 2006. Building on these commitments, COAG recently agreed to the following actions to address various regulatory 'hotspots', including:

- implementing national rail safety legislation and a nationally consistent rail safety regulatory framework
- developing a timetable to achieve national occupational health and safety (OHS) standards and harmonise elements in primary OHS legislation
- developing a proposal for more consistent and efficient system of environmental assessment and approval



- ensuring best practice regulation making and review processes apply to the Building Code of Australia (BCA) and removing unnecessary State-based variations to the BCA
- developing a process to deliver a single online registration system for Australian Business Numbers and business names, including trademark searching.

## **COAG human capital reforms**

As well as Queensland-specific skills measures, Queensland is participating in a set of human capital reforms being implemented through COAG. At its April 2007 meeting COAG announced a specific series of reforms designed to cover Type 2 diabetes, vocational education and training, literacy and numeracy, and early childhood and child care. These reforms aim to improve labour force participation and skills.

COAG will implement a \$200 million cost-shared package to counteract the spread of diabetes, with the development by mid 2008 of nationally agreed risk assessment tools, program standards and accreditation arrangements for prevention programs and providers.

A \$40 million cost-shared package over four years will be provided to assist Indigenous adults in regional and remote communities access further education and training opportunities, in support of the Work Skills Vouchers program.

To improve literacy and numeracy, states and the Australian Government will develop:

- a core set of nationally consistent teacher standards for literacy and numeracy by the end of 2007
- accredited university teacher education courses, and register or accredit teachers to meet these standards by 2009
- diagnostic assessments for children upon entry to primary school by 2010
- a core set of nationally agreed skills, knowledge and attributes for school principals by the end of 2007.

Additionally, states will work with the Australian Government to develop an intergovernmental agreement by 2008 on a national approach to quality assurance and regulations for early childhood education and care. The agreement aims to improve standards in early childhood services, remove overlaps and duplication between state and Australian Government regulations and reduce red tape for service providers.

## **Service Delivery and Performance Commission (SDPC) reviews**

The SDPC is undertaking a program of reviews to improve public service performance, service delivery and accountability. The Commission has recently completed or is currently reviewing:

- purchasing and logistics in the Queensland Government
- shared service initiative
- whole-of-Government performance management reforms
- QFleet and GoPrint
- performance management review - Department of Communities, Disability Services Queensland and Aboriginal and Torres Strait Islander Policy
- performance management review - Department of Local Government, Planning, Sport and Recreation
- performance management review - Department of Tourism, Fair Trading, Wine and Industry Development.

Most of these reviews will be completed by mid 2007, with the Government then developing an appropriate response.

## **Local Government reforms**

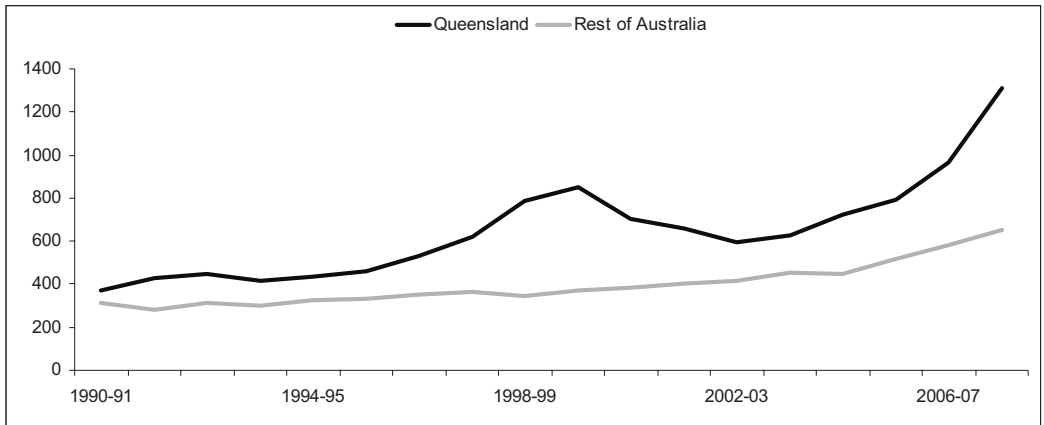
The Government has recently commenced a local government reform initiative that seeks to establish a modern, contemporary system of local government in Queensland. The key drivers for reform include the financial sustainability of councils, the ability of councils to deliver and fund efficient infrastructure and services and the need for a regional approach to planning and service delivery.

A Local Government Reform Commission has been established to determine boundaries and electoral arrangements for new councils and is to provide its recommendations in August 2007. It is envisaged that Local Transitional Committees will be formed for those councils that are amalgamated, leading to the next local government elections in 2008.

## **INFRASTRUCTURE INVESTMENT**

The Government is committed to increasing Queensland's infrastructure base. This is reflected in the scale of its capital program. For the General Government sector, purchases of non-financial assets are estimated to be \$5.463 billion in 2007-08.

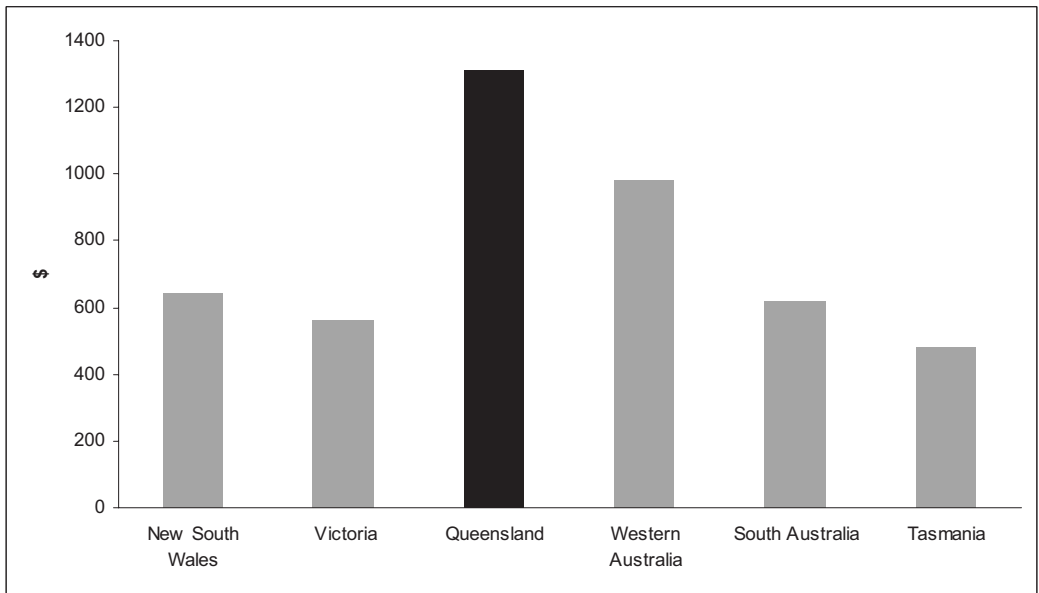
**Chart 3.3**  
**General Government purchases of non-financial assets \$ per capita**



Sources: Unpublished ABS 5512.0 and 3101.0; various State Budget papers and State Budget Mid Year Reviews/ Budget Updates; population estimates from Australian Government Budget Paper No.3, 2007-08.

Charts 3.3 and 3.4 show Queensland’s per capita capital investment has been higher than the rest of Australia for many years and will continue to be the largest of any State in 2007-08 – this is related to continued strong population growth and to support of industry expansion in the State.

**Chart 3.4**  
**General Government purchases of non-financial assets \$ per capita – 2007-08**



Sources: QLD, VIC, WA State Budgets, NSW, SA, TAS Mid Year Reviews/Budget Updates.

## Water

Water is a key focus of the capital program.

### **Water infrastructure development**

The Queensland Government is making significant investments in water infrastructure throughout the State, particularly in South East Queensland (SEQ), to help alleviate the impacts of the current drought and ensure security of supply for current and future domestic, commercial, industrial and rural users.

The Government's approach to water infrastructure development is to undertake a considered needs-based assessment of new infrastructure proposals to ensure that the infrastructure is economically and environmentally sustainable. This is consistent with the Government's *Guidelines for Financial and Economic Evaluation of New Water Infrastructure in Queensland* and is a key element in the preparation of the Regional Water Supply Strategies.

State and local governments' planned major investments in new water infrastructure in SEQ, including long-term projects beyond the forward estimates period, are estimated at \$9 billion. Specific projects include:

- a desalination plant being built at Tugun on the Gold Coast, which will supply desalinated water into the SEQ water grid
- a two-way flow pipeline to transfer water between the Gold Coast and Brisbane (including water from the desalination plant) via the Southern Regional Water Pipeline
- undertaking the Western Corridor Recycled Water project to recycle treated waste water from sewerage treatment plants together with associated pipelines to deliver this water to power stations and SEQ urban water storages (partially funded by the Commonwealth)
- northern and eastern inter-connector pipelines to supply water into the SEQ water grid from north of Brisbane and North Stradbroke Island
- the Traveston Crossing and Wyaralong Dams and associated works (including the Cedar Grove Weir and Bromelton Off Stream Storage). Initial works and environmental impact studies are being undertaken in relation to these longer term projects.

In addition to the projects in SEQ, investigations are continuing into a range of projects, such as the Nathan, Connors River and Nullinga Dams in regional Queensland, which were previously announced as part of the State Water Policy. This policy outlined a range of possible infrastructure projects for investigation to meet the expected increased demand associated with continued urban, industrial and rural development.

## ***Institutional reform***

The Government has also committed to reforming the institutional arrangements in relation to the planning, control and management of water in SEQ. This is being undertaken primarily through the Queensland Water Commission (QWC).

The QWC is also tasked with controlling and overseeing the water restriction regime in SEQ to ensure that a regional approach is taken to the use of this scarce resource.

The QWC's role in the management of water in SEQ includes:

- planning for the best use of current infrastructure and appropriate augmentation options
- identifying the current and future demand for water and the current and potential supply sources to meet that demand
- providing advice in relation to the institutional arrangements review and the cost recovery and pricing framework for SEQ.

In February 2007, the QWC prepared two draft reports to the Government on institutional and pricing arrangements for water supply in SEQ, which were released for a period of public consultation.

Subsequently, the scope of the Commission's reference for the report was widened to include an examination of existing asset ownership arrangements.

In May 2007, the QWC provided the Government with its Final Report on Urban Water Supply Arrangements in SEQ. This report contained recommendations for substantial reform of the institutional arrangements governing the provision of water in SEQ, aimed at providing long-term benefits to the Queensland community in relation to water security and customer services.

The QWC's recommendations include the State taking control over the region's bulk water supply assets and the local governments focussing on reform and rationalisation of their retail and distribution businesses.

The State Government has committed to establishing a Water Grid for SEQ, together with appropriate planning, operating and cost recovery regimes, for both new and existing infrastructure.

The Government has also committed to providing the Councils with fair compensation for any council-owned water assets transferred to the State in implementing the reforms.

The amount, form and timing of any compensation will be determined following a due diligence process, which will examine issues such as valuation methodology, condition of the assets, current financials associated with those assets and timelines for payments.

The State Government will also create a new statutory authority as the SEQ Water Grid Manager, which will be responsible for the equitable distribution of water across the region.

The 2007-08 Budget does not contain any funding commitment in relation to the transaction costs of implementing the proposed reforms or compensating councils for the transfer of assets, due to a range of factors, including:

- consultation on the QWC Final Report and Government consideration of the specific recommendations is yet to be finalised
- a thorough due diligence process will need to be completed to determine estimated costs and potential compensation payments
- the planned transfer date is 1 July 2008.

## **SKILLS AND INNOVATION**

Skills and innovation are central influences on economic and productivity growth. Skill improvements directly lead to increases in labour productivity. Innovation drives productivity growth across the board.

The Government is implementing three key policy plans to build Queensland's skills base. These are the *Queensland Skills Plan*, *Skilling Queenslanders for Work* and *Education and Training Reforms for the Future*.

### **Queensland Skills Plan**

The Government has allocated around \$118 million in 2007-08 to continue implementing the *Queensland Skills Plan*. Launched in March 2006, this plan identifies actions that will transform and modernise the vocational education and training system.

The Government will continue to work with the community, industry, business and all levels of government to progress implementation of the plan, which includes:

- initiatives to increase the number and capacity of quality training providers and a new State-wide SkillsTech Australia (formally the Trade and Technician Skills Institute)
- a major capital works program to upgrade and enhance Technical and Further Education (TAFE) institutes (part of a total capital commitment exceeding \$300 million over six years)
- three additional Centres of Excellence to promote skills development, and new Skills Formation Strategies to ensure a collaborative approach to meeting the skills needs of industry
- improvements to Queensland's apprenticeship system and an additional 17,000 trades training places available in each year by 2010

- an increase in the number of Certificate IV and above training places, with 14,000 additional places available each year by 2010.

*Skilling Queenslanders for Work* has replaced the Government's former *Breaking the Unemployment Cycle* program. *Skilling Queenslanders for Work* especially focuses on helping young people, disadvantaged people, people with disabilities and people living in regional areas to develop their skills and so become more employable. It includes a range of project-based assistance and other financial support for skills development.

*Education and Training Reforms for the Future* (ETRF) is a Government reform package for education and training. ETRF has been implemented progressively since 2003.

During 2007-08, the Government will fully implement the ETRF initiatives, including:

- providing an estimated \$50 million to ensure that all Queensland children who have reached the age of five years by 30 June 2008 have the opportunity to access the full-time Preparatory Year in that year
- implementing the 'learning and earning' reforms, with students who commence Year 12 in 2008 being eligible for the new Queensland Certificate of Education.

## **Innovation**

Innovation generates greater output from a given level of resources, and is a primary source of productivity growth and improvements in living standards.

The Government facilitates and encourages innovation by supporting research and development, offering incentives for potential innovators, by providing infrastructure and skill development to enhance the capacity of the innovation system and by generating a general culture of innovation in the community.

From the Queensland Future Growth Fund, \$100 million will be directed towards Smart State projects, specifically the Innovation Building Fund. This will provide an opportunity to capitalise on previous investment in research and development infrastructure and further develop the State's capacity in this area.

The Queensland Government has invested more than \$1.4 billion in research, science and innovation related infrastructure and facilities since 1998. Some recent investments in world leading infrastructure and facilities include:

- The University of Queensland's Institute for Molecular Bioscience
- Queensland University of Technology's Institute for Health and Biomedical Innovation
- James Cook University's Tropical Science and Innovation Precinct
- the Queensland Brain Institute at The University of Queensland
- Griffith University's Eskitis Institute for Cellular and Molecular Therapies

- The University of Queensland's Institute for Cancer, Immunology and Metabolic Medicine based at Princess Alexandra Hospital
- The University of Queensland's Australian Institute for Bioengineering and Nanotechnology
- Griffith University's Institute for Glycomics
- the Centre of Excellence in Engineered Fibre Composites at the University of Southern Queensland
- the Millennium Arts Project at the Queensland Cultural Centre, South Bank
- Queensland University of Technology's Creative Sciences Precinct
- the Centre for Low Emissions Technology Centre.

### **Smart State Strategy 2005-2015**

The Smart State Strategy has been an integral part of the Queensland Government's focus on economic development. *Smart Queensland: Smart State Strategy 2005-2015* is the second stage of the Smart State Strategy, which began in 1998.

Key initiatives of Smart Queensland include:

- \$200 million over four years for three new funds to build research centres and support innovation across a broad range of fields, including health and medicine, the environment, agriculture and mining
- \$100 million to establish the Smart Therapies Research Centre at the Princess Alexandra Hospital, investigating improved treatments and cures for cervical cancer, breast cancer, melanoma, liver and kidney disease, HIV, malaria, obesity, arthritis, diabetes, bone and pregnancy-related metabolic disorders. The Australian Government has announced an additional \$100 million contribution towards the establishment of the Centre, which will involve a number of partners including The University of Queensland, Queensland University of Technology and CSIRO
- \$46 million over four years to establish two new state schools of excellence for senior school students in creative arts and science, maths and technology. In 2008, a third academy promoting health and allied health professionals will be established on the Gold Coast, in partnership with the newly established medical, dental and allied health facility at Griffith University Gold Coast
- \$56 million over four years in new school technology, including opportunities for students, their parents and teachers to more readily access school material.

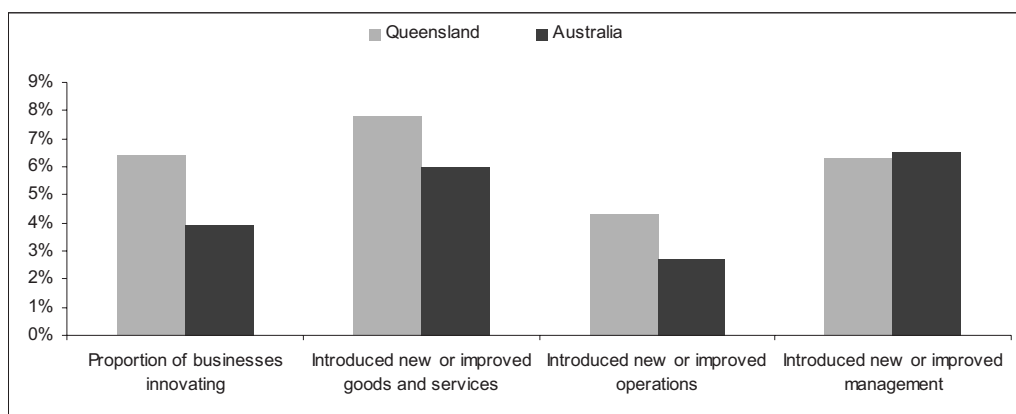


## Innovation Performance

The innovation performance of Queensland businesses has grown stronger in recent years. In 2002 and 2003, the share of Queensland businesses innovating was 27.2% (below the Australian average of 29.6%). However, in 2004 and 2005 the Queensland share of businesses innovating had increased to 33.6% (slightly above the Australian average of 33.5%).

To illustrate Queensland's improved performance, Chart 3.5 shows in more detail changes in the innovation performance of Queensland and Australian businesses. There has been strong growth in all of the measures since 2002 and 2003.

**Chart 3.5**  
**Change in innovative practices**



Note: The survey compared results for the calendar years 2004 and 2005 with 2002 and 2003.  
Source: ABS Catalogue 8158.0

The State's economic and fiscal management framework has provided a stable and supportive environment for this improvement in innovation performance. A further key influence has been the Smart State Strategy's work to establish a culture of innovation in Queensland. Since the Smart State Strategy's inception, Queensland has exceeded the national performance in facilitating the application of new knowledge to private business.



## 4. BUDGET PRIORITIES AND INITIATIVES

---

### FEATURES

- The key areas for service enhancements in the 2007-08 Budget include health, disability services, housing, child safety, education and training, police and water, road and transport infrastructure.
- Queensland Health's Budget in 2007-08 is estimated at \$7.151 billion, a 12% increase on the 2006-07 comparable Budget.
- The 2007-08 Budget provides an additional \$237.4 million in recurrent funding and \$136.7 million in capital funding over four years to enhance the delivery of disability services in Queensland.
- A housing assistance package of \$719.3 million is provided in the 2007-08 Budget, underpinning a range of social housing solutions.
- In the 2007-08 Budget, the Department of Child Safety has been provided with \$58.7 million in recurrent and \$36.4 million in capital funding over four years to fund the expansion of existing programs and implement a new initiative aimed at providing Queensland's most vulnerable children, babies and toddlers, with their one chance at childhood.
- An education and training capital works program of \$562.8 million is budgeted in 2007-08 to provide high quality Queensland state school and TAFE learning environments.
- Funding of \$57.4 million over four years is allocated for the construction of a Joint Contact Centre at Zillmere to accommodate officers from the Queensland Police Service and Smart Service Queensland.
- The Budget also provides significant funding for the development of new water infrastructure and a range of water saving initiatives. Funding of \$100.8 million has been provided in 2007-08 for WaterWise Rebate Schemes.
- An additional \$70 million over four years is provided for public transport services to address overcrowding and to improve levels of service in key growth corridors.

### INTRODUCTION

This chapter details:

- the Government's identified outcomes and priorities which underpin the 2007-08 Budget
- service delivery initiatives and developments for each of the Government's key priorities.

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

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

These priorities are:

- improving health care and strengthening services to the community
- growing a diverse economy and creating jobs
- realising the Smart State through education, skills and innovation
- managing urban growth and building Queensland's regions
- protecting our children and enhancing community safety
- protecting the environment for a sustainable future
- delivering responsive government.

The 2007-08 Budget provides for a range of specific initiatives and service developments that will assist in achieving these key policy priorities. The major revenue initiatives to achieve the Government's priorities in the 2007-08 Budget relate to State taxation, including payroll tax, land tax and vehicle registration duty. A full discussion of the revenue initiatives and issues is provided in Chapter 5.

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

Details of some of the service delivery initiatives in the 2007-08 Budget that support the achievement of the Government's priorities are described below. While highlights of the Budget are described in terms of their primary impact on the community, many assist the Government in pursuing more than one key priority.

More detailed information on service delivery initiatives can be found in individual Ministerial Portfolio Statements.

## **IMPROVING HEALTH CARE AND STRENGTHENING SERVICES TO THE COMMUNITY**

Improving hospital and health services as well as other services to the community is a continuing priority for the Government. Major service developments and initiatives relating to this priority are detailed below.

### **Health initiatives**

#### ***Clinical education and training, prevocational and vocational training***

Recurrent funding of \$145 million over four years (\$25 million in 2007-08) is provided for clinical education and training, and prevocational and vocational training initiatives for medical, nursing and allied health staff. This funding will be used to further enhance the clinical education and training provided to our current and future health workforce.

#### ***e-Health***

The Budget provides \$140.9 million in recurrent funding and a total of \$149.4 million in equity funding (including an additional \$102.2 million) over four years for e-Health. Funding will go towards implementing a multi-use electronic record for patients and client areas to provide a patient-centric focus to health care delivery across a networked model of care.

#### ***Patient transport reforms***

Recurrent funding of \$101.8 million over four years (\$25.4 million in 2007-08) is provided for patient transport reforms, including additional funding for services provided by the Queensland Ambulance Service, and further funding support for the Royal Flying Doctor Service and the Careflight Medical Service.

#### ***Mental health services***

The total investment in mental health will increase by \$895 million in just over five years to 2010-11. The Budget provides an additional \$52.8 million in recurrent funding over four years (\$12.3 million in 2007-08) to enable the full implementation of the recommendations of the Review of the *Mental Health Act 2000* (Butler Review). This funding will assist the Government in enhancing the provision of support, information and assistance to victims of crime in matters where an offender has a mental illness. Additional details about this reform and mental health services are outlined in Box 4.1.

### **Health infrastructure investment**

Additional funding of \$157.1 million over four years in recurrent funding (\$18.6 million in 2007-08) and \$122.6 million over four years in capital funding (\$64.6 million in 2007-08) is provided for a number of critical health infrastructure projects, including Health Precincts at North Lakes and Browns Plains, and the Thursday Island Chronic Disease Prevention and Management Centre.

Capital funding of \$87.6 million over four years (\$27.6 million in 2007-08) has been provided to assist Queensland Health in responding to health infrastructure needs across Queensland, including renal services.

Proceeds from the long-term arrangement entered into between the Golden Casket Lottery Corporation and Tattersall's are being used for the construction of the new Children's Hospital. More details are provided in Box 4.2.

### **Other health services**

The Government is allocating:

- a funding package of an additional \$95 million in recurrent funding over four years (\$20 million in 2007-08) to address a number of critical health priorities including the implementation of a State-wide Trauma Plan, initiatives to prevent youth substance misuse including 'Ice', and improved blood safety and quality
- additional recurrent funding of \$80 million over four years (\$20 million in 2007-08) for enhancements to outpatient service delivery across Queensland.

### **Services for people with disabilities**

The 2007-08 Budget provides an additional \$237.4 million in recurrent funding and \$136.7 million in capital funding over four years to enhance disability services in Queensland. This includes \$33.4 million in recurrent funding and \$29.0 million in capital funding in 2007-08, building on the \$128 million over four years provided for disability services in the 2006-07 Budget. Key elements of this funding are outlined below.

#### **Contemporary service delivery approach**

Funding of \$23.5 million recurrent over four years is provided to implement system reform in response to public consultation on the document *Have your say: On improving disability services in Queensland*. Disability Services Queensland will develop a conceptual framework to provide a rigorous system of assessing, prioritising, planning, matching, monitoring and reviewing service support needs. The new system approach will result in the provision of fairer and more transparent access to specialist disability services funded by the Government.

As part of these directions, the Budget provides new recurrent funding across Government of \$88.9 million over four years and capital funding of \$24.4 million over four years to provide a targeted service response based on advice by Honourable WJ Carter QC around challenging behaviour and disability. Disability Services Queensland will develop a service response that will include:

- establishing a centre for best practice in positive behaviour support
- positive behaviour support services
- developing a positive behaviour support system
- purpose built accommodation and support models
- enhanced support staff training and development
- legislative changes and support.

The Budget also provides new recurrent funding of \$22.4 million over four years and capital funding of \$40 million over four years to support clients with a psychiatric disability/severe mental illness and moderate to high support needs to relocate from mental health facilities to community settings. The capital funding associated with this program is provided to the Department of Housing to provide community-based accommodation.

### ***Expansion of existing programs and initiatives***

The Budget provides new funding for additional support packages within existing programs and initiatives as follows:

- \$20 million over four years to establish new and/or enhanced accommodation and day programs to be provided by Disability Services Queensland or non-government organisations, for people with a disability or for families living with a family member with a disability
- \$8 million over four years for the Post Schools Services – Adult Lifestyle Support Program, which assists young people with high and complex disability support needs who do not have work or further education options when leaving school
- \$10 million over four years to enable people with an acquired spinal cord injury to continue their care and support upon discharge from the Spinal Injuries Unit in Brisbane and to resume their lives upon their return to the community
- \$8 million over four years to enable young people with a disability to continue to receive support when they exit the care of the State on turning 18 years of age
- \$20 million over four years to provide increased support to meet the needs of accommodation support and respite service clients with challenging and/or complex behaviour and increasing health and mobility needs of ageing clients.

## **Home and Community Care program**

In 2007-08, the Home and Community Care program is estimated to be \$348.5 million, an increase of \$35.6 million or over 11%. The Home and Community Care program is a joint Commonwealth and State funded program that provides basic support and maintenance services to assist older, frail and younger people with a disability to remain in their own homes.

### **Box 4.1 Mental health services**

The Budget provides for additional funding of \$90.7 million (\$528.8 million over four years) to improve hospital and community based mental health services in Queensland. This amount includes \$41.9 million in capital funding in 2007-08 (\$198.3 million over four years) and is additional to the \$366.2 million allocated in just over five years which commenced in 2006-07. With this allocation the total commitment of new funding to mental health, including funding from the *Health Action Plan*, is \$895 million to 2010-11.

The funding will further support the implementation of the *Council of Australian Governments National Action Plan on Mental Health 2006-2011*.

The new funding commitment of \$528.8 million has been allocated to a range of Government agencies to enhance inpatient and community mental health services.

In 2007-08, \$2.6 million (totalling \$23.8 million over four years) will be allocated to increase the capacity of the non-government sector to provide support for mental health consumers in the community through Disability Services Queensland. Queensland Health will invest \$45.5 million, including capital funding of \$18.1 million in 2007-08 to:

- recruit and accommodate additional community mental health staff
- develop and expand inpatient bed capacity
- implement initiatives to develop the mental health workforce and improve service quality and safety in government and non-government sectors
- improve mental health promotion, illness prevention and early intervention capacity.

The funding will also enable the implementation of the recommendations of the *Review of the Mental Health Act 2000*, including enhancing victim support systems, forensic mental health legal processes, risk management strategies and community awareness initiatives.



## ***Initiatives to address housing need***

The Department of Housing's 2007-08 housing assistance package of \$719.3 million underpins the provision of a range of social housing solutions. This expenditure includes \$60 million over four years for improved housing provision for rural and remote Aboriginal and Torres Strait Islander communities. Funding of \$85 million for 2007-08 is also provided from an injection of additional funding of \$500 million over five years from the Queensland Future Growth Fund.

Major components of the \$719.3 million package will include:

- \$27.9 million in capital funding and \$3 million in recurrent funding in 2007-08 to continue the Responding to Homelessness initiative to deliver a range of accommodation initiatives. This includes the continued redevelopment of the Lady Bowen Complex to further expand the housing options for people at risk of homelessness in inner-Brisbane as well as further allocations to the Crisis Accommodation and Community-managed Housing - Studio Units
- \$297.8 million for the Public Housing and Aboriginal and Torres Strait Islander Housing rental programs and the Long Term Community Housing Program to purchase or commence construction of 544 dwellings, complete construction of 410 dwellings, upgrade existing dwellings, and purchase and develop land to facilitate future construction of social housing dwellings
- \$42.9 million for Community-managed Housing - Studio Units to purchase or commence 164 units of accommodation, complete construction of 126 units, and purchase and develop land to facilitate future construction
- \$24.8 million for the Crisis Accommodation Program to commence construction of three shelters, complete construction of one shelter and one dwelling, purchase two hostels and nine dwellings, upgrade one shelter, purchase and develop land to facilitate future construction and provide current grants to assist in responding to homelessness
- \$86.3 million for maintenance, upgrades and new construction in the 34 Indigenous communities. This includes providing \$7 million for factory-built homes to increase social housing assets on smaller communities.

## **Other community services**

### ***Redress scheme***

Building on the Government's response to the Forde inquiry, a redress scheme of up to \$100 million will be implemented for former child residents who experienced abuse and neglect in institutional care. Eligible people will be supported through ex-gratia payments, legal and financial services, and assistance during the application phase.

### ***Increased youth detention centre demand***

Following capital funding provided in the 2006-07 Mid Year Fiscal and Economic Review to increase Youth Detention Centre accommodation capacity, increased funding of \$18.9 million over four years (\$5.2 million in 2007-08) has been provided to meet the demand for accommodation and services for detained young people at Brisbane and Cleveland Youth Detention Centres. The funding will provide increased staffing levels to provide services to detained young people. In addition, \$27.9 million in recurrent funding and \$35.4 million capital over four years will provide new youth detention infrastructure and improve service capacity at existing youth detention centres.

### ***Youth justice***

The Budget provides increased recurrent funding of \$22.5 million (\$4 million in 2007-08) and capital funding of \$1.3 million over four years to expand youth justice services, including increased capacity of the youth justice conferencing program, particularly enhancing Indigenous participation, addressing factors that lead to young people committing offences (including extending a bail support program) and the creation of a Young Offender Community Response Service to reduce the risk of re-offending.

### ***Indigenous justice initiatives***

The Supporting Indigenous Justice in Remote Communities project addresses community safety at the local level by building confidence in the justice system and improving access to justice services. Recurrent funding of \$10.4 million over four years (\$2.8 million in 2007-08) and capital funding of \$0.54 million in 2007-08 has been provided to support a range of Indigenous justice initiatives, as part of the Government's ongoing commitment to reducing Indigenous incarceration. Funding has been provided to establish a State-wide community justice reference group, provide an additional magistrate to conduct more frequent circuit courts in the Gulf, Cape York and Torres Strait as well as an additional Legal Aid Queensland officer to represent defendants in these regions.

### ***Helping Queenslanders access legal services***

In 2007-08, additional funding of \$12.5 million is allocated to Legal Aid Queensland from the Legal Practitioners Interest on Trust Account Fund to provide improved legal services and representation to those in need.

### ***Torres Strait Major Infrastructure program***

Continued funding is provided for the Torres Strait Major Infrastructure program of \$14 million per year for four years from 2007-08 for infrastructure and \$0.5 million per year for an ongoing maintenance program, subject to matching Australian Government funding. Since 1998, the Queensland and Australian Governments have jointly funded the program which provides essential environmental health infrastructure to significantly improve health outcomes in Indigenous communities.

### ***Protecting vulnerable adults***

The Government is committed to providing better services and protection to vulnerable adults with impaired decision making capacity including adults with dementia, intellectual disability, psychiatric disability and acquired brain injury.

To provide advice and support for the decision making processes concerning the health care, residential services and financial matters of persons with impaired capacity through the Guardian and Administration Tribunal, the Office of the Adult Guardian, the Community Visitors Program and the Office of the Public Advocate, \$7 million is allocated over four years.

To implement the Government's response to the *Service Response to Challenging Behaviours* (the Carter Report), recurrent funding of \$4.2 million over four years and capital funding of \$0.08 million in 2007-08 has been provided for the Guardianship and Administration Tribunal, the Office of the Adult Guardian and the Community Visitor Program.

### ***Enhanced child care regulation***

Over the next four years, the Budget provides increased funding of \$8 million (\$2 million in 2007-08) for staffing to meet growing demand for child care statutory services across the State. An additional 10.5 officers will be employed to undertake licensing and monitoring functions across the State as well as three officers to provide training to address increasing licence complexity and to assist staff with complex legislative issues.

### ***Integrated client management system***

The Budget provides an additional \$11 million of recurrent funding and capital funding of \$9 million in 2007-08 for the continued implementation of case management systems, including child protection modules, for the Department of Child Safety and Department of Communities.

### ***Early Years Strategy***

Funds from the *Best Start* election commitment will purchase selected decommissioned preschool sites to provide community based early childhood education and care services and family support services across the State. Increased recurrent funding of \$8.6 million over four years will upgrade and maintain the facilities.

### ***Grants Management System***

In 2007-08, additional funding of \$3.8 million and capital funding of \$3.1 million is provided to improve the Department of Communities' Grants Management System. This will enhance service delivery through more efficient funding allocations to non-government organisations.

### **Arts Initiatives**

#### ***Queensland Government Public Arts Policy (formerly Arts Built-in)***

Over the next three years, the Government will invest \$12 million (\$4 million in 2007-08) in art to enliven public spaces. A centralised fund will allow the commissioning of larger works of art and ensure the quality and artistic merit of works enjoyed by Queenslanders and visitors to the State.

#### ***Visual Arts and Crafts Strategy***

The Government will invest \$4.6 million over four years (with \$1.1 million allocated in 2007-08) to deliver Queensland's contribution to the national Visual Arts and Craft Strategy. Funding will be invested in Indigenous arts infrastructure, supporting individual artists and boosting Queensland's visual arts and craft industry. The funding extends the State's commitment to the bilateral agreement with the Australian Government.

#### ***Pacific Film and Television Commission investment***

The Pacific Film and Television Commission's highly successful Revolving Film Finance Fund has been increased by 33%. This loan facility will make available a total of \$20 million to assist the local film and television industry and to attract more interstate and overseas investment in productions in Queensland.

### ***The Edge - State Library of Queensland auditorium refurbishment***

As part of a \$7.9 million allocation over two years, \$2.3 million will be provided in 2007-08 to transform the existing auditorium into a creative ideas and technology centre for children and young people. *The Edge* will be shared by the State's major cultural organisations and offer dynamic, experimental arts opportunities for young Queenslanders. *The Edge* is a cornerstone in the Government's Arts and Culture Strategy for Children and Young People.

#### **Box 4.2**

#### **Golden Casket Lottery Corporation-Tattersall's arrangement**

On 16 April 2007, the Government announced that it will enter into a long-term arrangement for Tattersall's, through Golden Casket, to operate lotteries in Queensland under the State's Lottery Licence, and will transfer the State's shareholding in Golden Casket to Tattersall's.

The State will receive proceeds of \$530 million, giving Tattersall's the right to operate the lottery business in Queensland (on an exclusive basis until 2016) and the sole rights to the use of the Golden Casket brands and trademarks until 2072.

The State will retain ownership of the key Golden Casket brands and trademarks and the Queensland Lottery Licence and, significantly, Tattersall's will establish the national and international headquarters of its lottery business in Queensland.

Tattersall's has also agreed to donate \$10 million over three years towards the Royal Children's Hospital Foundation, the Mater Foundation and the Starlight Children's Foundation.

The new arrangements will also release to the Government around \$140 million in surplus cash currently held by Golden Casket.

The total proceeds will substantially fund construction of the State's new 400-bed Children's Hospital. The hospital will now be funded from this arrangement rather than from borrowings, freeing up funds for other Government services.

The State will continue to receive lottery taxes from Golden Casket and the Government will continue to contribute to community initiatives through the Community Investment Fund. The Government will also continue to regulate the conduct of lottery games through the Queensland Office of Gaming Regulation.

## **GROWING A DIVERSE ECONOMY AND CREATING JOBS**

Building on Queensland's strong economic base benefits all Queenslanders through job creation and an enhanced quality of life. The Government will continue to stimulate economic development throughout Queensland with initiatives designed to expand export and trade opportunities, develop new and emerging industries and create jobs. Major service developments and initiatives to stimulate economic development throughout Queensland are detailed below.

Chapter 3 provides further details on the Queensland Government's strategies to achieve this priority.

### **Industry initiatives**

#### ***Smart mining***

Increased funding of \$22.2 million is provided over the next three years (\$8.3 million in 2007-08) for the Queensland Exploration Development initiative. This includes geophysical data collection, funding for specialist staff to assist with access arrangements for land subject to native title, grants for the mobilisation of drilling and geophysical equipment and initiatives that assist mineral exploration companies to better define exploration targets. Increased funding of \$1.8 million in 2007-08 (\$4.4 million over the next two years) is also provided for geological data acquisition, mapping and conversion under the Smart Exploration Program. Both initiatives are intended to stimulate further exploration investment in Queensland.

#### ***Queensland Mines Inspectorate review implementation***

Additional funding in 2007-08 of \$0.83 million is provided to finalise the implementation of recommendations from the Review of the Queensland Mines Inspectorate. These include a range of reforms to mining health and safety services such as qualification requirements and remuneration for mines inspectors and upgraded database integrity.

#### ***Queensland Tourism Strategy: A 10-year vision for sustainable tourism***

In December 2006, the Government released the Queensland Tourism Strategy, which provides a \$48 million package over four years. Consistent with the Strategy, the Government will allocate funding of \$12.8 million in 2007-08. The Strategy is a partnership between the Queensland Government and the Queensland tourism industry to capitalise on the growth opportunities of the industry. The Strategy adopts a strategic approach to achieving industry sustainability through preserving existing markets, increasing visitor expenditure and enhancing product and industry development opportunities.

### ***Western Hardwoods Plan***

Funding of \$31.8 million has been allocated towards implementing the Western Hardwoods Plan over three years and operating the State-wide Forest Process over two years.

### ***Development of Clean Coal Technology***

The Queensland Government has committed equity funding of \$300 million to support advanced clean coal technology in Queensland utilising integrated gasification and carbon capture and storage techniques. Subject to considering issues of scale and technical configuration \$56.8 million has been allocated in 2007-08 (of potential total funding of \$102.5 million) to continuing the feasibility study into the ZeroGen project.

### ***Ministerial Council on Energy activities***

Additional funding of \$4.2 million is allocated in 2007-08 for Queensland's contribution to the Australian Energy Market Commission and other national energy market reforms being progressed by the Ministerial Council on Energy, in which Queensland participates as part of the Council of Australian Governments.

### **Other initiatives**

#### ***Innovation Building Fund***

Funding of \$100 million from the Queensland Future Growth Fund has been provided to extend the existing Innovation Building Fund which funds infrastructure for strategic research and development throughout the State.

#### ***QBuild community service obligations***

Total funding of \$9.2 million is allocated in 2007-08 to allow QBuild to continue its community service obligation programs. The funds will allow QBuild to continue to employ and train a significant number of apprentices over and above industry standards throughout Queensland, and assist Indigenous apprentices obtain qualifications within their chosen trades. This funding continues the Government's ongoing commitment to creating additional job opportunities and breaking the unemployment cycle.

## **REALISING THE SMART STATE THROUGH EDUCATION, SKILLS AND INNOVATION**

In recent years, the Government has laid the foundation for establishing Queensland as the Smart State. Initiatives have focused on education and training reforms and facilities and improving workforce skills for current and future needs by focusing on lifelong learning.

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

### **Education and training initiatives**

In 2007-08, funding for up to 192 additional teachers and teacher aides will be provided in state schools to meet enrolment growth.

#### ***Building new and better facilities***

The Government's education and training capital works program of \$562.8 million in 2007-08 helps to provide high quality environments in which Queensland state school and Technical and Further Education (TAFE) students can learn.

Approximately \$189 million of the capital works program is earmarked in 2007-08 for the construction of initial stages at two new primary schools (West Pacific Pines and Northern Coomera), staged works at 11 schools and to provide new classrooms at existing schools to accommodate Queensland's growing student population.

The Government is also budgeting approximately \$86.9 million to refurbish and construct TAFE training facilities. This includes:

- SkillsTech Australia Acacia Ridge campus construction and to continue developing specialist trade centres in Mackay and Townsville
- facilities refurbishment at the Tropical North Queensland Institute of TAFE Cairns Campus (\$2 million)
- continuing the Southbank Education and Training Precinct redevelopment (\$13.7 million).

In addition, \$143.6 million will be invested in 2007-08 to improve existing infrastructure in schools, including special education facilities.

Around \$77.5 million of the 2007-08 capital works program is allocated for ongoing school maintenance. This includes an estimated \$20.6 million to finalise the replacement of roofs in state schools as part of the Accelerated Asbestos Roof Replacement Program and \$5 million for the continued installation of electrical safety switches in at least 100 state schools.



In 2007-08, \$80.5 million has been allocated under the *Tomorrow's Schools* program to commence planning and establish pilot projects as well as funding \$31.1 million to progress the development of a new Queensland Academy for Health Sciences (part of a total capital commitment of \$35 million, excluding land, over two years) to open in 2008.

The new Queensland Academy for Health Sciences will involve a partnership with Griffith University to allow students to specialise in the health industry and follows the opening, in 2007, of the Queensland Academy for Science, Mathematics and Technology at Toowong, and the Queensland Academy for Creative Industries at Kelvin Grove. A further \$35.6 million has been allocated for these existing academies to support the first cohort of students entering Year 12 in 2008.

### ***Improving outcomes for Indigenous students***

The Budget includes additional funding of \$10 million over four years (\$2.5 million in 2007-08) to improve education outcomes for Indigenous students by trialling professional support teachers and learning support teams in targeted schools.

The 2007-08 Budget also includes \$4.3 million in recurrent funding and \$1.8 million in capital funding to continue implementing the *Bound for Success* initiative to improve the education, training and career opportunities for Aboriginal and Torres Strait Islander children and young people. This funding forms part of the four year commitment of \$19.4 million in recurrent funding and \$9.2 million in capital funding announced in the 2006-07 Budget.

### ***Increased funding for students with disabilities***

The Budget provides an additional \$30 million over four years (\$5.3 million in 2007-08) to support the phasing out of signed English and adoption of Australian Signed Language (Auslan) as the language of instruction for deaf/hearing impaired students. The Budget also provides approximately \$2.5 million in increased funding for students with disabilities in 2007-08, increasing to around \$5 million per year in subsequent years.

### ***Prep Year implementation***

The 2007-08 Budget allocates approximately \$50 million to support full implementation of the Prep Year in 2008, when all 4½ to 5½ year old Queensland children have the opportunity to access the full-time Prep Year. This funding will employ more Prep teachers, provide professional development for school staff and includes \$5.5 million in grants to schools for curriculum resources including books, art and craft materials and indoor play equipment.

## **Computers for teachers**

The Government will invest \$70 million over four years to provide computers to teachers in state schools and TAFE institutes State-wide. Funding commences with \$10 million in 2007-08 and increases to \$20 million per year thereafter to provide all permanent teachers working more than two days per week with a computer and necessary associated professional development.

## **Queensland Skills Plan**

The Government is continuing to implement the *Queensland Skill Plan* (launched March 2006) to achieve significant reforms to the State's vocational education and training system.

In 2007-08, around \$118 million is budgeted (as part of approximately \$800 million over four years from 2006-07) to continue to transform and modernise the vocational education and training system and to better match the supply of skilled labour to the needs of industry and the demands of the Queensland economy.

Major *Queensland Skills Plan* initiatives for 2007-08 include:

- \$17.1 million to create 4,250 additional trade training places for emerging and high-growth industries. By 2010, this will increase to 17,000 extra places each year
- \$13.4 million for training and career information services at 17 existing Skilling Solutions Queensland centres
- \$4.5 million to further industry's engagement in vocational education and training through Centres of Excellence.

The Government will also continue its capital program to modernise the State's network of TAFE institutes across the State (part of a total capital commitment exceeding \$300 million over six years from 2006-07).

## **Employment initiatives**

### ***Skilling Queenslanders for Work***

The *Skilling Queenslanders for Work* initiative announced in 2006-07 commences on 1 July 2007. This initiative will assist approximately 17,000 Queenslanders during 2007-08. During the first year of the initiative, \$81.8 million will be spent to provide more intensive case-management approaches to support people who are most vulnerable in the labour market to gain sustainable job ready skills and employment outcomes.

## **MANAGING URBAN GROWTH AND BUILDING QUEENSLAND'S REGIONS**

Queensland's strong population growth, particularly in South East Queensland region, presents challenges for transport systems and other infrastructure, services and the environment.

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

### **Transport initiatives**

In addition to the transport service developments and initiatives set out below, Box 4.3 outlines a range of solutions which the Government has introduced to alleviate congestion.

#### ***South East Queensland Infrastructure Plan and Program (SEQIPP)***

In the 2007-08 Budget, the Government continues to progress the implementation of the SEQIPP. Some major projects included in SEQIPP are:

- \$129 million to complete the construction of the Inner Northern Busway sections one and two. This project has a total estimated cost of \$333 million and will link the Queen Street Bus Station to the already completed stages of the Inner Northern Busway near Roma Street
- \$5 million to complete the construction on the Normanby Cycle connection. This cycleway will link Normanby to the Roma Street Parklands
- \$17.4 million towards the construction of cycle links to enhance the cycle network in SEQ, made up of \$2.8 million towards the construction of State-owned cycle links and \$14.6 million in grants to be provided to local authorities
- \$13.8 million towards the construction of the Robina Transport Hub and to continue the planning and design of projects as part of the TransLink Station Upgrade Program
- \$85.8 million towards the construction of a Eastern Busway corridor connection from the Eleanor Schonell Bridge to Ipswich Road with stations at Princess Alexandra Hospital and Park Road
- \$50 million towards the construction of the Eastern Busway: Princess Alexandra Hospital to Buranda. Construction will include an elevated busway station within the Princess Alexandra Hospital and will be a key link in the regional busway network
- \$46.7 million towards the construction of the Eastern Busway connection between Buranda and Capalaba
- \$103.3 million towards the construction of the Northern Busway between the Royal Children's Hospital and Kedron.

### ***New Queensland driver licence***

The Budget provides \$27.1 million to continue developing a New Queensland driver licence. The new licence will meet community demand for a secure licensing system that improves protection against fraud and identity theft.

### ***Public transport service improvements***

The Government will inject an additional \$70 million over the next four years for additional public transport services. This additional funding will address overcrowding due to growth in passenger demand and provide improved levels of services in key growth corridors.

### ***Integrated Ticketing System***

The 2007-08 Budget provides \$16 million towards the new Integrated Ticketing System. The new Integrated Ticketing System includes the use of smartcard technology as part of a wider program by TransLink to introduce a new fare collection system. The new system will make it easier and quicker for customers to pay fares and travel across SEQ.

### ***Palm Island entrance channel dredging and associated works***

Funding of \$5 million is provided in 2007-08 for Palm Island maritime works, including \$3.5 million in additional funding for the dredging of the entrance channel to Palm Island barge ramp and jetty. The dredging will provide safe, all tide access for the existing ferry and barge services.

### ***Additional transport inspectors***

The Budget provides increased funding of \$1 million in 2007-08 and \$2 million per year ongoing from 2008-09 to engage additional transport inspectors to deliver enhanced safety related outcomes in both the heavy vehicle and passenger transport areas through an increased capacity for enforcement, education and auditing.

### **Road projects**

Key roadworks that are being progressed in 2007-08 include:

- \$691.2 million to continue Queensland's largest single road project to construct a second Gateway Bridge river crossing and to increase capacity on the Gateway Motorway between Mt Gravatt-Capalaba Road and Nudgee Road, at a total estimated cost of \$1.88 billion, with scheduled completion by mid 2011

- \$179.7 million towards the continuation of construction of the \$543 million (\$423 million, State; \$120 million, Australian Government) four-lane bypass on the Pacific Motorway between Tugun and Tweed Heads, with scheduled completion in mid 2008
- \$134.4 million towards the construction of the South West Arterial (Springfield – Ripley – Yamanto extension) at a total estimated cost of \$366 million to service new growth areas in Ipswich City, with scheduled completion by mid 2009
- \$163.5 million towards the federally-funded upgrade of the Ipswich Motorway between Wacol and Darra, \$121 million towards the continuation of works to upgrade the Ipswich/Logan Motorway interchange, and \$100 million towards the federally funded \$2.3 billion six-lane Goodna Bypass from Dinmore to the Logan Motorway at Gailes, which was announced by the Australian Government in March 2007
- \$133.7 million to duplicate the Sunshine Motorway between Sippy Downs and Pacific Paradise, including the second Maroochy River bridge and major interchanges at Mooloolaba and Maroochydoore Road and Pacific Paradise, at a total estimated cost of \$290 million
- \$98.7 million towards widening the federally funded Bruce Highway to six lanes between Uhlmann Road and Caboolture, at a total estimated cost of \$183 million
- \$12.3 million towards widening and upgrading the Roma-Taroom Road to support oil and gas development and improve regional community access at a total estimated cost of \$29.7 million
- \$9.9 million towards the construction of the Bundaberg Ring Road to provide an alternative route from the Isis Highway to the industrial areas and the port to the east of Bundaberg City at a total estimated cost of \$92 million
- \$36.1 million towards the Accelerated Road Rehabilitation Program to rehabilitate and widen 71 kilometres of the Dawson Highway in Central Queensland between Calliope and Banana, and replace 11 timber bridges, at a total cost of \$78.9 million
- \$15.2 million towards the duplication of the Forgan Bridge in Mackay at a total estimated cost of \$70.9 million and \$15.4 million towards the construction of Hospital Bridge at a total estimated cost of \$33.6 million
- \$58.3 million towards Stages 2 and 3 of the Townsville Ring Road Stages 2 and 3, on the Bruce Highway, at a total cost of \$119.3 million (\$39.8 million, State; \$79.5 million, Australian Government)
- \$40.3 million to improve flood immunity on the federally funded Bruce Highway between Corduroy Creek and Banyan Creek, south of Tully, at a total estimated cost of \$172.8 million

- \$17.8 million towards the duplication of North Ward Road in Townsville – between William Street and Ingham Road and between Walker Street and Heatley Parade – at a total estimated cost of \$33.8 million
- \$9.3 million towards widening the existing narrow formation sections of the Kennedy Highway south of Mt Garnet, to provide a minimum eight metre wide sealed pavement, at a total estimated cost of \$14 million
- \$9 million towards widening the single-lane bitumen sections of the Burke Developmental Road to provide a minimum seal width of eight metres, widening or removing narrow grids and improving visibility through sections of poor alignment, at a total estimated cost of \$28 million
- \$5.6 million towards widening Mulgrave Road in Cairns – between Ray Jones Drive (Woree) and the Captain Cook Highway, Sheridan Street – from four to six lanes, at a total estimated cost of \$16 million.

## **Water infrastructure initiatives**

### ***Water infrastructure***

New water infrastructure, particularly in SEQ, is a key priority for the Government. These water infrastructure projects are being delivered through a series of companies either fully-owned by the State or in conjunction with the relevant local government. Further details about these projects are included in Chapter 3.

### ***Queensland Water Commission***

Additional funding of \$25 million over two years is provided for the Queensland Water Commission to continue its role in managing water in SEQ through planning and identifying water sources as well as providing advice to the Government on institutional arrangements.

## **Other initiatives**

### ***Reforming local government***

The Government has committed \$12 million to implement the first stage of the Local Government Reform Program. This is the most historic reform of local government in the last 100 years and will deliver a more sustainable, efficient and financially stable system of local government for all Queensland communities.

### ***Queensland Rural Adjustment Authority administration funding***

The Queensland Rural Adjustment Authority has deployed additional regionally based Client Liaison Officers and extended the level of administrative support and systems at an additional cost of \$9.5 million over four years (\$2.5 million in 2007-08) to meet high levels of demand and ensure delivery standards for programs such as Tropical Cyclones Larry and Monica, new Government drought schemes and other assistance programs.

### ***Transit Oriented Development Coordination Unit***

New funding of \$8.9 million over two years is provided to establish the Transit Oriented Development Coordination Unit within the Office of Urban Management. A Transit Oriented Development is a development that involves mixed-use residential and commercial areas which are designed to maximise the efficient use of land through high levels of access to public transport. The Unit will coordinate Transit Oriented Development policies and projects across State agencies, including progressing the delivery of demonstration projects.

### ***Native Title Support Program extension***

Funding of \$2.3 million over three years is provided for the continued employment of capacity development officers who will assist native title representative bodies and native title parties to implement expedited Native Title Protection Conditions procedures negotiated with the Queensland Resources Council and the Queensland Indigenous Working Group.

### ***Improved future land practices - Palm Island***

Additional funding of \$2.3 million is provided over three years to develop land use plans, policies and procedures to address obstacles that impede ready access to Palm Island land. This will streamline and enhance decision making on land use and leasing, rationalise existing tenures, and address boundary irregularities through the development of a survey network.

### Box 4.3 Transport solutions for alleviating congestion

The Queensland Government is taking comprehensive action to address urban congestion and is investing heavily in infrastructure and services. The *South East Queensland Infrastructure Plan and Program* details the Government's commitment to providing new infrastructure.

The road infrastructure focus is to improve levels of service to motorists and reduce delays and costs to industry. Public transport infrastructure and services are focussed on reducing vehicle kilometres travelled in congested areas.

A major component of the infrastructure program is the road network. In order to address congestion, a number of road infrastructure projects are being undertaken that focus on moving traffic more effectively in and around urban centres such as the Brisbane Central Business District. Projects include the construction of a second Gateway Bridge river crossing and increasing capacity on the Gateway Motorway between Mt Gravatt-Capalaba Road and Nudgee Road.

A major focus for the Government is to encourage people to travel in alternative, non-car modes of transport. Public transport patronage in South East Queensland (SEQ) increased by approximately 12% in 2005-06 from the previous year, six times the growth rate prior to the introduction of TransLink. Patronage across the TransLink network in SEQ continues to grow strongly; in 2005-06 estimated patronage was 151 million and in 2006-07 estimated patronage is 161 million.

The rail network in SEQ provides the backbone for the region's integrated public transport network supporting commuter travel between the major regional urban centres of the Gold Coast, Sunshine Coast, Western Corridor/Ipswich and Brisbane. The rail network provides fast inter-urban services to cater for local commuting, with more than 50 million passengers travelling on Citytrain services each year. It also provides for freight transport in and out of SEQ, thus reducing road congestion. The rail network is complemented by a growing bus network, including busways and bus lanes, that deliver high quality connections between the region's key activity centres and provides services in areas not serviced by rail.

This integrated network encourages Queenslanders to use public transport and thereby reduce congestion. Brisbane's busway network is part of a balanced transport solution that will make sure our capital city keeps moving. The network helps fill the gaps between existing rail lines to complete Brisbane's major public transport network.

The Government also addresses congestion by encouraging walking and cycling, with \$220 million (2005 dollars) being invested in the SEQ regional cycle network between 2005 and 2026.



## **PROTECTING OUR CHILDREN AND ENHANCING COMMUNITY SAFETY**

The Government has attached a high priority to implementing strategies which protect our children and contribute to safe communities. Major service developments and initiatives to support this priority are detailed below.

### **Child protection initiatives**

#### ***One Chance at Childhood***

The Budget provides \$40 million over four years for a range of initiatives, including One Chance at Childhood. Major aspects of this funding include:

- funding of \$12 million over four years (\$3 million in 2007-08), which is aimed at keeping babies and toddlers safe. These funds will allow the Department of Child Safety to commence initiatives to provide Queensland's most vulnerable children with their one chance at childhood by building greater expertise at the major risk points of the child, namely, working with high risk babies, deciding if it is safe to reunify a child in care with their parents, and providing a child with an alternative permanent family
- funding of \$21 million over four years (\$5.3 million in 2007-08) to provide for an extra 13 Child Safety Officers, 16 Court Coordinators, 29 Child Safety Support Officers and an upgrading of Suspected Child Abuse and Neglect Coordinator positions to further the reforms achieved since the release of the CMC report *Protecting Children: An Inquiry into Abuse of Children in Foster Care* and the subsequent Government *Blueprint* and to address increased demand in Child Safety Service Centres around Queensland.

#### ***Responding to child protection needs in Indigenous Communities***

Recurrent funding of \$18.7 million over four years and \$12.4 million in capital funding over three years has been provided for an initiative aimed at responding to child protection needs in Indigenous communities. The Department of Child Safety has also allocated additional internal funding for this initiative, bringing total recurrent funding to \$19.1 million (\$2.1 million in 2007-08) and total capital funding to \$15.5 million (\$7.6 million in 2007-08).

This funding will establish a number of residential care facilities in Pormpuraaw, Kowanyama, Aurukun, Weipa/Napranum, and Doomadgee. Additionally, a first placement house will also be established on Palm Island as part of the Queensland Government's five point plan for Palm Island. These facilities will provide a safe place for Indigenous children and young people to be placed for initial assessments and reduce the need to remove them from their community, as well as provide for longer term residential care.

This funding will also be used to establish employee housing and office accommodation facilities for Child Safety Officers delivering services from branch offices located in Weipa, Cooktown and Thursday Island.

## **Policing initiatives**

### ***Joint Contact Centre***

Total funding of \$57.4 million over four years has been allocated for the construction of a Joint Contact Centre at Zillmere. The centre will accommodate officers from Smart Service Queensland and Queensland Police Service, and provides opportunities to improve reliability and quality of customer services. It will provide for business continuity and essential 24/7 disaster recovery for agencies.

This new contact centre will allow members of the public to easily contact the Queensland Police Service. A central phone number will provide contact with police from anywhere in the State. The call centre will also be responsible for assisting with 000 emergency calls and providing the public with important information and advice on personal and home security matters. The contact centre will have the capability of delivering a standard of service that will meet or exceed public expectations. By employing civilians, this initiative will create efficiencies by redirecting the efforts of sworn officers back into frontline policing duties.

### ***Support for police***

In accordance with announcements made in the 2006 Election, the Queensland Police Service's sworn growth will be increased to 9,928 by October 2008 through the creation of 200 new police positions. This growth in police numbers will support the Government's commitment to maintain police numbers above the national average of the police to population ratio.

### ***Supporting policing in Indigenous communities***

An additional \$2.6 million in capital as well as \$2.3 million in recurrent funding is provided over four years for the acquisition and ongoing operation of an additional aircraft to enhance the provision of justice services throughout the Torres Strait.

## ***Enhancing police information and communications technology***

The Government has committed an additional \$3 million in capital as well as \$3.1 million in recurrent funding over the next four years to upgrade and enhance police communications equipment across the State. The Government is also contributing \$1.2 million in capital as well as \$1.5 million in recurrent funding over four years towards the establishment of a national system to facilitate the exchange of police operational information.

## **Criminal justice initiatives**

### ***Piloting alternative service delivery in the Magistrates Courts – judicial registrars***

The Government will trial an innovative response at a cost of \$2.4 million over three years (\$0.66 million in 2007-08) to the growing workload of Queensland magistrates by appointing judicial registrars in the Magistrates Courts to enable Queensland's busiest courts to hear more matters. The two year pilot program, to begin on 1 January 2008 at the Brisbane Magistrates Court, Beenleigh Magistrates Court and Southport Magistrates Court, will involve judicial registrars hearing some minor matters that currently require the determination of magistrates, such as small claims and minor debt claims.

### ***New Queensland courts case management system***

Funding has been provided for a foundation phase for a case management system to better manage information sources and statistics. Over the next three years, recurrent funding of \$4.6 million and capital funding of \$2.4 million will be used to review business practices of the Courts and Tribunals to determine one common technology framework.

### ***Correctional centres***

Capital funding of \$228 million has been allocated in 2007-08 to support the continuation of major capital projects at Townsville Men's and Women's, Arthur Gorrie and the former Sir David Longland correctional centres.

To provide facilities for the expected growth in prisoner numbers, funding of \$3.5 million is allocated to develop a business case for the establishment of a prison precinct in the Gatton district. Further capital funding of \$3 million is allocated for planning and design for the expansion of Lotus Glen Correctional Centre.

Additional capital funding of \$10 million is provided over two years (\$7 million in 2007-08) to continue the upgrade of perimeter security at secure correctional centres, bringing total funding for the project to \$40 million over five years from 2004-05.

The Budget also provides \$0.8 million in 2007-08 and \$2 million ongoing from 2008-09 for increased costs of minor building work at correctional centres and setting up, or upgrading, district offices.

### ***Managing dangerous offenders in the community***

Additional recurrent funding of \$9.2 million over four years (\$1.9 million in 2007-08) is provided for specialised assessment, surveillance, supervision and treatment of offenders released into the community who are subject to the provisions of the *Dangerous Prisoners (Sexual Offenders) Act 2003*.

### ***Probation and parole in Indigenous communities***

To reduce the number of Indigenous people held in Queensland's correctional centres, additional recurrent funding of \$4.2 million over four years (\$0.5 million in 2007-08) and capital funding of \$1.5 million over two years (\$0.5 million in 2007-08) has been allocated to establish probation and parole centres in Indigenous communities. In 2007-08 services will be established at Weipa to service the Weipa, Napranum, Mapoon, Lockhart and Aurukun areas, and in the northern peninsula region, servicing Seisia, Umagico, Injinoo, Bamaga and New Mapoon. Existing facilities on Palm Island will be upgraded.

### ***Prisoner through-care and support services***

The Budget provides additional funding of \$18.3 million over four years (\$2 million in 2007-08) for a range of initiatives to improve intervention and rehabilitation services. Initiatives include increasing prison industry operations to provide greater skills development opportunities for prisoners, increased provision of support services by external providers, extension of rehabilitation programs to offenders in the community, and improved coordination of employment and training.

## **Emergency Services Initiatives**

### ***Integrated communication and State emergency operations centre***

The Budget contains capital funding of \$41.7 million (as part of an allocation of \$70.4 million over two years) to build a new state-of-the-art integrated communication and State emergency operations centre to replace the fire and ambulance communications facilities at Brisbane and the South East Region. This will also involve the upgrading and replacing radio and information and communications technology infrastructure within the communications centre to enable more effective management of large scale emergencies and disasters in Queensland.

### ***Queensland Ambulance Service***

Increased recurrent funding of almost \$50 million has been provided for the Queensland Ambulance Service to meet growing demand for services. This includes funding for an additional 250 ambulance officers across the State which is the single biggest increase in the number of ambulance officers in any one year and is on top of the more than 220 extra staff employed in 2006-07. The new 250 ambulance officer positions comprise:

- 208 ambulance officers including paramedics, communications officers, clinical and support staff to assist the Queensland Ambulance Service to manage demand for services driven by a growing and ageing population and the community's increasing use of emergency health services
- 42 ambulance officers to complete the program of an additional 144 ambulance officers over two years to include the implementation of a 38 hour week from October 2007. These additional positions will contribute to the long-term occupational health and well-being of Queensland Ambulance Service paramedics, patient transport officers and communications officers.

Future staffing enhancements will take into account the State's growing and ageing population and the community's increasing usage of emergency health services.

### ***Aeromedical and air rescue capability***

Capital funding of \$48.3 million over three years (\$26.6 million in 2007-08) is allocated for three state-of-the-art AgustaWestland 139 helicopters. These rescue helicopters have improved capacity, safety and equipment standards, and are faster, more economical and have a larger cabin than the current Bell 412 helicopters. This investment will greatly enhance the level of service for aero-medical, search and rescue operations, and counter disaster capabilities across Queensland.

### ***Counter terrorism response capability***

The Budget provides recurrent funding of \$13.4 million over five years (\$4.7 million in 2007-08) to enhance the Department of Emergency Service's counter terrorism preparedness and response capability through additional resources and training for the strike team based at the Special Operations Complex, Cannon Hill.

## **PROTECTING THE ENVIRONMENT FOR A SUSTAINABLE FUTURE**

The sustainable use of natural resources and the maintenance of biodiversity are key priorities of the Government. The Government will continue to promote sustainable development through responsible use of the State's natural resources.

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

### **Climate change initiatives**

#### ***ClimateSmart 2050***

The Queensland Future Growth Fund is providing funds of \$100 million to respond to the challenges generated by climate change. Funding of \$50 million is provided to the Queensland Renewable Energy Fund to support projects involving leading edge renewable energy technologies. The first project provided for under this new fund will be the CSIRO solar thermal demonstration project. This project is a great opportunity to develop solar technologies which have real potential to reduce Queensland's future level of carbon emissions.

A further \$64.25 million has been set aside to fund a broader program of climate change initiatives, including an Energy Savings Fund. This Fund will support Queensland companies which invest in energy efficient products. A ClimateSmart Living campaign to raise awareness of climate change and highlight actions Queenslanders can take to reduce their greenhouse gas emissions is also supported.

#### ***Climate Change Centre of Excellence***

Operational funding of \$2.5 million per annum from 2007-08, together with one-off 2007-08 capital funding of \$1.5 million, is provided to establish the Queensland Climate Change Centre of Excellence. The Centre will bring a strategic whole-of-Government focus to climate change and aims to help Queenslanders better understand and prepare for the inevitable consequences of climate change.

#### ***Energy efficiency***

Increased funding of \$2.5 million over the next three years (\$1.2 million in 2007-08) is allocated for a Gas Installation Rebate to provide up to \$500 for eligible residential customers who purchase gas appliances. This will promote increased use of gas as a clean, efficient energy source and support the further development of gas reticulation systems.

Increased funding of \$1.7 million in 2007-08 (\$5 million over three years) is allocated for the EnergyWise program to encourage Queenslanders to adopt more energy-efficient practices. Initiatives include the home EnergyWise service and toolbox, information about switching to off-peak energy use and an energy-efficient street lighting trial.

**Box 4.4**  
***ClimateSmart 2050***

*ClimateSmart 2050* represents the Queensland Government's contribution to not only the Australian but also the global effort to tackle climate change.

Queensland has been proactive in addressing climate change, introducing initiatives including:

- the 13% gas scheme
- banning of broadscale clearing of vegetation across the State
- building the South East Queensland Water Grid to provide water security
- developing Queensland's Adaptation Action Plan.

*ClimateSmart 2050* maintains this high level of commitment providing \$414.25 million in new funding to respond to the challenges generated by climate change.

Funding of \$50 million has been provided to establish the Queensland Renewable Energy Fund to support projects involving leading edge renewable energy technologies.

The first project provided for under this new fund will be the CSIRO solar thermal demonstration project. This project is a great opportunity to develop solar technologies which have real potential to reduce Queensland's future level of carbon emissions. Opportunities are also being explored to invest in geothermal 'hot rocks'.

A further \$64.25 million has been set aside to fund a broader program of climate change initiatives, including an Energy Savings Fund. This Fund will support Queensland companies which invest in energy efficient products.

There will also be a ClimateSmart Living campaign aimed at raising the community's awareness of climate change and highlighting actions Queenslanders can take to reduce their greenhouse gas emissions.

This Government recognises that tackling climate change is a long term agenda which will not stop with this Budget.

Over coming years, Queensland will continue to play its part in meeting a national greenhouse gas emissions reduction target of 60% below 2000 levels by 2050.

Through investing the net proceeds arising from the sale of certain Government-owned energy assets, Queensland will establish a \$300 million Queensland Climate Change Fund. Interest earned on the fund will provide an ongoing funding source of approximately \$20 million each year for future climate change initiatives.

## **Water initiatives**

### ***WaterWise Rebate Schemes***

Funding of up to \$100.8 million is provided in 2007-08 for the estimated cost of WaterWise Rebate Schemes. The schemes are designed to assist Queensland householders make their homes and gardens more water efficient. They include the South East Queensland and State-wide Home WaterWise Rebate Schemes, the Home Garden WaterWise Rebate Scheme, grants to not-for-profit organisations for water saving initiatives and a gardening education program.

### ***Drought assistance – rebates on Part A water charges***

Funding of up to \$10 million is provided for rebates to irrigators during the period 1 July 2006 to 30 June 2008 as a result of the current drought circumstances. In areas of low water availability, rural irrigators may be eligible to receive a rebate on the payment of their fixed water charges.

### ***Delivering water security***

Additional funding of \$18 million over four years is provided to supplement the 2005-06 Budget initiative Water Reform: Continuity of Supply. Outcomes to be delivered with the combined funding include completion and implementation of the water planning program, development of regional water supply strategies, improved groundwater management, policy development for urban demand management, ongoing development and implementation of water reform, enhanced water resource assessments, water efficiency incentives and upgrade of water management systems.

### ***Accelerated use of recycled water***

Funding of \$10 million over four years, commencing 2007-08, is provided for the Queensland Water Recycling Strategy. The recycled water sources to be covered by the strategy include treated sewage effluent, greywater, stormwater, industrial and commercial recycled water, and water derived as a by-product from coal seam methane gas extraction. Recycled water applications to be investigated include residential usage, public open space irrigation, crop irrigation, commercial and industrial usage.

### ***Government buildings water conservation program***

The Budget contains \$5 million in funding over two years to continue the development of water conservation initiatives for the Government's built estate and grounds, and to collate water consumption and baseline data for all Government agencies. This initiative continues the Government's ongoing commitment to promoting sustainable development through responsible use of the State's natural resources.

### ***Groundwater usage***

Funding of \$6.5 million over four years, commencing 2007-08, is provided to identify potential sources of groundwater, and to undertake studies to determine available resources and suitable extraction regimes.



## **Other initiatives**

### ***Ongoing implementation of the new Vegetation Management Framework***

Additional funding of \$26 million over four years is provided from 2007-08 for the continued implementation of the Vegetation Management Framework. The framework provides for policy development and its implementation, and improvements to vegetation management assessment activities.

### ***Healthy waterways***

Additional funding of \$20 million over four years is provided from 2007-08 to contribute to the South East Queensland Healthy Waterways Strategy. The Strategy will build on actions implemented under the South East Queensland Regional Water Quality Management Strategy 2001 to improve the quality of South East Queensland waterways.

### ***Rainforest/green land acquisition***

Funding of \$18 million is provided in 2007-08, including new funding of \$10 million, as part of the \$30 million three year election commitment to purchase more land that will be kept in pristine environmental condition for future generations to enjoy. This follows the acquisition of land of high conservation value in the Gold Coast Hinterland during 2006-07.

### ***Sugarcane smut: management and economic recovery strategy***

As part of the Government's \$15.6 million, four year commitment towards the sugarcane smut response program, funding of \$6 million over three years, commencing 2007-08, is provided to address the recommendations of the Watson Report. Strategies include accelerated breeding and propagation of smut resistant varieties, the development and extension of farmer decision making tools, extension of farming system practices which enhance soil health and reduce farm inputs, and extension of education tools for on-farm surveillance, epidemiology and farming systems practices.

### ***Maintenance of Environmental Protection Authority estate infrastructure***

Additional funding of \$5 million is provided in 2007-08 to improve the condition of facilities on the Environmental Protection Authority estate including roads, fire-lines, walking tracks, camping areas, day-use facilities, administrative buildings and workshops.

### ***Cloud seeding***

Funding of \$7.6 million over four years, commencing 2007-08, is provided to evaluate the effectiveness of cloud seeding as a means of increasing rainfall in Queensland.

### ***More Great Walks in Queensland***

Funding of \$6.5 million over four years is provided for the More Great Walks of Queensland initiative to create an additional four walks, presently in the concept design stage (Whitsundays, Noosa/Cooloola, Carnarvon, and Conondale). This program will build on the \$10 million five year Great Walks of Queensland initiative, commenced in 2001-02, that created a world class network of walking tracks across Queensland.

### ***Enhanced compliance program for Environmentally Relevant Activities***

Funding of \$5 million is provided in 2007-08 to enhance compliance activities on Level 1 Environmentally Relevant Activities, including increasing the number of inspections of sites and the provision of an enhanced advisory service to business and industry for compliance related issues.

### ***Land Tenure Ledger replacement***

Capital funding of \$3.8 million over two years is provided for extensive modifications to the Land Tenure Ledger to facilitate the introduction of an enhanced rental system which will establish more targeted and equitable arrangements for dealing with large movements in land values and drought hardship relief.

### ***Abandoned mines major works***

Additional capital funding of \$3 million and \$1.8 million in recurrent funding is provided in 2007-08 (\$3 million capital and \$8.2 million of recurrent funding over four years) to commence mine rehabilitation work at abandoned mine sites at Mount Morgan and Croydon. A twin train lime dosing water treatment plant at Mount Morgan will progressively reduce pit water levels to improve water quality at downstream creeks and to prepare for further rehabilitation works. In Croydon, an annual water treatment work program will commence and a scoping study to define further rehabilitation requirements will be undertaken to address risks associated with soil and groundwater contamination and acid rock drainage.

### ***Ongoing protection of Queensland's natural heritage: pest and fire management***

Additional funding of \$2 million is provided on an ongoing basis from 2007-08 to continue proactive pest and fire management within the protected estates. This program will build on the three year Pest and Fire Initiative previously announced as a 2004 election commitment with activities concentrating on eradicating local pest occurrences and targeting priority hazard reduction burns and fire trail maintenance.

**Box 4.5  
Queensland Future Growth Fund**

The Queensland Future Growth Fund was established by investing the proceeds from the sale of Sun Retail, Sun Gas, Powerdirect Australia and the Allgas network. The sale processes were very competitive and delivered positive outcomes for the State with the proceeds amounting to over \$3 billion. The prices received for the businesses compare favourably with previous retail asset sales in Australia and reflect the growth opportunities available in South East Queensland.

The funds will be used to secure the State's future economic growth as well as its environmental sustainability through a raft of new infrastructure projects.

**Table 1  
Allocation of Queensland Future Growth Funding**

Initiative	Total Allocation \$ million	2006-07 Est. Act. \$ million	2007-08 Budget \$ million
Water and transport infrastructure	1,500.0	..	156.0
Clean coal technology	300.0	29.6	56.8
Smart State projects	100.0	..	15.0
Climate change projects	100.0	..	20.0
Commercial infrastructure including Government-owned corporations	600.0	400.0	..
Social housing stock	500.0	..	85.0
<b>Total</b>	<b>3,100.0</b>	<b>429.6</b>	<b>332.8</b>

Over the coming years, the Fund will focus on key priorities, which include:

- committing funds to the construction and acceleration of vital infrastructure projects in the areas of water and transport. As the sales proceeds were greater than forecast, it is now possible to allocate \$1.5 billion to the areas of water and transport. The Department of Transport is allocated \$500 million towards advancing planning and construction of high priority public transport projects
- \$300 million for Clean Coal technology that will make a proactive and positive contribution to the science and technology of reducing greenhouse gas emissions
- a further \$100 million on projects to combat the effects of climate change including an investment of \$50 million in the Queensland Renewable Energy Fund to support projects involving leading edge renewable energy technologies. Funding is also available for a broader program of climate change initiatives, including an Energy Savings Fund which will support Queensland companies investing in energy efficient products and a ClimateSmart Living campaign to raise awareness of climate change and highlight actions Queenslanders can take to reduce their greenhouse gas emissions
- \$100 million towards Smart State projects, specifically the Innovation Building Fund. This will provide an opportunity to capitalise on previous investment in research and development infrastructure and to develop further in areas of comparative advantage

- \$600 million for commercial infrastructure, including funding for ENERGEX and Ergon Energy to improve their distribution networks. Funding will also be provided to other economically significant projects outside of South East Queensland, with details on projects to be determined by future priorities and commercial negotiations. Investment in these projects will reimburse the Government for income lost through the sale of the energy assets
- an injection of \$500 million to the Department of Housing to fund a major expansion of the State's social housing stock. This will enhance the department's capacity to commence new purchases and constructions in the areas of Public Rental Housing, Aboriginal and Torres Strait Islander Housing and Community Housing, thereby ensuring that the future needs of the community are satisfied.

The Fund will also benefit from the reinjection of interest earnings on Fund balances.

## 5. REVENUE

---

### FEATURES

- Total General Government sector revenue is estimated to be \$32.551 billion in 2007-08, in line with 2006-07 estimated actual revenue. Increases in taxation revenue, grants and sales of goods and services are expected to be offset by reduced tax equivalent payments and investment returns moderating to the assumed long-term average earnings rate of 7.5%.
- A land tax relief package worth \$50 million in 2007-08 will be introduced to alleviate the impact of recent land valuations on land tax liabilities.
  - A 50% cap on the annual increase in land values used for the purposes of calculating land tax liability, will be introduced for three years from 1 July 2007.
  - The tax-free threshold for resident individual land tax payers will be increased from \$500,000 to \$600,000 from 2007-08.

The tax-free threshold for company, trustee and absentee land tax payers will be increased from \$300,000 to \$350,000 from 2007-08.

A payroll tax harmonisation package will be introduced from 1 July 2008 to improve consistency between jurisdictions, simplifying payroll tax requirements for businesses.

Duty on the registration or transfer of registration of motor vehicles will change from a flat rate of 2% to a rate dependent on the number of cylinders (or rotors) of the vehicle. From 1 January 2008, the rate will be 3% for four cylinder vehicles, 3.5% for six cylinder vehicles and 4% for vehicles with eight or more cylinders. The current rate of 2% will continue to apply for hybrid and electric vehicles.

Mortgage duty will be halved from 1 January 2008, with full abolition from 1 January 2009.

Overall, the tax changes above will result in a net tax reduction of \$49.1 million in 2007-08.

Queensland will retain its competitive tax status, with per capita state tax estimated at \$2,226 in 2007-08 compared to an average of \$2,357 for the other states and territories.

### INTRODUCTION

This chapter provides an overview of General Government sector revenue for the 2006-07 estimated actual outcome, forecasts for the 2007-08 Budget year and projections for 2008-09 to 2010-11.

**Table 5.1**  
**General Government revenue<sup>1</sup>**

	2006-07 Budget \$ million	2006-07 Est. Act. \$ million	2007-08 Budget \$ million	2008-09 Projected \$ million	2009-10 Projected \$ million	2010-11 Projected \$ million
<b>Revenue</b>						
Taxation revenue	7,871	8,375	9,272	10,067	10,749	11,568
Current grants and subsidies	13,143	13,384	13,726	13,726	14,084	14,539
Capital grants	683	811	1,428	1,096	855	897
Sales of goods and services	2,693	2,937	3,005	3,094	3,188	3,282
Interest income	1,802	3,268	2,190	2,325	2,440	2,562
Other	2,879	3,781	2,931	2,999	3,289	3,131
<b>Total Revenue</b>	<b>29,070</b>	<b>32,557</b>	<b>32,551</b>	<b>33,307</b>	<b>34,605</b>	<b>35,979</b>

Note:

1. Numbers may not add due to rounding.

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

General Government revenue in 2006-07 is estimated to be \$32.557 billion or 12% more than the 2006-07 Budget estimate.

Significant variations include higher:

- interest income, reflecting the strong performance of investment markets, which has significantly improved the returns from the State's financial assets, including those held to meet future employee entitlements. Excluding the higher revenue from interest income reduces estimated actual revenue to 7.4% higher than budgeted
- taxation revenue, primarily due to higher revenue from duty on property transfer transactions resulting from stronger than expected market activity, as well as higher payroll tax from strong employment and wage growth outcomes
- tax equivalent payments associated with the sale of ENERGEX's electricity and gas retail businesses, the Allgas distribution network and the competitive parts of Ergon Energy's electricity retail business including its subsidiary, Powerdirect.

General Government revenue in 2007-08 is estimated to be \$32.551 billion, marginally less than the 2006-07 estimated actual revenue of \$32.557 billion. This is largely due to:

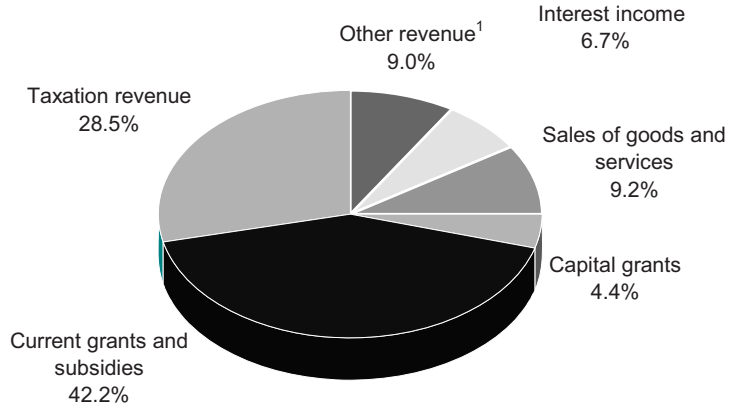
- reduced interest income, reflecting the return of investment returns to the assumed long-term average earnings rate of 7.5%
- reduced revenue from tax equivalent payments.

These revenue reductions are almost entirely offset by forecast increases in Commonwealth grants and tax revenue.

## REVENUE BY OPERATING STATEMENT CATEGORY

Major sources of General Government revenue in 2007-08 are current grants and subsidies (42.2% of revenue) and taxation revenue (28.5%). Chart 5.1 illustrates the composition of General Government revenue.

**Chart 5.1**  
Revenue by operating statement category 2007-08

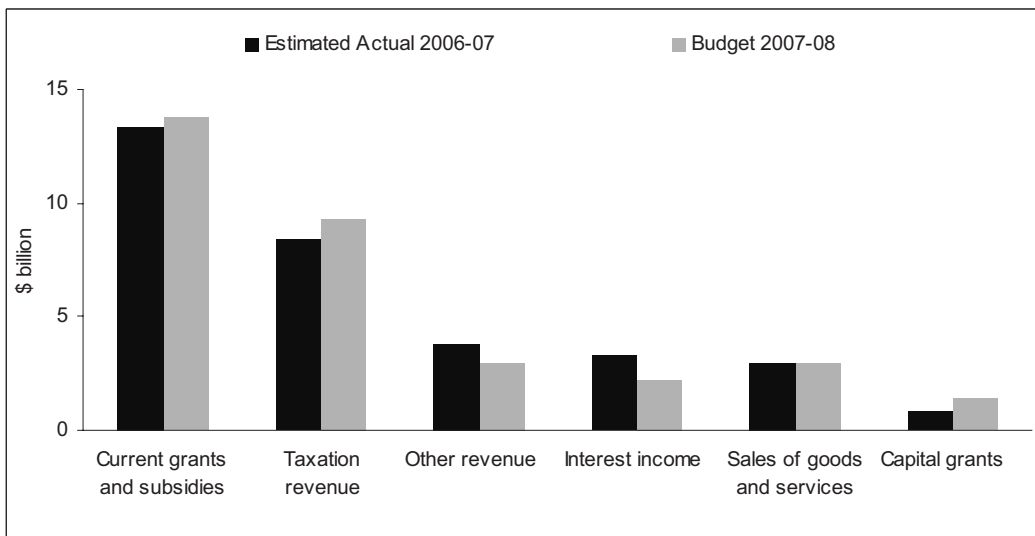


Note:

1. The major components of 'other revenue' are royalties and land rents (4.4%) and dividends (2.8%).

Chart 5.2 compares 2007-08 estimates with 2006-07 estimated actuals. The overall result primarily reflects anticipated decreases in interest income and other revenue being almost entirely offset by increases in current grants and subsidies and taxation revenue.

**Chart 5.2**  
Revenue by operating statement category for 2006-07 and 2007-08



## TAXATION REVENUE

One of the Queensland Government's key social and fiscal objectives is to maintain a competitive tax environment while raising sufficient revenue to meet the infrastructure and Government service delivery needs of the people of Queensland.

Total revenue from taxation is expected to increase by 10.7% in 2007-08. This reflects the expected impact of continued strength of the property market on duty revenue as well as employment and wage growth on payroll tax revenue.

**Table 5.2**  
**Taxation revenue<sup>1</sup>**

	2005-06 Actual \$ million	2006-07 Est. Act. \$ million	2007-08 Budget \$ million
<b>Payroll tax</b>	<b>1,917</b>	<b>2,175</b>	<b>2,411</b>
<b>Duties</b>			
Transfer <sup>2</sup>	1,963	2,450	2,842
Vehicle registration	269	285	385
Insurance <sup>3</sup>	328	366	393
Mortgage	297	345	300
Other duties <sup>4</sup>	73	25	14
<b>Total Duties</b>	<b>2,930</b>	<b>3,471</b>	<b>3,935</b>
<b>Gambling taxes and levies<sup>5</sup></b>			
Gaming machine tax and levies <sup>6</sup>	551	520	548
Lotteries taxes	183	198	208
Wagering taxes	34	35	37
Casino taxes and levies	59	58	61
Keno tax	14	15	15
<b>Total Gambling taxes and levies</b>	<b>841</b>	<b>826</b>	<b>868</b>
<b>Other taxes</b>			
Land tax	404	523	622
Motor vehicle registration	819	865	900
Fire levy	239	252	264
Community Ambulance Cover	118	123	128
Guarantee fees	70	80	83
Other taxes	57	60	61
<b>Total Taxation</b>	<b>7,396</b>	<b>8,375</b>	<b>9,272</b>
Notes:			
1. Numbers may not add due to rounding.			
2. Includes marketable securities duty in 2005-06 and 2006-07.			
3. Includes duty on accident insurance premiums.			
4. Includes duty on leases, rental arrangements, credit business in the years prior to abolition and life insurance premiums in all years.			
5. Includes community benefit levies.			
6. Includes the Major Facilities Levy (2005-06), Health Services Levy (2006-07 onwards).			



## Budget tax initiatives

### *Land tax relief package*

Queensland has experienced strong growth in land values for a number of years. Although the taxation consequences have been somewhat mitigated by the application of three-year averaging of land valuations for assessments, the Government has also taken substantial steps to moderate the increase in the numbers of landowners liable for land tax and growth in land tax liabilities for landowners already in the system.

This Budget recognises the recent significant increase in land valuations and seeks to further mitigate the impact of increased land values by capping the increase in averaged land values at 50% each year for three years for the purposes of calculating land tax liabilities. This cap will commence from 1 July 2007. Based on valuations for the 2007-08 land tax year, it is expected that the cap will provide a benefit to over 4,500 resident individuals and over 6,300 companies, trustees and absentees.

This Budget delivers further land tax relief by also increasing the tax free threshold for resident individuals from the current \$500,000 to \$600,000. This means resident individuals will not be subject to land tax until the taxable value of their landholdings, excluding their principal place of residence, amounts to \$600,000. Compared to the current schedule, the increased threshold will reduce by over 6,000 the number of resident individuals in the land tax system in 2007-08. No taxpayer will be worse off as a result of the change. The new land tax schedule for resident individuals is presented in Table 5.3.

**Table 5.3**  
**Land tax schedules for 2007-08 – resident individuals<sup>1</sup>**

Unimproved Land Value	Current	Unimproved Land Value	New
\$500,000 - \$749,999	\$500 + rate of 0.70%	\$600,000 - \$749,999	\$1,200 + rate of 0.70%
\$750,000 - \$1,249,999	\$2,250 + rate of 1.45%	\$750,000 - \$1,249,999	\$2,250 + rate of 1.45%
\$1,250,000 - \$1,999,999	\$9,500 + rate of 1.50%	\$1,250,000 - \$1,999,999	\$9,500 + rate of 1.50%
\$2,000,000 - \$2,999,999	\$20,750 + rate 1.675%	\$2,000,000 - \$2,999,999	\$20,750 + rate 1.675%
\$3,000,000 and above	1.25% on full value	\$3,000,000 and above	1.25% on full value

Note:  
1. Rates are marginal rates unless otherwise specified.

This Budget also provides land tax relief for companies, trustees and absentees by increasing the tax free threshold from the current \$300,000 to \$350,000. Compared to the current schedule, the increased threshold will reduce by over 4,000 the number of companies, trustees and absentees in the land tax system in 2007-08. No taxpayer will be worse off as a result of the change. The new land tax schedule for companies, trustees and absentees is presented in Table 5.4.

**Table 5.4**  
**Land tax schedules for 2007-08 – companies, trustees and absentees<sup>1</sup>**

Unimproved Land Value	Current	Unimproved Land Value	New
\$300,000 - \$749,999	\$1,500 + rate of 1.50%	\$350,000 - \$749,999	\$2,250 + rate of 1.50%
\$750,000 - \$1,249,999	\$8,250 + rate of 1.65%	\$750,000 - \$1,249,999	\$8,250 + rate of 1.65%
\$1,250,000 - \$1,999,999	\$16,500 + rate 1.80%	\$1,250,000 - \$1,999,999	\$16,500 + rate 1.80%
\$2,000,000 and above	1.50% on full value	\$2,000,000 and above	1.50% on full value

Note:  
1. Rates are marginal rates unless otherwise specified.

The changes to the land tax thresholds will take effect for the 2007-08 financial year.

As a package, the introduction of the 50% cap on the land tax value increases and the increased thresholds are estimated to provide \$50 million in land tax relief in 2007-08.

This package continues the land tax reforms introduced by the Queensland Government in the past three Budgets, which include threshold increases and rate reductions. In addition, it is estimated that the revenue foregone as a result of three-year averaging is approximately \$202 million in 2007-08.

### ***Payroll tax harmonisation package***

All states and territories have been working together to increase consistency in their application of payroll tax, to minimise cross-border business costs, through an inter-jurisdictional consistency project (ICP).

The Queensland Government recognises the importance to business of increased harmonisation across jurisdictions and intends to implement the measures recommended by the ICP from 1 July 2008.

In addition to the changes supported by the ICP, the Queensland Government will take action to further increase consistency across jurisdictions by aligning a number of areas of Queensland's payroll tax legislation with other jurisdictions, including the harmonised legislation announced by the Victorian and New South Wales governments in January 2007.

These additional measures will also take effect from 1 July 2008, to allow time for the passage of the necessary legislative amendments and for the Office of State Revenue to assist employers to prepare for the changes ahead.

A number of the payroll tax consistency measures to be implemented on 1 July 2008 will reduce the payroll tax base, while other changes will broaden it. Overall, the changes to the payroll tax system are expected to be revenue neutral.

Queensland's tax rates and thresholds, which are among the most competitive in Australia, will not be affected by the moves towards increased consistency.

### **Vehicle registration duty increase**

Vehicle registration duty is payable on the initial registration or transfer of registration of a vehicle. The current rate of duty is 2% of the dutiable value of the vehicle. From 1 January 2008, the rate will change. The new rates for vehicles with cylinders or rotors are set out in Table 5.5. The current 2% rate of duty will continue to apply for hybrid or electric vehicles, as will the current \$25 flat rate of duty for conditionally registered vehicles.

<b>Vehicle type</b>	<b>Duty rate</b>
Up to and including 4 cylinders or 2 rotors	3%
5 or 6 cylinders or 3 rotors	3.5%
7 or more cylinders	4%
Hybrids, electric	2%
Conditionally registered vehicles	\$25 flat fee

Queensland's duty rates will be either lower than, or equal to, the majority of states and territories for vehicles with four cylinders or less, which represent over 60% of motor vehicles purchased in Queensland.

The increase in vehicle registration duty rates is expected to provide an additional \$80 million in 2007-08, increasing to \$205 million in 2008-09, the first full year of implementation.

## Abolition of state taxes

The *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA), agreed to by the Australian Government and all state and territory governments in 1999, required the abolition and review of a number of state taxes.

In accordance with the requirements of the IGA, transfer duty on quoted marketable securities and debits tax were abolished in 2001 and 2005 respectively.

In 2005, Queensland participated in a multijurisdictional review into the need to retain a number of state duties, as required by the IGA. A timetable for the abolition of the majority of these duties was announced in the 2005-06 Budget and agreed to by the Australian Government in the Ministerial Council Meeting of March 2006.

Table 5.6 presents the full schedule of tax abolitions under the IGA.

Tax	Description	Abolition	Full year cost <sup>1</sup> \$ million
Marketable securities duty (quoted)	Payable on the transfer of marketable securities listed on the Australian Stock Exchange or another recognised stock exchange.	✓ July 2001	35
Credit card duty <sup>2</sup>	Payable on credit card transactions.	✓ August 2004	20
Debits tax	Payable on debits to accounts with cheque drawing facility.	✓ July 2005	190
Lease duty	Payable on the lease of land or premises in Queensland. Residential leases exempted.	✓ January 2006	27
Credit business duty	Payable on the amount of credit provided under a loan, a discount transaction or a credit arrangement.	✓ January 2006	19
Hire duty	Payable on the hiring charges of the hire of goods.	✓ January 2007	19
Marketable securities duty (unquoted)	Payable on the transfer of marketable securities not listed on the Australian Stock Exchange or another recognised stock exchange.	✓ January 2007	17
Mortgage duty	Payable on entering into a mortgage over property in Queensland.	50% 1 Jan 2008 100% 1 Jan 2009	435
Duty on transfer of core business assets	Payable on the transfer of non-reealty business assets.	50% 1 Jan 2010 100% 1 Jan 2011	219
Notes:			
1. Estimated revenue foregone in financial year following full abolition.			
2. Credit card duty was abolished prior to its review under the IGA.			

The timing of the duty abolitions balances a range of community priorities, including the maintenance of the State's tax competitiveness while funding the delivery of essential community services and the provision of critical new infrastructure.

The Government has completed a number of duty abolitions announced in the 2005-06 Budget, with the removal of credit business and lease duties from 1 January 2006 and hire duty and marketable securities duty (unquoted) from 1 January 2007.

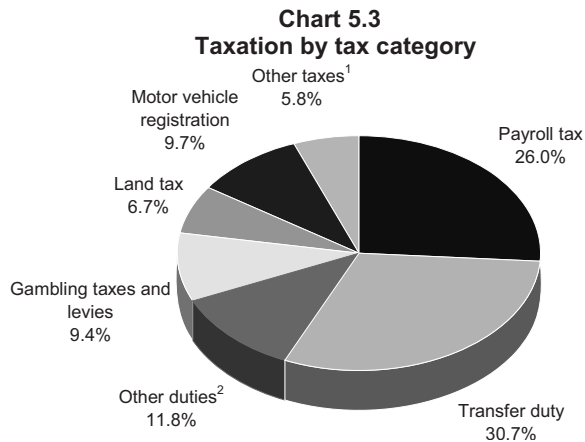
Two further taxes are scheduled to be abolished, with mortgage duty and duty on the transfer of core business assets to be abolished by 2011. The rate of mortgage duty will be halved from 0.4% to 0.2% from 1 January 2008 with full abolition on 1 January 2009.

The savings to Queenslanders from the abolition of these nine taxes has already risen from \$290 million in 2005-06 to \$465 million in 2007-08 and will rise to almost \$1.2 billion per year by 2011-12. The cost to revenue from the abolition of these taxes will be almost \$5 billion over this seven year period.

The Australian Government is also seeking the abolition of duty on the transfer of non-residential real property. The Queensland Government has not made a commitment to abolishing this duty. Abolishing this duty would result in a significant reduction in budget capacity at a time when the Queensland Government is committed to increasing the level of services provided to Queenslanders, particularly in areas such as health, disability services and child safety, and is also undertaking a record capital works program to provide the water and transport infrastructure required to support Queensland's growing population. Further, the Queensland Government is concerned the abolition of duty on non-residential property transfers would be inequitable to purchasers of residential property at a time when home purchasers are facing significant affordability constraints.

## Estimates of state revenue

Chart 5.3 indicates the composition of estimated state tax revenue for the 2007-08 year.



Note:

1. 'Other taxes' includes the fire levy, community ambulance cover, guarantee fees and other minor taxes.
2. 'Other duties' includes vehicle registration duty, insurance duty, mortgage duty and other minor duties.

The largest sources of taxation revenue are payroll tax and transfer duty, which together represent over half of the State's total taxation revenue in 2007-08.

Payroll tax (26% of total tax revenue in 2007-08) has a solid base with relatively stable growth driven by the underlying strength in the state economy. In contrast, revenue growth from transfer duty (representing 30.7% of tax revenue) can vary significantly from year to year with its base being subject to the volatile movements of the property market.

Other duties, including vehicle registration duty, insurance duty, mortgage duty and other smaller duties, represent 11.8% of total tax revenue. This proportion will decline as duties are abolished in accordance with the Government's schedule of tax abolitions.

Land tax represents 6.7% of total revenue in 2007-08. While also subject to the volatility of price movements in the property market, this impact is moderated by a relatively stable base and the effect of three-year averaging of land values for assessments.

Gambling taxes and levies represent 9.4% of tax revenues in 2007-08. Motor vehicle registration, which is classified as a tax for budget purposes, represents 9.7% of total tax revenue.

### **Payroll tax**

Payroll tax is chargeable at a rate of 4.75% when the total yearly Australian taxable wages of an employer, or those of a group of related employers, exceed the exemption threshold of \$1 million.

Payroll tax collections are estimated to increase by 10.9% in 2007-08, reflecting general growth in employment and wages, with particular strength in key industries, such as construction, mining and property and business services.

The payroll tax rate has been reduced in recent years from 5% to its current level of 4.75%, making Queensland's payroll tax rate overall the lowest of any state. Further, an employer paying annual taxable wages of less than \$1 million from 2006-07 is not liable for payroll tax – this is amongst the highest thresholds in Australia.

### **Duties**

Duties are levied on a range of financial and property transactions. Overall, revenue from duties is forecast to increase by 13.4% in 2007-08. This is largely driven by increased revenues from transfer and mortgage duty arising from the continued strength in housing and non-residential property transactions. This growth will be partially offset by the phased abolition of mortgage duty, with a 50% rate reduction from 1 January 2008.

The major duties include transfer, mortgage, vehicle registration and insurance duties.

- Transfer duty is charged at various rates on the transfer of real and business property. The Queensland Government offers extensive concessions for the transfer of land where the property is purchased as a first or subsequent home.

Revenue from transfer duty is expected to grow by 16% in 2007-08 as a result of the continued strength of the Queensland property market. Recent years have seen a shift in the composition of the base from owner-occupiers to residential investment and commercial property purchases, as a result of the substantial concessions provided to those buying their own home. A tight rental market, for both commercial and residential property, is expected to continue to support the growth in these segments of the revenue base.

- Mortgage duty is currently levied at a rate of 0.4% of the total amount secured by the mortgage and will reduce to 0.2% from 1 January 2008.

Revenue from mortgage duty is estimated to fall by 13% in 2007-08, with the rate reduction during the year more than offsetting the strong underlying growth, driven by continued strength in the property market. Mortgage duty will be fully abolished from 1 January 2009.

- Vehicle registration duty is currently charged at the rate of 2% of the dutiable value of a motor vehicle on the transfer or initial registration of the motor vehicle. As set out above, the rate of duty will increase from 1 January 2008.

Revenue from vehicle registration duty is expected to experience underlying growth of 7% in 2007-08. Combined with the additional revenue from increased duty rates, total growth is expected to be 35.1%.

- Insurance duty is charged on contracts of general, life insurance and accident insurance. The base rate for most general insurance products is 7.5%, with certain general insurance products, life insurance and accident insurance charged at the rate of 5%.

Revenue from insurance duty is expected to grow by 7.4% in 2007-08, reflecting growth in the number of insurance policies and the value of insured items.

### ***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 5.1% in 2007-08. Gaming machine taxes and levies are estimated to increase by 5.4%, lotteries taxes by 5.1%, wagering taxes by 5.7% and other gambling taxes by 4.1%. Gaming machine taxes and levies in 2006-07 were impacted by the complete ban on smoking in venues, which took effect from 1 July 2006, with collections 5.6% lower in 2006-07 than in 2005-06.

### ***Land tax***

Land tax is levied on the unimproved value of the landowner's aggregated holdings of freehold land owned in Queensland as at midnight on 30 June each year. The principal place of residence is deducted from this value.

A 50% cap on the annual increase in land values used for the purposes of calculating land tax liabilities will commence from 1 July 2007 and will be in place for three years.

Resident individuals are generally liable for land tax if the total unimproved value of the freehold land owned by that person as at 30 June is equal to or greater than \$500,000, which is to be increased to \$600,000 from 1 July 2007. Companies, trustees and absentees are generally liable for land tax if the total unimproved value of the freehold land owned as at 30 June is equal to or greater than \$300,000, which is to be increased to \$350,000 from 1 July 2007.

Land tax is estimated to grow by 18.9% in 2007-08, with underlying growth of 28.3% being partially offset by the introduction of capping and the increased thresholds.

The application of three-year averaging for assessments, whereby the land value is determined by averaging the unimproved property values for the current and preceding two years rather than simply using the current year valuation, moderates and delays the impact of valuation increases. It is estimated that the revenue foregone as a result of three-year averaging will be approximately \$202 million in 2007-08. Queensland was the first state to apply three-year averaging to land tax, with New South Wales also introducing averaging recently.



### ***Motor vehicle registration fees***

Motor vehicle registration fees are expected to grow by 4% in 2007-08, reflecting 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 the number of contributors and CPI.

### ***Community Ambulance Cover***

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

To minimise the impact of the levy, a range of exemptions are provided, including for pensioners, certain farm sheds and water pumps, religious bodies and other institutions and government. Additional exemptions were provided in November 2003 for certain common and multiple accounts for commercial and residential buildings, security lighting and public parks, hot water systems and electricity accounts relating to a medical condition.

Growth in 2007-08 reflects CPI adjustment and growth in the number of non-exempt electricity accounts.

### ***Guarantee fees***

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

### ***Other taxes***

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

## **Tax expenditures**

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

## **QUEENSLAND'S COMPETITIVE TAX STATUS**

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

Recent tax changes have sought to improve the efficiency and equity of the State's tax system, increase consistency with other jurisdictions, strengthen the funding base of essential services and reduce or eliminate taxes to the benefit of taxpayers.

In pursuit of these objectives over recent years, the Government has:

- rationalised the payroll tax system by reducing the rate from 5% to 4.75%, offset by a broadening of the tax base
- increased the payroll tax threshold from \$850,000 to \$1,000,000
- provided land tax exemptions to moveable dwelling parks and expanded the principal place of residence exemption
- introduced the Community Ambulance Cover to secure the funding base for the Queensland Ambulance Service, while minimising the impact through a range of exemptions
- extended the transfer duty concession for purchases of first homes from \$80,000 (with the concession phasing out at \$160,000) to \$320,000 (with the concession phasing out at \$500,000)
- extended the mortgage duty exemption threshold for first home buyers from \$100,000 to \$250,000
- provided a transfer duty concession for first home buyers purchasing vacant land valued at up to \$150,000 (with the concession phasing out at \$300,000) on which to build their first home
- extended the transfer duty home concession from \$250,000 to \$320,000
- reduced the base insurance duty rate from 8.5% to 7.5%

- increased some transfer duty rates to assist the funding of the *Health Action Plan*
- abolished transfer duty on quoted marketable securities, credit card duty, debits tax, lease duty, credit business duty, hire duty and unquoted marketable securities duty.

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

- land tax relief, via increased thresholds and the introduction of a 50% cap on the annual increase in the value of land for the purposes of calculating land tax liability. The cap will apply for three years from 1 July 2007
- a payroll tax harmonisation package to ensure greater consistency between jurisdictions, which will be implemented from 1 July 2008
- a continued commitment to abolish mortgage duty and duty on the transfer of core business assets
- changes to vehicle registration duty rates.

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

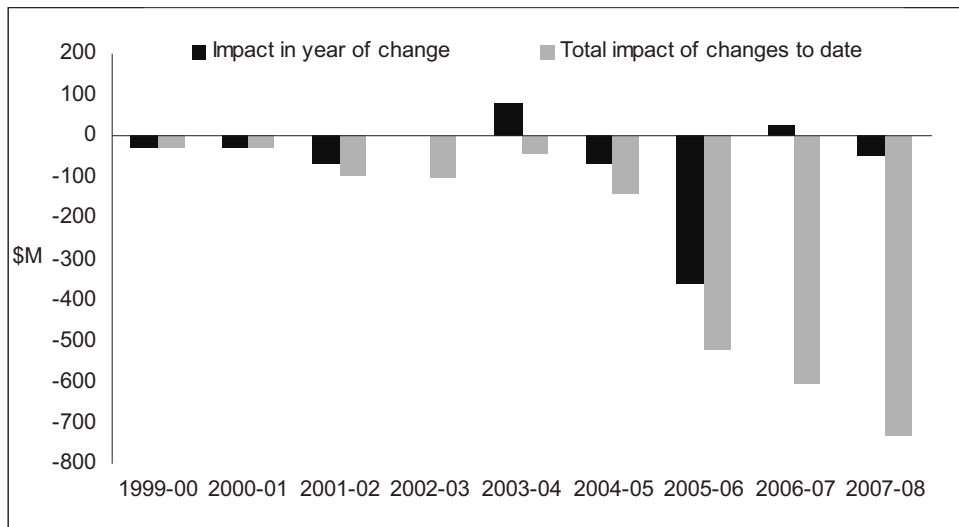
Table 5.7 Queensland's tax competitiveness									
	QLD	NSW	VIC	WA	SA	TAS <sup>4</sup>	ACT	NT <sup>4</sup>	Avg <sup>5</sup>
Taxation per capita <sup>1</sup> (\$)	2,226	2,510	2,229	2,614	2,037	1,559	2,640	1,735	2,357
Taxation effort <sup>2</sup> (%)	85.2	102.8	101.9	104.5	114.0	96.9	105.9	102.7	n/a
Taxation % of GSP <sup>3</sup> (%)	4.06	4.98	4.67	4.36	4.74	4.09	4.01	3.08	4.70
Notes:									
1. 2007-08 data. Sources: QLD, VIC, WA, NT State Budgets, NSW, SA, TAS, ACT Mid Year Reviews/Budget Updates.									
2. 2005-06 data. Source: Commonwealth Grants Commission: 2007 Update. Revenue raising effort ratios, assessed by the Commonwealth Grants Commission, isolate policy impacts from revenue capacity impacts and are an indicator of the extent to which the governments burden their revenue bases. Queensland's tax revenue raising effort is well below the Australian policy standard (equal to 100%).									
3. 2005-06 data. Sources: ABS 5506.0 and ABS 5220.0.									
4. Low taxation per capita reflects the lower revenue raising capacity of those jurisdictions.									
5. Weighted average of states and territories, excluding Queensland.									

As Table 5.7 shows, taxation per capita in Queensland is lower than the average taxation per capita in the other states. However, the gap has narrowed in recent years as strong economic growth in Queensland has resulted in significant increases in employment, leading to growth in payroll tax, and property values and volumes, leading to growth in transfer duty, land tax and mortgage duty.

Other measures of competitiveness, such as taxation effort and taxation as a share of GSP, provide a clearer view of the level of taxation imposed on the Queensland economy, highlighting the fact that Queensland’s tax rates are highly competitive with other states.

Chart 5.4 provides further evidence that increases in taxation per capita are the result of strong economic growth, rather than changes to taxation policy. The chart shows that, since 1999-2000, there have been six years in which taxes were cut, with the most significant of these being the land tax reforms of 2005-06. There were two years in which taxes were increased (the Community Ambulance Cover levy was introduced in 2003-04 and transfer duty rates were increased in 2006-07 to help fund the *Health Action Plan*) and a further two years in which there were no net changes to taxes.

**Chart 5.4**  
**Revenue impact of recent tax initiatives**



The net impact of these changes is that the level of taxation in 2007-08 is \$732 million, or \$176 per capita, lower than it would have otherwise been.

## GRANTS AND SUBSIDIES

Current grants and subsidies comprise revenues from the Australian Government, grants from the community and industry and other miscellaneous grants. The growth rate of 6.8% in 2007-08 is primarily due to an increase in Australian Government capital grants, particularly one-off grants for road and water projects.

**Table 5.8**  
**Grants and subsidies<sup>1</sup>**

	2005-06 Actual \$ million	2006-07 Est. Act. \$ million	2007-08 Budget \$ million
<b>Current grants and subsidies</b>			
Australian Government grants	12,364	12,980	13,314
Other grants and contributions	591	404	412
<b>Total current grants and subsidies</b>	<b>12,955</b>	<b>13,384</b>	<b>13,726</b>
<b>Capital grants and subsidies</b>			
Australian Government grants	627	802	1,418
Other grants and contributions	..	9	10
<b>Total capital grants and subsidies</b>	<b>627</b>	<b>811</b>	<b>1,428</b>
<b>Total grants and subsidies</b>	<b>13,582</b>	<b>14,195</b>	<b>15,154</b>
Note:			
1. Numbers may not add due to rounding.			

## Australian Government payments

Australian Government payments to Queensland comprise:

- general purpose payments, comprised of GST revenue grants and associated payments. National Competition Policy payments were also provided by the Australian Government up to 2005-06. General purpose payments are ‘untied’ and are used for both recurrent and capital purposes
- specific purpose payments (SPPs), including grants for health, education and transport, which are used to meet Australian Government and shared policy objectives.

Australian Government payments to Queensland in 2007-08 are expected to total \$14.7 billion, an increase of \$950 million or 6.9% over payments in 2006-07. Chapter 8 provides more detailed background on Commonwealth-state financial arrangements.

**Table 5.9  
Australian Government payments<sup>1</sup>**

	2005-06 Actual \$ million	2006-07 Est. Act. \$ million	2007-08 Budget \$ million
<b>General Purpose Payments</b>			
GST Revenue Grants and associated payments <sup>2</sup>	7,773	8,053	8,384
National Competition Policy Payments	179	..	..
<b>Total General Purpose Payments</b>	<b>7,952</b>	<b>8,053</b>	<b>8,384</b>
<b>Specific Purpose Payments<sup>3, 4</sup></b>			
Health	1,838	1,969	2,044
Education, Training and the Arts	1,757	2,000	1,986
Local Government, Planning, Sport and Recreation	315	330	319
Housing	188	194	196
Treasury	126	199	99
Disability Services Queensland	293	323	349
Main Roads	275	455	703
Other <sup>5</sup>	249	259	653
<b>Total Specific Purpose Payments</b>	<b>5,039</b>	<b>5,729</b>	<b>6,348</b>
<b>Total Australian Government Payments</b>	<b>12,991</b>	<b>13,782</b>	<b>14,732</b>
Notes:			
1. Numbers may not add due to rounding.			
2. Includes compensation for GST deferral relating to the Australian Government's small business measures in 2005-06 and 2006-07 and a residual adjustment amount in 2005-06.			
3. SPPs are shown below by relevant Queensland Government department. Figures for 2005-06 and 2006-07 have been backcast to reflect current departmental responsibilities.			
4. Differences between SPPs in this chapter and Australian Government Budget estimates can arise and generally reflect the outcome of agency-to-agency discussions or the absence of state level information.			
5. Includes one-off funding of \$408 million towards the Western Corridor Recycled Water project in 2007-08.			

## **General purpose payments**

### *GST revenue grants*

GST revenue grants and associated payments to Queensland in 2007-08 are expected to be \$8.384 billion, which represents an increase of \$331 million (or 4.1%) on 2006-07. This reflects 4.2% growth in GST payments, partly offset by the expectation that compensation for GST deferral relating to the Australian Government's small business measures will not be required.

GST revenue projections are based on expected growth in economic parameters, such as household consumption and dwelling investment, which have a strong link to the GST base. The distribution of GST revenues is based on the recommendations of the Commonwealth Grants Commission in accordance with the application of horizontal fiscal equalisation principles.

The 4.2% growth in GST payments to Queensland in 2007-08 compares with 6.2% average growth in GST payments to the other states and territories. The below-average growth in GST funding to Queensland takes into account the above-average growth in Queensland's economy and the associated growth in own-source revenue.

### ***Specific purpose payments***

SPPs for Queensland in 2007-08 are estimated at \$6.348 billion, an increase of 10.8% from 2006-07.

#### ***Queensland Health***

Queensland receives funding for public hospitals and other health services from the Australian Government under the Australian Health Care Agreement (AHCA). The AHCA provides the majority of Queensland Health's Australian Government funding and is adjusted annually for population growth, increases in cost and utilisation of hospitals. The 2003-2008 AHCA commenced on 1 July 2003. Queensland will receive almost \$1.8 billion in 2007-08 in Health Care Grants under the current Agreement.

Queensland Health will also receive tied funding of \$165 million in 2007-08 for a range of programs including Highly Specialised Drugs, Essential Vaccines and National Public Health. Queensland will also receive \$59 million for nursing home benefits.

#### ***Department of Education, Training and the Arts***

SPPs for education purposes comprise recurrent and capital grants for distribution to state and non-state schools and other organisations. A slight decrease in Australian Government grants in 2007-08 reflects a decline in funding for capital projects resulting from the conclusion of the Investing In Our Schools program, and is partially offset by increased recurrent grants, which recognise cost indexation and enrolment growth.

The Australian Government also provides funding for a range of specific vocational education and training programs. In 2007-08, the Department expects to receive around \$220 million in vocational education and training funding, consistent with 2006-07.

#### ***Department of Main Roads***

Funding is received from the Australian Government for infrastructure and maintenance works on the National Network and for Black Spot Road Safety projects. The 2007-08 allocation reflects road works programmed under the Australian Government's AusLink program.

#### ***Disability Services Queensland***

The current Commonwealth-State and Territory Disability Agreement is set to expire on 30 June 2007. A new agreement is in the process of being negotiated between the Australian and state and territory governments.

Disability Services Queensland will also receive funding from the Australian Government for the Home and Community Care (HACC) program, with the State Government recently accepting a new agreement. The HACC Review Agreement coupled with projected growth funding ensures the program is a key part of the community care system and will continue to assist frail older people and those with disabilities to live as independently as possible in their own homes.

#### *Department of Local Government, Planning, Sport and Recreation*

SPPs to the Department of Local Government, Planning, Sport and Recreation primarily relate to Financial Assistance Grants provided to local government in Queensland.

#### *Department of Housing*

In 2007-08, the Department of Housing will receive \$196 million in SPPs including \$195 million under the current Commonwealth-State Housing Agreement covering the period 2003-2008. The Budget estimate for 2007-08 represents a slight increase against estimated payments in 2006-07 reflecting growth funding built into the 2003-2008 Agreement. This funding will be used for the continued development of a core social housing sector to assist people unable to access alternative suitable housing options through the delivery of affordable, appropriate, flexible and diverse housing assistance responses that provide people with choice and are tailored to their needs, local conditions and opportunities.

#### *Queensland Treasury*

Treasury receives payments from the Australian Government for joint Commonwealth-state natural disaster relief measures, concessions for pensioner concession card holders and compensation for foregone revenue on the establishment of the Australian Securities Commission.

#### *Other*

The increase in other SPPs in 2007-08 reflects the Australian Government's commitment to provide \$408 million towards the Western Corridor Recycled Water project.

### **Other grants and contributions**

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

- those received from private enterprise and community groups to fund research projects and community services, including the contributions of parents and citizens associations to state schools
- contributed assets and goods and services received for a nominal amount.



**Table 5.10**  
**Other grants and contributions**

	2005-06 Actual \$ million	2006-07 Est. Act. \$ million	2007-08 Budget \$ million
Other grants and contributions	591	413	421

Revenues will vary from year to year based on the number and size of research projects, assets transferred between the Government and the private sector and contributed assets and services.

## SALES OF GOODS AND SERVICES

Sales of goods and services revenue comprises cost recoveries from the provision of goods or services. Revenue from this source is expected to increase by 2.3% in 2007-08.

**Table 5.11**  
**Sales of goods and services<sup>1</sup>**

	2005-06 Actual \$ million	2006-07 Est. Act. \$ million	2007-08 Budget \$ million
Fee for service activities	1,022	1,208	1,185
TransLink	200	222	235
Rent revenue	293	315	375
Sale of land inventory	69	73	93
Hospital fees	227	259	263
Transport and traffic fees	202	202	193
Other sales of goods and services	573	659	661
<b>Total sales of goods and services</b>	<b>2,586</b>	<b>2,937</b>	<b>3,005</b>

Note:

1. Numbers may not add due to rounding.

### Fee for service activities

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

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

The Government provides concessions in the form of discounts, rebates and subsidies to improve access to and the affordability of a range of services for individuals or families based on eligibility criteria relating to factors such as age, income and special needs or disadvantage. Appendix B provides details of the concession arrangements set in place by the Queensland Government.

## **TransLink**

Revenues arise from the arrangements associated with TransLink integrated ticketing and public transport arrangements, which commenced in July 2004. Instead of subsidising public transport operators for the gap between operating costs and revenues, the TransLink entity collects revenues from the operation of public transport services in South East Queensland to fund public transport services in the region. These revenues are estimated at \$235 million in 2007-08.

## **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 Property Services Group under the Department of Infrastructure. As such, it is distinct from property disposals undertaken by most Government agencies.

## **Hospital fees**

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

## **Transport and traffic fees**

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

## **Other sales of goods and services**

Other sales of goods and services includes items such as Title Registration Fees, recreational ship registrations and other licences and permits.

## INTEREST INCOME

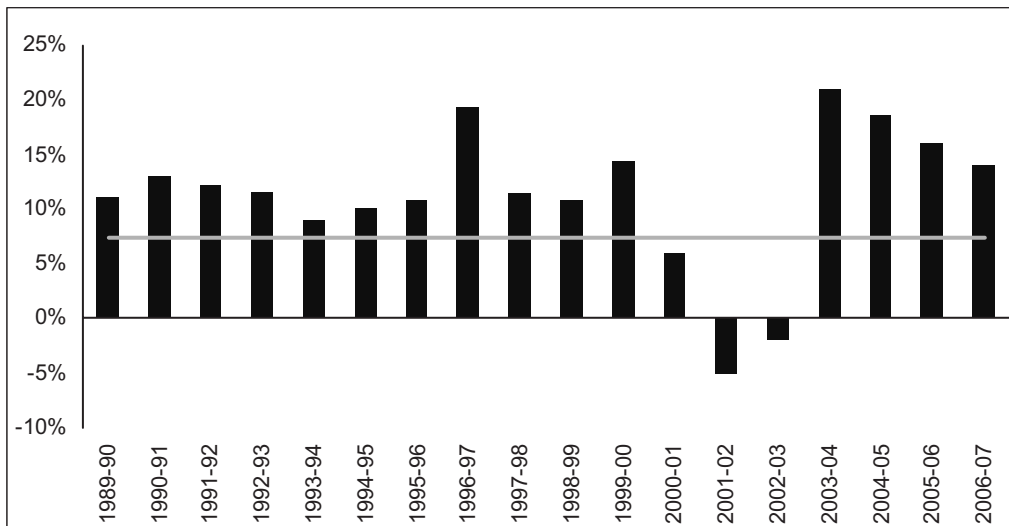
Interest income primarily comprises interest earned on the Treasurer’s Cash Balances, Queensland Future Growth Fund balances and investments held to finance future employee entitlements, for example superannuation and long service leave.

Table 5.12 Interest income			
	2005-06 Actual \$ million	2006-07 Est. Act. \$ million	2007-08 Budget \$ million
Interest income	3,414	3,268	2,190

Queensland Treasury Corporation manages the State’s short-term investments, such as the Treasurer’s Cash Balances, while Queensland Investment Corporation manages the State’s long-term investments, primarily employee entitlement provisions (including assets held to meet employer superannuation liabilities). The State’s investment portfolio includes a diversified holding of equities, property and fixed interest.

Chart 5.5 shows investment return rates achieved over time.

**Chart 5.5**  
Investment returns (% per annum)<sup>1,2</sup>



Note:

1. Line represents actuarial assumed long term average.

2. 2006-07 is an estimate.

Source: 1989-90 to 2006-07: Queensland Investment Corporation

With respect to investments held to meet employer superannuation liabilities, the State has, during the course of 2006-07, continued to effect an orderly reduction in its equity holdings (from 80% to 60% of the strategic asset allocation) and further diversified its portfolio.

While the previous asset allocation was appropriate in the context of managing very long term liabilities, the introduction of the Accumulation Scheme option for State employees and the actuarial surplus in the superannuation fund resulting from the strong performance of equity markets has presented an opportunity to alter the asset allocation.

The strong performance of domestic and international equity markets positively impacted interest income in 2006-07, with an estimated rate of return of 14%. This estimate is based on actual year-to-date investment returns at the time of the finalisation of the Budget. Interest income in 2007-08 is based on investment returns achieving the assumed long term average earnings rate of 7.5%.

## OTHER REVENUE

Other revenue comprises dividends, tax equivalent payments, royalties, fines and forfeitures and other sundry revenues. Other revenue is expected to decrease in 2007-08, largely due to an expected reduction in tax equivalent payments. Tax equivalent payments were abnormally high in 2006-07 as a result of the sale of ENERGEX's electricity and gas retail businesses, the Allgas distribution network and the competitive parts of Ergon Energy's electricity retail business including Ergon Energy's subsidiary, Powerdirect.

**Table 5.13**  
**Other revenue<sup>1</sup>**

	2005-06 Actual \$ million	2006-07 Est. Act. \$ million	2007-08 Budget \$ million
Dividends	642	742	915
Tax equivalents	415	1,120	201
Royalties and land rents	1,532	1,410	1,436
Fines and forfeitures	185	210	212
Revenue nec	331	300	167
<b>Total Other Revenue</b>	<b>3,105</b>	<b>3,781</b>	<b>2,931</b>
Note: 1. Numbers may not add due to rounding.			

## Dividends

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

Dividends are expected to increase by 23.3% in 2007-08, driven by increases in both the energy and transport sectors.

**Table 5.14**  
**Dividends<sup>1</sup>**

	2005-06 Actual \$ million	2006-07 Est. Act. \$ million	2007-08 Budget \$ million
Energy sector	462	393	517
Transport sector (rail and ports)	136	186	366
Other <sup>2</sup>	45	163	32
<b>Total Dividends</b>	<b>642</b>	<b>742</b>	<b>915</b>
Notes:			
1. Numbers may not add due to rounding.			
2. Includes dividends from Forestry Plantations Queensland, Golden Casket Corporation, Queensland Investment Corporation, Queensland Lotteries Corporation and SunWater.			

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

The dividend payout ratio recommended by the boards of Government-owned corporations does not impact on the capacity and requirement of these entities to carry out necessary maintenance and repairs and asset replacement (via provision for depreciation). Dividends are paid after providing for such costs. The dividend payout ratio for 2006-07 and the assumption on which the 2007-08 Budget and forward estimates are based, for those Government-owned corporations that pay dividends, is generally 80% of net operating profit after tax. Shareholding Ministers also consider the circumstances of individual Government-owned corporations and the advice of their boards before arriving at a final determination.

In total, dividends account for 2.8% of total General Government revenue in 2007-08.

## **Tax equivalent payments**

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

Tax equivalent payments in 2006-07 are significantly impacted by the tax equivalence implications of the sale of ENERGEX's electricity and gas retail businesses, the Allgas distribution network and the competitive parts of Ergon Energy's electricity retail business including its subsidiary, Powerdirect.

**Table 5.15**  
**Tax equivalent payments<sup>1</sup>**

	2005-06 Actual \$ million	2006-07 Est. Act. \$ million	2007-08 Budget \$ million
Energy sector	120	1,033	120
Transport sector (rail and ports)	23	44	49
Other	272	42	32
<b>Total Tax Equivalent Payments</b>	<b>415</b>	<b>1,120</b>	<b>201</b>
Notes:			
1. Numbers may not add due to rounding.			

## Royalties and land rents

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

Coal royalties make up the bulk of royalty and land rent revenue, having increased significantly in recent years as a result of substantial increases in the value of coal produced in Queensland. Royalties from base and precious metals have also increased significantly, with strong global demand for commodities also causing substantial increases in the value of metals such as copper and zinc.

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

Royalty revenue is expected to remain at high levels in 2007-08 due to growth in the volume of coal exports to meet strong overseas demand, despite reductions in contract prices for coking coal.

There is a significant degree of uncertainty associated with estimates of commodity prices and Australian dollar-US dollar exchange rates, both of which have significant impacts on royalty revenue. Further discussion of the risks associated with the royalty estimates, including a sensitivity analysis, is provided in Appendix C.

**Table 5.16**  
**Royalties and land rents<sup>1</sup>**

	2005-06 Actual \$ million	2006-07 Est. Act. \$ million	2007-08 Budget \$ million
Coal	1,161	1,000	1,020
Other royalties <sup>2</sup>	332	368	368
Land rents	40	42	48
<b>Total royalties and land rents</b>	<b>1,532</b>	<b>1,410</b>	<b>1,436</b>
Notes:			
1. Numbers may not add due to rounding.			
2. Includes base and precious metal, petroleum and other minerals royalties.			

## **Fines and forfeitures**

The major fines included in this category are traffic and court fines. There is an expected increase of 1% in collections of fines and forfeitures in 2007-08.

## **Revenue nec**

Revenue nec includes other revenues not elsewhere classified. The decrease in 2007-08 primarily reflects an expected decline in asset transfers from non-Queensland Government entities.





## 6. EXPENSES

### FEATURES

- **Total General Government sector expenses are expected to increase by \$2.118 billion (or 7%) over the estimated actual for 2006-07, to \$32.282 billion in 2007-08.**
- **Growth in expenses includes a range of service developments and initiatives with a particular focus on the areas of health, disability services, housing, child safety and education and training.**
- **The major areas of expenditure are health and education, which together constitute approximately 47% of General Government sector expenses.**

### INTRODUCTION

This chapter provides an overview of General Government sector expenses for the estimated actual outcome for 2006-07, forecasts for the 2007-08 Budget year and projections for 2008-09 to 2010-11. The forward estimates are based on the economic projections outlined in Chapter 2 and are formulated on a no policy change basis.

The Ministerial Portfolio Statements provide details of expenditure for individual departments.

**Table 6.1**  
**General Government sector expenses<sup>1</sup>**

	2006-07 Budget \$ million	2006-07 Est.Act. \$ million	2007-08 Budget \$ million	2008-09 Projection \$ million	2009-10 Projection \$ million	2010-11 Projection \$ million
<b>Expenses</b>						
Gross operating expenses						
Employee expenses	13,324	13,229	14,271	15,281	16,190	16,983
Other operating expenses	5,844	6,587	6,424	6,348	6,399	6,571
Depreciation	1,754	1,780	2,015	2,244	2,264	2,377
Superannuation interest	563	716	745	781	813	842
Other interest	222	218	390	660	958	1,145
Current transfers	6,094	6,477	6,761	6,980	6,977	7,130
Capital transfers	1,024	1,157	1,676	762	763	718
<b>Total Expenses</b>	<b>28,825</b>	<b>30,164</b>	<b>32,282</b>	<b>33,056</b>	<b>34,364</b>	<b>35,766</b>
Note:						
1. Numbers may not add due to rounding.						

General Government expenses in 2006-07 are estimated to be \$30.164 billion, an increase of \$1.339 billion over the 2006-07 Budget forecast of \$28.825 billion. This increase is primarily due to:

- expensing of Tugun Bypass construction costs related to that part of work being undertaken in New South Wales
- increased Vegetation Management program expenditure and additional drought assistance provided to primary producers
- implementation of a Redress Scheme for former child residents of institutions
- additional expenditure on the Government's WaterWise rebate schemes
- actuarial revisions to superannuation
- additional expenditure to match increases in specific purpose grants from the Australian Government and other own source revenues.

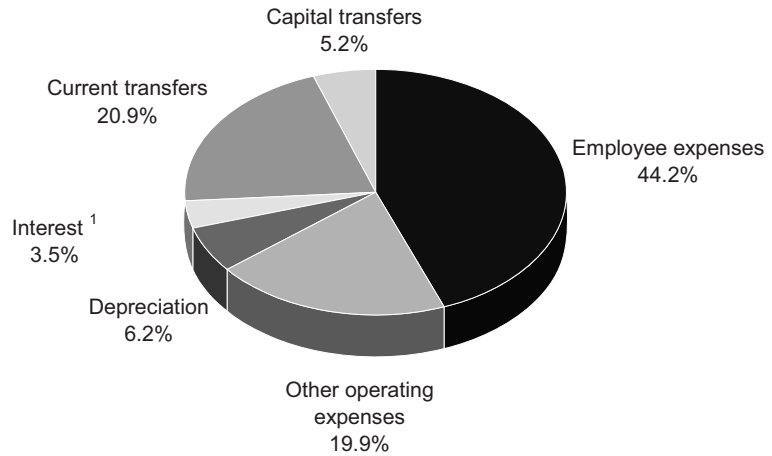
The General Government operating statement provides for aggregate expenses of \$32.282 billion in 2007-08, representing an increase of \$2.118 billion (or 7%) over the 2006-07 estimated actual. Factors influencing the growth in expenses include the implementation of service enhancements and initiatives outlined in Chapter 4.

## **EXPENSES BY OPERATING STATEMENT CATEGORY**

This section provides a breakdown of General Government expenses in 2007-08 by category and discusses the significant variances between 2006-07 estimated actual and 2007-08 Budget by expense category.

Chart 6.1 indicates that the single largest expense category in the General Government sector is employee expenses (44.2%), reflecting the direct service provision nature of Government activities, followed by current transfers (20.9%) that include community service obligation payments to Government-owned corporations (GOCs) and the fuel subsidy scheme.

**Chart 6.1**  
**Expenses by operating statement category, 2007-08**

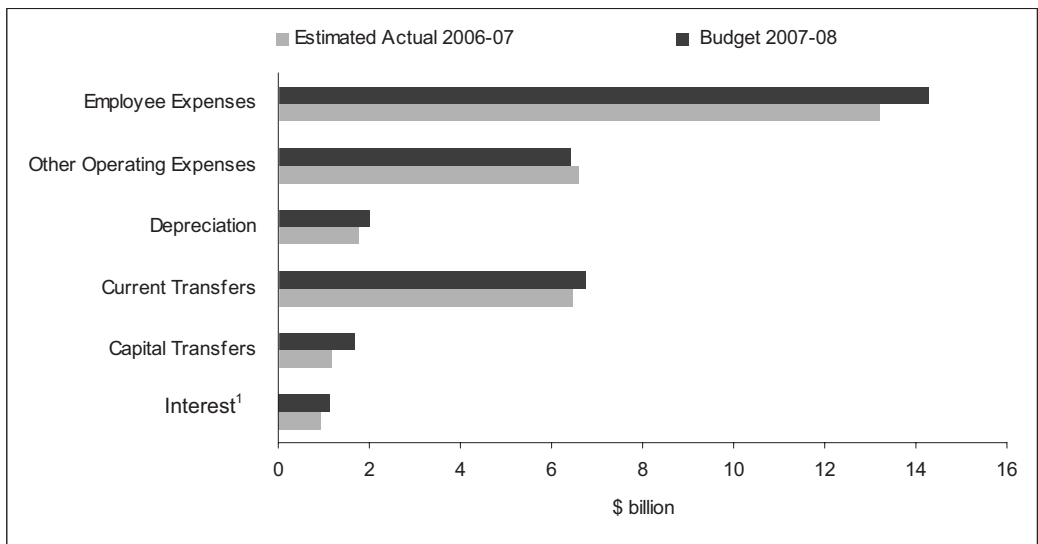


Note:

1. Includes superannuation interest expense.

Chart 6.2 compares the 2006-07 estimated actual expenses for each operating statement category with the 2007-08 Budget.

**Chart 6.2**  
**Expenses by operating statement category**  
**2006-07 and 2007-08**



Note:

1. Includes superannuation interest expense.

## **DETAILS OF EXPENSES**

### **Employee expenses**

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

Employee expenses are forecast to increase by \$1.042 billion or 7.9% to \$14.271 billion in 2007-08. The increase reflects a combination of wage increases related to recent enterprise bargaining agreements and other services' growth and enhancements.

The additional staffing provided in the 2007-08 Budget is predominantly in key service delivery areas, including 192 additional teachers and teacher aides to meet enrolment growth in Queensland state schools and to support students with disabilities, 250 additional ambulance officers across the State and 200 additional sworn police positions by October 2008. In addition, as part of the *Health Action Plan*, the Government committed to recruiting an additional 300 doctors, 500 nurses and 400 allied health professionals. As at 6 May 2007 an additional 1,036 doctors, 3,157 nurses and 1,126 allied health professionals and scientists have been recruited.

### **Other operating expenses**

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

Other operating expenses are expected to decline moderately to \$6.424 billion in 2007-08, reflecting various one-off outlays in 2006-07, including additional expenditure under Natural Disaster Relief Arrangements as a result of Cyclone Larry and the implementation of the Redress Scheme for former child residents of institutions.

### **Depreciation**

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

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

## Current and capital transfers

Current transfers include grants and subsidies to the community (such as schools, hospitals, benevolent institutions and local governments) and personal benefit payments. Current transfers to non-government recipients represent grants to non-government organisations and householders. Funding includes support for non-government health care providers, organisations servicing the community in partnership with government in the family support, disability, youth and childcare sectors. Community service obligations (CSOs) are provided where GOCs are required to provide non-commercial services or services at non-commercial prices for the benefit of the community.

Increases in CSO payments to GOCs are a contributing factor to an estimated increase in current transfer payments of \$284 million or 4.4% in 2007-08 (see Table 6.2).

Higher CSO payments reflect funding to Queensland Rail for additional track and rollingstock throughout Queensland as part of the *South East Queensland Infrastructure Plan and Program* (SEQIPP). They are also the result of expected increases in the cost of electricity due to drought-related water supply constraints restricting the electricity generation capacity and increases in network charges flowing from significant network capital expenditure across the State to strengthen and improve the distribution network.

Capital transfers represent grants to GOCs, local governments, non-profit institutions and other non-government entities, such as households and businesses for capital purposes.

Capital transfer payments to GOCs in 2007-08 represents funding for the Western Corridor Recycled Water Project in south east Queensland. The Western Corridor Recycled Water Project involves the construction of pipelines from six wastewater treatment plants in Brisbane and Ipswich to three advanced water treatment plants for treatment and transfer of purified recycled water to end users.

Table 6.2 indicates the composition of transfer payments by recipient.

<b>Table 6.2</b>		
<b>Current and capital transfers<sup>1</sup></b>		
	2006-07 Est. Act. \$ million	2007-08 Budget \$ million
<b>Current</b>		
Fuel Subsidy Scheme	525	541
Grants to local government	480	424
Grants to non-government schools	1,459	1,563
Grants to non-profit organisations	868	954
Grants to other non-government recipients	1,666	1,593
Payments to GOCs	1,479	1,686
<b>Total current transfers</b>	<b>6,477</b>	<b>6,761</b>
<b>Capital</b>		
First Home Owner Grant Scheme	221	243
Grants to local government	525	582
Grants to non-profit organisations	31	70
Grants to other non-government recipients	381	373
Payments to GOCs	..	408
<b>Total capital transfers</b>	<b>1,157</b>	<b>1,676</b>
<b>Total current and capital transfers</b>	<b>7,634</b>	<b>8,437</b>
Note:		
1. Numbers may not add due to rounding.		

## Interest

The superannuation interest expense represents the imputed interest on the Government's accruing defined benefit superannuation liability. In determining the State's defined benefit superannuation liabilities, AASB119 *Employee Benefits* requires the discounting of future benefit obligations using yield rates on government bonds net of investment tax, estimated at 5.6%.

The other interest expense includes interest paid on borrowings to acquire capital assets and infrastructure such as roads and government buildings. The growth in this expense over the forward estimates reflects growth in borrowings for capital asset acquisitions, including new infrastructure investment as part of SEQIPP. However, interest expense will only rise to 3.2% of total operating expenses by the end of the forward estimates period.

## OPERATING EXPENSES BY PURPOSE

**Chart 6.3**  
**General Government expenses by purpose, 2007-08**

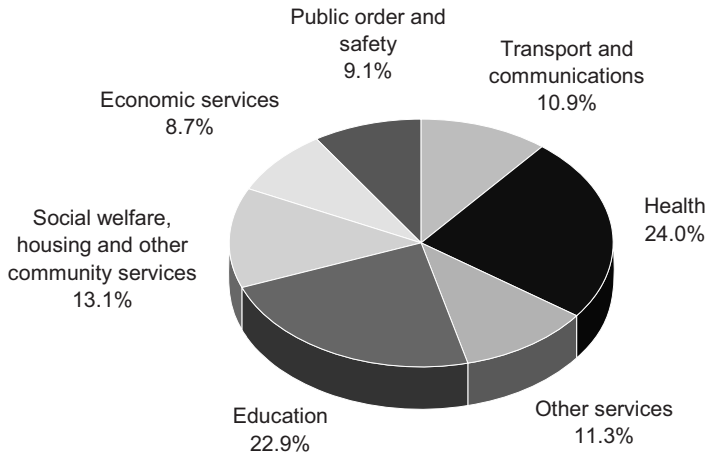
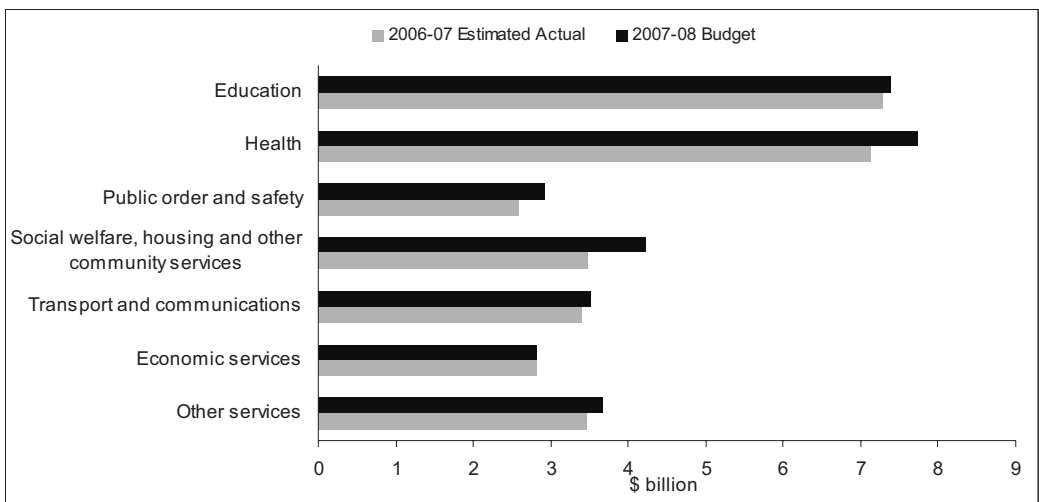


Chart 6.3 indicates the proportion of expenditure by major purpose classification for the 2007-08 Budget. Health accounts for the largest share of expenses (24%) followed by Education (23%) and Social welfare, housing and other community services (13%).

In 2007-08, expenditure on Social welfare, housing and other community services has increased in comparison to other major purpose classifications as a result of grants for the Western Corridor Recycled Water Project and significant additional funding for disability services, housing and child safety.

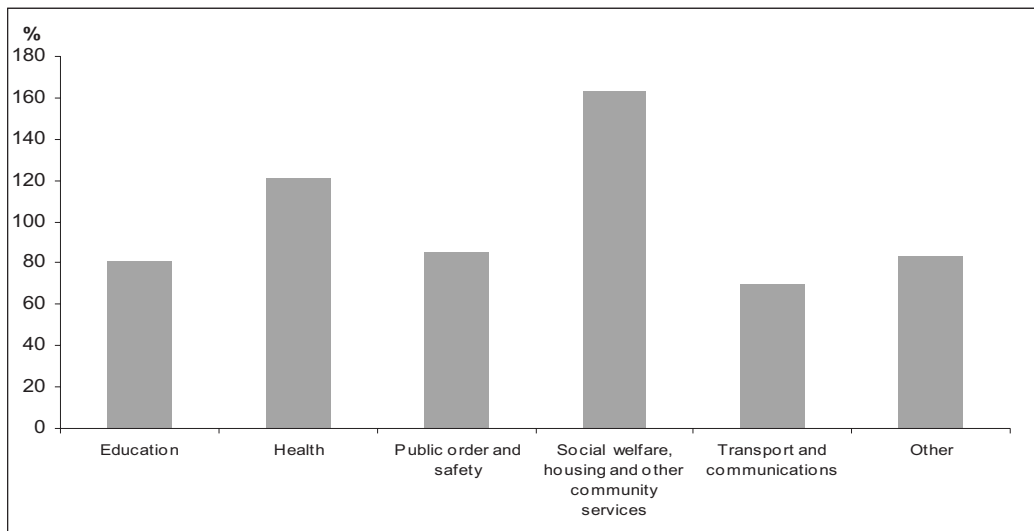
**Chart 6.4**  
**General Government expenses by purpose**  
**2006-07 and 2007-08**



As evidenced in the chart above, expenditure increases in all key service delivery areas from 2006-07 estimated actual to 2007-08 Budget.

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

**Chart 6.5**  
**General Government expenses by purpose**  
**Growth from 1998-99 to 2007-08**



Source: Queensland Treasury's data supplied to ABS.

## Education

The State's investment in education has been steadily growing since 1998. This investment has improved the individual opportunities for students and benefited the State as a whole by supporting productivity growth.

In order to provide a framework for investing in skills and innovation, in 1998 the Government developed the Smart State Strategy. This strategy is now in its second phase and continues to drive economic growth by improving the quality of, and access, to education and training across the State.



The 81.3% (\$3.320 billion) growth delivered in this area since 1998 encompasses primary, secondary and tertiary education and technical and further education. Specifically, initiatives are delivering a reduction in class sizes, secondary pathways reforms and improvements in opportunities for Aboriginal and Torres Strait Islander students. Early years of schooling have also been reformed with the introduction of the Prep Year, first introduced on a trial basis and then implemented State-wide in 2007.

The three-year SmartVET initiative and the more recent *Queensland Skills Plan* have set out the Government's strategy for learning programs to support the high skills needs of growth industries, professionals and new technologies. The Government, in partnership with industry and employers, has worked to modernise the apprenticeship system, ensure the VET system is better targeted to economic needs and provide more flexible training options. The *Queensland Skills Plan* aims to provide an additional 17,000 trade training places each year and an additional 14,000 higher level training places each year by 2010.

Other initiatives that have contributed to the growth in education expenditure include:

- the introduction of Queensland Academies, giving senior students the opportunity to excel in science, maths, technology and the creative arts
- the *Tomorrow's Schools* package, which provides funding for projects to modernise and refurbish Queensland schools
- investment in TAFE infrastructure to modernise and provide new facilities across the State.

## Health

Since 1998, the total growth in the health function within the Queensland Government has been 121.5% (\$4.249 billion). Spending by Queensland Health now amounts to \$7.151 billion in 2007-08 and is expected to grow to \$8.207 billion by 2010-11.

The Government's *Health Action Plan*, first released in 2005, has provided a blueprint for reform of the health system. The initial package included a total investment of \$6.367 billion over five years. This investment has now increased to \$11.4 billion, and has focused on:

- increasing the number of medical professionals by providing additional places for medical students, employing more interns and attracting qualified medical staff to Queensland. As at 6 May 2007, 1,036 extra doctors and 3,157 extra nurses were appointed, well above respective targets of 300 and 500
- improving rural health services by recruiting and retaining further medical professionals for remote areas
- the provision of new services and maintenance to emergency departments to deal with increasing presentation rates

- ensuring adequate and targeted investment in health services infrastructure, such as hospital refurbishments and community health centres
- increasing transparency and accountability through the Health Quality and Complaints Commission
- improving quality of and access to mental health services throughout the State
- the development of an enhanced capacity to plan for future service delivery.

The Queensland Health 2007-08 Budget continues to drive health reform in Queensland through initiatives including the provision of enhanced clinical education and training for the health workforce, the implementation of an e-Health strategy, patient transport reforms and enhanced outpatient service delivery.

## **Public order and safety**

Public order and safety includes funding to police, legal services and law courts, fire protection, prisons and corrective services. Contributing to the 85.6% (\$1.348 billion) growth in public order spending since 1998 have been consistent increases in police numbers that have maintained the police to population ratio at or above the national average, as well as additional allocations relating to infrastructure. Funding has been provided for the planning and construction of new courthouse facilities, and for the expansion and redevelopment of prison infrastructure such as Townsville Correctional Centre.

In addition, law enforcement services have benefited from the implementation of new information and communications technologies, such as:

- the Public Safety Network, which establishes a common ICT network for the Departments of Police, Corrective Services and Justice and Attorney-General
- QPRIME, which provides a means to effectively manage the increasing volume of information used by operational police.

## **Social welfare, housing and other community services**

The continuously strong growth in Social welfare, housing and community services expenditure is a reflection of a range of policy initiatives designed to respond to issues relating to child safety, community support and housing shortages. Over the last few years, several essential reforms to child protection have been instigated, including upgrades to therapeutic and alternative care, suspected child abuse and neglect teams, and the accelerated increase of frontline staffing.

A number of initiatives have been implemented to address the social housing needs, including the purchase and construction of additional dwellings for the Public Housing and Aboriginal and Torres Strait Islander Housing rental programs, and the construction

of new shelters under the Crisis Accommodation program. Since 1998-99, housing assistance has increased by 95%.

Since 1998-99, the investment in disability services has grown by over 200%. This expenditure has been directed towards enhancing respite services for carers, reducing the number of young people living in nursing homes, implementing the *Disability Services Act 2006* and strengthening the capacity of non-government organisations to provide disability services.

This function also includes expenditure relating to families, communities and the environment, all of which have benefited from being part of key budget priorities in recent years. In total, the area of Social welfare, housing and community services has experienced a 163% (\$2.612 billion) growth in expenditure since 1998.

## **Transport and communications**

The Government is taking action to address urban congestion and is investing heavily in infrastructure and services. The *South East Queensland Infrastructure Plan and Program* details the Government's commitment to providing new infrastructure. Chapter 4 outlines current transport and road initiatives funded in the 2007-08 Budget.

Spending in this area has experienced a total growth of 70.1% (\$1.451 billion) since 1998. This funding has supported the development of transport and road projects including provision of funding to Queensland Rail to provide Citytrain services, freight transport in and out of South East Queensland and high-quality connections between the region's key activity centres. A major focus for the Government is to encourage people to travel in alternative, non-car modes of transport. Public transport patronage in South East Queensland increased by approximately 12% in 2005-06 from the previous year, six times the growth rate prior to the introduction of TransLink. Other initiatives to reduce congestion include the implementation of fare equalisation for all regional urban bus services, higher frequency services, the upgrade of bus stops, the introduction of wheelchair accessible taxis into small rural and regional communities and disability compliant bus and ferry infrastructure across regional centres.

Road safety issues have also been addressed, with the development of an action plan based on the recommendations of the Queensland Road Safety Summit of February 2006. This includes changes to driver licence requirements and the investigation of further speed enforcement technologies.

Details of 2007-08 initiatives and service developments are provided in Chapter 4.

## **DEPARTMENTAL EXPENSES**

Data presented in Tables 6.3 and 6.4 provide a summary drawn from financial statements contained in the Ministerial Portfolio Statements reports. Further information on the

composition of expenses, outputs delivered and factors influencing the movement in expenses can be obtained from individual Ministerial Portfolio Statements.

**Table 6.3**  
**Departmental Controlled Expense** <sup>1,2</sup>

	2006-07 Est. Actual \$'000	2007-08 Estimate \$'000
Aboriginal and Torres Strait Islander Policy (ceased 13 September 2006)	12,077	..
Child Safety	496,720	551,260
Communities	514,181	596,915
Corrective Services	423,818	487,018
Disability Services Queensland	624,781	1,081,758
Education, Training and the Arts	5,549,458	6,021,884
Electoral Commission of Queensland	22,926	11,819
Emergency Services	770,615	849,349
Employment and Industrial Relations	187,446	205,715
Employment and Training (ceased 13 September 2006)	231,647	..
Environmental Protection Agency	311,934	332,239
Forestry Plantations Queensland Office	34,572	37,655
Health	6,814,658	7,151,142
Housing	580,651	675,820
Infrastructure (formerly The Coordinator-General)	83,765	57,767
Justice and Attorney-General	271,749	302,409
Legislative Assembly	65,969	67,131
Local Government, Planning, Sport and Recreation	585,046	629,603
Main Roads	1,592,382	1,495,475
Mines and Energy	89,615	96,226
Natural Resources and Water	813,594	608,546
Office of the Governor	4,548	4,443
Office of the Ombudsman	6,075	6,194
Office of the Public Service Commissioner	10,155	12,480
Police	1,296,260	1,437,088
Premier and Cabinet	114,010	128,876
Primary Industries and Fisheries	365,610	332,515
Public Works	377,422	431,212
Queensland Audit Office	31,021	30,821
State Development	203,964	230,886
The Public Trustee of Queensland	56,425	61,461
Tourism, Fair Trading and Wine Industry Development	62,933	67,992
Transport	2,118,209	2,335,181
Treasury	220,351	152,190
<b>Total Expenses</b>	<b>24,944,587</b>	<b>26,491,070</b>

Notes:

1. Total expenses by department does not equate to total general government expenses in Government Finance Statistics (GFS) terms reported elsewhere in the Budget Papers as GFS General Government expenses include a wider range of entities including State Government statutory authorities and also transactions eliminated between entities within the General Government sector (for example payroll tax payments) are excluded in the preparation of whole-of-Government GFS financial statements.
2. Explanation of variations in departmental controlled expenses can be found in individual agency Ministerial Portfolio Statement documents.

**Table 6.4**  
**Departmental Administered Expense** <sup>1,2</sup>

	2006-07 Est. Actual \$'000	2007-08 Estimate \$'000
Communities	154,487	149,354
Education, Training and the Arts	1,784,650	1,814,099
Health	11,040	16,209
Housing	1,500	..
Infrastructure (formerly The Coordinator-General)	16,166	15,619
Justice and Attorney-General	148,462	151,807
Local Government, Planning, Sport and Recreation	347,098	328,792
Mines and Energy	386,530	488,153
Natural Resources and Water	12,488	14,851
Police	744	405
Premier and Cabinet	112,501	110,167
Primary Industries and Fisheries	22,706	29,589
Public Works	20,196	20,262
State Development	1,882	1,915
The Public Trustee of Queensland	1,694	1,745
Tourism, Fair Trading and Wine Industry Development	51,857	49,823
Transport	1,720	750
Treasury <sup>3</sup>	1,576,319	2,553,550
<b>Total Expenses</b>	<b>4,652,040</b>	<b>5,747,090</b>

Notes:

1. Total expenses by department does not equate to total general government expenses in Government Finance Statistics (GFS) terms reported elsewhere in the Budget Papers as GFS General Government expenses include a wider range of entities including State Government statutory authorities and also transactions eliminated between entities within the General Government sector (for example payroll tax payments) are excluded in the preparation of whole-of-Government GFS financial statements.
2. Explanation of variations in departmental administered expenses can be found in individual agency Ministerial Portfolio Statement documents.
3. In its capacity as manager of the State's finances, Treasury borrows on behalf of the Government. The increase in the 2007-08 estimate represents interest on additional funds borrowed during 2007-08 to support the expansion of the State's capital program and the State's share of superannuation beneficiary payments as per the most recent actuarial investigation.

**Table 6.5**  
**Reconciliation of Departmental to GFS Expenses <sup>1</sup>**

	2006-07	2007-08
	Est. Actual	Estimate
	\$ million	\$ million
Departmental expenditure per MPS - Controlled (Table 6.3)	24,945	26,491
- Administered (Table 6.4)	4,652	5,747
Non-GFS departmental expenses <sup>2</sup>	466	(119)
Other General Government entities (e.g. CBUs, SSPs, Statutory Bodies)	3,266	3,110
	<b>33,328</b>	<b>35,229</b>
Superannuation Interest expense	716	745
Eliminations and Other whole-of-Government adjustments		
Elimination of payments to CBUs and SSPs	(2,757)	(2,765)
Payroll Tax elimination	(424)	(446)
Other eliminations and adjustments	(701)	(481)
<b>Total General Government GFS Expenses</b>	<b>30,164</b>	<b>32,282</b>
Notes:		
1. Numbers may not add due to rounding.		
2. Certain expenses such as asset valuation changes are excluded from GFS reporting. In addition, this item removes the effect of cash payments for whole-of-Government schemes such as the State's share of superannuation beneficiary payments reported in Treasury Administered's expenses. Costs associated with these schemes are accrued annually.		

## 7. BALANCE SHEET AND CASH FLOWS

---

### FEATURES

- The Queensland Government's strong financial position is expected to strengthen further in 2007-08. State net worth is projected to rise by \$5.333 billion through the year to \$119.799 billion.
- Net worth is also forecast to increase each year over the forward estimates period, meeting the Government's commitment in its *Charter of Social and Fiscal Responsibility* to maintain and seek to increase total State net worth.
- The General Government sector is well placed to meet all its present and future liabilities. Financial assets are projected to exceed liabilities by \$25.073 billion in the General Government sector at 30 June 2008, consistent with the Government's Charter principles.
- The General Government sector is estimated to record a cash deficit of \$892 million in 2007-08, after allowing for \$5.132 billion in net asset purchases.

### INTRODUCTION

The 2007-08 balance sheet shows the projected assets, liabilities and net worth of the General Government sector as at 30 June 2008. It is important for the Government to maintain a strong balance sheet to provide it with the stability, flexibility and capacity to deal with any emerging financial and economic pressures.

The assets and liabilities in the balance sheet are defined according to the Australian Bureau of Statistics Government Finance Statistics (GFS) standard.

Detailed balance sheet and cashflow information for the General Government sector and the rest of the public sector is contained in Chapter 9.

### BALANCE SHEET

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

**Table 7.1**  
**General Government sector: Summary of budgeted balance sheet<sup>1</sup>**

	2006-07 Budget <sup>2</sup> \$ million	2006-07 Est. Act. \$ million	2007-08 Projection \$ million	2008-09 Projection \$ million	2009-10 Projection \$ million	2010-11 Projection \$ million
Financial assets	48,801	57,072	59,857	62,895	66,107	69,340
Non-financial assets	80,543	87,592	94,726	100,725	106,852	112,888
<b>Total Assets<sup>3</sup></b>	<b>129,344</b>	<b>144,665</b>	<b>154,583</b>	<b>163,620</b>	<b>172,959</b>	<b>182,228</b>
Borrowings and advances	4,419	3,742	7,158	11,499	15,769	19,844
Superannuation liability	19,369	19,194	20,368	21,518	22,605	23,696
Other provisions and liabilities	6,524	7,263	7,257	7,301	7,513	7,747
<b>Total Liabilities</b>	<b>30,312</b>	<b>30,198</b>	<b>34,784</b>	<b>40,318</b>	<b>45,887</b>	<b>51,287</b>
<b>Net Worth</b>	<b>99,032</b>	<b>114,466</b>	<b>119,799</b>	<b>123,302</b>	<b>127,072</b>	<b>130,941</b>
<b>Net Financial Assets</b>	<b>18,489</b>	<b>26,874</b>	<b>25,073</b>	<b>22,577</b>	<b>20,220</b>	<b>18,054</b>
<b>Net Debt</b>	<b>(21,014)</b>	<b>(26,423)</b>	<b>(24,709)</b>	<b>(21,889)</b>	<b>(19,372)</b>	<b>(17,234)</b>
Notes:						
1. Numbers may not add due to rounding.						
2. Numbers have been restated where subsequent changes in classification have occurred.						
3. For GFS purposes, the State's assets are classed as either financial or non-financial assets.						

## Financial assets

The General Government sector holds the full equity of the State's public enterprises, principally its shareholding in Government-owned corporations, in much the same manner as the parent or holding company in a group of companies. The estimated net investment in public enterprises (\$25.179 billion at 30 June 2008) is included in the General Government sector's financial assets<sup>1</sup>.

In the year to 30 June 2008, financial assets are projected to increase by \$2.785 billion, attributable principally to increased investment in assets set aside to meet future employee liabilities and higher investment in the State's public enterprises. This is partially offset by a decline in the tax equivalent receivables resulting from the sale of ENERGEX's electricity and gas retail business, the Allgas distribution network and the competitive parts of Ergon Energy's electricity retail business including Powerdirect.

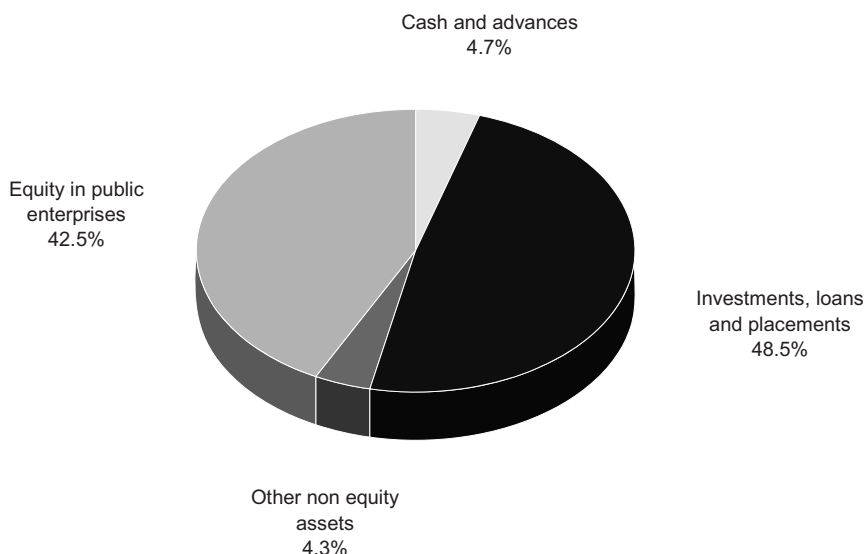
<sup>1</sup> Some credit rating agencies and analysts set aside the equity investment in public enterprises in assessing net financial assets. Their view is that as these investments are held for policy purposes and are not readily realisable they cannot, in practice, be used to offset liabilities.



Financial assets of \$57.072 billion are forecast for 2006-07, or \$8.271 billion higher than originally budgeted, reflecting the impact of stronger earnings on investments during the year. At the time of the 2006-07 Budget, investment earnings were based on the long-term rate of return of 7.5 %. Strong performance in investments in 2006-07 has resulted in an upward revision of investment returns to 14%. Investment earnings in 2007-08 and the outyears are based on long-term rate of return assumptions.

Chart 7.1 shows projected General Government sector financial assets by category at 30 June 2008. Investments held to meet future liabilities for superannuation and long service leave comprise the major part of the State's financial assets.

**Chart 7.1**  
**Projected General Government financial assets by category at 30 June 2008**



## Non-financial assets

General Government non-financial assets are projected to total \$94.726 billion at 30 June 2008. The majority of these non-financial assets are roads, schools, hospitals and other infrastructure used to provide services to Queenslanders. Other non-financial assets held by the State include intangibles (mainly computer software and licences), inventories and land.

Changes in non-financial assets occur for a number of reasons including:

- construction and purchase of assets, either to replace existing assets or provide additional capacity for the State to deliver services
- revaluations of infrastructure assets required under accounting standards
- depreciation and disposals of assets.

Non-financial assets in the year ending 30 June 2008 are expected to grow by \$7.134 billion. Of this increase, \$3.045 billion represents the net acquisition of non-financial assets as part of the Government's capital program.

The Government has traditionally funded new infrastructure at levels well beyond that of the other states. General Government purchases of non-financial assets per capita have far exceeded the average of the other states and territories for well over a decade (see Chart 3.3 of Chapter 3).

## **Liabilities**

The largest accruing liability in the General Government sector is employee entitlements (principally superannuation and long service leave) which are projected to total \$25.311 billion at 30 June 2008. Other liabilities include borrowings and advances received.

Liabilities are budgeted to increase by \$4.586 billion in 2007-08, largely on account of increased borrowing to support the State's capital program and growth in the General Government superannuation liability.

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

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

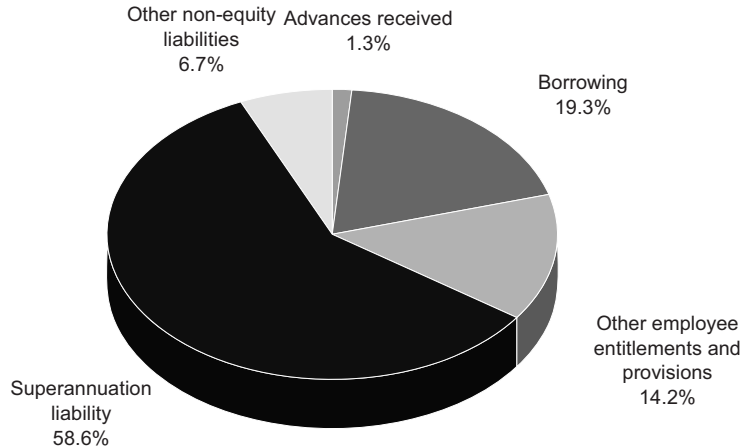
As a result of the planned capital program, Treasury is expected to borrow for the first time since 2000-01. While borrowings have been budgeted for several years, the strong cash position of the State has meant borrowings have not been required.

Over the Budget and forward estimates period, total additional General Government borrowings and advances of \$16.014 billion are planned. Of this amount, some \$1.95 billion (including \$885 million in 2007-08) is to fund equity injections to Queensland's Government-owned corporations to support expansion of the State's energy and rail infrastructure, with the remainder required to fund infrastructure projects in the General Government sector.

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

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

**Chart 7.2**  
**Projected General Government liabilities by category at 30 June 2008**



## Net financial assets

The net financial assets (net financial worth) measure is an indicator of financial strength. Net financial assets are defined as financial assets less all existing and accruing liabilities. Financial assets include cash and deposits, advances, financial investments, loans, receivables and equity in public enterprises.

The net financial assets measure is broader than the alternative measure, net debt, which measures only cash, advances and investments on the assets side and borrowings and advances on the liabilities side. As it is more comprehensive, the net financial assets measure is more appropriate in an accrual accounting framework.

The net financial assets of the General Government sector for 2007-08 are forecast at \$25.073 billion, indicating that the State is well able to meet all its current and recognised future obligations, without recourse to material adjustments in fiscal policy settings.

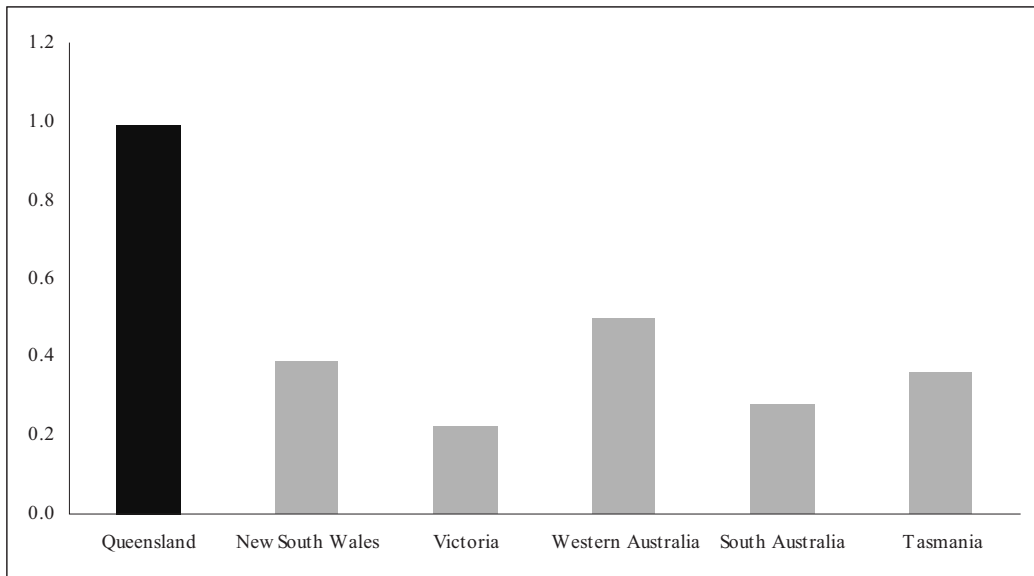
This position is consistent with the principle in the Government's *Charter of Social and Fiscal Responsibility* that the State's financial assets cover all accruing and expected future liabilities of the General Government sector.

Based on current projections, the General Government sector will continue to meet the commitment in the Government's Charter to ensure that financial assets cover all accruing and expected future liabilities in all years through to 30 June 2011. The level of net financial assets reduces in future years reflecting the State's increased borrowings to fund the purchase of infrastructure assets (which are not included in the calculation of net financial assets).

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

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

**Chart 7.3**  
**Projected ratio of financial assets to liabilities**  
**(excluding investments in public enterprises) at 30 June 2008**  
**General Government sector**



Source: State Budget Papers for QLD, VIC and WA. Mid Year Reviews/Budget Updates for NSW, SA and TAS.

## Net worth

The *Charter of Social and Fiscal Responsibility* specifically requires the Government to maintain and seek to increase total State net worth.

The net worth, or equity, of the State is the amount by which the State's assets exceed its liabilities (which is equivalent to General Government net worth). This is the value of the investment held on behalf of the people of Queensland by public sector instrumentalities.

Changes in the State's net worth occur for a number of reasons including:

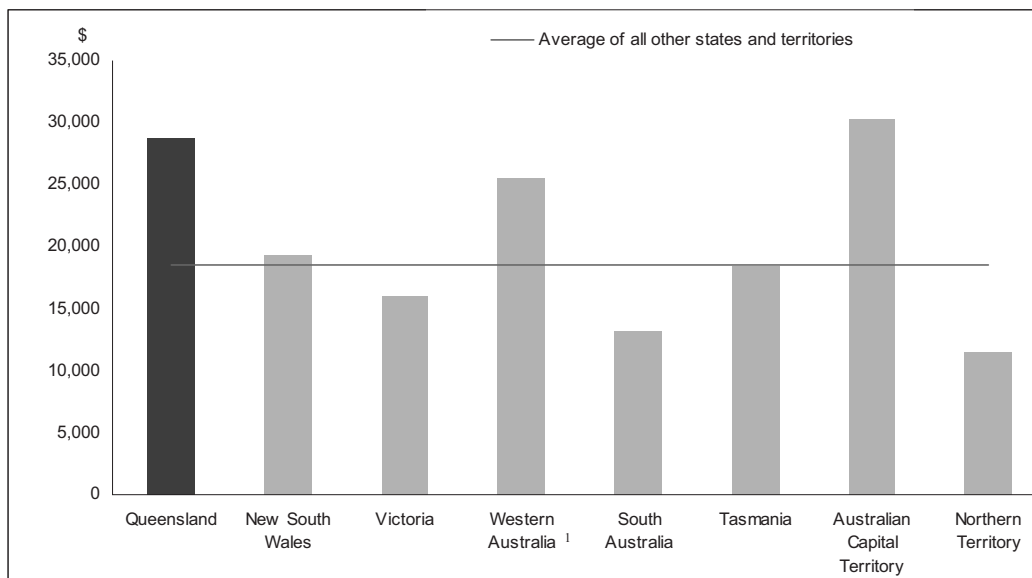
- operating surpluses (deficits) that increase (decrease) the Government's equity
- revaluation of assets and liabilities as required by accounting standards. Some financial liabilities are revalued on a regular basis. For example, the Government's accruing liabilities for employee superannuation and long service leave are determined by actuarial assessments
- movements in the net worth of the State's investments in the Public Non-financial Corporations and Public Financial Corporations sectors
- gains or losses on disposal of assets. Government agencies routinely buy and sell assets. Where the selling price of an asset is greater (less) than its value in an agency's accounts, the resultant profit (loss) affects net worth.

Net worth of the General Government sector in 2006-07 of \$114.466 billion is forecast. This exceeds growth forecasts in the 2006-07 Budget by \$15.434 billion primarily as a result of the flow through of significantly higher net worth in the 2005-06 outcome (\$8.647 billion) and greater than anticipated increases in assets as a result of revaluations of major assets in 2006-07.

Net worth is forecast to grow by \$5.333 billion to \$119.799 billion in 2007-08. This is due to the General Government's operating surplus and increases in assets as a result of revaluations of major assets as part of the State's asset revaluation cycle. During the year the Departments of Main Roads, Natural Resources and Water, and Housing will carry out major revaluations.

Chart 7.4 shows the State's strong net worth compared with the other states and territories. Queensland's per capita net worth is 55% greater than the average per capita net worth of the other states.

**Chart 7.4**  
**Interjurisdictional comparison of projected per capita net worth at 30 June 2008**



**Note:**

1. Western Australia values land under roads as part of its overall asset base. This has been adjusted to allow comparison with other jurisdictions which do not value land under roads.

Source: State Budget Papers for QLD, VIC, WA and NT. Mid Year Reviews/Budget Updates for NSW, SA, TAS and ACT. Population data from Australian Government Budget Paper No.3, 2007-08.

## Net debt

Net debt is the difference between gross debt and financial assets (less equity in public enterprises and non-equity assets). The extent of accumulated net debt is currently the most common measure used to judge the overall strength of a jurisdiction's fiscal position. High levels of net debt impose a call on future revenue flows to service that debt and meeting these payments can limit Government flexibility to adjust outlays. Excessive net debt can call into question the ability of Government to service that debt.

As shown in Table 7.2, the Queensland General Government sector has negative net debt, that is, a surplus of financial assets over financial liabilities, in comparison to other states. This indicates the strength of Queensland's financial position relative to the other states.

Queensland's negative net debt of \$5,931 per capita, compares to the weighted average net debt of \$517 per capita in the other states. Queensland has had negative net debt in the General Government sector for many years.

**Table 7.2**  
**Projected net debt per capita at 30 June 2008**

	QLD	NSW	VIC	WA	SA	TAS
Net debt per capita (\$)	(5,931)	834	864	(900)	274	(744)

*Source: State Budget Papers for QLD, VIC and WA. Mid Year Reviews/Budget Updates for NSW, SA and TAS. Population data from Australian Government Budget Paper No.3, 2007-08.*

## CASH FLOWS

The cash flow statement provides information on the Government's estimated cash flows from its operating, financing and investing activities.

The cash flow statement records estimated cash payments and cash receipts and hence differs from accrued revenue and expenditure recorded in the operating statement. In particular, the operating statement often records revenues and expenses that do not have an associated cash flow (for example, depreciation expense). The timing of recognition of accrued revenue or expense in the operating statement may differ from the actual cash disbursement or receipt (for example, tax equivalents). A reconciliation between the cash flows from operations and the operating statement is provided later in this chapter.

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

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

A cash surplus of \$1.722 billion is forecast in 2006-07 for the General Government sector, a revision of \$2.518 billion from the 2006-07 Budget. The upward revision is primarily the result of improved net flows from operating activities and offset to some extent by increased expenditure on the capital program.

The cash result is forecast to move into deficit in 2007-08 and the outyears. The cash deficit for 2007-08 is \$892 million.

Apart from the cash impact of smaller recurrent operating surpluses relative to 2006-07, the major factor contributing to lower cash results is the planned capital expansion. Total General Government capital purchases of \$5.463 billion are budgeted for 2007-08.

Over the period 2007-08 to 2010-11, net additions (i.e. after deducting depreciation and asset sales) to the General Government capital stock of close to \$13.196 billion are planned. This substantial investment in additional capital will impact on the GFS cash result.

Table 7.3 provides summary cash flow information for the General Government sector for 2006-07, 2007-08 and the outyears. Detailed cash flow tables are included in Chapter 9.

<b>Table 7.3</b>						
<b>General Government sector: Summary of budgeted cash flows<sup>1</sup></b>						
	2006-07 Budget \$ million	2006-07 Est. Actual \$ million	2007-08 Budget \$ million	2008-09 Projection \$ million	2009-10 Projection \$ million	2010-11 Projection \$ million
Cash receipts from operating activities	29,890	32,603	34,057	33,884	35,161	36,666
Cash payments for operating activities	(27,030)	(27,034)	(29,817)	(30,584)	(31,808)	(33,036)
<b>Net cash flow from operating activities</b>	<b>2,860</b>	<b>5,569</b>	<b>4,240</b>	<b>3,300</b>	<b>3,352</b>	<b>3,630</b>
Net cash flows from investing activities	(5,246)	(6,055)	(7,600)	(7,792)	(7,696)	(7,661)
Net cash flows from financing activities	1,785	729	3,555	4,259	4,186	4,014
<b>Net increase/(decrease) in cash held</b>	<b>(602)</b>	<b>242</b>	<b>195</b>	<b>(234)</b>	<b>(159)</b>	<b>(17)</b>
<b>Derivation of GFS cash surplus (deficit)</b>						
<b>Net cash flow from operating activities</b>	<b>2,860</b>	<b>5,569</b>	<b>4,240</b>	<b>3,300</b>	<b>3,352</b>	<b>3,630</b>
Payments for investments in non-financial assets	(3,656)	(3,847)	(5,132)	(5,548)	(5,650)	(5,675)
<b>Equals GFS cash surplus (deficit)</b>	<b>(796)</b>	<b>1,722</b>	<b>(892)</b>	<b>(2,248)</b>	<b>(2,298)</b>	<b>(2,045)</b>
Note:						
1. Numbers may not add due to rounding.						



## Cash flows from operating activities

Table 7.4 provides a disaggregation of operating cash flows.

<b>Table 7.4</b>			
<b>General Government sector: Cash flows from operating activities<sup>1</sup></b>			
	2006-07 Budget \$ million	2006-07 Est. Act. \$ million	2007-08 Budget \$ million
<b>Receipts from operating activities</b>			
Taxes received	7,870	8,374	9,271
Grants and subsidies received	13,768	14,171	15,029
Sales of goods and services	2,993	3,238	3,347
Other receipts	5,259	6,820	6,410
<b>Total receipts from operating activities</b>	<b>29,890</b>	<b>32,603</b>	<b>34,057</b>
<b>Payments for operating activities</b>			
Payments for goods and services	(19,161)	(18,710)	(20,448)
Grants and subsidies	(7,036)	(7,352)	(8,141)
Interest	(223)	(218)	(391)
Other payments	(609)	(755)	(838)
<b>Total payments for operating activities</b>	<b>(27,030)</b>	<b>(27,034)</b>	<b>(29,817)</b>
<b>Net cash inflows from operating activities</b>	<b>2,860</b>	<b>5,569</b>	<b>4,240</b>
Note:			
1. Numbers may not add due to rounding.			

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

Taxes received by the General Government sector are forecast at \$9.271 billion in 2007-08, an increase of 10.7% or \$897 million on the 2006-07 estimated actual of \$8.374 billion. This reflects the continued effect of property market activity on transfer duty and land tax revenue, as well as employment and wage growth on payroll tax revenue.

Grants and subsidies receipts are forecast at \$15.029 billion in 2007-08, an increase of \$858 million or 6% on the 2006-07 estimated actual of \$14.171 billion, partly due to funding of \$408 million from the Australian Government for the Western Corridor Recycled Water Project in South East Queensland.

Other receipts include investment earnings, dividends and tax equivalents received from Government-owned corporations (GOCs) and royalties. Other receipts are expected to decrease in 2007-08 by \$410 million to \$6.410 billion. This largely reflects a return to the long-term average earnings rate of 7.5% on investments. Strong performance in equities markets resulted in an upward revision to investment return to 14% in 2006-07. Investment earnings in 2007-08 and the outyears are based on long-term rate of return assumptions. Partially offsetting this decline is an increase in tax equivalent receipts from GOCs.

Cash outflows represent payment for goods and services, wages and salaries, finance costs and grants and subsidies paid to households, businesses and other Government agencies. In 2007-08 the largest cash disbursement is employee expenses at \$13.924 billion or 46.7% of total cash payments from operating activities.

In 2007-08, payments for goods and services, including wages and salaries, are expected to increase 9.3% to \$20.448 billion. This increase reflects payments pertaining to employer superannuation (accumulation scheme) contributions and State share of superannuation beneficiary payments and increased employee entitlements in line with enterprise bargaining agreements.

Cash payments for grants and subsidies are expected to increase by \$789 million or 10.7% in 2007-08 to \$8.141 billion. This item includes a \$408 million capital grant provided by the Australian Government through the State to assist in the construction of the Western Corridor Recycled Water Project. It further includes recurrent grants paid by the Australian Government through the State to non-state schools, grants paid to industry and grants to non-profit institutions. This item also includes community service obligation payments to the energy sector and Queensland Rail and capital grants which are largely paid to local government authorities to fund capital works.

Other payments mainly comprise personal benefit payments and other transfer payments. This item is estimated to increase by 11% in 2007-08 to \$838 million. This is primarily attributable to the implementation of a Redress Scheme for former child residents of State institutions.

## Cash flows from investments

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

<b>Table 7.5</b>			
<b>General Government sector: Cash Flows from investing activities</b>			
	2006-07 Budget \$ million	2006-07 Est. Act. \$ million	2007-08 Budget \$ million
Net payments for investments in non-financial assets	(3,656)	(3,847)	(5,132)
Net cash flows from investing activities in financial assets for policy purposes	(318)	1,409	(885)
Net cash flows from investing activities in financial assets for liquidity purposes	(1,272)	(3,617)	(1,583)
<b>Net increase/(decrease) in cash held from investing activities</b>	<b>(5,246)</b>	<b>(6,055)</b>	<b>(7,600)</b>

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

Cash outflows from investing in non-financial assets are expected to increase to \$5.132 billion in 2007-08 from \$3.847 billion in 2006-07, an increase of 33.4%.

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

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

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

Cash inflows from investments for policy purposes for 2006-07 of \$1.409 billion reflect equity transactions by the General Government sector with Public Non-financial and Financial Corporations. In 2006-07, this includes a \$1.7 billion inflow relating to the sale of ENERGEX's electricity and gas retail business, the Allgas distribution network and the competitive parts of Ergon Energy's electricity retail business, including Powerdirect. A further inflow resulted from the transfer of Golden Casket Lottery Corporation to Tattersall's. These inflows were offset to some extent by an injection to Queensland Rail for the *South East Queensland Infrastructure Plan and Program*, a dividend reinvestment to ENERGEX, funding for the South East Queensland (Gold Coast) Desalination Plant and injections to Tarong Energy Corporation Ltd to support the scale back of power station operating profiles under the Generation Profile Plan (GPP) Mk2.

Cash outflows from investments for policy purposes for 2007-08 of \$885 million also reflect equity transactions with public enterprises, in particular additional equity injections to Queensland Rail for the *South East Queensland Infrastructure Plan and Program* and to Tarong Energy Corporation Ltd for GPP Mk2.

Cash flows from investments for liquidity purposes represent net investment in financial assets such as to cover superannuation and other employee entitlements.

The 2006-07 estimated cash outflows from investments in financial assets for liquidity purposes of \$3.617 billion is substantially higher than forecast in the 2006-07 Budget and primarily reflects the increase in interest earnings on investments from 7.5% to 14% and a lower State share of superannuation beneficiary payments. In 2006-07, the State's share of superannuation beneficiary payments was reduced in line with the funding recommendation outlined in the most recent actuarial investigation.

The reinvestment of interest earnings, investment of contributions set aside for the Government's defined benefit superannuation scheme and employee entitlements resulted in higher cash outflows for 2006-07. These outflows are partially offset by payments for employee entitlements during the year.

Cash outflows from investments in financial assets for liquidity purposes are estimated to be \$1.583 billion in 2007-08. The decline from 2006-07 reflects reinvestment of interest earnings based on the long-term rate of return of 7.5% and a higher State share of superannuation beneficiary payments.

## Cash flows from financing activities

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

<b>Table 7.6</b>			
<b>General Government sector: Cash flows from financing activities<sup>1</sup></b>			
	2006-07 Budget \$ million	2006-07 Est. Act. \$ million	2007-08 Budget \$ million
Net cash flows from advances	(15)	(15)	(14)
Net cash flows from borrowing (net)	1,800	743	3,569
<b>Net increase/(decrease) in cash held from financing activities</b>	<b>1,785</b>	<b>729</b>	<b>3,555</b>
Note:			
1. Numbers may not add due to rounding.			

Cash flows from financing activities include cash flows from net borrowing (increase in borrowing less redemption), net advances (gross investment in new loans less redemption of loans issued) and other financing.

In 2006-07 net cash inflows from financing activities are estimated at \$729 million. This represents borrowings to increase the State's capital program.

Cash inflows from financing activities for 2007-08 are estimated at \$3.555 billion, reflecting borrowings to partially fund the General Government's capital program of \$5.463 billion.

## RECONCILIATION OF OPERATING CASH FLOWS TO THE OPERATING STATEMENT

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

<b>Table 7.7</b>			
<b>General Government sector: Reconciliation of cash flows from operating activities to accrual operating activities</b>			
	2006-07 Budget \$ million	2006-07 Est. Act. \$ million	2007-08 Budget \$ million
<b>GFS accrual revenue</b>	<b>29,070</b>	<b>32,557</b>	<b>32,551</b>
Plus/(less) movement in tax equivalent and dividend receivables	99	(669)	742
Plus GST receipts	907	929	939
Plus/(less) movement in other receivables	(186)	(214)	(175)
<b>Equals GFS cash receipts</b>	<b>29,890</b>	<b>32,603</b>	<b>34,057</b>
<b>GFS accrual expense</b>	<b>28,825</b>	<b>30,164</b>	<b>32,282</b>
(Less) non-cash items			
Depreciation and amortisation expense	(1,754)	(1,780)	(2,015)
Accrued superannuation expense	(1,586)	(1,728)	(1,738)
Accrued employee entitlements	(328)	(334)	(352)
Other accrued costs	(241)	(600)	(413)
Plus Superannuation benefits paid – defined benefit	430	40	407
Plus/(less) movement in employee entitlement provisions	203	195	170
Plus/(less) GST paid	936	934	963
Plus/(less) movement in other provisions and payables	545	143	513
<b>Equals GFS cash expenditure</b>	<b>27,030</b>	<b>27,034</b>	<b>29,817</b>

The main difference between the accrual operating statement and the cash flow relates to the timing of cash payments and receipts and their recognition in accrual terms and the inclusion of non-cash expenses and revenues. The largest difference is on the expenses (expenditure) side, with large non-cash expenses associated with depreciation and superannuation. Differences due to the timing of receipt or payment of amounts are recorded as either a receivable or payable in the balance sheet.

## 8. INTERGOVERNMENTAL FINANCIAL RELATIONS

---

### FEATURES

- Queensland's share of GST revenue in 2007-08 will be reduced by \$166 million because of a downward revision to the State's assessed relativity. The Commonwealth Grants Commission's 2007 Update Report recommended the reduction in Queensland's underlying share of GST largely on account of strong growth in Queensland's relative capacity to raise transfer duty on property conveyances.
- The Commonwealth Grants Commission's latest relativity assessments imply a reduction in Queensland's share of GST over the next few years, continuing losses in recent years. It is anticipated that by 2010 Queensland will have experienced a cumulative loss in GST funding of more than \$1 billion since the 2004 Review of Methodology.
- Revenue reductions for Queensland from the abolition of business taxes will be \$465 million in 2007-08, increasing to nearly \$1.2 billion in 2011-12.
- The abolition of business taxes has contributed to Queensland becoming increasingly reliant on Australian Government funding. Approximately 44% of Queensland's revenue will be sourced from the Australian Government in 2007-08.
- While Queensland's revenue from GST will continue to grow at an annual average rate of 3.1% from 2007-08 to 2010-11, Queensland's available GST revenue per capita, adjusted for tax reform costs, will decline on average by 1.0% per annum over the same period. This limits the Government's ability to fund the infrastructure and services required to meet the needs of Queensland's strong population growth.
- The Queensland Government provides strong fiscal support to the local government sector. In 2007-08, the Queensland Government will provide \$788 million in grants to Queensland local government authorities, comprising 63.4% of grant funding for local government in Queensland.

## COMMONWEALTH-STATE FINANCIAL ARRANGEMENTS

The framework for Commonwealth-state<sup>1</sup> financial arrangements includes:

- *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA)
- the Ministerial Council for the Reform of Commonwealth-State Financial Relations (Ministerial Council)
- the Commonwealth Grants Commission
- the Australian Loan Council.

The IGA, Ministerial Council and Commonwealth Grants Commission provide the framework and mechanism for distribution of GST funding to the states, as discussed in Box 8.1.

### Box 8.1 Framework for Commonwealth-state financial arrangements

#### **Intergovernmental Agreement**

All Australian states signed the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA) in June 1999. The IGA outlines the basis for distributing GST funds to the states and territories, and the Commonwealth Government's commitments to maintaining Specific Purpose Payments in real terms.

#### **Ministerial Council**

The Ministerial Council for the Reform of Commonwealth-State Financial Relations (Ministerial Council) comprises the Australian Government and state government treasurers and was established in June 1999 to oversee the operation of the IGA. The Ministerial Council meets annually to consider:

- recommendations of the Commonwealth Grants Commission, Heads of Treasuries and the Australian Treasurer's advice regarding estimated payments to states
- taxation issues relevant to Commonwealth-state financial relations
- Specific Purpose Payments to the states
- competition and economic reform matters.

#### **Commonwealth Grants Commission**

The Commonwealth Grants Commission (CGC) advises the Australian Government on the distribution of GST revenue among the states and each year updates the financial, economic and demographic data that underpin its recommendations.

#### **Australian Loan Council**

The Australian Loan Council, which comprises the Australian Government Treasurer and state treasurers, meets annually to endorse Loan Council Allocations put forward by the Australian and state governments.

<sup>1</sup> In this chapter, the term 'state' refers to Australian states and territories

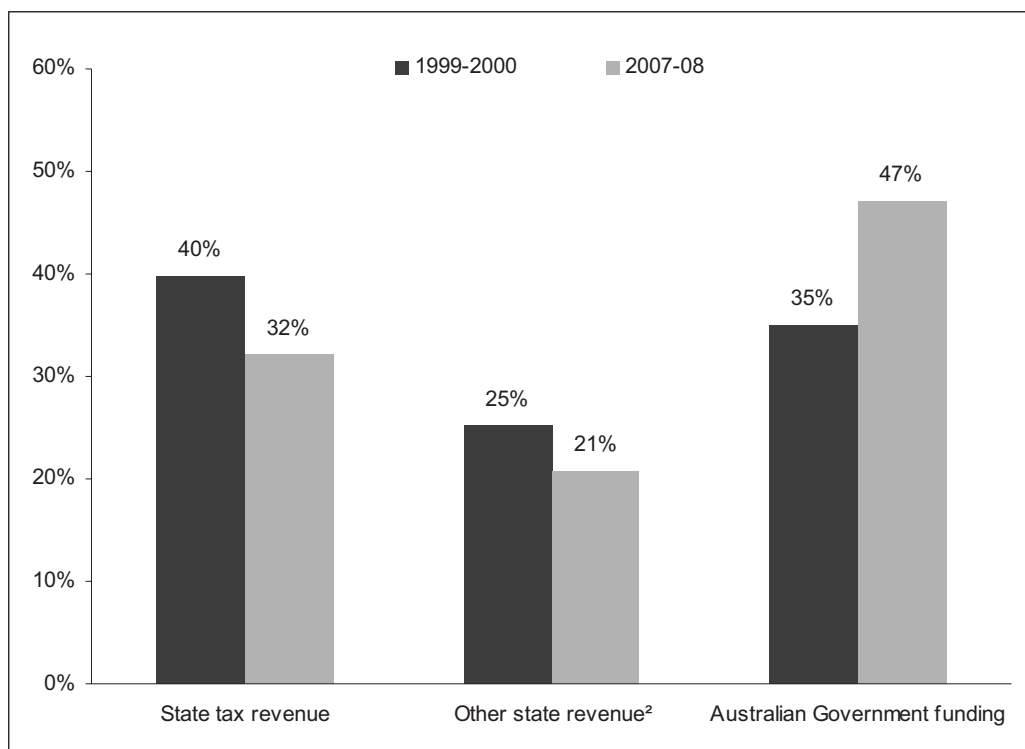


## Australian Government funding to states

Commonwealth-state financial relations are characterised by a disparity between the revenue-raising capacity and the expenditure responsibilities of the Australian and state governments respectively. This mismatch is known as vertical fiscal imbalance. The Australian Government collects the major share of taxation revenues and states must rely on grants from the Australian Government to meet their expenditure requirements.

Since the introduction of the Australian Government's national tax reforms in 2000, states have become more and more dependent on Australian Government funding. Chart 8.1 shows all states' funding sources for 1999-2000 and 2007-08. In 1999-2000 the states received 35% of their revenues from the Australian Government. This is estimated to increase to 47% in 2007-08. In contrast, the proportion of the states' revenues from state taxes has declined from 40% in 1999-2000 to an estimated 32% in 2007-08.

**Chart 8.1**  
**Revenue sources, all states, 1999-2000 and 2007-08<sup>1</sup>**



Notes:

1. 2007-08 data are estimates.

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

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

Table 8.1 shows that Australian Government payments to the states in 2007-08 are expected to total \$72.067 billion, an increase of \$4.645 billion or 6.9% compared with 2006-07.

<b>Table 8.1</b>					
<b>Estimated Australian Government payments to the states, 2006-07 and 2007-08<sup>1</sup></b>					
	2006-07 \$ million	2007-08 \$ million	Change Nominal Terms %	Change Real <sup>2</sup> Terms %	Change Real <sup>2</sup> Per Capita %
<b>GST Revenue</b>	39,552	41,850	5.8	2.2	0.7
<b>Specific Purpose Payments</b>					
SPPs 'to' the States	20,627	22,367	8.4	4.8	3.2
SPPs 'through' the States	7,243	7,850	8.4	4.7	3.2
<b>Total Specific Purpose Payments</b>	<b>27,870</b>	<b>30,217</b>	<b>8.4</b>	<b>4.8</b>	<b>3.2</b>
<b>Total Payments</b>	<b>67,422</b>	<b>72,067</b>	<b>6.9</b>	<b>3.3</b>	<b>1.7</b>
Notes:					
1. Numbers may not add due to rounding.					
2. Deflated by the 2006-07 year average national inflation forecast of 3.5% and Australian population growth of 1.5%.					
Source: Australian Government Budget Paper No.3, 2007-08.					

GST revenue from the Australian Government is expected to increase from \$39.552 billion in 2006-07 to \$41.850 billion in 2007-08, an increase of 5.8% in nominal terms. In real per capita terms, GST is expected to increase by 0.7%.

Total SPPs in 2007-08 are expected to be \$30.217 billion. This represents an increase of \$2.347 billion, or 8.4% in nominal terms, over 2006-07. Payments to the states will increase by 8.4% in nominal terms, compared with an increase of 8.4% in Specific Purpose Payments (SPPs) "through" the states.

## State shares of Australian Government funding

Table 8.2 shows the expected shares of total Australian Government payments to each state for 2007-08 compared with each state's population share. Queensland's expected share of total Australian Government funding of 19.9% is marginally more than its population share of 19.8%.

<b>Table 8.2</b> <b>Relative shares of payments to the states, 2007-08<sup>1</sup></b>			
	Share of payments %	Share of population %	Relative share <sup>2</sup> %
New South Wales	30.0	33.0	91.0
Victoria	22.2	24.7	89.8
Queensland	19.9	19.8	100.6
Western Australia	10.5	10.1	104.5
South Australia	8.6	7.5	115.0
Tasmania	3.3	2.3	141.1
Australian Capital Territory	1.8	1.6	114.4
Northern Territory	3.6	1.0	357.9

Notes:  
1. Numbers may not add due to rounding.  
2. A state's relative share is measured as its funding share as a percentage of its population share.  
Source: Australian Government Budget Paper No.3, 2007-08.

## Queensland's share of Australian Government funding

Table 8.3 details Queensland's share of estimated Australian Government payments in 2007-08 and the difference from its population share. Queensland expects to receive \$90.0 million more than a per capita share of GST revenue. This is offset by the \$10.6 million less than a per capita share of total SPP funding Queensland is expected to receive. In terms of total Australian Government funding, Queensland expects to receive \$79.4 million more than a per capita share in 2007-08.

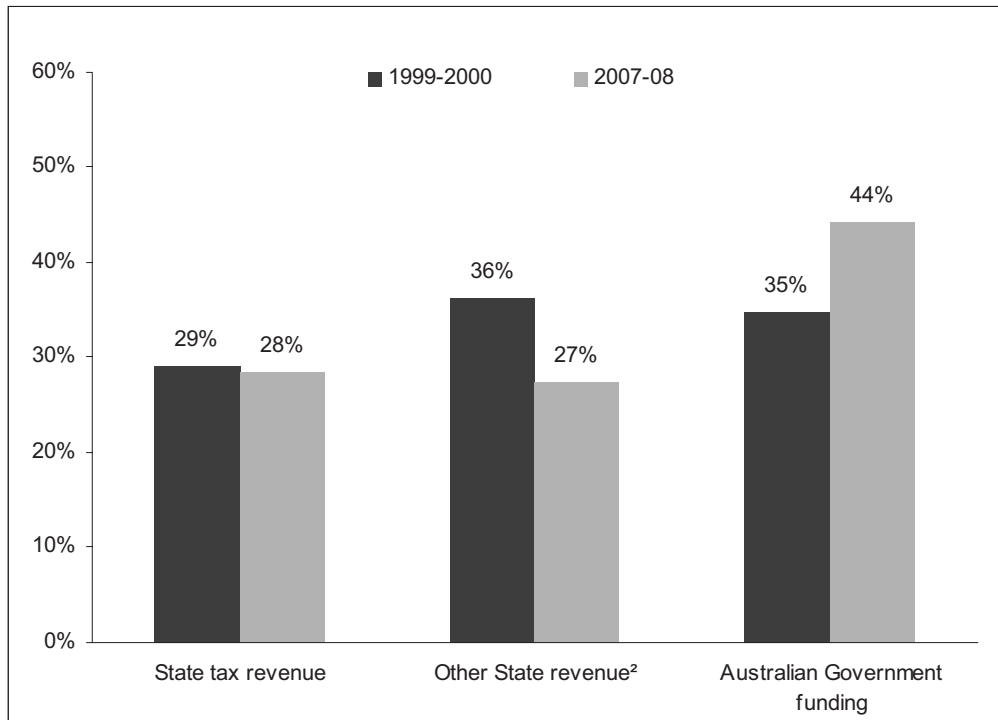
<b>Table 8.3</b> <b>Queensland's share of estimated Australian Government payments 2007-08</b>		
	Queensland's Share	Difference from Population Share
	%	\$ million
<b>GST Revenues</b>	20.0	90.0
<b>Specific Purpose Payments</b>		
SPPs 'to' the State	19.9	21.0
SPPs 'through' the State	19.4	-31.6
<b>Total Specific Purpose Payments</b>	<b>19.8</b>	<b>-10.6</b>
<b>Total Australian Government Payments</b>	<b>19.9</b>	<b>79.4</b>

Source: Australian Government Budget Paper No.3, 2007-08.

## Queensland's reliance on Australian Government funding

Queensland's reliance on Australian Government funding, as shown in Chart 8.2, is consistent with the national trend, with the share of total funding sourced from the Australian Government rising from 35% in 1999-2000 to an estimated 44% in 2007-08. Meanwhile Queensland's own-source revenue has fallen from 65% in 1999-2000 to 55% in 2007-08.

**Chart 8.2**  
**Revenue sources, Queensland, 1999-2000 and 2007-08<sup>1</sup>**



Notes:

1. 2007-08 data are estimates.
2. Includes user charges, interest earnings, contributions from trading enterprises and mining revenue.

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

Queensland's reliance on Australian Government funding is expected to further increase as planned stamp duty reforms are implemented.

## DISTRIBUTION OF GST FUNDS

### Commonwealth Grants Commission

The Commonwealth Grants Commission (CGC) advises the Australian Government on the distribution of GST revenue among the states. Under its terms of reference the CGC is required to determine its recommendations on the basis of horizontal fiscal equalisation, as detailed in Box 8.2.

#### Box 8.2 Horizontal fiscal equalisation and distribution of GST

##### Commonwealth Grants Commission

The Commonwealth Grants Commission (CGC) advises the Australian Government on the distribution of GST revenue among the states and each year updates the financial, economic and demographic data that underpin its recommendations.

##### Horizontal Fiscal Equalisation

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

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

A distribution based on HFE principles recognises the different financial capacities of the states, particularly that some states have inherently greater capacity to raise revenue and that some states have inherently greater costs to meet in providing services to an Australian standard. If the distribution of the GST to the states were on any basis other than HFE, some taxpayers would be forced to accept either a lower standard of state services or a higher level of state taxation than other taxpayers in similar circumstances.

##### Complaints about Equalisation

New South Wales and Victoria have complained about the distribution of GST because they do not receive the GST revenue they claim has been paid by their taxpayers. Aside from the absence of data required to determine how much of the GST is attributable to one state or another, it would not be fair to distribute a tax on the basis of where it was collected. The GST is a nationally based tax and to suggest that it should be distributed back to the states on the basis of where it was raised is akin to saying that the Australian Government income tax should be spent in the states where it was collected. If wealthy states retained all the national taxes that they contribute it would be inequitable and unfair and contrary to the national interest.

More information on HFE and GST distribution can be accessed through the Queensland Government Treasury website: [www.treasury.qld.gov.au/gst-factsheets](http://www.treasury.qld.gov.au/gst-factsheets) or the Commonwealth Grants Commission website: [www.cgc.gov.au](http://www.cgc.gov.au).

## 2007 Update of Relativities

At the 2007 Treasurer's Conference, the Australian Government accepted the CGC's *2007 Update Report on State Revenue Sharing Relativities* (2007 Update Report) as the basis for the distribution of the GST revenue to the states in 2007-08.

In the 2007 Update Report, the CGC recommended an underlying decrease in Queensland's share of GST revenue of \$166.4 million in 2007-08, as shown in Table 8.4. New South Wales has gained significantly from the 2007 Update with an increase of \$277 million.

<b>Table 8.4</b>								
<b>Components of underlying change in states share of GST revenue</b>								
<b>2006-07 to 2007-08<sup>1</sup></b>								
	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million
Revenue	360.8	92.1	-248.5	-220.2	18.7	-10.5	15.0	-7.4
Expenditure	-60.7	-29.7	74.7	-43.3	38.2	1.5	-6.2	25.4
SPPs	-23.1	1.7	7.4	-8.0	12.4	3.8	4.2	1.5
<b>Total</b>	<b>277.0</b>	<b>64.0</b>	<b>-166.4</b>	<b>-271.6</b>	<b>69.3</b>	<b>-5.1</b>	<b>13.1</b>	<b>19.7</b>
Note:								
1. Numbers may not add due to interactions between Expenditure and SPP assessments.								
Source: Commonwealth Grant Commission 2007 Update Report on State Revenue Sharing Relativities.								

The decrease in Queensland's GST revenue share follows reductions in its share of GST funding of \$174 million in 2006 and \$93 million in 2005. It is expected that Queensland will experience a further loss of GST share following the 2008 Update, which is likely to result in Queensland receiving a less than per capita share of GST funding in 2008-09.

It is anticipated that by 2010 Queensland will have experienced a cumulative loss in GST funding of more than \$1 billion since the 2004 Review of Methodology.

Queensland's declining share of GST revenue reflects the state's increased fiscal capacity, particularly from strong performances in the property market and mining sector (see Box 8.3 for more details). The change in Queensland's GST share over the last three years demonstrates the responsiveness of the CGC's methodology to changes in states' revenue earning capacities and expenditure needs.

### **Box 8.3 Queensland's declining share of GST revenue**

The CGC uses the latest available data in its assessments, which reflect the relative economic circumstances of the states. For example, in the 2007 Update Report, the CGC found that Queensland had a relatively greater capacity to raise revenue from mining revenue and stamp duty on conveyances. This greater revenue raising capacity, amongst other things, is reducing Queensland's share of GST funding. The removal of some state taxes from the CGC's assessment also reduced Queensland's share of GST funding.

In 2007-08 Queensland is expected to receive a share of GST marginally above its per capita share, but the state's share of GST revenue is expected to decline over the next few years with a less than per capita share anticipated in 2008-09. The declining share of GST revenue may impact the State's capacity to provide additional services, or enhance existing services. However, Queensland recognises that it is fair for a state that has increased capacity to raise revenue from its own sources to have that capacity recognised when GST revenue is distributed.

States which experience higher than average economic growth should expect, other things being equal, to see their share of GST revenue fall. This is an intended consequence of the current GST distribution process and is a key aspect of maintaining equity between the states. In respect of mining revenue, the 2007 Update Report shows that New South Wales and Victoria will benefit by \$1.2 billion being redistributed to them, mostly from Queensland and Western Australia. In the absence of the CGC's process for smoothing changes in state shares, the current strong performance of the Queensland and Western Australian economies would result in larger changes in redistributions between the states. In particular New South Wales and Victoria would have received an even greater benefit from the 2007 Update. The current process for smoothing changes in state shares of GST acts as a mechanism to provide greater stability in GST funding to states and therefore budgets.

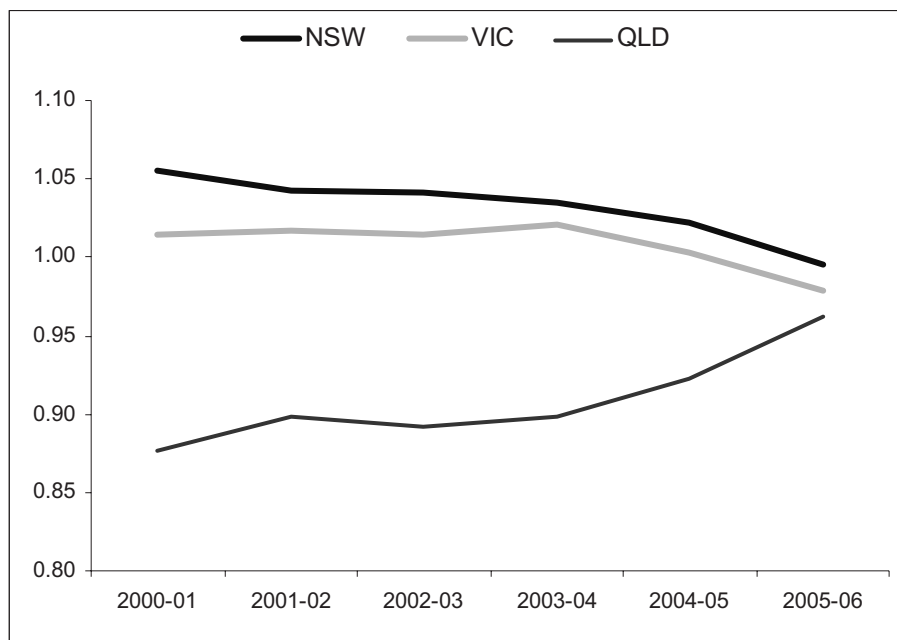
The Commission's latest outcomes demonstrate that the grant distribution process is responsive and reflects changes in states' circumstances.

## **Relationship between GST distribution and economic performance**

A key feature of recent Updates has been the convergence of the fast growing economies of Queensland and Western Australia with the more established economies of New South Wales and Victoria.

There has been some criticism of the GST distribution process on the basis that it does not adequately take into account the rapid growth in the Queensland and Western Australian economies. Chart 8.3 shows that Queensland's GSP per capita has been converging with those of both New South Wales and Victoria over the period from 2000-01 to 2005-06.

**Chart 8.3**  
**Convergence between larger states – GSP per capita relativities**



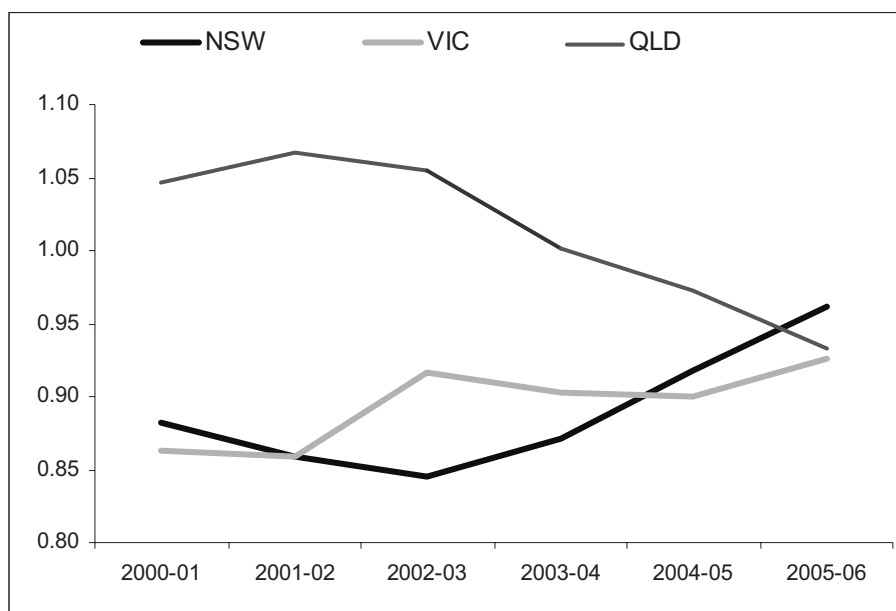
*Source: Commonwealth Grants Commission Relative Fiscal Capacities of the States 2007.*

Over these six years, GSP per capita for New South Wales has declined from 6% above the Australian average, while Queensland's GSP per capita has risen substantially towards the national average.

At the same time, New South Wales' assessed GST single year relativity, which is a key determinant of its share of the GST pool, has risen from 0.88 to 0.96. Over the same period Queensland's GST relativity has fallen from 1.05 to 0.93 as shown in Chart 8.4.



**Chart 8.4**  
**Convergence between larger states – single year GST relativities**



*Source: Commonwealth Grants Commission Report on State Revenue Sharing Relativities 2007 Update.*

It is clear that as the relative economic strength of a state changes, so too does its assessed share of GST funding.

The CGC's 2007 Update data shows that for the first time ever, Queensland's assessed GST relativity is lower than that for New South Wales, and only marginally higher than that for Victoria. This means that, based on 2005-06 data, Queensland has been assessed as requiring less per capita from the GST pool than New South Wales, and only marginally more than Victoria.

### **2010 Review of state revenue sharing relativities - progress report**

The CGC undertakes a substantive review of its methodology every five years, with the next review due to be completed in 2010. The terms of reference for the 2010 Review of Methodology direct the CGC to simplify its processes and introduce a more streamlined approach to HFE, based on a simplified methodology and better quality data as discussed in Box 8.4. The 2010 review is different to previous reviews and can be viewed as an overhaul of the way the CGC structures its assessments.

### Box 8.4 The 2010 Review

Some states have raised concerns about the GST distribution process, including suggestions that GST should be distributed on the basis of which state it is raised in, and that grant distribution processes inhibit states from introducing efficiency reforms. Some states have raised concerns that the current process is complex and should be simplified.

#### **An overhaul of how the Commission determines the distribution of the GST**

The CGC is currently conducting a review, due in 2010, of the processes used to determine the distribution of the GST revenue. The CGC has indicated that it intends to vigorously pursue both equalisation and simplification for the 2010 Review, and has adopted a strategy that:

- starts with a clean-slate when it comes to devising assessment methods
- adopts a top-down approach, only disaggregating assessment categories if doing so materially improves equalisation and it can be done reliably
- works toward improving the quality of data used in the assessments
- establishes new assessment guidelines with stronger reliability and materiality criteria.

Using this strategy, the CGC believes that simplification will improve the reliability and robustness of the processes and acceptability of the outcomes.

The CGC is providing all states with the opportunity to put forward arguments about the distribution process. To date no substantive body of evidence has been put forward to support claims that there is anything conceptually wrong with the current principle of fiscal equalisation.

Queensland agrees that the strategy adopted by the CGC should make the process simpler, more transparent and ensure that the data used in the assessments is more accurate, consistent and comparable across states.

Progress reports on the 2010 Review process were provided to the Ministerial Council for Commonwealth-State Financial Relations in March 2006 and 2007. These reports are available on the CGC's web site: [www.cgc.gov.au](http://www.cgc.gov.au).

## **IMPACT OF THE INTERGOVERNMENTAL AGREEMENT**

Revenue reductions for Queensland associated with the abolition of business taxes covered by the IGA of 1999 will be \$465 million in 2007-08, increasing to nearly \$1.2 billion in 2011-12. Details of Queensland's schedule for the abolition of these state taxes can be found in Chapter 5.

It is often claimed that Queensland receives the greatest benefit from GST revenue on the basis that it receives the largest amount of GST revenue in excess of the Guaranteed Minimum Amount (GMA). The GMA is a measure of the amount of revenue which the states would have received if the GST had not been introduced. Comparing GST revenue in excess of the GMA is an oversimplified way of looking at the impact of IGA reforms, as it does not account for the differences in tax regimes prior to the abolition of state taxes. For example, Queensland did not impose financial institutions duty or bed taxes, which other states were required to abolish, prior to the IGA reforms.

When Queensland’s low tax regime is taken into account, residents in all other states except Western Australia have benefited more from tax reform.

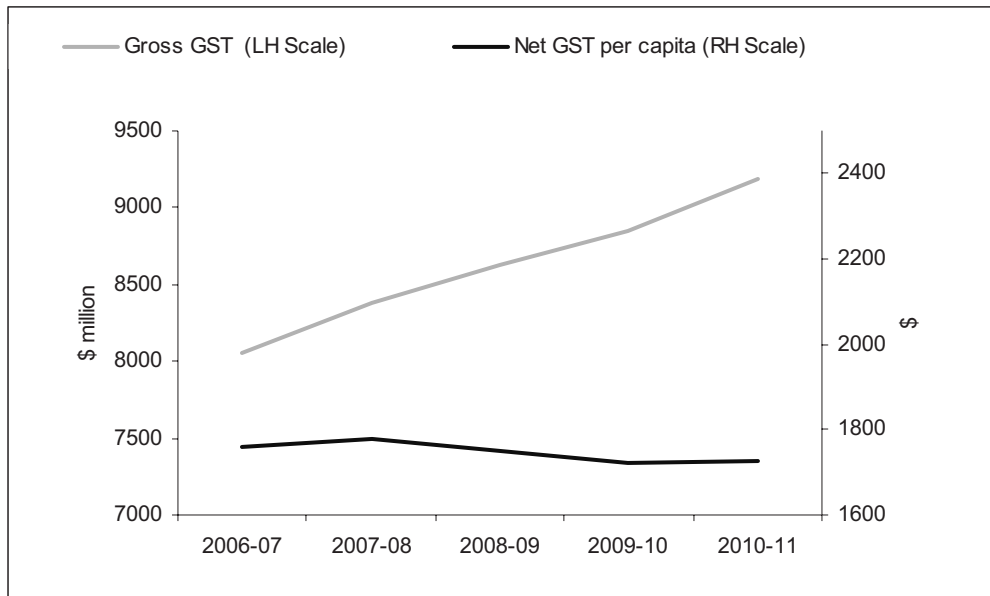
### Queensland’s available GST revenue

The amount of GST revenue reported in the Budget is not the full amount available to be spent in Queensland as can be seen in Chart 8.5. The Queensland Government has to meet a number of costs associated with its commitments under the IGA: First Home Owners Grant Scheme, GST administration costs payable to the Australian Tax Office, and the cost of taxes abolished as part of the IGA.

It is anticipated that Queensland’s total share of GST will continue to grow at an annual average rate of 3.1% from 2007-08 to 2010-11. However, Chart 8.5 shows that after taking the costs listed above, as well as the State’s relatively rapid population growth into consideration, Queensland’s GST revenue per capita is estimated to decline on average by 1.0% per annum over the same period.

The impact of the costs associated with Queensland’s commitments under the IGA coupled with the declining share of GST revenue implied by the Commonwealth Grants Commission’s latest relativity assessment indicate limited capacity to further reduce State taxes while continuing to meet the service needs of a fast-growing population.

**Chart 8.5**  
**Queensland GST revenue per capita, 2006-07 to 2010-11**



Note:

1. Net GST revenue per capita represents net available revenue after meeting First Home Owners Grant Scheme costs, GST administration costs and the cost of taxes abolished under the IGA.

Source: Australian Government Budget Paper No.3, 2007-08 and Queensland Treasury.

Queensland is committed to a program for abolishing the majority of duties listed in the IGA over an agreed timeframe. Queensland has fulfilled its obligations under the IGA.

## **SPECIFIC PURPOSE PAYMENTS**

Specific Purpose Payments (SPPs) are payments made by the Australian Government to the states for policy purposes related to activities that are the constitutional responsibility of the states. SPPs must be used for the particular policy purpose set out in individual SPP agreements. Separate agreements are negotiated for each SPP, with the agreements covering both funding and policy issues.

In some cases the structure of SPP funding arrangements can be inflexible and produce sub-optimal outcomes. They can impact on state budget flexibility and ability to respond effectively to changing circumstances.

To try and minimise any adverse impacts of SPP funding arrangements state treasuries work with the Australian Treasury through a SPP Working Group (SPPWG) to provide feedback on ways to improve the structure of SPPs to promote better management.

During 2006-07 states provided feedback on the Commonwealth-State Housing Agreement, the Natural Heritage Trust and National Action Plan for Salinity and Water Quality Agreements, and the Australian Health Care Agreement (AHCA).

During 2007-08 the SPPWG will review and provide feedback on Skilling Australia's Workforce Agreement, the Quadrennial Agreement for Government Schools and further work will be undertaken on the AHCA.

## **STATE - LOCAL GOVERNMENT FINANCIAL RELATIONS**

In 2007-08, a total of \$1,243.3 million in grants will be provided to Queensland's local governments (up from \$1,104.8 million in 2006-07), with 63.4% of this amount provided by the Queensland Government and the balance provided by the Australian Government.

Table 8.5 details Queensland Government and Australian Government grants to local government in Queensland.

The overall increase in Queensland Government grants to local government authorities in 2007-08 reflects the expansion of some existing programs or the introduction of new initiatives by some Queensland Government agencies, including:

- Indigenous Housing Planned Maintenance (Department of Housing)
- Mackay Convention Precinct (Department of Public Works)
- 150<sup>th</sup> Anniversary Legacy Infrastructure Program - to celebrate Queensland's 150th anniversary since separation from NSW (Department of Local Government, Planning, Sports and Recreation).

**Table 8.5**  
**Grants to Local Government in Queensland<sup>1,2,3</sup>**

	2005-06 Actual \$ million	2006-07 Est. Act. \$ million	2007-08 Budget \$ million
<b>Queensland Grants</b>			
Communities	52.6	53.7	56.8
- including Pensioner Rates Rebate	44.9	45.5	47.9
Disability Services <sup>5</sup>	0.5	0.6	13.5
Education, Training and the Arts	17.9	18.7	20.0
Emergency Services	2.6	9.8	8.2
Employment and Industrial Relations <sup>4</sup>	28.7	25.2	4.4
Environmental Protection Agency	0.7	2.3	2.0
Health <sup>5</sup>	12.2	12.4	..
Housing	45.3	62.0	98.9
Local Government, Planning, Sport and Recreation	259.9	364.5	407.1
Main Roads	100.9	78.6	84.2
Natural Resources and Water	18.0	53.5	30.9
Public Works	0.2	2.0	33.5
Transport	10.0	14.2	28.1
Other	2.1	4.8	0.4
<b>Total State Grants</b>	<b>551.5</b>	<b>702.3</b>	<b>788.1</b>
<b>Australian Government Grants</b>			
Australian Government "through"	311.0	326.5	337.8
Australian Government "direct"	83.6	76.1	117.3
<b>Total Commonwealth Grants</b>	<b>394.6</b>	<b>402.5</b>	<b>455.2</b>
<b>Total Grants to Local Government Authorities and Aboriginal and Islander Councils</b>	<b>946.1</b>	<b>1,104.8</b>	<b>1,243.3</b>
Notes:			
1. For current and capital purposes to local government authorities and Aboriginal and Islander councils.			
2. Numbers yet to be confirmed and may be subject to revision.			
3. Numbers may not add due to rounding.			
4. This estimate may be revised upward depending on demand for services during the financial year.			
5. From 2007-08, Disability Services Queensland will provide some services to aged and disabled persons that were previously provided by Queensland Health.			
<i>Source: Queensland Treasury, Australian Government Final Budget Outcome 2005-06, Australian Government Budget Paper No.3 2007-08.</i>			

## Grant purposes

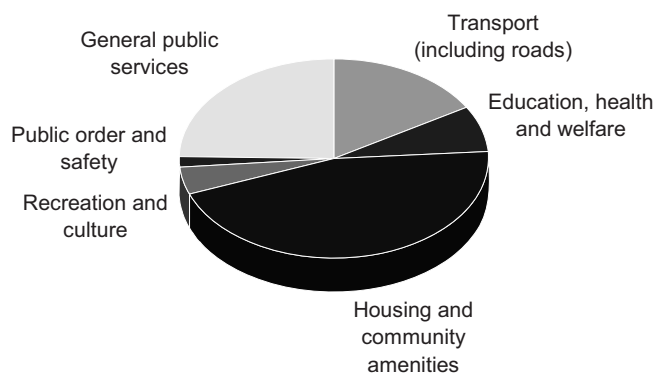
The majority of grants to local government are for capital purposes. In 2007-08 capital grants will comprise 78.9% of Queensland Government grants to local government (up from 74.2% in 2006-07).

Grants for Housing and Community Amenities comprise the largest component of Queensland Government grants. Other significant grant purposes include:

- general public services (including contribution to the costs of providing local government services where councils are unable to levy land rates)
- the provision of rate subsidies to eligible pensioners
- capital works subsidies provided towards the costs of local public infrastructure
- road subsidies for local roads, networks and drainage.

Chart 8.7 highlights the broad range of purposes for which local government grants were provided by the Queensland Government in 2006-07.

**Chart 8.7**  
**State grants to local government in Queensland by purpose 2006-07**



## AUSTRALIAN LOAN COUNCIL

The Australian Loan Council, which comprises the Australian Government Treasurer and state treasurers, meets annually immediately after the Ministerial Council meeting. Nominations for Loan Council Allocations (LCAs) for 2007-08 put forward by the Australian and state governments reflect current best estimates of non-financial public sector deficits or surpluses. For 2007-08, the Loan Council endorsed total LCA nominations of \$4.315 billion (a projected public sector surplus). This amount reflects a surplus of \$17.163 billion for the Australian Government and a net deficit of \$12.848 billion collectively for the states.

Queensland's nominated LCA deficit for 2007-08 is estimated at \$5.765 billion, as shown in Table 8.6. This reflects the funding requirements for capital projects of approximately \$7 billion in areas such as water, energy and transport.

**Table 8.6**  
**Loan Council Allocations (\$ million)**  
**2006-07 and 2007-08 Nominations**

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	C'wth
2006-07	5,118	2,168	4,610	-42	-15	43	166	112	-19,673
2007-08	4,729	2,357	5,765	-149	-14	87	29	44	-17,163

*Source: Heads of Treasuries Report on Nominated Loan Council Allocations for 2007-08.*





## **9. GOVERNMENT FINANCE STATISTICS**

---

### **INTRODUCTION**

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

This chapter contains detailed financial statements for the Queensland Public Sector based on Australian Bureau of Statistics (ABS) GFS standards. These tables provide financial information prepared under the Uniform Presentation Framework of reporting as required under the Australian Loan Council arrangements. In line with these requirements, budgeted financial information for the Public Financial Corporations sector is not included.

In addition, the chapter provides:

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

### **GENERAL GOVERNMENT SECTOR**

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

### **PUBLIC NON-FINANCIAL CORPORATIONS SECTOR**

The Public Non-financial Corporations (PNFC) sector comprises entities operating in a range of industries. These entities are mainly engaged in the production and sale of goods and services to the market.

In Queensland, a significant part of the PNFC sector is comprised of the State's Government-owned corporations (GOCs), operating in a number of key industries including energy, rail, ports and water delivery services. GOCs operate as commercially focussed entities and their activities are targeted at meeting needs identified within the market sectors they service.

## **PNFC operating statement**

The majority of revenue generated in the PNFC sector is received through the sale of goods and services, and the receipt of current grants and subsidies.

For GOCs, the majority of sales of goods and services are to customer markets. These revenues are therefore heavily linked to the performance of the Queensland economy and the ability of GOCs to compete in increasingly competitive markets.

The major components of GOC sector revenues include rail freight charges, electricity sales, electricity network and distribution charges, port charges and agricultural and industrial water delivery. Key determinants of GOC revenue growth in 2007-08 will be energy demands, driving electricity pool prices, and continued growth in the Queensland export markets, in particular coal exports, which generate demand for rail and port services.

Across the PNFC sector, it is anticipated that sales of goods and services will generate revenues of \$6.57 billion in 2007-08, with total revenues forecast at \$9.192 billion. Total revenues generated by the sector are forecast to grow to \$10.376 billion in 2010-11, an increase of 12.9% across the period 2007-08 to 2010-11. Again, major drivers include continued demand for GOC services and supplies in the electricity, rail and port sectors.

GOC revenues are also derived from Community Service Obligation (CSO) payments. CSOs are provided by the State where GOCs are required to provide non-commercial services or services at non-commercial prices for the benefit of the community. Major CSOs include the uniform electricity tariff and QR passenger rail services.

GOCs distribute dividends to the State as shareholder. Dividends from the GOC sector are a function of net profits and the dividend payout ratio. In general, the dividend payout ratio for the 2007-08 Budget is based on 80% of net profit after tax. In some cases, forecast net profit after tax will be adjusted to exclude any unrealised (i.e. non-cash) forecast gains or losses, for example, from upward revaluation of non-current assets or impacts on profit arising from the application of recent changes to financial reporting standards.

The dividend payout ratio does not affect a GOC's capacity to carry out necessary maintenance and repairs, as dividends are paid after GOCs have met their commitments to operating and maintenance expenses. Shareholding Ministers consider the circumstances of individual GOCs and advice from their boards before arriving at a final determination of dividend payments.

The PNFC sector reflects positive performance with the forecast GFS net operating balance for the 2007-08 year of \$360 million, after allowing for dividends of \$902 million.

## **PNFC balance sheet and cash flow statement**

The ability of GOCs to efficiently and effectively service their customers is reliant upon the investment in and maintenance of underlying infrastructure.

In 2007-08, the PNFC sector is expected to invest approximately \$7.919 billion in capital projects. Significant levels of investment are expected to continue across the forward estimates period.

GOCs undertake infrastructure investment on a commercial basis and in response to the needs of the market sectors they service.

Given continued demand for electricity, significant expenditure continues to be undertaken to ensure adequate generation capacity and network reliability across the energy sector.

In 2007-08, \$118 million is budgeted for completion of the \$1.162 billion Kogan Creek Power project, reflecting the continued commitment to generation capacity. Capital works programs for 2007-08 will also contribute to the improved level of reliability of electricity distribution, with a focus on service quality, reliability, availability and capacity improvements. The combined capital network expenditure of Ergon Energy and ENERGEX in 2007-08 totals \$1.738 billion.

As one of the State's largest industries, the coal industry continues to be a key economic driver. Proposed rail and port expansion programs reflect ongoing capital investment in coal supply chains, including the Central Queensland Ports Authority's forecast 2007-08 expenditure of \$103 million on the further expansion of the RG Tanna Coal Terminal, QR's forecast \$187.6 million for track works on the coal network in Central Queensland, and the Ports Corporation of Queensland's \$28 million expenditure in 2007-08 for the Abbot Point Coal Terminal Stage 2 (X21) expansion.

Financing of capital projects will differ according to the individual circumstances of the relevant GOC and the specific nature of the project. There are a number of ways in which GOCs fund these investments, including utilising cash flows from their business, borrowings, and equity injections from shareholding Ministers. The Queensland Government is committed to GOCs being at all times able to fund viable projects whilst at the same time retaining a sound financial position, by ensuring that all GOCs remain sufficiently well capitalised to ensure an investment grade credit rating as determined by independent credit ratings agencies.

Reflecting the level of support for capital investment within a sound financial framework, an estimated \$1.9 billion in net equity support is budgeted to be provided to the PNFC sector for the forward estimates period 2007-08 to 2010-11.

## **UNIFORM PRESENTATION FRAMEWORK FINANCIAL INFORMATION**

The tables on the following pages present operating statements, balance sheets and cash flow statements prepared on an accrual GFS basis for the General Government, Public Non-financial Corporations and Non-financial Public sectors.

**Table 9.1**  
**General Government sector operating statement <sup>1</sup>**

	2006-07 Budget \$ million	2006-07 Est.Actual \$ million	2007-08 Budget \$ million	2008-09 Projection \$ million	2009-10 Projection \$ million	2010-11 Projection \$ million
<b>GFS Revenue</b>						
Taxation revenue	7,871	8,375	9,272	10,067	10,749	11,568
Current grants and subsidies	13,143	13,384	13,726	13,726	14,084	14,539
Capital grants	683	811	1,428	1,096	855	897
Sales of goods and services	2,693	2,937	3,005	3,094	3,188	3,282
Interest income	1,802	3,268	2,190	2,325	2,440	2,562
Other	2,879	3,781	2,931	2,999	3,289	3,131
<b>Total Revenue</b>	<b>29,070</b>	<b>32,557</b>	<b>32,551</b>	<b>33,307</b>	<b>34,605</b>	<b>35,979</b>
<i>Less</i> <b>GFS Expenses</b>						
Gross operating expenses						
Employee expenses	13,324	13,229	14,271	15,281	16,190	16,983
Other operating expenses	5,844	6,587	6,424	6,348	6,399	6,571
Depreciation	1,754	1,780	2,015	2,244	2,264	2,377
Superannuation interest expense	563	716	745	781	813	842
Other interest expense	222	218	390	660	958	1,145
Current transfers	6,094	6,477	6,761	6,980	6,977	7,130
Capital transfers	1,024	1,157	1,676	762	763	718
<b>Total Expenses</b>	<b>28,825</b>	<b>30,164</b>	<b>32,282</b>	<b>33,056</b>	<b>34,364</b>	<b>35,766</b>
<i>Equals</i> <b>GFS net operating balance</b>	<b>245</b>	<b>2,393</b>	<b>268</b>	<b>251</b>	<b>241</b>	<b>213</b>
<i>Less</i> <b>Net acquisition of non-financial assets</b>						
Purchases of non-financial assets	3,958	4,137	5,463	5,839	5,899	5,947
Sales of non-financial assets	(302)	(290)	(331)	(291)	(249)	(272)
<i>Less</i> Depreciation	1,754	1,780	2,015	2,244	2,264	2,377
<i>Plus</i> Change in inventories	75	23	62	86	40	(8)
<i>Plus</i> Other movements in non-financial assets	15	(95)	(134)	15	15	15
<i>Equals</i> Total net acquisition of non-financial assets	<b>1,992</b>	<b>1,996</b>	<b>3,045</b>	<b>3,405</b>	<b>3,441</b>	<b>3,305</b>
<i>Equals</i> <b>GFS Net lending / (borrowing) (Fiscal Balance)</b>	<b>(1,747)</b>	<b>397</b>	<b>(2,777)</b>	<b>(3,154)</b>	<b>(3,200)</b>	<b>(3,092)</b>
Note:						
1. Numbers may not add due to rounding.						

**Table 9.2**  
**Public Non-financial Corporations sector operating statement <sup>1</sup>**

	2006-07 Budget \$ million	2006-07 Est.Actual \$ million	2007-08 Budget \$ million	2008-09 Projection \$ million	2009-10 Projection \$ million	2010-11 Projection \$ million
<b>GFS Revenue</b>						
Current grants and subsidies	1,443	1,487	1,699	1,604	1,621	1,659
Capital grants	18	9	417	9	9	9
Sales of goods and services	8,155	7,341	6,570	7,257	7,836	8,301
Interest income	80	140	78	76	81	89
Other	500	433	428	385	345	318
<b>Total Revenue</b>	<b>10,195</b>	<b>9,412</b>	<b>9,192</b>	<b>9,332</b>	<b>9,892</b>	<b>10,376</b>
<i>Less</i> <b>GFS Expenses</b>						
Gross operating expenses						
Employee expenses	2,002	2,275	2,199	2,264	2,377	2,479
Other operating expenses	4,472	3,269	2,559	2,580	2,590	2,644
Depreciation	1,532	1,597	1,726	1,907	2,050	2,179
Other interest expense	951	964	1,240	1,468	1,444	1,595
Other property expenses	967	1,831	1,084	1,149	1,287	1,338
Current transfers	181	51	12	..	..	..
Capital transfers	12	28	12	..	..	..
<b>Total Expenses</b>	<b>10,118</b>	<b>10,015</b>	<b>8,832</b>	<b>9,368</b>	<b>9,748</b>	<b>10,237</b>
<i>Equals</i> <b>GFS net operating balance</b>	<b>78</b>	<b>(604)</b>	<b>360</b>	<b>(36)</b>	<b>144</b>	<b>139</b>
<i>Less</i> <b>Net acquisition of non-financial assets</b>						
Purchases of non-financial assets	5,603	7,436	7,919	6,423	5,382	4,772
Sales of non-financial assets	(49)	(191)	(84)	(148)	(144)	(117)
<i>Less</i> Depreciation	1,532	1,597	1,726	1,907	2,050	2,179
<i>Plus</i> Change in inventories	..	23	29	21	18	10
<i>Plus</i> Other movements in non-financial assets	(12)	(28)	(12)	..	..	..
<i>Equals</i> Total net acquisition of non-financial assets	<b>4,010</b>	<b>5,643</b>	<b>6,126</b>	<b>4,390</b>	<b>3,206</b>	<b>2,487</b>
<i>Equals</i> <b>GFS Net lending / (borrowing) (Fiscal Balance)</b>	<b>(3,932)</b>	<b>(6,246)</b>	<b>(5,767)</b>	<b>(4,426)</b>	<b>(3,062)</b>	<b>(2,347)</b>

Note:

1. Numbers may not add due to rounding.

**Table 9.3**  
**Non financial Public sector operating statement <sup>1</sup>**

	2006-07 Budget \$ million	2006-07 Est.Actual \$ million	2007-08 Budget \$ million	2008-09 Projection \$ million	2009-10 Projection \$ million	2010-11 Projection \$ million
<b>GFS Revenue</b>						
Taxation revenue	7,518	8,034	9,126	9,909	10,583	11,392
Current grants and subsidies	13,002	13,356	13,742	13,729	14,085	14,540
Capital grants	683	808	1,422	1,094	852	894
Sales of goods and services	10,693	10,069	9,401	10,177	10,857	11,423
Interest income	1,881	3,409	2,267	2,401	2,522	2,651
Other	2,406	2,381	2,272	2,232	2,344	2,108
<b>Total Revenue</b>	<b>36,183</b>	<b>38,057</b>	<b>38,230</b>	<b>39,541</b>	<b>41,243</b>	<b>43,008</b>
<i>Less</i> <b>GFS Expenses</b>						
Gross operating expenses						
Employee expenses	15,326	15,504	16,471	17,545	18,567	19,462
Other operating expenses	9,795	9,303	8,661	8,593	8,654	8,876
Depreciation	3,286	3,377	3,741	4,150	4,314	4,557
Superannuation interest expense	563	716	745	781	813	842
Other interest expense	1,173	1,182	1,630	2,128	2,403	2,740
Current transfers	4,698	5,010	5,087	5,376	5,355	5,470
Capital transfers	1,021	1,175	1,267	753	753	709
<b>Total Expenses</b>	<b>35,861</b>	<b>36,267</b>	<b>37,602</b>	<b>39,326</b>	<b>40,858</b>	<b>42,656</b>
<i>Equals</i> <b>GFS net operating balance</b>	<b>322</b>	<b>1,790</b>	<b>628</b>	<b>215</b>	<b>385</b>	<b>352</b>
<i>Less</i> <b>Net acquisition of non-financial assets</b>						
Purchases of non-financial assets	9,561	11,573	13,383	12,262	11,281	10,719
Sales of non-financial assets	(351)	(481)	(415)	(439)	(393)	(388)
<i>Less</i> Depreciation	3,286	3,377	3,741	4,150	4,314	4,557
<i>Plus</i> Change in inventories	75	46	91	107	58	2
<i>Plus</i> Other movements in non-financial assets	3	(123)	(146)	15	15	15
<i>Equals</i> Total net acquisition of non-financial assets	<b>6,003</b>	<b>7,639</b>	<b>9,172</b>	<b>7,795</b>	<b>6,647</b>	<b>5,792</b>
<i>Equals</i> <b>GFS Net lending / (borrowing) (Fiscal Balance)</b>	<b>(5,680)</b>	<b>(5,849)</b>	<b>(8,543)</b>	<b>(7,579)</b>	<b>(6,262)</b>	<b>(5,439)</b>
Note:						
1. Numbers may not add due to rounding.						

**Table 9.4**  
**General Government sector balance sheet <sup>1</sup>**

	2006-07 Budget <sup>2</sup> \$ million	2006-07 Est.Actual \$ million	2007-08 Budget \$ million	2008-09 Projection \$ million	2009-10 Projection \$ million	2010-11 Projection \$ million
<b>Assets</b>						
Financial Assets						
Cash and deposits	181	1,873	2,069	1,835	1,677	1,661
Advances paid	597	887	753	836	923	987
Investments, loans and placements	24,655	27,404	29,046	30,716	32,541	34,431
Other non-equity assets	2,314	3,394	2,551	2,600	2,741	2,756
Equity	21,053	23,514	25,438	26,908	28,224	29,506
<b>Total Financial Assets</b>	<b>48,801</b>	<b>57,072</b>	<b>59,857</b>	<b>62,895</b>	<b>66,107</b>	<b>69,340</b>
Non-Financial Assets	80,543	87,592	94,726	100,725	106,852	112,888
<b>Total Assets</b>	<b>129,344</b>	<b>144,665</b>	<b>154,583</b>	<b>163,620</b>	<b>172,959</b>	<b>182,228</b>
<b>Liabilities</b>						
Advances received	455	460	447	436	431	427
Borrowing	3,964	3,282	6,711	11,063	15,338	19,417
Superannuation liability	19,369	19,194	20,368	21,518	22,605	23,696
Other employee entitlements and provisions	4,553	4,784	4,943	5,107	5,359	5,637
Other non-equity liabilities	1,971	2,479	2,314	2,194	2,154	2,110
<b>Total Liabilities</b>	<b>30,312</b>	<b>30,198</b>	<b>34,784</b>	<b>40,318</b>	<b>45,887</b>	<b>51,287</b>
<b>Net Worth</b>	<b>99,032</b>	<b>114,466</b>	<b>119,799</b>	<b>123,302</b>	<b>127,072</b>	<b>130,941</b>
Net Financial Worth	18,489	26,874	25,073	22,577	20,220	18,054
Net Debt	(21,014)	(26,423)	(24,709)	(21,889)	(19,372)	(17,234)
Notes:						
1. Numbers may not add due to rounding.						
2. Numbers have been restated where subsequent changes in classification have occurred.						



**Table 9.5**  
**Public Non financial Corporations sector balance sheet <sup>1</sup>**

	2006-07 Budget <sup>2</sup> \$ million	2006-07 Est.Actual \$ million	2007-08 Budget \$ million	2008-09 Projection \$ million	2009-10 Projection \$ million	2010-11 Projection \$ million
<b>Assets</b>						
Financial Assets						
Cash and deposits	837	2,435	1,497	1,294	1,377	1,448
Advances paid	210	335	294	258	229	204
Investments, loans and placements	502	1,141	1,152	1,153	1,151	1,154
Other non-equity assets	1,719	1,351	1,271	1,423	1,463	1,520
Equity	206	185	199	213	227	242
<b>Total Financial Assets</b>	<b>3,473</b>	<b>5,447</b>	<b>4,414</b>	<b>4,341</b>	<b>4,448</b>	<b>4,568</b>
Non-Financial Assets	38,563	39,974	46,624	51,662	55,597	58,898
<b>Total Assets</b>	<b>42,036</b>	<b>45,421</b>	<b>51,038</b>	<b>56,004</b>	<b>60,044</b>	<b>63,466</b>
<b>Liabilities</b>						
Deposits held	74	69	66	66	67	68
Borrowing	17,822	19,616	24,163	27,638	30,251	32,383
Superannuation liability	12	..	..	..	1	1
Other employee entitlements and provisions	1,386	1,210	1,225	1,237	1,259	1,275
Other non-equity liabilities	2,771	3,010	2,168	2,176	2,265	2,255
<b>Total Liabilities</b>	<b>22,065</b>	<b>23,905</b>	<b>27,622</b>	<b>31,118</b>	<b>33,842</b>	<b>35,982</b>
<b>Net Worth</b>	<b>19,970</b>	<b>21,516</b>	<b>23,416</b>	<b>24,886</b>	<b>26,202</b>	<b>27,484</b>
Net Financial Worth	(18,592)	(18,458)	(23,208)	(26,776)	(29,394)	(31,414)
Net Debt	16,347	15,774	21,285	24,999	27,561	29,646
Notes:						
1. Numbers may not add due to rounding.						
2. Numbers have been restated where subsequent changes in classification have occurred.						

**Table 9.6**  
**Non-financial Public sector balance sheet <sup>1</sup>**

	2006-07 Budget <sup>2</sup> \$ million	2006-07 Est.Actual \$ million	2007-08 Budget \$ million	2008-09 Projection \$ million	2009-10 Projection \$ million	2010-11 Projection \$ million
<b>Assets</b>						
Financial Assets						
Cash and deposits	1,018	4,308	3,566	3,130	3,054	3,109
Advances paid	770	851	990	1,031	1,082	1,114
Investments, loans and placements	25,156	28,545	30,198	31,869	33,693	35,585
Other non-equity assets	2,831	3,001	2,739	2,785	2,724	2,682
Equity	1,323	2,215	2,255	2,269	2,283	2,299
<b>Total Financial Assets</b>	<b>31,097</b>	<b>38,920</b>	<b>39,748</b>	<b>41,083</b>	<b>42,836</b>	<b>44,788</b>
Non-Financial Assets	119,072	127,532	141,316	152,353	162,415	171,752
<b>Total Assets</b>	<b>150,169</b>	<b>166,452</b>	<b>181,064</b>	<b>193,436</b>	<b>205,252</b>	<b>216,540</b>
<b>Liabilities</b>						
Deposits held	75	68	66	66	67	67
Advances received	455	460	448	436	432	427
Borrowing	21,748	22,527	30,817	38,637	45,519	51,725
Superannuation liability	19,381	19,195	20,369	21,519	22,605	23,697
Other employee entitlements and provisions	5,218	5,962	6,129	6,297	6,563	6,850
Other non-equity liabilities	4,259	3,775	3,438	3,178	2,994	2,833
<b>Total Liabilities</b>	<b>51,137</b>	<b>51,986</b>	<b>61,265</b>	<b>70,133</b>	<b>78,180</b>	<b>85,599</b>
<b>Net Worth</b>						
Net Financial Worth	(20,040)	(13,066)	(21,517)	(29,051)	(35,344)	(40,811)
Net Debt	(4,666)	(10,650)	(3,424)	3,110	8,189	12,411
Notes:						
1. Numbers may not add due to rounding.						
2. Numbers have been restated where subsequent changes in classification have occurred.						

**Table 9.7**  
**General Government sector cash flow statement<sup>1</sup>**

	2006-07 Budget \$ million	2006-07 Est.Actual \$ million	2007-08 Budget \$ million	2008-09 Projection \$ million	2009-10 Projection \$ million	2010-11 Projection \$ million
<b>Receipts from operating activities</b>						
Taxes received	7,870	8,374	9,271	10,066	10,748	11,567
Grants and subsidies received	13,768	14,171	15,029	14,726	14,910	15,407
Sales of goods and services	2,993	3,238	3,347	3,354	3,432	3,533
Other receipts	5,259	6,820	6,410	5,739	6,071	6,160
<b>Total</b>	<b>29,890</b>	<b>32,603</b>	<b>34,057</b>	<b>33,884</b>	<b>35,161</b>	<b>36,666</b>
<b>Payments for operating activities</b>						
Payments for goods and services	(19,161)	(18,710)	(20,448)	(21,573)	(22,562)	(23,478)
Grants and subsidies	(7,036)	(7,352)	(8,141)	(7,612)	(7,607)	(7,708)
Interest	(223)	(218)	(391)	(662)	(960)	(1,146)
Other payments	(609)	(755)	(838)	(738)	(679)	(703)
<b>Total</b>	<b>(27,030)</b>	<b>(27,034)</b>	<b>(29,817)</b>	<b>(30,584)</b>	<b>(31,808)</b>	<b>(33,036)</b>
<b>Net cash inflows from operating activities</b>	<b>2,860</b>	<b>5,569</b>	<b>4,240</b>	<b>3,300</b>	<b>3,352</b>	<b>3,630</b>
<b>Payments for investments in non-financial assets</b>						
Purchases of non-financial assets	(3,958)	(4,137)	(5,463)	(5,839)	(5,899)	(5,947)
Sales of non-financial assets	302	290	331	291	249	272
<b>Total</b>	<b>(3,656)</b>	<b>(3,847)</b>	<b>(5,132)</b>	<b>(5,548)</b>	<b>(5,650)</b>	<b>(5,675)</b>
<b>Payments for investments in financial assets for policy purposes</b>	<b>(318)</b>	<b>1,409</b>	<b>(885)</b>	<b>(625)</b>	<b>(282)</b>	<b>(158)</b>
<b>Payments for investments in financial assets for liquidity purposes</b>	<b>(1,272)</b>	<b>(3,617)</b>	<b>(1,583)</b>	<b>(1,619)</b>	<b>(1,764)</b>	<b>(1,828)</b>
<b>Receipts from financing activities</b>						
Advances received (net)	(15)	(15)	(14)	(15)	(7)	(7)
Borrowing (net)	1,800	743	3,569	4,275	4,193	4,021
Other financing (net)	..	..	..	(1)	..	..
<b>Total</b>	<b>1,785</b>	<b>729</b>	<b>3,555</b>	<b>4,259</b>	<b>4,186</b>	<b>4,014</b>
<b>Net increase/(decrease) in cash held</b>	<b>(602)</b>	<b>242</b>	<b>195</b>	<b>(234)</b>	<b>(159)</b>	<b>(17)</b>
Net cash from operating activities and investments in non-financial assets	(796)	1,722	(892)	(2,248)	(2,298)	(2,045)
<b>GFS Surplus/(deficit)</b>	<b>(796)</b>	<b>1,722</b>	<b>(892)</b>	<b>(2,248)</b>	<b>(2,298)</b>	<b>(2,045)</b>
Note: 1. Numbers may not add due to rounding.						

**Table 9.8**  
**Public Non-financial Corporations sector cash flow statement<sup>1</sup>**

	2006-07 Budget \$ million	2006-07 Est. Actual \$ million	2007-08 Budget \$ million	2008-09 Projection \$ million	2009-10 Projection \$ million	2010-11 Projection \$ million
<b>Receipts from operating activities</b>						
Grants and subsidies received	1,577	1,624	2,242	1,704	1,727	1,770
Sales of goods and services	9,143	8,768	7,395	7,951	8,645	9,136
Other receipts	1,116	1,061	1,089	1,001	953	885
<b>Total</b>	<b>11,837</b>	<b>11,454</b>	<b>10,726</b>	<b>10,656</b>	<b>11,325</b>	<b>11,791</b>
<b>Payments for operating activities</b>						
Payments for goods and services	(6,568)	(5,990)	(5,161)	(5,233)	(5,326)	(5,403)
Grants and subsidies	(180)	(51)	(32)	..	..	..
Interest	(879)	(909)	(1,075)	(1,200)	(1,320)	(1,429)
Other payments	(1,144)	(1,254)	(1,007)	(1,061)	(1,105)	(1,146)
<b>Total</b>	<b>(8,771)</b>	<b>(8,203)</b>	<b>(7,275)</b>	<b>(7,495)</b>	<b>(7,751)</b>	<b>(7,979)</b>
<b>Net cash inflows from operating activities</b>	<b>3,065</b>	<b>3,251</b>	<b>3,451</b>	<b>3,161</b>	<b>3,573</b>	<b>3,812</b>
<b>Payments for investments in non-financial assets</b>						
Purchases of non-financial assets	(5,603)	(7,436)	(7,919)	(6,423)	(5,382)	(4,772)
Sales of non-financial assets	49	191	84	148	144	117
<b>Total</b>	<b>(5,554)</b>	<b>(7,245)</b>	<b>(7,836)</b>	<b>(6,275)</b>	<b>(5,238)</b>	<b>(4,656)</b>
<b>Payments for investments in financial assets for policy purposes</b>	<b>..</b>	<b>2,982</b>	<b>..</b>	<b>..</b>	<b>..</b>	<b>..</b>
<b>Payments for investments in financial assets for liquidity purposes</b>	<b>(43)</b>	<b>187</b>	<b>(11)</b>	<b>..</b>	<b>..</b>	<b>..</b>
<b>Receipts from financing activities</b>						
Borrowing (net)	2,786	3,761	4,433	3,287	2,524	1,990
Deposits received (net)	..	20	(3)	1	1	1
Distributions paid	(816)	(929)	(1,833)	(1,002)	(1,060)	(1,235)
Other financing (net)	318	(1,086)	860	625	282	158
<b>Total</b>	<b>2,289</b>	<b>1,766</b>	<b>3,458</b>	<b>2,911</b>	<b>1,747</b>	<b>915</b>
<b>Net increase/(decrease) in cash held</b>	<b>(243)</b>	<b>940</b>	<b>(938)</b>	<b>(203)</b>	<b>83</b>	<b>71</b>
Net cash from operating activities and investments in non-financial assets	(2,489)	(3,995)	(4,385)	(3,114)	(1,665)	(844)
Distributions paid	(816)	(929)	(1,833)	(1,002)	(1,060)	(1,235)
<b>GFS Surplus/(deficit)</b>	<b>(3,305)</b>	<b>(4,924)</b>	<b>(6,218)</b>	<b>(4,116)</b>	<b>(2,725)</b>	<b>(2,078)</b>

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

**Table 9.9**  
**Non-financial Public sector cash flow statement <sup>1</sup>**

	2006-07 Budget \$ million	2006-07 Est.Actual \$ million	2007-08 Budget \$ million	2008-09 Projection \$ million	2009-10 Projection \$ million	2010-11 Projection \$ million
<b>Receipts from operating activities</b>						
Taxes received	7,517	8,034	9,125	9,908	10,582	11,391
Grants and subsidies received	13,743	14,267	15,165	14,816	15,005	15,507
Sales of goods and services	11,980	11,797	10,568	11,129	11,910	12,507
Other receipts	5,560	6,959	5,670	5,742	5,967	5,813
<b>Total</b>	<b>38,801</b>	<b>41,056</b>	<b>40,528</b>	<b>41,595</b>	<b>43,463</b>	<b>45,219</b>
<b>Payments for operating activities</b>						
Payments for goods and services	(25,573)	(24,514)	(25,456)	(26,653)	(27,742)	(28,741)
Grants and subsidies	(5,615)	(5,875)	(6,067)	(5,999)	(5,976)	(6,038)
Interest	(1,102)	(1,127)	(1,466)	(1,862)	(2,280)	(2,576)
Other payments	(1,400)	(1,650)	(1,682)	(1,623)	(1,600)	(1,656)
<b>Total</b>	<b>(33,691)</b>	<b>(33,166)</b>	<b>(34,670)</b>	<b>(36,137)</b>	<b>(37,598)</b>	<b>(39,011)</b>
<b>Net cash inflows from operating activities</b>	<b>5,110</b>	<b>7,890</b>	<b>5,858</b>	<b>5,459</b>	<b>5,865</b>	<b>6,208</b>
<b>Payments for investments in non-financial assets</b>						
Purchases of non-financial assets	(9,561)	(11,573)	(13,383)	(12,262)	(11,281)	(10,719)
Sales of non-financial assets	351	481	415	439	393	388
<b>Total</b>	<b>(9,211)</b>	<b>(11,092)</b>	<b>(12,968)</b>	<b>(11,823)</b>	<b>(10,888)</b>	<b>(10,331)</b>
<b>Payments for investments in financial assets for policy purposes</b>	<b>..</b>	<b>3,223</b>	<b>(25)</b>	<b>..</b>	<b>..</b>	<b>..</b>
<b>Payments for investments in financial assets for liquidity purposes</b>	<b>(1,315)</b>	<b>(3,430)</b>	<b>(1,594)</b>	<b>(1,619)</b>	<b>(1,764)</b>	<b>(1,827)</b>
<b>Receipts from financing activities</b>						
Advances received (net)	(15)	(15)	(14)	(15)	(7)	(7)
Borrowing (net)	4,586	4,505	8,002	7,562	6,717	6,011
Deposits received (net)	..	21	(2)	1	1	1
Other financing (net)	..	82	..	(1)	..	..
<b>Total</b>	<b>4,572</b>	<b>4,592</b>	<b>7,987</b>	<b>7,547</b>	<b>6,711</b>	<b>6,005</b>
<b>Net increase/(decrease) in cash held</b>	<b>(844)</b>	<b>1,183</b>	<b>(742)</b>	<b>(437)</b>	<b>(76)</b>	<b>55</b>
Net cash from operating activities and investments in non-financial assets	(4,101)	(3,202)	(7,110)	(6,364)	(5,023)	(4,123)
<b>GFS Surplus/(deficit)</b>	<b>(4,101)</b>	<b>(3,202)</b>	<b>(7,110)</b>	<b>(6,364)</b>	<b>(5,023)</b>	<b>(4,123)</b>

Note:

1. Numbers may not add due to rounding.

## RECONCILIATION OF GFS NET OPERATING BALANCE TO ACCOUNTING SURPLUS

The primary difference between GFS net operating balance and the accounting surplus calculated under Australian Accounting Standards (AAS) is that valuation adjustments are excluded from the GFS net operating balance.

Data presented in Table 9.10 provides a reconciliation of the General Government sector GFS net operating balance to the accounting surplus.

<b>Table 9.10</b>			
<b>Reconciliation of GFS net operating balance to accounting surplus<sup>1</sup></b>			
	2006-07 Budget \$ million	2006-07 Est.Act. \$ million	2007-08 Budget \$ million
GFS net operating balance General Government sector	245	2,393	268
<i>Remeasurement/valuation adjustments</i>			
Bad debts and amortisation	(43)	(43)	(40)
Deferred tax equivalents	..	123	210
Dividends received on Energy retail privatisation	..	1,118	..
Gain on transfer of Golden Casket shares to Tattersall's	..	395	..
Market value adjustments investments/loans	9	55	30
Revaluation of provisions	(36)	58	(18)
Decommissioned infrastructure assets and land under roads	(145)	(145)	(143)
Gain/(loss) on assets sold/written off	..	22	11
<b>AAS net surplus General Government sector</b>	<b>30</b>	<b>3,976</b>	<b>318</b>
Note:			
1. Numbers may not add due to rounding.			

## GENERAL GOVERNMENT TIME SERIES

Data presented in Table 9.11 provides a time series from 1999-2000 for the General Government sector on the key GFS indicators used by the Government to measure financial performance.

<b>Table 9.11</b>							
<b>General Government sector<sup>1</sup></b>							
	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
	Actual	Actual	Actual	Actual	Actual	Actual	Actual
	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million
<b>OPERATING STATEMENT</b>							
<b>GFS Revenue</b>							
Taxation revenue	5,051	4,255	4,815	5,598	6,676	6,952	7,396
Current grants and subsidies	6,203	8,539	9,520	10,175	10,992	12,255	12,955
Capital grants	448	483	696	510	553	491	627
Sales of goods and services	1,695	1,747	1,837	1,964	2,105	2,381	2,586
Interest income	1,773	852	(464)	(128)	2,723	2,972	3,414
Other	2,222	2,382	2,453	2,138	2,165	2,558	3,106
<b>Total Revenue</b>	<b>17,392</b>	<b>18,258</b>	<b>18,857</b>	<b>20,257</b>	<b>25,214</b>	<b>27,609</b>	<b>30,084</b>
<i>Less</i> <b>GFS Expenses</b>							
Gross operating expenses	11,060	12,844	13,733	14,562	15,709	17,018	19,195
Superannuation interest expense	710	467	626	630	750	752	526
Other interest expense	283	339	223	220	211	207	173
Current transfers	3,511	4,413	4,713	4,271	4,500	4,915	5,546
Capital transfers	766	1,052	456	558	704	791	930
<b>Total Expenses</b>	<b>16,330</b>	<b>19,115</b>	<b>19,751</b>	<b>20,241</b>	<b>21,874</b>	<b>23,683</b>	<b>26,370</b>
<i>Equals</i> <b>GFS net operating balance</b>	<b>1,062</b>	<b>(857)</b>	<b>(894)</b>	<b>16</b>	<b>3,340</b>	<b>3,926</b>	<b>3,714</b>
<b>OTHER KEY AGGREGATES</b>							
Purchases of non-financial assets	2,992	2,520	2,416	2,232	2,415	2,843	3,186
Net acquisition of non-financial assets	1,166	813	708	155	503	1,053	1,236
GFS Net lending / (borrowing) (Fiscal Balance)	(104)	(1,671)	(1,602)	(140)	2,838	2,873	2,478
Net Worth	57,293	57,623	58,093	64,894	77,723	96,433	105,035
Net Debt	(10,122)	(10,671)	(11,612)	(11,843)	(14,851)	(19,446)	(23,243)
Cash Surplus/Deficit	(1,281)	534	188	645	3,490	4,640	4,648
<b>Note:</b>							
1. Numbers may not add due to rounding.							
<i>Source: Budget Papers and Outcomes Reports for Queensland 1999-2000 to 2005-06. (Numbers have been restated where subsequent changes in classification have occurred.)</i>							

## OTHER GENERAL GOVERNMENT GFS DATA

Data presented in the following tables are presented in accordance with GFS and Uniform Presentation Framework guidelines which present data on a consolidated basis.

### Expenses by function

Data presented in Table 9.12 provides details of General Government sector expenses by function.

<b>Table 9.12</b>						
<b>General Government sector expenses by function<sup>1</sup></b>						
	2006-07	2006-07	2007-08	2008-09	2009-10	2010-11
	Budget	Est. Act.	Budget	Projection	Projection	Projection
	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million
General public services	1,593	1,813	1,744	1,738	1,720	1,891
Public order and safety	2,728	2,592	2,924	3,109	3,242	3,360
Education	6,947	7,298	7,403	7,734	8,018	8,378
Health	6,851	7,120	7,745	8,607	9,118	9,519
Social security and welfare	1,591	1,746	1,917	1,950	1,976	2,057
Housing and community amenities	1,166	1,016	1,511	1,065	1,102	1,110
Recreation and culture	683	711	787	766	734	748
Fuel and energy	958	925	1,048	952	990	1,060
Agriculture, forestry, fishing and hunting	824	1,131	886	668	662	686
Mining, manufacturing and construction	124	129	131	135	136	135
Transport and communications	3,070	3,407	3,521	3,566	3,576	3,638
Other economic affairs	765	632	753	731	785	727
Other purposes	1,526	1,644	1,912	2,034	2,305	2,457
<b>Total Expenses</b>	<b>28,825</b>	<b>30,164</b>	<b>32,282</b>	<b>33,056</b>	<b>34,364</b>	<b>35,766</b>
Note:						
1. Numbers may not add due to rounding.						



## Purchases of non-financial assets by function

Data presented in Table 9.13 provides details of General Government sector purchases of non-financial assets by function.

<b>Table 9.13</b>			
<b>General Government sector purchases of non-financial assets by function<sup>1</sup></b>			
	2006-07 Budget \$ million	2006-07 Est. Act. \$ million	2007-08 Budget \$ million
General public services	313	330	349
Public order and safety	507	388	725
Education	373	441	439
Health	515	510	556
Social security and welfare	79	59	170
Housing and community amenities	332	315	368
Recreation and culture	124	131	94
Agriculture, forestry, fishing and hunting	103	190	51
Mining, manufacturing and construction	4	3	7
Transport and communications	1,564	1,742	2,648
Other economic affairs	43	29	55
Other purposes	1	..	..
<b>Total Purchases</b>	<b>3,958</b>	<b>4,137</b>	<b>5,463</b>
Note: 1. Numbers may not add due to rounding.			

## Taxes

Data presented in Table 9.14 provides details of taxation revenue collected by the General Government sector.

<b>Table 9.14</b>		
<b>General Government sector taxes <sup>1</sup></b>		
	2006-07 Est. Actual \$ million	2007-08 Budget \$ million
Taxes on employers' payroll and labour force	2,175	2,411
Taxes on property		
Land taxes	523	622
Stamp duties on financial and capital transactions	2,795	3,142
Other	357	362
Taxes on the provision of goods and services		
Taxes on gambling	826	868
Taxes on insurance	426	454
Taxes on use of goods and performance of activities		
Motor vehicle taxes	1,150	1,285
Other	123	128
<b>Total Taxation Revenue</b>	<b>8,375</b>	<b>9,272</b>
Note: 1. Numbers may not add due to rounding.		

## Loan Council Allocation

The Australian Loan Council requires all jurisdictions to prepare Loan Council Allocations (LCA) to provide an indication of each government's probable call on financial markets over the forthcoming financial year.

Table 9.15 presents the State's revised LCA Budget allocation and the Loan Council endorsed LCA for 2007-08.

<b>Table 9.15</b>		
<b>Loan Council Allocation <sup>1</sup></b>		
	2007-08 Nomination \$ million	2007-08 Budget \$ million
General Government sector cash deficit/(surplus) <sup>2</sup>	995	892
PNFC sector cash deficit/(surplus) <sup>2</sup>	4,694	6,218
<b>Non-financial Public Sector cash deficit/(surplus) <sup>2</sup></b>	<b>5,688</b>	<b>7,110</b>
<i>Less</i> Net cash flows from investments in financial assets for policy purposes	..	(25)
<i>Plus</i> Memorandum items <sup>3</sup>	77	77
<b>Loan Council Allocation</b>	<b>5,765</b>	<b>7,212</b>
Notes:		
1. Numbers may not add due to rounding.		
2. Figures in brackets represent surpluses.		
3. Memorandum items include operating leases and local government borrowings.		

The State's Budget LCA allocation is a deficit of \$7.212 billion. This compares to the LCA nomination in March 2007 of \$5.765 billion.

A tolerance limit of two per cent of Non-financial Public sector receipts applies between the LCA nomination and the Budget allocation. For 2007-08, the LCA Budget allocation exceeds the LCA nomination by more than the two per cent tolerance limit.

The increased deficit is largely due to higher net borrowing requirements as a result of increased spending on capital infrastructure in the PNFC sector.

## **BACKGROUND AND INTERPRETATION OF GOVERNMENT FINANCE STATISTICS**

### **Accrual GFS framework**

The GFS reporting framework, developed by the Australian Bureau of Statistics (ABS), is based on international statistical standards (the International Monetary Fund Manual on Government Finance Statistics and the United Nations System of National Accounts). This allows comprehensive assessments to be made of the economic impact of government.

### **Nature of the GFS framework**

The accrual GFS framework is based on an integrated recording of stocks and flows. Stocks refer to a unit's holdings of assets, liabilities and net worth at a point in time, whilst flows represent the movement in the stock of assets and liabilities between two points in time. Flows comprise two separate types, transactions and other economic flows. Transactions come about as a result of mutually agreed interactions between units or within a single unit. Other economic flows would include revaluations and destruction or discovery of assets that do not result from a transaction. In GFS operating statements, other economic flows, being outside of the control of government, are excluded and do not affect the net operating result.

The GFS statements reported in the Budget are the operating statement, balance sheet and cash flow statement.

### ***Operating statement***

This statement is designed to capture the details of transaction flows of GFS revenue and GFS expense items as well as net acquisitions of non-financial assets for an accounting period. Unlike operating statements prepared on Australian Accounting Standard principles, a GFS operating statement reports two major fiscal measures – the GFS net operating balance and GFS net lending/borrowing.

Net operating balance is represented by GFS revenues less GFS expenses and excludes any other economic flows such as revaluations, gains or losses on asset disposals and allowances for doubtful debts.

Net lending is the net operating balance less net acquisition of non-financial assets. It is also referred to as the fiscal balance. It measures, in accrual terms, the gap between Government savings plus net capital transfers and investment in non-financial assets. A surplus indicates that the State Government is placing financial resources at the disposal of other sectors of the economy, whilst a deficit reflects the State utilising the financial resources of other sectors.

## ***Balance sheet***

The balance sheet shows stocks of financial and non-financial assets and liabilities. Key indicators in the balance sheet are net debt and net worth.

Net debt is represented by the sum of selected financial liabilities (such as deposits held, advances received and borrowings) minus the sum of selected financial assets (cash and deposits, loans and placements). It provides an indication of the strength of a government's financial position.

Net worth, also known as net assets, is defined as total assets less total liabilities. It provides a more comprehensive picture of a government's position as all assets and liabilities are taken into account.

Net financial worth, on the other hand, is calculated as financial assets minus total liabilities. It measures a government's net holdings of financial assets.

## ***Cash flow statement***

Cash means cash on hand (notes and coins held and deposits held at call with a bank or financial institution) and cash equivalents (highly liquid investments readily convertible to cash and overdrafts considered integral to the cash management functions). The cash flow statement demonstrates how cash is generated and applied in a single accounting period.

The GFS surplus/deficit is the cash counterpart of the fiscal balance as disclosed in the GFS operating statement. A surplus reflects the availability of cash to increase the State's financial assets or decrease its liabilities, whilst a deficit reflects the requirement for cash either by running down the State's financial assets or by drawing on the cash reserves of other sectors of the economy. It comprises net cash received/paid from operating activities, from sales and purchases of non-financial assets and from financing activities.

## **SECTOR CLASSIFICATION**

GFS data is presented by institutional sector, distinguishing between the General Government sector and the Public Non-financial Corporations (PNFC) sector.

Budget reporting focuses on the General Government sector, which provides regulatory services and goods and services of a non-market nature that are provided at less than cost or at no cost. These services are largely financed by general revenue (Australian Government grants and state taxation). This sector comprises government departments, their commercialised business units/shared service providers and certain statutory bodies.

The PNFC sector comprises bodies that provide mainly market goods and services that are of a non-regulatory and non-financial nature. PNFCs are financed through sales to consumers of their goods and services and may be supplemented by explicit government subsidy to satisfy community service obligations. In general, PNFCs are legally distinguishable from the governments that own them. Examples of PNFCs include Queensland Rail and the energy entities.

Together, the General Government sector and the PNFC sector comprise the Non-financial Public sector.

Further discussion of the GFS framework of reporting, including definitions of GFS terms, can be obtained from the webpage of the Australian Bureau of Statistics at [www.abs.gov.au](http://www.abs.gov.au).

## REPORTING ENTITIES

The reporting entities included in the General Government and PNFC sectors are provided below.

### General Government

#### *Departments*

Child Safety	Main Roads
Communities	Mines and Energy
Corrective Services	Natural Resources and Water
Disability Services Queensland	Office of the Governor
Education, Training and the Arts	Office of the Ombudsman
Electoral Commission of Queensland	Office of the Public Service Commissioner
Emergency Services	Police
Employment and Industrial Relations	Premier and Cabinet
Environmental Protection Agency	Primary Industries and Fisheries
Forestry Plantations Queensland Office	Public Works
Health	Queensland Audit Office
Housing	State Development
Infrastructure	The Public Trustee of Queensland
Justice and Attorney-General	Tourism, Fair Trading and Wine Industry
Legislative Assembly	Development
Local Government, Planning, Sport and Recreation	Transport
	Treasury

## ***Statutory Authorities***

Airport Link  
Anti-Discrimination Commission  
Queensland  
Australian Agricultural College  
Corporation  
Board of the Queensland Museum  
Commission for Children and Young People  
and Child Guardian  
Crime and Misconduct Commission  
Health Quality and Complaints Commission  
Legal Aid Queensland  
Library Board of Queensland  
Motor Accident Insurance Commission  
Nominal Defendant  
Prostitution Licensing Authority  
Queensland Art Gallery Board of Trustees  
Queensland Building Services Authority  
Queensland Events Corporation Pty Ltd  
Queensland Future Growth Corporation  
Queensland Institute of Medical Research  
Queensland Performing Arts Trust  
Queensland Studies Authority  
Queensland Treasury Holdings Pty Ltd  
Queensland Rural Adjustment  
Authority (QRAA)  
Residential Tenancies Authority  
Service Delivery and Performance  
Commission  
SGH Ltd  
South Bank Corporation  
The Office of the Information  
Commissioner  
Tourism Queensland  
Workers Compensation Regulatory  
Authority (Q-Comp)

## ***Commercialised Business Units***

CITEC  
GoPrint  
Main Roads – RoadTek  
Project Services  
Property Services Group  
Q-Build  
Q-Fleet  
Sales and Distribution Services

## ***Shared Service Providers***

Corporate Administration Agency  
Corporate and Professional Services  
CorpTech  
Queensland Health Shared Service Provider  
Shared Service Agency

## Public Non-financial Corporations

Betty Rees Group Pty Ltd (CRT)  
Bundaberg Port Authority  
Burnett Water Pty Ltd  
Cairns Port Authority  
Central Queensland Port Authority  
CS Energy Ltd  
DBCT Holdings Pty Ltd  
ENERGEX Ltd  
Ergon Energy Corporation Ltd  
Eungella Water Pipeline Pty Ltd  
Forestry Plantations Queensland  
Gladstone Area Water Board  
Gold Coast Events Co Pty Ltd  
Golden Casket Lottery Corporation Ltd  
Heritage Train Company Pty Ltd  
Mackay Port Authority  
Major Sports Facilities Authority  
Mount Isa Water Board  
National Logistics Alliance Pty Ltd  
North West Queensland Water  
Pipeline Pty Ltd  
On Track Insurance Pty Ltd  
Port of Brisbane Corporation  
Ports Corporation of Queensland  
Powerlink Queensland  
Queensland Lotteries Corporation  
Queensland Motorways Ltd  
Queensland Power Trading Corporation  
(Enertrade)  
Queensland Rail (QR)  
Interail Australia Pty Ltd  
Queensland Water Infrastructure  
Stanwell Corporation Ltd  
SunWater  
Tarong Energy Corporation Ltd  
The Trustees of Parklands Gold Coast  
Townsville Port Authority  
ZeroGen Pty Ltd



# APPENDIX A – TAX EXPENDITURE STATEMENT

---

## OVERVIEW

Governments employ a range of policy tools to achieve social and economic objectives. These include the use of direct budgetary outlays, regulatory mechanisms and taxation. As required by the *Charter of Social and Fiscal Responsibility*, this Tax Expenditure Statement (TES) details revenue foregone as a result of Government decisions relating to the provision of tax concessions. The TES is designed to improve transparency in the use of tax expenditures and increase public understanding of the fiscal process.

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

- tax exemptions
- the application of reduced tax rates to certain groups or sectors of the community
- tax rebates
- tax deductions
- provisions which defer payment of a tax liability to a future period.

Labelling an exemption or concession as a tax expenditure does not necessarily imply any judgement as to its appropriateness. It merely makes the amount of the exemption or concession explicit and thereby facilitates its scrutiny as part of the annual Budget process.

## Methodology

### ***Revenue foregone approach***

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

Measuring tax expenditures requires the identification of:

- a benchmark tax base
- concessionally taxed components of the benchmark tax base such as a specific activity or class of taxpayer
- a benchmark tax rate to apply to the concessionally taxed components of the tax base.

### ***Defining the tax benchmark***

The most important step in the preparation of a TES is the establishment of a benchmark for each tax included in the statement. The benchmark provides a basis against which each tax concession can be evaluated. The aim of the benchmark is to determine which concessions are tax expenditures as opposed to structural elements of the tax. The key features of a tax benchmark are:

- the tax rate structure
- any specific accounting conventions applicable to the tax
- the deductibility of compulsory payments
- any provisions to facilitate administration
- provisions relating to any fiscal obligations.

By definition, tax expenditures are those tax concessions not included as part of the tax benchmark.

Identification of benchmark revenue bases and rates requires a degree of judgement and is not definitive. Furthermore, data limitations mean that the tax expenditures are approximations and are not exhaustive. This statement does not include estimates of revenue foregone from exemptions or concessions provided to Government agencies. Very small exemptions or concessions are also excluded.

## **THE TAX EXPENDITURE STATEMENT**

This year's statement includes 2005-06 and 2006-07 estimates of tax expenditures for payroll tax, land tax, duties, the community ambulance cover and gambling taxes. A summary of the major tax expenditures valued on the basis of revenue foregone is presented in Table A.1. Not all expenditures can be quantified at this time. Accordingly, the total value of tax expenditures should be considered as indicative only.

**Table A.1**  
**Tax expenditure summary<sup>1</sup>**

	2005-06 <sup>2</sup>	2006-07
	\$ million	\$ million
<b>Payroll Tax</b>		
Exemption threshold <sup>3</sup>	722	882
Deduction scheme <sup>4</sup>	147	209
<b>Section 14 exemptions</b>		
Local Government	77	87
Education	123	140
Hospitals	189	215
<b>Total Payroll Tax</b>	<b>1,258</b>	<b>1,533</b>
<b>Land Tax</b>		
Liability thresholds <sup>5</sup>	283	293
Graduated land tax scale	121	143
Primary production deduction	45	58
Section 13 exemptions not included elsewhere <sup>6</sup>	40	46
Land developers' concession	19	16
<b>Total Land Tax</b>	<b>508</b>	<b>556</b>
<b>Duties</b>		
<b>Transfer duty on residential property</b>		
Home concession	371	398
First home concession	155	180
First home vacant land concession	..	1
<b>Insurance duty on general insurance</b>		
Non-life insurance	107	120
Workcover	23	23
Health insurance	112	120
<b>Total Duties</b>	<b>768</b>	<b>842</b>
<b>Community Ambulance Cover</b>		
Concession to pensioners and seniors <sup>7</sup>	40	42
<b>Taxes on Gambling</b>		
Gaming machine taxes	122	113
Casino taxes	10	7
<b>Total Gambling Tax</b>	<b>132</b>	<b>120</b>
Notes:		
1. Numbers may not add due to rounding.		
2. 2005-06 estimates may have been revised since last year's Budget.		
3. Exemption threshold of \$1 million applies in 2006-07. In 2005-06, the threshold was \$850,000.		
4. Deduction of \$1 million, which reduces by \$1 for every \$3 above \$1 million, is applicable to employers with an annual payroll between \$1 million and \$4 million in 2006-07. In 2005-06, the deduction was \$850,000 and was applicable to employers with an annual payroll between \$850,000 and \$3.4 million.		
5. Land tax is payable only on the value of taxable land above a threshold which depends on the ownership structure.		
6. Applicable, but not limited, to religious bodies, public benevolent institutions and other exempt charitable institutions.		
7. Estimates are based on the revenue foregone through the use of the levy exemption by pensioners and senior citizens. The estimated cost of providing the service to pensioners and senior citizens exempted from the levy is significantly higher, estimated at \$145 million in 2005-06 and \$173 million in 2006-07.		

## DISCUSSION OF INDIVIDUAL TAXES

### Payroll tax

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

#### ***Payroll tax exemption threshold***

Employers who employ in Queensland with an annual Australian payroll of \$1 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 and medium sized businesses. Prior to 1 July 2006, the threshold was \$850,000.

#### ***Deduction scheme***

Employers who employ in Queensland with Australian payrolls between \$1 million and \$4 million benefit from a deduction of \$1 million, which reduces by \$1 for every \$3 by which the annual payroll exceeds \$1 million. There is no deduction for employers or groups with an annual payroll in excess of \$4 million. Prior to 1 July 2006, the threshold was \$850,000, with a deduction for employers or groups with payrolls up to \$3.4 million.

#### ***Section 14 exemptions***

A number of organisations are provided with exemptions from payroll tax under Section 14 of the *Pay-roll Tax Act 1971*. The activities for which estimates have been calculated are wages paid by public hospitals, non-tertiary private educational institutions and local governments (excluding commercial activities).

### Land tax

The benchmark tax base is assumed to be all freehold land within Queensland, excluding residential land used as a principal place of residence and land owned by individuals with a value for that year below the threshold. The benchmark tax rate for land tax is assumed to be the top rate of land tax applicable in Queensland in each financial year.

#### ***Liability thresholds***

Land tax is payable on the value of taxable land above a threshold which depends on the land's ownership. In 2005-06, the thresholds were \$300,000 for companies, absentees and trusts and \$450,000 for resident individuals. In 2006-07, the threshold for resident individuals was increased to \$500,000.

Residential land owned by resident individuals as their principal place of residence is excluded from the estimate. The exemption from paying below a minimum amount (\$400 in 2005-06 and \$500 in 2006-07) is not included as a tax expenditure as it is regarded as the application of an administration threshold.

### ***Graduated land tax scale***

A graduated (concessional) scale of land tax rates is applicable to land with a taxable value of less than \$3 million for resident individuals and \$2 million for companies, trustees and absentees.

### ***Primary production deduction***

The taxable value of land owned by a resident individual, trustee or some absentees and companies does not include all or part of their land that is used for the business of agriculture, pasturage or dairy farming.

### ***Section 13 exemptions (not elsewhere included)***

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

### ***Land developers' concession***

From 1 July 1998, land developers have been charged land tax on 60% of the unimproved value of (undeveloped) land subdivided in the previous financial year and which remains unsold at 30 June of that year. This concession is outlined in Section 3CA of the *Land Tax Act 1915*.

### ***Transfer duty concession on residential property***

The benchmark tax base is assumed to be all sales of residential property within Queensland. The benchmark tax scale is assumed to be the scale that actually applied in each financial year.

### ***Home concession***

A concessional rate of duty applies to purchases of a principal place of residence. Until 30 June 2006, a concessional rate of 1% applied on dutiable values up to \$300,000 compared to the normal schedule of rates between 1.5% and 3.5%. For properties valued over \$300,000, the scheduled rates of transfer duty applied on the excess.

From 1 July 2006, the concessional rate of 1% has applied to the purchase of a principal place of residence valued up to \$320,000.

### ***First home concession***

Where a purchaser has not previously owned a residence in Queensland or elsewhere, the purchaser of a home receives a more generous concession on duty. This concession comprises a rebate in addition to the home concession on properties (this concession may not be 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. Duty relief is provided to purchases of a first principal place of residence valued up to \$500,000.

### ***First home vacant land concession***

From 1 January 2007, a new first home concession was provided for the purchase of certain vacant land up to the value of \$300,000.

### **Insurance duty**

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

The rate of duty applicable to most types of general insurance is 7.5%. Concessional rates apply to some other general insurance types (5% for motor vehicle insurance other than compulsory third party (CTP), workers' compensation and professional indemnity insurance and 10c on a premium for CTP insurance). Data limitations mean that these insurance types are categorised into non-life insurance cover and WorkCover. An exemption from duty is also provided for private health insurance.

### **Duty on mortgages – home concessions and first home concessions**

The benchmark tax base is assumed to be all mortgages and loans taken out in Queensland. The benchmark tax scale is assumed to be the scale that actually applied in each financial year.

A concession from duty is allowed where a home mortgage secures an advance attributable to the purchase or construction of the borrower's home.

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

### **Community Ambulance Cover**

#### ***Concession to pensioners and seniors***

Pensioners and senior card holders are exempt from paying the Community Ambulance Cover charge levied quarterly on electricity accounts.

## **Gambling taxes**

### ***Gaming machine tax concessions for licensed clubs***

The benchmark tax base is assumed to be all gaming machines operated by licensed clubs and hotels in Queensland. The benchmark tax rate is assumed to be the highest marginal tax rate (as is applied to hotels) that actually applied in each financial year.

A concessional graduated tax rate scale applies to gaming machines operated by licensed clubs. The tax rate is calculated on the gaming machine monthly metered win and the top tax rate is only applied to the portion of gaming machine revenue where the monthly metered win exceeds \$1.4 million for any licensed club.

### ***Casino tax concessions***

The benchmark tax base is assumed to be all casinos operating in Queensland. The benchmark tax rate is assumed to be the highest tax rate that is actually applied in each financial year.

A tax rate of 20% of gross revenue applies for standard transactions in the Brisbane and Gold Coast casinos. A concessional tax rate of 10% applies for gross revenue from standard transactions in 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% in the Brisbane and Gold Coast casinos and 8% for the Cairns and Townsville Casinos. A GST credit is provided to casinos that approximates a reduction in the above tax rates of 9.09%.





## **APPENDIX B – CONCESSIONS STATEMENT**

---

### **INTRODUCTION**

The Government provides concessions in the form of discounts, rebates and subsidies to improve access to and the affordability of a range of services for individuals or families based on eligibility criteria relating to factors such as age, income and special needs or disadvantage.

This statement serves to highlight the cost and nature of concessions covering both concessions which are reflected as outlays in the Budget (for example, direct subsidy payments) and revenue foregone through fees and charges which are set at a rate lower than that applying to the wider community.

Varying methods have been used to estimate the cost of concessions depending on the nature of the concession, including:

- direct Budget outlay cost (for example, direct subsidy or rebate payments)
- revenue foregone (for example, concessional fees and charges)
- cost of goods and services provided.

Table B.1 sets out the cost of concessions by agency. The total value of concessions is estimated at \$906.6 million in 2007-08.

**Table B.1  
Concessions by agency<sup>1</sup>**

<b>Agency</b>	<b>2006-07 Est.Act. \$ million</b>	<b>2007-08 Estimate \$ million</b>
<b>Department of Communities</b>		
Electricity Rebate Scheme	63.2	66.8
Electricity Life Support Scheme	0.6	0.6
Pensioner Rate Subsidy Scheme	45.5	47.9
Rail Concession Scheme	33.2	34.1
<b>Department of Education, Training and the Arts</b>		
Arts Concessional Entry Fees	0.4	0.4
Living Away from Home Allowances Scheme	5.9	6.1
School Transport Assistance for Students with Disabilities	28.6	28.6
Non-State School Transport Assistance Scheme	4.1	4.4
Venue Hire Discount – Queensland Performing Arts Trust	0.4	0.4
Venue Hire and Lease Discount – Judith Wright Centre of Contemporary Art	0.4	0.4
TAFE Concessions	13.9	14.2
<b>Department of Emergency Services</b>		
Urban Fire Levy Concession	5.5	5.8
<b>Environmental Protection Agency</b>		
Environmental Licence Fee Waiver	0.3	0.3
Concessions Entry and Tour Fees	0.1	0.1
<b>Queensland Health</b>		
Spectacles Supply Scheme	5.0	5.9
Medical Aids Subsidy Scheme	19.9	20.8
Patient Travel Subsidy Scheme <sup>2</sup>	31.0	34.0
Oral Health Scheme	94.1	99.2
<b>Department of Housing</b>		
Aboriginal and Torres Strait Islander Housing Rental Rebate	11.3	14.2
Public Rental Housing Rebate <sup>3</sup>	200.0	245.0
<b>Department of Justice and Attorney-General</b>		
Public Trustee of Queensland – Rebates of Fees	17.6	18.3
<b>Department of Local Government, Planning, Sport and Recreation</b>		
Active Recreation Centres – Concessional Usage Rates	0.1	0.1
<b>Department of Natural Resources and Water</b>		
Rebates on Part A Water Charges	3.0	7.0
<b>Department of the Premier and Cabinet</b>		
South Bank Corporation – Venue Hire Discounts	0.3	0.2

**Table B.1 (continued)  
Concessions by agency<sup>1</sup>**

Agency	2006-07 Est.Act. \$ million	2007-08 Estimate \$ million
<b>Department of Primary Industries and Fisheries</b>		
Drought Rate Rebate Scheme	7.0	9.0
<b>Department of Transport</b>		
Transport Concessions incl. Taxi Subsidies	61.5	64.6
Motor Vehicle Registration Concession	51.1	52.4
Recreational Ship Registration Concession	0.8	0.8
School Transport Assistance Scheme	122.5	125.1
<b>Total</b>	<b>827.4</b>	<b>906.6</b>
Notes:		
1. Numbers may not add due to rounding.		
2. In previous years, Queensland Health has only reported a component of subsidies under this scheme for assistance provided to concession card holders. The figures reported above represent total travel and accommodation assistance paid for eligible Queensland patients under this scheme.		
3. Increases in markets rents have resulted in an increased estimated level of rental rebate for 2007-08.		

## Department of Communities

The Department of Communities has responsibility for the Queensland Government Electricity Rebate Scheme and reimburses the electricity retail corporations for electricity rebates provided. The scheme provides a rebate on the cost of domestic electricity supply to eligible holders of a Pensioner Concession Card, Queensland Seniors Card or a Repatriation Health Card for All Conditions (Gold Card) who receive a War Widow or Special Rate Totally and Permanently Incapacitated pension.

The Electricity Life Support Concession Scheme is aimed at assisting seriously ill people who use home-based life support systems such as oxygen concentrators and kidney dialysis machines.

The Pensioner Rate Subsidy Scheme alleviates the impact of local government rates and charges on pensioners, thereby assisting them to continue to live in their own homes.

The Queensland Rail Concessions Scheme assists pensioners, veterans and seniors to reduce the cost of public transport and to maintain an active and healthy lifestyle.

## **Department of Education, Training and the Arts**

The Department of Education, Training and the Arts provides a living away from home allowance to students in Years 1 to 12 in state and non-state schools whose homes are geographically isolated from local schools. The allowances offset the costs associated with boarding away from home to attend school on a daily basis and include tuition and travel costs.

The Department also offers assistance to students with disabilities to access school programs to meet their educational needs. Assistance is in the form of the provision of taxis or specialised contracted minibuses, payment of fares on regular buses or trains, or an allowance for parents who drive their children to school.

The Non-State School Transport Assistance Scheme assists families of students attending non-state schools outside Brisbane whose bus fare is over a weekly threshold amount. The program also assists families of students with disabilities who attend a non-state school.

Discounts apply to venue rental fees charged to arts and community organisation hirers (\$0.15 million) and rent reductions apply to lease amounts for resident cultural organisation tenants (\$0.25 million) at the Judith Wright Centre of Contemporary Art.

Concessional ticket entry fees apply to a variety of concession card holders, students, children and families for special exhibitions at the Queensland Art Gallery and the Queensland Museum.

Queensland Performing Arts Trust offers discounts on venue rental fees charged to government funded organisations, primarily Opera Queensland, Queensland Ballet, Queensland Orchestra and Queensland Theatre Company.

Concessions on TAFE tuition fees for government-funded training are offered to a range of concession card holders, students of Aboriginal and Torres Strait Islander descent and students who can demonstrate extreme financial hardship.

## **Department of Emergency Services**

Pensioners are eligible for a 20% discount on the Urban Fire Levy payable on prescribed properties of which they are the owner or part-owner.

## **Environmental Protection Agency**

A fee waiver may be granted on environmental licences on the grounds of financial hardship or if there is a small or insignificant environmental risk. The Department also offers concessional entry fees for specified protected areas including St Helena Island, David Fleay Wildlife Park and Mon Repos Conservation Park.

## **Queensland Health**

The Spectacles Supply Scheme assists eligible Queensland residents by providing a comprehensive range of free basic prescription spectacles. Queensland Health administers the Scheme through its network of public hospitals and community health services.

The Medical Aids Subsidy Scheme provides eligible Queensland residents with permanent and stabilised conditions or disabilities with access to subsidy funding assistance for the provision of a range of aids and equipment. Aids and equipment are provided primarily to assist people to live at home thus avoiding premature or inappropriate residential care or hospitalisation.

Queensland Health's Patient Travel Subsidy Scheme provides financial assistance to patients who need to access specialist medical services which are not available within their local area. The Scheme provides a subsidy towards the cost of travel and accommodation for patients and, in some cases, an escort. While in previous years the Scheme has reported only those subsidies provided to concession card holders, the reported cost of the Scheme this year includes all subsidies provided to eligible patients.

The Oral Health Scheme provides free dental care to eligible clients and their dependents who possess a current Health Care Card, Pensioner Concession Card, Queensland Seniors Card or Commonwealth Seniors Card. In rural and remote areas where no private dental practitioner exists, access to dental care for the general public is provided at a concessional rate.

## **Department of Housing**

The Aboriginal and Torres Strait Islander Housing Rental Rebate targets low income Indigenous families and individuals and represents the difference between the rents that would be payable in the private market and the rent that is charged based on the household's income.

The Public Rental Housing Rebate targets low income families and individuals and represents the difference between the rent that would be payable in the private market and the rent that is charged based on the household's income. Increasing market rents result in an increasing level of rental rebate.

## **Department of Justice and Attorney-General**

The Public Trustee offers fee rebates (full or partial) for clients who, because of financial circumstances, cannot pay the full amount of fees that have been levied.

## **Department of Local Government, Planning, Sport and Recreation**

Concessional rates are offered to school groups for the use of a number of Active Recreation Centres, such as those at Currimundi and Tallebudgera.

## **Department of Natural Resources and Water**

A rebate on fixed water supply charges (Part A charges) is provided for rural irrigation users in areas where there is low water availability. Rebates provide up to 100% of the fixed water charge, up to a maximum of \$10,000 per user per year, on water bills issued for the period from July 2006 to 30 June 2008.

## **Department of the Premier and Cabinet**

Community groups and charities are given discounted charges for the hire of venues within the South Bank parklands, such as the Suncorp Piazza.

## **Department of Primary Industries and Fisheries**

To assist primary producers who have been detrimentally affected by drought leading to financial difficulty, assistance is provided in the form of a rebate of local government rates. A rebate of 50% is available to eligible applicants.

## **Department of Transport**

Transport concessions are provided by the Government in a variety of forms and across a range of activities to ensure access and mobility for Queenslanders who are transport disadvantaged. Eligible categories to receive a concession include Pensioner Concession Card holders, Seniors Card holders, children and secondary and tertiary students. Members of the Taxi Subsidy Scheme also receive concessions on taxi travel. The provision of these concessions is in the form of a subsidy payment to transport operators.

Motor vehicle and boat registration concessions are provided to holders of the Pensioner Concession Card, Queensland Seniors Card and to those receiving a Totally or Permanently Incapacitated Ex-serviceperson Pension. The concession is aimed at improving the access to travel of pensioners and seniors.

The School Transport Assistance Scheme is a program for students whose access to school is disadvantaged by distance or who are from defined low income groups. Assistance is provided towards the cost of travel on bus, rail and/or ferry with allowances for private vehicle transport.

## **APPENDIX C – STATEMENT OF RISKS AND SENSITIVITY ANALYSIS**

---

### **INTRODUCTION**

The Queensland State Budget, like those of other states, is based in part on assumptions made about future elements of uncertainty both internal and external to the State which can impact directly on economic and fiscal forecasts. Operating results achieved in recent years reflect the fact that the actual fiscal result achieved depends on the direction of such variables.

Consistent with the *Charter of Social and Fiscal Responsibility*, this section analyses the sensitivity of the estimates to changes in the economic and other assumptions used in developing the Budget and forward estimates. This analysis is provided, as required under the Charter, to enhance the level of transparency and accountability of the Government.

Notwithstanding the risks associated with the Budget, Queensland is well placed to manage adverse impacts. Queensland's strong balance sheet and low tax status means it has substantial capacity to withstand the risks normally associated with any state or territory budget.

The forward estimates in the Budget are framed on a no policy change basis. That is, the expenditure and revenue policies in place at the time of the Budget (including those announced in the Budget) are applied consistently throughout the forward estimates period.

The following discussion provides details of some of the key assumptions and risks associated with revenue and expenditure forecasts and, where a direct link can be established, the indicative impact on forecasts resulting from a movement in those variables.

### **IMPACT OF DROUGHT**

The 2007-08 Budget and forward estimates assume a return to average seasonal conditions and a partial recovery from drought. However, if rainfall does not improve sufficiently in 2007-08, water storage levels will remain low. If this eventuates, rural exports and food prices may be adversely affected.

A continuation of drought conditions would have a negative impact on both revenue and expenditure items. For example, reduced levels of rural employment associated with drought would be expected to result in reduced payroll tax revenues, while expenditures on drought assistance programs would be expected to increase.

## **SENSITIVITY OF EXPENDITURE ESTIMATES AND EXPENDITURE RISKS**

### **Public sector wage costs**

Salaries and wages form a large proportion of General Government operating expenses. Increases in salaries and wages are negotiated through enterprise bargaining agreements.

All of the major enterprise bargaining agreements across the General Government sector, including the agreement for the core public sector, have now been finalised, with sworn police officers and allied health agreements currently under negotiation.

The 2007-08 Budget and forward estimates include funding for wage increases as per the most recent round of enterprise bargaining, with a provision for approximately 4% per annum wage increases thereafter.

For agreements yet to be reached, funding provisions are consistent with an outcome of approximately 4% per annum.

### **Interest rates**

The General Government sector has a very moderate level of debt with a total debt servicing cost forecast at \$390 million in 2007-08.

The current average duration of General Government debt is approximately three years. Accordingly, a one percentage point variation in interest rates would lead to a very modest change in debt servicing costs in 2007-08.

### **Actuarial estimates of superannuation and long service leave**

Liabilities for superannuation and long service leave are estimated by the State Actuary with reference to, among other things, assumed rates of investment returns, salary growth and inflation. These liabilities are therefore subject to changes in these parameters. Similarly, the long service leave liabilities are subject to the risk that the actual rates of employee retention will vary from those assumed in the liability calculation.

While these impacts have been estimated and allowances made in the Budget and forward estimates to accommodate them, the actual outcome may differ from the estimates calculated for the Budget.

### **Demographic and demand based risks**

Unforeseen changes in the size, location and composition of Queensland's population can impact on the demand for goods and services and therefore on the cost of maintaining existing policies. This is particularly evident in the health, education, community services and criminal justice sectors.



State Government expenditure is often more closely associated with socio-demographic factors, such as the number of school age children or the number of elderly residents, than with economic activity. However, such changes are unlikely to impact significantly in the short term.

For this reason, the composition, size and location of the State's population are more significant in projecting the State's expenditure needs across the forward estimates period than for the current or budget year.

### **Unforeseen events**

Events will occur during the financial year which will require additional expenditure but could not be foreseen or quantified at the time of the Budget.

Contingency funding for such events is provided in the Budget through the Treasurer's Advance. The Treasurer's Advance is an amount of appropriation within Treasury's Administered Budget as a whole-of-Government provision for potentially emergent costs.

In 2007-08, the Treasurer's Advance allocation is \$50 million.

## **SENSITIVITY OF REVENUE ESTIMATES AND REVENUE RISKS**

The rate of growth in tax revenues is dependent on a range of factors that are linked to the rate of growth in economic activity in the State. Some taxes are closely related to activity in specific sectors of the economy, whilst others are broadly related to the general rate of economic growth, employment, inflation and wages. A change in the level of economic activity, resulting from economic growth differing from forecast levels, would impact upon a broad range of taxation receipts.

Other revenue items are influenced by external variables such as the exchange rate or the performance of financial markets.

### **Performance of financial markets – investment returns**

Investment earnings are based on the assumption of long-term average market returns for an acceptable level of risk. These investments principally cover the superannuation investment funds. The Government's financial investments are held in a portfolio comprising property, domestic and offshore equities and fixed interest.

The assumed long-term rate of return used in Budget estimates is 7.5%. Actual returns will depend on the performance of sectors which comprise the portfolio.

Given Queensland's large holding of financial assets, actual revenues are highly sensitive to small variations from the assumed long run rate of return.

In 2007-08, a one percentage point variation in investment earnings on assets held to meet future employee entitlements would lead to a change in net investment revenue of approximately \$190 million.

### **Exchange rate and commodity prices and volumes – royalties estimates**

Estimates of mining royalties are sensitive to movements in the Australian dollar-US dollar exchange rate and commodity prices and volumes.

Contracts for the supply of commodities are generally written in US dollars. Accordingly, a change in the exchange rate impacts on the Australian dollar price of commodities and therefore expected royalties collections.

A one cent variation in the Australian dollar-US dollar exchange rate would lead to a change in royalty revenue of approximately \$16 million in 2007-08.

Also impacting on royalty estimates are volume effects. A large component of Queensland's royalty collections is derived from coal. A 1% variation in export coking and thermal coal volumes would lead to a change in royalty revenue of approximately \$10 million.

The 2007-08 Budget assumptions for export coal prices are derived by taking into account various price forecasts made by coal companies. A 1% variation in the price of export coal would lead to a change in royalty revenue of approximately \$10 million.

### **Property values and volumes – transfer duty estimates**

Over recent years, high levels of activity in the property market have resulted in strong growth in revenue collections through transfer duty receipts. The increase in duty receipts flowing from the property market activity has a number of elements. The key elements are the value of properties changing hands and the volume of properties changing hands.

For 2007-08, a slight moderation of the recent strong growth in the property market is forecast. The underlying assumption is for growth in both property prices and volumes, although at a slower rate than in 2006-07.

A 1% variation in the average value of property transactions would change transfer duty collections by approximately \$39 million in 2007-08.

A 1% variation in the volume of transactions would change transfer duty revenues by approximately \$28 million in 2007-08.

## **Wages and employment growth – payroll tax collections**

Wages and employment growth have a direct impact on payroll tax collections. The Budget assumptions are for an increase in the Wage Price Index of 4¼% and employment growth of 3% in 2007-08.

A one percentage point variation in wages growth would change payroll tax collections by approximately \$23 million. Similarly, a one percentage point variation in employment growth would change payroll tax collections by \$23 million.

## **Parameters influencing Australian Government GST payments to Queensland**

Estimates of Australian Government GST revenue grants to states and territories are dependent on total GST revenue collected, which tends to be closely correlated with the general level of economic activity. The Australian Government has provided estimates of total GST collections in its Budget Papers. In 2007-08, Queensland's Budget will bear the risks of fluctuations in GST revenues and the other components of the package, such as the First Home Owner Grant Scheme, administrative costs associated with the GST and taxes foregone.

The Australian Government's estimate of GST revenue in 2007-08 is based on its forecast of national non-farm GDP growth of 3½%, household consumption growth of 3½%, and a 2½% rate of inflation. However, as the GST is imposed on some goods and services but not others, there is no precise link between these parameters and the GST base. As with all other tax estimates, there is a risk of lower collections than estimated by the Australian Government if economic growth and consumption is weaker than expected.

Relative to other states, Queensland has been assessed as having an increasing capacity to raise revenue from stamp duty on conveyances and mining revenue in recent years. As a result, Queensland's share of GST funding (relativity) has declined. As Queensland continues to raise relatively more revenue because of strong resource and property sectors, it is expected that Queensland's relativity and therefore share of GST funding will decline further and will soon be lower than its population share.

Due to the complexities associated with the GST base, the information provided in the Australian Government Budget Papers is not sufficient to prepare indicative forecasts of the sensitivity of GST estimates to key variables.

## Australian Government grants (Specific Purpose Payments)

Specific Purpose Payments (SPPs) are payments made by the Australian Government to promote its policy objectives. The majority of SPPs are remitted directly to state governments, with a proportion of these passed through to other bodies, while some SPPs are remitted directly to local government authorities.

Indexation arrangements and distributions between the states vary for each SPP. The Australian Government reviews the payments each year and has guaranteed that it will not reduce the overall, aggregate level of SPPs to states.

## CONTINGENT LIABILITIES

Contingent liabilities represent items that are not included in the Budget as significant uncertainty exists as to whether the Government would sacrifice future economic benefits in respect of these items. Nevertheless, such contingencies need to be recognised and managed wherever possible in terms of their potential impact on the Government's financial position in the future.

The State's quantifiable and non-quantifiable contingent liabilities are detailed in the *2005-06 Report on State Finances – Consolidated Financial Statements* (Note 46).

A summary of the State's quantifiable contingent liabilities as at 30 June 2006 is provided below.

<b>Table C.1</b>	
<b>Contingent liabilities</b>	
	2006 \$ million
<b>Nature of contingent liability</b>	
Guarantees and indemnities	6,083
QTC – stock loans	666
Other	54
<b>Total</b>	<b>6,803</b>

*This page has been left blank intentionally.*





State Budget 2007–08

**Budget Strategy and Outlook**

Budget Paper No.2

[www.budget.qld.gov.au](http://www.budget.qld.gov.au)

