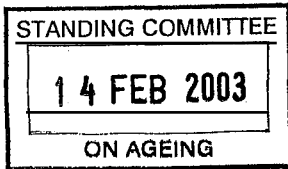




**Queensland
Government**



Please quote: P8482/CL04/Policy Systems

Department of the
Premier and Cabinet

10 FEB 2003

Mr Adam Cunningham
Inquiry Secretary
House of Representatives Standing Committee on Ageing
Parliament House
CANBERRA ACT 2600

Dear Mr Cunningham

Please find attached a copy of the Queensland Government submission to the Inquiry into Long-Term Strategies to Address the Ageing of the Australian Population over the next 40 Years. An electronic copy has been forwarded to you.

Yours sincerely

A handwritten signature in black ink, appearing to read "Michael Hogan".

Michael Hogan
Acting Director-General



Queensland Government

Inquiry into long term strategies to address the ageing of the Australian population over the next 40 years.

Introduction

The Queensland Government believes that the impacts of an ageing population will be profound and enduring and that collaboration across all levels of government is essential to success in addressing the broad range of issues relating to population ageing. Retirement incomes, taxation, workforce policies and support programs all impact on the type of services people will use, and the ability of individuals and governments to pay for those services. Many of these are clearly within the Commonwealth's responsibility, yet much of the direct service provision is a State or Territory responsibility.

This submission addresses demographic projections for Queensland; the economic and fiscal impacts of an ageing population and an analysis of the Commonwealth's Intergenerational Report. The submission also provides an overview of a number of key research and planning projects pertaining to the ageing of the population that are currently in train across the Queensland Government and due for completion in 2003. These initiatives will form the wider strategic view of how the Government will address both the opportunities and the challenges of an ageing population.

The Queensland Government would like to maximise the opportunities offered by a longer life. Australian society cannot do without the experience and commitment of older people. The ageing of the population provides the opportunity to celebrate and benefit from the enormous gains in longevity that have occurred over the past century. A challenge will be to change public perceptions of ageing to reflect the vitality and diversity of older people and to heighten understanding of the significant contributions that older people make to our communities. (Suggest also picking up here the theme discussed on page four and page seven that strategies may also be needed to assist the working age population, which will experience an historic increase in the proportion of aged dependents)

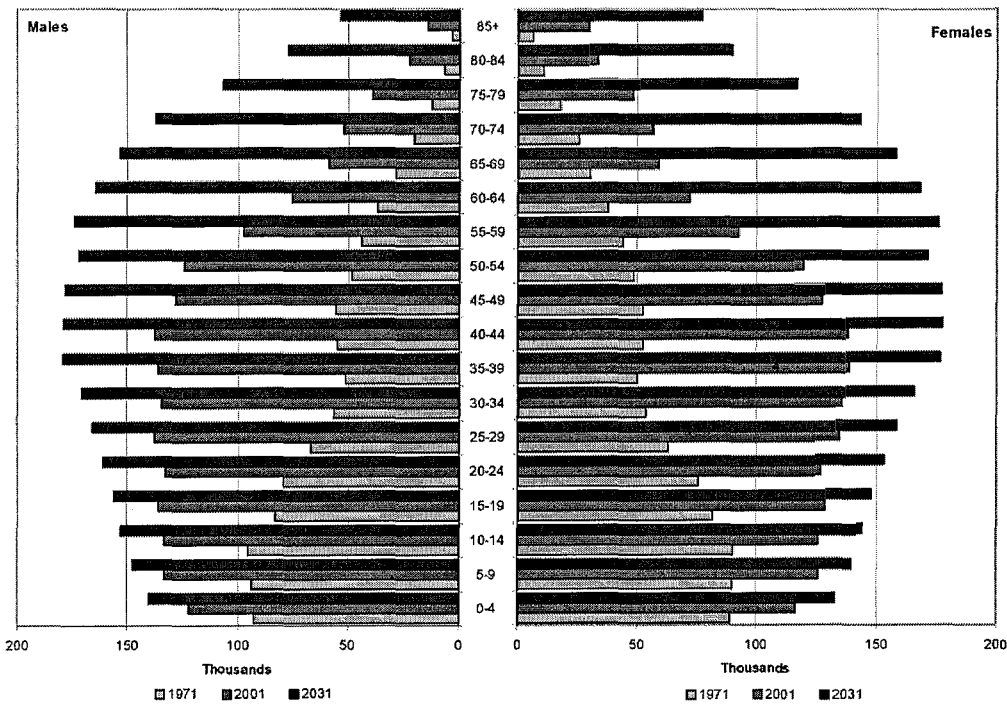
The Queensland Government's objective is to deliver policies and programs for all Queenslanders that maximise the advantages of an ageing population while meeting the challenges.

Demographics

The age structure of the Queensland population is broadly similar to that of Australia's, but with a slightly lower proportion of people aged over 65 years because of high levels of inter-state migration and slightly higher fertility levels.

Chart A shows how the shape of the population distribution has changed in Queensland over the last 30 years and the projected changes over the next 30 years.

Chart A: Population by Age and Sex: Past, Present and Future, Queensland, 1971, 2001 and 2031

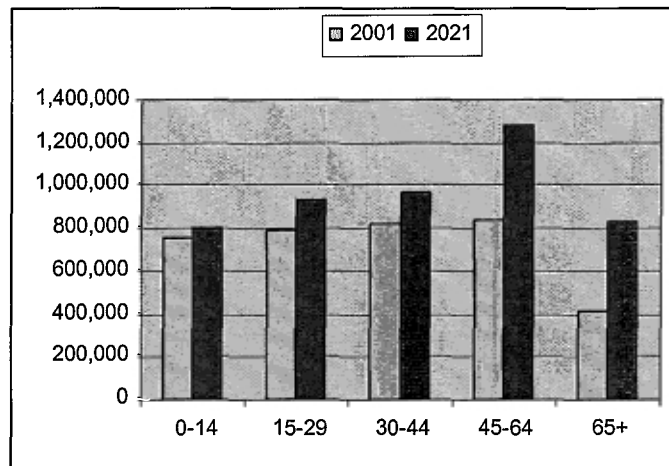


Source: Australian Bureau of Statistics; Australian Demographic Statistics (3101.0); Population Projections, Australia (3222.0)

Note: Data for 1970-71 to 2000-01 are based on estimated resident population. Data for 2010-11 to 2050-51 are based on ABS medium series population previous projection 1997-2051 with assumptions based on low fertility, medium overseas migration and medium internal migration.

According to ABS medium projections, the proportion of Queensland's population aged 65 years and over will increase from 11.5% in 2001 to about 17% in 2021. At the same time, the absolute number of older people is projected to almost double from 407,000 to some 825,000 people (see Figure 1).

Figure 1: Population by age group, Queensland, 2001 and 2021



Comparative youthfulness of Indigenous community

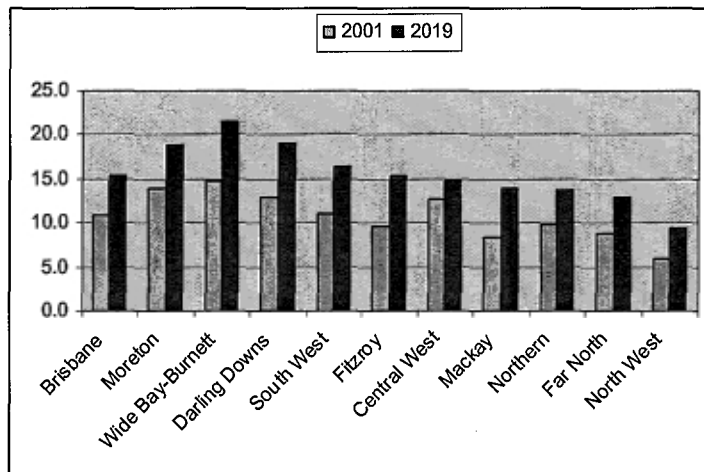
Queensland's Indigenous community, which currently forms about 3.5% of the total population, also has a different population structure to the general population, being described as comparatively youthful. Approximately 50% of Indigenous Queenslanders are under the age of 20, and less than 3% are 65 years and over, compared with 29% and 11.5% respectively for the general population.

As mentioned earlier, fertility is higher than among the non-Indigenous population, and Indigenous life expectancy is currently about 20 years lower than the general population. While Indigenous life expectancy is also increasing, there is no evidence of any significant narrowing of the gap between Indigenous and non-Indigenous life expectancies. These considerations suggest that ageing of the structure of the Indigenous population will also occur, but at a slower rate than among the non-Indigenous population.

Regional Differences in Ageing of the Population Structure

While all regions of Queensland are projected to experience ageing of the population structure, this will have a greater impact in some areas than in others (see Chart B). The age selective nature of net migration flows, resulting in net losses of teenagers and young adults from regional areas beyond the South-East corner, contributes to ageing of the population. On the other hand, retirement migration is a consideration in particular coastal areas. The Queensland Government projects that about 21% of the population of the Wide Bay-Burnett Statistical Division will be over 65 years by 2021, compared to about 17% at the State level. A number of other regions have a lower proportion of their population aged over 65 than the State average, and this is expected to continue to be the case.

Chart B: Proportion of population aged 65 years and over by statistical division, Queensland, 2001 and 2019



Source: Space-Time Research

Economic and Fiscal Impacts of an Ageing population

Overview

Much of the current policy debate regarding Australia's long-term future centres on the impacts of demographic change. The Australian population is ageing as a result of both declining fertility in recent decades and significant increases in life expectancy in the last century. This, coupled with increasing real health costs, has raised concerns about future living standards, as the proportion of dependent elderly people increases.

The Queensland Government is concerned about the future living standards of all Queenslanders, and has initiated a significant whole-of-government research effort to analyse all potential intergenerational issues.

The important issue of population ageing must be considered within the overall context of *innovation* and *sustainability*. In the long run, an essential determinant of living standards is productivity growth and the development of new products and services, which arise through innovation and good economic management. This has long been recognised by the Queensland Government, and is reflected in our extensive *Smart State* agenda.

Another important determinant of future living standards is the sustainability of natural resource use – in other words, ensuring that our current levels of resource use do not degrade the environment and prevent future generations meeting their needs. The achievement of sustainable development in Queensland is being supported by a substantial research and policy agenda surrounding integrated natural resource planning, management and use, environmental protection and sustainable industries. This agenda seeks to manage Queensland's land, water, and vegetation resources in a way that improves the social, economic, and environmental condition of Queensland's communities, regions, and the State as a whole.

The Queensland Government is also concerned about the *fiscal* sustainability of current policies, particularly with respect to our social programs. It is in this area that the potential impacts of population ageing as an intergenerational issue are greatest, because social expenditure is closely linked with

demographic characteristics, such as age. In response to these concerns, the Queensland Government has recently initiated a whole-of-government intergenerational research program addressing the long-term sustainability of the State's finances.

In the following sections, our concerns and questions with respect to the fiscal impacts of population ageing are described, with particular reference to similar research published by the Commonwealth in its *Intergenerational Report*.

Comments on the Intergenerational Report (IGR)

The results cited in the IGR are derived from models of future demographics, people-related federal outlays, and labour-force trends, including labour productivity, labour force participation rates and unemployment.

The central IGR scenario projects a Commonwealth budget deficit equivalent to five per cent of GDP by 2041-42, in the absence of any policy change. This projection is driven by the estimated effects of population ageing and non-demographic cost drivers on Commonwealth outlays and revenue. The implication is that this deficit will need to be addressed through higher tax rates, reduced expenditure, or reduced grants to the States and Territories.

Overall, the IGR is a timely contribution to the debate on population ageing and health care. It shows that these drivers could exert strong fiscal pressure on the Commonwealth Government which would have significant ramifications for all levels of government and for the private sector. However, the IGR also illustrates a number of important lessons regarding this type of analysis:

- because of the long timeframe and fundamental uncertainty, the analysis is very assumption-driven. Small differences in assumed annual changes cumulate to large differences at the end of the 40-year timeframe. For example, some two thirds of the projected increase in real Commonwealth health and aged care expenditure is due to assumed *non-demographic* cost inflation, rather than the headline issue of population ageing.
- because the results are very assumption-driven, they can be manipulated to suit the interests of the sponsor. For example, in providing a very pessimistic projection of the growth of pharmaceuticals costs, the IGR is now widely believed to have been used to provide a political lever for shifting some of these costs to the private sector.

For these reasons, the Queensland Government believes that the analytical robustness of the IGR is open to challenge. This applies particularly to the Commonwealth's very superficial examination of State and Territory budget impacts. The Commonwealth provided the view that the long-term fiscal impacts on the States and Territories will be minimal. The Queensland Government believes that this view is a misleading one that doesn't take into account the totality of State social expenditure, or the implications of population ageing for State revenue.

Long Term Pressures on the Queensland Budget

The Commonwealth's superficial assessment of the long-term fiscal impacts of population ageing and other factors on the states and territories only considers two areas of social expenditure – education and health. The potential impacts on the remainder of State expenditure are ignored, along with the potential impacts on State revenue. The Queensland Government's intergenerational research program on potential budget impacts will take into account *all* areas of the Queensland Budget.

Expenditure

The Queensland Government is currently analysing the long-term prospects for all areas of State expenditure, given current policies.

The categories and issues of highest priority are:

- *Education outlays.* In the IGR, the Commonwealth offered the opinion that State education expenditure will decline as a proportion of Gross Domestic Product (GDP), due to the relatively smaller proportion of children in the population. Overall, the potential impacts on education expenditure are a product of changes to the size of the client base and changes in per-client expenditure. In relation to the client base, the Queensland Government expects that declines in the proportion of school-age children in the population will be partly offset by increases in Year 12 retention rates, the addition of a preparatory year prior to Year 1, and increases in the size of the adult client base, associated with the skilling and re-skilling of an older workforce. In relation to per-client expenditure, schools now need up-to-date information and communication technologies in order to prepare students for participation in the knowledge economy. Additionally, the recent economics literature on 'endogenous growth' points to the centrality of human capital in generating innovation and productivity growth, an issue that will become of increasing importance as the size of the labour force declines relative to the overall population. An objective of the Queensland Government's research in this area is to determine the net impact of these and other factors on future education expenditure.
- *Health and Community Services outlays.* The Queensland Government expects the implications of ageing and cost inflation to have a similar impact at the State level as those outlined in the IGR for Commonwealth health expenditure, given that the shares of health expenditure in the Queensland and Commonwealth budgets are very similar. The Queensland Government also provides ambulance, rail, rates, electricity and electricity life support concessions to eligible persons. The ageing of the Queensland population, and the impact that this will have in relation to concessions, is an additional fiscal issue for the State. Commonwealth Government initiatives that extend pension eligibility either through policy changes or by raising the allowable income or asset means tests, as well as the growing proportion of people reliant on the social safety net, will continue to result in increasing numbers of persons becoming eligible to access State Government concessions.
- *Public Order and Safety outlays.* The Queensland Government is currently researching the linkages between demographics and crime. The effects of population ageing on crime, and therefore on public order and safety outlays, are the product of the demographics of both offenders and victims. Analysis and modelling is being undertaken to determine the potential net impact on the Queensland Budget.
- *The impacts of differential ageing across Queensland's regions on infrastructure requirements and service delivery costs.* Rural and remote communities appear to be 'ageing faster' than eastern Queensland. For example, there is a trend for young people to seek employment closer to or in the large centres of the State. This would impact on rural economies and the services required in these areas, as well as along coastal Queensland. Local governments will be key players in strategies to deal with population ageing and are already requesting increased subsidy programs for disability and aged care facilities and for improved access to infrastructure for older people.

Revenue

The Queensland Government is also concerned about the impacts of population ageing on its revenue base.

The categories and issues of highest priority are:

- *The size of the GST revenue pool.* The Commonwealth has frequently claimed that a key benefit of the GST is that it will allow the funding of increased ageing-related government expenditure, because of its broader base. However, there is some reason to doubt that GST revenue will grow

in line with the broader economy, in the face of population ageing. This issue was recently analysed by Access Economics, at the request of the Victorian Government. The Access study projected that GST revenue will decline as a percentage of GDP, as population ageing shifts the structure of household expenditure towards items which are GST-free, such as health and basic food. This has significant implications for the Queensland Budget, since GST Revenue Grants comprise around 28 per cent of State revenue. The Queensland Government is currently conducting its own modelling of this issue.

- *Queensland's share of GST revenue.* As mentioned previously, there are significant migration flows within Queensland. The Queensland Government is currently researching the implications of the changing spatial distribution of the Queensland population on the portion of GST revenue that Queensland receives.
- *Payroll Tax revenue.* The changes to the structure of household expenditure will also generate changes in the industry structure of the Queensland and Australian economies. This is likely to affect Payroll Tax revenue because of the link between industry classification and firm size.
- *Other own-source revenue.* It is likely that other components of own-source revenue are partly related to age, and would therefore vary as the population ages. Possible examples are stamp duties on mortgages, gambling taxes, and motor vehicle registration fees and other levy-based revenues.

The Need for Innovative and Responsive Policies

The current needs and choices of older people may not be that of future generations. Life experiences of those who reach their seventies and eighties in the next 25 to 40 years time will differ significantly from previous generations. Tomorrow's seniors will have higher education levels, more varied work experiences and improved economic circumstances. Higher proportions of women will have been in paid employment through to retirement and families will have fewer children. The social and economic circumstances of tomorrow's seniors will affect their future lifestyles and care choices.

The ageing of the population will present significant challenges to government in responding to a range of related issues. These include healthy ageing, capacity to access goods and services, employment and recreational opportunities, and mobility or access to transport within the community, as these are primary determinants of personal well-being and quality of life.

Changing demographics and the ageing of the population will require innovative policy and service delivery models responsive to the needs and aspirations of the whole population in the context of a rapidly changing market and technological environment. The Queensland Government is taking a leadership role in doing this with the Government's Chief Executive Officers Committees examining demographic change issues, including ageing, to ensure effective, holistic policy and program responses. Research will include the impact of ageing on social services; demographic changes impacting on employment, economic development and infrastructure; workforce demographics; and emerging geographical patterns of land development in Queensland.

Queensland Government agencies are working collaboratively to examine the implications of the State's population ageing and changing demographics. Initiatives include:

- a long-range planning agenda to address policy issues of the ageing of the population;
- a whole-of-government intergenerational research program addressing the long-term sustainability of the State's finances;
- population projections and associated research on population ageing, including research into the large numbers of older women living alone;

- education and training reforms to provide an education system that is able to respond to population ageing;
- a twenty-year strategic framework for the State's health system;
- research into the future housing needs and research into housing provision for low-income older people;
- an action plan to address workforce participation strategies;
- a lifelong learning framework to address the learning needs of adults at key transition points in their life;
- an action plan for transport access and personal mobility in an ageing society;
- an analysis of future cost implications for the provision of emergency services; and
- an analysis of the range of concessions made available to older people in Queensland.

Further, more detailed information may become available in Queensland as a result of the research currently underway and may be available for submission later in the House of representatives Inquiry process.