Supplementary info:
Dr Flegg
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WEDNESDAY, 16 JULY 2008

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ESTIMATES COMMITTEE B—TREASURY

Committee Members

Ms VE Darling (Chair)
Dr B Flegg
Mr VG Johnson
Mr J-P H Langbroek
Mrs CA Smith
Hon DM Wells
Mr WE Wendt

In Attendance

Hon. AP Fraser, Treasurer
Queensland Treasury Department
Mr G Bradley, Under Treasurer
Mr T Spencer, Deputy Under Treasurer
Mr D Ford, Deputy Under Treasurer

Committee met at 8.30 am

CHAIR: Good morning. I declare this hearing of Estimates Committee B now open. On behalf of the committee I welcome the Treasurer, departmental officers and members of the public to the hearing. I would like to introduce the members of the committee. My name is Vicky Darling. I am the member for Sandgate and the chair of the committee. Dr Bruce Flegg, the member for Moggill, is the deputy chair. The other committee members are Mr Vaughan Johnson MP, member for Gregory; Mr John-Paul Langbroek MP, member for Surfers Paradise; Mrs Christine Smith MP, member for Burleigh; Hon. Dean Wells MP, member for Murrumba, who is stuck in traffic and whom we are expecting at any moment; and Mr Wayne Wendt MP, member for Ipswich West. Mrs Smith is unable to participate for the full duration of today's hearing. Mr Simon Finn MP, member for Yeerongpilly, will take her place on the committee for examination of the portfolios of the Minister for Police, Corrective Services and Sport.

The committee will examine the proposed expenditure contained in the Appropriation Bill 2008 for the areas set out in the order of appointment dated 1 May 2008. This morning the committee will examine the proposed expenditures for organisational units within the portfolio of the Treasurer. At noon, the committee will commence its examination of the proposed expenditures for organisational units within the portfolio of the Minister for Health followed by the portfolios of the Minister for Police, Corrective Services and Sport.

The committee will suspend proceedings for the following breaks: morning tea, from 10 am to 10.15 am; another short break from 11.45 till 12; lunch, from 1.30 pm until 2.15 pm; afternoon tea, from 3.45 till four; and another short break from 5.30 till 5.45 pm. I remind all those participating in the hearing today that these proceedings are similar to parliament to the extent that the public cannot participate in the proceedings. In this regard I remind members of the public that under the standing orders the public may be admitted to or excluded from the hearing at the discretion of the committee.

The committee has resolved that television coverage, photographs and sound broadcast will be allowed for the opening statements by the chair and by each minister, and at changeovers of organisational units. Please ensure that any mobile phones or pagers are either switched off or switched to silent mode. I remind members of the committee and the minister that under standing orders the time limit for questions is one minute and answers are to be no longer than three minutes. A single chime will give a 15-second warning and a double chime will sound at the end of each of these time limits. An extension of time may be given with the consent of the questioner. A double chime will sound two minutes after an extension of time has been given.

The standing orders require that at least half the time available for questions and answers be allocated to non-government members. Any time expended when the committee deliberates in private is to be equally apportioned between government and non-government members. The committee has given leave for non-committee members to ask questions today. Mr Mike Horan MP, member for Toowoomba South, will be participating in the hearing on this basis. I ask departmental officers to identify themselves when they first come forward to answer a question if the minister refers a question to them so that Hansard can record their name.

I now declare the proposed expenditure for organisational units within the portfolio of the Treasurer open for examination. The time allocated is three hours. The question before the committee is—

That the proposed expenditure be agreed to.

Treasurer, if you wish to make an opening statement, I remind you that there is a time limit of five minutes for such a statement.

Mr FRASER: Thank you, Chair, and committee members. I look forward to the deliberations of the question before the committee on a budget that was framed over the last 12 months in circumstances that one would best describe as materially different from those that have prevailed in the years beforehand and certainly to an extent since the budget was handed down on 3 June in circumstances that continue to be in flux. It is a budget that charts a course for the long-term future of the state of Queensland, recognising the point in time that we are at and recognising, as it does, the challenges of the last 12 months and the challenges that exist before the state of Queensland on the forward agenda.

It is a budget that, recognising these challenges, is framed with an $809 million surplus. That is the second biggest surplus in the last decade, recognising that at this point in time, with the questions that remain about the global economic environment, it is appropriate for a budget to have the capacity to absorb the effects of what might wash up on our shores in the state of Queensland, recognising our enmeshment in the global economy.

It is a budget which focuses very much on front-line service delivery, with a massive injection into the health system of $1.2 billion. That means that this year we will see an army of an extra 2,000 front-line health workers heading to the coalface of health service delivery. It is a budget which recognises that the biggest challenge that faces all governments of all persuasions is ensuring you provide health care in the most efficient and productive manner possible with the resources available to government.

It is a budget that focuses on front-line service delivery in areas such as education and police, with 270 extra teachers and teacher aides, and 200 extra police funded by the budget, and with 250 extra paramedics, 100 of whom are funded by the results of the audit we undertook into the Queensland Ambulance Service. A hallmark of our approach to fiscal management over the last 12 months and on the go-forward for our government is to make sure that we seek to extract the maximum benefit out of the public resources provided to the government to provide the front-line services that Queenslanders expect and demand.

It is a budget that does those things and focuses on front-line service delivery while also recognising that, ultimately, Queensland has had the benefit of strong financial management in the past and a set of taxation arrangements in the past that has allowed business to flourish in this state. As we clock in our 12th year of the Queensland economy outpacing the national economy and look forward to and forecast the 13th year in which the Queensland economy will do that, we ascribe in no small part that result to the taxation settings that we have put in place over a period of time. This budget maintains our competitive tax regime by providing further relief in measures such as payroll tax, further relief in terms of land tax but, most particularly, for the benefit of a burgeoning population and an economy that is seeking to attract skilled labour to support the expansion of our economy, stamp duty reform for people entering into the housing market. That is at the forefront and is a hallmark of this budget, not just the economic dimensions of that challenge but most particularly the social dimensions that require us as a government to ensure that we can provide every assistance to people seeking to enter into the housing market for the first time.

We recognise the difference between those people who have been able to get into the property market in the past by targeting our assistance squarely at those people who have not yet been able to hop in and take the benefit of a rising property market. So we provide a budget that focuses on front-line service delivery. We provide a budget that has a surplus of $809 million. And we provide a budget that maintains our competitive tax regime and provides further relief aimed squarely at ensuring a success story over the last 12 months—indeed, over the last 12 years. More importantly, for the 13th year in a row we predict a gathering of pace in the Queensland economy that will once again see us outpacing the national economy and delivering what we believe to be a robust result to the benefit of all Queenslanders.

We do that in what can only be described as more challenging circumstances than have prevailed over the last 12 months, certainly in a global sense. But fundamentally we believe that the underpinnings of the Queensland economy—the rock on which it is built—remain absolutely sound. While there are very vexed questions about the future forecast for the economy in a global sense, we believe that Queensland is best placed with the ability to absorb those shocks, to absorb what might wash onshore in a way that means we can continue to chart a path of prosperity for the future. I look forward to the committee's interrogation of the budget.

CHAIR: Thank you, Treasurer. The first period of questioning is allocated to non-government members. I call the member for Moggill.

Dr FLEGG: Treasurer, my question relates to the forward estimates that you have framed for the health expenditure. In the recent federal budget the Medicare surcharge change has been estimated to result in between 450,000 and 900,000 Australians dropping out of private health insurance. This is potentially 100,000 to 200,000 Queenslanders. Can you tell us what, in your view, is the number of people who will drop out of private health insurance in Queensland, what the budget implications for health in Queensland are of that, and what study you have done as to what additional funds need to be injected into the health budget to cope with this?

Mr FRASER: This is a matter that has been the subject of some public debate in the last month or so since the federal government handed down its budget. Obviously to the extent that these are matters relevant to the broader renegotiation of the Australian Health Care Agreement, which is due for renegotiation by 1 January 2009, these are matters which will be taken account of in those negotiations. Those negotiations, because of a COAG decision, will in fact be led by treasurers, and the work on both the Australian Health Care Agreement, or AHCA, and the other SPPs will be undertaken in earnest over the next six months before we get to the first introduction of the AHCA from 1 January.

It is fair to say at this point in time that there is a lot of debate and we have not yet got a concluded view about what the effects will be of that. I have seen other comments from other health providers about what they might believe to be the effects. We do not have a concluded view as a government at this point in time about what the numbers might be but seek only to incorporate that analysis and the outcomes that might flow from the lifting in the Medicare threshold into the renegotiation of the AHCA.

Dr FLEGG: I refer to the decision of the Commonwealth Grants Commission to reduce Queensland's share of GST revenue. Isn't the decision by the Grants Commission the direct result of the state government's increased revenue as a result of state taxes? Could the increase in coal royalties and other future tax increases just cause Queensland's share of the GST revenue to shrink further? If this is the case, what is the logic of that?

Mr FRASER: The logic is the logic that underpins the financing of the Federation in the first place, and that is that the Commonwealth Grants Commission has always operated on a principle of horizontal fiscal equalisation which recognises the different revenue capacities of the constituent states that comprise the Federation. As a state we have always been a long-term supporter of the notion that equity across the Federation requires different contributions from different constituent states that make up the Federation. Just because at this point in time Queensland for the first time has become a net donor into the pool I do not think warrants us adopting a wildly different policy position from that which the state of Queensland has held over the history of the Federation. That is to say, obviously the components of determination by the Grants Commission go to many factors. One is cost of service delivery; one is population expansion; one is revenue capacity.

It is in fact the case, rather than as you point out, that Queensland takes a penalty from the fact that, overall, the Grants Commission judges many of our taxation settings to be below capacity—that is, the figure for land tax is 45 per cent below capacity; for transfer duty, about 22 per cent or 25 per cent, from memory; and for payroll tax, 11 per cent. So we find ourselves in a position where the Grants Commission suggests and makes its assessment of our revenue requirements based on what we theoretically could raise from any of those revenues. So the argument, in fact, is on its head despite your question, and that is the logic of your question would require us to lift all our taxation regimes to national rates to be able to take the benefit of the Commonwealth Grants Commission methodology in determining what is provided to the state, and I am sure that is not a policy proposition that you would seek to advance.

002 **Dr FLEGG:** I again refer to the decision of the Commonwealth Grants Commission to reduce Queensland's share of the GST. Would not reducing some of the inefficient state taxes like the duty on life insurance lead to a corresponding increase in GST revenue?

Mr FRASER: I am not sure on what basis you would make that assumption but it is certainly not the case.

Dr FLEGG: I refer to the budget for future infrastructure projects and ask you whether or not the government is doing any studies or modelling in relation to congestion, tolling or cordon taxing?

Mr FRASER: In relation to—

Dr FLEGG: To congestion tolling or cordon taxing?

Mr FRASER: Similar to the model that is in place in London, for example?

Dr FLEGG: Yes.

Mr FRASER: No, we are not. I speak for the Treasury department in saying no, we are not doing that modelling at the moment. I am not prepared to provide a warrant of a thought bubble that might exist in some particular person in an agency anywhere in the government, but obviously our approach to congestion management has been set out both in the budget and more generally with other initiatives. It is not an approach that seeks only to provide the solution through future infrastructure provision but also through other measures such as enhanced public transport options and public transport services. The government is not presently entertaining a model of introducing a congestion tax.

Dr FLEGG: I refer to your government's decision to increase stamp duty for investment properties worth more than $750,000. Will this stamp duty hit on investors not just reduce the supply of rental accommodation further by discouraging investment in rental property? Has Treasury examined the possible effects of this tax hike on the availability of housing?

Mr FRASER: As you can see in the budget forecast, we are predicting a modest recovery in investment in dwellings over the forward year. We in fact believe that quite the opposite will be the case—that is, our taxation measures introduced in the budget aimed squarely as they are at assisting people to get out of the rental property market and into property ownership will have a positive effect on the broader issue of housing affordability and the ability for Queenslanders to be able to access safe, secure and affordable accommodation.

We believe ultimately that the answer to assisting the housing affordability issue is ensuring that we have the supply of new properties coming onto the market. Certainly the feedback that we have received as a government and that I have received in person from those people who are at the forefront of providing extra housing supply into the market is that they believe that the measures introduced by the government in the budget aimed squarely as they are at ensuring by 1 September that people entering into their first home purchase for any purchase under $500,000 pay not a cent in stamp duty or a cent in mortgage duty will have a stimulatory effect on future housing supply and assist people to enter into the property market in the first place.

I would note in the context of my previous answer to you on the Commonwealth Grants Commission that one of the determinations of housing affordability in the broader macro sense is the settings in relation to land tax. Given that the Grants Commission has judged our land tax regime to be 45 per cent of the national rate, I would put the case that our taxation regime—taken as it is with transfer duty and land tax—is very competitive for encouraging investment that other states might be competing for.

Secondly, it is also the case if you look at the reforms that we have made to land tax over the last four or five budgets that that has introduced a significant level of reform to reduce the imposition of land tax to ensure that housing affordability and the supply of housing onto the market can be encouraged. Obviously, we have also got other supply side solutions including the allocation of $500 million from the Future Growth Fund into the provision of social housing. I know that that is a matter that was addressed in some detail by the minister for housing last night.

Dr FLEGG: You mentioned there your forward forecasts for dwelling investment. I notice that your predecessor in the previous budget forecast dwelling investment to increase by 4¼ per cent. The actual outcome was a decline of 5½ per cent. There is a huge variance across dwelling investment. How confident are you of the forecast you just alluded to? How much confidence should Queenslanders have in that forecast?

Mr FRASER: I have absolute full faith and confidence in the professionalism of the Office of Economic and Statistical Research within the Queensland Treasury. I think it has served the people of Queensland and the taxpayers of Queensland well over generations. To the extent that in the private or public sector anyone can have a level of confidence about economic forecasting then I maintain full confidence in the forecast that we have.

As you know, and as everyone appreciates, the reality of the last 12 months is very different to what anyone was predicting. Framing a budget last year no-one had heard of the US subprime mortgage crisis, for instance. No-one was predicting that the Reserve Bank would be required to move as it did with a series of interest rate rises which is always going to have an effect on dwelling investment. While we are in a period of above the mark interest rate settings by the Reserve Bank then that is always going to have an effect on our housing market. That is precisely why the policy settings we have put in place to encourage people into the housing market for the first time and to encourage future investment are not just appropriate at the individual level but appropriate at the broader economic level.

Dr FLEGG: I refer to some comments made by one of your predecessors, former Treasurer Keith De Lacy, in relation to this budget's measure to increase coal royalties where he asserts that it will have a significant effect on discouraging investment in Queensland. Is Mr De Lacy right?

Mr FRASER: The reality for the coal industry at the moment is one which is very rosy. In fact, far from there being a predilection—

Dr FLEGG: I think his comment is about investment in general and not just about the coal industry.

Mr FRASER: I am happy to answer the question. The outlook for the Queensland coal industry at the moment is far from an environment in which the prevailing view is one of disinvestment but in fact of hyperinvestment. I think the Premier outlined some occurrences and some views by a number of companies yesterday about their future forward program of what they believe is appropriate for investment in the development of Queensland's coal resources.

If you look back through history and look back through the original settings to the royalty regime in Queensland and some of the reporting at the time you find that there was a very big debate in the 1970s, which is when the royalty regime was put in place, that it required a setting which was a discount to encourage that investment in the first place. On any measure, to the extent that those settings assisted in the development of a coal industry in this state, one could regard that as a success. Given, however, the trebling of coal prices, given the forward outlook for what companies are predicting about where those prices will be in a sustained way—not perhaps at exactly those prices but certainly at a structural uplift—then my impression and my feedback and my assessment of where the coal industry is placed in Queensland at the moment is that they are seeking to invest further in the industry.

It is relevant to point out that the royalty regime that has been put in place to do away with the discount and take it to the full 10 per cent is in fact a marginal rate. To the extent that the coal price remains above $100 a tonne, the 10 per cent rate only applies above $100. Should the coal price fall then the previous discount of seven per cent applies to prices under $100. It is not an arrangement which would not be responsive to changing prevailing circumstances.

I think at this point in time the requirement upon government being a major port owner and the owner of QR is about infrastructure investment and the softer infrastructure in the communities which support the mining boom in this state. I think that the rate of return of 10 per cent put in place in this budget represents a fair return to the taxpayers of Queensland who after all are the owners of the resource which is being mined.

Dr FLEGG: I think the comment is that when you have an unpredictable royalty regime it is not just the coal industry that is affected but it sends a message to everyone who potentially invests in Queensland that they cannot have confidence in the taxation regime they are going to operate under.

CHAIR: Member for Moggill, are you asking a question?

Dr FLEGG: Yes, I am asking the Treasurer to comment on the broader investment implications outside the coal industry when businesses that are investing do not have certainty about the tax regime under which they are going to operate in the future.

Mr FRASER: I appreciate the point that you are making. The reality of governments making decisions about taxation regimes in a budget context is that governments will always, as they have regardless of which side of politics is presently occupying the Treasury benches, have to make decisions about the revenue settings and the expenditures that attach to that in each and every budget.

In a perfect world you might be in a position where you would seek to consult broadly and fully on those matters. Income tax settings are not the subject of full consultation in the lead-up to a federal budget. While it might be the case that you would prefer a situation where all taxation measures were consulted fully, the reality of framing budgets is different. We acknowledge that. We acknowledge an undertaking to the Resources Council in the past about consulting on these matters.

I would have to say that ultimately I am not sure that all the consultation in the world would have resulted in an agreement about the settings that were put in place, just as all the consultation in the world with the people of Australia would not necessarily result in an agreement about the income tax regime. I do not think on the whole that the measures undertaken by the government in this budget—whether they are the cuts to first home owner duty or indeed the changes to the royalty regimes—can be regarded as representing in any way sovereign risk. I think that they are the normal adjustments that are made by governments in putting in place revenue regimes to seek to respond to prevailing economic circumstances.

Dr FLEGG: I note that the government expects to receive $578 million in poker machine tax in 2008-09. Can you explain why the government resisted opposition calls and took so long to cap the rollout of new poker machine licences after the government's stubborn refusal to do so 12 months ago?

Mr FRASER: I think the debate about gaming machine taxation revenue and the debate about gambling more generally is one which would benefit from a more clear analysis of the prevailing facts and circumstances—that is, Queenslanders spend less per capita on gaming machines than the national average. Our rate of problem gambling is below that of the other states and it has fallen in the most recent survey. Our gaming machine tax take is below the rate that is achieved nationally and below the rate of many other states.

We do believe in the context of the issues around problem gambling that one problem gambler is one problem gambler too many. That is why we need to be mindful as a government, taking into account the fact that 99½ per cent of people in Queensland do not have an issue with gambling, that while, as the last survey says, 0.47 per cent are problem gamblers, we need to respond to those circumstances. That means that we took a decision about ensuring that our rate of machines in a per capita sense is in alignment with the national average. We believe that the decision that we took to not proceed with the rollout of poker machine licence operating authorities in the hotel sector and introducing a cap in the club sector is an appropriate response to ensure that gaming machine numbers per capita—one measure, if you like, of the availability of gaming—was responded to.

Also within that policy response I would point out that we made a decision about the opening hours of gaming machine operations—that is, that they will not be able to operate until 10 am. One measure is the number of machines per person. Another measure is the amount of time for which they are open. If you are going to look at the availability of gaming in the community generally I do not think that anyone agreed with the notion that at some point in time the public, the government, the parliament took a view that opening hours should come back before 10 am.

003 In fact, when the analysis was first undertaken, some people in the sector were surprised to find out that 30 per cent of hotels and 50 per cent of clubs were in fact opening and operating before 10 am. That is something that I do not think people at an industry level appreciated because that had grown up through the regime on a case-by-case basis, and that is why we made the decision that we did to ensure that, ultimately, the policy settings took account of the broader prevailing circumstances. In context, I would make the case to you that, given the gambling revenue to the government represents 2.6 per cent of revenue, this is not in fact a case where the government is either 'addicted' to or 'reliant' upon that revenue.

CHAIR: The time for non-government questions has expired. Treasurer, I refer to investment returns on page 94 of Budget Paper No. 2. Did material circumstances on the market change since you delivered the budget?

Mr FRASER: As I indicated in my opening remarks, I do not think anyone would describe the last 12 months as being in any way similar to the circumstances that have prevailed in the years before. As I indicated also, while it was the case that in the period around May, as the budget was being finalised, at a broader level confidence in global markets was returning, many people were seeing the formation or the groundwork of the building blocks for confidence to return. Since 3 June when the budget was delivered and, more pointedly, since the end of May when it was finalised, I do not think anyone would describe circumstances in markets in June as being anywhere indicative of a market that was in fact resuming confidence, and even overnight we have seen further evidence of that. It is in fact the case that the Australian share market recorded its worst June result in 68 years with a drop of more than seven per cent. Over the financial year 2007-08 the market as a whole dropped 16.9 per cent, which was in fact its worst result in 26 years.

Against those circumstances, the result in June did have a material impact on the investment returns that the QIC achieved. I would note in that context, however, that a useful yardstick might be the median return from super funds as reported by agencies such as SuperRatings, which indicated that that median return was in the order of negative six per cent. We believe that when it is finalised and the accounts are in fact fully closed off the investment return for the QIC will be in the order of negative 2½ per cent. In a relative sense, that is a result above what is being achieved more generally. But in anyone's language and in any description, no-one would for any minute ascribe a view that the result was in fact one that was taking the benefit of a rising share market but one that was undertaken against some very difficult circumstances.

I note in the context of the government's reporting of those investment returns that we have in fact made a decision to ensure that the volatility that is expressed through the budget's final position—that is, the estimated actual outcome that then is finalised through the report on state finances and tabled in the parliament—will in fact not be reported in that way into the future.

CHAIR: Thank you. Treasurer, according to table 9.1 in the budget papers, interest expenses at the final year of the forward estimates will be 3.2 per cent of revenue. Can you provide an explanation of the government's capacity to service this expense?

Mr FRASER: I can. At its base level, the capacity to service that expense, modest as it is, is reflected in that same table when you read the shaded line indicating the net operating balance—that is, you see a budget which is in surplus, and strongly so, over the forward four years. Taking account of not only that expense but all other expenses, we are budgeting not only for a surplus in this financial year but in fact across the forward estimates. We do that in a context of undertaking a record capital works expansion of some $17 billion, funded as it is by a responsible and prudent amount of debt financing in a way that we believe is appropriate for the growth phase that the state of Queensland finds itself in at the moment.

Clearly if one looks at the expansion of the state's asset base and the expansion of the state's net worth, one can only conclude that in fact the level of borrowing that we are undertaking which sees, as you point out in your question, an interest expense of 1½ per cent this year is accommodating an expansion in our net worth and in our asset base and therefore is economically responsible to do. It is doing that in a way which does increase over the forward estimates as that infrastructure expansion continues, but at the end of the forward estimates it is the case that that interest expense will be 3.2 per cent. Every business, every family I know and in fact, I am sure, many people in this room looking at their mortgage expense would love to be in a position of having an interest expense of 3.2 per cent. It recognises that, just like a family starting out purchasing its first mortgage, the state of Queensland is in a growth phase.

It is important at that point in time to ensure we fund that investment, that expansion in our productive capacity of the economy and that expansion in our infrastructure in a way that ensures—and far be it for me from my perspective to be the one who has to make this case—that future generations appropriately pay for the benefit they get from long-run infrastructure which has an economic life beyond the short term and which denies the argument that suggests that, just like you should not have to purchase in full your first house with cash, all infrastructure spending to the benefit of future generations should also not be purchased in full in cash immediately and that that form of financing is in fact more economically appropriate. In the shortest terms possible, if you go to the end of the forward estimates represented in table 9.1 which you referred to you can see there that the revenues, taking away all the zeros and using an analogy, becomes an annual income of $40,300 and an interest expense of $1,300. Passing the kitchen table budget test, I think everyone would agree that that is a comfortable position to be in.

CHAIR: Thank you, Treasurer.

Mrs SMITH: Treasurer, on page 202 of Budget Paper No. 2 in the section on sensitivity and expenditure risks there is mention of the obvious issue of future interest rate movement. Can you advise how these risks are managed?

Mr FRASER: Obviously in the context of financing and infrastructure expansion such as that which we have been talking about, it is important that we have in place the regime and the approach to ensure that our exposure to volatility in financial markets is well managed. I would put very strongly the case to the committee today, and indeed through the committee and the parliament more broadly, that this is a risk exposure that has been well managed, in my view, by the Queensland Treasury Corporation and the folk who have been at the forefront of the leadership of that organisation for generations—for a lot longer than anyone at this table has been in fact in the service of the public of Queensland and almost longer than some people have been walking on the face of the earth. It has done that under different governments at different times in a way which takes account of the fact that those exposures are ones which need to be managed.

It does that through a number of ways—by ensuring that the financing task is in fact spread evenly in rough terms across forward years, through forward funding, through ensuring that it maintains a very strong reserve of liquidity to ensure that should markets change rapidly the QTC is able to respond to that, and being able to ensure that it can utilise the timing of changes on the market to its benefit. It does that in a way that recognises that it also has shorter term investments, so there is an ability to ensure that those shorter term investments as well as the debt raisings can be undertaken in a way that recognises that interest rate movements obviously have not only a broader longer term effect but also an immediate and shorter term ability to gain the benefit of that.

What we have seen over recent months and indeed over the last year is in fact, in a market which has been rocked with the fallout from what has occurred on global financial markets and the credit crunch, a flight to quality. We have seen people seeking to secure investments through QTC because, as a subsovereign AAA rated paper, it is a very attractive investment product in an environment where some of the world's major banks are not necessarily the safest bet that they used to be. So what we have seen, some might say perversely, over the last 12 months is in fact the ability of QTC to make arrangements in the context of that level of confidence moving out of the global market to take the benefit of the fact that, as it is a subsovereign lender, backed as it is by a guarantee all the way to the parliament of Queensland save for Government House, people have a view that that becomes a very attractive investment in the sort of environment that we are operating in.

Mrs SMITH: Thank you, Treasurer. I also refer you to table 9.1 in the budget papers.

Mr FRASER: It is popular.

Mrs SMITH: I refer to the interest expense detailed within that table, combined with the comments that the Liberal shadow Treasurer has made about borrowing for infrastructure. What does the Liberal Lord Mayor say about borrowing for infrastructure?

Mr FRASER: Thank you for the question and for the opportunity to point to what I believe are in fact the principles which underpin the once-proud history of the Liberal Party in Queensland, and that is an approach to economic policy which has at its core an understanding of economics and an ability to deny short-termism with a focus on the longer term view. What we saw in the Liberal Lord Mayor's budget was a commitment to undertake a responsible level of financing for infrastructure expansion. What the Liberal Lord Mayor of Brisbane is doing in his own budget is exactly in accordance with the philosophy that underpins the expansion being financed through an appropriate level of debt financing by the Queensland government in our budget. While the Liberal Lord Mayor identified the fact that he believes it is appropriate to spread the cost of infrastructure expansion across future generations, that is exactly what we are doing within the Queensland budget.

We are doing that in a context where, as ever, the asset expansion and the net worth of the state are expanding, and therefore that is the first hallmark of the budget being framed in what can only be described as an economically responsible manner in accordance with the Charter of Social and Fiscal Responsibility that was legislated by the government. It does that in a context also where we have seen since the budget Standard and Poor's affirm the AAA credit rating. We also look forward to the assessment of Moody's in due course which generally takes a bit longer. What we saw the Lord Mayor say in his budget was—

We have to take our vital infrastructure projects and anti-congestion programs to another level because doing nothing would allow Brisbane to grind to a halt. It would be an affront to the people who have put their trust in us to find solutions.

He therefore took the view that it was appropriate to debt finance that infrastructure expansion which delivers a benefit to not only this generation but also future generations. He equally, I would have to point out in that context, is operating from a position where he is taking the benefit of the $875 million in compensation that we are providing to the Brisbane City Council for its water asset ownership. The debt that was existing on the Brisbane City Council's books was substantially wiped by that compensation arrangement. Therefore, just as the state of Queensland is seeking to expand the infrastructure provision that we have at this point in time, so, too, is the Liberal Lord Mayor. It used to be the case in this state that it was the Liberal Party that was the author of sound economic policy.

Mrs SMITH: Thank you.

Mr WENDT: Good morning, Treasurer. I have been looking at the departmental performance statements in book 3 of the Service Delivery Statements. I was particularly keen on page 3-256 to note the recent announcement of the phase-out of canteens and liquor licences held by Queensland Indigenous councils as part of a range of reforms to reduce alcohol misuse in remote Indigenous communities. Treasurer, what funds are being provided in support of the divestment of these licences?

Mr FRASER: Thank you for the question. It is an important part of the government's broader policy agenda, and obviously within the portfolio of Queensland Treasury we are not only responsible for the financing of this initiative but also principally responsible through the stewardship of liquor regulation through the Liquor Licensing Division in the past. What we see is a conjoint effort between the Commonwealth and the state for a $100 million package, $66 million of which is contributed by the state and $44 million of which is contributed by the federal government, over the next four years which is aimed at ensuring we tackle the blight of alcohol abuse in Indigenous communities.

004 It is one that focused not just on the removal of canteens but the false profits of Indigenous councils that have been secured out of those canteens, putting a close on a chapter that has seen councils taking the profits for running those canteens but not taking full account of the social cost of the outcomes of the way in which those canteens have been run. We see a commitment by government of some $14 million to replace the revenue stream that has been secured by councils from the operation of those canteens in the past and to ensure that that money goes towards providing the sorts of community and social services that are in such desperate requirement in many of those communities in many ways because of the effects of alcohol abuse provided, as it has been in the past, by those canteens which have been owned and run by and on behalf of the Indigenous councils.

So what we have seen and what we plan to do over the next 12 months is to put in place a long-stated policy goal of ensuring a divestment of those canteen licences from Indigenous councils. That means that already, as of 1 July, the Mornington Island and Napranum canteen licences have lapsed. What we are doing is not only replacing the revenue but also ensuring that we are providing the sort of health services that are required, not the least of which relate to health and detoxification and other social support services into those communities.

From 1 November, the Lockhart River, Kowanyama and Aurukun licences will lapse. The Palm Island and Pormpuraaw licences are due to lapse on 1 July 2008. Then Bamaga and Umagico in the northern peninsula area will lapse on 31 December 2008. That is being done in a staged way to ensure that we can provide the resources and the services that are required to make sure that, to the extent that there are problems with addiction and problems that are associated with treating that addiction, those services can be in place. It is a hallmark, I think, of the cooperation between the two levels of government to address what can only be described as a blight on our history as a nation.

Mr WENDT: On a different tack, particularly government owned assets, I refer to page 51 of Budget Paper No. 2. What assets are government owned corporations planning to build over the forward estimates to support the growth in Queensland?

Mr FRASER: I thank you for the question and for the sense in which it points to, in fact, the true debate about the future of our economic expansion in Queensland, and that is not only about the infrastructure that we are financing both on budget—predominantly social infrastructure—but also the expansion of economic infrastructure around the state of Queensland.

What we see this year is a $2 billion expansion in capital works by QR, recognising that at this point in our history there has never been a greater requirement or a greater need for QR to be within the government's ownership and, in fact, to be undertaking an expansion of the economic infrastructure that is supporting our resources boom. That expansion relates to things such as the Jilalan yard upgrade, which is funded to the tune of $400 million in this budget and to other projects such as the $107 million which is allocated across the forward estimates in this budget for the introduction of driver-activated points on the Mount Isa rail line into the north-west minerals province. What that particular project will do is, in fact, save two hours of the train journey between Mount Isa and the Townsville port, which boosts the export efficiency of that key corridor out of the north-west minerals province.

Along with the boom that is occurring in the coal sector, we are also seeing elevated prices in base metals and precious metals, which are mined predominantly in Queensland in the north-west minerals province. We are also, of course, witnessing the expansion of the duplication of the Gateway Bridge and the upgrade to the Gateway Motorway, which people who are regular users of the airport, or even travellers along Kingsford Smith Drive, can see the evidence of. That is being undertaken obviously by QML. We are undertaking those expansions while also ensuring that we not only have the capacity to rail the significant amount of resources which are being mined in the state at the moment but also ensuring that they can be exported through the port. That is why last year we opened the X21—the expansion to 21 million tonnes per annum at the Abbot Point Coal Terminal—and then quickly moved to provide the support, authorisation and financing for the expansion to 225 million tonnes per annum at the Abbot Point Coal Terminal.

The government in the budget announced, through the Ports Corporation of Queensland, the doubling of capacity at the Abbot Point Coal Terminal to 50 million tonnes per annum at a total cost of some $818 million. The cost of that project this year—both from 21 to 25 and 25 to 50—is some $320 million. But on any measure, taking a snapshot across roadways, rail expansion and port expansion, it is an expansion in our economic infrastructure that puts other states in the shade.

CHAIR: The time for government questions has expired. I call the member for Moggill.

Dr FLEGG: Treasurer, last year in this hearing we raised the issue of the petrol rebate to Queensland motorists. I notice in your response to question on notice No. 6, looking at diesel—and obviously diesel is important in Queensland—that Brisbane motorists were paying only 4.7c a litre less for diesel than Melbourne motorists were paying. That is only half the rebate being passed on to the users of diesel in Queensland. We raised this issue last year. Why are Queenslanders still not getting the fuel rebate?

Mr FRASER: As you know, subsequent to the deliberations through the budget last year, the government commissioned Bill Pincus QC to undertake the commission of inquiry into the Fuel Subsidy Scheme where he, in fact, identified the gap between the provision of the subsidy to the industry and what was being enjoyed by Queensland motorists. His recommendation, however, was that the government consider abolishing the scheme, which we responded to on the day that we received it, and that was that we did not think that that was appropriate and nor was it the policy of the government and therefore we responded appropriately and that is that the scheme would stay in place.

I would have to say it is a policy challenge of immense proportions to be able to seek to find a way to pass on in full the subsidy. I do not think it is putting too fine a point on it—and I recall that you were an original member of the Impact of Petrol Pricing Select Committee at the time, but—

Dr FLEGG: No.

Mr FRASER: For a brief period, as I recall.

Dr FLEGG: I do not think so.

Mr FRASER: Anyway, we can sort that out at another date. Obviously, as it is clear from an assessment of both that report and more generally, the ability to have the fuel industry—the oil industry—pass on the subsidy in full is one which is a diabolical policy challenge.

What the answer to the question on notice, however, points to is a circumstance which has long been commented on by the ACCC and other fuel industry analysts and that is that the Melbourne market is structurally different in prevailing terms to other fuel markets in Australia, just as the Darwin market is also different, to the disadvantage of consumers. The Melbourne market is highly competitive and therefore as a benchmark that needs to be taken into account in the assessment of whether or not the subsidy is being passed on in full.

As you know, the government has responded to the challenges of being able to pass on the fuel subsidy in full by looking to provide that subsidy at the point of sale through a mechanism which is proposed at this point in time—something that we are working on at the moment with industry and stakeholder groups in looking to utilise, for example, a Queensland drivers licence, to be able to pass on that subsidy in full to motorists at the point of sale so there can be no question about it. But as the ACCC has remarked in the past, and certainly as other analysts have remarked in the past, there needs to be an appreciation also of the fact that Melbourne is a structurally different market from other cities in Australia. If you look at the benchmark to Sydney over time, then it is clear that the difference is more in alignment with the full 8.354c per litre subsidy.

Dr FLEGG: I notice that your petrol commissioner has indicated that his view of the scheme where Queenslanders would have to present their licences to swipe when they bought petrol would not result in Queenslanders getting the full subsidy. So why should Queenslanders have confidence that this is the answer?

Mr FRASER: I also note, with respect, that Commissioner Pincus proposed that the scheme be abolished. That is not a view that the government shares. That was a view that was communicated when we received the report. So while I have seen the comments that subsequently Mr Pincus has made about the government's proposals to address the challenge of ensuring that the subsidy is passed on, his second proposal was for a price setting model conducted by the commission, from memory, in three zones around Queensland which, on our analysis—and I have to say an analysis shared by both the Motor Trades Association and the RACQ—would be equally fraught in determining what is a benchmark price.

His proposal was that, to an extent that an arbitrary—which ultimately would have to be informed, I acknowledge, but ultimately arbitrary—baseline price of petrol in any market in any region prevailed to the extent that a retailer was providing petrol or diesel above or below that margin, that would mean that the extent of the subsidy would not be passed on in full. Therefore, it seems to me as a matter of logic that while that would seek to provide a discipline into the retail of petrol, in many instances that would result, especially in uncompetitive markets and more particularly I would make the case in markets in smaller communities and in western communities where they do not get the retail competition to the extent that fuel was being sold—

Dr FLEGG: That is western suburbs of Brisbane.

Mr FRASER:—being sold above that baseline price, then in fact the losers out of that scenario proposed by Commissioner Pincus's inquiry would in fact have been the motorists of Queensland and that is that they would not be being passed on the full subsidy, because it would have been clawed back because the retailers were proposing to sell it at a price above that benchmark.

So his option 1 was abolish it. We did not agree. Option 2 was a baseline approach, which had the effect of denying a component of the subsidy to the motorists of Queensland which we frankly felt did not meet the policy goal but also was unworkable. That was a view that was shared by stakeholders. Therefore, what we proposed to do was, if you look at this policy over time—and I think the member for Gregory and the member for Murrumba have been through all the iterations of the Fuel Subsidy Scheme under different governments—it started at a wholesale level, it was moved to the retailer, and what we are proposing finally is that the subsidy in fact be provided through the person who it is aimed at and that is the consumer in Queensland. It will be the case that when Queenslanders now go to the petrol station through the point of sale mechanism—drivers licence or otherwise—what they will be able to see is the full subsidy deducted at that point of sale, no question about it.

Dr FLEGG: I notice in answer to question on notice No. 6 you indicated you had no idea how many Queenslanders would be able or would be willing to present their drivers licence when they buy petrol. You have indicated that you did not think it would be significant, and the opposition would disagree with you on that. In the event that the opposition is right and there is a significant saving in the expenditure on fuel subsidy, you have indicated that that would be returned to motorists. Can you tell the committee how you will return any savings to motorists? Are you going to increase the per litre subsidy? What mechanism will you use to return those savings to motorists?

Mr FRASER: As I indicated in, I think, the answer to question on notice 7, not 6, there is in fact no way of knowing how many people are driving in Queensland with an interstate licence or not driving with their licence on them. We do not have Checkpoint Charlie at the New South Wales border.

Dr FLEGG: Some people do not want to have their purchasing tracked. They do not want to present it.

Mr FRASER: Some people might put a view that there should a Checkpoint Charlie at the Tweed River—I would not be one of those—but ultimately there is no Big Brother way of knowing exactly who is having illicit thoughts or who is not driving around with their drivers licence in their pocket or who has not taken the opportunity to honour their obligations to have a drivers licence in the state in which they are resident. The member for Gregory, as a former transport minister, would know this policy challenge well.

005 In that context, one of the outcomes of the option of utilising a drivers licence is it would financially incentivise one of the policy challenges that governments have faced and certainly the member for Gregory faced in his time as transport minister, which is the dangers of unlicensed driving. In economic terms that would be an externality from the introduction of a drivers licence scheme. While there is no way of knowing that and I am not sure that you are proposing a way of knowing that, our view is that it would not be a material result because of a number of factors. One is that it incentivises people to get a Queensland drivers licence. Secondly, in a commercial sense the bulk end user scheme still exists so that companies that purchase in bulk would still be operating through the method that exists in the delivery of the Fuel Subsidy Scheme.

As I said in parliament on 3 June in response to a question from yourself or another member of the opposition—yourself, if my memory serves me well—if over time there is any evidence that there is a saving to be achieved, the starting point of the government's response would most definitely be that this is an approach that we have taken of trying to pass on, in full, the full amount of money that we are budgeting to deliver the subsidy. We believe that this mechanism will enable us to do that. To the extent that there is, on the evidence that prevails post the introduction of the scheme, a result which produces the scenario that you are surmising—which is not necessarily the case—as I said at that time we would seek to return that to motorists. That could be done in a number of ways. In response to a scenario that we do not think would prevail, I am not going to put forward a view about a hypothetical.

Dr FLEGG: Thank you, Treasurer. Last year in this same committee I asked your predecessor about the treatment of public sector superannuation funds being held within the general government sector, which is a treatment that the opposition does not necessarily think is the best way of handling that. Your predecessor vehemently defended the regime of holding those assets on the general government sector and putting the returns from them on the bottom line of the budget. At that time, of course, returns were strongly positive and favoured the government's bottom line, and I note that you foreshadowed you would have an even deeper deficit today. Can you understand why Queenslanders would be fairly cynical that you have suddenly seen the light and changed your system now that returns are negative and it has plunged your budget very deeply into deficit?

Mr FRASER: I think there are a couple of important points to make. One is to be clear about what the government has done and what the government is obliged to do under the prevailing accounting standards and also in accordance with the uniform presentation framework or UPF, which is determined through the Australian Bureau of Statistics, in presenting the government and the budget on a GFS basis. We are not able to not hold the superannuation assets and liabilities off the budget, because that would be to deny that we own them. The change that we have made, to be clear, is not to suggest that we do not have a superannuation expense, which we do; it is not to suggest that we do not have a superannuation revenue stream, which we do. The reality is that we cannot deny that we own those assets or liabilities. Your question proposed something that would be in contravention of the accounting standards that prevail.

What we have done is to recognise that there is a volatility to those returns. So we have swapped the volatility of the asset into the Queensland Treasury Corporation to ensure that the asset that is held to represent those assets and liabilities pays a steady rate of return. We have not removed the asset and liability. In fact, we are not able legally to do so, nor would we seek to do so, as you propose. What we have done is swap the volatility. That provides for a more legible result to the budget bottom line, but it does not stop the fact that year on year—as was the experience in a past year—there will be a volatility to those superannuation returns. However, it ensures that the result of the previous year's budget, which is the only way in which that volatility is expressed through the reporting framework in the past, is removed and, as you will note in the presentation of table 9.1 in the budget papers, the return of a more even rate of return from the superannuation assets is appropriately factored in as an almost commensurate superannuation expense.

Dr FLEGG: Treasurer, I note that Queensland GOCs are the most heavily debt burdened GOCs in the country. In fact, I have prepared some graphs looking at gearing both from a borrowings and a liability point of view and doing the interstate comparison. It shows that Queensland GOCs basically have double the gearing and, in some cases, three or four times the gearing of GOCs in the other states. Can you tell the committee why Queensland GOCs are so different and can bear such a greatly increased load of borrowings?

CHAIR: Member for Moggill, are you tabling those? Thank you.

Mr FRASER: The answer to the question lies predominantly in the nature of the GOCs that the Queensland government has and continues to own and, more to the point, has an intention of continuing to own into the future. If you look at entities such as the new bulk water authorities that are operating in a very regulated environment, then a capital structure that is appropriate for an entity such as, for instance, the Queensland Bulk Water Supply Authority or, indeed, the Queensland Bulk Water Transport Authority takes account of the fact that their revenue stream, in a regulated environment, is very predictable. Therefore, the need for operating capital in the capital structure that exists within those entities is not the same as an entity that is operating in a much more fluid or riskier operating environment. Through Queensland Motorways Limited, QML, we have holdings that are predominantly toll revenues and, therefore, have a revenue stream that is considered by analysts and the market—and in reality is—to be a predictable cash flow return. That means that we are able to have capital structures which reflect that. Other states predominantly do not own the roadways, they do not own their port structures, they do not own QR and they do not own the range of assets that we continue to maintain public ownership of in Queensland.

Obviously we also have entities like Powerlink and Energex, the distribution and transmission systems which operate equally in a regulated environment and, in fact, have their revenue flows and capital programs determined by the regulatory authority. Within QR my remarks probably particularly pertain to the below rail business, which is also regulated. The answer lies in the nature of the GOCs that we own. The fact is that we do own more and of a different type than other states and they operate in a different environment, most particularly in a regulated environment.

I would also point out that we have full reviews of GOC capital structures and creditworthiness every three years and annually by the QTC. That happens internally every year. We also use an external benchmark to make sure that the capital structures of our GOCs are creditworthy and that those structures take account of the fact that businesses such as Powerlink or Energex are very different to Golden Casket, to use an example from the past.

Dr FLEGG: In previous questions, particularly government questions, when you refer to debt and borrowings within the government I notice your government's enthusiasm for using debt figures out of the general government sector. However, given this level of indebtedness in the GOC sector, is it not the case that you have actually housed debt in the GOC sector? I do not necessarily accept all the things that you said in your previous statement, because New South Wales has a large GOC sector and has things such as energy generation that are much the same as Queensland's, and yet it has geared them significantly less. Is this not just your attempt to disguise the extent of borrowings and debt in your government?

Mr FRASER: I have to say that I find it most remarkable that you have a view that when setting a budget framework and within the government owned corporation framework there is an ability, as you say, to 'house debt'. I am not sure to what end that would be. I am not sure that it would, in fact, be possible and I am entirely sure that it would not be appropriate. The capital structures that exist within our government owned corporations and the sector as a whole, which you are talking about through the P&FC sector, as I said in my previous answer reflects the nature of the businesses that are owned within the P&FC sector. It is about the extent that they operate in regulated environments, whether it is QR below rail or Powerlink's transmission business. They have capital structures that take account of the fact that their revenue is known to be on the go forward and that they are operating outside of an environment which would see significant risk visited upon them that would require a different level of equity or capital within those businesses.

CHAIR: The time for non-government members' questions has expired. Member for Burleigh?

Mrs SMITH: Treasurer, I refer to the distribution of GST funds and ask: what are the ramifications of Queensland becoming a net donor state to the GST pool?

Mr FRASER: Thank you for the question. It is one which was touched on earlier by opposition members. Obviously the reality of the situation in which we find ourselves at the moment is that Queensland is becoming a victim of our success to the extent that we have moved from being a developing state to a well-developed state. With population uplift, with a growing and expanding economy and a success story that I referred to in my opening remarks following 12 years of expansion, the capacity of our economy and the ability of our economy to generate those revenues means that in the Commonwealth Grants Commission assessment—much like the child asked to leave home or no longer be umbilically connected to mum's and dad's wallet—we have crossed a threshold.

While this might be something that, as a state, we can take a certain amount of pride in, obviously it has a direct fiscal ramification, which is that for the first time we have become a net donor. Over the forward estimates of the budget it means we will take a hit in the order of $1 billion—this financial year it is $150 million—if the relativities remain as they are. Having dipped below the magic 'one' of the threshold—we are down at 0.96—if we continue to decline in the way that we are, and considering that there is a five-year rolling effect in the Commonwealth Grants Commission determination, we will see a hit to the budget over time of $1.8 billion.

Obviously any government and any Treasurer would prefer to be in a position where that extra money was being provided, but it reflects the fact that, as a state, we have authored a significant amount of economic success in recent years and, therefore, the Grants Commission process operates to our disbenefit, as it has operated to our benefit in the years prevailing. Unlike the policy-for-rent approach of another government that I could refer to but will not name in the interests of Commonwealth-State financial harmony, just because we have become a net donor does not mean that we are going to decry in the first instance a policy underpinning that has existed in the Federation since its construct and has served to ensure that the Federation as a whole is financed appropriately.

Mr WELLS: I ask the Treasurer: what steps has the government taken in the budget to address climate change?

Mr FRASER: I thank the member for Murrumba for his question. As a former environment minister and as someone with an approach to public policy analysis and authorship that has always responded to emerging trends, I am sure he shares the view that not only is addressing climate change the single biggest environmental challenge that we face as a government and more particularly as a community, but it also happens to be the single biggest economic challenge that we face as well. It provides economic challenges at the macro level as equally as it provides policy challenges at the level of the individual or the household.

006 Chief amongst the responses and initiatives that were funded in this budget is the new ClimateSmart Home Service, which is funded through the dividend that has been provided from the sale of Enertrade and wind and gas assets in other states of Australia. The Climate Change Fund dividend is allowing us to deliver a new $60 million program which will provide assistance to the household at the household level. It builds upon the success of the Home WaterWise Service that was provided in the south-east corner to meet the challenges of demand management in water consumption at the residential level.

By building upon that model to deliver a large amount of value, in excess of $200, for a $50 fee, households will be able to access the following benefits which will achieve savings in reduce greenhouse gas emissions and therefore their energy costs—that is, the provision of 15 compact fluorescent light bulbs, a water efficient and therefore energy efficient shower rose and also an audit of the household to ensure that on average households will be able to achieve savings of up to 3.6 tonnes of greenhouse gas emissions per year and potentially save $240 on their annual electricity and water bills.

What that means is that in a climate of rising costs and having to deal with climate change, at the individual household level that rebate scheme will build upon the success of the Home WaterWise Service and ensure that a level of consciousness is there about energy use. By retro-fitting those components in the household we will ensure that there is an ability for those households to respond to the economic effects at the household level of climate change. I know that many people regard the Home WaterWise Service as a benchmark in new delivery to assistance at the household level, and this approach using the benefit of the Climate Change Fund dividend builds on that success.

Mr WELLS: With respect to the state's AAA rating, have any ratings agencies reassessed the AAA rating since the budget was brought down?

Mr FRASER: They have. Standard and Poor's have released an assessment which affirms the AAA credit rating and which points to the fact that the government has long had the benefit of a AAA credit rating. They said in assessing the budget on 3 June, 'The budget announced today for the state of Queensland is consistent with the AAA rating and stable outlook already assigned to the state.' Ultimately, the assessment of Standard and Poor's and the benefit of maintaining that AAA credit rating in a time of infrastructure expansion is one that is well known and appreciated by members of the committee.

We do that in a context, however, where the debate these days is moving toward what I think is a fairly rudimentary and base level of questioning about the way in which we are financing that infrastructure expansion which begins to draw a line in the sand about people's views about the capacity of the Queensland government and its policy approach as to whether or not we should be in a phase of state building or shutting down the show. We believe that we are appropriately at a point in time where we should be in an expansion phase. To that end, not only have Standard and Poor's affirmed our AAA credit rating but other people have made comments about the fact that ultimately they believe that the government is on the right fiscal path and the undertakings of the government are in fact economically responsible in a long-term view.

David Liddy, the CEO of the Bank of Queensland, has been quoted as saying—

> We've got a great rating in terms of the state, a great ability to access debt markets as a state ... let's invest more for infrastructure for the future, for the next generation's benefit.

Those are remarks which I endorse. Similarly, John Mulcahy from Suncorp has been quoted as saying—

> Given the recent and projected growth of Queensland's economy and population, it is absolutely necessary and appropriate to invest in the state's transport, water, energy and health infrastructure now so future governments can continue to meet the needs of all Queenslanders.

Steve Greenwood from the Property Council of Australia most pointedly has said—

> The property industry has argued strongly and consistently for an increase in both infrastructure delivery and borrowings to fund it. Many will argue long and loud that borrowing for infrastructure is bad, but they are wrong. There are reams of research that suggest that borrowing money delivers the best outcome for the community, the economy, the jobs market and the State Budget.

He was also quoted as saying that any stance to the contrary would be 'irresponsible'. I agree with those commentators who I think are making a more informed contribution to the economic debate that is prevailing in our state at the moment. I noted with some mirth the notion that there is in fact such a thing as good debt and bad debt according to the opposition, and I look forward to the opposition's *Seinfeld* explanation of just exactly how that works.

CHAIR: Treasurer, would you please outline the increases to health and education in this budget relative to GST receipts from the Commonwealth?

Mr FRASER: One of the things that you generally confront in talking to people about the nature of any request for future expansion of services or infrastructure is a somewhat I must say romantic view about the nature of the GST receipts that our state or in fact any state receives—that is, that somehow the GST is a windfall when in fact, as we know, it replaced previous financial assistance grants and, given the nature of the previous financial arrangements underpinning the Federation, it was required in its introduction to have budget balancing assistance put in place to take account of the fact that the GST was not sufficient to replace that in full in the first instance.

To put it in context, however, this year we will receive as a government around $8.7 billion in GST revenue. Our health spending will be $8.3 billion. Beyond that, our education spending will be $6 billion. So at priority one, which has been and always will be priority one for our government, is funding the health system—with a $1.2 billion boost to health funding this financial year—at $8.3 billion compared to $8.7 billion in GST. So at priority one we are just about done. When you add priority two, which is education, $6 billion, then we are well over $14 billion and $8.7 billion in GST revenue is in the rear-vision mirror and in the rear-vision mirror by a long way.

The reality is that our government places its first priority on the provision of the healthcare system to the people of Queensland that takes account of an ageing population, increasing levels of chronic disease and rising medical technology costs. That means that financing healthcare service provision will always be a challenge for government but one which we are directing as our first priority and in fact always have.

I am often surprised by the extent to which people in the community do not have an appreciation that the GST revenue that this state or in fact any other state receives does not provide the sort of quantum of funds in a relative sense that people might have first presumed. As we provide those funds to those two key, core government priorities of health and education service delivery, we are mindful of the fact also that as we increase our spend on health in particular—going back to some earlier remarks about the relativity that we are now experiencing of being a net donor into the GST pool—that is a scenario that will only increase over time. In no sense, however, does that make us shy away from our view that ultimately providing those extra funds into healthcare service delivery in particular has and will be our main priority.

Mrs SMITH: Treasurer, as mentioned earlier, housing affordability is a major concern for the majority of Queensland families. What is the median price for first homebuyers and specifically what measures has the government taken to keep the housing dream alive for Queenslanders?

Mr FRASER: I thank the member for the question because it goes to what is the central core and the centrepiece of the budget that the government handed down on 3 June. The median price for first homebuyers at the moment is $350,000. As of two weeks ago, 1 July, the first home owner duty exemption was raised to $350,000—that is, at the median price, currently $350,000, as of today no person purchasing their first home, flat, apartment or otherwise under the median price, under $350,000, will pay one cent in stamp duty. They will also not pay one cent in mortgage duty because mortgage duty was abolished in full ahead of schedule on 1 July at a cost of $100 million. A tax that previously raised some $439 million annually has been abolished in full under the program agreed to by the government.

What that means as of today is that for any couple or single person in Queensland seeking to buy their first home under the median price will not pay a cent in stamp duty nor a cent in mortgage duty. No-one purchasing their first, second, third, fourth or fifth home or their second, third, fourth or fifth business will pay a cent in mortgage duty because it has been abolished in full. But we recognise that the property market is rising and we recognise that over time there has been a structural shift in the property market. That is why we resolved as of 1 September, when the systems had been put in place, to lift the first home owner duty exemption all the way to $500,000. So an average mortgage, with a purchase price up to $500,000, quantifies a saving to a couple or a single person in Queensland seeking to buy their first home, their first mortgage, anywhere in Queensland—whether it be in the growth suburbs out the back of Robina or the growth suburbs to the west of Ipswich, or in North Lakes or indeed in Fitzgibbon in the future—of around $9,800, as they will pay not one cent in stamp duty and not one cent in mortgage duty.

It recognises the fact that having done the hard yards of putting together a deposit those people are able to take the full benefit of the $7,000 first home owner grant and not see a swap between the receipt of that grant and a stamp duty liability. It means that that $7,000 can go towards the other costs that are incurred and that inevitably visit upon people starting out in their first home. It also means, frankly, that for those who have had their kids move back into their home to live with them and to meet the challenges that go with that particular scenario the government is providing every assistance to ensure that that is no longer the case.

Mrs SMITH: Treasurer, I refer you to table 5.10 in Budget Paper No. 2. Can you confirm that Queensland met its obligations to abolish certain state taxes under the intergovernmental agreement with the abolition of the debits tax on 1 July 2005?

Mr FRASER: I can, I will and I have in the past. There is, however, a prevailing view—it is probably more out of *The Castle* than it is out of *Seinfeld*—that the GST is a magic pot which means that every single state tax was meant to be abolished or in fact should be abolished. It is a mythology that is perpetuated by people who I think are either doing it for their own base political purposes, which I suppose one could appreciate, or in fact because they genuinely hold what can only be described as a wrong view.

Many people will remember the history of the GST introduction. It was first proposed by the former Howard government to include food in its base and therefore had a wider remit of tax abolitions in its first iteration than was the case when food was removed. That is a simple matter of logic and mathematics. But the program of GST introduction proposed in the first instance the abolition of bed taxes, which never applied in Queensland. It proposed to abolish financial institutions duty—again a tax that did not exist in the first place in Queensland. It proposed to abolish stamp duty on quoted marketable securities, which the Queensland government duly did on 1 July 2001, and it proposed the abolition of debits tax, which the Queensland government did duly on 1 July 2005. That was the letter of the agreement to a 't' in the introduction of the GST.

007 We undertook those obligations as a government, as a state, in full as of 1 July. What we have since done, however, is agree to a further program above and beyond the nature of the first agreement that was in place at the time of the GST introduction. That has seen us undertake the removal of lease duty from January 2006, credit business duty from January 2006, hire duty from January 2007, duty on unquoted marketable securities to complement the duty on quoted market securities from January 2007 and, as I outlined in the budget, ahead of schedule, mortgage duty from 1 July this year.

The abolition of those taxes has been to the benefit of Queensland taxpayers in the proportion of $439 million in mortgage duty, and at this point in time the quantification of that amount of tax reform is in fact $840 million. That is, without that program of tax abolitions there would be another $840 million available to the government, to the parliament, to appropriate to service delivery at this time. On anyone's measure, a tax abolition schedule of $840 million, with some to go, I think is a substantial amount of tax reform.

CHAIR: Thank you, Treasurer. That ends the time allocated for government questions. The committee will now break for morning tea. The hearing will resume at precisely 10.15 am.

Proceedings suspended from 10.01 am to 10.15 am

CHAIR: The committee will now continue its examination of the Treasury portfolio. I welcome Mr Mike Horan, the member for Toowoomba South. I call the member for Moggill.

Dr FLEGG: Treasurer, in relation to your government's proposed public-private partnerships, I note again that one of the consortiums has withdrawn from the public-private partnership to build seven schools in Queensland. This ought to be a simple, relatively small, straightforward PPP. Your government has been talking about PPPs for years and has only been able to deliver on one or two of those. Why have you tried to force this bureaucratic hybrid sort of PPP—the PPP you have when you don't have a PPP—on to the private sector? What is the problem that the government just cannot deliver on its PPPs?

Mr FRASER: In the first instance, I would be fascinated to know whether you are asking that question as a supporter of the PPP or as an opponent. I am sure that both the business community and the community more generally—but in particular the business community—would love to know the policy position being put forward by the Liberal Party on this one.

Let me say this about the nature of the PPP that is being put forward for the construction of schools: in a credit environment such as this where spreads have widened so much that it is the case, and analysts will say, that the supported debt model is in fact the bridge to make sure that a private mechanism for delivering this infrastructure can be achieved, if it was in fact proposed as a vanilla PPP, to use a term, it would not in fact be economic, in our view. So this was in fact about ensuring that the PPP should stay on foot.

I find it absolutely remarkable, however, that in the last parliament there was a debate when the member for Surfers Paradise, who serendipitously is on the committee today as the shadow education minister, stood up in the parliament and introduced amendments to ensure that through the public provision of education there would be a capacity for private profit to be secured to shareholders—in the context I think at the time of a proposal by ABC Learning. Down the track, when we propose not the provision of education services but the provision of the buildings in which the public education is provided, the Liberal Party of this state now opposes private sector involvement and in fact voted against it in the parliament.

Therefore, before you seek to provide a critique of the finer points of our PPP model, which seeks to take recognition of the prevailing circumstances on credit markets, I would provide the humble suggestion to the Liberal Party—before it is in fact taken over holus-bolus, including all previous policy positions, by the National Party—that, just on this one issue and perhaps on a few other economic matters, you might put forward a view about whether in fact you are for it or agin it. It is a pretty simple proposition.

Nevertheless, leaving that all to one side—and far be it from us as a Labor government to have to be the defenders of the ability of the private sector to provide infrastructure in an efficient way—I would make the case, as I have seen the reports that no doubt you are referring to, that the supported debt model is of course one which financing partners in a consortia will find challenging but they will equally recognise that they are operating in a challenging credit environment at the moment. Secondly, to the extent that the sources quoted in the article suggest that it is because of strong competition, I think it in fact makes the case that people are keen to participate, rather than it being something that people are not keen to participate in.

Dr FLEGG: I am not sure that I gathered an answer out of that. Just on the same subject—and this is an estimates committee where we are actually questioning you and the budget; you are not questioning us—this type of hybrid PPP to build schools is essentially risk free. That is, they build the school and lease it back to the government so it is essentially risk free, and the cost, particularly of funds, to the private sector is considerably more than it is to the government. Can you explain where the savings to the government come from by using that model, rather than the government building its own government schools?

Mr FRASER: I am not sure I would describe the approach as being risk free, as you suggest. Perhaps if that is the conclusion that you hold then it is wise that the Liberal Party does not have—

Dr FLEGG: The government is not going to pay the rent?

Mr FRASER:—a concluded view about whether or not it supports PPPs for the provision of government buildings. But the risk that is to be managed obviously is, in the first instance, a construction risk. In the second instance, the efficiencies that are sought to be gained are in the maintenance of the building, the embedded efficiencies that might be achieved out of government building design, and those are innovations that we would seek to secure out of this proposal.

It is a benchmark for us in a task that we believe government undertakes well at this point in time, with a strong track record of delivery, but far be it from us to suggest that it is not appropriate for the government to seek to benchmark its own infrastructure delivery against the private sector, and that is why we are going ahead with the model. As you noted in your question which I provided remarks upon in my previous answer, the provision of credit finance is a tougher task, in an environment where credit margins have widened, for the private sector than it is for the government, and that is why the supported debt model is being proposed to replace the post construction debt financing task with government supported debt. It is not a 100 per cent replacement; it is 72 per cent. Therefore, that margin lies above that.

I would point out, however, that I do acknowledge that this is an estimates committee in which the government of the day is seeking to be accountable. I am sure you are not putting forward a new proposition that oppositions also do not have to be accountable or that oppositions do not in fact have to have policy positions. I know it is a path that has been well worn by the opposition in recent years—that they seek to have no policy positions on a whole range of fronts. I can only provide every encouragement in the interests of the democracy in Queensland that you seek to assume a policy position—just one would be good—to lay it out, to justify it and for the debate to proceed, rather than questioning my ability to question you on what your policy proposal is. I think it is entirely reasonable in the context of debating a matter of policy that, to determine whether our policy is better than yours, you have one.

Dr FLEGG: In relation to liquor licensing spot checks, I refer to page 3-256 of the SDS where it states that the Liquor Licensing Division performed 1,000 fewer compliance checks of licensed premises than it planned during 2007-08. The reason given was that there was an increase in complaints to be investigated that occupied their time. Won't reducing compliance checks just lead to even more complaints? Surely prevention is better than cure—in this case, compliance being better than complaint investigation. Isn't it giving the wrong message to licensees and people in the community, from a government that is supposedly getting tough with under-age drinking and binge drinking?

Mr FRASER: Thank you for the question. The reality, of course, in providing the service delivery is that an estimation is provided and a forecast is made of the apportionment between the number of complaints that can be expected and therefore the number of proactive compliance checks that are undertaken. In an environment where we see people I think, as it has been the case in recent times, more interested in and more aware of the nature of the obligations of liquor licence holders, it is of no surprise to me or the government that there is an increase in complaints provided to the Liquor Licensing Division. Where there is an increase in complaints, the first task for the division will always be in responding to those complaints. Ultimately, that means that the effort goes as a first priority to those complaints, and you can see ultimately that there is a commensurate increase.

So in fact the totals, on my assessment of it, would have been a target in the first instance combined of some 8,000 compliance or complaints checks, and in fact what was delivered was 8,000 compliance or complaints checks. Therefore, to the extent that people have concerns about operators who are doing the wrong thing, I am not sure that anyone would put forward a proposition that we should not seek to respond to complaints to the extent that licensees are not doing the right thing merely to honour a predetermined forecast of the number of complaints that might exist as opposed to actioning a compliance program.

Dr FLEGG: I note your response that fewer spot checks were done because resources were diverted to investigating complaints, but in answer to estimates question on notice No. 5 you stated that the number of prosecutions had declined. So you have fewer spot checks and, even though you are investigating more complaints, you have fewer prosecutions. What is this saying about the government's seriousness about tackling the problems in the alcohol sector, particularly binge drinking and under-age drinking?

Mr FRASER: What it says is that the government does not determine the number of complaints or the nature of complaints. What we determine is that when the complaints are received we investigate them and where a prosecution is required we undertake it. I am not sure you are suggesting that, merely because someone makes a complaint, that should logically lead to a prosecution. The nature of investigating a complaint is to determine whether it is substantiated or not.

Dr FLEGG: So you are suggesting that the increase in complaints and decrease in prosecutions means that the complaints are more frivolous?

Mr FRASER: No, I am not suggesting that at all. I am suggesting that the liquor licensing officers have, as is their task, responded to the complaints and undertaken a prosecution where those complaints are substantiated.

Dr FLEGG: I refer to the well-documented slowdown in commercial property activity in all states but which is quite marked in Queensland. Are you able to estimate the effect of this slowdown on budget estimates? If the current slowdown continues and spreads, as appears likely, will you make up the shortfall in revenue by the further introduction of new taxes and charges?

Mr FRASER: Can you repeat the last part of your question? I just want to make sure I answer the direct question.

Dr FLEGG: There is a pretty well-documented major slowdown in commercial property activity. My question to you was: have you estimated the effect to the budget of this slowdown, and if it spreads and continues, as appears likely, are you going to make up that shortfall by further increases to taxes and charges?

Mr FRASER: In short, the answer is no. The anecdotal evidence that has come before me, which I think is far from being absolutely rigorous at this point in time, does suggest some commercial property transactions have, while not necessarily been cancelled, been pushed out beyond original time frames. I think the softness, frankly, at the moment and on the forward program is more to do with the residential property market than the commercial property market. In fact if you look at the budget's forecast for continued business investment you will see a stronger business environment but a tighter environment for the household. To the extent, however, that there is in its manifestation a peeling off in the commercial property market, that would not cause us by any measure to revisit the taxation arrangements that we have put in place in the budget.

008 **Dr FLEGG:** Treasurer, we have seen a dramatic escalation in the government's borrowing program, particularly in the forward estimates with the whole-of-government figure out to $64 billion by 2010-11, and you have said a lot about the sustainability of those borrowings. But what I would ask you to tell the committee is: what level of borrowings do you believe Queensland could sustain without potentially impairing its AAA credit rating?

Mr FRASER: The answer to that question lies in table 9.3, which I think you are referring to. We believe that the program we have put forward is sustainable. More to the point, as I mentioned earlier, the budget is forecast to operate in surplus. Therefore, to the extent that those borrowings lie on budget, we also think that we are able to service those appropriately.

Dr FLEGG: There was a very significant blow-out in borrowings between last year and this year. What level can this go to before it starts to impair the credit rating of the state?

Mr FRASER: I am happy to answer questions about the forward estimates of the budget. We believe that the budget, represented as it is in tables 9.1 to 9.3, which you are referring to, is responsible and that the level of borrowings across both the budget sector and the PNFC sector and taken as a whole are sustainable.

Dr FLEGG: Given the extent of the blow-out in borrowings in this budget compared to last, do we expect to see a similar blow-out in borrowings over the next 12 months?

Mr FRASER: No.

Dr FLEGG: Treasurer, I again refer to the dramatic escalation in borrowings in the public non-financial sector out to $64 billion by 2011-12. At what point will the government be able to start some level of debt repayment from this amount of debt?

Mr FRASER: In many instances components of that debt will be subject to pay down through the forward estimates and beyond. That is, to the extent that they relate to commercial projects within the PNFC sector, which you are including in your analysis of the government's level of borrowings at the moment, then there are many commercial projects which will come online, generate a revenue stream and commence the payment down of the financing that was originally raised to construct those facilities in the first instance. You see that in relation to projects such as the Gateway Bridge upgrade. The financing task of that project will have a period of introduction before the toll revenues cross over the liability that exists and then ultimately pay down that debt.

The same can be said in relation to the Water Grid Manager and the water price path. That is, as the price path is introduced over years it is debt financed in the first instance. That is the nature of introducing a price path. It then becomes a task for the Water Grid Manager to pay down the initial debt that is financing the price path in the first instance. Ultimately, our ability, as it has been in the PNFC sector over many years, is the ability to pay down those borrowings relating to projects and relating to particular tasks of those entities but also at the same time for those entities to engage in new projects that similarly might be financed in that way and then begin the course of action that sees those particular projects financed and the debt that might finance those in the first instance paid down.

In the budget sector, as has been the case in previous years, we would also see an ability as and when circumstances allow to pay that debt down. We believe that the expansion that we are putting in place into the state's productive capacity will provide broader economic benefits to the state and therefore allow us at future points in time to be able to be in a position where, having financed that infrastructure expansion, that gives us the wherewithal and the strength to be able to pay those matters down.

Dr FLEGG: In relation to the timing of the sale of the lease on airports, can you explain to the committee the reason for the timing of that sale, at a time when demand for those sorts of infrastructure assets is impaired, I think would be fair to say? What effect has the current decline in demand for infrastructure type projects had on the completion date and the possible sale proceeds?

Mr FRASER: I would fundamentally disagree with you that the appetite for long-term infrastructure holdings has dissipated. In fact, I would make the opposite case. That is, at the moment given what is occurring on equity markets, in particular, the appetite for long-run infrastructure investments is very high. While not at liberty to detail the number, the expressions of interest process closed for the airport assets on Friday. I can provide you with every assurance that we have a wide, strong and quality field that is very interested in securing those investments. So, far from it being the proposition that you are putting forward that there is in some way an issue with appetite for those infrastructure investments, all the evidence I have seen and certainly the analysis that I would put forward is in fact that there is a very strong desire for those assets at this point in time.

CHAIR: The time allocated for non-government members' questions has expired. Before I go to government questions, I would like to remind the committee of a couple of standing orders. I have been very lenient with questions this morning in the interests of rigorous examination, but we are examining the proposed expenditure for 2008-09. For the benefit of committee members, I will also read out standing order 112, which states—

In asking a question, no argument or opinion shall be offered, or any fact stated, except so far as is necessary to explain the question.

Mr LANGBROEK: I seek your clarification, Madam Chair, as the *Members' Information Manual* at 4.8.4 states that wide latitude is generally allowed as it can be expected that there will be broad discussion ranging from items of detail to broad policy.

Ms DARLING: That is correct, and that is what I have just stated. I have allowed a lot of leniency in questions. I just thought it was timely before we handed over to government questions to remind members of a couple of the standing orders. I do not dispute that at all.

Mr LANGBROEK: Thank you.

Mr WENDT: Treasurer, I noticed your response to government questions on notice about seniors. Could you please outline how the budget assists pensioners and older Queenslanders with respect to government rebates?

Mr FRASER: I can. I thank you for the question. The government made a number of decisions in this budget which go to providing assistance towards those Queenslanders who are least able to cope with a context of rising prices and rising inflation—that is, in particular Queenslanders on fixed incomes, older Queenslanders, those on pensions, carers pensions and the like who, in a context of rising prices, find it most difficult to deal with those inflationary challenges. What we have done is keep in place the

Pensioner Rate Subsidy Scheme. In the south-east corner, where there will be an elevation of water prices as forecast in relation to the water grid, we have put in place a scheme over the next four years of some $50 million to provide this year a $40 rebate to those pensioners in the south-east corner who are facing those water price rises, a $70 rebate the next year and then a $100 rebate the year after. The rebate is moving up as the price of water is predicted to over those years.

The rising cost of electricity is well known both around the world and in Australia at this point in time. Given the regulated increase of 5.3 per cent, the government took a decision to increase the rebate provided to pensioners for electricity by more than that, by 13.8 per cent, which takes it from $145 per annum to $165 per annum. This comes on top of the gas rebate scheme which we funded through this budget as well as continuing discounts which we provide to pensioners on both motor vehicle and boat registration where a 50 per cent discount prevails. There are also discounts available in terms of train travel and bus travel. All of those arrangements are in place and funded such that the concessions provided in the budget, as is detailed in Budget Paper No. 2, for the first time reach over $1 billion. They focus particularly on those classes of people but are not exclusive to that class of people.

We have also taken a number of other decisions which are to the benefit of older Queenslanders. One is the abolition of land tax on aged-care facilities to ensure that the operators of those facilities in which older Queenslanders live are not liable to pay land tax. There was also an increase to the Medical Aids Subsidy Scheme, which has been detailed in the past. Also, arrangements were put in place in terms of the principal place of residence deduction for land tax. That is, for people in older life in circumstances which generally arise where illness or otherwise forces them to exit their principal place of residence either to go into care or to live with a family member or otherwise, we have removed the land tax penalty that can arise in very capricious circumstances.

Mr WENDT: Treasurer, as you know, I represent an old coalmining town. As such, I wonder if you could explain to the committee what funding the government has allocated towards developing clean coal technology.

Mr FRASER: On a day when the federal government hands down its green paper on an emissions trading scheme the question is entirely pertinent. We believe that there is a future for the coal industry in Queensland, but it has to be a clean future and it has to be a future that recognises the need to capture the externality of carbon emissions to make sure that we price that externality into the way in which our economy is run. As I said earlier, this is not just an environmental challenge but also an economic challenge as we introduce the calibration of carbon into our economy. As we do that, equally we are obliged as a government, in our view, to be making a contribution towards the development of new clean coal technology. To that end, the government has put in place a $300 million contribution to clean coal technology development which has also leveraged a contribution from industry of some $600 million. We recognise that they, more than anyone, have a lot at stake in ensuring that the development of clean coal technology is able to be advanced.

There is extensive discussion on this fact in Professor Garnaut's report and in his proposals also about not merely compensating those industries that are energy exposed and not merely compensating households but also directing a proportion—20 per cent—of their revenue from an ETS arrangement towards the development of new technology. We recognise that ultimately investment in R&D and investment in new technology are difficult tasks for any one entity or any industry to bear and that government can make a strong contribution, and that is why we have done it.

We have seen also our investment in the ZeroGen clean coal project near Rockhampton, which now has a government contribution of some $102 million. That means we are ensuring that, as the owner of coal-fired power stations, we have projects underway which are at the forefront of global development of clean coal technology. Do we recognise it is a difficult task? Yes, we do. Do we think that it is going to be a cheap task to develop these technologies? No, we do not. Ultimately that means for us as a government with industry that we need to make sure that we are putting in place those investments which ensure that we can secure a viable environmental and economic future for the coal industry.

It is the case that Queensland has more at stake in this policy proposal than any other state. If you look at the potential economic ramifications of doing nothing, as outlined by Professor Garnaut, they are twice the rate in Queensland as they are for the nation as a whole. The potential impact for Queensland is about 9.6 per cent of GSP and 4.8 per cent for the nation as a whole. We have a very carbon intensive economy here in Queensland, and that means that we have to put forward our best foot.

Mr WELLS: I refer to the resources boom and to the mercantilist streak which lies deep within the soul of each of us. I also refer to pages 96 to 100 of Budget Paper No. 2, and I ask: why has the government decided to alter the royalty rate? What effect will this have on revenues?

009 **Mr FRASER:** I thank the member for the question and return to some of my earlier remarks about the history that underlies the royalty regime that is in place in Queensland. As I remarked earlier, it is in fact the case that the royalty regime, originally introduced in 1974, was at a discount from the principal of 10 per cent to ensure that investment was encouraged in the first place.

It is clearly the case when you are witnessing the tripling of coal prices that the policy argument for running a discount to a royalty regime I think is somewhat dissipated, weakened and, in fact, evaporates. As an owner of QR and port infrastructure—and given the expansion of that infrastructure that is required to support the boom—but, more particularly, in the context of expanding the social infrastructure, the hospitals and otherwise, in the communities and cities that are supporting the resources boom, we believe that the full rate of return of 10 per cent from those coal resources should be secured by the Queensland taxpayer.

Recognising the issue of cost structures in the industry and noting, despite claims from some people, including, I have to say, the shadow Treasurer, that we should link the royalty regime to profitability—that would be unconstitutional—the reality of the situation is that we have got a royalty regime which applies in a marginal way above $100 a tonne. As I said earlier, I do think any amount of negotiation with the Resources Council would have resulted in a concluded view that they would support a royalty increase. Frankly, I think that is an expectation that would never have been achieved as equally as I said it would never be achieved that you could get agreement for a change in the personal income tax rates with the broader Australian body politic.

While it is the case that we seek to provide that level of consultation with industry and we have provided that approach in the past in the sense that we put together a budget that needs to take account of prevailing economic circumstances, that was not possible. No government in adjusting tax rates does that in an unthinking way, but ultimately consultation on some of these proposals, whether up or down, is in fact not appropriate or possible. I table for the benefit of the record of the parliament a letter to the Resources Council that was provided by the government.

CHAIR: Treasurer, you need to seek leave to table that letter.

Mr FRASER: I seek leave to table that letter.

Leave granted.

Mr FRASER: It sets out arrangements in relation to a whole series of matters about the policy proposals that the Resources Council has been interested in in the past and surely into the future. We undertook this decision to ensure that the appropriate return, recognising the broader economic environment that we are in, was appropriate for the people of Queensland.

Mr WELLS: Further to the resources boom, what investment has the government made in the infrastructure that supports the resources boom and, importantly, to the communities whose efforts support the resources boom?

Mr FRASER: As I said, the approach and the task for government at the moment is about supporting that resources boom. We do not think this is a competition with the resources companies. We think they stand to benefit as we stand to benefit. This is in an environment of rising prices—prices which, frankly, very few, if any, people predicted the scale of. We need to make sure that we work closely with the resources companies to ensure that not only are we providing the economic infrastructure—things like the doubling of Abbot Point Coal Terminal which I mentioned earlier, things like the investment of some $570 million which is occurring in the coal network in central Queensland alone this year, things like the Jilalan yard upgrade, things like the $300 million in coal rolling stock which is going to be invested this year—but also, in cognisance of all of those requirements, we put in place the economic infrastructure, rail, port and electricity generation, distribution and transmission networks that support the development of those minerals and support the development of those communities which are supporting them.

Your question is also about the other aspects of supporting the resources boom quite apart from the particular economic infrastructure that the resources companies use themselves. There is also an allocation of $150 million for highways in the Bowen Basin region, recognising that those highways are impacted upon by the higher level of traffic not only of the people working there but also of the goods and otherwise being transported on them. We think that is an appropriate level of investment. It does have a benefit to the resources industry but it is more particularly aimed at the people who live in those communities.

We are also ensuring, through a whole range of other measures such as the new Mackay Hospital, which we are building on site in Mackay and which will service the resources sector in a way that was never previously imagined in the city of Mackay, that we are able to provide health services for people who are generally living in and around Mackay if not further than Mackay in the Bowen Basin. We are also making sure in that context that we have other infrastructure in Mackay such as the Forgan Bridge and the new Hospital Bridge built and put in place. That is about lifting the capacity in a key city like Mackay, which is playing a huge role in supporting the resources boom at the moment and as more and more people seek to operate not only in a fly-in, fly-out way but also in a drive-in, drive-out way.

We also see the expansion of the Mount Isa Hospital which is being funded, as the government has previously indicated, through the sale of the government's stake in the Brisbane Airport Corporation. Mount Isa plays a different role for a different part of the resources industry. That hospital expansion and redevelopment is also entirely appropriate.

CHAIR: On page 202 of Budget Paper No. 2, in the section on sensitivity and expenditure risks, there is a mention of the obvious issue of future interest rate movement. Can you advise how these risks are managed?

Mr FRASER: I will build on the answer that I gave earlier by saying to you that obviously for a generation the Queensland Treasury Corporation has, in my view, undertaken this task in a way that is widely regarded on markets and by industry as being above grade. Their ability to execute and undertake the financing program that they have over the last year and more importantly into the future I think is unquestioned.

I would note in the context of the financing task that the QTC had to undertake over the last 12 months that, while its task was larger than it had been in the past, it was able to complete that task basically in full by February this year. In the context of seized or frozen credit markets and in a context where confidence to invest and where liquidity had in many ways evaporated, we find ourselves with a Queensland Treasury Corporation whose strength, representation and approach to managing the financing task for the state as its corporate treasury stood it in a position where it was able to achieve that task ahead of time, despite the prevailing circumstances and the nature and quantum of the task that it was charged with at this point.

It is certainly the case also that the proposed changes to withholding tax which have been put forward by the federal government will have the potential to improve liquidity in the bond markets for the Queensland Treasury Corporation. It has a strong track record in ensuring that its long-term approach to financing the capital raisings required by the state is one which is apportioned over time and in a way which takes account of the fact that interest rate movements are subject to both short-term and long-term forecasts. In many ways, as a long-term player in the market and taking a long-term view, the Queensland Treasury Corporation's approach to apportioning its debt raisings over a 10-year time frame with average maturity of those debt raisings at about 3½ years ensures that it takes account of both the shorter and longer term movements on interest rate markets.

CHAIR: Business in Queensland is always on the lookout for tax relief. I refer you to pages 78 to 83 of Budget Paper No. 2 and ask how decisions in this budget will assist in ensuring that Queensland continues to have a competitive tax system.

Mr FRASER: I thank you for the question. As I said in my opening remarks, one of the key policy priorities for the government and for the state of Queensland is to ensure that we have a competitive tax regime and to make sure that we have in every instance a regime which takes account of the fact that we have always had the benefit of a tax regime which has been more competitive than other states. This year, as the budget papers detail, Queenslanders will pay some $243 less tax per capita than other people in Australia because of the government's long-term policy view of having a competitive tax regime.

The payroll tax system in Queensland has the highest threshold in mainland Australia of $1 million. It has the lowest rate of 4¾ per cent—a rate which is the envy of other states who, I notice in their budget decisions, have made minor changes to rates and held them as payroll tax reform. They come nowhere close to the way in which we have maintained a very competitive regime on the payroll tax front over many, many years and do not intend to change it.

We also have a deduction system which is rather unique. That means that there is a phase-out of that deduction from employment thresholds of $1 million to $4 million at present. This can have a marginal impact on small and medium enterprises just over the $1 million threshold. What we have committed to do, at a cost of $20 million in further payroll tax relief, in this budget is expand that out to $5 million and, more to the point, set out a policy commitment to revisit that particular phase-out rate at $5 million now each and every budget to ensure that we smooth that deduction as far as possible. We will ensure that as those businesses move into the payroll tax net—and I would point out in context that at $1 million that threshold is very high and about one in 10, or 10 per cent, of Queensland businesses only are in the payroll tax regime—we have a threshold which ensures that they move out in a way that is more equitable.

Obviously in the past there have been significant amendments to the land tax schedule. What we are seeing is our threshold payment for companies, trustees and absentees reduced from $2,250 to $1,450. That is a benefit which will be accrued to some 17,500 companies, trustees and absentees who are in the land tax regime. As I remarked upon earlier, it is in fact the case, according to the Commonwealth Grants Commission, that our land tax regime is 45 per cent as opposed to anything close to exercised to full strength.

CHAIR: The time allocated for government questions has expired. I call the member for Moggill.

Dr FLEGG: On page 32 of Budget Paper No. 2 you refer to the COAG approach to emissions trading and the framework to be finalised by October this year. The state government owns a substantial number of coal-fired power stations which, on the best economic modelling I have been able to find, may well suffer fairly significant reductions in asset values as a result of emissions trading. What study have you done on the potential impact of the emissions trading on the power generation owned by the government and on the effect on GOCs of the reduction in asset values?

Mr FRASER: It is an important question in terms of the policy proposal of ensuring that the emissions trading scheme that we put in place in the first instance as a country—that is, the states acting together with the Commonwealth—takes account of our economic circumstances. As an asset owner, as you point out, of a portfolio of generators which are coal-fired, we need to have an approach here which is not just as policy maker but also as asset owner.

The extent to which there is a diminution in that asset value depends on a number of variables. One is a price for carbon that is proposed out of an emissions trading scheme. The second is—and I note the comments of Professor Garnaut in this context—whether or not there are transition arrangements or compensation in place towards electricity generators to that end. At this point in time no-one is able to quantify that because the variables about the system have not been settled. To the extent that this is an issue which is of high import to us as an asset owner on behalf of the taxpayers but also as the authors of economic policy settings, we need to make sure that we have an approach which takes account of both of those.

We recognise, as is set out in our submission to the Garnaut review which has been publicly available for some time, that this is an issue that requires consideration in the introduction of an emissions trading scheme. Obviously it is one which will very much be at the forefront of the policy work that is undertaken over the next six months.

010 **Dr FLEGG:** Treasurer, the imminent introduction of emissions trading will obviously have serious implications for Queensland because of the significant dependence of the state government—the economy—on coal royalties and coalmining. I note that in your public comments you have been fairly quiet on this issue, but I would like to ask you if you could clarify to the committee what studies you have done about the potential impact of the emissions trading scheme on both the government's financial base, particularly that which comes from the coal industry which goes beyond of course just royalties, and also on the broader Queensland economy?

Mr FRASER: I think there are a couple of points to make. One is that there is an economic cost which is quantified in Professor Garnaut's discussion paper released this month of doing nothing. The do-nothing approach would see a 9.8 per cent reduction in gross state product. So the first entry point into this discussion needs to be that there is a cost to doing nothing. Secondly, obviously there is a cost to acting, but frankly our view as a government is that we cannot afford not to incur that cost because to do otherwise would be to accept the ramifications from climate change. The Queensland Treasury is in fact providing a lot of the key technical data into the federal policy-making process. We are working closely with the Commonwealth to make sure that those arrangements are cognisant not only of the Australian context in the broader international framework but also of our particular circumstances. All of that modelling will be released in due course.

Dr FLEGG: Thanks for that.

Mr FRASER: I am advised that the green paper has not in fact been released as of this minute but is due in an hour or so, and that will provide the first iteration of that. But I can provide the assurance that, yes, we recognise that in fact Queensland has more at stake in this game than any other state. We take comfort from the fact that it is our economic modellers in the Office of Economic and Statistical Research who are doing a lot of the grunt work in terms of that modelling. When finalised, all of that modelling will be released in full in the public domain.

Dr FLEGG: Thank you. Madam Chairman, with your leave, the member for Toowoomba South will take over questioning on the Racing portfolio.

CHAIR: Certainly. Member for Toowoomba South.

Mr HORAN: Thank you, Madam Chairman. Minister, I refer to page 3-250 of the Treasury documents. A special meeting is planned for 6 August to extend the term of the chairman and directors to 2012 and further to 2018, with only one opportunity for challenge of those positions. In effect, the chairman and some of these directors would have been in that position since 2002 with the board and 2006 with Queensland Racing Ltd. Minister, under your responsibility in the act to approve licences for the control body and give direction about policies and rules, particularly public confidence in the integrity of the control bodies managing the interests of the code and the control bodies being accountable, I ask: have you approved this attempt for long-term unchallenged control of the racing industry?

Mr FRASER: No, I have not and it is not up to me to approve a proposal that Queensland Racing Ltd as the licence body would undertake. If the industry—having considered any proposal, the nature of which may go along those lines or a different line—as a whole agrees and resolves upon a course of action and puts forward a recommendation to me, my role under the act is to approve the change to the constitution, but that would only come to me if it was in fact agreed upon by the industry.

Mr HORAN: Minister, referring to page 71 of Budget Paper No. 2 about wagering taxes, I ask you about concerns regarding the operation of Betfair and corporate bookmakers on the Queensland Racing industry. It is costing the industry about a $17 million loss a year. In addition, there is now a risk that the gentleman's agreement will be broken by New South Wales under its new legislation, costing more millions to the racing industry. What has Queensland Racing advised you to do to fix this problem of Betfair, corporate bookmakers and the breaking of the gentleman's agreement? Does that advice include any abolition of the wagering taxes collected by the state or transfer of those wagering taxes?

Mr FRASER: The question is one of great substance. I for one would put forward the view that many of the fundamental structures underpinning the way in which the racing industry has been financed and has been conducted in the past are in fact under direct and sustained challenge at the moment by moves particularly in other jurisdictions. Queensland Racing does not have the role to provide that advice to me. The legislative environment that exists is one which is a matter for government. It may well have opinions, but it is not an advisory role. Any change to wagering revenue at this point in time because of the nature of the exclusivity agreement with UNiTAB, now owned by Tattersall's, would in fact go only to the direct benefit of Tattersall's and not result in extra money going back into the industry.

But there is I think a requirement for Australia as a whole and for the industry as a whole to approach this task not in a manner in which it is presently being undertaken—that is, a fragmenting not only of the gentleman's agreement, as it is known, but a fragmenting of different approaches to different forms of bookmaking and betting which sees leakage and capture of wagering turnover and otherwise enter different parts of the industry. This is something which cannot be denied. The Australian racing ministers council I think is on in October this year. We have had the High Court say that the approach that Western Australia took was unconstitutional in a way which I think is quite an extraordinary leap forward in terms of the way that the High Court considers those matters across industry generally. There is absolutely a high task for government at the moment to look at the issues around proposed exclusivities, proposed licence fees and proposed restrictions around publishing and advertising which other states are putting forward at the moment.

There is in my view nothing to recommend an approach which says that we cannot confront the existence of Betfair. At the moment in Queensland, as you rightly point out, while having denied Betfair, the fact is that it is licensed in another jurisdiction and taking the benefit of the racing product that is being produced and run in Queensland. Regardless of whether you have a philosophical view about Betfair or otherwise being desirable, the fact is that it is taking an economic benefit from the Queensland racing industry and returning naught and I think that that is the least best scenario. That means that we need to adopt an approach in this context which seeks to enjoin Betfair in a way that provides a return back to the industry if it is going to in fact exist.

Mr HORAN: Thank you. Minister, with regard to your responsibility under the act for accountability—and again looking at page 3-250 of the budget papers—during the EI outbreak many race meetings were cancelled throughout Queensland in both the green and the red zones, amounting to probably in the order of $30 million or more in savings in the prize money that would have been paid out. Under the accountability watch that you have under the act, can you advise this hearing the amount of prize money that was saved by those cancellations in both codes and what that money has been allocated to? Is that saved money to your satisfaction?

Mr FRASER: As you rightly point out, because of the impact of EI there was a great reduction in the number of races that were being conducted. In many non-TAB areas they became TAB race meetings, therefore providing a return to industry which substituted the requirement to solely fund those meetings that otherwise would not have been TAB meetings. I do not have a final set of advice from Queensland Racing about the quantum of the funds at this point in time, but it is required to report that in its annual report. What I do have however is this, and the answer to your question lies in this: under the Racing Act there is a legislative obligation for Queensland Racing to return seven per cent into non-TAB racing. To the extent that there is any provision of funds above and beyond that requirement, then I have already written to Queensland Racing in that context reminding it of its obligation that it needs to provide that to the benefit of non-TAB racing. It has to do that. It is what the Racing Act requires. The quantum of the funds and the nature of how it returns those funds have not yet been determined, but it is a matter which I am aware of. I agree with the policy point of view that I think underlines your question—that is, that it is not to gain from the circumstances of EI and that in no way discharges or excuses the obligation that it has under the act to return seven per cent into non-TAB racing.

Mr HORAN: Minister, could I ask for the detail to be provided to the committee at a later date? I understand that you might not have it now.

Mr FRASER: I am not sure of the timing of the annual report.

Mr HORAN: I am after how much was saved on both codes.

Mr FRASER: I am happy to provide it either to the committee or, if the committee has disbanded because time has moved on, to the parliament as a whole. It is something that I would normally report, but I will provide an undertaking to give it to the parliament.

CHAIR: We will note that as a question on notice in the first instance, Treasurer, if that is all right—

Mr FRASER: The timing of the annual report—

CHAIR: It will definitely be too short for you.

Mr FRASER: We are talking September or so, but I can give an undertaking to the committee that as soon as the advice is provided I will provide it to the parliament.

CHAIR: Thank you.

Dr FLEGG: Treasurer, I refer to the government's infrastructure program of some $17 billion I think in the 2008-09 year, a program that has become necessary of course because of many years of underinvestment in infrastructure. Treasurer, do you accept the view of the New South Wales Treasury Secretary, John Pierce, who states that the state's massive infrastructure catch-up programs are putting upward pressure on inflation?

Mr FRASER: No.

Dr FLEGG: Mr Pierce is a fairly senior commentator, and I notice other economic commentators have also been of the same view. He went on to say that he found that it was frustrating that governments were talking about the number of dollars they were throwing at infrastructure rather than the amount of infrastructure they were actually building. Do you accept then the view that the government's output and performance in infrastructure should be measured in projects, not in numbers of dollars?

Mr FRASER: I suppose I would point to a number of things. One is that I take the advice of my Under Treasurer and not the New South Wales Treasury Secretary, an Under Treasurer in Queensland who I think has served with distinction. I would also make the case that I am not sure that I would accept the advice of, with due respect, a secretary of Treasury who believes that, with regard to the development of an emissions trading scheme at the time of a credit crisis, the appropriate course of action to undertake would be the divestment of coal-fired generation facilities, not to put too finer point on it. In that context, however, I would put the case to you that the expansion of our infrastructure capacity, as the Reserve Bank has said and as I have remarked upon many times, is in fact anti inflationary in the medium term—that is, the only way to reduce inflationary pressures that lie dormant in the economy is to increase the productive and economic capacity that exists within the state to ensure that the throughput of export commodities and otherwise is lifted. That reduces price pressures so that the infrastructure investment—whether it is in roads and improving productivity that way or whether it is in port expansions and rail expansions and improving productivity that way—is to the benefit of fighting inflation to the extent that there is a contribution from capacity constraints and infrastructure contributing to inflation. I think it is incumbent upon us to make sure that we have a view, as I think the Reserve Bank does, that this is about the response now to ensure that the inflation levels in the economy return to the target band.

Dr FLEGG: Treasurer, I note the substantial increase in interest liabilities that the government will have to pay, particularly going into the forward estimates. Can I ask you how much the interest rates at which the government must borrow have increased over the past 12 months given the movement in the cash rate up to 7¼ per cent?

Mr FRASER: You can. The interest rate over the last 12 months has been, I think on balance, 7.2 per cent. We have a view that, while there will be some increase to that in the next year or so, it will return to other levels as the Reserve Bank meets its charter—that is, is able to reduce the inflation issue that is besetting its conundrum at the moment in setting a monetary policy as it has over the last 12 months.

011 I would point out to you, with reference to my previous answers about the nature of the fact that QTC both forward-funds its program and has those funds separated on a 10-year program with average debt maturity at 3½ years, that any particular movement in any one year does not radically reset the financing task of government,

Dr FLEGG: In relation to those movements in interest rates and, of course, their much greater impact on budgets now than a few years ago because of the greatly increased amount of borrowings being used by the government, have you an estimate of how much additional interest payments will rise as a result of those movements in the price of money? If they are not available at your fingertips, can you provide them?

Mr FRASER: The answer is that they are reflected in the forward estimates. That is, we have taken a view about interest rates and factored that into the quantum that you are referencing out of the budget papers. So the answer is of itself presented in the fact that we have provisioned the money, as we have listed, in the interest expense lines across both the general government sector and the PNFC sector in a way that takes account of our views of what interest rates will do. So there is not, if you like, an addition to that that goes beyond that.

But to put it in perspective and because of the way in which QTC funds the borrowing program, you might use as a rule of thumb that a sustained one per cent increase would cost about $80 million per annum. But we believe that the Reserve Bank will be successful in its task, and that is reduce the inflation burden that exists within the economy, and that cash rates will move down again. Ultimately, that is because we believe that the Reserve Bank will be able to do its job.

Dr FLEGG: At page 3-254 of the SDS you have discontinued a significant number of performance measures. Can you explain to us why you have discontinued so many? Do you accept that it makes it more difficult for people to make year-to-year comparisons of the performance?

Mr FRASER: I am grateful for the question because it gives me a chance to talk about something which not many people want me to talk about, and that is there is a strong case to be made that the presentation of the budget this year—and I have received this feedback more broadly and, I might even suggest, across the political spectrum—is very much to the benefit of understanding the transparency of the budget. I would be happy to answer the question further, suffice it to say the answer lies in trying to improve those measures that you referred to in line with the feedback from the Auditor-General about ensuring that they, in fact, go to the nature of what we should be measuring to provide a clearer assessment of the tasks we are undertaking.

There is a difference, in my view, between a sheer volume of information and that information being easily able to be understood and going, in fact, to the matters that people are interested in. Initiatives such as the new Budget Measures paper, Budget Paper No. 4, and the incorporation of the previous MPSs into the Service Delivery Statements have contributed to the budget being presented in a more accessible way for interest groups as a whole. Also, by taking the changes in the accounting framework determined under accounting standards and by the UPF, I think on the whole they have presented a budget which has greatly improved transparency and accountability. We will continue to make sure that we refine those measures in the Service Delivery Statements to ensure that we meet the challenge set us by the Auditor-General.

CHAIR: Thank you, Treasurer. The time allocated for non-government questions has expired. I call the member for Murrumba.

Mr WELLS: Treasurer, in answer to your last question from the government you referred to payroll tax reform. I would like to explore that a little further. Page 84 of Budget Paper No. 2 notes that the government has implemented a payroll tax harmonisation policy. Can the Treasurer update the committee on the implementation of this harmony?

Mr FRASER: There is peace in our time and harmony everywhere is the answer to your question. I think there used to be an occasion where the Council of Australian Governments went for a much shorter period of time but arguably produced much less in substance in terms of results. The case now, with both premiers and treasurers attending the Council of Australian Governments, is one in which we find that the outcome of the policy proposals is the first order of the day and not the base politics that might be executed in the nightly news.

Payroll harmonisation was, in fact, a task undertaken when the previous federal government was in office and has been implemented across Queensland, Victoria and New South Wales and is rolling out in other states. It is a task that was first put forward under COAG under former Prime Minister Howard and it is a task which was detailed at these estimates hearings last year by the former Queensland Treasurer, now the Premier.

The implementation of the new regime goes very much to the benefit of those industries which operate across state borders. As I said earlier, given our high threshold, what you find is that only industries with a payroll above $1 million are in the net. Therefore, they are not your standard, run-of-the-mill small business and oftentimes businesses that operate across different states. What we have done in implementing this reform is reduce the compliance burden for business to ensure they can meet their payroll tax obligations in the most efficient manner. That means they have commonality to definitions—commonality to provisions to ensure that the way in which payroll tax is, in fact, levied in different states is the same so that, therefore, those businesses can take the benefit of that red-tape reduction.

I would make the case, however, that one thing we are not proposing to do is in any way harmonise the threshold or harmonise the rate. We are happy to have business in Queensland take the benefit of a harmonised administration underpinning the way in which payroll tax is levied. What we would not be keen for and what we will not be doing is having a provision whereby payroll tax in Queensland is in any way levied at the same rate or at the same threshold as in other states. We very much place a value on having a competitive regime, and that is what we will have into the future

Mr WENDT: Treasurer, continuing on the theme of compliance and taxation, I refer you to page 3-248 of the Service Delivery Statements which talks about the revenue management system of OSR. On that issue, can you detail how the government is endeavouring to reduce compliance costs for taxpayers?

Mr FRASER: I can. One of the things the Office of State Revenue has introduced in recent years, and which it continues to roll out and which again received support in this budget, is a new e-business functionality into the Office of State Revenue. We are greatly encouraged by what has been achieved to date. Therefore, we have set ourselves a task of reducing administrative costs for clients by 20 per cent.

We do that in a way that recognises there is much to be gained through the ability of conducting and meeting obligations through electronic service delivery. We introduced e-lodgement for payroll tax self-assessors a couple of years ago. We have seen already that some 95 per cent of people now meet their obligations electronically. That greatly reduces the compliance costs for those businesses.

At the end of last year we introduced the second phase of that, Duties Online, which has seen a rapid uptake and more particularly—and most encouragingly—an even higher uptake outside the south-east corner. What we have seen is that about 80 per cent of people have already moved to meeting those obligations through electronic means and taking the benefit of the reduced compliance costs. Secondly, what we have seen is, as I said, a higher uptake by those people outside the south-east corner, not only for the benefits that it achieves in terms of the efficiency gained through the speed of it, the reduction in postage and paper handling costs, but also because through electronic lodgement there is a quality assurance process. That is, it has greatly reduced the levels of mistakes and errors that are produced in lodgements of assessments because there are in-built calculators and the ability to define those obligations and ensure that some common errors which might have been made in the paper based system, which are then processed, posted, then sorted through, then discovered and sent back, are, in fact, nipped in the bud.

That has very much been a positive aspect of the introduction of the new revenue management system that we are introducing in the Office of State Revenue. We believe, therefore, that our approach of seeking to secure a 20 per cent target in the reduction of administrative costs for those people who are clients of the Office of State Revenue is one that is both a worthwhile task and one that we believe is fundamentally achievable as we look to ensure that people are able to meet their obligations in the most efficient manner.

Mrs SMITH: Treasurer, there has been some speculation and concern about the future of greyhound racing on the Gold Coast. Can you outline for the committee what financial assistance the state government is providing to Greyhounds Queensland Ltd to assist them in moving from their Gold Coast Parklands home?

Mr FRASER: I can. I met with Greyhounds Queensland Ltd on Friday of last week and discussed with them the approach the government will be taking to assist the industry. We recognise the fact—and ultimately this is something which is acknowledged by the industry and I think accepted by the community—that the public land on which they presently conduct racing on the Gold Coast is, in fact, just that: public land administered for the state by the Parklands Trust. It is being utilised because of a decision of the government to build the Gold Coast University Hospital—for the expansion of that new hospital on the Gold Coast. Therefore, that necessitates the taking of some of that land on which other activities are presently engaged for the benefit of building the hospital.

We have offered in this context a compensation arrangement to Greyhounds. They do not have a tenure that in a legal sense would require us to do that. They are occupying the site under a permit to occupy—a licence which has been rolled over and rolled over—and in arrangements which have not been revisited for a long period. But we do not believe that it would be appropriate for government to stand on what you might term the legality of it and we point to what is more appropriate. So we have offered Greyhounds a $10 million compensation package to move from the site. That $10 million will provide the resources for the industry to make decisions about its long-term future.

There is a well-known debate about whether or not Greyhounds see themselves as long-term co-tenants at Albion Park. Many in the industry believe that exiting that ownership, if at all possible, with their co-tenants—the harness racing—would provide them with the ability to chart a different course for the industry. If that is achievable then government will not stand in the way of that. We believe that if they are able to realise that, and with the $10 million that we are providing, whatever the future for the industry is, what facility they might seek to pursue—whether that is the Logan option which has been mooted or another one—we have the wherewithal and the resources for the industry to make those decisions. Government will not be standing in the way of Greyhounds and Harness making those decisions, but we believe that the $10 million offer to the industry will provide them with a very substantial financial resource, along with the other resources of the industry, to make those decisions.

It is now a corporatised entity in charge of its own destiny. With the benefit of the transfer of the half-share of Albion Park in the past and now with the $10 million in compensation at Parklands, we think that sets it up with the ability to make those decisions.

Mr WENDT: Treasurer, page 21 of Budget Paper No. 2 refers to a number of state and national economic forecasts. Can you tell the committee what is the forecast for 2008-09 and what underpins Treasury's view on that?

Mr FRASER: I can. As I intimated earlier, we predict that Queensland will, in fact, gather pace in 2008-09 and grow at a rate of 4¼ per cent. That is, in fact, above the 3¾ per cent which we believe will be the finalised figure for 2007-08—the 12th year that we have grown at a rate above the national economy which, on Commonwealth Treasury's figures, grew at about 3¼ per cent for 2007-08.

012 What underpins that is definitely a robust view about the fundamentals in the Queensland economy. We continue to believe that there will be substantial employment growth in the state and that will ultimately lead to us achieving a year average unemployment rate of 3.75 per cent as jobs generation meets available labour supply. That will ensure that we have a once-in-a-generation low of unemployment of 3.75 per cent delivered last year and sustained on the year forward, in sharp contradistinction to what has occurred in the national economy.

We are also looking forward to seeing continued and strong population flows into the state. Our population flows are at 2.25 per cent, which again are above the national measure. More importantly, that population flow is predicted to be both younger and more skilled than the incumbent population. Twenty years ago we might have been witnessing inflows of what you might have described as economic refugees from southern states seeking cheap retirement on the Gold and Sunshine coasts. These days a couple of things have changed.

As some of the members here appreciate, the Gold and Sunshine coasts are very different places 20 years on. More to the point, people are making the decision to move to our state at the start of their productive lives, having gained qualifications or skills in another place. They are seeing the prosperity and the pipeline of investment. They are seeing not only an optimistic outlook for the resources sector but also recovery in the agricultural sector and what that will do for driving exports to 4.25 per cent. And they are making the decision to commence their working lives in Queensland because they see great prospects in Queensland. Not only are they attracted here because of the sort of environment and the way of life that we enjoy, but also and more particularly they see those economic prospects underpinning their attraction to moving here in the first place. Obviously this is an environment where we see some challenges in terms of household consumption in an inflated or a heightened interest rate environment that presents some challenges for retail trade and some challenges in terms of future prosperity, and that needs to be factored into that overall robust outlook.

CHAIR: Treasurer, I refer to page 84 of Budget Paper No. 2. How does this budget ensure that Queensland's tax regime compares favourably with other states and territories?

Mr FRASER: It ensures that we maintain a level of competitiveness by having Queenslanders pay $243 per person less than in other states, as is detailed in the budget papers. As I said earlier, that is because we have very competitive land tax, payroll tax and transfer duty regimes. Therefore, Queenslanders can take the benefit of a competitive tax regime which recognises that we encourage investment and that we make sure that, at every point in time, businesses are encouraged to grow and expand. That is delivered for Queenslanders through the changes that we have made most particularly and most pointedly to first homebuyers. We have said to people who are looking to start their productive lives here in Queensland that if their first home is valued at less than $500,000 they will not pay a cent in stamp duty or mortgage duty. We have said that we will continue to have a very low rate of payroll tax, that we will continue to have a very competitive land tax regime and that we will continue to make sure that the overall tax settings for the Queensland economy are ultimately competitive.

As I said earlier, we suffer the disbenefit of a very competitive tax regime by the Commonwealth Grants Commission's assessment of ensuring that there is a level of equalisation across the constituent states in the Federation. However, this has been a long-term policy approach of Queensland governments on both sides of the ledger and we think ultimately it has been to our benefit as we have been able to chart a story of economic expansion that for 12 years has outpaced the national economy, and year 13 has just commenced.

CHAIR: Treasurer, Queensland has many beautiful schools of significance to Queensland's heritage. Some of these date back to early last century. I refer to page 109 in Budget Paper No. 2 and ask: what is being done to ensure that these historic schools remain and that they continue to be well maintained?

Mr FRASER: As someone who I think has one or two older schools in her own electorate—

CHAIR: I do.

Mr FRASER:—and those of us in more established parts of Queensland know, many schools in Queensland have a unique history. It is one that we should cherish and protect. I note in passing that in the time that I have been the member some of the schools in my electorate have been celebrating 120- and 125-year anniversaries, which means that those schools are older than the country itself; they are older than Federation although they do not quite reach the 150th anniversary that we seek to celebrate as a state. Those schools are located in established areas such as the inner parts of Mackay and Brisbane, as well as in many older towns—not necessarily just cities—around Queensland. Some of our schools have been there for a very long time.

As those of us who have ever been silly enough to own a Queenslander know, with romance comes obligation and these are expensive things to maintain. Ultimately that means that we need to ensure that the maintenance effort is commensurate with the romance of the age of our schools. That is why in the budget there is a $100 million allocation over two years towards that maintenance effort, particularly to ensure that given the historical nature of many of our schools, which have stories to be told amongst their walls, we have the wherewithal to ensure that we can provide the maintenance task that is required. There are some 22,000 buildings across the schools that we own as a state. As an asset management task they do not come—

Mr JOHNSON: A bit of pain amongst their walls, too.

Mr FRASER: We take that as a plaintive request from the member for Gregory. The reality is, of course, that while we all value our schools and value the history in them, the maintenance task is significant one. That $100 million boost over two years to the maintenance budget will see a school maintenance budget this year of some $135 million. In that context we have the ability to make sure not only that we build new schools in growing parts of the state but also that we properly maintain, enhance and cherish those schools that have educated the people of Queensland longer than the country of Australia has been a Federation.

Mrs SMITH: Treasurer, the budget papers reveal an impressive capital program. Can you outline for the committee where this money is being spent and on what projects?

Mr FRASER: I can. Following on from my last answer I note that the budget provides funding for four new schools across Queensland and three of those schools are located in the growing northern suburbs of the Gold Coast where two primary schools and a new high school are being constructed to meet population growth. While those new schools are being built, it is also a priority of the government to build and redevelop hospitals around the state.

A couple of weeks ago I was at the new hospital being built at Mackay. Construction of the new utilities building at the back of the site will be underway by the end of the year. We are redeveloping and expanding Cairns Hospital to meet growing demand and are also planning for the future provision of a site for new health facilities to meet the growth occurring to the south of Cairns. As I have mentioned, we are redeveloping the hospital in Mount Isa. Those are chief amongst our priorities for health and education. In fact, this is a record health budget in terms of both its outlays and its capital works. We also see generally—and this is the best test of this—Queensland far outpacing what is occurring in other states.

CHAIR: The time allocated for government questions has expired. Member for Moggill?

Dr FLEGG: Thank you, Madam Chair. Treasurer, given the soaring cost of electricity which does not appear to be likely to improve any time soon, can you detail for us a very large item in the budget, which is the payment to Ergon for its CSO? Can you indicate to us the impact that the soaring price of electricity will have on that commitment for the CSO to Ergon?

Mr FRASER: I can. In providing that answer I would make some remarks generally about the nature of our holdings. Given that we own a generation portfolio and given that we own Ergon as a retailer for that CSO, if you like there is a natural hedge to those arrangements. To the extent that the price of electricity or the pool gets a spike that requires Ergon to purchase what it might on-sell in the retail sense at a higher level and commensurate with that, if there is an elevated price in the electricity pool the generators are in a position where one component of assets in the government's ownership is hedged against the other. Therefore, obviously one of the things that is relative to your question about the pure CSO payment to Ergon is that generally that will be alongside the other generators in government ownership being in a position where they are on the other side of that transaction.

I am not sure that I have the exact figure for you at the moment, but I can take it on notice. I might even be able to provide it in the four minutes we have left.

Dr FLEGG: Treasurer, as we spoke about before I note the obvious problem that the government is having in providing PPPs, with very limited PPPs completed, the private consortium having walked away—

Mr FRASER: Just one.

Dr FLEGG: Yes; the private consortium, thank you.

Mr FRASER: A private consortium.

Dr FLEGG: And the issues that obviously concerned the private sector about the staffing conditions that were put on their bid, as well as the hybrid financing model which, despite what you said before, I am aware is of concern to the private sector. Will you undertake to release to the committee the full details of that proposed financing model?

Mr FRASER: The transaction is being undertaken through Education Queensland. I do not propose to provide an obligation on Education Queensland other than to warrant to you that the nature of the model is obviously before the bidders at the moment so any consideration of that would require the transaction to have been completed. I am sure you can appreciate the commercial reality around that. I would remark that it is a consortia that has seen fit to not continue. In the paper today they said that one of the reasons they have done that is because there are so many other people contesting it. I think that belies the notion that there is a lack of interest or confidence in the model.

To the extent that there is interest in this model, I suggest to the people interested in bidding for this PPP that it would be one PPP more than what the Liberal Party is proposing at the moment. To that extent I am not sure that without hypocrisy it is open to the pursuit of a suggestion that there is a requirement to tell industry that you have a different view about PPPs. You are on the record as voting against it and, therefore, I find it passing strange that your line of questioning now suggests that the PPP model is somehow not to the benefit of industry. If it was up to you guys they would not even be looking at the bidding stage. I know that you have put forward the *Seinfeld* view that there is good debt and bad debt. I was not aware of the fact that there were good PPPs and bad PPPs.

Dr FLEGG: There undoubtedly is.

CHAIR: Member for Moggill, we have two minutes remaining in this session.

Dr FLEGG: Treasurer, I refer to the SDS 3-259 where it states that the Treasury Department's budget for supplies and services blew out by $35 million in 2007-08. Can you explain to the committee the reason for this massive blow out in supplies and services?

Mr FRASER: We are just confirming it, but from memory if I am using the figure that you are referring to as detailed in the notes, subsequent to the budget being finalised a couple of significant transactions occurred. There was the sale of wind and gas assets and the south-east Queensland water restructuring which involved, through that line item reported there, the retention of both legal and accounting advisers and, in terms of the sale of wind and gas, a probity adviser as well. The transaction model that has been undertaken by Treasury for major transactions—either divestments or a restructure such as occurred with the south-east Queensland water transaction effort—requires those additional resources to be marshalled in. They reflect that.

For the sale of wind and gas, as with the divestment of the Golden Casket licence and the retail assets of electricity in the past, those are recouped out of the proceeds of that transaction. In the way it is reported you see a reflection of the additional expense that is incurred, but commensurately there is a recoupment of those expenses for the advisory teams that are put in place for transactions of that size and nature in the transaction process. Therefore, in the end those amounts are recovered when it comes to an asset divestment. The answer to your question lies in the significant transactions that were undertaken both in terms of the south-east Queensland water restructuring and the sale of wind and gas post the finalisation of the previous budget.

CHAIR: Thank you. The time allocated for the consideration of the estimates of expenditure in the Treasury portfolio has expired. On behalf of the committee, I thank you, Treasurer, and your departmental officers for your attendance. The transcript of the hearing will be available on the Hansard page on the parliament's web site within approximately two hours. The hearing is now suspended for a short break. We will resume at midday with the Minister for Health.

Mr FRASER: I take this opportunity to thank the members of the committee for their examination of the budget. More particularly I thank the people to my right and left and behind me who have worked so hard to reach this point in time.

CHAIR: Thank you.

Mr FRASER: Before the committee breaks, the CSO to Ergon is $464 million. I do not think there is anything else on notice.

Proceedings suspended from 11.46 am to 12.00 pm