Appendix C: Revenue and expense assumptions and sensitivity analysis

The 2022–23 Queensland Budget, similar to all other jurisdictions, is based in part on assumptions made about parameters, both internal and external to Queensland, which can impact directly on economic and fiscal forecasts.

The sensitivity of revenue and expense forecasts to movements in underlying assumptions is particularly relevant given the almost unprecedented uncertainty in global and national economic conditions and key economic parameters in the context of the COVID-19 pandemic, as well as other recent global and domestic developments that have impacted key revenues.

The forward estimates in the 2022–23 Queensland Budget are framed on a no-policy-change basis. That is, the expenditure and revenue policies in place at the time of the budget (including those announced in the budget) are applied consistently throughout the forward estimates period.

Table C.1 shows the main components of taxation and royalty revenue, and the forecast revenues for each component across the forward estimates.

Table C.1 Taxation and royalty revenue[1]

	2020–21 Actual $ million	2021–22 Est. Act. $ million	2022–23 Budget $ million	2023–24 Projection $ million	2024–25 Projection $ million	2025–26 Projection $ million
Payroll tax	4,166	4,957	5,242	5,766	6,022	6,289
Transfer duty	3,954	6,028	4,722	4,442	4,757	5,233
Other duties	1,788	1,966	1,989	2,074	2,162	2,249
Gambling taxes and levies	1,586	1,589	1,646	1,752	1,810	1,879
Land tax	1,524	1,603	1,773	2,019	2,268	2,365
Motor vehicle registration	2,011	2,074	2,152	2,232	2,315	2,401
Other taxes	1,220	1,283	1,318	1,416	1,450	1,489
Total taxation revenue	**16,249**	**19,500**	**18,842**	**19,700**	**20,785**	**21,905**
Royalties						
Coal	1,740	7,290	5,480	3,297	3,539	3,699
Petroleum[2]	298	1,185	1,626	1,116	1,025	996
Other royalties[3]	499	483	538	505	488	494
Land rents	126	176	190	193	198	203
Total royalties and land rents	**2,662**	**9,135**	**7,832**	**5,112**	**5,251**	**5,392**

Notes:

1. Numbers may not add due to rounding.
2. Includes liquefied natural gas (LNG).
3. Includes base and precious metal and other mineral royalties.

The remainder of this chapter outlines the key assumptions, estimates and risks associated with key revenue and expenditure forecasts.

Taxation revenue assumptions and revenue risks

The rate of growth in tax revenues is dependent on a range of factors linked to the rate of growth in economic activity in the state. Some taxes are closely related to activity in specific sectors of the economy, whilst others are broadly related to the general rate of economic growth, employment, inflation or wages.

Therefore, any change in the level of economic activity compared with that reflected in the economic forecasts outlined in this paper, would impact a broad range of taxation receipts.

Wages and employment growth – payroll tax collections

Wages and employment growth have a direct impact on payroll tax collections. In 2022–23, wages in Queensland are forecast to increase by 3½ per cent, while employment is forecast to rise 3 per cent in 2022–23.

The composition of the payroll tax base is also important as businesses in sectors such as tourism, retail and hospitality are often outside the tax base because they are below a threshold.

A one percentage point variation in either Queensland wages growth or employment would change payroll tax collections by approximately $52 million in 2022–23.

Transfer duty estimates

Transfer duty collections in 2022–23 are expected to decrease by 21.7 per cent compared with 2021–22 estimated actuals and by a further 5.9 per cent in 2023–24. This is primarily because turnover is expected to decline from the currently high levels.

After moderating in the near term, transfer duty from the non-residential sector is forecast to grow steadily over the forward estimates, supporting a return to overall transfer duty growth in 2024–25 and 2025–26.

A one percentage point variation in either the average value of property transactions or the volume of transactions would change transfer duty collections by approximately $47 million in 2022–23.

Royalty assumptions and revenue risks

Table C.2 below provides the 2022–23 Budget assumptions regarding coal royalties, which represent the bulk of Queensland's royalty revenue.

Table C.2 Coal royalty assumptions

	2020–21 Actual	2021–22 Est. Act.	2022–23 Budget	2023–24 Projection	2024–25 Projection	2025–26 Projection
Tonnages - crown export[1] coal (Mt)	193	187	196	209	222	231
Exchange rate US$ per A$[2]	0.75	0.73	0.74	0.75	0.75	0.75
Year average coal prices (US$ per tonne)[3]						
Hard coking	117	364	206	160	160	160
Semi-soft	95	252	148	123	123	123
Thermal	69	140	128	90	90	90
Year average oil price						
Brent (US$ per barrel)[4]	41	77	96	78	75	75

Notes:

1. Excludes coal produced for domestic consumption and where royalties are not paid to the government (private royalties). The 2022–23 estimated domestic coal volume is approximately 24.4 Mt and private coal is 5.2 Mt.
2. Year-average.
3. Estimated year-average contract prices for highest quality coking and thermal coal. Lower quality coal can be sold below this price with indicative average prices for 2022–23 as follows: hard coking US$177/t and thermal US$118/t.
4. Published Brent oil prices are lagged by 4 months to better align with royalty revenue.

Exchange rate and commodity prices and volumes

Estimates of mining royalties are sensitive to movements in the A$-US$ exchange rate and commodity prices and volumes.

Contracts for the supply of commodities are generally written in US dollars. Accordingly, a change in the exchange rate impacts on the Australian dollar price of commodities and, therefore, expected royalty collections.

Potential impact on coal royalty revenue[1]

For each one cent movement in the A$-US$ exchange rate in 2022–23, the impact on royalty revenue would be approximately $145 million.

A one per cent variation in export coking and thermal coal volumes would lead to a change in royalty revenue of approximately $54 million. A one million tonne (Mt) variation would lead to a change in royalty revenue of approximately $27 million.

A one per cent variation in the average price of export coal would lead to a change in royalty revenue of approximately $107 million.

[1] Sensitivities represent the estimated change to royalty revenue accruing over the 2022–23 return period.

Parameters influencing Australian Government GST payments to Queensland

The 2022–23 Budget incorporates estimates of GST revenue grants to Queensland based on 2022–23 Federal Budget estimates of national GST collections and Queensland Treasury assumptions of Queensland's share. The estimates of collections are primarily determined by the value of national consumption subject to GST.

Since the Australian Government payments are based on the amount actually collected, it is the Queensland Budget that bears the risks of fluctuations in GST collections. As with all other tax estimates, there is a risk of lower collections than estimated if national economic growth and consumption are weaker than expected.

Due to the complexities associated with the GST base, the information provided in the federal budget papers is insufficient to prepare indicative estimates of the sensitivity of GST forecasts to key variables.

Sensitivity of expenditure estimates and expenditure risks

Public sector wage costs

Salaries and wages form a large proportion of General Government Sector operating expenses. Increases in salaries and wages are negotiated through enterprise bargaining agreements.

The 2022–23 Budget and forward estimates reflect growth in full-time equivalent public sector employees and wage increases consistent with existing agreements, the government's wages policy, and expectations of future bargaining agreements where outcomes are yet to be finalised. A one percentage point increase in wage rates above expectation would increase employee expenses by around $300 million per annum.

Interest rates

The General Government Sector has a total debt servicing cost forecast at $1.826 billion in 2022–23. The current average duration of General Government Sector borrowing with the Queensland Treasury Corporation (QTC) is 6.6 years. The majority of General Government Sector debt is held under fixed interest rates and, therefore, the impact of interest rate variations on debt servicing costs in 2022–23 would be relatively modest, with the impact occurring progressively across the forward estimates.

Actuarial estimates of superannuation and long service leave

Liabilities for superannuation and long service leave are estimated by the State Actuary with reference to, among other things, assumed rates of investment returns, salary growth, inflation and the discount rate. These liabilities are therefore subject to changes in these parameters. Similarly, the long service leave liabilities are subject to the risk that the actual rates of employee retention will vary from those assumed in the liability calculation.