

State Budget 2014-15

Budget Strategy and Outlook

Budget Paper No.2

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2014–15 State Budget Papers

1. Budget Speech
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STATE BUDGET

2014-15

BUDGET STRATEGY AND OUTLOOK

Budget Paper No. 2

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1 FISCAL STRATEGY AND OUTLOOK

FEATURES

- Ongoing disciplined expenditure management and the implementation of past savings measures are driving continuing improvement in Queensland's fiscal position. The General Government sector's fiscal balance is expected to improve significantly in 2014-15 before reaching a surplus in 2015-16, the first surplus since 2005-06.
- Debt levels are expected to grow only slowly over the forward estimates. Nevertheless, Queensland's debt burden is expected to remain significantly above that of other Australian states without a further policy response. Detail on the Government's plans for debt reduction is available in the Draft Action Plan at www.strongchoices.qld.gov.au.
- The General Government sector fiscal balance is estimated to be a deficit of \$6.1 billion in 2013-14, an improvement on a forecast deficit of \$7.6 billion in the 2013-14 Mid-Year Fiscal and Economic Review (MYFER).
- Expenses are estimated to have grown by 2.2% in 2013-14, following growth of only 0.2% in 2012-13. This contrasts with average expenses growth of 8.9% per annum in the decade to 2011-12. The Government is continuing to demonstrate its ability to control spending and this is driving improvement in the fiscal position, despite an ongoing weak revenue position.
- A fiscal deficit of \$2.27 billion is budgeted for 2014-15 compared to a forecast deficit of \$664 million in the 2013-14 MYFER. This largely reflects a significant downward revision in royalty and taxation revenue, as well as a change in the timing of Australian Government disaster recovery funding.
- The rebuilding effort as a result of natural disasters continues to severely impact the budget. The cost of all disasters, including Tropical Cyclone Ita, is \$5.63 billion over the 2013-14 to 2015-16 period.
- Over the period 2012-13 to 2015-16, forecasts of key revenue sources such as taxation, GST and royalties have been revised downwards by \$5.4 billion since the 2012-13 Budget – including a reduction of more than \$1 billion in this Budget.
- The 2014-15 Commonwealth Budget included increases in infrastructure funding to the states over the forward estimates. However, it also incorporated significant reductions in other funding, including the early cessation of a number of intergovernmental agreements.

- Of particular concern, the 2014-15 Commonwealth Budget indicated that the Australian Government will amend funding arrangements for public hospitals (from 1 July 2017) and schools (from 1 January 2018) to generate savings across all states of over \$80 billion in the period to 2024-25.
- Despite the scale of natural disasters and revenue write-downs, the Government is forecasting a fiscal surplus of \$862 million (or 1.6% of General Government revenue) for 2015-16. The Government will continue to pursue a fiscal surplus in 2015-16 and beyond as a policy objective.
- Consistent with previous forecasts, fiscal surpluses are expected over the remainder of the forward estimates largely due to the fiscal repair measures implemented by the Government since coming to office as well as continued expenditure discipline.
- The 2014-15 Budget limits new spending to areas of greatest need, while not introducing or raising any new taxes or reducing services.
- Despite a very difficult external environment making the fiscal consolidation task much tougher, the Government's fiscal repair initiatives will result in General Government borrowings stabilising from 2014-15. Total non-financial public sector borrowings at 30 June 2016 are expected to be \$9.2 billion lower than the comparable estimate in the Queensland Independent Commission of Audit's Interim Report released in June 2012.
- The Government continues to implement the recommendations it accepted in the Final Report of the Queensland Independent Commission of Audit to improve the quality and quantity of frontline services. Innovation and renewal are already starting to deliver significant improvements in service delivery. The Budget does not assume any savings from future initiatives that are yet to be agreed and implemented.

CONTEXT

Net measures since the election in March 2012 are delivering savings of \$7 billion in the General Government sector over the period 2012-13 to 2015-16. These savings were made through a continued strategy to exit from activities that are not the domain of the Queensland Government, a further reduction of waste and inefficiency in Government activities and the implementation of specifically targeted revenue measures. New spending in this Budget has been limited to areas of greatest need, such as providing additional funding of \$406 million over five years to implement the response to the Child Protection Commission of Inquiry Final Report (Carmody Inquiry).

As part of the ongoing process of fiscal repair, the Government has maintained its commitment to its fiscal principles aimed at improving the sustainability of the State's finances. These principles are:

- stabilise then significantly reduce debt
- achieve and maintain a General Government sector fiscal balance
- maintain a competitive tax environment for business
- target full funding of long term liabilities such as superannuation in accordance with actuarial advice.

These fiscal principles guided Government decision making during the preparation of the 2012-13 and 2013-14 Budgets and continue to guide Government decisions in the 2014-15 Budget and beyond.

Since coming to office, the Government has restrained expenditure growth. Operating expenses in 2013-14 are estimated to be almost \$1.5 billion lower than the 2013-14 MYFER estimates. General Government expenses growth is estimated to have averaged only 1.2% per annum from 2011-12 to 2013-14. This contrasts with average expenses growth of 8.9% per annum in the decade to 2011-12.

The Government will continue to focus its efforts on restraining expenditure growth through implementing fiscal repair measures announced previously and by pursuing reform to achieve value for money in the provision of Government services.

The 2014-15 Budget task remains difficult given the rebuilding work that continues following widespread damage caused from natural disasters. Damage caused by Tropical Cyclone Ita and other events in 2014 is estimated to have cost \$450 million and comes on top of previous significant natural disasters. The cost of all natural disasters amounts to \$5.63 billion over the 2013-14 to 2015-16 period.

Over the period 2012-13 to 2015-16, forecasts of key revenue sources such as taxation, GST and royalties have been revised downwards by \$5.4 billion since the 2012-13 Budget – including a reduction of more than \$1 billion in this Budget. In terms of the most recent revisions, royalty revenue downgrades are due to ongoing weakness in export coal prices, with tax revisions because of a slower rate of growth in payroll tax and stamp duties (other than transfer duty). This has been offset to some extent by upward revisions to transfer duty and GST revenue.

Despite the pressures outlined above, the Government remains on track to deliver a fiscal surplus in 2015-16 as planned, followed by further fiscal surpluses in 2016-17 and 2017-18.

In addition, the Government has continued to implement the accepted recommendations outlined in the Final Report of the Queensland Independent Commission of Audit. The Commission of Audit examined ways in which the quality and quantity of frontline services can be improved, including models that make better use of the skills, capacity and innovation of the private and not-for-profit sectors.

Implementation of the accepted recommendations continues public sector reform in Queensland and will guide the manner in which public services are delivered into the future. Many of the recommendations related to contestability whereby Government tests the market to ensure it is providing the public with the best possible solution at the best possible price. The Government is determined to continue its transition from “doer” to “enabler”.

While there is a clear expectation that the associated reforms will result in improved value for money outcomes in the delivery of services, the Budget does not assume any savings from future initiatives that are still to be agreed and implemented. As a general principle, realisable savings are being re-invested back into improved service delivery (quantity and quality), thereby relieving the Budget of other funding pressures.

KEY FISCAL AGGREGATES

The key fiscal aggregates of the General Government sector for the 2014-15 Budget are outlined in Table 1.1 and are discussed in detail in this chapter.

Table 1.1 General Government sector – key financial aggregates¹							
	2012-13 Actual ² \$ million	2013-14 MYFER \$ million	2013-14 Est. Act. \$ million	2014-15 Budget \$ million	2015-16 Projection \$ million	2016-17 Projection \$ million	2017-18 Projection \$ million
Revenue	41,746	44,864	44,851	50,120	53,407	55,491	56,628
Expenses	46,129	48,633	47,149	49,933	50,219	51,957	53,660
Net operating balance	(4,382)	(3,769)	(2,298)	188	3,188	3,534	2,968
Capital purchases	6,970	7,119	6,634	5,972	5,748	5,850	5,188
Fiscal balance	(7,741)	(7,604)	(6,083)	(2,271)	862	508	883
Borrowing	37,878	45,719	44,979	48,141	48,023	48,216	48,421
Borrowing (NFPS) ³	69,031	76,968	76,123	79,956	80,619	81,234	82,070
Notes:							
1. Numbers may not add due to rounding.							
2. Reflects published actuals.							
3. NFPS: Non-financial Public sector							

Fiscal Balance

As identified in Table 1.1, the anticipated 2013-14 fiscal deficit of \$6.083 billion compares with a forecast deficit of \$7.604 billion expected in the 2013-14 MYFER. This \$1.5 billion improvement is largely the result of lower than forecast expenses.

Specific drivers for the improvement in 2013-14 are:

- a significant reduction in employee expenses primarily due to continued discipline in controlling the number of Full Time Equivalent positions as a result of ongoing productivity and efficiency improvements
- lower than expected natural disaster reimbursements to local governments as a consequence of the revised profile for their reconstruction works
- a deferral of some Commonwealth funded expenditure, particularly for Education.

Further details on revenue and expenses are contained in Chapters 3 and 4 respectively.

The estimated 2014-15 General Government sector fiscal deficit of \$2.271 billion is weaker than the forecast deficit of \$664 million in the 2013-14 MYFER. This is primarily a result of timing differences in disaster expenditure relative to Natural Disaster Relief and Recovery Arrangements (NDRRA) payments from the Australian Government as well as weaker taxation and royalties revenue. Revisions to NDRRA expenditure (both recurrent and capital) and revenue in 2014-15 are expected to detract \$947 million from the fiscal balance compared to MYFER.

Royalty revenue estimates have been revised down by \$626 million in 2014-15, primarily because of much lower coal prices.

Taxation revenue has been revised down by \$179 million in 2014-15 relative to MYFER. This is primarily because of reductions in the rate of growth in payroll tax, offset, to some extent, by stronger transfer duty.

GST has been revised up \$177 million since MYFER, reflecting upwards revisions to the GST pool in the 2014-15 Commonwealth Budget and Commonwealth Grants Commission upwards revisions to Queensland's relativity.

Revisions to fiscal surpluses in 2015-16 and 2016-17 compared to the 2013-14 MYFER are relatively small with downwards revisions to taxation revenues and the cost of new policy measures broadly offset by increases to GST revenue and higher NDRRA revenue estimates in these years.

The key factor driving the turnaround from 2015-16 is that revenue is forecast to increase by 6.0% per annum over the period 2013-14 to 2017-18, compared to 3.3% per annum increases in expenses.

Table 1.2
General Government sector – revisions to fiscal balance forecasts

	2012-13 \$ million	2013-14 \$ million	2014-15 \$ million	2015-16 \$ million	2016-17 \$ million	2017-18 \$ million
2013-14 Budget	(8,686)	(7,664)	(244)	1,065	1,409	n/a
2013-14 MYFER	(7,741)	(7,604)	(664)	696	598	n/a
2014-15 Budget	(7,741)	(6,083)	(2,271)	862	508	883

Table 1.3 provides a breakdown of the movements in the net operating balance and fiscal balance since the 2013-14 MYFER.

Table 1.3
Reconciliation of net operating balance and fiscal balance
2013-14 MYFER to 2014-15 Budget¹

	2013-14 \$ million	2014-15 \$ million	2015-16 \$ million	2016-17 \$ million
NET OPERATING BALANCE				
2013-14 MYFER net operating balance	(3,769)	1,910	2,026	1,474
Taxation revisions ²	(83)	(179)	(415)	(508)
Royalty revisions	(235)	(626)	(234)	128
GST revisions	12	177	527	689
Natural disaster revisions ³				
<i>Change in revenue</i>	..	(756)	796	499
<i>Change in expenses</i>	353	(34)	(232)	..
<i>Net change</i>	353	(790)	564	499
Measures ⁴				
<i>Expense</i>	(3)	(204)	(108)	(151)
<i>Revenue</i>	(6)	(1)	8	13
<i>Net</i>	(9)	(205)	(100)	(138)
Net flows from PNFC sector entities ⁵	325	44	(172)	(285)
Australian Government funding revisions ⁶	(13)	(120)	739	1,265
Other parameter adjustments ⁷	1,121	(23)	254	409
2014-15 Budget net operating balance	(2,298)	188	3,188	3,534
FISCAL BALANCE				
2013-14 MYFER fiscal balance	(7,604)	(664)	696	598
Change in net operating balance	1,471	(1,722)	1,162	2,060
Natural disaster capital revisions ³	1	(157)	..	..
Measures	(7)	(44)	(10)	(14)
Capital co-funded by C ^{wealth} ⁸	33	(261)	(689)	(1,670)
Other capital movements ⁹	23	578	(297)	(466)
2014-15 Budget fiscal balance	(6,083)	(2,271)	862	508
Notes:				
1. Numbers may not add due to rounding. Denotes impact on the operating and fiscal balance.				
2. Represents parameter adjustments to taxation revenue.				
3. Represents movements in revenue, expense and capital for natural disaster restoration and largely represents the State's cost of damage from all natural disasters and a re-profiling of expenditure and revenue.				
4. Reflects the value of Government decisions since the 2013-14 MYFER. This number will not match Budget Paper 4 – Budget Measures as it is net of measures funded by the Australian Government since the 2013-14 MYFER and funds held centrally for these measures.				
5. Represents revisions to dividends and tax equivalent payments from, and community service obligation and Transport Service Contract payments to, PNFCs and PFCs.				
6. Represents the net impact of funding provided by the Australian Government primarily for Specific Purpose Payments and National Partnership payments (mainly for transport infrastructure), excluding funding in 4 above.				
7. Refers to adjustments largely of a non-policy nature, primarily changes in interest paid on borrowings, changes in depreciation, growth funding, swaps, deferrals and administered revenue.				
8. Includes projects such as Gateway Upgrade North, Toowoomba Second Range Crossing, Warrego Highway and other road projects co-funded by Australian Government revenue referred to in 6 above.				
9. Refers to capital movements including finance leases, the change in timing of capital payments including swaps, deferrals, capital payables and receivables and changes in inventories and depreciation.				

Australian Government payments

The 2014-15 Commonwealth Budget included increases in infrastructure funding to the states over the forward estimates. However, it also incorporated significant reductions in other funding, including the early cessation of a number of intergovernmental agreements.

The key changes in relation to National Partnership (NP) funding for 2014-15 include:

- \$1.132 billion for infrastructure funding across the State in 2014-15. This figure includes increased funding for the Toowoomba Second Range Crossing and the Bruce and Warrego Highway upgrades
- the early cessation of a number of NP agreements, including the Certain Concessions for Pension Concession Card and Senior Card Holders (costing \$223.2 million over the four years to 2017-18), Preventative Health (costing \$43.9 million over the four years to 2017-18), Training Places for Single and Teenage Parents (funding terminating in 2013-14 instead of 2014-15) and Improving Public Hospital Services (terminating from 1 July 2015)
- the deferred commencement of the Adult Public Dental Services NP agreement until June 2015.

The timing of revenue and expenditure in relation to natural disasters continues to significantly impact Queensland's headline fiscal balance. Table 1.4 outlines the impact of natural disaster arrangements on Queensland's fiscal balance, and shows the impact is especially large in 2013-14 and 2015-16.

Table 1.4
Impact of Natural Disaster Relief and Recovery Arrangements
funding on the fiscal balance^{1,2}

	2013-14 \$ million	2014-15 \$ million	2015-16 \$ million	2016-17 \$ million	2017-18 \$ million
Published fiscal balance	(6,083)	(2,271)	862	508	883
<i>less</i> Disaster revenue ³	..	2,133	1,895	499	..
<i>add</i> Disaster expenditure	3,583	1,815	232	..	..
Underlying fiscal balance	(2,500)	(2,589)	(801)	9	883

Notes:

1. Numbers may not add due to rounding.
2. Excludes loans provided through the State which do not impact the fiscal balance.
3. Once advance funding has been fully utilised, revenues are expected to be received in the financial year following the delivery of the works to which it relates.

NDRRA expenditure in 2013-14 is estimated to be \$353 million less than the comparable MYFER estimate.

Disaster relief and recovery expenditure in 2014-15 is expected to be \$191 million more than forecast in the 2013-14 MYFER, with revenue \$756 million less in 2014-15.

Revenue in 2015-16 and 2016-17 is projected to be \$1.295 billion greater than forecast in MYFER, primarily because of revisions as to the quantum and timing of claims.

The cost of all disasters, including Tropical Cyclone Ita, is \$5.63 billion over the period 2013-14 to 2015-16. The Queensland Government is continuing to gather the evidence required to ensure that NDRRA expenditure meets the Australian Government's eligibility requirements to ensure Queensland gets its fair share. Should the Australian Government fail to fully reimburse Queensland for these disaster works, the impact of disasters over the forward estimates will be worse than that indicated in Table 1.4.

Cash Flows and Balance Sheet

General Government sector

Cash surplus/(deficit)

The General Government sector is expected to record a cash deficit in 2013-14 of \$6.443 billion, compared to a \$7.342 billion deficit forecast in the MYFER. The smaller than expected cash deficit primarily reflects both reduced recurrent and capital expenditure.

A cash deficit of \$2.342 billion is expected for the General Government sector in 2014-15, with a cash surplus of \$958 billion in 2015-16, followed by cash surpluses in each of the following years.

Capital purchases

General Government purchases of non-financial assets (capital spending) in 2013-14 are estimated to be \$6.634 billion. This is \$485 million less than forecast in the MYFER, largely due to a range of deferrals associated with health and transport infrastructure.

General Government capital purchases of \$5.972 billion are budgeted for 2014-15, slightly higher than the \$5.944 billion forecast in the 2013-14 MYFER. Budget Paper 3 – Capital Statement provides details of budgeted 2014-15 capital outlays by portfolio.

Over the period 2014-15 to 2017-18, purchases of non-financial assets in the General Government sector of \$22.758 billion are planned.

Borrowings

Gross borrowings (the stock of borrowings outstanding as stated in the Balance Sheet) of \$44.979 billion at 30 June 2014 are \$740 million less than forecast in the 2013-14 MYFER due to the lower net borrowings being partly offset by additional finance leases.

Net borrowings of \$3.107 billion are budgeted for 2014-15, with the \$1.489 billion deterioration since 2013-14 MYFER driven by the same factors as the deterioration in the fiscal balance. Net borrowing requirements improve significantly across the forward estimates, leading to a stabilisation of debt. Over the Budget and forward estimates

period, total General Government net borrowings of \$1.962 billion are planned. Gross borrowings are expected to remain stable at around \$48 billion over 2014-15 to 2017-18 which would represent the first stabilisation in General Government gross borrowings since 2006-07.

The net borrowing requirement differs from that implied by the fiscal balance each year due to new finance leases, the reinvestment of earnings on financial assets, equity injections to Public Non-financial Corporations (PNFC) entities and the non-cash nature of some items in the Operating Statement.

Public Non-financial Corporations sector

The PNFC sector is comprised of the State's commercial entities, such as those that operate in the energy, transport and water industries. Further detail on the PNFC sector is provided in Chapter 7.

The PNFC sector is expecting net borrowings of \$246 million in 2013-14, down from the \$329 million 2013-14 MYFER estimate, reflecting lower capital spending in the sector. Gross borrowings in the PNFC sector of \$31.143 billion are projected at 30 June 2014, slightly below the MYFER estimate of \$31.249 billion.

Non-financial Public sector

The Non-financial Public (NFP) sector is the combination of the General Government and PNFC sectors, with transactions between these sectors being eliminated.

Gross borrowings of \$76.123 billion are projected at 30 June 2014 in the NFP sector, \$845 million less than the 2013-14 MYFER estimate. By 2014-15, borrowings are expected to reach \$79.956 billion, \$6.37 billion less than the comparable 2014-15 estimate published in the Interim Report of the Queensland Independent Commission of Audit.

Purchases of non-financial assets (capital spending) of \$9.754 billion are expected in the NFP sector in 2013-14, \$1.418 billion less than the 2013-14 MYFER estimate. This decrease is largely due to deferred capital expenditure particularly in the areas of health and transport as well as reductions in the capital program of the electricity and rail sectors of the PNFC sector.

Gross NFP sector borrowings of \$79.956 billion are expected at 30 June 2015, \$480 million above the 2013-14 MYFER forecast of \$79.476 billion, reflecting a slightly higher borrowing requirement in the General Government sector. However, gross NFP sector debt estimates in the 2014-15 Budget are lower than the 2013-14 MYFER estimate for 2013-14 and 2016-17, and lower in all years relative to the 2013-14 Budget.

As outlined in Table 1.5, gross borrowings are expected to reach \$80.619 billion at 30 June 2016, \$9.219 billion lower than the comparable Queensland Independent Commission of Audit Interim Report estimate. The slight increase in the level of debt over the remainder of the forward estimates period reflects additional borrowings by the

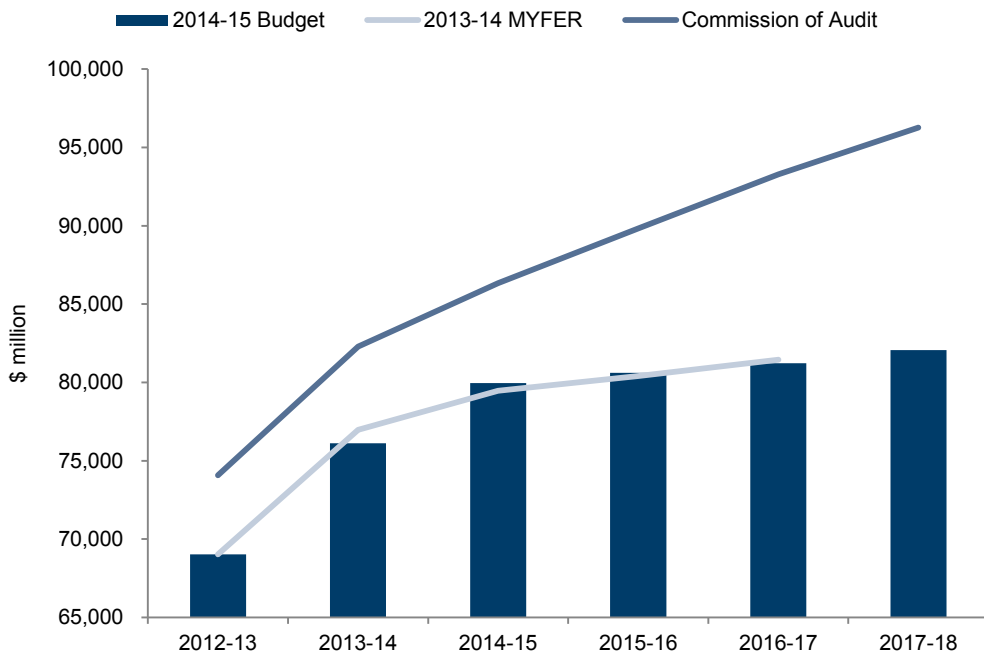
PNFC sector, for which there is an identifiable revenue stream to service the debt. In contrast, the rapid accumulation of debt in recent years has been due to additional borrowings in the General Government sector, for which there is no separate revenue stream to service the debt (other than the Consolidated Fund).

Table 1.5					
Non-financial Public sector – revisions to gross borrowings					
	2013-14 \$ million	2014-15 \$ million	2015-16 \$ million	2016-17 \$ million	2017-18 \$ million
CoA Interim Report ¹	82,293	86,326	89,838	93,277	96,268
2013-14 MYFER	76,968	79,476	80,416	81,454	n/a
2014-15 Budget	76,123	79,956	80,619	81,234	82,070
Reduction since CoA	6,170	6,370	9,219	12,043	14,198
Note: 1. Queensland Independent Commission of Audit (CoA) Interim Report borrowing numbers have been adjusted to ensure comparability with the 2013-14 MYFER and 2014-15 Budget.					

Chart 1.1 illustrates that NFP sector borrowing estimates are broadly similar to the 2013-14 MYFER. Borrowing, while still growing, is at levels significantly below the Queensland Independent Commission of Audit projections which were prepared in 2012 on a no-policy change basis.

Further, Chart 1.1 shows that after 2014-15, borrowings grow slowly rising by around \$2.1 billion over the period 2014-15 to 2017-18.

Chart 1.1
Non-financial Public sector gross borrowings¹



Note:

1. Queensland Independent Commission of Audit Interim Report borrowing numbers have been adjusted to ensure comparability with the 2013-14 MYFER and 2014-15 Budget.

Debt still high compared to other jurisdictions

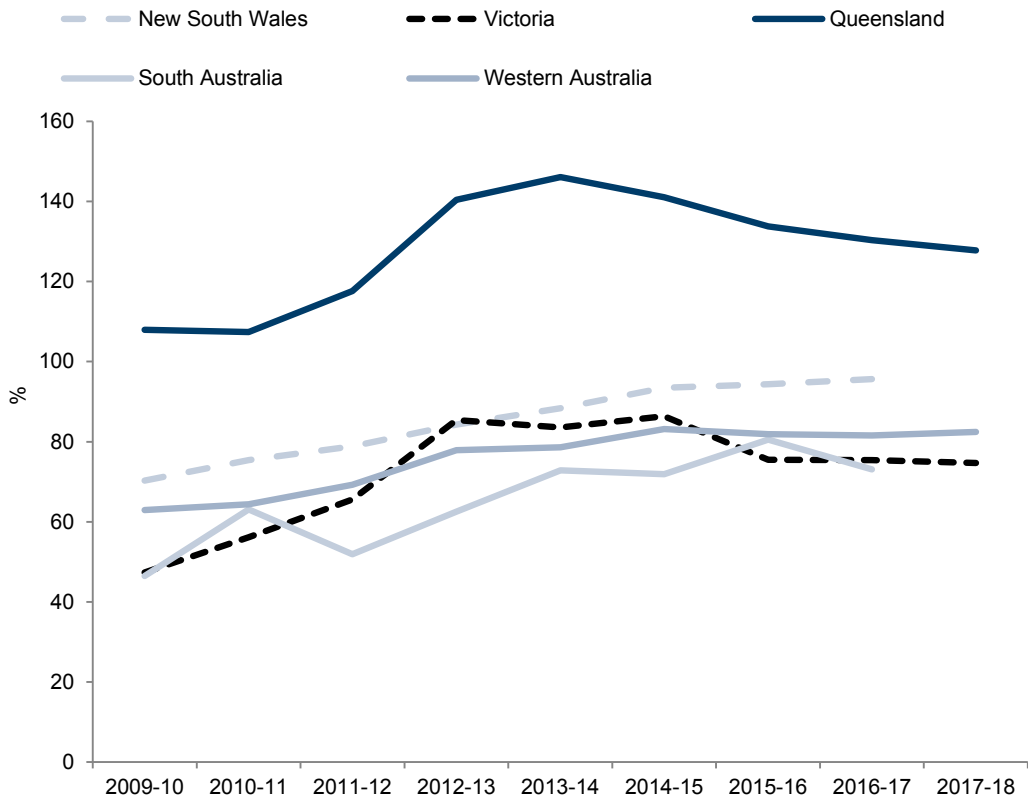
During the period 2005-06 to 2012-13, Queensland's debt increased from \$18 billion to \$69 billion, with the previous Government anticipating borrowing would reach \$85 billion in 2014-15. The majority of the increase in debt has occurred in the General Government sector, rather than the PNFC sector. The key driver of the debt increase has been the accumulation of fiscal deficits of \$36.7 billion between 2006-07 and 2012-13.

Debt is forecast to grow more slowly over the forward estimates, as a result of the Government returning to a fiscal surplus in 2015-16. While achieving a fiscal surplus effectively means the General Government sector is not expected to assume additional debt, a significant reduction in debt levels is not projected under current policy settings.

A relevant consideration is how Queensland's debt compares to other Australian states, since comparison to peers is taken into account for ratings agency assessments. Queensland's level of debt is around \$15,000 per person. This is almost 80% higher than the average of the other states of \$8,335 per person (at 30 June 2013).

The NFP sector debt to revenue ratio of all States (excluding Queensland) is estimated to be 83% in 2016-17 compared to 130% in Queensland, see Chart 1.2. Most States have experienced a rapidly increasing debt to revenue ratio over the period 2009-10 to 2014-15 from where the ratio plateaus.

Chart 1.2
Interstate Comparison of Debt to Revenue Ratios¹, 2009-10 to 2017-18



Note:

1. Borrowings divided by total revenue (NFPS).

Sources: ABS 5512.0, Report on State Finances, State Budgets for Victoria and Western Australia and Mid Year Reviews for New South Wales and South Australia.

Strong Choices

In April 2014, the Strong Choices campaign was launched to provide Queenslanders with access to information to have their say about reducing Queensland's debt. A centrepiece of this campaign was Australia's first interactive 'People's Budget'. Ultimately, more than 70,000 Queenslanders have taken part in the Strong Choices campaign, with over 55,000 Queenslanders submitting their own People's Budget, outlining their saving and spending priorities.

Following this unprecedented public consultation process, the Government has issued a draft plan to address Queensland's \$80 billion debt problem. The Government is proposing a program of transactions, including long-term leases, asset sales, and an innovative option of structured private sector financing, where the Government will retain ownership of the asset and some of the dividends, with private sector funding of debt and further capital expenditure.

At their current book value, the assets proposed for divestment could potentially deliver \$33.6 billion. Three-quarters of this – \$25 billion – would be used to reduce State debt. This would result in the debt estimate in 2017-18 of \$82 billion being around \$57 billion. However, this estimate depends upon the final detail of the transactions. The remaining quarter of the value of asset divestments would be deposited in a number of investment funds and projects to help grow the State's economy now and for future generations.

Following a further round of public feedback on the proposed infrastructure investment, the Government will issue a final plan for debt reduction and infrastructure investment in September 2014. However, no plans will be implemented before the Government seeks a mandate at the next State election. Accordingly, the proposed asset divestments and associated infrastructure spending has not been incorporated into the 2014-15 Budget figures.

Further detail on the Government's plans is available in the Draft Action Plan at www.strongchoices.qld.gov.au.

FISCAL STRATEGY AS A GUIDING PRINCIPLE FOR POLICY

The Government implemented significant fiscal reforms in both the 2012-13 and 2013-14 Budgets. Without this reform, the Government would not have been as well placed to meet the costs associated with the rebuilding task arising from all natural disasters. However, the extent of the disaster repairs and continued weakness in global economic conditions has created further fiscal challenges for Government.

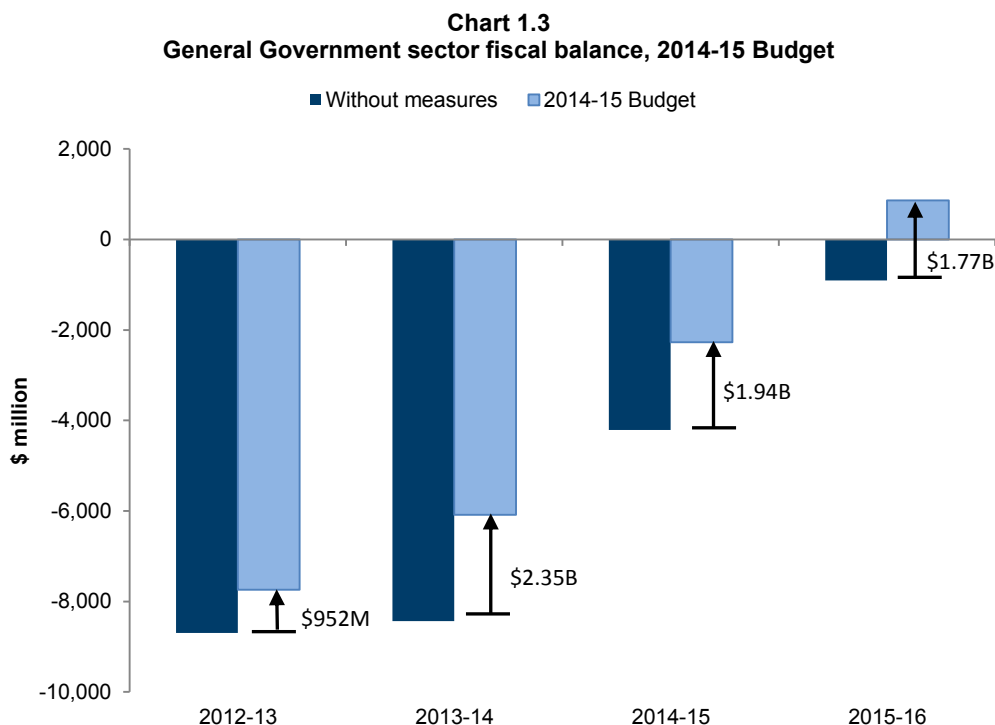
Net measures since the election in March 2012 are expected to deliver savings of \$7 billion in the General Government sector over the period 2012-13 to 2015-16. The 2014-15 Budget consolidates fiscal repair and demonstrates that announced measures are showing results, albeit under the burden of high levels of debt and weak revenue conditions.

The Government has demonstrated its ability to manage expenditure, with total expenses in 2013-14 estimated to be around \$1.5 billion lower than in the 2013-14 MYFER. It is estimated that total operating expenses in 2013-14 will be only 2.2% above 2012-13.

Ongoing monitoring of Government activity and a disciplined approach to expenditure will ensure that forecast savings continue to be met across the forward estimates.

Improvements in Key Measures of Queensland’s Fiscal Position

Chart 1.3 shows the improvement in the General Government fiscal balance over the period 2012-13 to 2015-16 following all Government decisions up to and including this Budget. In the absence of these decisions, the fiscal balance over the period would, in aggregate, be around \$7 billion worse.

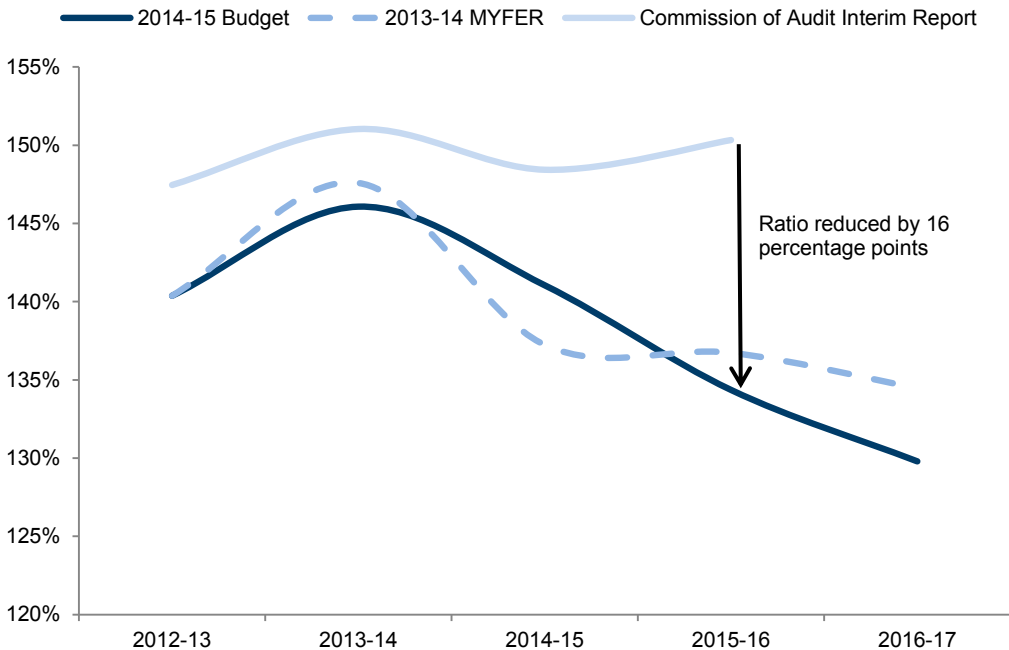


Borrowings

As a result of the Government’s fiscal repair efforts, there has been a significant improvement in borrowing projections since the Queensland Independent Commission of Audit Interim Report. As mentioned earlier, borrowings are now projected to be approximately \$6.4 billion less in 2014-15 and around \$9.2 billion less in 2015-16 than outlined in the Queensland Independent Commission of Audit Interim Report (comparable figure).

As can be seen in Chart 1.4, Queensland’s debt to revenue ratio has improved since the Queensland Independent Commission of Audit Interim Report and falls substantially over the forward estimates reflecting a stabilisation of debt, as a result of the Government’s fiscal repair efforts, and growth in revenue.

Chart 1.4
Debt to revenue ratio
Queensland Independent Commission of Audit Interim Report to 2014-15 Budget



Queensland Governments previously have placed a significant emphasis on the ratio of net financial liabilities to revenue, partly reflecting the prominence of this measure in Standard and Poor’s credit rating reports.

More recently, Standard and Poor’s has placed less emphasis on the ratio of net financial liabilities to revenue as a key metric of its assessment of debt burden. Superannuation liabilities, which are a key component of net financial liabilities, are required by Australian Accounting Standards to be valued with reference to Australian Government long term bond yields. As bond yields remain subdued, the accounting value of superannuation liabilities has increased substantially. Standard and Poor’s has noted that the rise in the valuation of superannuation liabilities has not reflected a material shift in the economic position of the liabilities. In conjunction with concerns about the interstate comparability of valuation estimates across the Budget period, Standard and Poor’s has shifted its focus to the ‘debt burden’ assessment of the NFP sector debt to revenue ratio and NFP sector interest to revenue ratio.

Fiscal Principles

Principle 1 – Stabilise then significantly reduce debt

A debt to revenue ratio shows the affordability of a jurisdiction's debt levels and consequently is the key fiscal measure supporting a fiscal sustainability objective. For this reason, some form of debt to revenue ratio features in all major ratings agency methodologies and is usually a feature of any government's fiscal principles.

Queensland's debt to revenue ratio is expected to peak at 146% in 2013-14 (compared to 150% in the 2013-14 Budget and 148% in the 2013-14 MYFER). This ratio is expected to fall gradually across the forward estimates to reach 128% in 2017-18. However, this will still be substantially higher than other jurisdictions.

Principle 2 – Achieve and maintain a General Government sector fiscal balance by 2014-15

The Queensland Independent Commission of Audit's Interim Report emphasised that fiscal repair requires realigning recurrent and capital spending so that it can be fully funded from recurrent revenue. The achievement of an operating surplus in itself is not sufficient for Government to attain fiscal sustainability or maintain or improve its credit rating given the impact of capital investment on the debt position.

Borrowing should not be undertaken for the maintenance of the existing capital base. This means that Government needs a minimum of a balanced operating position (depreciation and maintenance are expensed) with any operating surplus used to fund new capital expansion. The size of that surplus should be determined by the appropriate size of the capital program and the sustainability of current debt levels.

While it is arguably appropriate to borrow for new essential infrastructure when debt levels are manageable, they are currently too high. Accordingly, the fiscal balance has replaced the operating balance as the primary fiscal target of the Government.

The scale of natural disasters, timing of NDRRA payments and revenue write-downs means that it is not expected to be possible to achieve a fiscal surplus in 2014-15. A fiscal deficit of \$2.271 billion (or 4.5% of General Government revenue) is estimated for 2014-15.

While the 2014-15 Budget includes a small net spend on measures, disciplined ongoing expenditure management and the implementation of past savings measures are driving improvement in Queensland's fiscal position, with a fiscal surplus estimated in 2015-16. Fiscal surpluses also are projected for the remainder of the forward estimates period.

Principle 3 – Maintain a competitive tax environment for business

Queensland has a competitive tax environment for business. Queensland's General Government taxation revenue as a percentage of gross state product has fallen over the past decade (in part reflecting the relative weakness in the property sector and the abolition of state taxes under the Intergovernmental Agreement on Federal Financial Relations). Queensland's tax take, on a per capita basis, also continues to be significantly less than the average of the other states. In 2014-15, it is estimated that Queensland's taxation per capita will be \$536 per capita less than the average of other jurisdictions.

Principle 4 – Target full funding of long term liabilities such as superannuation in accordance with actuarial advice

One of the enduring features of Queensland public finance has been setting aside funding, on an actuarially determined basis, to meet long term employee entitlements – most notably superannuation and long service leave.

Uniquely, despite the very difficult climate in investment markets over recent years, Queensland's superannuation liabilities remain fully funded as per the last formal actuarial valuation.

ACHIEVEMENT OF FISCAL PRINCIPLES

The Government's fiscal consolidation efforts have also allowed it to make significant progress in the achievement of its fiscal principles. Table 1.6 outlines the Government's progress against its fiscal principles. While a fiscal surplus is not currently estimated for 2014-15, the Government remains on target to achieve a surplus in 2015-16.

Table 1.6			
The fiscal principles of the Queensland Government			
Principle	Indicator		
Stabilise then significantly reduce debt (Non-financial Public sector)	<i>Debt to Revenue Ratio</i>		
		<i>2013-14 MYFER per cent</i>	<i>2014-15 Budget per cent</i>
	2013-14	148	146
	2014-15	137	141
	2015-16	137	134
	2016-17	134	130
	2017-18	n/a	128
Achieve and maintain a General Government sector fiscal balance by 2014-15	<i>General Government Fiscal Balance</i>		
		<i>2013-14 MYFER (\$ million)</i>	<i>2014-15 Budget (\$ million)</i>
	2013-14	(7,604)	(6,083)
	2014-15	(664)	(2,271)
	2015-16	696	862
	2016-17	598	508
	2017-18	n/a	883
Maintain a competitive tax environment for business	<i>Taxation revenue per capita, 2014-15</i>		
	Queensland:		\$2,601
	Average of other states and territories:		\$3,137
Target full funding of long term liabilities such as superannuation in accordance with actuarial advice	As at last actuarial review (released June 2011), accruing superannuation liabilities were fully funded. The State Actuary reviews the scheme every three years. The next review is expected later in 2014.		

Box 1.1
Queensland Independent Commission of Audit
Update on implementation of recommendations

The Independent Commission of Audit was established in 2012 to review the Queensland Government's financial position, and to make recommendations on:

- strengthening the Queensland economy
- improving the State's financial position, including regaining a AAA credit rating
- ensuring value for money in the delivery of frontline services.

The Commission's Final Report was tabled in the Queensland Parliament in April 2013 along with the Government's response to its recommendations, *A Plan: Better Services for Queenslanders*, in which the Government accepted the overwhelming majority of the Commission's recommendations. For details on the Government's response to the Commission's Final Report, see *A Plan – Better Services for Queenslanders*: www.treasury.qld.gov.au/coa-response/.

The Queensland Government has already delivered significant improvements in service delivery and value for money. Prominent examples from latest information show:

- The social housing wait list has been reduced through public and private housing solutions that assist customers according to their needs, including assisting customers into the private rental market. This has decreased the long term social housing waiting list by 37% over the last two years.
- The average time between ambulance dispatch and next job availability has been reduced by 18.75% since March 2012 and ambulance response time within which 90% of Code 1 cases were attended improved by 66 seconds in the same period for the Metro North and South regions.
- Statewide, the number of Category 1 patients waiting more than 30 days for surgery has been cut by 83% over the last two years and the number of Category 2 patients waiting more than 90 days for surgery has been cut by 69% in the same period.
- Elective surgery long-wait lists have been reduced through a range of initiatives, including clinical service redesign, a Statewide operating room management information system and an SMS reminder system for outpatient appointments. There are 57% fewer patients waiting longer than the recommended time for elective surgery compared with six months ago.
- The number of long-wait dental patients has been reduced by 98.5% in the last 14 months through expansion of the dental voucher scheme, which allows patients to access quality dental healthcare through the public and private systems.
- Low risk community groups no longer need to obtain a liquor permit for local fundraising activities, such as school fetes, which has significantly reduced red tape and saved time and money for communities groups and schools. Nearly two-thirds of Queensland community organisations benefit from this initiative. In addition, the Government has created a saving in manual processing, with a 54% reduction in permit applications in the past year
- Queensland Rail (QR) has improved and maintained its on-time running performance over the past two years. QR reviewed its business and timetable to deliver an extra 200 services each weekday in South East Queensland. Since the new timetable was implemented, an extra 27,000 trips a week have been taken.

For more information, see *Queensland's Renewal Program: Achievements, January-March 2014 Quarterly Update* <http://www.premiers.qld.gov.au/publications/categories/reports/renewal.aspx>.

The implementation task for the Commission's recommendations is considerable. Of the 155 recommendations, 118 were accepted, with 13 noted, 6 not accepted and 18 under further consideration. The approach to the delivery of recommendations is generally one of value-adding, rather than compliance, and is dependent on several key enablers including moving to ICT as a service, securing benefits from better procurement and strategic sourcing, budget and financial planning reforms and modernising the Government's employment framework. The recommendations are being implemented in a careful and measured way, with many recommendations due for completion from 2015 onwards.

Through these initiatives, the Government is transitioning to be an enabler of service delivery rather than a provider. It is focused on providing the best and most efficient access, quality and timeliness of services to the Queensland community, with one of the key challenges for Queensland being to lift its productivity performance to sustain the economic growth which will improve living standards for its citizens.

A significant amount of preparatory work is currently being undertaken to ensure the best outcomes for these recommendations. This includes ensuring the Government possesses the necessary capability and skills to enable the provision of sustainable services that meet the needs of Queenslanders.

Many of the activities being undertaken relate to contestability, a process whereby Government tests the market to ensure it is providing the public with the best possible solution at the best possible price. The Commission identified contestability as a means to provide better value for money in the delivery of front-line services as it encourages more efficient and innovative service delivery, whether by the public, private or not-for-profit sector.

The Government will continue to implement its renewal initiatives in a balanced and measured way, to drive further improvements in the efficiency and productivity of public services. This means Queenslanders will continue to receive better services. As a general principle, realisable savings from renewal initiatives are being re-invested back into improved service delivery (quantity and quality), thereby relieving the Budget of other funding pressures.

2 ECONOMIC PERFORMANCE AND OUTLOOK

FEATURES

- The Queensland economy is expected to be the fastest growing of all the states from next year, with Gross State Product (GSP) forecast to rise 3% in 2014-15 and 6% in 2015-16, stronger than the 2½% and 3% growth forecast nationally over the same period.
- Economic growth in Queensland's major trading partners (MTP) is expected to improve, underpinned by strong growth in non-Japan Asia. However, fiscal consolidation in some major economies, the unwinding of quantitative easing in the US and rebalancing of growth in China are likely to see Queensland MTP growth remain below trend over the forward estimates.
- The Queensland economy is now entering a period of transition, as the investment phase of the large liquefied natural gas (LNG) projects starts to wind down and the production and export phase begins.
- Supported by sustained low interest rates, rising asset prices and a lower exchange rate, economic growth in 2013-14 is expected to be underpinned by household consumption growth, a recovery in dwelling investment and a significant contribution from net exports.
- However, as construction of the major LNG projects approaches completion, business investment is expected to fall and economic growth ease to 3% in 2013-14, compared with 3.6% in the previous year.
- In 2014-15, the continuation of supportive monetary policy and a stronger property price outlook are forecast to drive stronger growth in household consumption and dwelling investment. However, as LNG construction winds down, a sharp fall in business investment will keep GSP growth at 3%.
- The ramp up in LNG production is expected to underpin a surge in overseas exports of 22½% in 2015-16 which, combined with an improved domestic sector, is forecast to boost economic growth to an 11-year high of 6%.
- Employment growth has picked up during the course of 2013-14, supported by some recovery in the labour-intensive household sector. This recovery is expected to support further improvement in labour market conditions in 2014-15 and beyond. However, while employment growth is forecast to strengthen, it is expected to remain below its long-run average over the forecast period, as domestic demand growth remains subdued.
- As employment opportunities improve, so too will labour force participation, as potential workers are encouraged back into the labour market. This, combined with the realignment of skills across the economy following the mining construction boom, will limit downward pressure on the unemployment rate, which is forecast to fall gradually to 5½% by 2016-17.

EXTERNAL ENVIRONMENT

International conditions

Economic growth in Queensland's major trading partners is estimated to be 3½% in 2014, slightly stronger than the 3.3% growth recorded in 2013. Fiscal consolidation in a number of major economies and the unwinding of quantitative easing in the US is likely to constrain the pace of global growth in the short to medium term. Driven by strong growth in non-Japan Asia, major trading partner growth is expected to accelerate modestly to 3¾% from 2015, although remain well below the average annual growth of around 4.5% recorded in the decade preceding the Global Financial Crisis (GFC).

Table 2.1
Queensland's major trading partners' economic outlook¹

	Actual		Forecasts			
	2013	2014	2015	2016	2017	2018
Major trading partners	3.3	3½	3¾	3¾	3¾	3¾
Non-Japan Asia	4.8	5	5¼	5½	5½	5½
China	7.7	7¼	7¼	7	7	6¾
India ²	4¾	5½	6	6½	6¾	7
Japan	1.5	1¼	1¼	1¼	1½	1½
Europe	0.1	1½	1¾	1¾	1¾	1¾
US	1.9	2½	3	3	2¾	2½

Notes:
1. Annual % change. Decimal point figures indicate an actual outcome.
2. India's economic growth profile is on a fiscal year basis (April to March).

Sources: *Consensus Economics and Queensland Treasury and Trade.*

The US economy continues to grow, supported by substantial monetary policy stimulus. In late 2013, the US Federal Reserve (the Fed) announced a tapering of its quantitative easing program and, despite ongoing uncertainty, the impact on financial market conditions has been largely as expected. Monetary policy remains extremely accommodative and short term interest rates are expected to be maintained near zero for some time following the completion of the asset purchasing program.

While longer term inflation expectations remain stable, the Fed continues to balance the need for stimulus with the concern that low interest rates for too long will eventually create imbalances in financial markets.

Accompanied by a substantial decline in labour force participation, the unemployment rate in the US has fallen from 10.0% in October 2009 to 6.3% in April 2014.

Despite adverse weather conditions which slowed economic growth in the first quarter, the US economy is forecast to grow 2½% in 2014, accelerating from the 1.9% growth recorded in 2013. Growth should be aided by increased personal consumption as higher asset prices add to personal wealth. Further, corporate profits are rising, while the US housing sector, an integral component of the recovery, is likely to improve at a modest pace in 2014. Activity is forecast to strengthen further in 2015, as housing starts and business investment accelerate, although growth is forecast to be less pronounced than in previous recoveries.

In China, Queensland's largest trading partner, the economy is transitioning from a phase of investment and export led growth to one with a greater focus on domestic consumption. The primary objectives of this transition are to promote sustainable economic growth, raise overall wealth and wellbeing, manage pollution and deal with corruption.

China's 2014 GDP growth forecast remains slightly below the Government's 7½% growth target. Growth is expected to moderate slightly in coming years, as the rebalancing of the economy is likely to result in a slower pace of economic expansion than that recorded over the last decade. Speculation around the ability of some local governments to service an increasing stock of debt, the sustainability of infrastructure spending and elevated real estate prices are key risks to the outlook.

In Japan, economic growth has been weak, averaging just 0.8% per annum over the past decade. Since 2007, Japan has experienced a declining population which has also constrained economic growth. In response to ongoing deflation concerns, the Japanese Government implemented substantial fiscal and monetary stimulus packages, aiming to kick-start the economy and lift the inflation rate towards the Bank of Japan's 2% target. Despite these packages, economic activity is expected to slow to 1¼% in 2014 and 2015, largely as a result of continued unwinding of disaster reconstruction spending and the implementation of a two-step increase in consumption tax in these years. In the medium to longer term, Japan's recovery is contingent upon the success of proposed structural reforms and ongoing productivity gains.

Korea's economic growth prospects are closely linked to its trade performance, and therefore, the global recovery. Growth is expected to pick up in coming years, from the 3% growth in 2013, as demand for Korea's exports increases with the recovery in advanced economies. Further ahead, Korea's economic growth prospects are also dependent on the outcome of plans to rebalance the economy by stimulating domestic consumption and investment and reducing its dependence on exports.

Confidence in a recovery in Europe continues to broaden, although output remains below pre-GFC levels. March quarter 2014 marked the fourth consecutive quarter of modest growth in the Eurozone, following one and a half years of contraction. The recovery is expected to continue in 2014, driven by Europe's largest economy, Germany. Also, fears around the scale of sovereign risk have abated somewhat.

However, high unemployment and debt levels remain key risks to the Eurozone economies, and the current recovery remains fragile. Like its US counterpart, the European Central Bank (ECB) has indicated its intention to maintain stimulus. Importantly, the current deflationary pressure in Europe may prompt the ECB to step up its monetary easing.

National conditions

As is the case with the Queensland economy, Australian Treasury considers that the Australian economy is in the midst of a major transition away from growth led by investment in resources projects to broader based drivers of activity. Australian Treasury forecasts that gross domestic product (GDP) will continue to grow slightly below trend at 2½% in 2014-15, before accelerating to near trend growth of 3% in 2015-16.

Households are expected to respond to low interest rates and increases in wealth, leading to a gradual recovery in household consumption growth over the forecast period and strong growth in dwelling investment over the near term. However, business investment is expected to fall, with resources investment passing its peak and non-resources businesses still waiting for a clearer indication of stronger demand before investing. Strong growth in resources exports is expected to result in a significant contribution to growth from net exports.

With employment growth remaining subdued, the national unemployment rate is expected to rise further to 6¼% by mid-2015 and remain at that level through to mid-2016. Consumer price inflation is expected to remain contained, with wage pressures remaining moderate.

Table 2.2
Economic forecasts, Australia

	Outcome ¹		Forecasts	
	2012-13	2013-14	2014-15	2015-16
GDP ²	2.6	2¾	2½	3
Employment ³	1.2	¾	1½	1½
Unemployment rate ⁴	5.6	6	6¼	6¼
Inflation ⁵	2.4	3¼	2¼	2½
Population ⁶	1¾	1¾	1¾	1¾
Terms of trade ⁷	-9.8	-5	-6¾	-1¾

Notes:

1. Calculated using original data unless otherwise indicated. Decimal point figures indicate an actual outcome.
2. Chain volume measure, percentage change on previous year.
3. Seasonally adjusted, through-the-year growth rate to the June quarter.
4. Seasonally adjusted rate for the June quarter.
5. Through-the-year growth rate to the June quarter.
6. Through-the-year growth to 31 December.
7. Percentage change on previous year.

Sources: ABS 3101.0 and Australian Government Budget, 2014-15.

Assumptions

Forecasts for the Queensland economy are based on a number of assumptions, including the Reserve Bank of Australia's (RBA) monetary policy stance, the A\$ exchange rate and seasonal conditions over the forecast period:

- in line with market expectations, the easing cycle in the official cash rate is assumed to have concluded. The official cash rate is anticipated to move gradually toward a more neutral policy setting from 2015
- the A\$ depreciated in 2013-14, but remains high by historical standards. With a weakening outlook for resource investment and associated capital inflows, the exchange rate is expected to continue to decline, albeit at a slower pace, given monetary policy in the US is expected to remain highly accommodative for the foreseeable future
- dry seasonal conditions, and other adverse weather events relating to an expected El Nino weather pattern, have been factored into estimates of agricultural exports in 2014-15. Seasonal conditions are assumed to gradually improve from 2015.

This chapter ends with a discussion of the risks related to the global economy, financial markets and other assumptions driving the Queensland outlook.

QUEENSLAND ECONOMY

Summary of conditions and outlook

The Queensland economy is forecast to grow 3% in 2014-15 and 6% in 2015-16, stronger than the 2½% and 3% growth forecast nationally over the same period.

Economic growth in Queensland in 2011-12 and 2012-13 was driven by the unprecedented levels of business investment associated with major LNG and coal projects and, in 2012-13, growth in household consumption and exports.

The Queensland economy is now entering a period of transition as the investment phase of the large LNG projects nears completion and the production and export of LNG begins. Supported by sustained low interest rates, rising asset prices and a lower exchange rate, economic growth in 2013-14 is expected to be underpinned by household consumption growth, a recovery in dwelling investment and a significant contribution from net exports. However, as construction of the major LNG projects nears completion, business investment is expected to fall and see overall economic growth ease to 3% in 2013-14, compared with 3.6% in the previous year.

In 2014-15, a continuation of accommodative monetary policy and an improved property price outlook are forecast to support stronger growth in household consumption and dwelling investment. However, this will not be sufficient to offset further significant falls in business investment as LNG construction winds down. Although state final demand is expected to fall with reduced business investment, GSP will grow by 3% as a result of increased net exports.

The ramp up in LNG production is forecast to lead to a surge in overseas exports of 22½% in 2015-16 which, combined with improvement in the domestic sector, is forecast to boost economic growth to an 11-year high of 6% in that year. Subsequently, growth is expected to settle back to 4% in 2016-17 – around its long-run average – reflecting a more even contribution from all components of GSP. Table 2.3 shows key economic forecasts and projections for Queensland, while Chart 2.2 shows the contributions to growth in Queensland's gross state product.

Employment growth has picked up during the course of 2013-14, supported by some recovery in the labour-intensive household sector. This recovery is expected to support a further strengthening in employment growth in 2014-15 and beyond. This, in turn, is expected to drive a steady improvement in the unemployment rate, from 6% in 2013-14 to 5½% in 2016-17.

While devastating for affected communities, the economic impact of Tropical Cyclone Ita is estimated to be far less than the detraction of around one-quarter of a percentage point from GSP growth in 2012-13 associated with ex-Tropical Cyclone Oswald. The main sector impacted by Tropical Cyclone Ita was the agricultural sector.

On the basis of the most recent forecasts published by other jurisdictions, the Queensland economy is not only expected to grow faster than the national economy as a whole in both 2014-15 and 2015-16, but also faster than all other states (see Chart 2.1).

**Table 2.3
Economic forecasts/projections, Queensland¹**

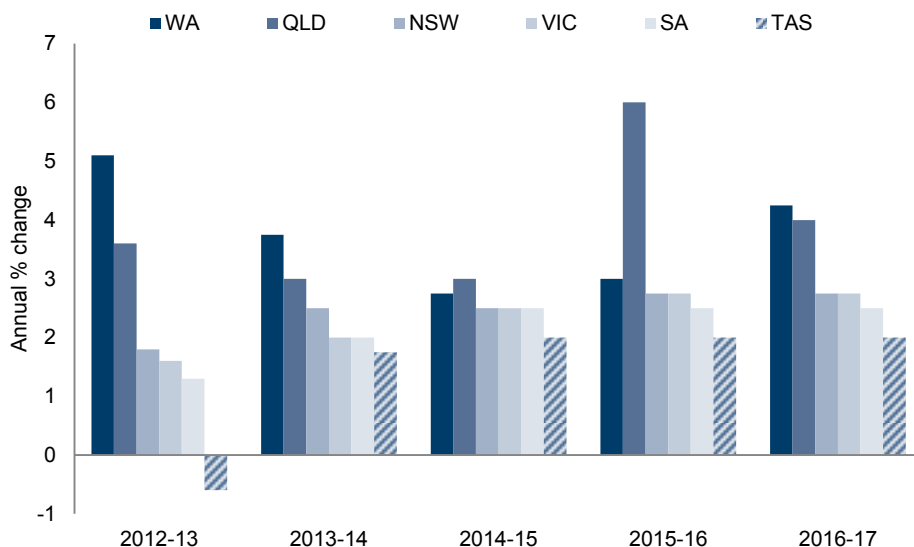
	Outcome	Estimate	Forecasts			Projection
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Gross State product	3.6	3	3	6	4	3½
Employment	0.3	1½	2	2¼	2½	2½
Unemployment rate	5.9	6	6	5¾	5½	5¼
Inflation ²	2.0	2¾	2¾	2½	2½	2½
Wage Price Index	3.0	2¾	3	3¼	3½	3½
Population	2.0	1¾	2	2	2	2

Notes:

1. Annual % change, except for unemployment rate. Decimal point figures indicate an actual outcome.
2. Does not include any allowance for the repeal of the carbon tax.

Sources: ABS 3101.0, ABS 5220.0, ABS 6202.0, ABS 6345.0, ABS 6401.0 and Queensland Treasury and Trade.

**Chart 2.1
Economic growth, by state¹**

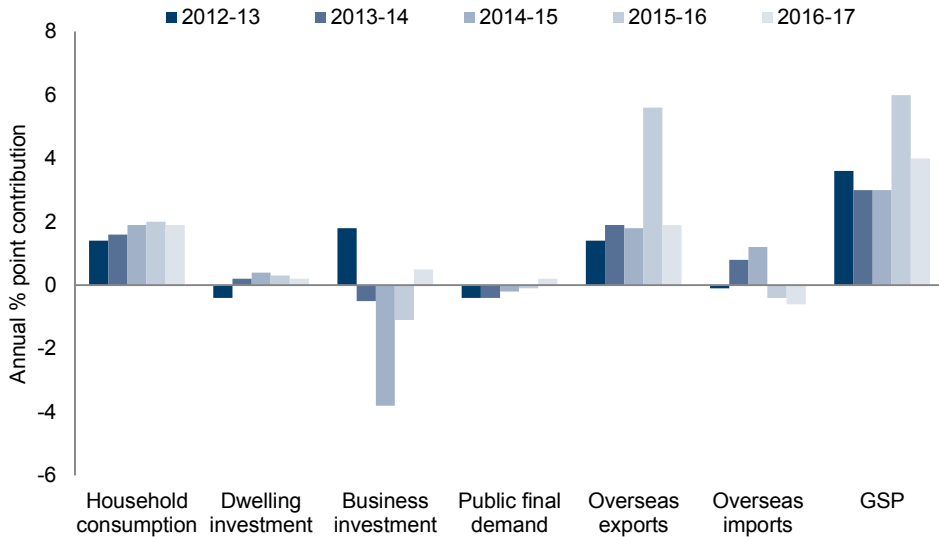


Note:

1. CVM, 2011-12 reference year. 2012-13 are actuals, 2013-14 onwards are forecasts/projections.

Sources: ABS 5220.0, various state Budgets, Mid-Year Review papers and Queensland Treasury and Trade.

Chart 2.2
Contributions to growth in Queensland's gross state product¹



Note:
 1. CVM, 2011-12 reference year. 2013-14 is an estimate and 2014-15 to 2016-17 are forecasts.

Sources: ABS 5206.0, 5220.0 and Queensland Treasury and Trade.

Household consumption

Household consumption growth softened in 2012-13. A significant fall in the terms of trade and weak labour market conditions constrained income growth to levels below those of the previous two years. This more than offset rising stock market prices and stronger population growth.

Similar influences are expected to see household consumption growth remain modest in 2013-14. Despite some improvement, labour market conditions remain subdued which, combined with weaker commodity prices, is offsetting the wealth effect associated with rising equity and property prices.

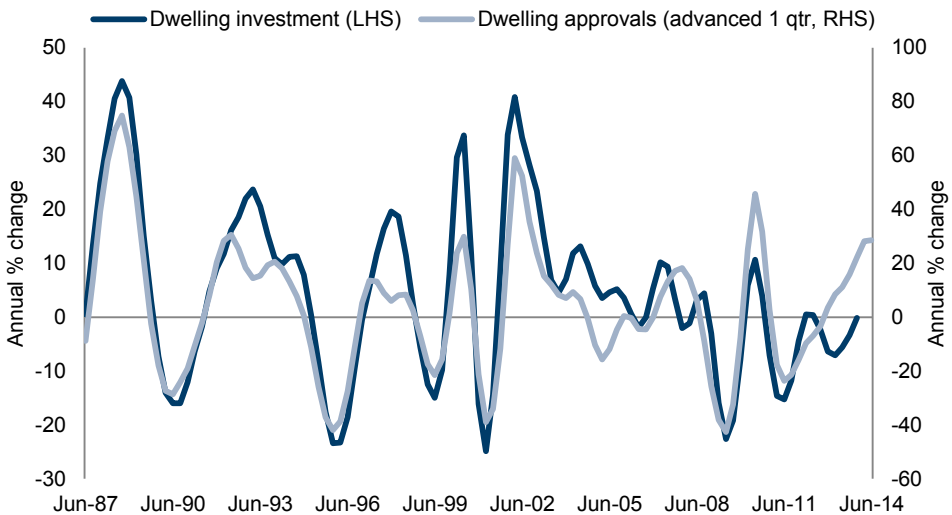
Over the forecast period, growth in household spending is expected to accelerate moderately, supported by a strengthening in employment conditions and a recovery in dwelling investment. Nevertheless, contained wages growth is likely to limit the pace of growth in aggregate disposable income, and therefore consumption.

Dwelling investment

Despite a small increase in new construction activity, overall dwelling investment declined for the sixth consecutive year in 2012-13. This was due to a sharp fall in alterations and additions, partly reflecting the completion of earlier disaster-related renovation activity, and slower income growth. With sustained low interest rates and an improved outlook for residential property prices, growth in new dwelling approvals accelerated in 2013, particularly for apartments in inner-city Brisbane. As a result, overall dwelling investment is expected to increase in 2013-14.

The recovery in the housing market is expected to continue in 2014-15, supported by low interest rates and the continuation of the Government's *Great Start Grant*. Increased activity by interstate and overseas investors is also expected, as recent large gains in Sydney house prices prompt investors to seek markets elsewhere. Beyond 2014-15, as the RBA moves to a more neutral monetary policy setting, dwelling investment growth is expected to moderate.

Chart 2.3
Dwelling investment¹ and approvals², Queensland



Notes:

1. CVM, 2011-12 reference year, trend.
2. Quarterly, trend.

Sources: ABS 5206.0, 8731.0, and Queensland Treasury and Trade.

Business investment

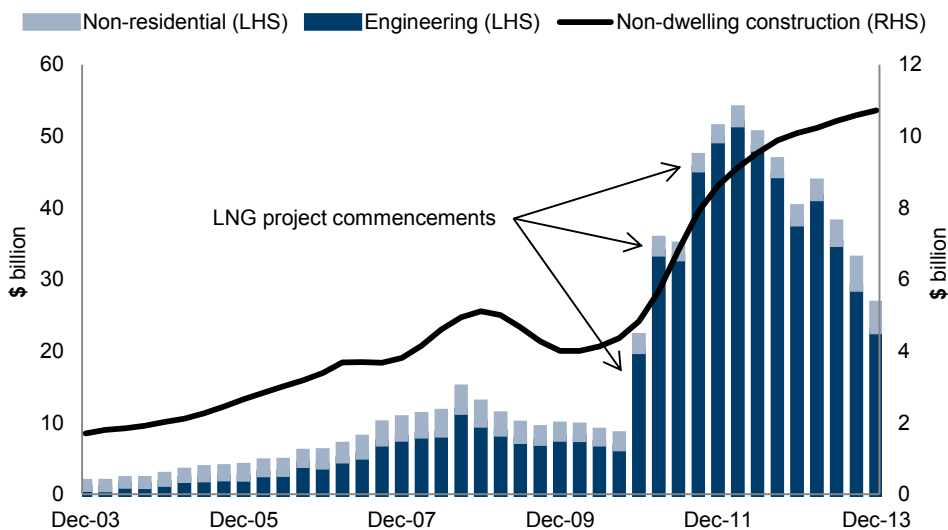
The construction of three large LNG projects has resulted in unprecedented levels of business investment in Queensland. With the combined capital expenditure of these projects exceeding \$60 billion during the construction phase, total non-dwelling construction has more than doubled over the three years to 2012-13.

Excluding LNG, business investment has been weak. In particular, subdued global economic conditions and spare capacity in the domestic economy have seen businesses defer purchases of machinery and equipment, while lower commodity prices have impeded the development of new resources projects. With LNG investment likely to have peaked, overall business investment is expected to decline in 2013-14.

Looking ahead, lower commodity prices will make further investment in resources outside of the LNG sector more difficult. Miners are currently focussing on improving productivity and consolidating their earlier large investments in production and transport infrastructure capacity and recent expansion. Growth in non-resources investment is expected to gradually strengthen, in line with improving household sector activity.

Nonetheless, with the staged completion of the LNG projects and their transition to production, overall business investment is expected to continue to fall, sharply in 2014-15 and more moderately in 2015-16, before returning to a more sustainable longer term growth path from 2016-17.

Chart 2.4
Private construction work yet to be done, by sector, and non-dwelling construction¹



Note:

1. Nominal. Work yet to be done in stacked bar, original. Non-dwelling construction in line, trend.

Sources: ABS 8752.0, 8762.0 and 5206.0.

Table 2.4
Queensland economic forecasts¹, by component

	Outcome	Estimate		Forecasts	
	2012-13	2013-14	2014-15	2015-16	2016-17
Economic output²					
Household consumption	2.6	3	3½	3¾	3½
Private investment	5.1	-½	-11¼	-2¼	4¼
Dwellings	-7.0	4	9½	6	5
Business investment	9.2	-2½	-20	-7	3½
Private final demand	3.4	1¾	-1½	1¾	3¾
Public final demand	-1.5	-1½	-¾	-¾	1
State final demand	2.3	1	-1¼	1¼	3¼
Net overseas exports ^{3,4}	1¼	2¾	3	5¼	1¼
Overseas exports of goods and services	6.3	8¼	7¾	22½	6¾
Overseas imports of goods and services ⁴	½	-4½	-6¾	2¾	3¾
Gross State Product	3.6	3	3	6	4
Other state economic measures					
Inflation ⁵	2.0	2¾	2¾	2½	2½
Wage Price Index	3.0	2¾	3	3¼	3½
Employment	0.3	1½	2	2¼	2½
Unemployment rate (% , year-average)	5.9	6	6	5¾	5½
Notes:					
1. Unless otherwise stated, all figures are annual % changes. Decimal point figures indicate actual outcomes.					
2. CVM, 2011-12 reference year. Components not separately reported are other investment (cultivated biological resources, intellectual property products and ownership transfer costs), the balancing item (including interstate trade and inventories) and the statistical discrepancy.					
3. Percentage point contribution to growth in gross state product.					
4. Adjusted for the imports of capital goods for major resource projects.					
5. Does not include any allowance for the repeal of the carbon tax.					
Sources: ABS 5206.0, ABS 5220.0, ABS 6202.0, ABS 6345.0, ABS 6401.0 and Queensland Treasury and Trade.					

Public final demand

This Budget continues to unwind the legacy from the previous Government of excessive spending, high deficits and unsustainable debt. The resulting consolidation at the state level is combined with Australian Government fiscal tightening. Consequently, real public final demand (the sum of federal, state and local government consumption and investment) is forecast to decline over the three years to 2015-16, before returning to modest growth in subsequent years.

Overseas exports and imports

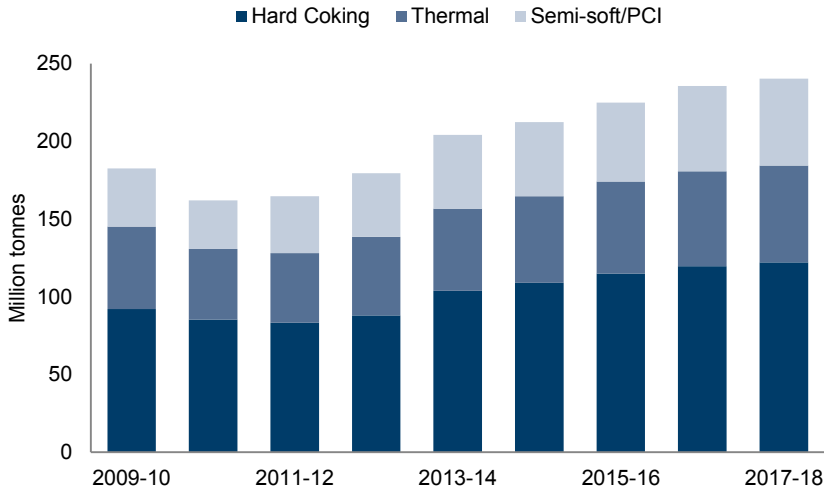
The volume of overseas goods exports is expected to grow by 9¼% in 2013-14. Strong growth in coal export volumes has been driven by demand from China, while exports of base metals have been supported by the ramp up of new mines. In the rural sector, drought conditions have driven strong growth in beef exports as farmers reduce herd sizes. Unfavourable growing conditions have contributed to lower cotton and crop exports.

Growth in the nominal value of overseas exports is expected to be lower than volume growth, predominantly due to falls in coal prices. In the first nine months of 2013-14, unit export values of hard coking, thermal and semi-soft/PCI coal fell 10%, 2% and 5% respectively compared to the same period a year ago and prices are expected to remain subdued for the remainder of the financial year. In contrast, total coal export volumes increased by 17.2% over the same period.

Coal export volumes are forecast to grow moderately from 2014-15 onwards. In China, which has been a significant source of growth for Queensland's coal exports, the pace of economic growth is expected to be constrained by the government's ongoing effort to rebalance the economy. In addition, the pace of recovery in the global economy is expected to be hindered by monetary and fiscal consolidations in major economies. On the supply side, the ramp up of production at the Daunia and Caval Ridge mines, followed by the Grosvenor (Phase 1) and Eagle Downs mines, will support export growth across the forecast period. However, prices are expected to remain subdued, reflecting increased world supply and the modest pace of growth in major trading partners.

The projections of relevant coal parameters are shown in Appendix B.

**Chart 2.5
Queensland coal exports¹**



Note:

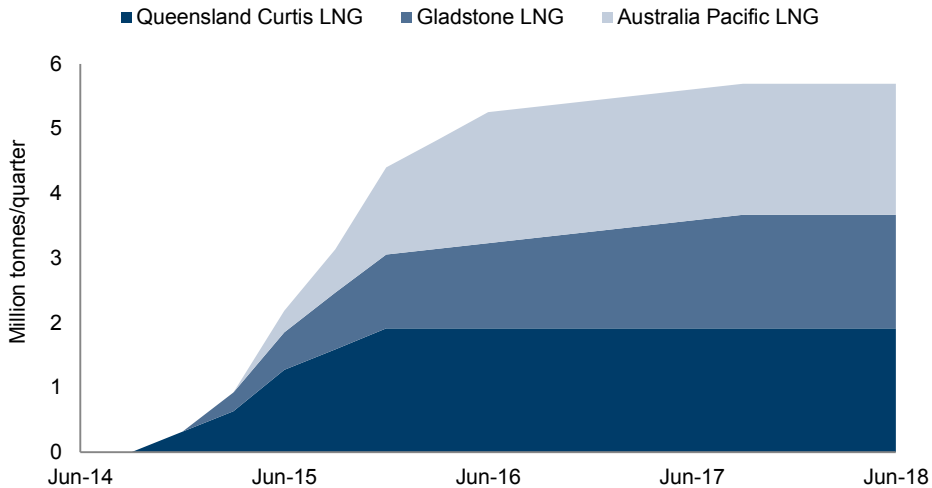
1. 2013-14 onwards are forecasts.

Sources: ABS unpublished trade data and Queensland Treasury and Trade.

While the ramp up of new mines will support base metal exports in 2013-14, a fall in the quality of remaining deposits, prospective closures of depleted mines and the absence of significant new projects will see the volume of base metals exports fall over the remainder of the forecast period.

LNG exports will commence in 2014-15, with the first shipment of LNG from the Queensland Curtis LNG plant expected in December quarter 2014. This will be followed by first LNG from the Gladstone LNG and Australia Pacific LNG plants during 2015. Based on other LNG projects around the world, the ramp up period for five of the LNG production trains is expected to be less than one year, with the sixth train taking around two years - in line with company guidance. Accordingly, the ramp up of LNG production is expected to be strongest in 2015-16 which is expected to drive growth in the volume of total overseas exports of 22½% in that year.

Chart 2.6
Queensland's forecast LNG Exports



Sources: Company reports and Queensland Treasury and Trade.

Beef exports are expected to fall in 2014-15, as current destocking causes available cattle supplies to tighten. Seasonal conditions are assumed to improve gradually from 2015, which should constrain export growth in the following two years, as producers rebuild their herds.

Dry seasonal conditions are expected to see cotton exports fall in 2014-15. Subdued prices are expected to result in a continued fall in exports in 2015-16.

Sugar producing regions have been less affected by drought and, while impacted by Tropical Cyclone Ita, moderate growth in exports is expected for 2013-14 with production levels expected to move back above 4 million tonnes. Production is anticipated to increase only marginally in the medium term as the area of plantation is relatively fixed.

Overseas tourism exports are expected to remain at high levels in 2013-14, following a strong rebound in 2012-13. Some improvement in global economic conditions, the lower A\$ and the rising popularity of overseas travel by Chinese tourists should see growth in Queensland's overseas tourism exports across the forecast period. In addition, the Commonwealth Games, which will be held on the Gold Coast in April 2018, will boost tourism exports in 2017-18. Overseas education exports have increased marginally in the first half of 2013-14, driven by strong demand for English language courses. Federal reforms implemented since late 2011 appear to have had a positive influence and growth in overseas enrolments is expected to continue.

An unwinding of the current high levels of LNG-related imports is expected to see total goods imports fall in both 2013-14 and 2014-15, before rising again from 2015-16 onwards.

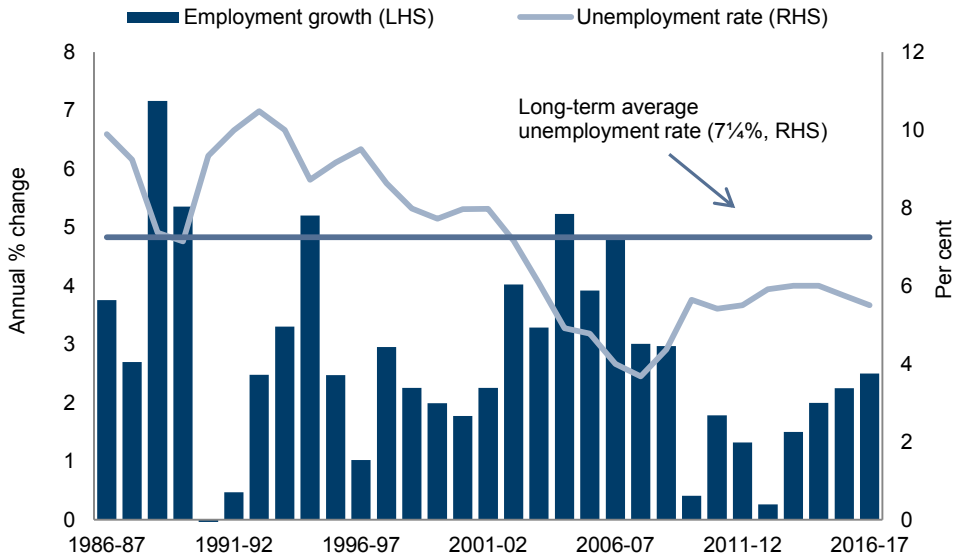
Labour market

Employment growth is estimated to strengthen to 1½% in 2013-14, following growth of only 0.3% in 2012-13. Leading indicators of Queensland employment suggest that labour market conditions troughed in 2013 and there are signs of improvement in hiring intentions, with seasonally adjusted employment rising 60,400 persons over the year to April 2014. In the first ten months of 2013-14, aggregate hours worked rose 2.6%, compared with employment growth of 1.6%, indicating stronger underlying demand, but also considerable spare capacity in the existing workforce. Employment growth is forecast to strengthen further from 2014-15 because of stronger dwelling investment, continued population growth and a gradual transition of the economy towards more labour intensive industries.

However, below-trend growth in household disposable income, falling business investment and a normalisation of monetary policy should see domestic demand growth subdued over the next few years. Further, fiscal consolidation at the national, state and local levels will limit growth in sectors such as health, education and public administration. As a result, while employment growth is forecast to strengthen, it is expected to remain below its long-run average over the forecast period.

In 2012-13, the combination of soft employment growth and a fall in the participation rate resulted in the year-average unemployment rate rising to 5.9%. With employment growth expected to be below its historical average in coming years, improvement in the unemployment rate will be gradual. As employment conditions improve, so too will labour force participation, as marginally attached workers are encouraged back into the labour market. This 'encouraged worker effect', as well as the realignment of skills across the economy following the mining construction boom, will limit downward pressure on the unemployment rate, which is forecast to gradually fall to 5½% by 2016-17.

Chart 2.7
Labour market, Queensland¹



Note:

1. Year-average. 2013-14 are estimates, 2014-15 to 2016-17 are forecasts.

Sources: ABS 6202.0 and Queensland Treasury and Trade.

Prices and wages

Following two years of modest growth, Brisbane consumer price inflation is anticipated to strengthen in 2013-14, primarily reflecting the lower A\$, which has increased the domestic price of imported goods, particularly automotive fuel.

A further depreciation of the A\$ and its gradual pass-through into retail prices, as well as some scheduled increases in utility prices, are expected to sustain higher inflation in 2014-15. Looking further ahead, as the RBA moves interest rates to a more neutral stance, inflation is expected to moderate from 2015-16 onwards, and move back towards the mid-point of its 2-3% target band.

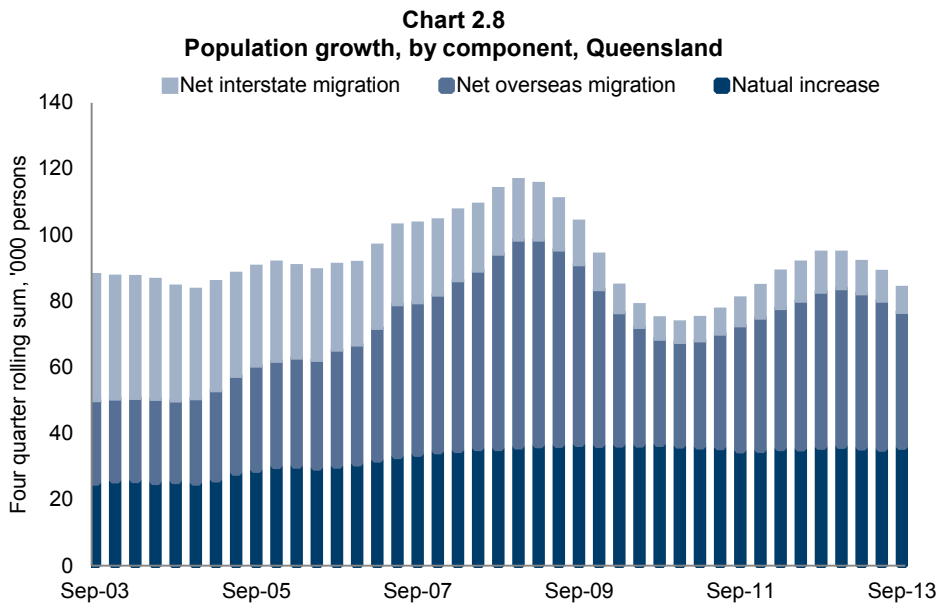
Wage growth has moderated since mid-2012, consistent with subdued employment growth, contained domestic inflation and reduced public sector spending. As employment growth strengthens and the unemployment rate falls, a modest acceleration in nominal wage growth is expected in the medium term.

Population

Following the global economic slowdown, Queensland's annual population grew by almost 95,000 in the year ending December quarter 2012. Since then, it has fallen back to approximately 84,000 in the year ending September quarter 2013, reflecting lower inflows from both net overseas and net interstate migration. This decline partially reflects a slowdown in the influx of workers as the resources investment boom peaked during 2013.

Looking ahead, net overseas migration to Queensland is expected to pick up to be more in line with the State's share of the national population. This increase will be supported by an expected recovery in overseas student arrivals as a result of the lower A\$, as well as measures to simplify student visas. Net interstate migration is also expected to recover from current low levels, assisted by improved housing affordability in Queensland relative to New South Wales and Victoria.

Overall, Queensland's population growth is expected to be 1¾% in 2013-14, similar to that nationally. Growth in Queensland is then expected to strengthen to 2% per annum over the remainder of the forward estimates period, slightly stronger than the 1¾% per annum forecast national growth over the same period.



Risks to the economic outlook

Internationally, the main risk for the economic outlook is any disruption to the economic recovery in the US and Europe. In particular, the rising geopolitical tension between Russia and Ukraine may jeopardise the recovery of the still fragile Euro area economies. In the US, the tapering of quantitative easing may have a larger impact than expected, due to its effect on global financial flows to some emerging economies.

In Asia, the Chinese Government's focus on rebalancing growth, consolidating local government debt and containing pollution means that China's economic growth may be weaker than currently anticipated. If this is the case, China's imports of energy and mineral products may not grow as strongly as in recent years, with adverse implications for the Queensland economy, particularly the resources sector.

Domestically, the pace of housing sector recovery in certain states and rising consumer price inflation may lead to an earlier tightening of monetary policy than currently expected. Higher interest rates and their effect on the A\$ may hinder growth prospects from 2014-15 onwards.

The uncertainty related to the pace of the completion of LNG investment, the transition to the production/export phase and the duration of the current drought may also impact the growth outlook in 2014-15.

Box 2.1 Red tape reduction

Regulatory reform and red tape reduction play a critical role in ensuring Queensland's economic growth is not constrained by unnecessary and excessive regulatory burden. An efficient and effective regulatory system reduces costs for businesses, not-for-profit and community organisations, individuals, families and government and frees up time that can be invested in more productive and innovative pursuits.

The Queensland Government is focussed on delivering significant tangible benefits for Queenslanders through its commitment to reduce red tape by 20% by 2018. To facilitate this outcome, the Government has established a rigorous framework for measuring and reducing the burden of existing, and improving the quality of future, regulation.

Throughout 2013-14, Queensland Government agencies have implemented red tape reduction and regulatory reforms across all sectors of the State's economy, including substantial reforms in each of the four pillars - tourism, agriculture, resources and construction. These initiatives, ranging from major legislative reforms to specific administrative changes, will continue to deliver real benefits to industry and the community and will help drive the State's ongoing economic growth.

In December 2013, the independent Office of Best Practice Regulation (OBPR) released its first Annual Report on the Government's progress in reducing the regulatory burden. The report highlighted the substantial benefits being delivered to business and the community from key reforms, including:

- \$1.1 billion in economic benefits over 40 years from removing the requirements for new houses to install rainwater tanks
- \$290 million in economic benefits over five years from closure of the Queensland Gas Scheme
- \$135.5 million in cost savings to developers over 10 years from streamlining development application and assessment processes
- \$129.9 million in cost savings to the coal industry over 40 years from simplifying regulatory approvals
- \$18 million per annum in savings to industry through simplified regulation of routine plumbing works.

The report also showed that, by June 2013, the Government had achieved an overall 3.5% reduction in the number of regulatory requirements and a net decrease of 429 pages of legislation.

While ensuring Queensland's regulatory framework remains relevant and effective in maintaining necessary consumer, environmental and safety protections, the Government will continue to drive further reforms across all sectors in 2014-15 to remove impediments to the ongoing growth of a productive, efficient and competitive State economy.

3 REVENUE

FEATURES

- Total General Government sector revenue is estimated to be \$44.851 billion in 2013-14, \$3.105 billion higher than in 2012-13. This is largely attributable to an increase of \$1.353 billion in GST revenue from the Australian Government and \$874 million in taxation revenue.
- Total General Government sector revenue is estimated to be \$50.120 billion in 2014-15. The increase of \$5.269 billion on 2013-14 estimated actual revenue is primarily driven by growth of \$3.974 billion in grants from the Australian Government, including \$2.133 billion in payments for Natural Disaster Relief and Recovery Arrangements and an increase of \$913 million in GST revenue.
- Over the period 2012-13 to 2015-16, forecasts of key revenue sources such as taxation, GST and mining royalties have fallen by \$5.443 billion in underlying terms since the 2012-13 Budget. Royalty revenue downgrades are due to ongoing weakness in export coal prices. Forecasts for payroll tax have been reduced to reflect subdued labour market conditions and changes to the composition in the labour market.
- Total revenue is expected to grow at an average annual growth rate of 6.0% over the period 2013-14 to 2017-18, somewhat less than the 7.5% per annum growth over the period 2001-02 to 2012-13 (and much less than the 9.3% average growth over the period 2001-02 to 2011-12).
- Liquefied natural gas (LNG) exports will commence in 2014-15 with the first shipment of LNG from the Queensland Curtis LNG plant expected in late 2014, with other proponents expected to begin exporting during 2015. Accordingly, the ramp up of LNG production is expected to be strongest in 2015-16, contributing significantly to strong growth in royalty revenue in that year.
- To reduce internal government red tape, from 1 July 2014, government departments (with the exception of commercialised business units) and health and hospital services will not be required to pay payroll tax. Government funding to these entities has been reduced accordingly in line with the reduced tax expense, meaning that this change is revenue neutral.
- Queensland will retain its competitive tax status, with per capita state tax estimated at \$2,601 in 2014-15, compared to an average of \$3,137 for the other states and territories.

This chapter provides an overview of General Government sector revenue for the 2013-14 estimated actual outcome, forecasts for the 2014-15 Budget year and projections for 2015-16 to 2017-18.

Table 3.1
General Government revenue¹

	2013-14 Budget \$ million	2013-14 Est. Act. \$ million	2014-15 Budget \$ million	2015-16 Projection \$ million	2016-17 Projection \$ million	2017-18 Projection \$ million
Taxation revenue	11,851	11,831	12,455	13,041	13,783	14,567
<i>Grants revenue</i>						
Current grants	18,838	19,093	20,610	21,867	23,497	24,513
Capital grants	1,277	978	3,433	3,662	2,508	1,290
Sales of goods and services	4,968	5,043	5,187	5,410	5,469	5,627
Interest income	2,396	2,435	2,429	2,480	2,538	2,595
<i>Dividend and income tax equivalent income</i>						
Dividends	1,224	1,473	1,515	1,375	1,481	1,619
Income tax equivalent income	470	465	633	784	862	927
<i>Other revenue</i>						
Royalties and land rents	2,782	2,451	2,846	3,811	4,370	4,498
Other	870	1,081	1,013	977	984	993
Total Revenue	44,677	44,851	50,120	53,407	55,491	56,628
Note:						
1. Numbers may not add due to rounding.						

2013-14 Estimated Actual

General Government revenue in 2013-14 is estimated to be \$44.851 billion, which is \$174 million (or 0.4%) more than the 2013-14 Budget estimate.

Significant variations from the 2013-14 Budget estimates include:

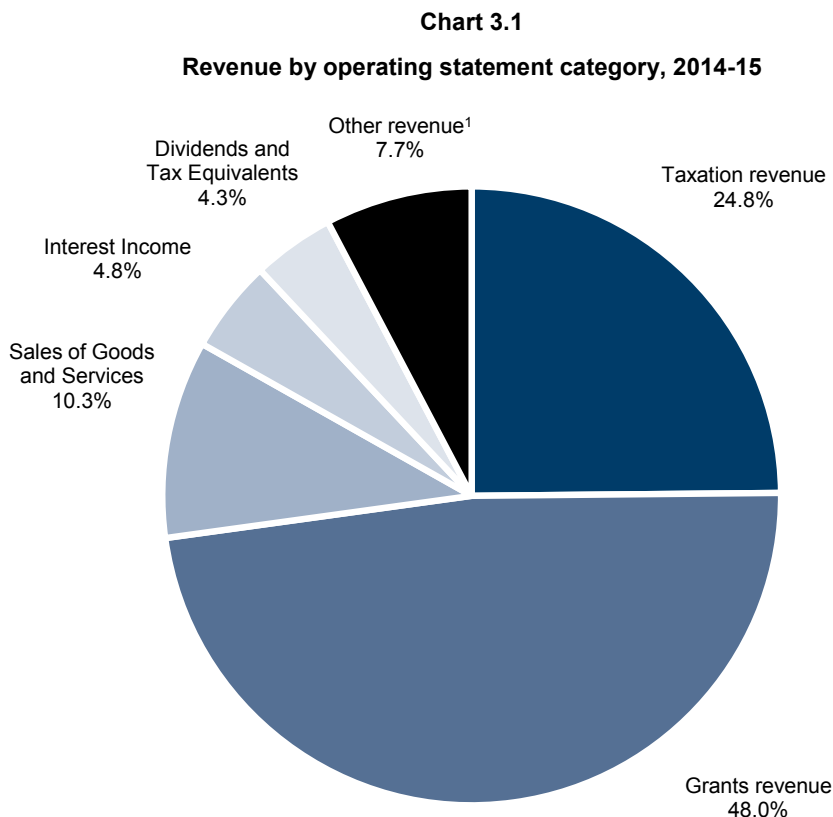
- a \$249 million (or 20.3%) increase in dividends from the Public Non-financial Corporations and Public Financial Corporations sectors
- increases of \$75 million in sales of goods and services and \$39 million in interest revenue
- partly offset by a \$331 million (or 11.9%) decrease in royalty and land rent revenue, primarily associated with export coal prices being significantly lower than expected.

2014-15 REVENUE BY CATEGORY

General Government revenue in 2014-15 is estimated to be \$50.120 billion, \$5.269 billion (or 11.7%) higher than the 2013-14 estimated actual revenue of \$44.851 billion. This is largely due to growth of \$3.974 billion in grants from the Australian Government and \$624 million in taxation revenue.

The significant increase in grants from the Australian Government is largely due to increases in National Partnership project payments resulting from recent natural disasters. Total Natural Disaster Relief and Recovery Arrangement (NDRRA) payments for 2014-15 are estimated at \$2.133 billion. After adjusting for natural disaster payments, the underlying growth in revenue is \$3.137 billion (or 7.0%) in 2014-15, compared to 7.4% in 2013-14.

Major sources of General Government revenue in 2014-15 are grants revenue (48.0% of revenue) and taxation revenue (24.8%). Chart 3.1 illustrates the composition of General Government revenue.

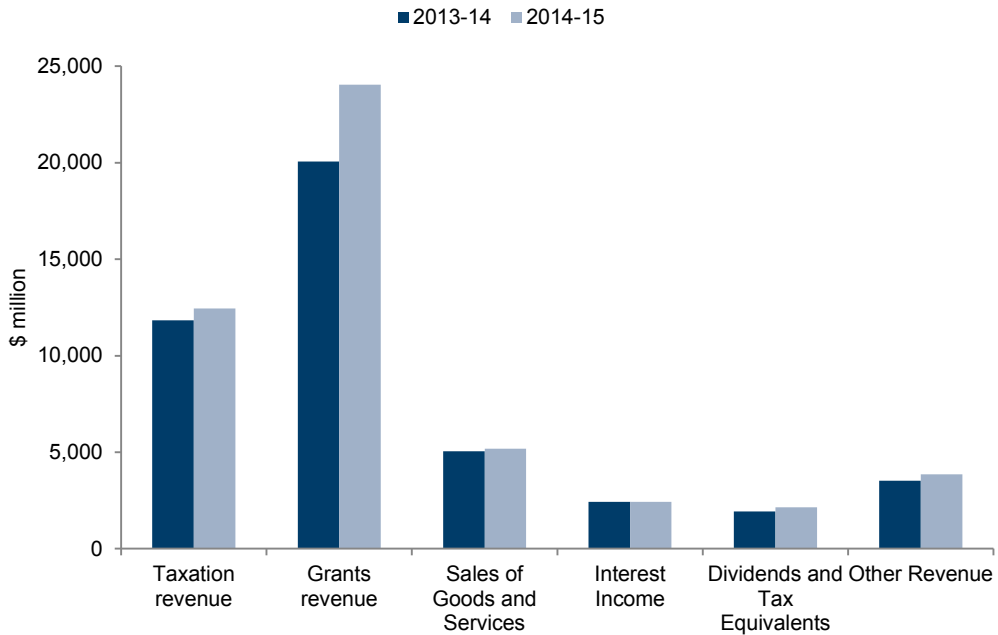


Note:

1. The major component of Other revenue is royalties and land rents (5.7% of total revenue).

Chart 3.2 compares 2014-15 estimates with 2013-14 estimated actuals. The overall result largely reflects increased payments from the Australian Government from NDRRA and growth in Queensland's share of GST and taxation revenue.

Chart 3.2
Revenue by operating statement category for 2013-14 and 2014-15



REVENUE CHANGES SINCE THE 2012-13 BUDGET

Until the Global Financial Crisis (GFC) commenced in 2008-09, Queensland had experienced strong growth in the key revenue sources of GST, taxation and mining royalties. However, forecasts of these key revenue sources have been reduced significantly since the 2012-13 Budget.

As Table 3.2 shows, in total, since the 2012-13 Budget there have been reductions of \$5.4 billion in these key revenue sources over the period 2012-13 to 2015-16. These reductions are predominately driven by reductions in the forecasts for coal royalties due to weaker prices and higher exchange rates than anticipated.

Payroll tax has also been significantly reduced due to slower growth in wages and changes in the composition of the payroll tax base (including lower growth in the resources sectors).

This Budget forecasts that key revenue drivers, such as coal prices and the level of property market turnover, will remain well below previous peak levels. That is, rather than return to the pace of growth experienced in the years leading up to 2008-09, revenue growth is expected to grow at a more modest rate.

Over the period 2012-13 to 2015-16, forecasts of key revenue sources such as taxation, GST and mining royalties have fallen by \$5.443 billion in underlying terms since the 2012-13 Budget.

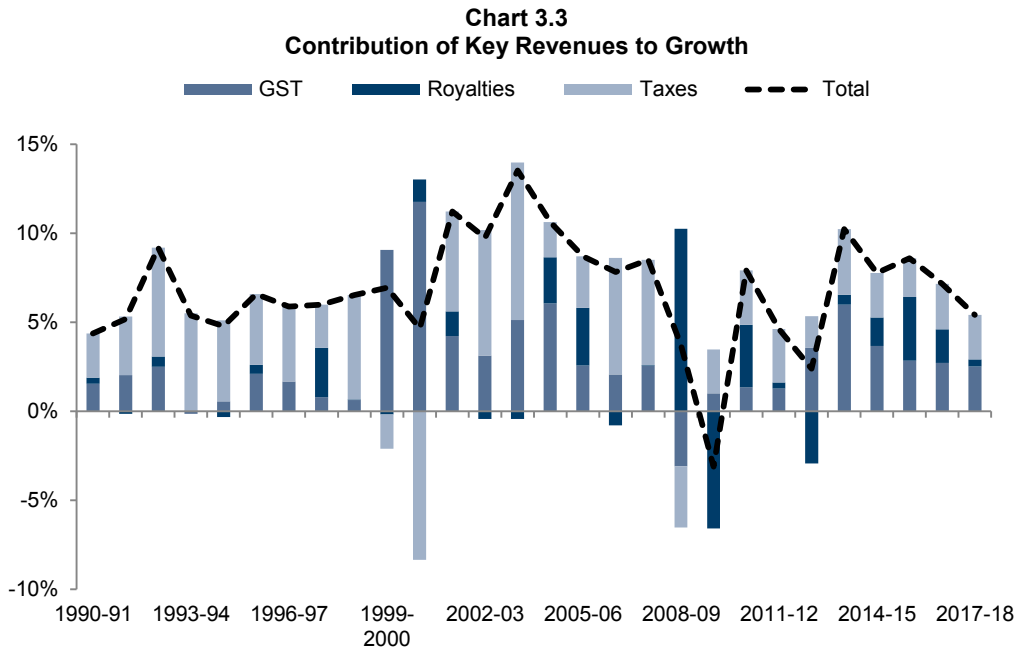
Royalties are a very difficult revenue source to forecast because commodity prices are extremely volatile and prevailing market conditions can change quickly. Charts 3.4 and 3.5 provide further information on this revenue source.

Table 3.2
Revenue Change since 2012-13 Budget¹

	2012-13 Actual \$ million	2013-14 Budget \$ million	2014-15 Projection \$ million	2015-16 Projection \$ million
Change between 2012-13 Budget and MYFER				
Total taxation revenue	(1)	(57)	(69)	(63)
GST Revenue	(66)	..	..	..
Royalties	(433)	(528)	(256)	(145)
Total change 2012-13 Budget to MYFER	(500)	(585)	(325)	(207)
Change 2012-13 MYFER to 2013-14 Budget				
Total taxation revenue ²	(13)	(129)	(204)	(292)
GST Revenue	(132)	(210)	(223)	(131)
Royalties	(122)	(452)	(403)	(311)
Total change 2012-13 MYFER to 2013-14 Budget	(267)	(790)	(831)	(734)
2013-14 Budget to 2013-14 MYFER				
Total taxation revenue	(41)	63	(46)	(91)
GST Revenue	1	70	..	..
Royalties	(2)	(97)	(8)	5
Total change 2013-14 Budget to 2013-14 MYFER	(42)	36	(54)	(85)
2013-14 MYFER to 2014-15 Budget				
Total taxation revenue	..	(83)	(179)	(415)
GST Revenue	..	12	177	527
Royalties	..	(235)	(626)	(234)
Total change 2013-14 MYFER to 2014-15 Budget	..	(306)	(628)	(123)
Total change since 2012-13 Budget	(810)	(1,646)	(1,838)	(1,150)
Notes:				
1. Numbers may not add due to rounding.				
2. Excludes the impact of 2013-14 Budget revenue measures.				

QUEENSLAND'S REVENUE TRENDS

Chart 3.3 examines the contribution of the key revenue sources of GST, taxation and royalties to revenue growth. As shown, the primary driver of the growth in these three key revenues in 2014-15 is GST revenue distributed to Queensland by the Australian Government.



GST revenue

Queensland's GST revenue grew by an average rate of 7.5% across 2001-02 to 2007-08, primarily due to strong growth in national GST collections. Growth in GST was supported by strong growth in household consumption and dwelling investment activity, which were sustained by high levels of consumer confidence and partly funded by increases in household borrowings.

Queensland's GST revenue is expected to grow by 8.4% in 2014-15 compared to 2013-14, due to the Commonwealth Grants Commission assessment that Queensland should receive a higher than per capita share of the GST pool in 2014-15. This reflects the relative weakness in Queensland's revenue base between 2010-11 and 2012-13 resulting in a higher relativity in 2014-15. Additionally, in its 2014-15 Budget, the Australian Government's forecasts of total GST collections were revised upwards.

Further discussion of Queensland's share of GST is provided in Chapter 6.

Taxation

Annual growth in transfer duty averaged over 22.6% from 2000-01 to 2007-08, driven by a range of factors including Queensland's relative affordability of housing, high population growth and the impact of the burgeoning mining sector. This was a key contributor to total taxation growth of 12.2% per annum over this period, with revenue from transfer duty effectively offsetting a number of reductions in other taxes.

Looking forward, transfer duty growth is expected to be modest relative to that experienced between 2000-01 and 2007-08. While low interest rates and a solid economic outlook are expected to support recovery in the property market, this is expected to occur at a gradual pace, particularly in the non-residential sector. Average growth of around 6.6% per annum is expected over the period 2013-14 to 2017-18.

Housing turnover over the forward estimates is expected to improve from its historically low levels, accompanied by modest price growth. Transfer duty in 2013-14 and 2014-15 is being boosted by the duty on extraordinary business transactions. Transfer duty levels forecast in this Budget are higher than those forecast in the 2013-14 Budget.

Since the GFC, payroll tax has overtaken transfer duty as the key contributor to Queensland's tax revenue collections. In 2007-08, these two taxes contributed around \$2.5 billion each, but in 2013-14 payroll tax is expected to be \$3.9 billion while transfer duty will reach \$2.4 billion.

The growth in payroll tax is due to the relatively stable base and relationship to the underlying strength in economic conditions compared with the volatility associated with transfer duty. Slower than historical growth in employment and wages and changes in the composition of the payroll tax base (including relatively low growth in the resources sector) will moderate growth. Hence, payroll tax is expected to grow by 5.5% on average across the period 2013-14 to 2017-18, well below the 9.8% average across the period 1999-2000 to 2012-13.

Royalty revenue

Royalty revenue grew strongly between 2000-01 and 2007-08, with growth of around 50% in both 2004-05 and 2005-06. In contrast to the other key discretionary revenues, royalty revenues reached a peak in 2008-09, as record coal prices had been contracted prior to the onset of the GFC. Royalty revenue then fell significantly in 2009-10, along with coal contract prices, and has not yet returned to the levels of 2008-09.

Royalty revenue is estimated to be \$127 million higher in 2013-14 than in 2012-13, the increase is significantly less than the \$362 million estimated at the 2013-14 MYFER. Although Crown coal export volumes have been strong (increasing by 14% in 2013-14), with mining companies pushing for productivity increases, weaker than anticipated coal prices have more than offset this.

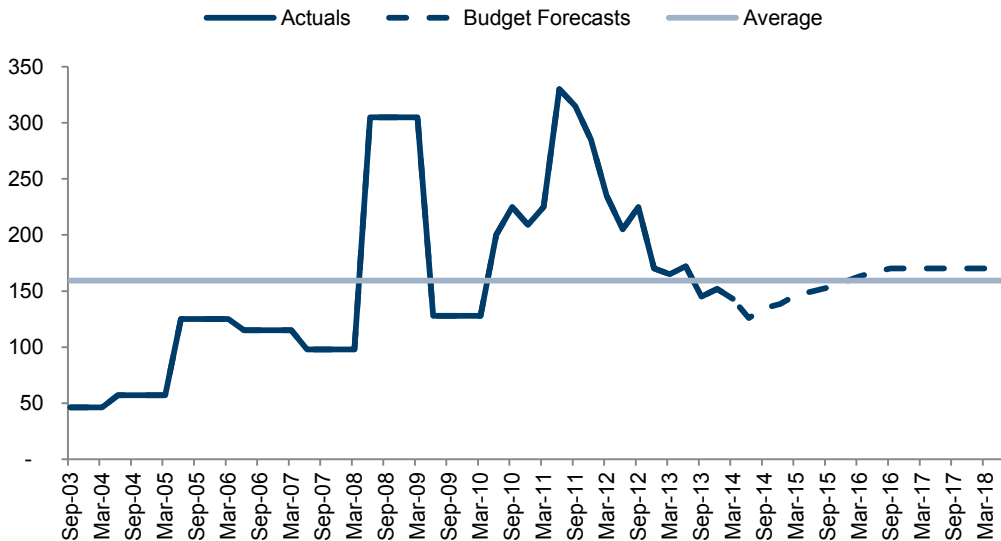
After a fairly muted pick up in 2014-15, coal royalties are expected to rebound, supported by steady growth in export volumes, a gradual recovery in coal prices and a depreciating exchange rate. The average growth rates projected across the forward estimates are still substantially lower than experienced during the 2000s, which were driven by sharp increases in prices to a greater extent than volume growth.

LNG exports will commence in 2014-15 with the first shipment of LNG from the Queensland Curtis LNG plant expected in the December quarter 2014. This will be followed by the first LNG shipments from the Gladstone LNG and Australia Pacific LNG plants during 2015.

Based on other LNG projects around the world, the ramp up period for five of the trains is expected to be less than one year, with the sixth train taking around two years - in line with company expectations. Accordingly, the ramp up of LNG production is expected to be strongest in 2015-16, which along with the recovery in coal export conditions is expected to drive growth in royalty revenue of 36% in that year.

Although global economic uncertainty will influence demand for resources from our trading partners, the longer term outlook for royalties is generally positive. Production volumes are expected to improve as demand is driven by more competitive prices and the rates of growth in our major trading partners increase. As shown in Chart 3.4, coking coal prices are expected to recover from their current low levels to return to around the average of the last ten years. However, the coking coal prices are extremely volatile.

Chart 3.4
Coking Coal price (\$US per tonne)

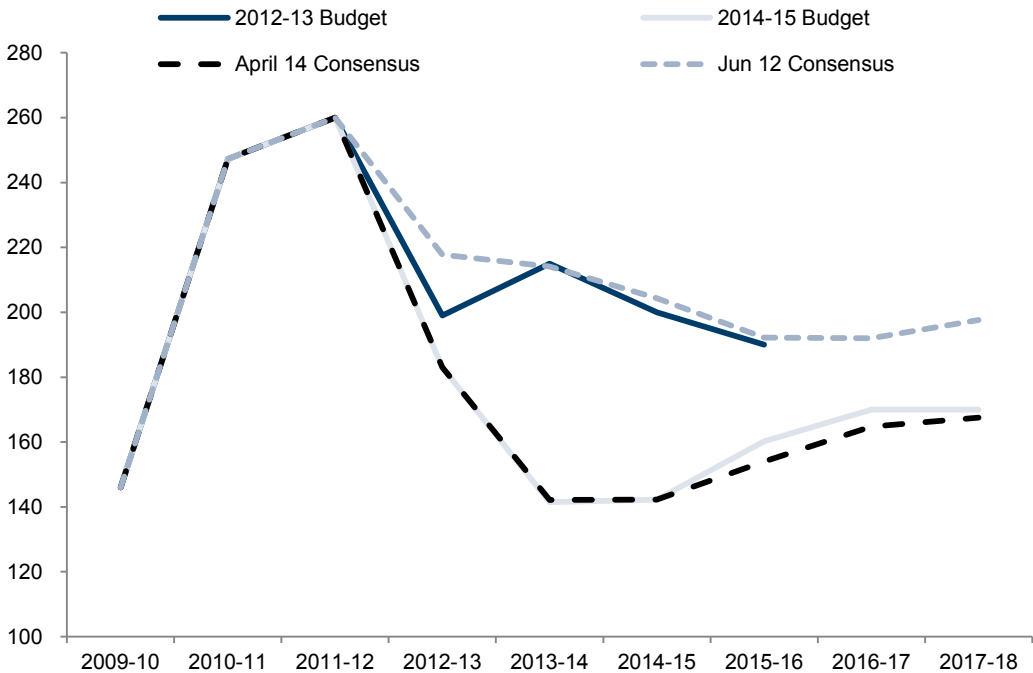


The exchange rate is expected to remain below parity across the forward estimates, gradually falling as international markets stabilise and the fundamental drivers of the exchange rate determine its 'fair value'.

There is a significant degree of uncertainty associated with estimates of commodity prices and the A\$-US\$ exchange rate, both of which have significant impacts on royalty revenue. Budget coal price forecasts are generally consistent with the forecasts contained in the Consensus Economics reports issued just prior to finalising the Budget.

Coal price forecasts have been significantly downgraded since the 2012-13 Budget but as shown in Chart 3.5, this is consistent with revisions in the outlook by Consensus Economics forecasters.

Chart 3.5
Revisions to Coking Coal Price forecasts (\$US per tonne)



Sources: Queensland State Budget 2012-13 and 2014-15 and Consensus Economics Energy and Metals June 2012 and April 2014.

Further details of the assumptions underlying the royalty estimates, and the impact of changes in the assumptions are contained in Appendix B.

2014-15 BUDGET INITIATIVES

Initiatives in the 2014-15 Budget are minor amendments or of an administrative nature and are not expected to materially impact on tax revenue.

Payroll tax exemption for departments

From 1 July 2014, General Government Sector departments (excluding commercialised business units) and Queensland hospital and health services will no longer be required to pay payroll tax. This change is intended to reduce the administrative burden associated with the internal circulation of money through Government and is revenue neutral.

Due to the variations in how statutory bodies are funded and their differing degrees of independence from Government, statutory bodies (other than hospital and health services) will continue to be liable for payroll tax, especially when they compete with the private sector.

Appropriation funding to departments has been reduced to offset the reduction in payroll tax liability. The reduced funding and expense is identified in the agency Service Delivery Statements. There is no difference to the numbers published in Budget Paper 2, as the payroll tax paid by the General Government sector has always been excluded from the published numbers.

Transitional home land tax exemption

From the 2014-15 land tax year onwards, the *Land Tax Act 2010* will be amended to provide a new exemption from land tax for land that does not receive a home exemption because the owner is in the process of selling their old home and moving into a new home, where certain conditions are met.

The home exemption currently can only apply to one parcel of land at a land tax liability date. However, this limitation can result in liability where a person is selling their previous home and moving into a new home at the land tax liability date of 30 June.

The new exemption will mean that an earlier home in the process of being sold, or a new home in the process of being moved into is also exempted, provided that by the next land tax liability date the taxpayer is entitled to the home exemption for the new home, and the taxpayer no longer owns the earlier home.

This amendment is not expected to result in material changes in revenue.

Primary production business transfer duty concession

A transfer duty concession under the *Duties Act 2001* applies to transfers of land used for a family primary production business or personal property used to conduct the business on the land, where certain conditions are met. The transfer must be by way of gift, and currently must be between lineal descendants such as parent to child or grandparent to grandchild. In addition, the concession is available for certain indirect acquisitions involving family partnerships, family trusts and family unit trusts, again by way of gift.

The purpose of the concession is to facilitate succession planning and keep young men and women on the land, by allowing certain transfers that would ordinarily occur out of a deceased estate, to be undertaken at an earlier time.

To provide greater flexibility in succession planning decisions in these businesses, the amendments will allow the concession to apply across a wider range of family relationships, such as nephews and nieces. However, the transactions will still be required to be by way of gift.

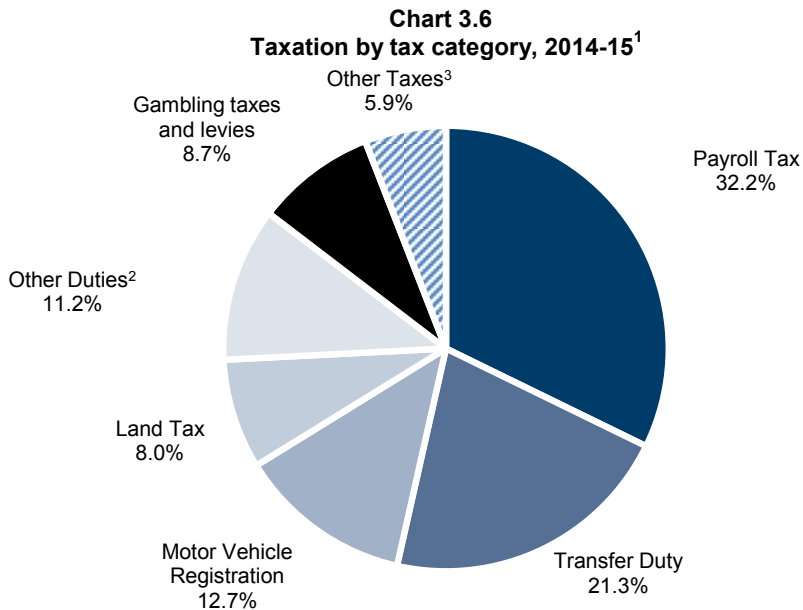
The amendment will take effect from assent and is not expected to result in material reductions in revenue.

TAXATION REVENUE

Total revenue from taxation is expected to grow by 5.3% in 2014-15. The main components of taxation revenue are shown in Table 3.3.

Table 3.3 Taxation Revenue¹						
	2012-13 Actual \$ million	2013-14 Est. Act. \$ million	2014-15 Budget \$ million	2015-16 Projection \$ million	2016-17 Projection \$ million	2017-18 Projection \$ million
Payroll tax	3,751	3,887	4,014	4,267	4,536	4,821
Duties						
Transfer	1,887	2,420	2,653	2,732	2,923	3,128
Vehicle registration	509	492	517	542	570	598
Insurance ²	616	768	840	893	950	1,010
Other duties ³	39	37	38	39	41	43
Total duties	3,051	3,716	4,047	4,207	4,483	4,779
Gambling taxes and levies						
Gaming machine tax	587	608	629	651	674	698
Health Services Levy	46	52	55	58	62	66
Lotteries taxes	256	243	250	257	265	273
Wagering taxes	41	40	41	42	44	45
Casino taxes and levies	83	83	85	88	90	93
Keno tax	22	23	24	25	26	27
Total gambling taxes and levies	1,034	1,048	1,084	1,122	1,161	1,201
Other taxes						
Land tax	990	980	995	1,035	1,076	1,120
Motor vehicle registration	1,486	1,532	1,578	1,658	1,741	1,828
Fire levy ⁴	348	390	436	461	487	515
Guarantee fees	243	224	245	235	240	242
Other taxes ⁵	54	54	56	57	59	61
Total taxation revenue	10,957	11,831	12,455	13,041	13,783	14,567
Notes:						
1. Numbers may not add due to rounding.						
2. Includes duty on accident insurance premiums.						
3. Includes duty on life insurance premiums.						
4. From 1 January 2014 was broadened to an Emergency Management, Fire and Rescue levy.						
5. Includes the Statutory Insurance Scheme Levy and Nominal Defendant Levy.						

Chart 3.6 indicates the composition of estimated state taxation revenue for 2014-15.



Notes:

1. Percentage may not add to 100% due to rounding.
2. 'Other Duties' includes vehicle registration duty, insurance duty and other minor duties.
3. 'Other Taxes' includes the fire levy, guarantee fees and other minor taxes.

The largest sources of taxation revenue are payroll tax and transfer duty, which together represent over 53.5% of the State's total taxation revenue in 2014-15.

Payroll tax (32.2% of total tax revenue in 2014-15) has a stable base with growth driven by the underlying strength of the State economy. In contrast, revenue growth from transfer duty (representing 21.3% of tax revenue) can vary significantly from year to year due to the volatility of both the residential and non-residential segments of the property market.

Land tax represents 8.0% of total tax revenue in 2014-15. While also subject to the volatility of price movements in the property market, this impact is moderated by a relatively stable base and the effect of three year averaging of land values for assessments.

Gambling taxes and levies represent 8.7% of tax revenues in 2014-15. Motor vehicle registration represents 12.7% of total tax revenue.

Other duties, including registration duty and insurance duty represent 11.2% of total tax revenue.

Payroll tax

Payroll tax is chargeable at a rate of 4.75% when the total yearly Australian taxable wages of an employer, or those of a group of related employers, exceed the exemption threshold of \$1.1 million.

The overall payroll tax rate of 4.75% is the lowest in Australia and the exemption threshold of \$1.1 million is the highest threshold of any mainland state. Queensland employers with total yearly Australian taxable wages between \$1.1 million and \$5.5 million also obtain a partial deduction, with the deduction withdrawn at a rate of \$1 in every \$4 of taxable wages. As shown in Table 3.4, the Government remains committed to increasing the payroll tax threshold to \$1.6 million by 1 July 2019.

	1/7/2014	1/7/2015	1/7/2016	1/7/2017	1/7/2018	1/7/2019
	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million
Payroll Tax Threshold	1.1	1.2	1.3	1.4	1.5	1.6

Payroll tax collections are estimated to be \$4.014 billion in 2014-15, representing growth of 3.2% on the 2013-14 estimated actual. The decline in mining investment has seen growth in payroll tax receipts moderate in 2013-14 and this is expected to continue into 2014-15 and beyond. However, the moderation is expected to be partially cushioned by increased payroll tax collections flowing from strengthening dwelling investment.

As outlined in Chapter 2, labour market conditions are expected to improve over the Budget and forward estimates period but the average growth of 5.5% remains well below the average of 9.8% from the period 1999-00 to 2012-13.

Duties

Duties are levied on a range of financial and property transactions. The major duties include transfer, vehicle registration and insurance duties.

- Transfer duty is charged at various rates on the transfer of real and business property. The Queensland Government offers extensive concessions for the transfer of land where the property is purchased as a home. For example, eligible first home buyers of properties up to \$500,000 will pay no duty, with reduced rates available up to \$550,000.

Revenue from transfer duty is expected to grow by 9.6% in 2014-15, following strong growth of 28.2% in 2013-14 that was supported by a number of large commercial transactions. The 2014-15 estimate also includes the duty expected from a large commercial transaction. Underlying growth was 14.8% in 2013-14 and 13.3% in 2014-15 once the impact of these large transactions is removed.

The forecasts are based on the expectation that the growth in the number of transactions experienced during 2013-14 will moderate, but that improvements in house prices will continue and offset a subdued outlook for non-residential activity.

From 2015-16, the non-residential sector is expected to recover, supporting average growth of 6.6% over the forward estimates.

- Vehicle registration duty is charged at rates of between 2% and 4% of the dutiable value of a motor vehicle on the transfer or initial registration of the motor vehicle, with the rate generally depending on the number of cylinders or rotors of the vehicle.

Revenue from vehicle registration duty is expected to grow by 5.0% in 2014-15, reflecting a modest recovery in the value of sales following negative growth in duty of 3.3% in 2013-14.

- Insurance duty is charged on contracts of general insurance, life insurance and accident insurance. Revenue from insurance duty is expected to grow by 9.4% in 2014-15, primarily reflecting the first full year impact of the rate increases announced in the 2013-14 Budget. However, total revenue from this source is less than anticipated in the 2013-14 Budget, primarily reflecting the moderation of premium increases.

Gambling taxes and levies

A range of gambling activities are subject to state taxes and levies. Total gambling tax and levy collections are estimated to grow by 3.5% in 2014-15.

Land tax

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

Resident individuals are generally liable for land tax if the total taxable value of the freehold land owned by that person as at 30 June is equal to or greater than \$600,000. Companies, trustees and absentees are liable for land tax if the total taxable value of the freehold land owned as at 30 June is equal to or greater than \$350,000.

Land tax is estimated to grow by 1.5% to \$995 million in 2014-15, the first year of annual growth since 2010-11. In recent years, land tax revenue has been adversely impacted by declining values, particularly for commercial and multi-unit residential land. With a modest recovery in land values expected, the three year averaging process dilutes the impact on tax collections which is reflected by the moderate growth over the budget period.

Motor vehicle registration fees

Motor vehicle registration fees are expected to grow by 3.0% in 2014-15, primarily reflecting an increase in the number of motor vehicles, as under the Government's election commitment there is no increase in the level of registration fees for private vehicles during this term of government.

Emergency Management, Fire and Rescue Levy

The Emergency Management, Fire and Rescue Levy revenue, which is used to partly offset the costs of emergency management in Queensland, is expected to grow by 11.9% in 2014-15 reflecting the first full year impact of the rate increase and broadening of the scheme as announced in the 2013-14 Budget.

Guarantee fees

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

Other taxes

Other taxes represent revenue from taxes such as the Statutory Insurance Scheme levy and the Nominal Defendant levy.

Tax expenditures

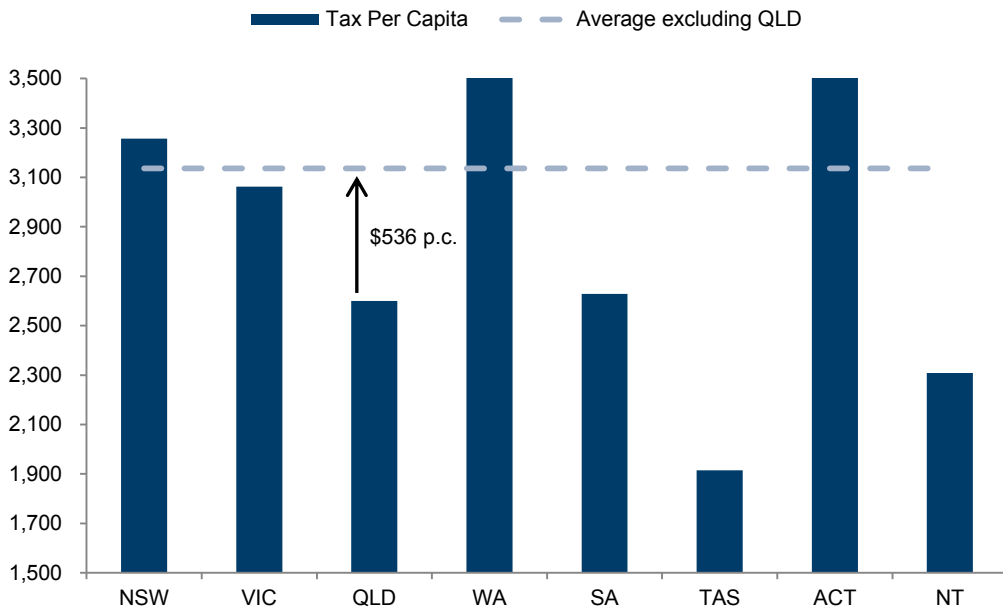
Tax expenditures are reductions in tax revenue that result from the use of the tax system as a policy tool to deliver Government policy objectives. Tax expenditures are provided through a range of concessions, including tax exemptions, reduced tax rates, tax rebates, tax deductions and provisions which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

QUEENSLAND'S COMPETITIVE TAX STATUS

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

As Chart 3.7 shows, taxation per capita in Queensland is significantly lower than the average taxation per capita in the other states and territories. In 2014-15, it is estimated that Queensland's taxation per capita will be \$536 per capita less than the average of other jurisdictions.

Chart 3.7
Taxation per capita, 2014-15,



Sources: 2014-15 Budgets for Queensland, Victoria, Western Australia and the Northern Territory; 2013-14 Mid Year Reviews for others. Population data from 2014-15 Commonwealth Budget.

Table 3.5 demonstrates that the Government's fiscal commitment is being met, with various measures of tax competitiveness all indicating the Queensland state tax system remains amongst the most competitive in Australia.

Queensland's tax effort, as measured by the Commonwealth Grants Commission, was more than 11% below the national average in 2012-13. A third measure of competitiveness, taxation as a share of gross state product (GSP), also confirms that Queensland's taxes are competitive with other states.

Table 3.5
Queensland's tax competitiveness

	QLD	NSW	VIC	WA	SA	TAS ⁴	ACT ⁵	NT ⁴	Avg ⁶
Taxation per capita ¹ (\$)	2,601	3,257	3,063	3,542	2,628	1,914	3,518	2,309	3,137
Taxation effort ² (%)	88.6	106.9	101.4	95.4	109.7	92.4	99.3	83.5	100.0
Taxation % of GSP ³ (%)	3.78	4.63	4.63	3.33	4.33	3.80	3.53	2.44	4.17

Notes:

- 2014-15 data. Sources: 2014-15 Budget for all jurisdictions except NSW, South Australia, Tasmania and the ACT where 2013-14 MYFER are used. Population data from Commonwealth 2014-15 Budget.
- 2012-13 data. Source: Commonwealth Grants Commission 2014 Update – total tax revenue effort for assessed taxes (payroll, transfer duty, land tax, insurance duty and motor vehicle taxes). Revenue raising effort ratios, assessed by the Commonwealth Grants Commission, isolate policy impacts from revenue capacity impacts and are an indicator of the extent to which governments burden their revenue bases. Queensland's tax revenue raising effort is well below the Australian policy standard (equal to 100%).
- 2012-13 data. Sources: ABS 5220.0 (State Accounts – GSP) and ABS 5506.0 (Taxation Revenue, Australia).
- Low taxation per capita primarily reflects the lower revenue raising capacity of those jurisdictions.
- Figures include municipal rates.
- Weighted average of states and territories, excluding Queensland.

GRANTS REVENUE

Grants revenue is comprised of Australian Government grants, grants from the community and industry, and other miscellaneous grants. The growth of \$3.972 billion¹ (or 19.8%) in 2014-15 largely reflects the \$2.133 billion increase in National Partnership payments for disaster recovery and a \$913 million increase in GST revenue.

¹ Comprises a \$3.974 billion increase in payments from the Australian Government and a \$2 million reduction in other grants, as explained in the following sections.

Table 3.6
Grants revenue¹

	2012-13 Actual \$ million	2013-14 Est. Act. \$ million	2014-15 Budget \$ million
Current grants			
Australian Government grants	17,182	18,788	20,307
Other grants and contributions	303	305	303
Total current grants	17,485	19,093	20,610
Capital grants			
Australian Government grants	804	978	3,433
Other grants and contributions	7	..	..
Total capital grants	811	978	3,433
Total grants revenue	18,295	20,071	24,043
Note: 1. Numbers may not add due to rounding.			

Australian Government payments

Australian Government payments to Queensland comprise:

- general purpose payments, consisting of GST revenue grants and associated payments. General purpose payments are ‘untied’ and are used for both recurrent and capital purposes
- payments for specific purposes, including grants for health, schools, skills and workforce management, disabilities and housing. These grants are used to meet Australian Government and shared policy objectives.

Australian Government payments to Queensland in 2014-15 are expected to total \$23.740 billion, representing growth of \$3.974 billion (or 20.1%) compared to payments in 2013-14. This significant increase is due to growth of \$2.133 billion in National Partnership payments for disaster recovery and \$913 million in GST received by Queensland.

Table 3.7
Australian Government payments¹

	2012-13 Actual \$ million	2013-14 Est. Act. \$ million	2014-15 Budget \$ million
GST revenue grants	9,470	10,823	11,736
Total payments for specific purposes ²	8,522	8,943	12,004
Total Australian Government payments	17,985	19,766	23,740

Notes:
1. Numbers may not add due to rounding.
2. Differs from Chapter 6 due to the inclusion of direct Australian Government payments to Queensland agencies for Commonwealth own purpose expenditure.

Chapter 6 provides detailed background on Federal-state financial arrangements, including an analysis of Queensland's share of GST revenue and details of Australian Government payments to Queensland.

General purpose payments

GST revenue grants and associated payments

GST revenue grants and associated payments to Queensland in 2014-15 are expected to be \$11.736 billion, which represents growth of \$913 million on the 2013-14 estimated actual.

GST revenue projections are based on expected growth in economic parameters, such as household consumption and dwelling investment, which have a strong link to the GST base. Since the 2013-14 Mid-Year Economic and Fiscal Outlook, the Australian Government has increased their estimate for the GST pool by approximately \$4.5 billion over the period 2013-14 to 2016-17.

The distribution of GST revenues is based on the recommendations of the Commonwealth Grants Commission in accordance with the application of horizontal fiscal equalisation principles.

Queensland's share of GST funding (relativity) increased in the 2014 Update from the Commonwealth Grants Commission. Relative to other states, Queensland's capacity to raise revenue declined since the previous update. As a result, Queensland's share of GST funding will be above its population share in 2014-15.

Queensland considers that the Australian Government's projections of Queensland's relativities for 2015-16 onwards are overly optimistic and therefore the estimates in this Budget have been developed using more conservative assumptions. For example, the Commonwealth Treasury projects that Queensland's relativity would reach 1.13 in 2016-17 from the Commonwealth Grants Commission's 2014-15 figure of 1.079. This would require the average relativity in each of the next three years to be significantly higher than in any year over the past 15 years.

Payments for specific purposes

Australian Government payments for specific purposes to Queensland in 2014-15 are estimated at \$12.004 billion.

Other grants and contributions

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

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

Table 3.8
Other grants and contributions

	2012-13 Actual \$ million	2013-14 Est. Act. \$ million	2014-15 Budget \$ million
Other grants and contributions	304	305	303

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

SALES OF GOODS AND SERVICES

Sales of goods and services revenue comprises cost recoveries from providing goods or services. Table 3.9 shows a breakdown of the sales of goods and services category.

The increase of \$144 million in 2014-15 is largely due to increased revenue from public transport in South East Queensland, and increases in other sales of goods and services.

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

Table 3.9			
Sales of goods and services¹			
	2012-13 Actual \$ million	2013-14 Est. Act. \$ million	2014-15 Budget \$ million
Fee for service activities	2,181	2,022	2,053
Public Transport: South East Queensland	361	369	402
Rent revenue	491	557	568
Sale of land inventory	132	144	146
Hospital fees	665	729	740
Transport and traffic fees	337	357	371
Other sales of goods and services	920	864	907
Total sales of goods and services	5,087	5,043	5,187
Note:			
1. Numbers may not add due to rounding			

Fee for service activities

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

- recoverable works carried out by the Department of Transport and Main Roads and the commercialised arm of the department
- fees charged by Technical and Further Education (TAFE) colleges
- fees charged by CITEC to commercial clients for information brokerage services.

Public Transport: South East Queensland

Revenues arise from the arrangements associated with South East Queensland integrated ticketing and public transport arrangements, which commenced in July 2004. The Department of Transport and Main Roads collects revenues from the operation of public transport services in South East Queensland to assist in funding public transport services in the region. These revenues are estimated at \$402 million in 2014-15.

Rent revenue

Rent revenue is earned on the rent or lease of Government buildings, housing, plant and equipment and car parks. Major items under this category include public housing rentals and rents charged for Government buildings.

Sale of land inventory

Sale of land inventory comprises land sales undertaken by agencies, where the buying and selling of land is a core business activity of the agency, such as Economic Development Queensland. As such, it is distinct from property disposals undertaken by most Government agencies.

Hospital fees

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

Transport and traffic fees

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

Other sales of goods and services

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

INTEREST INCOME

Interest income accounts for 4.8% of total General Government revenue in 2014-15. Interest income is expected to be flat, reflecting continuing low interest rates.

Table 3.10			
Interest income			
	2012-13	2013-14	2014-15
	Actual	Est. Act.	Budget
	\$ million	\$ million	\$ million
Interest income	2,603	2,435	2,429

Interest income primarily comprises interest earned on investments including those held for superannuation, long service leave and insurance purposes. Interest is reinvested in superannuation and for other long term requirements, such as long service leave, and is not available for general expenditure.

DIVIDEND AND INCOME TAX EQUIVALENT INCOME

Dividend and income tax equivalent income account for 4.3% of total General Government sector revenue in 2014-15.

Table 3.11			
Dividend and income tax equivalent income¹			
	2012-13	2013-14	2014-15
	Actual	Est. Act.	Budget
	\$ million	\$ million	\$ million
Dividend	1,098	1,473	1,515
Income tax equivalent income	293	465	633
Total dividend and income tax equivalent income	1,390	1,938	2,148
Notes:			
1. Numbers may not add due to rounding.			
2. Does not match table in Chapter 7 because it includes dividends and tax equivalents from outside the PNFC sector such as Queensland Investment Corporation Ltd.			

Dividends are received from the State's equity investments in Public Non-financial Corporations and Public Financial Corporations, for example, the Queensland electricity supply industry, Queensland Investment Corporation, Queensland Treasury Corporation, port authorities and Queensland Rail. Dividends are expected to grow significantly in 2013-14 driven by the energy sector and Queensland Treasury Corporation and again in 2014-15 supported by the energy sector.

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

Dividends and income tax equivalent income do not represent the full extent of financial arrangements between the Public Non-financial Corporations sector and the General Government sector. As discussed in Chapter 7, General Government sector expenditure on Community Service Obligations and Transport Service Contracts receipts are expected to be over \$2.2 billion in both 2013-14 and 2014-15, which exceeds the expected revenue from dividends and tax equivalent payments.

OTHER REVENUE

Other revenue, including royalty revenue, accounts for 7.7% of total General Government revenue in 2014-15.

Table 3.12 Other revenue¹			
	2012-13 Actual \$ million	2013-14 Est. Act. \$ million	2014-15 Budget \$ million
Royalties and land rents	2,302	2,451	2,846
Fines and forfeitures	401	375	377
Revenue not elsewhere classified	710	707	636
Total Other Revenue	3,413	3,532	3,859
Note: 1. Numbers may not add due to rounding.			

Royalties and land rents

Royalty estimates

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

**Table 3.13
Royalties and land rents¹**

	2012-13 Actual \$ million	2013-14 Est. Act. \$ million	2014-15 Budget \$ million
Coal	1,737	1,834	2,078
Petroleum ²	59	68	199
Other royalties ³	348	369	395
Land rents	158	179	174
Total royalties and land rents	2,302	2,451	2,846
Notes:			
1. Numbers may not add due to rounding.			
2. Includes LNG from 2014-15.			
3. Includes base and precious metal and other minerals royalties.			

Revenue from royalties and land rents in 2013-14 is expected to be \$331 million lower than forecast in the 2013-14 Budget. This weakness is largely due to export coal prices being significantly lower than expected, partially offset by stronger export volumes and an improvement in the A\$-US\$ exchange rate.

Royalty and land rent revenue is expected to grow in 2014-15 due to increased export coal volumes, and the A\$ depreciating slightly against the US\$. Further, 2014-15 represents the first year that there should be significant exports from the LNG industry.

Fines and forfeitures

The major fines and infringements included in this category are issued by Department of Transport and Main Roads, Queensland Police Service and toll road operators, incorporating fixed and mobile camera offences, speeding and tolling offences. There is an expected increase of 0.5% in collections of fines and forfeitures in 2014-15.

Revenue not elsewhere classified

The \$71 million decrease in 2014-15 includes an expected decline in asset transfers from non-Queensland Government entities and reductions in sundry revenue across a number of departments.

4 EXPENSES

FEATURES

- Estimated growth in expenses is only 2.2% in 2013-14, reflecting maintenance of the Government's strong commitment to fiscal discipline. This follows on from growth of only 0.2% in 2012-13. Over the decade to 2011-12, the average General Government expenses growth rate was 8.9%.
- Compared to the 2013-14 Mid Year Fiscal and Economic Review (MYFER), General Government expenses for 2013-14 were \$1.484 billion lower reflecting:
 - deferral of Commonwealth funded expenditure, particularly for Education
 - changes to quantity and timing of Natural Disaster Relief and Recovery Arrangement (NDRRA) expenditure
 - tight control over employee expenses and expenses more generally.
- In 2014-15, General Government sector expenses are expected to increase by \$2.784 billion (or 5.9%) over the estimated actual for 2013-14. This primarily is a result of increased service delivery including the provision of increased public hospital and education services and deferrals of Commonwealth funding from 2013-14.
- Employee expenses in 2013-14 are estimated to be 1.2% lower than 2012-13, following a decline of 0.7% in 2012-13. The decline in 2013-14 is primarily due to the full year impact of fiscal repair measures implemented in the 2012-13 Budget and ongoing productivity and efficiency improvements. In contrast, employee expenses grew on average 8.6% per annum over the decade to 2011-12.
- Expenses are projected to grow on average by 3.3% over the period 2013-14 to 2017-18. Although employee expenses are estimated to grow by 3.7% over the same period, relative to 2011-12, the average rate of growth in employee expenses to 2017-18 is only 2.1%.
- The major areas of expenditure are health and education, which together constitute approximately 51% of General Government sector expenses.

This chapter provides an overview of General Government sector expenses for the estimated actual for 2013-14, forecasts for the 2014-15 Budget year and projections for 2015-16 to 2017-18. The forward estimates are based on the economic projections outlined in Chapter 2.

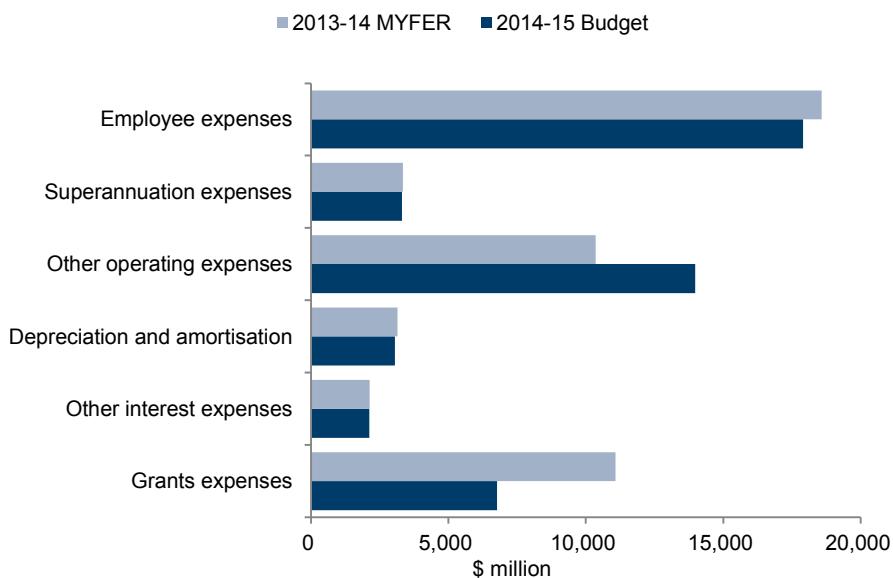
2013-14 ESTIMATED ACTUAL

General Government expenses in 2013-14 are estimated to be \$47.149 billion, \$1.484 billion lower than the 2013-14 MYFER. This decline is largely due to:

- tight spending control
- lower than expected pre-2014 natural disaster reimbursements to local governments and the resulting change to the profile of funding required for reconstruction works
- higher than anticipated employee expense savings as a result of ongoing productivity and efficiency improvements
- deferral of expenditure associated with Commonwealth National Partnership programs including Building Australia’s Workforce – Vocational Education and Training (Skills Reform) and Improving Literacy and Numeracy
- lower community service obligation payments to Ergon Energy Corporation Limited.

Chart 4.1 shows the change in expenses from the 2013-14 MYFER by expense category.

Chart 4.1
2013-14 Expenses by operating statement category,
2013-14 MYFER to 2014-15 Budget



The large decrease in grants expenses and the large increase in other operating expenses in 2013-14 compared to the 2012-13 MYFER primarily reflect efforts made to improve consistency in the classification of grants and service procurement payments across Government.

The Queensland Independent Commission of Audit Final Report made a number of recommendations around improving the administration of grants programs in the Queensland Government, which are discussed in more detail later in this chapter. In particular, Recommendation 56 referred to "... adopting a consistent definition and treatment of grants across Government, separate from subsidies, service level agreements and other forms of payment for services rendered".

In response, in February 2014 Queensland Treasury and Trade released a guideline outlining the principles and criteria to be applied to payments to promote consistent classification of grants and service procurement expenditure. This has assisted agencies to more clearly distinguish between service delivery arrangements, where the agency directly receives benefits from the provision of goods or services, and grants, where the grant recipient largely retains flexibility and discretion over the use of the funds. As a result, certain expenditure that was previously classified as grants expenses at the time of 2013-14 MYFER has been reclassified in the 2014-15 Budget as other operating expenses, which includes the supplies and services category or the non-labour costs of providing goods and services.

In addition to achieving greater consistency in the classification of funding to external parties, agencies are now separately reporting those supplies and services expenses that arise from outsourcing arrangements where the funding is ultimately provided for front line service delivery, that is where the agency is the "enabler" rather than the "doer".

In Budget Paper 5 - Service Delivery Statements, the supplies and services category of each agency's income statement distinguishes between "Outsourced Service Delivery" and "Other Supplies and Services". Outsourced Service Delivery represents funding to parties external to the agency where the ultimate purpose is to provide front line services to the community, for example, patient transport services, disability care services and prison management services. Other Supplies and Services represents the remainder of supplies and services not directed to front line service delivery.

This expanded presentation, combined with increased awareness and consistency in categorising the funding Government provides, reflects the Government's commitment to enhancing transparency and accountability.

2014-15 BUDGET AND OUTYEARS

Table 4.1
General Government sector expenses¹

	2013-14 Est. Act. \$ million	2014-15 Budget \$ million	2015-16 Projection \$ million	2016-17 Projection \$ million	2017-18 Projection \$ million
Employee expenses	17,906	18,585	19,102	19,856	20,679
Superannuation interest cost	955	932	987	1,016	1,022
Other superannuation expenses	2,356	2,364	2,354	2,381	2,403
Other operating expenses	13,980	15,249	15,623	16,691	17,066
Depreciation and amortisation	3,058	3,226	3,368	3,504	3,621
Other interest expenses	2,123	2,379	2,468	2,506	2,523
Grants expenses	6,770	7,198	6,317	6,002	6,347
Total Expenses	47,149	49,933	50,219	51,957	53,660

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

General Government expenses of \$49.933 billion in 2014-15 represent an increase of \$2.784 billion (or 5.9%) over the 2013-14 estimated actual. Factors influencing the growth in expenses include:

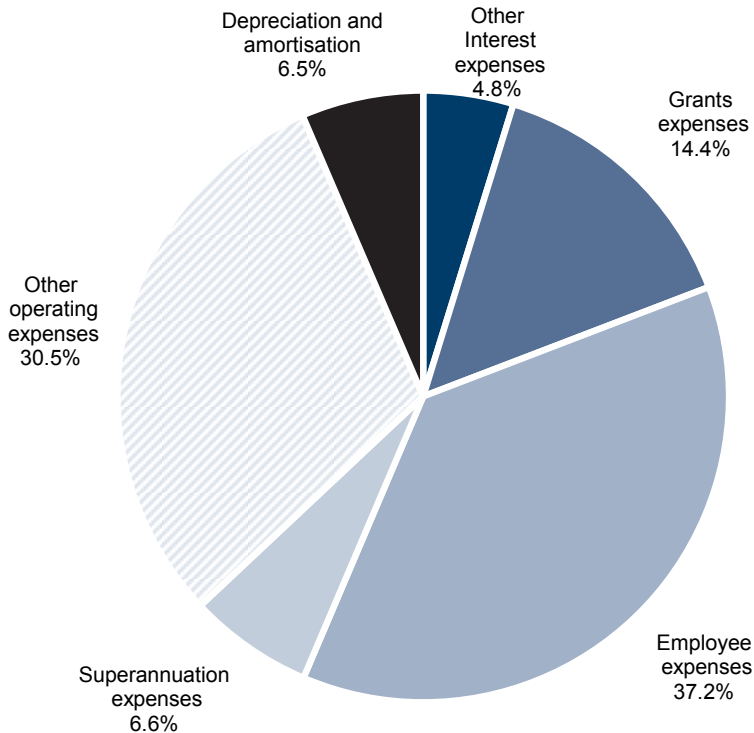
- growth in funding to Queensland Health to support growing demand and critical service needs and existing initiatives including Better Access to Emergency Care and Patient Travel Subsidy Scheme
- growth in education expenditure for enrolment growth, funding for the *Great Teachers = Great Results* initiative, as well as Australian Government National Education Reforms – Students First program and deferred expenditure associated with Australian Government National Partnership programs including Building Australia’s Workforce – Vocational Education and Training (Skills Reform)
- additional interest costs associated with new borrowings undertaken in 2014-15.

As part of the Government’s renewal program to drive improved productivity, departments are required to make further procurement savings of \$24 million per annum from 2014-15 onwards, in addition to the annual \$100 million savings requirement included in the 2013-14 Budget.

EXPENSES BY OPERATING STATEMENT CATEGORY

As outlined in Chart 4.2, the largest expense categories in the General Government sector in 2014-15 are employee and superannuation expenses (43.8%), followed by other operating expenses (30.5%) that reflects non-labour costs of service delivery and includes outsourcing service delivery to non-government organisations.

Chart 4.2
Expenses by operating statement category¹, 2014-15

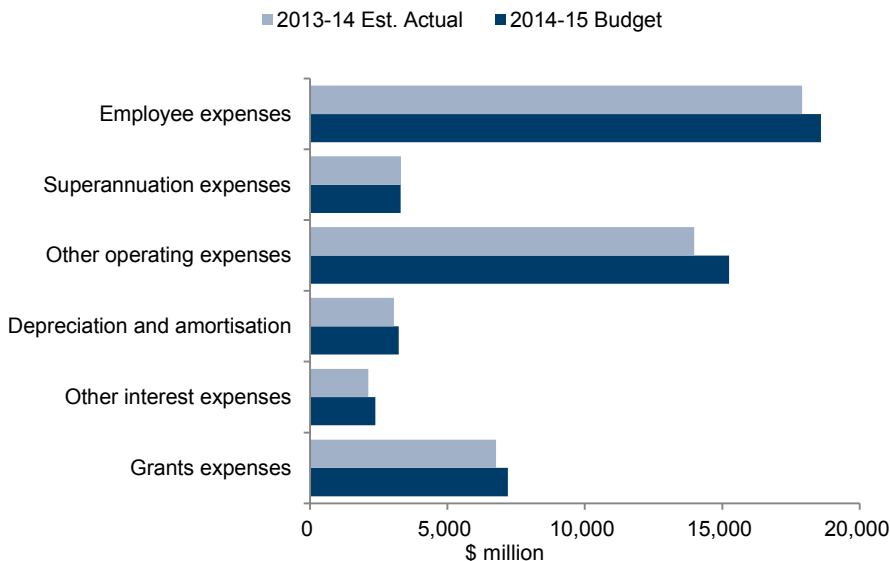


Note:

1. Percentages may not add to 100% due to rounding.

Chart 4.3 compares the 2013-14 estimated actual expenses for each operating statement category with the 2014-15 Budget.

Chart 4.3
Expenses by operating statement category
2013-14 Estimated Actual and 2014-15 Budget



Employee expenses

Employee expenses include salaries and wages, annual leave, long service leave and redundancy payments.

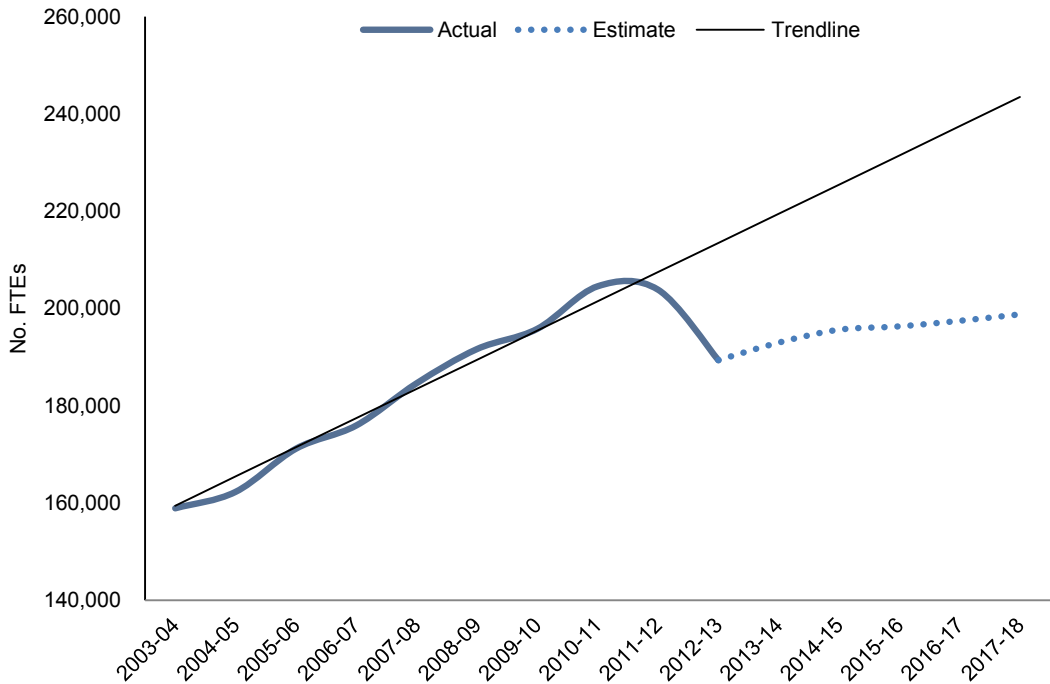
The 2013-14 employee expenses are \$665 million lower than the 2013-14 MYFER, reflecting continued discipline in controlling the number of Full Time Equivalent positions, particularly in Queensland Health as a result of ongoing productivity and efficiency improvements.

In 2014-15, employee expenses are expected to be \$18.585 billion, \$679 million or 3.8% higher than the 2013-14 estimated actual. The increase in employee expenses in 2014-15 is in the key service areas of health and education.

Full time equivalents (FTEs)

Chart 4.4 shows actual Full Time Equivalents (FTEs) from 2003-04 to 2012-13 and compares the 2013-14 Budget estimate of FTEs with the historical (2002-03 to 2011-12) growth rate of 3.1% per annum (represented by the trend line).

**Chart 4.4
Departmental FTEs
2003-04 to 2017-18**



This graph demonstrates that the fiscal repair measures have made a major contribution to bringing FTE growth under control, with FTEs at the end of 2012-13 being just over 15,000 FTEs or 7.4% less than the peak of 204,546 FTEs in 2010-11.

FTEs are expected to start growing modestly from 2012-13, reflecting increased service delivery demands. By the end of 2013-14, FTEs are estimated to be around 5.7% (or 11,600 FTEs) less than 2010-11. The public service is expected to remain smaller than its peak across the forward estimates.

Table 4.2 shows the total funded FTE positions by department and is consistent with agency Service Delivery Statements.

Departments' workforce profiles will continue to change as they undertake organisational review and renewal, as the public service works to become the best in the nation.

Table 4.2
Total funded FTE positions by Department^{1,12,13}

	2013-14 Adjusted Budget	2013-14 Est. Act	2014-15 Budget
Aboriginal and Torres Strait Islander and Multicultural Affairs	366	369	369
Agriculture, Fisheries and Forestry	2,168	2,168	2,168
Communities, Child Safety and Disability Services ²	5,731	5,740	5,911
Education, Training and Employment ³	65,897	65,501	65,653
Energy and Water Supply	273	250	225
Environment and Heritage Protection	980	1,011	1,026
Housing and Public Works ⁴	3,153	3,093	2,822
Justice and Attorney-General ⁵	8,145	8,265	8,442
Local Government, Community Recovery and Resilience	124	122	121
National Parks, Recreation, Sport and Racing	1,327	1,333	1,346
Natural Resources and Mines	2,443	2,440	2,440
Premier and Cabinet	622	696	660
Public Safety Business Agency ⁶	905	881	2,435
Queensland Fire and Emergency Services ⁷	2,960	2,962	2,941
Queensland Health ^{8,9}	69,744	70,519	72,595
Queensland Police Service ¹⁰	15,168	15,229	14,029
Queensland Treasury and Trade ¹¹	1,083	1,069	1,094
Science, Information Technology, Innovation and the Arts	3,199	3,036	3,043
State Development, Infrastructure and Planning	845	899	881
Tourism, Major Events, Small Business and the Commonwealth Games	107	113	121
Transport and Main Roads	7,380	7,273	7,290
Total	192,620	192,969	195,612

Notes:

1. The Police and Community Safety Review released in August 2013 looked at how the Queensland Police Service and the Department of Community Safety delivered their services. It recommended the establishment of a new public safety portfolio under the Minister for Police, Fire and Emergency Services. The Queensland Ambulance Service moved to Queensland Health and Queensland Corrective Services and Prostitution Licensing Authority moved to the Department of Justice and Attorney-General. The resulting public safety portfolio consists of the Queensland Police Service, Queensland Fire and Emergency Services, the Public Safety Business Agency and the Office of the Inspector-General Emergency Management.
2. The 2013-14 Adjusted Budget has decreased by 68 FTEs compared to the 2013-14 published Budget estimate due to the transfer of responsibility for Homelessness Services to the Department of Housing and Public Works from 1 July 2013.
3. For the purposes of comparison, this includes TAFE Queensland which was established as a statutory body on 1 July 2013, with staff transferring from the Department of Education, Training and Employment from 1 July 2014.
4. Variance between 2013-14 Estimated Actual and 2014-15 Budget is primarily due to the exiting of contestable services and the streamlining of operations.
5. Queensland Corrective Services transferred from the former Department of Community Safety to the Department of Justice and Attorney-General on 1 November 2013.
6. The Public Safety Business Agency was established as a Public Service Office on 1 November 2013 and has been included in this table for the purposes of achieving a meaningful comparison. The increase in 2014-15 reflects further machinery-of-government changes, including the transfer of 1,458 FTEs from the Queensland

Police Service and 115 FTEs from the Department of Communities, Child Safety and Disability Services responsible for Blue Cards.

7. The Queensland Fire and Emergency Services was established as a department on 1 November 2013. It incorporates parts of two divisions from the former Department of Community Safety – the Queensland Fire and Rescue Service and Emergency Management Queensland.
8. Queensland Ambulance Service became part of Queensland Health from 1 October 2013 with 3,905 FTEs transitioning in the 2013-14 Estimated Actual (rising to 4,015 FTEs in 2014-15 Budget).
9. This represents Health Consolidated in the Service Delivery Statement, which consolidates Queensland Health controlled and the Hospital and Health Services. Increases in 2014-15 include additional staffing related to commissioning of new services at the Gold Coast, Logan and Cairns Hospitals and transfer of services from the Mater Children's Hospital to the Lady Cilento Children's Hospital.
10. Changes between the 2013-14 Estimated Actual and 2014-15 Budget figures reflect the movement of 1,458 FTEs to the Public Safety Business Agency resulting from Machinery-of-Government changes associated with the Police and Community Safety Review. This is partially offset by underlying growth in police numbers.
11. For the purposes of comparison, Trade and Investment Queensland, established as a statutory body on 1 February 2014 is included in this estimate.
12. Explanation of variations in departmental FTEs can be found in the Service Delivery Statements.
13. The estimate of 192,352 FTEs included in the published 2013-14 Budget is slightly higher on an adjusted basis once the full scope of departmental FTEs is extended to allow for issues such as the inclusion of temporary employees in Queensland Police Service and the inclusion of Q-COMP in the Department of Justice and Attorney-General from 1 October 2013.

Superannuation expenses

The superannuation interest cost represents the imputed interest on the Government's accruing defined benefit superannuation liabilities.

In determining the State's defined benefit superannuation liabilities, AASB 119 *Employee Benefits* requires the discounting of future benefit obligations using yield rates on government bonds net of investment tax. Interest costs are calculated on a net liability approach by applying the discount rate to both the gross liability and superannuation plan assets.

In 2014-15, superannuation interest costs are projected to decrease by \$23 million over the estimated actual to \$932 million due to the lower estimated actuarial valuation of superannuation liabilities as at 30 June 2014.

Other superannuation expenses represent employer superannuation contributions to accumulation superannuation and the current service cost of the State's defined benefit obligation (or the increase in the present value of the defined benefit obligation resulting from employee service in the current period).

Other operating expenses

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

Other operating expenses have increased significantly from the 2013-14 MYFER as a result of service procurement payments being reclassified from grant expenses to other operating expenses reflecting the Government's efforts to improve consistency in the classification of grants and service procurement across government.

Payments which have been reclassified from grant expenses to other operating expenses include:

- Transport service contract (TSCs) payments made to Queensland Rail for non-commercial rail passenger services for the commuter and tourism markets. These payments were previously reported as community service obligation payments.
- Outsourcing of service delivery to non-government organisations to deliver community, child and family and disability services.
- Outsourcing of other services to external providers including some housing and health services.

In 2014-15, other operating expenses are expected to be \$15.249 billion, an increase of \$1.269 billion or 9.1% over the 2013-14 estimated actual. Significant variations from the 2013-14 estimated actual outcome are due to:

- growth for additional activities and the finalisation of certain Commonwealth funded health programs
- funding for the *Great Teachers = Great Results* initiative, deferred expenditure associated with Australian Government National Partnerships program, Building Australia's Workforce – Vocational Education and Training (Skills Reform) and growth in Government National Education Reforms – Students First program
- additional funding for child and family reforms in response to the Child Protection Commission of Inquiry Final Report. The Queensland Government has allocated \$406 million to these reforms over the next five years.

Depreciation and amortisation

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

Other interest expenses

Other interest expenses include interest paid on borrowings to acquire capital assets and infrastructure such as roads and government buildings.

In 2014-15, the General Government sector has total debt servicing costs forecast at \$2.379 billion, an increase of 12.1% over the 2013-14 estimated actual due to the higher borrowings in 2013-14.

Grants expenses

Current grants include grants and subsidies to the community (such as schools, hospitals, benevolent institutions and local governments) and personal benefit payments.

Community service obligations (CSOs) are provided where Public Non-financial Corporations (PNFCs) are required to provide non-commercial services or services at non-commercial prices for the benefit of the community (for further details refer Chapter 7).

Table 4.3 provides a break down of grants by category and recipient type.

Grant expenses have decreased significantly from the 2013-14 MYFER as a result of service procurement payments being reclassified from grant expenses to other operating expenses, as detailed earlier in this chapter. However, total current and capital transfers will rise by 6.3% to \$7.198 billion in 2014-15.

Table 4.3		
Grant expenses¹		
	2013-14 Est. Act. \$ million	2014-15 Budget \$ million
Current		
Grants to local government	419	684
Grants to private and not-for-profit organisations		
State funding for non-state schools	546	584
Australian Government funding for non-state schools	1,982	2,125
Other	805	800
Grants to other sectors of government		
Community service obligations to PNFCs	570	697
Other payments to PNFCs	30	25
Other	3	3
Other	290	209
Total current transfers	4,645	5,128
Capital		
Grants to local government	1,696	1,344
Grants to private and not-for-profit organisations	289	605
Payments to PNFCs	25	16
First Home Owner Grant schemes	75	70
Other	39	35
Total capital transfers	2,125	2,070
Total current and capital transfers	6,770	7,198
Note:		
1. Numbers may not add due to rounding.		

Current grants are estimated to increase by \$483 million in 2014-15. This increase is largely due to the Australian Government's advance payment of financial assistance grants to local governments in 2012-13 for 2013-14 (thereby reducing 2013-14), growth in Australian Government funding to non-state schools and additional CSO payments to electricity Government-owned corporations (GOCs). The Budget includes an amount to ensure tariffs are consistent with the Queensland Competition Authority's draft determination.

Capital transfers represent grants to PNFCs, local governments, not-for-profit institutions and other non-government entities, such as businesses and households (including the Great Start Grant) for capital purposes.

Capital grants are estimated to decrease \$55 million to \$2.07 billion in 2014-15. The decline in capital grants to local government is largely represented by a decline in natural disaster grants to local governments for the rebuilding of roads, bridges and transport infrastructure related to pre-2014 natural disaster events.

In 2014-15, capital grants to private and not-for-profit organisations includes the one-off transfer of State assets to form Queensland's first dual-sector university through the merger of Central Queensland Institute of Technical and Further Education (CQIT) with Central Queensland University (CQU) as well as grant funding for Royalties for the Regions program.

The Queensland Independent Commission of Audit Final Report released in 2013, included (Part C-4) an analysis of Grant Administration in the Queensland Government, identifying the scope of grant payments, grants definitions and conditions, and the effectiveness of grant programs and grant systems.

The section made three recommendations about grants in the context of Financial Administration of the State. These recommendations were:

- *The Government publish a list of all grant programs on an annual basis (Recommendation 55)*
- *Grant programs across Government be rationalised and consolidated, with a view to:*
 - *reducing the piecemeal and fragmented nature of current programs*
 - *adopting a consistent definition and treatment of grants across Government, separate from subsidies, service level agreements and other forms of payment for services rendered*
 - *ensuring the efficiency and effectiveness of grant programs in achieving stated objectives*

- *providing a more informed basis for future decisions on the nature, range and scope of grants proposed to be made, and the organisations receiving these grants*
- *achieving better value for money for the large expenditure made on grants (Recommendation 56)*
- *The administration of grant programs be managed by specialist grant administration systems based on best practice, to minimise the administrative and overhead costs involved. (Recommendation 57)*

The Government's response to these three recommendations was to accept each of them, noting that there would need to be a progressive approach to implementation overseen by the Social Services Cabinet Committee. Implementation actions include:

- the development and application of consistent accounting guidelines for the classification and treatment of all funding to external parties – the guidelines were published in February 2014 and have been applied to the 2014-15 Budget
- mapping grants and other payments to external parties to provide a basis for identification of opportunities to improve the efficiency and effectiveness of funding programs across government
- development of a web portal to provide information on grant and funding programs for across government in one place – a portal was launched in December 2013 providing information on investment in social services and from July 2014 the portal will hold information on all government grant and funding programs
- exploring opportunities to further simplify application, acquittal and reporting processes for grants and service agreements, improve the quality and accessibility of information on grant and funding programs, and reduce administrative and overhead costs for both government agencies and organisations receiving grants and providing services.

OPERATING EXPENSES BY PURPOSE

Chart 4.5
General Government expenses by purpose, 2014-15

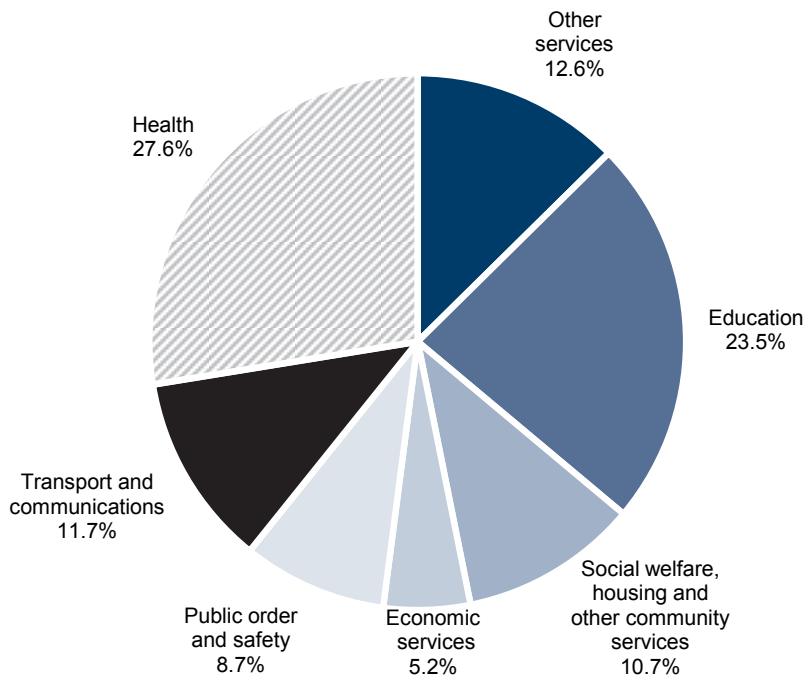


Chart 4.5 indicates the proportion of expenditure by major purpose classification for the 2014-15 Budget. Health accounts for the largest share of expenses (27.6%) followed by Education (23.5%).

DEPARTMENTAL EXPENSES

Data presented in Tables 4.4 and 4.5 provide a summary drawn from financial statements contained in the Service Delivery Statements. Further information on the composition of expenses, outputs delivered and factors influencing the movement in expenses can also be obtained from the Service Delivery Statements.

Table 4.4		
Departmental Controlled Expense ^{1,2}		
	2013-14	2014-15
	Est. Actual	Estimate
	\$'000	\$'000
Aboriginal and Torres Strait Islander and Multicultural Affairs	104,886	156,234
Agriculture, Fisheries and Forestry	426,944	408,579
Communities, Child Safety and Disability Services	2,414,829	2,519,267
Education, Training and Employment	8,246,166	8,552,849
Electorate Commission of Queensland	17,938	54,124
Energy and Water Supply	62,449	50,729
Environment and Heritage Protection	178,396	175,034
Health Consolidated ³	12,707,922	13,621,951
Housing and Public Works	1,622,199	1,854,602
Justice and Attorney-General	1,143,864	1,435,132
Legislative Assembly	84,617	86,484
Local Government, Community Recovery and Resilience	204,034	207,549
National Parks, Recreation, Sport and Racing	331,688	420,049
Natural Resources and Mines	437,317	450,002
Office of the Governor	6,055	6,263
Office of the Inspector-General Emergency Management	..	4,495
Office of the Ombudsman	7,527	8,602
Premier and Cabinet	122,124	125,451
Public Safety Business Agency	674,092	610,265
Public Service Commission	23,293	18,081
Queensland Audit Office	40,243	38,372
Queensland Fire and Emergency Services	404,969	620,024
Queensland Police Service	1,974,084	2,070,324
Queensland Treasury and Trade	213,292	203,033
Science, Information Technology, Innovation and the Arts	422,240	450,120
State Development, Infrastructure and Planning	254,878	412,095
The Public Trustee of Queensland	84,223	87,705
Tourism, Major Events, Small Business and the Commonwealth Games	95,116	107,441
Transport and Main Roads	5,477,865	5,390,333
Total Expenses	37,783,250	40,145,189
Notes:		
1. Total expenses by department does not equate to total General Government expenses in Uniform Presentation Framework (UPF) terms reported elsewhere in the Budget Papers as General Government expenses include a wider range of entities including State Government statutory authorities. In addition transactions eliminated between entities within the General Government sector are excluded in the preparation of whole-of-Government UPF financial statements.		
2. Explanation of variations in departmental controlled expenses can be found in the Service Delivery Statements.		
3. This represents Health Consolidated in the Service Delivery Statement, which consolidates Queensland Health controlled, Queensland Ambulance Service and the Hospital and Health Services.		

Table 4.5
Departmental Administered Expense ^{1,2,3}

	2013-14	2014-15
	Est. Actual	Estimate
	\$'000	\$'000
Aboriginal and Torres Strait Islander and Multicultural Affairs	8,172	8,100
Agriculture, Fisheries and Forestry	9,741	9,395
Communities, Child Safety and Disability Services	254,944	239,631
Education, Training and Employment	2,762,819	3,083,848
Energy and Water Supply	585,008	711,303
Environment and Heritage Protection	1,433	..
Health Consolidated	31,299	33,910
Housing and Public Works	22,445	3,452
Justice and Attorney-General	294,445	308,257
Local Government, Community Recovery and Resilience	3,864,126	2,300,172
National Parks, Recreation, Sport and Racing	26,790	26,811
Natural Resources and Mines	51,625	51,625
Premier and Cabinet	42,606	56,591
Queensland Police Service	708	..
Queensland Treasury and Trade	6,675,768	6,507,357
Science, Information Technology, Innovation and the Arts	149,677	149,687
State Development, Infrastructure and Planning	28,149	29,428
Tourism, Major Events, Small Business and the Commonwealth Games	107,166	119,393
Transport and Main Roads	1,037	..
Total Expenses	14,917,958	13,638,960

Notes:

- Expenses above do not include Transfers to government.
- Total expenses by department does not equate to total General Government expenses in Uniform Presentation Framework (UPF) terms reported elsewhere in the Budget Papers as General Government expenses include a wider range of entities including State Government statutory authorities. In addition transactions eliminated between entities within the General Government sector are excluded in the preparation of whole-of-Government UPF financial statements.
- Explanation of variations in departmental administered expenses can be found in the Service Delivery Statements.

Table 4.6
Reconciliation of Departmental to UPF Expenses ⁽¹⁾

	2013-14 Est. Actual \$ million	2014-15 Estimate \$ million
Departmental expenditure per Service Delivery Statements - Controlled (Table 4.4)	37,783	40,145
- Administered (Table 4.5)	14,918	13,639
Non-UPF departmental expenses and w hole-of-Government schemes ⁽²⁾	(3,964)	(3,894)
Other General Government entities (e.g. CBUs, SSPs, Statutory Bodies)	7,028	5,650
	55,766	55,541
Superannuation Interest cost	955	932
Eliminations and Other w hole-of-Government adjustments		
Elimination of payments to CBUs and SSPs	(2,753)	(2,721)
Other eliminations and adjustments	(6,820)	(3,818)
Total General Government UPF Expenses	47,149	49,933
Notes:		
1. Numbers may not add due to rounding.		
2. Certain expenses such as asset valuation changes are excluded from UPF reporting. In addition, this item removes the effect of cash payments for w hole-of-Government schemes such as the State's share of superannuation beneficiary payments reported in Treasury Administered's expenses. Costs associated w ith these schemes are accrued annually.		

5 BALANCE SHEET AND CASH FLOWS

FEATURES

- A key fiscal principle of the Queensland Government is to stabilise then significantly reduce debt. The Government has undertaken an extensive fiscal repair task which has resulted in the increase in borrowings over the budget and forward estimates period (that is 2014-15 to 2017-18) slowing to just over \$2.1 billion.
- Borrowings in 2014-15 are estimated to be almost \$80 billion. This compares to the previous Government in the 2011-12 Mid Year Fiscal and Economic Review estimating that borrowings would reach \$85.4 billion in 2014-15.
- Borrowings in 2015-16 are expected to be \$80.6 billion, \$9.2 billion less than the comparable estimates in the Queensland Independent Commission of Audit Interim Report, and \$520 million lower than forecast in the 2013-14 Budget.
- General Government capital purchases (Purchases of Non-financial Assets) of \$6.6 billion in 2013-14 will be funded entirely by borrowings. However, due to the Government's fiscal repair efforts, by 2015-16 General Government capital purchases of \$5.7 billion will be funded entirely by operating cash flows.

BACKGROUND

The balance sheet shows the projected assets, liabilities and net worth of the General Government sector as at 30 June each financial year. It is important for the Government to maintain a strong balance sheet to provide it with the stability, flexibility and capacity to deal with any emerging financial and economic pressures, and to provide a strong foundation for future economic growth.

Following the Queensland Independent Commission of Audit Interim Report, the Government implemented measures to immediately and significantly repair Queensland's fiscal position, especially restraining expenditure growth. The Government's fiscal consolidation efforts are having a positive impact on the balance sheet and freeing operating cash flows for essential investment in roads, hospitals and other infrastructure, however, there is still progress to be made.

BALANCE SHEET

Table 5.1 provides a summary of the key balance sheet measures for the General Government sector.

Table 5.1						
General Government sector: summary of budgeted balance sheet¹						
	2013-14 Budget ² \$ million	2013-14 Est. Act. \$ million	2014-15 Budget \$ million	2015-16 Projection \$ million	2016-17 Projection \$ million	2017-18 Projection \$ million
Financial assets	63,429	65,135	66,962	68,345	70,350	72,185
Non-financial assets	192,304	193,850	197,556	201,089	205,102	208,310
Total Assets³	255,733	258,985	264,518	269,434	275,453	280,496
Borrowings, advances and deposits	47,556	45,493	48,685	48,552	48,738	48,936
Superannuation liability	27,827	25,120	23,641	22,394	21,313	20,282
Other provisions and liabilities	12,684	12,706	13,102	13,404	13,989	14,351
Total Liabilities	88,067	83,319	85,428	84,350	84,040	83,569
Net Worth	167,666	175,666	179,091	185,084	191,413	196,926
Net Financial Worth	(24,638)	(18,184)	(18,466)	(16,005)	(13,690)	(11,384)
Net Financial Liabilities	46,834	42,705	43,495	41,728	40,382	38,959
Net Debt	10,821	8,756	10,942	10,048	9,372	8,869
Notes:						
1. Numbers may not add due to rounding.						
2. Numbers have been restated where subsequent changes in classification have occurred.						
3. For UPF purposes, the State's assets are classed as either financial or non-financial assets.						

Financial assets

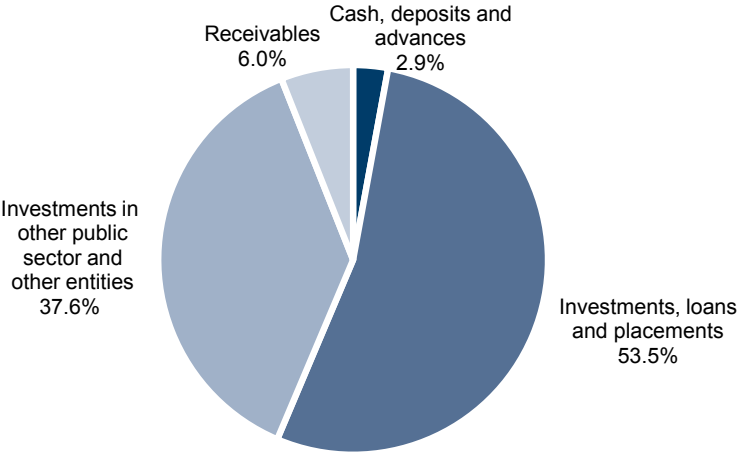
The General Government sector holds the equity of the State's public enterprises, principally its shareholding in Government-owned corporations (GOCs) but also Public Financial Corporations like Queensland Treasury Corporation (QTC), in much the same manner as the parent or holding company in a group of companies. The estimated investment in public enterprises is included in the General Government sector's financial assets.

Financial assets of \$65.135 billion are estimated for 2013-14, \$1.706 billion higher than originally budgeted. This is due primarily to an increase in the value of holdings in Public Financial Corporations, principally as a result of the increase in value of the QML investment which has now been divested.

In the year to 30 June 2015, financial assets are projected to increase by \$1.827 billion over 2013-14, attributable principally to increased investment in assets set aside to meet future employee liabilities including superannuation, and an increase in the value of holdings primarily in the Energy sector.

Chart 5.1 shows projected General Government sector financial assets by category at 30 June 2015. Investments held to meet future liabilities, including superannuation and long service leave, comprise the major part of the State's financial assets.

Chart 5.1
Projected General Government financial assets by category at 30 June 2015



Non-financial assets

General Government non-financial assets are projected to total \$193.85 billion at 30 June 2014, \$1.546 billion higher than forecast at the 2013-14 Budget.

Changes in non-financial assets occur for a number of reasons including:

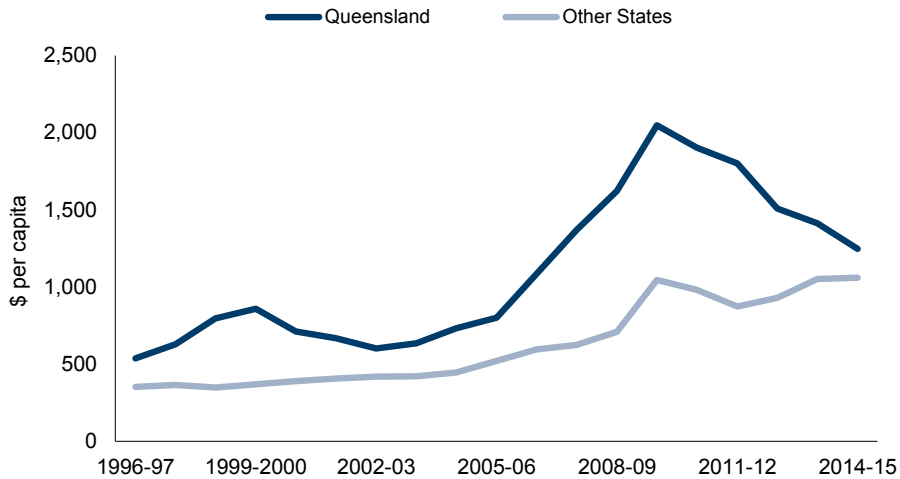
- construction and purchase/lease of assets, either to replace existing assets or provide additional capacity for the State to deliver services
- revaluations of assets required under accounting standards
- depreciation and disposals of assets.

The increase since the 2013-14 Budget reflects the flow through of upward revaluations at 30 June 2013 primarily for road infrastructure, offset by downward revaluations for land. There are some significant devaluations of assets that may arise in 2013-14 (for example, arising from changes in the valuation methodology for leasehold land), however the quantum of these has not been finalised at the time of publication of this budget. These will be finalised and incorporated into the 2013-14 Report on State Finances.

Non-financial assets in the year ending 30 June 2015 are expected to grow by \$3.706 billion over the 2013-14 estimated actuals, to be \$197.556 billion at 30 June. These assets consist primarily of land and other fixed assets of \$190.033 billion, the majority of which are roads, schools, hospitals and other infrastructure used to provide services to Queenslanders. Other non-financial assets of \$7.524 billion held by the State include prepayments and deferred tax assets relating to income tax equivalents collected primarily from GOCs.

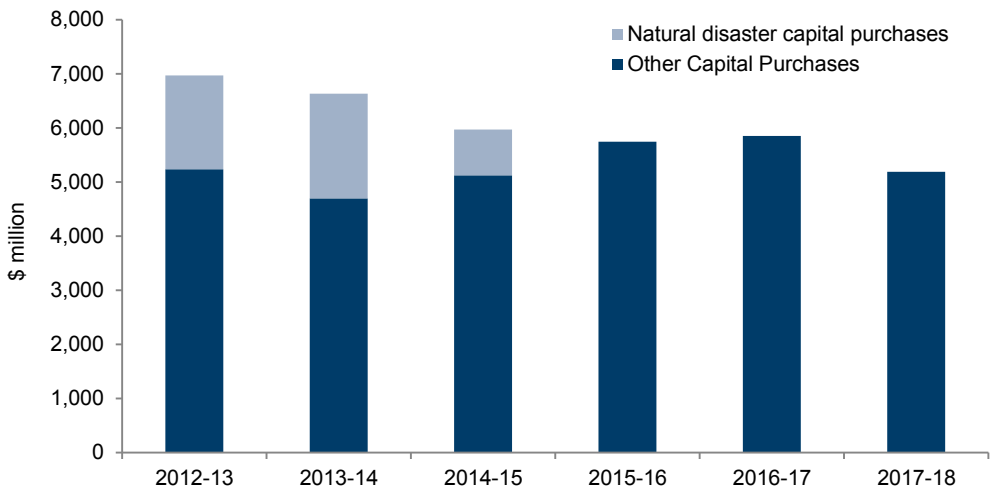
Since the mid-1990s, the Queensland Government has invested in new infrastructure at levels well beyond that of the other states. General Government purchases of non-financial assets per capita have far exceeded the average of the other states and territories for well over a decade (refer Chart 5.2). As a consequence, the State's borrowings have increased substantially, particularly in recent years. Following the recent fiscal repair initiatives of the Government, spending has returned to more moderate levels, with per capita purchases approaching that of other states.

Chart 5.2
General Government per capita purchases of non-financial assets, 1996-97 to 2014-15



Purchases of non-financial assets have increased as a result of the natural disasters in recent years, which required the extensive replacement of infrastructure. Chart 5.3 indicates the proportion of the General Government capital program that has been spent on restoration of assets following these disasters.

Chart 5.3
Proportion of General Government capital purchases spent on disaster restoration



Purchases of non-financial assets for the General Government sector are forecast to reduce from \$6.634 billion in 2013-14 to \$5.188 billion in 2017-18.

This reduction in capital spending is to be expected following a prolonged period of elevated capital spending. There is expected to be an increase in Queensland's spending in the outyears compared to the 2013-14 Budget as a result of the Commonwealth providing further clarity around its capital, predominantly roads, funding allocation to the States in its 2014-15 Budget papers.

The State has also entered into a number of finance leases, mainly in relation to Public Private Partnerships, totalling \$1.805 billion over the period 2013-14 to 2017-18. There is no cash impact at commencement of these leases, however they do increase the level of non-financial assets and gross borrowing to the same extent.

Liabilities

General Government Sector

General Government liabilities of \$83.319 billion in 2013-14 are \$4.748 billion lower than budgeted. This is primarily due to the flow through of the impact of higher than expected bond yields on the actuarially assessed superannuation liability at 30 June 2013, and a decrease in forecast borrowings as a result of an improved fiscal balance in both 2012-13 and 2013-14.

Total liabilities in the General Government sector in 2014-15 are budgeted to increase by \$2.109 billion from 2013-14.

Liabilities relating to employee entitlements (principally superannuation and long service leave) are projected to total \$29.252 billion at 30 June 2015, a 4.1% decrease on the 2013-14 estimated actual. The State's superannuation liability can be seen to decline over the forward estimates as a result of the defined benefit fund being closed to new entrants from 2009. In addition, as interest rates return to more normal levels (following a period of historically low bond yields) it is expected that their negative impact on superannuation liabilities will start to reverse.

General Government borrowings of \$48.141 billion are forecast for 2014-15, an increase of \$3.162 billion over 2013-14. This increase is primarily to support the capital program of \$5.972 billion in 2014-15, which is being partially funded by an operating cash surplus.

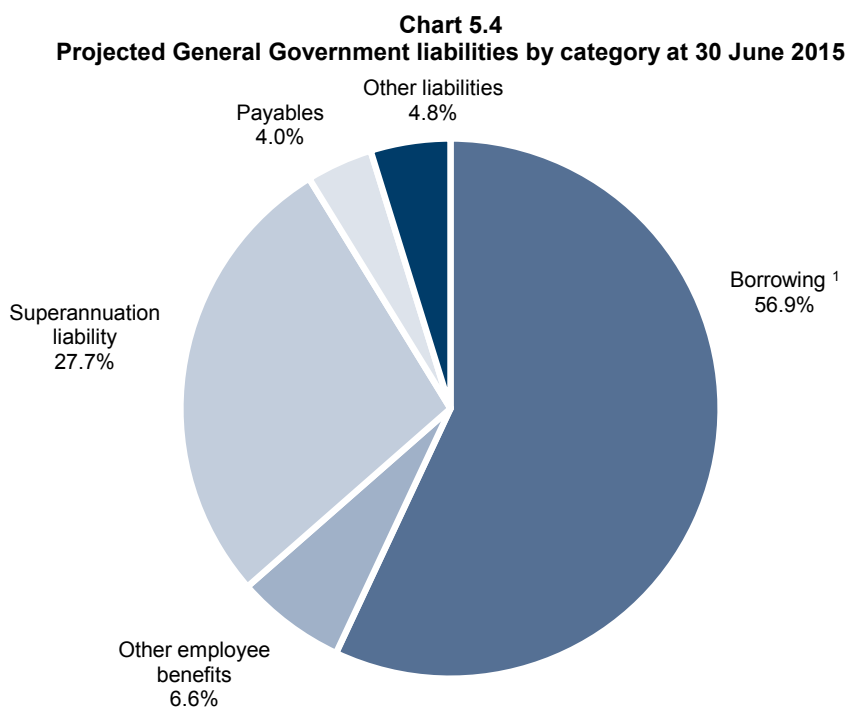
The level of General Government borrowings stabilises at around \$48 billion from 2014-15, mainly due to the Government's fiscal repair measures. While stabilisation of debt is important and a major achievement, a significant reduction in the debt burden is imperative if Queensland is to reach levels consistent with other states and territories.

Over the Budget and forward estimates period, total General Government net borrowings of \$1.962 billion and positive operating cash flows of \$22.699 billion are planned to fund the \$22.758 billion worth of capital projects in the General Government sector.

Repayments of borrowings which are forecast from 2015-16, are more than offset by new finance leases on Public Private Partnerships, resulting in an increase in gross borrowing in the outyears.

The remainder of the liabilities balance consists of payables and other liabilities such as unearned revenue and provisions.

The composition of the General Government sector's liabilities is illustrated in Chart 5.4.



Note:

1. Includes borrowing, advances and deposits.

Non-financial Public Sector Borrowings

Non-financial Public sector borrowings of \$76.123 billion are forecast for 2013-14, \$2.002 billion lower than expected at the 2013-14 budget and \$6.17 billion lower than the comparable Queensland Independent Commission of Audit forecast contained in its Interim Report.

Non-financial Public sector borrowings of \$79.956 billion are forecast for 2014-15, an increase of \$3.833 billion over 2013-14, largely reflecting the increased borrowing in the General Government sector.

By 2015-16, borrowings in the Non-financial Public sector are expected to be \$9.219 billion lower than outlined in the Independent Commission's report.

As can also be seen in Chart 1.1 (in Chapter 1), borrowings increase slowly from \$80 billion to \$82 billion over the budget and forward estimates period. This growth in borrowings is \$1.2 billion lower than for the same period at the time of the 2013-14 Budget.

The sale of the State's remaining share in Aurizon (previously known as QR National) is also expected to help further reduce debt.

Following the initial public offering of QR National (now known as Aurizon) in November 2010, the State retained approximately 34% of the issued shares in the company. The share value at the initial public offering was \$2.55.

By the end of June 2013, the Queensland Government had sold all but 189.2 million shares in Aurizon, resulting in proceeds on sale of \$2.3 billion in that year. These proceeds allowed the Government to repay the full amount of debt associated with the shares (\$2.3 billion).

At 31 March 2014, some 113 million shares had been sold at an average price of \$4.76. Total proceeds of \$750 million in 2013-14 and \$180 million in 2014-15 from the sale of all remaining shares, subject to market conditions, will be used to further reduce debt.

The Government considers the Non-financial Public sector debt to revenue ratio to be an important indicator, consistent with its fiscal principle of stabilising debt (refer Chart 1.4 in Chapter 1). Consistent with the practice of ratings agencies, less emphasis is now placed on the net financial liabilities to revenue ratio, which incorporates the volatile superannuation liability.

Net financial worth

The net financial worth measure is an indicator of financial strength. Net financial worth is defined as financial assets less all existing and accruing liabilities. Financial assets include cash and deposits, advances, financial investments, loans, receivables and equity in public enterprises.

The net financial worth measure is broader than the alternative measure – net debt – which measures only cash, advances and investments on the assets side and borrowings and advances on the liabilities side.

The net financial worth of the General Government sector for 2014-15 is forecast at negative \$18.466 billion. The decrease in net financial worth from 2013-14 to 2014-15 (\$282 million) is primarily the result of the increase in borrowings partially offset by reductions in employee liabilities and increases in investments, loans and placements and equity in public enterprises.

Net financial worth is expected to stabilise and improve over the forward estimates period as borrowings stabilise as a consequence of the Government's fiscal repair efforts and as financial assets continue to grow.

Net financial liabilities

Net financial liabilities are total liabilities less financial assets, other than equity investments in other public sector entities. This measure is broader than net debt as it includes other significant liabilities, rather than just borrowings (for example, accrued employee liabilities such as superannuation and long service leave entitlements).

The net financial liabilities of the General Government sector for 2014-15 are forecast at \$43.495 billion, \$790 million higher than 2013-14 which largely reflects additional borrowings in support of the capital program, partially offset by reductions in employee liabilities and increases in investments, loans and placements.

Net financial liabilities decrease after 2014-15 as borrowings stabilise and financial assets continue to grow.

Net worth

The net worth, or equity, of the State is the amount by which the State's assets exceed its liabilities. This is the value of the investment held on behalf of the people of Queensland by public sector instrumentalities.

Changes in the State's net worth occur for a number of reasons including:

- operating surpluses (deficits) that increase (decrease) the Government's equity
- revaluation of assets and liabilities as required by accounting standards. For example, the Government's accruing liabilities for employee superannuation and long service leave are determined by actuarial assessments
- movements in the net worth of the State's investments in the Public Non-financial Corporations and Public Financial Corporations sectors
- gains or losses on disposal of assets. Government agencies routinely buy and sell assets. Where the selling price of an asset is greater (less) than its value in an agency's accounts, the resultant profit (loss) affects net worth.

The net worth of the General Government sector in 2013-14 is forecast to be \$175.666 billion. This is \$8 billion more than forecast in the 2013-14 Budget primarily due to lower superannuation liabilities as a result of improved bond rates, lower stocks of borrowings and an increase in the value of holdings in Public Financial Corporations.

As mentioned earlier in this chapter, the asset revaluation process for the State has not yet been completed, but there are potentially some significant asset write downs that may impact the State's net worth. Asset revaluations do not affect the fiscal balance.

From 2014-15, net worth is projected to steadily increase mainly as a result of the improved fiscal balance position and growth in assets.

Net debt

Net debt for the General Government sector in 2013-14 is forecast to be \$8.756 billion, \$2.065 billion less than forecast in the 2013-14 Budget. Net debt will increase to \$10.942 billion in 2014-15 as a result of increased borrowings in that year and is then projected to stabilise and then steadily decrease to a projected \$8.869 billion in 2017-18.

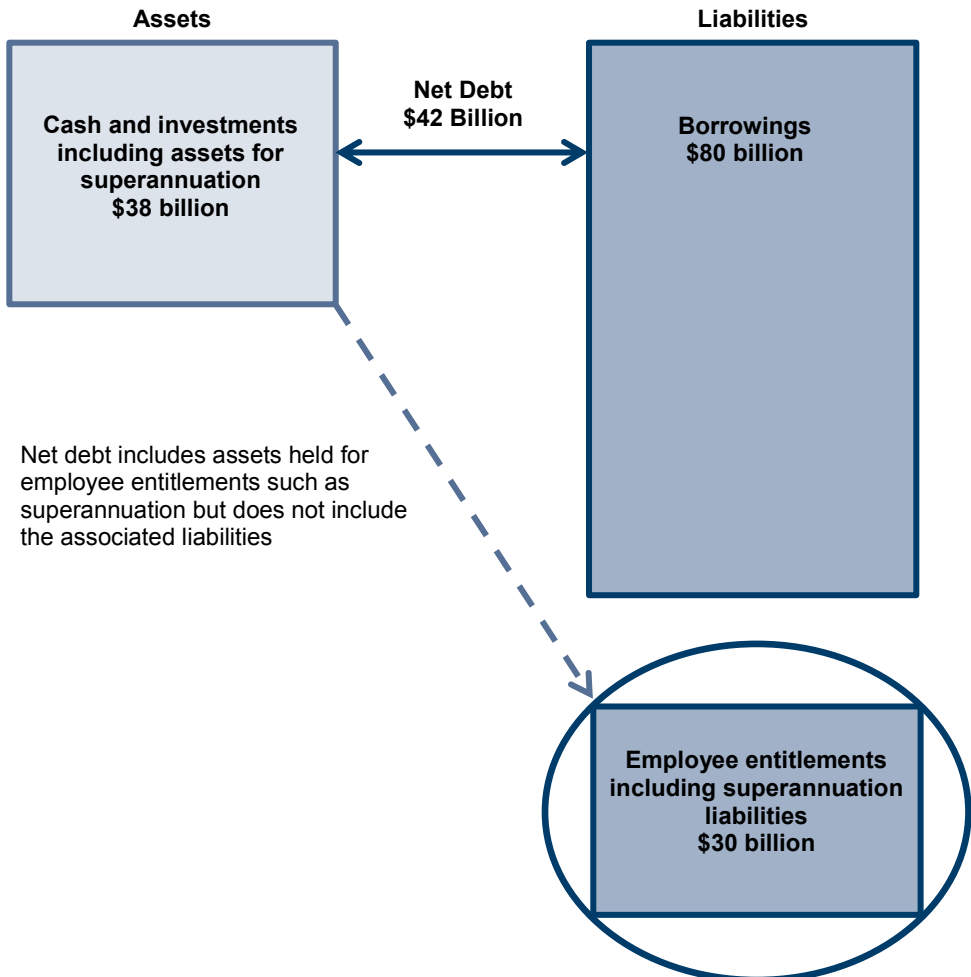
In the Non-financial Public sector, net debt is estimated at \$38.363 billion in 2013-14, \$2.125 billion less than forecast in the 2013-14 Budget. Net debt is expected to increase to \$41.517 billion in 2014-15 and then stabilise at around this level. As set out in Box 5.1, the net debt measure includes assets held to cover long term liabilities, but does not include the associated liabilities. Under long-standing policies of successive Queensland Governments, these financial investments are quarantined to cover primarily the superannuation obligations of Government, and therefore are not available to offset gross debt. Hence Queensland Treasury and Trade's preferred measure of the debt metric is gross debt (borrowings).

Box 5.1 Net Debt

Net debt is the sum of advances received and borrowings less cash and deposits, advances paid and investments, loans and placements.

A key problem with using net debt as a measure is that it takes into account the assets that the State holds for superannuation and other long term employee entitlements, without taking into account the corresponding liability. Hence the net debt measure lacks balance and provides a misleading picture of the State's financial position. This can be demonstrated as follows:

Non-financial Public Sector Balance Sheet Components, 2014-15



The net debt measure effectively assumes that the superannuation assets are available to offset gross debt. This is inconsistent with the long held principle of successive Queensland governments (and the fiscal principle) in targeting full funding of long term liabilities such as superannuation. Hence Queensland Treasury and Trade's preferred measure of the debt metric is gross debt (borrowings).

CASH FLOWS

The cash flow statement provides information on the Government's estimated cash flows from its operating, financing and investing activities.

The cash flow statement records estimated cash payments and cash receipts and hence differs from accrued revenue and expenditure recorded in the operating statement. In particular, the operating statement records certain revenues and expenses that do not have an associated cash flow (for example, depreciation expense). The timing of recognition of accrued revenues or expenses in the operating statement may differ from the actual cash disbursement or receipt (for example, tax equivalents). A reconciliation between the cash flows from operations and the operating statement is provided in Table 5.2.

The cash flow statement also records cash flows associated with investing and financing activities that are otherwise reflected in the balance sheet. For example, purchases of capital equipment are recorded in the cash flow statement and impact on the balance sheet through an increase in physical assets.

The cash flow statement provides the cash surplus (deficit) measure which is comprised of the net cash flow from operating activities plus the net cash flow from investment in non-financial assets (or physical capital).

The Australian Bureau of Statistics Government Finance Statistics (GFS) surplus (deficit) is derived by including the initial increase in liability at the commencement of finance leases in the cash surplus (deficit). This measure is also used to derive the Loan Council Allocation nomination, provided in Chapter 8.

The General Government cash deficit of \$6.443 billion in 2013-14 is \$1.026 billion lower than that forecast at the time of the 2013-14 Budget and \$899 million lower than the 2013-14 MYFER. This is largely due to the improved operating position.

A cash deficit of \$2.342 billion is forecast in 2014-15 for the General Government sector, but cash surpluses are projected for 2015-16 and the remainder of the forward estimates period.

The major factors contributing to the improved forecast cash position are improved net inflows from operating activities as a result of Government's efforts in relation to the fiscal repair task and a lower capital program partially as a result of the reduced Natural Disaster Relief and Recovery Arrangements requirement from 2015-16.

Total General Government capital purchases of \$5.972 billion are budgeted for 2014-15 and, over the period 2014-15 to 2017-18, capital expenditure is expected to total \$22.758 billion in the General Government sector.

RECONCILIATION OF OPERATING CASH FLOWS TO THE OPERATING STATEMENT

Table 5.2 provides a reconciliation of the cash flows from operating activities to the operating result for the General Government sector.

Table 5.2		
General Government sector: Reconciliation of cash flows from operating activities to accrual operating activities¹		
	2013-14 Est. Act. \$ million	2014-15 Budget \$ million
Revenue from transactions	44,851	50,120
Plus/(less) movement in tax equivalent and dividend receivables	(582)	(263)
Plus GST receipts	1,842	1,736
Plus/(less) movement in other receivables	(177)	(342)
Equals cash receipts from operating activities	45,934	51,251
Expenses from transactions	47,149	49,933
(Less) non-cash items		
Depreciation and amortisation expense	(3,058)	(3,226)
Accrued superannuation expense	(1,974)	(1,896)
Accrued employee entitlements	(616)	(633)
Other accrued costs	(96)	(247)
Plus superannuation benefits paid – defined benefit	2,345	1,933
Plus/(less) movement in employee entitlement provisions	278	295
Plus/(less) GST paid	1,845	1,759
Plus/(less) movement in other provisions and payables	211	(6)
Equals cash payments for operating activities	46,084	47,912
Note: 1. Numbers may not add due to rounding.		

The main difference between the accrual operating statement and the cash flow relates to the timing of cash payments and receipts and their recognition in accrual terms and the inclusion of non-cash expenses and revenues. The largest differences between accrual accounting and cash flows are in relation to depreciation and superannuation. Differences due to the timing of receipt or payment of amounts are recorded as either a receivable or payable in the balance sheet.

6 INTER-GOVERNMENTAL FINANCIAL RELATIONS

FEATURES

- The 2014-15 Commonwealth Budget included increases in infrastructure funding to the states over the forward estimates. However, it also incorporated significant reductions in other funding, including the early cessation of a number of intergovernmental agreements.
- Of particular concern, the 2014-15 Commonwealth Budget indicated that the Australian Government will amend funding arrangements for public hospitals (from 1 July 2017) and schools (from 1 January 2018) to generate savings across all states of over \$80 billion in the period to 2024-25. Queensland's per capita share of this saving would amount to a reduction of around \$16 billion in Australian Government funding. This is a significant cost shift by the Australian Government and the narrow tax base of states will make the delivery of these services increasingly unaffordable beyond the current forward estimates.
- The measures in the 2014-15 Commonwealth Budget have heightened the need for states to be closely involved in the White Paper processes on federalism and tax reform. The White Paper processes provide an opportunity to restructure Commonwealth-state relations and improve the long term sustainability of government finances.
- Estimated Australian Government funding in 2014-15 for Queensland included in the 2014-15 Queensland Budget is \$23.048 billion. Queensland is estimated to receive \$11.313 billion in payments for specific purposes, with \$843 million as National Specific Purpose Payments, \$3.163 billion as National Health Reform funding, \$3.248 billion as Students First funding and \$4.059 billion as National Partnership payments including Natural Disaster Relief and Recovery Arrangements.
- Queensland is estimated to receive \$11.736 billion of GST revenue in 2014-15, \$900 million more than its population share.
- Total GST revenue to all states is expected to be \$53.710 billion in 2014-15, an increase of \$2.990 billion or 5.9% on 2013-14.
- In June 2013, the Commonwealth Grants Commission received Terms of Reference for a review of the methodology used to determine the distribution of the GST among the states, to report by February 2015. Major issues for Queensland include reform of the mining assessment, and the methodologies for assessing relative states' needs in relation to public sector wages and transport expenditure.

FEDERAL FINANCIAL ARRANGEMENTS

Federal financial relations in Australia are characterised by a disparity between the revenue raising capacity and the expenditure responsibilities of the federal and state governments. The Australian Government collects the major share of taxation revenues and states and territories (states) rely on grants from the Australian Government to meet their expenditure requirements. These grants represent approximately 44.2% of all states' revenues in 2014-15, based on the Australian Government Budget estimates.¹

The disparity between revenue raising capability and expenditure responsibilities is known as vertical fiscal imbalance (VFI) and arises from a number of factors. These include:

- the Australian Constitution, which precludes states from levying customs duty or excise duty, or introducing taxes based on the value of goods produced – for example, a consumption or retail tax
- restrictions imposed by the Australian Government, particularly on the states' levying of income tax. While the Constitution permits states to levy income tax, High Court decisions effectively allow the Australian Government to obstruct the states' application of this power through its ability to reduce other grants to offset any revenue benefits to a state that chooses to raise its own income tax
- agreements with the Australian Government, which prevent reinstatement of taxes that were abolished under the arrangements associated with the introduction of the GST. These include a number of duties and financial taxes, such as debits tax.

National tax reform and other changes since 2000 have led to an increase in VFI. Chart 6.1 shows that while the states received 35% of their revenues from the Australian Government in 1999-2000, this is forecast to increase to 44.2% in 2014-15. In contrast, the proportion of the states' General Government revenues from state taxes has declined from 39.8% in 1999-2000 to 31.4% in 2014-15.

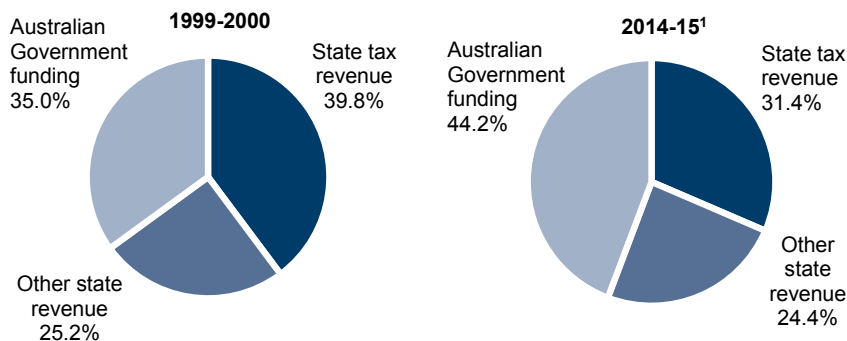
In the Australian context, one of the outcomes of VFI has been overlap and duplication in roles and responsibilities relating to service delivery and infrastructure provision, particularly in the areas of health and education. This can result in excessive administration, unnecessary additional costs, blurred accountability and a misallocation of resources to areas of lower priority.

Another important element of Australian federal financial arrangements is horizontal fiscal equalisation (HFE). Under this process, GST revenue is distributed amongst state governments so that fiscal capacities are equalised and governments have the capacity to provide similar levels of services to their communities. The Commonwealth Grants

¹ National aggregates and interstate comparisons in this chapter will use Australian Government estimates for consistency. Queensland specific figures are consistent with Queensland Budget estimates.

Commission provides advice to the Federal Treasurer on the distribution of GST revenue.

Chart 6.1
General Government revenue sources, all states, 1999-2000 and 2014-15



Note:

1. 2014-15 are estimates.

Sources: ABS Government Finance Statistics Cat No. 5512.0 and state and Australian Budget estimates

2014-15 Commonwealth Budget

The Australian Government released the 2014-15 Commonwealth Budget on 13 May 2014. The Commonwealth Budget included increases in infrastructure funding to the states over the forward estimates. However, it also incorporated significant reductions in other funding, including:

- cessation of a number of intergovernmental agreements, including several before their agreed expiry dates, such as the National Partnership for Certain Concessions for Pension Concession Card and Senior Card Holders
- cessation of the Improving Public Hospital Services National Partnership Agreement, without the adjustment of the national hospital funding baseline as previously agreed
- removal of hospital funding guarantees and a reduced rate for indexation of hospital funding from 2017-18, contrary to agreed funding arrangements in the National Health Reform Agreement
- a reduced rate in the indexation of school funding from 2018, contrary to arrangements agreed with some states
- a three year pause in the indexation of financial assistance grants to local government.

The 2014-15 Commonwealth Budget measures have significant implications for the structural positions of state budgets. The reduced indexation for hospital funding, in particular, is a reversal of the Australian Government's previous position of applying its stronger fiscal capacity to partner states in the long term funding of the nation's hospitals in the face of population ageing and health cost inflation. To a significant extent, the

Australian Government has shifted the costs of repairing its structural budget position onto the states.

The 2045-15 Commonwealth Budget measures raise serious questions as to the Australian Government's willingness to remain committed to longer term agreements. This will have implications for the pursuit of national reform in the future and the structure of federal reform that states will support in the future.

Opportunities for reform

The Australian Government announced a significant reform agenda following the 2013 Federal Election. The outcome of the 2014-15 Commonwealth Budget has heightened the need for states to be closely involved in the proposed reforms. The reform agenda provides an ideal opportunity to address the key challenges faced by the nation, including the need to restructure Commonwealth-state relations, make government finances more sustainable and create a more vibrant national economy.

The Queensland Government is supportive of the upcoming White Paper processes on federation and tax reform. The context for the White Papers has been set by the National Commission of Audit (NCoA) report released on 1 May 2014 which was critical of the size of the federal bureaucracy and the duplication of state functions. The NCoA recommended a comprehensive review of the roles and responsibilities of the Australian and state governments be undertaken. As part of the White Paper processes, Queensland will be focused on addressing duplication in functions, and ensuring state sovereignty over its policy and service delivery responsibilities is maintained. Further detail on the NCoA findings and the White Paper processes is provided in Box 6.1.

In the longer term, these reforms could also allow reform of the HFE system. The Australian Government's 2012 GST Distribution Review suggested that if a range of intergovernmental financial reforms were introduced, including a reduction in the level of VFI, the level of redistribution may be able to be reduced. Should this eventuate, it suggested that the Australian Government could take greater responsibility for directly funding equalisation payments to states where required.

Box 6.1

National Commission of Audit and White Papers on federalism and tax reform

In October 2013, the Federal Treasurer announced a National Commission of Audit (NCoA) would review the workings of Government to ensure taxpayers' money is spent wisely. Similar to the Queensland Government, the Australian Government faced an unsustainable fiscal position when it came to office in September 2013. The NCoA provides an opportunity for the state and Australian Governments to work together to turn shared sentiments on Commonwealth-state relations into specific reforms.

The NCoA was undertaken in two phases; Phase One dealt with federal relations reform issues and Phase Two with Commonwealth infrastructure and public sector accountability. The Commission's report, released on 1 May 2014, focused on the need for the Australian Government to control its expenditure or face ongoing high levels of debt. The NCoA raised similar issues as the Queensland Commission of Audit Report, such as the need to undertake fiscal repair, pay down debt, reduce red tape and compliance costs and reassess service delivery options.

Key recommendations on the federal framework include:

- a substantial reduction in VFI, including changes to roles and responsibilities and a reduction in tied grants to the states, offset by an increase in untied funding
- as part of the reforms to VFI, GST revenue could be shared on an equal per capita basis, with the Commonwealth providing additional untied equalisation grants to ensure that no state is worse off
- eliminating duplication between federal and state levels of government
- reducing the administrative burden imposed on states through the numerous Council of Australian Governments (COAG) agreements.

The Australian Government has announced the preparation of two White Papers on federalism and tax reform. The views of the NCoA are expected to inform the White Paper processes, and could signal the start of significant reforms to intergovernmental relations in Australia.

The White Papers were discussed at the 2 May 2014 COAG meeting where it was agreed there are opportunities to ensure Australia's federation and tax system are both functioning well, supporting a strong, dynamic economy and delivering effective services to the community. All governments committed to work closely and collaboratively on both White Papers. A Steering Committee, chaired by the Australian Government and involving all state governments and the Australian Local Government Association, will be established to oversee the development of the Federation White Paper.

The White Paper processes present an opportunity for Queensland to ensure reforms align with the Queensland Government's objectives, clarify Commonwealth-state relations, improve the sustainability and efficiency of Queensland's revenue base, and address vertical fiscal imbalance. Movement on these issues is even more significant given the long term financial implications of the 2014-15 Commonwealth Budget for the State.

The White Papers are expected to be developed over 2014 and 2015.

AUSTRALIAN GOVERNMENT FUNDING TO THE STATES

The framework for federal financial relations is set out in the Intergovernmental Agreement on Federal Financial Relations (IGA). The IGA outlines the Australian Government's commitment to provide ongoing financial support to the states by way of untied funding, which is able to be used by the states for any purpose (such as GST) and tied funding, where the state is restricted in how the funding can be spent (either by sector or for specific projects or reforms).

There are five payment categories to the states:

- GST payments (and other general revenue assistance)
- National Specific Purpose Payments (SPPs) to be spent in the key service delivery sectors of skills and workforce development, affordable housing and disability services
- National Health Reform funding
- Students First – A fairer funding agreement for schools
- National Partnership (NP) payments for specific purposes or reform linked objectives.

The Australian Government funding to the states includes \$5 billion for a new Asset Recycling Initiative, whereby the Australian Government will provide incentive payments to states to encourage additional infrastructure activity (see Box 6.2). The funding will be managed in an Asset Recycling Pool from which the Australian Government will allocate funds over the period 2014-15 to 2018-19.

Box 6.2 Asset Recycling

In recognition of the crucial role of infrastructure in driving national productivity and competitiveness, the Australian Government is offering a financial incentive to states that sell assets and recycle the proceeds of these sales into new and productive infrastructure.

Under the Asset Recycling Initiative (the Initiative), the Australian Government will provide incentive payments calculated at 15% of the proceeds received by states from the sale of the assets where proceeds are reinvested by the states in additional economic infrastructure. Agreements on specific asset sales and new investments will be negotiated bilaterally between the Commonwealth and the states.

States that choose to access the incentive have until 30 June 2016 to agree with the Commonwealth the details of the asset sales and new infrastructure investments that qualify under the Initiative. Incentive payments will be available for five years up to 30 June 2019.

Through the Strong Choices campaign, the Queensland Government has engaged with Queenslanders about how best to reduce Queensland's \$80 billion debt. This conversation involved listening to the community's views on the sale or lease of assets, together with choices to increase taxes or reduce services. Feedback from the Strong Choices discussion has been taken into consideration in developing the Draft Action Plan aimed at reducing the State's debt and providing surplus funds for reinvestment in new infrastructure. It is anticipated that any asset sales and proceeds used to fund investment in new productive infrastructure will qualify for the Australian's Government's incentive payments under this Initiative.

Table 6.1 shows total Australian Government payments to the states in 2014-15 are expected to be \$101.147 billion, an increase of \$3.313 billion or 3.4% compared with 2013-14. These figures are based on Australian Government 2014-15 Budget estimates.

GST revenue from the Australian Government to all states is expected to be \$53.710 billion in 2014-15, an increase of 5.9% in nominal terms. In real per capita terms, GST is expected to increase by 1.8% in 2014-15.

Total payments for specific purposes in 2014-15 are expected to be \$46.285 billion, a 1.1% increase in nominal terms and a 2.8% decrease in real per capita terms compared with 2013-14.

Table 6.1
Estimated Australian Government payments to the states, 2013-14 and 2014-15¹

	2013-14 Est. Act. \$ million	2014-15 Budget \$ million	Change Nominal Terms %	Change Real Terms%	Change Real Per Capita %
GST revenue	50,720	53,710	5.9	3.6	1.8
Payments for specific purposes					
National Partnership payments ²	14,685	12,657			
Specific Purpose Payments	4,025	4,139			
National Health Reform Funding	13,845	15,116			
Students First – Education Reform Funding ³	13,224	14,374			
Total payments for specific purposes	45,779	46,285	1.1	(1.1)	(2.8)
Other general revenue	1,336	1,151			
Total payments	97,834	101,147	3.4	1.1	(0.7)

Notes:

1. Numbers may not add due to rounding.
2. The reduction in NP payments from 2013-14 to 2014-15 is due to the expiry, early termination and reduction in funding for NPs from the Australian Government to the states, as well as a number of NPs relating to education being absorbed into Student First funding.
3. Refers to Students First – A fairer funding agreement for schools. Students First funding in 2013-14 includes National Schools SPP funding for July-December 2013, for comparison purposes.

Source: Australian Government 2014-15 Budget Papers

Table 6.2 shows the expected shares of total Australian Government payments to each state for 2014-15 compared with each state's population share. Queensland is expected to receive payments slightly above its population share, with above-population shares of payments for both general and specific purposes.

Table 6.2			
Relative shares of Australian Government payments to the states, 2014-15¹			
	Share of payments ² %	Share of population %	Relative share ³ %
New South Wales	30.5	31.9	95.8
Victoria	23.1	24.8	92.8
Queensland	21.6	20.2	106.9
Western Australia	7.6	11.1	68.7
South Australia	8.1	7.1	114.4
Tasmania	3.0	2.2	136.3
Australian Capital Territory	1.9	1.6	115.0
Northern Territory	4.2	1.0	406.3

Notes:

1. Numbers may not add due to rounding.
2. Excludes payments unallocated among the states and territories in the Australian Government Budget papers. Royalties paid by the Australian Government to Western Australia and the Northern Territory.
3. A state's relative share is measured as its funding share as a percentage of its population share (may not divide due to rounding).

Source: *Australian Government 2014-15 Budget Papers*

AUSTRALIAN GOVERNMENT FUNDING TO QUEENSLAND

This section reflects the Queensland Government estimates of proposed Australian Government funding.

Estimated Australian Government funding in 2014-15 for Queensland, included in the 2014-15 Queensland Budget, is \$23.048 billion², as shown in Table 6.3.

Table 6.3
Estimated Australian Government payments to Queensland, 2013-14 and 2014-15^{1, 2}

	2013-14 Est. Act. \$ million	2014-15 Budget \$ million	Change Nominal Terms %	Change Real Terms %	Change Real Per Capita %
GST revenue	10,823	11,736	8.4	5.5	3.5
GST balancing item³	73	..			
Total payments for general purposes	10,896	11,736			
Payments for specific purposes					
National Partnership payments (excluding NDRRA ⁴)	1,883	1,926			
NDRRA	..	2,133			
Specific Purpose Payments	823	843			
National Health Reform Funding	2,803	3,163			
Students First – Education Reform Funding ⁵	2,938	3,248			
Total payments for specific purposes	8,447	11,313	33.9	30.3	27.8
Total Payments	19,343	23,048	19.2	16.0	13.7

Notes:

1. Numbers may not add due to rounding.
2. Does not include Australian Government funding direct to Local Governments.
3. The balancing adjustment accounts for differences between the GST paid to states and the final GST pool size and population outcomes in the prior year (2012-13).
4. NDRRA is funding for the Natural Disaster Relief and Recovery Arrangements.
5. Refers to Students First – A Fairer Funding Agreement for Schools. Students First funding in 2013-14 includes National Schools SPP funding for July-December 2013, for comparison purposes.

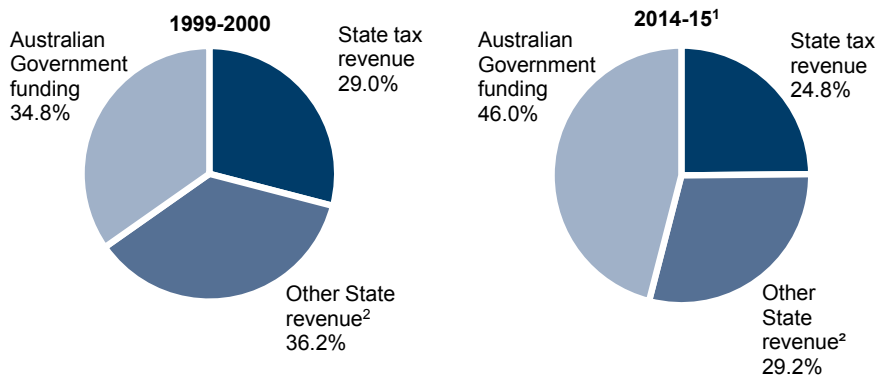
Sources: *Australian Government 2014-15 Budget Paper No. 3 and Queensland Treasury and Trade estimates.*

Queensland expects to receive \$11.736 billion of GST revenue in 2014-15, \$900 million greater than its population share. In the same year, total payments for specific purposes are forecast to be \$11.313 billion, with \$3.163 billion as National Health Reform funding, \$3.248 billion as Students First funding, \$843 million as National Specific Purpose Payments and \$1.926 billion as National Partnership payments. Payments for Natural Disaster Relief and Recovery Arrangements (NDRRA) are estimated to be \$2.133 billion in 2014-15.

² This figure differs to Chapter 3 Australian Government grants estimates, due to the exclusion of direct Australian Government payments to Queensland departments for Commonwealth own purpose expenditure.

Queensland’s reliance on Australian Government funding, as shown in Chart 6.2, is consistent with the national trend (shown in Chart 6.1), with its share of total funding sourced from the Australian Government increasing from 34.8% in 1999-2000 to an estimated 46.0% in 2014-15.

Chart 6.2
General Government revenue sources, Queensland, 1999-2000 and 2014-15



Notes:

1. 2014-15 are estimates.
2. Includes user charges, interest earnings, contributions from trading enterprises and mining revenue.

Sources: ABS Government Finance Statistics Cat No. 5512.0 and Queensland Budget estimates

GST REVENUE PAYMENTS

Under the terms of the IGA, states receive the revenue collected by the Australian Government’s GST. The amount of GST revenue received by an individual state is determined by the national pool of revenue collected through the GST and the Australian Government’s determination of the distribution of that revenue amongst the states.

The Commonwealth Grants Commission (CGC) advises the Australian Government on the distribution of GST revenue among the states. The IGA requires GST revenue to be distributed on the basis of HFE principles. Consistent with this, the CGC aims to give all states the same fiscal capacity to deliver services to their populations after the distribution of the GST, taking into account states’ capacities to raise revenue from their own sources, as well as their different expenditure needs.

In June 2013, the CGC received Terms of Reference for a review of the methodology used to determine the distribution of GST among the states, to report by February 2015. The 2015 Review of Methodology will consider the recommendations of the GST Distribution Review, the implications of recent national reforms (such as the National Disability Insurance Scheme) on the GST distribution, and other improvements and simplifications that may be made to the methodology. More information on the 2015 Review of Methodology is provided in Box 6.3.

In addition, the CGC conducts annual updates of the financial, economic and demographic data that underpin its recommendations.

Queensland's share of GST revenue

In March 2014, the Australian Government accepted the CGC's *Report on GST Revenue Sharing Relativities – 2014 Update* (the 2014 Update) as the basis for the distribution of the GST revenue to the states in 2014-15.

In the 2014 Update, the CGC recommended an underlying increase in Queensland's share of GST revenue of \$234 million in 2014-15, as shown in Table 6.4.

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
Underlying impact of relativities ¹ (\$ million)	145	(286)	234	(41)	97	22	13	187
GST Share (\$ million)	16,758	11,828	11,736	2,255	4,956	1,911	1,099	3,166
GST per capita (\$)	2,215	2,005	2,450	855	2,926	3,713	2,808	12,858
Note: 1. The underlying impact reflects the change to Queensland's GST share from the CGC's new relativities using estimated 2014-15 GST pool size and populations. Sources: Australian Government Budget 2014-15 Commonwealth Grants Commission Report on GST Revenue Sharing Relativities – 2014 Update								

The increase of \$234 million in 2014-15 follows an increase in Queensland's GST funding of \$696 million in 2013-14 and \$542 million in 2012-13.

Queensland's share of GST for 2014-15 has increased due to:

- a weaker mining production relative to other states than in previous years, mainly due to increased iron ore production in Western Australia
- a reduced share of Australian Government payments for specific purposes
- a higher level of natural disaster expenses
- a relative decline in capacity to raise land tax.

These gains were partially offset by:

- the reversal of a decision in the 2013 Update to no longer assess stamp duty on non-real property transactions, as this duty is expected to be levied by a majority of states in 2014-15. Queensland has a higher than average share of these transactions
- a decision to 'backcast' the new school funding agreement, where Queensland is expected to receive an above average share of Commonwealth payments in 2014-15.

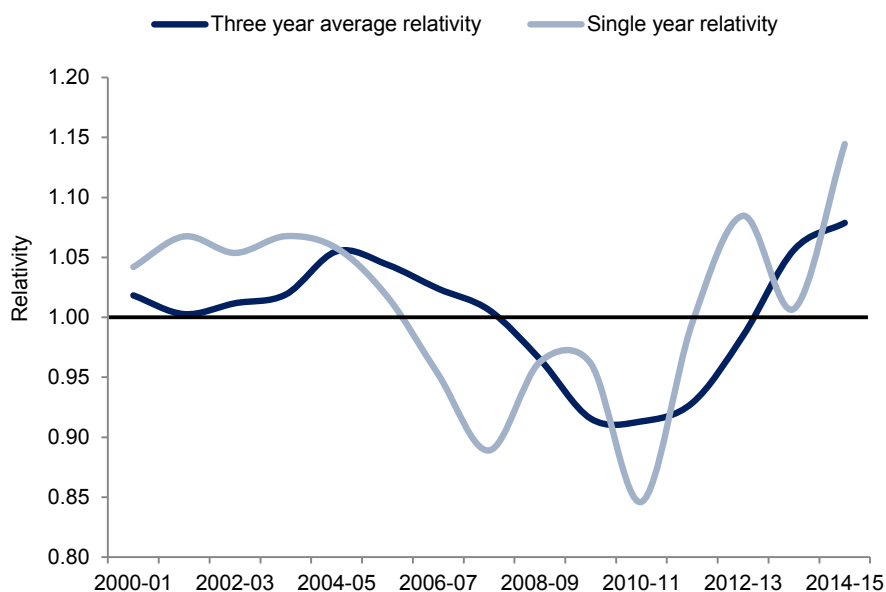
In the 2014 Update, Queensland’s single year relativity remained above 1.0, that is, Queensland was assessed as having a lower than average fiscal capacity and requiring a greater than population share of GST. This reflects the relatively higher cost of service provision in the State and the greater need for capital investment due to relatively high population growth. In 2013-14, Queensland will receive more than a per capita share of GST revenue.

To determine the GST share of each state, the CGC uses a three year average of single year relativities. This dampens the impact of single year relativity changes so that states’ GST shares are more predictable and stable.

From 2008-09 to 2012-13, Queensland received less than a population share of GST revenue due to the combination of a relatively buoyant Queensland property market and strong mining royalties generated by very high mineral prices.

As shown in Chart 6.3, Queensland’s three year average relativity has risen above 1.0 for the second consecutive year, meaning that Queensland will receive a greater than population share of GST in 2014-15.

Chart 6.3
Queensland’s GST Relativity, 2000-2001 to 2014-15

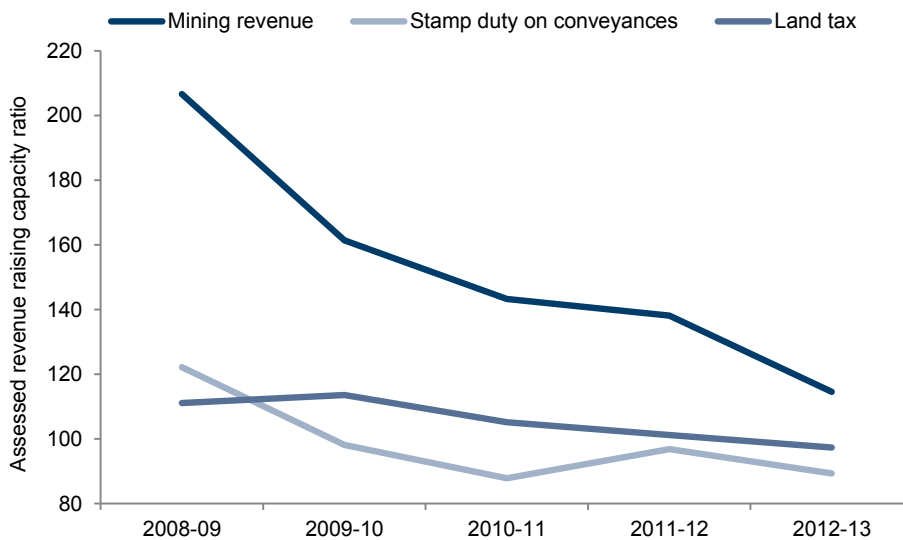


Sources: Report on GST Revenue Sharing Relativities – 2014 Update, Queensland Treasury and Trade

While Queensland's relativity may be above 1.0 for the next few years, it can be expected to decline in the longer term as the effect of short term factors on the GST relativity moderate and long term drivers, such as high levels of mining activity, reassert themselves.

While Queensland's capacity to raise revenue remains strong relative to other states, it is relatively weaker than in previous updates. Chart 6.4 shows the decline in Queensland's assessed revenue raising capacity for major revenues relative to other states since Queensland's mining royalties revenue peaked in 2008-09. Queensland's additional expenditure needs currently outstrip its higher revenue raising capacity, even when mining royalties are taken into account. As Queensland's economy continues to strengthen, Queensland is likely to face downward pressure on the state's GST share.

Chart 6.4
Queensland's assessed revenue raising capacity 2008-09 to 2012-13

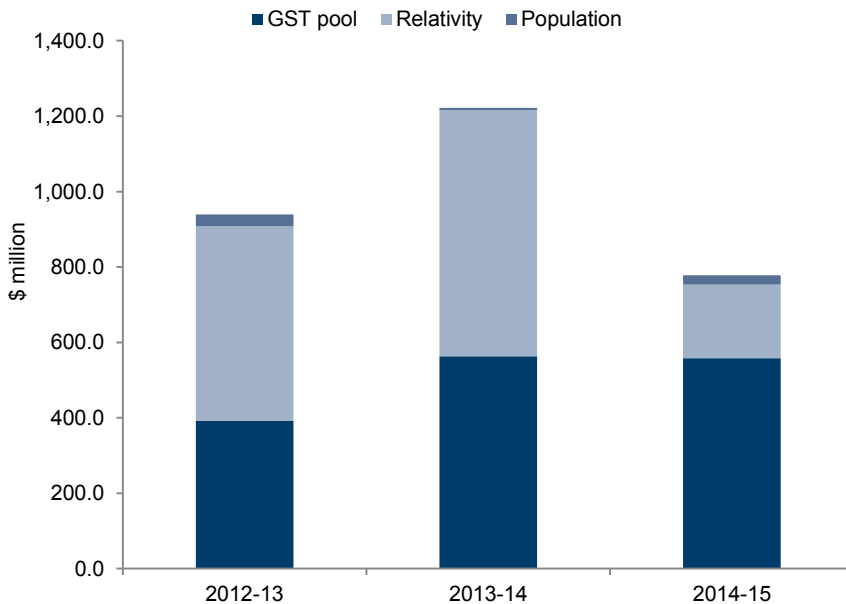


Sources: Report on GST Revenue Sharing Relativities – 2013 and 2014 Updates

Drivers of Queensland's GST share

The overall impact of recent GST pool and relativity trends on Queensland is that relatively slower growth in the total GST pool has been supplemented to some extent by increasing relativities (Chart 6.5). However, as discussed in the section above, increases to Queensland's relativity reflect a weakening of Queensland's revenue capacity relative to other states, and as such do not represent a windfall to the state. Moreover, if Queensland's relativity declines in the longer term, this will detract from the State's future GST shares.

Chart 6.5
Contribution of parameters to growth in Queensland's GST share¹



Note:

1. Growth in Queensland's GST share compared to the previous year. Does not add to total growth in Queensland's GST share due to interactions between parameters.

Sources: Australian Government Budget Papers and Queensland Treasury and Trade

Box 6.3 2015 Review of CGC Methodology

In June 2013, the CGC received Terms of Reference for a review of the methodology used to determine the distribution of GST among the states, to report by February 2015.

The 2015 Review will aim to improve the current methodology in the context of:

- the recommendations of the final report of the GST Distribution Review, including the development of a new assessment of mining revenue
- major reforms in federal financial relations that have occurred since the last review of the methodology (2010), including National Health Reform, the National Disability Insurance Scheme and the National Education Reform Agreement
- the ongoing need to ensure that the assessments are as simple and robust as possible, and consistent with the quality and fitness for purpose of the available data.

The duration of the 2015 Methodology Review is much shorter than previous major methodology reviews. Given time is not available for a comprehensive review across all assessments, an approach that focuses on the assessments that are most contentious, such as the mining revenue assessment, is recommended. Other assessments can be re-evaluated when more time is available in the future.

Key issues for Queensland in the 2015 Review are:

- Developing a new assessment of mining revenue – there are problems with the current mining revenue assessment; in particular, the division of minerals into two groups (high and low royalty minerals) can produce excessively large GST share effects when a commodity moves between groups. For example, under the current methodology, Western Australia's decision to increase its royalty rates for iron ore fines would see it lose far more in GST revenue than it gained in additional royalties, were it not for a terms of reference directive to continue assessing iron ore fines as a "low" royalty rate mineral.
- Recognising mining related expenses – Queensland welcomes the CGC's consideration of the expenses incurred by states in the development of the mining industry and the provision of economic and social infrastructure. These costs are not currently recognised in the CGC's methodology, but at the same time, the royalties resulting from Queensland's investment in its industry are redistributed to other states through the GST.
- Interstate wages – the current assessment is based on the relationship between public and private sector wages, which has weakened significantly in recent years, raising questions as to its reliability as a measure of the wage pressures for state public sector labour markets. Queensland considers that this assessment needs to be reviewed.
- Transport – Queensland considers that there are shortcomings in the assessment of transport services, and that this assessment should also be reviewed.

PAYMENTS TO QUEENSLAND FOR SPECIFIC PURPOSES

Structure of payments for specific purposes

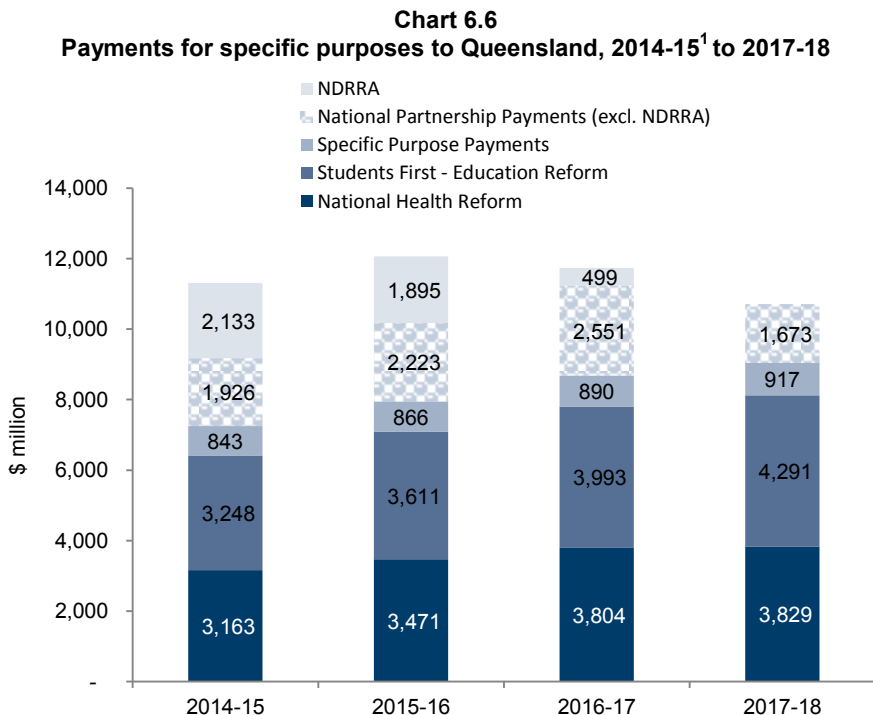
Payments for specific purposes mainly comprise SPPs, National Health Reform funding, Students First funding and NP payments. These payments represent a major source of revenue to Queensland.

Projections of specific purpose funding to Queensland

The level of NP payments is quite variable from year to year, depending on the nature and duration of the agreements, and the value of new agreements coming online.

Chart 6.6 outlines how NP funding including NDRRA is expected to rise to \$4.118 billion in 2015-16, before declining to \$1.673 billion in 2017-18. This variability is primarily due to fluctuations in the timing of funding for NDRRA and infrastructure payments.

Over the same period, SPP funding is relatively stable, while funding for health and education reforms will increase.



Note:

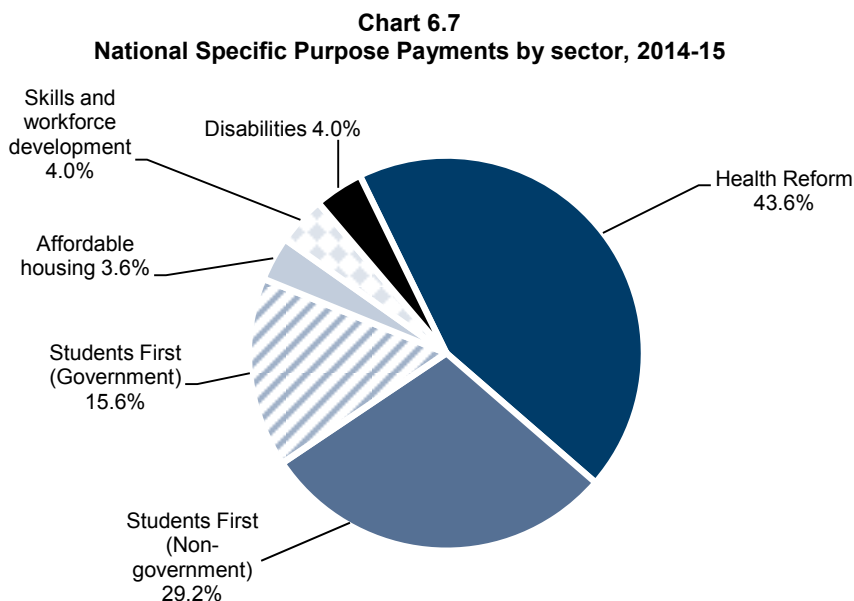
1. Excludes direct local government funding.

Sources: Australian Government Budget Papers and Queensland Treasury and Trade estimates

National Specific Purpose Payments

SPPs are an ongoing financial payment to the states for service delivery in a particular sector. SPPs are considered to be ‘tied’ payments since they must be expended in the relevant sector. Apart from this condition, states have total budget flexibility to allocate SPP funding within the relevant sector according to their priorities. In turn, states are accountable to their communities on SPP expenditure and the achievement of outcomes, as set out in the associated National Agreements.

From 1 January 2014, there are three SPPs to the states for skills and workforce development, disability services and affordable housing. Together with National Health Reform funding and Students First funding, these payments will provide 31.5% of total Australian Government funding to Queensland in 2014-15. Chart 6.7 shows the breakdown of Australian Government funding across these sectors for SPPs, National Health Reform funding and Students First funding.



Sources: Australian Government Budget Papers and Queensland Treasury and Trade estimates.

National Health Reform funding

The National Healthcare SPP expired on 1 July 2012 and was replaced by a new payment stream as set out in the National Health Reform Agreement (NHRA). Under this arrangement, Queensland is expected to receive \$3.163 billion in 2014-15 (\$14.267 billion over four years to 2017-18).

Under the NHRA, growth in funding from the Australian Government from 2017-18 was to be based on 50% of the efficient costs of additional hospital activity. In the 2014-15 Commonwealth Budget, the Australian Government revised the indexation arrangement and the funding from 2017-18 will instead be tied to a combination of the Consumer Price Index (CPI) and population growth. This revision has major implications for the State in managing the long term growth in hospital demand services.

The Commonwealth Budget also removed the funding guarantees of the NHRA. The guarantees were a feature of the NHRA to ensure a guaranteed level of additional funding would flow to the State irrespective of growth in public hospital activity.

Students First – A fairer funding agreement for schools

Following the 2013 Federal Election, the Australian Government committed to increase funding to those states which had not signed the previous Government's National Education Reform Agreement. Under the new Students First funding arrangement, funding available to Queensland for Government schools will be \$1.128 billion in 2014-15 (\$5.547 billion over four years to 2017-18). Non-Government schools funding will be \$2.120 billion in 2014-15 (\$9.597 billion over four years to 2017-18). The new funding arrangement for schools commenced on 1 January 2014.

In the 2014-15 Commonwealth Budget, the Australian Government announced that from the 2018 school year onwards, the Students First funding will be indexed to CPI with an allowance for school enrolment numbers.

A review of the Australian Government's new funding arrangements for schools will occur in 2015.

National Disability funding

The Australian Government's significant reforms to disability services will impact the National Disability SPP to Queensland in future years. From 2019-20, the Australian and Queensland Government contributions to the National Disability Insurance Scheme (NDIS) will be \$2.14 billion and \$2.03 billion respectively. The roll out of NDIS in Queensland will commence on 1 July 2016 with full implementation expected by 1 July 2019.

National Partnership payments

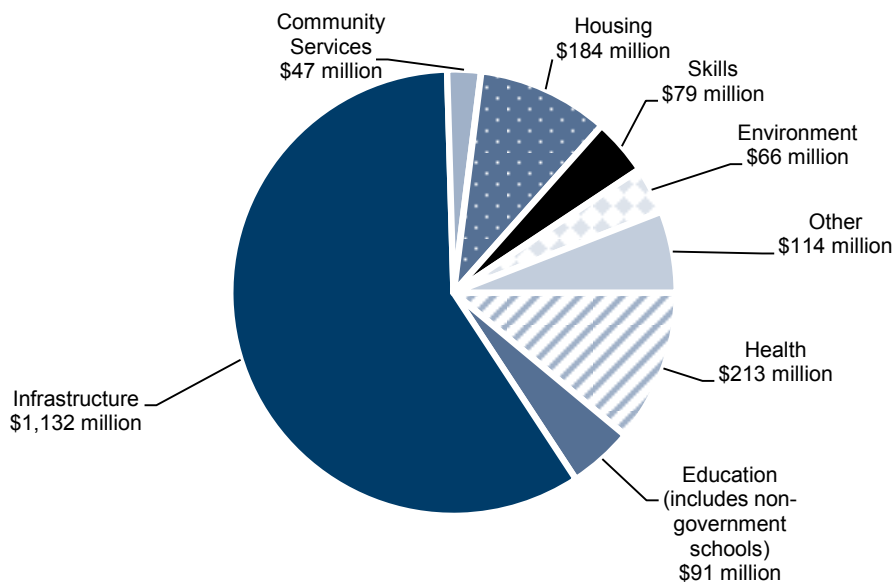
NP payments are paid to states to implement specific NP agreements. These agreements are usually time limited and support the delivery of projects, facilitate reforms or reward states that deliver on national reforms or achieve service delivery improvements.

NP payments are an important source of revenue for Queensland. In 2014-15, proposed NP payments to Queensland, including NDRRA, will be 17.6% (\$4.059 billion) of total Australian Government funding to Queensland.

NP funding by sector

Excluding payments for NDRRA, NP payments for infrastructure, health and housing represent the major components of NP funding in 2014-15 (refer Chart 6.8), representing 79% of non-NDRRA NP funding.

Chart 6.8
National Partnership Payments by sector (excluding NDRRA¹), 2014-15²



Notes:

1. NDRRA is funding for the Natural Disaster Relief and Recovery Arrangement
2. Excludes direct local government funding.

Sources: Australian Government Budget Papers and Queensland Treasury and Trade estimates.

Major funding agreements

The key changes in relation to NP funding for 2014-15 include:

- \$1.132 billion in infrastructure funding for roads and rail projects (excluding roads maintenance) to the State in 2014-15. This figure includes increased funding for the Toowoomba Second Range Crossing and the Bruce and Warrego Highway upgrades
- the early cessation of a number of National Partnership agreements, including those for Certain Concessions for Pension Concession Card and Senior Card Holders (a revenue loss of \$223.2 million over four years to 2017-18), Preventive Health (a revenue loss of \$43.9 million over the four years to 2017-18), Training Places for Single and Teenage Parents (funding terminating in 2013-14 instead of 2014-15) and Improving Public Hospital Services (terminating from 1 July 2015)
- the deferred commencement of the Adult Public Dental Services NP until July 2015.

Risks with the current NP funding model

The original intent of the Intergovernmental Agreement on Federal Financial Relations was for the number of NPs to be limited, allowing for funding to flow to States for efficient service delivery with a reduced reporting burden. Over time, the number of time limited and low value NPs has increased, reducing budget certainty and raising community expectations for ongoing services. As of 30 April 2014, there were 56 active agreements between the Queensland Government and the Australian Government, with a further 21 agreements under development.

When agreements expire, states are left with limited opportunities to deal with the expiring NP as the final decision on continued funding is made through the Australian Government's budget process, as discussed in Box 6.4. Following the early termination of key NP agreements in the 2014-15 Commonwealth Budget, it is clear that states will face heightened ongoing uncertainty if the Australian Government continues to make unilateral decisions reversing earlier Commonwealth funding commitments.

Queensland's submission to the NCoA recommended a reduction in the administrative burden imposed on states by rationalising the number of NP agreements and streamlining and reducing the reporting requirements. The NCoA echoed the Queensland position and action to streamline NPs has recently been considered by the Council of Australian Governments (refer Box 6.4).

Box 6.4

Future Reform of National Partnerships

Expiring Agreements

The expiry of a number of large NPs over the last few years in a tight fiscal environment has brought the risks posed by fixed term funding arrangements into sharp focus. States have had limited capacity to influence the continuation of expiring agreements and often little warning on whether funding will be continued.

A number of NPs will expire in 2014-15, including agreements for Early Childhood Education, Homelessness, and Health Infrastructure - National Cancer System. Where these agreements have increased service delivery levels, states will be faced with a difficult decision if the Australian Government ceases funding.

An early indication as to the continuation, lapse or other treatment of funding under expiring agreements is necessary, to enable states to undertake effective service delivery and budgetary planning. The Queensland Government will continue to seek better engagement by the Australian Government on expiring NPs to address these concerns.

Streamlining NPs

The proliferation of NPs in recent years has become an increasing concern for states, with the costs of administering numerous agreements and the reporting burden growing. The recent commitment of the Council of Australian Governments to address these concerns through streamlining of NPs is to be commended.

The first step in this proposal will reduce intergovernmental red tape by consolidating a number of lower value agreements. The reduction in the overall reporting burden, with no change to the value of the agreements, will provide states with greater flexibility to deliver projects and reforms, but still maintain accountability for the funding.

7 PUBLIC NON-FINANCIAL CORPORATIONS SECTOR

FEATURES

- **Public Non-Financial Corporations are expecting to achieve improved financial performance in 2014-15 as a result of the strong focus on cost efficiencies and reliable performance outcomes by the Government.**
- **Borrowings across the sector are forecast to continue to grow to nearly \$32 billion in 2014-15.**
- **Significant improvement in financial performance is forecast to be achieved by the Electricity Generation Sector in 2014-15 and across the forward estimate period based on improved market conditions and innovative business practices focused on maximising outcomes.**
- **Electricity Networks continue to contribute the largest proportion of dividends from the sector (over two-thirds). These are expected to reduce in 2015-16 in line with new Australian Energy Regulator (AER) determinations for the two distributors.**
- **Ergon Energy Corporation Limited (Ergon) and Energex Limited (Energex) both forecast a decline in earnings in 2015-16. The decline in earnings is largely the result of new five-year regulatory determinations commencing from 1 July 2015, which will pass through cost saving initiatives which are being implemented by both businesses as a result of Government efficiency reviews.**
- **In 2014-15, initial shipments of coal from Wiggins Island Coal Export Terminal and initial shipments of gas from the liquefied natural gas (LNG) plants on Curtis Island will contribute to revenue and dividends of the Port Sector.**

CONTEXT

A number of industries are covered by the Public Non-financial Corporations (PNFC) sector including energy, rail, port and water. Queensland's Government-owned corporations (GOCs), declared by regulation to be GOCs under the *Government Owned Corporations Act 1993*, make up a large part of the PNFC sector. Also included in the sector are non-GOC entities including Seqwater, Queensland Rail, local water boards and other public corporations. A list of PNFC sector entities is available in Chapter 8.

GOCs are accountable for their financial performance and are required to be commercial and efficient organisations. These requirements are legislated under the *Government Owned Corporations Act 1993*.

PNFC sector entities provide services or commodities like other businesses. The entities incur costs and bear commercial risks to deliver their services or products and generate revenue from the sale of these services or products. The aim of these entities is to

achieve a profit, which is returned to the Government and used to fund core Government functions such as education, health or law and order. In some cases, part of a PNFC entity's revenue may arise from Community Service Obligation payments from the Government. These payments subsidise the provision of a service or commodity supplied on a non-commercial basis in order to support the Government's broader policy objectives.

FINANCES AND PERFORMANCE

Earnings Before Interest and Tax

Total forecast PNFC sector earnings before interest and tax (EBIT) for the 2013-14 period is estimated to be \$3.78 billion (up from \$3.71 billion at the time of the 2013-14 Budget). This improvement is primarily due to better than budget performance by Stanwell Corporation Limited (Stanwell).

EBIT is set to increase to \$4.137 billion in 2014-15 and \$4.848 billion by 2017-18 (Table 7.1).

Table 7.1
Earnings Before Interest and Tax¹

	2013-14 Budget \$ million	2013-14 Est. Act \$ million	2014-15 Budget \$ million	2015-16 Projection \$ million	2016-17 Projection \$ million	2017-18 Projection \$ million
Electricity Networks	2,652	2,591	2,783	2,341	2,395	2,688
Electricity Generation ²	81	165	296	496	620	635
Transport	627	635	666	727	799	786
Water	368	313	439	556	643	765
Other	(18)	77	(47)	(23)	(23)	(25)
Total PNFC sector Earnings Before Interest and Tax	3,710	3,780	4,137	4,097	4,434	4,848
Note:						
1. Numbers may not add due to rounding.						
2. Includes Stanwell coal revenue sharing arrangements.						

This growth is attributable to increased earnings from CS Energy Limited (CS Energy), Stanwell and Seqwater. CS Energy's and Stanwell's earnings increase as a result of a forecast improvement in wholesale electricity prices, primarily due to increased demand from the LNG industry. Seqwater's earnings increase in line with the current bulk water price path and increased forecast water demand.

Energy Sector

Generation

The Queensland region of the National Electricity Market (NEM) has for some time been oversupplied with generation capacity. As electricity demand has remained subdued over the last couple of years, the oversupply has remained. Consumption of electricity has been impacted by consumers adopting more energy efficient practices and the high uptake of rooftop solar photovoltaic (PV) capacity in Queensland. The current situation sees low pool and contract prices. Further, market-dominated vertically integrated competitors (with both generation and retail businesses) have been able to depress pool prices to protect their retail positions.

In 2012-13 and 2013-14, pool and contract prices have shown signs of recovery, particularly in comparison to 2011-12 levels. The forecast is for Queensland to have a higher average annual energy growth than other NEM regions over the next 10 years, due to population and economic growth. Further, Queensland is the only region in the NEM which is forecast to have a higher maximum demand over the next 10 years.

Both Stanwell and CS Energy are expecting the Queensland wholesale electricity market to continue to improve over the forward estimates period. This is largely driven by the expected commencement of operations by three LNG projects in Queensland, which will have significant demand for electricity to meet their production requirements as well as diverting gas away from electricity generation. This is expected to impact on demand over the next five years, with energy growth moderating in the following five years.

Due to the forecast improvement in electricity demand and the expected high price of gas (see below), Stanwell has scheduled the early return to service of the two units at Tarong Power Station placed into cold storage at the end of 2012. Unit 4 at Tarong Power Station is scheduled to return to service later this year and Unit 2 in mid-2015, with the exact timing for the return to service of both units dependent on market conditions. The LNG projects will also play a role in moving the price of domestic gas towards international parity. This upward movement in the price of gas will impact on the viability of gas fired electricity generation. Stanwell has announced its intention to withdraw from service the gas fired Swanbank E power station for up to three years and sell the gas into the market rather than use it to generate electricity at the power station.

Another key factor in the market outlook is the Australian Government's proposed removal of the carbon pricing scheme from 1 July 2014. This will lower costs for coal fired generators and improve their competitiveness. Any changes to the Australian Government's Renewable Energy Target (RET), which is currently under review, will also impact the wholesale electricity market. However this is more significant in the southern regions of the NEM, namely New South Wales and Victoria, where most of the new renewable generation is planned.

There remain a number of significant risks to the forecast recovery in the wholesale electricity market in Queensland, and, as a consequence, the improved financial performance of the GOC generators. As well as those outlined above, risks include:

- further uptake in small scale solar, improved battery storage capacity at a customer level and larger scale energy efficiency programs, resulting in reductions in network supplied electricity demand
- the development of large scale renewable projects in Queensland to meet environmental targets, when new generation capacity would not otherwise be warranted
- the interconnector with New South Wales, which has traditionally flowed south, flowing north due to oversupply in Victoria and New South Wales and higher prices in Queensland.

Networks

The network energy GOCs in Queensland (Energex, Ergon and Powerlink) are regulated by the AER under a revenue cap arrangement which applies for the five year determination period.

Powerlink's current determination commenced in 2012-13 and concludes in 2016-17. As a consequence, there is a high degree of certainty regarding Powerlink's regulated business over this period. As a new determination for Powerlink commences in 2017-18, this forecast is less certain. For Energex and Ergon, the current determination commenced in 2010-11 and concludes in 2014-15. Forecasting for 2015-16 onward is difficult for both of these entities, with a draft assessment from the AER not due until April 2015 and a final assessment in October 2015.

Due to lower capital and operating expenditure, resulting from lower forecast demand growth and efficiency programs implemented by Energex and Ergon, and lower market interest rates which are expected to contribute to a lower weighted average cost of capital (WACC) allowance, it is expected that the returns and flows to government for Energex and Ergon will reduce from 2015-16 and for the remainder of the regulatory period.

Electricity demand forecasts have again been reduced, reflecting poor economic conditions, the continued use of solar PV and consumer response to high electricity prices. These conditions have continued for some years now and there is not expected to be any significant change for 2014-15.

In response to these market conditions and the findings of reviews undertaken by the Queensland Government, Energex, Ergon and Powerlink have all reduced their capital expenditure forecasts, through the deferral and/or removal of projects. The entities have also had a significant focus on cost cutting and efficiency.

Energex, Ergon and Powerlink are all giving significant consideration to their future roles in the energy market. As technologies advance and consumers respond, the need for new transmission and distribution services will lessen substantially. Matters under consideration include:

- tariff reform and ensuring market-based pricing signals
- facilitating energy efficiency and in particular providing capability for demand side management responses
- robustness of the existing network to ensure reliability and the ability to cope with changes required by advancing technologies
- continued improvements in efficiencies and cost effectiveness to limit price increases.

Transport Sector

Queensland Rail

The *Queensland Rail Transit Authority Act 2013* provided for a new organisational structure to support Government's policy objectives related to future reforms to the delivery of rail services.

Queensland Rail is an integrated rail operator (network and train fleet) providing third party access to network pathways for freight movements and delivering public passenger transport in South East Queensland and long distance passenger services to regional and rural Queensland. Its services are critical to enabling economic activity within the State and sustaining the social fabric of the Queensland community.

Queensland Rail's operating environment is framed by the Government's renewal agenda. This agenda is characterised by efficient delivery of capital investment, improved service quality and contestability, balanced risk allocations and continued high safety standards.

The majority of Queensland Rail's services are delivered under the terms of a Rail Transport Service Contract (Rail TSC) with the State represented by the Department of Transport and Main Roads. The Rail TSC is fundamental to Queensland Rail's business model. It applies a number of disciplines to Queensland Rail to maintain a focus on efficient and effective delivery for improved performance and reduced overall cost of transport services.

Key elements of the Rail TSC are subject to rigorous and performance-focussed review by Government annually and the Department of Transport and Main Roads and Queensland Rail have established a finalised Rail TSC arrangement for 2014-15.

The Rail TSC also specifies a capital plan, setting out the capital program required of Queensland Rail to deliver the services it is contracted to provide. The Rail TSC

provides for exacting oversight of the capital plan by the Department of Transport and Main Roads to ensure efficient investment.

Queensland Rail's strategic and operational intent continues to have a strong focus on delivering value for money services and affordability for its customers. During 2013-14, Queensland Rail continued to progress and develop rail efficiency programs for further streamlining of costs, coupled with delivery of increased train kilometres.

During 2014, Queensland Rail will be engaged with and supporting the Australian Rail Track Corporation review examining the incorporation of certain parts of Queensland's regional rail network into the national rail network.

Ports

The financial performance of the port sector is largely dependent on the level of economic activity in the State and demand for Queensland's exports. For example, the importation of aviation fuel through Cairns is impacted by trends in tourism, overseas education and business travel while the world markets for mineral resources and sugar drive exports through the ports of Townsville and Bundaberg. The demand for coal, Queensland's single largest export, drives the level of throughput at primarily coal-handling ports of Gladstone and Abbot Point.

Strong growth in coal exports in 2013-14 has been driven by demand from China.

Coal export volumes are forecast to grow moderately from 2014-15 onwards. The pace of recovery in the global economy is expected to be constrained by monetary and fiscal consolidations in major economies and the Chinese government's ongoing effort to rebalance the economy.

On the supply side, the ramp up of production at the Daunia and Caval Ridge mines, followed by the Grosvenor (Phase 1) and Eagle Downs mines, will support export growth in coming years. The scheduled completion of Stage 1 of the Wiggins Island Coal Export Terminal (WICET) and expansion of BHP-Mitsubishi Alliance's Hay Point Services Coal Terminal during 2014-15 will provide additional capacity for coal exports. The Wiggins Island Rail Project, which includes construction of a 13 kilometre WICET balloon loop and upgrades and duplication of sections of existing track, will provide rail infrastructure and upgrades in support of the WICET coal terminal.

Water Infrastructure

SunWater

A number of initiatives were implemented during 2013-14 to give effect to the Government's acceptance of the Queensland Independent Commission of Audit's (CoA) recommendations in April 2013 relating to SunWater Limited (SunWater).

The CoA recommended that SunWater's irrigation channels be transferred to private irrigators and dedicated water supply infrastructure servicing commercial and industrial clients be offered for private ownership and/or private operation. The CoA also recommended that while SunWater should retain ownership of regional bulk water assets, any new bulk water assets should be privately funded and owned (subject to compelling public benefit or market failure factors).

Significant progress has been made on the review of options for the transfer of the irrigation channels in consultation with key stakeholders, with a final decision expected to be made in 2014-15.

Consistent with the CoA recommendation regarding private funding of bulk water assets, the construction of the 120 kilometre Woleebee Creek to Glebe Weir Pipeline, which will deliver additional water to the Dawson region of Central Queensland based on the beneficial use of treated coal seam gas (CSG) water, was partly funded with an up-front payment from the CSG proponent.

In 2013, SunWater suffered significant flood damage to a number of its assets, the most significant being the scouring of the Paradise Dam spillway. Works to restore the dam to its original specifications were completed in December 2013. SunWater is investigating long term solutions to prevent similar damage reoccurring.

Seqwater

Following its creation as an integrated entity on 1 January 2013, Seqwater focussed in 2013-14 on efficiency and cost savings. As part of this process, Seqwater has placed the Gold Coast Desalination Plant in "hot standby" mode, with the plant producing a minimal amount of water to maintain the system, but can increase production rapidly if required. The Western Corridor Recycled Water Scheme is also in the process of being shut-down and placed in care and maintenance mode to preserve the asset and allow reactivation when required.

Hot, dry conditions in South East Queensland have seen water usage increase. However, average consumption remains below the pre-drought average of 330 litres per person per day. At the peak of the drought, consumption fell to 124 litres per person per day, and has now recovered to 170 litres per person per day over the past year.

Under the bulk water price path that came into effect on 1 July 2013, and combined with savings achieved through the merger, Seqwater is forecasting a return to profitability in 2017-18, and then will begin to reduce the \$9.6 billion debt incurred in building the Water Grid and capitalising the subsequent annual losses.

Seqwater's new price path is currently under review and is expected to be in place by 1 July 2015.

Borrowings

Entities in the PNFC sector utilise debt financing as a source of funds for capital investments and to maintain an optimum capital structure.

PNFC sector entities are required to take a prudent and sound approach to the management of debt, including the establishment of borrowing arrangements which are appropriate to the business risk of the organisation. These arrangements take into account the appropriateness of the proposed capital expenditure program, together with the implications of the borrowings for key financial and performance related indicators.

Total forecast PNFC sector borrowings for the 2013-14 period is estimated to be \$31.1 billion, slightly less than borrowings in 2012-13 (Table 7.2). The increase in borrowings in the water sector over this period is due to borrowings related to SunWater's Woleebee Creek to Glebe Weir Pipeline project.

Table 7.2
Borrowings¹

	2012-13 Actual \$ million	2013-14 Est. Act. \$ million	2014-15 Budget \$ million	2015-16 Projection \$ million	2016-17 Projection \$ million	2017-18 Projection \$ million
Electricity Networks	15,333	16,035	16,791	17,480	17,981	18,649
Electricity Generation	2,015	1,523	1,588	1,518	1,276	1,079
Transport	3,706	3,628	3,654	3,706	3,876	4,106
Water	9,813	9,931	9,970	10,005	9,912	9,757
Other	282	25	(189)	(113)	(28)	57
Total PNFC sector Borrowings	31,150	31,143	31,814	32,596	33,018	33,649

Note:

1. Numbers may not add due to rounding.

Borrowings are budgeted to increase to \$31.814 billion in 2014-15 and to \$33.649 billion in 2017-18. This modest increase in borrowings is the result of continued growth in borrowings by the Electricity Network and Transport sectors, offset by reduced borrowings by CS Energy, Stanwell and SunWater as a result of improved earnings and cash management practices. The growth in borrowings by the Electricity Network entities has been tempered by reduced capital and operating expenditure due to efficiency savings and lower energy demand growth forecasts.

Returns to Government

PNFC sector entities provide returns to Government by way of dividends and current tax equivalent payments (TEPs).

Dividends

A GOC's dividend policy is agreed with shareholding Ministers as part of the Statement of Corporate Intent for the relevant period. A Statement of Corporate Intent represents a performance contract between the shareholding Ministers and a GOC board, with the board being accountable to shareholding Ministers for meeting financial and non-financial performance targets and delivering on the outcomes detailed in the Statements of Corporate Intent. When establishing the dividend policy for the period, GOC boards are expected to ensure that the dividend policy takes into account the return shareholders expect on their investments and the levels of equity required to maintain a preferred capital structure.

A GOC's dividend payment is determined in accordance with the agreed dividend policy and approved by shareholding Ministers on the recommendation of the GOC's board.

The dividend is paid out of profits, after the entity has met its commitments to operating and maintenance expenses.

Total forecast PNFC sector dividends for the 2013-14 period are estimated to be \$1.289 billion, up from \$1.208 billion at the time of the 2013-14 Budget (Table 7.3). The increase in expected dividends is a result of improved profitability for Stanwell and Energex.

Table 7.3
Dividends^{1,2}

	2013-14 Budget \$ million	2013-14 Est. Act. \$ million	2014-15 Budget \$ million	2015-16 Projection \$ million	2016-17 Projection \$ million	2017-18 Projection \$ million
Electricity Networks	889	929	1,007	761	767	878
Electricity Generation	3	70	98	195	267	285
Transport	280	253	264	296	329	318
Water	35	38	51	73	59	70
Other	..	..	..	..	..	..
Total PNFC sector Dividends	1,208	1,289	1,420	1,325	1,421	1,551

Notes:

1. Numbers may not add due to rounding.
2. The above dividends do not include amounts from the PFC sector.

Dividends are budgeted to increase to \$1.42 billion in 2014-15. In 2017-18, dividends are expected to be \$1.551 billion. The growth in dividends is predominantly due to substantial increases forecast in CS Energy and Stanwell profits. These improvements are driven by forecasts of improved wholesale electricity prices as a result in increased demand from the LNG industry. SunWater, Gladstone Ports Corporation Limited and Port of Townsville Limited's profitability also contribute to the increased dividend payments to Government. These payments are returned to the Consolidated Fund to assist in funding other core public services. Electricity network dividends are estimated to fall beyond 2014-15 reflecting revised regulatory settings as outlined previously.

Tax Equivalent Payments

TEPs are paid by PNFC sector entities to recognise the benefits derived because they are not liable to pay Australian Government tax. The primary objective of the payment is to promote competitive neutrality, through a uniform application of income tax laws, between the Government-owned entities and their privately held counterparts.

Total forecast PNFC sector TEPs for the 2013-14 period is estimated to be \$432 million, down from \$453 million at the time of the 2013-14 Budget (Table 7.4).

Generally TEPs move in line with earnings. However, the substantial increase in TEPs between 2013-14 and 2014-15 (to \$604 million) is primarily driven by a significant increase in TEPs recorded by Energex as the benefits of prior year tax deferrals are consumed.

CS Energy, Stanwell and SunWater TEPs also increase in line with earnings. TEPs are forecast to increase to \$891 million in 2017-18.

**Table 7.4
Tax Equivalents¹**

	2013-14 Budget \$ million	2013-14 Est. Act. \$ million	2014-15 Budget \$ million	2015-16 Projection \$ million	2016-17 Projection \$ million	2017-18 Projection \$ million
Electricity Networks	272	197	389	487	501	507
Electricity Generation	22	85	56	112	150	165
Transport	149	132	146	143	166	162
Water	9	7	7	7	7	51
Other	..	12	6	6	6	6
Total PNFC sector Tax Equivalents	453	432	604	755	829	891

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

Community Service Obligation and Rail Transport Service Contract Payments

Community service obligations (CSOs) arise in situations where a commercial entity is required by Government to perform activities that on their own are not in the entity's commercial interests. In these situations, Government will often provide payments for the cost of delivering the service.

Transport Service Contract (TSC) payments are made to Queensland Rail for non-commercial rail passenger services for the commuter and tourism markets. These payments were reported previously as CSOs.

The presentation of TSC revenue in Table 7.5 will not be directly comparable to CSO revenue disclosed in the 2013-14 Budget Paper No 2, as it now includes patronage revenue received by Queensland Rail and remitted to the Department of Transport and Main Roads under integrated ticketing arrangements.

Total forecast PNFC CSO and TSC payments for the 2013-14 period is estimated to be \$2.219 billion, down from \$2.278 billion at the time of the 2013-14 Budget (Table 7.5).

In 2014-15, it is estimated that the Government will provide CSO and TSC payments to PNFC sector entities of \$2.396 billion. This is forecast to increase to \$2.504 billion in 2017-18. The increase is attributable to the TSC and is due to a mix of factors such as growth in patronage, escalation of service delivery costs and forecast growth in services.

**Table 7.5
Community Service Obligations and Transport Service Contracts Receipts¹**

	2013-14 Budget \$ million	2013-14 Est. Act. \$ million	2014-15 Budget \$ million	2015-16 Projection \$ million	2016-17 Projection \$ million	2017-18 Projection \$ million
Electricity Networks	615	555	683	644	648	643
Electricity Generation	..	..	..	..	..	..
Transport ²	1,647	1,649	1,699	1,811	1,859	1,859
Water	16	15	14	7	6	3
Other	..	..	..	..	..	..
Total PNFC sector CSO and TSC	2,278	2,219	2,396	2,462	2,512	2,504

Notes:

1. Numbers may not add due to rounding.
2. The presentation of Transport revenue is not directly comparable to CSO revenue disclosed in the 2013-14 Budget Paper 2, as it now includes patronage revenue received by Queensland Rail and remitted to the Department of Transport and Main Roads under integrated ticketing arrangements.

In line with the Queensland Government's uniform electricity tariff policy, a CSO payment is provided to Ergon to compensate its non-competitive retail subsidiary for the difference between network charges and distribution loss factors applicable in Ergon's region and the relevant Energex network charges and distribution loss factors which are used to set uniform retail electricity tariff prices, which are regulated by the State. This subsidy is a key part of the uniform electricity tariff policy and is provided to ensure that Queenslanders, regardless of their geographic location, pay a reasonable price for their electricity. The Budget includes an amount to ensure tariffs are consistent with the Queensland Competition Authority's draft determination.

The Queensland Government compensates SunWater for the shortfall in revenues generated by complying with the irrigation price path in SunWater-managed irrigation schemes. The shortfall represents the difference between the efficient cost of supply of water to irrigators (lower bound cost) as determined by the Queensland Competition Authority, and the prices charged to irrigators as directed by the Government. Similarly, Seqwater receives a CSO from the Queensland Government for the provision of rural irrigation water to rural irrigators.

Table 7.6
Net Flows to the General Government sector from PNFC Sector Entities

	2013-14 Budget \$ million	2013-14 Est. Act. \$ million	2014-15 Budget \$ million	2015-16 Projection \$ million	2016-17 Projection \$ million	2017-18 Projection \$ million
Net Flows	(426)	(498)	(372)	(382)	(262)	(62)

Net flows represent the net value of flows to and from the PNFC sector (dividends and TEPs less CSO and TSC payments).

Equity contributions

The levels and weightings of GOC debt and equity are managed by the Government to maintain an optimal and efficient capital structure. Corporations may have different target capital structures for different business entities or to support expected capital programs and projects.

Total forecast PNFC equity contributions for the 2013-14 period are estimated to be negative \$41 million, down from \$77 million at the time of the 2013-14 Budget (Table 7.7). The variance is due to a planned equity injection for new generation rolling stock for Queensland Rail not being required (as this is now a Department of Transport and Main Roads project) and the return of equity which was no longer required by Far North Queensland Ports Corporation Limited.

Estimated equity contributions for PNFCs in 2014-15 are identified in the table below (Table 7.7).

Table 7.7
Equity Injections¹

	2013-14 Budget \$ million	2013-14 Est. Act. \$ million	2014-15 Budget \$ million	2015-16 Projection \$ million	2016-17 Projection \$ million	2017-18 Projection \$ million
Electricity Networks	..	..	..	..	..	..
Electricity Generation	..	..	..	..	..	..
Transport	77	(41)	(10)	..	..	..
Water	..	..	..	..	..	..
Other	..	..	..	..	..	..
Total PNFC sector Equity Injections	77	(41)	(10)	..	..	..

Note:

1. Numbers may not add due to rounding.

8 UNIFORM PRESENTATION FRAMEWORK

INTRODUCTION

This chapter contains detailed financial statements for the Queensland Public Sector prepared under the Uniform Presentation Framework (UPF) of reporting as required under the Australian Loan Council arrangements.

The UPF was reviewed following the release in October 2007 of the Australian Accounting Standards Board's (AASB) accounting standard, AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. The standard aims to harmonise Government Finance Statistics (GFS) and Generally Accepted Accounting Principles (GAAP) with the objective of improving the clarity and transparency of government financial statements.

In addition, the chapter provides:

- a reconciliation of the General Government sector net operating balance to the accounting operating result
- a time series for the General Government sector using the revised UPF
- details of General Government grant revenue and expenses
- details of General Government sector dividend and income tax equivalent income
- data on General Government expenses and purchases of non-financial assets by function
- details of taxation revenue collected by the General Government sector
- the State's revised Loan Council Budget allocation
- details of contingent liabilities
- background information on the revised UPF and disclosure differences arising from it, including the conceptual basis, sector definitions and a list of reporting entities.

UNIFORM PRESENTATION FRAMEWORK FINANCIAL INFORMATION

The tables on the following pages present operating statements, balance sheets and cash flow statements prepared on a harmonised basis for the General Government, Public Non-financial Corporations (PNFC) and Non-financial Public sectors.

Under the UPF requirements, budgeted financial information for the Public Financial Corporations sector is not included.

Table 8.1
General Government Sector Operating Statement¹

	2013-14 Budget \$ million	2013-14 Est.Actual \$ million	2014-15 Budget \$ million	2015-16 Projection \$ million	2016-17 Projection \$ million	2017-18 Projection \$ million
Revenue from Transactions						
Taxation revenue	11,851	11,831	12,455	13,041	13,783	14,567
Grants revenue	20,115	20,071	24,043	25,529	26,005	25,802
Sales of goods and services	4,968	5,043	5,187	5,410	5,469	5,627
Interest income	2,396	2,435	2,429	2,480	2,538	2,595
Dividend and income tax equivalent income	1,694	1,938	2,148	2,158	2,342	2,546
Other revenue	3,652	3,532	3,859	4,788	5,353	5,491
Total Revenue from Transactions	44,677	44,851	50,120	53,407	55,491	56,628
<i>Less</i> Expenses from Transactions						
Employee expenses	18,433	17,906	18,585	19,102	19,856	20,679
Superannuation expenses						
Superannuation interest cost	879	955	932	987	1,016	1,022
Other superannuation expenses	2,407	2,356	2,364	2,354	2,381	2,403
Other operating expenses	9,669	13,980	15,249	15,623	16,691	17,066
Depreciation and amortisation	3,140	3,058	3,226	3,368	3,504	3,621
Other interest expenses	2,163	2,123	2,379	2,468	2,506	2,523
Grants expenses	11,745	6,770	7,198	6,317	6,002	6,347
Total Expenses from Transactions	48,436	47,149	49,933	50,219	51,957	53,660
Equals Net Operating Balance	(3,760)	(2,298)	188	3,188	3,534	2,968
<i>Plus</i> Other economic flows - included in operating result	459	310	158	(222)	(259)	(205)
Equals Operating Result	(3,300)	(1,988)	345	2,966	3,275	2,763
<i>Plus</i> Other economic flows - other movements in equity	3,858	3,934	3,079	3,027	3,053	2,750
Equals Comprehensive Result - Total Change In Net Worth	558	1,946	3,424	5,993	6,329	5,514
KEY FISCAL AGGREGATES						
Net Operating Balance	(3,760)	(2,298)	188	3,188	3,534	2,968
<i>Less</i> Net Acquisition of Non-financial Assets						
Purchases of non-financial assets	7,130	6,634	5,972	5,748	5,850	5,188
<i>Less</i> Sales of non-financial assets	330	341	292	266	180	230
<i>Less</i> Depreciation	3,140	3,058	3,226	3,368	3,504	3,621
<i>Plus</i> Change in inventories	51	(12)	(2)	(70)	(49)	(12)
<i>Plus</i> Other movements in non-financial assets	193	562	6	282	909	760
Equals Total Net Acquisition of Non-financial Assets	3,905	3,785	2,458	2,327	3,026	2,085
Equals Fiscal Balance	(7,664)	(6,083)	(2,271)	862	508	883
Note:						
1. Numbers may not add due to rounding.						

Table 8.2
Public Non-financial Corporations Sector Operating Statement¹

	2013-14 Budget \$ million	2013-14 Est. Actual \$ million	2014-15 Budget \$ million	2015-16 Projection \$ million	2016-17 Projection \$ million	2017-18 Projection \$ million
Revenue from Transactions						
Grants revenue	2,408	865	989	843	849	845
Sales of goods and services	8,987	10,342	10,164	10,469	11,148	11,870
Interest income	85	151	86	72	51	53
Dividend and income tax equivalent income	..	21	..	..	..	..
Other revenue	284	343	292	283	357	335
Total Revenue from Transactions	11,765	11,721	11,531	11,667	12,405	13,103
<i>Less</i> Expenses from Transactions						
Employee expenses	1,679	1,727	1,705	1,752	1,787	1,835
Superannuation expenses						
Other superannuation expenses	212	223	211	215	220	225
Other operating expenses	3,805	3,720	3,188	3,227	3,468	3,584
Depreciation and amortisation	2,264	2,192	2,255	2,347	2,415	2,532
Other interest expenses	2,074	2,027	2,009	1,958	1,993	2,080
Grants expenses	14	15	15	15	15	15
Other property expenses	460	437	607	759	833	894
Total Expenses from Transactions	10,509	10,341	9,990	10,273	10,731	11,164
Equals Net Operating Balance	1,256	1,380	1,541	1,394	1,674	1,938
<i>Plus</i> Other economic flows - included in operating result	(279)	(167)	(109)	75	38	(38)
Equals Operating Result	977	1,213	1,433	1,470	1,712	1,900
<i>Plus</i> Other economic flows - other movements in equity	(619)	(1,104)	(921)	(680)	(739)	(1,017)
Equals Comprehensive Result - Total Change In Net Worth	358	109	512	790	973	883
KEY FISCAL AGGREGATES						
Net Operating Balance	1,256	1,380	1,541	1,394	1,674	1,938
<i>Less</i> Net Acquisition of Non-financial Assets						
Purchases of non-financial assets	3,884	3,120	3,429	3,949	3,735	3,691
<i>Less</i> Sales of non-financial assets	21	166	56	39	40	40
<i>Less</i> Depreciation	2,264	2,192	2,255	2,347	2,415	2,532
<i>Plus</i> Change in inventories	8	38	(14)	8	10	12
Equals Total Net Acquisition of Non-financial Assets	1,608	800	1,104	1,570	1,289	1,131
Equals Fiscal Balance	(352)	581	438	(176)	385	807
Note:						
1. Numbers may not add due to rounding.						

Table 8.3
Non-financial Public Sector Operating Statement¹

	2013-14 Budget \$ million	2013-14 Est.Actual \$ million	2014-15 Budget \$ million	2015-16 Projection \$ million	2016-17 Projection \$ million	2017-18 Projection \$ million
Revenue from Transactions						
Taxation revenue	11,494	11,500	12,109	12,702	13,435	14,213
Grants revenue	20,323	20,298	24,281	25,675	26,154	25,955
Sales of goods and services	13,662	13,619	13,513	13,923	14,607	15,477
Interest income	2,481	2,586	2,515	2,552	2,589	2,648
Dividend and income tax equivalent income	33	238	123	78	91	105
Other revenue	3,935	3,872	4,147	5,072	5,711	5,826
Total Revenue from Transactions	51,929	52,113	56,687	60,002	62,587	64,224
Less Expenses from Transactions						
Employee expenses	20,022	19,535	20,198	20,759	21,547	22,414
Superannuation expenses						
Superannuation interest cost	879	955	932	987	1,016	1,022
Other superannuation expenses	2,620	2,580	2,574	2,570	2,601	2,628
Other operating expenses	13,176	15,927	16,589	16,888	18,141	18,622
Depreciation and amortisation	5,403	5,250	5,480	5,715	5,920	6,152
Other interest expenses	3,981	3,926	4,143	4,190	4,259	4,360
Grants expenses	9,559	6,147	6,462	5,634	5,317	5,670
Total Expenses from Transactions	55,640	54,320	56,379	56,744	58,801	60,869
Equals Net Operating Balance	(3,711)	(2,207)	309	3,258	3,786	3,356
<i>Plus</i> Other economic flows - included in operating result	(223)	(187)	(104)	(147)	(220)	(243)
Equals Operating Result	(3,934)	(2,393)	205	3,111	3,566	3,113
<i>Plus</i> Other economic flows - other movements in equity	4,292	4,237	3,223	2,977	2,767	2,401
Equals Comprehensive Result - Total Change In Net Worth	358	1,844	3,428	6,088	6,332	5,514
KEY FISCAL AGGREGATES						
Net Operating Balance	(3,711)	(2,207)	309	3,258	3,786	3,356
Less Net Acquisition of Non-financial Assets						
Purchases of non-financial assets	11,014	9,754	9,401	9,697	9,585	8,879
<i>Less</i> Sales of non-financial assets	350	507	348	305	221	270
<i>Less</i> Depreciation	5,403	5,250	5,480	5,715	5,920	6,152
<i>Plus</i> Change in inventories	59	26	(17)	(62)	(40)	..
<i>Plus</i> Other movements in non-financial assets	193	562	6	282	909	760
Equals Total Net Acquisition of Non-financial Assets	5,513	4,585	3,562	3,897	4,314	3,216
Equals Fiscal Balance	(9,224)	(6,791)	(3,253)	(639)	(528)	139
Note:						
1. Numbers may not add due to rounding.						

Table 8.4
General Government Sector Balance Sheet ¹

	2013-14 Budget	2013-14 Est.Actual	2014-15 Budget	2015-16 Projection	2016-17 Projection	2017-18 Projection
	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million
Assets						
Financial Assets						
Cash and deposits	877	1,040	1,056	907	891	840
Advances paid	1,012	767	878	973	1,047	1,090
Investments, loans and placements	34,848	34,931	35,810	36,625	37,429	38,138
Receivables	4,321	3,709	4,022	3,950	4,124	4,375
Equity						
Investments in other public sector entities	22,195	24,521	25,029	25,723	26,693	27,575
Investments - other	177	167	167	167	167	167
Total Financial Assets	63,429	65,135	66,962	68,345	70,350	72,185
Non-financial Assets						
Land and other fixed assets	185,718	186,779	190,033	193,308	197,223	200,281
Other non-financial assets	6,586	7,071	7,524	7,781	7,880	8,029
Total Non-financial Assets	192,304	193,850	197,556	201,089	205,102	208,310
Total Assets	255,733	258,985	264,518	269,434	275,453	280,496
Liabilities						
Payables	3,227	3,433	3,405	3,520	3,554	3,618
Superannuation liability	27,827	25,120	23,641	22,394	21,313	20,282
Other employee benefits	5,939	5,375	5,611	5,606	5,827	6,034
Deposits held	1	..	..	..	..	..
Advances received	359	514	544	529	522	515
Borrowing	47,196	44,979	48,141	48,023	48,216	48,421
Other liabilities	3,518	3,897	4,085	4,279	4,607	4,700
Total Liabilities	88,067	83,319	85,428	84,350	84,040	83,569
Net Worth	167,666	175,666	179,091	185,084	191,413	196,926
Net Financial Worth	(24,638)	(18,184)	(18,466)	(16,005)	(13,690)	(11,384)
Net Financial Liabilities	46,834	42,705	43,495	41,728	40,382	38,959
Net Debt	10,821	8,756	10,942	10,048	9,372	8,869
Note:						
1. Numbers may not add due to rounding.						

Table 8.5
Public Non-financial Corporations Sector Balance Sheet ¹

	2013-14 Budget	2013-14 Est.Actual	2014-15 Budget	2015-16 Projection	2016-17 Projection	2017-18 Projection
	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million
Assets						
Financial Assets						
Cash and deposits	1,041	1,391	1,143	866	966	1,038
Advances paid	92	49	41	33	26	18
Investments, loans and placements	169	131	91	80	78	77
Receivables	2,451	2,820	2,959	2,430	1,939	1,904
Equity						
Investments - other	5	183	4	4	4	4
Total Financial Assets	3,757	4,575	4,238	3,413	3,013	3,041
Non-financial Assets						
Land and other fixed assets	56,950	56,770	58,708	61,139	63,291	65,105
Other non-financial assets	1,381	2,284	2,504	2,643	2,623	2,594
Total Non-financial Assets	58,331	59,054	61,212	63,782	65,914	67,699
Total Assets	62,088	63,628	65,451	67,195	68,927	70,739
Liabilities						
Payables	2,839	2,221	2,491	2,254	2,329	2,458
Superannuation liability	170	(68)	(61)	(54)	(48)	(48)
Other employee benefits	780	843	846	864	880	906
Deposits held	31	26	28	29	30	31
Advances received	9	9	8	8	7	6
Borrowing	30,928	31,143	31,814	32,596	33,018	33,649
Other liabilities	7,501	8,222	8,578	8,964	9,205	9,348
Total Liabilities	42,259	42,395	43,705	44,660	45,420	46,349
Net Worth	19,829	21,234	21,745	22,535	23,508	24,391
Net Financial Worth	(38,502)	(37,820)	(39,467)	(41,247)	(42,407)	(43,308)
Net Debt	29,667	29,607	30,575	31,653	31,984	32,552
Note:						
1. Numbers may not add due to rounding.						

Table 8.6
Non-financial Public Sector Balance Sheet ¹

	2013-14 Budget	2013-14 Est.Actual	2014-15 Budget	2015-16 Projection	2016-17 Projection	2017-18 Projection
	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million
Assets						
Financial Assets						
Cash and deposits	1,918	2,431	2,199	1,773	1,857	1,878
Advances paid	1,094	808	911	998	1,066	1,102
Investments, loans and placements	35,016	35,061	35,902	36,706	37,507	38,215
Receivables	4,986	4,752	4,868	4,451	4,063	4,131
Equity						
Investments in other public sector entities	1,000	3,186	3,186	3,186	3,186	3,186
Investments - other	182	351	171	171	171	171
Total Financial Assets	44,196	46,588	47,237	47,285	47,850	48,682
Non-financial Assets						
Land and other fixed assets	242,667	243,549	248,740	254,446	260,513	265,385
Other non-financial assets	774	850	956	1,017	908	886
Total Non-financial Assets	243,441	244,399	249,695	255,463	261,421	266,271
Total Assets	287,638	290,987	296,932	302,748	309,271	314,953
Liabilities						
Payables	4,322	3,924	3,832	3,895	3,933	3,978
Superannuation liability	27,997	25,052	23,580	22,339	21,265	20,233
Other employee benefits	6,718	6,217	6,458	6,470	6,708	6,939
Deposits held	33	26	28	29	30	31
Advances received	359	514	544	529	522	515
Borrowing	78,125	76,123	79,956	80,619	81,234	82,070
Other liabilities	3,786	3,567	3,542	3,786	4,167	4,261
Total Liabilities	121,339	115,423	117,940	117,668	117,858	118,027
Net Worth	166,299	175,564	178,992	185,080	191,413	196,926
Net Financial Worth	(77,143)	(68,835)	(70,703)	(70,383)	(70,009)	(69,344)
Net Financial Liabilities	78,143	72,020	73,889	73,568	73,194	72,530
Net Debt	40,488	38,363	41,517	41,701	41,356	41,421
Note:						
1. Numbers may not add due to rounding.						

**Table 8.7
General Government Sector Cash Flow Statement¹**

	2013-14 Budget \$ million	2013-14 Est.Actual \$ million	2014-15 Budget \$ million	2015-16 Projection \$ million	2016-17 Projection \$ million	2017-18 Projection \$ million
Cash Receipts from Operating Activities						
Taxes received	11,834	11,740	12,453	13,040	13,781	14,566
Grants and subsidies received	20,142	20,178	24,117	25,605	26,081	25,878
Sales of goods and services	5,386	5,427	5,435	5,560	5,696	5,842
Interest receipts	2,397	2,436	2,429	2,480	2,538	2,595
Dividends and income tax equivalents	1,355	1,448	1,887	2,365	2,238	2,371
Other receipts	4,719	4,705	4,929	5,648	6,228	6,381
Total Operating Receipts	45,832	45,934	51,251	54,698	56,563	57,633
Cash Payments for Operating Activities						
Payments for employees	(21,314)	(21,247)	(21,579)	(22,543)	(23,275)	(24,279)
Payments for goods and services	(11,185)	(15,514)	(16,585)	(16,641)	(17,765)	(18,147)
Grants and subsidies	(11,532)	(6,836)	(7,019)	(6,253)	(5,938)	(6,281)
Interest paid	(2,160)	(2,119)	(2,378)	(2,468)	(2,506)	(2,523)
Other payments	(309)	(368)	(351)	(351)	(163)	(398)
Total Operating Payments	(46,500)	(46,084)	(47,912)	(48,257)	(49,647)	(51,628)
Net Cash Inflows from Operating Activities	(669)	(150)	3,338	6,440	6,916	6,005
Cash Flows from Investments in Non-Financial Assets						
Purchases of non-financial assets	(7,130)	(6,634)	(5,972)	(5,748)	(5,850)	(5,188)
Sales of non-financial assets	330	341	292	266	180	230
Net Cash Flows from Investments in Non-financial Assets	(6,801)	(6,293)	(5,680)	(5,482)	(5,670)	(4,958)
Net Cash Flows from Investments in Financial Assets for Policy Purposes	514	598	169	27	..	..
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	(1,028)	(575)	(866)	(798)	(732)	(694)
Receipts from Financing Activities						
Advances received (net)	(21)	(65)	(52)	(49)	(40)	(37)
Borrowing (net)	7,966	6,687	3,107	(286)	(490)	(369)
Net Cash Flows from Financing Activities	7,946	6,621	3,055	(336)	(530)	(406)
Net Increase/(Decrease) in Cash held	(37)	202	16	(149)	(16)	(51)
Net cash from operating activities	(669)	(150)	3,338	6,440	6,916	6,005
Net cash flows from investments in non-financial assets	(6,801)	(6,293)	(5,680)	(5,482)	(5,670)	(4,958)
Surplus/(Deficit)	(7,469)	(6,443)	(2,342)	958	1,245	1,048
Derivation of ABS GFS Cash Surplus/Deficit						
Cash surplus/(deficit)	(7,469)	(6,443)	(2,342)	958	1,245	1,048
Acquisitions under finance leases and similar arrangements	(159)	(382)	(14)	(101)	(729)	(579)
ABS GFS Cash Surplus/(Deficit) Including Finance Leases and Similar Arrangements	(7,629)	(6,825)	(2,356)	857	517	468
Note:						
1. Numbers may not add due to rounding.						

Table 8.8
Public Non-financial Corporations Sector Cash Flow Statement ¹

	2013-14 Budget \$ million	2013-14 Est.Actual \$ million	2014-15 Budget \$ million	2015-16 Projection \$ million	2016-17 Projection \$ million	2017-18 Projection \$ million
Cash Receipts from Operating Activities						
Grants and subsidies received	2,389	949	1,005	830	836	832
Sales of goods and services	9,647	10,553	10,839	11,759	12,667	12,979
Interest receipts	85	151	86	72	51	53
Dividends and income tax equivalents	..	21	..	..	..	..
Other receipts	434	468	375	459	371	348
Total Operating Receipts	12,555	12,142	12,305	13,121	13,926	14,211
Cash Payments for Operating Activities						
Payments for employees	(1,913)	(1,880)	(1,905)	(1,943)	(1,985)	(2,034)
Payments for goods and services	(4,207)	(4,393)	(3,830)	(3,523)	(3,786)	(4,024)
Grants and subsidies	(11)	(9)	(13)	(14)	(14)	(14)
Interest paid	(1,967)	(1,982)	(1,897)	(1,844)	(1,984)	(2,081)
Other payments	(697)	(883)	(954)	(1,412)	(1,478)	(1,554)
Total Operating Payments	(8,795)	(9,148)	(8,599)	(8,735)	(9,247)	(9,707)
Net Cash Inflows from Operating Activities	3,760	2,994	3,706	4,386	4,679	4,505
Cash Flows from Investments in Non-Financial Assets						
Purchases of non-financial assets	(3,884)	(3,120)	(3,429)	(3,949)	(3,735)	(3,691)
Sales of non-financial assets	21	166	56	39	40	40
Net Cash Flows from Investments in Non-financial Assets	(3,863)	(2,954)	(3,373)	(3,910)	(3,694)	(3,651)
Net Cash Flows from Investments in Financial Assets for Policy Purposes	732	746	180	..	..	..
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	1	5	..	..	..	..
Receipts from Financing Activities						
Advances received (net)	(1)	(1)	(1)	(1)	(1)	(1)
Borrowing (net)	530	246	716	695	440	639
Dividends paid	(994)	(1,036)	(1,293)	(1,421)	(1,324)	(1,421)
Deposits received (net)	3	2	2	1	1	1
Other financing (net)	(514)	(598)	(185)	(27)	..	..
Net Cash Flows from Financing Activities	(975)	(1,388)	(760)	(753)	(884)	(782)
Net Increase/(Decrease) in Cash held	(345)	(596)	(248)	(278)	100	72
Net cash from operating activities	3,760	2,994	3,706	4,386	4,679	4,505
Net cash flows from investments in non-financial assets	(3,863)	(2,954)	(3,373)	(3,910)	(3,694)	(3,651)
Dividends paid	(994)	(1,036)	(1,293)	(1,421)	(1,324)	(1,421)
Surplus/(Deficit)	(1,097)	(995)	(960)	(945)	(340)	(567)
Derivation of ABS GFS Cash Surplus/Deficit						
Cash surplus/(deficit)	(1,097)	(995)	(960)	(945)	(340)	(567)
ABS GFS Cash Surplus/(Deficit) Including Finance Leases and Similar Arrangements	(1,097)	(995)	(960)	(945)	(340)	(567)
Note:						
1. Numbers may not add due to rounding.						

Table 8.9
Non-financial Public Sector Cash Flow Statement ¹

	2013-14 Budget \$ million	2013-14 Est.Actual \$ million	2014-15 Budget \$ million	2015-16 Projection \$ million	2016-17 Projection \$ million	2017-18 Projection \$ million
Cash Receipts from Operating Activities						
Taxes received	11,477	11,404	12,108	12,701	13,434	14,212
Grants and subsidies received	20,343	20,386	24,343	25,739	26,219	26,020
Sales of goods and services	14,616	14,036	14,237	15,172	16,160	16,609
Interest receipts	2,482	2,587	2,515	2,552	2,589	2,648
Dividends and income tax equivalents	45	70	217	123	78	92
Other receipts	5,151	5,170	5,299	6,107	6,599	6,728
Total Operating Receipts	54,114	53,652	58,719	62,394	65,079	66,309
Cash Payments for Operating Activities						
Payments for employees	(23,137)	(23,029)	(23,392)	(24,392)	(25,163)	(26,214)
Payments for goods and services	(14,992)	(17,972)	(18,391)	(18,029)	(19,360)	(19,972)
Grants and subsidies	(9,355)	(6,103)	(6,252)	(5,570)	(5,254)	(5,605)
Interest paid	(3,870)	(3,873)	(4,032)	(4,077)	(4,250)	(4,362)
Other payments	(662)	(867)	(903)	(920)	(782)	(1,068)
Total Operating Payments	(52,016)	(51,844)	(52,969)	(52,988)	(54,809)	(57,220)
Net Cash Inflows from Operating Activities	2,098	1,808	5,751	9,405	10,270	9,089
Cash Flows from Investments in Non-Financial Assets						
Purchases of non-financial assets	(11,014)	(9,754)	(9,401)	(9,697)	(9,585)	(8,879)
Sales of non-financial assets	350	507	348	305	221	270
Net Cash Flows from Investments in Non-financial Assets	(10,664)	(9,246)	(9,053)	(9,392)	(9,365)	(8,609)
Net Cash Flows from Investments in Financial Assets for Policy Purposes	732	752	174	..	..	..
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	(1,027)	(570)	(866)	(798)	(732)	(694)
Receipts from Financing Activities						
Advances received (net)	(21)	(66)	(53)	(50)	(41)	(37)
Borrowing (net)	8,496	6,932	3,823	408	(49)	271
Deposits received (net)	3	2	2	1	1	1
Other financing (net)	..	(7)	(10)	..	..	..
Net Cash Flows from Financing Activities	8,478	6,861	3,763	359	(90)	234
Net Increase/(Decrease) in Cash held	(383)	(395)	(232)	(426)	84	21
Net cash from operating activities	2,098	1,808	5,751	9,405	10,270	9,089
Net cash flows from investments in non-financial assets	(10,664)	(9,246)	(9,053)	(9,392)	(9,365)	(8,609)
Surplus/(Deficit)	(8,566)	(7,438)	(3,302)	13	905	480
Derivation of ABS GFS Cash Surplus/Deficit						
Cash surplus/(deficit)	(8,566)	(7,438)	(3,302)	13	905	480
Acquisitions under finance leases and similar arrangements	(159)	(382)	(14)	(101)	(729)	(579)
ABS GFS Cash Surplus/(Deficit) Including Finance Leases and Similar Arrangements	(8,726)	(7,820)	(3,316)	(88)	177	(99)
Note:						
1. Numbers may not add due to rounding.						

RECONCILIATION OF NET OPERATING BALANCE TO ACCOUNTING OPERATING RESULT

The primary difference between the net operating balance and the accounting operating result calculated under Australian Accounting Standards (AAS) is that valuation adjustments are excluded from the net operating balance.

Data presented in Table 8.10 provides a reconciliation of the General Government sector net operating balance to the accounting operating result.

Table 8.10			
Reconciliation of UPF net operating balance to accounting operating result¹			
	2013-14	2013-14	2014-15
	Budget	Est.Act.	Budget
	\$ million	\$ million	\$ million
Net operating balance General Government sector (Table 8.1)	(3,760)	(2,298)	188
<i>Remeasurement/valuation adjustments</i>			
Bad debts and amortisation	(62)	(73)	(83)
Deferred tax equivalents	189	166	99
Dividends received on privatisation sales	404	330	152
Market value adjustments investments/loans	20	14	20
Revaluation of provisions	84	56	136
Decommissioned infrastructure assets and land under roads	(143)	(143)	(143)
Gain/(loss) on assets sold/w ritten off	(33)	(39)	(25)
AAS operating result General Government sector	(3,300)	(1,988)	345
Note:			
1. Numbers may not add due to rounding.			

GENERAL GOVERNMENT TIME SERIES

Data presented in Table 8.11 provides a time series from 2002-03 to 2012-13 for the General Government sector on the key fiscal aggregates used by the Government to measure financial performance. These aggregates have been backcast (as far as is possible) to comply with AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

Table 8.11
General Government Sector¹

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual
	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million
Revenue from Transactions											
Taxation revenue	5,598	6,676	6,952	7,396	8,484	9,546	8,877	9,375	9,975	10,608	10,957
Grant revenue	10,666	11,528	12,755	13,590	14,373	15,523	17,476	20,205	20,272	22,652	18,295
Sales of goods and services	1,964	2,105	2,381	2,586	2,889	3,341	3,568	3,962	4,172	4,986	5,087
Interest income	(128)	2,723	2,972	3,414	3,348	(275)	1,482	2,205	2,365	2,484	2,603
Dividend and income tax equivalent income	1,036	1,148	1,028	1,057	863	1,255	1,180	950	1,232	1,112	1,390
Other revenue	1,118	1,035	1,473	2,039	2,024	2,040	4,425	3,032	3,941	3,942	3,413
Total Revenue	20,253	25,214	27,562	30,084	31,982	31,430	37,008	39,729	41,957	45,794	41,746
Expenses from Transactions											
Employee expenses	8,431	8,972	9,595	10,615	11,731	13,171	14,305	15,566	16,820	18,250	18,130
Superannuation expenses											
Superannuation interest costs	630	1,040	1,009	826	1,154	816	858	1,320	1,240	1,216	743
Other superannuation expenses	892	1,061	1,182	1,367	1,513	1,865	2,012	2,051	2,171	2,301	2,420
Other operating expenses	3,794	3,948	4,392	5,227	6,109	6,612	7,185	7,756	8,646	8,821	9,372
Depreciation and amortisation	1,460	1,460	1,585	1,679	1,880	1,850	2,496	2,500	2,506	2,777	2,902
Other interest expenses	222	213	209	174	180	346	599	803	1,125	1,659	1,939
Grant expenses	4,813	5,180	5,647	6,482	7,558	8,328	9,519	9,789	10,964	11,004	10,623
Total Expenses	20,241	21,874	23,619	26,370	30,128	32,989	36,974	39,785	43,473	46,027	46,129
Net Operating Balance	12	3,340	3,942	3,714	1,855	(1,559)	35	(56)	(1,516)	(233)	(4,382)
OTHER KEY AGGREGATES											
Purchases of non-financial assets	2,232	2,415	2,843	3,186	4,418	5,716	6,960	8,767	8,237	7,930	6,970
Net acquisition of non-financial assets	155	503	1,053	1,236	2,067	3,668	4,434	6,494	5,573	5,249	3,359
Fiscal Balance	(140)	2,838	2,873	2,478	(211)	(5,226)	(4,399)	(6,550)	(7,089)	(5,482)	(7,741)
Cash Surplus/Deficit	645	3,490	4,640	4,648	2,350	(4,922)	(2,839)	(5,305)	(5,880)	(4,901)	(6,627)
Net Worth	64,894	77,723	96,433	105,035	117,831	155,178	184,619	175,655	171,222	170,653	173,720
Net Debt	(11,802)	(14,811)	(19,406)	(23,202)	(26,686)	(22,598)	(19,281)	(13,342)	(9,047)	(5,851)	2,528
Borrowing	3,690	3,208	2,701	2,084	2,266	6,328	10,278	15,916	25,089	29,513	37,878
Borrowing (NFFS)	16,983	15,248	15,725	17,926	24,008	30,925	42,645	51,697	52,618	61,521	69,031

Note:

1. Numbers may not add due to rounding.

Source: Outcomes Reports for Queensland 2002-03 to 2012-13. (Numbers have been recast for changes to UPF presentation.)

OTHER GENERAL GOVERNMENT UNIFORM PRESENTATION FRAMEWORK DATA

Data in the following tables are presented in accordance with the UPF.

Grants

Data presented in Tables 8.12(a) and 8.12(b) provide details of General Government current and capital grant revenue and expenses.

Table 8.12(a)		
General Government Sector Grant Revenue ¹		
	2013-14 Est.Actual \$ million	2014-15 Budget \$ million
Current grant revenue		
Current grants from the Commonwealth		
General purpose grants	10,830	11,740
Specific purpose grants	5,739	5,978
Specific purpose grants for on-passing	2,219	2,589
Total current grants from the Commonwealth	18,788	20,307
Other contributions and grants	305	303
Total current grant revenue	19,093	20,610
Capital grant revenue		
Capital grants from the Commonwealth		
Specific purpose grants	971	3,430
Specific purpose grants for on-passing	7	3
Total capital grants from the Commonwealth	978	3,433
Total capital grant revenue	978	3,433
Total grant revenue	20,071	24,043
Note:		
1. Numbers may not add due to rounding.		

Table 8.12(b)		
General Government Sector Grant Expense ¹		
	2013-14 Est.Actual \$ million	2014-15 Budget \$ million
Current grant expense		
Private and Not-for-profit sector	1,337	1,373
Private and Not-for-profit sector on-passing	1,996	2,138
Local Government	195	233
Local Government on-passing	224	451
Grants to other sectors of Government	603	725
Other	290	210
Total current grant expense	4,645	5,129
Capital grant expense		
Private and Not-for-profit sector	290	605
Local Government	1,689	1,341
Local Government on-passing	7	3
Grants to other sectors of Government	25	16
Other	114	105
Total capital grant expense	2,125	2,069
Total grant expense	6,770	7,198
Note:		
1. Numbers may not add due to rounding.		

Dividend and Income Tax Equivalent Income

Table 8.13 provides details of the source of dividend and income tax equivalent income in the General Government sector.

Table 8.13		
General Government Sector Dividend and Income Tax Equivalent Income ¹		
	2013-14 Est.Actual \$ million	2014-15 Budget \$ million
Dividend and Income Tax Equivalent income from PNFC sector	1,721	2,025
Dividend and Income Tax Equivalent income from PFC sector	217	123
Total Dividend and Income Tax Equivalent income	1,938	2,148
Note:		
1. Numbers may not add due to rounding.		

Expenses by function

Data presented in Table 8.14 provides details of General Government sector expenses by function.

	2013-14 Budget \$ million	2013-14 Est. Actual \$ million	2014-15 Budget \$ million	2015-16 Projection \$ million	2016-17 Projection \$ million	2017-18 Projection \$ million
General public services	1,348	1,096	1,333	1,315	1,517	1,702
Public order and safety	4,105	4,087	4,348	4,394	4,506	4,567
Education	11,158	10,904	11,727	11,895	12,683	13,272
Health	13,019	12,993	13,761	14,379	15,117	15,406
Social security and welfare	2,591	2,665	2,808	2,861	3,139	3,425
Housing and community amenities	1,715	1,459	1,626	1,593	1,541	1,569
Recreation and culture	863	832	932	821	833	960
Fuel and energy	658	604	734	687	683	677
Agriculture, forestry, fishing and hunting	726	741	668	677	659	654
Mining, manufacturing and construction	311	266	312	312	312	319
Transport and communications	6,443	6,279	5,829	5,412	5,664	5,821
Other economic affairs	884	909	894	916	708	672
Other purposes	4,614	4,315	4,961	4,955	4,596	4,616
Total Expenses	48,436	47,149	49,933	50,219	51,957	53,660
Note:						
1. Numbers may not add due to rounding.						

Purchases of non-financial assets by function

Data presented in Table 8.15 provides details of General Government sector purchases of non-financial assets by function.

Table 8.15						
General Government Sector Purchases of Non-financial Assets by Function¹						
	2013-14 Budget \$ million	2013-14 Est. Actual \$ million	2014-15 Budget \$ million	2015-16 Projection \$ million	2016-17 Projection \$ million	2017-18 Projection \$ million
General public services	13	28	29	39	252	56
Public order and safety	279	263	336	275	286	328
Education	509	537	373	330	378	372
Health	1,622	1,402	1,353	1,206	569	368
Social security and welfare	17	14	29	38	30	32
Housing and community amenities	369	289	265	384	493	439
Recreation and culture	79	54	66	97	51	33
Agriculture, forestry, fishing and hunting	32	27	21	27	25	22
Mining, manufacturing and construction	6	4	5	5	4	4
Transport and communications	4,105	3,935	3,458	3,279	3,750	3,520
Other economic affairs	28	20	6	8	8	8
Other purposes	69	61	32	59	5	5
Total Purchases	7,130	6,634	5,972	5,748	5,850	5,188
Note: 1. Numbers may not add due to rounding.						

Taxes

Data presented in Table 8.16 provides details of taxation revenue collected by the General Government sector.

Table 8.16		
General Government Sector Taxes¹		
	2013-14 Est.Actual \$ million	2014-15 Budget \$ million
Taxes on employers' payroll and labour force	3,887	4,014
Taxes on property		
Land taxes	980	995
Stamp duties on financial and capital transactions	2,420	2,653
Other	650	719
Taxes on the provision of goods and services		
Taxes on gambling	1,048	1,084
Taxes on insurance	822	895
Taxes on use of goods and performance of activities		
Motor vehicle taxes	2,024	2,095
Total Taxation Revenue	11,831	12,455
Note: 1. Numbers may not add due to rounding.		

Loan Council Allocation

The Australian Loan Council requires all jurisdictions to prepare Loan Council Allocations (LCA) to provide an indication of each government's probable call on financial markets over the forthcoming financial year.

Table 8.17 presents the State's revised Budget LCA and the Loan Council endorsed LCA for 2014-15.

Table 8.17		
Loan Council Allocation ¹		
	2014-15 Nomination ² \$ million	2014-15 Budget \$ million
General Government sector cash deficit/(surplus)	723	2,342
PNFC sector cash deficit/(surplus)	711	960
Non-financial Public sector cash deficit/(surplus)	1,434	3,302
Acquisitions under finance leases and similar arrangements	59	14
Equals ABS GFS cash deficit/(surplus)	1,493	3,316
<i>Less</i> Net cash flows from investments in financial assets for policy purposes	..	174
<i>Plus</i> Memorandum items ³	1,137	1,029
Loan Council Allocation	2,630	4,171
Notes:		
1. Numbers may not add due to rounding.		
2. The Nomination is based on the 2013-14 MYFER.		
3. Memorandum items include operating leases and local government borrowings.		

The State's Budget LCA is a deficit of \$4.171 billion, compared to the LCA nomination of \$2.63 billion. This deterioration is largely the result of changes in the timing and quantum of spending on disasters and the resulting payment under Natural Disaster Relief and Recovery Arrangements.

CONTINGENT LIABILITIES

Contingent liabilities represent items that are not included in the Budget as significant uncertainty exists as to whether the Government would sacrifice future economic benefits in respect of these items. Nevertheless, such contingencies need to be recognised and managed wherever possible in terms of their potential impact on the Government's financial position in the future.

The State's quantifiable and non-quantifiable contingent liabilities are detailed in the *2012-13 Report on State Finances* – whole of government financial statements (Note 47).

A summary of the State's quantifiable contingent liabilities as at 30 June 2013 is provided in Table 8.18.

Table 8.18 Contingent liabilities	
	2012-13 \$ million
Nature of contingent liability	
Guarantees and indemnities	8,740
Other	1,187
Total	9,927

BACKGROUND AND INTERPRETATION OF UNIFORM PRESENTATION FRAMEWORK

As mentioned in the introduction to this chapter, the UPF was reviewed in 2007 following the release of the AASB accounting standard, AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

This standard aims to harmonise Government Finance Statistics (GFS) and Generally Accepted Accounting Principles (GAAP) with the objective of improving the clarity and transparency of government financial statements.

Accrual Government Finance Statistics framework

The GFS reporting framework, developed by the Australian Bureau of Statistics (ABS), is based on international statistical standards (the International Monetary Fund Manual on Government Finance Statistics and the United Nations System of National Accounts). This allows comprehensive assessments to be made of the economic impact of government.

The accrual GFS framework is based on an integrated recording of stocks and flows. Stocks refer to a unit's holdings of assets and liabilities at a point in time, whilst flows represent the movement in the stock of assets and liabilities between two points in time. Flows comprise two separate types, transactions and other economic flows. Transactions come about as a result of mutually agreed interactions between units or within a single unit. Other economic flows would include revaluations and destruction or discovery of assets that do not result from a transaction. In GFS operating statements, other economic flows, being outside of the control of government, are excluded and do not affect the net operating balance or fiscal balance.

Generally Accepted Accounting Principles

In addition to the GFS framework, public sector entities were previously required to report at year end against AAS 31 *Financial Reporting by Government*, which meant complying with the Accounting Standards issued by the AASB.

Harmonisation under AASB 1049

This dual reporting regime caused confusion for financial report users and the Financial Reporting Council asked the AASB to develop a framework harmonising GAAP and GFS and to issue an Australian accounting standard for a single set of government reports.

In the development of AASB 1049, the AASB adopted the following approaches:

- adoption of GAAP definition, recognition and measurement principles in almost all cases
- amending presentation requirements to encompass a comprehensive result that retains GAAP classification system but overlays it with a transactions and other economic flows classification system based on GFS
- expanding the disclosure requirements to incorporate key fiscal aggregates required by GFS.

Revisions to the Uniform Presentation Framework

Following the introduction of AASB 1049, the Australian, state and territory governments consider that the UPF will continue to be an important framework for ensuring comparability of financial information across jurisdictions. The UPF shall continue to apply to financial statements produced by government in budgets, mid-year budget updates and final budget outcome reports, whereas the accounting standard applies only to outcome reports.

Therefore, rather than replacing the UPF with the accounting standard, the framework was updated to align with AASB 1049. Australian, state and territory governments agreed that the updated framework would continue to provide a common core of comparable financial information in their budget papers and comparable data amongst jurisdictions while maintaining at least the current level of transparency.

Aligning the framework with AASB 1049 was not intended to create a UPF that complies with all the reporting requirements of AASB 1049. For example, the UPF does not include the same level of detail in relation to disclosure requirements as AASB 1049. Instead, the revised UPF allows jurisdictions to utilise the framework as the base set of statements and add additional relevant information in order to comply with AASB 1049.

SECTOR CLASSIFICATION

GFS data is presented by institutional sector, distinguishing between the General Government sector and the PNFC sector.

Budget reporting focuses on the General Government sector, which provides regulatory services and goods and services of a non-market nature that are provided at less than cost or at no cost. These services are largely financed by general revenue (Australian Government grants and state taxation). This sector comprises government departments, their commercialised business units/shared service providers and certain statutory bodies.

The PNFC sector comprises bodies that provide mainly market goods and services that are of a non-regulatory and non-financial nature. PNFCs are financed through sales to consumers of their goods and services and may be supplemented by explicit government subsidy to satisfy community service obligations. In general, PNFCs are legally distinguishable from the governments that own them. Examples of PNFCs include the energy entities and Queensland Rail.

Together, the General Government sector and the PNFC sector comprise the Non-financial Public sector.

Further discussion of the GFS framework of reporting, including definitions of GFS terms, can be obtained from the webpage of the Australian Bureau of Statistics at www.abs.gov.au.

REPORTING ENTITIES

The reporting entities included in the General Government and PNFC sectors in these Budget papers are provided below.

General Government

Departments

Aboriginal and Torres Strait Islander and
Multicultural Affairs

Agriculture, Fisheries and Forestry
Communities, Child Safety and Disability
Services

Education, Training and Employment

Electoral Commission of Queensland

Energy and Water Supply

Environment and Heritage Protection

Housing and Public Works

Justice and Attorney-General

Legislative Assembly

Local Government, Community

Recovery and Resilience

National Parks, Recreation, Sport and
Racing

Natural Resources and Mines

Office of the Governor

Office of the Inspector-General Emergency
Management (commences 1 July 2014)

Office of the Ombudsman

Premier and Cabinet

Public Safety Business Agency

Public Service Commission

Queensland Audit Office

Queensland Fire and Emergency
Services (commenced 1 November 2013)

Queensland Health

Queensland Police Service

Queensland Treasury and Trade
Science, Information Technology, Innovation a
and the Arts

State Development, Infrastructure and
Planning

The Public Trustee of Queensland

Tourism, Major Events, Small Business and
the Commonwealth Games

Transport and Main Roads

Commercialised Business Units

Building and Asset Services

CITEC

QFleet

RoadTek

Shared Service Providers

Corporate Administration Agency

Queensland Shared Services

Statutory Authorities

Anti-Discrimination Commission
Australian Agricultural College Corporation
Board of the Queensland Museum
City North Infrastructure Pty Ltd
Commission for Children and Young People and Child Guardian
Crime and Misconduct Commission
Economic Development Queensland
Gold Coast 2018 Commonwealth Games Corporation
Gold Coast Institute of TAFE
Gold Coast Waterways Authority
Health Ombudsman (commenced 1 February 2014)
Health Quality and Complaints Commission
Hospital and Health Services
Cairns and Hinterland
Central Queensland
Central West
Children's Health Queensland
Darling Downs
Gold Coast
Mackay
Metro North
Metro South
North West
South West
Sunshine Coast
Torres and Cape
Townsville
West Moreton
Wide Bay
Legal Aid Queensland
Library Board of Queensland
Motor Accident Insurance Commission
Nominal Defendant
Office of the Information Commissioner
Prostitution Licensing Authority
Queensland Art Gallery Board of Trustees
Queensland Building and Construction Commission (commenced 1 December 2013)
Queensland Building Services Authority (ceased 30 November 2013)
Queensland Curriculum and Assessment Authority
Queensland Family and Child Commission (commences 1 July 2014)
Queensland Mental Health Commission
Queensland Performing Arts Trust
Queensland Reconstruction Authority
QRAA
Queensland Training Assets Management (commences 1 July 2014)
Residential Tenancies Authority
South Bank Corporation
Southbank Institute of Technology
TAFE Queensland (commences 1 July 2014)
The Council of the Queensland Institute of Medical Research
Tourism and Events Queensland
Trade and Investment Queensland (commenced 1 October 2013)
Workers' Compensation Regulatory Authority (ceased 31 October 2013)

Public Non-financial Corporations

Brisbane Port Holdings Pty Ltd
CS Energy Ltd
DBCT Holdings Pty Ltd
Energex Ltd
Ergon Energy Corporation Limited
Far North Queensland Ports Corporation Limited
Gladstone Area Water Board
Gladstone Ports Corporation Limited
Mount Isa Water Board
North Queensland Bulk Ports Corporation Limited
Port of Townsville Limited
Powerlink Queensland
Qld Airport Holdings (Cairns) Pty Ltd
Qld Airport Holdings (Mackay) Pty Ltd
Queensland Bulk Water Supply Authority (Seqwater)
Queensland Lottery Corporation Pty Ltd
Queensland Rail
Queensland Treasury Holdings Pty Ltd
Stadiums Queensland
Stanwell Corporation Limited
SunWater Limited
The Trustees of Parklands Gold Coast (ceased
30 September 2013)

APPENDIX A – TAX EXPENDITURE STATEMENT

OVERVIEW

Governments employ a range of policy tools to achieve social and economic objectives. These include the use of direct budgetary outlays, regulatory mechanisms and taxation. This Tax Expenditure Statement (TES) details revenue foregone as a result of Government decisions relating to the provision of tax exemptions or concessions. The TES is designed to improve transparency in the use of tax expenditures and increase public understanding of the fiscal process.

Tax expenditures are reductions in tax revenue that result from the use of the taxation system as a policy tool to deliver Government policy objectives. Tax expenditures are provided through a range of measures, including:

- tax exemptions
- the application of reduced tax rates to certain groups or sectors of the community
- tax rebates
- tax deductions
- provisions which defer payment of a tax liability to a future period.

Labelling an exemption or concession as a tax expenditure does not necessarily imply any judgement as to its appropriateness. It merely makes the amount of the exemption or concession explicit and thereby facilitates its scrutiny as part of the annual Budget process.

Methodology

Revenue foregone approach

The method used almost exclusively by governments to quantify the value of their tax expenditures is the revenue foregone approach. This method estimates the revenue foregone through use of the concession by applying the benchmark rate of taxation to the volume of activities or assets affected by the concession. One of the deficiencies of the revenue foregone approach is that the effect on taxpayer behaviour resulting from the removal of the particular tax expenditure is not factored into the estimate. Consequently, the aggregation of costings for individual tax expenditure items presented in the TES will not necessarily provide an accurate estimate of the total level of assistance provided through tax expenditures.

Measuring tax expenditures requires the identification of:

- a benchmark tax base
- concessionally taxed components of the benchmark tax base such as a specific activity or class of taxpayer
- a benchmark tax rate to apply to the concessionally taxed components of the tax base.

Defining the tax benchmark

The most important step in the preparation of a TES is the establishment of a benchmark for each tax included in the statement. The benchmark provides a basis against which each tax concession can be evaluated. The aim of the benchmark is to determine which concessions are tax expenditures as opposed to structural elements of the tax. The key features of a tax benchmark are:

- the tax rate structure
- any specific accounting conventions applicable to the tax
- the deductibility of compulsory payments
- any provisions to facilitate administration
- provisions relating to any fiscal obligations.

By definition, tax expenditures are those tax concessions not included as part of the tax benchmark.

Identification of benchmark revenue bases and rates requires a degree of judgement and is not definitive. Furthermore, data limitations mean that the tax expenditures are approximations and are not exhaustive. This statement does not include estimates of revenue foregone from exemptions or concessions provided to Government agencies. Very small exemptions or concessions are also excluded.

THE TAX EXPENDITURE STATEMENT

This year's statement includes estimates of tax expenditures in 2012-13 and 2013-14 for payroll tax, land tax, duties and gambling taxes. A summary of the major tax expenditures valued on the basis of revenue foregone is presented in Table A.1. Not all expenditures can be quantified at this time. Accordingly, the total value of tax expenditures should be considered as indicative only.

**Table A.1
Tax expenditure summary¹**

	2012-13 ² \$ million	2013-14 \$ million
Payroll Tax		
Exemption threshold	1,132	1,175
Deduction scheme	294	305
Section 14 exemptions		
Local Government	142	149
Education	120	125
Hospitals	283	305
Total Payroll Tax	1,971	2,059
Land Tax		
Liability thresholds ³	539	542
Graduated land tax scale	479	493
Primary production deduction	92	93
Part 6 Divisions 2 and 3 exemptions not included elsewhere ⁴	100	102
Land developers' concession	18	18
Total Land Tax	1,228	1,248
Duties		
Transfer duty on residential property		
Home concession	276	360
First home concession	202	237
First home vacant land concession	15	18
Insurance duty⁵		
Non-life insurance	130	62
Workcover	44	69
Health insurance	272	333
Total Duties	939	1,079
Taxes on Gambling		
Gaming machine taxes	9	10
Casino taxes	112	117
Total Gambling Tax	121	127
Total	4,259	4,513
Notes:		
1. Numbers may not add due to rounding.		
2. 2012-13 estimates may have been revised since the 2013-14 Budget.		
3. Land tax is payable only on the value of taxable land above a threshold which depends on the ownership structure.		
4. Applicable, but not limited, to religious bodies, public benevolent institutions and other exempt charitable institutions.		
5. From August 2013 the rate of duty applicable to insurance premiums for Class 1 and Class 2 general insurance products increased to 9%. The new rates apply to premiums paid on or after 1 August 2013, for policies entered into on or after that date.		

DISCUSSION OF INDIVIDUAL TAXES

Payroll tax

The benchmark tax base for payroll tax is assumed to be all wages, salaries and supplements (including employer superannuation contributions) paid in Queensland, as defined in the *Payroll Tax Act 1971*. The benchmark tax rate for payroll tax is assumed to be the statutory rate applying in each financial year.

Payroll tax exemption threshold

Employers who employ in Queensland with an annual Australian payroll of \$1.1 million or less are exempt from payroll tax (\$1 million prior to 1 July 2012). On the basis of 2012-13 average weekly earnings, this threshold corresponded to approximately 15 full-time equivalent employees. This exemption is designed to assist small and medium sized businesses.

Deduction scheme

Employers who employed in Queensland with Australian payrolls between \$1.1 million and \$5.5 million benefited from a deduction of \$1.1 million, which reduced by \$1 for every \$4 by which the annual payroll exceeded \$1.1 million. The deduction is pro-rated for interstate wages. There was no deduction for employers or groups that had an annual payroll in excess of \$5.5 million.

Section 14 exemptions

A number of organisations are provided with exemptions from payroll tax under Section 14 of the *Payroll Tax Act 1971*. The activities for which estimates have been calculated are wages paid by public hospitals, non-tertiary private educational institutions and local governments (excluding commercial activities).

Land tax

The benchmark tax base is assumed to be all freehold land within Queensland, excluding residential land used as a principal place of residence and land owned by individuals with a value for that year below the threshold. The benchmark tax rate for land tax is assumed to be the top rate of land tax applicable in Queensland in each financial year.

Liability thresholds

Land tax is payable on the value of taxable land equal to or above a threshold which depends on the land's ownership. The threshold for companies, trusts and absentees is \$350,000 and for resident individuals the threshold is \$600,000.

Land owned by resident individuals as their principal place of residence is excluded from the estimate. The exemption from paying below a minimum amount is not included as a tax expenditure as it is regarded as the application of an administration threshold.

Graduated land tax scale

A graduated (concessional) scale of land tax rates is applicable to land with a taxable value of less than \$5 million for resident individuals and companies, trustees and absentees. The benchmark rates used for estimating the tax expenditures were 1.75% for individuals and 2.0% for companies, trustees and absentees.

Primary production deduction

The taxable value of land owned by a resident individual, trustee or some absentees and companies does not include all or part of their land that is used for the business of agriculture, pasturage or dairy farming.

Part 6 Divisions 2 and 3 exemptions (not elsewhere included)

A number of land tax exemptions are granted in Part 6 Divisions 2 and 3 of the *Land Tax Act 2010* to eligible organisations. These include, but are not limited to, public benevolent institutions, religious institutions and other exempt charitable institutions, retirement villages, trade unions and showgrounds.

Land developers' concession

Land tax payable by land developers is calculated on the basis that the unimproved value of (undeveloped) land subdivided in the previous financial year and which remains unsold at 30 June of that year is 60% of the Valuer-General's value. This concession is outlined in Section 30 of the *Land Tax Act 2010*.

Transfer duty concession on residential property

The benchmark tax base is assumed to be all sales of residential property within Queensland. The benchmark tax scale is assumed to be the scale that actually applied in each financial year.

Home concession

A concessional rate of duty applies to purchases of a principal place of residence. A 1% concessional rate applies on dutiable values up to \$350,000, rather than the normal schedule of rates between 1.5% and 3.5%. For properties valued over \$350,000, the scheduled rates of transfer duty apply on the excess.

First home concession

Where a purchaser has not previously owned a residence in Queensland or elsewhere, the purchaser of a home receives a more generous concession on duty. This concession comprises a rebate in addition to the home concession on properties (this concession may not be applicable if the purchase price is less than the full market value of the property). The size of the rebate depends on the value of the property. A full concession is provided to purchases of a first principal place of residence valued up to \$500,000.

First home vacant land concession

A first home concession is available for the purchase of certain vacant land up to the value of \$400,000, with a full concession available on certain vacant land up to the value of \$250,000.

Insurance duty

The benchmark tax base is assumed to be all premiums for general insurance policies (not for life insurance). The benchmark tax scale is assumed to be the scale that actually applied in each financial year.

The rate of duty applicable to general insurance increased to 9% on 1 August 2013 (previously 7.5% for Class 1 products and 5% for Class 2 products). There was no change in duty payable on Compulsory Third Party or Workers' Compensation premiums.

Gambling taxes

Gaming machine tax concessions for licensed clubs

The benchmark tax base is assumed to be all gaming machines operated by licensed clubs and hotels in Queensland. The benchmark tax rate is assumed to be the highest marginal tax rate (as is applied to hotels) that actually applied in each financial year.

A progressive tax rate scale applies to gaming machines operated by licensed clubs. The tax rate is calculated monthly on the gaming machine taxable metered win and the top tax rate is only applied to the portion of gaming machine revenue where the monthly metered win exceeds \$1.4 million for any licensed club.

Casino tax concessions

The benchmark tax base is assumed to be all casinos operating in Queensland. The benchmark tax rate is assumed to be the highest tax rate that is actually applied in each financial year.

A tax rate of 20% of gross revenue applies for standard transactions in the Brisbane and Gold Coast casinos. A concessional tax rate of 10% applies for gross revenue from standard transactions in the Cairns and Townsville casinos. The tax rate applicable to gaming machines in casinos is 30% of gross revenue in Brisbane and Gold Coast casinos and 20% in the Cairns and Townsville casinos.

In addition concessional rates of 10% also apply for revenue from high rollers in all casinos. A GST credit is provided to casinos that approximates a reduction in the above tax rates of 9.09%.

APPENDIX B – REVENUE AND EXPENSE ASSUMPTIONS AND SENSITIVITY ANALYSIS

The Queensland Budget, like those of other jurisdictions, is based in part on assumptions made about future elements of uncertainty, both internal and external to the State, which can impact directly on economic and fiscal forecasts.

This appendix outlines the assumptions underlying the revenue and expense estimates and analyses the sensitivity of the estimates to changes in the economic and other assumptions. This analysis is provided to enhance the level of transparency and accountability of the Government.

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

The following discussion provides details of some of the key assumptions, estimates and risks associated with revenue and expenditure and, where a direct link can be established, the indicative impact on forecasts resulting from a movement in those variables.

Taxation and Royalty Revenue – 2012-13 to 2017-18

Table B.1
Taxation and Royalty Revenue¹

	2012-13 Actual \$ million	2013-14 Est. Act. \$ million	2014-15 Budget \$ million	2015-16 Projection \$ million	2016-17 Projection \$ million	2017-18 Projection \$ million
Payroll tax	3,751	3,887	4,014	4,267	4,536	4,821
Transfer duty	1,887	2,420	2,653	2,732	2,923	3,128
Other duties	1,164	1,296	1,394	1,475	1,560	1,651
Gambling taxes and levies	1,034	1,048	1,084	1,122	1,161	1,201
Land tax	990	980	995	1,035	1,076	1,120
Motor vehicle registration	1,486	1,532	1,578	1,658	1,741	1,828
Other taxes	645	668	736	754	786	818
Total taxation revenue	10,957	11,831	12,455	13,041	13,783	14,567
Royalties						
Coal	1,737	1,834	2,078	2,686	3,178	3,315
Petroleum ²	59	68	199	561	660	636
Other royalties ³	348	369	395	385	346	356
Land rents	158	179	174	180	186	192
Total royalties and land rents	2,302	2,451	2,846	3,811	4,370	4,498
Notes:						
1. Numbers may not add due to rounding.						
2. Includes liquefied natural gas (LNG) from 2014-15.						
3. Includes base and precious metal and other mineral royalties.						

TAXATION REVENUE ASSUMPTIONS AND REVENUE RISKS

The rate of growth in tax revenues is dependent on a range of factors that are linked to the rate of growth in economic activity in the State. Some taxes are closely related to activity in specific sectors of the economy, whilst others are broadly related to the general rate of economic growth, employment, inflation and wages. A change in the level of economic activity, resulting from economic growth differing from forecast levels, would impact upon a broad range of taxation receipts.

Wages and employment growth – payroll tax collections

Wages and employment growth have a direct impact on payroll tax collections. The Budget assumptions are for an increase in wages of 3% and an increase in employment of 2% in 2014-15. The composition of the payroll tax base is also important. For example, the rate of growth in payroll tax is expected to be lower as fast growing sectors such as tourism, retail and hospitality are often outside the tax base because they are below the threshold.

A one percentage point variation in either Queensland wages growth or employment would change payroll tax collections by approximately \$40 million in 2014-15.

Transfer duty estimates

For 2014-15, transfer duty collections are expected to grow by approximately 9.6% on the 2013-14 estimated actual.

This forecast is predicated on a continuation of the increase in residential property market volumes experienced in 2013-14 and increasing house prices, somewhat moderated by restrained levels of activity in the non-residential property sector. Across the forward estimates period, modest house price growth is expected to provide further support for transfer duty collections, while non-residential sector activity is expected to gradually improve in response to increased levels of employment and economic activity.

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 \$25 million in 2014-15.

ROYALTY ASSUMPTIONS AND REVENUE RISKS

Table B.2
Coal Royalty Assumptions

	2012-13 Actual	2013-14 Est. Act.	2014-15 Budget	2015-16 Projection	2016-17 Projection	2017-18 Projection
Tonnages - crown export ¹ coal (Mt)	171	195	202	214	224	229
Exchange rate US\$ per A\$ ²	1.03	0.92	0.91	0.88	0.86	0.85
Year average coal prices³						
Hard coking	183	142	142	160	170	170
Semi-soft	133	114	111	123	131	132
Thermal	103	92	84	89	92	94

Notes:

1. Excludes coal produced for domestic consumption and coal where royalties are not paid to the government, i.e private royalties. 2014-15 estimate for domestic coal volume is approximately 24Mt and private coal is 10Mt.
2. Year average.
3. Represent the benchmark contract price in US\$ for highest quality coal type. Prices are discounted to reflect prices for lower quality coal. Hard coking coal can be sold up to US\$25 below benchmark and thermal US\$12 below.

Royalty Assumptions

Table B.2 provides the 2013-14 Budget assumptions regarding coal royalties, which represent the bulk of Queensland's royalty revenue.

The LNG industry is expected to begin generating royalties in 2014-15 and increase from 2015-16 onwards as production ramps up.

Exchange rate and commodity prices and volumes – royalties estimates

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 royalties collections.

For each one cent movement in the A\$-US\$ exchange rate, the impact on royalty revenue would be approximately \$35 million in 2014-15.

A 1% variation in export coking and thermal coal volumes would lead to a change in royalty revenue of approximately \$20 million.

A 1% variation in the average price of export coal would lead to a change in royalty revenue of approximately \$30 million.

Parameters influencing Australian Government GST payments to Queensland

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

Since the Australian Government payments are based on the amount actually collected, it is Queensland's 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 economic growth and consumption are weaker than expected.

Due to the complexities associated with the GST base, the information provided in the Australian Government Budget Papers is not sufficient to prepare indicative forecasts of the sensitivity of GST estimates to key variables.

SENSITIVITY OF EXPENDITURE ESTIMATES AND EXPENDITURE RISKS

Public sector wage costs

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

The 2014-15 Budget and forward estimates includes funding for wage increases as per existing agreements and reflect the Government's wages policy where outcomes are yet to be finalised.

A general 1% increase in wage outcomes in a particular year would increase expenses by around \$220 million per annum.

Interest rates

The General Government sector has a total debt servicing cost estimated at \$2.4 billion in 2014-15.

The current average duration of General Government debt is around five years. The majority of General Government debt is held under fixed interest rates and therefore the impact of interest rate variations on debt servicing costs in 2014-15 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 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.

While these impacts have been estimated and allowances made in the Budget and forward estimates to accommodate them, the actual outcome may differ from the estimates calculated for the Budget.

Demographic and demand based risks

Unforeseen changes in the size, location and composition of Queensland's population can impact on the demand for goods and services and therefore on the cost of maintaining existing policies. This is particularly evident in the health, education, community services and criminal justice sectors.

State government expenditure is often more closely associated with socio-demographic factors, such as the number of school age children or the number of elderly residents, than with economic activity. Such changes are likely to impact significantly in the medium term.

For this reason, the composition, size and location of the State's population are more significant in projecting the State's expenditure needs across the forward estimates period than for the current or budget year.

APPENDIX C – FISCAL AGGREGATES AND INDICATORS

The following tables provide longer time series of key fiscal measures. As can be seen in Table C.1, General Government borrowings are forecast to rise to \$48.421 billion by 2017-18, up from \$6.328 billion in 2007-08. Much of this growth in debt occurred in the years from 2007-08 to 2012-13, before the Government undertook fiscal repair measures that are expected to result in a stabilisation in the level of General Government debt from 2014-15 to 2017-18.

Non-financial Public sector borrowings of \$76.123 billion are forecast for 2013-14, \$2.002 billion lower than expected at the 2013-14 budget and \$6.17 billion lower than the comparable Queensland Independent Commission of Audit forecast contained in its Interim Report.

Non-financial Public sector borrowings of \$79.956 billion are forecast for 2014-15, an increase of \$3.833 billion over 2013-14, largely reflecting the increased borrowing in the General Government sector.

By 2015-16, borrowings in the Non-financial Public sector are expected to be \$9.219 billion lower than outlined in the Independent Commission's report.

As can also be seen in Chart 1.1 (in Chapter 1), borrowings increase slowly from \$80 billion to \$82 billion over the budget and forward estimates period.

Table C.1 Key Fiscal Aggregates, 2007-08 to 2017-18												
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	
	Actual	Actual	Actual	Actual	Actual	Actual	Est. Act.	Projection	Projection	Projection	Projection	
	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million	
General Government												
Total Revenue	31,430	37,008	39,729	41,957	45,794	41,746	44,851	50,120	53,407	55,491	56,628	
Tax Revenue	9,546	8,877	9,375	9,975	10,608	10,957	11,831	12,455	13,041	13,783	14,567	
Total Expenses	32,989	36,974	39,785	43,473	46,027	46,129	47,149	49,933	50,219	51,957	53,660	
Employee Expenses	13,171	14,305	15,566	16,820	18,250	18,130	17,906	18,585	19,102	19,856	20,679	
Net Operating Balance	(1,559)	35	(56)	(1,516)	(233)	(4,382)	(2,298)	188	3,188	3,534	2,968	
Capital Purchases	5,716	6,960	8,767	8,237	7,930	6,970	6,634	5,972	5,748	5,850	5,188	
Net Capital Purchases	3,668	4,434	6,494	5,573	5,249	3,359	3,785	2,458	2,327	3,026	2,085	
Fiscal Balance	(5,226)	(4,399)	(6,550)	(7,089)	(5,482)	(7,741)	(6,083)	(2,271)	862	508	883	
Borrowings	6,328	10,278	15,916	25,089	29,513	37,878	44,979	48,141	48,023	48,216	48,421	
Non-financial Public Sector												
Total Revenue	38,363	43,659	47,882	48,984	52,300	49,175	52,113	56,687	60,002	62,587	64,224	
Capital Purchases	13,865	15,265	14,818	13,344	11,939	10,719	9,754	9,401	9,697	9,585	8,879	
Borrowings	30,925	42,645	51,697	52,618	61,521	69,031	76,123	79,956	80,619	81,234	82,070	

**Table C.2
Key Fiscal Indicators, 2007-08 to 2017-18**

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	Actual	Actual	Actual	Actual	Actual	Actual	Est Act.	Projection	Projection	Projection	Projection
	%	%	%	%	%	%	%	%	%	%	%
General Government											
Revenue/GSP	13.6	14.3	15.8	15.7	16.1	14.4	14.6	15.4	15.1	14.7	14.2
Tax/GSP	4.1	3.4	3.7	3.7	3.7	3.8	3.9	3.8	3.7	3.7	3.6
Expenses/GSP	14.3	14.3	15.8	16.2	16.2	15.9	15.4	15.4	14.2	13.8	13.4
Employee Expenses/GSP	5.7	5.5	6.2	6.3	6.4	6.2	5.8	5.7	5.4	5.3	5.2
Net Operating Balance/GSP	(0.7)	0.0	(0.0)	(0.6)	(0.1)	(1.5)	(0.7)	0.1	0.9	0.9	0.7
Capital Purchases/GSP	2.5	2.7	3.5	3.1	2.8	2.4	2.2	1.8	1.6	1.6	1.3
Fiscal Balance/GSP	(2.3)	(1.7)	(2.6)	(2.6)	(1.9)	(2.7)	(2.0)	(0.7)	0.2	0.1	0.2
Borrowings/GSP	2.7	4.0	6.3	9.4	10.4	13.1	14.6	14.8	13.6	12.8	12.1
Borrowings/Revenue	20.1	27.8	40.1	59.8	64.4	90.7	100.3	96.1	89.9	86.9	85.5
Revenue Growth	(1.7)	17.7	7.4	5.6	9.1	(8.8)	7.4	11.7	6.6	3.9	2.0
Tax Growth	12.5	(7.0)	5.6	6.4	6.3	3.3	8.0	5.3	4.7	5.7	5.7
Expenses Growth	9.5	12.1	7.6	9.3	5.9	0.2	2.2	5.9	0.6	3.5	3.3
Employee Expenses Growth	12.3	8.6	8.8	8.1	8.5	(0.7)	(1.2)	3.8	2.8	4.0	4.1
Non-financial Public Sector											
Capital Purchases/GSP	6.0	5.9	5.9	5.0	4.2	3.7	3.2	2.9	2.7	2.5	2.2
Borrowings/GSP	13.4	16.5	20.6	19.6	21.6	23.8	24.8	24.6	22.8	21.6	20.6
Borrowings/Revenue	80.6	97.7	108.0	107.4	117.6	140.4	146.1	141.0	134.4	129.8	127.8
Net Financial Liabilities ¹ /Revenue	75.4	97.6	112.5	102.2	115.5	131.9	138.2	130.3	122.6	116.9	112.9

Notes:

1. UPF definition, which is equal to total financial assets less investments in other public sector entities less total liabilities.

