

# State Budget 2009–10

## Budget Strategy and Outlook

Budget Paper No. 2



**Queensland** Government

# **2009–10 State Budget Papers**

## **1. Budget Speech**

## **2. Budget Strategy and Outlook**

## **3. Capital Statement**

## **4. Budget Measures**

## **5. Service Delivery Statements**

## **Budget Highlights**

The suite of Budget Papers is similar to that published in 2008–09.

In March 2009, machinery-of-Government changes saw the creation of 13 departments reporting to 18 Ministers.

These new arrangements have required minor changes to how information is presented in some Budget Papers. In particular, Budget Paper No. 5—Service Delivery Statements is now presented on a departmental rather than a Ministerial basis.

The 2009–10 Budget Papers provide continuity of information between the previous departmental structure and the new arrangements. Future budget papers will present information, including financial statements, only from a whole-of-department point of view.

The Budget Papers are available online at [www.budget.qld.gov.au](http://www.budget.qld.gov.au) or they can be purchased through The Queensland Government Bookshop, individually or as a set. Please phone (07) 3883 8700 (1800 801 123 for callers outside of Brisbane).

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**Queensland**  
Government

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# **STATE BUDGET**

## **2009-10**

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**BUDGET STRATEGY AND  
OUTLOOK**

Budget Paper No. 2

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# 1 OVERVIEW – MEDIUM TERM FISCAL STRATEGY

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Framing a budget in an environment of falling revenues and continuing uncertainty is challenging. Queensland, like other economies around the world and in Australia, has been significantly impacted by the global economic downturn. Since the 2008-09 Budget, this downturn has stripped \$15 billion off the forward estimates of the State's key revenue streams of royalties, taxes and GST. Understandably this has had a significantly negative impact on Queensland's operating position, with the State forecasting deficits across each of the Budget and forward estimate years.

While current economic conditions prevail, the Queensland Government's objective is to continue to invest in infrastructure to sustain jobs. The 2009-10 Budget does this with a projected 2009-10 capital program of \$18.2 billion which is forecast to support 127,000 full-time jobs.

However, the Government also recognises the need to ensure the health of the Queensland economy in the medium and longer term and is cognisant of the part played by sound financial management and fiscal sustainability in supporting this growth. As a result, the Government has implemented a number of measures that are aimed at improving Queensland's fiscal position. Key initiatives in this Budget include:

- revised fiscal principles including a commitment to return to surplus
- abolition of the Queensland Fuel Subsidy Scheme
- further public sector efficiency measures which leverage off savings from the recent machinery of government changes
- reform to local government grants and subsidy programs
- revision to the Government's wages policy
- changes to procurement policy
- a comprehensive program of asset sales.

These are in addition to the following measures, announced since the 2008-09 Budget:

- Government-owned corporation reform
- closure of the defined benefits scheme
- taxation measures announced in December 2008.

The total value of these initiatives, excluding asset sales, is around \$5.4 billion over four years.

## FISCAL STRATEGY

### Revised fiscal principles

The unprecedented economic and financial conditions arising from the global financial crisis have had significant adverse effects on the State's financial position. In this environment, the Government has adopted a new fiscal strategy, setting out how it will restore Queensland's traditionally strong financial position, while maintaining services and continuing to deliver its commitments to the community.

To ensure the fiscal strategy is transparent and credible, the Government introduced the *Financial Accountability Act 2009* which, among other things, requires the Treasurer to prepare and table in the Legislative Assembly a *Charter of Fiscal Responsibility* giving details of the Government's fiscal objectives and the fiscal principles that support those objectives.

The Treasurer must report regularly to the Legislative Assembly on progress the Government has made against the outcomes stated in the Charter. This report will be tabled and published each year in the Budget papers, Mid Year Fiscal and Economic Review and Report on State Finances.

The fiscal principles of the Queensland Government are broadly based around three themes: fiscal sustainability; a competitive tax regime; and managing the State's balance sheet.

Since the 2008-09 Budget, the Queensland Government has taken a number of measures, totalling some \$5.4 billion over four years, to improve the State's financial position, including measures to reduce:

- the operating deficit, such as abolition of the fuel subsidy scheme, improving the efficiency of public sector service delivery and increasing revenue; and
- the level of debt, such as asset sales.

In addition to these measures, the wages policy for public sector employees will restrict expenditure growth, particularly in the years beyond the forward estimates.



## ***Fiscal sustainability***

Governments must balance the cost of their activities with the revenues raised by taxation, royalties and income from business activities. It is not sustainable for governments to borrow to fund recurrent expenses, as the resultant interest costs and repayment of debt will be borne by future taxpayers, at the expense of other government services or through higher taxes.

On the other hand, capital investment benefits users and society more generally over the life of the asset. It is therefore appropriate to borrow to fund capital investment, so that the costs of the investment are paid over the same time frame as the benefits that are realised.

### **Principle**

In the General Government sector, meet all operating expenses from operating revenue (where operating revenue is defined as total revenue from transactions and operating expenses are defined as total expenses from transactions less depreciation).

In this financial environment, fiscal discipline is important. Until it achieves an operating surplus, growth in state own purpose expenses (that is, excluding Commonwealth related expenses) will be limited to inflation and population growth. This is projected to be 4.75% in 2009-10.

### **Principle**

Growth in own-purpose expenses in the General Government sector to not exceed real per capita growth.

The approach to expenses growth, together with the impact of the large asset sale program not yet factored into the forward estimates, is aimed at achieving a net operating surplus in the General Government sector by 2015-16 and, depending on the strength of the recovery, possibly sooner.

Further details on expenses projections are contained in Chapter 7.

### **Principle**

Achieve a General Government net operating surplus as soon as possible, but no later than 2015-16.

## ***Competitive tax regime***

One of the Queensland Government's key fiscal objectives is to maintain a competitive tax environment. While the Government will raise sufficient revenue to meet the service and infrastructure needs of the people of Queensland, it is important that business has a low cost environment, to promote economic development and jobs growth.

### **Principle**

Maintain a competitive tax environment for business.

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

- taxation revenue on a per capita basis
- taxation effort as assessed by the Commonwealth Grants Commission
- taxation revenue expressed as a percentage of gross state product (GSP).

Queensland's competitive tax position is confirmed on all three measures:

- per capita tax collections in Queensland in 2009-10 are estimated at \$2,087, compared with an estimated \$2,487 for the average of the other states
- Commonwealth Grants Commission data indicate that Queensland's taxation effort ratio was 85.6% of the standard for all states in 2007-08
- Queensland's tax collections were 4.46% of GSP in 2007-08, compared to 4.75% for the average of the other states.

The 2009-10 Budget and the Mid Year Fiscal and Economic Review include changes to transfer duty, payroll tax, land tax, casino taxes and motor vehicle registration fees. Details of these changes and other revenue items are provided in Chapter 6.

## ***Managing the State's balance sheet***

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

As discussed above, Queensland funds its capital program primarily through borrowing, recognising the interest, operating and depreciation costs on the operating statement. It will also be necessary to borrow to fund operating deficits. While the balance sheet of the Queensland Government remains strong, the increased borrowing, coupled with a significant fall in revenue arising as a result of the global financial crisis has led to an increase in the ratio of net financial liabilities<sup>1</sup> to revenue, which is a measure used by financial markets to assess financial sustainability.

This ratio is expected to be 117% at the end of the 2009-10 financial year and to stabilise at below 130% after completion of the asset sales program.

### **Principle**

Stabilise net financial liabilities as a proportion of revenue in the Non-financial Public sector.

Queensland has a long history of setting aside funds to accumulate financial assets sufficient to meet future liabilities, the largest being for future employee entitlements, in particular superannuation. Queensland is therefore far better placed than other state governments to meet future accruing liabilities, as most other jurisdictions have substantial unfunded superannuation liabilities.

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

### **Principle**

Target full funding of long-term liabilities such as superannuation in accordance with actuarial advice.

Further information on balance sheet aggregates can be found in Chapter 8.

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<sup>1</sup> Net financial liabilities in this context is the term used by Standard & Poor's ratings agency and differs from that used in the Uniform Presentation Framework tables in Chapter 10.

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

Principle	Indicator		
Fiscal sustainability			
In the General Government sector, meet all operating expenses from operating revenue  (where operating revenue is defined as total revenue from transactions and operating expenses are defined as total expenses from transactions less depreciation)		Operating Revenue <sup>1</sup> (\$ million)	Operating expenses less depreciation (\$ million)
	2009 10	37,192	36,373
	2010 11	37,029	37,444
	2011 12	38,100	38,930
	2012 13	40,431	40,327
	Growth in:	Own purpose expense <sup>2</sup>	Inflation plus population
Growth in own purpose expenses in the General Government sector to not exceed real per capita growth	2009 10	5.04%	4.75%
	2010 11	4.63%	4.50%
	2011 12	3.85%	4.50%
	2012 13	3.67%	4.75%
	Avg over FEs	4.30%	4.63%
	Net operating balance (\$ million)		
Achieve a General Government net operating surplus as soon as possible, but no later than 2015 16	2009 10		(1,954)
	2010 11		(3,459)
	2011 12		(4,090)
	2012 13		(3,290)
Competitive tax regime			
	Taxation revenue per capita, 2009 10		
Maintain a competitive tax environment for business	Queensland:		\$2,087
	Average of other states and territories:		\$2,487
Managing the State's balance sheet			
	Net Financial Liabilities/Revenue Non financial Public Sector		
		Before asset sales	After asset sales
Stabilise net financial liabilities as a proportion of revenue in the Non Financial Public Sector	2009 10	117%	116%
	2010 11	141%	128%
	2011 12	154%	125%
	2012 13	156%	130%
Target full funding of long term liabilities such as superannuation in accordance with actuarial advice	As at last actuarial review (released June 2008), accruing superannuation liabilities were fully funded. The State Actuary reviews the scheme every 3 years.		
Notes:			
1. The reduction in revenue in 2010-11 reflects additional Australian Government funding in 2009-10 associated with initiatives such as the <i>Nation Building and Jobs Plan</i> .			
2. Superannuation interest costs have been normalised to reflect the assumed long run rate of return.			

## **Abolition of the Queensland Fuel Subsidy Scheme**

The Government has decided to cease the Queensland Fuel Subsidy Scheme from 1 July 2009, saving around \$2.4 billion over the next four years.

There are several compelling reasons to now abolish the fuel subsidy.

- The State's fiscal position makes the retention of the fuel subsidy scheme unsustainable. The Government would be required to borrow to continue to fund the fuel subsidy. To borrow for this purpose would run counter to the principle of intergenerational equity, as future generations would be required to fund the services consumed today.
- The Queensland Fuel Subsidy Scheme does not represent value for money to Queensland taxpayers. The scheme currently benefits interstate consumers and businesses purchasing retail fuel in Queensland or establishing a bulk end user fuel storage site in the State. The Pincus Inquiry into the effectiveness of the scheme, found that much of the diesel sold for commercial purposes is consumed outside the State. It also found that there was no practical way of preventing interstate businesses from benefiting from the fuel subsidy other than by abolishing it.
- The Pincus Inquiry recommended that the scheme be abolished if Government could not find a way to ensure the subsidy was being passed on. Evidence given to the Inquiry and an opinion from the Solicitor-General concluded that there is no perfect system to ensure that the subsidy is fully passed on. None of the submissions to the Inquiry or during public consultation identified workable options for improvement.

Further details on the cessation of the Queensland Fuel Subsidy Scheme can be found in Budget Paper 4 - Measures.

## **Further public sector efficiency measures**

In the 2008-09 Budget, the Queensland Government announced a public sector efficiency target of \$60 million in 2008-09, growing to \$80 million from 2009-10. Given the savings to be derived from the recently announced machinery of government reforms as well as the savings being realised through efficiency and productivity improvements in the areas of corporate overheads, travel, publication, marketing and communication costs, these targets have been increased to a total of \$280 million per year from 2009-10. These savings targets will not impact on front line service delivery.

## **Reform to local government grants and subsidy programs**

In 2006-07, the Government announced a program of \$700 million over five years for a suite of grants and subsidy programs to support local government to deliver the infrastructure for which they are responsible. To date, projects with a total subsidy value of \$880.5 million have been approved for construction. Of this total, \$388.5 million has already been paid to local governments.

Given the potential for efficiencies and savings being delivered through the Local Government Reform Program and the significant increase in grant and subsidy funding, the Government reviewed ongoing arrangements for funding of local government infrastructure.

As a result, the Government has decided to overhaul the current suite of local government grant and subsidy programs. The current programs will cease on 16 June 2009. Existing approved commitments will be met, subject to claims being lodged a maximum of three years from the date the application was approved.

Subsidy payments to local governments for street lighting will also cease. These funds are being redirected towards the increased funds allocated to the Pensioner Electricity Rebate Scheme.

A new \$45 million per annum local government infrastructure program will be introduced which will be more targeted. Through introducing revised funding criteria, the Government will ensure that subsidies are delivered to those councils and communities that have infrastructure projects that are ready to be delivered and do not have the financial capability to deliver the projects without assistance.

The \$2 million annual show subsidy scheme administered by the Department of Infrastructure and Planning will continue.

## **Taxation measures**

As a result of tight fiscal conditions brought about by the downturn in the global economy, the Queensland Government has decided to implement a number of taxation measures to enable it to continue to fund services to the community and maintain the capital program.

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

The Government will increase motor vehicle registration fees commencing 1 July 2009. These increases were detailed in the Mid Year Fiscal and Economic Review which, in addition, stated motor vehicle registration costs from 1 July 2009 will incorporate adjustments for the Consumer Price Index and changes to Compulsory Third Party premiums.

Further detail on this initiative can be found in Budget Paper 4 – Measures and the Mid Year Fiscal and Economic Review.

### ***Delay in abolition of transfer duty on core business assets***

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

Following the review of duties listed in the IGA, a timetable for the abolition of the majority of these duties was announced in the 2005-06 Budget.

To date, the Government has completed all of the duty abolitions listed in this timetable in accordance with the timeframes agreed under the scheduled.

It was intended to halve duty on the transfer of core business assets from 1 July 2010, with full abolition from 1 January 2011. The 2008-09 Mid Year Fiscal and Economic Review extended this timeframe to 1 July 2012.

In light of the tight fiscal conditions, the abolition of this duty will now occur by 1 July 2013, in accordance with the timeframe included in the new *Intergovernmental Agreement on Federal Financial Relations*.

## **Casino gaming machines**

In order to reduce the disparity that exists between the tax rates applicable to gaming machines in casinos and those applicable to large clubs and hotels, the tax rate on gaming machine win on casino gaming machines will increase by 10% from 1 July 2009, to 20% at the Breakwater Island (Jupiters Townsville) and Reef (Cairns) casinos and from 20% to 30% at the Conrad Jupiters (Gold Coast) and Conrad International Treasury (Brisbane) casinos. At the same time, the concessional tax rate applicable to premium play at the Breakwater Island and Reef casinos will be removed. This initiative was announced in the Mid Year Fiscal and Economic Review.

## **Land tax**

As announced in the Mid Year Fiscal and Economic Review, from 1 July 2009, a 0.5% surcharge will apply where the aggregate value of all land (for land tax purposes) exceeds \$5 million. The surcharge will apply only to the portion of the value exceeding \$5 million. The surcharge is estimated to apply to around 2,000 of Queensland's 53,000 land tax payers (around 3.7%).

Further details on this initiative can be found in Budget Paper 4 – Measures and the Mid Year Fiscal and Economic Review.

## **Wages policy**

The Government is committed to maintaining wage increases as prescribed in the Memorandum of Understanding (MOU) with unions for all agreements covered by the MOU.

All other agreements that have expired or are due to expire by 31 December 2009, will have until 1 September 2009 to reach an agreement. Where an agreement is not reached by this date, and for agreements expiring after 31 December 2009, a new Government wages policy will apply which limits wage increases to 2.5% per annum until the Budget returns to surplus. The new policy will apply to Chief Executives, Senior Executives and Senior Officers and their equivalents from 1 July 2009.

## **Changes to procurement policy**

The Government considers a range of procurement options for delivery of major capital projects, including construct-only; design and construct; design, construct and maintain; alliance contracting; managing contractor model; public-private partnerships; and hybrid delivery models. To achieve optimal project outcomes, the procurement approach must be appropriate for the risks and issues each project is likely to face in practice.



In recent years, alliance contracting, where Government and its alliance partners share the risks and responsibilities in delivery the construction phase of a project, has featured significantly in certain areas of infrastructure delivery. While the Government will continue to consider alliance contracting where appropriate, in selecting procurement approaches for each major project, the Government will be particularly focused on driving competitive, value for money project delivery outcomes which reflect current market conditions.

## **Government-owned corporation reform**

As outlined in the Mid Year Fiscal and Economic Review, the Government has been working with its Government-owned corporations (GOCs) to improve their efficiency, effectiveness and accountability. The aim has been to provide GOCs with appropriate organisational structures and incentive frameworks to allow them to operate to their full commercial potential.

More information on this initiative can be found in the Mid Year Fiscal and Economic Review and in Chapter 5.

## **Closure of the defined benefit scheme**

Earlier this financial year the Government announced the closure of QSuper's defined benefit account to new members, effective from the date of announcement.

Before the closure of the scheme, Queensland was the only Government in Australia that still had a broad based, open defined benefit scheme. Other states and the Commonwealth all stopped offering defined benefit schemes over the past 15 years.

This action was taken to protect the current entitlements of existing defined benefit members and to ensure that the scheme's liabilities are not exposed to risks that flow from the decline in global equity markets.

## **Asset sales**

In order to protect the State's capital program while maintaining a prudent fiscal approach, the Government announced, on 2 June 2009, a significant infrastructure assets reform and sale program.

This program will involve:

- the sale of Forestry Plantations Queensland's softwood business and possibly its hardwood plantations
- the sale of Queensland Motorways Limited's (QML) business, incorporating a major upgrade of the Port of Brisbane Motorway
- the sale of the Port of Brisbane Corporation Limited's (PBC) business and assets
- the sale of QR Limited's (QR) above and below rail coal businesses and assets, along with Ports Corporation of Queensland Limited's Abbot Point Coal Terminal
- the intention to instigate negotiations with the Australian Government over the potential sale of other parts of QR's below rail network to the Australian Government-owned Australian Rail Track Corporation
- investigating options for the most appropriate way to offer the sale of Queensland Rail's bulk freight, intermodal, retail and regional freight services to the market.

In recognition of the complexity of the process and the need to undertake detailed planning in relation to appropriate sale structures, the Government envisages that the sales will be progressed in the market over the next three to five years. The sale program will deliver an estimated \$15 billion in sale proceeds, and result in approximately \$12 billion in required capital investment over the next five years being avoided. The staging of the asset sales will be influenced by the timing of the recovery in financial markets. The impact of the asset sales has not been factored into the Budget estimates.

## ***Economic impact***

The Government recognises the need to ensure that the Queensland economy emerges from the current economic conditions in a strong position to drive the future growth and job creation opportunities for both the State and national economies.

In this regard, the asset sales program has a strong export focus. The sale of QR's coal businesses provides an opportunity to further integrate coal export chains. The inclusion of Abbot Point Coal Terminal in the sales package is expected to further facilitate the integration of rail-to-port networks, and ensure that the objectives of port and rail infrastructure providers are more closely aligned.

Similar opportunities exist in relation to export infrastructure in South East Queensland. The sale of PBC, in conjunction with QML, the operator of key road infrastructure servicing the Port of Brisbane and the southern Queensland road network more generally, is expected to facilitate the development of both the Port of Brisbane and surrounding infrastructure.

In combination, the asset sales package is designed to encourage the private sector to play a more active role in providing and funding the key economic infrastructure which is essential in promoting economic growth.

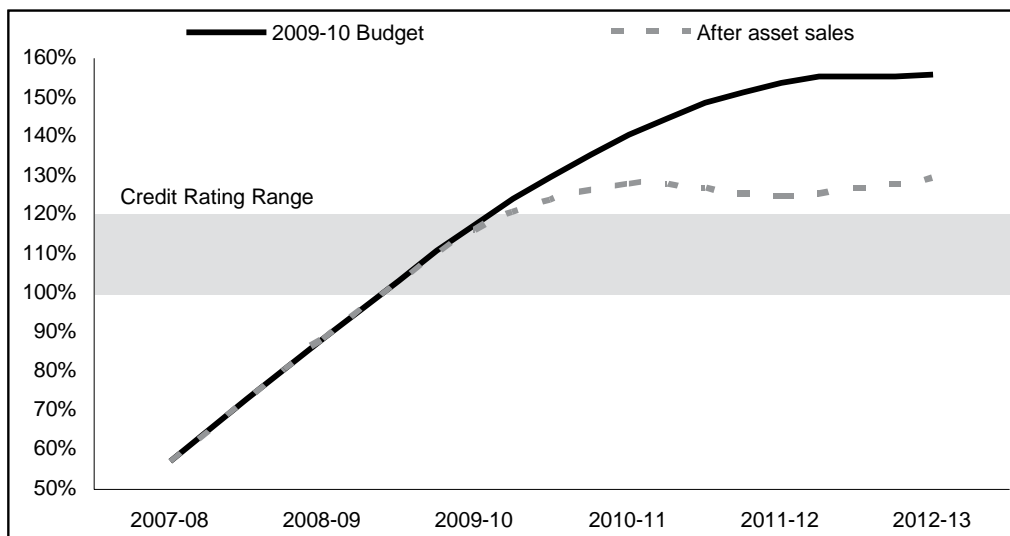
### ***Financial considerations***

The 2009-10 Budget focuses on supporting the continued delivery of key public infrastructure such as schools, hospitals and public transport, and the delivery of public services through these facilities.

The Government expects to forgo dividends and tax equivalent payments as a result of the asset sales. However, interest savings on sale proceeds and the additional capital expenditure of \$12 billion avoided as a result of the sales will benefit the Budget.

The following chart shows, on balance, the overall favourable impact the expected sale proceeds will have on one of the key credit rating ratios (net financial liabilities to revenue), after accounting for forgone revenue. Chart 1.1 indicates that the ratio stabilises at below 130% following these asset sales.

**Chart 1.1**  
**Net financial liabilities to revenue ratio, before and after asset sales**



**Notes:**

1. The figures in this chart assume the sales are completed by 2012-13.
2. Based on a broad range for AAA rated states.

The program of asset sales will play an important role in funding the Government's infrastructure program, reducing State debt and encouraging private sector provision of infrastructure. The sales are designed to realise value, reduce risk and obviate the need to further fund the significant ongoing capital requirements of these businesses, where the private sector can fund those requirements.

This will go a long way toward reducing the current level of indebtedness of the State and demonstrate to ratings agencies and financial markets the Government's willingness to reduce debt and return the State to a solid fiscal position. Post the current forward estimates, when the worst of the global economic crisis has passed, the Queensland Government will reduce the capital program to levels under \$10 billion per year and look at further policy measures to improve revenue and reduce expenditure to assist in bringing the net financial liabilities to revenue ratio back within a range comparable to other larger states.

Further detail about the restructuring and disposal processes is provided in Chapter 5.

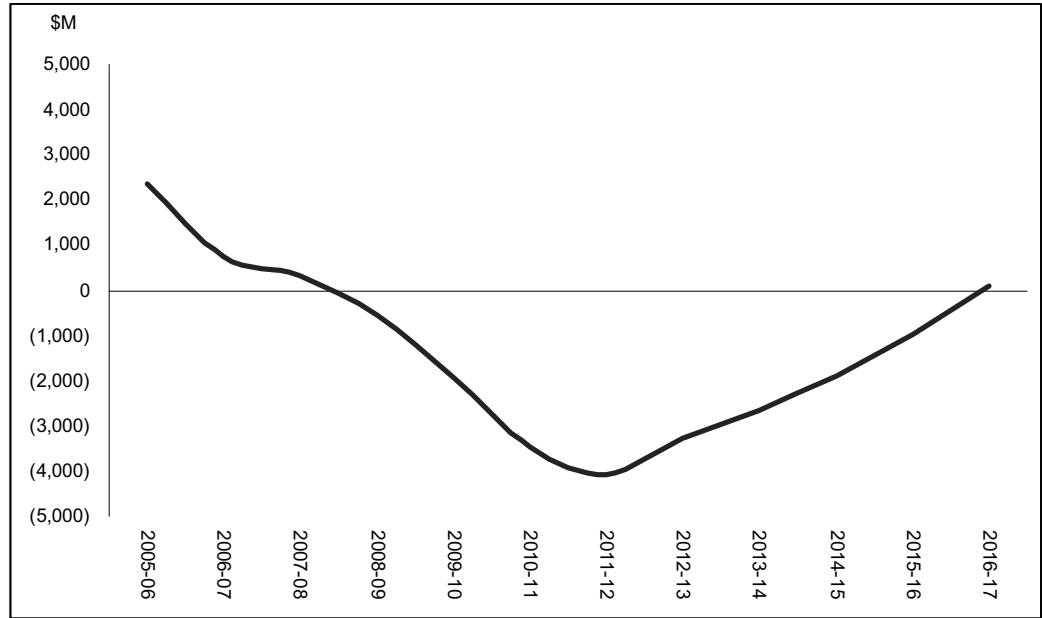
# PATH BACK TO SURPLUS

Returning the Budget to surplus is a key element of the Government’s revised fiscal principles. A return to surplus depends on economic and population growth in the State as well as on the policy decisions of Government.

The revised fiscal principle relating to the General Government net operating balance requires the Government to achieve a General Government net operating surplus as soon as possible, but no later than 2015-16. While Chart 1.2 below notionally indicates a deficit position for Queensland until 2016-17 (a year after the Australian Government has forecast to return to surplus), it is expected that the significant program of asset sales, which are not factored into the forward estimates, will make a positive contribution to the General Government sector and will assist in meeting this fiscal principle.

There also remains a high degree of uncertainty about the pace and path of recovery. Queensland’s assumptions are for continuing deterioration in the fiscal position for a number of years before recovery in the final years of the forward estimates. While it is possible that the economy and hence fiscal position will deteriorate more dramatically than indicated in the chart below, Queensland’s revenue estimates are more conservative than those used by other Australian states. This provides Queensland with more upside should the turnaround occur earlier or more favourably than anticipated.

**Chart 1.2**  
**General Government Sector Net Operating Balance, 2005-06 to 2016-17**



## 2 ECONOMIC PERFORMANCE AND OUTLOOK

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### FEATURES

- The global economy is experiencing its most severe financial crisis since the 1930s, with global GDP now widely expected to contract in 2009 for the first time in 60 years. Economic activity in Queensland's major trading partners is expected to decline by 3% this calendar year.
- As a result, economic growth in Queensland is estimated to slow to  $\frac{1}{2}\%$  in 2008-09, with the economy forecast to contract marginally, by  $\frac{1}{4}\%$ , in 2009-10. In addition to a decline in exports, growth in consumption is forecast to ease due to lower household wealth. High interest rates for much of 2008, as well as weak investor confidence, are also forecast to lower dwelling investment.
- The slight fall in economic activity in 2009-10 reflects a peaking in the private investment cycle. After tripling over the past eight years, business investment is forecast to fall 17% in 2009-10, largely due to a scaling back in commercial and mining construction. Partly offsetting this, public infrastructure spending is forecast to rise sharply, reflecting State and Federal Government initiatives.
- Growth is forecast to return in 2010-11, albeit to a modest  $2\frac{3}{4}\%$ . This would represent the third successive year of below-trend growth, as a slow global recovery initially tempers an upturn in exports. Growth in consumer spending is forecast to improve, as balance sheets are strengthened, while solid population growth should eventually drive a sharp rise in housing investment.
- Benefiting from significant investment in capacity in previous years, economic growth is projected to accelerate to  $4\frac{1}{2}\%$  in 2011-12 and reach its decade average of  $4\frac{3}{4}\%$  in 2012-13, as the global economic recovery gathers pace.
- In line with subdued economic activity, employment is forecast to fall  $\frac{3}{4}\%$  in 2009-10 and recover by  $1\frac{1}{4}\%$  in 2010-11. With labour force growth forecast to continue to exceed jobs growth, the year-average unemployment rate is forecast to rise to  $6\frac{1}{2}\%$  in 2009-10 and peak at  $7\frac{1}{4}\%$  in 2010-11.

This chapter presents the economic context within which the 2009-10 State Budget has been prepared. It overviews developments in Queensland's external environment in light of the financial crisis, including the contraction now expected in major trading partner economies and the national outlook. The chapter summarises the economic performance of, and outlook for, Queensland over 2008-09 to 2012-13, and provides detailed estimates for 2008-09 and forecasts for sectors of the economy in 2009-10. In line with the Australian Government, the chapter for the first time provides forecasts for an additional year, detailing the drivers of the economic recovery in 2010-11. The chapter also outlines key risks to economic growth over the forecast period.

## EXTERNAL ENVIRONMENT

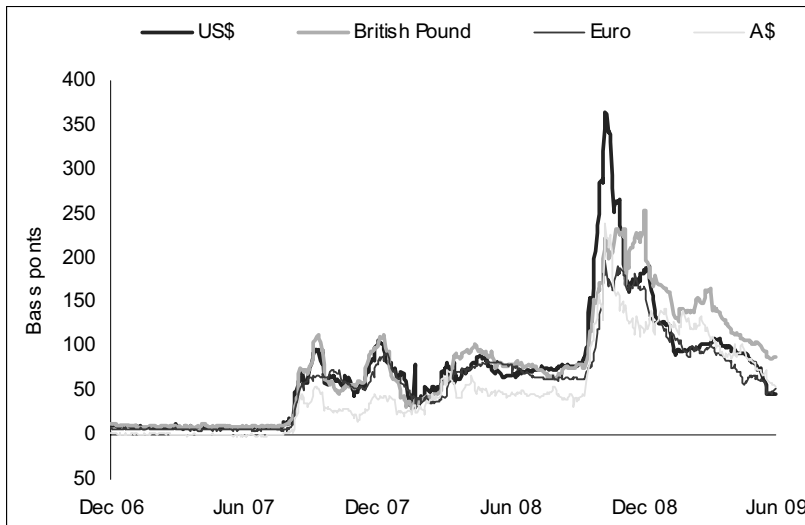
### International conditions

The global economy is experiencing its most severe financial crisis since the 1930s. This has undermined activity throughout developed and developing economies with such severity and synchronicity that global gross domestic product (GDP) in 2009 is now widely expected to contract for the first time in 60 years. A negative feedback loop between credit markets and global economic activity is also evolving, raising considerable uncertainty regarding the depth of the recession, as well as the timing of an eventual recovery.

The global financial crisis intensified from mid-September 2008, when investment bank Lehman Brothers filed for bankruptcy. This led to a rapid escalation in perceived counterparty risk and thus a reluctance by the financial sector to lend funds. As a result, interbank interest rate spreads widened from already-elevated levels (see Chart 2.1). These developments also prompted an acute deterioration in consumer and business sentiment, as well as significant falls in equity and commodity prices.

Financial market conditions, equity values and commodity prices have all recovered somewhat since late 2008, aided by various policy responses from governments and central banks. However, ongoing concerns about further write downs across the banking sector and a deteriorating economic outlook continue to impair credit markets and overall sentiment. In its April 2009 *Global Financial Stability Report*, the International Monetary Fund (IMF) estimated total write downs to reach US\$4.1 trillion, of which approximately US\$1.9 trillion were yet to be realised by banks, while in its latest *World Economic Outlook*, the IMF forecast the global economy to contract 1.3% in 2009.

**Chart 2.1**  
**Interbank interest rate spreads<sup>1</sup>**



Note:

1. Three month London Interbank Offered Rate less three month Overnight Indexed Swap rate.

Sources: Reuters, Bloomberg and Queensland Treasury.

A subdued outlook, combined with funding constraints, has led businesses globally to cut investment, run down inventories and scale down operations. This has been most pronounced in advanced economies in Europe and Asia. Industrial production over the year to April 2009 fell by more than 30% in Japan, around 20% in Taiwan, Germany and Spain and around 10% in the US and Korea, while over the year to March 2009, industrial production fell more than 20% in Italy and more than 10% in the UK.

Lower industrial activity in advanced economies has also affected large commodity exporters, with reduced demand suppressing both export volumes and prices. The resulting sharp contraction in international trade is widely expected to persist this year, with the IMF forecasting export volumes from developed and developing economies to fall 13.5% and 6.4% respectively in 2009.

Household wealth has fallen in many economies due to lower equity and house prices, while a deteriorating labour market has reduced job security, undermining sentiment and spending. As at early June 2009, stock markets in the US and UK remained 40% and 35% below their 2007 highs respectively, while house prices in these countries have fallen 31% and 18% from their peak. The US unemployment rate has risen from 4.4% in early 2007 to 9.4% in May 2009, while the IMF forecasts the average unemployment rate of advanced economies to rise 2.3 percentage points to 8.1% in 2009, and to 9.2% in 2010.



Queensland's major trading partners' GDP is forecast to contract by 3% in 2009, larger than the fall in world GDP expected by the IMF (see Table 2.1). This is partly due to the recession in Japan, which accounts for a larger share of the State's exports relative to its weight in global GDP. Reflecting a reliance on export-led growth, Japan's economy contracted by a record 3.8% in March quarter 2009, or by 8.4% over the year, while the Korean economy has shrunk by 5.0% since September quarter 2008. The US economy contracted by 3.1% over the two quarters to March quarter 2009, its largest six-month fall since 1958, while Eurozone GDP declined by a record 2.5% last quarter.

<b>Table 2.1</b> <b>Queensland major trading partner GDP outlook</b> <b>(annual % change)</b>						
	Actual 2008	Forecasts				
		2009	2010	2011	2012	2013
World <sup>1</sup>	3.2	-1.3	1.9	4.3	4.8	4.9
Major trading partners <sup>2</sup>	2	-3	1½	3¼	4½	4½
Non-Japan Asia <sup>3</sup>	4¼	-¾	3	5¾	6¼	6¼
Japan	-¾	-6¼	½	2¼	3¼	2¾
Europe <sup>4</sup>	1	-4¼	-½	1½	2¼	2¼
US	1	-2¾	0	3½	3¾	3¼
<b>Notes:</b> 1. Sourced from the April 2009 IMF <i>World Economic Outlook</i> database. World GDP comprises 173 countries, weighted by purchasing-power-parity (PPP) GDP. 2. Queensland's major trading partner output comprises 31 countries, weighted by their share of merchandise exports in the three years to 2007-08. Forecasts are sourced from IMF. 3. Includes New Zealand. 4. Includes United Kingdom. <i>Sources: International Monetary Fund and Queensland Treasury.</i>						

A distinguishing characteristic of the current global recession compared with previous downturns has been the scale of wealth destruction caused by the financial crisis. This has seen a broad-based shift in consumer and business priorities toward repairing balance sheets. This de-leveraging process remains incomplete and is likely to prolong the current downturn, despite numerous monetary and fiscal policy efforts to stimulate activity and relieve credit market stresses.

Given a prerequisite for a sustainable economic recovery is the restoration of stability in the global financial system, substantial efforts have been made to increase liquidity, reduce borrowing costs and recapitalise the banking sector. Easing global inflation, as a result of lower commodity prices and excess capacity, has enabled central banks to loosen monetary policy considerably. Official interest rates are now at or near record lows in the US, Japan, UK and Eurozone. More unconventional efforts to promote financial stability have been adopted, including quantitative or credit easing by the US and UK central banks, as well as the US Treasury's *Troubled Asset Relief Program*. Moreover, numerous governments have provided guarantees on private sector borrowing and purchased 'toxic' assets from the banking sector. Such efforts should help normalise financial markets, restore sentiment and stabilise economic activity by late 2009. As a result, global economic growth is forecast to re-emerge in the first half of 2010.

However, growth is forecast to be relatively more subdued compared with previous recoveries. Recoveries from recessions caused by financial crises tend to be weaker, given the protracted nature of the private sector de-leveraging process. The highly synchronised nature of the current global recession also reduces prospects for an export-led recovery. The cost of credit is likely to remain higher, and availability more restricted, than in the years preceding the crisis, reflecting a more rational pricing of risk. Further, current private sector de-leveraging will eventually transfer to the public sector. With governments globally becoming more indebted from necessary fiscal expansion and a deteriorating revenue base, public sector spending is unlikely to contribute as significantly to economic growth after the recession ends. Consequently, Queensland's major trading partner economies are expected to expand at a below trend rate of 1½% in 2010, with the peak in their combined economic output achieved in June quarter 2008 not expected to be reached again before the second half of 2011.

## **Australian economy**

Reflecting the impact of the global recession on business confidence and export demand, the Australian Government forecasts GDP to be unchanged in 2008-09 and fall ½% in 2009-10. This would result in a recession of similar magnitude to that of the early 1990s (see Chart 2.2). The contraction in GDP in 2009-10 is expected to be driven by a sharp fall in business investment and exports, while a one-third decline in household net financial wealth in 2008 is forecast to drive a ¼% fall in household consumption.

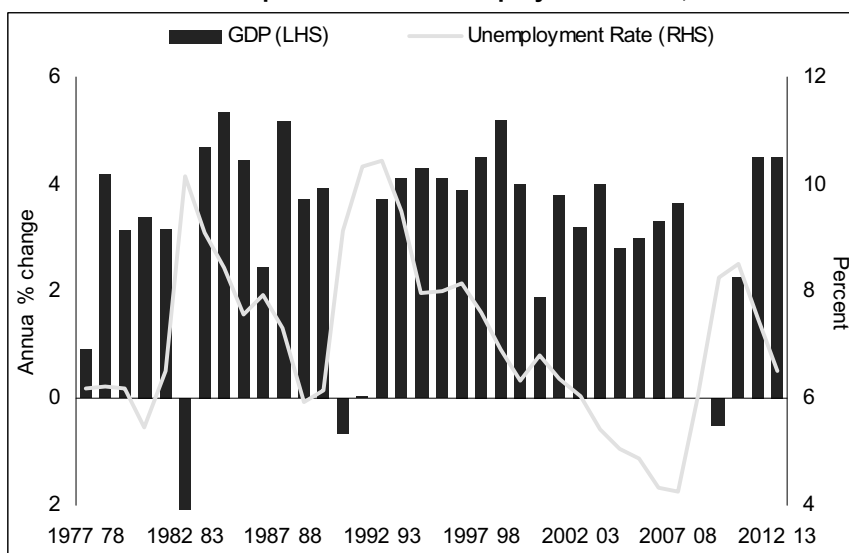
With the world economy expected to gradually recover during 2010, a turnaround in exports and strong growth in dwelling investment are anticipated to support a return to GDP growth of 2¼% in 2010-11. Households are forecast to continue to rebuild their balance sheets, resulting in below average consumption growth, while a modest recovery in business investment is based on an expectation that a number of high value resource projects scheduled to commence in 2010-11 will proceed.

Employment is forecast to contract 1½% over the year to June quarter 2010, causing the unemployment rate to rise to 8¼% in the quarter. With modest jobs growth in 2010-11 insufficient to absorb growth in the labour supply, the unemployment rate is forecast to peak at 8½% in June quarter 2011, before declining over the following two years.

In an effort to reduce the depth of the recession, the Australian Government has initiated significant fiscal stimulus measures. In particular, public investment is forecast to rise by its sharpest rate on record in 2009-10, partly reflecting the February 2009 *Nation Building and Jobs Plan* and the December 2008 *Nation Building* package. The Australian Government has estimated that in the absence of policy actions to stimulate the economy, the level of GDP would be 2¾% lower in 2009-10 and 1½% lower in 2010-11, with the unemployment rate peaking at 10%, rather than 8½%.

Looking further ahead, the Australian Government projects GDP to grow at 4½% in each of the two projection years, 2011-12 and 2012-13, above the medium term trend rate of 3%. When combined with the forecast for 2010-11, this represents only a marginally weaker three-year recovery path compared with the early 1990s recession.

**Chart 2.2**  
**Gross domestic product<sup>1,2</sup> and unemployment rate<sup>2,3</sup>, Australia**



**Notes:**

1. Chain Volume Measure (CVM), 2006 07 reference year.
2. 2008 09 is an estimated actual, 2009 10 and 2010 11 are forecasts, 2011 12 and 2012 13 are projections.
3. Unemployment rate is for the June quarter of each financial year.

Sources: ABS 5206.0, 6202.0 and Australian Government 2009 10 Budget.

# THE QUEENSLAND ECONOMY

## External forecast assumptions

Forecasts for economic growth in Queensland are based on the following assumptions about the national economy, trading partners and financial markets:

- as a whole, the economies of Queensland's major trading partners are forecast to contract by 3% in 2009, before recovering to mild growth of 1½% in 2010. Assuming some normalisation in financial markets, growth is projected to return to its long-term average of around 3¾% in 2011.
- in line with expectations in the futures market, the Australian official cash rate is assumed to fall slightly in September quarter 2009 from its current level of 3.0%, before gradually rising to 3.5% by the end of 2010-11.
- the A\$ plunged between mid-July and late November 2008, with sudden risk aversion triggering an unwinding of A\$/Yen carry trades. With some return of risk appetite, the A\$ began to partly recover from early March 2009. Given the milder downturn and less aggressive monetary easing expected in Australia relative to other economies, the A\$ is forecast to appreciate mildly over the forecast period.
- production cuts by OPEC and an assumed depreciation of the US\$ are expected to maintain oil prices close to US\$65 per barrel by June quarter 2010, before increasing to around US\$70 per barrel by June quarter 2011.
- floods and other adverse weather events in early 2009 have been factored into estimates of agricultural and tourism exports in 2008-09. Seasonal conditions are assumed to return towards normal from 2009-10 onwards.
- as outlined in the Australian Government Budget delivered on 12 May 2009, the national economic forecasts and projections, as well as stimulus measures, have been adopted as the basis for national economic performance.

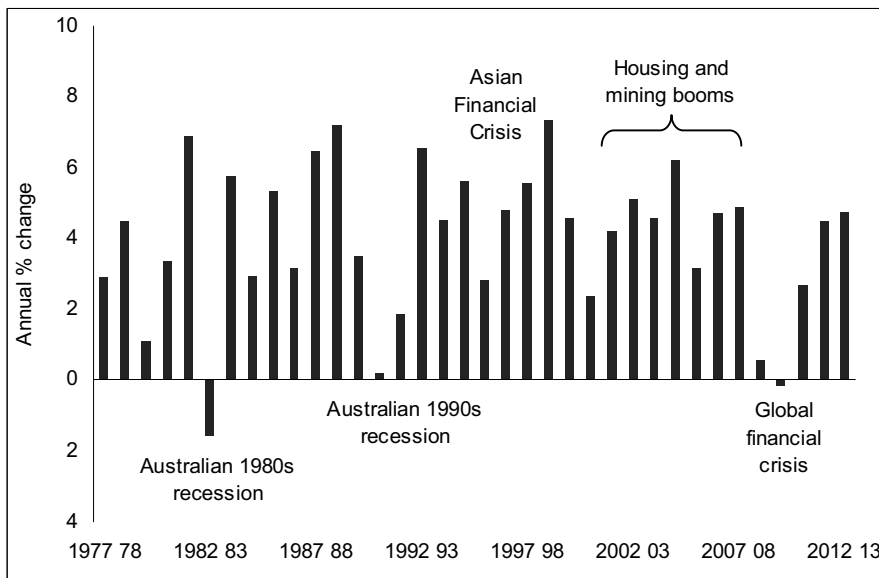
A discussion of the risks and opportunities associated with some of these assumptions is contained later in this chapter.

## Summary of economic outlook

Largely reflecting the impact of the financial crisis on household wealth, investment and exports, growth in Queensland's gross state product (GSP) is estimated to slow sharply in 2008-09, after which the economy is forecast to contract marginally in 2009-10.

However, a recovery in housing investment and confidence is forecast to see economic growth recover to 2¾% in 2010-11, which would represent the fifteenth successive year that the State economy outperforms the national average. Driven by a rebound in business investment and an acceleration in exports, State economic growth is projected to strengthen to 4¾% by 2012-13, as the global recovery gathers pace (see Chart 2.3).

**Chart 2.3**  
**Growth in Queensland's gross state product<sup>1</sup>**



Note:

1. CVM, 2006-07 reference year. 2008-09 is an estimated actual, 2009-10 and 2010-11 are forecasts and 2011-12 and 2012-13 are projections.

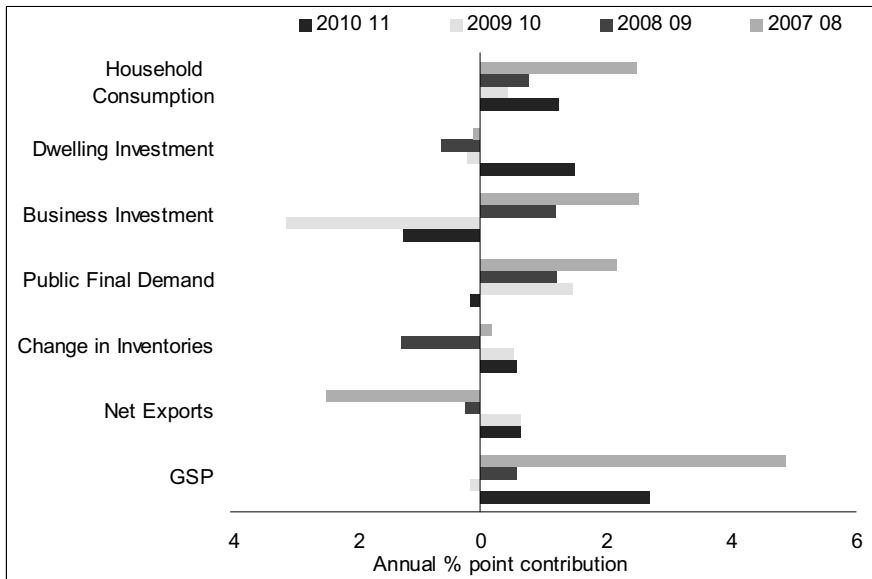
Sources: Queensland Treasury and Queensland State Accounts historical data.

Economic growth is estimated to slow to ½% in 2008-09. While interest rate cuts from late 2008 and stimulus payments have boosted disposable incomes, a fall in wealth due to lower equity and domestic house prices has seen household saving rates rise. As a result, growth in private consumption is estimated to ease to 1¼% in 2008-09. The lagged effect of high interest rates in much of 2008, combined with weak investor confidence, is also estimated to drive a 7¾% fall in dwelling investment.

Economic growth in 2008-09 is also expected to be more modest than forecast in the February 2009 Economic and Fiscal Update (EFU), with exports now expected to fall for the first time since 1989-90. Sharp cuts in global steel and industrial production have lowered mineral exports, while tourism exports have been affected by adverse weather events, swine influenza and recessions in source countries for overseas arrivals. The weakening in the economic outlook and tighter credit conditions have also caused a sharper run-down in stocks than anticipated at EFU, with this inventory adjustment now estimated to detract 1¼ percentage points from growth in 2008-09 (see Chart 2.4).

While inventories have been run down, construction activity by businesses and the public sector continued to contribute to economic growth and productive capacity in 2008-09. In particular, a large amount of commercial and resource projects still to be completed is estimated to see business investment rise a further 7% in 2008-09, to exceed \$38 billion in real terms, a level three times that recorded in 2000-01.

**Chart 2.4**  
**Contribution to growth in Queensland's gross state product<sup>1</sup>**



Note:

1. CVM, 2006 07 reference year. 2008 09 is an estimated actual, 2009 10 and 2010 11 are forecasts.

Source: Queensland Treasury.

However, largely reflecting a peaking in the investment cycle, the Queensland economy is forecast to contract in 2009-10. Business investment is forecast to fall 17%, as rising vacancy rates and limited access to funding weigh on commercial property, and the global recession causes a scaling back in mining construction. While lower interest rates and the First Home Owners Boost should see a recovery in new house construction in 2009-10, tight lending conditions are forecast to weigh on medium-to-high density construction. An ongoing adjustment to lower wealth, along with a decline in employment, is also forecast to further moderate growth in consumption. Exports are anticipated to fall again in 2009-10. A forecast 3% contraction in Queensland's major trading partner economies in 2009 is forecast to lower mineral and service exports. However, improved rainfall and water storages will boost rural exports in 2009-10.

Offsetting a fall in private investment and exports, public investment in Queensland is forecast to rise sharply in 2009-10. This reflects the State Government's own significant capital works program, in addition to spending from Australian Government infrastructure initiatives, including the *Building Australia* package and the *Nation Building and Jobs Plan*.

Economic growth in Queensland is forecast to improve in 2010-11, albeit modestly to 2¾%, representing the third successive year of below average growth. With the global recovery from the financial crisis expected to take longer than after previous downturns, this will act to initially temper growth in Queensland's exports of commodities and services. The improvement in State economic growth in 2010-11 is forecast to be driven primarily by stronger growth in consumption, after household balance sheets are strengthened and confidence recovers, as well as a 20¾% rise in dwelling investment, in response to fast population growth and a decline in housing construction in prior years.

Economic growth is projected to accelerate to 4½% in 2011-12 and strengthen further to 4¾% in 2012-13, matching its long-run rate over the decade prior to the forecast period (see Table 2.2). Benefiting from significant investment in capacity during the recent resources boom, exports growth is projected to improve considerably, as the recovery in the global economy gathers pace. In line with this, business investment is projected to resume an upward trend, as excess capacity in the economy is absorbed and stronger domestic demand improves investment returns.

With economic output forecast to decline in 2009-10 and stage a mild upturn in 2010-11, employment is forecast to fall ¾% and recover 1¼% in these respective years. As a result, population growth is forecast to exceed jobs growth, causing the year-average unemployment rate to rise to 6½% in 2009-10 and peak at 7¼% in 2010-11, the highest year-average rate since 2001-02. However, with jobs growth projected to strengthen to 2½% and 2¾% over 2011-12 and 2012-13 and to exceed population growth, the unemployment rate is expected to fall over this period.

<b>Table 2.2</b> <b>Economic forecasts/projections<sup>1</sup></b> <b>(annual % change)</b>						
	Outcome	Est. Act.	Forecasts		Projections	
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
<b>Queensland</b>						
Gross state product <sup>2</sup>	4.9	½	-¼	2¾	4½	4¾
Employment	2.4	2¼	-¾	1¼	2½	2¾
Unemployment rate	3.7	4¼	6½	7¼	6¾	6½
Inflation	4.1	3¾	2½	2½	2½	2¾
Wage Price Index	4.2	4¼	3½	3¼	3½	3¾
Population	2.4	2½	2¼	2	2	2
<b>Australia</b>						
Gross domestic product <sup>2</sup>	3.6	0	-½	2¼	4½	4½
Employment <sup>3</sup>	2.4	-¼	-1½	½	2½	2½
Unemployment rate <sup>4</sup>	4.2	6	8¼	8½	7½	6½
Inflation <sup>3</sup>	4.5	1¾	1¾	1½	2	2½
Wage Price Index <sup>3</sup>	4.1	4¼	3¾	3¼	na	na
Population	1.7	na	na	na	na	na
Notes: 1. Decimal point figures indicate an actual outcome. na indicates not available. 2. CVM, 2006 07 reference year. 3. Through the year growth to the June quarter. 4. Estimate for the June quarter. Sources: Queensland Treasury and Australian Government 2009 10 Budget.						

## Sectors of the Queensland economy

### *Household consumption*

Household consumption growth is estimated to ease to 1¼% in 2008-09, following long run average growth of 4.6% in 2007-08. Discretionary spending has been restrained by significantly lower household wealth, with equity prices halving between late 2007 and March 2009 and house prices falling since June quarter 2008 (see Chart 2.5). Spending on cars, household furnishings, hospitality, clothing and footwear (totalling one fifth of consumption) fell 5.3% in annual terms in the first three quarters of 2008-09.

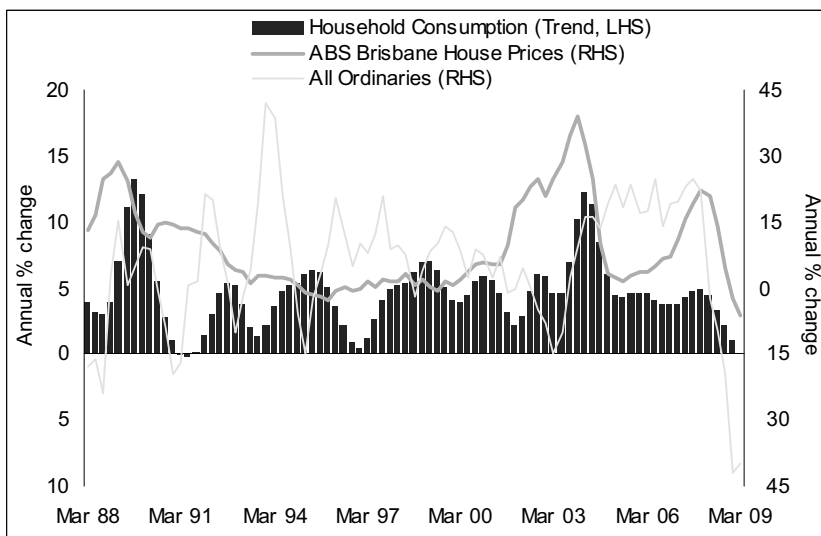
The deterioration in both the domestic and international outlook has weighed heavily on consumer confidence in 2008-09. This limited the effect of the substantial boost to household disposable incomes from lower interest rates and the Federal Government's initial fiscal stimulus, with households more inclined than usual to use additional income to save or reduce debt, rather than for consumption, particularly in late 2008.



Consumption growth is forecast to ease further in 2009-10, to  $\frac{3}{4}\%$ , its lowest rate in more than two decades. This partly reflects a continued adjustment to lower wealth, as well as the lagged impact of a decline in dwelling investment in recent years on housing related expenditure. Further, a forecast decline in employment will restrain spending over the year, through its impact on both growth in incomes and consumer confidence.

An improvement in household finances and expected recovery in confidence are forecast to strengthen spending in 2010-11. However, at  $2\frac{1}{4}\%$ , growth is forecast to remain below trend, partly due to the lagged impact of ongoing dwelling sector weakness in 2009-10.

**Chart 2.5**  
**Household consumption<sup>1</sup> and wealth, Queensland**



Note:

1. Trend, CVM, 2006 07 reference year.

Sources: ABS 6416.0, Datastream and Queensland Treasury.

**Table 2.3**  
**State and National economic forecasts<sup>1</sup>**

	Outcome	Est. Actual	Forecasts	
	2007-08	2008-09	2009-10	2010-11
	%	%	%	%
<b>Queensland forecasts</b>				
<b>Domestic production<sup>2</sup></b>				
Household consumption	4.6	1¼	¾	2¼
Private investment <sup>3,4</sup>	9.1	¼	-11½	1¾
Dwellings	-1.3	-7¾	-3	20¾
Business investment <sup>4,5</sup>	16.3	7	-17	-8¼
Other buildings and structures <sup>4</sup>	10.6	14¼	-17¾	-11
Machinery and equipment <sup>4</sup>	21.0	1¼	-16½	-6
Private final demand <sup>4</sup>	6.1	1	-3¼	2
Public final demand <sup>4</sup>	9.4	5	5¼	-½
Change in inventories <sup>6</sup>	0.2	-1¼	½	½
Gross state expenditure <sup>7</sup>	7.0	¾	-¾	2
Exports of goods and services	3.1	-2	-2¼	3
Imports of goods and services	8.8	-1	-3¼	1
Net exports <sup>6</sup>	-2.5	-¼	¾	¾
Gross state product	4.9	½	-¼	2¾
<b>Other state economic measures</b>				
Inflation	4.1	3¾	2½	2½
Wage Price Index	4.2	4¼	3½	3¼
Employment	2.4	2¼	-¾	1¼
Unemployment rate (% , year-average)	3.7	4¼	6½	7¼
Labour force	2.1	3	1¼	1¼
Participation rate (% , year-average)	67.2	67½	67¼	67
<b>National forecasts</b>				
<b>Domestic production<sup>2</sup></b>				
Household consumption	3.7	1	-¼	1¾
Private investment	na	na	na	na
Dwellings	1.6	-2½	0	11½
Business investment <sup>4,5</sup>	14.2	2½	-18½	3½
Other buildings and structures <sup>4</sup>	11.4	½	-26	3
Machinery and equipment <sup>4</sup>	16.0	3	-16½	4
Private final demand <sup>4</sup>	5.5	½	-4	2¾
Public final demand <sup>4</sup>	4.6	5	7¼	-½
Change in inventories <sup>6</sup>	0.2	-1½	¼	¾
Gross national expenditure <sup>7</sup>	5.5	¼	-1¼	2½
Exports of goods and services	4.3	-½	-4	4½
Imports of goods and services	12.9	-1½	-6½	6½
Net exports <sup>6</sup>	-1.9	¼	¾	-½
Gross domestic product	3.6	0	-½	2¼
<b>Other national economic measures</b>				
Inflation <sup>8</sup>	4.5	1¾	1¼	1½
Wage Price Index <sup>8</sup>	4.1	4¼	3¼	3¼
Employment <sup>8</sup>	2.4	-¾	-1½	½
Unemployment rate <sup>9</sup>	4.2	6	8¼	8½
Labour force	2.3	na	na	na
Participation rate <sup>9</sup>	65.5	65¼	64¾	64¼

**Notes:**

1. Unless otherwise stated, all figures are annual % changes. Decimal point figures indicate an actual outcome.  
na - Indicates not available.
2. CVM, 2006-07 reference year.
3. Private investment includes livestock, intangible fixed assets and ownership transfer costs.
4. Adjusted for second-hand asset sales between the public and private sectors.
5. National calculations of business investment include investment in livestock and intangible fixed assets, which are not included in the Queensland calculations.
6. Percentage point contribution to growth in gross state or domestic product.
7. Includes statistical discrepancy and change in inventories.
8. Through-the-year growth rate to the June quarter.
9. Estimate for the June quarter.

Sources: ABS 3101.0; 6401.0; 6345.0; 6202.0, Queensland Treasury and Australian Treasury.

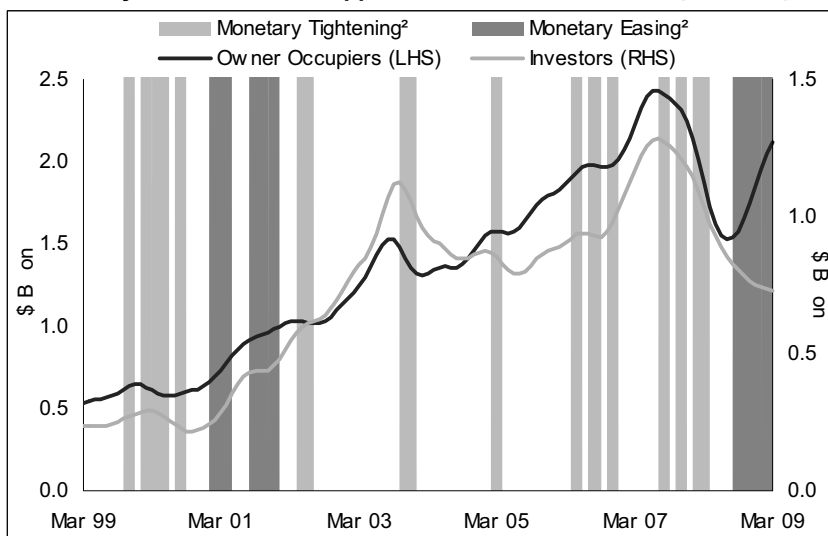
## ***Dwelling investment***

Dwelling investment is forecast to decline 7¾% in 2008-09, driven mainly by a fall in new house construction. Approvals for the construction of new houses fell at an annual rate of 36.1% in the first ten months of 2008-09, reflecting the lagged impact of restrictive interest rates in much of 2008 and weak consumer and investor confidence following the worsening in the credit crisis since September 2008. This has also coincided with a reduction in renovation activity in 2008-09. Other dwelling construction (high-rises, townhouses and duplexes) is expected to have reached a cyclical peak in early 2008-09, with a tightening in lending standards weighing on investors in particular.

While investor activity continued to decline in early 2009, Australian and State Government initiatives have strengthened first-home buyer and owner occupier activity since late 2008 (see Chart 2.6). This reflects cuts to stamp duty in September, the First Home Owners Boost in October and a fall in variable mortgage rates from an average of 9.6% in August 2008 to 5.8% in April 2009, their lowest rate since 1968.

Increased housing activity from these policy stimuli is forecast to translate into a recovery in new home construction in 2009-10. However, limited access to funding, lower expected capital gains due to a lacklustre outlook for house prices, together with significant lags associated with larger developments, suggests investment in other dwellings, particularly high-rise complexes, will fall in 2009-10. As a result, total dwelling investment is forecast to decline by a further 3% in year-average terms.

**Chart 2.6**  
**Monthly value of finance approvals<sup>1</sup> for new and existing dwellings**



**Notes:**

1. Seasonally adjusted and trended by Queensland Treasury.
2. Month in which the official cash rate increased (monetary tightening) or decreased (monetary easing).

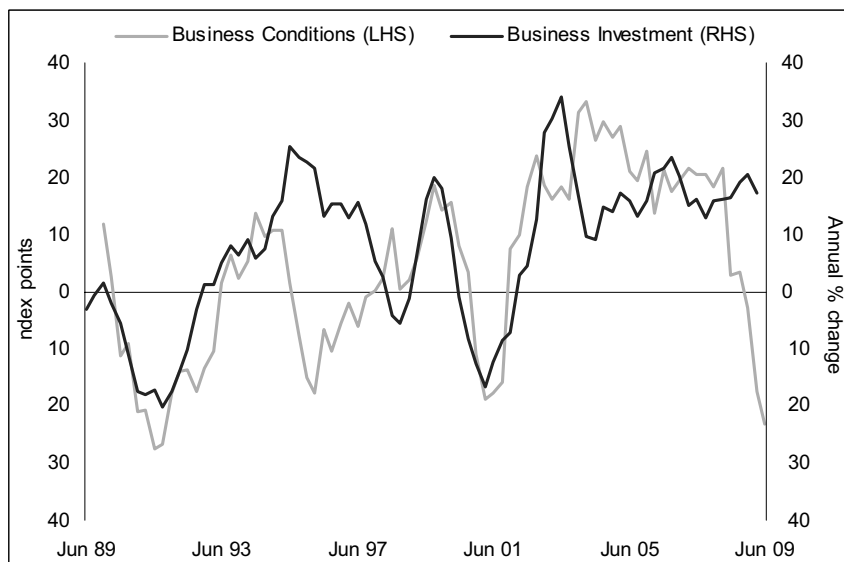
Sources: ABS 5609.0, 5671.0, RBA and Queensland Treasury.

However, dwelling investment is forecast to rebound strongly in 2010-11, rising 20¾%. Solid population growth, low interest rates and fast growth in rents, combined with the fall in construction in previous years, are expected to boost demand for new dwellings.

## **Business investment**

Business investment continued to be a key driver of economic growth in 2008-09. Despite a deterioration in the outlook over the year, a large number of projects still to be completed in the commercial, resource and infrastructure sectors is expected to support estimated growth of 14¼% in other buildings and structures investment in 2008-09. Machinery and equipment investment is expected to rise 1¼%, supported by work under construction and the Federal Government's tax incentives, but tempered by a depreciation in the A\$ between mid-July and late November 2008 (which made imported equipment more expensive). Overall, the volume of business investment is estimated to rise 7% in 2008-09 to exceed \$38 billion, a level three times that recorded in 2000-01.

**Chart 2.7**  
**Business conditions<sup>1</sup> and investment<sup>2</sup>, Queensland**



**Notes:**

1. National Australia Bank *Business Conditions Index*, seasonally adjusted by Queensland Treasury, advanced one quarter.
2. CVM, 2006 07 reference year, four quarter rolling sum. Excludes private sector net purchases of second hand public sector assets.

Sources: National Australia Bank and Queensland Treasury.

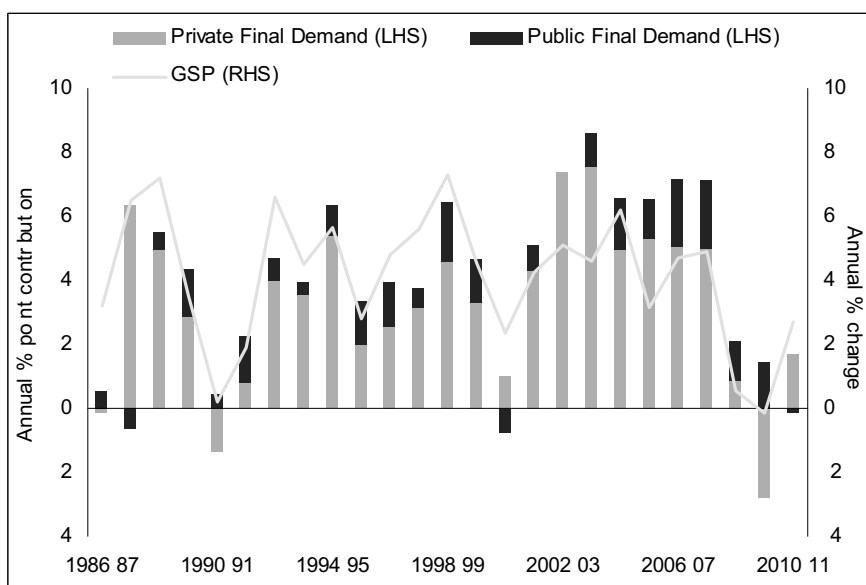
Investment is expected to peak in 2008-09, with a number of factors forecast to see businesses rein in expansion plans in 2009-10. A dramatic rise in risk aversion by both Australian and overseas lenders has limited access to funding for new projects, particularly in commercial property, while rising vacancy rates have also reduced the need for new office space. The global economic recession and decline in commodity prices has also led to the postponement or cancellation of a number of resource projects. As a result, business investment is forecast to decline 17% in 2009-10, with machinery and equipment investment anticipated to fall 16½% and other buildings and structures investment to decline 17¾%.

In line with previous recessions, business investment is forecast to continue to unwind in 2010-11, declining a further 8¼%. It is expected that the additional productive capacity created during the sustained investment boom since 2001 will take time to be absorbed, given the modest economic recovery expected globally and domestically in 2010-11.

## Public final demand

Playing a crucial role in supporting economic activity, public final demand is estimated to grow 5% in 2008-09 and forecast to rise 5¾% in 2009-10, helping to offset the decline in private demand anticipated in 2009-10. As a result, growth in public investment is forecast to contribute one percentage point to economic growth in 2009-10. This reflects the State's own significant capital program as well as infrastructure initiatives in partnership with the Australian Government.

**Chart 2.8**  
**Public and Private Demand Growth, Queensland<sup>1,2</sup>**



Note:

1. Public final demand comprises public investment plus public consumption.
2. CVM, 2006 07 reference year. Adjusted for second hand asset sales between the public and private sectors. 2008 09 is an estimated actual, 2009 10 and 2010 11 are forecasts.

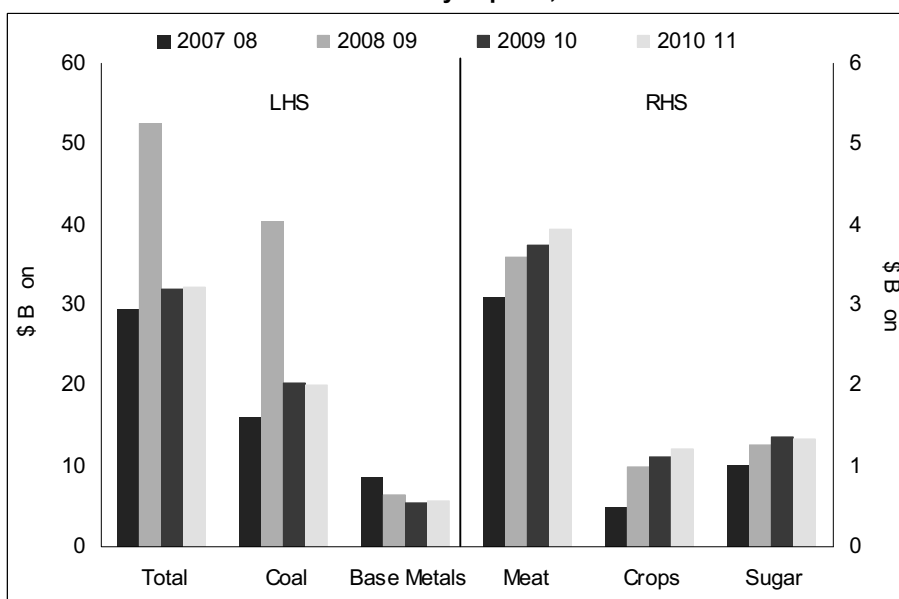
Source: Queensland Treasury.

## Net exports

Despite significant improvements to production and transport capacity in recent years, the volume of exports is forecast to contract by 2% in 2008-09 and 2¼% in 2009-10, largely reflecting recessions across Queensland's major trading partners. In particular, sharp reductions in steel production in Japan, Korea, Taiwan and India have lowered hard coking coal exports since late 2008, while a scaling back in global industrial production has caused base metal exports to fall in the second half of 2008-09. These trends are forecast to continue in 2009-10.

Export incomes are also expected to unwind next financial year. Commodity earnings in A\$ terms are expected to rise by more than \$20 billion in 2008-09, reflecting a tripling and doubling in US\$ hard coking and thermal coal export prices for Japanese Financial Year 2008-09 (JFY, April 2008 - March 2009), as well as a depreciation of the A\$ between July and November 2008. However, coal contract prices for JFY 2009-10 have partly unwound last year's gains, having been negotiated 57% and 44% lower for hard coking and thermal coal respectively. Base metals are also trading at prices well below peak levels, which, along with funding difficulties associated with the global financial crisis, has exacerbated production cuts by some of Queensland's base metal producers. As a result, commodity export earnings are expected to decline in 2009-10, but remain higher than their level in 2007-08 (see Chart 2.9).

**Chart 2.9**  
**Overseas commodity exports, Queensland**



Note:

1. 2008-09 is an estimated actual, 2009-10 and 2010-11 are forecasts.

Source: ABS unpublished trade data and Queensland Treasury.

Partly offsetting lower mining exports, improved growing conditions will support a recovery in the rural sector. Despite the impact of substantial flooding in the north of the State in early 2009, beef exports are forecast to rise, reflecting above-average rainfall in non-flood affected beef producing regions, as well as strong demand from the US for lower-grade manufacturing beef. Improved water storages are forecast to boost exports of cotton and other crops over the period to 2009-10.

Services exports will also be affected by conditions overseas. International enrolments for education have remained strong in 2008-09, reflecting some depreciation of the A\$ and continuing strong demand from emerging markets (such as India and China). However, the economic downturn in other major student-source countries is expected to weigh on overseas education in 2009-10. Tourism exports are expected to fall in 2008-09, reflecting significant recessions in major overseas markets, such as Japan, the US, UK and South Korea, as well as concerns about swine influenza. Interstate tourism exports are also likely to be adversely affected by the economic slowdown in Australia, as well as adverse events experienced in Queensland, including floods, cyclones and an oil spill. However, some recovery in interstate tourism from these transitory factors is expected in 2009-10, supported by a lower A\$ relative to its recent peak and cheaper fuel prices, which have made interstate holidays more cost effective relative to overseas travel for Australians.

Queensland's total imports are expected to fall by 1% and 3¼% in 2008-09 and 2009-10 respectively. Goods imports are expected to fall, as slower growth in consumer spending and a sharp decline in business investment in 2009-10 lowers demand for imported consumer and capital goods. Overseas tourism imports are also expected to fall, as Queenslanders substitute international with domestic tourism or postpone holiday plans.

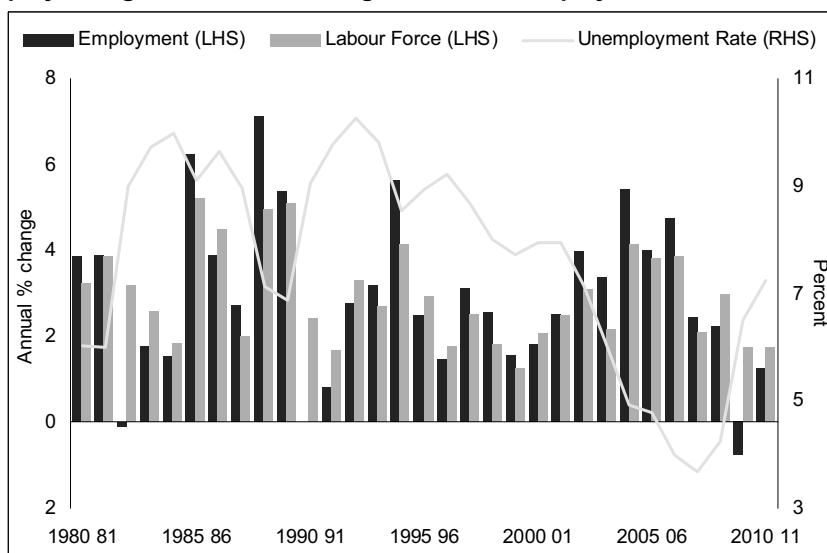
Overall, net exports are expected to detract ¼ percentage point from growth in 2008-09, with exports forecast to fall by a greater amount than imports. In 2009-10, imports are expected to decline at a faster rate than exports, resulting in net exports contributing ¾ percentage point to growth, the first contribution since 2000-01. With the global economy expected to gradually recover over the course of 2010-11, Queensland's exports are forecast to rise by 3% and exceed imports growth of 1% that year. As a result, net exports are forecast to contribute a further ¾ percentage point to growth in 2010-11.

## ***Labour Market***

A weakening in domestic economic growth, combined with a sharp reduction in business confidence, has seen demand for labour weaken in 2008-09. However, previous difficulties in finding and retaining skilled workers had seen many employers reluctant to reduce staff levels in the first half of the financial year, and instead reduce hours worked. As a result, year-average employment growth is estimated to only moderate slightly, to 2¼% in 2008-09, representing an increase in employment of almost 50,000 persons. The labour force participation rate in Queensland is estimated to increase marginally in 2008-09, to an historic high of 67½%, driven in particular by greater mature age workforce participation.



**Chart 2.10**  
**Employment growth, labour force growth and unemployment rate, Queensland<sup>1</sup>**



Note:

1. Year average, 2008 09 is an estimated actual, 2009 10 and 2010 11 are forecasts.

Sources: ABS 6202.0 and Queensland Treasury.

Rising participation and ongoing strong growth in the civilian population has seen labour force growth exceed jobs growth in 2008-09. Consequently, the unemployment rate is estimated to rise to 4¼% in 2008-09, the first year-average increase in eight years.

Due to a contraction in economic activity, the level of employment is expected to fall by ¾%, or 16,000 persons, in 2009-10. Employment is expected to be most affected in the retail and construction sectors, in line with a more cautious household sector and a fall in business and dwelling investment next year. Mining is also expected to experience a decline in employment, after doubling over the previous five years due to the resources boom.

The labour force participation rate is forecast to fall to 67¼% in 2009-10, as poor job prospects see some unemployed persons leave the labour force and potential entrants remain outside of it. However, this fall in participation is likely to be less marked than in previous downturns, reflecting some postponement of retirement by mature aged workers, who have both a structurally higher participation rate than preceding generations and an incentive to rebuild savings following recent falls in asset prices. Ongoing civilian population growth will see a further rise in the labour force, despite a lower participation rate. This, combined with a fall in employment, is forecast to increase the unemployment rate to 6½% in 2009-10.

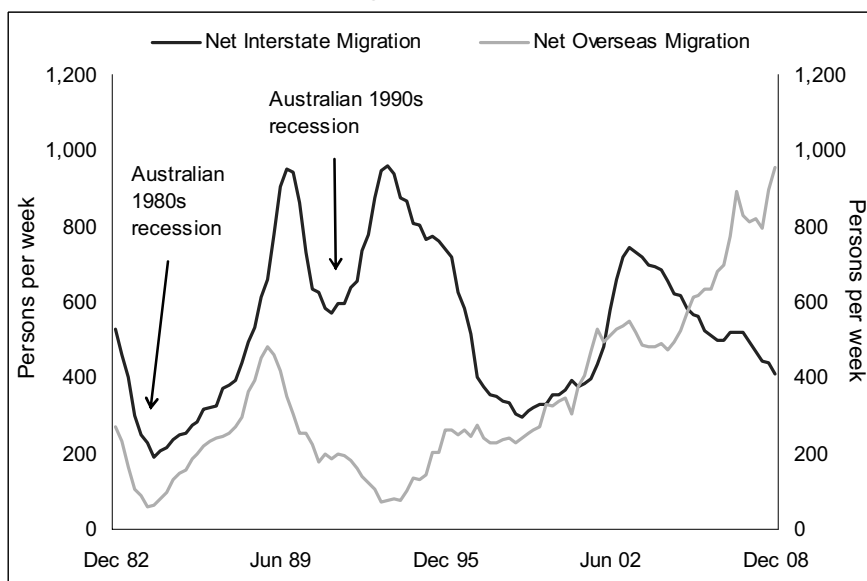
Employment is forecast to recover in 2010-11, albeit to a below-average rate of 1¼%, or 26,000 persons, reflecting the lagged impact of the subdued economic activity in 2009-10 and only a modest recovery in 2010-11. With labour force growth forecast to again exceed jobs growth, the year-average unemployment rate is anticipated to peak at 7¼% in that year, the highest year-average rate since 2001-02.

## Population

Following growth of 2.4% to 2.5% in each of the last six years, Queensland's population growth is expected to remain at 2½% in 2008-09, before easing to 2¼% in 2009-10 and 2% in 2010-11. However, this still translates into an increase of more than one quarter of a million persons, or over 1,800 persons per week, in these three years. Reflecting ongoing higher net interstate migration than any other State, Queensland's population growth is expected to remain above the national rate.

Some slowing in net interstate migration is expected, contributing to an expected easing in population growth. Net inflows have eased since 2003, as relatively stronger growth in Brisbane house prices narrowed the house price gap with southern states (see Chart 2.11). Following the pattern of previous periods of weak national growth, Australian interstate flows, including those to Queensland, are forecast to ease further in 2009-10. While low unemployment and expansions in the national quota have seen overseas migration become the main driver of Queensland population growth, a reversal in these factors should also moderate overseas inflows over the forecast period.

**Chart 2.11**  
**Net migration, Queensland**



Source: ABS 3101.0.

## ***Wages***

Growth in the Wage Price Index in Queensland is estimated ease from 4¼% in 2008-09 to 3½% and 3¼% in 2009-10 and 2010-11 respectively, in line with a softening in labour market conditions. However, fiscal stimulus payments, as well as cuts in both interest rates and income taxes, will boost average real disposable incomes over 2008-09 and 2009-10.

## ***Inflation***

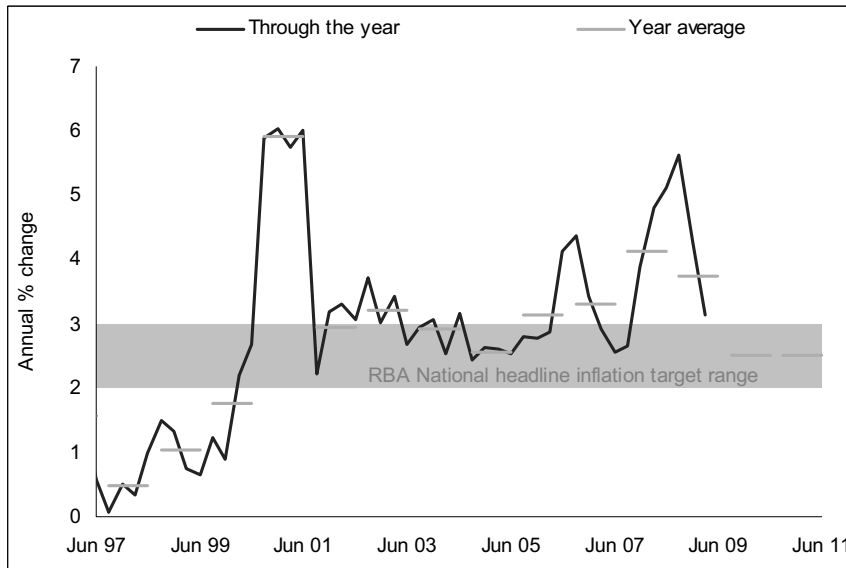
Inflation (as measured by Brisbane's Consumer Price Index (CPI)) peaked at 5.6% in through-the-year terms in September quarter 2008, reflecting the lagged effects of rising oil prices, buoyant global and domestic economic growth and domestic capacity constraints throughout 2007-08. However, with all of these factors unwinding in 2008-09, year-average inflation is estimated to ease to 3¾% in 2008-09, and forecast to moderate further to 2½% in 2009-10 (see Chart 2.12).

The housing sector remained a key contributor to inflation in 2008-09. Weak construction activity combined with fast population growth has lowered rental vacancy rates and underpinned strong rental price growth. Adverse weather conditions across the country in late 2008, including flooding, cyclones and bushfires, also drove substantial, albeit transitory, increases in food prices during the year.

With a further fall in dwelling investment expected in 2009-10, rental prices are forecast to continue to grow and contribute further to inflation next year. However, several factors are expected to ease inflation in 2009-10, including discounting of clothing and footwear as well as tourism services, and a modest improvement in wholesale credit markets. Price growth for imported goods is also expected to be subdued, reflecting a sharp deceleration in global price inflation and some appreciation of the A\$.

The lagged impact of subdued economic activity and softer labour market conditions are forecast to see inflation remain modest, at 2½%, in 2010-11, below its average rate of 3.1% over the decade prior to the forecast period.

**Chart 2.12**  
**Headline inflation<sup>1</sup>, Brisbane**



Note:

1. Brisbane All Groups CPI. 2008 09 is an estimated actual, 2009 10 and 2010 11 are forecasts.  
Sources: ABS 6401.0 and Queensland Treasury.

## Risks and opportunities

Future developments in the global financial crisis and the worldwide economic recession are crucial to the outlook for the Queensland and national economies:

- A key risk is the development of a vicious cycle, whereby widespread corporate failures resulting from the global economic downturn further disrupt the wellbeing of the financial system. This would result in an additional tightening in credit conditions, again impacting the real economy and prolonging the global downturn.
- The extent of the geographical contagion may also not yet be fully revealed, with the impact of the downturn in industrialised economies on Asia possibly larger than currently anticipated. Based on IMF forecasts, GDP growth in 2009 for Queensland's trading partners in non-Japan Asia has been downgraded from 5% in October 2008 to -3/4% in April 2009. Although newly industrialised and emerging Asian economies did not heavily engage in the financial activities that led to the crisis, they have been severely affected through extensive trade and financial linkages with the US, Japan and Europe. Developing economies heavily reliant on external financing are particularly vulnerable to a reversal in foreign capital flows. Indeed, the *United Nations Conference on Trade and Development* revealed foreign direct investment flows into this region declined in March quarter 2009.

- The extent of the downturn in emerging Asia will also influence commodity prices. While world prices of copper, lead and zinc have experienced a sizeable recovery so far in 2009, coal prices remain depressed as demand wanes. Nevertheless, China significantly increased metallurgical coal imports from Queensland in the first four months of 2009, cushioning a fall in imports from traditional buyers such as Japan, India, South Korea, Taiwan and the UK. Current economic forecasts are based on the expectation that some of this surge in Chinese demand proves short lived. However, if this trend were to continue for all of 2009, China could replace India as Queensland's second largest destination for metallurgical coal, and help support contract prices for JFY 2010-11.
- In an attempt to re-capitalise the financial system, governments have injected unprecedented amounts of liquidity into failing financial institutions, and have taken on a large amount of 'toxic' assets. While these efforts have so far tempered the financial crisis, the sustainability of these rescue programs and their long term consequences have been questioned. The sharp rise in government debt issuance may heighten sovereign risk, driving global interest rates higher in the long term.
- Aggressive monetary easing has seen policy interest rates fall to almost zero in major industrialised economies as a whole. In this near-zero interest rate environment, central banks have devised unconventional strategies aimed at further easing monetary policy. However, the effectiveness of these methods has yet to be tested, while possible unintended consequences need to be considered. Some commentators fear that this extremely loose monetary stance may lead to a surge in inflation as the global economy recovers, while others are concerned that increased liquidity may instigate asset price bubbles elsewhere in the financial system.

Economic growth prospects could also be further jeopardised by the spread of swine influenza to the Asian region in particular, which was particularly scarred by the SARS outbreak in 2003. This could in turn affect Queensland's overseas tourism exports in 2009-10.

Reflecting the relatively less aggressive monetary easing in Australia assumed over the forecast period, some appreciation in the A\$ has been factored into economic forecasts for 2009-10 and 2010-11. However, the current trend suggests that the A\$ may rise faster than assumed. Indeed, the value of the A\$ averaged 76.25USc in May 2009, compared with 66.40USc in March. A larger than expected A\$ appreciation will further erode export earnings and domestic incomes in 2009-10.

Domestically, a key element of the outlook for the national and Queensland economy is the proposed infrastructure initiatives announced in the 2009-10 State and Australian Budgets, with their timely implementation crucial to supporting economic activity.

### 3 BUDGET PERFORMANCE AND OUTLOOK

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#### FEATURES

- The economic conditions outlined in Chapter 2 have had a significant impact on Queensland's fiscal outlook.
- The General Government net operating balance is expected to be a deficit of \$574 million in 2008-09 compared to a forecast deficit of \$1.573 billion at the time of the Economic and Fiscal Update in February 2009 and a \$54 million surplus anticipated in the Mid Year Fiscal and Economic Review in December 2008.
- The decline in the forecast net operating balance since the Mid Year Fiscal and Economic Review primarily reflects the sharp deterioration in economic conditions and the resulting significant downward revisions to taxation, royalty and GST revenue.
- The General Government sector is forecast to incur a net operating deficit (\$1.954 billion) in 2009-10 and across each of the forward estimate years.
- Cash deficits in the General Government sector are projected for each year across the forward estimates, reflecting the State's significant capital program and the cash impact of the net operating deficit position.
- The State's capital program is an estimated \$18.2 billion, a 12.8% increase on 2008-09 estimated outlays. The capital outlays of Public Non-financial Corporations (commercial) sector entities constitute approximately 39% of total outlays in 2009-10.

As outlined in both the Mid Year Fiscal and Economic Review and the Economic and Fiscal Update, Queensland's fiscal outlook has deteriorated substantially since the publication of the 2008-09 Budget. This is due to the sharp downturn in the world economy that has significantly impacted the international and Australian economic environment. As a result, jurisdictions around the globe have suffered substantial reductions in revenue and Queensland is no exception. A temporary increase in Australian Government funding to Queensland under the *Nation Building and Jobs Plan* has offset some of this reduction in revenue.

This chapter provides a summary of financial aggregates for the General Government sector for the 2009-10 Budget. A discussion of the Public Non-financial Corporations (PNFC) sector can be found in Chapter 5.

## SUMMARY OF KEY FINANCIAL AGGREGATES

Table 3.1 provides aggregate actual outcome information for 2007-08, estimated actual outcome information for 2008-09, forecasts for 2009-10 and projections for the outyears.

<b>Table 3.1</b> <b>General Government sector – key financial aggregates<sup>1</sup></b>						
	2007-08 Actual <sup>2</sup> \$ million	2008-09 Est. Act. \$ million	2009-10 Budget \$ million	2010-11 Projection \$ million	2011-12 Projection \$ million	2012-13 Projection \$ million
Revenue	31,430	35,874	37,192	37,029	38,100	40,431
Expenses	32,989	36,447	39,146	40,488	42,191	43,720
Net operating balance	(1,559) <sup>3</sup>	(574)	(1,954)	(3,459)	(4,090)	(3,290)
Cash surplus/(deficit)	(4,922)	(4,144)	(6,838)	(7,516)	(5,335)	(2,924)
Capital purchases	5,716	7,137	9,270	8,540	6,151	4,321
Net borrowing	4,175	4,014	7,954	9,079	6,792	4,540
Gross borrowing	6,328	10,765	18,775	27,898	34,707	39,234
Net worth	155,178	149,800	151,144	150,797	150,209	150,668
Net debt	(22,598)	(17,808)	(10,672)	(2,796)	2,749	5,901
Notes: 1. Numbers may not add due to rounding. 2. Reflects published actuals. Does not include any recasting of data that may have occurred subsequently. 3. Reflects the Uniform Presentation Framework net operating balance. The underlying net operating result was a surplus of \$339 million in 2007 08. With the transfer of superannuation and other long term assets to Queensland Treasury Corporation, the calculation of an underlying balance is no longer relevant.						

## BUDGET OUTCOMES 2008-09

### Key financial aggregates

Table 3.2 General Government sector – key financial aggregates <sup>1</sup>				
	2008-09 Budget \$ million	2008-09 MYFER \$ million	2008-09 EFU \$ million	2008-09 Est. Act. \$ million
Revenue	36,582	37,063	N/A	35,874
Expenses	35,772	37,009	N/A	36,447
Net operating balance	809	54	(1,573)	(574)
Cash surplus/(deficit)	(1,970)	(3,013)	(4,647)	(4,144)
Capital purchases	6,651	7,094	7,068	7,137
Net borrowing	2,915	3,424	4,852	4,014
Gross borrowing	8,781	9,859	11,287	10,765
Net worth	128,563	160,386	N/A	149,800
Net debt	(21,928)	(19,316)	N/A	(17,808)
Notes:				
1. Numbers may not add due to rounding.				

### Operating balance

The operating balance expected for 2008-09 is a deficit of \$574 million compared to a forecast deficit of \$1.573 billion at the time of the Economic and Fiscal Update (EFU) and a \$54 million surplus anticipated in the Mid Year Fiscal and Economic Review (MYFER). The decline in the forecast net operating balance since the Mid Year Fiscal and Economic Review primarily reflects the sharp deterioration in economic conditions and the resulting significant downward revisions to taxation, royalty and GST revenue.

Table 3.4 provides a reconciliation of the current net operating balance for 2008-09 to the Mid Year Fiscal and Economic Review estimate.

The improvement in the operating balance for 2008-09 since the Economic and Fiscal Update is a result of additional revenue from the Australian Government for use on specific purposes, including *Nation Building and Jobs Plan* projects, which has no offsetting operating expense in that year.



## Revenue

Revenue in 2008-09 is expected to be lower than the Mid Year Fiscal and Economic Review estimate largely due to:

- lower than expected taxation revenue, particularly transfer duty and motor vehicle duty reflecting weakness in property market activity and motor vehicle sales
- reductions in royalty revenue as a result of lower prices and tonnages for thermal and coking coal, as well as the recent appreciation in the AUD-USD exchange rate
- reduced GST revenue from the Australian Government.

## Expenses

Expenses are also estimated to decrease from the Mid Year Fiscal and Economic Review forecast primarily reflecting lower borrowing costs as a result of lower interest rates, lower depreciation costs and lower superannuation interest costs as a result of lower returns on the remainder of superannuation investments still held in the Consolidated Fund for former defined benefit purposes.

Further details on revenue and expenses projections are contained in Chapters 6 and 7 respectively.

## Cash surplus/(deficit)

The General Government sector is now expected to record a cash deficit in 2008-09 of \$4.144 billion compared to a \$3.013 billion deficit forecast in the Mid Year Fiscal and Economic Review. The larger than expected cash deficit is predominantly the result of the cash impact of the reduction in the net operating balance in 2008-09 and marginally higher capital purchases.

At the time of the Economic and Fiscal Update, a cash deficit of \$4.647 billion was expected in 2008-09 for the General Government sector. The improvement reflects the difference in timing between receipt of cash from the Commonwealth and the associated expense.

## Capital purchases

General Government purchases of non-financial assets (that is, capital expenditure) in 2008-09 are estimated to be \$7.137 billion. This is slightly more than forecast in the Economic and Fiscal Update and the Mid Year Fiscal and Economic Review due to increased spending associated with the Australian Government's *Nation Building and Jobs Plan*, partially offset by a change in timing of cashflows for capital projects.

The total capital program for 2008-09, including capital grants, is expected to be \$16.132 billion, \$876 million lower than expected at the time of the 2008-09 Budget. For further details see Budget Paper 3 – Capital Statement.

## **Borrowing**

Net borrowings (additional borrowings each year as itemised in the Cash Flow Statement) of \$4.014 billion are expected in 2008-09, \$590 million more than forecast in the Mid Year Fiscal and Economic Review largely due to the negative operating position.

At the time of the Economic and Fiscal Update, net borrowings of \$4.852 billion were expected in 2008-09 for the General Government sector, reflecting the larger cash deficit for 2008-09 anticipated at that time.

Similarly, gross borrowings (the stock of borrowings outstanding as stated in the Balance Sheet) of \$10.765 billion are forecast at 30 June 2009, \$522 million less than the Economic and Fiscal Update estimate, reflecting the improvement in the 2008-09 net cash balance since that time.

## **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 entities.

The net worth of the General Government sector at 30 June 2009 is estimated at \$149.800 billion. This is \$21.237 billion higher than the forecast in the 2008-09 Budget, primarily due to the comprehensive revaluation of road infrastructure assets by the former Department of Main Roads, as reflected in the 30 June 2008 audited actual.

Net worth is \$5.378 billion lower than the 30 June 2008 audited actual and \$10.586 billion lower than the net worth forecast at the time of the Mid Year Fiscal and Economic Review due to market value fluctuations, including those relating to investment returns on superannuation and other long term assets now held by Queensland Treasury Corporation and those relating to the State's debt, actuarial adjustments to superannuation and long service leave and declines in property values on Government-owned assets as a result of revaluations.

## **Net debt**

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

In 2008-09, net debt in the General Government sector is estimated to be negative \$17.808 billion, compared to negative \$19.316 billion estimated at the time of the Mid Year Fiscal and Economic Review. The change in net debt reflects the impact of negative investment returns and higher borrowings.

## BUDGET 2009-10 AND OUTYEAR PROJECTIONS

### Key financial aggregates

<b>Table 3.3</b> <b>General Government sector – key financial aggregates<sup>1</sup></b>				
	2009-10 Budget \$ million	2010-11 Projection \$ million	2011-12 Projection \$ million	2012-13 Projection \$ million
Revenue	37,192	37,029	38,100	40,431
Expenses	39,146	40,488	42,191	43,720
Net operating balance	(1,954)	(3,459)	(4,090)	(3,290)
Cash surplus/(deficit)	(6,838)	(7,516)	(5,335)	(2,924)
Capital purchases	9,270	8,540	6,151	4,321
Net borrowing	7,954	9,079	6,792	4,540
Gross borrowing	18,775	27,898	34,707	39,234
Net worth	151,144	150,797	150,209	150,668
Net debt	(10,672)	(2,796)	2,749	5,901
Note: 1. Numbers may not add due to rounding.				

### Operating balance

As outlined in the Economic and Fiscal Update, significant downward revisions to key revenues including taxation (particularly transfer duty and motor vehicle duty), royalty and GST revenue in the wake of the global economic slowdown have resulted in a substantial deterioration in the fiscal position than anticipated at the time of the Mid Year Fiscal and Economic Review. The General Government sector is now expected to record an operating deficit of \$1.954 million in 2009-10, with net operating deficits anticipated each year across the forward estimate years.

The improvement in the net operating balance in 2008-09 and 2009-10 compared with that forecast in the Economic and Fiscal Update is largely due to additional revenue from the Australian Government without an offsetting expense in those years, while the larger operating deficits in 2010-11 and 2011-12 primarily reflect further downward revisions in GST revenue and royalty revenue as a result of lower forecast coal prices and tonnages and appreciation in the AUD-USD exchange rate.

The increase in expenditure relative to 2008-09 mainly relates to service enhancements in key service delivery areas including Australian Government partnerships, increases in wages and borrowing costs, and higher interest costs associated with the remainder of superannuation investments still held in the Consolidated Fund for former defined benefit purposes (as a result of interest income returning to an assumed long run rate of return).

Further details on revenue and expenditure projections are contained in Chapters 6 and 7 respectively.

### **Cash surplus/(deficit) and capital purchases**

A cash deficit of \$6.838 billion is expected in 2009-10 for the General Government sector. The cash deficit is forecast to be \$7.516 billion in 2010-11, reducing to \$2.924 billion by 2012-13. The cash deficits reflect the Government's significant planned capital program and the cash impact of the operating deficit position across the forward estimates.

Total General Government capital purchases of \$9.270 billion are budgeted for 2009-10, \$2.283 billion higher than forecast in the Economic and Fiscal Update as a result of increased capital expenditure flowing from the Australian Government's *Nation Building and Jobs Plan*. Budget Paper No.3 – Capital Statement provides details, by portfolio, of budgeted 2009-10 capital outlays.

Over the period 2009-10 to 2012-13, purchases of non-financial assets (capital purchases) in the General Government sector of \$28.282 billion are planned.

Movements in the cash deficit and capital purchases forecasts since the Economic and Fiscal Update are largely due to the timing and distribution of funding and capital spending associated with the Australian Government's *Nation Building and Jobs Plan*.

### **Borrowing**

Net borrowings of \$7.954 billion are budgeted for 2009-10, an increase of \$3.034 billion on the Mid Year Fiscal and Economic Review estimate mainly due to the larger negative operating position.

Over the Budget and forward estimates period, total General Government borrowings and advances of \$28.302 billion are planned. Of this amount, some \$1.19 billion is to fund net equity injections to Queensland's PNFC sector entities to support expansion of the State's rail and water infrastructure.

The increase in the amount of borrowings to finance the deficit leads to an increase in borrowing costs of \$85 million to \$887 million, in 2009-10, compared to the Mid Year Fiscal and Economic Review estimate. Borrowing costs are forecast to increase to \$2.299 billion in 2012-13.

Gross borrowings of \$18.775 billion are expected in the General Government sector at 30 June 2010, increasing to \$39.234 billion by the end of 2012-13.

## **Net worth**

State net worth is projected to be \$151.144 billion at 30 June 2010 and \$150.668 billion by the end of 2012-13. The decrease in net worth is largely the result of the impact of the operating deficits on the Government's equity.

## **Net debt**

In 2009-10, net debt in the General Government sector is estimated to be negative \$10.672 billion compared to the Mid Year Fiscal and Economic Review estimate of negative \$15.467 billion. This increase in net debt primarily reflects the flow through of lower than forecast investment returns on the estimated value of investments and higher borrowings.

Net debt is expected to increase over the forward estimates to be positive \$5.901 billion in 2012-13 reflecting the increase in borrowing.

More information on the State's net worth, assets and liabilities is provided in Chapter 8.

## RECONCILIATION OF NET OPERATING BALANCE

Table 3.4 provides a reconciliation of the current General Government sector net operating balances for 2008-09 and 2009-10 to the MYFER estimates.

<b>Table 3.4</b> <b>Reconciliation of 2008-09 and 2009-10 net operating balance to MYFER estimates<sup>1</sup></b>		
	2008-09 Est. Act. \$ million	2009-10 Budget \$ million
<b>MYFER net operating balance</b>	<b>54</b>	<b>(124)</b>
Expenditure policy decisions <sup>2</sup>	(161)	126
Taxation revisions <sup>3</sup>	(539)	(972)
Royalty revisions <sup>4</sup>	(636)	(1,427)
GST revisions <sup>5</sup>	(472)	(1,009)
Other significant variations impacting on operating balance		
Other Commonwealth funding revisions <sup>6</sup>	1,118	2,415
Net flows from PNFC sector entities	76	(558)
Actuarial revisions <sup>7</sup>	(103)	(100)
Other parameter adjustments <sup>8</sup>	90	(305)
<b>2009-10 Budget</b>	<b>(574)</b>	<b>(1,954)</b>
<b>Notes:</b> 1. Denotes impact on net operating balance. Numbers may not add due to rounding. 2. Reflects expenditure policy decisions taken since the MYFER. Budget Paper 4 Budget Measures outlines in detail the policy decisions taken since the 2008 09 Budget. 2009 10 estimate includes the abolition of the Queensland Fuel Subsidy Scheme. 3. Reflects changes in taxation estimates across a range of state taxes as outlined in Chapter 6, as well as revisions to the First Home Owner Grant estimates and policy changes to land tax and casino taxes announced in the MYFER and detailed in Budget Paper 4 Budget Measures. 4. Reflects changes to royalty revenue as outlined in Chapter 6. 5. Represents updated GST revenue estimates as discussed in Chapter 6 and Chapter 9. 6. Represents the net impact of funding provided by the Australian Government primarily for Specific Purpose Payments, National Partnership Payments and the <i>Nation Building and Jobs Plan</i> . The net impact on the operating balance is the result of funding being provided as revenue but spent as capital (i.e. no offsetting expense in the operating statement) or spent in a different financial year. 7. Represents actuarial revisions to superannuation and long service leave provisions and revisions to superannuation expense as a result of negative investment returns (as outlined in the Economic and Fiscal Update). 8. Refers to adjustments of a non policy nature such as movements in expenditure and revenue relating to economic and technical parameters and expenditure lapses in 2008 09. Major contributors to increased spending include growth funding provided to support service delivery in key agencies, movements in agency net operating balances and funding for natural disaster relief.		



## 4 ECONOMIC STRATEGY

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### FEATURES

- Queensland's economic strategy focuses on positioning the Queensland economy for a strong recovery from the global recession while simultaneously supporting jobs.
- The centrepiece of the Government's jobs agenda is continued investment in infrastructure. With a total capital program of \$18.2 billion in 2009-10, new infrastructure will be created at an average rate of more than \$350 million a week, sustaining employment for thousands of Queenslanders.
- In per capita terms, it is estimated that Queensland's General Government sector capital spending in 2009-10 will be around 60% more than the average of the other states, at \$2,083 per person.
- The Government is working to maximise and leverage the Australian Government's substantial nation-building and economic stimulus programs such as the *Nation Building and Jobs Plan*.
- As well as supporting existing businesses and traditional strengths, the Government is driving the development of the industries and jobs of tomorrow in areas such as liquefied natural gas and renewable energy.
- Queensland's productivity growth has outpaced the national average over the past decade and the Government is locking in future productivity gains with its substantial ongoing investment in skills, innovation, and economic infrastructure.

### FRAMEWORK FOR SUSTAINING JOBS AND POSITIONING FOR ECONOMIC RECOVERY

In the face of the global recession, the Queensland Government's economic strategy is comprised of four key elements: jobs, infrastructure, skills and innovation, and responding to climate change. Additionally, the Government remains committed to ongoing regulatory reform. The following sections discuss the Government's economic strategy and regulatory reform agenda.



## DELIVERING JOBS FOR QUEENSLAND

A concerted effort is required by governments at all levels to preserve existing jobs and to create new employment and skilling opportunities for unemployed Queenslanders.

The Queensland Government plans to meet this challenge with a commitment to facilitate the creation of 100,000 new jobs by March 2012.

The Government's plan has four key planks:

- Sustaining Queensland's record building program
- Preparing for the recovery by expanding our skills base
- Supporting new industries, along with our traditional strengths
- Developing new job creation programs.

These four planks constitute a comprehensive strategy to maintain existing jobs, create new jobs, move unemployed people back into work and mitigate the growth of long-term unemployment and its associated social costs.

Major initiatives in the Government's jobs agenda include:

- The Queensland Green Army, which will provide 3,000 work placements and traineeships to unemployed Queenslanders over three years with a Government investment of \$57 million. Green Army members will work throughout Queensland to enhance our natural assets, strengthen tourism infrastructure and promote increased environmental awareness. In 2009-10, it is expected that 700 people will begin Green Work Placements while 300 people will begin Green Traineeships.
- Establishing a specialised Liquefied Natural Gas (LNG) Industry Unit within the Department of Infrastructure and Planning to provide a single point of focus for the Government's support and encouragement for the emerging LNG industry in Gladstone, which will be based on Queensland's extensive coal seam gas reserves. An industry viability study commissioned by the Government estimates that an LNG industry has the potential to create more than 10,000 construction jobs and 3,500 direct operational jobs.
- Skilling Queenslanders for Work – a proven existing program for helping disadvantaged Queenslanders into work. The Queensland Government will invest \$320.4 million over the next three years to assist an estimated 63,000 people to gain new skills and achieve sustained employment.

Additionally, the Queensland Government is partnering with the Australian Government in the delivery of a raft of federal stimulus and investment initiatives, the largest of which is the *Nation Building and Jobs Plan* (Box 4.1).

**Box 4.1**  
**The Australian Government's *Nation Building and Jobs Plan***

The Queensland Government is vigorously pursuing its responsibilities under the National Partnership Agreement on the *Nation Building and Jobs Plan*, which the Australian Government expects will boost the national economy by ½% in 2008-09 and ¾ to 1% in 2009-10.

Under this Agreement, which came into force in February 2009, the Queensland Government is responsible for managing the delivery of Australian Government-funded economic stimulus programs in Queensland, and for the recurrent costs of new infrastructure funded under the Agreement. Additionally, the Queensland Government is maintaining its own spending effort in the relevant areas, ensuring that the full impact of the new funding flows through to the Queensland economy.

The main elements of the *Nation Building and Jobs Plan* are:

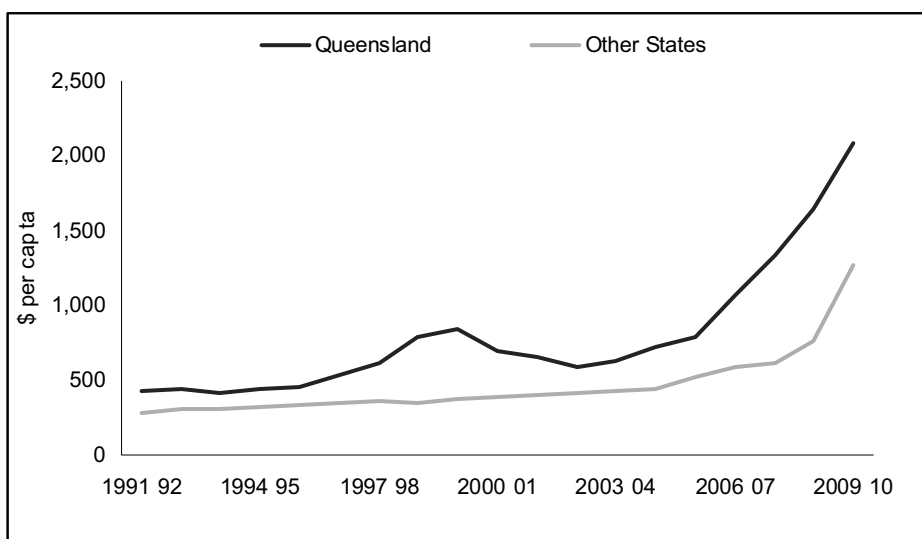
- the Social Housing Initiative, under which Queensland will receive almost \$1.3 billion for the construction of around 4,000 new dwellings between 2009 and 2012, and for repairs and maintenance of existing social housing
- the Primary Schools for the 21<sup>st</sup> Century (P21) initiative which is funding up to \$3 million per school over 2008-09 to 2010-11 for major primary education infrastructure. Round One has delivered \$650 million to 293 Queensland schools, while Round Two will deliver a further \$1.25 billion to 702 schools
- the National School Pride initiative, which is funding up to \$200,000 per school over 2008-09 and 2009-10 for minor infrastructure and refurbishment projects. Round One has delivered funding of \$195 million to 3,096 projects in schools across Queensland, while Round Two will deliver a further \$42 million across 362 schools
- the Science and Language Centres for the 21<sup>st</sup> Century initiative, under which secondary schools will compete for around \$1 billion nationally to fund the construction or refurbishment of science laboratories and language learning centres, to be completed in 2009-10
- the Black Spots, Boom Gates, Repairing Regional Roads and Community Infrastructure program under which Queensland will share in \$890 million nationally to boost capital works in these important areas.

## INVESTING IN INFRASTRUCTURE

The Queensland Government is committed to maintaining a substantial infrastructure investment program. This is the centrepiece of the Government's jobs agenda and it also ensures that the Queensland economy is ready to recover strongly when world economic growth resumes.

For the General Government sector, capital spending in 2009-10 is estimated to be \$9.27 billion, an increase of 29.9% on the 2008-09 figure, with the increase largely resulting from Queensland's partnership with the Australian Government.

**Chart 4.1**  
**General Government purchases of non-financial assets, 1991-92 to 2009-10**



Source: Qld, Vic, SA, WA, Tas – State Budgets, NSW – Half Yearly Review, Australian Government Budget and Queensland Treasury estimates, population – ABS 3101.0 and Australian Government Budget Paper 3

In per capita terms, it is estimated that the Queensland Government's capital spending in the General Government sector will be around 60% above the average of the other states, at \$2,083 per person (Chart 4.1). Among the states, Queensland has the highest capital expenditure per person in 2009-10, 20.3% above next-highest Western Australia, which is also experiencing rapid growth in capital spending.

The State's total capital outlays in 2009-10, including outlays by the Public Non-financial Corporations sector and capital grants, are expected to be \$18.2 billion.

Major Queensland Government infrastructure initiatives for 2009-10 include:

- upgrading the Queensland Rail coal network – \$862 million in 2009-10 – to support the haulage of coal in central Queensland, including extensive track works and upgrading of locomotives and wagons
- continuation of works on the Abbot Point Coal Terminal X25 Expansion (\$17 million in 2009-10) and X50 Expansion (\$287.9 million in 2009-10)
- the SEQ Public Private Partnership Schools project, a \$1.1 billion contract to build seven new schools in the rapidly-growing Sunshine Coast, Western Corridor, Gold Coast and Redland regions – \$80.1 million is allocated in 2009-10 to commence construction of two schools at Thornlands and Peregian
- continuing the Gateway Upgrade Project with a further \$259.2 million in 2009-10 (\$1.883 billion overall) – the Project is duplicating the Gateway Bridge, refurbishing the existing bridge, and upgrading the Gateway Motorway, with improvements to be introduced progressively to 2012
- continuing construction of the \$9 billion SEQ Water Grid, including \$120 million in 2009-10 for the Hinze Dam Stage 3 Project, expected to be completed in December 2010, which will increase the capacity, safety and flood mitigation ability of the Dam
- planning and development of three new tertiary hospitals – the Gold Coast University Hospital, the Sunshine Coast University Hospital, and the Queensland Children’s Hospital – will continue, with \$268.4 million allocated in 2009-10 (\$4.616 billion overall).

Further, the Australian Government’s 2009-10 Budget is providing significant funding from the *Nation Building Program* (formerly Auslink) and the *Nation Building for the Future Program* for new road and rail infrastructure in Queensland, including:

- the Bruce Highway Cooroy to Curra (Section B) Duplication (\$488 million, and a further \$125 million from the Queensland Government), which will convert this section of the Highway to four lanes, is expected to start in 2009 and is scheduled for completion in 2012
- the Gold Coast Rapid Transit System project (\$365 million, and a further \$463.7 million from the Queensland Government and \$120.0 million from the Gold Coast City Council), which will provide light rail transport on the Gold Coast, is expected to commence its main construction phase in 2011, to be completed by 2013

- new funds for upgrading the Ipswich Motorway: \$484 million in 2008-09 and \$400 million in 2013-14 towards construction works on the Dinmore-Goodna and Wacol-Darra sections and planning for the Darra-Rocklea section. This is in addition to previously-committed *Nation Building* funding for the Ipswich Motorway, including \$650 million in 2009-10
- the Brisbane Inner City Rail Feasibility Study: \$20 million to undertake a feasibility study to determine potential route alignment, construction timetables and preferred funding model.

Further details of the State's capital program are provided in Budget Paper 3 – Capital Statement.

Additionally, as discussed in Chapter 5, the Government has decided to open up some parts of its asset base to the private sector, under its *Renewing Queensland Plan*. This will allow better targeting of scarce resources to core Government investment priorities such as roads, schools, and hospitals, while at the same time facilitating significant private sector capacity-building and the commercial development of the assets concerned.

## INVESTING IN SKILLS AND INNOVATION FOR THE FUTURE

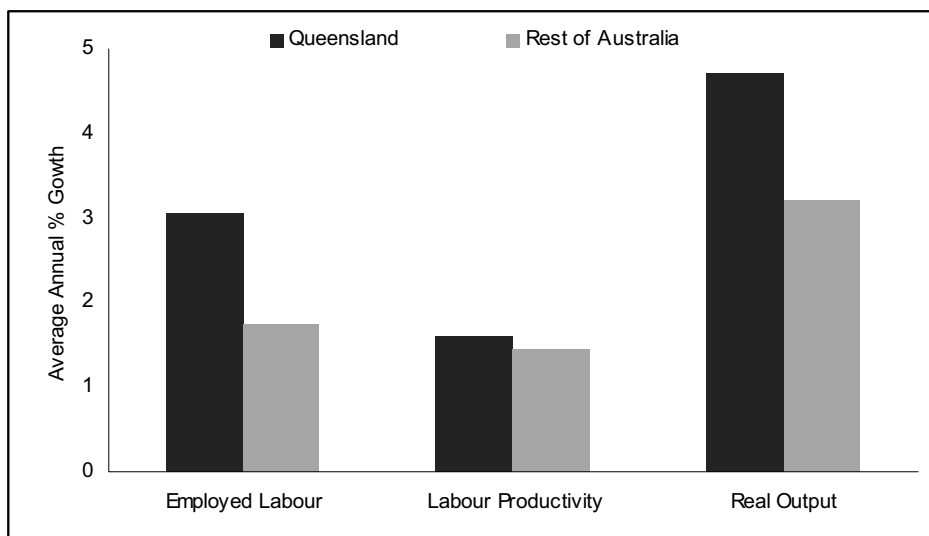
Whilst the global recession is creating substantial short-term fiscal and economic issues, the Queensland Government remains committed to the long view in the ongoing task of upskilling the Queensland workforce. It is through increasing the skill base that Queensland will secure the productivity and participation outcomes necessary for economic recovery and sustained prosperity.

### Productivity and innovation

In the long run, the wellbeing of Queenslanders is critically dependent on productivity growth. Productivity growth means creating more value from a given quantity of inputs. The productivity dividend can accrue as higher material living standards, increases in international competitiveness, improvements in the environmental sustainability of industry, and increases in the capacity of government and society to generate better social outcomes.

The most common measure of productivity is *labour* productivity, or real output per hour worked. Queensland's labour productivity growth over the decade to 2007-08 (1.6% per annum) was superior to that of the rest of Australia (1.4% per annum), indicating that the State's robust employment growth over that period was more than matched by strong capital investment and improvements in technical efficiency (Chart 4.2).

**Chart 4.2**  
**Employed labour, labour productivity and real output, 1997-98 to 2007-08**



Source: *Queensland State Accounts, ABS 6202.0 and Queensland Treasury estimates.*

In the near term, labour productivity growth will gain in importance due to the negative impact of the global recession on labour market outcomes in 2008-09 and 2009-10.

The generation of productivity improvements relies on the successful deployment of new knowledge by skilled people, or *innovation*. The Queensland Government has consistently championed innovation via its Smart State Strategy. Now in its third stage, the Smart State Strategy seeks to capitalise on the State's earlier Smart State investments by attracting, retaining, and developing more world-class researchers, clinicians and other experts in key priority areas such as health and medical research.

Further, the Government remains committed to driving innovation by supporting the development of new knowledge-intensive industries and by encouraging an innovative culture in Queensland's traditional industries. In *Toward Q2: Tomorrow's Queensland*, the Government has set a target for 2020 of increasing by 50% the proportion of Queensland businesses that undertake research and development or innovation.

Key Government initiatives in 2009-10 that are moving the State towards this goal include:

- implementing the first stage of the Queensland Design Integration Program to increase the sustainability and competitiveness of Queensland businesses through the use of design
- delivering key biotechnology initiatives including the Biopharmaceuticals Australia scale-up manufacturing facility, the Biotech Commercialisation Pipeline, and the Queensland Clinical Trials Network

- delivering the HEAT initiative, which is promoting and developing the export potential of Queensland's architectural services sector
- implementing the \$20 million Q-Tropics Strategy to develop, commercialise and export Queensland's tropical products and expertise.

## Labour force participation

For over a decade, Queensland's participation rate and employment rate have been higher than those for the rest of Australia (Chart 4.3). In 2006-07 and 2007-08, Queensland's employment rate was approximately the same as the *participation* rate in the rest of Australia – in other words, Queensland had proportionately more people in work than the rest of Australia had either in work or looking for work.

The impact of the global recession on labour force participation is highly uncertain. Data for the five months to May 2009 show the Queensland participation rate averaging an historically-high 67.7% in seasonally adjusted terms, driven mainly by increasing mature age participation. In normal circumstances, this boost to the State's economic capacity would be regarded positively, however in the current downturn it also signifies a greater challenge for the Government in mitigating the rise in unemployment. In the medium term, it is expected that reduced job prospects will be a dampening influence on participation.

**Chart 4.3**  
**Labour force participation rate<sup>1</sup> and employment rate<sup>2</sup>, 1987-88 to 2007-08**



Notes:

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

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

Source: ABS 6202.0, Queensland Treasury estimates

Existing skills programs such as the Queensland Skills Plan and Skilling Queenslanders for Work have ensured that Queensland is already on the front foot. The Government is now substantially augmenting its skills agenda with a raft of new initiatives in training and schooling, and by leveraging Australian Government assistance in these areas.

These new initiatives include:

- the National Partnership Agreement on Productivity Places Program, which will provide more than 148,000 additional training places, with around 102,000 aimed at up-skilling those who are in the labour force and around 46,000 for job seekers, including new entrants to the labour market
- the \$15 million Payroll Tax Apprentice and Trainee Incentive – in addition to the existing payroll tax exemption provided for apprentice and trainee wages, Queensland businesses will also receive a 25% rebate on payroll tax for on the wages of each apprentice and trainee employed. This rebate will be offset against the tax payable on the wages of other employees. As well as directly supporting jobs, the Incentive will assist businesses to continue investing in their future workforce, in readiness for the recovery. At the same time, the Government is committed to maintaining the number of apprentices and trainees employed in the public sector
- the Masters Review of primary schooling, which reported on 1 May 2009. The Government will respond to the Review's final report following a process of consultation and consideration of community submissions on the report
- a range of additional COAG National Partnership agreements where the Queensland Government will work with the Australian Government in relation to quality teaching, low socio-economic status schools, literacy and numeracy and early childhood education.

## **RESPONDING TO CLIMATE CHANGE**

Scientific modelling shows that Queensland is particularly vulnerable to the physical impacts of climate change, particularly in the sensitive wet tropics and in the highly populated South East of the State.

The Queensland Government has recently completed a public review of ClimateSmart 2050, incorporating major changes in climate change science and policy commitments at a national and international level. The revised Climate Change Strategy, which will be released later this year, will include a range of new initiatives consistent with COAG principles for complementary measures. These include support for disaster management initiatives totalling \$15.6 million over five years; \$15 million for the ClimateSmart Business Service to be delivered over four years; extending the Rural Water Use Efficiency initiative with \$4.5 million over four years; and \$8 million over four years for the Energy Efficiency Retrofit program. The revised Queensland Climate Change Strategy will ensure Queensland remains at the forefront of the climate change response.



In 2009-10, funding will also continue for the ClimateSmart Home Service to improve household energy efficiency, along with \$3 million over two years for the Household Carbon Reduction Program.

In *Toward Q2: Tomorrow's Queensland*, the Government has set a target of cutting Queensland's carbon footprint by a third by 2020. The main contributors to achieving this goal will be the Australian Government's Carbon Pollution Reduction Scheme (CPRS), along with a set of substantial Queensland Government measures to facilitate and accelerate emissions abatement.

## **Carbon Pollution Reduction Scheme**

The Queensland Government strongly supports most elements of the Carbon Pollution Reduction Scheme (CPRS), as a key platform to reduce Australia's carbon emissions in the longer term.

Australian Treasury modelling indicates that for Australia overall, economic costs associated with implementation of the CPRS are likely to be modest but that Queensland faces disproportionate costs because of the State's heavy reliance on coal-fired electricity, emissions-intensive industries including mining and refining, agriculture and manufacturing, and the dispersion of our population, which creates a relatively high reliance on transport. Modelling undertaken for all states and territories also shows that Queensland's regions will be among the more heavily impacted areas compared with a business-as-usual scenario.

The Government broadly supports the reviewed design of the CPRS announced by the Australian Government in May 2009, including delaying implementation until 2011, linking emissions targets to international action and increasing assistance to energy- and emissions-intensive trade-exposed (EITE) industries to reflect the more immediate impacts of the global recession.

The Government also strongly supports the Australian Government's intention to provide direct cash assistance to low and middle income households to meet the higher cost of living resulting from the CPRS.

The current formula for the Electricity Sector Adjustment Scheme indicates that Queensland black coal electricity generators will receive only \$100 million in Australian Government assistance out of a total \$3.5 billion. This compares with \$2.45 billion of assistance likely to be provided to Victoria's brown coal generators, which are considerably more carbon emissions-intensive than Queensland's black coal generators. The Government is opposed to this disproportionate outcome and believes that it sends a perverse message about the environmental outcomes the CPRS is designed to achieve.

## Clean energy

The Queensland Government is driving the uptake of energy efficiency measures and the development and deployment of renewable energy technology throughout Queensland. The increased use of renewable energy in Queensland is an important contribution to achieving the expanded Renewable Energy Target of 20% of Australia's electricity capacity from renewable sources by 2020.

Key initiatives include the following:

- the Queensland Solar Hot Water Program, beginning in 2009-10, will provide for up to 200,000 affordable solar hot water or heat pump systems to be installed over the next three years. The Program will offer fully installed, greenhouse-efficient hot water systems for \$100 to eligible Queensland pensioners and low income earners, and \$500 to all eligible Queensland homeowners. This Program will help Queenslanders save money and reduce greenhouse gas emissions
- the Government is continuing the investment of \$15 million over five years (commenced in 2008-09) in the Geothermal Centre of Excellence, in partnership with the University of Queensland. The centre will be the biggest of its type in Australia and, through research and development, will make Queensland and Australia leading technology providers in the growing geothermal energy sector
- Australia's only operating geothermal power station in Birdsville, western Queensland, provides approximately one quarter of the town's energy supply, reducing diesel consumption by about 160,000 litres per year, and reducing greenhouse gas emissions by 430 tonnes. Through the Queensland Renewable Energy Fund, the Government will provide \$4.3 million to Ergon Energy for a new geothermal power station (total cost \$9 million) to replace the existing plant which is reaching the end of its design life
- the Queensland Government is working to secure cutting edge renewable energy solutions for Queensland and has committed \$7 million towards the development of a 10MW solar thermal power station at Cloncurry. The project will trial new technology that stores renewable energy. Cloncurry is set to become the first town in Queensland to produce solar thermal power capable of supplying all of the town's electricity needs, 24 hours a day. This project will investigate whether this technology can be replicated in other rural and remote areas of Queensland

- a \$900 million joint investment with the State's black coal mining industry for the accelerated development and deployment of low-emissions coal technologies in Queensland. This commitment comprises the Queensland Government's Clean Coal Fund of \$300 million and the voluntary contributions to be made by the Queensland black coal mining industry of \$600 million over ten years. Projects currently being investigated include the ZeroGen project (an Integrated Gasification and Combined Cycle plant with Carbon Capture and Storage), the Callide Oxyfuel project (utilising Oxy-firing Technology) and the Tarong Energy PCC project (demonstrating post combustion using CO<sub>2</sub> absorption solutions)
- the Government will provide funding totalling \$47.7 million to ENERGEX and Ergon Energy to initiate a range of demand management and energy conservation measures in Queensland. Implementing these measures is expected to significantly reduce both greenhouse gas emissions and peak demand for electricity
- the Government will continue to support the development of renewable and low emissions technologies, and through the Queensland Renewable Energy Fund will fund key renewable energy initiatives including:
  - \$9 million to Mackay Sugar Co-operative Association Ltd for the Mackay Sugar Cogeneration Project. This 36MW cogeneration project will replace the old, inefficient plant and streamline storage practices at all of its mills;
  - \$7.5 million to the Commonwealth Scientific and Industrial Research Organisation for SolarGas One, the world's first multi-tower array system using SolarGas technology (subject to a significant financial commitment from an industry partner); and
  - \$5 million for the Coastal Geothermal Energy Initiative to identify possible sources of hot rocks for geothermal energy close to existing electricity transmission lines.
- the Government is also providing \$5 million for Ergon Energy to trial an energy conservation program in Queensland's isolated communities. This program will investigate ways to reduce the cost of supplying energy to these communities as well as reduce greenhouse gas emissions and electricity bills.

## THE SMART REGULATION REFORM AGENDA

Increasing the momentum on regulatory reform is an important focus of the Queensland Government. This is now occurring on two main fronts: reducing barriers to trade and commerce between Queensland and the rest of Australia; and reducing the regulatory burden on the Queensland business sector.

In December 2008, the Queensland Government, along with other Australian jurisdictions, committed to a National Partnership Agreement to Deliver a Seamless National Economy. Under this agreement, Queensland is implementing regulatory and competition reforms in 36 key areas to improve the efficiency and inter-jurisdictional harmonisation of the regulatory environment. Harmonisation of these regulations across Australian jurisdictions will contribute to reducing costs incurred by business in complying with differing and inconsistent regulation across jurisdictions.

Key initiatives in the Seamless National Economy agenda are:

- establishing uniform national occupational health and safety laws – a new national entity, Safe Work Australia, has been established by the Australian Government and will now commence developing model legislation, with implementation scheduled for late 2011
- establishing a national licensing system to allow specified tradespeople to work seamlessly across state borders – an intergovernmental agreement was signed at COAG on 30 April 2009. Development of legislation will proceed through 2009-10, working towards full implementation on 1 July 2012
- implementing a national Standard Business Reporting framework to eliminate duplication in business-to-government reporting – a single online facility for reporting to state and federal agencies will commence on 1 July 2010
- developing a new Australian Consumer Law to provide consistent consumer protection and enforcement of breaches, and to provide business with a single national law with which to comply, thereby reducing the compliance burden
- delivering a new national construction code, which will set nationally consistent standards for building and plumbing collectively.

In addition to this national reform agenda, the Government is implementing an innovative five-point action plan under the Queensland Smart Regulation Reform Agenda. A key action under the reform agenda is to reduce the stock of regulation through a phased program of reviews by agencies of their existing regulation. Other actions include initiatives focussed at improving the quality of new regulation and improving the business government interface.

These initiatives aim to reduce unnecessary regulatory compliance burdens and improve the effectiveness and efficiency of regulations to deliver productivity benefits and real measurable savings to Queensland business, community and government.

As part of this overall regulatory improvement agenda, the Government has committed to an initial target of reducing the regulatory compliance burden to business and the administrative burden to government by \$150 million each year by the end of 2012-13.

## 5 PUBLIC NON-FINANCIAL CORPORATIONS SECTOR

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### FEATURES

- On 2 June 2009, the Government announced its intention to dispose of some of its asset portfolio, comprising Forestry Plantations Queensland, Queensland Motorways Limited, Port of Brisbane Corporation, Abbot Point Coal Terminal and QR Limited's above and below rail coal business.
- The Government will continue to actively manage its shareholding in Public Non-financial Corporations with the aim of maximising value to the community.
- The Government's return from its ownership of businesses in the Public Non-financial Corporation sector is represented by net flows to Government. In 2009-10, there is an estimated inflow of \$1.119 billion, comprising dividends of \$872 million and current tax equivalent payments of \$247 million.
- Community service obligation payments of \$1.569 billion will be paid to the sector in 2009-10, largely for public transport and electricity subsidies.
- In 2009-10, the Government-owned corporations are expected to have a rate of return of 4.7%, increasing to 6.6% by 2012-13 due mainly to an increase in dividends from the transport Government-owned corporations.
- QR Limited is continuing to implement the reforms announced as part of the 2008-09 Budget, including changes to the Regional Freight and Livestock businesses to ensure they can reach a position of recovering costs to achieve long term sustainability.
- Following the review of the structure of the Queensland port network, the Government has approved the implementation of a five port authority framework. The new framework comprises Far North Queensland Ports Corporation, Port of Townsville Limited, North Queensland Bulk Ports Corporation, Gladstone Ports Corporation and Port of Brisbane Corporation.

With the impacts of the global financial crisis being felt around the world, the Government remains committed to the delivery of essential infrastructure and continued economic growth. In that context, and bearing in mind the capacity of the State's balance sheet to continue to meet growing and competing demands for services and infrastructure, the Government has announced in the *Renewing Queensland Plan* that it will pursue a significant program of asset sales, including several Government-owned corporations (GOCs), over the next three to five years. In selling the proposed assets, the State is looking to generate proceeds of approximately \$15 billion over the period of the disposal program. In the intervening period until sold, all business will continue to invest and operate as normal.

In the Public Non-financial Corporations (PNFC) sector, the Government will continue to invest in key infrastructure during 2009-10 and the forward years to ensure the ongoing delivery of energy, transport and water services to a growing population.

Key infrastructure projects in 2009-10 include:

- QR Limited (QR) will spend \$515 million to upgrade infrastructure and rollingstock on the Citytrain network and \$862 million on a range of purchases and upgrades to support the haulage of coal in Central Queensland
- Ports Corporation of Queensland Limited (PCQ) has allocated \$349.8 million for port expansion and development including at Abbot Point, Louisa Creek, Mourilyan and Thursday Island to improve capacity and meet market growth
- Port of Brisbane Corporation (PBC) is investing \$536.5 million over five years for new wharves 11 and 12 and establishing associated land works at Fisherman Islands
- Queensland Motorways Limited's (QML) project to introduce free-flow tolling on the Logan Motorway and existing Gateway Bridge will be implemented in July 2009, with expenditure of \$43.6 million in 2009-10
- Powerlink Queensland (Powerlink) will invest \$610.4 million in transmission infrastructure and augmentation, while ENERGEX and Ergon will invest a total of \$2 billion in distribution infrastructure and augmentation
- Projects arising from the Government's reform of the water supply industry in South East Queensland, including the continued construction of the \$9 billion South East Queensland Water Grid.

QR is working with coal company customers to revise the scope of the Goonyella to Abbot Point expansion (GAPE) project, which will provide mines in the Goonyella system with access to the expanding Abbot Point Coal Terminal (APCT). This review has successfully re-scoped the project in order for it to better meet customer capacity and cost expectations. To process the increase in coal from the GAPE, PCQ is expanding APCT to 50 million tonnes per annum by 2011. However, this project is dependent upon coal companies committing to the GAPE project, which includes the Northern Missing Link.

The Government will continue to actively monitor its investment in the PNFC sector to ensure it delivers maximum value for the benefit of Queensland taxpayers, while providing quality services to the community and customers.

## NET FLOWS TO GOVERNMENT

The PNFC sector comprises 14 GOCs (QIC Limited is not part of the PNFC sector as it is a Public Financial Corporation) and other entities, including the State water entities, Forestry Plantations Queensland (FPQ) and QML.

Government's return from its ownership of PNFC sector entities is represented by the flows to Government for the financial year. These are the dividends and current tax equivalent payments (TEPs) received from PNFC sector entities. Consistent with Government Finance Statistics requirements, only current TEPs are used to calculate net flows.

In situations when the Government seeks to have a commercial business deliver a particular non-commercial product or service to the community, the Government provides a community service obligation payment (CSO) to the business.

Dividends from the PNFC sector are a function of net profit after tax and the dividend payout ratio, which is determined by shareholding Ministers after considering the circumstances of each individual entity and the advice of the boards. The dividend payout ratios recommended by the boards do not impact on the capacity and requirement of GOCs to carry out necessary maintenance, repairs and asset replacement, as dividends are paid after providing for such costs. Total dividends to be paid to Government in 2009-10 are estimated at \$872 million.

<b>Table 5.1 Dividends<sup>1</sup></b>			
	2007-08 Actual \$ million	2008-09 Est. Act. \$ million	2009-10 Budget \$ million
Energy Sector	604	531	493
Transport Sector (rail and ports) <sup>2</sup>	284	300	342
Other	6	6	37
Non-GOC	113	7	..
<b>Total PNFC sector dividends</b>	<b>1,006</b>	<b>845</b>	<b>872</b>
Notes:			
1. Numbers may not add due to rounding.			
2. Transport sector increase is due to anticipated better earnings by QR Limited in 2009-10 relative to 2008-09 which was impacted by the economic downturn.			

PNFC sector entities pay TEPs in lieu of the taxes they would have to pay if they were not Government-owned, with TEPs calculated as 30 per cent of earnings before tax. Total current TEPs to be paid to Government in 2009-10 are estimated at \$247 million.



**Table 5.2**  
**Current Tax Equivalent Payments<sup>1</sup>**

	2007-08 Actual \$ million	2008-09 Est. Act. \$ million	2009-10 Budget \$ million
Energy Sector	137	169	141
Transport Sector (rail and ports) <sup>2</sup>	58	29	81
Other	7	27	22
Non-GOC	4	2	2
<b>Total PNFC sector current TEPs</b>	<b>207</b>	<b>228</b>	<b>247</b>
Notes:			
1. Numbers may not add due to rounding			
2. Transport sector increase relates to a combination of QR Limited's improving financial position and reduced deferred income tax equivalents.			

In 2009-10, it is estimated that the Government will pay CSOs of \$1.569 billion.

**Table 5.3**  
**Community Service Obligation payments<sup>1</sup>**

	2007-08 Actual \$ million	2008-09 Est. Act. \$ million	2009-10 Budget \$ million
Energy Sector	619	500	333
Transport Sector (rail and ports)	1,004	1,143	1,220
Other	11	3	7
Non-GOC	..	9	8
<b>Total PNFC sector CSOs</b>	<b>1,634</b>	<b>1,654</b>	<b>1,569</b>
Notes:			
1. Numbers may not add due to rounding			
2. The Energy sector CSO provided by Government to allow for a maximum uniform electricity tariff across Queensland is budgeted to reduce in 2009-10 as the cost disparity to supply electricity in regional areas, driven by greater network costs and higher loss factors, is reduced.			
3. Transport sector increase is due to forecast passenger train services cost increases and regulated below rail cost increases.			

## **ASSET SALES PROGRAM**

The Government announced plans on 2 June 2009 to dispose of some of its asset portfolio including:

- Queensland Motorways Limited
- Port of Brisbane Corporation Limited
- Forestry Plantations Queensland
- Abbott Point Coal Terminal
- QR Limited's above and below rail coal business plus options to sell QR's bulk freight, intermodal, retail and regional freight services.

In selling the portfolio of assets proposed, the Government is looking to generate proceeds of approximately \$15 billion over a three to five year asset disposal program. As well as generating these sale proceeds which will be used to retire debt, the Government will also avoid the necessity to spend as much as \$12 billion in future capital expenditure that these businesses require over the next five years. While Government will have to outlay some of this additional capital expenditure up until sale, it should be fully recovered through additional sale proceeds.

In the intervening period until sold, all businesses will continue to operate as usual and customers should continue to negotiate new contracts with the businesses announced for sale. Further details on the activities of each business are in the relevant section below.

### **QR coal and freight businesses**

The State will look to structure the coal infrastructure sale packages in a way which provides an opportunity for the efficiency of the rail-to-port network to be maximised. For instance, some sections of QR's below rail coal network could be packaged together with PCQ's Abbot Point Coal Terminal. Such a structure would ensure the objectives of the port and rail infrastructure providers are better aligned in relation to the important Newlands and Goonyella networks.

The coal infrastructure sales package will include the sale of QR's above and below rail coal businesses. Opportunities to package all or parts of QR's bulk, intermodal, retail and regional freight services are to also be investigated. QR's passenger services business, above and below rail, will not be sold.

### **Abbot Point Coal Terminal**

Abbot Point Coal Terminal, located north of Bowen, is Australia's most northerly coal port. Together with rail handling and coal stockpiling areas, it comprises a shiploader facility located 2.75 kilometres offshore. Coal is supplied to Abbot Point by rail, primarily from the Newlands, Collinsville and Sonoma mines.

Together, the QR and Abbot Point Coal Terminal transactions are expected to facilitate increased investment by the private sector in the maintenance and expansion of this infrastructure in the future. This transaction is also expected to align rail and port ownership to assist in overcoming infrastructure development bottlenecks associated with rail and port owners historically having different views on the scope and timing of new works.

## **Port of Brisbane Corporation**

PBC is primarily responsible for the landlord functions at the Port of Brisbane and the Port of Bundaberg, and also has a major property development function for the development of strategic port land.

The sale of the Port of Brisbane will facilitate future investment and development of export facilities. It will also avoid the need for Government investment in the future capital expansion required at the Port totalling nearly \$500 million over the next five years.

The Port of Bundaberg will not be sold as part of the sale process but will be transferred to the Gladstone Ports Corporation ahead of the sale of PBC.

## **Queensland Motorways Limited**

QML has a franchise agreement with the Government to operate and maintain the Logan Motorway, Gateway Bridge and Gateway Motorway between Nudgee Road and Mt Gravatt-Capalaba Road, and the Gateway Extension Motorway (collectively the Gateway Franchise). QML currently operates five toll plazas at the Gateway Bridge, Kuraby, Stapylton Road, Loganlea and Paradise Road interchange, with the introduction of free-flow tolling expected to occur from 1 July 2009. QML also maintains a significant section of the Port of Brisbane Motorway.

The sale of QML will also incorporate a major upgrade of the Port of Brisbane Motorway.

In conjunction with the sale of PBC, the sale of QML's assets is expected to facilitate further development expansion of the Port of Brisbane and its surrounding infrastructure.

## Forestry Plantations Queensland

The sale of FPQ will focus initially on FPQ's softwoods business. FPQ was created on 1 May 2006 as part of significant commercial reform of State owned forestry plantation management in Queensland.

FPQ currently manages:

- exotic pine plantations at Beerburrum, Passchendaele (near Stanthorpe), Pechey (near Crows Nest), Toolara (near Gympie), Tuan (near Maryborough), Byfield (near Yeppoon), Ingham, Cardwell, Atherton and Cathu (near Proserpine)
- hoop pine plantations at Imbil, Brooyar (near Kilkivan), Jimna and Gallangowan, Yarraman, Kalpower (near Monto), Palen Creek and Atherton
- hardwood plantations around Kingaroy, Wondai, Gayndah, Mundubbera, and on the coastal plain between Beerburrum and Gympie.

Further investigations and specialist advice will determine whether the sale will also include FPQ's hardwood plantations.

## CAPITAL STRUCTURE REVIEW

The Government, through the Queensland Treasury Corporation (QTC), has assessed the capital structure of each GOC with the objective of ensuring that all GOCs maintain a private rating of investment grade (BBB- or above), recognising the need for equity injections for some GOCs over the forward estimate period. It also identified potential for equity repatriation from some other GOCs whose balance sheets had become indicative of an inefficient capital structure.

The Government has approved the following equity injections and repatriations for 2009-10:

- \$60 million equity injection to SunWater Limited (SunWater)
- \$50 million equity injection to the Ports Corporation of Queensland
- \$380 million equity repatriation from Stanwell
- \$90 million equity repatriation from Gladstone Ports Corporation.

In addition, QR is to receive an equity injection of \$390 million, as part of the ongoing funding of the *South East Queensland Infrastructure Plan and Program* (SEQIPP) and Cairns Ports Limited (CPL) is to receive an equity injection of \$11 million to design and construct a Cruise Terminal Facility at the existing heritage cargo sheds.

The surplus equity repatriations in 2009-10 will be used in following years to fund equity injections and/or capital investment by GOCs in approved major investment projects.

The Government will continue to review GOCs' capital structures each year in the Budget context, and may elect to make further equity adjustments reflecting changing circumstances as a result of approval of major investment projects or changes in demand or financial outlook.

## **IMPLEMENTATION OF GOC REFORMS**

As part of the 2008-09 Mid-year Fiscal and Economic Review, the Government announced a range of reforms to the GOC sector. In 2009-10, the Government will continue to work with the 15 GOCs (including QIC) and FPQ to improve their efficiency, effectiveness and accountability. The aim has been to provide the GOCs with appropriate organisational structures and incentive frameworks to allow the GOCs to operate at their full commercial potential providing returns akin to those expected by investors in private sector companies.

### ***Operational efficiencies and savings targets***

The Government is working with the GOCs to progressively increase their contributions to General Government revenue through dividends and tax equivalent payments to achieve an additional \$100 million per annum by 2011-12. The 15 GOCs and FPQ have identified, and will continue to work towards identifying, operational efficiencies and productivity measures that will enhance financial performance without detracting from the quality and reliability of customer services.

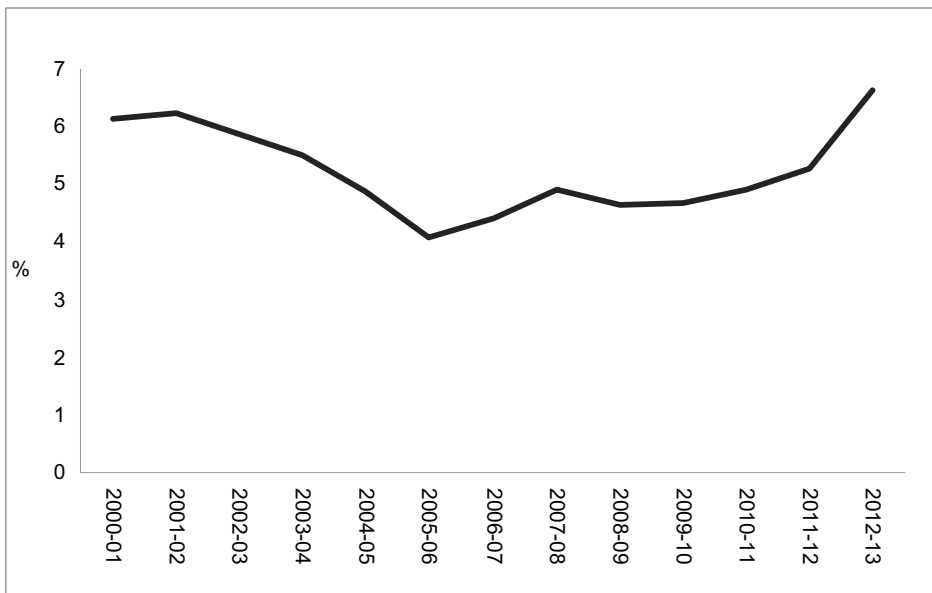
### ***Rate of return targets and investment hurdle rates***

In addition, the GOCs have undertaken reviews of their weighted average cost of capital to accommodate the current financial and economic environment, and are looking to increase their minimum hurdle rates of return used in the assessment of new investments, consistent with the re-pricing of risk in financial markets.

The Government's return from its ownership of GOCs includes dividends, expected to total \$872 million in 2009-10. This represents an estimated rate of return of 4.7%. As a result of Government reforms, this is expected to increase to 6.6% by 2012-13, due mainly to an increase in dividends from the transport Government-owned corporations. The anticipated increase in the expected rate of return (dividends/equity) from GOCs over the forward estimates period is reflected in Chart 5.1.

**Chart 5.1**  
**Rate of Return<sup>1, 2</sup>**

based on dividends / average total equity, annual from 2000-01 to 2012-13



Notes:

1. Calculated as (ordinary dividends / average total equity)
2. Excludes dividends associated with asset sales and special dividends

## ***Capital expenditure reviews***

Each GOC has reviewed its capital expenditure plan to identify opportunities for optimising capital investments in light of more subdued economic activity, while ensuring the continued delivery of essential infrastructure, with the outcomes reflected in the capital expenditure forward estimates in this Budget. GOCs will continue to actively monitor their plans and more adjustments in future Budgets can be expected.

## ***Surplus and non-core assets***

All GOCs are reviewing their asset holdings to identify surplus, non-performing and non-core assets. These assets will be assessed for their potential to be more effectively managed or rationalised. Among the larger assets identified as surplus to requirements are the Glen Wilga and Haystack Road coal resources held by Tarong Energy Corporation (Tarong). Their future retention will be actively considered by the Tarong Board and Government during 2009-10. ENERGEX has also completed a review of all non-regulated businesses, commencing a process of divesting those identified as non-core. In 2008-09, ENERGEX sold ENERGEX New Zealand. During 2009-10, ENERGEX will continue this process with a number of smaller businesses and assets earmarked for sale.

This surplus GOC asset process will proceed separate to the larger asset sales program, with individual smaller assets no longer required being disposed of by the GOCs.

## **TRANSPORT SECTOR**

The Government remains committed to the delivery of essential infrastructure and continued economic growth. In 2009-10, Queensland's transport GOCs will undertake significant investments worth \$2.8 billion in port and rail infrastructure to ensure the State can take advantage of the economic recovery and respond to the expected return of demand for Queensland resources. Consistent with the broader GOC reform process outlined above, the Government in collaboration with the transport GOCs is also pursuing structural and other major reforms at an individual entity level. These measures and investments will contribute to greater efficiency in Queensland's export supply chains.

### **QR Limited**

#### ***QR reform process***

QR is implementing a significant transformation agenda to ensure it continues to grow as a leading national transport and logistics company. QR's strategy incorporates improved safety, including the Zero Harm Strategy, customer service, commercial capability and business growth. QR is expanding its business nationally and has successfully restructured the business into separate accountable business lines for its Passenger and Network operations. The reinvigoration of QR's leadership team and the development of a new business strategy to improve performance and provide sustainable growth with appropriate financial returns underpin QR's transformation agenda. QR is responding to the global financial crisis by delivering improved capital productivity across its extensive capital program, maximising returns on capital through stronger capital management and by maximising supply-chain capacity.

QR's coal business is implementing a comprehensive business improvement program to improve its overall operational performance to the satisfaction of its customers. This process includes reform to its approach to the market through continuous strategies, such as contract rate re-negotiations, improving QR's customer service model, cost efficiency programs and renegotiation of previously uncommercial terms.

To ensure QR's Regional Freight business model operates more commercially and turns around ongoing financial losses, QR has developed a reform program which will provide an equivalent or better service to customers in regional communities. The Regional Freight reforms will be implemented by QR in the context of continued employment growth within the wider QR Group, and with a view to its possible inclusion in a sale of above rail freight operations in the next three to five years, as announced by the Government on 2 June 2009.

QR's regional freight services are under growing pressure from competition as these services no longer meet community needs, with, for example, QR's rail services taking five days to move a parcel between Brisbane and Mount Isa compared to less than two days by road. QR's Regional Freight and livestock businesses are undergoing reform to more effectively meet the needs of Queensland's regional communities and to turn around ongoing financial losses.

### ***Key rail infrastructure***

QR is rolling out a \$2.1 billion capital program in 2009-10 to increase the capacity of its coal and passenger networks by acquiring new rollingstock and upgrading infrastructure. QR expects demand growth to resume in all sectors it operates in over the forward estimate period, although it is likely to be at a slower pace than previously predicted for some of its businesses. While there is uncertainty around the strength of demand for the export of metallurgical coal and thermal coal in 2009-10, QR expects an increase in demand for these core export commodities to re-emerge as well as increased demand to continue for general freight, bulk commodities and passenger services.

QR's capital improvement program to secure future growth prospects for Queensland's coal industry includes expenditure of \$862 million for locomotive acquisitions and overhauls, Jilalan Yard upgrade, Vermont Spur and a new wagons' program.

QR will spend \$515 million in 2009-10 to upgrade infrastructure and rollingstock on the Citytrain network as part of SEQIPP. SEQIPP projects include construction of the Springfield line and the Corinda to Darra third track, the Caboolture to Beerburum duplication and completion of the Robina to Varsity Lakes line.

### ***Northern Missing Link/Newlands Line***

QR and coal companies are currently revising the scope and costings for the GAPE project which includes the Northern Missing Link (NML), a 69 kilometre rail link between the North Goonyella and Newlands rail systems in the Bowen Basin. The GAPE project will provide mines in the Goonyella system with access to APCT. With participation from industry QR is identifying significant cost savings for the GAPE project through project scope changes, design changes, value engineering and procurement enhancements. QR remains committed to ensuring the project is delivered well in time to effectively manage future growth in coal tonnages and utilise additional capacity at the Port of Abbot Point. It is anticipated at this stage that the project will proceed to the design and construction phase in 2009-10.

Construction of the project needs to be underpinned however by appropriate commercial arrangements with coal company customers. QR has completed early works for the GAPE project, including preliminary engineering and design. However, due to the impact of the global financial crisis on coal demand, coal tonnage forecasts for the first two years of the project are 75% lower than original forecasts, which have caused QR and the industry to rethink the scope and timing of the GAPE project.



## ***Surat & Galilee Basins***

The Surat Basin Railway is a key piece of rail infrastructure that if constructed, would facilitate development of the significant coal reserves in the Surat Basin by providing a link to the Port of Gladstone. The Surat Basin Railway Joint Venture (SBRJV), comprising QR, Xstrata, and the Australian Transport and Energy Corridor, has been granted an exclusive mandate to develop the project. The Government and SBRJV are currently negotiating the arrangements that will govern the construction and operating phases of the project should financial close be successfully achieved.

With regards to the Galilee Basin, Government is seeking to identify preferred options to deliver coal infrastructure to link the Basin to the Port of Abbot Point via a dedicated rail link. As such, the Government is keen to facilitate options involving private sector investment and development of this key infrastructure. This objective will be met through the provision of an integrated solution that provides equity of access to project proponents; ensures optimal supply chain solutions are facilitated from proponents singularly or collectively; and ensures any new export supply chain infrastructure provides open access to all Galilee Basin proponents.

## **Port GOCs**

### ***Queensland port network restructure***

In 2008, following the decision to divest its investment in airport assets in Mackay and Cairns, the Queensland Government conducted a review into the structure of the Queensland port network. Based on the review the Government approved the implementation of a five port authority framework as follows:

- Far North Queensland Ports Corporation, which is Cairns Ports Limited renamed, will have responsibility for ports north from Mourilyan with the exception of Weipa i.e. – Cairns, Mourilyan, Cooktown, Cape Flattery, Karumba, Skardon River, Thursday Island, Quintell Beach and Burketown
- Port of Townsville Limited (PTL) – will now also manage Port of Lucinda
- North Queensland Bulk Ports Corporation (NQBPC) – to be an amalgamation of existing Ports Corporation of Queensland Limited (PCQ) and Mackay Ports Limited (MPL) functions. NQBPC will manage the port of Mackay and all bulk commodity ports including Weipa, Hay Point and Abbot Point
- Gladstone Ports Corporation Limited (GPC)
- Port of Brisbane Corporation Limited (PBC).

The commencement date for the new port network structure is 1 July 2009.

Subsequent to the approval of the new ports structure, the Government announced plans to dispose of some of its assets over a three to five year period, including PBC and APCT held by PCQ. However, until PBC and APCT are sold, the new ports structure will be implemented and they will continue to operate on a business as usual basis.

The new structure of the Queensland port network will provide a more regional focus for Queensland's ports.

### ***Key ports infrastructure***

Significant growth is expected for the Port of Gladstone and Port Alma with port trade growth forecasts expected to increase from 80 million tonnes per annum (mtpa) in 2009 to 119 mtpa by 2014. To meet anticipated long term demand for coal and liquefied natural gas (LNG), significant port planning and development activities are being undertaken by GPC.

PCQ is also on course to deliver on emergent demand for Queensland commodities. PCQ's eight trading ports handle more than half of Queensland's exports (by tonnage) and total trade of 119 mt in 2007-08 is expected to increase to 155.5 mt in 2013-14.

### ***Wiggins Island Coal Terminal***

In response to future coal demand projections, a new coal terminal, Wiggins Island Coal Terminal (WICT), is proposed to be located north of the Calliope River and the RG Tanna Coal Terminal at the Port of Gladstone. It is expected that the terminal will be developed in three stages with the first stage creating additional capacity of approximately 25 mtpa, increasing to a total export capacity of approximately 70 mtpa.

In late 2008, a consortium of coal companies, the Wiggins Island Coal Export Terminal (WICET) Group, provided the Queensland Government with a private finance proposal (industry model) to develop WICT. Under the industry model, the WICET Group will finance and own the terminal at the Port of Gladstone, with GPC as operator.

On 26 November 2008, the Government provided 'preferred proponent' status to the WICET Group to proceed with the development of WICT. WICET, GPC and the Queensland Government are currently working through commercial and technical issues associated with the project and financial close is expected by mid-2010.

## ***Abbot Point Coal Terminal expansions***

The APCT expansion to 21 mtpa capacity (X21) was completed in November 2007. APCT is currently being expanded to 25 mtpa (X25) at a cost of \$95 million, of which \$17 million is allocated in 2009-10, with the majority of the expansion becoming operational by July 2009. Outloading works are to be completed in mid-2010. The expansion up to 50 mtpa (X50) was approved by Government in June 2008. Total estimated cost for the X50 expansion is estimated to be \$818 million (inclusive of finance charges). Budgeted expenditure in 2009-10 is \$287.9 million.

PCQ remains on schedule to deliver X50 by 2011. Expansion of the APCT beyond X25 is dependent upon coal companies' commitment to QR's construction of NML, which forms part of the GAPE project.

PCQ's 2008 Master Plan details the scope, preliminary budget and project timeframes for the proposed 80 mtpa to 110 mtpa expansion (X80/X110) of the APCT. PCQ has anticipated that expansion to a capacity of X80 could be achieved by mid 2013 and to X110 by mid 2017 should the coal companies commit to additional export capacity.

In 2009-10, \$23.5 million has also been allocated for renewal of stacker reclaimers at APCT, with a total cost of \$68.3 million and an expected completion date of 2011.

## ***Liquefied natural gas proposals***

Curtis Island has been identified as a suitable location for large-scale LNG processing facilities to take advantage of Queensland's coal seam gas reserves. Analysis indicates the export capacity for LNG at Gladstone could be up to 15 mtpa in the medium term, driven by forecast strong demand in Asian markets. Several LNG proponents are currently investigating the development of production facilities at the Port of Gladstone.

Development of the LNG industry in Gladstone will be guided by the preparation of a Master Plan for the LNG precinct on Curtis Island, initiated by the Department of Infrastructure and Planning. This Master Plan will guide the development of the LNG precinct, including the provision of common user infrastructure such as roads, bridges, water and power distribution networks and pipeline corridors.

As announced in the 2009 State Election, the Government will provide \$30 million over two years to fund the purchase of land for a Callide to Gladstone 'gas super-highway'. The land will create a corridor between Callide and the Gladstone State Development Area to accommodate co-location of the LNG pipelines to Curtis Island.

The Government will assist in planning, facilitating and coordinating the delivery of this infrastructure in conjunction with the development of co-located and shared facilities by LNG proponents to minimise the costs to be borne by LNG proponents from infrastructure development, in addition to ensuring the efficient usage of available land.

Investigations into channel upgrades and dredging of the Port of Gladstone, including the required funding from industry for its facilitation, will be progressed by GPC and its customers in conjunction with Government departments.

## ***Port of Brisbane Corporation Limited***

PBC is investing \$536.5 million over five years for new wharves 11 and 12 and establishing associated land works at Fisherman Islands. Construction works for the new wharves continue to be ahead of schedule with the timing of the opening of the associated terminals 11 and 12 set for June 2012 and June 2014 respectively. The new wharves will increase Brisbane's container-handling facility by 25% and take the number of dedicated container wharves at the port to nine.

Hutchison Port Holdings (HPH), one of the world's leading port investors, developers and operators, has entered into an agreement to lease the new container wharves and will become the third stevedore operating in Brisbane. HPH will undertake and fund the development of container terminal facilities for the new wharves.

## ***Additional ports infrastructure***

In 2009-10, \$108.6 million is allocated for capital works by GPC at RG Tanna coal terminal, general road rebuilding, land reclamation, mobile plant placements and modification of shiploading facilities at Auckland Point.

PCQ has allocated \$1.6 million in 2009-10 to continue studies into the development of a multi-cargo facility at Abbot Point. An additional \$348.2 million in 2009-10 has also been allocated for port expansion and development at locations including Abbot Point, Louisa Creek, Mourilyan and Thursday Island. This investment will improve the capacity of PCQ's ports and meet market growth. Preliminary expenditure is allocated for investigations into the Abbot Point multi-cargo facility.

Design of the Wallace Creek Bridge at the Port of Bundaberg was completed by PBC in December 2008. The \$7.7 million bridge, which will provide a link to Burnett Heads, is funded by PBC, the Australian Government and Bundaberg Regional Council. The project is expected to be completed in early 2009-10.

In 2007 the PTL completed the Port of Townsville Master Plan, a key initiative to guide the development and operation of the Port over a 25 year horizon. In 2009-10 the PTL has allocated \$11 million for port development and port infrastructure.

## ***Queensland Motorways Limited***

During 2009-10 QML will continue to progress the delivery of two major projects in accordance with the requirements of the Road Franchise Agreement established in July 2006.

In February 2008, the then Minister for Main Roads and Local Government announced the Queensland Government's decision to simultaneously introduce free-flow or cashless tolling on the Gateway and Logan Motorways in mid 2009. In response, QML, following a competitive tender process, appointed two leading international technology providers, Thales and IBM, to design, build and implement roadside and back-office systems to support free-flow tolling.

The project is on target to be delivered in two phases: full implementation of free-flow tolling on the Logan Motorway and existing Gateway Bridge in July 2009, with phase two to incorporate the new duplicate Gateway Bridge when it opens in mid-2010.

QML will spend a total of \$43.6 million on the free-flow tolling project in 2009-10. The total cost of the project, incorporating systems design, build and implementation, gantry design and construction, and civil works will be in the order of \$171.7 million.

The construction of the Gateway Upgrade Project will progress towards completion during 2009-10 and is on target for completion in early 2011.

During 2009-10 two significant components of the project will be completed and be opened to traffic: the northern deviation in July 2009, with the new Gateway Bridge expected late in the financial year. The opening of these two sections will have a significant positive impact on traffic congestion.

QML will spend \$259.2 million on the Gateway Upgrade Project in 2009-10. The total project cost will be contained within the budget of \$1.883 billion. A further \$43.6 million is allocated towards the implementation of free-flow tolling.

## **ENERGY SECTOR**

### **Impact of the Carbon Pollution Reduction Scheme**

The introduction by the Australian Government of the proposed Carbon Pollution Reduction Scheme (CPRS) is likely to lead to falls in the asset values of coal-fired generators, including the black coal electricity generators owned by Queensland's GOCs.

This result has been found in several recent modelling studies including consultancies commissioned by the Australian Treasury (ROAM Consulting and ACIL Tasman) and by the Council for Australian Federation (Access Economics).

Under the CPRS, coal fired generators will find it difficult to pass on to customers all of their carbon permit costs and will generate lower volumes. As a result their earnings are likely to decrease.

The Queensland Government will undertake specific modelling of the impact of the CPRS on Queensland's energy market and electricity generator GOCs when the Australian Government's CPRS legislation is passed.

The Queensland Government estimates that its State-owned generators may receive approximately \$53 million (of the total estimated compensation for Queensland black coal generators outlined on page 60 of chapter 4) of the total Electricity Sector Adjustment Scheme (ESAS) compensation of \$3.5 billion proposed by the Australian Government. Having regard to the losses estimated in the modelling studies referred to above, it is likely that the State's losses will be significantly higher than the compensation offered under the ESAS.

### **Investment – energy**

The Government will continue to invest in transmission and distribution infrastructure across the State, to ensure that demand growth and peak demand will be met. Importantly, a significant proportion of network expenditure is incurred to meet peak demand which occurs on only a few days per year. Demand growth in Queensland is being largely driven by population growth and increased consumer uptake of consumer lifestyle appliances such as air conditioning.

ENERGEX Limited (ENERGEX) and Ergon Energy Corporation Limited (Ergon) are reaching the end of their current regulatory period under the Queensland Competition Authority (QCA), and a new regulatory pricing determination will be made by the Australian Energy Regulator (AER) for the new five year regulatory period from 1 July 2010.

Transmission infrastructure and augmentation will be strengthened with Powerlink investing \$610.4 million in 2009-10. Distribution infrastructure and augmentation will also be strengthened through ENERGEX and Ergon investing a total of \$2.1 billion in 2009-10. This investment will ensure that the State maintains reliable and secure transmission and distribution electricity networks. Demand side management will be essential for reducing future pressure on transmission and distribution network expenditure, and helping to lower retail prices for customers in the long run.

The State Government-owned generators are moving to reinvigorate and improve their focus on the maintenance and efficient operation of generation assets, as reflected in their capital investment plans for 2009-10.

There has been a history of private sector participation in the State's energy sector. The private sector currently owns and controls 30% of total generation capacity within the State, which will increase to 35% in 2009-10 with the commissioning of four new gas-fired plants currently under construction. In 2009-10, privately-developed and operated gas-fired generation will add an additional 1,055 megawatts of capacity to the State's electricity supply. These plants will be progressively commissioned at Mt Stuart, Darling Downs, Condamine and Yarwun.

The Government is currently undertaking a review of the structure and preparedness of the GOC Generators to meet the new challenges facing these businesses particularly in respect of the impending CPRS and competition from large vertically integrated retailers.

The review will consider the GOC generators' position as the dominant provider of electricity, particularly coal-fired base load capacity, in the Queensland market with a view to reducing the State's share of owned and controlled generation capacity from the current 70% to around 50%.

The target of 50% will be progressively achieved primarily as a result of new capacity requirements being met by the private sector, expected to consist largely of gas-fired generation.

## **North West Queensland Energy Review**

During 2008-09 the Government and the Queensland Resources Council jointly commissioned an independent review of energy delivery in the North West Queensland Minerals Province.

The North West Queensland Minerals Province, predominately the area centred around Mount Isa and Cloncurry, is host to a number of operating mines with production valued at \$6.6 billion in 2006-07 and has a number of mining operations that have been identified to commence within the region over the next five years. The region currently sources its electricity needs from CS Energy's gas-fired Mica Creek Power Station, Xstrata PLC's gas-fired power station and a number of small mine-based generator units. None of these power stations are connected to the national electricity grid.

The outcomes of the Review will point to a pathway forward for the most efficient augmentation to the North-West's power supply.



## **Ergon franchise load**

Ergon Energy Queensland Limited (EEQ), a wholly owned subsidiary of Ergon, provides electricity retail services to around 650,000 non-market customers across regional Queensland.

The Government is committed to ensuring that Queenslanders, regardless of where they live in the State, should have access to affordable electricity supply. The Government provides a maximum uniform tariff across Queensland in order to ensure Queenslanders are not disadvantaged by the higher cost of supplying electricity in regional areas. Higher costs are driven by greater network costs due to locational distances and higher loss factors.

This policy is supported by CSO payments by the Government to EEQ, which in 2009-10 is budgeted to be \$333.5 million. The Government also provides a range of concessions to eligible persons to reduce the cost of their electricity bills.

## **Australian Energy Regulator**

Responsibility for the economic regulation of Queensland's electricity distribution networks has transferred from the Queensland jurisdictional regulator, the QCA, to the AER. The AER will be responsible for regulatory pricing determinations following the expiry of the current pricing determinations on 30 June 2010.

As required under the National Electricity Rules, ENERGEX and Ergon are providing detailed regulatory proposals to the AER for consideration. The AER will make the distribution determination for the period from 1 July 2010 to 30 June 2015. The outcome of the AER's distribution determination should be published by 30 April 2010. Queensland has experienced rapid growth in electricity demand in recent years, driven to a large extent by increases in population, economic activity and use of lifestyle enhancing appliances such as air conditioners.



## **WATER SECTOR**

### **SunWater Regional Water Projects**

SunWater, in conjunction with Queensland Government departments, continues to develop business cases for the Regional Water Projects. The objective of these projects is to improve regional water security to facilitate economic growth, overcome institutional impediments to development and ensure an optimal use of capital and capacity.

SunWater is also continuing to progress the investigations of the underlying Projects in accordance with the Government's decisions relating to Connors River Dam and Pipelines, Nathan Dam and Pipelines, Fitzroy Weirs (with Gladstone Area Water Board) and Water for Bowen.

In addition to the program of works under the Regional Water Projects, SunWater is also undertaking studies for the Burdekin Falls Dam raising, Glebe Weir Raising and Bowen Basin Water Service Framework. In July 2009 SunWater will begin construction of the \$42.6 million Cloncurry Supply Pipeline project that will provide long term water security for the region.

### **State Water Entities**

The Queensland Government is currently undertaking fundamental reform of the water supply industry in South East Queensland. The key elements of this reform process include:

- the construction of the \$9 billion SEQ Water Grid, establishing interconnection of key supply and demand zones in the region and significant climate-resilient sources of supply, including desalination and recycled water
- the structural consolidation of the fragmented water supply industry in SEQ, which prior to the reform process included 25 different water service providers, including 21 bulk water assets owned by 12 different bodies with 17 water retailers. The future industry structure will significantly rationalise these arrangements, and better enable the new SEQ Water Grid Manager to coordinate efficient water distribution across the region
- significant regulatory reform intended to provide more transparent and effective frameworks for:
  - economic regulation and pricing to incentivise efficient demand outcomes
  - planning and development regulation, promoting economic efficiency and total water cycle management
  - asset management regulation, promoting active, whole-of-life asset management.

The passage of the *South East Queensland Water (Restructuring) Act 2007* (the Restructuring Act) in November 2007 set the framework to facilitate bulk water supply and transport business restructure. Under the new institutional arrangements, the State – via three new statutory authorities – has assumed control and operational responsibility of the larger bulk water assets that hold, manufacture and distribute bulk water in the SEQ region.

From 1 July 2008, water sources such as dams, weirs and aquifers were aggregated into the Queensland Bulk Water Supply Authority (trading as SEQWater). The Queensland Bulk Water Transport Authority (trading as LinkWater) assumed ownership of major water transport infrastructure, including that previously owned by councils and assets being constructed by the State as part of the SEQ Water Grid. The Queensland Manufactured Water Authority (trading as WaterSecure) was also established to own and operate the Western Corridor Recycled Water Scheme and the Gold Coast Desalination Plant on commissioning completion. Each of the new authorities conducts its affairs on a commercial basis.

The Restructuring Act also provided for the creation of a State-owned SEQ Water Grid Manager, established to manage contracts with the bulk supply and transport entities and the retailers, and to manage the equitable distribution of water across the SEQ Water Grid and allowing for the sharing of costs. The Water Grid Manager purchases the services of SEQWater, LinkWater and WaterSecure and sells water to retailers and power stations.

The next stage of the institutional reforms involves the functional separation of water distribution and retail activities from individual SEQ councils, and the establishment of a new structural and regulatory framework to govern the delivery of retail and distribution services in SEQ. The new arrangements will create greater regional synergy in service delivery, planning and service standards, and improved economic regulation. The businesses delivering water retail and distribution will continue to be owned by local governments.

To meet current and future water supply needs in SEQ, the Government is continuing construction of the Water Grid, ensuring climate-resilient supply arrangements and allowing water to be moved around the region to meet demand in the areas of highest need.

A total of \$332.5 million will be spent on bulk transport infrastructure in 2009-10. Of this, \$211.5 million is budgeted for the Northern Pipeline Interconnector Stage 2. This pipeline will extend from Landers Shute water treatment plant at Eudlo to Cooroy on the Sunshine Coast, and facilitate the integration of Sunshine Coast Regional Council into the SEQ Water Grid. Subject to the project receiving State and Federal Government approvals, construction is due to commence in the second half of 2009, to be completed in 2011-12 in line with the *Water Amendment Regulation (No. 2) 2008*. Longer-term planning is for the pipeline to deliver water from future northern water storages such as Traveston Crossing Dam or northern desalination sources.

In addition, \$121 million will be spent in 2009-10 on the 38 km Toowoomba pipeline, which is forecast to be operational by January 2010. This pipeline links Wivenhoe Dam to Toowoomba's Cressbrook Dam and is planned to provide water security to the Toowoomba region.

The Government-owned special-purpose vehicle construction company Queensland Water Infrastructure Pty Ltd (QWI) is progressing with land acquisitions and pre-construction activities relating to the \$348 million Wyalarong Dam on Teviot Brook, which is scheduled for completion in 2011. The Dam will provide an additional 26,000ML per annum of water when operated with the recently completed Cedar Grove and the Bromelton Offstream Storage.

QWI has also commenced preliminary planning and design activities, including land acquisitions, relating to the \$1.6 billion Traveston Crossing Dam. However, as outlined in the Mid Year Fiscal and Economic Review, a number of environmental mitigation measures are required prior to commencing construction of the Traveston Crossing Dam. These measures are designed to protect vulnerable species and minimise the impact on flora and fauna. The Government remains committed to the Dam, but it is expected that developing and proving the effectiveness of environmental measures will result in a delay in construction of several years. The Dam is now scheduled for completion in 2016-17.

Construction of the Western Corridor Recycled Water Project – the largest recycled water project in the Southern Hemisphere - will be finalised in 2009-10, with \$130.7 million budgeted to complete the water supply network. The project is diversifying SEQ water resources by producing purified recycled water that meets the Australian Drinking Water Guidelines.

In addition, final commissioning of the Gold Coast Desalination Plant at Tugun is expected to be completed in late 2009, delivering drinking water directly to the SEQ Water Grid at a total project cost of \$942 million (excluding network integration works). The delivery strategy for the Cedar Grove water treatment plant and connecting infrastructure will also be finalised in 2009-10, with planning work to be undertaken by SEQWater.

## **FORESTRY**

The Government will continue the expansion of its hardwood sawlog plantations consistent with its commitment under the Western Hardwoods Region Plan to make available 20,000 hectares of hardwood sawlog. In the event the hardwood plantations are included in the divestment of FPQ, the Government will oblige the acquiring party to honour the obligations under the Western Hardwoods Region Plan.

Pending the sale, FPQ will continue to progress commercial reforms to improve operations, long term sustainability and competitiveness of the Queensland plantation timber industry.

## 6 REVENUE

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### FEATURES

- Total General Government sector revenue is estimated to be \$37.192 billion in 2009-10. The increase of \$1.318 billion (or 3.7%) on 2008-09 estimated actual revenue primarily reflects increased Australian Government funding for specific purposes.
- Since the 2008-09 Budget, underlying estimates for taxation, royalties and Goods and Services Tax revenue have been revised down by \$15 billion across the period 2008-09 to 2011-12.
- While a number of taxation measures announced in the Mid Year Fiscal and Economic Review will commence from 1 July 2009, there are no taxation or royalty increases in this Budget.
- Employers will benefit from a 25% payroll tax rebate on the eligible wages of apprentices and trainees in 2009-10, in addition to these wages being exempt from payroll tax.
- The transfer duty exemption threshold for first home buyers purchasing vacant land will increase from \$150,000 to \$250,000, with a partial concession available for first home buyers purchasing vacant land valued at up to \$400,000.
- An instalment payment option for land tax liabilities will be introduced in 2010-11 to assist businesses and investors by spreading the tax liability over a longer period. In 2009-10, as an interim measure, the payment period for land tax assessments is increased from 30 days to 90 days, at an estimated cost to Government of \$8 million.
- Queensland will retain its competitive tax status, with per capita state tax estimated at \$2,087 in 2009-10, compared to an average of \$2,487 for the other states and territories.
- The abolition of duty on the transfer of core business assets will be delayed until 1 July 2013, in accordance with the timeframe included in the new *Intergovernmental Agreement on Federal Financial Relations*.

## INTRODUCTION

This chapter provides an overview of General Government sector revenue for the 2008-09 estimated actual outcome, forecasts for the 2009-10 Budget year and projections for 2010-11 to 2012-13.

**Table 6.1**  
**General Government revenue<sup>1</sup>**

	2008-09 Budget \$ million	2008-09 Est. Act. \$ million	2009-10 Budget \$ million	2010-11 Projection \$ million	2011-12 Projection \$ million	2012-13 Projection \$ million
<b>Revenue</b>						
Taxation revenue	10,106	8,759	9,287	9,991	10,740	11,547
<i>Grants revenue</i>						
Current grants	14,631	14,931	15,025	15,038	15,732	16,733
Capital grants	1,056	2,340	3,710	2,350	1,358	991
Sales of goods and services	3,385	3,466	3,650	3,704	3,836	3,899
Interest income	2,199	1,261	2,017	2,115	2,218	2,282
<i>Dividend and income tax equivalent income</i>						
Dividends	841	853	884	990	1,121	1,481
Income tax equivalent income	210	245	266	472	530	789
<i>Other revenue</i>						
Royalties and land rents	3,644	3,396	1,806	1,856	2,058	2,198
Other	509	621	548	511	506	510
<b>Total Revenue</b>	<b>36,582</b>	<b>35,874</b>	<b>37,192</b>	<b>37,029</b>	<b>38,100</b>	<b>40,431</b>
Notes:						
1. Numbers may not add due to rounding.						

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

General Government revenue in 2008-09 is estimated to be \$35.874 billion, which is \$708 million (or 1.9%) less than the 2008-09 Budget estimate.

Significant variations include:

- a \$1.347 billion reduction in taxation revenue, largely due to a sharp decline in transfer duty as a result of weakness in the property market reflecting a combination of tight credit conditions and the impact of the global downturn on the state economy
- a \$938 million reduction in interest income associated with lower than expected returns on investments held on behalf of former defined benefit members and statutory bodies
- a \$771 million reduction in GST receipts due to a decline in the national GST pool
- partly offset by a \$2.338 billion increase in Australian Government grants for specific purposes, which will be directed to increases in services and capital expenditure.

General Government revenue in 2009-10 is estimated to be \$37.192 billion, 3.7% higher than the 2008-09 estimated actual revenue of \$35.874 billion. This is largely due to:

- a further \$1.362 billion increase in Australian Government funding for capital expenditure
- interest income returning to an assumed long run rate of return
- modest growth of \$528 million (6%) in taxation revenue, primarily resulting from the measures announced in the Mid Year Fiscal and Economic Review.

Partially offsetting this increase is a \$1.59 billion reduction in royalty revenue, primarily due to sharp reductions in contract coal prices.

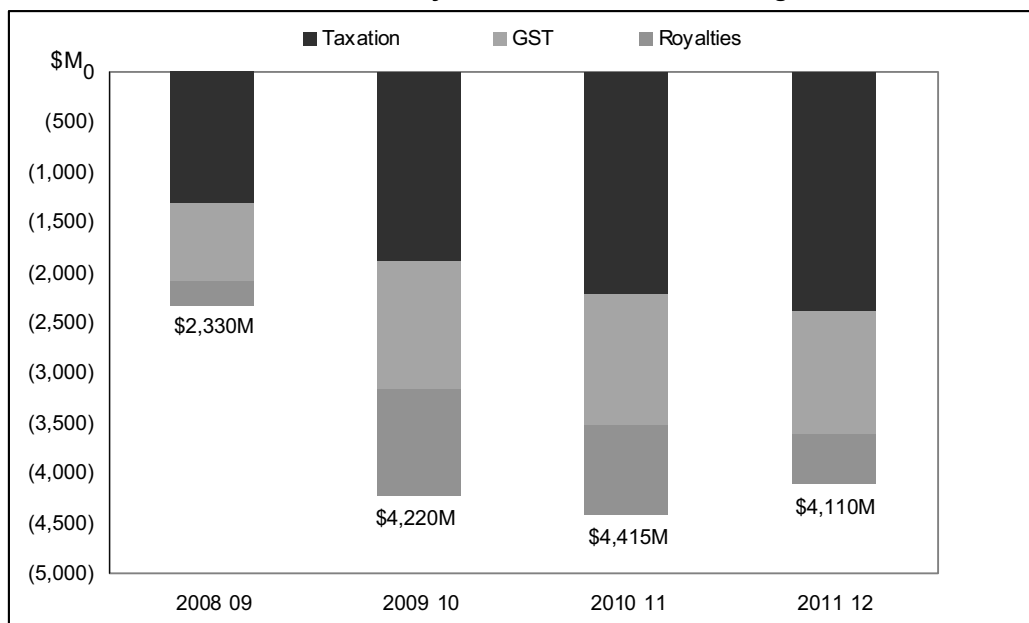
## REDUCTIONS IN REVENUE SINCE THE 2008-09 BUDGET

Since the release of the 2008-09 Budget, there has been a deterioration in Queensland's economic outlook, along with, and related to, a deterioration in the economic outlook nationally and globally.

This has resulted in significant revisions to the key discretionary revenues available to the state – taxation, GST revenue and royalties. The combined impact of these revisions is estimated at \$15 billion over the period 2008-09 to 2011-12 in underlying terms, that is, excluding revenue measures such as those announced in the Mid Year Fiscal and Economic Review.

Chart 6.1 identifies the reduction since the 2008-09 Budget in the estimates for each of these key revenue lines in each year.

**Chart 6.1**  
**Reductions in key revenues since 2008-09 Budget**



## Reductions in taxation estimates

Table 6.2 identifies the 2009-10 taxation revenue estimates that were prepared for the 2008-09 Budget and those prepared for the 2009-10 Budget. Despite the measures announced in the Mid Year Fiscal and Economic Review, taxation revenue estimates for 2009-10 are \$1.556 billion lower than at the time of the 2008-09 Budget.

<b>Table 6.2</b> <b>2009-10 taxation revenue estimates, at 2008-09 Budget and 2009-10 Budget<sup>1</sup></b>			
	2008-09 Budget \$ million	2009-10 Budget \$ million	Difference
<b>Payroll tax</b>	<b>2,955</b>	<b>2,736</b>	<b>(219)</b>
<b>Duties</b>			
Transfer	3,388	1,704	(1,684)
Vehicle registration	544	410	(134)
Insurance and other duties	434	463	29
<b>Total duties</b>	<b>4,366</b>	<b>2,577</b>	<b>(1,789)</b>
<b>Gambling taxes and levies</b>	<b>1,018</b>	<b>1,006</b>	<b>(12)</b>
<b>Other taxes</b>			
Land tax	862	1,047	185
Motor vehicle registration	1,031	1,237	206
Other taxes	611	683	72
<b>Total taxation revenue</b>	<b>10,843</b>	<b>9,287</b>	<b>(1,556)</b>
Notes:			
1. Numbers may not add due to rounding.			

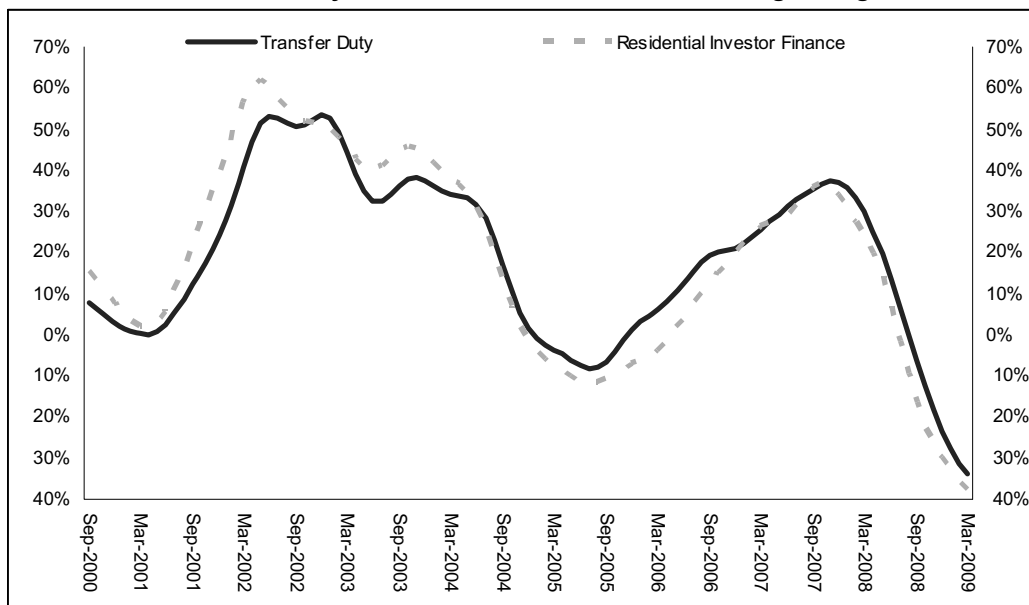
The largest impact is on transfer duty, with a \$1.684 billion reduction as a result of a sharp decline in the number of property transactions anticipated in 2009-10. This reduction is illustrated in Chart 6.2, which shows trend growth in transfer duty alongside trend growth in residential investor finance.

There is also a notable decline in payroll tax and vehicle registration duty, along with a modest decline in gambling taxes.

Over the four year period, the underlying decline in taxation revenue estimates is approximately \$7.8 billion. This does not include the decline in royalty revenue, which is not defined as taxation.



**Chart 6.2**  
**Growth in transfer duty and investor finance, 12-month rolling averages, trend**



Source: derived from Australian Bureau of Statistics (5671.0)

## Reductions in GST revenue estimates

In its 2009-10 Budget, the Australian Government revised down estimates of national GST collections since its 2008-09 Budget by \$25.5 billion across the forward estimates.

Based on this revision, Queensland Treasury has estimated Queensland's share of GST for all years across the forward estimates. These estimates indicate that, since the 2008-09 Australian Government Budget, there has been a \$2 billion reduction in Queensland's GST share in 2008-09 and 2009-10 combined, and a decrease of a further \$3.6 billion over the period from 2010-11 to 2012-13.

Further analysis of Queensland's share of GST revenue is provided in Chapter 9.

## **Reductions in royalty estimates**

Royalty estimates prepared for the 2008-09 Budget were based on a number of assumptions in relation to export coal volumes and commodity prices. While these estimates were considered to be conservative at the time, relative to market expectations, the rapid deterioration in global demand has resulted in a much larger than anticipated decline in commodity prices.

The reduction in global demand and the associated impact on Queensland's major trading partners has also led to an expectation that the volume of coal exported from Queensland will decline in 2009-10, whereas growth had been anticipated at the time of the 2008-09 Budget.

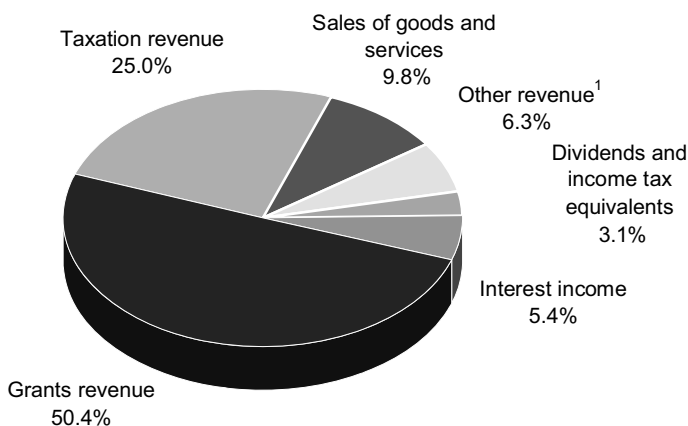
The reduction in royalty estimates is largest in 2009-10, as contract coal prices are now expected to be relatively stable at current levels in future years, following a sharper than anticipated decline in 2009-10, whereas the 2008-09 Budget estimates assumed a more gradual decline over a longer period.

The reduction in royalty estimates since the 2008-09 Budget is approximately \$2.7 billion over the period 2008-09 to 2011-12.

## REVENUE BY OPERATING STATEMENT CATEGORY

Major sources of General Government revenue in 2009-10 are grants revenue (50.4% of revenue) and taxation revenue (25%). Chart 6.3 illustrates the composition of General Government revenue.

**Chart 6.3**  
**Revenue by operating statement category 2009-10**

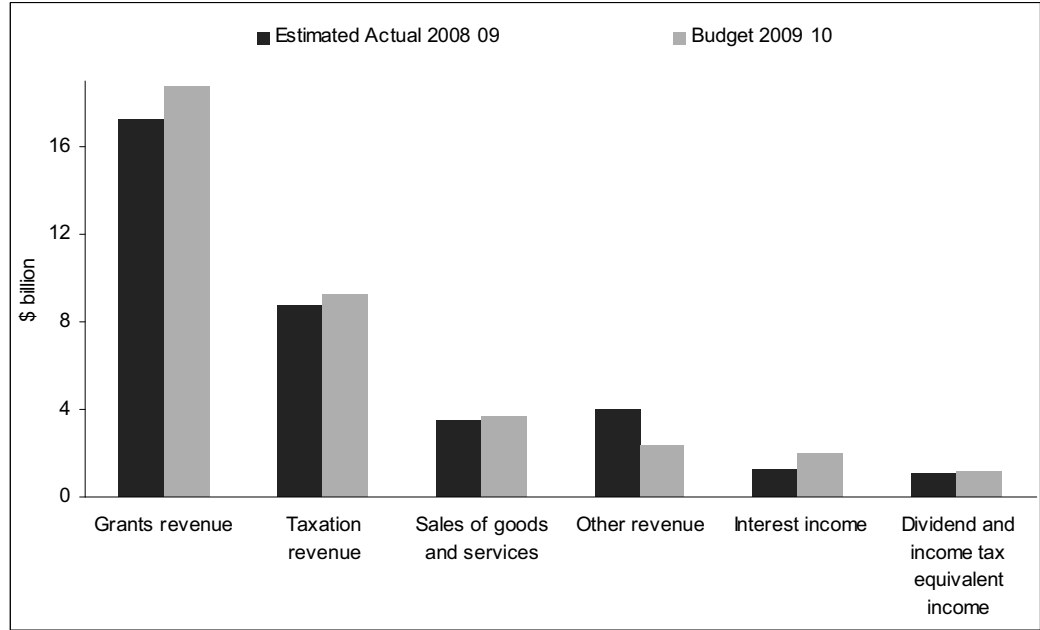


Note:

1. The major component of Other revenue is royalties and land rents (4.9%).

Chart 6.4 compares 2009-10 estimates with 2008-09 estimated actuals. The overall result primarily reflects strong growth in grants revenue, supplemented by moderate growth in taxation revenue and interest income.

**Chart 6.4**  
**Revenue by operating statement category for 2008-09 and 2009-10**



## TAXATION REVENUE

One of the Queensland Government's key social and fiscal objectives is to maintain a competitive tax regime promoting economic development and jobs growth, whilst raising sufficient revenue to meet the service and infrastructure needs of the people of Queensland.

Total revenue from taxation is expected to increase by 6% in 2009-10 on 2008-09 estimated actuals. This primarily reflects the expected impact of measures announced in the Mid Year Fiscal and Economic Review.

<b>Table 6.3</b> <b>Taxation revenue<sup>1</sup></b>			
	2007-08 Actual \$ million	2008-09 Est. Act. \$ million	2009-10 Budget \$ million
<b>Payroll tax</b>	<b>2,493</b>	<b>2,728</b>	<b>2,736</b>
<b>Duties</b>			
Transfer	2,912	1,762	1,704
Vehicle registration	403	435	410
Insurance <sup>2</sup>	386	424	441
Other duties <sup>3</sup>	344	37	22
<b>Total duties</b>	<b>4,044</b>	<b>2,658</b>	<b>2,577</b>
<b>Gambling taxes and levies</b>			
Gaming machine tax	534	553	572
Health Services Levy	38	41	44
Lotteries taxes	206	221	232
Wagering taxes	37	39	41
Casino taxes and levies <sup>4</sup>	56	61	100
Keno tax	18	17	18
<b>Total gambling taxes and levies</b>	<b>889</b>	<b>931</b>	<b>1,006</b>
<b>Other taxes</b>			
Land tax	610	807	1,047
Motor vehicle registration	966	1,014	1,237
Fire levy	265	281	295
Community Ambulance Cover	130	138	145
Guarantee fees	87	138	175
Other taxes	63	65	69
<b>Total taxation revenue</b>	<b>9,546</b>	<b>8,759</b>	<b>9,287</b>
Notes: 1. Numbers may not add due to rounding. 2. Includes duty on accident insurance premiums. 3. Includes duty on life insurance premiums and mortgage duty. 4. Includes community benefit levies.			

## Budget initiatives

### ***Transfer duty - First home vacant land concession***

Queensland currently provides a transfer duty exemption for first home buyers purchasing vacant land valued at up to \$150,000. From 1 July 2009, the threshold for first home buyers purchasing vacant land will be increased from \$150,000 to \$250,000, providing savings of up to \$5,675. In addition, a partial concession will be provided for first home buyers purchasing vacant land valued at up to \$400,000.

This measure builds on the assistance provided to first home buyers in the 2008-09 Budget, which increased the transfer duty exemption threshold for homes to \$500,000 and brought forward the abolition of mortgage duty to 1 July 2008.

This measure is designed to ensure that the \$500,000 threshold for homes does not provide a disincentive against first home buyers purchasing vacant land for the construction of their first home.

This measure is expected to provide savings of \$5.7 million to first home buyers in 2009-10 and remove or reduce the duty payable on an additional 1,850 purchases of vacant land for the construction of new homes.

Table 6.4 identifies savings for first home buyers on vacant land purchases.

<b>Table 6.4</b> <b>Transfer duty on first home vacant land purchases, from 1 July 2009</b>			
<b>Land Value</b>	<b>Current</b>	<b>New</b>	<b>Savings</b>
\$150,000	..	..	..
\$175,000	\$1,050	..	\$1,050
\$200,000	\$2,675	..	\$2,675
\$225,000	\$4,050	..	\$4,050
\$250,000	\$5,675	..	\$5,675
\$275,000	\$7,150	\$1,825	\$5,325
\$300,000	\$8,925	\$4,125	\$4,800

### ***Payroll tax – apprentice and trainee rebate***

Queensland currently has a highly competitive payroll tax regime with a low payroll tax of 4.75% and a relatively high \$1 million exemption threshold.

This Budget provides further relief for businesses that employ apprentices and trainees. In 2009-10, the Government will provide a 25% payroll tax rebate on the eligible wages of apprentices and trainees, in addition to these wages being exempt from payroll tax. This measure will save businesses approximately \$15 million in 2009-10.

## ***Land tax – extended payment period***

The Queensland Government recognises that annual land tax liabilities may have cashflow implications for business and investors. To assist in alleviating these cashflow issues, an instalment payment option for land tax liabilities will be introduced in 2010-11 spreading the tax liability over a longer period.

In 2009-10, as an interim measure, the payment period for land tax assessments will be increased from 30 days to 90 days, with the financing cost to Government estimated at approximately \$8 million.

## ***Deferral of abolition of transfer duty on core business assets***

The *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA), agreed to by the Australian Government and all state and territory governments in 1999, required the abolition and review of a number of state taxes. In accordance with the requirements of the IGA, transfer duty on quoted marketable securities and debits tax were abolished in 2001 and 2005 respectively.

Following a multi-jurisdictional review of duties listed in the IGA schedule, a timetable for the abolition of the majority of these duties was announced in the 2005-06 Budget. To date, the Government has completed the abolition of duties listed in this table within the scheduled timeframe.

Following the abolition of mortgage duty from 1 July 2008, the only duty remaining on the schedule is duty on the transfer of core business assets, which was originally scheduled to be abolished by 2011. In light of the tighter fiscal conditions, the abolition of duty on the transfer of core business assets will be delayed until 1 July 2013. The Government considers this timing to be in accordance with the timeframe included in the new *Intergovernmental Agreement on Federal Financial Relations*.

The savings to Queenslanders from the abolition of these taxes listed in the IGA has already risen from \$290 million in 2005-06 to \$750 million in 2009-10 and will rise to over \$900 million per year by 2012-13.

The cumulative savings for the period 2005-06 to 2009-10, as a result of these abolitions, is estimated to exceed \$2.5 billion.

Table 6.5 presents the full schedule of tax abolitions under the IGA.

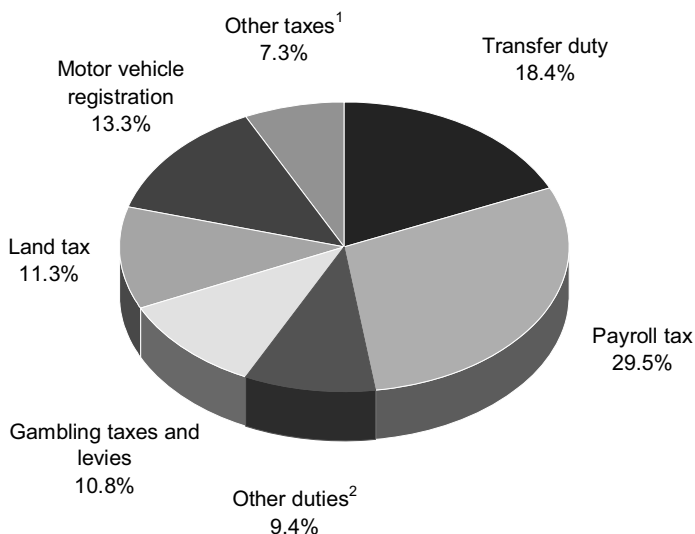
<b>Table 6.5</b> <b>Abolition of state taxes under the IGA</b>			
<b>Tax</b>	<b>Description</b>	<b>Abolition</b>	<b>Full year cost<sup>1</sup> \$ million</b>
Marketable securities duty (quoted)	Payable on the transfer of marketable securities listed on the Australian Stock Exchange or another recognised stock exchange.	✓ July 2001	35
Credit card duty <sup>2</sup>	Payable on credit card transactions.	✓ August 2004	20
Debits tax	Payable on debits to accounts with cheque drawing facility.	✓ July 2005	190
Lease duty	Payable on the lease of land or premises in Queensland. Residential leases exempted.	✓ January 2006	27
Credit business duty	Payable on the amount of credit provided under a loan, a discount transaction or a credit arrangement.	✓ January 2006	19
Hire duty	Payable on the hiring charges of the hire of goods.	✓ January 2007	19
Marketable securities duty (unquoted)	Payable on the transfer of marketable securities not listed on the Australian Stock Exchange or another recognised stock exchange.	✓ January 2007	17
Mortgage duty	Payable on entering into a mortgage over property in Queensland.	✓ July 2008 (6 months early)	300
<b>Duty on transfer of core business assets</b>	<b>Payable on the transfer of non-realty business assets.</b>	<b>1 July 2013</b>	<b>203</b>
Notes: 1. Estimated revenue foregone in financial year following full abolition. 2. Credit card duty was abolished prior to its review under the IGA.			



## Estimates of state taxation revenue

Chart 6.5 indicates the composition of estimated state taxation revenue for 2009-10.

**Chart 6.5**  
**Taxation by tax category**



**Note:**

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

The largest sources of taxation revenue are payroll tax and transfer duty, which together represent 47.9% of the State's total taxation revenue in 2009-10.

Payroll tax (29.5% of total tax revenue in 2009-10) has a stable base with growth driven by the underlying strength of the state economy. In contrast, revenue growth from transfer duty (representing 18.4% of tax revenue) can vary significantly from year to year with its base being subject to the volatile movements of the property market.

Other duties, including vehicle registration duty, insurance duty and other smaller duties, represent 9.4% of total tax revenue.

Gambling taxes and levies represent 10.8% of tax revenues in 2009-10. Motor vehicle registration, which is classified as a tax for budget purposes, represents 13.3% of total tax revenue.

Land tax represents 11.3% of total revenue in 2009-10. 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.

### ***Payroll tax***

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

The overall payroll tax rate of 4.75% is the lowest of any state and the exemption threshold of \$1 million is amongst the highest thresholds in Australia. Queensland employers with total yearly Australian taxable wages between \$1 million and \$5 million also obtain a partial concession, with concession withdrawn at a rate of \$1 in every \$4 of taxable wages.

Payroll tax collections are estimated to be \$2.736 billion in 2009-10, reflecting a decline in employment being offset by wages growth. This is \$219 million lower than estimated at the time of the 2008-09 Budget.

### ***Duties***

Duties are levied on a range of financial and property transactions. Overall, revenue from duties is forecast to decrease by 3% in 2009-10. This negative growth is driven by the sharp fall in transfer duty collections and weakening of vehicle registration duty collections.

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 first or subsequent home.

Revenue from transfer duty is expected to decrease by 3.3% in 2009-10 as a result of the sharp reduction in the number of transactions in the Queensland property market. The drop is particularly pronounced in the commercial property market, reflecting the tight credit conditions and the impact of the global economic downturn on the national and State economies

Transfer duty collections were \$2.912 billion in 2007-08 and are anticipated to decline by \$1.208 billion (or 41.5%) between 2007-08 and 2009-10, prior to a relatively modest recovery in the outyears.

- 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 depending on the number of cylinders of the vehicle.

Revenue from vehicle registration duty is expected to decrease 5.7% in 2009-10, reflecting a significant decline in motor vehicle sales in the wake of the global financial crisis and resulting economic slowdown.

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

Revenue from insurance duty is expected to grow by 4% in 2009-10, reflecting a moderate growth in insurance premiums resulting from the higher than usual number of claims following recent natural disasters.

### ***Gambling taxes and levies***

A range of gambling activities are subject to state taxes and levies. Total gambling tax and levy collections are estimated to increase by 8.1% in 2009-10, a slightly higher rate than is estimated for 2008-09, partly associated with the Government's gambling reforms that will take effect from 1 July 2009. Gaming machine taxes are estimated to increase by 3.4%, the Health Services Levy by 7.3%, lotteries taxes by 5%, and other gambling taxes by 36%, primarily associated with casino tax increases.

As announced in the Mid Year Fiscal and Economic Review, the Government will reduce the disparity between tax rates applicable to gaming machines in casinos compared to those in large clubs and hotels by increasing the tax rate on casino gaming machine wins by 10% and removing some concessional rates on premium play from 1 July 2009.

### ***Land tax***

Land tax is levied on the unimproved value of the landowner's aggregated holdings of freehold land owned in Queensland as at midnight on 30 June each year. The principal place of residence is deducted from this value. A 50% cap on the annual increase in land values used for the purpose of calculating land tax liabilities commenced from 1 July 2007 and continues to apply in 2009-10.

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

As announced in the Mid Year Fiscal and Economic Review, the Government will introduce a land tax surcharge of 0.5% from 1 July 2009. It will apply where the aggregate value of all land (for land tax purposes) exceeds \$5 million and only to the portion of the value exceeding \$5 million.

Land tax is estimated to grow by 29.7% to \$1.047 billion in 2009-10. The increase of \$240 million on 2008-09 estimated actuals primarily reflects the impact of three-year averaging, which has restrained growth in land tax liabilities in previous years, with \$93 million of the increase attributable to the 0.5% land tax surcharge. Despite the increase in land tax liabilities in 2009-10, it is estimated that the revenue foregone as a result of three-year averaging will be approximately \$142 million in 2009-10.

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

Motor vehicle registration fees are expected to grow by 22% in 2009-10, largely reflecting increased motor vehicle registration fees, population growth and fee adjustments related to the consumer price index (CPI).

As announced in the Mid Year Fiscal and Economic Review, the Government will increase motor vehicle registration fees, commencing 1 July 2009. As stated in the Mid Year Fiscal and Economic Review, total motor vehicle registration costs from 1 July 2009 will also incorporate the annual adjustment for CPI and changes to Compulsory Third Party premiums bid by insurance companies.

### ***Fire levy***

Fire levy revenue, which is used to fund the Queensland Fire and Rescue Authority, is expected to increase in line with the growth of the number of contributors and CPI.

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

The Community Ambulance Cover Scheme was introduced in 2003-04 to replace the Ambulance Subscription Scheme and to provide a sustainable funding base for the Queensland Ambulance Service. It is collected through a payment on non-exempt electricity accounts. Growth in 2009-10 reflects CPI adjustments and growth in the number of non-exempt electricity accounts.

### ***Guarantee fees***

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

## ***Other taxes***

Other taxes represent revenue from taxes such as the Statutory Insurance Scheme Levy, the Nominal Defendant Levy and other sundry taxes.

## **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 set in place by the Queensland Government.

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

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.

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

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

- increased the transfer duty exemption for first home buyers to \$500,000
- increased the principal place of residence concession available to other homebuyers from \$320,000 to \$350,000
- simplified the transfer duty and land tax rate structures
- extended the benefit of the payroll tax threshold, such that taxpayers with eligible wages of up to \$5 million (previously \$4 million) will benefit a partial deduction
- harmonised payroll tax provisions and definitions with other jurisdictions to reduce the compliance burden on businesses operating across state borders
- abolished mortgage duty in advance of the scheduled timeframe
- introduced a 0.5% land tax surcharge where the aggregate value of all land exceeds \$5 million
- increased vehicle registration fees
- reduced the disparity between tax rates applicable to gaming machines in casinos and those applicable in large clubs and hotels.

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

- an increase in the threshold for first home buyers purchasing vacant land from \$150,000 to \$250,000, with a partial concession for vacant land valued up to \$400,000
- an instalment payment option for land tax liabilities from 2010-11 spreading the tax liabilities over a longer period (in 2009-10, as an interim measure, the payment period for land tax assessments is increased from 30 days to 90 days)
- a 25% rebate on the eligible wages of apprentices and trainees in 2009-10, in addition to these wages being exempt from payroll tax
- a further deferral of the abolition of duty on the transfer of core business assets to 1 July 2013.

One of the Queensland Government's fiscal objectives is to maintain a competitive tax environment. Table 6.6 demonstrates that this commitment is being met, with various measures of tax competitiveness all indicating the Queensland state tax system remains amongst the most competitive in Australia.

<b>Table 6.6</b> <b>Queensland's tax competitiveness</b>									
	<b>QLD</b>	NSW	VIC	WA	SA	TAS <sup>4</sup>	ACT <sup>5</sup>	NT <sup>4</sup>	Avg <sup>6</sup>
Taxation per capita <sup>1</sup> (\$)	<b>2,087</b>	2,645	2,434	2,557	2,164	1,605	2,883	1,788	2,487
Taxation effort <sup>2</sup> (%)	<b>85.6</b>	104.8	101.9	102.8	111.8	92.7	107.5	102.5	100.0
Taxation % of GSP <sup>3</sup> (%)	<b>4.46</b>	5.16	4.80	4.04	4.87	3.90	4.41	2.53	4.75
<b>Notes:</b> 1. 2009 10 data. Sources: QLD, VIC, WA, ACT, NT, SA, TAS 2009 10 Budgets, NSW is a Queensland Treasury estimate based on revisions in other jurisdictions. 2. 2007 08 data. Source: Commonwealth Grants Commission: 2009 Update. Revenue raising effort ratios, assessed by the Commonwealth Grants Commission, isolate policy impacts from revenue capacity impacts and are an indicator of the extent to which the governments burden their revenue bases. Queensland's tax revenue raising effort is well below the Australian policy standard (equal to 100%). 3. 2007 08 data. Sources: ABS 5506.0 and ABS 5220.0. 4. Low taxation per capita primarily reflects the lower revenue raising capacity of those jurisdictions. 5. Includes municipal rates, which are classified by the ABS as state taxation in the ACT, but are imposed by local governments in other jurisdictions. 6. Weighted average of states and territories, excluding Queensland.									

As Table 6.6 shows, taxation per capita in Queensland is significantly lower than the average taxation per capita in the other states and territories. The gap has widened in 2008-09 as Queensland has experienced a more severe downturn in transfer duty revenue than most other states. This is partly the result of Queensland's \$500,000 exemption threshold for first home buyers, which has been the strongest segment of the property market and has provided support to transfer duty in some other jurisdictions.

In contrast to a number of other jurisdictions, Queensland's tax estimates are not based on an improvement in property market activity in 2009-10 and are generally less optimistic about the timing and extent of recovery in taxation revenue in the coming year.

Queensland's tax effort, as measured by the Commonwealth Grants Commission, was more than 14% below the national average in 2007-08. However, this measure is expected to move closer to the national average in the future due to increases in vehicle registration duty (from 1 January 2008), transfer duty (from 1 July 2008), and land tax, gaming machine taxes and light vehicle registration fees (from 1 July 2009).

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.

## GRANTS REVENUE

Grants revenue is comprised of Australian Government grants, grants from the community and industry and other miscellaneous grants. Growth of \$1.463 billion (or 8.5%) in 2009-10 is primarily due to increases in Australian Government capital grants for specific purposes under the *Nation Building and Jobs Plan* and the Council of Australian Government reform agreements, partly offset by a decrease in GST revenue.

Table 6.7 Grants revenue <sup>1</sup>			
	2007-08 Actual \$ million	2008-09 Est. Act. \$ million	2009-10 Budget \$ million
<b>Current grants</b>			
Australian Government grants	14,059	14,464	14,614
Other grants and contributions	472	467	411
<b>Total current grants</b>	<b>14,531</b>	<b>14,931</b>	<b>15,025</b>
<b>Capital grants</b>			
Australian Government grants	974	2,331	3,693
Other grants and contributions	17	9	17
<b>Total capital grants</b>	<b>992</b>	<b>2,340</b>	<b>3,710</b>
<b>Total grants revenue</b>	<b>15,523</b>	<b>17,272</b>	<b>18,735</b>
Note: 1. Numbers may not add due to rounding.			

## Australian Government payments

Australian Government payments to Queensland comprise:

- general purpose payments, comprised of GST revenue grants and associated payments. 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, which are used to meet Australian Government and shared policy objectives.

Australian Government payments to Queensland in 2009-10 are expected to total \$18.307 billion, an increase of \$1.512 billion (or 9%) compared to payments in 2008-09.



**Table 6.8**  
**Australian Government payments<sup>1</sup>**

	2007-08 Actual \$ million	2008-09 Est. Act. \$ million	2009-10 Budget \$ million
GST revenue grants and associated payments <sup>2</sup>	8,549	7,973	7,585
Total payments for specific purposes <sup>3</sup>	6,484	8,822	10,722
<b>Total Australian Government payments</b>	<b>15,033</b>	<b>16,795</b>	<b>18,307</b>

**Notes:**

1. Numbers may not add due to rounding.
2. 2009-10 includes partial repayment of compensation for GST deferral associated with small business measures announced by the Australian Government in 2006-07.
3. Differences between SPPs in this chapter and Australian Government Budget estimates can arise and generally reflect the outcome of agency to agency discussions or the absence of state level information.

## ***General purpose payments***

### ***GST revenue grants and associated payments***

GST revenue grants and associated payments to Queensland in 2009-10 are expected to be \$7.585 billion, which represents a decrease of \$388 million on 2008-09 estimated actuals. GST revenue grants in 2009-10 of \$7.660 billion are expected to be \$889 million (or 10.4%) less than the \$8.549 billion received in 2007-08.

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

Queensland's share of GST funding (relativity) has declined and is below a population share again in 2009-10. It is expected that the Queensland's relativity and therefore share of GST funding will decline further.

### ***Payments for specific purposes***

Australian Government payments for specific purposes to Queensland in 2009-10 are estimated at \$10.722 billion.

Chapter 9 provides detailed background on Commonwealth-state financial arrangements, including an analysis of Queensland's share of GST revenue and details of Australian Government payments to Queensland, including the impact of Council of Australian Government reforms and the Australian Government's Nation Building and Jobs Plan.

## 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.

<b>Table 6.9</b> <b>Other grants and contributions</b>			
	2007-08 Actual \$ million	2008-09 Est. Act. \$ million	2009-10 Budget \$ million
Other grants and contributions	489	476	428

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

## SALES OF GOODS AND SERVICES

Sales of goods and services revenue comprises cost recoveries from the provision of goods or services. Revenue from this source is expected to increase by 5.3% in 2009-10.

<b>Table 6.10</b> <b>Sales of goods and services<sup>1</sup></b>			
	2007-08 Actual \$ million	2008-09 Est. Act. \$ million	2009-10 Budget \$ million
Fee for service activities	1,418	1,374	1,338
TransLink	252	277	291
Rent revenue	341	511	605
Sale of land inventory	109	52	101
Hospital fees	305	332	349
Transport and traffic fees	224	257	250
Other sales of goods and services	691	664	717
<b>Total sales of goods and services</b>	<b>3,341</b>	<b>3,466</b>	<b>3,650</b>
Note: 1. Numbers may not add due to rounding.			

## **Fee for service activities**

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

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

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

## **TransLink**

Revenues arise from the arrangements associated with TransLink integrated ticketing and public transport arrangements, which commenced in July 2004. The TransLink entity collects revenues from the operation of public transport services in South East Queensland to fund public transport services in the region. These revenues are estimated at \$291 million in 2009-10.

## **Rent revenue**

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

## **Sale of land inventory**

Sale of land inventory comprises land sales undertaken by agencies, where the buying and selling of land is a core business activity of the agency, such as the Property Services Group under the Department of Infrastructure and Planning. 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.

From 1 January 2010, Queensland Health will increase fees to overseas visitors and third party insurance patients for accommodation and theatre fees; and outpatient services and emergency department consultation to recover the cost of service provision. There will be no effect on Medicare eligible patients. Additionally, the fees charged to private patients electing for a single room in a public hospital will increase. Further details are provided in Budget Paper 4 – Measures.

## 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 5.4% of total General Government revenue in 2009-10.

Table 6.11 Interest income			
	2007-08 Actual \$ million	2008-09 Est. Act. \$ million	2009-10 Budget \$ million
Interest income	(275)	1,261	2,017

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

The Government has transferred the assets it held in the Consolidated Fund to meet future employee and other obligations to QTC in exchange for a debt instrument that earns the General Government sector 7.5% per annum. This transfer allows the State to reduce the volatility in interest income and hence the General Government net operating balance.

Some volatility in interest income remains, associated with the former defined benefit superannuation balances. However, movements in revenue associated with this group are matched by movements in the expense, such that there is not a significant impact on the operating balance. Further detail in relation to this issue is provided in Chapter 7. In addition, a number of statutory bodies hold investments that are subject to market movements.

## DIVIDEND AND INCOME TAX EQUIVALENT INCOME

Dividend and income tax equivalent income account for 3.1% of total General Government sector revenue in 2009-10.

**Table 6.12**  
**Dividend and income tax equivalent income<sup>1</sup>**

	2007-08 Actual \$ million	2008-09 Est. Act. \$ million	2009-10 Budget \$ million
Dividend	1,011	853	884
Income tax equivalent income	244	245	266
<b>Total dividend and income tax equivalent income</b>	<b>1,255</b>	<b>1,098</b>	<b>1,150</b>
Note: 1. Numbers may not add due to rounding.			

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

Dividends are expected to increase by 3.6% in 2009-10, reflecting a moderate growth in dividends received from the transport sector and others, partly off-set by a reduction in dividends received from 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.

Further detail on dividends, income tax equivalent income and other flows between the Public Non-financial Corporations Sector and the General Government sector is provided in Chapter 5.

## OTHER REVENUE

Other revenue accounts for 6.3% of total General Government revenue in 2009-10, down from 11.2% in 2008-09, due to an expected decline in royalty revenue.

Table 6.13 Other revenue <sup>1</sup>			
	2007-08 Actual \$ million	2008-09 Est. Act. \$ million	2009-10 Budget \$ million
Royalties and land rents	1,460	3,396	1,806
Fines and forfeitures	219	266	277
Revenue nec	361	356	271
<b>Total Other Revenue</b>	<b>2,040</b>	<b>4,017</b>	<b>2,354</b>
Note: 1. Numbers may not add due to rounding.			

## Royalties and land rents

### *Royalty estimates*

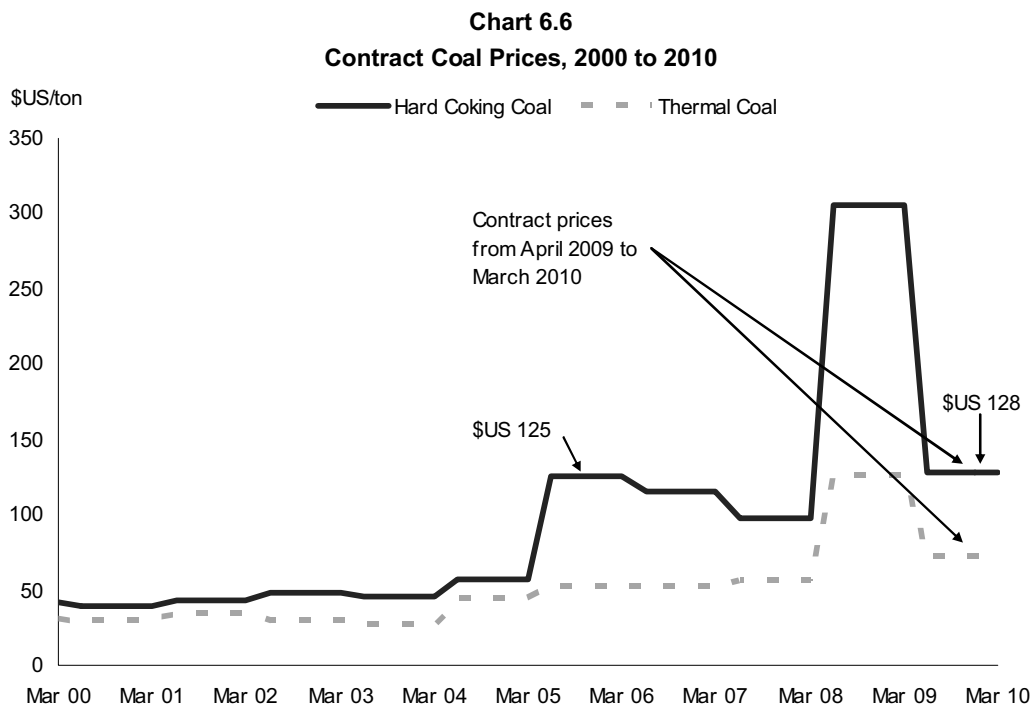
The State earns royalties from the extraction of coal, base and precious metals, bauxite, petroleum, mineral sands and other minerals and land rents from pastoral holdings, mining and petroleum tenures. Royalties return some of the proceeds of the extraction of non-renewable resources to the community.

Royalty and land rent revenue is expected to decrease by \$1.590 billion (or 47%) in 2009-10 due to a substantial fall in coal royalties associated with lower contract coal prices.

Table 6.14 Royalties and land rents <sup>1</sup>			
	2007-08 Actual \$ million	2008-09 Est. Act. \$ million	2009-10 Budget \$ million
Coal	993	3,026	1,433
Other royalties <sup>2</sup>	376	262	263
Land rents	91	108	110
<b>Total royalties and land rents</b>	<b>1,460</b>	<b>3,396</b>	<b>1,806</b>
Notes: 1. Numbers may not add due to rounding. 2. Includes base and precious metal, petroleum and other minerals royalties.			

Coal royalties make up the bulk of royalty and land rent revenue, accounting for more than 79% in 2009-10. In 2009-10, the coal royalty estimate is \$1.593 billion or 53% lower than in 2008-09, largely reflecting a significant reduction in coal contract prices and a slight decline in export volumes.

Chart 6.6 demonstrates the sharp decline in coal contract prices.



Royalties from base and precious metals are not expected to increase from 2008-09 levels reflecting subdued global demand for commodities.

There is a significant degree of uncertainty associated with estimates of commodity prices and Australian dollar-US dollar exchange rates, both of which have significant impacts on royalty revenue.

## Fines and forfeitures

The major fines included in this category are traffic and court fines. There is an expected increase of 4% in collections of fines and forfeitures in 2009-10.

## Revenue not elsewhere classified

The \$85 million decrease in 2009-10 primarily reflects an expected decline in asset transfers from non-Queensland Government entities.

## 7 EXPENSES

### FEATURES

- **Total General Government sector expenses are expected to increase by \$2.7 billion (or 7.4%) over the estimated actual for 2008-09, to \$39.146 billion in 2009-10.**
- **Growth in expenses includes a range of service developments and initiatives with a particular focus on the areas of health, education and training, housing and disability services, many of which relate to partnerships with the Australian Government.**
- **The major areas of expenditure are health and education, which together constitute approximately 48.2% of General Government sector expenses.**

### INTRODUCTION

This chapter provides an overview of General Government sector expenses for the estimated actual outcome for 2008-09, forecasts for the 2009-10 Budget year and projections for 2010-11 to 2012-13. The forward estimates are based on the economic projections outlined in Chapter 2 and are formulated on a no policy change basis.

**Table 7.1**  
**General Government sector expenses<sup>1</sup>**

	2008-09 Budget \$ million	2008-09 Est.Act. \$ million	2009-10 Budget \$ million	2010-11 Projection \$ million	2011-12 Projection \$ million	2012-13 Projection \$ million
<b>Expenses</b>						
Employee expenses	13,896	14,249	15,006	15,868	16,717	17,241
Superannuation interest cost	1,219	760	1,468	1,551	1,630	1,704
Other superannuation expenses	1,959	2,012	2,093	2,125	2,162	2,165
Other operating expenses	6,782	7,446	7,776	8,001	8,399	8,635
Depreciation and amortisation	2,665	2,551	2,773	3,044	3,261	3,393
Other interest expenses	539	539	887	1,418	1,932	2,299
Grants expenses	8,713	8,889	9,143	8,481	8,090	8,282
<b>Total Expenses</b>	<b>35,772</b>	<b>36,447</b>	<b>39,146</b>	<b>40,488</b>	<b>42,191</b>	<b>43,720</b>
Note: 1. Numbers may not add due to rounding.						



General Government expenses in 2008-09 are estimated to be \$36.447 billion, an increase of \$675 million over the 2008-09 Budget forecast of \$35.772 billion. This increase is primarily due to:

- additional expenditure related to increased Australian Government funding for Specific Purpose Payments, National Partnership payments and *Nation Building and Jobs Plan* projects, particularly in education and health
- increased grant expense as a result of increased demand for the First Home Owners Grant to first home buyers driven by the Australian Government's First Home Owners Boost
- actuarial revisions to superannuation and long service leave provisions offset by a reduction in former defined benefit superannuation expense. Former defined benefit superannuation obligations represent the liabilities of defined benefit members who have elected to leave the defined benefit scheme. These liabilities are offset by Consolidated Fund investments which move with investment earnings. As a result, lower former defined benefit expense is offset by lower interest income.

The General Government operating statement provides for aggregate expenses of \$39.146 billion in 2009-10, representing an increase of \$2.7 billion (or 7.4%) over the 2008-09 estimated actual. Factors influencing the growth in expenses include additional expenditure related to joint projects with the Australian Government and growth in service delivery to meet increased demand and the implementation of service enhancements, which are outlined in Budget Paper 4 – Budget Measures.

As outlined in Chapter 1, the Government recognises the importance of fiscal sustainability and expenditure restraint in supporting Queensland's future economic growth, while maintaining services and continuing to deliver its commitments to the community. Revised fiscal principles, which must be tabled in Parliament and reported on regularly under the new *Financial Accountability Act 2009*, include a commitment to limit own-purpose expenses growth (that is, excluding Australian Government related expenses) to inflation and population growth.

For the forward estimates period, average growth in own-purpose expenses is estimated at 4.3%, compared with expected average growth of 4.63% in population and inflation.

The State's capacity to restrain own-purpose expenses growth is assisted by the following policy parameters:

- revised wages policy which limits wage increases to 2.5% per annum until the Budget returns to surplus
- public sector efficiency savings target of \$280 million per annum from 2009-10
- agencies, other than key front line service areas, being required to absorb non-labour cost pressures

- streamlining the Queensland Public Service from 23 departments down to 13 to exploit economies of scale and scope, together with shared services reforms
- growth in the public sector workforce being limited to front line service delivery areas and targeted policy commitments
- responding to the independent review of Queensland Government boards, committees and statutory authorities by abolishing 103 bodies and reforming a further 81 bodies
- the creation of a new Civil and Administrative Tribunal, replacing around 26 different tribunals
- changes to procurement policy to focus selection of procurement approaches on driving competition and value for money project delivery outcomes which reflect current market conditions
- the ongoing consolidation of ICT across Government
- abolition of the Queensland Fuel Subsidy Scheme.

Government will over time, and in each Budget, review the need for additional Budget initiatives, including productivity and savings measures, to ensure this key fiscal principle is achieved.

## **EXPENSES BY OPERATING STATEMENT CATEGORY**

This section provides a breakdown of General Government expenses in 2009-10 by category and discusses the significant variances between the 2008-09 estimated actual and 2009-10 Budget by expense category.

The Service Delivery Statements provide details of expenditure for individual departments.

Chart 7.1 indicates that the largest expense category in the General Government sector is employee and superannuation expenses (47.4%), reflecting the direct service provision nature of Government activities, followed by grants expenses (23.4%) that include community service obligation payments to Government-owned corporations (GOCs), and grants to non-government schools and to first home buyers.

**Chart 7.1**  
**Expenses by operating statement category, 2009-10**

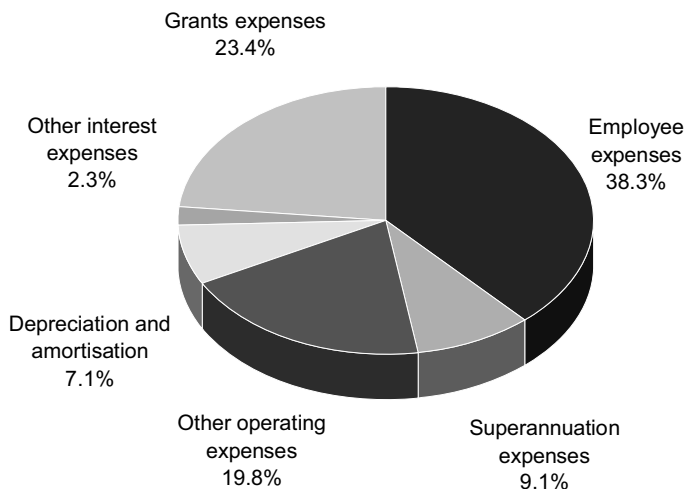
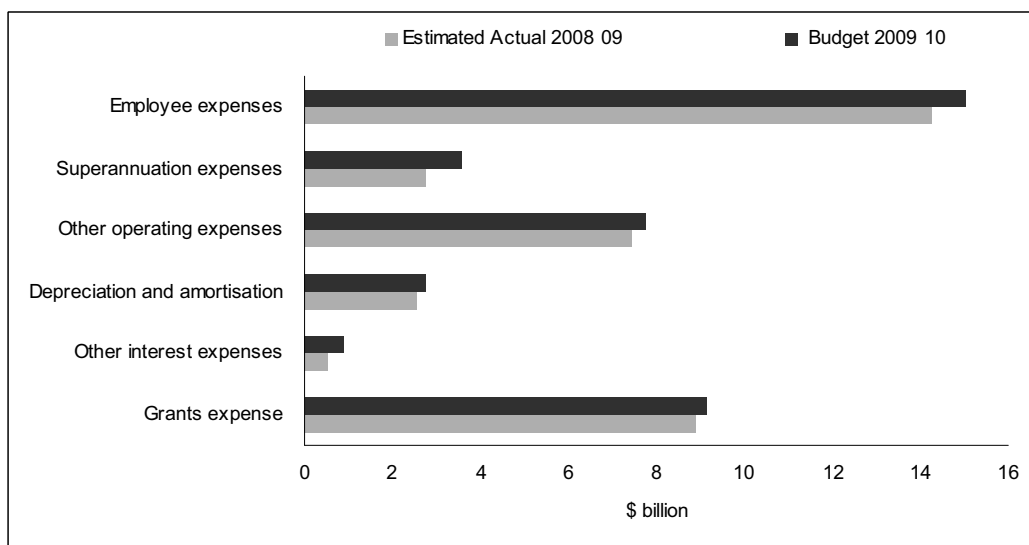


Chart 7.2 compares the 2008-09 estimated actual expenses for each operating statement category with the 2009-10 Budget.

**Chart 7.2**  
**Expenses by operating statement category**  
**2008-09 and 2009-10**



## DETAILS OF EXPENSES

### Employee expenses

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

Employee expenses are forecast to increase by \$757 million or 5.3% to \$15.006 billion in 2009-10. The increase reflects a combination of wage increases related to enterprise bargaining agreements and other services' growth and enhancements.

The additional staffing provided in the 2009-10 Budget is predominantly in key service delivery areas, including 350 additional teachers and teacher aides to meet enrolment growth in Queensland state schools, 50 additional ambulance officers, 203 additional police positions, including a further 53 specialist traffic officers and 645 doctors, nurses and allied health professionals.

Growth in employee expenses across the forward estimates to 2011-12 averages 5.5% per annum before falling to 3% in 2012-13. This reduction reflects the Government's revised wages policy which provides for wage increases of 2.5% per annum. Further details of the revised wages policy are outlined in Chapter 1.

### Superannuation expenses

The superannuation interest cost represents the imputed interest on the Government's accruing defined benefit superannuation liabilities and interest costs on former 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, estimated at 6.2%. Offset against this expense is the revenue from plan assets based on long-term expected rates of return of 7.25% per annum.

Former defined benefit superannuation obligations represent the liabilities of defined benefit members who have elected to leave the defined benefit scheme. These liabilities are offset by Consolidated Fund investments and move with investment earnings.

In 2009-10, superannuation interest cost is estimated to increase by \$708 million to \$1.468 billion as earnings on former defined benefit superannuation liabilities are expected to return to the long term average rate of 7.5% per annum. The 2008-09 estimated actual return on these liabilities is negative 15%.

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, repairs and maintenance, consultancies, contractors, electricity, communications and marketing.

Other operating expenses in 2009-10 are expected to be \$7.776 billion, which represents an increase of \$330 million (or 4.4%) on 2008-09. Higher spending in education under the Australian Governments' *Building the Education Revolution* program is the primary contributor to this increase.

## **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 expense**

Other interest expense includes interest paid on borrowings to acquire capital assets and infrastructure such as roads and government buildings. The growth in this expense over the forward estimates reflects growth in borrowings primarily used to fund the State's capital program.

The General Government sector has a moderate level of debt in 2009-10 with a total debt servicing cost forecast at \$887 million.

## **Grants expenses**

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

Current grants are estimated to decline moderately to \$7.499 billion in 2009-10 (see Table 7.2). The significant increase in grants to non-government schools and non-profit organisations are offset by the abolition of the State's fuel subsidy scheme from 1 July 2009 and lower electricity CSO payments as a result of a reduction in cost disparity to supply electricity in regional areas. CSO payments, mainly to QR Limited and Ergon Energy, total \$1.569 billion in 2009-10.

The increase in grants to non-government schools is largely due to expenditure under Australian Government programs, including *Building the Education Revolution*. Grants to non-profit organisations grow in key service areas of disability and community services and social housing, particularly as a result of the Queensland Industrial Relations Commission's decision to increase award rates for community service workers.

Capital transfers represent grants to GOCs, local governments, non-profit institutions and other non-government entities, such as businesses and households, including First Home Owner Grant schemes, for capital purposes. An increase in capital grants to local government and non-profit organisations predominately reflects additional expenditure in social housing.

The decrease in grants to first home buyers reflects the Australian Government's policy of decreasing, then abolishing, the First Home Owners Boost in 2009-10.

Table 7.2 indicates the composition of grant payments by recipient.

<b>Table 7.2</b>		
<b>Grant expenses<sup>1</sup></b>		
	2008-09 Est. Act. \$ million	2009-10 Budget \$ million
<b>Current</b>		
Fuel Subsidy Scheme	560	28
Grants to local government	579	569
Grants to non-government schools	1,775	2,257
Grants to non-profit organisations	1,046	1,241
Grants to other non-government recipients	1,883	1,729
Community service obligations to PNFCs	1,654	1,569
Other payments to PNFCs	81	105
<b>Total current transfers</b>	<b>7,578</b>	<b>7,499</b>
<b>Capital</b>		
First Home Owner Grant Scheme	240	220
First Home Owners Boost Scheme	161	142
Grants to local government	621	775
Grants to non-profit organisations	66	256
Grants to other non-government recipients	167	176
Other payments to PNFCs	56	75
<b>Total capital transfers</b>	<b>1,312</b>	<b>1,645</b>
<b>Total current and capital transfers</b>	<b>8,889</b>	<b>9,143</b>
Note:		
1. Numbers may not add due to rounding.		

# OPERATING EXPENSES BY PURPOSE

**Chart 7.3**  
**General Government expenses by purpose, 2009-10**

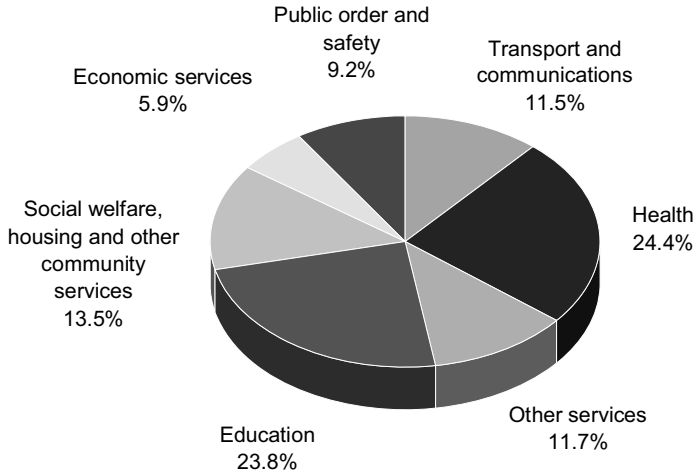
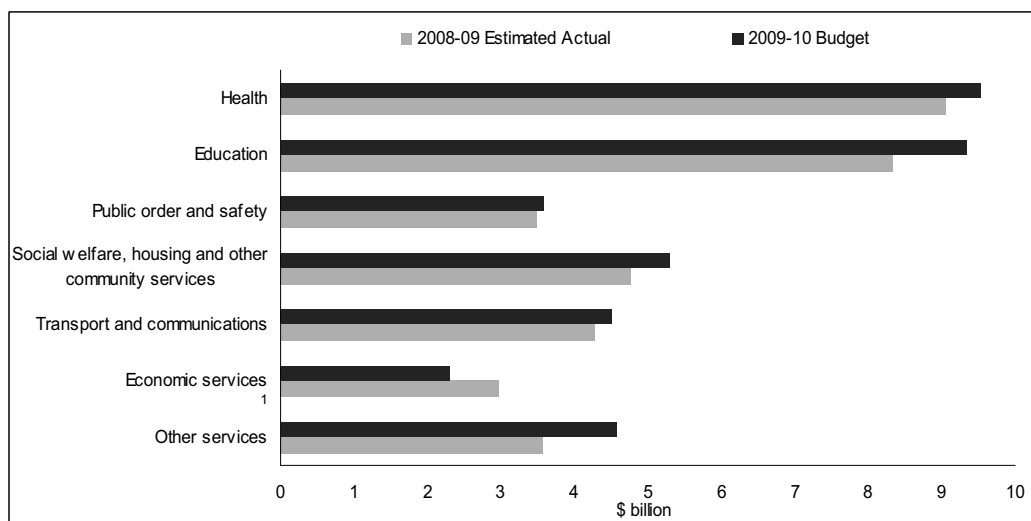


Chart 7.3 indicates the proportion of expenditure by major purpose classification for the 2009-10 Budget. Health accounts for the largest share of expenses (24.4%) followed by Education (23.8%).

**Chart 7.4**  
**General Government expenses by purpose**  
**2008-09 and 2009-10**



Note:

1. In 2009-10, other services increase as superannuation interest costs on former defined benefit liabilities are expected to return to the long term average rate of 7.5% per annum, compared to 2008-09 estimated return of 15%.

As evidenced in Chart 7.4, expenditure increases in all key service delivery areas from 2008-09 estimated actual to 2009-10 Budget. The decrease in economic services is due to the abolition of the fuel subsidy in 2009-10.

The Government has consistently had a clear focus on improving key service areas such as education, health, public order and safety and community services. This section provides a breakdown of General Government expenditure by purpose between the estimated actual and 2009-10 Budget.



## Education

The State's investment in education encompasses early childhood education and care, State and non-State education, technical and further education (TAFE) and higher education. The 2009-10 Budget for education is \$9.332 billion, representing an increase of \$1 billion (or 12.1%), over estimated actual expenditure.

Initiatives contributing to the growth in education expenditure in 2009-10 include:

- 350 additional teachers and teacher aides to meet enrolment growth in Queensland state schools
- implementation of Commonwealth-State National Partnership Agreements, including the provision of additional training places under the Productivity Places Program and provision of universal access to quality early childhood education under the Early Childhood Reform National Partnership

## Health

In 2009-10, funding for health services within the Queensland Government will grow to \$9.523 billion, an increase of 5.1% on the 2008-09 estimated actual. The health function includes expenses relating to acute hospital services, including provision of medical, surgical and obstetric services, provision of primary health care for individuals or small targeted groups providing curative, promotive, preventative and rehabilitative services, access to quality emergency medical and outpatient services, residential care services for the aged and young people with physical and intellectual disabilities and mental health services.

The Council of Australian Governments (COAG) recently endorsed specific health funding reforms including funding under the new National Healthcare Agreement (effective from 1 July 2009) and National Partnership Agreements. These agreements direct additional State and Australian Government funds to key areas of the health system such as hospitals and health workforce reform, preventive health and health services.

In 2009-10, Queensland Health will focus spending on upgrading emergency departments, new rehabilitation and maternity services and expanding cancer treatment facilities and has committed to:

- a target of employing at least 3,500 additional doctors, nurses and allied health workers over the next three years
- additional funding to the Surgery Connect program to provide an additional 20,000 elective surgery operations (including 3,300 for children) over three years
- recruit and train new nurse practitioners to work in the busiest emergency departments.

## Public order and safety

Public order and safety includes funding to police, legal services and law courts, fire protection, prisons and corrective services. Expenditure growth under this function is expected to increase 3.4% to \$3.594 billion in 2009-10.

The growth in the public order and safety function is partially due to the Government's continued support for effective delivery of policing services to the Queensland community through more police officers, including 203 additional police positions, better technology to fight crime and improvements to road safety.

## Social welfare, housing and other community services

Services provided under the category of social welfare, housing and other community services include community, youth justice, child safety, disability and housing services. Expenditure under this function is estimated to increase 11.2% to \$5.307 billion in 2009-10.

2009-10 sees a significant investment in improving housing and homelessness services. Underpinning this investment are the joint programs between the Queensland and Australian Governments under the *Nation Building and Jobs Plan* and the National Partnership Agreements for Social Housing, Remote Indigenous Housing and Homelessness.

Funding for specialist disability services, non-clinical mental health services and home and community care services will also increase in 2009-10, including additional funding to support the needs of the frail aged, people with disabilities and their carers under the Home and Community Care Program.

In recognition of the increase in award wage rates for community services workers, the Government will also provide additional funding for allocation on a prioritised basis to State supported non-Government services to dependant and vulnerable Queenslanders.

## Transport and communications

The transport and communication function incorporates the State's road network and transport systems including rail, port, freight and aviation systems. Transport and communication expenditure increases 5.7% to \$4.511 billion in 2009-10.

The State Government continues to progress the implementation of the *South East Queensland Infrastructure Plan and Program* (SEQIPP) and the *Roads Implementation Program* (RIP). For 2009-10, SEQIPP funding priorities include providing for population growth and managing traffic congestion in South East Queensland and RIP initiatives include enhancing and preserving road networks and sustaining employment for people in roads and related industries.

## DEPARTMENTAL EXPENSES

Data presented in Tables 7.3 and 7.4 provide a summary drawn from financial statements contained in Budget Paper 5 - 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 7.3**  
**Departmental Controlled Expense <sup>1,2</sup>**

	2009 10 Estimate \$'000
Communities	3,799,559
Community Safety	1,573,382
Education and Training	7,217,329
Electoral Commission of Queensland	9,559
Employment, Economic Development and Innovation	974,818
Environment and Resource Management	914,586
Forestry Plantations Queensland Office	30,504
Health	9,037,031
Infrastructure and Planning	725,775
Justice and Attorney General	467,377
Legislative Assembly	73,284
Office of the Governor	5,056
Office of the Ombudsman	6,755
Police	1,705,813
Premier and Cabinet	198,297
Public Service Commission	11,332
Public Works	612,357
Queensland Audit Office	40,001
The Public Trustee of Queensland	66,167
Transport and Main Roads	3,727,279
Treasury	143,488
<b>Total Expenses</b>	<b>31,339,749</b>
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 (for example payroll tax payments) 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.	

**Table 7.4**  
**Departmental Administered Expense <sup>1,2</sup>**

	2009 10 Estimate \$'000
Communities	268,829
Education and Training	2,437,480
Employment, Economic Development and Innovation	461,012
Environment and Resource Management	36,496
Health	24,076
Infrastructure and Planning	388,784
Justice and Attorney General	215,797
Police	429
Premier and Cabinet	216,257
Public Works	68,743
The Public Trustee of Queensland	2,002
Transport and Main Roads	828,040
Treasury	4,040,487
<b>Total Expenses</b>	<b>8,988,432</b>

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 (for example payroll tax payments) are excluded in the preparation of whole of Government UPF financial statements.
2. Explanation of variations in departmental administered expenses can be found in the Service Delivery Statements.

**Table 7.5**  
**Reconciliation of Departmental to UPF Expenses <sup>1</sup>**

	2009 10 Estimate \$ million
Departmental expenditure per Service Delivery Statements    Controlled (Table 7.3)	31,340
Administered (Table 7.4)	8,988
Non UPF departmental expenses and whole of Government schemes <sup>2</sup>	(2,082)
Other General Government entities (e.g. CBUs, SSPs, Statutory Bodies)	4,795
	<b>43,042</b>
Superannuation Interest cost	1,468
Eliminations and Other whole of Government adjustments	
Elimination of payments to CBUs and SSPs	(3,317)
Payroll Tax elimination	(491)
Other eliminations and adjustments	(1,555)
<b>Total General Government UPF Expenses</b>	<b>39,146</b>
<p>Notes:</p> <p>1. Numbers may not add due to rounding.</p> <p>2. Certain expenses such as asset valuation changes are excluded from UPF reporting. In addition, this item removes the effect of cash payments for whole of Government schemes such as the State's share of superannuation beneficiary payments reported in Treasury Administered's expenses. Costs associated with these schemes are accrued annually.</p>	

## 8 BALANCE SHEET AND CASH FLOWS

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### FEATURES

- Queensland's balance sheet is expected to remain strong in 2009-10 with State net worth projected to rise by \$1.344 billion through the year to \$151.1 billion.
- Total borrowings and advances are expected to increase by \$7.996 billion in 2009-10, primarily as a result of increased investment in public infrastructure assets. The increase in borrowings is the major contributor to the projected \$8.141 billion decrease in net financial worth of the General Government sector in 2009-10.
- The General Government sector is forecast to record a cash deficit of \$6.838 billion in 2009-10, after allowing for \$9.020 billion in net asset purchases.

### INTRODUCTION

The 2009-10 balance sheet shows the projected assets, liabilities and net worth of the General Government sector as at 30 June 2010. It is important for the Government to maintain a strong balance sheet to provide it with the stability, flexibility and capacity to deal with any emerging financial and economic pressures.

The assets and liabilities in the balance sheet are defined according to the Uniform Presentation Framework (UPF).

Detailed balance sheet and cashflow information for the General Government sector and the other sectors is contained in Chapter 10.

## BALANCE SHEET

Table 8.1 provides a summary of the key balance sheet measures for the General Government sector.

Table 8.1 General Government sector: summary of budgeted balance sheet <sup>1</sup>						
	2008-09 Budget <sup>2</sup> \$ million	2008-09 Est. Act. \$ million	2009-10 Budget \$ million	2010-11 Projection \$ million	2011-12 Projection \$ million	2012-13 Projection \$ million
Financial assets	54,811	47,544	49,056	51,214	53,312	56,190
Non-financial assets	113,399	146,987	156,471	164,372	170,026	173,588
<b>Total Assets<sup>3</sup></b>	<b>168,209</b>	<b>194,531</b>	<b>205,527</b>	<b>215,586</b>	<b>223,337</b>	<b>229,778</b>
Borrowings and advances	9,311	11,250	19,246	28,357	35,154	39,670
Superannuation liability	21,874	23,949	25,303	26,580	27,766	28,854
Other provisions and liabilities	8,461	9,532	9,833	9,852	10,208	10,586
<b>Total Liabilities</b>	<b>39,646</b>	<b>44,731</b>	<b>54,382</b>	<b>64,789</b>	<b>73,128</b>	<b>79,110</b>
<b>Net Worth</b>	<b>128,563</b>	<b>149,800</b>	<b>151,144</b>	<b>150,797</b>	<b>150,209</b>	<b>150,668</b>
<b>Net Financial Worth</b>	<b>15,164</b>	<b>2,814</b>	<b>(5,327)</b>	<b>(13,575)</b>	<b>(19,816)</b>	<b>(22,920)</b>
<b>Net Financial Liabilities</b>	<b>5,504</b>	<b>12,391</b>	<b>20,999</b>	<b>29,691</b>	<b>36,555</b>	<b>40,525</b>
<b>Net Debt</b>	<b>(21,928)</b>	<b>(17,808)</b>	<b>(10,672)</b>	<b>(2,796)</b>	<b>2,749</b>	<b>5,901</b>
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

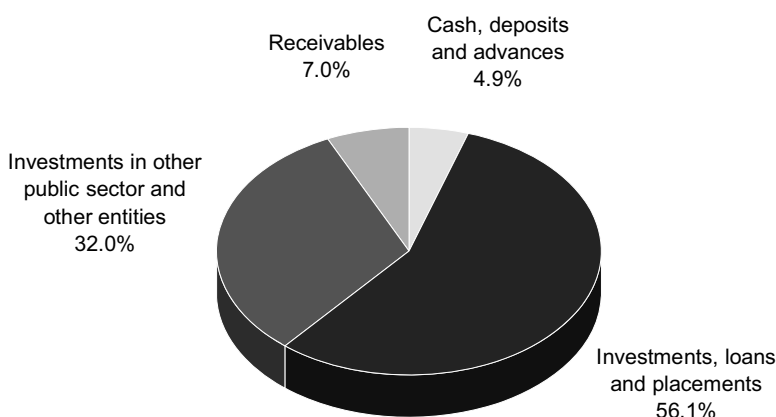
The General Government sector holds the full equity of the State's public enterprises, principally its shareholding in Government-owned corporations (GOCs) but also Public Financial Corporations like Queensland Treasury Corporation (QTC), in much the same manner as the parent or holding company in a group of companies. The estimated net investment in public enterprises (\$15.672 billion at 30 June 2010) is included in the General Government sector's financial assets.

Financial assets of \$47.544 billion are forecast for 2008-09, or \$7.267 billion lower than originally budgeted, reflecting lower than forecast returns on investments held for former defined benefit members and a decline in investments in public sector entities. The reduction in the value of the Public Non-financial Corporations sector is primarily due to market value adjustments to their loans with QTC. The reduction in the value of the Public Financial Sector is due to negative returns on investments held by QTC and WorkCover.

In the year to 30 June 2010, financial assets are projected to increase by \$1.512 billion, attributable principally to increased investment in assets set aside to meet future employee liabilities.

Chart 8.1 shows projected General Government sector financial assets by category at 30 June 2010. Investments held to meet future liabilities including superannuation and long service leave comprise the major part of the State's financial assets.

**Chart 8.1**  
**Projected General Government financial assets by category at 30 June 2010**



## Non-financial assets

General Government non-financial assets are projected to total \$156.5 billion at 30 June 2010. These assets consist primarily of land and other fixed assets of \$149.9 billion, the majority of which are roads, schools, hospitals and other infrastructure used to provide services to Queenslanders. Other non-financial assets of \$6.583 billion held by the State include prepayments and deferred tax assets relating to income tax equivalents collected primarily from GOCs.



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

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

Non-financial assets in the year ending 30 June 2010 are expected to grow by \$9.484 billion over the 2008-09 estimated actual. Of this increase, \$9.270 billion represents the acquisition of non-financial assets.

The Government has traditionally funded new infrastructure at levels well beyond that of the other states. General Government purchases of non-financial assets per capita have far exceeded the average of the other states and territories for well over a decade (see chart 4.1 in chapter 4).

## **Liabilities**

The largest accruing liability in the General Government sector is currently employee entitlements (principally superannuation and long service leave) which are projected to total \$29.374 billion at 30 June 2010. The other major component of liabilities is borrowings and advances received.

Total liabilities are budgeted to increase by \$9.651 billion in 2009-10, largely on account of increased borrowing to support the State's capital program and growth in the General Government superannuation liability.

State public sector superannuation liabilities include defined benefit liabilities for current employees and the balance of former scheme members (retirement, resignation, etc.) who choose to retain their funds within QSuper.

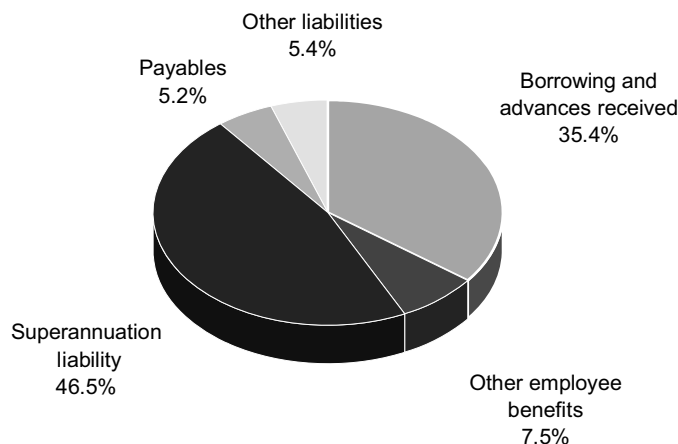
The proportion of the State's total superannuation liability relating to former scheme members is expected to increase over the forward estimates period as these investment balances grow.

Over the Budget and forward estimates period, total additional General Government net borrowings and advances of \$28.302 billion are planned to fund the \$28.282 billion worth of capital projects in the General Government sector and \$1.191 billion worth of equity injections to the Public Non-financial Corporations sector to support expansion of the State's water, ports, energy and rail infrastructure.

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 8.2.

**Chart 8.2**  
**Projected General Government liabilities by category at 30 June 2010**



## **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.

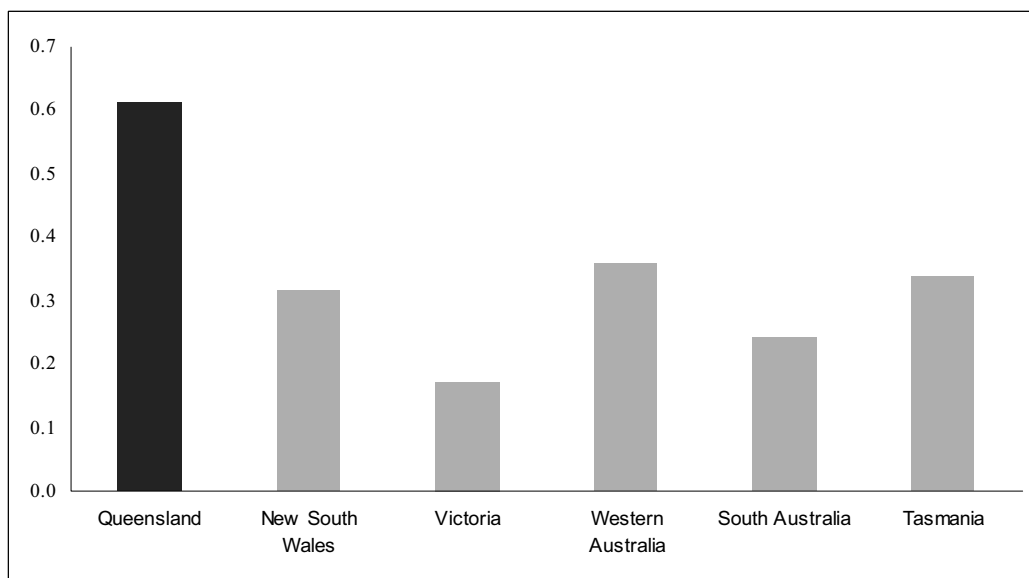
The net financial worth of the General Government sector for 2009-10 is forecast at negative \$5.327 billion. Net financial worth is expected to decrease over the forward estimates period as the sector increases borrowings to fund infrastructure assets (which are not included in the calculation of net financial worth).

## 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 significant liabilities, other than borrowings (for example, accrued employee liabilities such as superannuation and long service leave entitlements). The net financial liabilities of the General Government sector for 2009-10 are forecast at \$20.999 billion.

Queensland's level of liquidity continues to be in excess of the other states as illustrated in Chart 8.3.

**Chart 8.3**  
**Projected ratio of financial assets to liabilities**  
**(excluding investments in public enterprises) at 30 June 2010**  
**General Government sector**



Source: *State Budget Papers for QLD, Vic, WA, SA and Tas. Half Yearly Review for NSW.*

## Net worth

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

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

- operating surpluses (deficits) that increase (decrease) the Government's equity
- revaluation of assets and liabilities as required by accounting standards. Most financial liabilities are revalued on a regular basis. For example, the Government's

accruing liabilities for employee superannuation and long service leave are determined by actuarial assessments

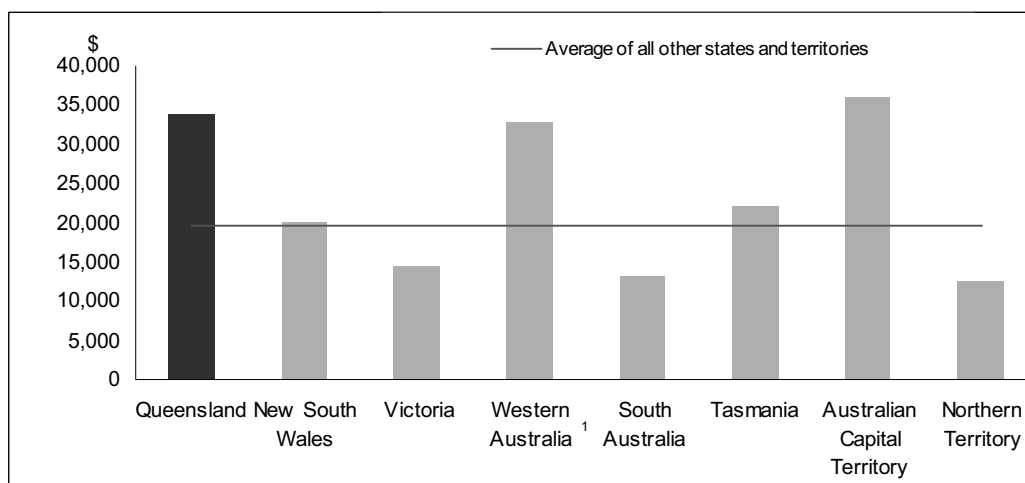
- movements in the net worth of the State's investments in the Public Non-financial Corporations and Public Financial Corporations sectors
- gains or losses on disposal of assets. Government agencies routinely buy and sell assets. Where the selling price of an asset is greater (less) than its value in an agency's accounts, the resultant profit (loss) affects net worth.

The net worth of the General Government sector in 2008-09 is forecast to be \$149.8 billion. This exceeds growth forecasts in the 2008-09 Budget by \$21.237 billion primarily as a result of revaluations of major assets at 30 June 2008 as part of the State's asset revaluation cycle.

Net worth is forecast to grow by \$1.344 billion to \$151.1 billion in 2009-10.

Chart 8.4 shows the State's strong net worth compared with the other states and territories. Queensland's per capita net worth is 72.7% greater than the average per capita net worth of the other states and territories.

**Chart 8.4**  
**Interjurisdictional comparison of projected per capita net worth at 30 June 2010**



Note:

1. Western Australia values land under roads as part of its overall asset base. This has been adjusted to allow comparison with other jurisdictions which do not value land under roads.

Source: *State Budget Papers for QLD, Vic, WA, SA, Tas, ACT and NT. Half Yearly Review for NSW. Population data from Australian Government Budget Paper No.3, 2009 10.*

## Net debt

Net debt is the sum of advances received and borrowings less cash and deposits, advances paid and investments, loans and placements. The extent of accumulated net debt is used to judge the overall strength of a jurisdiction's fiscal position. High levels of net debt impose a call on future revenue flows to service that debt and meeting these payments can limit government flexibility to adjust outlays. Excessive net debt can call into question the ability of government to service that debt.

As shown in Table 8.2, the General Government sector has negative net debt, that is, a surplus of financial assets over financial liabilities.

Queensland's negative net debt of \$2,398 per capita compares to the weighted average net debt of \$1,189 per capita in the other states. This indicates the strength of Queensland's financial position relative to the other states.

Table 8.2 Projected net debt per capita at 30 June 2010						
	QLD	NSW	VIC	WA	SA	TAS
Net debt per capita (\$)	(2,398)	1,102	1,819	331	1,315	(964)

Source: *State Budget Papers for QLD, Vic, WA, SA and Tas.. Half Yearly Review for NSW. Population data from Australian Government Budget Paper No.3, 2009 10.*

## CASH FLOWS

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

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

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

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

The Australian Bureau of Statistics Government Finance Statistics (GFS) surplus (deficit) is derived by including the initial increase in liability at the beginning of finance leases in the cash surplus (deficit). This measure is also used to derive the Loan Council Allocation nomination, provided in Chapter 10.

A cash deficit of \$6.838 billion is forecast in 2009-10 for the General Government sector, with the cash result forecast to remain in deficit in the outyears. Apart from the cash impact of recurrent operating deficits in outyears, the major factor contributing to lower cash results is the planned capital expansion. Total General Government capital purchases of \$9.270 billion are budgeted for 2009-10.

Over the period 2009-10 to 2012-13, capital expenditure is expected to total \$28.282 billion in the General Government sector. This substantial investment in capital drives the cash deficits.

Table 8.3 provides summary cash flow information for the General Government sector for 2008-09, 2009-10 and the outyears. Detailed cash flow tables are included in Chapter 10.

**Table 8.3**  
**General Government sector: summary of budgeted cash flows<sup>1</sup>**

	2008-09 Budget <sup>2</sup> \$ million	2008-09 Est. Act. \$ million	2009-10 Budget \$ million	2010-11 Projection \$ million	2011-12 Projection \$ million	2012-13 Projection \$ million
Cash receipts from operating activities	37,297	36,899	38,341	37,844	39,118	41,065
Cash payments for operating activities	(32,955)	(34,250)	(36,160)	(37,086)	(38,509)	(40,027)
<b>Net cash inflows from operating activities</b>	<b>4,341</b>	<b>2,649</b>	<b>2,181</b>	<b>758</b>	<b>609</b>	<b>1,038</b>
Net cash flows from investing activities	(7,786)	(7,458)	(10,665)	(10,099)	(7,606)	(5,563)
Receipts from financing activities	2,897	3,989	7,937	9,063	6,777	4,525
<b>Net increase/(decrease) in cash held</b>	<b>(548)</b>	<b>(821)</b>	<b>(546)</b>	<b>(278)</b>	<b>(219)</b>	<b>1</b>
<b>Derivation of cash surplus (deficit)</b>						
<b>Net cash inflows from operating activities</b>	<b>4,341</b>	<b>2,649</b>	<b>2,181</b>	<b>758</b>	<b>609</b>	<b>1,038</b>
Net cash flows from investments in non-financial assets	(6,311)	(6,793)	(9,020)	(8,274)	(5,944)	(3,962)
<b>Equals cash surplus/(deficit)</b>	<b>(1,970)</b>	<b>(4,144)</b>	<b>(6,838)</b>	<b>(7,516)</b>	<b>(5,335)</b>	<b>(2,924)</b>

Notes:

1. Numbers may not add due to rounding.

2. Numbers have been restated where subsequent changes in classification have occurred.

## Cash flows from operating activities

Table 8.4 provides a disaggregation of operating cash flows.

<b>Table 8.4</b> <b>General Government sector: cash flows from operating activities<sup>1</sup></b>			
	2008-09 Budget <sup>2</sup> \$ million	2008-09 Est. Act. \$ million	2009-10 Budget \$ million
<b>Cash receipts from operating activities</b>			
Taxes received	10,105	8,801	9,286
Grants and subsidies received	15,526	17,122	18,735
Sales of goods and services	3,749	3,910	4,050
Interest receipts	2,197	1,257	2,010
Dividend and income tax equivalents	1,012	1,145	1,042
Other receipts	4,707	4,665	3,219
<b>Total operating receipts</b>	<b>37,297</b>	<b>36,899</b>	<b>38,341</b>
<b>Cash payments for operating activities</b>			
Payments for employees	(15,674)	(15,992)	(16,975)
Payments for goods and services	(7,246)	(8,067)	(8,442)
Grants and subsidies	(8,757)	(8,898)	(9,097)
Interest paid	(540)	(534)	(883)
Other payments	(739)	(759)	(762)
<b>Total operating payments</b>	<b>(32,955)</b>	<b>(34,250)</b>	<b>(36,160)</b>
<b>Net cash inflows from operating activities</b>	<b>4,341</b>	<b>2,649</b>	<b>2,181</b>
Notes:			
1. Numbers may not add due to rounding.			
2. Numbers have been restated where subsequent changes in classification have occurred.			

Cash inflows from operating activities include receipts from taxes, grants from the Australian Government, fees and charges levied on the provision of goods and services, interest receipts from investments and dividend and income tax receipts from public non-financial and financial corporations.

Taxes received by the General Government sector are forecast at \$9.286 billion in 2009-10, an increase of 5.5% or \$485 million on the 2008-09 estimated actual of \$8.801 billion. This primarily reflects the impact of taxation measures announced in the Mid Year Fiscal and Economic Review.



Grants and subsidies received are forecast at \$18.735 billion in 2009-10, an increase of \$1.613 billion or 9.4% on the 2008-09 estimated actual of \$17.122 billion primarily as a result of increased grant funding from the Commonwealth.

Sales of goods and services are forecast at \$4.050 billion for 2009-10, an increase of 3.6% on the 2008-09 estimated actual of \$3.910 billion, and include fines and regulatory fees, user charges and rental income.

Interest receipts are expected to increase in 2009-10 by \$753 million or 60%, to \$2.010 billion. This reflects earnings of 7.5% on the debt instrument issued by QTC and the return to long term expected earnings on investments held on behalf of former defined benefit members and statutory bodies.

Dividends and income tax equivalents received from public non-financial and public financial corporations are expected to decrease in 2009-10 by \$103 million to \$1.042 billion.

Other receipts are forecast at \$3.219 billion in 2009-10 a decrease of 31% primarily as a result of decreased coal royalties.

Operating cash outflows represent payment for goods and services, wages and salaries, finance costs and grants and subsidies paid to households, businesses and other Government agencies. In 2009-10 the largest cash disbursement is payments for employees at \$16.975 billion or 46.9% of total cash payments from operating activities.

In 2009-10, payments for goods and services are expected to increase 4.6% to \$8.442 billion primarily as a result of expanded service delivery.

Cash payments for grants and subsidies are expected to increase by \$199 million in 2009-10 to \$9.097 billion. This figure includes recurrent grants paid by the Australian Government through the State to non-state schools, grants paid to industry and grants to non-profit institutions. This item also includes community service obligation payments to the energy sector and QR Limited, and capital grants which are largely paid to local government authorities to fund capital works.

Interest paid is expected to increase by \$349 million reflecting higher borrowings for the capital program.

Other payments mainly comprise sundry expenditure such as insurance claims and Goods and Services Tax (GST) remitted to the Australian Taxation Office.

## Cash flows from investments

Cash flows from investments include both financial and non-financial assets. Table 8.5 provides a disaggregation of investment cash flows into the different types.

<b>Table 8.5</b> <b>General Government sector: cash flows from investing activities</b>			
	2008-09 Budget <sup>1</sup> \$ million	2008-09 Est. Act. \$ million	2009-10 Budget \$ million
Cash flows from investments in non-financial assets	(6,311)	(6,793)	(9,020)
Net cash flows from investments in financial assets for policy purposes	(389)	(229)	(307)
Net cash flows from investments in financial assets for liquidity purposes	(1,086)	(436)	(1,338)
<b>Net cash flows from investing activities</b>	<b>(7,786)</b>	<b>(7,458)</b>	<b>(10,665)</b>
Note: 1. Numbers have been restated where subsequent changes in classification have occurred.			

The largest cash disbursement for the Government, outside of recurrent operations, is for investments in non-financial assets. This represents the Government's capital works program which provides for infrastructure such as schools, hospitals and roads.

Cash outflows from investments in non-financial assets are expected to increase to \$9.020 billion in 2009-10 from \$6.793 billion in 2008-09, an increase of 32.8%.

The cash expenditure on investments in non-financial assets differs from the estimates of capital works expenditure in Budget Paper 3 – Capital Statement. The estimates contained in that paper are on a gross basis and incorporate both departmental agencies and the Public Non-financial Corporations sector. In addition, Budget Paper 3 only includes capital expenditure (including capital grants) within Queensland and does not offset proceeds from asset sales.

Apart from investing in infrastructure, governments also manage financial assets in order to finance overall expenditures. In addition, Queensland manages financial assets set aside to provide for future employee benefits (for example, superannuation and long service leave). The Government manages its financial assets through a combination of borrowing or investing funds and reducing or increasing equity in government or private sector entities. Investments in financial assets include activities relating to both policy and liquidity.

Investments in financial assets for policy purposes include net equity injections into Government and other business enterprises and the net cash flow from disposal or return of equity in Government business enterprises.

Cash outflows from investments for policy purposes in 2008-09 of \$229 million reflect equity transactions by the General Government sector with public non-financial and public financial corporations. In 2008-09, this is partially offset by the return of proceeds on the long term lease of the Cairns and Mackay airports and the sale of the Port of Brisbane Corporation's remaining share in the Brisbane Airport Corporation Pty Ltd.

Cash outflows from investments in financial assets for policy purposes for 2009-10 of \$307 million reflect net equity injections into public enterprises.

Net cash flows from investments in financial assets for liquidity purposes represent net investment in financial assets to cover liabilities such as superannuation, other employee entitlements and insurance.

The 2008-09 estimated net cash outflow from investments in financial assets for liquidity purposes of \$436 million is substantially lower than the forecast outflow in the 2008-09 Budget due to the lower than forecast return on investments held for former defined benefit members and their subsequent reinvestment, as well as the liquidation of investments to make beneficiary payments.

Net cash outflows from investments in financial assets for liquidity purposes are estimated to be \$1.338 billion in 2009-10. The increased outflow compared to 2008-09 reflects the reinvestment of interest earnings based on the earnings at the long term rate.

## Cash flows from financing activities

Cash flows generated from financing activities are outlined in Table 8.6 below.

<b>Table 8.6</b> <b>General Government sector: cash flows from financing activities<sup>1</sup></b>			
	2008-09 Budget <sup>2</sup> \$ million	2008-09 Est. Act. \$ million	2009-10 Budget \$ million
Advances received (net)	(18)	(24)	(17)
Borrowing (net)	2,915	4,014	7,954
Other financing (net)	..	(1)	..
<b>Net cash flows from financing activities</b>	<b>2,897</b>	<b>3,989</b>	<b>7,937</b>
Note: 1. Numbers may not add due to rounding. 2. Numbers have been restated where subsequent changes in classification have occurred.			

Net cash flows from financing activities include cash flows from net borrowing (increase in borrowing less redemption), net advances (gross investment in new loans less redemption of loans issued) and other financing.

In 2008-09 net cash inflows from financing activities are estimated at \$3.989 billion. This mainly represents borrowings for the State's capital program.

Net cash inflows from financing activities for 2009-10 are estimated at \$7.937 billion, reflecting borrowings to partially fund the General Government's capital program of \$9.270 billion.

## RECONCILIATION OF OPERATING CASH FLOWS TO THE OPERATING STATEMENT

Table 8.7 provides a reconciliation of the cash flows from operating activities to the operating result for the General Government sector.

<b>Table 8.7</b> <b>General Government sector: reconciliation of cash flows</b> <b>from operating activities to accrual operating activities <sup>1</sup></b>			
	2008-09 Budget <sup>2</sup> \$ million	2008-09 Est. Act. \$ million	2009-10 Budget \$ million
<b>Revenue from transactions</b>	<b>36,582</b>	<b>35,874</b>	<b>37,192</b>
Plus/(less) movement in tax equivalent and dividend receivables	(40)	88	(109)
Plus GST receipts	980	1,245	1,355
Plus/(less) movement in other receivables	(226)	(308)	(97)
<b>Equals cash receipts from operating activities</b>	<b>37,297</b>	<b>36,899</b>	<b>38,341</b>
<b>Expenses from transactions</b>	<b>35,772</b>	<b>36,447</b>	<b>39,146</b>
(Less) non-cash items			
Depreciation and amortisation expense	(2,665)	(2,551)	(2,773)
Accrued superannuation expense	(2,030)	(2,268)	(2,381)
Accrued employee entitlements	(422)	(462)	(471)
Other accrued costs	(285)	334	(228)
Plus superannuation benefits paid    defined benefit	419	339	381
Plus/(less) movement in employee entitlement provisions	239	280	394
Plus/(less) GST paid	1,018	1,282	1,386
Plus/(less) movement in other provisions and payables	910	848	706
<b>Equals cash payments for operating activities</b>	<b>32,955</b>	<b>34,250</b>	<b>36,160</b>
Notes:			
1. Numbers may not add due to rounding.			
2. Numbers have been restated where subsequent changes in classification have occurred.			

The main difference between the accrual operating statement and the cash flow relates to the timing of cash payments and receipts and their recognition in accrual terms and the inclusion of non-cash expenses and revenues. The largest difference is on the expenses (expenditure) side, with large non-cash expenses associated with depreciation and superannuation. Differences due to the timing of receipt or payment of amounts are recorded as either a receivable or payable in the balance sheet.

## 9 INTERGOVERNMENTAL FINANCIAL RELATIONS

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### FEATURES

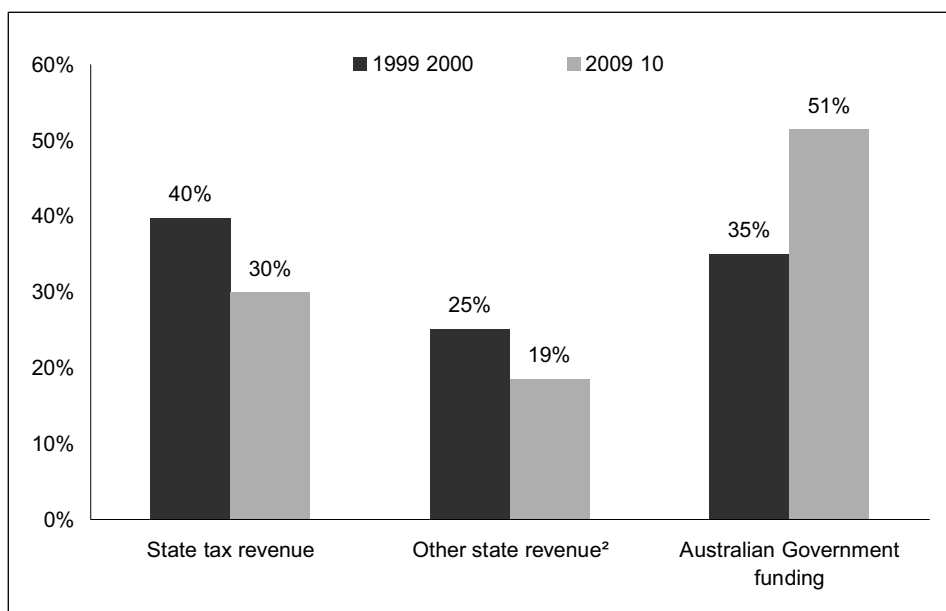
- GST revenue from the Australian Government to all States has been revised down by \$4.1 billion in 2008-09 and \$6.9 billion in 2009-10 since last Budget.
- Queensland, like all states, is becoming increasingly reliant on Australian Government funding, with approximately 49% of Queensland's revenue being sourced from the Australian Government in 2009-10.
- Council of Australian Government (COAG) reforms during 2008 resulted in substantial changes to the system of Australian Government payments, including improved funding arrangements for Specific Purpose Payments (SPPs) and new National Partnership Agreements.
- \$6.3 billion of additional funding has been provided to Queensland to 2012-13, including \$3 billion in COAG reform agreements. The Australian Government's *Nation Building and Jobs Plan* provides around \$3.3 billion of additional funding for Queensland over the next three years.
- The Commonwealth Grants Commission's *2009 Update Report on State Revenue Sharing Relativities* shows that Queensland will again receive a below per capita share of GST revenue in 2009-10. Queensland's share of GST revenue in 2009-10 will be reduced by \$381.8 million in underlying terms compared with 2008-09 due to a downward revision to the State's assessed relativity.
- Queensland's GST receipts in 2009-10 are expected to be \$7.660 billion, which is less than the \$8.549 billion received in 2007-08. In per capita terms, Queensland's share of GST in 2009-10 and 2010-11 will be similar to that received in 2003-04, with GST not expected to regain the levels of 2004-05 until after 2012-13.
- The expected reduction in Queensland's share of GST in 2008-09 follows underlying losses experienced in recent years. It is anticipated that by the 2010 Review of Methodology, Queensland's annual cumulative loss in GST funding since the 2004 Review of Methodology will be more than \$1.2 billion.
- The Queensland Government will provide \$1.3 billion in grants to Queensland local government authorities in 2009-10.

## FEDERAL FINANCIAL ARRANGEMENTS

Federal financial relations are characterised by a disparity between the revenue-raising capacity and the expenditure responsibilities of the Australian and state governments respectively. This mismatch is known as vertical fiscal imbalance (VFI). The Australian Government collects the major share of taxation revenues and states must rely on grants from the Australian Government to meet their expenditure requirements.

Since the introduction of the Australian Government's national tax reforms in 2000, states' dependence on Australian Government funding has increased further. Chart 9.1 shows all states' funding sources for 1999-2000 and 2009-10. In 1999-2000 the states received 35% of their revenues from the Australian Government. This is estimated to increase to 51% in 2009-10 as a result of changes to intergovernmental fiscal arrangements. In contrast, the proportion of the states' revenues from state taxes has declined from 40% in 1999-2000 to an estimated 30% in 2009-10.

**Chart 9.1**  
**Revenue sources, all states, 1999-2000 and 2009-10<sup>1</sup>**



**Notes:**

1. 2009-10 data 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 state and Australian Government Budget Papers.

The framework for federal financial arrangements has recently undergone significant reform through the Council of Australian Governments (COAG). Under the new framework, there are four categories of funding provided to the states:

- National Specific Purpose Payment (SPP) funding agreements covering health, education, skills and workforce development, disability and housing
- National Partnership payments for specific purposes or reform-linked objectives
- GST revenue payments
- other general revenue assistance payments.

## Australian Government funding to states

Table 9.1 shows that Australian Government payments to the states in 2009-10 are expected to total \$91.9 billion, an increase of \$6.8 billion or 8% compared with 2008-09.

<b>Table 9.1</b> <b>Estimated Australian Government payments to the states, 2008-09 and 2009-10<sup>1</sup></b>					
	2008-09 \$ million	2009-10 \$ million	Change Nominal Terms %	Change Real <sup>2</sup> Terms %	Change Real <sup>2</sup> Per Capita %
<b>Payments for specific purposes</b>					
National Partnership payments	13,781	24,243			
Specific Purpose Payments <sup>3</sup>	28,279	25,833			
<b>Total payments for specific purposes<sup>4</sup></b>	42,060	50,076	19.1	17.0	15.0
<b>GST revenue</b>	41,189	41,330	0.3	-1.4	-3.1
<b>Other general revenue<sup>5</sup></b>	1,857	494			
<b>Total payments</b>	85,106	91,901	8.0	6.1	4.3
<b>Notes:</b> 1. Numbers may not add due to rounding. 2. Deflated by the 2008-09 year average national inflation forecast of 1.75% and national population growth of 1.75%. 3. Specific Purpose Payments includes existing SPPs and new national SPPs. 4. Payments for specific purposes are not strictly comparable as some payments were reclassified as general revenue assistance from 1 January 2009. 5. Other general revenue includes NCP payments, royalties, compensation for Australian Government policy decisions and ACT municipal services. Source: <i>Australian Government Budget Paper No.3, 2009-10.</i>					

Total payments for specific purposes in 2009-10 are expected to be \$50.1 billion, a 15% increase from 2008-09 in real per capita terms. This largely reflects new COAG reform agreements and the impact of the Australian Government's *Nation Building and Jobs Plan*.



GST revenue from the Australian Government to all states is expected to increase slightly from \$41.2 billion in 2008-09 to \$41.3 billion in 2009-10, an increase of 0.3% in nominal terms. In real per capita terms, GST is expected to decrease by 3.1%. Since the Australian Government's 2008-09 Budget, GST revenue has been revised down by \$4.1 billion in 2008-09 and \$6.9 billion in 2009-10. Total downward revisions in GST revenue over the period 2008-09 to 2011-12 are estimated at \$25.5 billion.

The large downward revisions of the GST pool over 2008-09 has resulted in New South Wales, South Australia, Tasmania and the Northern Territory receiving less GST than their guaranteed minimum amount, which means they require budget balancing assistance in 2008-09. This is the first time any state has received budget balancing assistance since 2003-04. Under the new *Intergovernmental Agreement on Federal Financial Relations* (IGA), budget balancing assistance will not be available to states after 2008-09.

## State shares of Australian Government funding

Table 9.2 shows the expected shares of total Australian Government payments to each state for 2009-10 compared with each state's population share. Queensland's anticipated share of total Australian Government funding of 19.8% in 2009-10 will be less than its population share of 20.2%.

Table 9.2 Relative shares of payments to the states, 2009-10 <sup>1</sup>			
	Share of payments %	Share of population %	Relative share <sup>2</sup> %
New South Wales	30.6	32.4	94.6
Victoria	22.6	24.8	91.1
Queensland	19.8	20.2	98.1
Western Australia	10.0	10.3	97.8
South Australia	8.7	7.4	116.9
Tasmania	3.0	2.3	132.9
Australian Capital Territory	1.7	1.6	108.5
Northern Territory	3.5	1.0	336.2
Notes:			
1. Numbers may not add due to rounding.			
2. A state's relative share is measured as its funding share as a percentage of its population share.			
Source: <i>Australian Government Budget Paper No.3, 2009 10.</i>			

## Queensland's share of Australian Government funding

Table 9.3 details Queensland's share of estimated Australian Government payments in 2009-10 and the difference from its population share. Queensland expects to receive \$701 million less than a per capita share of GST revenue in 2009-10. In the same year, Queensland expects to receive \$507 million more than a per capita share of total payments for specific purposes. In terms of total Australian Government funding, Queensland expects to receive \$194 million less than a per capita share in 2009-10.

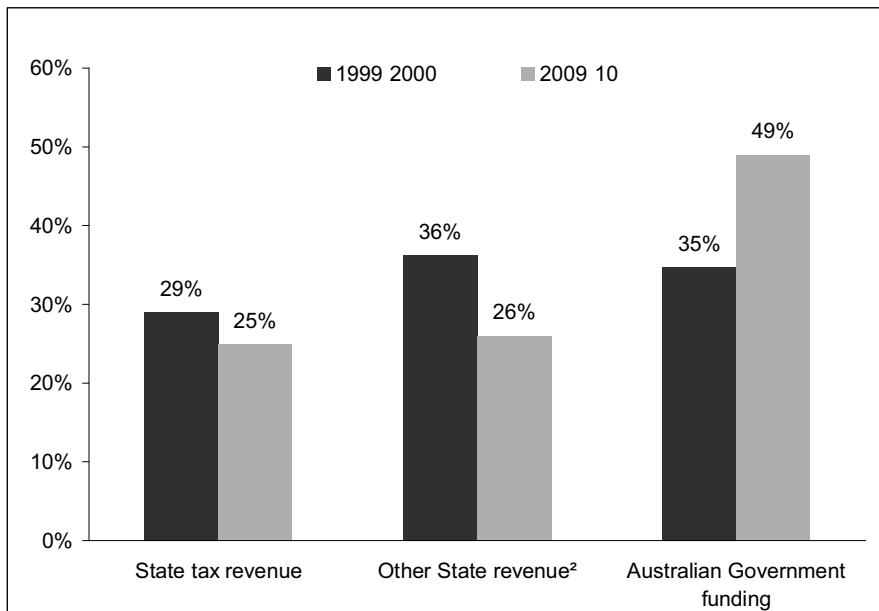
<b>Table 9.3</b> <b>Queensland's share of estimated Australian Government payment, 2009-10</b>		
	Queensland's Share	Difference from Population Share
	%	\$ million
<b>Payments for specific purposes</b>		
National Partnership payments	24.1	950.1
Specific Purpose Payments	18.5	-443.2
<b>Total payments for specific purposes</b>	21.2	507.0
<b>GST revenue<sup>1</sup></b>	18.5	-701.1
<b>Total payments</b>	<b>19.8</b>	<b>-194.1</b>
Notes:		
1. Adjustment for GST deferral included.		
Source: <i>Australian Government Budget Paper No.3, 2009 10.</i>		

Additional funding from COAG reform agreements is estimated to be \$333 million in 2009-10, and \$3 billion in total from 2008-09 to 2012-13. This includes improved funding arrangements for specific purposes payments and National Partnerships in areas such as health, education, skills and workforce development, housing, disabilities and Indigenous services. In addition, the Australian Government's \$42 billion *Nation Building and Jobs Plan* is expected to direct around \$3.3 billion to Queensland between 2008-09 and 2012-13.

Revisions to total GST revenue, combined with changes to Queensland's relative share of total GST funds, have had substantial impacts on the GST expected to be received by Queensland.

Queensland's reliance on Australian Government funding, as shown in Chart 9.2, is consistent with the national trend, with the share of total funding sourced from the Australian Government increasing from 35% in 1999-2000 to an estimated 49% in 2009-10. This is partly due to increased payments for specific purposes, which are expected to peak in 2009-10, combined with reductions in Queensland's own-source revenue, which has fallen from 65% in 1999-2000 to 51% in 2009-10.

**Chart 9.2**  
**Revenue sources, Queensland, 1999-2000 and 2009-10<sup>1</sup>**



**Notes:**

1. 2009-10 data are estimates.

2. Includes user charges, interest earnings, contributions from trading enterprises and mining revenue.

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

## **COAG REFORM OF AUSTRALIAN GOVERNMENT PAYMENTS**

The Council of Australian Government (COAG) reforms during 2008 resulted in substantial changes to the system of Australian Government payments. These reforms culminated in a new IGA, which outlines the principles of Federal-State financial relations, and details a range of major reforms, including:

- improved funding arrangements for Specific Purpose Payments (SPPs)
- a framework for new National Partnership agreements (NPs)
- restructuring the number and types of payments
- a new performance reporting regime for SPPs and NPs
- a new Indigenous expenditure reporting framework
- an expanded role for the COAG Reform Council (CRC).

The package of changes has improved state funding, and gives states additional flexibility to apply the new funding to meet state priorities, but has been accompanied by commitments to meet new national performance benchmark measures.

The new funding arrangements also include reward payments to states for achieving agreed implementation milestones for a number of reform areas, including:

- preventative health
- literacy and numeracy
- business deregulation.

COAG reform agreements have resulted in \$15.1 billion of additional funding for specific purposes and national partnerships. Queensland's share of additional funding from COAG agreements is estimated at \$3 billion from 2008-09 to 2012-13.

### **Specific purpose payments**

One of COAG's reform objectives was to reduce the number of SPPs from around 90 to less than 20. Following deliberation, COAG agreed to five new major SPPs:

- a National Healthcare Agreement
- a National Schools Agreement
- a National Skills and Workforce Development Agreement
- a National Disability Agreement
- a National Housing Agreement.

A large number of former SPPs have been redesignated as National Partnership payments, contingent payments or general revenue assistance, or are proposed to be cashed out. The new IGA provides for Treasurers to periodically review the adequacy of funding and indexation for the new SPPs.

In addition to these agreements there is a National Indigenous Reform Agreement (NIRA), which brings together the key Indigenous reforms in the new funding agreements.

Key characteristics of the new agreements are:

- the agreements are permanent, and do not have to be renegotiated every three or four years (unlike previous SPPs)
- each agreement has improved base and escalation arrangements
- each agreement has documented objectives, outcomes and performance measures
- performance information for the new SPPs will be compiled and publicly released by the CRC.

States have flexibility to use funding within each of the five SPP areas in accordance with state policy priorities. For example, healthcare funding is no longer restricted to public hospitals, and can be spent anywhere within the health system.

The table below outlines Queensland's additional funding for each SPP under the new arrangements.

<b>Table 9.4</b> <b>Queensland's additional SPP funding</b> <b>2008-09 to 2012-13</b>			
SPP	Base and escalation \$ million	Distribution change \$ million	Total increase \$ million
Healthcare	946	108	1,054
Schools	203	126	329
Skills and Workforce	7	20	27
Disability	79	18	97
Housing	9	16	25
<b>Total</b>	<b>1,245</b>	<b>287</b>	<b>1,532</b>

COAG's Public Accountability and Performance Reporting guidelines require states to provide performance information in respect of each new National Agreement, and for this information to be consolidated into a report which will be provided to COAG and publicly released. The intention of this process is to make states accountable to their electors for their performance, rather than to the Australian Government or to COAG.

The performance reporting agreement has set in train a comprehensive review of statistical reporting arrangements between the Australian Government and the states. The Ministerial Council for Federal Financial Relations (comprising Australian Government, State and Territory Treasurers) has responsibility for overseeing and maintaining an effective performance reporting regime.

### **National Partnership payments**

National Partnership payments are intended to be for specific projects, such as election commitments, with funding being provided for limited periods. Deliverables, including objectives, timeframes and funding are specified in individual National Partnership Agreements.

National Partnerships may consist of up-front facilitation payments or have reward payments which will be made to states that achieve agreed performance benchmarks. National Partnerships may also use a mixture of facilitation and reward payments.

States may also be required to contribute funding toward achieving National Partnerships. In some cases pre-existing budget allocations may be recognised as a funding contribution, but in the majority of cases, additional state funding is required. The National Partnerships signed at the November 2008 COAG meeting include a requirement for Queensland to contribute \$641 million in co-investment payments.

The following table sets out details of the National Partnership funding agreed for Queensland at the November 2008 COAG meeting.

**Table 9.5**  
**Queensland's additional COAG funding**  
**2008-09 to 2012-13**

Funding area	Additional funding \$ million	Co-investment required \$ million
Hospital and Health Workforce Reform	267	108
Preventative Health	45	..
National E-Health initiative	..	22
Indigenous Health	..	162
Computers in Schools	159	..
Improving teacher quality	88	6
Low SES school communities	171	171
Homeless	136	138
Social Housing	81	..
Indigenous Economic Participation	..	21
Indigenous Remote Service Delivery	..	13
Remote Indigenous Housing	419	..
Business regulation and competition	113	..
<b>Total</b>	<b>1,479</b>	<b>641</b>

## Other COAG reform elements

### *A new Indigenous expenditure reporting framework*

States have agreed to help develop and implement a new Indigenous Expenditure Reporting Framework (IERF) to help address existing deficiencies in the current availability of Indigenous expenditure data. This will be a key part of monitoring progress towards achieving COAG's 'Closing the Gap' objectives.

A key issue with the IERF will be identifying expenditure on Indigenous services provided as part and parcel of 'mainstream' expenditure, particularly in the Health and Education areas.

### *Role of the CRC*

In addition to its role of collating and publishing SPP performance information, the CRC will be responsible for monitoring states' progress on reform agendas. In particular, the CRC will determine whether states have achieved the milestones required for the release of reward payments under National Partnerships which have a reward component.

## NATION BUILDING AND JOBS PLAN

The Australian Government announced its \$42 billion *Nation Building and Jobs Plan* in February 2009. The plan has several elements which require state participation, including \$14.7 billion for improvements to schools, \$6.6 billion for improvements for social housing, and \$0.9 billion for transport infrastructure.

Final funding allocations for states are being negotiated between the Australian Government and the states. Queensland expects to receive in excess of \$3 billion in additional funding under the *Nation Building and Jobs Plan*.

Under the plan, states have to commit to spending the additional money within nominated timeframes and maintaining current expenditure effort. Sanctions will be applied for non-compliance, including that the Australian Government may reallocate funding to other states if a state is unable to meet the expenditure guidelines, and that states' grant funding may be reduced if states substitute Australian Government funding for own source funding.

## PAYMENTS FOR SPECIFIC PURPOSES BY FUNCTION

In total, Australian Government payments to Queensland for specific purposes in 2009-10 are estimated at \$10.636 billion, an increase of 14.4% from 2008-09.

<b>Table 9.6</b> <b>Queensland payments for specific purposes, 2008-09 and 2009-10<sup>1,2</sup></b>		
	2008-09	2009-10
	\$ million	\$ million
<b>Payments for specific purposes</b>		
Health	2,410.2	2,399.2
Education and training	2,605.7	4,358.2
Disability services	469.4	508.1
Housing	599.6	1,327.2
Transport and main roads	2,413.3	1,615.1
Local government	460.6	283.4
Other	334.7	145.1
<b>Total payments for specific purposes</b>	<b>9,293.5</b>	<b>10,636.3</b>
<b>Notes:</b> 1. Numbers may not add due to rounding. 2. Payments for specific purposes include existing SPPs, new national SPPs and National Partnerships. Source: <i>Australian Government</i>		



## Health

From 2009-10, Queensland Health will receive the majority of its Australian Government funding through the new National Healthcare Agreement (NHA) SPP. The NHA will be adjusted annually for population growth and increases in costs associated with increases in health prices and technology improvements. Queensland expects to receive \$2.2 billion from Health SPP funding in 2009-10.

Queensland Health will also receive new funding for National Partnership payments in specific reform areas such as Hospital and Health Workforce Reform and Preventative Health.

## Education and training

The National Schools Agreement and National Skills and Workforce Agreement support the delivery of education services in state and non-state schools, training institutions and other organisations. The Australian Government will also provide over \$2 billion in 2009-10 of National Partnership payments to support the delivery of specified outputs in education and early childhood.

The Australian Government also provides funding for a range of specific vocational education and training programs. Increased funding will be provided for TAFE infrastructure improvements and productivity places as part of the *Nation Building and Jobs Plan*.

## Disability services

The new National Disability Agreement commenced on 1 January 2009 replacing the Commonwealth State/Territory Disability Agreement (CSTDA). The funding received under the National Disability Agreement during 2009-10 will be used to continue existing service provision as well as provide increased accommodation support, respite and in-home support services for people with a disability, their families and carers.

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

## **Housing**

In 2009-10, the Department of Housing expects to receive over \$1.3 billion in payments for specific purposes, including funding under the National Housing Agreement, and National Partnerships in the areas of homelessness, remote Indigenous housing and social housing. This funding will be used for the continued development of a core social housing sector to assist people unable to access alternative suitable housing options, through the delivery of affordable, appropriate, flexible and diverse housing assistance responses that provide people with choice and are tailored to their needs, local conditions and opportunities.

## **Transport and main roads**

Funding is provided by the Australian Government for capital infrastructure and maintenance works on the National Network. This road funding is provided through the *Nation Building* program and the Building Australia Fund, which includes planning funding for a Brisbane Inner City Rail Feasibility Study and capital funding towards the Gold Coast Light Rail project in South East Queensland.

The Australian Government also contributes funding under the *Nation Building* program for targeted safety and other works on other state-controlled and local government roads.

## **Local government**

Payments to local government consist of general purpose Financial Assistance Grants and untied grants for local roads.

## **Other**

Other payments for specific purposes include funding for a range of programs including environment and water sustainability and natural disaster relief.

## GST REVENUE PAYMENTS

### Commonwealth Grants Commission

The Commonwealth Grants Commission (CGC) advises the Australian Government on the distribution of GST revenue among the states. Under its terms of reference the CGC is required to determine its recommendations on the basis of horizontal fiscal equalisation, as detailed in Box 9.1.

#### Box 9.1 Horizontal fiscal equalisation and distribution of GST

##### Commonwealth Grants Commission

The Commonwealth Grants Commission (CGC) advises the Australian Government on the distribution of GST revenue among the states and each year updates the financial, economic and demographic data that underpin its recommendations.

##### Horizontal Fiscal Equalisation

The Australian Government distributes GST revenue to states based on the principle of horizontal fiscal equalisation (HFE), using per capita relativities recommended by the CGC. Queensland supports the principle of HFE.

The principle of HFE is that state governments should receive funding from the Australian Government such that, if each made the same effort to raise revenue from its own sources and operated at the same level of efficiency of service delivery, each would have the capacity to provide services to the same standard.

A distribution based on HFE principles recognises the different financial capacities of the states, particularly that some states have inherently greater capacity to raise revenue and that some states have inherently greater costs to meet in providing services to an Australian standard. If the distribution of the GST to the states were on any basis other than HFE, some taxpayers would be forced to accept either a lower standard of state services or a higher level of state taxation than other taxpayers in similar circumstances.

More information on HFE and GST distribution can be accessed through the Queensland Treasury website: [www.treasury.qld.gov.au/gst-factsheets](http://www.treasury.qld.gov.au/gst-factsheets) or the Commonwealth Grants Commission website: [www.cgc.gov.au](http://www.cgc.gov.au).

### 2009 Update Report on State Revenue Sharing Relativities

At the 2009 Treasurer's Conference, the Australian Government accepted the CGC's *2009 Update Report on State Revenue Sharing Relativities* (2009 Update) as the basis for the distribution of the GST revenue to the states in 2009-10.

In the 2009 Update, the CGC recommended an underlying decrease in Queensland's share of GST revenue of \$381.8 million in 2009-10, as shown in Table 9.7. Queensland already received a less than per capita share of the GST in 2008-09, and the result of the 2009 Update has reduced Queensland's share even further.

New South Wales and Victoria have gained significantly from the 2009 Update with underlying increases of \$613.3 million and \$56.6 million respectively. In 2009-10, for the first time, New South Wales and Victoria will receive a greater per capita share of the GST than Queensland.

**Table 9.7**  
**Components of underlying change in states share of GST revenue**  
**2008-09 to 2009-10<sup>1</sup>**

	NSW \$ million	VIC \$ million	QLD \$ million	WA \$ million	SA \$ million	TAS \$ million	ACT \$ million	NT \$ million
Revenue	545.0	82.6	-312.2	-304.4	1.3	-14.5	7.5	-5.4
Expenditure	55.0	-88.2	-34.1	6.7	50.8	-26.3	-0.5	36.7
Commonwealth								
Payments	14.0	62.6	-35.1	-11.3	-0.3	-0.6	4.3	-33.4
<b>Total</b>	<b>613.3</b>	<b>56.6</b>	<b>-381.8</b>	<b>-309.7</b>	<b>52.2</b>	<b>-41.0</b>	<b>11.4</b>	<b>-0.9</b>

Note:

1. Numbers may not add due to interactions between Expenditure and SPP assessments.

Source: *Commonwealth Grant Commission 2009 Update Report on State Revenue Sharing Relativities*.

The decrease in Queensland's GST revenue share follows reductions in its share of GST funding of \$166.4 million in 2007 and \$409.3 million in 2008. It is anticipated that by the 2010 Review of methodology, Queensland's annual cumulative loss in GST funding since the 2004 Review of methodology will be more than \$1.2 billion.

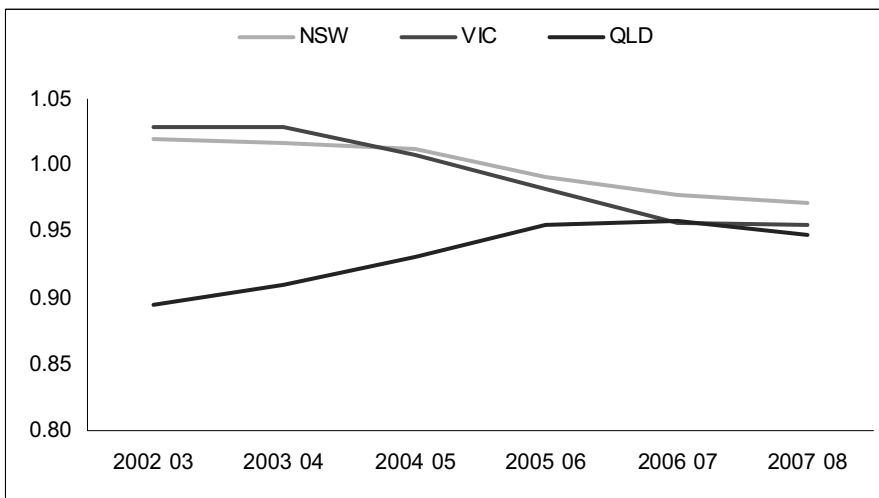
Queensland's declining share of GST revenue reflects increases in the state's fiscal capacity over the period 2002-03 to 2007-08, particularly from strong performances in the property market and mining sector. The change in Queensland's GST share over the last few years demonstrates the responsiveness of the CGC's methodology to changes in states' revenue earning capacities and expenditure needs. However, the current methodology does not adequately account for the increases in capital expenditure required by states driven by high population growth. Queensland is working with the CGC and the other states to develop a capital assessment as a part of the 2010 Review process (see Box 9.2 for more details).

## **Relationship between GST distribution and economic performance**

A key feature of recent Updates has been the decreasing relativities of the fast growing states of Queensland and Western Australia compared with the more established economies of New South Wales and Victoria.

There has been some criticism of the GST distribution process on the basis that periods of rapid growth, such as recently experienced by the Queensland and Western Australian economies, are not adequately taken into account. Chart 9.3 shows that Queensland's GSP per capita has been converging with that of both New South Wales and Victoria over the period from 2002-03 to 2007-08.

**Chart 9.3**  
**Convergence between larger states – GSP per capita relativities**

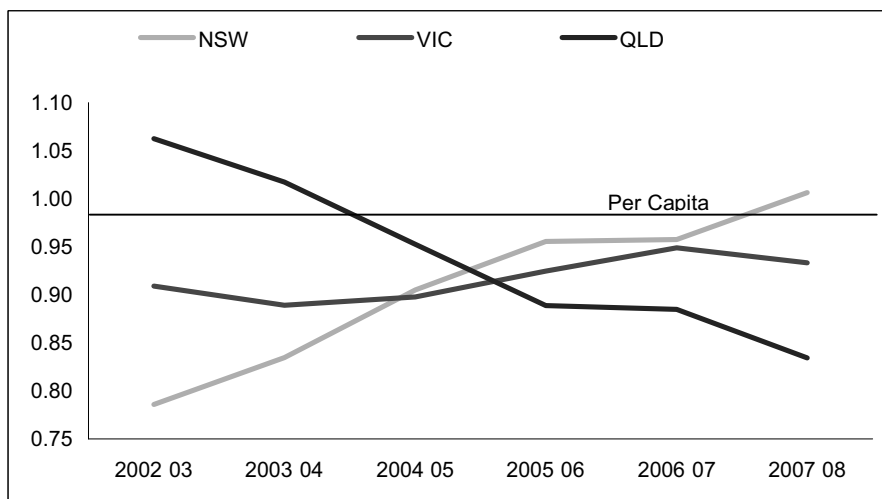


Source: Queensland Treasury calculations based on Commonwealth Grants Commission *Relative Fiscal Capacities of the States 2009*.

Over these years, Victoria's GSP per capita has declined from 3% above the Australian average, while Queensland's GSP per capita has risen substantially towards the national average.

At the same time, New South Wales' assessed GST single year relativity, which is a key determinant of its share of the GST pool, has risen from 0.79 to 1.01. Over the same period Queensland's single year GST relativity has fallen from 1.06 to 0.83 as shown in Chart 9.4.

**Chart 9.4**  
**Single year GST relativities – larger states**



Source: Commonwealth Grants Commission 2009 Update Report on State Revenue Sharing Relativities.

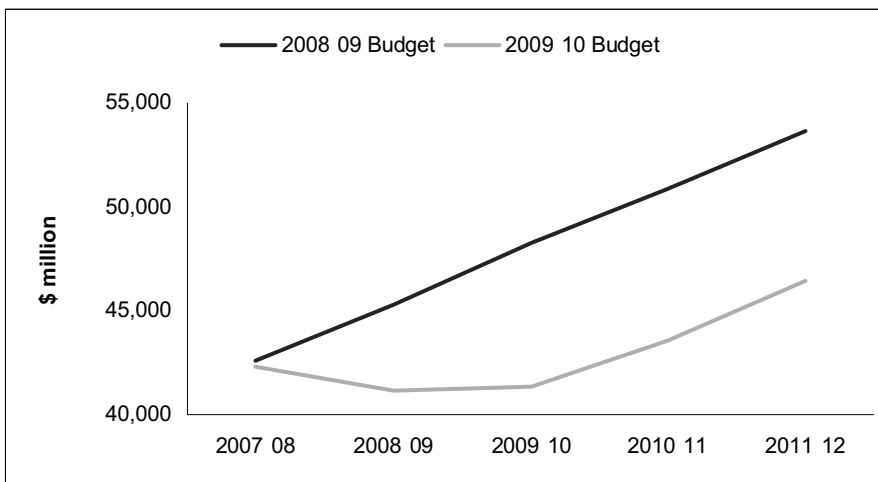
The CGC's 2009 Update data shows that in every year since 2005-06, Queensland's assessed single year GST relativity has been lower than that for both New South Wales and Victoria, which means that for the past three years Queensland has been assessed as requiring less per capita from the GST pool than either of these states.

It is clear that as the relative economic strength of a state changes, so too does its assessed share of GST funding. Queensland recognises that this is the intended consequence of the GST assessment process. However, due to the five year averaging process used by the Commission, Queensland and Western Australia will continue to experience low relativities as a result of their earlier strong economic growth, while at the same time experiencing significant reductions in own source revenues associated with the impact the global financial crisis has had on property markets and commodity prices.

### **Queensland's declining GST revenue**

Total GST revenue to all states declined by 2.7% between 2007-08 and 2008-09, and in 2009-10 is expected to rise by 0.3%. This is far lower than the average growth of 8.2% between 2000-01 and 2007-08, and reflects the global financial crisis. Since the Australian Government's 2008-09 Budget, GST revenue has been revised down by \$4.1 billion in 2008-09 and \$6.9 billion in 2009-10. Total GST revenue is not expected to reach 2007-08 levels until 2010-11, while Queensland's share of GST is not expected to reach 2007-08 levels until 2012-13 due to its declining share of the GST pool.

**Chart 9.5**  
**Comparison of GST revenue – 2008-09 and 2009-10 Commonwealth Budget**

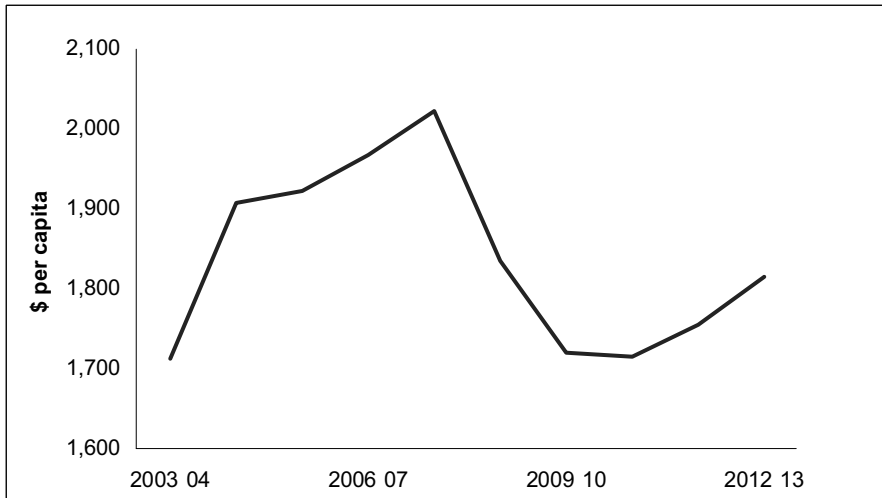


In 2009-10, Queensland will receive a share of GST well below its population share, based mainly on the CGC's determination that Queensland has a relatively greater capacity to raise revenue from stamp duty on conveyances and royalties from mining. Changes in the characteristics of Queensland's population, such as age and income levels, also reduced Queensland's share of GST funding in the 2009 Update.

The CGC currently use an average of the five most recent single year relativities to reduce the volatility of the annual results. In the absence of this process for smoothing changes in state shares, the strong performance of the Queensland and Western Australian economies over 2003-04 to 2007-08 would have resulted in more GST being redistributed away from Queensland and Western Australia, and towards New South Wales and Victoria.

As GST is distributed on a per capita basis, the declines in Queensland's total GST share have been mitigated in recent years by increased population growth. However, Queensland's population growth has resulted in a commensurate increase in demand for services, and Queensland's ability to meet this demand, or enhance existing services, is affected by strong per capita declines in GST. In per capita terms, Queensland's share of GST in 2009-10 and 2010-11 will be similar to that received in 2003-04, with GST not expected to regain the levels of 2004-05 until after 2012-13.

**Chart 9.6**  
**Queensland GST per capita, 2003-04 to 2012-13**



Source: Australian Government Budget Paper No.3, 2009-10 and Queensland Treasury.

A key concern that Queensland has with the Commission's current processes is that they do not adequately take account of states' need for increased capital expenditure that is inextricably associated with a fast growing population. Queensland is currently experiencing population growth at a much higher rate than the national average, which is underpinning an ever increasing demand for infrastructure. At the same time, Queensland is receiving an ever diminishing share of the GST funding. There is a direct link between rapid population growth and demand for infrastructure, which needs to be addressed by the Commission. Queensland supports the capital assessment proposed by the Commission for their 2010 review of methodology, which will take into account a state's relative population growth and recognise the immediacy of the demand.

### **2010 Review of State Revenue Sharing Relativities - progress report**

The CGC undertakes a substantive review of its methodology every five years, with the next review due to be completed in 2010. The terms of reference for the *2010 Review of State Revenue Sharing Relativities* (2010 review) direct the CGC to simplify its processes and introduce a more streamlined approach to HFE, as discussed in Box 9.2. The 2010 review is different to previous reviews and can be viewed as an overhaul of the way the CGC structures its assessments.



## Box 9.2 The 2010 Review

### **An overhaul of how the Commission determines the distribution of the GST**

The CGC is currently conducting a review, due in 2010, of the processes used to determine the distribution of the GST revenue. The CGC has indicated that it intends to vigorously pursue both equalisation and simplification for the 2010 Review, and has adopted a strategy that:

- starts with a clean slate when it comes to devising assessment methods
- adopts a top-down approach, only disaggregating assessment categories if doing so materially improves equalisation and it can be done reliably
- works toward improving the quality of data used in the assessments
- establishes new assessment guidelines with stronger reliability and materiality criteria.

Using this strategy, the CGC believes that simplification will improve the reliability and robustness of the processes and acceptability of the outcomes. The CGC has been providing all states with the opportunity to contribute to the development of the reviewed distribution process.

Queensland has been proactively working with the Commission to identify areas for simplification of assessments in the 2010 Review. A number of alternative approaches and models have been suggested by Queensland to simplify and enhance assessments, such as road measurement, dispersion and wages input costs.

Queensland has strongly supported the Commission's proposal to include capital expenses as part of the new methodology. The proposed capital assessment recognises the immediate need for capital expenditure that is experienced by states with rapidly growing populations. Queensland believes the recognition of capital expenses will significantly improve the quality of HFE.

A robust assessment of the extra costs of service provision that large or dispersed states face is essential to ensuring the 2010 Review achieves equalisation. Queensland has proposed a simplified assessment approach to assessing these extra costs and is continuing to work with the Commission to ensure that Queensland's unique geography is not ignored.

The CGC's draft report for the 2010 Review is due to be released in early July 2009. More information is available on the CGC's web site: [www.cgc.gov.au](http://www.cgc.gov.au).

## **OTHER COMMONWEALTH PAYMENTS**

### **Contingent payments**

Contingent payments are a specific class of Australian Government payments which arise when the amount of funding cannot be reliably estimated. The main type of contingent payment is Natural Disaster Relief.

## **Other general revenue assistance**

General revenue assistance payments arise when the Australian Government has an obligation to make a payment to a State, but the State has full control over how to allocate the money. Examples include offshore royalty revenue payments to Western Australia, and municipal services funding for the ACT. Queensland does not receive any general revenue assistance payments.

## **REVIEW OF AUSTRALIA'S TAX SYSTEM**

On 11 May 2008, the Federal Treasurer announced a comprehensive review of Australia's tax system to design a tax structure that positions Australia to deal with the demographic, social, economic and environmental challenges of the 21st century and enhance Australia's economic and social outcomes. The review, chaired by the Secretary of the Australian Treasury, Dr Ken Henry, is due to report to the Australian Government by December 2009.

The review should have a strong reform focus as tax reform has the potential to deliver wide ranging economic, social and environmental benefits for the nation.

Tax reform should be considered an important component of national economic reform, with the potential to produce significant benefits for the Australian economy by impacting positively on economic efficiency and productivity, and thereby generating higher levels of employment and income. In this regard, the interaction of the tax system with the transfer system will be a critical area of study for the review. There are also important issues of equity and fairness that will need to be considered by the review.

The Queensland Government has demonstrated its own commitment to tax reform by abolishing eight taxes over the last eight years, reforming others and introducing a range of administrative reforms that have simplified the state tax system for taxpayers and made tax administration more efficient.

The review also offers the opportunity for a fundamental reorientation of the national taxation system to strengthen intergovernmental financial relations and, in turn, the Australian Federation.

Australia's federal system, based on Commonwealth, state and local governments, has been an important driver of national social and economic development over the past century. However, a growing imbalance in the financial powers between the levels of government has weakened states' fiscal autonomy and revenue capacity since federation. This has been largely the product of the erosion of state revenue bases and the placing of restrictive conditions on Australian Government grants.

This deterioration in state finances threatens to reduce the capacity of state governments to deal with budgetary pressures and meet the needs of their communities, particularly in the face of 21<sup>st</sup> century policy challenges such as demographic change, climate change, increasing global competition in education, and the need to provide infrastructure for sustainable economic growth. A robust national economy and vibrant community require a strong federation and therefore strong state and local governments.

Reform of existing state taxes, including administrative reform and consideration of the abolition of less efficient state taxes, the replacement of any abolished taxes with state access to alternative revenue sources, and a reduction in the states' reliance on Australian Government grants should be considered important elements of a national tax reform agenda.

The Queensland Government looks forward to participating further in the review and with the Australian Government to deliver a bold blueprint for future national tax reform.

## **STATE-LOCAL GOVERNMENT FINANCIAL RELATIONS**

In 2009-10, a total of \$1.344 billion in grants will be provided by the Queensland Government to Queensland's local governments, compared to \$1.2 billion in 2008-09. (This includes financial assistance grants being paid by the Australian Government through the states to local government.)

Table 9.8 details Queensland Government grants to local governments.

The overall increase in total Queensland Government grants to local government authorities in 2009-10 reflects the expansion of some existing programs or the introduction of new initiatives, in particular increases in funding for Indigenous community housing and the rectification of road 'Black Spots'.

**Table 9.8**  
**Grants to local government in Queensland <sup>1,2</sup>**

	2008-09 Estimated Actual \$ million	2009-10 Budget Estimate \$ million
<b>Queensland Government grants</b>		
Communities <sup>3</sup>	163	267
Community Safety	7	5
Education and Training	17	18
Employment, Economic Development and Innovation	19	10
Environment and Resource Management	7	5
Health	3	3
Infrastructure and Planning <sup>4</sup>	890	919
Premier and Cabinet <sup>5</sup>	5	3
Transport and Main Roads	82	114
Other	7	..
<b>Total Queensland Government grants</b>	<b>1,200</b>	<b>1,344</b>
Notes:		
1. For current and capital purposes to local government authorities and Aboriginal and Islander councils. Includes Australian Government grants paid through the State to local governments.		
2. Data collected on different basis to previous years and therefore not directly comparable with previous Budget papers.		
3. Includes grants for housing, disability services, child safety, sport and recreation.		
4. Includes general purpose grants from the State and Australian Governments.		
5. Includes grants for the arts.		

## Grant purposes

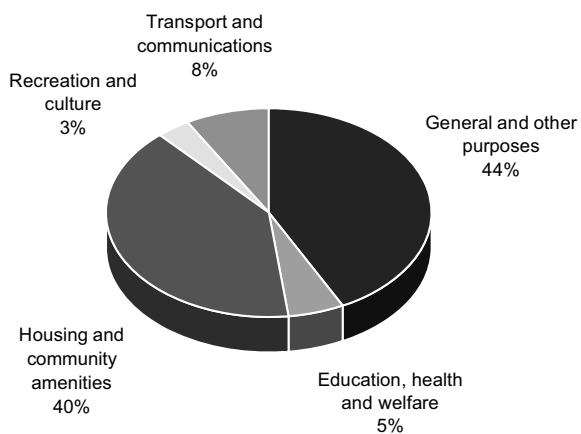
The majority of grants to local government are for capital purposes. In 2009-10 capital grants will comprise 58% of Queensland Government grants to local government.

Significant grant purposes include:

- housing and community amenities
- general public services
- capital works subsidies provided towards the costs of local public infrastructure
- road subsidies for local roads, networks and drainage.

Chart 9.7 highlights the range of purposes for which local government grants will be provided by the Queensland Government in 2009-10.

**Chart 9.7**  
**State grants to local government in Queensland by purpose 2009-10**



## 10 UNIFORM PRESENTATION FRAMEWORK

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### 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 Framework was reviewed following the release in October 2007 of the Australian Accounting Standards Board's (AASB) new 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.

This chapter also includes a discussion of the operations of the Public Non-Financial Corporations (PNFC) sector.

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

### GENERAL GOVERNMENT SECTOR

A detailed analysis of the General Government sector is provided in Chapter 6 – Revenue, Chapter 7 – Expenses and Chapter 8 – Balance Sheet and Cash Flows.

## **PUBLIC NON-FINANCIAL CORPORATIONS SECTOR**

The PNFC sector (which includes the GOCs, Queensland Motorways Limited and the SEQ Bulk Water entities including the Water Grid Manager) continues to perform well despite the impact of the global financial crisis. The PNFC sector has forecast total dividend payments of \$872 million in 2009-10, with current tax equivalent payments of \$247 million.

The Government is committed to ensuring that essential services such as electricity and public transport continue to be provided to Queenslanders at a reasonable cost through the provision of Community Service Obligation (CSO) payments. In 2009-10, a total of \$1.569 billion in CSO payments will be provided, mainly to QR Limited (QR) in respect of passenger rail travel and Ergon Energy in respect of the electricity uniform tariff.

Investment in PNFC infrastructure is required to ensure PNFC entities continue to provide essential services and an appropriate return to Government. Net additional funding of approximately \$307 million by way of equity injections has been budgeted for in 2009-10 to enable PNFCs to undertake such investments and remain financially sound. This includes \$566 million provided to QR for significant investment in rail infrastructure, partially offset by equity repatriations identified by the Queensland Treasury Corporation as part of the recent review of GOCs' capital structures.

### **PNFC operating statement**

The majority of revenue generated in the PNFC sector is received through the sale of goods and services, and the receipt of current grants and subsidies.

For PNFC entities, the majority of sales of goods and services are to customer markets. These revenues are therefore heavily linked to the performance of the Queensland economy and the ability of the sector to compete in increasingly competitive markets.

The major components of PNFC sector revenues include rail freight charges, electricity sales, electricity network and distribution charges, port charges and agricultural and bulk water delivery charges. Key determinants of changes in PNFC revenue in 2009-10 will be the impact of the global financial crisis on export markets, impacting on demand for rail and port services and energy demands, which drive electricity pool prices.

Across the PNFC sector, it is anticipated that sales of goods and services will generate revenues of \$8.855 billion in 2009-10, with total revenues forecast at \$11.196 billion. Total revenues generated by the sector are forecast to grow to \$15.757 billion in 2012-13. Again, major drivers include recovery from the global financial crisis among the PNFC sector's major trading partners, leading to increased demand for services related to exports as well as continued demand for PNFC services and supplies in the electricity, rail, water and port sectors.

PNFC revenues are also derived from CSO payments. CSOs are provided by the Government where PNFCs are required to provide non-commercial services or services at non-commercial prices for the benefit of the community. Major CSOs include the uniform electricity tariff and QR passenger rail services.

The PNFC sector distributes dividends to the Government as shareholder. Dividends from the PNFC sector are a function of net profits and the dividend payout ratio. In general, the dividend payout ratio for the 2009-10 Budget is based on 80% of net profit after tax. In some cases, forecast net profit after tax will be adjusted to exclude any net unrealised (i.e. non-cash) forecast gains, for example, from upward revaluation of non-current assets or financial instruments.

The dividend payout ratio does not affect a PNFC's capacity to carry out necessary maintenance and repairs, as dividends are paid after PNFCs have met their commitments to operating and maintenance expenses. Shareholding Ministers consider the circumstances of individual PNFCs and advice from their boards before arriving at a final determination of dividend payments. Dividends are forecast to increase over the forward estimates period, reaching \$1.423 billion in 2012-13, as demand across a range of services recovers from the global downturn.

The PNFC sector's performance has been negatively affected by the global financial crisis with the forecast estimated actual UPF net operating balance for the 2008-09 year being \$356 million compared to the 2008-09 Budget estimate of \$604 million.

## **PNFC balance sheet and cash flow statement**

The ability of PNFCs to efficiently and effectively service their customers is reliant upon the investment in and maintenance of underlying infrastructure.

In 2009-10, the PNFC sector is expected to invest approximately \$8.002 billion in capital projects. Investment in infrastructure is forecast to be \$24.131 billion over the four years to 2012-13, with the size of the program declining as several large projects underway, including the Gateway Bridge duplication and South East Queensland water grid, are completed.

PNFCs undertake infrastructure investment on a commercial basis and in response to the needs of the market sectors they service.

Investment in electricity infrastructure is driven by peak demand which continues to grow, largely as a result of Queensland's significant population and economic growth. The focus of capital expenditure in the sector during the year will be on ensuring ongoing generation plant reliability and efficiency, a secure and reliable transmission network across the State and the security and reliability of the extensive distribution network.



In 2009-10, capital works programs will contribute to the improved level of reliability of electricity transmission and distribution, with a focus on service quality, reliability, availability and capacity improvements. The combined capital network expenditure of Powerlink, Ergon Energy and ENERGEX in 2009-10 totals \$2.661 billion.

Powerlink will invest \$610 million on new transmission infrastructure and augmentation, while ENERGEX and Ergon Energy will similarly invest a total of \$2.05 billion on the distribution networks to maintain reliable and secure transmission and distribution electricity networks across the State.

As one of the State's largest industries, the coal industry continues to be a key economic driver. Proposed rail and port expansion programs reflect ongoing capital investment in coal supply chains. In 2009-10, QR is budgeting for a \$2.088 billion capital program to increase the capacity of its coal and passenger networks by acquiring new rollingstock and upgrading infrastructure with expenditure on the coal network in 2009-10 forecast to be \$862 million. The Ports Corporation of Queensland is continuing with the expansion of the coal export capacity of the Abbot Point terminal to 50 million tonnes per annum with investment of \$288 million budgeted for 2009-10.

The PNFC capital investment also includes key South East Queensland bulk water projects, including the Western Corridor Recycled Water project, the South East Queensland (Gold Coast) Desalination Plant, stage 2 of the Northern Pipeline Interconnector and the Hinze Dam Stage 3 project.

Financing of capital projects will differ according to the individual circumstances of the relevant PNFC and the specific nature of the project. There are a number of ways in which PNFCs fund these investments, including utilising cash flows from their business, borrowings, and equity injections from shareholding Ministers.

While total borrowings for the PNFC sector are forecast to increase from \$38.949 billion in 2009-10 to \$46.285 billion in 2012-13, the rate of new borrowings is forecast to decrease from \$5.335 billion in 2009-10 to \$1.348 billion in 2012-13. The impact on the gearing ratio [borrowing/(borrowing and net worth)] will be a marginal increase from 67 per cent in 2009-10 to 68 per cent in 2012-13.

The Government is committed to PNFCs being at all times able to fund viable projects whilst at the same time retaining a sound financial position, by ensuring that all PNFCs remain sufficiently well capitalised to ensure an investment grade credit rating as determined by independent credit ratings agencies.

Reflecting the level of support for capital investment within a sound financial framework, an estimated \$1.191 billion in net equity support is budgeted to be provided to the PNFC sector for the forward estimates period 2009-10 to 2012-13.

The Public Non-financial Corporations sector is discussed in more detail in Chapter 5.

## **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 and Non-financial Public sectors.

**Table 10.1**  
**General Government Sector Operating Statement <sup>1</sup>**

	2008-09 Budget <sup>2</sup> \$ million	2008-09 Est. Actual \$ million	2009-10 Budget \$ million	2010-11 Projection \$ million	2011-12 Projection \$ million	2012-13 Projection \$ million
<b>Revenue from Transactions</b>						
Taxation revenue	10,106	8,759	9,287	9,991	10,740	11,547
Grants revenue	15,687	17,272	18,735	17,389	17,090	17,725
Sales of goods and services	3,385	3,466	3,650	3,704	3,836	3,899
Interest income	2,199	1,261	2,017	2,115	2,218	2,282
Dividend and income tax equivalent income	1,051	1,098	1,150	1,462	1,652	2,270
Other revenue	4,154	4,017	2,354	2,368	2,564	2,708
<b>Total Revenue from Transactions</b>	<b>36,582</b>	<b>35,874</b>	<b>37,192</b>	<b>37,029</b>	<b>38,100</b>	<b>40,431</b>
<i>Less</i> <b>Expenses from Transactions</b>						
Employee expenses	13,896	14,249	15,006	15,868	16,717	17,241
Superannuation expenses						
Superannuation interest cost	1,219	760	1,468	1,551	1,630	1,704
Other superannuation expenses	1,959	2,012	2,093	2,125	2,162	2,165
Other operating expenses	6,782	7,446	7,776	8,001	8,399	8,635
Depreciation and amortisation	2,665	2,551	2,773	3,044	3,261	3,393
Other interest expenses	539	539	887	1,418	1,932	2,299
Grants expenses	8,713	8,889	9,143	8,481	8,090	8,282
<b>Total Expenses from Transactions</b>	<b>35,772</b>	<b>36,447</b>	<b>39,146</b>	<b>40,488</b>	<b>42,191</b>	<b>43,720</b>
<i>Equals</i> <b>Net Operating Balance</b>	<b>809</b>	<b>(574)</b>	<b>(1,954)</b>	<b>(3,459)</b>	<b>(4,090)</b>	<b>(3,290)</b>
<i>Plus</i> Other economic flows - included in operating result	579	301	66	(56)	(57)	(89)
<i>Equals</i> <b>Operating Result</b>	<b>1,388</b>	<b>(273)</b>	<b>(1,888)</b>	<b>(3,515)</b>	<b>(4,148)</b>	<b>(3,378)</b>
<i>Plus</i> Other economic flows - other movements in equity	4,080	(5,105)	3,232	3,167	3,560	3,837
<i>Equals</i> <b>Comprehensive Result - Total Change In Net Worth</b>	<b>5,468</b>	<b>(5,378)</b>	<b>1,344</b>	<b>(348)</b>	<b>(587)</b>	<b>459</b>
<b>KEY FISCAL AGGREGATES</b>						
<b>Net Operating Balance</b>	<b>809</b>	<b>(574)</b>	<b>(1,954)</b>	<b>(3,459)</b>	<b>(4,090)</b>	<b>(3,290)</b>
<i>Less</i> <b>Net Acquisition of Non-financial Assets</b>						
Purchases of non-financial assets	6,651	7,137	9,270	8,540	6,151	4,321
<i>Less</i> Sales of non-financial assets	340	343	251	266	207	359
<i>Less</i> Depreciation	2,665	2,551	2,773	3,044	3,261	3,393
<i>Plus</i> Change in inventories	97	81	63	60	40	42
<i>Plus</i> Other movements in non-financial assets	200	99	45	51	51	51
<b>Equals Total Net Acquisition of Non-financial Assets</b>	<b>3,944</b>	<b>4,422</b>	<b>6,354</b>	<b>5,341</b>	<b>2,773</b>	<b>661</b>
<i>Equals</i> <b>Net Lending / (Borrowing)</b>	<b>(3,134)</b>	<b>(4,996)</b>	<b>(8,308)</b>	<b>(8,800)</b>	<b>(6,864)</b>	<b>(3,951)</b>
Notes:						
1. Numbers may not add due to rounding.						
2. Numbers have been restated where subsequent changes in classification have occurred.						

**Table 10.2**  
**Public Non-financial Corporations Sector Operating Statement <sup>1</sup>**

	2008-09 Budget <sup>2</sup>	2008-09 Est.Actual	2009-10 Budget	2010-11 Projection	2011-12 Projection	2012-13 Projection
	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million
<b>Revenue from Transactions</b>						
Grants revenue	1,905	1,877	1,858	1,794	1,699	1,768
Sales of goods and services	8,308	8,307	8,855	10,998	12,188	13,482
Interest income	96	139	82	82	83	90
Other revenue	251	633	401	367	529	417
<b>Total Revenue from Transactions</b>	<b>10,561</b>	<b>10,956</b>	<b>11,196</b>	<b>13,242</b>	<b>14,500</b>	<b>15,757</b>
<i>Less</i> <b>Expenses from Transactions</b>						
Employee expenses	2,569	2,342	2,310	2,398	2,511	2,529
Superannuation expenses						
Other superannuation expenses	70	78	91	98	103	115
Other operating expenses	3,088	4,086	3,773	4,815	5,045	5,107
Depreciation and amortisation	1,897	1,856	2,211	2,521	2,720	2,939
Other interest expenses	2,136	1,946	2,206	2,690	3,013	3,244
Grants expenses	3	62	14	14	14	15
Other property expenses	194	230	249	454	511	750
<b>Total Expenses from Transactions</b>	<b>9,956</b>	<b>10,600</b>	<b>10,855</b>	<b>12,990</b>	<b>13,917</b>	<b>14,699</b>
<i>Equals</i> <b>Net Operating Balance</b>	<b>604</b>	<b>356</b>	<b>341</b>	<b>252</b>	<b>583</b>	<b>1,058</b>
<i>Plus</i> Other economic flows - included in operating result	429	(1,378)	(126)	37	85	139
<i>Equals</i> <b>Operating Result</b>	<b>1,034</b>	<b>(1,022)</b>	<b>215</b>	<b>289</b>	<b>668</b>	<b>1,197</b>
<i>Plus</i> Other economic flows - other movements in equity	(365)	17	253	154	(44)	(331)
<i>Equals</i> <b>Comprehensive Result - Total Change In Net Worth</b>	<b>668</b>	<b>(1,006)</b>	<b>467</b>	<b>443</b>	<b>624</b>	<b>866</b>
<b>KEY FISCAL AGGREGATES</b>						
<b>Net Operating Balance</b>	<b>604</b>	<b>356</b>	<b>341</b>	<b>252</b>	<b>583</b>	<b>1,058</b>
<i>Less</i> <b>Net Acquisition of Non-financial Assets</b>						
Purchases of non-financial assets	9,985	9,059	8,002	6,092	5,276	4,761
<i>Less</i> Sales of non-financial assets	92	142	35	12	14	41
<i>Less</i> Depreciation	1,897	1,856	2,211	2,521	2,720	2,939
<i>Plus</i> Change in inventories	24	12	(8)	5	8	15
<i>Plus</i> Other movements in non-financial assets	23	(24)	25	28	30	33
<i>Equals</i> <b>Total Net Acquisition of Non-financial Assets</b>	<b>8,045</b>	<b>7,049</b>	<b>5,773</b>	<b>3,592</b>	<b>2,581</b>	<b>1,829</b>
<i>Equals</i> <b>Net Lending / (Borrowing)</b>	<b>(7,441)</b>	<b>(6,693)</b>	<b>(5,432)</b>	<b>(3,340)</b>	<b>(1,998)</b>	<b>(771)</b>
Notes:						
1. Numbers may not add due to rounding.						
2. Numbers have been restated where subsequent changes in classification have occurred.						

**Table 10.3**  
**Non-financial Public Sector Operating Statement <sup>1</sup>**

	2008-09 Budget <sup>2</sup> \$ million	2008-09 Est. Actual \$ million	2009-10 Budget \$ million	2010-11 Projection \$ million	2011-12 Projection \$ million	2012-13 Projection \$ million
<b>Revenue from Transactions</b>						
Taxation revenue	9,921	8,524	8,996	9,549	10,261	11,034
Grants revenue	15,755	17,350	18,836	17,492	17,162	17,801
Sales of goods and services	11,494	11,570	12,299	14,485	15,802	17,159
Interest income	2,295	1,397	2,098	2,196	2,301	2,370
Dividend and income tax equivalent income	28	26	31	40	44	100
Other revenue	4,398	4,644	2,748	2,728	3,087	3,118
<b>Total Revenue from Transactions</b>	<b>43,890</b>	<b>43,510</b>	<b>45,007</b>	<b>46,491</b>	<b>48,656</b>	<b>51,582</b>
<i>Less</i> <b>Expenses from Transactions</b>						
Employee expenses	16,373	16,504	17,212	18,154	19,111	19,640
Superannuation expenses						
Superannuation interest cost	1,219	760	1,468	1,551	1,630	1,704
Other superannuation expenses	2,029	2,090	2,185	2,223	2,265	2,281
Other operating expenses	9,658	11,305	11,319	12,575	13,195	13,493
Depreciation and amortisation	4,561	4,407	4,984	5,565	5,980	6,332
Other interest expenses	2,579	2,345	2,916	3,790	4,595	5,174
Grants expenses	6,889	7,161	7,409	6,812	6,487	6,614
<b>Total Expenses from Transactions</b>	<b>43,307</b>	<b>44,572</b>	<b>47,493</b>	<b>50,670</b>	<b>53,263</b>	<b>55,236</b>
<i>Equals</i> <b>Net Operating Balance</b>	<b>583</b>	<b>(1,062)</b>	<b>(2,485)</b>	<b>(4,179)</b>	<b>(4,607)</b>	<b>(3,655)</b>
<i>Plus</i> Other economic flows - included in operating result	625	(1,716)	(60)	(18)	28	51
<i>Equals</i> <b>Operating Result</b>	<b>1,207</b>	<b>(2,778)</b>	<b>(2,545)</b>	<b>(4,197)</b>	<b>(4,579)</b>	<b>(3,604)</b>
<i>Plus</i> Other economic flows - other movements in equity	4,261	(2,599)	3,890	3,850	3,992	4,063
<i>Equals</i> <b>Comprehensive Result - Total Change In Net Worth</b>	<b>5,469</b>	<b>(5,378)</b>	<b>1,344</b>	<b>(347)</b>	<b>(587)</b>	<b>459</b>
<b>KEY FISCAL AGGREGATES</b>						
<b>Net Operating Balance</b>	<b>583</b>	<b>(1,062)</b>	<b>(2,485)</b>	<b>(4,179)</b>	<b>(4,607)</b>	<b>(3,655)</b>
<i>Less</i> <b>Net Acquisition of Non-financial Assets</b>						
Purchases of non-financial assets	16,637	16,195	17,272	14,632	11,427	9,081
<i>Less</i> Sales of non-financial assets	432	486	286	278	221	399
<i>Less</i> Depreciation	4,561	4,407	4,984	5,565	5,980	6,332
<i>Plus</i> Change in inventories	121	93	55	65	48	57
<i>Plus</i> Other movements in non-financial assets	224	76	70	78	81	84
<b>Equals Total Net Acquisition of Non-financial Assets</b>	<b>11,989</b>	<b>11,471</b>	<b>12,127</b>	<b>8,933</b>	<b>5,354</b>	<b>2,491</b>
<i>Equals</i> <b>Net Lending / (Borrowing)</b>	<b>(11,406)</b>	<b>(12,533)</b>	<b>(14,612)</b>	<b>(13,112)</b>	<b>(9,961)</b>	<b>(6,145)</b>
Notes:						
1. Numbers may not add due to rounding.						
2. Numbers have been restated where subsequent changes in classification have occurred.						

**Table 10.4**  
**General Government Sector Balance Sheet <sup>1</sup>**

	2008-09 Budget <sup>2</sup>	2008-09 Est. Actual	2009-10 Budget	2010-11 Projection	2011-12 Projection	2012-13 Projection
	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million
<b>Assets</b>						
<b>Financial Assets</b>						
Cash and deposits	2,204	2,298	1,751	1,473	1,254	1,255
Advances paid	816	564	635	701	742	754
Investments, loans and placements	28,218	26,195	27,532	28,979	30,410	31,761
Receivables	2,864	3,244	3,427	3,908	4,129	4,777
Equity						
Investments in other public sector entities	20,669	15,205	15,672	16,115	16,739	17,605
Investments - other	39	38	38	38	38	38
<b>Total Financial Assets</b>	<b>54,811</b>	<b>47,544</b>	<b>49,056</b>	<b>51,214</b>	<b>53,312</b>	<b>56,190</b>
<b>Non-financial Assets</b>						
Land and other fixed assets	107,569	140,766	149,888	157,562	162,962	166,285
Other non-financial assets	5,829	6,220	6,583	6,811	7,064	7,303
<b>Total Non-financial Assets</b>	<b>113,399</b>	<b>146,987</b>	<b>156,471</b>	<b>164,372</b>	<b>170,026</b>	<b>173,588</b>
<b>Total Assets</b>	<b>168,209</b>	<b>194,531</b>	<b>205,527</b>	<b>215,586</b>	<b>223,337</b>	<b>229,778</b>
<b>Liabilities</b>						
Payables	2,388	2,536	2,839	2,647	2,750	2,848
Superannuation liability	21,874	23,949	25,303	26,580	27,766	28,854
Other employee benefits	3,665	4,012	4,071	4,246	4,420	4,591
Advances received	530	485	471	459	447	436
Borrowing	8,781	10,765	18,775	27,898	34,707	39,234
Other liabilities	2,408	2,985	2,923	2,959	3,037	3,146
<b>Total Liabilities</b>	<b>39,646</b>	<b>44,731</b>	<b>54,382</b>	<b>64,789</b>	<b>73,128</b>	<b>79,110</b>
<b>Net Worth</b>	<b>128,563</b>	<b>149,800</b>	<b>151,144</b>	<b>150,797</b>	<b>150,209</b>	<b>150,668</b>
Net Financial Worth	15,164	2,814	(5,327)	(13,575)	(19,816)	(22,920)
Net Financial Liabilities	5,504	12,391	20,999	29,691	36,555	40,525
Net Debt	(21,928)	(17,808)	(10,672)	(2,796)	2,749	5,901

Notes:

1. Numbers may not add due to rounding.
2. Numbers have been restated where subsequent changes in classification have occurred.

**Table 10.5**  
**Public Non-financial Corporations Sector Balance Sheet <sup>1</sup>**

	2008-09 Budget <sup>2</sup>	2008-09 Est. Actual	2009-10 Budget	2010-11 Projection	2011-12 Projection	2012-13 Projection
	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million
<b>Assets</b>						
<b>Financial Assets</b>						
Cash and deposits	1,461	1,216	869	975	852	896
Advances paid	253	288	261	237	214	187
Investments, loans and placements	321	442	466	456	459	459
Receivables	1,547	1,579	1,601	1,798	1,944	2,080
Equity						
Investments - other	80	81	80	98	119	129
<b>Total Financial Assets</b>	<b>3,662</b>	<b>3,606</b>	<b>3,277</b>	<b>3,564</b>	<b>3,587</b>	<b>3,752</b>
<b>Non-financial Assets</b>						
Land and other fixed assets	55,707	57,560	64,238	68,968	72,565	75,492
Other non-financial assets	2,087	1,576	1,503	1,482	1,485	1,535
<b>Total Non-financial Assets</b>	<b>57,794</b>	<b>59,135</b>	<b>65,741</b>	<b>70,450</b>	<b>74,050</b>	<b>77,027</b>
<b>Total Assets</b>	<b>61,456</b>	<b>62,741</b>	<b>69,018</b>	<b>74,014</b>	<b>77,637</b>	<b>80,779</b>
<b>Liabilities</b>						
Payables	2,234	2,159	2,167	2,736	2,913	3,449
Superannuation liability	(278)	(76)	(90)	(90)	(90)	(90)
Other employee benefits	729	904	973	1,037	1,133	1,218
Deposits held	58	26	26	26	26	26
Advances received	..	13	12	11	11	10
Borrowing	32,823	33,524	38,949	42,453	44,923	46,285
Other liabilities	7,082	7,208	7,531	7,950	8,205	8,498
<b>Total Liabilities</b>	<b>42,649</b>	<b>43,759</b>	<b>49,568</b>	<b>54,122</b>	<b>57,121</b>	<b>59,397</b>
<b>Net Worth</b>	<b>18,807</b>	<b>18,982</b>	<b>19,450</b>	<b>19,892</b>	<b>20,516</b>	<b>21,382</b>
Net Financial Worth	(38,987)	(40,153)	(46,291)	(50,557)	(53,533)	(55,644)
Net Debt	30,847	31,618	37,391	40,822	43,436	44,779
Notes:						
1. Numbers may not add due to rounding.						
2. Numbers have been restated where subsequent changes in classification have occurred.						

**Table 10.6**  
**Non-financial Public Sector Balance Sheet <sup>1</sup>**

	2008-09 Budget <sup>2</sup> \$ million	2008-09 Est. Actual \$ million	2009-10 Budget \$ million	2010-11 Projection \$ million	2011-12 Projection \$ million	2012-13 Projection \$ million
<b>Assets</b>						
<b>Financial Assets</b>						
Cash and deposits	3,665	3,514	2,621	2,448	2,106	2,151
Advances paid	1,051	838	883	926	944	931
Investments, loans and placements	28,539	26,637	27,998	29,435	30,869	32,220
Receivables	3,260	3,663	3,750	4,021	4,210	4,446
Equity						
Investments in other public sector entities	1,896	(3,713)	(3,713)	(3,713)	(3,713)	(3,714)
Investments - other	119	120	118	137	157	167
<b>Total Financial Assets</b>	<b>38,532</b>	<b>31,058</b>	<b>31,657</b>	<b>33,253</b>	<b>34,572</b>	<b>36,201</b>
<b>Non-financial Assets</b>						
Land and other fixed assets	163,242	198,262	214,061	226,465	235,462	241,712
Other non-financial assets	1,275	553	578	565	547	551
<b>Total Non-financial Assets</b>	<b>164,517</b>	<b>198,815</b>	<b>214,640</b>	<b>227,030</b>	<b>236,009</b>	<b>242,263</b>
<b>Total Assets</b>	<b>203,049</b>	<b>229,873</b>	<b>246,296</b>	<b>260,283</b>	<b>270,581</b>	<b>278,464</b>
<b>Liabilities</b>						
Payables	3,486	3,553	3,746	3,716	3,818	3,903
Superannuation liability	21,595	23,873	25,213	26,489	27,676	28,764
Other employee benefits	4,394	4,916	5,044	5,283	5,552	5,809
Deposits held	58	30	30	30	30	30
Advances received	530	481	467	455	443	432
Borrowing	41,587	44,288	57,723	70,350	79,630	85,519
Other liabilities	2,836	2,932	2,928	3,163	3,222	3,339
<b>Total Liabilities</b>	<b>74,486</b>	<b>80,072</b>	<b>95,152</b>	<b>109,486</b>	<b>120,371</b>	<b>127,796</b>
<b>Net Worth</b>	<b>128,563</b>	<b>149,800</b>	<b>151,144</b>	<b>150,797</b>	<b>150,209</b>	<b>150,668</b>
Net Financial Worth	(35,954)	(49,014)	(63,495)	(76,233)	(85,800)	(91,595)
Net Financial Liabilities	37,850	45,301	59,782	72,520	82,086	87,882
Net Debt	8,919	13,810	26,719	38,026	46,185	50,680
Notes:						
1. Numbers may not add due to rounding.						
2. Numbers have been restated where subsequent changes in classification have occurred.						



**Table 10.7**  
**General Government Sector Cash Flow Statement<sup>1</sup>**

	2008-09 Budget <sup>2</sup> \$ million	2008-09 Est. Actual \$ million	2009-10 Budget \$ million	2010-11 Projection \$ million	2011-12 Projection \$ million	2012-13 Projection \$ million
<b>Cash Receipts from Operating Activities</b>						
Taxes received	10,105	8,801	9,286	9,990	10,739	11,546
Grants and subsidies received	15,526	17,122	18,735	17,403	17,104	17,738
Sales of goods and services	3,749	3,910	4,050	4,067	4,213	4,271
Interest receipts	2,197	1,257	2,010	2,107	2,209	2,272
Dividends and income tax equivalents	1,012	1,145	1,042	1,065	1,505	1,742
Other receipts	4,707	4,665	3,219	3,212	3,347	3,496
<b>Total Operating Receipts</b>	<b>37,297</b>	<b>36,899</b>	<b>38,341</b>	<b>37,844</b>	<b>39,118</b>	<b>41,065</b>
<b>Cash Payments for Operating Activities</b>						
Payments for employees	(15,674)	(15,992)	(16,975)	(17,859)	(18,908)	(19,624)
Payments for goods and services	(7,246)	(8,067)	(8,442)	(8,623)	(8,995)	(9,235)
Grants and subsidies	(8,757)	(8,898)	(9,097)	(8,510)	(8,084)	(8,278)
Interest paid	(540)	(534)	(883)	(1,417)	(1,932)	(2,299)
Other payments	(739)	(759)	(762)	(677)	(590)	(591)
<b>Total Operating Payments</b>	<b>(32,955)</b>	<b>(34,250)</b>	<b>(36,160)</b>	<b>(37,086)</b>	<b>(38,509)</b>	<b>(40,027)</b>
<b>Net Cash Inflows from Operating Activities</b>	<b>4,341</b>	<b>2,649</b>	<b>2,181</b>	<b>758</b>	<b>609</b>	<b>1,038</b>
<b>Cash Flows from Investments in Non-Financial Assets</b>						
Purchases of non-financial assets	(6,651)	(7,137)	(9,270)	(8,540)	(6,151)	(4,321)
Sales of non-financial assets	340	343	251	266	207	359
<b>Net Cash Flows from Investments in Non-financial Assets</b>	<b>(6,311)</b>	<b>(6,793)</b>	<b>(9,020)</b>	<b>(8,274)</b>	<b>(5,944)</b>	<b>(3,962)</b>
<b>Net Cash Flows from Investments in Financial Assets for Policy Purposes</b>	<b>(389)</b>	<b>(229)</b>	<b>(307)</b>	<b>(387)</b>	<b>(239)</b>	<b>(258)</b>
<b>Net Cash Flows from Investments in Financial Assets for Liquidity Purposes</b>	<b>(1,086)</b>	<b>(436)</b>	<b>(1,338)</b>	<b>(1,438)</b>	<b>(1,423)</b>	<b>(1,343)</b>
<b>Receipts from Financing Activities</b>						
Advances received (net)	(18)	(24)	(17)	(16)	(15)	(15)
Borrowing (net)	2,915	4,014	7,954	9,079	6,792	4,540
Other financing (net)	..	(1)	..	..	..	..
<b>Net Cash Flows from Financing Activities</b>	<b>2,897</b>	<b>3,989</b>	<b>7,937</b>	<b>9,063</b>	<b>6,777</b>	<b>4,525</b>
<b>Net Increase/(Decrease) in Cash held</b>	<b>(548)</b>	<b>(821)</b>	<b>(546)</b>	<b>(278)</b>	<b>(219)</b>	<b>1</b>
Net cash from operating activities	4,341	2,649	2,181	758	609	1,038
Net cash flows from investments in non-financial assets	(6,311)	(6,793)	(9,020)	(8,274)	(5,944)	(3,962)
<b>Surplus/(Deficit)</b>	<b>(1,970)</b>	<b>(4,144)</b>	<b>(6,838)</b>	<b>(7,516)</b>	<b>(5,335)</b>	<b>(2,924)</b>
<b>Derivation of ABS GFS Cash Surplus/Deficit</b>						
Cash surplus/(deficit)	(1,970)	(4,144)	(6,838)	(7,516)	(5,335)	(2,924)
Acquisitions under finance leases and similar arrangements	(152)	..	..	..	..	..
<b>ABS GFS Cash Surplus/(Deficit) Including Finance Leases and Similar Arrangements</b>	<b>(2,122)</b>	<b>(4,144)</b>	<b>(6,838)</b>	<b>(7,516)</b>	<b>(5,335)</b>	<b>(2,924)</b>
Notes:						
1. Numbers may not add due to rounding.						
2. Numbers have been restated where subsequent changes in classification have occurred.						

**Table 10.8**  
**Public Non-financial Corporations Sector Cash Flow Statement<sup>1</sup>**

	2008-09 Budget <sup>2</sup> \$ million	2008-09 Est. Actual \$ million	2009-10 Budget \$ million	2010-11 Projection \$ million	2011-12 Projection \$ million	2012-13 Projection \$ million
<b>Cash Receipts from Operating Activities</b>						
Grants and subsidies received	1,904	1,889	1,806	1,793	1,699	1,768
Sales of goods and services	8,647	8,982	9,612	11,708	12,950	14,300
Interest receipts	93	135	78	77	78	84
Other receipts	702	871	621	625	730	644
<b>Total Operating Receipts</b>	<b>11,346</b>	<b>11,877</b>	<b>12,118</b>	<b>14,203</b>	<b>15,456</b>	<b>16,796</b>
<b>Cash Payments for Operating Activities</b>						
Payments for employees	(2,625)	(2,299)	(2,348)	(2,432)	(2,518)	(2,559)
Payments for goods and services	(3,944)	(4,778)	(4,488)	(5,129)	(5,405)	(5,437)
Grants and subsidies	..	(16)	(12)	(12)	(12)	(12)
Interest paid	(1,759)	(1,516)	(1,987)	(2,516)	(2,920)	(3,179)
Other payments	(731)	(885)	(668)	(842)	(1,159)	(1,343)
<b>Total Operating Payments</b>	<b>(9,059)</b>	<b>(9,494)</b>	<b>(9,502)</b>	<b>(10,930)</b>	<b>(12,014)</b>	<b>(12,528)</b>
<b>Net Cash Inflows from Operating Activities</b>	<b>2,286</b>	<b>2,382</b>	<b>2,616</b>	<b>3,272</b>	<b>3,442</b>	<b>4,268</b>
<b>Cash Flows from Investments in Non-Financial Assets</b>						
Purchases of non-financial assets	(9,985)	(9,059)	(8,002)	(6,092)	(5,276)	(4,761)
Sales of non-financial assets	92	142	35	12	14	41
<b>Net Cash Flows from Investments in Non-financial Assets</b>	<b>(9,894)</b>	<b>(8,916)</b>	<b>(7,967)</b>	<b>(6,080)</b>	<b>(5,262)</b>	<b>(4,720)</b>
<b>Net Cash Flows from Investments in Financial Assets for Policy Purposes</b>	<b>(324)</b>	<b>(824)</b>	<b>188</b>	<b>(18)</b>	<b>(20)</b>	<b>(10)</b>
<b>Net Cash Flows from Investments in Financial Assets for Liquidity Purposes</b>	<b>..</b>	<b>25</b>	<b>(33)</b>	<b>5</b>	<b>(7)</b>	<b>(1)</b>
<b>Receipts from Financing Activities</b>						
Borrowing (net)	8,007	7,208	5,335	3,422	2,455	1,348
Dividends paid	(861)	(924)	(819)	(873)	(971)	(1,100)
Deposits received (net)	1	26	..	..	..	..
Other financing (net)	388	327	332	378	242	258
<b>Net Cash Flows from Financing Activities</b>	<b>7,535</b>	<b>6,638</b>	<b>4,849</b>	<b>2,927</b>	<b>1,725</b>	<b>507</b>
<b>Net Increase/(Decrease) in Cash held</b>	<b>(396)</b>	<b>(696)</b>	<b>(347)</b>	<b>106</b>	<b>(123)</b>	<b>44</b>
Net cash from operating activities	2,286	2,382	2,616	3,272	3,442	4,268
Net cash flows from investments in non-financial assets	(9,894)	(8,916)	(7,967)	(6,080)	(5,262)	(4,720)
Dividends paid	(861)	(924)	(819)	(873)	(971)	(1,100)
<b>Surplus/(Deficit)</b>	<b>(8,468)</b>	<b>(7,458)</b>	<b>(6,169)</b>	<b>(3,681)</b>	<b>(2,792)</b>	<b>(1,552)</b>
<b>Derivation of ABS GFS Cash Surplus/Deficit</b>						
Cash surplus/(deficit)	(8,468)	(7,458)	(6,169)	(3,681)	(2,792)	(1,552)
<b>ABS GFS Cash Surplus/(Deficit) Including Finance Leases and Similar Arrangements</b>	<b>(8,468)</b>	<b>(7,458)</b>	<b>(6,169)</b>	<b>(3,681)</b>	<b>(2,792)</b>	<b>(1,552)</b>
Notes:						
1. Numbers may not add due to rounding.						
2. Numbers have been restated where subsequent changes in classification have occurred.						

**Table 10.9**  
**Non-financial Public Sector Cash Flow Statement <sup>1</sup>**

	2008-09 Budget <sup>2</sup> \$ million	2008-09 Est. Actual \$ million	2009-10 Budget \$ million	2010-11 Projection \$ million	2011-12 Projection \$ million	2012-13 Projection \$ million
<b>Cash Receipts from Operating Activities</b>						
Taxes received	9,920	8,566	8,995	9,548	10,260	11,033
Grants and subsidies received	15,592	17,199	18,836	17,504	17,175	17,814
Sales of goods and services	12,197	12,686	13,456	15,559	16,940	18,349
Interest receipts	2,290	1,389	2,087	2,183	2,286	2,354
Dividends and income tax equivalents	20	18	26	31	40	43
Other receipts	5,402	5,529	3,834	3,831	4,070	4,133
<b>Total Operating Receipts</b>	<b>45,421</b>	<b>45,387</b>	<b>47,234</b>	<b>48,656</b>	<b>50,772</b>	<b>53,727</b>
<b>Cash Payments for Operating Activities</b>						
Payments for employees	(18,207)	(18,204)	(19,218)	(20,179)	(21,309)	(22,052)
Payments for goods and services	(11,003)	(12,655)	(12,739)	(13,551)	(14,192)	(14,464)
Grants and subsidies	(6,930)	(7,109)	(7,411)	(6,838)	(6,477)	(6,606)
Interest paid	(2,203)	(1,910)	(2,693)	(3,615)	(4,501)	(5,109)
Other payments	(1,311)	(1,402)	(1,195)	(1,317)	(1,214)	(1,290)
<b>Total Operating Payments</b>	<b>(39,654)</b>	<b>(41,279)</b>	<b>(43,256)</b>	<b>(45,500)</b>	<b>(47,693)</b>	<b>(49,522)</b>
<b>Net Cash Inflows from Operating Activities</b>	<b>5,767</b>	<b>4,108</b>	<b>3,977</b>	<b>3,156</b>	<b>3,079</b>	<b>4,205</b>
<b>Cash Flows from Investments in Non-Financial Assets</b>						
Purchases of non-financial assets	(16,637)	(16,195)	(17,272)	(14,632)	(11,427)	(9,081)
Sales of non-financial assets	432	486	286	278	221	399
<b>Net Cash Flows from Investments in Non-financial Assets</b>	<b>(16,205)</b>	<b>(15,710)</b>	<b>(16,986)</b>	<b>(14,354)</b>	<b>(11,206)</b>	<b>(8,682)</b>
<b>Net Cash Flows from Investments in Financial Assets for Policy Purposes</b>	<b>(324)</b>	<b>(604)</b>	<b>188</b>	<b>(18)</b>	<b>(20)</b>	<b>(10)</b>
<b>Net Cash Flows from Investments in Financial Assets for Liquidity Purposes</b>	<b>(1,085)</b>	<b>(411)</b>	<b>(1,372)</b>	<b>(1,433)</b>	<b>(1,430)</b>	<b>(1,344)</b>
<b>Receipts from Financing Activities</b>						
Advances received (net)	(18)	(24)	(17)	(16)	(15)	(15)
Borrowing (net)	10,922	11,222	13,289	12,501	9,247	5,889
Deposits received (net)	1	26	..	..	..	..
Other financing (net)	(1)	(123)	25	(9)	2	..
<b>Net Cash Flows from Financing Activities</b>	<b>10,904</b>	<b>11,101</b>	<b>13,298</b>	<b>12,476</b>	<b>9,234</b>	<b>5,874</b>
<b>Net Increase/(Decrease) in Cash held</b>	<b>(943)</b>	<b>(1,517)</b>	<b>(895)</b>	<b>(174)</b>	<b>(344)</b>	<b>44</b>
Net cash from operating activities	5,767	4,108	3,977	3,156	3,079	4,205
Net cash flows from investments in non-financial assets	(16,205)	(15,710)	(16,986)	(14,354)	(11,206)	(8,682)
<b>Surplus/(Deficit)</b>	<b>(10,438)</b>	<b>(11,602)</b>	<b>(13,009)</b>	<b>(11,199)</b>	<b>(8,127)</b>	<b>(4,476)</b>
<b>Derivation of ABS GFS Cash Surplus/Deficit</b>						
Cash surplus/(deficit)	(10,438)	(11,602)	(13,009)	(11,199)	(8,127)	(4,476)
Acquisitions under finance leases and similar arrangements	(152)	..	..	..	..	..
<b>ABS GFS Cash Surplus/(Deficit) Including Finance Leases and Similar Arrangements</b>	<b>(10,590)</b>	<b>(11,602)</b>	<b>(13,009)</b>	<b>(11,199)</b>	<b>(8,127)</b>	<b>(4,476)</b>
Notes:						
1. Numbers may not add due to rounding.						
2. Numbers have been restated where subsequent changes in classification have occurred.						

## 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 10.10 provides a reconciliation of the General Government sector net operating balance to the accounting operating result.

<b>Table 10.10</b> <b>Reconciliation of UPF net operating balance to accounting surplus<sup>1</sup></b>			
	2008 09 Budget \$ million	2008 09 Est.Act. \$ million	2009 10 Budget \$ million
Net operating balance General Government sector (Table 10.1)	809	(574)	(1,954)
<i>Remeasurement/valuation adjustments</i>			
Bad debts and amortisation	(57)	(39)	(42)
Deferred tax equivalents	329	279	219
Dividends received on privatisation sales	384	609	..
Market value adjustments investments/loans	16	(399)	12
Revaluation of provisions	14	(11)	14
Decommissioned infrastructure assets and land under roads	(143)	(143)	(143)
Gain/(loss) on assets sold/written off	36	5	6
<b>AAS net surplus General Government sector</b>	<b>1,388</b>	<b>(273)</b>	<b>(1,889)</b>
Note: 1. Numbers may not add due to rounding.			

## GENERAL GOVERNMENT TIME SERIES

Data presented in Table 10.11 provides a time series from 2001-02 to 2007-08 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 10.11 General Government Sector <sup>1</sup>							
	2001-02 Actual \$ million	2002-03 Actual \$ million	2003-04 Actual \$ million	2004-05 Actual \$ million	2005-06 Actual \$ million	2006-07 Actual \$ million	2007-08 Actual \$ million
<b>Revenue from Transactions</b>							
Taxation revenue	4,815	5,598	6,676	6,952	7,396	8,484	9,546
Grant revenue	10,052	10,666	11,528	12,755	13,590	14,373	15,523
Sales of goods and services	1,837	1,964	2,105	2,381	2,586	2,889	3,341
Interest income	(464)	(128)	2,723	2,972	3,414	3,348	(275)
Dividend and income tax equivalent income	1,287	1,036	1,148	1,028	1,057	863	1,255
Other revenue	1,316	1,118	1,035	1,473	2,039	2,024	2,040
<b>Total Revenue</b>	<b>18,842</b>	<b>20,253</b>	<b>25,214</b>	<b>27,562</b>	<b>30,084</b>	<b>31,982</b>	<b>31,430</b>
<b>Expenses from Transactions</b>							
Employee expenses	7,969	8,431	8,972	9,595	10,615	11,731	13,171
Superannuation expenses							
Superannuation interest costs	626	630	1,040	1,009	826	1,154	816
Other superannuation expenses	851	892	1,061	1,182	1,367	1,513	1,865
Other operating expenses	3,398	3,794	3,948	4,392	5,227	6,109	6,612
Depreciation and amortisation	1,511	1,460	1,460	1,585	1,679	1,880	1,850
Other interest expenses	245	222	213	209	174	180	346
Grant expenses	5,100	4,813	5,180	5,647	6,482	7,558	8,328
<b>Total Expenses</b>	<b>19,701</b>	<b>20,241</b>	<b>21,874</b>	<b>23,619</b>	<b>26,370</b>	<b>30,128</b>	<b>32,989</b>
<b>Net Operating Balance</b>	<b>(858)</b>	<b>12</b>	<b>3,340</b>	<b>3,942</b>	<b>3,714</b>	<b>1,855</b>	<b>(1,559)</b>
<b>OTHER KEY AGGREGATES</b>							
Purchases of non-financial assets	2,416	2,232	2,415	2,843	3,186	4,418	5,716
Net acquisition of non-financial assets	708	155	503	1,053	1,236	2,067	3,668
Net lending / (borrowing)	(1,602)	(140)	2,838	2,873	2,478	(211)	(5,226)
Net Worth	58,093	64,894	77,723	96,433	105,035	117,831	155,178
Net Debt	(11,572)	(11,802)	(14,811)	(19,406)	(23,202)	(26,686)	(22,598)
Cash Surplus/Deficit	188	645	3,490	4,640	4,648	2,350	(4,922)
Note: 1. Numbers may not add due to rounding. Source: Budget Papers and Outcomes Reports for Queensland 2001-02 to 2007-08. (Numbers have been recast for recent changes to UPF presentation.)							

## OTHER GENERAL GOVERNMENT UPF DATA

Data in the following table is presented in accordance with the Uniform Presentation Framework.

### Grants

Data presented in Tables 10.12 (a) and 10.12 (b) provides details of General Government current and capital grant revenue and expenses.

Table 10.12(a) General Government Sector Grant Revenue <sup>1</sup>		
	2008-09 Est. Act. \$ million	2009-10 Budget \$ million
<b>Current grant revenue</b>		
Current grants from the Commonwealth		
General purpose grants	8,304	7,611
Specific purpose grants/National Partnership Payments	4,343	4,779
Specific purpose grants for on-passing	1,817	2,224
Total current grants from the Commonwealth	14,464	14,614
Other contributions and grants	467	411
<b>Total current grant revenue</b>	<b>14,931</b>	<b>15,025</b>
<b>Capital grant revenue</b>		
Capital grants from the Commonwealth		
General purpose grants	15	8
Specific purpose grants/National Partnership Payments	2,140	3,543
Specific purpose grants for on-passing	176	142
Total capital grants from the Commonwealth	2,331	3,693
Other contributions and grants	9	17
<b>Total capital grant revenue</b>	<b>2,340</b>	<b>3,710</b>
<b>Total grant revenue</b>	<b>17,272</b>	<b>18,735</b>
Note:		
1. Numbers may not add due to rounding.		

**Table 10.12(b)**  
**General Government Sector Grant Expense <sup>1</sup>**

	2008-09 Est. Act. \$ million	2009-10 Budget \$ million
<b>Current grant expense</b>		
Private and Not-for-profit sector	3,433	3,209
Private and Not-for-profit sector on-passing	1,419	1,845
Households sector on-passing	28	..
Local Government	209	190
Local Government on-passing	370	379
Grants to other sectors of Government	1,735	1,674
Other	383	202
<b>Total current grant expense</b>	<b>7,578</b>	<b>7,499</b>
<b>Capital grant expense</b>		
Private and Not-for-profit sector	176	421
Private and Not-for-profit sector on-passing	15	..
Households sector on-passing	161	142
Local Government	621	775
Grants to other sectors of Government	56	75
Other	282	231
<b>Total capital grant expense</b>	<b>1,312</b>	<b>1,645</b>
<b>Total grant expense</b>	<b>8,889</b>	<b>9,143</b>
Note:		
1. Numbers may not add due to rounding.		

## Dividend and Income Tax Equivalent Income

Table 10.13 provides details of the source of Dividend and Income Tax Equivalent income in the General Government sector.

**Table 10.13**  
**General Government Sector Dividend and Income Tax Equivalent Income <sup>1</sup>**

	2008-09 Est. Act. \$ million	2009-10 Budget \$ million
Dividend and Income Tax Equivalent income from PNFC sector	1,072	1,119
Dividend and Income Tax Equivalent income from PFC sector	22	27
Other Dividend income	4	4
<b>Total Dividend and Income Tax Equivalent income</b>	<b>1,098</b>	<b>1,150</b>
Note:		
1. Numbers may not add due to rounding.		

## Expenses by function

Data presented in Table 10.14 provides details of General Government sector expenses by function.

<b>Table 10.14</b> <b>General Government Sector Expenses by Function<sup>1</sup></b>						
	2008-09 Budget \$ million	2008-09 Est. Act. \$ million	2009-10 Budget \$ million	2010-11 Projection \$ million	2011-12 Projection \$ million	2012-13 Projection \$ million
General public services	1,428	1,536	1,411	1,367	1,409	1,432
Public order and safety	3,351	3,475	3,594	3,729	3,873	3,907
Education	8,241	8,326	9,332	9,573	9,644	9,723
Health	8,928	9,058	9,523	10,355	11,033	11,619
Social security and welfare	2,245	2,179	2,379	2,553	2,722	2,874
Housing and community amenities	1,247	1,778	2,217	1,760	1,613	1,680
Recreation and culture	823	814	711	712	719	708
Fuel and energy	1,084	1,126	487	394	339	373
Agriculture, forestry, fishing and hunting	943	981	801	759	800	813
Mining, manufacturing and construction	160	213	225	223	242	247
Transport and communications	3,953	4,266	4,511	4,619	4,855	4,992
Other economic affairs	688	660	798	789	778	754
Other purposes	2,681	2,035	3,156	3,657	4,164	4,602
<b>Total Expenses</b>	<b>35,772</b>	<b>36,447</b>	<b>39,146</b>	<b>40,488</b>	<b>42,191</b>	<b>43,720</b>
Notes: 1. Numbers may not add due to rounding. 2. Numbers have been restated where subsequent changes in classification have occurred.						



## Purchases of non-financial assets by function

Data presented in Table 10.15 provides details of General Government sector purchases of non-financial assets by function.

<b>Table 10.15</b> <b>General Government Sector Purchases of Non-financial Assets by Function<sup>1</sup></b>			
	2008-09 Budget \$ million	2008-09 Est. Act. \$ million	2009-10 Budget \$ million
General public services	424	450	522
Public order and safety	970	684	872
Education	527	627	1,323
Health	902	822	1,218
Social security and welfare	152	119	223
Housing and community amenities	340	410	1,037
Recreation and culture	164	139	129
Agriculture, forestry, fishing and hunting	67	71	85
Mining, manufacturing and construction	20	13	15
Transport and communications	2,947	3,648	3,614
Other economic affairs	138	153	231
<b>Total Purchases</b>	<b>6,651</b>	<b>7,137</b>	<b>9,270</b>
Note: 1. Numbers may not add due to rounding.			

## Taxes

Data presented in Table 10.16 provides details of taxation revenue collected by the General Government sector.

Table 10.16 General Government Sector Taxes <sup>1</sup>		
	2008 09 Est.Actual \$ million	2009 10 Budget \$ million
Taxes on employers' payroll and labour force	2,728	2,736
Taxes on property		
Land taxes	807	1,047
Stamp duties on financial and capital transactions	1,777	1,704
Other	441	492
Taxes on the provision of goods and services		
Taxes on gambling	931	1,006
Taxes on insurance	489	509
Taxes on use of goods and performance of activities		
Motor vehicle taxes	1,449	1,647
Other	138	145
<b>Total Taxation Revenue</b>	<b>8,759</b>	<b>9,287</b>
Note: 1. Numbers may not add due to rounding.		

## Loan Council Allocation

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

Table 10.17 presents the State's revised LCA Budget allocation and the Loan Council endorsed LCA for 2009-10.

Table 10.17 Loan Council Allocation <sup>1</sup>			
		2009 10 Nomination \$ million	2009 10 Budget \$ million
	General Government sector cash deficit/(surplus) <sup>2</sup>	6,134	6,838
	PNFC sector cash deficit/(surplus) <sup>2</sup>	5,617	6,169
	<b>Non Financial Public Sector cash deficit/(surplus) <sup>2</sup></b>	<b>11,751</b>	<b>13,009</b>
<i>Less</i>	Net cash flows from investments in financial assets for policy purposes	180	188
<i>Plus</i>	Memorandum items <sup>3</sup>	41	(1,411)
	<b>Loan Council Allocation</b>	<b>11,612</b>	<b>11,410</b>
Notes: 1. Numbers may not add due to rounding. 2. Figures in brackets represent surpluses. 3. Memorandum items include operating leases and local government borrowings.			

The State's Budget LCA allocation is a deficit of \$11.41 billion. This compares to the LCA nomination of \$11.612 billion.

## 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 *2007-08 Report on State Finances – Consolidated Financial Statements* (Note 46).

A summary of the State's quantifiable contingent liabilities as at 30 June 2008 is provided below.

<b>Table 10.18</b> <b>Contingent liabilities</b>	
	2008 \$ million
<b>Nature of contingent liability</b>	
Guarantees and indemnities	6,057
QTC stock loans	124
Other	83
<b>Total</b>	<b>6,264</b>

## **BACKGROUND AND INTERPRETATION OF UNIFORM PRESENTATION FRAMEWORK**

As mentioned in the introduction to this chapter, the UPF has recently been reviewed following the release of the Australian Accounting Standards Board's (AASB) new accounting standard, AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

The new 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 GFS framework**

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

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

### **Generally Accepted Accounting Principles**

In addition to the GFS framework, public sector entities have been 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 so the Financial Reporting Council asked the AASB to develop a framework harmonising GAAP and GFS 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. There are a number of important areas where the UPF provides either additional information or clearer guidance on the preparation of government financial statements to that of AASB 1049. For example, the Australian, state and territory governments agree that net debt, a fiscal indicator not required by the new standard, continues to be an important indicator in transparent budget reporting and should continue to be presented on the face of the financial statements as a fiscal aggregate. Further, 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 new accounting standard applies only to outcome reports.

Therefore, rather than replacing the UPF with the new 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.

Major disclosure differences arising from the adoption of the revised UPF are outlined in Box 10.1.

### Box 10.1

#### Major disclosure differences arising from the adoption of the revised Uniform Presentation Framework

##### ALL SECTORS

###### ***Operating Statement***

- Current and capital grants revenue and expenses have been grouped together in the Operating statement.
- Dividend and income tax equivalent income has been split out from Other revenue.
- Superannuation expenses have been separately disclosed from Employee expenses.
- Other economic flows are now shown on the Operating statement, separated into those affecting the Operating result (or accounting profit) and those affecting equity or reserves.

###### ***Balance Sheet***

- Deferred tax assets and liabilities are now recognised in the balance sheet in the categories Other non-financial assets and Other liabilities respectively.
- Prepayments are included in Other non-financial assets rather than with receivables, which reduces the Net financial worth.

###### ***Cash Flow Statement***

- Interest receipts and Dividend and income tax equivalent receipts have been split out from Other receipts.
- Payments for employees have been separated from Payments for goods and services.

##### GENERAL GOVERNMENT SECTOR

###### ***Operating Statement***

- Expanded grant revenue and expense information is supplied in two additional tables 10.12 (a) and (b).
- Additional information on Dividend and income tax equivalent income is supplied in Table 10.13.

###### ***Balance Sheet***

- The recognition of deferred tax assets and liabilities in the balance sheet is offset exactly by a reduction in the Investment in other public sector entities.
- Net worth is therefore not impacted by this change but Net financial worth is, as the Deferred tax assets are disclosed as non-financial.

**Box 10.1 (cont.)**  
**Major disclosure differences arising from the adoption of the**  
**revised Uniform Presentation Framework**

**PUBLIC NON-FINANCIAL SECTOR**

***Operating Statement***

- Competitive neutrality fees, performance dividends and credit margin fees are now included in Other interest expenses rather than other operating expenses.
- The Net operating balance for the PNFC sector no longer includes dividends declared and paid, and these are now included in Other economic flows – other movements in equity.
- This also impacts on the Net lending aggregate which now excludes dividends.
- The Operating result for the PNFC sector is effectively accounting profit after tax.

***Balance Sheet***

- The overfunded defined benefit superannuation is classified as a negative liability rather than an asset.
- The net worth of the PNFC sector is reduced by the recognition of deferred tax assets and liabilities in the balance sheet.
- The Net financial worth is reduced by the amount of the deferred tax liabilities as well as the deferred tax asset which disclosed as non-financial.

***Cash Flow Statement***

- Income tax paid is included in Other payments in the cash flow statement rather than Distributions paid, which increases the Cash surplus/(deficit).

***Operating statement***

The operating statement combines the net result from transactions (net operating balance) and the impact of other economic flows to calculate the comprehensive result (total change in net worth). Neither other economic flows nor the comprehensive result were required under the former UPF.

Net operating balance is represented by revenues less expenses from transactions and excludes any other economic flows such as revaluations, gains or losses on asset disposals and allowances for doubtful debts.

In addition to the net result from transactions (net operating balance), the operating statement also includes other economic flows which are the total change in net worth driven by economic flows other than through transactions. Other economic flows are split between those that relate to the operating result (under GAAP) and those that relate to equity. The total of the net operating balance and all other economic flows equals the comprehensive result (total change in net worth).



Net lending is the net operating balance less net acquisition of non-financial assets. It is also referred to as the fiscal balance. It measures, in accrual terms, the gap between Government savings plus net capital transfers and investment in non-financial assets. A surplus indicates that the State Government is placing financial resources at the disposal of other sectors of the economy, whilst a deficit reflects the State utilising the financial resources of other sectors. Queensland's net lending is driven by the size of the State's capital program.

### ***Balance sheet***

The balance sheet shows stocks of financial and non-financial assets and liabilities. Key indicators in the balance sheet are net worth, net financial worth, net financial liabilities and net debt.

Net worth, also known as net assets, is defined as total assets less total liabilities. It provides a more comprehensive picture of a government's position as all assets and liabilities are taken into account.

Net financial worth, on the other hand, is calculated as financial assets minus total liabilities. It measures a government's net holdings of financial assets.

Net financial liabilities (a new key aggregate for the UPF) is calculated by deducting equity investments in the PNFC/PFC sectors from the net financial worth.

Net debt is represented by the sum of selected financial liabilities (such as deposits held, advances received and borrowings) minus the sum of selected financial assets (cash and deposits, loans and placements). It provides an indication of the strength of a government's financial position.

### ***Cash flow statement***

Cash means cash on hand (notes and coins held and deposits held at call with a bank or financial institution) and cash equivalents (highly liquid investments readily convertible to cash and overdrafts considered integral to the cash management functions).

The cash flow statement demonstrates how cash is generated and applied in a single accounting period.

The cash surplus/deficit is the cash counterpart of the fiscal balance as disclosed in the operating statement. A surplus reflects the availability of cash to increase the State's financial assets or decrease its liabilities, whilst a deficit reflects the requirement for cash either by running down the State's financial assets or by drawing on the cash reserves of other sectors of the economy. It comprises net cash received/paid from operating activities, from sales and purchases of non-financial assets and from financing activities.

## SECTOR CLASSIFICATION

GFS data is presented by institutional sector, distinguishing between the General Government sector and the Public Non-financial Corporations (PNFC) sector.

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

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

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

Further discussion of the GFS framework of reporting, including definitions of GFS terms, can be obtained from the webpage of the Australian Bureau of Statistics at [www.abs.gov.au](http://www.abs.gov.au).

## REPORTING ENTITIES

The reporting entities included in the General Government and PNFC sectors for the 2009-10 Budget are provided below.

### General Government

#### *Departments*

Communities  
Community Safety  
Education and Training  
Electoral Commission of Queensland  
Employment, Economic Development  
and Innovation  
Environment and Resource Management  
Forestry Plantations Queensland Office  
Health  
Infrastructure and Planning  
Justice and Attorney-General  
Legislative Assembly  
Office of the Governor  
Office of the Ombudsman  
Police  
Premier and Cabinet  
Public Service Commission  
Public Works  
Queensland Audit Office  
The Public Trustee of Queensland  
Transport and Main Roads  
Treasury

### ***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  
Gold Coast Institute of TAFE  
Health Quality and Complaints Commission  
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 Services Authority  
Queensland Events Corporation Pty Ltd  
Queensland Future Growth Corporation  
Queensland Performing Arts Trust  
Queensland Rural Adjustment  
Authority (QRAA)  
Queensland Studies Authority  
Queensland Treasury Holdings Pty Ltd  
Residential Tenancies Authority  
South Bank Corporation  
Southbank Institute of Technology  
The Council of The Queensland Institute of  
Medical Research  
Tourism Queensland  
Translink Transit Authority  
Urban Land Development Authority  
Workers' Compensation Regulatory  
Authority (Q-Comp)

### ***Commercialised Business Units***

CITEC  
Goprint  
Main Roads – RoadTek  
Project Services  
Property Services Group  
QBuild  
QFleet  
SDS

### ***Shared Service Providers***

Corporate Administration Agency  
Corporate and Professional Services  
CorpTech  
Queensland Health Shared Service Provider  
Shared Service Agency

## Public Non-financial Corporations

Cairns Ports  
CS Energy Ltd  
DBCT Holdings Pty Ltd  
ENERGEX Ltd  
Ergon Energy Corporation Limited  
Forestry Plantations Queensland  
Gladstone Area Water Board  
Gladstone Ports Corporation  
Gold Coast Events Co Pty Ltd  
Mackay Ports  
Mount Isa Water Board  
Port of Brisbane Corporation Limited  
Port of Townsville  
Ports Corporation of Queensland Limited  
Powerlink Queensland  
Qld Airport Holdings (Cairns) Pty Ltd  
Qld Airport Holdings (Mackay) Pty Ltd  
Queensland Bulk Water Supply Authority  
Queensland Bulk Water Transport Authority  
Queensland Lottery Corporation Pty Ltd  
Queensland Manufactured Water Authority  
Queensland Motorways Limited  
QR Limited  
Queensland Water Infrastructure Pty Ltd  
SEQ Water Grid Manager  
South East Queensland (Gold Coast) Desalination Company Pty Ltd  
Southern Regional Water Pipeline Company Pty Ltd  
Stadiums Queensland  
Stanwell Corporation Ltd  
SunWater  
Tarong Energy Corporation Ltd  
The Trustees of Parklands Gold Coast  
Western Corridor Recycled Water Pty Ltd  
ZeroGen Pty Ltd

# APPENDIX A – TAX EXPENDITURE STATEMENT

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## 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 concessions. The TES is designed to improve transparency in the use of tax expenditures and increase public understanding of the fiscal process.

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

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

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

## Methodology

### *Revenue foregone approach*

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

Measuring tax expenditures requires the identification of:

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

### ***Defining the tax benchmark***

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

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

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

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

## **THE TAX EXPENDITURE STATEMENT**

This year's statement includes estimates of tax expenditures in 2007-08 and 2008-09 for payroll tax, land tax, duties, the community ambulance cover and gambling taxes. A summary of the major tax expenditures valued on the basis of revenue foregone is presented in Table A.1. Not all expenditures can be quantified at this time. Accordingly, the total value of tax expenditures should be considered as indicative only.

**Table A.1**  
**Tax expenditure summary<sup>1</sup>**

	2007-08 <sup>2</sup> \$ million	2008-09 \$ million
<b>Payroll Tax</b>		
Exemption threshold <sup>3</sup>	999	1,086
Deduction scheme <sup>4</sup>	212	265
<b>Section 14 exemptions</b>		
Local Government	95	99
Education	153	160
Hospitals	235	244
<b>Total Payroll Tax</b>	<b>1,694</b>	<b>1,854</b>
<b>Land Tax</b>		
Liability thresholds <sup>5</sup>	344	368
Graduated land tax scale	131	172
Primary production deduction	55	72
Section 13 exemptions not included elsewhere <sup>6</sup>	55	66
Land developers' concession	15	18
Capping of values	18	30
<b>Total Land Tax</b>	<b>618</b>	<b>726</b>
<b>Duties</b>		
<b>Transfer duty on residential property</b>		
Home concession	371	305
First home concession	163	239
First home vacant land concession	4	4
<b>Insurance duty</b>		
Non-life insurance	119	133
Workcover	23	24
Health insurance	163	173
<b>Total Duties</b>	<b>843</b>	<b>878</b>
<b>Community Ambulance Cover</b>		
Concession to pensioners and seniors <sup>7</sup>	<b>44</b>	<b>46</b>
<b>Taxes on Gambling</b>		
Gaming machine taxes	114	121
Casino taxes	10	8
<b>Total Gambling Tax</b>	<b>124</b>	<b>129</b>

Notes:

- Numbers may not add due to rounding.
- 2007-08 estimates may have been revised since the 2008-09 Budget.
- Exemption threshold of \$1 million applies.
- Deduction of \$1 million, which reduces by \$1 for every \$4 above \$1 million, is applicable to employers with an annual payroll between \$1 million and \$5 million from 1 July 2008.
- Land tax is payable only on the value of taxable land above a threshold which depends on the ownership structure.
- Applicable, but not limited, to religious bodies, public benevolent institutions and other exempt charitable institutions.
- Estimates are based on the revenue foregone through the use of the levy exemption by pensioners and senior citizens.



## **DISCUSSION OF INDIVIDUAL TAXES**

### **Payroll tax**

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

#### ***Payroll tax exemption threshold***

Employers who employ in Queensland with an annual Australian payroll of \$1 million or less are exempt from payroll tax. On the basis of average weekly earnings, this threshold corresponds to approximately 17 full-time equivalent employees. This exemption is designed to assist small and medium sized businesses.

#### ***Deduction scheme***

Since 1 July 2008, employers who employ in Queensland with Australian payrolls between \$1 million and \$5 million benefit from a deduction of \$1 million, which reduces by \$1 for every \$4 by which the annual payroll exceeds \$1 million. There is no deduction for employers or groups with an annual payroll in excess of \$5 million. In 2007-08, the deduction reduced by \$1 for every \$3 by which the annual payroll exceeded \$1 million, with no deduction when annual payrolls exceeded \$4 million.

#### ***Section 14 exemptions***

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

### **Land tax**

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

#### ***Liability thresholds***

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

Residential land owned by resident individuals as their principal place of residence is excluded from the estimate. The exemption from paying below a minimum amount (\$1,200 in 2007-08 and \$500 in 2008-09) is not included as a tax expenditure as it is regarded as the application of an administration threshold.

### ***Graduated land tax scale***

In 2007-08 and 2008-09, a graduated (concessional) scale of land tax rates is applicable to land with a taxable value of less than \$3 million for resident individuals and \$2 million for companies, trustees and absentees.

### ***Primary production deduction***

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

### ***Section 13 exemptions (not elsewhere included)***

A number of land tax exemptions are granted under Section 13 of the *Land Tax Act 1915* to eligible organisations. These include, but are not limited to, public benevolent institutions, religious institutions and other exempt charitable institutions, retirement villages, trade unions and showgrounds.

### ***Land developers' concession***

From 1 July 1998, land developers have been charged land tax on 60% of the unimproved value of (undeveloped) land subdivided in the previous financial year and which remains unsold at 30 June of that year. This concession is outlined in Section 3CA of the *Land Tax Act 1915*.

### ***Transfer duty concession on residential property***

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

### ***Home concession***

A concessional rate of duty applies to purchases of a principal place of residence. In 2007-08, a concessional rate of 1% was applied on dutiable values up to \$320,000. From 1 July 2008, the 1% concessional rate has been applied 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. Since 1 September 2008, a full concession has been provided to purchases of a first principal place of residence valued up to \$500,000 (\$320,000 in 2007-08, \$350,000 from 1 July to 31 August 2008).

### ***First home vacant land concession***

Since 1 January 2007, a first home concession has been available for the purchase of certain vacant land up to the value of \$300,000, with a full concession available on certain vacant land up to the value of \$150,000.

### **Insurance duty**

The benchmark tax base is assumed to be all premiums for general insurance policies (except for life insurance). The benchmark tax scale is assumed to be the scale that actually applied in each financial year.

The rate of duty applicable to most types of general insurance is 7.5%. Concessional rates apply to some other general insurance types (5% for motor vehicle insurance other than compulsory third party (CTP), workers' compensation and professional indemnity insurance and 10c on a premium for CTP insurance). Data limitations mean that these insurance types are categorised into non-life insurance cover and WorkCover. An exemption from duty is also provided for private health insurance.

### **Duty on mortgages – home concessions and first home concessions**

The benchmark tax base is assumed to be all mortgages and loans taken out in Queensland. The benchmark tax scale is assumed to be the scale that actually applied in each financial year.

A concession from duty is allowed where a home mortgage secures an advance attributable to the purchase or construction of the borrower's home.

The data required to estimate the revenue foregone is not available. Mortgage duty was abolished from 1 July 2008.

### **Community Ambulance Cover**

#### ***Concession to pensioners and seniors***

Pensioners and senior card holders are exempt from paying the Community Ambulance Cover charge levied quarterly on electricity accounts.

## **Gambling taxes**

### ***Gaming machine tax concessions for licensed clubs***

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

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

### ***Casino tax concessions***

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

A tax rate of 20% of gross revenue applies for standard transactions in the Brisbane and Gold Coast casinos. A concessional tax rate of 10% applies for gross revenue from standard transactions in the Cairns and Townsville casinos. From 1 July 2009, the tax rate applicable to gaming machines in casinos will increase to 30% of gross revenue in Brisbane and Gold Coast casinos and 20% in the Cairns and Townsville casinos.

In addition concessional rates also apply for revenue from high rollers in all casinos. High roller revenue is taxed at 10% in the Brisbane and Gold Coast casinos and, prior to 2009-10, 8% for the Cairns and Townsville Casinos. From 1 July 2009, high roller revenue at Cairns and Townsville casinos will be taxed at 10%. A GST credit is provided to casinos that approximates a reduction in the above tax rates of 9.09%.



## APPENDIX B – CONCESSIONS STATEMENT

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### INTRODUCTION

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

This statement serves to highlight the cost and nature of concessions covering both concessions which are reflected as outlays in the Budget (for example, direct subsidy payments) and revenue foregone through fees and charges which are set at a rate lower than that applying to the wider community.

Varying methods have been used to estimate the cost of concessions depending on the nature of the concession, including:

- direct Budget outlay cost (for example, direct subsidy or rebate payments)
- revenue foregone (for example, concessional fees and charges)
- cost of goods and services provided.

Table B.1 sets out the cost of concessions by agency. The total value of concessions is estimated at \$1.13 billion in 2009-10.

**Table B.1**  
**Concessions by agency<sup>1</sup>**

<b>Agency</b>	<b>2008-09 Est.Act. \$ million</b>	<b>2009-10 Estimate \$ million</b>
<b>Department of Communities</b>		
Government-managed housing rental rebate <sup>2</sup>	315.2	354.6
Electricity Rebate Scheme	77.0	92.2
Electricity Life Support Scheme	1.0	1.3
Pensioner Rate Subsidy Scheme	42.2	43.1
Rail Concession Scheme	35.9	36.0
Reticulated Natural Gas Rebate Scheme	4.1	2.3
Home Energy Emergency Assistance Scheme	0.3	2.7
SEQ Pensioner Water Subsidy Scheme	5.9	11.3
National Reciprocal Transport Scheme	2.5	3.8
Active Recreation Centres - concessional usage rates	0.2	0.2
<b>Department of Community Safety</b>		
Urban Fire Levy Concession	5.6	6.1
<b>Department of Education and Training</b>		
Living Away from Home Allowances Scheme	6.5	6.5
School transport assistance for students with disabilities	32.2	32.2
Non-State School Transport Assistance Scheme	4.5	4.6
TAFE concessions	14.1	15.8
<b>Department of Employment, Economic Development and Innovation</b>		
Drought Rate Rebate Scheme <sup>3</sup>	0.8	..
<b>Department of Environment and Resource Management</b>		
Environmental licence fee waiver <sup>4</sup>	0.1	..
Entry and tour fee concessions	0.2	0.1
Additional Irrigators Fixed Water Charges Rebate Scheme	0.5	0.6
<b>Queensland Health</b>		
Spectacle Supply Scheme	6.7	7.7
Medical Aids Subsidy Scheme	27.7	31.7
Patient Travel Subsidy Scheme	37.8	37.7
Oral Health Scheme	103.1	107.3
<b>Department of Justice and Attorney-General</b>		
Public Trustee of Queensland rebates of fees	19.6	21.2
<b>Department of the Premier and Cabinet</b>		
Venue hire and lease discount - Judith Wright Centre of Contemporary Art	0.4	0.4
Concessional entry fees - Queensland Museum	0.4	0.4
Concessional entry fees - Queensland Art Gallery	0.4	0.4
Venue hire discounts - Queensland Performing Arts Trust	0.3	0.4
Venue hire discounts - South Bank Corporation	0.2	0.2

**Table B.1 (continued)**  
**Concessions by agency<sup>1</sup>**

<b>Agency</b>	<b>2008-09 Est.Act. \$ million</b>	<b>2009-10 Estimate \$ million</b>
<b>Department of Transport and Main Roads</b>		
Light and heavy vehicle registration concession	82.7	85.4
Recreational ship registration concession	0.9	0.9
School Transport Assistance Scheme	130.0	134.6
Translink Transit Authority transport concessions (SEQ)	56.6	60.0
Other transport concessions incl. taxi subsidies	26.2	27.9
<b>Total</b>	<b>1,041.8</b>	<b>1,129.6</b>
Notes:		
1. Numbers may not add due to rounding.		
2. Increases in markets rents have resulted in an increased estimated level of rental rebate for 2009 10.		
3. This scheme concluded on 30 June 2008 with final payments made during 2008 09.		
4. Due to the introduction of new environmental protection regulation, this concession ceased on 1 January 2009.		

## Department of Communities

The Government-managed housing rental rebate targets low income families and individuals and represents the difference between the rents that would be payable in the private market and rent that is charged based on the household's income. The concession is expected to be higher in 2009-10 than in 2008-09 due to an expected escalation in market rents.

The Electricity Rebate Scheme provides a rebate on the cost of domestic electricity supply to the home of eligible holders of a Pensioner Concession Card, a Queensland Seniors Card or a Repatriation Health Card for All Conditions (Gold Card) who receive a War Widow or Special Rate Totally or Permanently Incapacitated (TPI) pension.

The Electricity Life Support Concession Scheme is aimed at assisting seriously ill people who use home-based life support systems such as oxygen concentrators and kidney dialysis machines.

The Pensioner Rate Subsidy Scheme alleviates the impact of local government rates and charges on pensioners, thereby assisting them to continue to live in their own homes.

The Queensland Rail Concessions Scheme assists pensioners, veterans and seniors to reduce the cost of public transport and to maintain an active and healthy lifestyle.

The Reticulated Natural Gas Rebate Scheme provides a rebate off the cost of reticulated natural gas supplied to the home of eligible holders of a Pensioner Concession Card, Queensland Seniors Card or Repatriation Health Card for All Conditions (Gold Card) who receive a War Widow or Special Rate TPI pension.



The Home Energy Emergency Assistance Scheme provides one-off emergency assistance to low income households suffering a short term financial crisis and who are unable to pay their current electricity and/or reticulated natural gas account and are at risk of disconnection.

To lessen the impact of increased water prices on pensioners, the Government has established the South East Queensland Pensioner Water Subsidy Scheme. The scheme is being phased in over three years with the increased water prices and provides a subsidy of \$40 in 2008-09, \$70 in 2009-10 and \$100 from 2010-11. The Scheme applies to eligible pensioners in the SEQ Water Grid and is in addition to the Pensioner Rate Subsidy Scheme.

The National Reciprocal Transport Scheme provides visitors from interstate who hold a state or territory Seniors Card with access to public transport concessions in Queensland. The four-year scheme, which commences in 2009, is to be fully funded by the Australian Government (subject to finalisation of specific details).

Concessional rates are offered to school groups for the use of a number of Active Recreation Centres, such as those at Currimundi and Tallebudgera.

## **Department of Community Safety**

Pensioners are eligible for a 20% discount on the Urban Fire Levy payable on prescribed properties of which they are the owner or part-owner.

## **Department of Education and Training**

The Department of Education and Training provides a living away from home allowance to students in Years 1 to 12 in state and non-state schools whose homes are geographically isolated from local schools. The allowances offset the costs associated with boarding away from home to attend school on a daily basis and include tuition and travel costs.

The Department also offers assistance to students with disabilities to access school programs to meet their educational needs. Assistance is in the form of the provision of taxis or specialised contracted minibuses, payment of fares on regular buses or trains, or an allowance for parents who drive their children to school.

The Non-State School Transport Assistance Scheme assists families of students attending non-state schools outside Brisbane whose bus fare is over a weekly threshold amount. The program also assists families of students with disabilities who attend a non-state school.

Concessions on TAFE tuition fees for Government-funded training are offered to a range of concession card holders, students of Aboriginal and Torres Strait Islander descent and students who can demonstrate extreme financial hardship.

## **Department of Employment, Economic Development and Innovation**

To assist primary producers who have been detrimentally affected by drought leading to financial difficulty, assistance was previously provided in the form of a rebate of local government rates. This scheme concluded on 30 June 2008 with final payments made during 2008-09.

## **Department of Environment and Resource Management**

Previously, a fee waiver was granted on environmental licences on the grounds of financial hardship or if there was a small or insignificant environmental risk. Due to the introduction of new environmental protection regulation, this concession concluded on 1 January 2009.

Concessional entry fees are available for specified protected areas including St Helena Island, David Fleay Wildlife Park and Mon Repos Conservation Park.

The Additional Irrigators Fixed Water Charges Rebate Scheme makes a rebate of up to \$10,000 available for irrigators in eligible water supply schemes with an announced water allocation of 20% or less on 1 July 2008. Relevant invoices must be issued for the 1 July 2008 to 30 June 2009 financial year. Irrigators have until 30 September 2009 to lodge applications.

## **Queensland Health**

The Spectacle Supply Scheme assists eligible Queensland residents by providing a comprehensive range of free basic spectacles. Queensland Health administers the scheme through its network of public hospitals and community services.

The Medical Aids Subsidy Scheme provides eligible Queensland residents with permanent and stabilised conditions or disabilities access to subsidies. Aids and equipment are provided primarily to assist people to live at home thus avoiding premature or inappropriate residential care or hospitalisation.

Queensland Health's Patient Travel Subsidy Scheme provides financial assistance to patients who need to access specialist medical services which are not available within their local area. The Scheme provides a subsidy towards the cost of travel and accommodation for patients and, in some cases, an escort.

The Oral Health Scheme provides free dental care to eligible clients and their dependents who possess a current Health Care Card, Pensioner Concession Card, Queensland Seniors Card or Commonwealth Seniors Card. In rural and remote areas where no private dental practitioner exists, access to dental care for the general public is provided at a concessional rate.

## **Department of Justice and Attorney-General**

The Public Trustee offers fee rebates (full or partial) for clients who, because of financial circumstances, cannot pay the full amount of fees that have been levied.

## **Department of the Premier and Cabinet**

Discounts apply to venue rental fees charged to arts and community organisation hirers and rent reductions apply to lease amounts for resident cultural organisation tenants at the Judith Wright Centre of Contemporary Art.

Concessional ticket entry fees apply to a variety of concession card holders, students, children and families for special exhibitions at the Queensland Art Gallery and the Queensland Museum.

Queensland Performing Arts Trust offers discounts on venue rental fees charged to Government funded organisations, primarily Opera Queensland, Queensland Ballet, Queensland Orchestra and Queensland Theatre Company.

Community groups and charities are given discounts on venue rental fees at South Bank, such as the Suncorp Piazza and Cultural Forecourt.

## **Department of Transport and Main Roads**

Motor vehicle and boat registration concessions are provided to holders of the Pensioner Concession Card, Queensland Seniors Card and to those receiving a TPI Ex-serviceperson Pension. The concession is aimed at improving the access to travel of pensioners and seniors.

Other motor vehicle and boat registration concessions are provided to:

- primary producers to ensure the costs of basic necessities are kept to a minimum
- local governments to ensure lower costs of essential services
- charitable and community service organisations who provide assistance in the form of food, clothing and shelter to persons in distress
- people living in remote areas without access to the wider road network
- car club members with vehicles over 30 years of age who are preserving Queensland's motoring history
- specific purpose vehicles that are used off road but need access to the road network to move between sites and to certain overseas consular positions.

The School Transport Assistance Scheme is a program for students whose access to school is disadvantaged by distance or who are from defined low income groups. Assistance is provided towards the cost of travel on bus, rail and/or ferry with allowances for private vehicle transport.

Transport concessions are provided by the Government in a variety of forms and across a range of activities to ensure access and mobility for Queenslanders who are transport disadvantaged. The Translink Transit Authority administers transport concessions in South-East Queensland, with concessions in the remainder of the State, and the Taxi Subsidy Scheme, provided by the Department of Transport and Main Roads. Eligible categories to receive a concession include Pensioner Concession Card holders, Seniors Card holders, children and secondary and tertiary students. The provision of these concessions is in the form of a subsidy payment to transport operators.

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**Queensland**  
Government

State Budget 2009–10

**Budget Strategy and Outlook**

**Budget Paper No.2**

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