

# State Budget 2010–11

## Budget Strategy and Outlook

Budget Paper No.2

# **2010–11 State Budget Papers**

- 1. Budget Speech**
  - 2. Budget Strategy and Outlook**
  - 3. Capital Statement**
  - 4. Budget Measures**
  - 5. Service Delivery Statements**
- Budget Highlights**

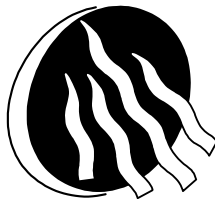
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**Queensland**  
Government

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# **STATE BUDGET**

## **2010-11**

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### **BUDGET STRATEGY AND OUTLOOK**

Budget Paper No. 2



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# 1 FISCAL STRATEGY, PERFORMANCE AND OUTLOOK

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## FEATURES

- The forecast General Government net operating balance is expected to be a deficit of \$287 million in 2009-10 compared to a forecast deficit of \$2.351 billion at the time of the Mid Year Fiscal and Economic Review in December 2009 and \$1.954 billion at the time of the 2009-10 Budget.
- The improvement in the forecast net operating balance across the forward estimates since the Mid Year Fiscal and Economic Review primarily reflects an improvement in global economic conditions and the resulting revisions to royalty and GST revenue.
- The improvement in the 2009-10 net operating balance is also due to the bring forward of Australian Government payments for transport projects, such as the Ipswich Motorway, with funding brought forward primarily from 2010-11. Australian Government funding for Gold Coast Rapid Transit, which had previously been considered to be an equity contribution, will now be received as a grant in 2009-10.
- Despite an improved revenue outlook, the General Government sector is forecast to incur a net operating deficit in 2010-11 (\$1.745 billion), associated with the withdrawal of Australian Government stimulus payments. Improvements in the operating position are expected across each of the forward estimate years, with a return to surplus now projected in 2015-16.
- Cash deficits in the General Government sector are projected for each year across the forward estimates, reflecting the State's significant capital program.
- The State's 2010-11 capital program is an estimated \$17.1 billion, a 1.2% decrease on 2009-10 estimated outlays. The capital outlays of Public Non-financial Corporations (commercial) sector entities constitute approximately 41% of total outlays in 2010-11.

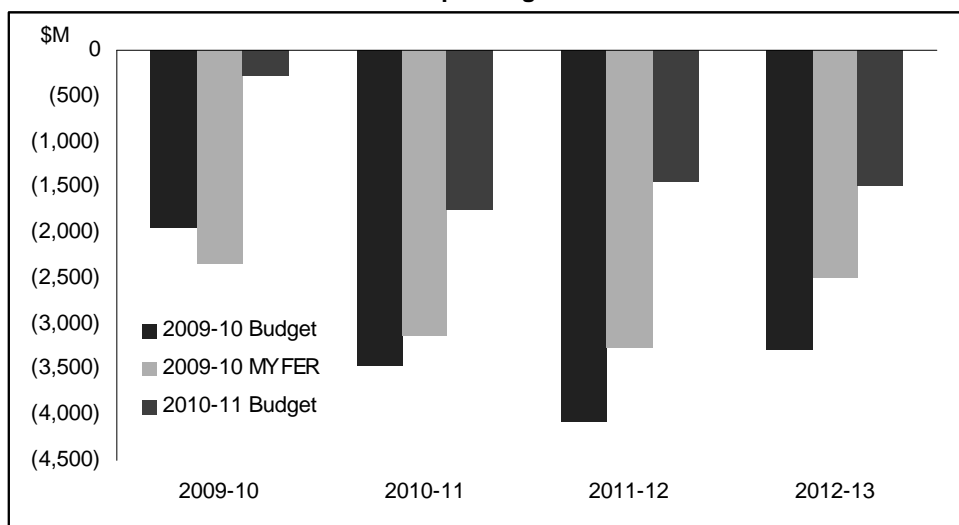


The operating balance expected for 2009-10 is a deficit of \$287 million compared to a forecast deficit of \$2.351 billion anticipated in the Mid Year Fiscal and Economic Review (MYFER). As identified in Table 1.1 below, the forecast General Government sector operating balances have improved across the forward estimates, with the forecast deficits more than halved from the 2009-10 Budget forecasts.

<b>Table 1.1 General Government sector – revisions to net operating balance forecasts<sup>1</sup></b>						
	2008-09 \$ million	2009-10 \$ million	2010-11 \$ million	2011-12 \$ million	2012-13 \$ million	2013-14 \$ million
2009-10 Budget	(574)	(1,954)	(3,459)	(4,090)	(3,290)	n/a
2009-10 MYFER	35	(2,351)	(3,142)	(3,264)	(2,499)	n/a
<b>2010-11 Budget</b>	<b>35</b>	<b>(287)</b>	<b>(1,745)</b>	<b>(1,442)</b>	<b>(1,482)</b>	<b>(1,395)</b>

Chart 1.1 shows the forecast operating position at the 2009-10 Budget, 2009-10 MYFER and the 2010-11 Budget.

**Chart 1.1  
Revisions to net operating balance forecasts**



## FISCAL STRATEGY

While providing additional funding for high priority service needs, the 2010-11 Budget is firmly focussed on consolidating Queensland's financial position as the economy recovers. In particular, the 2010-11 Budget delivers a significant reduction in the State's forecast borrowing levels, relative to MYFER projections, with projected borrowings to be further reduced on the completion of the asset sales program. This is critical in the current environment as international financial markets increasingly focus on the capacity of governments to meet their borrowing obligations.

The 2009-10 Budget introduced a number of structural budget reforms aimed at improving Queensland's fiscal position to ensure the long term sustainability of the State's finances. The total value of these initiatives, excluding asset sales, was estimated at around \$5.4 billion over four years.

The Government also 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.

In building on the strong foundations established in the 2009-10 Budget, the 2010-11 Budget:

- is consistent with the fiscal principles the Government committed to in the 2009-10 Budget, in particular prioritising funding to ensure that own-purpose expenditure grows at a slower rate than inflation and population growth, with own-purpose expenditure growth in 2009-10 of 3.74% being substantially below the real per capita constraint of 5%
- requires agencies to drive further efficiencies to support front line service delivery, such that the aggregate annual efficiency dividend from 2012-13 will reach about \$400 million each year
- maintains a large capital program in 2010-11, to both boost productivity and support jobs as the economy gradually strengthens, but allows for a significant reduction in the size of the capital program across the forward estimates as private sector investment grows
- applies the majority of the forecast improvement in revenues, associated with a stronger economic outlook, to reducing deficits and borrowings.

Queensland's medium-term fiscal outlook has improved since the publication of the 2009-10 Budget. This reflects upward revisions to economic growth, both domestically and internationally, largely as a result of substantial monetary and fiscal stimulus, which reduced the severity and duration of the economic downturn. However, economic growth was below trend in 2008-09 and is expected to also be below trend in 2009-10 and 2010-11. As a result, economic activity has not returned to the same trajectory as prior to the global financial crisis, nor have Queensland's revenues.

While revenue is forecast to grow at a moderate rate across the forward estimates, the State's key revenue streams of taxation, royalties and GST revenue continue to be impacted by the legacy of the global financial crisis. These revenues are expected to be \$7.6 billion less than forecast in the 2008-09 Budget, contributing to the State's ongoing operating deficits and borrowing requirements. Revenue forecasts are discussed in greater detail in Chapter 4.

Although the State's fiscal and economic outlook has improved in the past 12 months, there is still a significant degree of uncertainty in regard to the strength and speed of recovery.

Within this context, the Government is committed to the infrastructure assets reform and sale program announced in June 2009, to protect the State's capacity to deliver additional infrastructure in core government service delivery areas such as health, education and roads.

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.

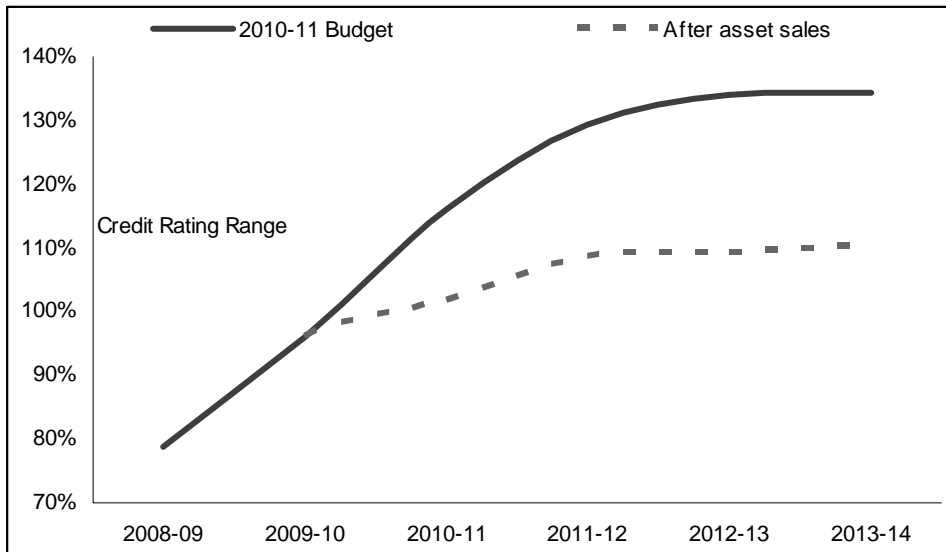
The sale program will deliver an estimated \$15 billion in sale proceeds, and result in more than \$10 billion in required capital investment being avoided. As is usual practice, the impact of the asset sales has not been factored into the Budget estimates, other than the sale of Forestry Plantations Queensland, the transaction for which has now been formally agreed.

### ***Financial considerations of asset sales***

The 2010-11 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 following chart shows 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 1.2 indicates that, in the absence of asset sales, the ratio is expected to rise to above 130% in 2013-14. However, taking the asset sales program into account results in the projected ratio reaching 110% across the period. Ratings agencies have indicated that the 100-110% range is one of the criteria required for a reassessment of the State's credit rating, along with a demonstration of a solid surplus operating position.

**Chart 1.2**  
**Net financial liabilities to revenue ratio, before and after asset sales**



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 improve the strength of the State's balance sheet and demonstrate to ratings agencies and financial markets the Government's commitment to return the State to a solid fiscal position.

Further detail about the restructuring and disposal processes is provided in Chapter 8.

The 2009-10 Budget included a commitment from the Queensland Government to reduce the capital program to levels below \$10 billion per year from 2013-14, and to identify further policy measures to improve productivity and reduce expenditure.

The 2010-11 Budget delivers on this commitment with:

- the Non-financial Public Sector capital program forecast to trend down over the forward estimates to be \$9.6 billion by 2013-14
- further efficiency measures
- expenditure offset by savings and revenue measures where appropriate.

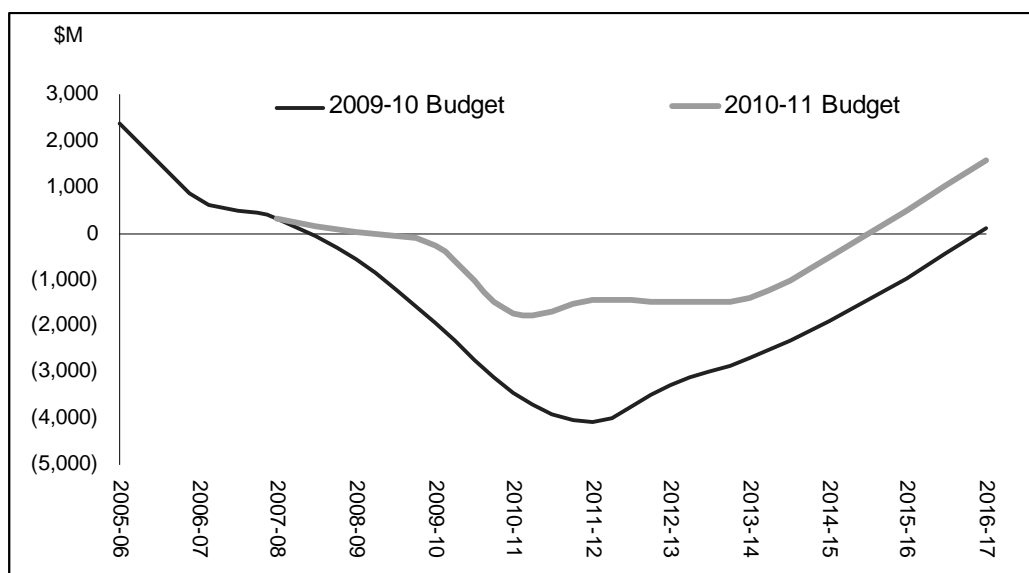
## PATH BACK TO SURPLUS

Returning the Budget to surplus is a central element of the Government's revised fiscal principles. A number of key initiatives established in the 2009-10 Budget, such as the 2.5% limit on public sector wage increases and the abolition of the Queensland Fuel Subsidy Scheme, underpin the projected return to surplus. However, a return to surplus depends on economic growth in the State as well as the policy decisions of Government.

The 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. Chart 1.3 below indicates the Government is now on track to achieve this goal by tracking solidly into surplus in 2015-16.

However, there remains a high degree of uncertainty about the pace and path of recovery. Queensland's assumptions are for the operating deficit to peak in 2010-11, associated with the withdrawal of Australian Government stimulus payments, before improving across the forward estimates.

**Chart 1.3**  
**General Government Sector Net Operating Balance, 2005-06 to 2016-17**



## FISCAL PRINCIPLES

The *Charter of Fiscal Responsibility* outlines the Government's fiscal principles and is an integral part of the Government's commitment to the community. The fiscal principles were revised for the 2009-10 Budget and identified how the Government will restore Queensland's traditionally strong financial position, while maintaining services and continuing to deliver its commitments to the community.

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.

The fiscal principles establish the basis for sustainability of the Government's policies. They require services provided by Government be funded from tax and other revenue sources over the long term. The principles are supported by an accrual budgeting framework, which recognises future liabilities of the State and highlights the full cost of sustaining the Government's operations on an ongoing basis.

The fiscal principles recognise the importance of a strong financial position for the State. A state government, because of its more limited tax base, does not have the same capacity as a national government to cushion economic and financial shocks. At the same time, state governments have a responsibility to provide continuity of services, such as health, police and education.

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, MYFER and Report on State Finances.

### ***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.

However, capital investment benefits users and society more generally over the life of the asset. It can therefore be appropriate to borrow to fund capital investment, so that the costs of the investment are paid over the same time frame as the benefits 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 the current financial environment, with markets concerned about sovereign debt, fiscal discipline is critical. 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.

### **Principle**

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

Own-purpose expenditure growth of 3.74% is expected in 2009-10, substantially below the real per capita limit of 5%, reflecting the achievement of a number of measures introduced in the 2009-10 Budget, including public sector efficiency measures and the abolition of the Queensland Fuel Subsidy Scheme.

In 2010-11, own-purpose expenditure growth of 5.97% is anticipated, which is above the real per capita constraint of 5.25%. However, the estimated rate of growth in own-purpose expenses in 2010-11 is being impacted by anticipated spending to undertake reparation work associated with wide-scale flooding which occurred throughout Queensland in February and March 2010 and also one-off costs associated with the assets sale program. If spending associated with these events were excluded from the calculation, own-purpose expenditure in 2010-11 would be estimated to increase at a rate consistent with the real per capita constraint.

Over the period 2009-10 to 2013-14, own-purpose expenditure growth is expected to average 4.1%, compared with an expected real per capita limit of 5.1%. Further details on expenses projections are contained in Chapter 5.

### **Principle**

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

This approach to expenses growth, together with allowing improvements in revenue forecasts to flow through to the bottom line, 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.

## ***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.

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 2010-11 are estimated at \$2,225, compared with an estimated \$2,643 for the average of the other states
- Commonwealth Grants Commission data indicate that Queensland's taxation effort ratio was 86.9% of the standard for all states in 2008-09
- Queensland's tax collections were 3.64% of GSP in 2008-09, compared to 4.14% for the average of the other states.

The 2010-11 Budget includes payroll tax and land tax measures. Details of these changes and other revenue items are provided in Chapter 4.

### **Principle**

Maintain a competitive tax environment for business.

## ***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 over the long term. 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, given the current operating position Queensland funds its capital program substantially through borrowing, recognising the interest, operating and depreciation costs on the operating statement. While the balance sheet of the Queensland Government remains strong, the increased borrowing is expected to lead to an increase in the ratio of net financial liabilities<sup>1</sup> to revenue, which is a measure used within financial markets to assess financial sustainability.

This ratio is expected to be 116% at the end of the 2010-11 financial year, which is lower than the forecast at the time of the MYFER. In the absence of asset sales, the ratio is projected to increase to above 130% by 2013-14. However, after completion of the asset sales program, it is expected to reach 110% by 2013-14. The 100-110% range has been identified by Standard and Poor's as one of the trigger points for reassessment of the State's credit rating.

### **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 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.

The most recent actuarial review, released in June 2008, found that accruing superannuation liabilities were fully funded. The State Actuary reviews the scheme every three years. Further information on balance sheet aggregates can be found in Chapter 6.

### **Principle**

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

Table 1.2 provides an overview of the Government's progress in meeting the fiscal principles.

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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 9.

**Table 1.2**  
**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 (\$ million)	Operating expenses less depreciation (\$ million)
	2009-10	39,689	37,497
	2010-11	40,606	39,530
	2011-12	41,938	40,165
	2012-13	43,453	41,528
	2013-14	45,298	43,048
Growth in own-purpose expenses in the General Government sector to not exceed real per capita growth	Growth in:	Own purpose expense	Inflation plus population
	2009-10	3.74%	5.00%
	2010-11	5.97%	5.25%
	2011-12	3.13%	5.25%
	2012-13	3.46%	5.00%
	2013-14	3.99%	5.00%
Average	4.06%	5.10%	
Achieve a General Government net operating surplus as soon as possible, but no later than 2015-16	Net operating balance (\$ million)		
	2009-10	(287)	
	2010-11	(1,745)	
	2011-12	(1,442)	
	2012-13	(1,482)	
	2013-14	(1,395)	
Competitive tax regime			
Maintain a competitive tax environment for business	Taxation revenue per capita, 2010-11		
	Queensland:	\$2,225	
	Average of other states and territories:	\$2,643	
Managing the State's balance sheet			
Stabilise net financial liabilities as a proportion of revenue in the Non-financial Public Sector	Net Financial Liabilities/Revenue Non-financial Public Sector		
		Before asset sales	After asset sales
	2009-10	96%	96%
	2010-11	116%	102%
	2011-12	129%	109%
	2012-13	134%	109%
2013-14	134%	110%	
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 three years.		

## SUMMARY OF KEY FINANCIAL AGGREGATES

Table 1.3 provides aggregate actual outcome information for 2008-09, estimated actual outcome information for 2009-10, forecasts for 2010-11 and projections for the outyears.

<b>Table 1.3</b> <b>General Government sector – key financial aggregates<sup>1</sup></b>						
	2008-09 Actual <sup>2</sup> \$ million	2009-10 Est. Act. \$ million	2010-11 Budget \$ million	2011-12 Projection \$ million	2012-13 Projection \$ million	2013-14 Projection \$ million
Revenue	37,008	39,689	40,606	41,938	43,453	45,298
Expenses	36,974	39,976	42,352	43,380	44,935	46,693
Net operating balance	35	(287)	(1,745)	(1,442)	(1,482)	(1,395)
Cash surplus/(deficit)	(2,839)	(5,254)	(6,396)	(4,648)	(2,906)	(1,507)
Capital purchases	6,960	8,626	8,335	7,490	5,751	4,628
Net borrowing	3,728	5,182	7,629	6,733	4,657	3,191
Gross borrowing	10,278	15,524	23,250	30,080	34,756	37,967
Net worth	184,619	187,607	188,564	190,119	192,017	194,326
Net debt	(19,281)	(13,206)	(6,743)	(1,294)	2,095	3,707
Notes: 1. Numbers may not add due to rounding. 2. Reflects published actuals.						

## BUDGET OUTCOMES 2009-10

### Key financial aggregates

<b>Table 1.4</b> <b>General Government sector – key financial aggregates<sup>1</sup></b>			
	2009-10 Budget \$ million	2009-10 MYFER \$ million	2009-10 Est. Act. \$ million
Revenue	37,192	37,286	39,689
Expenses	39,146	39,637	39,976
Net operating balance	(1,954)	(2,351)	(287)
Cash surplus/(deficit)	(6,838)	(7,363)	(5,254)
Capital purchases	9,270	9,108	8,626
Net borrowing	7,954	6,722	5,182
Gross borrowing	18,775	17,063	15,524
Net worth	151,144	185,476	187,607
Net debt	(10,672)	(11,566)	(13,206)
Note: 1. Numbers may not add due to rounding.			

### Operating balance

The operating balance expected for 2009-10 is a deficit of \$287 million compared to a deficit of \$2.351 billion forecast in the MYFER. The improvement in the forecast net operating balance since the MYFER primarily reflects increased Australian Government payments, including funding for transport projects, such as the Ipswich Motorway, which has been brought forward, primarily from 2010-11. Australian Government funding for Gold Coast Rapid Transit, which had previously been considered to be an equity contribution, will now be received as a grant in 2009-10. There have also been upward revisions to royalty and GST revenue.

Expenses are also estimated to increase from the MYFER forecast primarily reflecting increased expenses associated with natural disaster recovery and relief and the provision of funding for the Townsville Marine Precinct, partly offset by lower depreciation expenses.

Further details on revenue and expenses projections are contained in Chapters 4 and 5 respectively.

Table 1.6 provides a reconciliation of the estimated net operating balance for 2009-10 to the MYFER forecast.

## **Cash surplus/(deficit)**

The General Government sector is now expected to record a lower cash deficit in 2009-10 of \$5.254 billion compared to a \$7.363 billion deficit forecast in the MYFER. The smaller than expected cash deficit is predominantly the result of the cash impact of the improvement in the net operating balance in 2009-10 and lower than anticipated capital purchases.

## **Capital purchases**

General Government purchases of non-financial assets (that is, capital expenditure) in 2009-10 are estimated to be \$8.626 billion. This is \$482 million less than forecast in the MYFER due to changes in timing of cashflows for capital projects and delays associated with poor weather conditions.

The total capital program for 2009-10, including capital grants, is expected to be \$17.307 billion, \$893 million lower than expected at the time of the 2009-10 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 \$5.182 billion are expected in 2009-10, \$1.54 billion less than forecast in the MYFER and \$2.772 billion less than forecast in the 2009-10 Budget, associated with the reduction in the cash deficit.

Similarly, gross borrowings (the stock of borrowings outstanding as stated in the Balance Sheet) of \$15.524 billion are estimated at 30 June 2010, \$1.539 billion less than the MYFER estimate, reflecting the improvement in the 2009-10 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 2010 is estimated at \$187.6 billion. This is \$36.5 billion higher than the forecast in the 2009-10 Budget, primarily due to the value of land under roads being included in the net worth calculation in June 2009 for the first time, in accordance with accounting standard AASB 1051 *Land Under Roads*.

Net worth is \$2.988 billion higher than the 30 June 2009 audited actual and \$2.131 billion higher than the net worth forecast at the time of the MYFER due to market value fluctuations, including those relating to investment returns on superannuation and other long term assets now held by Queensland Treasury Corporation.

### **Net debt**

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

Net debt in the General Government sector at 30 June 2010 is estimated to be negative \$13.206 billion, compared to negative \$11.566 billion forecast at the time of the MYFER. The stronger position reflects the impact of lower borrowings.

## BUDGET 2010-11 AND OUTYEAR PROJECTIONS

### Key financial aggregates

<b>Table 1.5</b> <b>General Government sector – key financial aggregates<sup>1</sup></b>				
	2010-11 Budget \$ million	2011-12 Projection \$ million	2012-13 Projection \$ million	2013-14 Projection \$ million
Revenue	40,606	41,938	43,453	45,298
Expenses	42,352	43,380	44,935	46,693
Net operating balance	(1,745)	(1,442)	(1,482)	(1,395)
Cash surplus/(deficit)	(6,396)	(4,648)	(2,906)	(1,507)
Capital purchases	8,335	7,490	5,751	4,628
Net borrowing	7,629	6,733	4,657	3,191
Gross borrowing	23,250	30,080	34,756	37,967
Net worth	188,564	190,119	192,017	194,326
Net debt	(6,743)	(1,294)	2,095	3,707
Note: 1. Numbers may not add due to rounding.				

### Operating balance

Significant upward revisions to royalty and GST revenues have resulted in a substantial improvement in the fiscal position since the MYFER. However, the General Government sector is still expected to record an operating deficit of \$1.745 billion in 2010-11, with net operating deficits anticipated each year across the forward estimate years.

The improvement in the net operating balance reflects an improvement in the Australian Government's estimates of GST collections and a stronger outlook for coal prices and tonnages. There is a modest improvement anticipated in taxation revenue.

The increase in expenditure relative to 2009-10 mainly relates to service enhancements in key service delivery areas including Australian Government partnerships, increases in wages, reflecting enterprise bargaining agreements and increased frontline service delivery staff, as well as higher levels of depreciation and interest expenses.

Further details on revenue and expenditure projections are contained in Chapters 4 and 5 respectively.

## **Cash surplus/(deficit)**

A cash deficit of \$6.396 billion is expected in 2010-11 for the General Government sector, reducing to \$1.507 billion by 2013-14. The cash deficits reflect the Government's significant planned capital program, with cash deficits forecast to decrease across the forward estimates, consistent with the planned reduction in the size of the capital program over time.

The reduction in the 2010-11 cash deficit since the MYFER primarily reflects the improved net operating balance and the receipt of proceeds from the sale of Forestry Plantations Queensland.

## **Capital purchases**

Total General Government capital purchases of \$8.335 billion are budgeted for 2010-11, \$546 million lower than forecast in the MYFER. Budget Paper 3 – Capital Statement provides details of budgeted 2010-11 capital outlays, by portfolio.

Over the period 2010-11 to 2013-14, purchases of non-financial assets (capital purchases) in the General Government sector of \$26.204 billion are planned.

## **Borrowing**

Net borrowings of \$7.629 billion are budgeted for 2010-11, a decrease of \$2.319 billion compared to the MYFER estimate, mainly as a result of the improvement in the operating position and the receipt of proceeds from the sale of Forestry Plantations Queensland.

The reduction in the amount of borrowings required in 2010-11 leads to a decrease in borrowing costs of \$129 million to \$1.242 billion, compared to the MYFER forecast.

Gross borrowings of \$23.25 billion are expected in the General Government sector at 30 June 2010, \$3.803 billion less than forecast in the MYFER.

Total General Government borrowings in 2012-13 are expected to be \$4.478 billion lower than forecast in the 2009-10 Budget and \$3.518 billion lower than forecast in the MYFER. The comparable figures for the Non-financial Public Sector are a reduction in forecast borrowings of \$6.548 billion relative to the 2009-10 Budget forecast and a \$5.8 billion reduction compared with the MYFER forecast.

Over the Budget and forward estimates period, total General Government borrowings and advances of \$22.154 billion are planned, with gross borrowings projected to increase to \$37.967 billion and borrowing costs to \$2.341 billion in 2013-14. However, these projections do not take into account the proceeds that will be realised from the remainder of the asset sales program, which will substantially reduce the borrowing requirements of the General Government and Public Non-financial Corporations Sectors (see Chart 1.2).



## **Net worth**

State net worth is forecast to be \$188.6 billion at 30 June 2011, with moderate increases in net worth expected each year, reaching \$194.3 billion by the end of 2013-14.

## **Net debt**

Net debt in the General Government sector at 30 June 2011 is estimated to be negative \$6.743 billion compared to the MYFER estimate of negative \$2.964 billion. This improvement in the net debt position primarily reflects the General Government sector's lower borrowing requirements as a result of improvements in the net operating balance.

Net debt is expected to increase over the forward estimates to be \$3.707 billion in 2013-14 reflecting planned increases in borrowings, although this projection does not factor in the proceeds of the asset sales program, other than Forestry Plantations Queensland.

More information on the State's net worth, assets and liabilities is provided in Chapter 6.

## RECONCILIATION OF NET OPERATING BALANCE

Table 1.6 provides a reconciliation of the current General Government sector net operating balances for 2009-10 and 2010-11 to the MYFER forecasts.

<b>Table 1.6</b> <b>Reconciliation of 2009-10 and 2010-11 net operating balance to MYFER<sup>1</sup></b>		
	2009-10 Est. Act. \$ million	2010-11 Budget \$ million
<b>2009-10 MYFER net operating balance</b>	<b>(2,351)</b>	<b>(3,142)</b>
Expenditure policy decisions <sup>2</sup>	(215)	(440)
Asset sales transaction costs	(18)	(121)
Taxation revenue revisions	79	91
Royalty revenue revisions	405	1,323
GST revenue revisions	403	831
Other significant variations impacting on operating balance		
Other Australian Government funding revisions <sup>3</sup>	1,362	(87)
Natural disaster relief expenditure	(237)	(473)
Net flows from PNFC sector entities <sup>4</sup>	(23)	(172)
Actuarial revisions <sup>5</sup>	29	26
Other parameter adjustments <sup>6</sup>	279	419
<b>2010-11 Budget</b>	<b>(287)</b>	<b>(1,745)</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, net of revenue offsets, the additional efficiency dividend and Australian Government funding where appropriate. Budget Paper 4 – Budget Measures outlines in detail the policy decisions taken since the 2009-10 Budget. 3. 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 bring forward of funding for the Ipswich Motorway results in an increase in Australian Government funding in 2009-10 and a reduction in 2010-11. 4. Represents revisions to dividend receipts from and community service obligation payments to Public Non-financial Corporations. 5. Represents actuarial revisions to superannuation and long service leave provisions and revisions to superannuation expense as a result of positive investment returns. 6. Refers to adjustments of a non-policy nature, primarily associated with reductions in depreciation and interest expenses.		

## 2 ECONOMIC PERFORMANCE AND OUTLOOK

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### FEATURES

- The global economy resumed growing in the second half of 2009, after experiencing the most severe and synchronised recession since the Great Depression. While advanced economies are expected to exhibit a modest recovery, the outlook is supported by strong prospects in non-Japan Asia.
- While the global financial crisis slowed growth in Queensland's gross state product (GSP) to 1.4% in 2008-09, its weakest rate since 1990-91, economic growth is estimated to improve to 3% in 2009-10, with resilient demand from China boosting coal exports, and public stimulus helping to offset a decline in business investment.
- Economic growth is forecast to strengthen further, to 3¾% in 2010-11, reflecting ongoing investment in the resources sector. Dwelling investment is anticipated to pick up, in response to rising house prices. However, elevated household debt levels and rising interest rates are expected to result in below average growth in private consumption and overall economic activity.
- Growth in the State economy is forecast to accelerate to its long-run average of 4½% in 2011-12, as improved credit conditions underpin a recovery in commercial and medium-to-high density residential construction, and investment activity related to major resource projects gathers momentum.
- Weaker private sector demand is estimated to slow jobs growth to ¾% in 2009-10 and increase the year-average unemployment rate to 5¾%. However, reflecting the flexibility of the labour market, this would represent a peak below previous downturns and an unemployment rate below the historic average of around 7%.
- In line with stronger economic growth, jobs growth is forecast to accelerate to 2¾% in 2010-11 and 3¼% in 2011-12, reducing the year-average unemployment rate to 5¼% by 2011-12.
- However, significant risks to the global economic outlook remain. In particular, concerns over sovereign debt in Europe have highlighted the fragility of sentiment and heightened financial market volatility.

This chapter presents the economic context within which the 2010-11 State Budget has been prepared. It overviews developments in Queensland's external environment, including the recovery in global economic activity following the financial crisis, and the national outlook. This chapter summarises the economic performance of, and outlook for, Queensland over 2009-10 to 2013-14. It provides estimates for 2009-10 and forecasts for 2010-11 and 2011-12 for detailed sectors of the economy and presents projections for key economic variables to 2013-14. The chapter also outlines key risks to economic growth over the forecast period.

## EXTERNAL ENVIRONMENT

### International conditions

The world economy resumed growing in the second half of 2009, after experiencing the most severe and synchronised contraction since the Great Depression. An unprecedented degree of expansionary monetary and fiscal stimulus, improvements across equity and corporate debt markets and a turnaround in the inventory cycle in many countries have supported the recovery so far. However, there is a marked difference in the pace of recovery across regions, with the emerging economies forecast to continue to outperform advanced economies.

After contracting by an estimated 1¼% in 2009, Queensland's major trading partner economies are forecast to grow by 4¼% in 2010 and 3¾% in 2011, before returning to long-run growth of 4% per annum between 2012 and 2014 (see Table 2.1). However, this would represent growth slightly below the 4½% per annum averaged between 2004 and 2007. While non-Japan Asia is forecast to grow at a strong pace of 6¾% in 2010 and 6% in 2011, growth in advanced economies, particularly Europe, is expected to be subdued.

Emerging Asia was less affected by the global financial crisis than advanced economies, partly because their financial markets were less exposed to the deterioration in mortgage backed securities and other derivatives. Also, relatively stronger fiscal positions in some economies enabled governments to respond to weaker economic conditions with large fiscal stimulus. Domestic demand in China and India, the largest emerging economies in Asia, and Queensland's second and third largest merchandise export markets, remained robust through the crisis. These factors resulted in estimated growth of 2½% in non-Japan Asia in 2009. Most economies in this region had returned to pre-crisis peaks in activity by the end of 2009 and are now expanding at or near pre-crisis rates.

**Table 2.1**  
**Queensland major trading partner GDP outlook**  
**(annual % change)**

	Est. Act	Forecasts				
	2009	2010	2011	2012	2013	2014
World <sup>1</sup>	-½	4¼	4¼	4½	4½	4½
Major trading partners <sup>2</sup>	-1¼	4¼	3¾	4	4	4
<b>Non-Japan Asia</b>	<b>2½</b>	<b>6¾</b>	<b>6</b>	<b>6</b>	<b>6</b>	<b>6</b>
Japan	-5¼	2½	1¾	2	1¾	1¾
Europe	-4	1¼	1¾	2	2	2
US	-2½	3¼	3	2½	2½	2½

**Notes:**

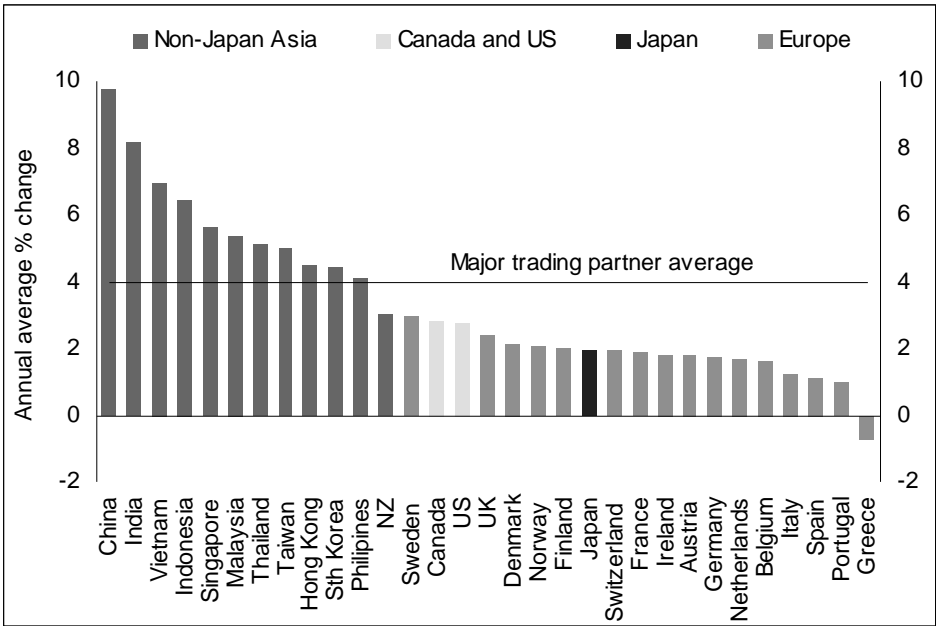
1. Sourced from the April 2010 IMF *World Economic Outlook* database. World GDP comprises 183 countries, weighted by purchasing-power-parity GDP.
2. Queensland's major trading partner output comprises 31 countries, weighted by their share of merchandise exports in the three years to 2007-08.

Sources: International Monetary Fund, Consensus Economics and Queensland Treasury.

The outlook for emerging Asia remains strong (see Chart 2.1). In the near term, household consumption is expected to be supported by high asset values, buoyant sentiment and employment growth, while improving rates of capacity utilisation should boost capital investment. Against this backdrop, and with inflation pressures building somewhat, the monetary authorities of China and India began unwinding monetary policy support in early 2010. Nevertheless, these measures should sustain longer term growth prospects. Furthermore, ongoing urbanisation and industrialisation in China and India are expected to increase their demand for imports and therefore support growth in other non-Japan Asian economies, including Australia and Queensland.

In contrast, the recovery in capital investment in advanced economies continues to be suppressed by excess capacity, while ongoing bank deleveraging and risk aversion have constrained financing and elevated credit costs. Private capital investment in December quarter 2009 was more than 20% below pre-crisis levels in the US, Japan and the UK and 15% below the pre-crisis peak in the Eurozone. Meanwhile, impaired household balance sheets, and relatively subdued growth in household incomes due to soft labour market conditions, are expected to remain a drag on consumer spending in coming years. Over eight million jobs have been shed in the US, around four million in the Eurozone, around one and a half million in Japan and one million in the UK.

**Chart 2.1**  
**Economic outlook for major trading partners, 2010 - 2014**



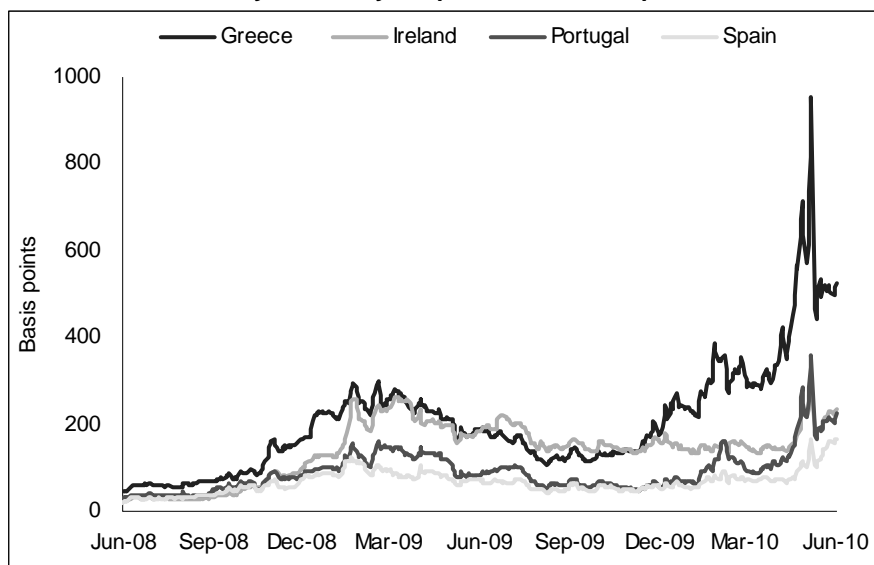
Sources: International Monetary Fund, Consensus Economics and Queensland Treasury.

The recovery in Japan and Europe is expected to be particularly slow, with the pre-crisis peak in output of these two economies not forecast to be reached until 2012. In Japan, Queensland's largest market for overseas merchandise exports, economic growth has been constrained by a strong Yen exchange rate, which has stymied the recovery of Japan's export sector and contributed to renewed deflation.

Importantly, the sovereign debt crisis in Europe has clouded the outlook for advanced economies. The earlier stage of the global financial crisis prompted governments to boost economic activity by expanding fiscal policy. However, the resulting increase in expenditure and decrease in revenue has compounded existing structural deficits and elevated debt levels of many economies. Financial markets have thus shifted concerns from private sector debt toward public sector debt. Consequently, risk premiums on government debt have risen significantly in countries perceived to have unsustainable debt paths, particularly across Europe. In May 2010, the 10-year bond yield premium on government debt relative to German 10-year Bunds touched multi-decade highs in Greece, Spain, Ireland and Portugal (see Chart 2.2).

Austerity programs aimed at lowering public debt have become a greater priority for many advanced economy governments. The US Congressional Budget Office forecasts persistent US budget deficits over the period to 2020. A shift to tighter fiscal policy would act to subdue growth in advanced economies and is another factor that will see this group underperform relative to emerging economies over the forecast period.

**Chart 2.2**  
**10-year bond yield premiums in Europe<sup>1</sup>**



Note:

1. Measured by 10-year government bond yields for the relevant economy less 10-year government bond yields of Germany.

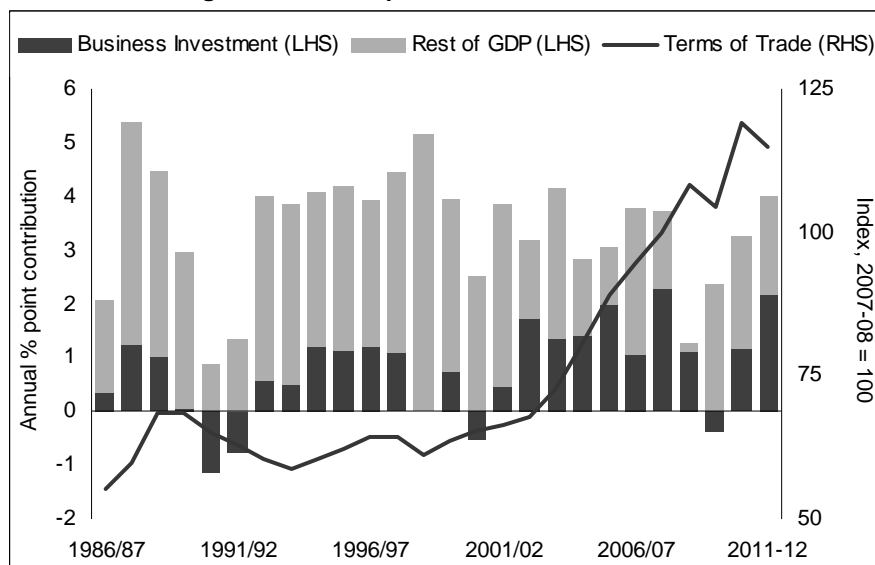
Sources: DataStream and Queensland Treasury.

## Australian economy

The Australian economy slowed significantly during the global downturn, but performed better than most other advanced economies as a result of strong commodity demand from China and substantial domestic fiscal and monetary policy stimulus. Australian Treasury estimates gross domestic product (GDP) growth of 2% in 2009-10 and forecasts it strengthening to 3¼% in 2010-11 and 4% in 2011-12. Faster economic growth is forecast to be driven by stronger private final demand, which will more than offset the phasing-out of fiscal stimulus.

Rising global resource demand is anticipated to see Australia's terms of trade surge in 2010-11 (see Chart 2.3), providing a significant boost to domestic incomes. According to Australian Government Budget papers, Australian Treasury expects that this will result in resource investment which, combined with improved business confidence and credit conditions, is expected to drive a recovery in business investment over the next two years. Growth in household consumption is also forecast to improve, as household wealth recovers much of its earlier losses, and is supported by improved labour market conditions and consumer confidence. Dwelling investment growth is forecast to strengthen, driven by solid population growth, rising incomes and low vacancy rates, but tempered by higher mortgage interest rates.

**Chart 2.3**  
**Contributions to gross domestic product<sup>1,2</sup>, and the terms of trade<sup>2</sup>, Australia**



**Notes:**

1. Chain Volume Measure (CVM), 2007-08 reference year.
  2. 2009-10 is an estimated actual, 2010-11 and 2011-12 are forecasts.
- Sources: ABS 5206.0 and Australian Government 2010-11 Budget.

While exports growth is expected to strengthen in 2010-11 and 2011-12, stronger domestic demand will drive faster imports growth, resulting in net exports detracting from overall economic growth in both years.

Employment is forecast to increase 2¼% over the year to June quarter 2011, reducing the unemployment rate from 5¼% in June quarter 2010 to 5% in June quarter 2011. Solid jobs growth and a stable participation rate in 2011-12 are expected to result in the unemployment rate edging down to 4¾% by June quarter 2012.

With the economy expected to return to potential by 2011-12, Australian Treasury has assumed that growth in real GDP will return to its trend rate of 3% for the 2012-13 to 2013-14 projection period.

## **THE QUEENSLAND ECONOMY**

### **External assumptions**

Forecasts for economic growth in Queensland are based on a number of assumptions about the national economy, trading partners and financial markets.

- After contracting by an estimated 1¼% in 2009, Queensland's major trading partner economies are assumed to grow by 4¼% in 2010, reflecting stronger growth in non-Japan Asia. However, with the recovery in advanced economies expected to be sluggish, major trading partners are assumed to grow 3¾% in 2011 and 4% in 2012.
- Monetary policy is expected to tighten slightly, with futures markets pricing in at least one further rise in the official interest rate by late-2011.
- The Australian dollar (A\$) recovered through 2009, as the commodity price outlook improved, but eased sharply in May 2010 as concerns over European sovereign debt increased. The A\$ is assumed to average around US88c during 2009-10, then depreciate slightly over the forecast period.
- After recovering steadily since March 2009, oil prices are expected to average around US\$75 per barrel, as world economic growth returns to around its long run rate over the forecast period.
- Floods and cyclones in early 2010 have been factored into estimates of commodity and tourism exports in 2009-10 and 2010-11. Seasonal conditions are assumed to return towards normal from 2010-11 onwards.
- National forecasts and projections, as outlined in the Australian Budget delivered on 11 May 2010, have been adopted as the basis for national economic performance.

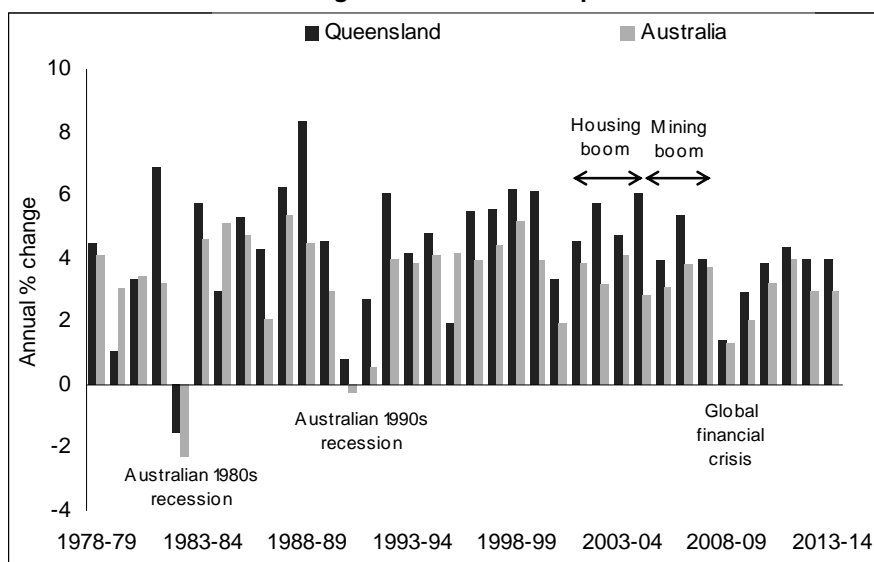
Risks and opportunities associated with some of these assumptions are discussed later in this chapter.



## Summary of economic outlook

Growth in Queensland's GSP slowed to 1.4% in 2008-09, its lowest rate since 1990-91, reflecting the impact of the global financial crisis on consumer and investor confidence, household wealth and export demand. Growth is estimated to strengthen to 3% in 2009-10, largely due to resilient demand from Asia boosting coal exports and public sector stimulus, with private demand contracting. Although risks to the outlook remain, overall economic growth is forecast to improve to 3¾% in 2010-11, benefitting from further investment in the resources sector. However, this would still represent below average growth, reflecting the household sector's ongoing adjustment to higher interest rates. Growth in the State economy is forecast to accelerate to 4½% in 2011-12, as improved credit conditions support a more broad-based recovery in dwelling and business investment (see Chart 2.4).

**Chart 2.4**  
**Growth in gross state/domestic product<sup>1</sup>**



Note:

1. CVM, 2007-08 reference year. 2009-10 is an estimated actual, 2010-11 and 2011-12 are forecasts, 2012-13 and 2013-14 are projections.

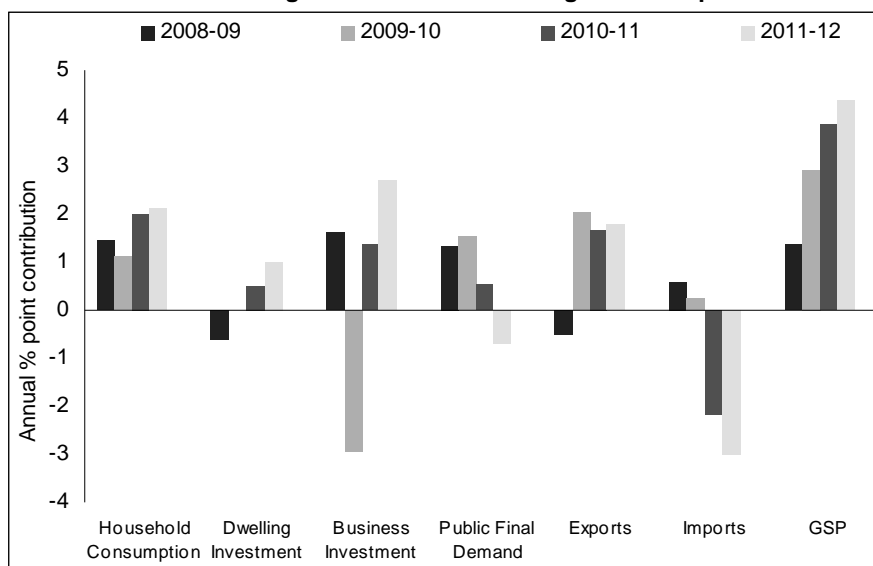
Sources: ABS 5206.0, Australian Government 2010-11 Budget and Queensland Treasury.

Queensland's economic growth is estimated to strengthen in 2009-10, largely due to a recovery in the trade sector and public sector stimulus (see Chart 2.5). Export growth is estimated to reach 6¾%, reflecting China's increased demand for coal imports and a turnaround in interstate tourism due to improving national conditions. Strong growth in public final demand is estimated to contribute 1½ percentage points to overall economic growth in 2009-10, partly due to the State's own significant capital works program as well as federal infrastructure initiatives.

Growth in these sectors is estimated to more than offset a decline in private demand in 2009-10. Business investment is expected to fall by 16½%, as tight credit conditions weigh on commercial property and a subdued recovery in business confidence limits machinery and equipment investment. Household consumption growth is estimated to slow to a rate slightly weaker than population growth, in response to previous falls in dwelling investment and weaker growth in employment and wages.

A recovery in private demand is forecast to strengthen economic growth to 3¾% in 2010-11. Business investment is forecast to rise 9½%, reflecting further investment in the resource sector, while dwelling investment is anticipated to pick up, in response to rising house prices. Exports growth is expected to remain strong in 2010-11, with a broad-based global recovery seeing further growth in coal exports and a rebound in other mineral exports. Improved growing conditions are anticipated to benefit rural exports. With contract prices for coal and base metal prices improving, export incomes are forecast to recover in 2010-11. Private consumption growth is forecast to improve in line with stronger jobs growth and a recovery in asset prices. However, elevated household debt levels and rising interest rates are expected to weigh on disposable income growth, leaving growth in consumption and overall economic activity below average in 2010-11.

**Chart 2.5**  
**Contributions to growth in Queensland's gross state product<sup>1</sup>**



Note:

1. CVM, 2007-08 reference year. 2009-10 is an estimate and 2010-11 and 2011-12 are forecasts.

Source: Queensland Treasury.

After a four-year period of below average growth, economic growth is forecast to accelerate to its long-run rate of 4½% in 2011-12. Improved labour market conditions should strengthen growth in consumer spending. Stronger household demand, along with better credit conditions, should see commercial construction in office property and retail space recover, while mining investment should benefit further from the development of the liquefied natural gas (LNG) sector by this time. In line with an acceleration in private investment, public investment is scheduled to be scaled back, as federal fiscal stimulus is withdrawn and the State's capital program is unwound from the record levels that supported the economy during the recent slowdown.

Economic growth is projected to average 4% in 2012-13 and 2013-14 (see Table 2.2), with broad-based growth in investment activity largely offsetting some further fiscal consolidation. Following a period of household balance sheet adjustment to higher interest rates, consumer spending growth is projected to return toward its long-run rate. Capacity expansions in the domestic resources sector, combined with solid major trading partner growth, should also bolster exports growth over the projection period.

Reflecting weak private sector demand, jobs growth is estimated to slow to ¾% in 2009-10, a rate below labour force growth. As a result, the year-average unemployment rate is estimated to rise to 5¾% this financial year, with the trend monthly unemployment rate peaking at 6.0% in October 2009. However, this year-average result would represent a peak well below previous downturns and an unemployment rate still below the historic average. In line with stronger economic growth, jobs growth is forecast to accelerate to 2¾% in 2010-11 and 3¼% in 2011-12, reducing the year-average unemployment rate to 5¼% by 2011-12.

**Table 2.2**  
**Economic forecasts/projections<sup>1</sup>**  
**(annual % change)**

	Outcome	Est. Act.	Forecasts		Projections	
	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
<b>Queensland</b>						
Gross state product <sup>2</sup>	1.4	3	3¾	4½	4	4
Employment	2.2	¾	2¾	3¼	2¾	2¾
Unemployment rate	4.4	5¾	5½	5¼	5	5
Inflation	3.7	2¾	3	3	2¾	2¾
Wage Price Index	4.2	3¼	3½	3¾	na	na
Population	2.8	2¼	2¼	2¼	2¼	2¼
<b>Australia</b>						
Gross domestic product <sup>2</sup>	1.3	2	3¼	4	3	3
Employment <sup>3</sup>	0.1	2½	2¼	2	1½	1¾
Unemployment rate <sup>4</sup>	5.7	5¼	5	4¾	5	5
Inflation <sup>5</sup>	1.5	3¼	2½	2½	2½	2½
Wage Price Index <sup>3</sup>	3.8	2¾	3¾	4	na	na
Population <sup>6</sup>	2.2	2	1¼	1½	1½	1½

**Notes:**

1. Decimal point figures indicate an actual outcome. na - indicates not available.

2. CVM, 2007-08 reference year.

3. Seasonally adjusted growth through-the-year to the June quarter.

4. Seasonally adjusted estimate for the June quarter.

5. Through-the-year growth to the June quarter.

6. Through-the-year growth to 31 December.

Sources: ABS 6401.0, 6345.0, 6202.0, Queensland Treasury and 2010-11 Australian Government Budget.

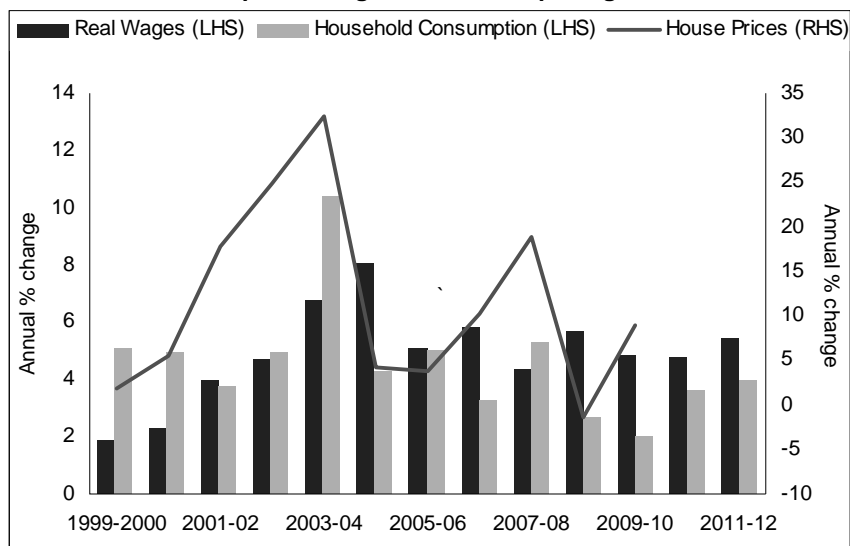
## Household consumption

The impact of the global financial crisis on asset prices and confidence caused household consumption growth to slow to 2.7% in 2008-09. Growth in consumer spending is estimated to remain subdued at 2% in 2009-10, supported by population growth, but representing the weakest rate of growth in more than a decade (see Chart 2.6).

Modest growth in consumption in 2009-10 reflects a weakening in disposable income growth, due to slower growth in both employment and wages, as well as the passing of the boost to household incomes from federal stimulus payments in 2008-09. A decline in dwelling investment in 2008-09 also lowered spending on household furnishings and equipment, as well as some household services, in the first half of 2009-10. Higher household debt levels in an environment of rising interest rates have also affected discretionary spending, particularly on clothing and footwear and recreational and cultural activities.

Household consumption growth is forecast to strengthen to 3½% in 2010-11 and 4% in 2011-12, but remain below average. Growth in housing related spending will be supported by some turnaround in housing activity in 2009-10, as well as a recovery in household wealth, with house prices reaching new cyclical highs and Australian equity prices recovering part of their losses since the financial crisis. While jobs growth is expected to strengthen, higher interest rates are expected to subdue growth in household disposable incomes and leave consumers relatively cautious.

**Chart 2.6**  
**Household consumption<sup>1</sup>, wages<sup>2</sup> and house price growth<sup>3</sup>, Queensland**



**Notes:**

1. CVM, 2007-08 reference year. 2009-10 is an estimate, 2010-11 and 2011-12 are forecasts.
2. Employment plus wages growth, less growth in the Brisbane CPI.
3. 2009-10 based on first three quarters of the year.

Sources: ABS 6202.0, 6302.0, 6401.0, 6416.0 and Queensland Treasury.

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

	Outcome	Est. Actual	Forecasts	
	2008-09	2009-10	2010-11	2011-12
	%	%	%	%
<b>Queensland forecasts</b>				
<b>Domestic production<sup>2</sup></b>				
Household consumption	2.7	2	3½	4
Private investment <sup>3,4</sup>	2.0	-9¼	7	15½
Dwellings	-7.6	¼	6¾	13½
Business investment <sup>4,5</sup>	10.0	-16½	9½	17¾
Other buildings and structures <sup>4</sup>	16.6	-13¼	10¾	19¼
Machinery and equipment <sup>4</sup>	4.5	-19½	8¼	16½
Private final demand <sup>4</sup>	2.5	-1¾	4¾	7¾
Public final demand <sup>4</sup>	5.6	6¼	2	-2¼
Change in inventories <sup>6</sup>	-0.9	½	0	0
Gross state expenditure <sup>7</sup>	1.2	½	4¼	5¼
Exports of goods and services	-1.6	6¾	5¼	5½
Imports of goods and services	-1.5	-¾	5¾	8
Net exports <sup>6</sup>	0.1	2¼	-½	-1¼
<b>Gross state product</b>	<b>1.4</b>	<b>3</b>	<b>3¾</b>	<b>4½</b>
<b>Other state economic measures</b>				
Inflation	3.7	2¾	3	3
Wage Price Index	4.2	3¼	3½	3¾
Employment	2.2	¾	2¾	3¼
Unemployment rate (% , year-average)	4.4	5¾	5½	5¼
Labour force	3.0	2¼	2½	3
Participation rate (% , year-average)	67.6	67¼	67¼	67¾
<b>National forecasts</b>				
<b>Domestic production<sup>2</sup></b>				
Household consumption	1.9	2¾	3½	4
Private investment	na	na	na	na
Dwellings	-1.9	3	7½	4
Business investment <sup>4,5</sup>	6.6	-2	7	12½
Other buildings and structures <sup>4</sup>	8.5	-7	8	14½
Machinery and equipment <sup>4</sup>	4.8	-½	6	13
Private final demand <sup>4</sup>	2.3	1¾	4½	6
Public final demand <sup>4</sup>	4.3	7¼	1	-½
Change in inventories <sup>6</sup>	-0.9	¾	½	0
Gross national expenditure <sup>7</sup>	1.8	3¾	4¼	4¾
Exports of goods and services	0.1	1½	5	6
Imports of goods and services	-2.8	5	9	8½
Net exports <sup>6</sup>	0.6	-¾	-1	-¾
<b>Gross domestic product</b>	<b>1.3</b>	<b>2</b>	<b>3¼</b>	<b>4</b>
<b>Other national economic measures</b>				
Inflation <sup>8</sup>	1.5	3¼	2½	2½
Wage Price Index <sup>8</sup>	3.8	2¾	3¼	4
Employment <sup>8</sup>	0.1	2½	2¼	2
Unemployment rate <sup>9</sup>	5.7	5¼	5	4¾
Labour force <sup>8</sup>	1.6	na	na	na
Participation rate <sup>9</sup>	65.4	65¼	65½	65½

**Notes:**

1. Unless otherwise stated, all figures are annual % changes. Decimal point figures indicate an actual outcome.  
na - Indicates not available.
2. CVM, 2007-08 reference year.
3. Private investment includes livestock and orchards, 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 cultivated biological resources and intellectual property products, 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. Seasonally adjusted growth through-the-year to the June quarter.
9. Seasonally adjusted estimate for the June quarter.

Sources: ABS 6401.0; 6345.0; 6202.0, Queensland Treasury and 2010-11 Australian Government Budget.

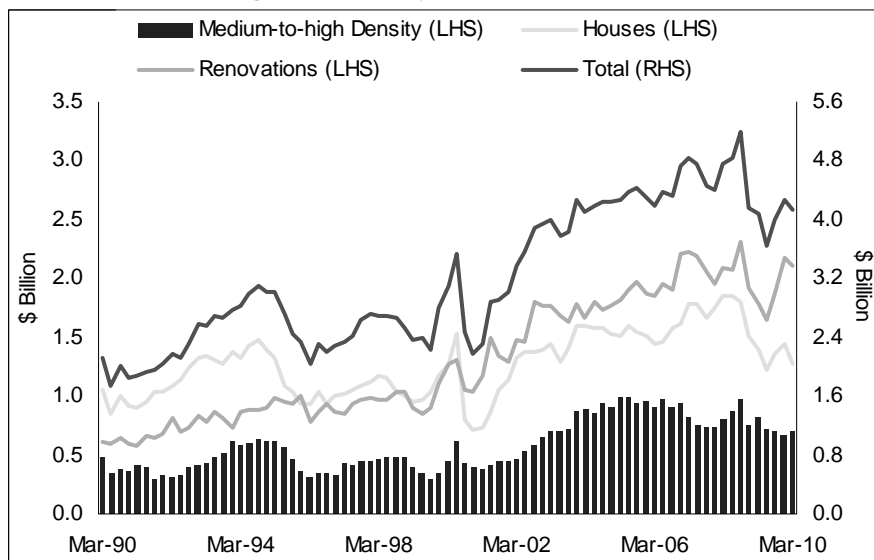
## Dwelling investment

After declining in the previous two years, dwelling investment is estimated to stabilise in 2009-10, with growth in house construction and a rebound in renovation activity in the first half of the year offset by lower medium-to-high density construction, as restricted access to finance limited developer activity.

Over the eight months to April 2009, standard variable home loan rates were reduced almost 400 basis points to a 40-year low of 5.75%. This, combined with the federal First Home Owners Boost (FHOB), encouraged new entrants into the owner occupier housing market and increased turnover among existing owner occupiers, resulting in a turnaround in house construction in the second half of 2009. A recovery in house prices, combined with improved consumer sentiment, also saw renovation activity rise over this period (see Chart 2.7). However, a wet start to 2010 is estimated to have seen house construction and renovation activity temporarily slow in the March quarter.

Total dwelling investment is forecast to rise 6¾% in 2010-11. House construction is forecast to grow, albeit moderately, with greater investor activity in response to higher house prices expected to offset an unwinding in the first home owner market following the withdrawal of the federal FHOB. Despite higher interest rates, growth in housing investment is forecast to accelerate to 13½% in 2011-12, as better access to finance sees a recovery in medium-to-high density construction and improved consumer confidence and labour market conditions support house construction and renovation activity.

**Chart 2.7**  
**Dwelling investment by component, Queensland<sup>1</sup>**



Note:

1. Quarterly, seasonally adjusted, CVM, 2007-08 reference year.

Sources: ABS 5206.0 and 8752.0.

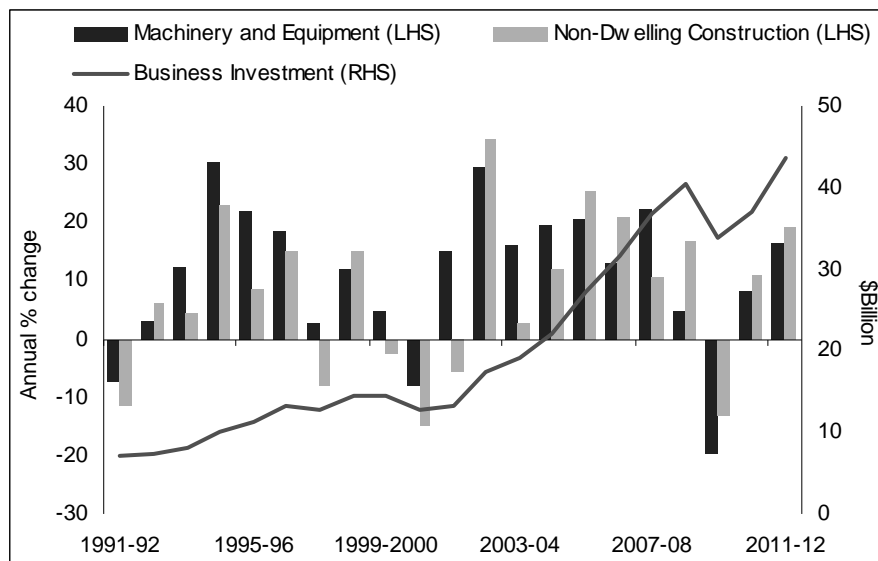
## Business investment

The real value of business investment more than tripled over the eight years to 2008-09, to \$40.6 billion. However, earlier uncertainty over the economic outlook, combined with tight credit conditions, is expected to reduce business investment by 16½% in 2009-10.

Non-dwelling construction is estimated to fall 13¼% in 2009-10, led by non-residential construction. Restricted access to finance, rising vacancy rates and subdued jobs growth has affected commercial construction, while weak household demand has impacted the retail and wholesale sector. Engineering construction is expected to fall only modestly, supported by residual strength in mining and public-private partnership road projects. In line with weaker construction, machinery and equipment is estimated to fall 19½%, with a subdued recovery in confidence tempering the effect of federal tax incentives.

However, business investment is forecast to grow 9½% in 2010-11 (see Chart 2.8), reflecting further expansions in resource sector capacity in response to strong global demand. A recovery in business confidence, combined with a turnaround in non-dwelling construction, is also forecast to drive growth in machinery and equipment investment of 8¼%, while a relatively high A\$ should also support business purchases of imported capital items. Growth in business investment is forecast to accelerate to 17¾% in 2011-12. Non-residential construction is expected to recover, reflecting an improved labour market, stronger growth in household demand and better access to finance, while engineering activity related to the LNG sector should be underway by this time.

**Chart 2.8**  
**Business investment<sup>1</sup>, Queensland**



Note:

1. CVM, 2007-08 reference year. 2009-10 is an estimate, 2010-11 and 2011-12 are forecasts. Adjusted for second-hand asset sales between the private and public sectors.

Source: Queensland Treasury.



## ***Public final demand***

Public final demand is estimated to grow by 6¼% in 2009-10 and contribute 1½ percentage points to economic growth. This partly reflects a large State capital works program directed at transport, health, energy and water infrastructure, as well as federal infrastructure initiatives. With the State's capital program expected to remain at a relatively high level, public final demand is forecast to grow a further 2% in 2010-11. Public final demand is forecast to fall 2¾% in 2011-12, as public sector stimulus is withdrawn in response to a recovery in private demand and a return to trend rates of overall economic growth.

## ***Net exports***

Exports are expected to rebound sharply in 2009-10, with growth estimated to reach 6¾% and forecast to remain strong in 2010-11 and 2011-12. This buoyant outlook is mainly supported by coal and base metals, reflecting rising demand from emerging Asia and a recovery in other traditional major buyers in the region.

China's demand for Queensland's coal has moderated somewhat from mid-2009 highs. However, accelerating industrial production, along with drought conditions that have limited hydro-electricity generation, have supported an elevated level of coal exports to China in 2009-10. Further, lower coal contract prices and higher steel production in India, Japan and Korea have boosted metallurgical coal exports to these countries. In contrast, the volume of base metal exports is estimated to fall in 2009-10, followed by a turnaround in 2010-11, underpinned by an unwinding of financial crisis induced production cutbacks.

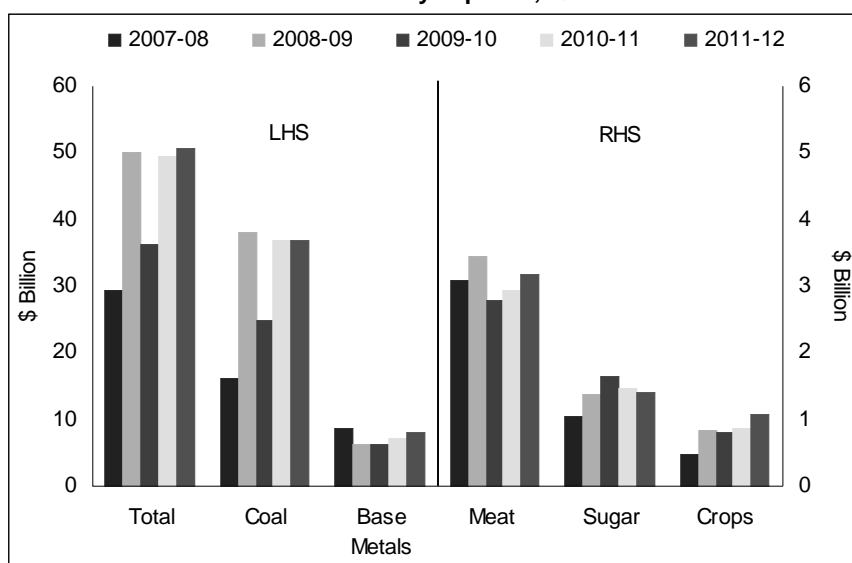
Agricultural exports in 2009-10 are estimated to have been adversely affected by a range of factors, with beef exports lowered by strong competition from the US in key export markets and a high A\$ making Australian produce relatively more expensive. Dry weather during planting reduced wheat and sorghum production, resulting in slower growth in grain exports in 2009-10. While cotton production in the 2009-10 season is expected to fall due to pest infestation and adverse weather conditions, cotton exports are expected to rise, reflecting strong production in the previous growing season.

While the total volume of exports is estimated to rise in 2009-10, total export income is expected to fall due to lower coal contract prices in the 2009-10 Japanese Fiscal Year (JFY, April 2009 - March 2010) and a higher A\$ exchange rate. Nevertheless, prices have recovered strongly since late 2009, with thermal coal spot prices rising from around US\$70 per tonne in early October 2009 to above US\$100 per tonne by mid-May 2010. A hard coking coal contract price for June quarter 2010 was also negotiated, at US\$200 per tonne, much higher than the benchmark price of US\$128 per tonne settled for the previous JFY. Hard coking coal prices are likely to remain elevated for the remainder of 2010, with floods and a cyclone disrupting Queensland's coal exports in February and March 2010 and the recovery in global steel production expected to

continue. Base metal prices have recovered, with international prices of aluminium, copper, lead, nickel and zinc all well above their levels of a year earlier. As a result, A\$ commodity export earnings are expected to return to around the 2008-09 level over the next two years (see Chart 2.9).

After declining in 2008-09, service exports are expected to resume growth in 2009-10, driven by a rebound in interstate tourism. A weaker national economy, combined with unusually wet conditions in the northern part of Queensland, caused a sharp decline in interstate tourist arrivals in 2008-09. This trend began to reverse in 2009-10, as weather conditions in popular tourism regions returned to normal and the national economy recovered. In contrast, following initial resilience in the midst of the global economic downturn in 2008-09, overseas tourism exports are expected to fall slightly in 2009-10, with the appreciation in the A\$ reducing the number of tourists arrivals as well as moderating growth in their average length of stay.

**Chart 2.9**  
**Overseas commodity exports<sup>1</sup>, Queensland**



Note:

1. Current prices, 2009-10 is an estimate, 2010-11 and 2011-12 are forecasts.

Sources: ABS unpublished trade data and Queensland Treasury.

Growth in the volume of coal and base metal exports in 2010-11 and 2011-12 should be supported by the ongoing strength in emerging Asia and the continuing recovery of major industrialised economies. In particular, China's coal imports are not expected to fully unwind, with China's coal production likely to be disrupted by further coal industry rationalisation and recent mine accidents prompting large scale safety overhauls.

With a majority of Queensland's dams and weirs replenished following heavy rainfall between late 2009 and early 2010, agricultural production is expected to recover in 2010-11 and grow further in 2011-12. This positive outlook for commodity exports, together with a continuing upward trend in services exports, should see the total volume of exports rise 5¼% in 2010-11 and a further 5½% in 2011-12.

After declining 1.5% in 2008-09, Queensland's total volume of imports is estimated to fall a further ¾% in 2009-10, as a result of weak growth in household consumption and a decline in machinery and equipment investment. An anticipated turnaround in equipment investment and an acceleration in household consumption growth are expected to result in a rebound in total imports of 5¾% in 2010-11 and 8% in 2011-12, also supported by a relatively high A\$ over this period.

Overall, strong export growth, combined with a decline in imports, is estimated to see net exports contribute 2¼ percentage points to overall economic growth in 2009-10.

However, faster growth in imports relative to exports in 2010-11 as well as in 2011-12 is forecast to result in detractions from economic growth of ½ and 1¼ percentage points in the next two financial years respectively.

### ***Labour market***

After declining through the first half of 2009, trend employment started to recover in the second half of the year, before monthly jobs growth strengthened to around average by early 2010. As a result, year-average employment growth is estimated to slow to ¾%, or 17,000 persons, in 2009-10, reflecting a contraction in private domestic activity. This represents the lowest year-average rate of job creation since 1991-92. In particular, employment in the labour-intensive retail and construction sectors fell by almost 28,000 persons in the first three quarters of the financial year, when compared with the same period in 2008-09. In contrast, improved growing conditions saw jobs growth in the rural sector, while growth in public final demand supported employment in government service industries.

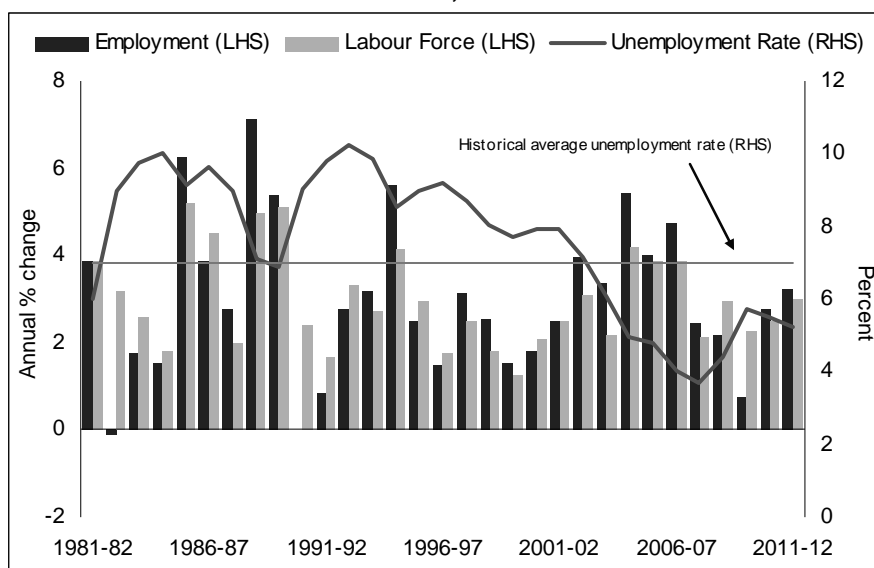
Labour market outcomes also varied across regions and age cohorts in 2009-10. In the year to date, employment fell in the West Moreton region, while the neighbouring Sunshine and Gold Coast regions recorded jobs growth. Employment in the Far North declined, seeing this region record the sharpest increase in the unemployment rate in the year. While mature aged workers continued to record relatively robust job growth in the year, youth employment fell, reflecting relative weakness in the manufacturing, transportation, construction and hospitality industries.

In year-average terms, the labour force participation rate in Queensland is estimated to fall modestly, to 67¼%, in 2009-10, compared with the record high 67.6% in 2008-09. Reduced job prospects through the year saw some unemployed persons leave the labour force and also deterred potential entrants. Despite this fall, strong civilian population growth is estimated to drive labour force growth of 2¼% in 2009-10. With labour force

growth exceeding jobs growth, the year-average unemployment rate is estimated to rise to 5¾% in 2009-10, but remain below the historical average (see Chart 2.10).

In line with the recovery in domestic economic activity, employment growth is forecast to strengthen to 2¾% in 2010-11. Stronger growth in dwelling investment and mining related construction is forecast to stimulate job creation in the construction, transport, mining and metals processing industries, while stronger growth in household consumption should support retail employment. However, job creation is anticipated to remain slightly below average, tempered by employers' capacity to initially increase average hours worked, after reducing them in previous years in order to retain scarce skilled workers during the slowdown.

**Chart 2.10**  
**Labour market, Queensland<sup>1</sup>**



Note:

1. Year-average, 2009-10 is an estimated actual, 2010-11 and 2011-12 are forecasts.

Sources: ABS 6202.0 and Queensland Treasury.

With the improvement in job prospects expected to see the year-average participation rate stabilise in 2010-11, labour force growth is forecast to be 2½% in the year, below the rate of employment growth. As a result, the year-average unemployment rate is expected to have peaked in 2009-10 and then fall to 5½% in 2010-11.

Employment growth is forecast to strengthen to 3¼% in 2011-12, as economic growth recovers to trend. Improved job prospects are also forecast to see the State's participation rate reach an historic high of 67¾% in the year. Despite this rise in participation, employment growth is forecast to outpace labour force growth in 2011-12, leading to another fall in the year-average unemployment rate, to 5¼%.

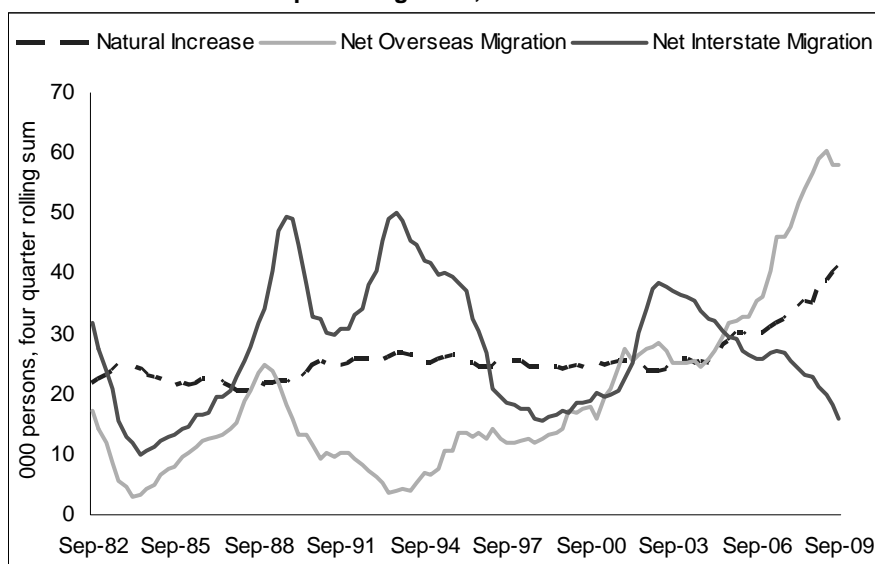
## Population

Following a strong rise of 2.8% in 2008-09, Queensland's population growth is estimated to ease to its long run rate of 2¼% in 2009-10 and forecast to remain at that rate in 2010-11 and 2011-12. This would translate to an increase of around 300,000 persons over the three years, or an average of around 1,900 persons per week.

After peaking in 2008-09 (see Chart 2.11), net overseas migration is expected to be slightly lower, reflecting changes to migration rules made by the Australian Government and reduced inflows from key source countries which have experienced an improvement in economic conditions. However, overseas migration is expected to remain the key driver of population growth.

Net interstate migration has trended lower since 2003-04, as Queensland's house price gap with southern states narrowed. However, net interstate migration is expected to rise over the forecast period, as the Queensland economic recovery gains momentum. Reflecting higher interstate migration than any other state, Queensland's population is forecast to continue to grow at a rate stronger than the national average.

**Chart 2.11**  
**Population growth, Queensland**



Source: ABS 3101.0.

## **Wages**

Reflecting a softening in labour demand, year-average growth in the Wage Price Index in Queensland is estimated to ease from 4.2% in 2008-09 to 3¼% in 2009-10. However, with faster growth in the domestic sector of the economy anticipated to cause labour market conditions to begin tightening again, growth in the Wage Price Index is forecast to strengthen to 3½% next financial year and 3¾% by 2011-12.

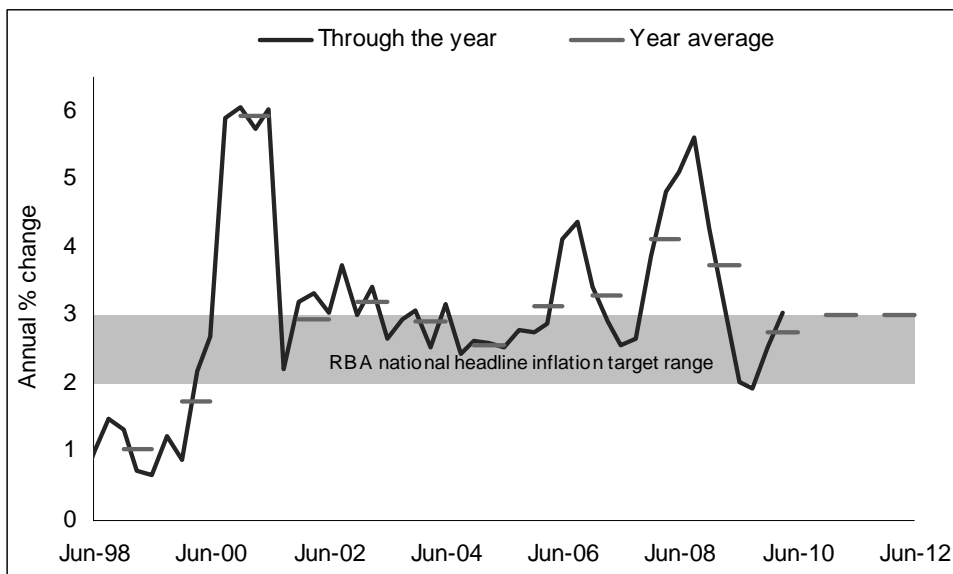
## **Inflation**

Inflation, as measured by growth in Brisbane's Consumer Price Index (CPI), is estimated to ease substantially, from 3.7% in 2008-09 to 2¾% in 2009-10, its lowest year-average rate in five years. On the supply side, an appreciation in the A\$, along with very weak price growth overseas, has moderated tradables inflation, while spare capacity in the domestic economy has subdued non-tradables inflation. On the demand side, weaker household demand and private investment have also contained price pressures.

By component, an easing in growth in housing costs was the main contributor to the easing in inflation in the first three quarters of 2009-10, reflecting slower growth in rents and housing construction costs, which offset higher utility prices. Growth in food prices also slowed, following the passing of adverse weather conditions which pushed prices higher in 2008-09. An improvement in financial market conditions led to a narrowing in the margin of lending over deposit rates and saw financial and insurance services detract from inflation in the first three quarters of the year.

Inflation is expected to remain at the upper end of the RBA's target band, at 3%, in 2010-11 and 2011-12 (see Chart 2.12). The federal increase in tobacco excise from late April 2010 will contribute substantially to growth in the headline CPI in 2010-11, while housing costs are forecast to strengthen in line with an expected recovery in construction activity. While labour market conditions are forecast to improve in the next two years, inflation is expected to remain below its decade average of 3¼%, as modest growth in consumer demand subdues price growth for discretionary goods and services.

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



Note:

1. Brisbane All Groups CPI. 2009-10 is an estimate, 2010-11 and 2011-12 are forecasts.

Sources: ABS 6401.0 and Queensland Treasury.

## Risks and opportunities

The current sovereign debt crisis in Europe highlights that the global financial crisis has yet to be fully resolved. With confidence in the global financial system ultimately anchored to the perceived solvency of governments, an escalation in the crisis, even if originating in a relatively small economy, could have large and widespread contagion affecting risk appetite, credit and investment flows as well as asset prices.

In the past, this has been demonstrated by the effect of Mexico's Peso crisis on other South American economies in 1994 and the Asian financial crisis following the devaluation of the Thai Baht in 1997. Given the size of the European economies involved in the current crisis, any escalation would have a sizeable global effect.

Despite the global economic downturn, a surge in Chinese resource demand largely underpinned Australia's and Queensland's strong export performance in 2009-10. With emerging Asia expected to be the main driver of the global economic recovery, the pace and composition of China's economic growth will affect domestic economic prospects.

While China's long-term growth prospects are strong, there are rising concerns that the economy has been overheating, with speculative bubbles emerging in some asset markets. Consequently, further monetary tightening may be imminent, while pressure has increased for the government to revalue its currency. A combination of monetary tightening and Chinese Yuan appreciation could slow growth in the short term, lowering demand for mineral products. A shift to meeting energy requirements through greater domestic coal production, rather than international markets, would also impact on Queensland's coal exports.

It should be noted that some of these potential adverse effects could be cushioned by a depreciation in the A\$. Flexibility in the A\$ has supported the economy in the past. This includes during the Asian financial crisis and again recently, when the A\$ fell more than 25% in trade weighted terms between July 2008 and February 2009 during the depth of the global financial crisis, and more than 10% against the US\$ in May 2010 when the sovereign debt crisis in Europe intensified. Since a large portion of the State's exports of goods are traded in US\$ terms, a lower A\$ would support export earnings. A weaker A\$ would also make the State's education and tourism exports more competitive.

Several large-scale resource projects in Queensland are in planning stages or scheduled to commence over the outlook period. Given uncertainties around external conditions, proposed changes to the taxation of the mining industry as well as a delay in emissions trading scheme implementation, the timing of these projects may differ from that currently assumed.

While forecasts have factored in some further monetary tightening, the downside risks mentioned above, if realised, may result in the current monetary stance being maintained. This may improve the outlook for Queensland's household consumption and dwelling investment, given elevated household debt levels following the previous housing and mining booms.



### 3 ECONOMIC STRATEGY FOR A GROWING AND AGEING POPULATION

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#### FEATURES

- Queensland's population is projected to reach as many as 7 million people by 2030-31, with 4.4 million of these in South East Queensland. The proportion of the population aged 65 and over is projected to almost double over this period.
- As a consequence, demands on the Government to provide additional services will increase strongly at the same time as Queensland's rate of economic growth and capacity to raise revenue is reduced by an ageing population over the medium to long term.
- A long term approach is needed to boost economic growth in response to this challenge. This will require boosting the productive capacity of the Queensland economy, creating the industries of the future, managing Queensland's population growth, and strengthening the State's fiscal capacity.
- Strong ongoing levels of infrastructure investment are important to both increase Queensland's productive capacity and to provide an important boost to employment as the economy continues to recover from the global financial crisis. The Queensland Government is positioning the private sector to have a greater role in the funding and operation of infrastructure where this represents value for money and enhances the services delivered to Queenslanders.
- Higher productivity is the key to making our economy more competitive, boosting household incomes and creating jobs. Policies that drive productivity growth will increase the size of our economy thereby increasing the State's capacity to fund the additional services that are required by our strongly growing and ageing population.
- At the same time, the importance of preserving Queensland's natural amenity and mitigating the impacts of growth on the environment were strongly highlighted at the Queensland Growth Management Summit. The Government's response, *Shaping Tomorrow's Queensland*, sets out a comprehensive agenda for managing growth in South East Queensland and encouraging greater population growth and economic development in Queensland's regions.
- A key element of any strategy is ensuring that the allocation of Commonwealth-State spending and revenue powers support the delivery of productivity enhancing investments and services. Over time, with our rapidly growing and ageing population, this challenge is becoming greater. The recent health reforms agreed at the Council of Australian Governments are an important step.

The recent global recession has tested the Queensland economy. In responding to the global downturn, the Government adopted a four-point *Jobs First* plan:

- 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.

The Government's strategy has played an important role in supporting the economy and employment, in conjunction with the Australian Government's substantial stimulus program. Although a cautious outlook is still warranted, the Queensland economy is well positioned for a return to strong, diversified economic growth coupled with strong population growth.

While job creation remains important, improving economic conditions mean that it is timely for the Government to renew its focus on the longer-term issues facing Queensland:

- the twin demographic challenges of population growth and population ageing
- the need to continue growing Queensland's productive capacity
- the need to strengthen Queensland's fiscal capacity to better cope with future service and infrastructure demands.

## **QUEENSLAND'S DEMOGRAPHIC CHALLENGES**

As highlighted at the Queensland Growth Management Summit, demographic change is the source of significant challenges at the state and regional levels. Demographic challenges call for long-term policy responses which facilitate gradual adjustment and avoid the need for harsher adjustments down the track. How Queensland responds to these challenges now is critical to the wellbeing of future generations of Queenslanders.

### **Growth and location of the Queensland population**

For the decade to 2008-09, Queensland's population grew by around 900,000, representing an average annual growth rate of 2.3% – faster than any other state or territory (see Chart 3.1).

**Chart 3.1**  
**Average annual population growth, States and Territories, 1998-99 to 2008-09**

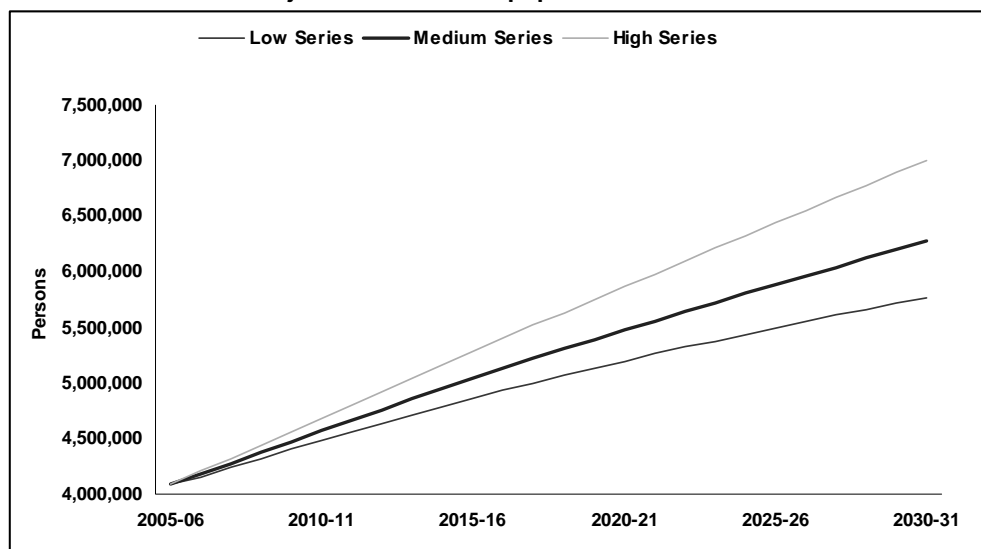


*Source: ABS 3201.0 and Treasury calculations.*

As recently recognised by the Commonwealth Grants Commission, strong population growth requires a correspondingly rapid expansion of public infrastructure so that the Government can increase services and accommodate greater economic activity. The pace of recent population growth imposes a significant fiscal obligation on Queensland.

Queensland's rapid population growth is projected to continue. The current Queensland Government Population Projections suggest an increase from 4.4 million people in 2008-09 to as many as 7.0 million people (see Chart 3.2, high series) by 2030-31. Given the State Government's limited capacity to influence aggregate population growth, enhanced planning and growth management policies are required.

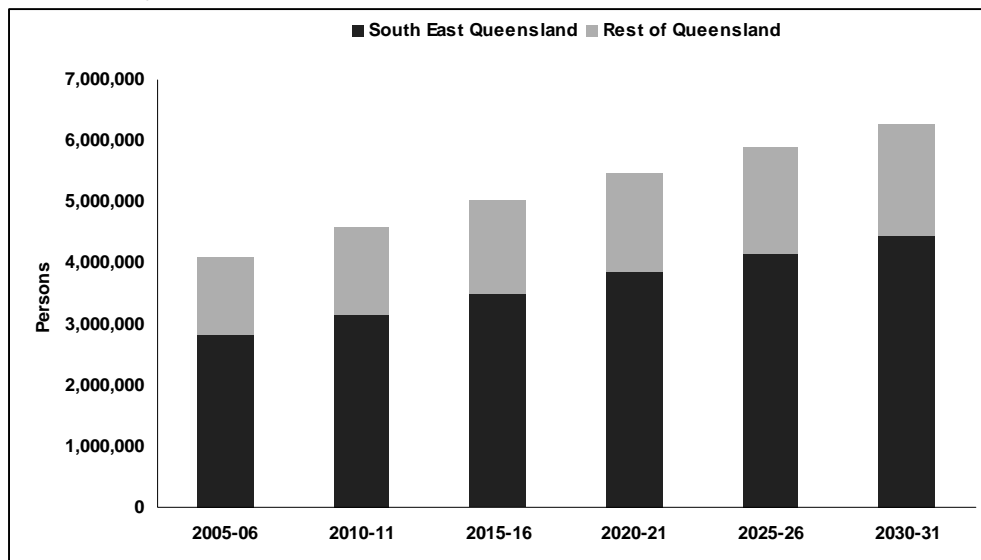
**Chart 3.2**  
**Projected Queensland population to 2030-31**



Source: Queensland Government Population Projections 2008 and ABS 3201.0.

In 2005-06, 69% of Queensland's population, or 2.8 million people, resided in South East Queensland (see Chart 3.3). In the absence of policy change, it is projected that the South East Queensland population share will rise to around 71% by 2030-31, or around 4.4 million people.

**Chart 3.3**  
**Projected population to 2030-31, South East<sup>1</sup> and Rest of Queensland**



Note:

1. South East Queensland Planning Region.

Source: Queensland's Future Population 2008 (medium series) and ABS 3201.0.

Since 1991, the Queensland Government has been managing growth pressures through its robust regional planning framework, as exemplified by the current South East Queensland Regional Plan and South East Queensland Infrastructure Plan and Program. The recent Queensland Growth Management Summit aimed to build on this through a wide-ranging discussion of potential improvements to Queensland's growth management framework.

Issues raised at the Summit included:

- the importance of achieving a more sustainable urban form, for example through the use of transit oriented development
- achieving population and employment growth in other regions of the State
- protection of green space and biodiversity
- infrastructure design and funding
- housing affordability.

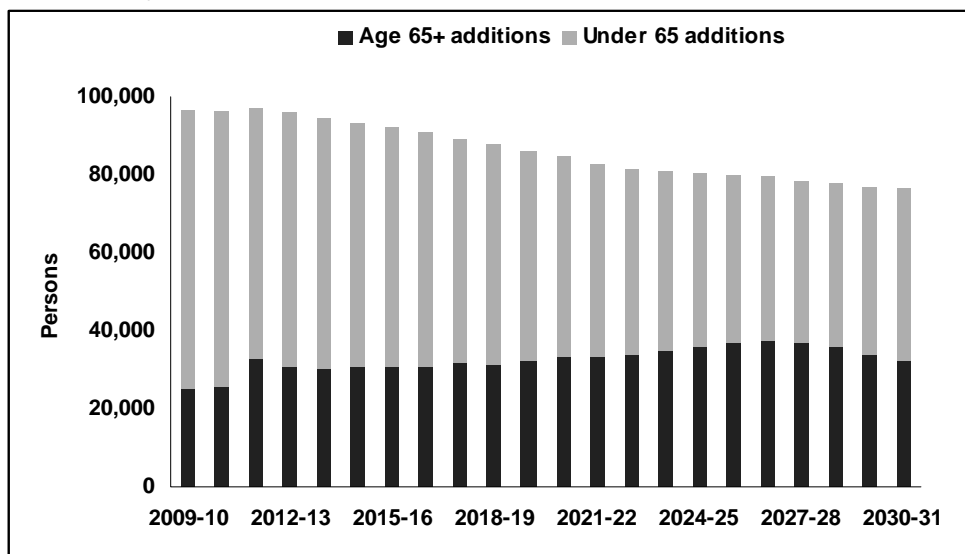
Overall, the Summit provided an ideal opportunity for government to engage key stakeholders, peak sector bodies and communities in discussions around Queensland's future.

## **Population ageing**

In common with many other societies, Queensland has an ageing population. The year 2010 is a milestone in that the first of the baby boomer generation are reaching the traditional male retirement age of 65. In the near future, the number of people reaching this age will increase significantly, with important implications for the workforce and government services. It is projected that the proportion of people aged 65 and over in Queensland will rise from around 13% currently to around 20% by 2030-31 (Queensland Government 2008, medium series).

By the late 2020s, almost half of Queensland's population growth will be in the 65+ age group (see Chart 3.4). Growth in Queensland's older population will occur concurrently with a projected slowing in additions from the under 65 age group. In 2008-09, Queensland had around 4.9 people aged 20 to 64 for every person aged 65 and over. By 2031, this ratio is projected to fall to around 2.8 people aged 20 to 64 for each person aged 65 and over.

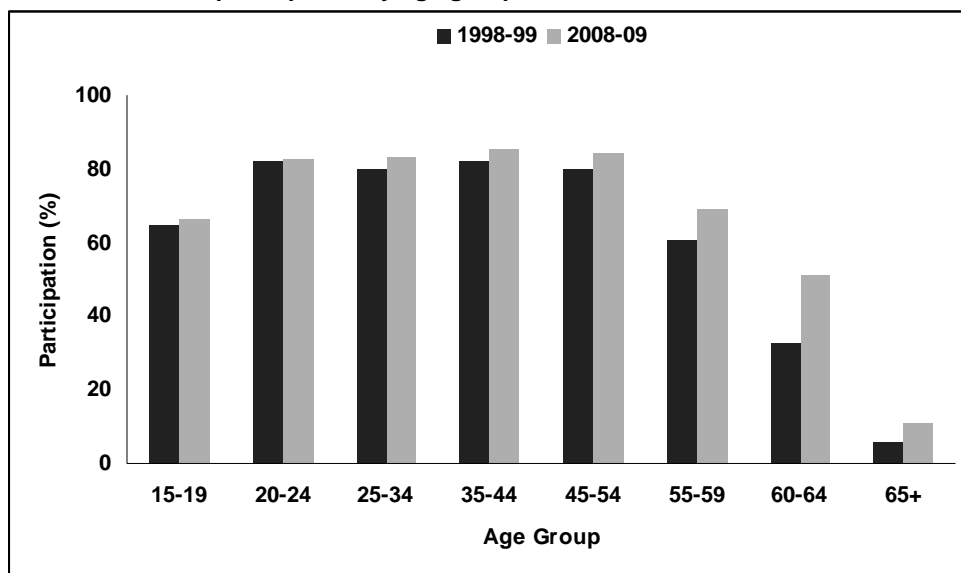
**Chart 3.4**  
**Projected additions to Queensland's population, 2009-10 to 2030-31**



Source: Queensland Government Population Projections 2008 (medium series) and Treasury calculations.

These demographic trends are expected to flow through to Queensland's labour force. The age groups that are projected to grow the most rapidly are those that currently have the lowest rates of labour force participation (see Chart 3.5).

**Chart 3.5**  
**Labour force participation by age group, Queensland, 1998-99 and 2008-09**

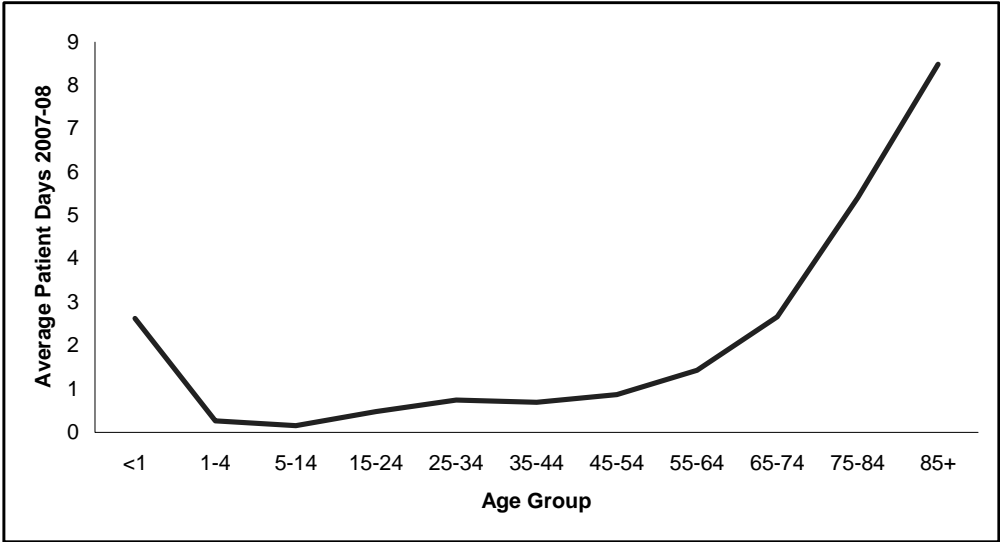


Source: ABS Labour Force Statistics and Treasury calculations.

As a result, the overall labour force participation rate for people aged 15 and over is likely to fall. For example, the Australian Government’s *Intergenerational Report 2010* projects a national decline of 2 percentage points between 2009-10 and 2029-30. If realised, this trend will detract from growth in the labour force, flowing through to slower growth in gross state product (GSP) and government revenue. It is therefore critical that governments adopt policies that create incentives for, and remove barriers to, mature age labour force participation. As shown in Chart 3.5, policy changes at state and federal levels over the past decade appear to be increasing mature age participation.

Another key challenge arising from population ageing is the rapidly escalating need for health services. For example, hospital use is strongly correlated with age (see Chart 3.6).

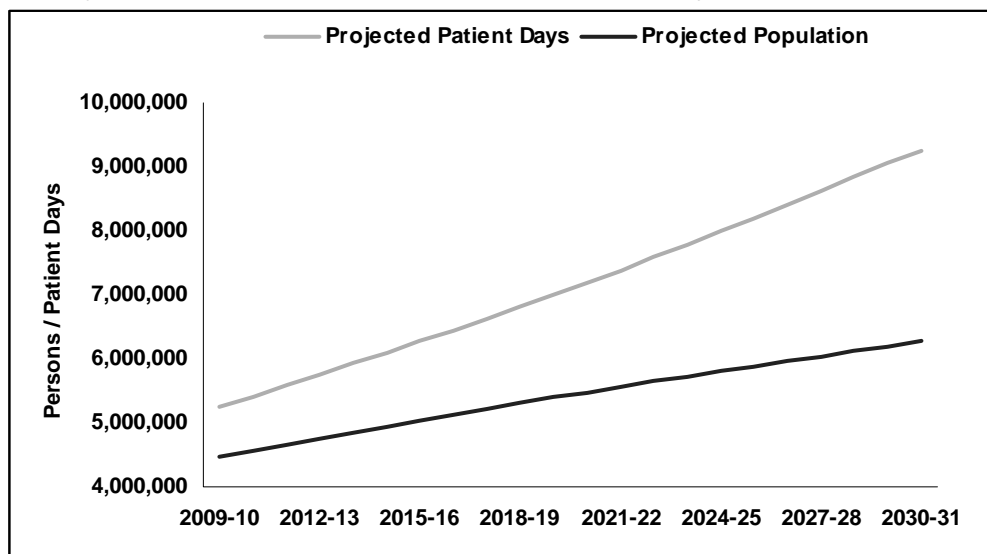
**Chart 3.6**  
**Average patient days by age group, Queensland hospitals, 2007-08**



Source: Australian Institute of Health and Welfare, Australian Hospital Statistics 2007-08.

Combining the patient days age profile with projected population by age group provides an indicative view of the increasing pressure that will be faced by Queensland’s hospital system as the population ages. In the absence of changes in policy, technology and population health, patient days in Queensland hospitals would increase from around five million currently to around nine million by 2030-31 (see Chart 3.7).

**Chart 3.7**  
**Projected Queensland population and hospital patient days, 2009-10 to 2030-31**



Sources: Australian Institute of Health and Welfare, *Australian Hospital Statistics 2007-08*, Queensland Government Population Projections 2008 (medium series) and Treasury calculations.

These trends are now well recognised at all levels of government. At the federal level, the *Intergenerational Report 2010* projects an increase of pre-reform Australian Government health spending from 4.0% of gross domestic product (GDP) in 2009-10 to 7.1% in 2049-50, with demographics and new technology being the main cost drivers. In 2005, the Productivity Commission's *Economic Implications of an Ageing Australia* report projected that Queensland's own-source health expenditure would increase from 1.7% of GSP in 2002-03 to 2.7% in 2044-45.

It is therefore imperative that service provision and financing within the health system as a whole are placed on the best possible footing to respond and adapt to an ageing and growing population. As well as the adequacy of financial resources and the medical workforce, it is critical that patients are cared for in the most appropriate setting. For example, many aged care patients are currently occupying acute care hospital beds because of insufficient aged care places. In the absence of a policy response, issues such as this would only become worse as the population ages.



## **LONG TERM ECONOMIC STRATEGY**

The Queensland Government's long term economic strategy has a number of key elements:

- boosting productive capacity
- creating the industries of the future (including new environmental industries)
- managing population growth
- strengthening fiscal capacity.

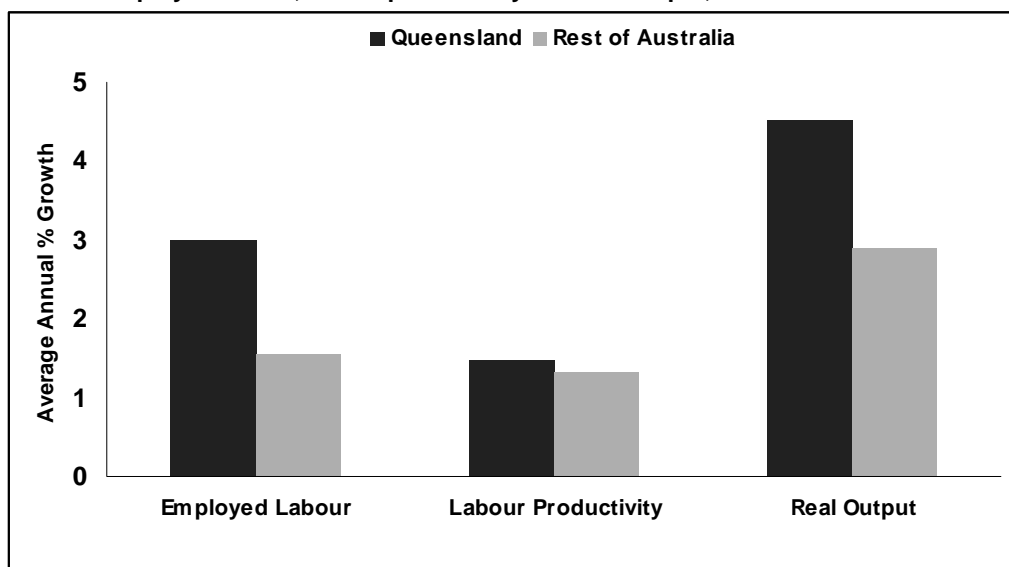
### **Boosting productive capacity**

The Queensland economy's capacity to produce goods and services relies critically on the availability of skills and physical capital (including public infrastructure) and having a regulatory regime that provides correct incentives, allows flexibility and minimises compliance costs.

A key indicator of productive capacity is labour productivity, or real output per worker. Higher productivity is the key to making the Queensland economy more competitive, boosting household incomes and creating jobs. Productivity growth also strengthens fiscal capacity, assisting the Government to sustainably fund an increasing level of government services like health as the population ages. Put simply – the more we can produce, the more we can afford.

Labour productivity and the level of employment jointly determine economic output, measured by GSP. Chart 3.8 shows the historic contributions of employment growth and labour productivity growth to the expansion of Queensland's economic output, compared with the rest of Australia. Over the decade to 2008-09, Queensland's employment and labour productivity both grew faster than in the rest of Australia, with the result that real output grew much faster.

**Chart 3.8**  
**Employed labour, labour productivity and real output, 1998-99 to 2008-09**



Sources: Queensland State Accounts, ABS 6202.0 and Queensland Treasury estimates.

As discussed earlier, population ageing is likely to detract from growth in employment and GSP, as large numbers of baby boomers leave the workforce. For this reason, future productive capacity will rely increasingly on productivity growth.

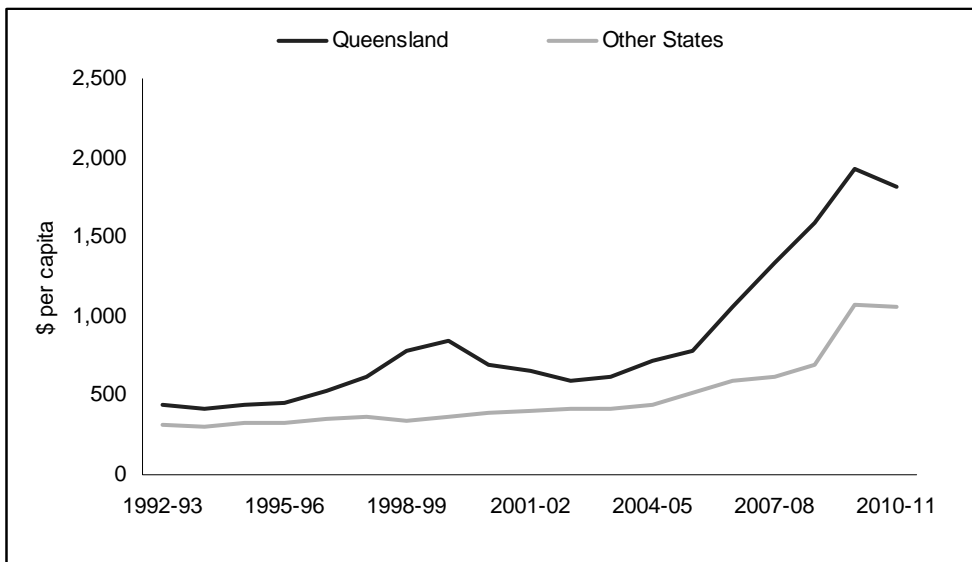
The Queensland Government's strategy for increasing productive capacity is formed around the three priorities of infrastructure, human capital and regulatory efficiency.

### **Infrastructure**

A key role of state and territory governments, in partnership with the Australian Government, is the timely provision of infrastructure to support productivity growth in both the private and public sectors. In *Toward Q2: Tomorrow's Queensland*, the Government's vision is that infrastructure provision anticipates growth. A fast-growing state like Queensland requires substantial infrastructure spending in order to anticipate population and economic growth.

For 2010-11, capital spending in Queensland's General Government sector is estimated to be \$8.335 billion, slightly down on the historical high of 2009-10. In per capita terms, it is estimated that the Queensland Government's capital spending in the General Government sector will be around 72% above the average of the other states, at \$1,820 per person (see Chart 3.9). Among the states, Queensland is expected to have the highest capital expenditure per person in 2010-11, 7.7% above next highest Western Australia.

**Chart 3.9**  
**General Government purchases of non-financial assets, 1992-93 to 2010-11**



Sources: expenditure – ABS 5512.0, State Budgets (Qld, Vic, WA), and Mid Year Reviews (NSW, SA, Tas); population – ABS 3101.0 and Australian Government Budget Paper 3; and Queensland Treasury estimates.

The State's total capital outlay in 2010-11, including outlays by the Public Non-financial Corporations sector and capital grants, is expected to be \$17.1 billion.

Major Queensland Government infrastructure initiatives for 2010-11 include:

- roads project funding of \$3.276 billion for major works on the Ipswich Motorway, Bruce Highway (Cooroy-Curra and Townsville) and Airport Drive, among others
- coal network upgrade funding of \$864.2 million, including \$502.2 million for the Goonyella to Abbot Point Expansion (Northern Missing Link)
- upgrades to infrastructure and rollingstock on the CityTrain network totalling \$446.4 million, including \$155.6 million to continue construction of the Springfield Line.

In the face of this very large annual infrastructure task, the Queensland Government is pursuing opportunities to make infrastructure provision more effective and efficient. One way of doing this is through selectively involving the private sector, recognising the skills, capacities and resources that the private sector can bring to bear in certain areas.

For example, the Government's *Renewing Queensland Plan*, announced in 2009, leverages private sector resources to allow the diversion of scarce Government resources into core priority areas such as roads and health. Additionally, public-private partnerships are being used to develop new schools, a new hospital, and major new transport infrastructure in South East Queensland.

The increasing involvement of the private sector is allowing for the productive capacity of the economy to be enhanced at the same time as the Queensland Government's funding of infrastructure investment gradually adjusts to more business-as-usual levels over the forward estimates.

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

### ***Human capital***

The concept of human capital encompasses the skills, attitudes and capacities of people, particularly in the context of economic participation. Human capital is built up through formal and informal education and training and on-the-job experience. Higher levels of human capital drive increased creation and deployment of innovation – a fact long recognised in the Queensland Government's Smart State Strategy.

Within Australia's education system, the States and Territories have responsibility for early childhood education, schooling, and vocational education. The Queensland Government has a strong track record of reform in each of these areas and will continue to implement improvements to ensure that the skills of Queenslanders are on a par with anywhere in the world:

- Building on the introduction of the Prep Year in Queensland – the Queensland Government is working to deliver up to 240 extra kindergarten services by 2014. In 2010-11, the Government will open 12 kindergarten services on state school sites and partner with the non-state sectors to open more services. In addition the Government will accelerate planning and delivery of 40 kindergarten services originally scheduled for 2013 and 2014, to open a total of 86 services in 2012.
- The results of the National Assessment Program – Literacy and Numeracy (NAPLAN) for 2009 showed improvement in 17 out of 20 areas. The Government is determined to keep building on these results with a continued investment in its Literacy and Numeracy Action Plan, its Science Spark program and its involvement in the Lower Socio-Economic Status School Communities National Partnership Agreement.
- Following the recent release of the Education Green Paper *A Flying Start for Queensland Children*, the Government is conducting an educational campaign to encourage parents to read to their children, and will train volunteers to read to children in schools, establish Teaching Centres of Excellence and conduct a review of teacher pre-service preparation. Consultation is also occurring on major policy changes such as moving Year 7 to secondary school and the establishment of a single authority to oversight education standards for all Queensland teachers and schools. All these initiatives are aimed at improving the educational outcomes of Queensland children.

- Continuing, in 2010-11, to fund priority training through the public provider network (\$357.9 million) and to develop the skills of apprentices and trainees (\$203.5 million).
- Creating a new Queensland Skills Commission (QSC), an industry-led authority to drive training investment and skills reform. The QSC will establish a partnership with industry that supports industry investment and aligns training programs with real skills and jobs.
- Extending the Payroll Tax Apprentice and Trainee program, in which businesses receive a 25% rebate on payroll tax on the wages of each apprentice and trainee employed, in addition to the existing payroll tax exemption on apprentice and trainee wages. This program has been extended to 30 June 2011.

### ***Regulatory efficiency***

The Queensland Government is committed to maintaining a competitive regulatory environment that supports Queensland business, community and government in driving innovation, productivity and economic growth for the benefit of all Queenslanders. The Productivity Commission has estimated that achieving regulatory best practice could increase economic output by nearly 2%.

Under the Queensland Regulatory Simplification Plan 2009-2013, Government agencies are reviewing their existing stock of regulation, working with business and the community to identify unnecessary and excessive legislative requirements and opportunities to streamline administrative and procurement processes. Initiatives in place to support these working arrangements include online facilities for public review of agency simplification plans and feedback on regulatory simplification opportunities. Agencies have until 30 June 2013 to deliver a net reduction of \$150 million each year in the compliance burden on business and the administrative burden to government.

An initial product of this collaborative approach with Queensland business is a report produced by the Australian Industry Group (Ai Group), with support from Queensland Government officers, to obtain a better understanding of specific regulatory compliance issues faced by business and industry.

The Government is already addressing some of the concerns raised in the report. Through the National Partnership Agreement to Deliver a Seamless National Economy, the Government is working with other jurisdictions to harmonise regulatory regimes in areas such as occupational health and safety and business online service arrangements. At the state level, Government agencies are already focused on reducing the regulatory burden on business in areas such as environmental and resource management, access to Government information and other interactions with Government.

The Queensland Government also recently implemented an enhanced regulatory development and review system – the Regulatory Assessment Statement (RAS) system. This system is focused at preventing unnecessary and excessive regulatory burden by improving the quality of information to Queensland Government decision makers through more rigour, transparency and accountability in the assessment of regulatory proposals.

## **Creating the industries of the future**

The diffusion of new knowledge and technology, combined with the competitive pressures arising from globalisation and the imperative to meet the challenges of climate change and environmental sustainability, is changing Queensland's economic landscape. While this process poses challenges, it also reveals opportunities.

Since the inception of the Smart State Strategy in 1998, the Queensland Government has been committed to seeing these new opportunities exploited, including:

- progressing its plan to make Queensland a biotechnology leader in the Asia-Pacific. Biotechnology has the potential to grow Queensland's economy by creating new industries in biodiscovery and bioproducts, in addition to increasing the productivity and competitiveness of Queensland's traditional industries. Estimates derived from the Queensland Life Science Industry Report 2009 suggest that the industry is exceeding earlier projections, with 3,760 private sectors jobs in 2008-09 – 260 above projected employment for 2010 and almost double the 2006-07 employment estimate. Additionally, Queensland biotechnology companies earned \$1.1 billion in revenue in 2008-09, well above the projection of \$600 million for 2010.
- Queensland's emerging liquefied natural gas (LNG) industry is gaining pace, facilitated by the Government's LNG Industry Unit. The \$7.7 billion Santos-PETRONAS Gladstone Liquefied Natural Gas Project has been conditionally approved by the Queensland Coordinator-General, and is now awaiting federal environmental approval and a final investment decision by the proponents. The project is expected to generate about 5,000 construction jobs and 1,000 permanent operational jobs in the Gladstone and Roma regions.

Additionally, the Government is driving the creation of the 'green' industries of the future by facilitating development of Queensland's endowments of alternative energy sources such as solar and geothermal, and by increasing incentives for recycling and waste reduction. Key initiatives include:

- the Solar Initiatives Package – additional funding of \$115 million over five years for initiatives to support investment and jobs in solar energy

- a new industry waste reform agenda, with funding of \$15.95 million in 2010-11. A key reform in this agenda is the introduction of a waste disposal levy, which will effectively place a more optimal price on the use of environmental resources for waste purposes. The waste disposal levy is expected to raise \$379 million over four years, which will be directed to three funding priorities:
  - a Waste Avoidance and Resource Efficiency Fund (\$159 million over four years);
  - a Local Government Sustainable Future Fund (\$120 million); and
  - *Toward Q2* environmental commitments (\$100 million).

## **Managing population growth**

The pace and location of population growth will have long-term implications for Queensland's prosperity, livability and sustainability. Improvement of Queensland's growth management capacity has been a focus of recent Queensland Government reforms to local government and regional planning.

The outcomes of the Queensland Growth Management Summit will build on this strong foundation. The Summit produced some 1400 ideas for managing population growth in Queensland. Many of these ideas are already a part of Government policy and planning, while others will drive further research and investigation, and potentially influence future policy.

In *Shaping Tomorrow's Queensland: A Response to the Queensland Growth Management Summit*, the Government has put forward an agenda of six priority areas, 22 new initiatives and 25 new supporting actions to address growth-related issues in Queensland.

These actions include:

- the establishment of Growth Management Queensland – a new office within the Department of Infrastructure and Planning – to deliver a focused and coordinated approach to growth management across Queensland
- developing a Queensland Regionalisation Strategy to encourage population and jobs growth outside South East Queensland
- developing a Townsville Futures Plan to support regional growth and economic development in Townsville
- establishing an expert Infrastructure Charges Taskforce to further reform development infrastructure charging arrangements

- reviewing the scope and powers of the Urban Land Development Authority to support delivery of regional plans, with a key priority being the development of major new satellite communities at Ripley Valley, Yarrabilba and Flagstone
- developing employment projections within all regional plans to support more jobs closer to where people live
- investigating ways to deliver affordable housing options for people on lower to middle incomes
- working with the Australian Government to develop a National Population Strategy (that is then reflected in a state policy).

In order to provide an immediate impetus for regionalisation, the Government is boosting the First Home Owners Grant to \$11,000 for new dwellings constructed outside South East Queensland.

## **Strengthening fiscal capacity**

Over recent time, and most particularly in the 2009-10 Budget, the Queensland Government has undertaken important structural initiatives to strengthen the State's fiscal capacity to respond to the global recession. These initiatives included savings and efficiency measures and asset sales.

While significant improvements in the Net Operating Balance are expected across the forward estimates, increasingly in the medium to long term the State's fiscal capacity to deliver services to the community is heavily reliant on federal-state financial arrangements. In this respect, a growing imbalance in the financial powers between the levels of government has weakened the Australian states' fiscal autonomy and revenue capacity. This has been largely the product of the erosion of state revenue bases, with the Australian Government now collecting around 80% of national taxation, with state and local governments sharing the remainder.

This long term deterioration in state fiscal autonomy has reduced the capacity of state governments to deal with policy challenges that may arise in the 21<sup>st</sup> century. While some of these challenges are already apparent and have been discussed earlier, others will undoubtedly arise. Two decades ago, the future challenges of demographic change, climate change and globalisation were visible but low on the horizon. The policy landscape two decades from today is likely to be populated not only with some of the existing policy challenges but also new unforeseen policy challenges.

A strong fiscal capacity will be invaluable for states in dealing with these existing and unforeseen challenges. This strengthening will need to be undertaken by both alleviating some of the budgetary pressures facing states and building up the Australian states' own fiscal capacity.

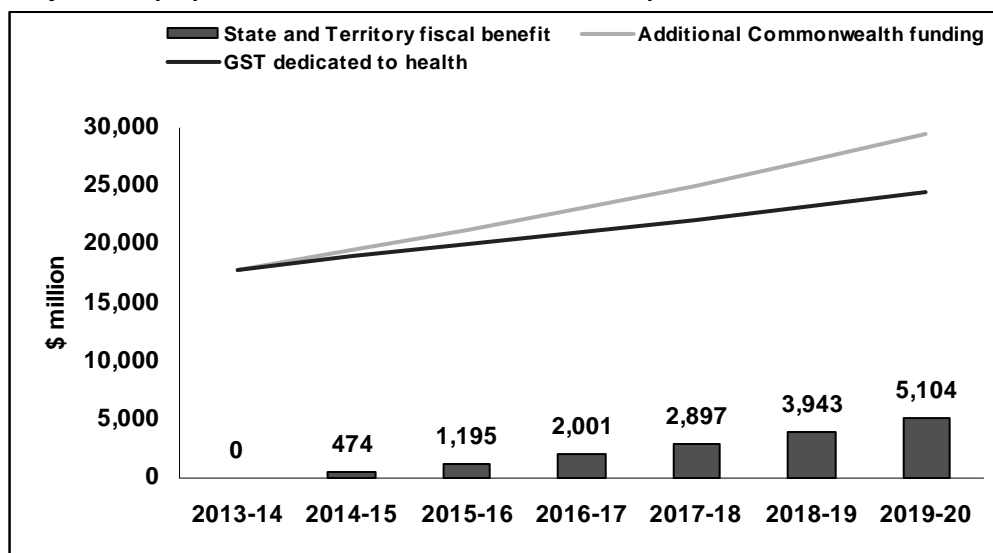


## Health and aged care reforms

The Queensland Government supports the Council of Australian Governments' (COAG) National Health and Hospital Network (NHHN) reforms, which will see the Australian Government become the dominant funder of Queensland hospitals, fully fund GP and primary health care and fully fund community care and residential care for people aged 65 and over. These reforms will ease ageing-related fiscal pressure on the states and territories (see Chart 3.10). Additionally, the Australian Government's greater fiscal capacity will help to ensure that provision of health services to Queenslanders can keep up with growing needs over the long term.

As shown in Chart 3.10, additional Australian Government health funding is expected to grow more rapidly than the projected Australian average share of 33% of Goods and Services Tax (GST) revenue that the States and Territories will forego. It is currently projected that this 'top-up' funding will add more than \$5 billion annually to the States and Territories' fiscal capacity by 2019-20 and more than \$15 billion in total over the six years to 2019-20.

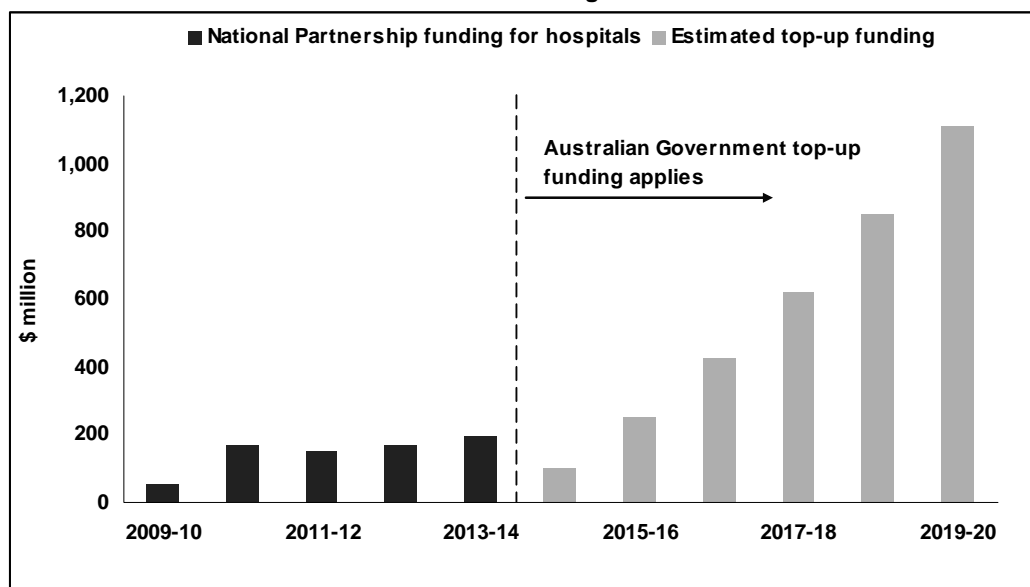
**Chart 3.10**  
**Projected 'top-up' benefits from national health and hospital reform, 2013-14 to 2019-20**



Source: Australian Government.

In Queensland's case, the top-up funding over the period 2014-15 to 2019-20 is estimated to be \$3.4 billion. In addition, national partnership payments associated with the reforms will contribute another \$742 million to health care between 2009-10 and 2013-14. The flow of this funding is shown in Chart 3.11. This additional fiscal capacity will help to address the State's long-term challenges in health care.

**Chart 3.11**  
**Additional Australian Government health funding for Queensland from NHHN reforms**



Source: Australian Government Budget Paper 3 and Australian Treasury.

### ***Strengthening State fiscal capacity***

While the additional funding arising from the recent health and hospital reforms has provided substantial fiscal benefits to Queensland and other states, it has not addressed more fundamental weaknesses in the state revenue bases.

As noted in the Australian Government's *Report on Australia's Future Tax System*, state revenue bases are relatively narrowly based and have design features that can give rise to inefficiencies. These deficiencies limit the extent to which states can draw on these revenue sources to fund services, infrastructure and transfers to meet community priorities.

Thus an important task for states in building their fiscal capacity will be the strengthening over time of their revenue bases. This will require:

- improving the effectiveness of the current state revenue system through better tax design, administration and mix
- either gaining access to different bases of revenue or further refining expenditure obligations to better align with the capacities of different levels of government.

While jurisdictions can achieve much individually, the task will also require states working together since state taxes exist in the context of a national economy and some improvements will only be possible through greater interstate cooperation and harmonisation. It will also require states working with the Australian Government, as the Australian Government has policy control over the majority of the nation's broad based revenues and, as a consequence of this, a much greater fiscal capacity.

These concerted efforts will require working through current mechanisms, such as COAG and ministerial councils, as well as more direct cooperation among jurisdictions.

This strengthening of fiscal capacity will be a long term and ongoing task that will need to be supported by a recognition by Australians that a robust national economy and vibrant local communities require a strong and effective federation and therefore strong and effective state and local governments.

## 4 REVENUE

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### FEATURES

- The Australian Government Budget has brought forward grants of \$922 million in 2009-10 compared with previous estimates resulting in a significantly smaller deficit than was forecast in the current financial year. If this \$922 million was not provided in 2009-10, the profile of the general government net operating balance would be more consistent across the forward estimate period.
- Total General Government sector revenue is estimated to be \$40.606 billion in 2010-11. The increase of \$918 million (or 2.3%) on 2009-10 estimated actual revenue primarily reflects increased estimates for coal royalties due to significant price growth and continuing demand for Queensland's coal and an increase in the amount of GST distributed to Queensland.
- Since the 2009-10 Budget, underlying estimates for taxation, royalties and Goods and Services Tax (GST) revenue have been revised up by \$8.1 billion across the period 2009-10 to 2012-13. This is largely due to an increase in the GST pool to be distributed by the Australian Government across this period and an improved outlook for coal royalties.
- Although the revenue outlook is positive, estimates of these key revenues for the period 2008-09 to 2011-12 are still expected to be \$7.6 billion less than predicted in the 2008-09 Budget prior to the global financial crisis.
- Despite significant upward revisions to the national GST pool, Queensland's GST per capita is not expected to reach the peak level of 2007-08 until 2013-14. Over the period 2008-09 to 2011-12, Queensland's share of GST payments are expected to be \$2 billion lower than estimated at the 2008-09 Budget.
- A 50% cap on the annual increase in land values used for the purpose of calculating land tax liabilities will be continued for 2010-11. This measure was due to end on 30 June 2010.
- Employers will continue to benefit from a 25% payroll tax rebate on the eligible wages of apprentices and trainees in 2010-11, in addition to these wages being exempt from payroll tax. This measure was due to end on 30 June 2010.
- The Government will provide a land tax exemption for 'Level 3' supported accommodation facilities. The provision of the exemption aligns the land tax treatment to that applied to aged care facilities.
- In addition, the Government will provide a transfer duty exemption for property used as a principal place of residence for a person with a disability under a Special Disability Trust.
- Queensland will retain its competitive tax status, with per capita state tax estimated at \$2,225 in 2010-11, compared to an average of \$2,643 for the other states and territories.

## INTRODUCTION

This chapter provides an overview of General Government sector revenue for the 2009-10 estimated actual outcome, forecasts for the 2010-11 Budget year and projections for 2011-12 to 2013-14.

**Table 4.1**  
**General Government revenue<sup>1</sup>**

	2009-10 Budget \$ million	2009-10 Est. Act. \$ million	2010-11 Budget \$ million	2011-12 Projection \$ million	2012-13 Projection \$ million	2013-14 Projection \$ million
<b>Revenue</b>						
Taxation revenue	9,287	9,474	10,192	11,009	11,932	12,662
<i>Grants revenue</i>						
Current grants	15,025	16,135	17,245	17,561	17,595	18,676
Capital grants	3,710	4,240	1,627	1,321	1,455	1,059
Sales of goods and services	3,650	3,928	4,077	4,402	4,492	4,710
Interest income	2,017	2,230	2,132	2,224	2,322	2,411
<i>Dividend and income tax equivalent income</i>						
Dividends	884	757	1,058	1,148	1,336	1,450
Income tax equivalent income	266	248	402	442	528	585
<i>Other revenue</i>						
Royalties and land rents	1,806	1,986	3,243	3,248	3,213	3,160
Other	548	692	631	583	580	584
<b>Total Revenue</b>	<b>37,192</b>	<b>39,689</b>	<b>40,606</b>	<b>41,938</b>	<b>43,453</b>	<b>45,298</b>
Note:						
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 2009-10 is estimated to be \$39.689 billion, which is \$2.496 billion (or 6.7%) more than the 2009-10 Budget estimate.

Significant variations from the 2009-10 Budget estimates include:

- a \$1.640 billion increase in current and capital grants including a \$596 million increase in GST distributed to Queensland, a \$470 million increase in recurrent specific purposes payments and national partnership payments and a \$530 million increase in capital grants. A portion of these grants are related to Queensland expenditure in future years on projects including the Ipswich Motorway upgrade and the Gold Coast Rapid Transit.
- a \$278 million increase in revenue from the sale of goods and services, and \$213 million due to growth in interest revenue as a result of higher than expected investment returns

- a \$187 million (or 2%) increase in taxation revenue, largely due to an increase in transfer duty as a result of strength in the property market reflecting a combination of the impact of the Australian Government's First Home Owners Boost and low interest rates in the first half of 2009-10
- a \$180 million increase in royalty revenue associated with increased demand from China along with significant increases in the price of coal for the final quarter of 2009-10.

General Government revenue in 2010-11 is estimated to be \$40.606 billion, \$918 million (or 2.3%) higher than the 2009-10 estimated actual revenue of \$39.689 billion. This is largely due to further increases in revenue from royalties, current grants from the Australian Government and taxation.

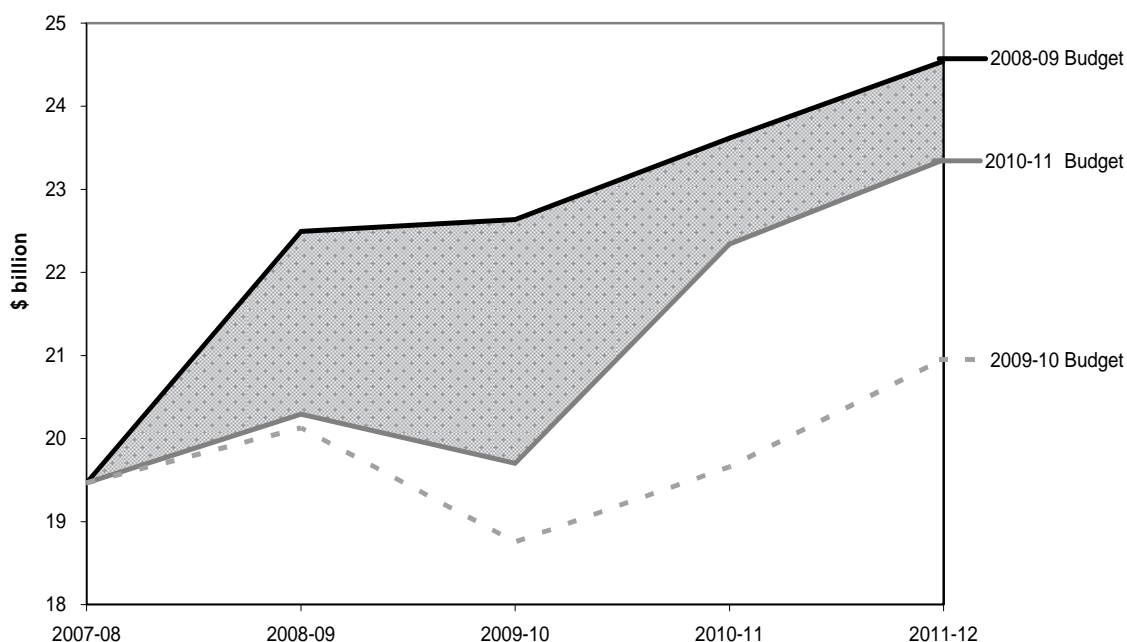
## CHANGES IN REVENUE SINCE THE 2009-10 BUDGET

At the time of the 2009-10 Budget it was estimated that since the release of the 2008-09 Budget, the outlook for key revenue items – taxation, GST and royalties – had deteriorated significantly. The underlying effect of the revised revenue estimates was a \$15 billion underlying reduction in revenue across the period 2008-09 to 2011-12.

Since the release of the 2009-10 Budget, there has been improvement in Queensland's economic outlook, along with, and related to, improvement in the economic outlook nationally and globally. This improvement has led to upward revisions to the forecasts for key revenues in 2009-10 and across the forward estimates.

However, as Chart 4.1 below shows, although 2010-11 revenue forecasts have improved significantly over 2009-10 estimates, they are still some \$7.6 billion behind the 2008-09 Budget estimates of revenue which were made prior to the global financial crisis.

**Chart 4.1**  
**Revenue Estimates from Taxation, GST and royalties – 2008-09 to 2010-11 Budgets**



## Taxation estimates since 2008-09

For taxation revenue in particular, Table 4.2 identifies the 2010-11 taxation revenue estimates that were prepared for the 2008-09 and 2010-11 Budgets. As shown, although there has been improvement in taxation revenue since the 2009-10 Budget, taxation revenue estimates for 2010-11 are still expected to be \$1.562 billion lower than estimated at the time of the 2008-09 Budget.

<b>Table 4.2</b> <b>Taxation revenue estimates for 2010-11 - as at 2008-09 Budget and 2010-11 Budget<sup>1</sup></b>			
	2008-09 Budget \$ million	2010-11 Budget \$ million	Difference
<b>Payroll tax</b>	<b>3,228</b>	<b>2,888</b>	<b>(341)</b>
<b>Duties</b>			
Transfer	3,579	2,229	(1,350)
Vehicle registration	571	467	(104)
Insurance and other duties	453	487	34
<b>Total duties</b>	<b>4,603</b>	<b>3,183</b>	<b>(1,420)</b>
<b>Gambling taxes and levies</b>	<b>1,090</b>	<b>964</b>	<b>(126)</b>
<b>Other taxes</b>			
Land tax	1,025	1,117	92
Motor vehicle registration	1,072	1,311	239
Other Taxes	734	728	(6)
<b>Total taxation revenue</b>	<b>11,753</b>	<b>10,192</b>	<b>(1,562)</b>
Note: 1. Numbers may not add due to rounding.			

The largest impacts are on transfer duty and payroll tax with a \$1.350 billion decrease in the transfer duty forecast as a result of the sharp decline in property transactions since the 2008-09 Budget. Similarly, employment growth and hours worked were restrained during 2008-09 and 2009-10 resulting in lower payroll tax forecasts for 2010-11.

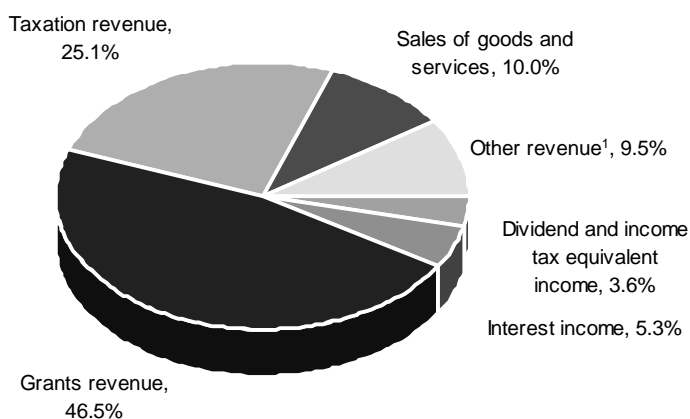
These decreases have been only slightly offset by small increases in the revenue estimates for motor vehicle registrations and land tax, partly reflecting revenue measures announced in the 2008-09 Major Economic Statement.



## REVENUE BY OPERATING STATEMENT CATEGORY

Major sources of General Government revenue in 2010-11 are grants revenue (46% of revenue) and taxation revenue (25%). Chart 4.2 illustrates the composition of General Government revenue.

**Chart 4.2**  
**Revenue by operating statement category 2010-11**

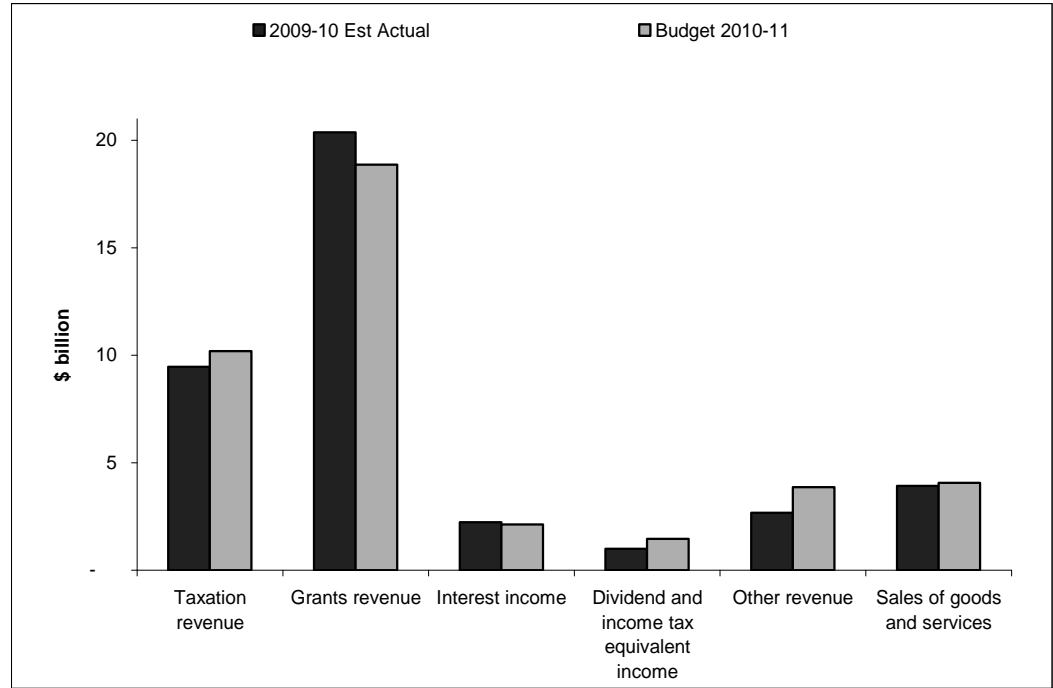


Note:

1. The major component of Other revenue is royalties and land rents (8%).

Chart 4.3 compares 2010-11 estimates with 2009-10 estimated actuals. The overall result primarily reflects growth in taxation and other revenue, offset by a significant decrease in grants revenue reflecting the withdrawal of the Australian Government stimulus as well as the cash flow implications of the Australian Government decision to bring forward payment timings.

**Chart 4.3**  
**Revenue by operating statement category for 2009-10 and 2010-11**



## 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 7.6% in 2010-11 on 2009-10 estimated actuals. This primarily reflects improvements in the economic forecasts for Queensland since the 2009-10 Budget as the State continues to recover from the downturn.

**Table 4.3**  
**Taxation revenue<sup>1</sup>**

	2008-09 Actual \$ million	2009-10 Est. Act. \$ million	2010-11 Budget \$ million
<b>Payroll tax</b>	<b>2,754</b>	<b>2,694</b>	<b>2,888</b>
<b>Duties</b>			
Transfer	1,806	1,997	2,229
Vehicle registration	433	445	467
Insurance <sup>2</sup>	425	446	466
Other duties <sup>3</sup>	40	26	21
<b>Total duties</b>	<b>2,704</b>	<b>2,914</b>	<b>3,183</b>
<b>Gambling taxes and levies</b>			
Gaming machine tax	548	518	536
Health Services Levy	40	33	34
Lotteries taxes	212	240	245
Wagering taxes	40	40	41
Casino taxes and levies <sup>4</sup>	64	83	89
Keno tax	19	19	20
<b>Total gambling taxes and levies</b>	<b>922</b>	<b>933</b>	<b>964</b>
<b>Other taxes</b>			
Land tax	838	1,017	1,117
Motor vehicle registration	1,041	1,261	1,311
Fire levy	283	296	312
Community Ambulance Cover	140	152	154
Guarantee fees	129	138	192
Other taxes <sup>5</sup>	65	68	70
<b>Total taxation revenue</b>	<b>8,877</b>	<b>9,474</b>	<b>10,192</b>

**Notes:**

1. Numbers may not add due to rounding.
2. Includes duty on accident insurance premiums.
3. Includes duty on life insurance premiums.
4. Includes community benefit levies.
5. Includes Statutory Insurance Scheme Levy and Nominal Defendant Levy.

## **Budget initiatives**

### ***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. The 2009-10 Budget introduced a payroll tax rebate of 25% of the eligible wages of apprentices and trainees until 30 June 2010. This measure provided a benefit to more than 2,000 businesses in 2009-10.

This Budget provides for the continuation of this measure until 30 June 2011 to assist businesses that employ apprentices and trainees as they continue their recovery. This measure will save businesses approximately \$8 million in 2010-11.

### ***Land Tax – Capping of Land Values***

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. A 50% cap on the annual increase in land values used for the purpose of calculating land tax liabilities commenced from 1 July 2007 for a period of three years. Land tax payers are estimated to have saved approximately \$100 million over the period 2008-09 to 2010-11.

This Budget provides for the continuation of the 50% land value cap in 2010-11 saving land tax payers approximately \$9 million.

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

To assist in alleviating the cashflow issues associated with annual land tax liabilities, an instalment payment option for land tax liabilities will be introduced in 2010-11. From 1 July 2010, land tax payers will be able to either pay their full amount of tax 90 days after they are given their assessment, or in three equal instalments at 45, 90 and then 150 days after assessment, spreading the tax liability over a longer period. The total financing cost of this measure to Government is estimated to be \$9 million in 2010-11.

### ***Land Tax – Relief for Supported Accommodation Providers***

The Government will provide a land tax exemption for 'Level 3' supported accommodation facilities. A Level 3 facility is defined under the *Residential Services (Accreditation) Act 2002* and provides both accommodation and personal care support such as assistance with meals, hygiene and medication.

The provision of the exemption aligns the land tax treatment to that applied to aged care facilities. The estimated cost of this measure is \$1 million each year across the forward estimates.

## ***Land Tax – Reforming Queensland’s Land Valuation System***

The Government will put in place a new structure to reform the state valuation services including the appointment of an independent Valuer General to provide transparency in the assessment and issuing of valuations.

From the 2011 valuation, Queensland will adopt the ‘site value’ methodology similar to that used in other Australian States for property, except rural areas.

## ***Transfer Duty Relief for Special Disability Trusts***

The Government has introduced an exemption from transfer duty on the acquisition of property used as the principal place of residence of a person with a disability under a Special Disability Trust, with the meaning given in the *Social Security Act 1991 (Cwlth)*. The exemption is currently provided under an administrative arrangement, pending legal amendment.

## ***Waste Management levy***

The Government will introduce an industry waste management levy in 2011-12 to encourage recycling and reduce the amount of industry waste being sent to landfills. The levy revenue is estimated at \$379 million over four years. This revenue will be applied directly to implement the reforms and deliver one of the most advanced waste management and resource recovery programs in Australia to assist businesses to adopt stronger recycling practices. The balance will be dedicated to environmental initiatives. This levy will be applied to fund these new initiatives and will not be used to improve the budget operating balance.

## ***Abolition of State Taxes***

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 or review of a number of state taxes.

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. Table 4.4 outlines the taxes abolished by Queensland to date.

The cumulative savings for the period 2005-06 to 2010-11, as a result of these abolitions is estimated to exceed \$3 billion.

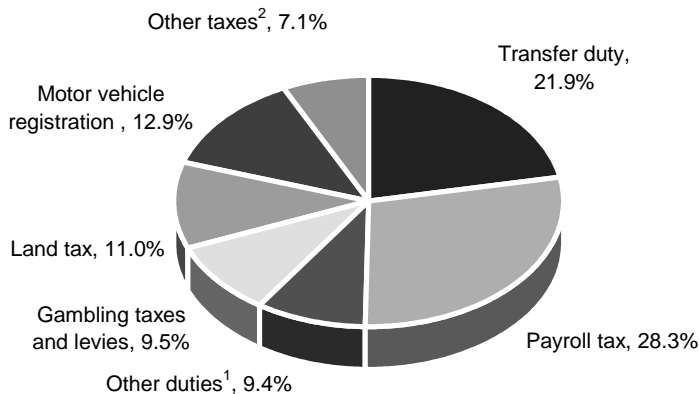
**Table 4.4**  
**Abolition of state taxes under the IGA**

<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
Duty on transfer of core business assets	Payable on the transfer of non-realty business assets.	1 July 2013	240
<b>Notes:</b> 1. Estimated revenue foregone in financial year following full abolition. 2. Credit card duty was abolished prior to its review under the IGA.			

## 2010-11 Estimates of state taxation revenue

Chart 4.4 indicates the composition of estimated state taxation revenue for 2010-11.

**Chart 4.4**  
**Taxation by tax category**



**Notes:**

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

The largest sources of taxation revenue are payroll tax and transfer duty, which together represent 50% of the State's total taxation revenue in 2010-11.

Payroll tax (28.3% of total tax revenue in 2010-11) has a stable base with growth driven by the underlying strength of the state economy. In contrast, revenue growth from transfer duty (representing 21.9% of tax revenue) can vary significantly from year to year due to volatile movements of the property market, reflecting both house prices and turnover.

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

Gambling taxes and levies represent 9.5% of tax revenues in 2010-11. Motor vehicle registration, which is classified as a tax for budget purposes, represents 12.9% of total tax revenue.

Land tax represents 11% of total revenue in 2010-11. 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 \$2.888 billion in 2010-11, reflecting the expected improvement in employment and wages growth in 2010-11. This represents an increase of 7.2% compared to the 2009-10 estimated actual, but is still only 4.9% higher than 2008-09.

### ***Duties***

Duties are levied on a range of financial and property transactions. Overall, revenue from duties is forecast to increase by 9% in 2010-11. This growth is driven by the expected increase in transfer duty and 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 increase by 12% in 2010-11, however this includes approximately \$29 million of duty payable as a result of the sale of Forestry Plantations Queensland. Estimates for 2010-11 are driven by the continuing demand for owner occupied property due to population growth, along with growth in house prices.

Transfer duty collections were \$2.912 billion in 2007-08 and are not anticipated to reach this level again until 2013-14.

- 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 increase 5% in 2010-11, reflecting increased motor vehicle sales as the recovery from the global financial crisis continues.

- 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 such as accident insurance and temporary or term life insurance charged at the rate of 5%. Other contracts of life insurance are charged at 0.05% of the sum insured up to \$2,000, and 0.01% of the balance of the sum insured.
- Revenue from insurance duty is expected to grow by 4% in 2010-11, reflecting a moderate growth in insurance premiums.

### ***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 3% in 2010-11, after weakness in gaming machine levies resulted in a drop of \$30 million from 2008-09 to 2009-10.

### ***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 2010-11.

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. Land tax is estimated to grow by almost 10% to \$1.117 billion in 2010-11.

From the 2011 valuation, for property except in rural areas, Queensland will adopt the 'site value' methodology similar to that used in other States.

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

Motor vehicle registration fees are expected to grow by 4% in 2010-11, largely reflecting increased motor vehicle registration fees, population growth and fee adjustments related to the consumer price index (CPI).

### ***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 2010-11 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 and the Nominal Defendant Levy.

## ***Tax expenditures***

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

- extended a number of transfer duty exemptions and concessions for homebuyers
- extended the benefit of the payroll tax phase-out to \$5 million, and harmonised payroll tax provisions and definitions with other jurisdictions
- abolished mortgage duty in advance of the scheduled timeframe
- 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, in this Budget the Government intends to:

- implement the instalment payment option for land tax liabilities that was announced in the 2009-10 Budget, and continue the 50 % cap on annual land value increases for the purpose of calculating land tax liabilities
- continue the 25% payroll tax rebate on the eligible wages of apprentices and trainees in 2010-11, in addition to these wages being exempt from payroll tax
- introduce a land tax exemption for 'Level 3' supported accommodation facilities.

One of the Queensland Government's fiscal objectives is to maintain a competitive tax environment. Table 4.5 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 4.5</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>2,225</b>	2,777	2,581	2,842	2,296	1,676	3,166	1,712	2,643
Taxation effort <sup>2</sup> (%)	<b>86.9</b>	106.1	98.7	100.8	115.8	93.1	110.7	91.2	100.0
Taxation % of GSP <sup>3</sup> (%)	<b>3.64</b>	4.44	4.33	3.24	4.48	3.47	3.91	2.36	4.14
<b>Notes:</b> 1. 2010-11 data. Sources: <i>QLD, VIC, WA, ACT and NT 2010-11 Budgets, NSW, SA and TAS based on 2009-10 MYR.</i> 2. 2008-09 data. Source: Derived from Commonwealth Grants Commission 2010 Review – average for assessed taxes (payroll, transfer duty, land tax, insurance duty and motor taxes). Revenue raising effort ratios, assessed by the Commonwealth Grants Commission, isolate policy impacts from revenue capacity impacts and are an indicator of the extent to which the governments burden their revenue bases. Queensland's tax revenue raising effort is well below the Australian policy standard (equal to 100%). 3. 2008-09 data. Sources: ABS 5220.0 (State Accounts – GSP) and ABS 5506 Taxation Revenue 2008-09.. 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 4.5 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 2010-11 and is estimated to be \$418 per capita compared with \$373 per capita in 2008-09.

Queensland's tax effort, as measured by the Commonwealth Grants Commission, was more than 13% below the national average in 2008-09.

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. The decrease of \$1.5 billion (or 7%) in 2010-11 is primarily due to a \$2.6 billion reduction in capital grants from the Australian Government resulting from the winding down of the *Nation Building and Jobs Plan* and the bringing forward into 2009-10 of grants for expenditure in future years.

This is being partially offset by an increase of \$1.1 billion in current grants, including a \$724 million increase in GST and a \$419 million increase in recurrent specific purposes and national partnership payments for dedicated expenditure on specified services.

**Table 4.6**  
**Grants revenue<sup>1</sup>**

	2008-09 Actual \$ million	2009-10 Est. Act. \$ million	2010-11 Budget \$ million
<b>Current grants</b>			
Australian Government grants	14,769	15,666	16,811
Other grants and contributions	502	469	435
<b>Total current grants</b>	<b>15,272</b>	<b>16,135</b>	<b>17,245</b>
<b>Capital grants</b>			
Australian Government grants	2,194	4,189	1,536
Other grants and contributions	10	51	91
<b>Total capital grants</b>	<b>2,205</b>	<b>4,240</b>	<b>1,627</b>
<b>Total grants revenue</b>	<b>17,476</b>	<b>20,375</b>	<b>18,872</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, are used to meet Australian Government and shared policy objectives.

Australian Government payments to Queensland in 2010-11 are expected to total \$18.347 billion, a decrease of \$1.508 billion (or 7.6%) compared to payments in 2009-10.

**Table 4.7**  
**Australian Government payments<sup>1</sup>**

	2008-09 Actual \$ million	2009-10 Est. Act. \$ million	2010-11 Budget \$ million
GST revenue grants and associated payments	7,946	8,181	8,906
Total payments for specific purposes <sup>2</sup>	9,017	11,673	9,441
<b>Total Australian Government payments</b>	<b>16,964</b>	<b>19,854</b>	<b>18,347</b>

Notes:

1. Numbers may not add due to rounding.
2. Differences between payments for specific purposes 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.

In the 2010-11 Australian Government Budget it was announced that significant grants were to be brought forward from 2010-11 to 2009-10. This treatment has resulted in 2009-10 revenue increasing significantly with corresponding decreases in 2010-11. The grants reallocated to 2009-10 were related to expenditure in future years on previously committed allocations to large projects in Queensland such as the Ipswich Motorway upgrade.

## ***General purpose payments***

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

GST revenue grants and associated payments to Queensland in 2010-11 are expected to be \$8.906 billion, which represents an increase of \$725 million on 2009-10 estimated actuals.

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 continued to decrease following the February 2010 release of the 2010 Review of the methodology used to distribute the GST. Due to the ongoing strength of the Queensland economy in the Australian federation it is expected that Queensland's relativity and therefore share of GST funding will decline further as the State continues to strengthen.

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

Australian Government payments for specific purposes to Queensland in 2010-11 are estimated at \$9.441 billion.

Chapter 7 provides detailed background on Federal-state financial arrangements, including an analysis of Queensland's share of GST revenue and details of Australian Government payments to Queensland, 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.

**Table 4.8**  
**Other grants and contributions**

	2008-09 Actual \$ million	2009-10 Est. Act. \$ million	2010-11 Budget \$ million
Other grants and contributions	513	520	526

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 3.8% in 2010-11.

<b>Table 4.9</b> <b>Sales of goods and services<sup>1</sup></b>			
	2008-09 Actual \$ million	2009-10 Est. Act. \$ million	2010-11 Budget \$ million
Fee for service activities	1,592	1,793	1,768
TransLink	273	290	338
Rent revenue	371	398	434
Sale of land inventory	49	67	131
Hospital fees	347	423	412
Transport and traffic fees	246	252	272
Other sales of goods and services	692	705	722
<b>Total sales of goods and services</b>	<b>3,568</b>	<b>3,928</b>	<b>4,077</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 Transport and 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 \$338 million in 2010-11 reflecting a new fare structure to support increased services, increased patronage and support migration from paperless ticketing with the objective to improve cost recovery for TransLink services from 25% to 30% within five years.

## **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 Urban Land Development Authority. As such, it is distinct from property disposals undertaken by most Government agencies. The increase in 2010-11 revenue is due to accelerated development to make available more land for development.

## **Hospital fees**

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

## **Transport and traffic fees**

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

## **Other sales of goods and services**

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

## INTEREST INCOME

Interest income accounts for 5.3% of total General Government revenue in 2010-11.

<b>Table 4.10</b> <b>Interest income</b>			
	2008-09 Actual \$ million	2009-10 Est. Act. \$ million	2010-11 Budget \$ million
Interest income	1,482	2,230	2,132

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 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 volatility in 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 5. 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 3.6% of total General Government sector revenue in 2010-11.

<b>Table 4.11</b> <b>Dividend and income tax equivalent income<sup>1</sup></b>			
	2008-09 Actual \$ million	2009-10 Est. Act. \$ million	2010-11 Budget \$ million
Dividend	953	757	1,058
Income tax equivalent income	227	248	402
<b>Total dividend and income tax equivalent income</b>	<b>1,180</b>	<b>1,005</b>	<b>1,460</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 in 2010-11, as the performance of these entities recovers from the global financial crisis. This is discussed in more detail in Chapter 8.

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 8.

## OTHER REVENUE

Other revenue accounts for 9.5% of total General Government revenue in 2010-11, up from 6.8% in 2009-10, due to an expected increase in royalty revenue.

**Table 4.12**  
**Other revenue<sup>1</sup>**

	2008-09 Actual \$ million	2009-10 Est. Act. \$ million	2010-11 Budget \$ million
Royalties and land rents	3,471	1,986	3,243
Fines and forfeitures	243	317	297
Revenue nec	711	375	334
<b>Total Other Revenue</b>	<b>4,425</b>	<b>2,678</b>	<b>3,874</b>
Note: 1. Numbers may not add due to rounding.			

## Royalties and land rents

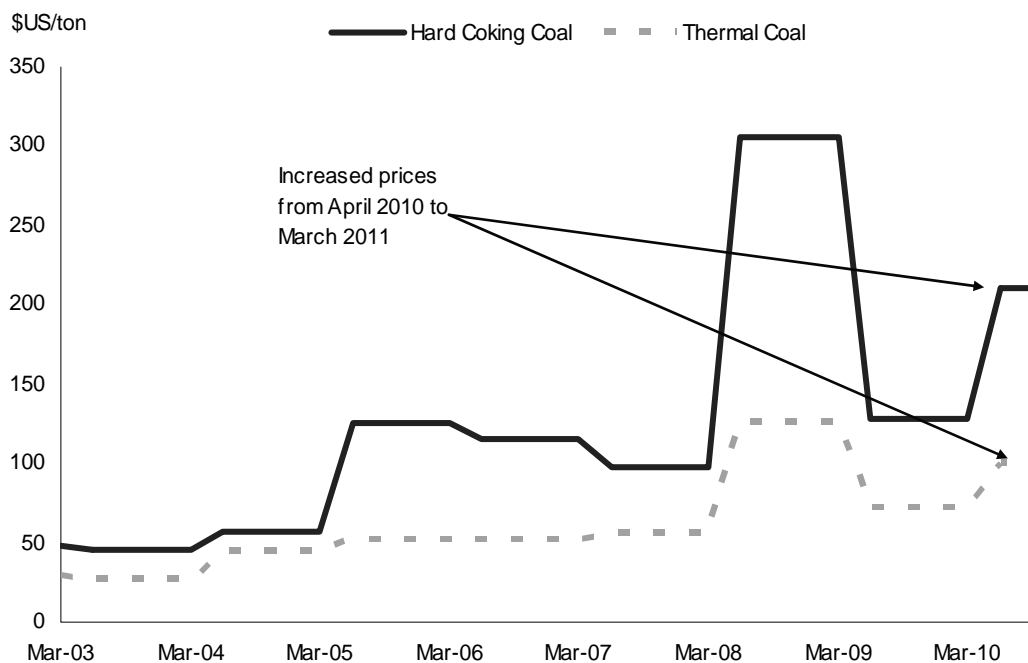
### *Royalty estimates*

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 increase by \$1.257 billion (or 63%) in 2010-11 largely due to a substantial increase in coal royalties associated with higher contract coal prices. Table 4.13 shows the impact of the coal prices shown in Chart 4.5 particularly the impact that high coal prices in 2008-09 had on royalty revenue. This relationship underlies the increase in royalty estimates for 2010-11 onwards.

<b>Table 4.13 Royalties and land rents<sup>1</sup></b>			
	2008-09 Actual \$ million	2009-10 Est. Act. \$ million	2010-11 Budget \$ million
Coal	3,102	1,619	2,766
Other royalties <sup>2</sup>	262	254	362
Land rents	107	113	114
<b>Total royalties and land rents</b>	<b>3,471</b>	<b>1,986</b>	<b>3,243</b>
Notes: 1. Numbers may not add due to rounding. 2. Includes base and precious metal, petroleum and other minerals royalties.			

**Chart 4.5  
Contract Coal Prices, 2003 to 2011**



Coal royalties make up the bulk of royalty and land rent revenue, accounting for more than 85% in 2010-11. In 2010-11, the coal royalty estimate is \$2.766 billion, a 71% increase on 2009-10, largely reflecting the significant increase in coal contract prices and ongoing demand for export coal.

In March 2010, a number of coal companies negotiated significant increases in contract prices and new quarterly price arrangements. This new pricing regime introduces volatility and makes forecasting difficult but it is expected that royalty revenue will increase markedly from 2009-10 estimates.

The increase in royalty estimates is largest in 2010-11, as contract coal prices are expected to rise significantly from the 2009-10 levels. It is forecast that coal volumes will grow further as additional port capacity comes online and prices will slowly decrease from current levels resulting in a largely flat profile for royalties across the forward estimates.

In the 2008-09 Budget, new royalty arrangements for base and precious metals were announced which will take effect from 1 January 2011. The new regime will see the elimination of the 2.7% fixed rate with only a variable rate royalty system applying with the variable rates being amended to a range of 2.5% to 5%. Base and precious metals royalties are expected to increase in 2010-11 due to a combination of price and volume levels, and the new royalty arrangements.

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.

In May 2010, the Australian Government released the final report of the Australia's Future Tax System Review, and the government response. One of the recommendations that the Australian Government is considering implementing is a resource super profits tax (RSPT). The Australian Government is undergoing consultation with industry on this measure and therefore the estimates for mining revenue in this chapter do not make any assumptions about the possible impact of the RSPT on volumes of production.

For more information on the recommendations of the tax review, see Chapter 7.

## **Fines and forfeitures**

The major fines included in this category are traffic and court fines. There is an expected decrease of 6% in collections of fines and forfeitures in 2010-11 due to a new revenue retention model for court fees and a decrease in construction notification fees.

## **Revenue not elsewhere classified**

The \$42 million decrease in 2010-11 primarily reflects an expected decline in asset transfers from non-Queensland Government entities.

## 5 EXPENSES

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### FEATURES

- Own-purpose expenses in the General Government sector are expected to increase by almost 6% in 2010-11. After allowing for one-off costs associated with the asset sales and anticipated spending to undertake repairs associated with the widespread flooding that occurred in February and March 2010 the estimated rate of increase in expenses is consistent with real per capita growth.
- Across the forward estimates, own-purpose expenses are estimated to increase by 4.1% on average, compared to real per capita growth of 5.1%.
- Total General Government sector expenses are expected to increase by \$2.376 billion (or 5.9%) over the estimated actual for 2009-10, to \$42.352 billion in 2010-11. This broader measure of expenses includes the delivery of services associated with Australian Government specific purpose payments, as well as Queensland's own purpose expenditure.
- Consistent with the Government's strategy for returning to surplus, new spending has been highly targeted and offset by savings where appropriate.
- The major areas of expenditure are health and education, which together constitute approximately 48.4% of General Government sector expenses.

### INTRODUCTION

This chapter provides an overview of General Government sector expenses for the estimated actual outcome for 2009-10, forecasts for the 2010-11 Budget year and projections for 2011-12 to 2013-14. The forward estimates are based on the economic projections outlined in Chapter 2 and are formulated on a no policy change basis.

General Government expenses in 2009-10 are estimated to be \$39.976 billion, an increase of \$830 million over the 2009-10 Budget forecast of \$39.146 billion. This increase is primarily due to:

- additional funding for natural disaster repair work
- repayment of Queensland Water Infrastructure debt related to the discontinuation of the Traveston Crossing Dam
- funding to Townsville Port Limited for the development of the Townsville Marine Industry Precinct to provide a dedicated facility to the local industrial and commercial industries
- additional expenditure to match increases in specific purpose payments from the Australian Government, particularly for education, and other own source revenues.

**Table 5.1**  
**General Government sector expenses<sup>1</sup>**

	2009-10 Budget \$ million	2009-10 Est.Act. \$ million	2010-11 Budget \$ million	2011-12 Projection \$ million	2012-13 Projection \$ million	2013-14 Projection \$ million
<b>Expenses</b>						
Employee expenses	15,006	15,395	16,221	17,362	18,323	19,059
Superannuation interest cost	1,468	1,329	1,261	1,310	1,355	1,397
Other superannuation expenses	2,093	2,019	2,103	2,200	2,290	2,350
Other operating expenses	7,776	8,124	8,502	8,440	8,545	8,753
Depreciation and amortisation	2,773	2,479	2,822	3,215	3,407	3,645
Other interest expenses	887	827	1,242	1,705	2,078	2,341
Grants expenses	9,143	9,802	10,201	9,149	8,937	9,147
<b>Total Expenses</b>	<b>39,146</b>	<b>39,976</b>	<b>42,352</b>	<b>43,380</b>	<b>44,935</b>	<b>46,693</b>
Note: 1. Numbers may not add due to rounding.						

The General Government operating statement provides for aggregate expenses of \$42.352 billion in 2010-11, representing an increase of \$2.376 billion (or 5.9%) over the 2009-10 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. The Government's fiscal principles, as detailed in Chapter 1, include a commitment to limit own-purpose expenses growth (that is, excluding Australian Government related expenses) to inflation and population growth.

Over the period 2009-10 to 2013-14, average growth in own-purpose expenses is estimated at 4.1%, compared with expected average growth of 5.1% in population and inflation.

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

- wages policy which limits wage increases to 2.5% per annum until the Budget returns to surplus
- public sector efficiency savings target of \$337 million in 2010-11, increasing to almost \$400 million from 2012-13 onwards
- agencies, other than key front line service areas, being required to absorb non-labour cost pressures
- growth in the public sector workforce being limited to front line service delivery areas and targeted policy commitments.

Table 5.2 details the public sector efficiency savings targets by department.

<b>Table 5.2</b> <b>Departmental Efficiency Savings Targets <sup>1</sup></b>			
<b>Department</b>	<b>2010-11 Total Efficiency Savings \$ million</b>	<b>2011-12 Total Efficiency Savings \$ million</b>	<b>2012-13 and Ongoing Total Efficiency Savings \$ million</b>
Communities	15.32	16.99	17.82
Community Safety	9.55	9.55	9.55
Employment, Economic Development and Innovation	22.90	26.56	28.40
Education and Training	84.19	90.86	94.19
Environment and Resource Management	17.96	21.62	23.46
Health	99.45	109.45	114.45
Infrastructure and Planning	3.92	4.92	5.42
Justice and Attorney-General	9.60	11.60	12.60
Public Service Commission	0.04	0.04	0.04
Police	21.80	24.47	25.80
Premier and Cabinet	3.74	4.74	5.24
Public Works	8.40	9.40	9.90
Transport and Main Roads	36.71	40.38	42.21
Treasury	3.43	4.43	4.90
<b>Total Departmental Savings</b>	<b>337.00</b>	<b>375.00</b>	<b>394.00</b>
Note: 1. Numbers may not add due to rounding.			



The 2010-11 Budget includes a further round of departmental efficiency savings of \$57 million in 2010-11, \$95 million in 2011-12 and \$114 million in 2012-13 and ongoing.

The above efficiency savings will not impact on frontline service delivery.

The Department of Health will retain their share of the latest departmental efficiency savings to fund priority health initiatives.

## EXPENSES BY OPERATING STATEMENT CATEGORY

This section provides a breakdown of General Government expenses in 2010-11 by category and discusses the significant variances between the 2009-10 estimated actual and 2010-11 Budget by expense category.

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

Chart 5.1 indicates that the largest expense category in the General Government sector is employee and superannuation expenses (46.2%), reflecting the direct service provision nature of Government activities, followed by grants expenses (24.1%) that include community service obligation payments to Public non-financial corporations (PNFCs), and grants to non-government schools and to first home buyers.

**Chart 5.1**  
**Expenses by operating statement category, 2010-11**

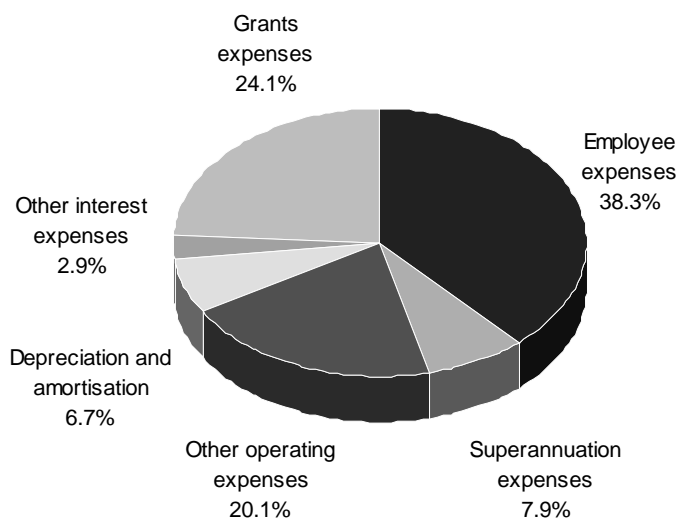
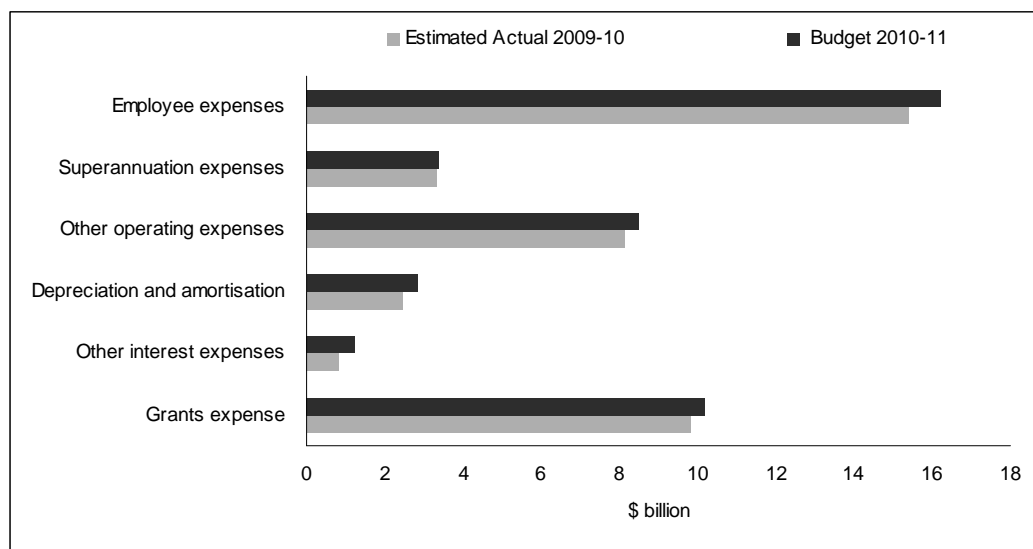


Chart 5.2 compares the 2009-10 estimated actual expenses for each operating statement category with the 2010-11 Budget.

**Chart 5.2**  
**Expenses by operating statement category**  
**2009-10 and 2010-11**



## 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 \$826 million or 5.4% to \$16.221 billion in 2010-11. The increase reflects a combination of wage increases related to enterprise bargaining agreements (such as the Teachers EB Agreement) and other services' growth and enhancements.

The additional staffing provided in the 2010-11 Budget is predominantly in key service delivery areas, including provision for 316 additional teachers and teacher aides to meet enrolment growth in Queensland state schools, 203 additional police positions, 75 additional ambulance officers, 24 operational firefighting personnel and 720 nurses, 300 allied health professionals and 180 doctors.

## Superannuation expenses

The superannuation interest cost comprises two components:

- 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 5.3% (6.2% at time of 2009-10 Budget). Offset against this expense is the revenue from plan assets based on long-term expected rates of return of 7.0% 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 are linked to investment earnings.

In 2010-11, superannuation interest cost is estimated to decline by \$68 million to \$1.261 billion as earnings on former defined benefit superannuation liabilities are expected to return to the long term average rate of return of 7.5% per annum. The 2009-10 estimated actual return on these liabilities is 12%.

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 2010-11 are expected to be \$8.502 billion, which represents an increase of \$378 million (or 4.7%) on 2009-10.

The decline in other operating expenses in 2011-12 is due to the winding down of the Australian Governments' *Building the Education Revolution* program, lower operating costs associated with the road capital works projects and completion of the asset sales program in 2010-11.

## 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 2010-11 with a total debt servicing cost forecast at \$1.242 billion, representing 2.9% of total expenses.

## 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 and organisations servicing the community in partnership with government in the family support, disability, youth and childcare sectors. Community service obligations (CSOs) are provided where PNFCs are required to provide non-commercial services or services at non-commercial prices for the benefit of the community.

Current grants are estimated to increase by \$814 million in 2010-11 (see Table 5.3). Increases in CSOs to QR Limited and Ergon Energy along with higher grants to non-profit organisations, particularly in the key service areas of disability and community services and social housing, and non-government recipients are partially offset by a decline in grants to non-government schools due to the winding down of the Australian Government's *Building the Education Revolution* program.

Increased CSOs to QR Limited reflect growth in the passenger and regional freight sectors. Higher electricity CSOs are largely due to increases in transmission and distribution costs.

Capital transfers represent grants to public non-financial corporations (PNFC's), local governments, non-profit institutions and other non-government entities, such as businesses and households (including First Home Owner Grant schemes) for capital purposes.

Capital grants are estimated to decline \$415 million to \$1.530 billion in 2010-11. This is due to payments to PNFC sector entities in 2009-10 and the Australian Governments' phase out of the First Home Owners Boost scheme in 2009-10, offset in part by capital grants to non-profit organisations, predominantly in social housing.

Capital grant payments to PNFC sector entities in 2009-10 reflect repayment of Queensland Water Infrastructure debt related to the discontinuation of the Traveston Crossing Dam and funding to Townsville Port Limited for the development of the Townsville Marine Industry Precinct.

Table 5.3 indicates the composition of grant payments by recipient.

<b>Table 5.3</b>		
<b>Grant expenses<sup>1</sup></b>		
	2009-10 Est. Act. \$ million	2010-11 Budget \$ million
<b>Current</b>		
Grants to local government	502	610
Grants to non-government schools <sup>2</sup>	2,503	2,387
Grants to non-profit organisations	1,501	1,799
Grants to other non-government recipients	1,729	1,900
Community service obligations to PNFCs	1,477	1,839
Other payments to PNFCs	145	136
<b>Total current transfers</b>	<b>7,857</b>	<b>8,671</b>
<b>Capital</b>		
First Home Owner Grant Scheme	195	171
First Home Owners Boost Scheme	187	13
Grants to local government	815	725
Grants to non-profit organisations	184	269
Grants to other non-government recipients	137	313
Payments to PNFCs	427	38
<b>Total capital transfers</b>	<b>1,945</b>	<b>1,530</b>
<b>Total current and capital transfers</b>	<b>9,802</b>	<b>10,201</b>
Notes:		
1. Numbers may not add due to rounding.		
2. Increase in base funding for non-government schools is offset by the winding down of the Australian Government's <i>Building the Education Revolution</i> program.		

# OPERATING EXPENSES BY PURPOSE

**Chart 5.3**  
**General Government expenses by purpose, 2010-11**

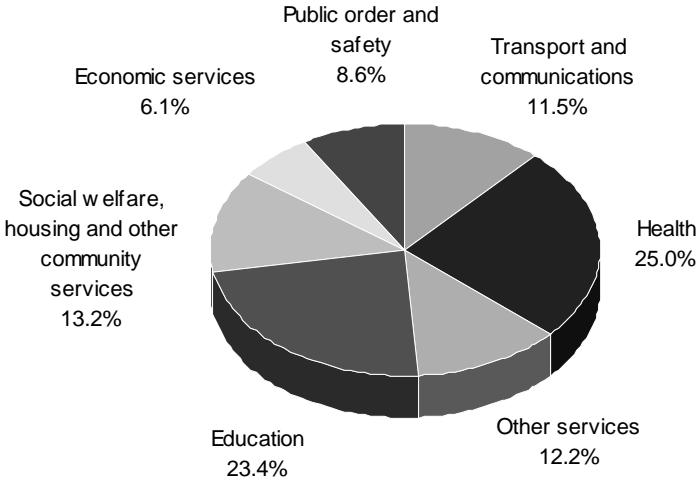
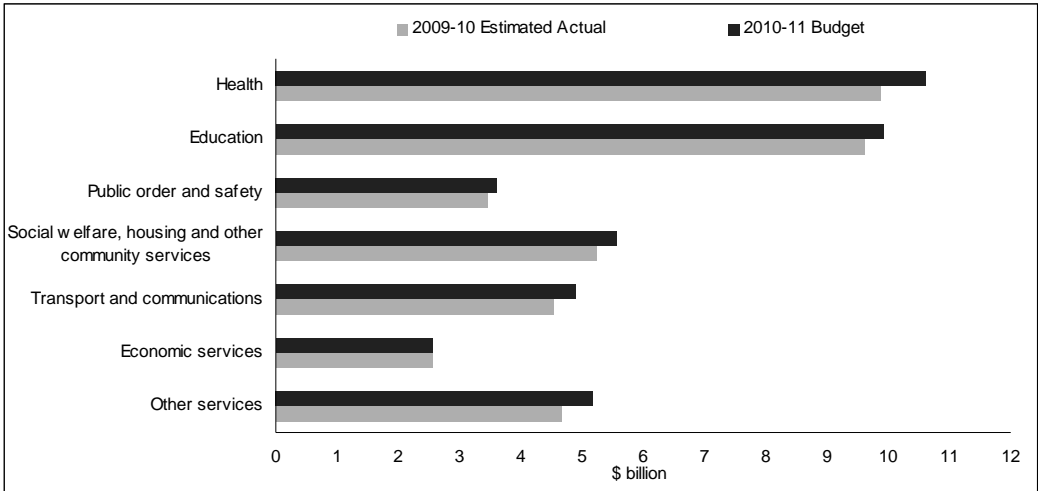


Chart 5.3 indicates the proportion of expenditure by major purpose classification for the 2010-11 Budget. Health accounts for the largest share of expenses (25%) followed by Education (23.4%).

**Chart 5.4**  
**General Government expenses by purpose**  
**2009-10 and 2010-11**



As evidenced in Chart 5.4, expenditure increases in all key service delivery areas from 2009-10 estimated actual to 2010-11 Budget.

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 2010-11 Budget. Further details of General Government expenses by function, as required under the Uniform Presentation Framework, is contained in Chapter 9, Table 9.14.

## **Health**

In 2010-11, funding for health services within the Queensland Government will grow to \$10.603 billion, an increase of 7.5% on the 2009-10 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.

In April this year, the Council of Australian Governments (COAG), excluding Western Australia, reached agreement on the establishment of a National Health and Hospitals Network. The agreement represents major reform of federal and state roles and responsibilities in the management and funding of the health care system.

In 2010-11, Queensland Health will invest additional funding into an number of key priorities:

- enhancements to public hospital services including implementing the specific targets agreed with the Australian Government under the National Health and Hospitals Network (NHHN) Agreement for improved emergency department waiting times and access to elective surgery. Funding will also deliver expanded sub-acute (rehabilitation, mental health and palliative care) and multi-purpose services
- new and/or upgraded cancer centres in regional Queensland to improve outcomes for cancer patients in regional areas
- enhancements to children's hearing services including additional cochlear implants, expanded early intervention services, enhance auditory-verbal services to be provided by the private sector and funding to support the expansion of clinical space for the Hear and Say Centre
- employ an additional 720 nurses, 300 allied health professionals and 180 doctors.

## Education

The State's investment in education encompasses early childhood education and care, State and non-State education, technical and further education (TAFE) and to a lesser extent, higher education. The 2010-11 Budget for education is \$9.924 billion, representing an increase of \$301 million (or 3.1%), over estimated actual expenditure.

The growth in education expenditure in 2010-11 is largely attributable to wages growth from enterprise bargaining and provision for 316 additional teachers and teacher aides to meet enrolment growth in Queensland state schools.

Wages growth is partially offset by the significant wind down of the Australian Government's *Building the Education Revolution* program in 2010-11. As a result, the expense component of the program is significantly lower than in 2009-10 estimated actual.

## 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 4.6% to \$3.621 billion in 2010-11.

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, improved technology to fight crime and enhanced road safety measures.

In addition, Government has continued to address growing demand for emergency services with an additional 75 ambulance officers and 24 operational firefighting personnel.

## 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 6.5% to \$5.570 billion in 2010-11.

2010-11 sees continued 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 Remote Indigenous Housing and Homelessness.

Funding for specialist disability services and home and community care services will also increase in 2010-11, including additional funding to support the needs of the frail aged, people with disabilities and their carers under the Home and Community Care Program.



## 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 7.4% to \$4.886 billion in 2010-11.

The State Government continues to progress the implementation of the *South East Queensland Infrastructure Plan and Program* (SEQIPP) and the Queensland Transport and Roads Investment Program (QTRIP). For 2010-11, SEQIPP funding priorities continue to include providing for population growth and managing traffic congestion in South East Queensland. QTRIP, which incorporates initiatives, focuses on investment to improve, maintain and operate the transport and roads network across Queensland.

## DEPARTMENTAL EXPENSES

Data presented in Tables 5.4 and 5.5 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 5.4**  
**Departmental Controlled Expense <sup>1,2</sup>**

	2009-10 Est. Actual \$'000	2010-11 Estimate \$'000
Communities	3,496,603	4,185,639
Community Safety	1,586,541	1,668,746
Education and Training	7,132,731	7,475,163
Electoral Commission of Queensland	9,891	13,686
Employment, Economic Development and Innovation	1,024,163	1,053,535
Environment and Resource Management	996,459	965,487
Forestry Plantations Queensland Office	32,905	..
Health	9,260,404	9,990,242
Infrastructure and Planning	850,624	685,634
Justice and Attorney-General	478,752	489,121
Legislative Assembly	75,274	76,564
Office of the Governor	5,527	5,656
Office of the Ombudsman	7,019	7,069
Police	1,707,863	1,816,077
Premier and Cabinet	231,488	234,361
Public Service Commission	14,228	12,926
Public Works	620,291	643,450
Queensland Audit Office	41,186	42,673
The Public Trustee of Queensland	67,062	76,481
Transport and Main Roads	3,552,056	3,655,789
Treasury	213,863	271,001
<b>Total Expenses</b>	<b>31,404,930</b>	<b>33,369,300</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 5.5**  
**Departmental Administered Expense <sup>1,2</sup>**

	2009-10 Est. Actual \$'000	2010-11 Estimate \$'000
Communities	270,240	290,226
Education and Training	2,684,336	2,624,611
Employment, Economic Development and Innovation	373,785	476,204
Environment and Resource Management	69,364	45,791
Health	24,599	25,005
Infrastructure and Planning	568,600	451,040
Justice and Attorney-General	215,669	239,454
Police	429	441
Premier and Cabinet	218,959	193,426
Public Works	68,491	43,881
The Public Trustee of Queensland	2,411	786
Transport and Main Roads	978,391	992,722
Treasury	4,426,277	4,763,334
<b>Total Expenses</b>	<b>9,901,551</b>	<b>10,146,921</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 5.6**  
**Reconciliation of Departmental to UPF Expenses <sup>(1)</sup>**

	2009-10 Est. Actual \$ million	2010-11 Estimate \$ million
Departmental expenditure per Service Delivery Statements - Controlled (Table 5.4)	31,405	33,369
- Administered (Table 5.5)	9,902	10,147
Non-UPF departmental expenses and whole-of-Government schemes <sup>(2)</sup>	(2,289)	(2,697)
Other General Government entities (e.g. CBUs, SSPs, Statutory Bodies)	4,906	5,107
	<b>43,923</b>	<b>45,926</b>
Superannuation Interest cost	1,329	1,261
Eliminations and Other whole-of-Government adjustments		
Elimination of payments to CBUs and SSPs	(3,353)	(3,375)
Payroll Tax elimination	(505)	(530)
Other eliminations and adjustments	(1,418)	(930)
<b>Total General Government UPF Expenses</b>	<b>39,976</b>	<b>42,352</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>		

## 6 BALANCE SHEET AND CASH FLOWS

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### FEATURES

- Queensland's balance sheet is expected to remain strong in 2010-11 with State net worth projected to rise by \$957 million through the year to \$188.6 billion.
- Total borrowings and advances are expected to increase by \$7.716 billion in 2010-11, primarily as a result of increased investment in public infrastructure assets. The increase in borrowings is the major contributor to the projected \$7.554 billion decrease in net financial worth of the General Government sector in 2010-11.
- The General Government sector is forecast to record a cash deficit of \$6.396 billion in 2010-11, after allowing for \$8.131 billion in net asset purchases.

### INTRODUCTION

The 2010-11 balance sheet shows the projected assets, liabilities and net worth of the General Government sector as at 30 June 2011. 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 9.

## BALANCE SHEET

Table 6.1 provides a summary of the key balance sheet measures for the General Government sector.

<b>Table 6.1</b> <b>General Government sector: summary of budgeted balance sheet<sup>1</sup></b>						
	2009-10 Budget <sup>2</sup> \$ million	2009-10 Est. Act. \$ million	2010-11 Budget \$ million	2011-12 Projection \$ million	2012-13 Projection \$ million	2013-14 Projection \$ million
Financial assets	49,056	57,319	58,518	60,562	62,594	65,128
Non-financial assets	156,471	180,982	189,493	196,940	202,562	206,529
<b>Total Assets<sup>3</sup></b>	<b>205,527</b>	<b>238,301</b>	<b>248,012</b>	<b>257,502</b>	<b>265,156</b>	<b>271,657</b>
Borrowings and advances	19,246	15,996	23,712	30,532	35,198	38,398
Superannuation liability	25,303	24,563	25,462	26,270	26,986	27,606
Other provisions and liabilities	9,833	10,135	10,274	10,580	10,955	11,327
<b>Total Liabilities</b>	<b>54,382</b>	<b>50,694</b>	<b>59,447</b>	<b>67,383</b>	<b>73,139</b>	<b>77,332</b>
<b>Net Worth</b>	<b>151,144</b>	<b>187,607</b>	<b>188,564</b>	<b>190,119</b>	<b>192,017</b>	<b>194,326</b>
<b>Net Financial Worth</b>	<b>(5,327)</b>	<b>6,625</b>	<b>(929)</b>	<b>(6,821)</b>	<b>(10,545)</b>	<b>(12,203)</b>
<b>Net Financial Liabilities</b>	<b>20,999</b>	<b>18,273</b>	<b>25,576</b>	<b>31,974</b>	<b>36,235</b>	<b>38,582</b>
<b>Net Debt</b>	<b>(10,672)</b>	<b>(13,206)</b>	<b>(6,743)</b>	<b>(1,294)</b>	<b>2,095</b>	<b>3,707</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

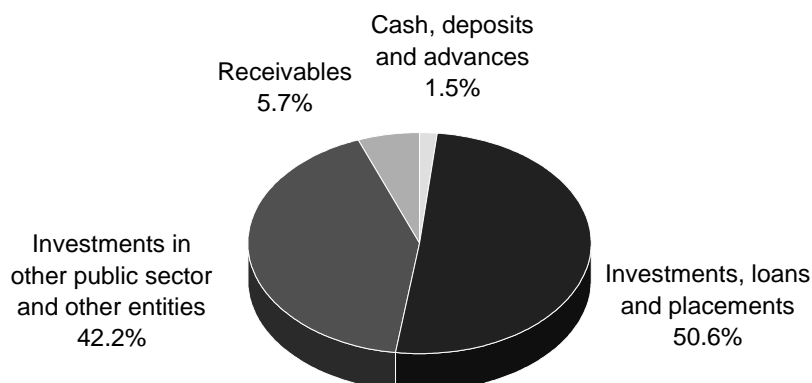
The General Government sector holds the full equity of the State's public enterprises, principally its shareholding in Government-owned corporations (GOCs) but also Public Financial Corporations like Queensland Treasury Corporation (QTC), in much the same manner as the parent or holding company in a group of companies. The estimated net investment in public enterprises (\$24.648 billion at 30 June 2011) is included in the General Government sector's financial assets.

Financial assets of \$57.319 billion are forecast for 2009-10, or \$8.263 billion higher than originally budgeted, reflecting an increase in investments in public sector entities. The increase in the value of the Public Non-financial Corporations sector is primarily due to the revaluation of GOC assets at 30 June 2009.

In the year to 30 June 2011, financial assets are projected to increase by \$1.199 billion, attributable principally to increased investment in assets set aside to meet future employee liabilities.

Chart 6.1 shows projected General Government sector financial assets by category at 30 June 2011. Investments held to meet future liabilities including superannuation and long service leave comprise the major part of the State's financial assets.

**Chart 6.1**  
**Projected General Government financial assets by category at 30 June 2011**



## Non-financial assets

General Government non-financial assets are projected to total \$189.493 billion at 30 June 2011. These assets consist primarily of land and other fixed assets of \$182.735 billion, the majority of which are roads, schools, hospitals and other infrastructure used to provide services to Queenslanders. Other non-financial assets of \$6.759 billion held by the State include prepayments and deferred tax assets relating to income tax equivalents collected primarily from GOCs.

Land and other fixed assets of \$174.531 billion are forecast for 2009-10, \$24.651 billion higher than originally budgeted. The increase is primarily due to the recognition at 30 June 2009 of land under roads in accordance with Australian accounting standard AASB 1051 *Land Under Roads*.

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 2011 are expected to grow by \$8.511 billion over the 2009-10 estimated actual. Of this increase, \$8.131 billion represents the net 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 3.9 in Chapter 3).

## **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 \$29.639 billion at 30 June 2011. The other major component of liabilities is borrowings and advances received.

Total liabilities are budgeted to increase by \$8.753 billion in 2010-11, 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.

The defined benefit scheme is closed to new members. New employees join QSuper's accumulation scheme.

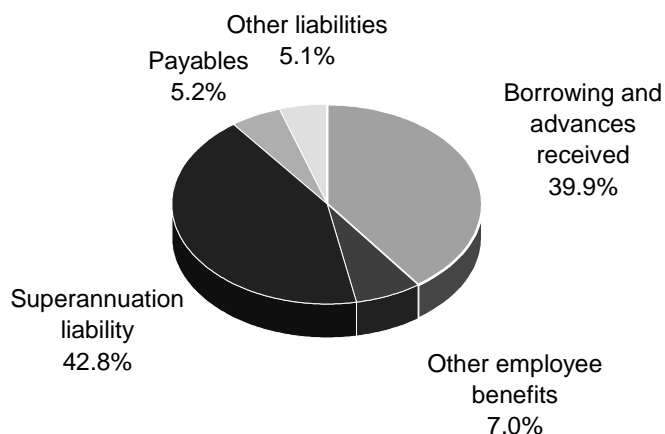
Over the Budget and forward estimates period, total additional General Government net borrowings and advances of \$22.154 billion are planned to fund the \$26.204 billion worth of capital projects in the General Government sector and \$1.991 billion worth of equity injections to the Public Non-financial 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 6.2.

**Chart 6.2**  
**Projected General Government liabilities by category at 30 June 2011**



## **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.

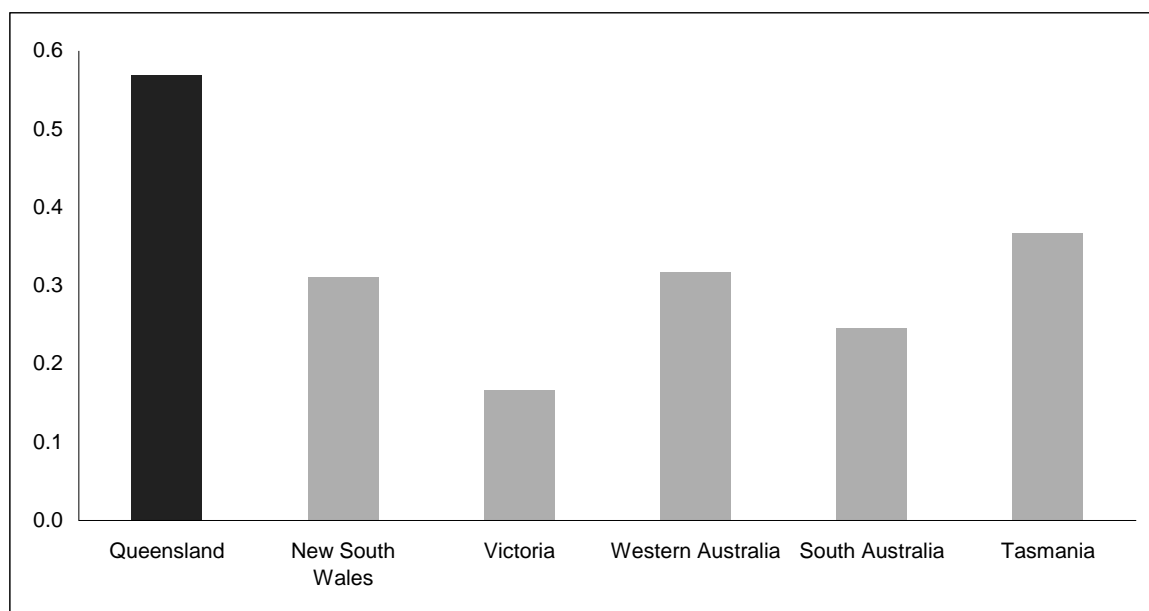
The net financial worth of the General Government sector for 2010-11 is forecast at negative \$929 million. Net financial worth is expected to decrease over the forward estimates period as the sector increases borrowings to fund infrastructure assets (which are not included in the calculation of net 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 2010-11 are forecast at \$25.576 billion.

Queensland's level of liquidity continues to be in excess of the other states as illustrated in Chart 6.3.

**Chart 6.3**  
**Projected ratio of financial assets to liabilities**  
**(excluding investments in public enterprises) at 30 June 2011**  
**General Government sector**



Sources: *State Budget Papers for QLD, Vic and WA. Mid year review for NSW, SA and Tas.*

## 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

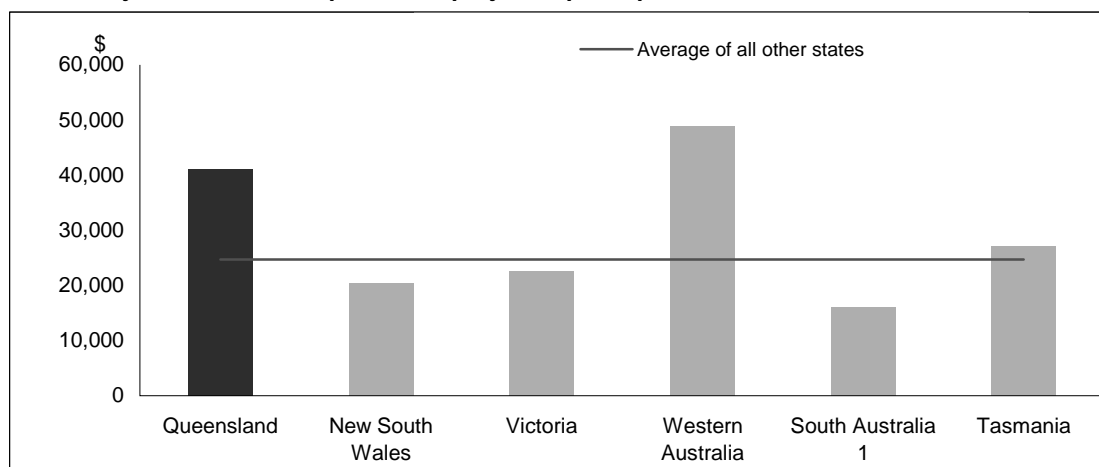
- revaluation of assets and liabilities as required by accounting standards. Most financial liabilities are revalued on a regular basis. For example, the Government's accruing liabilities for employee superannuation and long service leave are determined by actuarial assessments
- movements in the net 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 2009-10 is forecast to be \$187.607 billion. This exceeds growth forecasts in the 2009-10 Budget by \$36.463 billion primarily as a result of recognising land under roads at 30 June 2009 in accordance with Australian accounting standard AASB 1051 *Land Under Roads*.

Net worth is forecast to grow by \$957 million to \$188.564 billion in 2010-11.

Chart 6.4 shows the State's strong net worth compared with the other states. Queensland's per capita net worth is 66.7% greater than the average per capita net worth of the other states.

**Chart 6.4**  
**Interjurisdictional comparison of projected per capita net worth at 30 June 2011**



Note:

1. All States, with the exception of SA, value land under roads as part of their overall asset base.

Sources: State Budget Papers for QLD, Vic, WA, ACT and NT. Mid year review for NSW, SA and Tas. Population data from Australian Government Budget Paper No.3, 2010-11.

## 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 6.2, the General Government sector has negative net debt, that is, a surplus of financial assets over financial liabilities.

Queensland's negative net debt of \$1,472 per capita compares well to the weighted average net debt of \$1,781 per capita in the other states.

Table 6.2 Projected net debt per capita at 30 June 2011						
	QLD	NSW	VIC	WA	SA	TAS
Net debt per capita (\$)	(1,472)	1,905	2,091	1,252	1,732	(825)

Sources: *State Budget Papers for QLD, Vic, WA. Mid year review for NSW, SA and Tas. Population data from Australian Government Budget Paper No.3, 2010-11.*

## 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 inception of finance leases in the cash surplus (deficit). This measure is also used to derive the Loan Council Allocation nomination, provided in Chapter 9.

A cash deficit of \$6.396 billion is forecast in 2010-11 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 program. Total General Government capital purchases of \$8.335 billion are budgeted for 2010-11.

Over the period 2010-11 to 2013-14, capital expenditure is expected to total \$26.204 billion in the General Government sector. This substantial investment in capital drives the cash deficits.

Table 6.3 provides summary cash flow information for the General Government sector for 2009-10, 2010-11 and the outyears. Detailed cash flow tables are included in Chapter 9.

**Table 6.3**  
**General Government sector: summary of budgeted cash flows<sup>1</sup>**

	2009-10 Budget <sup>2</sup> \$ million	2009-10 Est. Act. \$ million	2010-11 Budget \$ million	2011-12 Projection \$ million	2012-13 Projection \$ million	2013-14 Projection \$ million
Cash receipts from operating activities	38,341	41,284	41,582	43,119	44,490	46,519
Cash payments for operating activities	(36,160)	(38,127)	(39,847)	(40,473)	(41,942)	(43,549)
<b>Net cash inflows from operating activities</b>	<b>2,181</b>	<b>3,158</b>	<b>1,735</b>	<b>2,646</b>	<b>2,548</b>	<b>2,971</b>
Net cash flows from investing activities	(10,665)	(10,716)	(9,493)	(9,340)	(7,199)	(6,148)
Receipts from financing activities	7,937	5,166	7,615	6,719	4,643	3,177
<b>Net increase/(decrease) in cash held</b>	<b>(546)</b>	<b>(2,393)</b>	<b>(143)</b>	<b>25</b>	<b>(8)</b>	<b>(1)</b>
<b>Derivation of cash surplus (deficit)</b>						
<b>Net cash inflows from operating activities</b>	<b>2,181</b>	<b>3,158</b>	<b>1,735</b>	<b>2,646</b>	<b>2,548</b>	<b>2,971</b>
Net cash flows from investments in non-financial assets	(9,020)	(8,411)	(8,131)	(7,294)	(5,454)	(4,478)
<b>Equals cash surplus/(deficit)</b>	<b>(6,838)</b>	<b>(5,254)</b>	<b>(6,396)</b>	<b>(4,648)</b>	<b>(2,906)</b>	<b>(1,507)</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 6.4 provides a disaggregation of operating cash flows.

<b>Table 6.4</b> <b>General Government sector: cash flows from operating activities<sup>1</sup></b>			
	2009-10 Budget <sup>2</sup> \$ million	2009-10 Est. Act. \$ million	2010-11 Budget \$ million
<b>Cash receipts from operating activities</b>			
Taxes received	9,286	9,473	10,190
Grants and subsidies received	18,735	20,380	18,883
Sales of goods and services	4,050	4,482	4,485
Interest receipts	2,010	2,231	2,131
Dividend and income tax equivalents	1,042	1,089	1,062
Other receipts	3,219	3,630	4,832
<b>Total operating receipts</b>	<b>38,341</b>	<b>41,284</b>	<b>41,582</b>
<b>Cash payments for operating activities</b>			
Payments for employees	(16,975)	(17,663)	(18,435)
Payments for goods and services	(8,442)	(9,128)	(9,298)
Grants and subsidies	(9,097)	(9,789)	(10,135)
Interest paid	(883)	(827)	(1,240)
Other payments	(762)	(720)	(738)
<b>Total operating payments</b>	<b>(36,160)</b>	<b>(38,127)</b>	<b>(39,847)</b>
<b>Net cash inflows from operating activities</b>	<b>2,181</b>	<b>3,158</b>	<b>1,735</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 \$10.190 billion in 2010-11, an increase of 7.6% or \$717 million on the 2009-10 estimated actual of \$9.473 billion. This primarily reflects increases in transfer duty and land tax, brought about by an improved outlook for the owner-occupied property sector and payroll tax as a result of a stronger labour market outlook.

Grants and subsidies received are forecast at \$18.883 billion in 2010-11, a decrease of \$1.497 billion or 7.4% on the 2009-10 estimated actual of \$20.380 billion primarily as a result of decreased grant funding from the Commonwealth.

Sales of goods and services are forecast at \$4.485 billion for 2010-11, an increase of less than 1% on the 2009-10 estimated actual of \$4.482 billion, and includes fines and regulatory fees, user charges and rental income.

Interest receipts are expected to decrease in 2010-11 by \$100 million to \$2.131 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 2010-11 by \$27 million to \$1.062 billion.

Other receipts are forecast at \$4.832 billion in 2010-11 an increase of 33.1% primarily as a result of increased coal and mining 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 2010-11 the largest cash disbursement is payments for employees at \$18.435 billion or 46.3% of total cash payments from operating activities.

In 2010-11, payments for goods and services are expected to increase 1.9 % to \$9.298 billion primarily as a result of expanded service delivery.

Cash payments for grants and subsidies are expected to increase by \$346 million in 2010-11 to \$10.135 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 \$413 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 6.5 provides a disaggregation of investment cash flows into the different types.

<b>Table 6.5</b> <b>General Government sector: cash flows from investing activities</b>			
	2009-10 Budget <sup>1</sup> \$ million	2009-10 Est. Act. \$ million	2010-11 Budget \$ million
Cash flows from investments in non-financial assets	(9,020)	(8,411)	(8,131)
Net cash flows from investments in financial assets for policy purposes	(307)	(789)	(1)
Net cash flows from investments in financial assets for liquidity purposes	(1,338)	(1,516)	(1,361)
<b>Net cash flows from investing activities</b>	<b>(10,665)</b>	<b>(10,716)</b>	<b>(9,493)</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, roads and bridges.

Cash outflows from investments in non-financial assets are estimated to decrease to \$8.411 billion in 2009-10 from original budget estimates of \$9.020 billion due to capital deferrals. Cash outflows are projected to reduce further in the outyears as capital projects finalise.

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.

The estimated net cash outflow from investments for policy purposes in 2009-10 is higher than the forecast outflow of \$307 million in the 2009-10 Budget due to additional equity injections to support various energy and water programs.

Cash outflows from investments for policy purposes in 2010-11 of \$1 million reflect equity transactions by the General Government sector with public non-financial and public financial corporations partially offset by the return of proceeds on the long term lease of state-owned timber plantations. The licence and related asset and liabilities of Forestry Plantations Queensland will be sold for \$603 million (including \$28.6 million of stamp duty).

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 2009-10 estimated net cash outflow from investments in financial assets for liquidity purposes of \$1.516 million is slightly higher than the forecast outflow in the 2009-10 Budget due to the higher 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 \$1.361 billion in 2010-11 as returns on former defined benefits member assets return to the long term rate of 7.5%.

## Cash flows from financing activities

Cash flows generated from financing activities are outlined in Table 6.6 below.

<b>Table 6.6</b> <b>General Government sector: cash flows from financing activities<sup>1</sup></b>			
	2009-10 Budget <sup>2</sup> \$ million	2009-10 Est. Act. \$ million	2010-11 Budget \$ million
Advances received (net)	(17)	(16)	(14)
Borrowing (net)	7,954	5,182	7,629
<b>Net cash flows from financing activities</b>	<b>7,937</b>	<b>5,166</b>	<b>7,615</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 2009-10 net cash inflows from financing activities are estimated at \$5.166 billion. This mainly represents borrowings for the State's capital program and is lower than budgeted due to the improved operating result and capital deferrals.

Net cash inflows from financing activities for 2010-11 are estimated at \$7.615 billion, reflecting borrowings to partially fund the General Government's capital program of \$8.335 billion.

## RECONCILIATION OF OPERATING CASH FLOWS TO THE OPERATING STATEMENT

Table 6.7 provides a reconciliation of the cash flows from operating activities to the operating result for the General Government sector.

<b>Table 6.7</b> <b>General Government sector: reconciliation of cash flows</b> <b>from operating activities to accrual operating activities <sup>1</sup></b>			
	2009-10 Budget <sup>2</sup> \$ million	2009-10 Est. Act. \$ million	2010-11 Budget \$ million
<b>Revenue from transactions</b>	<b>37,192</b>	<b>39,689</b>	<b>40,606</b>
Plus/(less) movement in tax equivalent and dividend receivables	(109)	83	(399)
Plus GST receipts	1,355	1,564	1,568
Plus/(less) movement in other receivables	(97)	(51)	(193)
<b>Equals cash receipts from operating activities</b>	<b>38,341</b>	<b>41,284</b>	<b>41,582</b>
<b>Expenses from transactions</b>	<b>39,146</b>	<b>39,976</b>	<b>42,352</b>
(Less) non-cash items			
Depreciation and amortisation expense	(2,773)	(2,479)	(2,822)
Accrued superannuation expense	(2,381)	(2,108)	(2,099)
Accrued employee entitlements	(471)	(507)	(532)
Other accrued costs	(228)	(366)	(281)
Plus superannuation benefits paid – defined benefit	381	498	762
Plus/(less) movement in employee entitlement provisions	394	751	300
Plus/(less) GST paid	1,386	1,611	1,615
Plus/(less) movement in other provisions and payables	706	752	551
<b>Equals cash payments for operating activities</b>	<b>36,160</b>	<b>38,127</b>	<b>39,847</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.

## 7 INTERGOVERNMENTAL FINANCIAL RELATIONS

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### FEATURES

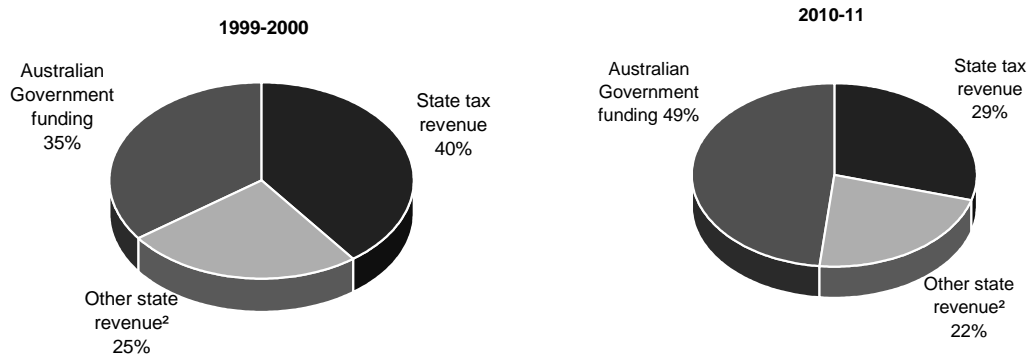
- Queensland, like all states, is becoming increasingly reliant on Australian Government funding, with approximately 45% of Queensland's revenue being sourced from the Australian Government in 2010-11.
- Funding provided under Payments for Specific Purposes funds 18% of total State expenses and 35% of State capital expenditure. This includes \$1.060 billion in funding for capital expenditure under the Australian Government's economic stimulus measures.
- The Australian and State Governments have agreed to undertake a review of the funding agreements for Specific Purpose Payments to ensure that the payment structure facilitates agreed reform objectives.
- Since the last budget, GST revenue from the Australian Government to all states has been revised upwards by \$17.3 billion over the period 2009-10 to 2012-13. However, this does not compensate for the \$25 billion downward revisions that resulted from the global financial crisis.
- The Commonwealth Grants Commission's *2010 Review Report on State Revenue Sharing Relativities* reduced Queensland's underlying share of GST by \$19.8 million. Methodology changes, including the direct recognition of capital costs, increased Queensland's share by \$878.6 million. However, this was offset by a loss of \$388.0 million from the averaging period being reduced from five to three years, and a loss of \$510.4 million due to the relative strength of Queensland's economy over the assessment years 2006-07 to 2008-09.
- Mining revenue represents 70% of the revenue based redistribution of GST amongst the States. After this redistribution is taken into account, Queensland's net mining revenue is less than that of Victoria and New South Wales.
- In per capita terms, Queensland's share of GST in 2010-11 will be similar to that in 2005-06, with GST per capita not expected to regain the peak of 2007-08 until 2013-14.
- The Council of Australian Governments (COAG) reached agreement on the establishment of a National Health and Hospitals Network, representing a major reform of federal and state roles and responsibilities in the management and funding of the health care system.
- The Queensland Government will provide \$1.3 billion in grants to Queensland local government authorities in 2010-11.

## 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, state dependence on Australian Government funding has increased further. Chart 7.1 shows all states' funding sources for 1999-2000 and 2010-11. In 1999-2000 the states received 35% of their revenues from the Australian Government. This is estimated to increase to 49% in 2010-11 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 29% in 2010-11.

**Chart 7.1**  
**Revenue sources, all states, 1999-2000 and 2010-11<sup>1</sup>**



**Notes:**

1. 2010-11 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 includes 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 (NP) payments for specific purposes or reform-linked objectives
- GST revenue payments
- other general revenue assistance payments.

## Australian Government funding to states

Table 7.1 shows that Australian Government payments to the states in 2010-11 are expected to total \$94.082 billion, a decrease of \$4.465 billion or 4.5% compared with 2009-10.

<b>Table 7.1</b> <b>Estimated Australian Government payments to the states, 2009-10 and 2010-11<sup>1</sup></b>					
	2009-10 \$ million	2010-11 \$ 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	28,892	19,347			
Specific Purpose Payments	24,409	26,098			
<b>Total payments for specific purposes</b>	53,301	45,445	-14.7	-17.4	-18.8
<b>GST revenue</b>	44,529	47,930	7.6	4.2	2.5
<b>Other general revenue<sup>3</sup></b>	717	707			
<b>Total payments</b>	98,547	94,082	-4.5	-7.5	-9.1
Notes: 1. Numbers may not add due to rounding. 2. Deflated by the 2009-10 year average national inflation forecast of 3.25% and national population growth of 1.71%. 3. Other general revenue includes royalty sharing arrangements (eg. offshore petroleum royalty revenues), compensation for Australian Government policy decisions and ACT municipal services. Source: Australian Government Budget Paper No.3, 2010-11.					

Total payments for specific purposes (including both SPPs and NPs) in 2010-11 are expected to be \$45.445 billion, an 18.8% decrease from 2009-10 in real per capita terms. The main reason for the decline in Payments for Specific Purposes to the States is the decline in Economic Stimulus funding from \$14.338 billion in 2009-10 to \$6.749 billion in 2010-11.

GST revenue from the Australian Government to all states is expected to increase from \$44.5 billion in 2009-10 to \$47.9 billion in 2010-11, an increase of 7.6% in nominal terms. In real per capita terms, GST is expected to increase by 2.5% in 2010-11. Since the Australian Government's 2009-10 Budget, GST estimates have been increased by \$17.3 billion over the period 2009-10 to 2012-13. Although the outlook for GST revenue has improved over the last year, current estimates of the GST pool are still below the level needed to regain the downward revisions that resulted from the global financial crisis (more than \$25 billion over the period 2008-09 to 2011-12).

## State shares of Australian Government funding

Table 7.2 shows the expected shares of total Australian Government payments to each state for 2010-11 compared with each state's population share. Queensland's anticipated share of total Australian Government funding of 19.3% in 2010-11 will be less than its population share of 20.3%.

**Table 7.2**  
**Relative shares of Australian Government payments to the states, 2010-11<sup>1</sup>**

	Share of payments %	Share of population %	Relative share <sup>2</sup> %
New South Wales	30.8	32.3	95.5
Victoria	23.1	24.8	93.0
Queensland	19.3	20.3	95.1
Western Australia	9.5	10.3	91.6
South Australia	8.7	7.3	118.9
Tasmania	3.1	2.3	136.1
Australian Capital Territory	1.7	1.6	105.9
Northern Territory	3.8	1.0	367.1

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: Australian Government Budget Paper No.3, 2010-11.

## Queensland's share of Australian Government funding

Table 7.3 details Queensland's share of estimated Australian Government payments in 2010-11 as outlined in the Commonwealth Budget Papers, and the difference from its population share. Queensland expects to receive \$8.906 billion of GST revenue in 2010-11, \$833 million less than a per capita share. In the same year, payments for specific purposes are forecast to be \$9.278 billion or 20.4% of total payments for specific purposes. In overall terms Queensland is estimated to receive \$788 million less than a per capita share of Australian Government funding in 2010-11.

**Table 7.3**  
**Queensland's share of estimated Australian Government payment, 2010-11**

	Queensland's Share	Queensland's Share	Difference from Population Share
	\$ million	%	\$ million
<b>Payments for specific purposes</b>			
National Partnership payments	4,082	21.1	151
Specific Purpose Payments	5,195	19.9	-106
<b>Total payments for specific purposes</b>	9,278	20.4	44
<b>GST revenue<sup>1</sup></b>	8,906	18.6	-833
<b>Total payments<sup>2</sup></b>	<b>18,183</b>	<b>19.3</b>	<b>-788</b>

Notes:

1. Total GST revenue is untied in 2010-11. From 2011-12, a proportion of GST will be dedicated to health and hospital services.

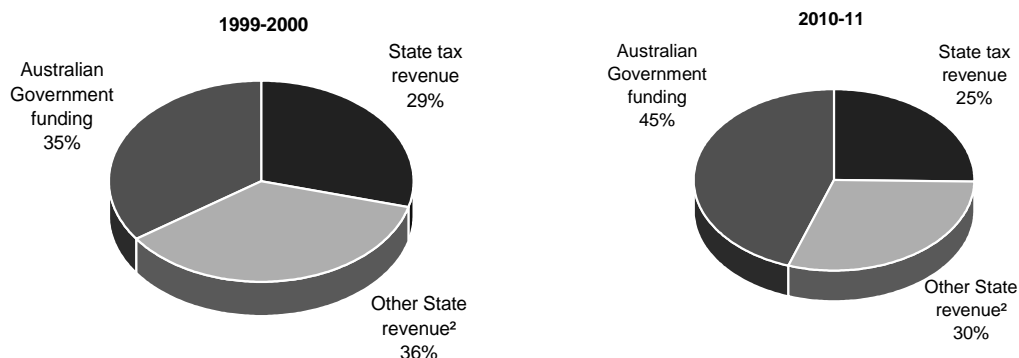
2. Numbers may not add due to rounding

Source: Australian Government Budget Paper No.3, 2010-11.



Queensland's reliance on Australian Government funding, as shown in Chart 7.2, 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 45% in 2010-11.

**Chart 7.2**  
**Revenue sources, Queensland, 1999-2000 and 2010-11**



Notes:

1. 2010-11 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 Queensland Budget estimates

## AUSTRALIAN GOVERNMENT PAYMENTS FOR SPECIFIC PURPOSES

### Structure of Specific Payments

The framework for Australian Government payments to the States is set out in the *Intergovernmental Agreement for Federal Financial Relations* (IGA). Under the IGA, Australian Government payments comprise five National Specific Purpose Payments (health, education, skills and workforce, disability services, and housing) and a range of national partnership payments, which support the delivery of specified projects, facilitate reforms or reward jurisdictions that deliver on national reforms or achieve service delivery improvements. Copies of the agreements can be found on the Federal Financial Relations web site maintained by the Australian Treasury at [www.federalfinancialrelations.gov.au](http://www.federalfinancialrelations.gov.au).

## **Major funding agreements**

The 2010-11 Australian Government Budget provided funding for State services and infrastructure as outlined below.

### ***Health***

Total Australian Government Payments for 2010-11 for Queensland's health services and infrastructure will amount to \$2.797 billion. This includes \$169.3 million in new funding as part of the National Health and Hospital Network package. The Australian Government's proposed changes to the Health system, including the financial impacts for Queensland are set out in Box 7.2. The major payments for the Government sector in 2010-11 are for:

- the National Healthcare SPP (\$2.393 billion)
- National Health and Hospitals Network package (\$169.3 million)
- Essential Vaccines (\$71.4 million)
- Elective Surgery waiting list reduction program (\$51.5 million)
- Health and Hospital Fund projects (\$53.8 million).

### ***Education and training***

Total Australian Government Payments for 2010-11 for Queensland's education and training services and infrastructure will amount to \$3.658 billion, comprising \$3.301 billion for schools and early childhood and \$357.6 million for skills and workforce development. The Australian Government Payments for Schools includes \$1.744 billion for onpassing to Non-Government Schools. The major payments for the Government sector are for:

- the National Schools Agreement (\$696.8 million)
- the National Skills and Workforce Development Agreement (\$261.8 million)
- the Nation Building and Jobs Plan – Building the Education Revolution (\$684.2 million)
- the Productivity Places Program NP (\$85.9 million).

### ***Transport infrastructure***

Total Australian Government Payments for 2010-11 for Queensland's transport and main roads infrastructure and services will amount to \$562.8 million. The major payments for the Government sector are for:

- Nation Building Program (\$539.7 million)
- Black Spot Projects (\$12.1 million).

## ***Housing***

Total Australian Government Payments for 2010-11 for Queensland's housing and homelessness services and infrastructure will amount to \$654.9 million, which includes \$240.2 million for the National Affordable Housing SPP, as well as other major payments for the Government sector for:

- the Nation Building and Jobs Plan – Social Housing Initiative (\$302.6 million)
- Remote Indigenous Housing (\$66.7 million).

## ***Disability services***

Total Australian Government Payments for 2010-11 for Queensland's disability and community care services will amount to \$513.9 million, which includes \$201.7 million for the National Disability SPP and \$308.6 million for the Home and Community Care program.

## ***Local government***

Payments to local government consist of general purpose Financial Assistance Grants and untied grants for local roads. Total Australian Government Payments for Local Government in Queensland for 2010-11 amount to \$539.8 million.

## ***Other***

Other payments for specific purposes include funding for a range of programs including environment, water sustainability and natural disaster relief.

## **Review of Agreements under the IGA**

The IGA sets out a number of objectives and design principles to assist in the development of new agreements between the States and the Australian Government. Using these principles, six National Agreements have been finalised and a significant number of National Partnerships and Implementation Plans developed. The process of developing National Partnerships is ongoing with consultation occurring between jurisdictions.

However, given the speed at which the reform process has occurred, there are concerns that a number of agreements do not always comply with the IGA's design principles. In particular, the significant number of agreements and reporting requirements, combined with the continued use of input controls, has the potential to impede the flexibility of States to deliver outcomes efficiently and effectively.

On 7 December 2009, the Council of Australian Governments (COAG) agreed that Heads of Treasuries would undertake a review of National Agreements, National Partnerships and Implementation Plans and provide a final report to COAG by 31 December 2010.

The review will consider whether existing agreements comply with the IGA in respect of:

- clear objectives, outcomes and outputs
- clearly specified roles and responsibilities
- strategic consideration of the appropriate form for implementing a policy proposal, including options to reduce the number of agreements
- the quantity and quality of performance indicators and benchmarks, including the requirement that performance reporting contributes to public transparency
- redesigning agreements that are not consistent with the design principles set out in the IGA.

The Heads of Treasuries review will consult with First Ministers' departments, relevant federal, state and territory portfolio agencies, the COAG Reform Council (CRC) and others as appropriate and will identify options to improve the efficiency and effectiveness of the federal financial relations framework.

A circular on developing National Partnerships, prepared by Australian Treasury in collaboration with State Treasuries and First Ministers' Departments, was approved by the Ministerial Council for Federal Financial Relations in April 2010 to provide guidance for federal and state portfolio agencies in developing new National Partnerships. A similar circular is proposed for the development of Implementation Plans.

## **Performance Reporting under the IGA**

A key part of the financial reforms agreed by COAG in November 2008 was the implementation of a new performance reporting framework to provide improved transparency and accountability for Commonwealth funding arrangements. Under this framework the COAG Reform Council (CRC) plays a major role in collecting, analysing and publishing performance information.

The CRC was established by COAG to assist in driving the COAG reforms. The CRC achieves this through monitoring, assessment and reporting performance of all governments against outcomes and benchmarks set out in the National Agreements and National Partnerships. This also includes advising COAG on whether States have reached milestones required for reward payments contained in some National Partnerships.

The CRC released the baseline performance reports for the National Education Agreement and National Agreement for Skills and Workforce Development in 2009 and is currently preparing baseline performance reports, which are scheduled for publication in June 2010, for the following agreements:

- National Healthcare Agreement
- National Disability Agreement
- National Affordable Housing Agreement
- National Indigenous Reform Agreement.

A report on the aggregate pace of activity across the COAG reform agenda is also scheduled for publication in August 2010.

The annual reports prepared by the CRC for COAG present performance data and analyse the performance of governments, highlight good practice and performance, and reflect the contribution of governments to achieving performance benchmarks and improvements against outcomes, outputs and performance indicators.

### **Impact of tied Australian Government Funding on the Queensland Budget**

The table below considers the impact of Australian Government tied payments to Queensland for specific purposes in 2010-11.

Australian Government funding in this table includes grants to be received in 2010-11 plus Australian Government funding carried forward from previous years, less any deferrals of funding to outyears. On this basis, Queensland expects to expend \$7.508 billion of Australian Government tied funding for recurrent activities and \$2.944 billion for capital expenditure.

In total, the Australian Government directly provides funding equivalent to 18% of Queensland's recurrent expenses and 35% of capital expenditure.

**Table 7.4**  
**Impact of Australian Government Tied payments 2010-11<sup>2</sup>**

	Payments \$ million	State Expenditure \$ million	%
<b>Recurrent expenditure</b>			
Health	2,666.6	10,603.2	25
Education and training	3,124.2	9,924.1	31
Social Security and Welfare	548.0	2,944.9	19
Housing and Community Amenities	603.6	1,848.3	33
Other	565.8	17,031.1	3
<b>Total</b>	<b>7,508.3</b>	<b>42,351.7</b>	<b>18</b>
<b>Capital Expenditure</b>			
Education and Training	838.5	1,256.0	67
Housing and Community Amenities	454.9	667.1	68
Transport and Communications	1,530.0	3,365.9	45
Other	120.6	3,045.8	4
<b>Total</b>	<b>2,944.0</b>	<b>8,334.7</b>	<b>35</b>
Notes:			
1. Numbers may not add due to rounding.			
2. Payments for specific purposes include SPPs and National Partnerships.			
Source: <i>Queensland Treasury</i>			

The Australian Government provides significant funding support in the Health, Education, Disability and Housing sectors, as well as providing substantial funding support for Transport infrastructure.

The level of funding for capital expenditure in 2010-11 is higher than usual because of the inclusion of the Australian Government's economic stimulus funding. Capital expenditure under stimulus measures is expected to be around \$1.060 billion in 2010-11 but will decline substantially to around \$144.2 million in 2011-12.

### **Policy implications of tied funding**

Australian Government Funding for Specific Purposes has a significant impact on the Queensland Budget both through the services which are funded and also through the degree of influence which flows from that funding. This influence is manifested in two major respects, firstly through a high level of policy influence in the National Agreements and National Partnerships between the Australian Government and the State, and also through the National Performance Reporting Framework.

As noted above, the Australian Government contributes 18% of the funding for the State recurrent expenditure. However, the SPP funding agreements and National Partnerships contain agreed Australian Government/State Government objectives and outcomes for the major sectors of the Budget. These cover virtually all of the health and education sectors, as well as state housing and disability service sectors. In effect, around 57% of the State Budget is subject to some form of Australian Government control through SPP and NP project and performance agreements.

## **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 7.1.

#### **Box 7.1 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.

The principle of HFE is that state governments should receive funding from the pool of goods and services tax revenue such that, after allowing for material factors affecting revenues and expenditures, each would have the fiscal capacity to provide services and the associated infrastructure at the same standard, if each made the same effort to raise revenue from its own sources and operated at the same level of efficiency.

A distribution based on the principle of HFE 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.

More information on HFE and GST distribution can be accessed through the Commonwealth Grants Commission website: [www.cgc.gov.au](http://www.cgc.gov.au).

## **2010 Review Report on State Revenue Sharing Relativities**

The Commonwealth Grants Commission (the CGC) released its *Report on GST Revenue Sharing Relativities – 2010 Review* on 26 February 2010. The final report is the culmination of the five year review of the CGC's assessment methodologies which will be used to distribute GST revenue, including GST dedicated to health (from 2011-12).

For the 2010 Review, the CGC investigated ways to improve the quality of the data used in their assessments. The CGC also aimed to simplify the assessments while ensuring that the outcomes remain reliable, robust and acceptable. The Review was conducted using an iterative process in which all States had the opportunity to contribute to the outcomes.

In underlying terms, Queensland will receive \$19.8 million less GST revenue in 2010-11 compared with 2009-10, due to changes to state and territory relativities detailed in the report (Table 7.5). Changes in the CGC's methodology increased Queensland's share of GST by \$878.6 million. However, this gain was offset by a loss of \$388.0 million from the averaging period being reduced from five to three years and a loss of \$510.4 million due to Queensland's economic circumstances relative to other states over the 2007-08 to 2008-09 assessment period.

**Table 7.5**  
**Components of underlying change in states share of GST revenue**  
**2009-10 to 2010-11<sup>1</sup>**

	NSW \$ million	VIC \$ million	QLD \$ million	WA \$ million	SA \$ million	TAS \$ million	ACT \$ million	NT \$ million
Methodology Change	-701.1	-35.3	878.6	107.5	21.1	-1.4	-83.8	-185.6
3 year averaging	579.0	186.1	-388.0	-490.2	65.2	-12.4	13.5	46.9
Economic Circumstances	399.5	72.1	-510.4	-60.2	32.2	14.4	-9.5	61.8
<b>Total Change</b>	<b>277.3</b>	<b>223.0</b>	<b>-19.8</b>	<b>-442.9</b>	<b>118.4</b>	<b>0.6</b>	<b>-79.8</b>	<b>-76.9</b>

Note:

1. Numbers may not add due to interactions between Expenditure and SPP assessments.

Source: Commonwealth Grant Commission Report on GST Revenue Sharing Relativities – 2010 Review Volume 1

The gain in GST from methodology changes was partly a result of Queensland's success in arguing its case in a number of areas of the 2010 Review, including recognition of the investment required to meet the infrastructure needs from the State's rapidly growing population. This gain was reduced by the CGC's proposed shortening of the averaging period from five years to three years, amplifying the reduction in Queensland's share of GST caused by the State's strong economic performance, especially in mining royalties, relative to other states over the assessment period.

The decrease in GST for 2010-11 compares to reductions in Queensland's share of GST revenue of \$381.8 million in 2009-10 and \$409.3 million in 2008-09. With the release of the 2010 Review, Queensland's cumulative loss in GST funding since the last review in 2004 has been over \$1.2 billion. Over the forward estimates period, further underlying losses are expected. Without Queensland's gains from methodology changes, the underlying fall in Queensland's GST allocation in 2010-11 would have been even greater than the significant losses in recent years.



Western Australia, the Northern Territory and the Australian Capital Territory have experienced significant losses from underlying changes in the 2010 Review. New South Wales and Victoria have made significant gains for the third consecutive year, with underlying increases of \$277 million and \$223 million respectively in 2010-11. New South Wales and Victoria continue to receive a greater per capita share of GST than Queensland.

## **Relationship between GST distribution and economic performance**

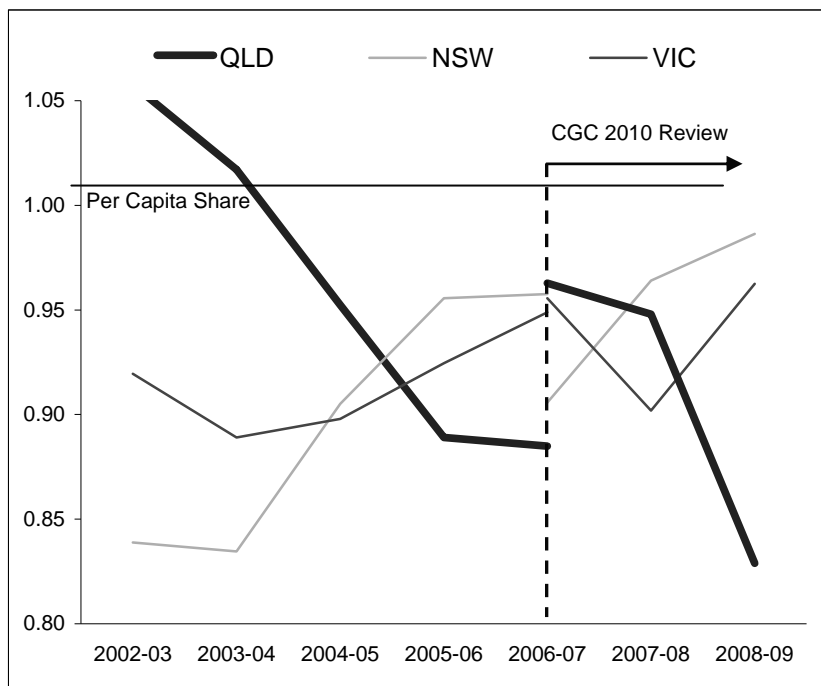
The intended consequence of the GST assessment process is that as the relative economic strength of a state changes, so too does its assessed share of GST funding. A key feature of recent CGC Updates has been the decreasing relativities of the fast growing states of Queensland and Western Australia compared with the more established economies of New South Wales and Victoria. In each year since 2005-06, Queensland's assessed single year GST relativity has been lower than that of both New South Wales and Victoria, which means that for the past four years, Queensland has been assessed as requiring less per capita from the GST pool than either of these fundamentally wealthy states.

The decline in Queensland's relativity is directly related to its strong economic performance in the last few years, particularly in 2008-09, which increased the CGC's assessment of the state's relative capacity to raise own-source revenue. As Queensland's economy has grown, its relative capacity to raise revenue in areas such as mining royalties, stamp duty on conveyances and land tax has increased, resulting in a relativity that is far below 1. Over the same period New South Wales' assessed relativity has risen from 0.83 to 0.98.

The methodology changes implemented in the CGC's 2010 Review resulted in a break in Queensland's single year relativity series (Chart 7.3). However, the impact of methodology changes only represented a once-off boost to Queensland's relativity, and the overall downward trend is expected to continue.

In the most recent year of the CGC's assessment (2008-09), Queensland's single year relativity fell dramatically, from 0.94 to 0.82 between 2007-08 and 2008-09. At the same time, the relativities of both New South Wales and Victoria were increased, further widening the gap between Queensland's relativity and those of the two largest states. This is mainly a result of the large increase in Queensland's coal production value in 2008-09, which greatly increased the CGC's determination of Queensland's capacity to raise revenue from royalties. Chart 7.3 shows Queensland's single year relativities before and after the 2010 Review, and demonstrates the rapid fall in 2008-09.

**Chart 7.3**  
**Single year GST relativities – larger states**



Source: Commonwealth Grants Commission 2010 Review Report on State Revenue Sharing Relativities.

In order to reduce the volatility of annual results, the CGC use an average of single year relativities over the most recent three-year period to determine states' shares of GST. From 2010-11 onwards, GST will be distributed based on a three-year average of relativities, rather than the five-year average used in previous updates. This means that changes to Queensland's economic circumstances will have a more pronounced and immediate impact on its GST share than in the past.

### Box 7.2 2010 Review Issues

Although the CGC's 2010 Review resulted in an improved methodology in many areas, Queensland remains concerned that some of the CGC's assessments produce inappropriate outcomes. The CGC's assessment of state capacities to raise revenue from mining royalties is particularly concerning. Mining revenue comprises around 7% of all state revenue in aggregate, yet this area represents 70% (\$3.1 billion) of the GST that is redistributed based on states' revenue raising capacities. In net per capita terms, the mining royalties raised by Queensland are more than offset by the CGC's redistribution in the 2010 Review (see below). As a result, Victoria gains more from mining royalties than Queensland. The CGC's methodology appears to be placing undue emphasis on mining royalties, when other revenues, such as stamp duty on conveyances and payroll tax are more important sources of state revenue.

	<b>Net Mining Revenue</b>								
	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	AUST
Mining Revenue <sup>1</sup> (\$ million)	781	43	2,032	2,615	147	36	0	136	5,789
2010 Review GST Redistribution <sup>2</sup> (\$ million)	1,123	1,501	-973	-2,097	292	107	103	-57	3,127
Net Mining Revenue (\$ million)	1,903	1,544	1,059	518	439	143	103	79	na <sup>4</sup>
Net Mining Revenue <sup>3</sup> (\$ per capita)	274	294	250	242	276	289	302	363	na

Notes:

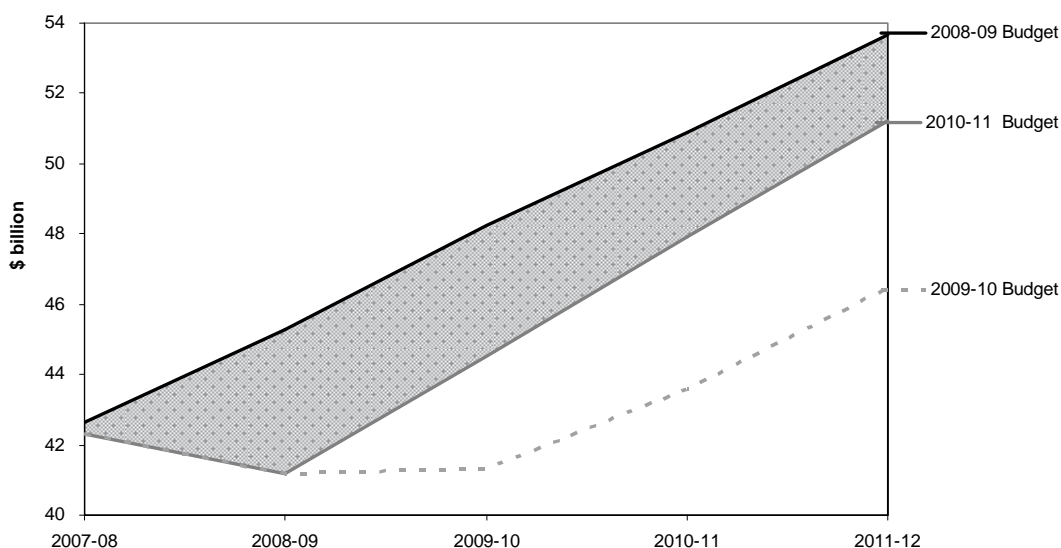
1. Average Mining revenue from 2006-07 to 2008-09.
2. CGC redistribution for Mining revenue based on average assessed revenue raising capacity from 2006-07 to 2008-09.
3. Calculated using 2008-09 populations.
4. na – indicates not available.

Sources: *Queensland Treasury, Commonwealth Grant Commission Report on GST Revenue Sharing Relativities – 2010 Review*

## GST revenue trends

Total GST revenue to all states increased by 8.1% between 2008-09 and 2009-10, with growth expected to decline slightly to 7.7% in 2010-11 (Chart 7.4). However, the expected average annual growth of 6.3% across the forward estimates period is still far lower than the 8.2% average annual growth experienced between the introduction of the GST and 2007-08. Currently forecast growth in the GST pool also follows a decline of 2.7% between 2007-08 and 2008-09, and large downward revisions to forward estimates of GST in the Australian Government's 2009-10 Budget. Although the outlook for GST revenue has improved over the past year, forward estimates remain below the trend anticipated before the global financial crisis.

**Chart 7.4**  
**Comparison of GST revenue<sup>1</sup> – Australian Government Budget 2007-08 to 2011-12**



Note:

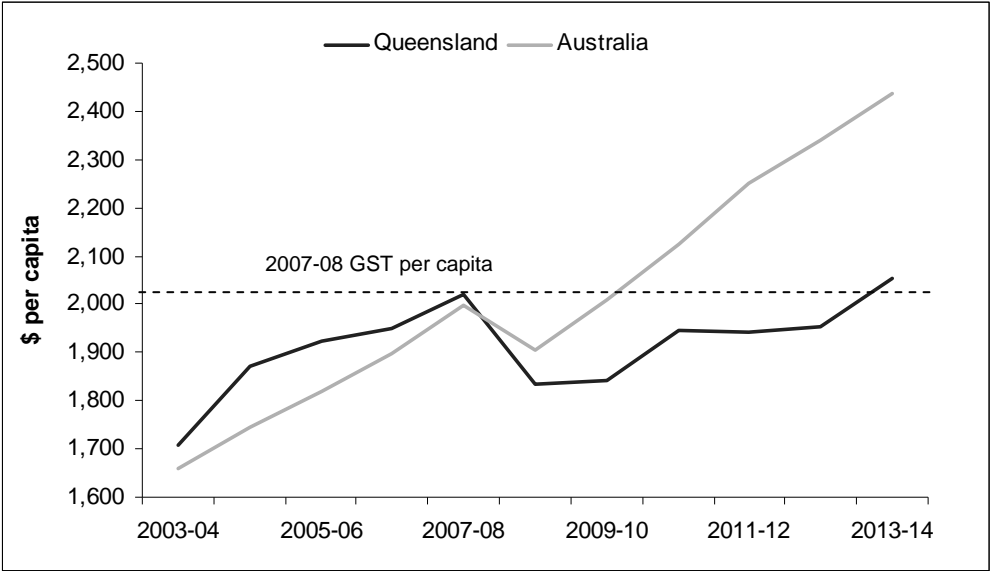
1. Includes GST dedicated to health.

Source: Australian Government Budget Paper No.3, 2008-09, 2009-10 and 2010-11 and Queensland Treasury

Declines in Queensland's relativity also mean that the recovery of Queensland's GST from the effects of the global financial crisis will be slower than the Australian average. While the total GST pool has increased between 2008-09 and 2009-10, Queensland's declining share of the pool has meant that it only received around 8% of this increase, or less than half its population share.

As GST shares are influenced by population growth, the declines in Queensland's total GST share have been mitigated in recent years by relatively strong population growth, which is causing a gradual increase in Queensland's share of the national population. 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 recent per capita declines in GST. In per capita terms, Queensland's share of GST in 2010-11 will be similar to that received in 2005-06, with GST not expected to regain the levels of 2007-08 until 2013-14 (Chart 7.5).

**Chart 7.5**  
**GST<sup>1</sup> per capita, 2003-04 to 2013-14**



Note;

1. Includes GST dedicated to health.

Source: Australian Government Budget Paper No.3, 2010-11 and Queensland Treasury.

## **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. A prime example of a 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 currently receive any general revenue assistance payments.

## **HEALTH REFORMS**

In April this year, COAG, with the exception of Western Australia, reached agreement on the establishment of a National Health and Hospitals Network (NHHN), representing a major reform of federal and state roles and responsibilities in the management and funding of the health care system. It was agreed that:

- the Australian Government will become the majority funder of Australian public hospitals, by funding 60% of the efficient price of all public hospital services delivered to public patients
- the Australian Government will have funding and policy responsibility for GP and primary health care services, and aged care services. States will work together with the Australian Government on system-wide primary health care policy and integration of service planning and delivery
- responsibility for hospital management will be devolved to new Local Hospital Networks
- Local Hospital Networks will be paid on the basis of a national efficient price for each public hospital service they provide to public patients under Local Hospital Network Service Agreements with the States
- some small regional and rural public hospitals, and other agreed services, will be block funded consistent with Community Service Obligations, reflecting the higher costs associated with delivering services in these areas
- new, higher national standards and more transparent reporting will provide Australians with more information about the national, state and local performance of the health system.

It was also agreed that the Australian Government would provide \$5.4 billion to states from 1 July 2010 for National Partnership reforms and investments to tackle key pressure points now and help meet the growing demands of the future. This includes:

- \$3.4 billion to improve access to public hospital services, including \$1.62 billion to deliver 1,316 sub-acute care beds
- \$436 million for primary care – to deliver integrated care for people with diabetes
- \$643 million for the health workforce – to train more health professionals and make the most of the skills and dedication of our existing workforce
- \$739 million to improve access in the community to high-quality aged care
- \$174 million to improve our mental health system, including \$115 million in new funding.

## **Funding implications for Queensland**

Under the NHHN package, the Australian Government will be responsible for absorbing the majority of cost growth in the health and hospital system.

These reforms will be financed through a combination of:

- funding sourced from the National Healthcare Specific Purpose Payment
- an agreed amount of State GST revenue, which would then be allocated to health and hospitals reform
- additional top-up funding from the Australian Government, reflecting the Australian Government's greater responsibility for financing growth in hospital costs.

The agreed amount of GST revenue for each State will be retained and allocated to health and hospital services in that State. The amount of GST to be retained and allocated to health and hospitals will then be fixed from 2014-15, based on 2013-14 costs.

According to Australian Government estimates, approximately one-third of GST revenue will be dedicated nationally to state health and hospital services.

The estimate of dedicated GST for each State will vary from this national estimate. In Queensland's case, the Australian Government estimates that 39% of the State's GST will be dedicated to health and hospital services in 2011-12, 42% in 2012-13 and 43% in 2013-14. The Australian Government's estimates of dedicated GST revenue for Queensland reflect a combination of the State Government's relatively high expenditure on health and hospital services and relatively low share of GST revenue.

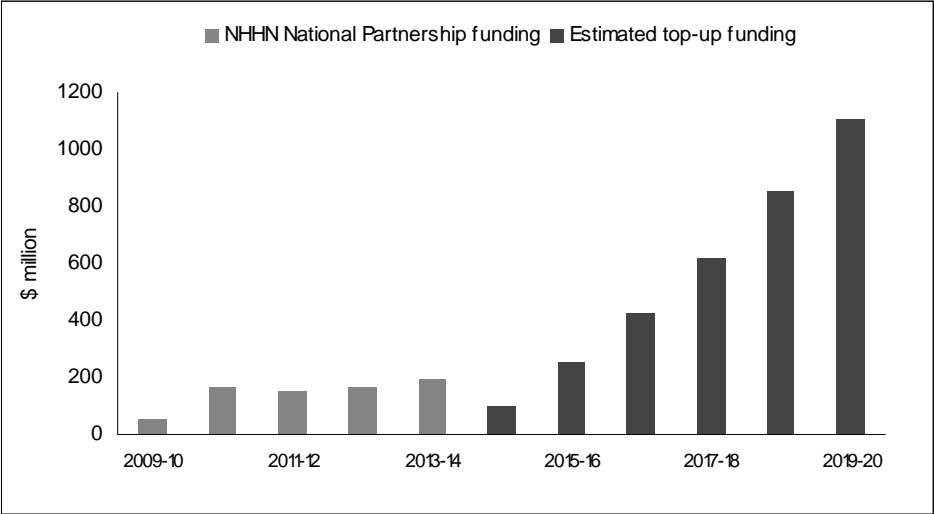
The Australian Government’s estimates of dedicated GST revenue should be regarded as provisional until the details of the new arrangements, including the determination of the health and hospital activities within the scope of the reforms, are finalised. The final determination of dedicated GST revenue for Queensland will depend on these finalised arrangements, as well as the State’s actual health and hospital expenditure and share of GST revenue in that year.

The NHHN reforms will provide an increasing benefit to States as growth in health and hospital costs is expected to exceed the growth in GST. The Australian Government will absorb an estimated \$15.6 billion in additional growth costs from 2014-15 to 2019-20 by ‘topping up’ payments to the states. It is estimated that Queensland’s share of this funding will be approximately \$3.4 billion.

It was agreed that the NHHN will be implemented so that no state government will be worse off in respect of Commonwealth transfers in the short-term and all will be better off in the long-term. To give effect to this, the Australian Government will guarantee that the total ‘top-up’ payment during the period 2014-15 to 2019-20 will be no less than \$15.6 billion. If the Australian Government’s responsibility for health system growth is not as large as the predicted \$15.6 billion, states must spend the residual as additional funding for any health service that will assist in ameliorating the growth in demand for hospital services.

Chart 7.6 shows the estimated additional Australian Government funding to Queensland from the reforms, including National Partnership funding of \$741.9 million from the NHHN package.

**Chart 7.6**  
**Additional Commonwealth health funding for Queensland from NHHN reforms**



*Source: Australian Government Budget Paper 3 and Australian Treasury*



## REVIEW OF AUSTRALIA'S TAX SYSTEM

On 2 May 2010, the Federal Treasurer released the final report of the *Australia's Future Tax System* (AFTS) Review and the Australian Government's response to it. The AFTS Review is likely to exert a strong influence over the national tax reform agenda for years to come.

The Australian Government's response – *Stronger Fairer Simpler: A tax plan for our future* – focused on a package of measures funded by the introduction of a Resource Super Profits Tax (RSPT), which is similar but not identical to the Australian Government's current petroleum resource rent tax (PRRT). As currently proposed, the main features of the RSPT, scheduled to commence from 1 July 2012, include:

- a rate of 40% of assessable resource profits (assessable revenue less deductible expenses including an allowance for capital expenditure)
- application to all mining and petroleum projects, with the exception of PRRT projects, for which opt-in arrangements will be developed
- a refundable credit to resource entities for state royalties paid to State governments following commencement of the RSPT. The refundable credit will be available at least up to the amount of royalties imposed at the time of announcement, including scheduled increases and appropriate indexation factors
- deductibility of RSPT payments for income tax purposes.

It is anticipated that the net revenue raised from the RSPT will be \$3 billion in 2012-13 and \$9 billion in 2013-14. This additional revenue will be used to fund:

- a reduction in the company tax rate from the current 30% to 29% from the 2013-14 income year, then to 28% from the 2014-15 income year. The reductions are intended to assist business in funding an increase in the superannuation guarantee (SG) from 9% to 12% over time, as well as increasing the SG age limit from 70 to 75
- a reduction in the company tax rate for small business to 28% from the 2012-13 income year
- a new infrastructure fund for states worth \$700 million in 2012-13 for nation building infrastructure, particularly that related to resource industry development
- a Resource Exploration Rebate whereby companies will receive a refundable tax offset at the prevailing company tax rate for exploration expenses from 1 July 2011
- superannuation changes, including a Government superannuation contribution for low income earners and assistance for older workers to make catch-up contributions
- 50% discount on interest income for individuals, up to \$1,000 of earned interest

- introduction of a standard deduction of \$500 for work related expenses and the cost of managing tax affairs from 1 July 2012, increasing to \$1,000 from 1 July 2013
- phasing down of interest withholding tax paid by financial institutions on most interest paid by financial institutions on offshore borrowings from the 2013-14 income year.

Notwithstanding the potential impact of the RSPT, the tax reform package effectively preserves the states' resource royalty regimes, with state governments expected to benefit directly or indirectly from the other taxation measures. Resource rich states, such as Queensland, are expected to benefit particularly from the new state infrastructure fund and the Resource Exploration Rebate.

In relation to the RSPT, it is appropriate that the Australian people, as owners of finite mineral and petroleum resources, should receive a fair return from their extraction. At the same time it is important that the parameters of the new tax, in particular the allowance rate, are set so that current production and planned and new investment in the mining industry are not deterred. It is also critical that the Australian Government, in consultation with the industry and other stakeholders, quickly settles the major design features of the tax in order to provide investment certainty and business confidence in this vital industry.

## STATE-LOCAL GOVERNMENT FINANCIAL RELATIONS

In 2010-11, a total of \$1.335 billion in grants will be provided by the Queensland Government to Queensland's local governments, compared to \$1.318 billion in 2009-10. This includes financial assistance grants being paid by the Australian Government through the states to local government.

Table 7.6 details Queensland Government grants to local governments.

<b>Table 7.6</b> <b>Grants to local government in Queensland <sup>1</sup></b>		
	2009-10 Estimated Actual \$ million	2010-11 Budget Estimate \$ million
<b>Queensland Government grants</b>		
Communities <sup>2</sup>	182	281
Community Safety	8	6
Education and Training	4	2
Employment, Economic Development and Innovation	14	12
Environment and Resource Management	8	14
Health	2	2
Infrastructure and Planning <sup>3</sup>	975	915
Premier and Cabinet <sup>4</sup>	20	21
Transport and Main Roads	102	78
Other	3	3
<b>Total Queensland Government grants</b>	<b>1,318</b>	<b>1,335</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. Includes grants for housing, disability services, child safety, sport and recreation. 3. Includes general purpose grants from the State and Australian Governments. 4. Includes grants for the arts.		

## 8 PUBLIC NON-FINANCIAL CORPORATIONS SECTOR

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### FEATURES

- Progress continues to be made to divest a number of the Government's assets, comprising QR Limited's above rail coal and freight business, services operations and the coal network, Port of Brisbane Corporation Limited, Abbot Point Coal Terminal and Queensland Motorways Limited. The agreement for the sale of Forestry Plantations Queensland was executed on 18 May 2010.
- The Government's return from its ownership of businesses in the Public Non-financial Corporations sector is represented by flows to Government. In 2010-11, there will be an estimated inflow of \$1.435 billion, comprising dividends of \$1.05 billion and current tax equivalent payments of \$385 million.
- Community service obligation payments of \$1.839 billion will be paid to the sector in 2010-11, largely for public transport and electricity subsidies. These payments offset the dividends and current tax equivalent payments to obtain the net outflow from Government of \$404 million.
- The Government has undertaken a review of the Government-owned corporation generators, including their structure, preparedness to meet future challenges and position as the dominant providers of electricity in Queensland. The Government will shortly consider the recommendations of the review prior to publicly announcing the outcomes.
- A number of significant projects are being planned or undertaken in the transport sector, including the Goonyella-Abbot Point Expansion rail project, the Abbot Point Coal Terminal expansions, the Wiggins Island Coal Terminal, and development of the liquefied natural gas industry in Gladstone. The private sector will play a key role in many of these projects.

Despite the global financial crisis continuing to impact on the fiscal and economic performance of public and private sector entities, the Government will continue to undertake key infrastructure projects in the Public Non-financial Corporations (PNFC) sector to ensure the ongoing delivery of energy, transport and water services to the growing Queensland population. Key expenditure in 2010-11 includes:

- QR Limited (QR) is forecast to spend \$446.4 million to upgrade infrastructure and rollingstock on the Citytrain network as part of the South East Queensland Infrastructure Plan and Program (SEQIPP) and \$502.2 million on the Goonyella-Abbot Point Expansion (GAPE) project
- Port of Townsville Limited (PoTL) has allocated \$57.5 million for construction of the Townsville Marine Precinct (the Precinct) to provide a dedicated facility to the local industrial and commercial industries

- North Queensland Bulk Ports Corporation Limited (NQBP) has budgeted to spend \$53.5 million on the Abbot Point Coal Terminal (APCT) expansion
- Queensland Electricity Transmission Corporation Limited (Powerlink) has allocated \$117 million towards the establishment of two new substations at Western Downs and Halys, construction of a transmission line between the new substations and reconfiguration of the existing Kogan Creek to Braemar transmission line and associated works
- Ergon Energy Corporation Limited (Ergon) and ENERGEX Limited (ENERGEX) are forecasting capital programs for 2010-11 of \$937.7 million and \$1.251 billion respectively to meet a continuing commitment to safe, reliable and secure electricity supply to customers.

In addition, a number of projects are being considered in 2010-11, including:

- further expansion of APCT with preferred developer status awarded to BHP Billiton Limited (BHP Billiton) and Hancock Coal Pty Limited (Hancock) for Terminals 2 and 3
- PoTL is proposing to lengthen the current Berth 10A to accommodate Royal Australian Navy and cruise ships
- Gladstone Ports Corporation Limited (GPC) will continue development of the liquefied natural gas (LNG) industry port infrastructure at the Port of Gladstone
- SunWater Limited (SunWater) will continue to consider a number of proposed projects, including the Connors River and Nathan Dams and Water for Bowen.

## **PRIOR YEAR KEY PERFORMANCE INDICATORS**

The Government continues to own Government-owned corporations (GOCs) in order to create value through a long-term approach that encompasses efficiency, profitability, development capacity and social responsibility. The GOCs report against a number of financial and non-financial key performance indicators (KPIs), under the performance monitoring and reporting framework, which enable the Government to assess how well they are meeting shareholder expectations. The GOCs' actual performance against a selection of KPIs is provided in Table 8.1.

## Financial

**Table 8.1**  
**Total GOC Sector Key Financial Indicators<sup>1,2</sup>**

	2008-09 Actual	2009-10 Est. Act.	2010-11 Budget
Earnings Before Interest and Tax (\$M)	3,646	2,458	3,171
Return on Assets (%)	7.3	4.3	5.2
Return on Equity (%)	5.7	3.4	3.1
Gearing (debt/debt+equity) (%)	46.9	49.1	50.9
Notes:			
1. Number may not add due to rounding.			
2. Exclude QIC Limited, which is a Public Financial Corporation.			

The higher Earnings Before Interest and Tax (EBIT), Return on Assets (RoA) and Return on Equity (RoE) in 2008-09 are due in part to the impact of the sales of the Cairns and Mackay airports and Port of Brisbane Corporation Limited's (PBC) remaining shares in the Brisbane Airport Corporation Holdings (BACH). Trading results in 2009-10 have also been affected by the impact of the global financial crisis on those GOCs which participate in export supply chains, particularly in the first half of the year.

The increase in gearing in 2009-10 can largely be attributed to the impact of an equity repatriation from Stanwell following the 2009-10 Capital Structure Review and an increase in NQBP's borrowings for the APCT expansion.

The improvement in EBIT in 2010-11 compared to 2009-10 reflects the impact of the Australian Energy Regulator's (AER) Final Determination 2010-11 to 2014-15 on regulated revenue for ENERGEX and Ergon and QR's growth in the coal sector following the adverse impacts of the global financial crisis. The improvement in EBIT has also contributed to the forecast increase in the RoA for the GOC sector.

The slight decrease in RoE in 2010-11 is due to a reduction in forecast net profit for the generation GOCs due to challenging market conditions. Overall though, the rates of return on assets and equity remain well below private sector equivalent levels, representing an opportunity cost to tax payers. This highlights the need for ongoing reform and operational improvement.

## Non-financial

### *Energy sector*

**Table 8.2<sup>1</sup>**  
**Prior Year Non-Financial Performance**

	2007-08 Actual	2008-09 Actual
<b>Ergon Energy Corporation Limited</b>		
System Average Interruption Duration Index <sup>2</sup>		
Urban	179	217
Short Rural	457	609
Long Rural	1,030	1,108
System Average Interruption Frequency Index <sup>3</sup>		
Urban	1.85	2.33
Short Rural	3.49	4.93
Long Rural	6.40	7.73
Safety (Lost Time Injury Frequency Rate)	4.30	4.08
Workforce Number	4,489	4,634
<b>ENERGEX Limited</b>		
System Average Interruption Duration Index <sup>2</sup>		
CBD	4.00	3.10
Urban	84.70	91.20
Rural	242.10	228.00
System Average Interruption Frequency Index <sup>3</sup>		
CBD	0.04	0.06
Urban	1.05	1.05
Rural	2.71	2.56
Safety (Lost Time Injury Frequency Rate)	3.62	2.34
Workforce Numbers	3,733	3,744
<b>Powerlink</b>		
Safety (Lost Time Calculation)	1.3	0.1
Grid Energy Delivered (gigawatt hours)	46,083	47,904
Workforce Numbers	887	1,000
<b>CS Energy Limited</b>		
Safety (Lost Time Injury Frequency Rate)	3.3	5.0
Energy Sent Out (gigawatt hours)	15,426	16,675
Workforce Numbers	588	673

**Table 8.2<sup>1</sup> (continued)**  
**Prior Year Non-Financial Performance**

	2007-08 Actual	2008-09 Actual
<b>Stanwell Corporation Limited</b>		
Safety (Lost Time Injury Frequency Rate)	3.57	9.73
Energy Sent Out (gigawatt hours) <sup>4</sup>	9,785	8,758
Workforce Numbers	368	395
<b>Tarong Energy Corporation Limited</b>		
Safety (Lost Time Injury Frequency Rate)	4.4	6.2
Energy Sent Out (gigawatt hours)	5,787	8,601
Workforce Numbers	386	452
Notes:		
1. Figures have been obtained from the energy GOCs' 2007-08 and 2008-09 Annual Reports.		
2. Total minutes, on average, that customers are without electricity in a year (includes both planned and unplanned minutes off supply).		
3. Average number of occasions per year each customer is interrupted.		
4. Includes wind farms.		

There are a number of points to note about the Energy sector GOCs' prior year non-financial performance (Table 8.2).

- The 2008-09 system performance for Ergon compared to 2007-08 reflects the effect of a suspension and internal review of live line work on high voltage assets to allow a rigorous internal review of operations. Live line management structures, practices and documentation were reviewed and external auditors engaged to further develop the training regime.
- System performance by ENERGEX met the requirements of Minimum Service Standards across all System Average Interruption Duration Index and System Average Interruption Frequency Index measures in 2008-09 and also for 2007-08 except for Rural Safety which was within 2% of the target.
- Energy GOCs undertake regular reviews and programs to deliver improved plant safety and a safety culture aimed at achieving further improvements in safety outcomes.
- Energy sent out by the electricity generator GOCs will vary from year to year due to a range of factors such as scheduled maintenance and overhauls, electricity market conditions and climatic conditions. Drought conditions during the 2007-08 period significantly reduced energy sent out from the Tarong power stations. This was partly offset through other generators like Stanwell.
- Growth in the energy through the electricity transmission grid (owned and operated by Powerlink) generally reflects growth experienced in total energy consumption.



## Transport and other sectors

**Table 8.3<sup>1</sup>**  
**Prior Year Non-Financial Performance**

	2007-08 Actual	2008-09 Actual
<b>Far North Queensland Ports Corporation Limited<sup>2</sup></b>		
Safety (Lost Time Injury Frequency Rate)	15.62	117.93
Number of Vessels	2,799	795
Trade Volumes (million tonnes)	1.191	1.086
<b>Gladstone Ports Corporation Limited</b>		
Safety (Lost Time Injury Frequency Rate)	4.01	4.81
Number of Vessels	1,417	1,485
Trade Volumes (million tonnes)	76.648	79.374
<b>North Queensland Bulk Ports Corporation Limited<sup>3</sup></b>		
Safety (Lost Time Injury Frequency Rate)	..	..
Number of Vessels	1,754	1,681
Trade Volumes (million tonnes)	118.995	121.159
<b>Port of Brisbane Corporation Limited</b>		
Safety (Lost Time Injury Frequency Rate)	11.70	5.00
Number of Vessels	2,618	2,453
Trade Volumes (million tonnes)	30.215	31.896
<b>Port of Townsville Limited</b>		
Safety (Lost Time Injury Frequency Rate)	6.10	6.65
Number of Vessels	780	718
Trade Volumes (million tonnes)	9.833	9.084
<b>QR Limited</b>		
Safety (Lost Time Injury Frequency Rate)	12.10	11.74
Citytrain Customer Satisfaction (%)	87	90
Citytrain On-time Running (%)	91.15	91.76
Coal Tonnages (million tonnes) <sup>4</sup>	185	185
Bulk/General Freight Tonnages (million tonnes) <sup>4</sup>	63.9	59

**Table 8.3<sup>1</sup> (continued)**  
**Prior Year Non-Financial Performance**

	2007-08 Actual	2008-09 Actual
<b>SunWater Limited</b>		
Safety (Lost Time Injury Frequency Rate)	14.90	8.70
Customer Service Levels (Exceptions)	54	153
Water Delivered (%)	42.68	43.27
Notes:		
1. Figures have been obtained from the transport GOCs' 2007-08 and 2008-09 Annual Reports.		
2. Far North Queensland Ports Corporation Limited was known as Cairns Ports Limited (CPL) until 2009-10. The reported KPIs reflect CPL's actual results.		
3. NQBP comprises the former Mackay Ports Limited and Ports Corporation of Queensland Limited (PCQ), which were amalgamated in 2009-10. The reported KPIs reflect PCQ's actual results.		
4. Tonnages represent those transported by QR subsidiaries – QR Coal and QR Freight.		

There are a number of points to note about the Transport sector GOCs' prior year non-financial performance (Table 8.3).

- QR has placed significant organisational emphasis on safety issues and the Lost Time Injury Frequency Rate has continued to decline both within and since the period reported. In 2008-09, QR maintained the tonnage of coal and freight delivered, despite economic conditions impacting upon demand.
- GPC increased its total trade volumes by 3.6% in 2008-09, despite the economic challenges of the year, due largely to the sustained demand for coal from Asian countries.
- NQBP saw an increase in trade volumes of approximately 2.2 million tonnes in 2008-09 with the majority of this increase due to the increase in capacity of APCT.
- The decline in the trade volumes for PBC in 2008-09 is due to a slowing in container and motor vehicle volumes due to the global economic downturn.
- Trade volumes at PoTL also declined in 2008-09 with a slowing in cargo throughput resulting from the global economic downturn.
- The significant drop in the number of vessels passing through Far North Queensland Ports Corporation Limited (FNQP) ports in 2008-09 is due to a change in the way this indicator is measured (that is, the 2008-09 number of vessels excludes fishing shipping arrivals of approximately 1,800).
- SunWater's 2008-09 increase in Customer Service Level Exceptions was due to unplanned events occurring in the Bundaberg region such as pipe breakages (outside the control of SunWater) as well as scheduled interruptions to allow for the treatment of aquatic weeds and algae.

## NET FLOWS TO GOVERNMENT

The PNFC sector comprises 13 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 Queensland Motorways Limited (QML).

The 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 (GFS) 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 (CSO) payment 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 2010-11 are estimated at \$1.05 billion (Table 8.4).

**Table 8.4**  
**Ordinary Dividends<sup>1</sup>**

	2008-09 Actual \$ million	2009-10 Est. Act. \$ million	2010-11 Budget \$ million
Energy Sector <sup>2</sup>	588	466	545
Transport Sector (rail and ports) <sup>3, 4</sup>	334	257	472
Other	8	17	31
Non-GOC	5	7	2
<b>Total PNFC sector dividends</b>	<b>935</b>	<b>747</b>	<b>1,050</b>

**Notes:**

1. Numbers may not add due to rounding.
2. The improvement in energy sector dividends can largely be attributed to ENERGEX and Ergon and reflects the impact of the AER Final Determination 2010-11 to 2014-15 on regulation revenue.
3. In 2008-09, Far North Queensland Ports Corporation Limited, the former Mackay Ports Limited and PBC paid a special dividend totalling \$608.6 million from the proceeds of the sale of the Cairns and Mackay airports and the remaining shares in BACH respectively.
4. The improvement in transport dividends can be attributed to growth in the coal sector, following the previous adverse impact of the global financial crisis.

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% of earnings before tax. Total current TEPs for 2010-11 are estimated at \$385 million (Table 8.5).

<b>Table 8.5</b> <b>Current Tax Equivalent Payments<sup>1</sup></b>			
	2008-09 Actual \$ million	2009-10 Est. Act. \$ million	2010-11 Budget \$ million
Energy Sector <sup>2</sup>	143	144	101
Transport Sector (rail and ports) <sup>3</sup>	36	80	264
Other	5	3	17
Non-GOC	..	..	3
<b>Total PNFC sector current TEPs</b>	<b>184</b>	<b>226</b>	<b>385</b>
Notes: 1. Numbers may not add due to rounding. 2. The reduction in TEPs for the energy sector is due to the reclassification of Stanwell's TEPs to deferred, which are excluded under GFS reporting. 3. The significant increase in transport sector TEPs is due to QR commencing the payment of current TEPs in 2010-11.			

In 2010-11, it is estimated that the Government will pay CSOs of \$1.839 billion (Table 8.6).

<b>Table 8.6</b> <b>Community Service Obligations<sup>1</sup></b>			
	2008-09 Actual \$ million	2009-10 Est. Act. \$ million	2010-11 Budget \$ million
Energy Sector	492	233	349
Transport Sector (rail and ports) <sup>2</sup>	1,310	1,234	1,486
Other	4	1	2
Non-GOC	2	8	1
<b>Total PNFC sector CSOs</b>	<b>1,808</b>	<b>1,477</b>	<b>1,839</b>
Notes: 1. Numbers may not add due to rounding. 2. The change in QR's CSO payments from 2009-10 to 2010-11 is due to increases in the: <ul style="list-style-type: none"> <li>– Passenger service CSO payments from the TransLink Transit Authority by \$95.6 million;</li> <li>– Regional passenger and below rail CSO payments from the Department of Transport and Main Roads (DTMR) of \$31.1 million; and</li> <li>– Government commitment for CSO payments to QR National Limited from DTMR of \$125.8 million to fully offset the financial losses borne by QR due to the provision of general freight and livestock services to rural and regional communities.</li> </ul>			

## **ASSET SALES PROGRAM**

The Government is undertaking a staged program of strategic asset sales to restructure the State's asset portfolio and reform the State's balance sheet. It is estimated the sales will deliver proceeds of as much as \$15 billion and avoid over \$10 billion in capital investment in these assets over the next five years. This capital investment is required for these businesses to grow and expand over the next five years. The Government's view is that these funds should come from the private sector, allowing the Government to prioritise spending on roads, schools and hospitals.

Proceeds from the five commercial businesses to be sold, licensed or leased to the private sector were not factored into the 2009-10 Budget.

Proceeds from the 99-year lease of Forestry Plantations Queensland (FPQ) have been factored into the 2010-11 Budget. Once the sale processes for the remaining four commercial businesses are finalised, the proceeds will be incorporated into the forward estimates.

It is expected that the sale proceeds will significantly reduce the current level of indebtedness of the State. The sales will reduce the requirements on Government to further fund the significant ongoing capital requirements of these businesses and appropriately introduce more private sector funding into Queensland infrastructure.

### **Forestry Plantations Queensland**

On 18 May 2010, the Government agreed to sell FPQ to Hancock Queensland Plantations for the sum of \$603 million. The sale involved a comprehensive competitive tender process to seek a suitably experienced and capable buyer. The sale price for FPQ represents fair market value for the transfer of ownership of the business.

The sale of FPQ concludes a progressive long term process of reforming the State's plantation management business to improve its efficiency and competitiveness. This transaction is expected to be concluded by 1 July 2010.

The Crown plantation land on which the majority of the business sits will remain in Government ownership. The sale includes around 35,000 hectares of freehold land, which is about 10% of the total estate. The licence for the sale will deliver on the Government's commitment to the South East Queensland Forestry Agreement by ensuring that 20,000 hectares of hardwood plantations are established by 2025.

### **Port of Brisbane Corporation**

A 99-year lease over Port of Brisbane land and infrastructure will be issued following a competitive bidding process. The competitive bidding process is scheduled to proceed through three stages (expressions of interest, indicative bids and final binding bids) with selection of qualified bidders at each stage.

Financial close is expected by the end of 2010, subject to market conditions.

## **QR Limited**

QR's commercial coal, freight and services operations will be sold as an integrated transport and logistics enterprise called QR National Limited (QR National). QR National will be floated through a share offer and planned listing on the Australian Securities Exchange (ASX) in the last quarter of 2010, subject to market conditions. The sale of QR National is expected to potentially place it in the top 50 of Australia's largest ASX companies.

Government intends to retain 25%-40% of QR National – with the residual sold down over time, when appropriate, and no individual company, national or foreign-owned, will be able to purchase more than 15% of QR National. Eligible permanent QR employees transitioning to QR National will be provided with \$1,000 of shares and an option to purchase an additional \$4,000 in shares at a discounted rate to the listed share price.

The Queensland rail network, including the Central Queensland Coal Network, will continue to be regulated under Queensland's third party access regime. This will ensure the continuation of existing competition safeguards, including those safeguards for Queensland's coal haulage market.

QR's passenger business and regional non-coal below rail network will be separated from QR's corporate structure and established as a new GOC called Queensland Rail Limited by 1 July 2010.

## **Abbot Point Coal Terminal**

A 99-year lease over APCT X50 land and infrastructure will be issued following a competitive bidding process, which will commence in the last quarter of 2010, subject to market conditions. The Government will retain ownership of the port land and associated strategic infrastructure, such as the terminal and coal unloading/loading infrastructure.

The two new terminals at APCT, which are adjacent to the X50 site, are to be developed, operated and managed by the private sector and are not part of this sale process.

## **Queensland Motorways Limited**

The sale of QML will proceed after the completion of the \$1.8 billion Gateway Upgrade Project, in order to maximise the value from completion of works and the achievement of steady state traffic. The tolling rights on the Sir Leo Hielscher Bridges and the Logan Motorway will be leased following a competitive bidding process for a franchise of up to 50 years.

It is anticipated that the sale will proceed via a three stage process, being expressions of interest followed by a two stage process to identify the preferred buyer. The process to lease the Queensland Motorways franchise will be competed in late 2011.

## CAPITAL STRUCTURE REVIEW

In 2009-10, the Queensland Treasury Corporation (QTC) reviewed the GOCs' capital structures to ensure unregulated GOCs maintained private ratings of investment grade (BBB- or above) and regulated GOCs maintained ratings of at least BBB+.

The review identified potential equity injections and repatriations for some of the GOCs over the forward estimates period but recommended that no equity adjustments need to occur in 2010-11. The Government will continue to review the GOCs' capital structures annually, in the context of the Budget, and may choose to make further equity adjustments reflecting changing circumstances, as a result of approval of major investment projects or changes in demand or financial outlook.

In addition to the outcomes of the reviews undertaken by QTC, the Government may provide project-specific equity injections and repatriations. It is proposed that the following equity injections and repatriations occur over the forward estimates period. (Table 8.7).

**Table 8.7**  
**Equity Injections / Repatriations<sup>1</sup>**

	2009-10 Est. Act. \$ million	2010-11 Budget \$ million	2011-12 Forecast \$ million	2012-13 Forecast \$ million	2013-14 Forecast \$ million
GOC	593	442	571	446	428
Non-GOC	190	(34)	120	10	10
<b>Total PNFC sector equity injections/ repatriations</b>	<b>783</b>	<b>408</b>	<b>692</b>	<b>456</b>	<b>438</b>

Note:

1. Numbers may not add due to rounding

Net equity movements in the GOC sector in 2009-10 include a \$380 million equity repatriation from Stanwell as an outcome of the 2008-09 capital structure review, a \$102.8 million dividend reinvestment into ENERGEX and equity injections of \$275 million to Tarong for the acquisition of the remaining 50% of Tarong North Power Station and \$502.7 million to QR for SEQIPP projects. In the non-GOC sector, the net equity movement is largely due to a \$150 million injection to the Queensland Manufactured Water Authority, which has assumed ownership and operational responsibility for key Water Grid assets delivered by the State's special-purpose vehicle construction companies.

Over the forward estimates, the majority of the GOC equity injections are forecast to be provided to QR for capital projects under SEQIPP. For the non-GOC sector, the net equity repatriation in 2010-11 is due to the sale of FPQ, offset by an equity injection to the Queensland Bulk Water Supply Authority (QBWSA) upon commissioning of the \$395 million Hinze Dam Raising (Stage 3) project.

From 2011-12 onwards, equity injections for the non-GOC sector largely reflect contributions to the Queensland Bulk Water Supply and Transport Authorities as projects delivered under the current Grid infrastructure program are commissioned and transferred (including Wyaralong Dam and Northern Pipeline Interconnector Stage 2). The equity contributions to the authorities maintain the capital structures agreed with responsible Ministers.

## **GOC REPORTING REFORMS**

The Government has been working with the GOCs and the Auditor-General's office to implement a number of reporting reforms, which will improve the timeliness and transparency of information on the GOCs' performance available to stakeholders. Reforms implemented in 2009-10 include:

- biannual reporting – in addition to annual reports, GOCs are now required to prepare and publish interim reports on their performance in the first half of the financial year
- forecast reporting – GOCs must now prepare reports forecasting performance against several financial and non-financial KPIs, to be published on their websites early in the financial year
- actuals reporting – the PNFC sector chapter of Budget Paper 2 – Budget Strategy and Outlook now includes information on the aggregated performance of the GOC sector against several financial KPIs and the performance of individual GOCs against several non-financial KPIs.

The Government will monitor the GOCs' performance reporting framework to ensure it continues to provide stakeholders with relevant and high quality information and will undertake additional reforms in the future, should the need for them be identified.



## **IMPLEMENTATION OF GOC REFORMS**

The Government is continuing to work with the GOCs to improve their efficiency, effectiveness and accountability, consistent with the reforms announced as part of the 2008-09 Mid Year Fiscal and Economic Review. The purpose of the reforms is to provide the GOCs with appropriate organisational structures and incentive frameworks to allow them to operate at their full commercial potential, providing returns similar to those expected by investors in private sector companies.

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

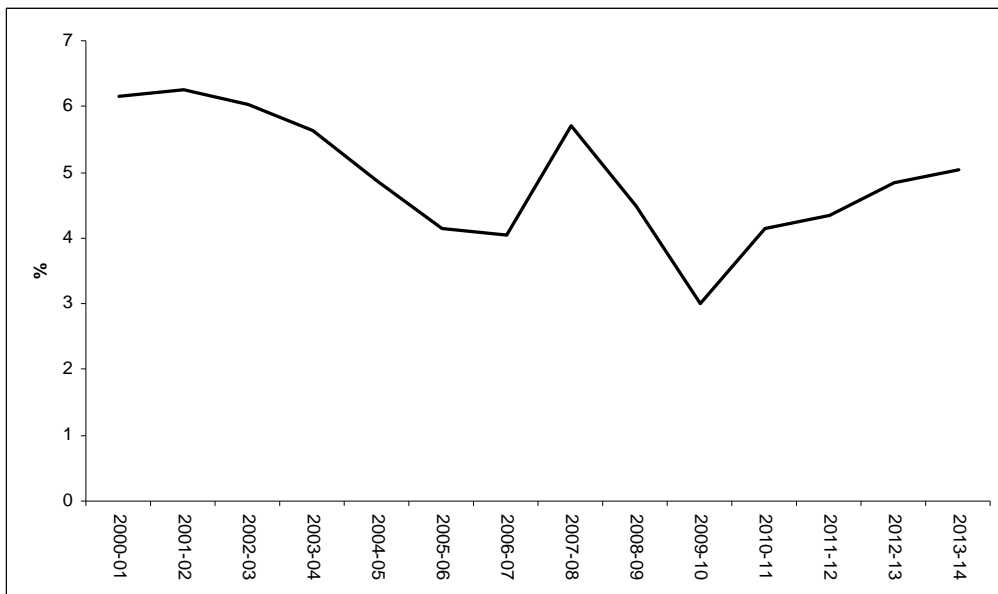
The Government has been working with the GOCs to progressively increase their contributions to General Government revenue through dividends and current TEPs to achieve an additional \$100 million each year by 2011-12. The additional \$100 million each year is reflected in the forward estimates, as demonstrated by the forecast increased rate of return from 2010-11 onwards. Initiatives that are currently being implemented by the GOCs include:

- SunWater is implementing its 'Smarter, Lighter, Faster' initiative to reduce the cost of services and improve operational efficiencies
- GPC is adjusting the timing of expenditures to create savings relating to its dredging program and deriving new operational efficiencies through installing new systems that allow, among other things, better scheduling of vessel loading and coal delivery
- PoTL is implementing long-term and sustainable strategies to increase efficiency and undertaking a review of the procurement framework, maintenance strategy and asset management
- Tarong Energy Corporation Limited (Tarong) continues to progress a procurement review program to secure reductions in project-related expenditure
- Stanwell has refined its business development focus leading to reductions in the utilisation of specialist contractors.

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

The Government's return from its ownership of GOCs is calculated as dividends divided by average total equity. This represents an estimated rate of return of 4.14% in 2010-11. As indicated in Chart 8.1 below, it is anticipated that the rate of return will continue to improve over the forward estimates period to 5.04% by 2013-14.

**Chart 8.1**  
**Rate of Return<sup>1, 2, 3</sup>**  
 annual from 2000-01 to 2013-14



**Notes:**

1. Excludes QIC Limited, which is a public financial corporation.
2. Calculated as (ordinary dividends / average total equity).
3. Excludes dividends associated with asset sales and special dividends.

## Capital expenditure reviews

GOCs continue to review their capital expenditure plans to identify opportunities to optimise capital investments, while ensuring the continued delivery of essential infrastructure. For example, throughout 2010-11, FNQP will be undertaking a number of initiatives regarding the corporation's capital expenditure including:

- a review of the Cityport Masterplan to consider design, staging and delivery models to match community and market demands
- a land development plan for the land within the Smith's Creek industrial site, incorporating a Cairns Port Business Park development, Smith's Creek Marina Precinct and Marine Industry Park
- a review of the development plan for the Port of Mourilyan to inform future land development options, land acquisition requirements and the need and timing of any transport link upgrades
- reviewing and developing land development and acquisition plans for all regional ports, particularly the development planning for potential marina and commercial developments in Ports of Mourilyan and Cooktown.

Tarong has identified a number of capital program efficiencies over the next five years through reassessment of procurement practices, reassessment of asset condition and modifying operational procedures.

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

The GOCs are continuing to review their asset holdings to identify surplus, non-performing and non-core assets, which will be assessed for their potential to be more effectively managed or rationalised. Several GOCs have identified surplus assets, including Stanwell and Tarong, which have identified their Curragh and Glen Wilga coal resources respectively as surplus to future fuel supplies, and have taken them to the market to realise their value.

The ongoing process for GOCs to identify and divest surplus or non-core assets is proceeding separately to the Government's Asset Sales Program and will be managed by the relevant GOCs.

## **ENERGY SECTOR**

### **Shareholder review of Government-owned Generators**

In the December 2008 Major Economic Statement, the Government announced that it would undertake a shareholder review of the structure and preparedness of the GOC Generators to meet the new challenges facing these businesses, particularly in respect of the impending Carbon Pollution Reduction Scheme (CPRS) and competition from large vertically-integrated retailers.

The review, which commenced in 2009 and is now nearing completion, outlines the impetus for reform of the GOC Generator sector including:

- the potential impact on the GOC Generator sector from the proposed CPRS
- the deregulation of the electricity market which has led to an increase in competition, particularly from vertically-integrated retailers
- a general trend of declining pool prices over the period (excluding the recent drought-related increase in 2006-07 and 2007-08), reflecting the increasingly competitive market as well as the underlying over-supply of base load generation for the then prevailing demand levels
- declining returns from a mainly ageing portfolio of predominately base load coal-fired power stations.

Government will shortly consider the final recommendations of the review ahead of publicly announcing the outcome of the review.

### **North West Queensland Energy Review**

The independent review of energy delivery in the North West Queensland Minerals Province (NWQ Minerals Province), announced by the Government and the Queensland Resources Council during 2008-09, was conducted by independent expert Mr Rod Sims. The final report, 'Providing a Circuit Breaker to Meet North West Queensland's Future Electricity Needs', launched by the Australian and Queensland Governments in August 2009 recommended a 12-month customer-led competitive process during which proponents would negotiate with customers to confirm a long-term energy solution for the north-west and its growing resources sector.

The Queensland Government has been actively facilitating participation in the customer-led competitive process, which has seen major energy users in the NWQ Minerals Province actively engage with a number of energy supply proponents, which include both local generation and transmission link options.

## **Surat Basin Transmission Network Reinforcement Plan**

Powerlink is undertaking a South West Queensland Augmentation project, which will provide the foundation for an extension of the high voltage transmission network into the North West Surat Basin. To reinforce electricity supply, Powerlink plans an extension of the existing high voltage transmission network into the Surat Basin from the proposed Western Downs Substation to meet the long-term needs of existing and emerging electricity customers in the region such as proposed coal seam gas, LNG upstream facilities and coal mining projects.

## **Australian Energy Regulator Determination**

In May 2010, the Australian Energy Regulator released the final distribution determinations for Ergon and ENERGEX, establishing the regulated revenues and allowable investments for each electricity distributor for the period from 1 July 2010 to 30 June 2015.

The determinations recognise the continued growth in electricity demand throughout Queensland, driven to a large extent by increased economic activity and continued uptake of lifestyle enhancing appliances such as air conditioners. This is reflected in the increase in capital investment with Ergon and ENERGEX forecasting significant capital expenditure in the budget period.

## **Demand Side Management**

To meet the increase in electricity demand, in particular peak demand, and maintain a secure electricity distribution network, ENERGEX and Ergon have forecast total capital expenditure for 2010-11 at \$2.189 billion.

ENERGEX and Ergon are progressing a number of initiatives aimed at shifting or reducing peak demand and increasing asset utilisation. The Government continues to support ENERGEX and Ergon to initiate a range of energy conservation and demand management measures in Queensland aimed at reducing long term increases in electricity tariffs.

## **TRANSPORT SECTOR**

### **QR Limited**

From 1 July 2010, QR will be split to form two separate businesses, QR National and Queensland Rail. QR National will be floated through a share offer while Queensland Rail will remain entirely in Government ownership as a new GOC.

#### ***Goonyella to Abbot Point Expansion project***

The GAPE project consists of individual sub-projects, including:

- the Northern Missing Link, which is a 69 kilometre railway between the North Goonyella and Newlands systems
- the Newlands to Abbot Point Expansion, which is a major upgrade of the Newlands line between Newlands and Abbot Point
- upgrade works for train provisioning and upgrade works into the Goonyella system.

QR Network Pty Ltd (QR Network) is managing the project and will deliver this new infrastructure via CoalConnect, which is an alliance between QR, construction firm Leighton Contractors, designers GHD and KBR and other service areas of QR.

Project construction commenced in late April 2010 with commissioning expected to occur in early 2012.

#### ***Moura and Blackwater Rail enhancements***

During April 2010, QR Network released its request for proposals to ascertain the extent, nature and timing of the potential rail infrastructure enhancements and to enter into contractual arrangements for the delivery of the required infrastructure enhancements to service Stage 1 of the Wiggins Island Coal Terminal (WICT). It is expected that project deeds for the initial project will be finalised this year.

#### ***QR Limited Passenger Rollingstock program***

QR has called for expressions of interest (EOIs) from Australian and international suppliers to build up to 200 three-car train sets to cater for the expected growth in public transport use and network expansion in SEQ, as well as replace existing ageing rollingstock. Following the EOI process, three bidders with the capability and experience to meet QR's requirements – United Group and Rotem; Downer EDI Rail - Bombardier; and Mitsubishi and CAF, were shortlisted.

The next stage in the procurement process is to issue a request for proposals (RFP) to the shortlisted bidders, seeking bids for the design, construction and maintenance (on a whole-of-life basis) of the 200 three-car train sets and the maintenance facility in which the trains will be maintained. The RFP will include a Local Industry Participation Plan and a weighting will be given to local content in the assessment process.

QR proposes to award the contract in early 2011, with deliveries scheduled to begin in early 2013.

### ***Surat Basin***

The Surat Basin Railway (SBR) is a key piece of infrastructure, which will facilitate development of significant coal reserves in the Surat Basin by providing a rail link to the Port of Gladstone. In December 2006, the SBR Joint Venture, comprising QR, Xstrata, and the Australian Transport and Energy Corridor, was granted an exclusive mandate to develop the SBR up to financial close.

### **Port GOCs**

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

In July 2009, the final commissioning and handover of the new second inloader at the APCT was completed. This formed the majority of the works undertaken to expand the APCT from 21 to 25 million tonnes per annum (mtpa). The offshore works, which also comprise part of the \$95 million upgrade, are expected to be completed in mid-2010.

NQBP is also well underway with the current expansion of the terminal which will increase capacity to 50 mtpa. The \$818 million project involves major investment in three new stacker reclaimer machines, a new bund, two new coal stockpile rows and a second offshore wharf and shiploader. The onshore and offshore work will be completed in mid-2010, which will increase capacity to 30-35 mtpa. Capacity is expected to increase incrementally over the following twelve months to reach 50 mtpa by mid-2011. Budgeted expenditure in 2010-11 for the expansion is \$53.5 million.

In late 2009, NQBP sought EOIs for preferred developer status for the development of two new coal terminal sites at the Port of Abbot Point. EOIs closed on 1 February 2010. On 28 April 2010, NQBP awarded preferred developer status for the terminal sites to BHP Billiton and Hancock. Both BHP Billiton and Hancock have expressed interest in working with NQBP to optimise the land area in order to build coal terminals with the capacity of 50 mtpa and 60 mtpa respectively. BHP Billiton anticipates it will commence exporting coal from its terminal in 2015-16, while Hancock anticipates exports from its terminal will commence in 2013-14.

NQBP is also considering further developments at Abbot Point. Referred to as Terminals 4-7, this development could involve additional coal export terminals with a nominal capacity of 120 mtpa. Aurecon Hatch has been engaged to undertake a study to identify the best site within the Abbot Point State Development Area.

## ***Dudgeon Point***

Dudgeon Point, which is located at the Port of Hay Point, has been identified as a suitable location for future industrial activity. While no specific trade has been finalised for Dudgeon Point, the site is a potential location for the export of coal from mines in the Galilee and Bowen basins.

In September 2009, NQBP called for EOIs for preferred proponent status for development at Dudgeon Point. The EOI process has now closed and NQBP is currently considering options for infrastructure development at Dudgeon Point. NQBP has allocated \$1.8 million in 2010-11 to undertake a Master Plan of the Port of Hay Point, including studies into the possible future development of Dudgeon Point.

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

Stage 1 of WICT will create an initial capacity of at least 20 mtpa with total capacity for the terminal of approximately 70 mtpa, delivered in incremental stages.

In late 2008, the WICET Group proposed a private finance proposal for the development and construction of a new coal export terminal at the Port of Gladstone owned by the WICET Group with GPC as operator.

On 11 December 2009, the State, GPC and the WICET Group executed a Framework Deed under which WICET will secure financing and relevant authority approvals for the design, construction and development of stage 1 of WICT.

A number of activities required ahead of project and financial close are provided for in the Framework Deed and have been progressed. These include a voluntary Wiggins Island Terminal Access Policy to provide open access to the terminal, which has now been finalised. Project financial close is expected in coming months, with construction of Stage 1 of WICT expected to commence shortly thereafter.

## ***Port of Gladstone***

GPC's Western Basin Dredging and Disposal project (the Project) accommodates the long-term dredging and dredged material disposal that is required to provide safe and efficient access to the existing and proposed Gladstone Western Basin Port (Port Curtis, from Auckland Point to The Narrows) facilities over the foreseeable future. These works will be a key component to the future development within the Port of Gladstone, including the emerging LNG industry.

The Project is a State Significant project requiring an Environmental Impact Statement and has been declared a controlled action under section 75 of the *Environment Protection and Biodiversity Conservation Act 1999* (Conservation Act).



Due to the extent and staged development of potential future dredging and disposal of dredge material from within the Western Basin area, a master planning process has been adopted by the Coordinator-General to support the approvals process for the area's staged development.

Discussions are also continuing with regards to requirements for staging facilities on the mainland, with a focus on Port Central and Curtis Island to cater for the construction of proposed LNG plants on Curtis Island.

### ***Balaclava Island***

In collaboration with the Government, GPC and local communities, Xstrata Coal Queensland (XCQ), a subsidiary of Xstrata Coal, is conducting detailed pre-feasibility studies and environmental assessments into a proposed Balaclava Island Coal Export Terminal (BICET) in Central Queensland, with development costs expected to be approximately \$1 billion to \$1.5 billion.

In October 2009, XCQ submitted an Initial Advice Statement to Queensland's Coordinator-General under the *State Development and Public Works Organisation Act 1971*.

The development of a coal export terminal at Balaclava Island, with an export capacity of up to 35 mtpa, would avoid further congestion at existing coal terminals at the Port of Gladstone, Dalrymple Bay and Abbot Point and increase the volume of exports to global markets from Queensland's Bowen and Surat Basins.

On 7 May 2010, the Coordinator-General declared the proposed BICET a significant project, signalling the start of a robust assessment process across the whole of government.

### ***Transfer of Port of Bundaberg***

The Port of Bundaberg was transferred from PBC to GPC on 1 November 2009.

GPC has commenced a strategic planning and business development process for the Port of Bundaberg to gain an appreciation of its potential and will be extending its 50 year Strategic Planning process to include the Port of Bundaberg. This process will be informed by investigations undertaken during 2010-11.

### ***Townsville Marine Precinct***

In 2009-10, the Government approved the development of the Precinct at the Port of Townsville. The Precinct will provide a dedicated marine industrial facility, while allowing for the relocation of a number of marine activities from sites upstream of the Townsville Port Access Road Bridge.

Early in 2010, Laing O'Rourke Pty Ltd and PoTL formed an alliance partnership for the construction of the Precinct. On 25 May 2010, the first sod was turned for stage one of the precinct. The focus of the stage one works will be to relocate the local commercial fishing fleet, marine fabrication and repair industries, marine research facilities and other key marine developments. The construction program of the Precinct remains on schedule with completion anticipated by late 2011.

### ***Cairns Cruise Ship Facility***

In 2009-10, the Government provided \$11.2 million to FNQP to construct a Cruise Ship Terminal adjacent to the Cityport development in Cairns. The new terminal development will consist of the refurbishment of heritage listed Wharf Shed 3, construction of pedestrian zones, covered access to new bus and taxi bays and public space landscaping. The terminal is designed to accommodate two large cruise vessels with up to 1,800 transit passengers or operate as a home port for a vessel based in Cairns of up to 200 metres with 600 passengers.

FNQP has appointed Hutchinson Builders to construct the terminal, which is expected to be completed in August 2010 and operational by late 2010.

### ***Brisbane Terminal expansion***

PBC is budgeting \$382 million over five years for new Wharves 11 and 12 and establishing associated land works at Fisherman Islands. PBC is committed to completing Wharf 11 by June 2012 and Wharf 12 by mid-2014. In 2010-11, PBC will commence construction of Wharf 11 and continue dredging the berths. The new wharves will increase the Port of Brisbane's container-handling facility by 25% and increase the number of dedicated container wharves at the port to nine.

### ***Queensland Motorways Limited***

QML is forecast to spend \$198.5 million on construction of the Gateway Upgrade South, which will upgrade the section of the Gateway Motorway between Mt Gravatt-Capalaba Road and the Pacific Motorway to six lanes. This will include:

- widening the Gateway to six lanes between Miles Platting and Mt Gravatt-Capalaba Roads
- widening the bridges at Prebble Street and the Mt Gravatt-Capalaba Road interchange to three lanes in each direction
- minor localised intersection upgrades at the Mt Gravatt-Capalaba Road interchange.

## **WATER SECTOR**

### **SunWater**

#### ***Kinchant Dam Safety Upgrade***

Funding of \$30 million has been provided to SunWater over 2010-11 and 2011-12 for the upgrade of the Kinchant Dam Spillway with works anticipated to begin during the second half of 2010.

#### ***Regulatory Pricing***

SunWater's current rural irrigation price path ends on 30 June 2011 and the process to determine irrigation prices for the period from 1 July 2011 to 30 June 2016 are underway.

The next price path will continue the Government's policy to transition rural irrigation prices to reflect the recovery of all of SunWater's costs, which is an important component of the Government meeting its commitments to water reform, under the 2004 National Water Initiative.

The Government has built in significant safeguards for irrigators so the new prices will not be greater than the irrigation sector's capacity to pay, with prices phased in over a period of up to 15 years to allow irrigators time to adjust to new arrangements.

The Queensland Competition Authority will also provide technical advice and recommend prices that will give Government, irrigators and SunWater confidence in the independence of the process.

#### ***Regional Water Projects***

Through 2010, SunWater will continue its capital works program and related investigations subject to their support by sound business cases underwritten by commercial contracts with customers and appropriate funding strategies agreed with by shareholding departments. Proposed projects include:

##### ***Connors River Dam***

The proposed dam and 133 kilometre pipeline is located on the Connors River, near Mount Bridget. The Connors River Dam is proposed to be the primary water supply source for coal mining developments in the Galilee Basin with a storage size of 373,662 megalitres (ML).

##### ***Nathan Dam***

The proposed Nathan Dam is located just upstream of Nathan Gorge on the Dawson River and will transport water via a new pipeline to mines and power stations in the Surat Basin, potentially extending as far as Dalby. The final storage size and reach of potential water distribution is dependent on the outcomes of SunWater's business case.

SunWater has recently been investigating the viability of developing a new water supply scheme that utilises associated water from the coal seam gas (CSG) industry.

### *Water for Bowen*

SunWater is actively engaging with industry and undertaking studies to test the full commerciality of the proposed Water for Bowen Project, a channel and pipeline water transport system from the Burdekin River near Clare to Bowen.

The project aims to meet future industrial, agricultural and urban demand in the Bowen region and depends on substantial commitments from major industrial customers. The optimal capacity for the project, as identified by SunWater, is 60,000 ML per annum.

### **State Water Entities**

The Queensland Government has been undertaking fundamental reform of the water supply industry in SEQ. The key elements of this reform process include:

- the construction of the 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. Industry reform has significantly rationalised these arrangements, and better enabled 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; and
  - asset management regulation, promoting active, whole-of-life asset management.

Stage One of the SEQ water reform program focussed on the bulk water industry, and in particular, the establishment of three State-owned statutory authorities to control and operate the larger bulk water assets that store, manufacture and distribute bulk water in the region (Seqwater, WaterSecure and LinkWater respectively). The SEQ Water Grid Manager was also established to manage contracts with the bulk supply and transport entities and the retailers, to manage the equitable distribution of water across the SEQ Water Grid and to allow for the sharing of costs.

Stage Two of the reforms – to be operational from 1 July 2010 – focuses on downstream water reform. The core of the Stage Two reform program 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 synergies in service delivery, planning and service standards, and improved economic regulation. The three new standalone 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 regionally managed and allocated to meet demand in the areas of highest need.

In 2010-11, \$202.2 million is budgeted for the Northern Pipeline Interconnector Stage 2. The pipeline will facilitate the integration of Sunshine Coast Regional Council into the SEQ Water Grid.

The Government-owned special-purpose vehicle construction company Queensland Water Infrastructure Pty Ltd is progressing with construction of the \$348 million Wyalaring Dam project, which is scheduled for completion in 2011. The Dam will provide an additional 26,000 ML/pa of water when operated with the Cedar Grove Weir and the Bromelton Offstream Storage.

To establish a clear policy framework to manage and plan future water supply needs in SEQ, the Government released its draft SEQ Water Strategy in November 2009, with the final Strategy due for release in mid-2010. The Water Strategy is the adaptive plan to meet the region's water supply requirements to 2050 and beyond. Its core objective is the delivery of a Water Supply Guarantee, supplying sufficient water to support a comfortable and sustainable lifestyle while meeting the needs of urban, industrial and rural growth and the environment. This objective will be delivered through a combination of demand management, timely investment in infrastructure and the efficient operation of the SEQ Water Grid.

The revised Water Strategy reflects a number of key policy decisions influencing the water security planning framework, including the Australian Government's decision not to allow Traveston Crossing Dam to proceed and Government's decision regarding the prioritisation of potential future desalination sites for SEQ. The Water Strategy indicates that additional water supplies to meet the needs of population growth and mitigate against climate change will need to be available by as early as 2017. The Water Commission is undertaking detailed planning to ensure that additional supplies can be delivered efficiently and when required. These investigations will inform a final decision on the preferred location, capacity and timing of future desalination facilities.

The Water Strategy will be reviewed every five years, ensuring it has the flexibility to adapt to SEQ's changing water supply needs.

## 9 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) 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 4 – Revenue, Chapter 5 – Expenses and Chapter 6 – Balance Sheet and Cash Flows.

## **PUBLIC NON-FINANCIAL CORPORATIONS SECTOR**

The PNFC sector, which includes the GOCs, Queensland Motorways Limited and the State water entities, is forecast to provide dividends of \$1.05 billion and current TEPs of \$385 million in 2010-11.

The Government is committed to ensuring that all Queenslanders are provided with essential services such as electricity and public transport at a reasonable cost, regardless of where they live. This is achieved through the provision of CSOs, which are forecast to be \$1.839 billion in 2010-11.

The Government continues to invest in infrastructure projects in the PNFC sector to ensure the continued delivery of essential services and an acceptable return to Government on its investment. Net additional equity injections of \$408 million has been budgeted for 2010-11, including funding provided to QR for continuing investment in rail infrastructure in South East Queensland.

### **PNFC operating statement**

The major components of PNFC sector revenues include rail freight charges, electricity sales, electricity distribution and network charges, port charges and agriculture and bulk water delivery charges. Key drivers of the increase in total budgeted revenue in 2010-11 to \$13.086 billion compared to the estimated 2009-10 total of \$11.994 billion include increased coal revenue for QR, as the industry improves after the impact of the global financial crisis and the outcome of the Australian Energy Regulator's Final Determination, announced on 6 May 2010, on Government-owned electricity distribution business revenue.

A significant source of revenue generated in the PNFC sector is received through the sale of goods and services to customer markets, which makes it highly dependent on the performance of the Queensland economy and the ability of the sector to compete in competitive markets. Across the PNFC sector, revenue from sales of goods and services is forecast to grow from \$10.574 billion in 2010-11 to \$13.943 billion by 2013-14. The key drivers of the forecast increase in sales of goods and services are consistent with the growth in total revenue referred to above.

PNFC sector 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 are paid to QR in respect of passenger rail travel and Ergon in respect of the electricity uniform tariff.

The PNFC sector distributes dividends to the Government as shareholder. Dividends from the PNFC sector are a function of net profit after tax (NPAT) and the dividend payout ratio, which is generally based on 80% of NPAT.

In some cases, forecast NPAT will be adjusted to exclude any net unrealised (that is, 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 all such costs are met. Shareholding Ministers consider the circumstances of individual PNFCs and advice from their boards before arriving at the final determination of dividend payments. Dividends are forecast to increase over the forward estimates period, reaching \$1.422 billion by 2013-14.

The PNFC sector's 2009-10 estimated actual Uniform Presentation Framework (UPF) net operating balance has been revised downwards from \$341 million at the time of the 2009-10 Budget to \$244 million. This is largely driven by an increase in depreciation expense due to asset revaluations.

### **PNFC balance sheet and cash flow statement**

In 2010-11, PNFCs are forecast to spend \$7.144 billion in capital investments and maintenance projects to ensure their future ability to effectively service their customers with total investment over the four years to 2013-14 forecast to be \$22.966 billion. Capital expenditure in 2010-11 includes \$446.4 million by QR to upgrade infrastructure and rollingstock on the Citytrain network, \$1.035 billion by ENERGEX for the regulated electricity capital expenditure program and \$90 million by the Queensland Bulk Water Supply Authority for raising the Hinze Dam (Stage 3 project). Key capital projects in each sector are discussed below.

Investment in electricity infrastructure is driven by peak demand, which continues to grow, largely as a result of Queensland's significant population growth and increased uptake of lifestyle appliances. Key infrastructure projects in 2010-11 include \$58.4 million by Stanwell for major overhauls and efficiency upgrades at Stanwell Power Station and \$117 million by Powerlink towards the establishment of two new substations at Western Downs and Halys, construction of a transmission line between the substations and reconfiguration of the existing Kogan Creek to Braemar transmission line and associated substation works.

QR is budgeting for a capital program of \$2.772 billion in 2010-11, including \$446.4 million under the South East Queensland Infrastructure Plan and Program (SEQIPP). Key projects under SEQIPP include \$155.6 million to continue construction of the Springfield Line from Darra to Richlands and Springfield and \$174.4 million to continue building 64 new three car-carriage passenger trains for the Citytrain network. In addition, QR has budgeted \$864.2 million for coal network track works and new and upgraded locomotives and wagons to support the haulage of coal in Queensland, including \$502.2 million to continue the Goonyella to Abbot Point Expansion project.



The port PNFCs continue to invest in capital projects in 2010-11, including \$56.7 million to continue construction of berths 11 and 12 at Fishermans Island to accommodate a third stevedore at the Port of Brisbane, \$40.2 million to continue capacity improvements and upgrades at the RG Tanna Coal Terminal at the Port of Gladstone, \$53.5 million to complete the Abbot Point Coal Terminal X50 expansion to increase the capacity of the terminal to 50 million tonnes per annum and \$57.5 million to continue construction of the Townsville Marine Precinct to provide a dedicated marine facility for the local industrial and commercial marine industries.

Financing of capital projects differs according to the circumstances of the relevant PNFC and the nature of the project. There are a number of ways in which PNFCs fund their investments, including utilising cash flows from their business, borrowings and equity injections from Government.

When reviewing the funding arrangements for capital projects, the Government considers the relevant PNFC's financial position to ensure it can remain sufficiently well capitalised to maintain an investment grade credit rating, as determined by independent credit ratings agencies, while still being able to undertake viable capital projects.

The Public Non-financial Corporations sector is discussed in more detail in Chapter 8.

## **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 9.1**  
**General Government Sector Operating Statement<sup>1</sup>**

	2009-10 Budget <sup>2</sup> \$ million	2009-10 Est. Actual \$ million	2010-11 Budget \$ million	2011-12 Projection \$ million	2012-13 Projection \$ million	2013-14 Projection \$ million
<b>Revenue from Transactions</b>						
Taxation revenue	9,287	9,474	10,192	11,009	11,932	12,662
Grants revenue	18,735	20,375	18,872	18,882	19,050	19,735
Sales of goods and services	3,650	3,928	4,077	4,402	4,491	4,710
Interest income	2,017	2,230	2,132	2,224	2,322	2,411
Dividend and income tax equivalent income	1,150	1,005	1,460	1,590	1,865	2,035
Other revenue	2,354	2,678	3,874	3,831	3,792	3,744
<b>Total Revenue from Transactions</b>	<b>37,192</b>	<b>39,689</b>	<b>40,606</b>	<b>41,938</b>	<b>43,453</b>	<b>45,298</b>
<b>Less Expenses from Transactions</b>						
Employee expenses	15,006	15,395	16,221	17,362	18,323	19,059
Superannuation expenses						
Superannuation interest cost	1,468	1,329	1,261	1,310	1,355	1,397
Other superannuation expenses	2,093	2,019	2,103	2,200	2,290	2,350
Other operating expenses	7,776	8,124	8,502	8,440	8,545	8,753
Depreciation and amortisation	2,773	2,479	2,822	3,215	3,407	3,645
Other interest expenses	887	827	1,242	1,705	2,078	2,341
Grants expenses	9,143	9,802	10,201	9,149	8,937	9,147
<b>Total Expenses from Transactions</b>	<b>39,146</b>	<b>39,976</b>	<b>42,352</b>	<b>43,380</b>	<b>44,935</b>	<b>46,693</b>
<b>Equals Net Operating Balance</b>	<b>(1,954)</b>	<b>(287)</b>	<b>(1,745)</b>	<b>(1,442)</b>	<b>(1,482)</b>	<b>(1,395)</b>
<b>Plus Other economic flows - included in operating result</b>	<b>66</b>	<b>54</b>	<b>(178)</b>	<b>(34)</b>	<b>(17)</b>	<b>(13)</b>
<b>Equals Operating Result</b>	<b>(1,888)</b>	<b>(233)</b>	<b>(1,924)</b>	<b>(1,477)</b>	<b>(1,499)</b>	<b>(1,408)</b>
<b>Plus Other economic flows - other movements in equity</b>	<b>3,232</b>	<b>3,221</b>	<b>2,881</b>	<b>3,031</b>	<b>3,397</b>	<b>3,717</b>
<b>Equals Comprehensive Result - Total Change In Net Worth</b>	<b>1,344</b>	<b>2,989</b>	<b>957</b>	<b>1,555</b>	<b>1,898</b>	<b>2,309</b>
<b>KEY FISCAL AGGREGATES</b>						
<b>Net Operating Balance</b>	<b>(1,954)</b>	<b>(287)</b>	<b>(1,745)</b>	<b>(1,442)</b>	<b>(1,482)</b>	<b>(1,395)</b>
<b>Less Net Acquisition of Non-financial Assets</b>						
Purchases of non-financial assets	9,270	8,626	8,335	7,490	5,751	4,628
Less Sales of non-financial assets	251	214	203	196	298	150
Less Depreciation	2,773	2,479	2,822	3,215	3,407	3,645
Plus Change in inventories	63	150	73	14	62	72
Plus Other movements in non-financial assets	45	172	186	182	130	141
<b>Equals Total Net Acquisition of Non-financial Assets</b>	<b>6,354</b>	<b>6,254</b>	<b>5,569</b>	<b>4,275</b>	<b>2,240</b>	<b>1,046</b>
<b>Equals Net Lending / (Borrowing)</b>	<b>(8,308)</b>	<b>(6,541)</b>	<b>(7,314)</b>	<b>(5,717)</b>	<b>(3,722)</b>	<b>(2,441)</b>
Notes:						
1. Numbers may not add due to rounding.						
2. Numbers have been restated where subsequent changes in classification have occurred.						

**Table 9.2**  
**Public Non-financial Corporations Sector Operating Statement <sup>1</sup>**

	2009-10 Budget <sup>2</sup> \$ million	2009-10 Est.Actual \$ million	2010-11 Budget \$ million	2011-12 Projection \$ million	2012-13 Projection \$ million	2013-14 Projection \$ million
<b>Revenue from Transactions</b>						
Grants revenue	1,858	2,200	2,092	2,179	2,219	2,266
Sales of goods and services	8,855	9,290	10,574	11,351	12,903	13,943
Interest income	82	91	98	90	100	110
Other revenue	401	413	323	496	396	514
<b>Total Revenue from Transactions</b>	<b>11,196</b>	<b>11,994</b>	<b>13,086</b>	<b>14,116</b>	<b>15,618</b>	<b>16,833</b>
<i>Less</i> <b>Expenses from Transactions</b>						
Employee expenses	2,310	2,347	2,563	2,726	2,756	2,740
Superannuation expenses						
Other superannuation expenses	91	189	106	110	121	117
Other operating expenses	3,773	4,185	4,284	4,497	5,103	5,841
Depreciation and amortisation	2,211	2,455	2,747	2,904	3,079	3,186
Other interest expenses	2,206	2,252	2,654	2,931	3,203	3,370
Grants expenses	14	91	34	14	14	3
Other property expenses	249	232	388	427	506	559
<b>Total Expenses from Transactions</b>	<b>10,855</b>	<b>11,750</b>	<b>12,776</b>	<b>13,609</b>	<b>14,783</b>	<b>15,816</b>
<i>Equals</i> <b>Net Operating Balance</b>	<b>341</b>	<b>244</b>	<b>311</b>	<b>507</b>	<b>835</b>	<b>1,018</b>
<i>Plus</i> Other economic flows - included in operating result	(126)	(758)	(109)	(170)	(142)	(123)
<i>Equals</i> <b>Operating Result</b>	<b>215</b>	<b>(514)</b>	<b>202</b>	<b>337</b>	<b>693</b>	<b>894</b>
<i>Plus</i> Other economic flows - other movements in equity	253	132	(453)	168	(157)	(206)
<i>Equals</i> <b>Comprehensive Result - Total Change In Net Worth</b>	<b>467</b>	<b>(383)</b>	<b>(251)</b>	<b>506</b>	<b>536</b>	<b>688</b>
<b>KEY FISCAL AGGREGATES</b>						
<b>Net Operating Balance</b>	<b>341</b>	<b>244</b>	<b>311</b>	<b>507</b>	<b>835</b>	<b>1,018</b>
<i>Less</i> <b>Net Acquisition of Non-financial Assets</b>						
Purchases of non-financial assets	8,002	7,682	7,144	5,877	4,964	4,981
<i>Less</i> Sales of non-financial assets	35	33	184	101	177	209
<i>Less</i> Depreciation	2,211	2,455	2,747	2,904	3,079	3,186
<i>Plus</i> Change in inventories	(8)	(101)	26	1	10	17
<i>Plus</i> Other movements in non-financial assets	25	(28)	40	43	45	47
<b>Equals Total Net Acquisition of Non-financial Assets</b>	<b>5,773</b>	<b>5,065</b>	<b>4,281</b>	<b>2,917</b>	<b>1,764</b>	<b>1,651</b>
<i>Equals</i> <b>Net Lending / (Borrowing)</b>	<b>(5,432)</b>	<b>(4,821)</b>	<b>(3,970)</b>	<b>(2,409)</b>	<b>(929)</b>	<b>(633)</b>
Notes:						
1. Numbers may not add due to rounding.						
2. Numbers have been restated where subsequent changes in classification have occurred.						

**Table 9.3**  
**Non-financial Public Sector Operating Statement<sup>1</sup>**

	2009-10 Budget <sup>2</sup> \$ million	2009-10 Est. Actual \$ million	2010-11 Budget \$ million	2011-12 Projection \$ million	2012-13 Projection \$ million	2013-14 Projection \$ million
<b>Revenue from Transactions</b>						
Taxation revenue	8,996	9,182	9,854	10,637	11,529	12,230
Grants revenue	18,836	20,492	18,914	18,949	19,117	19,806
Sales of goods and services	12,299	12,876	14,316	15,394	17,017	18,249
Interest income	2,098	2,320	2,230	2,314	2,422	2,521
Dividend and income tax equivalent income	31	31	25	28	47	57
Other revenue	2,748	3,088	4,194	4,324	4,186	4,255
<b>Total Revenue from Transactions</b>	<b>45,007</b>	<b>47,988</b>	<b>49,533</b>	<b>51,646</b>	<b>54,319</b>	<b>57,119</b>
<i>Less</i> <b>Expenses from Transactions</b>						
Employee expenses	17,212	17,612	18,664	19,963	20,943	21,668
Superannuation expenses						
Superannuation interest cost	1,468	1,329	1,261	1,310	1,355	1,397
Other superannuation expenses	2,185	2,208	2,209	2,310	2,410	2,467
Other operating expenses	11,319	11,934	12,415	12,537	13,226	14,142
Depreciation and amortisation	4,984	4,934	5,568	6,119	6,486	6,831
Other interest expenses	2,916	2,939	3,704	4,416	5,046	5,445
Grants expenses	7,409	7,822	8,197	7,064	6,813	6,969
<b>Total Expenses from Transactions</b>	<b>47,493</b>	<b>48,779</b>	<b>52,017</b>	<b>53,719</b>	<b>56,279</b>	<b>58,918</b>
<i>Equals</i> <b>Net Operating Balance</b>	<b>(2,485)</b>	<b>(791)</b>	<b>(2,485)</b>	<b>(2,073)</b>	<b>(1,961)</b>	<b>(1,799)</b>
<i>Plus</i> Other economic flows - included in operating result	(60)	(704)	(287)	(205)	(159)	(136)
<i>Equals</i> <b>Operating Result</b>	<b>(2,545)</b>	<b>(1,494)</b>	<b>(2,772)</b>	<b>(2,278)</b>	<b>(2,120)</b>	<b>(1,936)</b>
<i>Plus</i> Other economic flows - other movements in equity	3,890	4,483	3,728	3,832	4,018	4,244
<i>Equals</i> <b>Comprehensive Result - Total Change In Net Worth</b>	<b>1,344</b>	<b>2,989</b>	<b>957</b>	<b>1,555</b>	<b>1,898</b>	<b>2,309</b>
<b>KEY FISCAL AGGREGATES</b>						
<b>Net Operating Balance</b>	<b>(2,485)</b>	<b>(791)</b>	<b>(2,485)</b>	<b>(2,073)</b>	<b>(1,961)</b>	<b>(1,799)</b>
<i>Less</i> <b>Net Acquisition of Non-financial Assets</b>						
Purchases of non-financial assets	17,272	16,305	15,479	13,367	10,716	9,609
<i>Less</i> Sales of non-financial assets	286	247	387	297	474	359
<i>Less</i> Depreciation	4,984	4,934	5,568	6,119	6,486	6,831
<i>Plus</i> Change in inventories	55	49	99	15	73	90
<i>Plus</i> Other movements in non-financial assets	70	143	227	225	175	188
<i>Equals</i> <b>Total Net Acquisition of Non-financial Assets</b>	<b>12,127</b>	<b>11,316</b>	<b>9,850</b>	<b>7,191</b>	<b>4,003</b>	<b>2,697</b>
<i>Equals</i> <b>Net Lending / (Borrowing)</b>	<b>(14,612)</b>	<b>(12,107)</b>	<b>(12,335)</b>	<b>(9,265)</b>	<b>(5,964)</b>	<b>(4,496)</b>
Notes:						
1. Numbers may not add due to rounding.						
2. Numbers have been restated where subsequent changes in classification have occurred.						

**Table 9.4**  
**General Government Sector Balance Sheet <sup>1</sup>**

	2009-10 Budget <sup>2</sup>	2009-10 Est.Actual	2010-11 Budget	2011-12 Projection	2012-13 Projection	2013-14 Projection
	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million
<b>Assets</b>						
<b>Financial Assets</b>						
Cash and deposits	1,751	451	308	333	325	325
Advances paid	635	569	594	621	638	649
Investments, loans and placements	27,532	28,182	29,553	30,871	32,140	33,716
Receivables	3,427	3,174	3,357	3,477	3,665	3,924
Equity						
Investments in other public sector entities	15,672	24,898	24,648	25,154	25,690	26,379
Investments - other	38	46	59	106	136	136
<b>Total Financial Assets</b>	<b>49,056</b>	<b>57,319</b>	<b>58,518</b>	<b>60,562</b>	<b>62,594</b>	<b>65,128</b>
<b>Non-financial Assets</b>						
Land and other fixed assets	149,880	174,531	182,735	189,837	194,970	198,700
Other non-financial assets	6,591	6,451	6,759	7,103	7,592	7,829
<b>Total Non-financial Assets</b>	<b>156,471</b>	<b>180,982</b>	<b>189,493</b>	<b>196,940</b>	<b>202,562</b>	<b>206,529</b>
<b>Total Assets</b>	<b>205,527</b>	<b>238,301</b>	<b>248,012</b>	<b>257,502</b>	<b>265,156</b>	<b>271,657</b>
<b>Liabilities</b>						
Payables	2,839	3,155	3,085	3,069	3,113	3,163
Superannuation liability	25,303	24,563	25,462	26,270	26,986	27,606
Other employee benefits	4,071	3,945	4,177	4,410	4,634	4,875
Advances received	471	472	462	452	442	431
Borrowing	18,775	15,524	23,250	30,080	34,756	37,967
Other liabilities	2,923	3,035	3,012	3,101	3,208	3,289
<b>Total Liabilities</b>	<b>54,382</b>	<b>50,694</b>	<b>59,447</b>	<b>67,383</b>	<b>73,139</b>	<b>77,332</b>
<b>Net Worth</b>	<b>151,144</b>	<b>187,607</b>	<b>188,564</b>	<b>190,119</b>	<b>192,017</b>	<b>194,326</b>
Net Financial Worth	(5,327)	6,625	(929)	(6,821)	(10,545)	(12,203)
Net Financial Liabilities	20,999	18,273	25,576	31,974	36,235	38,582
Net Debt	(10,672)	(13,206)	(6,743)	(1,294)	2,095	3,707
Notes:						
1. Numbers may not add due to rounding.						
2. Numbers have been restated where subsequent changes in classification have occurred.						

**Table 9.5**  
**Public Non-financial Corporations Sector Balance Sheet <sup>1</sup>**

	2009-10 Budget <sup>2</sup>	2009-10 Est. Actual	2010-11 Budget	2011-12 Projection	2012-13 Projection	2013-14 Projection
	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million
<b>Assets</b>						
<b>Financial Assets</b>						
Cash and deposits	869	1,363	943	1,101	864	539
Advances paid	261	267	247	217	197	177
Investments, loans and placements	466	650	561	499	485	490
Receivables	1,601	1,926	2,032	2,223	2,461	2,696
Equity						
Investments - other	80	81	99	119	129	138
<b>Total Financial Assets</b>	<b>3,277</b>	<b>4,288</b>	<b>3,882</b>	<b>4,159</b>	<b>4,137</b>	<b>4,040</b>
<b>Non-financial Assets</b>						
Land and other fixed assets	63,855	68,514	72,658	76,473	79,160	81,887
Other non-financial assets	1,886	1,513	1,449	1,510	1,553	1,554
<b>Total Non-financial Assets</b>	<b>65,741</b>	<b>70,026</b>	<b>74,107</b>	<b>77,984</b>	<b>80,713</b>	<b>83,441</b>
<b>Total Assets</b>	<b>69,018</b>	<b>74,314</b>	<b>77,989</b>	<b>82,143</b>	<b>84,851</b>	<b>87,481</b>
<b>Liabilities</b>						
Payables	2,167	2,445	2,555	2,675	2,838	2,879
Superannuation liability	(90)	131	131	131	132	132
Other employee benefits	973	895	958	1,031	1,099	1,181
Deposits held	26	20	20	21	21	22
Advances received	12	12	11	11	10	9
Borrowing	38,949	36,080	39,578	42,712	44,216	45,580
Other liabilities	7,531	7,519	7,773	8,095	8,532	8,986
<b>Total Liabilities</b>	<b>49,568</b>	<b>47,102</b>	<b>51,027</b>	<b>54,675</b>	<b>56,847</b>	<b>58,789</b>
<b>Net Worth</b>	<b>19,450</b>	<b>27,213</b>	<b>26,962</b>	<b>27,467</b>	<b>28,004</b>	<b>28,692</b>
Net Financial Worth	(46,291)	(42,814)	(47,145)	(50,516)	(52,709)	(54,749)
Net Debt	37,391	33,831	37,859	40,927	42,700	44,405
Notes:						
1. Numbers may not add due to rounding.						
2. Numbers have been restated where subsequent changes in classification have occurred.						

**Table 9.6**  
**Non-financial Public Sector Balance Sheet<sup>1</sup>**

	2009-10 Budget <sup>2</sup> \$ million	2009-10 Est. Actual \$ million	2010-11 Budget \$ million	2011-12 Projection \$ million	2012-13 Projection \$ million	2013-14 Projection \$ million
<b>Assets</b>						
<b>Financial Assets</b>						
Cash and deposits	2,621	1,815	1,251	1,434	1,189	864
Advances paid	883	823	829	827	825	817
Investments, loans and placements	27,998	28,832	30,113	31,370	32,625	34,206
Receivables	3,750	3,825	3,943	4,175	4,465	4,730
Equity						
Investments in other public sector entities	(3,713)	(2,250)	(2,250)	(2,250)	(2,250)	(2,251)
Investments - other	118	126	158	225	265	274
<b>Total Financial Assets</b>	<b>31,657</b>	<b>33,170</b>	<b>34,044</b>	<b>35,782</b>	<b>37,118</b>	<b>38,639</b>
<b>Non-financial Assets</b>						
Land and other fixed assets	213,670	243,010	255,358	266,275	274,096	280,552
Other non-financial assets	969	803	790	790	788	783
<b>Total Non-financial Assets</b>	<b>214,640</b>	<b>243,813</b>	<b>256,147</b>	<b>267,066</b>	<b>274,884</b>	<b>281,335</b>
<b>Total Assets</b>	<b>246,296</b>	<b>276,983</b>	<b>290,191</b>	<b>302,847</b>	<b>312,002</b>	<b>319,974</b>
<b>Liabilities</b>						
Payables	3,746	4,353	4,223	4,248	4,318	4,181
Superannuation liability	25,213	24,694	25,593	26,402	27,117	27,738
Other employee benefits	5,044	4,839	5,135	5,441	5,733	6,056
Deposits held	30	20	20	21	21	22
Advances received	467	472	462	452	442	431
Borrowing	57,723	51,604	62,827	72,791	78,971	83,545
Other liabilities	2,928	3,394	3,367	3,373	3,383	3,674
<b>Total Liabilities</b>	<b>95,152</b>	<b>89,376</b>	<b>101,627</b>	<b>112,728</b>	<b>119,985</b>	<b>125,649</b>
<b>Net Worth</b>	<b>151,144</b>	<b>187,607</b>	<b>188,564</b>	<b>190,119</b>	<b>192,017</b>	<b>194,326</b>
Net Financial Worth	(63,495)	(56,206)	(67,583)	(76,947)	(82,867)	(87,009)
Net Financial Liabilities	59,782	53,955	65,333	74,696	80,616	84,759
Net Debt	26,719	20,626	31,116	39,633	44,795	48,112
Notes:						
1. Numbers may not add due to rounding.						
2. Numbers have been restated where subsequent changes in classification have occurred.						

**Table 9.7**  
**General Government Sector Cash Flow Statement<sup>1</sup>**

	2009-10 Budget <sup>2</sup> \$ million	2009-10 Est. Actual \$ million	2010-11 Budget \$ million	2011-12 Projection \$ million	2012-13 Projection \$ million	2013-14 Projection \$ million
<b>Cash Receipts from Operating Activities</b>						
Taxes received	9,286	9,473	10,190	11,008	11,931	12,661
Grants and subsidies received	18,735	20,380	18,883	18,893	19,058	19,743
Sales of goods and services	4,050	4,482	4,485	4,751	4,858	5,082
Interest receipts	2,010	2,231	2,131	2,221	2,319	2,408
Dividends and income tax equivalents	1,042	1,089	1,062	1,520	1,629	1,965
Other receipts	3,219	3,630	4,832	4,725	4,694	4,660
<b>Total Operating Receipts</b>	<b>38,341</b>	<b>41,284</b>	<b>41,582</b>	<b>43,119</b>	<b>44,490</b>	<b>46,519</b>
<b>Cash Payments for Operating Activities</b>						
Payments for employees	(16,975)	(17,663)	(18,435)	(19,810)	(21,028)	(21,944)
Payments for goods and services	(8,442)	(9,128)	(9,298)	(9,139)	(9,279)	(9,502)
Grants and subsidies	(9,097)	(9,789)	(10,135)	(9,145)	(8,889)	(9,091)
Interest paid	(883)	(827)	(1,240)	(1,705)	(2,078)	(2,342)
Other payments	(762)	(720)	(738)	(674)	(668)	(670)
<b>Total Operating Payments</b>	<b>(36,160)</b>	<b>(38,127)</b>	<b>(39,847)</b>	<b>(40,473)</b>	<b>(41,942)</b>	<b>(43,549)</b>
<b>Net Cash Inflows from Operating Activities</b>	<b>2,181</b>	<b>3,158</b>	<b>1,735</b>	<b>2,646</b>	<b>2,548</b>	<b>2,971</b>
<b>Cash Flows from Investments in Non-Financial Assets</b>						
Purchases of non-financial assets	(9,270)	(8,626)	(8,335)	(7,490)	(5,751)	(4,628)
Sales of non-financial assets	251	214	203	196	298	150
<b>Net Cash Flows from Investments in Non-financial Assets</b>	<b>(9,020)</b>	<b>(8,411)</b>	<b>(8,131)</b>	<b>(7,294)</b>	<b>(5,454)</b>	<b>(4,478)</b>
<b>Net Cash Flows from Investments in Financial Assets for Policy Purposes</b>	<b>(307)</b>	<b>(789)</b>	<b>(1)</b>	<b>(737)</b>	<b>(486)</b>	<b>(438)</b>
<b>Net Cash Flows from Investments in Financial Assets for Liquidity Purposes</b>	<b>(1,338)</b>	<b>(1,516)</b>	<b>(1,361)</b>	<b>(1,309)</b>	<b>(1,259)</b>	<b>(1,232)</b>
<b>Receipts from Financing Activities</b>						
Advances received (net)	(17)	(16)	(14)	(14)	(14)	(14)
Borrowing (net)	7,954	5,182	7,629	6,733	4,657	3,191
<b>Net Cash Flows from Financing Activities</b>	<b>7,937</b>	<b>5,166</b>	<b>7,615</b>	<b>6,719</b>	<b>4,643</b>	<b>3,177</b>
<b>Net Increase/(Decrease) in Cash held</b>	<b>(546)</b>	<b>(2,393)</b>	<b>(143)</b>	<b>25</b>	<b>(8)</b>	<b>(1)</b>
Net cash from operating activities	2,181	3,158	1,735	2,646	2,548	2,971
Net cash flows from investments in non-financial assets	(9,020)	(8,411)	(8,131)	(7,294)	(5,454)	(4,478)
<b>Surplus/(Deficit)</b>	<b>(6,838)</b>	<b>(5,254)</b>	<b>(6,396)</b>	<b>(4,648)</b>	<b>(2,906)</b>	<b>(1,507)</b>
<b>Derivation of ABS GFS Cash Surplus/Deficit</b>						
Cash surplus/(deficit)	(6,838)	(5,254)	(6,396)	(4,648)	(2,906)	(1,507)
Acquisitions under finance leases and similar arrangements	..	(59)	(71)	(67)	(15)	(26)
<b>ABS GFS Cash Surplus/(Deficit) Including Finance Leases and Similar Arrangements</b>	<b>(6,838)</b>	<b>(5,313)</b>	<b>(6,467)</b>	<b>(4,714)</b>	<b>(2,921)</b>	<b>(1,533)</b>
Notes:						
1. Numbers may not add due to rounding.						
2. Numbers have been restated where subsequent changes in classification have occurred.						



**Table 9.8**  
**Public Non-financial Corporations Sector Cash Flow Statement<sup>1</sup>**

	2009-10 Budget <sup>2</sup> \$ million	2009-10 Est. Actual \$ million	2010-11 Budget \$ million	2011-12 Projection \$ million	2012-13 Projection \$ million	2013-14 Projection \$ million
<b>Cash Receipts from Operating Activities</b>						
Grants and subsidies received	1,806	2,306	2,096	2,170	2,232	2,264
Sales of goods and services	9,612	9,889	11,329	12,083	13,604	14,702
Interest receipts	78	91	98	90	100	110
Other receipts	621	832	664	839	806	944
<b>Total Operating Receipts</b>	<b>12,118</b>	<b>13,118</b>	<b>14,186</b>	<b>15,183</b>	<b>16,742</b>	<b>18,020</b>
<b>Cash Payments for Operating Activities</b>						
Payments for employees	(2,348)	(2,494)	(2,605)	(2,764)	(2,809)	(2,775)
Payments for goods and services	(4,486)	(4,406)	(5,016)	(5,091)	(5,633)	(6,456)
Grants and subsidies	(12)	(38)	(31)	(12)	(12)	..
Interest paid	(1,987)	(2,030)	(2,535)	(2,877)	(3,163)	(3,341)
Other payments	(668)	(1,100)	(884)	(1,247)	(1,383)	(1,486)
<b>Total Operating Payments</b>	<b>(9,502)</b>	<b>(10,069)</b>	<b>(11,071)</b>	<b>(11,990)</b>	<b>(12,999)</b>	<b>(14,057)</b>
<b>Net Cash Inflows from Operating Activities</b>	<b>2,616</b>	<b>3,050</b>	<b>3,115</b>	<b>3,193</b>	<b>3,743</b>	<b>3,962</b>
<b>Cash Flows from Investments in Non-Financial Assets</b>						
Purchases of non-financial assets	(8,002)	(7,682)	(7,144)	(5,877)	(4,964)	(4,981)
Sales of non-financial assets	35	33	184	101	177	209
<b>Net Cash Flows from Investments in Non-financial Assets</b>	<b>(7,967)</b>	<b>(7,649)</b>	<b>(6,961)</b>	<b>(5,776)</b>	<b>(4,788)</b>	<b>(4,772)</b>
<b>Net Cash Flows from Investments in Financial Assets for Policy Purposes</b>	<b>188</b>	<b>109</b>	<b>445</b>	<b>(11)</b>	<b>..</b>	<b>..</b>
<b>Net Cash Flows from Investments in Financial Assets for Liquidity Purposes</b>	<b>(33)</b>	<b>(118)</b>	<b>6</b>	<b>(5)</b>	<b>(6)</b>	<b>(11)</b>
<b>Receipts from Financing Activities</b>						
Borrowing (net)	5,335	3,966	3,414	3,103	1,480	1,356
Dividends paid	(819)	(908)	(856)	(1,042)	(1,131)	(1,308)
Deposits received (net)	..	4	..	..	..	..
Other financing (net)	332	775	417	695	465	446
<b>Net Cash Flows from Financing Activities</b>	<b>4,849</b>	<b>3,838</b>	<b>2,975</b>	<b>2,757</b>	<b>814</b>	<b>495</b>
<b>Net Increase/(Decrease) in Cash held</b>	<b>(347)</b>	<b>(772)</b>	<b>(420)</b>	<b>158</b>	<b>(237)</b>	<b>(326)</b>
Net cash from operating activities	2,616	3,050	3,115	3,193	3,743	3,962
Net cash flows from investments in non-financial assets	(7,967)	(7,649)	(6,961)	(5,776)	(4,788)	(4,772)
Dividends paid	(819)	(908)	(856)	(1,042)	(1,131)	(1,308)
<b>Surplus/(Deficit)</b>	<b>(6,169)</b>	<b>(5,508)</b>	<b>(4,702)</b>	<b>(3,625)</b>	<b>(2,176)</b>	<b>(2,117)</b>
<b>Derivation of ABS GFS Cash Surplus/Deficit</b>						
Cash surplus/(deficit)	(6,169)	(5,508)	(4,702)	(3,625)	(2,176)	(2,117)
<b>ABS GFS Cash Surplus/(Deficit) Including Finance Leases and Similar Arrangements</b>	<b>(6,169)</b>	<b>(5,508)</b>	<b>(4,702)</b>	<b>(3,625)</b>	<b>(2,176)</b>	<b>(2,117)</b>
Notes:						
1. Numbers may not add due to rounding.						
2. Numbers have been restated where subsequent changes in classification have occurred.						

**Table 9.9**  
**Non-financial Public Sector Cash Flow Statement<sup>1</sup>**

	2009-10 Budget <sup>2</sup> \$ million	2009-10 Est. Actual \$ million	2010-11 Budget \$ million	2011-12 Projection \$ million	2012-13 Projection \$ million	2013-14 Projection \$ million
<b>Cash Receipts from Operating Activities</b>						
Taxes received	8,995	9,181	9,853	10,636	11,528	12,229
Grants and subsidies received	18,836	20,577	18,928	18,951	19,139	19,812
Sales of goods and services	13,456	14,021	15,480	16,475	18,086	19,380
Interest receipts	2,087	2,321	2,229	2,311	2,419	2,518
Dividends and income tax equivalents	26	53	33	26	29	48
Other receipts	3,834	4,459	5,493	5,562	5,497	5,601
<b>Total Operating Receipts</b>	<b>47,234</b>	<b>50,612</b>	<b>52,015</b>	<b>53,961</b>	<b>56,697</b>	<b>59,589</b>
<b>Cash Payments for Operating Activities</b>						
Payments for employees	(19,218)	(20,027)	(20,920)	(22,449)	(23,701)	(24,587)
Payments for goods and services	(12,739)	(13,208)	(13,994)	(13,886)	(14,549)	(15,569)
Grants and subsidies	(7,411)	(7,729)	(8,128)	(7,057)	(6,762)	(6,910)
Interest paid	(2,693)	(2,717)	(3,583)	(4,362)	(5,005)	(5,416)
Other payments	(1,195)	(1,636)	(1,396)	(1,412)	(1,520)	(1,482)
<b>Total Operating Payments</b>	<b>(43,256)</b>	<b>(45,317)</b>	<b>(48,022)</b>	<b>(49,165)</b>	<b>(51,538)</b>	<b>(53,964)</b>
<b>Net Cash Inflows from Operating Activities</b>	<b>3,977</b>	<b>5,295</b>	<b>3,993</b>	<b>4,796</b>	<b>5,159</b>	<b>5,625</b>
<b>Cash Flows from Investments in Non-Financial Assets</b>						
Purchases of non-financial assets	(17,272)	(16,305)	(15,479)	(13,367)	(10,716)	(9,609)
Sales of non-financial assets	286	247	387	297	474	359
<b>Net Cash Flows from Investments in Non-Financial Assets</b>	<b>(16,986)</b>	<b>(16,058)</b>	<b>(15,092)</b>	<b>(13,069)</b>	<b>(10,242)</b>	<b>(9,250)</b>
<b>Net Cash Flows from Investments in Financial Assets for Policy Purposes</b>	<b>188</b>	<b>102</b>	<b>851</b>	<b>(57)</b>	<b>(30)</b>	<b>..</b>
<b>Net Cash Flows from Investments in Financial Assets for Liquidity Purposes</b>	<b>(1,372)</b>	<b>(1,634)</b>	<b>(1,355)</b>	<b>(1,314)</b>	<b>(1,265)</b>	<b>(1,243)</b>
<b>Receipts from Financing Activities</b>						
Advances received (net)	(17)	(16)	(14)	(14)	(14)	(14)
Borrowing (net)	13,289	9,148	11,043	9,836	6,136	4,548
Deposits received (net)	..	4	..	..	..	..
Other financing (net)	25	(8)	9	4	9	7
<b>Net Cash Flows from Financing Activities</b>	<b>13,298</b>	<b>9,128</b>	<b>11,038</b>	<b>9,826</b>	<b>6,132</b>	<b>4,541</b>
<b>Net Increase/(Decrease) in Cash held</b>	<b>(895)</b>	<b>(3,166)</b>	<b>(565)</b>	<b>182</b>	<b>(246)</b>	<b>(327)</b>
Net cash from operating activities	3,977	5,295	3,993	4,796	5,159	5,625
Net cash flows from investments in non-financial assets	(16,986)	(16,058)	(15,092)	(13,069)	(10,242)	(9,250)
<b>Surplus/(Deficit)</b>	<b>(13,009)</b>	<b>(10,763)</b>	<b>(11,099)</b>	<b>(8,274)</b>	<b>(5,083)</b>	<b>(3,625)</b>
<b>Derivation of ABS GFS Cash Surplus/Deficit</b>						
Cash surplus/(deficit)	(13,009)	(10,763)	(11,099)	(8,274)	(5,083)	(3,625)
Acquisitions under finance leases and similar arrangements	..	(59)	(71)	(67)	(15)	(26)
<b>ABS GFS Cash Surplus/(Deficit) Including Finance Leases and Similar Arrangements</b>	<b>(13,009)</b>	<b>(10,822)</b>	<b>(11,170)</b>	<b>(8,341)</b>	<b>(5,098)</b>	<b>(3,651)</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 9.10 provides a reconciliation of the General Government sector net operating balance to the accounting operating result.

<b>Table 9.10</b> <b>Reconciliation of UPF net operating balance to accounting surplus<sup>1</sup></b>			
	2009-10 Budget \$ million	2009-10 Est.Act. \$ million	2010-11 Budget \$ million
Net operating balance General Government sector (Table 9.1)	(1,954)	(287)	(1,745)
<i>Remeasurement/valuation adjustments</i>			
Bad debts and amortisation	(42)	(86)	(57)
Deferred tax equivalents	219	170	12
Market value adjustments investments/loans	12	40	12
Revaluation of provisions	14	47	(13)
Decommissioned infrastructure assets and land under roads	(143)	(143)	(143)
Gain/(loss) on assets sold/written off	6	25	12
<b>AAS net surplus General Government sector</b>	<b>(1,888)</b>	<b>(233)</b>	<b>(1,924)</b>
Note: 1. Numbers may not add due to rounding.			

## GENERAL GOVERNMENT TIME SERIES

Data presented in Table 9.11 provides a time series from 2002-03 to 2008-09 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 9.11 General Government Sector <sup>1</sup>							
	2002-03 Actual \$ million	2003-04 Actual \$ million	2004-05 Actual \$ million	2005-06 Actual \$ million	2006-07 Actual \$ million	2007-08 Actual \$ million	2008-09 Actual \$ million
<b>Revenue from Transactions</b>							
Taxation revenue	5,598	6,676	6,952	7,396	8,484	9,546	8,877
Grant revenue	10,666	11,528	12,755	13,590	14,373	15,523	17,476
Sales of goods and services	1,964	2,105	2,381	2,586	2,889	3,341	3,568
Interest income	(128)	2,723	2,972	3,414	3,348	(275)	1,482
Dividend and income tax equivalent income	1,036	1,148	1,028	1,057	863	1,255	1,180
Other revenue	1,118	1,035	1,473	2,039	2,024	2,040	4,425
<b>Total Revenue</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>37,008</b>
<b>Expenses from Transactions</b>							
Employee expenses	8,431	8,972	9,595	10,615	11,731	13,171	14,305
Superannuation expenses							
Superannuation interest costs	630	1,040	1,009	826	1,154	816	858
Other superannuation expenses	892	1,061	1,182	1,367	1,513	1,865	2,012
Other operating expenses	3,794	3,948	4,392	5,227	6,109	6,612	7,185
Depreciation and amortisation	1,460	1,460	1,585	1,679	1,880	1,850	2,496
Other interest expenses	222	213	209	174	180	346	599
Grant expenses	4,813	5,180	5,647	6,482	7,558	8,328	9,519
<b>Total Expenses</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>36,974</b>
<b>Net Operating Balance</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>35</b>
<b>OTHER KEY AGGREGATES</b>							
Purchases of non-financial assets	2,232	2,415	2,843	3,186	4,418	5,716	6,960
Net acquisition of non-financial assets	155	503	1,053	1,236	2,067	3,668	4,434
Net lending / (borrowing)	(140)	2,838	2,873	2,478	(211)	(5,226)	(4,399)
Net Worth	64,894	77,723	96,433	105,035	117,831	155,178	184,619
Net Debt	(11,802)	(14,811)	(19,406)	(23,202)	(26,686)	(22,598)	(19,281)
Cash Surplus/Deficit	645	3,490	4,640	4,648	2,350	(4,922)	(2,839)
Note: 1. Numbers may not add due to rounding.  Source: <i>Outcomes Reports for Queensland 2002-03 to 2008-09. (Numbers have been recast for recent changes to UPF presentation.)</i>							

## OTHER GENERAL GOVERNMENT UPF DATA

Data in the following table is presented in accordance with the Uniform Presentation Framework.

### Grants

Data presented in Tables 9.12 (a) and 9.12 (b) provides details of General Government current and capital grant revenue and expenses.

Table 9.12(a)		
General Government Sector Grant Revenue <sup>1</sup>		
	2009-10 Est. Actual \$ million	2010-11 Budget \$ million
<b>Current grant revenue</b>		
Current grants from the Commonwealth		
General purpose grants	8,208	8,932
Specific purpose grants	5,073	5,538
Specific purpose grants for on-passing	2,385	2,340
Total current grants from the Commonwealth	15,666	16,810
Other contributions and grants	469	435
<b>Total current grant revenue</b>	<b>16,135</b>	<b>17,245</b>
<b>Capital grant revenue</b>		
Capital grants from the Commonwealth		
General purpose grants	1	1
Specific purpose grants	3,999	1,515
Specific purpose grants for on-passing	189	20
Total capital grants from the Commonwealth	4,189	1,536
Other contributions and grants	51	91
<b>Total capital grant revenue</b>	<b>4,240</b>	<b>1,627</b>
<b>Total grant revenue</b>	<b>20,375</b>	<b>18,872</b>
Note:		
1. Numbers may not add due to rounding.		

Table 9.12(b) General Government Sector Grant Expense <sup>1</sup>		
	2009-10 Est.Actual \$ million	2010-11 Budget \$ million
<b>Current grant expense</b>		
Private and Not-for-profit sector	3,339	3,960
Private and Not-for-profit sector on-passing	2,101	1,941
Local Government	218	211
Local Government on-passing	285	399
Grants to other sectors of Government	1,646	1,985
Other	270	174
<b>Total current grant expense</b>	<b>7,857</b>	<b>8,671</b>
<b>Capital grant expense</b>		
Private and Not-for-profit sector	274	529
Private and Not-for-profit sector on-passing	2	7
Households sector on-passing	187	13
Local Government	815	725
Grants to other sectors of Government	427	38
Other	240	218
<b>Total capital grant expense</b>	<b>1,945</b>	<b>1,530</b>
<b>Total grant expense</b>	<b>9,802</b>	<b>10,201</b>
Note:		
1. Numbers may not add due to rounding.		

## Dividend and Income Tax Equivalent Income

Table 9.13 provides details of the source of dividend and income tax equivalent income in the General Government sector.

Table 9.13 General Government Sector Dividend and Income Tax Equivalent Income <sup>1</sup>		
	2009-10 Est.Actual \$ million	2010-11 Budget \$ million
Dividend and Income Tax Equivalent income from PNFC sector	974	1,435
Dividend and Income Tax Equivalent income from PFC sector	29	22
Other Dividend income	2	3
<b>Total Dividend and Income Tax Equivalent income</b>	<b>1,005</b>	<b>1,460</b>
Note:		
1. Numbers may not add due to rounding.		

## Expenses by function

Data presented in Table 9.14 provides details of General Government sector expenses by function.

<b>Table 9.14</b> <b>General Government Sector Expenses by Function<sup>1</sup></b>						
	2009-10 Budget \$ million	2009-10 Est. Act. \$ million	2010-11 Budget \$ million	2011-12 Projection \$ million	2012-13 Projection \$ million	2013-14 Projection \$ million
General public services	1,411	1,533	1,359	1,279	1,279	1,313
Public order and safety	3,594	3,463	3,621	3,817	3,971	4,096
Education	9,332	9,623	9,924	10,035	10,308	10,787
Health	9,523	9,860	10,603	11,545	12,334	12,774
Social security and welfare	2,379	2,569	2,945	2,645	2,764	2,897
Housing and community amenities	2,217	1,911	1,848	1,684	1,531	1,577
Recreation and culture	711	750	776	779	773	800
Fuel and energy	487	372	448	459	465	475
Agriculture, forestry, fishing and hunting	801	922	835	845	804	764
Mining, manufacturing and construction	225	238	249	255	257	260
Transport and communications	4,511	4,550	4,886	5,071	5,349	5,552
Other economic affairs	798	1,041	1,041	994	971	920
Other purposes	3,156	3,144	3,816	3,973	4,128	4,477
<b>Total Expenses</b>	<b>39,146</b>	<b>39,976</b>	<b>42,352</b>	<b>43,380</b>	<b>44,935</b>	<b>46,693</b>
Note: 1. Numbers may not add due to rounding.						

## Purchases of non-financial assets by function

Data presented in Table 9.15 provides details of General Government sector purchases of non-financial assets by function.

<b>Table 9.15</b> <b>General Government Sector Purchases of Non-financial Assets by Function<sup>1</sup></b>			
	2009-10 Budget \$ million	2009-10 Est. Act. \$ million	2010-11 Budget \$ million
General public services	522	447	321
Public order and safety	872	768	739
Education	1,323	1,776	1,256
Health	1,218	917	1,516
Social security and welfare	223	125	166
Housing and community amenities	1,037	646	667
Recreation and culture	129	133	122
Agriculture, forestry, fishing and hunting	85	65	99
Mining, manufacturing and construction	15	15	15
Transport and communications	3,614	3,486	3,366
Other economic affairs	231	248	67
Other purposes	..	..	1
<b>Total Purchases</b>	<b>9,270</b>	<b>8,626</b>	<b>8,335</b>
Note: 1. Numbers may not add due to rounding.			



## Taxes

Data presented in Table 9.16 provides details of taxation revenue collected by the General Government sector.

<b>Table 9.16</b> <b>General Government Sector Taxes<sup>1</sup></b>		
	2009-10 Est.Actual \$ million	2010-11 Budget \$ million
Taxes on employers' payroll and labour force	2,694	2,888
Taxes on property		
Land taxes	1,017	1,117
Stamp duties on financial and capital transactions	1,997	2,229
Other	461	524
Taxes on the provision of goods and services		
Taxes on gambling	933	964
Taxes on insurance	514	536
Taxes on use of goods and performance of activities		
Motor vehicle taxes	1,706	1,779
Other	152	154
<b>Total Taxation Revenue</b>	<b>9,474</b>	<b>10,192</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 9.17 presents the State's revised LCA Budget allocation and the Loan Council endorsed LCA for 2010-11.

Table 9.17 Loan Council Allocation <sup>1</sup>			
		2010-11 Nomination \$ million	2010-11 Budget \$ million
	General Government sector cash deficit/(surplus) <sup>2</sup>	8,221	6,396
	PNFC sector cash deficit/(surplus) <sup>2</sup>	4,745	4,702
	<b>Non-financial Public Sector cash deficit/(surplus) <sup>2</sup></b>	<b>12,966</b>	<b>11,099</b>
	Acquisitions under finance leases and similar arrangements	..	(71)
<b>Equals</b>	<b>ABS GFS cash deficit/(surplus)</b>	<b>12,966</b>	<b>11,170</b>
<i>Less</i>	Net cash flows from investments in financial assets for policy purposes	(18)	851
<i>Plus</i>	Memorandum items <sup>3</sup>	1,981	1,234
	<b>Loan Council Allocation</b>	<b>14,965</b>	<b>11,553</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 \$11.553 billion. This compares to the LCA nomination of \$14.965 billion.

A tolerance limit of two per cent of Non-financial Public sector receipts applies between the LCA nomination and the Budget allocation. The Budget allocation exceeds the LCA nomination by more than this.

This is mainly due to increased Commonwealth grant revenue and royalties, capital deferrals and proceeds on the sale of Forestry Plantations Queensland.

## 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 *2008-09 Report on State Finances – Whole of Government Financial Statements* (Note 47).

A summary of the State's quantifiable contingent liabilities as at 30 June 2009 is provided below.

<b>Table 9.18 Contingent liabilities</b>	
	2009 \$ million
<b>Nature of contingent liability</b>	
Guarantees and indemnities	5,215
Other	106
<b>Total</b>	<b>5,321</b>

## **BACKGROUND AND INTERPRETATION OF UNIFORM PRESENTATION FRAMEWORK**

As mentioned in the introduction to this chapter, the UPF was reviewed in 2007 following the release of the Australian Accounting Standards Board's (AASB) new accounting standard, AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

This 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 were required to report at year end against AAS 31 *Financial Reporting by Government*, which meant complying with the Accounting Standards issued by the AASB.

### **Harmonisation under AASB 1049**

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

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

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

## **Revisions to the Uniform Presentation Framework**

Following the introduction of AASB 1049, the Australian, state and territory governments consider that the UPF will continue to be an important framework for ensuring comparability of financial information across jurisdictions. 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.

## 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 the energy entities and QR Limited.

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 2010-11 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  
CorpTech  
Shared Service Agency



## Public Non-financial Corporations

CS Energy Ltd  
DBCT Holdings Pty Ltd  
ENERGEX Ltd  
Ergon Energy Corporation Limited  
Far North Queensland Ports Corporation Limited  
Forestry Plantations Queensland  
Gladstone Area Water Board  
Gladstone Ports Corporation Limited  
Gold Coast Events Co Pty Ltd  
Mount Isa Water Board  
North Queensland Bulk Ports Corporation Limited  
Port of Brisbane Corporation Limited  
Port of Townsville Limited  
Powerlink Queensland  
Qld Airport Holdings (Cairns) Pty Ltd  
Qld Airport Holdings (Mackay) Pty Ltd  
Queensland Bulk Water Supply Authority  
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 Limited  
SunWater  
Tarong Energy Corporation Limited  
The Trustees of Parklands Gold Coast  
Western Corridor Recycled Water Pty Limited  
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 2008-09 and 2009-10 for payroll tax, land tax, duties and gambling taxes. A summary of the major tax expenditures valued on the basis of revenue foregone is presented in Table A.1. Not all expenditures can be quantified at this time. Accordingly, the total value of tax expenditures should be considered as indicative only.

**Table A.1**  
**Tax expenditure summary<sup>1</sup>**

	2008-09 <sup>2</sup> \$ million	2009-10 \$ million
<b>Payroll Tax</b>		
Exemption threshold <sup>3</sup>	1,086	1,121
Deduction scheme <sup>4</sup>	216	229
<b>Section 14 exemptions</b>		
Local Government	99	107
Education	160	168
Hospitals	244	284
<b>Total Payroll Tax</b>	<b>1,805</b>	<b>1,909</b>
<b>Land Tax</b>		
Liability thresholds <sup>5</sup>	368	447
Graduated land tax scale	172	327
Primary production deduction	72	91
Section 13 exemptions not included elsewhere <sup>6</sup>	66	90
Land developers' concession	18	22
Capping of values	30	37
<b>Total Land Tax</b>	<b>726</b>	<b>1,014</b>
<b>Duties</b>		
<b>Transfer duty on residential property</b>		
Home concession	313	309
First home concession	289	192
First home vacant land concession	9	16
<b>Insurance duty</b>		
Non-life insurance	127	133
Workcover	25	25
Health insurance	173	185
<b>Total Duties</b>	<b>936</b>	<b>860</b>
<b>Taxes on Gambling</b>		
Gaming machine taxes	121	120
Casino taxes	8	9
<b>Total Gambling Tax</b>	<b>129</b>	<b>129</b>
Notes:		
1. Numbers may not add due to rounding.		
2. 2008-09 estimates may have been revised since the 2009-10 Budget.		
3. Exemption threshold of \$1 million applies.		
4. 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.		
5. Land tax is payable only on the value of taxable land above a threshold which depends on the ownership structure.		
6. Applicable, but not limited, to religious bodies, public benevolent institutions and other exempt charitable institutions.		
7. 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***

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.

#### ***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 is not included as a tax expenditure as it is regarded as the application of an administration threshold.

### ***Graduated land tax scale***

A graduated (concessional) scale of land tax rates is applicable to land with a taxable value of less than \$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. 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 (\$350,000 from 1 July to 31 August 2008).

### ***First home vacant land concession***

Since 1 July 2009, a first home concession has been available for the purchase of certain vacant land up to the value of \$400,000 (\$300,000 from 1 January 2007 to 30 June 2009), with a full concession available on certain vacant land up to the value of \$250,000 (\$150,000 from 1 January 2007 to 30 June 2009).

### **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.

### **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 increased 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 are 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 \$1.319 billion in 2010-11.

**Table B.1**  
**Concessions by agency<sup>1</sup>**

<b>Agency</b>	<b>2009-10 Est.Act. \$ million</b>	<b>2010-11 Estimate \$ million</b>
<b>Department of Communities</b>		
Government-managed housing rental rebate <sup>2</sup>	384.5	395.8
Electricity Rebate Scheme	91.0	106.6
Electricity Life Support Scheme	1.2	1.4
Medical Cooling and Heating Electricity Concession Scheme	..	1.4
Pensioner Rate Subsidy Scheme	40.8	44.0
Rail Concession Scheme	36.0	36.0
Reticulated Natural Gas Rebate Scheme	1.7	2.5
Home Energy Emergency Assistance Scheme	1.8	2.7
SEQ Pensioner Water Subsidy Scheme	10.0	16.2
National Reciprocal Transport Scheme	3.8	4.0
Active Recreation Centres - concessional usage rates	0.2	0.2
<b>Department of Community Safety</b>		
Urban Fire Levy Concession	5.7	5.9
Community Ambulance Cover	50.0	56.3
<b>Department of Education and Training</b>		
Living Away from Home Allowances Scheme	6.5	6.7
School transport assistance for students with disabilities	34.6	34.6
Non-State School Transport Assistance Scheme	4.6	4.7
TAFE concessions	14.4	14.8
<b>Department of Environment and Resource Management</b>		
Entry and tour fee concessions	0.3	0.3
Additional Irrigators Fixed Water Charges Rebate Scheme <sup>3</sup>	0.2	..
<b>Queensland Health</b>		
Oral Health Scheme	107.3	111.5
Spectacle Supply Scheme	8.3	8.8
Medical Aids Subsidy Scheme	29.6	35.8
Patient Travel Subsidy Scheme	45.2	49.7
<b>Department of Justice and Attorney-General</b>		
Public Trustee of Queensland – rebates of fees	20.9	22.3
<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	0.4	0.4
Venue hire discounts - South Bank Corporation	0.3	0.1

**Table B.1 (continued)**  
**Concessions by agency<sup>1</sup>**

<b>Agency</b>	<b>2009-10 Est.Act. \$ million</b>	<b>2010-11 Estimate \$ million</b>
<b>Department of Transport and Main Roads</b>		
Light and heavy vehicle registration concession	88.5	90.7
Recreational ship registration concession	1.0	1.0
School Transport Assistance Scheme	135.0	140.1
TransLink Transit Authority transport concessions (SEQ)	90.1	96.5
Other transport concessions incl. taxi subsidies	25.0	29.5
<b>Total</b>	<b>1,240.1</b>	<b>1,319.0</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 2010-11.		
3. This scheme concluded on 30 September 2009 with final payments made during 2009-10.		

## 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 by Government based on the household's income. The 2009-10 estimated rent subsidy has increased due to the decision to exclude the 2009 Commonwealth pension increase from rent calculations. In addition, market rents have continued to increase.

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 rebate will increase in 2010-11 in line with the change in the Benchmark Retail Cost Index (BRCI) as set by the Queensland Competition Authority.

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 rebate will also increase in 2010-11 in line with the change in the BRCI, as set by the Queensland Competition Authority.

In 2010-11 the Government will be providing funding to establish the Medical Cooling and Heating Electricity Concession Scheme. This rebate is for eligible concession card holders, with a medical condition who have a dependence on air conditioning to regulate body temperature. The rate will be set in line with the Electricity Rebate.

The Pensioner Rate Subsidy Scheme lessens 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 experiencing a short-term financial crisis and who are unable to pay their current electricity and/or reticulated natural gas account.

To lessen the impact of increased water prices on pensioners, the Government established the South East Queensland Pensioner Water Subsidy Scheme in 2008-09. The scheme, to be phased in over three years with the increased water prices, provided an annual subsidy of \$40 in 2008-09 and \$70 in 2009-10 and will provide \$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 commenced in 2009, is fully funded by the Australian Government.

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.

Pensioners and senior card holders are exempt from paying the Community Ambulance Cover charge levied quarterly on electricity accounts.

## **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 Environment and Resource Management**

Concessional entry and tour fees are available in specified protected areas including St Helena Island, David Fleay Wildlife Park, Mon Repos Conservation Park, Chillagoe Caves and the Ma Mu Canopy Walk.

The Additional Irrigators Fixed Water Charges Rebate Scheme made 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. The rebate scheme related to the 2008-09 financial year. Irrigators had until 30 September 2009 to lodge applications.

## **Queensland Health**

The Oral Health Scheme provides free dental care to eligible clients and their dependants who possess a current Health Care Card, Pensioner Concession Card or Queensland 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.

The Spectacle Supply Scheme assists eligible Queensland residents by providing a comprehensive range of free basic spectacles. Queensland Health administers the Scheme through the Medical Aids Subsidy Scheme.

The Medical Aids Subsidy Scheme provides access to subsidy funding assistance for the provision of a range of aids and equipment to eligible Queensland residents with permanent and stabilised conditions or disabilities. Aids and equipment are provided primarily to assist people to live at home and avoid premature or inappropriate residential care or hospitalisation. Subsidy funding assistance is provided towards communication aids, continence aids, daily living aids, medical grade footwear, mobility aids, orthoses and oxygen.

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.

## **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 and provides a reduced rate of registration fees.

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.

Public transport concessions are provided by the Government to ensure access and mobility for Queenslanders who require assistance because of age, disability or fixed low income. Passengers entitled to receive a public transport concession include holders of a Pensioner Concession Card, Veterans' Affairs Gold Card, Seniors Card (all states and territories), Companion Card, Vision Impairment Travel Pass, children, as well as secondary and tertiary students. The Taxi Subsidy Scheme aims to improve the mobility of persons with severe disabilities by providing a 50% concession fare up to a maximum subsidy of \$25 per trip.





## **APPENDIX C – STATEMENT OF RISKS AND SENSITIVITY ANALYSIS**

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### **INTRODUCTION**

The Queensland Budget, like those of other states, is based in part on assumptions made about future elements of uncertainty, both internal and external to the State, which can impact directly on economic and fiscal forecasts. Operating results achieved in recent years reflect the fact that the actual fiscal result achieved depends on the direction of such variables.

This section analyses the sensitivity of the estimates to changes in the economic and other assumptions used in developing the Budget and forward estimates. This analysis is provided to enhance the level of transparency and accountability of the Government.

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

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

### **SENSITIVITY OF EXPENDITURE ESTIMATES AND EXPENDITURE RISKS**

#### **Public sector wage costs**

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

The 2010-11 Budget and forward estimates includes funding for wage increases as per existing agreements and reflect the Government's wages policy for agreements yet to be reached.

#### **Interest rates**

The General Government sector has a moderate level of debt with a total debt servicing cost forecast at \$1.242 billion in 2010-11.

The current average duration of General Government debt is around four years. The majority of General Government debt is held under fixed interest rates and therefore the impact of interest rate variations on debt servicing costs in 2010-11 would be modest.

## **Actuarial estimates of superannuation and long service leave**

Liabilities for superannuation and long service leave are estimated by the State Actuary with reference to, among other things, assumed rates of investment returns, salary growth and inflation. These liabilities are therefore subject to changes in these parameters.

Similarly, the long service leave liabilities are subject to the risk that the actual rates of employee retention will vary from those assumed in the liability calculation.

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

## **Demographic and demand based risks**

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

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

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

## **SENSITIVITY OF REVENUE ESTIMATES AND REVENUE RISKS**

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

Other revenue items are influenced by external variables such as the exchange rate or the performance of financial markets.

### **Exchange rate and commodity prices and volumes – royalties estimates**

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

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

For each one cent movement in the Australian dollar-US dollar exchange rate, the impact would be approximately \$41 million in 2010-11.

Also impacting on royalty estimates are volume effects. A large component of Queensland's royalty collections is derived from coal. A 1% variation in export coking and thermal coal volumes would lead to a change in royalty revenue of approximately \$27 million.

The 2010-11 Budget assumptions for export coal prices are derived by taking into account various price forecasts made by coal companies and external forecasters. A 1% variation in the price of export coal would lead to a change in royalty revenue of approximately \$35 million.

### **Property values and volumes – transfer duty estimates**

For 2010-11, a slight recovery in the property market is forecast reflecting continuing demand for property and house price growth.

A 1% variation in either the average value of property transactions or the volume of transactions would change transfer duty collections by approximately \$20 million in 2010-11.

## **Wages and employment growth – payroll tax collections**

Wages and employment growth have a direct impact on payroll tax collections. The Budget assumptions are for an increase in the Wage Price Index of 3½% and an increase in employment of 2¾% in 2010-11.

A one percentage point variation in either Queensland wages growth or employment would change payroll tax collections by approximately \$30 million in 2010-11.

## **Parameters influencing Australian Government GST payments to Queensland**

Estimates of Australian Government GST revenue grants to states and territories are dependent on total GST revenue collected, which tends to be closely correlated with the general level of economic activity. The Australian Government has provided estimates of total GST collections in its Budget Papers. In 2010-11, Queensland's Budget will bear the risks of fluctuations in GST revenues and the other components of the package, such as the First Home Owner Grant Scheme, administrative costs associated with the GST and taxes foregone.

The Australian Government's estimate of GST revenue in 2010-11 is based on its forecast of consumption and as with all other tax estimates, there is a risk of lower collections than estimated by the Australian Government if economic growth and consumption is weaker than expected.

Relative to other states, Queensland has been assessed as having an increasing capacity to raise revenue, particularly mining revenue in recent years. As a result, Queensland's share of GST funding (relativity) has declined and will continue to be below a population share in 2010-11.

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

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**Queensland**  
Government

State Budget 2010–11

**Budget Strategy and Outlook**

**Budget Paper No.2**

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