

A large, semi-transparent map of the state of Queensland is positioned in the upper half of the page, set against a dark blue background.

State Budget 2011–12

Budget Strategy and Outlook

Budget Paper No.2



Queensland
Government

2011–12 State Budget Papers

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

This suite of Budget Papers is similar to that published in 2010–11.

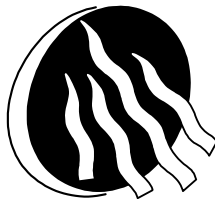
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Queensland
Government

STATE BUDGET

2011-12

BUDGET STRATEGY AND OUTLOOK

Budget Paper No. 2

TABLE OF CONTENTS

1	Fiscal Strategy, Performance and Outlook.....	1
	Fiscal Strategy	3
	Path Back to Surplus.....	5
	Fiscal Principles	6
	Asset Sales Program	12
	Budget Outcomes 2010-11	17
	Budget 2011-12 and Outyear Projections	20
2	Economic Performance and Outlook.....	27
	External Environment.....	28
	The Queensland Economy.....	32
	Queensland's Long Term Prospects and Challenges	49
3	Impact of the 2010-11 Disasters	57
	Economic Impact of the Natural Disasters	58
	Fiscal Impact of the Natural Disasters.....	66
4	Revenue	71
	2011-12 Revenue by Category	73
	Changes in Revenue Since the 2008-09 Budget	75
	2011-12 Budget Initiatives.....	79
	Taxation Revenue	83
	Grants Revenue	88
	Sales of Goods and Services	91
	Interest Income	93
	Dividend and Income Tax Equivalent Income	93
	Other Revenue.....	94
	Queensland's Competitive Tax Status	96

5	Expenses.....	99
	Expenses by Operating Statement Category.....	102
	Details of Expenses	103
	Operating Expenses by Purpose	107
	Departmental Expenses	111
6	Balance Sheet and Cash Flows	115
	Balance Sheet	116
	Cash Flows.....	124
	Reconciliation of Operating Cash Flows to the Operating Statement.....	131
7	Inter-governmental Financial Relations.....	133
	Federal Financial Arrangements.....	134
	New Issues in Inter-governmental Relations	135
	Australian Government Funding to States	137
	Australian Government Payments for Specific Purposes	141
	GST Revenue Payments	142
	State-Local Government Financial Relations.....	148
8	Public Non-financial Corporations Sector.....	149
	Impact of Natural Disasters	151
	Post-Asset Sales Program Transition	151
	Cost of Living.....	152
	Finances and Performance.....	155
	Energy Sector	161
	Transport Sector	163
	Water Sector.....	169

9 Uniform Presentation Framework.....	173
Uniform Presentation Framework Financial Information.....	173
Reconciliation of Net Operating Balance to Accounting Operating Result	183
General Government Time Series	184
Other General Government UPF Data	185
Contingent Liabilities	191
Background and Interpretation of Uniform Presentation Framework	192
Sector Classification	194
Reporting Entities	195
Appendix A – Tax Expenditure Statement.....	199
Appendix B – Concessions Statements	207
Appendix C – Revenue and Expense Assumptions and Sensitivity Analysis.....	215
Taxation Revenue Assumptions and Revenue Risks	217
Royalty Assumptions and Revenue Risks	218
Sensitivity of Expenditure Estimates and Expenditure Risks.....	219
Appendix D – Government-owned Corporations Non-financial Key Performance Indicators	221

1 FISCAL STRATEGY, PERFORMANCE AND OUTLOOK

FEATURES

- The forecast General Government net operating balance is expected to be a deficit of \$2.127 billion in 2010-11 compared to a forecast deficit of \$1.468 billion at the time of the Mid Year Fiscal and Economic Review and \$1.745 billion at the time of the 2010-11 Budget.
- The deterioration in the 2010-11 forecast net operating balance since the Mid Year Fiscal and Economic Review primarily reflects the impact of natural disasters, particularly Cyclone Yasi, and downward revisions to Goods and Services Tax revenues and coal royalty revenues.
- A net operating deficit of \$4.058 billion is budgeted for 2011-12, compared to a forecast deficit of \$3.959 billion at the time of the Mid Year Fiscal and Economic Review. This primarily reflects an increase in funding for restoration works in response to natural disasters and policy decisions of Government.
- The timing of the Australian Government's Natural Disaster Relief and Recovery Arrangements (NDRRA) funding is having a considerable impact on the State's operating position across the forward estimates, primarily associated with \$2.05 billion of advance NDRRA funding in 2010-11. The impact of the timing of payments is an improved operating position in 2010-11, while the operating deficit in 2011-12 is larger than would otherwise be expected.
- The forecast operating position has improved across the remainder of the forward estimates, largely due to a stronger outlook for Queensland's share of Goods and Services Tax revenue and royalty revenues.
- Since the Mid Year Fiscal and Economic Review, the forecast operating deficit for 2012-13 has reduced from \$3.556 billion to \$1.293 billion and the operating deficit forecast for 2013-14 has reduced from \$1.677 billion to \$873 million. A return to surplus is projected in 2015-16 in line with the Government's fiscal principle.
- The State's 2011-12 capital program is an estimated \$15 billion, similar to the level of 2010-11 estimated outlays.
- Despite the negative impacts of natural disasters, the forecast level of borrowings in the Non-financial Public Sector at 30 June 2011 is now estimated at \$52.8 billion, compared to \$62.8 billion at the time of the 2010-11 Budget. This is a result of the Government's fiscal reform program.

The operating balance expected for 2010-11 is a deficit of \$2.127 billion compared to a forecast deficit of \$1.468 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 are weaker in 2010-11 and 2011-12, but have improved significantly in 2012-13 and 2013-14.

Table 1.1 General Government sector – revisions to net operating balance forecasts						
	2009-10 \$ million	2010-11 \$ million	2011-12 \$ million	2012-13 \$ million	2013-14 \$ million	2014-15 \$ million
2010-11 Budget	(287)	(1,745)	(1,442)	(1,482)	(1,395)	n/a
2010-11 MYFER	(56)	(1,468)	(3,959)	(3,556)	(1,677)	n/a
2011-12 Budget	(56)	(2,127)	(4,058)	(1,293)	(873)	(529)

Australian Government payments – impact on the operating position

Funding from the Australian Government has a significant impact on Queensland's net operating position when it is not matched by an expense in the same financial year.

In particular, the Australian Government is providing advance Natural Disaster Relief and Recovery Arrangements (NDRRA) funding of \$2.05 billion in 2010-11 and \$500 million in 2011-12 (including loan advances), although the bulk of the associated expenditure will occur across 2011-12 and 2012-13. This timing mismatch has the effect of improving the net operating balance in 2010-11 and negatively impacting the position in 2011-12. Table 1.2 outlines the impact of Australian Government NDRRA funding, including funding for previous disasters as well as the flooding in the 2010-11 summer and Cyclone Yasi, on Queensland's net operating balance. This analysis does not take into account NDRRA-related capital expenditure, or funding provided as loans, which do not directly impact on the net operating balance. The total expenses associated with disaster relief and recovery are discussed in Chapter 3.

Table 1.2 Impact of Natural Disaster Relief and Recovery Arrangements funding on the net operating balance¹		
	2010-11 \$ million	2011-12 \$ million
Published Net Operating Balance	(2,127)	(4,058)
less NDRRA Revenue ^{2,3}	2,003	1,164
add NDRRA Operating Expenses	1,555	2,623
Underlying Net Operating Balance	(2,575)	(2,599)
Notes: 1. Includes revenue and expenditure in relation to prior events, as well as 2010-11 disasters and Cyclone Yasi 2. Following the advance payment from the Australian Government, the remaining revenues are expected to lag expenses by around six months. 3. Excludes loans provided through the State, which are not treated as revenue.		

FISCAL STRATEGY

The 2011-12 Budget is focussed on recovery from the natural disasters that struck Queensland in the summer of 2010-11. As a result of the costs of disaster recovery and repair, as well as associated revenue losses, particularly coal royalties, the State is facing substantial operating deficits in the short term.

However, in the medium term the continuing priority of Government is to consolidate the State's financial position as the economy recovers from both natural disasters and the lingering impacts of the global financial crisis.

Since the 2008-09 Major Economic Statement, released in December 2008, the Government has undertaken significant structural budgetary reform to strengthen the long term sustainability of the State's finances and ensure the Budget is on track to return to surplus by no later than 2015-16. The measures undertaken in this regard include:

- Increasing public sector efficiency targets from \$60 million in 2008-09 to \$500 million per annum from 2014-15 onwards.
- Revisions to taxation to strengthen the State's revenue base and increase interstate harmonisation, while maintaining Queensland's competitive tax status.
- Ceasing the Queensland Fuel Subsidy Scheme, providing savings to the Budget of around \$2.4 billion over four years.
- Reforming grant and subsidy programs to ensure they are appropriately targeted.
- Implementing a Government wages policy that limits budget-funded wage increases to 2.5% per annum until the budget returns to surplus and a program of 3,500 voluntary separations from non-service delivery areas.
- Committing to restrain own-purpose expenditure growth so that it does not exceed growth in inflation and population.
- Reform of Government-owned corporations, including the infrastructure assets reform and sales program announced in the *Renewing Queensland Plan* to reduce the State's borrowings.
- Closing the Defined Benefit superannuation scheme to new members and providing a substantial additional employer contribution through the transfer of the Queensland Motorways Limited assets.
- Committing to reduce the capital program to a maximum of \$10 billion a year from 2013-14 onwards to reduce future borrowing requirements.

In recognition of the importance of providing short term support to the economy while improving the long term sustainability of the fiscal position, the 2011-12 Budget provides additional temporary support for the tourism and construction sectors, while further strengthening the State's revenue base.

These measures include:

- \$10,000 Queensland Building Boost grant, available to all purchases of new housing between 1 August 2011 and 31 January 2012.
- Revisions to the transfer duty rate structure to ensure that duty payable on a home is lower in Queensland than any other mainland state after the home concession is discontinued. This reform also strengthens and simplifies the base of the tax in the longer term.
- Increased funding of \$85.8 million over five years to Events Queensland Pty Ltd to attract and support a range of major events of economic benefit to Queensland. This will be of crucial importance to support our tourism industry.
- Funding a number of outcomes from the Building Revival Forum, including the establishment of a Major Projects Office to ensure the timely progression of major commercial projects through planning and approval processes.

To address cost of living pressures, the 2011-12 Budget includes:

- Abolition of the Community Ambulance Cover levy from 1 July 2011.
- Increased pensioner subsidies for local government rates and electricity.
- Direction to electricity distributors not to pass on increases in costs associated with natural disasters or additional revenues approved by the Australian Competition Tribunal.

The 2011-12 Budget also includes a range of measures to support the State's future economic growth, including a significant additional investment in Education, through the Flying Start initiative.

Further details of measures introduced since the 2010-11 Budget are detailed in Chapter 4 and Chapter 5 and Budget Paper 4 – Budget Measures.

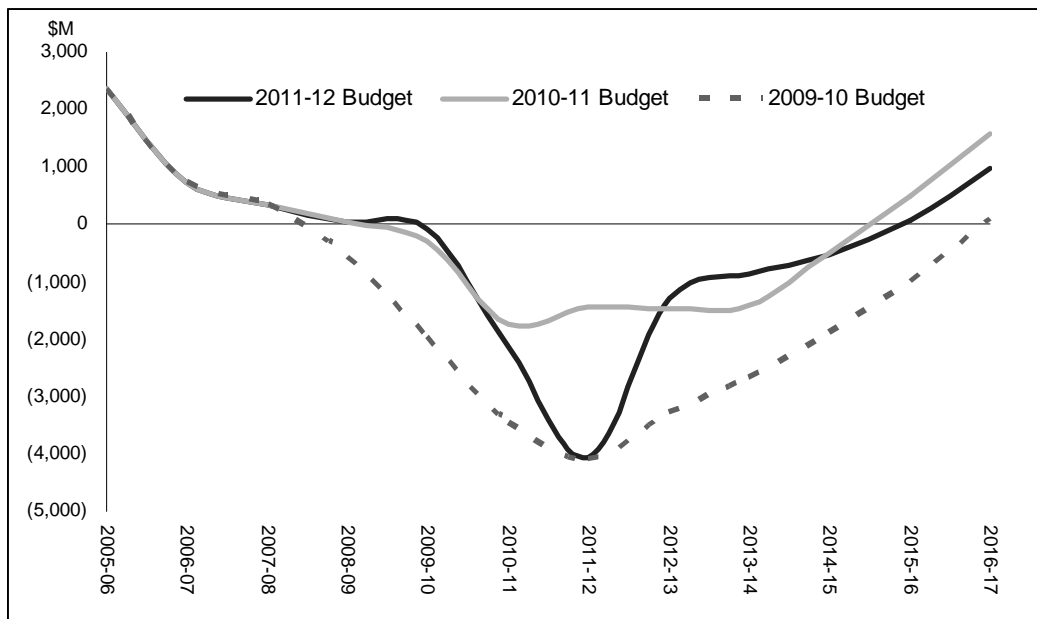
PATH BACK TO SURPLUS

Returning the Budget to surplus is a central element of the Government's fiscal principles. The measures undertaken by the Government to improve the State's fiscal position underpin the projected return to surplus. A return to surplus depends on economic growth in the State as well as the policy decisions of Government.

Despite the medium term fiscal impacts of responding to natural disasters, Chart 1.1 below indicates the Government remains on track to achieve the goal of returning to surplus by no later than 2015-16.

As shown in the chart, the current path of recovery is heavily influenced by expenditures and Australian Government funding associated with natural disasters, with the operating deficit forecast to peak in 2011-12 before improving across the forward estimates. The operating position remains stronger in each year than had been projected at the time of the 2009-10 Budget.

Chart 1.1
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 strong financial position, while providing a large capital investment program, 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 to 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, public safety and education.

The Treasurer must report regularly to Parliament on progress the Government has made against the outcomes stated in the Charter. These reports are incorporated in the Budget papers and MYFER, which are tabled and published each year.

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 in the longer term for governments to borrow to fund recurrent expenses.

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).

As a result of the mismatch between the timing of Australian Government NDRRA funding and the associated expenditures, operating expenses are expected to exceed operating revenue in 2011-12. However, this principle is expected to be met in 2010-11 and from 2012-13 onwards.

In the current financial environment, with markets concerned about sovereign debt, fiscal discipline is critical. Until an operating surplus is achieved, 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.

Growth in own-purpose expenses in 2009-10 was 2.81%, primarily reflecting the implementation of savings measures introduced in the 2009-10 Budget.

Own-purpose expenditure growth of 10.7% is expected in 2010-11, substantially above the real per capita principle of 5%, primarily reflecting spending in support of reparation work associated with wide-scale flooding in February and March 2010 as well as spending, such as advance payments to local government authorities, in relation to the flooding and cyclones that impacted Queensland across the summer of 2010-11.

In 2011-12, own-purpose expenditure growth will continue to be impacted by natural disaster recovery and repair expenditure, with growth of 9% anticipated, which is also above the real per capita principle of 4.75%.

If spending associated with the most recent natural disasters is excluded from the calculation, own-purpose expenditure growth in 2010-11 is estimated at 7.7% and 6.4% in 2011-12. These growth rates are driven by a number of one-off factors, including those associated with medium term reform measures, such as the upfront expenditure associated with the Voluntary Separation Program in 2011-12.

Over the period 2010-11 to 2014-15, own-purpose expenditure growth is expected to average 4.9%, compared with an expected real per capita constraint of 5%. Further detail on expenses projections is 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. The 2010-11 MYFER savings, which reach \$400 million per annum by 2014-15, are important to achieving this, as is the Government's commitment to limiting wage increases to 2.5% per annum.

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 2011-12 are estimated at \$2,268, compared with an estimated \$2,769 for the average of the other states
- Commonwealth Grants Commission data indicate that Queensland's taxation effort ratio was 87% of the standard for all states in 2009-10
- Queensland's tax collections were 3.68% of GSP in 2009-10, compared to 4.22% for the average of the other states.

The 2011-12 Budget includes the abolition of the Community Ambulance Cover levy, and transfer duty, 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.

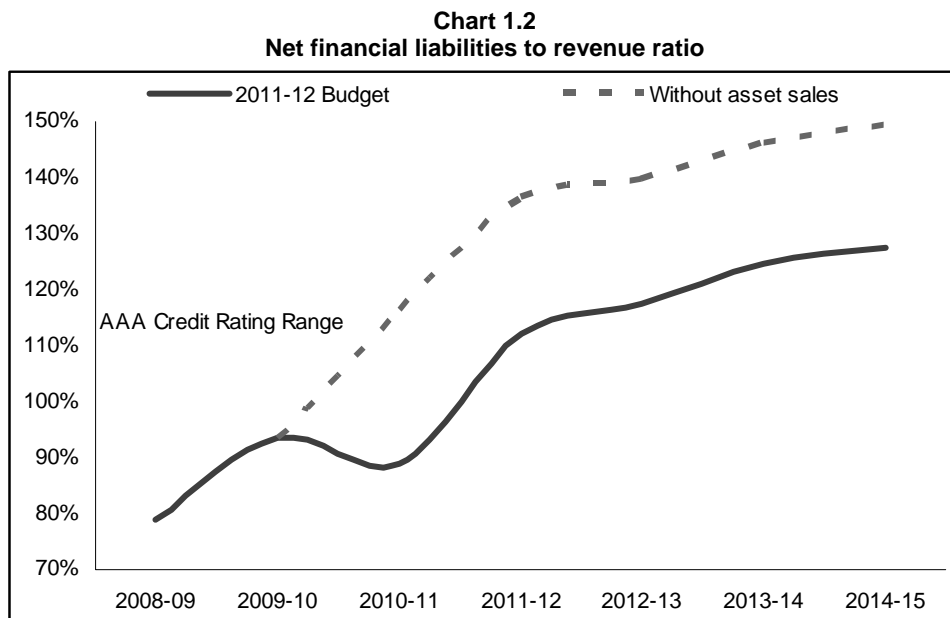
Managing the State's balance sheet

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 a significant portion of its capital program through borrowing, recognising the interest, operating and depreciation costs on the operating statement. While the balance sheet of the Queensland Government remains strong, anticipated future borrowings are expected to lead to an increase in the ratio of net financial liabilities¹ to revenue, which is a measure used within financial markets to assess financial sustainability. While this ratio is expected to rise across the forward estimates, the trajectory of this increase is moderating as the State's budget position strengthens and a greater share of the State's infrastructure program is funded by operating cash flows, rather than borrowings.

The assets sale program undertaken by the Queensland Government has resulted in the net financial liabilities to revenue ratio being significantly lower than it would have been in the absence of asset sales.

Chart 1.2 identifies the impact of the asset sales on the net financial liabilities to revenue ratio.



¹ 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.

The 2011-12 Budget is the first time the proceeds from all asset sales announced in the *Renewing Queensland Plan* have been factored into the budget. In total, the asset sales have resulted in the State's net financial liabilities being significantly lower than they would have been in the absence of asset sales. The Asset Sales Program section, commencing on page 12, provides details of each of the individual transactions.

Further borrowings will also be avoided, as the capital requirements of these entities will no longer be funded by the State. Approximately \$2.8 billion of this capital requirement, across the forward estimates, had already been factored into the 2010-11 Budget and will now be avoided.

After the impact of asset sales, the net financial liabilities to revenue ratio is expected to be 112% at the end of the 2011-12 financial year, which is lower than the 120% forecast at the time of the MYFER. In the absence of asset sales, the ratio is projected to have increased to 149% in 2014-15.

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, with the next review expected to be released in July 2011. 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 1.3 provides an overview of the Government's progress in meeting the fiscal principles.

Table 1.3
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)
	2010-11	41,183	40,702
	2011-12	43,007	44,193
	2012-13	46,506	44,586
	2013-14	47,004	44,377
	2014-15	48,817	45,742
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
	2010-11	10.72%	5.00%
	2011-12	8.98%	4.75%
	2012-13	2.30%	5.25%
	2013-14	(0.70%)	5.00%
	2014-15	3.08%	5.00%
Average	4.87%	5.00%	
Achieve a General Government net operating surplus as soon as possible, but no later than 2015-16	Net operating balance (\$ million)		
	2010-11	(2,127)	
	2011-12	(4,058)	
	2012-13	(1,293)	
	2013-14	(873)	
	2014-15	(529)	
Competitive tax regime			
Maintain a competitive tax environment for business	Taxation revenue per capita, 2011-12		
	Queensland:	\$2,268	
	Average of other states and territories:	\$2,769	
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		
		2011-12 Budget	Without asset sales
	2010-11	89%	116%
	2011-12	112%	137%
	2012-13	117%	140%
	2013-14	125%	146%
2014-15	127%	149%	
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.		

ASSET SALES PROGRAM

In 2010-11, the Government completed a program of asset sales to restructure the State's asset portfolio, fund natural disaster recovery and repay State debt. The divestment of these businesses will also reduce the demands on Government to further fund significant ongoing capital requirements and provide a mechanism to introduce more private sector funding into Queensland infrastructure.

The proceeds from the 99-year lease of Forestry Plantations Queensland (FPQ), which reached financial completion on 30 June 2010, were factored into the 2010-11 Budget while proceeds from QR National Limited and Port of Brisbane Corporation were included in the 2010-11 MYFER.

Proceeds from the other two commercial businesses – Abbot Point Coal Terminal and Queensland Motorways Limited – are included in the 2011-12 Budget.

QR National Limited

QR National Limited (QR National) listed on the Australian Securities Exchange (ASX) on 22 November 2010, with 2.44 billion shares on issue. The company is focussed primarily on large, heavy haul rail tasks such as the transportation of coal, iron ore, other minerals, agricultural products and general freight, as well as containerised freight. QR National operates and manages the Central Queensland Coal Network under 99 year lease arrangements with the State.

Retail investors in the Share Offer paid \$2.45 per share, while institutional investors paid \$2.55 per share. Retail investors allocated shares in the Share Offer and who hold them continuously in the same registered name until 7 December 2011 will receive loyalty bonus shares.

Eligible employees were entitled to apply for \$1,000 worth of shares for no monetary payment and also received a \$4,000 cash payment pursuant to renegotiated enterprise agreements.

During 2010-11, the State received gross proceeds of \$4.049 billion from the sale of 66 per cent of its interest in QR National. The State also received an \$86 million dividend from QR Limited prior to listing on the ASX and \$471 million of debt previously held with QTC was refinanced with the private sector, bringing total proceeds to \$4.606 billion.

The State, through Queensland Treasury Holdings Pty Ltd (QTH), retained 34 per cent of the shares in QR National to ensure a staged transition to private ownership. Consistent with the statements made in the QR National Share Offer Document, these shares are now owned by QTH (in the Public Financial Corporations sector) following completion of the Share Offer, and are held by QTH on an arms length basis. The shares were transferred to QTH at the \$2.55 institutional offer price.

The State is bound by an escrow arrangement with QR National in respect of its retained shareholding until QR National releases its 2011-12 financial year results to the ASX. Under the escrow arrangement, which also binds QTH, the State voluntarily agreed that it will not sell the shares which it holds, subject to several exceptions which were specified in the Share Offer Document.

As at 31 May 2011, QR National shares last traded on the ASX at \$3.45 per share, an increase of \$0.90 (or 35.3%) compared with the institutional offer price of \$2.55. At this price, the State's retained shareholding has a market value of \$2.862 billion, an increase of \$747 million since listing. The increase in QR National's share price reflects the market's current view of the company's performance and expected future earnings.

Legislative provisions ensure that, other than the State, no individual or company may hold more than 15 per cent of QR National.

Passenger rail services and the regional non-coal below rail network continue to be provided by the State, now through Queensland Rail, a new Government-owned Corporation which came into existence on 1 July 2010.

Port of Brisbane Corporation Limited

On 10 November 2010, the State announced the sale of the Port of Brisbane assets and business interests, together with a 99 year lease of the Port of Brisbane land and infrastructure, to the QPort Holdings consortium for \$2.095 billion.

The purchase price included a deferred purchase price amount of \$172 million, comprising future cash flows of fixed annual payments and a share of future port revenues, which were securitised with Queensland Treasury Holdings. The revenue sharing component is based on anticipated revenue growth at the Port, to be achieved through expected increased cargo volumes and sustainable returns on capital investments undertaken by the new port operator.

The QPort Holdings consortium comprises Global Infrastructure Partners, Industry Funds Management, QIC Global Infrastructure on behalf of its managed funds and Tawreed Investments Pty Ltd, a wholly-owned subsidiary of the Abu Dhabi Investment Authority.

In addition, the new owner of the Port of Brisbane is responsible for the future upgrade of section 3 of the Port of Brisbane Motorway, at an estimated cost of \$200 million. The combined value of the transaction to the State is therefore approximately \$2.3 billion.

Abbot Point Coal Terminal

On 3 May 2011, the State reached agreement with Mundra Port and Special Economic Zone Limited regarding the 99 year lease of the Abbot Point X50 Coal Terminal for \$1.829 billion.

The lease term is 99 years and involves retained ownership of the land and fixed infrastructure by the State. Following the recent floods and Cyclone Yasi, the proceeds from the long term lease will fund Queensland's share of the natural disaster recovery effort.

Beyond the long term lease of the X50 Terminal, the State is also facilitating broader private sector funded development of new coal terminals within the Port of Abbot Point to meet strong demand from coal mining companies for additional coal export capacity. This includes appointing BHP Billiton Limited and Hancock Coal Pty Ltd as preferred proponents for the new Terminal 2 and 3 developments adjacent to the X50 Terminal (which is now known as Terminal 1). The X50 lessee has been granted the right to investigate the feasibility of expanding Terminal 1 beyond 50 mtpa using an adjacent port area. The State has also sought expressions of interest for proponents to develop additional terminals within the port precinct (potentially Terminals 4 through to 7).

Queensland Motorways Limited

Queensland Motorways has the concession to operate, maintain and collect the tolls on the Gateway and Logan Motorways.

On 25 November 2010, the Premier announced that Queensland Motorways would be transferred at market value to the Defined Benefit Superannuation Fund, managed by QIC Limited.

On 31 May 2011 ownership of the shares in Queensland Motorways was transferred to QIC Limited, as trustee for the Defined Benefit Superannuation Fund, for \$3.088 billion.

The primary impact of the transaction on the Non-Financial Public Sector balance sheet was an increase in "Investments, loans and placements" and a decrease in the "Land and other fixed assets" by the value of Queensland Motorways' fixed assets.

This resulted in an improvement in a number of key credit metrics. In particular, the State's net financial liabilities position has improved through the recognition of Queensland Motorways as a financial asset. The transfer of Queensland Motorways to QIC is consistent with the broader restructuring of the State's balance sheet under the asset sales program.

As part of this sale process, a new Road Franchise Agreement (RFA) was signed with Queensland Motorways, for a franchise period of approximately 40 years. The new RFA came into operation on 1 April 2011. The Government has legislated that annual toll increases will be limited to the level of the consumer price index (CPI).

Forestry Plantations Queensland

Following financial completion of the FPQ transaction on 30 June 2010, a subsequent post-completion adjustment of \$9.849 million was received by the State in September 2010. This took total transaction proceeds to \$613 million. Both FPQ and its associated entity Forestry Plantations Queensland Office were wound up on 30 November 2010, with a final annual report and financial statements prepared for both entities as at that date.

Summary of Sale Outcomes

The asset sale program was completed well ahead of the originally proposed timeframe and within original cost estimates. Proceeds of \$12.2 billion were delivered from the sale of 66 percent of QR National and the divestment of the Port of Brisbane, Abbot Point Coal Terminal, Queensland Motorways and Forestry Plantations Queensland.

In addition, the market value of the State's retained holding in QR National had increased by approximately \$747 million to \$2.9 billion as at 31 May 2011, bringing total realisable value to approximately \$15.1 billion.

The asset sales program is estimated to avoid over \$10 billion in planned capital investment in these assets over the next five years, \$2.8 billion of which had been formally approved and factored into the 2010-11 Budget.

Table 1.4 summarises the sale process outcomes.

Table 1.4 Asset sales program¹			
	Disposal Proceeds \$ million	Company debt repaid from proceeds \$ million	Returns to the State² \$ million
QR National Limited ³	6,721	4,388	2,190
Port of Brisbane Limited	2,095	808	1,262
Abbot Point Coal Terminal ⁴	1,829	915	898
Queensland Motorways Limited ⁵	3,088	3,053	14
Forestry Plantations Queensland	613	86	506
Change in market value of shareholding in QR National since sale to QTH (as at 31 May 2011)	747		
Total	15,093	9,250	4,870
Notes: 1. Numbers may not add due to rounding. 2. Returns to the State are equivalent to the disposal proceeds less company debt repaid and sale-related costs and are available to fund the capital program and natural disaster recovery, thereby avoiding recourse to borrowings. The change in market value of QRN shares held by QTH is not included in the return calculation. 3. Disposal proceeds are comprised of the IPO proceeds (\$4.049 billion), a dividend paid to the State by QR Limited prior to listing on the ASX (\$86 million), QR National debt which was refinanced with the private sector prior to listing (\$471 million) and the proceeds received from the sale of shares to QTH at the institutional offer price (\$2.115 billion). 4. Debt with a book value of \$915 million related to Abbot Point Coal Terminal was transferred to the General Government sector on 31 May 2010, with the full \$1.829 billion proceeds from the Abbot Point Coal Terminal disposal directed to disaster recovery. 5. QML was sold to QIC and is now an asset of the State's Public Sector Defined Benefit Superannuation Scheme.			

BUDGET OUTCOMES 2010-11

Key financial aggregates

Table 1.5 General Government sector – key financial aggregates, 2010-11¹			
	2010-11 Budget \$ million	2010-11 MYFER \$ million	2010-11 Est. Act. \$ million
Revenue	40,606	41,829	41,183
Expenses	42,352	43,297	43,310
Net operating balance	(1,745)	(1,468)	(2,127)
Cash surplus/(deficit)	(6,396)	(5,660)	(6,172)
Capital purchases	8,335	7,883	7,457
Net borrowing	7,629	81	1,362
Gross borrowing	23,250	20,497	23,820
Net worth	188,564	176,697	177,966
Net debt	(6,743)	(9,790)	(9,989)
Note: 1. Numbers may not add due to rounding.			

Operating balance

The operating balance expected for 2010-11 is a deficit of \$2.127 billion compared to a deficit of \$1.468 billion forecast in the MYFER. The deterioration in the forecast net operating balance since the MYFER primarily reflects the impact of natural disasters, in particular Cyclone Yasi, and downward revisions to Goods and Services Tax revenue. There has also been a reduction in forecast mining royalty revenue due to production losses associated with flooding being higher than previously anticipated, as well as the continued strength of the Australian Dollar. Expense levels are broadly consistent with the MYFER forecast.

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

Table 1.7 provides a reconciliation of the estimated net operating balance for 2010-11 to the MYFER forecast.

Cash Flows and Balance Sheet

Non-financial Public Sector

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

Net borrowings (additional borrowings for the year as itemised in the Cash Flow Statement) of \$1.653 billion are expected in the NFP sector in 2010-11, a decrease of \$9.39 billion compared with the 2010-11 Budget estimate, with asset sales proceeds utilised to repay debt and reduce borrowing requirements.

Gross borrowings of \$52.811 billion are projected at 30 June 2011, \$10.016 billion lower than the 2010-11 Budget estimate due to cash proceeds associated with asset sales being utilised to repay existing debt and reduce borrowing requirements.

Purchases of non-financial assets (capital spending) of \$13.151 billion are expected in the NFP sector in 2010-11, somewhat lower (15% or \$2.328 billion) than the 2010-11 Budget estimate, primarily due to the reduced capital requirement in the PNFC sector with the sale of QR National and lower projected capital expenditure in both the PNFC and General Government sectors.

General Government Sector

Cash surplus/(deficit)

The General Government sector is now expected to record a cash deficit in 2010-11 of \$6.172 billion compared to a \$5.66 billion deficit forecast in the MYFER. The larger than expected cash deficit is predominantly the result of downward revisions to Australian Government payments and coal royalty revenues.

Capital purchases

General Government purchases of non-financial assets in 2010-11 are estimated to be \$7.457 billion. This is \$426 million less than forecast in the MYFER due to changes in the timing of cashflows for capital projects and delays associated with extended periods of poor weather conditions.

Borrowing

Net borrowings of \$1.362 billion are expected in 2010-11, \$1.281 billion more than forecast in the MYFER, primarily reflecting the increased cash deficit. However, net borrowings in the General Government sector are expected to be \$6.267 billion less than forecast in the 2010-11 Budget, due to the repatriation of net proceeds from asset sales.

Gross borrowings (the stock of borrowings outstanding as stated in the Balance Sheet) of \$23.82 billion are estimated at 30 June 2011, \$3.323 billion more than the MYFER estimate, largely reflecting the General Government sector funding the increased level of investment in financial assets held to offset superannuation liabilities, primarily in relation to Queensland Investment Corporation's investment in Queensland Motorways Limited.

At a whole-of-Government level, total borrowings remain effectively unchanged as a result of the Queensland Motorways Limited transaction, while the net financial liabilities position improved as a result of the recognition of the increased level of investment.

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 2011 is estimated at \$177.966 billion. This is \$1.269 billion higher than the forecast in the MYFER, primarily reflecting an increase in the value of the General Government sector's investments for superannuation and other long term purposes.

Estimated net worth at 30 June 2011 is \$10.598 billion lower than forecast in the 2010-11 Budget, primarily due to downward revaluations of land and other fixed assets, such as roads, in the 30 June 2010 year-end process, to reflect market value.

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 2011 is estimated to be negative \$9.989 billion, compared to negative \$9.79 billion forecast at the time of the MYFER. The slightly stronger position reflects the value of investments, loans and placements increasing by more than borrowings.

BUDGET 2011-12 AND OUTYEAR PROJECTIONS

Key financial aggregates

Table 1.6 provides aggregate actual outcome information for 2009-10, estimated actual outcome information for 2010-11, forecasts for 2011-12 and projections for the outyears.

Table 1.6 General Government sector – key financial aggregates¹						
	2009-10 Actual ² \$ million	2010-11 Est. Act. \$ million	2011-12 Budget \$ million	2012-13 Projection \$ million	2013-14 Projection \$ million	2014-15 Projection \$ million
Revenue	39,729	41,183	43,007	46,506	47,004	48,817
Expenses	39,785	43,310	47,065	47,799	47,877	49,346
Net operating balance	(56)	(2,127)	(4,058)	(1,293)	(873)	(529)
Cash surplus/(deficit)	(5,305)	(6,172)	(7,915)	(4,604)	(3,267)	(2,178)
Capital purchases	8,767	7,457	7,180	6,879	5,786	5,234
Net borrowing	5,182	1,362	8,931	6,087	4,862	4,014
Gross borrowing	15,916	23,820	33,185	39,268	44,132	48,161
Net worth	175,655	177,966	177,023	179,246	182,148	185,927
Net debt	(13,342)	(9,989)	(1,528)	3,517	7,064	10,167
Notes: 1. Numbers may not add due to rounding. 2. Reflects published actuals.						

Operating balance

Significant one-off expenditure associated with natural disaster repair and recovery that is not matched by revenue is expected to lead to a net operating deficit of \$4.058 billion in 2011-12. The deterioration in the net operating balance since MYFER is the result of policy decisions of Government, including stimulus measures such as the Queensland Building Boost grant, the abolition of the Community Ambulance Cover levy to assist with cost of living pressures and also changes to natural disaster expenditure and revenue estimates.

The projected deficit is expected to reduce to \$1.293 billion in 2012-13 and is forecast to continue improving across the outyears. As identified at MYFER, the timing of the Australian Government's NDRRA expenditure is having a considerable impact on the State's operating position across the forward estimates, primarily associated with the \$2.05 billion of advance NDRRA funding in 2010-11. As shown in Table 1.2, the impact of this timing of payments is an improved operating position in 2010-11, while the operating deficit in 2011-12 is larger than would otherwise be expected.

The improvement in the net operating balance across the forward estimates primarily reflects an improvement in the Australian Government's estimates of Queensland's share of GST collections and a stronger outlook for coal prices and tonnages, which is more than offsetting a stronger outlook for the Australian Dollar. There is a modest improvement anticipated in taxation revenue.

Expenditure levels in 2011-12 and 2012-13 are elevated due to natural disaster relief and recovery expenses, including grants to local government. Expenditure levels are expected to normalise in 2013-14, with moderate growth anticipated in 2014-15.

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

Reconciliation of net operating balance

Table 1.7 provides a reconciliation of the current General Government sector net operating balances for 2010-11 and 2011-12 to the MYFER forecasts.

Table 1.7 Reconciliation of 2010-11 and 2011-12 net operating balance to MYFER ¹		
	2010-11 Est. Act. \$ million	2011-12 Budget \$ million
2010-11 MYFER net operating balance	(1,468)	(3,959)
Other policy decisions ²	(45)	(401)
Revenue policy decisions ³	..	(148)
Taxation revenue revisions	110	48
Royalty revenue revisions	(169)	98
GST revenue revisions	(298)	170
Disaster related revisions ⁴	(345)	(61)
Other significant variations impacting on operating balance		
Other Australian Government funding revisions ⁵	(20)	109
Net flows from PNFC sector entities ⁶	(182)	(35)
Other parameter adjustments ⁷	290	121
2011-12 Budget	(2,127)	(4,058)
Notes:		
1. Denotes impact on net operating balance. Numbers may not add due to rounding.		
2. Reflects policy decisions taken since the MYFER, net of revenue offsets and Australian Government funding where appropriate. Budget Paper 4 – Budget Measures outlines in detail the policy decisions taken since the 2010-11 Budget.		
3. Includes Queensland Building Boost grant, revisions to transfer duty, abolition of the Community Ambulance Cover levy, capping of land values for land tax purposes and the payroll tax rebate for apprentices and trainees.		
4. Relates to impact of natural disasters (revenue and expense adjustments).		
5. Represents the net impact of funding provided by the Australian Government primarily for Specific Purpose Payments and National Partnership Payments.		
6. Represents revisions to dividend receipts from and community service obligation payments to Public Non-financial Corporations.		
7. Refers to adjustments of a non-policy nature, primarily associated with reductions in depreciation and additional administered revenue.		

Cash Flows and Balance Sheet

General Government Sector

Cash surplus/(deficit)

A cash deficit of \$7.915 billion is expected in 2011-12 for the General Government sector, reducing to \$2.178 billion by 2014-15. The cash deficits primarily reflect the Government's significant planned capital program. The cash deficit in 2011-12 exceeds the General Government's expected \$7.18 billion of capital purchases by \$735 million as a result of the operating deficit.

Cash deficits are forecast to decrease across the forward estimates, consistent with the planned reduction in the size of the capital program over time and the ongoing improvement in the operating position.

Capital purchases

Total General Government capital purchases of \$7.18 billion are budgeted for 2011-12, \$148 million lower than forecast in the MYFER. Budget Paper 3 – Capital Statement provides details of budgeted 2011-12 capital outlays, by portfolio.

Over the period 2011-12 to 2014-15, purchases of non-financial assets (capital purchases) in the General Government sector of \$25.079 billion are planned.

Borrowing

Net borrowings of \$8.931 billion are budgeted for 2011-12, consistent with the MYFER estimate of \$8.928 billion.

Gross borrowings of \$33.185 billion are expected in the General Government sector at 30 June 2012, \$3.664 billion more than forecast in the MYFER, primarily as a result of the transfer of borrowings to the General Government sector associated with the Queensland Motorways Limited transaction. There is a corresponding increase in investments held for superannuation and other long term liabilities. This also accounts for the higher borrowings in the remainder of the forecast years, with total General Government borrowings in 2013-14 expected to be \$3.729 billion higher than forecast in the MYFER.

Over the Budget and forward estimates period, total General Government borrowings and advances of \$24.03 billion are planned, with gross borrowings projected to increase to \$48.161 billion at 30 June 2015.

Net worth

State net worth is forecast to be \$177 billion at 30 June 2012, with moderate increases in net worth expected each year, reaching \$185.9 billion by the end of 2014-15.

Net debt

Net debt in the General Government sector at 30 June 2012 is estimated to be negative \$1.528 billion compared to the MYFER estimate of negative \$1.576 billion. Net debt is expected to increase over the forward estimates to be \$10.167 billion in 2014-15 reflecting planned increases in borrowings.

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

Non-financial Public Sector

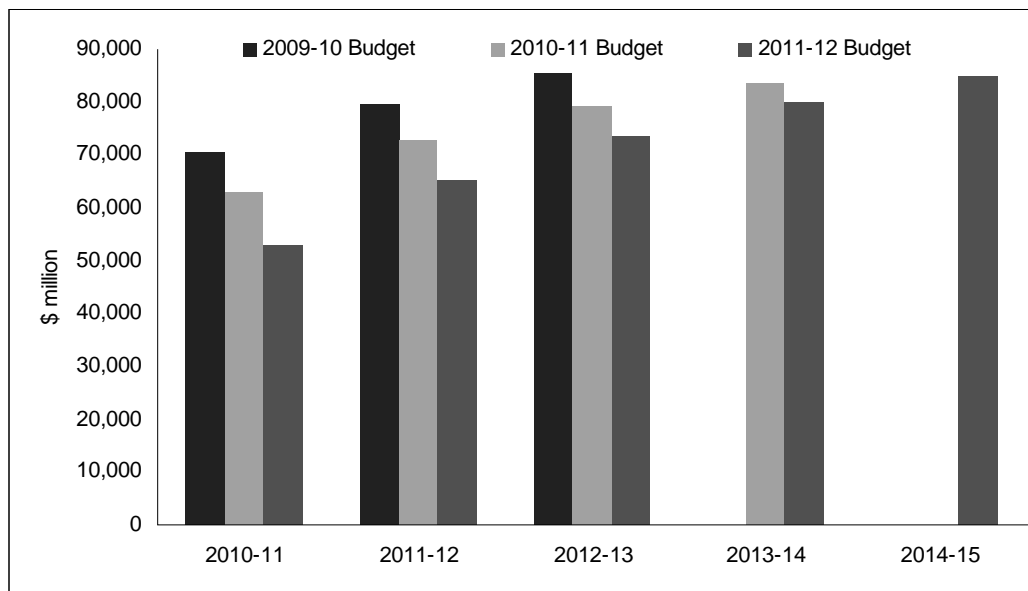
Net borrowings in 2011-12 are estimated at \$11.889 billion, compared to a MYFER forecast of \$11.34 billion. The increase primarily relates to increased borrowing and operating expenses in the PNFC sector.

Total net borrowings across 2011-12 and the forward estimates are expected to be \$31.718 billion. These borrowings are required towards funding \$43.978 billion of purchases of non-financial assets, including \$18.899 billion in the PNFC sector.

The total capital program for 2011-12, including capital grants, is expected to be \$15 billion, which is similar to the 2010-11 estimated actual. For further details see Budget Paper 3 – Capital Statement.

By 2013-14, gross borrowings are expected to reach \$79.707 billion, \$3.838 billion lower than the estimate at the time of the 2010-11 Budget, as shown in Chart 1.3. Gross borrowings of \$84.934 billion are expected at 30 June 2015.

Chart 1.3
Non-financial Public sector gross borrowings



As identified in Table 1.8, gross borrowings are expected to peak as a share of gross state product in 2013-14.

Table 1.8 Non-financial Public sector gross borrowings as a proportion of gross state product				
	2011-12 Budget \$ million	2012-13 Projection \$ million	2013-14 Projection \$ million	2014-15 Projection \$ million
Gross borrowings (\$ million)	65,088	73,323	79,707	84,934
Proportion of GSP	22.2%	23.7%	24.2%	24.1%

2 ECONOMIC PERFORMANCE AND OUTLOOK

FEATURES

- After two years of subdued economic growth since the global financial crisis, the level of Queensland's real gross state product (GSP) is estimated to be unchanged in 2010-11, largely reflecting the impact of natural disasters on the export sector.
- In the absence of natural disasters, it is estimated that the economy would have expanded by 2¼% in 2010-11. Severe flooding across much of the State, along with the effects of Cyclone Yasi, are estimated to reduce GSP by 2¼ percentage points, or \$6 billion in real terms, this financial year.
- While higher interest rates and consumer caution will continue to weigh on the household sector in 2011-12, an acceleration in business investment and recovery in exports are forecast to see economic activity rebound to above average growth of 5% in 2011-12, the highest rate in five years.
- Business investment is forecast to surge 27¾% in 2011-12, as a ramp up in construction of liquefied natural gas (LNG) projects drives resources investment, and a high A\$ bolsters machinery and equipment investment. Export volumes are forecast to grow at a decade-high 10% in 2011-12, as coal, tourism and agriculture exports recover from natural disasters.
- Economic growth is forecast to strengthen further to 5¼% in 2012-13. Growth in business investment is expected to be more broad-based, as stronger domestic demand flows through to some recovery in non-residential construction. The real level of business investment is forecast to exceed \$55 billion in 2012-13, to reach 20% of GSP, the highest share on record.
- Higher investment is expected to lead to stronger migration and population growth in 2012-13, supporting a further recovery in dwelling investment. With the high terms of trade expected to have flowed through to household incomes by this time, and solid jobs growth improving consumer confidence, growth in consumer spending is forecast to return to an above average 4¾% in 2012-13.
- Accelerating private demand is forecast to drive stronger jobs growth of 3% and 3¼% in 2011-12 and 2012-13 respectively, representing a rise in employment of more than 140,000 persons over this period. As a result, the unemployment rate is forecast to fall to 4¾% by 2012-13.

This chapter presents the economic context within which the 2011-12 State Budget has been prepared. First, it overviews developments in Queensland's external environment, including the impact of the Japanese disasters, as well as the national outlook. It then summarises the economic performance of, and outlook for, Queensland between 2010-11 and 2014-15. The chapter then presents estimates for 2010-11 and forecasts for 2011-12 and 2012-13 for detailed sectors of the economy, and projections for key variables to 2014-15. Finally, risks to economic growth over the forecast period are outlined.

EXTERNAL ENVIRONMENT

International conditions

After contracting in 2009 due to the financial crisis, Queensland's major trading partners expanded by 5.6% in 2010, driven by growth in emerging Asia in particular. However, growth is forecast to ease to a below average 3¼% in 2011, reflecting natural disasters in Japan - Queensland's largest trading partner - and some slowing in growth in emerging Asia as monetary policy is tightened to curb inflation. Growth is forecast to strengthen to 4¼% in 2012, as rebuilding in Japan gathers pace. The marked disparity between strong growth in emerging Asia and weak growth in advanced economies evident in recent years is forecast to continue, with the outlook for the US and Europe constrained by subdued housing markets, sovereign debt concerns and fiscal consolidation.

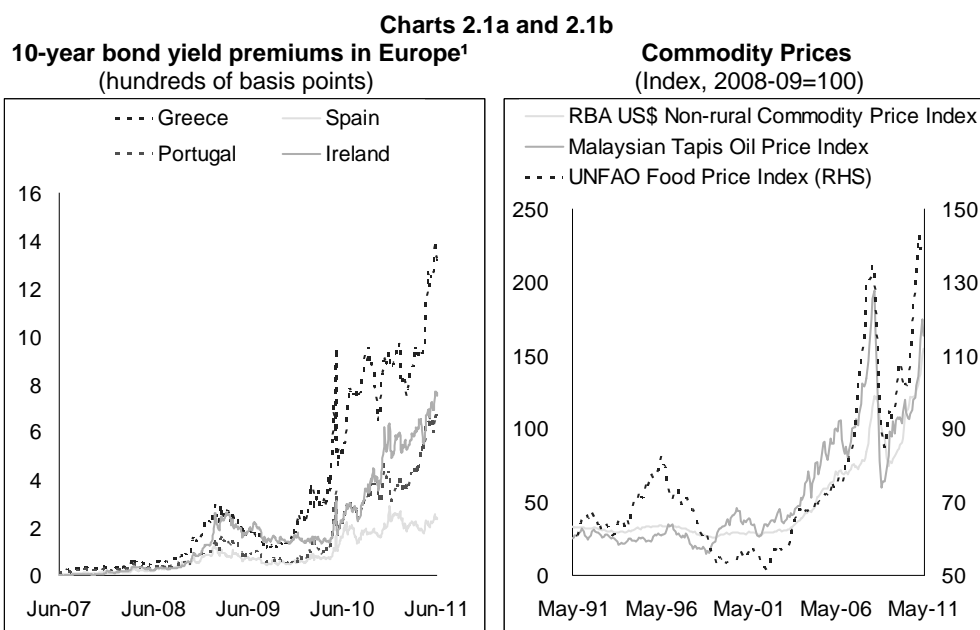
Table 2.1 Queensland major trading partner GDP outlook (annual % change)						
	Actual	Forecasts				
	2010	2011	2012	2013	2014	2015
Major trading partners	5.6	3¼	4¼	3¼	3¼	3¼
Non-Japan Asia	8.4	6	6¼	6	6	5¼
China	10.3	9¼	9	8¼	8½	8
India	10.4	8	8½	8½	8½	8½
Japan	3.9	0	2¼	1½	1¼	1½
Europe	1.6	1¼	1¼	1¼	2	2
US	2.8	2¼	3¼	3¼	3½	3

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

After showing signs of improvement in early 2011, the economic outlook in Japan has been eclipsed by the March 2011 Great East Japan Earthquake (Chapter 3 provides a more detailed discussion). The immediate disaster area has suffered damage to infrastructure estimated between 16 and 25 trillion Yen (A\$190-300 billion) which, given the region's role in the global supply chain for key electronics and parts, has had significant flow-on effects to other regions in Japan, Asia and the US, particularly in industries such as auto-making. Further, lost nuclear and thermal power capacity, initially amounting to 10% of total electric generation capacity, has restrained output in key services areas such as Tokyo. In addition to these supply side constraints, the natural disasters and nuclear crisis have adversely affected business and household sentiment.

Industrial production in Japan fell 15.5% in March 2011, nearly half the 35% fall recorded during the financial crisis, while exports fell 9.4% in this period. According to *Consensus Economics*, gross domestic product (GDP) is now forecast not to grow at all in 2011, compared with 1½% growth prior to disasters. Given the time required for supply chains and power to be restored, as well as to plan and design the country's massive rebuilding effort, the loss in output in 2011 is expected to be only partly unwound in 2012, with 2¾% growth forecast compared with 2% prior to the disasters.

The prospects for European economies remain mixed. The global recovery is supporting export led growth in the core economies of Germany and France, while sovereign debt concerns and fiscal consolidation continue to plague some of the smaller member countries. With most of the debt affected economies relatively small, overall growth in Europe is forecast to be only modestly below its long run rate. However, any escalation in the sovereign debt crisis has the potential to weaken the region's prospects and destabilise global financial markets. Concerns about a sovereign default or debt restructuring remain, with spreads between Portuguese, Greek and Irish Government bond yields and those of Germany reaching multi-decade highs (see Chart 2.1a), despite the successful negotiations of EU assistance packages for all three. Elsewhere, following Japan's downgrade in January 2011, the sovereign credit ratings of both the US and Japan have been put on negative outlook, reflecting longer-term debt problems.



Note:

1. Measured by 10-year government bond yield less 10-year government bond yield of Germany.

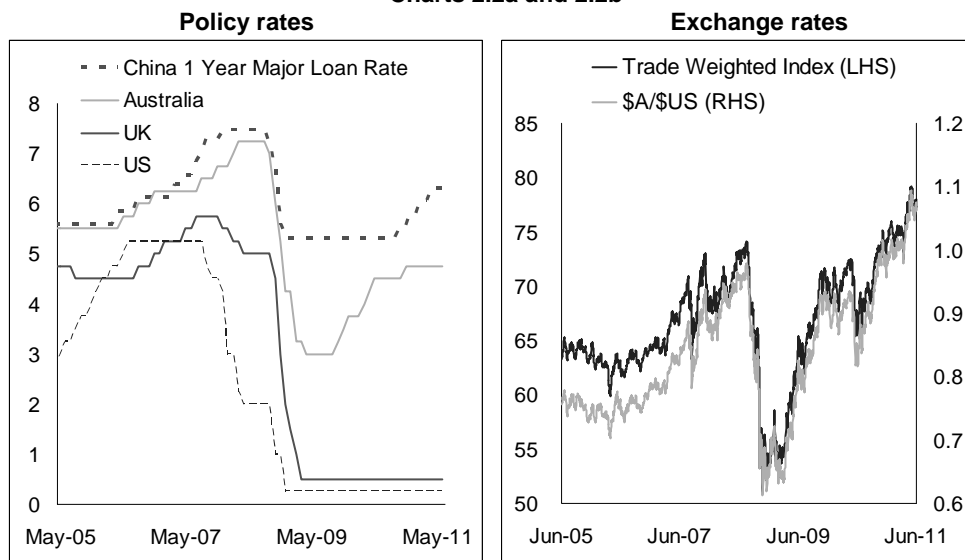
Sources: DataStream, UNFAO and Queensland Treasury.

While the US economy continues to recover at a moderate pace, key challenges remain. Still facing a large oversupply, activity in the housing market is likely to remain very weak, with house prices 30% below their 2006 peaks and still falling. Similarly, non-housing construction is being hindered by high vacancy rates, tight credit conditions and low capital values. Further, government spending is likely to detract from growth, as all levels of the US Government attempt to improve fiscal positions. However, employment is recovering, which should support incomes and consumer spending, while export-driven manufacturing activity will be supported by the low US\$. On balance, the US economy is forecast to grow at an average of 3¼% between 2012 and 2015.

In contrast, non-Japan Asia is forecast to grow by around 6% per annum over the forecast period, supported by increased intra-regional trade, continued capital inflows and robust consumption growth given favourable labour market conditions. Ongoing capital investment in China and India – now Queensland’s second and third largest trading partners – is expected to drive strong demand for resource imports. Economic growth in India should remain solid, as urbanisation drives continued infrastructure investment. Earlier this year, China’s government released its 12th five-year plan. This aimed to rebalance growth away from an export led focus towards domestic consumption by raising minimum wages and the social safety net. Reflecting this, and a need to curb inflation, the plan also lowered its growth target. On balance, economic growth in China is projected to ease slightly from 10.3% in 2010 to a still very strong 8% by 2015.

More broadly, global inflation has accelerated, with price rises most significant in emerging economies where food and energy account for a higher share of household spending. Food prices have been boosted by a recovery in global demand and poor growing conditions, while oil prices have been inflated by political uncertainty in the Middle East and North Africa (Chart 2.1b). With authorities in advanced economies concerned with weak growth prospects and considering part of the surge in food and energy prices as temporary, their monetary policy is likely to remain accommodative. However, inflexible exchange rate regimes in many emerging economies, combined with expansionary policy in advanced economies, has seen underlying inflation rise in emerging Asia and necessitated more aggressive monetary tightening in that region. Given Australia’s commodity exporting status, higher cash rate and flexible exchange rate, the Australian dollar (A\$) has reached post float highs in both US\$ and trade weighted terms in recent months (Charts 2.2a and 2.2b).

Charts 2.2a and 2.2b



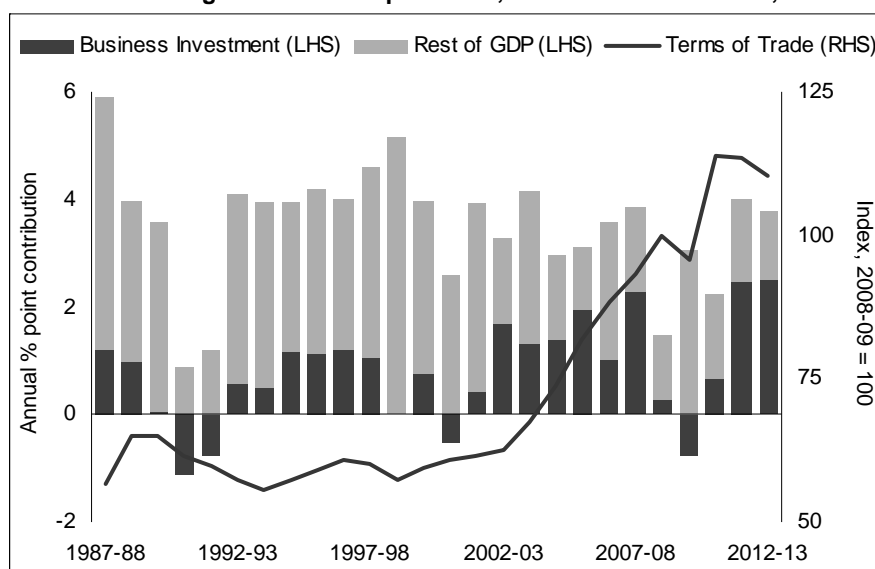
Sources: DataStream and Queensland Treasury.

Australian economy

Australian Treasury estimates growth in GDP to slow to 2¼% in 2010-11, affected by natural disasters in Australia, Japan and New Zealand. However, growth is forecast to strengthen to an above trend 4% in 2011-12, before easing to 3¾% in 2012-13 (see Table 2.2), driven by strong growth in business investment and non-rural commodity exports (see Chart 2.3). Slightly offsetting this will be solid imports growth, driven by higher capital goods investment for major resource projects in particular. While reconstruction efforts are expected to drive public final demand higher in 2010-11 and 2011-12, the public sector is forecast to detract from growth in 2012-13, reflecting fiscal consolidation at both federal and state level.

Australia's terms of trade are estimated to reach their highest sustained levels in 140 years in 2010-11, due largely to substantial price rises for coal and iron ore, and are forecast to fall only marginally in the subsequent two years. Australian Treasury expects this to bolster commodity exports and incomes, and drive double-digit growth in business investment in 2011-12 and 2012-13. Much of this expected surge in investment will be within the iron ore, LNG and coal sectors, and is forecast to drive mining investment's share of GDP to a record high.

Chart 2.3
Contributions to gross domestic product^{1,2}, and the terms of trade², Australia



Notes:

1. Chain Volume Measure (CVM), 2008-09 reference year.
2. 2010-11 is an estimated actual, 2011-12 and 2012-13 are forecasts.

Sources: ABS 5206.0 and Australian Government 2011-12 Budget.

The income boost from the high terms of trade and more favourable labour market conditions are expected to see growth in consumer spending improve relative to 2010-11. However, growth is expected to remain in line with household income, suggesting still wary consumers are maintaining elevated household saving rates. Cautious household behaviour, together with tighter credit conditions, are forecast to see only modest growth in dwelling investment. Further, tighter macroeconomic settings, consumer caution and the high A\$ are expected to weigh on sectors such as retail, manufacturing and tourism.

Annual jobs growth of 1¾% in both June quarter 2012 and June quarter 2013 is forecast to lower the unemployment rate to 4½% by June quarter 2013. With the economy already reaching full capacity, Australian Treasury projects economic growth to move to its trend annual rate of 3% in 2013-14 and 2014-15, the unemployment rate to be 5% and inflation to be 2½% per annum, the latter consistent with the Reserve Bank of Australia's medium-term target band.

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.

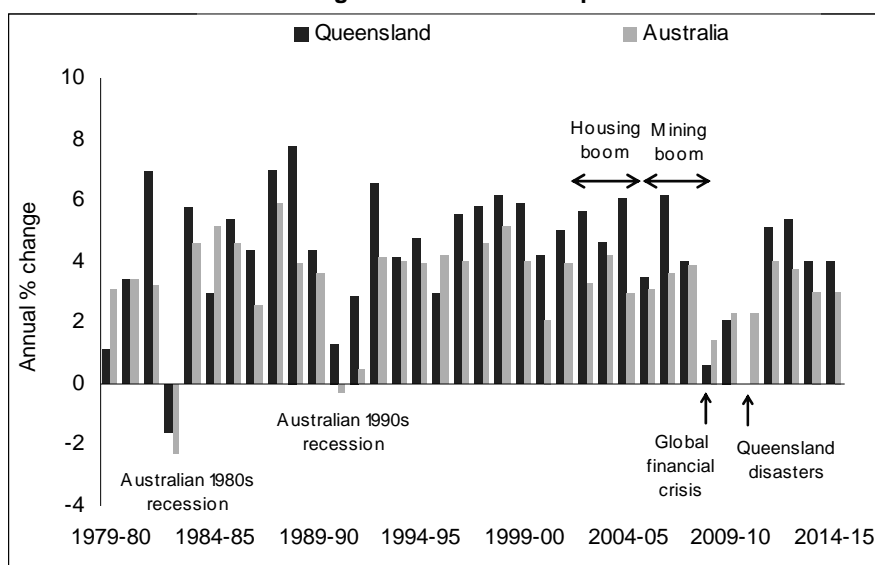
- Growth in major trading partner economies is expected to ease to 3¼% in 2011, largely reflecting a disaster-induced recession in Japan, before strengthening to 4¼% in 2012 and supported by strong growth in emerging Asia in particular.
- As private demand gathers pace, Australian monetary policy is expected to tighten further over the next year, broadly in line with market analyst expectations.
- The A\$ surged to post-float highs in recent months. The strong commodity price outlook and relatively higher domestic interest rates against other major industrialised economies are assumed to see the A\$ average above parity with the US\$ for the rest of 2011, then depreciate only modestly, remaining above US90c over the forecast and projection periods.
- The Malaysian Tapis oil price is expected to average US\$120 per barrel for the rest of 2011, then fall modestly, in line with an assumed easing in Middle East tensions.
- The impact of floods and cyclones in early 2011 have been factored into economic estimates and forecasts (see Chapter 3). Recent meteorological observations suggest the significant La Niña event of 2010-11 has ended. Consequently, seasonal conditions are assumed to return to normal from 2011-12 onwards.
- National forecasts and projections, as outlined in the Australian Budget delivered on 10 May 2011, have been adopted as the basis for national economic performance.

Risks and opportunities related to these assumptions are discussed later in this chapter.

Summary of economic outlook

Largely reflecting the impact of natural disasters on exports, the level of Queensland's GSP is estimated to be unchanged in 2010-11, following two years of below average growth since the global financial crisis (see Chart 2.4). Flooding in late 2010 and January 2011, along with Cyclone Yasi in February, are estimated to reduce GSP by 2¼ percentage points, or \$6 billion in real terms, this financial year. The disasters are estimated to have detracted more than \$7 billion from coal and tourism exports, as well as rural production. Partly offsetting this has been recovery efforts already underway, including relief payments and insurance payouts, and public spending on restoration works. In the absence of these disasters, it is estimated that economic growth would have been 2¼% in 2010-11 (Chapter 3 discusses the impact of the disasters in more detail).

Chart 2.4
Growth in gross state/domestic product¹



Note:

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

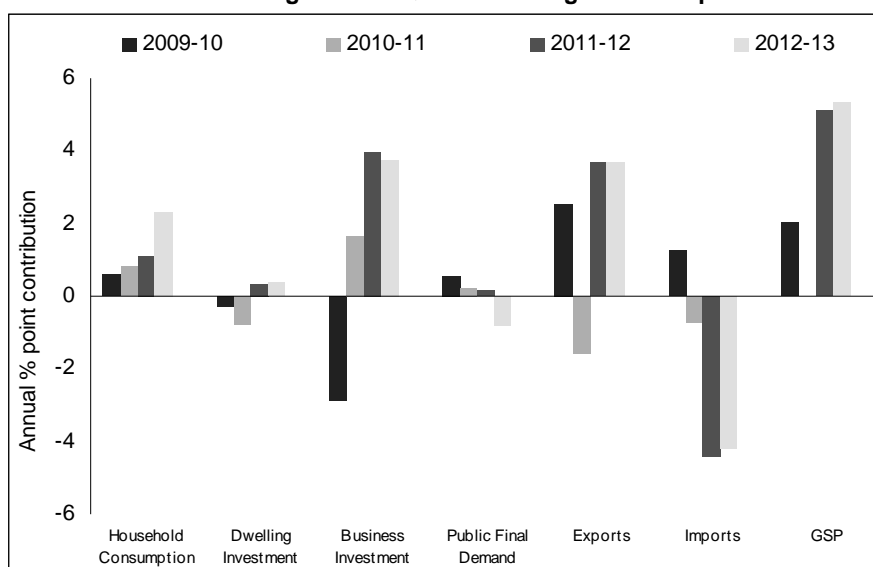
Sources: ABS 5206.0, 2011-12 Australian Government Budget and Queensland Treasury.

Exports are estimated to fall 4% in 2010-11. Domestic natural disasters disrupted mine production, rail transport and port operations, which caused an estimated loss in coal exports of around 27 million tonnes during the year. Agricultural production was also adversely affected, as wet weather destroyed sugar and other crop harvests, and lowered yields, while Cyclone Yasi damaged horticultural production. Further, the adverse impact on tourism from the cyclone in the north and flooding in central and south Queensland was compounded by a high A\$ in 2010-11. Disruptions to productive capacity and sentiment from the disasters in Japan are also expected to affect tourist arrivals and coal demand from Queensland's largest export market well into 2011-12.

Abstracting from the trade sector, domestic economic demand, as measured by gross state expenditure, is estimated to recover from a fall of 1.5% in 2009-10 to grow by 2% in 2010-11, led by a 13% rebound in business investment.

A further acceleration in business investment and recovery in exports are forecast to see overall economic output strengthen considerably to 5% growth in 2011-12 (Chart 2.5), the highest growth in five years. Business investment is forecast to grow a further 27¾% in 2011-12. Resources investment should gather momentum as liquefied natural gas (LNG) projects ramp up construction, while a high A\$ and improved business confidence are expected to bolster machinery and equipment investment. Exports are forecast to grow 10% in 2011-12, the strongest rate in a decade, reflecting a recovery from natural disasters in coal, tourism and agriculture. However, the recovery is likely to be uneven, with Cyclone Yasi damaging next year's sugar plantation, and education exports weighed down by the lagged impact of a high A\$ and changed migration rules.

Chart 2.5
Contributions to growth in Queensland's gross state product¹



Note:

1. CVM, 2008-09 reference year. 2010-11 is an estimate and 2011-12 and 2012-13 are forecasts.

Source: Queensland Treasury.

Economic growth is forecast to strengthen to an above average 5¼% in 2012-13. Business investment is forecast to grow another 21¾% to surpass \$55 billion, with strong resources activity complemented by some recovery in retail and office construction. Higher investment is expected to lead to stronger migration and population growth, supporting a further rise in dwelling investment. With the high terms of trade expected to have flowed through to household incomes by this time, and solid jobs growth improving consumer confidence, growth in consumer spending is forecast to return to an above average rate, following four years of below average growth. Capacity expansions should see resource exports rise further in 2012-13, while a lower A\$ by this time will support manufacturing and services exports. After providing principal support to the economy following the financial crisis, public final demand is expected to fall in 2012-13, reflecting fiscal consolidation and the completion of the bulk of disaster reconstruction.

Economic growth is projected to remain strong, averaging 4% in 2013-14 and 2014-15 (see Table 2.2). Domestic capacity expansions and strong growth in emerging Asia are expected to support resource exports. Further, while the completion of some major resource projects may see a slower rate of investment growth late in the projection period, exports growth is likely to be boosted as these projects commence production. While interest rates are likely to remain restrictive, household demand is expected to be supported by stronger population growth, a tight labour market and rising incomes.

Despite three years of below average economic growth, the year-average unemployment rate is estimated to fall slightly to 5½% in 2010-11. Jobs growth has been supported by the public sector, as well as a flexible labour market that saw weaker private demand reflected in lower average hours worked rather than lower employment. Reflecting an acceleration in private demand, jobs growth is forecast to strengthen to 3% and 3¾% in 2011-12 and 2012-13, reducing the unemployment rate to 4¾%, well below average.

Table 2.2
Economic forecasts/projections¹
(annual % change)

	Outcome	Est. Act.	Forecasts		Projections	
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Queensland						
Gross state product²	2.1	0	5	5¼	4	4
Employment	0.9	2½	3	3¼	2¾	2¾
Unemployment rate	5.7	5½	5	4¾	5	5
Inflation	2.7	3¼	3	3¼	2¾	2¾
Wage Price Index	3.3	4	4	4¼	na	na
Population	2.3	1¾	1¾	2	2¼	2¼
Australia						
Gross domestic product²	2.3	2¼	4	3¾	3	3
Employment ³	2.4	2¾	1¾	1¾	1½	1½
Unemployment rate ⁴	5.2	5	4¾	4½	5	5
Inflation ⁵	3.1	3¼	2¾	3	2½	2½
Wage Price Index ³	3.0	4	4	4¼	na	na
Population ⁶	1.5	1½	1½	1½	1½	1½

Notes:

1. Decimal point figures indicate an actual outcome. na - indicates not available.
2. CVM, 2008-09 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.

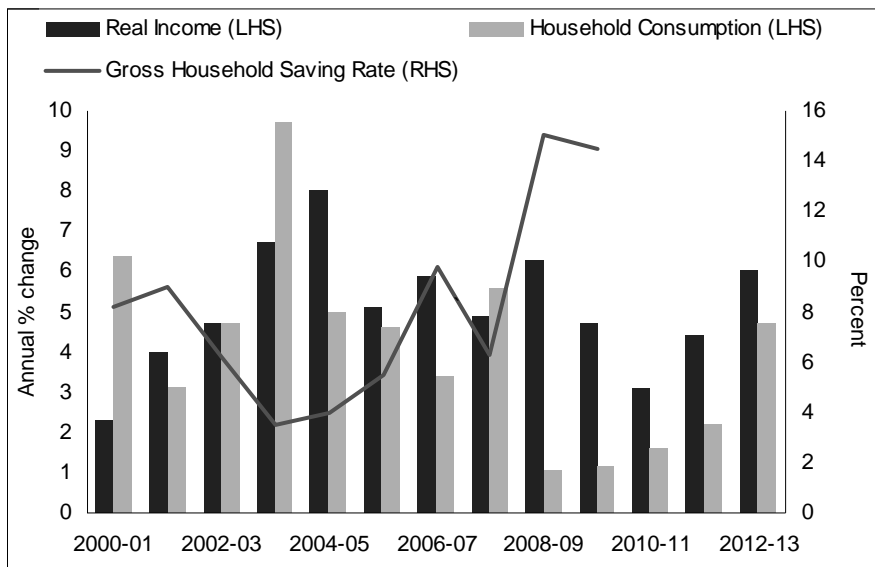
Sources: ABS 6401.0, 6345.0, 6202.0, Queensland Treasury and 2011-12 Australian Government Budget.

Household consumption

Household consumption is estimated to grow 1½% in 2010-11, representing the third successive year of growth at or below population growth. Consumer caution since the financial crisis has seen the household savings rate rise, while the build up of housing debt over the earlier boom has raised servicing costs. Growth in disposable incomes also slowed in 2010-11, due to rising interest rates and weaker real wages growth. Reflecting these trends, non-discretionary spending on rent, food, finance and insurance, health and transport rose in the year, whereas spending on discretionary items such as vehicles and recreation fell. While natural disasters also affected household incomes, federal support payments and insurance payouts boosted retail spending in March quarter 2011.

A strengthening in employment and wages growth is forecast to see consumption growth improve to 2¼% in 2011-12. However, this would still represent a below average rate, with a decline in dwelling investment in the prior year weighing on housing related spending. Subdued house prices and expected further interest rate rises will restrict the ability and willingness of households to draw on housing wealth to finance consumption. Growth is forecast to fully recover to an above average rate of 4¾% in 2012-13, in line with a recovery in dwelling investment. A surge in business investment and the high terms of trade associated with the mining boom are also expected to have flowed through to household incomes by this time, with a tighter labour market also improving consumer confidence and limiting any further rise in the household saving rate.

Chart 2.6
Household consumption¹, real income and saving², Queensland



Note:

1. CVM, 2008-09 reference year. 2010-11 is an estimate, 2011-12 and 2012-13 are forecasts.

Sources: ABS 5220.0, 6202.0, 6302.0, 6401.0 and Queensland Treasury.

Table 2.3
State and National economic forecasts¹

	Outcome	Est. Actual	Forecasts	
	2009-10	2010-11	2011-12	2012-13
	%	%	%	%
Queensland forecasts				
Domestic production²				
Household consumption	1.2	1½	2¼	4¼
Private investment ^{3,4}	-11.0	3	19	16½
Dwellings	-4.1	-11½	5¼	6¼
Business investment ^{4,5}	-18.3	13	27¼	21¼
Other buildings and structures ⁴	-14.2	15¼	27½	19
Machinery and equipment ⁴	-22.3	10½	28¼	24½
Private final demand ⁴	-3.0	2	7¼	8¼
Public final demand ⁴	2.2	1	¾	-3½
Change in inventories ⁶	0.3	0	¼	0
Gross state expenditure ⁷	-1.5	2	6	5¼
Exports of goods and services	6.7	-4	10	9½
Imports of goods and services	-3.4	2	12¼	11
Net exports ⁶	3.8	-2¼	-¾	-½
Gross state product	2.1	0	5	5¼
Other state economic measures				
Inflation	2.7	3¼	3	3¼
Wage Price Index	3.3	4	4	4¼
Employment	0.9	2½	3	3¼
Unemployment rate (% , year-average)	5.7	5½	5	4¼
Labour force	2.3	2¼	2½	2¼
Participation rate (% , year-average)	67.5	67½	68	68¼
National forecasts				
Domestic production²				
Household consumption	2.1	3	3½	3½
Private investment	na	na	na	na
Dwellings	2.1	2½	1½	3
Business investment ^{4,5}	-4.9	4½	16	14½
Other buildings and structures ⁴	-8.2	8	18½	17½
Machinery and equipment ⁴	-4.8	2	17½	14
Private final demand ⁴	0.7	3	6	6
Public final demand ⁴	7.0	3½	1¼	-1¼
Change in inventories ⁶	0.3	0	0	0
Gross national expenditure ⁷	2.4	3¼	4¼	4¼
Exports of goods and services	5.2	4	6½	5½
Imports of goods and services	4.9	9	10½	8½
Net exports ⁶	0.1	-1	-1	-¾
Gross domestic product	2.3	2¼	4	3¼
Other national economic measures				
Inflation ⁸	3.1	3¼	2¾	3
Wage Price Index ⁸	3.0	4	4	4¼
Employment ⁸	2.4	2¾	1¼	1¼
Unemployment rate ⁹	5.2	5	4¾	4½
Labour force ⁹	1.9	na	na	na
Participation rate ⁹	65.3	66	66	66

Notes:

1. Unless otherwise stated, all figures are annual % changes. Decimal point figures indicate an actual outcome.
na - Indicates not available.
2. CVM, 2008-09 reference year.
3. Includes livestock and orchards, intellectual property products 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.

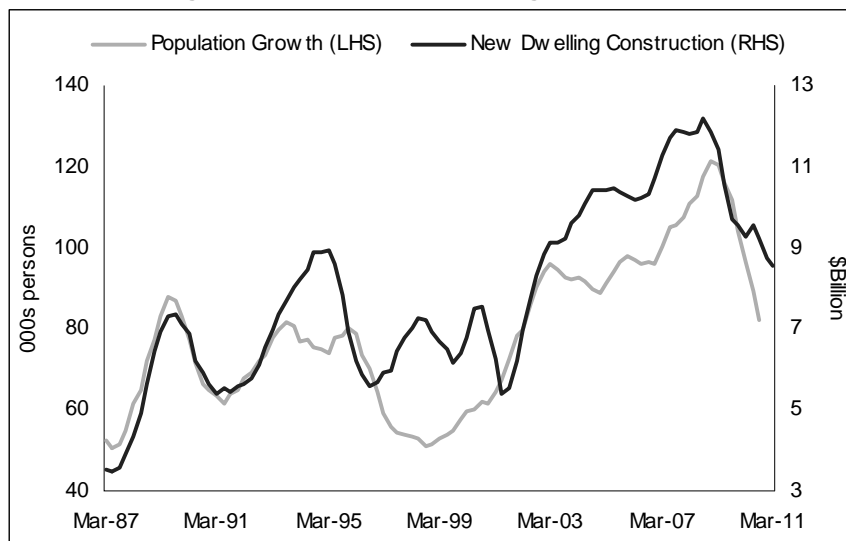
Sources: ABS 6401.0, 6345.0, 6202.0, Queensland Treasury and 2011-12 Australian Government Budget.

Dwelling investment

Dwelling investment is estimated to fall 11½% in 2010-11, following declines in each of the prior three years. A confluence of factors has driven this trend. Population growth has slowed from almost 120,000 persons in 2008-09 to an estimate of less than 80,000 in 2010-11, reducing underlying demand (see Chart 2.7). The deterioration in housing affordability since the mid 2000s has also prompted a rise in the average household size. Regions such as the Gold Coast have suffered from weaker tourism activity, a high A\$ and tight credit conditions since the financial crisis. In 2010-11, dwelling demand was weakened by higher interest rates and an unwinding in the *First Home Owners Boost*. A fall in house prices in 2010-11, and expectations of limited capital gains, also deterred investors. Further, above average rainfall for much of 2010-11 disrupted construction.

Dwelling investment is forecast to recover by 5¾% in 2011-12. Despite stronger growth in employment and wages, interest rate rises are likely to slow any improvement in housing affordability. However, the reconstruction effort following natural disasters is expected to add to activity, with severe flooding and Cyclone Yasi rendering more than 3,000 dwellings non-liveable and more than 50,000 damaged to varying extents, as will the introduction of the Queensland Government's Queensland Building Boost grant for new homes. Growth in dwelling investment is forecast to strengthen slightly to 6¼% in 2012-13, as the recovery in the broader economy generates higher migration levels. However, tight credit conditions are likely to continue to weigh on some segments of the market in 2012-13.

Chart 2.7
Dwelling investment¹ and population growth², Queensland



Notes:

1. Four quarter rolling sum, CVM, 2008-09 reference year.

2. Annual growth in estimated resident population.

Sources: ABS 3101.0 and 5206.0.

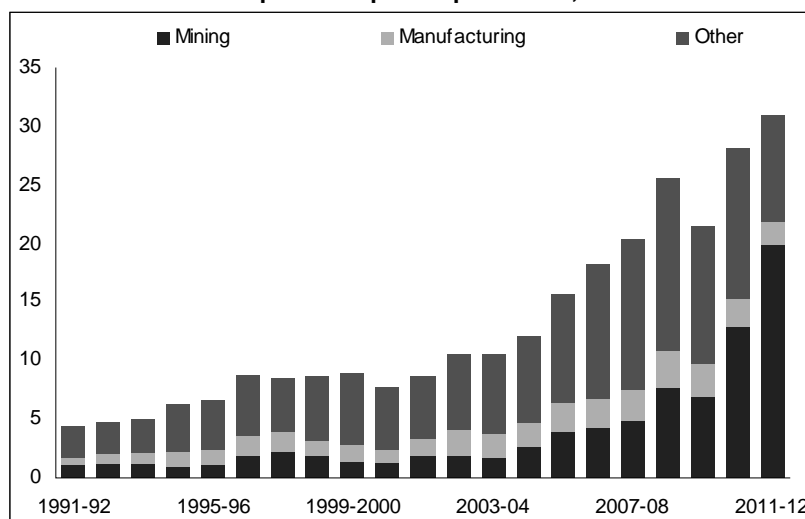
Business investment

Earlier uncertainty over the economic outlook and tight credit conditions saw business investment decline 18.3% in 2009-10. In 2010-11, business investment is estimated to recover much of this fall, rising 13%, with firms taking advantage of the strong A\$ to purchase relatively cheaper imported equipment, while resources-related investment is estimated to drive engineering construction to a new peak. Conversely, non-residential construction is expected to stabilise at a lower level, reflecting continued tight credit conditions, high office vacancy rates, a subdued retail sector and the passing of the *Building the Education Revolution* stimulus.

Growth in business investment is forecast to strengthen to 27¼% in 2011-12. Activity in the burgeoning LNG sector is expected to accelerate, with two projects worth more than \$30 billion having commenced construction. High prices, as well as strong demand from emerging Asia, are also forecast to induce further coal mining investment (Chart 2.8). Overall, non-dwelling construction is forecast to rise 27½%. This, combined with the high A\$ and a broader recovery in business confidence, should drive growth in machinery and equipment investment of 28¼% in 2011-12.

Business investment is expected to continue to surge in 2012-13, rising a forecast 21¾%, as LNG and other mining projects gather pace. Growth is also expected to be more broad-based, with stronger jobs growth, improved retail activity and some absorption of office space expected to see a modest recovery in non-residential construction. The real level of business investment is forecast to exceed \$55 billion in 2012-13, to reach 20% of GSP - the highest share on record.

Chart 2.8
Actual and expected capital expenditure¹, Queensland



Note:

1. \$ Billion. 2010-11 data are a combination of actuals and expectations. 2011-12 data are expectations.
Source: ABS 5625.0.

Public final demand

Public final demand is estimated to grow 1% in 2010-11 and ¾% in 2011-12. This partly reflects activity related to repairing and rebuilding infrastructure damaged due to the floods and Cyclone Yasi, driven by spending funded by NDRRA. This is expected to offset some unwinding in the State's own capital program, excluding capital grants, in 2011-12, with the sale of public assets causing their expenditure to be now classified as private rather than public investment. Public final demand is forecast to fall 3½% in 2012-13, as the rebuilding effort nears completion and a strong domestic economy allows public sector stimulus to be withdrawn and the fiscal position to be consolidated.

Net exports

Disruptions and damage caused by floods and Cyclone Yasi, combined with a high A\$, are expected to lead to a 4% fall in exports in 2010-11 (see Chapter 3). Meanwhile, a recovery in machinery and equipment investment is estimated to contribute to a 2% rise in imports. As a result, net exports are estimated to subtract 2¼ percentage points from economic growth in 2010-11.

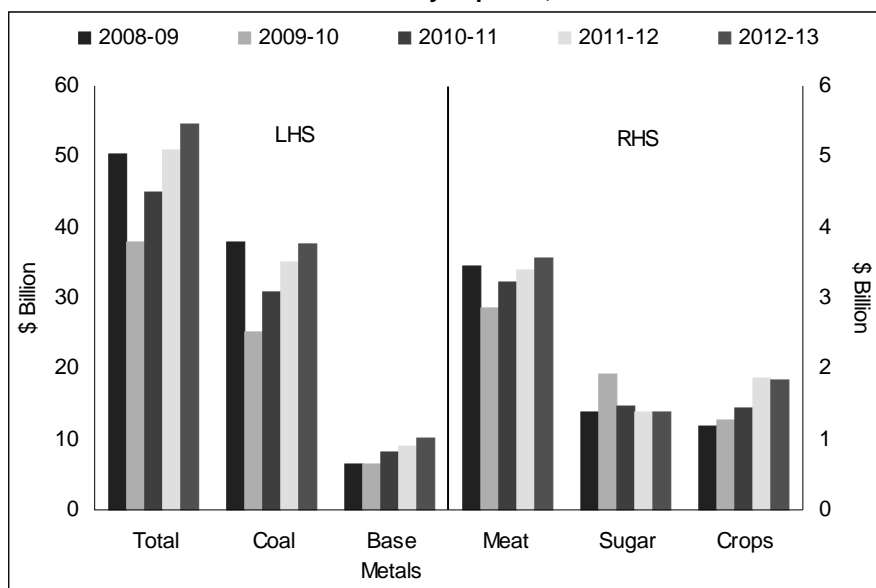
Heavy rainfall and floods caused extensive delays and damage to the State's coal mining and transportation facilities over the summer of 2010-11. While port and rail transportation had largely recovered by mid March 2011, delays in pit dewatering mean that some coal mines are unlikely to regain full capacity until the end of 2011. Reflecting this, lost coal exports due to natural disasters in 2010-11 are estimated to be around 27 million tonnes, or \$5.7 billion, which is higher than originally estimated in the MYFER.

The total loss in agricultural export earnings due to heavy rain, floods and Cyclone Yasi is also estimated to be significant, with a loss of production of around \$1.1 billion in 2010-11 and \$300 million in 2011-12. Sugar production this year was disrupted by wet weather during harvest, while part of the plantation for the 2011-12 season was damaged by Cyclone Yasi. Flooding also destroyed part of this year's cotton and sorghum plantations, and lowered yields for remaining crops. The cyclone also adversely affected horticultural production in north Queensland. Having already been suppressed by the high A\$, tourism exports were weighed down further by disruptions and negative publicity caused by the natural disasters.

With Japan representing Queensland's largest coal export market and fourth largest tourism market, the earthquake and subsequent tsunami in Japan are also likely to adversely affect coal and tourism exports into 2011-12 (see Chapter 3). In addition to lost nuclear capacity, the natural disasters damaged around 20% of total Japanese coal fired power generation capacity, which will limit thermal coal demand. Industrial production cutbacks due to limited energy supply will also affect metallurgical coal exports. With consumer confidence and spending also falling following the disasters, some tourist travel from Japan to Queensland is likely to be affected.

Despite a fall in export volumes in the year, limited domestic supply and resulting higher prices are expected to see Queensland's export incomes recover in 2010-11. In addition to a recovery in base metal prices, prices for premium hard coking coal surged from US\$225 per tonne in March quarter 2011 to US\$330 in June quarter 2011, following the floods, while thermal coal prices in the spot market have surpassed US\$110 per tonne since late December 2010. As a result, total commodity export income is forecast to recover to \$45 billion by 2011-12. While coal prices are expected to ease somewhat, growth in export volumes is forecast to see total export income surpass \$50 billion in 2011-12 and reach an historic high of \$55 billion in 2012-13 (Chart 2.9).

Chart 2.9
Overseas commodity exports¹, Queensland



Note:

1. Current prices, 2010-11 is an estimate, 2011-12 and 2012-13 are forecasts.

Sources: ABS unpublished trade data and Queensland Treasury.

With the passing of extreme weather conditions, total export volumes are forecast to rise 10% in 2011-12, the strongest growth in a decade, and a further 9½% in 2012-13. The coal mining industry is expected to return to full capacity, while the scheduled expansion in mining and transportation facilities, coupled with ongoing demand from emerging economies in Asia, should see coal and base metal exports continue their upward trend in 2012-13. The rebuilding effort in Japan, combined with any shift in energy mix following nuclear issues at the Fukushima plant, may benefit both coal and LNG demand in the longer term. With the exception of sugar, agricultural production is also expected to recover in 2011-12 and grow further in 2012-13, due to the abundance of water for irrigation and an assumed return to normal seasonal conditions.

Tourism exports should be boosted by the return of tourists from both interstate and overseas, following a return to more normal activity after a disaster induced low in 2010-11. However, education exports in 2011-12 are still expected to be hindered by the lagged impact of the high A\$, changes in migration rules and current falls in English language and vocational training enrolments, given these sectors can be a pathway to higher education.

The high A\$ and a business investment-led recovery in domestic economic activity should strengthen imports of goods, in part reflecting the import-intensive nature of LNG projects in particular. The high A\$ will also encourage overseas travel by Queenslanders. Consequently total imports are forecast to increase 12¼% and 11% in 2011-12 and 2012-13 respectively. With the strengthening in import growth more than offsetting growth in exports, net exports are forecast to detract ¾ percentage point and ½ percentage point from economic growth in 2011-12 and 2012-13 respectively.

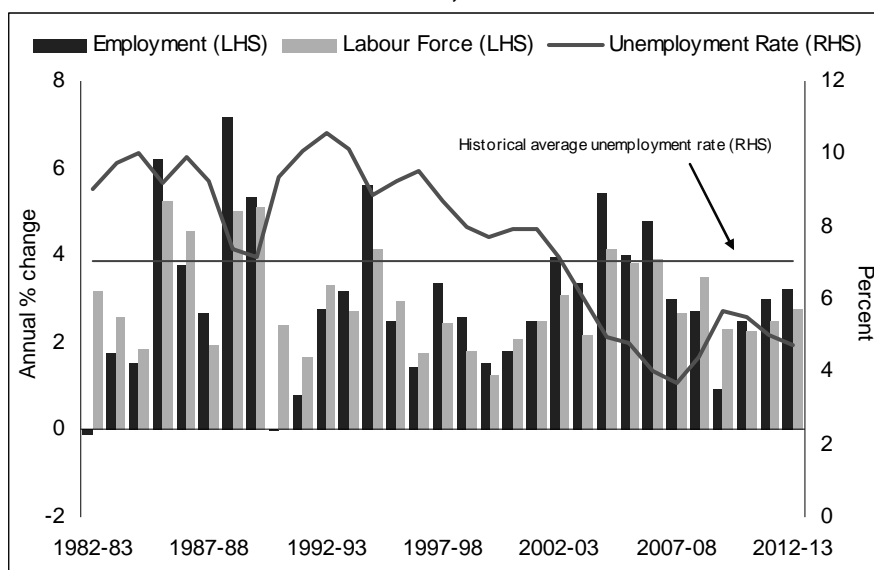
Labour market

After slowing to a well below average 0.9% in 2009-10, year-average employment growth in Queensland is estimated to strengthen to 2½% in 2010-11, representing an increase of more than 50,000 persons. Consistent with subdued private sector demand, jobs growth has been supported by the public sector. Employment in the public administration and safety, education and training and health care and social assistance sectors combined represented around two thirds of the total rise in employment in the first three quarters of 2010-11, compared with the same period a year earlier. Retail employment also began to recover, while mining employment began to expand again. However, rural sector employment fell, partly reflecting the impact of natural disasters.

In year-average terms, the labour force participation rate in Queensland is estimated to stabilise, at 67½%, in 2010-11. Some easing in prime working aged participation has been offset by rising youth and mature aged participation rates, with young people benefiting from some rebound in construction services and accommodation and food services employment, and mature aged workers benefitting from strong jobs growth in the public and retail sectors. Despite this, weaker civilian population growth is estimated to see labour force growth ease to 2¼% in 2010-11. With employment growth exceeding labour force growth, the year-average unemployment rate is estimated to fall to 5½%, remaining well below the historic average (see Chart 2.10).

As growth in private economic activity gathers pace, employment growth is forecast to accelerate to 3% in 2011-12 and 3¼% in 2012-13, representing an increase in employment of more than 140,000 persons over this period. Initially, jobs growth is expected to be driven by sectors related to the resources investment boom, including mining, engineering construction and transport. Some recovery in the agricultural sector, as well as the rebuilding effort following floods, should drive jobs growth in rural and non-mining construction. As economic growth becomes more broad based in 2012-13, jobs growth in other service sectors related to discretionary spending, such as retail trade and hospitality, is expected to improve. However, some of the increase in labour demand over the next two years will be met by an increase in the average work week, which has fallen well below its long run trend in industries such as mining, wholesale and retail trade, accommodation, food services and agriculture.

Chart 2.10
Labour market, Queensland¹



Note:

1. Year-average, 2010-11 is an estimated actual, 2011-12 and 2012-13 are forecasts.

Sources: ABS 6202.0 and Queensland Treasury.

An improvement in job prospects and stronger wages growth is expected to encourage persons into the labour force over the next two years, with the year-average participation rate forecast to reach an historic high of 68% in 2011-12 and rise further, to 68¼% in 2012-13. This is forecast to see labour force growth accelerate to 2¾% in 2012-13.

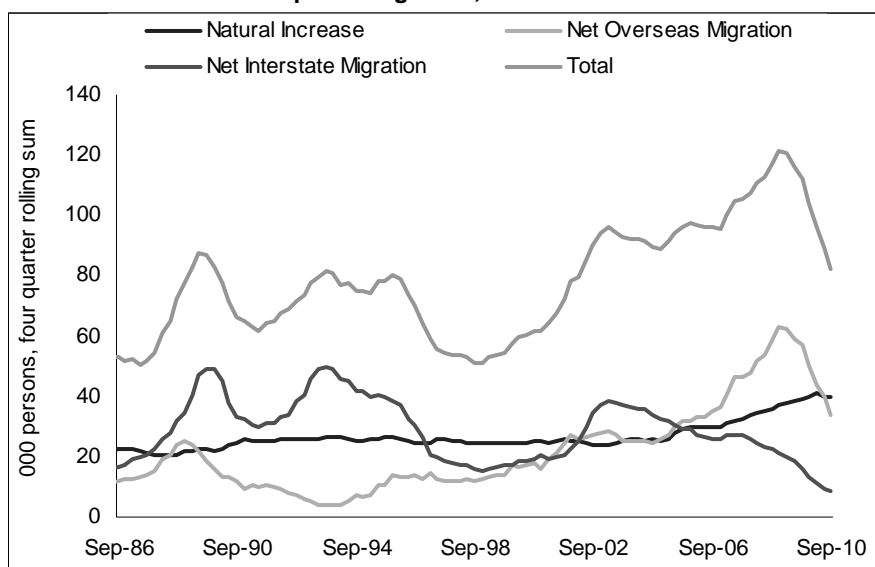
However, with the stronger jobs growth to outpace labour force growth, the year-average unemployment rate is forecast to fall to 5% in 2011-12 and 4¾% in 2012-13.

Population

Population growth is estimated to ease to 1¾% in both 2010-11 and 2011-12, after moderating to 2.3% in 2009-10 from a peak of 2.8% in 2008-09. Consistent with national trends, the rate of natural increase (births minus deaths) has picked up since around 2005, reflecting increases in fertility rates. However, some catch-up in Brisbane house prices relative to other main states has reduced the disparity and therefore seen net interstate migration ease since 2002-03. A slowdown in net overseas migration has been the main driver of lower population growth in Queensland and nationally since early 2009 (Chart 2.11).

The fall in net overseas migration partly reflects lower permanent settler arrivals from key source countries, such as New Zealand and the United Kingdom, following greater caution since the financial crisis. While weaker growth prospects saw employer demand for overseas workers fall over the two years to 2009-10, class 457 visas granted in Queensland have begun to recover in 2010-11. However, the key driver of recent lower overseas migration has been a fall in enrolments in some long-term stay education sectors. These falls partly reflect changes to Commonwealth migration rules and student visa policies. The impact of these changes is likely to continue into 2011-12.

Chart 2.11
Population growth, Queensland



Source: ABS 3101.0.

Population growth is forecast to improve to 2% in 2012-13, as the resources-led recovery encourages more job seekers from interstate and skilled labour from overseas. Reflecting higher net interstate migration than any other state, Queensland's population is forecast to continue to grow faster than the national average, by a total of 260,000 persons over the three years to 2012-13, an average of around 1,650 persons per week over the period.

Wages

Reflecting an improvement in labour market conditions, year-average growth in the Wage Price Index (WPI) in Queensland is estimated to accelerate, from 3.3% in 2009-10, to 4% in 2010-11. With domestic economic activity forecast to grow at an above trend pace over the forecast period and labour market conditions expected to tighten, annual growth in the WPI is forecast to remain at an above-average rate of 4% in 2011-12 and strengthen to 4¼% in 2012-13.

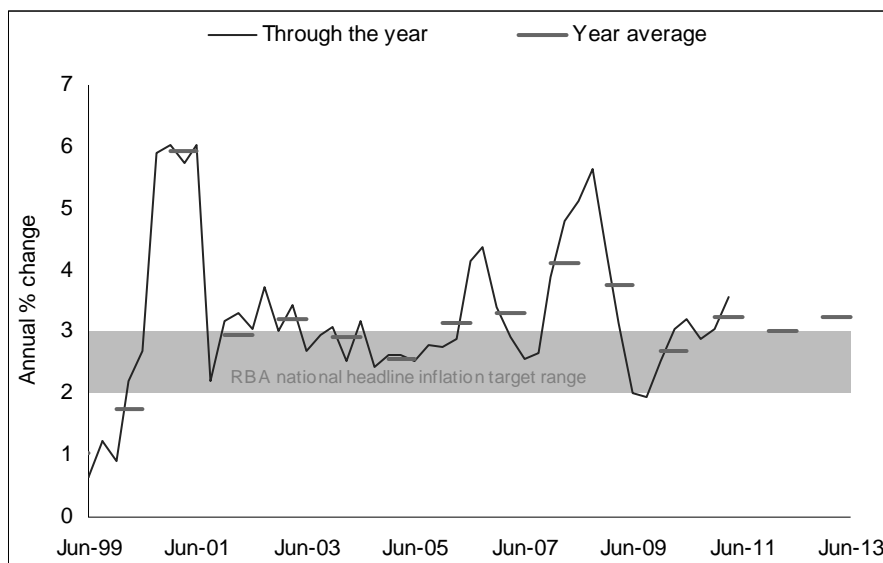
Inflation

Inflation, as measured by growth in Brisbane's Consumer Price Index (CPI), is estimated to strengthen to 3¼% in 2010-11, from 2.7% in 2009-10. This largely reflects the impact of widespread flooding and Cyclone Yasi on food prices, with the natural disasters estimated to have contributed ¼ of a percentage point to year-average inflation. Rises in world oil prices drove higher automotive fuel costs, while the federal increase in tobacco excise continued to flow through to headline inflation. Financial and insurance services, after detracting from inflation in 2009-10, contributed again in 2010-11, partly reflecting higher insurance premiums. However, retail prices were contained, limited by the appreciation in the A\$ and subdued household demand.

With transitory price increases in 2010-11 expected to unwind, inflation is forecast to moderate to 3% in 2011-12 (see Chart 2.12). Fruit prices are expected to fall in the year as agricultural supply recovers, while alcohol and tobacco prices will grow at more normal rates. Further, an assumed appreciation of the A\$ (in year average terms) in 2011-12 should help keep import prices contained. The key drivers of inflation in the year are expected to be higher transportation costs, reflecting higher year average oil prices, and higher housing costs as the housing market begins to recover. However, the removal of the Community Ambulance Cover levy will detract slightly from inflation.

In line with a tightening in the labour market, some depreciation in the A\$ and stronger growth in consumer demand, inflation is forecast to strengthen to 3¼% in 2012-13.

Chart 2.12
Headline inflation¹, Brisbane



Note:

1. Brisbane All Groups CPI. 2010-11 is an estimate, 2011-12 and 2012-13 are forecasts.

Sources: ABS 6401.0 and Queensland Treasury.

Risks and opportunities

Political unrest in the Middle East and North Africa, as well as a deepening of the sovereign debt crisis in Europe, have led to a decrease in risk appetite by investors. This has been evident in the recent fall in US Treasury bond yields, weakness in major share markets and declines in commodity prices. Any escalation of these events will further heighten global risk aversion, which in turn will erode business and consumer confidence, tighten credit conditions and drive commodity prices lower.

Meanwhile, there have been increasing international calls for a return to fiscal discipline among major industrialised economies, emphasised by the credit ratings of the US and Japan being placed on negative watch. If the pace of fiscal consolidation by the US and other major governments is faster than currently anticipated, global economic growth prospects could be jeopardised in the short to medium term. This is particularly the case given recent signs of renewed weakness in private activity and jobs growth in the US.

In Asia, increasingly aggressive Chinese monetary policy could slow the Chinese economy more than currently predicted. This, combined with China's continuing effort to diversify its key resource import sources, means that the extent of unwinding of Queensland coal exports to China from 2011 onwards may be larger than currently anticipated. Meanwhile, the longer-term effect of the earthquake and tsunami on the Japanese economy remains uncertain, with the country's electricity generation capacity and supply chains yet to be fully restored, compounded by the ongoing nuclear crisis. Given Japan's important position in the State's merchandise and services trade, any prolonged contraction of the Japanese economy will reduce Queensland exports.

With underlying inflation widely expected to strengthen, market analysts have been predicting further interest rate rises. However, any increase in global risk aversion may dampen this outlook. Related to this, together with the possibility of a faster than currently expected unwinding in commodity prices, the A\$ may not be as strong as the current outlook assumes. The resultant lower Australian interest and exchange rates would act as an automatic stabiliser against such an external shock to the mining sector by reducing stress on household finances, improving competitiveness of other export sectors and supporting A\$ export earnings.

While weather conditions are assumed to return to normal from 2011-12 onwards, any further adverse weather patterns experienced in recent years will affect exports growth.

The household saving rate is assumed to remain around the current high level in the short term, reflecting greater consumer caution, as well as subdued growth in household wealth. However, an anticipated rebound in domestic activity from 2011-12 onwards may ease caution in the household sector, supporting stronger growth in household consumption and dwelling investment than currently predicted.

With several major resource projects either under construction or at advanced stages of planning, potential skills shortages may see stronger interstate and overseas migration than currently anticipated, which would in turn drive stronger domestic demand.

While the Mineral Resources Rent Tax is scheduled to be introduced in 2012, this is not expected to materially impact on the incentive to invest in new projects. Further, the details of the proposed carbon price and assistance for trade-exposed industries are still to be announced. It is important for a mining State such as Queensland that the competitiveness of our mining sector is maintained.

QUEENSLAND'S LONG TERM PROSPECTS AND CHALLENGES

While 2010-11 has been a difficult year for both Queenslanders and the Queensland economy, the State is expected to perform strongly in 2011-12 and the coming decades.

Queensland is well positioned to benefit from the shift of geo-economic power from western advanced economies to emerging economies, particularly Asia. China and India are now Queensland's second and third largest export markets for merchandise goods, compared with 17th and 9th respectively 20 years ago. The rise in these economies is also supporting growth in other key export markets for Queensland in Asia, such as Korea and Taiwan.

Queensland's energy sector is set to benefit most from this shift but there is also strong potential in the medium to long term for other sectors including tourism, education, agriculture and professional services.

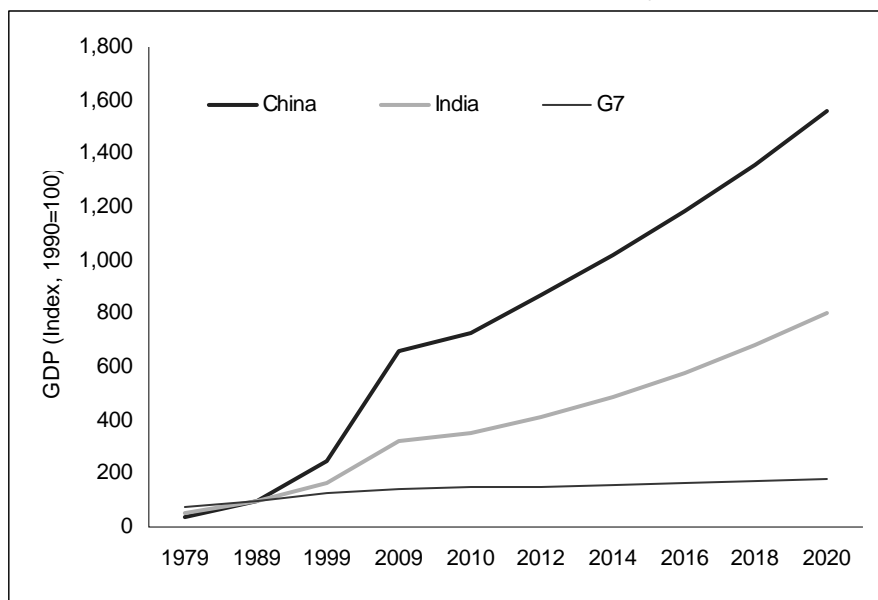
Elsewhere, the performance of developing economies in Latin America and the Caribbean region over the coming decade is also expected to be significant. According to the International Monetary Fund (IMF), the Latin American and Caribbean economy as a whole is predicted to increase almost 30 per cent in the coming six years, twice as fast as the G7 economies over the same period.

The rise of China and India

As can be seen in Chart 2.13, China's real GDP in 2010 was 19 times larger than in 1979, while India's real GDP increased more than six fold. Comparatively, real GDP in all G7 countries combined only doubled over the same period. As a result, China surpassed Japan in 2010 to be the world's second largest economy after the US. While India's global GDP ranking only moved from the 12th to the 10th largest over this period, its ranking is expected to climb higher in coming years. The latest projections indicate that China and India will become an even more prominent component of the global economy in the next decade.

The growth of the Chinese and Indian economies will give rise to a large middle class who will demand goods and services that Queensland will either provide directly or of which a part of the production process will be contributed from Queensland.

Chart 2.13
Gross Domestic Product, Actual and Projected



Sources: OECD, The World Bank, Datastream and Consensus Economics

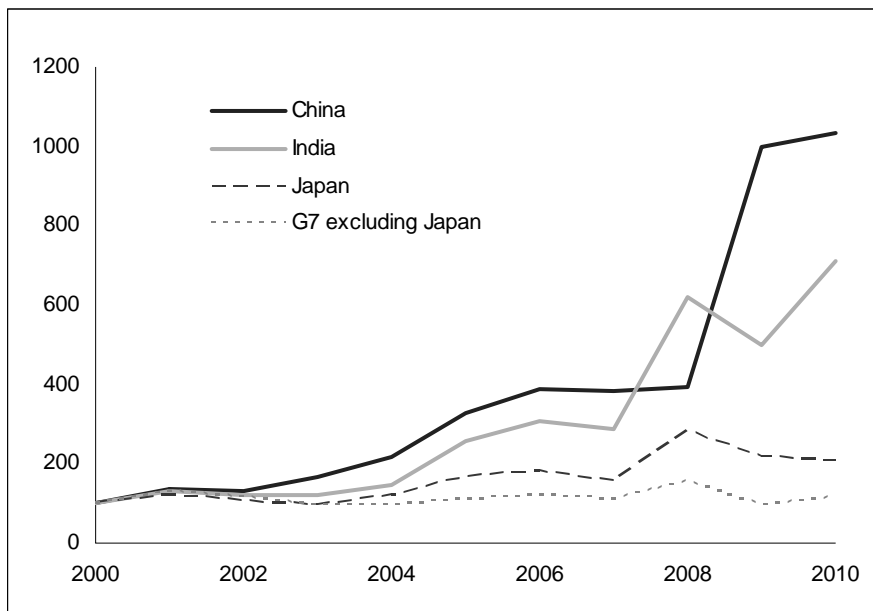
Energy – coal and liquefied natural gas

The rapid modernisation in China and India has significantly increased their demand for energy and other resources over the past 30 years.

With this trend expected to continue in the next decade the International Energy Agency (IEA) predicts that China's demand for primary energy will increase to 3,159 million tonnes of oil equivalent (Mtoe) by 2020, almost three times more than in 2000. India's demand for primary energy is also expected to almost double over the same period.

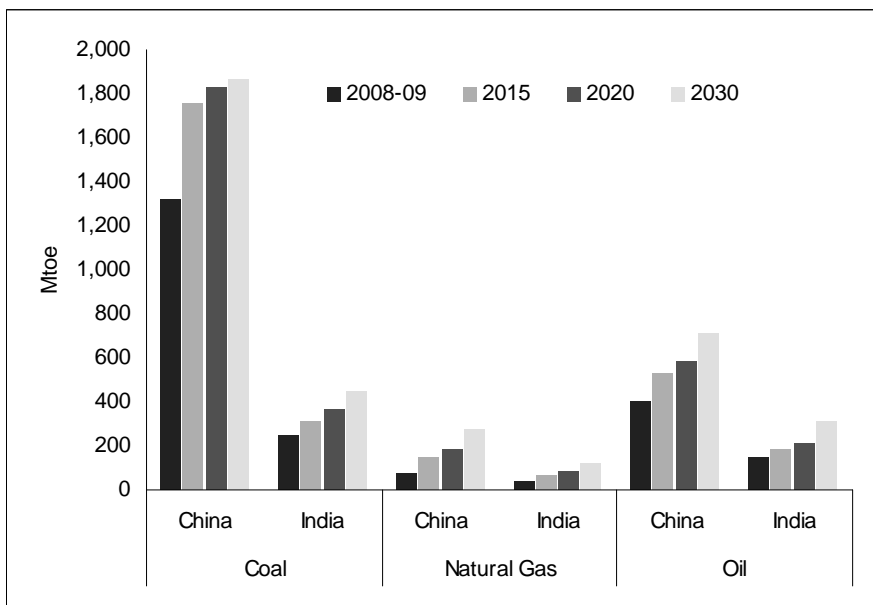
A large part of this energy demand from China and India will have to be met by conventional fossil fuels including coal, oil and gas. The IEA forecasts that China will require 1,825 Mtoe of coal, 180 Mtoe of natural gas and 583 Mtoe of oil by 2020. This will constitute around 82 per cent of the country's demand for primary energy by that year. Meanwhile, India's demand for coal, natural gas and oil will amount to 651 Mtoe in 2020, or 72 per cent of the country's primary energy requirement.

Chart 2.14
Queensland Overseas Merchandise Exports (Index: 2000=100)



Sources: ABS unpublished trade data and Queensland Treasury

Chart 2.15
Primary Energy Demand by Fuel Type, China and India



Note: 2008 for coal and natural gas, 2009 for oil

Sources: International Energy Agency and Queensland Treasury

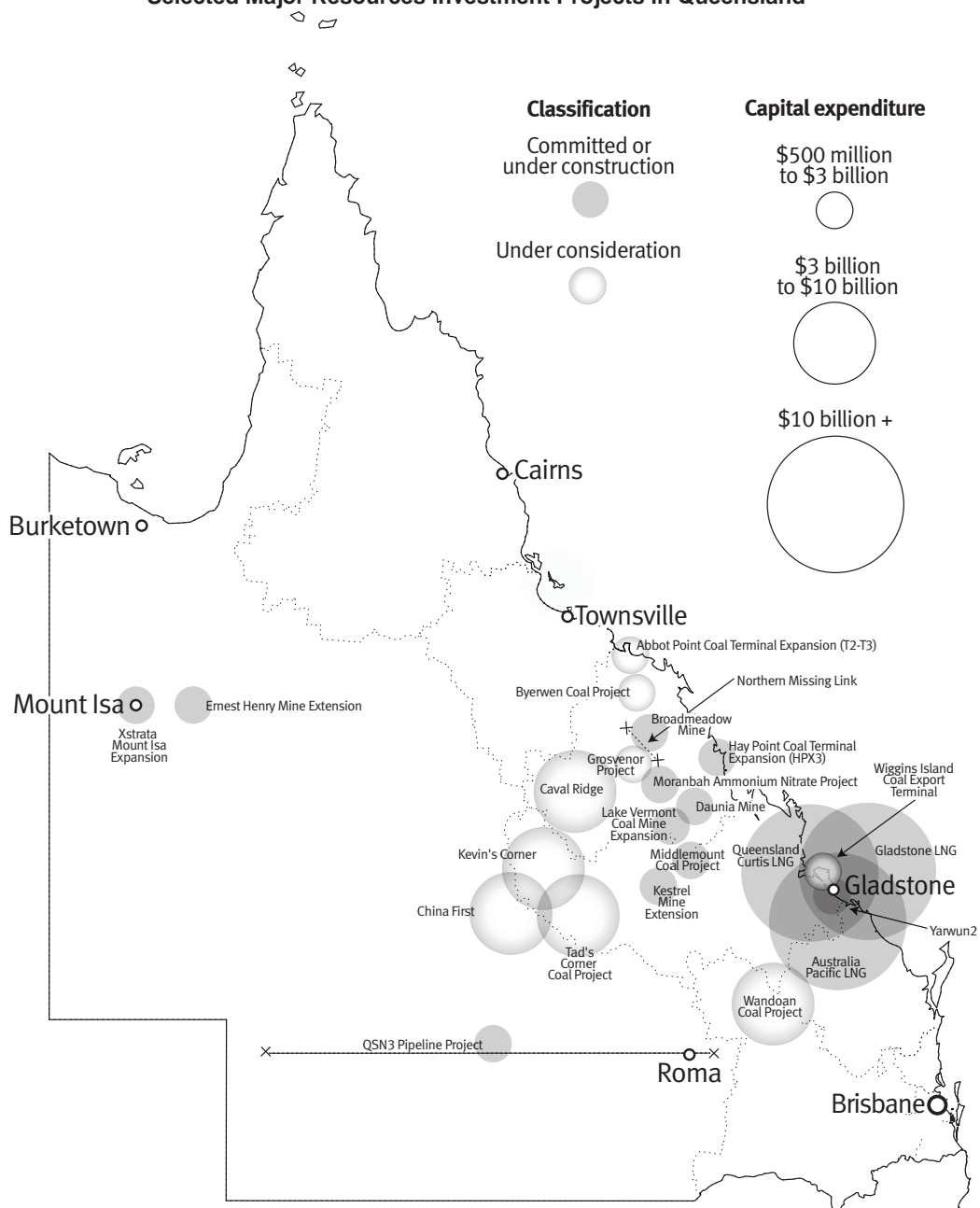
China has increasingly relied on imports to meet its energy demand in recent years. Imports of coal, crude oil and natural gas have all increased significantly in recent years. Although not as significant as China, India's imports of coking and thermal coal are also increasing.

Increased investment in the mining sector in Queensland, particularly coal and liquefied natural gas (LNG), is not just being driven by continuing high prices for mineral exports. These projects, many of which are at an advanced planning stage, are underpinned by longer term projections of the resource needs in these large emerging economies.

Queensland is well placed to meet this increasing demand with eight coal seam gas to LNG projects announced in Queensland in recent years. Queensland has also established itself as the world's largest seaborne metallurgical coal exporter. In 2010, Queensland exported 134 million tonnes of metallurgical coal as well as 51 million tonnes of thermal coal. Several large scale coal projects in Queensland are already at the advanced planning stage or under consideration. These could position Queensland to be one of the largest exporters of thermal coal in the world.

Projects showing the growth potential of this sector are shown in Chart 2.16.

Chart 2.16
Selected Major Resources Investment Projects in Queensland¹



Note:

1. *Committed* projects have received either a final investment decision or have significant binding customer contracts. Projects *under consideration* are undergoing feasibility studies or in early planning stages.

Sources: ABARES, Deloitte Access Economics and Queensland Treasury

Tourism

The number of Chinese outbound visitors rose from 10.5 million in 2000 to 47.7 million in 2009, a more than four fold increase. However, this represents only 3.6 per cent of China's population. The emergence of the middle class, together with a gradual easing of restrictions on foreign travel, means that growth in China's outbound tourism is most likely to accelerate in the coming decade.

While the Latin American and Caribbean counties have yet to become a major market for Queensland's overseas tourism, growth from this region has been noticeable in the past decade.

Education

China's rapid commercialisation and industrialisation is also raising demand for higher education. The number of enrolments by Chinese students in Queensland was 20,877 in 2010, a five fold increase from that in 2002. As a result, China overtook India to regain its position as the largest overseas education market in Queensland in 2010.

These trends are expected to continue in the next ten years given that the proportion of the Chinese population with a higher education qualification is still low by international standards and the popularity of studying abroad by Chinese students is on the rise.

Also worth noting is that enrolments by Indian students surged from around 2,000 in 2005, to peak at over 20,000 in 2009. While a change in student visa application rules caused a sharp fall in commencements by Indian students over the course of 2010, Indian enrolments remained at 18,030 in the year, to be Queensland's second largest overseas education market.

Brazil and Colombia went from 7th and 22nd respectively in 2005 to become the fourth and eight largest major markets for Queensland's overseas education industry in 2010.

Agriculture – Beef

Traditionally, Queensland's beef is mainly sold to Japan, the US and Korea. These three markets combined imported 75 per cent of the total volume of beef exports from Queensland in 2010. However the rising living standard in China has led to a significant increase in the demand for Queensland's beef. Specifically, the volume of beef exported to China increased from an average 1,184 tonnes per annum between 2000 and 2005, to 7,154 tonnes in 2010. While this still represented a small share of the beef exports from the State in 2010, the ongoing urbanisation in China will see this strong growth to continue in the coming decade.

Private sector investment

In recent years the Queensland Government has pursued a strategy of encouraging private sector investment in those sectors of the economy where there is no compelling public policy rationale for private sector ownership. This has been pursued through asset sales as well as encouraging direct investment in infrastructure projects which would once have been delivered by government.

This move has strengthened market signals for investment, improved productivity and ensured that Government investment is focused on projects where the rationale for public ownership is strong. This policy will be important in delivery the infrastructure necessary to allow mining projects to service their customers. Further details are available in Chapter 8: Public Non-financial Corporations Sector.

The policy challenge

While Queensland is at the forefront to benefit from the rising prosperity of emerging Asia in the coming decade, the developments also pose challenges to the economy.

In particular, a high \$A exchange rate, driven by ongoing strong terms of trade, will impact on the international competitiveness of the State's non-mining tradeable goods sector. Queensland's economy will also be increasingly impacted by economic cycles in China and India. A more flexible economy will therefore be required to facilitate the reallocation of resources to those sectors of the economy that are growing fastest.

It will be important to reinvest the benefits from a rapidly growing mining sector to boost productivity and improve competitiveness in other sectors of the economy.

Government policy needs to support this through playing to our strengths and ensuring that our education and training system are world class; that innovation is supported and encouraged; and that our regulatory environment supports sustainable growth. It will also be important to continue to develop trading opportunities with our traditional trading partners, and other emerging nations to diversify our economy in terms of who we trade with and what goods and services we trade in.

3 IMPACT OF THE 2010-11 DISASTERS

FEATURES

- The recent Queensland floods and Tropical Cyclone Yasi significantly impacted Queensland's economic and fiscal performance.
- This chapter updates the fiscal and economic impact of recent disasters included in the Mid Year Fiscal and Economic Review. Despite the devastating impact of these disasters, the fundamentals of the Queensland economy are strong and point to solid growth over the forward estimates and long term.
- Flooding from late 2010 to January 2011, combined with Cyclone Yasi and much wetter than usual weather conditions since September 2010 is estimated to have detracted 2¼ percentage points, or around \$6 billion in real terms, from GSP in 2010-11.
- The rebuilding effort, combined with a recovery in exports, means that economic growth is expected to be higher in 2011-12 than would have otherwise been the case.
- The cost of rebuilding public infrastructure and supporting businesses and the community following these disasters totals approximately \$6.8 billion. The majority of this funding will be used to rebuild damaged roads and local government infrastructure and also to provide assistance to individuals, families and businesses impacted by the disasters.
- The Australian Government is highly supportive of the rebuilding effort in Queensland. In addition to the support provided by Federal Government agencies such as the Australian Defence Force, the Australian Government is contributing up to 75 per cent of the funding needed to rebuild and recover under the national Natural Disaster Relief and Recovery Arrangements that exist between all states and the Australian Government.
- The Queensland Reconstruction Authority has been established to coordinate and oversee the reconstruction task across the State.
- The Japanese disaster will also have a negative impact on Queensland's economic outlook in the short to medium term. In particular, losses to hard coking and thermal coal exports could amount to more than five million tonnes or \$1 billion in real terms by the end of 2011-12.

ECONOMIC IMPACT OF THE NATURAL DISASTERS

Economic Impact of Flooding and Cyclone Yasi

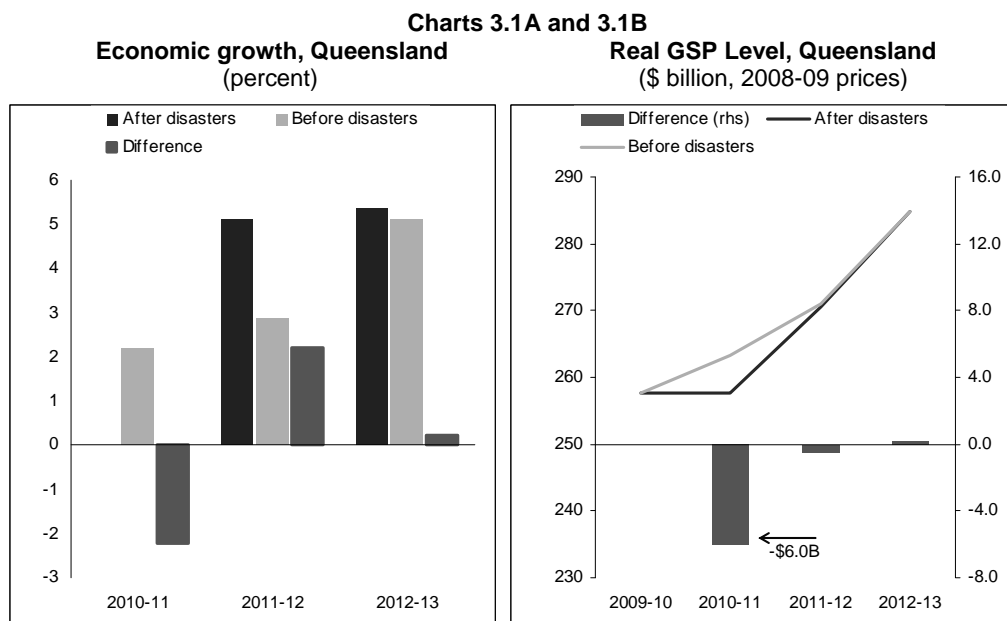
Natural disasters and unusual weather conditions significantly disrupted the Queensland economy in 2010-11. Flooding in December and January, followed by Cyclone Yasi in February, are estimated to have together detracted 2¼ percentage points, or around \$6 billion, from gross state product (GSP) in Queensland in 2010-11. In the absence of floods, the economy is estimated to have grown by 2¼% in 2010-11, rather than record no growth as currently estimated (see Chart 3.1A).

The loss in economic output largely reflects the adverse impact of flooding on coal and tourism exports, as well as rural production, together amounting to more than \$7 billion in 2010-11. Partly offsetting this has been some boost to activity from recovery efforts already underway this year. Disaster relief payments and insurance payouts bolstered retail trade in March quarter 2011, as households replaced lost items from floods. Similarly, the commencement of restoration works relating to the disasters will result in public spending in 2010-11 being higher than would have otherwise been the case.

The need to rebuild both private and public infrastructure, combined with some recovery in exports, means that economic growth in Queensland will be higher in 2011-12 than it would have been in the absence of floods. A significant part of the National Disaster Recovery and Relief Assistance (NDRRA) will be spent to reconstruct and repair damaged public infrastructure in 2011-12. With the disasters rendering more than 3,000 dwellings non-liveable and more than 50,000 damaged to varying extents, the rebuilding of damaged homes will also add to dwelling construction activity. As a result, economic growth in Queensland is forecast to strengthen to 5% in 2011-12, compared with estimated growth of 3% in the absence of the disasters.

However, this would not represent a full recovery by next year, with the level of GSP in 2011-12 lower than would have been the case without natural disasters. This reflects that it will take longer than one year for some sectors to recover and to complete the rebuilding task. Within the export sector, some coal mines are expected to take until the end of 2011 to reach full capacity, while Cyclone Yasi damaged part of the 2011-12 agricultural harvest. With the economy already characterised by a tight labour market, part of the rebuilding effort will have to occur at the expense of other activity. In the public sector, this requires a reprioritising of capital projects, while for the private sector, labour shortages may limit the pace at which investment bounces back. However, the dwelling sector represents one area where spare capacity exists, after being weighed down in recent years due to tighter credit conditions and higher interest rates.

Economic growth is forecast to be 5¼% in 2012-13 compared with 5% in the absence of floods, reflecting further rebuilding work and a full recovery in exports. By this stage, the level of GSP is expected to have returned to a level similar to what would have otherwise been the case in the absence of floods (Chart 3.1B).



Source: Queensland Treasury

Coal

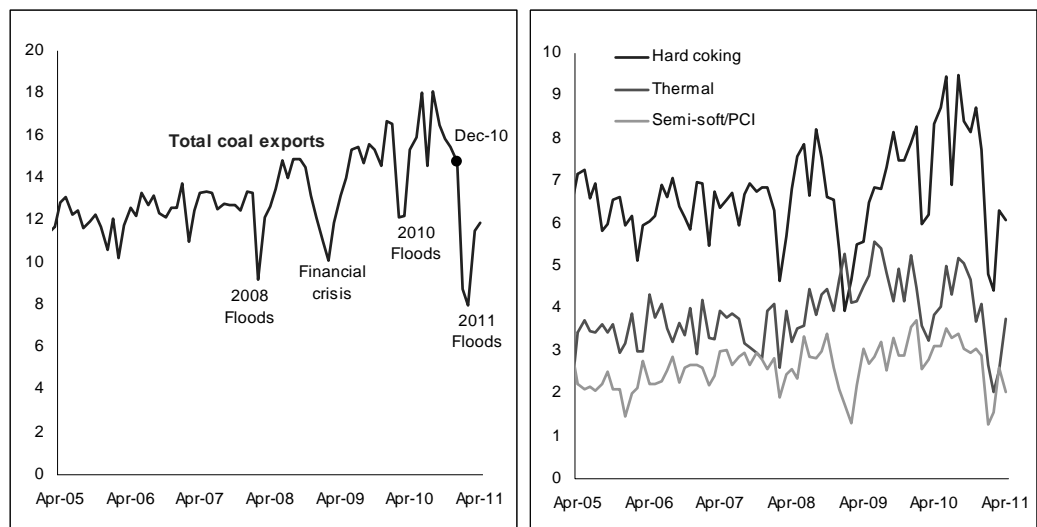
Heavy rain in late 2010 and floods in January 2011 disrupted coal production and damaged coal transport infrastructure. While export volumes in December 2010 were supported by running down stocks, they declined significantly in January and February 2011 (see Chart 3.2). Compounding this, Cyclone Yasi led to the closure of coal terminals in Abbot Point, Hay Point and Dalrymple Bay for almost one week in February. With the coal railings network largely recovering by mid-March, coal exports began to recover from that month onwards. However, coal production has still been constrained by some delays in de-watering flooded pits due to environmental concerns and untimely rainfall across the Bowen Basin in March. In early May, total mine capacity was estimated to have only recovered to around 75% of its pre-flood level.

Disruptions to coal supply led to a surge in coal prices in June quarter 2011. Hard coking contract prices were negotiated at US\$330/t, compared with US\$225/t in the March quarter, while thermal coal spot prices surpassed US\$120/t, prior to the Japanese earthquake in mid-March. While higher prices cushioned the immediate reduction in coal export earnings due to the loss in export volumes, some global demand has been diverted to lower quality coal offered by other exporters in the region.

With mines taking longer to recover, the loss in export tonnages in 2010-11 is estimated at around 27 million tonnes, larger than initially anticipated at MYFER. With some mines not expected to fully recover until the end of 2011, there may be an additional loss of 5 million tonnes in 2011-12. This contributes to a loss of \$5.7 billion and \$950 million to the State’s GSP level in 2010-11 and 2011-12 respectively in real terms (2008-09 prices).

With mine capacity expected to return to normal by the end of this year, and buyer interest anticipated to improve as coal prices retreat from current high levels, coal exports are forecast to rebound in 2011-12 and increase further into 2012-13. Expansions to rail and port infrastructure over recent years means that the coal transport system has the capacity to support a positive global demand outlook (see ‘Queensland’s long term prospects and challenges’ in Chapter 2).

Chart 3.2
Queensland Monthly Coal Exports
(million tonnes)



Sources: ABS unpublished trade data and Queensland Treasury

Agriculture

Heavy rainfall, floods and Cyclone Yasi also severely affected Queensland's agricultural sector, with the combined loss in production estimated to be around \$1.4 billion.

Torrential rain left a sizable portion of the sugar cane crop unharvested and lowered yields, causing an estimated 20% reduction in raw sugar production in the 2010 season. Cyclone Yasi struck in key sugar growing areas in Far North and Northern Queensland, causing significant damage to the 2011 crop. The reduction in sugar production has led Queensland Sugar Limited to purchase a significant amount of raw sugar from overseas to meet sales commitments.

Flooding in January destroyed a large portion of the cotton crop in the Darling Downs and Central Queensland regions, while yields from remaining crops may also have been affected due to water logging and cold weather prior to the floods. Cotton Australia estimated that the losses would be around 370,000 bales, or \$175 million.

Although most winter crops (mainly wheat) had been harvested before the floods, heavy rainfall adversely affected the quality of the crops remaining planted. In contrast, despite damage to the sorghum crop in Central and Southern Queensland, production in 2010-11 is still predicted to increase. Most of the lost crop has been replanted while yields are expected to be above average due to favourable soil moisture conditions.

Cyclone Yasi damaged a variety of horticultural crops in the Wet Tropics region. Around 75% of the banana crop is estimated to have been affected while approximately 20% of the avocado crop was lost. Despite a large portion of horticultural crops already being harvested in the Southern growing regions prior to the January floods, flooding in the Lockyer Valley led to losses in some vegetable crops including lettuce, pumpkin and beans. Nevertheless, some of these losses were offset by an increase in production in other growing areas.

Tourism

Widespread rainfall across Queensland prior to the floods had already dampened interest from prospective tourists from interstate. While the flood affected regions in Central and Southern Queensland constitute only around 10% of tourism exports, negative publicity stemming from worldwide reporting of Queensland's floods is likely to have resulted in lower tourist arrivals than would have otherwise been the case in popular destinations such as the Gold Coast, Sunshine Coast, Cairns and Whitsundays. Travel between Brisbane and other destinations is also likely to have been hampered by disruptions to transportation. While Cyclone Yasi struck Northern and Tropical North Queensland, the most popular tourist regions in the State, the extent of tourism losses was limited by the fact that Cairns and neighbouring areas were not significantly damaged. In total, floods and Cyclone Yasi are estimated to have caused a loss of around \$400 million to tourism exports in 2010-11.

Economic Impact of Japanese Disaster

The magnitude 9.0 Tohoku earthquake in March 2011 was the most powerful known earthquake to hit Japan. The earthquake triggered a tsunami and caused a number of nuclear accidents, the most serious of which is still impacting the Fukushima Daiichi Plant. In addition to the significant human cost, the earthquake, tsunami and nuclear crisis have heavily impacted Japan's economy. This has been through three channels in particular: the loss of infrastructure and production in the disaster affected area and spill-over effects on the rest of the economy; the impact of lost electricity generation on supply potential; and the effect of the disasters on sentiment and therefore private demand.

In terms of damage to infrastructure such as factories, commercial facilities, roads and ports, Japan's Government has estimated a loss in capital stock of between 16 and 25 trillion Yen (A\$190-300 billion) in the immediate 'disaster area' - a region including the coastal prefectures of Miyagi (whose capital Sendai is the 12th largest city in Japan) and Fukushima (home to the damaged nuclear plant). While the disaster area constitutes less than 15% of Japan's GDP, it specialises in electrical and IT equipment, and forms a key part of the supply chain to other regions, including the rest of Japan, Asia and the US. As a result, the disasters have disrupted production and exports in an area much broader than the immediate disaster area, particularly for industries such as auto manufacturing.

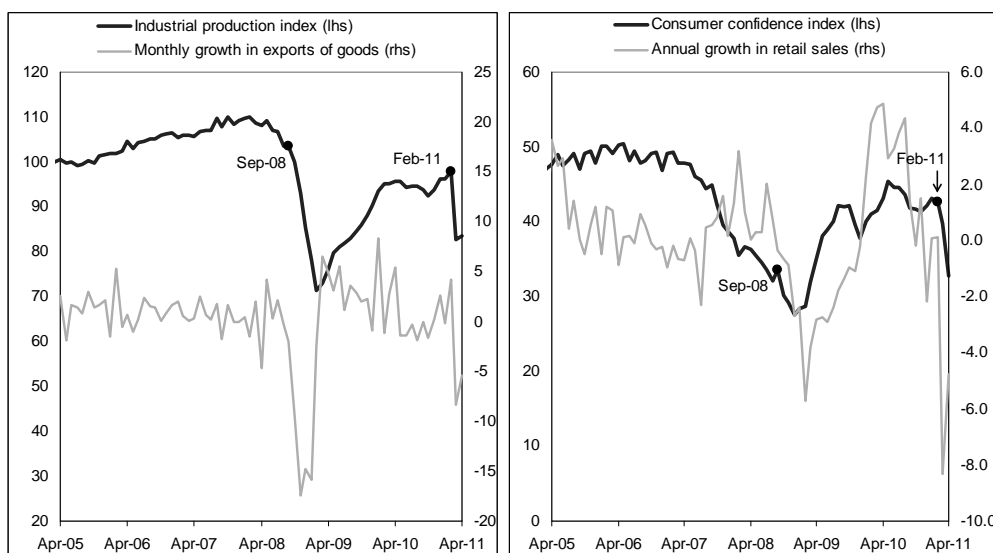
Power shortages have become a major supply-side constraint. An initial shutdown of four nuclear power plants and more than 10 thermal power plants resulted in a loss of more than 23 gigawatts, or 10% of national electric generation capacity. Further, disaster affected eastern Japan has only limited ability to access power from the unharmed west, as it operates on a different power frequency with limited capacities for conversion. As a result of damage to Fukushima and other plants, power utility TEPCO lost 30% of the power supply capacity in its service area, which includes Tokyo (itself comprising one third of GDP). As a result, activity in March and April was constrained through rolling blackouts and scheduled breaks in public transport. With demand for electricity forecast to rise in July and August due to the use of air-conditioning, the Government has encouraged small firms and households to restrict peak electricity use to 15% below last year and mandated that large users do the same, which will further restrict output.

In addition to these supply side constraints, the disasters have affected business and consumer sentiment, given uncertainty about the economic outlook and the effects of the nuclear accident at Fukushima.

Reflecting these channels, Japan's GDP contracted 0.9% in March quarter 2011, led by falls in business investment and consumer spending. Industrial production fell 16% in March, the largest ever one month fall, and stayed at this depressed level in April 2011, while nominal exports fell 13% over this period (Chart 3.3A). Consumer sentiment also experienced a larger two month fall in April 2011 than after the collapse of Lehman Brothers, while retail sales fell significantly in annual terms in March and April (see Chart 3.3B). Overall, the forecast for Japan's economic growth in 2011 was downgraded from 1½% to zero growth after the disasters, according to *Consensus Economics*.

The nature and timing of economic recovery remains uncertain and depends on several factors. These include the pace at which supply chains are repaired, power is restored, and capital stock is rebuilt, as well as developments at the Fukushima plant.

Charts 3.3A and 3.3B
Business and household indicators, Japan



Source: DataStream

Macroeconomic policy will also shape the recovery, but faces constraints. With the policy rate already effectively zero, the Bank of Japan immediately responded to the disaster by providing ample liquidity to financial markets and by doubling its asset purchase program to 10 trillion Yen. Fiscal policy also remains challenged by a public gross debt-to-GDP ratio of 200%, which has led to pressure for rebuilding budgets to be partly funded via tax rises or spending cuts in other areas, to avoid a further credit rating downgrade. In line with this, Japan's Government announced an emergency four trillion Yen budget for fiscal 2011 in April, which reallocated existing funds to provide temporary housing, infrastructure restoration and disaster-related loans.

An appropriate rebuilding program will also take time to design and implement, given the magnitude and geographic scope of damage to infrastructure. The Reconstruction Design Council has mentioned that much work will occur in the next three to five years, but that it could take 10 years for reconstruction to be completed. The Council is expected to present a first set of proposals for the rebuilding program in June 2011.

On balance, the loss in output due to disasters in 2011 is unlikely to be recovered until beyond 2012, given the time required for supply constraints to be lifted, macroeconomic policy constraints and the complex nature of the rebuilding task. Economic growth in Japan is forecast to be 2¾% in 2012 compared with 2% prior to disasters, according to Consensus Economics. This would recover half the loss in GDP due to disasters in 2011.

Implications for the Queensland Economy

Given Japan is Queensland's largest market for overseas exports of goods, the disasters in Japan will have a negative impact on Queensland's exports in the short to medium term and will weigh on the State's overall economic outlook in addition to Queensland's own natural disasters. Japan is Queensland's largest market for coal, with \$6.6 billion, or more than one quarter, of total hard coking and thermal coal exports shipped to Japan in 2010. It is also the largest market for meat, accounting for \$1.3 billion, or over 40%, of total meat exports and a key tourism market, accounting for 200,000 persons, or 11.4%, of total overseas tourists to Queensland in 2010.

The loss in Queensland coal exports to Japan over the next year could be substantial. At least six major coal power plants stopped operation immediately following the disasters, representing more than eight gigawatts, or 30%, of national coal fired power capacity. Reflecting a reduced need for thermal coal as well as port disruptions, both the TEPCO and Tohoku power utilities declared force majeure on some contracts from Australia. Further, the fall in production resulting from the crisis is expected to lower imports of hard coking coal, particularly given car production in Japan accounts for more than 20% of the country's steel use. With the weaker outlook for industrial production in Japan, hard coking and thermal coal exports from Queensland are estimated to be more than five million tonnes lower than would have otherwise been the case between March quarter 2011 and the end of 2011-12, amounting to more than \$1 billion in real terms. Reduced demand is also likely to affect export incomes, with the thermal coal spot price falling more than US\$10 per tonne since the earthquake.

Tourism and beef imports are sensitive to consumer confidence and incomes in Japan, as well as the A\$/Yen exchange rate. In addition to a long-term downward trend since the early 2000s, visitor arrivals from Japan to Australia fell after the September 11 attacks, the outbreak of SARS in 2003, the financial crisis in 2008, and declined 6% in March and April 2011 compared with January and February. Within Queensland, the regions likely to be most heavily affected are the Gold Coast and Tropical North, with three quarters of Japanese visitor nights spent at these destinations. Similarly, beef exports fell 14% over the year to March and April 2011, compounded by a high A\$/Yen exchange rate that has made Queensland product less competitive. In particular, sales initially suffered from supply chain issues caused by the earthquake as well as less dining out in areas such as Tokyo.

In the longer term, the rebuilding effort in Japan is likely to support coal exports in Queensland. Further, any shift in energy mix away from nuclear to other energy sources in the wake of the Fukushima crisis may benefit Queensland's LNG and thermal coal exports to Japan and other markets. Prior to the crisis, Japan's national energy policy advocated a greater reliance on nuclear and renewable energy at the expense of coal and gas between 2010 and 2030, with a new energy policy to be published in late June. Since the Japan crisis, the German government has announced the shutdown of the eight oldest nuclear power plants and the closure of the remaining nine plants by 2022.

FISCAL IMPACT OF THE NATURAL DISASTERS

Cost of Floods and Cyclone Yasi

The magnitude and widespread nature of the disasters has made it difficult to arrive at a conclusive fiscal impact of the disasters on Queensland. At the time of the Mid Year Fiscal and Economic Review (MYFER), the Government estimated the cost of the floods at \$5 billion. Cyclone Yasi, which hit Queensland after the release of the MYFER, was originally estimated at \$800 million.

The Queensland Government now estimates the combined cost of rebuilding public assets and providing support to the community from the recent floods and Cyclone Yasi at \$6.8 billion.

These estimates will change over time as the full magnitude of damage and repair work becomes clearer.

In addition to the floods and Cyclone Yasi, the Government is expecting to spend around \$2.9 billion on reconstruction works related to previous disasters, bringing the total cost of disasters to \$9.7 billion.

Expenditure Impact

While the majority of the work needed to repair infrastructure will occur in the early part of the forward estimates, given the unprecedented scale of the disasters, the reconstruction task will take time. Consequently, reconstruction activities related to the floods and Cyclone Yasi are expected to continue into 2013.

The bulk of the reconstruction activity will occur in rebuilding roads, bridges and transport infrastructure including by local governments. However, other State assets such as schools were also damaged by the floods and cyclone and require restoration. In addition to this, substantial assistance is being provided to individuals and small businesses and primary producers. Table 3.1 outlines summer 2010-11 flood and Cyclone Yasi expenditure by type.

Table 3.1
Summer 2010-11 Floods and Cyclone Yasi Expenditure by Type⁵

	2010-11 \$ million	2011-12 \$ million	2012-13 \$ million	2013-14 \$ million	Total \$ million
<i>NDRRA Expenditure</i>					
State roads	193	900	900	900	2,894
Local Government assets	465	1,263	1,017	..	2,746 ¹
Other State assets	93	51	5	..	150
Payments and support services to individuals and communities	92	46	39	..	177 ²
Small Business, Primary Producers and Non profit organisations – Grants	111	156	..	..	267
Small Business, Primary Producers and Non profit organisations – Loans	61	328	..	..	389
Other	26	22			48 ³
<i>Total</i>	1,042	2,767	1,962	900	6,671
<i>Non-NDRRA Expenditure</i>	60	38	30	..	128⁴
TOTAL COST	1,102	2,805	1,992	900	6,799

Notes:

1. Includes \$315 million Local Government Infrastructure Package and \$15 million Cassowary Coast Support Package.
2. Includes emergency assistance payments, Community Recovery Package, other Department of Communities costs (including counter disaster) and Mental Health Package.
3. Includes other counter disaster cost estimates and \$20 million Rural Resilience Fund.
4. Includes non-NDRRA costs plus cyclone shelters.
5. Numbers may not add due to rounding.

The funds for reconstruction are drawn from a variety of sources including the Australian Government and the Queensland Government (\$1.8 billion funded from the long term lease of the Abbot Point Coal Terminal). Non-NDRRA eligible expenditure will be funded from Consolidated Fund and donations such as the United Arab Emirates (\$30 million for cyclone shelters).

The expenses and revenues from the Premier's Disaster Relief appeal are not recorded in the Queensland Government accounts.

The Queensland Reconstruction Authority (QRA) was established through State legislation on 21 February 2011 as a statutory authority for the efficient and effective coordination of the reconstruction effort. This proactive and coordinated response will improve Queensland's resilience to future disasters.

For further information on the reconstruction effort and the role of the QRA, refer to the Budget Related Paper: *Operation Queenslander*.

Revenue Impact

The most significant revenue impact to the State from the recent disasters is revenue from the Commonwealth as reimbursement of NDRRA costs. The Australian Government has provided an advance payment of \$2.05 billion to Queensland in 2010-11 to allow reconstruction work to begin. A further \$500 million advance payment will be provided in 2011-12 with the remaining funds to be paid following the finalisation of reconstruction and repair works. Box 3.1 provides an insight into the NDRRA funding mechanism.

Given the payment of revenue does not align with the timing of reconstruction works, it is having a significant impact on Queensland's net operating position across the forward estimates. Table 1.2 in Chapter 1 illustrates the impact of NDRRA revenue and expenses on the State's net operating position.

Aside from payments for NDRRA, a large part of the State's revenue comes from the Australian Government. These payments are not significantly impacted by the recent disasters.

As noted earlier, the mining industry has been extensively impacted by flooding. Floodwaters damaged rail lines and submerged a substantial number of mines. The majority of the affected rail infrastructure is now fully operational but ongoing de-watering of coal mines has delayed the return of production to full capacity. The 2011-12 Budget incorporates a loss of production volumes as a result of the floods in the order of 27 million tonnes. The reduction in royalty revenue associated with this loss of production is estimated at around \$400 million in 2010-11. While there has been an increase in coal prices in response to the floods, this will not have an immediate offsetting impact, with agreed contract prices already in place for the March quarter 2011.

Other key revenue sources such as transfer duty have been impacted by the floods to a lesser extent.

Capital Impact

The State's capital program was originally budgeted at \$17.1 billion in 2010-11. Due to the impact of floods, Cyclone Yasi and the wetter than expected September 2010 to February 2011 season, the capital program is now expected to be \$14.8 billion in 2010-11.

The recent disasters have necessitated a re-cashflow of the capital program including the rescheduling of some major projects such as the Cross River Rail. In addition, the disasters require additional expenditure on the restoration of core public assets. For this reason, the capital program in 2011-12 is expected to be \$15 billion.

It should be noted that restoration works are not always considered capital works. It has been necessary to estimate the proportion of work that is to be capitalised for the purposes of the 2011-12 Budget. The largest category of restoration works of State Government assets – roads, has been budgeted as an equal split between repairs and capital. However, the actual outcome may vary significantly from this estimate, impacting both the net operating position and capital program.

Box 3.1 **Natural Disaster Relief and Recovery Arrangements**

The prime mechanism through which relief and restoration will be delivered is the Commonwealth State NDRRA assistance. The NDRRA includes a range of pre-agreed relief measures and a cost sharing formula that varies in accordance with the severity of the event.

With the severity of the flooding and Cyclone Yasi, Queensland will be eligible for reimbursement from the Australian Government for up to 75 percent of the cost of NDRRA eligible expenditure.

The most significant expenditure measure, in terms of cost, is the Restoration of Essential Public Assets. Much of this program of restoration work is still taking place with many councils in particular facing repairs to roads previously damaged in other natural disasters. Under NDRRA conventions, where multiple disasters have affected a particular area or asset, the cost is attributed to the most recent disaster event.

Other NDRRA measures include the Disaster Relief Assistance Scheme (emergency and recovery assistance to individuals); Counter-Disaster Operations; and Concessional Loans and Grants to Primary Producers and Small Businesses.

Impact on the Public Non-financial Corporations (PNFC) Sector

The recent natural disasters significantly impacted the PNFC sector with entities incurring reconstruction costs, lost revenue and delayed capital investment. PNFC sector assets such as Queensland Rail's rail network and Ergon and ENERGEX's electricity networks were badly damaged during the December 2010 and January 2011 flood events with Queensland Rail's and Ergon's network damaged again by Cyclone Yasi. In addition to damage, the Government's energy Government-owned Corporations (GOCs) provided extensive and effective emergency and business disruption responses to these disasters.

Energy

Ergon Energy's network was severely affected by Cyclone Yasi with extensive damage from Cooktown to Sarina and west to Mount Isa. Electricity supply was interrupted to an estimated 220,000 homes and businesses and at least 50 major substations were off supply in the initial impact. The recovery response required extensive repairs, replacements and rebuilds including 600 kilometres of cable and conductor line.

Flooding along the Brisbane and Bremer Rivers and in the Lockyer Valley resulted in the destruction and inundation of parts of ENERGEX's network requiring rebuilding of whole sections of the network and cleaning, repair or replacement of over 100 transformers.

The flood and cyclone events have also disrupted ENERGEX's and Ergon's capital expenditure programs. Ergon's forecast capital expenditure in 2010-11 has been revised down, despite over \$40 million in additional expenditure being incurred to rectify the damage caused by the natural disasters. A portion of ENERGEX's 2010-11 planned capital program is now scheduled to occur in 2012-13 and 2013-14.

Interruptions to ongoing business activities of Tarong, Stanwell and CS Energy's power stations impacted generation levels during the flooding.

Rail, Ports and Water

Queensland Rail responded to infrastructure damage and operational disruptions by setting up recovery taskforces to ensure metropolitan and regional train services resumed as quickly as possible. As a result, all Citytrain network lines were open and operational just over a week after the flood peaks hit. In regional Queensland, 262 separate sites between Rosewood and Toowoomba were repaired and the Western line reopened in late March 2011, three months ahead of expectations.

A number of ports such as the Port of Bundaberg and Port Alma (both operated by Gladstone Ports Corporation Limited) were closed as a result of flooding, with Port of Bundaberg requiring significant dredging in order to reopen. Operations at Abbot Point, Hay Point and Mackay terminals (operated by North Queensland Bulk Ports Corporation Limited as the responsible port authority) suffered reductions in harbour dues and tonnage rate revenue as well as repair bills for infrastructure such as breakwaters and foreshores. During 2011-12, work will continue on strengthening the Mackay breakwater walls while the successful dredging program at the Port of Bundaberg is already allowing access for vessels up to 140 meters with the capability to ship around 12,000 – 16,000 tonnes of sugar. In Cairns, additional dredging will be required to remove silt from the channel.

SunWater, which operates and maintains a range of water infrastructure, incurred general damage to important assets such as storages, weirs, electrical components, hydrographical gauging stations and access roads. SunWater's emergency action plans that were activated during the floods proved to be effective in ensuring the safety of the dams and maintaining water supply to the community.

4 REVENUE

FEATURES

- Total General Government sector revenue is estimated to be \$43.007 billion in 2011-12. The increase of \$1.824 billion (or 4.4%) on 2010-11 estimated actual revenue primarily reflects an expected improvement in coal royalty revenue due to a recovery in coal export volumes and stronger prices and an increase in the amount of Goods and Services Tax (GST) distributed to Queensland.
- Estimates of taxation, royalty and GST revenues for the period 2008-09 to 2011-12 are still expected to be \$9.192 billion less than predicted in the 2008-09 Budget prior to the global financial crisis.
- Although revenue is strengthening it is clear that key sources of revenue such as transfer duty and the GST are unlikely to grow as strongly as they did in the period leading up to the global financial crisis.
- The government has introduced a temporary \$10,000 Queensland Building Boost grant towards the construction or purchase of a new home for six months commencing 1 August 2011. The Community Ambulance Cover levy is to be abolished from 1 July 2011. These changes are to be funded by the removal of the principal place of residence transfer duty concession. The transfer duty rates will be revised to ensure transfer duty payable on a home remains lower in Queensland than under the standard rate in any other mainland state.
- The devastating Queensland floods and Tropical Cyclone Yasi have had a significant direct impact on own source revenue with downward revisions in 2010-11 of around \$400 million for royalties and \$100 million for taxation. Although the majority of the impact is in 2010-11, there is expected to be some flow over to 2011-12.
- The Commonwealth Grants Commission (CGC) has recommended an underlying increase in Queensland's share of GST revenue of \$141.7 million in 2011-12. This contrasts with the reductions in Queensland's GST funding of \$19.8 million in 2010-11 and \$381.8 million in 2009-10.
- Royalties from Queensland's emerging liquefied natural gas (LNG) industry are expected from 2013-14 onwards.
- Queensland will retain its competitive tax status, with per capita state tax estimated at \$2,268 in 2011-12, compared to an average of \$2,769 for the other states and territories.

This chapter provides an overview of General Government sector revenue for the 2010-11 estimated actual outcome, forecasts for the 2011-12 Budget year and projections for 2012-13 to 2014-15.

Table 4.1
General Government revenue¹

	2010-11 Budget \$ million	2010-11 Est. Act. \$ million	2011-12 Budget \$ million	2012-13 Projection \$ million	2013-14 Projection \$ million	2014-15 Projection \$ million
Revenue						
Taxation revenue	10,192	9,876	10,527	11,415	12,144	13,164
<i>Grants revenue</i>						
Current grants	17,245	18,466	18,706	20,693	20,452	20,492
Capital grants	1,627	1,615	1,556	1,537	1,203	1,355
Sales of goods and services	4,077	4,113	4,559	4,772	4,974	5,126
Interest income	2,132	2,289	2,477	2,575	2,647	2,710
<i>Dividend and income tax equivalent income</i>						
Dividends	1,058	1,009	786	911	1,140	1,241
Income tax equivalent income	402	326	261	286	345	393
<i>Other revenue</i>						
Royalties and land rents	3,243	2,791	3,445	3,651	3,436	3,674
Other	631	698	690	666	662	663
Total Revenue	40,606	41,183	43,007	46,506	47,004	48,817
Note:						
1. Numbers may not add due to rounding.						

2010-11 Estimated Actual

General Government revenue in 2010-11 is estimated to be \$41.183 billion, which is \$577 million (or 1.4%) more than the 2010-11 Budget estimate.

Significant variations from the 2010-11 Budget estimates include:

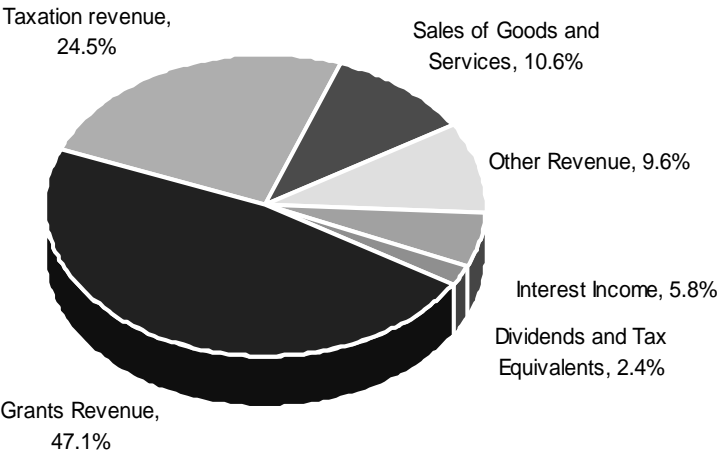
- a \$1.221 billion increase in Australian Government grants reflecting a \$2.05 billion advance payment of the Australian Government's contribution under Natural Disaster Relief and Recovery Arrangements, partly offset by a \$492 million decrease in GST distributed to Queensland
- a \$316 million (or 3.1%) decrease in taxation revenue, largely due to lower transfer duty collections as a result of continued weakness in the property market
- a \$452 million (or 13.9%) decrease in royalty and land rent revenue, primarily associated with significantly lower coal production due to flooding and an appreciation of the AUD-USD exchange rate.

2011-12 REVENUE BY CATEGORY

General Government revenue in 2011-12 is estimated to be \$43.007 billion, \$1.824 billion (or 4.4%) higher than the 2010-11 estimated actual revenue of \$41.183 billion. This is largely due to expected increases in revenue from GST, mining royalties, taxation and sales of goods and services.

Major sources of General Government revenue in 2011-12 are grants revenue (47.1% of revenue) and taxation revenue (24.5%). Chart 4.1 illustrates the composition of General Government revenue.

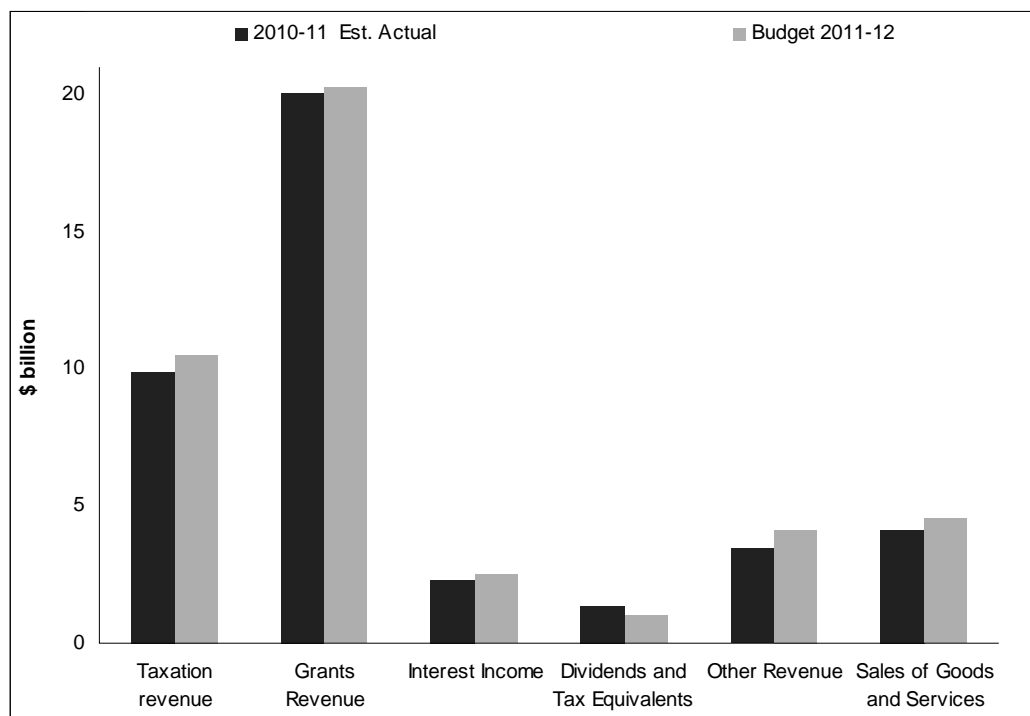
Chart 4.1
Revenue by operating statement category 2011-12



Note:
1. The major component of Other Revenue is royalties and land rents (83%).

Chart 4.2 compares 2011-12 estimates with 2010-11 estimated actuals. The overall result largely reflects growth in other revenue (primarily royalties) and taxation.

Chart 4.2
Revenue by operating statement category for 2010-11 and 2011-12



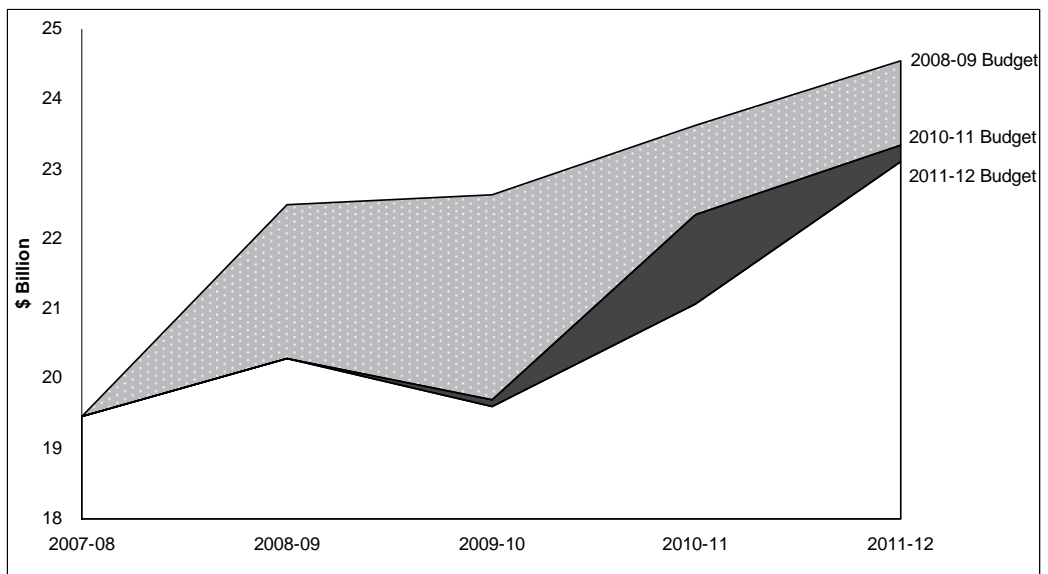
CHANGES IN REVENUE SINCE THE 2008-09 BUDGET

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.

The 2010-11 Budget saw some improvement in Queensland's economic outlook resulting in an improved revenue outlook. This improvement led to upward revisions to the forecasts for these key revenues but they were still some \$7.6 billion behind the 2008-09 Budget estimates.

As Chart 4.3 below shows, the impact of natural disasters, reduction in the size of the GST pool and a slowdown in the property market have resulted in revenue forecasts in this Budget worsening by \$1.592 billion to be \$9.2 billion behind the 2008-09 Budget estimates for the period 2008-09 to 2011-12.

Chart 4.3
Revenue Estimates from Taxation, GST and royalties – 2008-09 to 2011-12 Budgets



Across the period to 2011-12, the revisions since the 2010-11 Budget are declines of \$897 million for taxation; \$603 million for GST; and \$93 million for royalties. This reflects the weaker economic outlook, in large part attributable to the 2010-11 natural disasters.

Although the 2011-12 Budget estimates have been revised down for the period to 2011-12, the estimates for 2012-13 and 2013-14 have been revised up by \$1.201 billion since the 2010-11 Budget. This reflects the increased GST expected to be distributed to Queensland and a stronger outlook for coal royalties. Although revenue is strengthening, it is becoming clear that key sources of revenue such as transfer duty and GST are unlikely to grow as strongly as they did previously.

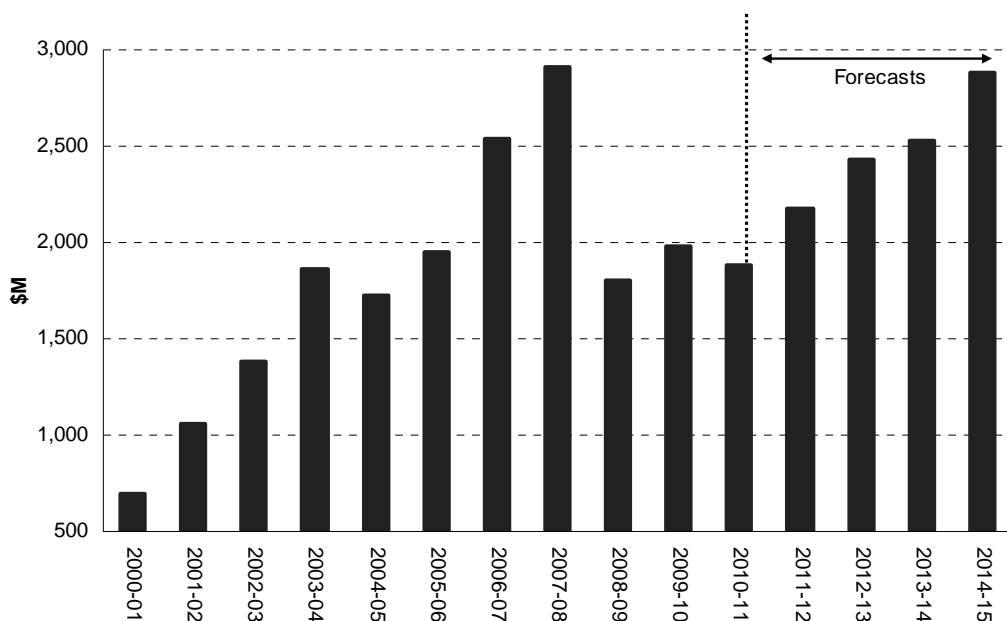
Taxation – Transfer Duty

Queensland experienced unprecedented average annual growth of 16% in taxation revenue across the period 2000-01 to 2003-04 compared with 6% for the rest of Australian states and territories. This growth was driven by a property boom in the same period that saw Queensland's median house prices grow rapidly and transfer duty collections grow by an average of 39% annually.

Underlying this dramatic improvement was Queensland's exceptional economic performance which saw economic growth out-performing the Australian average. Housing demand in this period was driven by record levels of interstate and overseas migration, the expanding mining industry and significant activity by property investors.

Chart 4.4 below shows the property transfer duty received from 2000-01 to 2009-10 and forecasts until 2014-15. The chart illustrates the extraordinary growth between 2000-01 and 2003-04, and 2005-06 to 2007-08, but also the dramatic fall in revenue since the global financial crisis.

Chart 4.4
Transfer Duty Collections and Forecasts



The household sector has also remained subdued in 2010-11, with dwelling investment estimated to fall 11½% in 2010-11, following falls in the previous three years. This reflects a variety of factors, including slower population growth, interest rate rises and ongoing tight credit conditions for medium density projects.

However, an acceleration in business investment and recovery in exports are forecast to see economic growth in Queensland strengthen considerably in 2011-12 and 2012-13. Higher investment is expected to lead to stronger migration and population growth, supporting a further rise in dwelling investment.

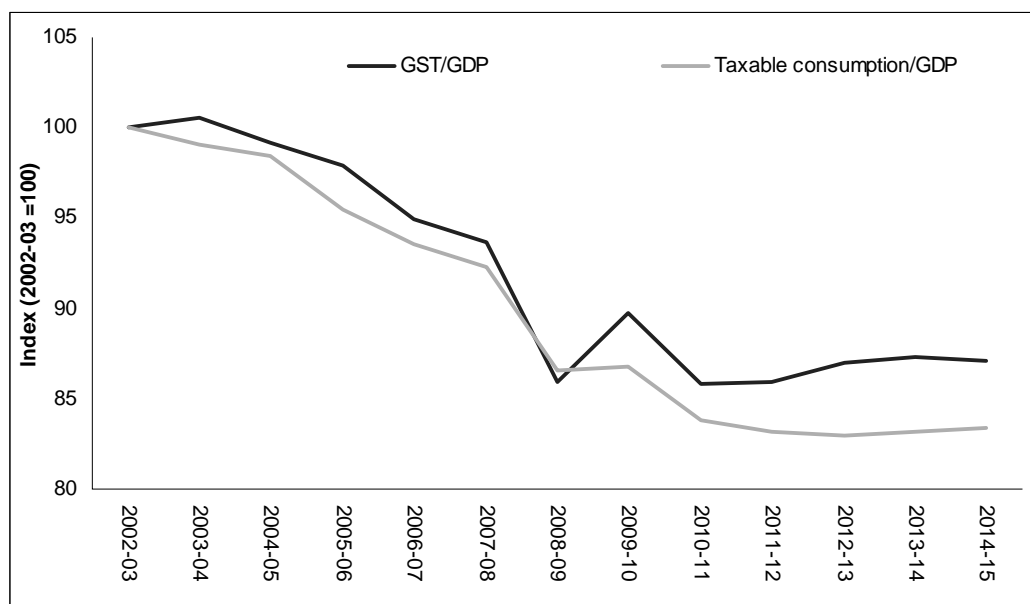
Overall, the 2011-12 Budget assumes that growth in transfer duty will be considerably lower than previously estimated across the budget period and will still be well below peak 2007-08 levels by 2014-15.

Estimates of taxation and royalty revenue over the period 2010-11 to 2014-15 are included in Appendix C.

Goods and Services Tax

The ratio of GST to nominal gross domestic product (GDP) has steadily declined over recent years which means that GST is not providing the level of revenue to the states that was previously assumed. Australian Treasury projections show that the pool of GST that is distributed to states is expected to grow more slowly than GDP in 2010-11 and broadly in line with GDP over the subsequent four years. As a result, the ratio of GST to GDP is expected to remain around historically low levels (see Chart 4.5).

Chart 4.5
Decline in GST as a share of GDP



Source: ABS Cat No. 5206.0, Australian Government Budget Papers No.1 and No.3 and Queensland Treasury estimates post 2009-10.

This reflects, in part, a similar historical and expected trend in taxable consumption as a share of GDP. In particular, households have been boosting savings and becoming more cautious with discretionary spending, which is generally subject to GST, while maintaining non-discretionary spending, which includes a number of exempt categories.

2011-12 BUDGET INITIATIVES

The Queensland Government has undertaken a review of its current housing assistance measures and has determined that the tax concession currently provided to homebuyers purchasing homes (the transfer duty home concession) would be best directed to provide broad-based cost of living relief to households and businesses through the abolition of the Community Ambulance Cover levy.

In addition, in recognition of the benefits of providing temporary assistance to the housing construction sector, the Government will utilise savings from the removal of the transfer duty home concession on homes to fund a temporary grant for the construction or purchase of new homes.

Queensland Building Boost grant

In order to assist recovery in the housing construction sector, the Government will provide a temporary \$10,000 grant towards the construction or purchase of a new home for six months commencing 1 August 2011. The grant will be available for all purchasers, including first home buyers, other home buyers and investors, for houses or units valued at up to \$600,000. This measure is expected to provide \$140 million in assistance to purchasers of new residential property and the housing construction sector.

In order to fund the abolition of the Community Ambulance Cover levy and the Queensland Building Boost grant, the Government is removing the transfer duty concession for homebuyers purchasing homes from 1 August 2011. The concession currently provides assistance of up to \$7,175 for homebuyers.

At the same time, the transfer duty rate structure will be revised to ensure transfer duty payable on a home remains lower in Queensland than under the standard rate in any other mainland state. The net impact of these revisions to transfer duty is estimated to be an increase of \$161 million in 2011-12.

The Government will maintain the policy of first home buyers not paying any transfer duty on homes valued at up to \$500,000. First home owners purchasing or building a newly constructed home valued at up to \$500,000 will also receive up to \$17,000 in grants while the Queensland Building Boost grant is available and will not be liable for transfer duty. Further, those purchasing a home valued at between \$500,000 and \$600,000 will receive a partial first home concession.

Tables 4.2 shows the current amounts of standard duty payable and duty payable on a principal place of residence (PPR), along with the impact of removing the PPR concession and the changes to the transfer duty rate structure.

Table 4.2 Transfer Duty Payable – Impact of Budget Measures (\$)					
Property Value	Current Standard Duty	Current PPR Duty	Remove Current PPR Concession	Change to Standard Duty	Duty Payable from 1 Aug 2011
50,000	675	500	175	..	675
100,000	1,925	1,000	925	-500	1,425
200,000	5,425	2,000	3,425	-600	4,825
300,000	8,925	3,000	5,925	-600	8,325
400,000	12,425	5,250	7,175	-600	11,825
500,000	15,925	8,750	7,175	-400	15,525
600,000	20,025	12,850	7,175	..	20,025
700,000	24,525	17,350	7,175	..	24,525
800,000	29,025	21,850	7,175	..	29,025
900,000	33,525	26,350	7,175	..	33,525
1,000,000	38,175	31,000	7,175	..	38,175

Table 4.3 provides the current and revised transfer duty rate schedules. The amount of duty payable at standard rates will decrease from 1 August 2011 for properties valued between \$75,000 and \$540,000. There will be no change to the standard duty payable for properties outside of this range.

Table 4.3 Revisions to Transfer Duty Rate Schedule			
Current Schedule		Schedule from 1 August 2011	
Property Value	Rate	Property Value	Rate
Up to \$5,000	nil	Up to \$5,000	nil
\$5,001 to \$75,000	1.5%	\$5,001 to \$105,000	1.5%
\$75,001 to \$540,000	\$1,050 + 3.5%	\$105,001 to \$480,000	\$1,500 + 3.5%
\$540,001 to \$980,000	\$17,325 + 4.5%	\$480,001 to \$980,000	\$14,625 + 4.5%
Over \$980,000	\$37,125 + 5.25%	Over \$980,000	\$37,125 + 5.25%

Table 4.4 provides an interstate comparison of the standard transfer duty payable on a principal place of residence at various values, showing the duty payable in Queensland will still be lower than in any other mainland state.

Table 4.4 Transfer Duty Payable – Principal Place of Residence (Non-first homebuyers) (\$)					
Home Value	QLD from 1 Aug 2011	NSW	Vic	WA	SA
50,000	675	765	950	950	1,080
100,000	1,425	1,990	2,150	1,900	2,830
200,000	4,825	5,490	6,370	5,035	6,830
300,000	8,325	8,990	11,370	8,835	11,330
400,000	11,825	13,490	16,370	13,015	16,330
500,000	15,525	17,990	21,970	17,765	21,330
600,000	20,025	22,490	31,070	22,515	26,830
700,000	24,525	26,990	37,070	27,265	32,330
800,000	29,025	31,490	43,070	32,315	37,830
900,000	33,525	35,990	49,070	37,465	43,330
1,000,000	38,175	40,490	55,000	42,615	48,830

Community Ambulance Cover Abolition

The government is committed to assisting Queenslanders deal with the pressures associated with the rising costs of living. This budget sees the abolition of the Community Ambulance Cover levy which will save liable account holders \$113 in 2011-12.

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 25% payroll tax rebate on the eligible wages of apprentices and trainees, in addition to these wages being exempt from payroll tax until 30 June 2010. This measure was extended for a further year in the 2010-11 Budget and provided a benefit to more than 2,000 businesses in 2010-11.

This Budget provides for the continuation of this measure until 30 June 2012 to assist businesses that employ apprentices and trainees as they continue their recovery. This measure will save businesses approximately \$15 million in 2011-12.

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, initially 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 2011-12, saving land tax payers approximately \$15 million.

Deferral of Industry Waste Disposal levy

To allow local governments to recover from natural disaster impacts, the Industry Waste Disposal Levy will apply from 1 December 2011 (rather than 1 July 2011 announced in the 2010-11 Budget) and will deliver an estimated \$338 million over four years and funding of \$53.9 million in 2011-12. Funds from the levy will be used to improve Queensland's waste and resource management practices with targeted programs to help business, industry and local government to reduce the amount of waste generated, particularly in regional areas; and otherwise retained by the Department of Environment and Resource Management for environmental initiatives. The levy proceeds will not be used to improve the budget operating balance.

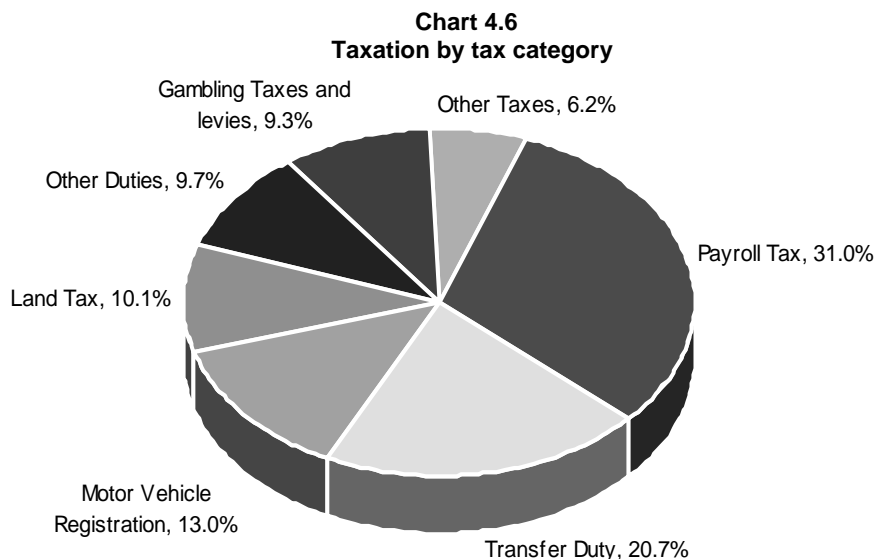
TAXATION REVENUE

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

Total revenue from taxation is expected to increase by 6.6% in 2011-12 on 2010-11 estimated actuals. This primarily reflects improvements in employment and wage growth leading to increased collections for payroll tax.

Table 4.5 Taxation revenue ¹			
	2009-10 Actual \$ million	2010-11 Est. Act. \$ million	2011-12 Budget \$ million
Payroll tax	2,687	3,005	3,263
Duties			
Transfer	1,978	1,885	2,180
Vehicle registration	398	440	462
Insurance ²	443	484	528
Other duties ³	26	28	28
Total duties	2,845	2,837	3,198
Gambling taxes and levies			
Gaming machine tax	517	551	568
Health Services Levy	33	39	41
Lotteries taxes	238	215	221
Wagering taxes	39	41	42
Casino taxes and levies ⁴	82	86	88
Keno tax	19	20	20
Total gambling taxes and levies	927	951	981
Other taxes			
Land tax	1,033	1,042	1,064
Motor vehicle registration	1,252	1,320	1,373
Fire levy	298	317	335
Community Ambulance Cover ⁵	155	154	25
Guarantee fees	112	191	234
Other taxes ⁶	65	59	54
Total taxation revenue	9,375	9,876	10,527
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. A small amount of accrued liability for Community Ambulance Cover will be received in 2011-12.			
6. Includes Statutory Insurance Scheme Levy and Nominal Defendant Levy.			

Chart 4.6 indicates the composition of estimated state taxation revenue for 2011-12.



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 over 50% of the State's total taxation revenue in 2011-12.

Payroll tax (31% of total tax revenue in 2011-12) has a stable base with growth driven by the underlying strength of the State economy. In contrast, revenue growth from transfer duty (representing 20.7% 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 9.7% of total tax revenue.

Gambling taxes and levies represent 9.3% of tax revenues in 2011-12. Motor vehicle registration, which is classified as a tax, represents 13% of total tax revenue.

Land tax represents 10.1% of total revenue in 2011-12. 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 the highest threshold of mainland states. Queensland employers with total yearly Australian taxable wages between \$1 million and \$5 million also obtain a partial concession, with the concession withdrawn at a rate of \$1 in every \$4 of taxable wages.

Payroll tax collections are estimated to be \$3.263 billion in 2011-12, reflecting the expected improvement in employment and wages growth in 2010-11. This represents an increase of 8.6% compared to the 2010-11 estimated actual, reflecting expected strong employment and wages growth.

Duties

Duties are levied on a range of financial and property transactions. Overall, revenue from duties is forecast to increase by 12.7% in 2011-12. 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 home.

Revenue from transfer duty is expected to increase by 15.6% in 2011-12. This is partly attributable to the removal of the principal place of residence concession, which is expected to increase duty revenue in 2011-12 by \$161 million to provide funding toward the abolition of the Community Ambulance Cover levy (\$139 million) and stimulus to the new dwelling sector (\$140 million Queensland Building Boost grant).

Underlying 2011-12 estimates are in line with 2010-11 estimated actuals reflecting the expected continuation of weak conditions in the housing sector for at least the first half of 2011-12. This is the period of time at which the Queensland Building Boost grant is targeted.

- 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 2011-12, reflecting increased motor vehicle sales as the economy grows.

- 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 9% in 2011-12, reflecting expected increases in levels of insurance coverage and premium growth.

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 3.2% in 2011-12.

In December 2010 the Government announced that it had agreed to provide Tabcorp with additional electronic gaming machine licences to facilitate its expansion and investment plans in Queensland and that the additional machines will be drawn from hotel industry allocations.

To ensure overall revenue neutrality, the fixed hotel gaming tax rate will be reduced from 35.91 to 35% and the threshold at which the Health Services Levy commences will be increased from \$100,000 to \$140,000 metered wins per month. The top marginal rate applying to clubs will also be reduced to 35% to maintain consistency with current tax arrangements.

If the investment project proceeds as planned, the revised arrangements will take effect from 1 July 2012.

Land tax

Land tax is levied on the taxable value of the landowner's aggregated holdings of freehold land owned in Queensland as at midnight on 30 June each year. The principal place of residence is deducted from this value. 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 2011-12.

Resident individuals are generally liable for land tax if the total taxable value of the freehold land owned by that person as at 30 June is equal to or greater than \$600,000. Companies, trustees and absentees are generally liable for land tax if the total taxable value of the freehold land owned as at 30 June is equal to or greater than \$350,000. Land tax is estimated to grow by 2.1% to \$1.064 billion in 2011-12.

From the 2011 valuation, for property except in rural areas, Queensland will adopt the 'site value' methodology similar to that used in other states. Site value is the market value of the land in its present state, making it easier to understand. It includes the value of any site improvements made to the land to prepare the land for development.

The Government has recognised that some land has been heavily filled, retained or levelled in preparation for development, and this land on the introduction of site value may see a significant increase in value. To account for this, the *Land Valuation Act 2010* included two provisions; an offset allowance, and a deduction for site improvements. For more information on site value, or these provisions please refer to www.derm.qld.gov.au/property/valuations/sitevalue.

Motor vehicle registration fees

Motor vehicle registration fees are expected to grow by 4% in 2011-12, largely reflecting 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 levy 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.

The Community Ambulance Cover levy will be abolished from 1 July 2011. However, accrued liabilities up until this point will still be payable, such that collections of \$25 million are anticipated in 2011-12 for the levy on accounts issued in relation to the period up to 1 July 2011.

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.

GRANTS REVENUE

Grants revenue is comprised of Australian Government grants, grants from the community and industry, and other miscellaneous grants. The small increase of \$181 million (or 0.9%) in 2011-12 reflects the 2010-11 grants being higher due to a \$2.05 billion advance NDRRA payment. This payment resulted in 2010-11 grants revenue being \$1.212 billion higher than the 2010-11 Budget estimates, although the increase is partially offset by a decline in GST of \$492 million.

Table 4.6
Grants revenue¹

	2009-10 Actual \$ million	2010-11 Est. Act. \$ million	2011-12 Budget \$ million
Current grants			
Australian Government grants	15,373	18,044	18,283
Other grants and contributions	492	422	423
Total current grants	15,866	18,466	18,706
Capital grants			
Australian Government grants	4,276	1,523	1,476
Other grants and contributions	63	92	79
Total capital grants	4,339	1,615	1,556
Total grants revenue	20,205	20,081	20,262
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 2011-12 are expected to total \$19.76 billion, an increase of \$192 million (or 1%) compared to payments in 2010-11. This amount is significantly higher than estimated at the 2010-11 Budget as the Australian Government has provided an advance payment of \$2.05 billion to Queensland in 2010-11 to allow natural disaster reconstruction work to begin.

Given the payment of revenue does not align with the timing of expenses on reconstruction works, it is having a significant impact on Queensland's net operating position across the forward estimates. Table 1.2 in Chapter 1 illustrates the impact of Australian Government funding on the State's net operating position.

Table 4.7 Australian Government payments¹			
	2009-10 Actual \$ million	2010-11 Est. Act. \$ million	2011-12 Budget \$ million
GST revenue grants and associated payments	8,090	8,414	9,139
Total payments for specific purposes ²	11,560	11,153	10,620
Total Australian Government payments	19,650	19,567	19,759
Notes: 1. Numbers may not add due to rounding. 2. Differences between payments for specific purposes in this chapter and Australian Government Budget estimates primarily relate to the Australian Government's accounting treatment of Natural Disaster Relief and Recovery Arrangements payments.			

General purpose payments

GST revenue grants and associated payments

GST revenue grants and associated payments to Queensland in 2011-12 are expected to be \$9.139 billion, which represents an increase of \$725 million on the 2010-11 estimated actual.

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

Queensland's share of GST funding (relativity) increased in the 2011 Update from the 2010 Review of the methodology used to distribute the GST. This increase was due to changes in the relative strength of the Queensland economy. The Australian Government's Budget indicates Queensland's relativity, and therefore share of GST funding, will increase over the forward estimates period.

Payments for specific purposes

Australian Government payments for specific purposes to Queensland in 2011-12 are estimated at \$10.62 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

	2009-10 Actual \$ million	2010-11 Est. Act. \$ million	2011-12 Budget \$ million
Other grants and contributions	539	514	503

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

SALES OF GOODS AND SERVICES

Sales of goods and services revenue comprises cost recoveries from providing goods or services. Revenue from this source is expected to increase by 11% in 2011-12 due to significant land releases, increases in TransLink fare revenue and the introduction of the Industry Waste Disposal Levy.

Table 4.9 Sales of goods and services¹			
	2009-10 Actual \$ million	2010-11 Est. Act. \$ million	2011-12 Budget \$ million
Fee for service activities	1,861	1,870	1,869
TransLink ²	290	315	388
Rent revenue	393	378	419
Sale of land inventory	36	98	250
Hospital fees	411	507	542
Transport and traffic fees	250	261	300
Other sales of goods and services	720	683	793
Total sales of goods and services	3,961	4,113	4,559
Note: 1. Numbers may not add due to rounding. 2. 2010-11 revenue is \$23M lower than Budget estimate due to the impact of Queensland floods, leading to ferry services being suspended and a period of free public transport.			

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 \$388 million in 2011-12 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 2011-12 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, other licences and permits and the Industry Waste Disposal levy.

INTEREST INCOME

Interest income accounts for 5.8% of total General Government revenue in 2011-12.

Table 4.10 Interest income			
	2009-10 Actual \$ million	2010-11 Est. Act. \$ million	2011-12 Budget \$ million
Interest income	2,205	2,289	2,477

Interest income primarily comprises interest earned on investments including those held for superannuation, long service leave and insurance purposes. The increase in 2011-12 primarily represents the sale of Queensland Motorways Limited to Queensland Investment Corporation, increasing the State's investments set aside to meet long term liabilities.

DIVIDEND AND INCOME TAX EQUIVALENT INCOME

Dividend and income tax equivalent income account for 2.4% of total General Government sector revenue in 2011-12.

Table 4.11 Dividend and income tax equivalent income¹			
	2009-10 Actual \$ million	2010-11 Est. Act. \$ million	2011-12 Budget \$ million
Dividend	665	1,009	786
Income tax equivalent income	285	326	261
Total dividend and income tax equivalent income	950	1,336	1,047
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 Queensland Rail. Dividends are expected to decrease in 2011-12, due mainly to the increase in 2010-11 dividends as a result of a one off increase in dividend payments from Stanwell following the sale of a surplus mining development lease.

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 9.6% of total General Government revenue in 2011-12, up from 8.4% in 2010-11, due to an expected increase in royalty revenue.

Table 4.12 Other revenue ¹			
	2009-10 Actual \$ million	2010-11 Est. Act. \$ million	2011-12 Budget \$ million
Royalties and land rents	2,148	2,791	3,445
Fines and forfeitures	285	292	300
Revenue not elsewhere classified	600	405	389
Total Other Revenue	3,032	3,488	4,134
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 \$654 million (or 23.4%) in 2011-12 largely due to a strong recovery in volumes following the 2010-11 floods and coal prices remaining relatively high.

Table 4.13 Royalties and land rents ¹			
	2009-10 Actual \$ million	2010-11 Est. Act. \$ million	2011-12 Budget \$ million
Coal	1,756	2,280	2,755
Other royalties ²	112	377	548
Land rents	281	133	142
Total royalties and land rents	2,148	2,791	3,445
Notes: 1. Numbers may not add due to rounding. 2. Includes base and precious metal, petroleum and other minerals royalties.			

Coal royalties make up the bulk of royalty and land rent revenue, accounting for almost 80% of the forecast total in 2011-12. In 2011-12, the coal royalty estimate is \$2.755 billion, a 20.8% increase on 2010-11, largely reflecting the expected return to higher export volumes following disruption due to weather, and higher coal contract prices in 2011-12. The estimated export coal volumes in 2011-12 are still less than forecast prior to the floods as production is not expected to return to normal levels until mid 2011-12.

In the 2008-09 Budget, new royalty arrangements for base and precious metals were announced which came into effect on 1 January 2011. The new regime introduced a variable rate royalty system with rates ranging between 2.5% and 5% depending on the value of each commodity. Base and precious metals royalties are expected to increase in 2011-12 due to a combination of price and volume levels, and the new royalty arrangements being in place for a full year.

There is some uncertainty regarding the impact of the Australian Government's Mineral Resources Rent Tax (MRRT) and Carbon Tax on mining revenue. As discussed in Chapter 2, the MRRT is not expected to materially impact on investment in new projects. As details of the proposed carbon price and assistance for trade-exposed industries are announced, the impact on Queensland's mining industry will be ascertained.

There is a significant degree of uncertainty associated with estimates of commodity prices and AUD-USD exchange rate, both of which have significant impacts on royalty revenue.

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

Fines and forfeitures

The major fines included in this category are traffic and court fines. There is an expected increase of 3% in collections of fines and forfeitures in 2011-12.

Revenue not elsewhere classified

The \$10 million decrease in 2011-12 primarily reflects an expected decline in asset transfers from non-Queensland Government entities.

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 has announced:

- revisions to the transfer duty rates to ensure that transfer duty payable on a home remains lower in Queensland than under the standard rate in any other mainland state
- abolition of the Community Ambulance Cover levy that is payable by most electricity account holders
- continuation of 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

One of the Queensland Government's fiscal objectives is to maintain a competitive tax environment. Table 4.14 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.

Table 4.14
Queensland's tax competitiveness

	QLD	NSW	VIC	WA	SA	TAS ⁴	ACT ⁵	NT ⁴	Avg ⁶
Taxation per capita ¹ (\$)	2,268	2,897	2,712	2,944	2,477	1,770	3,412	1,658	2,769
Taxation effort ² (%)	87.2	107.3	100.9	94.8	111.6	92.2	107.7	84.6	100
Taxation % of GSP ³ (%)	3.68	4.77	4.68	3.30	4.64	3.91	4.34	2.46	4.22

Notes:

1. 2011-12 data. Sources: 2011-12 Budgets for all jurisdictions except NSW, and Tasmania where 2010-11 MYR are used (2011-12 Commonwealth population numbers are used).
2. 2009-10 data. Source: Commonwealth Grants Commission 2011 Update – total tax revenue effort 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. 2009-10 data. Sources: ABS 5220.0 (State Accounts – GSP) and ABS 5506 Taxation Revenue 2009-10.
4. Low taxation per capita primarily reflects the lower revenue raising capacity of those jurisdictions.
5. Figures include municipal rates.
6. Weighted average of states and territories, excluding Queensland.

As Table 4.14 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 2011-12 and is estimated to be \$501 per capita compared with \$315 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 2009-10.

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.

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 4.15 outlines the taxes abolished by Queensland to date.

The cumulative savings for the period 2005-06 to 2011-12, as a result of these abolitions, is estimated to exceed \$3.5 billion.

Table 4.15
Abolition of state taxes under the IGA

Tax	Description	Abolition	Full year cost¹ \$ million
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 ²	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
Notes: 1. Estimated revenue foregone in financial year following full abolition. 2. Credit card duty was abolished prior to its review under the IGA.			

5 EXPENSES

FEATURES

- **Own-purpose expenses in the General Government sector are expected to increase by 10.7% in 2010-11 and 9% in 2011-12. Growth in own-purpose expenditure exceeds real per capita growth of 5% in 2010-11 and 4.75% in 2011-12 primarily due to significant natural disaster relief and reparation works associated with flooding and cyclones that impacted Queensland across the summer of 2010-11.**
- **Across the forward estimates, own-purpose expenses are estimated to increase by 4.87% on average, compared to real per capita growth of 5%.**
- **Total General Government sector expenses are expected to increase by \$3.755 billion (or 8.7%) over the estimated actual for 2010-11, to \$47.065 billion in 2011-12. This includes the delivery of services associated with Australian Government specific purpose payments, as well as Queensland's own purpose expenditure.**
- **The major areas of expenditure are health and education, which together constitute approximately 46.8% of General Government sector expenses.**

This chapter provides an overview of General Government sector expenses for the estimated actual for 2010-11, forecasts for the 2011-12 Budget year and projections for 2012-13 to 2014-15. 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 2010-11 are estimated to be \$43.310 billion, an increase of \$958 million over the 2010-11 Budget forecast of \$42.352 billion. This increase is primarily due to:

- Natural Disaster Relief and Recovery Arrangements (NDRRA) expenditure on flooding and cyclones events of the summer of 2010-11
- expenditure across the Health portfolio for new and existing initiatives
- 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 expenses¹

	2010-11 Budget \$ million	2010-11 Est.Act. \$ million	2011-12 Budget \$ million	2012-13 Projection \$ million	2013-14 Projection \$ million	2014-15 Projection \$ million
Expenses						
Employee expenses	16,221	16,955	17,932	18,434	19,274	20,206
Superannuation interest cost	1,261	1,265	1,201	1,210	1,212	1,207
Other superannuation expenses	2,103	2,128	2,212	2,292	2,349	2,389
Other operating expenses	8,502	8,659	9,597	9,986	9,504	9,431
Depreciation and amortisation	2,822	2,608	2,872	3,213	3,500	3,604
Other interest expenses	1,242	1,240	1,747	2,211	2,534	2,817
Grants expenses	10,201	10,455	11,504	10,451	9,493	9,690
Total Expenses	42,352	43,310	47,065	47,799	47,877	49,346
Note: 1. Numbers may not add due to rounding.						

The General Government operating statement provides for aggregate expenses of \$47.065 billion in 2011-12, representing an increase of \$3.755 billion (or 8.7%) over the 2010-11 estimated actual. Factors influencing the growth in expenses include continuing NDRRA reparation works, 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. Refer to Chapter 3 for further details of the impact of NDRRA on General Government expenses.

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 include a commitment to limit own-purpose expenses growth (that is, excluding Australian Government related expenses) to inflation and population growth.

Over the period 2010-11 to 2014-15, average growth in own-purpose expenses is estimated at 4.87%, compared with expected average growth of 5% 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 \$375 million in 2011-12, increasing to \$500 million from 2014-15 onwards. Table 5.2 details the public sector efficiency savings targets by department from non-service delivery areas of government
- a program of an estimated 3,500 voluntary separations from non-service delivery areas.

Table 5.2
Departmental Efficiency Savings Targets ¹

Department	2011-12 Total Efficiency Savings \$ million	2012-13 Total Efficiency Savings \$ million	2013-14 Total Efficiency Savings \$ million	2014-15 and Ongoing Total Efficiency Savings \$ million
Communities	16.99	17.82	20.42	22.73
Community Safety ²	9.55	9.55	9.55	9.55
Employment, Economic Development and Innovation	26.56	28.40	32.82	36.78
Education and Training	90.86	94.19	107.91	120.16
Environment and Resource Management	21.62	23.46	26.87	29.92
Health	109.45	114.45	131.12	146.00
Justice and Attorney-General	11.60	12.60	14.44	16.07
Local Government and Planning	4.92	5.42	5.92	6.36
Public Service Commission	0.04	0.04	0.04	0.05
Police	24.47	25.80	29.56	32.91
Premier and Cabinet	4.74	5.24	6.00	6.68
Public Works	9.40	9.90	11.35	12.63
Transport and Main Roads	40.38	42.21	48.36	53.85
Treasury	4.43	4.93	5.65	6.29
Total Departmental Savings	375.00	394.00	450.00	500.00
Notes:				
1. Numbers may not add due to rounding.				
2. Community Safety did not have further efficiency dividend applied from 2011-12				

EXPENSES BY OPERATING STATEMENT CATEGORY

This section provides a breakdown of General Government expenses in 2011-12 by category and discusses the significant variances between the 2010-11 estimated actual and 2011-12 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 in 2011-12 is employee and superannuation expenses (45.4%), reflecting the direct service provision nature of Government activities, followed by grants expenses (24.4%) that include community service obligation payments to Public Non-financial Corporations (PNFCs), and grants to non-government schools, local government councils and to first home buyers and recipients of the Queensland Building Boost grant.

Chart 5.1
Expenses by operating statement category, 2011-12

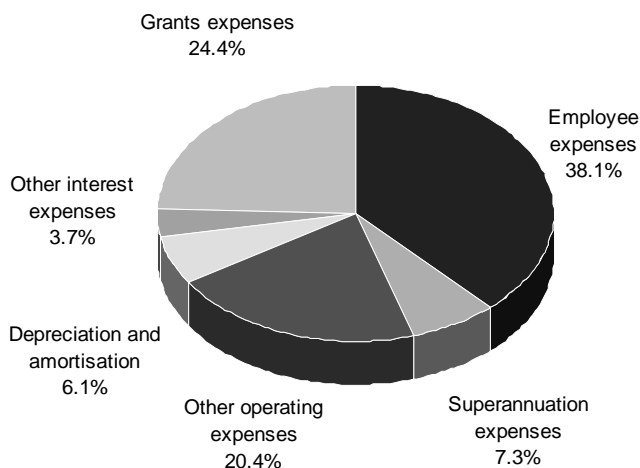
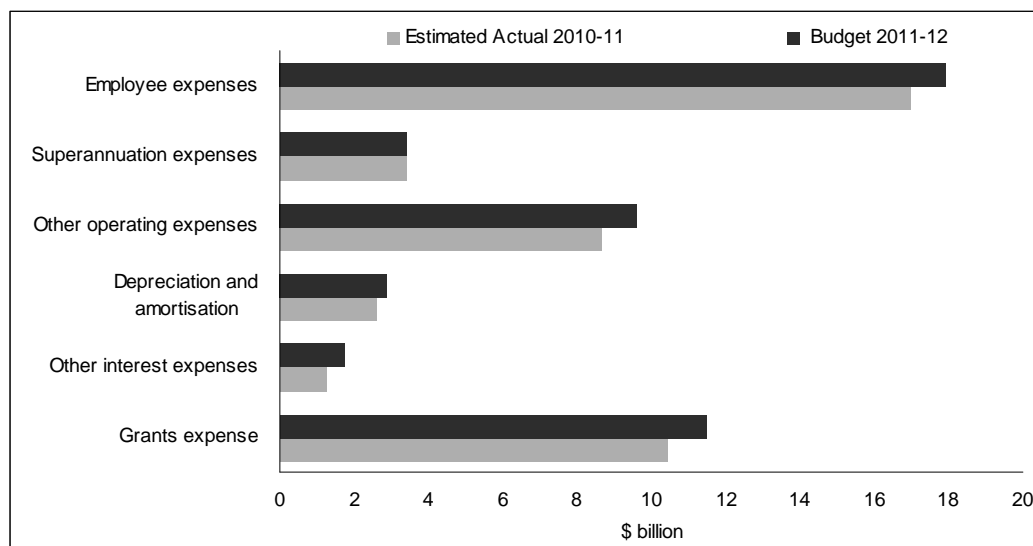


Chart 5.2 compares the 2010-11 estimated actual expenses for each operating statement category with the 2011-12 Budget.

Chart 5.2
Expenses by operating statement category
2010-11 and 2011-12



DETAILS OF EXPENSES

Employee expenses

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

Employee expenses in 2010-11 are forecast to increase by \$734 million or 4.5% since the 2010-11 Budget estimate of \$16.221 billion. This increase largely reflects growth in the key service areas of Health and Education.

In 2011-12, employee expenses increase \$977 million or 5.8% to \$17.932 billion. The growth reflects a combination of wage increases related to enterprise bargaining agreements, other services' growth and enhancements (refer to Budget Paper 4) and the upfront costs associated with the voluntary separation program.

The additional staffing provided in the 2011-12 Budget is predominantly in key service delivery areas, including provision for up to 300 additional teachers and teacher aides to meet enrolment growth and to support students with special needs in Queensland state schools, 150 additional police positions and 50 additional ambulance officers.

Superannuation expenses

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

In determining the State's defined benefit superannuation liabilities, AASB 119 *Employee Benefits* requires the discounting of future benefit obligations using yield rates on government bonds net of investment tax, estimated at 5.3% (5.6% at time of 2010-11 Budget). Offset against this expense is the revenue from plan assets based on long-term expected rates of return.

Superannuation interest costs decline \$64 million in 2011-12 largely as a result of the transfer of Former Defined Benefit superannuation liabilities to QSuper in December 2010. Former Defined Benefit superannuation obligations represent the liabilities of defined benefit members who have elected to leave the defined benefit scheme. These liabilities were offset by Consolidated Fund investments and linked to investment earnings.

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 have increased by \$157 million over the 2010-11 Budget. This increase primarily reflects spending on restoration works following the recent natural disasters.

Other operating expenses in 2011-12 are expected to be \$9.597 billion, which represents an increase of \$938 million (or 10.8%) on 2010-11.

The significant increase in other operating expenses in 2011-12 is due largely to the costs of reconstruction efforts related to the floods and Cyclone Yasi and additional expenditure in the key areas of Education and Health.

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.

In 2010-11, depreciation and amortisation expenses are lower than the 2010-11 Budget due to downward revaluations of non-financial assets.

Other interest expenses

Other interest expenses 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 borrowings primarily used to fund the State's capital program and interest on borrowings transferred from the Public Non-financial Corporation Sector entities Queensland Motorways Limited (QML) and Abbot Point Coal Terminal.

In 2011-12, the General Government sector has total debt servicing costs forecast at \$1.747 billion, representing 3.7% 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 (for further details refer Chapter 8 – Public Non-financial Corporations Sector).

In 2010-11, grant expenses are expected to increase by \$254 million or 2.5% over the budgeted amount of \$10.201 billion primarily as a result of grants to local governments for natural disaster reparation works.

Current grants are estimated to increase by \$82 million in 2011-12 (refer Table 5.3). Increases in grants to local government and non-profit organisations, particularly in the key service areas of disability and community services and social housing, are partially offset by a decline in Australian Government funding for non-government schools including the winding down of the non-state element of the *Building the Education Revolution* program.

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

Capital grants are estimated to increase \$967 million to \$2.931 billion in 2011-12. This is largely represented by NDRRA grants to local governments for the rebuilding of roads, bridges and transport infrastructure related to the floods and Cyclone Yasi reconstruction activities.

Table 5.3 indicates the composition of grant payments by recipient.

Table 5.3 Grant expenses¹		
	2010-11 Est. Act. \$ million	2011-12 Budget \$ million
Current		
Grants to local government	510	626
Grants to non-government schools	2,394	2,284
Grants to non-profit organisations	1,647	1,798
Grants to other non-government recipients	1,996	1,944
Community service obligations to PNFCs	1,847	1,826
Other payments to PNFCs	97	96
Total current transfers	8,491	8,573
Capital		
First Home Owner Grant Scheme	112	117
Queensland Building Bonus grant	..	140
Grants to local government	1,245	2,152
Grants to non-profit organisations	153	257
Grants to other non-government recipients	350	219
Payments to PNFCs	103	46
Total capital transfers	1,964	2,931
Total current and capital transfers	10,455	11,504
Note:		
1. Numbers may not add due to rounding.		

OPERATING EXPENSES BY PURPOSE

Chart 5.3
General Government expenses by purpose, 2011-12

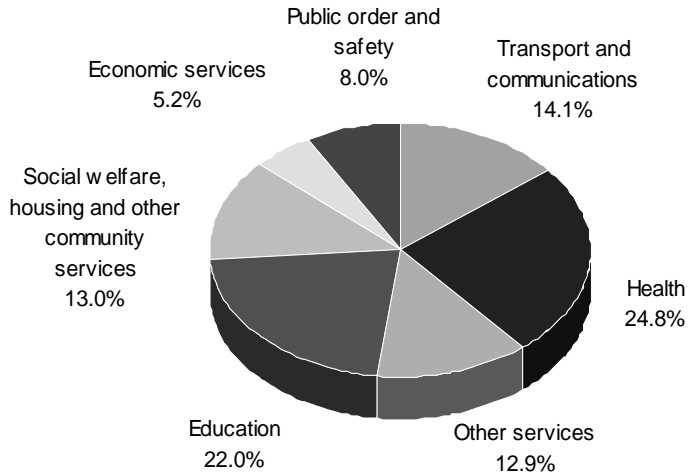
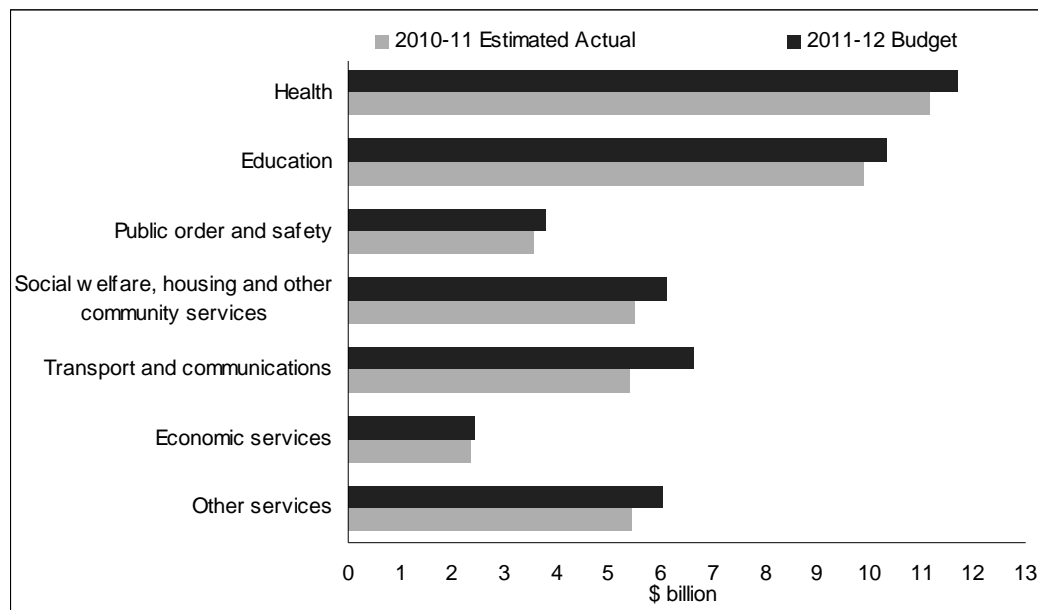


Chart 5.3 indicates the proportion of expenditure by major purpose classification for the 2011-12 Budget. Health accounts for the largest share of expenses (24.8%) followed by Education (22%). In 2010-11, these sectors were expected to account for 48.4% of General Government expenses. However, reparation and restoration works particularly to roads including by local councils will reduce Health and Education's share of General Government expenses in the short term.

Chart 5.4
General Government expenses by purpose
2010-11 and 2011-12



As evidenced in Chart 5.4, expenditure increases in all key service delivery areas from 2010-11 estimated actual to 2011-12 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 2011-12 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 2011-12, funding for health services within the Queensland Government will grow to \$11.692 billion, an increase of 4.8% on the 2010-11 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 and mental health services.

The growth in health expenditure in 2011-12 reflects increased investment under the National Partnership Agreement on Improving Public Hospital Services and new investment through the mental health disaster recovery program and National Partnership Agreement on Improving Mental Health.

In 2011-12, Queensland Health is also expected to deliver over 350 new bed and bed alternatives and more than 30 emergency department treatment spaces through the More Beds for Hospitals program.

At the Council of Australian Governments (COAG) meeting on 13 February 2011, all jurisdictions signed a Heads of Agreement on National Health Reform (the Heads of Agreement). This agreement will form the basis of negotiations leading to a new national health reform agreement by July 2011.

Under the terms of the Heads of Agreement, the Australian Government will provide a proportion of efficient growth funding for hospitals (45% from 2014-15 and 50% from 2017-18). The agreement guarantees that the improvement in Australian Government funding to states and territories over the period 2014-15 to 2019-20 will be no less than \$16.4 billion.

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 support higher education. The 2011-12 Budget for education is \$10.342 billion, representing an increase of \$443 million (or 4.5%), over estimated actual expenditure.

The growth in education expenditure in 2011-12 is largely attributable to wages growth from enterprise bargaining and provision for up to 300 additional teachers and teacher aides to meet enrolment growth and to support students with special needs in Queensland state schools, and additional funding to address maintenance priorities in 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 and the completion of the State Schools of Tomorrow program. As a result, the expense component of the program is significantly lower than in 2010-11 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 6.6% to \$3.784 billion in 2011-12.

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 150 additional police positions, new facilities and better technology to fight crime.

In addition, Government has continued to address growing demand for emergency services with an additional 50 ambulance officers.

The pre-commissioning and operation of the expanded Lotus Glen Correctional Centre and the operation and maintenance of the Southern Queensland Correctional Precinct has also contributed to the increased expenditure in public order and safety.

Social welfare, housing and other community services

Services provided under the category of social welfare, housing and other community services include community, youth justice, child safety, disability and housing services. Expenditure under this function is estimated to increase 11% to \$6.102 billion in 2011-12.

2011-12 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 2011-12, 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 23.1% to \$6.643 billion in 2011-12.

Following the 2010-11 floods and cyclones that impacted Queensland, recovery and restoration of the State's road network and transport systems are the priority for 2011-12. The State Government will continue to progress the implementation of the Queensland Transport and Roads Investment Program (QTRIP), which focuses on investment to improve, maintain and operate the transport and roads network across Queensland. Priorities will continue to include managing traffic congestion in South East Queensland and providing for population growth.

Significant grant expenditure to local government councils for the rebuilding of roads, bridges and transport infrastructure related to the floods and Cyclone Yasi reconstruction activities are also included under this category.

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 ^{1,2}		
	2010-11 Est. Actual \$'000	2011-12 Estimate \$'000
Communities	3,986,818	4,481,663
Community Safety	1,674,627	1,799,172
Education and Training	7,582,422	8,123,211
Electoral Commission of Queensland	15,066	85,362
Employment, Economic Development and Innovation	1,147,287	1,251,319
Environment and Resource Management	961,512	1,053,948
Health	10,556,291	11,046,410
Justice and Attorney-General	541,188	594,926
Legislative Assembly	78,269	79,247
Local Government and Planning	761,239	673,556
Office of the Governor	5,847	5,719
Office of the Ombudsman	7,131	7,294
Police	1,800,850	1,888,501
Premier and Cabinet	264,538	258,297
Public Service Commission	13,481	15,635
Public Works	663,518	695,169
Queensland Audit Office	43,140	45,387
The Public Trustee of Queensland	73,300	78,516
Transport and Main Roads	4,059,075	4,509,089
Treasury	309,665	165,597
Total Expenses	34,545,264	36,858,018
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 ^{1,2}

	2010-11 Est. Actual \$'000	2011-12 Estimate \$'000
Communities	346,510	323,757
Education and Training	2,657,450	2,438,103
Employment, Economic Development and Innovation	497,952	473,774
Environment and Resource Management	48,027	45,024
Health	25,295	25,316
Justice and Attorney-General	303,006	326,799
Local Government and Planning	313,437	416,547
Police	441	701
Premier and Cabinet ³	4,025,038	450,323
Public Works	84,682	53,054
The Public Trustee of Queensland	786	825
Transport and Main Roads	1,075,976	1,071,422
Treasury	4,720,615	6,279,327
Total Expenses	14,099,215	11,904,972

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.
3. 2010-11 includes advance NDRRA payments from the Australian Government of \$2.05 billion and the State's contribution to disaster costs of \$1.8 billion from the long term lease of Abbot Point Coal Terminal. These payments are passed on to the Queensland Reconstruction Authority.

Table 5.6
Reconciliation of Departmental to UPF Expenses ¹

	2010-11 Est. Actual \$ million	2011-12 Estimate \$ million
Departmental expenditure per Service Delivery Statements - Controlled (Table 5.4)	34,545	36,858
- Administered (Table 5.5)	14,099	11,905
Non-UPF departmental expenses and whole-of-Government schemes ²	(2,587)	(3,329)
Other General Government entities (e.g. CBUs, SSPs, Statutory Bodies)	6,557	8,495
	52,615	53,928
Superannuation Interest cost	1,265	1,201
Eliminations and Other whole-of-Government adjustments		
Elimination of payments to CBUs and SSPs	(3,662)	(3,597)
Payroll Tax elimination	(545)	(580)
Other eliminations and adjustments ³	(6,362)	(3,886)
Total General Government UPF Expenses	43,310	47,065
<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> <p>3. 2010-11 includes elimination of advance NDRRA payments from the Australian Government of \$2.05 billion and the State's contribution to disaster costs of \$1.8 billion from the long term lease of Abbot Point Coal Terminal. These payments are passed through the Department of Premier and Cabinet.</p>		

6 BALANCE SHEET AND CASH FLOWS

FEATURES

- Queensland's net worth is expected to grow from \$177 billion in 2011-12 to \$186 billion in 2014-15.
- Queensland has negative net debt (surplus of financial assets over financial liabilities) of \$329 per capita compared with a weighted average positive net debt of \$2,167 per capita in the other states.
- Total borrowings and advances are expected to increase by \$9.59 billion in 2011-12, primarily as a result of increased investment in and replacement of public infrastructure assets.
- The General Government sector is forecast to record a cash deficit of \$7.915 billion in 2011-12, after allowing for \$6.954 billion in net asset purchases.
- The State has transferred Queensland Motorways Limited into its QIC investments. This increases assets set aside to cover superannuation and other long term liabilities by \$3.088 billion.

The 2011-12 balance sheet shows the projected assets, liabilities and net worth of the General Government sector as at 30 June 2012. 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.

Table 6.1 General Government sector: summary of budgeted balance sheet¹						
	2010-11 Budget ² \$ million	2010-11 Est. Act. \$ million	2011-12 Budget \$ million	2012-13 Projection \$ million	2013-14 Projection \$ million	2014-15 Projection \$ million
Financial assets	58,518	57,209	58,420	60,005	62,375	64,797
Non-financial assets	189,493	181,778	189,616	196,950	202,823	208,558
Total Assets³	248,012	238,987	248,035	256,955	265,199	273,355
Borrowings, advances and deposits	23,712	24,335	33,925	39,995	44,842	48,827
Superannuation liability	25,462	25,479	25,764	25,896	25,878	25,727
Other provisions and liabilities	10,274	11,206	11,324	11,818	12,330	12,874
Total Liabilities	59,447	61,021	71,013	77,708	83,050	87,428
Net Worth	188,564	177,966	177,023	179,246	182,148	185,927
Net Financial Worth	(929)	(3,812)	(12,593)	(17,704)	(20,675)	(22,631)
Net Financial Liabilities	25,576	22,720	31,578	36,975	40,676	43,998
Net Debt	(6,743)	(9,989)	(1,528)	3,517	7,064	10,167
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 (\$18.985 billion at 30 June 2012) is included in the General Government sector's financial assets.

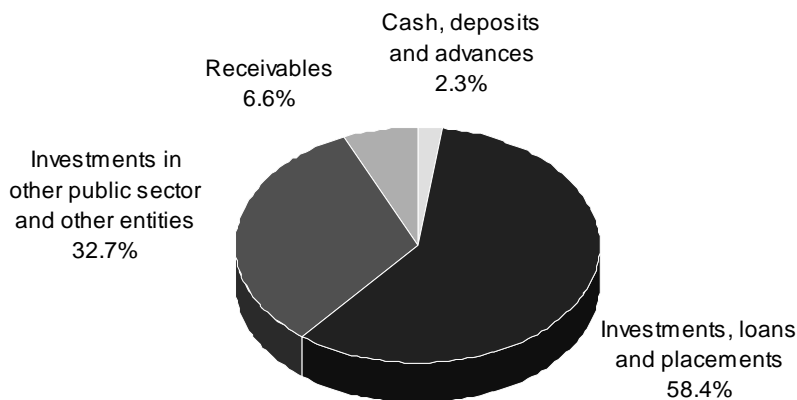
Financial assets of \$57.209 billion are forecast for 2010-11, \$1.309 billion lower than originally budgeted. This change is primarily the result of:

- the downward revaluation of a number of Public Non-financial Corporations at 30 June 2010 which carries into 2010-11
- the sale of QR National, the long term lease of Abbot Point Coal Terminal and Port of Brisbane and the transfer of Queensland Motorways Limited
- an increase in the net worth of the Public Financial Corporations sector primarily as a result of investments held by Queensland Treasury Corporation for the purpose of meeting the Government's long term liabilities performing better than the expected long run average
- an increase in investments, loans and placements due to QIC's purchase of Queensland Motorways Limited.

In the year to 30 June 2012, financial assets are projected to increase by \$1.211 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 2012. 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 2012



Non-financial assets

General Government non-financial assets are projected to total \$189.616 billion at 30 June 2012. These assets consist primarily of land and other fixed assets of \$183.708 billion, the majority of which are roads, schools, hospitals and other infrastructure used to provide services to Queenslanders. Other non-financial assets of \$5.907 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 \$176.208 billion are estimated for 2010-11, \$6.527 billion lower than originally budgeted. The decrease is primarily due to downward revaluations of road infrastructure and other assets at 30 June 2010.

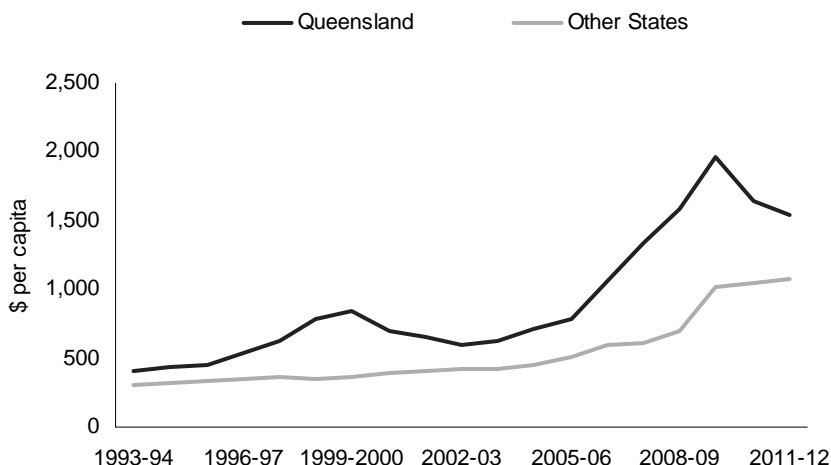
Changes in non-financial assets occur for a number of reasons including:

- 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 2012 are expected to grow by \$7.838 billion over the 2010-11 estimated actual. Of this increase, \$7.18 billion represents the acquisition of non-financial assets.

The Government has traditionally funded new infrastructure at levels well beyond that of the other states. General Government purchases of non-financial assets per capita have far exceeded the average of the other states and territories for well over a decade (refer Chart 6.2).

Chart 6.2
General Government purchases of non-financial assets, 1993-94 to 2011-12



Liabilities

General Government liabilities of \$61.021 billion in 2010-11 are \$1.574 billion higher than budgeted. This is primarily the result of an increase in forecast borrowings due to the transfer of debt from the Public Non-financial Corporations Sector relating to the Abbot Point Coal Terminal and Queensland Motorways Limited transactions and higher than anticipated liabilities relating to employee entitlements in health and education.

While borrowings in the General Government sector in 2010-11 are higher than budgeted, borrowings in the Non-financial Public Sector have fallen by \$10.016 billion primarily as a result of the Government's assets sales program.

Total liabilities in the General Government in 2011-12 are budgeted to increase over 2010-11 by \$9.992 billion.

Liabilities relating to employee entitlements (principally superannuation and long service leave) are projected to total \$30.672 billion at 30 June 2012, a modest 2% increase on the 2010-11 estimated actual. The State's superannuation liability can be seen to stabilise and begin to decline over the forward estimates as a result of the defined benefit fund being closed to new entrants from 2009.

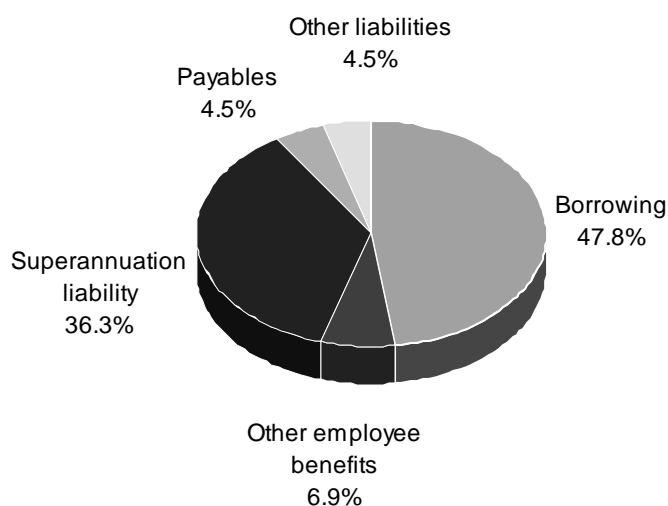
General Government borrowings of \$33.185 billion are forecast for 2011-12, an increase of \$9.365 billion over 2010-11. This increase primarily reflects capital purchases of \$7.18 billion, equity injections to Public Non-financial Corporations of \$456 million and an operating cash deficit of \$961 million.

Over the Budget and forward estimates period, total additional General Government net borrowings and advances of \$24.03 billion are planned to fund the \$25.079 billion worth of capital projects in the General Government sector and \$2.418 billion worth of equity injections to the Public Non-financial Corporations sector to support expansion of the State's water, ports, energy and passenger 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 6.3.

Chart 6.3
Projected General Government liabilities by category at 30 June 2012



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 2011-12 is forecast at negative \$12.593 billion. The decrease in net financial worth since 2010-11 (\$8.781 billion) is primarily the result of the increase in borrowings over the same period.

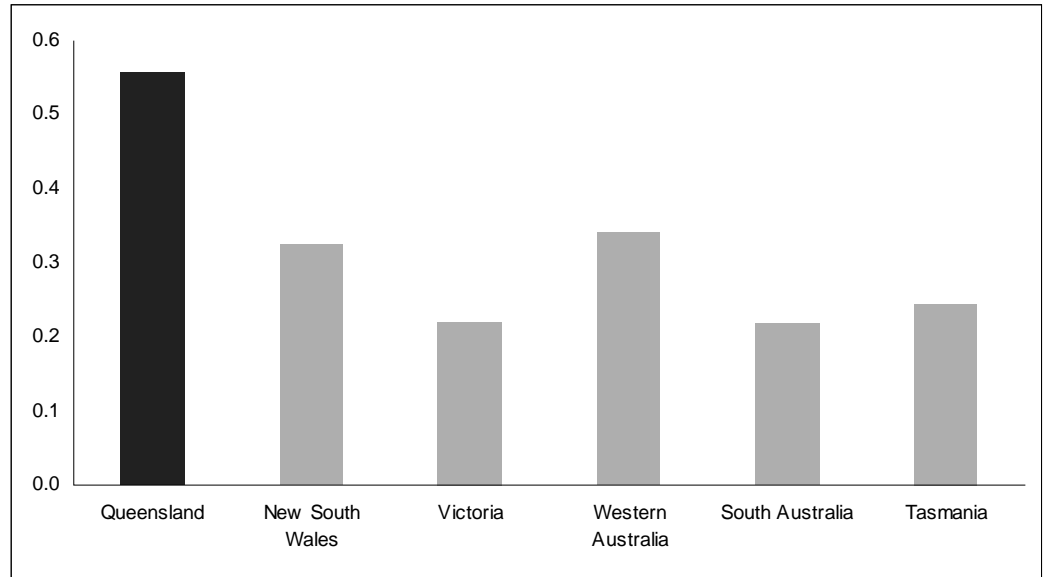
Net financial worth is expected to decrease over the forward estimates period as the sector increases borrowings primarily to fund infrastructure assets (which are not included in the calculation of net financial worth).

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 2011-12 are forecast at \$31.578 billion, \$8.858 billion higher than 2010-11 also reflecting the increase in borrowings over this period.

Queensland’s level of liquidity remains high and continues to be stronger than all other states as illustrated in Chart 6.4.

Chart 6.4
Projected ratio of financial assets to liabilities
(excluding investments in public enterprises) at 30 June 2012
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.

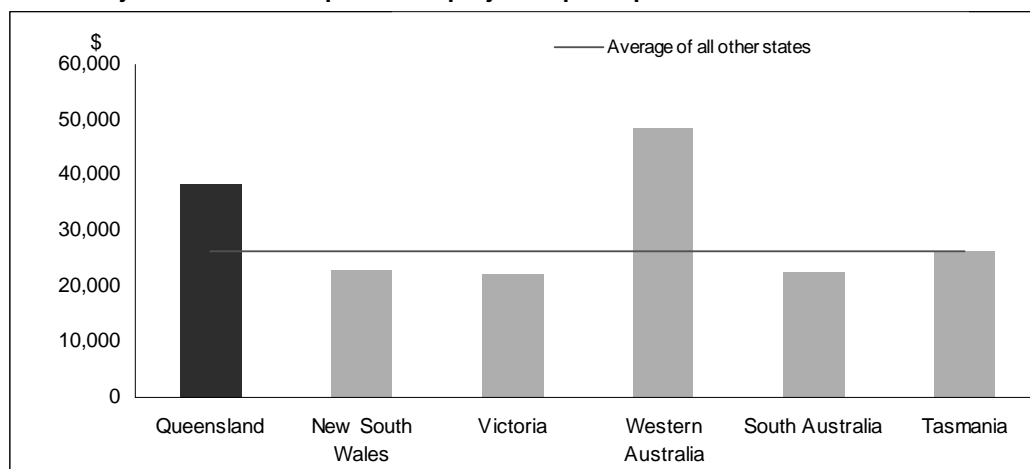
The net worth of the General Government sector in 2010-11 is forecast to be \$177.966 billion. This is less than forecast in the 2010-11 Budget by \$10.598 billion primarily due to the downward revaluations of road and rail infrastructure and other assets since budget, offset in part by an increase in investment in assets set aside to meet future employee liabilities.

Net worth is forecast to further decline by \$943 million to \$177.023 billion in 2011-12 due primarily to the operating deficit exceeding revaluations.

Chart 6.5 shows the State's strong net worth compared with the other states.

Queensland's per capita net worth is 46% greater than the average per capita net worth of the other states.

Chart 6.5
Interjurisdictional comparison of projected per capita net worth at 30 June 2012¹



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 and WA and SA. Mid year review for NSW, and Tas. Population data from Australian Government Budget Paper No.3, 2011-12.

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.

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 financial investments that are held for long term liabilities, including superannuation, contribute to a negative net debt position of \$329 per capita. This is currently the strongest of all states, with weighted average net debt being estimated at \$2,167 per capita in the other states at 30 June 2012.

Table 6.2
Projected net debt per capita at 30 June 2012

	QLD	NSW	VIC	WA	SA	TAS
Net debt per capita (\$)	(329)	1,849	2,963	1,745	2,295	(128)

Sources: State Budget Papers for QLD, Vic, WA and SA. Mid year review for NSW, and Tas. Population data from Australian Government Budget Paper No.3, 2011-12.

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 revenues or expenses in the operating statement may differ from the actual cash disbursement or receipt (for example, tax equivalents). A reconciliation between the cash flows from operations and the operating statement is provided 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.

The cash deficit of \$6.172 billion in 2010-11 is broadly in line with that forecast at the time of the 2010-11 Budget.

A cash deficit of \$7.915 billion is forecast in 2011-12 for the General Government sector, with the cash deficit to decline over the outyears. The major factor contributing to a lower forecast cash deficit is improved net inflows from operating activities and declining expenditure in relation to the capital program. Total General Government capital purchases of \$7.18 billion are budgeted for 2011-12 and over the period 2011-12 to 2014-15, capital expenditure is expected to total \$25.079 billion in the General Government sector.

Table 6.3 provides summary cash flow information for the General Government sector for 2010-11, 2011-12 and the outyears. Detailed cash flow tables are included in Chapter 9 – Uniform Presentation Framework.

Table 6.3
General Government sector: summary of budgeted cash flows¹

	2010-11 Budget ² \$ million	2010-11 Est. Act. \$ million	2011-12 Budget \$ million	2012-13 Projection \$ million	20013-14 Projection \$ million	2014-15 Projection \$ million
Cash receipts from operating activities	41,582	43,045	45,668	49,090	49,075	51,035
Cash payments for operating activities	(39,847)	(41,931)	(46,629)	(47,116)	(46,690)	(48,123)
Net cash inflows from operating activities	1,735	1,114	(961)	1,974	2,384	2,911
Net cash flows from investing activities	(9,493)	(2,777)	(8,483)	(8,009)	(7,173)	(6,855)
Receipts from financing activities	7,615	1,405	9,152	6,071	4,841	3,966
Net increase/(decrease) in cash held	(143)	(259)	(293)	37	52	23
Derivation of cash surplus (deficit)						
Net cash inflows from operating activities	1,735	1,114	(961)	1,974	2,384	2,911
Net cash flows from investments in non-financial assets	(8,131)	(7,286)	(6,954)	(6,578)	(5,651)	(5,089)
Equals cash surplus/(deficit)	(6,396)	(6,172)	(7,915)	(4,604)	(3,267)	(2,178)
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.

Table 6.4 General Government sector: cash flows from operating activities¹			
	2010-11 Budget ² \$ million	2010-11 Est. Act. \$ million	2011-12 Budget \$ million
Cash receipts from operating activities			
Taxes received	10,190	9,906	10,526
Grants and subsidies received	18,883	20,096	20,275
Sales of goods and services	4,485	4,539	5,161
Interest receipts	2,131	2,288	2,477
Dividend and income tax equivalents	1,062	1,023	1,201
Other receipts	4,832	5,192	6,028
Total operating receipts	41,582	43,045	45,668
Cash payments for operating activities			
Payments for employees	(18,435)	(18,841)	(20,704)
Payments for goods and services	(9,298)	(10,622)	(11,673)
Grants and subsidies	(10,135)	(10,461)	(11,482)
Interest paid	(1,240)	(1,249)	(1,747)
Other payments	(738)	(758)	(1,023)
Total operating payments	(39,847)	(41,931)	(46,629)
Net cash inflows from operating activities	1,735	1,114	(961)
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 \$10.526 billion in 2011-12, an increase of 6.3% or \$620 million on the 2010-11 estimated actual of \$9,906 million. This primarily reflects anticipated increases in payroll tax due to strong employment and wages growth and increases in transfer duty due to the removal of the principal place of residence concession, partially offset by the abolition of the Community Ambulance Cover levy.

Grants and subsidies received are forecast at \$20.275 billion in 2011-12, an increase of \$179 million on the 2010-11 estimated actual of \$20.096 billion primarily as a result of increased grant funding from the Commonwealth for goods and services tax (GST) partially offset by a reduction in grants in relation to Natural Disaster Relief and Recovery Assistance (NDRRA).

Sales of goods and services are forecast at \$5.161 billion for 2011-12, an increase of 13.7% on the 2010-11 estimated actual of \$4.539 billion, and includes fines and regulatory fees, user charges, sale of land inventory, hospital fees and rental income.

Interest receipts are expected to increase in 2011-12 by \$189 million to \$2.477 billion. This reflects earnings of 7.5% on the debt instrument issued by QTC and the return to long term expected earnings on the investments of certain statutory bodies.

Dividends and income tax equivalents received from Public Non-financial and Public Financial Corporations are expected to increase in 2011-12 by \$178 million to \$1.201 billion.

Other receipts are forecast at \$6.028 billion in 2011-12 an increase of 16.1% primarily as a result of increased coal and mining royalties.

Further details are available in Chapter 4 – Revenue.

Operating cash outflows represent payment for goods and services, wages and salaries, finance costs and grants and subsidies paid to households and businesses including Government owned businesses in the Public Non-financial Corporations Sector. In 2011-12 the largest cash disbursement is payments for employees at \$20.704 billion or 44.4% of total cash payments from operating activities.

In 2011-12, payments for goods and services are expected to increase 9.89% to \$11.673 billion primarily as a result of expanded service delivery and disaster recovery.

Cash payments for grants and subsidies are expected to increase by \$1.021 billion in 2011-12 to \$11.482 billion. This figure includes recurrent grants paid by the Australian Government through the State to non-state schools, grants paid to industry, grants to non-profit institutions and grants for disaster relief. This item also includes community service obligation payments to the energy sector and Queensland Rail, and capital grants which are largely paid to local government authorities to fund capital works including for NDRRA. This increase is largely related to increased spending relating to the recent floods and Cyclone Yasi as well as in the key areas of Education and Health.

Interest paid is expected to increase by \$498 million reflecting higher borrowings primarily for the capital program and as a result of borrowings transferred in from the Public Non-financial Corporations Sector in relation to the Abbot Point Coal Terminal and Queensland Motorways Limited asset sale transactions.

Other payments mainly comprise sundry expenditure such as insurance claims and 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.

Table 6.5 General Government sector: cash flows from investing activities			
	2010-11 Budget ¹ \$ million	2010-11 Est. Act. \$ million	2011-12 Budget \$ million
Cash flows from investments in non-financial assets	(8,131)	(7,286)	(6,954)
Net cash flows from investments in financial assets for policy purposes	(1)	9,248	(484)
Net cash flows from investments in financial assets for liquidity purposes	(1,361)	(4,739)	(1,045)
Net cash flows from investing activities	(9,493)	(2,777)	(8,483)
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 have been revised down to \$7.286 billion in 2010-11 from original budget estimates of \$8.131 billion mainly due to the change in timing of capital projects which has been substantially impacted by the recent natural disasters and the wetter than usual summer. 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 (including capital grants) and incorporate both departmental agencies and the Public Non-financial Corporations sector. In addition, Budget Paper 3 only includes capital expenditure 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 inflow from investments for policy purposes in 2010-11 is higher than the forecast outflow at the 2010-11 Budget primarily due to the asset sales program.

Cash outflows from investments for policy purposes in 2011-12 of \$484 million reflect equity transactions by the General Government sector with Public Non-financial and Public Financial Corporations.

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 2010-11 estimated net cash outflow from investments in financial assets for liquidity purposes of \$4.739 billion is \$3.378 billion higher than the forecast outflow in the 2010-11 Budget primarily due to increased investments resulting from the transfer of the ownership of Queensland Motorways Limited to QIC Limited as trustee for the Defined Benefit Superannuation Fund.

Net cash outflows from investments in financial assets for liquidity purposes are estimated to be \$1.045 billion in 2011-12.

Cash flows from financing activities

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

Table 6.6 General Government sector: cash flows from financing activities¹			
	2010-11 Budget ² \$ million	2010-11 Est. Act. \$ million	2011-12 Budget \$ million
Advances received (net)	(14)	43	221
Borrowing (net)	7,629	1,362	8,931
Net cash flows from financing activities	7,615	1,405	9,152
Notes: 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 2010-11 net cash inflows from financing activities are estimated at \$1.405 billion. This mainly represents borrowings for the State's capital program and is lower than budgeted as the Government's asset sales program has reduced the Government's net borrowing requirement in 2010-11.

Net cash inflows from financing activities for 2011-12 are estimated at \$9.152 billion mainly reflecting borrowings to fund the General Government's capital program of \$7.18 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.

Table 6.7 General Government sector: Reconciliation of cash flows from operating activities to accrual operating activities¹		
	2010-11 Est. Act. \$ million	2011-12 Budget \$ million
Revenue from transactions	41,183	43,007
Plus/(less) movement in tax equivalent and dividend receivables	(282)	152
Plus GST receipts	2,506	2,889
Plus/(less) movement in other receivables	(362)	(380)
Equals cash receipts from operating activities	43,045	45,668
Expenses from transactions	43,310	47,065
(Less) non-cash items		
Depreciation and amortisation expense	(2,608)	(2,872)
Accrued superannuation expense	(2,172)	(2,237)
Accrued employee entitlements	(549)	(571)
Other accrued costs	(256)	(107)
Plus superannuation benefits paid – defined benefit	607	1,946
Plus/(less) movement in employee entitlement provisions	145	245
Plus/(less) GST paid	2,544	2,929
Plus/(less) movement in other provisions and payables	910	231
Equals cash payments for operating activities	41,931	46,629
Note: 1. Numbers may not add due to rounding.		

The main difference between the accrual operating statement and the cash flow relates to the timing of cash payments and receipts and their recognition in accrual terms and the inclusion of non-cash expenses and revenues. The largest 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 INTER-GOVERNMENTAL FINANCIAL RELATIONS

FEATURES

- Queensland expects to receive \$9.139 billion of GST revenue in 2011-12, \$692 million less than its population share. Payments for specific purposes are forecast to be \$9.51 billion or 20.9% of total payments to states for specific purposes. Overall, Queensland is estimated to receive \$656 million less than its population share of Australian Government funding in 2011-12.
- In 2011-12, total GST revenue to all states is expected to increase by \$2.9 billion, although GST estimates for the period 2010-11 to 2013-14 have been revised down by \$10.78 billion since the Australian Government's 2010-11 Budget. Since the 2008-09 Australian Government Budget, GST estimates for the period 2008-09 to 2011-12 have been revised down by over \$18 billion, primarily due to the effects of the global financial crisis.
- The Commonwealth Grants Commission has recommended an underlying increase in Queensland's share of GST revenue of \$141.7 million in 2011-12. This contrasts with the reductions in Queensland's GST funding of \$381.8 million in 2009-10 and \$19.8 million in 2010-11. Five states and territories, including New South Wales, are expected to receive more GST per capita than Queensland in 2011-12.
- The majority of mining royalties raised by Queensland are offset by the GST redistribution in the 2011 Update. All states except Western Australia gain more in net per capita terms from mining royalties than Queensland through the redistribution of GST. With mining revenue comprising 7% of all state revenue, yet representing 76% of the GST that is redistributed as a result of revenue assessments, the Commonwealth Grants Commission appears to be placing undue emphasis on mining royalties.
- In 2011-12, Australian Government payments to states and territories for specific purposes are expected to be \$45.515 billion, a 3.9% decrease compared with 2010-11, largely due to the decline in Economic Stimulus funding. Payments to Queensland for specific purposes are expected to be \$9.51 billion, a decline of 3.2%.
- A number of inter-governmental reviews and reforms are currently in progress. National Health Reform, the Review of GST Distribution, the Review of National Agreements and the Tax Forum not only have major financial implications for the states, but the potential to transform inter-governmental financial relations.
- The Queensland Government will provide \$2.778 billion in grants to Queensland local government authorities in 2011-12.

FEDERAL FINANCIAL ARRANGEMENTS

Federal financial relations in Australia are characterised by a disparity between the revenue-raising capacity and the expenditure responsibilities of the federal and state governments. The Australian Government collects the major share of taxation revenues and states must rely on grants from the Australian Government to meet their expenditure requirements. These grants represent approximately 47.2% of states' revenues in 2011-12.

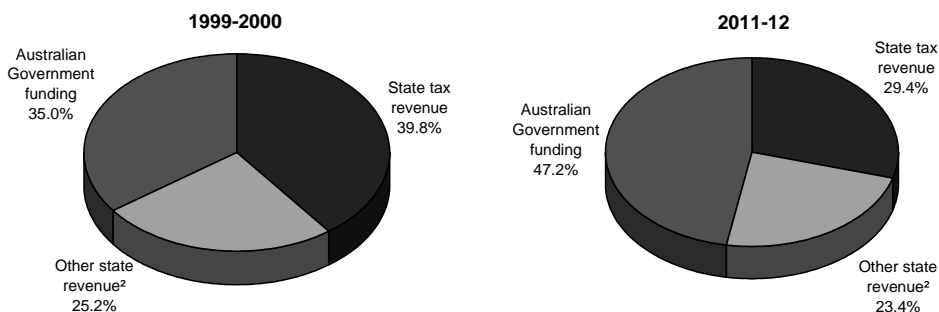
This high degree of mismatch is known as vertical fiscal imbalance (VFI) and arises from a number of factors. These include:

- the Australian Constitution, which precludes states from levying customs duty or excise duty, or introducing taxes based on the value of goods produced – for example, a consumption or retail tax
- restrictions imposed by the Australian Government, particularly on states' levying of income tax. Although the Constitution permits states to levy income tax, High Court decisions effectively allow the Australian Government to nullify this power
- agreements with the Australian Government, which prevent reinstatement of taxes that were abolished under the arrangements associated with the introduction of the GST. These include a number of stamp duties and financial taxes, such as debits tax.

National tax reform and other changes since 2000 have led to an increase in VFI.

Chart 7.1 shows that while in 1999-2000 the states received 35% of their revenues from the Australian Government, this is expected to have increased to 47.2% in 2011-12. In contrast, the proportion of the states' revenues from state taxes has declined from 39.8% in 1999-2000 to 29.4% in 2011-12.

Chart 7.1
Revenue sources, all states, 1999-2000 and 2011-12¹



Notes:

1. 2011-12 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.

NEW ISSUES IN INTER-GOVERNMENTAL RELATIONS

There are currently a number of major areas of reform being considered in the federal financial relations area, all of which may have significant impacts on Queensland.

National health reform

At the Council of Australian Governments (COAG) meeting on 13 February 2011, all jurisdictions signed a *Heads of Agreement on National Health Reform* (the Heads of Agreement). This agreement will form the basis of negotiations leading to a new national health reform agreement by July 2011.

Under the terms of the Heads of Agreement, the Australian Government will provide a proportion of efficient growth funding for hospitals (45% from 2014-15 and 50% from 2017-18). The agreement guarantees that the improvement in Australian Government funding to states and territories over the period 2014-15 to 2019-20 will be no less than \$16.4 billion.

States will continue to play a major role in the delivery of primary health care services.

The agreement also proposes the establishment of several new administrative bodies, including:

- a national performance authority, which will develop and produce reports on the performance of hospitals and health care services, including primary health care services
- an independent hospital pricing authority
- a national funding body to administer a national funding pool.

Review of National Agreements, National Partnerships and Implementation Plans

On 13 February 2011, COAG considered the final report of the Heads of Treasuries *Review of National Agreements, National Partnerships and Implementation Plans under the Intergovernmental Agreement on Federal Financial Relations* (the HoTs Review) conducted in 2010.

Treasuries conducted the review in consultation with first ministers' departments. The review considered:

- the consistency of agreements with the design principles of the *Intergovernmental Agreement on Federal Financial Relations* (the IGA)
- the clarity and transparency of objectives, outcomes, outputs and roles and responsibilities
- the quantity and quality of performance indicators and benchmarks.

The overarching message of the HoTs Review is that the underlying principles of the IGA provide a strong foundation for pursuing the COAG reform agenda, and that while implementation has generally progressed well, some challenges remain.

COAG agreed that a Senior Officials Working Group, including representatives of federal and state first ministers' departments and treasuries, would be responsible for overseeing implementation of the HoTs Review recommendations while also addressing the performance reporting issues of current arrangements identified in reports of the COAG Reform Council.

In 2011-12, 43.4% of Queensland's revenue is expected to be sourced from the Australian Government. It is important the agreements through which this funding flows support the intent of the IGA to provide states with the flexibility to deliver high quality, high priority services where they are most needed.

It is also important that states play a key role in assessing expiring agreements and making recommendations, through the Standing Council on Federal Financial Relations, on the future of these agreements, specifically, whether the funding associated with them should cease, or be converted into existing or new National Specific Purpose Payments or general revenue assistance. Because of the significance of this funding for the sustainability of state budgets, the assessment of expiring agreements is a vital issue for the federal and state treasurers.

Review of GST distribution

In March 2011, the Australian Government announced a review of the distribution of GST revenue to the states. The Australian Government indicated the rationale for the review is that under the current distribution arrangements there is:

- not enough incentive for reform
- a need for more certainty and predictability
- potential for greater simplicity.

The review will provide an interim report to the Federal Treasurer by February 2012 and a final report by September 2012. Any agreed recommendations from the review are not expected to be implemented until 2013-14 at the earliest. In the interim, the Commonwealth Grants Commission will continue to make recommendations on the distribution of GST based on the 2010 Review methodology.

Queensland considers the review to be an opportunity to address concerns with current methodology and to introduce a simpler, fairer and more efficient method for distributing GST.

Tax forum

In March this year, the Federal Treasurer announced that a tax forum will be held at Parliament House in Canberra on 4-5 October 2011. The Australian Government intends the forum to be an opportunity to debate the issues raised in the *Review of Australia's Future Tax System*, with sessions to discuss personal tax, transfer payments, business tax, state taxes, environmental and social taxes and system governance. Representatives of community and business groups, unions, governments, academics and tax professionals will be invited to the forum.

Tax reform should be considered an important element of national economic reform, with the potential to produce significant benefits for the Australian economy by driving economic efficiency and productivity improvements, and thereby generating higher levels of employment and income. There are also important issues of equity and fairness that will need to be considered by the forum.

The forum also offers the opportunity for a fundamental reorientation of the national taxation system to strengthen inter-governmental financial relations and, in turn, the Australian Federation. Australia's federal system, based on federal, state and local governments, has been an important driver of national social and economic development over the past century. However, a growing imbalance in the financial powers between the levels of government, largely the product of the erosion of state revenue bases, has weakened states' fiscal autonomy and revenue capacity.

This structural pressure on state finances threatens to reduce the capacity of state governments to deal with 21st century policy challenges such as demographic change, climate change, increasing global competition in education, and the need to provide infrastructure for sustainable economic growth. A robust national economy and vibrant community require a strong federation and therefore strong state and local governments.

The Queensland Government looks forward to joining with the Australian Government and the community to form a vision of future national tax reform.

AUSTRALIAN GOVERNMENT FUNDING TO STATES

The framework for federal financial arrangements includes four categories of Australian Government funding provided to the states:

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

Table 7.1 shows Australian Government payments to the states in 2011-12 are expected to total \$94.974 billion, an increase of \$1.094 billion or 1.2% compared with 2010-11.

Table 7.1 Estimated Australian Government payments to the states, 2010-11 and 2011-12					
	2010-11	2011-12	Change	Change	Change
	\$ million	\$ million	Nominal Terms %	Real Terms ¹ %	Real Per Capita ¹ %
Payments for specific purposes					
National Partnership payments	21,092	17,505			
Specific Purpose Payments	26,264	28,010			
Total payments for specific purposes	47,356	45,515	-3.9	-6.5	-7.8
GST revenue	45,450	48,350	6.4	3.5	2.0
Other general revenue²	1,074	1,109			
Total payments	93,880	94,974	1.2	-1.5	-3.0
Notes:					
1. Deflated by the 2011-12 national inflation forecast of 2.75% and national population growth of 1.5%.					
2. 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, 2011-12.					

Total payments for specific purposes (including both SPPs and NP payments) in 2011-12 are expected to be \$45.515 billion, a 3.9% decrease in nominal terms and a 7.8% decrease in real per capita terms compared with 2010-11, largely due to the decline in Economic Stimulus funding from the Australian Government.

GST revenue from the Australian Government to all states is expected to be \$48.35 billion in 2011-12, an increase of 6.4% in nominal terms. In real per capita terms, GST is expected to increase by 2% in 2011-12. However, since the Australian Government's 2010-11 Budget, total GST estimates have been revised down by \$10.78 billion for the period 2010-11 to 2013-14. Since the 2008-09 Australian Government Budget, estimates of the GST for the period 2008-09 to 2011-12 have been revised down by over \$18 billion, primarily as a result of the global financial crisis.

Table 7.2 shows the expected shares of total Australian Government payments to each state for 2011-12 compared with each state's population share. The four larger states receive less than a population share of Australian Government payments, while the four smaller states and territories receive more.

Table 7.2
Relative shares of Australian Government payments to the states, 2011-12

	Share of payments ^{1,2} %	Share of population %	Relative share ³ %
New South Wales	31.1	32.2	96.6
Victoria	22.5	24.9	90.5
Queensland	19.8	20.3	97.6
Western Australia	8.9	10.4	86.0
South Australia	8.9	7.3	122.0
Tasmania	3.0	2.3	133.5
Australian Capital Territory	1.7	1.6	103.6
Northern Territory	4.0	1.0	389.6

Notes:

1. Numbers do not add to 100% due to rounding.
2. Excludes payments unallocated among the states and territories in the Australian Government Budget papers. Royalties paid by the Australian Government to Western Australia and the Northern Territory, unallocated in the Australian Government Budget papers for reasons of commercial sensitivity, are also excluded for the purposes of this table.
3. 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, 2011-12.*

Queensland's share of Australian Government funding

Table 7.3 details Queensland's share of estimated Australian Government payments in 2011-12 as outlined in the Australian Government Budget papers, and the difference from its population share.

Queensland expects to receive \$9.139 billion of GST revenue in 2011-12, \$692 million less than its population share. In the same year, total payments for specific purposes are forecast to be \$9.51 billion or 20.9% of total Australian Government payments for specific purposes. In overall terms, Queensland will receive an estimated \$656 million less than its population share of Australian Government funding in 2011-12.

Table 7.3
Queensland's share of estimated Australian Government payments, 2011-12

	Queensland's Payments \$ million	Queensland's Share %	Difference from Population Share \$ million
Payments for specific purposes			
National Partnership payments	3,857	22.1	303
Specific Purpose Payments	5,654	20.2	(42)
Total payments for specific purposes^{1,2}	9,510	20.9	261
GST revenue	9,139	18.9	(692)
Other general revenue assistance ³	..	..	(225)
Total payments²	18,649	19.6	(656)

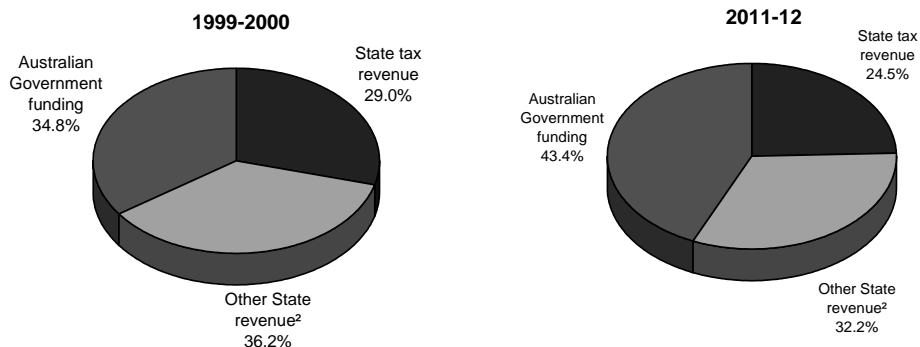
Notes:

1. Total payments for specific purposes is not equal to the sum of National Partnership payments and Specific Purpose Payments due to rounding.
2. Estimates from the Australian Government Budget papers are used in this table. Differences between payments for specific purposes used in this table and Chapter 4 *Revenue* primarily relate to the Australian Government's accounting treatment of Natural Disaster Relief and Recovery Arrangements payments.
3. Excludes payments unallocated among the states and territories in the Australian Government Budget papers. Queensland's share of total payments differs from Table 7.2 because royalties paid by the Australian Government to Western Australia and the Northern Territory are **included** for the purposes of this table in the total of Australian Government grants used to calculate Queensland's share.

Source: Australian Government Budget Paper No.3, 2011-12.

Queensland's reliance on Australian Government funding, as shown in Chart 7.2, is consistent with the national trend (shown in Chart 7.1), with its share of total funding sourced from the Australian Government increasing from 34.8% in 1999-2000 to an estimated 43.4% in 2011-12.

Chart 7.2
Revenue sources, Queensland, 1999-2000 and 2011-12¹



Notes:

1. 2011-12 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 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 website maintained by the Australian Treasury (www.federalfinancialrelations.gov.au).

Major funding agreements

The Australian Government Budget Paper No. 3 outlines the following major funding for state services and infrastructure in Queensland in 2011-12.

Health

The Australian Government Budget indicates that payments for 2011-12 for Queensland's health services and infrastructure will amount to \$3.109 billion. This includes \$165.1 million in funding as part of the National Health Reform package. The major payments for the government sector in 2011-12 are for:

- the National Healthcare SPP (\$2.57 billion)
- Health and Hospital Fund projects (\$222.4 million)
- National Health Reform (\$165.1 million).

Education and training

Total Australian Government payments for 2011-12 for Queensland's education and training services and infrastructure will amount to \$3.167 billion, comprising \$2.778 billion for schools and early childhood and \$389.2 million for skills and workforce development. The Australian Government payments for schools includes \$1.602 billion for onpassing to non-government schools. The major payments for the government sector are for the:

- National Schools Agreement (\$763 million)
- National Skills and Workforce Development Agreement (\$269.1 million)
- Productivity Places Program NP (\$98.7 million)
- Nation Building and Jobs Plan – Building the Education Revolution (\$63.8 million).

Transport infrastructure

Total Australian Government payments for 2011-12 for Queensland's transport and main roads infrastructure and services will amount to \$997.5 million. The major payments for the government sector are for:

- the Nation Building Program (\$949.6 million)
- Regional Infrastructure Fund projects (\$35 million).

Housing

Total Australian Government payments for 2011-12 for Queensland's housing and homelessness services and infrastructure will amount to \$417.6 million, which includes \$246.4 million for the National Affordable Housing SPP, as well as other major payments for the government sector for:

- Remote Indigenous Housing (\$96.5 million)
- the Nation Building and Jobs Plan – Social Housing Initiative (\$39.5 million).

Community and disability services

Total Australian Government payments for 2011-12 for Queensland's disability and community care services will amount to \$713 million, which includes \$237.4 million for the National Disability SPP and \$379.1 million for the Home and Community Care program.

Other payments

The Australian Government has announced that it will make an advance of payments under the National Disaster Relief and Recovery Arrangements of \$2.05 billion in 2010-11 and a further advance of \$500 million in 2011-12.

GST REVENUE PAYMENTS

Commonwealth Grants Commission

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

The CGC generally conducts reviews of its methodology every five years, with the last review completed in 2010. In addition, the CGC conducts annual updates of the financial, economic and demographic data that underpin its recommendations. More information on HFE and GST distribution can be accessed through the CGC website (www.cgc.gov.au).

2011 Update on GST revenue sharing relativities

In April 2011, the Australian Government accepted the CGC's *Report on GST Revenue Sharing Relativities – 2011 Update* (the 2011 Update) as the basis for the distribution of the GST revenue to the states in 2011-12.

In the 2011 Update, the CGC recommended an underlying increase in Queensland's share of GST revenue of \$141.7 million in 2011-12, as shown in Table 7.4. The underlying impact reflects the change to Queensland's GST share from the CGC's new relativities alone, and does not account for changes in population or the GST pool.

Table 7.4 GST share and underlying impact of relativities, 2011-12								
	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
Underlying impact of relativities* (\$ million)	78.5	(417.1)	141.7	164.4	(51.7)	(23.8)	(28.0)	136.0
GST Share (\$ million)	14,950	10,889	9,139	3,598	4,493	1,743	867	2,672
GST per capita (\$)	2,031	1,919	1,969	1,521	2,695	3,392	2,368	11,360
Notes:								
1. The underlying impact reflects the change to Queensland's GST share from the CGC's new relativities alone, and does not account for changes in population or the size of the GST pool in 2011-12.								
Source: Australian Government Budget 2011-12, Commonwealth Grants Commission Report on GST Revenue Sharing Relativities – 2011 Update								

The increase of \$141.7 million in 2011-12 contrasts with reductions in Queensland's GST funding of \$381.8 million in 2009-10 and \$19.8 million in 2010-11.

Queensland's share of GST has improved due to:

- Queensland's below average growth in property transfers, reducing the state's revenue raising capacity relative to other states
- updates to the data used in the CGC's assessment of wages, resulting in upward revisions to the cost of providing many services in Queensland.

These gains were partially offset by:

- above average Australian Government payments (particularly from the Building Australia Fund)
- the large increase in total Australian mining revenue between 2006-07 and 2009-10.

Although Queensland's underlying GST share per capita has increased in 2011-12, Queensland still receives a less than equal per capita share of GST. New South Wales continues to receive a greater per capita share than Queensland, gaining an underlying increase of \$78.5 million. A significant decrease in Victoria's per capita share of the GST has resulted in Victoria falling below Queensland's per capita share in 2011-12, after receiving a greater per capita share in 2009-10 and 2010-11.

While Queensland's GST share increased in 2011-12, continued recovery from the global financial crisis and increases in mining activity may place downward pressure on the state's GST share going forward. This could be offset by a variety of factors, such as:

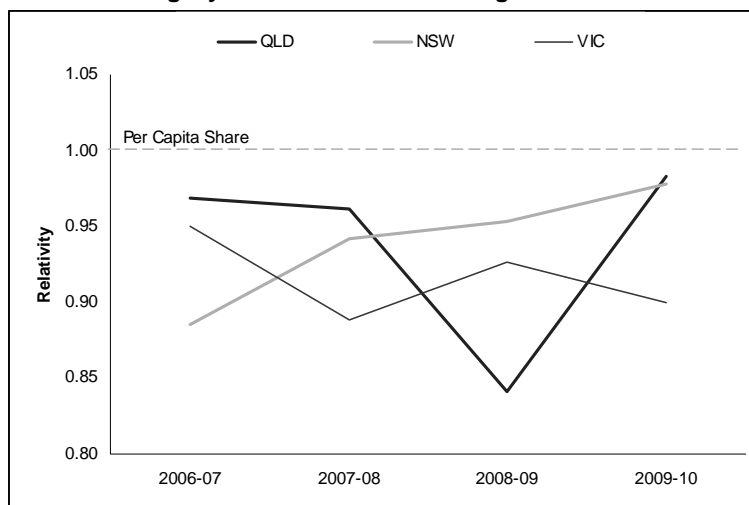
- continued slow growth in property transfers relative to other states
- high levels of spending on disaster recovery
- the potential for a reduced share of Australian Government payments to Queensland, relative to other states.

Queensland's GST share over time demonstrates an intended consequence of the CGC's methodology for distributing the GST. Where the relative economic strength of a state changes, so too does its assessed share of GST funding. A key feature of recent CGC annual updates has been the decreasing relativities of those states driving national economic growth, Queensland and Western Australia, compared with states with more established economies, such as New South Wales and Victoria.

In 2011-12, Victoria's average relativity fell below Queensland's, largely due to Victoria's strong revenue from property transfers compared with the national average, and especially compared with Queensland.

As shown in Chart 7.3, Queensland suffered a sharp decline in its relativity in 2008-09, reflecting the state's high level of mining royalties in that year. This decline continues to place downward pressure on Queensland's GST share.

Chart 7.3
Single year GST relativities – larger states



Sources: Report on GST Revenue Sharing Relativities – 2011 Update, Queensland Treasury

Box 7.1 2011 Update Issues

Treatment of natural disasters

In the 2011 Update, the CGC included an information box on the treatment of natural disasters in the CGC process. This box highlights the impact of average annual natural disaster relief expenses for 2006-07 to 2008-09 on Queensland's GST share. The information presented reflects the methodology the CGC has used for a number of years and applied consistently to all states. It is expected the treatment of natural disasters will be identical going forward, and will impact states based on the occurrence of natural disasters in each state.

Treatment of iron ore fines

As in previous years, Queensland remains concerned that some of the CGC's assessments produce inappropriate outcomes. In the lead up to the 2011 Update, Western Australia, the majority producer of iron ore fines, removed some concessions on the mineral which had the effect of increasing the average national royalty rate above the 5% threshold for low royalty rate minerals set by the CGC. The CGC's current methodology for the mining assessment would have caused Western Australia to lose more revenue from the GST distribution than would have been raised from the increased royalties, were it not for a terms of reference directive (clause 11) to alter the methodology.

This highlights one of the critical issues with the mining assessment, that the current design of the assessment can influence the policy choices of states. It is particularly relevant given subsequent royalty rate changes recently announced by Western Australia in their 2011-12 State Budget that go beyond the changes incorporated in the 2011 Update, released in February 2011.

Mining assessment distribution

Mining revenue comprises around 7% of all state revenue in aggregate, yet represents 76% of the GST that is redistributed as a result of revenue assessments. In net terms, the majority of mining royalties raised by Queensland and Western Australia are offset by the CGC's redistribution in the 2011 Update (see below). As a result, all other states gain more from mining royalties than Queensland and Western Australia on a per capita basis. 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.

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	AUST
Mining revenue¹ (\$ million)	946	44	2,242	2,973	140	35	..	168	6,550
2011-12 GST redistribution² (\$ million)	1,325	1,845	(1,213)	(2,520)	379	127	125	(69)	3,802
Net mining revenue (\$ million)	2,271	1,889	1,029	453	519	162	125	99	
Net mining revenue³ (\$ per capita)	322	352	236	206	322	324	359	446	

Notes:

- Figures are the average mining revenue from 2007-08 to 2009-10 and do not therefore reflect changes to mining royalties announced in the Western Australian Government's 2011-12 Budget.
- CGC redistribution for mining revenue based on average assessed revenue raising capacity from 2007-08 to 2009-10.
- Calculated using 2007-08 to 2009-10 average populations.

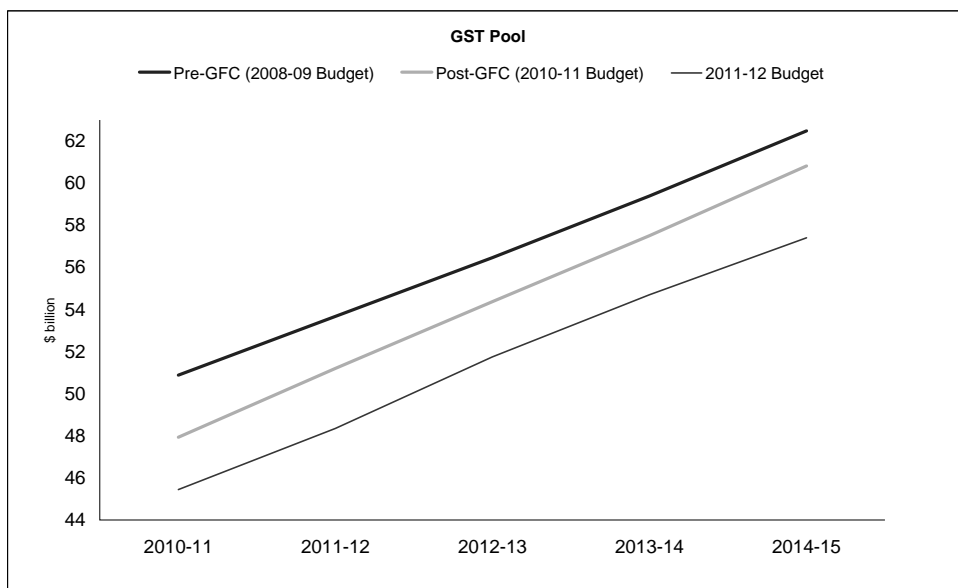
Sources: Queensland Treasury, Commonwealth Grants Commission Report on GST Revenue Sharing Relativities – 2011 Update

GST revenue trends

Total GST revenue to all states increased by 2.1% between 2009-10 and 2010-11, with growth expected to increase to 6.4% in 2011-12. The growth rate is then expected to slow to an average of 5.9% over the forward estimates from 2012-13 to 2014-15, far below the 8.3% average annual growth rate between the introduction of the GST in 2000-01 and 2007-08.

The current forecasts of growth in the GST pool remain significantly lower than the Australian Government's forward estimates before the global financial crisis (2008-09). Recovery from the global financial crisis has not been as strong as anticipated by the Australian Government in its 2010-11 Budget. The global financial crisis is continuing to have a negative impact on state budgets through downward revisions to estimates of GST collections. Over the course of 2010-11 estimates of the GST pool were revised downwards and the Australian Government revised its estimates down even further in its 2011-12 Budget, as shown in Chart 7.4.

Chart 7.4
Comparison of GST revenue¹ – Australian Government Budget 2008-09 to 2011-12



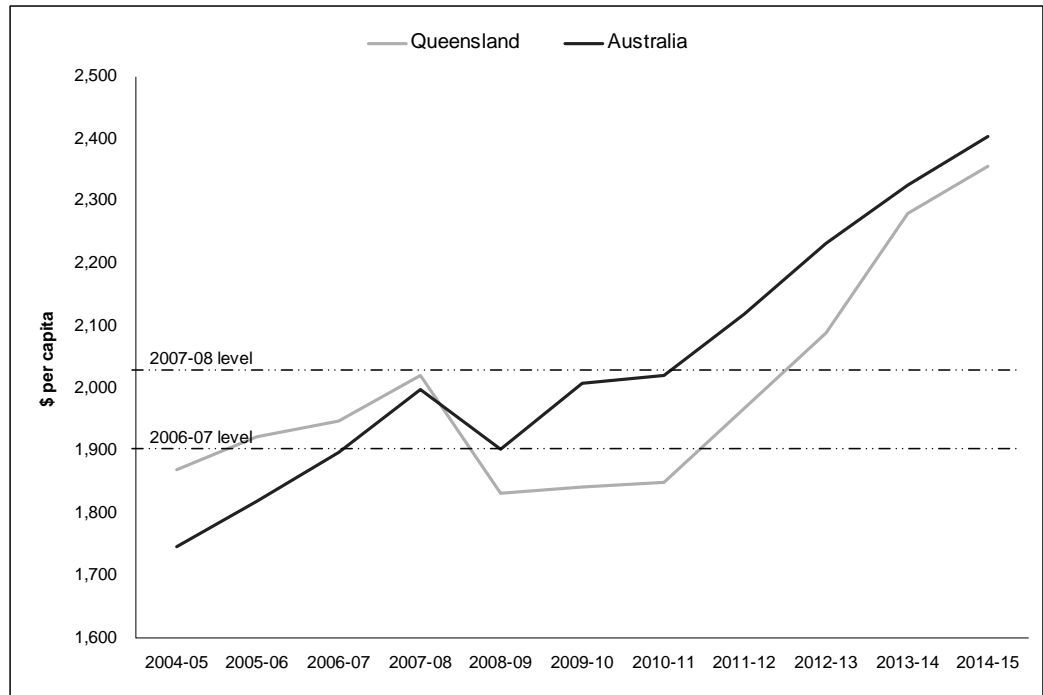
Note:

1. 2008-09 Budget line and 2010-11 Budget line have been extrapolated beyond 2011-12 and 2013-14 respectively

Sources: Australian Government Budget Paper No.3, 2008-09, 2010-11, 2011-12 and Queensland Treasury

Because GST shares are influenced by population growth, 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 2011-12 will be similar to that received in 2006-07, with GST not expected to regain the levels of 2007-08 until 2012-13 (Chart 7.5).

Chart 7.5
GST per capita, 2003-04 to 2014-15



Sources: Australian Government Budget Paper No.3, 2011-12 and Queensland Treasury.

STATE-LOCAL GOVERNMENT FINANCIAL RELATIONS

In 2011-12, the Queensland Government will provide a total of \$2.778 billion in grants to local governments, compared to \$1.755 billion in 2010-11. This includes financial assistance grants being paid by the Australian Government through the states to local government. The high and increasing level of grants to local governments is mainly due to funding associated with reconstruction after recent floods and Cyclone Yasi.

Table 7.5 details Queensland Government grants to local governments.

Table 7.5 Grants to local government in Queensland^{1,2}		
	2010-11 Est. Act. \$ million	2011-12 Budget Estimate \$ million
Queensland Government grants		
Communities ³	195	280
Community Safety	10	15
Education and Training	3	5
Employment, Economic Development and Innovation	16	65
Environment and Resource Management	8	35
Health	3	3
Local Government and Planning ⁴	907	905
Premier and Cabinet ⁵	23	23
Transport and Main Roads	73	87
Queensland Reconstruction Authority	465	1,263
Other ⁶	52	98
Total Queensland Government grants	1,755	2,778
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. Numbers may not add due to rounding. 3. Includes grants for housing, disability services, child safety, sport and recreation. 4. Includes general purpose grants from the State and Australian Governments. 5. Includes grants for the arts. 6. Includes grants yet unallocated to government agencies.		

8 PUBLIC NON-FINANCIAL CORPORATIONS SECTOR

FEATURES

- The 2010-11 natural disasters significantly impacted the financial performance of the Public Non-financial Corporations sector. Recovery works have necessitated unplanned capital and operational expenditure and the deferment of some planned capital works. Reduced revenue and postponed capital expenditure have also impacted on the financial forecasts of the sector.
- Following the successful completion of a number of asset sales during 2010-11 with net returns to the Government of \$12.2 billion (and over \$15 billion in realisable proceeds when retained shares in QR National Limited are included), the focus has now switched to ensuring the affected remaining Government-owned corporations are well focused strategically and well prepared to meet the commercial and operational challenges ahead in their respective sectors.
- In 2011-12 the Public Non-financial Corporations sector is expected to pay \$782 million in dividends and \$249 million in current tax equivalent payments.
- Community service obligation payments of \$1.826 billion will be paid to the sector in 2011-12, 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 \$795 million.
- The electricity generators are in the final stages of being restructured from the existing three entities to two following a review.
- A number of significant projects are being planned or undertaken in the transport sector, including the Abbot Point Coal Terminal expansions, the Wiggins Island Coal Terminal, the Connors River Dam and development of the liquefied natural gas industry in Gladstone. The private sector will play a key role in many of these projects.
- In recent years the State Government has pursued a strategy of encouraging private sector investment in those sectors of the economy where there is not a compelling public policy rationale for public sector ownership. This strengthens market signals for investment and is likely to increase the productivity of investment and allow the State Government to invest in those projects where the rationale for public ownership is strong.

The recent Queensland natural disasters have had a significant impact on Public Non-financial Corporations (PNFC) sector entities. Reconstruction costs are considerable. The prioritisation of reconstruction works and refinements to the timetables for significant infrastructure projects have been necessary to support recovery and continued growth in the State's key economic sectors. Furthermore, interruptions to the day to day business of a range of entities, particularly in the transport sector, have resulted in reduced revenue. The services provided by PNFC entities such as vital port services, electricity supply and distribution, passenger rail and water supply, need to be operating effectively and at full capacity for our economy to prosper.

PNFC entities are implementing initiatives aimed at minimising increases in the cost of living through increasing efficiency and reducing growth in the cost of supplying services. For example, ENERGEX Limited (ENERGEX) and Ergon Energy Corporation Limited (Ergon) continue to progress initiatives for improvements in efficient asset utilisation as well as programs aimed at reducing long term increases in electricity prices through energy conservation and demand management.

The Government's PNFC sector is a major investor in Queensland infrastructure. This continuing investment ensures the ongoing delivery of energy, transport and water services to the growing Queensland population and supports economic development. Key expenditure in 2011-12 includes:

- Queensland Rail Limited (Queensland Rail) is forecast to spend a total of \$1.157 billion on rail infrastructure and rollingstock throughout the State.
- Queensland Electricity Transmission Corporation Limited (Powerlink) has allocated funds in 2011-12 towards transmission augmentation works in South West Queensland to establish new 275 kilovolt substations and transmission lines to transmit power from the new gas fired power stations in South West Queensland to help supply Queensland's growing electricity demand.
- Ergon and ENERGEX are forecast to spend \$937 million and \$1.302 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 2011-12, including:

- SunWater Limited (SunWater) - Connors River Dam and pipeline
- Queensland Rail - citytrain passenger rollingstock
- North Queensland Bulk Ports Corporation Limited (NQBP) - Abbot Point Terminals T4-7
- NQBP – Abbot Point Multi Cargo Facility (MCF).

IMPACT OF NATURAL DISASTERS

The recent Queensland natural disasters have had a significant effect on PNFC sector entities through reconstruction costs, lost revenue and delayed capital investment.

PNFC sector transport infrastructure such as Queensland Rail's track network, was badly damaged during floods in December 2010 and January 2011, and some again by Cyclone Yasi in February 2011. A number of ports were also closed and significant dredging operations were required in some cases.

Flood and cyclone events also impacted the energy sector. Ergon incurred over \$40 million in additional capital expenditure to rectify the damage caused by the natural disasters and planned capital expenditure for 2010-11 was revised down. Likewise, a portion of ENERGEX's 2010-11 planned capital program has been deferred to 2012-13 and 2013-14.

Further information on the impact of the natural disasters on the PNFC sector is provided in Chapter 3.

POST-ASSET SALES PROGRAM TRANSITION

The asset sales program has restructured the State's balance sheet by transferring operational and ownership activities of some mature and market exposed Government-owned corporation (GOC) activities to the private sector which will now manage the risks and fund future growth.

The program has resulted in the establishment of a new GOC – Queensland Rail Limited – and a focussing of the activities of NQBP on preparing for the port infrastructure growth required to service the booming coal mining sector. Over 2010-11 these two businesses commenced preparation for the commercial and operational challenges in their sectors.

The new Queensland Rail Limited is a corporation with a tight and well understood operational focus on passenger and network services. The benefits of the split of the rail corporations, with QR National Limited now being a privatised entity focused particularly on rail freight services and coal networks, and Queensland Rail Limited's more focused core business, are already becoming apparent in terms of daily operations, and was particularly evident in the timely flood impact responses earlier this year. Further work with Queensland Rail Limited is planned in 2011-12 on its transition as a new corporation to ensure that it is well placed to meet its operational and strategic objectives. As a largely Community Service Obligation (CSO) funded business, Queensland Rail Limited has a close relationship to government not only as its owner, but also as its principal service purchaser.

NQBP is actively progressing new projects and has excellent prospects for further growth through its key ports, Hay Point, Abbot Point, Mackay and Weipa. Following finalisation of the Abbot Point Coal Terminal No. 1 transaction, a key work focus has been to ensure the corporation's balance sheet is well placed to meet its expected future investment and operational requirements. While NQBP will invest in basic port infrastructure, it will be seeking to introduce private sector funding for the terminal assets as is the case with the T2 and T3 expansions at Abbot Point Coal Terminal.

COST OF LIVING

The Queensland Government acknowledges that the rising cost of living is a major challenge for many Queenslanders. To assist in the minimisation of future increases in the cost of services provided by the PNFC sector, the Queensland Government is working with PNFC entities to enhance efficiency and reduce costs.

Efficiency Initiatives

GOCs are subject to an ongoing program of reforms aimed at ensuring they have the organisational structures and incentive frameworks that allow them to operate at their full commercial potential and to provide a commercial rate of return to the Government.

With the asset sales program completed, the remaining GOCs are on track to achieve their proportion of the \$100 million annual savings announced as part of the 2008-09 Mid Year Fiscal and Economic Review. 2011-12 represents the fourth and final year of the original efficiencies program announced over the then forward estimates in 2008-09. The savings efficiencies achieved will be reflected from 2012-13 onwards in each GOC's underlying annual forward estimates, as demonstrated in Chart 8.1 by the forecast increased rate of return.

Efficiency initiatives are required to enhance financial performance without detracting from the quality and reliability of customer services and include:

- Sunwater continues to implement its Smarter, Lighter, Faster initiative, targeting reduced overhead and indirect costs across the business.
- Queensland Rail continues to invest in and leverage new technologies where appropriate in order to become more efficient and cost-effective. In addition to these outcomes, programs already underway will lead to the availability of real-time status reports, optimised on-time running performance and will allow for improved passenger tools such as instant messaging status updates.
- ENERGEX and Ergon are progressing their joint workings program in the areas of asset management, strategic sourcing, procurement and logistics and works management.

Electricity Pricing

Network costs

Given the exceptional circumstances faced by Queenslanders as a result of the unprecedented natural disasters across the State, the Government has acted to mitigate the impact of network costs on retail electricity prices for consumers in 2011-12. Shareholding Ministers have issued directions to energy distribution entities under the *Government Owned Corporations Act 1993* not to recover the additional revenue of \$93.2 million in 2011-12 that would have been allowed under a recent Australian Competition Tribunal decision. This additional revenue would have ordinarily resulted in higher network costs, which make up nearly 50 per cent of retail electricity prices in Queensland, flowing through to retail electricity prices.

In addition, the Government has taken action in agreement with the distribution GOCs so that the costs to ENERGEX and Ergon of repairing the distribution network following the natural disasters will not be passed on to consumers.

These actions ease the cost of living pressures for Queenslanders by reducing the impact of network pricing on increases in electricity prices for consumers.

Pricing framework reform

From 1 July 2012, Queensland electricity prices will be set using a fairer pricing framework, and based on new cost-reflective tariff structures.

The new tariff structures will include the introduction of inclining block tariffs (IBT) for residential customers. IBTs are designed to encourage customers to use electricity more efficiently by charging a fixed supply cost and a series of consumption blocks priced at successively higher rates. This means that high consumption customers will be encouraged to reduce their overall energy use, while the impact on low consumption customers of moving to the new cost-reflective tariff structures will be minimised.

The existing tariff schedule will also be updated to include a voluntary residential Time-of-Use tariff for those customers with an interval meter installed (allowing prices to be varied across different times of the day). This will encourage customers to shift their electricity consumption away from peak periods.

The Queensland Competition Authority will undertake comprehensive consultation with the community and stakeholders on the new pricing framework and tariff structures prior to implementation.

Demand growth and pricing impacts

Queensland's electricity consumption is expected to grow substantially into the future. Over the past three years, Queensland's annual electricity consumption has averaged approximately 47,100 gigawatt hours (on an as delivered basis). Current 2010 Australian Energy Market Operator Electricity Statement of Opportunities forecasts are for electricity consumption to grow at a strong 5.27% per annum for the three years to 2013-14. Peak summer demand, in particular, is forecast to continue to increase at a faster rate than average energy consumption whilst the successful financing and development of major resource projects is expected to impact overall usage.

In this context, Powerlink, ENERGEX and Ergon are investing in the network to ensure it is sufficient to meet peak demand growth while progressing initiatives that encourage energy conservation and demand management, which can limit demand growth and reduce the cost of electricity for consumers. These initiatives focus on energy conservation and demand management through improved network functionality and empowering customers to lower electricity consumption in peak times in order to deliver lower network price rises over the longer term.

In addition, the Queensland Government is collaborating with ENERGEX and Ergon, and has developed the Electricity Demand Management Initiatives Package to work with customers to reduce overall energy consumption, the rate of peak demand growth and improve the capacity of the State's electricity infrastructure. The four key initiatives include the Residential Targeted Initiative; the Demand Management for Commercial and Industrial Customers Initiative; the Reward Based Tariff Trials and Policy Development Initiative; and the Energy Conservation Communities Initiative.

The short term benefits from these initiatives are estimated to be a reduction in peak demand of 40 megawatts which equates to an estimated \$120 million in transmission, distribution and generation infrastructure savings. Furthermore, with a continuation of related activities over future years, a reduction in Queensland's peak electricity demand of 1,121 megawatts (or 24 per cent of the forecast growth from 2008 to 2020), could be delivered resulting in a reduction in electricity utility capital expenditure of \$4 billion, which would otherwise be recouped from customers. Expenditure of \$221 million for these activities has been allowed by the Australian Energy Regulator over the next five years.

ENERGEX and Ergon plan to spend a total of \$71.8 million on the full program of demand side management initiatives in 2011-12.

FINANCES AND PERFORMANCE

GOCs operate in a commercial environment. These entities are managed by independent boards and management teams under the oversight of the Queensland Government through their shareholding Ministers and are expected to provide a commercial return.

The financial and non-financial performance of GOCs is monitored by the Government on an ongoing basis and GOCs are required to report against key performance indicators (KPIs), under the performance monitoring and reporting framework. The GOCs' underlying financial performance against a selection of KPIs is provided in Table 8.1.

Table 8.1 Total GOC Sector Key Financial Indicators of Underlying Performance^{1, 2,3}			
	2009-10 Actual	2010-11 Est. Act.	2011-12 Budget
Earnings Before Interest and Tax (\$M)	2,030	2,362	2,207
Return on Assets (%)	6.09	6.77	6.00
Return on Equity (%)	5.78	7.77	5.69
Gearing (debt/debt+equity) (%)	56.57	57.58	59.86
Notes: 1. Numbers may not add due to rounding. 2. For the purposes of this table and to enable valid comparisons, the following entities are excluded: Port of Brisbane Corporation Limited (sold as part of the Queensland Government's Asset Sales Program in 2010-11), NQBP (due to the lease of Abbot Point Coal Terminal No. 1), Queensland Rail Limited (a new entity formed in 2010-11), QR Limited (no longer a GOC as at 21 September 2010). 3. QIC Limited is excluded as it is a Public Financial Corporation.			

The GOC sector provides essential infrastructure for the State's economy and its earnings are tied to its economic conditions and growth. The major components of GOC revenue include passenger rail charges, electricity sales, electricity distribution and network charges, port charges and agriculture and bulk water delivery charges.

GOC Earnings Before Interest and Tax (EBIT) are expected to grow from 2009-10 to 2011-12 and into the future. In the energy sector, this growth can be attributed to increased energy demand related to economic and demand growth combined with a range of initiatives designed to improve the efficiency of supply. The significant infrastructure investments currently being undertaken by the port GOCs and SunWater, particularly in relation to the coal supply chain, are also expected to lead to increased EBIT in the medium term. Much of this infrastructure supports related private sector investment and the broader economic conditions that drive GOC profitability.

As discussed previously, the natural disasters of 2010-11 have impacted on the operations of GOCs and this has flowed through in the form of rectification costs and lost revenue. However, even taking account of these costs, EBIT and Return on Assets (RoA) are expected to increase in 2010-11, largely as a result of improvements in the energy sector, as discussed, and the sale of a surplus mining development lease by the Stanwell Corporation Limited (Stanwell).

Notwithstanding the considerable capital investment in the energy sector by ENERGEX, Ergon, Powerlink and throughout the ports sector, the RoA and Return on Equity (RoE) for the GOC sector is relatively stable over the period 2009-10 to 2011-12. This is largely due to corresponding increases in earnings and profitability.

The increase in gearing from 2009-10 to 2011-12 reflects the significant infrastructure investment being undertaken in the GOC sector. Whilst maintaining appropriate capital structures, borrowings by GOCs allow for more timely investment in assets which are expected to drive GOC profitability and the Queensland economy.

Returns to Government

The Government earns a return from GOCs in the form of dividends and current tax equivalent payments (TEPs) from its investment in the PNFC sector. Consistent with Uniform Presentation Framework requirements, only current TEPs are used to calculate net flows.

Dividends

Dividends are paid as a percentage of after tax profits, that is after all expenses including depreciation have been accounted for. This ensures that there is no impact on the capacity of GOCs to carry out necessary maintenance, repairs and asset replacement. Further, the added guarantee of the three-tiered solvency test under the *Corporations Act 2001* requires that GOC boards be satisfied that not only is the payment of a dividend fair and reasonable to its shareholders, but that the GOC's assets exceed its liabilities, and that the payment of a dividend does not impact the ability of the GOC to meet its commitments.

Dividend payments are approved by shareholding Ministers on the recommendations of GOC boards.

Total dividends to be declared to Government in 2011-12 are estimated at \$782 million (Table 8.2).

Table 8.2
Ordinary Dividends¹

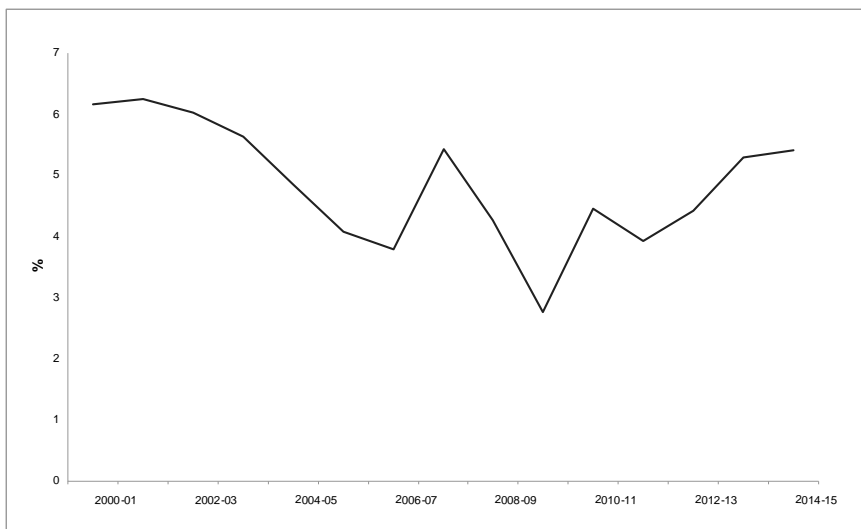
	2009-10 Actual \$ million	2010-11 Est. Act. \$ million	2011-12 Budget \$ million
Energy Sector ^{2,3}	520	741	586
Transport Sector (rail and ports) ⁴	120	240	163
Other	11	18	30
Non-GOC	1	1	4
Total PNFC sector dividends	652	1,000	782

Notes:

1. Numbers may not add due to rounding.
2. The increase in energy sector dividends from 2009-10 to 2011-12 can be mainly attributed to ENERGEX and Ergon, reflecting the impact of the Australian Energy Regulator (AER) Final Determination 2010-11 to 2014-15 on regulated revenue.
3. The increase in 2010-11 energy sector dividends is largely the result of a one-off increase in dividend payments from Stanwell following the sale of a surplus mining development lease.
4. The increase in transport sector dividends for 2010-11 largely represents the receipt of a dividend from Queensland Rail Limited. In 2009-10 no dividend was paid by the former QR Limited.

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 3.93% in 2011-12. 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 5.4% by 2014-15.

Chart 8.1
Rate of Return^{1, 2, 3}
Annual from 2000-01 to 2014-15



Notes:

1. QIC Limited is excluded as it is a Public Financial Corporation.
2. Calculated as (ordinary dividends / average total equity).
3. Excludes dividends associated with asset sales and special dividends.

Tax Equivalent Payments

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 2011-12 are estimated at \$249 million (Table 8.3).

Table 8.3
Current Tax Equivalent Payments¹

	2009-10 Actual \$ million	2010-11 Est. Act. \$ million	2011-12 Budget \$ million
Energy Sector ²	137	184	123
Transport Sector (rail and ports) ³	92	104	105
Other	11	10	16
Non-GOC	3	2	5
Total PNFC sector current TEPs	242	300	249

Notes:

1. Numbers may not add due to rounding.
2. The increase in 2010-11 energy sector TEPs is largely the result of a one off increase from Stanwell following the sale of a surplus mining development lease.
3. The transport sector 2009-10 TEPs reflects the adjustments made to QR Limited's accounts in preparation for the separation of Queensland Rail. Subsequently the 2010-11 increase of transport sector TEPs is reflective of Queensland Rail's profitability as a separated business, offset by financial results for NQBP and Port of Brisbane Corporation Limited.

Community Service Obligations

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 CSO payment to the business.

In 2011-12, it is estimated that the Government will pay CSOs of \$1.826 billion (Table 8.4).

Table 8.4
Community Service Obligations¹

	2009-10 Actual \$ million	2010-11 Est. Act. \$ million	2011-12 Budget \$ million
Energy Sector ²	252	388	411
Transport Sector (rail and ports) ^{3,4}	1,087	1,451	1,407
Other	3	7	6
Non-GOC	8	1	1
Total PNFC sector CSOs	1,350	1,847	1,826
Notes:			
1. Numbers may not add due to rounding.			
2. The increase is due to increased costs to provide services to regional customers.			
3. The increase is due to:			
– increase in passenger service payments as a culmination of network expansion, passenger growth and service frequency; and			
– increase in regional passenger and rail infrastructure payments due to increase in service delivery costs.			
4. From 2010-11 Transport CSO payments exclude Regional Freight and Livestock CSOs which are paid to QR National Limited.			

Balance Sheet Management

The Queensland Government aims to maintain appropriate capital structures for GOCs to ensure optimum utilisation of capital resources and to ensure they are adequately funded to undertake approved projects.

To this end, the Queensland Treasury Corporation (QTC) reviews the GOCs' capital structures annually to ensure unregulated GOCs maintain private ratings of investment grade (BBB- or above) and regulated GOCs maintained ratings of at least BBB+. As considered necessary, equity is provided or repatriated to maintain the credit ratings appropriate to each GOC.

Over the forward estimates, the majority of the GOC equity injections are forecast to be provided to Queensland Rail for capital projects as outlined in Budget Paper 3 (Capital Statement).

Equity injections for the non-GOC sector in 2010-11 and 2011-12 include contributions to the Queensland Bulk Water Supply and Transport Authorities. The contributions maintain the capital structures agreed with responsible Ministers upon commissioning and transfer of final Water Grid infrastructure projects.

The following is the proposed schedule of equity injections and repatriations over the forward estimates period (Table 8.5).

Table 8.5
Equity Injections / Repatriations¹

	2010-11 Est. Act. \$ million	2011-12 Budget \$ million	2012-13 Forecast \$ million	2013-14 Forecast \$ million	2014-15 Forecast \$ million
GOC	352	436	420	616	924
Non-GOC	174	20	0	0	0
Total PNFC sector equity injections/ repatriations	526	456	420	616	924
Note:					
1. Numbers may not add due to rounding.					
2. Excludes repatriations of asset sale proceeds related to the Queensland Government Asset Sales Program.					

The GOC sector's significant capital expenditure program is subject to post investment reviews which are assessments of projects after they have been implemented or commissioned and indicate the extent to which the project is performing as expected. Recent and planned reviews include:

- During 2010-11, QTC conducted a post investment review of Gladstone Ports Corporation Limited's (GPC) RG Tanna Coal Terminal Expansion Project. This review concluded that the project was implemented effectively and efficiently.
- The post investment review of the Kogan Creek power station project is continuing and the current phase is focussed on CS Energy Limited's (CS Energy) initiatives on the technical performance of the plant.

The 2008-09 Mid Year Fiscal and Economic Review also required GOCs to review their balance sheets to identify non-performing and non-core assets that could be divested. This has been an on-going process separate from the asset sales program and has seen the divestment of surplus land holdings, interstate wind farms and non-core operations.

Further divestments over the forward estimates include the finalisation of Stanwell's investment in the Emu Downs Wind Farm and Badgingarra Wind Farm development and 30 hectares of waterfront property that is considered surplus to Port of Townsville Limited's (PoTL) future requirements.

Non-Financial Performance

GOCs' non-financial performance against a number of KPIs is outlined in Appendix D.

ENERGY SECTOR

Shareholder Review of Queensland Government Owned Generators

On 25 November 2010, the Government announced the outcome of the *Shareholder Review of Queensland Government Owned Generators*. The restructure will result in the current three generation companies (Gencos) – CS Energy, Stanwell and Tarong Energy Corporation Limited – being merged to form two new companies from 1 July 2011. As a result of the restructure, the Gencos have also been directed to immediately refocus their business strategy from one of growth to one of maximising efficiency and managing costs within the existing aggregated megawatt portfolio.

The restructure will be achieved by the reallocation of assets to the existing CS Energy and Stanwell corporate entities, using the provisions of Section 161 of the *Government Owned Corporations Act 1993*.

The impetus for reform of the Genco sector includes:

- the potential impact on the Genco sector from the Australian Government's proposed carbon reduction measures
- 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.

On 10 March 2011, following consultation with employees and unions, the Government announced the final portfolio allocation between the two restructured Gencos.

North West Queensland Energy Process

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 was conducted during 2008-09. 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 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 customer led competitive process is ongoing, with customers still engaging with energy supply proponents which include local gas-fired generation or transmission line connection to the National Electricity Market.

Work is continuing with energy infrastructure proponents and customers to facilitate the necessary approvals to ensure all potential energy solutions have a strong chance of success. This includes working with the proponents of the CopperString project, following advice from customers that they had selected this project from a number of potential transmission proponents to undertake a detailed feasibility study, and continuing to liaise with gas project proponents.

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 meet the electricity needs of the rapidly growing liquefied natural gas (LNG) industry's upstream processing plants in the area.

The Surat Basin is experiencing rapid growth driven by developments in the energy and resources sector. To reinforce electricity supply to the region, Powerlink is planning to extend its existing high voltage transmission network into the Surat Basin, using the proposed Western Downs Substation as the starting point for a broader plan based on 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.

Network Augmentation

Continuing to provide Queensland with a safe, secure and reliable electricity distribution network is being underpinned by further significant capital investment by ENERGEX and Ergon of \$2.239 billion in 2011-12.

Major elements in Ergon's program include a further \$4.1 million in 2011-12 on a new \$13 million geothermal power station for Birdsville and \$496.8 million for network infrastructure improvements, refurbishments and replacements.

ENERGEX's program of works includes \$392.2 million in augmentation works for its network and \$718 million in sub-transmission works for new substations and feeders.

Kogan Solar Boost Project

CS Energy will complete construction of a 44 megawatt (MW) solar thermal augmentation to the Kogan Creek Power Station (the Kogan Creek Power Station Solar Boost Project) in mid 2013. The solar thermal system pre-heats the boiler feedwater increasing the station's overall efficiency. Without any additional coal, the station will generate an additional maximum of 44 MW, with an annual average of 23 MW and an output of 40 gigawatt hours per annum over an operational life of 25 years.

The \$104.7 million project will be funded by CS Energy, the Queensland Government and the Australian Government. The project presents the opportunity for CS Energy to commercialise low emissions plant.

TRANSPORT SECTOR

Queensland Rail Limited

Queensland Rail Limited was declared a GOC on 1 July 2010 following the separation of the business from QR Limited. QR Limited is now trading as the private company QR National Limited.

Queensland Rail is an integrated passenger and rail network infrastructure business, servicing the passenger, tourism, resources and freight markets.

Darra to Springfield Transport Corridor Stage 2

The first stage of the Darra to Springfield Transport Corridor included 4.5 kilometres of new rail line between Darra and Richlands plus the new Richlands station and upgrade to the Centenary Highway at a cost of \$800 million. To assist with flood recovery efforts during January 2011 the Government decided to open Richlands station and service operations a week ahead of schedule.

The Darra to Springfield Transport Corridor Stage 2 project consists of extending the rail line from Richlands to Springfield (9.5 kilometres), building two railway stations at Springfield and Springfield Lakes, upgrades to the existing Centenary Highway and a cycle track.

During February 2011 the Premier announced Trackstar Alliance as the successful proponent for the \$475 million project.

Construction is currently underway and the project is expected to be completed in mid 2013.

Passenger Rollingstock program

QR Limited called for expressions of interest (EOIs) in December 2008 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 South East Queensland (SEQ), as well as replace existing ageing rollingstock. Following the EOI process, three bidders with the capability and experience to meet Queensland Rail's requirements – United Group and Rotem; Downer EDI and Bombardier; and Mitsubishi and CAF, were shortlisted.

In December 2010, the request for proposals (RFP) were provided 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 included a Local Industry Participation Plan and a weighting for local content in the assessment process.

The RFP process is scheduled to close in mid 2011, with the next stage comprising shortlisted bidders providing best and final offers in late 2011. Queensland Rail proposes to award the contract by mid 2012.

Moreton Bay Rail Link

Moreton Bay Rail Link includes the construction of a 12.6 kilometre rail spur from Petrie to Kippa Ring and six new railway stations.

The \$1.15 billion project is being funded by the Australian Government (\$742 million), Queensland Government (\$300 million plus land valued at \$120 million) and Moreton Bay Regional Council (\$105 million). Queensland Rail is currently finalising the business case, with the project scheduled for completion in 2016.

Port GOCs

North Queensland Bulk Ports Corporation Limited

Demand for Queensland coal continues to grow and the State Government is planning significant investment in additional port infrastructure to ensure this demand can be satisfied. As part of this investment, Abbot Point Coal Terminal is set to undergo a significant expansion with up to six new coal terminals inclusive of Terminal Sites T2 and T3 for which preferred proponents have already been announced. The further possible expansion of another four Terminal Sites (T4-7) involving a possible 120 million tonnes per annum (mtpa) increase in capacity using standard terminal planning assumptions, would bring total capacity to nearly 300 mtpa.

Abbot Point Coal Terminal Sites T2 and T3

NQBP has been developing framework agreements with preferred proponents BHP Billiton Limited (BHP Billiton) and Hancock Coal Pty Ltd (Hancock Coal) for the development of Terminals 2 and 3 at the Port of Abbot Point. BHP Billiton and Hancock Coal have expressed interest in optimising the land area to build coal terminals with the capacity of 50 mtpa and 60 mtpa respectively. BHP Billiton anticipates exports to commence from its terminal in 2015 while Hancock Coal anticipates exports to commence at end 2013.

Abbot Point Coal Terminal Sites T4-7

NQBP is also considering the development of four additional coal terminals at Abbot Point. Referred to as Terminals 4-7 each terminal would have a nominal capacity of 30 mtpa. A site has been identified within the Abbot Point State Development Area for the development. NQBP has sought EOIs for the right to develop the T4-7 coal terminals in mid 2011 with awarding of preferred proponents planned for end 2011. Initial expressions for capacity from Galilee and Bowen Basin miners for T4-7 have been strong.

Abbot Point Multi Cargo Facility

The Multi Cargo Facility (MCF) is proposed by NQBP as a sheltered harbour at the Port of Abbot Point designed to accommodate multiple trades including bulk commodities, liquefied natural gas and petroleum products. The proposed project will also provide a shipping access channel and tug harbour for the port. The MCF is proposed to be constructed in two stages. Stage 1 involves the construction of berths and a common user tug facility to accommodate the T2 and T3 projects. Stage 2 involves the construction of additional berths to accommodate the T4-7 project and potential other trades from the Abbot Point State Development Area.

Hay Point (Dudgeon Point)

Following an EOI process in mid 2010, NQBP awarded preferred proponent status for the potential development of new export facilities at Dudgeon Point located at the Port of Hay Point to Adani Mining Pty Ltd and Dudgeon Point Project Management Pty Ltd. Framework agreements for the proposed development are currently being negotiated by NQBP with the two companies.

Gladstone Ports Corporation Limited

Port of Gladstone Expansion Projects

GPC is continuing the development of the LNG industry port infrastructure at the Port of Gladstone.

The Fisherman's Landing Port Expansion (FLPE) project involves expanding the existing Fisherman's Landing facility through the reclamation of approximately 170 hectares adjacent to the existing port facility. The reclamation will provide additional land to support the future construction of six wharves for the development of transport, storage, loading and unloading facilities. This project includes construction of a bund wall to provide a location for the disposal of dredge material from the capital dredging to deepen and widen the Targinie channel and the Fisherman's Landing swing basin.

As part of the Western Basin Dredging and Disposal Project, bunding of an area of approximately 235 hectares contiguous to the north of the FLPE will also be undertaken. This area will accommodate the long-term dredging and dredged material disposal to provide safe and efficient access to existing and proposed port facilities in the Western Basin, particularly the LNG industry.

The current estimated cost of the bund walls is \$101 million. The walls are expected to be completed by the end of 2011.

Liquefied Natural Gas Dredging and Marine Project

Under agreements entered into with the LNG industry, GPC, as project manager, will undertake \$1.474 billion in dredging works over 3 years. These projects are to be funded by the LNG industry except for the Clinton Bypass which GPC will fund under the approved Western Basin Dredging and Disposal Project, and the works for the Wiggins Island Coal Terminal which are to be paid for by that project's proponents. This is a major dredging campaign which will result in the development of materials off-loading facility docks, swing basins, berth pockets and channels for the LNG industry and dredging associated with the proposed Wiggins Island Coal Terminal.

The total dredging works are split into the following parcels:

1. dredging works for Curtis Channel and swing basins
2. dredging works for Targinie Channel and Fisherman's Landing swing basin
3. dredging works for Curtis Channel extension including swing basin
4. dredging work for part widening and deepening Clinton Bypass plus part Targinie Channel (main channel works common to all shippers)
5. preliminary dredging work for construction requirements, including material off-loading facilities and berths' pockets
6. demobilisation and clean up
7. dredging work for Wiggins Island Coal Terminal.

Wiggins Island Coal Terminal

The proposed Wiggins Island Coal Terminal will be located at the Port of Gladstone. The Wiggins Island Coal Export Terminal Group (a consortium of coal companies) will finance and own the terminal with GPC as operator. Stage 1 of the Terminal is to be developed to accommodate the initial capacity commitments received from shippers of 27 mtpa. The proposed total export capacity of the terminal will be approximately 80 mtpa when fully developed at a total cost of approximately \$5 billion.

A number of activities required to be finalised ahead of project and financial close are provided for in the Framework Deed and continue to be progressed with project financial close and commencement of construction of Stage 1 of the terminal expected to occur in the next few months.

Balaclava Island

Balaclava Island Coal Export Terminal is a proposed 'single user' proponent funded project sponsored by Xstrata Coal Queensland (XCQ) and located at Port Alma, 40kms north of Gladstone. The project is planned to be developed to export 35 mtpa with milestones of construction commencement in 2012 and terminal commissioning in 2014. This development will avoid further congestion at coal terminals at the Port of Gladstone including the proposed Wiggins Island Coal Terminal, and increase the volume of exports to global markets from XCQ's existing and proposed mines in Queensland's Bowen and Surat Basins.

Surat Basin

The Surat Basin Railway (SBR) will facilitate development of significant coal reserves in the Surat Basin by providing a rail link from Wandoan to Banana, ultimately connecting the region to the Port of Gladstone and the proposed Wiggins Island and Balaclava Island Coal Export Terminals. In December 2006, the SBR Joint Venture, now comprising Queensland Rail, XCQ, and the Australian Transport and Energy Corridor, was granted an exclusive mandate to develop the SBR through to financial close.

The timeframes for the SBR project are expected to closely align with the delivery of other key private sector projects in the Surat Basin, particularly XCQ's Wandoan Coal Project, and will support infrastructure such as the Wiggins Island Coal Terminal at Gladstone and Balaclava Island Coal Export Terminal at Port Alma and upgrades to QR National Limited's Moura rail system.

Port of Townsville Limited

Marine Precinct

In 2009-10, the Government approved the \$110 million development of the Marine Precinct at the PoTL. 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 now under construction.

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 is 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.

Berth 10A

PoTL proposes to undertake the redevelopment of Berth 10A to increase the utility of the berth for military vessels, the cruise ship tourism trade and the capacity to conduct commercial cargo trade by Panamax-sized vessels on the berth. The approximate cost of \$85 million will include construction of a new cruise ship terminal on the berth.

Berths 6, 7 and 8

To support the export operations that currently use Berth 7, PoTL has reached agreement with Xstrata Copper and Xstrata Zinc to upgrade Berth 8 at an estimated cost of \$57 million to allow their relocation, of which PoTL is contributing \$33 million. Export capacity will increase from 2.7 mtpa to 5 mtpa by moving to Berth 8. Once the Berth 8 upgrade is complete, Berths 6 and 7 will be demolished for an approximate cost of \$8 million.

Far North Queensland Ports Corporation Limited (Ports North)

Cairns Foreshore Development

Ports North is continuing with the long-term Cityport development plan. 2010 saw the delivery of the new Cairns Cruise Ship Terminal, and Ports North is now progressing with the next \$9 million stage of the \$23 million foreshore development. This will create a 600 metre public promenade along the harbour linking the Cairns Convention Centre through the Lagoon and Esplanade. The project delivers extensive public open space along the waterfront that previously was not accessible to the public.

WATER SECTOR

SunWater Limited

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 is underway.

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.

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.

Regional Water Projects

Through 2011, 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 and Pipeline

Subject to Shareholding Ministers' approval, SunWater has proposed the construction of the 373,622 megalitre (ML) Connors River Dam, and a 133 kilometre pipeline linking the dam to Moranbah. This project will supply water primarily to commercial customers and support proposed new mining projects in the Bowen Basin. In addition, the towns of Nebo and Moranbah will receive water allocations that will provide security of supply to the townships.

Moranbah to Alpha Pipeline

To support coal mining developments in the Galilee Basin, SunWater is investigating the construction of a 265 kilometre pipeline from Moranbah to Alpha. This pipeline is planned to utilise water from the Connors River Dam.

Burdekin to Moranbah Pipeline Augmentation

SunWater proposes to upgrade the existing Burdekin Moranbah Pipeline to provide an additional 5.6 gigalitres per annum. The additional capacity is to meet increased demand from coal mines in the Bowen Basin.

Nathan Dam

The proposed Nathan Dam 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.

Kenya to Chinchilla Weir Pipeline

Queensland Gas Corporation Limited has contracted SunWater to build, own and operate a 20 kilometre buried pipeline to transport up to 100 ML per day of treated coal seam gas water from its Kenya water treatment plant in the Surat Basin to Chinchilla Weir.

The pipeline will provide water mainly for beneficial use by the agricultural community, but water will also be made available to supplement the Chinchilla town water supply through the Chinchilla Weir Water Supply Scheme.

Kinchant Dam Safety Upgrade

The dam safety upgrade of Kinchant Dam will involve an improvement of the existing drainage system within the structure itself, together with the installation of additional drainage within and downstream of the dam foundation. These modifications will allow the dam to hold excess water until it can pass safely through the spillway or the outlet works.

Construction is planned to commence in mid 2011 with an expected completion date in mid 2013 at a cost of \$30 million.

State Water Entities

Since 2006, the Queensland Government has been undertaking 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 to allow the efficient management of the region's water supplies
- the structural consolidation of the water supply industry in SEQ, including the establishment of four Government-owned bulk water entities to own and operate the Water Grid.

In the middle of acute drought conditions, the reform of the bulk water industry was a critical step in ensuring the capabilities and accountability necessary to deliver water security for the region. Five years on, supply security in SEQ has substantially improved.

In late 2010, Government announced a number of measures to maximise bulk water efficiencies across the SEQ Water Grid. This included placing parts of climate-resilient supply projects into standby mode, while maintaining the flexibility for operations to be activated in emergency situations, and re-mobilised when required.

In December 2010, Government also announced the further rationalisation of the bulk water sector through the merger of the region's two bulk water authorities (Queensland Bulk Water Supply Authority and Queensland Manufactured Water Authority) into a more streamlined, cost-efficient operation. This will ensure the SEQ bulk water sector is structured to most efficiently meet the future supply needs of the region.

In 2011-12, Government will continue to finalise Water Grid projects.

For the Northern Pipeline Interconnector Stage 2, which will facilitate the integration of the Sunshine Coast Regional Council into the SEQ Water Grid, \$35.7 million is budgeted in 2011-12.

The Government-owned special-purpose vehicle construction company Queensland Water Infrastructure Pty Ltd is also progressing with construction of the \$348 million Wyalaring Dam project, which is scheduled for completion in 2011.

9 UNIFORM PRESENTATION FRAMEWORK

INTRODUCTION

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

The 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.

UNIFORM PRESENTATION FRAMEWORK FINANCIAL INFORMATION

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

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

Table 9.1
General Government Sector Operating Statement¹

	2010-11 Budget \$ million	2010-11 Est.Actual \$ million	2011-12 Budget \$ million	2012-13 Projection \$ million	2013-14 Projection \$ million	2014-15 Projection \$ million
Revenue from Transactions						
Taxation revenue	10,192	9,876	10,527	11,415	12,144	13,164
Grants revenue	18,872	20,081	20,262	22,229	21,655	21,847
Sales of goods and services	4,077	4,113	4,559	4,772	4,974	5,126
Interest income	2,132	2,289	2,477	2,575	2,647	2,710
Dividend and income tax equivalent income	1,460	1,336	1,047	1,197	1,485	1,634
Other revenue	3,874	3,488	4,134	4,317	4,098	4,336
Total Revenue from Transactions	40,606	41,183	43,007	46,506	47,004	48,817
<i>Less</i> Expenses from Transactions						
Employee expenses	16,221	16,955	17,932	18,434	19,274	20,206
Superannuation expenses						
Superannuation interest cost	1,261	1,265	1,201	1,210	1,212	1,207
Other superannuation expenses	2,103	2,128	2,212	2,292	2,349	2,389
Other operating expenses	8,502	8,659	9,597	9,986	9,504	9,431
Depreciation and amortisation	2,822	2,608	2,872	3,213	3,500	3,604
Other interest expenses	1,242	1,240	1,747	2,211	2,543	2,817
Grants expenses	10,201	10,455	11,504	10,451	9,493	9,690
Total Expenses from Transactions	42,352	43,310	47,065	47,799	47,877	49,346
<i>Equals</i> Net Operating Balance	(1,745)	(2,127)	(4,058)	(1,293)	(873)	(529)
<i>Plus</i> Other economic flows - included in operating result	(178)	797	(97)	(35)	50	75
<i>Equals</i> Operating Result	(1,924)	(1,331)	(4,155)	(1,328)	(823)	(453)
<i>Plus</i> Other economic flows - other movements in equity	2,881	3,642	3,211	3,552	3,725	4,232
<i>Equals</i> Comprehensive Result - Total Change In Net Worth	957	2,311	(943)	2,224	2,902	3,779
KEY FISCAL AGGREGATES						
Net Operating Balance	(1,745)	(2,127)	(4,058)	(1,293)	(873)	(529)
<i>Less</i> Net Acquisition of Non-financial Assets						
Purchases of non-financial assets	8,335	7,457	7,180	6,879	5,786	5,234
<i>Less</i> Sales of non-financial assets	203	171	226	302	135	146
<i>Less</i> Depreciation	2,822	2,608	2,872	3,213	3,500	3,604
<i>Plus</i> Change in inventories	73	112	39	(27)	61	46
<i>Plus</i> Other movements in non-financial assets	186	226	213	180	191	191
Equals Total Net Acquisition of Non-financial Assets	5,569	5,016	4,334	3,517	2,403	1,722
<i>Equals</i> Net Lending / (Borrowing)	(7,314)	(7,144)	(8,392)	(4,810)	(3,276)	(2,251)
Note: 1. Numbers may not add due to rounding.						

Table 9.2
Public Non-financial Corporations Sector Operating Statement¹

	2010-11 Budget \$ million	2010-11 Est.Actual \$ million	2011-12 Budget \$ million	2012-13 Projection \$ million	2013-14 Projection \$ million	2014-15 Projection \$ million
Revenue from Transactions						
Grants revenue	2,092	2,259	2,129	2,041	2,192	2,268
Sales of goods and services	10,574	8,343	7,406	8,110	8,815	9,207
Interest income	98	112	108	104	103	106
Other revenue	323	374	347	342	355	338
Total Revenue from Transactions	13,086	11,089	9,991	10,597	11,464	11,920
<i>Less</i> Expenses from Transactions						
Employee expenses	2,563	2,129	1,637	1,644	1,720	1,758
Superannuation expenses						
Other superannuation expenses	106	235	211	219	224	228
Other operating expenses	4,284	3,630	3,359	3,246	3,312	3,079
Depreciation and amortisation	2,747	2,205	2,234	2,383	2,485	2,574
Other interest expenses	2,654	2,249	2,073	2,314	2,498	2,651
Grants expenses	34	85	27	28	17	17
Other property expenses	388	307	252	275	329	373
Total Expenses from Transactions	12,776	10,839	9,793	10,110	10,585	10,682
<i>Equals</i> Net Operating Balance	311	250	198	488	879	1,238
<i>Plus</i> Other economic flows - included in operating result	(109)	838	(249)	(312)	(287)	(308)
<i>Equals</i> Operating Result	202	1,088	(51)	176	592	930
<i>Plus</i> Other economic flows - other movements in equity	(453)	(3,526)	128	110	139	437
<i>Equals</i> Comprehensive Result - Total Change In Net Worth	(251)	(2,438)	77	286	731	1,367
KEY FISCAL AGGREGATES						
Net Operating Balance	311	250	198	488	879	1,238
<i>Less</i> Net Acquisition of Non-financial Assets						
Purchases of non-financial assets	7,144	5,694	5,134	4,532	4,496	4,737
<i>Less</i> Sales of non-financial assets	184	476	88	40	47	81
<i>Less</i> Depreciation	2,747	2,205	2,234	2,383	2,485	2,574
<i>Plus</i> Change in inventories	26	8	5	23	4	11
<i>Plus</i> Other movements in non-financial assets	40	6	43	45	47	49
Equals Total Net Acquisition of Non-financial Assets	4,281	3,026	2,861	2,178	2,015	2,142
<i>Equals</i> Net Lending / (Borrowing)	(3,970)	(2,776)	(2,663)	(1,690)	(1,135)	(903)
Note: 1. Numbers may not add due to rounding.						

Table 9.3
Non-financial Public Sector Operating Statement¹

	2010-11 Budget \$ million	2010-11 Est.Actual \$ million	2011-12 Budget \$ million	2012-13 Projection \$ million	2013-14 Projection \$ million	2014-15 Projection \$ million
Revenue from Transactions						
Taxation revenue	9,854	9,570	10,202	11,028	11,735	12,736
Grants revenue	18,914	20,256	20,411	22,393	21,837	22,050
Sales of goods and services	14,316	12,091	11,605	12,499	13,377	13,905
Interest income	2,230	2,401	2,586	2,679	2,750	2,817
Dividend and income tax equivalent income	25	35	16	22	31	40
Other revenue	4,194	3,860	4,481	4,660	4,453	4,675
Total Revenue from Transactions	49,533	48,214	49,300	53,280	54,183	56,222
<i>Less</i> Expenses from Transactions						
Employee expenses	18,664	18,979	19,480	19,983	20,896	21,862
Superannuation expenses						
Superannuation interest cost	1,261	1,265	1,201	1,210	1,212	1,207
Other superannuation expenses	2,209	2,363	2,423	2,512	2,573	2,617
Other operating expenses	12,415	11,918	12,596	12,849	12,403	12,081
Depreciation and amortisation	5,568	4,812	5,106	5,597	5,986	6,178
Other interest expenses	3,704	3,298	3,586	4,238	4,735	5,148
Grants expenses	8,197	8,456	9,551	8,602	7,500	7,642
Total Expenses from Transactions	52,017	51,091	53,942	54,990	55,305	56,737
<i>Equals</i> Net Operating Balance	(2,485)	(2,878)	(4,642)	(1,710)	(1,122)	(515)
<i>Plus</i> Other economic flows - included in operating result	(287)	(123)	(346)	(347)	(238)	(233)
<i>Equals</i> Operating Result	(2,772)	(3,001)	(4,988)	(2,057)	(1,360)	(748)
<i>Plus</i> Other economic flows - other movements in equity	3,728	5,314	4,045	4,281	4,262	4,527
<i>Equals</i> Comprehensive Result - Total Change In Net Worth	957	2,313	(943)	2,224	2,902	3,779
KEY FISCAL AGGREGATES						
Net Operating Balance	(2,485)	(2,878)	(4,642)	(1,710)	(1,122)	(515)
<i>Less</i> Net Acquisition of Non-financial Assets						
Purchases of non-financial assets	15,479	13,151	12,313	11,412	10,282	9,971
<i>Less</i> Sales of non-financial assets	387	647	313	341	182	226
<i>Less</i> Depreciation	5,568	4,812	5,106	5,597	5,986	6,178
<i>Plus</i> Change in inventories	99	120	44	(4)	65	57
<i>Plus</i> Other movements in non-financial assets	227	232	256	225	238	240
<i>Equals</i> Total Net Acquisition of Non-financial Assets	9,850	8,042	7,194	5,695	4,418	3,864
<i>Equals</i> Net Lending / (Borrowing)	(12,335)	(10,920)	(11,837)	(7,405)	(5,540)	(4,378)
Note: 1. Numbers may not add due to rounding.						

Table 9.4
General Government Sector Balance Sheet¹

	2010-11 Budget \$ million	2010-11 Est.Actual \$ million	2011-12 Budget \$ million	2012-13 Projection \$ million	2013-14 Projection \$ million	2014-15 Projection \$ million
Assets						
Financial Assets						
Cash and deposits	308	646	353	391	443	465
Advances paid	594	651	1,011	1,002	994	999
Investments, loans and placements	29,553	33,028	34,088	35,085	36,341	37,194
Receivables	3,357	3,888	3,864	4,108	4,448	4,621
Equity						
Investments in other public sector entities	24,648	18,908	18,985	19,271	20,001	21,368
Investments - other	59	88	119	149	149	149
Total Financial Assets	58,518	57,209	58,420	60,005	62,375	64,797
Non-financial Assets						
Land and other fixed assets	182,735	176,208	183,708	190,607	195,979	201,172
Other non-financial assets	6,759	5,570	5,907	6,343	6,844	7,386
Total Non-financial Assets	189,493	181,778	189,616	196,950	202,823	208,558
Total Assets	248,012	238,987	248,035	256,955	265,199	273,355
Liabilities						
Payables	3,085	3,428	3,218	3,266	3,334	3,410
Superannuation liability	25,462	25,479	25,764	25,896	25,878	25,727
Other employee benefits	4,177	4,582	4,908	5,224	5,552	5,897
Advances received	462	515	740	727	710	666
Borrowing	23,250	23,820	33,185	39,268	44,132	48,161
Other liabilities	3,012	3,196	3,198	3,328	3,444	3,567
Total Liabilities	59,447	61,021	71,013	77,708	83,050	87,428
Net Worth	188,564	177,966	177,023	179,246	182,148	185,927
Net Financial Worth	(929)	(3,812)	(12,593)	(17,704)	(20,675)	(22,631)
Net Financial Liabilities	25,576	22,720	31,578	36,975	40,676	43,998
Net Debt	(6,743)	(9,989)	(1,528)	3,517	7,064	10,167
Note:						
1. Numbers may not add due to rounding.						

Table 9.5
Public Non-financial Corporations Sector Balance Sheet¹

	2010-11 Budget \$ million	2010-11 Est.Actual \$ million	2011-12 Budget \$ million	2012-13 Projection \$ million	2013-14 Projection \$ million	2014-15 Projection \$ million
Assets						
Financial Assets						
Cash and deposits	943	1,847	1,643	1,716	1,854	1,929
Advances paid	247	308	296	296	301	313
Investments, loans and placements	561	612	376	280	226	218
Receivables	2,032	1,892	1,851	1,848	1,847	1,874
Equity						
Investments - other	99	86	104	126	135	145
Total Financial Assets	3,882	4,746	4,271	4,265	4,364	4,479
Non-financial Assets						
Land and other fixed assets	72,658	53,301	56,674	59,606	62,504	65,610
Other non-financial assets	1,449	1,250	1,319	1,347	1,350	1,388
Total Non-financial Assets	74,107	54,551	57,992	60,953	63,854	66,998
Total Assets	77,989	59,296	62,263	65,219	68,218	71,478
Liabilities						
Payables	2,555	2,182	2,035	2,246	2,465	2,587
Superannuation liability	131	84	68	60	60	61
Other employee benefits	958	671	690	686	695	706
Deposits held	20	14	16	19	22	24
Advances received	11	11	11	10	9	9
Borrowing	39,578	28,990	31,902	34,054	35,574	36,772
Other liabilities	7,773	7,284	7,403	7,720	8,239	8,798
Total Liabilities	51,027	39,237	42,126	44,796	47,064	48,957
Net Worth	26,962	20,060	20,137	20,423	21,154	22,521
Net Financial Worth	(47,145)	(34,491)	(37,855)	(40,530)	(42,700)	(44,477)
Net Debt	37,859	26,248	29,614	31,792	33,223	34,345

Note:

1. Numbers may not add due to rounding.

Table 9.6
Non-financial Public Sector Balance Sheet ¹

	2010-11 Budget \$ million	2010-11 Est.Actual \$ million	2011-12 Budget \$ million	2012-13 Projection \$ million	2013-14 Projection \$ million	2014-15 Projection \$ million
Assets						
Financial Assets						
Cash and deposits	1,251	2,493	1,996	2,107	2,297	2,394
Advances paid	829	946	1,296	1,287	1,285	1,303
Investments, loans and placements	30,113	33,642	34,466	35,367	36,569	37,415
Receivables	3,943	4,470	4,565	4,661	4,744	4,833
Equity						
Investments in other public sector entities	(2,250)	(1,087)	(1,088)	(1,088)	(1,088)	(1,088)
Investments - other	158	174	222	274	283	293
Total Financial Assets	34,044	40,639	41,458	42,608	44,091	45,150
Non-financial Assets						
Land and other fixed assets	255,358	229,475	240,347	250,179	258,448	266,748
Other non-financial assets	790	799	791	773	766	789
Total Non-financial Assets	256,147	230,274	241,138	250,952	259,215	267,536
Total Assets	290,191	270,913	282,596	293,559	303,305	312,686
Liabilities						
Payables	4,223	4,319	4,123	4,237	4,268	4,354
Superannuation liability	25,593	25,563	25,832	25,956	25,939	25,788
Other employee benefits	5,135	5,254	5,598	5,910	6,247	6,603
Deposits held	20	14	16	19	21	24
Advances received	462	516	740	728	710	666
Borrowing	62,827	52,811	65,088	73,323	79,707	84,934
Other liabilities	3,367	4,470	4,176	4,140	4,264	4,389
Total Liabilities	101,627	92,947	105,573	114,313	121,157	126,759
Net Worth	188,564	177,966	177,023	179,246	182,148	185,927
Net Financial Worth	(67,583)	(52,308)	(64,115)	(71,705)	(77,066)	(81,609)
Net Financial Liabilities	65,333	51,221	63,028	70,617	75,978	80,520
Net Debt	31,116	16,259	28,085	35,309	40,287	44,513

Note:

1. Numbers may not add due to rounding.

Table 9.7
General Government Sector Cash Flow Statement¹

	2010-11 Budget \$ million	2010-11 Est.Actual \$ million	2011-12 Budget \$ million	2012-13 Projection \$ million	2013-14 Projection \$ million	2014-15 Projection \$ million
Cash Receipts from Operating Activities						
Taxes received	10,190	9,906	10,526	11,413	12,143	13,163
Grants and subsidies received	18,883	20,096	20,275	22,243	21,670	21,859
Sales of goods and services	4,485	4,539	5,161	5,382	5,582	5,739
Interest receipts	2,131	2,288	2,477	2,575	2,647	2,710
Dividends and income tax equivalents	1,062	1,023	1,201	1,030	1,215	1,517
Other receipts	4,832	5,192	6,028	6,446	5,818	6,046
Total Operating Receipts	41,582	43,045	45,668	49,090	49,075	51,035
Cash Payments for Operating Activities						
Payments for employees	(18,435)	(18,841)	(20,704)	(21,481)	(22,517)	(23,601)
Payments for goods and services	(9,298)	(10,622)	(11,673)	(12,086)	(11,269)	(11,130)
Grants and subsidies	(10,135)	(10,461)	(11,482)	(10,414)	(9,436)	(9,633)
Interest paid	(1,240)	(1,249)	(1,747)	(2,217)	(2,549)	(2,826)
Other payments	(738)	(758)	(1,023)	(917)	(919)	(933)
Total Operating Payments	(39,847)	(41,931)	(46,629)	(47,116)	(46,690)	(48,123)
Net Cash Inflows from Operating Activities	1,735	1,114	(961)	1,974	2,384	2,911
Cash Flows from Investments in Non-Financial Assets						
Purchases of non-financial assets	(8,335)	(7,457)	(7,180)	(6,879)	(5,786)	(5,234)
Sales of non-financial assets	203	171	226	302	135	146
Net Cash Flows from Investments in Non-financial Assets	(8,131)	(7,286)	(6,954)	(6,578)	(5,651)	(5,089)
Net Cash Flows from Investments in Financial Assets for Policy Purposes	(1)	9,248	(484)	(450)	(616)	(924)
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	(1,361)	(4,739)	(1,045)	(981)	(906)	(842)
Receipts from Financing Activities						
Advances received (net)	(14)	43	221	(16)	(21)	(48)
Borrowing (net)	7,629	1,362	8,931	6,087	4,862	4,014
Net Cash Flows from Financing Activities	7,615	1,405	9,152	6,071	4,841	3,966
Net Increase/(Decrease) in Cash held	(143)	(259)	(293)	37	52	23
Net cash from operating activities	1,735	1,114	(961)	1,974	2,384	2,911
Net cash flows from investments in non-financial assets	(8,131)	(7,286)	(6,954)	(6,578)	(5,651)	(5,089)
Surplus/(Deficit)	(6,396)	(6,172)	(7,915)	(4,604)	(3,267)	(2,178)
Derivation of ABS GFS Cash Surplus/Deficit						
Cash surplus/(deficit)	(6,396)	(6,172)	(7,915)	(4,604)	(3,267)	(2,178)
Acquisitions under finance leases and similar arrangements	(71)	(71)	(67)	(15)	(26)	(26)
ABS GFS Cash Surplus/(Deficit) Including Finance Leases and Similar Arrangements	(6,467)	(6,243)	(7,982)	(4,618)	(3,293)	(2,203)
Note: 1. Numbers may not add due to rounding.						

Table 9.8 Public Non-financial Corporations Sector Cash Flow Statement ¹						
	2010-11 Budget \$ million	2010-11 Est.Actual \$ million	2011-12 Budget \$ million	2012-13 Projection \$ million	2013-14 Projection \$ million	2014-15 Projection \$ million
Cash Receipts from Operating Activities						
Grants and subsidies received	2,096	2,306	2,114	2,045	2,190	2,258
Sales of goods and services	11,329	9,130	8,141	8,970	9,761	10,199
Interest receipts	98	112	108	104	103	106
Other receipts	664	1,122	999	878	832	832
Total Operating Receipts	14,186	12,671	11,363	11,996	12,886	13,396
Cash Payments for Operating Activities						
Payments for employees	(2,605)	(2,347)	(1,846)	(1,876)	(1,935)	(1,975)
Payments for goods and services	(5,016)	(4,872)	(4,035)	(3,814)	(3,785)	(3,562)
Grants and subsidies	(31)	(41)	(24)	(25)	(14)	(14)
Interest paid	(2,535)	(2,178)	(1,986)	(2,307)	(2,492)	(2,644)
Other payments	(884)	(1,423)	(1,301)	(1,201)	(1,304)	(1,446)
Total Operating Payments	(11,071)	(10,860)	(9,192)	(9,223)	(9,530)	(9,642)
Net Cash Inflows from Operating Activities	3,115	1,811	2,171	2,773	3,356	3,754
Cash Flows from Investments in Non-Financial Assets						
Purchases of non-financial assets	(7,144)	(5,694)	(5,134)	(4,532)	(4,496)	(4,737)
Sales of non-financial assets	184	476	88	40	47	81
Net Cash Flows from Investments in Non-financial Assets	(6,961)	(5,218)	(5,046)	(4,493)	(4,449)	(4,656)
Net Cash Flows from Investments in Financial Assets for Policy Purposes	445	5,944	156	(22)	(10)	(10)
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	6	65	23	11	11	..
Receipts from Financing Activities						
Borrowing (net)	3,414	291	2,958	2,163	1,515	1,187
Dividends paid	(856)	(735)	(918)	(782)	(904)	(1,128)
Other financing (net)	417	(2,366)	452	422	619	928
Net Cash Flows from Financing Activities	2,975	(2,809)	2,492	1,803	1,229	987
Net Increase/(Decrease) in Cash held	(420)	(206)	(204)	73	139	74
Net cash from operating activities	3,115	1,811	2,171	2,773	3,356	3,754
Net cash flows from investments in non-financial assets	(6,961)	(5,218)	(5,046)	(4,493)	(4,449)	(4,656)
Dividends paid	(856)	(735)	(918)	(782)	(904)	(1,128)
Surplus/(Deficit)	(4,702)	(4,142)	(3,793)	(2,502)	(1,997)	(2,031)
Derivation of ABS GFS Cash Surplus/Deficit						
Cash surplus/(deficit)	(4,702)	(4,142)	(3,793)	(2,502)	(1,997)	(2,031)
Acquisitions under finance leases and similar arrangements	..	(4)	..	..	..	..
ABS GFS Cash Surplus/(Deficit) Including Finance Leases and Similar Arrangements	(4,702)	(4,145)	(3,793)	(2,502)	(1,997)	(2,031)
Note: 1. Numbers may not add due to rounding.						

Table 9.9
Non-financial Public Sector Cash Flow Statement¹

	2010-11 Budget \$ million	2010-11 Est.Actual \$ million	2011-12 Budget \$ million	2012-13 Projection \$ million	2013-14 Projection \$ million	2014-15 Projection \$ million
Cash Receipts from Operating Activities						
Taxes received	9,853	9,599	10,201	11,027	11,734	12,735
Grants and subsidies received	18,928	20,312	20,413	22,401	21,852	22,054
Sales of goods and services	15,480	13,272	12,942	13,969	14,931	15,510
Interest receipts	2,229	2,401	2,586	2,679	2,750	2,817
Dividends and income tax equivalents	33	42	22	16	22	31
Other receipts	5,493	6,312	7,027	7,324	6,650	6,878
Total Operating Receipts	52,015	51,939	53,191	57,416	57,939	60,026
Cash Payments for Operating Activities						
Payments for employees	(20,920)	(21,083)	(22,461)	(23,261)	(24,354)	(25,474)
Payments for goods and services	(13,994)	(15,113)	(15,364)	(15,533)	(14,658)	(14,281)
Grants and subsidies	(8,128)	(8,412)	(9,531)	(8,552)	(7,443)	(7,585)
Interest paid	(3,583)	(3,236)	(3,500)	(4,238)	(4,736)	(5,150)
Other payments	(1,396)	(1,906)	(2,045)	(1,868)	(1,914)	(2,001)
Total Operating Payments	(48,022)	(49,750)	(52,900)	(53,452)	(53,104)	(54,490)
Net Cash Inflows from Operating Activities	3,993	2,189	290	3,964	4,835	5,536
Cash Flows from Investments in Non-Financial Assets						
Purchases of non-financial assets	(15,479)	(13,151)	(12,313)	(11,412)	(10,282)	(9,971)
Sales of non-financial assets	387	647	313	341	182	226
Net Cash Flows from Investments in Non-financial Assets	(15,092)	(12,504)	(12,000)	(11,070)	(10,100)	(9,745)
Net Cash Flows from Investments in Financial Assets for Policy Purposes	851	12,817	128	(52)	(10)	(10)
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	(1,355)	(4,674)	(1,022)	(969)	(894)	(842)
Receipts from Financing Activities						
Advances received (net)	(14)	43	221	(16)	(21)	(48)
Borrowing (net)	11,043	1,653	11,889	8,251	6,377	5,201
Other financing (net)	9	4	(4)	2	2	4
Net Cash Flows from Financing Activities	11,038	1,701	12,105	8,236	6,358	5,157
Net Increase/(Decrease) in Cash held	(565)	(471)	(498)	109	189	96
Net cash from operating activities	3,993	2,189	290	3,964	4,835	5,536
Net cash flows from investments in non-financial assets	(15,092)	(12,504)	(12,000)	(11,070)	(10,100)	(9,745)
Surplus/(Deficit)	(11,099)	(10,315)	(11,710)	(7,107)	(5,265)	(4,209)
Derivation of ABS GFS Cash Surplus/Deficit						
Cash surplus/(deficit)	(11,099)	(10,315)	(11,710)	(7,107)	(5,265)	(4,209)
Acquisitions under finance leases and similar arrangements	(71)	(75)	(67)	(15)	(26)	(26)
ABS GFS Cash Surplus/(Deficit) Including Finance Leases and Similar Arrangements	(11,170)	(10,390)	(11,776)	(7,121)	(5,291)	(4,235)
Note: 1. Numbers may not add due to rounding.						

RECONCILIATION OF NET OPERATING BALANCE TO ACCOUNTING OPERATING RESULT

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

Data presented in Table 9.10 provides a reconciliation of the General Government sector net operating balance to the accounting operating result.

Table 9.10 Reconciliation of UPF net operating balance to accounting surplus¹			
	2010-11 Budget \$ million	2010-11 Est.Act. \$ million	2011-12 Budget \$ million
Net operating balance General Government sector (Table 9.1)	(1,745)	(2,127)	(4,058)
<i>Remeasurement/valuation adjustments</i>			
Bad debts and amortisation	(57)	(85)	(82)
Deferred tax equivalents	12	(728)	131
Dividends received on privatisation sales	..	1,758	..
Market value adjustments investments/loans	12	66	20
Revaluation of provisions	(13)	25	(14)
Decommissioned infrastructure assets and land under roads	(143)	(143)	(143)
Gain/(loss) on assets sold/written off	12	(96)	(9)
AAS net surplus General Government sector	(1,924)	(1,331)	(4,155)
Note: 1. Numbers may not add due to rounding.			

GENERAL GOVERNMENT TIME SERIES

Data presented in Table 9.11 provides a time series from 2003-04 to 2009-10 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 ¹							
	2003-04 Actual \$ million	2004-05 Actual \$ million	2005-06 Actual \$ million	2006-07 Actual \$ million	2007-08 Actual \$ million	2008-09 Actual \$ million	2009-10 Actual \$ million
Revenue from Transactions							
Taxation revenue	6,676	6,952	7,396	8,484	9,546	8,877	9,375
Grant revenue	11,528	12,755	13,590	14,373	15,523	17,476	20,205
Sales of goods and services	2,105	2,381	2,586	2,889	3,341	3,568	3,962
Interest income	2,723	2,972	3,414	3,348	(275)	1,482	2,205
Dividend and income tax equivalent income	1,148	1,028	1,057	863	1,255	1,180	950
Other revenue	1,035	1,473	2,039	2,024	2,040	4,425	3,032
Total Revenue	25,214	27,562	30,084	31,982	31,430	37,008	39,729
Expenses from Transactions							
Employee expenses	8,972	9,595	10,615	11,731	13,171	14,305	15,566
Superannuation expenses							
Superannuation interest costs	1,040	1,009	826	1,154	816	858	1,320
Other superannuation expenses	1,061	1,182	1,367	1,513	1,865	2,012	2,051
Other operating expenses	3,948	4,392	5,227	6,109	6,612	7,185	7,756
Depreciation and amortisation	1,460	1,585	1,679	1,880	1,850	2,496	2,500
Other interest expenses	213	209	174	180	346	599	803
Grant expenses	5,180	5,647	6,482	7,558	8,328	9,519	9,789
Total Expenses	21,874	23,619	26,370	30,128	32,989	36,974	39,785
Net Operating Balance	3,340	3,942	3,714	1,855	(1,559)	35	(56)
OTHER KEY AGGREGATES							
Purchases of non-financial assets	2,415	2,843	3,186	4,418	5,716	6,960	8,767
Net acquisition of non-financial assets	503	1,053	1,236	2,067	3,668	4,434	6,494
Net lending / (borrowing)	2,838	2,873	2,478	(211)	(5,226)	(4,399)	(6,550)
Net Worth	77,723	96,433	105,035	117,831	155,178	184,619	175,655
Net Debt	(14,811)	(19,406)	(23,202)	(26,686)	(22,598)	(19,281)	(13,342)
Cash Surplus/Deficit	3,490	4,640	4,648	2,350	(4,922)	(2,839)	(5,305)
Note: 1. Numbers may not add due to rounding. Source: Outcomes Reports for Queensland 2003-04 to 2009-10. (Numbers have been recast for changes to UPF presentation.)							

OTHER GENERAL GOVERNMENT UPF DATA

Data in the following table is presented in accordance with the Uniform Presentation Framework.

Grants

Data presented in Tables 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 ¹		
	2010-11 Est.Actual \$ million	2011-12 Budget \$ million
Current grant revenue		
Current grants from the Commonwealth		
General purpose grants	8,484	9,195
Specific purpose grants	7,252	6,905
Specific purpose grants for on-passing	2,308	2,184
Total current grants from the Commonwealth	18,044	18,283
Other contributions and grants	422	423
Total current grant revenue	18,466	18,706
Capital grant revenue		
Capital grants from the Commonwealth		
General purpose grants	..	1
Specific purpose grants	1,504	1,474
Specific purpose grants for on-passing	19	2
Total capital grants from the Commonwealth	1,523	1,476
Other contributions and grants	92	79
Total capital grant revenue	1,615	1,556
Total grant revenue	20,081	20,262
Note:		
1. Numbers may not add due to rounding.		

Table 9.12(b) General Government Sector Grant Expense ¹		
	2010-11 Est.Actual \$ million	2011-12 Budget \$ million
Current grant expense		
Private and Not-for-profit sector	3,709	3,923
Private and Not-for-profit sector on-passing	2,010	1,779
Local Government	198	201
Local Government on-passing	312	425
Grants to other sectors of Government	1,962	1,941
Other	300	304
Total current grant expense	8,491	8,573
Capital grant expense		
Private and Not-for-profit sector	418	427
Private and Not-for-profit sector on-passing	4	3
Households sector on-passing	19	2
Local Government	1,245	2,152
Grants to other sectors of Government	103	46
Other	175	301
Total capital grant expense	1,964	2,931
Total grant expense	10,455	11,504
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 ¹		
	2010-11 Est.Actual \$ million	2011-12 Budget \$ million
Dividend and Income Tax Equivalent income from PNFC sector	1,300	1,031
Dividend and Income Tax Equivalent income from PFC sector	35	16
Total Dividend and Income Tax Equivalent income	1,336	1,047
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.

Table 9.14 General Government Sector Expenses by Function¹						
	2010-11 Budget \$ million	2010-11 Est. Act. \$ million	2011-12 Budget \$ million	2012-13 Projection \$ million	2013-14 Projection \$ million	2014-15 Projection \$ million
General public services	1,359	1,347	1,367	1,473	1,485	1,555
Public order and safety	3,621	3,549	3,784	3,855	3,999	4,139
Education	9,924	9,899	10,342	10,366	10,875	11,449
Health	10,603	11,153	11,692	12,552	13,248	13,883
Social security and welfare	2,945	2,755	2,875	2,684	2,762	2,902
Housing and community amenities	1,848	1,936	2,377	2,234	2,172	2,212
Recreation and culture	776	806	850	802	769	763
Fuel and energy	448	470	511	395	481	541
Agriculture, forestry, fishing and hunting	835	578	612	523	512	505
Mining, manufacturing and construction	249	280	309	272	257	260
Transport and communications	4,886	5,398	6,643	6,400	5,849	5,425
Other economic affairs	1,041	1,047	1,022	983	942	904
Other purposes	3,816	4,091	4,682	5,259	4,525	4,809
Total Expenses	42,352	43,310	47,065	47,799	47,877	49,346
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.

Table 9.15 General Government Sector Purchases of Non-financial Assets by Function¹						
	2010-11 Budget \$ million	2010-11 Est. Act. \$ million	2011-12 Budget \$ million	2012-13 Projection \$ million	2013-14 Projection \$ million	2014-15 Projection \$ million
General public services	217	97	96	66	67	69
Public order and safety	739	588	594	577	422	258
Education	1,256	1,457	625	503	507	386
Health	1,516	1,238	1,698	2,643	1,446	1,142
Social security and welfare	166	135	118	112	38	37
Housing and community amenities	667	786	265	114	52	26
Recreation and culture	122	127	95	35	28	27
Agriculture, forestry, fishing and hunting	99	74	40	44	27	25
Mining, manufacturing and construction	15	14	12	9	4	3
Transport and communications	3,366	2,779	3,507	2,637	3,005	3,166
Other economic affairs	67	46	27	26	17	17
Other purposes	105	116	103	113	173	77
Total Purchases	8,335	7,457	7,180	6,879	5,786	5,234
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.

Table 9.16 General Government Sector Taxes ¹		
	2010-11 Est.Actual \$ million	2011-12 Budget \$ million
Taxes on employers' payroll and labour force	3,005	3,263
Taxes on property		
Land taxes	1,042	1,064
Stamp duties on financial and capital transactions	1,885	2,180
Other	535	596
Taxes on the provision of goods and services		
Taxes on gambling	951	981
Taxes on insurance	543	583
Taxes on use of goods and performance of activities		
Motor vehicle taxes	1,760	1,835
Other	154	25
Total Taxation Revenue	9,876	10,527
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 2011-12.

Table 9.17 Loan Council Allocation ¹			
		2011-12 Nomination \$ million	2011-12 Budget \$ million
	General Government sector cash deficit/(surplus) ²	7,406	7,915
	PNFC sector cash deficit/(surplus) ²	3,096	3,793
	Non-financial Public Sector cash deficit/(surplus) ²	10,503	11,710
	Acquisitions under finance leases and similar arrangements	(82)	(67)
Equals	ABS GFS cash deficit/(surplus)	10,585	11,776
<i>Less</i>	Net cash flows from investments in financial assets for policy purposes	(87)	128
<i>Plus</i>	Memorandum items ³	2,176	1,992
	Loan Council Allocation	12,848	13,640
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 \$13.64 billion. This compares to the LCA nomination of \$12.848 billion.

CONTINGENT LIABILITIES

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

The State's quantifiable and non-quantifiable contingent liabilities are detailed in the *2009-10 Report on State Finances – Whole of Government Financial Statements* (Note 49).

A summary of the State's quantifiable contingent liabilities as at 30 June 2010 is provided below.

Table 9.18 Contingent liabilities	
	2010 \$ million
Nature of contingent liability	
Guarantees and indemnities	5,164
Other	108
Total	5,272

BACKGROUND AND INTERPRETATION OF UNIFORM PRESENTATION FRAMEWORK

As mentioned in the introduction to this chapter, the UPF was reviewed in 2007 following the release of the AASB 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 previously required to report at year end against AAS 31 *Financial Reporting by Government*, which meant complying with the Accounting Standards issued by the AASB.

Harmonisation under AASB 1049

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

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

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

Revisions to the Uniform Presentation Framework

Following the introduction of AASB 1049, the Australian, state and territory governments consider that the UPF will continue to be an important framework for ensuring comparability of financial information across jurisdictions. 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 Queensland Rail 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.

REPORTING ENTITIES

The reporting entities included in the General Government and PNFC sectors 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

Health

Justice and Attorney-General

Legislative Assembly

Local Government and Planning

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 Reconstruction Authority
Queensland Rural Adjustment
Authority (QRAA)
Queensland Studies Authority
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 Corporation

Brisbane Port Holdings Pty Ltd
CS Energy Ltd
DBCT Holdings Pty Ltd
ENERGEX Ltd
Ergon Energy Corporation Limited
Far North Queensland Ports Corporation Limited
Forestry Plantations Queensland (sold 2010)
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 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
Queensland Rail Limited
Queensland Water Infrastructure Pty Ltd
SEQ Water Grid Manager
Southern Regional Water Pipeline Company Pty Ltd
Stadiums Queensland
Stanwell Corporation Limited
SunWater
Tarong Energy Corporation Limited
The Trustees of Parklands Gold Coast
ZeroGen Pty Ltd

APPENDIX A – TAX EXPENDITURE STATEMENT

OVERVIEW

Governments employ a range of policy tools to achieve social and economic objectives. These include the use of direct budgetary outlays, regulatory mechanisms and taxation. This Tax Expenditure Statement (TES) details revenue foregone as a result of Government decisions relating to the provision of tax 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 2009-10 and 2010-11 for payroll tax, land tax, duties and gambling taxes. A summary of the major tax expenditures valued on the basis of revenue foregone is presented in Table A.1. Not all expenditures can be quantified at this time. Accordingly, the total value of tax expenditures should be considered as indicative only.

Table A.1
Tax expenditure summary¹

	2009-10 ² \$ million	2010-11 \$ million
Payroll Tax		
Exemption threshold ³	1,121	1,143
Deduction scheme ⁴	240	259
Section 14 exemptions		
Local Government	100	104
Education	170	178
Hospitals	253	262
Total Payroll Tax	1,884	1,946
Land Tax		
Liability thresholds ⁵	447	523
Graduated land tax scale	327	550
Primary production deduction	91	109
Section 13 exemptions not included elsewhere ⁶	90	95
Land developers' concession	22	20
Capping of values	37	17
Total Land Tax	1,014	1,314
Duties		
Transfer duty on residential property		
Home concession ⁷	338	308
First home concession	211	133
First home vacant land concession	13	7
Insurance duty		
Non-life insurance	191	218
Workcover	26	28
Health insurance	199	204
Total Duties	978	898
Community Ambulance Cover		
Concession to pensioners and seniors ⁸	57	62
Taxes on Gambling		
Gaming machine taxes	114	121
Casino taxes	10	8
Total Gambling Tax	124	129

Notes:

1. Numbers may not add due to rounding.
2. 2009-10 estimates may have been revised since the 2010-11 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. No longer available from 1 August 2011.
8. Estimates are based on the revenue foregone through the use of the levy exemption by pensioners and senior citizens. The levy will be abolished from 1 July 2011.

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*.

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 but has now been continued until at least 30 June 2012.

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 until 1 August 2011. 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.

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, with a full concession available on certain vacant land up to the value of \$250,000.

Insurance duty

The benchmark tax base is assumed to be all premiums for general insurance policies (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%.

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.

The Community Ambulance Cover levy will be abolished from 1 July 2011.

APPENDIX B – CONCESSIONS STATEMENT

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 \$1.385 billion in 2011-12, an increase of \$90.5 million (or 7.0%) on the 2010-11 estimated actual.

Table B.1
Concessions by agency¹

Agency	2010-11 Est.Act. \$ million	2011-12 Estimate \$ million
Department of Communities		
Government-managed housing rental rebate ²	425.8	446.8
Electricity Rebate Scheme	104.0	115.6
Electricity Life Support Scheme	1.5	1.8
Medical Cooling and Heating Electricity Concession Scheme ³	0.5	1.6
Pensioner Rate Subsidy Scheme	44.0	50.2
Rail Concession Scheme	36.0	36.0
Reticulated Natural Gas Rebate Scheme	1.8	2.0
Home Energy Emergency Assistance Scheme	2.5	2.7
SEQ Pensioner Water Subsidy Scheme	14.2	17.5
National Reciprocal Transport Scheme	4.0	4.2
Active Recreation Centres - concessional usage rates	0.2	0.2
Department of Community Safety		
Urban Fire Levy Concession	6.4	6.8
Department of Education and Training		
Living Away from Home Allowances Scheme	6.3	6.5
School transport assistance for students with disabilities	36.6	37.6
Non-State School Transport Assistance Scheme	4.7	4.9
TAFE concessions	15.5	16.4
Department of Environment and Resource Management		
Entry and tour fee concessions	0.3	0.3
Queensland Health		
Spectacle Supply Scheme	8.4	9.2
Medical Aids Subsidy Scheme	34.2	38.0
Patient Travel Subsidy Scheme	49.0	54.6
Oral Health Scheme	110.0	116.0
Department of Justice and Attorney-General		
Public Trustee of Queensland – rebates of fees	22.6	25.7
Department of the Premier and Cabinet		
Venue hire and lease discount - Judith Wright Centre of Contemporary Art	0.5	0.3
Concessional entry fees - Queensland Museum	0.4	0.4
Concessional entry fees - Queensland Art Gallery	0.4	0.7
Venue hire discounts - Queensland Performing Arts Trust	0.4	0.4
Venue hire discounts - South Bank Corporation	0.1	0.1

Table B.1 (continued)
Concessions by agency¹

Agency	2010-11	2011-12
	Est.Act. \$ million	Estimate \$ million
Department of Transport and Main Roads		
Light and heavy vehicle registration concession	113.1	115.9
Recreational ship registration concession	1.7	1.7
School Transport Assistance Scheme	136.4	141.8
TransLink Transit Authority transport concessions (SEQ)	86.3	101.3
Other transport concessions incl. taxi subsidies	26.3	27.4
Total	1,294.1	1,384.6
Notes:		
1. Numbers may not add due to rounding.		
2. The 2010-11 estimated rent subsidy has increased due to greater numbers of lower income households in social housing, continued increases in market rents, the exclusion of the 2009 Commonwealth pension increases from rent calculations and the suspension of rent reviews until March 2011.		
3. New scheme – escalating awareness of scheme is expected to result in increased expenditure in outyears.		

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 2010-11 estimated rent subsidy has increased due to greater numbers of lower income households in social housing, continued increases in market rents, the exclusion of the 2009 Commonwealth pension increases from rent calculations and the suspension of rent reviews until March 2011.

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 2011-12 in line with the change in the Benchmark Retail Cost Index (BRCI) of 6.6%, 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 2011-12 in line with the change in the BRCI of 6.6%, as set by the Queensland Competition Authority.

In 2010-11 the Government established 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. In 2011-12 the maximum subsidy available has increased by \$20 to \$200.

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.

The South East Queensland Pensioner Water Subsidy Scheme provides an annual subsidy to eligible pensioner property owners in the SEQ Water Grid to lessen the impact of increased water prices and is in addition to the Pensioner Rate Subsidy Scheme. In 2011-12 the subsidy has increased from \$100 to \$120.

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 students and children 17 years and under, for the use of a number of Active Recreation Centres, such as those at Currimundi and Tallebudgera.

Department of Community Safety

Pensioners are eligible for a 20% discount on the Urban Fire Levy payable on prescribed properties of which they are the owner or part-owner.

Department of Education and Training

The Department of Education and Training provides a living away from home allowance to students in Years 1 to 12 in state and non-state schools whose homes are geographically isolated from local schools. The allowances offset the costs associated with boarding away from home to attend school on a daily basis and include tuition and travel costs.

The Department also offers assistance to students with disabilities to access school programs to meet their educational needs. Assistance is in the form of the provision of taxis or specialised contracted minibuses, payment of fares on regular buses or trains, or an allowance for parents who drive their children to school.

The Non-State School Transport Assistance Scheme assists families of students attending non-state schools outside Brisbane whose bus fare is over a weekly threshold amount. The program also assists families of students with disabilities who attend a non-state school.

Concessions on TAFE tuition fees for Government-funded training are offered to a range of concession card holders, students of Aboriginal and Torres Strait Islander descent and students who can demonstrate extreme financial hardship.

Department of Environment and Resource Management

Concessional entry and tour fees are available in specified protected areas including Chillagoe-Mungana Caves National Park, David Fleay Wildlife Park, Fort Lytton National Park, Mamu Rainforest Canopy Walkway, Mon Repos Conservation Park, Mt Etna Caves National Park, St Helena Island National Park and the Walk-About Creek Wildlife Centre.

Queensland Health

The Spectacle Supply Scheme assists eligible Queensland residents by providing a comprehensive range of free basic spectacles. Queensland Health administers the Scheme through the Medical Aids Subsidy Scheme (MASS), following transfer of the administration and management of the scheme from Health Service Districts, effective 1 January 2008.

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.

The Oral Health Scheme provides free dental care to eligible clients and their dependants who possess a current Health Care Card, Pensioner Concession Card, Queensland Seniors Card or Commonwealth Seniors Card. In rural and remote areas where no private dental practitioner exists, access to dental care for the general public is provided at a concessional rate.

Department of Justice and Attorney-General

The Public Trustee offers fee rebates (full or partial) for clients who, because of financial circumstances, cannot pay the full amount of fees that have been levied.

Department of the Premier and Cabinet

Discounts apply to venue rental fees charged to arts and community organisation hirers and rent reductions apply to lease amounts for resident cultural organisation tenants at the Judith Wright Centre of Contemporary Art. Rental subsidies will be phased out by 2014.

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 cultural organisations, charitable organisations, government departments and educational institutions.

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, TPI Veteran 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 – REVENUE AND EXPENSE ASSUMPTIONS AND SENSITIVITY ANALYSIS

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

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

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

Taxation and Royalty Revenue – 2009-10 to 2014-15

Table C1
Taxation and Royalty Revenue¹

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
	Actual	Est. Act.	Budget	Projected	Projected	Projected
	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million
Payroll Tax	2,687	3,005	3,263	3,617	3,978	4,368
Transfer Duty	1,978	1,885	2,180	2,432	2,533	2,886
Other Duties	867	952	1,018	1,085	1,157	1,233
Gambling Taxes and Levies	927	951	981	1,012	1,043	1,076
Land Tax	1,033	1,042	1,064	1,145	1,214	1,287
Motor Vehicle Registration	1,252	1,320	1,373	1,428	1,486	1,545
Other Taxes	631	721	648	695	734	768
Total taxation revenue	9,375	9,876	10,527	11,415	12,144	13,164
Royalties						
Coal	1,756	2,280	2,755	2,906	2,677	2,875
Other royalties and land rents	392	510	690	745	758	799
Total Royalties and land rents	2,148	2,791	3,445	3,651	3,436	3,674

Note:

1. Numbers may not add due to rounding.

TAXATION REVENUE ASSUMPTIONS AND REVENUE RISKS

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

Wages and employment growth – payroll tax collections

Wages and employment growth have a direct impact on payroll tax collections. The Budget assumptions are for an increase in the Wage Price Index of 4% and an increase in employment of 3% in 2011-12.

A one percentage point variation in either Queensland wages growth or employment would change payroll tax collections by approximately \$33 million in 2011-12.

Transfer duty estimates

For 2011-12, transfer duty collections are expected to increase modestly from 2010-11 estimated actual. However, this is being boosted by the abolition of the principal place of residence duty concession. Underlying growth in 2011-12 is less than one per cent reflecting a weak recovery in dwelling investment which despite stronger growth in employment and wages, is forecast to only improve slightly in 2011-12. This is the period at which the Queensland Building Boost grant is targeted.

Growth in dwelling investment is forecast to strengthen in 2012-13 as the recovery in the broader economy generates higher migration levels.

Tight credit conditions are likely to continue to weigh on some segments of the market in 2012-13, but a slight recovery in the property market is forecast reflecting continuing demand for property and house price growth. Estimated growth across the forward estimates is conservative relative to the period prior to the global financial crisis.

A 1% variation in either the average value of property transactions or the volume of transactions would change transfer duty collections by approximately \$22 million in 2011-12.

ROYALTY ASSUMPTIONS AND REVENUE RISKS

Table C2
Coal Royalty Assumptions

	2010-11	2011-12	2012-13	2013-14	2014-15
	Estimate	Projection	Projection	Projection	Projection
Tonnages- Crown Export ¹ Coal (Mt)	153	175	200	217	235
Exchange Rate US\$ per A\$ ²	0.99	1.025	0.96	0.93	0.91
Year Average Coal prices					
Hard Coking	238	240	210	180	180
Semi Soft	188	200	170	145	145
Thermal	96	115	100	85	85
Notes:					
1. Excludes coal produced for domestic consumption and coal where royalties are not paid to the government, i.e private royalties. 2010-11 estimate for domestic coal volume is approximately 20Mt and private coal is 10Mt.					
2. Year average.					

Royalty Assumptions

Table C2 provides the 2011-12 Budget assumptions regarding coal royalties, which represent the bulk of Queensland's royalty revenue.

The 2010-11 estimate of coal volumes incorporate a reduction of 27 million tonnes of crown export coal because of the floods and Tropical Cyclone Yasi.

The LNG industry is expected to begin generating royalties in 2013-14. However, royalties are expected to increase significantly outside of the forward estimates as production ramps up.

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 \$37 million in 2011-12.

A 1% variation in export coking and thermal coal volumes would lead to a change in royalty revenue of approximately \$29 million.

A 1% variation in the price of export coal would lead to a change in royalty revenue of approximately \$33 million.

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 2011-12, Queensland's Budget will bear the risks of fluctuations in GST revenues.

The Australian Government's estimate of GST revenue in 2011-12 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 2011-12.

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

SENSITIVITY OF EXPENDITURE ESTIMATES AND EXPENDITURE RISKS

Public sector wage costs

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

The 2011-12 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.

A general 1% increase in wage outcomes in a particular year would increase expenses by around \$200 million per annum.

Interest rates

The General Government sector has a moderate level of debt with a total debt servicing cost forecast at \$1.7 billion in 2011-12.

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 2011-12 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.

APPENDIX D – GOVERNMENT-OWNED CORPORATIONS NON-FINANCIAL KEY PERFORMANCE INDICATORS

This appendix provides details of Government-owned Corporations (GOCs) non-financial performance against a number of key performance indicators (KPIs). Key points of note include:

- Workforce and contractor safety continues to be a core focus for the GOCs. Notwithstanding the general improvement over the 2008-09 numbers, GOCs are implementing initiatives to further improve safety in the workplace.
- The 2009-10 system performance for Ergon was again impacted by a suspension and internal review of 'live' line work on high voltage assets and operating restrictions associated with specific Air Break Switches. The progressive resumption of 'live' line work practices and the lifting of a ban placed on the operation of a range of Air Break Switches resulted in an underlying improvement in system performance in 2009-10 compared to 2008-09.
- Far North Queensland Ports Corporation Limited trading as Ports North reported an increase of export and import volumes in 2009-10. For example Port of Cairns reported a 34% increase in sugar exports and an 84% increase in fertiliser imports.
- GPC increased its total trade volumes by approximately 5% over 2008-09 due to achieving record coal exports through the Port of Gladstone and an increase in trade through the Port Alma Shipping Terminal.
- NQBP's increase in tonnages by approximately 15% is reflective of an increase of coal throughput at the Ports of Abbot Point and Hay Point.
- Cargo throughput for the Port of Townsville Limited for 2009-10 reached the highest volume ever traded through the Port of Townsville. The strong performance is due to the increase of nickel ore for the Nickel Yabulu Refinery, recovery and rebounding of global commodity demand and commencement of new export commodities goethite, grain and magnetite.
- Reporting of 2009-10 non-financial performance will be the final year for QR Limited due to the separation process to establish Queensland Rail Limited and QR National Limited from 1 July 2010. QR Limited's continued focus on improving passenger train services is reflected in an increase in customer satisfaction from 90% in 2008-09 to 91.5% in 2009-10 and the citytrain on-time running increasing from 91.76% in 2008-09 to 92.7% in 2009-10.
- SunWater's safety result of zero lost time injury frequency rate was achieved through training and enhanced staff awareness of safety risks and hazards. During 2009-10 SunWater standardised the service targets across all of its water supply schemes, which resulted in improved management of customer service targets.

Energy Sector Non-Financial Performance

Table D.1¹
Prior Year Non-Financial Performance

	2008-09 Actual	2009-10 Actual
Ergon Energy Corporation Limited		
System Average Interruption Duration Index ²		
Urban	217	222
Short Rural	609	544
Long Rural	1,108	999
System Average Interruption Frequency Index ³		
Urban	2.33	2.25
Short Rural	4.93	4.58
Long Rural	7.73	7.19
Safety (Lost Time Injury Frequency Rate)	4.08	5.3
Workforce Numbers	4,634	4,630
ENERGEX Limited		
System Average Interruption Duration Index ²		
CBD	3.10	1.19
Urban	91.20	88.48
Rural	228.00	215.73
System Average Interruption Frequency Index ³		
CBD	0.06	0.08
Urban	1.05	1.20
Rural	2.56	2.41
Safety (Lost Time Injury Frequency Rate)	2.34	1.00
Workforce Numbers	3,744	3,849
Powerlink		
Safety (Lost Time Calculation)	0.1	0.04
Grid Energy Delivered (gigawatt hours)	47,904	47,825
Workforce Numbers ⁴	1,000	952
CS Energy Limited		
Safety (Lost Time Injury Frequency Rate) ⁴	5.0	7.0
Energy Sent Out (gigawatt hours)	16,675	17,046
Workforce Numbers	673	668

Table D.1¹ (continued)
Prior Year Non-Financial Performance

	2008-09 Actual	2009-10 Actual
Stanwell Corporation Limited		
Safety (Lost Time Injury Frequency Rate)	9.73	7.80
Energy Sent Out (gigawatt hours) ⁵	8,758	8,716
Workforce Numbers	395	383
Tarong Energy Corporation Limited		
Safety (Lost Time Injury Frequency Rate)	6.2	1.8
Energy Sent Out (gigawatt hours)	8,601	9,150
Workforce Numbers	452	506
Notes:		
1. Figures have been obtained from the energy GOCs' 2008-09 and 2009-10 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. 2008-09 metric restated for comparative purposes.		
5. Includes wind farms.		

Transport and Water Sectors Non-Financial Performance

Table D.2¹
Prior Year Non-Financial Performance

	2008-09 Actual	2009-10 Actual
Far North Queensland Ports Corporation Limited²		
Safety (Lost Time Injury Frequency Rate)	0	0
Number of Vessels	2,508	2,896
Trade Volumes (million tonnes)	1.086	4.082
Gladstone Ports Corporation Limited		
Safety (Lost Time Injury Frequency Rate)	4.81	5.09
Number of Vessels	1,485	1,521
Trade Volumes (million tonnes)	79.374	83.4
North Queensland Bulk Ports Corporation Limited³		
Safety (Lost Time Injury Frequency Rate)	..	26.85
Number of Vessels	1,681	1,916
Trade Volumes (million tonnes)	121.159	139.525
Port of Brisbane Corporation Limited⁴		
Safety (Lost Time Injury Frequency Rate)	5.00	9.1
Number of Vessels	2,453	2,436
Trade Volumes (million tonnes)	31.896	32.100
Port of Townsville Limited		
Safety (Lost Time Injury Frequency Rate)	6.65	10.98
Number of Vessels	718	773
Trade Volumes (million tonnes)	9.084	10.250
QR Limited⁵		
Safety (Lost Time Injury Frequency Rate)	11.74	7.1
Citytrain Customer Satisfaction (%)	90	91.5
Citytrain On-time Running (%)	91.76	92.7
Coal Tonnages (million tonnes) ⁶	185	199
Bulk/General Freight Tonnages (million tonnes) ⁶	59	64

Table D.2¹ (continued)
Prior Year Non-Financial Performance

	2008-09 Actual	2009-10 Actual
SunWater Limited		
Safety (Lost Time Injury Frequency Rate)	8.70	0
Customer Service Levels (Exceptions)	153	20
Water Delivered (%)	43.27	56.7
Notes:		
<ol style="list-style-type: none"> Figures have been obtained from the transport GOCs' 2008-09 and 2009-10 Annual Reports. 2008-09 reflects the former Cairns Ports Limited operations only. 2009-10 also includes the Ports of Cairns, Mourilyan, Cape Flattery, Skardon River, Karumba, Quintell Beach, Thursday Island, Cooktown and Burketown following their consolidation into the new entity of Far North Queensland Ports Corporation Limited. 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. Pursuant to section 11A(1)(b) of the Infrastructure Investment (Asset Restructuring and Disposal) Act 2009 the declaration of Port of Brisbane Corporation Limited as a Government-owned Corporation was revoked on 16 December 2010. Pursuant to section 11A(1)(a) of the Infrastructure Investment (Asset Restructuring and Disposal) Act 2009 the declaration of QR Limited as a Government-owned Corporation was revoked on 21 September 2010. Tonnages represent those transported by QR subsidiaries – QR Coal and QR Freight. 		

