



State Budget 2012-13

# Budget Strategy and Outlook

Budget Paper No.2



# **2012–13 State Budget Papers**

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

The suite of Budget Papers is similar to that published in 2011-12.

In April 2012, machinery-of-Government changes saw the creation of 20 departments with each department reporting directly to one Minister.

These new arrangements have required minor changes to how information is presented in some Budget Papers. The 2012-13 Budget Papers provide continuity of information between the previous departmental structure and the new arrangements.

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# **STATE BUDGET**

## **2012-13**

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### **BUDGET STRATEGY AND OUTLOOK**

Budget Paper No. 2



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# 1 FISCAL STRATEGY

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## FEATURES

- The Queensland Government established the Independent Commission of Audit to provide advice regarding Queensland's current and forecast financial position.
- The Independent Commission was asked to make recommendations on
  - strengthening the Queensland economy
  - improving the State's financial position including regaining a AAA credit rating
  - ensuring value for money in the delivery of frontline services.
- The Independent Commission of Audit Interim Report was released on 15 June 2012 and contained recommendations to improve the State's fiscal position.
- The Independent Commission found that the magnitude of Queensland's fiscal repair task was large and that Queensland's previous level of expenditure was unaffordable.
- The Government's Interim Response to that Report was tabled on 11 July 2012. In its response, the Government outlined its new fiscal strategy which focussed on:
  - reducing debt
  - achieving a fiscal balance by 2014-15
  - ensuring a competitive tax environment
  - fully funding long term liabilities.

The Government also committed to finding at least \$4 billion in consolidation measures over three years (2012-13 to 2014-15).

- Government's full response to the Interim Report is contained in this Budget including:
  - implementing consolidation measures worth \$5.5 billion between 2012-13 and 2014-15 including \$3.5 billion in expense and \$0.6 billion in revenue measures
  - improving the management of Government's forward program of capital expenditure including \$1.4 billion in capital measures
  - implementing measures to maximise the return on Government's holdings of physical and commercial assets.

- The outcome of these decisions is a significant improvement in Queensland's fiscal position and a lower forecast debt level despite slower than anticipated economic growth detracting from revenue. The Government is now forecast to borrow \$6.6 billion less in 2015-16 than outlined in the Independent Commission of Audit Interim Report (comparable figure).
- In accordance with the Government's revised fiscal strategy, debt in the Non-financial Public sector is now forecast to be \$81.7 billion in 2014-15 compared with \$86.3 billion in the Independent Commission of Audit Interim Report (comparable figure).
- The Government is expected to meet all of its new fiscal principles, in particular it is forecast to return to an operating surplus in 2013-14 and a fiscal surplus (the Government's preferred measure) in 2014-15.

## OVERVIEW

The key fiscal aggregates of the General Government sector for the 2012-13 Budget are outlined in Table 1.1. Discussion regarding the change in these aggregates since the 2011-12 MYFER released by the former Queensland Government and since the Independent Commission of Audit Interim Report is included in detail in chapters 2, 4, 5 and 6.

<b>Table 1.1</b> <b>General Government</b> <b>Key financial aggregates<sup>1</sup></b>						
	2010-11 Actual <sup>2</sup> \$ million	2011-12 Est. Act. \$ million	2012-13 Budget \$ million	2013-14 Projection \$ million	2014-15 Projection \$ million	2015-16 Projection \$ million
Revenue	41,957	45,707	42,224	47,967	51,646	52,963
Expenses	43,473	46,021	48,518	47,950	48,776	50,722
Net operating balance	(1,516)	(314)	(6,294)	17	2,871	2,241
Capital purchases	8,237	8,069	7,653	7,010	5,574	4,881
<b>Fiscal balance</b>	<b>(7,089)</b>	<b>(5,623)</b>	<b>(10,768)</b>	<b>(3,752)</b>	<b>652</b>	<b>747</b>
Borrowing	25,089	30,017	41,309	45,535	46,166	46,211
Borrowing (NFPS) <sup>3</sup>	52,618	62,672	73,717	79,862	81,749	83,277
Notes: 1. Numbers may not add due to rounding. 2. Reflects published actuals. 3. NFPS: Non-financial Public sector						

## INDEPENDENT COMMISSION OF AUDIT

The Independent Commission of Audit was asked to make recommendations on:

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

The Independent Commission of Audit Interim Report was released on 15 June 2012 and considered how to improve the State's financial position.

This Report considered the *Financial Position* and *Improving the State's Financial Position* aspects of the terms of reference. The remaining items will be considered in the Independent Commission's subsequent reports in November 2012 and February 2013.

The Independent Commission of Audit Interim Report published the forward estimates provided to the Government by Queensland Treasury and Trade in May 2012. This position is outlined in Table 1.2. These estimates were prepared on a no policy change basis.

<b>Table 1.2</b> <b>General Government sector</b> <b>Key operating statement aggregates as published in the Independent Commission of Audit Interim Report</b>					
	2011-12 Est. Act \$ million	2012-13 Budget \$ million	2013-14 Projection \$ million	2014-15 Projection \$ million	2015-16 Projection \$ million
Revenue	44,847	43,087	46,992	50,719	51,757
Expenses	46,679	47,995	49,099	50,443	51,573
Net operating balance	<b>(1,832)</b>	<b>(4,908)</b>	<b>(2,107)</b>	<b>277</b>	<b>184</b>
Net capital movements	4,802	4,596	3,076	1,353	933
Fiscal balance	<b>(6,634)</b>	<b>(9,504)</b>	<b>(5,183)</b>	<b>(1,076)</b>	<b>(749)</b>

### Findings

The Independent Commission identified a number of risks to the Budget that required the provision of funding over the forward estimates. It also identified three areas of concern in the forward estimates related to transfer duty, employee expenses and capital expenditure which were addressed in the Government's Interim Response and the 2012-13 Budget.

The Independent Commission found that Queensland's fiscal position deteriorated significantly over the last six years and was vulnerable to external shocks. It found that this deterioration was the result of a lack of fiscal discipline with expenditure growth significantly outstripping revenue growth since 2005-06. This led to a significant increase in Government debt.

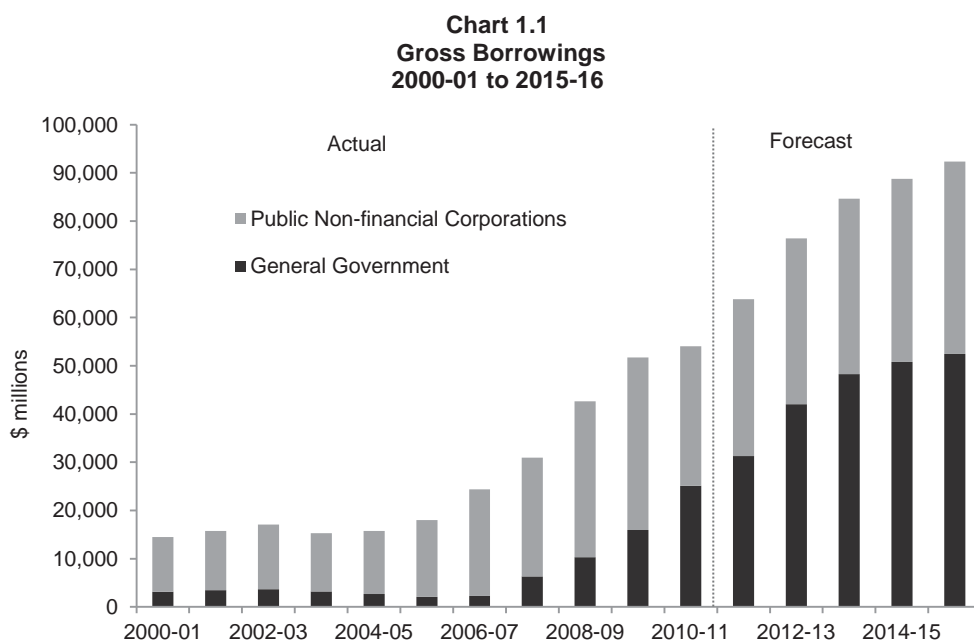
The Independent Commission concluded that

*‘Up until 2006-07, Queensland’s gross debt levels were low and stable. The majority of the State’s gross debt was held by Government owned corporations. Gross debt in the General Government sector was small and manageable, representing around 20% of the State’s gross debt.’*

*‘...the level of Total Government gross debt almost tripled over the period 2005-06 to 2009-10. Gross debt is currently \$64 billion in 2011-12, and is expected to reach \$92 billion in 2015-16. On current projections, gross debt will reach \$100 billion by 2018-19.’*

*Most of this increase has occurred in the General Government sector, where gross debt has increased more than tenfold in the last five years.’<sup>1</sup>*

Chart 1.1 illustrates the growth in debt since 2000-01 including the projections to 2015-16 incorporated in the Independent Commission of Audit Interim Report.



The Report considered that the magnitude of the Government’s fiscal repair task was large and that Queensland’s previous level of expenditure was unaffordable.

<sup>1</sup> Page 17 Queensland Commission of Audit: Interim Report June 2012.

The recommendations contained in the Interim Report are outlined in Box 1.1 and are focused primarily on the adoption of a two stage approach to addressing Queensland's debt levels and returning the State to its previous position of financial strength. The Independent Commission recommended adopting the fiscal balance measure as the key indicator of the affordability of the State's activities as it takes into account capital and operating expenditure.

**Box 1.1**  
**Independent Commission of Audit Interim Report**  
**Recommendations**

**New Fiscal Strategy and Targets**

The Commission recommends that the Queensland Government adopt the following fiscal strategy for the 2012-13 Budget:

- General Government fiscal surplus in 2014-15 to be achieved through a \$3 billion process of fiscal repair over three years (the First Stage)
- A Total Government debt reduction strategy of \$25 billion to \$30 billion to restore the debt to revenue ratio to 60% by 2017-18 (the Second Stage)
- Once the Second Stage has been completed, the Government set medium term targets of maintaining a zero fiscal balance in the General Government sector on average over the economic cycle, and of keeping Total Government debt levels constant to GSP.

**Achieving the New Fiscal Targets**

The Government retain the 3% cap on annual growth in employee expenses beyond 2015-16 and until the ratio of Total Government debt to revenue has declined to 60% under the Second Stage of the fiscal strategy.

The Government examine revenue options to share the burden of the fiscal repair task under the First Stage of the fiscal strategy. The Government should focus on its broad revenue bases in the first instance. Addressing concessions and distortions in existing taxes could also provide a revenue contribution to the fiscal challenge. The Government should also discuss with the Office of State Revenue any opportunities it has identified to improve greater taxpayer compliance through additional investment in investigation and debt recovery activities.

In addition to the 3% cap on employee expenses, the Government review all other aspects of General Government recurrent expenses to ensure baseline recurrent expenditure is consistent with Government policy and is determining optimum value for money.

The Government actively manage its forward program of capital expenditure to ensure expenditure is appropriately prioritised across the forward estimates and based on rigorous business case evaluation, including whole of life costs. The Government to consider what asset management strategies are required to ensure the efficient acquisition, maintenance and replacement of assets.

The Government examine its current holding of physical and commercial assets and implement measures to maximise the return on those assets for the benefit of the community.

The Government identify change to the structure of revenues and expenses that will contribute to the debt reduction task under the Second Stage of the fiscal strategy. This includes exiting expenditure activities more appropriately supported by other levels of government. The Government should also examine medium term measures to manage demand for government services.

The Government ensure careful utilisation of its balance sheet, including utilising the proceeds of asset sales, to achieve the objectives of the Second Stage of the fiscal strategy.

# GOVERNMENT'S RESPONSE TO THE INDEPENDENT COMMISSION OF AUDIT

## Interim Response

The Government's Interim Response to the Independent Commission of Audit Interim Report was tabled in Parliament on 11 July 2012. The Independent Commission's specific proposals for fiscal repair (revenue, expenditure and other measures) form part of the 2012-13 Budget and are considered in more detail later in this Budget Paper.

The Government's Interim Response outlined its commitment to achieving a fiscal balance by 2014-15 by committing to \$4 billion or more in savings over three years and ensuring debt stabilises around \$85 billion in 2014-15.

To assist in the achievement of these targets, the Government outlined its new fiscal principles.

### ***Revised Fiscal Principles***

#### ***Principle 1 – Stabilise then significantly reduce debt***

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

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

During the 2012 election, the Government committed to achieving an operating surplus by 2014-15. The Independent Commission of Audit has since emphasised that fiscal repair will require realigning recurrent and capital spending so that it can be funded from recurrent revenue. The achievement of an operating surplus in itself is not sufficient for Government to attain fiscal sustainability or maintain or improve its credit rating given the impact of capital investment on the debt position.

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

While it is arguably appropriate to borrow for new essential infrastructure when debt levels are manageable, they are currently too high.

Accordingly, the Independent Commission of Audit has recommended the more difficult target of achieving a fiscal surplus in 2014-15.



Fiscal balance combines the operating balance and net acquisitions of non-financial assets (purchases of non-financial assets less depreciation).

Fiscal balance will replace the operating balance as the primary fiscal target of the Government.

The Government will seek to achieve a fiscal balance by 2014-15.

***Principle 3 – Maintain a competitive tax environment for business***

While increases in taxes have occurred over the last decade, Queensland has a relatively competitive tax environment for business. Queensland's General Government taxation revenue as a percentage of gross state product has fallen over the past decade (in part reflecting the relative weakness in the property sector and the abolition of state taxes under the Intergovernmental Agreement on Federal Financial Relations). Queensland's tax take is also significantly less than the average of the other states.

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

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

Despite the very difficult climate in investment markets over recent years (and with the transfer of the Queensland Motorways Ltd asset), Queensland's employee entitlements remain fully funded. The Australian Government and other states have plans that aspire to this over the coming decades.

## BUDGET RESPONSE

In framing the 2012-13 Budget, the Government had regard for the recommendations of the Independent Commission of Audit and made savings by exiting activities that are not the domain of the Queensland Government, reduced waste and made efficiencies in Government activity as well as introduced specifically targeted revenue options. The total value of these measures between 2012-13 and 2014-15 is \$5.477 billion consisting of:

- \$3.490 billion in expense measures
- \$0.624 billion in revenue measures
- \$1.364 billion in capital measures.

As outlined in Box 1.1, the Independent Commission made recommendations regarding:

- examining revenue options
- improving taxpayer compliance
- reviewing General Government sector recurrent expenses including exiting expenditure activities more appropriately supported by other levels of Government
- managing its forward program of capital expenditure to ensure value for money
- implementing measures to maximise the return on Government's holding of physical and commercial assets.

Each of these issues was considered in formulating the 2012-13 Budget.

The Independent Commission also advocated the Government sell assets to reduce debt by \$25 billion to \$30 billion. The Government's position is that Government-owned corporations will not be sold in this term, and that any proposal to sell assets of this nature will be taken to an election first.

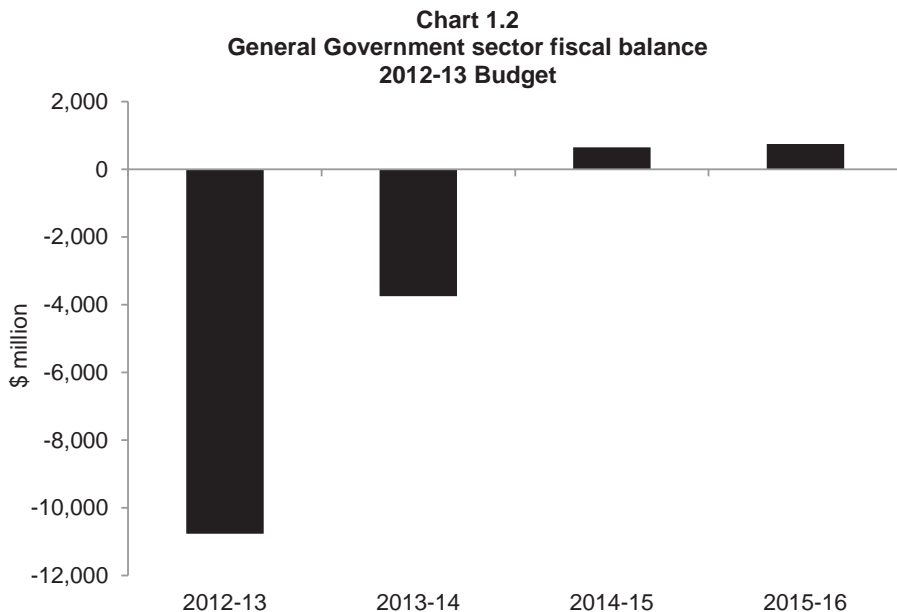
## Decisions

The total value of fiscal repair measures taken in the 2012-13 Budget is \$5.477 billion between 2012-13 and 2014-15, rising to \$7.766 billion when 2015-16 is included. Table 1.3 outlines what the General Government fiscal balance position would have been in the absence of these measures.

<b>Table 1.3</b> <b>Impact of fiscal repair measures on the</b> <b>fiscal balance</b> <b>General Government sector</b>				
	2012-13 Budget \$ million	2013-14 Projection \$ million	2014-15 Projection \$ million	2015-16 Projection \$ million
2012-13 Budget fiscal balance	(10,768)	(3,752)	652	747
Impact of measures on the fiscal balance	506	2,608	2,363	2,289
<b>Fiscal balance in the absence of measures</b>	<b>(11,274)</b>	<b>(6,360)</b>	<b>(1,711)</b>	<b>(1,542)</b>

## Improvements in Key Measures of Queensland's Fiscal Position

As a consequence of the fiscal repair decisions made in the 2012-13 Budget, there are significant improvements in the General Government sector fiscal balance (Chart 1.2).

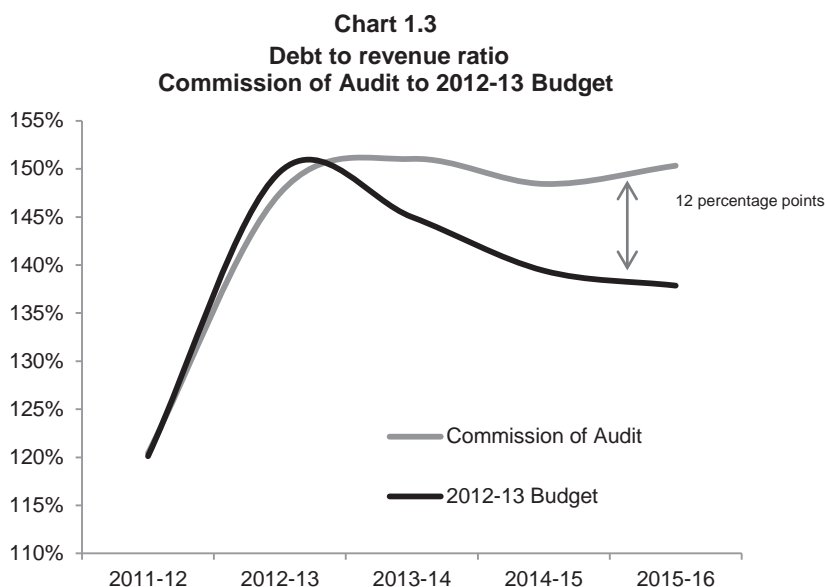


## Borrowings

As a result of the Government's fiscal repair efforts, there has been a significant improvement in borrowings since the Independent Commission of Audit Interim Report. The Government is now forecasting to borrow \$6.561 billion less in 2015-16 than outlined in the Independent Commission of Audit Interim Report (comparable figure).

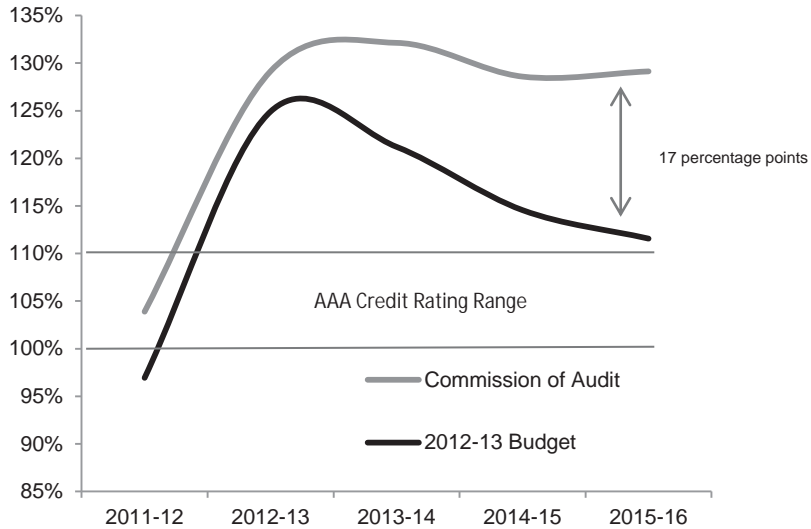
The 2014-15 Non-financial Public sector borrowings are now expected to be \$81.749 billion compared to \$86.326 billion in the Independent Commission of Audit Interim Report (comparable figure).

As can be seen in Chart 1.3, Queensland's debt to revenue ratio has improved markedly since the Independent Commission of Audit Interim Report and continues to fall over the forward estimates reflecting a stabilisation of debt as a result of Government's fiscal repair efforts and growth in revenue.



Similar to the debt to revenue ratio, the ratio of net financial liabilities to revenue (a key component of the Government's revised fiscal principles) has improved since the Independent Commission of Audit Interim Report (as shown in Chart 1.4). This ratio also continues to decline over the forward estimates.

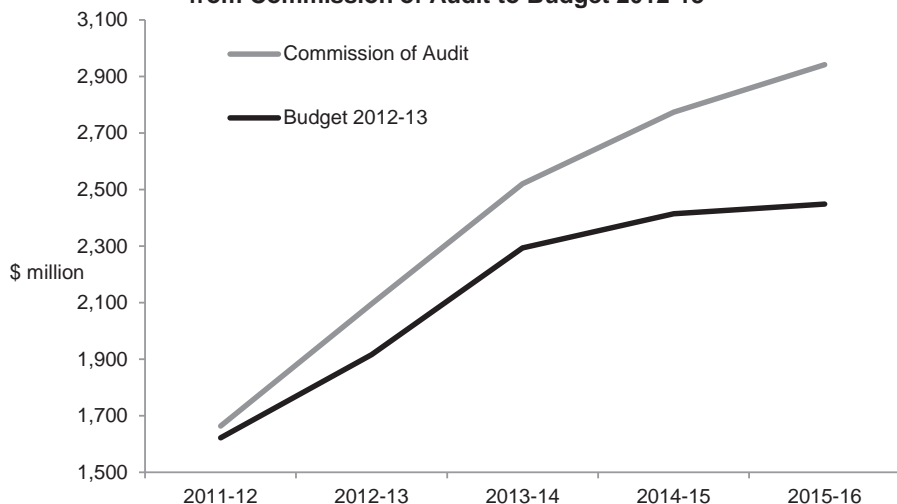
**Chart 1.4**  
**Net financial liabilities to revenue ratio**  
**Commission of Audit to 2012-13 Budget**



This reduction in borrowing requirements over the forward estimates, together with lower interest rates have resulted in a substantially lower projected interest expense over the forward estimates compared to the Independent Commission of Audit Interim Report (refer Chart 1.5).

Further details on the key fiscal aggregates can be found in Chapter 2 of this Budget Paper.

**Chart 1.5**  
**Comparison of projected interest expense**  
**from Commission of Audit to Budget 2012-13**



## ACHIEVEMENT OF THE NEW FISCAL PRINCIPLES

The Government's fiscal consolidation efforts have also allowed it to make significant progress in the achievement of its fiscal principles. Table 1.4 outlines the Government's progress against its fiscal principles. All principles have either been achieved or are on track to be achieved.

Table 1.4 The fiscal principles of the Queensland Government			
Principle	Indicator		
Stabilise then significantly reduce debt (Non-financial Public sector)	Net Financial Liabilities to Revenue Ratio		
		Commission of Audit per cent	2012-13 Budget per cent
	2011-12	104	97
	2012-13	129	125
	2013-14	132	121
	2014-15	128	115
	2015-16	129	112
Achieve and maintain a General Government sector fiscal balance by 2014-15	General Government Fiscal Balance		
		Commission of Audit (\$ million)	2012-13 Budget (\$ million)
	2011-12	(6,634)	(5,623)
	2012-13	(9,504)	(10,768)
	2013-14	(5,183)	(3,752)
	2014-15	(1,076)	652
	2015-16	(749)	747
Maintain a competitive tax environment for business	Taxation revenue per capita, 2012-13		
	Queensland:		\$2,347
	Average of other states and territories:		\$2,842
Target full funding of long term liabilities such as superannuation in accordance with actuarial advice	As at last actuarial review (released June 2011), accruing superannuation liabilities were fully funded when the QML transaction is taken into account. The State Actuary reviews the scheme every three years.		

## 2 FISCAL OUTLOOK

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### FEATURES

- The General Government fiscal balance is estimated to be a deficit of \$5.6 billion in 2011-12 compared to a forecast deficit of \$7.3 billion in the 2011-12 Mid Year Fiscal and Economic Review (MYFER) and \$6.6 billion in the Independent Commission of Audit Interim Report.
- The improvement in the forecast 2011-12 fiscal balance, since both the 2011-12 MYFER and Independent Commission of Audit Interim Report, primarily reflects the Australian Government bringing forward payments into 2011-12 to improve their own budget position in 2012-13.
- A fiscal deficit of \$10.8 billion is budgeted for 2012-13, compared to a forecast deficit of \$9.5 billion in the Independent Commission of Audit's Interim Report. Again, this primarily reflects the Australian Government moving payments out of 2012-13 to improve their own budget position in that year. Further details on the reasons for this variance are contained in this chapter.
- The forecast fiscal position has improved across the remainder of the forward estimates, largely due to fiscal repair measures which total \$7.8 billion over the period 2012-13 to 2015-16 (\$5.5 billion over 2012-13 to 2014-15).
- Over the period 2011-12 to 2014-15, the Government's fiscal balance has improved by \$1.2 billion over the 2011-12 MYFER estimates despite slower economic growth detracting from revenue and a redundancy estimate of \$800 million in 2012-13.
- Since the Independent Commission of Audit Interim Report, the forecast fiscal deficit for 2013-14 has reduced from \$5.2 billion to \$3.8 billion. A return to fiscal surplus is projected in 2014-15, in line with the Government's fiscal principle, with a fiscal surplus also projected in 2015-16. The Government is also forecasting a return to an operating surplus in 2013-14.
- The State's capital purchases are budgeted at \$12.3 billion in 2012-13, 2.6% higher than the level of 2011-12 estimated outlays.
- As a result of the Government's fiscal repair measures and the associated improvement in the fiscal balance, the forecast level of borrowings in the Non-financial Public sector at 30 June 2016 is now estimated at \$83.3 billion, approximately \$6.6 billion less than the comparable estimate in the Independent Commission of Audit's Interim Report.

## BACKGROUND

The fiscal balance expected for 2011-12 is a deficit of \$5.623 billion compared to a forecast deficit of \$6.634 billion anticipated in the Independent Commission of Audit Interim Report. As identified in Table 2.1, the forecast General Government sector fiscal balance is expected to be weaker in 2012-13, but has improved significantly from 2013-14 onwards, with a fiscal surplus projected in both 2014-15 and 2015-16.

The weaker 2012-13 fiscal balance is primarily due to a change in timing of Australian Government funding for natural disaster repairs, Specific Purpose Payments and National Partnership payments and the large one off redundancy payment related to the Government's fiscal repair efforts. The 2012-13 fiscal balance and other key aggregates are discussed in more detail later in this chapter.

<b>Table 2.1</b> <b>General Government sector – revisions to fiscal balance forecasts</b>						
	2010-11 \$ million	2011-12 \$ million	2012-13 \$ million	2013-14 \$ million	2014-15 \$ million	2015-16 \$ million
2011-12 Budget	(7,144)	(8,392)	(4,810)	(3,276)	(2,251)	n/a
2011-12 MYFER	(7,089)	(7,290)	(7,954)	(4,200)	(1,249)	n/a
CoA Interim Report	(7,089)	(6,634)	(9,504)	(5,183)	(1,076)	(749)
<b>2012-13 Budget</b>	<b>(7,089)</b>	<b>(5,623)</b>	<b>(10,768)</b>	<b>(3,752)</b>	<b>652</b>	<b>747</b>

In order to achieve the Government's key fiscal objectives of a fiscal balance in 2014-15 and stabilising debt, very significant measures in this Budget have been adopted. This has also taken place against a backdrop of large reductions in some of Queensland's key revenue sources because of lower than expected economic growth by Queensland and its major trading partners. In particular, since the 2011-12 Mid Year Fiscal and Economic Review (MYFER):

- royalties (net of measures) are estimated to decrease by \$1 billion over the period 2012-13 to 2014-15, primarily because of lower coal volumes across the period and softer prices especially in 2012-13
- taxation revenue (net of measures) is expected to decrease by \$1.1 billion over the period 2012-13 to 2014-15 primarily due to lower estimates of transfer duty in line with the Commission of Audit recommendation.

The measures that the Government has taken total \$7.766 billion over the period 2012-13 to 2015-16 and comprise:

- expense measures of \$5.277 billion
- revenue measures of \$0.812 billion
- capital measures of \$1.677 billion.



This is shown in more detail in the reconciliation table (Table 2.2) which explains movements in the net operating and fiscal balance since the 2011-12 MYFER.

**Table 2.2**  
**Reconciliation of net operating balance and fiscal balance**  
**2011-12 MYFER to 2012-13 Budget<sup>1</sup>**

	2011-12	2012-13	2013-14	2014-15
	\$ million	\$ million	\$ million	\$ million
<b>NET OPERATING BALANCE</b>				
<b>2011-12 MYFER net operating balance</b>	<b>(2,853)</b>	<b>(4,213)</b>	<b>(1,261)</b>	<b>60</b>
Taxation revisions	73	(197)	(386)	(552)
Royalty revisions	(321)	(804)	(203)	(23)
GST revisions	(372)	(76)	112	323
Natural disaster revisions <sup>2</sup>	1,409	(596)	(205)	357
<b>Measures:</b>				
Election commitments	..	(183)	350	5
Taxation and royalty measures	..	326	694	723
Other policy measures	168	(202)	1,013	1,386
<b>Total Measures</b>	<b>168</b>	<b>(59)</b>	<b>2,057</b>	<b>2,114</b>
Other significant variations impacting on operating balance:				
Net flows from PNFC sector entities <sup>3</sup>	164	8	(30)	182
Australian Government funding revisions <sup>4</sup>	997	(761)	(172)	127
Interest cost <sup>5</sup>	68	211	192	307
Other parameter adjustments <sup>6</sup>	353	192	(88)	(25)
<b>2012-13 Budget net operating balance</b>	<b>(314)</b>	<b>(6,294)</b>	<b>17</b>	<b>2,871</b>
<b>FISCAL BALANCE</b>				
<b>2011-12 MYFER fiscal balance</b>	<b>(7,290)</b>	<b>(7,954)</b>	<b>(4,200)</b>	<b>(1,249)</b>
Change in net operating balance	2,539	(2,081)	1,278	2,811
Natural disaster capital revisions <sup>2</sup>	(432)	(830)	(545)	(412)
Australian Government capital revisions <sup>4</sup>	(363)	(74)	236	(407)
<b>Measures:</b>				
Election commitments	..	2	(95)	(142)
Other policy measures	36	563	646	391
<b>Total Measures</b>	<b>36</b>	<b>564</b>	<b>551</b>	<b>248</b>
Other capital movements <sup>7</sup>	(113)	(394)	(1,072)	(340)
<b>2012-13 Budget fiscal balance</b>	<b>(5,623)</b>	<b>(10,768)</b>	<b>(3,752)</b>	<b>652</b>

**Notes:**

- Numbers may not add due to rounding. Denotes impact on the operating and fiscal balance.
- Represents movements in revenue, expense and capital for natural disaster restoration and largely represents the increased capitalisation of disaster reparations related to roads.
- Represents revisions to dividends and tax equivalent payments from, and community service obligation payments to, PNFCs.
- Represents the net impact of funding provided by the Australian Government primarily for Specific Purpose Payments and National Partnership payments.
- Represents impact on interest payable on borrowings.
- Refers to adjustments of a non-policy nature, primarily associated with reductions in depreciation and additional administered revenue.
- Refers to capital movements including the change in timing of capital payments including, deferrals, capital payables and receivables and change in inventories.

## Australian Government payments – impact on the fiscal balance

Funding from the Australian Government has a significant impact on Queensland's fiscal position when it is not matched by an expense in the same financial year. This makes the headline estimates quite volatile and makes it difficult to identify underlying trends.

In particular, the Australian Government provided significant natural disaster funding in 2011-12 in advance of spending requirements which peak in 2012-13. This timing mismatch has the effect of improving the fiscal balance in 2011-12 and negatively impacting the position in 2012-13. Table 2.3 outlines the impact of natural disaster arrangements on Queensland's fiscal balance.

**Table 2.3**  
**Impact of Natural Disaster Relief and Recovery Arrangements**  
**funding on the fiscal balance<sup>1</sup>**

	2011-12 \$ million	2012-13 \$ million	2013-14 \$ million	2014-15 \$ million	2015-16 \$ million
Published fiscal balance	(5,623)	(10,768)	(3,752)	652	747
<i>less</i> Disaster revenue <sup>2,3</sup>	2,951	23	1,491	1,692	308
<i>add</i> Disaster expenditure	2,584	4,490	2,372	527	..
<b>Underlying fiscal balance</b>	<b>(5,990)</b>	<b>(6,300)</b>	<b>(2,871)</b>	<b>(513)</b>	<b>439</b>
Notes:					
1. Includes revenue and expenditure in relation to 2010-11 floods and Cyclone Yasi as well as prior events and more recent events.					
2. Following the advance payment from the Australian Government in 2011-12, the remaining revenues are expected to occur in the financial year following the delivery of the works to which it relates.					
3. Excludes loans provided through the State, which are not treated as revenue.					

## BUDGET OUTCOMES 2011-12

With the 2012-13 Budget being delivered in September, rather than June, there is additional information available about the estimated 2011-12 outcome. However, as the audit of 2011-12 outcomes has not yet been finalised, the 2011-12 figures are still considered to be estimated actuals.

### Key financial aggregates

<b>Table 2.4</b> <b>General Government sector – key financial aggregates, 2011-12<sup>1</sup></b>				
	2011-12 Budget \$ million	2011-12 MYFER \$ million	CoA Interim Report \$ million	2011-12 Est. Act. \$ million
Revenue	43,007	44,416	44,847	45,707
Expenses	47,065	47,269	46,679	46,021
Net operating balance	(4,058)	(2,853)	(1,832)	(314)
Fiscal balance	(8,392)	(7,290)	(6,634)	(5,623)
Gross borrowing	33,185	32,158	31,270	30,017
Note: 1. Numbers may not add due to rounding.				

### Operating balance

The net operating balance estimated for 2011-12 is a deficit of \$314 million, compared with a deficit of \$2.853 billion forecast in the 2011-12 MYFER and a deficit of \$1.832 billion forecast at the time of the Independent Commission of Audit Interim Report.

The improvement in the forecast net operating balance since both the MYFER and the Independent Commission of Audit Interim Report primarily reflects the bring forward of Australian Government natural disaster and road program funding. This has been partly offset by a reduction in forecast mining royalty revenue since MYFER due to export volumes not recovering as quickly as anticipated, lower coal prices and also the strength of the Australian dollar.

Expenses are \$1.248 billion lower than the MYFER forecast, which relates to changes in the expected timing of disaster recovery expenses and reclassification of some of this expense as capital.

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

## **Fiscal balance**

The fiscal balance estimated for 2011-12 is a deficit of \$5.623 billion, compared with a deficit of \$6.634 billion forecast at the time of the Independent Commission of Audit Interim Report.

The improvement in the forecast fiscal balance since the Independent Commission of Audit Interim Report primarily reflects the improvement in the operating position, partly offset by an increase in capital purchases, as discussed below.

A reconciliation of the movements in the fiscal balance between the MYFER forecast and the 2012-13 Budget estimate of 2011-12 is provided in Table 2.2.

## **Cash Flows and Balance Sheet**

### ***General Government sector***

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

The General Government sector is expected to record a cash deficit in 2011-12 of \$4.836 billion compared to a \$6.914 billion deficit forecast in the MYFER. The smaller than expected cash deficit is predominantly the result of the bring forward of Australian Government payments.

#### ***Capital purchases***

General Government purchases of non-financial assets (capital spending) in 2011-12 are estimated to be \$8.069 billion. This is \$777 million more than forecast in the MYFER due to a reclassification of some disaster recovery expenditure as capital expenditure and revisions to the timing of some Queensland Health capital projects.

#### ***Borrowing***

Net borrowings (additional borrowings for the year as itemised in the Cash Flow Statement) of \$6.305 billion are expected in 2011-12, \$1.867 billion less than forecast in the MYFER, primarily reflecting the lower cash and operating deficits.

Gross borrowings (the stock of borrowings outstanding as stated in the Balance Sheet) of \$30.017 billion are estimated at 30 June 2012. The reduction in net borrowing requirements as a result of the improved net operating and cash deficits is the key driver of the gross borrowings estimate being \$2.141 billion less than the MYFER estimate and \$1.253 billion less than estimated in the Independent Commission of Audit interim report.

## ***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.

The PNFC sector is comprised of the State's commercial entities, such as those that operate in the energy, transport and water industries. Further detail on the PNFC sector is provided in Chapter 8.

Net borrowings of \$7.611 billion are expected in the NFP sector in 2011-12, a decrease of \$2.03 billion compared with the 2011-12 MYFER estimate, primarily driven by the reduced borrowing requirement in the General Government sector.

Gross borrowings of \$62.672 billion are projected at 30 June 2012, \$320 million higher than the MYFER estimate, reflecting Queensland Treasury Holdings being reclassified into the PNFC sector (and therefore the NFP sector), largely offset by improvements in net borrowing requirements in both the General Government and other entities in the PNFC sector.

Capital purchases of \$12.030 billion are expected in the NFP sector in 2011-12, slightly above (1.7% or \$197 million) the MYFER estimate, with increased capital spending in the General Government sector being partly offset by lower capital spending in the PNFC sector.

## 2012-13 BUDGET AND OUTYEAR PROJECTIONS

### Key financial aggregates

Table 2.5 provides aggregate actual outcome information for 2010-11, estimated actual outcome information for 2011-12, forecasts for 2012-13 and projections for the outyears.

<b>Table 2.5</b> <b>General Government sector – key financial aggregates<sup>1</sup></b>						
	2010-11 Actual <sup>2</sup> \$ million	2011-12 Est. Act. \$ million	2012-13 Budget \$ million	2013-14 Projection \$ million	2014-15 Projection \$ million	2015-16 Projection \$ million
Revenue	41,957	45,707	42,224	47,967	51,646	52,963
Expenses	43,473	46,021	48,518	47,950	48,776	50,722
Net operating balance	(1,516)	(314)	(6,294)	17	2,871	2,241
Fiscal balance	(7,089)	(5,623)	(10,768)	(3,752)	652	747
Gross borrowing	25,089	30,017	41,309	45,535	46,166	46,211
Notes: 1. Numbers may not add due to rounding. 2. Reflects published actuals.						

### Operating balance

#### *2012-13 Budget*

A net operating deficit of \$6.294 billion is projected in 2012-13, compared with an estimated deficit of \$4.213 billion in the MYFER and \$4.908 billion at the time of the Independent Commission of Audit Interim Report.

The deterioration in the forecast operating position since both MYFER and the Independent Commission of Audit Interim Report is largely driven by the Australian Government shifting the timing of grant payments to reduce its own expenditure in 2012-13 in order to budget for a surplus in that year. Significant redundancy costs are also included in 2012-13.

A mismatch between the timing of natural disaster revenue from the Australian Government and the timing of the associated expenditure had previously been identified in the 2011-12 State Budget. However, the Australian Government's 2012-13 Budget further exacerbated the mismatch, bringing forward additional natural disaster funding and also re-profiling funding for other purposes, such as road programs, to reduce their expenditure in 2012-13.

As detailed in Chapter 4, grant funding from the Australian Government is expected to be approximately \$4 billion lower in 2012-13 than in 2011-12. The main contributors to this reduction are lower payments for natural disasters following significant advance payments as well as a range of payments such as road program funding and local government grants being brought forward into 2011-12.

The other key drivers in the deterioration of the forecast 2012-13 net operating position since the 2011-12 MYFER are:

- a forecast reduction in royalty revenue of \$804 million (excluding measures announced in this Budget) due to downward revisions to export volume forecasts and export prices and an upwardly revised exchange rate assumption
- changes in estimated natural disaster expenditure and revenue, primarily associated with disaster events that have occurred since the 2010-11 floods and Cyclone Yasi, contributing \$596 million to the deterioration.

As outlined in Chapter 1, measures implemented by the Queensland Government, incorporating election commitments and fiscal repair measures, have a small cost in 2012-13. This largely reflects a majority of measures being implemented during the year (such that a full year benefit is not realised in 2012-13) as well as budgeting for the cost of redundancy payments.

### *Forward estimates*

Significant improvements in the net operating balance are projected across the forward estimates as a result of the Government's fiscal repair measures, which are estimated to benefit the operating position by an average of approximately \$2 billion per annum from 2013-14 onwards.

As recommended in the Independent Commission of Audit's Interim Report, the majority of measures are designed to reduce expenditure, supplemented by a number of targeted revenue measures. Details of these measures are provided in Budget Paper 4 – Budget Measures.

Total operating expenses are expected to decline slightly in 2013-14 (by \$568 million, or 1.2%) reflecting both the Government's measures, the provision for redundancy payments in 2012-13 and the elevated level of natural disaster expenses in 2012-13. Expenses grow modestly from 2014-15 onwards.

Abstracting from measures, the most significant changes since 2011-12 MYFER relate to downward revisions in tax forecasts, primarily as a result of a moderation of forecast transfer duty growth rates. These revisions take into account the Independent Commission of Audit's view that previous estimates were overly optimistic.

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

## **Fiscal balance**

A fiscal deficit of \$10.768 billion is budgeted for 2012-13. As with the operating balance, the estimated fiscal balance is significantly impacted by the timing of Australian Government funding, particularly with regards the mismatch between natural disaster revenue and expenditure. The estimated impact of natural disaster arrangements on the fiscal balance across the forward estimates is outlined in Table 2.3 earlier in this chapter.

The fiscal deficit expected in 2012-13 represents a \$2.814 billion deterioration from the 2011-12 MYFER estimate of \$7.954 billion. This reflects the revisions to the operating position, as well as movements in net capital purchases, which have been revised up by \$735 million primarily due to upward revisions to natural disaster capital expenditure principally as a result of the flooding in 2012.

From 2013-14 onwards, there is a significant improvement in the fiscal balance each year, relative to both the 2011-12 MYFER and the Independent Commission of Audit Interim Report, as natural disaster revenue and expenses normalise and the Government's fiscal repair measures take effect. Fiscal repair measures are estimated to improve the fiscal balance by an average of \$2.4 billion per annum from 2013-14 onwards.

## **Cash Flows and Balance Sheet**

### ***General Government Sector***

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

A cash deficit of \$10.676 billion is expected for the General Government sector in 2012-13, reducing to \$3.255 billion in 2013-14, with cash surpluses projected from 2014-15 onwards.

#### ***Capital purchases***

Total General Government capital purchases of \$7.653 billion are budgeted for 2012-13, \$666 million higher than forecast in the 2011-12 MYFER, primarily due to restoration works for natural disasters. Budget Paper 3 – Capital Statement provides details of budgeted 2012-13 capital outlays, by portfolio.

Over the period 2012-13 to 2015-16, purchases of non-financial assets (capital purchases) in the General Government sector of \$25.118 billion are planned.



## *Borrowing*

Net borrowings of \$11.244 billion are budgeted for 2012-13, with the \$1.924 billion deterioration since 2011-12 MYFER driven by the same factors as the deterioration in the fiscal balance. Net borrowing requirements improve significantly across the forward estimates, with a negligible net borrowing requirement (\$11 million) projected in 2015-16.

The net borrowing requirement is larger than implied by the fiscal balance each year due to the reinvestment of earnings on financial assets, equity injections to PNFC entities and the non-cash nature of some items in the Operating Statement.

Gross borrowings of \$41.309 billion are expected in the General Government sector at 30 June 2013, \$181 million less than forecast in the 2011-12 MYFER, primarily reflecting the lower borrowing requirement in 2011-12 being offset by the higher expected borrowing requirement in 2012-13. As discussed previously, much of the improvement in the fiscal aggregates in 2011-12 and deterioration in 2012-13 relates to the Australian Government moving grant payments between years to suit its own purposes.

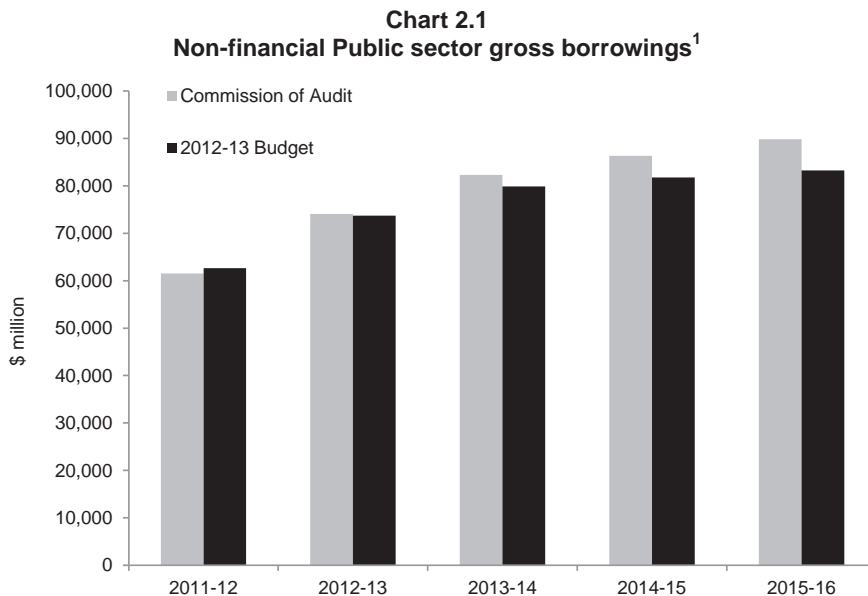
Over the Budget and forward estimates period, total General Government net borrowings of \$16.33 billion are planned. Gross borrowings of \$46.166 billion are projected at 30 June 2015, which is \$3.383 billion lower than projected in the MYFER, reflecting the implementation of the Government's fiscal repair measures and despite the upward revisions to natural disaster expenditure estimates.

## Non-financial Public Sector

Net borrowings in 2012-13 are estimated at \$10.894 billion, compared to a 2011-12 MYFER forecast of \$11.862 billion. This reflects the improvement in the PNFC sector's net borrowing requirement more than offsetting the deterioration in the General Government sector's borrowing requirement, noting this was largely driven by changes to the timing of Australian Government payments.

Total net borrowings across 2012-13 and the forward estimates are expected to be \$20.259 billion. These borrowings represent less than half of the planned \$42.088 billion of purchases of non-financial assets in this period, which includes \$16.970 billion in the PNFC sector.

As outlined in Chart 2.1, gross borrowings are expected to reach \$81.749 billion at 30 June 2015, \$4.6 billion lower than the comparable Independent Commission of Audit estimate. It should be noted that the Independent Commission of Audit's estimates published in their Interim Report have been adjusted to ensure consistency with the 2011-12 MYFER and 2012-13 Budget in relation to the treatment of the reclassification of Queensland Treasury Holdings into the PNFC sector.



1. Independent Commission of Audit borrowing numbers have been adjusted to ensure comparability with the 2011-12 MYFER and 2012-13 Budget.

### 3 ECONOMIC PERFORMANCE AND OUTLOOK

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#### FEATURES

- Reflecting the impact of the Euro debt crisis on prospects in the US and Asia, Queensland's major trading partners are forecast to expand by 3% in both 2012 and 2013 - below an annual average of 4½% in the two decades prior to the Global Financial Crisis (GFC). With growth in advanced nations subdued, global growth is forecast to be predominantly driven by emerging Asia.
- Despite a weaker global backdrop, State economic growth is estimated to have accelerated to a four year high of 4% in 2011-12, after natural disasters and the GFC slowed growth in prior years. Faster growth was driven by a record 42.3% surge in business investment, as construction ramped up on LNG and coal projects. Good growing conditions also boosted rural exports to new highs.
- However, the recovery has not been broad based. A high A\$ and softer global growth weighed on tourism, education and manufactured exports in 2011-12. Slower population and jobs growth, tight credit conditions and more cautious households kept dwelling investment subdued for most of the year.
- With some of these factors persisting into this financial year, resource exports and investment are the main drivers of a forecast further 4% economic growth in 2012-13. In particular, the passing of supply disruptions and some recovery in global industrial production are forecast to drive higher coal exports.
- Economic growth is forecast to ease slightly to 3¾% in 2013-14, as LNG construction peaks that year. However, growth in consumer spending and dwelling investment is forecast to improve, reflecting stronger jobs growth, some recovery in asset prices, and past cuts in interest rates.
- Public final demand is expected to fall ½% in 2012-13 and 2¼% in 2013-14, as this budget establishes a path to sustainable public finances and growth in the private sector gathers pace. This will be supported by State Government reforms in 2012-13 including transferring some \$500 million of annual work to the private sector from areas such as RoadTek, QBuild and Project Services.
- As the mining boom enters its export phase, economic growth is projected to rise to an annual average of 4½% over 2014-15 and 2015-16. Some easing in the A\$ and stronger global growth should also benefit trade exposed sectors.
- Subdued business confidence and the competitive pressures of the high A\$ are forecast to see employment growth remain below trend in 2012-13, causing a rise in the unemployment rate to 6% in year-average terms. As economic growth becomes more broad based over 2013-14 to 2015-16, the year-average unemployment rate is projected to begin falling again.

# EXTERNAL ENVIRONMENT

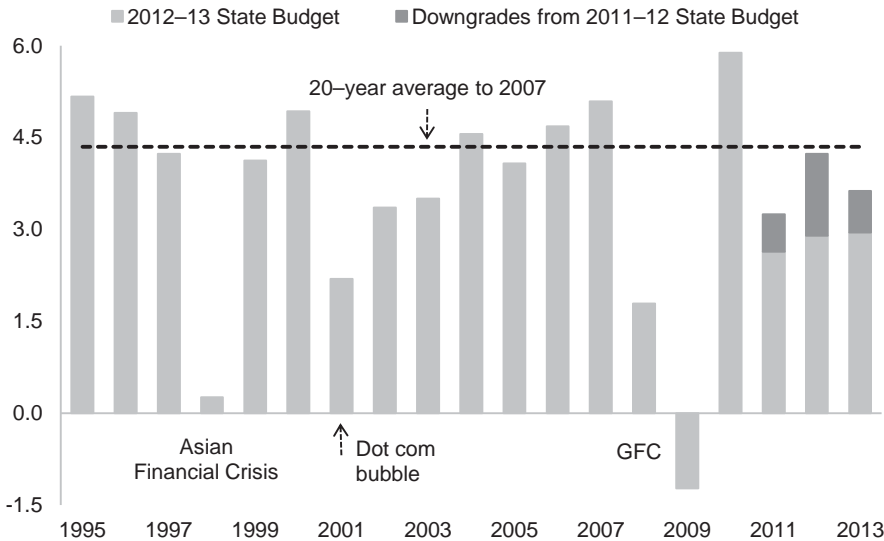
## International conditions

After the onset of the Global Financial Crisis (GFC) in 2008 and 2009, world output bounced back in 2010, due to large fiscal stimulus in China and the US as well as global monetary easing. However, growth has lost momentum since 2011. Despite near zero interest rates in advanced economies, losses in wealth via declines in house, equity and other asset prices have seen financial and household sectors continuing to deleverage. Lower consumer demand, greater risk aversion and tight credit conditions have weighed on business spending.

The public bailout of private institutions and weaker tax revenues have culminated in the next phase of the GFC – the sovereign debt crisis. The escalation in the crisis in Europe over the past year has had flow on effects via trade and financial ties to the US and Asia, where there have been signs of faltering growth. Reflecting these trends, international institutions have downgraded global prospects and called for more decisive action in Europe and in other economies that still have scope to ease policy.

Compared with a year earlier, growth in Queensland’s trading partners, on an export weighted basis, is now forecast to be around 1¼ and ¾ percentage points weaker in 2012 and 2013 respectively (see Chart 3.1). Growth is still forecast to strengthen from 2.6% in 2011 to 3% per annum in 2012 and 2013, as Japan rebuilds from the tsunami and policy is relaxed further in emerging Asia to support growth. However, this would represent a rate well below an annual average of 4½% in the two decades prior to the GFC.

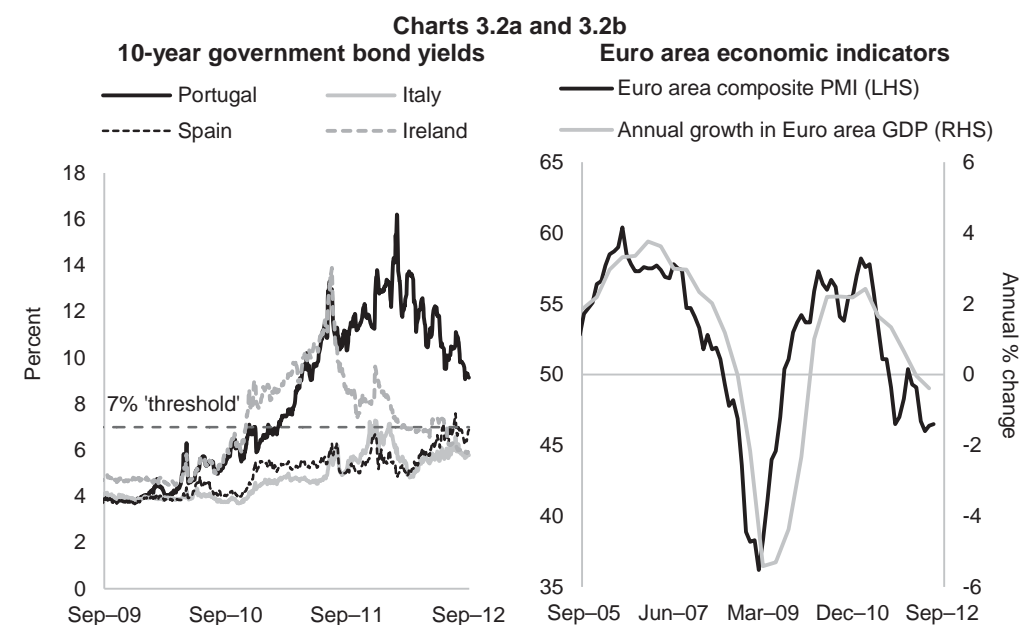
**Chart 3.1**  
**QLD major trading partner growth<sup>1</sup>**



1. 2012 and 2013 are forecasts.  
Sources: Consensus Economics, IMF and Queensland Treasury and Trade.

European policy makers appeared to make inroads in June 2012, when a pro-Euro party won the Greek election and a Summit meeting agreed on how rescue funds could more effectively recapitalise Spanish banks. However, these events only temporarily allayed concerns over a Euro breakup or sovereign default. After falling further behind fiscal targets, opposition has grown over another bailout to keep the Greek Government solvent, while a 6.8% fall in Italian GDP since 2007 has raised solvency concerns in the Euro area's third largest economy. In Spain, the need for regional governments to seek financial aid from the national Government sent sovereign 10-year bond yields back above 7% in July, a 'threshold' level that has tended to put debt to GDP ratios on an unsustainable path in other European economies (see Chart 3.2a).

Europe is still expected to remain in recession for the rest of 2012 (see Chart 3.2b). This reflects the adverse impact on economic activity of European fiscal austerity, rising unemployment, the bursting of property bubbles and a credit crunch in the banking sector. The depreciation in the Euro has also not been enough to support an export-led recovery in peripheral economies of Greece, Portugal, Spain and Ireland, with the currency underpinned by stronger economies such as Germany. A relatively strict mandate of the European Central Bank (ECB) that focuses on price stability and largely precludes the 'bailout' of member governments has also resulted in less monetary easing compared with other economies.



Sources: DataStream and Bloomberg.

Longer term solutions to the European debt crisis include a proposal for a ‘fiscal union’, involving the creation of a centralised budget and Euro-wide bonds to lower borrowing costs for the periphery. The ECB has outlined it will provide more support by purchasing the sovereign bonds of governments that formally apply for Euro rescue funds as they implement the required budget cuts for such a union. A ‘monetary union’ with ECB oversight of the banking system has also been advocated to help improve cross-border credit flows and confidence in the banking system. However, with countries likely to be reluctant to surrender their policy making to a centralised authority, and with many details still to be worked through, agreed and implemented, the Euro-zone will continue to be a source of market volatility as members search for a longer-term solution.

**Table 3.1**  
**Queensland’s major trading partner’s GDP outlook**  
**(annual % change)**

	Actual	Forecasts				
	2011	2012	2013	2014	2015	2016
Major trading partners	2.6	3	3	3½	3¼	3¾
Non-Japan Asia	5.2	4½	5¼	5¾	5¼	5¾
China	9.2	8	8¼	8¾	8¼	8½
India	6.5	6	6½	7½	7¼	7¾
Japan	-0.7	2½	1½	1	1¼	1¼
Europe	1.3	-½	½	1½	2	2
US	1.8	2	2	3	3¼	3½

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

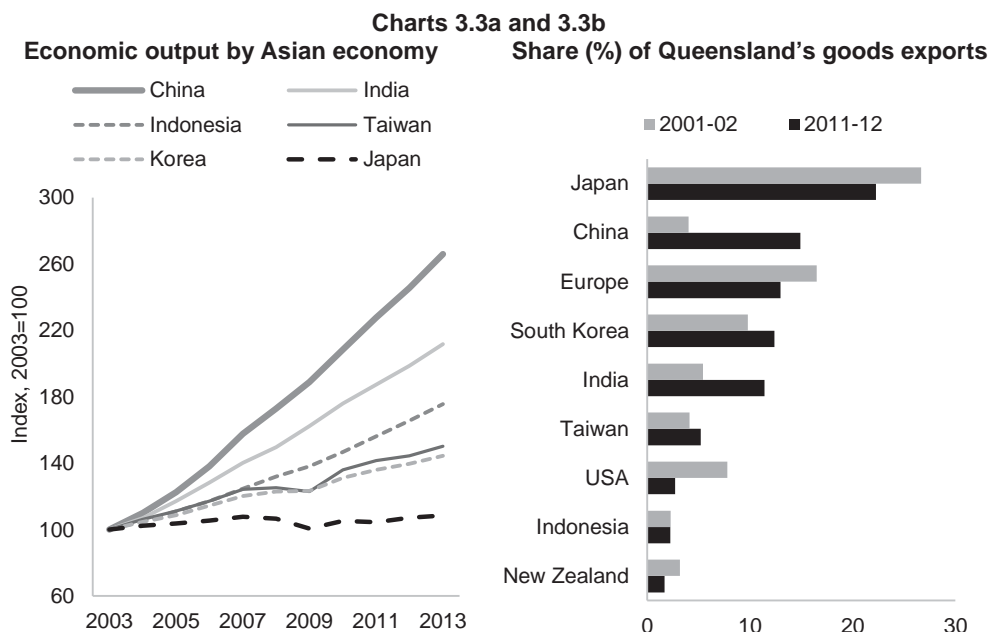
More aggressive fiscal and monetary easing along with signs of a bottoming out in the US housing sector – one of the original catalysts for the GFC – provide for a more optimistic outlook for the US economy relative to Europe. After falling by 30% since late 2007, house prices stabilised in mid-2012, while dwelling construction has begun increasing during 2012. With construction accounting for 20% of the 8.8 million in job losses during the US recession between 2008 and early 2010, any recovery in this sector is expected to benefit employment and household related spending.

However, the US is still expected to expand at a sub-trend 2% in both 2012 and 2013. The Euro debt crisis has adversely affected exports, manufacturing and related investment, while fiscal consolidation has seen public sector jobs fall by half a million since early 2010. These trends have coincided with some slowing in jobs growth and retail spending in 2012. Further, the *Congressional Budget Office* estimates that the ‘fiscal cliff’ – scheduled spending cuts and the reversal of tax cuts – would see the US enter recession in early 2013. Current forecasts factor in some postponement of these tax increases and spending cuts. However, this requires a lift in the legislated debt ceiling and could see sovereign debt concerns spread to the US.

In Asia, Japan's economy is estimated to recover by 2½% in 2012, after the tsunami caused a 0.7% contraction in output in 2011. Growth has been supported by public reconstruction activity and private consumption due to temporary measures to stimulate demand for cars. However, there remain supply-side constraints to growth. After supplying 30% of Japan's electricity before the tsunami, almost all of the country's nuclear power plants remain shut down. Further, the higher Yen together with weaker external demand has seen the real value of Japan's exports stagnate since 2010.

With a subdued outlook for advanced economies, non-Japan Asia will continue to drive global growth. The economies of China and India, now Queensland's second and fourth largest individual markets, are forecast to record the fastest growth (see Charts 3.3a and 3.3b). This development phase, involving a shift from a rural to a manufacturing and service base, will drive demand for the State's mineral and energy exports, while the rise of the middle class will fuel demand for service exports such as tourism and education.

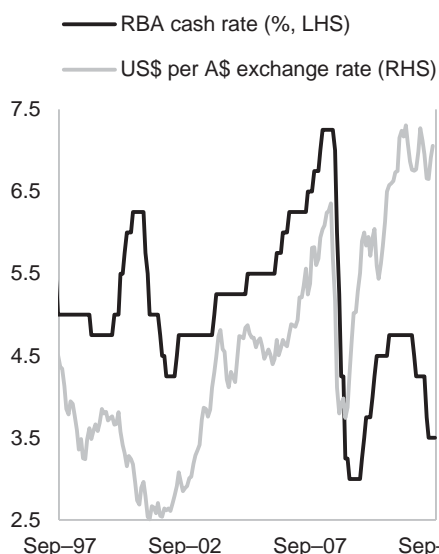
Nevertheless, these economies are also expected to expand at rates below those of the mid-2000s. Annual growth in the value of China's exports eased from 25% in mid-2011 to 1% in mid-2012, reflecting weakness in Europe and the US and a rise in the Yuan. With the post-GFC stimulus causing strong asset price growth and inflation, a tightening in policy since 2011 slowed annual economic growth to 7.6% in June quarter 2012, its lowest rate since 2009. With inflation also back under control, Chinese authorities cut interest rates in 2012 for the first time in 3 years and reduced bank reserve requirements. While another round of infrastructure spending is widely anticipated, the overheating of the economy in 2010 suggests the size of the stimulus will be more measured this time.



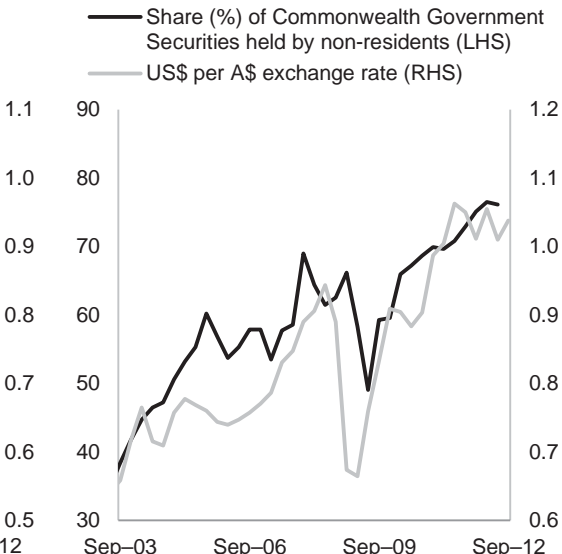
Sources: DataStream, Consensus Economics, IMF, ABS unpublished trade data, Queensland Treasury and Trade.

**Charts 3.4a and 3.4b**

**Interest rates and the exchange rate**



**Foreign holdings of Government Securities**



Sources: ABS 5302.0, Australian Office of Financial Management, DataStream, UBS.

A key international development for Australia has been the resilience of the A\$, which remains above parity despite a weaker global outlook leading to a 19% fall in commodity prices and the RBA cutting rates by 125 basis points since 2011 (see Chart 3.4a). The A\$ strength partly reflects past ‘quantitative easing’ by central banks in the US, Japan, England and Europe, and expectations for further easing, which has put downward pressure on these currencies relative to the A\$. Further, Australia’s ability to maintain its AAA credit rating while other nations have been downgraded has raised the ‘safe haven’ status of the A\$, increasing global appetite for Australian debt (see Chart 3.4b).

## External assumptions

In line with the above global developments, forecasts for Queensland economic growth are based on several other assumptions about financial markets and monetary policy:

- reflecting RBA forecasts for inflation to now remain within its 2%-3% target band, the cash rate is expected to stay around its current rate of 3.5% for 2012-13
- greater global appetite for Australian debt is expected to keep the A\$ above parity in 2012-13, before it gradually depreciates as commodity prices ease and monetary policy in advanced economies begins to normalise late in the projection period
- after flooding and abundant rainfall boosted water storages to near full capacity in 2011-12, seasonal conditions are assumed to return to normal from 2012-13 onward.

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



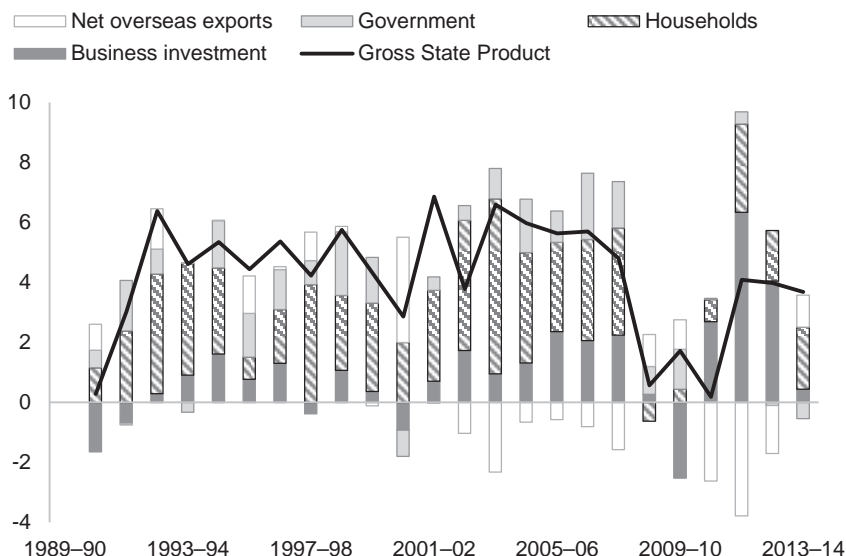
## QUEENSLAND ECONOMY

### Summary of conditions and outlook

Despite a weakening in the global outlook during the year, Queensland economic growth is estimated to have strengthened to 4% in 2011-12. This would represent a four year high, after natural disasters slowed growth to 0.2% in 2010-11 and the GFC weighed on activity in 2008-09 and 2009-10 (see Chart 3.5). Stronger growth in 2011-12 was driven by a record 42.3% surge in business investment, as construction ramped up on major LNG and coal projects aimed at servicing long-term Asian resource demand. Further, consumer spending was boosted by transitory factors, including a catch-up in car purchases after the Japanese tsunami restricted supply, as well as a normalisation in food prices after floods. Good growing conditions also boosted rural exports to record highs.

However, the recovery has not been broad based, with the sustained high A\$ and risk aversion adversely affecting non-mining activity. The elevated currency weighed on interstate tourism exports, international student enrolments and manufactured exports in 2011-12. A slowdown in population growth, tight credit conditions and more cautious households contributed to subdued dwelling construction in 2011-12. Highlighting these trends, employment fell in retail, accommodation, manufacturing and construction in 2011-12, with private sector job gains concentrated in mining and industries related to disaster recovery. Weak business confidence and competitive pressures to cut costs resulted in jobs growth easing to 0.7% in 2011-12 - its lowest rate since the early 1990s.

**Chart 3.5**  
**Contributions to growth in Queensland's gross state product<sup>1</sup>**



Note:

1. CVM, 2009-10 reference year. 2011-12 is an estimate and 2012-13 and 2013-14 are forecasts.

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

As some of these factors persist into 2012-13, jobs growth is forecast to stay below trend at ¾%, causing the year-average unemployment rate to rise to 6% in 2012-13. However, ongoing resource investment and a recovery in mineral exports are forecast to see the overall economy expand by a further 4% this year. With the mining construction boom concentrated in Queensland and Western Australia, these states are forecast to record the highest economic growth of any state in 2012-13 (see Chart 3.6). Weak global conditions and industrial disputes delayed a recovery in Queensland coal exports in 2011-12 from floods, but the passing of some supply disruptions and an expected recovery in global industrial output are forecast to see coal tonnages rise in 2012-13. Dwelling investment is forecast to improve further, led by higher construction activity in mining regions.

Economic growth is forecast to ease slightly to 3¾% in 2013-14, largely due to a slowing in business investment growth as LNG construction peaks that year. After supporting the economy through the GFC, public sector spending is expected to fall further and detract marginally from growth, as rebuilding activity passes and reflecting fiscal repair. Growth in consumer spending and dwelling investment are forecast to improve, driven by higher jobs growth, some recovery in asset prices, and past interest rate cuts working their way through the economy. If policy steps to put the global economy on a solid footing prove successful, this should lead to stronger business confidence, supporting forecast stronger jobs growth of 2½% and a fall in the unemployment rate to 5¾% in 2013-14.

As the current mining boom moves into its export phase, economic growth is projected to strengthen to an annual average of 4½% in 2014-15 and 2015-16 (see Table 3.2). While a winding down in LNG construction growth may weigh on growth in 2014-15, the resulting ramp up in exports will bolster growth in 2015-16. An easing in the A\$ and stronger global growth by this stage should also benefit trade exposed sectors. More broad-based economic growth is expected to maintain jobs growth at around 2½% in both 2014-15 and 2015-16, lowering the unemployment rate further (see Chart 3.7).

**Table 3.2**  
**Economic forecasts/projections, Queensland<sup>1</sup>**

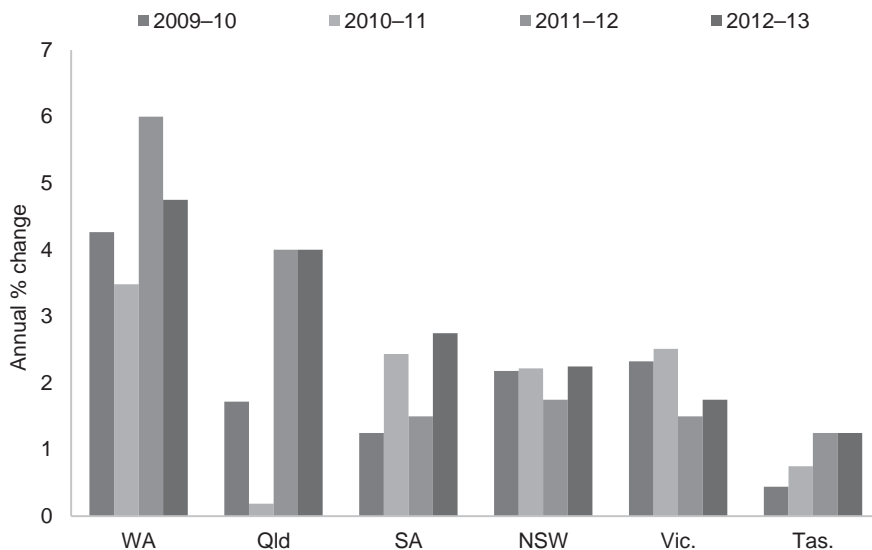
	Outcome	Estimate	Forecasts		Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
<b>Gross state product<sup>2</sup></b>	<b>0.2</b>	<b>4</b>	<b>4</b>	<b>3¾</b>	<b>4½</b>	<b>4½</b>
Employment	2.3	0.7	¾	2½	2½	2½
Unemployment rate	5.5	5.5	6	5¾	5½	5¼
Inflation <sup>3</sup>	3.3	1.9	2¾	2¾	2¾	2¾
Wage Price Index	3.9	3.7	3¾	3½	3½	3¾
Population <sup>4</sup>	1.7	1¾	1¾	1¾	2	2

Notes:

1. Annual % change, except for unemployment rate. Decimal point figures indicate an actual outcome.
2. GSP growth is based on *Queensland Treasury and Trade* estimates of the timing of LNG capital imports, which may differ to the ABS treatment of LNG imports. GSP growth is an annual average for 2014-15 and 2015-16.
3. Includes a ¾ of a percentage point contribution from the carbon tax in 2012-13.
4. Calculated using population flows data. See paragraph 23 of Technical Note to ABS publication 3101.0.

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

**Chart 3.6**  
**Real economic growth, by state<sup>1</sup>**

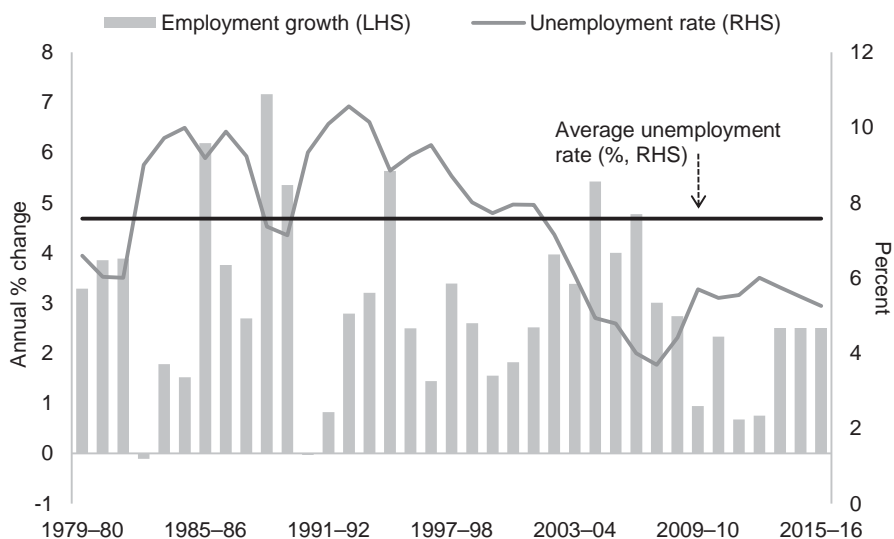


Note:

1. CVM, 2009-10 reference year. 2011-12 are estimates and 2012-13 are forecasts.

Sources: ABS 5220.0, various State Budget papers and Queensland Treasury and Trade.

**Chart 3.7**  
**Labour market, Queensland<sup>1</sup>**



Note:

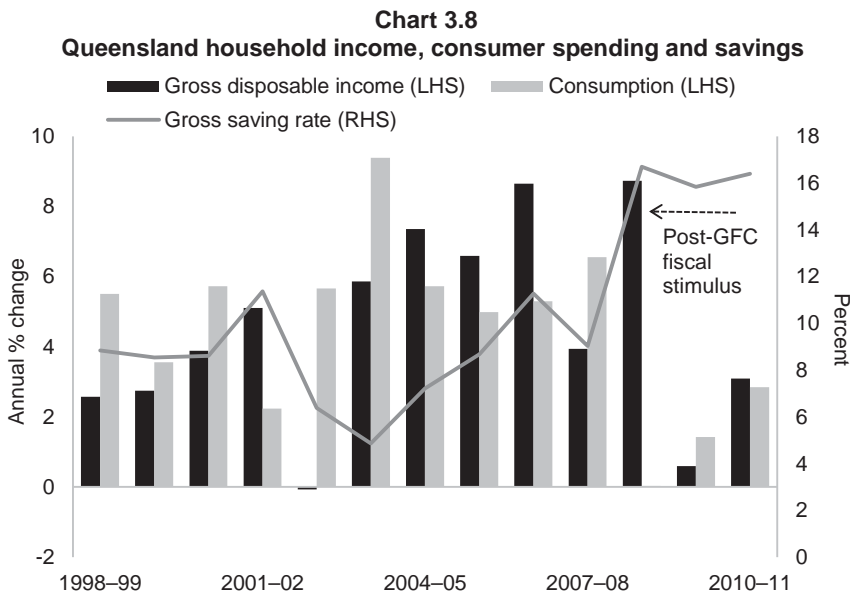
1. Year-average. 2012-13 and 2013-14 are forecasts, 2014-15 and 2015-16 are projections.

Sources: ABS 6202.0 and Queensland Treasury and Trade.

## Household consumption

Growth in household consumption strengthened to 5% in 2011-12, its highest rate of growth since 2007-08, the year before the GFC intensified. While this reflected the benefit of higher terms of trade and lower interest rates on disposable income growth, spending was also boosted by several transitory factors during the year. A normalisation in prices following the floods drove higher spending on food, while car purchases recovered from supply disruptions in late 2010-11 due to the natural disasters in Japan. A high A\$ also encouraged spending on imports such as overseas travel. Reflecting these trends, increased spending on food, recreation and transport combined accounted for more than two-fifths of total growth in household consumption in 2011-12.

Some of these effects will pass in 2012-13, while income growth is expected to ease due to a fall in the terms of trade and the lagged impact of a soft labour market. As a result, consumption growth is forecast to slow to 2¾% this financial year. While lower interest rates, carbon tax compensation payments and income tax cuts should support disposable incomes, uncertainty about the outlook should see households remain cautious and save a high proportion of this additional income (see Chart 3.8). Past falls in house and equity prices will also restrict the ability and willingness of households to draw on wealth to finance spending. Growth is forecast to recover slightly to 3¼ % in 2013-14, in line with stronger jobs growth and an improvement in housing activity and prices.

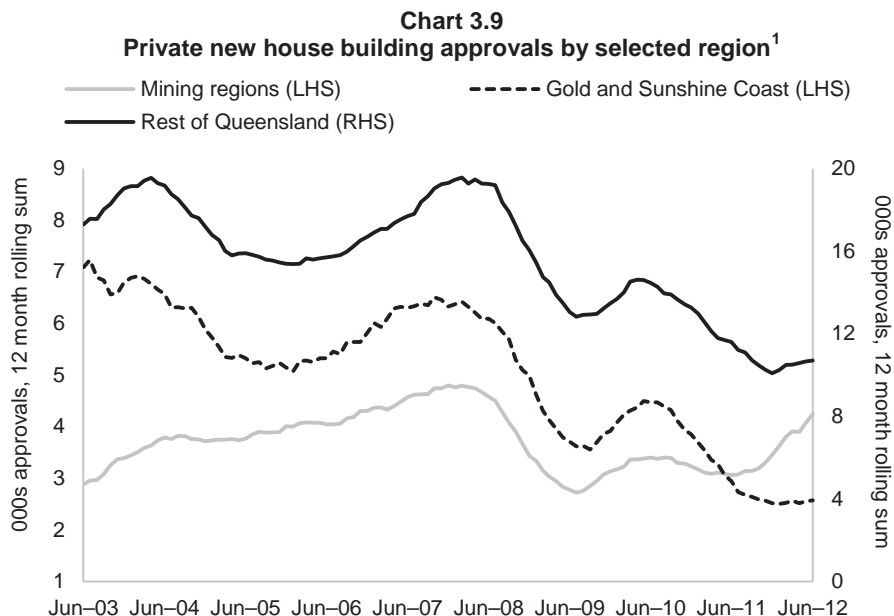


Sources: ABS 5220.0, 6401.0 and Queensland Treasury and Trade.

## Dwelling investment

Following falls in each of the four years since 2006-07, dwelling investment rose 1.9% in 2011-12. However, this was driven by a recovery in renovation activity, with new dwelling construction remaining subdued. Weakness in construction was first initiated by very restrictive interest rates, with the variable mortgage rate reaching 9½% in 2008. While mortgage rates have since fallen, net population flows have slowed by one-third from 120,000 persons in 2008-09 to around 80,000 in 2011-12, lowering underlying housing demand. As a result, house prices fell by around 7% between their mid-2010 peak and mid-2012, dampening investor interest. More limited access to finance has suppressed developer activity, while the impact of the high A\$ on tourism has weighed on regions such as the Gold Coast, which had already suffered from oversupply.

Dwelling investment, supported by an increase in the first home owner's grant for new homes, is forecast to rise a further 1¾% in 2012-13. This partly reflects the impact of the resources boom on construction activity in mining regions (see Chart 3.9). While a soft labour market will continue to restrain housing demand in 2012-13, several trends point to an eventual pick-up in activity. In particular, past falls in house prices and lower interest rates have improved affordability. House prices have also showed signs of stabilising in mid-2012, which should support investor interest. Dwelling investment is forecast to record stronger growth of 5½% by 2013-14, as a recovery in employment and wages growth boosts housing demand and house prices.



Note:

1. 'Mining regions' comprise Fitzroy, Mackay, Northern and North West ABS Statistical Divisions.

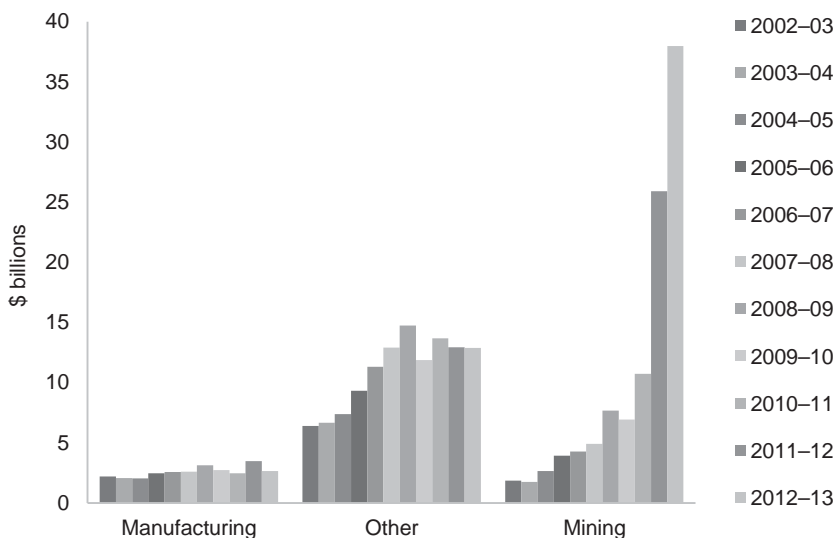
Sources: ABS 8731.0 and Queensland Treasury and Trade.

## Business investment

Business investment surged an unprecedented 42.3% in 2011-12 (see Table 3.3), driven by a ramp-up in construction on large scale LNG projects. Relatively high prices, as well as anticipated long-term demand from emerging Asia, also drove higher investment in coal mining projects and related transport infrastructure. As a result, growth in engineering construction and to a lesser extent mining-related machinery and equipment investment drove overall growth in business investment. In contrast, non-residential buildings (such as offices, shops, factories and warehouses) grew more modestly, with the activity levels still constrained by softer jobs growth, tight credit conditions and weak business confidence throughout the year.

Business investment is forecast to rise a further 19<sup>3</sup>/<sub>4</sub>% in 2012-13, to surpass \$60 billion in real terms. This would represent a level double that of 2009-10. Progress on construction of large scale mining projects is expected to again drive growth, while the high A\$ is expected to weigh on investment in trade-exposed sectors such as manufacturing (see Chart 3.10). Below average growth in consumer demand and jobs growth is expected to temper growth in commercial construction in 2012-13. Demand for office space from the resource sector has helped Brisbane office vacancy rates fall in recent years, but vacancy rates remain above 20% in the Gold Coast. While investment in non-mining sectors should improve, growth in business investment is forecast to slow to 2% as LNG investment peaks in 2013-14.

**Chart 3.10**  
**Actual and expected capital expenditure,<sup>1</sup> Queensland**



Note:

1. 2012-13 are expectations, adjusted for estimated realisation ratios.

Sources: ABS 5625.0 and Queensland Treasury and Trade.

**Table 3.3**  
**Queensland economic forecasts,<sup>1</sup> by component**

	Actual	Estimate	Forecasts	
	2010-11	2011-12	2012-13	2013-14
	%	%	%	%
<b>Economic output<sup>2</sup></b>				
Household consumption	2.8	5.0	2¾	3¼
Private investment	7.2	28.6	14¾	2¾
Dwellings	-13.1	1.9	1¾	5½
Business investment	21.8	42.3	19¾	2
Private final demand	4.1	12.0	6¾	3
Public final demand	0.2	1.6	-½	-2¼
State final demand	3.1	9.5	5¼	1¾
Net exports <sup>3</sup>	-2.6	-3¾	-1½	1
Overseas exports	-6.9	3½	5	7¼
Overseas imports	7.6	27¼	13	1¾
<b>Gross State Product</b>	<b>0.2</b>	<b>4</b>	<b>4</b>	<b>3¾</b>
<b>Other state economic measures</b>				
Inflation <sup>4</sup>	3.3	1.9	2¾	2¾
Wage Price Index	3.9	3.7	3¼	3½
Employment	2.3	0.7	¾	2½
Unemployment rate (% , year-average)	5.5	5.5	6	5¼
Labour force	2.1	0.8	1¼	2¼
Notes:				
1. Unless otherwise stated, all figures are annual % changes. Decimal point figures indicate an actual outcome. GSP growth is based on <i>Queensland Treasury and Trade</i> estimates of the timing of LNG capital imports, which may differ to the ABS treatment of LNG capital imports.				
2. CVM, 2009-10 reference year. Not separately reported is other investment (livestock and orchards, intellectual property products and ownership transfer costs), the balancing item (including interstate trade and inventories) and the statistical discrepancy.				
3. Percentage point contribution to growth in gross state product.				
4. Includes a ¾ of a percentage point contribution from the carbon price in 2012-13.				
Sources: ABS 5220.0, 5206.0, 6401.0, 6345.0, 6202.0 and <i>Queensland Treasury and Trade</i> .				

## **Public final demand**

Very strong growth in government sector spending contributed significantly to economic growth over the decade to 2009-10. However, this level of spending was not sustainable and drove up government debt, creating the risk of a massive adjustment if not quickly addressed. If government spending had continued to grow at previous rates, debt levels would have quickly become unaffordable. This budget establishes a path to sustainable public sector finances, as the State withdraws stimulus from the economy and as growth in private sector activity gathers pace. This will be supported by State Government reforms which in 2012-13 includes transferring some \$500 million of annual work to the private sector from areas such as RoadTek, QBuild and Project Services.

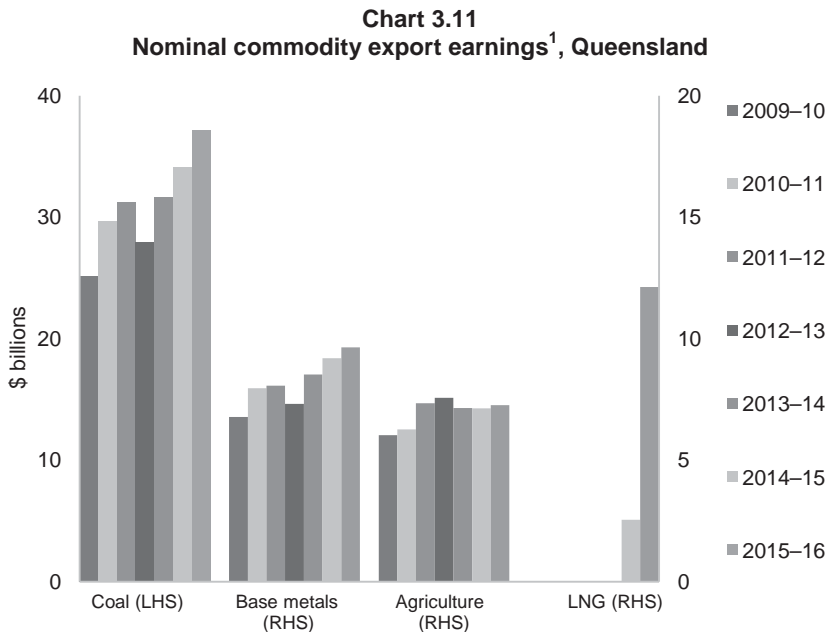
Public final demand – the sum of Commonwealth, state and local government recurrent spending and investment – is expected to fall ½% in 2012-13 and 2¼% in 2013-14, reflecting fiscal repair as well as the passing of expenditure related to flood rebuilding.

## Net overseas exports

Overseas exports grew by an estimated 3½% in 2011-12 after falling 6.9% in the flood and cyclone affected 2010-11. Coal export tonnages only rose 1.6% in 2011-12, after falling 11.3% in 2010-11, hindered by dewatering of flooded mines, industrial action, lacklustre overseas demand and competition from other exporters. Lower demand also saw coal prices fall to three year lows in early 2012-13. Growth in export tonnages is expected to pick-up in 2012-13 and 2013-14, based on increases in domestic production capacity and improved global demand. However, lower world prices and a high A\$ mean nominal export earnings in 2012-13 are likely to fall, before recovering in 2013-14.

Greater production saw base metal exports rise almost 10% in 2011-12, although lower prices suppressed growth in nominal earnings. A switch from open-pit to underground mining at the Ernest Henry copper mine is expected to reduce base metal exports in 2012-13. The commissioning of Mt Margaret copper mine, George Fisher zinc expansions and Lady Loretta zinc operation should boost base metal exports in 2013-14.

With first gas exports targeted for 2014, LNG exports are projected to become Queensland's second largest export after coal by 2015-16, surpassing \$10 billion in that year (see Chart 3.11). This reflects the anticipated completion of the Curtis Island LNG and Gladstone LNG projects in 2014-15 and 2015-16 respectively, while the Australia Pacific LNG project will drive a further rise in exports beyond the projection period.



Note:

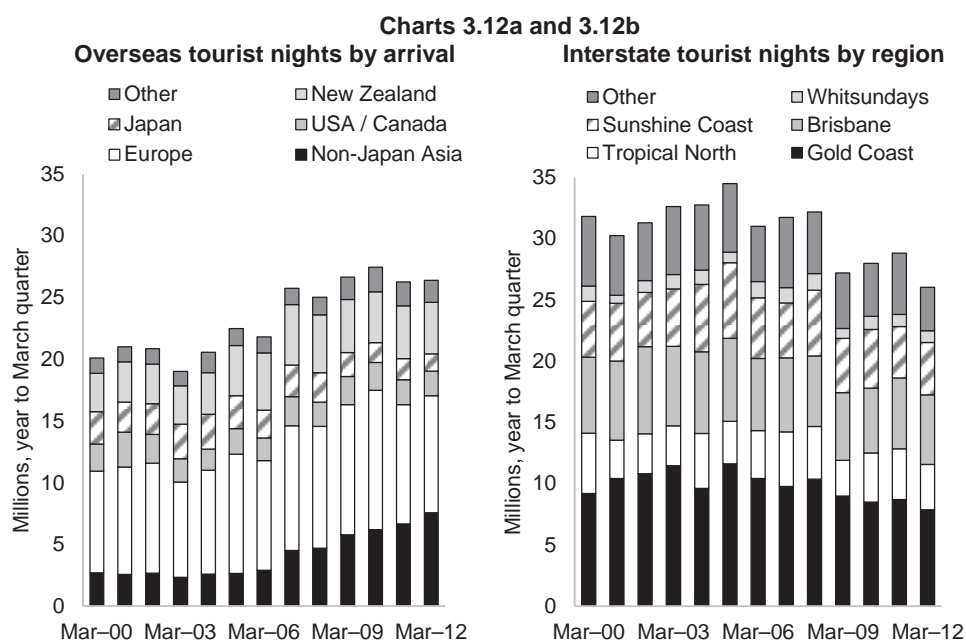
1. 2012-13 onwards are forecasts. Agriculture includes meat, sugar, cotton and crops.

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



A surge in rural exports to a record high was the main driver of growth in overall export volumes in 2011-12. Abundant water supply has seen cotton planting and yields surge over the past two years, resulting in the nominal value of cotton exports doubling in 2011-12. While herd rebuilding and a high A\$ limited growth in beef exports in 2011-12, healthy domestic supply conditions and lower US production due to drought should drive higher exports in 2012-13. A recovery in sugar production following the cyclone affected 2011-12 season should also see rural exports rise further in 2012-13.

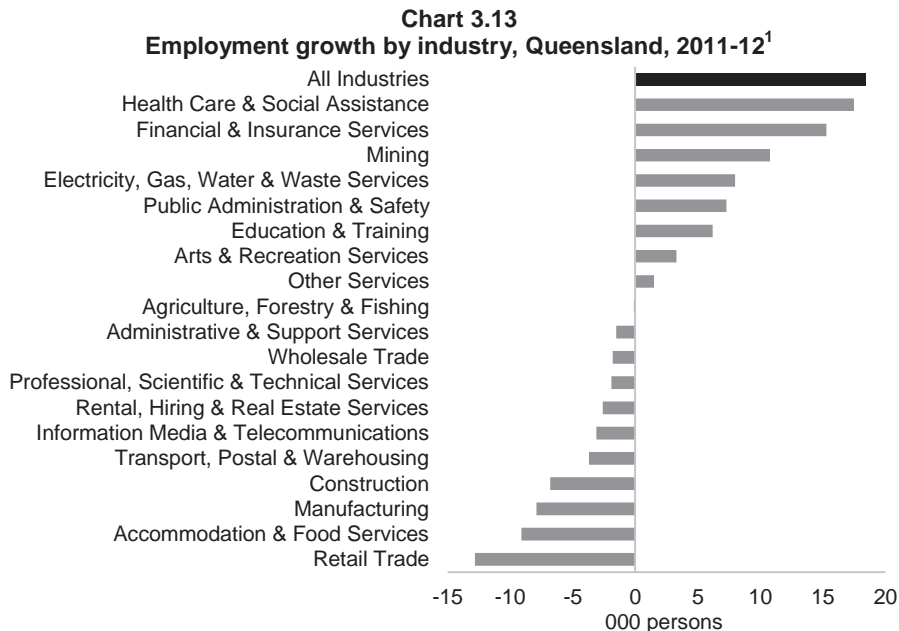
While overseas tourism exports were supported by strong demand from Asia, the high A\$ continued to drive more overseas travel by Australians, causing interstate tourism exports to fall in 2011-12 (see Charts 3.12a and 3.12b). The high A\$ along with changes in visa rules from 2008 to 2010 also saw international student enrolments fall in 2011-12. With any fall in the A\$ and recovery in global demand likely to be modest to begin with, growth in tourism exports is expected to be subdued in 2012-13, before improving in 2013-14. Federal reforms since late 2011 have helped restore the competitiveness of Australia's education system and should arrest a recent decline in enrolments by 2013-14.



Meanwhile, imports are estimated to have risen a record 27¼% in 2011-12, as LNG construction ramped up. Imports are forecast to rise further in 2012-13 before plateauing in 2013-14, as LNG construction begins to wind back and the A\$ depreciates somewhat. As a result, net overseas exports (exports less imports) are estimated to detract 3¾ percentage points from economic growth in 2011-12 and 1½ percentage points in 2012-13, before contributing one percentage point in 2013-14.

## Labour market

Partly reflecting greater uncertainty over the outlook, employers generally preferred to increase hours worked, rather than take on extra workers in 2011-12. While aggregate hours worked rose by 2.1%, employment growth eased to 0.7%, or 15,700 persons, the lowest rate since 1990-91. The high A\$ also saw cost cutting efforts in trade exposed industries. Reflecting the multi-speed nature of the economy, employment fell in retail trade, accommodation, manufacturing and construction, but rose in mining, health care and industries involved in disaster recovery, such as insurance (see Chart 3.13).



Note:

1. Year-average.

Source: ABS 6202.0.

Jobs growth is forecast to remain below average at  $\frac{3}{4}\%$  in year-average terms, or another 15,000 persons, in 2012-13. Notwithstanding announced cuts to operations by some companies, mining-related employment is expected to rise further, as large-scale LNG and coal projects move into their most labour intensive phase of construction. Rural employment is expected to recover following improved growing conditions. However, a still cautious business sector, fiscal consolidation and the competitive pressures of a high A\$ will weigh on employment growth in some sectors. An anticipated improvement in the global economy, domestic demand and business confidence is forecast to see employment growth strengthen to  $2\frac{1}{2}\%$ , or around 60,000 persons, in 2013-14.

Weak jobs growth in 2011-12 was cushioned by a fall in the labour force participation rate to a six-year low, as more marginally attached and younger workers left the labour force due to weakness in industries such as retail and construction. As a result, the year average unemployment rate remained at 5.5%. With the participation rate not anticipated to fall much further, labour force growth is forecast to exceed jobs growth in 2012-13, causing the year-average unemployment rate to drift up to 6%. However, this is expected to represent a peak in unemployment, with a strengthening in jobs growth in 2013-14 forecast to lower the unemployment rate to 5¾% next financial year.

More broad based economic growth is expected to support employment growth of 2½% per annum in 2014-15 and 2015-16, lowering the unemployment rate further. This longer-term outlook is consistent with projections of an increase in employment of more than 220,000 persons between 2011-12 and 2016-17 in the *Industry Employment Projections – 2012 Report* released by the Commonwealth Department of Education, Employment and Workplace Relations.

### **Prices and wages**

Inflation, as measured by growth in Brisbane's Consumer Price Index (CPI), eased to 1.9% in 2011-12, the slowest growth in 12 years. Slower growth partly reflected a number of transitory factors, including a normalisation in food prices toward pre-natural disaster levels and softer growth in tobacco prices following the increase in federal tobacco excise in the previous year. Growth in housing costs also slowed, as weaker activity saw house construction costs decline, while growth in utility costs also eased.

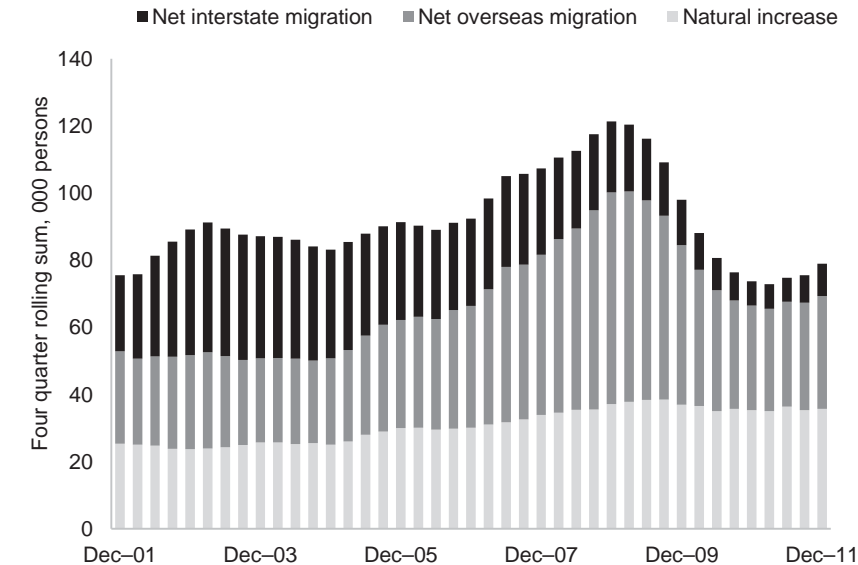
Abstracting from the carbon tax, year-average inflation is forecast to strengthen slightly to 2% and 2¾% in 2012-13 and 2013-14. Some turnaround in the housing cycle is expected to contribute to stronger growth in construction costs and prices for household furnishings and durables. As the dampening impact of the past rises in the exchange rate dissipates, prices for discretionary goods and services are not expected to repeat some of the declines seen in the past two years. With the Commonwealth estimating the carbon tax to have a one-off impact of ¾ of a percentage point on the CPI in 2012-13, headline Brisbane inflation of 2¾% is forecast for this year.

With both inflation and employment growth easing to their slowest rates in more than a decade, year-average growth in the Wage Price Index (WPI) in Queensland is forecast to moderate from 3.7% in 2011-12 to 3¼% in 2012-13. As the labour market improves, annual growth in the WPI is forecast to strengthen modestly to 3½% in 2013-14.

## Population

Population growth is estimated to be 1¾% per annum in 2012-13 and 2013-14, before strengthening somewhat to 2% per annum in 2014-15 and 2015-16. However, this growth remains below the peak of 2.9% recorded in 2008-09. A slowdown in net overseas migration has been the main driver of lower population growth since late 2008, reflecting the impact of the GFC and higher A\$ on migrant flows, as well as a turnaround in overseas education arrivals. However, overseas migration has begun to pick up slightly since March quarter 2011 (see Chart 3.14), reflecting better job prospects nationally and in mining regions relative to overseas. Following a general fall since March quarter 2003, net interstate migration has recovered slightly in recent quarters.

**Chart 3.14**  
**Population growth by component, Queensland**



Source: ABS 3101.0.

## Risks to the economic outlook

Global forecasts in recent times have focussed on three assumptions, and thus, three key risks: that European policy makers progress in an orderly way toward a long term solution; that the US raises the debt ceiling while convincing markets that measures will be taken to restore medium term fiscal sustainability, and that more policy easing in Asia is forthcoming and effective in bolstering growth.

There still remains a risk of a disorderly break-up of the European Union. While a small economy, any exit, or potential exit, of Greece from the Euro-zone could cause contagion to larger members such as Italy and Spain, where debt sustainability is increasingly coming under question. The size of current Euro bailout programs is not large enough to finance funding needs should these governments lose market access.

A default in these larger economies would see a collapse in asset prices and another global credit crunch, as counterparty risk rises greatly and institutions repair balance sheets from sovereign debt losses. A re-alignment of exchange rates following a Euro-area break up would also be destabilising to markets and economies worldwide.

As occurred during the political gridlock in 2011, economic activity and financial markets would be adversely affected by delays in raising the US debt ceiling. Outright inability to do so could potentially cause a US recession in early 2013, as tax hikes and spending cuts come into effect.

However, raising the ceiling without a credible plan to restore public finances onto a sustainable path could see markets reassess US sovereign risk. Resulting capital outflows would raise US borrowing costs and cause other economies to bear some of the adjustment through appreciation of their currencies against the US\$.

The current slowdown in Europe and US could also impact more heavily on Asia and therefore commodity prices, than currently anticipated. These advanced economies take 35% and 25% of China's and India's exports respectively. The recent easing in growth in emerging Asia has already impacted on domestic export earnings, with benchmark coking and thermal coal prices falling to three year lows in mid-2012 and some coal producers already announcing production cuts.

These headwinds have seen hope of a turnaround in global growth increasingly rest on policy easing in emerging Asia. However, already elevated local government debt levels have created opposition to another large scale fiscal stimulus in China, while the transfer of the top level leadership later this year may see some policy decisions delayed. As a result, the size and pace of fiscal stimulus may be less than currently anticipated by most forecasters. While economic growth in India slowed to a post-GFC low in early 2012, inflation remains high due to a lack of structural reform and a lower rupee, while the fiscal deficit remains large. This could restrain Indian authorities' ability to ease policy.

Any manifestation of these global risks would heavily impact on the Australian economy through trade flows, credit channels, wealth and confidence effects, as well as investment intentions in the mining sector. More scope for fiscal and monetary easing in Australia would provide some buffer, while a lower A\$ would also provide some cushioning effect. However, the A\$ depreciation may not be as sharp as during the initial GFC, given the increased 'safe haven' status of Australian assets.

In the event that global risks are avoided, a domestic risk relates to a more significant adjustment in sectors sensitive to a high A\$, such as retail, manufacturing and tourism. The longer the A\$ is elevated, the more likely businesses will interpret this as a permanent change in conditions and continue cost-cutting to raise competitiveness. This could adversely affect growth and labour outcomes over this adjustment phase.

More positively, a key upside risk under a scenario in which the world economy navigates through current headwinds is the potential for higher mining investment. Medium-term projections do not factor in large-scale projects, such as thermal coal projects in the Galilee Basin and related infrastructure, which have not yet reached final investment decision.

## 4 REVENUE

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### FEATURES

- Total General Government sector revenue is estimated to be \$42.224 billion in 2012-13. The decrease of \$3.483 billion (or 7.6%) on 2011-12 estimated actual revenue is primarily driven by the Australian Government bringing forward payments into 2011-12.
- The Government has implemented multiple measures to assist in reducing cost of living pressures on Queensland households and business:
  - the principal place of residence transfer duty concession has been reinstated from 1 July 2012 saving homebuyers up to \$7,175
  - the payroll tax threshold increased from \$1 million to \$1.1 million, with further threshold increases of \$100,000 scheduled in each year of the forward estimates
  - the industry waste disposal levy has been abolished
  - motor vehicle registration fees have been frozen for the first term of this Government
  - planned public transport fare increases have been halved, with further changes made to reward frequent public transport users
  - a water rebate of up to \$80 per domestic water connection is being provided in South East Queensland
  - the standard residential electricity tariff has been frozen.
- The Independent Commission of Audit found that there is a significant imbalance between the State's level of expenditure and revenue raising effort. Further, 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 number of revenue measures to assist with the fiscal repair task:
  - the transfer duty rate applicable for transactions valued at above \$1 million will be increased from 5.25% to 5.75%
  - the coal royalty rate of 10% on the value above \$100 per tonne will be replaced with a rate of 12.5% on the value between \$100 and \$150 per tonne and a rate of 15% applied to the value above \$150 per tonne
  - changes to gaming taxes applicable to clubs and hotels, with casinos also making an additional contribution.
- Queensland will retain its competitive tax status, with per capita state tax estimated at \$2,347 in 2012-13, compared to an average of \$2,842 for the other states and territories.

This chapter provides an overview of General Government sector revenue for the 2011-12 estimated actual outcome, forecasts for the 2012-13 Budget year and projections for 2013-14 to 2015-16.

<b>Table 4.1</b> <b>General Government revenue<sup>1</sup></b>						
	2011-12 Budget \$ million	2011-12 Est. Act. \$ million	2012-13 Budget \$ million	2013-14 Projection \$ million	2014-15 Projection \$ million	2015-16 Projection \$ million
Taxation revenue	10,527	10,583	11,013	11,778	12,567	13,493
<i>Grants revenue</i>						
Current grants	18,706	17,201	17,496	19,408	20,705	21,719
Capital grants	1,556	5,404	1,102	2,754	3,089	1,861
Sales of goods and services	4,559	4,971	4,966	5,128	5,316	5,531
Interest income	2,477	2,475	2,582	2,662	2,733	2,799
<i>Dividend and income tax equivalent income</i>						
Dividends	786	871	990	1,195	1,460	1,466
Income tax equivalent income	261	286	365	474	808	769
<i>Other revenue</i>						
Royalties and land rents	3,445	2,943	2,859	3,754	4,146	4,509
Other	690	972	851	814	822	816
<b>Total Revenue</b>	<b>43,007</b>	<b>45,707</b>	<b>42,224</b>	<b>47,967</b>	<b>51,646</b>	<b>52,963</b>
Note: 1. Numbers may not add due to rounding.						

## 2011-12 Estimated Actual

General Government revenue in 2011-12 is estimated to be \$45.707 billion, which is \$2.707 billion (or 6.3%) more than the 2011-12 Budget estimate.

Significant variations from the 2011-12 Budget estimates include:

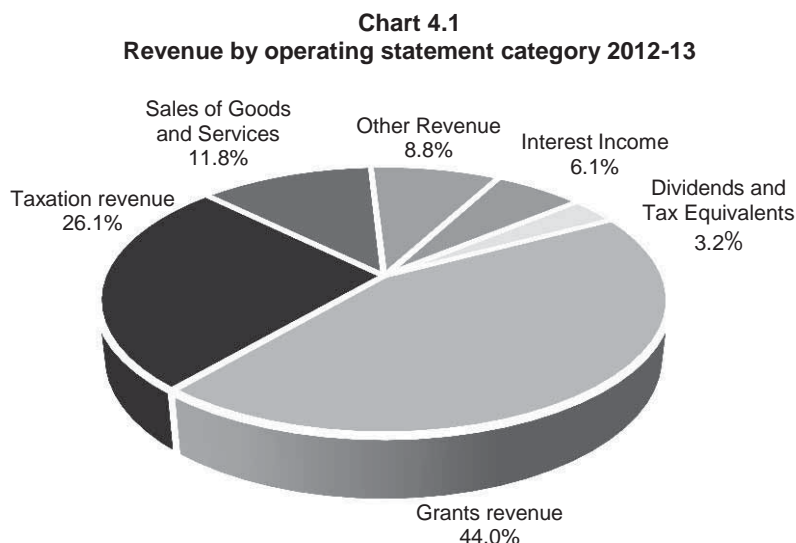
- a \$2.343 billion increase in Australian Government grants including a \$1.787 billion increase in natural disaster payments, and a bring forward of roads funding from the Commonwealth, partially offset by a \$457 million decrease in GST distributed to Queensland
- a \$502 million (or 14.6%) decrease in royalty and land rent revenue, primarily associated with significantly lower than expected coal exports, due to a slower recovery from 2010-11 flooding and industrial action, and the appreciation of the AU\$-US\$ exchange rate.



## 2012-13 REVENUE BY CATEGORY

General Government revenue in 2012-13 is estimated to be \$42.224 billion, \$3.483 billion (or 7.6%) lower than the 2011-12 estimated actual revenue of \$45.707 billion. This is largely due to expected decreases in grant revenue from the Australian Government due to bringing forward funding, such as natural disaster relief and road program funding from 2012-13 to 2011-12.

Major sources of General Government revenue in 2012-13 are grants revenue (44% of revenue) and taxation revenue (26.1%). Chart 4.1 illustrates the composition of General Government revenue.

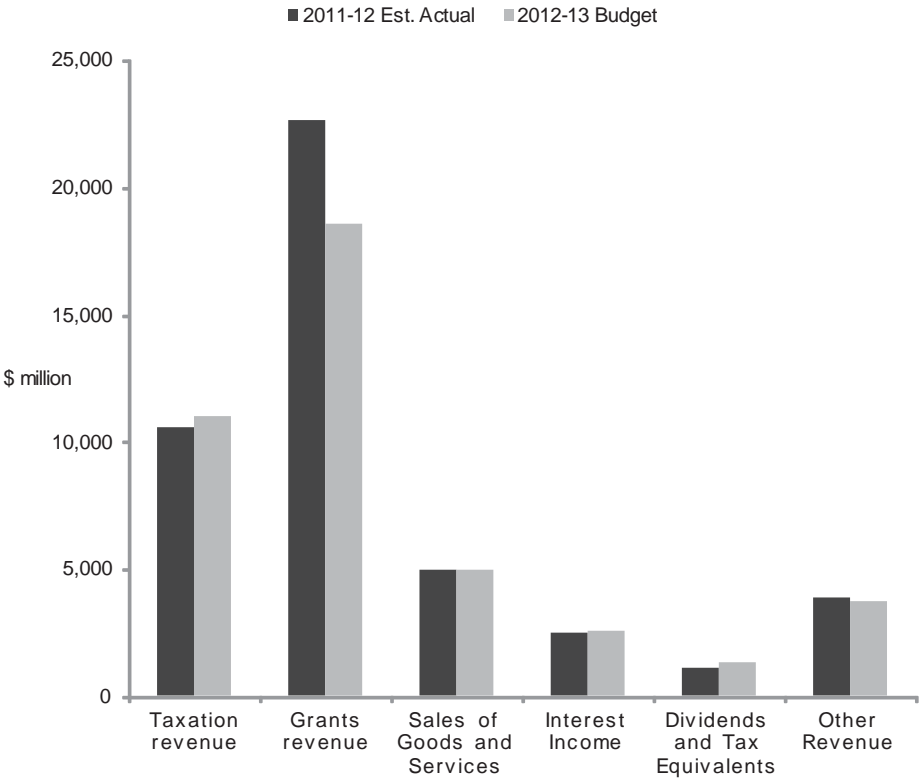


Note:

1. The major component of Other Revenue is royalties and land rents (6.8% of total revenue).

Chart 4.2 compares 2012-13 estimates with 2011-12 estimated actuals. The overall result largely reflects payments from the Australian Government being brought forward from 2012-13 into 2011-12.

**Chart 4.2**  
**Revenue by operating statement category for 2011-12 and 2012-13**



## REVENUE MEASURES – ELECTION COMMITMENTS

During the 2012 Election the now Government committed to improving the cost of living for Queensland households, as well as reducing the costs and regulation associated with doing business in Queensland.

From 1 July 2012, the Government has implemented the changes shown in Table 4.2 in line with the election commitments. The full impact of election commitments can be found in Budget Paper 4 – Budget Measures.

<b>Table 4.2</b> <b>Revenue impact of election commitments</b>				
Election Commitment	2012-13 \$ million	2013-14 \$ million	2014-15 \$ million	2015-16 \$ million
Payroll Tax Threshold	(40)	(80)	(130)	(180)
Reinstate PPR Concession	(210)	(220)	(235)	(252)
Motor Vehicle Registration	(12)	(44)	(76)	(79)
Public Transport Fares <sup>1</sup>	(18)	(46)	(67)	(67)
Abolition of the Industry Waste Levy	(96)	(92)	(92)	(92)
<b>Total Election Commitments</b>	<b>(376)</b>	<b>(482)</b>	<b>(600)</b>	<b>(670)</b>
Note: 1. This measure is identified as an expense measure in Budget Paper 4 – Budget Measures.				

### ***Payroll Tax – Threshold Increase***

Since 1 July 2006, Queensland has had a payroll tax rate of 4.75% and a \$1 million exemption threshold, with employers having payrolls up to \$5 million receiving a partial threshold deduction. As the exemption threshold has not been increased since then, wages growth has resulted in employers being disadvantaged by either crossing the exemption threshold to become liable for payroll tax or receiving less of the benefit of the deduction.

From 1 July 2012 the exemption threshold has increased to \$1.1 million and employers with payrolls up to \$5.5 million now benefit from a partial deduction. This change will benefit businesses by reducing the costs associated with employing staff and also promote employment growth by removing any disincentive to employ staff.

Queensland has the lowest payroll tax rate in Australia and the highest payroll tax threshold of any state.

This threshold increase is the first of six annual increases to an eventual threshold of \$1.6 million in 2017-18. Table 4.3 shows an interstate comparison of payroll tax rates and thresholds from 1 July 2012.

**Table 4.3**  
**Payroll Tax Rates and Thresholds from 1 July 2012**

	QLD	NSW	VIC	WA <sup>1</sup>	SA	TAS	ACT	NT
Exemption Threshold (\$000)	1,100	689	550	750	600	1,010	1,750	1,500
Tax Rate (%)	4.75	5.45	4.90	5.50	4.95	6.10	6.85	5.5
Note: 1. In 2012-13 only, a rebate of payroll tax payable in Western Australia will apply to payrolls up to \$1.5 million.								

### ***Transfer Duty – Principal Place of Residence Concession***

From 1 July 2012, the Government has reinstated the principal place of residence transfer duty concession (home concession), which had been withdrawn by the previous Government.

The concession provides assistance of up to \$7,175 for eligible homebuyers, ensuring that people buying their own home will not pay as much duty as investors.

Table 4.4 shows the impact of the reinstatement of the principal place of residence concession and the associated changes to transfer duty rates.

**Table 4.4**  
**Transfer Duty Payable – Principal Place of Residence (\$) (non first homebuyers)**

Property Value	Duty Payable until 30 June 2012	Reinstate PPR Concession	PPR Duty from 1 July 2012	Change to Standard Duty <sup>1</sup>	Standard Duty Payable from 1 July 2012 <sup>2</sup>
50,000	675	(175)	500	..	675
100,000	1,425	(925)	1,000	500	1,925
200,000	4,825	(3,425)	2,000	600	5,425
300,000	8,325	(5,925)	3,000	600	8,925
400,000	11,825	(7,175)	5,250	600	12,425
500,000	15,525	(7,175)	8,750	400	15,925
600,000	20,025	(7,175)	12,850	..	20,025
700,000	24,525	(7,175)	17,350	..	24,525
800,000	29,025	(7,175)	21,850	..	29,025
900,000	33,525	(7,175)	26,350	..	33,525
1,000,000	38,175	(7,175)	31,000	(150)	38,025

Note:

1. Previous reductions to standard duty rates when the PPR concession was removed have been reversed.
2. The duty change at \$1 million reflects a new Budget measure and will take effect from commencement of the amending legislation.

Table 4.5 contains an interstate comparison of the transfer duty payable on a principal place of residence from 1 July 2012 for non-first homebuyers. Transfer duty on a principal place of residence is substantially less in Queensland than in other states, providing a significant benefit to Queenslanders. First homebuyers in Queensland also enjoy significant additional concessions, with no duty payable on first homes valued up to \$500,000.

<b>Table 4.5</b> <b>Interstate Comparison of Transfer Duty Payable – Principal Place of Residence</b> <b>(\$ (non first homebuyers))</b>					
Home Value	QLD from 1 July 2012	NSW	Vic	WA	SA
50,000	500	765	950	950	1,080
100,000	1,000	1,990	2,150	1,900	2,830
200,000	2,000	5,490	6,370	5,035	6,830
300,000	3,000	8,990	11,370	8,835	11,330
400,000	5,250	13,490	16,370	13,015	16,330
500,000	8,750	17,990	21,970	17,765	21,330
600,000	12,850	22,490	31,070	22,515	26,830
700,000	17,350	26,990	37,070	27,265	32,330
800,000	21,850	31,490	43,070	32,315	37,830
900,000	26,350	35,990	49,070	37,465	43,330
1,000,000 <sup>1</sup>	31,000	40,490	55,000	42,615	48,830
Note: 1. The tax rate change at \$1 million applies from commencement of the amending legislation.					

### ***Private Motor Vehicle Registration Fees***

Under the previous Government, Queensland had become one of the most expensive jurisdictions in Australia to own and operate a motor vehicle. In response, the Government has frozen registration fees for private vehicles for its first three year term. This measure will save Queenslanders \$3.50 to \$10.10 per vehicle in 2012-13, with larger savings in 2013-14 and 2014-15.

### ***Public Transport Fees***

Under the previous Government, public transport fares were scheduled to increase by a compounding 15% per annum in the next two years, bringing them to double their 2009 levels by 2014. This Government has halved the proposed fare increases over the next two years to deliver a real benefit to commuters. In addition, the Government is supporting frequent users of public transport by providing free travel for go card users after they have made nine trips during a week.

### ***Repeal of Industry Waste Disposal levy***

To reduce compliance costs and red tape on businesses, the Industry Waste Disposal Levy introduced by the previous Government has been repealed. This represents a saving to business of \$96 million in 2012-13.

### ***Other Revenue Measures***

The Government has increased the Queensland penalty unit from \$100 to \$110, which will contribute towards funding the increase in front line police numbers.

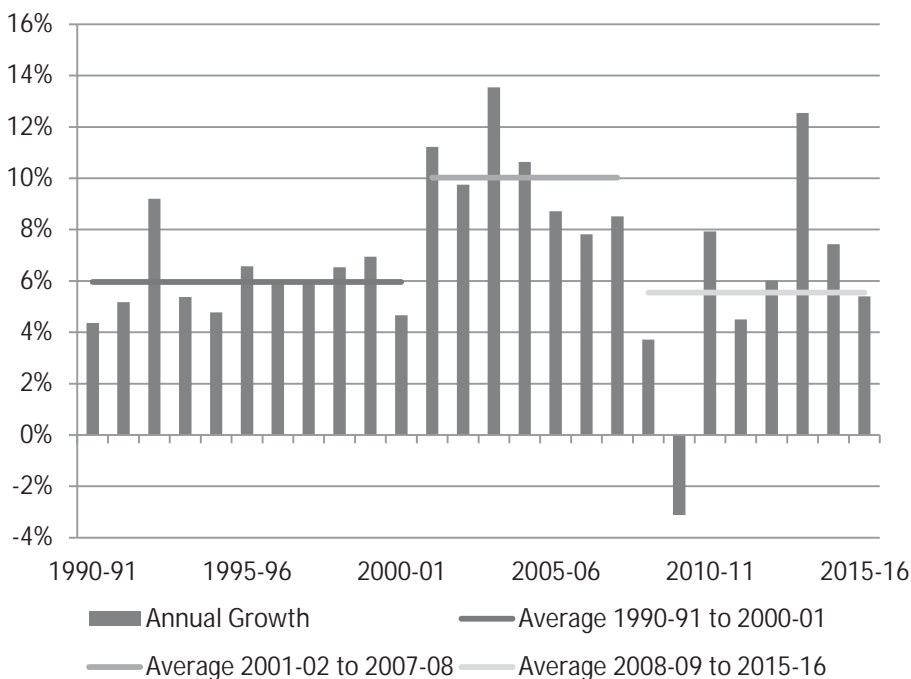
The Government will conduct a trial using third party agents to collect unpaid State Penalties Enforcement Registry (SPER) fines. There is currently in excess of \$770 million of outstanding SPER fines and similar trials by the Australian Tax Office have proven worthwhile.

## QUEENSLAND'S REVENUE TRENDS

The Independent Commission of Audit's Interim Report highlighted the gap that currently exists between the State's level of expenditure and revenue, which has resulted in significant increases in borrowings. A key contributor to the current revenue and expense imbalance is that revenue growth since 2007-08 has slowed, while the pace of expenditure growth has not.

For most of the past decade, until the global financial crisis commenced in 2008-09, Queensland enjoyed strong growth in key discretionary revenue sources, namely GST, taxation and mining royalties. From 2001-02 to 2007-08, annual growth in these revenues averaged 10% compared with 6% in the decade prior, noting that Queensland received financial assistance grants from the Commonwealth, rather than a share of GST, during this period.

**Chart 4.3**  
**GST, tax and royalties growth**



Queensland's share of GST revenue grew by an average rate of 8% across 2001-02 to 2007-08, primarily due to strong growth in national GST collections. Growth in GST was supported by strong growth in household consumption and dwelling investment activity, which were sustained by high levels of consumer confidence and partly funded by increases in household borrowings.

Annual growth in transfer duty averaged over 22% from 2000-01 to 2007-08 driven by Queensland's relative affordability of housing, high population growth and the impact of the burgeoning mining sector. This was a key contributor to total taxation growth of 12% per annum over this period, with revenue from transfer duty effectively used to offset a number of reductions in other taxes.

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

The key factors that drove growth in these revenue items are not expected to be repeated during the forward estimates period.

Increased levels of consumer caution have been sustained for some time and, combined with slower rates of population growth nationally, have led to a number of downward revisions in the Australian Government's forecasts of GST collections. The current forecasts indicate that growth in national GST collections of just less than 5.5% per annum is expected across the forward estimates. However, Queensland's share of GST is expected to increase further in 2013-14, supporting growth in GST revenue that is stronger than the national average.

Transfer duty growth is also expected to be modest, relative to that experienced between 2000-01 and 2007-08. The primary reasons for this are slower population growth and enduring consumer caution. Growth of around 6% per annum is expected over the period 2008-09 to 2015-16.

While housing turnover over the forward estimates is expected to improve from its current historically low levels and prices recover modestly, this will still see transfer duty grow less than was the case for most of the past decade, with expected growth rates across the forward estimates more conservative than in previous budget updates. As a result, transfer duty collections are expected to remain below the 2007-08 peak until beyond 2015-16.

While royalty revenue is expected to decline in 2012-13, primarily due to the current weakness in coal prices, strong growth is expected in 2013-14 onwards, supported by growth in export volumes. However, the average growth rates projected across the forward estimates are still substantially lower than experienced during the 2000s, which was driven by sharp increases in price to a greater extent than volume growth.



## 2012-13 BUDGET INITIATIVES

The Independent Commission of Audit's Interim Report contained a number of possible options for broad based revenue measures to assist with the fiscal repair task. The Government has considered the Independent Commission's findings and has determined that there is scope to implement revenue measures to improve the overall fiscal position of the State. Further information on the financial impacts of these measures can be found in Budget Paper 4 – Budget Measures.

### *Transfer Duty*

From commencement of the amending legislation, expected on 17 September 2012, the threshold for the highest marginal rate of duty will increase from \$980,000 to \$1 million. The duty rate that applies above this value will increase from 5.25% to 5.75%. This measure is expected to result in a part year impact of an additional \$55 million in 2012-13 and \$92 million in 2013-14, the first full year of operation.

Table 4.6 provides the current and revised transfer duty rate schedules incorporating changes due to election commitments and Budget measures.

<b>Table 4.6</b> <b>Revisions to standard transfer duty rate schedule</b>			
<b>Schedule to 30 June 2012</b>		<b>New Schedule</b>	
Property Value	Rate	Property Value	Rate
Up to \$5,000	nil	Up to \$5,000	nil
\$5,001 to \$105,000 <sup>1</sup>	1.5%	\$5,001 to \$75,000	1.5%
\$105,001 to \$480,000 <sup>1</sup>	\$1,500 + 3.5%	\$75,001 to \$540,000	\$1,050 + 3.5%
\$480,001 to \$980,000 <sup>1,2</sup>	\$14,625 + 4.5%	\$540,001 to \$1,000,000	\$17,325 + 4.5%
Over \$980,000 <sup>2</sup>	\$37,125 + 5.25%	Over \$1,000,000	\$38,025 + 5.75%
Notes:			
1. Changed as of 1 July 2012 along with reinstating the principal place of residence concession.			
2. Changed as part of the 2012-13 Budget measure.			

Table 4.7 contains an interstate comparison of transfer duty payable between \$1 million and \$5 million, showing that Queensland's transfer duty regime will continue to be competitive with other mainland states.

<b>Table 4.7</b> <b>Interstate Comparison of Transfer Duty Payable- Standard Rate (\$)</b>						
Property Value	QLD Current	QLD New	NSW	Vic	WA	SA
1,000,000	38,175	38,025	40,490	55,000	45,415	48,830
1,250,000	51,300	52,400	54,240	68,750	58,290	62,580
1,500,000	64,425	66,775	67,990	82,500	71,165	76,330
1,750,000	77,550	81,150	81,740	96,250	84,040	90,080
2,000,000	90,675	95,525	95,490	110,000	96,915	103,830
3,000,000	143,175	153,025	150,490	165,000	148,415	158,830
4,000,000	195,675	210,525	205,490	220,000	199,915	213,830
5,000,000	248,175	268,025	260,490	275,000	251,415	268,830

## First Home Owners Construction Grant

Consistent with the recommendation of the Independent Commission of Audit, the Government will restrict eligibility for the First Home Owner Grant to those buying or building new homes for contracts entered into on or after 11 October 2012. This will result in a saving to the Budget while also providing an incentive for first home buyers to buy or build a new home, rather than an established dwelling.

To further support housing construction, the First Home Owner Construction Grant provides an increase in the total grant to \$15,000 for new homes where the contract to buy or build is entered into on or after 12 September 2012. This will provide an important boost to the housing construction sector.

First home buyers will continue to not pay any transfer duty on homes valued up to \$500,000 and will be able to access concessional duty rates for homes valued between \$500,000 and \$550,000. Table 4.8 provides an interstate comparison of the rates of duty payable and grants accessible by first home buyers of new homes, including at the median house prices of \$380,000 for first homes in Brisbane and around \$500,000 for all homes in Brisbane.

Queensland's grants and concessions for first home buyers will be the most generous of any State, noting that New South Wales has announced it will provide a \$15,000 grant from 1 October 2012 which temporarily matches that available in Queensland.

**Table 4.8**  
**Transfer duty payable and grants payable— First home buyers purchasing a new home (\$)**

Home Value	Component	QLD from 12 Sep 2012	NSW <sup>1</sup>	Vic	WA	SA <sup>2</sup>	Tas
350,000	Duty	..	..	(11,096)	..	(13,830)	(11,935)
	FHOG	15,000	15,000	7,000	7,000	15,000	7,000
	Total	15,000	15,000	(4,096)	7,000	1,170	(4,935)
380,000	Duty	..	..	(12,296)	..	(15,330)	(13,148)
	FHOG	15,000	15,000	7,000	7,000	15,000	7,000
	Total	15,000	15,000	(5,296)	7,000	(330)	(6,148)
500,000	Duty	..	..	(17,576)	..	(21,330)	(18,248)
	FHOG	15,000	15,000	7,000	7,000	7,000	7,000
	Total	15,000	15,000	(10,576)	7,000	(14,330)	(11,248)
750,000	Duty	(19,600)	(29,240)	(40,070)	(29,741)	(35,080)	(28,935)
	FHOG	..	..	7,000	7,000	..	7,000
	Total	(19,600)	(29,240)	(33,070)	(22,741)	(35,080)	(21,935)

Notes:

1. From 1 October 2012 to 31 December 2013 NSW will have a new home FHOG of \$15,000, thereafter \$10,000.
2. SA has a \$15,000 new home FHOG until 30 June 2013.

## Coal Royalties

The Independent Commission of Audit recommended that the Government consider increasing coal royalty rates in line with the increases in New South Wales, which are intended to apply only to coal companies that are subject to the Australian Government's Mineral Resources Rent Tax (MRRT).

Given the complexity of the MRRT and the uncertainty as to whether any mining operations in Queensland will be liable for the MRRT at a particular point in time, the Government has decided to increase the rates applying in the current royalty regime, rather than attempt to replicate the New South Wales approach. However, if any Queensland coal mining operations are liable for the MRRT, the state royalty will be creditable against their MRRT liability under existing Australian Government arrangements.

To ensure there is no impact on mines producing lower value coal, there will be no increase in the royalty rate applied to the first \$100 per tonne of all coal. This means that where the value of coal is less than \$100, the royalty rate will be maintained at 7%.

Where the value of coal is above \$100 per tonne, the royalty rate applied to the portion of value above \$100 will increase from the current rate of 10%. For the portion of value between \$100 and \$150 per tonne, the rate will be 12.5%. A third tier will be introduced, with a rate of 15% applied to the portion of value above \$150 per tonne.

Consistent with the current structure, the revised royalty regime will mean that the royalty rate applied will increase when coal prices increase and decline when coal prices fall. The royalty payable per tonne at a range of prices is identified in Table 4.9.

Table 4.9 Royalty payable per tonne <sup>1</sup>		
Average Price	Current Schedule	Schedule from 1 October 2012
\$75	\$5.25	\$5.25
\$100	\$7.00	\$7.00
\$125	\$9.50	\$10.13
\$150	\$12.00	\$13.25
\$175	\$14.50	\$17.00
\$200	\$17.00	\$20.75
\$225	\$19.50	\$24.50
\$250	\$22.00	\$28.25
\$275	\$24.50	\$32.00
\$300	\$27.00	\$35.75
Note:		
1. Royalty payable has been rounded.		

The increased royalty rates will apply for coal sold, disposed of or used on or after 1 October 2012 and are expected to raise an additional \$201 million in 2012-13, increasing to \$474 million in 2013-14, the first full year.

To assist the coal industry to reduce costs and otherwise lower the regulatory burden, the Government is establishing a Cabinet Committee comprising the Deputy Premier and Minister for State Development, Infrastructure and Planning, the Treasurer and Minister for Trade, the Minister for Environment and Heritage Protection and the Minister for Natural Resources and Mines, which will work with industry to develop a package of agreed measures within 100 days. Enhancements to productivity in this sector will make it even more competitive. The Government will also guarantee for a period of ten years (end of the 2021-22 financial year) that coal royalties will not be increased again.

### ***Gambling Taxes***

Following consideration of the Independent Commission of Audit recommendations, the Government is introducing an additional tier into the gaming machine tax rate structure that will increase the gaming machine tax payable by clubs where monthly metered win (player loss) exceeds \$850,000 per month.

The Government will also rescind the previous Government's decision to reduce the rate of the health services levy payable by hotels where the monthly metered win (player loss) exceeds \$100,000 per month.

The Government is working with the casino industry to deliver an additional contribution to the Budget, which is expected to increase to \$8 million per annum by the end of the forward estimates.

These measures will result in a \$16.5 million increase in revenue from the gaming industry in 2012-13.

The Government will implement a range of regulatory reform proposals that will reduce the regulatory burden on the gaming and liquor industries, which will assist in offsetting the financial impact of these revenue measures.

### ***Exemption of Farm-ins from Duty on Transfer of Exploration Permits***

As part of the Government's commitment to support Queensland's junior exploration sector, arrangements known as "farm-ins" will be exempted from duty.

Farm-ins are common in the minerals and petroleum sectors in particular and are used as a mechanism to share risk. Under a farm-in, the holder of an exploration permit grants to another party the right to earn an interest in the permit by undertaking or funding exploration activities. This exploration and development expenditure will be exempt from duty. The scope and technical design of the exemption will be a matter for consultation with Industry.

This measure is estimated to cost \$5 million per annum, although the size and number of arrangements can vary significantly from year to year.

## 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 4.1% in 2012-13, somewhat below the expected increase in nominal gross state product (GSP), reflecting the implementation of the tax cuts announced by the Government during the election.

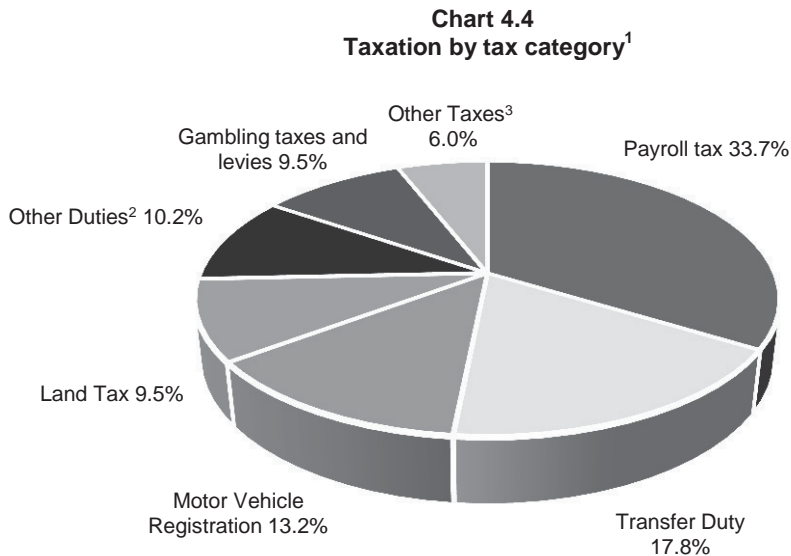
**Table 4.10**  
**Taxation revenue<sup>1</sup>**

	2010-11 Actual \$ million	2011-12 Est. Act. \$ million	2012-13 Budget \$ million
<b>Payroll tax</b>	<b>3,023</b>	<b>3,464</b>	<b>3,715</b>
<b>Duties</b>			
Transfer	1,933	2,032	1,963
Vehicle registration	432	461	474
Insurance <sup>2</sup>	484	556	615
Other duties <sup>3</sup>	33	35	37
<b>Total duties</b>	<b>2,881</b>	<b>3,084</b>	<b>3,088</b>
<b>Gambling taxes and levies</b>			
Gaming machine tax	550	572	606
Health Services Levy	40	43	47
Lotteries taxes	216	234	232
Wagering taxes	40	40	42
Casino taxes and levies <sup>4</sup>	80	86	97
Keno tax	20	22	23
<b>Total gambling taxes and levies</b>	<b>945</b>	<b>998</b>	<b>1,047</b>
<b>Other taxes</b>			
Land tax	1,042	1,018	1,047
Motor vehicle registration	1,336	1,398	1,459
Fire levy	314	330	350
Community Ambulance Cover	152	31	..
Guarantee fees	219	205	251
Other taxes <sup>5</sup>	63	57	56
<b>Total taxation revenue</b>	<b>9,975</b>	<b>10,583</b>	<b>11,013</b>

Notes:

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

Chart 4.4 indicates the composition of estimated state taxation revenue for 2012-13.



**Notes:**

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

The largest sources of taxation revenue are payroll tax and transfer duty, which together represent over 51% of the State's total taxation revenue in 2012-13.

Payroll tax (33.7% of total tax revenue in 2012-13) has a stable base with growth driven by the underlying strength of the State economy. In contrast, revenue growth from transfer duty (representing 17.8% of tax revenue) can vary significantly from year to year due to volatile movements of both the residential and non-residential segments of the property market.

Other duties, including vehicle registration duty and insurance duty represent 10.2% of total tax revenue.

Gambling taxes and levies represent 9.5% of tax revenues in 2012-13. Motor vehicle registration, which is classified as a tax, represents 13.2% of total tax revenue.

Land tax represents 9.5% of total revenue in 2012-13. 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 \$1.1 million.

The overall payroll tax rate of 4.75% is the lowest in Australia and the exemption threshold of \$1.1 million is the highest threshold of any state. Queensland employers with total yearly Australian taxable wages between \$1.1 million and \$5.5 million also obtain a partial deduction, with the deduction withdrawn at a rate of \$1 in every \$4 of taxable wages.

Payroll tax collections are estimated to be \$3.715 billion in 2012-13. This represents an increase of 7.2% on the 2011-12 estimated actual, which is due to slightly higher than expected state-wide taxable employment and wages growth, due to the dominance of mining and associated services in the payroll tax base.

## ***Duties***

Duties are levied on a range of financial and property transactions. Overall, revenue from duties is forecast to increase by 0.1% in 2012-13.

The major duties include transfer, vehicle registration and insurance duties.

- Transfer duty is charged at various rates on the transfer of real and business property. The Queensland Government offers extensive concessions for the transfer of land where the property is purchased as a home.

Revenue from transfer duty is expected to decrease by 3.4% in 2012-13. This is primarily the result of the reinstatement of the principal place of residence concession more than offsetting the increase in the top marginal rate of duty.

Underlying 2012-13 estimates are slightly higher than the 2011-12 estimated actuals reflecting expectations of subdued growth in both the housing sector and the value of non-residential property transfers.

- 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 2.8% in 2012-13, reflecting some increase in the value of 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 motor vehicles, 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 10.61% in 2012-13, reflecting expected increases in levels of insurance coverage and premium growth.

Transfer duty is currently payable on the transfer of mining and petroleum tenures. However, direct and indirect transfers of exploration permits or authorities to prospect do not attract duty. With effect from 10.30am on 13 January 2012, duty will apply to the direct and indirect transfer of exploration permits and authorities to prospect.

The grant of mining tenures including exploration permits and authorities will continue to be exempt from duty. Other changes will also be made to clarify the duty treatment of certain aspects of transactions relating to mining and petroleum tenures. This policy change will more closely align Queensland's duty treatment of exploration permits and authorities to other resource states.

As part of the Government's commitment to support Queensland's junior exploration sector, arrangements known as "farm-ins" will be exempted from duty with the scope and technical design of the exemption to be finalised in consultation with industry.

The landholder provisions will also be amended to clarify their application in relation to items fixed to land where they are capable of separate ownership from the land.

### ***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 4.9% in 2012-13, supported by the increased contribution from the gaming industry as a result of the measures outlined above.

### ***Land tax***

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

Resident individuals are generally liable for land tax if the total taxable value of the freehold land owned by that person as at 30 June is equal to or greater than \$600,000. Companies, trustees and absentees are liable for land tax if the total taxable value of the freehold land owned as at 30 June is equal to or greater than \$350,000. Land tax is estimated to grow by 2.8% to \$1.047 billion in 2012-13.

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

Motor vehicle registration fees are expected to grow by 4.4% in 2012-13, primarily reflecting an increase in the number of motor vehicles as under the Government's cost of living election commitment, there is no increase in the level of registration fees for private vehicles during this term of government.

### ***Fire levy***

Fire levy revenue, which is used to fund the Queensland Fire and Rescue Authority, is expected to increase in line with the Government's fees and charges policy and an increase in the number of contributors.

### ***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 currently provided by the Queensland Government.

## QUEENSLAND'S COMPETITIVE TAX STATUS

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

One of the Queensland Government's fiscal objectives is to maintain a competitive tax environment for business. As Table 4.11 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 2012-13 and is estimated to be \$495 per capita compared with \$402 per capita in 2011-12.

Queensland's tax effort, as measured by the Commonwealth Grants Commission, was more than 11% below the national average in 2010-11.

A third measure of competitiveness, taxation as a share of GSP, also confirms that Queensland's taxes are competitive with other states.

Table 4.11 demonstrates that this commitment is being met, with various measures of tax competitiveness all indicating the Queensland state tax system remains amongst the most competitive in Australia.

<b>Table 4.11</b> <b>Queensland's tax competitiveness</b>									
	QLD	NSW	VIC	WA	SA	TAS <sup>4</sup>	ACT <sup>5</sup>	NT <sup>4</sup>	Avg <sup>6</sup>
Taxation per capita <sup>1</sup> (\$)	2,347	2,978	2,745	3,188	2,415	1,825	3,411	1,743	2,842
Taxation effort <sup>2</sup> (%)	89.0	107.0	99.0	96.5	113.1	87.4	114.0	77.9	100.00
Taxation % of GSP <sup>3</sup> (%)	3.74	4.66	4.68	3.02	4.25	3.47	4.10	2.32	4.24
<b>Notes:</b> 1. 2012-13 data. Sources: 2012-13 Budgets for all jurisdictions. Population data from Commonwealth 2012-13 Budget. 2. 2010-11 data. Source: Commonwealth Grants Commission 2012 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. 2010-11 data. Sources: ABS 5220.0 (State Accounts – GSP) and ABS 5506 Taxation Revenue 2010-11. 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.									

## GRANTS REVENUE

Grants revenue is comprised of Australian Government grants, grants from the community and industry, and other miscellaneous grants. The large decrease of \$4.008 billion (or 17.7%) in 2012-13 reflects the 2011-12 grants being higher due to a large advance natural disaster payment and a bring forward of project funding from the Australian Government. These payments resulted in 2011-12 grants revenue being \$2.344 billion higher than the 2011-12 Budget estimates, although the increase is partially offset by a decline in GST of \$457 million.

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

	2010-11 Actual \$ million	2011-12 Est. Act. \$ million	2012-13 Budget \$ million
<b>Current grants</b>			
Australian Government grants	18,113	16,842	17,159
Other grants and contributions	529	359	336
<b>Total current grants</b>	<b>18,643</b>	<b>17,201</b>	<b>17,496</b>
<b>Capital grants</b>			
Australian Government grants	1,589	5,352	1,074
Other grants and contributions	40	52	28
<b>Total capital grants</b>	<b>1,629</b>	<b>5,404</b>	<b>1,102</b>
<b>Total grants revenue</b>	<b>20,272</b>	<b>22,606</b>	<b>18,598</b>
Note: 1. Numbers may not add due to rounding.			

## Australian Government payments

Australian Government payments to Queensland comprise:

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

Australian Government payments to Queensland in 2012-13 are expected to total \$18.234 billion, a decrease of \$3.961 billion (or 17.8%) compared to payments in 2011-12. This significant decrease is due to the aforementioned movement of funding into 2011-12.

**Table 4.13**  
**Australian Government payments<sup>1</sup>**

	2010-11 Actual \$ million	2011-12 Est. Act. \$ million	2012-13 Budget \$ million
GST revenue grants	8,412	8,681	9,667
Total payments for specific purposes <sup>2</sup>	11,291	13,512	8,567
<b>Total Australian Government payments</b>	<b>19,703</b>	<b>22,194</b>	<b>18,234</b>
Notes:			
1. Numbers may not add due to rounding.			
2. Differences between payments for specific purposes in this chapter and Australian Government Budget estimates primarily relate to the Australian Government's accounting treatment of payments for natural disasters.			

## ***General purpose payments***

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

GST revenue grants and associated payments to Queensland in 2012-13 are expected to be \$9.667 billion, which represents an increase of \$986 million on the 2011-12 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 2012 Update from the Commonwealth Grants Commission. This increase was primarily due to a decline in the relative strength of Queensland's revenue base between 2007-08 and 2010-11. The Australian Government's Budget indicates Queensland's relativity, and therefore share of GST funding, will also increase in 2013-14.

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

Australian Government payments for specific purposes to Queensland in 2012-13 are estimated at \$8.567 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.

## Other grants and contributions

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

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

<b>Table 4.14</b> <b>Other grants and contributions</b>			
	2010-11 Actual \$ million	2011-12 Est. Act. \$ million	2012-13 Budget \$ million
Other grants and contributions	569	411	364

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

## SALES OF GOODS AND SERVICES

Sales of goods and services revenue comprises cost recoveries from providing goods or services. Table 4.15 shows a breakdown of the sales of goods and services category.

<b>Table 4.15</b> <b>Sales of goods and services<sup>1</sup></b>			
	2010-11 Actual \$ million	2011-12 Est. Act. \$ million	2012-13 Budget \$ million
Fee for service activities	1,933	2,227	1,967
TransLink	314	361	399
Rent revenue	415	472	555
Sale of land inventory	90	201	208
Hospital fees	485	620	714
Transport and traffic fees	249	290	344
Other sales of goods and services	685	801	780
<b>Total sales of goods and services</b>	<b>4,172</b>	<b>4,971</b>	<b>4,966</b>
Note: 1. Numbers may not add due to rounding.			

### Fee for service activities

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

- recoverable works carried out by 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 assist in funding public transport services in the region. These revenues are estimated at \$399 million in 2012-13 reflecting fee increases and population growth.

### **Rent revenue**

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

### **Sale of land inventory**

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

### **Hospital fees**

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

### **Transport and traffic fees**

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

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

Other sales of goods and services include items such as Title Registration Fees, recreational ship registrations, other licences and permits and in 2011-12, the Industry Waste Disposal levy.



## INTEREST INCOME

Interest income accounts for 6.1% of total General Government revenue in 2012-13.

<b>Table 4.16</b> <b>Interest income</b>			
	2010-11 Actual \$ million	2011-12 Est. Act. \$ million	2012-13 Budget \$ million
Interest income	2,365	2,475	2,582

Interest income primarily comprises interest earned on investments including those held for superannuation, long service leave and insurance purposes. The increase in expected interest earnings in 2012-13 is primarily due to an increase in the level of investments held.

## DIVIDEND AND INCOME TAX EQUIVALENT INCOME

Dividend and income tax equivalent income account for 3.3% of total General Government sector revenue in 2012-13.

<b>Table 4.17</b> <b>Dividend and income tax equivalent income<sup>1</sup></b>			
	2010-11 Actual \$ million	2011-12 Est. Act. \$ million	2012-13 Budget \$ million
Dividend	851	871	990
Income tax equivalent income	381	286	365
<b>Total dividend and income tax equivalent income</b>	<b>1,232</b>	<b>1,157</b>	<b>1,355</b>
Note: 1. Numbers may not add due to rounding.			

Dividends are received from the State's equity investments in Public Non-financial Corporations and Public Financial Corporations, for example, the Queensland electricity supply industry, Queensland Investment Corporation, port authorities and Queensland Rail. Dividends are expected to increase in 2012-13 supported by the energy and transport sectors.

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, including royalty revenue, accounts for 8.8% of total General Government revenue in 2012-13.

Table 4.18 Other revenue <sup>1</sup>			
	2010-11 Actual \$ million	2011-12 Est. Act. \$ million	2012-13 Budget \$ million
Royalties and land rents	2,876	2,943	2,859
Fines and forfeitures	295	306	339
Revenue not elsewhere classified	770	667	512
<b>Total Other Revenue</b>	<b>3,941</b>	<b>3,915</b>	<b>3,711</b>
Note:			
1. Numbers may not add due to rounding.			

## Royalties and land rents

### *Royalty estimates*

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

The recovery from the impact of the 2010-11 natural disasters was slower than expected in 2011-12. A number of operations are still dealing with the aftermath of the flooding resulting in production constraints. At the same time, industrial action at BHP Billiton Mitsubishi Alliance mines resulted in a force majeure declaration and a significant reduction in production.

Royalty and land rent revenue is expected to decrease by \$84 million (or 2.8%) in 2012-13 due to falling coal prices.

Table 4.19 Royalties and land rents <sup>1</sup>			
	2010-11 Actual \$ million	2011-12 Est. Act. \$ million	2012-13 Budget \$ million
Coal	2,357	2,386	2,209
Other royalties <sup>2</sup>	365	409	492
Land rents	154	148	158
<b>Total royalties and land rents</b>	<b>2,876</b>	<b>2,943</b>	<b>2,859</b>
Notes:			
1. Numbers may not add due to rounding.			
2. Includes base and precious metal, petroleum and other minerals royalties.			

Coal royalties make up the bulk of royalty and land rent revenue, accounting for almost 80% of the forecast total in 2012-13. In 2012-13, the coal royalty estimate is \$2.209 billion, a 7.4% decrease on 2011-12.

Although global economic uncertainty will influence demand for resources from our trading partners, the longer term outlook for royalties is generally positive. Production volumes are expected to improve as industrial action is resolved and operations recover from flood impacts. Coal prices are expected to settle below recent contract benchmarks but still well above historical levels. The exchange rate is expected to return below parity across the forward estimates due to lower commodity prices and stabilising international capital markets.

There is a significant degree of uncertainty associated with estimates of commodity prices and the A\$-US\$ exchange rate, both of which have significant impacts on royalty revenue.

Further details of the assumptions underlying the royalty estimates, and the impact of changes in the assumptions are contained in Appendix C - Revenue and Expense Assumptions and Sensitivity Analysis.

### ***Royalty administration***

As a key element of its strategic approach to royalty administration, the Office of State Revenue is implementing a royalties module in its Revenue Management System (RMS). In addition to providing a secure e-business interface for clients and allowing e-lodgement, e-payment, and online access to information, RMS will facilitate significantly improved management of the royalty revenue base. This will be supported by the introduction of penalties for the incorrect payment of royalties under the monthly payment arrangements and enhancement of the interest arrangements for underpaid royalties to more closely align them with those applying for State taxes.

## **Fines and forfeitures**

The major fines included in this category are traffic and court fines. There is an expected increase of 10.8% in collections of fines and forfeitures in 2012-13. The Government has increased the Queensland penalty unit from \$100 to \$110 per unit.

Since taking over responsibility for the State Penalties Enforcement Registry (SPER) on 25 May 2012, the Office of State Revenue has been reviewing SPER administration, policy and legislation to identify improvement opportunities. The review is continuing but has highlighted the importance of SPER having access to quality information to enable debtors to be properly identified and appropriate enforcement action commenced. As the first stage of the review, legislative changes will be made to enable the SPER Registrar to access information more broadly than is now possible.

This will enhance recovery prospects, for example, by facilitating data matching. As the ability to access bulk data from a range of public and private sector entities means that SPER will have access to more detailed, and potentially more sensitive, debtor information, there will also be a strengthening of the legislative confidentiality obligations.

## **Revenue not elsewhere classified**

The \$154 million decrease in 2012-13 includes an expected decline in asset transfers from non-Queensland Government entities and reductions in sundry revenue across a number of departments.

## 5 EXPENSES

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### FEATURES

- As part of its program of fiscal repair, the Government has made savings in expenses by exiting activities that are not the domain of the Queensland Government, reducing waste and making efficiencies in Government activity resulting in expense consolidation measures of \$5.3 billion from 2012-13 to 2015-16.
- The Government's fiscal repair efforts have also contributed towards the 2011-12 estimated actual expenses being \$1.2 billion lower than forecast at the 2011-12 Mid Year Fiscal and Economic Review (MYFER).
- Total General Government sector expenses are expected to increase by \$2.5 billion (or 5.4%) over the estimated actual for 2011-12 primarily as a result of the one off cost of redundancies and a significant increase in grants to local government for natural disaster reparation works.
- Expenses over the period 2011-12 to 2014-15 are \$3.455 billion lower than forecast at the 2011-12 MYFER.
- Expenses grow on average by 2.5% over the period 2011-12 to 2015-16.
- In keeping with the Government's election commitment, employee expenses grow on average by 2.5% over the forward estimates.
- The major areas of expenditure are health and education, which together constitute approximately 48.5% of General Government sector expenses.

This chapter provides an overview of General Government sector expenses for the estimated actual for 2011-12, forecasts for the 2012-13 Budget year and projections for 2013-14 to 2015-16. The forward estimates are based on the economic projections outlined in Chapter 3 and are formulated on a no policy change basis.

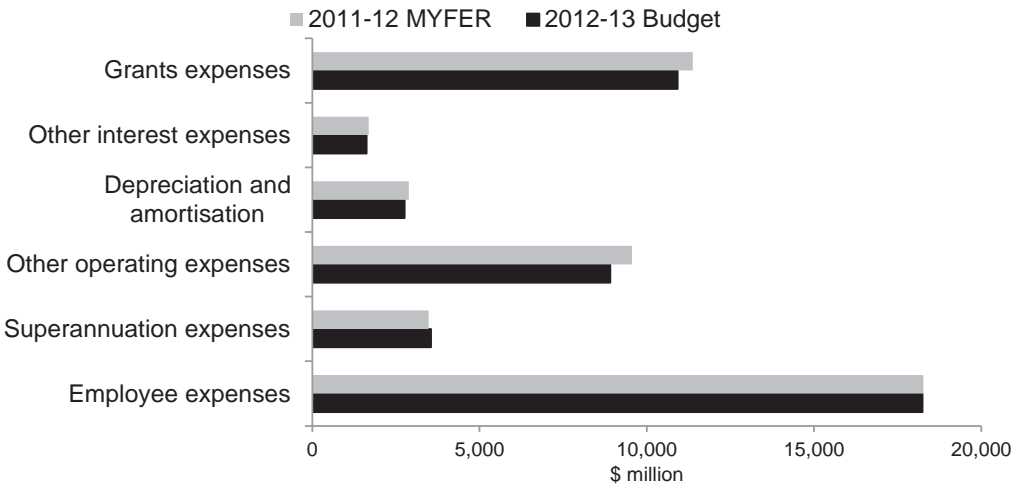
# 2011-12 ESTIMATED ACTUAL

General Government expenses in 2011-12 are estimated to be \$46.021 billion, \$1.248 billion lower than the 2011-12 Mid Year Fiscal and Economic Review (MYFER) estimate. This decline is largely due to:

- lower than expected natural disaster reconstruction works including a change in timing of reimbursements to local governments to reflect their forecast construction profile and a greater portion of roads works being capitalised
- lower than expected interest expenses due to advanced payments of road and natural disaster funding from the Australian Government
- fiscal repair measures totalling \$168 million.

Chart 5.1 shows the change in expenses from the 2011-12 MYFER by expense category.

**Chart 5.1**  
**2011-12 Expenses by operating statement category,**  
**2011-12 MYFER to 2012-13 Budget**



## 2012-13 BUDGET AND OUTYEARS

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

	2011-12 Est.Act. \$ million	2012-13 Budget \$ million	2013-14 Projection \$ million	2014-15 Projection \$ million	2015-16 Projection \$ million
Employee expenses	18,248	18,885	18,489	19,391	20,220
Superannuation interest cost	1,221	1,235	1,324	1,325	1,317
Other superannuation expenses	2,331	2,301	2,314	2,380	2,442
Other operating expenses	8,909	9,383	9,128	9,386	9,829
Depreciation and amortisation	2,765	3,086	3,299	3,453	3,504
Other interest expenses	1,622	1,916	2,294	2,415	2,449
Grants expenses	10,925	11,713	11,103	10,426	10,961
<b>Total Expenses</b>	<b>46,021</b>	<b>48,518</b>	<b>47,950</b>	<b>48,776</b>	<b>50,722</b>
Note: 1. Numbers may not add due to rounding.					

General Government expenses of \$48.518 billion in 2012-13 represent an increase of \$2.497 billion (or 5.4%) over the 2011-12 estimated actual. Factors influencing the growth in expenses include:

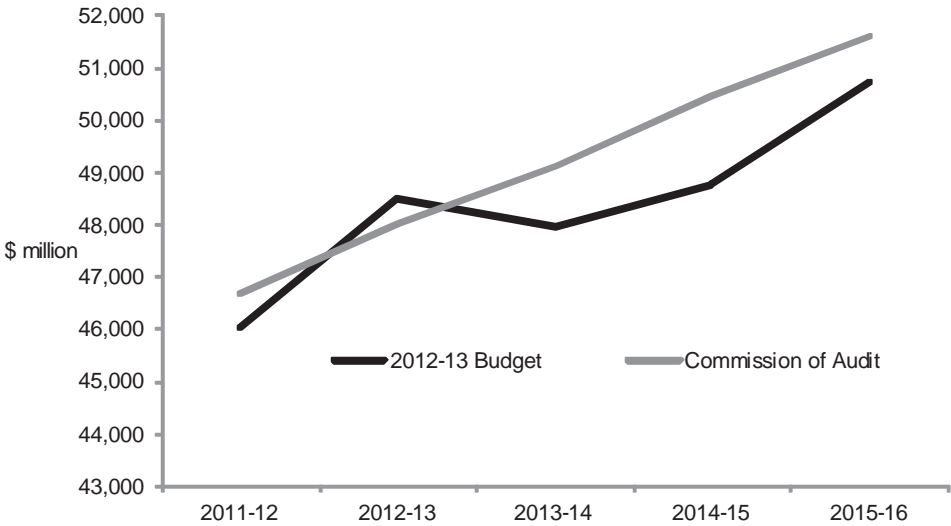
- an increase in natural disaster reparation works, in particular, a \$1.078 billion increase in grants to local governments for restoration works
- an allowance of \$800 million for the cost of redundancies related to the Government's fiscal repair task
- additional interest costs associated with new borrowings undertaken in 2012-13.

The Government has undertaken a significant program of fiscal repair in order to rein in spending and to improve the State's fiscal position. Expense consolidation measures of \$5.3 billion from 2012-13 to 2015-16 are forecast to arise mainly from exiting activities that are not the domain of the Queensland Government, reducing waste and improvements in efficiency of Government activity.

The impact of this program of fiscal repair is to see expenses growth fall from an average of 8.5% over the period 2000-01 to 2010-11 to 2.5% from 2011-12 to 2015-16.

Chart 5.2 illustrates the reduction in forecast expenses over the expenses forecast in the Independent Commission of Audit in their Interim Report. The difference is largely attributable to fiscal consolidation measures and consequent reductions in interest.

**Chart 5.2**  
**Total Expenses**  
**Commission of Audit to 2012-13 Budget**



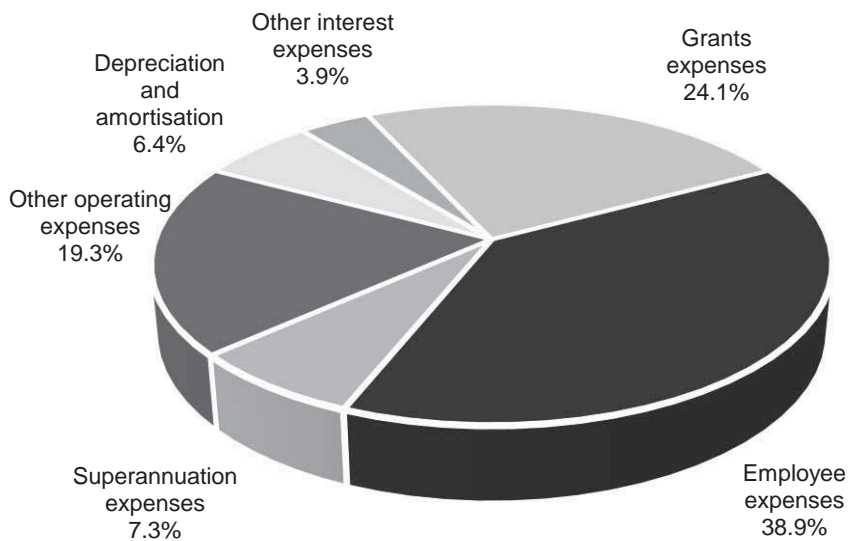
The following sections of this chapter discuss the expenses, including the changes since the 2011-12 MYFER and the year on year changes, by expense category.



## EXPENSES BY OPERATING STATEMENT CATEGORY

As outlined in Chart 5.3, the largest expense category in the General Government sector in 2012-13 is employee and superannuation expenses (46.2%), followed by grants expenses (24.1%) 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.

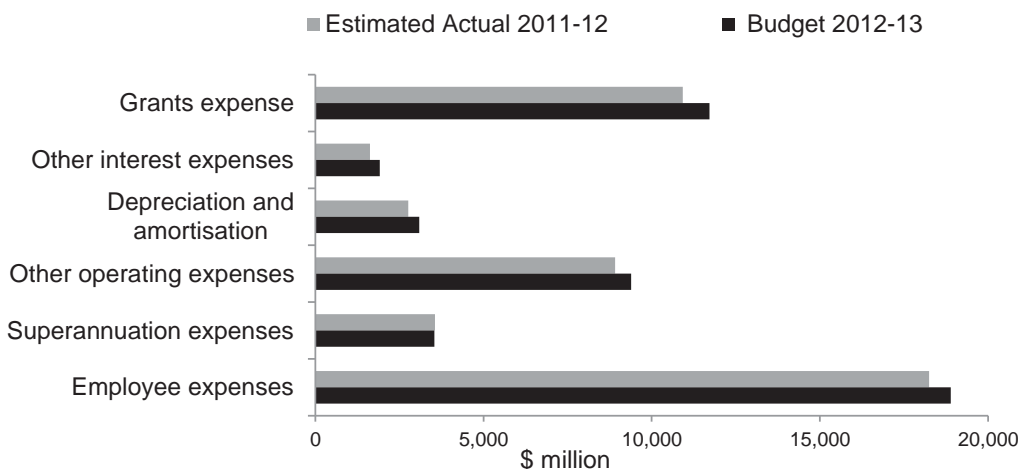
**Chart 5.3**  
**Expenses by operating statement category, <sup>1</sup> 2012-13**



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

Chart 5.4 compares the 2011-12 estimated actual expenses for each operating statement category with the 2012-13 Budget.

**Chart 5.4**  
**Expenses by operating statement category**  
**2011-12 and 2012-13**



## Employee expenses

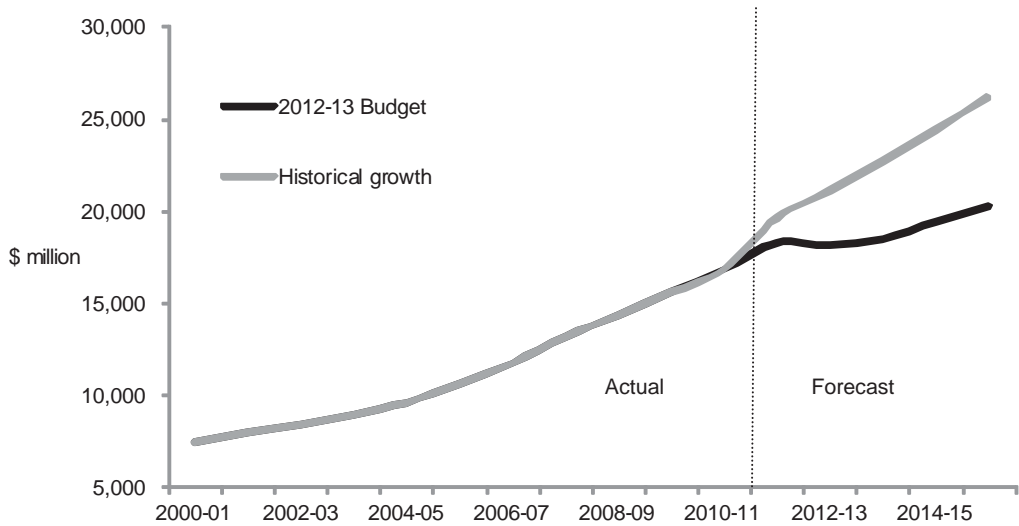
Employee expenses include salaries and wages, annual leave, long service leave and redundancy payments.

The 2011-12 employee expenses of \$18.248 billion are broadly in line with the 2011-12 MYFER estimate (a decrease of \$24 million).

In 2012-13, employee expenses are expected to be \$637 million or 3.5% greater than the 2011-12 estimated actual. The primary driver of the increase is an \$800 million provision for redundancies arising from the Government's fiscal repair efforts. While the fiscal repair efforts resulted in employee savings in 2012-13, these savings have only a part year impact due to the delayed release of the 2012-13 Budget and are offset by the redundancy payments. Excluding redundancies employee expenses are estimated to decline by 0.9% in 2012-13.

Reflecting the Government's fiscal repair efforts, employee expenses are expected to grow on average 2.5% per annum between 2011-12 and 2015-16, in line with the Government's election commitment. As can be seen in Chart 5.5, this is substantially below the historical average growth rate of 7.5% per annum from 2000-01 to 2010-11.

**Chart 5.5**  
**Employee expenses**  
**Historical versus budgeted growth**



## Full time equivalents (FTEs)

**Table 5.2**  
**Total FTEs and Redundancies by Department<sup>1</sup>**

Department	2012-13 FTE Redundancies	2012-13 Total FTEs
Aboriginal and Torres Strait Island and Multicultural Affairs	15	363
Agriculture, Fisheries and Forestry	450	1,948
Communities, Child Safety and Disability Services	385	6,045
Community Safety	345	10,579
Education, Training and Employment	405	66,204
Energy and Water Supply	135	273
Environment and Heritage Protection	220	1,117
Health	4,140	66,110
Housing and Public Works	1,425	3,989
Justice and Attorney-General	510	4,715
Local Government	15	105
National Parks, Recreation, Sport and Racing	130	1,329
Natural Resources and Mines	360	2,444
Police	215	14,978
Premier and Cabinet	45	621
Science, Information Technology, Innovation and the Arts	110	1,895
State Development, Infrastructure and Planning	145	800
Tourism, Major Events, Small Business and the Commonwealth Games	15	107
Transport and Main Roads	1,450	7,360
Treasury and Trade	85	1,094
<b>Total</b>	<b>10,600</b>	<b>192,076</b>
Note:		
1. FTE redundancy numbers have been rounded.		

As outlined in Table 5.2, it is expected that there will be around 10,600 redundancies in 2012-13. The total reduction in FTE positions attributable to the fiscal repair measures contained in this Budget is expected to be around 14,000. The difference is attributable to discontinuing temporary positions and not filling vacant positions.

In contrast, the FTE numbers shown in the Service Delivery Statements show the estimated actual FTEs for 2011-12 and the estimate for 2012-13. The difference between the Service Delivery Statement numbers is not comparable with the redundancy figures in Table 5.2 because the Service Delivery Statement figures can only be used to calculate the differences across two years rather than the change in the estimate in 2012-13.

Given that employee expenses (including superannuation expenses) comprise marginally less than 50% of total expenses, the Government considered that achieving fiscal repair may have required a reduction of up to 20,000 FTEs in the public service. The Government was concerned at the potential impact that a reduction of this magnitude would have on the delivery of services to the community, and also the need to provide certainty to public servants about their futures. Therefore, it has developed a strategy to both bring the necessary reductions in the public service jobs forward into 2012-13 from across the forward estimates and reduce the magnitude of job losses.

The reduction in the size of the public service could potentially have been significantly greater if the Government had not taken a number of critical decisions.

The Government has amended the *Industrial Relations Act 1999* to require that the Queensland Industrial Relations Commission, in arbitrating public sector disputes, consider the State's financial position and fiscal strategy and the financial position of the public sector entity. This strengthening of the industrial relations framework has allowed the estimated cost of future enterprise bargaining (EB) agreements to be reduced.

**In the absence of securing EB outcomes consistent with the Government's wage policy the reductions in the size of the public service would have to be greater to achieve fiscal repair.**

To further reduce the impact, the Government has decided that agencies will need to absorb the cost of the Australian Government's carbon tax impost and will not be providing supplementation for this purpose. A requirement for Government-owned corporations (GOCs) to improve their efficiency and the decision to remove administration funding for political parties will also help to reduce the magnitude of necessary cuts to the public service.

The impact of these measures is shown in Table 5.3 with total savings of \$600 million. In combination, they have resulted in the reduction in the public service being around 6,000 less than may otherwise have been necessary. Consequently, the total reduction in FTEs in 2012-13 is now estimated at 14,000 rather than 20,000.

**Table 5.3**  
**Policy decisions to lessen FTE reductions in the public service**

	2014-15 \$ million
Wages policy	(302)
Agencies to absorb carbon tax	(100)
QRail efficiency improvements	(117)
Other GOC efficiency measures	(77)
Reduction in funding for political parties	(5)
<b>Total</b>	<b>(600)</b>
<b>Indicative FTE reduction</b>	<b>(6,000)</b>

The Government has asked Government-owned corporations to ensure that they operate in the most efficient and effective manner. The operations of Government-owned corporations is a matter for their boards.

## **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 5.2% (5.1% at time of 2011-12 Budget). Offset against this expense is the revenue from plan assets based on long term expected rates of return. At the time of preparing the 2012-13 Budget, the AASB119 valuation of the State's defined benefit superannuation liability as at 30 June 2012 was not available.

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 2011-12 have declined by \$651 million over the 2011-12 MYFER. This decline reflects a larger proportion of rebuilding of roads, bridges and transport infrastructure related to the natural disasters being capitalised rather than expensed. It also reflects a reduction in spending on consultants, contractors, advertising and travel since the 2012 election in keeping with the Government's commitment to reduce spending in these areas.

In 2012-13 other operating expenses are estimated to increase by \$474 million over the 2011-12 estimated actual to be \$9.383 billion. This increase primarily reflects growth in new and existing health services and increased expenses for disaster repairs to the road network.

As part of the Government's election commitment to reduce waste and inefficiency, all agencies were asked to achieve reductions in expenditure relating to contractors, consultants, advertising, travel and other administrative and operational costs. This has resulted in estimated savings of \$194 million in 2012-13 and \$259 million per annum from 2013-14.

## 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 2011-12, depreciation and amortisation expenses are lower than the 2011-12 MYFER due to downward revaluations of non-financial assets.

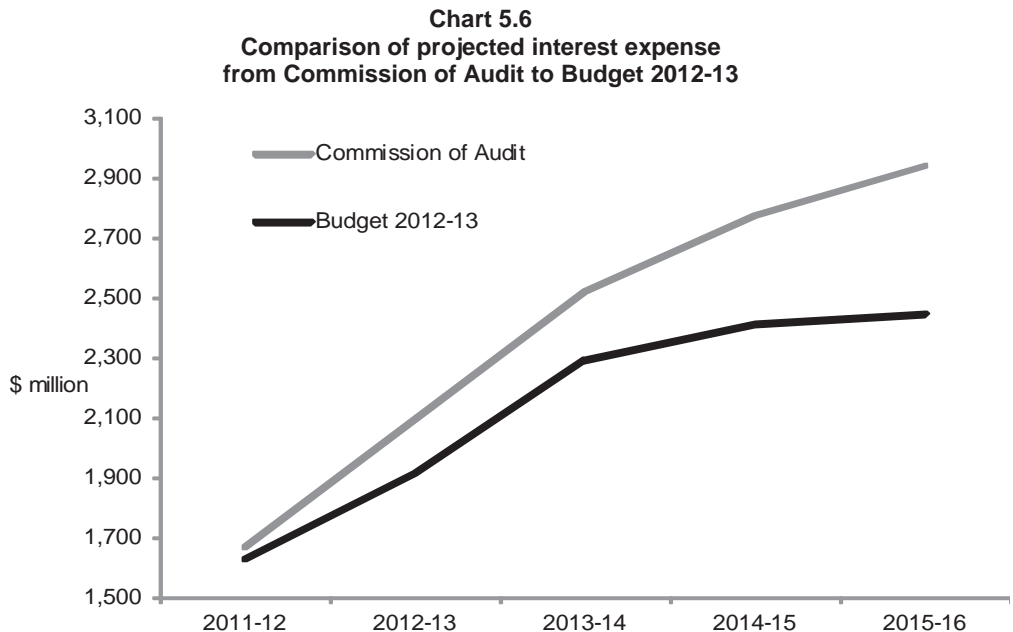
From 2012-13, depreciation and amortisation expenses grow in line with asset values and new capital purchases.

## Other interest expenses

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

As illustrated in Chart 5.6, the Government's fiscal repair initiatives combined with lower interest rates have resulted in a substantially lower projected interest expense over the forward estimates compared to the Independent Commission of Audit Interim Report.

In 2012-13, the General Government sector has total debt servicing costs forecast at \$1.916 billion, representing 3.9% of total expenses.



## Grants expenses

Current grants include grants and subsidies to the community (such as schools, hospitals, benevolent institutions and local governments) and personal benefit payments. Funding includes support for non-government healthcare providers and organisations servicing the community in partnership with government in the family support, disability, youth and childcare sectors. Community service obligations (CSOs) are provided where PNFCs are required to provide non-commercial services or services at non-commercial prices for the benefit of the community (for further details refer Chapter 8 – Public Non-financial Corporations Sector).

In 2011-12, grant expenses are \$456 million lower than expected in the 2011-12 MYFER primarily reflecting lower than expected natural disaster reimbursements to local governments to reflect their forecast construction profile.

Table 5.4 provides a break down of grants by category and recipient type.

<b>Table 5.4 Grant expenses<sup>1</sup></b>		
	2011-12 Est. Act. \$ million	2012-13 Budget \$ million
<b>Current</b>		
Grants to local government	731	518
Grants to non-government schools	2,250	2,418
Grants to private and not for profit organisations	4,096	3,385
Community service obligations to PNFCs	1,791	2,097
Other payments to PNFCs	81	70
<b>Total current transfers</b>	<b>8,950</b>	<b>8,487</b>
<b>Capital</b>		
First Home Owner Grant Scheme	139	105
Queensland Building Boost grant	98	49
Grants to local government	1,245	2,565
Grants to private and not for profit organisations	423	428
Payments to PNFCs	70	79
<b>Total capital transfers</b>	<b>1,975</b>	<b>3,226</b>
<b>Total current and capital transfers</b>	<b>10,925</b>	<b>11,713</b>
Note:		
1. Numbers may not add due to rounding.		



Current grants are estimated to decline by \$463 million in 2012-13. The decline is largely due to the Australian Government bringing forward funding related to 2012-13 into 2011-12 to assist with their return to surplus target (these grants are passed through the State's accounts) and a reduction in Health and Community Care grants to private and not for profit organisations.

The reduction in these grants is partially offset by grants to South East Queensland water businesses as compensation for the provision of water and sewerage rebates to household customers and additional CSO payments to electricity GOCs and Queensland Rail. Electricity CSO payments include compensation for foregone revenue under the Government's freeze on the standard residential electricity tariff (Tariff 11) in line with the Government's election commitments.

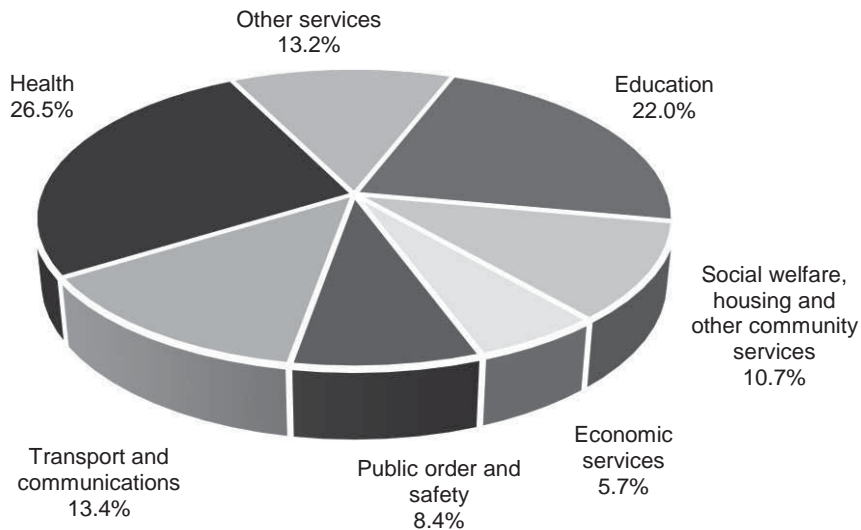
Capital transfers represent grants to PNFCs, local governments, not for profit institutions and other non-government entities, such as businesses and households (including the First Home Owner Grant schemes) for capital purposes.

Capital grants are estimated to increase \$1.251 billion to \$3.226 billion in 2012-13. This is largely represented by natural disaster grants to local governments for the rebuilding of roads, bridges and transport infrastructure related to the floods and Cyclone Yasi reconstruction activities.

From 11 October 2012 the Government will restrict eligibility for the First Home Owner Grant to those buying or building new homes. To further support housing construction, the First Home Owner Construction Grant for those buying or constructing new houses will increase from \$7,000 to \$15,000 from 12 September 2012.

## OPERATING EXPENSES BY PURPOSE

**Chart 5.7**  
**General Government expenses by purpose,<sup>1</sup> 2012-13**



1. Figures do not add to 100% due to rounding

Chart 5.7 indicates the proportion of expenditure by major purpose classification for the 2012-13 Budget. Health accounts for the largest share of expenses (26.5%) followed by Education (22%).

## DEPARTMENTAL EXPENSES

Data presented in Tables 5.5 and 5.6 provide a summary drawn from financial statements contained in the Service Delivery Statements. Further information on the composition of expenses, outputs delivered and factors influencing the movement in expenses can also be obtained from the Service Delivery Statements.

Table 5.5 Departmental Controlled Expense <sup>1,2,3</sup>		
	2011-12 Est. Actual \$'000	2012-13 Estimate \$'000
Aboriginal and Torres Strait Islander and Multicultural Affairs	14,466	136,748
Agriculture, Fisheries and Forestry	89,103	442,350
Communities, Child Safety and Disability Services	4,177,954	2,563,893
Community Safety	1,788,811	1,874,604
Education, Training and Employment	8,171,699	8,446,751
Electoral Commission of Queensland	61,685	43,348
Energy and Water Supply	22,819	160,270
Environment and Heritage Protection	865,293	200,283
Housing and Public Works	933,125	1,651,658
Justice and Attorney-General	647,538	726,558
Legislative Assembly	85,066	83,349
Local Government	467,710	255,870
National Parks, Recreation, Sport and Racing	346,127	377,795
Natural Resources and Mines	87,034	497,724
Office of the Governor	5,735	5,983
Office of the Ombudsman	7,154	7,563
Premier and Cabinet	249,309	111,473
Public Service Commission	16,909	19,042
Queensland Audit Office	44,199	43,749
Queensland Health	11,236,855	11,862,132
Queensland Police Service	1,912,660	1,979,059
Queensland Treasury and Trade	167,900	228,527
Science, Information Technology, Innovation and the Arts	134,505	437,167
State Development, Infrastructure and Planning	960,225	375,111
The Public Trustee of Queensland	79,406	75,062
Tourism, Major Events, Small Business and the Commonwealth Games	5,550	51,281
Transport and Main Roads	4,060,568	4,073,278
<b>Total Expenses</b>	<b>36,639,405</b>	<b>36,730,628</b>
Notes:		
1. Total expenses by department does not equate to total General Government expenses in Uniform Presentation Framework (UPF) terms reported elsewhere in the Budget Papers as General Government expenses include a wider range of entities including State Government statutory authorities. In addition transactions eliminated between entities within the General Government sector (for example payroll tax payments) are excluded in the preparation of whole of Government UPF financial statements.		
2. Explanation of variations in departmental controlled expenses can be found in the Service Delivery Statements.		
3. Direct comparison of departmental controlled expenses cannot be made between 2011-12 and 2012-13 for Departments affected by machinery-of-government changes which took place in 2011-12. Further information on departmental machinery-of-government changes can be obtained from the Service Delivery Statements.		

**Table 5.6**  
**Departmental Administered Expense <sup>1,2,3</sup>**

	2011-12 Est. Actual \$'000	2012-13 Estimate \$'000
Aboriginal and Torres Strait Islander and Multicultural Affairs	903	3,715
Agriculture, Fisheries and Forestry	1,789	9,083
Communities, Child Safety and Disability Services	323,780	242,953
Education, Training and Employment	2,409,925	2,611,159
Energy and Water Supply	73,361	759,956
Environment and Heritage Protection	64,706	..
Housing and Public Works	53,806	11,222
Justice and Attorney-General	347,160	293,980
Local Government	542,689	197,634
National Parks, Recreation, Sport and Racing	481	21,481
Natural Resources and Mines <sup>4</sup>	2,067,231	51,873
Premier and Cabinet	2,452,014	44,102
Queensland Health	25,460	26,748
Queensland Police Service	701	701
Queensland Treasury and Trade	6,326,817	6,417,128
Science, Information Technology, Innovation and the Arts	38,138	158,746
State Development, Infrastructure and Planning	660,648	2,375,544
The Public Trustee of Queensland	340	..
Tourism, Major Events, Small Business and the Commonwealth Games	..	102,515
Transport and Main Roads	1,137,890	1,177,246
<b>Total Expenses</b>	<b>16,527,839</b>	<b>14,505,786</b>
<p>Notes:</p> <ol style="list-style-type: none"> <li>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.</li> <li>2. Explanation of variations in departmental administered expenses can be found in the Service Delivery Statements.</li> <li>3. Direct comparison of departmental administered expenses cannot be made between 2011-12 and 2012-13 for Departments affected by machinery-of-government changes which took place in 2011-12. Further information on departmental machinery-of-government changes can be obtained from the Service Delivery Statements.</li> <li>4. 2011-12 expenses for Natural Resources and Mines includes a decrement in the value of land.</li> </ol>		

**Table 5.7**  
**Reconciliation of Departmental to UPF Expenses<sup>1</sup>**

	2011-12 Est. Actual \$ million	2012-13 Estimate \$ million
Departmental expenditure per Service Delivery Statements - Controlled (Table 5.5)	36,639	36,731
- Administered (Table 5.6)	16,528	14,506
Non-UPF departmental expenses and w hole-of-Government schemes <sup>2</sup>	(6,130)	(3,511)
Other General Government entities (e.g. CBUs, SSPs, Statutory Bodies)	8,005	9,204
	<b>55,042</b>	<b>56,930</b>
Superannuation Interest cost	1,221	1,235
Eliminations and Other w hole-of-Government adjustments		
Elimination of payments to CBUs and SSPs	(4,031)	(3,287)
Payroll Tax elimination	(610)	(578)
Other eliminations and adjustments	(5,600)	(5,781)
<b>Total General Government UPF Expenses</b>	<b>46,021</b>	<b>48,518</b>
<p>Notes:</p> <p>1. Numbers may not add due to rounding.</p> <p>2. Certain expenses such as asset valuation changes are excluded from UPF reporting. In addition, this item removes the effect of cash payments for w hole of Government schemes such as the State's share of superannuation beneficiary payments reported in Treasury Administered's expenses. Costs associated w ith these schemes are accrued annually.</p>		



## 6 BALANCE SHEET AND CASH FLOWS

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### FEATURES

- A key fiscal principle of the Queensland Government is to stabilise then significantly reduce debt. As recommended in the Independent Commission of Audit Interim Report, the Government has undertaken an extensive repair task which has resulted in a reduction in forecast borrowings from 2012-13 and across the forward estimates from that estimated in the 2011-12 Mid Year Fiscal and Economic Review (MYFER).
- Borrowings in the Non-financial Public Sector are now forecast to reach \$81.7 billion by 2014-15 compared with \$85.4 billion in the MYFER and \$86.3 billion in the Independent Commission of Audit Interim Report (on a comparable basis).
- General Government capital purchases (purchases of non-financial assets) of \$7.7 billion in 2012-13 will be funded entirely by borrowings. However, due to the process of fiscal repair, by 2015-16 General Government capital purchases of \$4.9 billion will be funded by operating cash flows.
- General Government net borrowing requirements improve significantly across the forward estimates, with a negligible net borrowing requirement (\$11 million) projected in 2015-16.
- Queensland's net worth is expected to grow from \$164 billion in 2012-13 to \$173 billion in 2015-16.
- In keeping with the Government's fiscal principles, as at the last actuarial assessment, Queensland has sufficient investments to offset its superannuation liabilities.
- The General Government sector is forecast to record a cash deficit of \$10.7 billion in 2012-13, improving to a cash surplus in 2014-15 of \$590 million and over \$1 billion by 2015-16. The Queensland Government has not forecast or achieved a General Government cash surplus since 2006-07.

## **BACKGROUND**

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

As identified by the Independent Commission of Audit in its Interim Report, Queensland's balance sheet has significantly deteriorated in recent years, culminating in the loss of Queensland's AAA credit rating in 2009. The Independent Commission found that this deterioration was the result of a lack of fiscal discipline, particularly in the General Government sector.

The Independent Commission indicated that immediate and significant fiscal repair was required in order to improve Queensland's fiscal position and to avoid potential future credit downgrades. As outlined in previous chapters, the Government has undertaken a task of fiscal repair, leading to substantial improvements in Queensland's fiscal position.



## BALANCE SHEET

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

<b>Table 6.1</b> <b>General Government sector: summary of budgeted balance sheet<sup>1</sup></b>						
	2011-12 Budget <sup>2</sup> \$ million	2011-12 Est. Act. \$ million	2012-13 Budget \$ million	2013-14 Projection \$ million	2014-15 Projection \$ million	2015-16 Projection \$ million
Financial assets	58,420	56,926	57,523	59,088	61,373	63,118
Non-financial assets	189,616	180,333	185,320	189,843	193,042	195,601
<b>Total Assets<sup>3</sup></b>	<b>248,035</b>	<b>237,259</b>	<b>242,843</b>	<b>248,930</b>	<b>254,414</b>	<b>258,719</b>
Borrowings, advances and deposits	33,925	30,306	41,548	45,752	46,361	46,384
Superannuation liability	25,764	25,461	25,721	25,893	25,918	25,781
Other provisions and liabilities	11,325	12,225	11,774	12,366	12,990	13,586
<b>Total Liabilities</b>	<b>71,013</b>	<b>67,991</b>	<b>79,043</b>	<b>84,011</b>	<b>85,270</b>	<b>85,751</b>
<b>Net Worth</b>	<b>177,023</b>	<b>169,268</b>	<b>163,800</b>	<b>164,919</b>	<b>169,145</b>	<b>172,968</b>
<b>Net Financial Worth</b>	<b>(12,593)</b>	<b>(11,065)</b>	<b>(21,520)</b>	<b>(24,924)</b>	<b>(23,897)</b>	<b>(22,633)</b>
<b>Net Financial Liabilities</b>	<b>31,578</b>	<b>28,291</b>	<b>38,476</b>	<b>42,179</b>	<b>41,712</b>	<b>41,081</b>
<b>Net Debt</b>	<b>(1,528)</b>	<b>(5,384)</b>	<b>5,120</b>	<b>8,280</b>	<b>7,865</b>	<b>6,935</b>
Notes: 1. Numbers may not add due to rounding. 2. Numbers have been restated where subsequent changes in classification have occurred. 3. For Uniform Presentation Framework purposes, the State's assets are classed as either financial or non-financial assets.						

## Financial assets

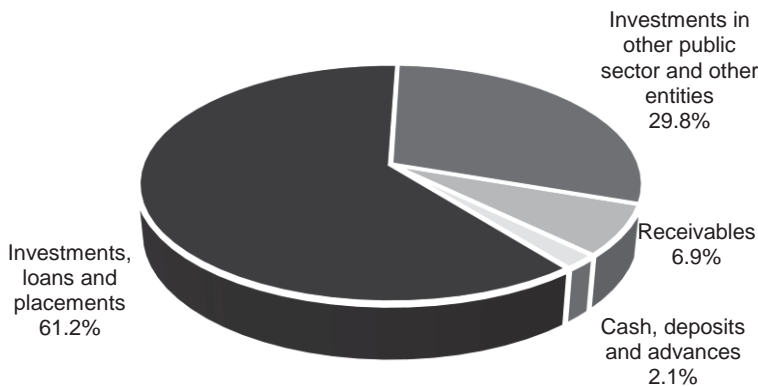
The General Government sector holds the full equity of the State's public enterprises, principally its shareholding in Government-owned corporations (GOCs) but also Public Financial Corporations like Queensland Treasury Corporation (QTC), in much the same manner as the parent or holding company in a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

Financial assets of \$56.926 billion are estimated for 2011-12, \$1.494 billion lower than originally budgeted. This change is primarily the result of the downward revaluation of Queensland Rail Infrastructure assets at 30 June 2011 which carries into 2011-12.

In the year to 30 June 2013, financial assets are projected to increase by \$597 million attributable principally to increased investment in assets set aside to meet future employee liabilities including superannuation.

Chart 6.1 shows projected General Government sector financial assets by category at 30 June 2013. 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 2013**



## Non-financial assets

General Government non-financial assets are projected to total \$180.333 billion at 30 June 2012, \$9.3 billion lower than forecast at the 2011-12 Budget. This reduction reflects the flow through of revaluations, primarily for land and road infrastructure.

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

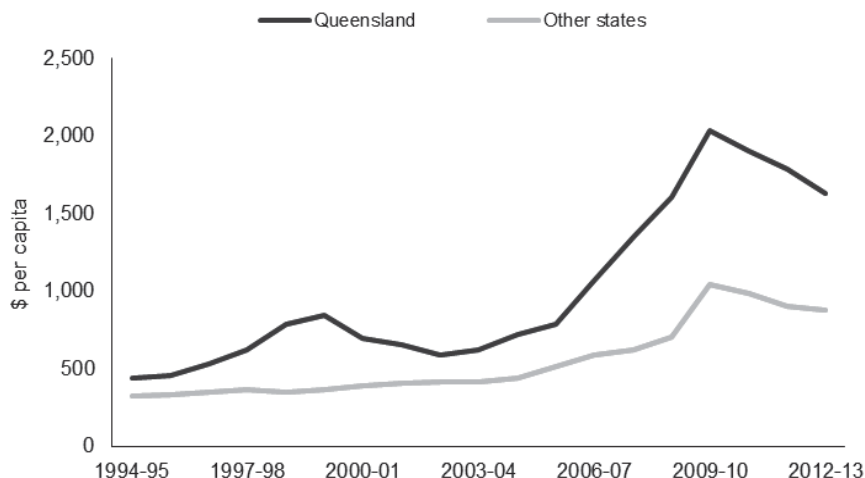
- construction and purchase of assets, either to replace existing assets or provide additional capacity for the State to deliver services
- revaluations of assets required under accounting standards
- depreciation and disposals of assets.

Non-financial assets in the year ending 30 June 2013 are expected to grow by \$4.987 billion over the 2011-12 estimated actuals to be \$185.32 billion at 30 June. These assets consist primarily of land and other fixed assets of \$179.169 billion, the majority of which are roads, schools, hospitals and other infrastructure used to provide services to Queenslanders. Other non-financial assets of \$6.151 billion held by the State include prepayments and deferred tax assets relating to income tax equivalents collected primarily from GOCs.

Since the 1990s, the Queensland Government has invested in new infrastructure at levels well beyond that of the other states. General Government purchases of non-financial assets per capita have far exceeded the average of the other states and territories for well over a decade (refer Chart 6.2). As a consequence, the State's borrowings have increased substantially, particularly in recent years.

**Chart 6.2**

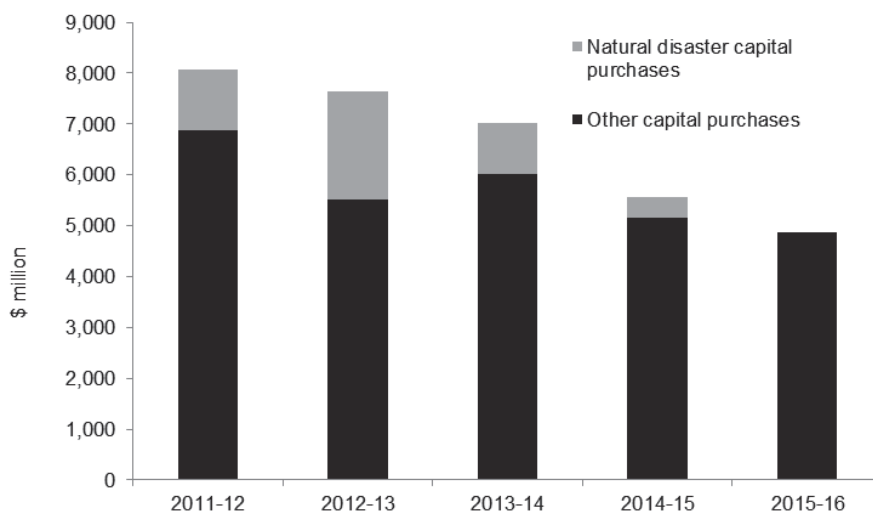
**General Government purchases of non-financial assets, 1994-95 to 2012-13**



Purchases of non-financial assets have increased further as a result of the flood and cyclone disasters of 2010, 2011 and 2012 which required the extensive replacement of infrastructure. Chart 6.3 indicates the proportion of the General Government capital program that has been spent on restoration of assets following disasters.

**Chart 6.3**

**Proportion of General Government capital purchases spent on disaster restoration**



The level of purchases of non-financial assets for the General Government sector is forecast to wind back from just over \$8 billion in 2011-12 to just under \$5 billion in 2015-16.

## **Liabilities**

### ***General Government Sector***

General Government liabilities of \$67.991 billion in 2011-12 are \$3.022 billion lower than budgeted. This is primarily the result of a decrease in forecast borrowings as a result of an improved fiscal balance in 2011-12.

Total liabilities in the General Government sector in 2012-13 are budgeted to increase over 2011-12 by \$11.052 billion. This primarily reflects the deterioration in the fiscal balance over this period.

Liabilities relating to employee entitlements (principally superannuation and long service leave) are projected to total \$30.704 billion at 30 June 2013, a modest 1.1% increase on the 2011-12 estimated actual. The State's superannuation liability can be seen to stabilise and begin to decline over the forward estimates primarily as a result of the defined benefit fund being closed to new entrants from 2009. At the time of preparing the 2012-13 Budget, the latest AASB119 valuation of the State's defined benefit superannuation liability was not available.

General Government borrowings of \$41.309 billion are forecast for 2012-13, an increase of \$11.292 billion over 2011-12. This increase primarily reflects capital purchases of \$7.653 billion, equity injections to Public Non-financial Corporations of \$281 million and an operating cash deficit of \$3.341 billion.

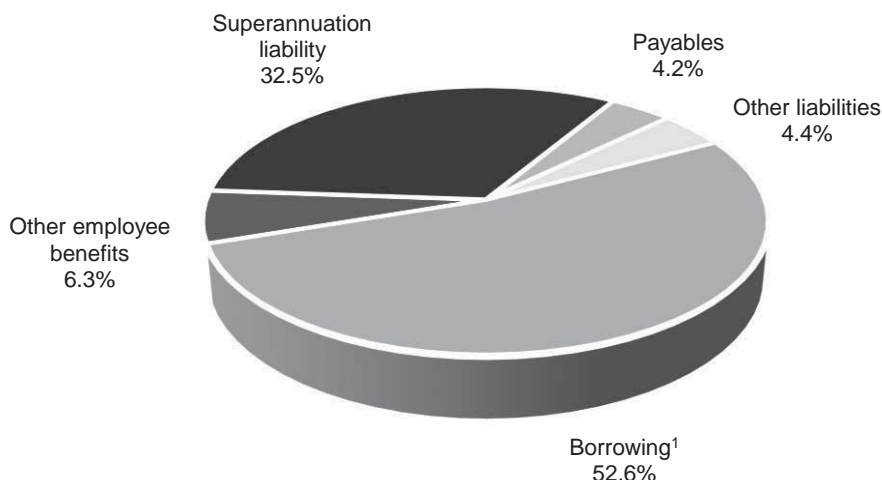
The level of General Government borrowings stabilises at \$46 billion in 2014-15 primarily as a result of the Government's savings and revenue measures. Stabilisation of debt is crucial to the Government's aim of restoring the AAA credit rating.

Over the Budget and forward estimates period, total General Government net borrowings of \$16.33 billion are planned to fund the \$25.118 billion worth of capital projects in the General Government sector and \$730 million worth of equity injections to the Public Non-financial Corporations sector to support expansion of the State's 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 6.4.

**Chart 6.4**  
**Projected General Government liabilities by category at 30 June 2013**



1. Includes borrowing, advances and deposits

## ***Non-financial Public Sector***

### ***Borrowings***

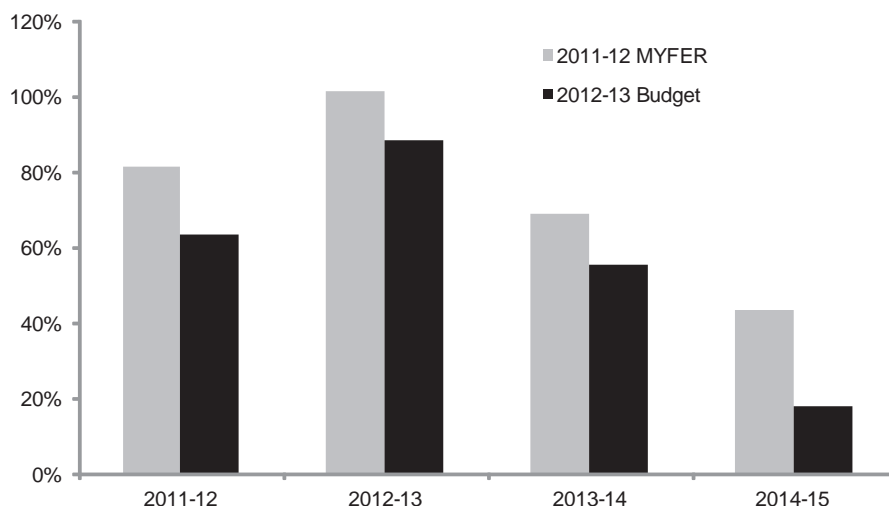
Non-financial Public Sector borrowings of \$62.672 billion are forecast for 2011-12, around the level forecast at the 2011-12 MYFER.

Non-financial Public Sector borrowings of \$73.717 billion are forecast for 2012-13, an increase of \$11.045 billion over 2011-12, reflecting the increased borrowing in the General Government sector.

The Government is forecasting to borrow \$4.6 billion less by 2014-15 than outlined in the Independent Commission of Audit. Borrowing is now forecast to reach \$81.749 billion in 2014-15 compared with \$86.326 billion in the Independent Commission of Audit.

As outlined in Chart 6.5, the Government is now forecasting to fund a smaller proportion of its capital program from borrowings. Over the period 2011-12 to 2014-15 the Government is forecast to borrow to meet around 58% of its capital purchases. This compares to 74% of the capital program being funded by borrowings in the Independent Commission of Audit.

**Chart 6.5**  
**Proportion of the capital program funded by borrowings**  
**2011-12 MYFER to 2012-13 Budget<sup>1</sup>**



1. Where the ratio exceeds 100% it indicates that borrowing is being undertaken for non-capital purposes.

## 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 2012-13 is forecast at negative \$21.52 billion. The decrease in net financial worth since 2011-12 (\$10.455 billion) is primarily the result of the increase in borrowings over the same period.

Net financial worth is expected to stabilise over the forward estimates period as borrowings level out as a consequence of the Government's fiscal repair.

## 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, as well as borrowings (for example, accrued employee liabilities such as superannuation and long service leave entitlements).

The net financial liabilities of the General Government sector for 2012-13 are forecast at \$38.476 billion, \$10.185 billion higher than 2011-12 consistent with the increase in borrowings over this period.

Net financial liabilities decrease after 2014-15 as borrowings stabilise.

## 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. 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 2011-12 is forecast to be \$169.268 billion. This is less than forecast in the 2011-12 Budget by \$7.755 billion primarily due to the downward revaluations of land and road infrastructure and other assets in both 2011 and 2012, offset in part by an improved fiscal deficit since the 2011-12 Budget.

Net worth is forecast to decrease further by \$5.468 billion to \$163.8 billion in 2012-13 due primarily to the fiscal deficit for that year. From 2013-14, net worth is projected to steadily increase mainly as a result of improved operating results and from fiscal repair.



## Net debt

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

Queensland maintains a good net debt position due, in part, to the way it has structured its financial investments held to cover long term liabilities, including superannuation. Net debt for the General Government sector in 2011-12 is forecast to be negative \$5.384 billion increasing to positive \$5.12 billion in 2012-13 as a result of increased borrowings in that year.

The Independent Commission of Audit considers:

*‘As the net debt measure includes investments, it takes account of the large investments Queensland uses to offset its superannuation liability, it does not take account of the liabilities. Under existing Government policy, these investments are held to meet the State’s superannuation liability.*

*Because these investments are not available to reduce gross debt, net debt is not a suitable metric to target in setting an appropriate fiscal strategy...*

*The Commission consider that the most suitable measure of debt is the concept of net financial liabilities..’<sup>1</sup>*

The Government has adopted the net financial liabilities to revenue ratio as one of its fiscal principles.

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<sup>1</sup> Pages 20 and 21 of the Queensland Commission of Audit Interim Report June 2012.

## 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 in Table 6.2.

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

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

The Australian Bureau of Statistics Government Finance Statistics (GFS) cash 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 General Government cash deficit of \$4.836 billion in 2011-12 is \$3.079 billion lower than that forecast at the time of the 2011-12 Budget and \$2.078 billion lower than the 2011-12 MYFER. This is mainly due to the receipt of advance Australian Government natural disaster grant funding coupled with lower than expected payments for goods and services mainly in the areas of health and education.

A cash deficit of \$10.676 billion is forecast in 2012-13 for the General Government sector, with the cash deficit forecast to decline significantly over the forward estimates, returning to surplus in 2014-15 and 2015-16. This is the first time since 2006-07 that the Government has forecast or achieved a cash surplus in the General Government sector.

The major factors contributing to the improved cash position are improved net inflows from operating activities as a result of Government's efforts in relation to the fiscal repair task.

Total General Government capital purchases of \$7.653 billion are budgeted for 2012-13 and, over the period 2012-13 to 2015-16, capital expenditure is expected to total \$25.118 billion in the General Government sector.

## RECONCILIATION OF OPERATING CASH FLOWS TO THE OPERATING STATEMENT

Table 6.2 provides a reconciliation of the cash flows from operating activities to the operating result for the General Government sector.

<b>Table 6.2</b> <b>General Government sector: Reconciliation of</b> <b>cash flows from operating activities to accrual operating activities<sup>1</sup></b>		
	2011-12 Est. Act. \$ million	2012-13 Budget \$ million
<b>Revenue from transactions</b>	<b>45,707</b>	<b>42,224</b>
Plus/(less) movement in tax equivalent and dividend receivables	167	1
Plus GST receipts	2,602	2,506
Plus/(less) movement in other receivables	(328)	(359)
<b>Equals cash receipts from operating activities</b>	<b>48,148</b>	<b>44,372</b>
<b>Expenses from transactions</b>	<b>46,021</b>	<b>48,518</b>
(Less) non-cash items		
Depreciation and amortisation expense	(2,765)	(3,086)
Accrued superannuation expense	(2,297)	(2,269)
Accrued employee entitlements	(641)	(636)
Other accrued costs	(151)	(206)
Plus superannuation benefits paid – defined benefit	2,138	2,002
Plus/(less) movement in employee entitlement provisions	299	574
Plus/(less) GST paid	2,649	2,524
Plus/(less) movement in other provisions and payables	(72)	292
<b>Equals cash payments for operating activities</b>	<b>45,181</b>	<b>47,714</b>
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

- Total Australian Government payments to the states were estimated at \$90.4 billion in the 2012-13 Australian Government Budget. Queensland is expected to receive \$18.06 billion, \$297 million less than its population share.
- In 2012-13, Australian Government payments to states and territories for specific purposes are expected to be \$41.0 billion, a 17.1% decrease compared with 2011-12. Payments to Queensland for specific purposes were forecast at the time of the 2012-13 Australian Government Budget to be \$8.4 billion, or 20.5% of total payments to states for specific purposes.
- The current National Partnership funding model presents a number of policy and fiscal risks to Queensland. At the 25 July 2012 Council of Australian Government (COAG) meeting, Queensland successfully argued for immediate action to address the proliferation and the development process for National Partnerships. COAG has established a working group to consider and recommend measures to streamline the development and administration of selected funding agreements. A report will be presented to COAG's December 2012 meeting.
- In 2012-13, total GST revenue to all states is expected to be \$48.2 billion, an increase of \$2.6 billion or 5.7%. The GST has not been the 'growth tax' it was intended to be, with growth of the GST pool having slowed substantially since 2007-08. This slowdown reinforces the need to protect the GST base.
- The Australian Government's 2012-13 Budget estimated that Queensland would receive \$9.7 billion of GST revenue in 2012-13, \$129 million less than its population share. The Commonwealth Grants Commission recommended an underlying increase in Queensland's share of GST revenue of \$541.7 million in 2012-13, although this has been more than offset by the downward revision of the estimated GST pool size since the 2011-12 Mid Year Fiscal and Economic Review.
- Queensland's submission to the GST Distribution Review suggests ways to improve the current system, particularly the flawed mining assessment, which excessively penalises states with large mining industries through its undue emphasis on mining revenue. It also calls for the operational definition of horizontal fiscal equalisation to be modified to one that enables states to deliver a comparable, rather than the same, level of services. In the longer term, Queensland supports a population share based model for the distribution of GST, with the Australian Government to provide additional financial support to states with lower fiscal capacity.
- The Queensland Government will provide \$3.08 billion in grants to Queensland local government authorities in 2012-13.

# FEDERAL FINANCIAL ARRANGEMENTS

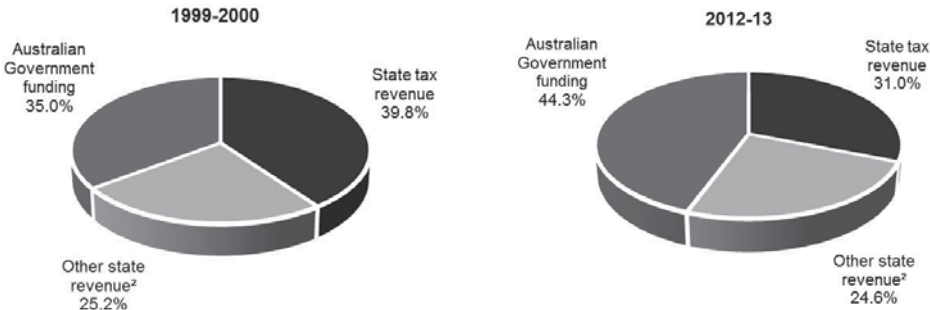
Federal financial relations in Australia are characterised by a disparity between the revenue raising capacity and the expenditure responsibilities of the federal and state governments. The Australian Government collects the major share of taxation revenues and states and territories (states) must rely on grants from the Australian Government to meet their expenditure requirements. These grants represent approximately 44.3% of all states' revenues in 2012-13, down from 46.9% 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 the states' levying of income tax. While 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 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 the states received 35% of their revenues from the Australian Government in 1999-2000, this is forecast to increase to 44.3% in 2012-13. In contrast, the proportion of the states' General Government revenues from state taxes has declined from 39.8% in 1999-2000 to 31% in 2012-13.

**Chart 7.1**  
**General Government revenue sources, all states, 1999-2000 and 2012-13<sup>1</sup>**



Notes:

1. 2012-13 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.

## AUSTRALIAN GOVERNMENT FUNDING TO STATES

The framework for federal financial relations is set out in the Intergovernmental Agreement on Federal Financial Relations (the IGA). There are four payment categories to the states:

- GST payments (and other general revenue assistance)
- National Specific Purpose Payments (SPPs) to be spent in the key service delivery sectors of healthcare,<sup>1</sup> schools, skills and workforce development, affordable housing and disability services
- National Health Reform funding (from 1 July 2012)
- National Partnership (NP) payments for specific purposes or reform linked objectives.

Table 7.1 shows Australian Government payments to the states in 2012-13 are expected to total \$90.37 billion, a decrease of \$5.786 billion or 6% compared with 2011-12.

<b>Table 7.1</b> <b>Estimated Australian Government payments to the states, 2011-12 and 2012-13<sup>1</sup></b>					
	2011-12 Est. Act. \$ million	2012-13 Budget \$ million	Change Nominal Terms %	Change Real Terms <sup>2</sup> %	Change Real Per Capita <sup>2</sup> %
<b>Payments for specific purposes</b>					
National Partnership payments	21,590	11,365			
Specific Purpose Payments	27,852	16,105			
National Health Reform Funding	..	13,518			
<b>Total payments for specific purposes</b>	49,442	40,989	(17.1)	(19.7)	(20.9)
<b>GST revenue</b>	45,600	48,200	5.7	2.4	0.9
<b>Other general revenue<sup>3</sup></b>	1,114	1,181			
<b>Total payments</b>	96,156	90,370	(6.0)	(9.0)	(10.3)
Notes: 1. Numbers may not add due to rounding. 2. Deflated by the 2012-13 national inflation forecast of 3.25% and national population growth of 1.5%. 3. Other general revenue includes royalty sharing arrangements (such as offshore petroleum royalty revenues), compensation for Australian Government policy decisions and ACT municipal services. Source: Australian Government Budget Paper No.3, 2012-13.					

<sup>1</sup> From 1 July 2012 the National Healthcare SPP will be replaced by National Health Reform funding which will be subject to the terms of the National Health Reform Agreement.

Total payments for specific purposes (including both SPPs and NP payments) in 2012-13 are expected to be \$40.989 billion, a 17.1% decrease in nominal terms and a 20.9% decrease in real per capita terms compared with 2011-12. This decrease is largely due to the decline in economic stimulus funding, reprofiling of expenditure out of the 2012-13 financial year by the Australian Government in an attempt to preserve a budget surplus, and fluctuations in natural disaster relief expenses.

Starting in 2012-13, the National Healthcare SPP is replaced by National Health Reform funding which comprises base funding equivalent to the National Healthcare SPP and, from 1 July 2014, efficient growth funding.

GST revenue from the Australian Government to all states is expected to be \$48.2 billion in 2012-13, an increase of 5.7% in nominal terms. In real per capita terms, GST is expected to increase by 0.9% in 2012-13.

Table 7.2 shows the expected shares of total Australian Government payments to each state for 2012-13 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.

<b>Table 7.2</b> <b>Relative shares of Australian Government payments to the states, 2012-13<sup>1</sup></b>			
	Share of payments <sup>2</sup> %	Share of population %	Relative share <sup>3</sup> %
New South Wales	30.7	32.1	95.4
Victoria	23.5	24.9	94.3
Queensland	20.2	20.3	99.5
Western Australia	8.3	10.5	78.8
South Australia	8.6	7.3	117.7
Tasmania	3.0	2.2	134.5
Australian Capital Territory	1.8	1.6	108.5
Northern Territory	4.0	1.0	397.4
<b>Notes:</b> 1. Numbers do not add due to rounding. 2. Excludes payments unallocated among the states and territories in the Australian Government Budget papers. Royalties paid by the Australian Government to Western Australia and the Northern Territory, 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 (may not divide due to rounding). <i>Source: Australian Government Budget Paper No.3, 2012-13.</i>			



## Queensland's share of Australian Government funding

Table 7.3 details Queensland's share of estimated Australian Government payments in 2012-13 as outlined in the Australian Government Budget Papers, and the difference compared with the State's population share.

Queensland expects to receive \$9.667 billion of GST revenue in 2012-13, \$129 million less than its population share. In the same year, total payments for specific purposes are forecast to be \$8.394 billion or 20.5% of total Australian Government payments for specific purposes. In overall terms, Queensland will receive an estimated \$297 million less than its population share of Australian Government funding in 2012-13.

**Table 7.3**  
**Queensland's share of estimated Australian Government payments, 2012-13**

	Queensland's Payments \$ million	Queensland's Share <sup>3</sup> %	Difference from Population Share \$ million
<b>Payments for specific purposes</b>			
National Partnership payments	2,361	20.9	60
Specific Purpose Payments <sup>1</sup>	6,033	20.4	12
<b>Total payments for specific purposes<sup>2</sup></b>	<b>8,394</b>	<b>20.5</b>	<b>72</b>
GST revenue	9,667	20.1	(129)
Other general revenue assistance	..	..	(240)
<b>Total payments</b>	<b>18,061</b>	<b>20.0</b>	<b>(297)</b>

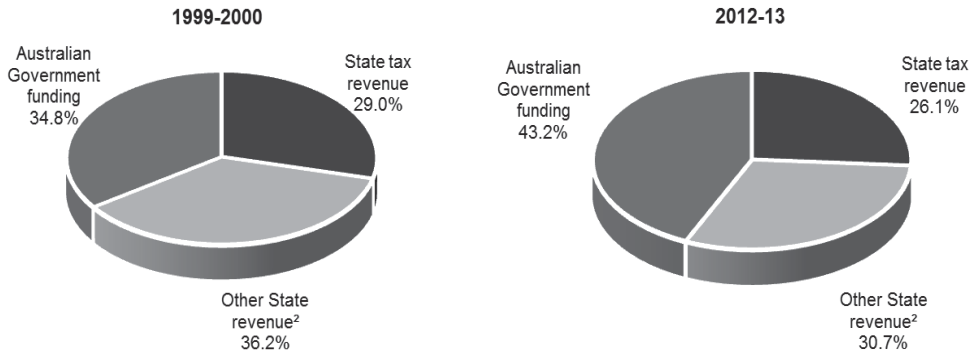
**Notes:**

1. Includes National Health Reform Funding.
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 primarily relate to the Australian Government's accounting treatment of payments relating to natural disasters.
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, 2012-13.

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 43.2% in 2012-13.

**Chart 7.2**  
**General Government revenue sources, Queensland, 1999-2000 and 2012-13<sup>1</sup>**



**Notes:**

- 1. 2012-13 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

## PAYMENTS TO QUEENSLAND FOR SPECIFIC PURPOSES

### Structure of specific payments

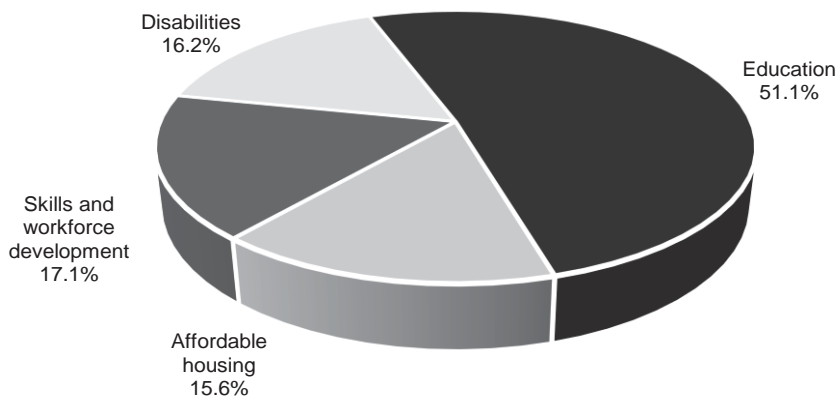
Payments for specific purposes mainly comprise National Specific Purpose Payments, National Health Reform funding and National Partnership payments. These payments represent a major source of revenue to Queensland.

### National Specific Purpose Payments

National Specific Purpose Payments are an ongoing financial payment to the states for service delivery in a particular sector. They are considered to be ‘tied’ payments since they must be expended in the relevant sector, although states retain budget flexibility to allocate SPP funding within the relevant sector according to their priorities. The IGA requires that SPP funding be reviewed at least every five years to ensure its ongoing adequacy.

From 1 July 2012, there are four SPPs to the states for education, skills and workforce development, disability services and affordable housing. Together with National Health Reform funding, these payments will provide 33.4% of total Australian Government funding to Queensland in 2012-13.

**Chart 7.3**  
**National Specific Purpose Payments by sector, 2012-13**



Source: Australian Government Budget Paper No. 3, 2012-13

The healthcare SPP expired on 1 July 2012 and has been replaced by a new payment stream as set out in the National Health Reform Agreement. Under the previous healthcare SPP, states had discretion on how to allocate health funds between hospital and other health services. Under the new arrangement, Australian Government health payments will be made to hospital and health services and states will have less flexibility over how to allocate the new health funding.

SPP funding is crucial for states to carry out their constitutional responsibility for school education, disability services, housing and skills development. Australian Government plans for the creation of the National Disability Insurance Scheme are based on more tightly controlled flows of Australian Government funding and substantial state funding contributions. The Australian Government's recent high level response to the Review of Funding for Schooling (the Gonski report) also suggests it is seeking an increased contribution from states, and to tie jurisdictions to the Australian Government's priorities. These reforms, if implemented, are likely to place additional pressure on states' budgets, and serve to constrain state budget flexibility.

### **National Partnership payments**

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

NP payments are an important source of revenue for Queensland. In 2012-13, NP payments to Queensland will be 13.1% (\$2.361 billion) of total Australian Government funding to Queensland.

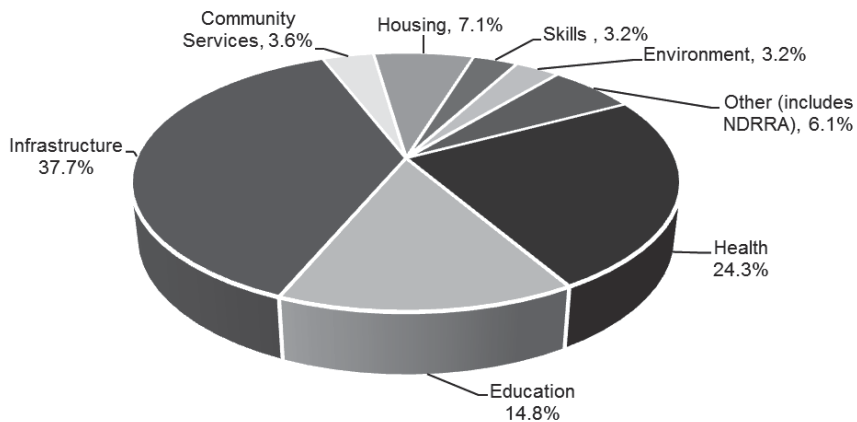
## ***Number of agreements and funding by sector***

The education and health sectors have the largest number of NPs, collectively representing just under half of the 79 agreements as at 1 July 2012.

The large number of agreements within these two sectors is problematic as it can obscure the real priorities of Government in these important areas. It also creates difficulties in correctly attributing outcomes to individual initiatives when there is duplication or overlap across agreements.

In terms of payments, NP payments for infrastructure, health and education account for 76.9% of the total NP funding in 2012-13 (as shown in Chart 7.4).

**Chart 7.4**  
**National Partnership Payments by sector, 2012-13**

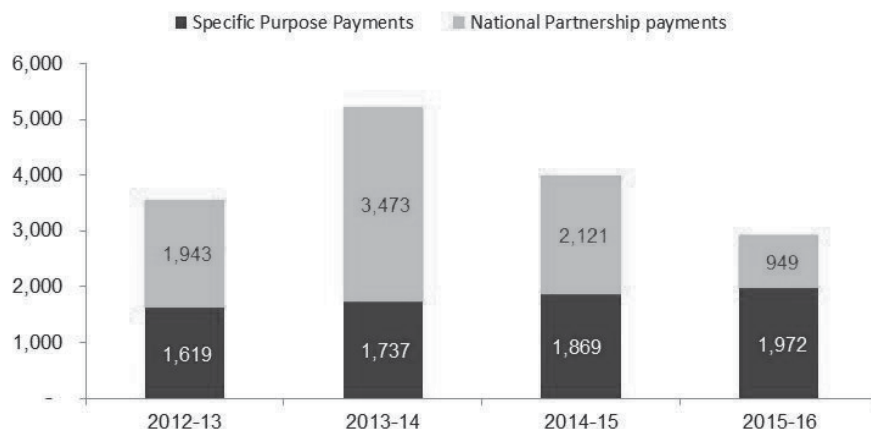


Note: Excludes local government funding and non-government schools funding.  
Source: Australian Government Budget Paper No. 3, 2012-13

## ***Projections of NP funding to Queensland***

The level of NP payments is quite variable from year to year, depending on the nature and duration of the agreements, and the value of new agreements coming online. Chart 7.5 outlines how NP funding is expected to increase from \$1.943 billion in 2012-13 to a high of \$3.473 billion in 2013-14 before declining markedly to \$949 million in 2015-16. This variability is primarily due to fluctuations in natural disaster relief payments and the Australian Government's reprofiling of expenditure out of the 2012-13 financial year to meet its own budgetary objectives. The reprofiling of revenue for the Australian Government's own purposes often means that revenue does not match expenditure, distorting the Australian Government's and the states' true financial positions. Chapter 2 provides an estimate of the underlying fiscal balance abstracting from natural disaster funding.

**Chart 7.5**  
**Payments for specific purposes to Queensland 2012-13, \$ million**



Note: Excludes local government funding and non-government schools funding.

Source: Australian Government Budget Paper No. 3, 2012-13

A large number of agreements will expire in 2012-13 including agreements for homelessness services, education (computers in schools, early childhood education, improving teacher quality) and health (hospital and workforce reform).

States have little capacity to influence the continuation of expiring agreements except to provide annual advice to the federal Treasurer. The final decision on expiring agreements is ultimately made through the Australian Government's budget process and announced with the release of the Australian Government Budget, giving states little advance warning on whether funding will be continued. This flawed process impacts state budget planning and service delivery. The Queensland Government, along with other state and territory governments, is actively working with the Australian Government to improve the expiring agreements process.

## ***Fiscal and policy risks from the NP funding model***

The NP funding model presents a number of policy and fiscal risks to Queensland:

- the use of short term funding agreements particularly where the agreements assist in achieving increased service delivery levels poses an inherent risk for the State as these agreements build capacity and expectations leaving states with a difficult decision if the Australian Government ceases funding. In these cases, states either have to find new funding sources to continue programs, or discontinue services
- they tend to reflect Australian Government policy priorities and election commitments instead of Queensland Government priorities which can result in a diversion of effort from state issues or mutually agreed areas of significant national reform
- the current development process effectively precludes states from having any substantive input into NP policy or funding parameters
- the NP process does not align with Queensland's budget process, and can compromise policy and financial planning. In addition, the timing of NP payments can have a significant effect on Queensland's fiscal balance, and on financial and budget reports
- there is no constructive process for dealing with expiring NPs and often there is no commitment to ongoing Australian Government funding, leaving states with a difficult decision at the end of the NP as to whether to reduce services, or find additional own source funding
- NPs often include unnecessary prescription, input controls and reporting requirements which can reduce Queensland's flexibility and resource availability
- the Australian Government does not normally provide any ongoing funding for capital NPs, requiring Queensland to meet ongoing maintenance and depreciation expenses
- the proliferation of NPs is of particular concern to the Queensland Government due to the administrative and reporting burden and the real or apparent duplication and overlap across agreements.

At the commencement of the current IGA, it was originally envisaged that the number of NPs would be relatively small in the interests of streamlining funding flows to states and reducing the reporting burden. However the number of NPs has grown rapidly since the commencement of the IGA in 2009. For example, as of 1 July 2012 there were 79 active agreements between the Queensland Government and the Australian Government. The value of each of these agreements ranges from billions of dollars to less than \$0.25 million.

These issues are consistent with those identified in Queensland's Independent Commission of Audit Interim Report.

The large number of agreements is compromising the integrity of the IGA by maintaining tied funding as a significant part of the federal financial relations framework. More recently, NPs are being used to deliver minor Australian Government initiatives in areas of state service delivery that come with prescriptions about how the project or program is to be delivered.

In addition, administering these numerous agreements is costly, and the reporting burden is growing.

### ***Reforming the NP model***

Given the reliance of Queensland on NP payments (due to vertical fiscal imbalance), the Queensland Government has been active in addressing the concerns with the NP funding model.

At the 25 July 2012 Council of Australian Government (COAG) meeting, Queensland successfully argued for immediate action to address proliferation and the development process for NPs. In response, COAG committed to ensuring that only matters of truly national significance will be progressed as new multilateral National Partnership Agreements, with consideration of existing or alternative funding mechanisms before any new funding agreements are agreed. To support this, COAG has established a working group to consider and recommend measures to streamline the development and administration of selected funding agreements. A report will be presented to COAG at its December 2012 meeting.

The working group will also examine options for expiring agreements, in particular those that have supported increased service delivery levels.



## **GST REVENUE PAYMENTS**

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

In March 2011, the Australian Government announced a review of the distribution of GST revenue to the states.

The review will provide a final report in late 2012. Any changes arising from the review are not expected to be implemented until 2013-14 at the earliest. In the interim, the CGC will continue to make recommendations on the distribution of GST based on the current methodology.

Queensland's October 2011 and April 2012 submissions to the GST Distribution Review argued that the system by which the GST is distributed amongst the states and territories is flawed based on:

- the objective of the GST distribution system is unclear
- the mining assessment is seriously flawed and delivers perverse outcomes
- the assessment process is complex and often dependent on unreliable or incomparable data and judgement, which engenders a lack of confidence in its results.

Queensland's latest submission of August 2012 builds on this view and suggests positive, constructive reform proposals for the Review Panel's consideration. Box 7.1 provides an outline of Queensland's position in the submission.

Outside of the Australian Government GST Distribution Review, 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 the GST distribution can be accessed through the CGC website ([www.cgc.gov.au](http://www.cgc.gov.au)).

### **Box 7.1**

#### **Review of the GST Distribution**

Queensland has joined with New South Wales, Victoria and Western Australia to propose a new model of HFE – the population based distribution of GST amongst states, with the Australian Government taking responsibility for funding the additional financial assistance required for states with lower fiscal capacities so no state or territory is worse off. This model is fair, simple, transparent and predictable. It would encourage good policy and engender greater confidence in the system.

As this model is likely to be a longer term aspiration, Queensland has proposed a package of reforms that will immediately help address the flaws in the current GST distribution system in its August 2012 submission to the Review of the GST Distribution.

- Change the operational definition of HFE from one that uses the GST distribution system to equalise states' fiscal capacities to deliver the same level of services, to one that enables states to deliver a comparable level of services. The Australian Government also has a responsibility to contribute to HFE when it comes to improving the level of services in the lower capacity states. This change in the definition will allow considerations of efficiency, simplicity and stability to be given greater weight.
- Apply a general discount to reduce the redistributive churn of the GST system that currently takes place. The discount, incorporating the current 'minimum effort' of states with respect to expenses, would reflect acceptable standards and efficient delivery of services while still being based on what states actually do. The Australian Government would then share the load of supporting services in recipient states by providing additional financial assistance to ensure that all states have the fiscal capacity to deliver the average level of services.
- Apply a broad indicator to the revenue assessment based on household disposable income. This approach would better reflect the true economic incidence of state revenues, be simpler and more stable, and support better public policy.
- Simplify the expense assessments by paring back or improving those assessments that lack a robust evidence base, to engender greater confidence in the outcomes.

But most important of all, the submission suggests that the mining assessment needs to be reformed to address its perverse outcomes. First, a single rate structure should replace the current two rate structure to enhance policy neutrality. Second, a discount to the mining assessment is required to reflect resource ownership by states and the tangible and intangible costs to government of the mining industry, and to restore the appropriate incentives to governments to develop the industry in their states.

Queensland has proposed this constructive program of reforms to deliver real benefits not only to the individual states and territories but to the nation as a whole.

## 2012 Update on GST revenue sharing relativities

In April 2012, the Australian Government accepted the CGC's *Report on GST Revenue Sharing Relativities – 2012 Update* (the 2012 Update) as the basis for the distribution of the GST revenue to the states in 2012-13.

In the 2012 Update, the CGC recommended an underlying increase in Queensland's share of GST revenue of \$541.7 million in 2012-13, as shown in Table 7.4.

<b>Table 7.4</b> <b>GST share and underlying impact of relativities, 2012-13<sup>1</sup></b>								
	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
Underlying impact of relativities <sup>2</sup> (\$ million)	(72.7)	192.1	541.7	(819.7)	47.6	(20.3)	48.8	82.6
GST Share (\$ million)	14,796	11,073	9,667	2,797	4,512	1,704	938	2,714
GST per capita (\$)	1,993	1,926	2,059	1,152	2,686	3,305	2,504	11,558
<b>Notes:</b> 1. A corrigendum was issued following the release of the CGC's 2012 Update report but had minimal impact on GST shares. 2012 Update figures are used for consistency. 2. 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 2012-13. <i>Source: Australian Government Budget 2012-13, Commonwealth Grants Commission Report on GST Revenue Sharing Relativities – 2012 Update</i>								

The increase of \$541.7 million in 2012-13 follows an increase in Queensland's GST funding of \$141.7 million in 2011-12 and a reduction of \$19.8 million in 2010-11.

In 2012-13, Queensland's share of GST improved due to:

- Queensland's below average growth in property transfers, reducing the State's revenue raising capacity relative to other states
- below average increases in Medicare funded services in Queensland, increasing the need for state funded community and other health services.
- below average increases in Australian Government payments
- increased expenditure for natural disaster relief and recovery.

These gains were partially offset by:

- reduced requirements for investment and net lending due to lower population growth
- the large increase in total Australian mining revenue between 2007-08 and 2010-11.

Despite the increase in Queensland's estimated GST funding as a result of the CGC recommendations, it was more than offset by the impact of the downward revision of the estimated GST pool size for 2012-13 since the 2011-12 MYEFR.

Box 7.2 presents a discussion of issues from the 2012 Update.

## Box 7.2 2012 Update Issues

### Treatment of natural disasters

The CGC recognises that natural disaster relief expenses funded by states affect their fiscal capacities. States that experience significant events, such as the 2010-11 Queensland floods and Cyclone Yasi, and thus incur higher than average expenditure for natural disaster relief, are assessed as requiring a greater share of GST. The assessment also takes into account the impact of insurance premiums and receipts on states' expenses.

Queensland supports the CGC's current assessment of natural disaster relief expenses, which recognises that the National Disaster Relief and Recovery Arrangements provide states with a common framework for the reporting of natural disaster expenses, and that expenses reported under this framework are due to circumstances beyond states' control.

In the 2012 Update, Queensland's GST share was increased by \$70 million in recognition of additional expenses associated with natural disaster relief and recovery.

### Treatment of iron ore fines

In 2010-11, Western Australia, the majority producer of iron ore fines, removed some concessions on the mineral. Subsequent royalty rate increases announced by Western Australia will increase the royalty rate for iron ore fines to align with that of lump iron ore.

These changes increase the average national royalty rate for iron ore fines above the 5% threshold for low royalty rate minerals set by the CGC. Under the current methodology for the assessment of mining revenue, Western Australia would lose far more revenue from the GST distribution than raised from the increases in royalties. For the past two years, a terms of reference directive has been provided to the CGC for iron ore fines to continue to be assessed as a low royalty rate mineral. However, in the absence of future terms of reference directives, Western Australia may indeed lose more revenue from the GST distribution than it will collect from increases in royalties.

This highlights one of the critical issues with the mining assessment, that the current design of the assessment has the potential to influence the policy choices of states.

### Mining assessment distribution

Mining revenue comprises around 9% of all state revenue in aggregate, yet represents 85% 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 were offset by the CGC's redistribution in the 2012 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 transfer duty on conveyances and payroll tax, are more important sources of state revenue.

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	AUST <sup>3</sup>
<b>Mining revenue<sup>1</sup>(\$M)</b>	1,168	50	2,692	3,866	145	39	..	183	8,143
<b>2011-12 GST redistribution<sup>2</sup>(\$M)</b>	1,640	2,300	(1,316)	(3,364)	458	159	155	(32)	4,711
<b>Net mining revenue<sup>3</sup>(\$M)</b>	2,808	2,349	1,376	503	602	198	155	151	
<b>Net mining revenue<sup>4</sup>(\$ per capita)</b>	392	429	309	222	369	393	437	667	

1. Average mining revenue from 2008-09 to 2010-11.

2. Redistribution for mining revenue based on average assessed revenue raising capacity from 2008-09 to 2010-11.

3. Numbers may not add due to rounding.

4. Calculated using the average population from 2008-09 to 2010-11.

Sources: Queensland Treasury and Trade, CGC Report on GST Revenue Sharing Relativities – 2012 Update

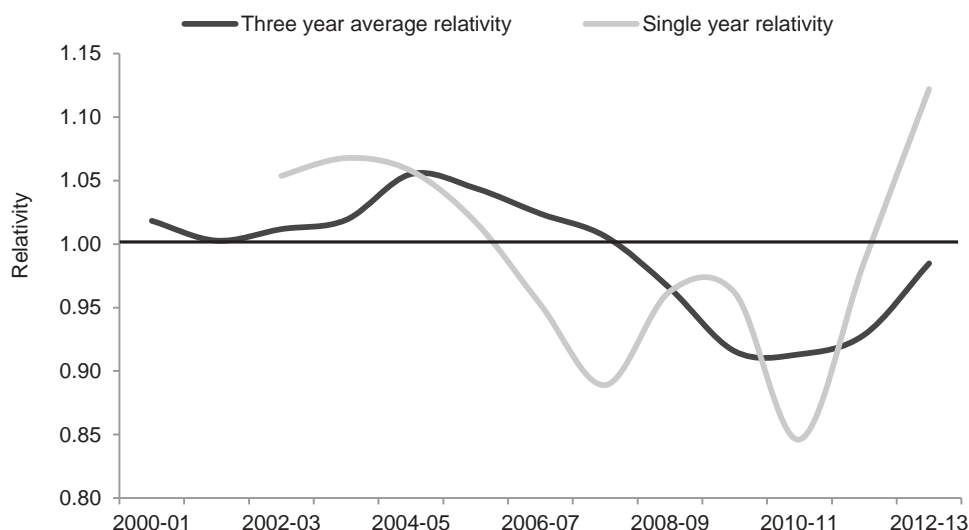
Queensland's GST share over time demonstrates an intended consequence of the CGC's methodology for distributing the GST. When the relative economic strength of a state changes, so too does its assessed share of GST funding. Since 2008-09, Queensland has received less than a population share of GST revenue due to its relative economic strength, particularly its capacity to raise revenue from mining royalties.

In the 2012 Update, Queensland's single year relativity was above 1.0, that is, Queensland was assessed as having a lower than average fiscal capacity and requiring a greater than population share of GST. This was partly due to weaker growth relative to other states in Queensland's revenue raising capacity, but also to other short term factors, such as natural disaster relief and recovery expenses and a reduced share of Australian Government payments.

To determine the GST share of each state, the CGC uses a three year average of single year relativities. This dampens the impact of single year relativity changes so that states' GST shares are more predictable and stable. On a three year average basis, Queensland's relativity remains below 1.0, meaning that Queensland will receive a less than population share of GST in 2012-13.

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

**Chart 7.6**  
**Queensland's GST Relativity, 2000-01 to 2012-13**

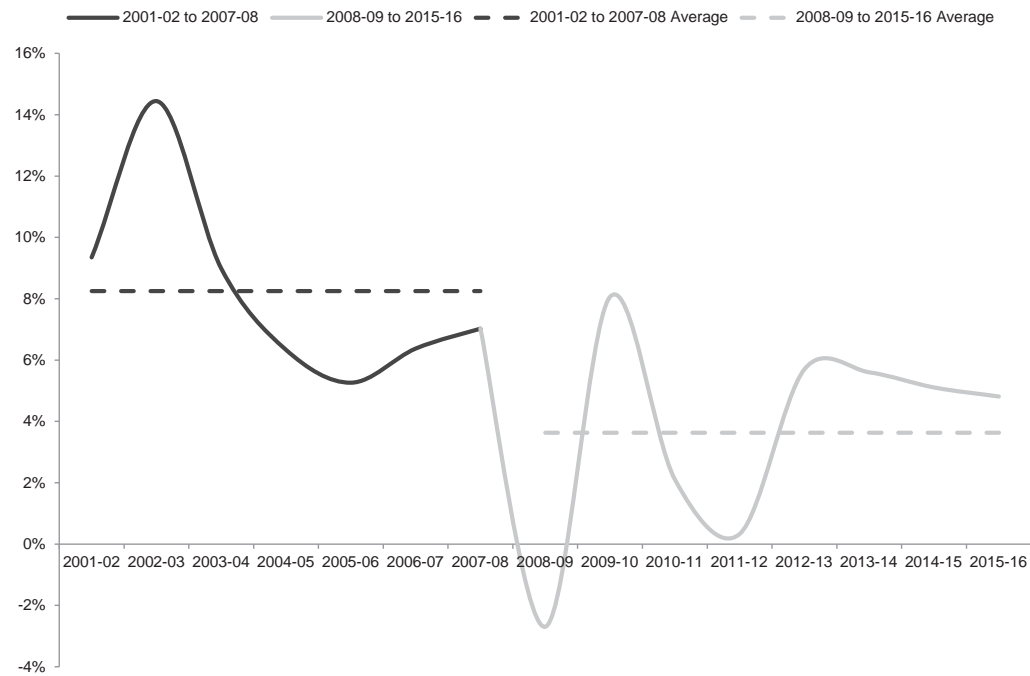


Sources: Report on GST Revenue Sharing Relativities – 2012 Update, Queensland Treasury and Trade

# GST revenue trends

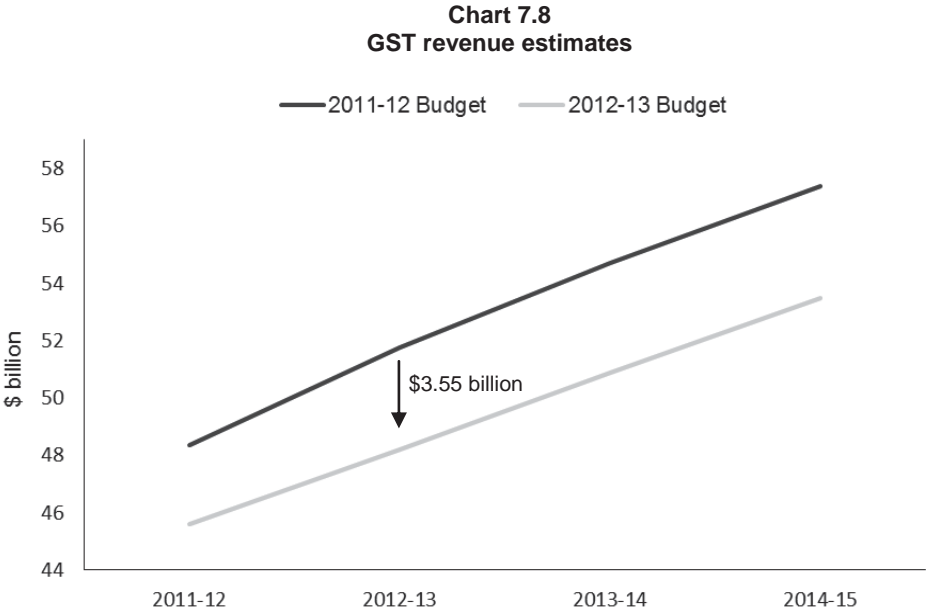
Because expenditure on GST taxable items has fallen as a proportion of consumption expenditure and consumption has fallen as a proportion of gross domestic product (GDP), the ratio of GST to nominal GDP has been in decline. As a result, the GST pool is proving not to be the ‘growth tax’ originally envisaged. Total GST revenue to all states increased by 0.3% between 2010-11 and 2011-12, with growth expected to increase to 5.7% in 2012-13. The growth rate is then expected to slow to an average annual of 5.2% over the forward estimates from 2013-14 to 2015-16. As shown in Chart 7.7, the average growth rate in the GST pool from 2008-09 to 2015-16 is expected to be 3.6%, far below the 8.3% average annual growth rate between the introduction of the GST in 2000-01 and 2007-08.

**Chart 7.7**  
**GST revenue, annual growth rate 2001-02 to 2015-16**



Sources: Australian Government Budget Papers and Queensland Treasury and Trade

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 2011-12 Budget, and this is continuing to have a negative impact on state budgets through downward revisions to estimates of GST collections, as shown in Chart 7.8.



Sources: Australian Government Budget Paper No.3, 2011-12 and 2012-13

Protection of the GST base has emerged as an important issue in the context of states sharing a pool of GST funds which is growing at rates significantly lower than expected.

The Independent Commission of Audit Interim Report documented a number of instances in which court decisions and less than timely responses by the Australian Government have eroded the pool of GST available to the states. This in turn reduces the capacity of states to provide important services to the community.

## STATE-LOCAL GOVERNMENT FINANCIAL RELATIONS

In 2012-13, the Queensland Government will provide a total of \$3.083 billion in grants to local governments, compared to \$1.977 billion in 2011-12. This includes financial assistance grants paid by the Australian Government through the states to local government. The increasing level of grants to local governments in 2012-13 is mainly due to the continued funding associated with reconstruction after recent natural disasters.

Table 7.5 details Queensland Government grants to local governments.

<b>Table 7.5</b> <b>Grants to local governments in Queensland<sup>1,2</sup></b>		
	2011-12 Est. Act. \$ million	2012-13 Estimate \$ million
<b>Queensland Government grants</b>		
Communities, Child Safety and Disability Services	83	73
Community Safety	13	37
Education, Training and Employment	5	3
Energy and Water Supply <sup>3</sup>	..	116
Environment and Heritage Protection	6	..
Housing and Public Works <sup>4</sup>	60	188
Local Government <sup>5</sup>	913	417
National Parks, Recreation, Sport and Racing	7	8
Health	6	5
Queensland Reconstruction Authority <sup>6</sup>	722	2,026
Science, Information Technology, Innovation and the Arts	5	4
State Development, Infrastructure and Planning	25	46
Transport and Main Roads	107	117
Other <sup>7</sup>	24	42
<b>Total Queensland Government grants</b>	<b>1,977</b>	<b>3,083</b>
Notes: 1. Includes current, capital and asset grants 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 under a new government initiative to provide rebates for water connections. 4. Increase in 2012-13 is primarily due to new remote indigenous housing initiatives. 5. Includes general purpose grants from the State and Australian Governments. The decrease from 2011-12 to 2012-13 is primarily due to an advance payment made in June 2012 of 2012-13 Financial Assistance Grants to local governments. 6. Increase in grants in 2012-13 represents continuing funding for natural disaster reconstruction. 7. Includes grants yet unallocated to government agencies.		



## 8 PUBLIC NON-FINANCIAL CORPORATIONS SECTOR

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### FEATURES

- **In 2012-13 Public Non-financial Corporations will drive efficiencies across all activities and cut unnecessary expenditure in order to positively impact the cost of delivering services and the cost of living and doing business in Queensland.**
- **In 2012-13 the Queensland Government will merge the three bulk water entities (Seqwater, LinkWater and the SEQ Water Grid Manager) into a single bulk water business servicing the SEQ region.**

Public Non-financial Corporations operate across a range of industries including energy, rail, port and water delivery services. They include government entities declared by regulation to be Government-owned corporations (GOCs) under the *Government Owned Corporations Act 1993* (excluding Queensland Investment Corporation Limited) and water entities established under the *South East Queensland Water (Restructuring) Act 2007*.

The Queensland Government is committed to refocusing the Public Non-financial Corporations (PNFC) sector on driving value for money for Queensland taxpayers, improving accountability and enhancing the delivery of essential services.

In addition, the future capital and debt required by the PNFC sector to grow operations needs to be effectively managed so as not to tie up valuable and scarce capital that could be directed elsewhere.

The Queensland Government has challenged Public Non-financial Corporations to drive efficiencies across all activities and cut unnecessary expenditure. The efficiencies being captured by this process will positively impact the cost of delivering services and the cost of living and doing business in Queensland.

Public Non-financial Corporations have forecast a reduction to capital expenditure across the sector from that forecast in the 2011-12 Mid Year Fiscal and Economic Review. This reflects lower electricity demand growth, reducing electricity network supply requirements and revised delivery and financing solutions for major projects to minimise and where possible reduce overall Public Non-financial Corporation debt. An example of an alternative delivery and financing solution for a project that traditionally would have been delivered by a Public Non-financial Corporation and increased overall Public Non-financial Corporation debt, is the private sector delivery of the Wiggins Island Coal Export Terminal located at the Port of Gladstone. This major piece of export infrastructure is owned and being developed by existing and potential coal customers.

The Public Non-financial Corporations sector provides valuable services to the tourism, agriculture and mining industries and continued investment by the sector is vital to the future expansion of these industries. The Queensland Government remains committed and willing to invest in infrastructure to drive future economic development, when appropriate. Significant investment continues to be made in the electricity network to provide for expansion in the mining and resources industry. In addition, further investment in port and water infrastructure will assist the development of tourism and agriculture in regional Queensland.

The South East Queensland (SEQ) urban water sector has been through a significant program of structural and regulatory change over the last five years. In addition to a significant, accelerated capital program and demand side policy measures, the previous Government's response to drought conditions from 2004 to 2007 included extensive changes to the institutional and planning framework.

In line with its commitment to reduce the cost of bulk water supply in SEQ, the Government has initiated a process to merge the three bulk water entities (Seqwater, LinkWater and the SEQ Water Grid Manager) into a single bulk water business servicing the SEQ region. Whilst a program to commence the merger process has been initiated, the Government has yet to resolve some key decisions on the future institutional structure and bulk water prices. Accordingly, the 2012-13 Budget estimates have been prepared on a business as usual basis.

The focus of the new bulk water supply entity will be on cost containment, including identifying opportunities to reduce duplication of functions and driving operating and capital cost efficiencies.

## FINANCES AND PERFORMANCE

### Earnings before interest and tax

Total forecast PNFC sector earnings before interest and tax for the 2012-13 period is \$3.1 billion (Table 8.1).

<b>Table 8.1</b> <b>Earnings before interest and tax<sup>1</sup></b>		
	2011-12 Est. Act. \$ million	2012-13 Budget \$ million
Energy Sector	2,202	2,380
Transport Sector	339	456
Other	214	284
<b>Total PNFC sector Earnings Before Interest and Tax</b>	<b>2,756</b>	<b>3,120</b>
Note: 1. Numbers may not add due to rounding.		

### ***Energy sector***

The Queensland Electricity Transmission Corporation Limited (Powerlink) final regulatory determination for the 2012-13 to 2016-17 regulatory control period was delivered by the Australian Energy Regulator on 30 April 2012. The regulatory determination took effect from 1 July 2012. The regulatory determination provides a total maximum allowed revenue of \$4.679 billion over five years based on an approved Weighted Average Cost of Capital rate of 8.61%. Despite a lower than anticipated maximum allowed revenue from the Australian Energy Regulator, Powerlink continues to see revenue growth as a result of the expansion of its regulated network and growth in revenue earned from unregulated works.

Across the Queensland Electricity Market there is a significant oversupply in generation capacity. In the 2011-12 financial year, average reserve capacity (defined as supply less demand) was approximately 4,500 megawatts, which equates to approximately 43% of average available Queensland generation capacity. This is despite the fact that Queensland exports significant amounts of electricity to New South Wales (on average around 9% of electricity generated in Queensland). This has resulted in low pool prices which are impacting on the financial position of the Government owned generators. The electricity market is also being impacted by ongoing uncertainty regarding the permanency of the carbon tax.

Government has committed to ensuring that the residential Tariff 11 for 2012-13 remains at the level charged for the 2011-12 year plus the cost of carbon. To enact the freeze in the SEQ region, a direction was issued under Section 115 of the *Government Owned Corporations Act 1993*, for Energex Limited (Energex) to charge electricity retailers an amended fixed network charge in 2012-13.

The electricity GOCs are also working closely with the Government in responding to investigations being undertaken by the Inter Departmental Committee (IDC) on Electricity Sector Reform. The objectives of the IDC are to ensure electricity in Queensland is delivered in a cost effective manner for consumers, Queensland has a viable, sustainable and competitive electricity industry and electricity is delivered in a financially sustainable manner from the Queensland Government's perspective. The recommendations of the IDC, which will be known in January 2013, may have an impact on the electricity GOC sector.

### ***Transport sector***

Queensland Rail Limited is a provider of rail transport services which are predominantly supported by the Government through the provision of community service obligation (CSO) payments. In providing these services, Queensland Rail maintains a focus on efficient and effective delivery in order to improve its performance and reduce the overall cost of transport services. Further to this, the Government has established an IDC to undertake a broad review of rail transport delivery arrangements and funding with a view to reducing the overall cost of services while maintaining and improving service standards.

Recent and proposed developments of coal and liquefied natural gas (LNG) projects are expected to create significant expansion of port related facilities in coming years. The growth in bulk port activity will improve the financial returns from the port entities through improved asset utilisation.

### ***Other***

The SunWater Limited (SunWater) 2012-17 irrigation price path was recommended in May 2012 by the Queensland Competition Authority and subsequently adopted by the Government. This is the first time SunWater's irrigation prices have been subject to independent price regulation. The price path is based on the efficient operating, maintenance and renewal costs for the delivery of water in irrigation schemes, and sets the parameters for moving towards the full recovery of efficient costs in those schemes where prices are currently below cost.

## ***South East Queensland bulk water sector***

On 26 June 2012, the Minister for Energy and Water Supply announced the Government's intention to undertake further structural consolidation of the SEQ bulk water industry, including the merger of the three SEQ bulk water entities and the abolition of the Queensland Water Commission.

The amalgamation of the bulk water entities is a significant undertaking, involving businesses with total assets worth over \$9 billion, around 700 staff and responsibility for supplying drinking water to around 3 million people across SEQ. Given the scale and complexity of the merger, Government is reviewing the legislative model to facilitate the merger.

The Government's intention is to give effect to the structural reforms through amendments to the *South East Queensland Water (Restructuring) Act 2007* and other legislation, expected to be introduced into Parliament in late 2012.

Specifically, the businesses of LinkWater, Seqwater and the SEQ Water Grid Manager are expected to be aggregated into a single bulk water business by 1 January 2013.

Whilst a program to commence the merger process has been initiated, the Government has yet to resolve some key decisions on the future institutional structure and bulk water prices.

Accordingly, the 2012-13 Budget estimates have been prepared on a business as usual basis.

As part of its Interim Report of June 2012, the Independent Commission of Audit recommended a more comprehensive review of bulk water costs and prices and the treatment of debt over the next twelve months.

## **Borrowings**

Public Non-financial Corporations utilise debt financing as a source of funds for capital investments and to maintain an optimum capital structure.

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

Total forecast Public Non-financial Corporation sector borrowing at 30 June-2013 are \$32.4 billion (Table 8.2).

<b>Table 8.2 Borrowing<sup>1</sup></b>		
	2011-12 Est. Act. \$ million	2012-13 Budget \$ million
Energy Sector	16,455	17,807
Transport Sector	3,677	3,876
Other	12,523	10,726
<b>Total PNFC sector non-current borrowings</b>	<b>32,656</b>	<b>32,409</b>
Note: 1. Numbers may not add due to rounding.		

## Returns to Government

The Public Non-financial Corporations sector entities provide returns to Government by way of dividends and current tax equivalent payments.

### **Dividends**

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

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

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

Total dividends declared in 2012-13 are estimated at \$971 million (Table 8.3).

<b>Table 8.3</b> <b>Ordinary dividends<sup>1,2</sup></b>		
	2011-12 Est. Act. \$ million	2012-13 Budget \$ million
Energy Sector	689	727
Transport Sector	146	207
Other	22	36
<b>Total PNFC sector dividends</b>	<b>857</b>	<b>971</b>
Notes:		
1. Numbers may not add due to rounding.		
2. Represents dividends declared in the period.		

### ***Tax equivalent payments***

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

Total current Tax Equivalent Payments for 2012-13 are estimated at \$343 million (Table 8.4).

<b>Table 8.4</b> <b>Current tax equivalent payments<sup>1</sup></b>		
	2011-12 Est. Act. \$ million	2012-13 Budget \$ million
Energy Sector	155	211
Transport Sector	94	109
Other	18	23
<b>Total PNFC sector current TEPs</b>	<b>267</b>	<b>343</b>
Note:		
1. Numbers may not add due to rounding.		

## Community service obligation payments

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

In 2012-13, it is estimated that the Government will provide CSO payments to Public Non-financial Corporations of \$2.1 billion (Table 8.5).

<b>Table 8.5</b> <b>Community service obligation payments<sup>1</sup></b>		
	2011-12 Est. Act. \$ million	2012-13 Budget \$ million
Energy Sector	422	662
Transport Sector	1,353	1,419
Other	17	15
<b>Total PNFC sector CSOs</b>	<b>1,791</b>	<b>2,097</b>
Note: 1. Numbers may not add due to rounding.		

On 28 June 2012, shareholding Ministers directed Energex to charge a network tariff (fixed component) lower than that approved by the Australian Energy Regulator. This ensured the electricity retailers were compensated for the lower retail tariff set by the Minister for Energy and Water Supply in accordance with the Government's commitment on cost of living pressures. The Queensland Government agreed to provide a CSO payment to compensate Energex for the revenue foregone.

In line with the Government's uniform tariff policy, a CSO payment is provided to Ergon as the cost of supplying regional customers is significantly higher than the revenue received from uniform tariff prices. This subsidy is a key part of the uniform tariff policy and is provided to ensure all Queenslanders, regardless of their geographic location, pay a reasonable price for their electricity.

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

Seqwater also receives a CSO from the Government for the provision of rural irrigation water to rural irrigators.



The Government compensates Queensland Rail for the provision of non-commercial rail passenger and infrastructure services for the passenger and tourism markets.

## Equity contributions

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

Estimated equity contributions for Public Non-financial Corporations in 2012-13 are identified in the table below (Table 8.6).

<b>Table 8.6 Equity contributions<sup>1</sup></b>			
	2010-11 Actual \$ million	2011-12 Est. Act. \$ million	2012-13 Budget \$ million
Energy Sector	..	300	..
Transport Sector	325	255	281
Other	185	1	..
<b>Total Equity Contributions</b>	<b>510</b>	<b>556</b>	<b>281</b>
Note: 1. Numbers may not add due to rounding.			



## 9 UNIFORM PRESENTATION FRAMEWORK

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### INTRODUCTION

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

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

In addition, the chapter provides:

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

### UNIFORM PRESENTATION FRAMEWORK FINANCIAL INFORMATION

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

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

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

	2011-12 Budget \$ million	2011-12 Est.Actual \$ million	2012-13 Budget \$ million	2013-14 Projection \$ million	2014-15 Projection \$ million	2015-16 Projection \$ million
<b>Revenue from Transactions</b>						
Taxation revenue	10,527	10,583	11,013	11,778	12,567	13,493
Grants revenue	20,262	22,606	18,598	22,162	23,794	23,580
Sales of goods and services	4,559	4,971	4,966	5,128	5,316	5,531
Interest income	2,477	2,475	2,582	2,662	2,733	2,799
Dividend and income tax equivalent income	1,047	1,157	1,355	1,669	2,269	2,235
Other revenue	4,134	3,915	3,711	4,568	4,968	5,325
<b>Total Revenue from Transactions</b>	<b>43,007</b>	<b>45,707</b>	<b>42,224</b>	<b>47,967</b>	<b>51,646</b>	<b>52,963</b>
<i>Less</i> <b>Expenses from Transactions</b>						
Employee expenses	17,932	18,248	18,885	18,489	19,391	20,220
Superannuation expenses						
Superannuation interest cost	1,201	1,221	1,235	1,324	1,325	1,317
Other superannuation expenses	2,212	2,331	2,301	2,314	2,380	2,442
Other operating expenses	9,597	8,909	9,383	9,128	9,386	9,829
Depreciation and amortisation	2,872	2,765	3,086	3,299	3,453	3,504
Other interest expenses	1,747	1,622	1,916	2,294	2,415	2,449
Grants expenses	11,504	10,925	11,713	11,103	10,426	10,961
<b>Total Expenses from Transactions</b>	<b>47,065</b>	<b>46,021</b>	<b>48,518</b>	<b>47,950</b>	<b>48,776</b>	<b>50,722</b>
<i>Equals</i> <b>Net Operating Balance</b>	<b>(4,058)</b>	<b>(314)</b>	<b>(6,294)</b>	<b>17</b>	<b>2,871</b>	<b>2,241</b>
<i>Plus</i> Other economic flows - included in operating result	(97)	(435)	282	(44)	(225)	(153)
<i>Equals</i> <b>Operating Result</b>	<b>(4,155)</b>	<b>(749)</b>	<b>(6,012)</b>	<b>(28)</b>	<b>2,646</b>	<b>2,088</b>
<i>Plus</i> Other economic flows - other movements in equity	3,211	(2,641)	544	1,146	1,580	1,736
<i>Equals</i> <b>Comprehensive Result - Total Change In Net Worth</b>	<b>(943)</b>	<b>(3,390)</b>	<b>(5,468)</b>	<b>1,119</b>	<b>4,226</b>	<b>3,823</b>
<b>KEY FISCAL AGGREGATES</b>						
<b>Net Operating Balance</b>	<b>(4,058)</b>	<b>(314)</b>	<b>(6,294)</b>	<b>17</b>	<b>2,871</b>	<b>2,241</b>
<i>Less</i> <b>Net Acquisition of Non-financial Assets</b>						
Purchases of non-financial assets	7,180	8,069	7,653	7,010	5,574	4,881
<i>Less</i> Sales of non-financial assets	226	267	318	294	252	215
<i>Less</i> Depreciation	2,872	2,765	3,086	3,299	3,453	3,504
<i>Plus</i> Change in inventories	39	36	(45)	14	17	32
<i>Plus</i> Other movements in non-financial assets	213	235	270	338	333	301
<i>Equals</i> <b>Total Net Acquisition of Non-financial Assets</b>	<b>4,334</b>	<b>5,309</b>	<b>4,475</b>	<b>3,769</b>	<b>2,219</b>	<b>1,494</b>
<i>Equals</i> <b>Net Lending / (Borrowing)</b>	<b>(8,392)</b>	<b>(5,623)</b>	<b>(10,768)</b>	<b>(3,752)</b>	<b>652</b>	<b>747</b>
Note: 1. Numbers may not add due to rounding.						

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

	2011-12 Budget \$ million	2011-12 Est.Actual \$ million	2012-13 Budget \$ million	2013-14 Projection \$ million	2014-15 Projection \$ million	2015-16 Projection \$ million
<b>Revenue from Transactions</b>						
Grants revenue	2,129	2,149	2,454	2,465	2,581	2,669
Sales of goods and services	7,406	7,352	8,200	8,667	9,150	9,645
Interest income	108	130	136	115	107	93
Dividend and income tax equivalent income	..	61	61	..	..	..
Other revenue	347	416	357	354	384	405
<b>Total Revenue from Transactions</b>	<b>9,991</b>	<b>10,108</b>	<b>11,209</b>	<b>11,602</b>	<b>12,222</b>	<b>12,813</b>
<b>Less Expenses from Transactions</b>						
Employee expenses	1,637	1,776	1,763	1,725	1,770	1,843
Superannuation expenses						
Superannuation interest cost	..	..	..	..	..	..
Other superannuation expenses	211	213	215	211	217	224
Other operating expenses	3,359	3,100	3,830	3,652	3,445	3,706
Depreciation and amortisation	2,234	2,072	2,198	2,328	2,452	2,542
Other interest expenses	2,073	2,049	2,210	2,233	2,353	2,404
Grants expenses	27	16	22	17	18	19
Other property expenses	252	273	352	453	783	745
<b>Total Expenses from Transactions</b>	<b>9,793</b>	<b>9,500</b>	<b>10,590</b>	<b>10,620</b>	<b>11,038</b>	<b>11,482</b>
<b>Equals Net Operating Balance</b>	<b>198</b>	<b>608</b>	<b>619</b>	<b>981</b>	<b>1,184</b>	<b>1,331</b>
<b>Plus Other economic flows - included in operating result</b>	<b>(249)</b>	<b>(334)</b>	<b>(211)</b>	<b>(267)</b>	<b>(24)</b>	<b>(59)</b>
<b>Equals Operating Result</b>	<b>(51)</b>	<b>274</b>	<b>409</b>	<b>714</b>	<b>1,160</b>	<b>1,272</b>
<b>Plus Other economic flows - other movements in equity</b>	<b>128</b>	<b>(1,421)</b>	<b>(678)</b>	<b>(415)</b>	<b>(600)</b>	<b>(639)</b>
<b>Equals Comprehensive Result - Total Change In Net Worth</b>	<b>77</b>	<b>(1,147)</b>	<b>(269)</b>	<b>299</b>	<b>560</b>	<b>634</b>
<b>KEY FISCAL AGGREGATES</b>						
<b>Net Operating Balance</b>	<b>198</b>	<b>608</b>	<b>619</b>	<b>981</b>	<b>1,184</b>	<b>1,331</b>
<b>Less Net Acquisition of Non-financial Assets</b>						
Purchases of non-financial assets	5,134	3,961	4,690	4,314	4,070	3,896
Less Sales of non-financial assets	88	177	18	11	9	7
Less Depreciation	2,234	2,072	2,198	2,328	2,452	2,542
Plus Change in inventories	5	53	21	(1)	18	19
Plus Other movements in non-financial assets	43	40	(5)	..	..	..
<b>Equals Total Net Acquisition of Non-financial Assets</b>	<b>2,861</b>	<b>1,806</b>	<b>2,490</b>	<b>1,974</b>	<b>1,627</b>	<b>1,366</b>
<b>Equals Net Lending / (Borrowing)</b>	<b>(2,663)</b>	<b>(1,198)</b>	<b>(1,870)</b>	<b>(993)</b>	<b>(443)</b>	<b>(36)</b>
Note: 1. Numbers may not add due to rounding.						

**Table 9.3**  
**Non-financial Public Sector Operating Statement<sup>1</sup>**

	2011-12 Budget \$ million	2011-12 Est.Actual \$ million	2012-13 Budget \$ million	2013-14 Projection \$ million	2014-15 Projection \$ million	2015-16 Projection \$ million
<b>Revenue from Transactions</b>						
Taxation revenue	10,202	10,281	10,662	11,420	12,189	13,080
Grants revenue	20,411	22,798	18,793	22,369	24,010	23,759
Sales of goods and services	11,605	12,070	12,911	13,528	14,172	14,875
Interest income	2,586	2,605	2,718	2,777	2,841	2,893
Dividend and income tax equivalent income	16	94	102	64	75	73
Other revenue	4,481	4,329	4,063	4,922	5,352	5,731
<b>Total Revenue from Transactions</b>	<b>49,300</b>	<b>52,178</b>	<b>49,248</b>	<b>55,081</b>	<b>58,639</b>	<b>60,410</b>
<i>Less</i> <b>Expenses from Transactions</b>						
Employee expenses	19,480	19,936	20,557	20,125	21,069	21,967
Superannuation expenses						
Superannuation interest cost	1,201	1,221	1,235	1,324	1,325	1,317
Other superannuation expenses	2,423	2,544	2,515	2,525	2,597	2,666
Other operating expenses	12,596	11,753	12,957	12,512	12,537	13,233
Depreciation and amortisation	5,106	4,837	5,284	5,627	5,906	6,046
Other interest expenses	3,586	3,466	3,875	4,268	4,492	4,545
Grants expenses	9,551	8,985	9,470	8,862	8,079	8,489
<b>Total Expenses from Transactions</b>	<b>53,942</b>	<b>52,741</b>	<b>55,893</b>	<b>55,243</b>	<b>56,004</b>	<b>58,265</b>
<i>Equals</i> <b>Net Operating Balance</b>	<b>(4,642)</b>	<b>(563)</b>	<b>(6,645)</b>	<b>(162)</b>	<b>2,635</b>	<b>2,145</b>
<i>Plus</i> Other economic flows - included in operating result	(346)	(851)	(289)	(312)	(248)	(212)
<i>Equals</i> <b>Operating Result</b>	<b>(4,988)</b>	<b>(1,414)</b>	<b>(6,934)</b>	<b>(474)</b>	<b>2,387</b>	<b>1,933</b>
<i>Plus</i> Other economic flows - other movements in equity	4,045	(2,011)	1,466	1,593	1,839	1,890
<i>Equals</i> <b>Comprehensive Result - Total Change In Net Worth</b>	<b>(943)</b>	<b>(3,425)</b>	<b>(5,468)</b>	<b>1,119</b>	<b>4,226</b>	<b>3,823</b>
<b>KEY FISCAL AGGREGATES</b>						
<b>Net Operating Balance</b>	<b>(4,642)</b>	<b>(563)</b>	<b>(6,645)</b>	<b>(162)</b>	<b>2,635</b>	<b>2,145</b>
<i>Less</i> <b>Net Acquisition of Non-financial Assets</b>						
Purchases of non-financial assets	12,313	12,030	12,343	11,324	9,644	8,777
<i>Less</i> Sales of non-financial assets	313	444	336	305	261	222
<i>Less</i> Depreciation	5,106	4,837	5,284	5,627	5,906	6,046
<i>Plus</i> Change in inventories	44	89	(24)	13	35	51
<i>Plus</i> Other movements in non-financial assets	256	276	265	338	333	301
<i>Equals</i> <b>Total Net Acquisition of Non-financial Assets</b>	<b>7,194</b>	<b>7,114</b>	<b>6,965</b>	<b>5,743</b>	<b>3,845</b>	<b>2,861</b>
<i>Equals</i> <b>Net Lending / (Borrowing)</b>	<b>(11,837)</b>	<b>(7,677)</b>	<b>(13,610)</b>	<b>(5,906)</b>	<b>(1,210)</b>	<b>(715)</b>
Note:						
1. Numbers may not add due to rounding.						

**Table 9.4**  
**General Government Sector Balance Sheet <sup>1</sup>**

	2011-12 Budget	2011-12 Est.Actual	2012-13 Budget	2013-14 Projection	2014-15 Projection	2015-16 Projection
	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million
<b>Assets</b>						
<b>Financial Assets</b>						
Cash and deposits	353	902	637	608	616	621
Advances paid	1,011	569	607	619	641	661
Investments, loans and placements	34,088	34,218	35,185	36,245	37,239	38,167
Receivables	3,864	3,890	3,988	4,210	4,912	5,070
Equity						
Investments in other public sector entities	18,985	17,226	16,956	17,255	17,815	18,448
Investments - other	119	121	151	151	151	151
Other financial assets						
<b>Total Financial Assets</b>	<b>58,420</b>	<b>56,926</b>	<b>57,523</b>	<b>59,088</b>	<b>61,373</b>	<b>63,118</b>
<b>Non-financial Assets</b>						
Land and other fixed assets	183,708	174,426	179,169	183,260	186,225	188,496
Other non-financial assets	5,907	5,908	6,151	6,582	6,817	7,105
<b>Total Non-financial Assets</b>	<b>189,616</b>	<b>180,333</b>	<b>185,320</b>	<b>189,843</b>	<b>193,042</b>	<b>195,601</b>
<b>Total Assets</b>	<b>248,035</b>	<b>237,259</b>	<b>242,843</b>	<b>248,930</b>	<b>254,414</b>	<b>258,719</b>
<b>Liabilities</b>						
Payables	3,218	3,818	3,295	3,361	3,480	3,580
Superannuation liability	25,764	25,461	25,721	25,893	25,918	25,781
Other employee benefits	4,908	4,911	4,983	5,357	5,723	6,107
Deposits held	..	19	19	19	19	19
Advances received	740	270	220	197	175	154
Borrowing	33,185	30,017	41,309	45,535	46,166	46,211
Other liabilities	3,198	3,495	3,496	3,648	3,787	3,900
<b>Total Liabilities</b>	<b>71,013</b>	<b>67,991</b>	<b>79,043</b>	<b>84,011</b>	<b>85,270</b>	<b>85,751</b>
<b>Net Worth</b>	<b>177,023</b>	<b>169,268</b>	<b>163,800</b>	<b>164,919</b>	<b>169,145</b>	<b>172,968</b>
Net Financial Worth	(12,593)	(11,065)	(21,520)	(24,924)	(23,897)	(22,633)
Net Financial Liabilities	31,578	28,291	38,476	42,179	41,712	41,081
Net Debt	(1,528)	(5,384)	5,120	8,280	7,865	6,935
Note:						
1. Numbers may not add due to rounding.						

**Table 9.5**  
**Public Non-financial Corporations Sector Balance Sheet <sup>1</sup>**

	2011-12 Budget	2011-12 Est.Actual	2012-13 Budget	2013-14 Projection	2014-15 Projection	2015-16 Projection
	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million
<b>Assets</b>						
<b>Financial Assets</b>						
Cash and deposits	1,643	2,362	2,134	2,219	2,705	2,929
Advances paid	296	269	166	156	145	133
Investments, loans and placements	376	285	160	100	92	84
Receivables	1,851	2,087	2,230	2,129	2,084	2,097
Equity						
Investments - other	104	3,002	105	105	105	105
Other financial assets						
<b>Total Financial Assets</b>	<b>4,271</b>	<b>8,005</b>	<b>4,794</b>	<b>4,709</b>	<b>5,131</b>	<b>5,349</b>
<b>Non-financial Assets</b>						
Land and other fixed assets	56,674	51,880	54,996	57,694	60,200	62,452
Other non-financial assets	1,319	1,089	1,203	1,323	1,329	1,261
<b>Total Non-financial Assets</b>	<b>57,992</b>	<b>52,969</b>	<b>56,200</b>	<b>59,016</b>	<b>61,530</b>	<b>63,713</b>
<b>Total Assets</b>	<b>62,263</b>	<b>60,973</b>	<b>60,994</b>	<b>63,726</b>	<b>66,661</b>	<b>69,062</b>
<b>Liabilities</b>						
Payables	2,035	2,230	2,471	2,508	3,157	3,181
Superannuation liability	68	(97)	(70)	(70)	(69)	(69)
Other employee benefits	690	690	712	728	744	762
Deposits held	16	22	27	30	34	37
Advances received	11	11	10	9	8	8
Borrowing	31,902	32,656	32,409	34,327	35,584	37,067
Other liabilities	7,403	6,721	6,964	7,422	7,874	8,112
<b>Total Liabilities</b>	<b>42,126</b>	<b>42,233</b>	<b>42,522</b>	<b>44,955</b>	<b>47,331</b>	<b>49,098</b>
<b>Net Worth</b>	<b>20,137</b>	<b>18,741</b>	<b>18,472</b>	<b>18,770</b>	<b>19,330</b>	<b>19,964</b>
Net Financial Worth	(37,855)	(34,228)	(37,728)	(40,246)	(42,199)	(43,749)
Net Debt	29,614	29,772	29,986	31,891	32,684	33,964

Note:

1. Numbers may not add due to rounding.



**Table 9.6**  
**Non-financial Public Sector Balance Sheet <sup>1</sup>**

	2011-12 Budget	2011-12 Est.Actual	2012-13 Budget	2013-14 Projection	2014-15 Projection	2015-16 Projection
	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million
<b>Assets</b>						
<b>Financial Assets</b>						
Cash and deposits	1,996	3,264	2,771	2,827	3,321	3,551
Advances paid	1,296	827	762	765	776	786
Investments, loans and placements	34,466	34,502	35,344	36,344	37,331	38,252
Receivables	4,565	4,706	4,802	4,782	4,859	5,028
Equity						
Investments in other public sector entities	(1,088)	(1,419)	(1,419)	(1,419)	(1,419)	(1,419)
Investments - other	222	3,028	160	160	160	160
Other financial assets						
<b>Total Financial Assets</b>	<b>41,458</b>	<b>44,908</b>	<b>42,421</b>	<b>43,460</b>	<b>45,029</b>	<b>46,357</b>
<b>Non-financial Assets</b>						
Land and other fixed assets	240,347	226,305	234,165	240,953	246,425	250,948
Other non-financial assets	791	681	692	767	748	697
<b>Total Non-financial Assets</b>	<b>241,138</b>	<b>226,985</b>	<b>234,857</b>	<b>241,721</b>	<b>247,173</b>	<b>251,645</b>
<b>Total Assets</b>	<b>282,596</b>	<b>271,894</b>	<b>277,277</b>	<b>285,181</b>	<b>292,202</b>	<b>298,002</b>
<b>Liabilities</b>						
Payables	4,123	4,816	4,389	4,351	4,539	4,661
Superannuation liability	25,832	25,364	25,651	25,824	25,849	25,712
Other employee benefits	5,598	5,602	5,695	6,086	6,466	6,869
Deposits held	16	41	47	50	53	56
Advances received	740	270	220	197	175	154
Borrowing	65,088	62,672	73,717	79,862	81,749	83,277
Other liabilities	4,176	3,861	3,758	3,893	4,225	4,304
<b>Total Liabilities</b>	<b>105,573</b>	<b>102,625</b>	<b>113,477</b>	<b>120,262</b>	<b>123,057</b>	<b>125,034</b>
<b>Net Worth</b>	<b>177,023</b>	<b>169,268</b>	<b>163,800</b>	<b>164,919</b>	<b>169,145</b>	<b>172,968</b>
Net Financial Worth	(64,115)	(57,717)	(71,056)	(76,802)	(78,028)	(78,677)
Net Financial Liabilities	63,028	56,298	69,638	75,383	76,609	77,258
Net Debt	28,085	24,389	35,106	40,172	40,549	40,899

Note:

1. Numbers may not add due to rounding.

**Table 9.7**  
**General Government Sector Cash Flow Statement<sup>1</sup>**

	2011-12	2011-12	2012-13	2013-14	2014-15	2015-16
	Budget	Est. Actual	Budget	Projection	Projection	Projection
	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million
<b>Cash Receipts from Operating Activities</b>						
Taxes received	10,526	10,615	11,012	11,777	12,566	13,492
Grants and subsidies received	20,275	22,718	18,628	22,185	23,814	23,600
Sales of goods and services	5,161	5,163	5,484	5,537	5,716	5,931
Interest receipts	2,477	2,481	2,585	2,663	2,733	2,800
Dividends and income tax equivalents	1,201	1,092	1,357	1,520	1,672	2,220
Other receipts	6,028	6,078	5,307	5,919	6,342	6,657
<b>Total Operating Receipts</b>	<b>45,668</b>	<b>48,148</b>	<b>44,372</b>	<b>49,601</b>	<b>52,844</b>	<b>54,698</b>
<b>Cash Payments for Operating Activities</b>						
Payments for employees	(20,704)	(21,264)	(22,091)	(21,580)	(22,705)	(23,724)
Payments for goods and services	(11,673)	(10,748)	(11,100)	(10,492)	(10,722)	(11,193)
Grants and subsidies	(11,482)	(10,962)	(11,630)	(11,049)	(10,350)	(10,885)
Interest paid	(1,747)	(1,630)	(1,905)	(2,300)	(2,423)	(2,457)
Other payments	(1,023)	(577)	(988)	(719)	(732)	(744)
<b>Total Operating Payments</b>	<b>(46,629)</b>	<b>(45,181)</b>	<b>(47,714)</b>	<b>(46,140)</b>	<b>(46,932)</b>	<b>(49,003)</b>
<b>Net Cash Inflows from Operating Activities</b>	<b>(961)</b>	<b>2,967</b>	<b>(3,341)</b>	<b>3,460</b>	<b>5,912</b>	<b>5,695</b>
<b>Cash Flows from Investments in Non-Financial Assets</b>						
Purchases of non-financial assets	(7,180)	(8,069)	(7,653)	(7,010)	(5,574)	(4,881)
Sales of non-financial assets	226	267	318	294	252	215
<b>Net Cash Flows from Investments in Non-financial Assets</b>	<b>(6,954)</b>	<b>(7,802)</b>	<b>(7,335)</b>	<b>(6,715)</b>	<b>(5,322)</b>	<b>(4,666)</b>
<b>Net Cash Flows from Investments in Financial Assets for Policy Purposes</b>	<b>(484)</b>	<b>1,271</b>	<b>172</b>	<b>(179)</b>	<b>(168)</b>	<b>(102)</b>
<b>Net Cash Flows from Investments in Financial Assets for Liquidity Purposes</b>	<b>(1,045)</b>	<b>(872)</b>	<b>(954)</b>	<b>(1,046)</b>	<b>(983)</b>	<b>(907)</b>
<b>Receipts from Financing Activities</b>						
Advances received (net)	221	(174)	(50)	(26)	(25)	(24)
Borrowing (net)	8,931	6,305	11,244	4,479	596	11
Deposits received (net)	..	12	..	..	..	..
Other financing (net)	..	(5)	..	..	..	..
<b>Net Cash Flows from Financing Activities</b>	<b>9,152</b>	<b>6,138</b>	<b>11,194</b>	<b>4,453</b>	<b>572</b>	<b>(13)</b>
<b>Net Increase/(Decrease) in Cash held</b>	<b>(293)</b>	<b>1,702</b>	<b>(263)</b>	<b>(27)</b>	<b>10</b>	<b>8</b>
Net cash from operating activities	(961)	2,967	(3,341)	3,460	5,912	5,695
Net cash flows from investments in non-financial assets	(6,954)	(7,802)	(7,335)	(6,715)	(5,322)	(4,666)
<b>Surplus/(Deficit)</b>	<b>(7,915)</b>	<b>(4,836)</b>	<b>(10,676)</b>	<b>(3,255)</b>	<b>590</b>	<b>1,030</b>
<b>Derivation of ABS GFS Cash Surplus/Deficit</b>						
Cash surplus/(deficit)	(7,915)	(4,836)	(10,676)	(3,255)	590	1,030
Acquisitions under finance leases and similar arrangements	(67)	(67)	(128)	(159)	(152)	(120)
<b>ABS GFS Cash Surplus/(Deficit) Including Finance Leases and Similar Arrangements</b>	<b>(7,982)</b>	<b>(4,902)</b>	<b>(10,804)</b>	<b>(3,414)</b>	<b>438</b>	<b>909</b>
Note: 1. Numbers may not add due to rounding.						

**Table 9.8**  
**Public Non-financial Corporations Sector Cash Flow Statement <sup>1</sup>**

	2011-12 Budget \$ million	2011-12 Est.Actual \$ million	2012-13 Budget \$ million	2013-14 Projection \$ million	2014-15 Projection \$ million	2015-16 Projection \$ million
<b>Cash Receipts from Operating Activities</b>						
Grants and subsidies received	2,114	2,253	2,421	2,439	2,573	2,673
Sales of goods and services	8,141	7,709	8,813	9,172	9,733	10,099
Interest receipts	108	130	136	115	107	93
Dividends and income tax equivalents	..	61	61	..	..	..
Other receipts	999	215	213	502	558	441
<b>Total Operating Receipts</b>	<b>11,363</b>	<b>10,368</b>	<b>11,644</b>	<b>12,228</b>	<b>12,972</b>	<b>13,305</b>
<b>Cash Payments for Operating Activities</b>						
Payments for employees	(1,846)	(1,999)	(1,930)	(1,921)	(1,971)	(2,048)
Payments for goods and services	(4,035)	(3,093)	(4,034)	(3,826)	(3,386)	(3,644)
Grants and subsidies	(24)	(13)	(14)	(14)	(15)	(16)
Interest paid	(1,986)	(1,804)	(1,996)	(2,103)	(2,197)	(2,223)
Other payments	(1,301)	(858)	(881)	(963)	(989)	(1,308)
<b>Total Operating Payments</b>	<b>(9,192)</b>	<b>(7,767)</b>	<b>(8,854)</b>	<b>(8,828)</b>	<b>(8,559)</b>	<b>(9,240)</b>
<b>Net Cash Inflows from Operating Activities</b>	<b>2,171</b>	<b>2,601</b>	<b>2,790</b>	<b>3,401</b>	<b>4,413</b>	<b>4,065</b>
<b>Cash Flows from Investments in Non-Financial Assets</b>						
Purchases of non-financial assets	(5,134)	(3,961)	(4,690)	(4,314)	(4,070)	(3,896)
Sales of non-financial assets	88	177	18	11	9	7
<b>Net Cash Flows from Investments in Non-financial Assets</b>	<b>(5,046)</b>	<b>(3,784)</b>	<b>(4,673)</b>	<b>(4,303)</b>	<b>(4,061)</b>	<b>(3,890)</b>
<b>Net Cash Flows from Investments in Financial Assets for Policy Purposes</b>	<b>156</b>	<b>110</b>	<b>3,043</b>	<b>..</b>	<b>..</b>	<b>..</b>
<b>Net Cash Flows from Investments in Financial Assets for Liquidity Purposes</b>	<b>23</b>	<b>(4)</b>	<b>..</b>	<b>..</b>	<b>..</b>	<b>..</b>
<b>Receipts from Financing Activities</b>						
Borrowing (net)	2,958	1,306	(350)	1,802	1,118	1,359
Dividends paid	(918)	(753)	(839)	(997)	(1,156)	(1,414)
Deposits received (net)	..	2	6	3	3	3
Other financing (net)	452	(1,257)	(205)	180	168	100
<b>Net Cash Flows from Financing Activities</b>	<b>2,492</b>	<b>(703)</b>	<b>(1,388)</b>	<b>988</b>	<b>134</b>	<b>49</b>
<b>Net Increase/(Decrease) in Cash held</b>	<b>(204)</b>	<b>(1,780)</b>	<b>(228)</b>	<b>85</b>	<b>485</b>	<b>224</b>
Net cash from operating activities	2,171	2,601	2,790	3,401	4,413	4,065
Net cash flows from investments in non-financial assets	(5,046)	(3,784)	(4,673)	(4,303)	(4,061)	(3,890)
Dividends paid	(918)	(753)	(839)	(997)	(1,156)	(1,414)
<b>Surplus/(Deficit)</b>	<b>(3,793)</b>	<b>(1,936)</b>	<b>(2,721)</b>	<b>(1,900)</b>	<b>(804)</b>	<b>(1,238)</b>
<b>Derivation of ABS GFS Cash Surplus/Deficit</b>						
Cash surplus/(deficit)	(3,793)	(1,936)	(2,721)	(1,900)	(804)	(1,238)
Acquisitions under finance leases and similar arrangements	..	..	..	..	..	..
<b>ABS GFS Cash Surplus/(Deficit) Including Finance Leases and Similar Arrangements</b>	<b>(3,793)</b>	<b>(1,936)</b>	<b>(2,721)</b>	<b>(1,900)</b>	<b>(804)</b>	<b>(1,238)</b>
Note: 1. Numbers may not add due to rounding.						

**Table 9.9**  
**Non-financial Public Sector Cash Flow Statement <sup>1</sup>**

	2011-12 Budget \$ million	2011-12 Est. Actual \$ million	2012-13 Budget \$ million	2013-14 Projection \$ million	2014-15 Projection \$ million	2015-16 Projection \$ million
<b>Cash Receipts from Operating Activities</b>						
Taxes received	10,201	10,295	10,661	11,419	12,188	13,079
Grants and subsidies received	20,413	22,918	18,789	22,379	24,017	23,766
Sales of goods and services	12,942	12,436	13,833	14,214	14,923	15,499
Interest receipts	2,586	2,611	2,720	2,778	2,841	2,893
Dividends and income tax equivalents	22	107	96	54	69	78
Other receipts	7,027	6,293	5,520	6,421	6,900	7,098
<b>Total Operating Receipts</b>	<b>53,191</b>	<b>54,661</b>	<b>51,620</b>	<b>57,265</b>	<b>60,939</b>	<b>62,412</b>
<b>Cash Payments for Operating Activities</b>						
Payments for employees	(22,461)	(23,174)	(23,930)	(23,411)	(24,584)	(25,677)
Payments for goods and services	(15,364)	(13,421)	(14,685)	(13,839)	(13,599)	(14,323)
Grants and subsidies	(9,531)	(8,924)	(9,383)	(8,818)	(7,995)	(8,395)
Interest paid	(3,500)	(3,229)	(3,651)	(4,144)	(4,345)	(4,373)
Other payments	(2,045)	(1,098)	(1,361)	(1,188)	(1,248)	(1,298)
<b>Total Operating Payments</b>	<b>(52,900)</b>	<b>(49,846)</b>	<b>(53,010)</b>	<b>(51,401)</b>	<b>(51,770)</b>	<b>(54,065)</b>
<b>Net Cash Inflows from Operating Activities</b>	<b>290</b>	<b>4,814</b>	<b>(1,390)</b>	<b>5,864</b>	<b>9,169</b>	<b>8,347</b>
<b>Cash Flows from Investments in Non-Financial Assets</b>						
Purchases of non-financial assets	(12,313)	(12,030)	(12,343)	(11,324)	(9,644)	(8,777)
Sales of non-financial assets	313	444	336	305	261	222
<b>Net Cash Flows from Investments in Non-financial Assets</b>	<b>(12,000)</b>	<b>(11,586)</b>	<b>(12,007)</b>	<b>(11,019)</b>	<b>(9,383)</b>	<b>(8,555)</b>
<b>Net Cash Flows from Investments in Financial Assets for Policy Purposes</b>	<b>128</b>	<b>120</b>	<b>3,009</b>	<b>..</b>	<b>..</b>	<b>..</b>
<b>Net Cash Flows from Investments in Financial Assets for Liquidity Purposes</b>	<b>(1,022)</b>	<b>(876)</b>	<b>(953)</b>	<b>(1,045)</b>	<b>(983)</b>	<b>(907)</b>
<b>Receipts from Financing Activities</b>						
Advances received (net)	221	(174)	(50)	(26)	(25)	(24)
Borrowing (net)	11,889	7,611	10,894	6,281	1,714	1,370
Deposits received (net)	..	14	6	3	3	3
Other financing (net)	(4)	(1)	1	..	..	(2)
<b>Net Cash Flows from Financing Activities</b>	<b>12,105</b>	<b>7,449</b>	<b>10,851</b>	<b>6,258</b>	<b>1,693</b>	<b>1,347</b>
<b>Net Increase/(Decrease) in Cash held</b>	<b>(498)</b>	<b>(78)</b>	<b>(491)</b>	<b>58</b>	<b>496</b>	<b>232</b>
Net cash from operating activities	290	4,814	(1,390)	5,864	9,169	8,347
Net cash flows from investments in non-financial assets	(12,000)	(11,586)	(12,007)	(11,019)	(9,383)	(8,555)
<b>Surplus/(Deficit)</b>	<b>(11,710)</b>	<b>(6,772)</b>	<b>(13,397)</b>	<b>(5,155)</b>	<b>(214)</b>	<b>(209)</b>
<b>Derivation of ABS GFS Cash Surplus/Deficit</b>						
Cash surplus/(deficit)	(11,710)	(6,772)	(13,397)	(5,155)	(214)	(209)
Acquisitions under finance leases and similar arrangements	(67)	(67)	(128)	(159)	(152)	(120)
<b>ABS GFS Cash Surplus/(Deficit) Including Finance Leases and Similar Arrangements</b>	<b>(11,776)</b>	<b>(6,838)</b>	<b>(13,525)</b>	<b>(5,314)</b>	<b>(367)</b>	<b>(329)</b>
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.

<b>Table 9.10</b> <b>Reconciliation of UPF net operating balance to accounting operating result<sup>1</sup></b>			
	2011-12 Budget \$ million	2011-12 Est.Act. \$ million	2012-13 Budget \$ million
Net operating balance General Government sector (Table 9.1)	(4,058)	(314)	(6,294)
<i>Remeasurement/valuation adjustments</i>			
Bad debts and amortisation	(82)	(59)	(52)
Deferred tax equivalents	131	163	143
Dividends received on privatisation sales	..	82	360
Market value adjustments investments/loans	20	10	23
Revaluation of provisions	(14)	(8)	(13)
Decommissioned infrastructure assets and land under roads	(143)	(143)	(143)
Gain/(loss) on assets sold/w ritten off	(9)	(481)	(37)
<b>AAS operating result General Government sector</b>	<b>(4,155)</b>	<b>(749)</b>	<b>(6,012)</b>
Note: 1 Numbers may not add due to rounding.			

## GENERAL GOVERNMENT TIME SERIES

Data presented in Table 9.11 provides a time series from 2004-05 to 2010-11 for the General Government sector on the key fiscal aggregates used by the Government to measure financial performance. These aggregates have been backcast (as far as is possible) to comply with AASB 1049 Whole of Government and General Government Sector Financial Reporting.

Table 9.11 General Government Sector <sup>1</sup>							
	2004-05 Actual \$ million	2005-06 Actual \$ million	2006-07 Actual \$ million	2007-08 Actual \$ million	2008-09 Actual \$ million	2009-10 Actual \$ million	2010-11 Actual \$ million
<b>Revenue from Transactions</b>							
Taxation revenue	6,952	7,396	8,484	9,546	8,877	9,375	9,975
Grant revenue	12,755	13,590	14,373	15,523	17,476	20,205	20,272
Sales of goods and services	2,381	2,586	2,889	3,341	3,568	3,962	4,172
Interest income	2,972	3,414	3,348	(275)	1,482	2,205	2,365
Dividend and income tax equivalent income	1,028	1,057	863	1,255	1,180	950	1,232
Other revenue	1,473	2,039	2,024	2,040	4,425	3,032	3,941
<b>Total Revenue</b>	<b>27,562</b>	<b>30,084</b>	<b>31,982</b>	<b>31,430</b>	<b>37,008</b>	<b>39,729</b>	<b>41,957</b>
<b>Expenses from Transactions</b>							
Employee expenses	9,595	10,615	11,731	13,171	14,305	15,566	16,820
Superannuation expenses							
Superannuation interest costs	1,009	826	1,154	816	858	1,320	1,240
Other superannuation expenses	1,182	1,367	1,513	1,865	2,012	2,051	2,171
Other operating expenses	4,392	5,227	6,109	6,612	7,185	7,756	8,646
Depreciation and amortisation	1,585	1,679	1,880	1,850	2,496	2,500	2,506
Other interest expenses	209	174	180	346	599	803	1,125
Grant expenses	5,647	6,482	7,558	8,328	9,519	9,789	10,964
<b>Total Expenses</b>	<b>23,619</b>	<b>26,370</b>	<b>30,128</b>	<b>32,989</b>	<b>36,974</b>	<b>39,785</b>	<b>43,473</b>
<b>Net Operating Balance</b>	<b>3,942</b>	<b>3,714</b>	<b>1,855</b>	<b>(1,559)</b>	<b>35</b>	<b>(56)</b>	<b>(1,516)</b>
<b>OTHER KEY AGGREGATES</b>							
Purchases of non-financial assets	2,843	3,186	4,418	5,716	6,960	8,767	8,237
Net acquisition of non-financial assets	1,053	1,236	2,067	3,668	4,434	6,494	5,573
Net lending / (borrowing)	2,873	2,478	(211)	(5,226)	(4,399)	(6,550)	(7,089)
Net Worth	96,433	105,035	117,831	155,178	184,619	175,655	171,222
Net Debt	(19,406)	(23,202)	(26,686)	(22,598)	(19,281)	(13,342)	(9,047)
Cash Surplus/Deficit	4,640	4,648	2,350	(4,922)	(2,839)	(5,305)	(5,880)
Note: 1. Numbers may not add due to rounding.  Source: Outcomes Reports for Queensland 2004-05 to 2010-11. (Numbers have been recast for changes to UPF presentation.)							

## OTHER GENERAL GOVERNMENT UNIFORM PRESENTATION FRAMEWORK DATA

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

### Grants

Data presented in Tables 9.12 (a) and 9.12 (b) provide details of General Government current and capital grant revenue and expenses.

Table 9.12(a) General Government Sector Grant Revenue <sup>1</sup>		
	2011-12 Est.Actual \$ million	2012-13 Budget \$ million
<b>Current grant revenue</b>		
Current grants from the Commonwealth		
General purpose grants	8,700	9,684
Specific purpose grants	5,855	5,374
Specific purpose grants for on-passing	2,287	2,101
Total current grants from the Commonwealth	16,842	17,159
Other contributions and grants	359	336
<b>Total current grant revenue</b>	<b>17,201</b>	<b>17,496</b>
<b>Capital grant revenue</b>		
Capital grants from the Commonwealth		
General purpose grants	..	45
Specific purpose grants	5,350	1,029
Specific purpose grants for on-passing	2	..
Total capital grants from the Commonwealth	5,352	1,074
Other contributions and grants	52	28
<b>Total capital grant revenue</b>	<b>5,404</b>	<b>1,102</b>
<b>Total grant revenue</b>	<b>22,606</b>	<b>18,598</b>
Note:		
1. Numbers may not add due to rounding.		

**Table 9.12(b)**  
**General Government Sector Grant Expense <sup>1</sup>**

	2011-12 Est.Actual \$ million	2012-13 Budget \$ million
<b>Current grant expense</b>		
Private and Not-for-profit sector	4,252	3,695
Private and Not-for-profit sector on-passing	1,752	1,907
Local Government	185	300
Local Government on-passing	547	218
Grants to other sectors of Government	1,885	2,184
Other	329	183
<b>Total current grant expense</b>	<b>8,950</b>	<b>8,487</b>
<b>Capital grant expense</b>		
Private and Not-for-profit sector	426	368
Private and Not-for-profit sector on-passing	3	..
Households sector on-passing	1	..
Local Government	1,245	2,565
Grants to other sectors of Government	70	79
Other	230	214
<b>Total capital grant expense</b>	<b>1,975</b>	<b>3,226</b>
<b>Total grant expense</b>	<b>10,925</b>	<b>11,713</b>
Note:		
1. Numbers may not add due to rounding.		

## Dividend and Income Tax Equivalent Income

Table 9.13 provides details of the source of dividend and income tax equivalent income in the General Government sector.

**Table 9.13**  
**General Government Sector Dividend and Income Tax Equivalent Income <sup>1</sup>**

	2011-12 Est.Actual \$ million	2012-13 Budget \$ million
Dividend and Income Tax Equivalent income from PNFC sector	1,123	1,314
Dividend and Income Tax Equivalent income from PFC sector	33	40
<b>Total Dividend and Income Tax Equivalent income</b>	<b>1,157</b>	<b>1,355</b>
Note:		
1. Numbers may not add due to rounding.		



## Expenses by function

Data presented in Table 9.14 provides details of General Government sector expenses by function.

<b>Table 9.14</b> <b>General Government Sector Expenses by Function<sup>1</sup></b>						
	2011-12	2011-12	2012-13	2013-14	2014-15	2015-16
	Budget	Est. Act.	Budget	Projection	Projection	Projection
	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million
General public services	1,367	1,345	1,505	1,378	1,505	1,613
Public order and safety	3,784	3,838	4,073	4,074	4,215	4,378
Education	10,342	10,260	10,694	11,017	11,512	12,089
Health	11,692	11,856	12,836	13,027	13,748	14,493
Social security and welfare	2,875	2,741	2,178	2,262	2,301	2,434
Housing and community amenities	2,377	2,180	2,111	1,788	1,786	1,839
Recreation and culture	850	971	926	900	884	863
Fuel and energy	511	520	713	743	831	867
Agriculture, forestry, fishing and hunting	612	624	730	609	586	576
Mining, manufacturing and construction	309	257	331	307	303	309
Transport and communications	6,643	5,649	6,501	6,010	5,527	5,625
Other economic affairs	1,022	982	1,003	827	848	879
Other purposes	4,682	4,798	4,918	5,011	4,728	4,756
<b>Total Expenses</b>	<b>47,065</b>	<b>46,021</b>	<b>48,518</b>	<b>47,950</b>	<b>48,776</b>	<b>50,722</b>
Note: 1. Numbers may not add due to rounding.						

## Purchases of non-financial assets by function

Data presented in Table 9.15 provides details of General Government sector purchases of non-financial assets by function.

<b>Table 9.15</b> <b>General Government Sector Purchases of Non-financial Assets by Function<sup>1</sup></b>						
	2011-12 Budget \$ million	2011-12 Est. Act. \$ million	2012-13 Budget \$ million	2013-14 Projection \$ million	2014-15 Projection \$ million	2015-16 Projection \$ million
General public services	96	40	6	133	186	265
Public order and safety	594	594	346	318	221	248
Education	625	613	389	601	458	360
Health	1,698	1,824	1,620	2,018	1,279	946
Social security and welfare	118	82	38	18	33	27
Housing and community amenities	265	357	247	225	166	138
Recreation and culture	95	117	62	52	46	38
Fuel and energy	..	1	..	..	..	..
Agriculture, forestry, fishing and hunting	40	54	25	31	27	23
Mining, manufacturing and construction	12	11	11	6	6	6
Transport and communications	3,507	4,239	4,713	3,543	3,089	2,760
Other economic affairs	27	11	24	10	15	17
Other purposes	103	126	171	55	48	54
<b>Total Purchases</b>	<b>7,180</b>	<b>8,069</b>	<b>7,653</b>	<b>7,010</b>	<b>5,574</b>	<b>4,881</b>
Note: 1. Numbers may not add due to rounding.						

## Taxes

Data presented in Table 9.16 provides details of taxation revenue collected by the General Government sector.

Table 9.16 General Government Sector Taxes <sup>1</sup>		
	2011-12 Est.Actual \$ million	2012-13 Budget \$ million
Taxes on employers' payroll and labour force	3,464	3,715
Taxes on property		
Land taxes	1,018	1,047
Stamp duties on financial and capital transactions	2,032	1,963
Other	571	637
Taxes on the provision of goods and services		
Taxes on gambling	998	1,047
Taxes on insurance	613	670
Taxes on use of goods and performance of activities		
Motor vehicle taxes	1,858	1,933
Other	31	..
<b>Total Taxation Revenue</b>	<b>10,583</b>	<b>11,013</b>
Note: 1. Numbers may not add due to rounding.		

## Loan Council Allocation

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

Table 9.17 presents the State's revised Budget LCA and the Loan Council endorsed LCA for 2012-13.

<b>Table 9.17</b> <b>Loan Council Allocation <sup>1</sup></b>		
	2012-13 Nomination \$ million	2012-13 Budget \$ million
General Government sector cash deficit/(surplus) <sup>2</sup>	7,456	10,676
PNFC sector cash deficit/(surplus) <sup>2</sup>	2,945	2,721
<b>Non-financial Public sector cash deficit/(surplus) <sup>2</sup></b>	<b>10,401</b>	<b>13,397</b>
Acquisitions under finance leases and similar arrangements	(15)	(128)
<b><i>Equals</i> ABS GFS cash deficit/(surplus)</b>	<b>10,416</b>	<b>13,525</b>
<i>Less</i> Net cash flows from investments in financial assets for policy purposes	(60)	3,009
<i>Plus</i> Memorandum items <sup>3</sup>	1,788	1,642
<b>Loan Council Allocation</b>	<b>12,264</b>	<b>12,158</b>
Notes: 1. Numbers may not add due to rounding. 2. Figures in brackets represent surpluses. 3. Memorandum items include operating leases and local government borrowings.		

The State's Budget LCA is a deficit of \$12.158 billion. This compares to the LCA nomination of \$12.264 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 *2010-11 Report on State Finances* – whole of government financial statements (Note 50).

A summary of the State's quantifiable contingent liabilities as at 30 June 2011 is provided in Table 9.18.

<b>Table 9.18</b> <b>Contingent liabilities</b>	
	2011 \$ million
<b>Nature of contingent liability</b>	
Guarantees and indemnities	6,396
Other	156
<b>Total</b>	<b>6,552</b>

## **BACKGROUND AND INTERPRETATION OF UNIFORM PRESENTATION FRAMEWORK**

As mentioned in the introduction to this chapter, the UPF was reviewed in 2007 following the release of the 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 Government Finance Statistics framework**

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

The accrual GFS framework is based on an integrated recording of stocks and flows. Stocks refer to a unit's holdings of assets, 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 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](http://www.abs.gov.au).



## REPORTING ENTITIES

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

### General Government

#### *Departments*

Aboriginal and Torres Strait Islander and  
Multicultural Affairs  
Agriculture, Fisheries and Forestry  
Communities, Child Safety and Disability  
Services  
Community Safety  
Education, Training and Employment  
Electoral Commission of Queensland  
Energy and Water Supply  
Environment and Heritage Protection  
Housing and Public Works  
Justice and Attorney-General  
Legislative Assembly  
Local Government  
National Parks, Recreation, Sport and  
Racing  
Natural Resources and Mines  
Office of the Governor  
Office of the Ombudsman  
Premier and Cabinet  
Public Service Commission  
Queensland Audit Office  
Queensland Health  
Queensland Police Service  
Queensland Treasury and Trade  
Science, Information Technology, Innovation  
and the Arts  
State Development, Infrastructure and  
Planning

The Public Trustee of Queensland  
Tourism, Major Events, Small Business and  
the Commonwealth Games  
Transport and Main Roads

#### *Commercialised Business Units*

CITEC  
Goprint  
Project Services  
Property Services Group  
QBuild  
QFleet  
RoadTek  
SDS

#### *Shared Service Providers*

Corporate Administration Agency  
Queensland Shared Services

## ***Statutory Authorities***

Anti-Discrimination Commission	Office of the Information Commissioner
Australian Agricultural College Corporation	Prostitution Licensing Authority
Board of the Queensland Museum	Queensland Art Gallery Board of Trustees
City North Infrastructure Pty Ltd	Queensland Building Services Authority
Commission for Children and Young People and Child Guardian	Queensland Future Growth Corporation
Crime and Misconduct Commission	Queensland Performing Arts Trust
Events Queensland Pty Ltd	Queensland Reconstruction Authority
Gold Coast 2018 Commonwealth Games Corporation	Queensland Rural Adjustment Authority
Gold Coast Institute of TAFE	Queensland Studies Authority
Health Quality and Complaints Commission	Residential Tenancies Authority
Hospital and Health Services Cairns and Hinterland	South Bank Corporation
Cape York	Southbank Institute of Technology
Central Queensland	The Council of the Queensland Institute of Medical Research
Central West	Tourism Queensland
Children's Health Queensland	Translink Transit Authority
Darling Downs	Urban Land Development Authority
Gold Coast	Workers' Compensation Regulatory Authority (Q-Comp)
Mackay	
Metro North	
Metro South	
North West	
South West	
Sunshine Coast	
Torres Strait and Northern Peninsula	
Townsville	
West Moreton	
Wide Bay	
Legal Aid Queensland	
Library Board of Queensland	
Motor Accident Insurance Commission	
Nominal Defendant	

## **Public Non-financial Corporations**

Brisbane Port Holdings Pty Ltd  
CS Energy Ltd  
DBCT Holdings Pty Ltd  
ENERGEX Ltd  
Ergon Energy Corporation Limited  
Far North Queensland Ports Corporation Limited  
Gladstone Area Water Board  
Gladstone Ports Corporation Limited  
Mount Isa Water Board  
North Queensland Bulk Ports Corporation Limited  
Port of Townsville Limited  
Powerlink Queensland  
Qld Airport Holdings (Cairns) Pty Ltd  
Qld Airport Holdings (Mackay) Pty Ltd  
Queensland Bulk Water Supply Authority  
Queensland Bulk Water Transport Authority  
Queensland Lottery Corporation Pty Ltd  
Queensland Rail Limited  
Queensland Treasury Holdings Pty Ltd  
SEQ Water Grid Manager  
Southern Regional Water Pipeline Company Pty Ltd  
Stadiums Queensland  
Stanwell Corporation Limited  
SunWater Limited  
The Trustees of Parklands Gold Coast



## APPENDIX A – TAX EXPENDITURE STATEMENT

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### OVERVIEW

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

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

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

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

### Methodology

#### ***Revenue foregone approach***

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

Measuring tax expenditures requires the identification of:

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

### ***Defining the tax benchmark***

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

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

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

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

## **THE TAX EXPENDITURE STATEMENT**

This year's statement includes estimates of tax expenditures in 2010-11 and 2011-12 for payroll tax, land tax, duties and gambling taxes. A summary of the major tax expenditures valued on the basis of revenue foregone is presented in Table A.1. Not all expenditures can be quantified at this time. Accordingly, the total value of tax expenditures should be considered as indicative only.

**Table A.1**  
**Tax expenditure summary<sup>1</sup>**

	2010-11 <sup>2</sup> \$ million	2011-12 \$ million
<b>Payroll Tax</b>		
Exemption threshold <sup>3</sup>	1,143	1,188
Deduction scheme <sup>4</sup>	259	287
<b>Section 14 exemptions</b>		
Local Government	104	112
Education	131	139
Hospitals	262	272
<b>Total Payroll Tax</b>	<b>1,899</b>	<b>1,998</b>
<b>Land Tax</b>		
Liability thresholds <sup>5</sup>	523	545
Graduated land tax scale	550	538
Primary production deduction	109	94
Section 13 exemptions not included elsewhere <sup>6</sup>	95	92
Land developers' concession	20	18
Capping of values	17	9
<b>Total Land Tax</b>	<b>1,314</b>	<b>1,296</b>
<b>Duties</b>		
<b>Transfer duty on residential property</b>		
Home concession <sup>7</sup>	313	35
First home concession	133	188
First home vacant land concession	7	10
<b>Insurance duty</b>		
Non-life insurance	147	167
Workcover	28	39
Health insurance	204	217
<b>Total Duties</b>	<b>832</b>	<b>656</b>
<b>Taxes on Gambling</b>		
Gaming machine taxes	119	123
Casino taxes	9	9
<b>Total Gambling Tax</b>	<b>129</b>	<b>132</b>
Notes:		
1. Numbers may not add due to rounding.		
2. 2010-11 estimates may have been revised since the 2011-12 Budget.		
3. Exemption threshold of \$1 million applied prior to 1 July 2012.		
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.		
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. Not applicable between 1 August 2011 and 30 June 2012.		

## **DISCUSSION OF INDIVIDUAL TAXES**

### **Payroll tax**

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

#### ***Payroll tax exemption threshold***

Employers who employ in Queensland with an annual Australian payroll of \$1 million or less are exempt from payroll tax (increased to \$1.1 million from 1 July 2012). On the basis of 2011-12 average weekly earnings, this threshold corresponded to approximately 15 full-time equivalent employees. This exemption is designed to assist small and medium sized businesses.

#### ***Deduction scheme***

Employers who employed in Queensland with Australian payrolls between \$1 million and \$5 million benefited from a deduction of \$1 million, which reduced by \$1 for every \$4 by which the annual payroll exceeded \$1 million. There was no deduction for employers or groups that had 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 *Payroll Tax Act 1971*. The activities for which estimates have been calculated are wages paid by public hospitals, non-tertiary private educational institutions and local governments (excluding commercial activities).

### **Land tax**

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

#### ***Liability thresholds***

Land tax is payable on the value of taxable land 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 \$5 million for resident individuals and 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 2010* to eligible organisations. These include, but are not limited to, public benevolent institutions, religious institutions and other exempt charitable institutions, retirement villages, trade unions and showgrounds.

### ***Land developers' concession***

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 30 of the *Land Tax Act 2010*.

### ***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 on 1 July 2007 until 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 applied to purchases of a principal place of residence until 1 August 2011 (reinstated as of 1 July 2012). 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. A full concession is provided to purchases of a first principal place of residence valued up to \$500,000.

## ***First home vacant land concession***

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

## **Insurance duty**

The benchmark tax base is assumed to be all premiums for general insurance policies (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. The tax rate applicable to gaming machines in casinos is 30% of gross revenue in Brisbane and Gold Coast casinos and 20% in the Cairns and Townsville casinos.

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



## APPENDIX B – CONCESSIONS STATEMENT

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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 \$1.986 billion in 2012-13, an increase of \$229.7 million (or 13.08%) on the 2011-12 estimated actual.

This statement includes estimates of the Ergon Energy community service obligations for the first time.

More information can be found at:

<http://www.communities.qld.gov.au/communityservices/community-support/queensland-government-concessions/>

**Table B.1**  
**Concessions by agency<sup>1</sup>**

<b>Agency</b>	<b>2011-12 Est.Act. \$ million</b>	<b>2012-13 Estimate \$ million</b>
<b>Department of Agriculture, Fisheries and Forestry</b>		
Hendra virus - rebate to front line veterinarians	..	0.4
<b>Department of Communities, Child Safety and Disability Services</b>		
Electricity Rebate Scheme	114.5	118.5
Electricity Life Support Scheme	1.6	1.7
Medical Cooling and Heating Electricity Concession Scheme	0.6	1.8
Pensioner Rate Subsidy Scheme	49.4	50.9
Reticulated Natural Gas Rebate Scheme	2.0	2.1
Home Energy Emergency Assistance Scheme	3.8	5.0
SEQ Pensioner Water Subsidy Scheme	17.2	17.8
National Reciprocal Transport Scheme	4.0	2.6
<b>Department of Community Safety</b>		
Urban Fire Levy Concession	6.5	6.8
<b>Department of Education, Training and Employment</b>		
Living Away from Home Allowances Scheme	6.2	7.3
School transport assistance for students with disabilities	35.2	37.5
Non-State School Transport Assistance Scheme	4.9	5.1
TAFE concessions	16.6	15.6
<b>Department of Energy and Water Supply</b>		
Ergon Energy - community service obligation	421.7	620.0 <sup>2</sup>
<b>Department of Housing and Public Works</b>		
Government managed housing rental rebate	412.5	401.4
<b>Department of Justice and Attorney-General</b>		
Public Trustee of Queensland – community service obligation	27.2	27.3
<b>Department of National Parks, Recreation, Sport and Racing</b>		
Active Recreation Centres - concessional usage rates	0.2	0.2
Entry and tour fee concessions	0.5	0.5
<b>Department of Science, Information Technology, Innovation and the Arts</b>		
Arts Queensland - Discount on real property lease rentals	0.6	0.6
Queensland Art Gallery - Arts concessional entry fees	0.9	0.7
Queensland Performing Arts Trust - Venue hire rebates	0.6	0.6
Queensland Museum – Arts concessional entry fees	1.1	1.0

**Table B.1**  
**Concessions by agency<sup>1</sup>**

<b>Agency</b>	<b>2011-12 Est.Act. \$ million</b>	<b>2012-13 Estimate \$ million</b>
<b>Department of Transport and Main Roads</b>		
Light and heavy vehicle registration concession	116.5	118.8
Recreational ship registration concession	1.7	1.8
School Transport Assistance Scheme	131.0	131.8
TransLink Transit Authority transport concessions (SEQ)	94.7	104.9
Other transport concessions incl. taxi subsidies	26.0	27.5
Rail Concession Scheme	44.7	36.0 <sup>3</sup>
<b>Queensland Health</b>		
Spectacle Supply Scheme	8.7	9.0
Medical Aids Subsidy Scheme	39.1	39.2
Patient Travel Subsidy Scheme	50.5	72.5
Oral Health Scheme	115.6	119.1
<b>Total</b>	<b>1,756.3</b>	<b>1,986.0</b>
Note: 1. Numbers may not add due to rounding. 2. The variation between 2011-12 estimated actuals and 2012-13 estimates are further explained in Chapter 8 – Public Non-financial Corporations sector. 3. The demand for concessions in 2011-12 exceeded the budget forecast. The Rail Concessions Scheme was overspent in that year with concessions costing \$44.7 million compared to the budget of \$36 million. In 2012-13, the Government will implement strategies to contain the cost of the Rail Concession Scheme within the \$36 million budget.		

## **Department of Agriculture, Fisheries and Forestry**

The department provides a rebate to help front line veterinarians in their fight against Hendra virus with \$1 million over four years to pay for eligible personal protective equipment. The rebate scheme allows private veterinarians to claim up to \$250 from Biosecurity Queensland by way of a start up rebate. It is intended to equip the veterinarian with appropriate personal protective equipment for themselves and anyone else assisting with the testing of horses. A replenishment rebate is also available for veterinarians that have conducted Hendra virus testing in order to assist them with the cost of restocking personal protective equipment. The rebate scheme came into effect on 1 July 2012, with applications capable of being backdated to 24 March 2012 in order to take into account the most recent cases of Hendra virus.

## **Department of Communities, Child Safety and Disability Services**

The Electricity Rebate Scheme provides a rebate of up to \$230 per annum on the cost of domestic electricity supply to the home of eligible holders of a Pensioner Concession Card, a Queensland Seniors Card or a Repatriation Health Card for All Conditions (Gold Card) who receive a War Widow or Special Rate Totally or Permanently Incapacitated (TPI) pension.

The Electricity Life Support Concession Scheme is aimed at assisting seriously ill people who use home based life support systems such as oxygen concentrators and kidney dialysis machines.

The Medical Cooling and Heating Electricity Concession Scheme is for eligible concession card holders, with a medical condition who have a dependence on air conditioning to regulate body temperature. The rate is set in line with the Electricity Rebate and provides a rebate of up to \$230 per annum.

The Pensioner Rate Subsidy Scheme offers a 20% subsidy (up to a maximum of \$200 per annum) to lessen the impact of local government rates and charges on pensioners, thereby assisting them to continue to live in their own homes.

The Reticulated Natural Gas Rebate Scheme provides a rebate of up to \$64 per annum 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 of up to \$720 per annum (for a maximum of two consecutive years) 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 of up to \$120 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.

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 scheme, which commenced in 2009, is funded by the Australian Government. The National Reciprocal Transport Scheme agreement has expired and at the time of printing the 2012-13 Budget papers, Queensland is yet to sign a new agreement. The Budget reflects the allocation for 2012-13 as noted in the Australian Government Budget papers.

## **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, Training and Employment

The department 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 benefit levels for eligible students in 2012 are:

- Remote Area Tuition Allowance – Primary students up to \$2,998 per annum. Secondary students up to \$4,317 per annum. Benefit levels are linked to tuition fees charge by approved boarding schools.
- Remote Area Travel Allowance – The distance from the family home to the boarding location is at least 50km. Benefit levels dependent on distance and range from \$121 to \$1,539.
- Remote Area Allowance – Benefits provided to Agricultural college students only and are \$1,884 per annum.
- Remote Area Disability Supplement (RADs) – Benefits provided to students with disabilities who incur additional costs associated with living away from home to attend school. Benefits are up to \$6,134 per student per annum.

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 benefit level is up to \$300 per week.

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. In 2012 the threshold is \$20 per week for families, or \$15 for families with a Health Care card, Pensioner or Veterans' Affairs Pensioner Card. The program also assists families of students with disabilities who attend a non-state school. For families using taxis, this assistance is capped at \$300 per week.

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. The concessions are up to 60% discount from the full cost of the student contribution fee for a Government funded subject. Take up of TAFE concessions has been reducing in recent years and the estimate for 2012-13 reflects this trend.

## **Department of Energy and Water Supply**

The Government maintains a Uniform Tariff Policy to ensure that, wherever possible, non-market electricity customers of the same class should have access to uniform retail tariffs, and pay the same notified price for their electricity supply, regardless of where they live. To achieve this objective, the Government provides a Community Service Obligation payment to Ergon.

For more information see Chapter 8 Public Non-financial Corporations sector.

## **Department of Housing and Public Works**

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 2012-13 estimated rental rebate includes the impact of the tax bracket changes from 1 July 2012, where the tax free threshold has increased from \$6,000 to \$18,000 and has resulted in a reduction of around 1.1% in the average rent subsidy per household. The average estimated yearly subsidy per household for 2012-13 is \$7,386.

## **Department of Justice and Attorney-General**

The Public Trustee of Queensland is a self funding organisation. The scale of fees used by the Public Trustee is designed to reflect a fair cost for the services provided. The Government has approved a scheme of community service obligation subsidies to protect the interests of disadvantaged clients. The subsidies are applied either as direct rebates at the time of charging the fees, placing no obligation on some clients to pay and seek reimbursement, or the services are provided at no cost to clients. In addition, the Public Trustee provides funding to other Government bodies to enable them to provide services to the people of Queensland.

The community service obligations provided include:

- disability services – providing financial administration for clients with impaired financial decision making capacity and limited means
- a will making service for all Queenslanders at no charge
- administration of estates or trusts for beneficiaries with limited means who can establish need
- public education in the areas of wills, powers of attorney and financial administration
- contributions to the Office of the Adult Guardian and Legal Aid Queensland
- contributions as a co-sponsor to the Queensland Community Foundation
- trustee services for philanthropic or public foundations.

## **Department of National Parks, Recreation, Sport and Racing**

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. These concessional rates provide discounts of between 4.6% and 11.7%.

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.

## **Department of Science, Information Technology, Innovation and the Arts**

Arts Queensland provides real property lease rentals to arts and cultural organisations at a discount from market rental rates. Current discounts range from 20% to 100% from market rates, depending on the location, and are offered at the Judith Wright Centre of Contemporary Arts and the Cairns Centre of Contemporary Arts. 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 venue hire rebates to Government subsidised cultural organisations, charitable organisations, Government departments and educational institutions.

## **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 access to travel for pensioners and seniors and provides a reduced rate of registration fees. For most pensioners and Seniors Card holders, a concession for a family 4-cylinder vehicle would reduce the 12 month registration charge from \$328.90 to \$188.90. For a recreational ship up to and including 4.5 metres in length, the concession reduces the registration charge from \$88.60 to \$53.30 (registration charges are as at 1 July 2012).

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 because they do not have a school in their local area or who are from defined low income groups. The scheme provides funding to facilitate transport services on bus, rail and/or ferry with allowances for private vehicle transport for eligible students. A typical concession would be to fully fund the cost of travel to the nearest state primary or high school where no school is provided, for example, Bargara to Bundaberg High School.

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 public transport concessions 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. For a peak two zone journey using a *gocard*, the concession will reduce an adult fare from \$3.58 to \$1.79. 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.

The Queensland Rail Concession Scheme improves the affordability of long distance and urban rail services for eligible pensioners, veterans and seniors. Assistance for long distance rail services is provided through discounted fares and free travel vouchers. For TravelTrain (long distance rail) services, depending on the service, the concession may be for free travel for up to four trips per year for Queensland pensioners (subject to availability of seats and payment of an administration fee).

## 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.

The Medical Aids Subsidy Scheme provides access to 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 will work with the Department of Communities, Child Safety and Disability Services regarding future options for the more effective administration of the Scheme.

Queensland Health's Patient Travel Subsidy Scheme provides financial assistance to patients who need to access specialist health 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. From 1 January 2013, the mileage subsidy will increase from 15 cents to 30 cents per kilometre where a private vehicle is used, and the accommodation subsidy will increase from \$30 to \$60 per person per night for commercial accommodation.

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.



## **APPENDIX C – REVENUE AND EXPENSE ASSUMPTIONS AND SENSITIVITY ANALYSIS**

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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.

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 – 2010-11 to 2015-16

Table C.1 Taxation and Royalty Revenue <sup>1</sup>						
	2010-11 Actual \$ million	2011-12 Est. Act. \$ million	2012-13 Budget \$ million	2013-14 Projected \$ million	2014-15 Projected \$ million	2015-16 Projected \$ million
Payroll tax	3,023	3,464	3,715	3,992	4,288	4,615
Transfer duty	1,933	2,032	1,963	2,235	2,471	2,730
Other duties	948	1,052	1,125	1,206	1,294	1,388
Gambling taxes and levies	945	998	1,047	1,088	1,130	1,174
Land tax	1,042	1,018	1,047	1,068	1,111	1,178
Motor vehicle registration	1,336	1,398	1,459	1,503	1,549	1,626
Other taxes	747	622	657	686	725	781
<b>Total taxation revenue</b>	<b>9,975</b>	<b>10,583</b>	<b>11,013</b>	<b>11,778</b>	<b>12,567</b>	<b>13,493</b>
<b>Royalties</b>						
Coal	2,357	2,386	2,209	3,043	3,200	3,328
Other royalties	365	409	492	541	765	988
Land rents	154	148	158	171	181	193
<b>Total royalties and land rents</b>	<b>2,876</b>	<b>2,943</b>	<b>2,859</b>	<b>3,754</b>	<b>4,146</b>	<b>4,509</b>
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 wages of 3¼ % and an increase in employment of ¾ % in 2012-13. The composition of the payroll tax base is also important. If sectors that are in the tax base are expected to grow more strongly than the average of the economy this delivers additional revenue. The payroll tax threshold has also been increased to \$1.1 million from 1 July 2012.

A one percentage point variation in either Queensland wages growth or employment would change payroll tax collections by approximately \$40 million in 2012-13.

### **Transfer duty estimates**

For 2012-13, transfer duty collections are expected to decline from the 2011-12 estimated actual due to the reinstatement of the principal place of residence duty concession, partly offset by increased duty on transactions valued above \$1 million. Underlying growth in 2012-13 is approximately 4% predicated on collections being supported by non-residential transactions and the assumption that residential activity will grow modestly in 2012-13.

Global economic 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 returning demand for property due to the low costs of borrowing and expected growth in house prices. Estimated growth across the forward estimates is conservative relative to the period prior to the global financial crisis reflecting an expectation that these conditions are unlikely to be experienced again.

A one percentage point variation in either the average value of property transactions or the volume of transactions would change transfer duty collections by approximately \$20 million in 2012-13.

## ROYALTY ASSUMPTIONS AND REVENUE RISKS

<b>Table C.2</b> <b>Coal Royalty Assumptions</b>						
	2010-11 Actual	2011-12 Estimate	2012-13 Projection	2013-14 Projection	2014-15 Projection	2015-16 Projection
Tonnages- crown export <sup>1</sup> coal (Mt)	153	155	168	188	204	221
Exchange rate US\$ per A\$ <sup>2</sup>	0.988	1.032	1.015	0.975	0.930	0.910
<b>Year average coal prices</b>						
Hard coking	247	260	199	215	200	190
Semi soft	196	196	155	169	161	155
Thermal	106	123	112	105	105	105
Notes:						
1. Excludes coal produced for domestic consumption and coal where royalties are not paid to the government, i.e private royalties. 2012-13 estimate for domestic coal volume is approximately 26Mt and private coal is 10Mt.						
2. Year average.						

### Royalty Assumptions

Table C.2 provides the 2012-13 Budget assumptions regarding coal royalties, which represent the bulk of Queensland's royalty revenue.

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

### Exchange rate and commodity prices and volumes – royalties estimates

Estimates of mining royalties are sensitive to movements in the A\$-US\$ exchange rate and commodity prices and volumes. Contracts for the supply of commodities are generally written in US dollars. Accordingly, a change in the exchange rate impacts on the Australian dollar price of commodities and therefore expected royalties collections.

For each one cent movement in the A\$-US\$ exchange rate, the impact would be approximately \$32 million in 2012-13.

A 1% variation in export coking and thermal coal volumes would lead to a change in royalty revenue of approximately \$22 million.

A 1% variation in the price of export coal would lead to a change in royalty revenue of approximately \$34 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 2012-13, Queensland's Budget will bear the risks of fluctuations in GST revenues.

The Australian Government's estimate of GST revenue in 2012-13 is primarily based on its forecast of consumption subject to GST 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 above average capacity to raise revenue, particularly in relation to mining revenue. As a result, Queensland's share of GST funding will continue to be below a population share in 2012-13.

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.

## **Impact of the Australian Government's Carbon Tax on Queensland**

The Australian Government's Carbon Tax commenced on 1 July 2012 and will impose significant costs on the Queensland economy.

For the first three years the price for each tonne of pollution will be fixed, like a carbon tax. Prices have started at \$23 per tonne but will be increased in line with inflation over the next two years. From 1 July 2015 the carbon pricing mechanism will transition to a 'cap and trade' emissions trading scheme with the price set by the market. The trajectory of the carbon price at this time, and hence its impact on the Queensland economy and budget is uncertain.

Modelling undertaken by Queensland Treasury and Trade (2011) and Deloitte Access Economics (2011) based on the Commonwealth's own underlying assumptions estimated that in 2020 economic growth in Queensland would be reduced by between 0.4% and 2.8% compared to the no carbon case. Employment is estimated to be 3,000 to 21,000 lower by 2020 compared to the no carbon case.

According to the Clean Energy Regulator there are 314 potentially liable entities for the carbon tax in Australia with one quarter (77) of them operating solely in Queensland. These entities comprise both private (mainly energy and resources) business and public entities (government owned corporations and local and regional councils).

In August 2011 the cost to the Queensland Government was estimated to be \$1.2 billion over the period 2012-13 to 2015-16, mainly because of higher expenses and reduced dividends from government owned generators. Agencies have been required in the 2012-13 Budget to absorb the impact of the tax on their operations, which has been estimated at \$100 million per annum.

Queensland Government-owned corporations are likely to need to pay about \$675 million in carbon tax costs in 2012-13, with almost all of this cost attributable to generators. Most of this cost will be recovered from customers. The 2010-11 Report on State Finances estimated that the carbon tax had reduced the value of Government-owned electricity generators by \$1.7 billion.

The Independent Commission of Audit in their Interim Report concluded that the impact on the fiscal balance could be greater than previously estimated by Queensland Treasury and Trade. The impact of the carbon tax on the Queensland economy and budget will be closely monitored.

## **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 2012-13 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 total debt servicing cost estimated at almost \$2 billion in 2012-13.

The current average duration of General Government debt is around five years. The majority of General Government debt is held under fixed interest rates and therefore the impact of interest rate variations on debt servicing costs in 2012-13 would be relatively modest, with the impact occurring progressively across the forward estimates.

### **Actuarial estimates of superannuation and long service leave**

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

While these impacts have been estimated and allowances made in the Budget and forward estimates to accommodate them, the actual outcome may differ from the estimates calculated for the Budget. At the time of the preparation of the 2012-13 Budget the AASB119 valuation of the State's defined benefit superannuation liability was not available.

### **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.

By authority: S. C. Albury, Acting Government Printer, Queensland 2012



