

State Budget 2013-14

# Budget Strategy and Outlook

Budget Paper No.2



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# **2013–14 State Budget Papers**

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# **STATE BUDGET**

## **2013-14**

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### **BUDGET STRATEGY AND OUTLOOK**

Budget Paper No. 2

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# 1 FISCAL STRATEGY AND OUTLOOK

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## FEATURES

- The General Government fiscal balance is estimated to be a deficit of \$8.7 billion in 2012-13 compared to a forecast deficit of \$11.2 billion in the 2012-13 Mid Year Fiscal and Economic Review (MYFER).
- The improvement in the forecast 2012-13 fiscal balance since the 2012-13 MYFER primarily reflects lower than anticipated levels of operating expenditure across all expenditure categories, including as a result of changes in the timing of disaster expenditure.
- Expenses in 2012-13 are estimated to have grown by only 1.1% on 2011-12. This represents the lowest growth since accrual accounting commenced in 1998-99 and contrasts with average expenses growth of 8.9% per annum in the decade to 2011-12.
- A fiscal deficit of \$7.7 billion is budgeted for 2013-14 compared to a forecast of \$4.6 billion in the 2012-13 MYFER. This largely reflects the incorporation of costs associated with recent flooding, a change in timing of Australian Government disaster recovery funding as a result of the changed expenditure profile, and downward revisions to revenue.
- The rebuilding effort as a result of the recent flooding caused by ex-Tropical Cyclone Oswald is forecast to cost \$2.5 billion. The majority of this funding will be used to rebuild damaged roads and local government infrastructure. The cost of this disaster, coupled with other significant recent disasters, amounts to \$9.3 billion over the 2012-13 to 2014-15 period.
- Key revenue sources such as taxation, GST and mining royalties have fallen by \$4.2 billion in underlying terms since the 2012-13 Budget, with \$2.6 billion of this decline since 2012-13 MYFER. This reflects the ongoing weakness of export coal prices, downward reductions in the GST pool distributed by the Australian Government and the impact of the slower than anticipated property market recovery on transfer duty and land tax. Relative to the Independent Commission of Audit Interim Report, these revenue sources have fallen by \$5.3 billion.
- In the 2013-14 Budget, the Government is continuing to deliver the savings outlined in the 2012-13 Budget, as well implement savings and revenue measures that offset expenditure decisions made subsequent to the 2012-13 Budget. Nevertheless, the scale of natural disasters and revenue write-downs has resulted in a modest fiscal deficit of \$244 million (or 0.5% of General Government revenue) being projected for 2014-15. The Government will continue to pursue a fiscal balance in 2014-15 as a policy objective.

- The projected fiscal position continues to improve over the remainder of the forward estimates largely due to the fiscal repair measures implemented by Government since coming to Office and continued expenditure discipline. As a result, fiscal surpluses exceeding \$1 billion are projected in both 2015-16 and 2016-17.
- Despite a very difficult external environment making the fiscal consolidation task much tougher, the Government's fiscal repair initiatives are still expected to result in General Government borrowings stabilising from 2014-15, with total non-financial public sector borrowings at 30 June 2015 expected to be \$6.2 billion lower than the comparable estimate in the Independent Commission of Audit's Interim Report.
- The Government has accepted the majority of recommendations in the Final Report of the Independent Commission of Audit which is fundamentally about ways in which the quality and quantity of frontline services can be improved. Although the implementation of the Government's response is expected to improve value for money in government service delivery, no savings from this have been incorporated in the 2013-14 Budget estimates.



## CONTEXT

The 2012-13 Budget implemented significant fiscal repair in Queensland. The 2012-13 Budget delivered measures totalling \$7.8 billion over the 2012-13 to 2015-16 period. These savings were made by exiting activities that are not the domain of the Queensland Government, by reducing waste and inefficiency in Government activities and by implementing specifically targeted revenue measures.

As part of this process of fiscal repair, the Government adopted a new set of fiscal principles clearly aimed at improving the sustainability of the State's finances. These principles are:

- stabilise then significantly reduce debt
- achieve and maintain a General Government sector fiscal balance by 2014-15
- maintain a competitive tax environment for business
- target full funding of long term liabilities such as superannuation in accordance with actuarial advice.

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

Since coming to Office, the Government has clearly demonstrated its ability to manage expenditure, with operating expenses in 2012-13 estimated to be almost \$2 billion lower than budgeted. This means expenses in 2012-13 are estimated to have grown by only 1.1% on 2011-12, which represents the lowest growth since accrual accounting commenced in 1998-99 and contrasts with average expenses growth of 8.9% per annum in the decade to 2011-12.

The Government will continue to focus its efforts on restraining expenditure growth both through ensuring that the fiscal repair measures in the 2012-13 continue to be achieved and by pursuing further reform.

However, the 2013-14 Budget has been made significantly more difficult by the rebuilding task following the widespread flooding arising from ex-Tropical Cyclone Oswald. This disaster has been estimated to cost \$2.5 billion and comes on top of the significant natural disasters in 2010-11 and 2011-12 to bring total disaster spending over the 2012-13 to 2014-15 period to \$9.3 billion.

In addition, key revenue sources such as taxation, GST and mining royalties have fallen by \$4.2 billion in underlying terms since the 2012-13 Budget, with \$2.6 billion of this decline since 2012-13 Mid Year Fiscal and Economic Review (MYFER). This reflects the ongoing weakness of export coal prices, downward reductions in the GST pool distributed by the Australian Government and the impact of the slower than anticipated property market recovery on transfer duty and land tax.

To keep a fiscal balance in 2014-15 within reach and ensure borrowings in the General Government sector stabilise, the Government has decided that some further measures will be implemented in the 2013-14 Budget including:

- a two year deferral of the planned increase in the payroll tax threshold, from \$1.1 million to \$1.2 million, to 1 July 2015
- an increase in duty rates on general insurance products, more closely aligning Queensland's rates with those applied in other states
- extending the Emergency Management, Fire and Rescue Levy (currently known as the Urban Fire Levy) to all rateable properties to ensure a sustainable funding base for emergency management services
- additional departmental savings of \$100 million per annum from 2013-14 onwards.

Further detail on these measures is provided in the Revenue and Expense Chapters of this Budget Paper, with financial impacts detailed in Budget Paper 4 – Budget Measures.

In the absence of measures taken in the 2012-13 and 2013-14 Budgets, the fiscal deficit would be \$10.1 billion in 2013-14.

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

The Government's implementation of the accepted recommendations represents the next stage of public sector reform in Queensland and will guide how public services are delivered into the future. Many of the recommendations relate to contestability. Contestability is not an outcome, but rather a process whereby Government tests the market to ensure it is providing the public with the best possible solution at the best possible price. The Government is determined to transition to being the "enabler". It does not always need to be the "doer".

While there is a clear expectation that the associated reforms will result in improved value for money outcomes in the delivery of services, no associated savings have been factored into the forward estimates presented in the 2013-14 Budget.

## OVERVIEW

The key fiscal aggregates of the General Government sector for the 2013-14 Budget are outlined in Table 1.1 and are discussed in detail throughout this chapter.

<b>Table 1.1</b> <b>General Government sector – key financial aggregates<sup>1</sup></b>						
	2011-12 Actual <sup>2</sup> \$ million	2012-13 Est. Act. \$ million	2013-14 Budget \$ million	2014-15 Projection \$ million	2015-16 Projection \$ million	2016-17 Projection \$ million
Revenue	45,794	41,785	44,677	51,235	51,838	53,205
Expenses	46,027	46,526	48,436	49,144	49,795	51,492
Net operating balance	(233)	(4,741)	(3,760)	2,091	2,043	1,713
Capital purchases	7,930	7,397	7,130	5,653	4,394	3,751
<b>Fiscal balance</b>	<b>(5,482)</b>	<b>(8,686)</b>	<b>(7,664)</b>	<b>(244)</b>	<b>1,065</b>	<b>1,409</b>
Borrowing	29,513	38,864	47,196	48,490	48,270	48,003
Borrowing (NFPS) <sup>3</sup>	61,521	69,490	78,125	80,147	81,137	81,465
Notes: 1. Numbers may not add due to rounding. 2. Reflects published actuals. 3. NFPS: Non-financial Public sector						

As identified in Table 1.2, the anticipated 2012-13 fiscal deficit of \$8.686 billion compares with a forecast deficit of \$11.213 billion expected in the 2012-13 MYFER. This improvement is largely the result of lower expenditure across all expense types and a small decrease in capital expenditure. There has been a change to the timing of reconstruction expenditure, partly due to the impact of ex-Tropical Cyclone Oswald, which has moved some expenditure from 2012-13 to later in the forward estimates period.

The estimated 2013-14 General Government sector fiscal balance is expected to be weaker than forecast in the 2012-13 MYFER. This is primarily a result of the widespread damage caused by ex-Tropical Cyclone Oswald, which occurred after the release of the 2012-13 MYFER. This event and the associated reprofiling of expenditure from previous disasters is responsible for around \$2.7 billion of the deterioration in the 2013-14 fiscal balance since the 2012-13 MYFER. In addition, global economic conditions have been weaker than anticipated, which, in conjunction with flow-on impacts to the domestic economy, has resulted in further downward revisions to the State's key revenues. In particular:

- royalty revenue estimates have been revised down by \$1.288 billion over the period 2012-13 to 2015-16, primarily because of reductions in coal price forecasts and a higher exchange rate assumption
- taxation revenue (not including taxation revenue measures) has been revised down by \$638 million over the period 2012-13 to 2015-16, largely due to expectations of a slower recovery in property market activity reducing transfer duty estimates and lower land values reducing land tax estimates
- Queensland's share of GST revenue has been revised down by \$696 million across 2012-13 to 2015-16 as a result of downward revisions in the Australian Government's forecasts of both national GST collections and Queensland's share of the national population.

As can be seen in Table 1.2, while the impact of natural disasters and a weaker than anticipated revenue outlook have negatively impacted the fiscal outlook relative to the 2012-13 Budget and MYFER, the General Government fiscal balance continues to improve over the forward estimates period. This reflects the ongoing benefit of the Government's fiscal repair measures and its continuing commitment to improve the State's fiscal position.

**Table 1.2**  
**General Government sector – revisions to fiscal balance forecasts**

	2011-12 \$ million	2012-13 \$ million	2013-14 \$ million	2014-15 \$ million	2015-16 \$ million	2016-17 \$ million
2012-13 Budget	(5,623)	(10,768)	(3,752)	652	747	n/a
2012-13 MYFER	(5,482)	(11,213)	(4,647)	534	670	n/a
<b>2013-14 Budget</b>	n/a	(8,686)	(7,664)	(244)	1,065	1,409

Table 1.3 provides a breakdown of the movements in the net operating balance and fiscal balance since the 2012-13 MYFER.

<b>Table 1.3</b> <b>Reconciliation of net operating balance and fiscal balance</b> <b>2012-13 MYFER to 2013-14 Budget<sup>1</sup></b>				
	2012-13 \$ million	2013-14 \$ million	2014-15 \$ million	2015-16 \$ million
<b>NET OPERATING BALANCE</b>				
<b>2012-13 MYFER net operating balance</b>	<b>(6,699)</b>	<b>(783)</b>	<b>2,693</b>	<b>2,121</b>
Taxation revisions <sup>2</sup>	(13)	(129)	(204)	(292)
Royalty revisions	(122)	(452)	(403)	(311)
GST revisions	(132)	(210)	(223)	(131)
Natural disaster revisions <sup>3</sup>				
<i>Change in revenue</i>	(31)	(1,241)	1,243	775
<i>Change in expenses</i>	774	(851)	(896)	..
<i>Net change</i>	743	(2,092)	347	775
Measures <sup>4</sup>				
<i>Expense</i>	(30)	(162)	(217)	(180)
<i>Revenue</i>	..	259	386	409
<i>Net</i>	(30)	98	169	229
Net flows from PNFC sector entities <sup>5</sup>	98	7	(36)	(44)
Australian Government funding revisions <sup>6</sup>	159	(325)	98	(30)
Other parameter adjustments <sup>7</sup>	1,255	126	(350)	(274)
<b>2013-14 Budget net operating balance</b>	<b>(4,741)</b>	<b>(3,760)</b>	<b>2,091</b>	<b>2,043</b>
<b>FISCAL BALANCE</b>				
<b>2012-13 MYFER fiscal balance</b>	<b>(11,213)</b>	<b>(4,647)</b>	<b>534</b>	<b>670</b>
Change in net operating balance	1,958	(2,977)	(602)	(78)
Natural disaster capital revisions <sup>3</sup>	(59)	(616)	(179)	..
Measures	527	(73)	(73)	(44)
Other capital movements <sup>8</sup>	101	648	75	517
<b>2013-14 Budget fiscal balance</b>	<b>(8,686)</b>	<b>(7,664)</b>	<b>(244)</b>	<b>1,065</b>
<b>Notes:</b> 1. Numbers may not add due to rounding. Denotes impact on the operating and fiscal balance. 2. Represents parameter adjustments to taxation revenue. It does not include taxation revenue measures. 3. Represents movements in revenue, expense and capital for natural disaster restoration and largely represents the State's cost of damage from ex-Tropical Cyclone Oswald and a re-cashflowing of expenditure and revenue. 4. Reflects the value of Government decisions since the 2012-13 MYFER. This number will not match Budget Paper 4 – Budget Measures as it excludes measures funded by the Commonwealth Government since the 2012-13 MYFER and is net of funds held centrally for these measures. 5. Represents revisions to dividends and tax equivalent payments from, and community service obligation payments to, PNFCs and PFCs. 6. Represents the net impact of funding provided by the Australian Government primarily for Specific Purpose Payments and National Partnership payments. 7. Refers to adjustments largely of a non-policy nature, primarily a reduction in expected redundancy payments, additional revenue from cash bidding which cannot be disclosed for commercial reasons, changes in interest paid on borrowings, changes in depreciation, growth funding and administered revenue. 8. Refers to capital movements including the change in timing of capital payments including deferrals, capital payables and receivables and changes in inventories and depreciation.				

## Responding to disasters

Ex-Tropical Cyclone Oswald, and the flooding that followed, brought destruction to 57 Queensland local government areas from January to March 2013. Many of these areas were still recovering from the enormous loss and damage brought by the natural disasters of 2010 to 2012.

While the magnitude and widespread nature of the disasters makes it difficult to calculate a precise fiscal impact, the Queensland Reconstruction Authority estimates the expenditure associated with ex-Tropical Cyclone Oswald at \$2.5 billion. These repair and recovery costs are additional to the cost of other recent significant natural disasters and bring total disaster spending over the 2012-13 to 2014-15 period to \$9.3 billion.

**Table 1.4**  
**Cost of Natural Disasters<sup>1</sup>**

	2012-13 \$ million	2013-14 \$ million	2014-15 \$ million	Total \$ million
<b>Ex-Tropical Cyclone Oswald</b>				
Roads	100	400	400	900
State Assets and Assistance	186	84	8	277
Local Government Assets	107	432	797	1,336
<b>Total<sup>2</sup></b>	<b>393</b>	<b>916</b>	<b>1,205</b>	<b>2,513</b>
<b>All Disasters</b>				
Roads	2,028	2,094	632	4,754
State Assets and Assistance	259	84	8	351
Local Government Assets	1,190	2,009	962	4,161
<b>Total<sup>2</sup></b>	<b>3,477</b>	<b>4,187</b>	<b>1,602</b>	<b>9,267</b>
Notes:				
1. Numbers may not add due to rounding.				
2. Includes loans, which are not included in expenditure outlined in Table 1.5 because they do not impact the fiscal balance. Also includes the \$80 million Betterment Fund.				

## Betterment

On 8 February 2013, the Queensland Government signed the National Partnership Agreement with the Australian Government which recognised the need for a more streamlined process for the approval of Betterment funding. The Queensland Government asked the Australian Government to put \$100 million on the table to build more resilient infrastructure. However, Queensland was offered \$40 million which it has matched to create an \$80 million Betterment Fund.

A number of roads and bridges have been rendered inaccessible on multiple occasions as a result of weather events in recent years. A map identifying the number of times sections of the State-controlled road network have been impacted by events is available at [www.qldreconstruction.org.au](http://www.qldreconstruction.org.au).

The Queensland Government has identified a number of proposed betterment works, including sealing and strengthening road pavements and installing flood mitigation infrastructure. Betterment projects already benefiting from the Fund include:

- Gayndah Water Intake (North Burnett Regional Council)
- Blacks Road, Isis River (Bundaberg Regional Council)
- Barretts Road, Isis River (Bundaberg Regional Council)
- Gentle Annie Bridge, Apple Tree Creek (Bundaberg Regional Council).

### **Australian Government payments**

The Australian Government released its 2013-14 Budget on 14 May 2013. As well as reducing forecasts for Queensland's share of GST revenue, the Australian Government again reduced forecasts for health payments. Since the 2012-13 Budget, the Australian Government has reduced health funding forecasts by approximately \$476 million across the forward estimates.

In addition, the Australian Government has continued its practice of moving cash payments to suit its own fiscal requirements, rather than to align with the actual delivery of services. 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 increases the volatility of the Queensland Budget estimate and makes it difficult to identify underlying trends over time.

The timing of revenue and expenditure in relation to natural disasters has significantly impacted Queensland's headline fiscal balance. In particular, the Australian Government provided significant natural disaster funding in 2010-11 and 2011-12 in advance of spending requirements with the remaining payments in arrears of expenditure. This timing mismatch had the effect of improving Queensland's budget outcomes in 2011-12, but is negatively impacting the State's fiscal position in 2012-13 and 2013-14.

Table 1.5 outlines the impact of natural disaster arrangements on Queensland's fiscal balance.

<b>Table 1.5</b> <b>Impact of Natural Disaster Relief and Recovery Arrangements</b> <b>funding on the fiscal balance<sup>1,2</sup></b>					
	2012-13 \$ million	2013-14 \$ million	2014-15 \$ million	2015-16 \$ million	2016-17 \$ million
Published fiscal balance	(8,686)	(7,664)	(244)	1,065	1,409
<i>less</i> Disaster revenue <sup>3</sup>	1	..	3,177	1,083	..
<i>add</i> Disaster expenditure	3,452	4,161	1,602	..	..
<b>Underlying fiscal balance</b>	<b>(5,235)</b>	<b>(3,503)</b>	<b>(1,819)</b>	<b>(18)</b>	<b>1,409</b>
Notes: 1. Numbers may not add due to rounding. 2. Excludes loans provided through the State which do not impact the fiscal balance but are included in Table 1.4. 3. Once advance funding has been fully utilised, revenues are expected to occur in the financial year following the delivery of the works to which it relates.					

Further, the Queensland Government is continuing to gather the evidence required to ensure that some previous Natural Disaster Relief and Recovery Arrangements expenditure meets the Australian Government's eligibility requirements for entitlement to \$725 million in disaster reimbursement payments. Should a resolution not be reached and the Australian Government fails to reimburse Queensland for these disaster works, the impact of disasters over the forward estimates will be worse than that indicated in Table 1.5.

## BUDGET OUTCOMES 2012-13

### Key financial aggregates

<b>Table 1.6</b> <b>General Government sector – key financial aggregates, 2012-13<sup>1</sup></b>			
	2012-13 Budget \$ million	2012-13 MYFER \$ million	2012-13 Est. Act. \$ million
Revenue	42,224	41,565	41,785
Expenses	48,518	48,264	46,526
Net operating balance	(6,294)	(6,699)	(4,741)
<b>Fiscal balance</b>	<b>(10,768)</b>	<b>(11,213)</b>	<b>(8,686)</b>
Gross borrowing	41,309	41,742	38,864
Note: 1. Numbers may not add due to rounding.			



## **Operating balance**

The net operating balance estimated for 2012-13 is a deficit of \$4.741 billion, compared with a deficit of \$6.699 billion forecast in the 2012-13 MYFER.

The improvement in the forecast net operating balance since MYFER primarily reflects significantly lower expenditure across all expense types. Total expenses in 2012-13 are estimated to be \$1.738 billion lower than the MYFER forecast and are now estimated to be only 1.1% higher than the 2011-12 outcome.

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

## **Fiscal balance**

The fiscal balance estimated for 2012-13 is a deficit of \$8.686 billion, compared with a deficit of \$11.213 billion in the 2012-13 MYFER.

The improvement in the forecast fiscal balance since the 2012-13 MYFER primarily reflects the improvement in the operating position, combined with lower than expected capital expenditure, which largely reflects a change in the timing of capital spending as a result of the significant weather events in early 2013.

A reconciliation of the movements in the fiscal balance between the MYFER forecast and the 2013-14 Budget estimate of 2012-13 is provided in Table 1.3.

## **Cash Flows and Balance Sheet**

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

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

The General Government sector is expected to record a cash deficit in 2012-13 of \$9.843 billion compared to an \$11.314 billion deficit forecast in the MYFER. The smaller than expected cash deficit primarily reflects the improvement in the fiscal balance.

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

General Government purchases of non-financial assets (capital spending) in 2012-13 are estimated to be \$7.397 billion. This is \$285 million less than forecast in the MYFER, due to the impact of severe weather conditions, including ex-Tropical Cyclone Oswald.

## *Borrowings*

Net borrowings (additional borrowings for the year as itemised in the Cash Flow Statement) of \$9.043 billion are expected in 2012-13, \$3.056 billion less than forecast in the MYFER, primarily reflecting the lower cash deficit including the proceeds from the sale and leaseback of government office accommodation.

Gross borrowings (the stock of borrowings outstanding as stated in the Balance Sheet) of \$38.864 billion are estimated at 30 June 2013. The reduction in net borrowing requirements as a result of the improved fiscal position is the key driver of the gross borrowings estimate being \$2.878 billion less than the MYFER estimate.

### ***Public Non-financial Corporations sector***

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

The PNFC sector is expecting a net repayment of \$1.263 billion of borrowings in 2012-13, similar to the \$1.231 billion 2012-13 MYFER estimate, largely reflecting lower capital spending in the sector. Gross borrowings in the PNFC sector of \$30.626 billion are projected at 30 June 2013, slightly below the MYFER estimate of \$30.705 billion.

### ***Non-financial Public sector***

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

Net borrowings of \$7.779 billion are expected in the NFP sector in 2012-13, a decrease of \$3.089 billion compared with the 2012-13 MYFER estimate, primarily driven by the improvement in the fiscal balance in the General Government sector.

Gross borrowings of \$69.49 billion are projected at 30 June 2013, comprising \$38.864 billion in the General Government sector and \$30.626 billion in the PNFC sector. Total NFP sector borrowings are expected to be \$2.957 billion less than the MYFER estimate, largely reflecting the lower borrowing requirement in the General Government in 2012-13.

Capital purchases of \$11.355 billion are expected in the NFP sector in 2012-13, \$826 million lower than MYFER estimate.

## 2013-14 BUDGET AND OUTYEAR PROJECTIONS

### Key financial aggregates

Table 1.7 provides aggregate actual outcome information for 2011-12, estimated actual outcome information for 2012-13, forecasts for 2013-14 and projections for the outyears.

<b>Table 1.7</b> <b>General Government sector – key financial aggregates<sup>1</sup></b>						
	2011-12 Actual <sup>2</sup> \$ million	2012-13 Est. Act. \$ million	2013-14 Budget \$ million	2014-15 Projection \$ million	2015-16 Projection \$ million	2016-17 Projection \$ million
Revenue	45,794	41,785	44,677	51,235	51,838	53,205
Expenses	46,027	46,526	48,436	49,144	49,795	51,492
Net operating balance	(233)	(4,741)	(3,760)	2,091	2,043	1,713
<b>Fiscal balance</b>	<b>(5,482)</b>	<b>(8,686)</b>	<b>(7,664)</b>	<b>(244)</b>	<b>1,065</b>	<b>1,409</b>
Gross borrowing	29,513	38,864	47,196	48,490	48,270	48,003
Notes: 1. Numbers may not add due to rounding. 2. Reflects published actuals.						

### Operating balance

#### *2013-14 Budget*

A net operating deficit of \$3.76 billion is budgeted for 2013-14, compared with an estimated deficit of \$783 million in the MYFER.

The deterioration in the forecast operating position since MYFER is largely driven by the incorporation of expenditure associated with ex-Tropical Cyclone Oswald and changes to the timing of Natural Disaster Relief and Recovery Arrangement revenue.

As shown in Table 1.5, there is a significant mismatch between the timing of natural disaster revenue from the Australian Government and the timing of the associated expenditure.

Grant funding from the Australian Government, excluding GST, is expected to be approximately \$1.5 billion lower in 2013-14 than estimated at MYFER. The main contributors to this reduction are changes in the timing of funding for natural disasters and local government grant funding (paid via the State) being brought forward into 2012-13.

The other key drivers in the deterioration of the forecast 2013-14 net operating position since the 2012-13 MYFER are:

- a \$452 million reduction in forecast royalty revenue, largely due to a weaker outlook for coal prices
- a \$210 million reduction in Queensland's forecast share of GST revenue, as a result of the Australian Government revising down the size of the national GST pool and also revising down Queensland's share of the national population
- a \$129 million underlying reduction in taxation revenue, primarily reflecting a slower recovery in property market activity and weakness in taxable land values.

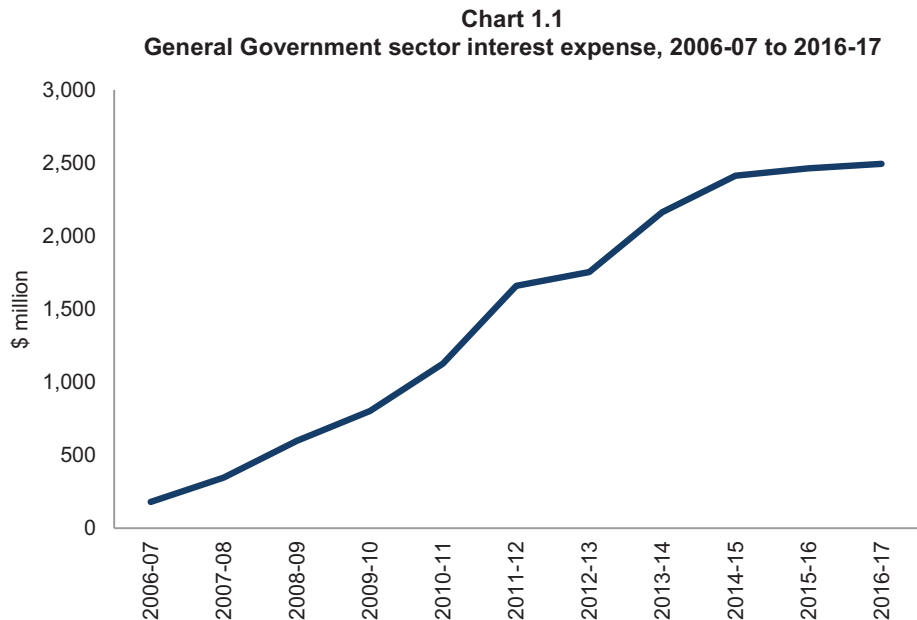
### *Forward estimates*

Significant improvements in the net operating balance are projected over the forward estimates as a result of the fiscal repair measures announced in the 2012-13 Budget, which were estimated to improve the fiscal balance by an average of \$2.4 billion per annum from 2013-14 onwards.

The 2013-14 Budget demonstrates the Government's ongoing commitment to fiscal discipline. While the Government is implementing service delivery enhancements, such as Great Teachers = Great Results, the budget impact of spending measures since the 2012-13 Budget has been offset across the forward estimates by saving and revenue measures.

Total operating expenses are expected to grow by 4.1% in 2013-14, with the largest component of this growth relating to grants to local governments associated with disaster recovery. Abstracting from disaster related expenditure, operating expenses are expected to grow by 2.8%. Expenses are projected to continue to grow modestly from 2014-15 onwards.

The Independent Commission of Audit’s Interim Report found that interest expense had been the fastest growing expense in the decade to 2010-11. Chart 1.1 shows that General Government sector interest expense continues to grow in 2013-14 and 2014-15 before stabilising, consistent with the profile for gross borrowings.



In terms of revenue, the most significant underlying changes since the MYFER relate to downward revisions in royalty, GST and tax forecasts. These reductions have been partly offset by the introduction of revenue measures in relation to payroll tax, insurance duty and the Emergency Management, Fire and Rescue Levy.

Further details on revenue and expense projections are contained in Chapters 3 and 4, respectively.

## **Fiscal balance**

A fiscal deficit of \$7.664 billion is budgeted for 2013-14. As with the operating balance, the estimated fiscal balance is significantly impacted by the expenditure associated with natural disasters, including ex-Tropical Cyclone Oswald, and the timing of Australian Government funding, particularly 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 1.5 earlier in this chapter.

The extent of this mismatch in 2013-14, now estimated at \$4.161 billion, has increased substantially since MYFER, where it was estimated at \$1.453 billion.

The fiscal deficit expected in 2013-14 represents a \$3.017 billion deterioration from the 2012-13 MYFER estimate of \$4.647 billion, largely reflecting the revisions to the operating position.

From 2014-15 onwards, there is a significant improvement in the fiscal balance each year as natural disaster expenses reduce and revenue grows faster than expenditure.

## **Cash Flows and Balance Sheet**

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

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

A cash deficit of \$7.469 billion is expected for the General Government sector in 2013-14, reducing to \$134 million in 2014-15, with cash surpluses in excess of \$1 billion projected from 2015-16 onwards.

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

Total General Government capital purchases of \$7.13 billion are budgeted for 2013-14, slightly lower than the \$7.228 billion forecast in the 2012-13 MYFER. Budget Paper 3 – Capital Statement provides details of budgeted 2013-14 capital outlays, by portfolio.

Over the period 2013-14 to 2016-17, purchases of non-financial assets (capital purchases) in the General Government sector of \$20.928 billion are planned.

#### ***Borrowings***

Net borrowings of \$7.966 billion are budgeted for 2013-14, with the \$2.352 billion deterioration since 2012-13 MYFER driven by the same factors as the deterioration in the fiscal balance. Net borrowing requirements improve significantly across the forward estimates, leading to a stabilisation of debt.

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 \$47.196 billion are expected in the General Government sector at 30 June 2014, similar to the 2012-13 MYFER forecast of \$47.103 billion, reflecting the lower borrowing requirement in 2012-13 being offset by the higher borrowing requirement in 2013-14.

Over the Budget and forward estimates period, total General Government net borrowings of \$8.74 billion are planned. Gross borrowings are expected to peak at \$48.49 billion at 30 June 2015, before declining slightly to \$48.003 billion at 30 June 2017. This would represent the first reduction in General Government gross borrowings since 2005-06.

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

Net borrowings in 2013-14 are estimated at \$8.496 billion, compared to a 2012-13 MYFER forecast of \$6.839 billion. This largely reflects the deterioration in the General Government sector's fiscal balance, partially offset by a lower than expected borrowing requirement in the PNFC sector.

Total net borrowings across 2013-14 and the forward estimates are expected to be \$11.653 billion. These borrowings represent less than a third of the planned \$36.274 billion of purchases of non-financial assets in this period, which includes \$15.346 billion in the PNFC sector.

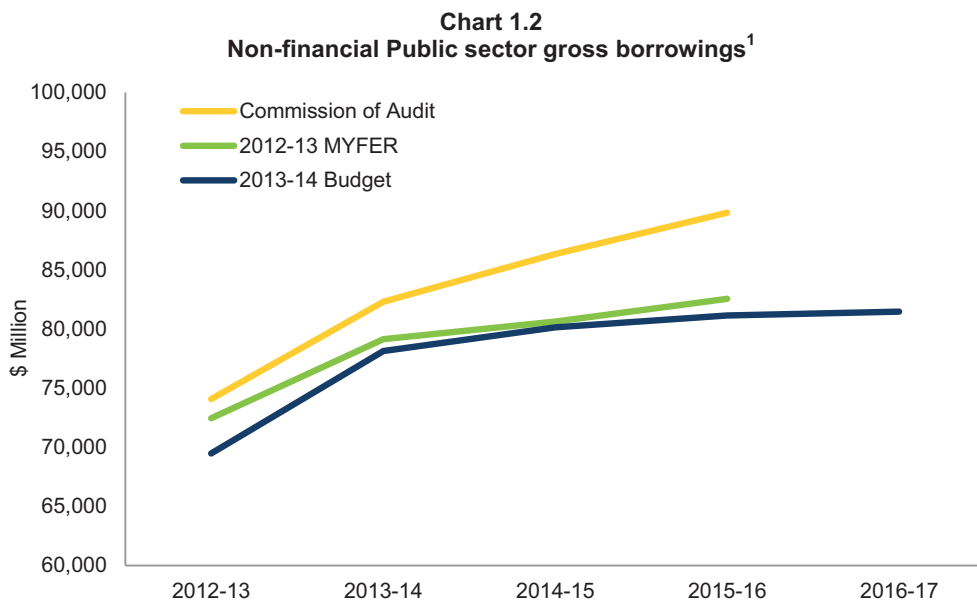
Gross NFP sector borrowings of \$78.125 billion are expected at 30 June 2014, \$1 billion below the 2012-13 MYFER forecast of \$79.135 billion, reflecting a lower borrowing requirement in the PNFC sector.

As outlined in Table 1.8, gross borrowings are expected to reach \$80.147 billion at 30 June 2015, \$6.179 billion lower than the comparable Independent Commission of Audit Interim Report estimate.

<b>Table 1.8</b>					
<b>Non-financial Public sector – revisions to gross borrowings</b>					
	2012-13 \$ million	2013-14 \$ million	2014-15 \$ million	2015-16 \$ million	2016-17 \$ million
CoA Interim Report <sup>1</sup>	74,080	82,293	86,326	89,838	n/a
2012-13 MYFER	72,447	79,135	80,638	82,536	n/a
2013-14 Budget	69,490	78,125	80,147	81,137	81,465
<b>Reduction since CoA</b>	<b>4,590</b>	<b>4,168</b>	<b>6,179</b>	<b>8,701</b>	<b>n/a</b>
Note: 1. Independent Commission of Audit (CoA) Interim Report borrowing numbers have been adjusted to ensure comparability with the 2012-13 MYFER and 2013-14 Budget.					

Chart 1.2 illustrates that NFP sector borrowings are lower in each year of the forward estimates compared to the 2012-13 MYFER. This is primarily driven by lower borrowings in the PNFC sector largely as a result of reforms in the water entities. In particular, Seqwater (resulting from the merger of several entities) has substantially improved its operating position across the forward estimates resulting in a significantly lower borrowing.

Further, Chart 1.2 shows that borrowings stabilise around \$81 billion from 2015-16 onwards, an important first step in regaining a AAA credit rating.



Note:

1. Independent Commission of Audit Interim Report borrowing numbers have been adjusted to ensure comparability with the 2012-13 MYFER and 2013-14 Budget.



## **FISCAL STRATEGY AS A GUIDING PRINCIPLE FOR POLICY**

The Government undertook significant fiscal reform in the 2012-13 Budget. Without this reform the Government would not have been as well placed to meet the costs associated with the rebuilding task arising from the ex-Tropical Cyclone Oswald. However, the extent of the disaster repairs and continued weakness in global economic conditions has created further fiscal challenges for Government.

### **Savings on Track**

The 2012-13 Budget included measures worth \$7.766 billion over the period 2012-13 to 2015-16, comprising:

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

These measures were largely achieved by Government exiting activities that are not the domain of the Queensland Government, by reducing waste and inefficiency in Government activities and by implementing specifically targeted revenue measures.

The Government implemented a number of expense measures in late 2011-12 (for example, \$431.2 million from 2011-12 to 2014-15 from the abolition of redundant carbon schemes) or part way through 2012-13 (for example, \$287.7 million from 2012-13 to 2015-16 from ceasing state employment programs which are appropriately the responsibility of the Australian Government). Once implemented, these measures resulted in ongoing annual savings.

Another major component of the 2012-13 Budget fiscal measures was a 14,000 reduction in Full Time Equivalent (FTE) positions in 2012-13 including 10,600 redundancies. As outlined in Chapter 4, the Government is now estimating the reduction in FTEs in 2012-13 to be 12,800, including approximately 9,200 redundancies.

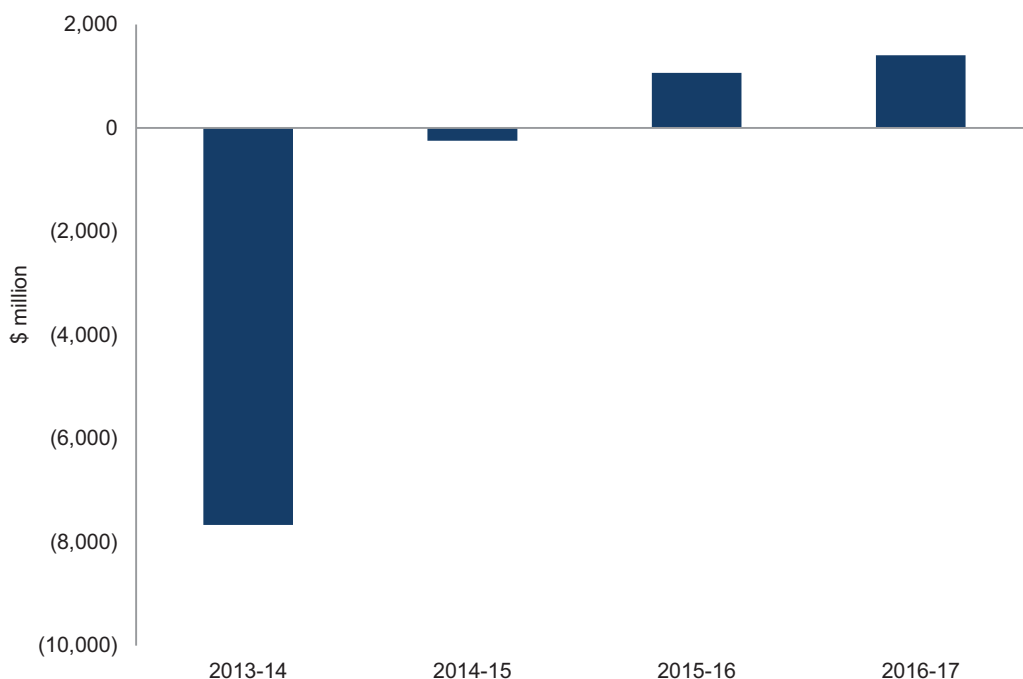
The Government has clearly demonstrated its ability to manage expenditure, with operating expenses in 2012-13 estimated to be \$2 billion lower than budgeted. It is estimated that total operating expenses in 2012-13 will be only 1.1% above 2011-12 levels.

Ongoing monitoring of Government activity will ensure that forecast savings continue to be met across the forward estimates. As part of this monitoring process, the Government has decided that departments will achieve further savings of \$100 million per annum from 2013-14. More detail on this measure can be found in Chapter 4 of this Budget Paper and in Budget Paper 4 – Budget Measures.

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

As a consequence of the fiscal repair decisions made in the 2012-13 and 2013-14 Budgets, there are significant improvements in the General Government sector fiscal balance (Chart 1.3).

**Chart 1.3**  
**General Government sector fiscal balance**  
**2013-14 Budget**

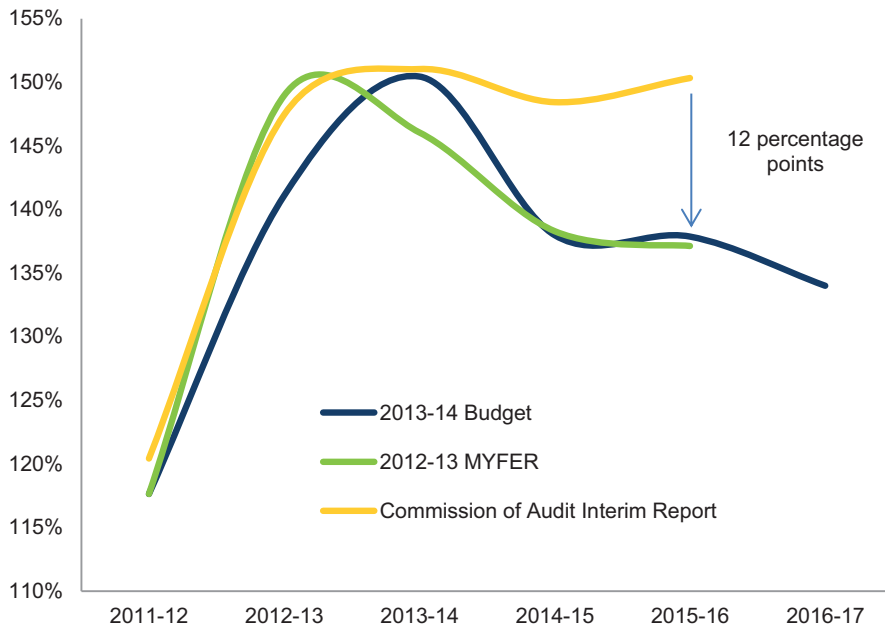


### ***Borrowings***

As a result of the Government's fiscal repair efforts, there has been a significant improvement in borrowing projections since the Independent Commission of Audit Interim Report. Borrowings are now projected to be approximately \$6.2 billion less in 2014-15 and around \$8.7 billion less in 2015-16 than outlined in the Independent Commission of Audit Interim Report (comparable figure).

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

**Chart 1.4**  
**Debt to revenue ratio**  
**Independent Commission of Audit Interim Report to 2013-14 Budget**



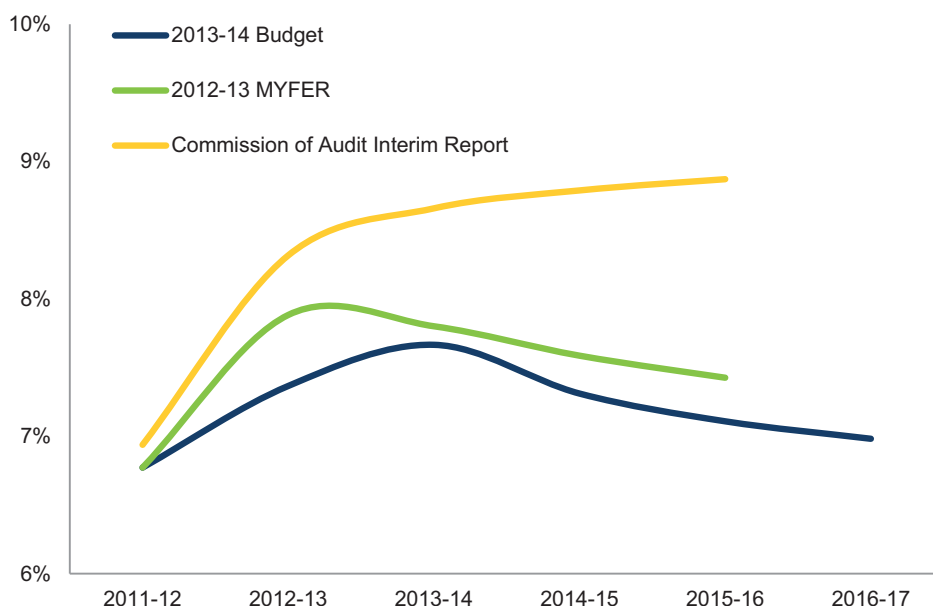
Queensland Governments have previously also placed a significant emphasis on the ratio of net financial liabilities to revenue, partly reflecting the prominence this measure previously had in Standard and Poor's credit rating reports.

Superannuation liabilities, which are a key component of net financial liabilities, are required by Australian Accounting Standards to be valued with reference to Australian Government long term bond yields. As bond yields have fallen significantly in recent years, the accounting value of superannuation liabilities has increased substantially. Standard and Poor's has noted that the rise in valuation of superannuation liabilities has not reflected a material shift in the economic position of the liabilities. In conjunction with concerns about the interstate comparability of valuation estimates across the Budget period, this has led Standard and Poor's to consider that the net financial liabilities to revenue ratio is less informative than previously considered. Accordingly, it is now given less prominence in their rating analysis, with the key factors in the 'debt burden' assessment now being the NFP sector debt to revenue ratio and NFP sector interest to revenue ratio.

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

The Budget projections of interest expenses (consistent with the implied yield curve) assume that bond yields will increase across the forward estimates period, which will impact on the cost of new borrowings and the refinancing of existing borrowings. However, given the potential for volatility in financial markets, there is a risk that bond yields, and therefore interest expense, will be higher than currently projected.

**Chart 1.5**  
**Comparison of projected NFP sector interest expense to revenue ratio**  
**Independent Commission of Audit Interim Report to 2013-14 Budget**



## ***Fiscal Principles***

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

A debt to revenue 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*

The Independent Commission of Audit's Interim Report emphasised that fiscal repair requires 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 operating position (depreciation and maintenance are expensed) with any operating surplus used to fund new capital expansion. The size of that surplus should be determined by the appropriate size of the capital program and the sustainability of current debt levels.

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

Accordingly, the fiscal balance has replaced the operating balance as the primary fiscal target of the Government.

In the 2013-14 Budget, the Government has implemented savings and revenue measures that offset expenditure decisions since MYFER, and is continuing to deliver the savings outlined in the 2012-13 Budget. Nevertheless, the scale of natural disasters and revenue write-downs has resulted in a modest fiscal deficit of \$244 million (or 0.5% of General Government revenue) being projected for 2014-15. The Government will continue to pursue a fiscal balance in 2014-15 as a policy objective.

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

Queensland has a competitive tax environment for business. Queensland's General Government taxation revenue as a percentage of gross state product has fallen over the past decade (in part reflecting the relative weakness in the property sector and the abolition of state taxes under the Intergovernmental Agreement on Federal Financial Relations). Queensland's tax take, on a per capita basis, 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.

Uniquely, despite the very difficult climate in investment markets over recent years (and with the transfer of the Queensland Motorways Ltd asset), Queensland's superannuation liabilities remain fully funded as per the last formal actuarial valuation. The Australian Government and other states have plans that aspire to this over the coming decades.

## ACHIEVEMENT OF FISCAL PRINCIPLES

The Government's fiscal consolidation efforts have also allowed it to make significant progress in the achievement of its fiscal principles. Table 1.9 outlines the Government's progress against its fiscal principles. While a fiscal surplus is not currently projected for 2014-15, this principle remains within reach.

**Table 1.9**  
**The fiscal principles of the Queensland Government**

Principle	Indicator		
Stabilise then significantly reduce debt (Non-financial Public sector)	Debt to Revenue Ratio		
		2012-13 MYFER per cent	2013-14 Budget per cent
	2012-13	149	141
	2013-14	146	150
	2014-15	138	138
	2015-16	137	138
	2016-17	n/a	134
Achieve and maintain a General Government sector fiscal balance by 2014-15	General Government Fiscal Balance		
		2012-13 MYFER (\$ million)	2013-14 Budget (\$ million)
	2012-13	(11,213)	(8,686)
	2013-14	(4,647)	(7,664)
	2014-15	534	(244)
	2015-16	670	1,065
	2016-17	n/a	1,409
Maintain a competitive tax environment for business	Taxation revenue per capita, 2013-14		
	Queensland:		\$2,528
	Average of other states and territories:		\$3,003
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.		

**Box 1.1**  
**Independent Commission of Audit**  
**Final Report**

The Independent Commission of Audit was established on 26 March 2012 in keeping with the Government's election commitment.

The Independent Commission's Interim Report was released in June 2012 and focussed on the immediate fiscal repair task – that was, addressing the unsustainable gap between expenditure and revenue growth and the consequent rapid rise in State debt.

The Government took steps to address these issues in the 2012-13 Budget.

The Independent Commission delivered its Final Report in February 2013. The Final Report is focussed on the role and operations of Government in a modern economy.

The Final Report is essentially about ways in which the quality and quantity of frontline services can be improved, including models that make better use of the skills, capacity and innovation of the private and not-for-profit sectors.

The Queensland Government wants to be able to provide more services to Queenslanders and improve the quality of those services.

The Queensland Government's view is that the best way to expand and improve services is to fundamentally change the way in which its services are structured and managed.

Government has accepted the overwhelming majority of the recommendations in the Final Report. In many cases, it is possible to identify examples which already put the Government on the path to implementation. In other cases, recommendations that imply major change represent what has been standard practice in some other states for many years.

Nonetheless, the implementation task will be considerable and will need to be staged. Some recommendations can be implemented quickly. Others will take several years or will be ongoing in nature.

Many of the recommendations relate to contestability. Contestability is not an outcome, but rather a process whereby Government tests the market to ensure it is providing the public with the best possible solution at the best possible price.

The Government is determined to transition to the enabler. It does not always need to be the provider. In a modern Queensland, citizens care much less about who is the provider – they care about access, quality and timeliness of the services they receive.

The Government's response to the Final Report is set out in *A Plan – Better Services for Queenslanders*: [www.treasury.qld.gov.au/coa-response/better-services.shtml](http://www.treasury.qld.gov.au/coa-response/better-services.shtml).





## 2 ECONOMIC PERFORMANCE AND OUTLOOK

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### FEATURES

- Economic growth in Queensland's major trading partners is expected to strengthen from 2¾% in 2013 to 3¼% per annum from 2014 onwards, with non-Japan Asia continuing to be the main driver of growth.
- Queensland again faced the challenge of severe weather conditions in early 2013, with the impact on economic production estimated to be around one quarter of a percentage point of gross state product. As a result, Queensland economic growth is estimated to be 3½% in 2012-13, compared with 3¾% forecast in the 2012-13 Mid Year Fiscal and Economic Review.
- For three years, business investment has been boosted by the extraordinarily large investment in three liquefied natural gas (LNG) projects, whose capital expenditure exceeds \$60 billion in the construction phase. This investment is expected to peak in 2013. With no projects of similar size currently committed to commence construction, the staged completion of these three mega-projects will see business investment fall in each year from 2013-14 to 2015-16.
- However, this unwinding of LNG investment masks a forecast improvement in investment conditions outside of the resources sector. This is in line with the Government's strategy of broadening the economy through focusing on the four pillars of construction, tourism, resources and agriculture.
- Meanwhile, household consumption and dwelling investment are expected to strengthen over the forecast period due to a combination of low interest rates, stronger income growth and faster population growth.
- The resources sector is moving from an investment phase towards an export phase. Specifically, the ramp up in LNG production will drive growth in overseas exports by 2¾% in 2015-16 which, combined with a stronger domestic sector, will boost economic growth to 6% in that year.
- The forecast strengthening in the household sector is expected to drive a recovery in employment growth from 2013-14 onwards and a steady improvement in the unemployment rate from 6% in 2013-14 to 5½% in 2015-16.

## EXTERNAL ENVIRONMENT

### International conditions

Economic growth in Queensland's major trading partners in 2013 is estimated to be 2¾%, similar to that recorded in 2012. Growth is anticipated to strengthen to 3¼% per annum from 2014 onwards, with non-Japan Asia continuing to be the main driver of growth. These rates remain below the annual average of 3.7% in the decade to 2007, immediately preceding the global financial crisis (GFC).

<b>Table 2.1</b> <b>Queensland's major trading partners' economic outlook<sup>1</sup></b>						
	Actual	Forecasts				
	2012	2013	2014	2015	2016	2017
Major trading partners	2.6	2¾	3¼	3¼	3¼	3¼
Non-Japan Asia	4.0	5	5¼	5½	5½	5¼
China	7.8	8¼	8	7¾	7¾	7¼
India <sup>2</sup>	5	6	6¾	7¼	7½	7½
Japan	2.0	1¼	1¼	1	1	1¼
Europe	-0.5	-¼	1	1½	1¾	1¾
US	2.2	2	2¾	3	3	2¾
Notes: 1. Annual % change. Decimal point figures indicate an actual outcome. 2. India's economic growth profile is on a fiscal year basis (April to March). <i>Sources: International Monetary Fund, Consensus Economics and Queensland Treasury and Trade.</i>						

The US economy is improving. The unemployment rate in the US has fallen from a peak of 10.0% in late 2009 to 7.5% by mid-2013, while non-farm employment has almost returned to its pre-GFC peak. Meanwhile, following a stagnation of around two and a half years, housing starts in the US have improved, surpassing an annualised total of one million units in March 2013. However, the pace of recovery has so far been weaker than previous recoveries, mainly due to a cautious household sector limiting growth in consumer spending and fiscal consolidation lowering government spending since 2011.

Economic growth in the US is forecast to be 2% in 2013, slightly weaker than the 2.2% growth recorded in 2012, reflecting scheduled government spending cuts beginning in March 2013. While budget cuts are expected to restrain growth in the short term, their contribution towards a more sustainable recovery in the longer term has already been felt, with the private sector becoming a more prominent engine of growth in the past two years. An anticipated improvement in spending by the household sector, supported by stronger employment conditions and continuing low interest rates, should see US economic growth strengthen from 2014 onwards.

In Japan, economic growth in 2012 was boosted by reconstruction related government expenditure, offsetting the decline in exports due to subdued overseas demand and high Yen exchange rates. Recognising the underlying weakness of the economy, the Bank of Japan launched another round of quantitative easing in September and October 2012. Subsequently, a large scale fiscal stimulus package was announced by the Japanese Government in January 2013.

In an attempt to end the deflation spiral in Japan, the Bank of Japan implemented an aggressive monetary easing regime in April 2013 that aims to lift the country's inflation rate to the Bank's increased target of 2% per annum in two years. As a result of these stimulatory policies, growth prospects for the Japanese economy have improved, with a moderate recovery anticipated from mid-2013 onwards. However, scheduled increases in the consumption tax in 2014 and 2015, together with an unwinding in reconstruction spending, may disrupt the pace of the recovery at that time.

Confronted by weakening overseas demand, Korea's economic growth moderated to 2.0% in 2012. Although overseas demand may improve somewhat in 2013, the recent sharp depreciation of the Yen is likely to adversely affect Korea's export performance and, therefore, its overall economic growth, due to the similarity of the two countries' export profiles.

Despite the announcement of a large fiscal stimulus package in September 2012 and an easy monetary stance resulting in social financing increasing almost 23% in 2012, China's economic growth slowed to 7.8% in the year. The focus of the new national leaders on income redistribution, together with the longer term objective of a more domestically driven economy, is expected to see China's economic growth moderate somewhat during this transition phase. However, China's demand for resources from overseas is not expected to wane, due to the intention of the Chinese Government to limit the pace of growth in domestic mining.

With the implementation of "Outright Monetary Transactions" and the establishment of the "European Stability Mechanism" in September 2012, the risk of a financial meltdown in the Euro Area has been largely averted. However, large scale fiscal austerity in some peripheral economies and the risk averseness of the banking sector pushed the Euro Area deeper into recession over the course of 2012. This trend is expected to continue in 2013, with the realisation of an anticipated recovery in 2014 hinging on the progress of banking and fiscal unions in the region. Confidence remains fragile, as seen during the crisis in Cyprus in early 2013.

## Assumptions

Forecasts for the Queensland economy are based on several assumptions, including about the RBA's monetary policy stance, the A\$ exchange rate and seasonal conditions over the forecast period:

- in line with market expectations, the official cash rate is assumed to be lowered some time in 2013-14, with the easing cycle ending in early 2015. The official cash rate is anticipated to gradually move toward a more neutral level by the end of 2016-17
- as anticipated in the 2012-13 State Budget, the A\$ has remained well above parity with the US\$ for most of 2012-13. The ongoing appetite for Australian debt is expected to see the A\$ remain close to parity in 2013-14, before gradually easing over the remainder of the forecast period, as global monetary and economic conditions improve. Recent volatility in the exchange rate has seen the A\$ fall below parity. This has occurred more quickly than the budget projections, but current levels would need to be sustained for a number of months before forecasts would need to be adjusted
- after flooding in early 2013, seasonal conditions in the State as a whole are assumed to return to normal from 2013-14 onward. However, uneven rainfall distribution has meant that parts of western and south western Queensland were recently drought declared.

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

## QUEENSLAND ECONOMY

### Summary of conditions and outlook

Growth in Queensland gross state product (GSP) rebounded strongly in 2011-12, to 4.0%, mainly driven by a surge in business investment, as construction ramped up on major LNG and coal projects, as well as solid household consumption growth boosted by several temporary factors.

Queensland again faced the challenge of severe weather conditions in early 2013, with the impact on economic production estimated to be around one quarter of a percentage point of GSP in 2012-13 (see Box 2.1). Meanwhile, spending by businesses and households is expected to contribute less to growth, as mining investment approaches its peak and the impact of the 2011-12 transitory factors on consumption passes. Despite these negative impacts, a strengthening in exports growth will see overall economic growth ease only slightly in 2012-13, to 3½%.

Looking ahead, sustained low interest rates, stronger population growth and rising asset prices are expected to strengthen spending by the household sector. However, the staged completion of the three LNG projects will see business investment fall in each year from 2013-14 to 2015-16, lowering overall economic growth in 2013-14 and 2014-15, to 3% in each of these two years. However, the ramp up in LNG production by 2015-16 will lead to growth in overseas exports of 23¼% in 2015-16 which, combined with a stronger domestic sector, should boost economic growth to 6% in that year.

The forecast strengthening in the household sector is expected to support a recovery in employment growth from 2013-14 onwards and a steady improvement in the unemployment rate, from 6% in 2013-14 to 5½% in 2015-16. Further discussion of the labour market (including the participation rate) can be found later in this chapter.

**Table 2.2**  
**Economic forecasts/projections, Queensland<sup>1</sup>**

	Outcome	Estimate	Forecasts		Projection	
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
<b>Gross state product</b>	<b>4.0</b>	<b>3½</b>	<b>3</b>	<b>3</b>	<b>6</b>	<b>4½</b>
Employment	1.3	¼	2¼	2½	2¾	2¾
Unemployment rate	5.5	6	6	5¾	5½	5¼
Inflation	1.9	2¼	2½	2½	2½	2½
Wage Price Index	3.7	3¼	3½	3½	3½	3½
Population <sup>2</sup>	1.8	2	2	2¼	2¼	2¼

Notes:

1. Annual % change, except for unemployment rate. Decimal point figures indicate an actual outcome.

2. Calculated using population flows data. See paragraph 23 of Technical Note to ABS publication 3101.0.

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

### **Box 2.1**

#### **Impact of early 2013 floods on the Queensland economy**

In an eight day period ending 29 January 2013, the entire coastal area of Queensland received an extraordinary amount of rainfall from ex-Tropical Cyclone Oswald, with particularly large totals recorded in the Central Coast, Wide Bay-Burnett and Gold Coast Hinterland regions. This rainfall resulted in severe flooding, with the Burnett River experiencing record flood peaks and devastating several communities. Strong winds with gusts in excess of 100 km/h, large waves, storm surges and several tornadoes also added to the destruction.

In terms of losses to economic production, the impact of this extreme weather event is estimated to be in the order of \$500 million to \$750 million in 2012-13, or a detraction of around one quarter of a percentage point in gross state product.

This estimate is of the direct impact of the disasters on economic output and therefore does not include the damage bill for private and business premises and public property, such as schools and roads.

There was a substantial impact on agricultural production in the Wide Bay-Burnett, Lockyer and Fassifern Valley areas, including sugar cane, fruit and vegetable production. The Department of Agriculture, Fisheries and Forestry estimates losses from the event of around \$300 million in the gross value of agricultural production in 2012-13. This estimate includes destroyed crops, reduction in yields, downgrades to quality, waterlogging and livestock losses.

In other primary industries, coal mining operations and transportation were temporarily disrupted, with the important Blackwater rail system closed for several days and the Moura coal line closed for almost a month.

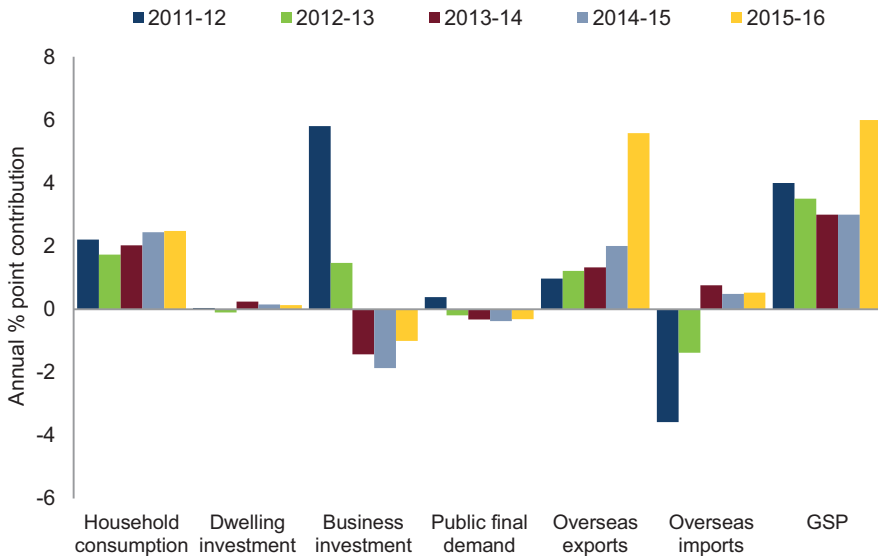
While devastating for affected communities, the economic impact of this weather event is expected to be much less than that of floods and Cyclone Yasi in 2010-11, when assessed at a whole of State level. The key difference is that many coal mines were flooded in the 2010-11 event, leading to a significant loss in coal production of around A\$5.7 billion in that year.

In addition, while Cyclone Yasi also caused significant damage to the State's banana and sugar crops in 2011, the primary growing areas for these crops were not affected as much in the latest event. Further, although this event spanned most tourism regions, there appears to have been limited knock-on effects to Queensland's reputation as a tourism destination, suggesting the direct loss of tourism exports attributable to the latest event is much smaller than in 2010-11.

The economic impact of this weather event will be partly offset by reconstruction activity and a range of disaster relief payments from the Queensland and Federal Governments. Natural Disaster Relief and Recovery Arrangements are assisting Queenslanders. These arrangements include personal hardship assistance and a range of grants and concessional loans for primary producers, small business and non-profit organisations.

Australian Government Disaster Recovery Payments (AGDRP) to affected households and Disaster Income Recovery Subsidy (DIRS) payments for affected employees and small businesses have exceeded \$100 million, with over 100,000 claims activated across Queensland. This compares with more than 700,000 claims totalling around \$845 million of combined AGDRP and DIRS payments following the 2010-11 Floods and Cyclone Yasi.

**Chart 2.1**  
**Contributions to growth in Queensland's gross state product<sup>1</sup>**

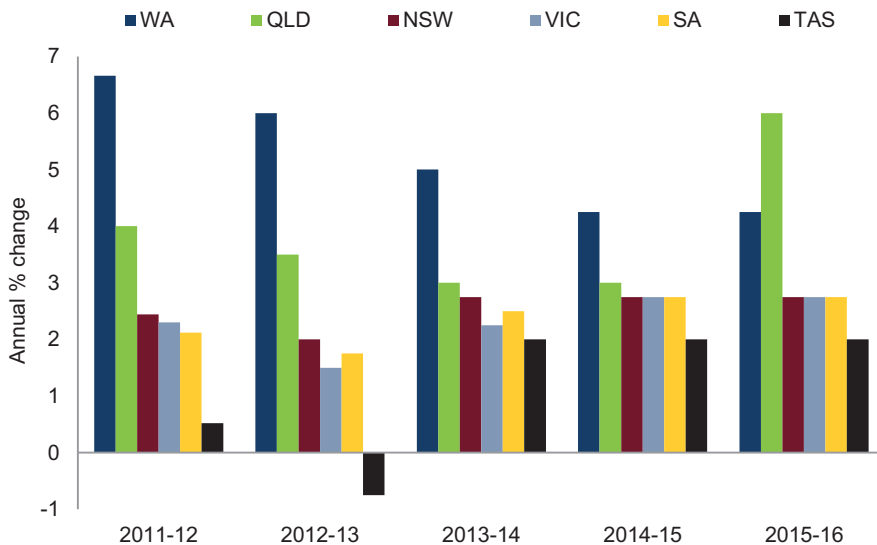


Note:

1. CVM, 2010-11 reference year. 2012-13 is an estimate and 2013-14 to 2015-16 are forecasts.

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

**Chart 2.2**  
**Economic growth, by state<sup>1</sup>**



Note:

1. CVM, 2010-11 reference year. 2011-12 are actuals, 2012-13 onwards are forecasts/projections.

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

## ***Household consumption***

Household consumption was boosted in 2011-12 by several temporary factors. First, food prices, which had increased sharply following the 2010-11 Queensland floods, returned to more normal levels, resulting in a strong increase in food consumption. Second, motor vehicle purchases rebounded as supply resumed following the March 2011 disasters in Japan. Finally, compensation payments for the introduction of the carbon tax supported spending in the June quarter 2012. With the passing of these factors, growth in household consumption is estimated to moderate in 2012-13, with an easing in growth already apparent in the first half of the financial year. Growth is also expected to be constrained by lower commodity prices and subdued labour market conditions, which are offsetting the impact of a recovery in population growth and strengthening asset prices.

Growth in household income is expected to accelerate from 2013-14 onwards, due to an expected increase in commodity and asset prices supporting growth in household income and wealth, faster population growth and a forecast improvement in employment conditions. Also, as the dwelling sector recovers, growth in consumption of household related items, which has been very subdued since late 2007, is expected to pick up and assist consumption growth from 2014-15 onwards.

## ***Dwelling investment***<sup>1</sup>

Despite weakness in new dwelling construction in 2011-12, a rebound in alterations and additions following the 2010-11 floods resulted in a slight increase in overall dwelling investment in the year. Investment in new dwellings troughed in late 2011, but with lower interest rates and faster net migration since then, has begun to recover. Moreover, after falling by 7.2% in the two years to June quarter 2012, house prices have stabilised and this appears to have induced some interest from investors. However, overall dwelling investment in 2012-13 is still estimated to decline, with slower growth in incomes and an unwinding of earlier renovation activity adversely affecting alterations and additions during the year.

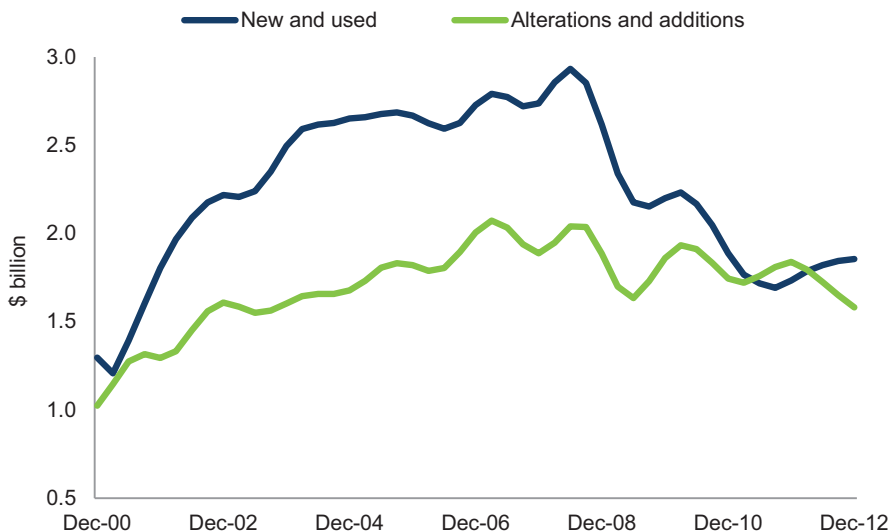
With growth in household income expected to accelerate and interest rates anticipated to remain at low levels until early 2015, both components of dwelling investment are forecast to increase from 2013-14 onwards. This recovery is also expected to be supported by a recovery in house prices, which will attract both owner occupiers and investors into the market, as well as the Government's Great Start Grant, which will encourage construction of new dwellings. However, the pick-up is expected to be more muted than has been the case historically. Growth in dwelling investment in later years is expected to be somewhat constrained by higher interest rates, as the RBA moves its monetary stance to a more neutral setting.

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<sup>1</sup> Preliminary construction work done data suggest that historical dwelling investment is likely to be revised in the March quarter 2013 State Details.



**Chart 2.3**  
**Dwelling investment<sup>1,2</sup>, by component, Queensland**



Note:

1. CVM, 2010-11 reference year, trend.
2. Preliminary construction work done data suggest that historical dwelling investment is likely to be revised in the March quarter 2013 State Details.

Source: ABS 5206.0.

## ***Business investment***

Business investment since 2010-11 has been dominated by the commencement of construction of three CSG (coal seam gas)-to-LNG projects. The first two projects, *Queensland Curtis LNG* and *Gladstone LNG*, began construction in late 2010 and early 2011 respectively while the third project, *Australia Pacific LNG*, started in mid-2011. With combined capital expenditure of these three projects exceeding \$60 billion, and a significant portion of these projects classified as engineering construction, total non-dwelling construction (engineering plus non-residential) more than doubled over the two financial years to 2011-12. In 2012-13, non-dwelling construction is still estimated to maintain double digit growth as the first two LNG projects have reached an advanced phase of construction, while construction of the third LNG project has ramped up.

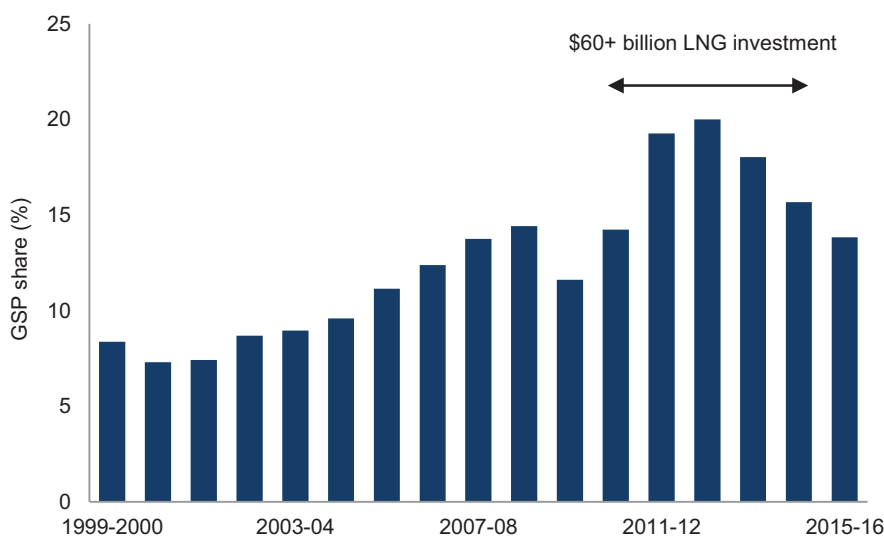
However, the strength of LNG investment has masked the general weakness in other business investment in 2012-13, which has been hindered by subdued global economic conditions and ongoing strength of the A\$. As a result, while non-dwelling construction is still expected to increase in 2012-13, investment in machinery and equipment is estimated to decline.

With LNG investment estimated to peak and two major coal mining projects scheduled to reach completion in 2013, business investment is forecast to decline in 2013-14, although the overall level will remain high. While there are potentially several significant mining projects in the pipeline, they are not expected to have reached the construction phase by that time. The staged completion of all three LNG projects will see business investment continue to fall in 2014-15 and 2015-16.

Although business investment is forecast to fall in each year from 2013-14 to 2015-16, it is still expected to be at high levels. Specifically, the GSP share of business investment is predicted to revert back to a more sustainable ratio of around 13¾% by 2015-16.

It should also be noted that the scheduled unwinding of LNG investment also masks the forecast improvement in investment conditions outside of the resources sector. Growth in non-LNG business investment is forecast to gradually strengthen from 2014-15 onwards, as global economic conditions are assumed to improve and the A\$ is projected to depreciate.

**Chart 2.4**  
**Business investment<sup>1</sup> as a share of GSP, Queensland**



*Note:*

1. 2012-13 is an estimate and 2013-14 to 2015-16 are forecasts.

Sources: ABS 5206.0 and Queensland Treasury and Trade.

**Table 2.3**  
**Queensland economic forecasts<sup>1</sup>, by component**

	Outcome	Estimate	Forecasts		
	2011-12 %	2012-13 %	2013-14 %	2014-15 %	2015-16 %
<b>Economic output<sup>2</sup></b>					
Household consumption	4.1	3¼	3¾	4½	4½
Private investment	27.0	5¾	-3¼	-5½	-2½
Dwellings <sup>3</sup>	0.7	-2	5	3	2½
Business investment	40.8	7½	-7¼	-10¼	-6½
Private final demand	10.9	4	1¼	1¼	2¼
Public final demand <sup>4</sup>	1.5	-¾	-1½	-1¾	-1½
State final demand	8.6	3	¾	½	1½
Net overseas exports <sup>5</sup>	-2½	-¼	2	2½	6
Overseas exports of goods and services	4.5	5½	6	8¾	23¼
Overseas imports of goods and services	22¾	7½	-4	-2¾	-3
<b>Gross State Product</b>	<b>4.0</b>	<b>3½</b>	<b>3</b>	<b>3</b>	<b>6</b>
<b>Other state economic measures</b>					
Inflation	1.9	2¼	2½	2½	2½
Wage Price Index	3.7	3¼	3½	3½	3½
Employment	1.3	¼	2¼	2½	2¾
Unemployment rate (% , year-average)	5.5	6	6	5¾	5½
<p>Notes:</p> <ol style="list-style-type: none"> <li>1. Unless otherwise stated, all figures are annual % changes. Decimal point figures indicate actual outcomes.</li> <li>2. CVM, 2010-11 reference year. Components not separately reported are other investment (livestock and orchards, intellectual property products and ownership transfer costs), the balancing item (including interstate trade and inventories) and the statistical discrepancy.</li> <li>3. Preliminary construction work done data suggest that historical dwelling investment is likely to be revised in the March quarter 2013 State Details.</li> <li>4. The decline in public final demand not only reflects the commitment to unwind the high deficits and unsustainable levels of spending by the previous government, it also allows the private sector to return as the main driver of the State's economic growth in the forecast period.</li> <li>5. Percentage point contribution to growth in gross state product.</li> </ol> <p>Sources: ABS 5206.0, 5220.0, 6202.0, 6345.0, 6401.0 and Queensland Treasury and Trade.</p>					

## ***Public final demand***

Very strong growth in government spending contributed significantly to economic growth over the second half of the decade to 2009-10. However the level of spending was not sustainable and drove up government debt, creating the risk of a massive adjustment if not quickly addressed. Continuing on the path established in the previous budget, this Budget further unwinds the high deficits and unsustainable levels of spending by the previous government. This consolidation at the state level is combined with Australian Government fiscal tightening. As a result, real public final demand (which is the sum of Federal, state and local government consumption and investment) is forecast to decline modestly in each year over the period to 2015-16.

### **Box 2.2 Red tape reduction**

Unnecessary and excessive regulation can be a significant hindrance on Queensland's economy, by stifling productivity and increasing costs for businesses. Regulatory reform and red tape reduction is therefore essential to boost Queensland's economy. By ensuring that Queensland's regulatory system is efficient and streamlined, the Government can allow business to focus on innovation, productivity, growth and competitiveness, rather than being bogged down in unnecessary or duplicative forms and requirements.

Queensland is implementing Australia's most rigorous framework for measuring and reducing the burden of regulation. This framework will establish a baseline measure of the regulatory burden and set targets for each agency toward achieving the Government's objective of reducing this burden by 20% by 2018. Over 150 different regulatory reforms have been delivered so far, ranging from major legislative changes through to targeted administrative changes. The Government has also significantly increased the rigour around the development of new regulation and changes to existing regulation by establishing the Office of Best Practice Regulation in the Queensland Competition Authority. Agencies are required to develop regulatory proposals in accordance with regulatory best practice principles, including the development of Regulatory Impact Statements and public consultation for significant regulatory changes.

## ***Overseas exports and imports***

Growth in the volume of overseas exports of goods in 2012-13 is expected to be similar to that in 2011-12. Coal export volumes have recovered from the weak outcome in 2011-12, which was caused by industrial action and weak overseas demand. However, growth in base metal and cotton exports are estimated to be slower. Base metal production was temporarily hampered by the transition of the Ernest Henry copper mine from open cut to underground operations, while a fall in cotton prices led to lower cotton production in the year.

Lower commodity prices are expected to lower the nominal value of overseas exports of goods in 2012-13. So far in 2012-13, international prices of aluminium, copper and zinc have fallen 11%, 6% and 5% respectively in year-average terms, and unit export values of hard coking and thermal coal have also declined 36% and 18% respectively relative to 2011-12.

Coal export volumes are forecast to continue to grow from 2013-14 onwards, supported by stronger demand from China and the completion of the Daunia and Caval Ridge hard coking coal mines. Also, the scheduled completion of the Eagle Downs and Grosvenor (Phase 1) coal mines by 2015-16 should provide support to coal exports from 2016-17 onwards. While coal prices are expected to recover over the forecast period, increases in supply and the slow pace of recovery in advanced economies are expected to limit the extent of this rebound.

The first LNG exports are scheduled for 2014-15 but export volumes are only expected to ramp up substantially in the following year, driving double digit growth in overseas goods exports in 2015-16.

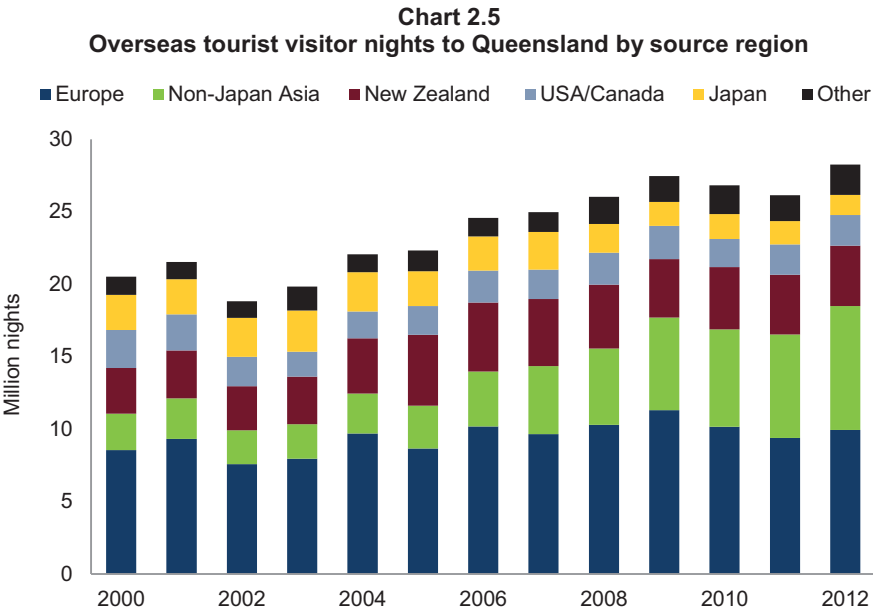
With more than a dozen regional areas in the west of Queensland now drought declared, beef producers face very challenging circumstances. Following several years of good weather conditions which underpinned herd rebuilding, a hot and dry 2012-13 summer west of the Great Dividing Range has seen producers start to de-stock properties. In addition, a reduction in the live cattle import quota to Indonesia has reduced demand for live cattle exports, further adding to supply and putting downward pressure on prices. These conditions are expected to bring forward beef export volumes into 2012-13 and 2013-14, but will adversely affect supply in later years. Meanwhile, demand is expected to be supported by rising exports to China, which will partly offset reduced demand from some traditional markets.

After two consecutive seasons of low production due to poor weather conditions, raw sugar production has rebounded in the 2012-13 season to above 4.3 million tonnes and some further growth is anticipated in the 2013-14 season. Lower cotton prices have resulted in a significant reduction in the area planted to cotton, leading to a fall in cotton exports in 2013-14.

In the case of overseas exports of services, despite the ongoing high A\$ and competition from other tourism destinations, overseas tourism exports rebounded strongly in the first half of 2012-13 and this trend is expected to continue for the remainder of the year. An assumed improvement in global economic conditions and the rising popularity of overseas travel by Chinese tourists should see overseas tourism exports continue to grow from 2013-14 onwards. While overseas education exports have declined in 2012-13 so far, the rate of decline has moderated over the course of the year. Federal reforms since late 2011, associated with the Knight Review of the Student Visa Program, appear to have had some positive effects. Therefore, growth in overseas enrolments is expected to return in 2013-14.

Weaker consumption growth and a decline in machinery and equipment investment in 2012-13 mean that growth in total goods imports (overseas plus interstate) in 2012-13 is expected to be lower than in 2011-12. Nevertheless, large LNG investment related imports are still expected to be making a sizeable contribution to the level of total goods imports in 2012-13 and 2013-14, and to a lesser degree, in 2014-15.

Queenslanders have moved away from holidaying overseas toward interstate and intrastate destinations since 2011-12, reflecting in part soft labour market conditions. This trend is expected to continue in 2012-13 and 2013-14, but may reverse from 2014-15 onwards as employment conditions improve.



Source: International Visitor Survey, Tourism Research Australia, December 2012.

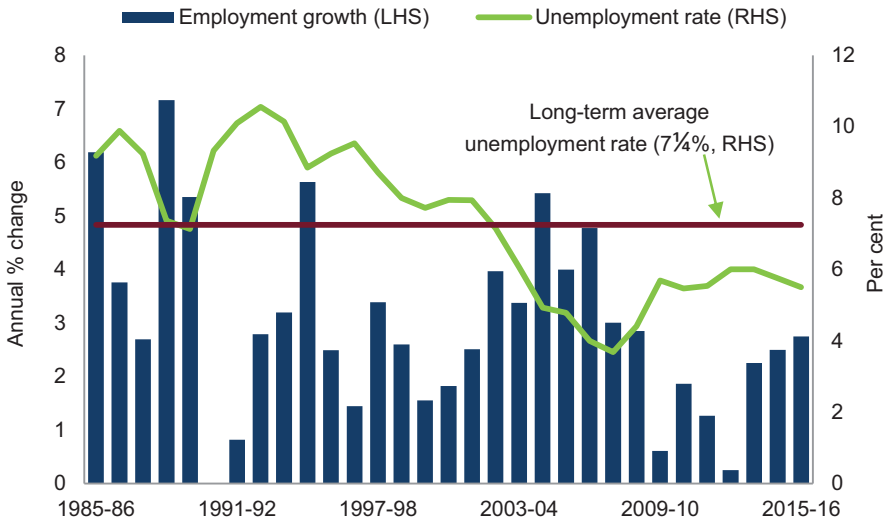
## ***Labour market***

Year average employment growth is estimated to moderate in 2012-13, although some improvement has occurred since late 2012. This reflects a combination of factors, including household caution and the high A\$, which have impacted on labour intensive sectors such as retail, building construction, accommodation and food services, manufacturing, and arts and recreation services. Further, falling commodity prices and the high A\$ have induced trade exposed industries to cut costs by winding back employment during the course of 2012-13. With growth in household spending expected to pick up from 2013-14 onwards, employment growth is forecast to accelerate over the forecast period.

With strong employment growth between early and mid-2000s encouraging entrants into the labour market, the labour participation rate in Queensland rose from below 65% in 2004 to reach almost 68% by 2009. The weakening of employment conditions following the GFC saw the labour participation rate gradually fall and the decline has steepened since early 2012. This sharp drop in the participation rate coincided with a slight reduction in employment of females, who generally have a greater propensity to leave the labour force. Meanwhile, the impact of the baby boomers reaching retirement age has begun to place downward pressure on the labour participation rate. However, as employment growth is expected to strengthen from 2013-14 onwards, the “encouraged worker effect” will result in the labour participation rate remaining relatively stable over the forecast period.

With labour force growth predicted to be slightly below employment growth, the unemployment rate is forecast to fall steadily over the forecast period.

**Chart 2.6**  
**Labour market, Queensland<sup>1</sup>**



Note:

1. Year-average. 2012-13 are estimates, 2013-14 to 2015-16 are forecasts.  
Sources: ABS 6202.0 and Queensland Treasury and Trade.

## Prices and wages

Despite the introduction of the carbon price on 1 July 2012, Brisbane consumer prices as a whole are estimated to rise only slightly faster in 2012-13 than in 2011-12. This is mainly due to a moderation in the increase in transportation costs as a result of a decline in motor vehicle and automotive fuel prices, as well as a significant drop in financial services costs following the resumption of transfer duty concessions to home buyers.

Strengthening household sector demand is expected to drive inflation higher in 2013-14. The assumed depreciation of the A\$ will also add to price pressures, although this is likely to be ameliorated as competitive pressures lead retailers to narrow their profit margins. Looking further ahead, inflation is likely to be constrained as the RBA moves interest rate settings to a more neutral stance toward the end of the forecast period.

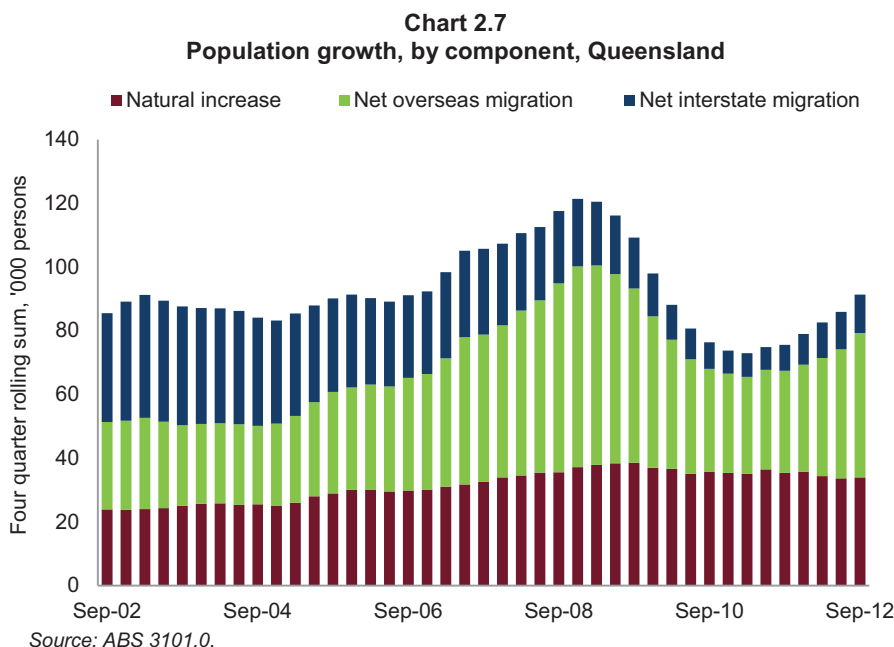
Meanwhile, relatively subdued labour market conditions are expected to restrain wage growth in 2012-13. Beyond this, productivity gains are expected to enable nominal wages to continue to grow faster than inflation, implying further real wage growth in coming years in those sectors with capacity to pay.



## Population

After population flows into Queensland reached a trough of just below 73,000 in the year ending March quarter 2011, they have recovered to just over 91,000 in the year ending September quarter 2012. This rebound is mainly due to improved overseas migration flows nationally as the stronger performance of the Australian economy attracts migrants from overseas.

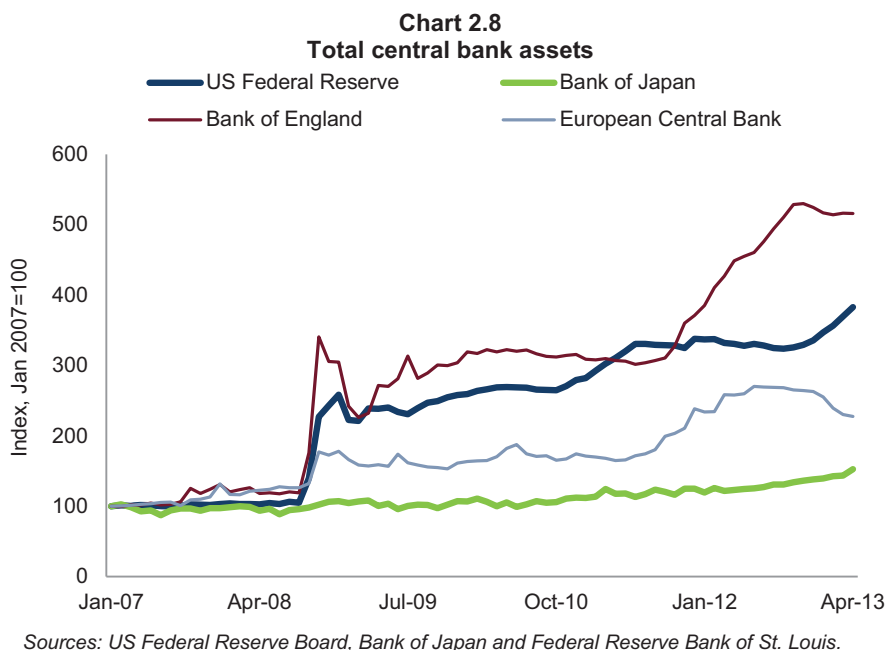
Following a moderation between March 2003 and June 2011, net interstate migration has also recovered slightly. With job prospects expected to remain favourable relative to overseas countries and a turnaround in overseas education arrivals, population growth rates are expected to gradually pick up over the forecast period.



## Risks to the economic outlook

While growth in major advanced economies is expected to strengthen from 2014 onwards, this outlook is based on the assumption that monetary policy in these economies will remain accommodative until that time or any unwinding of excess liquidity would be orderly and gradual, with minimal repercussions for these economies.

However, it is unclear whether monetary stimuli in the major advanced economies are sustainable in the medium term, given their sheer size (see Chart 2.8). Although concerted easing by major central banks has led to a significant improvement in global financial stability, there are risks that asset price bubbles have formed and concerns that lending standards have relaxed prematurely in some countries. These developments, or any remedial policy actions, may jeopardise global economic prospects.



Meanwhile, the Euro Zone remains the region of greatest downside risk. The unsustainably high levels of government debt and the severity of austerity measures have led to deep recession in some peripheral countries. These impacts appear to have spread towards the core economies, leading to a possibility of a more prolonged downturn in the region. Also, any renewed concern about debt sustainability in larger countries, such as Italy and Spain, could see the risk of a breakup of the Euro Zone re-emerge.

In Asia, aggressive monetary easing by the Bank of Japan has resulted in a sharp depreciation of the Yen since late 2012. While a weak Yen has brightened prospects for the country's exports, it has also led to concerns related to competitive depreciations of currencies within the region. This, together with rising geopolitical tension in the Korean peninsula, may hamper the region's growth prospects.

Any deterioration of global growth prospects means that the assumed moderate recovery in commodity prices may not eventuate. Nevertheless, the recent depreciation of the Yen has led the A\$ to fall below parity against the US\$ from mid-May. If the A\$ depreciates faster than currently assumed, it would offset some of the adverse effect of lower than expected commodity prices.

For Queensland, the major domestic risk surrounds the timing and the pace of the unwinding of LNG investment due for completion between 2014 and 2016. Given the large size of the three LNG projects, any pick-up in growth from other parts of the Queensland economy may not be enough to prevent economic growth slowing more rapidly than currently expected, especially in 2014-15.



### 3 REVENUE

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#### FEATURES

- Total General Government sector revenue is estimated to be \$41.785 billion in 2012-13, \$4 billion lower than in 2011-12. This reduction is attributable to a decline of \$4.2 billion in grants revenue from the Australian Government.
- Total General Government sector revenue is estimated to be \$44.677 billion in 2013-14. The increase of \$2.892 billion on 2012-13 estimated actual revenue is primarily driven by growth of \$1.665 billion in grants from the Australian Government and \$853 million in taxation revenue.
- Key revenue sources such as taxation, GST and mining royalties have fallen by \$4.2 billion in underlying terms since the 2012-13 Budget, with \$2.6 billion of this decline since 2012-13 MYFER. This reflects the ongoing weakness of export coal prices, downward reductions in the GST pool distributed by the Australian Government and the impact of the slower than anticipated property market recovery on transfer duty and land tax. Relative to the Independent Commission of Audit Interim Report, these revenue sources have fallen by \$5.3 billion.
- To continue to assist with the fiscal repair task the Government has introduced a number of new measures:
  - rates of general insurance duty will be increased to 9% from 1 August 2013, providing consistency across general insurance products and more closely aligning Queensland with other jurisdictions
  - from 1 January 2014 increase and broaden the coverage of the Urban Fire levy to ensure a sustainable funding base for emergency services. The levy will be known as the Emergency Management, Fire and Rescue Levy and will be applied to all rateable properties
  - the second payroll tax threshold increase from \$1.1 million to \$1.2 million will be deferred two years to now take effect from 1 July 2015 rather than 1 July 2013.
- Total revenue is expected to grow across the forward estimates, with average growth of 6.2% over the period 2012-13 to 2016-17, supported by measures taken by the Government in the 2012-13 and 2013-14 Budgets. However, this is significantly less than the 9.3% per annum average growth over the period 2001-02 to 2011-12. If revenue was to grow by 9.3% from 2012-13, then estimated total revenue would be almost \$9 billion higher over this period.
- Queensland will retain its competitive tax status, with per capita state tax estimated at \$2,528 in 2013-14, compared to an average of \$3,003 for the other states and territories.

This chapter provides an overview of General Government sector revenue for the 2012-13 estimated actual outcome, forecasts for the 2013-14 Budget year and projections for 2014-15 to 2016-17.

**Table 3.1**  
**General Government revenue<sup>1</sup>**

	2012-13 Budget \$ million	2012-13 Est. Act. \$ million	2013-14 Budget \$ million	2014-15 Projection \$ million	2015-16 Projection \$ million	2016-17 Projection \$ million
Taxation revenue	11,013	10,998	11,851	12,680	13,547	14,422
<i>Grants revenue</i>						
Current grants	17,496	17,496	18,838	20,382	21,311	22,421
Capital grants	1,102	923	1,277	4,069	2,041	594
Sales of goods and services	4,966	5,104	4,968	5,175	5,401	5,460
Interest income	2,582	2,592	2,396	2,457	2,515	2,571
<i>Dividend and income tax equivalent income</i>						
Dividends	990	1,047	1,224	1,363	1,396	1,587
Income tax equivalent income	365	304	470	780	738	843
<i>Other revenue</i>						
Royalties and land rents	2,859	2,311	2,782	3,494	4,061	4,480
Other	851	1,010	870	835	828	826
<b>Total Revenue</b>	<b>42,224</b>	<b>41,785</b>	<b>44,677</b>	<b>51,235</b>	<b>51,838</b>	<b>53,205</b>
Note: 1. Numbers may not add due to rounding.						

## 2012-13 Estimated Actual

General Government revenue in 2012-13 is estimated to be \$41.785 billion, which is \$439 million (or 1.0%) less than the 2012-13 Budget estimate.

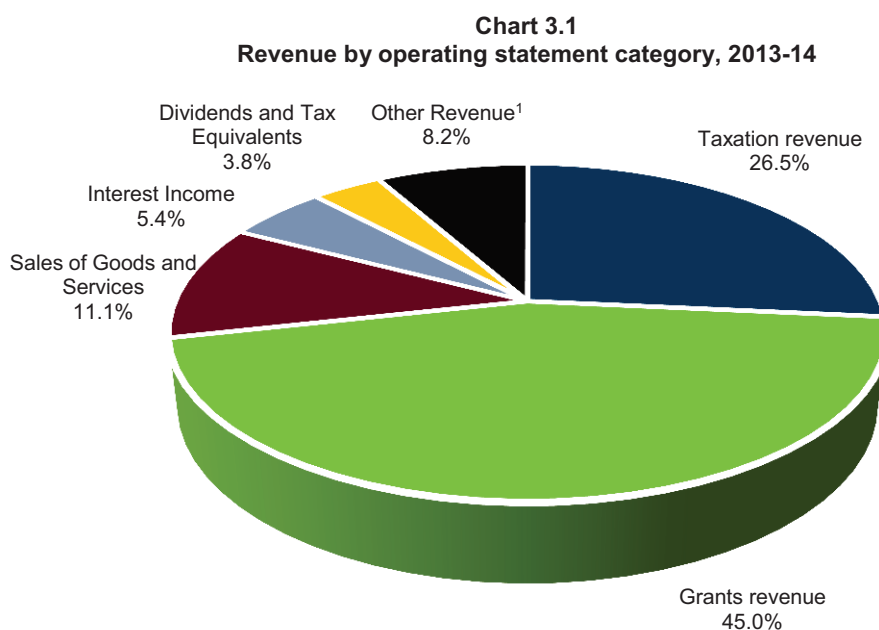
Significant variations from the 2012-13 Budget estimates include:

- a \$548 million (or 19.2%) decrease in royalty and land rent revenue, primarily associated with export coal prices being significantly lower than expected and the continued strength of the A\$-US\$ exchange rate
- a \$198 million decrease in GST distributed to Queensland.

## 2013-14 REVENUE BY CATEGORY

General Government revenue in 2013-14 is estimated to be \$44.677 billion, \$2.892 billion (or 6.9%) higher than the 2012-13 estimated actual revenue of \$41.785 billion. This is largely due to growth of \$1.665 billion in grants from the Australian Government and \$853 million in taxation revenue.

Major sources of General Government revenue in 2013-14 are grants revenue (45% of revenue) and taxation revenue (26.5%). Chart 3.1 illustrates the composition of General Government revenue.

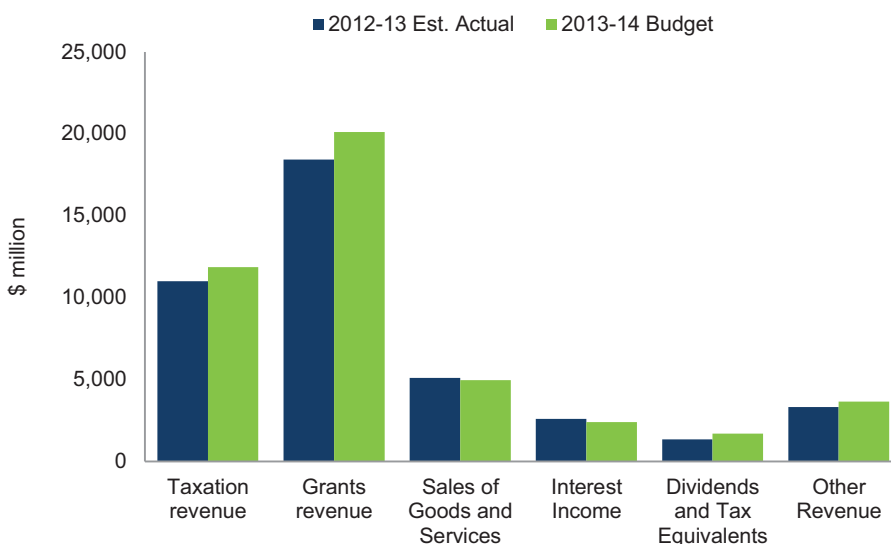


Note:

1. The major component of Other Revenue is royalties and land rents (6.2% of total revenue).

Chart 3.2 compares 2013-14 estimates with 2012-13 estimated actuals. The overall result largely reflects increased payments from the Australian Government from specific purpose payments and growth in Queensland's share of GST and taxation revenue.

**Chart 3.2**  
**Revenue by operating statement category for 2012-13 and 2013-14**





## REVENUE CHANGES SINCE THE 2012-13 BUDGET AND MYFER

For most of the past decade, until the global financial crisis commenced in 2008-09, Queensland enjoyed strong growth in key revenue sources, namely GST, taxation and mining royalties.

The 2012-13 Budget assumed that key revenue drivers, such as coal prices and the level of property market turnover, would remain below previous peak levels. That is, rather than forecasting a sharp recovery, or a return to the pace of growth experienced in the years leading up to 2008-09, revenue growth was expected to grow at a more modest rate, similar to long run average growth.

However, as Table 3.2 and Chart 3.3 show, forecasts of these key revenue sources were reduced significantly between the 2012-13 Budget and 2012-13 MYFER, with further reductions in the 2013-14 Budget. In total, since the 2012-13 Budget there have been underlying reductions of \$4.2 billion across 2012-13 to 2015-16, largely driven by reductions of \$2.65 billion in royalty forecasts.

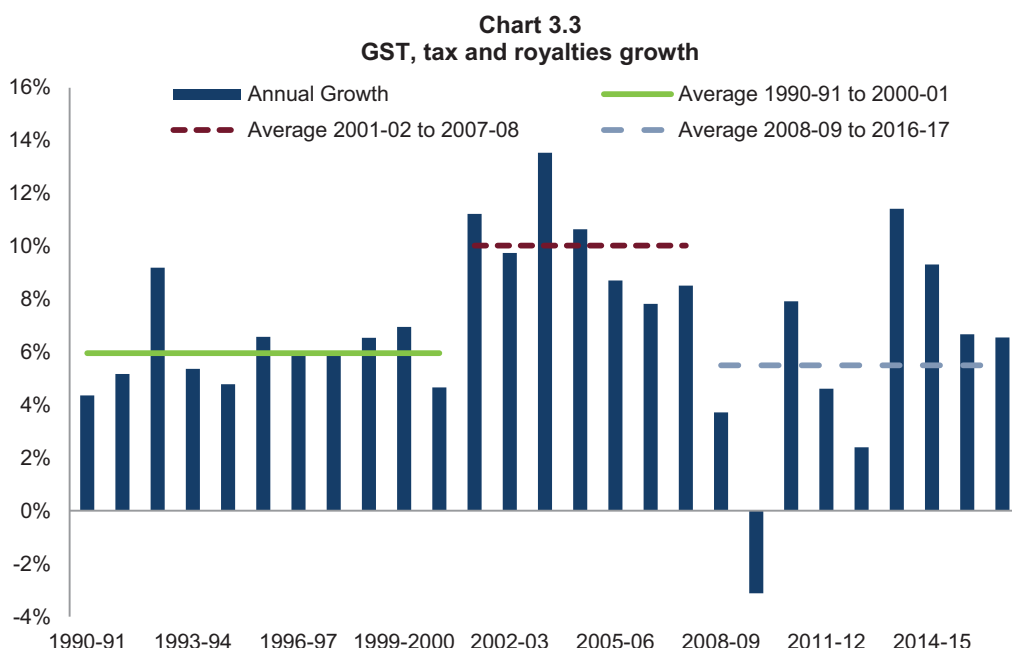
<b>Table 3.2</b> <b>Revenue Change since 2012-13 Budget and MYFER<sup>1</sup></b>				
	2012-13 Est. Act. \$ million	2013-14 Budget \$ million	2014-15 Projection \$ million	2015-16 Projection \$ million
<b>Change between 2012-13 Budget and MYFER</b>				
Total taxation revenue	(1)	(57)	(69)	(63)
GST Revenue	(66)	..	..	..
Royalties	(433)	(528)	(256)	(145)
<b>Total change - 2012-13 Budget to MYFER</b>	<b>(500)</b>	<b>(585)</b>	<b>(325)</b>	<b>(208)</b>
<b>Change since 2012-13 MYFER</b>				
Total taxation revenue <sup>2</sup>	(13)	(129)	(204)	(292)
GST Revenue	(132)	(210)	(223)	(131)
Royalties	(122)	(452)	(403)	(311)
<b>Total change since 2012-13 MYFER</b>	<b>(267)</b>	<b>(791)</b>	<b>(831)</b>	<b>(734)</b>
<b>Total change since 2012-13 Budget</b>	<b>(767)</b>	<b>(1,376)</b>	<b>(1,156)</b>	<b>(942)</b>
Notes: 1. Numbers may not add due to rounding. 2. Excludes the impact of 2013-14 Budget revenue measures.				

Taking into account the reductions between the Independent Commission of Audit's Interim Report and the 2012-13 Budget, the total underlying reduction in tax, GST and royalty revenue since the election is \$5.3 billion over the period 2012-13 to 2015-16.

The combination of key factors that drove growth in these revenue items prior to the global financial crisis is not expected to be repeated. Although there is growth expected over the forward estimates period, it is weaker than previously forecast.

## QUEENSLAND'S REVENUE TRENDS

As shown in Chart 3.3, the key revenue sources of GST, tax and royalties are expected to grow by 11.4% in 2013-14 and 9.3% in 2014-15 before returning to around the long term growth rates, and well below levels of growth during most of the last decade.

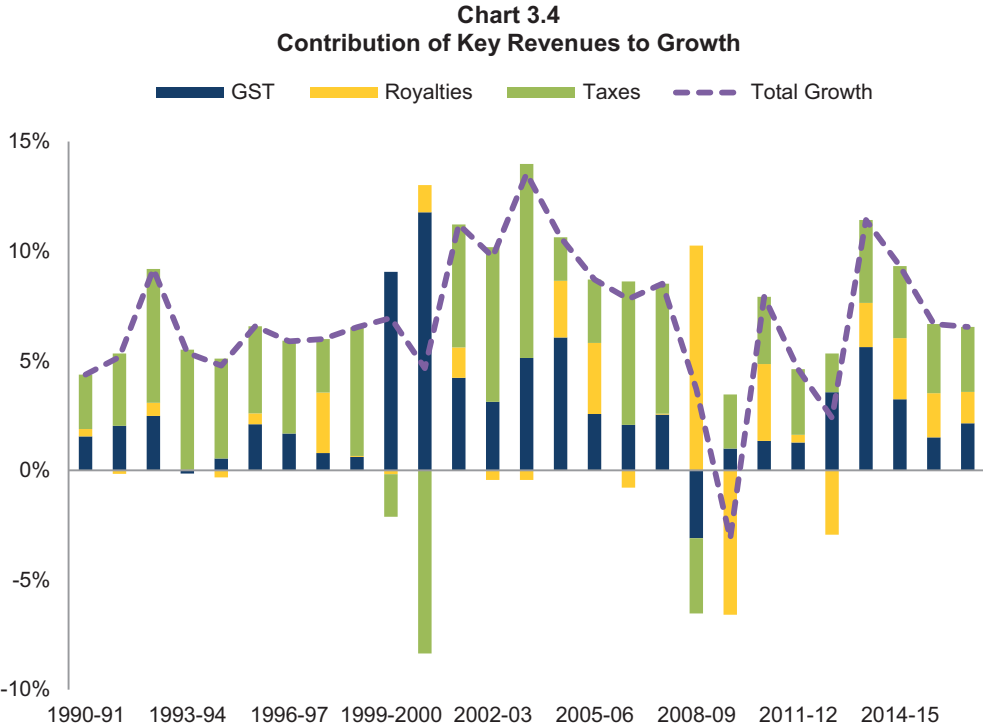


## GST revenue

Queensland's GST revenue grew by an average rate of 7.6% 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.

GST collections in 2013-14 are lower than forecast at the 2012-13 MYFER due to downward revisions in the Australian Government’s forecasts of GST collections. However, Queensland’s GST revenue is expected to grow by 13% in 2013-14 compared to 2012-13. This is largely due to the Commonwealth Grants Commission’s assessment that Queensland should receive a higher than per capita share of the GST pool in 2013-14. This reflects relative weakness in Queensland’s revenue base between 2009-10 and 2011-12. Further discussion of Queensland’s share of GST is provided in Chapter 6.

As shown in Chart 3.4, the key driver of the growth in these three key revenues in 2013-14 is growth in the GST revenue distributed to Queensland by the Australian Government.



## Taxation

Annual growth in transfer duty averaged over 22.6% from 2000-01 to 2007-08 driven by a range of factors including Queensland’s relative affordability of housing, high population growth and the impact of the burgeoning mining sector. This was a key contributor to total taxation growth of 12% per annum over this period, with revenue from transfer duty effectively used to offset a number of reductions in other taxes.

Looking forward, transfer duty growth is expected to be modest relative to that experienced between 2000-01 and 2007-08. While low interest rates and a solid economic outlook are expected to support recovery in the property market, this is expected to occur at a gradual pace, particularly in the non-residential sector. Growth of around 5.3% per annum is expected over the period 2011-12 to 2016-17.

While housing turnover over the forward estimates is expected to improve from its historically low levels and prices recover, this will still see transfer duty growth lower than for most of the past decade. Expected growth rates across the forward estimates are lower than in previous budget updates with transfer duty collections expected to remain below the 2007-08 peak level until beyond 2016-17.

Since the global financial crisis, payroll tax has taken over from transfer duty as the key contributor to Queensland's tax revenue collections. In 2007-08, these two taxes contributed around \$2.9 billion each but since then payroll tax has grown to exceed \$4 billion while transfer duty has remained steady at around \$2 billion. The growth in payroll tax is due to the relatively stable base and relationship to the underlying strength in economic conditions compared with the volatility associated with transfer duty. However, slower growth in the resources sector will moderate growth going forward. Hence, payroll tax is expected to grow by 7.8% on average across the forward estimates, well below the 9.4% average across the period 1999-00 to 2011-12.

## **Royalty revenue**

Royalty revenue grew strongly between 2000-01 and 2007-08, with growth 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.

Royalty revenue is estimated to have declined in 2012-13, primarily due to the current weakness in coal prices and high A\$-US\$ exchange rate. However, royalties are expected to recover from 2013-14 onwards, supported by steady growth in export volumes, a recovery in coal prices and the exchange rate depreciating. 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.

The LNG industry is expected to start contributing to royalties from 2014-15 but with growth strongest in 2015-16. As a consequence of the method used to levy royalties on gas, State royalties are directly impacted by cost escalation on projects.

## 2013-14 BUDGET INITIATIVES

Although the measures announced in the 2012-13 Budget have improved the fiscal position, the downward revisions to key discretionary revenues, and the need to fund priority spending measures has required the Government to consider further measures. Further information on the financial impacts of these measures can be found in Budget Paper 4 – Budget Measures.

Given the significant reductions in revenue the government was confronted with three options: increased taxes, lower services or higher debt.

### Insurance Duty

From 1 August 2013 the rate of duty applicable to insurance premiums for Class 1 and Class 2 general insurance products will increase to 9%. The new rates will apply to premiums paid on or after 1 August 2013, for policies entered into on or after that date.

This change will apply a consistent rate of duty to Class 1 and Class 2 general insurance products, simplifying the regime and bringing Queensland rates more closely in line with most other jurisdictions. Following the change, Queensland's rate for general insurance will remain competitive with other states.

At present, Queensland and NSW are the only states to charge separate rates for different types of general insurance.

In Queensland, General Insurance Class 1 includes building and contents cover, public liability, marine liability, crop insurance, stand-alone trauma and disability insurance and travel insurance (other than personal injury on an aircraft). The current rate of 7.5% is the lowest in Australia and as the table below shows Queensland's rates will still remain competitive after the increase.

In Queensland, General Insurance Class 2 includes professional indemnity, personal injury due to travel on an aircraft, motor vehicle other than CTP, first mortgage insurance and life insurance riders<sup>1</sup> and is currently levied at a rate of 5%.

The new rate in Queensland will be equal to the standard rate in New South Wales and lower than the rate applied in all other states.

Table 3.3 General Insurance Duty Rates, from 1 August 2013						
	NSW <sup>1</sup>	Vic	Qld	WA	SA	Tas
Rate (%)	9.0	10.0	9.0	10.0	11.0	10.0
Note: 1. Concessional 5% rate payable on aviation, disability, hospital and ancillary health benefits, motor vehicle, occupational indemnity. Concessional 2.50% rate payable on crop and livestock.						

<sup>1</sup> A life insurance rider is an additional insurance product attached to a life insurance policy.

There will be no changes to the duty payable on Workers Compensation or Compulsory Third Party (CTP) premiums.

This change is expected to provide additional revenue of approximately \$195 million in 2013-14 and will be used to partially fund the State's contribution to the National Disability Insurance Scheme (DisabilityCare).

## **Emergency Management, Fire and Rescue Levy**

From 1 January 2014, the Government is increasing and broadening the coverage of the Urban Fire Levy to ensure a sustainable funding base for emergency services. The levy will be known as the Emergency Management, Fire and Rescue Levy and will be applied to all rateable properties. Local governments affected for the first time will be provided with transitional assistance.

The levy will be extended to include Emergency Management Queensland, recognising that all Queenslanders are at risk from a wide range of emergencies including floods, cyclones, storms as well as fire and accidents. Emergency Management Queensland operates the State Emergency Service, emergency helicopter, disaster management and supports volunteer marine rescue services.

Since the levy was introduced the equipment needed and expertise involved with emergency management has grown significantly. The rate of the levy will increase by 6.5% to help partially offset the increasing costs of providing these services throughout Queensland although the levy does not cover the full costs of service provision.

Table 3.4 identifies the annual Emergency Management, Fire and Rescue Levy amount payable from 1 January 2014, for each property group and location class. Property group 1 includes vacant land, while detached houses are in property group 2. Property groups 3 to 16 cover a range of commercial properties.

Location classes are based on the number of funded service personnel in each location, with the more urbanised areas of Queensland (e.g. Brisbane, Cairns, Townsville) being in location class A. Location class E covers rateable properties that are not currently subject to the Urban Fire Levy, reflecting the broader purpose of the Emergency Management, Fire and Rescue Levy.

Further details of each property group and location class are available from [www.dcs.qld.gov.au](http://www.dcs.qld.gov.au).

<b>Table 3.4</b> <b>Emergency Management, Fire and Rescue Levy, 1 January 2014</b>					
<b>\$</b>	<b>Location Class</b>				
<b>Property Group</b>	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>
<b>1</b>	50.60	38.20	29.40	22.80	22.80
<b>2</b>	183.40	145.60	107.80	90.20	90.20
<b>3</b>	444.80	354.20	264.40	220.40	220.40
<b>4</b>	892.80	713.00	533.60	444.80	444.80
<b>5</b>	1,469.20	1,171.40	877.40	731.00	731.00
<b>6</b>	2,635.00	2,107.00	1,577.00	1,315.60	1,315.60
<b>7</b>	4,302.60	3,438.80	2,580.00	2,149.60	2,149.60
<b>8</b>	6,581.60	5,177.80	3,946.40	3,289.80	3,289.80
<b>9</b>	11,682.00	9,342.40	7,006.20	5,838.20	5,838.20
<b>10</b>	23,987.00	19,187.40	14,386.60	11,991.80	11,991.80
<b>11</b>	40,607.60	32,485.80	24,365.00	20,301.00	20,301.00
<b>12</b>	75,072.80	60,054.80	45,042.40	37,534.40	37,534.40
<b>13</b>	86,058.00	68,844.80	51,632.00	43,026.00	43,026.00
<b>14</b>	129,090.80	103,273.00	77,452.00	64,542.00	64,542.00
<b>15</b>	215,150.80	172,120.00	129,088.80	107,573.00	107,573.00
<b>16</b>	358,591.40	286,872.80	215,150.80	179,293.80	179,293.80

Table 3.5 identifies the increase in the Emergency Management, Fire and Rescue Levy, relative to the amount that would have been payable under the Urban Fire Levy, for each property group and location class.

<b>Table 3.5</b>					
<b>Increase in Levy, 1 January 2014</b>					
<b>\$</b>	<b>Location Class</b>				
<b>Property Group</b>	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>
<b>1</b>	3.00	2.20	1.80	1.40	22.80
<b>2</b>	10.80	8.60	6.40	5.40	90.20
<b>3</b>	26.40	21.00	15.60	13.00	220.40
<b>4</b>	52.60	42.20	31.60	26.40	444.80
<b>5</b>	86.80	69.20	51.80	43.20	731.00
<b>6</b>	155.60	124.40	93.20	77.80	1,315.60
<b>7</b>	254.20	203.20	152.40	127.00	2,149.60
<b>8</b>	388.80	306.00	233.20	194.40	3,289.80
<b>9</b>	690.40	552.00	414.00	345.00	5,838.20
<b>10</b>	1,417.40	1,133.80	850.20	708.60	11,991.80
<b>11</b>	2,399.60	1,919.60	1,439.80	1,199.60	20,301.00
<b>12</b>	4,436.20	3,548.60	2,661.60	2,218.00	37,534.40
<b>13</b>	5,085.20	4,068.20	3,051.00	2,542.40	43,026.00
<b>14</b>	7,628.00	6,102.60	4,576.80	3,813.80	64,542.00
<b>15</b>	12,713.40	10,170.80	7,628.00	6,356.60	107,573.00
<b>16</b>	21,189.60	16,951.60	12,713.40	10,594.60	179,293.80

This measure is expected to provide additional revenue of approximately \$188 million across the forward estimates, including \$24 million in the first six months of operation in 2013-14. The current discount of 20% for eligible pensioners will continue.

### **Deferral of Payroll Tax Threshold Increase**

During the 2012 election, a commitment was made to increase the payroll tax threshold from \$1 million to \$1.6 million in increments of \$100,000 per annum between 1 July 2012 and 1 July 2017.

As shown below in Table 3.6, Queensland currently has the highest payroll tax threshold and lowest tax rate of any mainland State. While the Government remains committed to increasing thresholds, the current fiscal environment and Queensland's already highly competitive payroll tax regime provides scope for a temporary deferral in the threshold increases until revenues recover.



<b>Table 3.6</b> <b>Payroll Tax Rates and Thresholds from 1 July 2013</b>								
	QLD	NSW <sup>1</sup>	VIC	WA	SA	TAS	ACT	NT
Exemption Threshold (\$'000)	1,100	708	550	750	600	1,250	1,750	1,500
Tax Rate (%)	4.75	5.45	4.90	5.50	4.95	6.10	6.85	5.5
Note: 1. Estimate based on annual indexation.								

The Government has decided to defer the scheduled increases by two years with the next increase to \$1.2 million occurring from 1 July 2015, rather than 1 July 2013. The table below compares the implementation dates of the threshold increases from the 2012-13 Budget with the revised schedule.

<b>Table 3.7</b> <b>Payroll Tax Threshold Changes</b>								
	1/7/2012 \$ million	1/7/2013 \$ million	1/7/2014 \$ million	1/7/2015 \$ million	1/7/2016 \$ million	1/7/2017 \$ million	1/7/2018 \$ million	1/7/2019 \$ million
2012-13 Budget	1.1	1.2	1.3	1.4	1.5	1.6	1.6	1.6
Revised	1.1	1.1	1.1	1.2	1.3	1.4	1.5	1.6

This change will provide savings to the Budget of approximately \$315 million over the forward estimates period.

## 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 grow by 7.8% in 2013-14, with 2.4% of this attributable to revenue measures announced in this Budget.

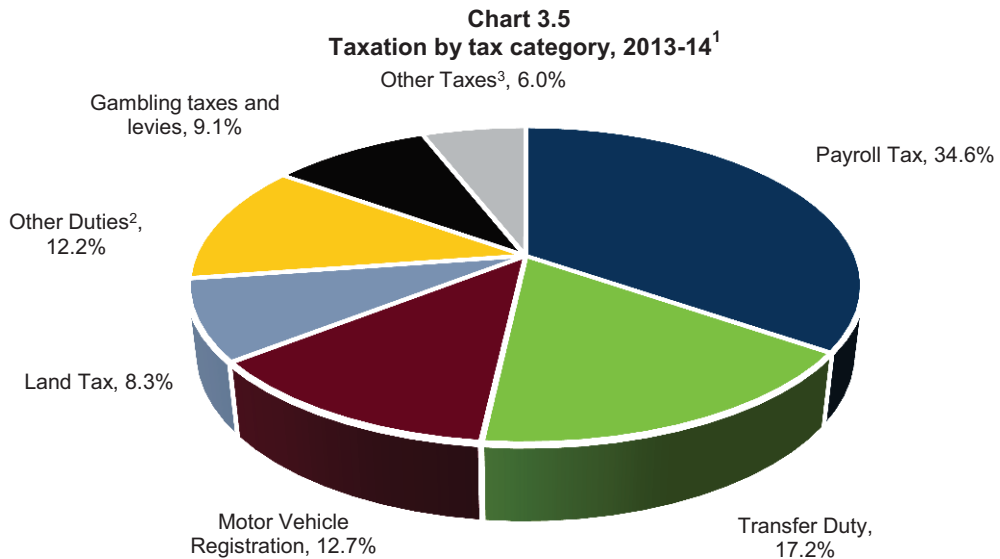
**Table 3.8**  
**Taxation Revenue<sup>1</sup>**

	2011-12 Actual \$ million	2012-13 Est. Act. \$ million	2013-14 Budget \$ million	2014-15 Projection \$ million	2015-16 Projection \$ million	2016-17 Projection \$ million
<b>Payroll tax</b>	3,462	3,792	4,100	4,430	4,764	5,128
<b>Duties</b>						
Transfer	2,023	1,900	2,033	2,226	2,438	2,633
Vehicle registration	461	510	536	573	613	656
Insurance <sup>2</sup>	556	615	871	976	1,045	1,118
Other duties <sup>3</sup>	35	37	39	42	46	49
<b>Total duties</b>	<b>3,076</b>	<b>3,061</b>	<b>3,479</b>	<b>3,818</b>	<b>4,142</b>	<b>4,456</b>
<b>Gambling taxes and levies</b>						
Gaming machine tax	572	595	620	647	674	703
Health Services Levy	43	47	49	52	56	59
Lotteries taxes	234	255	253	260	268	276
Wagering taxes	40	42	43	45	46	48
Casino taxes and levies	86	84	94	97	100	103
Keno tax	22	23	24	25	26	27
<b>Total gambling taxes and levies</b>	<b>998</b>	<b>1,046</b>	<b>1,084</b>	<b>1,126</b>	<b>1,170</b>	<b>1,215</b>
<b>Other taxes</b>						
Land tax	1,013	994	980	995	1,015	1,051
Motor vehicle registration	1,437	1,459	1,503	1,549	1,626	1,708
Fire levy <sup>4</sup>	333	351	394	443	469	496
Guarantee fees	205	239	257	265	304	308
Other taxes <sup>5</sup>	84	56	54	56	57	59
<b>Total taxation revenue</b>	<b>10,608</b>	<b>10,998</b>	<b>11,851</b>	<b>12,680</b>	<b>13,547</b>	<b>14,422</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. From 1 January 2014 will be broadened to an Emergency Management, Fire and Rescue levy.
5. Includes the Statutory Insurance Scheme Levy and Nominal Defendant Levy.

Chart 3.5 indicates the composition of estimated state taxation revenue for 2013-14.



**Notes:**

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

The largest sources of taxation revenue are payroll tax and transfer duty, which together represent over 51% of the State's total taxation revenue in 2013-14.

Payroll tax (34.6% of total tax revenue in 2013-14) has a stable base with growth driven by the underlying strength of the State economy. In contrast, revenue growth from transfer duty (representing 17.2% of tax revenue) can vary significantly from year to year due to the volatility of both the residential and non-residential segments of the property market.

Land tax represents 8.3% of total revenue in 2013-14. While also subject to the volatility of price movements in the property market, this impact is moderated by a relatively stable base and the effect of three year averaging of land values for assessments.

Gambling taxes and levies represent 9.1% of tax revenues in 2013-14. Motor vehicle registration represents 12.7% of total tax revenue.

Other duties, including registration duty and insurance duty represent 12.2% of total tax revenue.

### ***Payroll tax***

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

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

Payroll tax collections are estimated to be \$4.1 billion in 2013-14, representing growth of 8.1% on the 2012-13 estimated actual. Despite modest employment growth in 2012-13 payroll tax collections are estimated to have grown by 9.5% over 2011-12. This reflects the relative strength of the resources sector. The expectation is that slower growth in the resources sector will moderate payroll tax growth in 2013-14 and beyond.

As outlined in Chapter 2, labour market conditions are expected to improve over the budget and forward estimates period but the average growth of 7.8% remains well below the average of 9.4% from the period 1999-00 to 2011-12.

## **Duties**

Duties are levied on a range of financial and property transactions.

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

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

Revenue from transfer duty is expected to grow by 7% in 2013-14. This is based on the expectation that the recent increase in the number of transactions, along with modest growth in house prices will continue, offsetting a subdued outlook for non-residential activity.

From 2014-15 the non-residential sector is expected to recover allowing for the rate of growth to pick up slightly in 2014-15 and 2015-16. The extraordinary annual growth in transfer duty of 22.6% from 2000-01 to 2007-08 is unlikely to ever be repeated.

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

Revenue from vehicle registration duty is expected to grow by 5% in 2013-14, reflecting a moderation in the number of sales following strong growth of 10.6% in 2012-13.

- Insurance duty is charged on contracts of general insurance, life insurance and accident insurance. From 1 August 2013 the rate for most general insurance products will increase to 9%. The new rates will apply to premiums paid on or after 1 August 2013, for policies entered into on or after that date. Temporary or term life insurance continues to attract duty at 5% of the first year's premium. 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 strongly in 2013-14, primarily reflecting the impact of the rate increases.

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

A range of gambling activities are subject to state taxes and levies. Total gambling tax and levy collections are estimated to grow by 3.6% in 2013-14.

### ***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 fall by 1.4% to \$980 million in 2013-14 with very restrained growth over the outyears. In recent years, land tax revenue has been adversely impacted by declining values, particularly for commercial and multi-unit residential land. Even with modest recovery in land values expected going forward, the three year averaging process dilutes the impact on tax collections which is reflected by the moderate growth over the budget period.

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

Motor vehicle registration fees are expected to grow by 3.0% in 2013-14, primarily reflecting an increase in the number of motor vehicles as under the Government's election commitment there is no increase in the level of registration fees for private vehicles during this term of government.

## ***Emergency Management, Fire and Rescue Levy***

The Emergency Management, Fire and Rescue Levy revenue, which is used partly to offset the costs of emergency management in Queensland is expected to grow by 12.4% in 2013-14 reflecting the rate increase of 6.5% and extending the levy to all rateable properties.

## ***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 3.9 shows, taxation per capita in Queensland is significantly lower than the average taxation per capita in the other states and territories. In 2013-14, it is estimated that Queensland's taxation per capita will be \$475 per capita less than the average of other jurisdictions.

Queensland's tax effort, as measured by the Commonwealth Grants Commission, was more than 12% below the national average in 2011-12.

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

Table 3.9 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 3.9</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> (\$)	2,528	3,160	2,850	3,475	2,517	1,829	3,459	2,030	3,003
Taxation effort <sup>2</sup> (%)	87.4	106.0	102.2	94.4	114.0	90.0	115.7	78.3	100.0
Taxation % of GSP <sup>3</sup> (%)	3.74	4.54	4.57	2.950	4.19	3.67	3.67	2.16	4.13
<b>Notes:</b> 1. 2013-14 data. Sources: 2012-13 MYFER for all jurisdictions except Victoria, Tasmania and the Northern Territory where 2013-14 Budget data has been used. Population data from Commonwealth 2013-14 Budget. 2. 2011-12 data. Source: Commonwealth Grants Commission 2013 Update – total tax revenue effort for assessed taxes (payroll, transfer duty, land tax, insurance duty and motor vehicle taxes). Revenue raising effort ratios, assessed by the Commonwealth Grants Commission, isolate policy impacts from revenue capacity impacts and are an indicator of the extent to which governments burden their revenue bases. Queensland's tax revenue raising effort is well below the Australian policy standard (equal to 100%). 3. 2011-12 data. Sources: ABS 5220.0 (State Accounts – GSP) and ABS 5506 Taxation Revenue 2011-12. 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 growth of \$1.696 billion (or 9.2%) in 2013-14 largely reflects the Commonwealth Grants Commission recommendation that Queensland requires a larger share of national GST collections in 2013-14.

<b>Table 3.10 Grants revenue<sup>1</sup></b>			
	2011-12 Actual \$ million	2012-13 Est. Act. \$ million	2013-14 Budget \$ million
<b>Current grants</b>			
Australian Government grants	16,842	17,114	18,438
Other grants and contributions	413	382	400
<b>Total current grants</b>	<b>17,255</b>	<b>17,496</b>	<b>18,838</b>
<b>Capital grants</b>			
Australian Government grants	5,352	911	1,252
Other grants and contributions	45	12	25
<b>Total capital grants</b>	<b>5,398</b>	<b>923</b>	<b>1,277</b>
<b>Total grants revenue</b>	<b>22,652</b>	<b>18,419</b>	<b>20,115</b>
Note: 1. Numbers may not add due to rounding.			

## Australian Government payments

Australian Government payments to Queensland comprise:

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

Australian Government payments to Queensland in 2012-13 are expected to fall by \$4.169 billion compared to the previous year. This is due to 2011-12 including a large advance payment for natural disaster recovery and a bring forward of project funding from 2012-13 to 2011-12 by the Australian Government.

Australian Government payments to Queensland in 2013-14 are expected to total \$19.69 billion, representing growth of \$1.665 billion (or 9.2%) compared to payments in 2012-13. This significant increase is due to growth of \$1.272 billion in GST received by Queensland and \$393 million in specific purposes payments and National Partnership Payments.

However, growth would have been even higher if the Australian Government had not reduced GST revenue to Queensland by \$210 million in 2013-14 in its 2013-14 Budget.



<b>Table 3.11</b> <b>Australian Government payments<sup>1</sup></b>			
	2011-12 Actual \$ million	2012-13 Est. Act. \$ million	2013-14 Budget \$ million
GST revenue grants	8,681	9,469	10,741
Total payments for specific purposes <sup>2</sup>	13,513	8,556	8,949
<b>Total Australian Government payments</b>	<b>22,194</b>	<b>18,025</b>	<b>19,690</b>
Notes: 1. Numbers may not add due to rounding. 2. Differs from Chapter 6 due to the inclusion of direct Australian Government payments to Queensland departments for Commonwealth own purpose expenditure.			

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

### ***General purpose payments***

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

GST revenue grants and associated payments to Queensland in 2013-14 are expected to be \$10.741 billion, which represents growth of \$1.272 billion on the 2012-13 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 2013 Update from the Commonwealth Grants Commission. Relative to other states, Queensland's capacity to raise revenue declined since the previous update. As a result, Queensland's share of GST funding will be above its population share in 2013-14.

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

Australian Government payments for specific purposes to Queensland in 2013-14 are estimated at \$8.949 billion.

## **Other grants and contributions**

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

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

**Table 3.12**  
**Other grants and contributions**

	2011-12 Actual \$ million	2012-13 Est. Act. \$ million	2013-14 Budget \$ million
Other grants and contributions	458	394	425

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

## **SALES OF GOODS AND SERVICES**

Sales of goods and services revenue comprises cost recoveries from providing goods or services. Table 3.13 shows a breakdown of the sales of goods and services category.

**Table 3.13**  
**Sales of goods and services<sup>1</sup>**

	2011-12 Actual \$ million	2012-13 Est. Act. \$ million	2013-14 Budget \$ million
Fee for service activities	2,251	2,105	1,994
TransLink	361	361	368
Rent revenue	500	497	500
Sale of land inventory	164	162	152
Hospital fees	621	714	743
Transport and traffic fees	295	336	355
Other sales of goods and services	804	929	856
<b>Total sales of goods and services</b>	<b>4,996</b>	<b>5,104</b>	<b>4,968</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 to commercial clients for information brokerage services.

The decline of \$111 million in 2013-14 is largely due to the Government moving to private sector provision of a number of services.

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

## TransLink

Revenues arise from the arrangements associated with South East Queensland integrated ticketing and public transport arrangements, which commenced in July 2004. The Department of Transport and Main Roads collects revenues from the operation of public transport services in South East Queensland to assist in funding public transport services in the region. These revenues are estimated at \$368 million in 2013-14.

## Rent revenue

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

## Sale of land inventory

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

## Hospital fees

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

## Transport and traffic fees

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

## Other sales of goods and services

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

## INTEREST INCOME

Interest income accounts for 5.4% of total General Government revenue in 2013-14.

<b>Table 3.14</b> <b>Interest income</b>			
	2011-12 Actual \$ million	2012-13 Est. Act. \$ million	2013-14 Budget \$ million
Interest income	2,484	2,592	2,396

Interest income primarily comprises interest earned on investments including those held for superannuation, long service leave and insurance purposes. The decrease in 2013-14 reflects lower interest earnings due to the Government changing asset allocations to better match long term liabilities. Interest is reinvested in superannuation and for other long term requirements, such as long service leave, and is not available for general expenditure.

## DIVIDEND AND INCOME TAX EQUIVALENT INCOME

Dividend and income tax equivalent income account for 3.8% of total General Government sector revenue in 2013-14.

<b>Table 3.15</b> <b>Dividend and income tax equivalent income<sup>1</sup></b>			
	2011-12 Actual \$ million	2012-13 Est. Act. \$ million	2013-14 Budget \$ million
Dividend	875	1,047	1,224
Income tax equivalent income	236	304	470
<b>Total dividend and income tax equivalent income</b>	<b>1,112</b>	<b>1,351</b>	<b>1,694</b>
Notes: 1. Numbers may not add due to rounding. 2. Does not match table in Chapter 7 because it includes dividends and tax equivalents from outside the PNFC sector such as Queensland Investment Corporation Ltd.			

Dividends are received from the State's equity investments in Public Non-financial Corporations and Public Financial Corporations, for example, the Queensland electricity supply industry, Queensland Investment Corporation, port authorities and Queensland Rail. Dividends are expected to grow in 2013-14 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.

Dividends and income tax equivalent income do not represent the full extent of financial arrangements between the Public Non-financial Corporations sector and the General Government sector. As discussed in Chapter 7, General Government sector expenditure on Community Service Obligations is expected to be around \$2 billion in both 2012-13 and 2013-14, which exceeds the expected revenue from dividends and tax equivalent payments.

## OTHER REVENUE

Other revenue, including royalty revenue, accounts for 8.2% of total General Government revenue in 2013-14.

**Table 3.16**  
**Other revenue<sup>1</sup>**

	2011-12 Actual \$ million	2012-13 Est. Act. \$ million	2013-14 Budget \$ million
Royalties and land rents	2,944	2,311	2,782
Fines and forfeitures	322	356	367
Revenue not elsewhere classified	676	654	504
<b>Total Other Revenue</b>	<b>3,942</b>	<b>3,322</b>	<b>3,652</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.

Revenue from royalties and land rents in 2012-13 is expected to be \$548 million lower than forecast in the 2012-13 Budget. This weakness is largely due to export coal prices being significantly lower than expected, and the ongoing strength of the A\$-US\$ exchange rate. Land rent revenue in 2012-13 is expected to be \$7 million higher than forecast in the 2012-13 Budget.

Royalty and land rent revenue is expected to grow in 2013-14 due to increased export coal volumes, and the A\$ depreciating against the US\$. Further, 2013-14 represents the first full year of implementation of the royalty rates announced in the 2012-13 Budget.

**Table 3.17**  
**Royalties and land rents<sup>1</sup>**

	2011-12 Actual \$ million	2012-13 Est. Act. \$ million	2013-14 Budget \$ million
Coal	2,386	1,743	2,125
Other royalties <sup>2</sup>	409	403	479
Land rents	149	165	178
<b>Total royalties and land rents</b>	<b>2,944</b>	<b>2,311</b>	<b>2,782</b>
Notes: 1. Numbers may not add due to rounding. 2. Includes base and precious metal, petroleum and other minerals royalties.			

Although global economic uncertainty will influence demand for resources from our trading partners, the longer term outlook for royalties is generally positive. Production volumes are expected to improve as demand is driven by more competitive prices and the rates of growth in our major trading partners increase. Coal prices are expected to settle above recent contract benchmarks but still well below historical levels. The exchange rate is expected to return below parity across the forward estimates gradually falling as international markets stabilise and the fundamental determinants of the exchange rate determine its 'fair value'.

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

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

## **Fines and forfeitures**

The major fines and infringements included in this category are issued by Department of Transport and Main Roads, Queensland Police Service and toll road operators, incorporating fixed and mobile camera offences, speeding and tolling offences. There is an expected growth of 3.1% in collections of fines and forfeitures in 2013-14.

Since taking over responsibility for the State Penalties Enforcement Registry (SPER) on 25 May 2012, the Office of State Revenue has implemented a number of reforms. The legislation program commenced with new information gathering powers as part of the *Fiscal Repair Amendment Act 2012*, allowing the Registrar to access new data sources. The SPER debt pool has been analysed and tailored approaches are being developed to ensure the most appropriate and cost effective enforcement strategy is deployed.

The trial of the use of Mercantile Agents has shown positive indications of improved debt collections. Additional options for collection of debts are being evaluated. The SPER website has been updated and new tools made available to debtors. Online facilities are now available for payment, balance enquiry and instalment plans.

## **Revenue not elsewhere classified**

The \$151 million decrease in 2013-14 includes an expected decline in asset transfers from non-Queensland Government entities and reductions in sundry revenue across a number of departments.





## 4 EXPENSES

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### FEATURES

- Reflecting the focus of the 2012-13 Budget on fiscal repair, General Government sector expenses in 2012-13 are estimated to be only 1.1% higher than in 2011-12. This is the lowest rate of growth since accrual accounting commenced in 1998-99, and contrasts with an average rate of expenses growth of 8.9% over the decade to 2011-12.
- The main reason why expenses growth is so modest is the Government's determination to keep employee expenses under control and reduce the size of the public service. The number of Full Time Equivalent (FTE) positions in government departments is estimated to have fallen by around 12,800 from 30 June 2012 to 30 June 2013.
- FTE redundancies related to the Government's fiscal repair program are estimated to be around 9,200 in 2012-13. This is lower than the 2012-13 Budget estimate of 10,600 redundancies.
- The number of FTEs in the public service in 2016-17 is projected to be less than in 2011-12. This, combined with a disciplined approach to affordable wage outcomes, is expected to result in average employee expenses growth of 2.5% over the period 2011-12 to 2016-17.
- Employee expenses in 2012-13 are estimated to be only 0.9% above 2011-12. This is the smallest increase since accrual accounting commenced in 1998-99. On current estimates, employee expenses growth in 2013-14 will be only 0.1% above 2012-13, primarily reflecting the full year effort of savings measures implemented in the 2012-13 Budget.
- In 2013-14, General Government sector expenses, excluding natural disaster expenses, are expected to increase by \$1.254 billion (or 2.8%) over the estimated actual for 2012-13 primarily as a result of increased service delivery including the provision of public hospital and education services.
- In 2012-13, total General Government sector expenses decreased by \$1.738 billion over the 2012-13 Mid Year Fiscal and Economic Review (MYFER) partly reflecting a change in the timing of natural disaster reconstruction spending and lower than expected cost of redundancies.
- Expenses are projected to grow on average by 2.6% over the period 2012-13 to 2016-17.
- The major areas of expenditure are health and education, which together constitute approximately 50% of General Government sector expenses.

This chapter provides an overview of General Government sector expenses for the estimated actual for 2012-13, forecasts for the 2013-14 Budget year and projections for 2014-15 to 2016-17. The forward estimates are based on the economic projections outlined in Chapter 2.

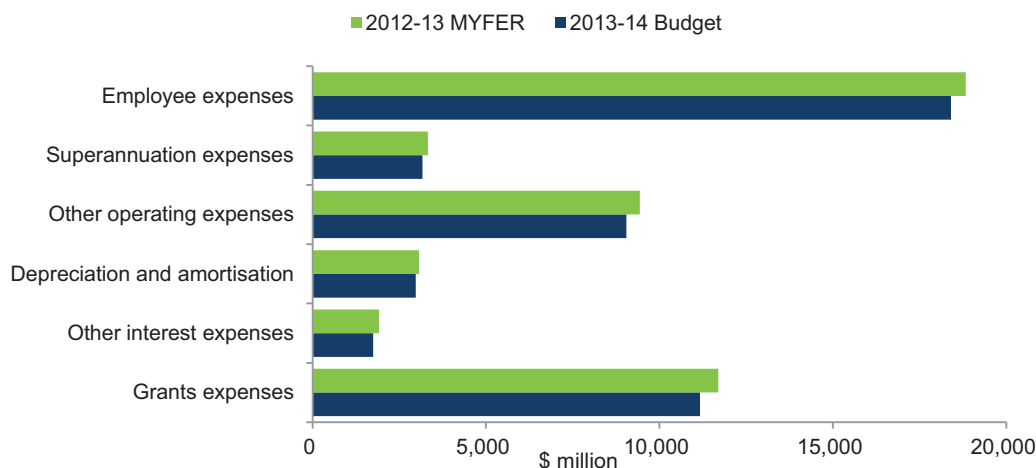
## 2012-13 ESTIMATED ACTUAL

General Government expenses in 2012-13 are estimated to be \$46.526 billion, \$1.738 billion lower than the 2012-13 MYFER. This decline is largely due to:

- lower than expected redundancy payments and delays in reaching enterprise bargaining agreements (including the Core Agreement)
- lower than expected pre-2013 natural disaster reimbursements to local governments and the resulting change to the profile of funding required for reconstruction works
- reduced borrowing costs due to the improved fiscal position.

Chart 4.1 shows the change in expenses from the 2012-13 MYFER by expense category. As can be seen by this chart, current estimates of expenses are lower in all categories compared to the 2012-13 MYFER.

**Chart 4.1**  
**2012-13 Expenses by operating statement category,**  
**2012-13 MYFER to 2013-14 Budget**



## 2013-14 BUDGET AND OUTYEARS

**Table 4.1**  
**General Government sector expenses<sup>1</sup>**

	2012-13 Est. Act. \$ million	2013-14 Budget \$ million	2014-15 Projection \$ million	2015-16 Projection \$ million	2016-17 Projection \$ million
Employee expenses	18,409	18,433	19,159	19,899	20,688
Superannuation interest cost	756	879	924	953	957
Other superannuation expenses	2,410	2,407	2,406	2,421	2,463
Other operating expenses	9,053	9,669	9,842	10,049	10,401
Depreciation and amortisation	2,974	3,140	3,314	3,482	3,563
Other interest expenses	1,752	2,163	2,411	2,461	2,493
Grants expenses	11,173	11,745	11,087	10,529	10,925
<b>Total Expenses</b>	<b>46,526</b>	<b>48,436</b>	<b>49,144</b>	<b>49,795</b>	<b>51,492</b>

Note:

1. Numbers may not add due to rounding.

General Government expenses of \$48.436 billion in 2013-14 represent an increase of \$1.910 billion (or 4.1%) over the 2012-13 estimated actual. Factors influencing the growth in expenses include:

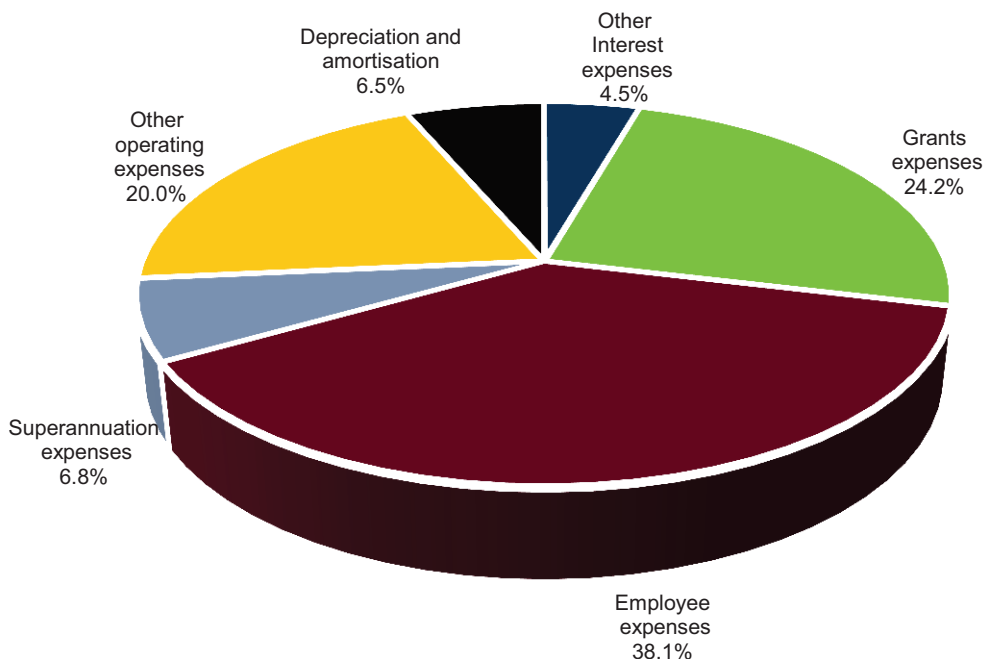
- an increase in natural disaster reparation works, in particular, an \$819 million increase in grants to local governments for restoration works. Funding to local government authorities for pre-2013 disaster events has been re-profiled following ex-Tropical Cyclone Oswald
- growth in Queensland Health funding under the new Health and Hospital Services structure, including expenditure to maintain and enhance the Queensland public health rostering and payroll system, revitalisation of regional, rural and remote health services and for new measures such as Hospital in the Home and for backlog maintenance
- growth in education expenditure for state school enrolment growth and additional costs associated with preparations for the transition of Year 7 to be the first year of secondary school
- additional interest costs associated with new borrowings undertaken in 2013-14.

As a continuation of the Government's fiscal repair program announced in the 2012-13 Budget, departments are required to make further savings of \$100 million per annum from 2013-14 onwards.

## EXPENSES BY OPERATING STATEMENT CATEGORY

As outlined in Chart 4.2, the largest expense categories in the General Government sector in 2013-14 are employee and superannuation expenses (44.9%), followed by grants expenses (24.2%) 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.

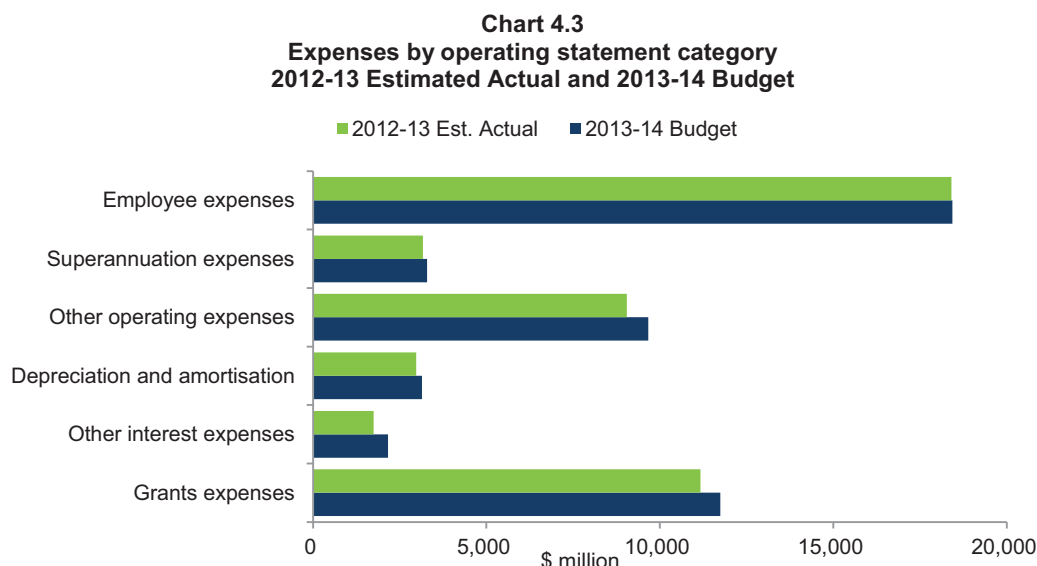
**Chart 4.2**  
**Expenses by operating statement category,<sup>1</sup> 2013-14**



Note:

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

Chart 4.3 compares the 2012-13 estimated actual expenses for each operating statement category with the 2013-14 Budget.



## Employee expenses

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

The 2012-13 employee expenses are \$419 million lower than the 2012-13 MYFER projection due to lower than anticipated redundancy payments under the Government's fiscal repair program and savings arising from the delay in finalising new enterprise bargaining agreements (including the Core Agreement).

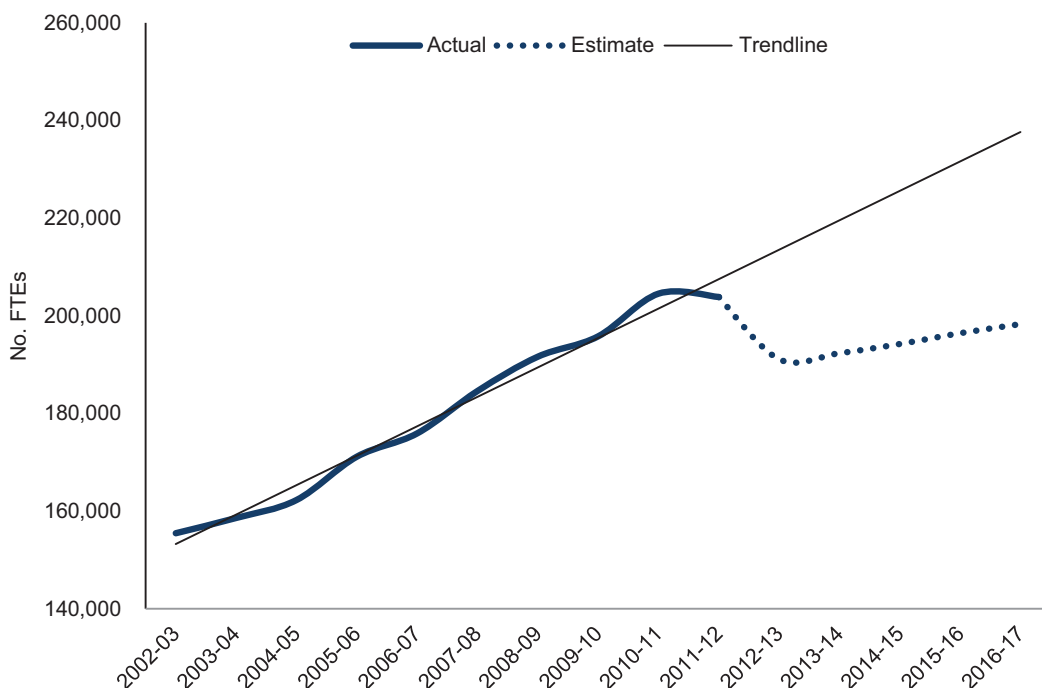
In 2013-14, employee expenses are expected to be \$18.433 billion or \$24 million higher than the 2012-13 estimated actual outcome. The modest increase largely reflects the one-off redundancy costs incurred in 2012-13 in relation to the Government's fiscal repair measures and the full year impact of savings measures outlined in the 2012-13 Budget.

## Full time equivalents (FTEs)

Chart 4.4 shows actual Full Time Equivalents (FTEs) from 2002-03 to 2011-12 and compares the 2013-14 Budget estimate of FTEs with the historical growth rate of 3.1% per annum (represented by the trend line). This graph demonstrates that the fiscal repair measures have made a major contribution to bringing FTE growth under control.

FTEs are expected to start growing modestly again from 2013-14, reflecting growth in service delivery. Nevertheless, by 2016-17, the public service is still estimated to be smaller than in 2011-12.

**Chart 4.4**  
**Departmental FTEs**  
**2002-03 to 2016-17**



At the time of the 2012-13 Budget, it was estimated that a total reduction in FTE positions of 14,000 FTEs would be required to achieve the fiscal repair measures. It was estimated that this would result in 10,600 redundancies, with the difference being attributable to discontinuing temporary positions and not filling vacant positions.

The total number of FTE redundancies related to the fiscal repair measures is now anticipated to be around 9,200 in 2012-13. This lower redundancy total indicates that agencies have achieved a greater proportion of the savings from abolishing vacant positions arising from normal staff turnover than initially anticipated. This has had the effect of achieving the savings while lowering the redundancy cost to Government.

Departments have been required to make a contribution to assist with meeting the cost of natural disasters. In total, savings of \$100 million per annum ongoing have been built into agency budgets. While it is a matter for Ministers and Directors-General to determine the areas in which the savings will be made, it is anticipated that savings will generally be able to be achieved through utilising carryover funding which was not required in 2012-13 and not filling some vacant positions.

**Table 4.2**  
**Total funded FTE positions by Department<sup>1,2,3</sup>**

	2012-13 Adjusted Budget <sup>1</sup>	2012-13 Est. Act.	2013-14 Budget
Aboriginal and Torres Strait Islander and Multicultural Affairs	363	376	366
Agriculture, Fisheries and Forestry	2,168	2,168	2,168
Communities, Child Safety and Disability Services	6,045	5,910	5,799
Community Safety	10,579	10,762	10,883
Education, Training and Employment	65,410	65,499	65,897
Energy and Water Supply	273	238	273
Environment and Heritage Protection	1,117	1,010	980
Housing and Public Works	3,989	3,748	3,426
Justice and Attorney-General	4,715	4,715	4,619
Local Government, Community Recovery and Resilience	105	117	114
National Parks, Recreation, Sport and Racing	1,329	1,332	1,327
Natural Resources and Mines	2,444	2,472	2,443
Premier and Cabinet	607	626	613
Queensland Health <sup>4</sup>	66,110	64,224	65,829
Queensland Police Service	14,978	14,753	15,001
Queensland Treasury and Trade	1,094	1,075	1,083
Science, Information Technology, Innovation and the Arts	3,551	3,231	3,199
State Development, Infrastructure and Planning	800	859	845
Tourism, Major Events, Small Business and the Commonwealth Games	107	107	107
Transport and Main Roads	7,627	7,855	7,380
<b>Total</b>	<b>193,411</b>	<b>191,077</b>	<b>192,352</b>

Note:

1. Total FTEs by department.
2. For the purpose of achieving a meaningful comparison, the 2012-13 Adjusted Budget has been prepared on a consistent basis with the 2012-13 Estimated Actual and the 2013-14 Budget. The estimate of 192,076 FTEs included in the published 2012-13 Budget is slightly higher on an adjusted basis once the full scope of departmental FTEs is extended to allow for Corporate Partnership FTEs in Agriculture, Fisheries and Forestry, the Queensland Shared Services and the Corporate Administration Agency.
3. Explanation of variations in departmental FTEs can be found in the Service Delivery Statements.
4. This represents Health Consolidated in the Service Delivery Statement, which consolidates Queensland Health controlled and the Hospital and Health Services.

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

## **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. In 2011-12 yields fell to historical lows resulting in a significant increase in the present value of superannuation liabilities. The fall in discount rates contributed to a lower superannuation interest cost in 2012-13.

In 2013-14, superannuation interest costs are projected to increase by \$123 million over the estimated actual to \$879 million. This increase is in part due to a revision of AASB 119, which applies from 1 July 2013, requiring interest costs be imputed on a net liability approach and applying the discount rate to both the gross liability and superannuation plan assets. Prior to 2013-14, interest calculated on plan assets were calculated using the expected rate of return of 7.0% per annum.

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.

In 2012-13, other operating expenses are \$385 million lower than the 2012-13 MYFER estimate mainly due to deferrals in Commonwealth-funded education programs and change in the timing of NDRRA expenses.

In 2013-14 other operating expenses are estimated to increase by \$616 million over the 2012-13 estimated actual to \$9.669 billion. Factors contributing to the growth in other operating expenses include:

- an increase in Queensland Health funding under the new Health and Hospital Services structure including expenditure to maintain and enhance the Queensland public health rostering and payroll system, revitalisation of regional, rural and remote health services and backlog maintenance
- growth in school expenditure, including growth in Commonwealth-funded education programs.



## **Depreciation and amortisation**

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

## **Other interest expenses**

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

In 2013-14, the General Government sector has total debt servicing costs forecast at \$2.163 billion, representing 4.5% of total expenses. This is \$184 million lower than forecast in the 2012-13 MYFER due to the improved fiscal balance in 2012-13 and lower interest rates.

## **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 7).

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

**Table 4.3**  
**Grant expenses<sup>1</sup>**

	2012-13 Est. Act. \$ million	2013-14 Budget \$ million
<b>Current</b>		
Grants to local government	643	440
Grants to private and not-for-profit organisations		
State funding for non-state schools	518	546
Australian Government funding for non-state schools	1,821	1,960
Other	3,301	3,302
Grants to other sectors of government		
Community service obligations to PNFCs <sup>2</sup>	2,078	2,087
Other payments to PNFCs	61	45
Other	3	3
Other	330	207
<b>Total current transfers</b>	<b>8,755</b>	<b>8,591</b>
<b>Capital</b>		
Grants to local government	1,478	2,468
Grants to private and not-for-profit organisations	697	531
Payments to PNFCs	35	55
First Home Owner Grant schemes	105	70
Queensland Building Boost Grant	97	30
Other	7	..
<b>Total capital transfers</b>	<b>2,418</b>	<b>3,154</b>
<b>Total current and capital transfers</b>	<b>11,173</b>	<b>11,745</b>
Notes:		
1. Numbers may not add due to rounding.		
2. The community service obligations expense disclosed above does not agree to the total disclosed in Table 7.5 due to contract negotiations in progress.		

Current grants are estimated to decline by \$164 million in 2013-14. The decrease is largely due to the Australian Government's advance payment of financial assistance grants to local governments in 2012-13 for 2013-14 and a decline in other current grants largely due to the completion of the Water Rebate program for domestic water connections in South East Queensland, partly offset by growth in Australian Government funding to non-state schools.

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

Capital grants are estimated to increase \$736 million to \$3.154 billion in 2013-14. This is largely due to natural disaster grants to local governments for the rebuilding of roads, bridges and transport infrastructure related to the pre-2013 disaster events and ex-Tropical Cyclone Oswald and associated disaster events in 2012-13.

The increased level of capital grant expenditure to local governments also includes funding under the Roads to Resources program and upgrading key rail crossings in Brisbane.

The decline in capital grants to private and not-for-profit organisations largely reflects the one-off grant in 2012-13 in relation to the Airportlink project.

First home owner grants include the First Home Owner Grants (FHOGs) and the Great Start Grants schemes. The FHOGs, which gave first home buyers of both new and existing properties a \$7,000 grant, ceased on 11 October 2012. The Great Start Grant which commenced 11 September 2012, (previously known as the First Home Owner Construction grant) assists first home buyers with a one-off payment of \$15,000 to purchase an eligible new house, unit or townhouse. Over the period October 2012 to 29 May 2013, 1,403 payments of the \$15,000 Great Start Grant have been made. The decline in the Queensland Building Boost grant is due to the closure of the scheme, with the period to claim the building boost grant ending on 31 August 2012.

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

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

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

- *achieving better value for money for the large expenditure made on grants (Recommendation 56)*
- *The administration of grant programs be managed by specialist grant administration systems based on best practice, to minimise the administrative and overhead costs involved. (Recommendation 57)*

The Government's response to these three recommendations was to accept each of them, noting that there would need to be a progressive approach to implementation and that the Social Services Cabinet Committee would play a key role in leading the implementation. The Government's response also noted that this discussion of grants would be included in the 2013-14 Budget with progressively greater levels of detail provided in subsequent State Budgets.

There is a significant implementation task involved in achieving the outcome envisaged by the Independent Commission of Audit. As the Independent Commission noted, grant payments are a significant element of the State Budget, there are very broad definitions currently applied to grants across the sector and there is complexity in the number of grants programs, the number of recipients of grants, and the variability between departments in the cost of administering grant payments. In many cases, the structuring of grant payments will be a part of broader reform of departmental service delivery, and will occur in concert with service delivery improvements. Issues around the administration of grant payments also are part of broader approaches to delivering specialist services and the use of efficient ICT solutions across Government (also recommended by the Independent Commission of Audit), so there is a range of organisational impacts that emerge when considering grants administration across Government.

However, the Government remains committed to the outcomes recommended and is currently developing its detailed approach to implementing all the Independent Commission of Audit recommendations accepted, including those above in relation to grants administration. Outcomes from this implementation will be presented in future Budget papers.

## OPERATING EXPENSES BY PURPOSE

Chart 4.5  
General Government expenses by purpose, 2013-14

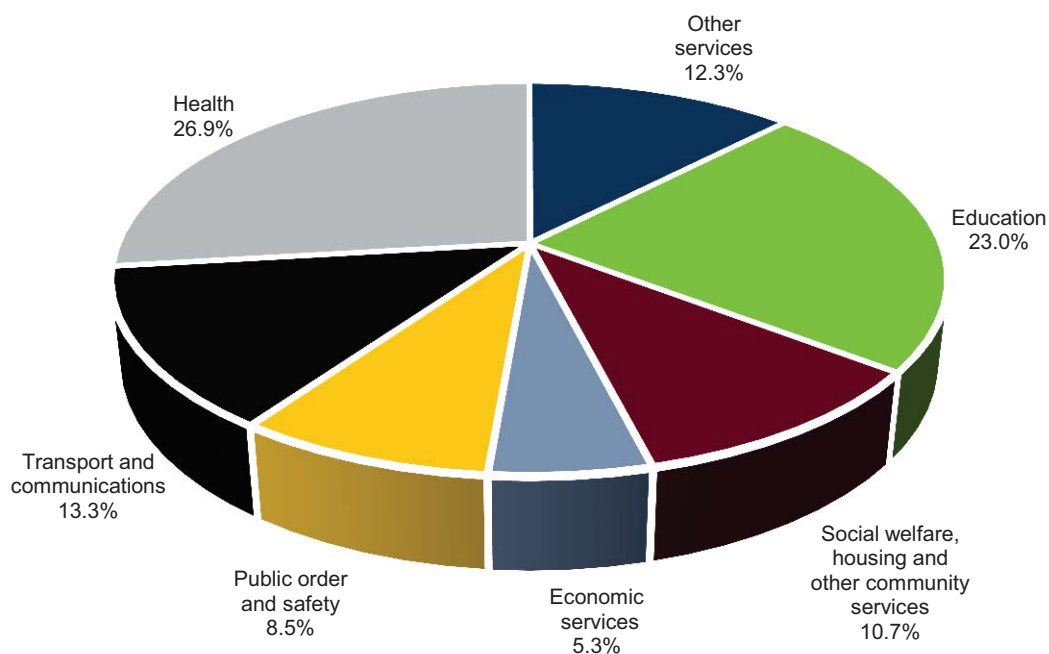


Chart 4.5 indicates the proportion of expenditure by major purpose classification for the 2013-14 Budget. Health accounts for the largest share of expenses (26.9%) followed by Education (23.0%).

## DEPARTMENTAL EXPENSES

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

**Table 4.4**  
**Departmental Controlled Expense <sup>1,2</sup>**

	2012-13 Est. Actual \$'000	2013-14 Estimate \$'000
Aboriginal and Torres Strait Islander and Multicultural Affairs	114,283	109,625
Agriculture, Fisheries and Forestry	440,601	403,064
Communities, Child Safety and Disability Services	2,526,498	2,580,163
Community Safety	1,826,487	1,925,095
Education, Training and Employment	8,172,749	8,672,444
Electoral Commission of Queensland	19,178	22,743
Energy and Water Supply	79,014	105,948
Environment and Heritage Protection	205,841	171,103
Housing and Public Works	1,809,075	1,610,864
Justice and Attorney-General	720,417	698,948
Legislative Assembly	82,831	82,152
Local Government, Community Recovery and Resilience	174,178	218,110
National Parks, Recreation, Sport and Racing	348,838	365,981
Natural Resources and Mines	555,517	479,518
Office of the Governor	5,780	5,925
Office of the Ombudsman	7,480	7,914
Premier and Cabinet	110,172	95,506
Public Service Commission	23,863	28,035
Queensland Audit Office	42,357	41,919
Health Consolidated <sup>3</sup>	11,793,745	12,326,421
Queensland Police Service	1,957,482	2,000,725
Queensland Treasury and Trade	219,057	228,751
Science, Information Technology, Innovation and the Arts	421,739	361,933
State Development, Infrastructure and Planning	240,068	324,527
The Public Trustee of Queensland	77,505	79,653
Tourism, Major Events, Small Business and the Commonwealth Games	51,042	99,992
Transport and Main Roads	4,996,629	5,457,566
<b>Total Expenses</b>	<b>37,022,426</b>	<b>38,504,625</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. This represents Health Consolidated in the Service Delivery Statement, which consolidates Queensland Health controlled and the Hospital and Health Services.

**Table 4.5**  
**Departmental Administered Expense <sup>1,2</sup>**

	2012-13 Est. Actual \$'000	2013-14 Estimate \$'000
Aboriginal and Torres Strait Islander and Multicultural Affairs	6,920	5,600
Agriculture, Fisheries and Forestry	10,533	9,728
Communities, Child Safety and Disability Services	265,889	268,177
Education, Training and Employment	2,531,571	2,739,315
Energy and Water Supply	746,372	639,169
Housing and Public Works	51,554	8,570
Justice and Attorney-General	296,414	294,030
Local Government, Community Recovery and Resilience	1,190,931	4,339,224
National Parks, Recreation, Sport and Racing	20,818	26,766
Natural Resources and Mines	551,876	51,689
Premier and Cabinet	42,679	45,423
Queensland Health	25,581	32,499
Queensland Police Service	703	708
Queensland Treasury and Trade	7,872,348	6,424,641
Science, Information Technology, Innovation and the Arts	168,822	152,311
State Development, Infrastructure and Planning	599,339	10,025
The Public Trustee of Queensland	3,232	3,237
Tourism, Major Events, Small Business and the Commonwealth Games	87,958	108,472
Transport and Main Roads	590,570	1,037
<b>Total Expenses</b>	<b>15,064,110</b>	<b>15,160,621</b>
<p>Notes:</p> <p>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.</p> <p>2. Explanation of variations in departmental administered expenses can be found in the Service Delivery Statements.</p>		

**Table 4.6**  
**Reconciliation of Departmental to UPF Expenses <sup>1</sup>**

	2012-13 Est. Actual \$ million	2013-14 Estimate \$ million
Departmental expenditure per Service Delivery Statements - Controlled (Table 4.4)	37,022	38,505
- Administered (Table 4.5)	15,064	15,161
Non-UPF departmental expenses and whole-of-Government schemes <sup>2</sup>	(5,763)	(3,226)
Other General Government entities (e.g. CBUs, SSPs, Statutory Bodies)	7,814	7,429
	<b>54,138</b>	<b>57,869</b>
Superannuation Interest cost	756	879
Eliminations and Other whole-of-Government adjustments		
Elimination of payments to CBUs and SSPs	(3,505)	(3,001)
Payroll Tax elimination	(588)	(583)
Other eliminations and adjustments	(4,274)	(6,727)
<b>Total General Government UPF Expenses</b>	<b>46,526</b>	<b>48,436</b>
<p>Notes:</p> <p>1. Numbers may not add due to rounding.</p> <p>2. Certain expenses such as asset valuation changes are excluded from UPF reporting. In addition, this item removes the effect of cash payments for whole-of-Government schemes such as the State's share of superannuation beneficiary payments reported in Treasury Administered's expenses. Costs associated with these schemes are accrued annually.</p>		



## 5 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. The Government has undertaken an extensive fiscal repair task which has resulted in borrowings stabilising at around \$81 billion from 2015-16.
- Borrowings in 2015-16 are expected to be \$81.1 billion, \$8.7 billion less than the comparable estimates in the Independent Commission of Audit interim report and \$1.4 billion less than forecast in the 2012-13 Mid Year Fiscal and Economic Review (MYFER).
- General Government capital purchases (Purchases of Non-financial Assets) of \$7.1 billion in 2013-14 will be funded entirely by borrowings. However, due to government's fiscal repair efforts, by 2015-16 General Government capital purchases of \$4.4 billion will be funded entirely by operating cash flows.
- Net borrowing requirements improve significantly across the forward estimates, with gross borrowings in the General Government sector projected to stabilise at around \$48 billion from 2014-15.
- The General Government sector is forecast to record a cash deficit of \$7.5 billion in 2013-14, improving to a surplus of over \$1 billion by 2015-16.

### BACKGROUND

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

As identified by the Independent Commission of Audit, 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.

Following the Independent Commission's Interim Report, the Government implemented measures to immediately and significantly repair Queensland's fiscal position. As outlined in previous chapters, the Government's task of fiscal repair is continuing and has already led to substantial improvements in Queensland's fiscal position.

## BALANCE SHEET

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

Table 5.1 General Government sector: summary of budgeted balance sheet <sup>1</sup>						
	2012-13 Budget <sup>2</sup> \$ million	2012-13 Est. Act. \$ million	2013-14 Budget \$ million	2014-15 Projection \$ million	2015-16 Projection \$ million	2016-17 Projection \$ million
Financial assets	57,523	61,653	63,429	65,618	67,148	69,437
Non-financial assets	185,320	185,788	192,304	195,807	198,175	199,849
<b>Total Assets<sup>3</sup></b>	<b>242,843</b>	<b>247,442</b>	<b>255,733</b>	<b>261,425</b>	<b>265,322</b>	<b>269,286</b>
Borrowings, advances and deposits	41,548	39,245	47,556	48,831	48,588	48,311
Superannuation liability	25,721	28,898	27,827	26,828	26,004	25,049
Other provisions and liabilities	11,774	12,191	12,684	13,252	13,505	14,189
<b>Total Liabilities</b>	<b>79,043</b>	<b>80,334</b>	<b>88,067</b>	<b>88,911</b>	<b>88,097</b>	<b>87,549</b>
<b>Net Worth</b>	<b>163,800</b>	<b>167,107</b>	<b>167,666</b>	<b>172,514</b>	<b>177,226</b>	<b>181,737</b>
<b>Net Financial Worth</b>	<b>(21,520)</b>	<b>(18,681)</b>	<b>(24,638)</b>	<b>(23,293)</b>	<b>(20,949)</b>	<b>(18,112)</b>
<b>Net Financial Liabilities</b>	<b>38,476</b>	<b>40,317</b>	<b>46,834</b>	<b>46,307</b>	<b>44,908</b>	<b>43,071</b>
<b>Net Debt</b>	<b>5,120</b>	<b>3,555</b>	<b>10,821</b>	<b>11,075</b>	<b>10,199</b>	<b>9,001</b>
Notes: 1. Numbers may not add due to rounding. 2. Numbers have been restated where subsequent changes in classification have occurred. 3. For UPF purposes, the State's assets are classed as either financial or non-financial assets.						

### Financial assets

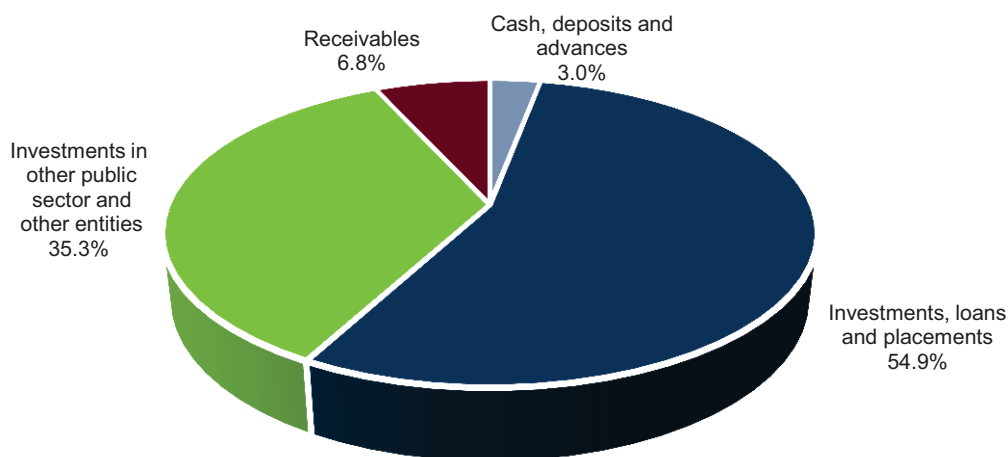
The General Government sector holds the equity of the State's public enterprises, principally its shareholding in Government-owned corporations (GOCs) but also Public Financial Corporations like Queensland Treasury Corporation (QTC), in much the same manner as the parent or holding company in a group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

Financial assets of \$61.653 billion are estimated for 2012-13, \$4.13 billion higher than originally budgeted due primarily to a change in the treatment of public sector entities with negative equity.

In the year to 30 June 2014, financial assets are projected to increase by \$1.776 billion over 2012-13 attributable principally to increased investment in assets set aside to meet future employee liabilities including superannuation, and an increase in the value of holdings primarily in the Energy sector.

Chart 5.1 shows projected General Government sector financial assets by category at 30 June 2014. Investments held to meet future liabilities, including superannuation and long service leave, comprise the major part of the State's financial assets.

**Chart 5.1**  
**Projected General Government financial assets by category at 30 June 2014**



## Non-financial assets

General Government non-financial assets are projected to total \$185.788 billion at 30 June 2013, \$468 million higher than forecast at the 2012-13 Budget.

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

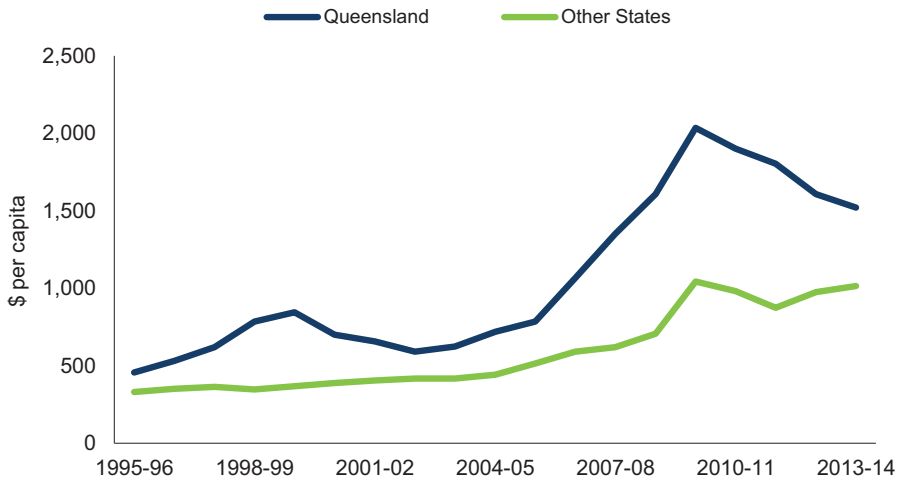
- construction and purchase of assets, either to replace existing assets or provide additional capacity for the State to deliver services
- revaluations of assets required under accounting standards
- depreciation and disposals of assets.

The increase since the 2012-13 Budget reflects the flow through of upward revaluations at 30 June 2012 primarily for road infrastructure, offset by downward revaluations and disposals of land and buildings in 2012-13.

Non-financial assets in the year ending 30 June 2014 are expected to grow by \$6.516 billion over the 2012-13 estimated actuals to be \$192.304 billion at 30 June. These assets consist primarily of land and other fixed assets of \$185.718 billion, the majority of which are roads, schools, hospitals and other infrastructure used to provide services to Queenslanders. Other non-financial assets of \$6.586 billion held by the State include prepayments and deferred tax assets relating to income tax equivalents collected primarily from GOCs.

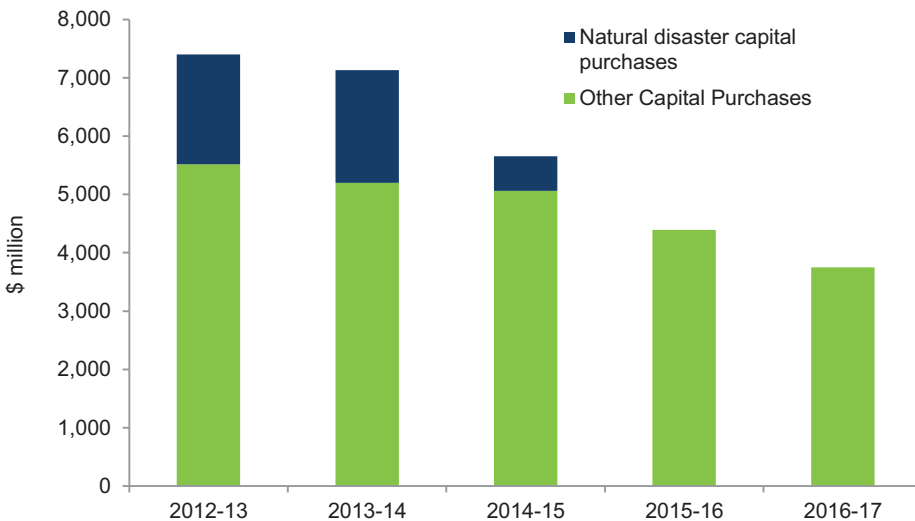
Since the mid-1990s, the Queensland Government has invested in new infrastructure at levels well beyond that of the other states. General Government purchases of non-financial assets per capita have far exceeded the average of the other states and territories for well over a decade (refer Chart 5.2).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

**Chart 5.2**  
**General Government per capita purchases of non-financial assets, 1995-96 to 2013-14**



Purchases of non-financial assets have increased further as a result of the natural disasters of 2010, 2011, 2012 and 2013 which required the extensive replacement of infrastructure. Chart 5.3 indicates the proportion of the General Government capital program that has been spent on restoration of assets following disasters.

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



Purchases of non-financial assets for the General Government sector are forecast to reduce from \$7.397 billion in 2012-13 to just under \$4 billion in 2016-17.

This reduction in capital spending is to be expected following a prolonged period of elevated capital spending (i.e. the infrastructure does not need to be rebuilt), reduced spending on disaster restoration and is in keeping with the Government's fiscal repair objectives.

## **Liabilities**

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

General Government liabilities of \$80.334 billion in 2012-13 are \$1.291 billion higher than budgeted. This is primarily the result of an increase in forecast superannuation liabilities due to the impact of historically low bond yields on the actuarially assessed superannuation liability, partially offset by a decrease in forecast borrowings as a result of an improved fiscal balance in 2012-13.

Total liabilities in the General Government in 2013-14 are budgeted to increase from 2012-13 by \$7.733 billion. This is primarily to support the capital program in 2013-14 of \$7.13 billion.

Liabilities relating to employee entitlements (principally superannuation and long service leave) are projected to total \$33.766 billion at 30 June 2014, a 2.2% decrease on the 2012-13 estimated actual. The State's superannuation liability can be seen to decline over the forward estimates primarily as a result of the defined benefit fund being closed to new entrants from 2009. In addition, as interest rates return to more normal levels it is expected that their negative impact on superannuation liabilities will start to reverse.

General Government borrowings of \$47.196 billion are forecast for 2013-14, an increase of \$8.332 billion over 2012-13. This increase primarily reflects capital purchases of \$7.13 billion, equity injections to Public Non-financial Corporations of \$77 million and an operating cash deficit of \$669 million.

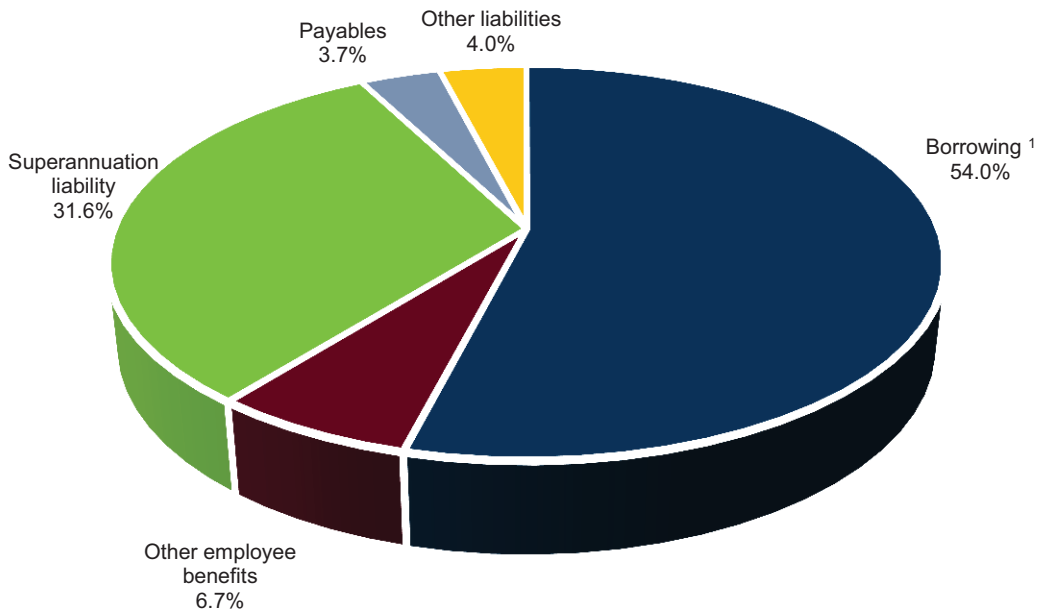
The level of General Government borrowings stabilises at around \$48 billion from 2014-15, primarily as a result of the Government's savings and revenue measures. Stabilisation of debt is a crucial first step towards the Government's aim of restoring the AAA credit rating.

Over the Budget and forward estimates period, total General Government net borrowings of \$8.74 billion and positive operating cash flows of \$14.754 billion are planned to fund the \$20.928 billion worth of capital projects in the General Government sector and \$603 million worth of equity injections to the Public Non-financial Corporations sector.

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

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

**Chart 5.4**  
**Projected General Government liabilities by category at 30 June 2014**



Note:

1. Includes borrowing, advances and deposits

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

Non-financial Public sector borrowings of \$69.49 billion are forecast for 2012-13, \$2.957 billion lower than expected at the 2012-13 MYFER and \$4.6 billion lower than the comparable Independent Commission of Audit forecast contained in its Interim Report.

Non-financial Public sector borrowings of \$78.125 billion are forecast for 2013-14, an increase of \$8.635 billion over 2012-13, largely reflecting the increased borrowing in the General Government sector.

By 2015-16, borrowings in the Non-financial Public sector are expected to be \$8.7 billion lower than outlined in the Independent Commission's report and \$1.4 billion lower than outlined in the 2012-13 MYFER.

As shown in Chart 1.2 (in Chapter 1), Non-financial Public sector borrowing is lower in each year of the forward estimates compared to the 2012-13 MYFER. This is primarily driven by lower borrowings in the Public Non-financial Corporations sector largely as a result of reforms to the water entities. In particular, Seqwater (resulting from the merger of several entities) has substantially improved its operating position across the forward estimates resulting in significantly lower borrowings.

As can also be seen in Chart 1.2, borrowings stabilise at around \$81 billion from 2015-16, an important first step in regaining a AAA credit rating.

A number of small sales in 2012-13 have also assisted in reducing debt.

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

By the end of November 2012, the Queensland Government sold over 430 million shares in Aurizon at a price of \$3.47 through a selective buyback and cornerstone placement raising \$1.5 billion. A further sale of 200 million shares at \$4.03 in March 2013 brought total proceeds on sale to \$2.3 billion. These proceeds have allowed the Government to repay the full amount of debt associated with the shares (\$2.3 billion). Further, the sale prices achieved through both tranches have exceeded the assumptions used in the 2012-13 Budget and MYFER of \$3.40 a share (based on the closing market price at 30 June 2012).

Proceeds from the sale of the remaining 189.2 million shares will depend upon the share price received, with the proceeds used to further reduce debt.

On 30 April 2013, sale proceeds of \$527 million were received from the sale and leaseback of seven office buildings in the Brisbane CBD. These proceeds have also been used to pay down whole-of-Government debt.

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



## **Net financial worth**

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

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

The net financial worth of the General Government sector for 2013-14 is forecast at negative \$24.638 billion. The decrease in net financial worth from 2012-13 to 2013-14 (\$5.957 billion) is primarily the result of the increase in borrowings partially offset by increases in investments, loans and placements and equity in public enterprises.

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

## **Net financial liabilities**

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

The net financial liabilities of the General Government sector for 2013-14 are forecast at \$46.834 billion, \$6.517 billion higher than 2012-13 which largely reflects additional borrowings in support of the capital program.

Net financial liabilities decrease after 2013-14 as borrowings stabilise and financial assets continue to grow.

## **Net worth**

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

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

- operating surpluses (deficits) that increase (decrease) the Government's equity
- revaluation of assets and liabilities as required by accounting standards. For example, the Government's accruing liabilities for employee superannuation and long service leave are determined by actuarial assessments

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

The net worth of the General Government sector in 2012-13 is forecast to be \$167.107 billion. This is \$3.307 billion more than forecast in the 2012-13 Budget primarily due to a change in treatment of investments in public sector entities with negative equity.

From 2013-14, net worth is projected to steadily increase mainly as a result of the improved fiscal balance position and growth in assets.

## **Net debt**

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

Queensland maintains a strong net debt position due, in part, to the way it has structured its financial investments held to cover long term liabilities i.e. because the net debt measure includes assets held to cover long term liabilities. These financial investments are quarantined to cover primarily the superannuation obligations of Government.

Net debt for the General Government sector in 2012-13 is forecast to be \$3.555 billion, \$1.565 billion less than forecast in the 2012-13 Budget. Net debt will increase to \$10.821 billion in 2013-14 as a result of increased borrowings in that year and is then projected to stabilise and then steadily decrease to a projected \$9.001 billion in 2016-17.

## **CASH FLOWS**

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

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

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

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

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

The General Government cash deficit of \$9.843 billion in 2012-13 is \$833 million lower than that forecast at the time of the 2012-13 Budget and \$1.471 billion lower than the 2012-13 MYFER. This is largely due to the improved operating position and the sale and leaseback of seven government buildings to QIC Limited.

A cash deficit of \$7.469 billion is forecast in 2013-14 for the General Government sector, with the cash deficit forecast to decline significantly over the forward estimates, returning to a surplus in 2015-16.

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

Total General Government capital purchases of \$7.13 billion are budgeted for 2013-14 and, over the period 2013-14 to 2016-17, capital expenditure is expected to total \$20.928 billion in the General Government sector.

## RECONCILIATION OF OPERATING CASH FLOWS TO THE OPERATING STATEMENT

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

<b>Table 5.2</b> <b>General Government sector: Reconciliation of</b> <b>cash flows from operating activities to accrual operating activities<sup>1</sup></b>		
	2012-13 Est. Act. \$ million	2013-14 Budget \$ million
<b>Revenue from transactions</b>	<b>41,785</b>	<b>44,677</b>
Plus/(less) movement in tax equivalent and dividend receivables	(276)	(357)
Plus GST receipts	1,873	1,907
Plus/(less) movement in other receivables	(54)	(395)
<b>Equals cash receipts from operating activities</b>	<b>43,328</b>	<b>45,832</b>
<b>Expenses from transactions</b>	<b>46,526</b>	<b>48,436</b>
(Less) non-cash items		
Depreciation and amortisation expense	(2,974)	(3,140)
Accrued superannuation expense	(1,856)	(1,935)
Accrued employee entitlements	(647)	(666)
Other accrued costs	(147)	(261)
Plus superannuation benefits paid – defined benefit	3,435	1,908
Plus/(less) movement in employee entitlement provisions	116	289
Plus/(less) GST paid	1,896	1,947
Plus/(less) movement in other provisions and payables	219	(79)
<b>Equals cash payments for operating activities</b>	<b>46,568</b>	<b>46,500</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 differences between accrual accounting and cash flows are in relation to depreciation and superannuation. Differences due to the timing of receipt or payment of amounts are recorded as either a receivable or payable in the balance sheet.

## 6 INTER-GOVERNMENTAL FINANCIAL RELATIONS

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### FEATURES

- The Australian Government Budget, released on 14 May 2013, made a number of assumptions in relation to funding agreements for education and infrastructure that are still under consideration by the Queensland Government.
- Total GST revenue to all states is expected to be \$50.250 billion in 2013-14, an increase of \$2.55 billion or 5.3%. Since the 2012-13 Commonwealth Budget, the estimate of total GST revenue for 2013-14 has been revised down by \$650 million. The growth of the GST pool has slowed substantially since 2007-08, reinforcing the need to protect the GST base.
- Estimated Australian Government funding in 2013-14 for Queensland included in the 2013-14 Queensland Budget is \$19.530 billion. Queensland is estimated to receive \$8.473 billion in payments for specific purposes, with \$3.647 billion as National Specific Purpose Payments, \$2.831 billion as National Health Reform funding and \$1.995 billion as National Partnership Payments.
- The National Partnership (NP) model envisaged in the Intergovernmental Agreement on Federal Financial Relations poses policy and financial risks for Queensland. The uncertainty of ongoing Australian Government funding for expiring NPs which have raised service delivery levels poses a significant risk of cost shifting to Queensland. NPs that include input controls such as matched funding deliberately confuse roles and responsibilities by giving the Australian Government greater control over state funding and policy directions.
- Queensland is estimated to receive \$10.741 billion of GST revenue in 2013-14, \$608 million more than its population share. This is \$453 million less than estimated in the 2012-13 Commonwealth Budget.
- The Australian Government's GST Distribution Review final report, released in November 2012, proposed changes to the current horizontal fiscal equalisation arrangements, and the consideration by the Commonwealth Grants Commission (CGC) of issues in a future methodology review. Queensland welcomes many elements of the long term vision for federal financial relations articulated in the report.
- Federal and State Treasurers have agreed that the CGC would commence a methodology review this year, to be completed by 2015. A major issue for the Queensland Government will be reform of the mining revenue assessment, including full recognition of the expenses incurred by the State in the development and operation of the mining industry.

## FEDERAL FINANCIAL ARRANGEMENTS

The Australian Government Budget, released on 14 May 2013, made a number of assumptions in relation to funding agreements for education and infrastructure that are still under consideration by the Queensland Government. National aggregates and interstate comparisons in this chapter will use Australian Government estimates for consistency. Queensland specific figures will be consistent with Queensland Budget estimates, which exclude the proposed funding for the National Education Reform Agreement and some large infrastructure projects such as Cross River Rail and the Gateway Upgrade North.

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 44.7% of all states' revenues in 2013-14, up from 44.3% in 2012-13, based on the Australian Government Budget estimates.

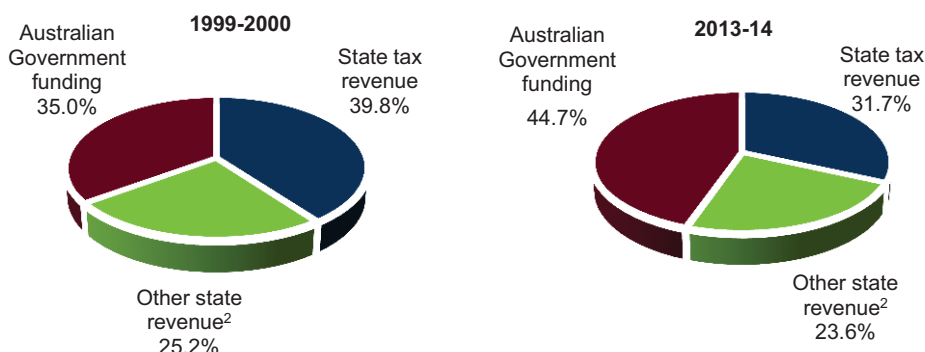
This high degree of mismatch is known as vertical fiscal imbalance (VFI) and arises from a number of factors. These include:

- 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 6.1 shows that while the states received 35% of their revenues from the Australian Government in 1999-2000, this is forecast to increase to 44.7% in 2013-14. In contrast, the proportion of the states' General Government revenues from state taxes has declined from 39.8% in 1999-2000 to 31.7% in 2013-14.

**Chart 6.1**  
**General Government revenue sources, all states, 1999-2000 and 2013-14<sup>1</sup>**



Notes:

1. 2013-14 are estimates.

2. Includes user charges, interest earnings, contributions from trading enterprises and royalty 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 schools, skills and workforce development, affordable housing and disability services
- National Health Reform funding
- National Partnership (NP) payments for specific purposes or reform linked objectives.

The Australian Government 2013-14 Budget assumes that states will sign up to the National Education Reform Agreement (NERA) with funding for the schools SPP to be redirected to the NERA from 1 January 2014. States have until 30 June 2013 to agree to the new arrangements.

Table 6.1 shows total Australian Government payments to the states in 2013-14 are expected to be \$95.30 billion, an increase of \$3.344 billion or 3.6% compared with 2012-13. These figures are based on Australian Government 2013-14 Budget estimates.

**Table 6.1**  
**Estimated Australian Government payments to the states, 2012-13 and 2013-14<sup>1</sup>**

	2012-13 Est. Act. \$ million	2013-14 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	13,936	12,783			
Specific Purpose Payments	15,805	10,420			
National Health Reform Funding	13,280	14,040			
National Education Reform Funding <sup>3</sup>	..	6,824			
<b>Total payments for specific purposes</b>	<b>43,021</b>	<b>44,067</b>	<b>2.4</b>	<b>0.2</b>	<b>(1.5)</b>
<b>GST revenue</b>	<b>47,700</b>	<b>50,250</b>	<b>5.3</b>	<b>3.0</b>	<b>1.3</b>
<b>Other general revenue<sup>4</sup></b>	<b>1,235</b>	<b>984</b>			
<b>Total payments</b>	<b>91,956</b>	<b>95,300</b>	<b>3.6</b>	<b>1.4</b>	<b>(0.3)</b>

Notes:

1. Numbers may not add due to rounding.
2. Deflated by the 2013-14 national inflation forecast of 2.25% and national population growth of 1.7%.
3. Numbers are based on estimates in the Australian Government's 2013-14 Budget, which assume that all states will participate in the National Education Reform arrangements from 1 January 2014.
4. 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, 2013-14.

Total payments for specific purposes in 2013-14 are expected to be \$44.067 billion, a 2.4% increase in nominal terms and a 1.5% decrease in real per capita terms compared with 2012-13. The nominal increase is in part due to proposed increased funding for National Education Reform and National Health Reform.

GST revenue from the Australian Government to all states is expected to be \$50.250 billion in 2013-14, an increase of 5.3% in nominal terms. In real per capita terms, GST is expected to increase by 1.3% in 2013-14.

Table 6.2 shows the expected shares of total Australian Government payments to each state for 2013-14 compared with each state's population share.



**Table 6.2**  
**Relative shares of Australian Government payments to the states, 2013-14<sup>1</sup>**

	Share of payments <sup>2</sup> %	Share of population %	Relative share <sup>3</sup> %
New South Wales	30.9	31.9	96.8
Victoria	23.6	24.8	94.9
Queensland <sup>4</sup>	20.9	20.2	103.7
Western Australia	7.8	10.9	71.4
South Australia	8.0	7.2	110.9
Tasmania	3.0	2.2	134.0
Australian Capital Territory	1.9	1.7	112.4
Northern Territory	3.9	1.0	381.6
<p>Notes:</p> <ol style="list-style-type: none"> <li>1. Numbers do not add due to rounding.</li> <li>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.</li> <li>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).</li> <li>4. The Queensland share is based on Australian Government Budget Papers and does not reflect the 2013-14 Queensland Government budget position.</li> </ol> <p>Source: Australian Government Budget Paper No. 3, 2013-14.</p>			

## AUSTRALIAN GOVERNMENT FUNDING TO QUEENSLAND

This section reflects the Queensland Government estimates of proposed Australian Government funding for specific purposes excluding funding for education reforms and some specific infrastructure projects. This is discussed later in the chapter.

Estimated Australian Government funding in 2013-14 for Queensland, included in the 2013-14 Queensland Budget, is \$19.530 billion.<sup>1</sup>

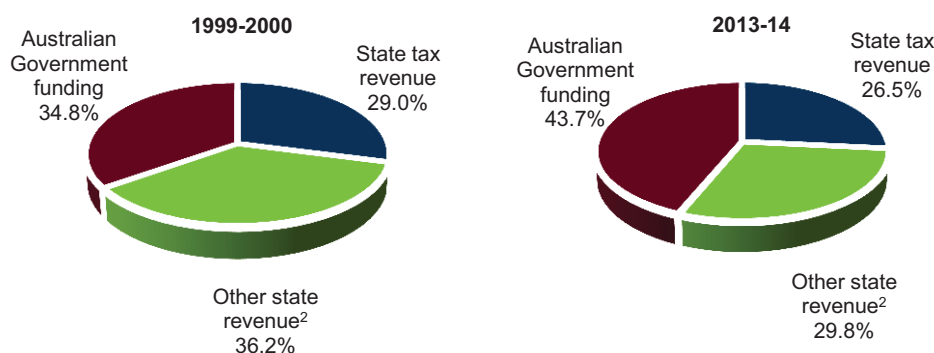
Queensland expects to receive \$10.741 billion of GST revenue in 2013-14, \$608 million greater than its population share, but \$453 million less than was estimated in the 2012-13 Commonwealth Budget. In the same year, total payments for specific purposes are forecast to be \$8.473 billion, with \$3.647 billion as National Specific Purpose Payments, \$2.831 billion as National Health Reform funding and \$1.995 billion as National Partnership Payments.

<sup>1</sup> This figure differs to Chapter 3 Australian Government grants estimates, due to the exclusion of direct Australian Government payments to Queensland departments for Commonwealth own purpose expenditure.

The Australian Government also provides funding direct to Local Governments with estimates for 2013-14 at \$316 million.

Queensland's reliance on Australian Government funding, as shown in Chart 6.2, is consistent with the national trend (shown in Chart 6.1), with its share of total funding sourced from the Australian Government increasing from 34.8% in 1999-2000 to an estimated 43.7% in 2013-14.

**Chart 6.2**  
**General Government revenue sources, Queensland, 1999-2000 and 2013-14<sup>1</sup>**



Notes:

1. 2013-14 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 (SPPs), National Health Reform funding and National Partnership (NP) payments. These payments represent a major source of revenue to Queensland.

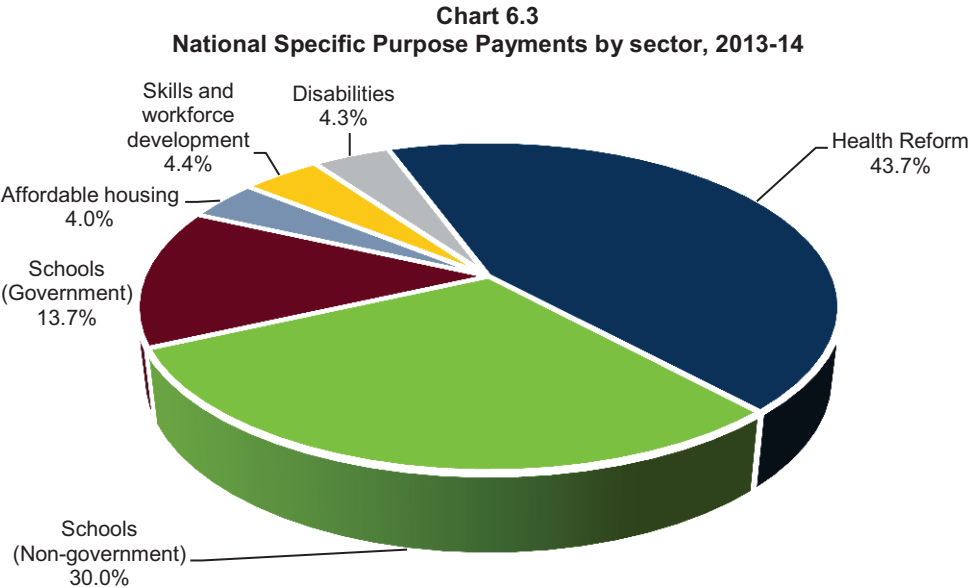
### National Specific Purpose Payments

SPPs are an ongoing financial payment to the states for service delivery in a particular sector. SPP funding is crucial for states to carry out their constitutional responsibility for school education, disability services, housing and skills development. SPPs are considered to be 'tied' payments since they must be expended in the relevant sector, but apart from this condition, states have total budget flexibility to allocate SPP funding within the relevant sector according to their priorities. In turn, states are accountable to their communities on SPP expenditure and the achievement of outcomes as set out in the associated National Agreements.

However, the SPP/National Agreement funding model is under threat as the Australian Government increasingly shows a preference for a purchaser-provider funding model where the policy and performance targets are set by the Australian Government with the states consigned to service delivery. It is important that Queensland retains control in setting the policy directions on how and where services will be delivered to Queensland communities.

The IGA requires that SPP funding be reviewed at least every five years to ensure its ongoing adequacy. On 3 April 2013, the Standing Council on Federal Financial Relations noted that a review would be conducted later in 2013.

From 1 July 2013, there are four SPPs to the states for schools, skills and workforce development, disability services and affordable housing. Together with National Health Reform funding, these payments will provide 33.2% of total Australian Government funding to Queensland in 2013-14. Chart 6.3 shows the breakdown of Australian Government funding across these sectors for SPPs, National Health Reform funding and the Non-Government Schools sector.



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

## ***National Health Reform funding***

The National 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 National 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 are made direct to Hospital and Health Services with state governments having less flexibility over how to allocate health funding.

Health system funding in Queensland requires certainty so that hospitals and health services can meet the health needs of Queensland communities in a timely manner. This certainty was undermined in October 2012 with the Australian Government's decision to claw back \$103 million in health funding in 2012-13 which had a significant impact on the ability of the newly created Hospital and Health Services to plan and deliver services. Further reductions announced in the 2013-14 Budget mean that the Australian Government will claw back approximately \$476 million in funding across the forward estimates, since the 2012-13 Budget.

## ***New reform initiatives***

The Australian Government is proposing significant reforms to disability services and school education which will impact the National Disability SPP and the National Schools SPP. The reforms include:

### ***DisabilityCare Australia***

In December 2012, the Queensland Government announced a commitment to provide an additional \$868 million over the period to 2018-19 to address the historical under-funding of disability services in Queensland and to support implementation of DisabilityCare Australia in Queensland.

This funding, coupled with the Australian Government's commitment to provide the states with a share of the proposed 0.5% Medicare Levy increase, will contribute to the Queensland Government funding of \$2.03 billion of scheme costs in 2019-20 with the Australian Government funding the balance.

The roll out of DisabilityCare Australia in Queensland will impact the National Disability SPP payments currently paid to Queensland. The exact impact is yet to be determined and will be negotiated prior to the commencement of the scheme's roll out in Queensland in July 2016.

## *National Education Reform*

The Australian Government is proposing that the National Schools SPP and the National Education Agreement be replaced by National Education Reform funding and a new National Education Reform Agreement from 1 January 2014. The National Education Reform funding will also include some redirected National Partnership funding. States have until 30 June 2013 to agree to the National Education Reform Agreement and new funding arrangements. The proposed reforms will require significant additional Queensland contributions and will give the Australian Government greater control over Queensland own sourced education funding and its distribution.

The Queensland Government will continue to work through the detail of the Australian Government's proposal, to determine whether it is in Queensland's best interests to implement the reforms.

The 2013-14 Queensland Budget reflects the continuation of current arrangements for education funding as there are still a number of issues that need to be resolved.

## **National Partnership payments**

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

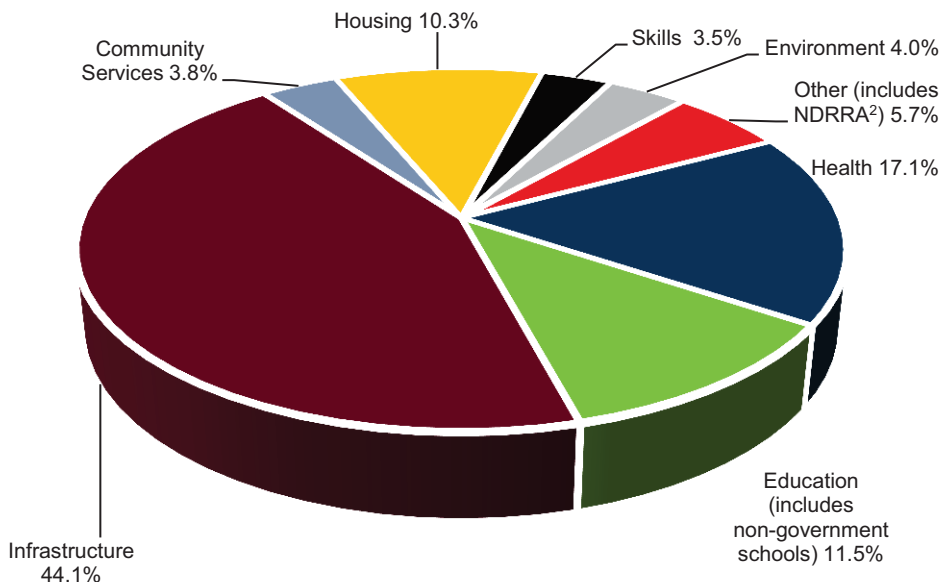
NP payments are an important source of revenue for Queensland. In 2013-14, proposed NP payments to Queensland will be 10.2% (\$1.995 billion) of total Australian Government funding to Queensland.

## ***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 74 agreements for Queensland as at 30 April 2013.

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 72.7% of the total NP funding in 2013-14 (refer Chart 6.4).

**Chart 6.4**  
**National Partnership Payments by sector, 2013-14<sup>1</sup>**



**Notes:**

1. Excludes direct local government funding.

2. NDRRA is funding for the Natural Disaster Reconstruction and Recovery Agreement.

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

## **Major funding agreements**

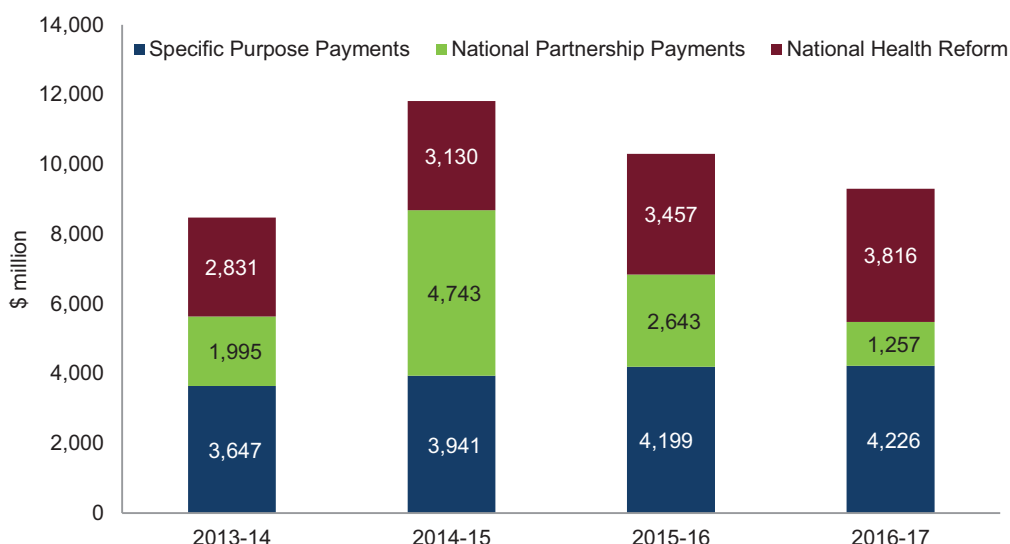
The key highlights in relation to NP funding for 2013-14 include:

- \$879 million for infrastructure funding for major roads and rail projects. The Australian Government Budget Papers included proposed funding contributions to Queensland for the Cross River Rail and Gateway Upgrade North projects. The Queensland Government is still negotiating key elements of these proposals with the Australian government and as such funding for these projects has not been included within the State Budget Papers. The Australian Government has also announced an overall level of funding for the Bruce Highway. However, with the exception of the Cooroy to Curra Section A upgrade, the Australian Government did not provide the specific project information and cash flows required at the time this Budget Paper was prepared
- \$341 million for various health services and health infrastructure programs
- \$229 million for education and early childhood. This does not include the proposed National Education Reform funding. The main component of the \$229 million relates to a new NP for Early Childhood Education (\$85 million)
- \$205 million for Housing programs such as Remote Indigenous Housing and Homelessness.

## 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 6.5 outlines how NP funding is expected to increase from \$1.995 billion in 2013-14 to a high of \$4.743 billion in 2014-15 before declining to \$1.257 billion in 2016-17. This variability is primarily due to fluctuations in natural disaster relief payments.

**Chart 6.5**  
**Payments for specific purposes to Queensland, 2013-14<sup>1</sup>**



Note:

1. Excludes direct local government funding.

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

A large number of agreements will expire in 2013-14 including agreements for Indigenous early childhood development, quality agenda for early childhood education and care and the Great Artesian Basin.

## Fiscal and policy risks from the NP funding model

At the commencement of the Intergovernmental Agreement on Federal Financial Relations, 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 30 April 2013 there were 74 active agreements between the Queensland Government and the Australian Government with a further 23 agreements under development. The agreements range in value from billions of dollars to tens of thousands.

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.

The use of time limited 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.

There is no constructive process for dealing with expiring NPs and often there is no commitment to ongoing Australian Government funding. Ideally, Queensland's view is that expiring NPs should be rolled into a relevant SPP or a new SPP should be created.

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, will continue to actively work with the Australian Government to improve budget certainty concerning expiring agreements.

States need reliable and unfettered revenue sources for their service delivery responsibilities. NPs too often fail to provide the required funding certainty and frequently include unnecessary prescription, input controls and reporting requirements which can reduce Queensland's flexibility and resource availability.



## **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's final report was released in November 2012.

The Review's final report contains 23 findings and 31 recommendations. The recommendations propose changes to the current CGC processes and governance of HFE arrangements, and the consideration by the CGC of issues in a future methodology review (including the development of a new mining revenue assessment).

The GST Distribution Review's Final Report also makes a finding about a vision for HFE and federal financial relations in the longer term. More information on the long term vision is provided in Box 6.1.

Federal and State Treasurers have agreed that the CGC would commence a methodology review this year. This review is to report by February 2015, and will incorporate consideration of the recommendations of the GST Distribution Review. More information on the 2015 Review of Methodology is provided in Box 6.2.

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 6.1**

#### **The Future of Horizontal Fiscal Equalisation**

The Australian Government announced a review of the distribution of GST revenue to the states in March 2011, with a final report released in November 2012. The purpose of the GST Distribution Review was to examine the system of distributing the GST revenue to the states, with regard to efficiency, equity, simplicity and stability.

Chapter 12 of the GST Distribution Review Final Report outlines a long term vision for federal financial relations. This deals with a wide range of issues, including roles and responsibilities and vertical fiscal imbalance (VFI), as well as HFE.

The report identifies that states and the Australian Government face long term, underlying economic and demographic pressures, such as an ageing population, higher community expectations for government service delivery and slower revenue growth. To manage long term fiscal pressures, the report finds that federal finances would benefit from:

- tax reform to put greater focus on more efficient taxes
- reducing VFI and states' reliance on the Australian Government by more closely aligning national tax bases and service responsibilities.

If the above reforms were to be implemented, the report suggests that reforms to HFE could follow. With a reduced level of VFI, transfers from the Australian Government to the states could largely be addressed through untied general revenue assistance, reducing the level of transfers for specific purposes as responsibilities become better aligned with revenue bases.

Rather than implementing HFE by redistributing states' GST revenue, the Australian Government could take responsibility for funding equalisation payments to states where this is required. In this case, general revenue assistance (such as GST revenue) might most simply be distributed to states on an equal per capita (EPC) basis.

During the GST Distribution Review, New South Wales, Victoria, Queensland and Western Australia made a joint submission advocating the EPC distribution of GST as a long term objective with the Australian Government funding the additional support required for states with lower fiscal capacities so no state is financially worse off.

While welcoming many elements of the Review's long term vision for federal financial relations, Queensland will continue to vigorously support reform of the mining revenue assessment as a more immediate reform objective (refer Box 6.2), along with greater ongoing Commonwealth action to protect the GST pool, as articulated in the State's submissions to the GST Distribution Review.

## 2013 Update on GST revenue sharing relativities

In April 2013, the Australian Government accepted the CGC's *Report on GST Revenue Sharing Relativities – 2013 Update* (the 2013 Update) as the basis for the distribution of the GST revenue to the states in 2013-14.

In the 2013 Update, the CGC recommended an underlying increase in Queensland's share of GST revenue of \$696 million in 2013-14, as shown in Table 6.3.

<b>Table 6.3</b> <b>GST share and underlying impact of relativities, 2013-14</b>								
	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
Underlying impact of relativities <sup>1</sup> (\$ million)	193	(207)	696	(549)	(82)	36	18	(107)
GST Share (\$ million)	15,558	11,320	10,741	2,458	4,595	1,801	1,022	2,756
GST per capita (\$)	2,095	1,961	2,291	967	2,737	3,502	2,648	11,528
Note: 1. The underlying impact reflects the change to Queensland's GST share from the CGC's new relativities alone, and does not account for changes in population or the size of the GST pool in 2013-14. Source: Australian Government Budget 2013-14, Commonwealth Grants Commission Report on GST Revenue Sharing Relativities – 2013 Update								

The increase of \$696 million in 2013-14 follows an increase in Queensland's GST funding of \$542 million in 2012-13 and \$142 million in 2011-12.

Queensland's share of GST for 2013-14 has improved due to:

- Queensland's below average growth in property transfers, reducing the State's revenue raising capacity relative to other states, together with a downwards revision to Queensland's assessed capacity to raise revenue from property transfers (due to better available data on non-real conveyance transactions)
- Queensland's very high value of production of export coal in 2008-09 no longer contributing to the CGC's calculations (which are based on a three-year average)
- below average increases in Australian Government payments.

These gains were partially offset by:

- reduced requirements for investment and net lending due to lower population growth
- upwards revisions to data on private sector payrolls, increasing Queensland's assessed capacity to raise revenue from payroll tax.

## **Box 6.2**

### **2015 Review of CGC Methodology**

Federal and State Treasurers have agreed that the CGC would commence a review of the methodology used to determine the distribution of the GST revenue, to report in February 2015.

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

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

A key issue for Queensland in this review is the assessment of mining revenue. The GST Distribution Review recommended that a new assessment of mining revenue be developed at the earliest opportunity. It recognised that there are problems with the current assessment; in particular, the division of minerals into two groups (high and low royalty minerals) can produce excessively large GST share effects when a commodity moves between groups. For example, under the current methodology, Western Australia's decision to increase its royalty rates for iron ore fines would see it lose far more in GST revenue than it gained in additional royalties, were it not for a terms of reference directive to continue assessing iron ore fines as a "low" royalty rate mineral.

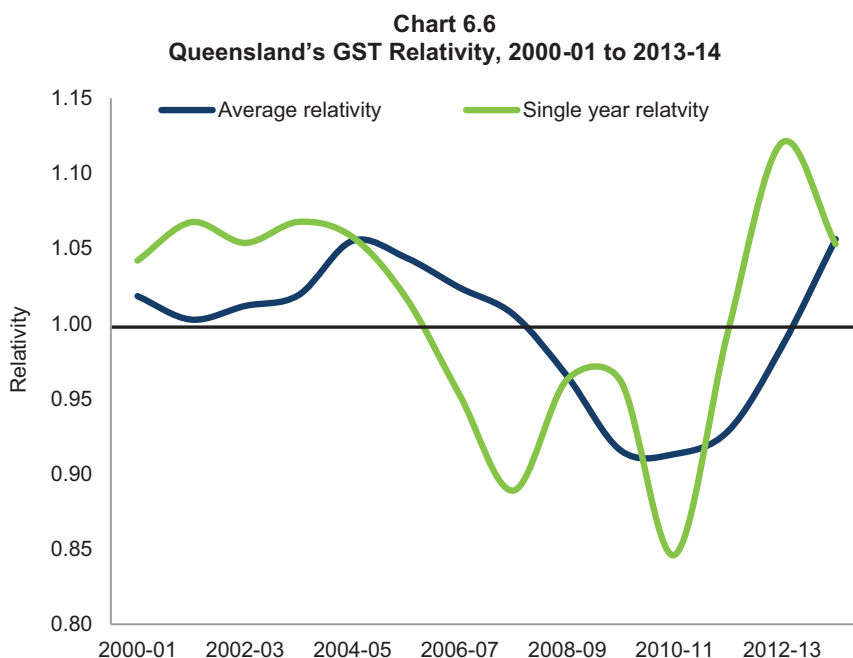
Queensland also welcomes the CGC's consideration of the expenses incurred by states in the development of the mining industry and the provision of economic and social infrastructure. In its final submission to the GST Distribution Review, Queensland documented the significant direct expenditures, opportunity costs and risks associated with the development of mining in Queensland. These costs are not currently recognised in the CGC's methodology, but at the same time, the royalties resulting from Queensland's investment in its industry are redistributed to other states through the GST. A new mining assessment must recognise the costs to governments of the mining industry, and restore the appropriate incentives to governments to develop the industry in their states.

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, albeit with a lag. From 2008-09 to 2012-13, Queensland received less than a population share of GST revenue due to its previous relative economic strength, particularly its capacity to raise revenue from mining royalties.

In the 2013 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, especially transfer duty, but also to other short term factors, such as 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 has risen above 1.0 for the first time since 2007-08, meaning that Queensland will receive a greater than population share of GST in 2013-14.

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.

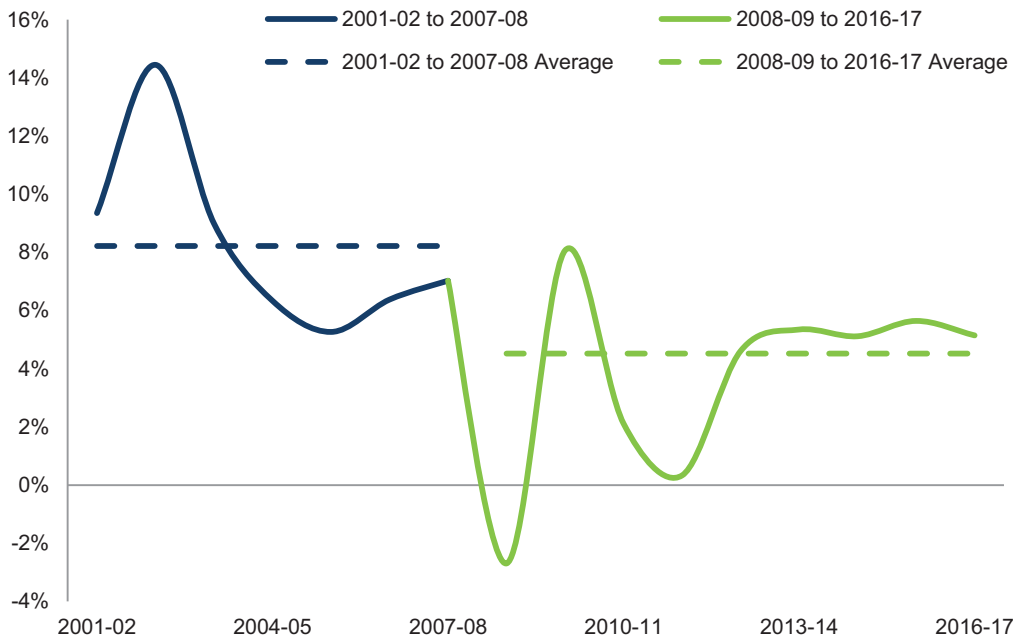


Sources: Report on GST Revenue Sharing Relativities – 2013 Update, Queensland Treasury and Trade

# 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. As shown in Chart 6.7, the average annual growth rate in the GST pool from 2008-09 to 2016-17 is expected to be 4.5%, far below the 8.2% average annual growth rate over the period 2000-01 and 2007-08.

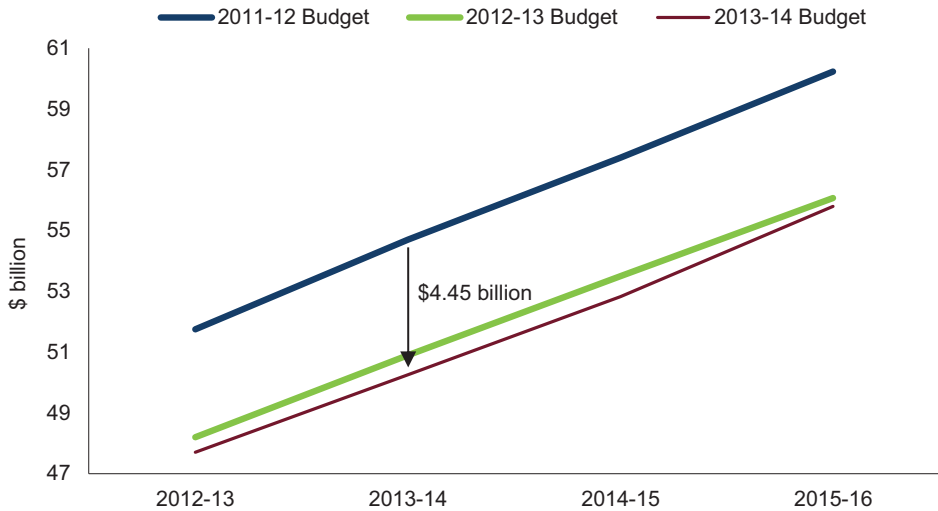
**Chart 6.7**  
**GST revenue, annual growth rate, 2001-02 to 2016-17**



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, with a further downward revision in the 2013-14 Budget (Chart 6.8).

**Chart 6.8**  
**GST revenue estimates**



Sources: Australian Government Budget Paper No. 3, 2011-12, 2012-13 and 2013-14

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 2013-14, the Queensland Government will provide a total of \$2.908 billion in grants to local governments, compared to \$2.121 billion in 2012-13. 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 2013-14 is mainly due to the continued funding associated with reconstruction after recent natural disasters.

Table 6.4 details Queensland Government grants to local governments.

<b>Table 6.4</b> <b>Grants to local governments in Queensland<sup>1,2</sup></b>		
	2012-13 Est. Act. \$ million	2013-14 Estimate \$ million
<b>Queensland Government grants</b>		
Communities, Child Safety and Disability Services	67	63
Community Safety	25	31
Education, Training and Employment	5	3
Energy and Water Supply <sup>3</sup>	..	12
Housing and Public Works <sup>4</sup>	77	109
Local Government, Community Recovery and Resilience <sup>5</sup>	579	409
National Parks, Recreation, Sport and Racing	8	2
Queensland Health	5	5
Queensland Reconstruction Authority <sup>6</sup>	1,190	2,010
Science, Information Technology, Innovation and the Arts	2	2
State Development, Infrastructure and Planning	30	29
Transport and Main Roads <sup>7</sup>	91	187
Other	38	46
<b>Total Queensland Government grants</b>	<b>2,121</b>	<b>2,908</b>
<b>Notes:</b> 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. Increased grants for energy and water supply in 2013-14 reflect funding for the Dam Safety Spillway Upgrade. 4. Increase in 2013-14 is primarily due to increased capital grants for rural and remote housing. 5. Includes general purpose grants from the State and Australian Governments. The decrease from 2012-13 to 2013-14 is primarily due to an advance payment made in June 2013 of 2013-14 Financial Assistance Grants to local governments. 6. Increase in grants in 2013-14 is due to changes in the profile of funding required for reconstruction due to the impact of Tropical Cyclone Oswald and associated disaster events. 7. Increased grants for Transport and Main Roads in 2013-14 are mainly due to Roads to Resources capital grant funding and upgrades to key rail crossings.		



## 7 PUBLIC NON-FINANCIAL CORPORATIONS SECTOR

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### FEATURES

- In 2013-14, Public Non-financial Corporations will continue to drive greater efficiencies across all activities and cut unnecessary expenditure in order to minimise the cost of delivering their services while maintaining reliable performance.
- In 2013-14, the Queensland Bulk Water Supply Authority (Seqwater) will further consolidate improved efficiencies of its bulk water operations and cost reductions expected from the 2012-13 merger of the three former bulk water entities.
- Queensland Rail will continue to implement revised governance arrangements during 2013-14 that respond to the new corporate structure announced on 3 May 2013.
- During 2013-14, a number of Government-owned corporations will work with Government on the implementation of the Queensland Government's response to the Independent Commission of Audit Final Report.

### CONTEXT

The entities comprising the Public Non-financial Corporations (PNFC) sector operate across a range of industries including energy, rail, port and water delivery services. A significant part of the PNFC sector is the State's Government-owned corporations (GOCs) declared by regulation to be GOCs under the *Government Owned Corporations Act 1993*. This sector does not incorporate QIC Limited as it forms part of the Public Financial Corporations sector. The PNFC sector also includes non-GOC entities including Seqwater, Queensland Rail and some local water boards. A full list of PNFC sector entities is available in Chapter 8.

Under the *Government Owned Corporations Act 1993*, GOCs are required to operate to realise commercial success and efficiency and are accountable for their performance. GOC business activities target needs identified within their relevant market sector.

Revenues generated by the PNFC sector are predominantly from the sale of services or basic commodities. In more limited cases, part of a PNFC's revenue may comprise Community Service Obligation payments from the Government. These payments subsidise the provision of a service or commodity supplied on a non-commercial basis in order to deliver the Government's broader policy objectives.

## **REFORM**

In 2013-14, the Queensland Government will continue to focus the PNFC sector on driving value for money for Queensland taxpayers, maintaining effective accountability frameworks and the reliable delivery of essential services. This aims to build on the progress and achievements made in 2012-13.

### **Capital investment**

GOCs and other major PNFC sector entities will focus on strategies that result in stronger profitability and greater asset efficiency in order to generate improved returns on the State's substantial equity investment in these businesses. In addition, their future capital programs will continue to be assessed to ensure efficient investment that balances reliability with the lowest long-run cost. The Government is already seeing benefits of this strategy with capital expenditure reducing over the forward estimates.

### **Water**

In 2012, the Government began reform of the South East Queensland water entities with the objective of improving the efficiency of water operations and reducing the costs of the South East Queensland Water Grid. A key element of that reform was the merger of the three South East Queensland water entities into one.

On 1 January 2013, the Queensland Bulk Water Transport Authority (LinkWater) and the SEQ Water Grid Manager (WGM) were merged into the existing operations of the Queensland Bulk Water Supply Authority (Seqwater). From this date, Seqwater has taken over all the assets and operations of the three former SEQ water entities (including itself). LinkWater and the WGM ceased trading on 1 January 2013.

The new Seqwater board immediately identified savings of \$80 million per annum from the new structure and after a review of the capital and operational budgets, identified a further reduction of \$291 million in expenditure over 2013-14 to 2016-17. Overall there is a forecast improvement in the operating position of \$333 million by the end of 2016-17 compared to the pre-merger position.

### **Reviews and reports**

During 2012-13 the Government released a number of reports that significantly impact the PNFC entities, including the Independent Commission of Audit. Further details on how the Independent Commission's Final Report impacts the PNFC sector can be found later in this Chapter.

The Inter-Departmental Committee on Energy Sector Reform (IDC) was tasked with ensuring:

1. electricity in Queensland is delivered in a cost-effective manner for customers
2. Queensland has a viable, sustainable and competitive electricity industry
3. electricity is delivered in a financially sustainable manner from the Queensland Government's perspective.

The IDC has undertaken a substantial review of the electricity sector, in consultation with industry, with a view to developing a strategy for reform. Cabinet is yet to consider the IDC final report.

In 2013-14, Government will progress its review of ports' governance. This review will consider the most appropriate governance model for Queensland ports to ensure efficient and effective delivery of port services. The review will focus on determining an optimal governance model for Queensland ports, addressing improved productivity, minimisation of operational costs, maintaining service levels at the lowest cost and efficient and effective port services.

## **INDEPENDENT COMMISSION OF AUDIT**

The Independent Commission of Audit's Final Report made a series of recommendations relevant to the PNFC sector.

It recommended, when market conditions are favourable, the Government divest its electricity generation assets. The Independent Commission identified a number of factors that would impact the optimal timing of divestment, including the uncertainty regarding the carbon tax and generation capacity in the National Electricity Market.

The Government does not currently have a policy to sell Government businesses, and remains fully committed to seeking a mandate from the Queensland people before divesting itself of any Government business. However, the Government believes such a proposal is worthy of an open and transparent community debate to establish its viability and to inform stakeholders of the costs and benefits of Government owning such businesses, noting these also come with significant financial risks in the context of a modern economy.

Regardless of any consideration of the merits of selling the assets, the Government's expectation of these operations is they are open for business as usual and the Government will adopt a prudent approach in ensuring decisions are not taken that could erode the value of these assets.

The Independent Commission also recommended the electricity distribution and transmission assets be divested. The Government has decided not to seek a mandate to do so at the next election. However, the Government believes that the Independent Commission's recommendation that residual retail electricity functions be divested warrants further consideration and debate with the community.

The Independent Commission also recommended that the electricity distribution and transmission businesses be required to achieve higher rates of return through increased efficiencies, better capital management and operational cost savings. It also recommends they divest themselves of non-core business where there are significant bring forward benefits for the State from doing so. The 2013-14 Budget reflects the adoption of these recommendations while at the same time ensuring impacts on prices, reliability and standards are minimised.

The Independent Commission made a number of recommendations directly relating to Queensland Rail and the port assets held by GOCs. Of these recommendations, the Government has accepted those relating to increased contestability and competition for services. The Government has also accepted in principle, in part, or for further consideration, a number of other recommendations, acknowledging that these matters will be reviewed as part of the ongoing reform activities being undertaken by the Department of Transport and Main Roads.

Specifically, the Independent Commission recommended that the commercial operations of the Gladstone Ports Corporation Limited (GPC) and Port of Townsville Limited (PoTL) be offered for long term lease to private operators. While the Government does not currently have a policy to sell Government businesses, it believes this proposal is worthy of an open and transparent community debate to establish its viability and to inform stakeholders of the costs and benefits involved. It should also be noted that the offering of a long-term lease for the operation of the commercial enterprises means the Government would still retain ownership of these ports. The Government commits to undertake further detailed investigation of this particular proposal to ensure that the debate is fully informed before making any decision.

The Government has accepted in principle the Independent Commission's recommendation that ownership and control of remaining government owned, low volume regional ports be offered to local authorities, in view of the significant role they play in their local communities. The Government notes that local authorities are an important stakeholder in ports and will consider each proposal on a case by case basis.

The Independent Commission's report recommended a number of initiatives regarding regional bulk water supply, including the transfer of SunWater Limited's (SunWater) irrigation channels to private irrigators and offering dedicated water supply infrastructure servicing commercial and industrial clients for private ownership and/or private operation, depending on which solution provides the best value for money outcome for the Government. The Independent Commission also recommended that while SunWater should retain ownership of regional bulk water assets, any new bulk water assets should be privately funded and owned (subject to compelling public benefit or market failure factors).

The Government has accepted the recommendations relating to SunWater, and has initiated an investigation into the divestment and transfer of the irrigation channels to irrigators under local management plans. The Government has also undertaken to evaluate proposals to divest dedicated water infrastructure servicing industrial and commercial clients.

The Government's response to the Independent Commission report recognised the benefits that flow from a number of recommendations and committed to further work on how to effectively and efficiently capture these benefits. In 2013-14, GOCs affected by these recommendations will work with the Government to ensure the businesses are positioned to meet the expectations of Government in this regard.

## FINANCES AND PERFORMANCE

### Earnings Before Interest and Tax

As outlined in Table 7.1, total forecast Public Non-financial Corporations sector earnings before interest and tax in 2013-14 are \$3.7 billion.

**Table 7.1**  
**Earnings Before Interest and Tax<sup>1</sup>**

	2011-12 Actual \$ million	2012-13 Est. Act. \$ million	2013-14 Budget \$ million
Energy Sector	2,249	2,625	2,733
Transport Sector	350	512	627
Other	89	522	350
<b>Total PNFC sector Earnings Before Interest and Tax</b>	<b>2,689</b>	<b>3,658</b>	<b>3,710</b>

Note:

1. Numbers may not add due to rounding.

### **Energy Sector**

#### *Generation*

The Queensland region of the National Electricity Market (NEM) is currently characterised by oversupply of generation and lower than anticipated growth resulting in depressed contract and pool prices. Roof top solar generation capacity, currently estimated to be in excess of 500 megawatts (MW), also reduces demand for on-grid energy and suppresses price peaks on hot, sunny days.

The outlook for merchant generation in the Queensland region is uncertain. While recent demand growth in the Queensland region has been lower than forecast, it is the only region of the NEM forecast to experience some level of demand growth in the next decade. As this demand growth occurs, Queensland's spare generation capacity is expected to be absorbed, resulting in an increase in pool prices.

According to the Australian Energy Market Operator (AEMO) 2012 Electricity Statement of Opportunities Update (published in early 2013) and based on its medium growth scenario, no new base load generation capacity will be required in Queensland until 2020-21. Additional peaking capacity (open cycle gas turbine) of between 400MW and 500MW is expected to be required by 2015-16.

In late 2012, Stanwell Corporation Limited reduced availability at the Tarong Power Station from 1,400 MW to 700 MW. This reduced availability will be in place until after the summer of 2014-15. Stanwell's decision was in response to an over-supply in the energy market. The cold storage of the two units does not affect the security of electricity supply in Queensland.

The liquefied natural gas (LNG) industry will be important to any change to market fundamentals in the Queensland region. The LNG industry is expected to create additional base load demand and also move the domestic gas price towards international parity. In these circumstances the competitiveness of coal-fired generation, being the main type of generation within the Queensland government-owned generators, is expected to improve.

### *Networks*

The financial positions of the network energy GOCs (Powerlink, Energex and Ergon) continue to reflect the significant amounts of deferred and/or delayed capital investment which have arisen as a result of estimates of ongoing low demand.

All three network entities are undertaking significant cost containment activities which are reflected in the 2013-14 Budget.

The only significant market based change is the completion of Powerlink's divestment of its equity interest in ElectraNet Pty Ltd, which primarily impacted returns in 2012-13. Although there have been limited changes in the market environment for network energy GOCs, significant risks remain which could impact the forecast outcomes of these entities, including:

- changes to the timing and profile of expected large load projects (such as LNG and other mining and infrastructure projects) which will influence energy growth
- significant changes to forecast electricity demand and volume growth profiles.

However, the most significant risk remains the commencement of the new regulatory period for Energex and Ergon which begins on 1 July 2015. The current regulatory environment presents some uncertainty due to expected significant rule changes and public focus on the decisions of the Australian Energy Regulator making it difficult to estimate the expected financial performance and position of Energex and Ergon post 2015-16.

## ***Transport Sector***

### ***Queensland Rail***

Queensland Rail (QR) is a provider of rail transport services which are predominantly supported by the Queensland Government through the provision of Community Service Obligation payments. QR maintains a focus on efficient and effective delivery of its services in order to improve its performance and reduce the overall cost of transport services.

The establishment of the QR efficiency program was a key initiative of the 2012-13 Budget. The efficiency program initially estimated a \$42 million per annum reduction in consumable spending in addition to a management restructure and Voluntary Redundancy scheme. Total savings of approximately \$60 million per annum are expected from these three initiatives. QR has successfully met the forecast cost reduction and continues to progress the efficiency program with further cost savings and efficiency measures identified for implementation in 2013-14.

In 2013-14, the Government will continue to improve the governance arrangements associated with the delivery of rail public transport services following from the recent institutional restructure in which a new statutory authority was created. This restructure is designed to provide an organisational platform for future reforms in rail service delivery. In addition, the contractual arrangements between the Department of Transport and Main Roads as purchaser, and QR as the service provider, are in the process of being renegotiated to ensure the best value outcome for rail commuters in Queensland.

### ***Ports***

Queensland's ports service a number of communities and regions and a multi-faceted industry base throughout the State. Other than the Port of Brisbane, all Queensland ports are owned by the Queensland Government with a mixture of both private and public ownership of terminals and berths.

Thermal and metallurgical coals are Queensland's largest export, and drive profitability at a number of Queensland ports. Nominal port capacity of up to 399 mt is expected by 2017-18 with completion of current and planned port expansion works, including the Wiggins Island Coal Export Terminal Stages 1 and 2 at the Port of Gladstone, Abbot Point Coal Terminal T0 and T3 expansions at the Port of Abbot Point and Hay Point Coal Terminal's Stage 3 expansion at the Port of Hay Point.

## ***Water Infrastructure***

### ***SunWater***

SunWater, in conjunction with the Department of Energy and Water Supply and irrigators, is investigating the viability of local management arrangements of channel irrigation schemes. A final decision is expected to occur in 2013-14.



## Seqwater

On 1 January 2013, the two South East Queensland water statutory bodies of Queensland Bulk Water Transport Authority (LinkWater) and SEQ Water Grid Manager, were merged into the Queensland Bulk Water Supply Authority (Seqwater) to form one statutory body.

Seqwater has recently undertaken a major review and has improved its operating position by \$333 million over its forward estimates compared to the pre-restructure position. This is largely a function of cost savings and from lower interest expenses arising from reduced borrowings. Seqwater's projected borrowings for 2013-14 reduce by \$349 million compared to the pre-restructure position. This reduction is a result of reduced losses and the deferral of some capital works.

## Borrowings

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

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

As outlined in Table 7.2, total forecast Public Non-financial Corporation sector borrowings for 2013-14 are \$30.9 billion. Over the period 2012-13 to 2015-16, net borrowings are \$1.2 billion lower than forecast in the 2012-13 MYFER.

<b>Table 7.2 Borrowings<sup>1</sup></b>			
	2011-12 Actual \$ million	2012-13 Est. Act. \$ million	2013-14 Budget \$ million
Energy Sector	16,174	16,900	17,599
Transport Sector	3,585	3,566	3,515
Other	12,248	10,161	9,814
<b>Total PNFC sector non-current borrowings</b>	<b>32,007</b>	<b>30,626</b>	<b>30,928</b>
Note: 1. Numbers may not add due to rounding.			

## Returns to Government

PNFC 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. A Statement of Corporate Intent represents a performance contract between the shareholding Ministers and a GOC board, with the board being accountable to shareholding Ministers for meeting financial and non-financial performance targets. 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 an appropriate 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.

At the time of the 2012-13 Budget, the forecast for ordinary dividends in 2012-13 was \$971 million. It is now estimated dividends declared in 2012-13 will be \$1 billion. As outlined in Table 7.3, total dividends in 2013-14 are estimated at \$1.2 billion.

**Table 7.3**  
**Ordinary Dividends<sup>1,2,3</sup>**

	2011-12 Actual \$ million	2012-13 Est. Act. \$ million	2013-14 Budget \$ million
Energy Sector	692	779	893
Transport Sector	163	232	280
Other	3	23	35
<b>Total PNFC sector dividends</b>	<b>859</b>	<b>1,034</b>	<b>1,208</b>

Notes:

1. Numbers may not add due to rounding.
2. Represents dividends declared in the period.
3. Will not match dividend numbers quoted in Chapter 3, as this table includes only dividends paid by PNFC sector entities.

## ***Tax equivalent payments***

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

As outlined in Table 7.4, total current TEPs for 2013-14 are forecast to be \$453 million. The substantial increase in TEPs between 2012-13 and 2013-14 is largely due to a change in the allowable tax treatment for capitalised labour affecting the electricity network sector, timing differences for tax accounting purposes when revenue recoveries are affected by electricity demand being below forecast and the lag in receipt of solar feed-in tariff revenue.

**Table 7.4**  
**Current Tax Equivalent Payments<sup>1,2</sup>**

	2011-12 Actual \$ million	2012-13 Est. Act. \$ million	2013-14 Budget \$ million
Energy Sector	94	151	295
Transport Sector	87	131	149
Other	30	5	9
<b>Total PNFC sector current TEPs</b>	<b>211</b>	<b>287</b>	<b>453</b>
Notes: 1. Numbers may not add due to rounding. 2. Will not match tax equivalent payments revenues quoted in Chapter 3, as this table includes only tax equivalent payments from PNFC sector entities.			

## Community Service Obligation Payments

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

As outlined in Table 7.5, in 2013-14 the Government is expecting to provide CSO payments to PNFC sector entities of \$2.0 billion.

**Table 7.5**  
**Community Service Obligation Payments<sup>1,2</sup>**

	2011-12 Actual \$ million	2012-13 Est. Act. \$ million	2013-14 Budget \$ million
Energy Sector	415	650	615
Transport Sector	1,356	1,411	1,416
Other	15	17	16
<b>Total PNFC sector CSOs</b>	<b>1,786</b>	<b>2,078</b>	<b>2,047</b>

**Notes:**

1. Numbers may not add due to rounding.
2. The numbers in this table will not match those in Table 4.3 due to ongoing contract negotiations.

In line with the Queensland Government's uniform electricity tariff policy, a CSO payment is provided to Ergon to compensate its retail subsidiary for the difference between the cost of retail supply to regional customers and the revenue received from uniform retail electricity tariff prices (regulated by the State). This subsidy is a key part of the uniform electricity 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 for the shortfall in revenues generated by complying with the irrigation price path in SunWater managed irrigation schemes. The shortfall represents the difference between the efficient cost of supply of water to irrigators (lower bound cost) as determined by the Queensland Competition Authority, and the prices charged to irrigators as directed by the Government. Similarly, Seqwater receives a CSO from the Government for the provision of rural irrigation water to rural irrigators.

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

These concessions are all detailed further in the Concessions Statement.

Taking into account the dividends and tax equivalent payments paid to the General Government sector, less the CSO payments to PNFC sector entities, the Government makes a substantial contribution to the PNFC sector on an annual basis, as indicated by the negative flows in Table 7.6. Competitive neutrality fees are also paid by some PNFC entities. These are paid prior to making dividend payments to Government. For more details, refer to Chapter 3.

<b>Table 7.6</b>			
<b>Net Flows to the General Government sector from PNFC Sector Entities</b>			
	2011-12 Actual \$ million	2012-13 Est. Act. \$ million	2013-14 Budget \$ million
Net Flows	(716)	(756)	(386)

## 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.

As outlined in Table 7.7, estimated equity contributions to PNFC sector entities in 2012-13 and 2013-14 are \$4 million and \$77 million, respectively. The equity contribution in 2013-14 of \$77 million is for Queensland Rail to support the New Generation Rolling Stock acquisition program.

<b>Table 7.7</b>			
<b>Equity Contributions<sup>1</sup></b>			
	2011-12 Actual \$ million	2012-13 Est. Act. \$ million	2013-14 Budget \$ million
Energy Sector	300	..	..
Transport Sector	255	4	77
Other	1	..	..
<b>Total Equity Contributions</b>	<b>556</b>	<b>4</b>	<b>77</b>
Note:			
1. Numbers may not add due to rounding.			



## **8 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 8.1**  
**General Government Sector Operating Statement <sup>1</sup>**

	2012-13 Budget \$ million	2012-13 Est. Actual \$ million	2013-14 Budget \$ million	2014-15 Projection \$ million	2015-16 Projection \$ million	2016-17 Projection \$ million
<b>Revenue from Transactions</b>						
Taxation revenue	11,013	10,998	11,851	12,680	13,547	14,422
Grants revenue	18,598	18,419	20,115	24,451	23,351	23,015
Sales of goods and services	4,966	5,104	4,968	5,175	5,401	5,460
Interest income	2,582	2,592	2,396	2,457	2,515	2,571
Dividend and income tax equivalent income	1,355	1,351	1,694	2,144	2,135	2,429
Other revenue	3,711	3,322	3,652	4,328	4,889	5,307
<b>Total Revenue from Transactions</b>	<b>42,224</b>	<b>41,785</b>	<b>44,677</b>	<b>51,235</b>	<b>51,838</b>	<b>53,205</b>
<i>Less</i> <b>Expenses from Transactions</b>						
Employee expenses	18,885	18,409	18,433	19,159	19,899	20,688
Superannuation expenses						
Superannuation interest cost	1,235	756	879	924	953	957
Other superannuation expenses	2,301	2,410	2,407	2,406	2,421	2,463
Other operating expenses	9,383	9,053	9,669	9,842	10,049	10,401
Depreciation and amortisation	3,086	2,974	3,140	3,314	3,482	3,563
Other interest expenses	1,916	1,752	2,163	2,411	2,461	2,493
Grants expenses	11,713	11,173	11,745	11,087	10,529	10,925
<b>Total Expenses from Transactions</b>	<b>48,518</b>	<b>46,526</b>	<b>48,436</b>	<b>49,144</b>	<b>49,795</b>	<b>51,492</b>
<i>Equals</i> <b>Net Operating Balance</b>	<b>(6,294)</b>	<b>(4,741)</b>	<b>(3,760)</b>	<b>2,091</b>	<b>2,043</b>	<b>1,713</b>
<i>Plus</i> Other economic flows - included in operating result	282	(202)	459	(175)	(148)	(149)
<i>Equals</i> <b>Operating Result</b>	<b>(6,012)</b>	<b>(4,943)</b>	<b>(3,300)</b>	<b>1,916</b>	<b>1,895</b>	<b>1,564</b>
<i>Plus</i> Other economic flows - other movements in equity	544	1,398	3,858	2,932	2,817	2,947
<i>Equals</i> <b>Comprehensive Result - Total Change In Net Worth</b>	<b>(5,468)</b>	<b>(3,546)</b>	<b>558</b>	<b>4,848</b>	<b>4,712</b>	<b>4,511</b>
<b>KEY FISCAL AGGREGATES</b>						
<b>Net Operating Balance</b>	<b>(6,294)</b>	<b>(4,741)</b>	<b>(3,760)</b>	<b>2,091</b>	<b>2,043</b>	<b>1,713</b>
<i>Less</i> <b>Net Acquisition of Non-financial Assets</b>						
Purchases of non-financial assets	7,653	7,397	7,130	5,653	4,394	3,751
<i>Less</i> Sales of non-financial assets	318	794	330	273	190	134
<i>Less</i> Depreciation	3,086	2,974	3,140	3,314	3,482	3,563
<i>Plus</i> Change in inventories	(45)	17	51	(33)	(19)	(25)
<i>Plus</i> Other movements in non-financial assets	270	298	193	301	275	275
<b>Equals Total Net Acquisition of Non-financial Assets</b>	<b>4,475</b>	<b>3,945</b>	<b>3,905</b>	<b>2,334</b>	<b>978</b>	<b>304</b>
<i>Equals</i> <b>Fiscal Balance</b>	<b>(10,768)</b>	<b>(8,686)</b>	<b>(7,664)</b>	<b>(244)</b>	<b>1,065</b>	<b>1,409</b>
Note:						
1. Numbers may not add due to rounding.						



**Table 8.2**  
**Public Non-financial Corporations Sector Operating Statement<sup>1</sup>**

	2012-13 Budget \$ million	2012-13 Est. Actual \$ million	2013-14 Budget \$ million	2014-15 Projection \$ million	2015-16 Projection \$ million	2016-17 Projection \$ million
<b>Revenue from Transactions</b>						
Grants revenue	2,454	2,384	2,408	2,533	2,426	2,498
Sales of goods and services	8,200	8,709	8,987	9,031	9,245	10,075
Interest income	136	113	85	70	68	76
Dividend and income tax equivalent income	61	54	..	..	..	..
Other revenue	357	334	284	305	337	364
<b>Total Revenue from Transactions</b>	<b>11,209</b>	<b>11,594</b>	<b>11,765</b>	<b>11,938</b>	<b>12,077</b>	<b>13,013</b>
<i>Less</i> <b>Expenses from Transactions</b>						
Employee expenses	1,763	1,802	1,679	1,720	1,778	1,846
Superannuation expenses						
Superannuation interest cost	..	..	..	..	..	..
Other superannuation expenses	215	213	212	218	224	231
Other operating expenses	3,830	4,098	3,805	3,475	3,344	3,643
Depreciation and amortisation	2,198	2,163	2,264	2,362	2,462	2,571
Other interest expenses	2,210	2,114	2,074	2,101	2,026	2,060
Grants expenses	22	20	14	14	15	15
Other property expenses	352	294	460	767	727	826
<b>Total Expenses from Transactions</b>	<b>10,590</b>	<b>10,703</b>	<b>10,509</b>	<b>10,657</b>	<b>10,577</b>	<b>11,193</b>
<i>Equals</i> <b>Net Operating Balance</b>	<b>619</b>	<b>890</b>	<b>1,256</b>	<b>1,282</b>	<b>1,500</b>	<b>1,820</b>
<i>Plus</i> Other economic flows - included in operating result	(211)	28	(279)	(23)	(80)	(87)
<i>Equals</i> <b>Operating Result</b>	<b>409</b>	<b>918</b>	<b>977</b>	<b>1,258</b>	<b>1,421</b>	<b>1,733</b>
<i>Plus</i> Other economic flows - other movements in equity	(678)	(883)	(619)	(536)	(462)	(622)
<i>Equals</i> <b>Comprehensive Result - Total Change In Net Worth</b>	<b>(269)</b>	<b>35</b>	<b>358</b>	<b>722</b>	<b>959</b>	<b>1,112</b>
<b>KEY FISCAL AGGREGATES</b>						
<b>Net Operating Balance</b>	<b>619</b>	<b>890</b>	<b>1,256</b>	<b>1,282</b>	<b>1,500</b>	<b>1,820</b>
<i>Less</i> <b>Net Acquisition of Non-financial Assets</b>						
Purchases of non-financial assets	4,690	3,954	3,884	3,921	3,839	3,702
<i>Less</i> Sales of non-financial assets	18	18	21	14	4	13
<i>Less</i> Depreciation	2,198	2,163	2,264	2,362	2,462	2,571
<i>Plus</i> Change in inventories	21	29	8	8	(10)	(2)
<i>Plus</i> Other movements in non-financial assets	(5)	(5)	..	..	..	..
<b>Equals Total Net Acquisition of Non-financial Assets</b>	<b>2,490</b>	<b>1,797</b>	<b>1,608</b>	<b>1,553</b>	<b>1,363</b>	<b>1,115</b>
<i>Equals</i> <b>Fiscal Balance</b>	<b>(1,870)</b>	<b>(907)</b>	<b>(352)</b>	<b>(271)</b>	<b>137</b>	<b>705</b>
Note: 1. Numbers may not add due to rounding.						

**Table 8.3**  
**Non-financial Public Sector Operating Statement <sup>1</sup>**

	2012-13 Budget \$ million	2012-13 Est.Actual \$ million	2013-14 Budget \$ million	2014-15 Projection \$ million	2015-16 Projection \$ million	2016-17 Projection \$ million
<b>Revenue from Transactions</b>						
Taxation revenue	10,662	10,659	11,494	12,312	13,136	14,002
Grants revenue	18,793	18,616	20,323	24,672	23,536	23,204
Sales of goods and services	12,911	13,538	13,662	13,903	14,333	15,218
Interest income	2,718	2,706	2,481	2,526	2,583	2,648
Dividend and income tax equivalent income	102	83	33	42	39	54
Other revenue	4,063	3,649	3,935	4,633	5,226	5,671
<b>Total Revenue from Transactions</b>	<b>49,248</b>	<b>49,250</b>	<b>51,929</b>	<b>58,088</b>	<b>58,852</b>	<b>60,796</b>
<i>Less</i> <b>Expenses from Transactions</b>						
Employee expenses	20,557	20,120	20,022	20,787	21,581	22,435
Superannuation expenses						
Superannuation interest cost	1,235	756	879	924	953	957
Other superannuation expenses	2,515	2,623	2,620	2,624	2,646	2,695
Other operating expenses	12,957	12,872	13,176	13,011	13,075	13,723
Depreciation and amortisation	5,284	5,136	5,403	5,676	5,945	6,135
Other interest expenses	3,875	3,628	3,981	4,247	4,184	4,245
Grants expenses	9,470	9,000	9,559	8,789	8,302	8,631
<b>Total Expenses from Transactions</b>	<b>55,893</b>	<b>54,135</b>	<b>55,640</b>	<b>56,057</b>	<b>56,685</b>	<b>58,820</b>
<i>Equals</i> <b>Net Operating Balance</b>	<b>(6,645)</b>	<b>(4,885)</b>	<b>(3,711)</b>	<b>2,031</b>	<b>2,167</b>	<b>1,976</b>
<i>Plus</i> Other economic flows - included in operating result	(289)	(514)	(223)	(198)	(228)	(236)
<i>Equals</i> <b>Operating Result</b>	<b>(6,934)</b>	<b>(5,398)</b>	<b>(3,934)</b>	<b>1,832</b>	<b>1,939</b>	<b>1,740</b>
<i>Plus</i> Other economic flows - other movements in equity	1,466	2,201	4,292	2,919	2,786	2,882
<i>Equals</i> <b>Comprehensive Result - Total Change In Net Worth</b>	<b>(5,468)</b>	<b>(3,197)</b>	<b>358</b>	<b>4,752</b>	<b>4,726</b>	<b>4,623</b>
<b>KEY FISCAL AGGREGATES</b>						
<b>Net Operating Balance</b>	<b>(6,645)</b>	<b>(4,885)</b>	<b>(3,711)</b>	<b>2,031</b>	<b>2,167</b>	<b>1,976</b>
<i>Less</i> <b>Net Acquisition of Non-financial Assets</b>						
Purchases of non-financial assets	12,343	11,355	11,014	9,574	8,233	7,453
<i>Less</i> Sales of non-financial assets	336	816	350	286	195	147
<i>Less</i> Depreciation	5,284	5,136	5,403	5,676	5,945	6,135
<i>Plus</i> Change in inventories	(24)	46	59	(25)	(28)	(27)
<i>Plus</i> Other movements in non-financial assets	265	293	193	301	275	275
<b>Equals Total Net Acquisition of Non-financial Assets</b>	<b>6,965</b>	<b>5,742</b>	<b>5,513</b>	<b>3,887</b>	<b>2,340</b>	<b>1,419</b>
<i>Equals</i> <b>Fiscal Balance</b>	<b>(13,610)</b>	<b>(10,627)</b>	<b>(9,224)</b>	<b>(1,857)</b>	<b>(173)</b>	<b>557</b>
<b>Note:</b> 1. Numbers may not add due to rounding.						

**Table 8.4**  
**General Government Sector Balance Sheet <sup>1</sup>**

	2012-13 Budget \$ million	2012-13 Est. Actual \$ million	2013-14 Budget \$ million	2014-15 Projection \$ million	2015-16 Projection \$ million	2016-17 Projection \$ million
<b>Assets</b>						
<b>Financial Assets</b>						
Cash and deposits	637	914	877	948	679	720
Advances paid	607	967	1,012	1,038	1,064	1,091
Investments, loans and placements	35,185	33,808	34,848	35,770	36,647	37,499
Receivables	3,988	4,151	4,321	4,672	4,623	4,991
Equity						
Investments in other public sector entities	16,956	21,637	22,195	23,013	23,959	24,959
Investments - other	151	177	177	177	177	176
<b>Total Financial Assets</b>	<b>57,523</b>	<b>61,653</b>	<b>63,429</b>	<b>65,618</b>	<b>67,148</b>	<b>69,437</b>
<b>Non-financial Assets</b>						
Land and other fixed assets	179,169	179,665	185,718	188,985	191,047	192,406
Other non-financial assets	6,151	6,123	6,586	6,822	7,127	7,442
<b>Total Non-financial Assets</b>	<b>185,320</b>	<b>185,788</b>	<b>192,304</b>	<b>195,807</b>	<b>198,175</b>	<b>199,849</b>
<b>Total Assets</b>	<b>242,843</b>	<b>247,442</b>	<b>255,733</b>	<b>261,425</b>	<b>265,322</b>	<b>269,286</b>
<b>Liabilities</b>						
Payables	3,295	3,170	3,227	3,324	3,448	3,522
Superannuation liability	25,721	28,898	27,827	26,828	26,004	25,049
Other employee benefits	4,983	5,629	5,939	6,264	6,254	6,543
Deposits held	19	1	1	1	1	1
Advances received	220	380	359	340	317	307
Borrowing	41,309	38,864	47,196	48,490	48,270	48,003
Other liabilities	3,496	3,392	3,518	3,664	3,802	4,124
<b>Total Liabilities</b>	<b>79,043</b>	<b>80,334</b>	<b>88,067</b>	<b>88,911</b>	<b>88,097</b>	<b>87,549</b>
<b>Net Worth</b>	<b>163,800</b>	<b>167,107</b>	<b>167,666</b>	<b>172,514</b>	<b>177,226</b>	<b>181,737</b>
Net Financial Worth	(21,520)	(18,681)	(24,638)	(23,293)	(20,949)	(18,112)
Net Financial Liabilities	38,476	40,317	46,834	46,307	44,908	43,071
Net Debt	5,120	3,555	10,821	11,075	10,199	9,001

Note:

1. Numbers may not add due to rounding.

**Table 8.5**  
**Public Non-financial Corporations Sector Balance Sheet <sup>1</sup>**

	2012-13 Budget \$ million	2012-13 Est.Actual \$ million	2013-14 Budget \$ million	2014-15 Projection \$ million	2015-16 Projection \$ million	2016-17 Projection \$ million
<b>Assets</b>						
<b>Financial Assets</b>						
Cash and deposits	2,134	1,386	1,041	800	1,017	1,423
Advances paid	166	103	92	84	29	24
Investments, loans and placements	160	235	169	138	136	135
Receivables	2,230	2,505	2,451	2,469	2,286	2,195
Equity						
Investments - other	105	737	5	5	5	5
<b>Total Financial Assets</b>	<b>4,794</b>	<b>4,967</b>	<b>3,757</b>	<b>3,496</b>	<b>3,473</b>	<b>3,782</b>
<b>Non-financial Assets</b>						
Land and other fixed assets	54,996	54,510	56,950	59,346	61,629	63,697
Other non-financial assets	1,203	1,298	1,381	1,434	1,403	1,331
<b>Total Non-financial Assets</b>	<b>56,200</b>	<b>55,808</b>	<b>58,331</b>	<b>60,779</b>	<b>63,032</b>	<b>65,028</b>
<b>Total Assets</b>	<b>60,994</b>	<b>60,776</b>	<b>62,088</b>	<b>64,275</b>	<b>66,505</b>	<b>68,810</b>
<b>Liabilities</b>						
Payables	2,471	2,696	2,839	3,137	2,982	3,244
Superannuation liability	(70)	200	170	140	133	133
Other employee benefits	712	771	780	793	813	836
Deposits held	27	28	31	34	38	41
Advances received	10	10	9	8	8	7
Borrowing	32,409	30,626	30,928	31,657	32,868	33,462
Other liabilities	6,964	6,974	7,501	7,954	8,154	8,465
<b>Total Liabilities</b>	<b>42,522</b>	<b>41,305</b>	<b>42,259</b>	<b>43,724</b>	<b>44,995</b>	<b>46,188</b>
<b>Net Worth</b>	<b>18,472</b>	<b>19,471</b>	<b>19,829</b>	<b>20,551</b>	<b>21,510</b>	<b>22,622</b>
Net Financial Worth	(37,728)	(36,338)	(38,502)	(40,228)	(41,522)	(42,406)
Net Debt	29,986	28,940	29,667	30,678	31,731	31,928
Note: 1. Numbers may not add due to rounding.						

**Table 8.6**  
**Non-financial Public Sector Balance Sheet <sup>1</sup>**

	2012-13 Budget \$ million	2012-13 Est. Actual \$ million	2013-14 Budget \$ million	2014-15 Projection \$ million	2015-16 Projection \$ million	2016-17 Projection \$ million
<b>Assets</b>						
<b>Financial Assets</b>						
Cash and deposits	2,771	2,300	1,918	1,748	1,696	2,143
Advances paid	762	1,060	1,094	1,114	1,085	1,108
Investments, loans and placements	35,344	34,043	35,016	35,908	36,782	37,634
Receivables	4,802	5,045	4,986	5,070	5,026	5,092
Equity						
Investments in other public sector entities	(1,419)	1,000	1,000	1,000	1,000	1,000
Investments - other	160	914	182	182	182	182
<b>Total Financial Assets</b>	<b>42,421</b>	<b>44,363</b>	<b>44,196</b>	<b>45,021</b>	<b>45,771</b>	<b>47,158</b>
<b>Non-financial Assets</b>						
Land and other fixed assets	234,165	234,175	242,667	248,330	252,675	256,103
Other non-financial assets	692	742	774	776	748	709
<b>Total Non-financial Assets</b>	<b>234,857</b>	<b>234,917</b>	<b>243,441</b>	<b>249,106</b>	<b>253,423</b>	<b>256,812</b>
<b>Total Assets</b>	<b>277,277</b>	<b>279,281</b>	<b>287,638</b>	<b>294,128</b>	<b>299,195</b>	<b>303,971</b>
<b>Liabilities</b>						
Payables	4,389	4,295	4,322	4,430	4,588	4,712
Superannuation liability	25,651	29,098	27,997	26,969	26,137	25,182
Other employee benefits	5,695	6,400	6,718	7,056	7,067	7,379
Deposits held	47	29	33	36	39	42
Advances received	220	380	359	340	317	307
Borrowing	73,717	69,490	78,125	80,147	81,137	81,465
Other liabilities	3,758	3,647	3,786	4,099	4,132	4,485
<b>Total Liabilities</b>	<b>113,477</b>	<b>113,340</b>	<b>121,339</b>	<b>123,077</b>	<b>123,419</b>	<b>123,572</b>
<b>Net Worth</b>	<b>163,800</b>	<b>165,941</b>	<b>166,299</b>	<b>171,051</b>	<b>175,776</b>	<b>180,399</b>
Net Financial Worth	(71,056)	(68,976)	(77,143)	(78,056)	(77,647)	(76,413)
Net Financial Liabilities	69,638	69,976	78,143	79,056	78,647	77,414
Net Debt	35,106	32,495	40,488	41,753	41,930	40,929

Note:

1. Numbers may not add due to rounding.

**Table 8.7**  
**General Government Sector Cash Flow Statement<sup>1</sup>**

	2012-13 Budget \$ million	2012-13 Est.Actual \$ million	2013-14 Budget \$ million	2014-15 Projection \$ million	2015-16 Projection \$ million	2016-17 Projection \$ million
<b>Cash Receipts from Operating Activities</b>						
Taxes received	11,012	10,982	11,834	12,679	13,546	14,421
Grants and subsidies received	18,628	18,502	20,142	24,479	23,380	23,044
Sales of goods and services	5,484	5,688	5,386	5,522	5,730	5,776
Interest receipts	2,585	2,600	2,397	2,457	2,514	2,571
Dividends and income tax equivalents	1,357	1,091	1,355	1,848	2,293	2,153
Other receipts	5,307	4,466	4,719	5,058	5,589	6,028
<b>Total Operating Receipts</b>	<b>44,372</b>	<b>43,328</b>	<b>45,832</b>	<b>52,043</b>	<b>53,052</b>	<b>53,992</b>
<b>Cash Payments for Operating Activities</b>						
Payments for employees	(22,091)	(22,621)	(21,314)	(22,225)	(23,509)	(24,202)
Payments for goods and services	(11,100)	(10,712)	(11,185)	(10,846)	(11,051)	(11,392)
Grants and subsidies	(11,630)	(11,081)	(11,532)	(11,017)	(10,465)	(10,861)
Interest paid	(1,905)	(1,760)	(2,160)	(2,411)	(2,461)	(2,493)
Other payments	(988)	(394)	(309)	(297)	(310)	(122)
<b>Total Operating Payments</b>	<b>(47,714)</b>	<b>(46,568)</b>	<b>(46,500)</b>	<b>(46,796)</b>	<b>(47,796)</b>	<b>(49,071)</b>
<b>Net Cash Inflows from Operating Activities</b>	<b>(3,341)</b>	<b>(3,240)</b>	<b>(669)</b>	<b>5,246</b>	<b>5,256</b>	<b>4,921</b>
<b>Cash Flows from Investments in Non-Financial Assets</b>						
Purchases of non-financial assets	(7,653)	(7,397)	(7,130)	(5,653)	(4,394)	(3,751)
Sales of non-financial assets	318	794	330	273	190	134
<b>Net Cash Flows from Investments in Non-financial Assets</b>	<b>(7,335)</b>	<b>(6,603)</b>	<b>(6,801)</b>	<b>(5,380)</b>	<b>(4,204)</b>	<b>(3,617)</b>
<b>Net Cash Flows from Investments in Financial Assets for Policy Purposes</b>	<b>172</b>	<b>472</b>	<b>514</b>	<b>(139)</b>	<b>(206)</b>	<b>(185)</b>
<b>Net Cash Flows from Investments in Financial Assets for Liquidity Purposes</b>	<b>(954)</b>	<b>434</b>	<b>(1,028)</b>	<b>(914)</b>	<b>(859)</b>	<b>(788)</b>
<b>Receipts from Financing Activities</b>						
Advances received (net)	(50)	(53)	(21)	(22)	(26)	(13)
Borrowing (net)	11,244	9,043	7,966	1,281	(230)	(277)
<b>Net Cash Flows from Financing Activities</b>	<b>11,194</b>	<b>8,991</b>	<b>7,946</b>	<b>1,259</b>	<b>(256)</b>	<b>(290)</b>
<b>Net Increase/(Decrease) in Cash held</b>	<b>(263)</b>	<b>53</b>	<b>(37)</b>	<b>72</b>	<b>(270)</b>	<b>42</b>
Net cash from operating activities	(3,341)	(3,240)	(669)	5,246	5,256	4,921
Net cash flows from investments in non-financial assets	(7,335)	(6,603)	(6,801)	(5,380)	(4,204)	(3,617)
<b>Surplus/(Deficit)</b>	<b>(10,676)</b>	<b>(9,843)</b>	<b>(7,469)</b>	<b>(134)</b>	<b>1,052</b>	<b>1,304</b>
<b>Derivation of ABS GFS Cash Surplus/Deficit</b>						
Cash surplus/(deficit)	(10,676)	(9,843)	(7,469)	(134)	1,052	1,304
Acquisitions under finance leases and similar arrangements	(128)	(128)	(159)	(126)	(95)	(95)
<b>ABS GFS Cash Surplus/(Deficit) Including Finance Leases and Similar Arrangements</b>	<b>(10,804)</b>	<b>(9,971)</b>	<b>(7,629)</b>	<b>(260)</b>	<b>957</b>	<b>1,210</b>
Note: 1. Numbers may not add due to rounding.						

**Table 8.8**  
**Public Non-financial Corporations Sector Cash Flow Statement <sup>1</sup>**

	2012-13 Budget \$ million	2012-13 Est. Actual \$ million	2013-14 Budget \$ million	2014-15 Projection \$ million	2015-16 Projection \$ million	2016-17 Projection \$ million
<b>Cash Receipts from Operating Activities</b>						
Grants and subsidies received	2,421	2,367	2,389	2,527	2,431	2,480
Sales of goods and services	8,813	9,062	9,647	9,798	10,169	11,020
Interest receipts	136	113	85	70	68	76
Dividends and income tax equivalents	61	54	..	..	..	..
Other receipts	213	224	434	309	372	401
<b>Total Operating Receipts</b>	<b>11,644</b>	<b>11,821</b>	<b>12,555</b>	<b>12,704</b>	<b>13,040</b>	<b>13,977</b>
<b>Cash Payments for Operating Activities</b>						
Payments for employees	(1,930)	(2,033)	(1,913)	(1,955)	(1,990)	(2,055)
Payments for goods and services	(4,034)	(4,629)	(4,207)	(3,596)	(3,716)	(3,943)
Grants and subsidies	(14)	(11)	(11)	(13)	(13)	(14)
Interest paid	(1,996)	(1,910)	(1,967)	(1,987)	(1,903)	(2,029)
Other payments	(881)	(585)	(697)	(1,010)	(1,318)	(1,249)
<b>Total Operating Payments</b>	<b>(8,854)</b>	<b>(9,169)</b>	<b>(8,795)</b>	<b>(8,561)</b>	<b>(8,941)</b>	<b>(9,289)</b>
<b>Net Cash Inflows from Operating Activities</b>	<b>2,790</b>	<b>2,652</b>	<b>3,760</b>	<b>4,143</b>	<b>4,098</b>	<b>4,688</b>
<b>Cash Flows from Investments in Non-Financial Assets</b>						
Purchases of non-financial assets	(4,690)	(3,954)	(3,884)	(3,921)	(3,839)	(3,702)
Sales of non-financial assets	18	18	21	14	4	13
<b>Net Cash Flows from Investments in Non-financial Assets</b>	<b>(4,673)</b>	<b>(3,936)</b>	<b>(3,863)</b>	<b>(3,907)</b>	<b>(3,835)</b>	<b>(3,689)</b>
<b>Net Cash Flows from Investments in Financial Assets for Policy Purposes</b>	<b>3,043</b>	<b>2,876</b>	<b>732</b>	<b>..</b>	<b>..</b>	<b>..</b>
<b>Net Cash Flows from Investments in Financial Assets for Liquidity Purposes</b>	<b>..</b>	<b>..</b>	<b>1</b>	<b>..</b>	<b>..</b>	<b>..</b>
<b>Receipts from Financing Activities</b>						
Advances received (net)	..	(1)	(1)	(1)	(1)	(1)
Borrowing (net)	(350)	(1,263)	530	633	1,148	604
Dividends paid	(839)	(849)	(994)	(1,252)	(1,402)	(1,383)
Deposits received (net)	6	6	3	3	3	3
Other financing (net)	(205)	(501)	(514)	139	204	183
<b>Net Cash Flows from Financing Activities</b>	<b>(1,388)</b>	<b>(2,608)</b>	<b>(975)</b>	<b>(477)</b>	<b>(47)</b>	<b>(594)</b>
<b>Net Increase/(Decrease) in Cash held</b>	<b>(228)</b>	<b>(1,015)</b>	<b>(345)</b>	<b>(241)</b>	<b>217</b>	<b>406</b>
Net cash from operating activities	2,790	2,652	3,760	4,143	4,098	4,688
Net cash flows from investments in non-financial assets	(4,673)	(3,936)	(3,863)	(3,907)	(3,835)	(3,689)
Dividends paid	(839)	(849)	(994)	(1,252)	(1,402)	(1,383)
<b>Surplus/(Deficit)</b>	<b>(2,721)</b>	<b>(2,132)</b>	<b>(1,097)</b>	<b>(1,016)</b>	<b>(1,138)</b>	<b>(384)</b>
<b>Derivation of ABS GFS Cash Surplus/Deficit</b>						
Cash surplus/(deficit)	(2,721)	(2,132)	(1,097)	(1,016)	(1,138)	(384)
Acquisitions under finance leases and similar arrangements	..	..	..	..	..	..
<b>ABS GFS Cash Surplus/(Deficit) Including Finance Leases and Similar Arrangements</b>	<b>(2,721)</b>	<b>(2,132)</b>	<b>(1,097)</b>	<b>(1,016)</b>	<b>(1,138)</b>	<b>(384)</b>
Note: 1. Numbers may not add due to rounding.						

**Table 8.9**  
**Non-financial Public Sector Cash Flow Statement<sup>1</sup>**

	2012-13 Budget \$ million	2012-13 Est.Actual \$ million	2013-14 Budget \$ million	2014-15 Projection \$ million	2015-16 Projection \$ million	2016-17 Projection \$ million
<b>Cash Receipts from Operating Activities</b>						
Taxes received	10,661	10,643	11,477	12,311	13,135	14,001
Grants and subsidies received	18,789	18,681	20,343	24,688	23,553	23,198
Sales of goods and services	13,833	14,311	14,616	14,883	15,455	16,349
Interest receipts	2,720	2,713	2,482	2,526	2,583	2,648
Dividends and income tax equivalents	96	84	45	40	45	49
Other receipts	5,520	4,689	5,151	5,367	5,961	6,428
<b>Total Operating Receipts</b>	<b>51,620</b>	<b>51,121</b>	<b>54,114</b>	<b>59,815</b>	<b>60,731</b>	<b>62,674</b>
<b>Cash Payments for Operating Activities</b>						
Payments for employees	(23,930)	(24,564)	(23,137)	(24,087)	(25,403)	(26,158)
Payments for goods and services	(14,685)	(14,918)	(14,992)	(14,024)	(14,342)	(14,907)
Grants and subsidies	(9,383)	(8,903)	(9,355)	(8,712)	(8,220)	(8,549)
Interest paid	(3,651)	(3,431)	(3,870)	(4,134)	(4,061)	(4,214)
Other payments	(1,361)	(741)	(662)	(722)	(752)	(619)
<b>Total Operating Payments</b>	<b>(53,010)</b>	<b>(52,557)</b>	<b>(52,016)</b>	<b>(51,678)</b>	<b>(52,778)</b>	<b>(54,447)</b>
<b>Net Cash Inflows from Operating Activities</b>	<b>(1,390)</b>	<b>(1,436)</b>	<b>2,098</b>	<b>8,137</b>	<b>7,953</b>	<b>8,226</b>
<b>Cash Flows from Investments in Non-Financial Assets</b>						
Purchases of non-financial assets	(12,343)	(11,355)	(11,014)	(9,574)	(8,233)	(7,453)
Sales of non-financial assets	336	816	350	286	195	147
<b>Net Cash Flows from Investments in Non-financial Assets</b>	<b>(12,007)</b>	<b>(10,539)</b>	<b>(10,664)</b>	<b>(9,287)</b>	<b>(8,039)</b>	<b>(7,306)</b>
<b>Net Cash Flows from Investments in Financial Assets for Policy Purposes</b>	<b>3,009</b>	<b>2,846</b>	<b>732</b>	<b>..</b>	<b>..</b>	<b>..</b>
<b>Net Cash Flows from Investments in Financial Assets for Liquidity Purposes</b>	<b>(953)</b>	<b>434</b>	<b>(1,027)</b>	<b>(914)</b>	<b>(859)</b>	<b>(788)</b>
<b>Receipts from Financing Activities</b>						
Advances received (net)	(50)	(53)	(21)	(22)	(26)	(13)
Borrowing (net)	10,894	7,779	8,496	1,914	917	326
Deposits received (net)	6	6	3	3	3	3
Other financing (net)	1	1	..	..	(2)	(2)
<b>Net Cash Flows from Financing Activities</b>	<b>10,851</b>	<b>7,733</b>	<b>8,478</b>	<b>1,895</b>	<b>892</b>	<b>314</b>
<b>Net Increase/(Decrease) in Cash held</b>	<b>(491)</b>	<b>(962)</b>	<b>(383)</b>	<b>(169)</b>	<b>(52)</b>	<b>447</b>
Net cash from operating activities	(1,390)	(1,436)	2,098	8,137	7,953	8,226
Net cash flows from investments in non-financial assets	(12,007)	(10,539)	(10,664)	(9,287)	(8,039)	(7,306)
<b>Surplus/(Deficit)</b>	<b>(13,397)</b>	<b>(11,975)</b>	<b>(8,566)</b>	<b>(1,150)</b>	<b>(86)</b>	<b>921</b>
<b>Derivation of ABS GFS Cash Surplus/Deficit</b>						
Cash surplus/(deficit)	(13,397)	(11,975)	(8,566)	(1,150)	(86)	921
Acquisitions under finance leases and similar arrangements	(128)	(128)	(159)	(126)	(95)	(95)
<b>ABS GFS Cash Surplus/(Deficit) Including Finance Leases and Similar Arrangements</b>	<b>(13,525)</b>	<b>(12,103)</b>	<b>(8,726)</b>	<b>(1,277)</b>	<b>(181)</b>	<b>826</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 8.10 provides a reconciliation of the General Government sector net operating balance to the accounting operating result.

<b>Table 8.10</b> <b>Reconciliation of UPF net operating balance to accounting operating result<sup>1</sup></b>			
	2012-13 Budget \$ million	2012-13 Est.Act. \$ million	2013-14 Budget \$ million
Net operating balance General Government sector (Table 8.1)	(6,294)	(4,741)	(3,760)
<i>Remeasurement/valuation adjustments</i>			
Bad debts and amortisation	(52)	(64)	(62)
Deferred tax equivalents	143	461	189
Dividends received on privatisation sales	360	339	404
Market value adjustments investments/loans	23	12	20
Revaluation of provisions	(13)	2	84
Decommissioned infrastructure assets and land under roads	(143)	(143)	(143)
Gain/(loss) on assets sold/written off	(37)	(809)	(33)
<b>AAS operating result General Government sector</b>	<b>(6,012)</b>	<b>(4,943)</b>	<b>(3,300)</b>
Note: 1. Numbers may not add due to rounding.			

## GENERAL GOVERNMENT TIME SERIES

Data presented in Table 8.11 provides a time series from 2005-06 to 2011-12 for the General Government sector on the key fiscal aggregates used by the Government to measure financial performance. These aggregates have been backcast (as far as is possible) to comply with AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

Table 8.11 General Government Sector <sup>1</sup>							
	2005-06 Actual \$ million	2006-07 Actual \$ million	2007-08 Actual \$ million	2008-09 Actual \$ million	2009-10 Actual \$ million	2010-11 Actual \$ million	2011-12 Actual \$ million
<b>Revenue from Transactions</b>							
Taxation revenue	7,396	8,484	9,546	8,877	9,375	9,975	10,608
Grant revenue	13,590	14,373	15,523	17,476	20,205	20,272	22,652
Sales of goods and services	2,586	2,889	3,341	3,568	3,962	4,172	4,996
Interest income	3,414	3,348	(275)	1,482	2,205	2,365	2,484
Dividend and income tax equivalent income	1,057	863	1,255	1,180	950	1,232	1,112
Other revenue	2,039	2,024	2,040	4,425	3,032	3,941	3,942
<b>Total Revenue</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>45,794</b>
<b>Expenses from Transactions</b>							
Employee expenses	10,615	11,731	13,171	14,305	15,566	16,820	18,250
Superannuation expenses							
Superannuation interest costs	826	1,154	816	858	1,320	1,240	1,216
Other superannuation expenses	1,367	1,513	1,865	2,012	2,051	2,171	2,301
Other operating expenses	5,227	6,109	6,612	7,185	7,756	8,646	8,821
Depreciation and amortisation	1,679	1,880	1,850	2,496	2,500	2,506	2,777
Other interest expenses	174	180	346	599	803	1,125	1,659
Grant expenses	6,482	7,558	8,328	9,519	9,789	10,964	11,004
<b>Total Expenses</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>46,027</b>
<b>Net Operating Balance</b>	<b>3,714</b>	<b>1,855</b>	<b>(1,559)</b>	<b>35</b>	<b>(56)</b>	<b>(1,516)</b>	<b>(233)</b>
<b>OTHER KEY AGGREGATES</b>							
Purchases of non-financial assets	3,186	4,418	5,716	6,960	8,767	8,237	7,930
Net acquisition of non-financial assets	1,236	2,067	3,668	4,434	6,494	5,573	5,249
Fiscal Balance	2,478	(211)	(5,226)	(4,399)	(6,550)	(7,089)	(5,482)
Net Worth	105,035	117,831	155,178	184,619	175,655	171,222	170,653
Net Debt	(23,202)	(26,686)	(22,598)	(19,281)	(13,342)	(9,047)	(5,851)
Cash Surplus/Deficit	4,648	2,350	(4,922)	(2,839)	(5,305)	(5,880)	(4,901)
Note:							
1. Numbers may not add due to rounding.							
Source: Outcomes Reports for Queensland 2005-06 to 2011-12. (Numbers have been recast for changes to UPF presentation.)							

## OTHER GENERAL GOVERNMENT UNIFORM PRESENTATION FRAMEWORK DATA

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

### Grants

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

Table 8.12(a) General Government Sector Grant Revenue <sup>1</sup>		
	2012-13 Est. Actual \$ million	2013-14 Budget \$ million
<b>Current grant revenue</b>		
Current grants from the Commonwealth		
General purpose grants	9,478	10,751
Specific purpose grants	5,376	5,499
Specific purpose grants for on-passing	2,260	2,189
Total current grants from the Commonwealth	17,114	18,438
Other contributions and grants	381	400
<b>Total current grant revenue</b>	<b>17,496</b>	<b>18,838</b>
<b>Capital grant revenue</b>		
Capital grants from the Commonwealth		
Specific purpose grants	911	1,252
Total capital grants from the Commonwealth	911	1,252
Other contributions and grants	12	25
<b>Total capital grant revenue</b>	<b>923</b>	<b>1,277</b>
<b>Total grant revenue</b>	<b>18,419</b>	<b>20,115</b>
Note:		
1. Numbers may not add due to rounding.		

Table 8.12(b) General Government Sector Grant Expense <sup>1</sup>		
	2012-13 Est.Actual \$ million	2013-14 Budget \$ million
<b>Current grant expense</b>		
Private and not-for-profit sector	3,814	3,843
Private and not-for-profit sector on-passing	1,826	1,965
Local Government	199	202
Local Government on-passing	444	238
Grants to other sectors of Government	2,143	2,135
Other	328	207
<b>Total current grant expense</b>	<b>8,755</b>	<b>8,591</b>
<b>Capital grant expense</b>		
Private and not-for-profit sector	697	531
Local Government	1,478	2,468
Grants to other sectors of Government	35	55
Other	208	100
<b>Total capital grant expense</b>	<b>2,418</b>	<b>3,154</b>
<b>Total grant expense</b>	<b>11,173</b>	<b>11,745</b>
Note: 1. Numbers may not add due to rounding.		

## Dividend and Income Tax Equivalent Income

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

Table 8.13 General Government Sector Dividend and Income Tax Equivalent Income <sup>1</sup>		
	2012-13 Est.Actual \$ million	2013-14 Budget \$ million
Dividend and Income Tax Equivalent income from PNFC sector	1,321	1,661
Dividend and Income Tax Equivalent income from PFC sector	30	33
<b>Total Dividend and Income Tax Equivalent income</b>	<b>1,351</b>	<b>1,694</b>
Note: 1. Numbers may not add due to rounding.		

## Expenses by function

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

<b>Table 8.14</b> <b>General Government Sector Expenses by Function<sup>1</sup></b>						
	2012-13	2012-13	2013-14	2014-15	2015-16	2016-17
	Budget	Est. Act.	Budget	Projection	Projection	Projection
	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million
General public services	1,505	1,460	1,348	1,336	1,388	1,445
Public order and safety	4,073	3,976	4,105	4,191	4,258	4,306
Education	10,694	10,427	11,158	11,491	11,913	12,221
Health	12,836	12,592	13,019	13,858	14,662	15,424
Social security and welfare	2,178	2,613	2,591	2,722	2,859	3,157
Housing and community amenities	2,111	1,815	1,715	1,631	1,634	1,655
Recreation and culture	926	842	863	896	860	1,037
Fuel and energy	713	699	658	762	586	605
Agriculture, forestry, fishing and hunting	730	757	726	626	604	615
Mining, manufacturing and construction	331	307	311	301	305	305
Transport and communications	6,501	6,190	6,443	5,809	5,377	5,562
Other economic affairs	1,003	959	884	848	888	679
Other purposes	4,918	3,889	4,614	4,676	4,459	4,481
<b>Total Expenses</b>	<b>48,518</b>	<b>46,526</b>	<b>48,436</b>	<b>49,144</b>	<b>49,795</b>	<b>51,492</b>
Note: 1. Numbers may not add due to rounding.						

## Purchases of non-financial assets by function

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

<b>Table 8.15</b> <b>General Government Sector Purchases of Non-financial Assets by Function<sup>1</sup></b>						
	2012-13 Budget \$ million	2012-13 Est. Act. \$ million	2013-14 Budget \$ million	2014-15 Projection \$ million	2015-16 Projection \$ million	2016-17 Projection \$ million
General public services	6	45	13	54	124	291
Public order and safety	346	329	279	256	247	294
Education	389	396	509	487	361	339
Health	1,620	1,611	1,622	1,385	987	592
Social security and welfare	38	17	17	29	27	33
Housing and community amenities	247	286	369	249	263	348
Recreation and culture	62	35	79	50	48	40
Agriculture, forestry, fishing and hunting	25	27	32	24	20	21
Mining, manufacturing and construction	11	6	6	5	6	6
Transport and communications	4,713	4,501	4,105	3,072	2,275	1,774
Other economic affairs	24	22	28	19	9	8
Other purposes	171	122	69	24	27	5
<b>Total Purchases</b>	<b>7,653</b>	<b>7,397</b>	<b>7,130</b>	<b>5,653</b>	<b>4,394</b>	<b>3,751</b>
Note: 1. Numbers may not add due to rounding.						

## Taxes

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

<b>Table 8.16</b> <b>General Government Sector Taxes <sup>1</sup></b>		
	2012-13 Est.Actual \$ million	2013-14 Budget \$ million
Taxes on employers' payroll and labour force	3,792	4,100
Taxes on property		
Land taxes	994	980
Stamp duties on financial and capital transactions	1,900	2,033
Other	626	690
Taxes on the provision of goods and services		
Taxes on gambling	1,046	1,084
Taxes on insurance	670	926
Taxes on use of goods and performance of activities		
Motor vehicle taxes	1,969	2,039
<b>Total Taxation Revenue</b>	<b>10,998</b>	<b>11,851</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 8.17 presents the State's revised Budget LCA and the Loan Council endorsed LCA for 2013-14.

Table 8.17 Loan Council Allocation <sup>1</sup>			
		2013-14 Nomination \$ million	2013-14 Budget \$ million
	General Government sector cash deficit/(surplus)	4,368	7,469
	PNFC sector cash deficit/(surplus)	1,747	1,097
	<b>Non-financial Public sector cash deficit/(surplus)</b>	<b>6,114</b>	<b>8,566</b>
	Acquisitions under finance leases and similar arrangements	159	159
<b>Equals</b>	<b>ABS GFS cash deficit/(surplus)</b>	<b>6,274</b>	<b>8,725</b>
<i>Less</i>	Net cash flows from investments in financial assets for policy purposes	..	732
<i>Plus</i>	Memorandum items <sup>2</sup>	1,382	1,715
	<b>Loan Council Allocation</b>	<b>7,656</b>	<b>9,708</b>
Notes:			
1. Numbers may not add due to rounding.			
2. Memorandum items include operating leases and local government borrowings.			

The State's Budget LCA is a deficit of \$9.708 billion, compared to the LCA nomination of \$7.656 billion. The increase in the deficit is mainly due to the impact of disasters and lower royalty revenue, partially offset by the budget assumption of proceeds from the sale of financial investments.



## 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 *2011-12 Report on State Finances* – whole of government financial statements (Note 50).

A summary of the State's quantifiable contingent liabilities as at 30 June 2012 is provided in Table 8.18.

<b>Table 8.18</b> <b>Contingent liabilities</b>	
	2011-12 \$ million
<b>Nature of contingent liability</b>	
Guarantees and indemnities	7,922
Other	77
<b>Total</b>	<b>7,999</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 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 balance or fiscal balance.

### **Generally Accepted Accounting Principles**

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

## Harmonisation under AASB 1049

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

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

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

## Revisions to the Uniform Presentation Framework

Following the introduction of AASB 1049, the Australian, state and territory governments consider that the UPF will continue to be an important framework for ensuring comparability of financial information across jurisdictions. 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 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 accounting standard applies only to outcome reports.

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

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

## SECTOR CLASSIFICATION

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

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

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

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

Further discussion of the GFS framework of reporting, including definitions of GFS terms, can be obtained from the webpage of the Australian Bureau of Statistics at [www.abs.gov.au](http://www.abs.gov.au).

## REPORTING ENTITIES

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

### General Government

#### *Departments*

Aboriginal and Torres Strait Islander and  
Multicultural Affairs  
Agriculture, Fisheries and Forestry  
Communities, Child Safety and Disability  
Services  
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, Community  
Recovery and Resilience  
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*

Building and Asset Services (Project Services  
and QBuild to merge on 30 June 2013)  
CITEC  
Goprint (ceased 28 February 2013)  
QFleet  
RoadTek  
SDS (ceased 28 February 2013)

#### *Shared Service Providers*

Corporate Administration Agency  
Queensland Shared Services

## ***Statutory Authorities***

Anti-Discrimination Commission	Legal Aid Queensland
Australian Agricultural College Corporation	Library Board of Queensland
Board of the Queensland Museum	Motor Accident Insurance Commission
City North Infrastructure Pty Ltd	Nominal Defendant
Commission for Children and Young People and Child Guardian	Office of the Information Commissioner
Crime and Misconduct Commission	Prostitution Licensing Authority
Economic Development Queensland (Property Services Group and Urban Land Development Authority merged on 1 February 2013)	Queensland Art Gallery Board of Trustees
Gold Coast 2018 Commonwealth Games Corporation	Queensland Building Services Authority
Gold Coast Institute of TAFE	Queensland Future Growth Corporation
Gold Coast Waterways Authority	Queensland Mental Health Commission
Health Quality and Complaints Commission	Queensland Performing Arts Trust
Hospital and Health Services Cairns and Hinterland	Queensland Reconstruction Authority
Cape York	Queensland Rural Adjustment Authority
Central Queensland	Queensland Studies Authority
Central West	Residential Tenancies Authority
Children's Health Queensland	South Bank Corporation
Darling Downs	Southbank Institute of Technology
Gold Coast	The Council of the Queensland Institute of Medical Research
Mackay	Tourism and Events Queensland
Metro North	Translink Transit Authority (ceased 31 December 2012)
Metro South	Workers' Compensation Regulatory Authority (Q-Comp)
North West	
South West	
Sunshine Coast	
Torres Strait and Northern Peninsula	
Townsville	
West Moreton	
Wide Bay	

## **Public Non-financial Corporations**

Brisbane Port Holdings Pty Ltd  
CS Energy Ltd  
DBCT Holdings Pty Ltd  
Energex Ltd  
Ergon Energy Corporation Limited  
Far North Queensland Ports Corporation Limited  
Gladstone Area Water Board  
Gladstone Ports Corporation Limited  
Mount Isa Water Board  
North Queensland Bulk Ports Corporation Limited  
Port of Townsville Limited  
Powerlink Queensland  
Qld Airport Holdings (Cairns) Pty Ltd  
Qld Airport Holdings (Mackay) Pty Ltd  
Queensland Bulk Water Supply Authority (Seqwater)  
Queensland Bulk Water Transport Authority (ceased  
31 December 2012)  
Queensland Lottery Corporation Pty Ltd  
Queensland Rail  
Queensland Treasury Holdings Pty Ltd  
SEQ Water Grid Manager (ceased  
31 December 2012)  
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 exemptions or concessions. The TES is designed to improve transparency in the use of tax expenditures and increase public understanding of the fiscal process.

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

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

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

## Methodology

### *Revenue foregone approach*

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

Measuring tax expenditures requires the identification of:

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

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

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

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

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

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

## **THE TAX EXPENDITURE STATEMENT**

This year's statement includes estimates of tax expenditures in 2011-12 and 2012-13 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>**

	2011-12 <sup>2</sup> \$ million	2012-13 \$ million
<b>Payroll Tax</b>		
Exemption threshold <sup>3</sup>	1,063	1,132
Deduction scheme <sup>4</sup>	256	273
<b>Section 14 exemptions</b>		
Local Government	126	131
Education	122	130
Hospitals	297	310
<b>Total Payroll Tax</b>	<b>1,864</b>	<b>1,976</b>
<b>Land Tax</b>		
Liability thresholds <sup>5</sup>	545	539
Graduated land tax scale	497	488
Primary production deduction	94	92
Part 6 Divisions 2 and 3 exemptions not included elsewhere <sup>6</sup>	92	91
Land developers' concession	19	18
Capping of values <sup>7</sup>	9	..
<b>Total Land Tax</b>	<b>1,256</b>	<b>1,228</b>
<b>Duties</b>		
<b>Transfer duty on residential property</b>		
Home concession <sup>8</sup>	61	287
First home concession	165	191
First home vacant land concession	9	11
<b>Insurance duty</b>		
Non-life insurance	167	171
Workcover	39	42
Health insurance	230	258
<b>Total Duties</b>	<b>671</b>	<b>960</b>
<b>Taxes on Gambling</b>		
Gaming machine taxes	123	111
Casino taxes	9	9
<b>Total Gambling Tax</b>	<b>132</b>	<b>120</b>
<b>Total</b>	<b>3,923</b>	<b>4,284</b>

Notes:

- Numbers may not add due to rounding.
- 2011-12 estimates may have been revised since the 2012-13 Budget.
- Exemption threshold of \$1 million applied prior to 1 July 2012, \$1.1 million thereafter.
- Prior to 1 July 2012 a deduction of \$1 million, that reduces by \$1 for every \$4 for employers with an annual payroll up to \$5 million. From 1 July 2012, a deduction that reduces \$1 for every \$4 for employers with an annual payroll up to \$5.5 million.
- Land tax is payable only on the value of taxable land above a threshold which depends on the ownership structure.
- Applicable, but not limited, to religious bodies, public benevolent institutions and other exempt charitable institutions.
- No longer applies from 1 July 2012.
- 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 \$1.1 million or less are exempt from payroll tax (\$1 million prior to 1 July 2012). On the basis of 2012-13 average weekly earnings, this threshold corresponded to approximately 15 full-time equivalent employees. This exemption is designed to assist small and medium sized businesses.

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

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

#### ***Section 14 exemptions***

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

### **Land tax**

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

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

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

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

### ***Graduated land tax scale***

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

### ***Primary production deduction***

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

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

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

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

From 1 July 1998, land tax payable by land developers has been worked out on the basis that the unimproved value of (undeveloped) land subdivided in the previous financial year and which remains unsold at 30 June of that year is 60% of the Valuer-General's value. This concession is outlined in Section 30 of the *Land Tax Act 2010*.

### ***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 applied between 1 July 2007 and 30 June 2012.

### ***Transfer duty concession on residential property***

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

## ***Home concession***

A concessional rate of duty applies to purchases of a principal place of residence. This concession was not available between 1 August 2011 and 30 June 2012 but was reinstated on 1 July 2012 in accordance with the incoming Government's election commitment. A 1% concessional rate applies on dutiable values up to \$350,000, rather than the normal schedule of rates between 1.5% and 3.5%. For properties valued over \$350,000, the scheduled rates of transfer duty apply on the excess.

## ***First home concession***

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

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

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

## **Insurance duty**

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

The rate of duty applicable to 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.

The rate of duty applicable to general insurance will increase to 9% from 1 August 2013.

## **Gambling taxes**

### ***Gaming machine tax concessions for licensed clubs***

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

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

### ***Casino tax concessions***

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

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

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





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

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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 – 2011-12 to 2016-17

<b>Table B.1</b> <b>Taxation and Royalty Revenue<sup>1</sup></b>						
	2011-12 Actual \$ million	2012-13 Est. Act. \$ million	2013-14 Budget \$ million	2014-15 Projection \$ million	2015-16 Projection \$ million	2016-17 Projection \$ million
Payroll tax	3,462	3,792	4,100	4,430	4,764	5,128
Transfer duty	2,023	1,900	2,033	2,226	2,438	2,633
Other duties	1,052	1,162	1,446	1,591	1,704	1,823
Gambling taxes and levies	998	1,046	1,084	1,126	1,170	1,215
Land tax	1,013	994	980	995	1,015	1,051
Motor vehicle registration	1,437	1,459	1,503	1,549	1,626	1,708
Other taxes	622	646	705	763	830	864
<b>Total taxation revenue</b>	<b>10,608</b>	<b>10,998</b>	<b>11,851</b>	<b>12,680</b>	<b>13,547</b>	<b>14,422</b>
<b>Royalties</b>						
Coal	2,386	1,743	2,125	2,643	2,961	3,356
Other royalties	409	403	479	662	900	924
Land rents	149	165	178	188	200	200
<b>Total royalties and land rents</b>	<b>2,944</b>	<b>2,311</b>	<b>2,782</b>	<b>3,494</b>	<b>4,061</b>	<b>4,480</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 3½% and an increase in employment of 2¼% in 2013-14. 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.

A one percentage point variation in either Queensland wages growth or employment would change payroll tax collections by approximately \$41 million in 2013-14.

### **Transfer duty estimates**

For 2013-14, transfer duty collections are expected to grow by approximately 7% on the 2012-13 estimated actual, which is lower than 2011-12 due to the reinstatement of the principal place of residence concession.

This forecast is predicated on a continuation of the increase in residential property market volumes experienced in 2012-13, supported by historically low borrowing costs and a stabilisation in house prices, somewhat moderated by restrained levels of activity in the non-residential property sector. Across the forward estimates period, modest house price growth is expected to provide further support for transfer duty collections, while non-residential sector activity is expected to gradually improve in response to increased levels of employment and economic activity.

A one percentage point variation in either the average value of property transactions or the volume of transactions would change transfer duty collections by approximately \$20 million in 2013-14.

## ROYALTY ASSUMPTIONS AND REVENUE RISKS

**Table B.2**  
**Coal Royalty Assumptions**

	2011-12 Actual	2012-13 Est. Act.	2013-14 Budget	2014-15 Projection	2015-16 Projection	2016-17 Projection
Tonnages - crown export <sup>1</sup> coal (Mt)	165	171	184	200	218	235
Exchange rate US\$ per A\$ <sup>2</sup>	1.03	1.04	1.00	0.96	0.94	0.91
<b>Year average coal prices<sup>3</sup></b>						
Hard coking	260	180	180	190	190	190
Semi-soft	200	130	130	140	140	140
Thermal	125	100	98	100	100	100

**Notes:**

1. Excludes coal produced for domestic consumption and coal where royalties are not paid to the government, i.e private royalties. 2013-14 estimate for domestic coal volume is approximately 24Mt and private coal is 8Mt.
2. Year average.
3. Represent the benchmark contract price for highest quality coal type. Prices are discounted to reflect prices for lower quality coal. Hard coking coal can be sold up to \$25 below benchmark and thermal \$12 below.

### Royalty Assumptions

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

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

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

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

For each one cent movement in the A\$-US\$ exchange rate, the impact would be approximately \$33 million in 2013-14.

A 1% variation in export coking and thermal coal volumes would lead to a change in royalty revenue of approximately \$21 million.

A 1% variation in the price of export coal would lead to a change in royalty revenue of approximately \$35 million.

## **Parameters influencing Australian Government GST payments to Queensland**

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

Since the Australian Government payments are based on the amount actually collected, it is Queensland's Budget that bears the risks of fluctuations in GST collections. As with all other tax estimates, there is a risk of lower collections than estimated if economic growth and consumption are weaker than expected.

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

## **SENSITIVITY OF EXPENDITURE ESTIMATES AND EXPENDITURE RISKS**

### **Public sector wage costs**

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

The 2013-14 Budget and forward estimates includes funding for wage increases as per existing agreements and reflect the Government's wages policy where outcomes are yet to be finalised.

A general 1% increase in wage outcomes in a particular year would increase expenses by around \$200 million to \$250 million per annum.

### **Interest rates**

The General Government sector has a total debt servicing cost estimated at \$2.2 billion in 2013-14.

The current average duration of General Government debt is between five and six 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 2013-14 would be relatively modest, with the impact occurring progressively across the forward estimates.

### **Actuarial estimates of superannuation and long service leave**

Liabilities for superannuation and long service leave are estimated by the State Actuary with reference to, among other things, assumed rates of investment returns, salary growth, inflation and discount rate. These liabilities are therefore subject to changes in these parameters. Similarly, the long service leave liabilities are subject to the risk that the actual rates of employee retention will vary from those assumed in the liability calculation.

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

### **Demographic and demand based risks**

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

State government expenditure is often more closely associated with socio-demographic factors, such as the number of school age children or the number of elderly residents, than with economic activity. 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.







