Queensland Budget | 2017-18

BUDGET STRATEGY AND OUTLOOK

Budget Paper No.2

Queensland Government

2017-18 Queensland Budget Papers

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Budget Strategy and Outlook
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Queensland Government

State Budget 2017-18

Budget Strategy and Outlook

Budget Paper No. 2

Contents

Overview

Growth in the Queensland economy is forecast to strengthen over the coming years from 2.4% in 2015-16, to 2¾% in both 2016-17 and 2017-18, and 3% in 2018-19.

The 2017-18 Budget is focused on supporting continued growth and creating jobs for Queensland, while enabling the State's $300 billion economy to better transition to a more innovative, diverse and productive economy.

A key aspect of the Government's commitment to create jobs for Queensland is an overarching economic plan which includes a number of key policy initiatives through which the Government will drive sustainable economic growth and jobs across all regions of the State.

In line with the economic plan and building on the range of innovative policies and programs already implemented by the Government over the past two State Budgets, significant additional measures and targeted expenditure in the 2017-18 Budget will:

- drive ongoing growth and jobs, including in regional economies in transition
- deliver and facilitate significant productive infrastructure
- help communities impacted by recent natural disasters to recover, reconnect and rebuild
- boost supply of affordable housing
- reduce cost of living pressures on Queensland families
- foster innovation, trade and investment in traditional and emerging industries
- enhance the safety, security and liveability of Queensland communities.

By supporting the recovery, transition and growth of businesses, industries and communities across the State, the substantial capital works program and other significant initiatives aimed at fostering investment and growth in the Budget will directly support around 40,000 jobs in 2017-18, predominantly in the private sector, while continuing to create ongoing jobs and improve employment outcomes for all Queenslanders over the short, medium and longer term.

Driving growth and increasing job opportunities for all Queenslanders

Several key Budget initiatives will create a substantial and immediate increase in economic activity and jobs across the State, including the $77.5 million boost to enhance the highly successful Back to Work Regional Employment Package and extend key elements to South East Queensland. The 2017-18 Budget also provides additional funding of $200 million over two years for the Works for Queensland program, supporting local governments outside South East Queensland that are facing unemployment issues to undertake job-creating maintenance and minor infrastructure works. This supplements the $200 million provided in the Mid Year Fiscal and Economic Review (MYFER), bringing the Palaszczuk Government's total Works for Queensland commitment to $400 million.

Just as importantly, the 2017-18 Budget contains a range of measures to build further productive capacity in the economy by providing economic infrastructure, increasing private sector investment, enhancing innovation and promoting a more diversified economy.

This includes significant infrastructure projects in both South East Queensland and regional Queensland as part of a $42.75 billion four year capital works program that will support thousands of jobs across Queensland.

Combined with existing initiatives, including the $200 million Jobs and Regional Growth Package and Market Led Proposals initiative, these measures will support significant employment opportunities across the State during the construction phase of projects and support ongoing direct and indirect jobs over the medium to longer term.

Building productive infrastructure

Key productivity enhancing infrastructure projects in the 2017-18 Budget include a commitment to fully fund the $5.409 billion Cross River Rail project, Queensland's highest priority transport infrastructure project. This commitment includes an additional $1.952 billion allocation to the project over the forward estimates.

Cross River Rail will provide additional rail capacity to Brisbane's CBD and provide significant benefits in terms of reduced congestion, improved network reliability and increased accessibility. This project has significant potential to facilitate economic growth and jobs in South East Queensland by making local businesses more accessible, enhancing land use and encouraging business investment in the surrounding area, while also increasing workers' access to employment opportunities throughout the region.

The Budget also reinforces the Government's commitment to ensuring all Queenslanders, particularly in regional areas, have access to quality infrastructure, with key industries and communities throughout regional Queensland supported by major infrastructure projects.

These include: $386 million Powering North Queensland Plan (including $136 million Burdekin Falls Dam Safety Improvement Program, $150 million for the development of strategic transmission infrastructure to support a clean energy hub and $100 million for Burdekin Falls Dam hydro-electric power station); $225 million Townsville Water Security initiative; $176 million Cairns Convention Centre Expansion; and funding towards key projects as part of the Townsville City Deal, including the State's contribution to the $250 million North Queensland Stadium.

Each of these projects will improve the productivity of key industries and facilitate and attract investment in these regions, helping to support longer term economic and employment growth.

Helping communities recover, reconnect and rebuild

Operation Queensland Recovery, led initially by Brigadier Christopher Field, is well underway to recover, reconnect and rebuild more resilient Queensland communities following Severe Tropical Cyclone (STC) Debbie. As at 2 June 2017, in the first two months after the cyclone, more than 118,000 people have been assisted.

Close to $30 million in assistance has already been distributed through the Personal Hardship Assistance Grants and Immediate Hardship Assistance Grants funded under the Natural Disaster Relief and Recovery Arrangements (NDRRA). A $14.7 million Community Recovery Fund has been established and additional funding of $2 million has been provided for the Government's Go Local campaign to support the agricultural industry in disaster affected areas.

The Queensland Government is also expecting to spend over $1 billion to restore essential public assets before reimbursements from the Australian Government through the jointly-funded NDRRA.

By rebuilding vital infrastructure and supporting communities, this investment will support significant short-term construction activity and jobs in these regions. However, more importantly, it will re-establish productivity enhancing infrastructure and restore the productive capacity of affected economies, thereby supporting ongoing growth and employment across the State.

Boosting the supply of affordable housing

A key element of the 2017-18 Budget is the $1.795 billion commitment to support the delivery of the Queensland Housing Strategy, the biggest commitment to housing in the State's recent history. The Strategy will help boost the supply of social and affordable housing to respond to population growth, housing affordability pressures, and renew existing social housing.

This forms part of the Government's 10 year $1.835 billion funding package for a range of housing and homelessness measures.

Reducing the cost of living for Queensland families

In response to the cost of living pressures faced by Queensland families, the Government will provide $5.344 billion in specific concessions to help Queenslanders who need it most, while also implementing significant broader concession arrangements to reduce the prices for consumers in areas such as transport, electricity and water, including:

- a continued commitment to the Fairer Fares package in South East Queensland, with a guarantee these lower fares will remain frozen in 2017, with concessions extended to jobseekers and asylum seekers
- the Government's $771 million investment to remove the cost of the Solar Bonus Scheme from electricity prices over the next three years, providing an average saving of $51 for households and $90 for small businesses in 2017-18
- more than $149 million to provide free dental care to eligible Queenslanders, in addition to the ongoing significant subsidised dental care for the general public in rural and remote areas with no private dental practitioner services.

The Government's commitments will not only reduce the cost of living pressures for households, but will provide Queensland families greater opportunity to purchase goods and services that improve their quality of life and support economic activity and jobs in other sectors of the Queensland economy.

Enhancing the safety, security and liveability of Queensland communities

The Government is also committed to protecting vulnerable Queenslanders and enhancing social cohesion and safety in communities through a range of measures. These include ongoing implementation of its response to the Not Now, Not Ever report, with $69.5 million to continue the specialist domestic and family violence court at Southport and roll out courts in Beenleigh and Townsville, including circuit courts to Mount Isa and Palm Island.

Funding of $18 million has been committed to tackle the harmful use and effects of crystal methamphetamine (Ice) by increasing awareness, supporting families and better equipping frontline service providers, while $32.6 million has been allocated to re-establish a drug court in Brisbane with support and referral services in four locations.

Since the 2016-17 Budget additional funding of $200 million over four years has been committed to further strengthen Queensland's child protection system and better support vulnerable children and families. The Budget also delivers a record $1.887 billion for disability services.

The Government is providing $43.7 million over four years from 2017-18 for an additional 30 Counter-Terrorism police officers, an additional 20 police officers for the Townsville Rapid Action and Patrols Groups and a further 20 police officers for priority areas of need to tackle crime and improve community safety.

To help ensure the safety and security of Queenslanders more broadly, an additional $46.7 million has been allocated to build the new Counter-Terrorism and Community Safety Training Centre at Westgate Police Academy, while a consortium of four Australian companies has been appointed to provide a highly trained workforce of more than 4,000 security personnel to provide the highest quality security at the Gold Coast Commonwealth Games in 2018.

Economic outlook

Overall growth in the Queensland economy is forecast to strengthen, from the 2.4% recorded in 2015-16, to 2¾% in both 2016-17 and 2017-18, and 3% in 2018-19.

Based on forecasts by the Australian Treasury, this is stronger than expected national gross domestic product (GDP) growth of 1¾% in 2016-17 and in line with it in 2017-18 and 2018-19.

Queensland growth forecasts for 2016-17 and 2017-18 would have been higher, but for the impact of Severe Tropical Cyclone (STC) Debbie, which is estimated to have detracted around $2 billion or ¾ percentage point from economic growth across these years.

Major impacts from STC Debbie include the loss of around 10 million tonnes of coal exports due to damaged rail infrastructure, around $300 million of losses to sugar exports and a considerable hit to tourism in the Whitsundays region.

With the impact of the resources boom largely reflected in exports and population growth broadly in line with the national rate, Queensland’s gross state product growth (GSP) is expected to remain in line with national growth in the projection years, at 3%.

If the improvement in commodity prices is sustained and large projects such as Adani’s Carmichael coal mine proceed, then investment in resources and exports will strengthen, potentially boosting Queensland’s economic growth rates and State revenues.

While a substantial amount of construction work still in the pipeline will see new dwelling construction reach a cyclical peak in 2016-17, activity is expected to fall in 2017-18 and 2018-19 as a large amount of apartment stock comes on line.

Subdued real wages growth, together with modest population growth and the easing in the dwelling sector, is expected to keep growth in household consumption below average.

Business investment continues to adjust in 2016-17 from the record levels experienced during the Liquefied Natural Gas (LNG) construction boom. Despite bright spots in tourism and education and ongoing spending in the coal seam gas (CSG) sector, business investment in Queensland is expected to be broadly unchanged in 2017-18, before returning to moderate growth from 2018-19 onward, consistent with the national growth profile.

Overseas exports are expected to grow solidly over the forecast period, generally between 3% and 4% per annum. In addition to the long-expected ramp up in LNG exports, coal exports are expected to recover from the fall in 2016-17 induced by STC Debbie. A competitive exchange rate and growing demand from Asian markets is also expected to boost tourism and education exports.

Following employment growth of 0.7% through the year to June quarter 2016, measured employment has been quite volatile during the current financial year, easing early in the year, but picking up since late 2016. Reflecting this recent momentum, employment in Queensland is forecast to be 1¼% higher over the year to June quarter 2017.

Consistent with an improvement in overall domestic activity, employment growth is also forecast to strengthen to 1½% through the year to June quarter 2019, in line with forecast national jobs growth. These trends are forecast to see the unemployment rate decline to 6% by then.

Forecasts and projections across the forward estimates period for key economic variables are shown in the table below and discussed in detail in Chapter 2.

Overview Table 1 Economic forecasts/projections, Queensland[1]

	Actual	Est. Act.	Forecasts		Projections	
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Gross state product[2]	2.4	2¾	2¾	3	3	3
Nominal gross state product	2.4	11¾	4	3¼	5¼	5¼
Employment[3]	0.7	1¼	1	1½	1¾	1¾
Unemployment rate[4]	6.4	6¼	6¼	6	6	6
Inflation[5]	1.6	1¾	2	2¼	2½	2½
Wage Price Index[5]	1.9	2	2¼	2½	3	3
Population[5]	1.3	1½	1½	1½	1½	1½

Notes:

1. Unless otherwise stated, all figures are annual percentage change.
2. Chain volume measure (CVM), 2014-15 reference year.
3. Through-the-year growth rate to the June quarter (seasonally adjusted). This is the same basis as calculated for national employment growth in the Australian Government Budget. The comparable growth rates in year average terms are 1.6%, 0%, 1¼% and 1½% from 2015-16 through to 2018-19, and 1¾% in the projection years.
4. Seasonally adjusted rate for the June quarter.
5. Annual percentage change, year-average.

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

Fiscal outlook

The 2017-18 Budget demonstrates the Government's ongoing commitment to responsible fiscal management while responding to the challenges presented by natural disasters and supporting further diversification of the State's economy following the mining investment boom.
The Government is building on its budget strategy from the 2015-16 and 2016-17 Budgets, retaining and delivering on the fiscal principles introduced in those Budgets.

The Budget continues to deliver on the Government's commitment to revitalising frontline service delivery, while responsibly managing the State's finances. In 2017-18, the Government is providing a record $16.6 billion to deliver first rate health services by a highly skilled workforce and a record $13.7 billion for education in support of quality education outcomes.

The Government's responsible fiscal management, as demonstrated through consecutive Budgets and actual outcomes, has been a significant factor in Moody's Investors Service recently affirming its Aa1 rating, equivalent to AA+, for Queensland.

Importantly, Moody's removed the negative outlook on Queensland's credit rating, which had been in place since November 2012, returning the outlook to stable.

The Government recognises that the $2.8 billion surplus in 2016-17 is being supported by a number of temporary factors, such as the timing of disaster recovery reimbursements from the Australian Government and spikes in coal prices. This strong 2016-17 operating surplus has contributed to General Government Sector debt being around $3.8 billion lower in 2016-17 than estimated at the 2016-17 Budget. This has provided the opportunity to support additional infrastructure investment and a range of targeted temporary measures to support business and households.

Debt reduction

The Government's actions, consistent with its undertakings at the time of the 2015 State election, will continue to manage General Government Sector debt and provide additional funds for infrastructure investment without requiring the sale of government-owned corporations, without increases in taxes on Queenslanders, without cuts to services and without redundancies.
The strong performance of government-owned corporations in 2016-17 demonstrates the sustainability of the Government's Debt Action Plan.

General Government Sector debt is estimated to be $9.347 billion lower in 2017-18 than its 2014-15 high of $43.105 billion, with debt in 2020-21 projected to remain below the 2014-15 peak. The debt to revenue ratio has continued to be revised down and is expected to remain below 70% across the forward estimates, compared to 86% in 2014-15. General Government Sector debt in 2017-18 is expected to be $33.758 billion, a reduction of $14.663 billion compared with the 2014-15 Budget projection.

The reduction in General Government debt in 2016-17, supplemented with further balance sheet measures, has provided the Government with the capacity to fund important new capital infrastructure over the forward estimates without significantly increasing debt.

Net operating surpluses

The net operating surplus of $2.8 billion for 2016-17 is expected to be the largest surplus since 2005-06.

Net operating surpluses are expected in each year of the forward estimates, despite the cost of responding to STC Debbie and forecasts for GST and State taxation revenue being revised down by $1.554 billion across the period 2016-17 to 2019-20 since the 2016-17 MYFER. Demonstrating the Government's ongoing commitment to expenditure control, the new expenditure initiatives outlined in the 2017-18 Budget are partly funded through reprioritisations.

Operating expenses are forecast to grow at a sustainable rate, averaging 3.2% per annum over the five years to 2020-21.

The key fiscal aggregates of the General Government Sector for the 2017-18 Budget are outlined in the table below and are discussed in detail in Chapter 3.

Overview Table 2 General Government Sector - key fiscal aggregates[1]

	2015-16 Actual[2] $ million	2016-17 MYFER $ million	2016-17 Est. Act. $ million	2017-18 Budget $ million	2018-19 Projection $ million	2019-20 Projection $ million	2020-21 Projection $ million
Revenue	50,995	54,953	56,434	55,869	56,138	57,887	58,982
Expenses	50,025	52,927	53,610	55,723	56,021	57,183	58,574
Net operating balance	**970**	**2,026**	**2,824**	**146**	**117**	**704**	**408**
PNFA[3]	4,092	5,210	4,416	5,123	6,471	7,015	6,462
Fiscal balance	(461)	(1,015)	868	(2,363)	(3,946)	(2,725)	(2,496)
Borrowing	**35,486**	**36,022**	**33,937**	**33,758**	**36,393**	**38,760**	**41,244**
Borrowing (NFPS)[4]	72,922	73,749	73,102	71,989	74,978	77,720	81,148

Notes:

1. Numbers may not add due to rounding and bracketed numbers represent negative amounts.
2. Reflects published actuals.
3. PNFA: Purchases of non-financial assets.
4. NFPS: Non-financial Public Sector.

1 Economic plan - creating opportunities for all Queenslanders

Features

- The Queensland Government's commitment to creating jobs for Queensland is underpinned by its strong focus on driving ongoing economic growth and creating more opportunities for all Queenslanders. A key element of this commitment is an overarching economic plan focused on facilitating sustainable growth and jobs in the State's traditional, emerging and new industries, including in regional Queensland.
- The economic plan outlines six key policy channels through which the Government continues to drive sustainable economic growth:
  - Fostering entrepreneurship and innovation
  - Promoting business investment and exports
  - Delivering and facilitating productive infrastructure
  - Growing our human capital
  - Optimising the use of our land and natural resources
  - Leading an innovative, active and responsive public sector.
- Most importantly, the economic plan will ensure the translation of this growth into more job opportunities for all Queenslanders over the short, medium and longer term by:
  - Increasing the employment opportunities available to Queenslanders
  - Enhancing the skills and capability of Queenslanders to access job opportunities
  - Improving the matching of workers with jobs
  - Ensuring all Queenslanders, including those from disadvantaged cohorts and across regional Queensland, benefit from increased opportunities.
- The 2017-18 Budget will continue to support and facilitate growth of a more innovative, diverse and productive economy, in line with the economic plan and will build on the policies and programs already implemented by the Government.
- Key elements of the Budget include significant infrastructure investments across the State as part of a $42.75 billion capital works program over four years and initiatives to promote further growth in traditional and emerging industries, including in regions facing challenges.
- Operation Queensland Recovery is helping rebuild vital infrastructure and supporting communities to restore the productive capacity of economies impacted by recent natural disasters. In addition, the continued strong focus on health, education, justice and public safety, as well as a significant investment in social and Indigenous housing, will ensure all Queenslanders share in the increased opportunities and prosperity as the economy grows.
- By supporting the recovery, transition and growth of businesses, industries and communities across the State, the capital works program and other initiatives aimed at fostering investment and growth in the 2017-18 Budget will directly support around 40,000 jobs in 2017-18, predominantly in the private sector. Importantly, they will also continue to create jobs and improve employment outcomes for all Queenslanders into the future.

1.1 The Government's economic plan

The economic and employment opportunities available to Queenslanders and the quality of life they enjoy depend on the productive capacity, strength and resilience of the State's economy.

Queensland's overall economic and labour market performance in recent years has been strong, with more than 59,000 jobs created in Queensland in trend terms since January 2015 and the State expected to record higher economic growth than nationally in 2016-17.

However, the State's economy continues to face some challenges, particularly in regions recovering from Severe Tropical Cyclone (STC) Debbie, facing persistent drought or continuing to transition to broader based growth following the resources investment boom.

In the longer term, the State's economic performance will be influenced by a range of international and national economic factors and impacted by ongoing social and demographic trends. In particular, the ageing population, technological change, growth of the Asian middle class and increased environmental concerns will provide both opportunities and challenges.

To ensure the economy remains resilient and capable of responding to challenges and opportunities, the Queensland Government remains committed to supporting business and employment growth in traditional, emerging and new industries, including in regional Queensland.

The Government's economic plan outlines six key policy channels through which the Government continues to deliver innovative policies and programs to drive economic growth and jobs - creating opportunities for all Queenslanders. The economic plan builds on the Working Queensland initiatives and the Jobs Now, Jobs for the Future employment plan outlined in the 2015-16 Budget and is in line with the 2016-17 Budget's focus on innovation, investment and infrastructure.

Figure 1.1 Queensland Government's economic plan

1.2 Improving employment opportunities and outcomes in a transitioning economy

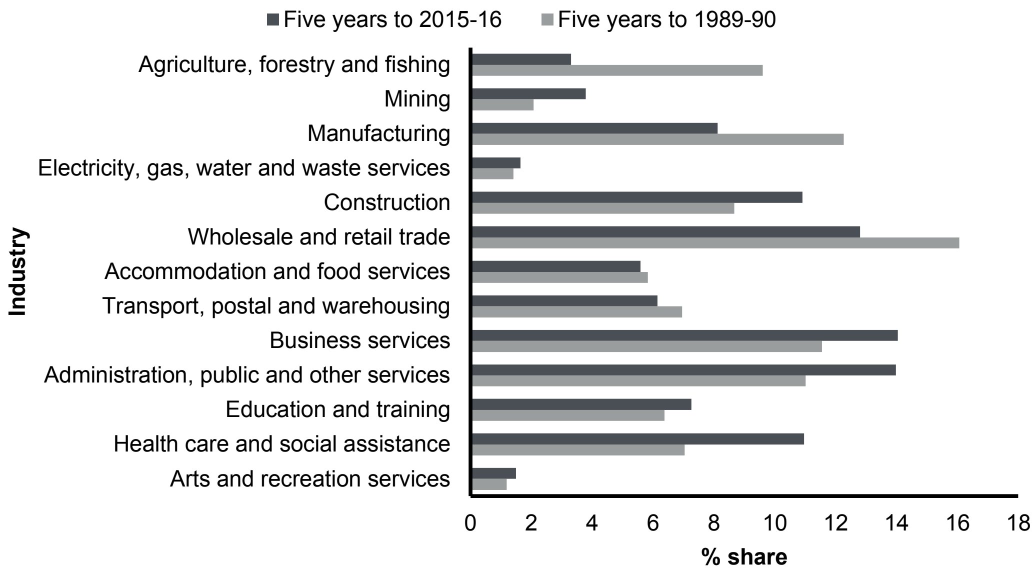
The Queensland economy and labour market has been transitioning gradually over many decades to a more diversified services-based economy, driven by changes in international, national and domestic demand for products and services, productivity enhancing technological advancement and changes in our competitive advantages as the global economy evolves.

Analysis of employment data over the past 30 years shows how the State's labour market continues to evolve in terms of the industries primarily driving employment growth, labour force participation rates, the demographics of the labour market, the diversity of occupations and job opportunities, and the variety and flexibility of working arrangements.

Over this period there has been a decline in the share of employment supported by some traditional industries (e.g. agriculture and manufacturing), while employment in service industries (e.g. health care and education) has grown in line with trends throughout the developed world.

Other factors, such as the increased use of labour saving technology, have contributed to a fall in the share of employment in some industries (e.g. agriculture, forestry and fishing, and wholesale and retail trade) while at the same time resulting in the emergence of new occupations and stronger growth in employment opportunities in a range of other sectors (e.g. business services).

Chart 1.1 Queensland employment share by industry, 1989-90 and 2015-16[1]



Note:

1. Employment shares are based on ABS data on total hours worked by industry.

Source: ABS 6291.0.55.003.

Recent changes in global economic conditions, including the demand for various commodities and the resulting value of the A$, have impacted in various ways on some key industries (e.g. mining and tourism-related industries), complicating the transition in areas of regional Queensland.

Meanwhile, other factors including population ageing, increasing female participation rates and enhanced diversity and flexibility in employment arrangements, have seen significant changes in the composition of Queensland's labour force over recent decades.

The female share of employment has increased from 38% in 1985-86 to 47% in 2015-16, while the share of all workers aged 55 years and over has almost doubled from 9.3% to 17.8% over the period. Meanwhile, part time employment has increased from 19% to 30% of total employment.

Given the dynamic nature of the global and national economies, and the likelihood that the Queensland economy and labour market will continue to evolve, the Government's economic plan is aimed at driving ongoing growth in productivity, economic activity and employment.

In line with the economic plan, the Government's existing policies and programs, as well as new initiatives in the 2017-18 Budget, will drive four key outcomes in facilitating improved employment opportunities for Queenslanders over the short, medium and longer term:

1. **Increasing the employment opportunities available to Queenslanders:**
    - The employment opportunities available in the economy reflect the quantity and quality of labour required to produce goods and services.
    - Policies and programs that enhance productivity, drive business investment, facilitate infrastructure investment and remove constraints on business growth will help drive increased demand for labour and more job opportunities.
2. **Enhancing the skills and capability of Queenslanders to access job opportunities:**
    - The quality and quantity of labour available in the economy depends on the capacity and capability of people to effectively participate in the labour market.
    - Policies and initiatives that improve education, skills, health and welfare will result in increased and more effective workforce participation.
3. **Improving the matching of workers with jobs:**
    - It is important labour market stakeholders can interact efficiently and effectively so that businesses can access and identify appropriately skilled workers, and jobseekers can identify and access appropriate employment opportunities, conditions and incomes.
    - Policies and regulatory settings that facilitate the efficient operation of the labour market, including improving information flows and labour mobility, play a critical role in ensuring optimum economic outcomes by facilitating the matching of labour demand and supply.
4. **Ensuring all Queenslanders, including those in disadvantaged cohorts and across regional Queensland, benefit from increased employment opportunities:**
    - There are several labour market cohorts that have historically faced challenges including: youth; long-term unemployed; mature aged; people with a disability; Aboriginal and Torres Strait Islanders; and people from culturally and linguistically diverse backgrounds.
    - Policies and initiatives aimed at addressing the issues faced by these cohorts, as well as communities and jobseekers in areas of regional Queensland facing challenges, are needed to help ensure fair and equitable employment outcomes for all Queenslanders.

Figure 1.2 Improving employment outcomes through the economic plan

1.3 Driving private sector growth and jobs

In line with its commitment to drive enhanced economic and employment outcomes, the Queensland Government maintains a strong focus on facilitating productivity enhancing infrastructure and private sector investment, improving the competitiveness of the State's industries, and building the capacity and employability of the State's workforce.

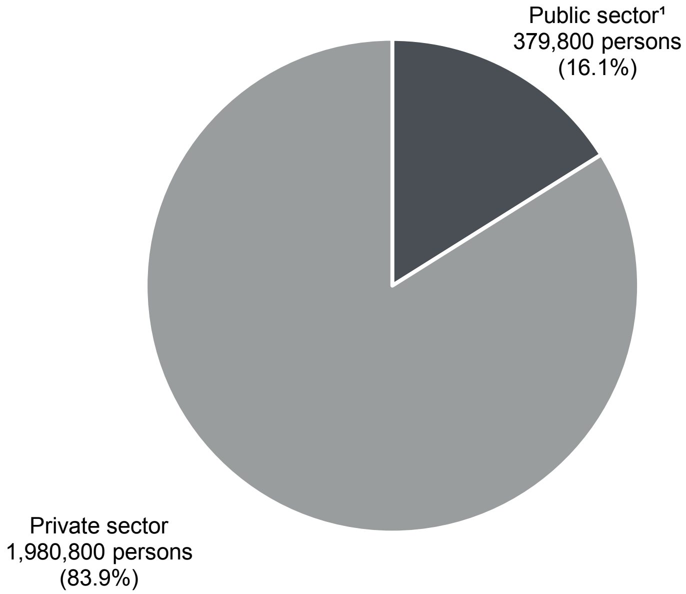
This focus on private sector growth and employment is critical given the private sector comprises more than 80% of the State's economy and supports around 84% of Queensland jobs. Of the 2.36 million Queenslanders employed in 2015-16, almost 2 million were in the private sector.

In addition, several key industries that are generally dominated by private sector businesses and investment (e.g. resources, manufacturing, tourism and construction) are key drivers of economic activity and jobs in many areas of regional Queensland.

Governments at all levels play a key role in shaping and supporting economic and employment outcomes in an economy by facilitating private sector investment, growth and jobs.

In particular, the Queensland Government has a crucial role in ensuring the State's regulatory and policy frameworks create and sustain an environment conducive to business investment and confidence in several fundamental policy areas: reducing red tape; maintaining an efficient and competitive taxation regime; and maintaining a supportive and sustainable fiscal environment.

Chart 1.2 Queensland employment shares by private and public sectors, 2015-16



Note:

1. Includes Commonwealth, State and local government employment.

Sources: ABS 6202.0 and 6248.0.

Reducing red tape

- The Government's Better Regulation Taskforce continues to identify opportunities to reduce unnecessary and burdensome regulation, thereby cutting the burden and costs for business, including more than 400,000 small businesses, across the State.
- The ongoing work of the Taskforce will continue to foster more competitive and sustainable businesses and industries, incentivise private sector investment and, ultimately, lead to more employment and higher incomes.

Maintaining an efficient and competitive taxation regime

- The Government is committed to maintaining an efficient and competitive taxation regime, which provides a competitive advantage to the State's businesses, moderates the tax burden for its citizens and is fundamental to job creation and sustainable development.
- Queenslanders continue to benefit from the Government maintaining its commitment not to introduce new taxes, fees or charges.

Maintaining a supportive and sustainable fiscal environment

- Responsible fiscal management is the backbone of the Government's economic agenda, providing business with the confidence and certainty to invest and employ.
- The Government's adherence to a set of key fiscal principles, including its commitment to focus on reducing the General Government debt burden, helps provide the fiscal capacity to help the community when needed most, for example, when responding to natural disasters.

In addition to ensuring the State's broader economic and fiscal environment is conducive to growth and investment, the Government continues to implement a range of more specific and targeted initiatives to facilitate economic growth and jobs in the short, medium and longer term.

Several key Budget initiatives will create a substantial and immediate increase in economic activity and jobs across the State, including the $77.5 million boost to enhance the highly successful Back to Work Regional Employment Package and extend key elements to South East Queensland. The 2017-18 Budget also provides additional funding of $200 million over two years for the Works for Queensland program, supporting local governments outside South East Queensland that are facing unemployment issues to undertake job-creating maintenance and minor infrastructure works. This supplements the $200 million provided in the MYFER, bringing the Palaszczuk Government's total Works for Queensland commitment to $400 million.

Other initiatives, including the $200 million Jobs and Regional Growth Package and Market Led Proposals initiative, will support significant employment opportunities across the State during the construction phase of projects and enhance the productive capacity of the economy.

These measures, along with key elements of the Advance Queensland program and other existing initiatives, will support ongoing jobs over the medium to longer term by providing economic infrastructure, increasing private sector investment, enhancing innovation and promoting a more diversified economy.

The 2017-18 Budget includes a range of measures which will boost productivity and support ongoing longer-term employment including significant infrastructure projects in both South East Queensland and regional Queensland as part of a $42.75 billion four year capital works program.

Funding in the Budget for key infrastructure projects in 2017-18 includes:

- $3.885 billion for transport and roads throughout Queensland
- $129 million as part of the Queensland Government's $5.409 billion commitment to deliver Cross River Rail
- $604.6 million for the construction and refurbishment of school educational facilities, early childhood education and care services and training assets
- $916.1 million for health, including health facilities and infrastructure across all regions
- $2.063 billion to deliver cost effective, safe, secure and reliable energy and water supply across the State.

The Budget also features a range of initiatives to promote ongoing growth in traditional and emerging industries, including in regional Queensland. These includes significant funding to: implement the Trade and Investment Strategy, 2017-2022; support the ongoing work of Tourism and Events Queensland (TEQ); enhance Great Barrier Reef water quality; further develop priority industry roadmaps; promote further exploration and mining activities in the resources sector; and leverage greater value from the State's national parks.

The continued strong focus on health, education, justice and public safety, as well as a significant level of investment to improve social and Indigenous housing, will help build the capacity and productivity of the State's workforce, ensuring businesses can draw on a skilled, capable labour supply and workers can capitalise on job opportunities as the private sector invests and grows.

In addition, Operation Queensland Recovery is helping rebuild vital economic and social infrastructure in communities impacted by recent natural disasters, maintaining the productive capacity of these vital regional economies.

By continuing to support the recovery, transition and longer term growth of businesses and industries across the State, the 2017-18 Budget complements the substantial reforms and innovative initiatives already implemented by the Government to support ongoing economic growth and improved employment outcomes throughout the State.

Box 1.1 Helping Queenslanders back to work

A critical focus of the Government's employment policy is to ensure all Queenslanders have the opportunity to access and benefit from employment opportunities.

To help support disadvantaged jobseekers and build the confidence of businesses to take on more staff, particularly in regional Queensland, the Government has implemented two successful flagship employment initiatives: the $240 million Skilling Queenslanders for Work (SQW) and the $177.5 million Back to Work programs. Between them, the two programs have already helped a significant number of Queenslanders, particularly in regional areas, into employment.

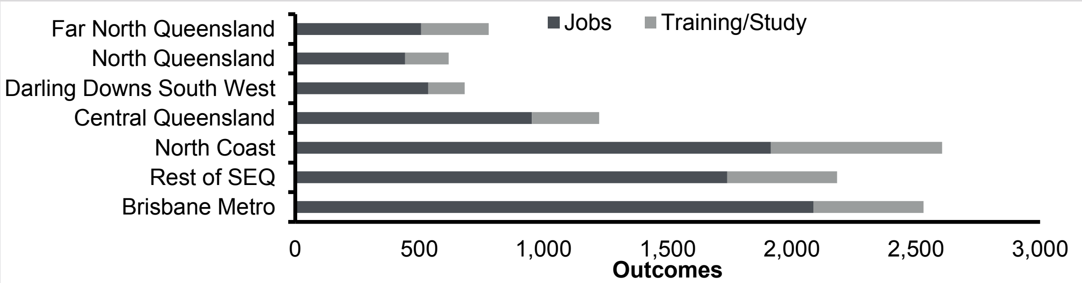
Skilling Queenslanders for Work

The $240 million SQW initiative is one of the Government's key programs aimed at assisting under-utilised or under-employed people, with the suite of programs expected to help support up to 32,000 Queenslanders into work.

SQW provides training and skills development opportunities to people marginally attached to the labour market as well as young people, Aboriginal and Torres Strait Islanders, people with a disability, mature-aged jobseekers, and jobseekers from culturally and linguistically diverse backgrounds. The initiative is supported by a state wide regional network forming partnerships with community-based organisations and local employers to determine local skills and entry-level industry and labour needs.

SQW has assisted more than 18,000 disadvantaged Queenslanders, with more than 9,500 participants employed, undertaking further training/study or both following participation in the programs.

Chart 1.3 Skilling Queenslanders for Work - Outcomes by Region



In 2017-18, a further $60 million will be available under SQW to provide skills, training and jobs to around 8,000 disadvantaged Queenslanders.

Back to Work

The Queensland Government held a series of employment forums throughout the State over the last two years to hear first-hand from jobseekers, employers and industry stakeholders how the Government can help get unemployed Queenslanders back to work.

The forums highlighted that the Government could play a key role in building business confidence to take on staff and to facilitate engagement between local employers and jobseekers, particularly in regions facing challenges and with transitioning economies.

The Back to Work Regional Employment Package, announced as part of the 2016-17 Budget, committed $100 million to support regional businesses to gain the confidence to employ jobseekers. More specifically, the program focuses on those areas of the State facing high unemployment and/or specific cohorts facing employment challenges. The temporary stimulus provided by the payments may help in sustaining labour demand.

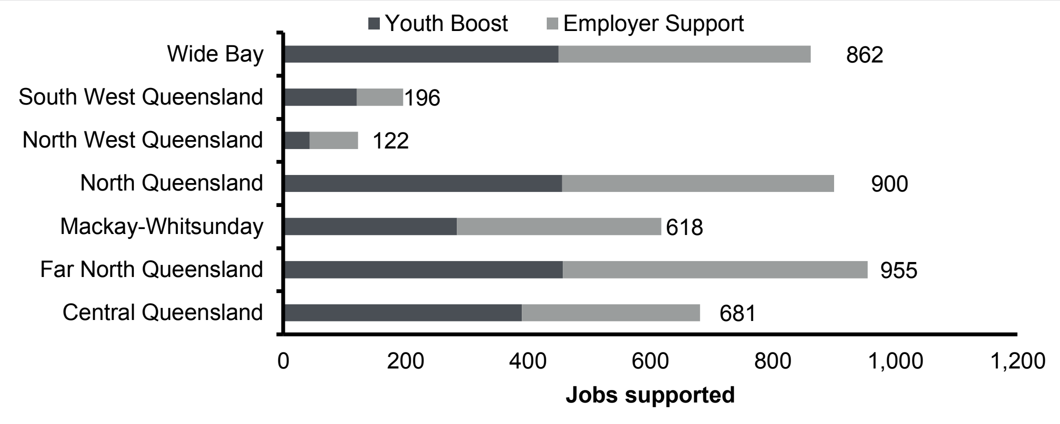
The initiative included $80 million for support payments of up to $15,000 for employers who take on an unemployed regional jobseeker, including long-term unemployed. In addition, the Government established 16 Back to Work Teams throughout regional Queensland to help regional communities generate innovative solutions to local employment challenges.

A $20,000 Youth Boost payment was subsequently introduced and is available to employers until 31 October 2017 if they hire an unemployed young jobseeker (15-24 years) in regional Queensland.

As at 31 May 2017, around 1,000 regional employers have successfully applied for a Back to Work employer support payment and more than 1,372 employers have successfully applied for a Youth Boost payment to provide jobs to regional jobseekers.

As outlined in Chart 1.4 below, Back to Work has resulted in 4,334 jobseekers being employed throughout regional Queensland.

Chart 1.4 Back to Work - Jobs supported by region



Building on the success of the program, the 2017-18 Budget has committed a further $77.5 million to extend and enhance the Back to Work Program, including an additional $50 million for regional Queensland and $27.5 million to broaden the program to provide support for long-term unemployed and young unemployed persons in South East Queensland.

1.4 Supporting growth and jobs through the economic plan

Since January 2015, the Queensland Government has announced a range of significant new initiatives to grow the economy and support jobs. A significant amount of the funding related to these existing initiatives will continue to flow through to the economy in 2017-18 and subsequent years, thereby supporting ongoing economic activity and employment throughout the State.

Building on this substantial pipeline of existing programs and infrastructure projects, the 2017-18 Budget includes a range of significant new initiatives and increased funding for existing programs that will generate economic activity and jobs throughout the State. The Budget also includes substantial additional investment in productivity enhancing infrastructure and capital works, including several major new projects in regional Queensland.

As a result, the economic activity facilitated through the Government's existing commitments and 2017-18 Budget measures is estimated to directly support around 40,000 jobs in 2017-18. These jobs are likely to be predominantly in the private sector, but some Government initiatives and capital works will also likely support some local government employment related to specific projects in regional Queensland.

These new and existing initiatives will continue to drive economic growth and, most importantly, create employment opportunities for Queenslanders.

The following sections of this chapter outline how the Government's existing and new 2017-18 Budget initiatives will contribute to ongoing growth and increased employment opportunities in line with each of the key policy channels identified in the Government's economic plan.

1.4.1 Delivering and facilitating productive infrastructure

Delivering and facilitating key infrastructure directly supports construction jobs in the short term. However, the key role of infrastructure is to lift the productive capacity of the economy over the medium to longer term by facilitating the more efficient production and distribution of goods and services, as well as enhancing labour mobility.

By improving the productivity and competitiveness of the State's businesses and exporters, infrastructure enables resources to be utilised more efficiently and invested more effectively to help stimulate sustainable business activity and growth, thereby supporting ongoing jobs.

Infrastructure provision, particularly transport infrastructure, can also enhance the supply of labour by increasing labour mobility, with the cost and length of the daily commute impacting on people's capacity to access employment, work in different places and at different times.

The Government has made the provision and facilitation of key infrastructure a priority through development of the State Infrastructure Plan (SIP), which sets out a new strategic direction for the planning, investment and delivery of the State's infrastructure.

This includes a strong focus on infrastructure in regional areas through initiatives such as:

- $130 million Jobs and Regional Growth Fund to facilitate private sector investment and multi-user infrastructure
- $375 million Building our Regions program to fund local government projects
- $400 million Works for Queensland Program (including an additional $200 million in this Budget) to support employment through the maintenance and enhancement of infrastructure and facilities in regional Queensland.

The Government has committed to fully fund and deliver the $5.409 billion Cross River Rail project. Cross River Rail, Queensland's highest priority transport infrastructure project, will provide additional rail capacity to Brisbane's CBD and provide significant benefits in terms of reduced congestion, improved network reliability and increased accessibility.

To further promote growth and jobs, key industries and communities in regional Queensland will also be supported by major infrastructure projects announced in the Budget, including $604.6 million for the construction and refurbishment of educational facilities and the $386 million Powering North Queensland Plan (including $136 million Burdekin Falls Dam Safety Improvement Program, $150 million for the development of strategic transmission infrastructure to support a clean energy hub and $100 million for Burdekin Falls Dam hydro-electric power station).

The 2017-18 Budget also includes the $225 million Townsville Water Security initiative, $176 million Cairns Convention Centre Expansion, and funding towards key projects identified as part of the Townsville City Deal, including the State's contribution to the $250 million North Queensland Stadium.

In addition, Operation Queensland Recovery will help re-build and maintain the productive capacity of regions impacted by recent natural disasters.

A key initiative in the 2017-18 Budget is the $1.8 billion Queensland Housing Strategy over 10 years, to help boost the supply of social and affordable housing in response to population growth and housing affordability pressures.

The program will boost the supply of social and affordable housing to respond to population growth and housing affordability pressures, leverage partnerships with private industry and local governments, and enable reforms to the housing services and support system.

1.4.2 Promoting business investment and exports

In addition to facilitating the provision of productivity enhancing infrastructure, the Queensland Government continues to ensure the State's taxation and regulatory frameworks support business investment, as well as implementing specific policies and initiatives that attract and encourage the growth and development of businesses, industries and trade opportunities.

Over the past decade, private business investment, such as investment in non-dwelling construction and machinery and equipment averaged nearly $45 billion per annum, up from $17 billion in the previous decade in real terms.

This investment supported growth of more than 40% in Queensland export volumes over the decade to 2015-16, with one in every five dollars spent on Queensland produced goods and services coming from international or interstate buyers of our exports. Importantly, many of the State's export-orientated industries also contribute significantly to regional economies.

Given the State's proximity to the rapidly growing Asia-Pacific region, further growth in these key trading partners and the increasing prosperity in developing countries such as China and India will continue to provide trade opportunities through ongoing demand for a range of products and services.

China is now the biggest export destination for Queensland merchandise exports and the largest source of international tourists to Queensland. In the decade to 2016, merchandise exports to China have grown nearly fourfold and spending by Chinese visitors has increased by a factor of seven. Over the same period, merchandise exports to India have more than doubled, while visitor spending from Asian countries other than Japan and China has increased by 90%.

Chart 1.5 Merchandise exports by destination

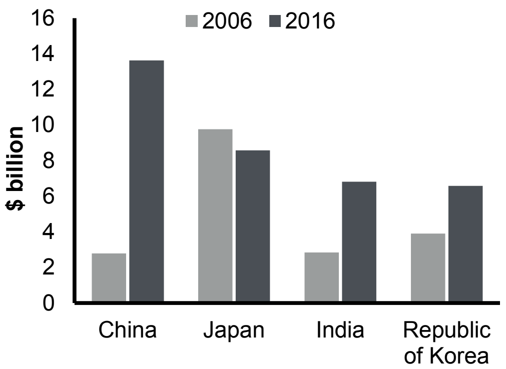
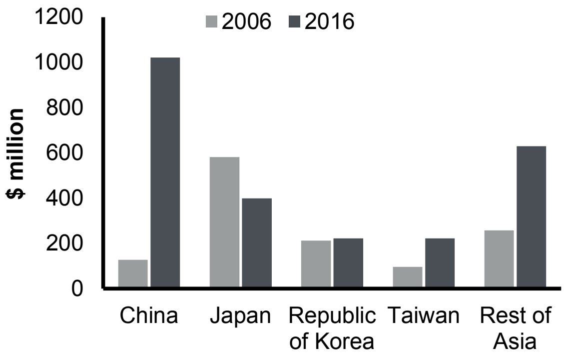


Chart 1.6 Visitor expenditure by Country



Meanwhile, the increasing mobility of innovative high value firms and workers reinforces the need to maintain an environment that attracts and retains business investment, unlocking new markets, facilitating investment, and attracting and creating high value jobs.

The Queensland Government has continued to update and review existing regulatory settings where circumstances change, including significant reforms in the personalised transport market and changes to trading hours which came into effect on 1 December 2016.

The Government has also implemented several initiatives directly aimed at attracting, fostering and facilitating business investment and growth, particularly in regions, including: $130 million Jobs and Regional Growth Fund to facilitate private sector and multi-user infrastructure; $40 million Advance Queensland Industry Attraction Fund to attract businesses to relocate or establish new projects in the State; and $20 million Made in Queensland program to increase the competitiveness of businesses and employment opportunities in the manufacturing industry.

The Government is also supporting a range of large projects that require significant coordination between stakeholders and leverage substantial investment from the private sector, including through Market Led Proposals such as the $512 million enhancement to the Logan Motorway.

Other Market Led Proposals announced include an international Cruise Terminal at Luggage Point and an Aquarium and Maritime Museum at South Bank. Both these projects should support growth in tourism, one of Queensland's major export industries. International and domestic tourists spent more than $27 billion in Queensland in 2016-17 and tourism directly employs more than 135,000 Queenslanders.

Other initiatives already implemented to support growth in tourism include the Connecting with Asia Strategy and the Attracting Aviation Investment Fund, which have already attracted new services and extra flights from several destinations to the Gold Coast, Cairns and Brisbane. Meanwhile, the Government's significant commitment, including an additional $47.1 million in this Budget to revitalise Tourism and Events Queensland to promote Queensland as a tourism destination will play a vital role in continuing to drive tourism growth across the State.

The 2017-18 Budget reinforces the Government's commitment to supporting business investment and trade in a range of other areas. The Budget allocates $175 million over five years to deliver the Great Barrier Reef Water Quality Program as part of the Government's ongoing commitment to protect the Great Barrier Reef, one of the State's great natural tourism assets.

To continue to facilitate economic transition and unlock new opportunities for business and employment growth, the Budget also allocates a further $15 million to develop priority industry roadmaps and action plans.

Box 1.2 Supporting our regions in transition

Regional Queensland, with its abundant natural, agricultural and mineral resources, is a key contributor to the performance of both the State and national economies. Indeed, almost 40% of the State's economic activity and 30% of jobs are in areas outside South East Queensland.

With Queensland having the most decentralised population in mainland Australia, the State comprises a range of unique regional economies with different industry structures, climate, demography and competitive advantages. As such, regions vary in the extent to which they are sensitive to global factors and cyclical or structural changes impacting on key industries.

Therefore, while some regional areas are doing well, others are facing some challenges, particularly those transitioning from traditional mining and agriculture-based economies to broader based drivers of growth.

The importance of supporting regional economies in transition was highlighted recently in the Commonwealth Productivity Commission's (PC) Initial Report on Transitioning Regional Economies, released in April 2017.

The report notes that many factors influence the way regional communities respond to changing economic circumstances, with the most appropriate policy responses depending on the adaptive capacity of individual regions and the nature of changes they face. The study also highlighted that policies should be aligned with a region's strengths and supported by targeted investment to develop the capability of the community to deal with transition and adaptation.

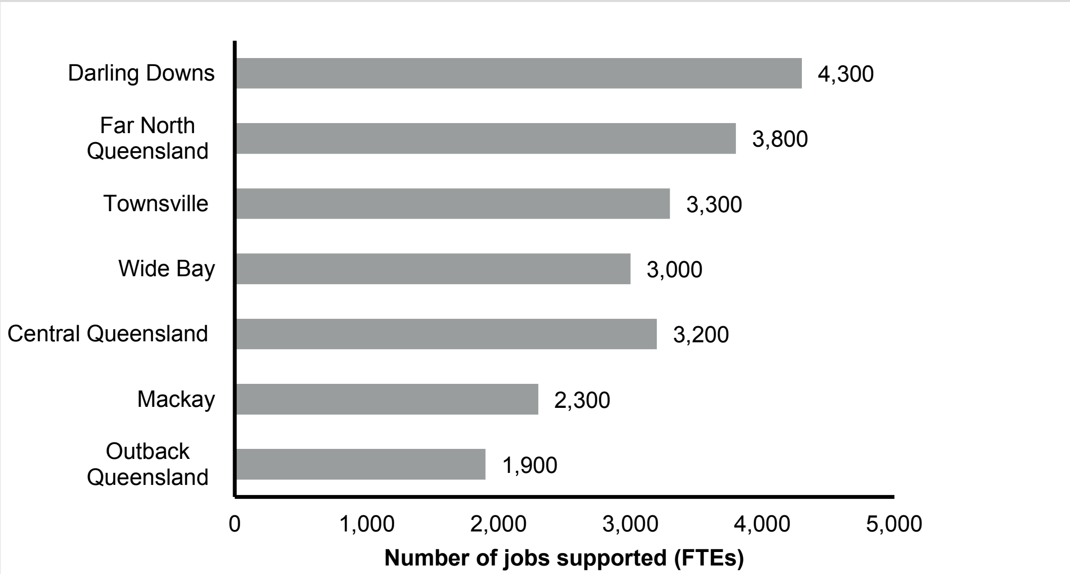
Consistent with the PC's findings, the Queensland Government's existing and 2017-18 Budget initiatives include a range of policies and programs providing support to, and facilitating economic activity in regions impacted significantly by the recent slowdown in mining related activities (such as the North West, Outback and Townsville) as well as regions facing challenges due to ongoing drought or in the wake of recent natural disasters.

These include initiatives aimed at:

- **Facilitating investment and leveraging regional economic strengths and opportunities** - e.g. $200 million Jobs and Regional Growth Package; $375 million Building Our Regions program; the recently launched Advancing Tourism 2016-2020 Strategy to boost tourism exports and attract job-creating investment; $33.5 million Connecting with Asia Strategy to help tap into new opportunities provided by the growing middle class in Asia; and $42.3 million for the Natural Resources Investment Program included in this Budget.
- **Increasing regional employment opportunities and improving the skills and capability of regional jobseekers** - e.g. $177.5 million Back to Work Program; and $240 million Skilling Queenslanders for Work Program.
- **Building the resilience and adaptive capacity of regional communities and economies more broadly** - e.g. $1.1 billion allocated in this Budget to rebuild critical infrastructure in regions impacted by STC Debbie and related flooding; tackling the impacts of ongoing drought through the Drought Assistance Package; and $39 million over four years to deliver initiatives to support the North West Minerals Province, including $27.1 million for the Strategic Resources Exploration Program.

In total, around $4.811 billion of the Government's $10.171 billion capital works program in 2017-18 is dedicated to delivering productive and essential infrastructure in regional Queensland. The capital works program and the implementation of other key existing and 2017-18 Budget initiatives will directly support around 22,000 jobs, predominantly in the private sector, in regional Queensland in 2017-18.

Chart 1.7 Jobs supported by Government initiatives in 2017-18, by region



1.4.3 Optimising the use of our land and natural resources

Queensland has significant endowments of natural resources, including minerals, land, water, reefs and its unique natural landscape and heritage.

Importantly, key industries relying directly on the use of Queensland's land and natural resources are comparatively more important to regional Queensland, with mining, agriculture, forestry and fishing collectively accounting for only 2% of direct total employment in South East Queensland but nearly 12% in the rest of the State.

In addition, the Queensland tourism industry is linked closely to the State's natural assets (e.g. Great Barrier Reef, national parks, beaches and waterways and outback), many of which are located in regional areas.

Major policy areas in which Queensland Government initiatives enhance the economic benefits and employment derived from the use of land and natural resources include land use planning frameworks, environmental regulation and red tape reduction, as well as initiatives relevant to the specific industries reliant on land and natural resources as key inputs to production.

Land use planning initiatives undertaken by the Queensland Government include the introduction of the new *Planning Act 2016*, which will provide the foundation for Australia's best planning system and deliver a transparent and efficient system that contributes to investment and jobs. The Government has also undertaken a review of the South East Queensland (SEQ) Regional Plan 2009-2031 and developed a new statutory regional plan for SEQ, ShapingSEQ, to provide a framework for managing growth over the next 25 years and a vision for the next 50 years in the south-east corner.

Other key initiatives already implemented are designed to enhance environmental regulation and help address the impacts of climate change, including the Reef 2050 Long-term Sustainability Plan, a three year investment in the development of a Queensland Climate Adaptation Strategy (Q-CAS), and development of an effective transition strategy towards a low carbon future.

A number of other significant reforms will help ensure the resources sector continues to be a key contributor to the economy, including a new Tenure Framework, modernising Queensland's mining and resources regulatory framework and development of a Gas Action Plan, as well as the key resources exploration and investment initiative, the Future Resources Program.

The Government has recently announced a Royalties Payment Scheme – a new policy approach for major resource projects for the future development of the Galilee and Surat Coal Basins, Gas Basins and the North West Minerals Province.

For major projects that have completed comprehensive environmental impact assessments at the State and Commonwealth level, the scheme provides for negotiation of agreements with proponents of projects with significant regional employment, royalties and economic opportunity benefits for medium-term deferral of royalty payments.

These agreements are to be subject to security arrangements, royalties being repaid in full including interest costs at the State bond rate. Other key conditions include the provision of third party access to infrastructure or other acceptable economic infrastructure to the State.

The Government has also provided considerable support to agricultural producers through: the Drought Assistance Package to assist farmers affected by financial stress and drought; implementing recommendations from the Biosecurity Capability Review to restore Queensland's biosecurity capability to world's best practice; and provision of extra funding to combat Panama disease and the spread of yellow crazy ants.

The 2017-18 Budget features a range of further initiatives aimed at optimising the use of the State's land and natural resources, including promoting exploration and mining activities through the $27.1 million Strategic Resources Exploration Program. Key elements of this initiative also form part of the Government's overall package of $39 million over four years to deliver initiatives to support the North West Minerals Province, including implementation of the Queensland Government's Strategic Blueprint aimed at facilitating a strong and prosperous future for the region.

In order to protect the State's natural assets to ensure they continue to create wealth for current and future generations of Queenslanders, this Budget also allocates $175 million to improve water quality in the Great Barrier Reef, safeguard and respond to biosecurity related risks, and develop a Climate Change Strategy to assist Queensland to meet its national and international obligations related to CO_2 emissions targets.

The Government's comprehensive Great Barrier Reef Water Quality Program, totalling $175 million over five years, is in addition to the $100 million provided in 2015-16 to address the recommendations arising from the Great Barrier Reef Water Science Taskforce.

The Budget also includes $40 million to revitalise and leverage value from our national parks through increased tourism and other activities.

1.4.4 Fostering entrepreneurship and innovation

Entrepreneurship and innovation are key drivers of economic growth, increased productivity and improvements in Queenslanders' living standards and wellbeing.

Innovation relates to the development, adoption and application of new ideas to improve the quality and quantity of production of goods and services while entrepreneurs play a special role in the diffusion of innovation and bringing new ideas and processes to market. Therefore, innovation and entrepreneurial endeavours create additional employment opportunities and enhance the skills and knowledge of the workforce.

A key driver of innovation is increased competition. Therefore, the Government's ongoing focus on ensuring the State's regulatory and policy frameworks create and sustain an environment conducive to business investment and confidence will also help support the ongoing development, adoption and diffusion of innovative approaches and technology throughout the State's traditional and new industries.

The Queensland Government has also made a significant commitment to driving innovation and entrepreneurship through the Advance Queensland suite of programs, based on international evidence of 'what works' to create the knowledge-based jobs of the future.

This includes commercialisation and co-investment programs, such as the Business Development Fund (BDF) that assist businesses in turning new ideas into viable businesses, connecting them with international and interstate expertise, and helping raise the State's profile as an investment destination.

To date the BDF has invested over $10.9 million in 10 innovative Queensland based businesses. These businesses are at the forefront of commercialising cutting edge research or innovative ideas, products or services.

The Government has also developed, or is developing in conjunction with industry stakeholders, strategic 10-year industry roadmaps for a number of future focused and innovation-intensive priority industries, including Biofutures and Advanced Manufacturing, to ensure these industries have a bright future in Queensland.

The 2017-18 Budget includes additional funding of $15 million over four years to further develop the priority industry roadmaps and action plans in order to support emerging and priority sectors to maximise their innovation potential. This measure builds on the existing Advance Queensland investment in innovation, skills, education, business development and a start-up culture, delivering knowledge-based jobs now and into the future.

This takes the Palaszczuk Government's total Advance Queensland commitment to $420 million, positioning Queensland as the place to turn great ideas into reality. Meanwhile, $10 million is being redirected into the successful Ignite Ideas Fund, with almost $16.5 million invested to date in 118 innovative small firms.

Through key elements of the Advance Queensland program and other new initiatives specifically targeting teaching and learning, the Government is also ensuring the State's future workforce is 'innovation ready', such as building the skills, creativity and technical ability of Queenslanders to drive innovation in the future, as well as helping develop, attract and retain world-class scientific talent.

1.4.5 Growing our human capital

Human capital represents the skills, knowledge and capacity embedded in Queenslanders. A more educated, skilled, flexible and healthier workforce, such as a greater quality and quantity of human capital will ensure the State is well positioned to realise improvements in productivity and competitiveness, driving economic growth and higher real incomes, resulting in improved living standards for Queensland families and communities.

A more skilled and flexible workforce is also likely to see people remain engaged in the labour market for longer and transition better into new forms of employment when cyclical or structural changes alter the mix of skills and knowledge required across the economy.

The Queensland Government has played a significant role in helping Queenslanders back into work through initiatives such as the Skilling Queenslanders for Work and Back to Work programs. In particular, these programs support persons from cohorts that often face barriers to entering the labour force, including youth, long-term unemployed and other disadvantaged groups, building their skills and incentivising employers to employ these jobseekers.

In addition, initiatives such as the Apprentice and Trainee Payroll Tax Rebate and Queensland Government Building and Construction Training Policy provide incentives for businesses to take on workers and help build the stock of qualified and skilled Queenslanders for the future.

In the longer term, ongoing development of a more skilled workforce in Queensland will be supported through Jobs Queensland, an independent statutory authority to provide advice to Government on skills demand and long-term workforce planning in Queensland. Other measures implemented to strengthen the Vocational Education and Training (VET) sector, as outlined in the 2016-17 VET Investment Plan and Rescuing TAFE initiative, will also drive enhanced vocational skills and training in the longer term.

To ensure Queenslanders have the health, education, skills and capabilities necessary to enter, participate effectively and remain in the labour market, the Government continues to commit significant funding and introduce a range of new initiatives to ensure continuous improvement in Queensland's world class health and education systems.

Key measures in the 2017-18 Budget to help promote education and training, thereby enhancing the productivity and skills of Queensland's current and future workforce, include:

- $500 million Building Future Schools Fund - to address enrolment growth pressures in state schools
- $250 million Six Full Cohorts 2020 Ready - building the essential education infrastructure needed to cater for the 17,000 additional students expected in 2020
- $200 million in additional funding to build fit for purpose learning environments that support educational outcomes
- $150 million Advancing Teaching and Learning - for investment in teacher attraction, quality and leadership
- $10 million Regional Skills Adjustment Strategy - additional funding over two years to support unemployed individuals to develop employability skills for jobs in demand, jobs pathway planning and to provide access to training at TAFE Queensland
- $1.2 million Enhanced Youth Employment Program - additional funding over three years to secure sustainable employment for Aboriginal and Torres Strait Islander youth.

The 2017-18 Budget also includes a range of other significant investments to help improve health outcomes and build workforce flexibility and resilience including:

- $208.4 million in additional funding over four years for essential upgrades to health facilities and supporting infrastructure in rural and regional areas across the State
- $131.8 million over four years as an initial investment to enhance public hospital capacity and services in South East Queensland, including the expansion of the emergency department at Caboolture Hospital and detailed planning and preparatory works for proposed redevelopments at Logan, Caboolture and Ipswich hospitals
- $68.9 million in additional funding over four years to establish a new Adolescent Extended Treatment Facility at The Prince Charles Hospital, two new adolescent Step Up Step Down units in Brisbane, and refurbishment of two adolescent Day Program spaces at Logan and the Gold Coast.

1.4.6 Leading an innovative, active and responsive public sector

Historically, the State Government has accounted for around 13% of total economic activity in Queensland and a similar proportion of the State's employment. In addition to being a large employer itself, the Queensland Government indirectly supports ongoing private sector business activity and jobs through both the procurement and delivery of significant goods and services.

Therefore, the Queensland Government is committed to leading the way in terms of driving productivity and economic growth through responsible and sustainable fiscal management, as well as innovative approaches to improving the efficiency and effectiveness of procurement and delivery of essential services.

The Queensland Government has already introduced a number of major innovative reforms to streamline, modernise and improve the way the government delivers and facilitates investment in infrastructure and delivers its services.

These include the Market Led Proposals initiative to facilitate a range of large, complex projects and leverage substantial investment from the private sector, and the Social Benefit Bonds initiative, which has resulted in new and innovative approaches to tackling complex social and economic challenges, including initial pilot programs being negotiated and implemented in the areas of reoffending, reducing Indigenous disadvantage and homelessness.

The Government's proactive response to address issues raised by business and the community has included the substantial progress made in implementing the One-Stop Shop program, making it simpler and easier for people to access the information and government services they need, with around 250 new and/or improved services now available online.

In the 2017-18 Budget, the Government has provided increased funding of $31 million over two years to continue the One-Stop Shop program which is focused on delivering improvements to frontline services, encouraging innovation and better services for citizens and businesses.

Increased funding of up to $20 million in 2017-18 is also provided for the continuation of the Drought Relief Assistance Scheme (as part of a total Drought Assistance Package of up to $34.6 million in 2017-18). This funding provides freight subsidies and emergency water infrastructure rebates to support producers and communities affected by drought across the State.

The Government is also providing increased funding of $23.3 million over four years to enhance the delivery of environmental regulatory services, to target areas of environmental risk and improve engagement with industry and the community.

Another key focus of the 2017-18 Budget is to protect vulnerable Queenslanders and enhance social cohesion and safety in communities through a range of measures, including:

- $69.5 million to continue the specialist domestic and family violence court at Southport and roll out courts in Beenleigh and Townsville, including circuit courts to Mount Isa and Palm Island, as part of the Government's ongoing implementation of its response to Not Now, Not Ever report
- $18 million over four years to tackle the harmful use and effects of crystal methamphetamine (Ice) in Queensland, with measures that increase awareness, support families and better equip frontline service providers

- $141.8 million over four years to further strengthen Queensland's child protection system, taking total new funding for child safety to $200 million since the 2016-17 Budget
- an additional $46.7 million towards the Westgate Counter-Terrorism and Safety Training Centre.

The 2017-18 Budget also sees a continued commitment by the Queensland Government to institutional and other reforms to further enhance the integrity and efficiency of the State’s electoral processes. As such, this Budget provides additional funding to the Electoral Commission to invest in a new Electoral Management system.

The Government’s innovative, proactive and responsive approach to enhance safety, security and social cohesion will directly improve the quality of life enjoyed by all Queenslanders.

In addition, combined with the initiatives in each of the other key policy channels outlined in this chapter, these measures will contribute to the more efficient and productive utilisation of the State’s natural, fiscal and human resources, leading to increased productivity, growth and jobs.

Therefore, in line with the economic plan, the 2017-18 State Budget will deliver opportunities and improved employment outcomes for Queenslanders by supporting the recovery, transition and growth of businesses and communities across the State.

2 Economic performance and outlook

Features

- Following an unprecedented resources investment boom, the Queensland economy continues its transition to more broad-based growth, with STC Debbie also expected to have a considerable impact.
- Reflecting these trends, overall growth in the Queensland economy is forecast to strengthen across the forward estimates, from 2.4% in 2015-16, to 2¾% in both 2016-17 and 2017-18.
- GSP growth is forecast to strengthen further to 3% in 2018-19, with an anticipated recovery in business investment and a solid contribution from public sector capital spending supporting stronger domestic activity, as LNG exports plateau.
- Based on forecasts by Australian Treasury, this is stronger than expected Gross Domestic Product (GDP) growth nationally of 1¾% in 2016-17 and in line with it in 2017-18 and 2018-19.
- As growth becomes more broad based across the major components of domestic demand, growth in Queensland is expected to remain in line with national growth in the projection years, at 3%.
- If the improvement in commodity prices is sustained and projects such as Adani's Carmichael coal mine proceed, then investment in resources and exports will strengthen, potentially boosting Queensland economic growth rates and State revenues.
- Queensland growth forecasts for 2016-17 and 2017-18 would have been higher, but for the impact of STC Debbie, which is estimated to have detracted around $2 billion or ¾ percentage point from growth across these two years.
- Major impacts from STC Debbie include the loss of around 10 million tonnes of coal exports due to damaged rail infrastructure, around $300 million of losses to sugar exports and a considerable hit to tourism in the Whitsundays region.
- In recent years, strong growth in the housing sector has supported construction employment during the downturn in mining and LNG investment. This growth has been primarily driven by a surge in the construction of units and apartments in Inner City Brisbane, Brisbane South and Gold Coast.
- While the substantial amount of construction work still in the pipeline will see new dwelling construction activity reach a cyclical peak in 2016-17, the recent large fall in building approvals suggests new dwelling construction will fall in 2017-18 and 2018-19.
- Subdued real wages growth, together with population growth in line with national estimates and the easing in the dwelling sector, is expected to result in modest household consumption growth.

- Business investment continues to adjust in 2016-17 from the record levels experienced during the LNG construction boom. With construction of the third and final LNG project completed in late 2016, engineering construction has stabilised.
- Despite bright spots in the tourism, education and CSG sectors, subdued growth in overall domestic activity suggests the immediate incentive to invest remains muted. Reflecting these trends - and consistent with the national growth profile - business investment in Queensland is expected to be broadly unchanged in 2017-18, before returning to moderate growth from 2018-19 onward.
- Overseas exports are expected to grow solidly over the forecast period, between 3% and 4% per annum. In addition to the long expected ramp up in LNG exports, coal exports are expected to recover from the fall in 2016-17 induced by STC Debbie.
- Overall export growth is also expected to be supported by growing services exports such as tourism and education, driven by a competitive exchange rate and growing demand from Asian markets.
- Following employment growth of 0.7% through the year to June quarter 2016, measured employment has been quite volatile during the current financial year, easing early in the year, but picking up since late 2016. Reflecting this recent momentum, employment in Queensland is forecast to be 1¼% higher over the year to June quarter 2017.
- Better prospects for mining, construction, agriculture and tourism operators have seen a welcome improvement in regional labour market conditions. However, the impacts of recent metal mine closures and cutbacks by processors are still being felt, particularly in Townsville and the north west of Queensland-Outback.
- Consistent with the improvement in overall domestic activity, employment growth is also expected to strengthen to 1½% in the year to June quarter 2019. After a period of stabilisation, these trends are also expected to see the unemployment rate decline to 6% by this time.

2.1 External environment

2.1.1 International conditions

Queensland's major trading partners as a whole are expected to grow 3¾% in 2017, similar to the rate of growth in the previous year. Growth is forecast to remain broadly at that rate over the forecast period (see Table 2.1). A continuing moderation of China's economic growth outlook is expected to be balanced by more positive economic prospects for India, Korea and, to a lesser degree, the Euro Zone.

Table 2.1 Queensland's major trading partners' economic outlook[1]

	Actual	Forecasts				
	2016	2017	2018	2019	2020	2021
Major trading partners	3.8	3¾	3¾	3¾	3½	3¾
China	6.7	6½	6¼	6	6	5¾
Japan	1.0	1¼	½	¾	¼	¾
Korea	2.8	2¾	2¾	3	3	3
India[2]	6.8	7¼	7¾	7¾	8	8
Other Asia[3]	3.4	3½	3½	3¾	3¾	3¾
Europe	1.8	1¾	1½	1½	1½	1½
UK	1.8	2	1½	1½	2	2
US	1.6	2¼	2½	2	1¾	1¾

Notes:

1. Annual percentage change. Decimal point figures indicate an actual outcome.
2. India's growth profile is based on an April to March fiscal year. '2016' refers to 2016-17 fiscal year.
3. Includes New Zealand.

Sources: International Monetary Fund World Economic Outlook, April 2017 and Queensland Treasury.

The US economy grew 1.6% in 2016, lower than the 2.6% recorded in 2015 and 2.2% growth predicted by the International Monetary Fund (IMF) in July 2016. While consumers in the US were more inclined to spend as their job prospects improved, business investment recorded its first decline since 2009, while growth in residential investment slowed in 2016. A stronger US$ also saw exports largely flat in both 2015 and 2016.

US economic growth is expected by most analysts to strengthen to around 2.2% - 2.4% in 2017 and 2.3% - 2.5% in 2018. This outlook is based on anticipation of ongoing improvement in labour market conditions, which should boost household income and confidence, while a rebound in corporate profits should see business investment return to growth. Nevertheless, some of this optimism is based on the implementation of President Trump's election commitments of an increase in government spending and corporate tax cuts.

Euro Zone monetary policy remains extremely accommodative, supporting economic recovery. Euro Zone economic growth was 1.8% in 2016, following a 2.0% rise in 2015. The unemployment rates across almost all member countries of the Euro Zone fell over the year to March 2017.

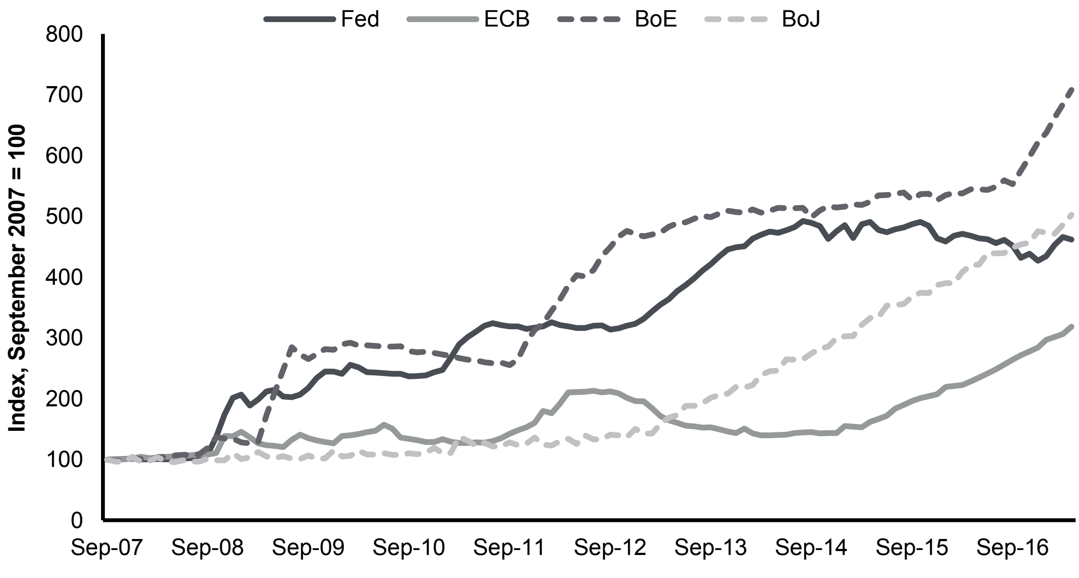
The European Central Bank (ECB) has forecast the region's GDP will grow at 1.8% in 2017, before moderating slightly to 1.6% in 2019. Continuing quantitative easing by the ECB should support domestic demand while the lower Euro exchange rate should assist growth in exports. Similar optimism is shared by the IMF and the OECD, with both organisations forecasting the Euro Zone to grow at between 1.6% and 1.7% per annum in 2017 and 2018. However, financial vulnerability continues to be a concern, with the region's banking sector still struggling with high levels of non-performing loans and low profitability. This is compounded by the Brexit process and potential political uncertainty following European elections.

China's economic growth has come off from unsustainably high rates in recent years, as the Chinese government places greater emphasis on reducing income inequality, reforming various industries and managing financial risks to the country's banking sector.

While reform of the country's coal and steel industries continues in 2017, the Chinese government appears to be inclined to adopt a more market-oriented approach in pursuing further reductions in excess capacity in these industries. The market consensus is that the government's effort to rebalance and reform the Chinese economy will lead to further moderation in headline economic growth in coming years.

Supported by accommodative fiscal and monetary policies, the Japanese economy is expected to maintain its momentum in 2017. However, Japan's economic growth is expected to moderate in the medium term. This reflects the continued decline in the country's population, which is limiting potential growth, together with a scheduled consumption tax hike and an anticipated peak in Olympic Games related construction activity by late 2019. Closely related to a declining population is the ongoing moderation in productivity growth in Japan.

Chart 2.1 Monetary Base in the US, Euro Zone, UK and Japan



Sources: The Federal Reserve, European Central Bank, Bank of England and Bank of Japan.

2.1.2 National conditions

The Australian economy continues its transition away from resources investment towards broader-based growth. Activity is being supported by the Reserve Bank of Australia's (RBA) continued accommodative monetary policy stance, with historically low interest rates keeping borrowing costs low for businesses and households.

Australian Treasury forecasts GDP growth to slow to 1¾% in 2016-17, partly reflecting the impact of a number of weather-related events, including STC Debbie. Economic growth is forecast to rebound to 2¾% in 2017-18 and 3% in 2018-19 (see Table 2.2).

Historically low wage growth continues to constrain income growth and any rebound in household consumption is likely to be modest. To the extent that Australian Treasury's forecast decline in the household savings rate does not eventuate, economic growth outcomes will be more modest.

Business investment is forecast to continue its decline in the near-term. The unwinding of resources investment from unprecedented levels is now mostly complete, with its drag on the broader economy expected to wane from 2017-18. Meanwhile, strengthening demand and low financing costs should provide support for non-resources investment. However, as with Queensland, the pace and the timing of the anticipated pick up in non-resources business investment continues to be a key source of uncertainty for the outlook.

Dwelling investment rose substantially in 2015-16, and is expected to continue to grow in the near-term, supported by a strong pipeline of residential construction work yet to be done. However, given the recent fall in dwelling approvals, dwelling investment is expected to grow only marginally in 2017-18 and decline in 2018-19.

Exports are expected to remain a key driver of GDP growth in the coming years, with the last of the iron ore and LNG projects forecast to complete their ramp-up to full capacity by 2018-19. Strong demand from Asia and the lower exchange rate (since its peak in 2011) are expected to drive rapid growth in service exports such as education and tourism.

National labour market conditions have softened recently, with most of the improvements in employment growth driven by part-time workers. Despite a modest rise in the unemployment rate, Australian Treasury believe improvements in leading indicators, such as job advertisements, vacancies and business survey measures, suggest labour market conditions may improve in the near-term.

Australian Treasury forecasts moderate employment growth over the forecast period. As a result, the unemployment rate is forecast to gradually decline, consistent with a recovery in GDP growth.

Table 2.2 Australian Treasury national economic forecasts

	Actual[1]	Estimate	Forecasts		Projections	
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
GDP[2]	2.6	1¾	2¾	3	3	3
Employment[3]	1.9	1	1½	1½	1½	1½
Unemployment rate[4]	5.7	5¾	5¾	5½	5½	5¼
Inflation[5]	1.0	2	2	2¼	2½	2½
Population[6]	1.4	1½	1½	1½	1½	1¾
Terms of trade	-10.2	16½	-2¾	-4¼	n.a.	n.a.

Notes:

1. Calculated using original data unless otherwise indicated.
2. Per cent change on previous year. CVM, 2014-15 reference year.
3. Seasonally adjusted, through-the-year growth rate to the June quarter.
4. Seasonally adjusted rate for the June quarter. Actual outcome for 2015-16.
5. Through-the-year growth rate to the June quarter.
6. Through-the-year growth rate to 31 December.

Sources: ABS 3101.0, 5206.0, 6202.0, 6401.0 and the 2017-18 Australian Government Budget.

2.1.3 Assumptions

Forecasts for the Queensland economy are based on a number of assumptions, including the RBA's monetary policy stance, the A$ exchange rate, the crude oil price and seasonal conditions over the forecast period. In particular:

- The RBA is assumed to maintain the cash rate at its current historically low level in the near-term, before beginning to gradually normalise monetary policy in the medium term.
- The value of the A$ is assumed to be broadly unchanged against the US$ across the forecast period.
- While the promise of production cuts from OPEC and a production freeze from Russia have boosted the oil price, additional supply from the US will temper upward pressure on prices. Therefore, crude oil prices are assumed to only gradually increase over the forecast period.
- The Bureau of Meteorology is estimating around 50% chance of an El Niño weather event developing later in 2017, which is typically associated with below average rainfall throughout Queensland. Reflecting these risks, some deterioration in seasonal conditions has been factored into the forecasts.

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

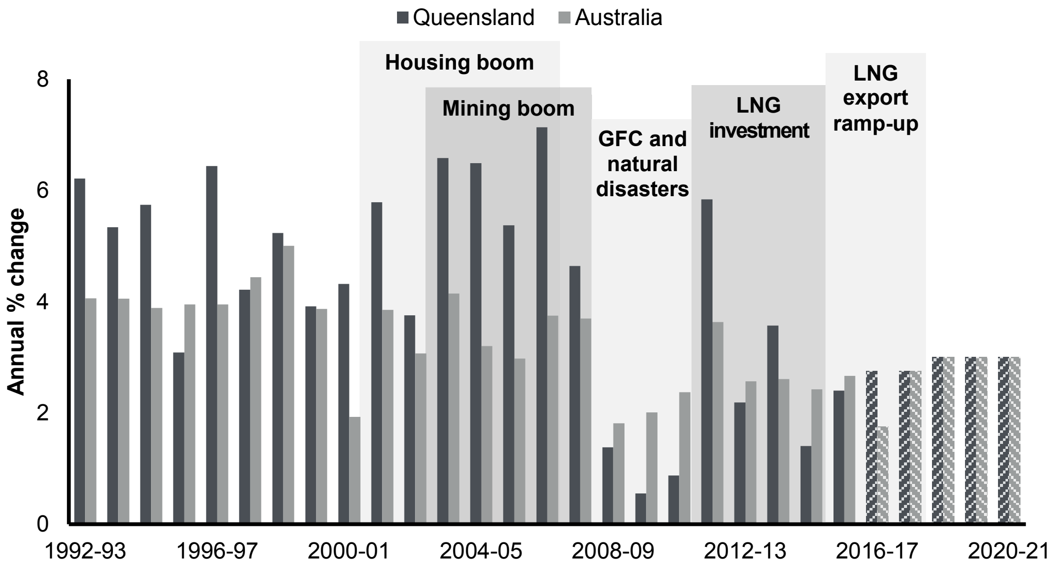
2.2 Queensland economy

2.2.1 Summary of conditions and outlook

Queensland's economic growth is estimated to strengthen to 2¾% in both 2016-17 and 2017-18, with the ramp-up in LNG shipments continuing to boost overseas exports. This improvement is despite the impact of STC Debbie, which is estimated to have detracted around ¾ percentage point from economic growth across these two years. GSP growth is forecast to strengthen further to 3% in 2018-19, with an anticipated recovery in business investment and a solid contribution from public sector capital spending supporting stronger domestic activity, as LNG exports plateau.

With the exception of the period of the GFC and natural disasters, Queensland has traditionally recorded economic growth rates above that nationally, underpinned by sustained resources sector investment and exports, as well as stronger population growth (see Chart 2.2). With these trends becoming less dominant and as growth becomes more broad-based across the major components of domestic demand, growth in Queensland is expected to remain in line with national growth in the projection years, at 3%.

Chart 2.2 Economic growth[1], Queensland and Australia



Note:

1. CVM, 2014-15 reference year, 2016-17 onwards are forecasts, 2019-20 and 2020-21 are projections.

Sources: ABS 5206.0, Australian Government Budget 2017-18 and Queensland Treasury.

STC Debbie is estimated to have resulted in a loss to economic output of around $2 billion, or ¾ percentage point of GSP (see Box 2.1). Key sectors impacted include coal exports and agriculture, as well as tourism in the Whitsundays. Losses will be spread across several financial years, but predominantly in 2016-17 and, to a lesser extent, 2017-18.

Modest labour market outcomes, the transition to lower-wage non-resource sectors, and a fall in Queensland's terms of trade in recent years have constrained growth in wages and incomes. As a result, consumption growth remains subdued in 2016-17, despite low interest rates and an increase in household wealth.

The surge in apartment construction in the South East is underpinning growth in new and used dwelling construction for the fifth consecutive year in 2016-17. However, subdued income growth has constrained alterations and additions activity, resulting in a marginal decline in total dwelling investment in 2016-17. Further, with substantial new supply of apartment stock coming on line in Inner City Brisbane, prices and rents have softened in some markets, and affordability improved. This has resulted in approvals for this segment of the market falling and so total dwelling investment is forecast to ease further in 2017-18 and 2018-19, before slowly recovering.

This decline in dwelling investment is forecast to temper growth in consumption of household goods. With wages and income growth expected to remain constrained, household consumption is expected to grow moderately in these two years. As labour market conditions improve, household consumption growth is expected to pick up later in the forecast period, but population growth of 1½% will keep consumption growth well below historical averages.

Business investment continues to adjust following the completion of LNG construction in late 2016, and is expected to decline in 2016-17. While there have been positive signs in relation to investment projects in the tourism and education sectors due to the lower A$ and growing demand from Asia, these are not expected to fully offset the decline in resources investment. As a result, and in line with the national outlook, business investment is expected to be broadly unchanged in 2017-18 before returning to moderate growth across the remainder of the forecast period.

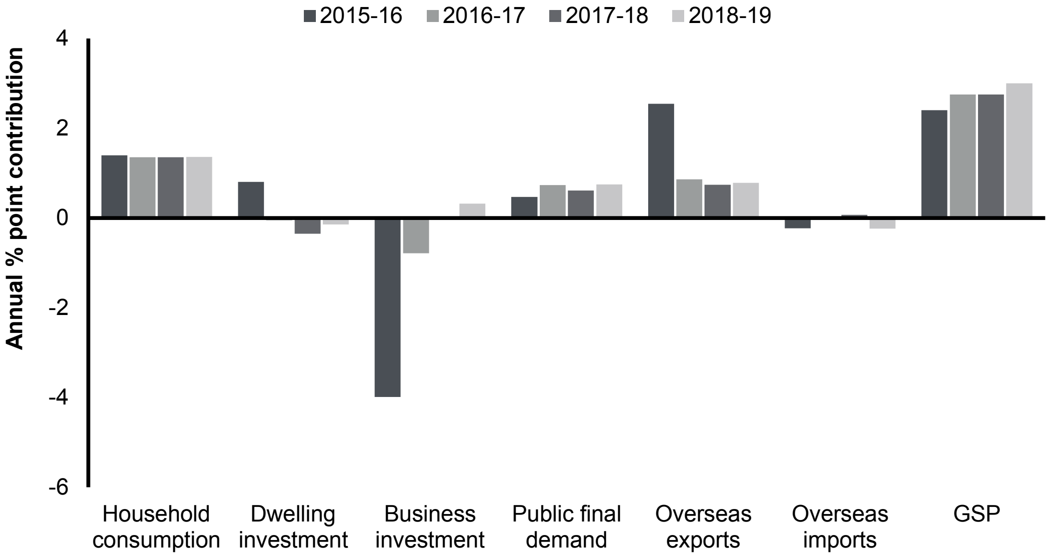
If the improvement in commodity prices is sustained and projects such as Adani's Carmichael coal mine proceed, then investment in resources will strengthen and business investment would be higher than currently forecast.

The trade sector continues to be a key contributor to Queensland's GSP growth in 2016-17 (Chart 2.3), particularly LNG exports. While higher prices are boosting nominal returns, real growth in coal and metals exports is expected to be modest over the forecast period. Similarly, with LNG plants approaching production capacity, LNG exports are expected to plateau from 2018-19 onwards. Overall export growth is also expected to be supported by growing services exports such as tourism and education, boosted by a sustained lower A$ and growing demand from Asian markets. From around ¾ percentage point in both 2016-17 and 2017-18, the contribution from net exports is forecast to moderate across the remainder of the forecast period, as the recovery in household and business spending leads to a strengthening in imports.

Following employment growth of 0.7% through the year to June quarter 2016, measured employment has been quite volatile during the current financial year, easing early in the year, but picking up since late 2016. While in year average terms employment growth will most likely be flat in 2016-17, this recent momentum in employment is better observed in (seasonally adjusted) through the year terms, which is expected to be around 1¼% higher over the year to June quarter 2017.

The unemployment rate is estimated to have fallen slightly to 6¼% in June quarter 2017, with a participation rate that is expected to stabilise at around pre-mining boom levels. With a moderation in key labour intensive sectors in coming years, employment growth is likely to remain modest, as is the case nationally. After a period of stabilisation, Queensland's unemployment rate is expected to fall to 6% by June quarter 2019, consistent with stronger state final demand and employment growth by this time.

Chart 2.3 Contributions to growth in Queensland's gross state product[1]



Note:

1. CVM, 2014-15 reference year, 2016-17 onwards are forecasts.

Source: Queensland Treasury.

Table 2.3 outlines the detailed components of GSP for the Actual 2015-16 outcome, the Estimated Actual 2016-17 outcome and the 2017-18 and 2018-19 forecast period.

Table 2.3 Queensland economic forecasts[1], by component

	Actual	Est. Act.	Forecasts	
	2015-16	**2016-17**	**2017-18**	**2018-19**
Economic output[2]				
Household consumption	2.4	2¼	2¼	2¼
Private investment	-13.3	-3½	-1¾	1¼
Dwelling investment	14.5	-1	-5¾	-2¾
New and used	18.5	1¾	-10	-6
Alterations and additions	8.9	-5	1	2¼
Business investment	-26.0	-7	0	3¼
Non-dwelling construction	-32.1	-11¼	-1½	3½
Machinery and equipment	-14.6	-1	1¾	2¾
Private final demand	-2.2	¾	1¼	2
Public final demand	2.1	3¼	3	3¼
Gross state expenditure	-1.4	1½	1½	2¼
Net overseas exports[3]	2.3	¾	¾	½
Overseas exports	12.2	3¾	3¼	3¼
less Overseas imports	1.4	¼	-½	1½
Gross state product	2.4	2¾	2¾	3
Nominal gross state product	2.4	11¾	4	3¼
Other economic measures				
Employment[4]	0.7	1¼	1	1½
Unemployment rate[5]	6.4	6¼	6¼	6
Inflation[6]	1.6	1¾	2	2¼
Wage Price Index[6]	1.9	2	2¼	2½
Population[6]	1.3	1½	1½	1½

Notes:

1. Unless otherwise stated, all figures are annual percentage changes.
2. CVM, 2014-15 reference year, except nominal GSP. Components not separately reported are other investment (cultivated biological resources, intellectual property products and ownership transfer costs), the balancing item (including interstate trade and inventories) and the statistical discrepancy.
3. Goods and services, percentage point contribution to growth in gross state product.
4. Through-the-year growth rate to the June quarter (seasonally adjusted). This is the same basis as calculated for national employment growth in the Australian Government Budget. The comparable growth rates in year average terms are 1.6%, 0%, 1¼% and 1½% from 2015-16 through to 2018-19.
5. Seasonally adjusted rate for the June quarter.
6. Annual percentage change, year-average.

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

Box 2.1 Impacts of Severe Tropical Cyclone (STC) Debbie

On Tuesday 28 March 2017, Category 4 STC Debbie crossed the Queensland coast around Airlie Beach, then tracked southwest over the next few hours before being downgraded to a tropical low the following day.

STC Debbie inflicted significant structural damage to properties in the Whitsunday Islands, Airlie Beach and Proserpine and dumped a substantial amount of rainfall across the central coast, highlands and coalfields all the way down to the southeast coast regions of Queensland and into New South Wales.

STC Debbie caused damage and distress to households, businesses and public facilities, and the recovery and repair will take an extended time.

This assessment is focused on estimating the impact of the cyclone on overall economic output (as measured by GSP).This primarily involves examining any impact on Queensland's resources and agricultural production, as well as on the State's tourism sector.

Impacts on the State Budget, including the costs to rebuild damaged roads and local government infrastructure, providing assistance to individuals, families and businesses impacted by the disasters, are addressed in Chapter 3.

Overall, the loss to economic output due to STC Debbie is estimated to be around $2 billion or ¾ percentage point of GSP. Losses will be spread across several financial years, but predominantly in 2016-17 and 2017-18.

Key sectors impacted include coal exports and agricultural production, as well as tourism in the Whitsundays.

Coal Exports

Unlike the 2010-11 natural disasters, when losses were estimated to have reached $6 billion largely due to mine flooding, there have been no reports of substantial damage to mines or ports infrastructure.

The largest impact on coal exports was damage to rail networks, which included:

- The Goonyella network, closed from 28 March to 26 April.
- The Blackwater network, closed from 29 March to 10 April.
- The Moura network, closed from 29 March to 12 April.
- The Newlands network, closed from 28 March to 13 April.

Overall, the effect of these closures is estimated to result in a net loss in exports of around 10 million tonnes in June quarter 2017, with approximately two-thirds hard coking coal and the remainder thermal coal.

Agriculture

The Mackay-Isaac-Whitsunday region is a significant agricultural region, with $1.1 billion of agricultural production in 2014-15, 9.4% of the Queensland total. The region's most valuable agricultural products in that year were beef ($485 million), sugar ($354 million), vegetables ($176 million) and grain sorghum ($64 million).

Looking at losses from previous similar events, such as STC Ului in 2010, Queensland Treasury expects losses in the nominal value of sugar exports due to STC Debbie to be around $300 million in the 2018 calendar year. Sorghum exports are expected to be reduced by $37 million in 2017-18. However, better water availability is expected to boost wheat and chickpea exports in 2018 and dried shelled beans exports in 2017-18. In addition, despite some impact on fences and other farm infrastructure, graziers in the affected regions largely welcomed the rain accompanying STC Debbie, which in the longer term will assist herd rebuilding following a sustained period of drought.

Tourism

STC Debbie directly impacted the Whitsundays tourism region, including Airlie Beach and Whitsunday Island resorts.

Overnight visitors spent an estimated $709 million in the Whitsundays region in 2016 (3.6% of the Queensland total), including spending by 243,000 international and 396,000 domestic tourists.

While no firm estimates of losses have been produced by the industry, Queensland Treasury assumes losses to overseas and interstate tourism of approximately $150 million. The loss of key resort capacity includes:

- Hamilton Island: No significant structural damage. Partially re-opened on 8 April, then gradually to return to full capacity from August 2017.
- Daydream Island: Decided to bring forward $50 million redevelopment. Reopening in mid-2018.
- Hayman Island: Closed and unable to accept new reservations until mid-2018.

Household consumption

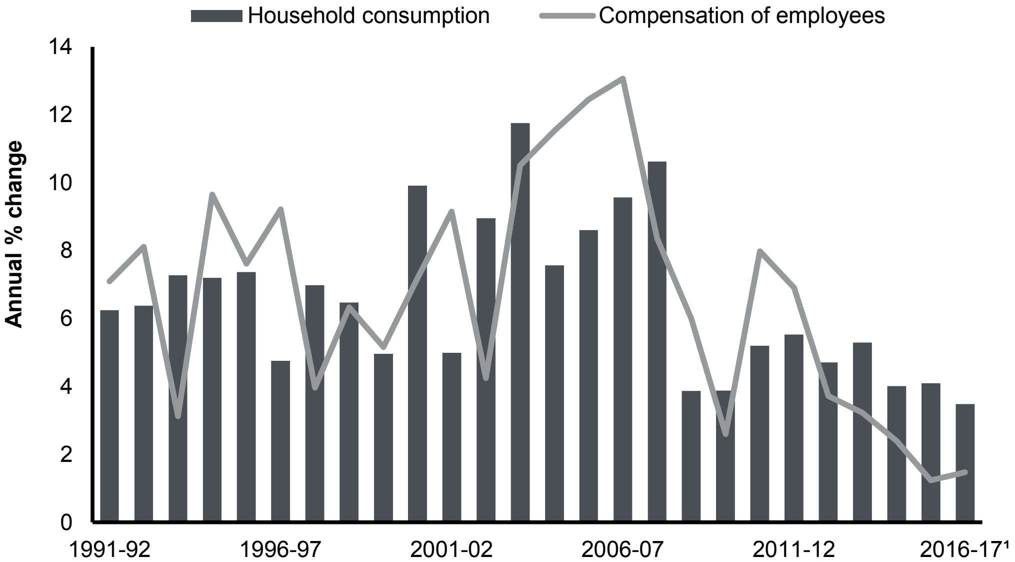
Household consumption growth has remained below its historical average since the GFC, constrained by moderate growth in household incomes.

Subdued labour market conditions and falls in the terms of trade in recent years have limited income growth, with compensation of employees growing at 1.3% in 2015-16 (Chart 2.4). With the resources sector now entering the more capital intensive export phase, associated employment has fallen following the investment boom. Aggregate income growth has also been impacted by jobs growth shifting towards the services sector, which generally has lower average earnings.

Higher commodity prices this year, particularly for coal, have seen an increase in the terms of trade which may provide some support for growth in household incomes and spending in 2016-17. This effect is likely to be relatively mild and transitory, as markets adjust following temporary spikes in coal prices. Looking ahead, the outlook for wages and employment growth, as well as modest population growth, is likely to keep household consumption growth below its historical average over the forecast period.

In recent years, a sustained period of very low interest rates has stimulated strong growth in dwelling investment, which in turn has provided some support to household spending. However, with new dwelling construction expected to reach its cyclical peak this year, the next few years will likely see some moderation in dwelling-related consumption spending, such as household goods and furnishings.

Chart 2.4 Nominal household consumption and compensation of employees, Queensland



Note:

1. 2016-17 is the first three quarters of the financial year compared with the same period the previous year.

Source: ABS 5206.0.

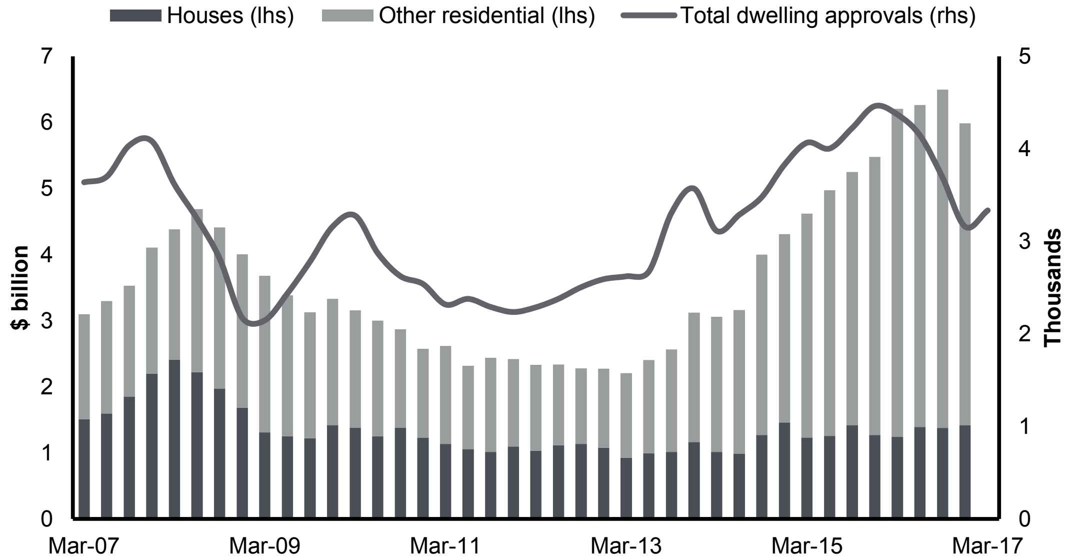
Dwelling investment

Following aggregate growth of 36.5% over the previous two financial years, new dwelling construction in Queensland is expected to peak in 2016-17. Growth has been driven by construction of units and apartments in Inner City Brisbane, Brisbane South and Gold Coast. This activity has been supported by a sustained period of low interest rates and strong investor interest, particularly given Brisbane's higher rental yields compared with Sydney and Melbourne.

The large number of completions in recent years has increased risks of an oversupply in apartments in Brisbane. This strong supply response has led to an easing in prices and weak rental price growth for medium-to-high density dwellings. Consequently, dwelling approvals in Queensland, and across most states, have fallen considerably from recent peak levels.

While the substantial amount of construction work still in the pipeline will see new dwelling construction activity reach a cyclical peak in 2016-17, the recent large fall in approvals suggests this component will ease in 2017-18 and 2018-19 (Chart 2.5). Alterations and additions activity is expected to fall in 2016-17, driven by modest population, employment and wages growth. However, this component is expected to return to modest growth from 2017-18 onwards. This will partly offset the expected fall in new dwelling construction activity.

Chart 2.5 Value of work yet to be done by type[1] and dwelling approvals[2], Queensland



Notes:

1. Nominal, quarterly. March quarter 2017 data not available.
2. Number, trend, end month of each quarter.

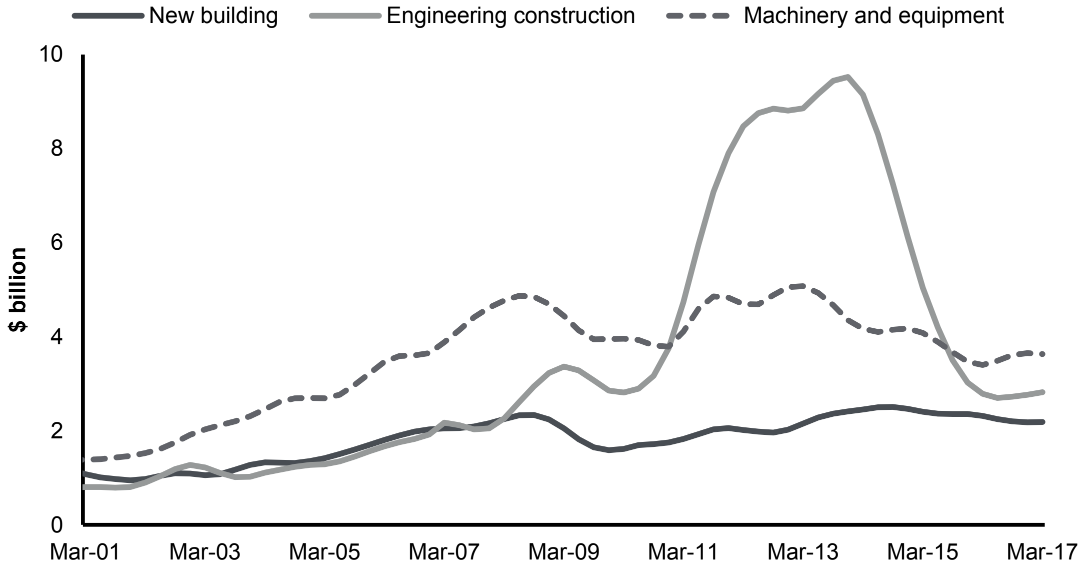
Sources: ABS 8752.0 and 8731.0.

Business investment

Business investment continues to adjust from the record levels experienced during the LNG construction boom. Construction of the third and final LNG project was completed in late 2016 and engineering construction has now stabilised (Chart 2.6). With subdued commodity demand limiting substantial new resource investment and investment outside the resource sector also modest, business investment is expected to fall in 2016-17.

Despite a marginal recovery in late 2016, global industrial production growth remains soft. As such, the level of investment in a small number of committed new resources projects in Queensland is modest compared with the completed LNG projects. However, support to engineering construction should be provided in the medium term from the strong domestic demand for gas, which is driving an ongoing program of CSG exploration and extraction.

Chart 2.6 Business investment[1], Queensland



Note:

1. CVM, quarterly, trend.

Source: ABS 5206.0.

Non-residential building construction work done (shops, offices, factories etc.) recorded strong growth in 2013-14, however with several large projects reaching completion, activity has since moderated. While conditions in some of the larger sectors such as commercial offices, retail/wholesale trade and health have eased, some of the smaller sectors such as entertainment, accommodation and industrial warehouses have seen strong growth in the past year. There has also been positive signs in relation to investment projects in the tourism and education sectors due to the lower A$ and growing demand for these services from Asia.

However despite these bright spots, with growth in domestic activity subdued, the immediate incentive to invest remains muted. Reflecting these trends - and consistent with the national growth profile - business investment in Queensland is expected to be broadly unchanged in 2017-18, before returning to moderate growth from 2018-19 onward.

Public final demand

Public final demand covers spending across Commonwealth, state and local governments on consumption and investment. Public final demand is expected to grow at a moderate pace as governments remain committed to responsible financial management.

A range of investments in key services and infrastructure at Commonwealth and State level will result in public final demand growing by 3¼% in 2016-17, 3% in 2017-18 and 3¼% in 2018-19.

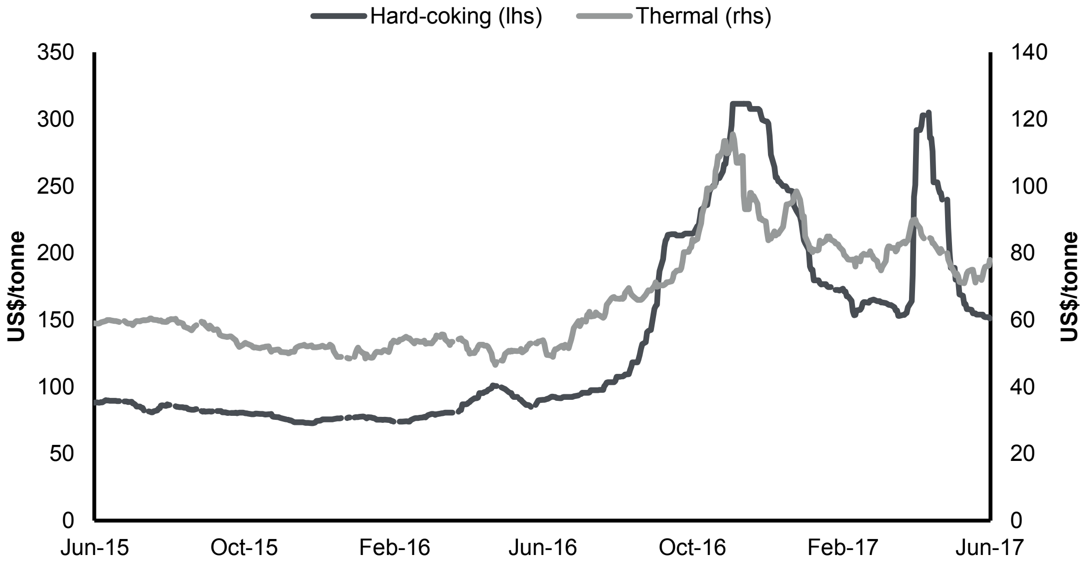
Overseas exports and imports

The trade sector is expected to be a key contributor to Queensland's economic growth in 2016-17. The real value of overseas goods exports is expected to grow by 3¾%, driven by the ramp-up of the final LNG trains on Curtis Island. Coal exports are expected to fall in 2016-17, largely as a consequence of transport infrastructure disruptions in the wake of STC Debbie. Reflecting the closure of a number of depleted mines, base metals exports are forecast to continue to fall in 2016-17 before flattening out in 2017-18. Beef exports are also expected to decline further in 2016-17, as farmers continue the herd rebuilding process, while the outlook for crop exports is mixed following STC Debbie. Growth in services exports such as tourism and education will be supported by a sustained lower A$ and growing demand from Asian markets.

LNG exports will be the principal driver of overall exports growth in the current and the next financial years. The first LNG production train on Curtis Island commenced exports in 2014-15, followed by an additional four trains in 2015-16 and the final train in the first half of 2016-17. With demand growth and prices for LNG currently softer than at the time the projects were approved, the three projects have restricted output levels to below nameplate capacity. In particular, the Gladstone LNG project has indicated it will only ramp up to around 77% of nameplate capacity over the next few years. Despite the lower expected volumes, the ramp-up profile of the projects still sees LNG exports grow substantially in year-average terms in 2016-17 and, to a lesser degree, in 2017-18.

In response to China's reduction in domestic coal production, international coal prices staged a significant recovery in the first half of 2016-17. Specifically, the premium hard coking coal spot price increased from around US$90/tonne at the end of June 2016 to above US$310/tonne in early November. However, the recovery proved to be short lived, with hard coking coal prices falling back to around US$150/tonne before STC Debbie hit central Queensland. The cyclone disruption to Queensland coal exports led to another spike in the hard coking coal price above US$300/tonne in mid-April 2017, before those gains were unwound by early June as the coal rail network returned to full operation (Chart 2.7).

Chart 2.7 Coal spot prices



Source: Platts.

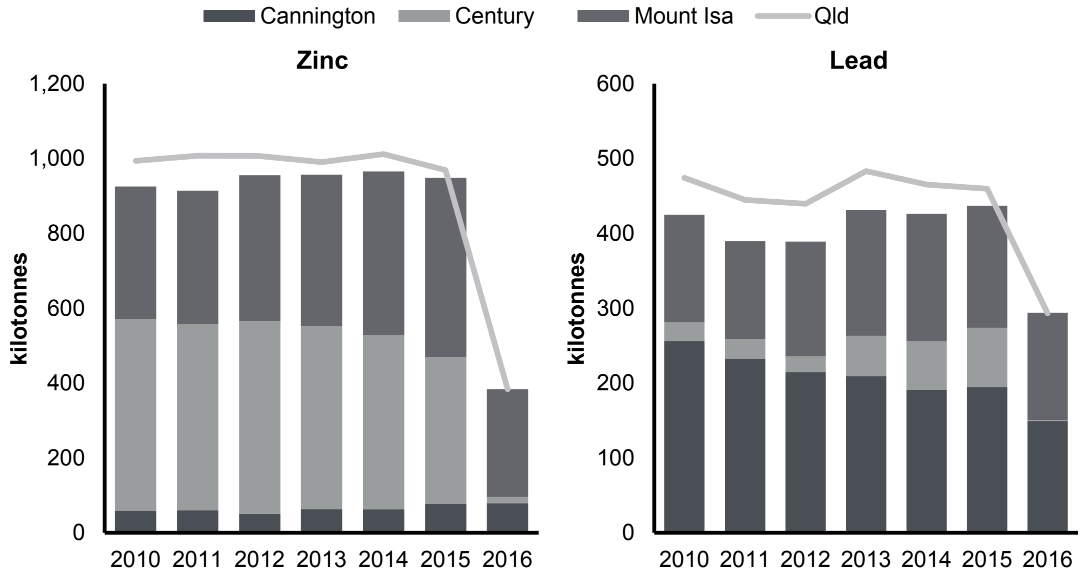
Stronger prices drove an unexpected boost in coal export earnings in 2016-17, which is estimated to have increased from $21.3 billion in 2015-16 to more than $40 billion in 2016-17. This is despite an estimated 4% decline in coal export tonnages over the year.

Although rationalisation of China's coal industry has led to an increase in Queensland coal exports to China, total coal export volumes remained subdued in most of 2016-17. In addition, flood damage to the coal rail transportation network by STC Debbie in late March 2017 led to an estimated loss of coal supply of around 10 million tonnes in June quarter 2017.

Notwithstanding the dip in export tonnages in 2016-17, coal export volumes are predicted to recover toward 240 million tonnes per annum by 2020-21. However, the extent of growth in Queensland coal exports in coming years is likely to be constrained by the anticipated moderation in steel production in China and the increasing role of renewable energy in some markets.

After falling 3.4% in 2015-16, Queensland metals exports are expected to continue to decline in 2016-17. This reflects the closure of a number of depleted zinc/lead mines and production cuts associated with previously low global prices (Chart 2.8), as well as the cessation of nickel production at the Yabulu refinery in early 2016. While mine closures have resulted in a permanent reduction in Queensland's zinc and lead exports, a sharp rebound in metal prices since late 2015 has subsequently encouraged a modest increase in production. In contrast, aluminium exports have continued to rise, driven by the ongoing ramp up in bauxite production at Weipa.

Chart 2.8 Zinc and lead production, Queensland



Sources: MMG, Glencore and South 32 company reports and Office of the Chief Economist, Department of Industry, Innovation and Science.

Queensland metals exports are forecast to be broadly unchanged in 2017-18. The commissioning of MMG's Dugald River mine and Rio Tinto's Amrun mine are expected to result in a return to growth in metals exports later in the forecast period.

Cattle slaughter rates in Queensland have declined sharply so far in 2016-17, with increased winter and spring rainfall during 2016 seeing farmers starting to rebuild their depleted herds. This increased demand for restocking has supported much higher saleyard prices, which rose to record levels in the first half of 2016-17.

However, while graziers in some coastal regions benefited from STC Debbie related rainfall, conditions more broadly remain unfavourable. A large part of Queensland still remains drought declared, while the summer was generally hot and dry and the seasonal outlook is tilted towards a drier and warmer than average winter.

These conditions, along with a small breeding cow inventory in early 2016-17, mean herd expansion in Queensland will likely be slow, constraining beef production and exports growth until at least 2017-18. Looking further out, a return towards normal seasonal conditions is expected to see beef exports pick up gradually.

Despite an increase in sugarcane crushing in the 2016 season, sugar exports are expected to decline in 2016-17. Lower sugarcane yields have been driven by a combination of the further spread of Yellow Canopy Syndrome and above average winter rainfall, which also led to degraded performance of some sugar mills. Sugar exports are expected to also decline in 2017-18, as the industry recovers from substantial damage in the Mackay-Isaac-Whitsunday region caused by STC Debbie.

Cotton exports are forecast to grow substantially in 2016-17, as above average winter rainfall in 2016 encouraged farmers to increase cotton plantings. Looking forward to the 2017 season, the Bureau of Meteorology is forecasting a 50% chance of an El Niño developing later in 2017, which is typically associated with below average rainfall. If realised, this could result in farmers substituting other crops instead of cotton, reducing exports in 2017-18.

Other crop exports are expected to significantly increase in 2016-17, driven by large increases in the production of winter crops, including chickpeas and wheat. Farmers are continuing to increase their area planted to chickpeas in response to expected higher returns. This more than offset a decline in the production of sorghum, as increased winter rainfall encouraged farmers to plant cotton instead. However, this is likely to be reversed in 2017-18, with other crop exports forecast to fall, driven by a decline in the production of chickpeas and wheat.

Tourism arrivals from Asia continue to grow strongly, particularly from China and will increasingly be the key driver of growth over the forecast period, as discretionary income and preferences for long-haul travel increase. Depreciation in the UK Pound and Euro following the Brexit vote in June 2016 has contributed to falls in tourist visitor nights from the UK, Queensland's largest tourist market, as well as from Germany and France. Overall, overseas tourism exports are forecast to grow in 2017-18 through to the end of the forecast period.

International student commencements have increased 11.6% in the first eight months of 2016-17 and are expected to continue to grow strongly over the forecast period. As with tourism, long-term growth in overseas education exports is expected to be driven by increased demand for education and rising incomes in Asia, particularly China and India.

Labour market

Following growth of 0.7% through the year to June quarter 2016, measured employment has been quite volatile during the current financial year. After easing early in the year, trend employment has picked up since November. While in year-average terms employment growth will most likely be flat in 2016-17, the recent momentum in the labour market is better observed in (seasonally adjusted) through the year terms. On this basis, which is consistent with Australian Treasury presentation of labour market forecasts, employment in Queensland is likely to be around 1¼% higher over the year to June quarter 2017. The unemployment rate has remained relatively stable, reflecting the participation rate which appears to be stabilising at around pre-mining boom levels.

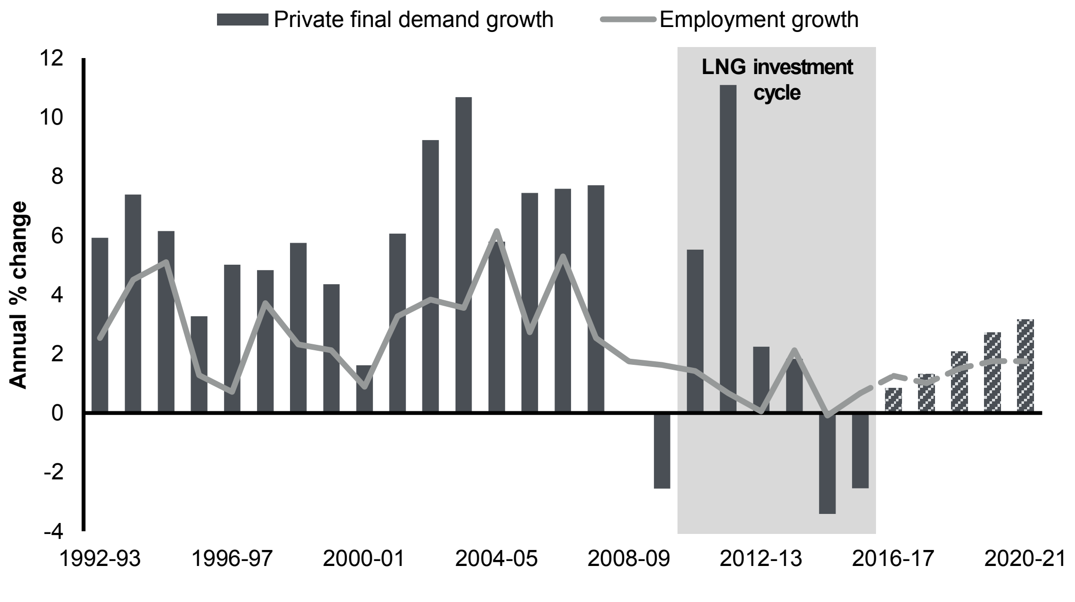
Hiring across a range of labour intensive service industries partly reflects subdued household consumption growth and an ongoing reluctance by businesses to invest prior to a sustained pick-up in demand. However, the size and composition of employment changes appears somewhat inconsistent with other labour market indicators and improving private final demand (see Chart 2.9). Most notably, a fall in ABS estimates of non-market sector employment (health, education, public administration and safety) - the key driver of Queensland employment growth in recent years - has weighed heavily on aggregate employment outcomes. While vacancy data corroborate some slowing in labour demand across these industries, other data sources suggest these sectors actually rose rather than fell.

The surge in Queensland residential dwelling activity has led to strong growth in construction employment at the same time as the wind down in regional construction workforces, including on LNG projects, has largely played out. Meanwhile, stronger tourist activity is translating into employment opportunities in accommodation and food services. A welcome improvement in regional labour market conditions is the result of better prospects for mining, construction, agriculture and tourism operators.

In contrast to the early-to-mid 2000s, when domestic activity was driving economic growth, in recent years it has been driven by capital-intensive resource exports, most notably coal exports between 2012-13 and 2014-15, followed by LNG exports since 2014-15. Therefore, while Queensland's headline economic growth during that period was relatively robust, employment growth was below historical averages. A forecast rebalancing of economic growth drivers towards household and business sectors is expected to translate into stronger labour market conditions over the forecast horizon, broadly in line with those nationally.

Consistent with the improvement in overall domestic activity, employment growth is also expected to strengthen to 1½% in the year to June quarter 2019. After a period of stabilisation, these trends are also expected to see the unemployment rate decline to 6% by then.

Chart 2.9 Employment[1] and private demand



Note:

1. Through-the-year growth rate to the June quarter (seasonally adjusted).

Sources: ABS 6202.0, 5206.0 and Queensland Treasury.

Regional labour markets

Better prospects for mining, construction, agriculture and tourism operators have resulted in a welcome improvement in regional labour market conditions.

By improving mine viability, higher commodity prices have assisted broader labour market conditions, particularly in coal mining centres of Mackay and Fitzroy. In addition, Fitzroy appears to be adjusting well to the wind down in Gladstone's LNG construction workforce and construction employment in regional Queensland returned to growth in 2016. In contrast, much of the impact of recent metal mine closures and cutbacks by processors is being felt in the north west region of Queensland - Outback, where the majority of ore is mined, and Townsville, where the processing and exporting takes place (Chart 2.10).

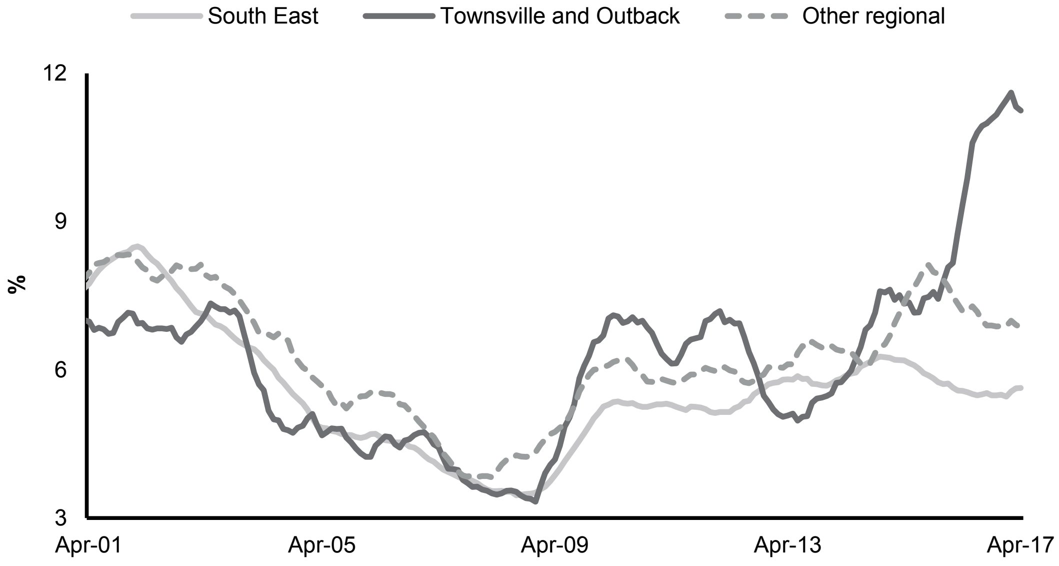
STC Debbie is expected to have a substantial impact on the agriculture and tourism sectors and associated employment. Operations close to the coast were significantly disrupted, although increased rainfall should assist Queensland beef cattle farmers as they restore herd numbers. More broadly, stronger tourist activity is translating into employment opportunities in related industries and regions. Labour market conditions in Cairns have improved in recent months, including for youth. The key tourist destination has been assisted by the lower A$ and continued growth in international visitors.

Employment conditions in previously strong South East Queensland have softened somewhat, and the unemployment rate has edged higher. With the substantial volume of residential construction work in South East Queensland beginning to slow in early 2017, growth in construction employment is also likely to moderate.

To address these concerns, the Government is implementing a strong infrastructure building program - including Cross River Rail and North Queensland Stadium - that will support construction activity and jobs, as well as boosting the long-term capacity of the economy.

The Government is also expanding its successful Back to Work Regional Employment Package, with a new program of support payments available to employers in South East Queensland from 1 July 2017 who create employment for long-term unemployed and young jobseekers.
The initiative is designed to stimulate economic and labour market conditions in South East Queensland by giving businesses the confidence to employ disadvantaged jobseekers.

Chart 2.10 Regional unemployment rates[1]



Note:

1. Based on 12 month moving averages. South East Queensland is defined as Greater Brisbane, Gold Coast, Sunshine Coast and Toowoomba. Other regional is defined as Cairns, Darling Downs-Maranoa, Fitzroy, Mackay and Wide Bay.

Source: ABS 6291.0.55.001.

Prices and wages

Brisbane consumer price inflation is expected to remain relatively weak in 2016-17, consistent with soft conditions in the domestic economy and low national inflation. The increase in 2016-17 largely reflects increased prices for tobacco due to the scheduled 12.5% annual increase in Australian Government's tobacco excise, higher fruit and vegetable prices due to adverse weather conditions as well as higher purchasing costs for new dwellings.

The increase in insurance premiums driven by the introduction of the National Injury Insurance Scheme, and its associated levy, has also placed upward pressure on inflation in 2016-17. This increase was partly offset by lower urban transport fares due to the Queensland Government's Fairer Fare package, as well as continuing falling prices for motor vehicle purchases.

A modest acceleration in inflation is forecast for 2017-18, driven by a rebound in the price of automotive fuel on the back of rising global oil prices. A further scheduled increase in the tobacco excise will also contribute to inflation in 2017-18. A 12.5% increase in tobacco excise is scheduled for 1 September each year until 2020.

Despite low nominal wage growth, slower consumer price inflation has resulted in real wage growth. Wage growth is expected to remain subdued in 2017-18, reflecting ongoing spare capacity in the labour market, but is then expected to pick-up as conditions in the domestic economy and labour market improve.

Population

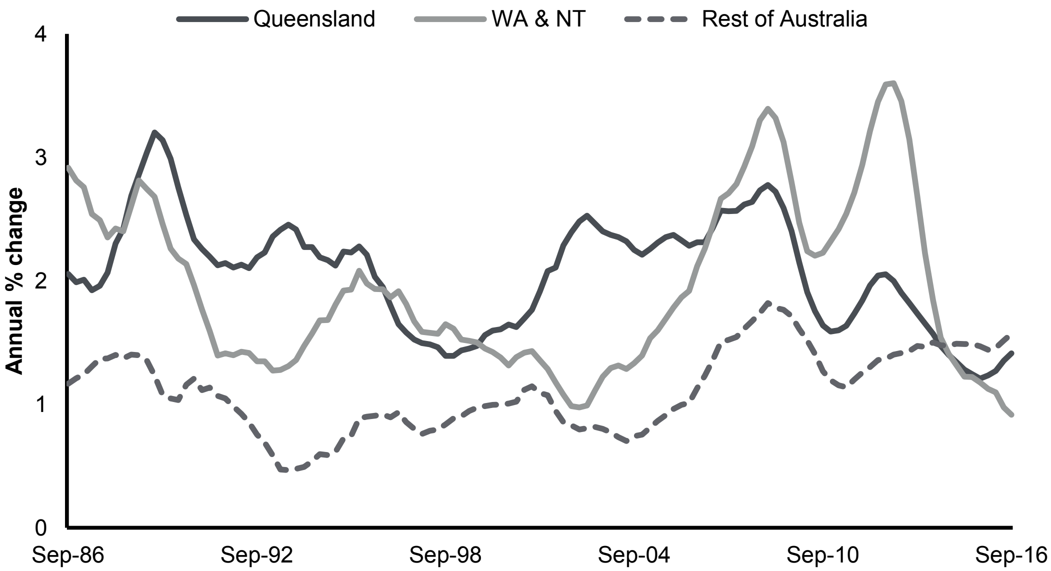
After slowing to 1.3% in 2015-16 as the resources investment boom subsided, Queensland's population growth is forecast to average around 1½% per annum over the forward estimates, broadly in line with that forecast nationally. Over the longer term, some moderate acceleration in population growth is expected.

In the year to September 2016, Queensland's population increased by almost 68,000 compared with just over 57,000 over the year to September 2015. Stronger net interstate migration contributed most to this pick-up, with net overseas migration also recovering over the same period from its September 2015 trough.

Net interstate migration from New South Wales picked up by around 3,000 in the year to September 2016 compared with the previous year. Greater housing affordability in Brisbane is likely to lead to further strengthening in net interstate migration from New South Wales over the forward estimates period. Further, the end of the Western Australia resources investment boom has also seen a significant increase in net inflows into Queensland from that state over the last year, after a period of net outflows between March 2008 and June 2015.

The Commonwealth Department of Immigration and Border Protection has forecast a solid increase in net overseas migration over the next four years, from around 190,000 in the year to September 2016 to almost 250,000 in the year to June 2020. This is primarily due to an expected increased net intake of overseas students. However, in recent years most of this increase has been concentrated in New South Wales and Victoria. As a result, growth in Queensland net overseas migration is expected to remain subdued over the forward estimates.

Chart 2.11 Population growth, by region



Source: ABS 3101.0.

2.2.2 Risks to the economic outlook

Key risks for the international outlook arise from increased protectionist sentiment in many countries and heightened geopolitical tensions. These are occurring against the backdrop of a changing policy mix under the new US administration and the economic realignment associated with the UK exit from the European Union.

If protectionism intensifies, growth in world trade and output could be slower than expected, flowing through to lower than expected growth in Queensland’s commodity export volumes and prices. Conversely, any heightened geopolitical tensions, while adversely affecting global activity and commodity export volumes, could be offset by higher prices for those exports.

As the US economy has strengthened, the US Federal Reserve Board has increased interest rates by 25 basis points in both December 2016 and March 2017, with two more rate rises expected in 2017. While US fiscal policy is expected to become more expansionary, the risk remains that growth could be slower than expected.

In China, our most important export market, continued reliance on policy stimulus through rapid expansion of credit, together with slow progress in addressing debt in state owned enterprises and local governments, as well as financial fragility of the banking sector, raises the risk of disruptive adjustment.

Domestically, a key source of uncertainty is the pace and timing of the recovery in non-resources business investment, now that the large resources investment projects are completed.

Further, while there is a substantial amount of dwelling construction work still in the pipeline, the large fall in building approvals together with a possible emergence of oversupply of units and apartments in parts of South East Queensland, could see an earlier and faster decline in dwelling investment than currently forecast.

Almost 70% of Queensland is currently drought declared and if these conditions remain more protracted than assumed, this could impact on the production and export of key agricultural commodities.

3 Fiscal strategy and outlook

Features

- A net operating surplus of $2.824 billion is expected for 2016-17, the largest operating surplus since 2005-06. This is $798 million higher than estimated at the 2016-17 Mid Year Fiscal and Economic Review (MYFER), and almost $2 billion greater than the surplus forecast at the time of the 2016-17 Budget. The improvement is primarily due to a number of temporary factors, such as the timing of disaster recovery reimbursements for events prior to Severe Tropical Cyclone (STC) Debbie and strong royalty revenue as a result of highly volatile coal prices in the past year.
- The Government recognises the significant 2016-17 surplus results from short-term factors. The strong 2016-17 operating surplus will see General Government Sector debt in 2016-17 around $3.8 billion lower than estimates in the 2016-17 Budget. This has provided the opportunity to deliver additional infrastructure investment and a range of targeted temporary measures to support businesses and households.
- Beyond 2016-17, the fiscal environment facing the State remains challenging, with ongoing weakness in key tax revenues, the return of coal prices to the medium term outlook and recovery work required as a result of STC Debbie. Overall, the loss to economic output due to STC Debbie is estimated to be more than $2 billion, or around ¾ percentage point of GSP.
- The preliminary estimated cost to the Government of recovery activities is $1.1 billion, comprising around $700 million in operating expenses, predominantly grants to local councils, and $400 million in capital expenditure, predominantly for road infrastructure, across the four years to 2019-20.
- A General Government Sector net operating surplus of $146 million is forecast for 2017-18. Modest net operating surpluses are forecast across the forward estimates, primarily reflecting the impact of the return to the medium term outlook for coal prices and expenditure initiatives since MYFER averaging around $640 million per annum from 2017-18 to 2019-20.
- The 2017-18 Budget maintains the Government's focus on job creation, with a targeted spending program to deliver quality services for all Queenslanders. Key highlights include:
  - $1.835 billion over 10 years for a range of housing and homelessness measures
  - $200 million over two years for job creation and minor infrastructure works in local governments outside of South East Queensland under the Works for Queensland program, bringing the total commitment to $400 million
  - a further $50 million to continue the Back to Work program in regional Queensland and $27.5 million to extend it to South East Queensland
  - a commitment to fully fund the $5.409 billion Cross River Rail project, Queensland's highest priority transport infrastructure project. This commitment includes an additional $1.952 billion allocation to the project over the forward estimates.

- Other budget initiatives will continue the Government's objectives in fostering innovation, delivering productive infrastructure, optimising the use of our land and natural resources, growing our human capital, encouraging innovation and responsiveness in the public sector and promoting business investment and exports. Demonstrating the Government's commitment to expenditure control, many of these new initiatives are funded through reprioritisations within and across agencies.
- The 2017-18 Budget also consolidates the work undertaken since 2015-16 under the Government's Debt Action Plan. Measures relating to revisions to the capital structure of the Government's energy network businesses and cash management arrangements for government-owned corporations, as well as responsible funding and investment arrangements for the State's long service leave and superannuation programs have contributed to significant improvements in the State's debt position.
- The benefits of the Debt Action Plan are particularly evident in terms of the General Government Sector debt to revenue ratio which, at 60% for 2016-17 and 2017-18, has reduced significantly since the peak of 91% in 2012-13. Increases across the forward estimates reflect the ramp up of the Government's capital program.
- In the General Government Sector, the Government is continuing to focus on optimising infrastructure investment while managing debt levels. General Government Sector debt is estimated to be $33.758 billion in 2017-18, which is $9.347 billion lower than the peak in 2014-15 of $43.105 billion and $14.663 billion less than the forecast for 2017-18 of $48.421 billion at the time of the 2014-15 Budget.
- General Government Sector capital expenditure is expected to total $6.696 billion for 2017-18, which comprises $5.123 billion of Purchases of Non-Financial Assets (PNFA) and $1.573 billion of capital grants expenses. In addition, $618 million in acquisitions of non-financial assets under finance leases brings the total General Government Sector capital program in 2017-18 to $7.314 billion.
- Across the period from 2017-18 to 2020-21, the General Government Sector capital program of $30.881 billion comprises capital expenditure of $29.218 billion ($25.071 billion PNFA and $4.147 billion capital grants) and acquisitions of assets under financial leases of $1.663 billion.
- Non-financial Public Sector capital expenditure totals $9.553 billion for 2017-18, which comprises $7.989 billion of PNFA and $1.563 billion of capital grants expenses. With acquisitions of non-financial assets under finance leases, the total capital program in 2017-18 is budgeted at $10.171 billion. Across the period from 2017-18 to 2020-21, the total Non-financial Public Sector capital program is $42.75 billion, comprising $36.979 billion PNFA, $4.107 billion capital grants and $1.663 billion in acquisitions of assets under financial leases.

3.1 Context

The focus of the Palaszczuk Government over the last two State Budgets has been on delivering election commitments and policy measures which create jobs and support future economic growth. The 2016-17 Budget highlighted the strengths of Queensland's diversified economy, including in key areas of regional Queensland, and this Budget continues to support and facilitate growth in an innovative and productive Queensland economy.

The Government recognises that the significant surplus estimated in 2016-17 ($2.824 billion) is supported by a number of temporary factors, such as the timing of disaster recovery reimbursements from the Australian Government for events prior to STC Debbie and the spike in coal prices in 2016. Accordingly, the Government is directing this additional revenue to increased infrastructure investment and to a range of targeted, temporary measures to support businesses and households, including a $771 million electricity affordability package, funded in part by dividends from government-owned electricity generators (see Box 3.1).

The fiscal environment facing the State remains challenging beyond 2016-17. Along with ongoing weakness in key tax revenues, the return of coal prices to the medium term outlook following the sharp increase towards the end of 2016 has impacted revenue estimates over the forward estimates since the 2016-17 Budget. As well, reparation work required as a result of STC Debbie is expected to cost the government approximately $1.1 billion in capital expenditure and grants to local governments over the next few years, before reimbursements from the Australian Government (see Box 3.2).

Since the 2015-16 Budget, the Government has focused on the importance of delivering net operating surpluses to ensure that the General Government Sector capital program can be funded primarily through recurrent revenues, rather than borrowings, as highlighted in the Review of State Finances released concurrently with the 2015-16 Budget. Five fiscal principles, aimed at improving the sustainability of the State's finances, were adopted, with a sixth added in the 2016-17 Budget. The Government remains committed to these principles:

- Target ongoing reductions in Queensland's relative debt burden, as measured by the General Government Sector debt to revenue ratio
- Target net operating surpluses that ensure any new capital investment in the General Government Sector is funded primarily through recurrent revenues rather than borrowing
- The capital program will be managed to ensure a consistent flow of works to support jobs and the economy and reduce the risk of backlogs emerging
- Maintain competitive taxation by ensuring that General Government Sector own-source revenue remains at or below 8.5% of nominal gross state product, on average, across the forward estimates
- Target full funding of long-term liabilities such as superannuation and WorkCover in accordance with actuarial advice
- Maintain a sustainable public sector by ensuring that overall growth in full-time equivalent employees, on average over the forward estimates, does not exceed population growth.

Further discussion on these fiscal principles, and the Government's progress in meeting its targets, is provided in Sections 3.3 and 3.4.

Box 3.1 Price relief for electricity consumers

The Government remains committed to reducing cost-of-living pressures for Queenslanders, and ensuring affordable prices for business.

On 31 May 2017, the Queensland Competition Authority recommended that retail electricity prices for the typical residential household in regional Queensland increase by 7.1%. The proposed electricity price rise has been driven by substantial increases in the wholesale electricity prices resulting from supply and demand imbalances in New South Wales, Victoria and South Australia.

In response, the Government will meet more than half the increase for Queensland consumers through a $771 million electricity affordability package in 2016-17, funded in part by the dividends it receives from government-owned electricity generators. This will put direct downwards pressure on electricity prices over the next three years, while also reducing the retail electricity price increase in 2017-18 from 7.1% to 3.3% for the typical household.

The price reduction will be achieved by the Government taking on responsibility for the cost of the Solar Bonus Scheme premium Feed-in-Tariff, for consumers with photovoltaic solar panels on their roofs, for the next three years to 2019-20. This illustrates the benefit to Queenslanders of keeping income-generating assets in public hands.

3.2 Key fiscal aggregates

The key fiscal aggregates of the General Government Sector for the 2017-18 Budget are outlined in Table 3.1 and are discussed in detail in this chapter.

Table 3.1 General Government Sector - key fiscal aggregates[1]

	2015-16 Actual[2] $ million	2016-17 MYFER $ million	2016-17 Est. Act. $ million	2017-18 Budget $ million	2018-19 Projection $ million	2019-20 Projection $ million	2020-21 Projection $ million
Revenue	50,995	54,953	56,434	55,869	56,138	57,887	58,982
Expenses	50,025	52,927	53,610	55,723	56,021	57,183	58,574
Net operating balance	**970**	**2,026**	**2,824**	**146**	**117**	**704**	**408**
PNFA[3]	4,092	5,210	4,416	5,123	6,471	7,015	6,462
Fiscal balance	(461)	(1,015)	868	(2,363)	(3,946)	(2,725)	(2,496)
Borrowing	**35,486**	**36,022**	**33,937**	**33,758**	**36,393**	**38,760**	**41,244**
Borrowing (NFPS)[4]	72,922	73,749	73,102	71,989	74,978	77,720	81,148

Notes:

1. Numbers may not add due to rounding. Bracketed numbers represent negative amounts.
2. Reflects published actuals.
3. PNFA: Purchases of non-financial assets.
4. NFPS: Non-financial Public Sector.

3.2.1 Net operating balance

Table 3.2 compares the General Government Sector net operating balance forecasts for the 2016-17 Budget and MYFER with 2017-18 Budget forecasts.

Table 3.2 General Government Sector - net operating balance forecasts

	2015-16 $ million	2016-17 $ million	2017-18 $ million	2018-19 $ million	2019-20 $ million	2020-21 $ million
2016-17 Budget	152	867	1,225	321	741	n.a.
2016-17 MYFER	970	2,026	1,095	479	981	n.a.
2017-18 Budget	**970**	**2,824**	**146**	**117**	**704**	**408**

The anticipated 2016-17 net operating balance of $2.824 billion compares with a forecast surplus of $2.026 billion expected in the 2016-17 MYFER. The $798 million improvement in the net operating balance since then primarily reflects increases in revenue from royalties, mainly as a result of the sharp increase in coal prices during 2016.

Since MYFER, revenue has increased by $1.481 billion in 2016-17, primarily related to:

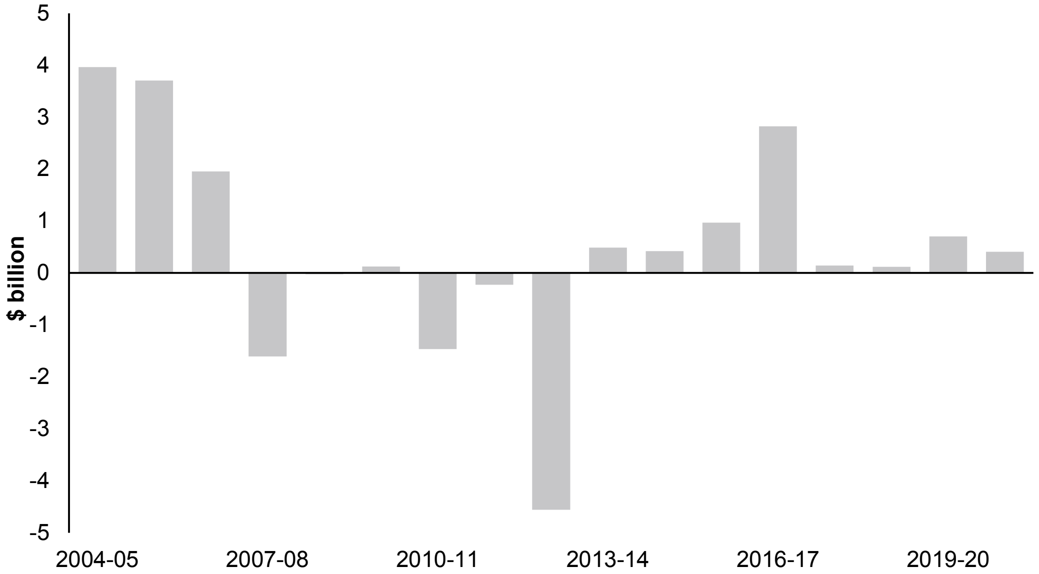
- upward revisions to forecasts for royalty revenue, attributable largely to higher coal prices during 2016-17 ($457 million)
- the impact of changes to the timing of Natural Disaster Relief and Recovery Arrangements (NDRRA) revenue from the Australian Government ($357 million).

Further, increased net flows from the Public Non-financial Corporation (PNFC) Sector and Public Financial Corporations (PNF) Sector of $323 million also contributed to the net operating balance.

The key drivers for increased expenses since MYFER are policy measures, including the Government's program in 2016-17 of price relief for electricity consumers ($771 million).

As shown in Chart 3.1 below, the estimated 2016-17 net operating balance is the largest operating surplus since 2005-06.

Chart 3.1 Net operating balance



Consistent with the Government's fiscal principles, net operating surpluses are forecast across the forward estimates. For 2017-18, the estimated General Government Sector operating surplus of $146 million is significantly lower than the $1.095 billion expected at the time of the 2016-17 MYFER, with lower results also seen across the forward estimates.

Royalty revenue projections for 2017-18 have increased since the 2016-17 MYFER by $808 million. This is due in part to the timing of royalty revenue collections, with payments in the first quarter of 2017-18 being impacted by royalties owed from the previous quarter, and to a slower than expected reduction in hard coking coal prices from the 2016-17 peak.

However, taxation has been revised downwards by $258 million in 2017-18 (excluding revenue measures) relative to MYFER, primarily as a result of reductions in the rate of growth of payroll tax and also reflecting in part the volatility of the property market in reduced transfer duty estimates. Reductions in GST revenue across the period to 2019-20 have also impacted revenue forecasts. In addition, the shift in the timing of NDRRA reimbursements relating to prior disaster events has reduced revenue in 2017-18.

Since the 2016-17 MYFER, additional expense measures of $763 million have been provided for in 2017-18, with $1.927 billion over the three years to 2019-20. These measures include funding for the Works for Queensland program and the Jobs and Regional Growth Fund, supporting jobs creation that will continue to enable Queensland's $300 billion economy to grow and diversify.

The 2017-18 Budget also includes initiatives to protect vulnerable Queenslanders and enhance social cohesion and safety in communities:

- $265 million to overhaul Queensland's probation and parole system to enable tougher supervision of parolees, expand GPS monitoring, establish a fully independent parole board, reduce reoffending, and improve rehabilitation and mental health services
- $199.6 million to support the transfer of 17 year olds from the adult justice system to the youth justice system and provide pathways to reduce offending behaviour
- $141.8 million over four years to further strengthen Queensland's child protection system. This takes total new funding for child safety to $200 million since the 2016-17 Budget
- $18 million to tackle the harmful use and effects of crystal methamphetamine (Ice) in Queensland, with measures that increase awareness, support families and better equip frontline service providers.

Additional measures, detailed in Budget Measures (Budget Paper 4), support the Government's ongoing commitment to improve service delivery across the State.

Expenses and revenue are both projected to increase by around 3% per annum over the five years to 2020-21.

Table 3.3 provides a breakdown of the movements in the net operating balance since the 2016-17 MYFER.

Table 3.3 Reconciliation of net operating balance, 2016-17 MYFER to 2017-18 Budget[1]

	2016-17 $ million	2017-18 $ million	2018-19 $ million	2019-20 $ million
2016-17 MYFER net operating balance	2,026	1,095	479	981
Taxation revisions[2]	(11)	(258)	(303)	(298)
Royalty revisions	457	808	183	108
GST revisions	(242)	(156)	(335)	(147)
Natural disaster revisions[3,4]				
Change in revenue	*357*	*(373)*	*301*	*420*
Change in expenses	*(91)*	*(240)*	*(328)*	*(143)*
Net change	266	(613)	(26)	277
Measures[5]				
Expense	*(850)*	*(763)*	*(640)*	*(524)*
Revenue	*..*	*12*	*41*	*37*
Net	(850)	(751)	(599)	(487)
Net flows from PNFC and PFC Sector entities[6]	323	198	(14)	236
Australian Government funding revisions[7]	(119)	(535)	291	525
Other parameter adjustments[8]	974	357	441	(491)
2017-18 Budget net operating balance	**2,824**	**146**	**117**	**704**

Notes:

1. Numbers may not add due to rounding. Numbers indicate the impact on the operating balance. A number in brackets indicates a negative impact on the operating balance.
2. Represents parameter adjustments to taxation revenue excluding taxation revenue measures.
3. Represents movements in revenue and expenses for natural disaster restoration. Largely represents revisions to the timing of expected reimbursements from the Australian Government and additional expenses and reimbursements in response to STC Debbie.
4. This table shows changes in NDRRA revenues and expenses since the 2016-17 MYFER and differs from numbers in Table 3.4, which provides budgeted total NDRRA revenue and expenditure.
5. Reflects the operating balance impact of Government decisions since the 2016-17 MYFER.
6. Represents revisions to dividends and tax equivalent payments from, and community service obligations (CSOs) and Transport Service Contract (TSC) payments to, Public Non-financial Corporations and Public Financial Corporations, net of CSO and TSC expense measures.
7. Represents the net impact of funding provided by the Australian Government primarily for Specific Purpose Payments and National Partnership payments and excludes funding for disaster recovery expenses.
8. Refers to adjustments largely of a non-policy nature, primarily changes in interest paid on borrowings, depreciation, growth funding, swaps, deferrals and administered revenue.

3.2.2 Natural Disaster Relief and Recovery Arrangements

Longstanding NDRRA arrangements provide a cost sharing formula between the Queensland and Australian Governments, as well as a range of pre-agreed relief measures which may be activated by the Queensland Government immediately following a disaster event, once a need has been established.

The timing of expenditure in relation to natural disasters, and the anticipated NDRRA reimbursements from the Australian Government, continues to significantly impact Queensland's budget position.

Since the 2016-17 MYFER, a change in the expected timing of reimbursements for events prior to STC Debbie was announced as part of the Australian Government's Mid Year Economic and Fiscal Outlook update in December 2016. NDRRA revenue for 2016-17 is now expected to be $357 million higher than the $746 million expected at the 2016-17 MYFER, with a reduction in 2017-18 of $373 million.

Table 3.4 outlines the estimated impact of natural disaster arrangements on Queensland's net operating balance. This shows the operating balance in underlying surplus, after adjusting for the impact of disasters.

Table 3.4 Impact of Natural Disaster Relief and Recovery Arrangements funding on the net operating balance[1]

	2016-17 $ million	2017-18 $ million	2018-19 $ million	2019-20 $ million[1]	2020-21 $ million
Published net operating balance	2,824	146	117	704	408
less Disaster revenue	1,103	223	301	420	..
add Disaster expenses[2]	367	389	336	143	..
Underlying net operating balance	**2,088**	**312**	**152**	**427**	**408**
Disaster related capital[2,3]	18	121	245	50	..

Notes:

1. Numbers may not add due to rounding.
2. Of the $1.2 billion in expenses from 2016-17 to 2019-20 relating to disasters, approximately $700 million relates to STC Debbie, primarily for grants to local councils. Capital related expenditure of $434 million across the same period primarily relates to road infrastructure repairs as a result of STC Debbie.
3. Excludes loans provided through the State.

Box 3.2 Severe Tropical Cyclone (STC) Debbie

Immediately after Category 4 STC Debbie hit Queensland's central coast, the Government initiated programs to provide protection and immediate and ongoing assistance to the public to alleviate personal hardship during and post the disaster. Information and support were available through the Community Recovery Hotline, and for the first time, applications for financial assistance were available online, with payments transferred directly to bank accounts of eligible recipients where appropriate.

For those families without access to the internet or phone, 30,000 debit cards were pre-deployed to the region, with thousands of additional cards held in reserve ready for deployment. Immediate hardship assistance of $180 per person, up to $900 for a family of five or more, was made available, subject to various criteria, so that people in impacted communities could purchase food and other essentials, and get back on their feet as quickly as possible.

Queensland is no stranger to natural disasters, with previous cyclone-related events costing the State in excess of $10 billion since 2005-06, prior to any Commonwealth reimbursement. STC Debbie is expected to cost the Government approximately $1.1 billion in recovery work. This comprises around $700 million in operating expenses, predominantly grants to local councils, and $400 million in capital expenditure, predominantly for road infrastructure, across the four years to 2019-20, before partial reimbursements in arrears from the Australian Government through the jointly-funded Commonwealth-State NDRRA.

Within the first two months after the cyclone, close to $30 million in assistance has already been distributed through the Personal Hardship Assistance Grants and Immediate Hardship Assistance Payments funded under the NDRRA. A $14.7 million Community Recovery Fund has also been established and additional funding of $2 million has been provided for the Government's Go Local campaign to support the agricultural industry in disaster affected areas. In addition:

- 10,763 Rapid Damage Assessments were conducted
- 235,000 properties had power restored
- 1,167 schools reopened in time for the second term of the school year
- 56,000 insurance claims were submitted in Queensland and New South Wales, worth $897 million.

Sound pricing of risk and strong investment performance has put the Queensland Government Insurance Fund (QGIF) in a good financial position, with investments held exceeding the provisioning for claims. As a result, $500 million will be drawn from the QGIF surplus to assist in funding the Government's response to STC Debbie. On current estimates, this will still leave a substantial surplus in QGIF to respond to future claims.

The Queensland Government will contribute $110 million towards a proposed joint $220 million funding package under the Commonwealth and State-funded NDRRA Category D following STC Debbie.

This funding package is contingent on the approval of the Commonwealth and includes a request for a matching contribution for the South Rockhampton Flood Levee.

3.2.3 Cash flows and balance sheet

General Government Sector

Cash surplus/(deficit)

The General Government Sector is expected to record a cash surplus in 2016-17 of $1.038 billion, compared to a $569 million deficit forecast in the 2016-17 MYFER. The significant cash surplus compared to the expected cash deficit primarily reflects higher net operating receipts and reduced cash requirements for investments in non-financial assets.

A cash deficit of $1.922 billion is expected in the General Government Sector in 2017-18 with cash deficits forecast across the forward estimates.

Capital purchases

For the General Government Sector, PNFA in 2016-17 are estimated to be $4.416 billion, $794 million less than forecast in the 2016-17 MYFER. For 2017-18, budgeted General Government Sector PNFA totals $5.123 billion.

Over the period 2017-18 to 2020-21, PNFA in the General Government Sector of $25.071 billion are planned. Capital grants expenses for the same period are expected to total $4.147 billion, a total of $29.218 billion for General Government Sector capital expenditure. In addition, acquisitions of non-financial assets under finance leases total $1.663 billion for the General Government Sector over this period. These leases relate primarily to Public Private Partnerships.

In total over the four years to 2020-21, the General Government Sector capital program is forecast to be $30.881 billion. This compares to the total General Government Sector capital program at the time of the 2016-17 Budget of $29.515 billion over the four years to 2019-20.

Borrowings

Gross General Government Sector borrowings of $33.937 billion at 30 June 2017, representing the stock of borrowing outstanding as presented in the Balance Sheet, are $3.838 billion lower than the $37.775 billion forecast in the 2016-17 Budget and $14.279 billion less than the forecast of $48.216 billion at the time of the 2014-15 Budget. The significant reduction is primarily due to the Queensland Government’s continuing focus on its Debt Action Plan, which has reduced General Government Sector debt as well as associated interest costs.

In the 2016-17 Budget, a net General Government Sector borrowing of $665 million was budgeted in 2016-17. As a result of increased royalties revenue and changes to capital expenditure across the forward estimates, debt has reduced for 2016-17 and net borrowing will only be required from 2018-19 onwards.

Since implementation in the context of the 2015-16 and 2016-17 State Budgets, a number of measures under the Debt Action Plan have delivered a significant improvement in the State’s debt position, and these have been achieved while retaining 100% state ownership of the Government’s income-generating assets and maintaining full funding of superannuation liabilities.

Debt reduction measures implemented include:

- revising the capital structure of the Government's energy network businesses
- funding long service leave on an emergent basis, aligning Queensland with standard practice across Australia
- temporary suspension of investment of defined benefit employer contributions and surplus repatriation from the defined benefit superannuation scheme
- revised cash management arrangements for government-owned corporations.

For the 2017-18 Budget, the Government has continued its assessment of efficient capital allocation and cash management for the government-owned corporations. With estimated dividends and tax equivalent payments of over $2 billion in 2016-17, the strong financial position of government-owned corporations creates opportunities for the sector to contribute to essential growth-enhancing infrastructure in Queensland, which will collectively contribute to over $520 million infrastructure investment in regional Queensland. Projects include:

- $150 million of Powerlink's dividend to assist in investigations and preliminary work on a new connection for large-scale solar and wind generation infrastructure in North Queensland
- $100 million of Stanwell's dividend to contribute to funding the proposed hydro-electric power station at the Burdekin Falls Dam.

In addition, SunWater will retain all of its 2016-17 dividend, and the Government will provide a further $100 million towards improvement works to ensure that the Burdekin Falls Dam continues to meet design standards, supports the proposed hydro-electric power station, and allows for the potential raising of the dam wall. Further details of these and other projects are provided in Chapter 8.

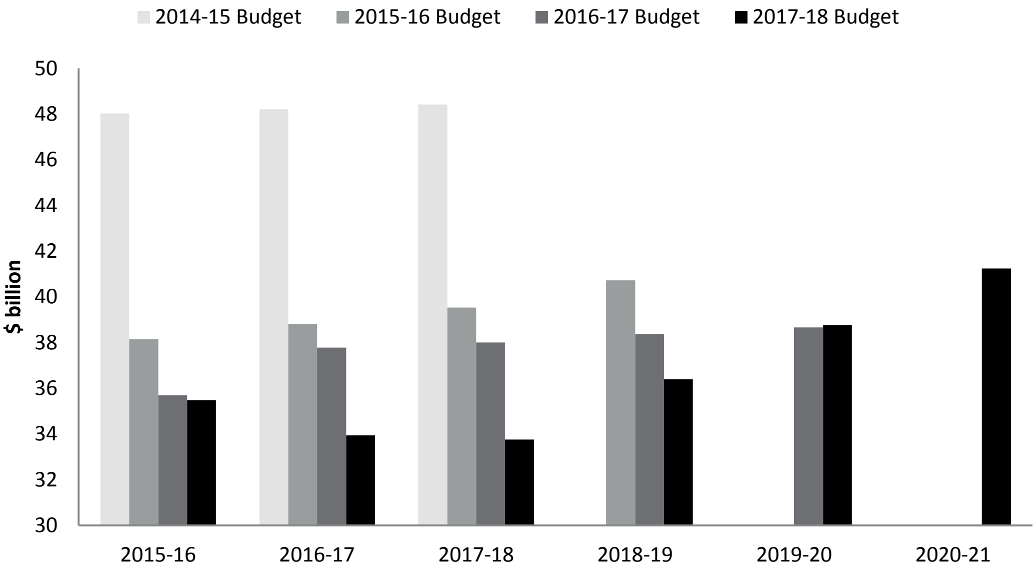
The benefits of the Debt Action Plan are particularly evident in terms of the General Government Sector debt to revenue ratio, which has significantly decreased since its peak in 2012-13 of 91% to 60% for 2016-17 and 2017-18. While the debt to revenue ratio increases across the forward estimates, these results are still below those expected at the time of the 2016-17 Budget and 2016-17 MYFER. On average over the budget and forward estimates, the debt to revenue ratio is 66%, well below the four years to 2019-20 forecast in the 2016-17 Budget.

Table 3.5 provides details of the debt to revenue ratio and Chart 3.2 compares General Government Sector borrowing projections with those of the 2014-15, 2015-16 and 2016-17 Budgets.

Table 3.5 General Government Sector gross borrowings as a proportion of revenue

	2016-17 Est. Act. $ million	2017-18 Budget $ million	2018-19 Projection $ million	2019-20 Projection $ million	2020-21 Projection $ million
Gross borrowings	33,937	33,758	36,393	38,760	41,244
Revenue	56,434	55,869	56,138	57,887	58,982
Borrowings/revenue ratio	60%	60%	65%	67%	70%

Chart 3.2 General Government Sector borrowings



The active balance sheet management strategies under the Debt Action Plan have assisted in ensuring that borrowings in 2017-18 are projected to be $14.663 billion lower than at the time of the 2014-15 Budget, as detailed in Table 3.6 below.

Table 3.6 Revisions to General Government Sector borrowings[1]

	2014-15 $ million	2015-16 $ million	2016-17 $ million	2017-18 $ million
2014-15 Budget	48,141	48,023	48,216	48,421
2015-16 Budget	43,268	38,151	38,818	39,532
2016-17 Budget[2]	43,105	35,698	37,775	38,000
2017-18 Budget[3]	43,105	35,486	33,937	33,758
Change between 2014-15 Budget and 2017-18 Budget	**(5,036)**	**(12,537)**	**(14,279)**	**(14,663)**

Notes:

1. Numbers may not add due to rounding. A number in brackets represents a negative amount.
2. Number for 2014-15 represents actual result for that year.
3. Numbers for 2014-15 and 2015-16 represent actual results for those years.

Public Non-financial Corporations Sector

The Public Non-financial Corporations (PNFC) Sector consolidates the State's commercial entities, including those that operate in the energy, transport and water industries. Further details on the PNFC Sector are provided in Chapter 8.

The PNFC Sector is expecting net borrowing of $294 million in 2016-17, slightly less than estimated at the 2016-17 MYFER. Gross borrowings in the PNFC Sector for 2016-17 are estimated at $39.165 billion.

Borrowings in the Sector are expected to rise modestly each year from 2017-18 to $39.904 billion in 2020-21, primarily driven by increased investment in the rail, port and water businesses.

Purchases of non-financial assets for the PNFC Sector are estimated to be $2.512 billion in 2016-17 and total a projected $11.908 billion across the budget and forward estimates.

Non-financial Public Sector

The Non-financial Public Sector (NFPS) comprises the General Government and PNFC Sectors. Transactions between these sectors are eliminated in aggregated totals.

Gross borrowings of $73.102 billion are estimated at 30 June 2017 in the NFPS, $8.132 billion less than the 2014-15 Budget estimate. The consistent improvement in each successive budget since that time is primarily due to the Government's focus on debt reduction in the General Government Sector. As at 30 June 2018, borrowings in the NFPS are expected to decline to $71.989 billion, over $10 billion less than projected in the 2014-15 Budget.

Chart 3.3 and Table 3.7 provide details of NFPS borrowings since the 2014-15 Budget.

Chart 3.3 Non-financial Public Sector borrowings

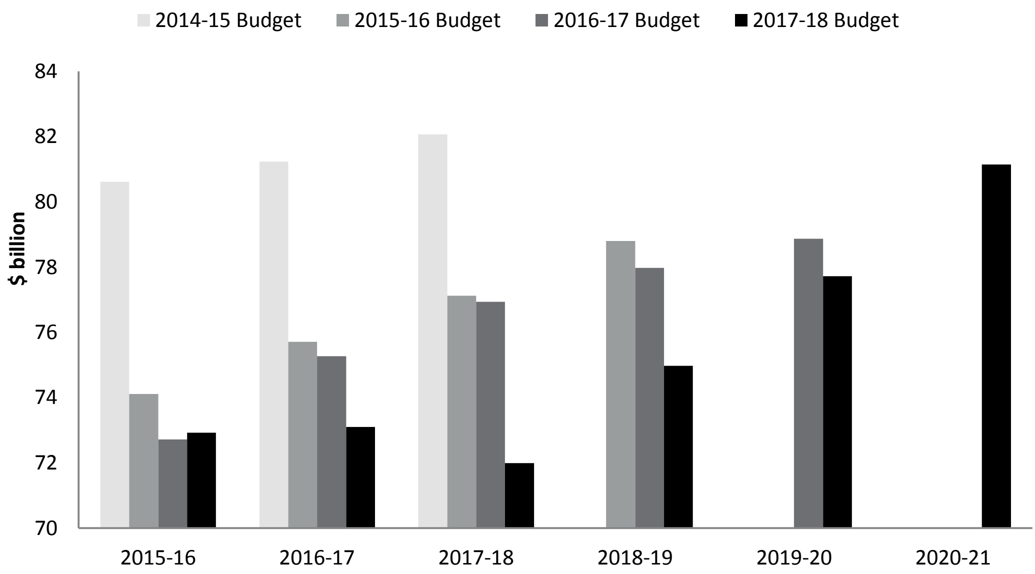


Table 3.7 Revisions to Non-financial Public Sector borrowings[1]

	2014-15 $ million	2015-16 $ million	2016-17 $ million	2017-18 $ million
2014-15 Budget	79,956	80,619	81,234	82,070
2015-16 Budget	75,535	74,113	75,714	77,119
2016-17 Budget[2]	75,233	72,715	75,270	76,939
2017-18 Budget[3]	75,233	72,922	73,102	71,989
Change between 2014-15 Budget and 2017-18 Budget	**(4,723)**	**(7,697)**	**(8,132)**	**(10,081)**

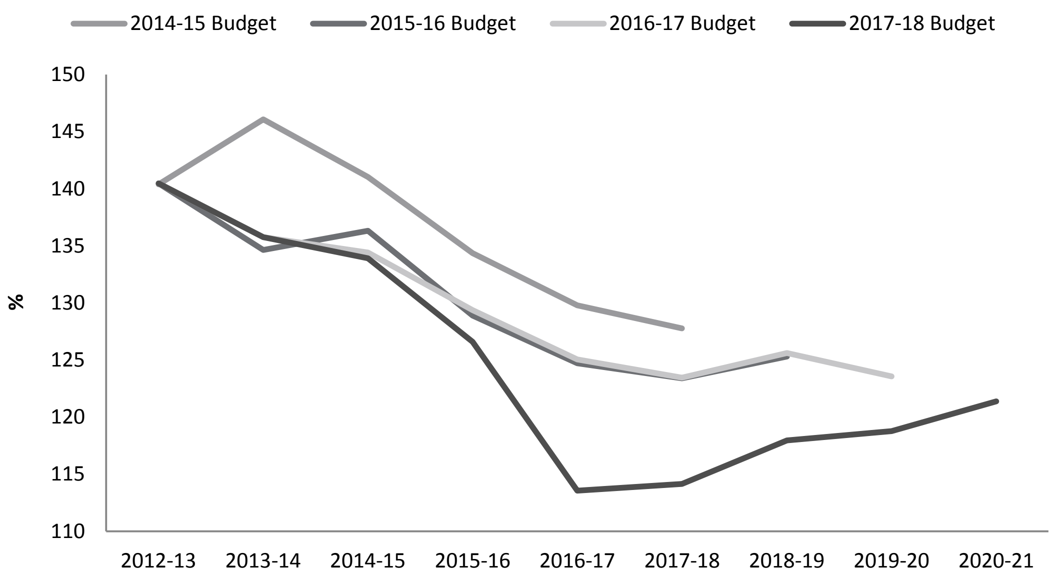
Notes:

1. Numbers may not add due to rounding. A number in brackets represents a negative amount.
2. Number for 2014-15 represents actual result for that year.
3. Numbers for 2014-15 and 2015-16 represent actual results for those years.

The NFPS debt to revenue ratio is estimated at 114% for 2016-17, lower than expected at the 2016-17 Budget (125%) and 2016-17 MYFER (119%) and significantly lower than forecast at the time of the 2014-15 Budget, when the 2016-17 NFPS debt to revenue ratio was projected to be 130%. The reductions since 2014-15 are due primarily to increased royalty revenue in 2016-17 and the impact of the Government's Debt Action Plan in reducing General Government debt, as demonstrated in Chart 3.4.

The NFP debt to revenue ratio for 2017-18 is also estimated to be 114%. Over the forward estimates, the increase in the NFPS debt to revenue ratio reflects the timing of significant capital projects and associated borrowings, as well as the expected moderation in revenue growth over the period 2017-18 to 2020-21.

Chart 3.4 Non-financial Public Sector debt to revenue ratio



3.3 Fiscal principles

The Government remains committed to its fiscal principles, which underpin the development of the State's fiscal strategy and financial decision-making, and have provided the framework for the State Budgets since 2015-16. During the 2015-16 Budget five principles were implemented, and subsequently refined, with an additional fiscal principle adopted in the 2016-17 Budget to ensure the ongoing sustainability of the public service.

Fiscal principles

Principle 1 - Target ongoing reductions in Queensland's relative debt burden, as measured by the General Government debt to revenue ratio

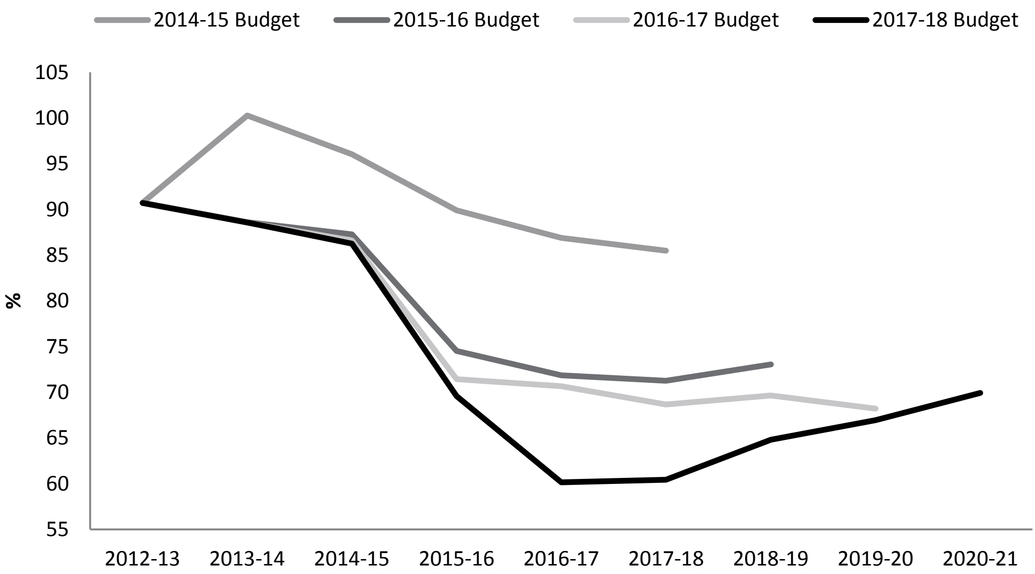
A primary fiscal principle of the Queensland Government has been to reduce General Government Sector debt, to provide the Government with the capacity to respond to market and environmental shocks. The Government's objective is to service General Government Sector debt through General Government Sector revenues, including taxes (either state or federal), charges and royalties. By contrast, government-owned corporation debt is serviced from the operating cash flows of these entities.

The debt to revenue measure ratio is the key measure of the sustainability of General Government Sector debt levels. The Government aims to reduce this ratio over time to continue to improve the State's fiscal sustainability.

As a result of initiatives implemented through the Debt Action Plan, the General Government Sector's debt to revenue ratio has fallen substantially over the period to 2017-18 in each successive budget since 2014-15, as seen in Chart 3.5. Debt to revenue ratios for both 2016-17 and 2017-18 reduce to 60% from the peak of 91% in 2012-13.

Across the forward estimates, the expected moderation in revenue growth, as well as the timing of significant capital projects and associated borrowings, sees a gradual increase in the forecast debt to revenue ratio to 2020-21. On average over the budget and forward estimates, the debt to revenue ratio is 66%, well below the four years to 2019-20 forecast in the 2016-17 Budget.

Chart 3.5 General Government Sector debt to revenue ratio



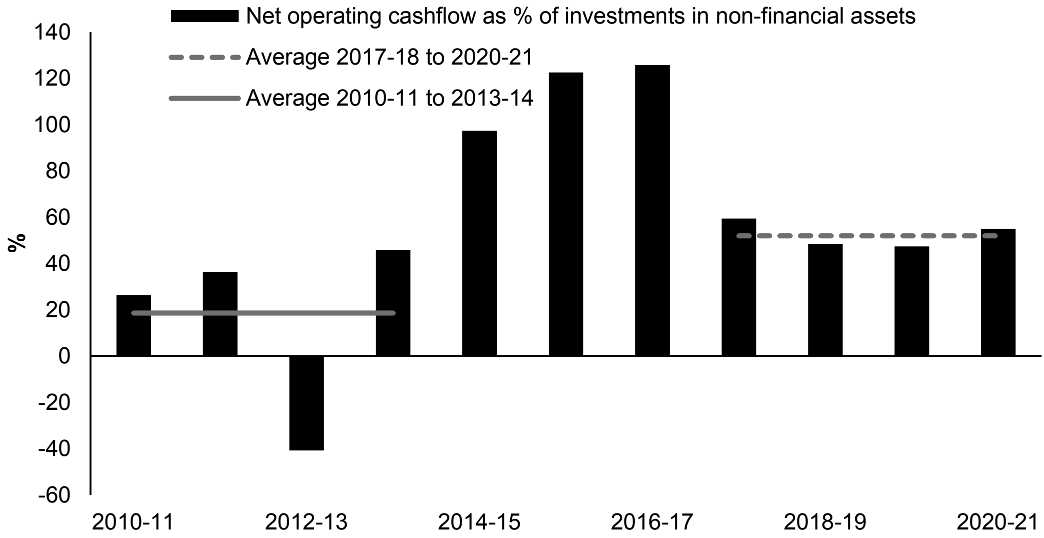
Principle 2 - Target net operating surpluses that ensure any new capital investment in the General Government Sector is funded primarily through recurrent revenues rather than borrowing

The net operating balance is recognised across Australian states and territories as the appropriate measure of a jurisdiction's annual operating position. The Queensland Government targets operating surpluses to ensure that recurrent revenues, rather than borrowings, are the primary funding source for capital investment in the General Government Sector.

The General Government Sector Cash Flow Statement (refer Table 9.7) provides details of the sources of funding for capital investment. It shows that net cash inflows from operating activities equate to 126% of the funding required for the 2016-17 net General Government Sector investments in non-financial assets. Similar to the outcome for 2015-16 (123%), this result is primarily due to the upwards revisions to revenue.

For 2017-18, net cash inflows from operating activities are budgeted to be 59% of the funding required for net General Government Sector investments in non-financial assets. Across 2017-18 to 2020-21, this ratio averages 52%, primarily reflecting the higher level of capital spending during the period. However, this measurement does not recognise the additional funds made available by the Debt Action Plan that can be utilised to invest in capital projects. Indeed, in the four years to 2020-21, gross borrowings increase by only $7.307 billion in support of the General Government Sector capital program of $30.881 billion.

Chart 3.6 General Government Sector net operating cash flow as a proportion of investments in non-financial assets



Principle 3 - The capital program will be managed to ensure a consistent flow of works to support jobs and the economy and reduce the risk of backlogs emerging

While the value of the total capital program can fluctuate across financial years, due to the nature and timing of projects, the 2017-18 Budget provides for an overall increase in General Government Sector PNFA from $4.416 billion estimated in 2016-17 to an average of $6.268 billion across the budget and forward estimates. Total General Government Sector PNFA over the budget and forward estimates are projected at $25.071 billion, an increase of $1.2 billion over the four years to 2019-20 forecast in the 2016-17 Budget.

The General Government Sector PNFA increases steadily to 2019-20, reflecting the Government's objective to ensure a consistent flow of works to support jobs and the economy and to reduce the risk of backlogs emerging. Nevertheless, the capital program remains well below the unusually high levels of the period 2009-10 to 2011-12, when a significant State infrastructure program was further elevated by the Australian Government's stimulus program in response to the Global Financial Crisis.

Principle 4 - Maintain competitive taxation by ensuring that General Government Sector own-source revenue remains at or below 8.5% of nominal gross state product, on average, across the forward estimates

The Queensland Government has a clear role in providing an economic environment that supports business and jobs growth, without placing undue strain on households.

Taxation per capita in Queensland is significantly lower compared to the average of other Australian states and territories, as discussed in Chapter 4. In 2017-18 Queensland's taxation per capita of $2,691 will be $843 per capita less than the average of the other jurisdictions.

In addition to comparing Queensland's competitive taxation status across jurisdictions, the Government also aims to support businesses and households by ensuring that own-source revenue in the General Government Sector, including user charges and royalties, remains at or below 8.5% of nominal gross state product, on average, across the forward estimates. Own-source revenue is derived from total State revenue less any grants received from external sources, mainly the Australian Government.

This principle is expected to be met over the forward estimates period, with revenue falling as a percentage of GSP. For 2017-18, General Government own-source revenue is forecast to be 7.7% of nominal gross state product. This falls to 7.1% by 2020-21, with an average of 7.4% across the four years.

Principle 5 - Target full funding of long-term liabilities such as superannuation and WorkCover in accordance with actuarial advice

Consistent with the long-standing practice in Queensland, the Government continues to be committed to ensuring that the State sets aside assets to meet long-term liabilities such as superannuation and WorkCover, in accordance with actuarial advice.

The State Actuary's most recent valuation indicates that, as at 30 June 2016, the defined benefit superannuation scheme is in a surplus position of over $9 billion. The review was undertaken in accordance with the funding and solvency framework developed by the Australian Prudential Regulation Authority (APRA) and was publicly released in May 2017, under prudential requirements.

The review examined expected repatriations over the three years commencing 2017-18, consistent with previous Budget forecasts, and demonstrated that combined funding measures announced over the last two Budgets are expected to reduce the overfunding of the scheme whilst still maintaining a buffer to protect against adverse experiences. The review concluded that the repatriation and contribution suspension initiatives could proceed as planned, with reviews to be undertaken on an annual cycle.

As at 30 June 2016, the most recently available assessment, the WorkCover scheme was also fully funded.

Principle 6 - Maintain a sustainable public service by ensuring that overall growth in full-time equivalents (FTE) employees, on average over the forward estimates, does not exceed population growth

The Government has committed to providing high quality and appropriate frontline services that keep pace with growth in the population, while maintaining fiscally responsible and affordable levels of expenditure. A key focus is to ensure a balance between delivery of high-quality services, and the discipline that underpins the Government's commitment to fiscal sustainability.

FTEs are estimated to increase by around 6,000 (or 2.8%) in 2017-18, with around 82% of the increase being attributable to growth in health and education.

Average growth over the forward estimates period from 2016-17 to 2020-21 is 1.7%.
This compares to an estimated Queensland population growth of 1½% annually.

Further details on FTE estimates are provided in Chapter 5, with Table 5.2 providing in-scope agencies and their full-time equivalent estimates for 2016-17 and 2017-18.

3.4 Achievement of fiscal principles

Table 3.8 provides a summary of the Government's progress in meeting its fiscal principles' targets.

Table 3.8 The fiscal principles of the Queensland Government

Principle	Indicator		
Target ongoing reductions in Queensland's relative debt burden, as measured by the General Government debt to revenue ratio.	General Government debt to revenue ratio		
		2016-17 MYFER %	**2017-18 Budget %**
	2016-17	66	60
	2017-18	67	60
	2018-19	69	65
	2019-20	68	67
	2020-21	n.a.	70
Target net operating surpluses that ensure any new capital investment in the General Government Sector is funded primarily through recurrent revenues rather than borrowing.	General Government net operating cash flows as a proportion of net investments in non-financial assets		
		2016-17 MYFER[1] %	**2017-18 Budget %**
	2016-17	88	126
	2017-18	65	59
	2018-19	61	48
	2019-20	62	47
	2020-21	n.a	55
The capital program will be managed to ensure a consistent flow of works to support jobs and the economy and reduce the risk of backlogs emerging.	General Government purchases of non-financial assets		
		2016-17 MYFER $ million	**2017-18 Budget $ million**
	2016-17	5,210	4,416
	2017-18	6,439	5,123
	2018-19	5,644	6,471
	2019-20	5,985	7,015
	2020-21	n.a.	6,462

Principle	Indicator	
Maintain competitive taxation by ensuring that General Government Sector own-source revenue remains at or below 8.5% of nominal gross state product, on average, across the forward estimates.	**General Government own-source revenue to GSP**	
	2017-18	7.7%
	Average across the forward estimates	7.4%
Target full funding of long-term liabilities such as superannuation and WorkCover in accordance with actuarial advice.	As at the last actuarial review (as at June 2016), accruing superannuation liabilities were fully funded. The WorkCover scheme was also fully funded as at 30 June 2016.	
Maintain a sustainable public service by ensuring that overall growth in full-time equivalents (FTE) employees, on average over the forward estimates, does not exceed population growth.	*FTE growth*	
	Average across the forward estimates	1.7%
	Population growth	
	Average across the forward estimates	1½%

Note:

1. 2016-17 MYFER ratio has been revised to reflect the ratio of net operating cash flows to net capital purchases in line with 2017-18 Budget methodology.

4 Revenue

Features

- Total General Government Sector revenue is estimated to be $56.434 billion in 2016-17, $5.439 billion (or 10.7%) higher than in 2015-16. Higher than budgeted revenue growth in 2016-17 is due to increased revenue from royalties resulting from increased coal prices, as well as changes to the timing of payments for Natural Disaster Relief and Recovery Arrangements (NDRRA).
- Total General Government Sector revenue in 2016-17 is estimated to be $2.985 billion (or 5.6%) higher than was estimated in the 2016-17 Budget. The major driver of this increase is higher royalty revenue from the increase in coal prices towards the end of 2016.
- While strong revenue growth is estimated for 2016-17 as a result of short-term increases to mining royalties, the revenue outlook is challenging. Total revenue is expected to grow at an average annual rate of 3.0% over the five years to 2020-21. Revenue growth over this period is supported by moderate average annual growth in taxation (4.6%) and current grants (4.3%), but is also affected by reductions in interest income and revenue from government-owned corporations.
- Since the 2016-17 Mid Year Fiscal and Economic Review (MYFER), forecasts for royalty revenue have been revised upward by $1.556 billion over the four years to 2019-20. Most of this revision is in 2016-17 and 2017-18, and mainly reflects a somewhat slower return of coal prices to the medium term outlook following the sharp increase in 2016, and disruptions related to Severe Tropical Cyclone (STC) Debbie. Royalty revisions in this Budget follow an increase of $2.151 billion between the 2016-17 Budget and MYFER over the four years to 2019-20.
- Total General Government Sector revenue is estimated to be $55.869 billion in 2017-18. The decrease of $565 million (or 1.0%) from 2016-17 revenue is largely due to royalty revenue falling in 2017-18 as coal prices normalise.
- Queensland will maintain its competitive tax status, with per capita state tax estimated at $2,691 in 2017-18, compared to an average of $3,534 for the other states and territories.
- Queenslanders continue to benefit from the Government maintaining its commitment to not introduce new taxes, fees or charges. Scheduled annual indexation of certain fees and charges will continue up to 2018-19. From 2019-20, the indexation rate will be based on the Consumer Price Index (CPI), which is expected to reduce fees and charges by $78 million over two years.
- The payroll tax rebate for apprentices and trainees will continue at the increased rate of 50% for an additional 12 months, until 30 June 2018.
- From 1 July 2017, a 1.5% surcharge will be introduced for absentee payers of land tax, applying to land holdings of $350,000 or higher in addition to other land tax payable. This will have no direct effect on Queensland residents.

This chapter provides an overview of General Government Sector revenue for the 2016-17 estimated actual outcome, forecasts for the 2017-18 Budget year and projections for 2018-19 to 2020-21.

4.1 2016-17 estimated actual

General Government Sector revenue in 2016-17 is estimated to be $56.434 billion, which is $2.985 billion (or 5.6%) more than the 2016-17 Budget estimate.

Significant variations from the 2016-17 Budget estimates include:

- A $1.894 billion (or 90%) increase in revenue from royalties and land rents, mainly as a result of the sharp increase in coal prices towards the end of 2016.
- A $534 million (or 2.0%) increase in grants from the Australian Government. Increases in payments for specific purposes, including changes to the timing of NDRRA reimbursements, have been partially offset by reduced estimates of GST revenue.
- Sales of goods and services revenue being $407 million (or 7.5%) higher than was estimated in the 2016-17 Budget.

These increases were partially offset by decreased taxation revenue (down $205 million), mainly related to lower than anticipated revenue from payroll tax and gambling tax.

4.2 2017-18 revenue by category

General Government Sector revenue in 2017-18 is estimated to be $55.869 billion, $565 million (or 1.0%) lower than the 2016-17 estimated actual revenue of $56.434 billion. The revenue reduction in 2017-18 is mainly due to short-term or once-off influences inflating revenue in 2016-17, with these expected to return to more normal levels in 2017-18. Between 2015-16 and 2017-18, estimated average annual growth is 4.7%.

Revenue from capital grants is expected to be $623 million lower in 2017-18 compared to 2016-17, primarily due to a shift in the timing of NDRRA funding received from the Australian Government relating to prior disaster events, reducing revenue in 2017-18.

Total revenue from royalties and land rents is expected to be $533 million lower in 2017-18 than in 2016-17. The significant royalty increase in 2016-17 is driven by a short-term increase in coal prices, which is not expected to be sustained. Coking coal prices are expected to steadily decline through 2017-18 and reach a medium term assumption of US$115/tonne during 2018-19.

Also, revenue from dividends and income tax equivalent income is expected to be $481 million lower in 2017-18, mainly due to declining payments from energy network businesses.

Partially offsetting these decreases are modest growth in less volatile revenue sources, with 2.7% growth in taxation revenue, and 2.2% growth in current grants.

Major sources of General Government Sector revenue in 2017-18 are grants revenue (49.5%) and taxation revenue (23.8%). Table 4.1 details revenue estimates by category, and Chart 4.1 illustrates the composition of General Government Sector revenue.

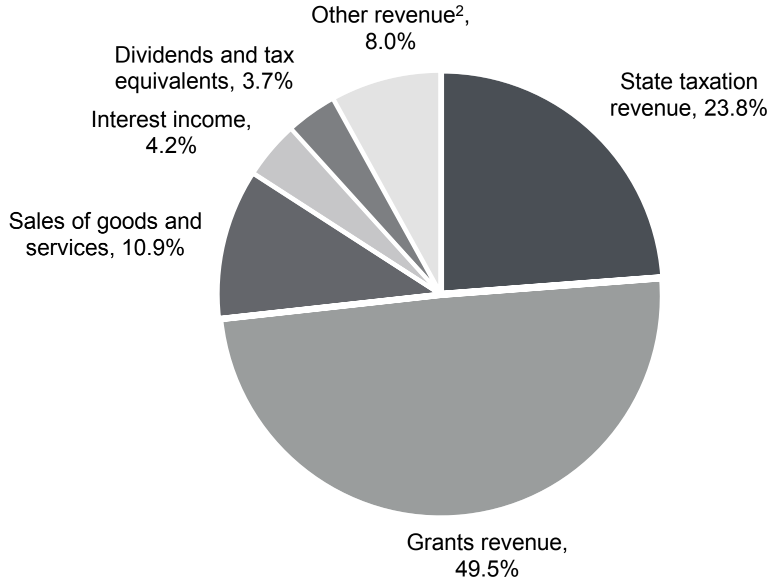
Table 4.1 General Government Sector revenue[1]

	2015-16 Actual $ million	2016-17 Budget $ million	2016-17 Est. Act. $ million	2017-18 Budget $ million	2018-19 Projection $ million	2019-20 Projection $ million	2020-21 Projection $ million
Taxation revenue	12,547	13,150	12,945	13,298	14,031	14,843	15,707
Sales of goods and services	5,926	5,423	5,830	6,067	6,101	6,268	6,366
Interest income	2,543	2,296	2,300	2,330	2,225	1,949	1,881
Grants revenue							
Current grants	22,347	24,286	24,753	25,299	25,663	26,448	27,571
Capital grants	1,394	2,830	2,955	2,332	2,161	2,234	1,436
Dividend and income tax equivalent income							
Dividends	1,811	1,590	1,697	1,453	1,333	1,364	1,202
Income tax equivalent income	851	717	841	604	549	639	567
Other revenue							
Royalties and land rents	2,284	2,111	4,005	3,472	3,039	3,096	3,180
Other	1,293	1,046	1,108	1,015	1,036	1,046	1,073
Total revenue	**50,995**	**53,449**	**56,434**	**55,869**	**56,138**	**57,887**	**58,982**

Note:

1. Numbers may not add due to rounding.

Chart 4.1 Revenue by operating statement category, 2017-18[1]

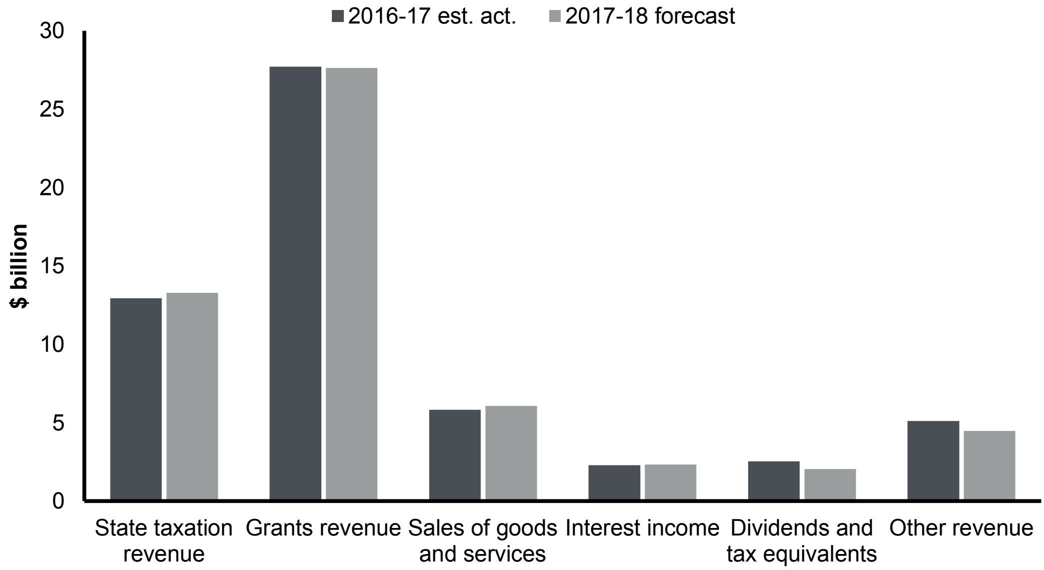


Notes:

1. Numbers may not add due to rounding.
2. The major component of other revenue is royalties and land rents (6.2% of total revenue).

Chart 4.2 compares 2017-18 forecasts with 2016-17 estimated actuals.

Chart 4.2 Revenue by operating statement category, 2016-17 and 2017-18[1]



Note:

1. Grants revenue is largely made up of Australian Government funding.

4.3 2017-18 Budget initiatives

4.3.1 Surcharge for absentee payers of land tax

The Government will introduce a 1.5% surcharge for absentee payers of land tax, as defined under the *Land Tax Act 2010*. The surcharge will apply to land holdings of $350,000 or higher, in addition to other land lax payable from 1 July 2017.

Absentee owners benefit from a high standard of services and infrastructure delivered and maintained by a broad range of taxes, many of which are borne by other taxpayers such as residents and companies. The surcharge will ensure absentee owners of land make a fair contribution, and will have no direct impact on Queensland residents.

This measure is expected to raise additional revenue of $20 million in 2017-18.

4.3.2 Extension of increased payroll tax rebate for apprentices and trainees

The Government is continuing the payroll tax rebate on the wages of apprentices and trainees at the increased rate of 50% until 30 June 2018. This rebate is in addition to their wages being exempt and will be used as an offset against payroll tax payable on the wages of other employees.

This measure is expected to result in a reduction to payroll tax revenue of $12 million in 2017-18.

4.3.3 Changes to fees and charges escalation

The Queensland Government has a policy in place which requires departments to regularly review their fees and charges to ensure they remain appropriate and that the cost structure underlying the amount of the fee or charge remains accurate and efficient. However, it is not economical for a detailed review to be conducted each year. Therefore, to maintain the value of the fee or charge when a comprehensive review is not conducted, departments generally apply the Government indexation policy.

In June 2012, the previous Government changed the indexation policy to an annual indexation rate of 3.5% per annum, which did not reflect any specific cost index. The penalty unit indexation rate was also set at 3.5% to align with the other fees and charges indexation rate. As part of the 2017-18 Budget, the Government has decided to instead base the escalation of fees and charges and the penalty unit on the Consumer Price Index from 2019-20. At the current CPI level, this would result in a lower fees and charges escalation rate from 2019-20.

The Government indexation policy does not apply to intra and inter-departmental charges, fees and charges of an ad hoc nature, or nationally agreed fees (e.g. heavy vehicle registration); or where a specific indexation policy has been approved by the Cabinet Budget Review Committee.

This measure is estimated to reduce fees and charges revenue by $78 million across 2019-20 and 2020-21.

4.4 Queensland’s revenue trends

Chart 4.3 examines the contribution of the key revenue sources of GST, taxation and royalties to revenue growth. Royalties are the largest driver of growth in 2016-17, with royalties expected to peak in that year before declining through 2017-18 as coal prices return to a medium term outlook. In 2017-18, GST and taxation revenue contribute the largest proportion of growth.

Total revenue growth, which is mainly driven by these three sources, is estimated to be 3.0% on average over the five years to 2020-21. This is far lower than the 7.1% average growth in total revenue in the fifteen years to 2014-15.

Revenue grew strongly between 2000-01 and 2007-08, supported by growth in these three key sources. Queensland's GST revenue grew by an average rate of 7.5% in the six years 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 growth continued to support overall revenue growth in more recent years, particularly from 2012-13 onwards as moderate growth in the GST pool combined with increases in Queensland's share of GST.

Annual growth in transfer duty averaged 22.6% over the seven years 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. While taxation growth from 2009-10 was somewhat more subdued following the 2008-09 decline, it continued to make a moderate contribution to overall revenue growth, mainly from payroll tax, transfer duty and motor vehicle registration.

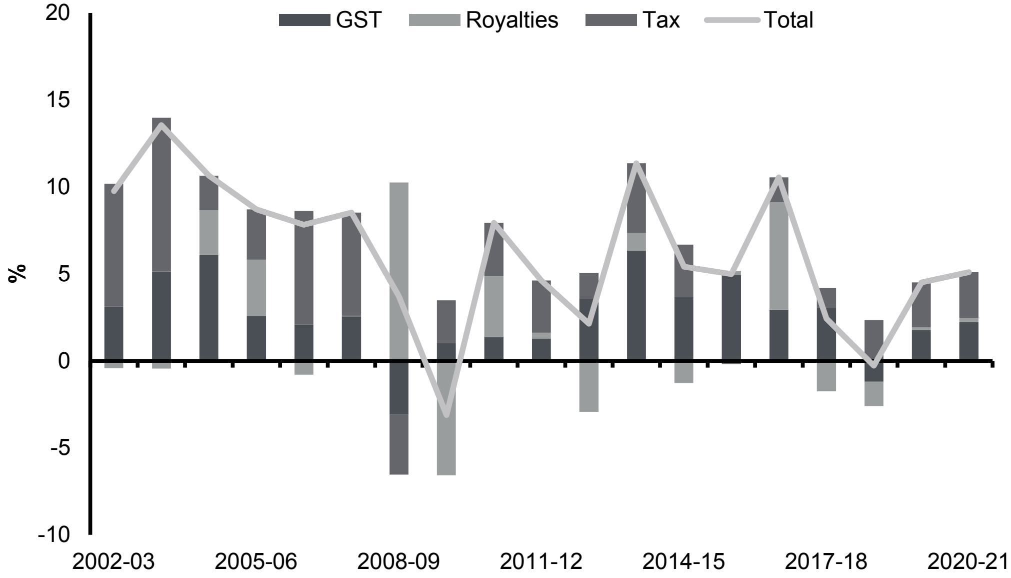
Royalty revenue also grew strongly over the 2000-01 to 2007-08 period, with growth of around 50% in both 2004-05 and 2005-06. In contrast to other key revenues, royalties reached a peak in 2008-09, as coal contracts had been priced at record levels prior to the onset of the GFC. Royalty revenue then fell significantly in 2009-10, and its contribution to growth remained relatively low or negative until 2016-17. The recent surge in coal prices means that royalty revenue in 2016-17 is expected to exceed the 2008-09 collections for the first time, but this uplift is also expected to be short term, with royalties falling in 2017-18 and 2018-19.

Looking forward, the overall revenue growth is modest relative to that experienced between 2000-01 and 2007-08. Taxation is expected to grow by 4.6% on average in the five years to 2020-21, with average payroll tax growth of 4.4% and transfer duty growth of 4.9% per year on average. Royalties are expected to reduce over the period 2017-18 to 2020-21 as coal prices decline to medium term expectations. While the GST pool is expected to grow moderately over the five years to 2020-21, declines in Queensland's share of the pool are expected to reduce GST growth to 3.7%.

Growth is also affected by reductions in other revenue lines, with capital grants from the Australian Government expected to be $1.440 billion lower in 2020-21 than in 2016-17 due to the profile of NDRRA and national roads payments from the Australian Government. Revenue from dividend and income tax equivalent income is also expected to decline between 2016-17 and 2020-21, primarily driven by reduced dividends from energy network businesses due to the new 2017-2022 Powerlink revenue determination and reduced earnings as a result of low regulated revenue growth. More detail on dividends and income tax equivalent income is in Chapter 8.

Growth in individual revenue lines across the forward estimates is discussed in more detail in the next section.

Chart 4.3 Contribution to growth of key revenues[1]



Note:

1. Annual percentage point contribution to growth of the aggregate of three categories (GST, royalties and taxes). Total is the annual % growth in revenues of the aggregate of the three categories.

4.5 Taxation revenue

Total revenue from taxation is expected to grow by 2.7% in 2017-18, following an estimated increase of 3.2% in 2016-17. The main components of taxation revenue are shown in Table 4.2.

Table 4.2 State taxation revenue[1]

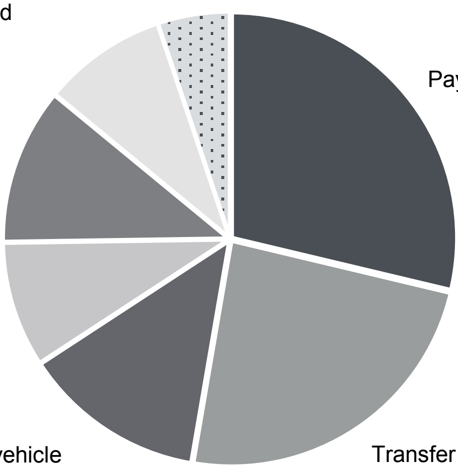
	2015-16 Actual $ million	2016-17 Est. Act. $ million	2017-18 Budget $ million	2018-19 Projection $ million	2019-20 Projection $ million	2020-21 Projection $ million
Payroll tax	3,712	3,667	3,819	4,057	4,328	4,615
Duties						
Transfer	3,005	3,327	3,190	3,367	3,580	3,813
Vehicle registration	504	516	537	563	592	621
Insurance[2]	816	852	892	936	983	1,032
Other duties[3]	20	41	59	62	64	67
Total duties	**4,344**	**4,736**	**4,678**	**4,928**	**5,219**	**5,534**
Gambling taxes and levies						
Gaming machine tax	677	687	718	750	784	819
Health Services Levy	68	72	80	87	96	106
Lotteries taxes	259	242	249	257	264	272
Wagering taxes	10	10	10	11	11	11
Casino taxes and levies	101	100	103	106	109	113
Keno tax	21	20	21	21	22	23
Total gambling taxes and levies	**1,138**	**1,131**	**1,181**	**1,233**	**1,287**	**1,344**
Other taxes						
Land tax	1,010	1,086	1,192	1,274	1,358	1,441
Motor vehicle registration	1,633	1,676	1,741	1,809	1,877	1,948
Emergency Management Levy	457	482	508	535	560	586
Guarantee fees[4]	201	112	128	142	160	183
Other taxes[5]	51	54	51	52	54	55
Total taxation revenue	**12,547**	**12,945**	**13,298**	**14,031**	**14,843**	**15,707**

Notes:

1. Numbers may not add due to rounding.
2. Includes duty on accident insurance premiums.
3. Includes duty on life insurance premiums.
4. Includes competitive neutrality fees charged to government-owned corporations.
5. Includes the Statutory Insurance Scheme Levy and Nominal Defendant Levy.

Chart 4.4 indicates the composition of estimated State taxation revenue for 2016-17.

Chart 4.4 State taxation by tax category, 2017-18[1]



Note:

1. Percentages may not add to 100% due to rounding. “Other duties” includes vehicle registration duty, insurance duty and other minor duties. “Other taxes” includes the Emergency Management Levy, guarantee fees and other minor taxes.

The largest sources of state taxation revenue are payroll tax and transfer duty, which together represent around 53% of the State’s total taxation revenue in 2017-18.

Payroll tax (28.7% of total tax revenue in 2017-18) has a relatively stable base with growth usually driven by the underlying strength of the State economy. Since the GFC, payroll tax has overtaken transfer duty as the key contributor to Queensland’s tax revenue collections.

In the last few years, payroll tax has been affected by changes in the composition of the payroll tax base, with reductions in collections from the mining and construction industries only partially offset by growth in other industries, such as retail trade.

In contrast, revenue growth from transfer duty (representing 24.0% 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 9.0% of total tax revenue in 2017-18. While also subject to the volatility of value 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 8.9% of tax revenues in 2016-17. Motor vehicle registration represents 13.1% of total tax revenue.

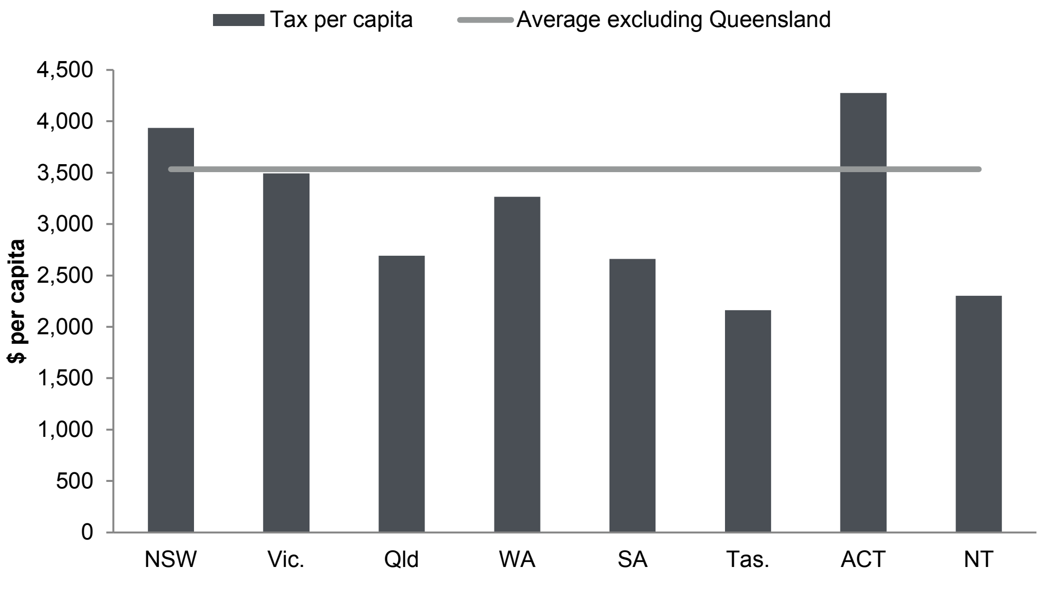
4.5.1 Queensland's competitive tax status

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 Government's Fiscal Principles is to maintain competitive taxation by ensuring General Government Sector own-source revenue remains at or below 8.5% of nominal gross state product (GSP), on average, across the forward estimates. Own-source revenue is derived from total State revenue less any grants received from external sources, mainly the Australian Government. This principle is expected to be met over the forward estimates period, with own-source revenue well below 8.5% of GSP. Section 3.3 provides more detail on the Government's Fiscal Principles.

As Chart 4.5 shows, taxation per capita in Queensland is significantly lower than the average taxation per capita in the other states and territories. In 2017-18, it is estimated that Queensland's taxation per capita of $2,691 will be $843 per capita less than the average of other jurisdictions.

Chart 4.5 Taxation per capita, 2017-18



Sources: 2017-18 Budget for all states except NSW, SA where mid-year updates are used, and WA where the Pre-election Financial Projections Statement is used. Population estimates from the 2017-18 Commonwealth Budget.

Table 4.3 demonstrates that the Queensland tax system remains amongst the most competitive in Australia, using various measures of tax competitiveness.

Queensland's tax effort, as measured by the Commonwealth Grants Commission, was 12% below the national average in 2015-16. A third measure of competitiveness, taxation as a share of GDP, also confirms that Queensland's taxes are competitive with other states.

Table 4.3 Queensland's tax competitiveness

	NSW	Vic.	Qld	WA	SA	Tas.[4]	ACT[5]	NT[4]	Avg[6]
Taxation per capita[1] ($)	3,936	3,492	2,691	3,267	2,660	2,161	4,332	2,304	3,534
Taxation effort[2] (%)	105	101	88	102	103	90	102	85	100
Taxation % of GSP[3] (%)	5.5	5.3	4.0	3.8	4.4	4.1	4.3	2.6	5.0

Notes:

1. 2017-18 data. Sources: 2017-18 Budget for all jurisdictions except NSW, SA where mid-year updates are used, and WA which uses the Pre-election Financial Projections Statement. Population data from Commonwealth 2017-18 Budget.
2. 2015-16 data. Source: Commonwealth Grants Commission 2017 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. 2015-16 data. Sources: Australian Bureau of Statistics 5506.0 and ABS 5220.0.
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 (aside from taxation effort, which is the average of all states).

4.5.2 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.
From 1 July 2015, in addition to their wages already being exempt from payroll tax, a 25% payroll tax rebate applied to the wages of eligible apprentices and trainees. To offer an added incentive for businesses to employ apprentices and trainees, the rebate was increased to 50% for 12 months from 1 July 2016. In this Budget, the Government has extended the availability of this increased rate of rebate until 30 June 2018.

Payroll tax collections are estimated to be $3.819 billion in 2017-18, representing growth of 4.1% on the 2016-17 estimated actual. This estimate has been reduced by $221 million since the 2016-17 Budget and reflects the continued impact of reduced collections in 2016-17 from the mining and construction industries.

The mining and construction industries, which have a higher concentration of larger organisations, have experienced subdued collections in recent years consistent with slowing in business investment due to the completion of LNG construction in late 2016. This is also having an impact on employment in industries servicing the resources and construction sectors, such as professional services and equipment hiring.

Collections in recent months have shown signs of improvement, and coupled with continued modest growth from other industries such as retail trade and finance and insurance, moderate growth is expected in 2017-18 and across the estimates period, albeit well below historic levels.

The average annual payroll tax growth is forecast to be 4.4% over the five years to 2020-21, almost half the average of 8.5% in the 15 years to 2014-15.

4.5.3 Duties

Duties are levied on a range of financial and property transactions. The major duties include transfer, vehicle registration and insurance duties.

Transfer duty

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 home buyers pay a 1% concessional rate on dutiable values up to $350,000, rather than the normal schedule of rates between 1.5% and 3.5% for those values. If a first home buyer purchases a property up to $500,000 they will pay no duty, with reduced rates available up to $550,000.

Revenue from transfer duty is expected to be 4.1% lower in 2017-18 than in 2016-17, following growth of 10.7% in 2016-17. The growth in 2016-17 has been inflated by several large non-residential transactions although collections have been supported by moderate underlying growth in the residential market.

The reduction of 4.1% in 2017-18 reflects the expectation there will be fewer large transactions along with a restrained residential market, with low price growth expected in a well-supplied apartment market as outlined in Chapter 2. Over the five years to 2020-21, transfer duty is estimated to grow by 4.9% on average per annum.

Vehicle registration duty

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 4.0% in 2017-18, following growth of 2.4% in 2016-17.

Insurance duty

Insurance duty is charged on contracts of general insurance (for example, insurance for house and contents, vehicle, professional indemnity), life insurance, compulsory third party insurance and accident insurance. Revenue from insurance duty is expected to grow by 4.7% in 2017-18.

4.5.4 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 4.4% in 2017-18, and 3.4% on average over the five years to 2020-21.

4.5.5 Land tax

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

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

Land tax is estimated to grow by 9.7% to $1.192 billion in 2017-18, reflecting growth in land values in recent years. Some moderation in property value growth is expected in the next few years, with the average annual growth of 7.4% over the five years to 2020-21 boosted by additional collections from the absentee surcharge.

4.5.6 Motor vehicle registration

Motor vehicle registration fees are expected to grow by 3.9% in 2017-18. Average annual growth across the five years to 2020-21 will reflect an increase in the number of motor vehicles as well as the annual indexation of fees.

4.5.7 Emergency Management levy

The Emergency Management Levy revenue, which is used to partly offset the costs of emergency management in Queensland, is expected to grow by 5.4% in 2017-18.

4.5.8 Guarantee fees

Guarantee fees are revenues collected by the Queensland Treasury Corporation (QTC) on behalf of the State and comprise 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 of the State (through QTC) are shared between the borrower and the State.

4.5.9 Other taxes

Other taxes represent revenue from taxes such as the Statutory Insurance Scheme levy and the Nominal Defendant levy.

4.5.10 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 B provides details of tax expenditure arrangements currently provided by the Queensland Government.

4.6 Grants revenue

Grants revenue is comprised of Australian Government grants, grants from the community and industry, and other miscellaneous grants. The decline of $77 million (or 0.3%) in 2017-18 reflects a $546 million increase in current grants that is offset by a $623 million decrease in capital grants. The decline in capital grants from 2016-17 to 2017-18 primarily reflects a shift in the timing of NDRRA funding, relating to prior disaster events, reducing revenue in 2017-18.

Table 4.4 Grants revenue[1]

	2015-16 Actual $ million	2016-17 Est. Act. $ million	2017-18 Budget $ million	2018-19 Projection $ million	2019-20 Projection $ million	2020-21 Projection $ million
Current grants						
Australian Government grants	22,062	24,394	25,004	25,396	26,182	27,306
Other grants and contributions	284	359	295	268	266	265
Total current grants	**22,347**	**24,753**	**25,299**	**25,663**	**26,448**	**27,571**
Capital grants						
Australian Government grants	1,368	2,876	2,258	2,104	2,187	1,436
Other grants and contributions	26	79	73	57	47	..
Total capital grants	**1,394**	**2,955**	**2,332**	**2,161**	**2,234**	**1,436**
Total grants revenue	**23,740**	**27,708**	**27,631**	**27,824**	**28,682**	**29,007**

Note:
1. Numbers may not add due to rounding.

4.6.1 Australian Government payments

Australian Government payments to Queensland comprise:

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

Australian Government payments to Queensland in 2017-18 are expected to total $27.263 billion, representing a slight decline of $7 million compared to payments in 2016-17. This small decrease is made up of a $932 million (or 6.7%) increase in GST revenue being offset by a $939 million decrease in total payments for specific purposes.

Table 4.5 Australian Government payments[1]

	2015-16 Actual $ million	2016-17 Est. Act. $ million	2017-18 Budget $ million	2018-19 Projection $ million	2019-20 Projection $ million	2020-21 Projection $ million
GST revenue grants[2]	13,122	13,939	14,871	14,490	15,042	15,772
Total payments for specific purposes[3]	10,308	13,331	12,392	13,009	13,326	12,970
Total Australian Government payments	23,430	27,270	27,263	27,499	28,368	28,742

Notes:
1. Numbers may not add due to rounding.
2. Queensland Treasury estimates.
3. Differs from Chapter 7 due to the inclusion of direct Australian Government payments to Queensland agencies for Commonwealth own purpose expenditure.

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

GST revenue grants and associated payments

GST revenue grants and associated payments to Queensland in 2017-18 are expected to be $14.871 billion, which represents growth of $932 million compared to the 2016-17 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. In the 2017-18 Budget, the Australian Government has decreased their estimate for the GST pool by $2.500 billion over the period 2016-17 to 2019-20 since the 2016-17 MYEFO.

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) in 2017-18 increased in the 2017 Update from the Commonwealth Grants Commission. Chapter 7 provides further detail on Queensland's expected GST revenue.

Payments for specific purposes

Australian Government payments for specific purposes to Queensland in 2017-18 are estimated at $12.392 billion. Chapter 7 provides further detail on Australian Government payments for specific purposes.

4.6.2 Other grants and contributions

Other grants and contributions are funds received from other state and local government agencies, other bodies and individuals. 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.

Revenues from other grants and contributions 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.

4.7 Royalty revenue

The State earns royalties from the extraction of coal, base and precious metals, bauxite, petroleum and gas, mineral sands and other minerals. Royalties ensure some of the proceeds of the extraction of non-renewable resources are returned to the community. Land rents are also earned from pastoral holdings, mining and petroleum leases. Royalties and land rents are detailed in Table 4.6.

Table 4.6 Royalties and land rents[1]

	2015-16 Actual $ million	2016-17 Est. Act. $ million	2017-18 Budget $ million	2018-19 Projection $ million	2019-20 Projection $ million	2020-21 Projection $ million
Coal	1,705	3,376	2,750	2,241	2,222	2,260
Petroleum[2]	36	97	147	194	248	296
Other royalties[3]	381	365	402	426	441	435
Land rents	162	167	172	178	184	189
Total royalties and land rents	**2,284**	**4,005**	**3,472**	**3,039**	**3,096**	**3,180**

Notes:

1. Numbers may not add due to rounding.
2. Includes CSG.
3. Includes base and precious metals and other minerals royalties.

Since the 2016-17 Budget, royalty revenue has been revised up by $3.707 billion across the period 2016-17 to 2019-20. Royalty revenue in 2016-17 is now expected to be 80.9% higher in 2016-17 than in 2015-16. This is mainly caused by changes to coal prices, which have been highly volatile in the past year. Coal spot prices increased sharply in the last few months of 2016-17, before falling in the first quarter of 2017 and increasing again following STC Debbie. While coal volumes were also negatively impacted by STC Debbie in 2016-17, this has been offset by increased price estimates.

After the significant increase in 2016-17, royalties are expected to decline by 14.0% in 2017-18 as coal prices progressively decline from their short-term peak towards a medium term price estimate of US$115/tonne.

There is a high degree of uncertainty associated with estimates of commodity prices, which can have significant impacts on royalty revenue. Price volatility and other issues such as the level of exposure of mining operations to the risk of natural disasters can cause a high level of volatility in royalty estimates. At the same time, the contribution of royalties to overall revenue growth and volatility is limited by its quantum. Royalties make up only 5.9% of total revenue in 2017-18, compared to 23.8% for state taxes and 26.6% for GST.

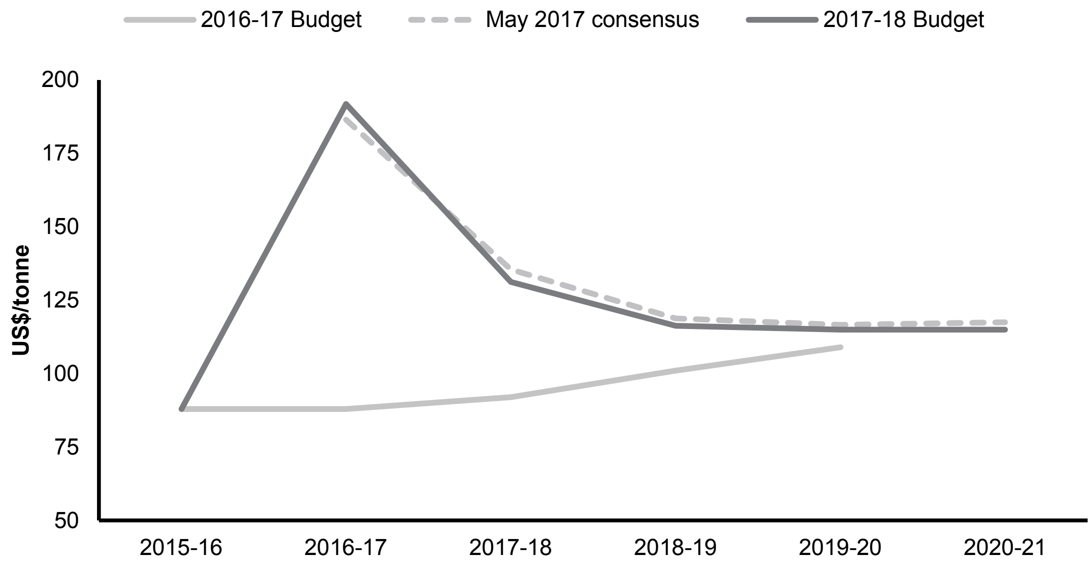
While coal prices have contributed a large degree of volatility to royalty estimates in 2016-17 and 2017-18, estimated average annual growth across the period 2015-16 to 2020-21 is 7.1%. This is supported by growth in coal volumes over the period, a medium term coal price estimate that is stronger than the 2015-16 year average, and growth in LNG export volumes. Estimates of the A$-US$ exchange rate remain unchanged since MYFER, with the exchange rate assumed to remain flat across the forward estimates.

Assumptions underlying the royalty estimates, and the sensitivity of royalty estimates to changes in the assumptions are contained in Appendix C.

4.7.1 Coal royalties

Chart 4.6 shows coking coal price forecasts compared to previous estimates and Consensus Economics forecasts. Budget coal price forecasts are similar to the most recent forecasts available in Consensus Economics reports, with a degree of conservatism from 2017-18.

Chart 4.6 Coking coal price forecasts by iteration[1]



Sources: Queensland State Budget 2016-17 and 2017-18 and Consensus Economics Energy and Metals May 2017.

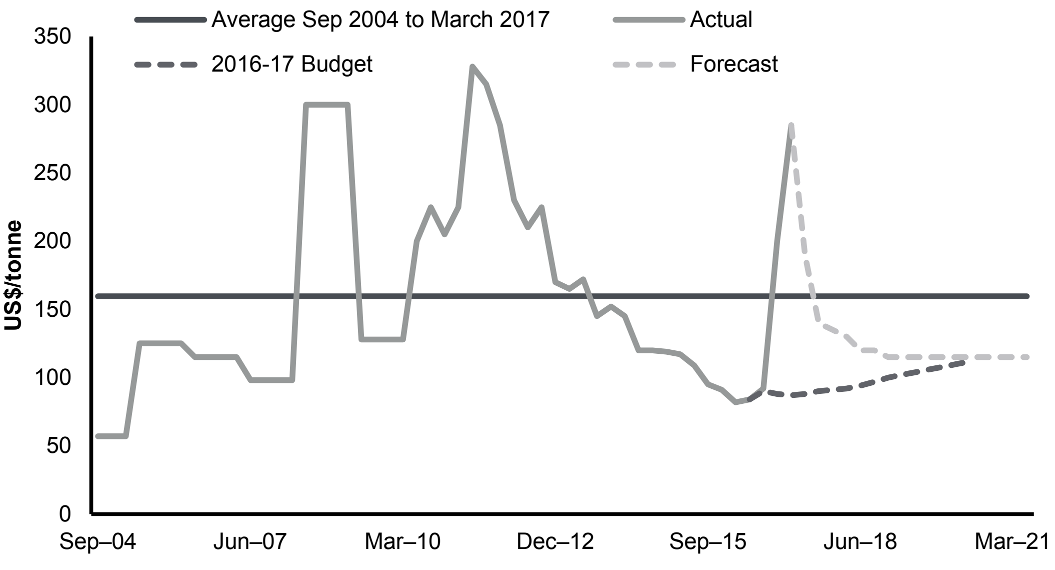
Hard coking coal prices increased sharply in the second half of 2016. This was driven by a range of factors, including a program of rationalisation for China's coal production, as well as logistical bottlenecks and seaborne supply constraints. In the MYFER, coking coal price estimates assumed a steady decline from a peak in the December 2016 quarter as supply constraints eased.

Since the MYFER, further upwards revisions have been made to coal prices in 2016-17, with the March quarter benchmark contract price being stronger than expected. While coal spot prices declined rapidly in the early months of 2017, prices increased again following STC Debbie. Disruptions in coal rail networks following the cyclone also reduced expected coal volumes towards the end of 2016-17.

On a year average basis, the premium hard coking coal price is expected to increase 118% in 2016-17 to US$192/tonne, compared to US$88/tonne in 2015-16.

Similar periods of short-term royalty growth have been experienced in the past. Royalty revenues reached a peak in 2008-09, as coal contracts had been priced at record levels prior to the onset of the GFC, then fell significantly in 2009-10 as a result of falling coal contract prices. While prices increased again during 2011, this was accompanied by reduced volumes from the impact of the 2010-11 natural disasters.

Chart 4.7 Coking coal price



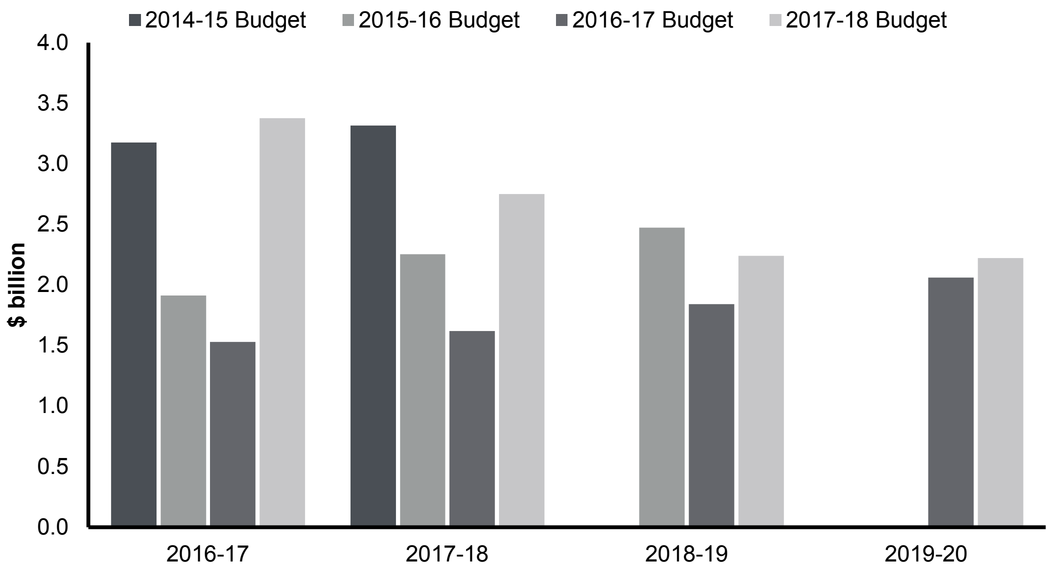
Sources: Consensus Economics and Queensland Treasury.

Royalty revenue is expected to exceed 2008-09 levels for the first time in 2016-17, then decrease in 2017-18 and 2018-19, with the coal price expected to decline steadily to US$131/tonne in 2017-18 and a medium term price of US$115/tonne during 2018-19. Royalty estimates are $1.897 billion (97.7%) higher in 2016-17 and $1.190 billion (56.4%) higher in 2017-18 than estimated in the 2016-17 Budget.

Recent upward revisions to royalties follow significant reductions in expectations, with royalty revenue having been revised down in each subsequent budget update between the 2014-15 Budget and the 2016-17 Budget. Coal royalty estimates in 2016-17 are now expected to exceed estimates made in the 2014-15 Budget, despite having been revised down significantly in the interim, but remain lower in 2017-18.

However, as the sharp increase in coal prices is not expected to be sustained, less substantial upwards revisions to coal royalty revenue are expected in 2018-19 ($446 million) and 2019-20 ($175 million) compared to the 2016-17 Budget. The royalty impact of changes to coal price expectations compared to previous budgets is shown in Chart 4.8.

Chart 4.8 Coal royalty revenue since the 2014-15 Budget

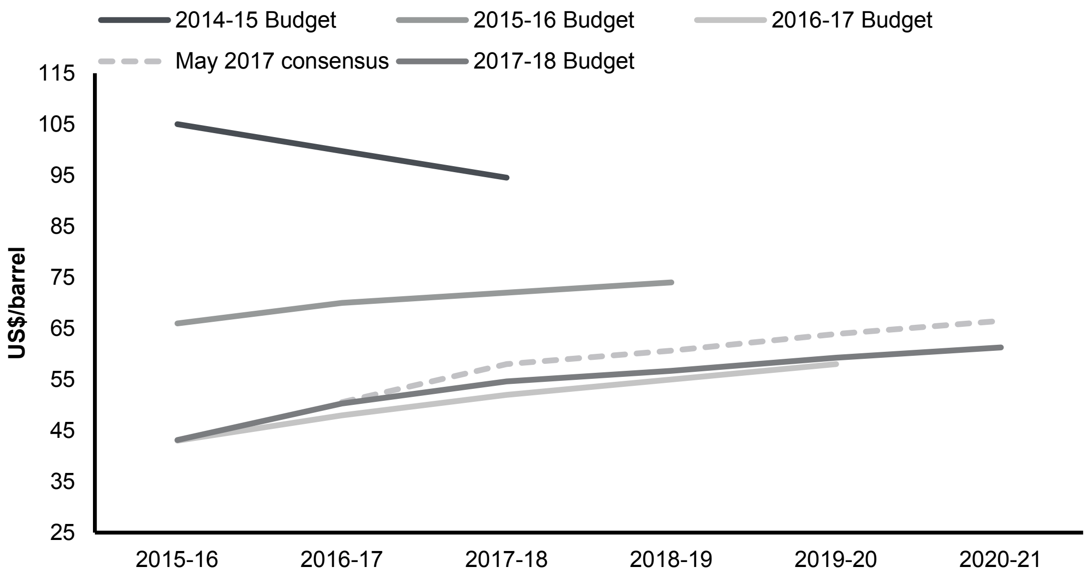


4.7.2 Petroleum royalties

Oil prices are related to LNG prices and therefore factor strongly into royalty forecasts. Since the 2016-17 Budget, estimates of oil prices have changed only marginally. Across the forward estimates, oil prices are expected to improve gradually, with assumptions incorporating some conservatism compared to Consensus Economics forecasts (see Chart 4.9). Petroleum royalties have been revised upward by $29 million in 2016-17 since the 2016-17 Budget, reflecting higher than forecast collections.

Slight reductions to LNG export volume assumptions have contributed to small downwards revisions in petroleum royalties from 2018-19 since the 2016-17 Budget.

Chart 4.9 Brent Oil price forecasts, by iteration



Source: Queensland State Budgets 2014-15 to 2017-18 and Consensus Economics Energy and Metals May 2017.

4.7.3 Other royalties

Other royalties includes revenue from metals mined in Queensland such as copper, lead and zinc and other minerals including bauxite. Revenue from other royalties is expected to grow 10.1% in 2017-18, supported by price increases. This follows a decline of 4.1% in 2016-17 associated with reduced exports for a number of metals, including lead and zinc.

4.7.4 Land rents

Revenue from land rents derived from mining and petroleum leases and pastoral holdings are expected to grow 3.3% in 2017-18, following growth of 2.8% in 2016-17.

Box 4.1 Policy approach for future mineral development

The Government has introduced a new policy approach for the future mineral development projects in the Galilee and Surat Basins, the North West Minerals Province and undeveloped gas basins to provide investor certainty and encourage new mining development opportunities in these regions. This revised model will apply to future resource development proposals in the three regions and replace the ad hoc approach of the past. The principles-based framework requires:

- all royalties due to the State are paid over the term of any agreement (inclusive of interest foregone costs), with security of payment and no adverse budget impact to the State
- any agreement with a proponent will not involve the direct expenditure of public funds in the project or in directly-related economic infrastructure for that project (noting that government-owned corporations (GOCs) may still supply economic infrastructure on commercial terms to resource project proponents)
- the provision by the proponent of third party access infrastructure or other acceptable economic infrastructure to the State
- projects must have significant regional employment, generation of royalties and economic opportunity benefits, such as the potential to assist in opening up undeveloped resource basins.

4.8 Sales of goods and services

Sales of goods and services revenue comprises cost recoveries from providing goods or services. Table 4.7 provides a breakdown of the category.

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

Table 4.7 Sales of goods and services[1]

	2015-16 Actual $ million	2016-17 Est. Act. $ million	2017-18 Budget $ million	2018-19 Projection $ million	2019-20 Projection $ million	2020-21 Projection $ million
Fee for service activities	2,644	2,522	2,661	2,503	2,592	2,609
Public Transport: South East Queensland	377	352	338	344	354	363
Rent revenue	546	582	597	631	665	702
Sale of land inventory	91	76	85	143	113	91
Hospital fees	772	834	857	874	889	898
Transport and traffic fees	381	397	414	432	449	466
Other sales of goods and services	1,116	1,068	1,114	1,174	1,206	1,238
Total sales of goods and services	**5,926**	**5,830**	**6,067**	**6,101**	**6,268**	**6,366**

Note:

1. Numbers may not add due to rounding.

4.8.1 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.

4.8.2 Other sales of goods and services

As shown in Table 4.7, there are a variety of other types of sales of goods and services and these are discussed in more detail below:

- Revenues arising from the arrangements associated with South East Queensland integrated ticketing and public transport arrangements, which commenced in July 2004. A new fare structure commenced in December 2016, which included extending the fare freeze by six months.
- 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 includes property transactions where it is a core business of the agency, such as Economic Development Queensland's role to facilitate land to unlock economic growth opportunities.
- 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 comprise state transport fees, the Traffic Improvement Fee, drivers' licence fees and various marine licence and registration fees.
- Other sales of goods and services include items such as Title Registration Fees, recreational ship registrations and other licences and permits.

4.9 Interest income

Interest income is estimated to account for 4.2% of total General Government Sector revenue in 2017-18. Interest income is expected to decline between 2017-18 and 2020-21, reflecting a reduction in the portfolio of financial assets held for defined benefit superannuation as a result of the implementation of the Debt Action Plan. Interest income is also affected by the $500 million reallocation from the Queensland Government Insurance Fund to partly offset the Government's response to STC Debbie, which is discussed in Chapter 3.

Interest income primarily comprises interest earned on investments, including those held for superannuation and insurance purposes.

4.10 Dividend and income tax equivalent income

Dividend and income tax equivalent income accounts for 3.7% of total General Government Sector revenue in 2017-18.

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, QIC Limited, Queensland Treasury Corporation, port authorities and Queensland Rail. 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.

Revenue from dividend and income tax equivalent income is expected to decline over the period 2016-17 to 2020-21, mainly due to declining payments from energy network businesses.

Dividend and income tax equivalent income payments from energy network business are estimated to decline in 2017-18 due to the new 2017-2022 Powerlink revenue determination, which provides for lower annual revenues than the previous determination. Low regulated revenue growth among the network businesses over the forward estimates are also expected to lead to decreasing dividends. Trends in dividends and income tax equivalent income are discussed in more detail in Chapter 8.

Dividend and income tax equivalent income does not represent the full extent of financial arrangements between the Public Non-financial Corporations Sector and the General Government Sector. As detailed in Chapter 8, General Government Sector expenditure on community service obligations and Transport Service Contracts are expected to be over $2.2 billion in each year from 2016-17.

4.11 Other revenue

Other revenue, including royalty revenue, accounts for 8.0% of total General Government Sector revenue in 2017-18. Royalties themselves account for 5.9% of revenue in 2017-18, and are discussed in section 4.7.

Table 4.8 Other revenue[1]

	2015-16 Actual $ million	2016-17 Est. Act. $ million	2017-18 Budget $ million	2018-19 Projection $ million	2019-20 Projection $ million	2020-21 Projection $ million
Royalties and land rents	2,284	4,005	3,472	3,039	3,096	3,180
Fines and forfeitures	514	398	427	451	474	494
Revenue not elsewhere classified	779	710	589	585	572	579
Total other revenue	**3,577**	**5,113**	**4,487**	**4,075**	**4,142**	**4,253**

Note:
1. Numbers may not add due to rounding.

4.11.1 Fines and forfeitures

The major fines and infringements included in this category are issued by the Department of Transport and Main Roads (DTMR) and Queensland Police Service (QPS), incorporating fixed and mobile camera offences, speeding and tolling offences. Revenue from fines and forfeitures are expected to grow by 7.2% in 2017-18.

The expected 22.6% decrease in 2016-17 relates mainly to reduced referrals of tolling offences to the State Penalties Enforcement Registry (SPER). This results from an agreement with the toll road operator that provides increased opportunities for customers to pay their outstanding tolls prior to referral to the State for issuing an infringement and amends the decisions made in 2014 that resulted in increased fines for tolling offences being referred to SPER.

Table 4.9 Fines and forfeitures[1]

	2015-16 Actual $ million	2016-17 Est. Act. $ million	2017-18 Budget $ million	2018-19 Projection $ million	2019-20 Projection $ million	2020-21 Projection $ million
Red light camera fines	12	11	12	13	14	15
Speed camera fines	164	133	153	169	184	194
Other camera detected offences	7	5	5	5	5	6
Other fines and forfeitures	332	249	256	264	271	280
Total fines and forfeitures	**514**	**398**	**427**	**451**	**474**	**494**

Note:
1. Numbers may not add due to rounding.

4.11.2 Revenue not elsewhere classified

The $121 million decrease in 2017-18 includes reductions in sundry revenue and donations across a number of departments.

5 Expenses

Features

- The Government remains committed to job creation and reducing cost-of-living pressures for Queenslanders with expense measures announced since the 2016-17 Budget focusing on these key issues.
- Expenses for 2016-17 are estimated to be $53.610 billion, an increase of $3.585 billion (or 7.2%) from 2015-16. The increase is due to growth funding to support ongoing demand for health services and student enrolments, job creation programs, the electricity affordability package and the Australian Government's advance payment of financial assistance grants to local governments for 2017-18 in 2016-17.
- Total expenses are projected to grow at an average annual rate of 3.2% over the five years to 2020-21 compared to average annual revenue growth of 3.0% over the same period.
- In 2017-18, General Government Sector expenses are estimated to be $55.723 billion, an expected increase of $2.113 billion (or 3.9%) over the estimated actual for 2016-17. The increase is a result of continued demand growth in education and health services, expenditure in relation to the preparation and delivery of the Gold Coast 2018 Commonwealth Games and expense measures announced since the 2016-17 Budget with a key focus on jobs and economic growth including:
  - Works for Queensland program providing funding across 65 regional councils to support jobs and deliver vital infrastructure in regional Queensland.
  - Jobs and Regional Growth package targeted at growing regional economies and improving employment outcomes for young Queenslanders.
  - Additional funding for the Back to Work Regional Employment Package and a new allocation for Back to Work in South East Queensland.
- Severe Tropical Cyclone (STC) Debbie recovery activities are expected to increase expenses by $700 million over the period 2016-17 to 2019-20.
- The average growth in employee expenses over the five years to 2020-21 is 4.1% per annum, reflecting growth in full time equivalents (FTEs) and the Government's wages policy.
- In 2017-18, the major areas of expenditure are health and education, which together constitute approximately 53.7% of General Government Sector expenses.

This chapter provides an overview of General Government Sector expenses for the estimated actual for 2016-17, forecasts for the 2017-18 Budget year and projections for 2018-19 to 2020-21. The forward estimates are based on the economic projections outlined in Chapter 2.

5.1 2016-17 estimated actual

General Government Sector expenses in 2016-17 are estimated to be $53.610 billion, $683 million higher than the 2016-17 Mid Year Fiscal and Economic Review (MYFER) estimate. The increase since MYFER is largely driven by an increase in grant expenses, in particular the Government's $771 million electricity affordability package aimed at reducing the impact of electricity price increases to Queenslanders.

5.2 2017-18 Budget and out-years

Table 5.1 General Government Sector expenses[1]

	2015-16 Actual $ million	2016-17 Est. Act. $ million	2017-18 Budget $ million	2018-19 Projection $ million	2019-20 Projection $ million	2020-21 Projection $ million
Employee expenses	20,044	21,203	22,420	22,724	23,696	24,561
Superannuation interest costs	767	514	600	637	664	668
Other superannuation expenses	2,507	2,707	2,753	2,749	2,752	2,781
Other operating expenses	15,000	15,932	17,037	15,959	16,076	16,346
Depreciation and amortisation	2,927	3,009	3,093	3,194	3,327	3,457
Other interest expenses	2,220	1,702	1,706	1,690	1,671	1,755
Grants expenses	6,559	8,543	8,114	9,068	8,996	9,006
Total Expenses	**50,025**	**53,610**	**55,723**	**56,021**	**57,183**	**58,574**

Note:
1. Numbers may not add due to rounding.

General Government Sector expenses of $55.723 billion in 2017-18 represent an increase of $2.113 billion (or 3.9%) over the 2016-17 estimated actual. Factors influencing the higher expenditure in 2017-18 include:

- an estimated $750 million in the preparation and delivery of the Gold Coast 2018 Commonwealth Games
- growth in education expenditure reflecting student enrolment growth in state schools, enterprise bargaining outcomes and other school based cost increases including school maintenance, election commitment funding for extra teachers and school guidance officers, maintaining secondary curriculum offerings for the half cohort of students going into senior secondary and additional funding from the Australian Government's proposed Quality Schools program, including funding for non-state schools
- growth in funding to Queensland Health to support growing demand and critical service needs and Commonwealth funded expenditure deferred from 2016-17

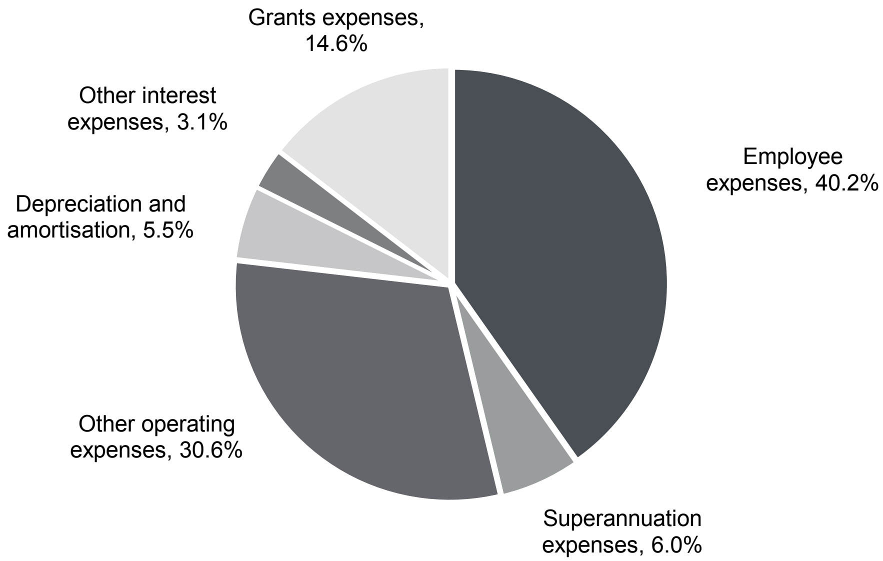
- job creation funding for Works for Queensland, Back to Work Regional Employment Package and Back to Work South East Queensland and Jobs and Regional Growth package
- community services initiatives including Strengthening Queensland Child Protection System with a significant boost to frontline and frontline support child safety workers and continuing support of the transition of disability services to the National Disability Insurance Scheme
- justice system reforms including reforms to the Queensland parole and probation system, transitioning 17 year olds from the adult justice system to the youth justice system and re-establishment of the Drug Court.

Growth in 2017-18 expenses is partly offset by the one-off electricity affordability grant in 2016-17, the Australian Government's advance payment of financial assistance grants to local governments in 2016-17 for 2017-18 and whole-of-Government reprioritisation expense measures (refer to Budget Measures - Budget Paper 4).

5.3 Expenses by operating statement category

As outlined in Chart 5.1, the largest expense categories in the General Government Sector in 2017-18 are employee and superannuation expenses (46.2%), followed by other operating expenses (30.6%) that reflect non-labour costs of service.

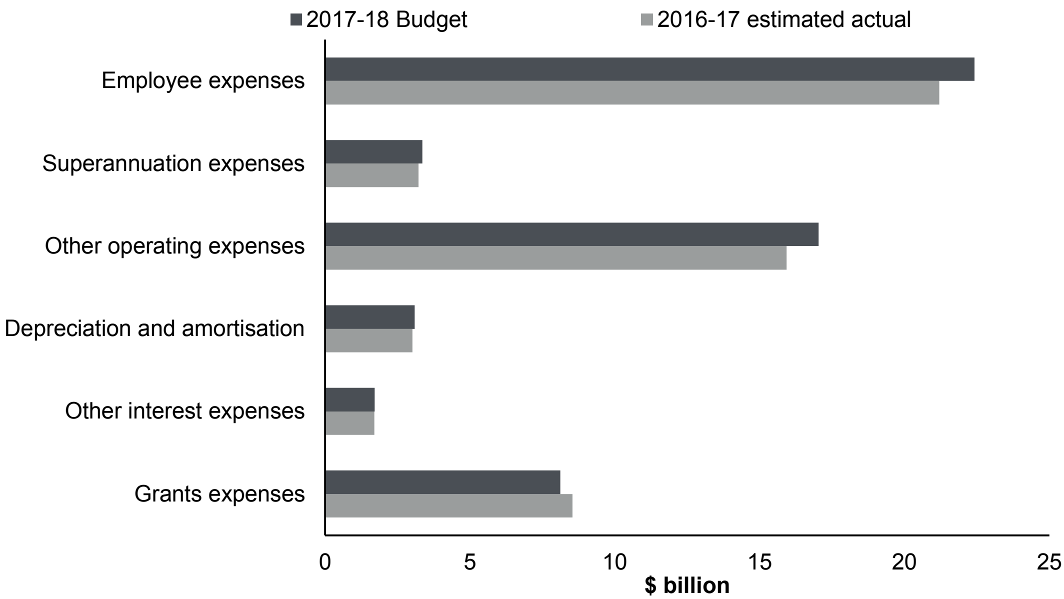
Chart 5.1 Expenses by operating statement category, 2017-18[1]



Note:
1. Percentages may not add to 100% due to rounding.

Chart 5.2 compares the 2016-17 estimated actual expenses for each operating statement category with the 2017-18 Budget. Growth in the two largest categories, employee expenses and other operating expenses, is contributing most to growth in 2017-18.

Chart 5.2 Expenses by operating statement category



5.3.1 Employee expenses

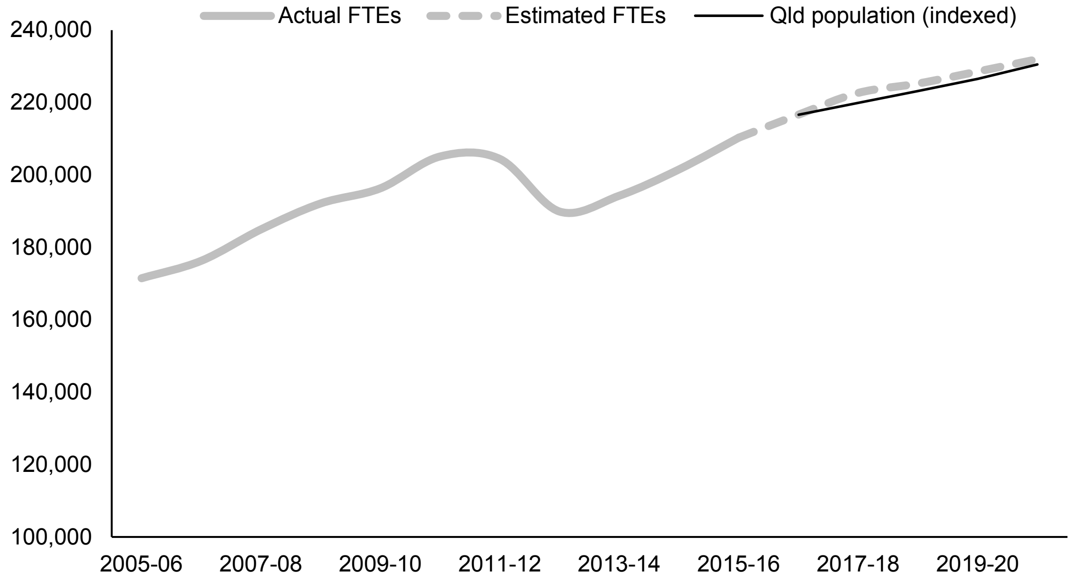
Employee expenses include salaries and wages, annual leave and long service leave.

In 2017-18, employee expenses are expected to be $22.420 billion, $1.217 billion or 5.7% higher than the 2016-17 estimated actual. This reflects both growth in full-time equivalents (FTEs) and the Government's 2.5% wages policy. Much of the increase in employee expenses in 2017-18 is in the key frontline service areas of health and education.

Full-time equivalents

Chart 5.3 shows actual FTEs from 2005-06 to 2015-16 and estimated FTEs from 2016-17 to 2020-21.

Chart 5.3 Departmental FTEs



During the 2015 election, the Government made commitments to revitalise frontline service delivery. This resulted in FTEs increasing 8,764 (or 4.3%) between 2014-15 and 2015-16, and an estimated further 6,350 (or 3.0%) in 2016-17. Of the increase across the two years, almost 90% was in the key frontline service delivery areas of health, education and police. As at March 2017, 91.2% of public servants were engaged in frontline and frontline support roles.

FTE growth is moderating. FTEs are estimated to increase by around 6,000 (or 2.8%) in 2017-18, with around 82% of the increase being attributable to growth in health and education. These additional FTEs will continue to reduce the number of patients waiting longer than the recommended time, relieve pressure on class sizes and continue to improve student outcomes.

Given the tight fiscal environment and the fact that employee expenses represent the State's largest expense category, the Government introduced a new fiscal principle in the 2016-17 Budget to maintain a sustainable public service where overall growth in FTEs, on average over the forward estimates, does not exceed population growth.

The overall average annual growth rate over 2016-17 to 2020-21, based on current estimates, is 1.7%. This compares to an estimated Queensland population growth of 1.5% annually. To monitor progress towards achieving this, the Queensland Public Service Commission collects agency workforce data on a quarterly basis for analysis and reporting purposes.

Box 5.1 Improving the quality of reporting

The State Government is continuing to take strong steps to achieve the fiscal principle to maintain a sustainable public service by ensuring that overall growth in full-time equivalents (FTE) employees, on average over the forward estimates, does not exceed population growth.

The primary data collection tool to monitor performance against the principle is the Minimum Obligatory Human Resource Information (MOHRI) data collection process, which not only captures the number of FTEs, but also qualitative information about the FTEs, including regional data.

As noted in last year's Budget Strategy and Outlook (Budget Paper 2), the MOHRI data and Budget FTE data are not directly comparable due to differences in methodology.

While the quality of the MOHRI data is improving, Queensland Treasury will work with the PSC to improve data collection and quality, including seasonable variability and indirect employment (including the use of labour hire, contractors and consultants).

Queensland Treasury will also enhance its reporting to the Government on the implications of the data for the fiscal principle, fiscal sustainability and frontline service delivery, including employment levels in regional Queensland.

While FTE growth is moderating compared to past results, it remains above population growth, and the Government will continue to provide a significant focus on FTEs over the coming year.

In particular, the whole-of-sector approach to prioritising efforts and moving staff to meet these changing priorities will continue. This approach not only allows the Government to manage the growth in FTEs, but it also provides valuable opportunities and experience for public servants.

A number of strategies have already been introduced to enhance and promote mobility opportunities across the public sector. These include:

- the implementation of a talent mobility pilot program to focus primarily on employees impacted by the National Disability Insurance Scheme (NDIS) in the Department of Communities, Child Safety and Disability Services, and entry-level administrative roles
- providing opportunities for existing staff across the public service to be involved in the planning for the Commonwealth Games 2018
- implementing initiatives to provide potential leaders with opportunities to support their leadership development.

The Government is also committed to ensuring that public service staff are located where they are needed in the community. Around 30% of FTEs are located outside of South East Queensland, consistent with population share. Regional Action Plans show increases in key service delivery occupations across the regions.

The devolved frontline service delivery models used in some agencies continue to present challenges to FTE estimation and monitoring, in particular where funding is provided in such a way that agencies determine how to most efficiently deliver services. Consistent with last year, the 2017-18 Budget FTE estimates build in an allowance for this.

Table 5.2 shows the funded FTE positions by department and is consistent with agency Service Delivery Statements.

Table 5.2 Funded controlled FTE positions by Department[1]

	2016-17 Budget	2016-17 Est. Act	2017-18 Budget
Aboriginal and Torres Strait Islander Partnerships[2]	351	315	315
Agriculture and Fisheries	2,057	2,057	2,089
Communities, Child Safety and Disability Services[3]	5,948	6,031	5,944
Education and Training (total - disaggregation below)[4]	72,872	72,710	73,964
Electoral Commission of Queensland	55	55	56
Energy and Water Supply	224	227	228
Environment and Heritage Protection[5]	1,109	1,211	1,299
Housing and Public Works	2,962	2,999	3,017
Infrastructure, Local Government and Planning	516	547	560
Justice and Attorney-General[6,7]	8,650	8,892	9,603
National Parks, Sport and Racing[8]	1,369	1,424	1,444
Natural Resources and Mines	2,440	2,441	2,441
Office of the Inspector-General Emergency Management	21	21	22
Premier and Cabinet	679	661	682
Public Safety Business Agency[6]	1,117	1,144	1,144
Public Service Commission	73	73	73
Queensland Audit Office	184	184	197
Queensland Fire and Emergency Services[6]	3,256	3,253	3,280
Queensland Health (total - disaggregation below)[9,14]	82,614	83,740	87,396
Queensland Police Service[6]	15,301	15,299	15,463
Queensland Treasury	1,813	1,803	1,819
Science, Information Technology and Innovation[10]	2,697	2,768	2,766
State Development[11]	599	619	624
The Public Trustee of Queensland	597	602	609
Tourism, Major Events, Small Business and the Commonwealth Games[12]	167	142	124
Transport and Main Roads[13]	7,416	7,418	7,480
Total	**215,087**	**216,636**	**222,639**
Education and Training Disaggregation			
Education and Training	68,856	68,695	69,975
TAFE Queensland	4,016	4,015	3,989
Total Education and Training	**72,872**	**72,710**	**73,964**

	2016-17 Budget	2016-17 Est. Act	2017-18 Budget
Queensland Health Disaggregation			
Health	7,308	7,238	7,415
Queensland Ambulance Services	4,261	4,261	4,346
Cairns and Hinterland Hospital and Health Service	4,554	4,780	4,923
Central Queensland Hospital and Health Service	2,688	2,890	2,890
Central West Hospital and Health Service	349	362	373
Children's Health Queensland Hospital and Health Service	3,486	3,592	3,608
Darling Downs Hospital and Health Service	4,011	4,190	4,315
Gold Coast Hospital and Health Service	7,069	7,261	7,482
Mackay Hospital and Health Service	2,000	2,142	2,160
Metro North Hospital and Health Service	14,300	15,250	15,750
Metro South Hospital and Health Service	12,021	12,655	12,604
North West Hospital and Health Service	669	693	702
South West Hospital and Health Service	722	777	777
Sunshine Coast Hospital and Health Service	5,700	5,550	6,540
Torres and Cape Hospital and Health Service	899	903	926
Townsville Hospital and Health Service	5,073	5,133	5,180
West Moreton Hospital and Health Service	3,037	3,090	3,243
Wide Bay Hospital and Health Service	2,783	2,973	3,049
Funded unallocated FTEs[14]	1,684	..	1,113
Total Queensland Health	**82,614**	**83,740**	**87,396**

Notes:

1. The budgeted and estimated FTEs in this table are the funded FTEs in each agency as at 30 June of each relevant year. This data is often compared to the Public Service Commission's (PSC) Queensland public sector quarterly workforce profile reporting. The PSC's reports include Minimum Obligatory Human Resource Information (MOHRI) for people (on both an FTE and headcount basis) at a point in time. Explanation of variations in departmental FTEs can be found in the Service Delivery Statements. Departmental totals may include multiple tables from Service Delivery Statements, due to separate FTE tables being provided for Commercialised Business Units.
2. The decrease in the 2016-17 estimated actual compared to the 2016-17 Budget is due to the transfer of the department's Retail Stores operations to Community Enterprise Queensland effective 1 May 2017, offset by additional regional resources provided for an enhanced Youth Employment Program as part of the Job and Regional Growth Package.
3. The decrease relates to Disability Services and reflects the transition of Queensland clients to the National Disability Insurance Scheme.
4. The increase in the 2017-18 Budget compared to the 2016-17 estimated actual relates to additional school based staff associated with forecast enrolment growth and election commitments.
5. The increase in the 2016-17 estimated actual compared to the 2016-17 Budget reflects changes to planned activity under existing CBRC approved programs, including temporary externally funded programs. The further increase in the 2017-18 Budget reflects additional programmed FTEs to deliver projects including Yellow Crazy Ant Management, Future of Queensland's Environmental Regulator and compliance and rehabilitation action associated with Linc Energy Limited and regional offsite soil and gas contamination management.

6. 2016-17 Budget figures have been adjusted to reflect machinery-of-government changes.
7. The increase in the 2016-17 estimated actual compared to the 2016-17 Budget is mainly due to the Community Youth Response - Townsville initiative and accommodating growing offender numbers. The further increase in the 2017-18 Budget primarily relates to 2017-18 Budget initiatives for Specialist Domestic and Family Violence Courts, Re-establishment of the Drug Court, the Transition of 17 year olds to the youth justice system and to implement the recommendations of the Independent Review of Youth Detention in Queensland, the Government’s response to Queensland Parole System Review recommendations and to accommodate growth in offender numbers.
8. The increase in the 2016-17 estimated actual compared to the 2016-17 Budget is due to a number of factors including externally funded programs and infrastructure programs requiring additional FTEs to meet outcomes. The further increase in the 2017-18 Budget is mainly due to the new funding received for the Revitalising National Parks program.
9. The increase in the 2016-17 estimated actual compared to the 2016-17 Budget is predominantly driven by additional Commonwealth growth funding which has been earned by the HHSs delivering activity over and above their published budget levels. The further increase in the 2017-18 Budget reflects the commissioning of new services and additional activity purchased from the HHSs, the on-boarding of new staff as part of the progressive ramp up of services at the new Sunshine Coast University Hospital, the recruitment of 75 frontline Ambulance Officers to meet increasing demand and growth in services provided to HHSs to meet increased service demand.
10. The increase in the 2016-17 estimated actual compared to the 2016-17 Budget mainly relates to the One-Stop Shop program and the cross-agency Human Resources Information System program.
11. The increase in 2016-17 estimated actual and further increase in the 2017-18 Budget is due to the employment of temporary staff engaged to deliver priority projects. Priority projects include the creation of Priority Industry Sectors teams - Roadmaps and Action Plans to diversify the Queensland economy; accelerating the Building our Regions grant program; and delivering the Back to Work Regional Employment Package. Other key priority projects include implementing the government's contractual obligations to deliver the $3 billion Queens Wharf Project; progressing Priority Ports Master Planning; managing the construction of the North Queensland Stadium; and implementing a strategic blueprint for Queensland's North West Minerals Province, which is a whole-of-government initiative.
12. The decrease in the 2016-17 estimated actual compared to the 2016-17 Budget follows implementation of the whole of government resource sharing model. Under this model FTEs remain on their home department’s payroll. FTEs within Tourism have remained constant.
13. The increase in the 2017-18 Budget compared to the 2016-17 estimated actual relates to additional temporary FTEs required for the Gold Coast 2018 Commonwealth Games and additional permanent FTEs required for Personalised Transport enforcement activities.
14. The 2016-17 Budget has been restated to include the funded unallocated FTEs published in the 2016-17 Budget Strategy and Outlook (Budget Paper 2). In 2017-18, there are additional funded FTE positions which have not yet been allocated to particular HHSs.

5.3.2 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. Interest costs are calculated on a net liability approach by applying the discount rate to both the gross liability and superannuation plan assets.

Superannuation interest costs are dependent on the applicable discount rates and increase marginally over the forward estimates as these rates increase. The defined benefit scheme, which is closed to new members and subject to interest rate fluctuations, will decline over time as members leave.

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).

5.3.3 Other operating expenses

Other operating expenses comprise the non-labour costs of providing goods and services, including services to government and non-government organisations, repairs and maintenance, consultancies, contractors, electricity, communications and marketing.

In 2017-18, other operating expenses are expected to be $17.037 billion, an increase of $1.105 billion or 6.9% over the 2016-17 estimated actual. Significant movements from the 2016-17 estimated actual outcome are due to:

- final preparations and delivery of the Gold Coast 2018 Commonwealth Games including costs such as Games and venue operations, transportation, security, marketing and communications
- anticipated student enrolment growth, and the impact of increases in Australian Government funding for the proposed Quality Schools program
- increase in transport funding including higher Transport Service Contract payments to Queensland Rail
- justice reforms including reforms to the Queensland parole and probation system, transitioning 17 year olds from the adult justice system to the youth justice system and re-establishment of the Drug Court.

Other operating expenses decline in 2018-19 following hosting of the 2018 Commonwealth Games and the progressive re-classification of disability services funding to grant expenses with the transition to the National Disability Insurance Scheme.

5.3.4 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.

5.3.5 Other interest expenses

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

Since implementing the Government's Debt Action Plan other interest expenses are estimated to decline $518 million in 2016-17 to $1.702 billion compared to $2.22 billion in 2015-16.

In 2017-18, the General Government Sector has total debt servicing costs forecast at $1.706 billion. Interest costs are expected to remain relatively stable over the forward estimates.

5.3.6 Grants expenses

Current grants include grants and subsidies to the community (such as schools, hospitals, benevolent institutions and local governments) and personal benefit payments. Community service obligations (CSOs) are provided where Public Non-financial Corporations (PNFCs) are required to provide non-commercial services or services at non-commercial prices for the benefit of the community (for further details refer to Chapter 8).

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

Table 5.3 provides a breakdown of grants by category and recipient type.

Table 5.3 Grant expenses[1]

	2015-16 Actual $ million	2016-17 Est. Act. $ million	2017-18 Budget $ million
Current			
Grants to local government	415	899	462
Grants to private and not-for-profit organisations			
State funding for non-state schools	634	660	688
Australian Government funding for non-state schools	2,240	2,394	2,507
Other	1,307	1,285	1,461
Grants to other sectors of government			
Community service obligations to PNFCs	554	622	499
Other payments to PNFCs	23	799	27
Other	24	154	618
Other	219	389	279
Total current transfers	**5,416**	**7,202**	**6,541**
Capital			
Grants to local government	676	906	1,126
State funding for non-state schools	123	93	93
Grants to private and not-for-profit organisations	200	163	197
Payments to PNFCs	30	29	10
Queensland First Home Owners' Grants	95	149	147
Other	19	1	..
Total capital transfers	**1,143**	**1,341**	**1,573**
Total current and capital transfers	**6,559**	**8,543**	**8,114**

Note:
1. Numbers may not add due to rounding.

In 2016-17, current grant expenses are estimated to be $7.202 billion, $1.786 billion higher than 2015-16. This increase is mainly due to:

- A $771 million electricity affordability package to reduce the cost-of-living pressures for Queenslanders. The Queensland Competition Authority has recommended that retail electricity prices for the average residential customer in regional Queensland increase by 7.1% in 2017-18. The Government will provide price relief to electricity consumers by meeting the costs of the Solar Bonus Scheme for three years, which will more than halve the price increase.
- The Australian Government's advance payment in 2016-17 of $233 million in financial assistance grants to local governments for 2017-18. (In 2014-15, the Australian Government similarly made an advance payment of $225 million to the State thereby reducing grants in 2015-16, further amplifying the increase in 2016-17.)
- Assistance provided under the Back to Work program for employment in regional areas.

- A higher level of Australian Government grant assistance to non-state schools to reflect student enrolment growth.
- An increase in CSO payments to Energy Queensland under the Uniform Tariff Policy.
- Grants to other sectors of government mainly represent the transition to the National Disability Insurance Scheme reflecting payments by the State to the Australian Government's National Disability Insurance Agency.

Capital grants are estimated to increase $198 million in 2016-17. The increase is mainly due to capital grants to local governments through the Government's Works for Queensland initiative announced in the 2016-17 MYFER.

In 2017-18, grant expenses are estimated to be $8.114 billion. Adjusting for the impact of the electricity affordability package and advance payments of financial assistance grants on 2016-17, the underlying increase in grant expenses is forecast to be $808 million in 2017-18.

The underlying growth in grant expenses in 2017-18 is in large part due to the Government's agenda of creating more jobs and promoting economic growth in the regions with funding provided for the following initiatives:

- Works for Queensland providing funding across 65 regional councils to support jobs and deliver vital infrastructure in regional Queensland with a further $200 million allocated across 2017-18 and 2018-19 bringing the total funding package to $400 million.
- Back to Work Regional Employment Package providing assistance to raise employment in regional areas. In 2017-18, a further $50 million has been allocated to this program along with $27.5 million funding for Back to Work South East Queensland.
- Jobs and Regional Growth package targeting growing regional economies and improving employment outcomes for young Queenslanders.

Grants to other sectors of government mainly represent the transition to the National Disability Insurance Scheme (NDIS) reflecting payments by the State to the National Disability Insurance Agency (NDIA). Disability services expenditure is progressively re-classified from other operating expenses to grant expenses to the NDIA as Queensland transitions to the NDIS.

Extension to the temporary increase in the Queensland First Home Owners' Grant

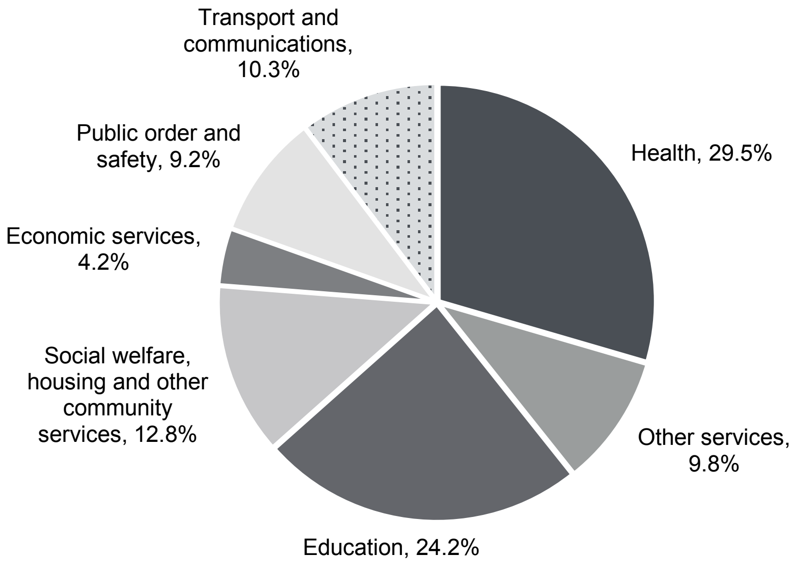
The Queensland First Home Owners' Grant is available for first home buyers who are buying or building a new house, unit or townhouse valued at less than $750,000.

To assist first home buyers entering the housing market, the Queensland First Home Owners' Grant temporary increase, from $15,000 to $20,000 for contracts on newly constructed homes will be extended to eligible transactions entered into between 1 July 2017 and 31 December 2017.

5.4 Operating expenses by purpose

Chart 5.4 indicates the proportion of expenditure by major purpose classification for the 2017-18 Budget. Health accounts for the largest share of expenses (29.5%) followed by Education (24.2%).

Chart 5.4 General Government Sector expenses by purpose, 2017-18[1]



Note:

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

5.5 Departmental expenses

Data presented in Tables 5.4 and 5.5 provide a summary drawn from financial statements contained in the Service Delivery Statements (SDS). Further information on the composition of expenses, outputs delivered and factors influencing the movement in expenses can also be obtained from a department's SDS.

Table 5.4 Departmental controlled expense [1,2]

	2016-17 Est. Act. $ 000	2017-18 Budget $ 000
Aboriginal and Torres Strait Islander Partnerships	122,599	92,212
Agriculture and Fisheries	455,917	424,742
Communities, Child Safety and Disability Services	2,818,312	2,750,882
Education and Training	9,307,686	9,993,714
Electoral Commission of Queensland	28,722	55,277
Energy and Water Supply	69,468	89,293
Environment and Heritage Protection	236,658	283,039
Health Consolidated[3]	16,086,236	16,553,729
Housing and Public Works	1,953,958	2,006,623
Inspector General Emergency Management	4,582	4,968
Infrastructure, Local Government and Planning	444,400	548,287
Justice and Attorney-General	1,513,941	1,686,778
Legislative Assembly	90,773	91,303
National Parks, Sport and Racing	340,496	417,742
Natural Resources and Mines	445,537	445,905
Office of the Governor	6,805	6,968
Office of the Ombudsman	8,527	8,925
Premier and Cabinet	231,439	271,201
Public Safety Business Agency	463,344	458,996
Public Service Commission	14,460	16,200
Queensland Audit Office	42,732	44,005
Queensland Fire and Emergency Services	634,866	663,802
Queensland Police Service	2,238,209	2,370,191
Queensland Treasury	373,764	391,475
Science, Information Technology and Innovation	379,511	419,618
State Development	359,534	428,946
The Public Trustee of Queensland	84,785	88,061
Tourism, Major Events, Small Business and the Commonwealth Games	174,297	348,486
Transport and Main Roads	5,660,180	5,809,765
Total expenses	**44,591,738**	**46,771,133**

Notes:

1. Total expenses by department do 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 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, the Hospital and Health Services, and Queensland Ambulance Service.

Table 5.5 Departmental administered expense[1,2]

	2016-17 Est. Act. $ 000	2017-18 Budget $ 000
Aboriginal and Torres Strait Islander Partnerships	14,116	12,266
Agriculture and Fisheries	13,978	14,047
Communities, Child Safety and Disability Services	453,542	900,851
Education and Training	3,242,767	3,383,861
Energy and Water Supply	1,412,622	516,880
Health Consolidated	42,512	34,153
Housing and Public Works	3,508	3,510
Infrastructure, Local Government and Planning	1,145,249	852,389
Justice and Attorney-General	368,670	380,910
National Parks, Sport and Racing	64,290	31,819
Natural Resources and Mines	51,705	51,705
Premier and Cabinet	153,286	160,740
Queensland Treasury	6,140,259	6,249,785
Science, Information Technology and Innovation	72,538	82,605
State Development	2,500	2,500
The Public Trustee of Queensland	1,134	1,134
Tourism, Major Events, Small Business and the Commonwealth Games	267,014	623,869
Total expenses	**13,449,690**	**13,303,024**

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 are excluded in the preparation of whole-of-Government UPF financial statements.
2. Explanation of variations in departmental administered expenses can be found in the Service Delivery Statements.

Table 5.6 reconciles the departmental expenses set out above with General Government Sector total expenses.

Table 5.6 Reconciliation of departmental to UPF expenses[1]

	2016-17 Est. Act. $ million	2017-18 Budget $ million
Departmental expenses per Service Delivery Statements		
- Controlled	44,592	46,771
- Administered	13,450	13,303
Non-UPF departmental expenses and whole-of-Government schemes[2]	(4,164)	(4,142)
Other General Government entities (e.g. CBUs, SSPs, Statutory Bodies)	4,591	5,294
	58,469	**61,226**
Superannuation Interest cost	514	600
Eliminations and Other whole-of-Government adjustments		
Elimination of payments to CBUs and SSPs	(2,803)	(2,707)
Other eliminations and adjustments	(2,570)	(3,396)
Total General Government UPF expenses	**53,610**	**55,723**

Notes:

1. Numbers may not add due to rounding and bracketed numbers represent negative amounts.
2. Certain expenses such as asset valuation changes are included in agency reporting, but are excluded from the UPF. 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 Queensland Treasury Administered's expenses. Costs associated with these schemes are accrued annually.

6 Balance sheet and cash flows

Features

- Between 2016-17 and 2019-20, the Government's continued focus on balance sheet management through the Debt Action Plan and other budget strategies will see over $30 billion invested in the capital program for the General Government Sector, while maintaining debt levels consistent with those expected in the 2016-17 Mid Year Fiscal and Economic Review (MYFER).
- General Government Sector debt is expected to fall by over $1.7 billion from $35.486 billion in 2015-16 to $33.758 billion in 2017-18. This is $3.6 billion lower than the projection for 2017-18 at the time of the 2016-17 MYFER and $4.2 billion lower than in the 2016-17 Budget.
- The reduction in General Government debt in 2016-17 has provided the Government with the capacity to fund important new capital infrastructure over the forward estimates. Indeed, up until 2019-20 General Government debt is lower each year than predicted in the 2016-17 Budget.
- With this budget consolidating the work undertaken to date by the current Government to refocus the balance sheet to reduce debt while optimising infrastructure investment, Non-financial Public Sector (NFPS) debt is projected to be $10.1 billion lower in 2017-18 than the original 2014-15 Budget projections under the previous Government. General Government debt is projected to be $14.7 billion lower in 2017-18 using the same basis of comparison.
- The State's net worth, the amount by which its assets exceed its liabilities, is forecast to be over $207 billion by 2019-20, over $3 billion higher than at the time of the 2016-17 MYFER and over $29 billion higher than the 2016-17 Budget. The increase since the 2016-17 Budget predominantly reflects a net upward revaluation for road infrastructure assets.
- At the time of the 2016-17 MYFER, net cash inflows from operating activities for 2016-17 were expected to cover 88% of net investments in Non-financial Assets (NFAs) for the General Government Sector. The estimated actual coverage is now expected to be 126%.
- Non-financial Public Sector capital expenditure totals $41.086 billion for the period 2017-18 to 2020-21, which comprises $36.979 billion of PNFA, and $4.107 billion of capital grant expenses. In addition to these, acquisitions of non-financial assets under finance leases of $1.663 billion, brings the total capital program for the 2017-18 Budget to $42.75 billion.

6.1 Context

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 emerging financial and economic pressures, and to provide a strong foundation for future economic growth.

Following consideration of the 2015 Review of State Finances, the Government introduced revised fiscal principles in the 2015-16 Budget and the Government has retained these principles in framing subsequent budgets. The principles include the targeting of an ongoing reduction in Queensland's debt burden, as measured by the General Government Sector debt to revenue ratio, and targeting net operating surpluses that ensure new capital investment is primarily funded through recurrent revenues, rather than borrowing. With this budget consolidating the work already undertaken through the implementation of the Debt Action Plan and other budget strategies, debt levels in most years are well below 2016-17 Budget and 2016-17 MYFER projections while the State continues to invest in valuable infrastructure projects and rebuilds after Severe Tropical Cyclone Debbie.

6.2 Balance sheet

Table 6.1 provides a summary of the key balance sheet aggregates for the General Government Sector.

Table 6.1 General Government Sector: summary of budgeted balance sheet[1]

	2016-17 Budget $ million	2016-17 Est. Act. $ million	2017-18 Budget $ million	2018-19 Projection $ million	2019-20 Projection $ million	2020-21 Projection $ million
Financial assets	60,462	61,260	60,814	59,483	58,620	58,570
Non-financial assets	185,686	209,645	212,407	217,499	221,975	225,783
Total assets	**246,148**	**270,906**	**273,222**	**276,981**	**280,596**	**284,352**
Borrowings	**37,775**	**33,937**	**33,758**	**36,393**	**38,760**	**41,244**
Advances and deposits	809	1,331	1,544	1,260	916	873
Superannuation liability	25,891	24,998	23,355	21,736	20,334	18,909
Other provisions and liabilities	11,946	12,574	12,642	13,000	13,291	13,652
Total liabilities	**76,421**	**72,840**	**71,299**	**72,389**	**73,301**	**74,678**
Net worth	**169,726**	**198,066**	**201,922**	**204,592**	**207,294**	**209,675**
Net financial worth	**(15,960)**	**(11,579)**	**(10,485)**	**(12,907)**	**(14,681)**	**(16,108)**
Net financial liabilities	**37,279**	**32,895**	**33,273**	**36,043**	**37,849**	**39,199**
Net debt	**3,525**	**297**	**1,622**	**5,748**	**8,960**	**11,318**

Note:

1. Numbers may not add due to rounding and bracketed numbers represent negative numbers.

6.2.1 Financial assets

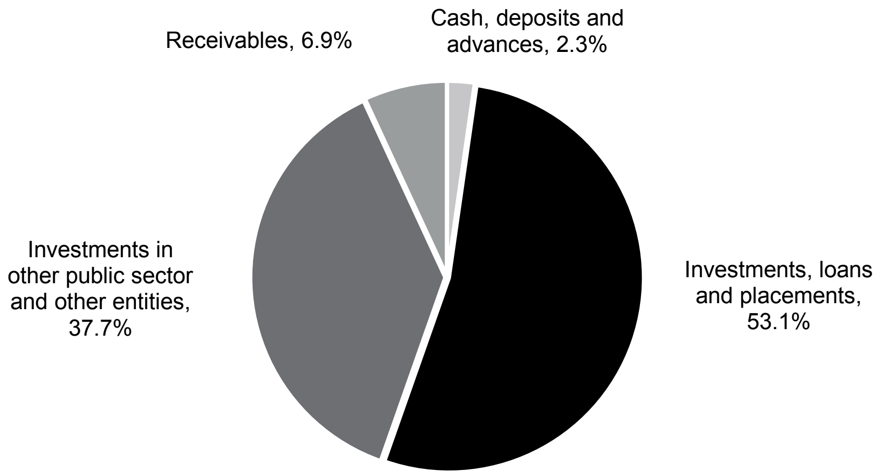
The General Government Sector holds the equity of the State's public enterprises, principally its shareholding in government-owned corporations (GOCs) but also Public Financial Corporations like Queensland Treasury Corporation (QTC), in much the same manner as the parent or holding company in a group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

Financial assets of $61.260 billion are estimated for 2016-17, $798 million higher than originally budgeted for 2016-17. Receivables are $911 million higher than budgeted, which includes dividends from other sectors.

Between 2016-17 and 2019-20, financial assets are projected to decrease by $2.64 billion as investments are repatriated from the actuarially assessed defined benefit superannuation fund and Queensland Government Insurance Fund (QGIF) surpluses. These repatriations will be used to fund the State Infrastructure Fund and additional priority capital projects as well as reducing debt.

Chart 6.1 shows forecast General Government Sector financial assets by category at 30 June 2018. Investments held to meet future liabilities, including superannuation and insurance, comprise the major part of the State's financial assets.

Chart 6.1 Forecast General Government Sector financial assets by category, at 30 June 2018[1]



Note:

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

6.2.2 Non-financial assets

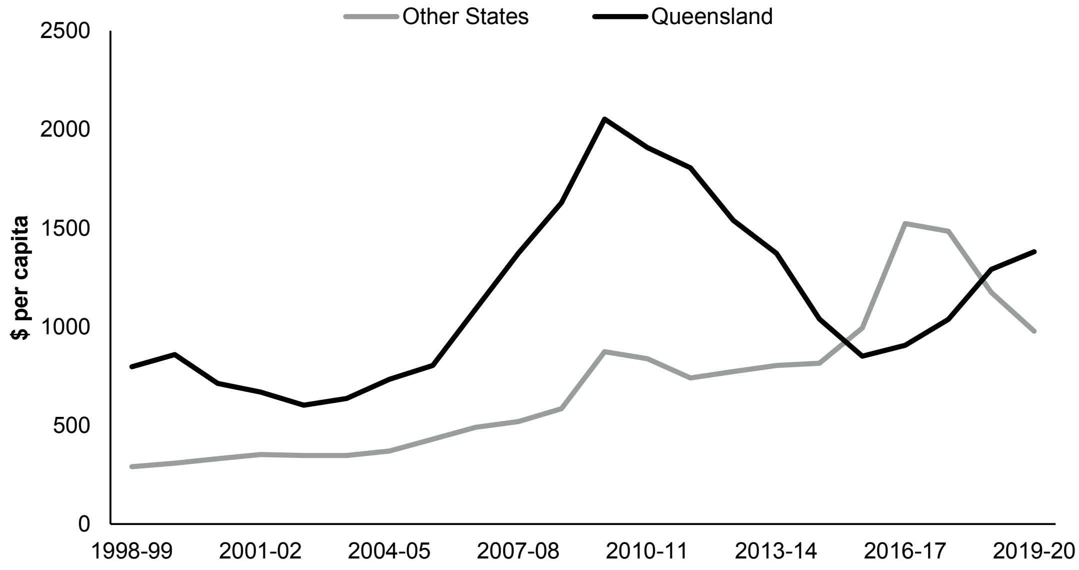
General Government Sector non-financial assets are estimated to total $209.645 billion at 30 June 2017, $23.959 billion higher than forecast at the 2016-17 Budget and $1.337 billion lower than in the 2016-17 MYFER.

The increase since the 2016-17 Budget reflects the flow through of a net upward revaluation at 30 June 2016 primarily for road infrastructure assets. These revaluations were incorporated into the 2016-17 MYFER.

Non-financial assets in 2017-18 are expected to grow by $2.762 billion over the 2016-17 estimated actuals, to be $212.407 billion at 30 June 2018. These assets consist primarily of land and other fixed assets of $205.439 billion, the majority of which are roads, schools, hospitals and other infrastructure used to provide services to Queenslanders. Other non-financial assets of $6.969 billion held by the State include prepayments and deferred income tax assets relating to GOCs.

Queensland has historically had a higher level of General Government Sector capital spending than other jurisdictions. Reflecting the pipeline of decisions made during a period of fiscal consolidation, and increased spending in other jurisdictions, per capita PNFA in Queensland are expected to be lower than the average of other states between 2015-16 and 2017-18. From 2018-19, the Government's enhanced infrastructure investment decisions are expected to drive Queensland back up over the average of other jurisdictions.

Chart 6.2 General Government Sector per capita purchases of non-financial assets



Source: ABS 5512.0 and Queensland Treasury calculations based on 2017-18 Budget for all states except NSW, SA where mid-year updates are used, and WA where the Pre-election Financial Projections Statement is used.

General Government Sector capital expenditure for 2017-18 is forecast to be $6.696 billion, which comprises $5.123 billion of PNFA, and $1.573 billion of capital grant expenses. In addition to these, acquisitions of non-financial assets under finance leases are forecast to be $618 million, bringing the total General Government Sector capital program in 2017-18 to $7.314 billion.

Over the four years to 2020-21, General Government Sector capital expenditure is forecast to be $29.218 billion, which comprises $25.071 billion of PNFA, and $4.147 billion of capital grant expenses. Acquisitions of non-financial assets under finance leases are forecast to be $1.663 billion, bringing the total General Government Sector capital program over the period to $30.881 billion.

Following consideration of the Review of State Finances, the Government established five fiscal principles, one of which aims to better manage the capital program to ensure a consistent flow of works to support jobs and the economy, and another that targets net operating surpluses that ensure General Government Sector PNFA are funded primarily through recurrent revenues rather than borrowing.

General Government Sector PNFA are forecast to increase from $4.416 billion in the 2016-17 estimated actual to $7.015 billion in 2019-20. This increase reflects the Government's commitment to fiscally responsible infrastructure investment to deliver productivity enhancing infrastructure, without significantly increasing debt.

The strong surplus in 2016-17, which has resulted in lower levels of debt, in combination with other balance sheet measures, provides capacity to fund further priority capital projects over the forward estimates without significantly increasing projected debt levels. Balance sheet measures in this budget include repatriation of $500 million in surpluses from the QGIF and the return from QTC of $500 million of its past surpluses.

In terms of ensuring new capital purchases in the General Government Sector are primarily funded through operating revenues, forecast net operating cash flows from 2016-17 to 2020-21 of $17.389 billion are funding net investments in NFAs of $27.714 billion. Net cash inflows from operating activities equate to 59.4% of the funding required for the 2017-18 General Government Sector net investments in NFAs and averages 67.2% across the period 2016-17 to 2020-21.

The State has also entered into a number of finance leases, mainly in relation to Public Private Partnerships, totalling $2.378 billion over the period 2016-17 to 2018-19, including:

- $1.030 billion for New Generation Rollingstock
- $430 million for the Toowoomba Second Range Crossing
- $195 million for the Gold Coast Light Rail - Stage 2
- $460 million for the Sunshine Coast University Hospital.

Generally, at the commencement of finance leases, the non-financial assets and the borrowings of the State increase by an equal amount to reflect the acquisition of the asset from the proponent. There are no cash impacts on the commencement of the lease - the finance lease liabilities are subsequently repaid under the terms of the Public Private Partnership agreement.

Purchases of non-financial assets by the NFPS over the period 2017-18 to 2020-21 are forecast to be $36.979 billion, which is an average of $9.245 billion per annum. With capital grant expenses of $4.107 billion, this brings total capital expenditure to $41.086 billion. In addition to this, acquisitions of non-financial assets under finance leases of $1.663 billion bring the total capital program over the period to $42.75 billion. While its primary aim is to facilitate service delivery to Queenslanders, infrastructure investment makes an important contribution to the economy and is a cornerstone of the Queensland job market, particularly in the construction industry.

6.2.3 Liabilities

General Government Sector

Estimated General Government Sector liabilities of $72.840 billion in 2016-17 are $3.581 billion lower than the 2016-17 Budget, mainly due to lower than expected borrowings. Improved operating cash flows, predominantly due to better than expected royalty revenue, and lower than expected capital outlays estimated for 2016-17 have resulted in lower debt than expected at the time of the 2016-17 Budget.

Due to the Government's commitment to sustainable fiscal management, General Government Sector borrowing is expected to fall $1.549 billion from $35.486 billion in 2015-16 to $33.937 billion in 2016-17.

Total liabilities in the General Government Sector in 2017-18 will reduce by a further $1.541 billion from the 2016-17 estimated actual.

General Government Sector borrowings of $33.758 billion are budgeted for 2017-18, $4.242 billion lower than the projection in the 2016-17 Budget and $3.606 billion lower than projected at the time of the 2016-17 MYFER. Borrowings are expected to increase by $7.307 billion between 2016-17 and 2020-21 in support of PNFA's of $25.071 billion.

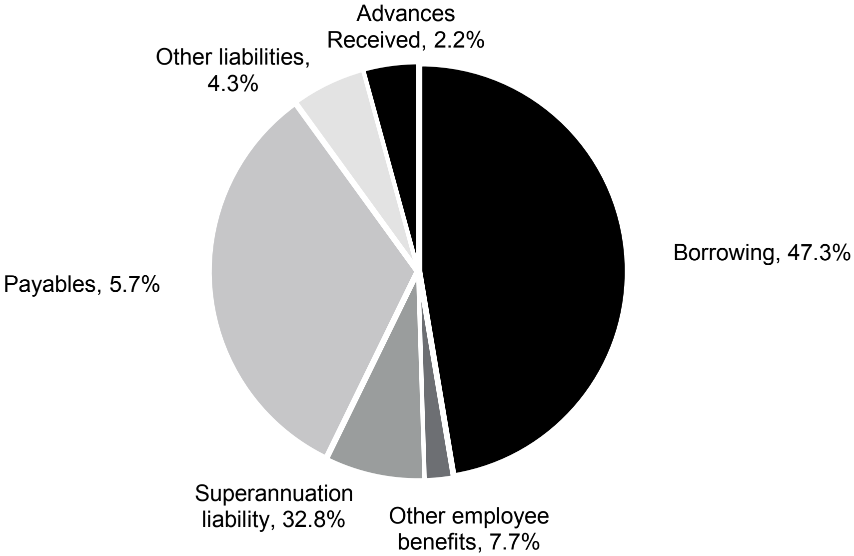
Liabilities relating to employee entitlements (principally superannuation and long service leave) are projected to total $28.865 billion at 30 June 2018, a 4.9% decrease on the 2016-17 estimated actual. The State's defined benefit fund has been closed to new entrants since 2008. Given the age profile of those employees still in that fund, retirements are also increasing. Accordingly, the State's superannuation liability is now declining over the forward estimates. In addition, an anticipated increase in bond rates across the forward estimates contributes to the expected decline.

The remainder of the liabilities consist of payables, advances and other liabilities such as unearned revenue and provisions.

The composition of the General Government Sector's forecast liabilities at 30 June 2018 is illustrated in Chart 6.3.

The Government considers the General Government Sector debt to revenue ratio to be an important indicator, consistent with its fiscal principle of targeting ongoing reductions in Queensland's relative debt burden (refer Chart 3.5 in Chapter 3).

Chart 6.3 Forecast General Government Sector liabilities by category, at 30 June 2018[1]



Note:

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

Non-financial Public Sector borrowings

Non-financial Public Sector borrowings of $73.102 billion are expected for 2016-17, $2.168 billion lower than expected at the 2016-17 Budget, $647 million lower than 2016-17 MYFER and $8.132 billion lower than forecast in the 2014-15 Budget.

Due to the Debt Action Plan measures being implemented by the Government which refocuses the balance sheet to lower debt, NFPS debt at 30 June 2018 is projected to be over $10 billion lower than the original 2014-15 Budget projections.

Non-financial Public Sector borrowings of $77.72 billion are now expected for 2019-20, $202 million higher than expected at the 2016-17 MYFER but $1.149 billion less than the comparable 2016-17 Budget estimate. This largely reflects the Government's commitment to fiscally responsible infrastructure investment, without increasing debt.

6.2.4 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 2016-17 is estimated at negative $11.579 billion, an improvement of $4.381 billion on the 2016-17 Budget mainly due to the impact of the decrease in Borrowing.

6.2.5 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 other significant liabilities, rather than just borrowings (for example, accrued employee liabilities such as superannuation and long service leave entitlements).

The net financial liabilities of the General Government Sector for 2016-17 are estimated to be $32.895 billion, an improvement of $4.384 billion on 2016-17 Budget.

Net financial liabilities remain relatively stable in 2017-18, then increase from 2018-19 mainly as investments are repatriated from the actuarially assessed defined benefit superannuation fund and Queensland Government Insurance Fund surplus to fund priority infrastructure projects and disaster recovery.

6.2.6 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. 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 2016-17 is estimated to be $198.066 billion. This is $28.340 billion higher than forecast in the 2016-17 Budget primarily due to upward revaluations of road infrastructure assets at 30 June 2016.

From 2016-17, net worth is projected to steadily increase mainly as a result of the growth in purchases of non-financial assets.

6.2.7 Net debt

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

Net debt for the General Government Sector in 2016-17 is estimated to be $297 million, $3.228 billion less than the 2016-17 Budget mainly as a result of improved royalty receipts and the change in timing of PNFA flowing through to lower borrowings. Net debt is forecast to increase across the forward estimates to fund priority infrastructure projects.

In the NFPS, net debt is estimated at $36.269 billion in 2016-17, $3.634 billion less than the 2016-17 Budget. Net debt is expected to increase to $37.890 billion in 2017-18 and then grow through to 2020-21 with infrastructure provision partly funded by borrowings and investment drawdowns.

6.3 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 6.2.

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

The cash flow statement provides the cash surplus (deficit) measure which is comprised of the net cash flows from operating activities plus the net cash flows from investments 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 commencement of finance leases in the cash surplus (deficit). This measure is also used to derive the Loan Council Allocation nomination, provided in Chapter 9.

The estimated General Government Sector cash surplus of $1.038 billion in 2016-17 is $2.588 billion higher than that forecast at the time of the 2016-17 Budget. This is largely due to the higher than expected operating cash flows and lower than expected PNFA.

After taking into account PNFA of $5.123 billion, a cash deficit of $1.922 billion is forecast for 2017-18, in line with the 2016-17 MYFER.

Net cash flows from investments in financial assets for policy purposes include net cash flows from disposal or return of equity, and net equity injections into government-owned corporations. Cash flows from the return of equity in the energy network businesses and other businesses as a result of the enhanced Debt Action Plan are the primary driver of net inflows of $2.084 billion over the period 2016-17 to 2020-21.

Net cash flows from investments in financial assets for liquidity purposes represent net investment in financial assets to cover liabilities such as superannuation, other employee entitlements and insurance. The drawdown of long service leave assets and the repatriation of surpluses in the actuarially assessed defined benefit superannuation fund and the QGIF flow through this line in the Statement of Cash Flows.

Total General Government Sector PNFA of $5.123 billion are budgeted for 2017-18 and, over the period 2017-18 to 2020-21, PNFA are expected to total $25.071 billion in the General Government Sector.

6.4 Reconciliation of operating cash flows to the operating statement

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

Table 6.2 General Government Sector: reconciliation of cash flows from operating activities to accrual operating activities[1]

	2016-17 Est. Act. $ million	2017-18 Budget $ million
Revenue from transactions	**56,434**	**55,869**
Plus/(less) movement in tax equivalent and dividend receivables	(781)	251
Plus GST receipts	1,703	1,814
Plus/(less) movement in other receivables	(316)	(614)
Equals cash receipts from operating activities	**57,040**	**57,320**
Expenses from transactions	**53,610**	**55,723**
(Less) non-cash items		
Depreciation and amortisation expense	(3,009)	(3,093)
Accrued superannuation expense	(1,465)	(1,445)
Accrued employee entitlements	(469)	(499)
Other accrued costs	(125)	(113)
Plus superannuation benefits paid - defined benefit	1,758	1,983
Plus/(less) movement in employee entitlement provisions	243	289
Plus/(less) GST paid	1,684	1,795
Plus/(less) movement in other provisions and payables	(259)	(129)
Equals cash payments for operating activities	**51,968**	**54,511**

Note:

1. Numbers may not add due to rounding and bracketed numbers represent negative amounts.

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.

7 Intergovernmental financial relations

Features

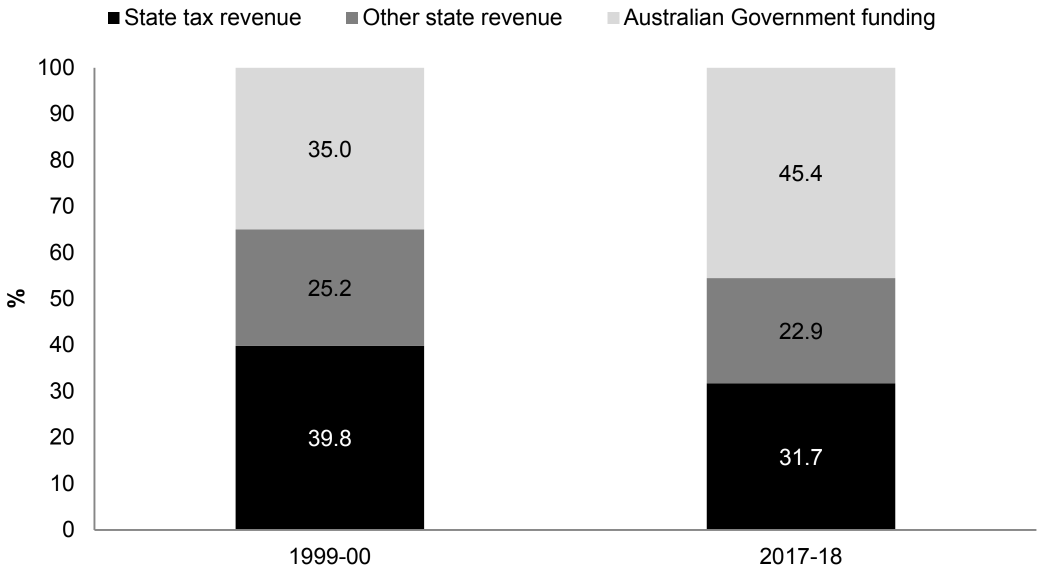
- Queensland's ability to raise revenue is less than required to meet its service delivery responsibilities while the Australian Government can raise more revenue than is required to meet its responsibilities. As such, Australian Government funding contributes to Queensland's ability to meet its current and future service delivery and infrastructure responsibilities. Without the appropriate level of Australian Government funding, Queensland cannot provide the essential services and infrastructure sought by the community.
- However, Queensland’s capacity to manage these responsibilities continues to be impacted by uncertainty of funding from the Australian Government for critical services including early childhood education and remote Indigenous housing, and conditions imposed on access to funding such as for the Skilling Australians Fund and the new National Housing and Homelessness Agreement. Such conditions are inconsistent with the principles of the Intergovernmental Agreement on Federal Financial Relations.
- While the 2017-18 Commonwealth Budget provided additional funding for school education, it did not provide a clear commitment to Queensland’s number one infrastructure priority, Cross River Rail and other essential infrastructure projects such as a new pipeline to connect Queensland’s gas supply with industry and users.
- Estimated Australian Government funding in 2017-18 for Queensland is $26.850 billion. Queensland is estimated to receive $14.871 billion in GST revenue and $11.979 billion in payments for specific purposes.
- The Commonwealth Grants Commission (CGC) 2017 Update Report recommended Queensland’s share of goods and services tax (GST) increase in 2017-18. The increase recognises the impact of factors beyond the State’s control, such as high Natural Disaster Relief and Recovery Arrangements (NDRRA) expenditure relating to 2011 and 2012 disaster events, higher service delivery costs and lower capacity to generate tax revenue in Queensland.
- Queensland’s estimated $14.871 billion of GST revenue in 2017-18 is $2.379 billion more than its population share. This reflects unavoidable higher costs in service delivery to regional and remote communities, and the need for appropriate funding being made available. Total GST revenue to all states is expected to be $62.340 billion in 2017-18, an increase of $3.100 billion or 5.2% on 2016-17.
- Of payments for specific purposes to Queensland in 2017-18, $882 million are National Specific Purpose Payments, $4.201 billion are National Health Reform funding, $4.129 billion are Quality Schools funding and $2.545 billion are National Partnership payments which include funding agreements for Universal Access to Early Childhood Education and Skills Reform. NDRRA funding of $223 million is expected in 2017-18.

7.1 Federal financial arrangements

Federal financial relations in Australia are characterised by vertical fiscal imbalance (VFI). VFI occurs because state and territory governments' ability to raise own-source revenue is less than required to meet service delivery responsibilities while the Australian Government raises more revenue than is required to meet its service delivery responsibilities. Revenue raised by the Australian Government is generated from taxpayers in all states and territories (states) [1]. Without appropriate payments by the Australian Government to states, it will not be possible to provide the essential services and infrastructure sought by communities.

In 2015-16, the Australian Government collected the majority of taxation revenues (79.5%), while states collected 17.0% and local governments the remaining 3.6%[2]. National tax reform and other changes since 2000 have led to an increase in VFI. Chart 7.1 shows that while all states received 35.0% of their revenue from the Australian Government in 1999-2000, this is forecast to increase to 45.4% in 2017-18 based on the Australian Government's budget estimates[3].

Chart 7.1 General Government revenue sources, all states, 1999-2000 and 2017-18[1]



Note:

1. 2017-18 are estimates.

Sources: ABS Government Finance Statistics Cat No. 5512.0 and state and Australian Government Budget Papers.

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[1] States refer to states and territories unless otherwise specified.

[2] ABS Government Finance Statistics Cat No. 5506.0.

[3] National aggregates and interstate comparisons in this chapter will use Australian Government estimates for consistency. Queensland specific figures are consistent with Queensland Budget estimates.

In Australia, VFI is addressed through a system of intergovernmental payments from the Australian Government to the states which allow the states to meet their service delivery and infrastructure responsibilities. The framework for providing these payments is set out in the Intergovernmental Agreement on Federal Financial Relations (IGA FFR). The IGA FFR outlines the Australian Government's commitment to provide ongoing financial support to the states through two types of payments – general revenue assistance and payments for specific purposes. These payments represent the Australian Government's contribution to states' current and future service delivery responsibilities. Without the appropriate contribution by the Australian Government, states would not be able to provide essential services and infrastructure.

General revenue assistance payments are able to be used by the states for any purpose (untied funding). Just over half of all Australian Government payments are untied and largely reflect the proceeds from the GST. Payments for specific purposes are considered tied funding which are provided to support a particular project or service area. These payments are comprised of ongoing financial payments to the states for service delivery in a particular sector, known as National Specific Purpose Payments (SPPs), and time-limited payments that support project delivery and facilitate reforms, known as National Partnership payments (NPs).

One of the outcomes of VFI has been overlap and duplication in roles and responsibilities relating to service delivery and infrastructure provision, particularly in the areas of health and education. This can result in excessive administration, unnecessary additional costs, blurred accountability and a misallocation of resources to areas of lower priority. Receiving a significant proportion of their revenue through Australian Government payments leaves states subject to unilateral decisions by the Australian Government affecting the stability and predictability of their finances.

Another important element of Australian federal financial arrangements is the process of horizontal fiscal equalisation (HFE). Like many federations, each Australian state has a different capacity to raise revenue or deliver services owing to factors largely beyond their control, such as demography, socio-economic status, geography and natural resources. The HFE process seeks to give all states the fiscal capacity to deliver services to their populations, taking into account states' capacities to raise revenue from their own sources, as well as their different expenditure needs.

Under the terms of the IGA FFR, GST revenue is required to be distributed to the states on the basis of HFE. The Commonwealth Grants Commission (CGC) is tasked with recommending state shares of GST funding to the Australian Government. The amount of GST revenue received by an individual state is determined by the national pool of revenue collected through the GST and its recommended share.

The Australian Government recently tasked the Productivity Commission with reviewing the current HFE system to determine its economic impacts and whether preferable alternatives exist. Further details are provided in Box 7.1.

Box 7.1 Productivity Commission inquiry into Horizontal Fiscal Equalisation (HFE)

On 30 April 2017, the Commonwealth Treasurer announced a Productivity Commission (the Commission) inquiry into Australia's system of HFE, which underpins the current distribution of GST revenue to states.

The Commission has been asked to consider

" …the influence the current system has on productivity, efficiency and economic growth, including the movement of capital and labour across state borders; the incentives for states to undertake fiscal (expense and revenue) reforms that improve the operation of their own jurisdictions, and on states' abilities to prepare and deliver annual budgets."

The Terms of Reference also instruct the Commission to consider the current system's implications for equity, efficiency and simplicity. In addition, the Commission has been tasked with examining whether there may be preferable alternatives to the current system, taking account of previous reviews of the HFE process, including the 2012 GST Distribution Review report as well as international approaches to fiscal equalisation within federations.

As part of the inquiry, the Commission is seeking public feedback on these issues. The Queensland Government intends to provide a submission to the inquiry in support of the principle that all states should have the fiscal capacity to provide similar levels of services and infrastructure. It is also essential that the different circumstances and challenges each state faces are recognised to ensure similar levels of service can be delivered regardless of where someone lives.

For instance, as a vast and decentralised state, with more than seven times the land mass of Victoria and communities in every corner of the state, Queensland faces significant challenges in delivering services to regional and remote communities. The unavoidably higher costs in providing services to these communities must be recognised in any assessment of fiscal capacity and appropriate funding made available. The Queensland Government believes such funding is vital to ensure essential services and infrastructure are provided to all Queenslanders wherever they live.

A draft report is expected to be released in October 2017, with a final report due to be provided to the Australian Government by 31 January 2018.

7.2 Australian Government funding to the states

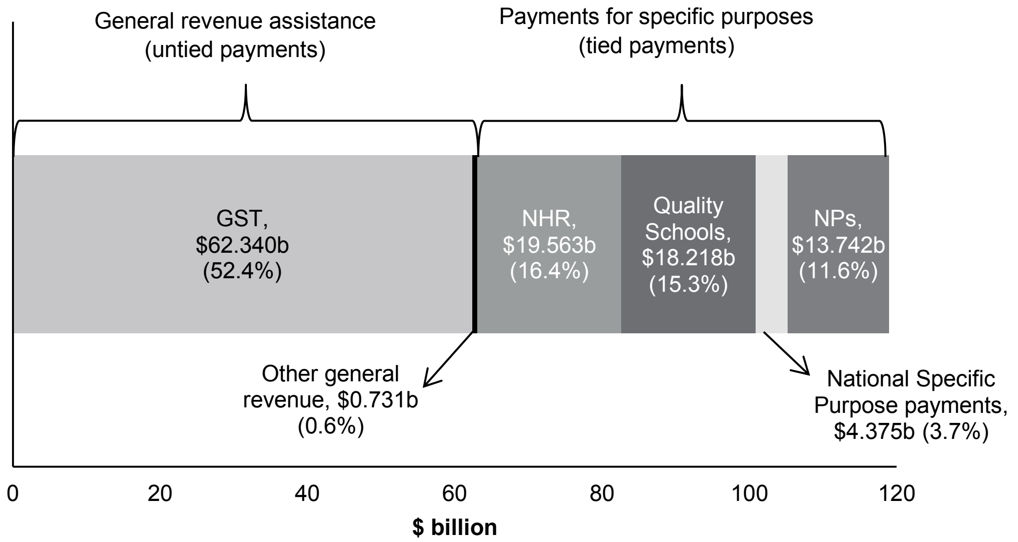
As discussed in section 7.1, total Australian Government payments to the states are made up of general revenue assistance payments and payments for specific purposes. General revenue assistance payments include proceeds from the GST, which are untied, whereas payments for specific purposes are considered tied payments as they are for a specific project or service area.

Total Australian Government payments for the states in 2017-18 are expected to be $118.968 billion, an increase of $3.161 billion, or 2.7%, from 2016-17. Payments in 2017-18 are expected to account for 26.8% of the Australian Government's total revenue.

GST revenue from the Australian Government to all states is expected to be $62.340 billion in 2017-18, an increase of 5.2% in nominal terms, or 1.6% in real per capita terms.

Total payments for specific purposes in 2017-18 are expected to be $55.898 billion, a 0.1% increase in nominal terms and a 3.3% decrease in real per capita terms compared with 2016-17. Total payments for specific purposes consist of $19.563 billion in National Health Reform, $18.218 billion in Quality Schools funding, $13.742 billion in National Partnership payments and $4.375 billion in National Specific Purpose Payments (shown in Chart 7.2).

Chart 7.2 Breakdown of Australian Government payments to states, 2017-18[1]



Note:

1. NHR is funding under the National Health Reform. Quality Schools funding was previously Students First funding. NPs are funding for National Partnership payments.

Source: 2017-18 Commonwealth Budget Paper No.3.

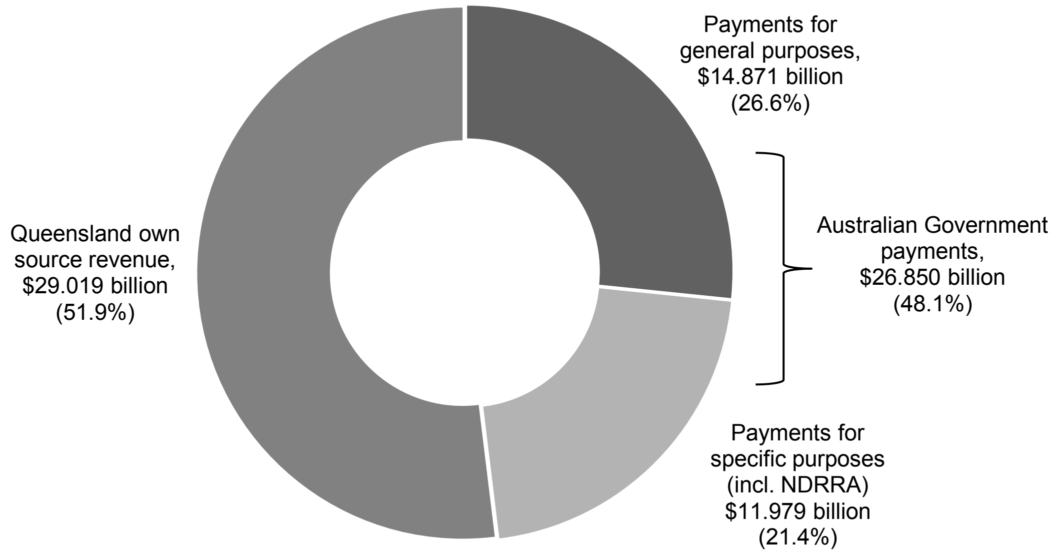
7.3 Australian Government funding to Queensland

With Queensland's own-source revenue less than is required to meet its responsibilities, the appropriate level of Australian Government funding is essential to deliver vital services.

Estimated Australian Government funding in 2017-18 for Queensland, included in the 2017-18 Queensland Budget, is $26.850 billion[4], an increase of $0.542 billion, or 2.1%, compared with 2016-17. This amount includes NDRRA payments of around $223 million in 2017-18. The estimated total Australian funding will comprise of $14.871 billion in payments for general purposes and $11.979 billion in payments for specific purposes.

Australian Government funding is estimated to account for 48.1% of Queensland's total General Government Sector revenue sources in 2017-18 (shown in Chart 7.3). Australian Government funding has grown significantly as a proportion of Queensland's total revenue since the introduction of the GST in 2000, consistent with a broader national trend.

Chart 7.3 General Government Sector revenue sources, Queensland, 2017-18[1]



Note:

1. Percentage may not add to 100% due to rounding.

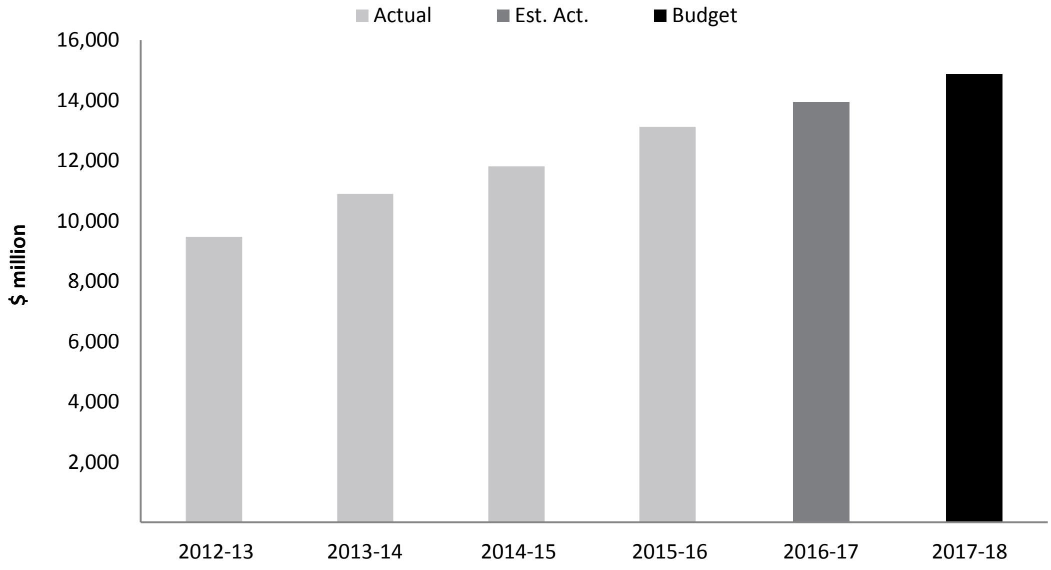
Source: 2017-18 Commonwealth Budget Paper No. 3 and Queensland Treasury estimates.

[4] This figure differs to Chapter 4 Australian Government payments estimates, owing to the exclusion of direct Australian Government payments to Queensland departments for Commonwealth own purpose expenditure.

7.4 GST revenue payment

GST revenue accounts for all general purpose payments Queensland receives. In 2017-18, Queensland expects to receive $14.871 billion of GST revenue, $931.5 million or 6.7% higher than the amount received in 2016-17 (see Chart 7.4). This is also $2.379 billion greater than its population share.

Chart 7.4 Estimated GST payments to Queensland, 2012-13 to 2017-18[1]



Note:

1. Figures include the balancing adjustments which account for differences between the GST paid to states and the final GST pool size and population outcomes in the prior year.

Sources: 2017-18 Commonwealth Budget Paper No. 3 and Queensland Treasury estimates.

The increase in GST revenue in 2017-18 largely reflects growth in the GST pool and an underlying increase in Queensland's share of GST revenue as recommended in the CGC's Report on GST Revenue Sharing Relativities - 2017 Update. The CGC's recommended relativity (accepted by the Australian Government) for Queensland increased to 1.18769 for 2017-18, up from 1.17109 in 2016-17.

Queensland's share of GST for 2017-18 has increased because of:

- Lower proportion of high value holdings in Queensland's total land value which are taxed at higher rates. This reduced Queensland's capacity to raise land tax revenue.
- Higher relative wage costs in Queensland since 2012-13 which increased the cost of service delivery in the State in comparison to other states.
- Below average increase in Queensland's property sales reduced its capacity to raise revenue from conveyance duty compared to New South Wales and Victoria who have experienced stronger property markets.

- Declines in Queensland's taxable private sector payrolls between 2012-13 and 2015-16 while New South Wales and Victoria have experienced increases in private sector payrolls over the same period. This has reduced Queensland's payroll tax revenue raising capacity compared to these states.

These gains were partially offset by a greater share of Commonwealth infrastructure payments in 2015-16 compared to 2012-13 and lower population growth. Queensland's share of GST revenue has traditionally increased due to previous above-average population growth rates which imply a greater need for infrastructure investment. While Queensland's population growth rate has slowed in recent years dampening this effect, over the longer term, some moderate acceleration in population growth is expected (as discussed in Chapter 2).

Queensland's share of GST is also impacted by changing circumstances in other states. For instance between 2012-13 and 2015-16 (assessment years for the 2017-18 relativity), New South Wales experienced strong activity in the property sector resulting in a significant positive impact on the state's capacity to raise revenue, lowering its GST requirement. Additionally, Northern Territory's share of national population growth declined, reducing its investment requirement and therefore GST. The net effect of these factors has led to a redistribution of GST revenue to other states including Queensland. Table 7.1 shows the relativities and resulting GST distributions for each state and territory for 2017-18.

Table 7.1 Recommended relativities and estimated GST shares, 2017-18

	NSW	Vic.	Qld	WA	SA	Tas.	ACT	NT
CGC recommended relativity	0.87672	0.93239	1.18769	0.34434	1.43997	1.80477	1.19496	4.66024
GST Share ($ million)	17,554	14,765	14,871	2,327	6,303	2,387	1,225	2,908
GST per capita ($)	2,221	2,362	3,009	872	3,648	4,573	3,028	11,807

Sources: 2017-18 Commonwealth Budget Paper No. 3, Commonwealth Grants Commission Report on GST Revenue Sharing Relativities - 2017 Update.

7.5 Payments to Queensland for specific purposes

Payments for specific purposes comprise of National Health Reform funding, Quality Schools funding, National Specific Purpose Payments (SPPs), and National Partnership (NP) payments.

Queensland is expected to receive $11.979 billion in payments for specific purposes in 2017-18, $390 million lower than 2016-17. This is mainly due to lower NDRRA funding which is expected to decrease by $880 million to $223 million over the year.

In 2017-18, National Health Reform Funding which accounts for 35.1% of the total payment for specific purposes is expected to increase by 1.2% over the year to $4.201 billion. The proposed Quality Schools funding[5] (refer to Box 7.3 for details) which accounts for 34.5% of the total payments for specific purposes, is expected to increase to $4.129 billion over the same period (see Table 7.2).

Table 7.2 Estimated payments for specific purpose[1]

	2015-16 Actual $ million	2016-17 Est. Act. $ million	2017-18 Budget $ million
National Specific Purpose Payments	**847**	**865**	**882**
Disability services	289	299	310
Affordable housing	266	269	273
Skills and workforce development	292	296	300
National Health Reform funding	**3,531**	**4,153**	**4,201**
Quality Schools funding[2]	**3,743**	**3,876**	**4,129**
National Partnership Payments (incl. NDRRA)	**1,848**	**3,475**	**2,767**
Total payments for specific purposes	**9,969**	**12,368**	**11,979**

Notes:
1. Numbers may not add due to rounding.
2. Quality Schools agreement is currently under negotiation and it replaces the formerly Student First - Education Reform funding.

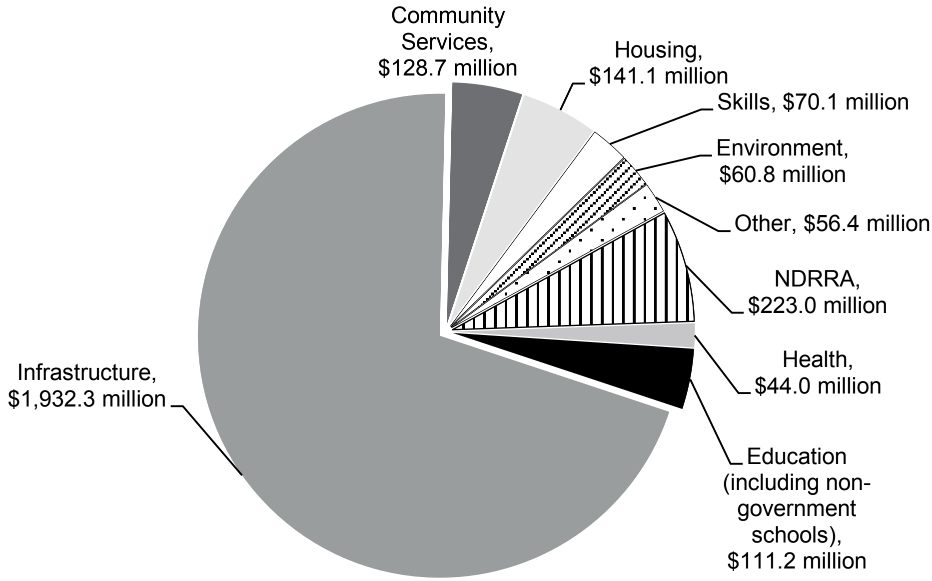
Sources: 2017-18 Commonwealth Budget Paper No. 3 and Queensland Treasury estimates.

National Specific Purpose Payments (SPPs) encompasses 7.4% of the total specific purpose payments. SPPs are expected to increase by 2.0% to $882 million in 2017-18 compared to the previous year. This can be attributed to higher funding for the disability services, affordable housing and skills and workforce development specific purpose payments arrangements.

National Partnership payments (including NDRRA) (NPs) account for 23.1% of the total payment for specific purposes. NPs are expected to decrease by 20.4% to $2.767 billion in 2017-18 compared to the previous year as a result of lower NDRRA funding. A significant proportion of these payments are allocated for infrastructure, housing and community services (refer to Chart 7.5).

[5] Quality Schools agreement is currently under negotiation and it replaces the former Student First- Education Reform Funding.

Chart 7.5 National Partnership Payments by sector, 2017-18[1,2]



Notes:

1. Excludes Australian Government direct funding to local government.
2. Total amount may not add to 2017-18 Budget forecast due to rounding.

Sources: 2017-18 Commonwealth Budget Paper No. 3 and Queensland Treasury estimates.

Box 7.3 Key funding initiatives in the 2017-18 Commonwealth Budget

Quality Schools funding

In the 2017-18 Commonwealth Budget, the Australian Government announced Quality Schools funding of $18.218 billion nationally in 2017-18 and $79.648 billion over the forward estimates to 2020-21. This included a new needs-based school funding model intended to improve education outcomes of Australian students and their schools for both government and non-government schools.

Australian Government funding is expected to grow in line with enrolments and indexation of 3.56% each year for the 2018, 2019 and 2020 school years. From the 2021 school year, funding is expected to be indexed by a program-specific parameter calculated as a composite of the Wage Price Index and Consumer Price Index.

The new funding is contingent on the Australian Government passing legislative changes this year and will be subject to agreement between the State and Australian Governments, particularly pertaining to the education reforms being sought by the Australian Government. The actual amount of funding to be received by individual states and sectors will be determined by a revision of the 2011 report into school funding undertaken by David Gonski.

The Australian Government funding under Quality Schools for Queensland Government schools is expected to be $1.622 billion in 2017-18 (and $7.274 billion over four years to 2020-21). Queensland non-government schools are expected to receive funding of $2.279 billion in 2017-18 (and $9.867 billion over four years to 2020-21).

The Quality Schools funding in the 2017-18 Commonwealth Budget also transitions the additional funding provided over two years from 2016-17 for school students with disability.

National Housing and Homelessness

In the 2017-18 Commonwealth Budget, the Australian Government announced the reform of the National Affordable Housing Agreement and the Homelessness agreements. This has resulted in a merge of these agreements to form a new National Housing and Homelessness Agreement (NHHA) which will commence from 2018-19. The NHHA will provide additional Australian Government funding of approximately $100 million to Queensland over three years from 2018-19 to fund ongoing homelessness support services, with this funding to be matched by the State Government. Total Australian Government funding under NHHA for Queensland will be $306.5 million in 2018-19 ($933.8 million over three years to 2020-21).

Skilling Australians Fund

The 2017-18 Commonwealth Budget announced the establishment of the Skilling Australians Fund (SAF) to support the skilling of Australian workers. This Fund will supersede funding provided under the National Partnership Agreement on Skills Reform and proposes to make available an estimated $1.5 billion nationally over the next four years to 2021. The total funding available under the SAF will be contingent on revenue raised by the Commonwealth from the introduction of a new Skilling Australians Fund levy (to be introduced from March 2018) to be imposed on businesses that employ foreign workers on certain skilled visas.

SAF funding will be prioritised towards trade and non-trade apprenticeships and traineeships in target areas. Eligible projects may include providing incentives for employers, pre-apprenticeship training, improving apprenticeship and traineeship retention and completion rates, and additional support for higher level apprenticeships.

While the 2017-18 Commonwealth Budget allocated $293.9 million over four years to 2021 to Queensland, the actual allocation will be contingent on revenue raised from the new levy and Queensland contributing matching funding and meeting eligibility criteria as outlined by the Australian Government. Significant uncertainty remains around this matching requirement and the details around the eligibility criteria for states to access SAF funding.

Infrastructure funding

Despite the 2017-18 Commonwealth Budget including a $10 billion National Rail Program (NRP), no specific funding has been provided for Queensland’s top infrastructure priority, Cross River Rail (CRR). While the CRR would appear to be a suitable candidate for funding under the NRP, it will need to compete with an extensive list of other potential multi-billion dollar rail projects around Australia. Additionally, funding of only $600 million of the $10 billion program has been committed to over two years in 2019-20 and 2020-21.

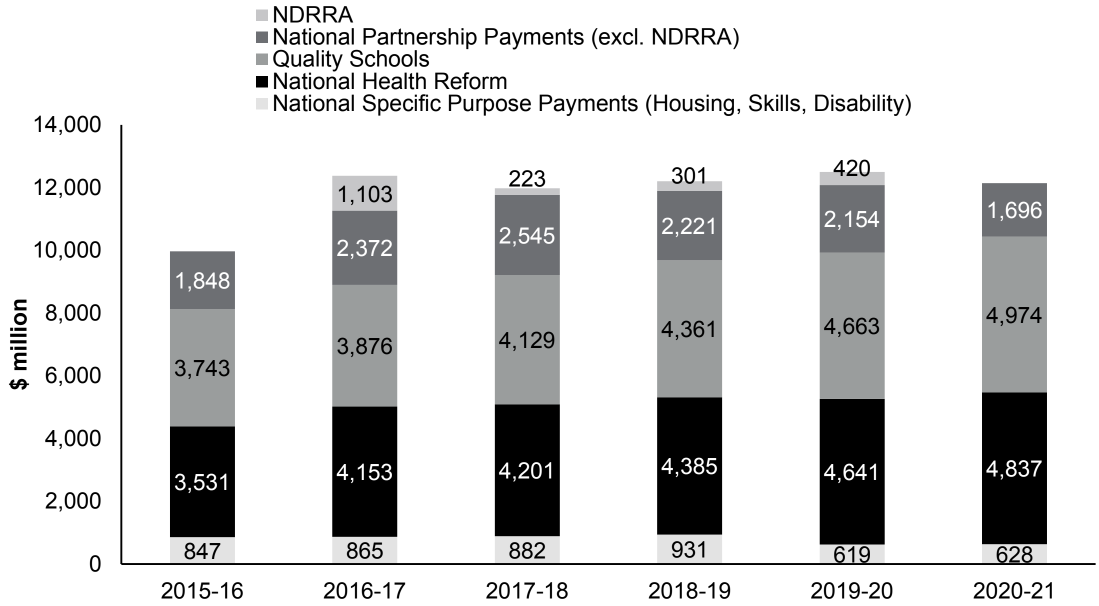
Likewise, no funding was provided in the 2017-18 Commonwealth Budget for the construction of a new gas pipeline to open up the Galilee and Bowen Basins. Such a pipeline would connect new potential gas producing areas with major east coast energy users in centres such as Townsville and help ease problems in the national energy market.

Uncertainties created by the Australian Government’s decision to deny direct funding to crucial infrastructure projects not only limits the State Government’s capacity to promote economic growth and employment across Queensland, it also creates additional unnecessary challenges for Queensland to plan its Budget.

7.5.1 Projections of specific purpose funding to Queensland

Across the forward estimates, total payments for specific purposes are expected to remain relatively stable, with annual average growth of around 0.5% between 2018-19 and 2020-21 (see Chart 7.6).

Chart 7.6 Payments for specific purposes to Queensland[1,2]



Notes:

1. Excludes Australian Government direct funding to local government.
2. 2015-16 are actuals and 2016-17 are estimated actuals.

Sources: 2017-18 Commonwealth Budget Paper No. 3 and Queensland Treasury estimates.

National Health Reform funding for Queensland is expected to increase by an average of 3.9% per annum over the forward estimates. Under the recently agreed Addendum to the National Health Reform Agreement, the Australian Government will fund 45% of the efficient cost of additional hospital activity, up to a national growth cap of 6.5% per annum.

Quality Schools funding for Queensland is expected to increase by $845 million between 2017-18 and 2020-21. For the 2018 school year and beyond, the Australian Government recently proposed a new needs-based funding model for schools. Under the new funding model Queensland is expecting to receive $7.274 billion for state schools and $9.867 billion for non-government schools over the forward estimates. However, funding is contingent on the Australian Government passing legislative changes this year and will be subject to agreement between the State and Australian Governments. Further details are provided in Box 7.3.

Funding for National SPPs is expected to decrease in 2019-20 as the NDIS is fully implemented from the same year, which will redirect the National Disability SPP to the NDIS. Funding for the skills and workforce development SPP and affordable housing SPP is expected to be relatively stable across the forward estimates.

7.5.2 Expiring agreements

The original intent of the IGA FFR was to limit the number of NPs, allowing for funding to flow to states for efficient service delivery and reduce the reporting burden. Over time, the number of time-limited and low-value NPs has increased, reducing budget certainty and raising community expectations for ongoing services.

When agreements expire, states are left with limited opportunities to deal with the expiring NP as the final decision on continued funding is made through the Australian Government's budget process. The expiry of a number of large NPs over the last few years in a tight fiscal environment has brought the risks posed by the number of fixed-term funding arrangements into sharp focus. States have had limited capacity to influence the continuation of expiring agreements and often there is little warning on whether funding will be continued. An early indication as to the continuation, lapse or other treatment of funding under expiring agreements is necessary to enable states to undertake effective service delivery and budgetary planning.

There are 24 agreements due to expire in 2016-17 or 2017-18. The total value of these expiring agreements, over the lives of the agreements (which vary between one and ten years) is $1.966 billion. Of the 24 agreements currently due to expire, the 2017-18 Commonwealth Budget provided no advice on 13 agreements regarding renewal and/or funding. The most significant of which is the Remote Housing Strategy NP which provides funding for improved housing in Indigenous communities.

Short-term funding was announced for the Universal Access to Early Childhood Education NP until December 2018 and the Adult Public Dental Services NP until June 2019. When the Australian Government decides to cease funding for expiring agreements, this presents a significant ongoing fiscal risk, with impacts on the quality and continuity of much needed services delivered to vulnerable members of the community.

8 Public Non-financial Corporations Sector

Features

- The Government is supporting over $520 million of additional infrastructure investment through a combination of government-owned corporations retaining a portion of their 2016-17 earnings, and additional capital investment from Government (discussed further in Box 8.1).
- The outlook for the electricity generators has improved substantially following significant improvements in wholesale prices. The recent higher prices have also flowed into an improved outlook over coming years.
- These higher wholesale prices have also contributed to a 7.1% increase in electricity prices for the typical household in the Queensland Competition Authority's determination which was released on 31 May 2017. In response, the Queensland Government has intervened to reduce this electricity price increase to only 3.3% through committing $771 million in 2016-17 to remove the costs of the Solar Bonus Scheme from electricity prices from 2017-18 to 2019-20.
- The Government has also taken a number or reforms to place downward pressure on wholesale prices in the future, including directing Stanwell to alter its bidding behaviour in peak demand events.
- The electricity network businesses have also provided above budget returns as a result of higher energy sales associated with a hotter than usual summer.
- Following the merger of the electricity distribution businesses on 30 June 2016, Energy Queensland has reviewed its operational and capital expenditure programs to ensure the $562 million of merger savings are fully realised. As a result higher than expected savings of $233 million were achieved in 2016-17, with the overall savings target remaining unchanged.
- In response to the Commission of Inquiry into Queensland Rail's train crewing practices, the Queensland Government is providing an additional $25 million to Queensland Rail in 2017-18 to implement the Inquiry's 36 recommendations.

8.1 Context

A number of industries are covered by the Public Non-financial Corporations (PNFC) Sector, including energy, rail, port and water. Queensland's government-owned corporations (GOCs), declared by regulation to be GOCs under the *Government Owned Corporations Act 1993* (GOC Act), make up a large part of the PNFC sector. Also included in the sector are non-GOC entities, the Queensland Bulk Water Supply Authority (trading as Seqwater), Queensland Rail, local water boards and other public corporations.

GOCs are accountable for their financial performance and are required to be commercial and efficient organisations. These requirements are legislated under the GOC Act.

PNFC Sector entities provide services or commodities like other businesses. The entities incur costs and bear commercial risks in the delivery of their services or products and generate revenue from the sale of these services or products. The aim of these entities is to deliver vital services while also achieving a commercial rate of return which is returned to the Government as dividends.

These returns to Government are used to pay for important community services such as hospitals, education and concession payments and to repay Government debt. In some cases, part of a PNFC entity's revenue may arise from community service obligation (CSO) payments from the Government. These payments are used to subsidise a service or commodity provided by the entity, and allow it to be provided to the community at a lower price than it would be on a purely commercial basis. A key example of this is the CSO paid to Energy Queensland to provide electricity in regional Queensland at prices based on the costs of supply in southeast Queensland, in accordance with the Government's Uniform Tariff Policy.

Box 8.1 Capital allocation to priority projects of government-owned corporations

As part of the Debt Action Plan announced in the 2015-16 Budget, Government reviewed the level of equity committed to its energy GOCs to ensure the most effective and efficient deployment of capital, consistent with the recommendations of the Review of State Finances. As a result of this review, the dividend payout ratio of most GOCs was increased and capital was reallocated to reduce General Government debt. The review of capital allocation was extended to other GOCs in the 2015-16 MYFER.

Since then, the capital structures of GOCs have been monitored to ensure they remain efficient and sustainable. Added to the regearing initiatives implemented in 2015-16, measures are being put in place to ensure the effective management of GOCs' surplus cash, which is made available to Government when it is not immediately needed by GOCs.

In this Budget, the Government has continued its assessment of efficient capital allocation and cash management in the context of the strategic capital priorities of the sector, and opportunities to contribute to essential infrastructure and the growth and development of Queensland.

The estimated net profit after tax of GOCs is $1.9 billion in 2016-17. The Government will utilise some of these earnings to kick-start growth-enhancing infrastructure projects:

- The Queensland Government will commit $150 million of Powerlink's 2016-17 earnings to develop strategic transmission infrastructure in north and north-west Queensland to support a clean energy hub, subject to a feasibility study. This will unlock up to 2,000 megawatts of renewable energy projects and potentially support up to 4,600 jobs over the long term.
- Stanwell will reinvest $100 million of its 2016-17 earnings to contribute to funding the proposed hydro-electric power station at the Burdekin Falls Dam. This power station will further contribute to the State's renewable energy generation capacity and support between 150 and 200 new jobs when construction commences.
- SunWater will retain $36 million of its 2016-17 earnings and Government will provide a further $100 million towards improvement works to ensure that the Burdekin Falls Dam continues to meet design standards, supports the proposed hydro-electric power station and allows for the potential raising of the dam wall. This is expected to support up to 250 construction jobs in regional Queensland.
- Port of Townsville will reinvest $13 million of its 2016-17 earnings to contribute to the channel widening project, which will allow larger vessels to access the port. In addition, the State Government will commit a further $62 million to this project. The Government will work with Port of Townsville on additional funding opportunities to progress this important economic development project. Together with work on streamlining the supply chain, this channel widening will position Port of Townsville as a hub for trade between North Queensland and the rest of the world, and an alternative to Port of Brisbane.
- The Government will contribute $60 million over two years from 2018-19 to widen and deepen the Trinity Inlet Channel and swing basin at the Port of Cairns. The project will allow cruise ships up to 300 metres in length access to the Port, and also facilitate future Navy expansion plans. The project has an estimated cost of $120 million and will be subject to an Environmental Impact Statement and business case approval.
- The Government will contribute $2.5 million to the investigation and possible establishment of a Clean Energy Company that will own the State's renewable and clean energy assets. Consideration will be given during this investigation to whether existing State-owned hydro electric and gas generation assets, as well as the new renewable energy projects announced in this Budget, become the foundation assets of this entity. There will also be an investigation into the ability of such an entity to enhance competition in the wholesale market.

These measures will collectively contribute over $520 million to infrastructure investment in regional Queensland and complement the $225 million of State funding which Government is providing to assist with Townsville water security measures.

The Government will continue with the cash management strategy announced in the 2016-17 Budget.

Electricity Networks

The Queensland Government owns two electricity network businesses that are responsible for transporting safe, reliable electricity to consumers across the State - Powerlink and Energy Queensland.

Revenues for the network businesses are largely derived from network services that are regulated by the Australian Energy Regulator (AER). The AER determines these revenues on a five-yearly basis, based on the businesses' proposals and its view of the reasonable benchmark efficient costs for a network business.

Powerlink is a high-voltage transmission network that transports electricity long distances from generation plants to the distribution networks and connects Queensland to other states. The electricity is transmitted at high voltages so that large volumes can travel efficiently over long distances. To ensure mandated reliability levels are maintained as demand grows, Powerlink is obligated to plan and develop the network. Powerlink's external environment has changed significantly in recent years with changes in consumer demand, market and regulatory changes, increasing complexity within the electricity market and the emergence of renewable energies and other technologies.

On 28 April 2017, the AER delivered its final revenue determination for Powerlink for the 2017-18 to 2021-22 regulatory period. The AER's final determination will allow Powerlink to recover $3.940 billion over the five year period (2017-18 to 2021-22) in comparison to $4.680 billion (nominal) during the previous regulatory period (2012-13 to 2016-17). The final decision allows for annual revenues to be $240.7 million (24.7%) lower than the previous regulatory period in real dollar terms. The reduction in regulated revenue reflects declining demand growth forecasts. The decision reduces the total capital expenditure from $2.520 billion in the previous regulatory period down to $835.5 million in the 2017-2022 period with the AER concluding that Powerlink can improve the whole-of-life performance of their network assets. Total operating expenditure has remained relatively flat with a slight increase from $933.5 million in 2012-2017 to $976.7 million in 2017-2022.

The new determination will moderate pressure on customers' bills, with the AER estimating an annual average reduction in network charges flowing through to customers of $32 for residential customers.

In addition to the regulated revenue, Powerlink has increased its focus on its growing non-regulated revenue stream through expanding its business development capability. Powerlink has identified a number of potential projects in Queensland over the next 12 months, the value of which range from $60 million to $250 million, and has responded to increased competition in this area by aiming to establish a more proactive commercial approach to such projects.

On 30 June 2016, Energex and Ergon Energy were merged under the new parent company, Energy Queensland. Energy Queensland owns and operates the low-voltage distribution network that transports electricity from Powerlink's transmission network and distributes it to households and businesses across Queensland. Ergon Energy, which provides the distribution network in regional Queensland, is also Queensland's second largest electricity retailer, providing retail services to the majority of customers in regional Queensland.

As well as providing these services, Energy Queensland is also involved in a range of other activities including the provision of contestable metering services and telecommunications. It also owns and operates the Barcaldine power station, as well as 33 stand-alone power stations that provide power supply to customers in isolated communities not connected to the grid.

Energy Queensland has also established a new energy services business to pursue strategic investments in unregulated markets to provide greater choice to customers and enable the group to respond to industry disruption.

When the Government announced the merger of Energex and Ergon Energy under Energy Queensland in MYFER 2015-16, it was announced that through merger and other efficiencies, savings of $562 million are expected over five years. These savings will deliver benefits to both Government and electricity consumers, through improved returns from the business, and by putting downward pressure on electricity prices. They will also put Energy Queensland on a sustainable path to achieving the efficiency improvements required under the AER determinations for 2015-2020, ensuring the business is well placed for its next AER determination in 2020.

After the merger on 30 June 2016, and the appointment of a new Chair and CEO, Energy Queensland has assessed the efficiency and merger savings originally forecast. Management developed and negotiated approved savings targets for their respective areas of responsibility and these were aggregated and compared to the savings identified by the Government's advisers to the merger. As a consequence there has been a change to the profile of savings expected to be achieved, with higher than expected savings to be achieved in 2016-17 and a revision to the level of future savings. Energy Queensland is working hard to pursue additional savings to maintain downward pressure on electricity prices.

Table 8.1 Network Merger and Efficiency Savings[1]

	2015-16 $ million	2016-17 $ million	2017-18 $ million	2018-19 $ million	2019-20 $ million	Total $ million
Distribution Merger and Efficiency Savings forecast at MYFER 2015-16	(8)	10	178	180	202	562
Distribution Merger and Efficiency Savings currently forecast	0	233	81	96	153	562

Note:

1. Numbers may not add due to rounding and bracketed numbers represent negative amounts.

To date over 40% of the forecast savings have been achieved with significant reductions in capital expenditure and smaller reductions in operating expenditure, which have assisted in containing electricity prices. The savings currently expected in 2016-17 exceed the original forecasts at the time of the 2015-16 MYFER and updated forecasts of $76 million from 2016-17 MYFER. The savings achieved have contributed to the higher than expected dividend expected to be paid by Energy Queensland of $911 million for this financial year.

Electricity Generation

The National Electricity Market (NEM) has been undergoing an unprecedented period of change and the Queensland generators are not immune to this. Various developments in the industry are expected to provide opportunities for the Queensland generators in the near future. Notably, this includes the closure of the Hazelwood Power Station in Victoria in March 2017 which has increased demand for baseload generation to be provided from other parts of the NEM. The development of the Liquefied Natural Gas (LNG) industry in Queensland is almost complete, with all six trains online. As anticipated, the ramp up in LNG production has led to a significant increase in baseload demand to meet their production requirements and has diverted gas away from electricity generation. These factors contributed to increased domestic energy prices.

However there are also changes in the industry, which will present challenges for the generators and potentially result in reduced demand for baseload generation. The amount of renewables in Queensland is increasing and is expected to increase markedly in coming years, providing a significant amount of new capacity in the market and changing the generation mix. This includes continued growth in solar photovoltaic (PV) panels which, as at 30 April 2017, provided installed PV capacity of 1,706 megawatts (MW) in Queensland. The increased take up of batteries and other technological developments will also start to impact on the landscape of the electricity generation industry.

CS Energy is a merchant electricity generator that sells electricity in the NEM under the *Electricity Act 1994*. CS Energy has more than 400 employees, operates three power stations and has a trading portfolio of 4,035 MW. CS Energy dispatches 35% of Queensland's electricity output and 10% of electricity supplied to the NEM.

CS Energy's diverse asset portfolio comprises coal-fired and hydroelectric power stations, electricity trading rights and coal assets. CS Energy owns and operates the Callide B, Kogan Creek and Wivenhoe power stations and has a 50% interest in the Callide C Power Station. CS Energy provides operations and maintenance services to the joint venture owners of the Callide C Power Station.

In November 2016, CS Energy resolved a long-standing contractual dispute with Anglo American, which resulted in Batchfire Resources Pty Ltd taking ownership of the Callide Mine from Anglo American. On 1 November 2016, since Batchfire took control of the Callide Mine from Anglo, it has met delivery and quality requirements under the new coal supply agreement.

Meanwhile, CS Energy has successfully implemented strategies that will exceed the efficiency targets identified during the 2015-16 MYFER.

As a result of these efforts, in 2015-16 CS Energy was able to return a dividend to shareholders for the first time in seven years.

Stanwell has a total of more than 4,000 MW of installed capacity, and is one of Australia's largest electricity providers. Stanwell has a diversified portfolio of coal, gas and water assets, which it uses to generate electricity. In the past year, Stanwell has invested nearly $200 million in capital projects to ensure the efficiency and security of its generation fleet.

Stanwell is well placed to play a supportive role in the move to a more renewable generation mix. Through its portfolio of hydro power stations, Stanwell has the capacity to generate more than 160 MW of environmentally responsible energy.

As part of the review of the State's electricity businesses in 2015 and 2016, the Government identified efficiency savings that could be achieved by Stanwell which amounted to $110 million by 2019-20. To date Stanwell has already achieved significant efficiency savings through reducing its operational costs and redesigning its workforce structures.

As part of the Powering Queensland Plan, the Government has taken steps to ensure affordable, secure and sustainable energy supply for Queensland homes, businesses and industry. This involves issuing directions to publicly owned electricity industry participants to bring more supply into the market to reduce volatility and put downward pressure on wholesale prices.

Table 8.2 Generation Business Efficiency Savings[1]

	2015-16 $ million	2016-17 $ million	2017-18 $ million	2018-19 $ million	2019-20 $ million	Total $ million
Generation efficiency forecast at MYFER 2015-16	17	31	(1)	57	6	110
Generation efficiency currently forecast	31.1	24.7	11	66.5	48.7	182.1

Note:

1. Numbers may not add due to rounding and bracketed numbers represent negative amounts.

Queensland Rail

Queensland Rail is an integrated, publicly-owned rail operator, responsible for the delivery of passenger transport in South East Queensland, long distance passenger services in rural and regional Queensland and provision of third party access to networks for freight transport across the State.

The majority of Queensland Rail's services are delivered under a Rail Transport Services Contract (TSC) between the Government, represented by the Department of Transport and Main Roads (TMR), and Queensland Rail. The Rail TSC provides funding for rail infrastructure, Citytrain (South East Queensland passenger services) and Traveltrain (regional passenger services).

Box 8.2 Reforms of Queensland Rail governance

Queensland Rail is focused on the delivery of safe, reliable and value for money rail services. However, due to a range of factors, its timetable services were severely disrupted in 2016, impacting on rail passengers. To fully investigate the failures and to ensure Queensland Rail improves its services, the Government initiated an independent inquiry into Queensland Rail's train crewing practices.

The Commission of Inquiry submitted its final report to the Premier on 31 January 2017. The Government endorsed all 36 recommendations and all 36 will be fully implemented.

The Commission identified four key underlying factors which caused the disruptions to the passenger services on the Citytrain network:

- demand for train crew increased significantly in recent years
- the supply of qualified drivers declined over the same period
- people and process limitations resulted in the growing gap between supply and demand not being widely appreciated
- Queensland Rail's vast remit and its complex and unclear governance arrangements made it difficult for the CEO to maintain effective oversight of operations.

The implementation of the recommendations will ensure Queensland Rail has the internal capacity for forward planning and implementation of processes and procedures to address issues that resulted in the disruptions to Citytrain passenger services. It will also ensure that Queensland Rail is well placed to better forecast and plan the recruitment and training of train crew to ensure services are delivered at an appropriate level to meet the needs of South East Queensland.

To ensure there are no financial constraints to the implementation of the Commission's recommendations, the Government is providing $25 million to Queensland Rail for implementation costs in 2017-18. This funding will be provided through the existing Transport Services Contract.

Ports

Queensland has a large network of ports along its coastline, ranging from small installations serving local communities to world class export terminals. Other than the Port of Brisbane, all Queensland ports are owned by the State Government and run by GOCs. Queensland's ports are a major component of its supply chain and economy, and their efficient operation is essential to continued economic growth, job creation, and sustainable development in the State.

The port sector's financial performance is influenced by the condition of the Queensland economy, particularly in terms of demand abroad for Queensland's natural resources and agricultural products. Queensland ports continue to look to further enhance supply chain efficiency and identify new markets to improve financial outcomes and stimulate the Queensland economy.

Key projects in 2017-18 include:

- progressing the Environmental Impact Statement and approvals for the Cairns Shipping Development Project
- the completion of accelerated works programs at Abbot Point, Hay Point and Mackay and the upgrades of infrastructure for wharves 4 and 5 at the Port of Mackay to support trade growth
- progressing the detailed business case and seeking approvals to commence works on the Clinton Vessel Interaction Project.

Water

The two largest entities in the Queensland bulk water market are the Queensland Bulk Water Supply Authority (trading as Seqwater) and SunWater Limited (SunWater).

Seqwater is responsible for supplying safe, secure and reliable bulk drinking water for people across South East Queensland (SEQ). Its assets and area of operations are spread across a large geographic area from the New South Wales border, to the base of the Toowoomba ranges and as far north as Gympie. Seqwater also provides essential flood mitigation services, and manages seven water supply schemes which provide irrigation services to approximately 1,200 rural customers.

Seqwater is also the owner-operator of 37 water treatment plants, the Gold Coast Desalination Plant and the Western Corridor Recycled Water Scheme, and a 600 kilometre reverse flow pipeline network that connects the Sunshine Coast to the Gold Coast (the Water Grid).

Seqwater's revenue primarily comes from bulk water sales, with prices for this determined by the SEQ bulk water price path. The price path was established to phase in affordable price increases to fund the construction of the SEQ Water Grid. During this period it was anticipated that bulk water prices would not recover the costs of bulk water supply, which resulted in Seqwater selling bulk water at a loss, with the shortfall funded by borrowings (the resulting debt is known as 'price path debt'). This price path debt is expected to peak in 2016-17 and decline over the period to 2028 as this debt is repaid. Total borrowings are forecast to be stable from 2016-17 onwards.

The bulk water price path is smoothing the implementation of cost-reflective pricing, which are scheduled to be achieved for most Local Government Areas in SEQ by 2017-18, and by 2019-20 for the Local Government Areas of Noosa, the Sunshine Coast, and Redland. The price path will see Seqwater's revenue increase over the forward estimates with Seqwater maintaining its positive operating position over the forward estimates period, excluding depreciation expenses. Seqwater has maintained a positive operating position since the merger with the SEQ Water Grid Manager, LinkWater and the former Seqwater on 1 January 2013. Seqwater also continues to set improved operational and capital efficiency targets in order to deliver value for money for residents of SEQ.

Seqwater's financial performance for 2016-17 is expected to exceed both the original budget and the MYFER update as a result of the hotter and dryer conditions experienced over the summer period. The forecast financial performance is also expected to increase as a result of extending the water sale contract with Stanwell Limited from 2018-19 onwards, as well as updated demand forecasts.

Key projects in 2017-18 include:

- Somerset Hydro Refurbishment
- Petrie Water Supply Zone Upgrade
- Beaudesert Water Supply Zone Upgrade
- Mt Crosby East Bank Water Pump Station Flood Resilience Works
- Mt Crosby East Bank Water Treatment Plant Filtration Upgrade
- Lake MacDonald Dam Upgrade Stage 2.

SunWater is the Government's major bulk water supply business for all regions outside of SEQ. It supplies untreated bulk water to approximately 5,000 customers across the industrial, mining, urban and irrigation customer segments. SunWater provides this through an extensive regional asset base, owning and managing water infrastructure assets with a replacement value of around $13 billion. This includes 19 major dams, 66 weirs and barrages, 82 major pumping stations, 3,155 km of pipelines and channels, 730 km of drains and 12 small licensed water and sewerage treatments plants to cater for staff and recreational visitors at dam sites.

SunWater's ongoing interaction with customers and industry representative groups suggests a period of low growth in key customer segments will continue. Despite the market situation, SunWater continues to actively work with customers to investigate all business opportunities consistent with the Government's expectations and priorities.

Dam safety is a major focus for SunWater as it is for all bulk water suppliers. SunWater commenced a prioritised Dam Safety Improvement Program (DSIP) in 2005 to ensure that dam safety is maintained.

The DSIP is an essential program to ensure the safety and stability of dams and the ongoing safety of downstream communities, and SunWater must undertake dam safety work to meet its obligations under Queensland dam safety regulations. However, it is also likely to significantly influence SunWater's financial performance and net flows to the Government over the forward estimates period and beyond.

Key projects that will be progressed in 2017-18 include:

- Fairbairn Dam spillway improvements and rectification works
- Burdekin Falls Dam foundation drainage improvement works
- Boondooma Dam spillway reinstatement and sidewall repair
- strengthening the monoliths 'D' and 'K' within the primary spillway of Paradise Dam and undertaking secondary spillway improvements.

8.2 Finances and performance

8.2.1 Earnings before interest and tax

Total forecast PNFC Sector earnings before interest and tax (EBIT) for 2016-17 are estimated to be $4.731 billion, up from $4.059 billion forecast at the time of the 2016-17 Budget. This increase is primarily due to increases in networks and generation. The increased performance in both the network and generation businesses is driven by higher energy sales as a result of the hotter than usual summer.

Over the forward estimates, total PNFC sector EBIT is expected to decrease to $3.517 billion in 2020-21. This projected decrease is driven by forecast reductions in wholesale generation revenues resulting in lower generation sector earnings, and lower electricity network business earnings over the current regulatory period (see Table 8.3).

The generators have benefited from increased sales revenue due to the higher wholesale electricity prices in 2016-17. The better electricity price outlook has also supported revenues in coming years. CS Energy is also benefiting from the new coal supply agreement, which has improved coal delivery for Callide mine. Reflecting these factors, the aggregated EBIT for the generators is forecast to improve, peaking in 2017-18, before lower wholesale prices reduce EBIT over the forward estimates.

In Powerlink's new regulatory period (which begins on 1 July 2017) the recoverable revenue allowance will be materially reduced, driven by both a lower cost of capital allowance and regulated asset base roll forward. This has been reflected in forecast EBIT reducing from $753 million in 2016-17 to a forecast $405 million in 2017-18, making significant contributions to the overall reduction in the electricity network's reduced EBIT.

Seqwater has benefited from increased water sales revenue in 2016-17 due to the hotter and dryer conditions over summer. Seqwater is also benefiting from new contracting arrangements with Stanwell Limited, updated demand assumptions and revenue increases flowing from the bulk water price path, which all contribute to EBIT improving over the forward estimates.

Table 8.3 Earnings before interest and tax[1]

	2015-16 Actual $ million	2016-17 Budget $ million	2016-17 Est. Act. $ million	2017-18 Budget $ million	2018-19 Projection $ million	2019-20 Projection $ million	2020-21 Projection $ million
Electricity Networks	2,573	2,533	2,823	2,064	1,933	1,941	1,869
Electricity Generation	382	482	892	1,070	858	750	564
Rail	447	409	354	291	335	371	379
Ports	218	212	191	188	212	227	232
Water	352	409	452	438	482	460	483
Other	(59)	13	19	1	(8)	(10)	(10)
Total PNFC sector earnings before interest and tax	**3,913**	**4,059**	**4,731**	**4,053**	**3,811**	**3,739**	**3,517**

Note:

1. Numbers may not add due to rounding and bracketed numbers represent negative amounts.

8.2.2 Borrowings

Entities in the PNFC Sector utilise debt financing as a source of funds for asset renewal and 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 the business risk of the organisation. These arrangements take into account the appropriateness of the proposed capital expenditure program, together with the implications of the borrowings for key financial and performance related indicators.

Total forecast PNFC Sector borrowings for 2016-17 are estimated to be $39.165 billion. Forecast borrowings are expected to increase to $39.904 billion by 2020-21, primarily driven by increases in the rail and electricity network businesses, while partially offset by reductions in the electricity generation businesses' borrowings (see Table 8.4).

The electricity network borrowings are forecast to increase over the forward estimates in line with growth in the regulated asset base.

Debt sourced from QTC is forecast to remain constant for Stanwell, and to reduce for CS Energy over the forward estimates, as it applies its higher earnings to reduce debt levels to more closely align with its peers.

Borrowings attributable to the generators are higher in 2016-17 and 2017-18, reflecting the unrealised market value effect of forward contracts entered into prior to the upward change in market conditions. This adjustment presents as borrowings under the Uniform Presentation Framework. These forward contracts are entered into at rates prevailing in the market at the time and provide revenue certainty to the generators. The liability will reverse as these contracts unwind in subsequent years with no impact on the earnings of the generators.

Borrowings attributable to port GOCs increased significantly in 2016-17, primarily reflecting the Government's decisions under the Debt Action Plan to increase the gearing of Gladstone Ports Corporation Limited and North Queensland Bulk Ports Limited to more commercial levels through special dividends and capital returns to Government. Total port GOC borrowings over the forward estimates are forecast to increase to fund new capital works and infrastructure projects for the ports of Gladstone and Townsville.

Borrowings in the water sector are largely attributable to Seqwater, which holds around $9.4 billion of debt. The debt balance was the result of the large investment in water infrastructure in response to the Millennium Drought and the associated price path. Seqwater has updated its forecast borrowing to be stable across the forward estimates.

The gearing levels of all GOCs continue to be monitored to ensure that all GOCs maintain metrics that are at a minimum consistent with an investment grade credit rating.

Table 8.4 Borrowings[1]

	2015-16 Actual $ million	2016-17 Budget $ million	2016-17 Est. Act. $ million	2017-18 Budget $ million	2018-19 Projection $ million	2019-20 Projection $ million	2020-21 Projection $ million
Electricity Networks	21,573	21,622	21,403	21,689	22,157	22,543	23,171
Electricity Generation	2,262	1,700	3,681	1,580	1,167	878	963
Rail	3,014	3,308	3,169	4,061	4,366	4,611	4,854
Ports	607	1,033	990	997	997	1,012	1,052
Water	9,900	10,004	9,850	9,846	9,856	9,891	9,848
Other	80	(172)	72	57	41	25	16
Total PNFC sector borrowings	**37,436**	**37,496**	**39,165**	**38,231**	**38,584**	**38,960**	**39,904**

Note:

1. Numbers may not add due to rounding and bracketed numbers represent negative amounts.

8.2.3 Returns to Government

PNFC Sector entities provide returns to Government by way of dividends and current tax equivalent payments (TEPs).

Dividends

A GOC's dividend policy is agreed with shareholding Ministers as part of the Statement of Corporate Intent for the relevant period. A Statement of Corporate Intent represents 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 and delivering on the outcomes detailed in the Statement of Corporate Intent. When establishing the dividend policy for the period, GOC boards are expected to ensure that it takes into account the return shareholders expect on their investments and the levels of equity required to maintain a preferred capital structure. The final dividend payment is determined in accordance with the GOC Act.

In 2016-17, the Government decided that some GOCs should retain some or all of their annual earnings, to fund upcoming capital projects.

Total forecast PNFC sector dividends for 2016-17 are estimated to be $1.641 billion, up from the $1.535 billion forecast at the time of the 2016-17 Budget (see Table 8.5). This increase in dividends has been driven by increased earnings from the electricity generation and network businesses, which have benefited from higher electricity demand during the year. The reductions in the AER's Final Determination on Powerlink's regulated revenue proposal are mainly driven by low levels of demand growth in coming years. These higher dividends will in part be used to fund the $771 million removal of Solar Bonus Scheme costs from electricity bills to provide electricity price relief to Queenslanders.

Dividends are projected to decrease to $1.095 billion by 2020-21, primarily driven by significant reductions in dividend returns from the electricity network businesses as a result of Powerlink's new revenue determination which commences in 2017-18 and provides for significantly lower annual revenues than the previous determination period, and low regulated revenue growth for the network businesses over the forward estimates.

In addition to the dividends provided by the network businesses, Powerlink will retain $150 million of its 2016-17 earnings for the development of strategic transmission infrastructure to support a clean energy hub (discussed further in Box 8.1).

The generators are expected to provide strong dividends over the forward estimates. These returns will be supported by a tight wholesale market following the closure of large baseload generators in southern states.

In addition, Stanwell will retain $100 million of its 2016-17 earnings to help fund the proposed hydro-electric power station at Burdekin Falls Dam. Completion of the Burdekin Falls Dam project will be subject to feasibility investigations (discussed further in Box 8.1).

The port GOCs' dividends in 2016-17 will be lower than budgeted reflecting a combination of non-recurring gains realised in 2015-16 instead of 2016-17, and lower earnings due to slightly lower tonnages than forecast, bad debts and higher interest costs. In addition, the Port of Townsville will retain around $13 million of earnings for 2016-17 as contribution towards the Townsville channel capacity upgrade (discussed further in Box 8.1). Over the forward estimates, dividends are estimated to stabilise and grow modestly in line with improving returns of the port businesses.

Dividends for the water GOCs in 2016-17 will be lower primarily due to SunWater retaining its 2016-17 earnings of $36 million to contribute to the dam safety works for the Burdekin Falls Dam (discussed further in Box 8.1).

Table 8.5 Dividends[1]

	2015-16 Actual $ million	2016-17 Budget $ million	2016-17 Est. Act. $ million	2017-18 Budget $ million	2018-19 Projection $ million	2019-20 Projection $ million	2020-21 Projection $ million
Electricity Networks	1,146	1,000	1,068	716	626	621	537
Electricity Generation	175	216	378	463	388	390	291
Rail	182	164	120	92	128	155	151
Ports	134	114	69	86	101	111	113
Water	39	41	8	28	22	2	4
Other	20	..	..	10	..	..	..
Total PNFC sector dividends	**1,696**	**1,535**	**1,641**	**1,395**	**1,265**	**1,279**	**1,095**

Note:

1. Numbers may not add due to rounding and bracketed numbers represent negative amounts.

Tax equivalent payments

Tax equivalent payments (TEPs) are paid by the PNFC Sector entities to recognise the benefits derived because they are not liable to pay Australian Government 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.

Total forecast PNFC Sector TEPs for 2016-17 are estimated to be $812 million, up from the projected $687 million at the time of the 2016-17 Budget (see Table 8.6).

Following a prolonged period of losses and deferred payments, CS Energy is forecast to record a small tax equivalent payment in 2018-19, followed by more substantial payments in the following two years. For Stanwell, after strong prices support tax equivalent payments in 2016-17 and 2017-18, less supportive market conditions will result in tax equivalent payments trending downwards over the latter half of the forward estimates.

For the Port GOCs, 2016-17 TEPs are estimated to be slightly lower than forecast reflecting a combination of non-recurring gains in 2015-16, lower than expected earnings from resources customers due to challenging market conditions, and higher interest costs. Over the forward estimates, TEPs are estimated to stabilise and grow modestly in line with improving returns of the port businesses.

Table 8.6 Tax equivalent payments[1]

	2015-16 Actual $ million	2016-17 Budget $ million	2016-17 Est. Act. $ million	2017-18 Budget $ million	2018-19 Projection $ million	2019-20 Projection $ million	2020-21 Projection $ million
Electricity Networks	545	463	541	324	289	288	258
Electricity Generation	86	91	152	154	132	219	174
Rail	83	66	56	39	34	33	24
Ports	49	49	38	37	44	48	50
Water	31	9	16	11	7	1	2
Other	3	9	10	7	7	7	7
Total PNFC sector current tax equivalent payments	**797**	**687**	**812**	**572**	**513**	**595**	**515**

Note:

1. Numbers may not add due to rounding and bracketed numbers represent negative amounts.

Competitive neutrality fees

In accordance with the National Competition Policy principles, GOCs are expected to operate on the basis that they do not experience significant advantages or disadvantages by virtue of their Government ownership. One of the most significant advantages available to GOCs is the ability to borrow funds at a lower rate than private sector competitors on the basis of the State Government's credit strength. In order to account for this advantage, the Competition Principles Agreement requires a notional charge to be applied to a GOC's cost of debt. A competitive neutrality fee (CNF) is thus applied to all borrowings and financial arrangements in the nature of debt obligations. In general, changes in CNF payments reflect movements in borrowing amounts, interest rate spreads and the entity's stand-alone credit rating.

Total forecast PNFC sector CNF payments for 2016-17 are estimated to be $112 million, $44 million lower than the $156 million forecast in the 2016-17 Budget (see Table 8.7). This reduction has been driven by the electricity network businesses as part of their debt restructuring arrangements.

Table 8.7 Competitive neutrality fee payments[1]

	2015-16 Actual $ million	2016-17 Budget $ million	2016-17 Est. Act. $ million	2017-18 Budget $ million	2018-19 Projection $ million	2019-20 Projection $ million	2020-21 Projection $ million
Electricity Networks	134	94	48	59	74	93	112
Electricity Generation	23	21	21	22	20	19	20
Rail	33	30	31	32	33	33	35
Ports	7	7	9	11	11	11	11
Water	4	5	2	5	5	4	5
Total PNFC sector competitive neutrality fees	**201**	**156**	**112**	**128**	**142**	**160**	**183**

Note:

1. Numbers may not add due to rounding and bracketed numbers represent negative amounts.

8.2.4 Community service obligation and Rail Transport Services Contract payments

The Government sometimes directs or requires its businesses to perform activities that are not in the entity's commercial interest (for example, offering services at a reduced price). In these situations, Government will often provide a Community Service Obligation (CSO) payment to the entity for the cost of delivering the service.

Transport Services Contract (TSC) payments are made to Queensland Rail to provide rail passenger services at non-commercial (subsidised) prices for the commuter and tourism markets. Before the 2015-16 Budget, these payments were reported as CSOs.

Total forecast PNFC sector CSO and TSC payments for 2016-17 are estimated to be $2.212 billion, slightly down from $2.250 billion forecast at the time of the 2016-17 Budget (see Table 8.8).

In 2017-18, it is estimated that the Government will provide CSO and TSC payments to PNFC Sector entities of $2.209 billion. This is forecast to increase to $2.475 billion in 2020-21. The increase is attributable to the TSC and is due to a mix of factors such as growth in patronage, escalation of service delivery costs and forecast growth in services. The current TSC expires on 30 June 2018. The TSC projections from 2018-19 have been left unchanged from the 2016-17 Budget, with escalation applied in 2020-21. Further consideration will be given to the TSC structure and valuation following receipt of the CityTrain Response Unit's findings and recommendations which are expected in 2018.

In line with the Queensland Government's uniform electricity tariff policy, a CSO payment is provided to Ergon Energy to compensate the retail subsidiary for the increased costs of operating in regional Queensland. This subsidy is provided to ensure that Queenslanders, regardless of their geographic location, pay a similar price for their electricity. The estimated actual electricity CSO for 2016-17 is $610 million, higher than the $558 million forecast at the time of the 2016-17 Budget. This increase is largely due to increased retail sales as a result of the hotter and dryer conditions over the summer period.

Table 8.8 Community service obligation payments and Transport Services Contracts[1]

	2015-16 Actual $ million	2016-17 Budget $ million	2016-17 Est. Act. $ million	2017-18 Budget $ million	2018-19 Projection $ million	2019-20 Projection $ million	2020-21 Projection $ million
Electricity Networks	541	558	610	488	462	498	493
Rail	1,570	1,680	1,590	1,710	1,719	1,933	1,981
Water	13	12	12	11	11	..	..
Total PNFC sector CSO and TSC	**2,124**	**2,250**	**2,212**	**2,209**	**2,191**	**2,432**	**2,475**

Note:

1. Numbers may not add due to rounding.

Net flows, as shown in Table 8.9, represent the net value of flows to and from the PNFC Sector (the positive effect of dividends and TEPs less the negative effect of CSO and TSC payments).

Table 8.9 Net flows to the General Government Sector from PNFC Sector entities

	2015-16 Actual $ million	2016-17 Budget $ million	2016-17 Est. Act. $ million	2017-18 Budget $ million	2018-19 Projection $ million	2019-20 Projection $ million	2020-21 Projection $ million
Net Flows	**369**	**(28)**	**241**	**(242)**	**(479)**	**(451)**	**(756)**

Note:

1. Numbers may not add due to rounding. Bracketed numbers represent a net flow from the General Government Sector to the PNFC Sector.

8.2.5 Equity movements

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.

Total forecast PNFC equity movements for 2016-17 are estimated to be a reduction of equity of $87 million. In 2016-17, Powerlink have returned a special dividend of $160 million, with further material equity returns from the network businesses forecast from 2018-19 in order to maintain the Government's target gearing ratio. The equity return is forecast to increase over the forward estimates in line with the current forecast for inflation.

In November 2016, North Queensland Bulk Ports Limited returned $110 million of equity to Government as a special dividend under the Debt Action Plan, while the Port of Townsville Limited is receiving an equity injection of around $62 million for the Townsville channel capacity upgrade. The Government will contribute $60 million over two years from 2018-19 to widen and deepen the Trinity Inlet Channel and swing basin at the Port of Cairns. The project will allow cruise ships up to 300 metres in length access to the Port, and also facilitate future Navy expansion plans. The project has an estimated cost of $120 million and will be subject to an Environmental Impact Statement and business case approval.

In 2016-17, Sunwater will receive a $100 million equity injection to undertake essential dam safety upgrades at Burdekin Falls Dam, and to develop a detailed business case for improvement works to the saddle dam and monoliths, to ensure the dam continues to meet current best practice safety standards.

Equity increases for Queensland Rail over 2017-18 to 2019-20 relate to funding provided for the North Coast Line capacity improvement project.

Table 8.10 Equity movements[1]

	2015-16 Actual $ million	2016-17 Budget $ million	2016-17 Est. Act. $ million	2017-18 Budget $ million	2018-19 Projection $ million	2019-20 Projection $ million	2020-21 Projection $ million
Electricity Networks	(197)	(160)	(160)	(20)	(291)	(429)	(520)
Electricity Generation	(150)	..	..	..	..	..	..
Rail	..	84	..	18	45	37	..
Ports	(335)	(110)	(48)	..	30	30	..
Water	(260)	(130)	100	..	..	..	..
Other	38	12	21	..	..	..	..
Total PNFC sector equity movements	**(904)**	**(305)**	**(87)**	**(1)**	**(216)**	**(362)**	**(520)**

Note:

1. Bracketed numbers represent equity returns from the PNFC Sector to the General Government Sector.

9 Uniform Presentation Framework

9.1 Context

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 Sector grant revenue and expenses
- details of General Government Sector dividend and income tax equivalent income
- data on General Government Sector 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.

9.2 Uniform Presentation Framework financial information

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

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

Table 9.1 General Government Sector Operating Statement[1]

		2015-16 Outcome $ million	2016-17 Budget $ million	2016-17 Est.Actual $ million	2017-18 Budget $ million	2018-19 Projection $ million	2019-20 Projection $ million	2020-21 Projection $ million
	Revenue from Transactions							
	Taxation revenue	12,547	13,150	12,945	13,298	14,031	14,843	15,707
	Grants revenue	23,740	27,116	27,708	27,631	27,824	28,682	29,007
	Sales of goods and services	5,926	5,423	5,830	6,067	6,101	6,268	6,366
	Interest income	2,543	2,296	2,300	2,330	2,225	1,949	1,881
	Dividend and income tax equivalent income	2,661	2,307	2,538	2,057	1,881	2,003	1,769
	Other revenue	3,577	3,156	5,113	4,487	4,075	4,142	4,253
	Total Revenue from Transactions	**50,995**	**53,449**	**56,434**	**55,869**	**56,138**	**57,887**	**58,982**
Less	**Expenses from Transactions**							
	Employee expenses	20,044	20,930	21,203	22,420	22,724	23,696	24,561
	Superannuation expenses							
	Superannuation interest cost	767	810	514	600	637	664	668
	Other superannuation expenses	2,507	2,628	2,707	2,753	2,749	2,752	2,781
	Other operating expenses	15,000	16,220	15,932	17,037	15,959	16,076	16,346
	Depreciation and amortisation	2,927	3,501	3,009	3,093	3,194	3,327	3,457
	Other interest expenses	2,220	1,693	1,702	1,706	1,690	1,671	1,755
	Grants expenses	6,559	6,799	8,543	8,114	9,068	8,996	9,006
	Total Expenses from Transactions	**50,025**	**52,582**	**53,610**	**55,723**	**56,021**	**57,183**	**58,574**
Equals	**Net Operating Balance**	**970**	**867**	**2,824**	**146**	**117**	**704**	**408**
Plus	Other economic flows - included in operating result	119	(629)	220	(75)	164	219	329
Equals	**Operating Result**	**1,088**	**239**	**3,044**	**71**	**281**	**923**	**737**
Plus	Other economic flows - other movements in equity	22,639	2,404	3,112	3,785	2,389	1,779	1,644
Equals	**Comprehensive Result - Total Change In Net Worth**	**23,728**	**2,642**	**6,156**	**3,856**	**2,670**	**2,702**	**2,380**
	KEY FISCAL AGGREGATES							
	Net Operating Balance	**970**	**867**	**2,824**	**146**	**117**	**704**	**408**
Less	**Net Acquisition of Non-financial Assets**							
	Purchases of non-financial assets	4,092	5,452	4,416	5,123	6,471	7,015	6,462
	Less Sales of non-financial assets	254	341	382	392	349	383	267
	Less Depreciation	2,927	3,501	3,009	3,093	3,194	3,327	3,457
	Plus Change in inventories	(37)	33	20	73	(54)	(81)	(38)
	Plus Other movements in non-financial assets	556	1,231	911	797	1,189	205	205
	Equals **Total Net Acquisition of Non-financial Assets**	**1,431**	**2,873**	**1,956**	**2,508**	**4,063**	**3,429**	**2,904**
Equals	**Fiscal Balance**	**(461)**	**(2,006)**	**868**	**(2,363)**	**(3,946)**	**(2,725)**	**(2,496)**

Note:
1. Numbers may not add due to rounding and bracketed numbers represent negative amounts.

Table 9.2 Public Non-financial Corporations Sector Operating Statement[1]

		2015-16 Outcome $ million	2016-17 Budget $ million	2016-17 Est.Actual $ million	2017-18 Budget $ million	2018-19 Projection $ million	2019-20 Projection $ million	2020-21 Projection $ million
	Revenue from Transactions							
	Grants revenue	699	716	1,555	647	613	639	636
	Sales of goods and services	10,777	10,869	11,957	10,950	11,172	11,468	11,615
	Interest income	62	40	33	37	37	43	43
	Dividend and income tax equivalent income	14	14	14	14	14	14	14
	Other revenue	310	137	354	300	219	219	221
	Total Revenue from Transactions	**11,863**	**11,776**	**13,913**	**11,948**	**12,054**	**12,383**	**12,529**
Less	**Expenses from Transactions**							
	Employee expenses	1,625	1,720	1,835	1,925	1,945	1,988	2,020
	Superannuation expenses							
	Superannuation interest cost	(12)	..	..	..	..	..	..
	Other superannuation expenses	201	218	142	155	158	160	163
	Other operating expenses	3,400	3,271	3,922	3,388	3,527	3,621	3,889
	Depreciation and amortisation	2,346	2,458	2,406	2,575	2,666	2,744	2,789
	Other interest expenses	1,885	2,038	2,022	1,952	1,949	1,940	1,983
	Grants expenses	15	15	791	21	21	21	22
	Other property expenses	802	693	818	578	520	602	521
	Total Expenses from Transactions	**10,263**	**10,414**	**11,936**	**10,594**	**10,785**	**11,076**	**11,387**
Equals	**Net Operating Balance**	**1,600**	**1,362**	**1,977**	**1,354**	**1,269**	**1,307**	**1,141**
Plus	Other economic flows - included in operating result	(277)	(12)	(114)	57	(15)	(119)	(130)
Equals	**Operating Result**	**1,323**	**1,350**	**1,863**	**1,412**	**1,254**	**1,188**	**1,012**
Plus	Other economic flows - other movements in equity	(3,339)	(1,354)	(1,971)	60	(905)	(1,156)	(1,089)
Equals	**Comprehensive Result - Total Change In Net Worth**	**(2,016)**	**(4)**	**(108)**	**1,472**	**349**	**32**	**(78)**
	KEY FISCAL AGGREGATES							
	Net Operating Balance	**1,600**	**1,362**	**1,977**	**1,354**	**1,269**	**1,307**	**1,141**
Less	**Net Acquisition of Non-financial Assets**							
	Purchases of non-financial assets	2,773	2,812	2,512	2,866	3,057	2,994	2,991
	Less Sales of non-financial assets	45	17	30	46	48	47	37
	Less Depreciation	2,346	2,458	2,406	2,575	2,666	2,744	2,789
	Plus Change in inventories	(35)	(18)	30	3	7	8	5
	Plus Other movements in non-financial assets	75	16	65	68	68	69	70
	Equals **Total Net Acquisition of Non-financial Assets**	**422**	**335**	**170**	**316**	**420**	**280**	**241**
Equals	**Fiscal Balance**	**1,178**	**1,027**	**1,807**	**1,038**	**849**	**1,027**	**900**

Note:
1. Numbers may not add due to rounding and bracketed numbers represent negative amounts.

Table 9.3 Non-financial Public Sector Operating Statement[1]

		2015-16 Outcome $ million	2016-17 Budget $ million	2016-17 Est.Actual $ million	2017-18 Budget $ million	2018-19 Projection $ million	2019-20 Projection $ million	2020-21 Projection $ million
	Revenue from Transactions							
	Taxation revenue	12,231	12,879	12,732	13,062	13,778	14,570	15,408
	Grants revenue	23,823	27,197	27,794	27,722	27,908	28,765	29,091
	Sales of goods and services	14,882	14,383	15,947	15,025	15,196	15,605	15,788
	Interest income	2,605	2,336	2,334	2,367	2,262	1,992	1,925
	Dividend and income tax equivalent income	182	99	98	103	117	142	173
	Other revenue	3,884	3,294	5,467	4,786	4,294	4,361	4,473
	Total Revenue from Transactions	**57,608**	**60,188**	**64,373**	**63,066**	**63,554**	**65,435**	**66,858**
Less	**Expenses from Transactions**							
	Employee expenses	21,571	22,546	22,948	24,249	24,571	25,585	26,479
	Superannuation expenses							
	Superannuation interest cost	755	810	514	600	637	664	668
	Other superannuation expenses	2,709	2,847	2,849	2,908	2,906	2,912	2,944
	Other operating expenses	16,564	17,577	18,010	18,428	17,402	17,559	18,034
	Depreciation and amortisation	5,274	5,959	5,414	5,668	5,860	6,071	6,246
	Other interest expenses	3,904	3,575	3,612	3,530	3,496	3,451	3,556
	Grants expenses	5,958	6,179	7,866	7,579	8,560	8,461	8,476
	Total Expenses from Transactions	**56,735**	**59,494**	**61,213**	**62,961**	**63,433**	**64,704**	**66,404**
Equals	**Net Operating Balance**	**873**	**694**	**3,160**	**105**	**121**	**732**	**454**
Plus	Other economic flows - included in operating result	(753)	(801)	(54)	(37)	(142)	(329)	(321)
Equals	**Operating Result**	**120**	**(106)**	**3,106**	**67**	**(21)**	**403**	**133**
Plus	Other economic flows - other movements in equity	23,608	2,749	3,050	3,789	2,691	2,299	2,248
Equals	**Comprehensive Result - Total Change In Net Worth**	**23,728**	**2,642**	**6,156**	**3,856**	**2,670**	**2,702**	**2,380**
	KEY FISCAL AGGREGATES							
	Net Operating Balance	**873**	**694**	**3,160**	**105**	**121**	**732**	**454**
Less	**Net Acquisition of Non-financial Assets**							
	Purchases of non-financial assets	6,900	8,264	6,899	7,989	9,529	10,009	9,453
	Less Sales of non-financial assets	292	358	383	438	397	430	304
	Less Depreciation	5,274	5,959	5,414	5,668	5,860	6,071	6,246
	Plus Change in inventories	(72)	15	49	77	(47)	(73)	(33)
	Plus Other movements in non-financial assets	631	1,247	975	865	1,258	274	275
	Equals **Total Net Acquisition of Non-financial Assets**	**1,893**	**3,208**	**2,126**	**2,825**	**4,482**	**3,709**	**3,145**
Equals	**Fiscal Balance**	**(1,020)**	**(2,514)**	**1,034**	**(2,720)**	**(4,362)**	**(2,978)**	**(2,691)**

Note:
1. Numbers may not add due to rounding and bracketed numbers represent negative amounts.

Table 9.4 General Government Sector Balance Sheet[1]

	2015-16 Outcome $ million	2016-17 Budget $ million	2016-17 Est.Actual $ million	2017-18 Budget $ million	2018-19 Projection $ million	2019-20 Projection $ million	2020-21 Projection $ million
Assets							
Financial Assets							
Cash and deposits	1,104	658	710	548	617	671	694
Advances paid	632	812	711	831	872	832	846
Investments, loans and placements	33,612	33,589	33,550	32,301	30,418	29,214	29,260
Receivables	4,282	3,907	4,818	4,190	4,284	4,579	4,523
Equity							
Investments in other public sector entities	20,477	21,320	21,315	22,787	23,136	23,169	23,091
Investments - other	157	176	156	156	156	156	156
Total Financial Assets	**60,265**	**60,462**	**61,260**	**60,814**	**59,483**	**58,620**	**58,570**
Non-financial Assets							
Land and other fixed assets	200,647	178,628	203,084	205,439	210,924	215,158	218,819
Other non-financial assets	6,377	7,058	6,561	6,969	6,575	6,817	6,964
Total Non-financial Assets	**207,024**	**185,686**	**209,645**	**212,407**	**217,499**	**221,975**	**225,783**
Total Assets	**267,289**	**246,148**	**270,906**	**273,222**	**276,981**	**280,596**	**284,352**
Liabilities							
Payables	3,596	3,209	4,008	4,089	4,227	4,324	4,369
Superannuation liability	27,360	25,891	24,998	23,355	21,736	20,334	18,909
Other employee benefits	5,217	5,179	5,359	5,510	5,665	5,746	5,943
Deposits held	3	..	3	3	3	3	3
Advances received	514	809	1,328	1,541	1,257	913	870
Borrowing	35,486	37,775	33,937	33,758	36,393	38,760	41,244
Other liabilities	3,204	3,559	3,207	3,044	3,107	3,222	3,340
Total Liabilities	**75,380**	**76,421**	**72,840**	**71,299**	**72,389**	**73,301**	**74,678**
Net Worth	**191,910**	**169,726**	**198,066**	**201,922**	**204,592**	**207,294**	**209,675**
Net Financial Worth	(15,114)	(15,960)	(11,579)	(10,485)	(12,907)	(14,681)	(16,108)
Net Financial Liabilities	35,591	37,279	32,895	33,273	36,043	37,849	39,199
Net Debt	654	3,525	297	1,622	5,748	8,960	11,318

Notes:

1. Numbers may not add due to rounding and bracketed numbers represent negative amounts.

Table 9.5 Public Non-financial Corporations Sector Balance Sheet[1]

	2015-16 Outcome $ million	2016-17 Budget $ million	2016-17 Est.Actual $ million	2017-18 Budget $ million	2018-19 Projection $ million	2019-20 Projection $ million	2020-21 Projection $ million
Assets							
Financial Assets							
Cash and deposits	1,542	539	1,489	524	446	467	502
Advances paid	33	275	849	1,073	809	556	556
Investments, loans and placements	530	333	885	395	383	382	380
Receivables	1,473	1,634	1,699	1,610	1,592	1,576	1,606
Equity							
Investments - other	267	226	280	280	280	280	280
Total Financial Assets	**3,845**	**3,008**	**5,202**	**3,882**	**3,510**	**3,260**	**3,323**
Non-financial Assets							
Land and other fixed assets	60,166	61,675	61,133	62,730	63,751	64,637	65,453
Other non-financial assets	1,491	1,342	1,270	1,112	1,089	1,092	1,112
Total Non-financial Assets	**61,657**	**63,017**	**62,403**	**63,842**	**64,840**	**65,729**	**66,565**
Total Assets	**65,502**	**66,026**	**67,605**	**67,724**	**68,350**	**68,989**	**69,888**
Liabilities							
Payables	2,825	2,407	3,431	2,809	2,516	2,566	2,442
Superannuation liability	(171)	(242)	(163)	(155)	(147)	(139)	(131)
Other employee benefits	696	681	767	767	769	775	781
Deposits held	20	24	23	23	23	23	23
Advances received	8	7	7	7	6	5	4
Borrowing	37,436	37,496	39,165	38,231	38,584	38,960	39,904
Other liabilities	7,479	7,482	7,274	7,470	7,677	7,846	7,989
Total Liabilities	**48,294**	**47,854**	**50,504**	**49,151**	**49,429**	**50,035**	**51,012**
Net Worth	**17,208**	**18,172**	**17,101**	**18,573**	**18,921**	**18,954**	**18,876**
Net Financial Worth	(44,449)	(44,845)	(45,302)	(45,269)	(45,919)	(46,775)	(47,689)
Net Debt	35,359	36,378	35,972	36,268	36,975	37,583	38,494

Notes:

1. Numbers may not add due to rounding and bracketed numbers represent negative amounts.

Table 9.6 Non-financial Public Sector Balance Sheet[1]

	2015-16 Outcome $ million	2016-17 Budget $ million	2016-17 Est.Actual $ million	2017-18 Budget $ million	2018-19 Projection $ million	2019-20 Projection $ million	2020-21 Projection $ million
Assets							
Financial Assets							
Cash and deposits	2,646	1,197	2,199	1,073	1,063	1,138	1,196
Advances paid	657	830	728	842	876	830	845
Investments, loans and placements	34,142	33,922	34,436	32,696	30,801	29,595	29,640
Receivables	3,774	3,780	4,477	4,005	4,050	4,119	4,241
Equity							
Investments in other public sector entities	3,269	3,148	4,216	4,216	4,216	4,216	4,216
Investments - other	424	402	436	436	436	436	436
Total Financial Assets	**44,913**	**43,280**	**46,491**	**43,267**	**41,441**	**40,334**	**40,573**
Non-financial Assets							
Land and other fixed assets	260,813	240,303	264,217	268,168	274,675	279,794	284,271
Other non-financial assets	1,063	1,541	1,239	1,451	863	916	888
Total Non-financial Assets	**261,876**	**241,844**	**265,456**	**269,619**	**275,537**	**280,711**	**285,159**
Total Assets	**306,789**	**285,124**	**311,947**	**312,885**	**316,978**	**321,044**	**325,732**
Liabilities							
Payables	4,484	3,909	5,450	5,155	4,971	4,909	4,979
Superannuation liability	27,189	25,649	24,835	23,200	21,589	20,195	18,778
Other employee benefits	5,913	5,860	6,126	6,277	6,435	6,521	6,724
Deposits held	23	24	26	26	26	26	26
Advances received	514	559	504	485	459	360	317
Borrowing	72,922	75,270	73,102	71,989	74,978	77,720	81,148
Other liabilities	3,835	4,127	3,838	3,831	3,929	4,020	4,085
Total Liabilities	**114,879**	**115,397**	**113,881**	**110,963**	**112,386**	**113,750**	**116,057**
Net Worth	**191,910**	**169,726**	**198,066**	**201,922**	**204,592**	**207,294**	**209,675**
Net Financial Worth	(69,966)	(72,118)	(67,390)	(67,697)	(70,945)	(73,416)	(75,484)
Net Financial Liabilities	73,235	75,266	71,605	71,912	75,160	77,632	79,699
Net Debt	36,013	39,903	36,269	37,890	42,722	46,543	49,811

Notes:

1. Numbers may not add due to rounding and bracketed numbers represent negative amounts.

Table 9.7 General Government Sector Cash Flow Statement[1]

	2015-16 Outcome $ million	2016-17 Budget $ million	2016-17 Est.Actual $ million	2017-18 Budget $ million	2018-19 Projection $ million	2019-20 Projection $ million	2020-21 Projection $ million
Cash Receipts from Operating Activities							
Taxes received	12,588	13,140	12,935	13,296	14,029	14,842	15,705
Grants and subsidies received	23,891	27,054	27,798	27,695	27,894	28,751	29,078
Sales of goods and services	6,083	5,721	6,037	6,087	6,250	6,412	6,505
Interest receipts	2,536	2,296	2,299	2,328	2,223	1,947	1,879
Dividends and income tax equivalents	3,754	1,652	1,766	2,309	2,023	1,901	2,029
Other receipts	4,385	4,279	6,204	5,606	5,166	5,266	5,357
Total Operating Receipts	**53,237**	**54,142**	**57,040**	**57,320**	**57,586**	**59,119**	**60,553**
Cash Payments for Operating Activities							
Payments for employees	(22,830)	(24,366)	(24,489)	(26,099)	(26,527)	(27,766)	(28,553)
Payments for goods and services	(16,459)	(17,443)	(17,050)	(18,359)	(17,122)	(17,243)	(17,520)
Grants and subsidies	(6,750)	(6,731)	(8,451)	(8,036)	(8,957)	(8,946)	(8,947)
Interest paid	(2,223)	(1,693)	(1,702)	(1,706)	(1,690)	(1,671)	(1,755)
Other payments	(271)	(349)	(276)	(311)	(333)	(354)	(369)
Total Operating Payments	**(48,533)**	**(50,581)**	**(51,968)**	**(54,511)**	**(54,629)**	**(55,979)**	**(57,143)**
Net Cash Inflows from Operating Activities	**4,704**	**3,561**	**5,072**	**2,809**	**2,957**	**3,141**	**3,410**
Cash Flows from Investments in Non-Financial Assets							
Purchases of non-financial assets	(4,092)	(5,452)	(4,416)	(5,123)	(6,471)	(7,015)	(6,462)
Sales of non-financial assets	254	341	382	392	349	383	267
Net Cash Flows from Investments in Non-financial Assets	**(3,838)**	**(5,111)**	**(4,034)**	**(4,731)**	**(6,122)**	**(6,632)**	**(6,195)**
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**3,348**	**911**	**763**	**502**	**105**	**300**	**414**
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**2,540**	**(214)**	**(1,833)**	**1,268**	**1,905**	**1,227**	**(24)**
Receipts from Financing Activities							
Advances received (net)	(111)	197	752	168	(361)	(333)	(84)
Borrowing (net)	(6,738)	665	(1,114)	(176)	1,584	2,352	2,502
Deposits received (net)	1	..	..	..	..	..	..
Net Cash Flows from Financing Activities	**(6,848)**	**862**	**(362)**	**(9)**	**1,223**	**2,019**	**2,419**
Net Increase/(Decrease) in Cash held	**(94)**	**10**	**(394)**	**(161)**	**68**	**54**	**23**
Net cash from operating activities	4,704	3,561	5,072	2,809	2,957	3,141	3,410
Net cash flows from investments in non-financial assets	(3,838)	(5,111)	(4,034)	(4,731)	(6,122)	(6,632)	(6,195)
Surplus/(Deficit)	**866**	**(1,550)**	**1,038**	**(1,922)**	**(3,165)**	**(3,491)**	**(2,785)**
Derivation of ABS GFS Cash Surplus/Deficit							
Cash surplus/(deficit)	866	(1,550)	1,038	(1,922)	(3,165)	(3,491)	(2,785)
Acquisitions under finance leases and similar arrangements	(341)	(1,032)	(715)	(618)	(1,045)	..	..
ABS GFS Cash Surplus/(Deficit) Including Finance Leases and Similar Arrangements	**525**	**(2,582)**	**322**	**(2,540)**	**(4,210)**	**(3,491)**	**(2,785)**

Note:
1. Numbers may not add due to rounding and bracketed numbers represent negative amounts.

Table 9.8 Public Non-financial Corporations Sector Cash Flow Statement[1]

	2015-16 Outcome $ million	2016-17 Budget $ million	2016-17 Est.Actual $ million	2017-18 Budget $ million	2018-19 Projection $ million	2019-20 Projection $ million	2020-21 Projection $ million
Cash Receipts from Operating Activities							
Grants and subsidies received	689	693	1,523	623	565	604	601
Sales of goods and services	11,917	11,861	12,973	12,268	12,387	12,663	12,772
Interest receipts	62	40	33	37	37	43	43
Dividends and income tax equivalents	14	14	14	14	14	14	14
Other receipts	214	96	308	257	177	143	183
Total Operating Receipts	**12,896**	**12,704**	**14,852**	**13,198**	**13,180**	**13,467**	**13,613**
Cash Payments for Operating Activities							
Payments for employees	(1,776)	(1,919)	(1,979)	(2,072)	(2,093)	(2,135)	(2,169)
Payments for goods and services	(3,778)	(3,904)	(4,771)	(4,146)	(4,238)	(4,212)	(4,599)
Grants and subsidies	(14)	(14)	(18)	(287)	(277)	(266)	(20)
Interest paid	(1,832)	(2,059)	(2,028)	(1,960)	(1,951)	(1,945)	(1,981)
Other payments	(1,558)	(1,461)	(1,525)	(1,118)	(1,061)	(1,013)	(1,107)
Total Operating Payments	**(8,957)**	**(9,356)**	**(10,322)**	**(9,584)**	**(9,620)**	**(9,571)**	**(9,877)**
Net Cash Inflows from Operating Activities	**3,939**	**3,347**	**4,530**	**3,614**	**3,561**	**3,896**	**3,736**
Cash Flows from Investments in Non-Financial Assets							
Purchases of non-financial assets	(2,773)	(2,812)	(2,512)	(2,866)	(3,057)	(2,994)	(2,991)
Sales of non-financial assets	45	17	30	46	48	47	37
Net Cash Flows from Investments in Non-financial Assets	**(2,729)**	**(2,795)**	**(2,482)**	**(2,820)**	**(3,010)**	**(2,947)**	**(2,954)**
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**(3,331)**	**(755)**	**(755)**	**(20)**	**(150)**	**(336)**	**(414)**
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**20**	**(2)**	**7**	**..**	**..**	**..**	**..**
Receipts from Financing Activities							
Advances received (net)	(1)	(251)	(824)	(233)	256	245	(1)
Borrowing (net)	4,461	540	294	122	603	388	946
Dividends paid	(2,669)	(670)	(747)	(1,646)	(1,383)	(1,263)	(1,278)
Deposits received (net)	(7)	3	3	..	..	..	..
Other financing (net)	(143)	(156)	(78)	18	45	37	..
Net Cash Flows from Financing Activities	**1,642**	**(535)**	**(1,353)**	**(1,738)**	**(479)**	**(593)**	**(333)**
Net Increase/(Decrease) in Cash held	**(458)**	**(739)**	**(53)**	**(965)**	**(78)**	**21**	**35**
Net cash from operating activities	3,939	3,347	4,530	3,614	3,561	3,896	3,736
Net cash flows from investments in non-financial assets	(2,729)	(2,795)	(2,482)	(2,820)	(3,010)	(2,947)	(2,954)
Dividends paid	(2,669)	(670)	(747)	(1,646)	(1,383)	(1,263)	(1,278)
Surplus/(Deficit)	**(1,459)**	**(118)**	**1,301**	**(853)**	**(832)**	**(313)**	**(497)**
Derivation of ABS GFS Cash Surplus/Deficit							
Cash surplus/(deficit)	(1,459)	(118)	1,301	(853)	(832)	(313)	(497)
ABS GFS Cash Surplus/(Deficit) Including Finance Leases and Similar Arrangements	**(1,459)**	**(118)**	**1,301**	**(853)**	**(832)**	**(313)**	**(497)**

Note:
1. Numbers may not add due to rounding and bracketed numbers represent negative amounts.

Table 9.9 Non-financial Public Sector Cash Flow Statement[1]

	2015-16 Outcome $ million	2016-17 Budget $ million	2016-17 Est.Actual $ million	2017-18 Budget $ million	2018-19 Projection $ million	2019-20 Projection $ million	2020-21 Projection $ million
Cash Receipts from Operating Activities							
Taxes received	12,267	12,878	12,731	13,061	13,777	14,569	15,407
Grants and subsidies received	23,945	27,123	27,865	27,775	27,966	28,823	29,151
Sales of goods and services	16,211	15,316	16,806	16,007	16,204	16,589	16,727
Interest receipts	2,598	2,336	2,333	2,365	2,260	1,990	1,922
Dividends and income tax equivalents	199	100	129	94	109	131	153
Other receipts	4,596	4,375	6,512	5,862	5,343	5,408	5,540
Total Operating Receipts	**59,816**	**62,129**	**66,376**	**65,164**	**65,659**	**67,511**	**68,900**
Cash Payments for Operating Activities							
Payments for employees	(24,507)	(26,181)	(26,379)	(28,075)	(28,522)	(29,801)	(30,621)
Payments for goods and services	(18,389)	(19,095)	(19,630)	(20,173)	(18,940)	(18,982)	(19,584)
Grants and subsidies	(6,128)	(6,120)	(7,012)	(7,781)	(8,740)	(8,679)	(8,439)
Interest paid	(3,849)	(3,604)	(3,627)	(3,539)	(3,499)	(3,455)	(3,554)
Other payments	(928)	(890)	(873)	(820)	(823)	(818)	(836)
Total Operating Payments	**(53,801)**	**(55,891)**	**(57,521)**	**(60,387)**	**(60,525)**	**(61,736)**	**(63,033)**
Net Cash Inflows from Operating Activities	**6,015**	**6,238**	**8,855**	**4,776**	**5,135**	**5,774**	**5,867**
Cash Flows from Investments in Non-Financial Assets							
Purchases of non-financial assets	(6,900)	(8,264)	(6,899)	(7,989)	(9,529)	(10,009)	(9,453)
Sales of non-financial assets	292	358	383	438	397	430	304
Net Cash Flows from Investments in Non-financial Assets	**(6,607)**	**(7,906)**	**(6,516)**	**(7,551)**	**(9,132)**	**(9,579)**	**(9,149)**
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**(2)**	**..**	**(11)**	**500**	**..**	**..**	**..**
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**2,559**	**(215)**	**(1,826)**	**1,268**	**1,905**	**1,227**	**(24)**
Receipts from Financing Activities							
Advances received (net)	(112)	(54)	(72)	(65)	(104)	(88)	(84)
Borrowing (net)	(2,277)	1,205	(821)	(54)	2,187	2,740	3,448
Deposits received (net)	(6)	3	3	..	..	..	..
Other financing (net)	(123)	..	(59)	..	..	..	..
Net Cash Flows from Financing Activities	**(2,517)**	**1,154**	**(949)**	**(119)**	**2,082**	**2,653**	**3,364**
Net Increase/(Decrease) in Cash held	**(553)**	**(729)**	**(448)**	**(1,126)**	**(10)**	**75**	**58**
Net cash from operating activities	6,015	6,238	8,855	4,776	5,135	5,774	5,867
Net cash flows from investments in non-financial assets	(6,607)	(7,906)	(6,516)	(7,551)	(9,132)	(9,579)	(9,149)
Surplus/(Deficit)	**(593)**	**(1,667)**	**2,339**	**(2,775)**	**(3,997)**	**(3,804)**	**(3,282)**
Derivation of ABS GFS Cash Surplus/Deficit							
Cash surplus/(deficit)	(593)	(1,667)	2,339	(2,775)	(3,997)	(3,804)	(3,282)
Acquisitions under finance leases and similar arrangements	(341)	(1,032)	(715)	(618)	(1,045)	..	..
ABS GFS Cash Surplus/(Deficit) Including Finance Leases and Similar Arrangements	**(934)**	**(2,700)**	**1,624**	**(3,393)**	**(5,042)**	**(3,804)**	**(3,282)**

Note:
1. Numbers may not add due to rounding and bracketed numbers represent negative amounts.

9.3 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 is that valuation adjustments are excluded from the net operating balance.

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

Table 9.10 Reconciliation of UPF net operating balance to accounting operating result[1]

	2016-17 Budget $ million	2016-17 Est. Act. $ million	2017-18 Budget $ million
Net operating balance General Government sector (Table 9.1)	867	2,824	146
Remeasurement/valuation adjustments			
Bad debts and amortisation	(88)	(90)	(89)
Deferred tax equivalents	(54)	1	64
Dividends from network GOCs under Debt Action Plan (treated as return of equity for UPF)	160	660	20
Market value adjustments on financial assets and liabilities	(487)	(308)	17
Revaluation of provisions	75	120	66
Decommissioned infrastructure assets and land under roads	(143)	(143)	(143)
Gain/(loss) on assets sold/written off/impaired	(92)	(20)	(9)
Accounting operating result General Government sector	**239**	**3,044**	**71**

Note:
1. Numbers may not add due to rounding and bracketed numbers represent negative amounts.

9.4 General Government Sector time series

Data presented in Table 9.11 provides a time series from 2004-05 to 2015-16 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 possible) to comply with AASB 1049 *Whole of Government and General Government Sector Financial Reporting.*

Table 9.11: General Government Sector time series[1]

	2004-05 Actual $ million	2005-06 Actual $ million	2006-07 Actual $ million	2007-08 Actual $ million	2008-09 Actual $ million	2009-10 Actual $ million	2010-11 Actual $ million	2011-12 Actual $ million	2012-13 Actual $ million	2013-14 Actual $ million	2014-15 Actual $ million	2015-16 Actual $ million
Revenue from Transactions												
Taxation revenue	6,952	7,396	8,484	9,546	8,866	9,375	9,981	10,608	10,937	11,840	12,598	12,547
Grant revenue	12,755	13,590	14,378	15,510	17,481	20,205	20,338	22,652	18,322	21,740	23,583	23,740
Sales of goods and services	2,380	2,641	2,909	3,357	3,648	3,961	4,172	5,002	5,087	5,039	5,443	5,926
Interest income	2,972	3,414	3,338	(275)	1,482	2,204	2,368	2,485	2,644	2,460	2,470	2,543
Dividend and income tax equivalent income	1,022	1,059	858	1,244	1,180	949	1,232	1,112	1,351	1,975	2,554	2,661
Other revenue	1,517	1,983	2,032	2,041	4,421	3,033	3,921	3,942	3,415	3,650	3,322	3,577
Total Revenue	**27,599**	**30,084**	**31,999**	**31,424**	**37,078**	**39,727**	**42,013**	**45,801**	**41,755**	**46,705**	**49,970**	**50,995**
Expenses from Transactions												
Employee expenses	9,621	10,615	11,731	13,175	14,310	15,566	16,826	18,250	18,130	17,816	18,592	20,044
Superannuation expenses												
Superannuation interest costs	867	840	1,154	816	858	1,320	1,240	1,216	923	963	878	767
Other superannuation expenses	1,238	1,367	1,513	1,865	2,012	2,051	2,171	2,301	2,420	2,277	2,319	2,507
Other operating expenses	4,522	5,236	6,138	6,646	7,300	7,568	8,646	9,497	12,817	13,108	14,539	15,000
Depreciation and amortisation	1,526	1,678	1,764	1,851	2,496	2,501	2,507	2,777	2,902	3,060	3,137	2,927
Other interest expenses	213	174	180	347	599	803	1,125	1,659	1,940	2,200	2,328	2,220
Grant expenses	5,647	6,467	7,565	8,329	9,525	9,790	10,963	10,327	7,182	6,792	7,758	6,559
Total Expenses	**23,634**	**26,378**	**30,046**	**33,030**	**37,099**	**39,599**	**43,479**	**46,028**	**46,312**	**46,217**	**49,551**	**50,025**
Net Operating Balance	**3,964**	**3,707**	**1,953**	**(1,606)**	**(21)**	**128**	**(1,466)**	**(226)**	**(4,558)**	**488**	**420**	**970**
OTHER KEY AGGREGATES												
Purchases of non-financial assets	2,717	3,196	4,412	5,725	6,772	8,959	8,237	7,971	7,001	6,323	4,635	4,092
Net acquisition of non-financial assets	1,016	1,234	2,157	3,680	4,349	6,665	5,583	5,241	3,389	3,087	992	1,431
Fiscal Balance	**2,946**	**2,472**	**(204)**	**(5,286)**	**(4,371)**	**(6,537)**	**(7,049)**	**(5,467)**	**(7,947)**	**(2,599)**	**(572)**	**(461)**
Cash Surplus/(Deficit)	4,635	4,649	2,360	(4,924)	(2,866)	(5,341)	(5,880)	(4,951)	(8,585)	(3,345)	(131)	866
Net Worth	92,148	104,446	118,532	193,838	184,277	175,588	177,875	170,745	172,963	166,492	171,933	191,910
Net Debt	(19,354)	(23,203)	(26,622)	(22,586)	(19,251)	(13,354)	(9,542)	(5,720)	2,399	5,208	5,749	654
Borrowing	2,794	2,084	2,267	6,328	10,308	15,916	24,593	29,517	37,878	41,368	43,105	35,486
Borrowing (NFPS)	15,819	17,314	23,971	30,856	42,645	51,713	53,708	61,542	69,086	72,637	75,233	72,922

Note:
1. Numbers may not add due to rounding and bracketed numbers represent negative amounts.
Source: Report on State Finances for Queensland 2004-05 to 2015-16. (Numbers have been recast for changes to UPF

9.5 Other General Government uniform presentation framework data

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

9.5.1 Grants

Data presented in Tables 9.12 and 9.13 provide details of General Government Sector current and capital grant revenue and expenses.

Table 9.12 General Government Sector grant revenue[1]

	2016-17 Est.Act. $ million	2017-18 Budget $ million
Current grant revenue		
Current grants from the Commonwealth		
General purpose grants	13,947	14,779
Specific purpose grants	7,355	7,470
Specific purpose grants for on-passing	3,087	2,747
Total current grants from the Commonwealth	24,388	24,996
Other contributions and grants	365	303
Total current grant revenue	**24,753**	**25,299**
Capital grant revenue		
Capital grants from the Commonwealth		
Specific purpose grants	2,869	2,251
Specific purpose grants for on-passing	7	5
Total capital grants from the Commonwealth	2,876	2,256
Other contributions and grants	79	76
Total capital grant revenue	**2,955**	**2,332**
Total grant revenue	**27,708**	**27,631**

Note:
1. Numbers may not add due to rounding.

Table 9.13 General Government Sector grant expense[1]

	2016-17 Est. Act. $ million	2017-18 Budget $ million
Current grant expense		
Private and Not-for-profit sector	1,926	2,134
Private and Not-for-profit sector on-passing	2,413	2,521
Local Government	216	229
Local Government on-passing	683	233
Grants to other sectors of Government	1,576	1,145
Other	389	279
Total current grant expense	**7,202**	**6,541**
Capital grant expense		
Private and Not-for-profit sector	255	290
Local Government	899	1,121
Local Government on-passing	7	5
Grants to other sectors of Government	29	10
Other	151	148
Total capital grant expense	**1,341**	**1,573**
Total grant expense	**8,543**	**8,114**

Note:
1. Numbers may not add due to rounding.

9.5.2 Dividend and income tax equivalent income

Table 9.14 provides details of the source of dividend and income tax equivalent income in the General Government sector.

Table 9.14 General Government Sector dividend and income tax equivalent income[1]

	2016-17 Est. Act. $ million	2017-18 Budget $ million
Dividend and Income Tax Equivalent income from PNFC sector	2,454	1,969
Dividend and Income Tax Equivalent income from PFC sector	84	88
Total Dividend and Income Tax Equivalent income	**2,538**	**2,057**

Note:
1. Numbers may not add due to rounding.

9.5.3 Expenses by function

Data presented in Table 9.15 provides details of General Government Sector expenses by function.

Table 9.15 General Government Sector expenses by function[1]

	2016-17 Budget $ million	2016-17 Est. Act. $ million	2017-18 Budget $ million	2018-19 Projection $ million	2019-20 Projection $ million	2020-21 Projection $ million
General public services	1,818	1,588	1,595	1,546	1,516	1,441
Public order and safety	4,796	4,820	5,138	5,195	5,332	5,459
Education	12,650	12,643	13,458	13,854	14,493	15,206
Health	15,080	16,081	16,444	16,823	17,523	18,104
Social security and welfare	3,226	3,227	3,589	4,200	4,030	4,192
Housing and community amenities	1,592	1,554	1,756	1,727	1,766	1,727
Recreation and culture	1,263	1,267	1,782	994	911	908
Fuel and energy	607	1,422	527	489	534	526
Agriculture, forestry, fishing and hunting	614	730	672	626	619	610
Mining, manufacturing and construction	331	327	317	308	318	320
Transport and communications	6,007	5,537	5,752	5,620	5,776	5,808
Other economic affairs	732	728	846	765	743	733
Other purposes	3,865	3,686	3,847	3,874	3,621	3,540
Total Expenses	**52,582**	**53,610**	**55,723**	**56,021**	**57,183**	**58,574**

Note:

1. Numbers may not add due to rounding.

9.5.4 Purchases of non-financial assets by function

Data presented in Table 9.16 provides details of General Government Sector purchases of non-financial assets by function.

Table 9.16 General Government Sector purchases of non-financial assets by function[1]

	2016-17 Budget $ million	2016-17 Est. Act. $ million	2017-18 Budget $ million	2018-19 Projection $ million	2019-20 Projection $ million	2020-21 Projection $ million
General public services	39	87	46	162	154	26
Public order and safety	373	248	552	362	304	309
Education	493	525	643	687	626	496
Health	833	700	984	991	712	530
Social security and welfare	30	35	55	54	48	42
Housing and community amenities	400	273	434	297	265	255
Recreation and culture	163	61	99	226	180	38
Agriculture, forestry, fishing and hunting	23	18	23	23	20	20
Mining, manufacturing and construction	5	6	7	7	2	2
Transport and communications	2,973	2,397	2,100	3,412	4,627	4,712
Other economic affairs	7	6	8	8	7	7
Other purposes	112	59	173	244	69	24
Total Purchases	**5,452**	**4,416**	**5,123**	**6,471**	**7,015**	**6,462**

Note:

1. Numbers may not add due to rounding.

9.5.5 Taxes

Data presented in Table 9.17 provides details of taxation revenue collected by the General Government Sector.

Table 9.17 General Government Sector taxes[1]

	2016-17 Est.Actual $ million	2017-18 Budget $ million
Taxes on employers' payroll and labour force	3,667	3,819
Taxes on property		
Land taxes	1,086	1,192
Stamp duties on financial and capital transactions	3,327	3,190
Other	635	696
Taxes on the provision of goods and services		
Taxes on gambling	1,131	1,181
Taxes on insurance	905	943
Taxes on use of goods and performance of activities		
Motor vehicle taxes	2,192	2,278
Total Taxation Revenue	**12,945**	**13,298**

Note:
1. Numbers may not add due to rounding.

9.5.6 Loan Council Allocation

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

Table 9.18 presents the State's revised Budget LCA and the Loan Council endorsed LCA for 2017-18.

Table 9.18 Loan Council Allocation[1]

		2017-18 Nomination $ million	2017-18 Budget $ million
	General Government sector cash deficit/(surplus)	2,088	1,922
	PNFC sector cash deficit/(surplus)	538	853
	Non-financial Public sector cash deficit/(surplus)	**2,626**	**2,775**
	Acquisitions under finance leases and similar arrangements	682	618
Equals	**ABS GFS cash deficit/(surplus)**	**3,308**	**3,393**
Less	Net cash flows from investments in financial assets for policy purposes	..	500
Plus	Memorandum items [2]	944	1,037
	Loan Council Allocation	**4,252**	**3,930**

Notes:
1. Numbers may not add due to rounding.
2. Memorandum items include local government and universities borrowings and operating leases.

The State's Budget LCA is a deficit of $3.930 billion, compared to the LCA nomination of $4.252 billion. This improvement is largely the result of net cash flows from net capital returns from other public sector entities.

9.6 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 *2015-16 Report on State Finances* - whole-of-government financial statements (note 43).

A summary of the State's quantifiable contingent liabilities as at 30 June 2016 is provided in Table 9.19.

Table 9.19 Contingent liabilities

	2015-16 $ million
Nature of contingent liability	
Guarantees and indemnities	10,452
Other	1,235
Total	**11,686**

9.7 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 accounting standard, AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

This standard aims to harmonise GFS and GAAP with the objective of improving the clarity and transparency of government financial statements.

9.7.1 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 and liabilities 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.

9.7.2 Accrual Government Finance Statistics framework

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.

9.7.3 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 transaction and other economic flows classification system based on GFS
- expanding the disclosure requirements to incorporate key fiscal aggregates required by GFS.

9.7.4 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. 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 the 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.

9.8 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 service 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 ABS at www.abs.gov.au.

9.9 Reporting entities

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

9.9.1 General Government

Departments

Aboriginal and Torres Strait Islander Partnerships

Agriculture and Fisheries

Communities, Child Safety and Disability Services

Education and Training

Electoral Commission of Queensland

Natural Resources and Mines

Office of the Governor

Office of the Inspector-General Emergency Management

Office of the Ombudsman

Premier and Cabinet

Public Safety Business Agency

Public Service Commission

Queensland Audit Office

Queensland Fire and Emergency Services

Queensland Health

Queensland Police Service

Queensland Treasury

Science, Information Technology and Innovation

State Development

The Public Trustee of Queensland

Energy and Water Supply

Environment and Heritage Protection

Housing and Public Works

Infrastructure, Local Government and Planning

Justice and Attorney-General

Legislative Assembly

National Parks, Sport and Racing

Tourism, Major Events, Small Business and the Commonwealth Games

Transport and Main Roads

Commercialised Business Units

Building and Asset Services

CITEC

Economic Development Queensland

QFleet

RoadTek

Shared Service Providers

Corporate Administration Agency

Queensland Shared Services

Statutory Authorities

Anti-Discrimination Commission

Board of the Queensland Museum

Crime and Corruption Commission

Cross River Rail Delivery Authority

Gold Coast 2018 Commonwealth Games Corporation

Gold Coast Waterways Authority

Hospital and Health Services

- Cairns and Hinterland
- Central Queensland
- Central West
- Children's Health Queensland
- Darling Downs
- Gold Coast
- Mackay
- Metro North
- Metro South
- North West
- South West
- Sunshine Coast
- Torres and Cape
- Townsville
- West Moreton
- Wide Bay

Legal Aid Queensland

Library Board of Queensland

Motor Accident Insurance Commission

Nominal Defendant

Office of the Information Commissioner

Office of the Health Ombudsman

Prostitution Licensing Authority

Queensland Agricultural Training Colleges

Queensland Art Gallery Board of Trustees

Queensland Building and Construction Commission

Queensland Curriculum and Assessment Authority

Queensland Family and Child Commission

Queensland Mental Health Commission

Queensland Performing Arts Trust

Queensland Racing Integrity Commission

Queensland Reconstruction Authority

QRAA

Residential Tenancies Authority

South Bank Corporation

TAFE Queensland

The Council of the Queensland Institute of Medical Research

Tourism and Events Queensland

Trade and Investment Queensland

9.9.2 Public Non-financial Corporations

Brisbane Port Holdings Pty Ltd

CS Energy Limited

DBCT Holdings Pty Ltd

Energy Queensland

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

Queensland Bulk Water Supply Authority (Seqwater)

Queensland Lottery Corporation Pty Ltd

Queensland Rail

Queensland Treasury Holdings Pty Ltd

Stadiums Queensland

Stanwell Corporation Limited

SunWater Limited

Appendix A: Concessions statement

Context

The Queensland Government provides a wide range of concessions across a variety of services and products. In addition to targeted discounts, rebates and subsidies for Queenslanders based on eligibility criteria relating to factors such as age, income and special needs or disadvantage, broader concession arrangements are in place to reduce the price paid by all consumers in areas such as transport, electricity and water.

The majority of Queenslanders benefit from at least one concession and in many cases may benefit from multiple concessions each year. For example, aged pensioners are eligible for a number of Queensland Government concessions, such as discounts on their council rates, water, gas and electricity bills, vehicle registration fees as well as subsidised optometry and dental services.

Further information on the eligibility requirements and benefits of a range of Government concessions can be found at:

http://www.qld.gov.au/community/cost-of-living-support/concessions/.

Focus

This statement highlights the cost and nature of concessions provided by the Queensland Government. It covers both concessions that are direct Budget outlays (for example, fee subsidy payments), and concessions that are revenue foregone through fees and charges that are set at a lower rate than applies to the wider community or, in some cases, the full cost of service provision.

Sections A.2 and A.3 set out the individual concessions by agency and government-owned corporation respectively, sorted in alphabetical order. The total value of these concessions is estimated to be $5.344 billion in 2017-18. This represents a significant Government and taxpayer commitment to improving the accessibility and affordability of a diverse range of services and reducing the price paid by consumers of those services to ease cost of living pressures.

Explanation of scope

For the purposes of this document, concessions include:

- 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
- concessional prices for Government services, where the price charged to all consumers is less than the full cost of service provision.

Both General Government and Public Non-financial Corporations (PNFC) Sector concessions are included. Where a payment is made from a General Government Sector agency to a PNFC entity for a concession arrangement, the expenditure is reported against the General Government

Sector agency only to avoid double counting. To be included in this statement, concessions must meet the minimum materiality threshold of estimated expenditure or revenue foregone of $50,000 in 2017-18.

Varying methods have been used to estimate the cost of concessions depending on the nature of the concession, including:

- direct Budget outlay cost (for example, direct subsidy or rebate payments or Government's contribution in the case of items such as rental subsidies)
- revenue foregone (for example, concessional fees and charges)
- cost of goods and services provided.

For the purposes of illustration, the document often uses averages to demonstrate the potential value of the concession to consumers. However, averages are not reflective of individual circumstances, meaning the actual dollar value of the concession to consumers may vary from person to person.

The Concessions Statement does not include Tax Expenditures (for example, tax exemptions, reduced tax rates, tax rebates and deductions). Information on Tax Expenditures can be found in Appendix B - Tax expenditure statement.

A.1 Concessions summary

Table A.1.1 Concession by entity[1]

Concession by entity	2016-17 Est. Act. $ million	2017-18 Estimate $ million
Agency		
Department of Agriculture and Fisheries	31.6	41.8
Department of Communities, Child Safety and Disability Services	262.1	290.0
Department of Education and Training	531.5	591.0
Department of Energy and Water Supply	666.6	776.2
Department of Housing and Public Works	419.0	431.0
Department of Justice and Attorney-General	83.6	87.8
Department of National Parks, Sport and Racing	1.6	1.8
Department of Natural Resources and Mines	4.2	4.2
Department of Science, Information Technology and Innovation	0.4	0.4
Department of Transport and Main Roads	2,462.9	2,667.3
Department of the Premier and Cabinet	4.7	5.0
Queensland Fire and Emergency Services	9.4	9.9
Queensland Health	309.9	284.7
Total Agency	**4,787.5**	**5,191.1**
Government-owned corporations		
Energy Queensland	23.2	26.2
Far North Queensland Ports Corporation Limited	0.8	0.8
Gladstone Ports Corporation Limited	54.8	55.5
North Queensland Bulk Ports Corporation Limited	2.6	2.6
Port of Townsville Limited	5.6	5.7
Queensland Rail Limited	1.7	1.8
SunWater Limited	58.6	60.1
Total Government-owned corporations	**147.3**	**152.7**
Total all entities	**4,934.8**	**5,343.8**

Note:

1. Numbers may not add due to rounding

A.2 Concessions by agency

Table A.2.1 Department of Agriculture and Fisheries

Concession by entity	2016-17 Est. Act. $ million	2017-18 Estimate $ million
Primary Industry Productivity Enhancement Scheme (PIPES)[1]	24.3	20.3
Drought Relief Assistance Scheme[2]	7.2	20.0
Farm Management Grant[3]	0.1	1.5
Total	**31.6**	**41.8**

Notes:

1. The concession represents the fair values of the interest rate concessions pertaining to loans issued in each of the financial years shown.
2. The 2016-17 estimated actual is lower than previously anticipated due to improved climatic conditions across the State. In 2017-18 the Government is providing increased funding of up to $20 million for the continuation of the Drought Relief Assistance Scheme.
3. The increase between the 2016-17 estimated actual and the 2017-18 estimate is due to anticipated increased take up of the grant in 2017-18. The scheme commenced as at the end of March 2017.

Primary Industry Productivity Enhancement Scheme (PIPES)

PIPES is administered by the Queensland Rural and Industry Development Authority (QRIDA) and provides concessional rates of interest on loans to eligible primary producers in need of financial assistance. First Start Loans and Sustainability Loans of up to $2 million and $1.3 million respectively support applicants to enter primary production and to improve productivity and sustainability. The average concessional interest rate for new lending is 3.24%. The amounts shown in the above table represent the fair values of the interest rate concessions pertaining to loans issued in each of the financial years shown.

Drought Relief Assistance Scheme

The Drought Relief Assistance Scheme provides freight subsidies and emergency water infrastructure rebates to support producers and communities that have been affected by drought conditions across the State. Freight subsidies of up to 50% and emergency water infrastructure rebates of up to 50% are available to eligible applicants, up to a maximum of between $20,000 and $40,000 per property, per financial year.

Farm Management Grant

The Farm Management Grant aims to assist eligible Queensland primary producers or their relatives offset the costs of professional advice associated with succession planning. The grant provides rebates of up to 50% of the amount paid for professional advice, up to a maximum of $2,500 per financial year.

Table A.2.2 Department of Communities, Child Safety and Disability Services

Concession	2016-17 Est. Act. $ million	2017-18 Estimate $ million
Electricity Rebate Scheme[1, 2]	173.4	200.0
Pensioner Rate Subsidy Scheme	53.6	54.2
South East Queensland Pensioner Water Subsidy Scheme	19.2	19.6
Home Energy Emergency Assistance Scheme	10.0	10.0
Electricity Life Support Concession Scheme[1]	2.4	2.5
Reticulated Natural Gas Rebate Scheme	2.2	2.3
Medical Cooling and Heating Electricity Concession Scheme[1]	1.3	1.4
Total	**262.1**	**290.0**

Notes:

1. Electricity price linked rebates are adjusted annually according to the Queensland Competition Authority's (QCA) price determination for the general household electricity tariff (Tariff 11). For 2017-18, the QCA determined Tariff 11 will increase by 7.1%, however the Queensland Government is taking action to reduce this to 3.3%.
2. The increase between the 2016-17 estimated actual and the 2017-18 estimate also reflects the growth in claimants arising from the increased uptake of concession cards, as well as the extension of the Electricity Rebate to Commonwealth Health Care Card Holders and asylum seekers from 1 January 2017.

Electricity Rebate Scheme

The Electricity Rebate Scheme provides a rebate of up to $341 per annum to assist with the cost of domestic electricity supply to the home of eligible holders of a Pensioner Concession Card, a Queensland Seniors Card or a Department of Veterans' Affairs Gold Card (and receive a War Widow/er Pension or special rate Totally or Permanently Incapacitated Pension).

As announced in the 2016-17 Mid Year Fiscal and Economic Review, the Queensland Government has extended the rebate to Commonwealth Health Care Card Holders and asylum seekers from 1 January 2017, allowing an estimated 157,000 additional Queensland families to access the rebate at an estimated cost of $170 million over four years from 2016-17.

Pensioner Rate Subsidy Scheme

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

South East Queensland Pensioner Water Subsidy Scheme

The South East Queensland (SEQ) Pensioner Water Subsidy Scheme provides a subsidy of up to $120 per annum to eligible pensioner property owners in the SEQ Water Grid to lessen the impact of increased water prices. This subsidy is in addition to the Pensioner Rate Subsidy Scheme.

Home Energy Emergency Assistance Scheme

The Home Energy Emergency Assistance Scheme provides emergency assistance of up to $720 once in a two year period to assist low income households experiencing a short term financial crisis and who are unable to pay their current electricity and/or reticulated natural gas account. It is not a requirement for the claimant to hold a concession card.

Electricity Life Support Concession Scheme

The Electricity Life Support Concession Scheme is aimed at assisting seriously ill people who use home based life support systems by providing a rebate of up to $694 per annum for users of oxygen concentrators and a rebate of up to $465 per annum for users of kidney dialysis machines to meet their electricity costs. The concession is paid quarterly and is subject to the patient being medically assessed in accordance with Queensland Health eligibility criteria.

Reticulated Natural Gas Rebate Scheme

The Reticulated Natural Gas Rebate Scheme provides a rebate of up to $71 per annum to assist with the cost of reticulated natural gas supplied to the home of eligible holders of a Pensioner Concession Card, Queensland Seniors Card or a Department of Veterans' Affairs Gold Card (and receive the War Widow/er Pension or special rate Totally or Permanently Incapacitated Pension).

Medical Cooling and Heating Electricity Concession Scheme

The Medical Cooling and Heating Electricity Concession Scheme provides a rebate of up to $341 per annum for eligible concession card holders with a medical condition who have dependence on air conditioning to regulate body temperature.

Table A.2.3 Department of Education and Training

Concession	2016-17 Est. Act. $ million	2017-18 Estimate $ million
User Choice - Apprentice and Trainee Training Subsidy	212.0	212.0
Vocational Education and Training (VET) - Certificate 3 Guarantee Tuition Fee Subsidy[1]	126.7	179.2
VET - Higher Level Skills Tuition Fee Subsidy[1]	64.6	70.0
Textbook and Resource Allowance	58.1	58.1
School Transport Assistance for Students with Disabilities[2]	41.7	42.7
Living Away from Home Allowance Scheme	8.2	8.3
Tuition fee exemptions/waivers - Dependants of international students	6.6	6.8
Non-Government Schools Transport Assistance Scheme[2]	5.9	6.1
Travel and Accommodation Subsidy[3]	2.5	3.0
Dalby State High School - Bunya Campus Residential Facility[4]	2.6	2.7
Spinifex State College - Mount Isa Student Residential Facility	1.1	1.1
Distance Education - Information and Communication Technology Subsidy Scheme	0.9	0.8
Distance Education - Non-Government Student Fee Subsidy[5]	0.4	0.2
Western Cape Student Residential College, Weipa[6]	0.2	..
Total	**531.5**	**591.0**

Notes:

1. The increase between the 2016-17 estimated actual and 2017-18 estimate is due to the anticipated increase in activity due to the demand driven nature of the program.
2. The increase between the 2016-17 estimated actual and 2017-18 estimate is due to a combination of CPI indexation and student enrolment growth.
3. The increase between the 2016-17 estimated actual and 2017-18 estimate is due to a low take up of this subsidy in 2016-17.
4. The increase between the 2016-17 estimated actual and 2017-18 estimate is due to anticipated increased student enrolments in 2018.
5. The decrease between the 2016-17 estimated actual and 2017-18 estimate is due to an anticipated lower uptake of this subsidy in 2018.
6. The decrease between the 2016-17 estimated actual and 2017-18 estimate is due to the Residential College being anticipated to be self-funded in 2017-18.

User Choice - Apprentice and Trainee Training Subsidy

The User Choice - Apprentice and Trainee Training Subsidy program provides government funding towards the costs of training and assessment for eligible Queensland apprentices and trainees. The subsidy is available to public and private registered training organisations (pre-approved as pre-qualified suppliers) to subsidise tuition fees to reduce the cost of required accredited, entry level training for apprentices and trainees. The program provides greater flexibility for apprentices, trainees and their employers to select a preferred registered training organisation and to negotiate the type of training to meet their specific needs.

Whilst the full cost of each training subsidy varies by course, the average annual dollar value of this subsidy per student is $2,303.

Vocational Education and Training (VET) - Certificate 3 Guarantee Tuition Fee Subsidy

The Vocational Education and Training (VET) Certificate 3 Guarantee Tuition Fee Subsidy provides a government subsidy to allow eligible Queenslanders to obtain their first post-school Certificate III qualification to gain a job or to improve their employment status. The subsidy is available to private and public registered training organisations (pre-approved as pre-qualified suppliers) to subsidise tuition fees paid by students undertaking eligible vocation education and training qualifications (primarily Certificate III qualifications).

The annual average dollar value of this subsidy for each qualification ranges from $432 to $6,408 depending on the eligibility and qualification subsidised. The average subsidy value is $2,766.

VET - Higher Level Skills Tuition Fee Subsidy

The VET Higher Level Skills Tuition Fee Subsidy provides a government subsidy to eligible students and employers to undertake a priority Certificate IV, diploma or advanced diploma or industry endorsed skill set. This program will help individuals gain employment in a critical occupation, career advancement in a priority industry or transition to university to continue their studies. The subsidy is available to private and public registered training organisations (pre-approved as pre-qualified suppliers) to subsidise tuition fees paid by students undertaking eligible vocational education and training qualifications at Certificate IV or above.

The annual average dollar value of this subsidy for each qualification ranges from $1,085 to $8,010 depending on the eligibility and qualification subsidised. The average subsidy value is $3,772.

Textbook and Resource Allowance

The Textbook and Resource Allowance is for parents/caregivers of secondary school age students attending State and approved non-government schools to assist with the cost of textbooks and learning resources. Parents generally sign over this allowance to the school to reduce the fees associated with participating in the school's textbook and resource scheme.
In 2017, the allowance per annum is $123 for students in Years 7 to 10 and $266 for students in Years 11 and 12.

School Transport Assistance for Students with Disabilities

School Transport Assistance for Students with Disabilities is provided for students to attend State school programs that meet their individual education needs. This transport assistance includes the provision of taxis or specialised contracted minibuses, payment of fares on regular buses or trains or an allowance for parents who drive their children to school. The benefit level is to a maximum of $400 per week, per student, however in exceptional circumstances higher amounts may be approved. A separate scheme is in place for students with disabilities attending non-government schools (refer 'Non-Government Schools Transport Assistance Scheme').

The Department of Education and Training is working with the Department of Transport and Main Roads (DTMR) to establish a long-term solution for the delivery of school transport assistance for students with disabilities under the National Disability Insurance Scheme (NDIS).

Living Away from Home Allowance Scheme

The Living Away from Home Allowance Scheme provides financial assistance to support Queensland families and targets geographically-isolated families. The scheme meets the costs of children who are required to live away from home to attend schools. This concession is available to Queensland students attending both state and non-government schools.

The benefits available for eligible students in 2017 are:

- Remote Area Allowance - assistance of $2,277 per annum is available to students attending campuses of the Australian Agricultural College Corporation in lieu of Year 11 and 12.
- Remote Area Tuition Allowance - primary students up to $3,678 per annum and secondary students up to $5,296 per annum. Benefit levels are linked to the tuition fees charged by approved boarding schools.
- Remote Area Travel Allowance - available where the distance from the family home to the boarding location is at least 50km. Benefit levels depend on the distance travelled, and range from $139 to a maximum of $1,696 per annum.
- Remote Area Disability Supplement - available to students with disabilities who incur additional costs associated with living away from home to attend school. Benefits are up to $7,412 per student per annum.

Tuition fee exemptions/waivers - Dependants of international students

This concession, available for dependants of international students, allows students who meet the approved exemption criteria and wish to enrol their child in Preparatory (Prep) Year to Year 12 of schooling are exempt from paying dependant tuition fees. The exemption only applies for the duration of the main temporary visa holder's (parent) course of study in Queensland. A dependant student (Prep to Year 12) of a temporary visa holder may also be eligible for a tuition fee waiver in certain circumstances, including financial hardship.

The estimated average amount exempted or waived per student is $7,553 for the 2017-18 financial year.

Non-Government Schools Transport Assistance Scheme

The Non-Government School Transport Assistance Scheme assists families by providing funding towards the transport costs of students attending non-government schools outside of the Brisbane City Council area. Under the scheme, reimbursement is provided for transport expenses above a set weekly threshold amount. In 2017, the threshold is $33 per week for families, or $25 for families with a Health Care Card, Pensioner or Department of Veterans' Affairs Pensioner Card.

The program also assists families of students with disabilities who attend a non-government school. The level of assistance provided is dependent on the type of transport needed and travel assistance already provided by DTMR. For families using taxis, assistance is capped at $300 per week.

The Department of Education and Training is working with DTMR to establish a long-term solution for the delivery of school transport assistance for students with disabilities under the NDIS.

Travel and Accommodation Subsidy

The Travel and Accommodation Subsidy provides financial assistance to Queensland apprentices and trainees for travel expenses incurred in attending off the job training at a registered training organisation. To be eligible, apprentices must attend the closest registered training organisation that offers the required qualification and travel a minimum of 100 kilometres (km) return from their usual place of residence to the registered training organisation. The subsidy provides for:

- return land travel to the registered training organisation of 15 cents per km for distances between 100 - 649km, increasing to 19 cents per km for distances between 650 - 1,400 km
- cost of ferry travel if necessary
- a return economy air ticket to the location of the registered training organisation if necessary
- accommodation assistance of $28 per day for overnight stay within Queensland and $68 for interstate travellers, if it is necessary to live away from their usual place of residence to attend training.

Dalby State High School - Bunya Campus Residential Facility

The Dalby State High School - Bunya Campus Residential Facility provides affordable residential accommodation for secondary school students in a boarding facility. The concession particularly targets secondary school students from rural and remote communities, however, any secondary age student is eligible. Students accommodated at the residential facility are enrolled at Dalby State High School and participate in agricultural education programs.

Spinifex State College - Mount Isa Student Residential Facility

The Spinifex State College - Mount Isa Student Residential Facility provides an affordable residential facility in Mount Isa for students from the North Western area of the State whose home community does not provide secondary schooling. The funding meets the cost of wages for the residential college, increasing the affordability of the accommodation rates charged to students.

Distance Education - Information and Communication Technology Subsidy Scheme

The Distance Education - Information and Communication Technology Subsidy Scheme provides assistance to students enrolled in a school of distance education that are geographically isolated or in the medical category.

The scheme provides $250 per annum to assist with purchasing, replacing or upgrading computer hardware for students in the distance/geographically isolated and medical categories, and $500 per annum to assist students in the distance/geographically isolated category to meet the costs of broadband internet access and download charges for the home classroom. Eligible students also receive access to free software licences.

Distance Education - Non-Government Student Fee Subsidy

The Distance Education - Non-Government Student Fee Subsidy is available to students who are enrolled in non-government schools and also choose to access distance education subjects.
It provides an average annual subsidy of approximately $1,297.60 per distance education subject enrolment.

This subsidises approximately 50% of the total average cost per annum of providing a subject through distance education for non-government school students. The concession contributes towards the state continuing to make distance education available to non-government schools, ensuring the widest possible subject choice for students, while recovering a proportion of the teaching and overhead costs.

Western Cape Student Residential College, Weipa

The Western Cape Student Residential College, Weipa (formerly Far North Queensland Region - Student Residential College) provides a residential schooling option for students from the Torres Strait and Cape York. This college provides an option that is more familiar for students from remote locations, with the intent to increase participation and retention of secondary students in schooling. The concession targets students from the Torres Strait and Cape York seeking secondary education when their home community does not provide secondary schooling. The concession provides wages for the residential college allowing the rates charged to students to be more affordable. The Residential College is expected to be self-funded in 2017-18.

Table A.2.4 Department of Energy and Water Supply

Concession	2016-17 Est. Act. $ million	2017-18 Estimate $ million
Energy Queensland - Uniform Tariff Policy (excluding Isolated Systems)	564.2	441.1
Powering Queensland Plan - Electricity Affordability Package	..	268.0
Energy Queensland - Uniform Tariff Policy for Isolated Systems	45.7	47.1
Drought Relief Arrangements	6.2	6.3
Origin Energy - Uniform Tariff Policy	2.8	2.5
Cloncurry Pipeline Water Supply Subsidy	5.9	6.0
SunWater Rural Irrigation Water Price Subsidy	3.7	3.1
Urban Water Price Path	35.7	..
Seqwater Rural Irrigation Water Price Subsidy	2.4	2.1
Total	**666.6**	**776.2**

Energy Queensland - Uniform Tariff Policy (excluding Isolated Systems)

The Energy Queensland - Uniform Tariff Policy (excluding Isolated Systems) ensures that, where possible, all Queensland non-market electricity customers of a similar type pay a similar price for electricity regardless of where they live. As the notified prices do not reflect the full cost of electricity supply for most remote and regional Queenslanders, a subsidy is provided.
The community service obligation (CSO) payment to the regional retailer Energy Queensland covers the difference between the revenue earned by charging customers notified prices and the actual costs in the regional areas (due to differences in network costs and energy losses).

As Energex's distribution charges are used in the setting of notified prices, the difference between Energex's and Ergon Energy's distribution charges has a significant impact on the CSO amount (ie. a smaller difference results in a lower CSO). For 2017-18, the reduction in the CSO largely relates to an expected decrease in Ergon Energy's distribution charges relative to Energex's charges. This reflects the Australian Energy Regulator's decisions for the two distribution businesses regarding the revenue that they are allowed to recover from their customers. A small over-recovery in distribution revenue by Ergon Energy that occurred in 2015-16 is also expected to flow through in a further reduction in charges in 2017-18.

In addition, the 2016-17 CSO cost was higher than trend mainly because of the record temperatures in February and early March 2017, which resulted in an increase in load, and higher costs from network charges and line losses. This result exaggerates the difference between 2016-17 and 2017-18 beyond what would be expected to occur under continued normal weather conditions.

Powering Queensland Plan - Electricity Affordability Package

The Powering Queensland Plan is providing one-off funding in 2016-17, including $771 million to support the stabilisation of electricity prices for Queensland consumers, by funding the removal of costs of the Solar Bonus Scheme from electricity prices for three years from 1 July 2017 and directing Energy Queensland to remove costs from network charges. This will reduce bill increases in 2017-18 from 7.1% to 3.3% for the typical household, and provide an average saving of $51 for households and $90 for small businesses in 2017-18, compared with the increase which would have occurred without Government intervention. It is estimated that the benefit to Queenslanders in 2017-18 as a result of this measure will be $268 million.

Energy Queensland - Uniform Tariff Policy for Isolated Systems

The Energy Queensland - Uniform Tariff Policy for Isolated Systems ensures that, where possible, all Queensland non-market electricity customers of a similar type pay a similar price for electricity regardless of where they live. Energy Queensland owns and operates 33 isolated power stations which supply electricity to remote and isolated Queensland communities. Energy Queensland retails electricity to these customers at the notified prices, and the Government provides funding to the retailer to cover the difference between the revenue earned and the cost of supplying electricity to these customers.

The CSO estimate for 2017-18 is higher than 2016-17 estimated actuals due to expected higher generation and maintenance costs.

Drought Relief Arrangements

Drought Relief Arrangements provide relief to farming customers from fixed charges for electricity accounts that are used to pump water for farm or irrigation purposes during periods of drought.

The drought relief figure for 2017-18 is an estimate and could be subject to change based on drought declarations.

Origin Energy - Uniform Tariff Policy

The Origin Energy - Uniform Tariff Policy ensures that, where possible, all Queensland non-market electricity customers of a similar type pay a similar price for electricity regardless of where they live. Origin Energy retails electricity to approximately 5,450 Queensland non-market customers in the Goondiwindi, Texas and Inglewood areas who are supplied electricity through the New South Wales (NSW) Essential Energy distribution network.

The Government provides a rebate to these customers, via a CSO payment to Origin Energy, to ensure they pay no more for electricity than similar customers in Queensland. Therefore, the CSO amount depends on the relative difference between Queensland and NSW retail electricity tariffs for non-market customers.

Cloncurry Pipeline Water Supply Subsidy

North West Queensland Water Pipeline Limited (NWQWP), a SunWater Limited (SunWater) subsidiary, owns and operates the Cloncurry Pipeline between the Ernest Henry Mine and Cloncurry. The pipeline guarantees Cloncurry Shire Council's long-term water supply and supports industrial development in the region. As the construction and operation of the Cloncurry Water Pipeline is a non-commercial investment, the Government provides funding to NWQWP to ensure that SunWater receives a return on its investment in the pipeline.

SunWater Rural Irrigation Water Price Subsidy

SunWater owns and operates water supply schemes across regional Queensland. As the owner of SunWater, the Government decides how much to recover of SunWater's costs through irrigation prices. Currently, SunWater's irrigation water prices for some schemes are set below the level necessary to recover the cost of supplying water to the irrigators. Government funding is provided to SunWater to offset the reduced revenue and to ensure that increases in water prices paid by rural irrigation customers to recover costs are gradual.

The decrease in the CSO for 2017-18 is largely due to the price path arrangements leading to a reduction in the concession required.

Urban Water Price Path

Bulk water prices in South East Queensland (SEQ) have been set at levels below the cost of supply since the introduction of the bulk water price path in 2008. The concession amount is the difference between revenue received and the costs recovered over the period. Importantly, the bulk water price path has slowly increased bulk water prices over time to the point where they are cost reflective for the majority of bulk water consumers in SEQ. As a result, 2017-18 represents the first year in which the price path does not result in an under recovery of revenue.

Seqwater Rural Irrigation Water Price Subsidy

Seqwater owns and operates water supply schemes across SEQ which also supply bulk water services to rural irrigation customers. Currently Seqwater's rural irrigation prices for some schemes are set below the level necessary to recover the cost of supplying water to the irrigators. Government funding is provided to Seqwater to offset the reduced revenue and to ensure that increases in water prices paid by rural irrigation customers to recover costs are gradual.

The decrease in the CSO for 2017-18 is largely due to the price path arrangements leading to a reduction in the concession required.

Table A.2.5 Department of Housing and Public Works

Concession	2016-17 Est. Act. $ million	2017-18 Estimate $ million
Government managed housing rental rebate[1]	365.2	376.8
National Rental Affordability Scheme[2]	27.4	28.4
Home Assist Secure[3]	20.0	19.0
Non-residential buildings - subsidised rents	5.2	5.6
Rental Bond Loans	1.2	1.2
Non-government managed housing[4]	..	..
Total	**419.0**	**431.0**

Notes:

1. The increase between the 2016-17 estimated actual and the 2017-18 estimate is primarily due to lower forecast growth in tenant rental income.
2. The increase between the 2016-17 estimated actual and the 2017-18 estimate is due to the expected increase in the indexation rate for the 2017-18 NRAS incentive and an increase in the number of dwellings delivered.
3. The decrease between the 2016-17 estimated actual and the 2017-18 estimate is due to the anticipated decrease in the number of households seeking assistance in 2017-18.
4. The value of this concession arrangement cannot be easily quantified.

Government managed housing rental rebate

The Government managed housing rental rebate targets low income families and individuals and represents the difference between the rents that would be payable in the private market and rent that is charged by Government based on household income.

Assistance is provided to approximately 53,000 households. The estimated average yearly subsidy per household for 2017-18 is $7,073.

National Rental Affordability Scheme

The National Rental Affordability Scheme (NRAS) is an Australian Government initiative, delivered in partnership with the Queensland Government, to increase the supply of new affordable rental housing. The scheme provides financial incentives to investors to build well located dwellings and rent them to eligible low to moderate income households, at a discounted rate at least 20% below market rent.

Under the scheme, the concession to the tenant is provided by the property owner. Due to the nature of the arrangement, the overall value of the concession to the tenant cannot be quantified. In 2017-18, the Government has allocated $28.4 million for the payment of financial incentives to NRAS investors who are then required to discount rents to tenants.

Home Assist Secure

Home Assist Secure provides free safety related information and referrals, and subsidised assistance to eligible clients unable to undertake or pay for critical maintenance services without assistance. To be considered for assistance, home owners or tenants with a disability or over the age of 60 must hold a Pensioner Concession Card and be unable to complete the work themselves. In addition, they must be unable to access assistance from family or friends or other services. Labour costs (up to $400 per household per year) for the assistance provided are subsidised by Home Assist Secure while the balance of the costs (including all materials) are met by the client.

Home Assist Secure targets home owners and those in rental housing who are over 60 years of age or have disability, and who require assistance to remain living in their home. In 2017-18, $19 million in grants to Home Assist Secure providers will be issued to ensure the ongoing delivery of assistance to those in greatest need. It is estimated that over 47,500 households will be assisted.

Non-residential buildings - subsidised rents

Accommodation is provided to 38 community, education, arts and not-for-profit organisations in Government owned non-residential buildings. Tenures for the occupancies are by way of leases, licences or month to month arrangements. Rents paid by the organisations are often below independently assessed market rent levels. Subsidised rental arrangements are provided to 25 properties comprising a total floor area of approximately 24,665 square metres. The total subsidy is calculated by deducting the actual amount paid by the occupants from the total estimated annual market rent for the office space.

Rental Bond Loans

The Government provides interest-free rental bond loans equivalent to a maximum amount of four weeks rent to people who cannot afford to pay a full bond to move into private rental accommodation reducing the need for more costly, subsidised housing assistance.
The concession represents the interest saving for the client on the bond loan. In 2017-18, $27 million in bond loans will be advanced to an estimated 24,000 clients.

Non-government managed housing

The Government provides contributions to social housing providers, including capital grants, granted land or properties, or recurrent funding, to assist in increasing housing affordability and access to social housing. Due to the nature of the arrangement, the overall value of the concession provided by the Government cannot be easily quantified.

Rents charged for social housing managed by the providers are based on 25% of a household's assessable income, which substantially reduces accommodation costs for eligible individuals and families.

Table A.2.6 Department of Justice and Attorney-General

Concession	2016-17 Est. Act. $ million	2017-18 Estimate $ million
Public Trustee of Queensland - Concessions	34.3	36.0
Queensland Civil and Administrative Tribunal	19.1	19.7
Court Services - Civil Court	18.1	19.3
Blue Card - Volunteer Applicants	10.0	10.6
Body Corporate and Community Management - Dispute Resolution	2.1	2.2
Total	**83.6**	**87.8**

Public Trustee of Queensland - Concessions

The Public Trustee of Queensland (the Public Trustee) is a self-funding organisation and uses a scale of fees which is designed to reflect a fair cost for the services provided.

The Public Trustee has established a safety net limit on the annual fees payable by certain clients. The arrangement provides for a rebate of fees for some clients with limited assets, for example financial administration for clients with impaired capacity, or administration of deceased estates or trusts. The Public Trustee also provides free Will making services for Queenslanders.

In addition, the Public Trustee provides funding to the Public Guardian and financial assistance under the Civil Law Legal Aid Scheme administered by Legal Aid Queensland, to enable these organisations to provide services to the people of Queensland.

Queensland Civil and Administrative Tribunal

The Queensland Civil and Administrative Tribunal (QCAT) is an independent tribunal which makes decisions and resolves disputes across a wide range of jurisdictions for the community. Fees for these services are below cost recovery to ensure services are accessible, fair and inexpensive. QCAT provides human rights services with no application fees for matters in guardianship and administration of adults, children and young people and anti-discrimination.

Court Services - Civil Court

The Supreme, District and Magistrates Courts hear civil disputes between two or more parties (people or organisations) where one party sues the other, usually to obtain compensation or seek some other remedy. These disputes may involve anything from defamation to outstanding debts. Civil Court Fees are prescribed under the Uniform Civil Procedure (Fees) Regulation 2009 for proceedings commenced in civil matters and are set below full cost recovery to ensure that civil remedies are accessible to all Queenslanders.

Blue Card - Volunteer Applicants

Individuals providing child-related services or conducting child-related activities in regulated service environments are required to undergo an assessment of their police and relevant disciplinary information, and if approved, are issued with a blue card. A blue card is valid for three years unless cancelled or suspended earlier. The application fee for a blue card is $87.20 (as at 1 July 2017). Since the inception of the blue card system in 2001, Government has met the cost of blue card assessment for volunteer applicants.

Body Corporate and Community Management - Dispute Resolution

The Office of the Commissioner for Body Corporate and Community Management provides a dispute resolution service to parties unable to resolve disputes themselves. The service consists of conciliation, with the aim of achieving a voluntary agreement, and adjudication, which results in a formal order. The service is delivered below full cost recovery so as to not restrict access to justice due to affordability reasons.

Table A.2.7 Department of National Parks, Sport and Racing

Concession	2016-17 Est. Act. $ million	2017-18 Estimate $ million
Tour fee and access permit concessions	1.3	1.5
Queensland Recreation Centres - Concessional usage rates	0.3	0.3
Total	**1.6**	**1.8**

Tour fee and access permit concessions

Tour fee, access permit and camping fee concessions are available in specified protected areas including David Fleay Wildlife Park, Mon Repos Conservation Park, St Helena Island National Park, Walk-About Creek Wildlife Centre, Fort Lytton National Park, Cooloola Recreation Area, Moreton Island and Fraser Island.

Queensland Recreation Centres - Concessional usage rates

Concessional usage rates are offered to students and children 17 years and under, for the use of Queensland Recreation Centres, primarily at Currimundi and Tallebudgera. These concessional rates provide discounts of between 4.4% and 34.2%.

Table A.2.8 Department of Natural Resources and Mines

Concession	2016-17 Est. Act. $ million	2017-18 Estimate $ million
Drought Assistance Package - Water Licence Fee Waiver and Land Rental Rebates	4.2	4.2
Total	**4.2**	**4.2**

Drought Assistance Package - Water Licence Fee Waiver and Land Rental Rebates

As part of the Government's drought assistance package, the annual water licence fee of $76.55 will be waived for 2017-18 for landholders in Local Government Areas (LGA) that are drought declared and other properties that are individually drought declared. The estimate is dependent on drought declarations and the demand for drought assistance.

Category 11 Grazing and Primary Production landholders under the *Land Act 1994* will also be eligible to a rent rebate in 2017-18. The rebate is available to lessees, other than those on minimum rent that are in a drought declared LGA and to individually drought declared properties. In addition to this rebate, drought declared landholders will be granted a hardship deferral for required rent payments.

Table A.2.9 Department of Science, Information Technology and Innovation

Concession	2016-17 Est. Act. $ million	2017-18 Estimate $ million
State Library of Queensland - Venue hire rebates	0.4	0.4
Total	**0.4**	**0.4**

State Library of Queensland - Venue hire rebates

State Library of Queensland provides venue hire concessions to targeted community and non-profit groups including cultural and charitable organisations and educational institutions in order to support events and programs directly linked to State Library of Queensland's services, programs and activities.

Table A.2.10 Department of Transport and Main Roads

Concession	2016-17 Est. Act. $ million	2017-18 Estimate $ million
General Public Transport Concessions (South East Queensland)	1,207.1	1,355.7
Rail Network and Infrastructure Funding	538.5	564.8
General Public Transport Concessions (Regional Queensland)	243.4	256.6
Vehicle and boat registration concessions	159.3	167.3
School Transport Assistance Scheme	130.5	134.9
TransLink Transport Concessions (South East Queensland)	78.1	80.0
Rail Concession Scheme	36.5	36.5
Livestock and Regional Freight Contracts	33.3	33.8
Other transport concessions (Regional Queensland) and taxi subsidies	26.8	26.3
Commercial ship registration and licensing	2.4	4.4
Designated Public Transport Concessions for Seniors Card Holders	3.8	3.8
Practical Driving Test	3.2	3.2
Total	**2,462.9**	**2,667.3**

General Public Transport Concessions (South East Queensland)

The General Public Transport Concessions (South East Queensland) represents the direct funding contribution that Government makes towards the cost of operating public transport services within South East Queensland. This contribution effectively reduces the ticket price paid by all public transport users on bus, rail and ferry services, increasing the affordability of these services.

The General Public Transport Concessions (South East Queensland) is increasing in 2017-18 due to annual cost indexation, increased finance lease costs and availability, operator payments associated with the acquisition of new generation rollingstock and the opening of the Gold Coast Light Rail Stage 2 and the full year impact of the Fairer Fares package (2016-17 only had a half year impact).

Rail Network and Infrastructure Funding

Rail network and infrastructure funding ensures that the State supported rail network is safe, reliable and fit for purpose. The contract also provides funding to Queensland Rail to support major capital projects and related asset strategies. The funding provided via this contract directly benefits customers of the State supported rail network, including both freight and passengers. Without this funding, rail access charges (including public transport fares) would be significantly higher for all users of the rail network.

General Public Transport Concessions (Regional Queensland)

The General Public Transport Concessions (Regional Queensland) describes the financial contribution that Government provides across a range of transport services in regional Queensland. The impact of this contribution benefits all public transport users through reduced transport fares. This concession covers:

- TravelTrain (excluding the 'Rail Concession Scheme' for eligible pensioners, veterans and seniors)
- subsidies for Kuranda Scenic Railway
- subsidies for Heritage Rail Services
- subsidies for regional bus and ferry operators (excluding concessional top up amounts and School Transport Assistance Scheme related amounts)
- subsidies for the Rail XPT Service (Sydney-Brisbane) and Savannahlander (Atherton Tableland)
- subsidies for air services to remote and rural communities within the State
- subsidies for long distance coach services to rural and remote communities within the State.

Vehicle and boat registration concessions

Registration concessions for light and heavy motor vehicles and boats are provided to holders of the Pensioner Concession Card, Queensland Seniors Card and to those assessed by the Department of Veterans' Affairs as meeting the necessary degree of incapacity or impairment. The concession is aimed at improving access to travel for pensioners, seniors and persons with a disability by providing a reduced rate of registration fees. For most eligible card holders, a concession for a family 4-cylinder vehicle would reduce the 12 month registration charge from $310.50 to $155.25. For a recreational boat up to and including 4.5 metres in length, the concession reduces the registration charge from $83.80 to $41.90 (based on registration charges at 1 July 2017).

A special interest vehicle (SIV) registration concession is offered for motor vehicles that have low use associated with vintage and historic and street rod car club events. A 12 month registration for a 6-cylinder SIV concession reduces registration from $491.65 to $87.50. A concession is also available for specific purposes such as water, mineral or oil exploration and bee keeping. Other motor vehicle and boat registration concessions are provided to primary producers, local governments, charitable and community service organisations, and people living in remote areas without access to the wider road network.

School Transport Assistance Scheme

The School Transport Assistance Scheme assists students that do not have a school in their local area or who are from defined low income groups with travel costs. The scheme provides funding to reduce the cost of travelling to school on bus, rail and/or ferry services, with allowances for private vehicle transport in certain circumstances. A typical concession would be to fully fund the cost of travel from home to the nearest State primary or high school where no local primary or high school is available (for example from Bargara to Bundaberg High School).

TransLink Transport Concessions (South East Queensland)

The TransLink Transport Concessions (South East Queensland) are provided by the Government to ensure access and mobility for Queenslanders who require assistance because of age, disability or fixed low income. Passengers entitled to receive public transport concessions include holders of a Pensioner Concession Card, Veterans' Affairs Gold Card, Seniors Card (all states and territories), Companion Card, Vision Impairment Travel Pass, TPI Veteran Travel Pass, children, as well as secondary and tertiary students. In addition to these existing groups, concession groups now include Newstart and Youth Allowance (Job Seeker) recipients and asylum seekers. Under the new 2017 fares, for a peak one zone journey using a *go*card, the concession reduces an adult fare from $3.20 to $1.60.

Rail Concession Scheme

The Queensland Rail Concession Scheme improves the affordability of long distance and urban rail services for eligible pensioners, veterans, seniors and current/past rail employees with 25 years of service. Assistance for long distance rail services is provided through discounted fares and free travel vouchers. For TravelTrain (long distance rail) services, depending on the service, the concession may be for free travel for up to four trips per year for Queensland pensioners (subject to availability of seats and payment of an administration fee).

Livestock and Regional Freight Contracts

The Livestock and Regional Freight Contracts provide funding to support the movement of cattle (via rail only) and freight (via road and rail) to and from regional areas of Queensland.
The funding provided directly benefits the cattle industry and enables regional Queensland communities to maintain employment and directly benefits those communities who are reliant on rail freight services by reducing the cost of these freight services for users.

Other transport concessions (Regional Queensland) and taxi subsidies

Other transport concessions (Regional Queensland) and taxi subsidies are provided by the Government to ensure access and mobility for Queenslanders who require assistance because of age, disability or fixed low income. Passengers entitled to receive public transport concessions include holders of a Pensioner Concession Card, Veterans' Affairs Gold Card, Seniors Card (all states and territories), Companion Card, Vision Impairment Travel Pass, TPI Veteran Travel Pass, children, as well as secondary and tertiary students. In addition to these existing groups, new concession groups are to include Newstart and Youth Allowance (Job Seeker) recipients and asylum seekers.

The Taxi Subsidy Scheme aims to improve the mobility of persons with severe disabilities by providing a 50% concession fare up to a maximum subsidy of $25 per trip.

Commercial ship registration and licensing

The commercial vessel safety concession is increasing as revenue received from commercial ship registration declines. This is due to issuing five year certificates of operation in 2015-16 to assist in transfer of responsibility to the national regulator; and some commercial ship owners choosing to register their vessels in other states but operating in Queensland waters. The department will continue to provide the same level of safety regulation in 2017-18 after which the Australian Maritime Safety Authority (AMSA) will provide service delivery as the national regulator.

The commercial vessel safety program including inspection standards and ship operator competency standards is funded from commercial ship registration and licensing revenue. The commercial ship registration and licensing concession represents the difference between the cost of supporting the safety of commercial vessels in Queensland waters and revenue collected via commercial registration and compliance fees. The concession represents a benefit to commercial ship owners and operators. Vessels operated by primary or secondary schools used in marine education courses, vessels owned by the emergency services department, volunteer marine rescue associations and surf lifesaving associations are generally exempt from fees. The responsibility for regulation of domestic commercial vessels is now the responsibility of AMSA. The completion of the transfer of service delivery to the national regulator has been deferred until July 2018 when AMSA will be responsible for policy setting, fee collection and service delivery.

Designated Public Transport Concessions for Seniors Card Holders

Designated Public Transport Concessions for Seniors Card Holders allows visitors from interstate, who hold a state or territory Seniors Card, to access public transport concessions within Queensland and is fully funded by the Queensland Government.

Practical Driving Test

As part of the State's driver licensing arrangements, applicants for new licences are required to undertake a practical driving test. The total cost to pre-book driver examinations and to perform the practical driver assessment is not fully recovered by the fee charged ($50.90 (ex GST) as at 1 July 2017), providing a direct concession to applicants.

Table A.2.11 Department of the Premier and Cabinet

Concession	2016-17 Est. Act. $ million	2017-18 Estimate $ million
Queensland Museum - Arts concessional entry fees	1.6	1.5
Queensland Performing Arts Trust - Arts concessional entry fees	1.3	1.3
Queensland Art Gallery - Arts concessional entry fees	0.4	0.8
Queensland Performing Arts Trust - Venue hire rebates	0.6	0.6
Arts Queensland - Discount on property lease rentals	0.5	0.5
Arts Queensland - Venue hire rebates	0.3	0.3
Total	**4.7**	**5.0**

Queensland Museum - Arts concessional entry fees

Concessional entry fees are provided to seniors, students, children, families and a variety of concession card holders for ticketed exhibitions at Queensland Museum and Sciencentre and for general entry to Cobb & Co Museum Toowoomba, The Workshops Rail Museum Ipswich, and Museum of Tropical Queensland Townsville. Concessions are also provided to targeted groups, such as schools, to encourage visits to museums. The level of concession provided varies depending on the venue and the event.

Queensland Performing Arts Trust - Arts concessional entry fees

Concessional entry fees are offered for specific Queensland Performing Arts Trust productions and to provide support for other not for profit theatre companies to enable tickets to be sold at concessional prices. The level of concession provided varies depending on the number and size of events being held each year.

Queensland Art Gallery - Arts concessional entry fees

Queensland Art Gallery's ticket prices are set to ensure that they are affordable and to maximise attendance, with additional concessions provided to seniors, students, children, families and a variety of concession card holders. The purpose of the Queensland Art Gallery - Arts concessional entry fees concession is to contribute to the cultural, social and intellectual development of Queenslanders, and encourage diverse audiences.

Queensland Performing Arts Trust - Venue hire rebates

Venue hire rebates are offered to Government funded cultural organisations, charitable organisations, government departments and educational institutions. Organisations currently receiving discounts are Queensland Symphony Orchestra, Opera Queensland, Queensland Theatre Company and Queensland Ballet.

Arts Queensland - Discount on property lease rentals

Property lease rentals are provided to arts and cultural organisations at a discount from market rental rates at the Judith Wright Centre of Contemporary Arts, 381 Brunswick Street, Fortitude Valley and the Cairns Centre of Contemporary Arts. Discounts range from 20% to 100% of the market rate (dependent on location) of the commercial office space. Further discounts on specialist rehearsal and gallery space are given as negotiated at the time of entering the lease and dependent on the individual arts or cultural organisation and its funding.

Arts Queensland - Venue hire rebates

Venue hire rebates are provided to support Queensland funded arts organisations and professional artists to create, rehearse and present new productions at the Judith Wright Centre of Contemporary Arts and the Cairns Centre of Contemporary Arts.

Table A.2.12 Queensland Fire and Emergency Services

Concession	2016-17 Est. Act. $ million	2017-18 Estimate $ million
Emergency Management Levy Concession	9.4	9.9
Total	**9.4**	**9.9**

Emergency Management Levy Concession

The Emergency Management Levy applies to all prescribed properties within Queensland. The levy provides a funding base for emergency services including emergency management, fire and rescue services. Owners of prescribed properties who are in receipt of an Australian Government pension are eligible to receive a discount of 20% on the levy payable for a property that is their principal place of residence. In addition, community organisation owners of specified properties are exempt from payment of the levy.

Table A.2.13 Queensland Health

Concession	2016-17 Est. Act. $ million	2017-18 Estimate $ million
Oral Health Scheme[1]	167.0	149.2
Patient Travel Subsidy Scheme[2]	78.9	82.7
Medical Aids Subsidy Scheme[3]	40.9	35.7
Spectacle Supply Scheme	9.1	9.1
Community Aids Equipment and Assistive Technologies Initiative and Vehicle Options Subsidy Scheme[4]	14.0	8.0
Total	**309.9**	**284.7**

Notes:

1. The decrease of $17.8 million between the 2016-17 estimated actual and the 2017-18 estimate is due to a reduction in Commonwealth funding available under the new National Partnership Agreement on Adult Public Dental Services. The 2016-17 estimated actual also includes Medicare revenue claimed directly by Hospital and Health Services under the Child Dental Benefits Schedule.
2. The Patient Travel Subsidy Scheme allocation is calculated on historical utilisation rates. The increase of $3.8 million between the 2016-17 estimated actual and 2017-18 estimate is due to expected population growth and higher utilisation of the Scheme.
3. The decrease of $5.2 million between the 2016-17 estimated actual and the 2017-18 estimate is due to funding for this activity being progressively transferred to the National Disability Insurance Scheme (NDIS).
4. The decrease of $6 million between the 2016-17 estimated actual and the 2017-18 estimate is due to funding for this activity being progressively transferred to the NDIS.

Oral Health Scheme

The Oral Health Scheme provides free dental care to eligible clients and their dependants who possess a current Health Care Card, Pensioner Concession Card, Queensland Seniors Card or Commonwealth Seniors Card. The average value of a course of treatment for eligible clients is approximately $600 for general care, $1,800 for treatment involving dentures, and $265 for emergency dental care. In rural and remote areas where no private dental practitioner exists, access to dental care for the general public is provided at a concessional rate, generally 15% to 20% less than average private dental fees.

Patient Travel Subsidy Scheme

The Patient Travel Subsidy Scheme (PTSS) provides financial assistance to patients who need to access specialist medical services which are not available within their local area. The PTSS provides a subsidy towards the cost of travel and accommodation for patients and, in some cases, an approved escort. Patients will receive fully subsidised commercial transport if arranged by Queensland Health, or will be subsidised at the economy/government discount rate (less GST). Alternatively a subsidy of 30 cents per kilometre is paid where a private vehicle is used. The accommodation subsidy is $60 per person per night for the period the patient is required to be away from home for medical reasons and when they are not in hospital, and for their escort, if approved. A subsidy of $10 per person per night is payable to patients and approved escorts who stay in private accommodation.

Medical Aids Subsidy Scheme

The Medical Aids Subsidy Scheme provides funding assistance for the provision of a range of aids and equipment to eligible Queensland residents with permanent and stabilised conditions or disabilities. Aids and equipment are provided primarily to assist people to live at home thus avoiding premature or inappropriate residential care or hospitalisation.

Subsidies vary based on service category and clinical criteria and are provided to assist with the costs of communication aids, continence aids, daily living aids, medical grade footwear, mobility aids, orthoses and oxygen. The scheme will provide over 66,000 occasions of service to approximately 42,000 clients during 2017-18.

Spectacle Supply Scheme

The Spectacle Supply Scheme provides eligible Queensland residents with free access to a comprehensive range of basic spectacles every two years including bifocals and trifocals. Applicants must be holders of eligible concession cards and be deemed by a prescriber to have a clinical need for spectacles.

The scheme provides around 82,000 items each year to approximately 68,000 clients (some clients require more than one pair of spectacles due to clinical need). The average cost of services provided to applicants is approximately $112 per item, including the costs of administering the scheme through the Medical Aids Subsidy Scheme.

Community Aids Equipment and Assistive Technologies Initiative and Vehicle Options Subsidy Scheme

The Community Aids Equipment and Assistive Technologies Initiative (CAEATI) and Vehicle Options Subsidy Scheme (VOSS) provide financial assistance to eligible Queensland residents to support them to be more independent, participate further in social and economic opportunities in the community and contribute to a better quality of life.

CAEATI funding is capped at $10,000 per client over a three year period. CAEATI includes aids, equipment and assistive technologies for postural support, communication support, community mobility and active participation.

VOSS funding is capped at $10,000 per client over a five year period. VOSS provides subsidies for a range of vehicle access options, including the subsidy of driving lessons on a suitably modified vehicle, modifications to a vehicle, purchase of a suitably modified vehicle or vehicle suitable for modification.

To receive funding through either of these schemes, an individual must be assessed as eligible for specialist disability support under the *Disability Support Act 2006*. Queensland resident eligibility is determined during the intake process, and confirmed as part of the assessment process.

A.3 Concessions by entity

Table A.3.1 Energy Queensland

Concession	2016-17 Est. Act. $ million	2017-18 Estimate $ million
Regulated Service Charges - Energex	15.6	14.8
Regulated Service Charges - Ergon	7.6	11.4
Total	**23.2**	**26.2**

Regulated Service Charges - Energex

Under Schedule 8 of the Electricity Regulation 2006, charges for a range of services provided by Energex Limited (Energex) to energy retailers, for example disconnection and reconnection of supply, are capped. The maximum amount Energex is able to charge for these services is, on average, less than the value which the Australian Energy Regulator ascribes to the provision of these services by Energex, resulting in a concession provided to energy retailers and in turn households.

Regulated Service Charges - Ergon

Under Schedule 8 of the Electricity Regulation 2006, service charges for a range of services provided by Ergon Energy Corporation Limited (Ergon Energy) to energy retailers, for example disconnection and reconnection of supply, are capped. The maximum amount Ergon Energy is able to charge for these services is, on average, less than the value which the Australian Energy Regulator ascribes to the provision of these services by Ergon Energy, resulting in a concession provided to energy retailers and in turn households.

Table A.3.2 Far North Queensland Ports Corporation Limited

Concession	2016-17 Est. Act. $ million	2017-18 Estimate $ million
Concessional Leases - Industry/Commercial	0.6	0.6
Concessional Leases - Community	0.2	0.2
Total	**0.8**	**0.8**

Concessional Leases - Industry/Commercial

Far North Queensland Ports Corporation Limited (FNQPC) provides several leases to agricultural industry proponents at below commercial rates. FNQPC also provides leases to various community organisations at below commercial rates. The amounts shown are estimates of the revenue foregone by not charging commercial rates.

Table A.3.3 Gladstone Ports Corporation Limited

Concession	2016-17 Est. Act. $ million	2017-18 Estimate $ million
Concessional Port Charges	51.2	52.0
Concessional Leases - Industry/Commercial	2.8	3.1
Concessional Leases - Community	0.8	0.4
Total	**54.8**	**55.5**

Concessional Port Charges

The Gladstone Ports Corporation Limited (GPC) is subject to a number of long-term major industry contracts where port charges are significantly lower than market rates. These historical contracts were entered into to support various industries and government initiatives from time to time. The amounts shown are estimates of the revenue foregone by GPC as a result of being unable to charge commercial rates.

Concessional Leases

GPC has various land and building lease arrangements at non-commercial rates. These contracts relate to incentives to improve utilisation of port land and assets and to establish businesses within port precincts. GPC also provides support to community and not-for-profit organisations through concessional leasing arrangements. The amounts shown are estimates of the revenue foregone by not charging commercial rates.

Table A.3.4 North Queensland Bulk Ports Corporation Limited

Concession	2016-17 Est. Act. $ million	2017-18 Estimate $ million
Concessional Leases-Industry/Commercial	1.1	1.1
Concessional Leases-Community	1.5	1.5
Total	**2.6**	**2.6**

Concessional Leases

North Queensland Bulk Ports (NQBP) Corporation Limited provides several long-term leases to agricultural industry proponents at below commercial rates. NQBP also provides leases to various community organisations, local councils and Government departments at below commercial rates. The amounts shown are estimates of the revenue foregone by not charging commercial rates.

Table A.3.5 Port of Townsville Limited

Concession	2016-17 Est. Act. $ million	2017-18 Estimate $ million
Concessional Leases-Industry/Commercial	5.5	5.6
Concessional Leases-Community	0.1	0.1
Total	**5.6**	**5.7**

Concessional Leases

Port of Townsville Limited provides several long-term leases to agricultural industry proponents at below commercial rates. Port of Townsville Limited also provides leases to various community organisations, local councils and Government departments at below commercial rates. The amounts shown are estimates of the revenue foregone by not charging commercial rates.

Table A.3.6 Queensland Rail Limited

Concession	2016-17 Est. Act. $ million	2017-18 Estimate $ million
Concessional Leases - Community	1.7	1.8
Total	**1.7**	**1.8**

Concessional Leases - Community

Queensland Rail leases properties, typically to community organisations, at below commercial rates under the continuation of pre-existing arrangements. The properties are generally of historical significance to the local community and the lessee often undertakes beautification works on the property. The amount shown is an estimate of the revenue foregone by not charging commercial rates.

Table A.3.7 SunWater Limited

Concession	2016-17 Est. Act. $ million	2017-18 Estimate $ million
Water Supply Contracts	58.6	60.1
Total	**58.6**	**60.1**

Water Supply Contracts

SunWater Limited has a number of historic non-commercial water supply contracts that benefit specific entities, predominantly local government authorities. The future treatment of these water supply contracts is currently being considered by Government. The amount shown represents the difference between revenue and expenses under a fully costed allocation model. Currently annual price increases are limited to CPI.

Appendix B: Tax expenditure statement

Context

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 2015-16 and 2016-17 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 B.1. Not all expenditures can be quantified at this time. Accordingly, the total value of tax expenditures should be considered as indicative only.

Table B.11 Tax expenditure summary[1]

	2015-16[2] $ million	2016-17 $ million
Payroll Tax		
Exemption threshold	1,369	1,395
Deduction scheme	335	332
Section 14 exemptions		
Local Government	139	142
Education	178	181
Hospitals	368	397
Total Payroll Tax	**2,388**	**2,447**
Land Tax		
Liability thresholds[3]	596	704
Graduated land tax scale	589	653
Primary production deduction	83	83
Part 6 Divisions 2 and 3 exemptions not included elsewhere[4]	100	102
Land developers' concession	20	20
Total Land Tax	**1,388**	**1,562**
Duties		
Transfer duty on residential property		
Home concession	386	401
First home concession	215	216
First home vacant land	24	26
Insurance duty		
WorkCover	54	62
Health insurance	399	421
Total Duties	**1,079**	**1,125**
Taxes on Gambling		
Gaming machine taxes	114	122
Casino taxes	9	8
Total Gambling Tax	**123**	**130**
Total	**4,978**	**5,264**

Notes:

1. Numbers may not add due to rounding.
2. 2015-16 estimates may have been revised since the 2016-17 Budget.
3. Land tax is payable only on the value of taxable land above a threshold which depends on the ownership structure.
4. Applicable, but not limited, to religious bodies, public benevolent institutions and other exempt charitable institutions.

Discussion of individual taxes

Payroll tax

The benchmark tax base for payroll tax is assumed to be all taxable 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. On the basis of 2015-16 average weekly earnings, this threshold corresponded to approximately 14 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

Land tax payable by land developers is calculated 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*.

Duties

Home concession

A concessional rate of duty applies to purchases of a principal place of residence. 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.

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 the 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 goods and services tax (GST) credit is provided to casinos that approximates a reduction in the above tax rates of 9.09%

Appendix C: Revenue and expense assumptions and sensitivity analysis

The Queensland Budget, like those of other jurisdictions, is based in part on assumptions made about parameters that are uncertain, 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

Table C.1 Taxation and royalty revenue[1]

	2015-16 Actual $ million	2016-17 Est. Act. $ million	2017-18 Budget $ million	2018-19 Projection $ million	2019-20 Projection $ million	2020-21 Projection $ million
Payroll tax	3,712	3,667	3,819	4,057	4,328	4,615
Transfer duty	3,005	3,327	3,190	3,367	3,580	3,813
Other duties	1,340	1,409	1,488	1,562	1,639	1,721
Gambling taxes and levies	1,138	1,131	1,181	1,233	1,287	1,344
Land tax	1,010	1,086	1,192	1,274	1,358	1,441
Motor vehicle registration	1,633	1,676	1,741	1,809	1,877	1,948
Other taxes	709	648	687	730	774	825
Total taxation revenue	**12,547**	**12,945**	**13,298**	**14,031**	**14,843**	**15,707**
Royalties						
Coal	1,705	3,376	2,750	2,241	2,222	2,260
Petroleum[2]	36	97	147	194	248	296
Other royalties[3]	381	365	402	426	441	435
Land rents	162	167	172	178	184	189
Total royalties and land rents	**2,284**	**4,005**	**3,472**	**3,039**	**3,096**	**3,180**

Notes:

1. Numbers may not add due to rounding.
2. Includes impact of liquefied natural gas (LNG).
3. Includes base and precious metals and other mineral royalties.

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 2¼% and an increase in employment of 1% in 2017-18. The composition of the payroll tax base is also important. For example, the rate of growth in payroll tax is expected to be lower as businesses in fast growing sectors such as tourism, retail and hospitality are often outside the tax base because they are below the threshold. A one percentage point variation in either Queensland wages growth or employment would change payroll tax collections by approximately $38 million in 2017-18.

Transfer duty estimates

Transfer duty collections in 2017-18 are expected to decrease by 4.1% on the 2016-17 estimated actual due to strong growth of 10.7% in 2016-17, support by a number of one-off large commercial transactions.

Across the forward estimates period, moderate growth in residential and non-residential transfer duty, supported by a pipeline of construction works should support growth in transfer duty collections.

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 $32 million in 2017-18.

Royalty assumptions and revenue risks

Table C.2 Coal royalty assumptions

	2016-17 Est. Act. $ million	2017-18 Budget $ million	2018-19 Projection $ million	2019-20 Projection $ million	2020-21 Projection $ million
Tonnages - crown export[1]	201	207	216	225	229
Exchange rate US$ per A$[2]	0.75	0.75	0.75	0.75	0.75
Year average coal prices (US$ per tonne)[3]					
Hard coking	192	131	116	115	115
Semi-soft	139	112	97	91	90
Thermal	66	78	70	68	67
Year average oil price					
Brent (US$ per barrel)	50	55	57	59	61

Notes:

1. Excludes coal produced for domestic consumption and coal where royalties are not paid to the Government, i.e. private royalties. 2017-18 estimate for domestic coal volume is approximately 24.9 Mt and private coal is 9.5 Mt.
2. Year average.
3. Price for highest quality coking and thermal coal. Lower quality coal can be sold below this price with indicative average prices for 2017-18 as follows: Hard coking US$126 and thermal US$72.

Royalty Assumptions

Table C.2 provides the 2017-18 Budget assumptions regarding coal royalties, which represent the bulk of Queensland's royalty revenue.

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.

Coal

For each one cent movement in the A$-US$ exchange rate, the impact on royalty revenue would be approximately $49 million in 2017-18.

A 1% variation in export coking and thermal coal volumes would lead to a change in royalty revenue of approximately $23 million.

A 1% variation in the average price of export coal would lead to a change in royalty revenue of approximately $37 million.

Parameters influencing Australian Government GST payments to Queensland

The Queensland Budget incorporates estimates of GST revenue grants to Queensland based on Australian Government estimates of national GST collections and Queensland Treasury assumptions of 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 Sector operating expenses. Increases in salaries and wages are negotiated through enterprise bargaining agreements.

The 2017-18 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 $220 million in that year. The impact would compound and be much larger in the later years.

Interest rates

The General Government Sector has a total debt servicing cost estimated at $1.706 billion in 2017-18. The current average duration of General Government Sector debt is just over 5.5 years. The majority of General Government Sector debt is held under fixed interest rates and therefore the impact of interest rate variations on debt servicing costs in 2017-18 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.

Appendix D: Fiscal aggregates and indicators

Table D.1 Key Fiscal Aggregates[1]

	2009-10 Actual $ million	2010-11 Actual $ million	2011-12 Actual $ million	2012-13 Actual $ million	2013-14 Actual $ million	2014-15 Actual $ million	2015-16 Actual $ million	2016-17 Revised $ million	2017-18 Projection $ million	2018-19 Projection $ million	2019-20 Projection $ million	2020-21 Projection $ million
General Government												
Total revenue	39,727	42,013	45,801	41,755	46,705	49,970	50,995	56,434	55,869	56,138	57,887	58,982
Tax revenue	9,375	9,981	10,608	10,937	11,840	12,598	12,547	12,945	13,298	14,031	14,843	15,707
Total expenses	39,599	43,479	46,028	46,313	46,217	49,551	50,025	53,610	55,723	56,021	57,183	58,574
Employee expenses	15,566	16,826	18,250	18,130	17,816	18,592	20,044	21,203	22,420	22,724	23,696	24,561
Net operating balance	128	(1,466)	(226)	(4,558)	488	420	970	2,824	146	117	704	408
Capital purchases	8,959	8,237	7,971	7,001	6,323	4,635	4,092	4,416	5,123	6,471	7,015	6,462
Net capital purchases	6,665	5,583	5,241	3,389	3,087	992	1,431	1,956	2,508	4,063	3,429	2,904
Fiscal balance	(6,537)	(7,049)	(5,467)	(7,947)	(2,599)	(572)	(461)	868	(2,363)	(3,946)	(2,725)	(2,496)
Borrowings	15,916	24,593	29,517	37,878	41,369	43,105	35,486	33,937	33,758	36,393	38,760	41,244
Net debt	(13,354)	(9,542)	(5,720)	2,399	5,208	5,749	654	297	1,622	5,748	8,960	11,318
Non-Financial Public Sector												
Total revenue	47,883	49,040	52,307	49,181	53,502	56,178	57,608	64,373	63,066	63,554	65,435	66,858
Capital purchases	15,007	13,306	11,980	10,774	9,313	7,813	6,900	6,899	7,989	9,529	10,009	9,453
Borrowings	51,713	53,708	61,542	69,086	72,637	75,233	72,922	73,102	71,989	74,978	77,720	81,148

Notes:

1. Bracketed numbers represent negative amounts.

Table D.2 Key Fiscal Indicators[1]

	2009-10 Actual %	2010-11 Actual %	2011-12 Actual %	2012-13 Actual %	2013-14 Actual %	2014-15 Actual %	2015-16 Actual %	2016-17 Revised %	2017-18 Projection %	2018-19 Projection %	2019-20 Projection %	2020-21 Projection %
General Government												
Revenue/GSP	15.7	15.6	15.8	14.4	15.5	16.2	16.1	16.0	15.2	14.8	14.5	14.0
Tax/GSP	3.7	3.7	3.7	3.8	3.9	4.1	4.0	3.7	3.6	3.7	3.7	3.7
Own source revenue/GSP	7.7	8.1	8.0	8.1	8.3	8.6	8.6	8.1	7.7	7.5	7.3	7.1
Expenses/GSP	15.7	16.1	15.9	15.9	15.4	16.1	15.8	15.2	15.2	14.8	14.3	13.9
Employee expenses/GSP	6.2	6.2	6.3	6.2	5.9	6.0	6.3	6.0	6.1	6.0	5.9	5.8
Net operating balance/GSP	0.1	(0.5)	(0.1)	(1.6)	0.2	0.1	0.3	0.8	0.0	0.0	0.2	0.1
Capital purchases/GSP	3.5	3.1	2.8	2.4	2.1	1.5	1.3	1.2	1.4	1.7	1.8	1.5
Net cash inflows from operating activities/Net cash flows from investments in non-finanvial assets	38.7	26.3	36.3	(40.8)	45.8	97.5	122.6	125.7	59.4	48.3	47.4	55.0
Fiscal balance/GSP	(2.6)	(2.6)	(1.9)	(2.7)	(0.9)	(0.2)	(0.1)	0.2	(0.6)	(1.0)	(0.7)	(0.6)
Borrowings/GSP	6.3	9.1	10.2	13.0	13.7	14.0	11.2	9.6	9.2	9.6	9.7	9.8
Borrowings/revenue	40.1	58.5	64.4	90.7	88.6	86.3	69.6	60.1	60.4	64.8	67.0	69.9
Revenue growth	7.1	5.8	9.0	(8.8)	11.9	7.0	2.1	10.7	(1.0)	0.5	3.1	1.9
Tax growth	5.7	6.5	6.3	3.1	8.3	6.4	(0.4)	3.2	2.7	5.5	5.8	5.8
Expenses growth	6.7	9.8	5.9	0.6	(0.2)	7.2	1.0	7.2	3.9	0.5	2.1	2.4
Employee expenses growth	8.8	8.1	8.5	(0.7)	(1.7)	4.4	7.8	5.8	5.7	1.4	4.3	3.6
Non-Financial Public Sector												
Capital purchases/GSP	5.9	4.9	4.1	3.7	3.1	2.5	2.2	2.0	2.2	2.5	2.5	2.2
Borrowings/GSP	20.4	19.9	21.3	23.8	24.1	24.4	23.1	20.7	19.6	19.7	19.4	19.3
Borrowings/revenue	108.0	109.5	117.7	140.5	135.8	133.9	126.6	113.6	114.1	118.0	118.8	121.4
Net financial liabilities[2]/revenue	112.5	96.2	115.6	133.4	129.8	125.2	127.1	111.2	114.0	118.3	118.6	119.2

Notes:

1. Bracketed numbers represent negative amounts.
2. UPF definition, which is equal to total financial assets less investments in other public sector entities less total liabilities.

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