



Queensland
Government

State Budget 2001-02

Budget Statement

Budget Paper No. 2



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THE 2001-02 BUDGET - HIGHLIGHTS

- The 2001-02 Budget provides for a net operating surplus of \$24 million and a cash surplus of \$253 million in the General Government sector on a GFS basis.
- The General Government forward estimates project a sustained and improving operating surplus position throughout the outyears, consistent with the fiscal principles outlined in the *Charter of Social and Fiscal Responsibility*.
- General Government revenue is expected to increase by 5.5% over estimated actual revenue for 2000-01, to \$19.261 billion.
- General Government expenses are expected to increase by 3.1% over estimated actual for 2000-01, to \$19.237 billion after adjusting for the impact of the HIH Insurance collapse and transfer of the Townsville-Thuringowa Water Supply Board to local government.
- Total capital outlays in 2001-02 are expected to be \$5.115 billion, a 2.2% increase on estimated actual capital expenditure in 2000-01.
- The net assets of the State are expected to grow to \$59.259 billion at 30 June 2002, from \$58.473 billion at 30 June 2001.
- Queensland's real gross state product is forecast to grow by 4% in 2001-02, following weaker than expected forecast growth of 3½% in 2000-01.
- Employment is expected to grow by a further 33,000 jobs in this financial year.

1. BUDGET STRATEGY AND PRIORITIES

INTRODUCTION

This chapter details:

- the Government's policy settings and priorities which underpin the 2001-02 Budget;
- the Budget accountabilities under the *Charter of Social and Fiscal Responsibility*; and
- service delivery highlights for each of the Government's seven key policy priorities.

POLICY SETTINGS AND STRATEGIC DIRECTION

Queensland's gross state product is forecast to rise by 4% in 2001-02. This represents an improved performance, due largely to the unwinding of a number of factors which combined to dampen State economic growth in 2000-01.

Importantly, growth in the State economy is expected to be weighted more toward domestic economic activity during the year, as the transitory impacts arising from the introduction of the goods and services tax dissipate and a lower interest rate environment supports consumption and private investment. While exports are forecast to remain strong, increased import demand associated with the expected turnaround in domestic activity will result in a zero contribution from net exports to overall economic growth.

Employment in the State is expected to strengthen through the year as activity in the more labour intensive sectors of the economy gathers momentum. Within this economic environment, aggregate employment is forecast to grow by 2% in 2001-02. Given the expectation for continued strong growth in the State's labour supply, underpinned by population growth and a high and steady rate of labour force participation, Queensland's year-average unemployment rate is expected to be 8%. Headline inflation is forecast to moderate in 2001-02 to a year-average 2¼%.

In recent years, the Government has embarked on significant capital expenditure programs to enhance the State's infrastructure and drive employment creation. Highlights of these programs include the *Statewide Health Building* program, major roads and rail infrastructure including the Pacific Motorway, the *Cooler Schools* program and new police stations. The capital program will return to a more long-term sustainable level in the outyears as major projects are completed. Nevertheless, significant spending on capital works will still occur during this period and, on a per capita basis, Queensland's capital works expenditure will continue to exceed our relative share of all States' capital works.

Further information on the main budget aggregates for 2001-02 is detailed in Chapter 2 and long-term fiscal trends are discussed in Chapter 7.

SOCIAL AND FISCAL PRIORITIES

Fiscal Strategy

The *Charter of Social and Fiscal Responsibility* outlines the Government's fiscal strategy, and is an integral part of the Government's commitment to the community. The fiscal strategy principles, which are detailed in Box 1.1, have been framed to meet a number of objectives, with the overriding requirement to maintain the integrity of the State's finances.

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

The principles recognise the importance of a strong financial position for the State. A State government, because of its more limited tax base, does not have the same capacity as a national government to cushion economic and financial shocks. At the same time, State governments have a responsibility to provide continuity of services, such as health, police and education. A strong financial position, as indicated by a AAA credit rating, provides the Government with the greatest flexibility, if needed, to deal with adverse financial shocks and other external impacts. It also enables lower borrowing costs. That is, a AAA credit rating is an indication of the soundness of the financial position and policies of the Government, rather than a goal in itself.

Box 1.1 The Fiscal Principles of the Queensland Government

Competitive Tax Environment

The Government will ensure that State taxes and charges remain competitive with the other States and Territories.

Affordable Service Provision

The Government will ensure that its level of service provision is sustainable by maintaining an overall General Government operating surplus, as measured in Government Finance Statistics terms.

Capital Funding

Borrowings or other financial arrangements will only be undertaken for capital investments and only where these can be serviced within the operating surplus, consistent with maintaining a AAA credit rating.

Managing Financial Risk

The Government will ensure that the State's financial assets cover all accruing and expected future liabilities of the General Government Sector.

Building The State's Net Worth

The Government will at least maintain and seek to increase Total State Net Worth.

Policy Priorities and Objectives

The Government has identified seven key policy priorities that it seeks to achieve for Queenslanders, regardless of where they live in the State. The priorities complement one another and the services or outputs provided by agencies generally contribute to more than one priority.

The seven key policy priorities are:

- More jobs for Queenslanders.
- Building Queensland's regions.
- Skilling Queensland - the Smart State.
- Safer and more supportive communities.
- Better quality of life.
- Valuing the environment.
- Strong Government leadership.

These seven key policy priorities provide the framework for specifying policy and service delivery across all portfolio areas for the longer term.

During the recent State election, the Government articulated a range of specific initiatives consistent with these key policy priorities. Implementing these election commitments is a key feature of the 2001-02 Budget. In addition, there is increased funding across a range of areas to enhance existing Government services.

Essentially, spending to achieve these priorities falls into two categories: operating and capital. Operating expenses are costs incurred in providing services including salaries, such as for health professionals, teachers, emergency workers and road maintenance personnel, and the cost of running and maintaining assets. Operating expenses are addressed in detail in Chapter 3.

Apart from capital grants, capital expenditure relates almost exclusively to the purchase and construction of assets that are used to support the delivery of services to the people of Queensland. Examples of these assets include hospitals, schools, courthouses, police stations, fire and ambulance stations and roads. Capital outlays are discussed in Chapter 6 of this Budget Paper, and in greater detail in Budget Paper No. 4.

Capital grants, which are paid to persons and organisations outside the State Government to provide assets to support services for the Queensland public, are treated as operating expenses for GFS purposes and are included in Chapter 3 and in Budget Paper No. 4.

Detailed financial and performance information for each Department is available in the Ministerial Portfolio Statements (MPS).

SERVICE DELIVERY HIGHLIGHTS

A summary of service delivery highlights is provided below for each of the Government's seven key policy priorities.

More Jobs for Queenslanders

Creating jobs and reducing the level of unemployment remains an important priority of the Government. During 2001-02, the focus continues to be on creating secure and sustainable jobs in business and industry and providing training and work experience for the unemployed through the *Breaking the Unemployment Cycle* initiative.

- Total funding of \$470 million over six years for *Breaking the Unemployment Cycle*, introduced in 1998-99, comprising a broad range of employment programs that aim to provide apprenticeship, traineeship and job placement opportunities across Queensland. New funding includes:
 - \$75 million in 2003-04 to extend *Breaking the Unemployment Cycle* for a further year, in line with the Government's election commitment.
 - \$10 million in each of 2001-02 and 2002-03 for the *Youth for the Environment and Local Communities* program. The program enables 15 to 24-year-olds to gain nationally accredited qualifications through work in their local communities, primarily in environmental protection, horticulture and waste management.
 - \$5.4 million over three years (\$1.8 million in 2001-02) for the *Experience Pays* program, delivering on an election commitment to provide a Mature Workers Wage Subsidy. The program will give employers a \$4,000 wage subsidy when they employ long-term unemployed job seekers aged 45 and over for a period of 12 months.
 - \$5 million in 2001-02 for the *Get Set for Work* program, delivering on the "Kick Start for Youth" election commitment. This initiative will target 500 early school leavers aged 15-24 in communities with high unemployment. The Program will provide participants with intensive, specialised employment and training assistance at a cost of up to \$10,000, including a \$4,000 wage subsidy to employers.
 - \$1.5 million is provided over three years (\$0.5 million in 2001-02) for the *Back to Work* program, delivering on the "Mature Age Job Ready" election commitment, to assist mature aged workers who have been unemployed for three months or more gain job search and information technology skills.
- \$7.3 million is provided in 2001-02 to continue apprentice training and disaster management activities undertaken by Q-Build.
- \$3.7 million over four years commencing in 2001-02, to maximise the economic development potential of major national and international events.
- \$2.6 million is provided over two years in support of the World Rotary Convention to be staged in Brisbane in 2003. The convention is one of the world's largest with some 23,000 delegates estimated to generate direct expenditure of at least \$60 million for the State.

- \$2.6 million is provided to facilitate the development of a Pharmaceutical Centre of Excellence adjacent to the Princess Alexandra Hospital site.
- \$1.8 million is provided over three years to establish a Minerals Processing Task Force to focus on identifying and marketing major mineral processing projects in Queensland.

Building Queensland's Regions

In framing this Budget, the Government has recognised the importance of regional and rural communities and their need for improved infrastructure and services. In addition, the Government is seeking to expand export markets and encourage value-adding industries such as tourism and agriculture projects to support regional economies.

To contribute to this priority, a number of initiatives will be introduced or continued during 2001-02:

- \$437 million is provided to improve local government infrastructure and services through grant and subsidy programs.
- Investment in road infrastructure promotes economic and regional development. Major initiatives include:
 - \$19.1 million for bridge construction and road widening of sections of the Barkly Highway between Cloncurry and the Northern Territory border.
 - Construction of the \$59 million duplication of the Nerang-Broadbeach Road between Nerang and Goodings Corner.
 - Ongoing widening/rehabilitation works on the Flinders Highway west of Charters Towers totalling \$62.5 million.
 - Construction of the \$110 million duplication of the federally-funded Bruce Highway between Yandina and Cooroy.
 - Completion of the duplication, in 2004, of Maroochydore Road between Bruce Highway and Boongala Terrace, at a cost of \$59 million.
- \$100 million is provided for the Gold Coast Convention and Exhibition Centre, of which \$30 million will be provided in 2001-02.
- \$33 million is allocated to Queensland Heritage Trails Network in 2001-02.
- Up to \$30 million in combined State and Commonwealth funding is provided over three years to primary producers to assist them to develop their skills so that they become more self reliant and adopt farm management practices that support the long-term sustainability of Queensland's food and fibre industries.
- \$14 million is provided over four years for water resource planning, allocation and regulation arrangements to support sustainable and efficient use of water resources.

- \$3.1 million (an additional \$0.5 million in 2001-02) is provided to regional tourism organisations to support them to foster regional tourism development.
- \$3 million is provided for a Turtle Interpretive Centre in Bundaberg.
- \$2 million is allocated for tourism marketing to coincide with the lead-up to the Goodwill Games. The aim will be to promote the Games in southern markets and showcase Queensland more broadly as a tourism destination.
- \$1.6 million is allocated to progress the necessary approvals for Paradise Dam and other water infrastructure in the Burnett Region.
- \$1.5 million has been allocated to administer native title aspects of mining tenures processing under the new State legislation and land use agreements.
- \$1.2 million is provided over three years to capitalise on trading opportunities for Queensland beef products due to outbreaks of Mad Cow Disease in Europe, Rift Valley Fever in Africa, and Foot and Mouth Disease in England and Europe.
- \$1 million per annum over the next three years is provided as seed funding to develop economic, social and cultural community initiatives that interact with, and impact on, resource management in the Burdekin catchment.
- \$1 million per annum over three years is provided for the *Queensland Regional Events Development* program. The initiative recognises the major role that events play in promoting regional tourism and economic development.
- \$0.6 million is provided over three years to develop and maximise opportunities for value added Queensland dairy products in international markets.

Queensland - The Smart State

The Government has maintained a strong emphasis on developing a skilled workforce to build on the strength of traditional industries while supporting the growth of knowledge industries and a culture of innovation.

To contribute to this priority, a number of initiatives will be introduced or continued during 2001-02:

- The Government has established an innovative \$100 million *Smart State Research Facility Fund*. This fund will further develop the essential science and technology infrastructure required to enable Queensland to excel in the new knowledge economy.
- \$50 million is provided over three years for the *Triple R Maintenance* program – repainting, re-roofing and reticulation. Almost 900 schools, or around 70% of all State schools, will benefit from this school maintenance program.
- \$35 million is provided (\$17.1 million in 2001-02) for the Varsity College on the Gold Coast, which will be completed a year earlier than originally scheduled. The pre-school to year three campus opened in 2001, with the full school opening in 2003.

- \$15 million ongoing is provided for additional teachers and teacher aides, employed from the commencement of 2001, for students with disabilities. These funds will help approximately 1,300 additional students with disabilities receive special education support.
- An additional 260 teachers will be employed from the start of 2002 to serve growth in student enrolments and new facilities. At least 135 further teachers will commence in Term 1 of 2002. This is part of the 800 additional teachers over four years promised in the last Budget and in the Government's election commitments.
- \$15 million is provided in 2001-02 for networked learning communities in schools. As a result, \$8 million will be provided to schools for computer technicians and technical support, another \$5 million will be spent on computer acquisitions and \$2 million on training staff how to incorporate computers into teaching.
- Continuing the *Cooler Schools* program, with \$11.9 million to be spent this year, bringing total spending in this program to \$120 million over four years.
- \$10 million is provided over three years for eight new centres of excellence in mathematics, science and technology. These centres aim to increase the number of students taking these subjects and going on to careers in associated professions.
- \$10 million is provided over two years for the development of an Aviation Centre of Excellence in Brisbane. This will address the critical skill shortage in aviation and transport industries throughout the Asia Pacific region. The Centre is expected to be operational in 2002.
- \$7.9 million is provided to further establish Queensland University of Technology's Creative Industries and Design Precinct which will facilitate industry/university partnerships in information technology, multi-media and communication.
- \$7 million over three years (\$2 million in 2001-02) is provided for the *Youth Access* Program, which will provide vocational education and training for around 600 students 'at risk' of leaving school early and having difficulty in securing employment.
- \$3 million over three years (\$1 million in 2001-02) is provided for the ongoing expansion of the *New Basics* program. Twenty new schools will benefit from this cutting-edge program which consists of an innovative framework of curriculum, teaching and assessment to equip students for the new work places and industries of the future.
- \$1 million is provided over two years to the Queensland and Northern Territory Cooperative Multimedia Centre (QANTM) to provide scholarships for a further 80 students to complete studies in multimedia and games visualisation.

Safer and More Supportive Communities

One of the Government's key priorities is to support, develop and respond to the emerging and diverse needs and aspirations of Queensland's communities. The Government aims to promote individual, family and community vitality, including working with Aboriginal and Torres Strait Islander people to find practical ways to progress reconciliation and improve wellbeing and quality of life.

To contribute to this priority, a number of initiatives will be introduced or continued during 2001-02:

- The Queensland Police Service budget provides for 300 additional police officers per year until 2005.
- \$97 million has been allocated (\$49.9 million in 2001-02) for the 500 bed Maryborough Correctional Centre.
- \$86.3 million is provided in 2001-02 for Queensland Police Service capital expenditure. Major projects include construction of the Mt Isa district headquarters and Roma district headquarters, replacement police stations at Toowoomba and Rockhampton, new police stations at Fraser Island, Loganholme, Calamvale and Rockhampton North, an upgrade of the Ipswich Watch house and continuation of the *Work Station Upgrade and Replacement* program.
- \$45 million, over three years, is provided to projects focusing on community services and utility enhancements under the *Community Renewal* program.
- \$8.4 million is provided over three years to increase the basic foster care allowance, and double the clothing allowance.
- \$7.5 million is provided for the accreditation of Queensland Police Service scientific facilities and testing equipment to national standards due to come into effect on 1 January 2002.
- \$5.6 million is provided over four years to enhance aeromedical service capability through a strategic partnership with the Royal Flying Doctor Service.
- \$2.8 million is provided over four years to establish ten additional police beats and police beat shopfronts.
- \$2.5 million per annum is provided to increase services provided by Legal Aid Queensland and Community Legal Centres, ensuring legal assistance is provided to those most in need.
- \$1.6 million is provided in 2001-02 to enhance emergency helicopter rescue services through upgraded maintenance and crewing for Queensland Rescue and to upgrade the trial service in the Wide Bay-Burnett region to a permanent community helicopter rescue service.
- An additional \$1.7 million to continue the 30 month Drug Court Trial in Beenleigh, Ipswich and Southport and to commence planning for expansion of the trial to North Queensland.
- \$1 million is allocated in 2001-02 for the continued employment of 15 officers in three Aboriginal and Torres Strait Islander (ATSI) communities, as part of a trial to assess the impact of transferring responsibility for ATSI Community Police from ATSI Councils to the Queensland Police Service.

- \$1 million is provided over the next two years to improve fire safety standards for existing high-risk buildings. New building codes and guidelines will be prepared to assist owners of budget accommodation to comply with proposed new fire safety laws.
- An additional \$1 million to double the Government's investment in the Forde Foundation, which assists former child residents of Queensland institutions and children formally in State care.
- The Budget contains a reform package to improve workers' compensation benefits. The reform package includes a 25% increase in the maximum statutory lump sum payment for injured or deceased workers and their dependents. The maximum lump sum payout for injured workers will increase from \$121,000 to \$150,000, with the maximum payout for families of workers killed in workplace accidents increasing from \$194,000 to \$250,000. The reform package also contains improved processes to help parties settle damages claims earlier with reduced legal costs. It also contains improved provisions to assist courts to determine claims.

Better Quality of Life

The Government aims to deliver services that enable people to maintain and improve the quality of their lives. In 2001-02 the Government's focus will be on improving health care, support and assistance for people with disabilities, and secure and affordable housing.

To contribute to this priority, a number of initiatives will be introduced or continued during 2001-02:

- \$2.023 billion is allocated for acute inpatient services, with a further \$961 million for non-inpatient services. Acute care will be supported by an additional \$13 million over three years in capital funding for medical equipment across the State.
- An additional \$120 million in capital is allocated over the next five years to rebuild and redevelop the State Government's nursing homes to ensure facilities are safe, modern and comfortable and equal to or better than Commonwealth accreditation standards.
- To further reduce waiting times for elective surgery in identified specialty areas that experience high levels of growth and demand, additional funding of \$20 million over two years is provided to reduce the percentage of 'long wait' elective surgery patients at public hospitals across the State. A Central Elective Surgery Booking Bureau will also be established to monitor elective surgery waiting lists in Queensland public hospitals.
- \$74.6 million is provided for public rental housing which will allow work on 300 dwellings to commence, while dwellings commenced in previous years will be completed.
- \$50.3 million is allocated to the Millennium Arts Project including \$2.9 million to complete the refurbishment of the Judith Wright Centre of Contemporary Arts and \$8.5 million for regional capital infrastructure projects.
- \$50 million is provided under the home lending program to finance approximately 500 loans including the continuation of the *Queensland State Housing Loan Sales To Tenants* program.

- \$39.9 million in capital grants will be provided to Aboriginal and Torres Strait Islander Councils to construct new houses and upgrade existing dwellings. By the end of 2001-02, a total of \$107.9 million will have been allocated over three years as part of the five-year capital works plan for Aboriginal and Torres Strait Islander Councils.
- \$20 million in capital funding, over three years, is provided for significant capital and equipment upgrades for existing disability services including those operated by Disability Services Queensland and community-based services; new respite and family support services; and innovative accommodation options for people with high support needs.
- \$15.3 million is provided for water supply, sewerage and associated work for island communities in the Torres Strait as part of a three-year agreement with the Commonwealth Government, which will provide matching funding.
- \$11.3 million in capital grants is provided for the *Long Term Community Housing* program to complete 73 dwellings, commence 57 new dwellings and upgrade up to 280 existing dwellings.
- \$10 million per annum is provided to improve roads to rural and isolated communities.
- \$9 million is provided, to be matched by the Commonwealth, to support people with disabilities, their carers and families, and the community.
- \$7.9 million is provided for the Community Expansion Plans project providing serviced housing allotments for seven Aboriginal and Torres Strait Islander communities. Additional funding of approximately \$6.2 million over four years has also been approved for continued operations and maintenance of the water, sewerage and drainage infrastructure of the 15 Torres Strait Deed of Grant in Trust (DOGIT) communities.
- An additional \$5 million is allocated to reduce waiting lists for public oral health services in areas of high demand across the State, in addition to continued funding of \$21 million.
- \$2.8 million is provided to operate the Roma Street Parklands.
- \$1.7 million is provided over two years for the Ipswich Rail Museum, to be administered by the Queensland Museum.
- \$0.9 million is provided for the ongoing delivery of the Government's youth arts initiatives including the youth radio initiative.
- An additional \$3 million over three years is allocated to extend the *Home Assist/Home Secure* program, that provides information, advice and targeted subsidies to older people and people with disabilities to improve their home security.

Valuing the Environment

The Government is committed to protecting the environment and its biodiversity for current and future generations and to manage the development of natural resources in an ecologically sustainable way.

In 2001-02, the focus will be on improving natural resource management, protecting coasts and waterways through the acquisition of coastal lands and improved environmental management, encouraging the use of energy efficient technologies and improving the management, maintenance and presentation of protected areas.

To contribute to this priority, a number of initiatives will be introduced or continued during 2001-02:

- \$32 million in State funding to be matched by Commonwealth funding is provided over four years to implement the activities under the National Action Plan on Salinity and Water Quality. This is a joint program with the Commonwealth Government totalling \$162 million over seven years. The State contribution will be \$81 million over the period.
- \$10 million is provided over five years for the Great Walks of Queensland initiative to create a world class network of walking tracks and track-side camping cabins or other low impact facilities for visitors in prominent parks and forests across Queensland.
- \$10 million per year is provided for National Park maintenance, funding up to 140 new park rangers and the equipment and supplies to help them maintain our National Park estate.
- \$7.9 million is provided for implementation of a number of renewable and alternative energy initiatives and programs.
- \$6.1 million is provided over three years to stimulate the growth and ecological sustainability of the aquaculture industry in Innisfail and throughout North Queensland.
- \$2.8 million is provided over four years to manage and remediate acid sulphate affected soils on land acquired at Cairns, to protect the adjacent properties and water quality in the East Trinity Inlet.
- \$1.4 million is provided over three years to improve pest and disease surveillance and diagnosis in the beef industry through biotechnology.

Strong Government Leadership

The *Charter of Social and Fiscal Responsibility* provides a framework for accountability through the endorsement of key policy priorities and performance indicators. In 2001-02, the Government will continue to focus on exploring and implementing new ways to improve the delivery of services and also on strengthening the openness, accountability and integrity of government operations.

To contribute to this priority, a number of initiatives will be introduced or continued during 2001-02:

- \$16.6 million is provided to commence implementation of the Government's integrated service delivery initiative, Access Queensland. Five agency services will be re-engineered and an integrated call centre established as a foundation for delivering integrated generic government services.
- \$3.7 million is provided to supply each Member of the Legislative Assembly with an additional full-time staff member to be employed in the Member's Electorate Office. This allocation includes \$1.2 million funded from the reorganisation of resources currently allocated to Members of Parliament.
- \$1 million has been provided over two years to assist with the full implementation of the *Integrated Planning Act 1997* and Integrated Development Assessment System reforms. This includes completion of the consequential legislative program to capture all remaining State approval processes and the preparation of IPA planning schemes by all local governments in Queensland by the 31 March 2003 statutory deadline.
- \$1 million per annum for three years (commencing in 2001-02) is provided for the E-Democracy initiative, together with an initial capital injection of \$0.75 million. The initiative will seek to facilitate and extend community involvement in the democratic process through the use of the Internet. The web site will contain a range of government issues for which wide consultation and feedback is sought.

Aligning Services and Priorities

While annual Budgets tend to focus on new initiatives and increases in spending, it is incumbent on Government to ensure that taxpayers are receiving value for money from the delivery of all Government services.

Government needs to routinely examine the broad range of programs and activities undertaken by departments and agencies which form part of the broader on-going service delivery effort by the State public sector.

In the absence of such a process, there can be no guarantee of the continued relevance of particular Government programs or departmental activities in terms of meeting the current and future needs of the community. This is particularly important at this time given rapid technological and economic change driven by global forces and as the community faces significant social and demographic shifts.

For this purpose, the Government plans to implement an enhanced strategic planning process, Aligning Services and Priorities (ASAP), during 2001-02.

Under ASAP, all Government departments will be required to commence a process to comprehensively examine all their activities to ensure they are fully aligned with the Government's priorities in meeting the needs of the community. This process is designed to compliment the ongoing efforts of Departments and agencies under the *Managing for Outcomes* initiative to ensure they are delivering cost effective, efficient and relevant services to the community.

ASAP will be driven from within each individual agency in consultation with central agencies and, as a general rule, resources made available through identified and realised efficiencies in agencies will be redirected internally to meet approved demand pressures.

The overriding objective is to ensure that Government service delivery remains cost effective and efficient, meets the present needs of the community and provides greater flexibility in the allocation of resources to meet emerging priorities.

The outcomes of the ASAP process will be reported in the annual *Priorities in Progress Report* to Parliament as required under the *Charter of Social and Fiscal Responsibility*.

Priorities in Progress

A critical part of government accountability is the requirement to publish regular, informative reports on the outcomes of the Government's activities against previously announced objectives. The *Charter of Social and Fiscal Responsibility* details the reports and information the Government will provide on its performance against its objectives for the community and its financial commitments.

In December 2000, the Government released its first annual report on the efficiency and effectiveness of its activities in meeting its objectives for the community during 1999-2000.

The report, *Priorities in Progress*, is part of a process by which the Government is becoming increasingly accountable to its community stakeholders, not just for money spent but for the outcomes achieved. *Priorities in Progress* endeavours to provide Queenslanders with information on the outcomes of the seven priorities outlined in the *Charter of Social and Fiscal Responsibility*.

The first annual *Priorities in Progress* report represents a significant step forward in terms of public sector accountability. Nevertheless, the Government recognises that the outcome indicators used will need to be further refined and developed. This will be an ongoing process, with the direct involvement of key stakeholders, that will improve the ability to measure the effectiveness of initiatives and policies in meeting the community's needs.

2. BACKGROUND AND OUTLOOK

KEY POINTS

- For 2001-02, there is a budgeted surplus of revenue over operating expenses, on a GFS basis, of \$24 million, and a budgeted cash surplus of \$253 million in the General Government Sector.
- In 2000-01, the General Government Sector is forecast to have a cash surplus of \$474 million and a GFS operating deficit of \$820 million. This is due, in accrual terms, to the impact of the recognition of total net claim costs associated with the collapse of HIH Insurance, the transfer of assets of the Townsville-Thuringowa Water Supply Board to local government and lower than anticipated investment earnings on the State's financial assets.
- Economic growth in 2001-02 is expected to exceed national growth, resulting in the continuation of solid employment growth and the generation of 33,000 jobs.
- Total revenue on a GFS basis in the General Government Sector is expected to grow by \$1.010 billion or 5.5%, and total expenses are expected to increase by \$576 million or 3.1% (excluding extraordinary items).
- The forward estimates in the General Government Sector, for both the operating position and in cash terms, project a sustained and improving surplus position throughout the outyears.
- The capital program in 2001-02 is budgeted to be \$5.115 billion, a 2.2% increase on the estimated 2000-01 outlays. 58% of the capital program will be spent outside the Brisbane region.

INTRODUCTION

This Chapter discusses:

- the economic and financial background to the Budget, including the Queensland economy in 2000-01 and the outlook for 2001-02; and
- the summary financial aggregates of the 2001-02 Budget.

ECONOMIC PERFORMANCE AND OUTLOOK

The Queensland Economy in 2000-01

The Queensland economy is estimated to grow by 3½% in 2000-01, marginally slower than expected at the time the 2000-01 State Budget was prepared. The State's trade sector largely supported economic growth, with exports recording strong growth during the year and imports weakening substantially owing to a softening in domestic demand. The lower than forecast growth was due to a number of factors, including the transitory impacts of Commonwealth tax reform and the flow-on effects of a higher than assumed interest rate environment, resulting in a sharper than expected moderation in domestic demand.

Key Components of Growth

Net exports provided the main impetus for growth in the State economy in 2000-01. Domestic economic activity slowed during the year as the contributions from household consumption and public final demand were offset by a sharp decline in private investment.

While still accounting for a large proportion of overall economic growth, household consumption growth was restrained in 2000-01 with higher interest rates, disruptions to normal purchasing patterns arising from the introduction of the GST, and moderating economic and employment conditions dampening consumer confidence through the year. Household consumption expenditure is expected to rise by an estimated 4¾% in 2000-01.

Dwelling investment was the largest constraint on overall economic growth during the year, as construction activity corrected from the unsustainably high rate of growth experienced in 1999-2000, brought about by the pull-forward of building work ahead of the tax changes. In addition, a deterioration in housing affordability acted to dampen demand for housing. Dwelling investment is estimated to fall by 19¼% in 2000-01, following a 13.7% increase in the previous year.

Business investment is estimated to decline by 14½% in 2000-01. Difficulties associated with GST compliance, higher interest payments and a general deterioration in economic conditions underpinned a decline in business confidence during the year which resulted in capital expenditure decisions being postponed. Both components of business investment are estimated to have fallen during the year, with other buildings and structures experiencing a larger decline than equipment investment.

With economic activity largely underpinned by the capital intensive export sector, employment conditions softened during the year. Queensland was particularly adversely affected by the GST related weakness in the construction sector, with the loss of nearly 6,000 jobs for the three quarters to March 2001, compared with a year earlier. Growth in aggregate employment is estimated to ease slightly from a year-average 2.2% in 1999-2000 to 2% in 2000-01, while the State's labour force is estimated to continue to grow at a steady pace of around 2%. With labour force growth offsetting the rise in employment, the year-average unemployment rate for 2000-01 is estimated to rise slightly from 7.7% in 1999-2000 to 8%. The rate of labour force participation in Queensland remains stable in year-average terms at 65%, although substantially higher than for Australia as a whole.

The introduction of the GST had a considerable impact on consumer prices, with headline inflation rising from 1.8% in 1999-2000 to an estimated 5¾% in 2000-01 in year-average terms. Allowing for a 2¾% point impact on prices from the tax changes, ongoing inflation is expected to increase to 3% in Queensland. Wages growth accelerated considerably in 2000-01 following an abnormally low outcome in the previous year. Average earnings are estimated to increase by 5½%, driven in part by an increase in the superannuation guarantee levy and enterprise bargaining outcomes.

2001-02 Economic Outlook

The Economic Framework for the 2001-02 State Budget

The growth outlook for the Queensland economy is positive, with gross state product forecast to rise by 4% in 2001-02. Domestic economic activity, private investment in particular, is expected to recover through the year, while growth in household consumption is forecast to remain strong. The recovery in domestic activity is expected to boost demand for imports. Consequently, net exports are not expected to contribute to economic growth.

Key Components of the Forecasts

Table 2.1 shows the key economic parameters that underpin the 2001-02 State Budget, incorporating estimated actuals for 2000-01, forecasts for 2001-02 and the projected average annual change over the medium term to 2004-05.

Table 2.1 Economic Parameters/Projections ¹ (annual % change)				
	Outcome 1999-2000	Est. Actual 2000-01	Forecast 2001-02	Projections ² 2002-03 to 2004-05
Queensland				
Gross state product ³	5.5	3½	4	4½
Employment	2.2	2	2	2½
Inflation ⁴	1.8	3	2¾	2½
Average earnings ⁵	0.4	5½	4	3½
Population	1.6	1¾	1¾	1¾
Notes: 1. Figures not quoted as a fraction are an actual outcome. 2. Average annual percentage change over the period. 3. Chain volume measure, 1998-99 reference year. 4. Inflation figures for 2000-01 and 2001-02 are net of GST effects. 5. Average earnings are on a State Accounts Basis				

Household consumption is forecast to rise by 5% in 2001-02, boosted by higher disposable incomes underpinned by lower interest rates and real wage gains. Private investment is expected to recover from its sharp decline in 2000-01, with dwelling and business investment forecast to rise by 10% and 3% respectively. Improved housing affordability, population growth and the extended Commonwealth First Home Owner Grant Scheme are expected to drive a recovery in dwelling investment. A modest recovery in business investment is forecast in line with an outlook for more favourable business conditions. The forecast recovery in domestic activity is expected to result in stronger growth in imports offsetting continued export growth, with the result that net exports are not expected to contribute to overall growth in 2001-02.

Recovery in the labour intensive sectors of the economy, particularly construction, is expected to result in employment growth of 2% in year-average terms. This reflects improved employment outcomes through the year, with the unemployment rate to fall through the year to June quarter 2002, with an average over the year of 8%.

Inflation rose sharply in 2000-01, due to the initial one-off impact of the Commonwealth tax reform package on consumer prices. In 2001-02, inflation is expected to moderate from 3% to 2¾%, due in part to a stabilisation of fuel prices and on the assumption of a slight appreciation of the \$A over the forecast period. Growth in average earnings is expected to ease to 4% representing a rise in real average wages.

Assumptions

The forecasts outlined above are based on a number of assumptions relating to developments in the economic environment at the national and international level. These critical assumptions include:

- economic growth and inflation among Queensland's major trading partners, in particular the United States, are expected to remain stable;
- no changes to monetary policy by the Reserve Bank of Australia; and
- a modest appreciation in the \$US/\$A exchange rate.

SUMMARY OF KEY FINANCIAL AGGREGATES

2000-01 Estimated Outcome

On a Government Finance Statistics (GFS) basis, the General Government Sector is forecast to have a cash surplus of \$474 million and an operating deficit of \$820 million.

The forecast operating result is not due to any change in fiscal strategy or to policy decisions by Government. Three factors have jointly contributed to the forecast result:

- the accrual recognition of total net claims costs associated with the collapse of HIH Insurance;
- the accrual recognition of the transfer of the assets of the Townsville-Thuringowa Water Supply Board to local government as part of water reform; and
- lower rates of return on funds set aside to meet future liabilities such as superannuation.

HIH Insurance went into provisional liquidation on 15 March 2001. HIH Insurance controlled FAI Insurance and CIC, both licensed Compulsory Third Party (CTP) insurers in Queensland. Claims against FAI CTP policies that expired on or before 31 December 2000 now become the responsibility of the Nominal Defendant, as do all outstanding claims against Queensland CIC CTP policies. The net impact on the 2000-01 Operating Statement is estimated at \$230 million.

The State will transfer the Townsville-Thuringowa Water Supply Board from a State statutory authority to a joint local government entity, effective from 30 June 2001, as part of the process of water reform. This asset transfer will have a \$180 million accrual impact on the Operating Statement.

The lower investment returns in 2000-01 primarily reflect lower returns from international equity markets. This was only partially offset by the better than expected returns in other market sectors. Abstracting from these effects, the underlying result is broadly consistent with the 2000-01 Budget and Mid Year Review forecasts.

Table 2.2 provides aggregate outcome information for 2000-01 and projections for 2001-02.

Table 2.2 Key Financial Aggregates (GFS Basis)				
	1999-00 Actual \$ million	2000-01 Budget \$ million	2000-01 Est. Actual \$ million	2001-02 Budgeted \$ million
General Government Sector:				
Revenue	17,392	18,180	18,251	19,261
Expenses	16,330	18,152	19,071	19,237
Net operating balance	1,062	29	(820)	24
Cash surplus/deficit ¹	(181)	330	474	253
Gross fixed capital formation	2,647	2,233	2,361	2,025
Net worth	57,293	57,776	58,473	59,259
Public Trading Enterprise Sector:				
Net operating balance	99	(80)	(73)	(249)
Gross fixed capital formation	1,610	1,572	2,196	2,052
Note: 1. The deficit for 1999-2000 has been adjusted for the \$1.1 billion transfer of funds to the employees' superannuation funds, which is treated as payments for goods and services. For a detailed analysis on the composition of changes to these financial aggregates, refer to Chapters 3, 4 and 5 of this Budget Paper.				

2001-02 Budget Projections

A surplus of revenue over operating expenses of \$24 million is expected for 2001-02 for the General Government Sector.

The Total State net operating result for 2001-02 is expected to be a deficit of \$225 million, with the PTE sector expected to record a net operating deficit of \$249 million.

The operating result in the PTE sector is largely due to one-off dividend payments by the PTE sector, for example, special dividends from the sale of the Brisbane Markets Corporation and from the long-term lease of Dalrymple Bay Coal Terminal.

Revenue

General Government Revenue is budgeted to increase by \$1.010 billion (5.5%) to \$19.261 billion in 2001-02. Current grants and subsidies, together with taxation are the principal forms of revenue for the State, accounting for over two-thirds of General Government revenue.

Queensland has been disadvantaged by national tax reform, compared with other States. This is due to the competitive tax environment in Queensland prior to the implementation of the new national tax system. There has been a decline over time in Queensland's relative share of the former Financial Assistance Grants and their replacement GST revenue grants over time, because of changes to the Commonwealth Grants Commission's assessment of States' needs. Taking into account all Commonwealth payments to the States in 2001-02, Queensland will receive approximately \$270 million less than a per capita share.

In 2001-02, the Commonwealth is projected to raise \$27.5 billion from the GST, which it will provide to the States. However, the certainty of the States' access to all the GST revenue relies on the good faith of future Commonwealth Governments in accepting the arrangements set out in the Inter-Governmental Agreement (IGA).

Queensland must have the capacity to raise sufficient revenue to fund the growing service delivery and strategic infrastructure needs of an expanding State. It is equally important to raise revenue in a manner that minimises distortions to private sector economic activity and maximises equity.

As part of its strategy to maintain a competitive tax environment, the Government is reducing payroll tax from 4.9% to 4.8% from 1 July 2001, and will further reduce the payroll tax rate to 4.75% from 1 July 2002.

By maintaining competitive tax rates in 2001-02, the Government will ensure that Queensland continues to enjoy an economic environment that is conducive to both business and employment. On a GFS basis, per capita collections of State taxes, fees and fines in Queensland in 2001-02 are estimated at \$1,211 compared with an estimated \$1,637 for the average of the other States and Territories. The tax burden in the average of the other States and Territories is forecast to be 35% higher than in Queensland in 2001-02.

Investment earnings, principally from investments covering the State's employee entitlements (superannuation and long service leave), are expected to return to long-term average earning levels after lower than forecast returns during 2000-01 and higher than forecast returns in 1999-2000.

Further detail regarding revenue outcomes is contained in Chapter 3 of Budget Paper No. 3.

Expenses

In GFS terms, General Government expenses are budgeted to increase by \$576 million (after adjusting for the impact of the HIH Insurance collapse and the transfer of the Townsville-Thuringowa Water Supply Board to local government) to \$19.237 billion in 2001-02.

The increase in expenses reflects cost movements, provision of additional services for a growing population base and the delivery of election commitments aimed at service delivery priorities, as outlined in Chapter 1.

The Government has been conscious to ensure that the considerable resources already provided to agencies are being actively managed to better achieve desired outcomes and value-for-money for Queensland taxpayers.

Reconciliation of Forward Estimates

Table 2.3 provides a reconciliation of the General Government Sector forward estimates for 2001-02, as published in the 2000-01 Budget, with the 2001-02 Budget estimates.

Table 2.3 Reconciliation of 2001-02 Operating Budget to Previous Estimate (GFS Basis)	
	2001-02 \$ million
General Government Sector	
Forward Estimate published in 2000-01 Budget	34
Parameter adjustments	178
Policy decision adjustments	(245)
Other ¹	57
2001-02 Budget	24
Note: 1. This category includes whole-of-Government adjustments such as for employee entitlements and timing adjustments between years.	

A significant part of the forward estimates is committed in the form of funding for agencies based on movements in underlying social and/or economic parameters, for example, the number of school age children, the outcomes of enterprise bargaining negotiations etc. Movement in economic parameters, such as economic growth, consumer price index etc., also have a direct impact on the amount of revenue raised by the State. These are described as 'Parameter adjustments' in the above table.

Policy adjustments reflect decisions made by the Government during the course of the year, including the outcomes of Cabinet Budget Review Committee deliberations and includes the funding of the Government's election commitments in 2001-02 and onwards.

Balance Sheet

2000-01 Outcome

Table 2.4 provides data on the State's capital program and net worth. On a GFS basis, General Government Total Gross Fixed Capital Formation (GFCF) in 2000-01 is estimated to be \$2.361 billion, compared with the budgeted figure of \$2.233 billion. For more detailed information on total capital outlays refer to Budget Paper No. 4.

Table 2.4
1999-2000 Capital Program and Balance Sheet Results
and 2001-02 Budget Projections
(GFS Basis)

	Actual 1999-2000 \$ million	Budget 2000-01 \$ million	Est. Actual 2000-01 \$ million	Budgeted 2001-02 \$ million
Gross Fixed Capital Formation:				
General Government Sector	2,647	2,233	2,361	2,025
Public Trading Enterprise Sector	1,610	1,572	2,196	2,052
Total State Gross Fixed Capital Formation^{1,2}	4,257	3,805	4,556	4,077
Net Worth:				
General Government Sector (Total State)³	57,293	57,776	58,473	59,259
<i>Incorporating Equity Investment in:</i>				
Public Trading Enterprise Sector	11,725	11,808	12,608	12,552
Public Financial Enterprise Sector ⁴	916	931	682	682
Notes: 1. Under present Loan Council Uniform Presentation Framework arrangements, budget and forward estimate data are not required for Public Financial Enterprises (PFEs), due to the difficulties in preparing robust projections of activity. No capital expenditure is assumed for this sector. 2. Gross Fixed Capital Formation comprises net expenditure on new and second-hand fixed assets, plus land and intangible assets. Fixed assets are durable goods intended to be employed in the production process for longer than a year. It also includes net expenditure on mineral deposits, timber tracts and similar non-reproducible tangible assets, and net expenditure on intangible assets such as patents and copyrights. Gross Fixed Capital Formation differs from the total State capital program reported in Budget Paper No. 4 due to asset sales being netted off for GFS data, only net movements in inventories being reflected in GFS data and capital grants being included in the Capital Works Program. 3. As no budget data are collected for PFEs, the forecast net worth in the 1999-2000 Budget figures assumes that PFE net worth (equity investment for which is held by the State, and recorded in the General Government Sector) remains constant. The 2000-01 Estimated Actual is derived from March year-to-date. 4. The decrease in PFE net worth in 2000-01 reflects the reclassification of several entities from the PFE Sector to the PTE Sector.				

Gross Fixed Capital Formation in the General Government sector decreased in 2000-01 from the record high level in 1999-2000, reflecting large capital initiatives, such as the Pacific Motorway and the Health Building Program, moving towards completion. Gross Fixed Capital Formation in the PTE sector increased by \$586 million, principally due to changes in the timing of Dalrymple Bay Coal Terminal long-term lease to 2001-02.

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.

Despite the adverse impact of the estimated actual operating result in 2000-01, the net worth of the General Government Sector is projected to grow by \$1.180 billion. This is attributable to revaluations of major assets as part of the State's asset revaluation cycle. During the year, the Departments of Education, Main Roads, and Natural Resources and Mines all carried out major revaluations as did Ergon Energy and Energex in the Public Trading Enterprise Sector (the effects of which carry through to the equity investment held in these enterprises on the General Government sector Balance Sheet).

The net financial assets measure is an indicator of financial strength. Net financial assets are 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.

Total financial assets in the General Government sector are estimated to grow by \$1.131 billion to be \$32.067 billion as at 30 June 2001. Offsetting this, liabilities are forecast to increase by \$1.560 billion to \$17.036 billion due to increased provisions, principally relating to the State's employer superannuation liability which is based on actuarial forecasts.

After excluding the value of equity investments of public enterprises, financial assets in the General Government sector are still more than sufficient to meet all the liabilities of the sector. Accordingly, the financial position of the State remains very strong, with sufficient financial assets available to meet liabilities as they fall due, in accordance with the requirements of the Government's *Charter of Social and Fiscal Responsibility*.

2001-02 Budget Projections

State net worth is projected to increase by \$786 million to \$59,259 billion at 30 June 2002 (see Table 2.4). This increase is due to a range of factors including anticipated revaluations, net gains from asset sales, net additions to stock and the budgeted net operating result.

Gross Fixed Capital Formation in both the General Government and Public Trading Enterprise sectors will decrease in 2001-02, reflecting the progressive completion of major works initiatives and delays in expected completion of the Dalrymple Bay Coal Terminal long-term lease and Brisbane Markets Corporation disposal. Gross Fixed Capital Formation remains relatively constant across the years 2002-03 to 2004-05, at a level that is expected to be sustainable in the long term.

2001-02 Capital Program

The State's capital program, in aggregate, comprises property, plant and equipment outlays, other capital expenditure and capital grants for specified entities. Specified entities include all Government departments and statutory authorities¹ but exclude public financial enterprises.

This Budget continues the trend of sizeable capital works programs, both in nominal and per capita terms. In 2001-02, \$5.115 billion is budgeted for capital works, an increase of \$108 million over the 2000-01 estimated actual expenditure of \$5.007 billion. As in previous years, a capital contingency reserve to allow for slippage in projects, such as the result of inclement weather, planning and contractual delays, has been included at the whole-of-Government level.

More information on State's net worth, assets and liabilities is at Chapter 4, and more detail on the capital program is at Chapter 6 and in Budget Paper No. 4.

¹ Only Statutory Authorities with capital outlays in excess of \$250,000 per annum are included.

Cash Flow

2000-01 Outcome

Table 2.5 summarises the State's cash position, on a GFS basis, for 2000-01 and projections for 2001-02.

Table 2.5 1999-2000 Cash Position and 2001-02 Budget Projections (GFS Basis)				
	Actual 1999-2000 \$ million	Budget 2000-01 \$ million	Est. Actual 2000-01 \$ million	Budgeted 2001-02 \$ million
General Government Sector:				
Receipts	17,130	17,780	18,141	18,756
Less Current Outlays	15,708	15,226	15,308	16,480
Less Capital Outlays	2,703	2,224	2,360	2,024
Add back superannuation transfer	1,100			
General Government Underlying Cash Surplus/(Deficit)¹	(181)	330	474	253
Public Trading Enterprise Sector Cash Surplus/(Deficit)	(474)	(526)	(723)	(1,139)
Public Financial Enterprise Sector Cash Surplus/(Deficit) ²	34	n.a.	n.a.	n.a.
Total State Underlying Cash Surplus/(Deficit)^{1,2}	(621)	(196)	(250)	(887)
Notes: 1. The underlying Actual 1999-2000 result excludes the \$1.1 billion transfer of funds set aside for employee entitlements to the State Superannuation Scheme Members' Trust Fund. As the transfer resulted in the extinguishment of the State's related liability to pay those funds to members upon retirement, the transaction was neutral in its impact on the State's Balance Sheet and underlying operating position. 2. Under Loan Council Uniform Presentation Framework arrangements, data is not required for Public Financial Enterprises in early reporting Budgets, due in part to the difficulties in preparing robust projections of activity for these entities. 1999-2000 Budget comparatives in this table assume a balanced PFE Budget.				

On a GFS basis, the General Government Sector is estimated to achieve a cash surplus in 2000-01 of \$474 million. This compares with the budgeted cash surplus of \$330 million.

2001-02 Budget Projections

On a GFS basis, a cash surplus of \$253 million is expected in 2001-02 for the General Government Sector.

Increased cash receipts (\$615 million) from operating activities are forecast for 2001-02. This is predominantly due to a forecast increase in taxes received by the General Government Sector as a result of the impact of forecast economic growth on receipts and an expected increase in grants and subsidies (of which GST payments comprise 50% of total receipts).

The increase in current outlays in 2001-02 is mainly attributable to estimated payments on compulsory third party insurance claims to be borne by the State as a result of the recent liquidation of HHH Insurance, the timing of payments pertaining to employer superannuation contributions, increased employee entitlements in line with recent enterprise bargaining agreements and growth related to new and enhanced services.

The decrease in General Government Sector capital outlays in 2001-02 is due to the progressive movement towards a long-term sustainable capital works program following the completion of major projects such as the Pacific Motorway and *Statewide Health Building* program.

The increased cash deficit in the Public Trading Enterprise Sector in 2001-02 is mainly due to expected falls in electricity wholesale market prices.

More information on the GFS cash position is provided in Chapter 5.

FORWARD ESTIMATES

Table 2.6 provides a summary of the State's Forward Estimates on a GFS basis.

Table 2.6 Key Financial Aggregates (Summary) (GFS Basis)				
	Budgeted 2001-02 \$ million	Projected 2002-03 \$ million	Projected 2003-04 \$ million	Projected 2004-05 \$ million
General Government Sector:				
Revenue	19,261	19,478	20,220	21,169
Expenses	19,237	19,439	20,178	21,099
Net operating balance	24	39	43	69
Cash surplus/deficit	253	1,032	1,242	1,459
Gross fixed capital formation	2,025	1,696	1,563	1,566
Net worth	59,259	60,158	60,965	61,892
Public Trading Enterprise Sector:				
Net operating balance	(249)	9	84	227
Gross fixed capital formation	2,052	1,609	1,447	1,264

The key trends in these projections are that:

- The General Government and Public Trading Enterprise Sectors are budgeted to achieve increased operating surpluses in the outyears.

- State tax revenue is expected to continue to grow in the outyears in line with forecast economic growth. Queensland's Commonwealth payments will increase in line with Queensland's Guaranteed Minimum Amount under revised Commonwealth funding arrangements.
- Expenses are also forecast to grow, with employee entitlements increasing in the outyears in line with anticipated enterprise bargaining outcomes and planned growth in services.
- The State is projecting an increasing cash surplus in the outyears principally reflecting strong revenue growth and the capital program moving to a more long-term sustainable level.

In the General Government Sector, major capital projects such as the Pacific Motorway and Statewide Health Building Program will be completed. Over the forward estimates period, the Public Trading Enterprise Sector will see major electricity infrastructure projects such as Tarong North, Callide C and Swanbank E.

- General Government net worth is forecast to grow, consistent with the Government's *Charter of Social and Fiscal Responsibility*.
- The PTE sector is forecast to return to an operating surplus in the outyears, principally due to forecast growth in sales of goods and services.

3. OPERATING STATEMENT

KEY POINTS

- **The 2001-02 budgeted position for the General Government Sector is an operating surplus of \$24 million in GFS terms.**
- **Total General Government revenue is expected to increase by \$1.010 billion (or 5.5%) over estimated actual for 2000-01, to \$19.261 billion in 2001-02.**
- **Total General Government expenses are budgeted to increase by \$576 million (or 3.1%) over estimated actual for 2000-01, to \$19.237 billion in 2001-02 (excluding extraordinary items).**
- **The 2000-01 estimated actual operating position for the General Government Sector is an operating deficit of \$820 million in GFS terms.**
- **The General Government Sector is budgeted to consistently achieve operating surpluses for the outyears.**

INTRODUCTION

This chapter provides an overview of the Government Finance Statistics (GFS) Operating Statement for the General Government Sector for the estimated actual outcome for 2000-01, forecasts for the Budget year and projections for 2002-03 to 2004-05.

The forward estimates are based on the economic projections outlined in Chapter 2 and are formulated on a 'no policy change' basis.

In essence, the GFS Operating Statement is an aggregation of all the revenues of the General Government Sector and of all the recurrent costs of delivering services to the people of Queensland.

In keeping with its commitment under the *Charter of Social and Fiscal Responsibility* to ensure sustainable levels of service provision, the Government has budgeted for an operating surplus of \$24 million. However, budgeting for an operating surplus is not an end in itself. It is a way of enabling the Government to ensure the sustainability of service delivery within the context of its key policy priorities, as outlined in Chapter 1.

The budgeted GFS Operating Statement for 2001-02 forecasts revenues of \$19.261 billion and provides for \$19.237 billion to be spent on services for Queenslanders.

Ministerial Portfolio Statements provide details on outlays for each portfolio.

SUMMARY OF RESULTS

2000-01 Estimated Operating Result

The estimated actual operating result in 2000-01 has been impacted by three key factors:

- net claims associated with the collapse of HIH Insurance, recognised on an accrual basis;
- the transfer of the net assets of the Townsville-Thuringowa Water Supply Board to local government as part of water reform, recognised on an accrual basis; and
- lower than forecast investment returns on funds set aside to meet future liabilities such as superannuation.

As a consequence, the estimated actual General Government net operating result on a GFS basis for 2000-01 is a deficit of \$820 million. This compares with a budgeted operating surplus of \$29 million.

HIH Insurance went into provisional liquidation on 15 March 2001. HIH Insurance controlled FAI Insurance and CIC, both licensed Compulsory Third Party (CTP) insurers in Queensland (CIC was a CTP insurer in Queensland until 1996). Claims against FAI CTP policies that expired on or before 31 December 2000 now become the responsibility of the Nominal Defendant – as do all outstanding claims against Queensland CIC CTP policies.

The gross effect of claims against the State is estimated at \$403 million on an undiscounted basis and \$354 million on a discounted basis. This is partially offset by the expected insolvency dividend to be recovered from the liquidator. While a large amount of uncertainty surrounds the ultimate recovery figure, the State is assuming recoveries in the order of 35 cents in the dollar, estimated at \$124 million.

The net impact of the HIH collapse on the 2000-01 Operating Statement is estimated at \$230 million.

Effective 30 June 2001, the State will transfer the Townsville-Thuringowa Water Supply Board (TTWSB) from a State statutory authority to a joint local government entity. This will have a \$180 million impact on the 2000-01 operating result. The TTWSB will operate as a commercialised entity from 1 July 2001 under the *Local Government Act 1993*.

When the TTWSB was being considered for commercialisation, the Townsville City Council and Thuringowa City Council approached the Queensland Government with a proposal to convert the TTWSB to a local government body rather than it remain as a State entity. The conversion of the TTWSB from a State entity to a local government body is intended to more closely align the decision making of the Board with the community that it serves. To achieve this objective, the Queensland Government is prepared to relinquish ownership of these assets to the local governments.

The lower investment returns in 2000-01 primarily reflect lower returns from international equity markets. This was only partially offset by the better-than-expected returns in other market sectors.

After adjusting for those effects, the underlying result is broadly consistent with 2000-01 Budget and Mid Year Review forecasts.

Table 3.1 General Government GFS Net Operating Result 2000-01					
	Actual 1999-00 \$ million	Budget 2000-01 \$ million	Est. Actual 2000-01 \$ million	Variance Actual/ Est. Actual \$ million	Percent Change Actual/ Est. Act.
Revenue					
Taxation Revenue	5,051	4,190	4,223	(828)	(16.4)
Current Grants and Subsidies	6,203	8,242	8,533	2,330	37.6
Capital Grants	448	539	510	62	13.8
Sales of Goods and Services	1,695	1,831	1,652	(43)	(2.5)
Interest Income	1,773	1,281	981	(792)	(44.7)
Other	2,222	2,097	2,351	129	5.8
Total Revenue	17,392	18,180	18,251	859	4.9
Expenses					
Gross Operating Expenses					
Employee Entitlements ¹	6,531	7,960	8,115	1,584	24.3
Supplies and Services	3,074	3,129	3,491	417	13.6
Depreciation	1,455	1,461	1,477	22	1.5
Current Transfers	3,511	4,178	4,455	944	26.9
Capital Transfers	766	493	655	(111)	(14.5)
Nominal Superannuation	710	594	538	(172)	(24.2)
Interest					
Other Interest	283	337	341	58	20.5
Total Expenses	16,330	18,152	19,071	2,741	16.8
Net Operating Result	1,062	29	(820)		
Note: 1. The State earned abnormally high interest on its superannuation investments in 1999-2000. This resulted in a substantial decrease in the State's superannuation liability in its defined benefits fund. This shows through as a significant negative entitlement expense for 1999-2000. After adjusting for this (\$1.231 billion), the percentage change, actual to estimated actual, would be 4.6%.					

2001-02 Budget

As illustrated in Table 3.2, the budgeted position for the General Government Sector is for an operating surplus of \$24 million in 2001-02.

The Net Operating Result is consistent with the *Charter of Social and Fiscal Responsibility's* requirements. The Charter requires the Government to ensure its level of service provision is sustainable by maintaining an overall General Government operating surplus, as measured in GFS terms.

Total General Government revenue is expected to increase by \$1.010 billion (or 5.5%) over estimated actual revenues for 2000-01, to \$19.261 billion in 2001-02. This is largely due to:

- increased taxation revenue in line with forecast economic growth (up 4.9% to \$4.429 billion);

- increased current grants and subsidies, mainly from the Commonwealth including an increase in Budget Balancing Assistance Grants, in part to offset higher costs associated with items such as the First Home Owner Grant Scheme (up 4.9% to \$8.948 billion);
- increased interest income, principally from forecast returns from the State's investment portfolio covering the future liabilities of the General Government Sector (up 28.4% to \$1.260 billion).

These variances are discussed further in the Revenue section of this chapter and in greater detail in Chapter 3 of Budget Paper No. 3.

Table 3.2 General Government GFS Net Operating Result				
	Est Actual 2000-01 \$ million	Budgeted 2001-02 \$ million	Variance \$ million	Percent Change %
Revenue				
Taxation Revenue	4,223	4,429	206	4.9
Current Grants and Subsidies	8,533	8,948	415	4.9
Capital Grants	510	508	(2)	(0.4)
Sales of Goods and Services	1,652	1,689	37	2.2
Interest Income	981	1,260	279	28.4
Other	2,351	2,425	74	3.2
Total Revenue	18,251	19,261	1,010	5.5
Expenses				
Gross Operating Expenses				
Employee Entitlements	8,115	8,495	380	4.7
Supplies and Services ¹	3,491	3,477	(14)	(0.4)
Depreciation	1,477	1,519	42	2.8
Current Transfers	4,455	4,402	(53)	(1.2)
Capital Transfers ²	655	450	(205)	31.3
Nominal Superannuation Interest	538	604	66	12.3
Other Interest	341	291	(50)	14.7
Total Expenses ³	19,071	19,237	166	0.9
Net Operating Result	(820)	24		
Notes:				
1. Supplies and Services in 2000-01 includes \$230 million in respect of the HIH Insurance collapse. Removing this from 2000-01, Supplies and Services would have increased by \$216 million (6.6%).				
2. Capital Transfers in 2000-01 includes \$180 million in respect of the transfer of the Townsville-Thuringowa Water Supply Board to local government. Removing this from 2000-01, Capital Transfers would have decreased by \$25 million (5.3%).				
3. Total Expenses have increased by \$576 million or 3.1% after adjusting for the impact of the HIH Insurance collapse and transfer of the Townsville-Thuringowa Water Supply Board.				

Total General Government expenses are budgeted to increase by \$576 million (or 3.1%) over estimated actual for 2000-01, to \$19.237 billion in 2001-02 after adjusting for the impact of the HIH Insurance collapse and transfer of the Townsville-Thuringowa Water Supply Board. This is largely due to:

- increased employee entitlements, to \$8.495 billion, in line with recent enterprise bargaining agreements and additional staffing for implementation of expanded and enhanced services; and

- increased supplies and services (in underlying terms after accounting for the HIH Insurance impact on the 2000-01 result), to \$3.477 billion, reflecting cost increases and the implementation of the Government's election commitments and other new initiatives.

These variances are discussed in further detail in the Expenses section of this chapter.

Outlook Beyond 2001-02

Table 3.3 summarises the projected GFS operating results for the outyears. The General Government Sector is budgeted to achieve increased operating surpluses in the outyears.

Table 3.3 General Government GFS Net Operating Result				
	Budgeted 2001-02 \$ million	Projected 2002-03 \$ million	Projected 2003-04 \$ million	Projected 2004-05 \$ million
Revenue				
Taxation Revenue	4,429	4,676	4,904	5,121
Current Grants and Subsidies	8,948	9,103	9,482	9,834
Capital Grants	508	473	447	464
Sales of Goods and Services	1,689	1,727	1,755	1,789
Interest Income	1,260	1,350	1,501	1,653
Other	2,425	2,148	2,132	2,307
Total Revenue	19,261	19,478	20,220	21,169
Expenses				
Gross Operating Expenses				
Employee Entitlements	8,495	8,932	9,332	9,758
Supplies and Services	3,477	3,383	3,329	3,486
Depreciation	1,519	1,547	1,558	1,561
Current Transfers	4,402	4,203	4,414	4,531
Capital Transfers	450	357	364	405
Nominal Superannuation	604	715	839	972
Interest				
Other Interest	291	302	341	386
Total Expenses	19,237	19,439	20,178	21,099
Net Operating Result	24	39	43	69

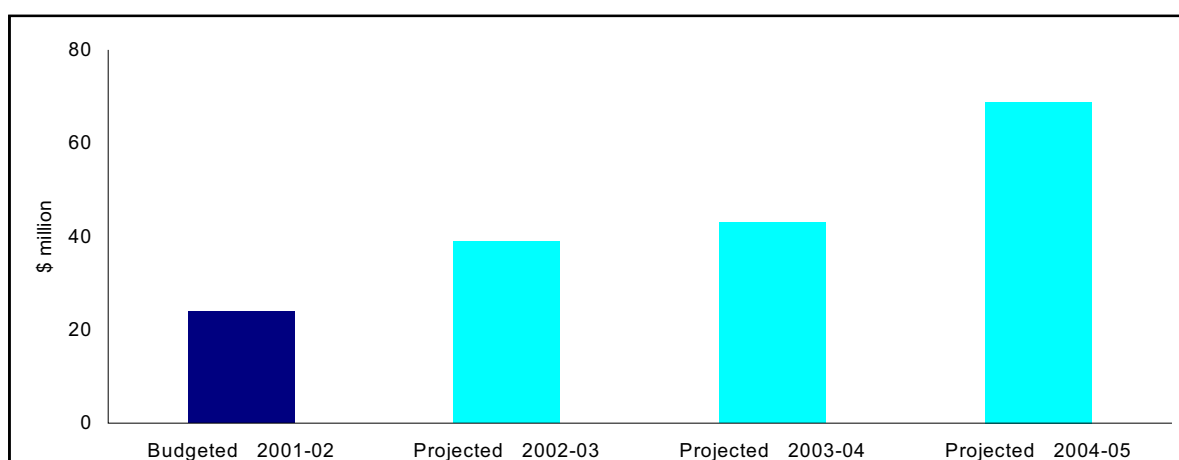
The key trends in these projections are that:

- continued economic growth is expected to deliver modest improvements to State tax revenue;
- Commonwealth payments will increase in line with Queensland's Guaranteed Minimum Amount under revised Commonwealth funding arrangements;
- a decline in capital grants in the outyears is expected, principally associated with reduced specific purpose payments to Main Roads and the cessation of GST compensation from the Commonwealth for State Housing;

- a decline in 2002-03 in ‘other revenue’ is expected, relating to a forecast drop in dividends from the Queensland Electricity Supply Industry due to an expected fall in wholesale electricity prices following the commissioning of additional electricity supply capacity; and
- employee entitlements are projected to increase in the outyears in line with anticipated enterprise bargaining outcomes and planned growth in services.

Chart 3.1 shows General Government operating surpluses for the period from 2001-02 to 2004-05. It illustrates the Government’s commitment to maintaining ongoing GFS operating surpluses in the General Government Sector.

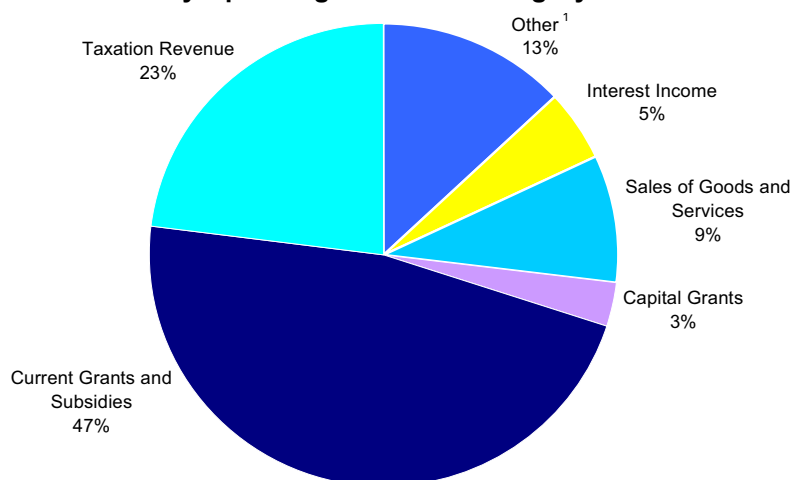
Chart 3.1
General Government Operating Surplus (GFS Basis)



REVENUE

The General Government Operating Statement provides for \$19.261 billion in revenue to be raised in 2001-02. The composition of this revenue is detailed in Chart 3.2.

Chart 3.2
Revenue by Operating Statement Category 2001-02

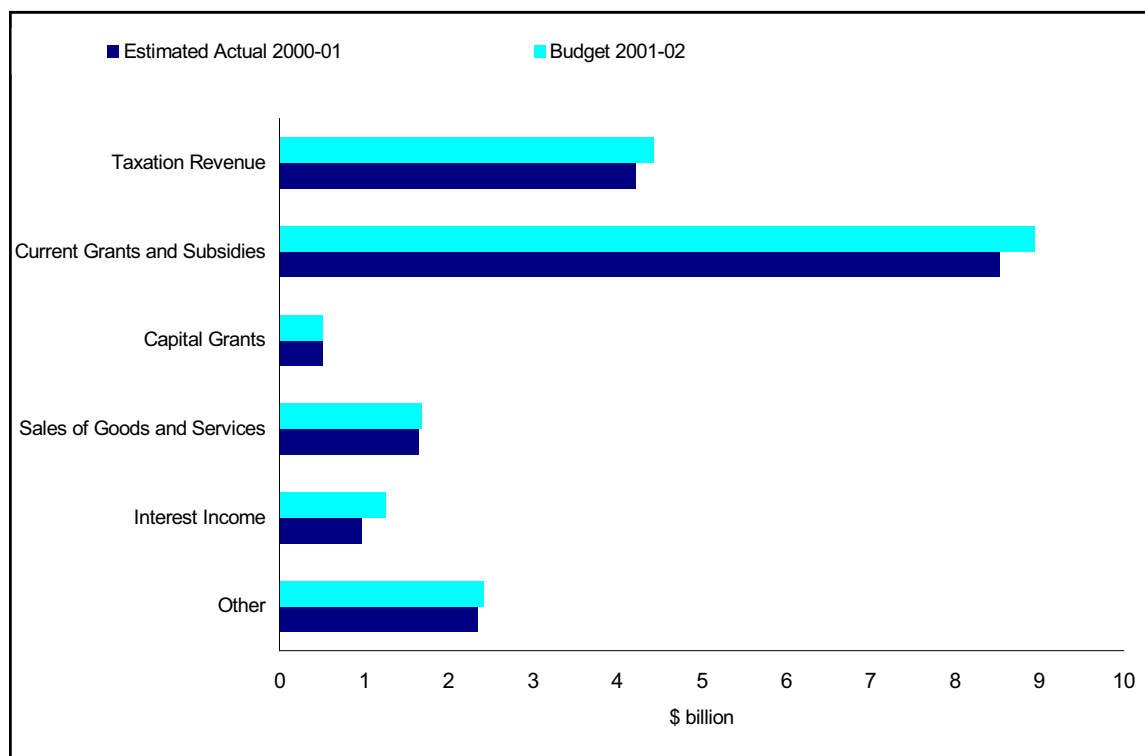


1. The major components of ‘Other Revenue’ are dividends (4.6%), royalties (3.5%) and tax equivalent payments from PTEs (1.7%).

Chart 3.3 compares the composition of General Government revenue, based on 2000-01 estimated actuals and 2001-02 estimates.

Overall growth primarily reflects increases in taxation revenue, grants and subsidies and interest income.

Chart 3.3
Revenue by Operating Statement Category 2001-02



Taxation

Total revenue from taxation is expected to increase by 4.9% in 2001-02.

Gambling taxes and levies are forecast to increase by 9.7%. This includes the Major Facilities Levy which applies from 1 July 2001 to the most profitable hotel gaming machine venues, with the proceeds used to finance major public sporting and cultural facilities and infrastructure in Queensland.

The Government's program of payroll tax rate reductions continues, with the rate reducing from 4.9% to 4.8% from 1 July 2001, and a further reduction to 4.75% on 1 July 2002. Growth in wages and employment will nevertheless result in growth in payroll tax in 2001-02.

Stamp duty on conveyancing transactions are estimated to increase by 6.1%, reflecting recovery in the housing sector. State taxes are expected to continue to grow steadily over the next few years, as reflected in Table 3.3.

Whilst the tax bases of all the States have narrowed following national tax reform, with Financial Institutions Duty (which Queensland did not levy) and stamp duty on listed marketable securities abolished from 1 July 2001, Queensland maintains a competitive tax environment. On a per capita basis, the average of other States and Territories is forecast to be 35% higher than Queensland's tax burden in 2001-02.

Further information on taxation revenues and Queensland's tax competitiveness is available in Budget Paper No. 3, Chapter 3.

Current Grants and Subsidies

Current grants and subsidies comprise revenues from the Commonwealth, grants from the community and industry and other miscellaneous grants.

Grants and subsidies in total are expected to increase by 4.9% in 2001-02, primarily due to the growth in Commonwealth payments, which now includes GST revenue. Commonwealth payments received by the State in 2001-02 will comprise:

- general purpose (or untied) payments (including GST revenues, Budget Balancing Assistance and National Competition Policy Payments) for both recurrent and capital purposes; and
- specific purpose (or tied) payments (including grants for health, education, transport, etc.) for both recurrent and capital purposes.

Total general purpose payments in 2001-02 comprise GST revenue of \$5.198 billion, Budget Balancing Assistance of \$213 million and National Competition Policy Payments of \$135 million.

The increase in the outyears in Table 3.3 primarily reflects the impact of the national tax reform package.

Commonwealth GST revenue projections are based on consumption estimates, which incorporate assumed growth in the outyears. The distribution of these revenues is based on the recommendations of the Commonwealth Grants Commission in accordance with the application of horizontal fiscal equalisation principles.

Sales of Goods and Services

Sales of goods and services revenue comprises cost recoveries from the provision of goods or services. Revenue from this source is expected to increase only marginally in 2001-02.

Interest Income

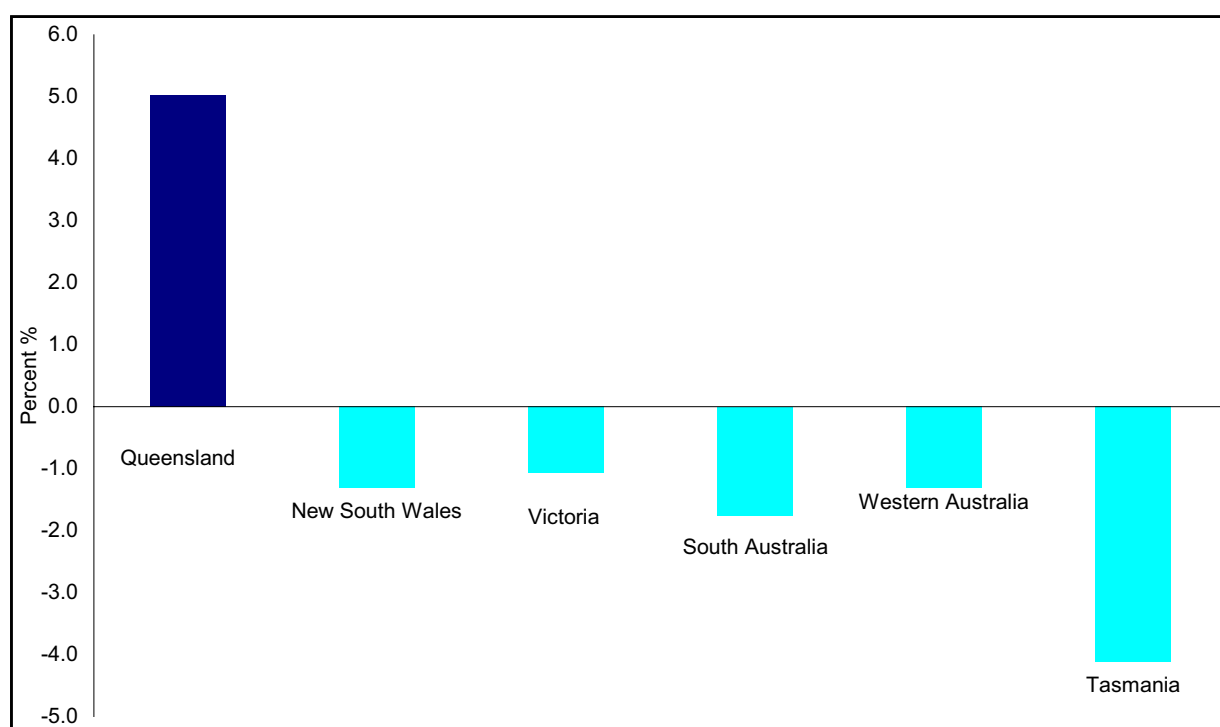
Investment earnings in 2000-01 are forecast to be considerably lower than actual earnings in 1999-2000, primarily reflecting lower returns from international equity markets. This was only partially offset by the better-than-expected returns in other market sectors. Despite this, the Queensland Investment Corporation (QIC) investment performance remains above comparative benchmark returns.

Net interest payments are a common feature of other State Government Budgets. Although there has been some improvement in other States' net interest over the past Budget period,

Chart 3.4 illustrates that New South Wales, Victoria, South Australia, Western Australia and Tasmania incur net interest payments which reduce the funds available for expenditure.

Conversely, Queensland receives net investment income from financial assets allowing the State to plan for lower primary operating balances (ie. operating balances excluding net interest) and achieve an overall operating surplus. The result is increased revenue available for service delivery.

Chart 3.4
Excess of Interest Income over Budgeted Borrowing Costs as a percentage of General Government Revenue - 2001-02



Note: Data excludes nominal superannuation expense.

Source: State budget papers for QLD, NSW, VIC, SA and TAS. WA Pre-Election Financial Projections Statement.

Other Income

Other income comprises dividends, tax equivalent payments and royalties, property income (land rents and royalties), fines, donations and other sundry revenues.

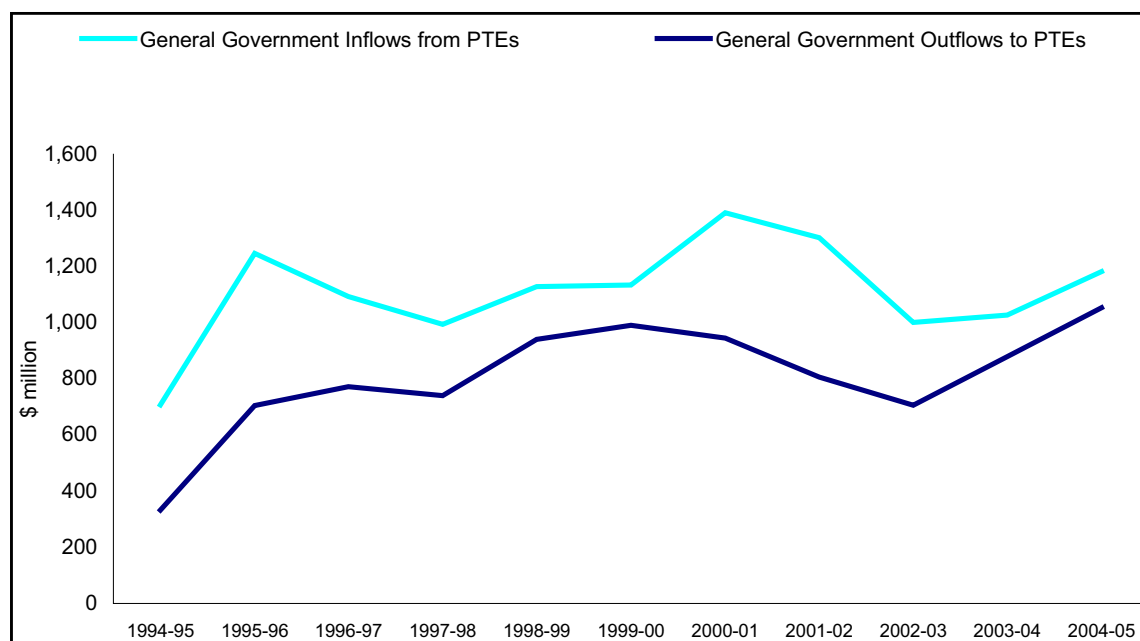
Other income is expected to increase by 3.2% in 2001-02. This increase is mainly due to an estimated increase in royalties revenue and general revenue growth across departments.

Dividends are projected to increase slightly in 2001-02, reflecting higher dividends from ports and Queensland Rail, partially offset by a reduction in dividends from the Queensland Electricity Supply Industry due to an expected fall in wholesale electricity market prices.

This reduction in revenue from the Queensland Electricity Supply Industry is balanced by a reduction in Government subsidies, in effect keeping the relationship between revenues and expenses approximately the same (although there is some narrowing in the outyears).

Chart 3.5 illustrates that the General Government Sector is forecast to receive a moderately smaller net return above the subsidies paid to the Public Trading Enterprises and Public Financial Enterprises sectors over the forward years.

Chart 3.5
Net Revenues from Public Enterprises



The total payments budgeted for these sectors in absolute terms in 2001-02 is \$807 million, whilst the total revenue from dividends, tax equivalents and competitive neutrality fees is expected to be in the order of \$1.392 billion. As a percentage of total General Government revenue, the Community Service Obligation (CSO) subsidy in 2001-02 is budgeted to be 4.2%.

CSO are made by Government to Government Owned Corporations or Commercialised Business Units as a way of purchasing products and services that would otherwise not be undertaken (or undertaken at a higher price) in a commercial environment. This allows Government to purchase services in line with the Government's priorities and community needs, whilst at the same time ensuring the lines of accountability for performance are not blurred. In Queensland, CSO payments are mainly related to rail (eg. passenger transport) and electricity services (eg. maintenance of uniform tariffs).

The dividend payout ratio set by the Government for its public enterprises does not impact on the capacity and requirement of these entities to carry out necessary maintenance and repairs and asset replacement (via provision for depreciation). Dividends are calculated on the basis of net profits (after tax) after providing for such costs. Tax equivalent payments are expected to decrease in 2001-02 reflecting estimates provided by participating entities.

More details on revenue items are included in Chapter 3 of Budget Paper No. 3.

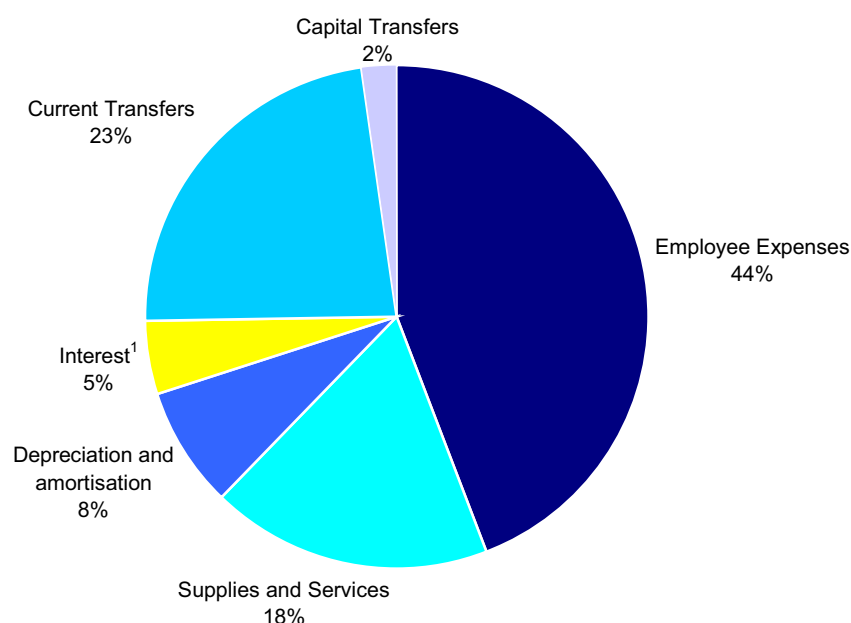
EXPENSES

The General Government Operating Statement provides for \$19.237 billion to be expended on services for Queenslanders in 2001-02.

Expenses by Operating Statement Category

This section analyses significant variances in expenses in the General Government Operating Statement in 2001-02 compared with 2000-01 Budget and estimated actual expenses, and the trends in expenses over the forward estimate years. Chart 3.6 illustrates the composition of expenses.

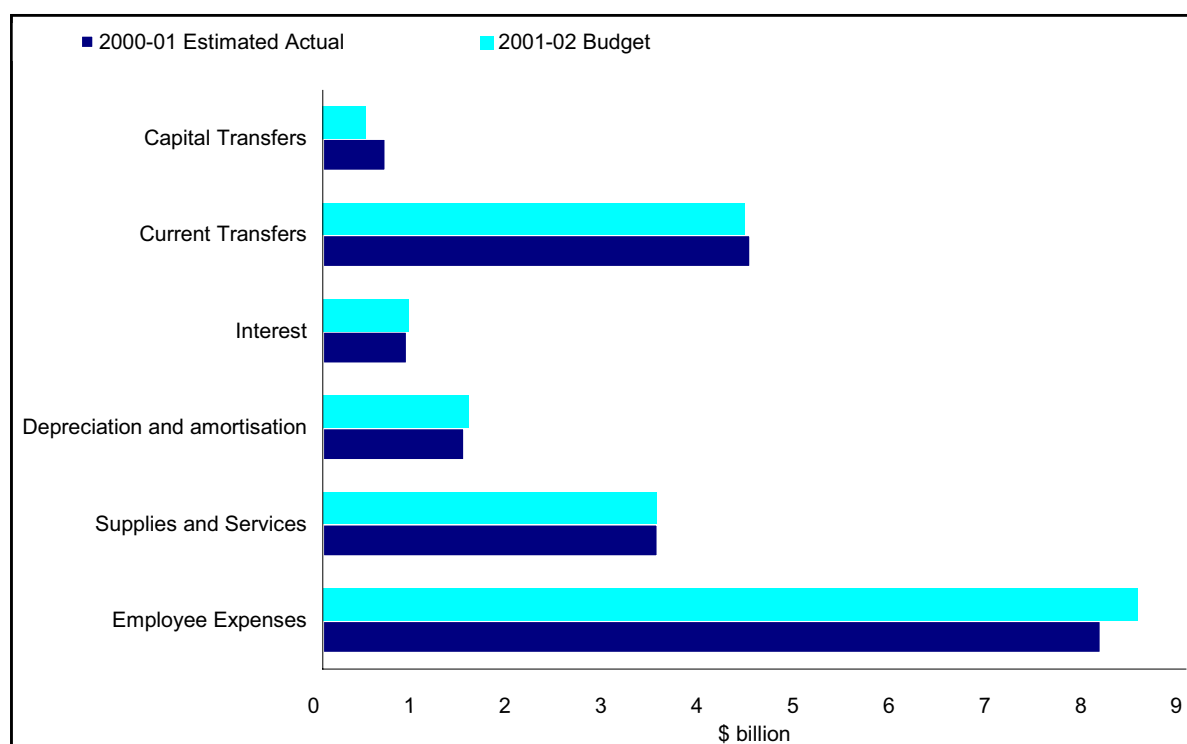
Chart 3.6
Expenses by Operating Statement Category for 2001-02 (GFS Basis)



1. Includes Nominal Superannuation Interest Expense.

Chart 3.7 compares the 2000-01 estimated actual expenses for each operating statement category with the 2001-02 Budget. The explanations for the major variances are discussed in the following sections.

Chart 3.7
Expenses by Operating Statement Category
for 2000-01 and 2001-02 (GFS Basis)



Note: In 2000-01 Capital Transfers includes \$180 million to effect the transfer of the Townsville-Thuringowa Water Supply Board; Supplies and Services includes \$230 million to fund the HIH Insurance collapse; and, interest includes Nominal Superannuation Interest Expense.

Total Gross Operating Expenses

Total gross operating expenses comprise employee entitlements (including superannuation), supplies and services and depreciation. Table 3.2 shows the components of Total Gross Operating Expenses over the forward estimate years.

Employee Entitlements

Employee entitlements include salaries and wages, annual leave, long service leave and superannuation contributions and payments. The increase over the forward estimate years is generally a result of enterprise bargaining costs and growth in employee costs related to planned growth in services.

Superannuation expense represents the employer's contribution to the superannuation of government employees in the General Government Sector.

Supplies and Services

Supplies and services comprise the non-labour costs of providing services to Queenslanders, such as repairs and maintenance, consultancies, contractors, equipment, communications and marketing.

Ministerial Portfolio Statements provide details on new and existing services for each portfolio.

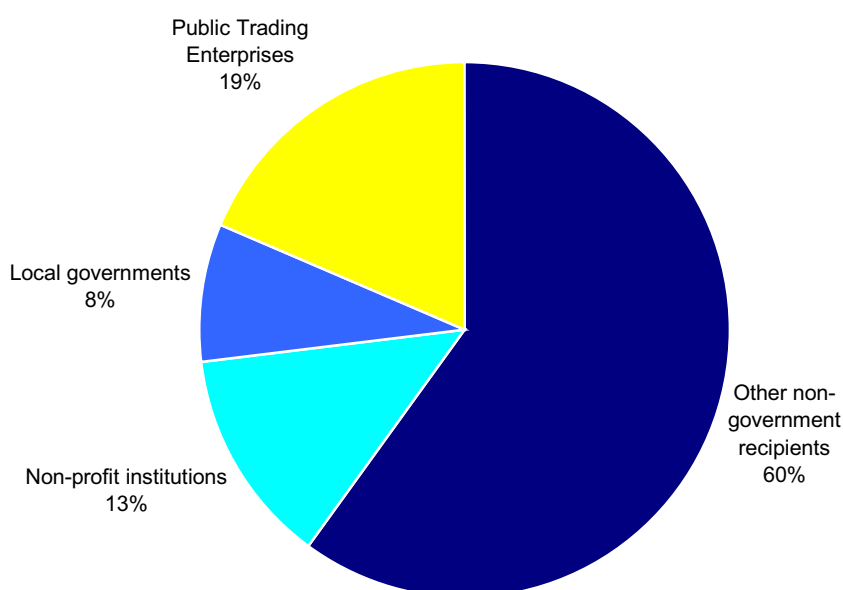
Depreciation

The budgeted depreciation expense is an estimate of the progressive consumption of the State's assets through normal usage, wear, tear and obsolescence. Queensland's depreciation expense as a percentage of fixed assets is generally higher than that of other States, reflecting a more conservative provision for asset replacement over time. Although this results in lower operating surpluses, over time it will lead to a younger and more modern asset base. It also is more sustainable by making available larger amounts of cash from recurrent sources to finance capital expenditure.

Current Transfers

Current transfers include grants to the community, including to schools, hospitals and benevolent institutions, local governments, personal benefit payments and Commonwealth taxes including fringe benefits tax. Chart 3.8 indicates the composition of current grants by recipient.

Chart 3.8
Current Transfers 2001-02 Recipients



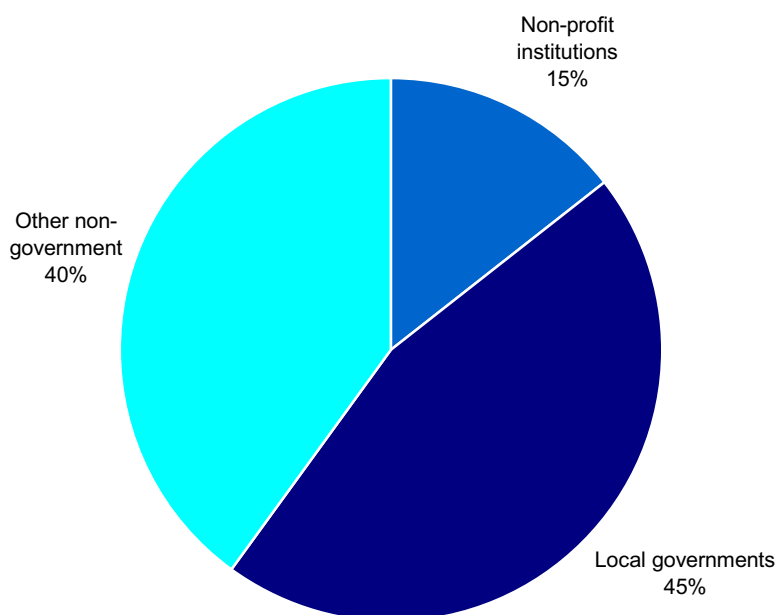
Current transfers include the First Home Owner Grant Scheme which the Commonwealth Government is funding. CSO payments to the PTE Sector and payments made under the State's fuel subsidy scheme are also included in current transfers.

Capital Transfers

Capital transfers represent grants by the Government for capital works to local governments, non-profit institutions and other non-government entities, such as businesses.

Chart 3.9 provides a breakdown of capital transfers by recipient. The major recipient of capital transfers by the Government are local government (45%), with Queensland businesses also receiving a significant share (40%).

Chart 3.9
Capital Transfers 2001-02 Recipients



The 2000-01 estimated actual capital transfers includes \$180 million for the transfer of equity in the former Townsville-Thuringowa Water Supply Board to the new local government joint venture. Excluding this transaction, there is a slight decrease in capital transfers for 2001-02 over the 2000-01 estimated actual.

Interest

This expense includes interest paid by agencies, principally to the Queensland Treasury Corporation, on borrowings to acquire capital assets and infrastructure such as roads and government buildings. It also includes nominal superannuation interest expense, representing that component of the increase in the Government's liability to its employees that is related to earnings on fund balances flowing from past service.

Nominal superannuation interest expense is estimated to grow consistently in 2001-02 and the forward years, relative to the 2000-01 amount due to:

- actuarial estimates of the liabilities;
- recent enterprise bargaining agreements;
- increases in average earnings levels; and
- increases in the number of public sector employees associated with planned growth in services.

For discussion of the State's net interest position, refer to the Interest Income section of this chapter.

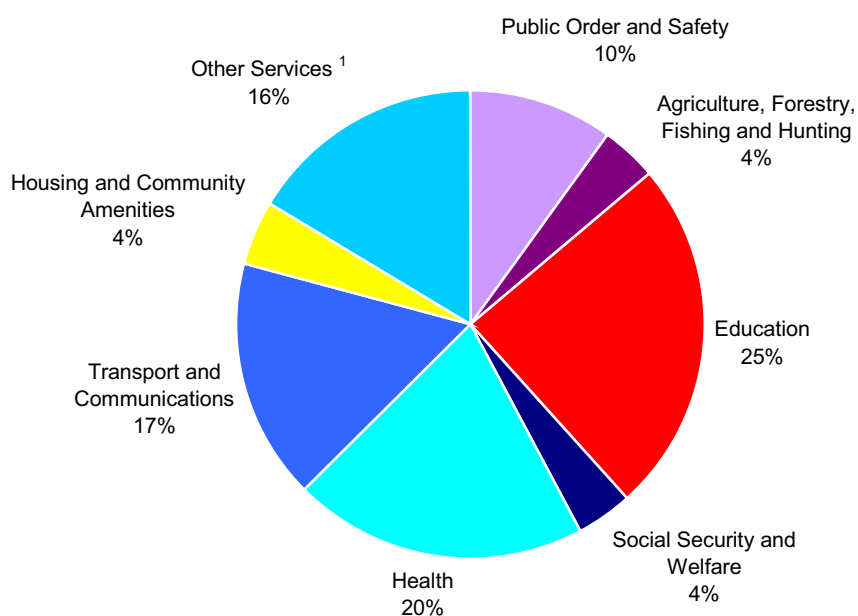
Other Expenses

Other expenses account for less than 1.6% of total expenses, and include land rental and royalty expenses.

Operating Expenses by Purpose

Chart 3.10 indicates the proportion of expenditure by major purpose classification for the 2001-02 Budget. Education accounts for the largest share of expenses (25%), followed by Health (20%).

Chart 3.10
General Government Expenses By Purpose – 2001-02 (GFS Basis)



1. Other includes General Public Services, Recreation and Culture, Fuel and Energy, Mining, Manufacturing and Construction, Other Economic Affairs, Other Purposes and Government Superannuation Benefits.

4. STATEMENT OF FINANCIAL POSITION

KEY POINTS

- The Queensland Government's already strong financial position is expected to strengthen further in 2001-02. State net worth is projected to rise by \$786 million through the year to \$59.259 billion.
- Net worth is also forecast to increase each year over the forward estimates period, meeting the Government's commitment in its *Charter of Social and Fiscal Responsibility* to maintain and seek to increase Total State net worth.
- The State is well placed to meet all its present and future liabilities. Financial assets are projected to exceed liabilities by \$15.013 billion in the General Government Sector at 30 June 2002, meeting another of the Government's Charter commitments.

INTRODUCTION

The budgeted Statement of Financial Position, or Balance Sheet, shows the projected assets, liabilities and equity of the General Government Sector as at 30 June 2002. It is important for the Queensland Government to maintain a strong and growing balance sheet to provide it with the stability, flexibility and capacity to deal with any emerging financial and economic pressures.

The assets and liabilities in this balance sheet are defined according to the Government Finance Statistics (GFS) standard of the Australian Bureau of Statistics. In its *Charter of Social and Fiscal Responsibility*, the Government made certain commitments in terms of the State's net worth and its ability to meet emerging liabilities. These commitments are discussed in this chapter.

FINANCIAL REPORTING MEASURES

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 or deficits that increase or decrease the Government's equity. Queensland has a long history of reinvesting operating surpluses in productive assets or capital projects used to provide additional or improved public services;
- revaluation of assets as required by accounting standards;
- revaluation of liabilities. Some financial liabilities are revalued on a regular basis. For example, the Government's accruing liabilities for employee superannuation and long service leave are determined by actuarial assessments; and

- gains or losses on disposal of assets. To maintain their operating capability at the most economical and efficient level, Government agencies routinely buy and sell assets. Where the selling price of an asset is greater or less than its value in an agency's accounts, the resultant profit or loss affects net worth.

An important factor affecting net worth is asset valuation. For the years up to and including the year ending 30 June 2001, Government policy required non-current physical assets (eg. property, plant and equipment) which were owned by government departments and which would be replaced in event of their loss, to be valued at deprival value. Deprival value is generally the current replacement or reproduction cost of the asset.

From 1 July 2001, government departments will be required to show their non-current assets at either cost or fair value as required by Australian Accounting Standard AAS 38. This is consistent with the valuation principles that will also apply to commercialised business units and government owned corporations.

Until detailed revaluations of non-current assets have been concluded, it will not be possible to quantify the financial impact of the change in asset valuation principles. It is not anticipated that the changes will be significant, particularly in relation to infrastructure assets.

Any change in reported net worth arising from revaluations under AAS 38 will not diminish available resources or reduce service delivery capacity. The changes are of a technical accounting nature only.

Net Financial Assets

The net financial assets measure is an indicator of financial strength. Net financial assets are 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 largest single accruing liability in the General Government Sector is for employee entitlements (principally superannuation and long service leave) which, as at 30 June 2002, is projected to total \$12.429 billion. Other liabilities include borrowings and advances received.

The net financial assets 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. Because of its comprehensive nature, the net financial assets measure is more appropriate in an accrual accounting framework.

The net financial assets of the General Government Sector reflect the cumulative impact of sound fiscal policies and mean the State is fully capable of meeting all its current and recognised future obligations, without recourse to material adjustments in fiscal policy settings.

GENERAL GOVERNMENT SECTOR

Net Worth

The *Charter of Social and Fiscal Responsibility* specifically requires the Government to maintain and seek to increase Total State net worth. Table 4.1 shows the projected annual movements in the Government's equity (net worth) in the General Government Sector as at 30 June, for the years from 2000 through to 2005.

Table 4.1 General Government Sector: Summary of Budgeted Statement of Financial Position (GFS Basis)						
	Actual 1999-2000 \$ million	Est. Actual 2000-01 \$ million	Budgeted 2001-02 \$ million	Projected 2002-03 \$ million	Projected 2003-04 \$ million	Projected 2004-05 \$ million
Non-financial assets	41,833	43,442	44,247	44,686	44,986	45,273
Financial assets	30,936	32,067	32,918	35,262	37,790	40,729
Assets	72,769	75,508	77,164	79,947	82,776	86,001
Liabilities	15,476	17,036	17,905	19,790	21,811	24,109
Net Worth	57,293	58,473	59,259	60,158	60,965	61,892
Notes: 1. For GFS purposes, the State's assets are classed as either financial or non-financial assets. 2. Net Worth and non-financial assets for 1999-2000 are shown after the write down of \$1.837 billion in value of State Water Projects (SWP) assets. 3. On 30 June 2001, the Townsville-Thuringowa Water Supply Board will be converted from a state statutory authority to a joint local government entity under the <i>Local Government Act 1993</i> . Under this proposal, the State Government will relinquish control of \$180 million of assets. Although the transfer of these assets is not specifically itemised in this table, the State's net worth at 30 June 2001 reflects their exclusion.						

The General Government Sector under the GFS standard holds the full equity in the State's public enterprises, principally its shareholding in Government Owned Corporations.

In the General Government presentation, the General Government Sector is treated in the same manner as the parent or holding company in a group of companies. The estimated net investment in Public Enterprises (\$13.234 billion at 30 June 2002) is included in the General Government Sector's financial assets¹.

In the year ending 30 June 2001, the General Government Sector has been impacted by two factors beyond the Government's control: the collapse of HIH Insurance; and lower returns from international equities markets. In addition the Government will transfer the Townsville-Thuringowa Water Supply Board assets to a joint local government entity thereby vesting control of these assets in the local community.

¹ Some credit rating agencies and analysts set aside the equity investment in public enterprises in assessing net financial assets. Their view is that as such investments are held for policy purposes and are not readily realisable, they cannot, in practice, be used to offset liabilities.

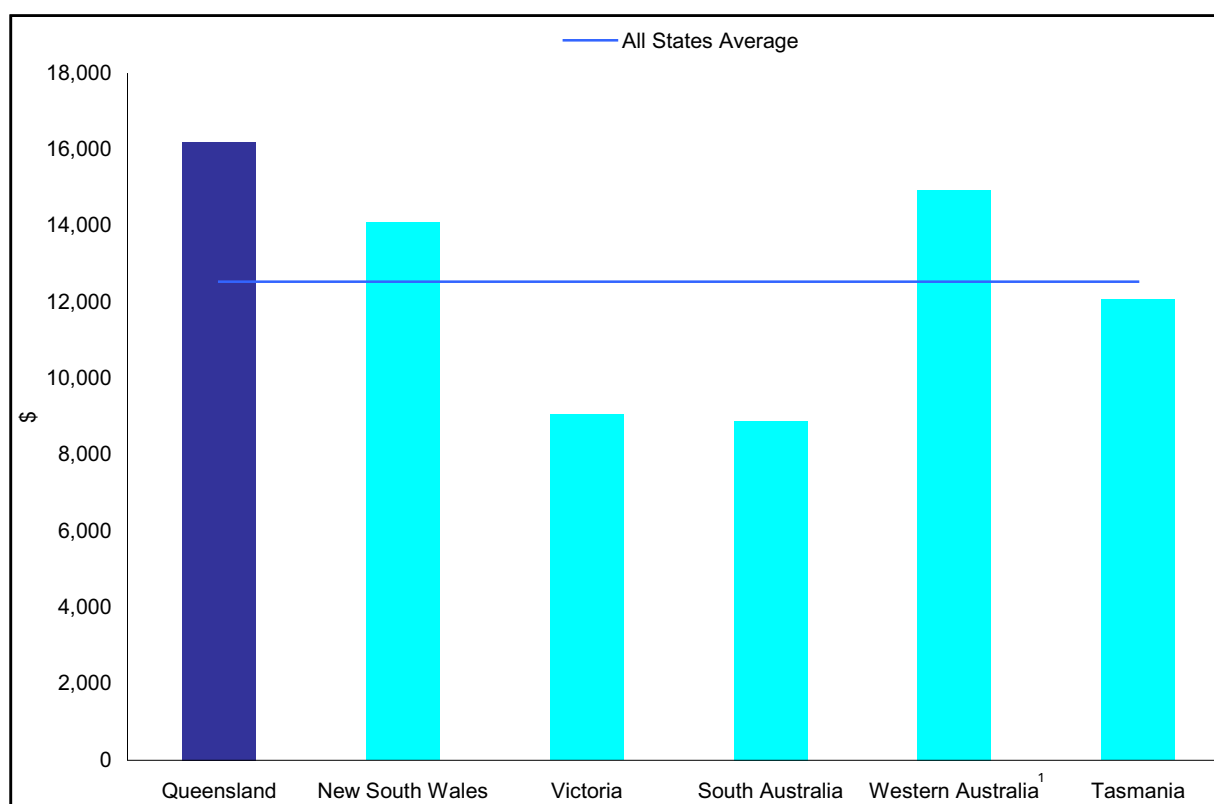
Despite the adverse impact of these events, the net worth of the General Government Sector is expected to grow by \$1.180 billion. This is due to revaluations of major assets as part of the State's asset revaluation cycle. During the year, the Departments of Education, Main Roads, and Natural Resources and Mines all carried out major revaluations as did Ergon Energy and Energex in the Public Trading Enterprise Sector (the effects of which carry through to the equity investment held in these enterprises on the General Government Sector's Balance Sheet).

General Government non-financial assets are projected to total \$44.247 billion at 30 June 2002. The majority of these non-financial assets are schools, hospitals, police, fire and ambulance stations, and similar assets used to provide services to Queenslanders. Other non-financial assets held by the State include intangibles (mainly computer software and licences), inventories and land.

In the year ending 30 June 2002, the value of the State's non-current physical assets is expected to grow by a net amount of \$746 million, after allowing for the purchase and/or construction of replacement or new assets, asset revaluations, depreciation and disposals.

Chart 4.1 illustrates the State's strong net worth when compared against the other States. Queensland's per capita net worth is 25% greater than the average per capita net worth of all the States.

Chart 4.1
Interstate Comparison of Per Capita Net Worth as at 30 June 2002



Note: Western Australia values land under roads as part of its overall asset base. This has been adjusted to allow comparison with other jurisdictions which do not value land under roads.

Source: *State budget papers for QLD, NSW, VIC and SA. TAS ABS Cat No. 5501.0. WA Pre-Election Financial Projections Statement. Population data from ABS Cat. No. 3222.0.*

FINANCIAL ASSETS AND LIABILITIES

The second key Charter principle relating to balance sheet management specifically requires that:

The Government will ensure that the State's financial assets cover all accruing and expected future liabilities of the General Government Sector.

Table 4.2 shows financial assets available to meet the accruing and expected liabilities of the General Government Sector.

In the year to 30 June 2002, financial assets are projected to increase by \$851 million, attributable principally to increased investment in superannuation assets.

Offsetting this, liabilities are budgeted to increase by \$869 million largely on account of employee entitlements and borrowings resulting in a slight decrease in net financial assets of \$18 million in 2001-02. By financing the 2001-02 capital program through a judicious combination of internal funding and modest borrowings, the Government has been able to sustain the State's healthy net financial assets position as well as maintaining its low financial gearing. Net financial assets are projected to grow steadily over the forward estimates period.

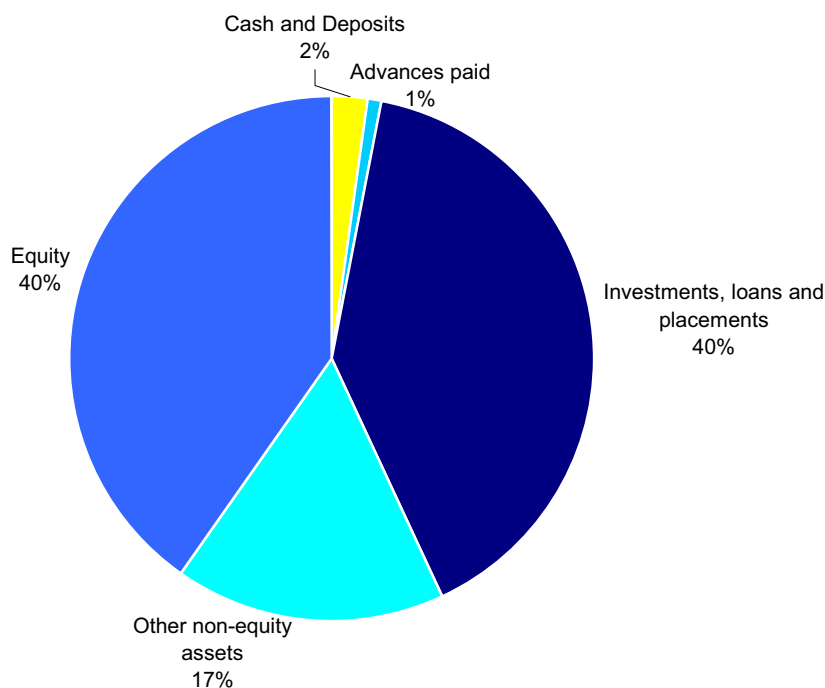
The State's net financial asset position remains extremely sound. Based on current projections, the General Government Sector will continue to meet the commitment in the Government's Charter to ensure that the State's financial assets cover all accruing and expected future liabilities in all the years through to 30 June 2005.

Table 4.2
General Government Sector: Summary of Budgeted Net Financial Assets

	Actual 1999-2000 \$ million	Est. Actual 2000-01 \$ million	Budgeted 2001-02 \$ million	Projected 2002-03 \$ million	Projected 2003-04 \$ million	Projected 2004-05 \$ million
Equity in public enterprises	12,602	13,291	13,234	13,527	13,917	14,485
Other financial assets	18,334	18,776	19,684	21,735	23,873	26,244
Financial assets	30,936	32,067	32,918	35,262	37,790	40,729
Borrowing	3,627	3,331	3,735	4,180	4,594	5,108
Provisions	9,343	11,113	12,429	13,846	15,425	17,191
Other Liabilities	2,506	2,591	1,741	1,763	1,793	1,810
Liabilities	15,476	17,036	17,905	19,790	21,811	24,109
Net financial assets	15,460	15,031	15,013	15,472	15,979	16,620

Chart 4.2 shows projected General Government Sector financial assets by category at 30 June 2002. Investments held to meet future liabilities (including provisions for superannuation and long service leave of \$12.429 billion) comprise the major part of the State's financial assets.

Chart 4.2
Financial Assets by Category as at 30 June 2002

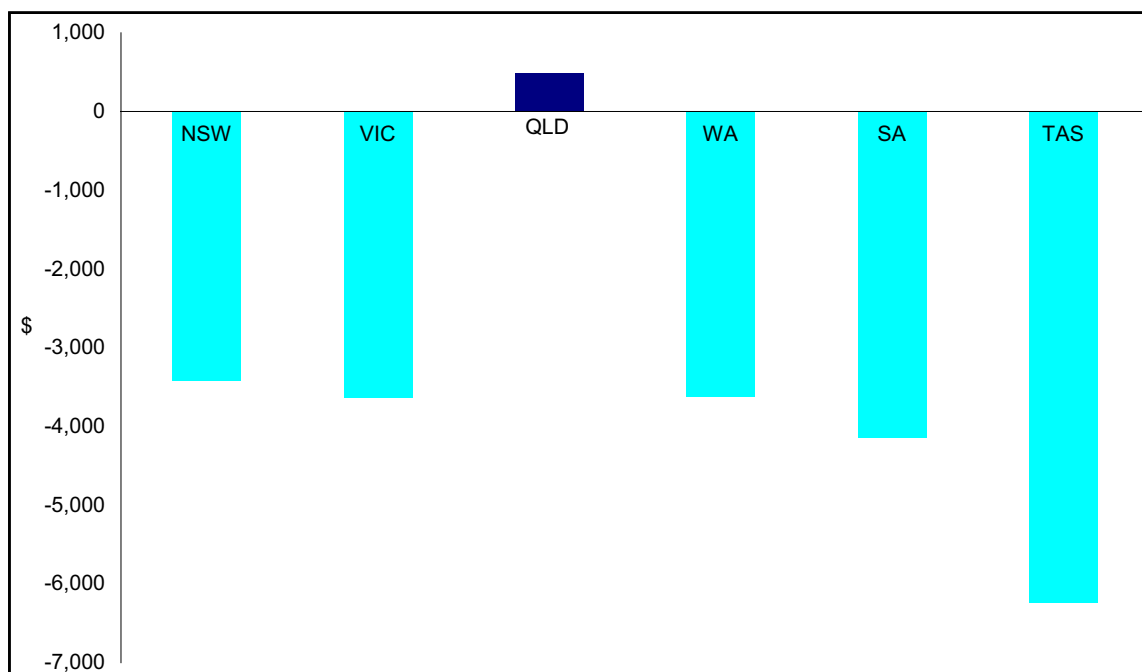


The strength of the State's financial asset position is illustrated in Chart 4.3.

Queensland has consistently pursued sound long-term fiscal policies such as ensuring all employee superannuation and long service leave entitlements are fully funded. The strong balance sheet and high levels of liquidity in the General Government Sector clearly demonstrate the success of these policies. Even if its investment in Public Enterprises is excluded, the General Government Sector has a projected minimum of \$1.08 in financial assets for each \$1.00 of liabilities.

Queensland's level of liquidity is well in excess of that of those other States and Territories which have delivered accrual budgets this year and have, on average, around \$0.37 of available financial assets to meet every \$1.00 of liabilities.

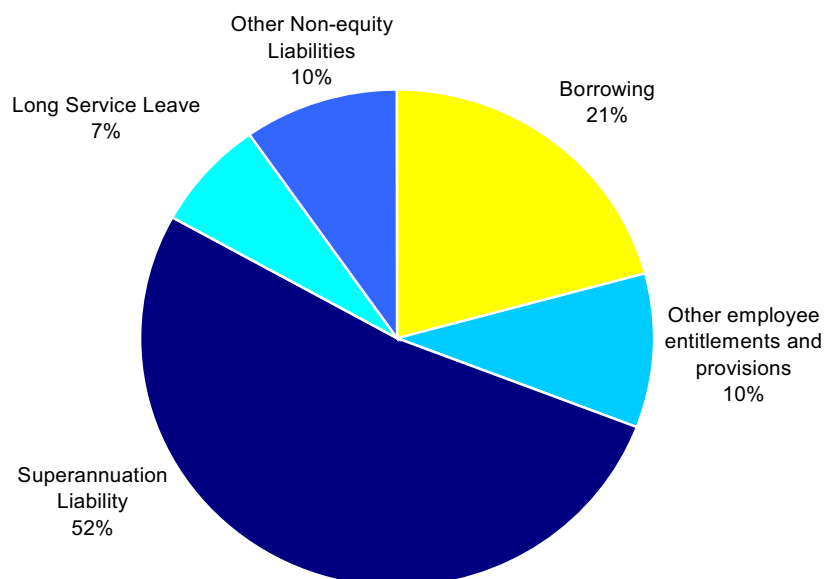
Chart 4.3
Interstate Comparison of Net Financial Assets as at 30 June 2002
Excluding Investments in Public Enterprises
General Government Sector (per Capita)



Source: State budget papers for QLD, NSW, VIC, SA, TAS ABS Cat. No. 5501.0. WA Pre-Election Financial Projections Statement. Population data from ABS Cat. No. 3222.0.

The composition of the General Government Sector's liabilities is illustrated in Chart 4.4. The major components of these liabilities are the State's provisions for future employee entitlements, particularly superannuation, long service and recreation leave.

Chart 4.4
General Government Liabilities by Category as at 30 June 2002



PUBLIC TRADING ENTERPRISE SECTOR

The Public Trading Enterprise (PTE) sector represents the commercial activities of the Queensland Government. It mostly includes Government Owned Corporations (GOCs) that generate and distribute electricity, operate rail passenger and freight services and manage the State's ports.

The budgeted net worth (value of the State's equity) of the PTE Sector as at 30 June 2002 is \$12.552 billion. This is anticipated to rise to \$13.802 billion by 30 June 2005. As at 30 June 2002, the projected ratio of total borrowings of the PTE sector as a percentage of the sector's total borrowings plus equity is 49.8%.

GOCs are established as commercial operations, generally with extensive infrastructure assets. To operate efficiently and effectively and achieve reasonable returns for the State, they must carry levels of debt commensurate with these aims. The Government's ownership ratio (ratio of equity to total assets) of this sector as at 30 June 2002 is 43.2%, rising to 45.3% over the forward estimates period. This level of gearing is consistent with that of a number of blue chip Australian companies with major investments in infrastructure including MIM, BHP and Telstra which, at 31 December 2000 had ownership ratios of 39.9%, 40.4% and 42.3% respectively.

GOCs carry debt levels comparable with their private sector counterparts, with \$10.849 billion or over 87% of their borrowings owed to Queensland Treasury Corporation (QTC). A further \$953 million represents the balance of the net deferred tax equivalents liabilities of the GOCs, which is owed to the Queensland Government.

Table 4.3
PTE Sector: Summary of Budgeted Statement of Financial Position
(GFS Basis)

	Actual 1999-2000 \$ million	Est. Actual 2000-01 \$ million	Budgeted 2001-02 \$ million	Projected 2002-03 \$ million	Projected 2003-04 \$ million	Projected 2004-05 \$ million
Non-financial assets	22,914	25,086	26,568	27,243	27,722	27,987
Financial assets ¹	3,288	2,883	2,467	2,325	2,314	2,463
Assets	26,202	27,969	29,035	29,568	30,037	30,450
Liabilities	14,477	15,361	16,483	16,723	16,802	16,647
Net Worth	11,725	12,608	12,552	12,845	13,235	13,802
Note: 1. For GFS purposes, the State's assets are classed as either financial, or non-financial assets.						

A rise of \$1.103 billion in GOC borrowings accounts for almost the entire projected increase in liabilities of \$1.122 billion. Despite these increased borrowings, the Government's projected ownership ratio (net equity) of 43.2% is slightly higher than the previous year's budgeted target of 42%.

TOTAL STATE POSITION

Net Worth

The Total State financial position shows the combined assets and liabilities of the General Government Sector and the Public Trading Enterprises (PTEs). The Total State, excluding Public Financial Enterprises (PFE), Statement of Financial Position highlights the State's conservative gearing with a projected ownership ratio of 65.6% as at 30 June 2002. The ratio of total borrowings of the State (non-PFE) sector as a percentage of the State's total borrowings plus equity is projected to be 21.4%.

Table 4.4 shows projected changes in the Government's equity (net worth), as at 30 June for the years from 2000 through to 2005.

Table 4.4 Total State (Non-PFE) Position: Summary of Budgeted Statement of Financial Position (GFS Basis)						
	Actual 1999-2000 \$ million	Est. Actual 2000-01 \$ million	Budgeted 2001-02 \$ million	Projected 2002-03 \$ million	Projected 2003-04 \$ million	Projected 2004-05 \$ million
Non-financial assets ^{1 & 2}	64,746	68,527	70,814	71,929	72,708	73,260
Financial assets ¹	19,432	19,285	19,510	21,251	23,179	25,389
Assets	84,178	87,813	90,324	93,180	95,887	98,649
Liabilities	26,885	29,340	31,065	33,022	34,922	36,757
Net Worth²	57,293	58,473	59,259	60,158	60,965	61,892
Notes: 1. For GFS purposes, the State's assets are classed as either financial, or non-financial assets. 2. See footnote 2, Table 4.1.						

Based on the projected figures for the year ending 30 June 2002, the Government will meet its Charter commitment to maintain or increase Total State net worth. (It should be noted that these tables assume no change in the Government's equity in Public Financial Enterprises beyond 2001-02, as no Budget or Forward Estimates data is reported by these entities.)

The net worth of the Total State (non-PFE) sector is projected to increase by \$786 million to \$59.259 billion at 30 June 2002, and is estimated to reach \$61.892 billion at 30 June 2005.

As the Total State position is an aggregation of all the assets and liabilities held by Government departments and Public Trading Enterprises, changes in its net worth mirror those of the General Government Sector and arise for the same reasons, discussed in earlier commentary.

The strength of the State's Balance Sheet is further demonstrated by the Government's equity position. Despite the \$1.837 billion write down in the value of the State Water Projects assets in June 2000 (see footnote 2 Table 4.1), the State's net worth is projected to grow by 8% in the period from 1999 to 2005.

5. STATEMENT OF CASH FLOWS

KEY POINTS

- **The General Government Sector is estimated to record a cash surplus of \$253 million in 2001-02, following an estimated cash surplus of \$474 million in 2000-01.**
- **The General Government Sector is estimated to record a surplus of \$2.276 billion from operating activities, more than sufficient to fund an estimated \$2.024 billion investment in non-financial assets.**
- **The General Government Sector investment in financial assets of \$868 million in 2001-02 largely reflects the re-investment of contributions and earnings to be set aside to finance the Government's superannuation employee entitlements liability.**
- **The General Government Sector is budgeted to achieve cash surpluses in the forward years.**

INTRODUCTION

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

Detailed cash flow tables on a GFS basis are included in Appendix A.

BACKGROUND

The cash flow statement records estimated cash receipts and disbursements associated with the Government's activities. The cash flows reflect the actual payment and receipt of cash and hence differ from accrual revenue and expenses recorded in the operating statement. In particular, the operating statement often records revenues and expenses that do not have an associated cash flow (for example, depreciation expense). Also, the timing of recognition of the accrual revenue or expense in the operating statement may differ from the actual cash disbursement or receipt (for example, tax equivalents).

The cash flow statement also records cash flows associated with investing and financing activity that is otherwise reflected in the balance sheet. For example, purchases of capital equipment are recorded in the cash flow statement and impact on the balance sheet through an increase in physical assets. A detailed reconciliation between the cash flows from operations and the operating statement is provided later in this chapter.

The GFS cash flow statement provides the cash surplus (deficit) measure, which was a key aggregate or fiscal indicator under the previous cash-based GFS and Government accounting system. The cash surplus (deficit) measure is comprised of the net cash flow from operating activities plus the net cash flow from investment in non-financial assets (or physical capital). The cash surplus (deficit) measure therefore provides an indication of the net purchases of current goods and services and net expenditure on capital works projects.

The cash surplus (deficit) measure is still used by a number of financial and economic commentators and analysts, although its usefulness, now that a broader range of measures is available under accrual reporting, has declined. The measure is also used to derive the Loan Council Allocation nomination, provided in Appendix A.

BUDGETED STATEMENT OF CASH FLOW SUMMARY

Table 5.1 provides summary cash flow information for the General Government Sector for 1999-00, 2000-01 and 2001-02.

Table 5.1 General Government Sector: Summary of Budgeted Cash Flows (GFS Basis)			
	1999-00 Actual \$ million	2000-01 Est. Actual \$ million	2001-02 Budgeted \$ million
Cash receipts from operating activities	17,130	18,141	18,756
Cash payments from operating activities	15,708	15,308	16,480
Net cash flow from operating activities	1,422	2,833	2,276
Net cash flows from investing activities	(2,376)	(2,675)	(2,892)
Net cash flows from financing activities	543	(33)	500
Net increase/(decrease) in cash held	(411)	127	(116)
Derivation of GFS cash surplus (deficit)			
Net cash flow from operating activities	1,422	2,833	2,276
Less net cash flow from investments in non-financial assets	(2,703)	(2,360)	(2,024)
Equals GFS cash surplus (deficit)	(1,281)	474	253
Add back transfer of superannuation assets ¹	(1,100)		
Equals underlying GFS cash surplus (deficit)	(181)	474	253
Note: 1. The \$1.1 billion transfer of funds set aside for employee entitlements to the State Public Sector Superannuation Scheme Members' Trust Fund in 1999-2000 was effected to improve efficiency in that fund of cash flows and overall cost of member benefits. As the transfer resulted in the extinguishment of the State's related liability to pay those funds to members upon retirement, the transaction was neutral in its impact on the State's Balance Sheet and operating position.			

CASH FLOWS FROM OPERATING ACTIVITIES

Cash inflows from operating activities include receipts from taxes, grants from the Commonwealth Government, fees and charges levied on the provision of goods and services, interest receipts from investments and dividend and tax receipts from Public Financial and Trading Enterprises.

Taxes received by the General Government Sector are forecast to increase by 4.9% to \$4.429 billion in 2001-02, reflecting the impact of forecast economic growth on receipts.

Grants and subsidies receipts are expected to increase by 4.4% in 2001-02 to \$9.418 billion. The largest source of cash receipts is from Commonwealth grants, which are now in the form of GST payments, which account for \$9.388 billion or 50.0% of total cash receipts in 2001-02.

Other receipts include investment earnings, dividends and tax equivalents received from Government Owned Corporations (GOCs) and royalties. Other receipts are expected to decrease in 2001-02 by 0.7% to \$3.244 billion. This reflects a decrease in investment earnings relating to 2000-01, but which are paid in 2001-02. These lower investment earnings are the result of reduced returns from international equity markets. This is partially offset by an increase in the receipt of cash dividends (predominantly revenue recognised in accrual terms in prior years).

Cash outflows represent payment for goods and services, wages and salaries, finance costs and grants and subsidies paid to households, businesses and other Government agencies. The largest cash disbursement is employee expenses, at \$7.799 billion or 47.3% of total cash payments from operating activities.

The 2001-02 estimate for payments for goods and services, which includes wages and salaries, is expected to increase to \$11.210 billion. This reflects the estimated payments on Compulsory Third Party insurance claims to be borne by the State as a result of the recent liquidation of HIH Insurance, the timing of payments pertaining to employer superannuation contributions, increased employee entitlements in line with recent enterprise bargaining agreements and growth related to new and enhanced services.

Cash payments for subsidies and grants are expected to decrease to \$4.409 billion in 2001-02. This item largely represents recurrent grants paid by the Commonwealth through the State to non-government schools, grants paid to industry and non-profit institutions. This item also includes capital grants which are largely paid to local government authorities to fund capital works.

Interest payments are expected to decrease to \$302 million, which is mainly due to the cessation of interest payments to Suncorp Metway Exchanging Note holders. These notes will be converted into Suncorp Metway shares in 2001-02.

Other payments mainly comprise personal benefit payments and other transfer payments. This item is estimated to decrease in 2001-02 to \$560 million.

CASH FLOWS FROM INVESTMENTS

Cash flows from investments include both financial and non-financial assets. Table 5.2 provides a disaggregation of investment cash flows into the different types.

Table 5.2 General Government Sector: Cash Flows from Investing Activities (GFS Basis)			
	1999-00 Actual \$ million	2000-01 Est. Actual \$ million	2001-02 Budgeted \$ million
Net cash flows from investing activities in non-financial assets	(2,703)	(2,360)	(2,024)
Net cash flows from investing activities in financial assets for policy purposes	510	604	386
Net cash flows from investing activities in financial assets for liquidity purposes	(183)	(919)	(1,254)
Net increase/(decrease) in cash held	(2,376)	(2,675)	(2,892)

The largest cash disbursement for the Government, outside of recurrent operations, is investments in non-financial assets. This represents the Government's capital works program, which provides for services such as schools, hospitals, roads, etc. More detail on the Government's capital works program is included in Budget Paper No. 4.

Apart from investing in new capital expenditure, governments also manage financial assets in order to finance overall expenditures. In addition, Queensland manages financial assets set aside for its employees to provide employee benefits (eg. superannuation and long service leave). The Government manages its financial assets through a combination of borrowing or investing funds and selling or acquiring equity in government or private sector entities.

Investment activities in financial assets include activities relating to both policy and liquidity. Investments for policy purposes include net equity injections into Government and other business enterprises and the net cash flow from disposal of equity in Government business enterprises. Cash flows from investments for liquidity purposes represent net investment in financial assets such as to cover superannuation and other employee entitlements, as well as other relatively liquid assets.

Cash flows from investing in non-financial assets is expected to decline to \$2.024 billion in 2001-02 from \$2.360 billion in 2000-01. This largely reflects a progressive movement towards a long-term sustainable capital works program following the completion of major projects such as the Pacific Motorway and *Statewide Health Building Program*.

The cash expenditure on investment in non-financial assets differs from the estimates of capital works expenditure in Budget Paper No. 4. The estimates contained in Budget Paper No. 4 are on a gross basis and incorporate both departmental agencies and GOCs. In addition, Budget Paper No. 4 includes capital grants and does not offset proceeds from asset sales.

Cash flows from investments for policy purposes for 2001-02 of \$386 million largely reflect equity transactions, such as the Government's decision to enter into a long-term lease arrangement for the Dalrymple Bay Coal Terminal, to fund capital works for the Budget year.

Cash outflows from investments in financial assets for liquidity purposes is estimated to be \$1.254 billion in 2001-02, a net purchase of investments, compared with \$919 million in 2000-01. This reflects the usual re-investment of interest earnings and investment of contributions set aside for the Government's superannuation scheme.

CASH FLOWS FROM FINANCING ACTIVITIES

Cash flows generated from financing activities are outlined in Table 5.3 below.

Table 5.3 General Government Sector: Cash Flows from Financing Activities (GFS Basis)			
	1999-2000 Actual \$ million	2000-01 Est. Actual \$ million	2001-02 Budgeted \$ million
Net cash flows from Advances received (net)	7	5	(2)
Net cash flows from Borrowing (net)	536	(39)	501
Net cash flows from other Financing	..	..	..
Net increase/(decrease) in cash held	543	(33)	500

Cash flows from financing activities include cash flows from net borrowing (increase in borrowing less redemption), net advances (gross investment in new loans less redemption of loans issued) and other financing (net movement in government securities on issue).

Cash flows from borrowings are estimated to increase, reflecting a net increase in borrowings, to fund capital projects in General Government Sector. The net outflows in borrowings in 2000-01 represent a significant redemption of borrowings following the finalisation of the Suncorp Metway Exchanging Instalment Notes Series II issue.

OUTLOOK BEYOND 2001-02

Table 5.4 summarises the projected GFS cash flows for the outyears. The key trends in these projections are that:

- the General Government Sector is budgeted to achieve increased GFS cash surpluses in the forward years;
- the growth forecast for cash receipts from operating activities exceeds cash payments for operating activities, ensuring a strong net cashflow from operating activities over the forward estimates period; and
- there is a progressive movement towards a long-term sustainable capital works program following the completion of major capital projects such as the Pacific Motorway and the *Statewide Health Building* program.

Table 5.4 General Government GFS Budgeted Cash Flows (Summary)				
	Budgeted 2001-02 \$ million	Projected 2002-03 \$ million	Projected 2003-04 \$ million	Projected 2004-05 \$ million
Cash receipts from operating activities	18,756	19,152	19,789	20,705
Cash payments from operating activities	16,480	16,424	16,985	17,682
Net cash flow from operating activities	2,276	2,728	2,804	3,023
Net cash flows from investing activities	(2,892)	(3,239)	(3,229)	(3,429)
Net cash flows from financing activities	500	421	444	487
Net increase/(decrease) in cash held	(116)	(90)	18	82
Derivation of GFS cash surplus (deficit)				
Net cash flow from operating activities	2,276	2,728	2,804	3,023
Less net cash flow from investments in non-financial assets	(2,024)	(1,695)	(1,561)	(1,564)
Equals GFS cash surplus (deficit)	253	1,032	1,242	1,459

RECONCILIATION OF OPERATING CASH FLOWS TO THE OPERATING STATEMENT

Table 5.5 provides a reconciliation of the cash flows from operating activities to the operating result, on a GFS basis, for the General Government Sector for the Budget year.

Table 5.5 General Government Sector: Reconciliation of Cash Flows from Operating Activities to Accrual Operating Activities (GFS Basis)		
	2000-01 Est. Actual \$ million	2001-02 Budgeted \$ million
GFS accrual revenue	18,251	19,261
Add/(Less) movement in dividend and taxation receivable	(457)	(140)
Add/(Less) movement in unearned revenue	1	(19)
Add/(Less) movement in interest receivable	295	(302)
Add/(Less) movement in other receivables	51	(44)
Equals GFS cash receipts	18,141	18,756
GFS accrual expense	19,071	19,237
<i>Less Non-cash items</i>		
- depreciation and amortisation expense	1,477	1,519
- accrued superannuation expense	1,218	1,284
- accrued employee entitlements	505	446
- other accrued costs	283	31
- Townsville-Thuringowa asset transfer	180	..
Add/(Less) movement in employee entitlement provisions	(323)	402
Add/(Less) movement in provision for claims	205	109
Add/(Less) movement in other payables	18	12
Equals GFS cash expenditure	15,308	16,480

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 differential is on the expenses (expenditure) side, with large non-cash expenses associated with depreciation and superannuation.

Differences due to the timing of receipt or payment of amounts are recorded as either a receivable or payable in the balance sheet.

6. CAPITAL PROGRAM

KEY POINTS

- **\$5.115 billion is budgeted for capital works in 2001-02. This is an increase of 2.2% over 2000-01 estimated actual expenditure of \$5.007 billion.**
- **The 2001-02 capital program will have a significant effect on employment, supporting some 46,300 full-time jobs.**
- **Spending on capital reflects the Government's commitment to building Queensland's regions, with 58% of capital expenditure allocated outside the Brisbane Statistical Division. In per capita terms, expenditure on capital outlays will be highest in the Central-West.**
- **\$1.598 billion is provided for capital funding of transport and main roads, \$381.6 million for health, \$253.5 million for education and \$210.3 million for police, corrective services and emergency services.**

INTRODUCTION

This chapter provides an overview of the 2001-02 Capital Expenditure Program. Detailed agency and regional information is provided in Budget Paper No. 4.

The objective of the State's capital program is to enhance infrastructure development to meet the social and economic needs of Queensland's growing population.

In 2001-02, Queensland's capital outlays are estimated to be \$5.115 billion, after allowing for anticipated capital contingencies of \$110 million. This adjustment recognises that while individual agencies may budget to fully expend their capital works allocations, on a whole-of-Government basis there is likely to be underspending, resulting in a carry over of capital allocations.

Definitions

Using an accrual framework, capital is defined as the stock of assets, including property, plant and equipment, intangible assets and inventories that an agency owns and/or controls and uses in the delivery of services, as well as capital grants made to other entities. For the purposes of this chapter and Budget Paper No. 4, capital outlay refers to the gross acquisition of assets. The following definitions apply to both documents.

- **Total Capital Outlays** - property, plant and equipment outlays, other capital expenditure and capital grants.
- **Property, Plant and Equipment Outlays** - property, plant and equipment outlays as per the financial statements excluding asset sales, depreciation and revaluations.
- **Other Capital Expenditure** - intangibles, inventories, and self-generating and regenerating assets.

- **Capital Grants** – all capital grants to other entities (excluding grants to other Government departments and statutory bodies).

Coverage

This chapter provides information on capital outlays for all bodies defined as reporting entities for the purposes of whole-of-Government financial reporting requirements, excluding Public Financial Enterprises. Statutory authorities and Public Trading Enterprises with total capital outlays of less than \$0.25 million are not included due to lack of materiality.

FISCAL STRATEGY AND CAPITAL POLICY

The Government is committed to creating the infrastructure necessary to support the economic and social development of Queensland as articulated in the Government's key policy priorities.

The Government will continue to pursue these objectives within the structure of its *Charter of Social and Fiscal Responsibility*. The Charter provides the framework for the Government to pursue a progressive capital works program that improves the net social benefit to the community as a whole, consistent with responsible fiscal principles.

The Government's strategy is for capital investment and the management of the State's asset base to be driven by service delivery needs. The ability of the Government to continue to provide services is critically linked to its asset base.

To effectively manage this relationship, the use and consumption of capital assets is recognised as an expense incurred in the production of goods and services for the community. This provides a mechanism to ensure that an appropriate provision for capital replacement can be funded from the Government's operating reserves and encourages the efficient use of capital in the context of its contribution to the cost of goods and services.

The Government's policies of increasing service delivery and improving the State's infrastructure are reflected in the extent of the growth in the State's capital program over the last decade. This commitment has resulted in an extensive capital program both in historical terms and in comparison to other States. On a per capita basis, Queensland has the largest capital program of any State.

This Budget continues the trend of sizeable capital works programs, both in nominal and per capita terms. In 2001-02, \$5.115 billion is budgeted for capital works, an increase of \$107.9 million over the 2000-01 estimated actual expenditure of \$5.007 billion. Total State Gross Fixed Capital Formation on a GFS basis is budgeted to be \$1,143 in per capita terms, which is high relative to other States.

CAPITAL OUTLAYS

Chart 6.1 and Table 6.1 summarise capital outlays by type. The majority of expenditure is recorded in the Property, Plant and Equipment category, which accounts for an estimated 78% of total capital outlays.

Chart 6.1
Capital Outlays by Type – 2001-02

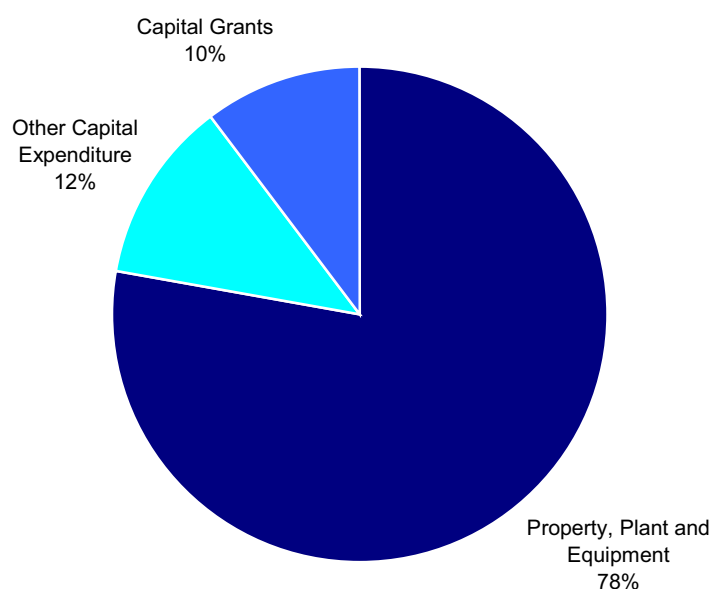


Table 6.1
Capital Outlays by Type 2001-02

	2000-01 Est. Actual \$ millions	2001-02 Budget \$ millions	Change %
Property, Plant and Equipment	4,069	4,060	-
Other Capital Expenditure ¹	432	621	44
Capital Grants	556	544	(2)
Capital Contingency Reserve	(50)	(110)	120
Total Capital Outlays^{2,3}	5,007	5,115	2.2

Note: Totals may not add due to rounding.

1. Estimated actual Other Capital Expenditure of \$432.3 million for 2000-01 is considerably less than projected in the 2000-01 Budget (\$752.2 million). This difference has arisen because of the reclassification of Tarong Energy Corporation Limited's, Tarong North Project from Other Capital Expenditure to Property, Plant and Equipment.
2. The 2001-02 reflects end-of-year deferrals not able to be included in individual agency data for documentation purposes.
3. The total State Capital Works program differs from Gross Fixed Capital Formation (refer table 2.4) due to assets sales, movements in inventories and capital grants being included in the Capital Works program.

Capital outlays by purpose in 2001-02 are detailed in Table 6.2 below.

Table 6.2 Capital Outlays by Purpose for 2001-02	
Purpose	Outlays \$ million
Education	254
Health	382
Law, Order, & Public Safety	257
Electricity Infrastructure	1,490
Transport Infrastructure	1,598
Other Economic Infrastructure	604
Other	641
Capital Contingency Reserve	(110)
Total	5,115
Note: Numbers may not add due to rounding.	

Capital outlays by region are estimated in Table 6.3 below and are illustrated in greater detail in Budget Paper No. 4. Around 58% of capital expenditure will occur outside the Brisbane Statistical Division. Per capita expenditure is highest in non-metropolitan areas, including Central-West, North-West and South-West.

Table 6.3 Capital Outlays by Statistical Division for 2001-02		
Purpose	Outlays \$ millions	Outlays per Capita \$
Brisbane	2,199.7	1,352
Moreton	543.9	783
Wide Bay-Burnett	588.1	2,505
Darling Downs and South-West	237.9	1,044
Fitzroy and Central-West	527.0	2,726
Mackay and Northern	523.3	1,597
Far North and North-West	605.1	2,316
Capital Contingency Reserve	(110.0)	n.a.
Total	5,115.0	1,465
Note: Numbers may not add due to rounding.		

Funding

Under Queensland's accrual output budget model, *Managing for Outcomes*, there is no specific appropriation for capital. Instead, the responsibility for capital management is devolved to agencies, which develop Capital Investment Plans that include the sources of funding for assets. Funding sources can include equity injections from the Government as owner (where considered appropriate), output funding to cover capital consumption such as depreciation or amortisation, asset sales, borrowings, retained earnings and own sourced revenue.

Table 6.4 details the composition of capital outlays for Property, Plant and Equipment and Other Capital Expenditure by sources of funding.

Under accrual output budgeting, agencies receive funding for the full efficient cost of services, including depreciation, a non-cash expense. Depreciation is the amount of wear and tear on an asset, which is reflected in a reduction in its value. Therefore, depreciation can be used as a source of capital funding to acquire assets in accordance with an approved annual capital investment plan.

Table 6.4 Sources of Funding for Property, Plant and Equipment and Other Capital			
Source ¹	2000-01 Est. Actual \$ million	2001-02 Budget \$ million	Change %
Depreciation and Amortisation	2,542.4	2,659.8	5
Equity Injections, Borrowings and Other Sources ²	1,959.0	2,021.7	3
Capital Contingency Reserve	(50.0)	(110.0)	120
Total Property, Plant and Equipment and Other Capital Expenditure	4,451.4	4,571.5	2.7
Notes: 1. Some Commonwealth funding is provided for capital projects. Under accrual output budgeting, it is no longer separately identified and is included under Equity, Depreciation Funding or Other Funding. 2. Other funding sources include Public Trading Enterprise own sources, asset sales, operating surpluses etc.			

EMPLOYMENT GENERATION

It is estimated that the 2001-02 capital program will contribute to the net provision of some 46,300 full-time jobs. This is calculated using an employment multiplier, which estimates that one person week of direct employment will be created for each \$1,680 spent on employment generating capital.

2001-02 reflects revisions made to the underlying data used to calculate this multiplier. The revisions allow for increases in labour productivity for the construction and supporting industries, and price increases for non-residential construction since 1999-2000. These changes increase the value of construction required to generate employment.

Employment generating capital does not include expenditure on land purchases and plant and equipment. The 2001-02 capital program includes a greater proportion of this type of asset than the previous year (27.4% compared to 20.7% in 2000-01). The composition change has reduced the level of employment generating capital for 2001-02.

SERVICE PRIORITIES

This section details significant new and ongoing capital projects being undertaken in 2001-02 for each of the Government's seven key policy priorities. Capital grants are not included in this section. Capital grants form part of the Operating Statement and are incorporated in Chapter 3.

Projects for individual agencies are listed in Budget Paper No 4 and in more detail in the Ministerial Portfolio Statements.

More Jobs for Queenslanders

Breaking the Unemployment Cycle remains one of the Government's key initiatives of the 2001-02 Budget. The Government will continue to provide competitive and cost effective infrastructure to ensure that Queensland remains competitive in domestic and international markets and to assist business and industry create secure and sustainable jobs.

Capital investment highlights that contribute to this priority include:

- \$74.6 million to build 300 new dwellings and complete dwellings currently under construction, and \$81.1 million to upgrade existing housing under the Department of Housing's Public Rental Housing Output, Urban Renewal and Portfolio Renewal projects.
- \$189.4 million for the construction of a 385 megawatt combined-cycle gas turbine located adjacent to the existing Swanbank Power Station in Ipswich. The project is valued at \$280 million and is due for completion in October 2002.
- \$72 million will be spent in 2001-02 on integrated transport, including \$22 million on the Inner Northern Busway (total project cost \$135 million) and \$50 million on the South-East Transit Project (total project cost \$599 million).
- A number of major rail projects have been funded, including \$236.1 million to develop and maintain the rail network, \$63.3 million to upgrade coal and freight locomotives and rollingstock, and \$141.6 million to improve passenger services including station upgrades, security and suburban and interurban rail units.
- \$242.3 million to upgrade port facilities in 2001-02.

Building Queensland's Regions

Employment growth and better access to services and facilities outside Brisbane will help ensure the long-term viability of regional and rural Queensland, creating sustainable economic growth and stronger regional communities. In 2001-02, the Government will maintain its commitment to providing Queensland's regions with quality infrastructure.

Capital investments that contribute to this priority include:

- \$57 million in 2001-02 to renew rail track between Rockhampton and Townsville. Total estimated cost of this project is \$251 million.
- \$46 million in 2001-02 for the Cairns Tilt Train Project. Total estimated cost of this project is \$138 million.

- \$642.5 million towards roads capital funding including \$19.1 million towards the Barkly Highway, \$36 million to continue upgrading the Yandina to Cooroy Bypass from two to four lanes, \$4 million to commence the duplication of the Gatton Bypass (total project \$30 million), and \$1 million to commence the upgrade to six lanes of the Ipswich Motorway between the Logan Motorway and Riverview (total project \$64 million).
- \$30 million to develop the Gold Coast Convention and Exhibition Centre. Total estimated cost of this project to the State is \$100 million.
- \$2.7 million to complete public infrastructure works at Nelly Bay. Total estimated cost of this project is \$9.8 million.
- \$3 million to establish a Turtle Interpretive Centre in the Bundaberg area.

Skilling Queensland – The Smart State

In 2001-02, the Government continues to maintain its emphasis on developing a highly skilled workforce that meets current and future needs. Ongoing investment in education and training ensures a better educated, highly skilled and more flexible workforce that is able to adapt and strengthen Queensland's position in the information age.

Capital investment highlights that contribute to this priority include:

- \$32.6 million in 2001-02, for the *Secondary School Renewal Program*, which will reinvigorate older secondary schools. The total estimated cost of this project is valued at \$126.9 million.
- \$17.9 million to assist the tertiary education sector including \$13.2 million to purchase land for Griffith University, and grants for Central Queensland University and Australian Catholic University of \$2.4 million and \$2.3 million respectively.
- \$27.7 million for TAFE Queensland infrastructure to enhance the delivery of training in Queensland. Additional support of \$10.4 million is provided to upgrade and enhance communication and information technology across TAFE Queensland.

Safer and More Supportive Communities

In 2001-02, the Government will continue to invest in community infrastructure that promotes the social development of Queensland to ensure that people feel safe and secure, to protect children from harm, to support diversity and social justice, and to ensure a fair system of justice prevails.

Capital investment highlights that contribute to this priority include:

- \$86.3 million in 2001-02 for police capital infrastructure to improve the efficiency and effectiveness of policing services. New stations will be built in some areas where demand for police services is increasing, while in other areas, current police facilities will be refurbished or replaced. Assets will be purchased to improve the efficiency and effectiveness of policing services.

This initiative provides for several projects including \$4.3 million for the replacement of the watchhouse at Mount Isa, \$2.3 million for a new police station at Rockhampton North, \$1 million for a new police station at Calamvale and \$1 million for a new police station and residential accommodation at Fraser Island.

- \$31.1 million is provided in 2001-02 for new or refurbished courthouses at Caloundra, Inala, Mackay, Mount Isa, Pormpuraaw, Wynnum and the new Magistrates Courthouse in Brisbane. The upgrades will enable improved access to a system of justice and administrative services, which protects the rights of individuals and engenders community confidence in the rule of law.

Better Quality of Life

The Government's ongoing objective is to create appropriate infrastructure to support social services and to enhance Queenslanders' quality of life. In 2001-02, the focus will remain on better access to the health system, improving public housing and support services.

Capital investment highlights that contribute to this priority include:

- \$381.6 million for a number of community health, hospitals, mental health and residential care projects, pathology and scientific services, state of the art information and health technology and grants to the Queensland Institute of Medical Research.
- Major hospital redevelopment projects to be finalised, or nearing completion, in 2001-02 include Cairns Hospital (\$109 million, total project cost), Townsville Hospital (\$181 million), Rockhampton Hospital (\$26 million), Maryborough Hospital (\$18 million), Nambour Hospital (\$26 million) and the Gold Coast Hospital (\$54 million).
- \$120 million is provided over the next five years to rebuild and redevelop the State Government's nursing homes to ensure facilities are safe, modern and comfortable and equal to or better than Commonwealth accreditation standards. \$10 million is provided in 2001-02 to commence the redevelopments.
- Increased funding of \$13 million is provided over the next three years to purchase MRIs (magnetic resonance imaging) at the Gold Coast and the Prince Charles Hospitals and operating theatre equipment for use across the State. \$4.4 million will be granted to the Royal Flying Doctors Service to purchase a plane that will service the North Queensland area.
- \$61.2 million will be spent on Aboriginal and Torres Strait Islander housing including capital grants of \$39.9 million to be allocated to 34 Aboriginal and Torres Strait Islander Community Councils for the provision of additional housing and improvements within their communities, and \$21.3 million for the purchase of land, construction of housing and improvements throughout Queensland.

Valuing the Environment

The Government's ongoing commitment to responsible and sustainable access and development of Queensland's natural and primary resources is reflected in the 2001-02 capital program. Its focus is on gradually increasing the National Park estate, conserving, rehabilitating and managing ecologically sensitive regions, supporting cleaner and more efficient energy sources and managing Queensland's water resources.

Capital investment highlights that contribute to this priority include:

- \$10 million over five years for the “Great Walks of Queensland” initiative. This project will enable the creation of a world class network of walking tracks and associated low impact support facilities for visitors to prominent parks and forests across Queensland. Expenditure in 2001-02 is estimated at \$2 million.
- \$3.1 million to secure areas of high conservation value, protecting key coastal resources along the extensive Queensland coastline. An additional \$3 million is allocated to acquire properties in Central and Northern Queensland with high biodiversity value.

Strong Government Leadership

The *Charter of Social and Fiscal Responsibility* provides a framework for accountability through the identification and endorsement of policy priorities and performance indicators. In 2001-02, the Government will continue to focus on exploring and implementing new ways to improve the delivery of services and to strengthen the openness, accountability and integrity of Government operations.

Capital investment highlights that contribute to this priority include:

- \$7.2 million for the Access Queensland initiative. The initiative will deliver an integrated service delivery platform for the Queensland Government to deliver seamless access to information and services. The capital components of this initiative are aimed at utilising modern technologies to build whole-of-Government infrastructure to achieve integrated service delivery through a variety of channels.
- \$0.7 million for the Criminal Justice Commission to maintain existing service levels and to provide better access for its clients.

7. LONG TERM FISCAL TRENDS AND RISKS

KEY POINTS

- The broad direction of fiscal policy pursued by the State Government has helped ensure that the State maintains one of the strongest balance sheets of any sub-national government in the world.
- Expenditure effort has moved above the Australian average, reflecting factors such as an ageing population, continued high population growth, and the need to maintain and enhance services in the context of a regionally dispersed population.
- In terms of revenue, the key trends have been the maintenance of a competitive tax regime but a narrowing of the State's tax base and reduced fiscal flexibility due to national tax reform.
- The State's strong balance sheet position and commitment to sound fiscal management provide a high degree of flexibility to adapt to externally driven changes.

INTRODUCTION

Consistent with the long term trends impacting on the State's fiscal position, the 2001-02 Budget has been framed in the context of:

- the State maintaining its competitive tax regime;
- recurrent expenditure effort in key service delivery areas moving above the Australian average; and
- the capital program moving towards longer term trend levels, reflecting several major capital spending initiatives approaching completion, particularly the significant investment in upgrading the State's public hospital system.

The fiscal position achieved in recent years is a reflection both of these ongoing trends and the principles underpinning sound economic and financial management, as outlined in the *Charter of Social and Fiscal Responsibility* (the Charter). In particular, the Charter requires the Government to ensure that State taxes and charges remain competitive with the other States and Territories, maintain an overall General Government operating surplus (in GFS terms) and build Total State net worth. Major social and demographic factors impacting on the State's longer term fiscal position include an ageing population, continuing high population growth and a regionally dispersed population.

The appendix to this chapter outlines the risks associated with attainment of the fiscal principles set out in the Charter.

LONG TERM CHALLENGES

Trends in Government service delivery reflect the general social and economic trends affecting the State and the fiscal strategies adopted by Governments.

The current Government initiated the annual Priorities in Progress report which identifies current performance in achieving the desired outcomes of Government and opportunities for future improvement in service delivery. The Priorities in Progress report enhances the ability of the Government to identify emerging trends and facilitates the strategic allocation of outputs in order to meet its priorities.

This section outlines a sample of the key social trends and challenges that will continue to impact on the activities of Government, as reflected through the State Budget.

Ageing Population

The main demographic change affecting all Australian States is the ageing of the population. The median age of the Australian population, the age at which half the population is older and half is younger, has increased by 5.8 years in the last 20 years¹.

This is reflected in the number of people aged 65 years and over increasing by 87% from June 1980 to June 2000. In the next 20-30 years, the ageing of the population will place demands on Government services, particularly health and community services, substantially in excess of past service levels. This is due to the “baby boomer” generation (born between 1946 and 1960), moving into retirement in the next decade, forming the largest ever retirement age cohort.

The ageing population places strong pressure on State governments to build the capacity now to deliver social services to this group in retirement, utilising taxes collected largely from this generation while they are of working age.

General Demographics

As well as an ageing population, there are some notable demographic characteristics specific to Queensland, including:

- the highest rate of population growth of the States, primarily from interstate and overseas migration²;
- a high rate of natural increase in population (excess of births over deaths) compared with other States, resulting in a comparatively large child population (0-14 years)³; and
- greater geographic diversity. 54% of Queenslanders live outside the capital city, whereas in the other States combined, only 32% of the population live outside the capital. In the year to June 2000, Queensland was the only State where population growth outside the capital exceeded growth in the capital city.⁴

¹ ABS Cat. No. 3201.0. June 2000.

² ABS Cat. No. 3101.0 December Quarter 2000.

³ Population group 0-14 years – June 1999 to June 2000. Source: ABS Cat. No. 3201.0, June 2000.

⁴ Population outside capital city statistical division as a percentage of State population – 2000 preliminary data. Source: ABS Cat. No. 3218 1999-2000.

These population characteristics have created challenges in Government service delivery over the last 20 years, including:

- growing demand for Government services, with particular emphasis on:
 - educational requirements – particularly given the trend towards life-long education; and
 - health and community care requirements associated with an ageing population;
- ensuring high quality services in rural and remote areas where there are small population groups; and
- growing demand for energy, transport, communication and other basic infrastructure.

The risks to the Budget associated with unanticipated changes to these demographic trends is outlined in the appendix to this chapter.

Indigenous Demographics

Indigenous Australians comprise 3% of the Queensland population (Queensland's Indigenous population comprises 27% of the national total)⁵. The age distribution of the Queensland population as a whole is very different to the Aboriginal and Torres Strait Islander population in Queensland.

In contrast to the general population, the Aboriginal and Torres Strait Islander population is relatively young. 41% of the Aboriginal and Torres Strait Islander population are less than 15 years old⁵ (22% for the entire population) and have life expectancy 15-20 years less than that for non-Indigenous peoples⁶. The proportion older than working age (65 and over) is 3% for Indigenous people and 11% for the entire population⁵.

The 1999-2000 Priorities in Progress report identified that significant action is required to improve the health and wellbeing of Indigenous Queenslanders. Action taken to improve the wellbeing of Indigenous Queenslanders will reduce future demands on health and other social services.

Environment

Centuries of economic and population growth have created a world-wide recognition of the significant issues in the protection of the environment. The Government recognises as a key priority protecting the environment and its biodiversity for future generations. The Government is seeking to achieve the following outcomes in relation to the environment:

- richness of the environment protected for the benefit of current and future generations; and

⁵ ABS Cat. No. 4705.0. 1996. Based on 1996 Census data. Estimates for the entire population are taken from the same source (although outdated) to ensure comparability.

⁶ ABS Cat. No. 4704.0 1999.

- responsible and sustainable access and development of Queensland's natural and primary resources.

While the current Budget contains significant funding directed at achieving these outcomes, the 1999-2000 Priorities in Progress report identified areas where there are opportunities for Queensland to improve environmental outcomes. Areas where future action is likely to be required over the long term include further progress on addressing the greenhouse issue, soil erosion and increasing biodiversity in protected areas.

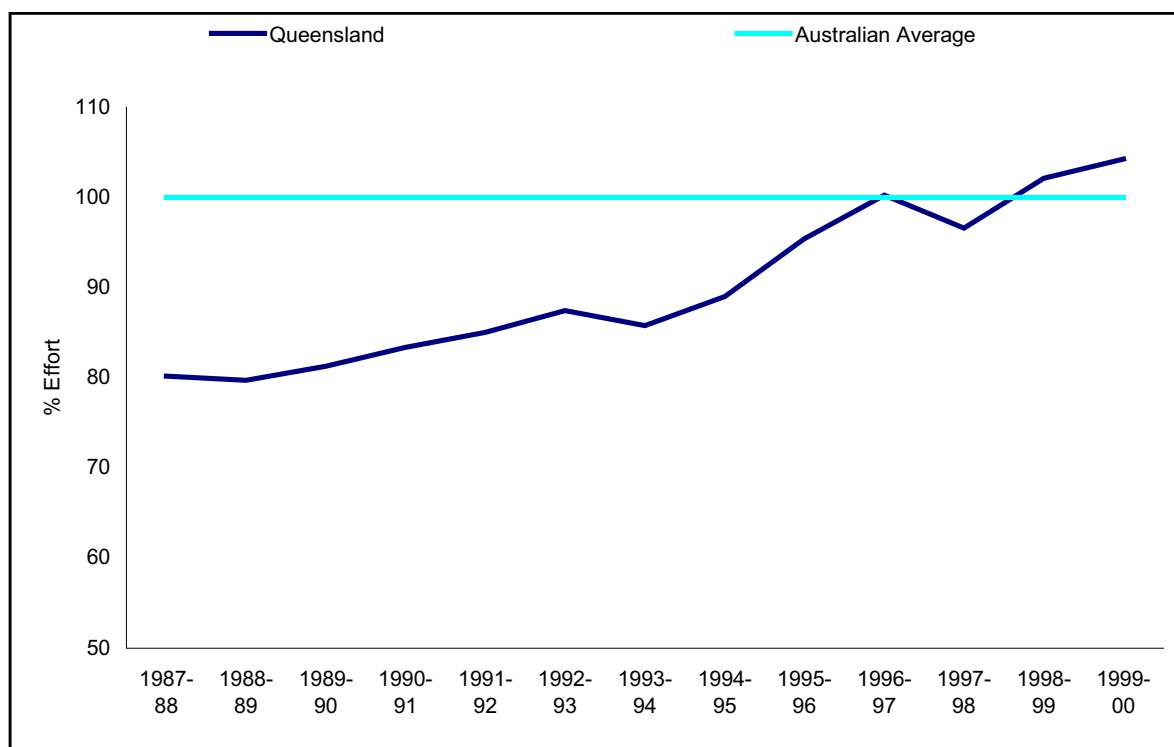
TRENDS IN RECURRENT EXPENDITURE

A strong financial position is not an end in itself but an important element in achieving the broader range of policy objectives necessary to advance the prosperity, welfare and quality of life of the Queensland community.

Over the last ten years, successive Governments have responded to these social and economic challenges by increasing expenditure effort and altering the mix of resources to meet changing community needs. Enhancements to service delivery are reflected in Queensland spending more than previously in key social service delivery areas.

In recent years, Queensland's recurrent expenditure effort has been moving towards the Australian average. As shown in Chart 7.1, over the past 12 years total expenditure effort has risen from around 80% of the Australian average to levels now exceeding the average.

Chart 7.1
Level of Service Provision Ratios



Source: Commonwealth Grants Commission.

Revenue and expenditure effort, as shown throughout this chapter, are measures calculated by the Commonwealth Grants Commission (CGC). More detail on how these measures are derived is provided in Box 7.1.

Box 7.1 Commonwealth Grants Commission's Revenue Raising Effort and Level of Service Provision Ratios

The Commonwealth Grants Commission (CGC) assesses a State's need for Commonwealth financial assistance by taking into account its revenue capacities and expenditure needs (what a State is required to spend to provide an Australian average level of service). These assessments are prepared on a policy neutral basis, which means that only those factors that are beyond a State's control are considered.

CGC measures used in this paper are:

- the revenue raising effort ratio, which measures the severity of a State's taxes and efficiency in ensuring compliance, compared to its capacity to raise revenue from that source; and
- the level of service provision ratio, which measures both the level of services provided in a State relative to what is required given conditions outside a State's control, and the relative efficiency with which they are provided.

When used at an aggregate level, these measures can offer a more informed view of fiscal policy settings over a specified time period. Ratios of greater (less) than 100% indicate high (low) tax policies or above (below) average levels of service provision.

Efficiency in Service Delivery

Evidence from independent sources is that Queensland is one of the more efficient providers of government services among the States. As an example, analysis by the Productivity Commission⁷ shows that Queensland is relatively more efficient in a range of areas such as providing hospital care, corrective services, courts and public housing.

In the area of health care for example, an efficiency indicator used by the Productivity Commission is the average cost per casemix adjusted separation⁸. Based on this indicator, Queensland provides equivalent hospital services at a cost that is more than 8% lower than the Australian average.

This efficiency, combined with the increase in expenditure effort, has resulted in Queensland leading the way in actual service levels in many areas.

TRENDS IN CAPITAL EXPENDITURE

In the decade prior to the 2000-01 fiscal year, capital spending increased in both real and absolute terms. This increase reflected policies to improve the State's infrastructure and service delivery capacity and a recognition of the direct employment impacts of public capital expenditure. An example of the initiatives implemented during that time is the \$2.8 billion *Statewide Health Building* program, which has involved building new facilities and upgrading

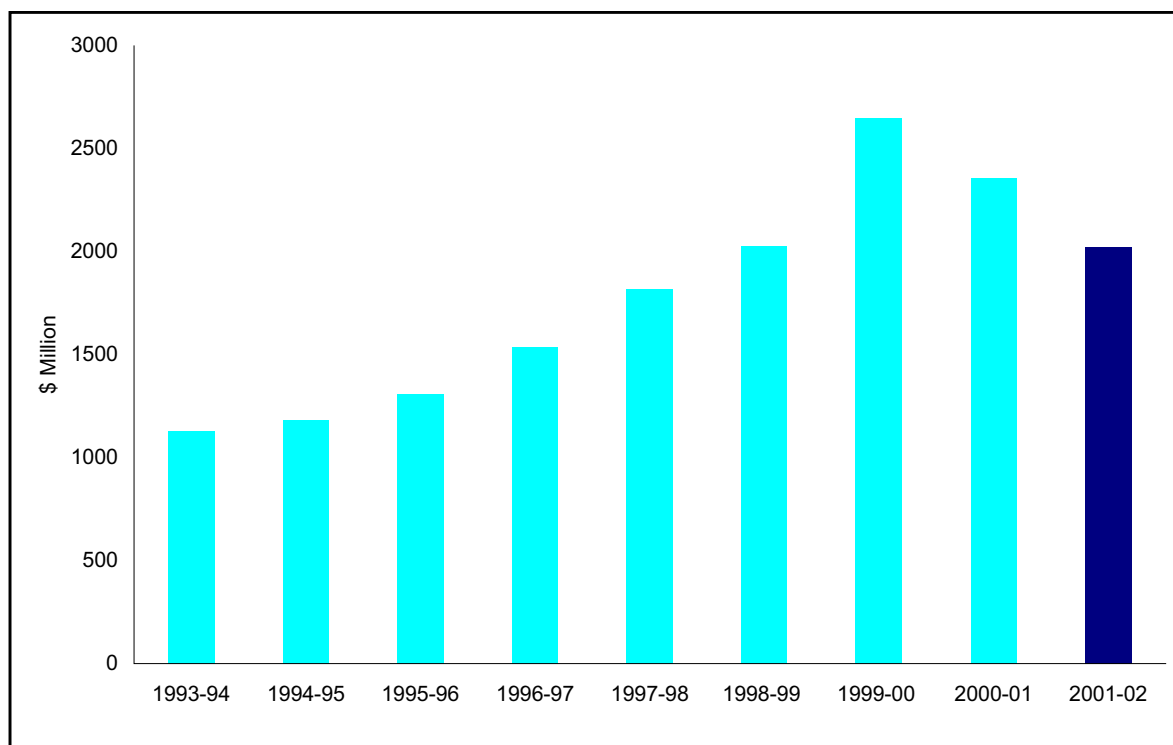
⁷ Productivity Commission Report on Government Services 2001.

⁸ This indicator measures the average cost of providing care for an admitted patient, adjusted for relative complexity of the mix of patients' clinical conditions and of hospital services provided. Based on Australian Hospital Statistics (Australian Institute of Health and Welfare).

existing facilities to accommodate expected increases in demand, driven by influences such as the ageing population.

Estimates of capital spending for 2000-01 and 2001-02 for the General Government Sector remain high by historical standards (refer to Chart 7.2), but show a decline from the record high in 1999-2000 as major capital programs, such as the *Statewide Health Building* program, are moving towards completion.

Chart 7.2
General Government Gross Fixed Capital Expenditure

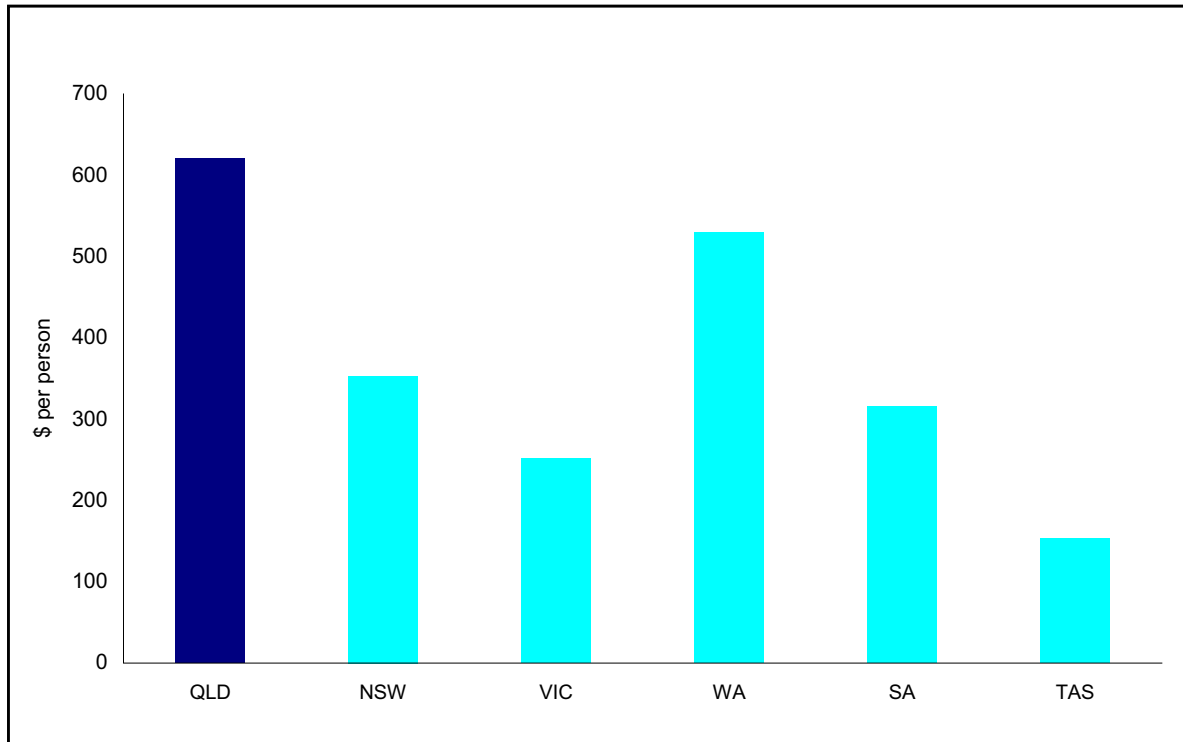


Source: 1993-94 to 1997-98 ABS 5501. 1998-99 and 1999-2000 Audited Actuals. 2000-01 Estimated Actual. 2001-02 Budget Estimate.

General Government capital expenditure in Queensland in 2000-01 is expected to account for more than 29% of all capital expenditure by Australian State and Territory governments⁹. On a per capita basis, Queensland has the largest capital program of any State (see Chart 7.3).

⁹ Source: Estimated actuals from state budget papers for QLD, NSW, VIC and TAS. WA Pre-Election Financial Projections Statement.

Chart 7.3
General Government Capital Expenditure Per Capita – 2000-01



Source: *Estimated actual Gross Fixed Capital Formation from State budget papers for QLD, NSW, VIC, SA and TAS. WA Pre-Election Financial Projections Statement. Population data from ABS Cat. No. 3101.0.*

Funding Capital Expenditure

Agencies are provided funding for depreciation in order to maintain existing levels of capital stock over time.

Increases in the capital stock at the State level can only be funded from operating surpluses, or through recourse to balance sheet measures such as borrowing, asset sales or the conversion of financial assets to physical assets.

Capital Spending and the Fiscal Principles

The fiscal strategy objectives in the Charter imply that a sustainable balance will automatically be reached over the long term between the capital and recurrent sides of the Budget. The State's strong balance sheet, however, affords the State relatively more flexibility in this context than is available to other jurisdictions.

The fiscal principles in the Charter include:

- the Government will ensure its level of service provision is sustainable by maintaining an overall General Government operating surplus;
- borrowings and other financial arrangements will only be undertaken for capital investments and only where these can be serviced within the operating surplus;

- the Government will ensure that the State's financial assets cover all accruing and expected future liabilities of the General Government sector; and
- the Government will at least maintain and seek to increase Total State net worth.

Impact of Capital Spending on the Operating Statement

Funding capital from one-off sources reflects strategic decisions regarding the optimal use of the Government's resources (ie. the sale of one asset to finance another). Where it is desirable to fund the capital program without reducing government ownership in existing assets (hence growing net worth), the Government's fiscal strategy implies a long term limit on the total size of the capital program to that which can be funded from the operating surplus and depreciation provisions.

There is a direct correlation between the size of the Government's capital base and recurrent depreciation expense. The budgeted depreciation expense represents that portion of the Government's total fixed asset base (capital base) estimated to be consumed in the financial period covered by the Budget. Put simply, the larger the capital base, the higher the depreciation expense. The State's large capital investment program in recent years has seen a significant increase in the value of the Queensland Government's asset base and a corresponding increase in depreciation expense.

Compared with agencies in the larger States, Queensland Government agencies have adopted a more conservative approach to asset management and applied higher average rates of depreciation to their assets¹⁰. Although this results in lower operating surpluses, it also generally results in either younger assets, as assets are renewed more frequently, or a larger portion of new assets being funded from internal sources.

Impact of the Capital Program on the Balance Sheet

The State's capital program has been sustained without compromising the underlying strength of the balance sheet. The funding of the State's actuarially assessed liabilities such as superannuation and long service leave has enabled the State to achieve a negative net debt position. By producing strong operating results overall, and borrowing where prudent, Queensland has been able to finance a substantial capital program within a negative net debt position.

As seen in Chart 7.4, Queensland has very low net debt in comparison to other States. Unlike the other major States, Queensland is in a negative net debt position. Significantly, the State has a strong net debt position in comparison to other States even when superannuation related assets are set aside. The State's balance sheet position has not been compromised by comparatively high levels of capital expenditure.

¹⁰ General Government depreciation expense in Queensland equates to 3.4% of General Government non-financial assets estimated for June 2001. For New South Wales and Victoria, this figure is 2.2% and 2.3% respectively, based on data presented in published Budget Papers.

Chart 7.4
Net Debt per Capita, 30 June 2001



Source: *Estimated actual Net Debt from State budget papers for QLD, NSW, VIC, SA and TAS. WA Pre-Election Financial Projections Statement. Population data from ABS Cat. No. 3101.0.*

TRENDS IN STATE GOVERNMENT REVENUE

Trends in the size and composition of State revenue have been equally significant in shaping the evolution of Queensland's fiscal position over recent decades. The State's revenue comprises taxation revenue, Commonwealth Government funding, interest revenue and other revenue. Further details of the composition of the State's revenue are contained in Budget Paper No. 3.

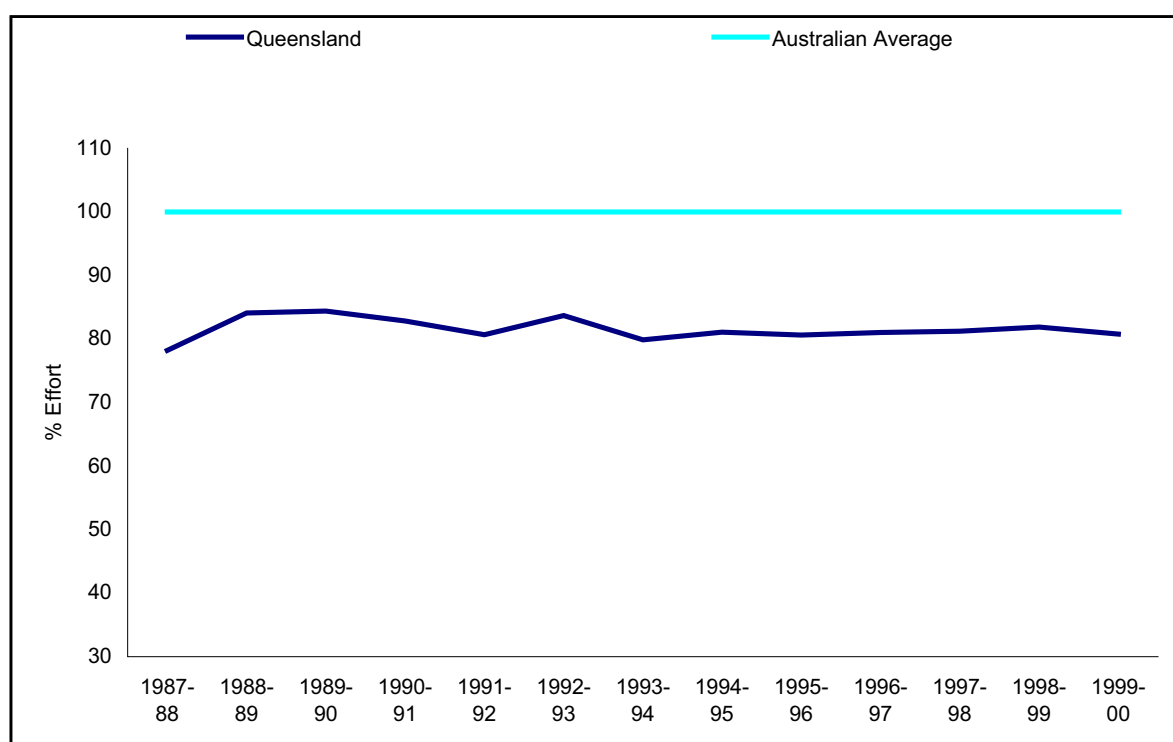
Taxation Revenue

Although total taxation revenue has increased due to factors such as economic and population growth, the State has low tax levels in relation to other States. This reflects both the fiscal flexibility offered by the State's strong balance sheet position and the Government's Charter commitment to ensure that State taxes and charges remain competitive with the other States and Territories.

As shown in Chart 7.5, Queensland's taxation revenue raising effort, as assessed by the CGC, has remained well below the Australian average (represented as 100%) in recent years. To ensure comparability between years, Chart 7.5 adjusts the CGC's assessments for the change in taxation responsibilities associated with the introduction of the GST (the impacts of tax reform are discussed below). This graph confirms that Queensland's favourable tax status is due to the Government's tax policies rather than any underlying weakness in its capacity to raise revenue.

The maintenance of Queensland's competitive tax status is fundamental to the Government's commitment to job creation and economic development. Queensland provides a competitive advantage to business and a reduced tax burden for its citizens by maintaining competitive tax rates and significant tax expenditures. Queensland's tax competitiveness is discussed in greater detail in Chapter 3 of Budget Paper No. 3.

Chart 7.5
Taxation Revenue Raising Effort Ratios for Queensland



Note: These figures are calculated using Financial Assistance Grant relativities in order to reflect States' pre-tax reform revenue capacities and expenditure responsibilities.

Source: Queensland Treasury based on Commonwealth Grants Commission data.

The ability to maintain a competitive tax revenue raising effort has added considerably to Queensland's fiscal flexibility. The ability to raise further revenue in the event of a large externally driven shock to the State's fiscal position means that the State has the capacity to maintain its commitment to ensuring an operating surplus on a GFS basis over the medium term.

The introduction of Commonwealth tax reform has resulted in certain State taxes being replaced by grants from the Commonwealth, funded by GST revenue. This change has reduced the fiscal flexibility of all States by limiting the options for raising additional State taxation revenue.

The risks to Queensland's taxation revenue are outlined in the appendix to this chapter.

Funding from the Commonwealth

Funding from the Commonwealth comprises general revenue, which can be used at the discretion of the recipient State, and specific purpose payments (SPPs) which are conditional payments tied to particular Commonwealth policy objectives. Further detail on the composition of Commonwealth funding is contained in Chapter 4 of Budget Paper No. 3.

Impact of Tax Reform on General Revenue

The Commonwealth's tax reforms have resulted in the States receiving the revenues from GST largely at the expense of the abolition of a number of State taxes, the Commonwealth's financial assistance grants and Section 90 payments. The introduction of the GST and the reduction in States' own source revenues mean that the States have reduced capacity to alter the mix or rates of State taxes in response to changing economic circumstances. Commonwealth tax reform has exacerbated the already high levels of vertical fiscal imbalance.

During the transition years of national tax reform, any underestimation of the GST revenue will benefit the Commonwealth and not the States. GST receipts above current estimates will offset the Commonwealth's budget balancing assistance to the States. Further, Queensland remains concerned that any increased funding beyond 2002-03 may be offset by arbitrary Commonwealth changes to SPP funding arrangements and/or shifts in funding responsibilities for programs. Further detail on the impact of national tax reform is in Chapter 4 of Budget Paper No. 3.

Distribution of Payments to Queensland

From 2000-01, general revenue comprises GST revenues, budget balancing assistance and national competition payments. The disbursement to the States, including the current GST revenues, is determined by the Commonwealth Government following recommendations from the CGC, based on the principles of horizontal fiscal equalisation.

Changes in the composition of general revenue makes direct comparison of estimates of Commonwealth funding with previous years difficult. However, comparisons can be made between Queensland's share of funding relative to its population share. Table 7.1 outlines Queensland's Commonwealth funding shares for 1992-93 and 2001-02 and compares them with Queensland's population shares.

Table 7.1
Queensland's Relative Shares of Commonwealth Funding

	Queensland	Australia	Share %	Share Relative to Population %
<u>1992-93</u>				
General Revenue ¹ (\$m)	2,777.1	14,087.1	19.7	112.6
SPPs to the State (\$m)	1,953.1	11,294.3	17.3	98.9
Total (\$m)	4,730.2	25,381.4	18.6	106.3
Population ('000)	3,075.1	17,578.6	17.5	
<u>2001-02</u>				
General Revenue ² (\$m)	5,545.9	30,654.1	18.1	96.3
SPPs to the State (\$m)	2,762.9	15,073.7	18.3	97.3
Total (\$m)	8,308.8	45,727.8	18.2	96.8
Population ('000)	3,656	19,483	18.8	
Notes: 1. Comprises financial assistance grants, identified road grants and capital grants. 2. Comprises GST, budget balancing assistance and national competition payments. Source: <i>Commonwealth Budget Papers</i> .				

Queensland's share of general revenue relative to its population share has been declining over time. In 1992-93, Queensland's share of general revenue was 19.7% and its population share was 17.5%, indicating that Queensland received 12.6% more general revenue than its population share. For 2001-02, Queensland's expected share of general revenue at 18.1% is lower than its expected population share of 18.8%.

There has been some growth overall in specific purpose payments to Queensland since 1992-93. However, growth in the share of SPPs directed to Queensland (from 17.3% to 18.3% share) has been less than the growth in the State's population share (from 17.5% to 18.8% share). The risks associated with SPPs are discussed in the appendix to this chapter.

In total, Commonwealth funding to Queensland was 6.3% above its population share in 1992-93 but is expected to be 3.2% lower than its population share in 2001-02. This data indicates a general decline in Queensland's relative share of funding from the Commonwealth since 1992-93. The maintenance of overall funding in line with population share would have resulted in additional revenue of \$271 million in 2001-02. Further discussion of Federal financial relations is included in Chapter 4 of Budget Paper No. 3.

Interest Revenue

Queensland is unique among the Australian States in that it has fully funded its employee entitlements, including long service leave and superannuation. This has resulted in Queensland having a large pool of assets invested to offset its employee entitlements liability. Revenue from this source is a significant contributor to General Government revenue.

Queensland's effort in raising interest revenue, as assessed by the CGC, was over 300% in both 1998-99 and 1999-2000¹¹. This is significantly above the Australian average (being 100% effort), reflecting strong returns from a large asset base.

However, the investment returns achieved in recent years have highlighted the volatility associated with this revenue sources. For example, the larger than budgeted operating result in 1999-2000 (\$1.062 billion) occurred primarily due to stronger than anticipated investment returns and lower than expected returns contributed to an estimated actual deficit in 2000-01.

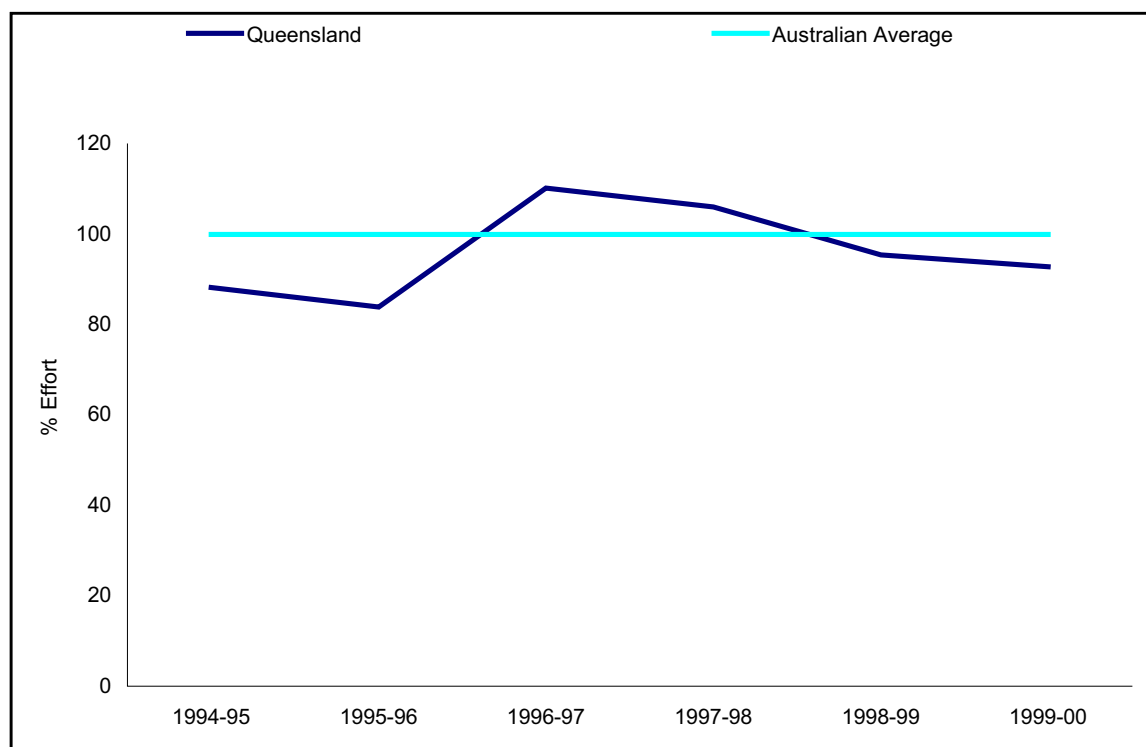
Other Revenue

Other revenue collected by Queensland includes:

- contributions by trading enterprises; and
- mining revenue.

Queensland's effort in raising "other revenue" in comparison to other States has remained around the Australian average, ranging between 83% and 110% as outlined in Chart 7.6 below.

Chart 7.6
Revenue Raising Effort – Other Revenue



Source: Commonwealth Grants Commission.

¹¹ Prior year data is not comparable due to a change in the scope of the budget data used by the CGC, associated with the move to accrual accounting.

There is a degree of risk associated with such revenue due to variable returns from competitive markets and from movements in key economic variables. These risks are detailed further in the appendix to this chapter.

IMPACT OF LONG TERM TRENDS ON FUTURE FISCAL MANAGEMENT

While the State's fiscal position from year to year will continue to be affected by external influences such as demographic and economic impacts, over the long term, the State's commitment to the sound fiscal management principles contained in the Government's *Charter of Social and Fiscal Responsibility* will leave it well placed to meet these challenges.

The 2001-02 Budget and forward estimates demonstrate the impact of these fundamental constructs, including:

- capital expenditure moving towards the long term average; and
- the operating position showing a modest improvement in the context of continued growth in both revenue and expenditure, which in turn reflect policies to meet the long term challenges faced by the State.

As demonstrated throughout this chapter, Queensland's ability to cope with externally driven changes is also enhanced by the flexibility offered by the State's strong balance sheet position and low tax status. However, if Queensland is to maintain its strong fiscal position into the long term, it will need to be treated equitably under the arrangements for distribution of GST and other Commonwealth funding to allow the State's growing service and infrastructure demands to be met.

APPENDIX – STATEMENT OF RISKS

INTRODUCTION

The Queensland State Budget, like those of other States and Territories, is based in part on assumptions made about future elements of uncertainty which are both internal and external to the State operating environment, but which can impact directly, either positively or negatively, on the Budget outcome and forward years. Operating results achieved in recent years reflect the fact that the actual fiscal result achieved depends on the direction of such variables.

Consistent with the *Charter of Social and Fiscal Responsibility*, this section analyses the sensitivity of the fiscal estimates to changes in the major economic and other assumptions used in estimating the Budget and forward estimates. This analysis is provided, as required under the Charter, to enhance the level of transparency and accountability of the Government.

Notwithstanding the risks associated with the Budget, Queensland is in a strong position to manage adverse impacts. Queensland's AAA credit rating, based on its relatively low tax status, strong balance sheet and negative net debt position (including fully funded employee entitlements of superannuation and long service leave) means it has greater capacity than any other jurisdiction in Australia to withstand the risks that are normally associated with any State or Territory Budget.

ECONOMIC RISKS AND OPPORTUNITIES

The major downside risks for the 2001-02 economic outlook lie in both external and domestic factors. There is also an element of upside risk to the forecasts.

- A recovery in the US economy over 2001-02, and an associated strengthening of the economies of Asia has been assumed in the forecasts. Recovery in the US economy from its current sluggish rates of growth is essential for an improvement in economic growth in Asia. Should the US economy fail to recover as expected, the flow-on effects on economic conditions in Asia would be damaging for Australia.
- The exchange rate has been assumed to recover only moderately from its recent low value. However, if the Australian dollar were to appreciate against the currencies of Queensland's major trading partners, lower export growth may ensue, and import growth may accelerate in response to improved relative competitiveness. In this case, net exports would detract from gross state product in 2001-02, resulting in lower economic growth than has been forecast.

- A solid recovery in private investment is forecast based on a turn-around in dwelling investment and a modest increase in business investment. With respect to dwelling investment, improved housing affordability and the extended Commonwealth Government First Home Owner Grant Scheme are expected to support investment following a protracted period of weakness. A modest recovery in business investment has been assumed in response to a steadying in the AUD exchange rate and reduced costs of borrowing. However, should profit margins continue to be squeezed over the second half of 2001, falling profitability may limit the positive impact of these two forces.

There are a number of factors which may impact on labour market outcomes in 2001-02. On the supply-side, the labour force participation rate has been forecast to remain stable at 65% in year-average terms in 2001-02. Should there be a substantial increase in the labour force participation rate, there will be a corresponding increase in the year-average unemployment rate. With respect to labour demand, the expected rise in employment is based on a strengthening in domestic activity in 2001-02. Should the eventual recovery differ substantially from the forecast, the actual rise in employment may also vary from the expected increase of 2%.

The recent Commonwealth Budget economic forecasts have been assumed in determining the outlook for the Queensland economy. Should the Commonwealth have underestimated the stimulatory effect of the fiscal measures contained in the Budget and the flow-on of monetary policy occur more rapidly than expected, national growth may be faster than forecast, with a consequent positive flow-on to economic activity in Queensland.

OPERATING STATEMENT RISKS

Expenditure

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 through the forward estimates period.

Demographic Risks

Many factors can influence the demand for goods and services, and therefore the cost of maintaining existing policies, including the broader social and demographic trends and flow on effects of policy changes. This is particularly evident in the health, education, community services and criminal justice sectors. For example, demand for public health services is directly influenced by the take up of private health insurance, which is a Commonwealth Government policy objective.

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

Economic Risk to Expenditure

The rate of inflation impacts on nominal government expenditure through the effect of price movements on wage settlements and costs of providing services, with labour being a major component of current outlays. Offsetting this is the effect that rising prices have on some components of revenue, such as stamp and conveyance duties.

Key economic variables in the context of the Budget position are therefore the rate of inflation, the rate of growth in gross state product, and the rate of growth in gross state expenditure (which abstracts external trade flows from gross state product).

Public Sector Wage Costs

The impact of enterprise bargaining agreements for the general public sector and Queensland Rail has been included in the Budget and forward estimates. These agreements include scope for the parties to discuss the wage increases should there be any significant inflationary developments due to the introduction of the GST, across the life of the agreement, which negatively impact on employees generally (taking into account compensation provided through tax cuts or transfer payments).

The Budget does not allow for the potential for further wage increases for the life of the agreements ratified in calendar year 2000 or anticipated in the near future. A contingency provision for future wage increases consistent with recent general wage movements is provided in the outyear forward estimates.

Actuarial Estimates of Superannuation and Long Service Leave

Liabilities for superannuation and long service leave are estimated actuarially with reference to, among other things, assumed rates of real investment return and costings of the State's defined and accumulation benefit schemes for superannuation. These liabilities are therefore subject to the risk that the real investment returns achieved over time by the underlying assets will differ from those assumed. Similarly, the long service leave liabilities are subject to the risk that the actual rates of employee retention will vary from those assumed in the liability calculation.

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

Depreciation

The Queensland Government requires all General Government Sector agencies to comprehensively revalue their non-current assets at five year intervals, with interim revaluations conducted annually using the deprival value methodology. Based on past years' experience, this has usually resulted in modest increases in asset values which are either commensurate with, or slightly more than, the general rate of inflation. However, it cannot necessarily be assumed that this will always be the case and should there be significant increases or decreases in the values of major infrastructure assets there will be a corresponding impact on depreciation expense (see also net worth below).

Revenue

Risks in Taxation Revenue Collection

The rate of growth in tax revenues is dependent on the rate of growth in economic activity in the State. Some taxes are closely related to activity in particular 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. Payroll tax is a major source of revenue for the State Government, with growth in payroll tax revenue directly linked to employment and wages growth. If the expected outcome for growth in gross state product is lower than forecast, there is a risk that employment growth will also be lower than forecast, with an ensuing adverse impact on payroll tax revenue. Equally, should employment or wages growth be stronger than forecast, there will be a positive impact on payroll tax revenues. Lower than expected economic growth would also negatively impact upon stamp duty receipts through reduced levels of business transactions and lower activity levels across the housing and equity markets.

A larger than expected increase in inflation is likely to have a positive influence on revenues as a number of revenue sources (taxes, grants and sale of goods and services) are linked to inflation through indexation or general price levels.

Property prices and volumes will also influence tax revenues. Any fall in property prices (assuming the number of property transfers is constant) would reduce conveyancing, land transfer and mortgage stamp duty receipts. Land tax receipts in future years would decrease in response to falling real estate prices (this is lagged due to the flow through of valuations for land tax assessments). Similarly, a decrease in the volume of property transfers, a likely consequence of any lower than expected economic growth, would reduce receipts from property taxes. However, a reduction in the number of land transfers would not reduce land tax receipts (assuming no compositional change).

Investment Returns

Investment earnings are based on the assumption of long-term average market returns for an acceptable level of risk. These investments principally cover the superannuation investment funds. The Government's financial investments are held in a balanced portfolio comprising cash, property, domestic and offshore equities and fixed interest.

A fluctuation in investment returns from the projected long-term average returns will affect revenues. The net impact on the Budget, however, depends on the extent to which those additional revenues must be passed onto employees as part of their superannuation entitlements – a matter for actuarial assessment by the State Actuary in accordance with the provisions of the State's superannuation schemes.

Royalties

Estimates of mining royalties are sensitive to movements in the \$A/\$US exchange rate and commodity prices. Also impacting on royalty estimates are factors such as volume effects and variations in the markets for different minerals.

Government Owned Corporations (GOCS)

Forecasts for dividends, tax equivalents and community service obligations (CSOs) for the GOCs are derived from best available information at the time the Budget figures are compiled. GOCs generally are operating in highly competitive markets where trading conditions may be subject to volatile fluctuations. As a result, ongoing volatility may result in variations in the earnings of GOCs, which in turn impacts on dividends and tax equivalents. This volatility may also impact on CSO requirements. The impact may be positive or negative depending on prevailing market conditions.

Commonwealth National Taxation Reform

The Commonwealth Government's national tax reform package was introduced with effect from 1 July 2000. As part of this package, the Commonwealth and all State and Territory Governments signed an Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations (IGA). Under this agreement, there have been substantial changes to the funding arrangements for States and Territories, including compensation for certain costs and revenue foregone.

Estimates of Commonwealth GST revenue grants to States and Territories are dependent on GST revenue collection. The Commonwealth Government has provided estimates of GST collections in its Budget Papers. Over time, GST collections are likely to be closely correlated with the general level of economic activity, especially household final consumption expenditure. In the early years of operation of the GST, there is likely to be a greater degree of uncertainty as to the level of revenue collection. As a result, under the IGA, the Commonwealth has agreed to provide transitional assistance, so that States and Territories' budgetary positions are no worse or better off. This ameliorates risks pertaining to Commonwealth general revenue for the first two years following the introduction of the GST. From 2002-03, Queensland's budget will bear the risks of fluctuations in GST revenues and the other components of the package (First Home Owner Grant Scheme, administrative costs associated with the GST, gambling tax losses, etc).

The IGA does not wholly protect the Queensland Budget because if the State's general revenue funding relativity determined by the Commonwealth Grants Commission falls, then the guaranteed minimum payment from the Commonwealth also falls, and the State can still potentially lose budgetary funding. The IGA does ensure, however, that the GST does not provide any extra funding to Queensland over what it would have received for 2000-01 and 2001-02.

Commonwealth Grants (Specific Purpose Payments)

Specific Purpose Payments (SPPs) are payments made by the Commonwealth to promote its policy objectives. Indexation arrangements and distribution among the States vary for each SPP. The Commonwealth reviews the payments each year and while it has guaranteed it will not reduce SPPs as a result of national tax reform, the State has insufficient certainty that SPPs will not be reduced for other purposes by the Commonwealth.

BALANCE SHEET RISKS

Net Worth

A key performance indicator in the Charter is Total State Net Worth. The operating outcome of the General Government Sector will have an impact on Total State Net Worth, as will any significant changes in asset values resulting from the application of the State's asset valuation policy. The State has used the deprival value methodology, which is equivalent to depreciated current replacement cost. However, from 1 July 2000 the revised Australian Accounting Standard AAS 10 will be applied generally and the new Australian Accounting Standard AAS 38 will be introduced. Departments will have until 30 June 2002 before full implementation becomes mandatory.

At this stage, there is insufficient information to quantify with any degree of certainty the likely impact of applying these standards. Nevertheless, there is some likelihood that the application of these new asset valuation standards will have a material impact on net worth in all jurisdictions, including Queensland, over the next few years.

HIH Insurance

HIH Insurance went into liquidation on 15 March 2001. HIH controlled FAI Insurance and CIC, both licensed Compulsory Third Party (CTP) insurers in Queensland (CIC was a CTP insurer in Queensland until 1996). With the liquidation of HIH, claims against FAI CTP policies that expired on or before 31 December 2000 now become the responsibility of the Nominal Defendant, as do all outstanding claims against Queensland CIC CTP policies. Payment in relation to these claims will be borne by the State over the next ten years, with the concentration expected to be in the next four years. 2000-01 estimated actual and Budget estimates reflect this liability. Offsetting this is an estimated return from the liquidator of HIH in the order of 35% of the liability. The realisation of a liability above that estimated or a lower return from the liquidator have the potential to impact on the operating result.

Contingent Assets and Liabilities

Contingent assets and liabilities represent items that are not included in the Budget as significant uncertainty exists as to whether the Government would receive or 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 contingent assets and liabilities are detailed and quantified in the Consolidated Financial (AAS31) Report. This report is published separate to the Budget and is based on audited actual results.

APPENDIX A

GOVERNMENT FINANCE STATISTICS

INTRODUCTION

Government Finance Statistics (GFS) data is used extensively in the presentation of financial statement information in the Budget Papers.

This appendix contains detailed financial statements for the Queensland Public Sector based on Australian Bureau of Statistics (ABS) Government Finance Statistics standards. The tables herein provide the detailed Uniform Presentation Framework data required under the Australian Loan Council arrangements for uniform financial reporting. In line with these requirements, detailed information for the Public Financial Enterprise (PFE) sector is not included, however estimated balances are included in General Government and Non-Financial State sector tables for comparability purposes.

In addition, the appendix provides background information on GFS, including the conceptual basis for GFS and its relationship with accounting standards and presentation, sector definitions, an explanation of main terms, and a list of reporting entities.

For detailed analysis of the GFS data readers should refer to Chapter 3 – Operating Statement, Chapter 4 – Statement of Financial Position and Chapter 5 – Statement of Cash Flows.

OPERATING POSITION

Net Operating Results

The following tables present operating statements for the General Government, Public Trading Enterprise (PTE) and State Non-PFE sectors on an accrual GFS basis.

General Government

The General Government sector operating result for 2001-02 is a surplus of \$24 million (\$820 million deficit in 2000-01). The sector is projected to record operating surpluses over the forward estimates period.

Public Trading Enterprise

The PTE sector is projected to have a GFS deficit of \$249 million in 2001-02 (\$73 million deficit in 2000-01). The sector is projected to record a small surplus in 2002-03 with further improvement projected for the next two outyears.

State Non-PFE

The consolidated operating result for the State sector in 2001-02 is a deficit of \$225 million (\$893 million deficit in 2000-01).

Table A.1
General Government GFS Net Operating Result

	Actual 1999-2000 \$ million	Est. Actual 2000-01 \$ million	Budget 2001-02 \$ million	Projection 2002-03 \$ million	Projection 2003-04 \$ million	Projection 2004-05 \$ million
OPERATING RESULT						
GFS Revenue						
Taxation revenue	5,051	4,223	4,429	4,676	4,904	5,121
Current grants and subsidies	6,203	8,533	8,948	9,103	9,482	9,834
Capital grants	448	510	508	473	447	464
Sales of goods and services	1,695	1,652	1,689	1,727	1,755	1,789
Interest income	1,773	981	1,260	1,350	1,501	1,653
Other	2,222	2,351	2,425	2,148	2,132	2,307
Total Revenue	17,392	18,251	19,261	19,478	20,220	21,169
<i>Less</i>						
GFS Expenses						
Gross operating expenses	11,060	13,083	13,491	13,862	14,219	14,805
Superannuation interest expense	710	538	604	715	839	972
Other interest expense	283	341	291	302	341	386
Current transfers	3,511	4,455	4,402	4,203	4,414	4,531
Capital transfers	766	655	450	357	364	405
Total Expenses	16,330	19,071	19,237	19,439	20,178	21,099
<i>Equals</i>						
GFS net operating balance	1,062	(820)	24	39	43	69
<i>Less</i>						
Net acquisition of non-financial assets						
Gross fixed capital formation	2,647	2,361	2,025	1,696	1,563	1,566
<i>Less</i> Depreciation	1,455	1,477	1,519	1,547	1,558	1,561
<i>Plus</i> Change in inventories	(26)	(10)	17	(8)	(7)	(21)
<i>Equals</i> Total net acquisition of non-financial assets	1,166	875	523	141	(3)	(16)
<i>Equals</i>						
GFS Net lending/borrowing (Fiscal Balance)	(104)	(1,695)	(499)	(102)	45	86

Main features of the General Government operating statement are:

- a surplus of \$1,062 million for 1999-2000 reflecting abnormally high interest income on the State superannuation investments and an associated reduction in superannuation expense;
- a deficit of \$820 million in 2000-01 reflecting the impact of the collapse of HIH Insurance, lower than expected interest income, and the transfer of assets from the State Government to a joint local government entity; and
- a prospective Budget surplus of \$24 million reflecting an expectation of a return to operating surpluses in the General Government sector after the extraordinary events which affected 2000-01.

Table A.2
Public Trading Enterprise GFS Net Operating Result

	Actual 1999-2000 \$ million	Est. Actual 2000-01 \$ million	Budget 2001-02 \$ million	Projection 2002-03 \$ million	Projection 2003-04 \$ million	Projection 2004-05 \$ million
OPERATING RESULT						
GFS Revenue						
Current grants and subsidies	1,038	1,022	882	754	812	937
Capital grants	37	1	..	..	..	..
Sales of goods and services	4,508	4,585	4,382	4,626	4,932	5,406
Interest income	52	54	54	52	56	59
Other	177	248	204	207	219	224
Total Revenue	5,812	5,910	5,522	5,640	6,018	6,626
<i>Less</i> GFS Expenses						
Gross operating expenses	4,245	4,155	3,995	4,025	4,269	4,594
Other interest expense	596	701	721	790	830	830
Other property expenses	846	1,101	1,030	791	820	959
Current transfers	6	11	12	12	12	12
Capital transfers	20	15	14	14	4	4
Total Expenses	5,713	5,983	5,771	5,632	5,935	6,399
<i>Equals</i> GFS net operating balance	99	(73)	(249)	9	84	227
<i>Less</i> Net acquisition of non-financial assets						
Gross fixed capital formation	1,610	2,196	2,052	1,609	1,447	1,264
<i>Less</i> Depreciation	978	1,066	1,140	1,223	1,297	1,361
<i>Plus</i> Change in inventories	(40)	17	(14)	4	21	18
<i>Equals</i> Total net acquisition of non-financial assets	592	1,147	898	390	170	(79)
<i>Equals</i> GFS Net lending/borrowing (Fiscal Balance)	(493)	(1,220)	(1,147)	(381)	(86)	306

The Public Trading Enterprise sector is estimated to have a \$73 million operating deficit in 2000-01. This reflects a sector result which is close to balance but which includes some entities which, in line with Government policy, do not operate in surplus eg. Queensland Motorways Company, Home Purchase Assistance Account, Enertrade.

An abnormally large operating deficit arises in 2001-02, reflecting extraordinary dividend payments arising from prior year surpluses, capital restructuring, and the sale or lease of some assets eg. Dalrymple Bay Coal Terminal. Under GFS conventions, proceeds from these sources are not included in revenue, and hence the extra payments included in expenses in 2001-02 result in an increased negative operating result.

Table A.3
State Non-PFE GFS Net Operating Result

	Actual 1999-2000 \$ million	Est. Actual 2000-01 \$ million	Budget 2001-02 \$ million	Projection 2002-03 \$ million	Projection 2003-04 \$ million	Projection 2004-05 \$ million
OPERATING RESULT						
	GFS Revenue					
	Taxation revenue	4,730	3,981	4,182	4,418	4,633
	Current grants and subsidies	6,198	8,557	8,971	9,098	9,361
	Capital grants	448	473	471	436	410
	Sales of goods and services	6,044	6,086	5,920	6,201	6,536
	Interest income	1,812	1,022	1,301	1,389	1,543
	Other	1,582	1,778	1,867	1,829	1,800
	Total Revenue	20,814	21,897	22,712	23,372	24,283
	GFS Expenses					
<i>Less</i>	Gross operating expenses	15,172	17,364	17,603	17,999	18,607
	Superannuation interest expense	710	538	604	715	839
	Other interest expense	866	1,028	998	1,079	1,158
	Current transfers	2,145	3,218	3,299	3,191	3,215
	Capital transfers	758	641	435	342	339
	Total Expenses	19,651	22,789	22,937	23,324	24,157
<i>Equals</i>	GFS net operating balance	1,163	(893)	(225)	48	126
<i>Less</i>	Net acquisition of non-financial assets					
	Gross fixed capital formation	4,257	4,556	4,077	3,305	3,009
	<i>Less</i> Depreciation	2,434	2,542	2,660	2,770	2,855
	<i>Plus</i> Change in inventories	(65)	7	3	(4)	13
<i>Equals</i>	Total net acquisition of non-financial assets	1,758	2,021	1,421	531	167
<i>Equals</i>	GFS Net lending/borrowing (Fiscal Balance)	(597)	(2,914)	(1,646)	(483)	(41)
						391

BALANCE SHEET POSITION

The following tables provide balance sheet data on an accrual GFS basis.

Table A.4 General Government GFS Balance Sheet						
	Actual 1999-2000 \$ million	Est. Actual 2000-01 \$ million	Budget 2001-02 \$ million	Projection 2002-03 \$ million	Projection 2003-04 \$ million	Projection 2004-05 \$ million
ASSETS						
Financial Assets						
Cash and deposits	753	880	764	674	692	774
Advances paid	161	172	208	240	267	300
Investments, loans and placements	12,835	12,725	13,158	14,933	16,591	18,444
Other non-equity assets	4,585	4,999	5,553	5,887	6,323	6,727
Equity	12,602	13,291	13,234	13,527	13,917	14,485
Total	30,936	32,067	32,918	35,262	37,790	40,729
Non-Financial Assets	41,833	43,442	44,247	44,686	44,986	45,273
Total Assets	72,769	75,508	77,164	79,947	82,776	86,001
LIABILITIES						
Borrowing	3,627	3,331	3,735	4,180	4,594	5,108
Superannuation liability	6,846	8,058	9,335	10,740	12,286	13,981
Other employee entitlements and provisions	2,497	3,055	3,094	3,106	3,139	3,210
Other non-equity liabilities	2,506	2,591	1,741	1,763	1,793	1,810
Total Liabilities	15,476	17,036	17,905	19,790	21,811	24,109
Net Worth	57,293	58,473	59,259	60,158	60,965	61,892
Net Financial Worth	15,460	15,031	15,013	15,472	15,979	16,620
Net Debt	(10,122)	(10,445)	(10,395)	(11,666)	(12,956)	(14,409)

General Government Net Worth increased from \$57.293 billion in 1999-2000 to \$58.473 billion in 2000-01, and is expected to further increase to \$59.259 billion in 2001-02. In the outyears, Net Worth is expected to continue to increase.

Structurally, the most notable features of the General Government balance sheet are:

- overall negative net debt ie. assets greater than liabilities, which arises because the Government maintains investment assets to fully fund its accruing superannuation liability;
- high levels of fixed (non-financial) assets. On a per capita basis, Queensland has the highest capital stock of any of the Australian States; and
- low levels of borrowing. In 1999-2000, the latest year for which audited data is available, borrowing comprised just 9% of the value of non-financial assets.

Table A.5
Public Trading Enterprise GFS Balance Sheet

	Actual 1999-2000 \$ million	Est. Actual 2000-01 \$ million	Budget 2001-02 \$ million	Projection 2002-03 \$ million	Projection 2003-04 \$ million	Projection 2004-05 \$ million
ASSETS						
Financial Assets						
Cash and deposits	677	765	282	102	51	203
Advances paid	..	45	42	40	37	34
Investments, loans and placements	929	712	735	765	801	841
Other non-equity assets	1,565	1,303	1,349	1,360	1,368	1,327
Equity	117	58	58	58	58	58
Total	3,288	2,883	2,467	2,325	2,314	2,463
Non-Financial Assets	22,914	25,086	26,568	27,243	27,722	27,987
Total Assets	26,202	27,969	29,035	29,568	30,037	30,450
LIABILITIES						
Deposits held	75	56	56	56	56	56
Borrowing	10,484	11,285	12,388	12,520	12,442	12,042
Other employee entitlements and provisions	2,589	2,950	3,081	3,236	3,447	3,791
Other non-equity liabilities	1,329	1,069	958	911	856	758
Total Liabilities	14,477	15,361	16,483	16,723	16,802	16,647
Net Worth	11,725	12,608	12,552	12,845	13,235	13,802
Net Financial Worth	(11,189)	(12,478)	(14,016)	(14,399)	(14,487)	(14,185)
Net Debt	8,953	9,819	11,384	11,669	11,610	11,020
<p>Note: A compositional change has occurred from 1999-2000 with some entities which were previously reported in the Public Financial Enterprise sector now being included in the Public Trading Enterprise Sector.</p>						

Public Trading Enterprise (PTE) Net Worth was \$11.725 billion in 1999-2000, rising to \$12.608 billion in 2000-01. Net Worth reduces in 2001-02 on account of the long-term lease of Dalrymple Bay Coal Terminal, and thereafter continues to increase.

The structure of the PTE balance sheet is significantly different from the General Government balance sheet, reflecting the commercial focus of the PTE sector.

Net debt is positive, reflecting that a significant proportion of fixed asset acquisition is funded through borrowing. There is a high correlation between borrowing and net debt in the PTE sector.

Nonetheless, borrowing levels overall are modest, with the ratio of borrowing to total assets generally being around 40%.

Table A.6
State Non-PFE GFS Balance Sheet

	Actual 1999-2000 \$ million	Est. Actual 2000-01 \$ million	Budget 2001-02 \$ million	Projection 2002-03 \$ million	Projection 2003-04 \$ million	Projection 2004-05 \$ million
ASSETS						
Financial Assets						
Cash and deposits	1,431	1,645	1,046	776	743	977
Advances paid	141	218	251	280	304	334
Investments, loans and placements	13,361	13,436	13,894	15,699	17,392	19,284
Other non-equity assets	3,504	3,245	3,580	3,756	3,999	4,053
Equity	995	740	740	740	740	740
Total	19,432	19,285	19,510	21,251	23,179	25,389
Non-Financial Assets	64,746	68,527	70,814	71,929	72,708	73,260
Total Assets	84,178	87,813	90,324	93,180	95,887	98,649
LIABILITIES						
Deposits held	75	57	57	57	57	57
Borrowing	13,689	14,617	16,124	16,701	17,037	17,150
Superannuation liability	6,846	8,058	9,335	10,740	12,286	13,981
Other employee entitlements and provisions	2,654	3,016	2,920	2,916	2,955	3,060
Other non-equity liabilities	3,621	3,592	2,630	2,609	2,589	2,508
Total Liabilities	26,885	29,340	31,065	33,022	34,922	36,757
Net Worth	57,293	58,473	59,259	60,158	60,965	61,892
Net Financial Worth	(7,453)	(10,055)	(11,555)	(11,771)	(11,743)	(11,367)
Net Debt	(1,169)	(626)	990	3	(1,346)	(3,389)

STATEMENT OF CASH FLOWS

Cash flow statement data has been derived from accrual source data for each sector of government.

Table A.7 General Government GFS Statement of Cash Flows						
	Actual 1999-2000 \$ million	Est. Actual 2000-01 \$ million	Budget 2001-02 \$ million	Projection 2002-03 \$ million	Projection 2003-04 \$ million	Projection 2004-05 \$ million
Receipts from operating activities						
Taxes received	5,043	4,224	4,429	4,676	4,904	5,121
Grants and subsidies received	6,839	9,023	9,418	9,549	9,928	10,300
Sales of goods and services	1,529	1,626	1,666	1,740	1,754	1,779
Other receipts	3,719	3,268	3,244	3,186	3,203	3,505
Total	17,130	18,141	18,756	19,152	19,789	20,705
Payments for operating activities						
Payments for goods and services	(11,110)	(9,773)	(11,210)	(11,460)	(11,757)	(12,240)
Grants and subsidies	(3,962)	(4,611)	(4,409)	(4,133)	(4,350)	(4,507)
Interest	(244)	(313)	(302)	(309)	(350)	(395)
Other payments	(392)	(612)	(560)	(522)	(527)	(539)
Total	(15,708)	(15,308)	(16,480)	(16,424)	(16,985)	(17,682)
Net cash inflows from operating activities	1,422	2,833	2,276	2,728	2,804	3,023
Payments for investments						
In non-financial assets						
Purchases of non-financial assets	(2,992)	(2,622)	(2,321)	(1,967)	(1,813)	(1,807)
Sales of non-financial assets	289	262	297	272	252	243
Total	(2,703)	(2,360)	(2,024)	(1,695)	(1,561)	(1,564)
Payments for investments in financial assets for policy purposes	510	604	386	..	..	..
Payments for investments in financial assets for liquidity purposes	(183)	(919)	(1,254)	(1,544)	(1,668)	(1,865)
Receipts From Financing Activities						
Advances received (net)	7	5	(2)	3	(9)	(13)
Borrowing (net)	536	(39)	501	418	453	500
Deposits received (net)	..	..	..	..	..	..
Total	543	(33)	500	421	444	487
Net Increase (Decrease) In Cash Held	(411)	127	(116)	(90)	18	82
GFS Surplus (Deficit) ¹	(1,281)	474	253	1,032	1,242	1,459
Note: 1. The published deficit for 1999-2000 includes a \$1.1 billion transfer of funds to the employees' superannuation funds, which is treated as payments for goods and services. Net of this amount there is an underlying deficit of \$181 million.						

The 2000-01 estimated actual for the General Government sector on a GFS cash flow basis is for a \$474 million surplus. This follows an extraordinary one-off deficit in 1999-2000 which arose largely from the transfer of superannuation assets to member funds.

Whilst this transfer did not involve any fundamental deterioration in the State's financial position, it impacted adversely on the cash flow statement because the offsetting accounting entries are of a non-cash nature and do not appear in the Statement of Cash Flows.

The budgeted cash flow surplus for 2001-02 is \$253 million. Outyear estimates are for increasing cash flow surpluses. These estimates mainly reflect strong revenue growth and lower purchases of non-financial (fixed) assets based on the planned capital program, which reduces in outyears as current major projects are completed.

Table A.8
Public Trading Enterprise GFS Statement of Cash Flows

	Actual 1999-2000 \$ million	Est. Actual 2000-01 \$ million	Budget 2001-02 \$ million	Projection 2002-03 \$ million	Projection 2003-04 \$ million	Projection 2004-05 \$ million
Receipts from operating activities						
Grants and subsidies received	1,363	1,083	886	754	812	937
Sales of goods and services	4,458	4,747	4,365	4,571	4,886	5,385
Other receipts	132	352	204	208	222	230
Total	5,953	6,182	5,456	5,533	5,920	6,552
Payments for operating activities						
Payments for goods and services	(2,806)	(2,979)	(2,617)	(2,467)	(2,720)	(2,987)
Grants and subsidies	(390)	(24)	(22)	(22)	(11)	(11)
Interest	(599)	(748)	(750)	(816)	(854)	(852)
Other payments	(338)	(311)	(268)	(296)	(233)	(256)
Total	(4,133)	(4,062)	(3,657)	(3,601)	(3,817)	(4,106)
Net cash inflows from operating activities	1,820	2,120	1,799	1,933	2,102	2,446
Payments for investments						
In non-financial assets						
Purchases of non-financial assets	(2,283)	(2,203)	(2,703)	(1,624)	(1,458)	(1,274)
Sales of non-financial assets	682	31	675	40	37	36
Total	(1,601)	(2,173)	(2,028)	(1,584)	(1,421)	(1,238)
Payments for investments in financial assets for policy purposes	(570)	(64)	..	..	..	..
Payments for investments in financial assets for liquidity purposes	(157)	157	(1)	(6)	(6)	(7)
Receipts From Financing Activities						
Advances received (net)	(6)	..	..	..	..	..
Borrowing (net)	1,238	975	1,055	88	(128)	(454)
Deposits received (net)	(48)	(19)	..	..	..	..
Distributions paid	(693)	(672)	(911)	(610)	(597)	(592)
Other financing (net)	10	(238)	(398)	(1)	(1)	(2)
Total	501	47	(254)	(523)	(726)	(1,048)
Net Increase (Decrease) In Cash Held	(8)	88	(483)	(180)	(51)	152
Net cash from operating activities and investments in non-financial assets	219	(52)	(229)	349	681	1,207
Finance leases and similar arrangements	..	2	1	..	..	..
Distributions paid	(693)	(672)	(911)	(610)	(597)	(592)
GFS Surplus (Deficit)	(474)	(723)	(1,139)	(262)	84	616

Table A.9
State Non-PFE GFS Statement of Cash Flows

	Actual 1999-2000 \$ million	Est. Actual 2000-01 \$ million	Budget 2001-02 \$ million	Projection 2002-03 \$ million	Projection 2003-04 \$ million	Projection 2004-05 \$ million
Receipts from operating activities						
Taxes received	4,736	4,005	4,182	4,418	4,633	4,847
Grants and subsidies received	7,187	9,069	9,406	9,507	9,770	10,094
Sales of goods and services	5,981	6,200	5,880	6,155	6,484	7,013
Other receipts	2,962	3,264	2,801	3,043	3,092	3,387
Total	20,867	22,538	22,270	23,124	23,980	25,340
Payments for operating activities						
Payments for goods and services	(13,824)	(12,827)	(13,920)	(14,012)	(14,567)	(15,327)
Grants and subsidies	(3,046)	(3,598)	(3,533)	(3,359)	(3,392)	(3,375)
Interest	(843)	(1,006)	(989)	(1,068)	(1,150)	(1,198)
Other payments	(608)	(826)	(664)	(633)	(562)	(563)
Total	(18,320)	(18,257)	(19,106)	(19,072)	(19,671)	(20,462)
Net cash inflows from operating activities	2,547	4,281	3,164	4,052	4,309	4,877
Payments for investments						
In non-financial assets						
Purchases of non-financial assets	(5,275)	(4,826)	(5,025)	(3,590)	(3,271)	(3,081)
Sales of non-financial assets	971	293	972	311	289	279
Total	(4,304)	(4,533)	(4,052)	(3,279)	(2,982)	(2,803)
Payments for investments in financial assets for policy purposes	(60)	405	(10)	..	..	..
Payments for investments in financial assets for liquidity purposes	(340)	(762)	(1,255)	(1,550)	(1,674)	(1,872)
Receipts From Financing Activities						
Advances received (net)	..	5	(2)	3	(9)	(13)
Borrowing (net)	1,774	936	1,556	506	325	46
Deposits received (net)	(48)	(19)	..	..	..	..
Other financing (net)	12	(100)	..	..	..	..
Total	1,739	822	1,554	509	316	33
Net Increase (Decrease) In Cash Held	(417)	214	(599)	(268)	(31)	235
Net cash from operating activities and investments in non-financial assets	(1,757)	(252)	(888)	772	1,327	2,075
Finance leases and similar arrangements	..	2	1	..	..	..
GFS Surplus (Deficit) ¹	(1,757)	(250)	(887)	772	1,327	2,075

Note:

1. The published deficit for 1999-2000 includes a \$1.1 billion transfer of funds to the employees' superannuation funds, which is treated as payments for goods and services. Net of this amount, the underlying position is a deficit of \$657 million.

Other GFS Data

Data presented in Table A.10 provides details of taxation revenue collected by the General Government Sector. The data is presented in accordance with GFS and Uniform Presentation Framework guidelines which presents data on a consolidated basis.

Table A.10 Taxation: GFS Basis		
	Est. Actual 2000-01 \$ million	Budget 2001-02 \$ million
Taxes on Employers' Payroll and Labour Force	1,184	1,271
Taxes on Property		
Land Taxes	222	228
Stamp Duties on Financial and Capital Transactions	822	837
Financial Institutions' Transactions Taxes	278	260
Other	30	31
Taxes on the Provision of Goods and Services		
Excises and Levies	178	185
Taxes on Gambling	531	583
Taxes on Insurance	245	265
Taxes on Use of Goods and Performance of Activities		
Motor Vehicles	730	765
Other	3	4
Total Taxes	4,223	4,429

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 A.11 presents the State's revised Loan Council Allocation (LCA) nomination for 2001-02 and the estimated outcome for 2000-01.

Table A.11 Queensland Loan Council Allocation		
	Est. Actual 2000-01 \$ million	Budget 2001-02 \$ million
General Government Cash Deficit (Surplus) ¹	(474)	(253)
Public Trading Enterprise Cash Deficit (Surplus) ¹	723	1,139
Non-PFE State Government Cash Deficit (Surplus)¹	250	887
Advances paid (net) ²	(405)	10
Memorandum Items ³	(52)	(118)
Loan Council Allocation	(207)	779
Notes: 1. Figures in brackets represent surpluses. 2. Advances paid includes proceeds from disposal of interest in Suncorp-Metway. 3. Other memorandum items include items such as local government borrowings.		

BACKGROUND AND INTERPRETATION OF GOVERNMENT FINANCE STATISTICS

Background

The concepts underlying Government Finance Statistics (GFS) financial information are developed by the Australian Bureau of Statistics (ABS). ABS GFS standards are largely based on international statistical standards (the International Monetary Fund Manual on Government Finance Statistics and the United Nations System of National Accounts). GFS are widely used by governments, commentators, academics and ratings agencies as a consistent and uniform standard by which to compare the fiscal performance of a jurisdiction both over time and with other jurisdictions.

GFS have been the basis for the Australian Loan Council's Uniform Presentation Framework (UPF) since its introduction in 1991. The UPF is an agreement by members of the Australian Loan Council to present financial information for each jurisdiction on a consistent and uniform basis to assist in the comparative analysis of the fiscal performance of jurisdictions.

GFS concepts also are used to prepare the Loan Council Allocation nomination, an important indicator of the net borrowing requirement of governments, which requires Loan Council approval.

Recent Developments in GFS Reporting

Accrual Uniform Presentation Framework

In March 2000, the Australian Loan Council agreed to an accrual GFS framework developed by the Australian Bureau of Statistics in close consultation with Commonwealth, State and Territory Governments.

Financial information prepared in accordance with accounting standards and GFS, while both utilising the new accrual accounting systems developed by governments, in effect provide two different, but complementary, views of the financial positions of governments.

Financial statements prepared in accordance with accounting standards measure the operating result and net worth of government, using a standard presentation which is compatible with private sector standards (General Purpose Financial Reports - GPFR). This allows comparability with like statements in the private sector and also with other governments.

GFS, on the other hand, measures the economic impact of government activity by excluding the impact of changes to asset values that are deemed to be outside the control of government. The focus is on the contribution of economic exchanges with other sectors.

GFS is derived from the same source data as used in the GPFR. In the accrual GFS presentation, financial information generally is presented in a format similar to standard accounting statements. In a number of cases, different interpretations or presentations are used to highlight particular aggregates that are relevant to macro-economic analysis of the State's financial position.

The major ways in which the GFS presentation differs from the GPFR include:

- the inclusion of dividends and taxation equivalent provisions in the calculation of the net operating result;
- the exclusion of asset valuation changes, eg. profit/loss in sale of assets and write-offs, from the operating result calculation;
- the availability of an extension of the operating statement that explains the application of the net operating result; and
- a balance sheet presentation that provides information on financial and non-financial assets, and does not distinguish between current and non-current assets and liabilities.

Interpretation of GFS

GFS provides a consistent and uniform framework to analyse and measure the impact of government activity on the rest of the economy, to gauge the sustainability of government fiscal policy, and to monitor the efficiency of the allocation and use of government resources.

GFS gives details of the expenses, revenue, payments, receipts, and assets and liabilities of the public sector in Australia. GFS includes only those transactions over which a government exercises control under its legislative or policy framework. This means that, unlike the accounting viewpoint, the GFS excludes from the calculation of net operating balance both revaluations (holding gains and losses) arising from a change in market prices, and other changes in the volume of assets that result from discoveries, depletion and destruction of assets. This means that differences arise between the GFS and accounting frameworks, particularly within the operating statement.

The accrual GFS series measures both stocks and flows. Stocks are economic aggregates measured at a point in time, reflecting the position or holding of assets and liabilities at that point in time, generally measured at market prices. Flows represent the movement in the stock of assets and liabilities between two points in time. In GFS, flows comprise two separate types. Flows can represent a transaction, and/or a revaluation or other change in the volume of net assets. The transaction component of flows is separated from revaluations and 'other change in the volume of assets' flows, in order to gauge the impact of government decisions on the rest of the economy. It is argued that any revaluation or other change in the volume of assets (such as destruction, depletion or discovery of assets) is not within the control of government. Hence, in the GFS operating statement, any revenue or expense recognising these non-transaction flows is excluded and does not affect the net operating result.

Main GFS Aggregates

Details of public sector estimates and outcomes are presented within the accrual GFS in three primary statements; operating statement, balance sheet, and cash flow statement. These statements form the core of the accrual UPF. GFS presents three main accrual-based measures: Net Operating Balance (Result), Net Lending and Increase in Net Worth (INW).

Operating Statement

The operating statement presents information on GFS revenue and GFS expenses. This statement is designed to capture the composition of expenses and revenues and the net cost of a government's activities within a fiscal year. It shows the full cost of resources consumed by government in achieving its objectives, and how these costs are met from various revenue sources.

Unlike a standard accounting operating statement, the GFS operating statement reports two major fiscal measures – the **GFS Net Operating Balance**, and **GFS Net Lending** (also known as fiscal balance).

Net Operating Balance is defined as the excess of revenue over expenses, plus net transfers (eg. net transfer payments to households). GFS revenue excludes any gain or loss on assets brought to account in the profit and loss statement. GFS expenses exclude provisions for bad and doubtful debts.

The Net Operating Balance is arguably the best summary measure of a Government's fiscal performance, as it abstracts from valuation effects and focuses on financial impacts which Government has the ability to manage.

Net Operating Balance is equivalent to the Increase in Net Worth (INW) measure (see below), less the effects of revaluations.

Net Lending is defined as Net Operating Balance, less net acquisition of non-financial assets, plus consumption of fixed capital.

The measure effectively excludes depreciation as a measure of fixed assets consumed in a period from expenses and includes gross fixed capital expenditure, which represents the net cost of non-financial assets acquired. It therefore represents an increase in the net financial asset position, not including revaluations.

In practical terms, Net Lending is the combination of the operating result, plus net transaction flows in the balance sheet, which together give an indication of the net financial resources required by Government.

Conceptually, Net Lending may be viewed as the net financial resources that government effectively makes available for use by other sectors of the economy, or additional resources that government requires.

Balance Sheet

The balance sheet records the government's stocks of financial and non-financial assets and liabilities. The balance sheet is also referred to as a 'statement of assets and liabilities' or a 'statement of financial position', and discloses the resources over which the government maintains control. The balance sheet is a financial snapshot of government, taken at the end of each financial year. By providing information on the type of assets and liabilities held by government, the statement gives an indication of the government's financial liquidity.

The balance sheet includes data on the composition of government financial assets, on holdings of fixed assets, and on the extent of liabilities such as borrowing and superannuation. This allows for intertemporal and interjurisdictional comparisons of asset and liability levels.

The GFS balance sheet differs from the standard accounting presentation in that it provides information on financial and non-financial assets, and does not distinguish between current and non-current assets and liabilities. Further, the GFS balance sheet for the General Government Sector discloses equity investment in the PFE and PTE sectors as GFS recognises a holding company model for the General Government's ownership of the PFE and PTE sectors.

Balance sheet indicators include **Net Debt**, **Net Financial Worth** and **Net Worth**.

The concept of **Net Debt** is the same under cash and accrual-based financial reporting. Net debt comprises the stock of selected gross financial liabilities less marketable financial assets.

The net debt measure is limited in that it does not include employee liabilities such as superannuation or insurance claim obligations, which can be substantial.

Net Financial Worth (NFW) measures a government's net holdings of financial assets. It is calculated from the balance sheet as financial assets minus total liabilities. It is also commonly referred to as Net Financial Liabilities or Net Financial Assets. NFW excludes physical assets such as property and infrastructure. It is a useful indicator for examining the soundness of a government's fiscal position, particularly when assessed over the medium-to-long term.

Net Worth, also known as net assets, provides a comprehensive picture of a government's financial position, as it is measured by total assets less total liabilities.

Increase in Net Worth (INW) is measured from the balance sheet as the increase in the net asset position, including non-financial assets (stock measure). It also may be measured as the Net Operating Result plus revaluations. INW represents the overall change in financial position, including financial and non-financial flows.

Cash Flow Statement

The cash flow statement records the government's cash receipts and payments, demonstrating how a government obtains and expends cash.

This statement requires cash flows to be categorised into operating, investing, and financing activities. Operating activities are those which relate to the collection of taxes, the distribution of grants, and the provision of goods and services. Investing activities are those which relate to the acquisition and disposal of financial and non-financial assets. Financing activities are those which relate to the changing size and composition of a government's financial structure.

The signing convention within the cash flow statement is that all inflows carry a positive sign and all outflows carry a negative sign (regardless of whether they are gross or net cash flows).

The GFS cash flow statement reports two major fiscal measures – **Net Increase in Cash Held**, and **Cash Surplus**. **Net Increase in Cash Held** is the sum of net cash flows from all operating, investing and financing activities. The **Cash Surplus** comprises net cash received from operating activities, and from sales and purchases of non-financial assets, less distributions paid (in the case of PTEs), less finance leases and similar arrangements.

GLOSSARY OF GFS TERMS

Definition of GFS Sectors

The GFS presentation provides both a sectoral view of Queensland's financial position as well as a consolidated view of the non-financial State public sector.

General Government

The General Government sector comprises government departments, departmental business units and certain statutory agencies which provide goods and services of a non-market nature, that are charged at less than cost or at no cost or provide regulatory services. General Government services include those which are largely for collective consumption by the community, and those which involve the transfer or redistribution of income.

The General Government sector is usually referred to as the core of government that is financed by general revenue (taxation).

Public Trading Enterprises

The PTE sector comprises various statutory authorities, government business enterprises and marketing bodies which provide goods and services usually at cost or below cost through an explicit government subsidy (community service obligation). In general, PTEs are legally distinguishable from the governments which own them.

PTEs usually provide goods and services of a market nature. Examples include Queensland Rail and the Queensland Electricity Supply Industry.

Public Financial Enterprises

The PFE sector comprises publicly owned financial institutions such as Queensland Treasury Corporation, Queensland Investment Corporation and WorkCover.

These entities provide financial services to the community or government, and usually provide these services on a commercial basis. They are able to incur financial liabilities on their own account (eg. taking deposits, issuing securities or providing insurance services).

Consolidated State Sector

GFS also presents consolidated state sector financial statements, which represent the total of all transactions of each sub-sector of government, with any inter-sector transactions eliminated. GFS follows the standard accounting methodology for performing eliminations.

Eliminations are necessary so as to avoid double counting of transactions between different sectors of government, such as dividend payments by PTEs to General Government.

GFS OPERATING STATEMENT

Revenue

Taxation Revenue

Income arising from levies imposed by the State that is mainly designed to raise revenue, and are prescribed under State tax legislation.

Current Grants and Subsidies

This largely comprises payments received from the Commonwealth and industry and community contributions for the provision of State Government services.

Sales of Goods and Services

This represents revenue earned where the seller is seeking to recover the cost of goods supplied or services rendered where there is a direct benefit to the user.

Interest Income

This represents the interest earned on Queensland's superannuation investments.

Other

Other revenue comprises revenue from dividends, royalties and other property income, fines, revenue from financial and intangible assets, donations and grants received and miscellaneous revenue.

Expenses

Gross Operating Expenses

This comprises depreciation, superannuation, and other operating expenses (employee entitlements and supplies and services).

Depreciation represents the recognition of the cost of the estimated diminution in the State's assets through wear, tear and obsolescence.

Superannuation expense represents the growth in the Government's superannuation liabilities.

Employee entitlements include salaries and wages, annual and long service leave and workers' compensation expense.

Supplies and services comprises the costs of providing services to the community, and includes administration costs, consultancies, payments to contractors and other overhead costs such as electricity and other consumables.

Current Transfers

This includes Community Service Obligation (CSO) payments to Public Trading Enterprises and grants to community, including schools, hospitals and benevolent institutions, personal benefit payments and Commonwealth taxes including fringe benefits tax.

Capital Transfers

This represents grants paid by the Government for capital works to the private sector and to other public enterprises.

Interest

This comprises interest paid by agencies, principally paid to the Queensland Treasury Corporation on borrowings to acquire capital assets and infrastructure such as roads and government buildings.

Nominal Superannuation Interest Expense

This represents that component of the increase in the Government's liability to its employees that is related to earnings on superannuation fund balances.

Other

Other expenses comprise items such as land rental and royalty expenses.

REPORTING ENTITIES

The reporting entities included in the General Government and PTE sectors are detailed below.

General Government

Departments

Aboriginal and Torres Strait Islander Policy and Development

Arts Queensland

Corrective Services

Disability Services Queensland

Education

Electoral Commission of Queensland

Emergency Services

Employment and Training

Environmental Protection Agency

Families

Health

Housing

Housing Department (excluding Housing Trusts)

Industrial Relations

Innovation and Information Economy, Sport and Recreation
Queensland

Justice and Attorney-General

Legislative Assembly of Queensland

Local Government and Planning

Main Roads

Natural Resources and Mines

Office of the Governor

Ombudsman

Police

Premier and Cabinet

Primary Industries (excluding Forestry)

Public Trust Office

Public Works

Queensland Ambulance Service

Queensland Audit Office

Queensland Fire & Rescue Authority

State Development

Tourism and Racing and Fair Trading

Transport

Treasury

Statutory Authorities

Anti-Discrimination Commission Queensland
Board of Senior Secondary School Studies
Bureau of Sugar Experiment Stations
Children's Commissioner
Council of the Queensland Institute of Medical Research
Criminal Justice Commission
Legal Aid Queensland
Library Board of Queensland
Nickel Resources North Queensland
Queensland Art Gallery
Queensland Building Services Authority
Queensland Crime Commission
Queensland Events Corporation Pty Ltd
Queensland Institute of Medical Research Trust
Queensland Museum
Queensland Performing Arts Trust
Queensland Rural Adjustment Authority
Queensland School Curriculum Council
Queensland Theatre Company
Queensland Treasury Holdings
Residential Tenancy Authority
Royal Children's Hospital Foundation
SGH Limited
Southbank Corporation
Tertiary Entrance Procedures Authority
Tourism Queensland

Public Trading Enterprises

Brisbane Cricket Ground Trust
Brisbane Market Authority
Bundaberg Port Authority
Cairns Port Authority
DPI Forestry
Eungella Water Pipeline Pty Limited
Gladstone Area Water Board
Gladstone Port Authority
Gold Coast Events Corporation
Golden Casket Lottery Corporation Limited
2001 Goodwill Games Brisbane Ltd
Home Purchase Assistance Account
Lang Park Trust
Mackay Port Authority
Mt Isa Water Board
North West Queensland Water Pipeline Pty Limited

Pioneer Valley Water Board
Port of Brisbane Corporation
Ports Corporation of Queensland
Queensland Abattoir Corporation
Queensland Electricity Supply Industry
Queensland Motorways Limited
Queensland Rail
Rockhampton Port Authority
Townsville Port Authority
Trustees of the Albion Park Paceway

APPENDIX B

A READERS GUIDE TO THE QUEENSLAND STATE BUDGET

Purpose

This Appendix provides the reader of the Budget Papers and Ministerial Portfolio Statements with useful background information to assist in understanding and interpreting the 2001-02 Queensland Budget. In addition, the Guide provides a brief explanation of:

- The accrual budgeting framework.
- The appropriation process under accrual output budgeting.
- A glossary of key terms used throughout the Budget Papers.

Accrual Output Budgeting

Accrual output budgeting is an integrated cycle of planning, budgeting and performance evaluation, which is designed to:

- translate Government policy priorities into funded services;
- demonstrate quality service delivery to the community;
- link accountability to results; and
- provide a framework for the *Charter of Social and Fiscal Responsibility*.

Reporting Format

Financial statements may be presented under an accounting format and/or a Government Finance Statistics (GFS) format.

The standard system of national budget accounting for the public sector, outlined in the Australian Loan Council Uniform Presentation Framework (utilising GFS data), is utilised as the basis for whole-of-Government Budget reporting, as it is the benchmark reference point for the Government's financial commitments under the *Charter of Social and Fiscal Responsibility*.

Agency level reports in the Ministerial Portfolio Statements are presented on an accounting basis comparable with normal reporting requirements for departments under *Australian Accounting Standard AAS29*. The Readers Guide mainly discusses accounting terminology. Details of GFS concepts and definitions are provided in Appendix A.

Whole-of-Government financial statements prepared in accordance with *Australian Accounting Standards AAS31* will continue to be utilised in the Government's annual audited Consolidated Financial Report published at the end of the financial year.

What are the Key Components of Accrual Output Budgeting?

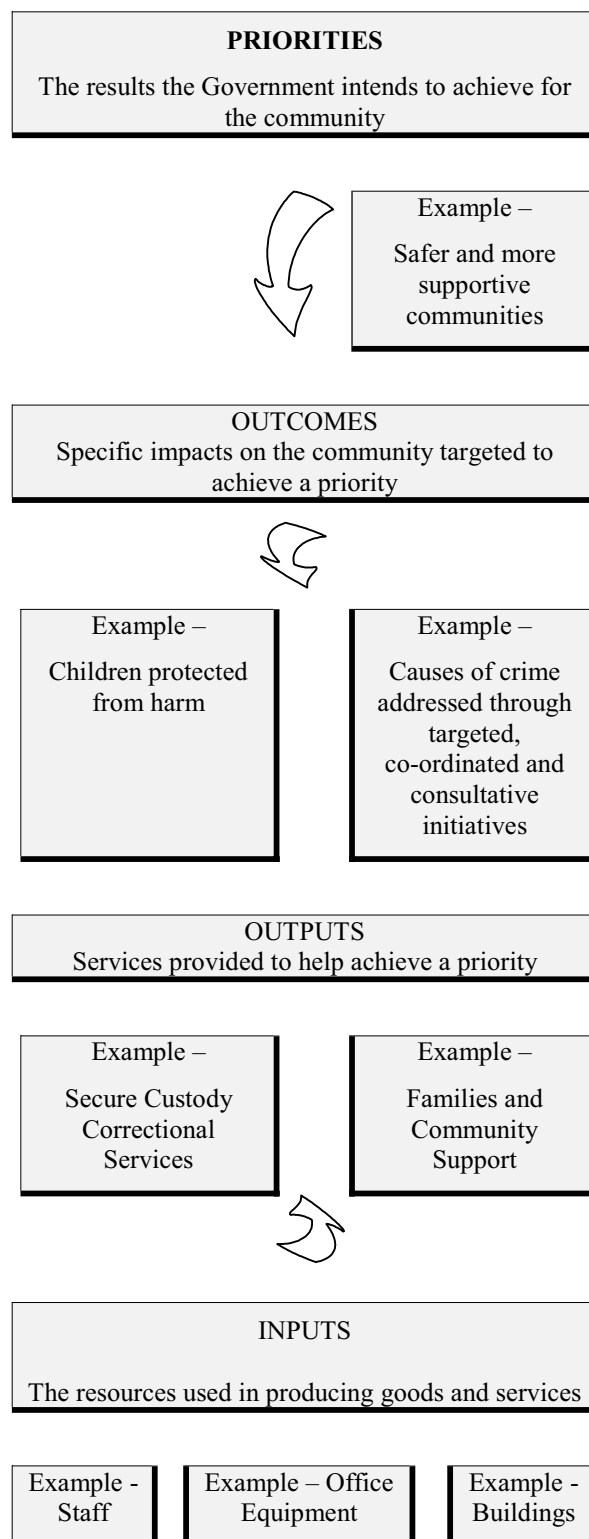
The two key components of accrual output budgeting are budgeting in accruals and budgeting for outputs.

BUDGETING FOR OUTPUTS

Budgeting for outputs focuses on goods and services delivered by agencies to meet community needs. This form of budgeting strengthens the links between outputs and Government priorities and provides the community with a clearer picture of the outcomes that Government is achieving rather than just the amount it is spending.

The key elements of this framework are:

- **Priorities** – the results the Government wants to achieve for the community.
- **Outcomes** – Outcomes are pitched at a lower level than priorities, are strategic in nature and focus on specific impacts on communities of the services and products (outputs) purchased by Government. Outcomes can generally be influenced by factors other than government service delivery eg.
- **Outputs** – the services that an agency delivers to the community that are within the direct or indirect control of the agency.
- **Inputs** – resources used in producing goods and services.



FINANCIAL STATEMENTS

Under accrual accounting, the Budget Papers include, at both the whole-of-Government and agency level, Statement of Financial Performance, Statement of Financial Position and Statement of Cash Flows.

Statement of Financial Performance

- The Statement of Financial Performance details the budgeted revenues and expenses, and estimated operating result for the Budget year and the previous year's Budget and Actuals.
- Agency revenues include payments for outputs from the Government and own-source revenues such as specific purpose payments from the Commonwealth and user charges. Expenses include cash items such as salaries, consumables and grant payments, and non-cash items such as depreciation and accruing employee entitlements.
- The operating result is the agency's accrual surplus or deficit. Because of the inclusion of non-cash revenues and expenses, this differs from a cash surplus or deficit. An operating surplus means that revenues earned during the year exceed operating expenses, while an operating deficit means that expenses incurred during the year are greater than operating revenues.

Statement of Financial Position

- The Statement of Financial Position shows the estimated assets, liabilities and equity (net worth) at year end for the Budget year and the previous year's Budget and Actuals.
- Assets are the physical and non-physical items that an agency owns and/or controls, and uses over their useful life in the delivery of services. Examples of assets include cash, receivables, property, plant and equipment. Liabilities are amounts owed by the agency, such as accounts payable, borrowing's and employee entitlements.
- Assets and liabilities are classified into "current" and "non-current". Current assets and liabilities are those which are expected to be used or discharged within the next 12 months. Non-current assets are those which are expected to be held for more than 12 months. Non-current liabilities are those which are not discharged within the next 12 months.
- A surplus of assets over liabilities represents the net value of the owner's interest in the agency. The Government, on behalf of the community, holds the ownership rights to Government agencies and bears the associated risks.

Statement of Cash Flows

- The Statement of Cash Flows shows estimated cash inflows and outflows during the Budget year and the previous year's Budget and Actuals. The flows of cash are categorised into Operating, Investing and Financing activities.
- Operating activities are those activities that relate to the provision of services. Inflows from operating activities include payment for outputs from the Government. As this revenue includes payment for non-cash expenses such as depreciation, agencies generally will show a cash surplus on operations, which is used to fund the acquisition of assets.
- Investing activities are those activities that relate to the acquisition and disposal of property, plant and equipment, and other capital items.
- Financing activities are those activities that relate to sources of funding, such as borrowing and equity adjustments from Government.

Operating Statement

Revenues

- Payments for outputs
- User charges and fees
- Other revenues

Expenses

- Employee expenses
- Supplies and services
- Depreciation
- Equity return
- Grants and subsidies
- Other expenses

Operating Result

Statement of Financial Position

Assets

Current

- Cash
- Inventories
- Receivables

Non-Current

- Property, plant and equipment
- Intangibles

Liabilities

Current

- Payables
- Provisions

Non-Current

- Borrowings
- Provisions

Equity (Net Worth)

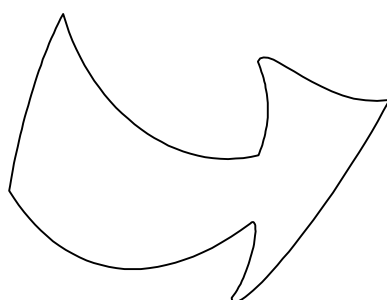
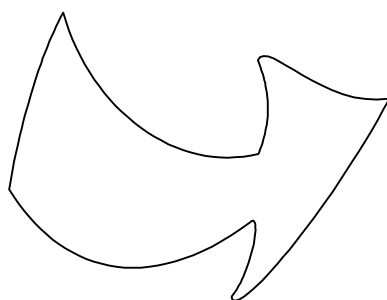
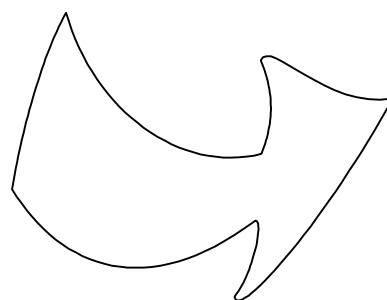
Statement of Cash Flows

Cash flows from Operating Activities

Cash flows from Investing Activities

Cash flows from Financing Activities

Cash at end of Financial Year



The revenues appropriated by Government to an agency for the purchase of outputs ie. to deliver services to the community.

Fees charged to specific users of services eg. TAFE fees and land title search fees.

Other revenues include interest revenue, specific purpose grants from the Commonwealth and other contributions.

Wages, salaries and accruing leave costs for Government employees.

Consumables such as electricity, rent, lease payments and stationery used to produce outputs.

Cost of using property and equipment, a non-cash cost which reduces the value of the asset over time.

Cost of holding capital (fully funded in 1999-2000).

Payments made to community groups, not-for-profit organisations and other bodies external to Government.

Other expenses include audit fees, operating lease rentals and sundry expenses.

The operating results show an agency's accounting surplus or deficit. It provides an indication as to whether an agency has sufficient revenue to meet expenses in the current year, including non-cash costs such as depreciation. Because of the inclusion of non-cash revenues and expenses, this is different from a cash surplus or deficit. A surplus indicates revenues exceed expenses for the year, while a deficit indicates that expenses are greater than revenues for the year. The operating result (surplus/deficit) is transferred to Equity in the Statement of Financial Position.

Cash held at the end of the financial year – reconciles to the Statement of Cash Flows.

Stocks of consumables on hand, such as medical equipment, spare parts for equipment.

Amounts owing to the agency from other organisations expected to be received within 12 months.

Physical assets that generally last more than one year, such as buildings, computer hardware and office equipment.

Non-physical assets that generally last more than one year, such as computer software, patents and copyrights.

Amounts owed by the agency to other organisations expected to be paid within 12 months.

Amounts due eg. to employees for annual leave and long service leave, expected to be paid within 12 months.

Amounts owing on loans not expected to be paid within the next 12 months.

Amounts due, eg to employees for long service leave, not expected to be paid within the next 12 months.

Equity is the surplus of assets over liabilities. It represents the value of the Government's net interest in an agency, and is the amount remaining after all liabilities or obligations have been met. This measure shows that the Government, on behalf of the community, holds the ownership interest in Government agencies and bears the associated ownership risk.

Operating activities are activities that relate to the provision of outputs or services. Because operating receipts include payment for non-cash expenses, agencies generally will show a cash surplus on operations. This surplus is available to meet future obligations and/or fund future capital expenditure.

Investing activities are those activities that relate to the acquisition and disposal of property, plant and equipment and other capital items.

Financing activities include borrowings and arrangements in the nature of borrowings (eg. Finance leasing) undertaken by the agency, and equity adjustments in the agency made by the Government.

Cash at the end of Financial Year represents the cash held on account of an agency at the end of the financial year eg in bank accounts. It reconciles to the cash showing in the Statement of Financial Position.

GLOSSARY OF KEY TERMS

This glossary relates to key terms used in this document and other Budget Papers. While not exhaustive, it is designed to provide readers with definitions or explanations of many terms that appear in the Budget Papers.

Accrual Accounting	Recognition of economic events and other transactions involving revenues, expenses, assets, liabilities and equity as they occur, rather than when a flow of cash occurs.
Accrual Output Budgeting	A system of budgeting that focuses on the delivery of outputs by agencies to meet the Government's priorities, within a financial framework based on full accrual accounting.
Accrued expenses	Those expenses which are incurred in the current year, but may not be paid until the following year, such as electricity and telephone costs.
Activity	The work performed to produce outputs.
Administered Items	Assets, liabilities, revenues and expenses that an agency administers on behalf of the Government, but over which the agency does not exercise direct control.
Agency	Used generically to describe the various organisational units within Government that deliver services. The term can include departments, commercialised business units, or statutory bodies.
Amortisation	The periodic allocation of the cost of intangible or non-physical assets (eg. patents, research and development costs, copyrights) and natural resources (eg. forests), representing the amount of the asset consumed during the course of that particular period of time.
Appropriation	<p>The vehicle by which Parliament approves expenditure of monies from the Consolidated Fund, as proposed in the Budget. Previously, appropriation was made directly to agencies as a limit on their cash expenditures. Under accrual output budgeting, appropriation becomes a revenue-based process whereby Parliament gives approval to the Treasurer to issue funds to agencies during the Budget year as the State's contribution to:</p> <ul style="list-style-type: none">• the delivery of agreed outputs;• items administered on behalf of the whole-of-Government; and• adjusting the Government's equity holding in that agency.

The total State Contribution for each agency is known as the agency's Vote.

A diagrammatic representation of the Appropriation process is included at the end of this guide.

Assets	Physical and non-physical items of value that an agency owns and/or controls, and that are used in the delivery of services. Examples include buildings, x-ray machines, school laboratory equipment and computer hardware and software.
Australian Accounting Standard (AAS) 29	The accounting standard that specifies the general purpose financial reporting requirements for government Departments.
Australian Accounting Standard (AAS) 31	The accounting standard that specifies the general purpose financial reporting requirements for governments at a consolidated or whole-of-Government level.
Balance Sheet	A report outlining the assets, liabilities and equity (net worth) of an agency or the Government as a whole, at a specific date. Also known as a Statement of Financial Position.
Budget	An outline of the Government's priorities and plans for the coming year, expressed in terms of financial information and non-financial performance information.
Budget Documentation	The Budget Papers tabled in Parliament.
Capital	A term used to refer to the stock of assets, including property, plant and equipment, intangible assets and inventories, that an agency owns and/or controls, and uses in the delivery of services. The term is also sometimes used to refer to capital grants made to other entities.
Cash Budget	A Budget based on cash received within a year and cash paid in the same period. Under cash budgeting, assets are treated as one-off items, with the cost being recognised only at the time of purchase, even though assets are used over a number of years in the delivery of services.
Cash Flow Statement	A financial statement that reports the inflows and outflows of cash for a particular period for the operating, investing and financing activities undertaken by an agency or the Government as a whole.
Commercialised Business Unit	An agency business undertaking which operates, as far as practicable, on a commercial and competitively neutral basis.

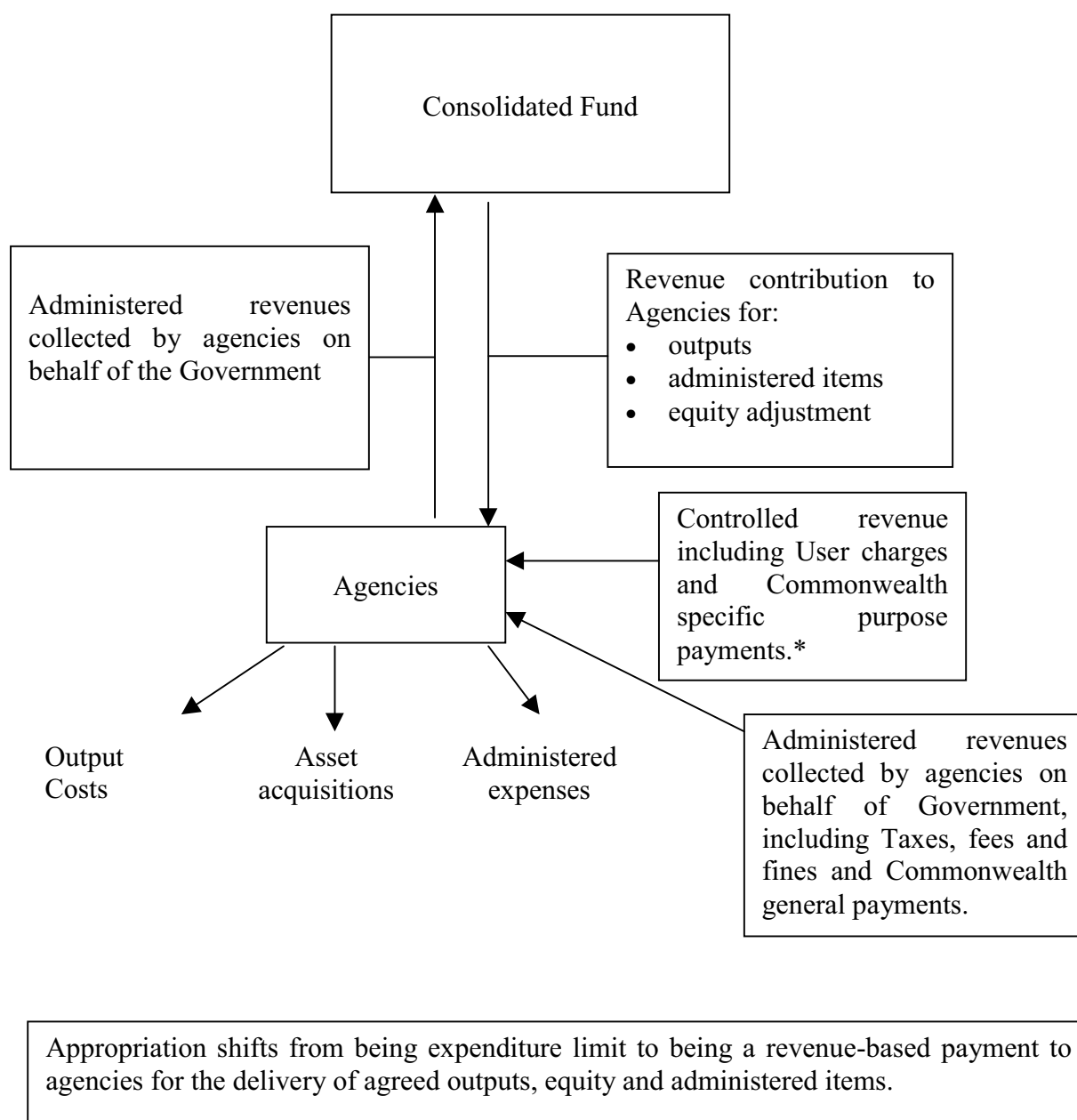
Consolidated Fund	The whole-of-Government operating fund into which administered funds are paid, and from which the cost of the activities of Government are paid as appropriated by Parliament.
Consolidation	An overall view of the financial position of the Queensland Government. It is derived by combining the financial statement of all Government agencies and eliminating the transactions that have occurred between agencies. Also referred to as “whole-of-Government consolidation”.
Contingent Assets and Liabilities	Items which are not recognised in the Statement of Financial Position because they cannot be measured reliably or because there is a degree of uncertainty as to whether they will be realised. Examples include guarantees and legal claims before the courts.
Controlled Items	Assets, liabilities, revenues and expenses that are directly controlled by departments, in that they relate directly to the department’s operational objectives.
Depreciation	The periodic allocation of the cost of physical assets, representing the amount of the asset consumed during the course of that particular period of time.
Employee entitlements	Those benefits that employees earn, such as annual and long service leave, that may or may not be paid in the current year.
Equity	The surplus of assets over liabilities. It represents the Government’s net financial interest in an agency.
Equity Injection	An increase in the investment of the Government in the equity of a public sector agency.
Equity Withdrawal	A decrease in the investment of the Government in the equity of a public sector agency.
Equity Return	A periodic payment reflecting the holding cost or opportunity cost in terms of the alternative return foregone by Government because of its investment in the equity of an agency. One of a number of balance sheet incentives, it is designed to encourage agencies to maintain a capital structure appropriate for delivering services.
Estimates Committees	The Parliamentary Committees that meet to scrutinise the Budget in order to ensure accountability in the operations of Government agencies.

Expenses	The full accrual cost of delivering services to the community reported in the Statement of Financial Performance. Controlled expenses include cash costs such as employee costs, supplies and services (consumables), grant expenses, and non-cash costs such as depreciation. Administered expenses generally relate to grants to non-Government bodies over which the agency does not exercise complete control.
Financial Statements	Collective description for the Statement of Financial Performance, the Statement of Financial Position, the Statement of Cash Flows and associated notes of agencies and the Government as a whole.
Financing Activities	Activities, such as borrowing and equity adjustments, which provide additional balance sheet financing for an agency.
Fiscal Limit	<p>The sum of an agency's appropriation from Government through the Consolidated Fund for the following items:</p> <ul style="list-style-type: none"> • outputs; • equity adjustment; and • administered items. <p>The fiscal limit represents the State's total contribution to the agency for the delivery of outputs for the year.</p>
Forward Estimates	Estimates (on a rolling three year basis) of future baseline funding requirements. These estimates assume there will be no significant change in Government policy, and are designed to provide agencies with a longer-term perspective to the Budget process.
General Government Sector	Authorities that typically provide goods and services at no charge or at low levels of recovery including departments, statutory bodies and commercialised business units that provide services only to other General Government enterprises (see also Government Finance Statistics).
Government Finance Statistics (GFS)	The uniform format developed by the Australian Bureau of Statistics for the presentation of Government financial information on a comparable basis between jurisdictions. GFS are disaggregated into three sectors, General Government, Public Trading Enterprises and Public Financial Enterprises. Further details are provided in Budget Paper No. 2.
Investing Activities	Activities which relate to the acquisition and disposal of property, plant, equipment and other capital items of an agency.

Liabilities	Amounts an agency owes to another entity which are incurred in the course of doing business. Liabilities include items such as accounts payable, borrowings and employee entitlements.
Operating Activities	Activities which relate to the provision of outputs or services by an agency.
Operating Result	The accounting surplus or deficit of an agency or the Government as a whole. It provides an indication of whether the agency has sufficient revenue to meet expenses in the current year, including non-cash costs such as depreciation. Because of the inclusion of non-cash revenues and expenses, this is different from a cash surplus or deficit. An operating surplus indicates that revenues earned from operations during the year are greater than the expenses incurred for the year, while an operating deficit indicates that operating expenses exceed revenues.
Outcome Indicator	A measure used to assess the extent to which Government outcomes are being achieved. For example, employment growth is a measure for the outcome “Business and industry assisted to create secure sustainable jobs”.
Outcomes	The effects on, or consequences for, the community of Government funded services and other Government activities, such as the use of regulatory powers.
Outputs	Services that are provided by agencies for clients (including policy advice provided to Ministers). Output details are provided in the Ministerial Portfolio Statements.
Ministerial Portfolio Statement	A Budget Paper which is prepared by the individual agencies reporting to each minister and which sets out the priorities, plans and financial statements of those agencies.
Performance Measures	Units of measurement used to determine and assess the delivery of services. They measure the quantity, quality, cost, timeliness and, where appropriate, location of services. Full details for each agency are provided in the Ministerial Portfolio Statements.
Public Financial Enterprises	Authorities that are Government controlled which perform centralised banking functions, or accept demand, time or savings deposits, or that have the authority to incur liabilities and acquire financial assets in the market on their own account, eg. Queensland Treasury Corporation, WorkCover (see also Government Finance Statistics).
Public Trading Enterprises	Non-financial authorities that provide goods and services in the market and generally operate on a commercial or quasi-commercial basis eg. Queensland Rail, the electricity Government Owned Corporations (see also Government Finance Statistics).

Revenues	The full accrual income arising from operations during the year, recorded in the Statement of Financial Performance. Controlled revenues include revenue from the State Government in the form of payments for outputs, and own-source revenue such as specific purpose payments from the Commonwealth and user charges. Administered revenues are revenues which are forwarded to the Consolidated Fund, and generally comprise taxes, fees and fines, royalty revenues and general purpose Commonwealth grants.
Statement of Financial Position	See definition of Balance Sheet.
Statutory Bodies	Agencies established by legislation for a specific purpose, which can operate either inside or outside the General Government Sector.
Strategic Planning	A cyclical process through which an agency determines its desired future direction, in the light of environmental factors and the Government's key priorities (eg. as documented in the Charter of Social and Fiscal Responsibility), and identifies the means by which this is to be achieved.
Uniform Presentation Framework (UPF)	A reporting regime developed through an inter-jurisdictional agreement between the Commonwealth, State and Territory Governments for the reporting of comparable financial information at whole-of-Government level.
Vote	The total amount appropriated for an agency by Parliament in an Annual Appropriation Act. The Annual Appropriation Act also will note how the total is distributed between agency outputs, administered items and equity adjustments (see also Appropriation).
Whole-of-Government Consolidation	See definition of "Consolidation".
Whole-of-Government Priorities	The key priority areas that the Government is targeting over its current term, eg. more jobs for Queenslanders.

THE APPROPRIATION PROCESS



*Controlled revenue is not transferred to the Consolidated Fund, but is retained by agencies as own source income to fund service delivery. Nevertheless, for the purposes of the *Financial Administration and Audit Act 1977*, such revenue is deemed to be appropriated.